

Increasing the Cigarette Minimum Price Would Enhance the Effectiveness of Brazil's Tobacco Tax Policy

Cigarette minimum prices and specific excise tax rates have not been adjusted in recent years, resulting in real minimum price reductions.

Key Findings

- The cheapest segment of the cigarette market in Brazil has continued to thrive due to the low price allowed by the legal floor price.
- The current minimum price (BRL 5.00) is no longer an effective policy instrument to reduce affordability of cigarettes, increase cigarette prices, nor discourage cigarette consumption.
- Raising the minimum price regularly creates a clear price distinction between licit and illicit cigarettes, and thus, is a critical element of tobacco control policy.

Introduction

Brazil is a world leader in tobacco control and one of the most successful countries in reducing tobacco use. Since 2009, and particularly after the 2011 reform of the structure and rates of the IPI (a federal tax levied on cigarettes), Brazil implemented rate increases that effectively increased prices and reduced consumption. It is well known that tobacco tax rates that effectively increase prices create incentives for smokers to quit, reduce overall consumption of tobacco, and prevent potential smokers from initiating (1). However, since 2016, Brazil has not increased specific excise tax rates nor minimum cigarette prices.

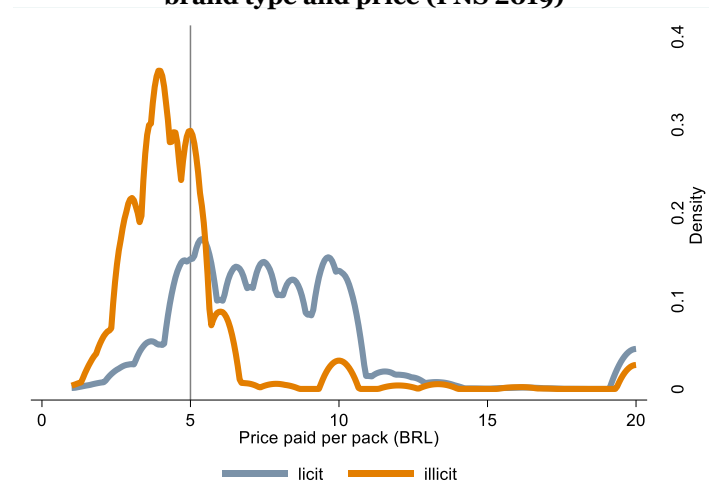
Failure to Update the Minimum Price

Despite increases in the minimum price between 2011 and 2016, since May 2016 the minimum legal price has been BRL 5.00 per pack. This implies that the minimum price of cigarettes decreased in real terms by 26 percent, from BRL 3.62 in May 2016 to BRL 2.68 in March 2022 (November 2011 values).

The most recent National Health Survey from 2019 (2) shows that both legal and illegal brands

are mostly sold at around the minimum price floor of BRL 5.00 (Figure 1). Some legal brands are even sold below the minimum price.

Figure 1. Distribution of cigarette smokers by brand type and price (PNS 2019)



Note: Brand classification as illicit or licit according to Anvisa.

Furthermore, the minimum legal price in USD shows a clear reduction. This is associated with the increasing exchange rate between BRL and USD, which may also increase production costs. One hypothesis is that exchange rate devaluation created a significant increase in production costs,

so illicit sellers may have had to increase their price from around BRL 3.50 in 2013 to BRL 5.00 in 2019 (Table 1). The price of legal cigarettes is less influenced by the exchange rate because licit cigarettes are produced domestically.

Table 1. Minimum legal price of 20-cigarette pack

| Year | Min. price (BRL) | Min. price (USD) | Min. price** (2011 value) |
|--------------------|------------------|------------------|---------------------------|
| 2012 | 3.00 | 1.53 | 2.82 |
| 2013 | 3.50 | 1.62 | 3.11 |
| 2014 | 4.00 | 1.70 | 3.33 |
| 2015 | 4.50 | 1.35 | 3.39 |
| 2016 | 5.00 | 1.43 | 3.55 |
| 2017 | 5.00 | 1.57 | 3.44 |
| 2018 | 5.00 | 1.37 | 3.32 |
| 2019 | 5.00 | 1.27 | 3.18 |
| 2020 | 5.00 | 0.97 | 3.04 |
| 2021 | 5.00 | 0.93 | 2.77 |
| 2022* | 5.00 | 0.95 | 2.68 |
| % change 2022/2016 | 0.0 | -33.5 | -24.5 |

Note: IPCA accumulated between November 2011 and May 2016, last adjustment in the minimum price. * Until March 2022. ** In December of each year.

Public policies that make illicit cigarettes more expensive—like strong border control or controls

along the supply chain—will result in increases in illicit cigarette prices, reducing illicit consumption even further. In addition, the lack of regular increases in the minimum cigarette price appears to be limiting additional increases in licit and illicit cigarette prices. If licit cigarette prices go up, so do illicit cigarette prices, so tax increases have a positive effect on both markets in terms of higher prices and reduced consumption.

Conclusions & Recommendations

- The current minimum price of BRL 5.00 is outdated, and its intended effect of reducing cigarette consumption by making legal cigarettes more expensive has lost its effectiveness.
- It is important to raise the current cigarette minimum price to increase the effectiveness of Brazil's tobacco tax policy.
- Regular increases in the cigarette minimum price are necessary to achieve both health and fiscal policy objectives.
- Stronger tax enforcement can help to combat domestic tax evasion among firms.
- New revenues from increases in tobacco taxes due to a higher minimum price can fund tobacco control and monitoring strategies.

References

- (1) National Cancer Institute of Brazil (INCA), & World Health Organization (WHO). (2020). *Cigarette tax policy in Brazil: Recent trends, current challenges, and ways forward*. Tobacconomics Policy Note. Tobacconomics, Institute for Health Research and Policy, University of Illinois at Chicago. <https://tobacconomics.org/files/research/653/uic-brazil-policy-brief-v4.1-1.pdf> (accessed on 13 March 2021).
- (2) Brazilian Institute of Geography and Statistics (IBGE). (2020) *Pesquisa Nacional de Saúde (PNS) 2019: Percepção do estado de saúde, estilos de vida, doenças crônicas e saúde bucal: Brasil e grandes regiões*. Rio de Janeiro: IBGE, 2021. <https://biblioteca.ibge.gov.br/visualizacao/livros/liv101764.pdf> (accessed on 13 March 2021).