

tobacconomics

Economic Research Informing Tobacco Control Policy

Overview of Article 6 Guidelines

Frank J. Chaloupka, University of Illinois at Chicago

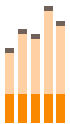
Article 6 Implementation: Success Stories

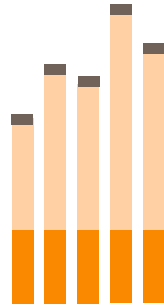
Lunchtime Seminar, 6th Session of the Conference of the Parties

Moscow, Russia, 13 October, 2014

Overview

- Article 6 Guidelines
 - Brief history of the process
 - Guiding principles
 - Recommendations





Article 6 Guidelines

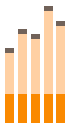
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Process

Article 6 Guidelines

Background

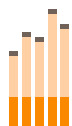
- First working group established by COP4; report submitted to COP5 with draft guidelines
- COP5 adopted a set of guiding principles and recommendations for implementation of Article 6 and established an open-ended working group to continue the work and present a complete draft to COP6
- The group met in June 2013 (40 Parties and 4 observers represented) and agreed on a consensus text
- Friends of the Chair group finalized the text before consultation with the Parties, including adding a list of Use of Terms and General References

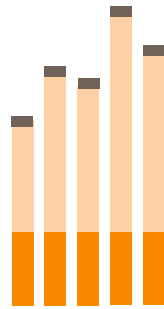


Article 6 Guidelines

Consultation with Parties from 16 Sep – 8 Nov 2013: comments submitted by 21 Parties:

- Comments reviewed by the Friends of the Chair group
- Sections most commented on:
 - Section 3.2 on “level of tax rates to apply”
 - Scope of the guidelines
- Parties' statements recorded in COP6 paper





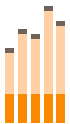
Article 6 Guidelines

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Guiding Principles

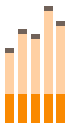
Guiding Principles

- 1. Determining tobacco taxation policies is a sovereign right of the Parties**



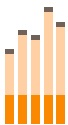
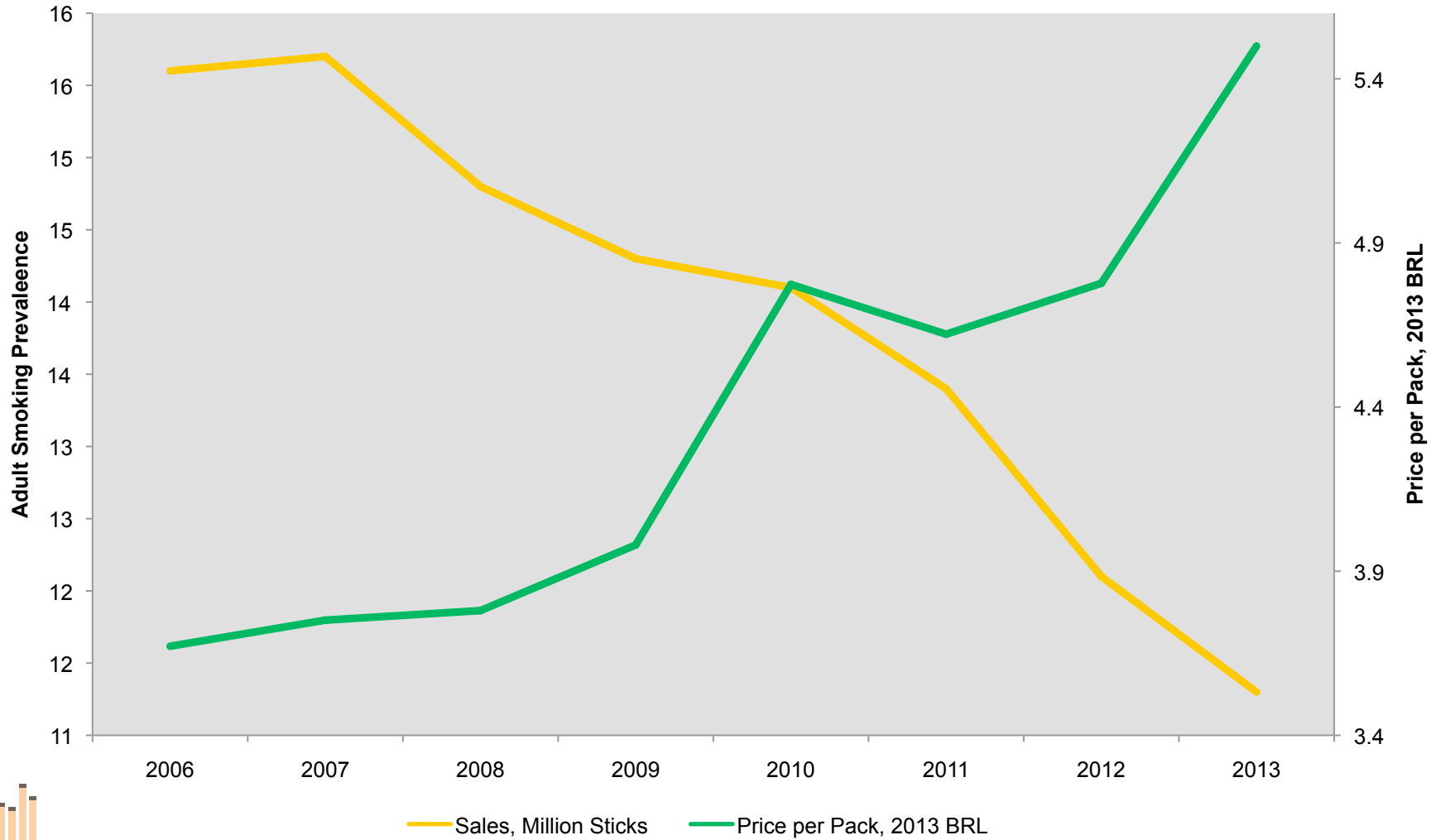
Guiding Principles

1. Determining tobacco taxation policies is a sovereign right of the Parties
2. **Effective tobacco taxes significantly reduce tobacco consumption and prevalence**



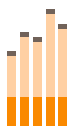
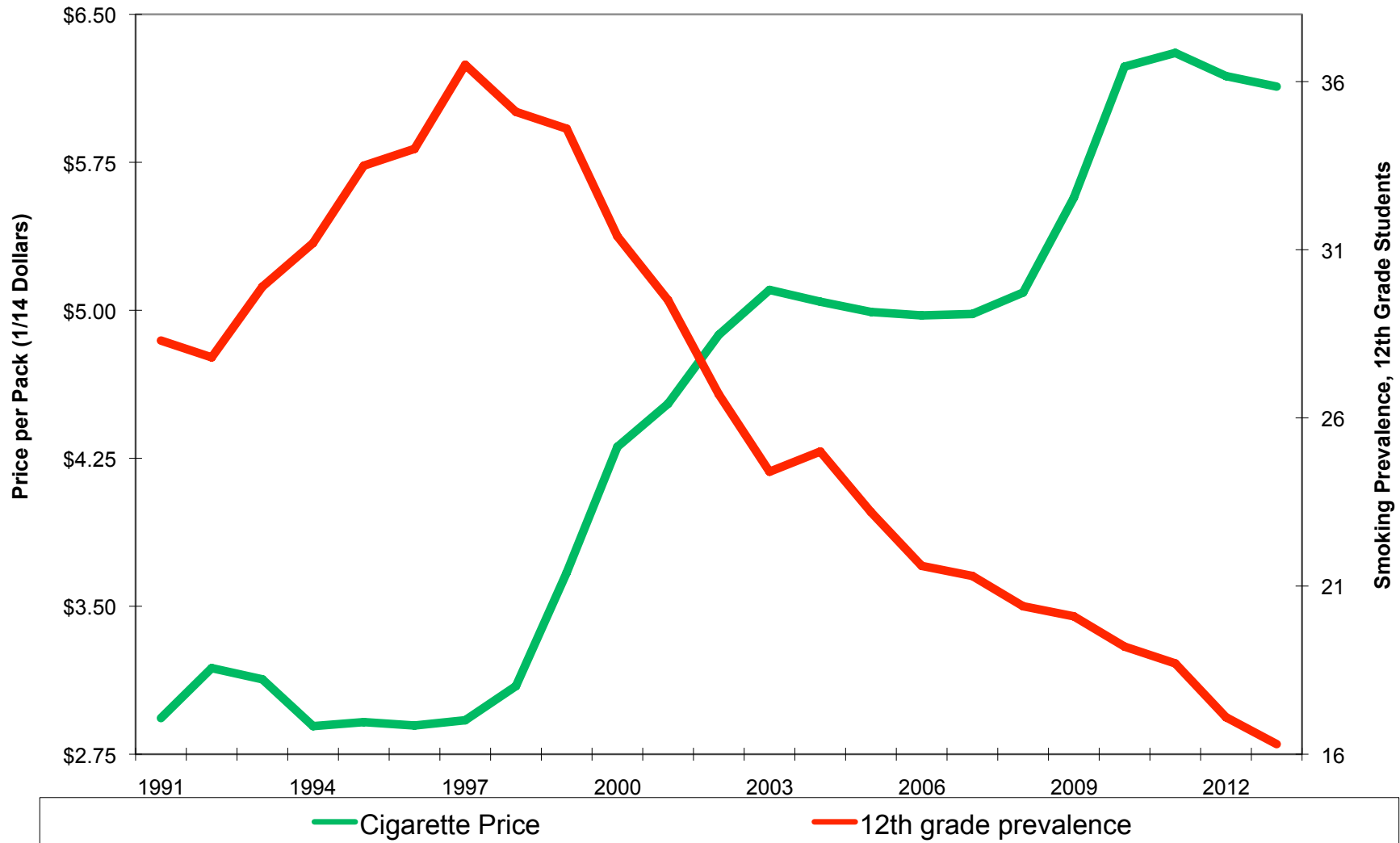
Adult Prevalence & Price, Brazil

Adult Smoking Prevalence and Cigarette Price Brazil, Inflation Adjusted, 2006-2013



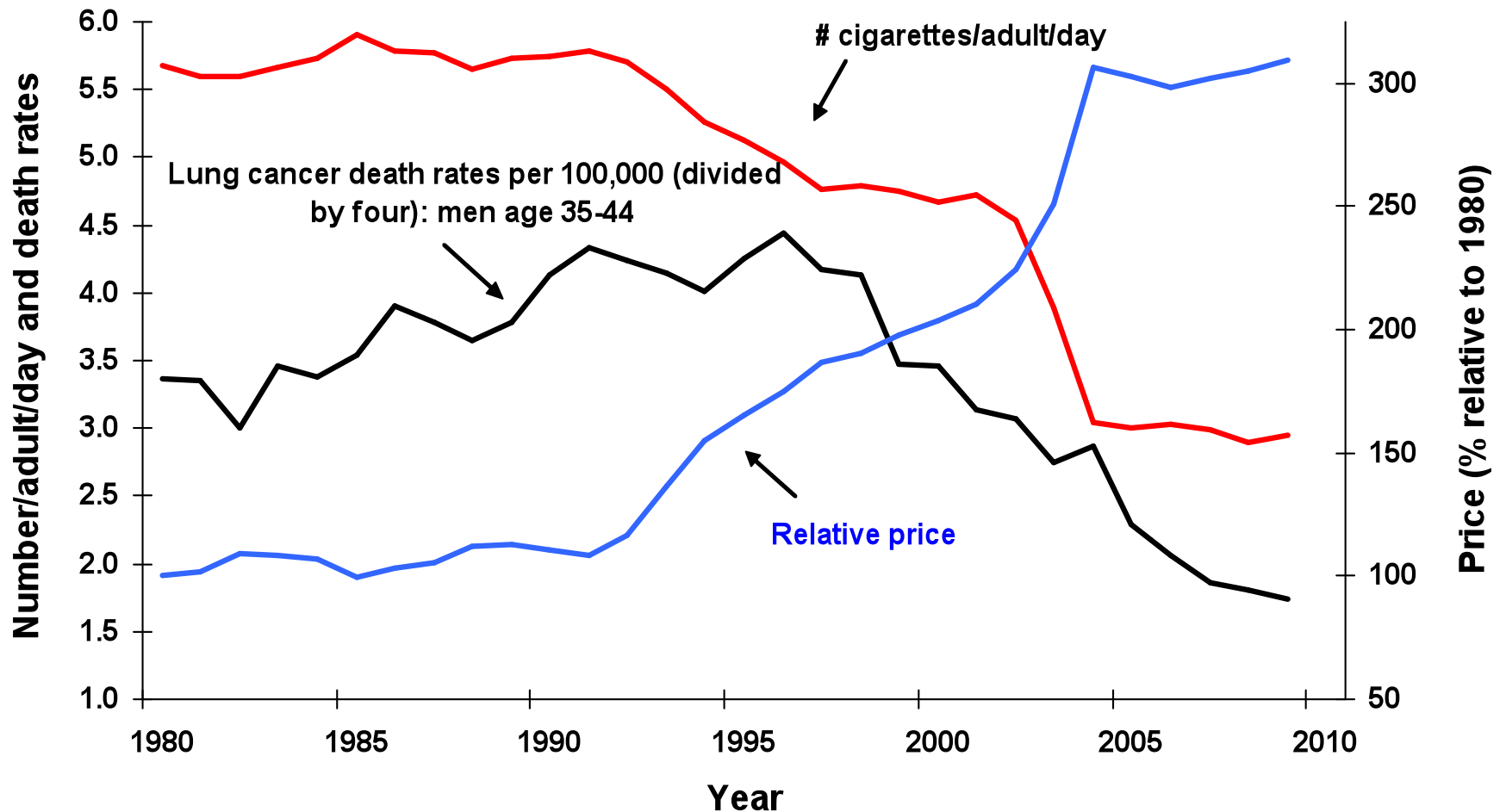
Sources: Ministry of Health, Brazil; EIU; World Bank

Cigarette Price & Youth Smoking Prevalence High School Seniors, United States, 1991-2013



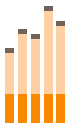
Sources: *Tax Burden on Tobacco*, BLS, MTF, and author's calculations

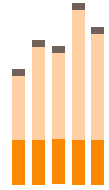
Price, Consumption & Lung Cancer, France



Guiding Principles

1. Determining tobacco taxation policies is a sovereign right of the Parties
2. Effective tobacco taxes significantly reduce tobacco consumption and prevalence
3. **Effective tobacco taxes are an important source of revenue**



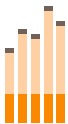
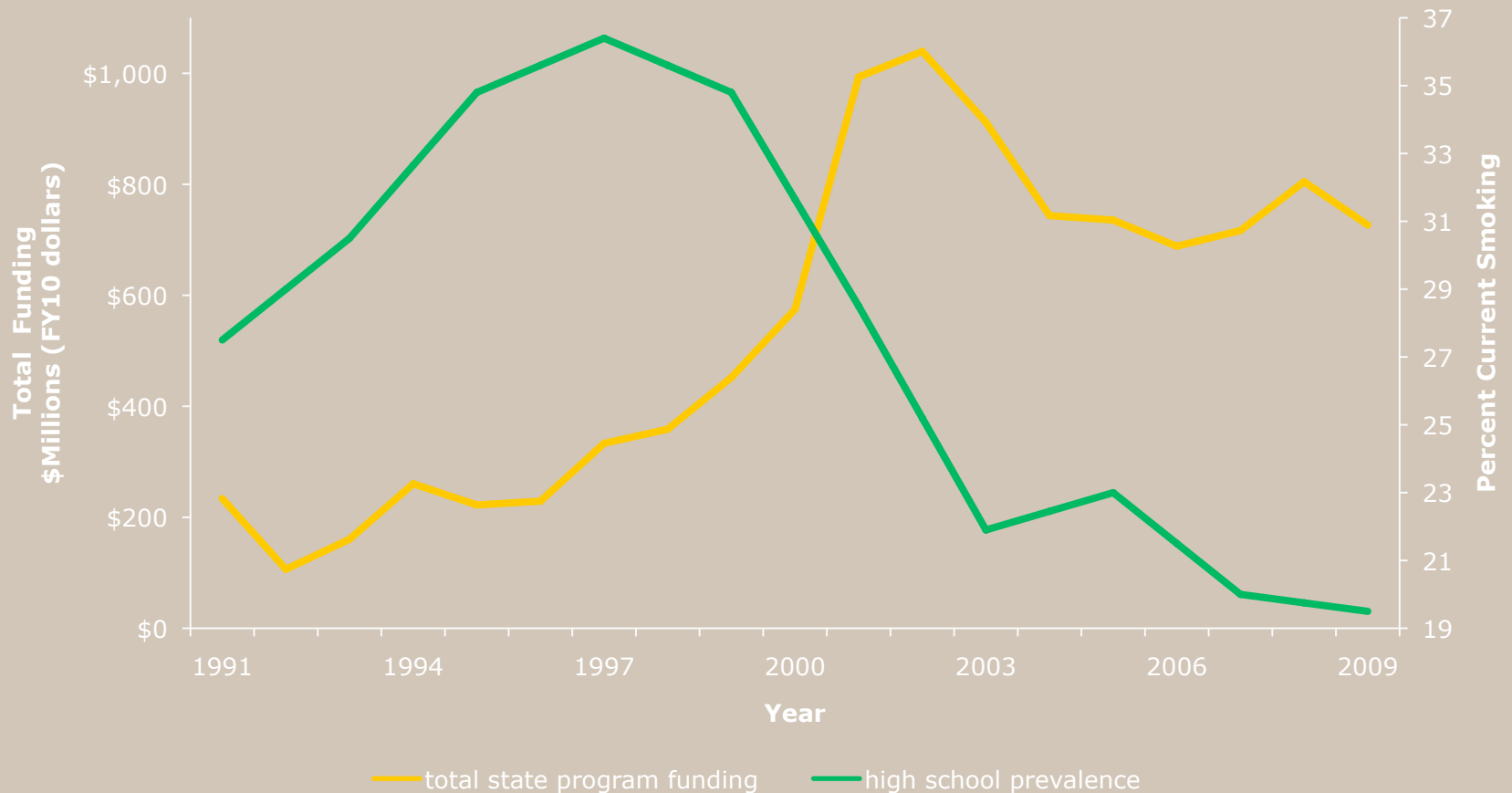


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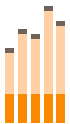
State Tobacco Control Program Funding and Youth Smoking Prevalence, United States, 1991-2009



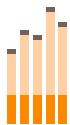
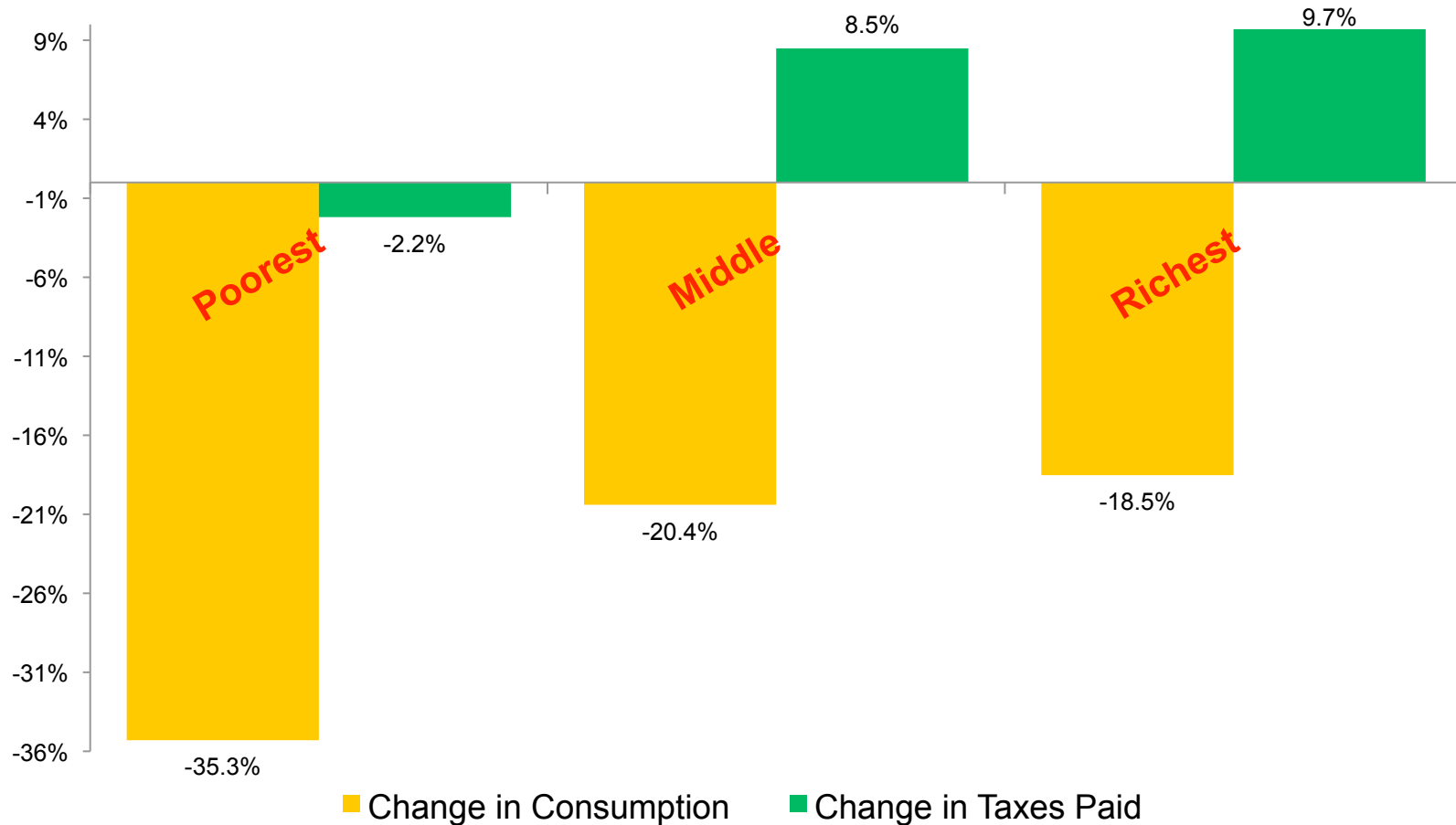
Source: ImpacTeen Project, UIC; YRBS

Guiding Principles

1. Determining tobacco taxation policies is a sovereign right of the Parties
2. Effective tobacco taxes significantly reduce tobacco consumption and prevalence
3. Effective tobacco taxes are an important source of revenue
4. **Tobacco taxes are economically efficient and reduce health inequalities**



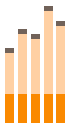
Who Pays & Who Benefits Turkey, 25% Tax Increase



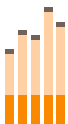
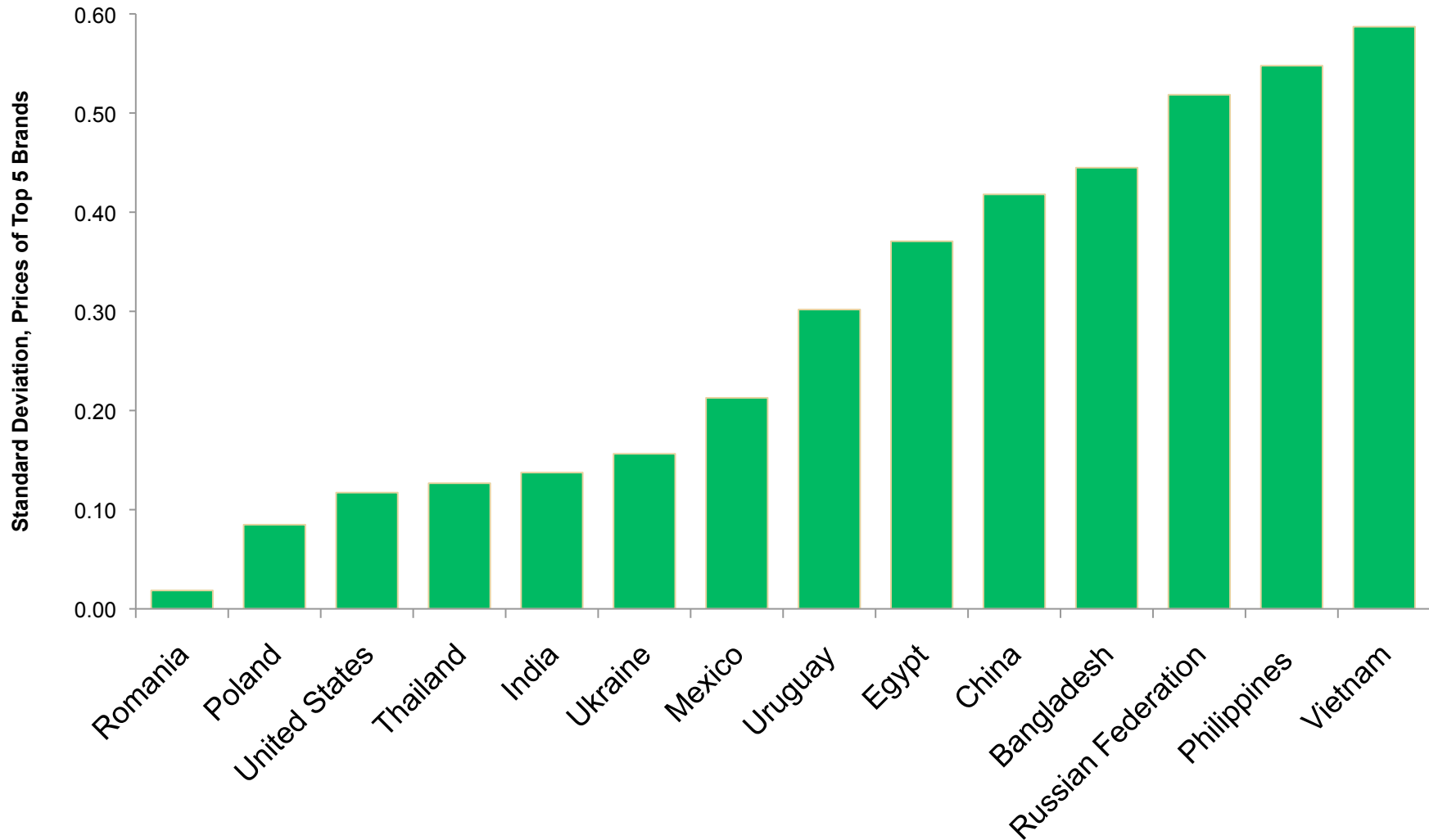
Source: Adapted from Önder & Yürekli, 2014

Guiding Principles

1. Determining tobacco taxation policies is a sovereign right of the Parties
2. Effective tobacco taxes significantly reduce tobacco consumption and prevalence
3. Effective tobacco taxes are an important source of revenue
4. Tobacco taxes are economically efficient and reduce health inequalities
5. **Tobacco tax systems and administration should be efficient and effective**



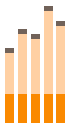
Cigarette Tax Structure & Prices

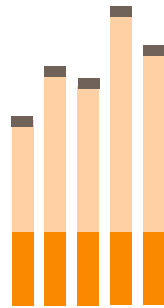


Source: Chaloupka, et al., 2014

Guiding Principles

1. Determining tobacco taxation policies is a sovereign right of the Parties
2. Effective tobacco taxes significantly reduce tobacco consumption and prevalence
3. Effective tobacco taxes are an important source of revenue
4. Tobacco taxes are economically efficient and reduce health inequalities
5. Tobacco tax systems and administration should be efficient and effective
6. **Tobacco tax policies should be protected from vested interests**



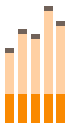


Article 6 Guidelines - Recommendations

Recommendations

Section 2 – Relationship between tobacco taxes, price and public health:

“When establishing or increasing their national levels of taxation Parties should take into account – among other things – both price elasticity and income elasticity of demand, as well as inflation and changes in household income, to make tobacco products less affordable over time in order to reduce consumption and prevalence. Therefore, Parties should consider having regular adjustment processes or procedures for periodic revaluation of tobacco tax levels.”



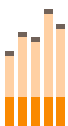
Recommendations

Section 3 – Tobacco taxation systems

“Parties should implement the simplest and most efficient system that meets their public health and fiscal needs, and taking into account their national circumstances. Parties should consider implementing specific or mixed excise systems with a minimum specific tax floor, as these systems have considerable advantages over purely ad valorem systems.”

“Parties should establish coherent long-term policies on their tobacco taxation structure and monitor on a regular basis including targets for their tax rates, in order to achieve their public health and fiscal objectives within a certain period of time.”

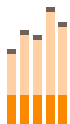
“Tax rates should be monitored, increased or adjusted on a regular basis, potentially annually, taking into account inflation and income growth developments in order to reduce consumption of tobacco products.”



Text

“As recognized in Guiding Principle 1.1, Parties have the sovereign right to determine and establish their taxation policies, including the level of tax rates to apply. There is no single optimal level of tobacco taxes that applies to all countries because of differences in tax systems, in geographical and economic circumstances, and in national public health and fiscal objectives. In setting tobacco tax levels, consideration could be given to final retail prices rather than individual tax rates. In this regard, WHO had made recommendations on the share of excise taxes in the retail prices of tobacco products¹.”

¹ WHO technical manual on tobacco tax administration. Geneva, World Health Organization, 2010. (Recommends that tobacco excise taxes account for at least 70% of the retail prices for tobacco products).



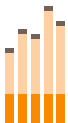
Recommendations

Section 3 – Tobacco taxation systems

“All tobacco products should be taxed in a comparable way as appropriate, in particular where the risk of substitution exists.”

“Parties should ensure that tax systems are designed in a way that minimises the incentive for users to shift to cheaper products in the same product category or to cheaper tobacco product categories as a response to tax or retail price increases or other related market effects.”

“In particular, the tax burden on all tobacco products should be regularly reviewed and, if necessary, increased and, where appropriate, be similar.”



Recommendations

Section 4 – Tax administration

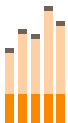
“Parties should ensure that transparent licence or equivalent approval or control systems are in place.”

“Parties are urged to adopt and implement measures and systems of storage and production warehouses to facilitate excise controls on tobacco products.”

“In order to reduce the complexity of tax collection systems, excise taxes should be imposed at the point of manufacture, importation or release for consumption from the storage or production warehouses.”

“Tax payments should be required by law to be remitted at fixed intervals or on a fixed date each month and should ideally include reporting of production and/or sales volumes, and price by brands, taxes due and paid, and may include volumes of raw material inputs.”

“Tax authorities should also allow for the public disclosure of the information contained within the reports, through the available media, including those online, taking into account confidentiality rules in accordance with national law.”



Recommendations

Section 4 – Tax administration

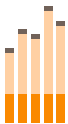
“In anticipation of tax increases Parties should consider imposing effective anti-forestalling measures.”

“Where appropriate, Parties should consider requiring the application of fiscal markings to increase compliance with tax laws.”

“Parties should clearly designate and grant appropriate powers to tax enforcement authorities.”

“Parties should also provide for information sharing among enforcement agencies in accordance with national law.”

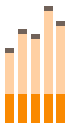
“In order to deter non-compliance with tax laws, Parties should provide for an appropriate range of penalties.”



Recommendations

Section 5 – Use of Revenues – Financing of Tobacco Control

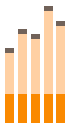
“Parties could consider, while bearing in mind Article 26.2 of the WHO FCTC, and in accordance with national law, dedicating revenue to tobacco-control programmes, such as those covering awareness raising, health promotion and disease prevention, cessation services, economically viable alternative activities, and financing of appropriate structures for tobacco control.”

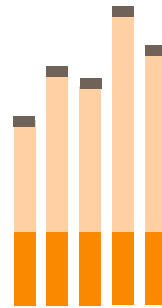


Recommendations

Section 6 – Tax-Free/Duty-Free Sales

“Parties should consider prohibiting or restricting the sale to and/or importation by international travellers, of tax-free or duty-free tobacco products.”

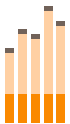




Summary & Conclusions

Summary

- Strong evidence base to support guiding principles and recommendations
- Agreement on guiding principles & recommendations at COP5
- Involvement of many Parties in developing guidelines
- Considerable scope for strengthening tax systems and increasing taxes
- Increasing number of good examples globally
- Considerable industry opposition (e.g. ITIC pre-COP briefing)



For more information:

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