Raising Tobacco Taxes
A Summary of Evidence from the NCI-WHO Monograph on the Economics of Tobacco and Tobacco Control

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Raising Tobacco Taxes: A Critical Strategy

- Significantly increasing the excise tax and price of tobacco products is the single most consistently effective tool for reducing tobacco use.

- It leads some current users to quit, prevents potential users from initiating use, and reduces consumption among current users.

- In HICs, estimates of price elasticity of demand range from –0.2 to –0.6, clustering around -0.4. In LMICs, elasticity estimates range from –0.2 to –0.8, clustering around –0.5.

Source: WHO report on the global tobacco epidemic, 2015 (Figure)
Raising Tobacco Taxes: A Critical Strategy

- Young people and people with low incomes are generally more responsive to changes in prices of tobacco products.

- Demand for tobacco products is at least as responsive and often more responsive to price in low- and middle-income countries (LMICs) as it is in high income countries (HICs).

- Taxes on tobacco products tend to be higher in HICs than in LMICs.

Source: NCI-WHO Monograph on the Economics of Tobacco and Tobacco Control (Figure)
Raising Tobacco Taxes: A Critical Strategy

- Though highly cost-effective in reducing tobacco use, increased tobacco taxation is the least implemented intervention.
- Only 10% of the world’s population is covered by taxation policies that are judged to be at the highest level of enforcement, compared to other tobacco control policies.
- There is big room for improvement – many LMICs, as well as China, have excise tax shares below 50%.

Source: NCI-WHO Monograph on the Economics of Tobacco and Tobacco Control (Figures)
Tax Structure Also Matters

- Governments apply a variety of tobacco taxes, using different tax structures.
- Relying on import duties to generate revenue is not an effective tax policy and does not substantially affect public health.
- **Simpler is better** - reliance on high, uniform, and specific excise taxes will have the greatest public health impact.

**Figure 5.3** Price per Pack in International Dollar Purchasing Power Parity (PPP) and the Share of Excise and Total Tax in Price, by Tax Structure, 2014

Source: NCI-WHO Monograph on the Economics of Tobacco and Tobacco Control (Figure)
Challenges to increasing tobacco taxes

- Tobacco Industry **SCARE** tactics and misinformation are the key hindrance to increasing tobacco taxes worldwide.

- This is especially the case in low and middle income countries (LMICs), that often lack technical capacity and/or political commitment.

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Do high tobacco taxes lead to increased smuggling & illicit trade?

• The evidence does not support this claim. Non-tax factors including weak governance, high levels of corruption, lack of commitment, and ineffective customs and tax administration have an equal or greater role in explaining the extent of tax evasion.

• There have been instances where tobacco companies themselves were involved in smuggling activities.

• Illicit trade can be successfully addressed even when tobacco taxes and prices are raised, resulting in increased tax revenues and reduced tobacco use.

Share of Illicit Trade Versus Corruption, by Country, 2011

Note: Lower scores on the corruption perception index indicate higher levels of corruption.
Sources: Euromonitor International 2011 and Transparency International 2011
Efforts to Combat Illicit Trade

- The WHO FCTC Protocol to Eliminate the Illicit Trade in Tobacco Products, adopted in November 2012 and ratified by 25 countries (as of December 2016), **aims to eliminate all forms of illicit trade in tobacco products** by using a combination of national measures and international cooperation.

Source: WHO FCTC Secretariat – Protocol to Eliminate Illicit Trade in Tobacco Products

Country Examples

- Illicit trade can be successfully addressed even when tobacco taxes and prices are raised:

**U.K.**

Cigarette Taxes and *ESTIMATED* Illicit Cigarette Market Share, United Kingdom, 1993–2010

**ITALY**

Illicit Cigarette Market Share and Percentage of Most Popular Price Category Accounted for by Taxes, Italy, 1991–2010

The key is commitment, proper enforcement, and cracking down on corruption

Source: NCI-WHO Monograph on the Economics of Tobacco and Tobacco Control (Figures)
Court and Legal Challenges by TI

Selected countries that had tobacco control policies recently challenged and/or litigated by the tobacco industry:

United States          Indonesia
EU                    France
Norway                Canada
Peru                  South Korea
Brazil                Australia
Uruguay               South Africa
Philippines           India
Pakistan              Sri Lanka

Increasing Tobacco Taxes is **NOT** Anti-Poor

- Tobacco use is concentrated among the poor and other vulnerable groups and accounts for a significant share of the health disparities between the rich and the poor.

- It is increasingly concentrated in LMICs and within most countries, among the lower socioeconomic status populations.

- Lower income populations often respond more to tobacco tax and price increases than higher income populations.

- Significant tobacco tax and price increases can help reduce the health disparities resulting from tobacco use.

Source: NCI-WHO Monograph on the Economics of Tobacco and Tobacco Control (Figure)
The Vicious Cycle of Tobacco and Poverty

- Poverty is exacerbated by increased health care costs, reduced incomes, decreased productivity, and diversion of limited family resources from basic needs.
- By reducing tobacco use among the poor, tobacco control policies can help break the cyclical relationship between tobacco use and poverty.
- Tobacco control efforts that are integrated with other public health and development policies can improve the overall health of the poor and can help achieve the Sustainable Development Goals.

Source: NCI-WHO Monograph on the Economics of Tobacco and Tobacco Control (Figure)
Increasing Tobacco Taxes Generates Revenues

- The Addis Ababa Action Agenda recognized that:
  
  "… price and tax measures on tobacco can be an effective and important means to reduce tobacco consumption and health-care costs, and represent a revenue stream for financing development in many countries"

- It is estimated that governments collected around **US$ 269 billion in tobacco excise revenues** in 2013-2014, but increased taxes can bring more revenue to meet the SDGs

- Tobacco taxation offers a win-win policy option in both health and revenues

- WHO FCTC implementation is a target of the SDGs
South Africa: Win for Revenues, Win for Health

Tax increases that result in price increases and reduce consumption

Tax increases also increase revenue
Raising tobacco excise tax by 1 International Dollar (about US$ 0.80) in all countries would:

- Increase average cigarette prices by 42% globally
- Increase excise revenue by 47%, representing an extra US$ 141 billion
- Global increase in public health expenditures
- Reduce smoking prevalence by 9%, representing 66M fewer smokers

Source: WHO report on the global tobacco epidemic, 2015
Tobacco Control does not harm economies

• The number of jobs that depend on tobacco – tobacco growing, manufacturing and distribution – is low and has been falling in most countries due to new production technologies, a shift from state to private ownership, and globalization.

• In most countries, tobacco control policies will have either no effect or a net positive effect on overall employment because any tobacco-related job losses will be offset by job gains in other sectors.

• In the few countries that depend on tobacco exports, it could lead to job losses, but these are expected to be small, gradual, and unlikely to affect the current generation of tobacco farmers.

• Evidence from HICs and LMICs shows that smoke-free policies do not adversely affect the hospitality sector.

Source: NCI-WHO Monograph on the Economics of Tobacco and Tobacco Control
CONCLUDING REMARKS

• The global health and economic burden on tobacco use is enormous and is increasingly borne by LMICs. Governments must act decisively to reduce this burden.

• Significant tobacco tax and price increases is the most cost effective way to increase revenues and reduce tobacco use. It is high time government’s use it proactively.

• It is a win for revenues, a win for public health, reduces the disproportionate burden that tobacco use imposes on the poor and is essential for sustainable development.
Thank you for your attention.