



Tobacco Taxation: at the Cross Roads of Health and Development



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Why is Health in All Policies (HiAP) a good framework for regulating and taxing tobacco as a global public good?

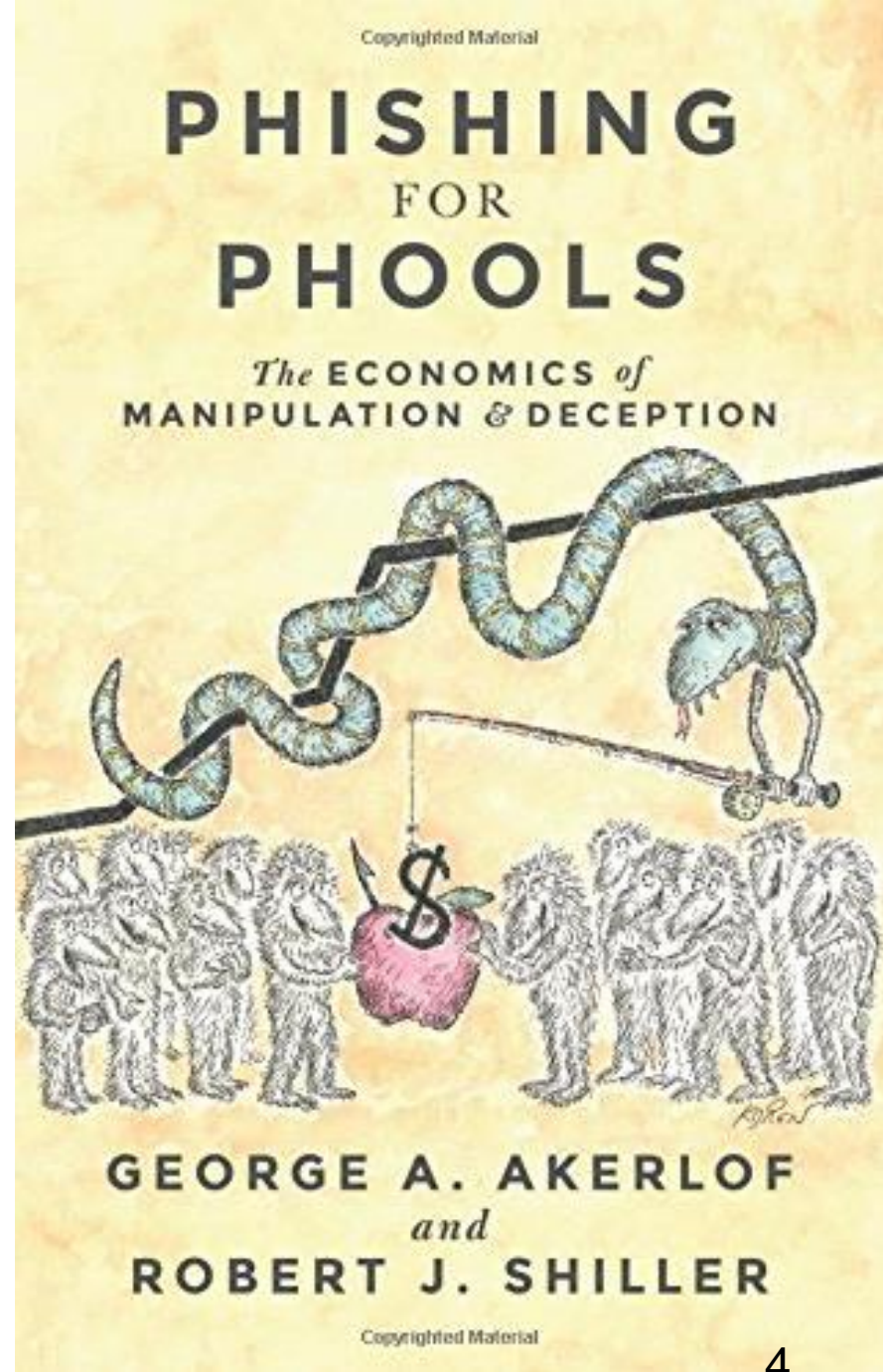
1. HiAP: approach to public policies across sectors that systematically takes into account the health implications of decisions, seeks synergies, and avoids harmful health impacts in order to improve population health and health equity

The economics of manipulation and deception in the tobacco marketplace

Ever since Adam Smith, the central teaching in economics has been that free markets provides us with material well-being as if by an invisible hand.. **But markets harm as well as help us.**

As long as there is profit to be made, sellers will systematically exploit our psychological weaknesses and our ignorance through manipulation and deception.

Humans think in terms of stories, and decisions are consequently determined by the stories we tell ourselves. **Advertisers use this to their advantage by “graph[ing] their story” onto ours, and thereby influencing the decisions we make”—in this case to consume tobacco products**



Tobacco Marketing

Cigarette and smokeless tobacco companies spend billions of dollars each year to market their products. In 2014, US\$9 billion on advertising and promotional expenses in the United States alone.

Marketing to Specific Populations

Youth and Young Adults: Scientific evidence shows that tobacco company advertising and promotion influences young people to start using tobacco.

- Adolescents who are exposed to cigarette advertising often find the ads appealing.
- Tobacco ads make smoking appear to be appealing, which can increase adolescents' desire to smoke.

Women: Women have been targeted, and tobacco companies have produced brands specifically for women. Marketing toward women is dominated by themes of social desirability and independence, which are conveyed by advertisements featuring slim, attractive, and athletic models.

Advertisement and promotion of certain tobacco products appear to be targeted to members of racial/minority communities.

Source: US CDC (https://www.cdc.gov/tobacco/data_statistics/fact_sheets/tobacco_industry/marketing/)

Smoking is Glamorous



than any other principal brand!

These scientific tests, confirmed by independent consulting laboratory, prove Lucky Strike mildest of 6 major brands tested!

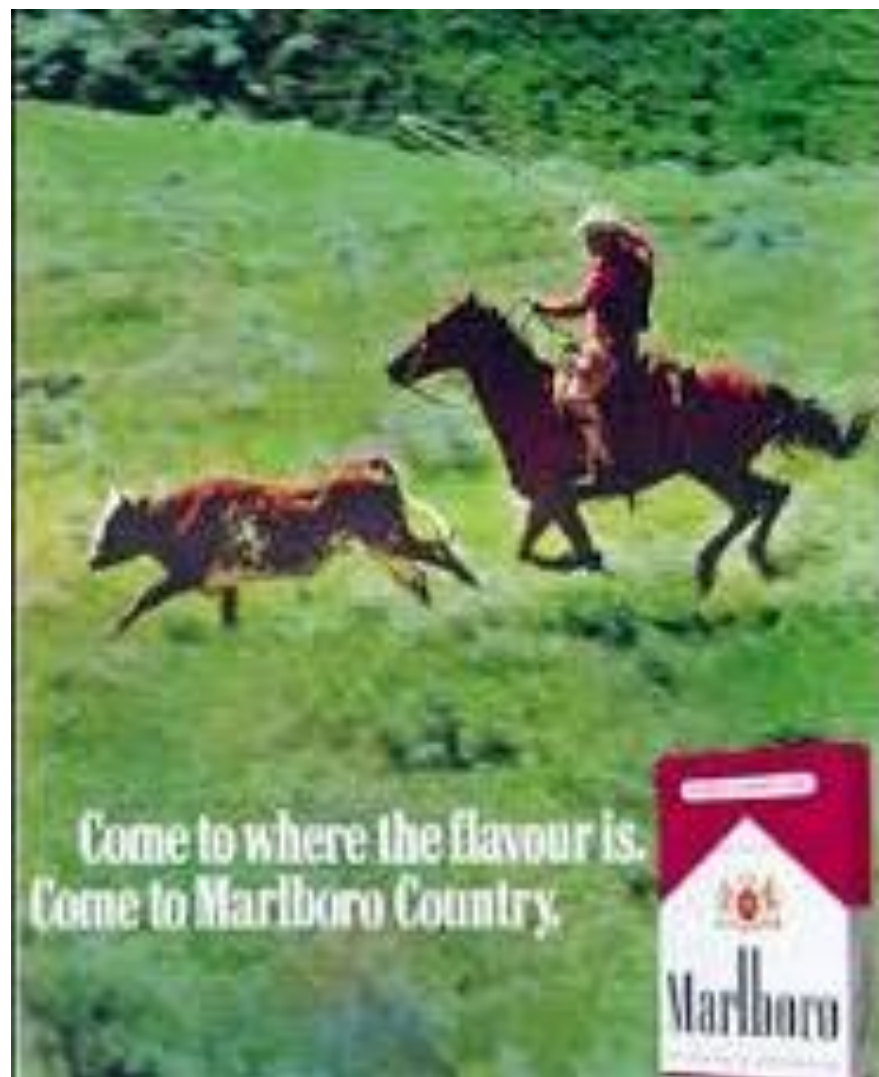
MARLENE DIETRICH says:
"I smoke a smooth cigarette—Lucky Strike!"

Let your own taste and throat be the judge! For the rich taste of fine tobacco — for smoothness and mildness ...
THERE'S NEVER A ROUGH PUFF IN A LUCKY!

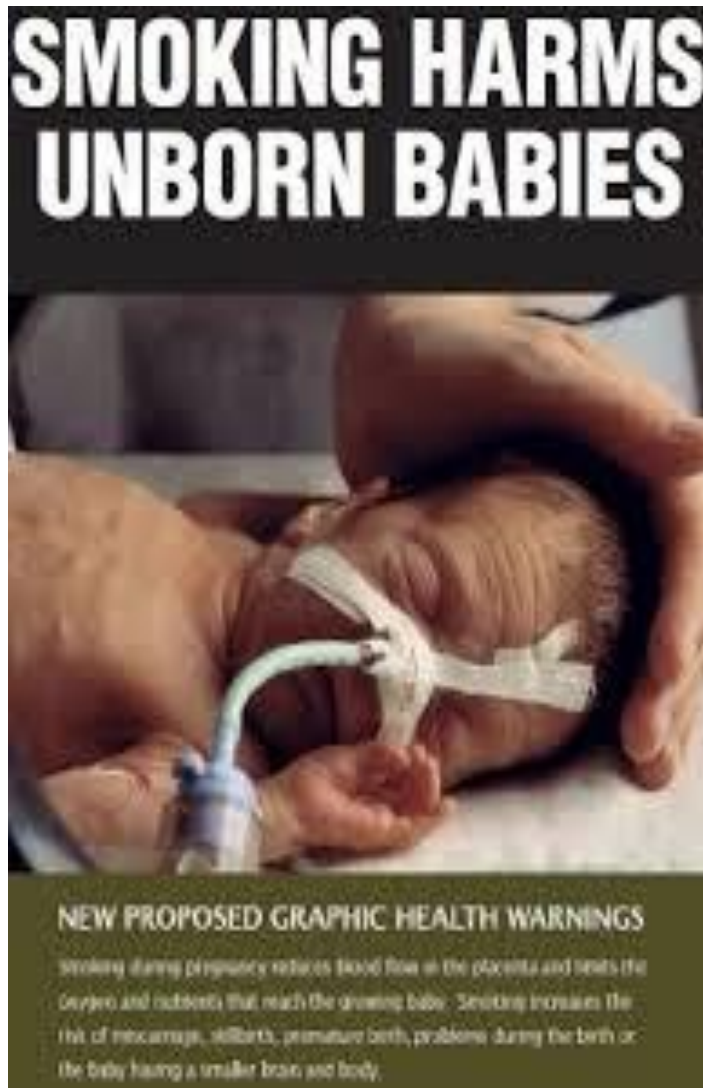
LUCKY STRIKE CIGARETTES
L.S./M.F.T.

© 1935 THE AMERICAN TOBACCO COMPANY

Smoking will make you feel good



If advertisement helps tobacco sales, then it can also help tobacco control!





Addiction and the Cigarette Experience

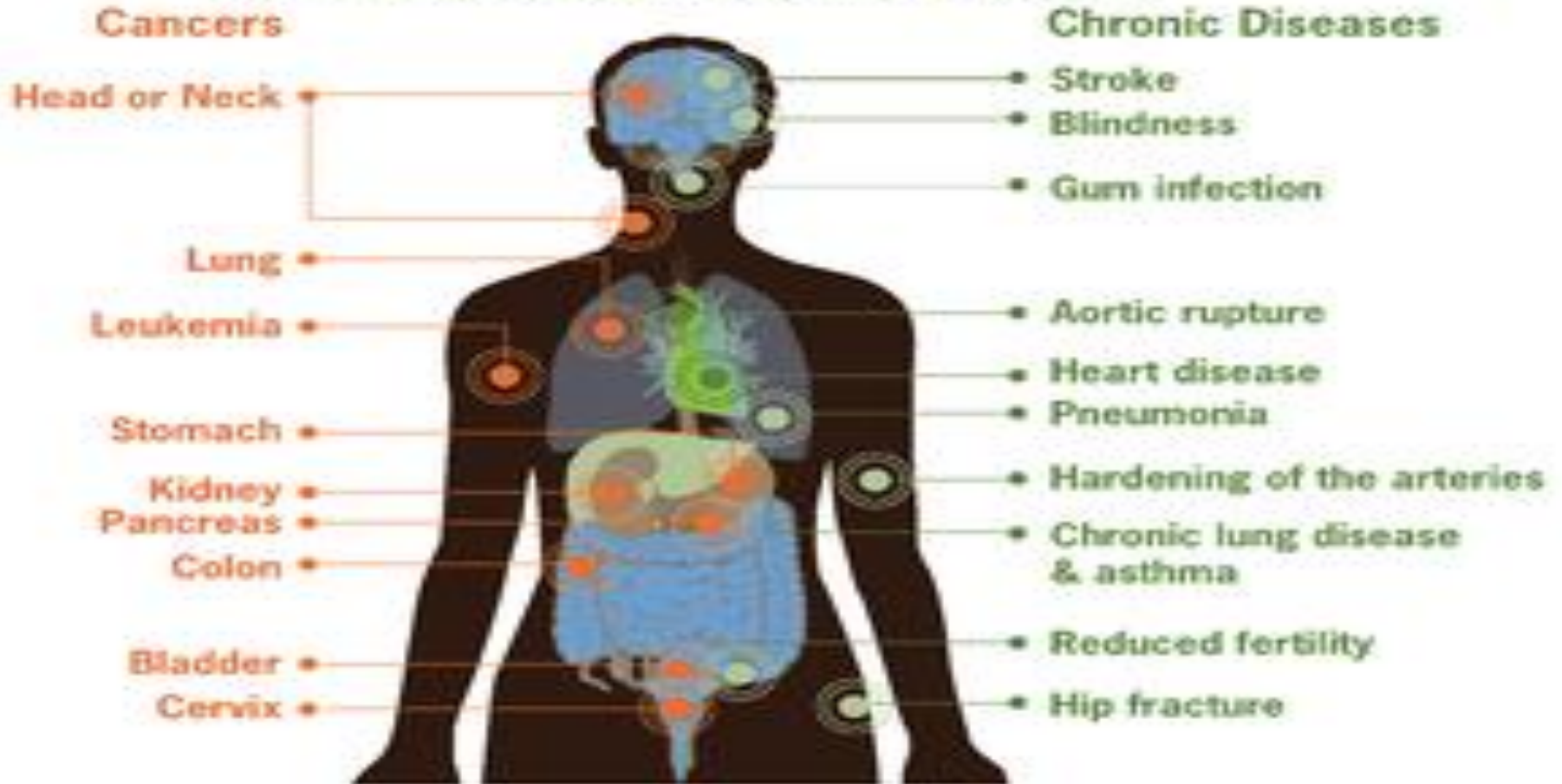
“Cigarettes are among the most addictive substances of abuse and by far the most deadly.”

“Unquestionably, the most significant loss in consequence of smoking is the loss that accrues to those who die and to their immediate families. This is the loss of life itself or, to phrase it in a way that focuses on the magnitude of the loss, the years of life lost.”

Thomas C. Shelling, 2005 Nobel Prize winner in Economics

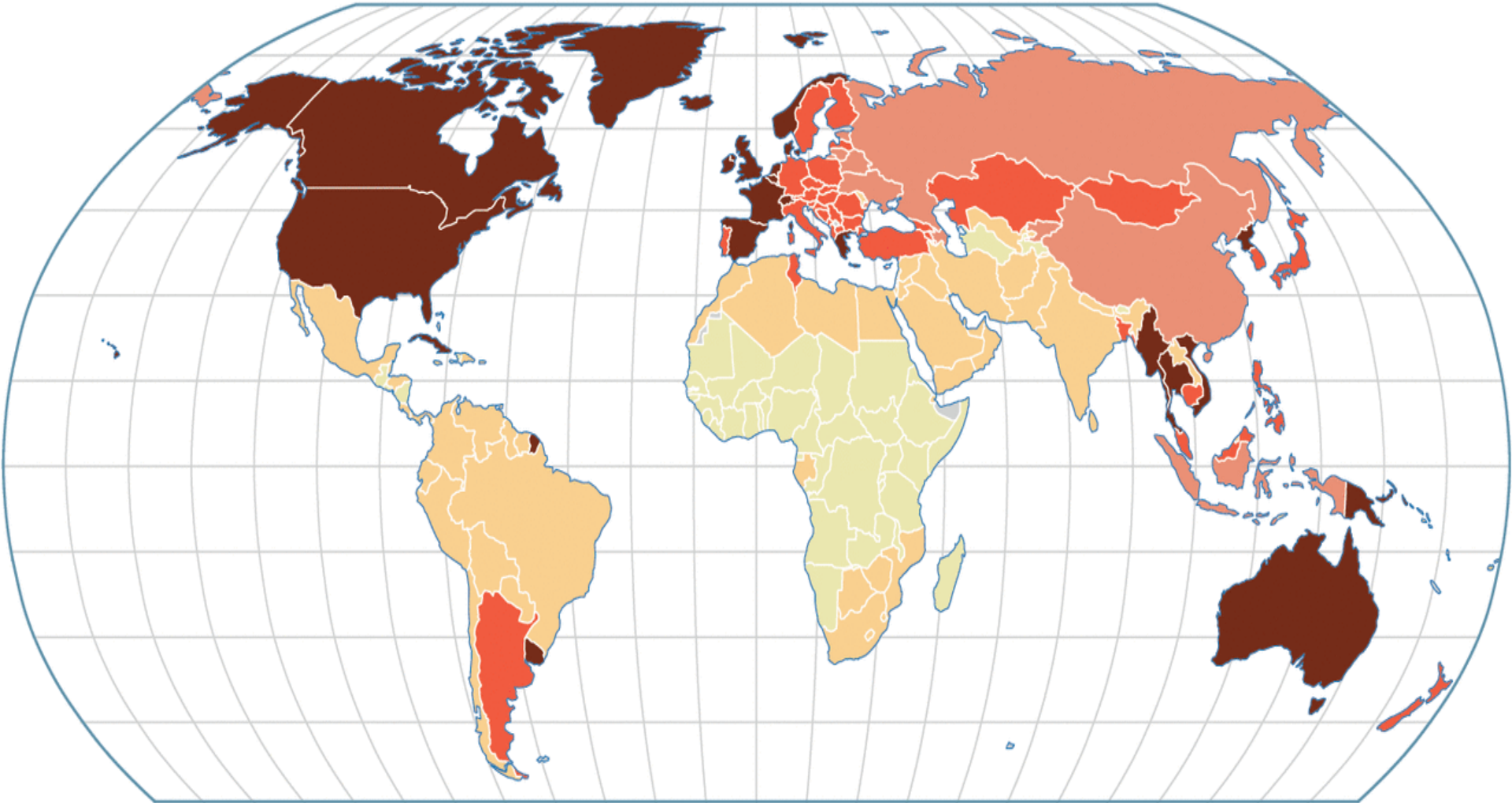
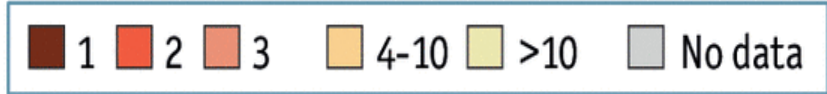
Risks from Smoking

Smoking can damage every part of the body



Ashes to ashes

Rank of smoking among risk factors for death and ill health*
2015



Source: Institute for Health Metrics and Evaluation

*Measured in disability-adjusted life years

Tobacco use is the largest cause of preventable disease and death in the world.

- Tobacco use is the world's leading preventable cause of death, killing 7 million people per year.
- Smokers are **2 to 4 times** more likely to get coronary heart disease; **2 to 4 times** more likely to experience a stroke; and about **25 times** more likely to develop lung cancer (CDC 2014).
- **Recent research has shown that smoking can kill up to 2/3 of those who consume tobacco products (Banks et al. 2015).**
- On average, smokers lose a decade of their life compared to non-smokers (Jha et al. 2013).

Direct and Indirect Economic Costs of Tobacco Use

Evidence from the United States:

- ***Based on 2006–2010 data, it has been estimated that by 2010, 8.7% of annual health care spending could be attributed to cigarette smoking, amounting to as much as US\$170 billion per year.***
- An estimated 11.1% of inpatient healthcare spending; 10.4% of prescription spending; and 5.3% of medical spending on non-inpatient services (outpatient, physician and clinical services, and other professional services) were attributable to cigarette smoking.
- During 2000–2004, cigarette smoking and secondhand smoke exposure resulted annually in at least 443,000 premature deaths, 5.1 million years of productive life lost, and US\$96.8 billion in productivity losses.

Source: Xu X et al. 2015

Economic loss totals US\$ 1.4 trillion



2. HiAP is founded on health related rights and obligations, and contributes to strengthening the accountability of policymakers for health impacts at all levels of policy-making. It emphasizes the consequences of public policies on health systems, determinants of health, and wellbeing. It also contributes to sustainable development

WHO FRAMEWORK
CONVENTION ON
TOBACCO CONTROL



- Countries are required to adhere to the provisions of the WHO's Framework Convention on Tobacco Control (FCTC) once Governments have signed and ratified it.
- More than 180 countries have ratified the 2003 WHO's FCTC, the first public health global treaty, that came into effect in 2005.
- The WHO's FCTC is a legally binding international treaty.

WHO FCTC Core Demand and Supply Reduction Measures

The core demand reduction provisions in the WHO FCTC are contained in articles 6-14:

- Price and tax measures to reduce the demand for tobacco, and
- Non-price measures to reduce the demand for tobacco, namely:
 - Protection from exposure to tobacco smoke;
 - Regulation of the contents of tobacco products;
 - Regulation of tobacco product disclosures;
 - Packaging and labelling of tobacco products;
 - Education, communication, training and public awareness;
 - Tobacco advertising, promotion and sponsorship; and,
 - Demand reduction measures concerning tobacco dependence and cessation.

The core supply reduction provisions in the WHO FCTC are contained in articles 15-17:

- Illicit trade in tobacco products;
- Sales to and by minors; and,
- Provision of support for economically viable alternative activities.

3. Efforts must be made to capitalize on opportunities for co-benefits across sectors and for society at large. Effective safeguards to protect policies from distortion by commercial and vested interests and influence also need to be established.

Guiding principles of Article 5.3 under the WHO's Framework Convention on Tobacco Control (FCTC)

- **Principle 1: There is a fundamental and irreconcilable conflict between the tobacco industry's interests and public health policy interests.** The tobacco industry produces and promotes a product that has been proven scientifically to be addictive, to cause disease and death and to give rise to a variety of social ills, including increased poverty. Therefore, Parties should protect the formulation and
- implementation of public health policies for tobacco control from the tobacco industry to the greatest extent possible.
- **Principle 2: Parties, when dealing with the tobacco industry or those working to further its interests, should be accountable and transparent.** Parties should ensure that any interaction with the tobacco industry on matters related to tobacco control or public health is accountable and transparent.
- **Principle 3: Parties should require the tobacco industry and those working to further its interests to operate and act in a manner that is accountable and transparent.** The tobacco industry should be required to provide Parties with information for effective implementation of these guidelines.
- **Principle 4: Because their products are lethal, the tobacco industry should not be granted incentives to establish or run their businesses.** Any preferential treatment of the tobacco industry would be in conflict with tobacco control policy.



Why Tobacco Regulation Matters? Economic Rationale for Action

- Information failure about risks and addiction potential (adolescents)
- Externalities (second-hand smoking and pregnancy)
- Ill health, premature death, and disability at a productive age undermine human capital development
- Increasing costs of health care for families and countries, as well as for the economy as a whole



Traditional Public Regulation

- The public sector has traditionally regulated smoking in one of three ways (Gruber, 2002).
- **The first, and most important, is excise taxation, at both the central and local levels.**
- The second public regulation is restriction of smoking in public places---variety of restrictions on smoking in sites such as workplaces, restaurants, and public transportation.
- The third set of smoking regulations involves restrictions on youths' access to tobacco products.



Benefits of Tobacco Regulation

- The main benefits of regulations that reduce smoking are straightforward: improved health for smokers and also for non-smokers who are less likely to be exposed to secondhand smoke.
- **Tobacco companies, therefore, should be strictly regulated in ways that minimize the harm caused by their products.**

Taxing tobacco: a win-win for public health and domestic resource mobilization

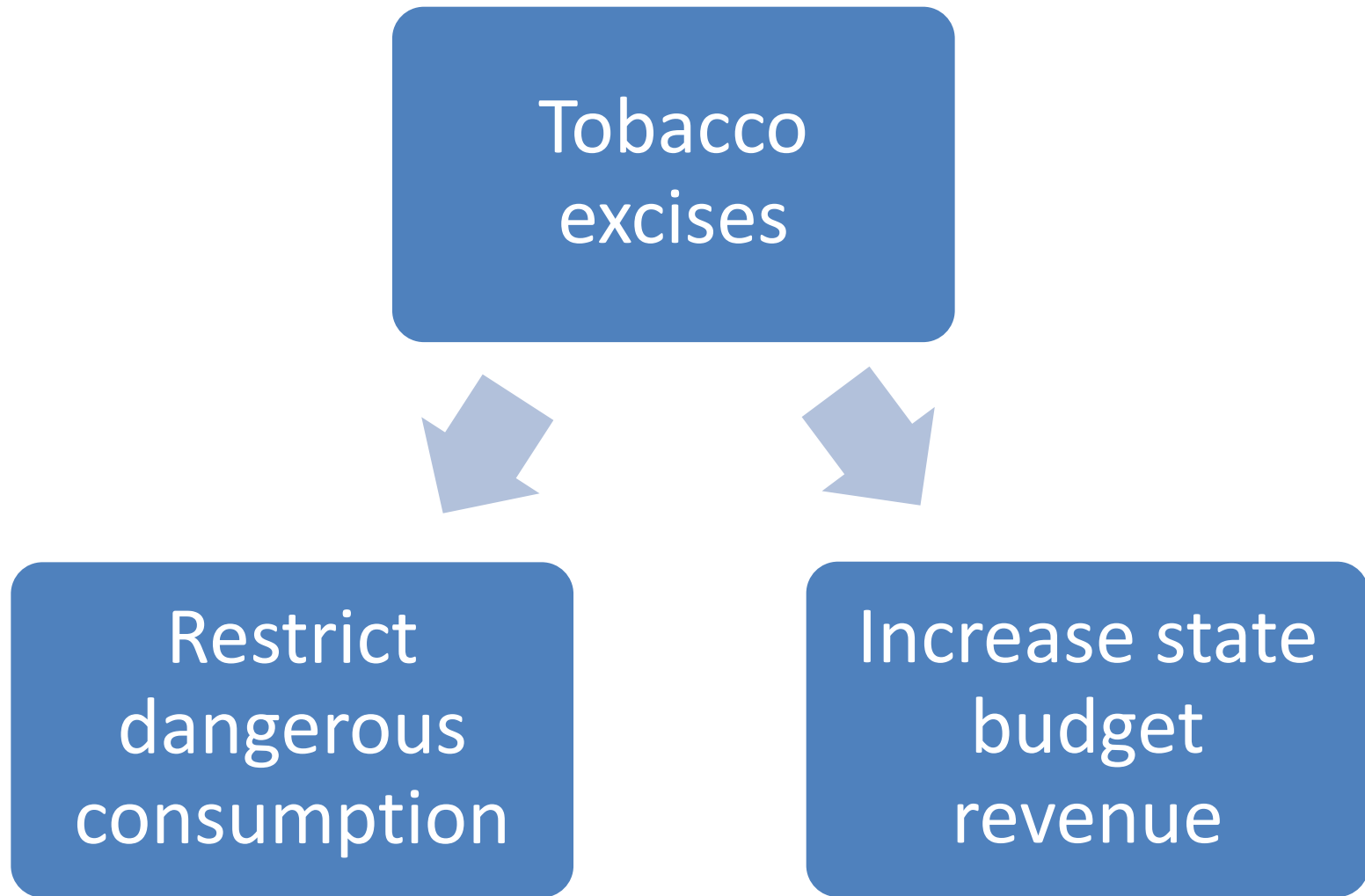


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“Sugar, rum, and tobacco, are commodities which are nowhere necessities of life, [but] which are ... objects of almost universal consumption, and which are therefore extremely proper subjects of taxation.”

Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations (1776)

What is the main purpose of tobacco excises?



Tobacco taxation is a win-win policy measure!

The International Monetary Fund (IMF) advice

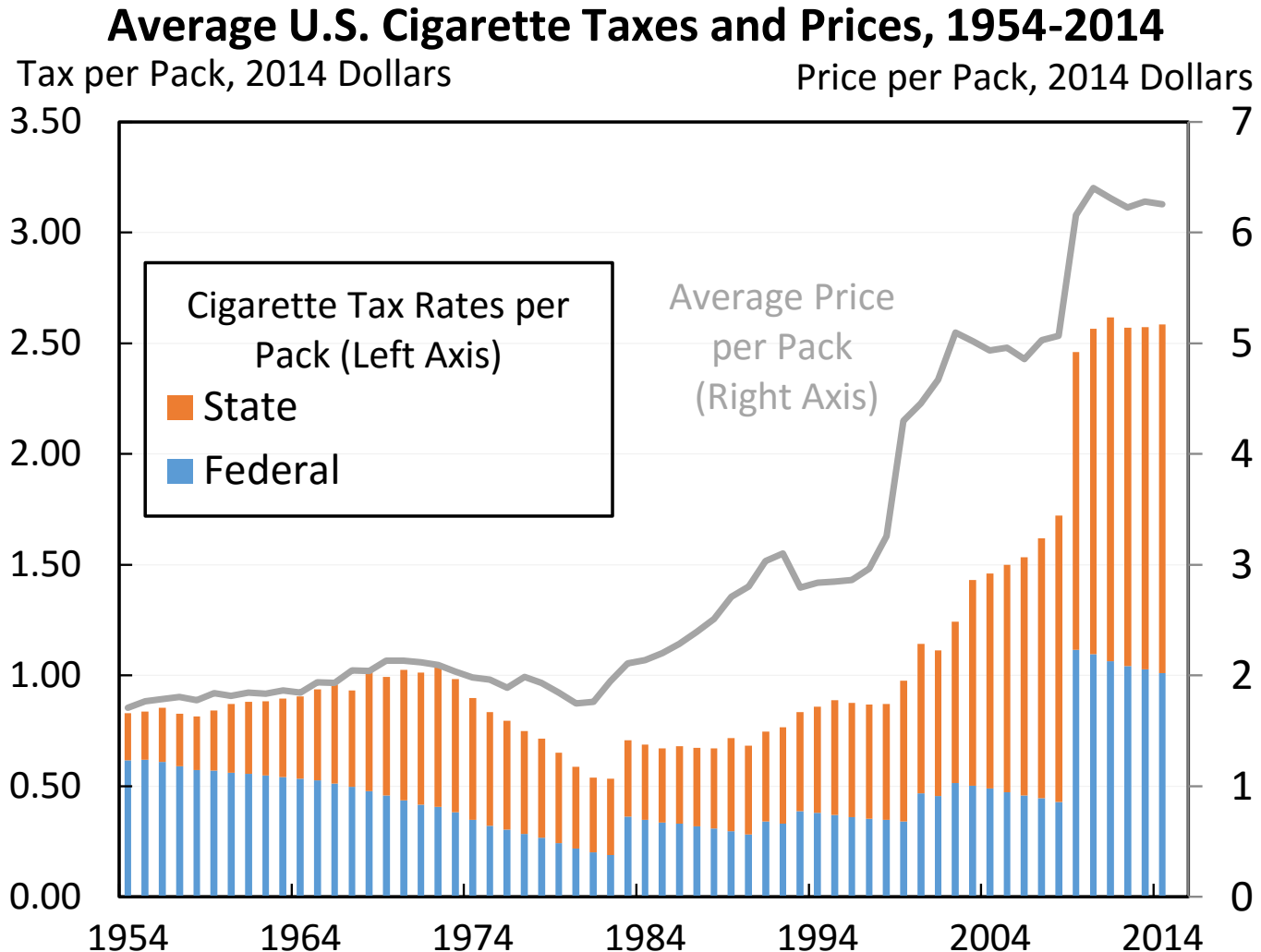
“In many countries, raising tobacco taxes can offer a “win–win”: higher revenue and positive health outcomes. Countries’ circumstances and governments’ weighting of revenue, health, and other objectives vary, and hence so too will the desirable level of tobacco tax rates.”

“In many cases, however, current tax rates are evidently far below what is feasible in terms of revenue potential. Thus, tax increases could serve revenue purposes as well as health and other objectives.”

“Of course, countries putting more weight on health objectives could raise taxes even further.”

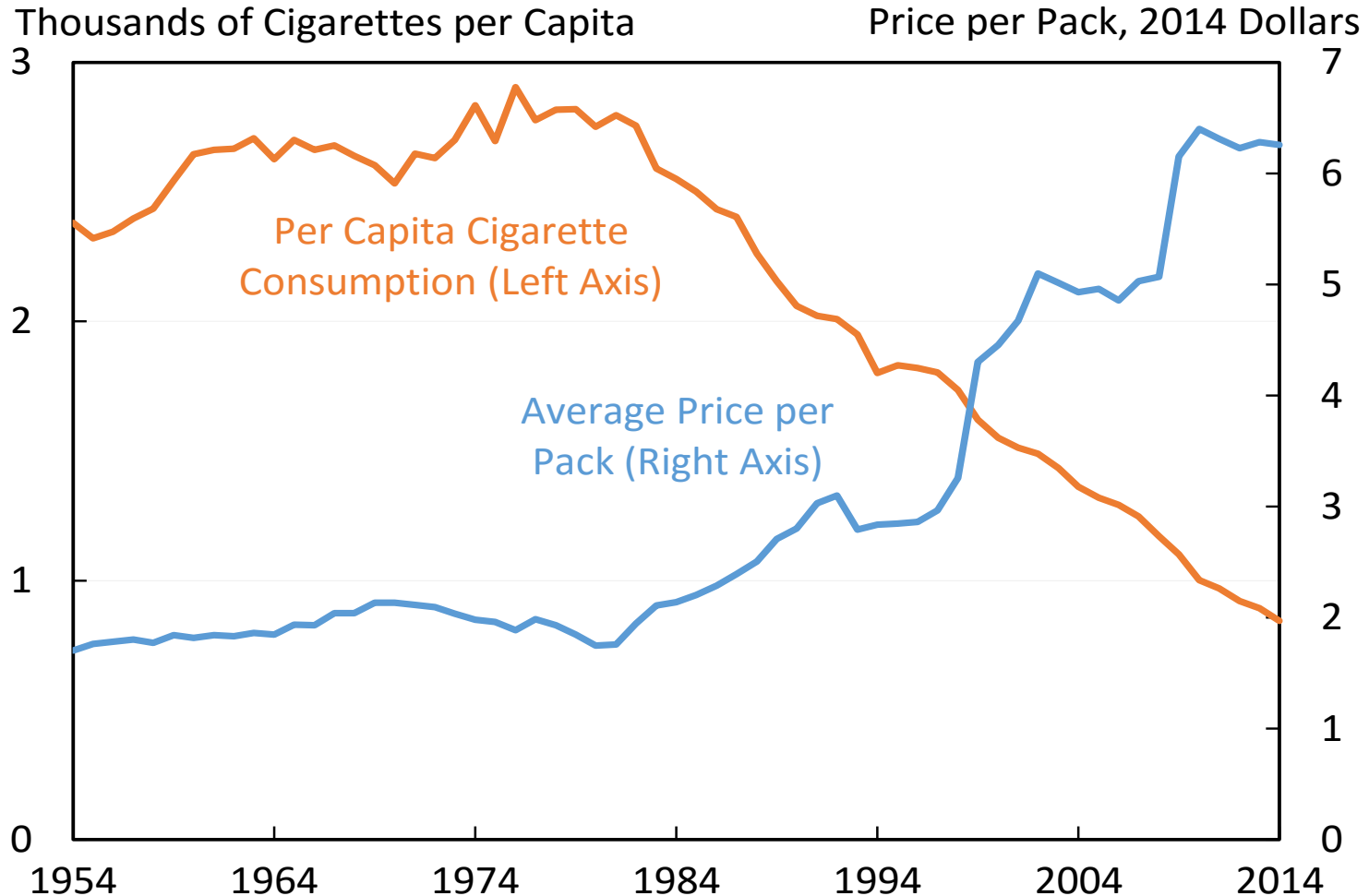
Source: Petit, P. and Nagy, J. 2016 “How to design and enforce tobacco excises?”. Washington, D.C.: Fiscal Affairs Department, International Monetary Fund. |

Cigarette Taxes Play an Important Role in Cigarette Prices



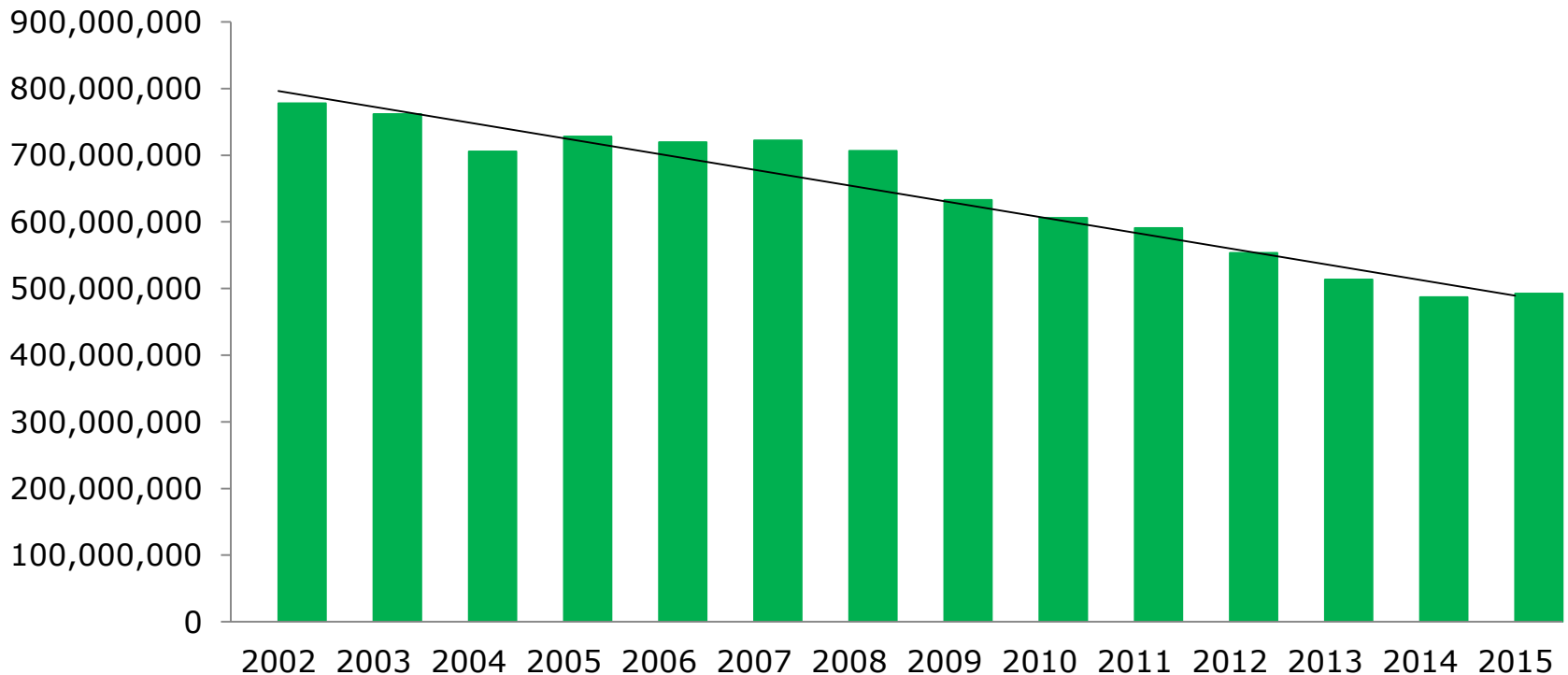
Price Plays an Important Role in Smoking

U.S. Cigarette Prices and Consumption, 1954-2014



Consumption levels for cigarettes in the European Union

Releases for consumption of cigarettes 2002-2015 (in 1000 pieces)



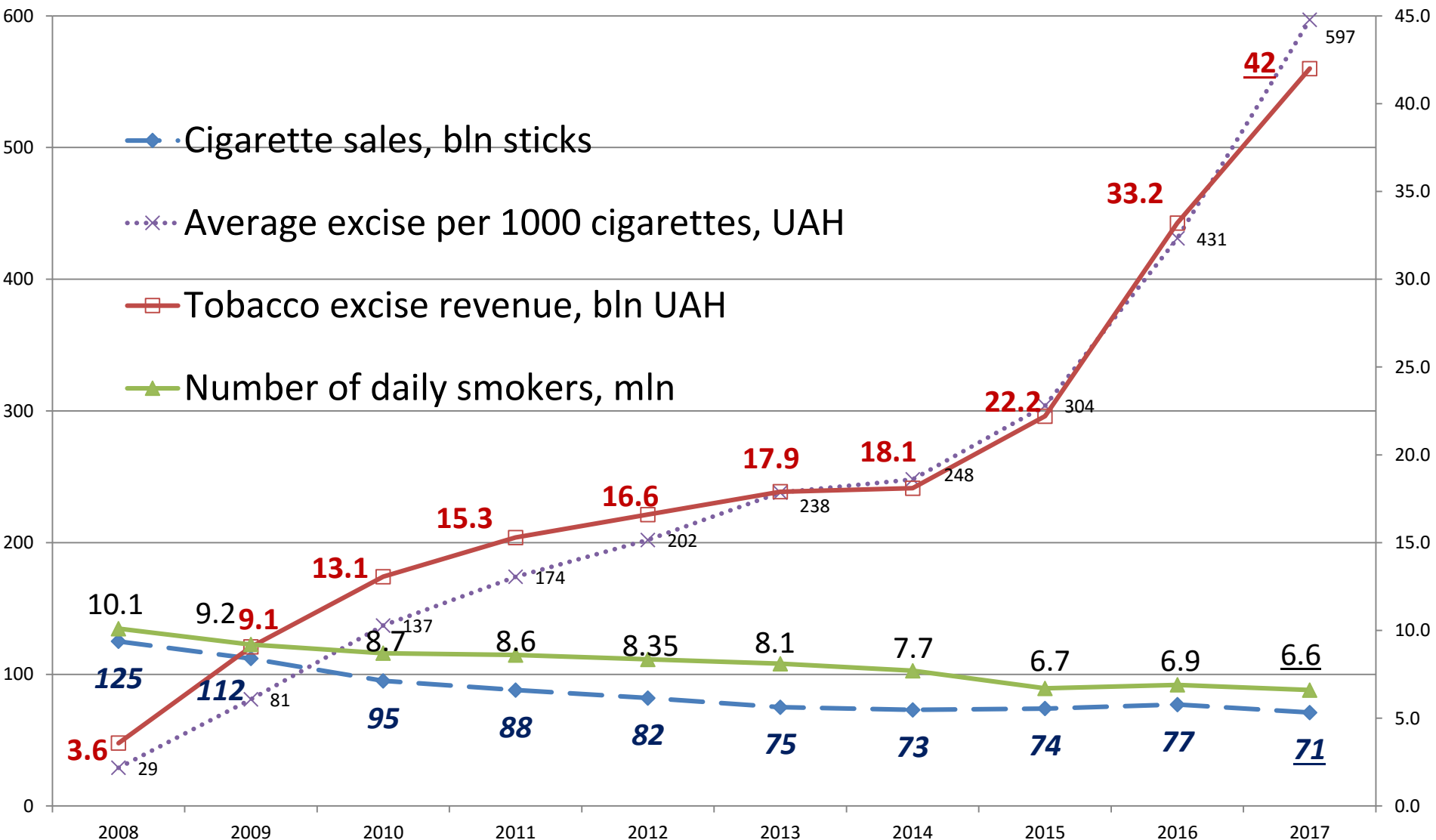
Health and Fiscal Impact of Raising Excise Taxes on Tobacco

- It affects people's **smoking behavior**.
- Changes in smoking behavior (i.e., existing users smoking less (the **intensive margin**) and **declines in the number of smokers (the extensive margin)**), improve people's health, reduce the risk of ill health, premature death and disability, and increase healthy life expectancy.
- **Improvements in health status of the population, can help to:**
 - ❖ Reduce public health care expenditures for tobacco-related illnesses, and the risk of **impoverishment** due to out-of-pocket expenditures for medical care needed to deal with tobacco-related illnesses.
 - ❖ Better health conditions allow people to work more and be more **productive**, boosting labor earnings and hence the amount of fiscal revenues collected from income and payroll taxes.
- Higher taxes on tobacco and improved tax administration **help mobilize additional domestic resources to expand fiscal space** to finance priority investments, including universal health coverage.
- Switching to other crops could lead to **agriculture diversification**.

Tobacco taxation as source for increasing fiscal space to fund priority investments and essential services

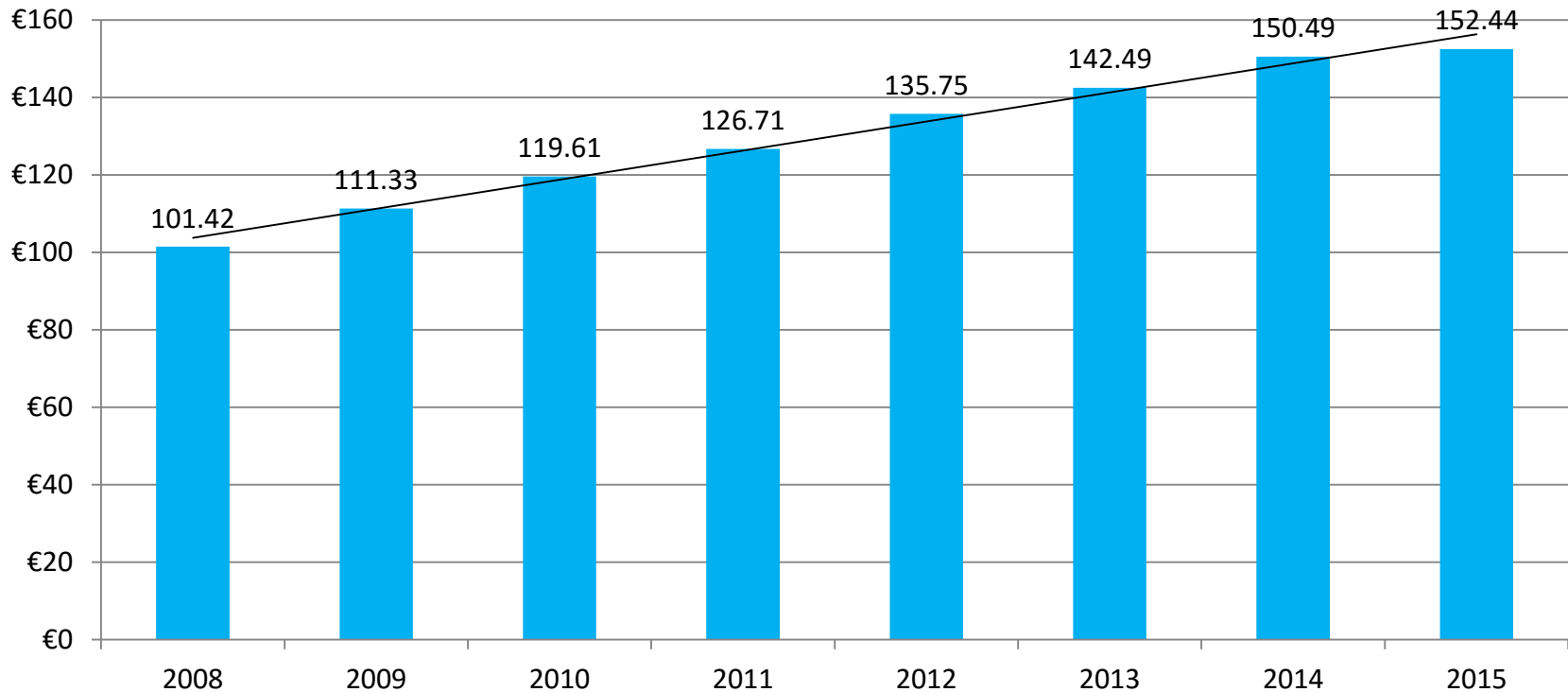
- Growing international consensus and support: Reflected in **Outcome Document of the Third International Conference on Financing for Development: Addis Ababa Action Agenda of July 2015**, and endorsed at the UN General Assembly in September 2015.
- While it is recognized that domestic resources are first and foremost generated by economic growth,
 - grounded on macro-economic stability (fiscal space), and
 - supported by complementary measures, **sound social, environmental and institutional policies**, including good governance, and democratic and transparent institutions responsive to the needs of the people **are ALL necessary to achieve the SDGs**.
- In this context, Clause 32 states:
 - ***“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 for development in many countries.”***

Results of tobacco excise policy in Ukraine: 2008-2017

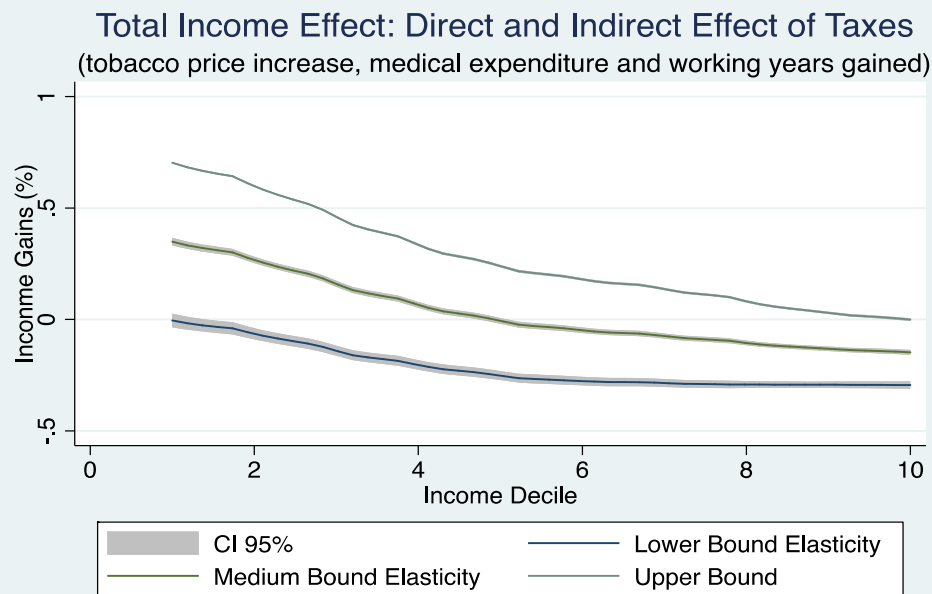


Average revenue excise duties cigarettes in European Union

Excise duties collected per 1000 cigarettes

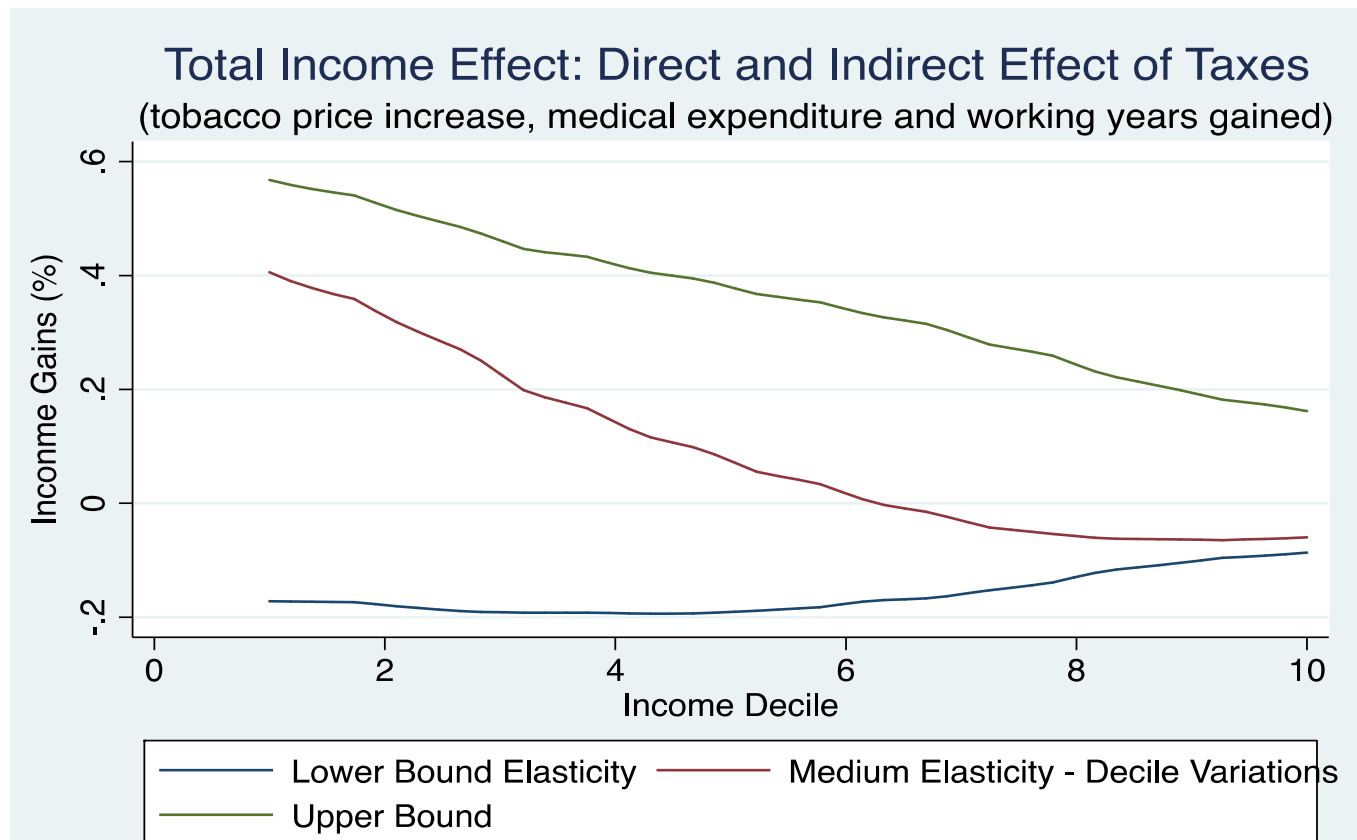


Tobacco Taxes are pro-poor: Total Direct and Indirect Effects of Tobacco Taxes in Ukraine



Source: Author estimation using a price shock of 25%

Results: Net Effect in Chile



Source: Author's estimation using a price shock of 25%

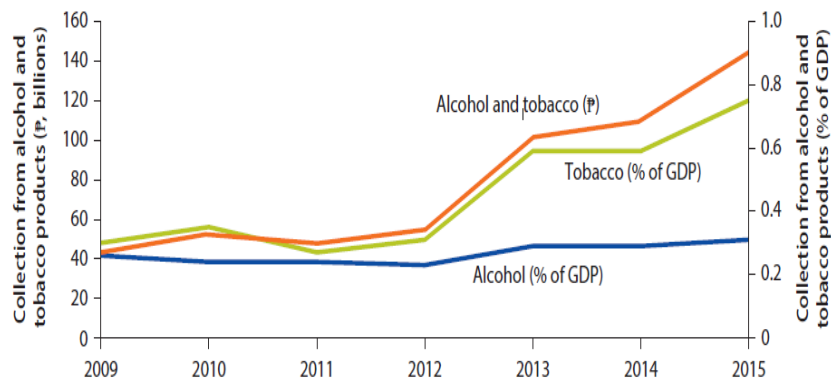


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Multiple Wins from Tobacco Taxation (Philippines Example)

Figure O.4 Sin Tax Revenues, 2009–15

Revenues doubled as a share of GDP



Source: Department of Finance.

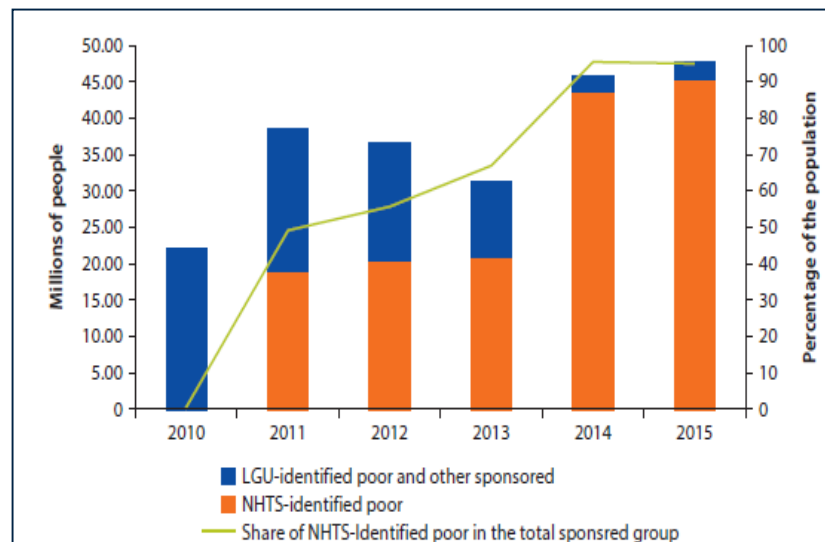
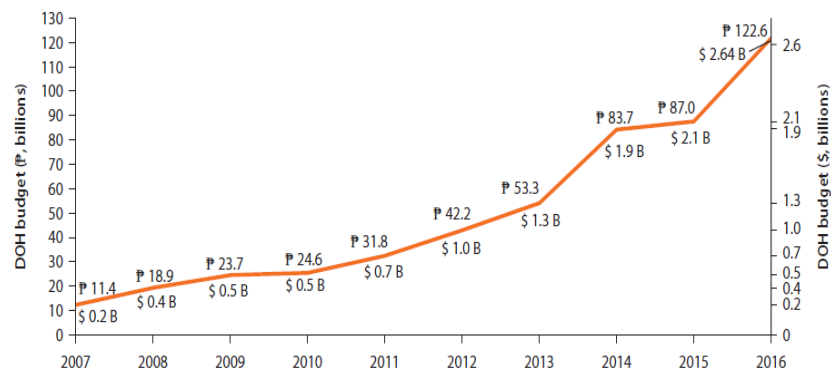


Figure O.7 Department of Health Budget, 2007–16

Budgets for the health sector increased dramatically



Sources: Department of Budget and Management; General Appropriations Act (GAA).

Note: DOH = Department of Health.

Prevalence of smoking among adult Filipinos declined from 31.0% in 2008 to 25.4% in 2013, and then to 23.3% in 2015.

There are about 4.0 million less smokers in the country because of the Sin Tax Law.

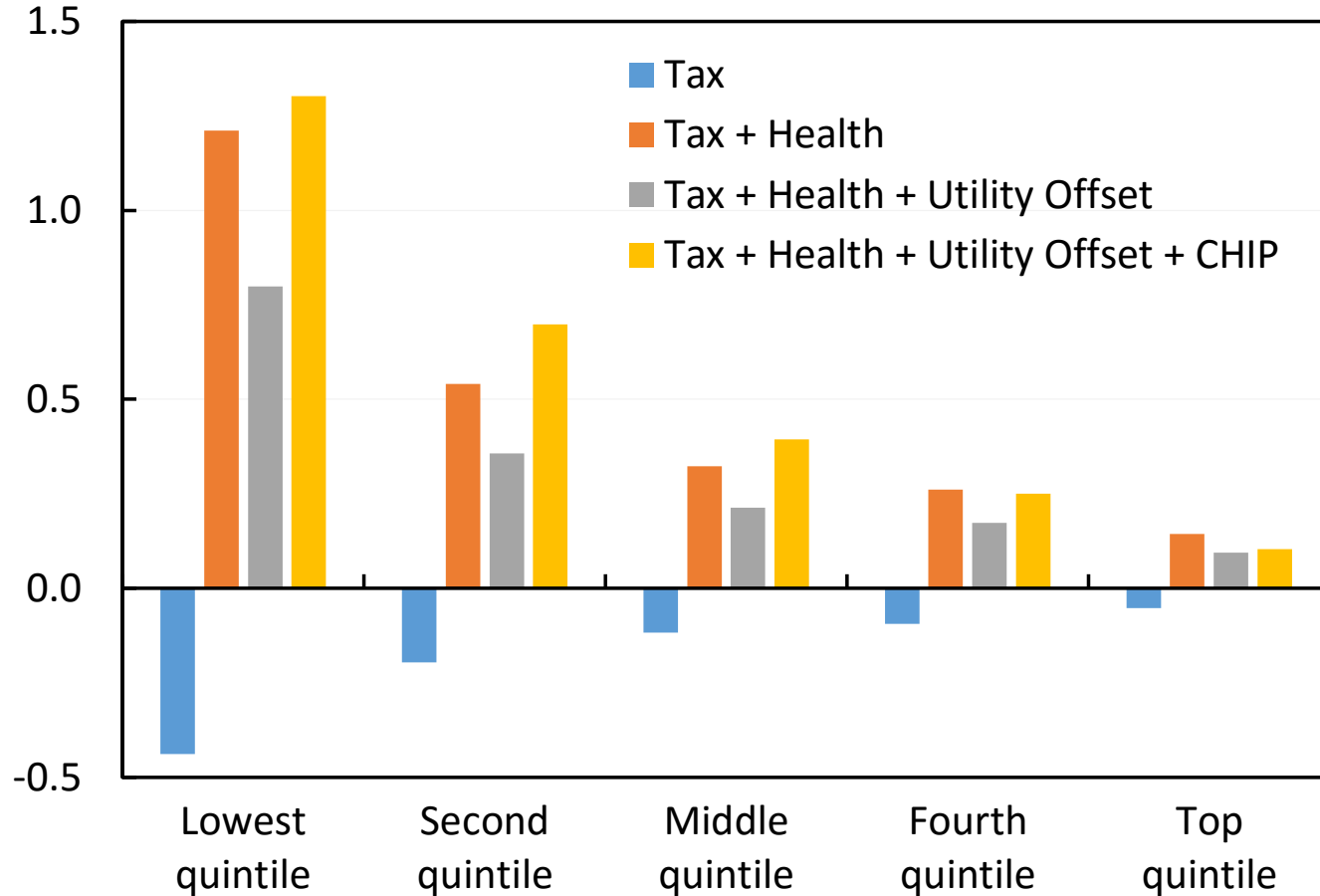
The drop is mostly from people who avoid taking up smoking.

At least 70,000 deaths have been averted since 2013. Health benefits were greatest in price sensitive populations – the poor, rural folk, the very old, and the very young.

Tobacco Taxes Disproportionately Benefit Lower-Income Households in the United States

Illustrative Distribution of the 2009 Tobacco Tax Increase

Benefits as Percent of Pre-Tax Income



The use and mortality reduction due to 2009 tax increase on tobacco in the United States

- Evidence suggests that the 2009 Federal cigarette tax increase could have plausibly reduced the number of smokers in a cohort of 18 year-olds by between 45,000 and 220,000 people, roughly 3 to 15 percent.
- Under the assumption that roughly one-third of youth smokers die prematurely due to smoking (U.S. Surgeon General 2014), the 2009 cigarette tax increase in the United States plausibly reduced the number of premature deaths due to smoking in each cohort by between 15,000 and 70,000.

Tobacco Taxes & Illicit Trade: Myth or Reality?

- **While high taxes may create incentives for illicit trade, other factors have a much bigger effect, including:** low capacity in a nation's tax administration system, and low likelihood of being caught and punished (WHO 2016).
- **Illicit trade can be controlled by: strong tax administration systems**
- **Countries need to ratify the FCTC's Protocol on Illicit Trade in Tobacco Products approved in 2013:**
- **Signatories : 54. Parties : 27 out of the 180 Parties to the FCTC**
- **In ECA country that ratified include: Austria, European Union, France, Latvia, Lithuania, Finland, France, Germany, Greece, Ireland, Latvia, Lithuania, Spain, Turkmenistan**

Evidence: Strong Tax Administration Works in Countries where High Tobacco Taxes.

- **Since Her Majesty's Revenue and Customs' (HMRC) "Tackling Tobacco Smuggling" Strategy was introduced in the UK in 2000, the size of the illicit cigarette market has been cut by almost half, to a level of about 9%, with more than 26 billion cigarettes and over 4,300 tons of hand-rolling tobacco seized. Additionally, the U.K. has seen more than 4,000 criminal prosecutions for tobacco offences following action by law enforcement officers (see recent information at <https://www.gov.uk/government/news/government-unveils-plans-to-stub-out-illicit-tobacco-trade>). And the UK has one of the highest tax burdens on cigarettes (82% of to the total average retail price of a pack of 20-cigarettes).**
- **In Chile, a country that has one of the highest tax rates on cigarettes in the world (78% of the price of each pack), government has also experienced increased success in seizures of smuggled tobacco products and is helping curtail the slight growth in illicit trade observed after a 2013 increase in tobacco prices.**

Take Away 1: Build broad alliances

- **Country leaders face sharp resistance to tax rate increases and other tobacco control measures from the tobacco industry. The industry is both financially powerful and politically astute. Tobacco industry advice to governments promotes the most ineffective interventions and seeks to undercut and weaken tax measures.**
- **To counter these pressures requires robust scientific and economic analysis, as well as multi-sectoral policy development and coordinated implementation. It also demands the mobilization of civil society and opinion leaders.**
- **Support from international partners is also required, particularly in low-income countries, to strengthen country capacity for lining up and coordinating all parts of government, while engaging a wide set of stakeholders outside of government.**

Take Away 2: Regional and global collaboration can boost results at the country level

- **Tobacco use is a global epidemic that transcends national borders.**
- **Momentum for ambitious tobacco tax policies can be enhanced, and cross-border threats like cigarette smuggling minimized, when countries work together in a regional structure.**
- **The European Union (EU) provides an example. The EU experience shows that regional cooperation can help countries achieve the dual goals of reducing tobacco consumption while increasing government revenues.**
- **Lessons also concern the pace of reforms. EU lawmakers faced early political pressure to “go slow,” by setting a low initial minimum tobacco excise rate to apply to all Member States. However, the EU accelerated progress by convincing Member States to agree up front to relatively high minimum tobacco excise rates, with longer transition periods authorized for some countries facing special challenges.**

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Visit:

WBG Tobacco Program website (blogs, publications included):

<http://www.worldbank.org/en/topic/health/brief/tobacco>

