

tobacconomics

Economic Research Informing Tobacco Control Policy

Global evidence to refute key arguments against tobacco taxation

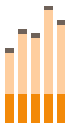
German Rodriguez-Iglesias, University of Illinois at Chicago

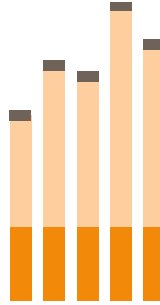
Training on Economics of Tobacco Control for Researchers and
Practitioners in LatinAmerica and the Caribbean

5 February 2018, Washington, DC

Overview

- Key arguments against tobacco taxation
- Evidence to refute key arguments against tobacco taxation
- Summary

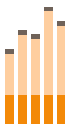


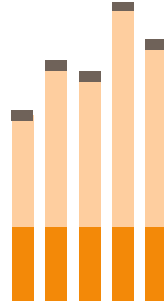


Key arguments against tobacco taxation

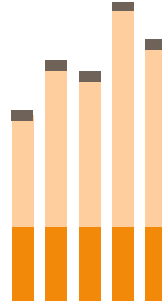
Key arguments against tobacco taxation

- No link between increased tobacco prices (as a result of increased taxes) and reduced consumption
- Tax increases will lead to declines in government revenue (or less revenue than predicted)
- Higher taxes will lead to illicit trade (especially smuggling) and, relatedly, organized crime
- Tobacco tax is regressive so higher taxes are unfair on poorer and more marginal groups in society
- Tobacco taxes are unfair on, and punitive towards, smokers
- Tax increases will have negative economic impacts on local business and employment levels as they will lead to greater cross-border trade



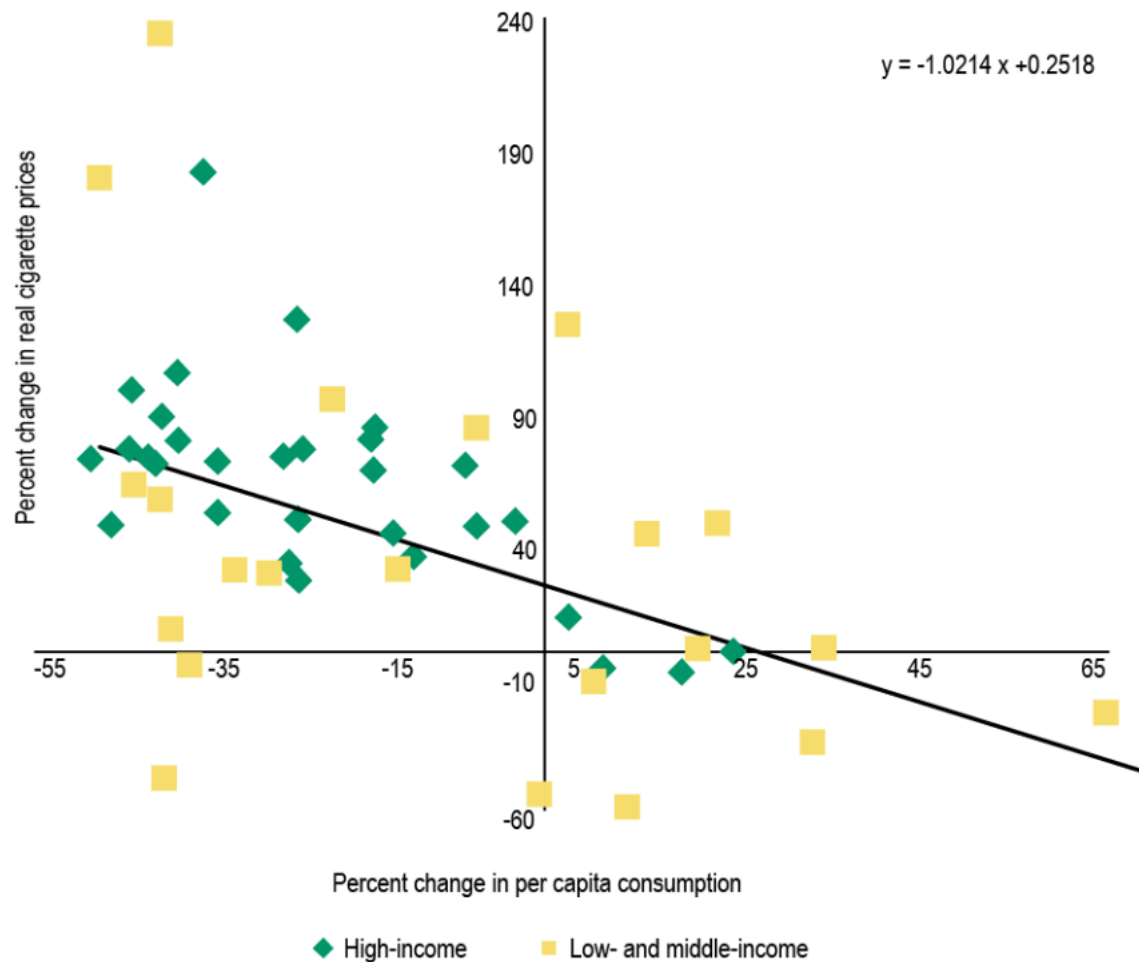


Evidence to refute key arguments against tobacco taxation

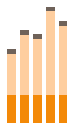


**1 -No link between
increased tobacco prices
and reduced consumption**

Percentage Change in Real Cigarette Prices Versus Percentage Change in Per Capita Consumption of Cigarettes, 1996–2011

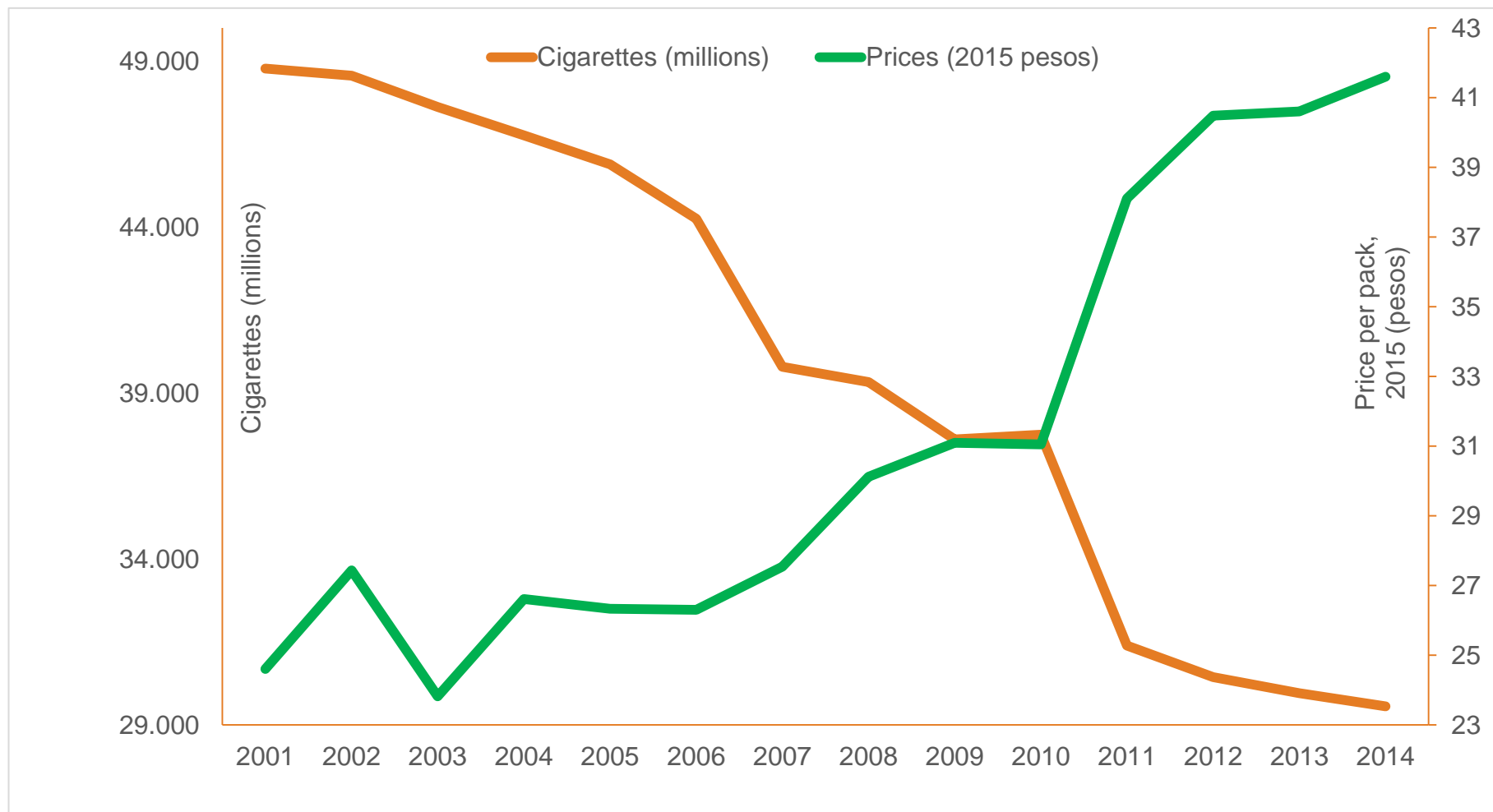


Note: Country income group classification based on World Bank Analytical Classifications for 2011.
Sources: Economist Intelligence Unit 2012. ERC Group 2011

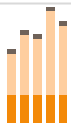


Price and consumption of cigarettes

Mexico, 2001-2014, real prices

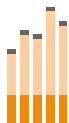
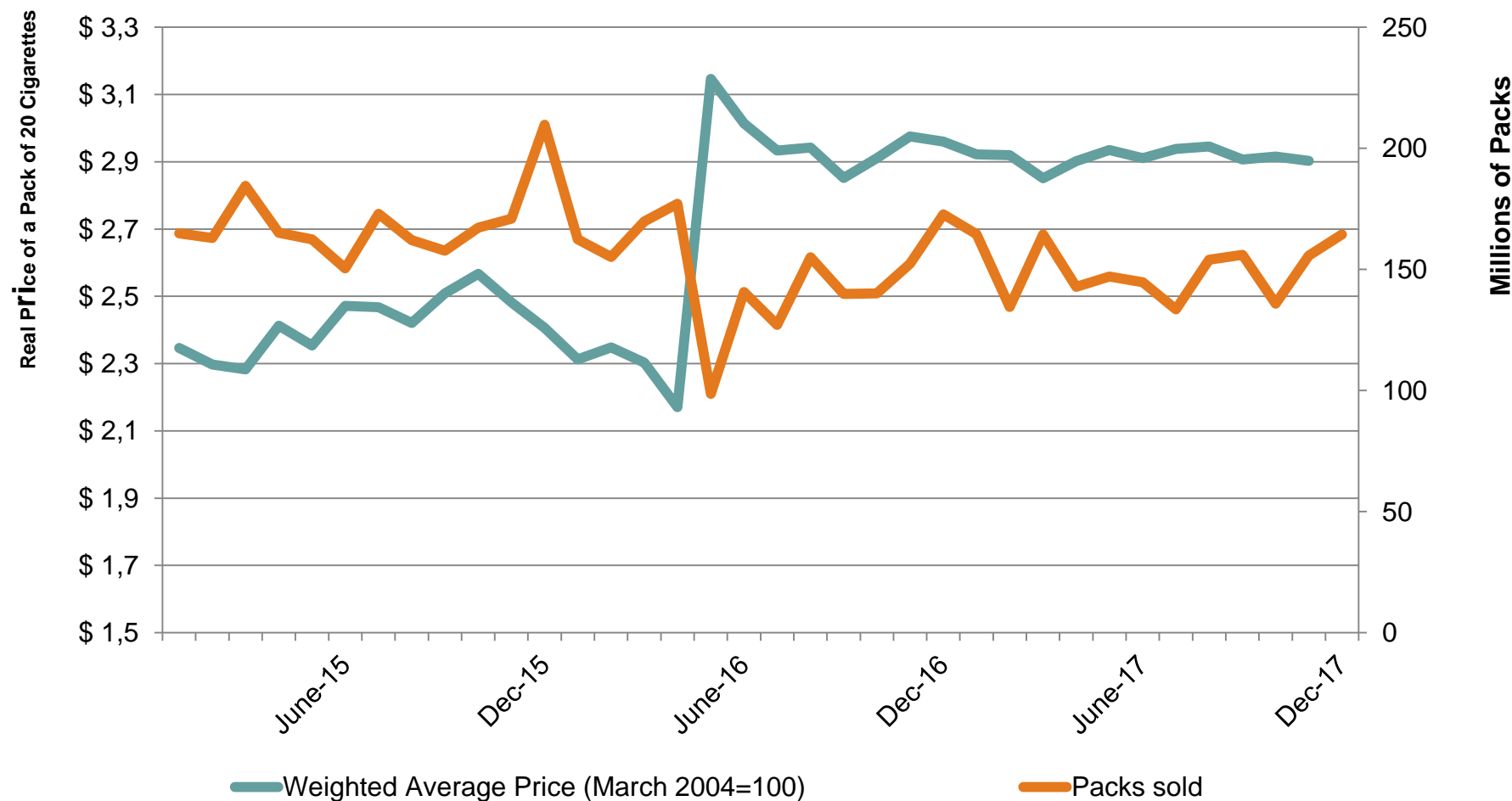


Sources: EIU, Euromonitor, and World Bank



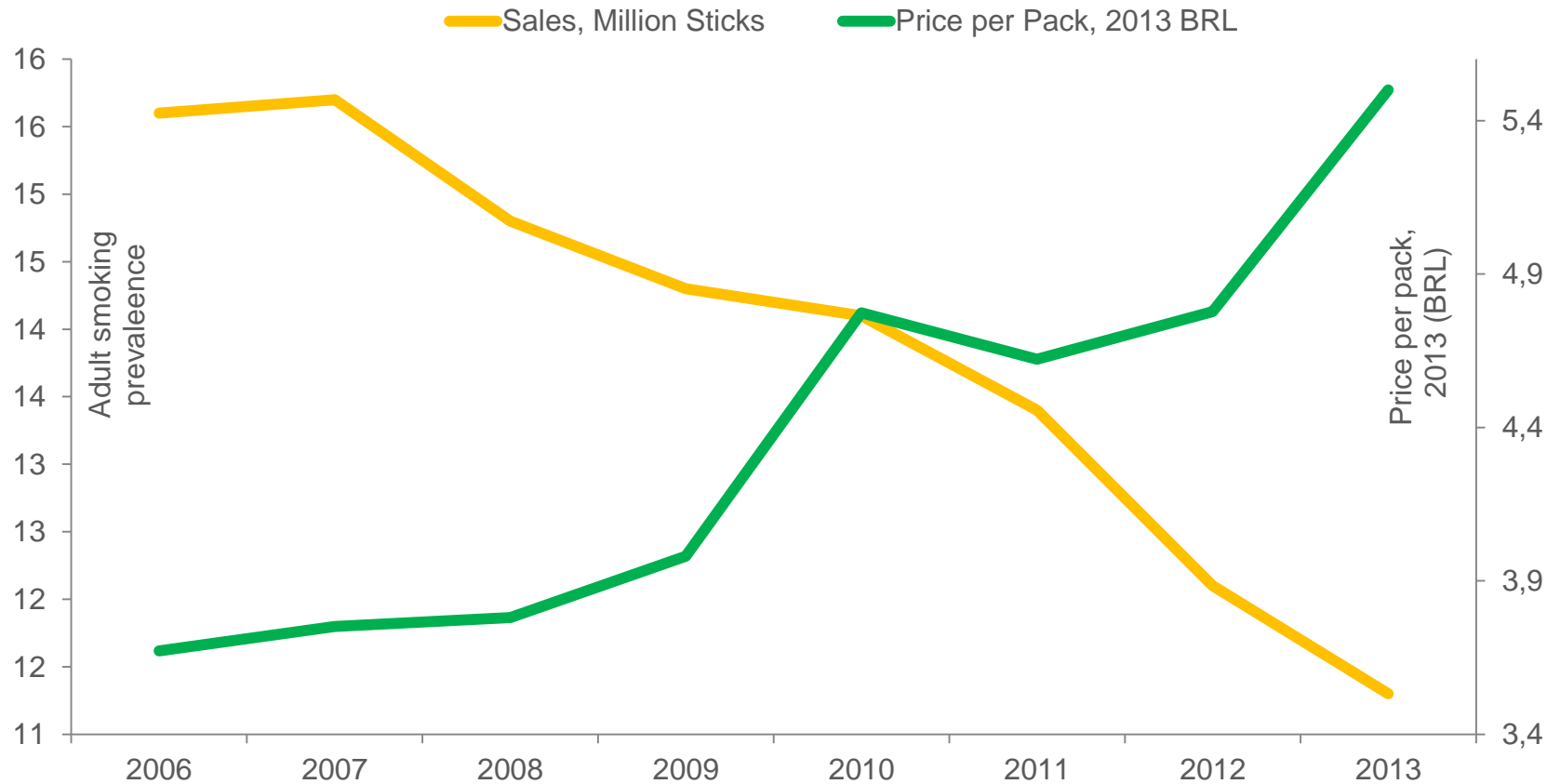
Price and consumption of cigarettes

Argentina, 2015-2017, real prices

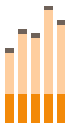


Price and Prevalence of Adult Smokers

Brazil, 2006–2013 (adjusted for inflation)

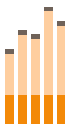


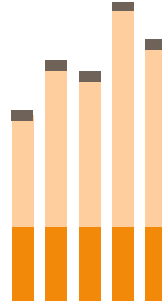
Sources: Ministry of Health, Brazil; EIU; World Bank



link between tobacco prices and consumption

- Some arguments against tobacco taxation can be refuted with strong evidence. Most of the countries developed it own estimations of price elasticities and evidence available can be used to show this link.
- Additionally Tobacco Industry Internal documents show that the industry has been aware of this relationship for many years.

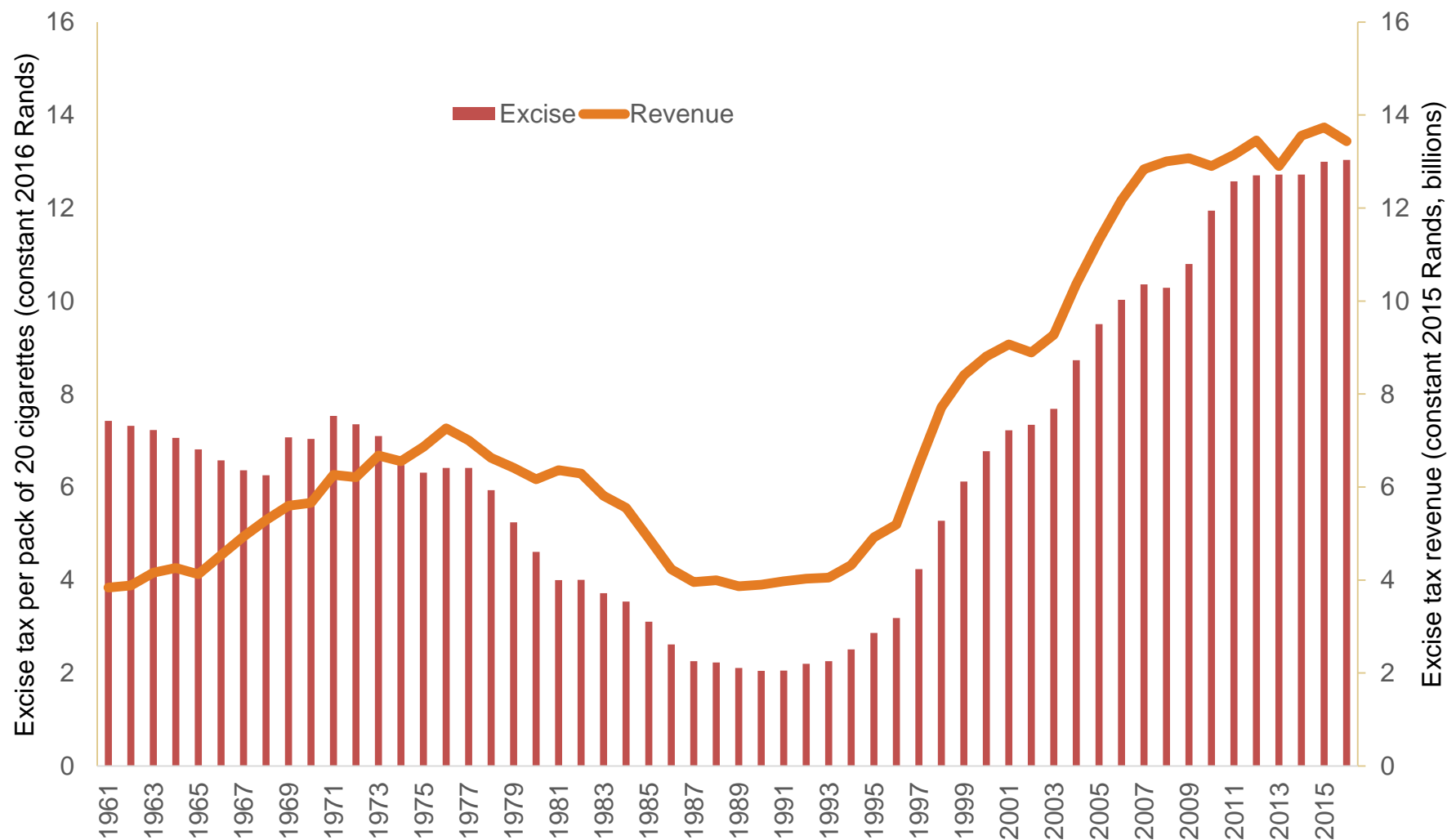




2 -Tax increases will lead to declines in government revenue

Excise tax per pack and excise tax revenue

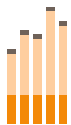
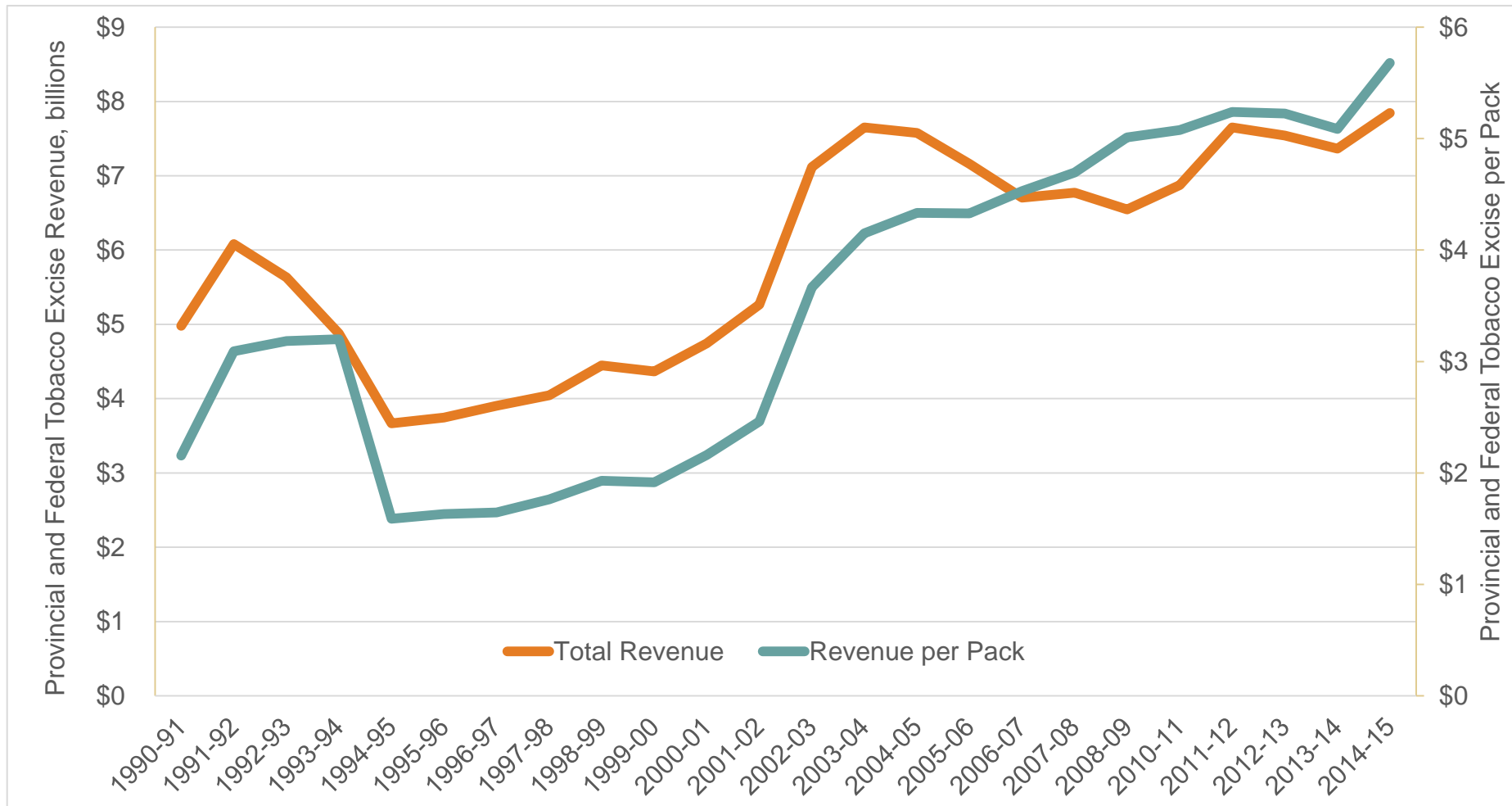
South Africa, in Rands, Adjusted for Inflation, 1961–2016



Source: The Economics of Tobacco Control Project at the University of Cape Town

Tobacco Excise Taxes and Revenues

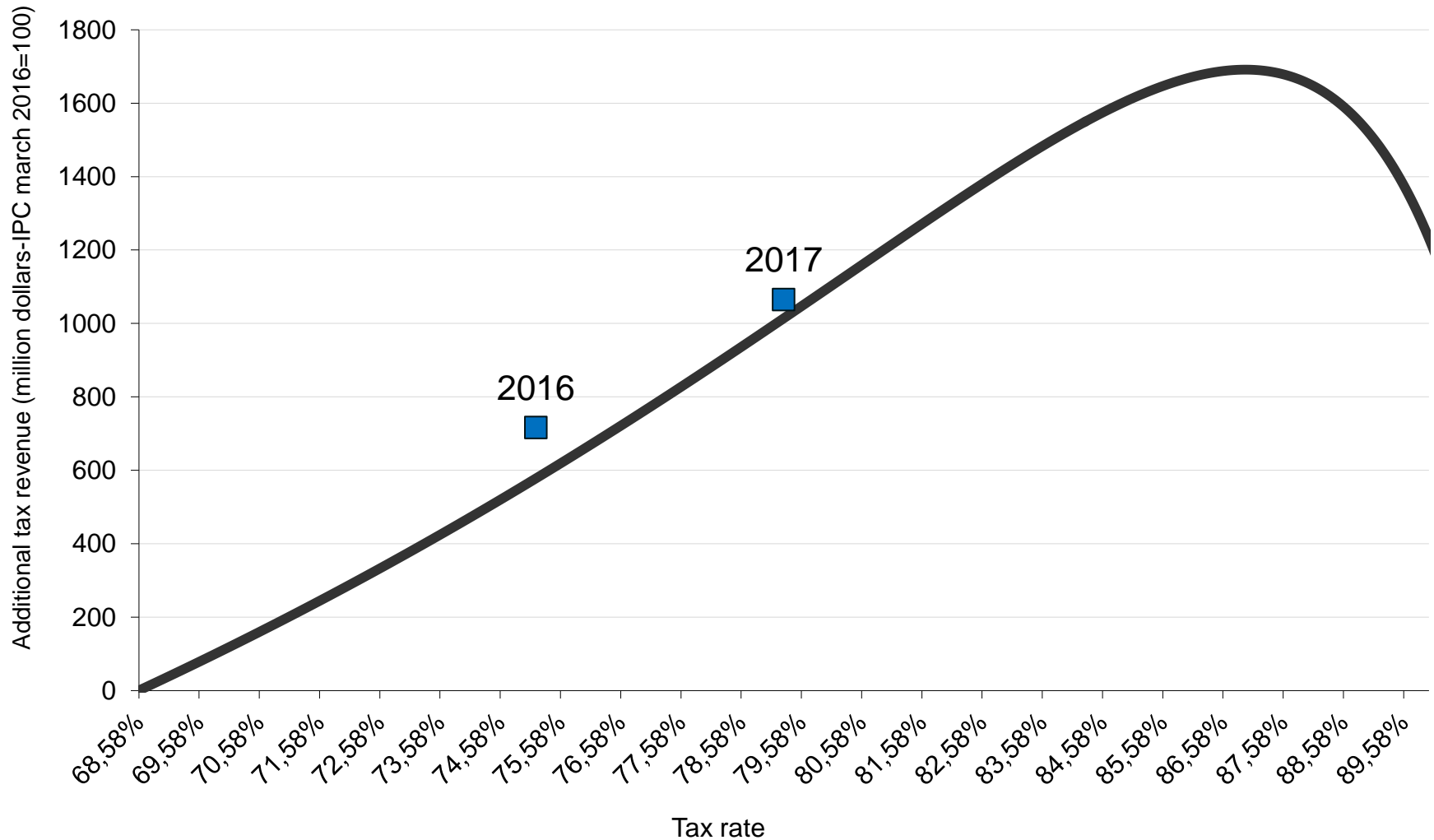
Canada, 1990–2015



Source: Physicians for a Smoke-Free Canada and ERC.

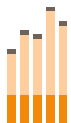
Laffer curve and revenue collection

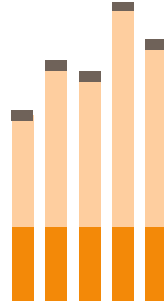
Argentina, in dollars (march 2016=100)



Tax increases and government revenue

- Raising cigarette taxes generates higher tax revenues. Recent estimations show that raising the tax by one international dollar per pack of 20 cigarettes would increase average cigarette prices by 42%, reduce smoking prevalence by 9%, and prevent 15 million smoking-attributable deaths among adults alive in 2014. At the same time, this would increase tax revenues by 190 billion international dollars, a 47% increase in revenues.
- Estimations also show that raising tobacco taxes in the Latin America and Caribbean (LAC) region will generate extra tax revenue. Assuming a 50% increase in excise taxes, the tax increase would raise cigarette prices by an average of 28% across the region. The volume of cigarette sales would decrease by 7% and cigarette tax revenue would increase by 32%, representing an extra US\$ 7 050 million in revenue, showing there is enough room to increase tobacco excise taxes in the LAC region and generate extra tax revenues.

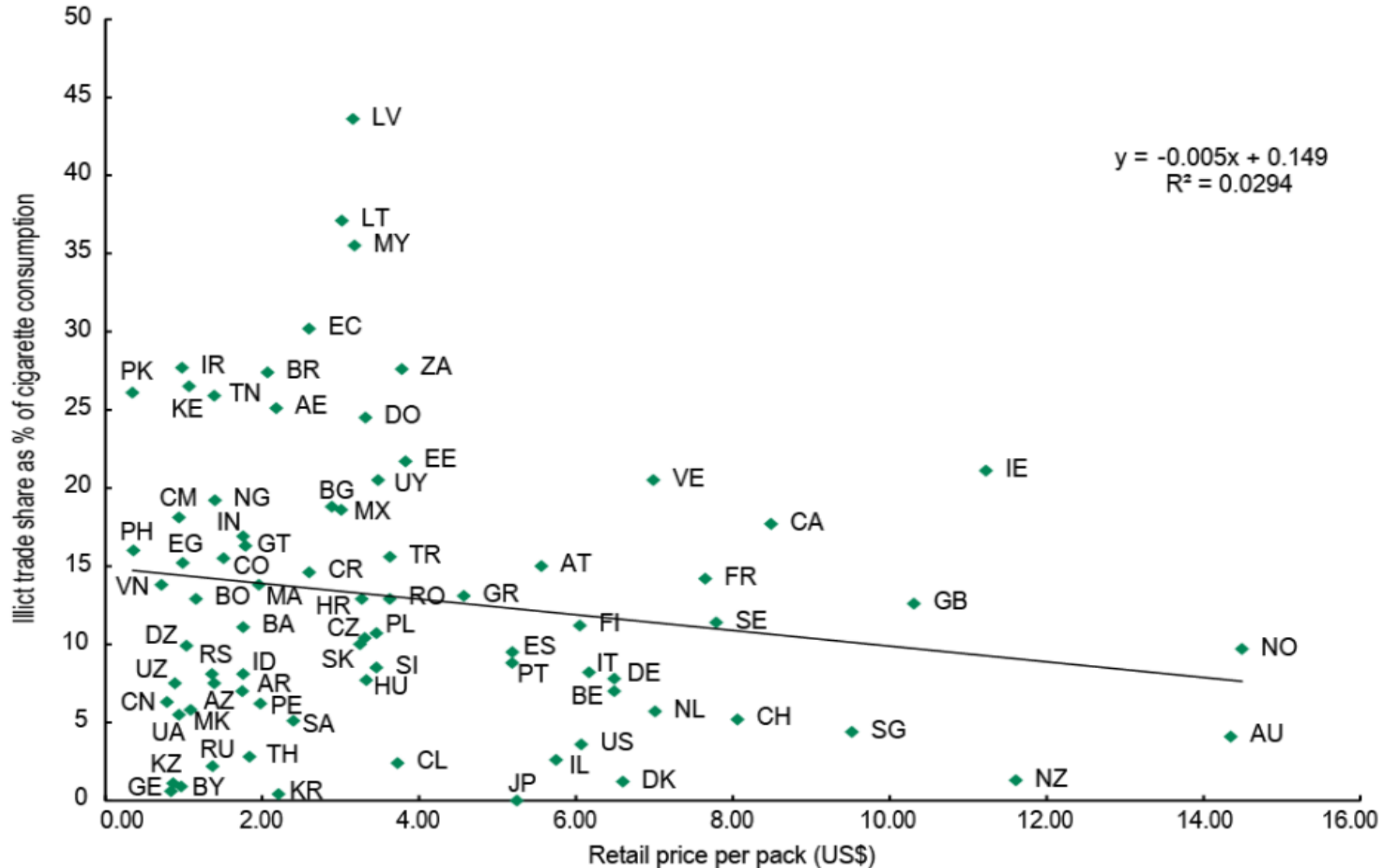




**3 -Higher taxes will lead to
illicit trade and, relatedly,
organized crime**

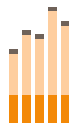
Share of Illicit Trade Versus Retail Prices

Price of the Most Popular Brands. by Country. 2012



Illicit Trade Versus Retail Price

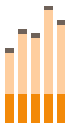
by Country Income Group, 2007



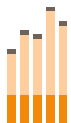
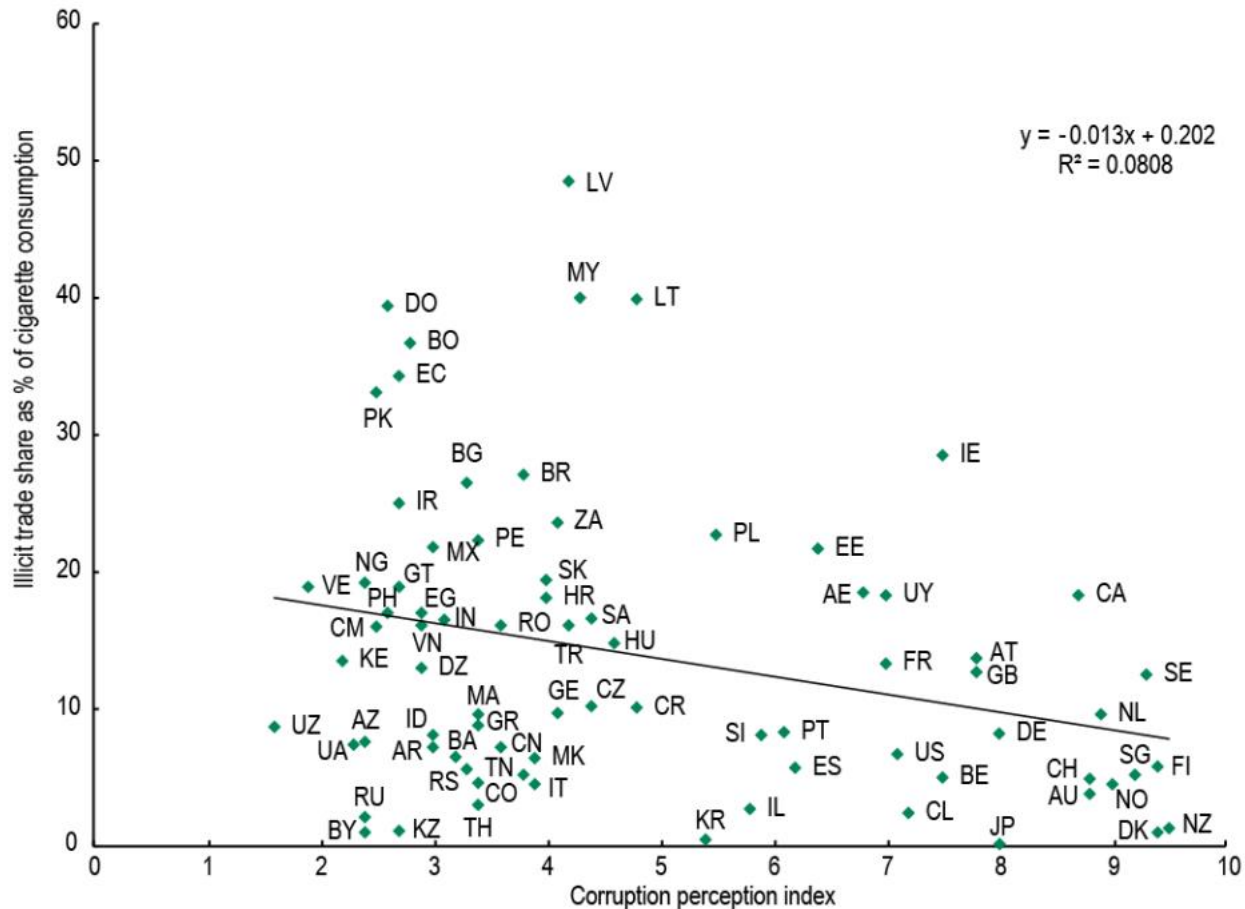
Joossens L, Merriman D, Ross H, Raw M. (2009)
How eliminating the global illicit cigarette trade would increase tax revenue and save lives

Drivers of Illicit Tobacco

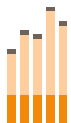
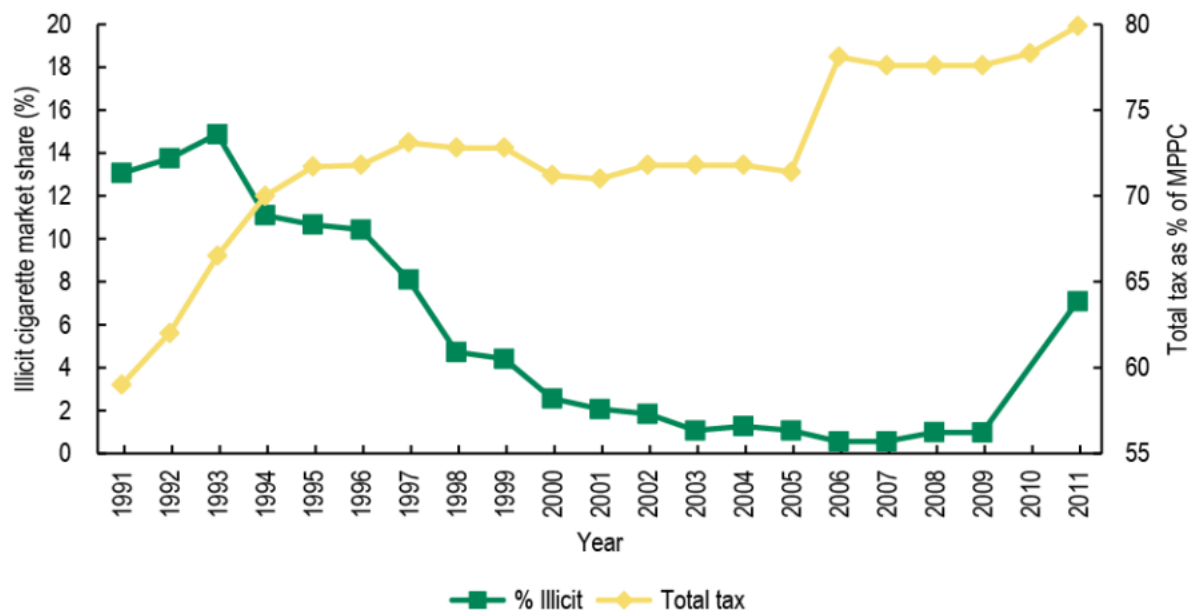
- Corruption
- Weak tax administration
- Poor enforcement
- Presence of informal distribution networks
- Presence of criminal networks
- Access to cheaper sources



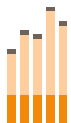
Share of Illicit Trade Versus Corruption by Country, 2011



Illicit Cigarette Market Share and Total tax Spain, 1991–2011

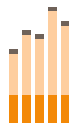
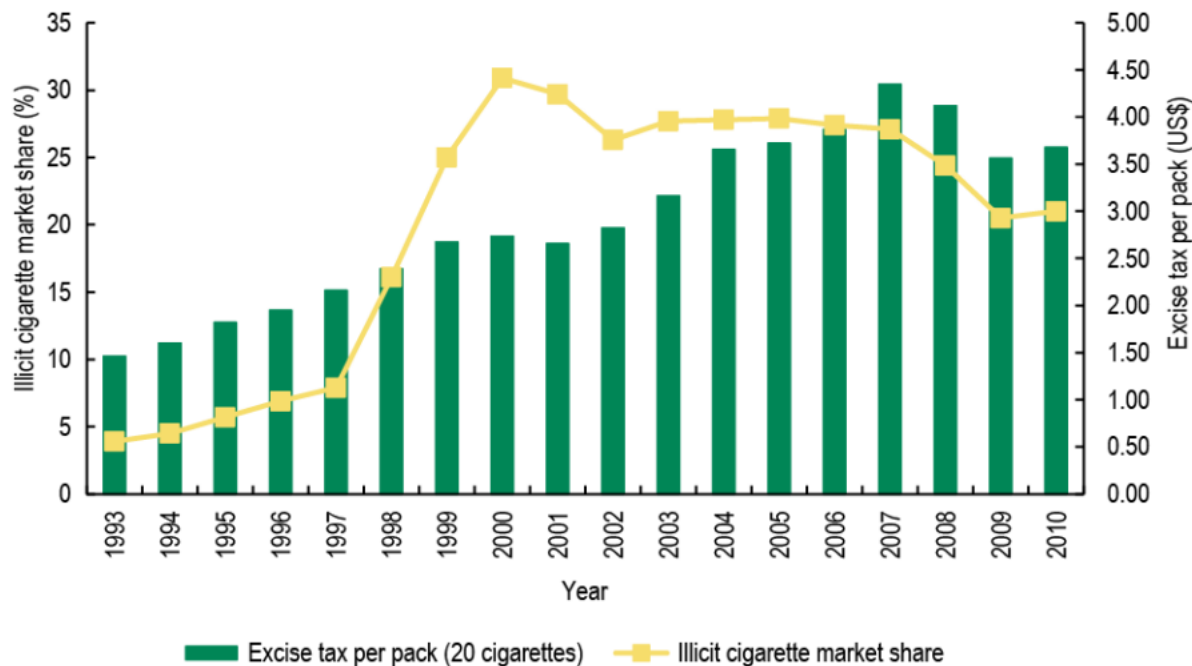


Illicit Cigarette Market Share and Total tax Italy, 1991–2010



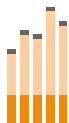
Cigarette Taxes and Illicit Market Share

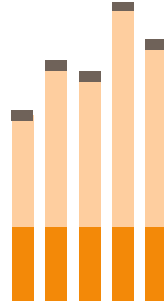
United Kingdom, 1993–2010



Higher taxes and illicit trade

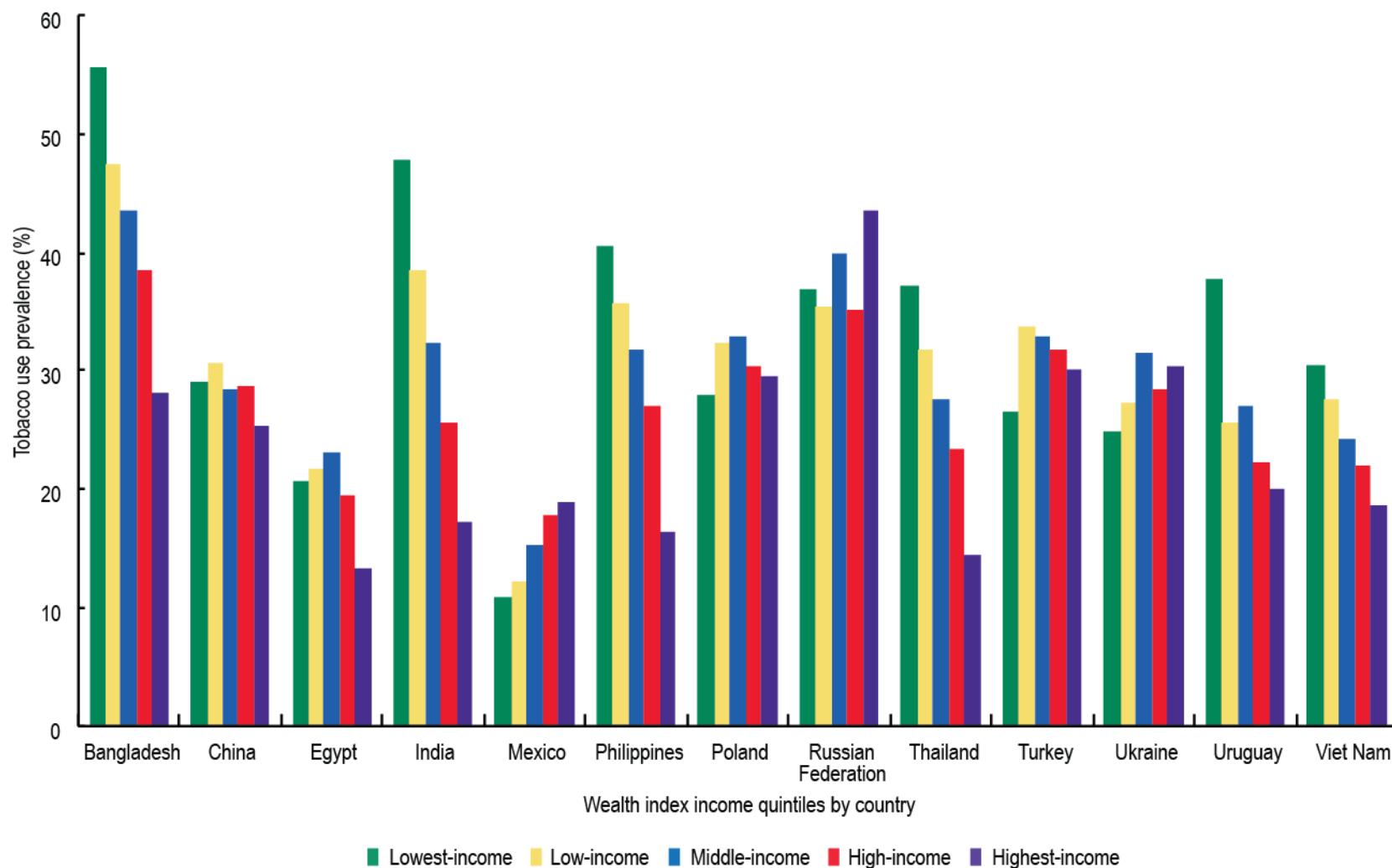
- Strengthen tobacco tax administrators' capacity to monitor tobacco product markets and evaluate the impact of tobacco tax increases is a must to reduce illicit trade.
- The tobacco excise department should work with other key areas (such as Customs) to minimise non-compliance and monitor trade, as well as with tax authorities from neighbouring countries and regional and global organisations.
- Strengthen tobacco tax administrators' capacity in combination with technology and severe penalties for those caught engaging in illicit trade in tobacco products.





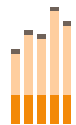
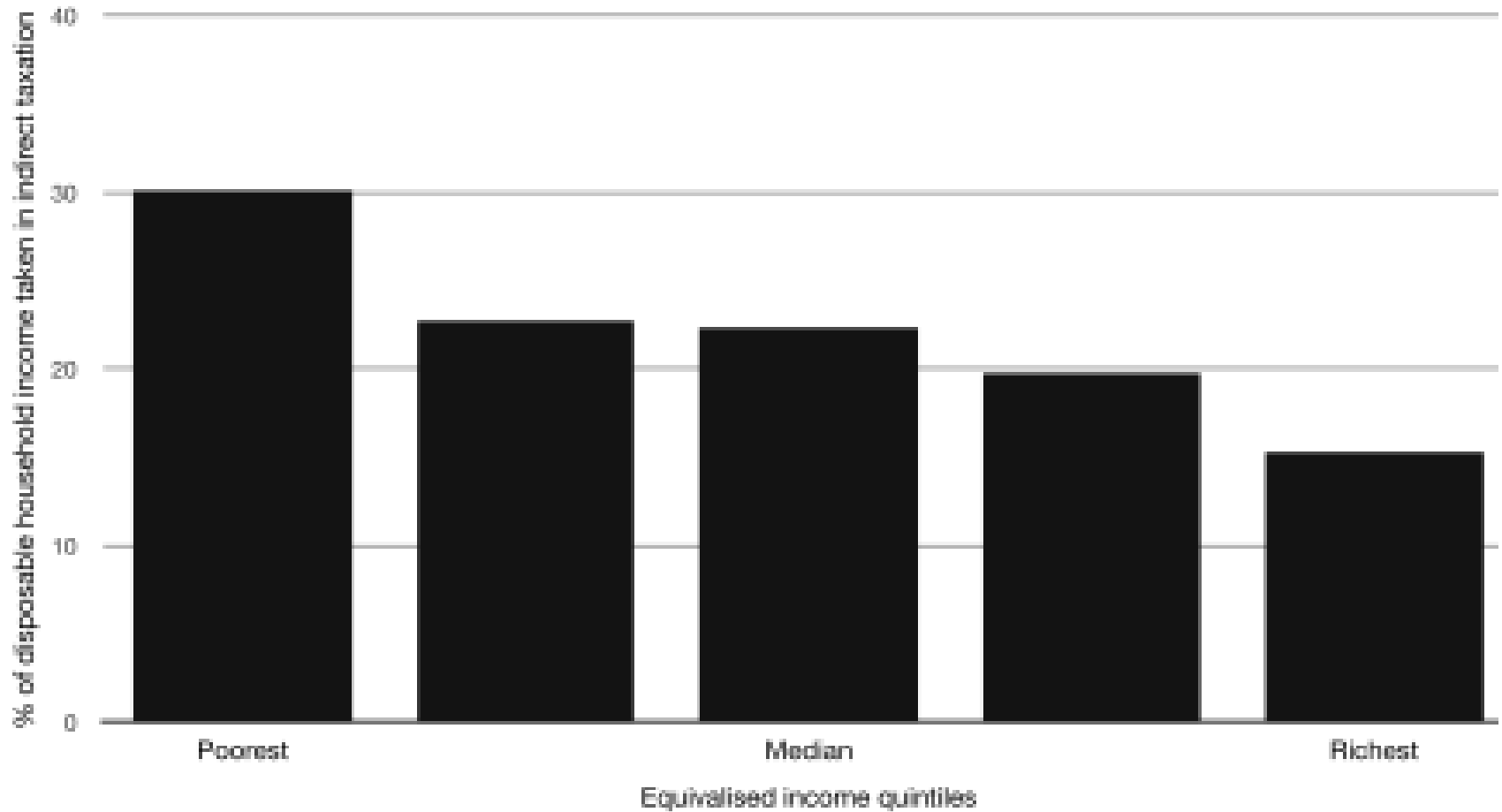
**4 -Tobacco tax is regressive
so higher taxes are unfair
on poorer and more
marginal groups in society**

Prevalence of Current Tobacco Use Among Adults Age 15 and Older, by Wealth Quintile, 2008–2010



Proportion of income spent on indirect taxes

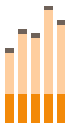
Britain, 2011/12



Source: Christopher Snowdon (2013)
Aggressively Regressive: The 'sin taxes' that make the poor poorer

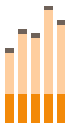
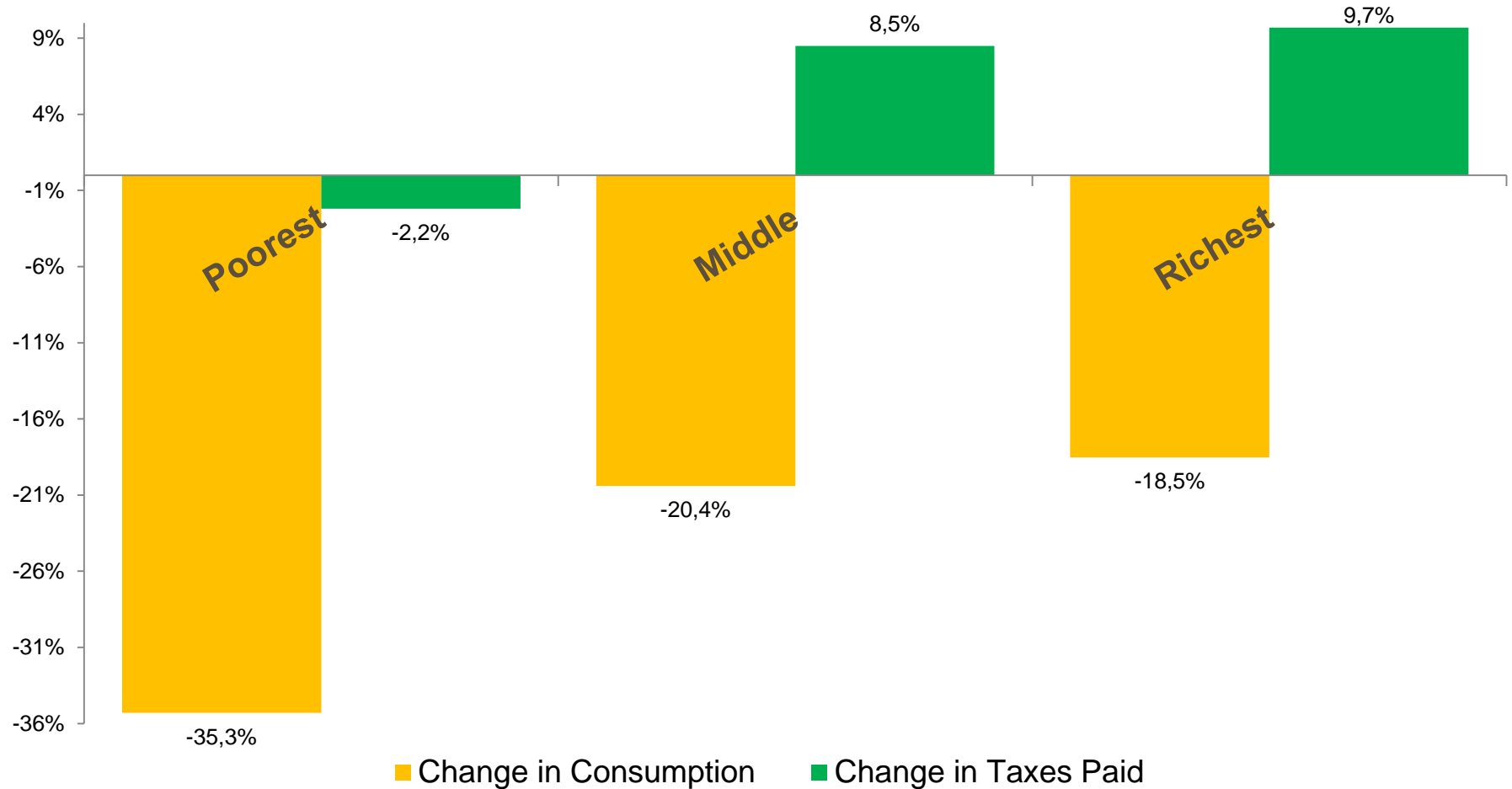
Impact of Tobacco Tax Increases on the Poor

- Tobacco taxes are regressive, but tax increases can be progressive
 - Greater price sensitivity of poor – relatively large reductions in tobacco use among lowest income populations, small reductions among higher income populations
 - Health benefits that result from tax increase are progressive



Who Pays & Who Benefits

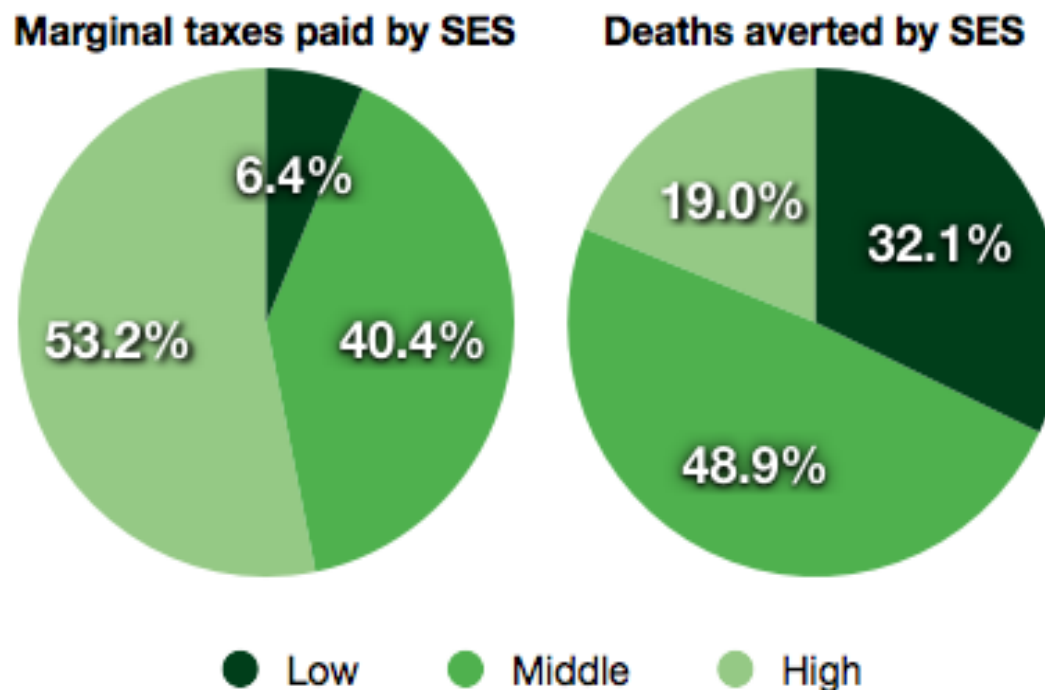
Turkey - 25% Tax Increase



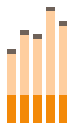
Source: Adapted from Önder & Yürekli, 2014

People's Republic of China

Distribution of marginal taxes and health benefits by SES



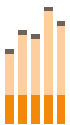
Lowest SES group: Pays **6.4%** of increased taxes but receives **32.1%** of health benefits: hence, health/tax ratio: **5.02**

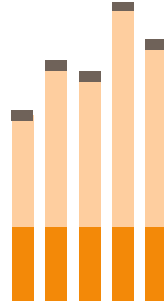


Tobacco Taxes & Equity

Need to consider overall fiscal system

- Key issue with tobacco taxes is what's done with the revenues generated by the tax
- Net financial impact on low-income households can be positive when taxes are used to support programs targeting the poor
- Concerns about regressivity offset by use of revenues for programs directed to poor

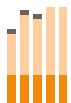
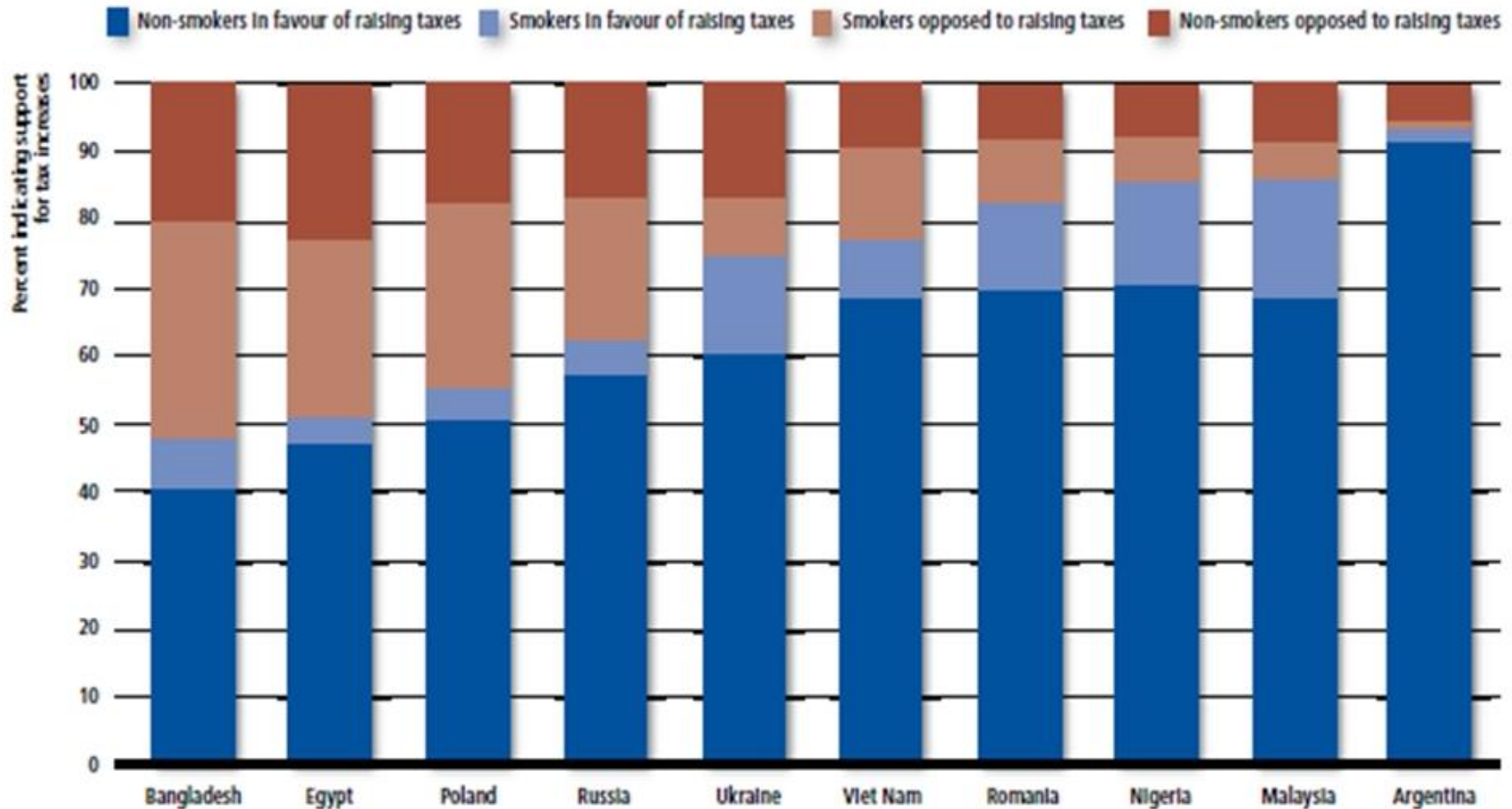




**5 -Tobacco taxes are unfair
on, and punitive towards,
smokers**

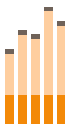
While some may agree that high tobacco taxes are unfair on smokers, it is also true that most smokers want to quit, and that higher prices induce smokers to quit

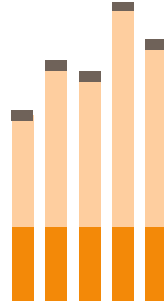
BROAD SUPPORT FOR CIGARETTE TAXES THAT IMPROVE HEALTH PROGRAMMES



Tobacco tax and smokers

- Increasing tobacco taxes receives a higher public support if it is implemented as part of comprehensive government strategy to reduce tobacco consumption, in particular among children and adolescents. Support for tax increases is higher when funds are earmarked to protect public health and the most vulnerable groups (e.g. retired or at-risk population).

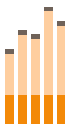




5 -Tax increases will have negative economic impacts on local business and employment levels

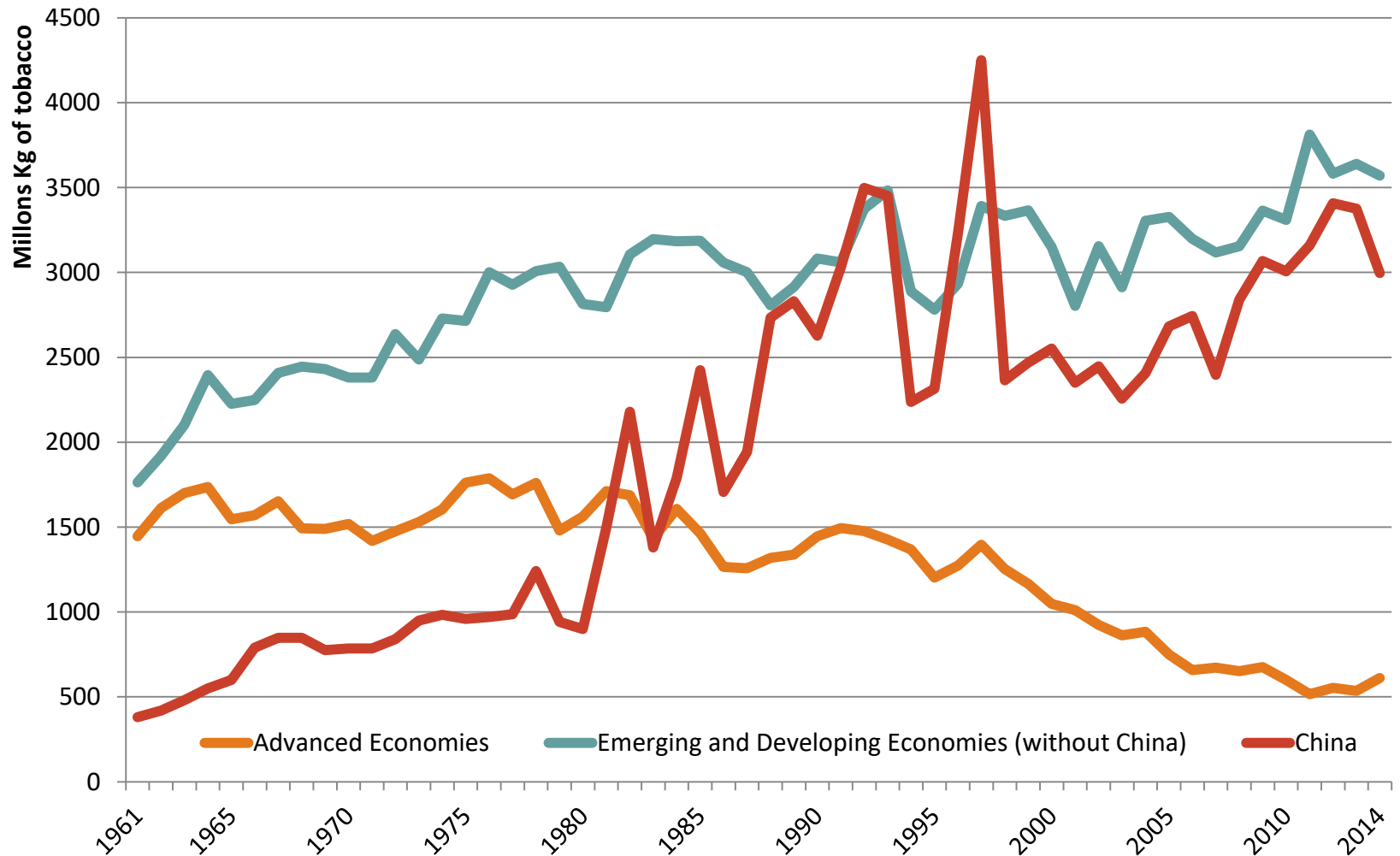
Tax impact in the employment

- The number of jobs that depend on tobacco has been falling in most countries, largely thanks
 - to technological innovations,
 - the shift from state-owned to private ownership of tobacco manufacturing, and
 - Globalization
- Increased mechanization and automation has resulted in less reliance on manual labor. In particular, in cigarette production, the industry's continued consolidation process is expected to continue and employment is expected to decline at an annualized rate of 1.9% per year.

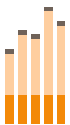


Unmanufactured tobacco production

High, low- and middle-income countries and China, 1961-2014

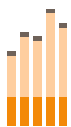
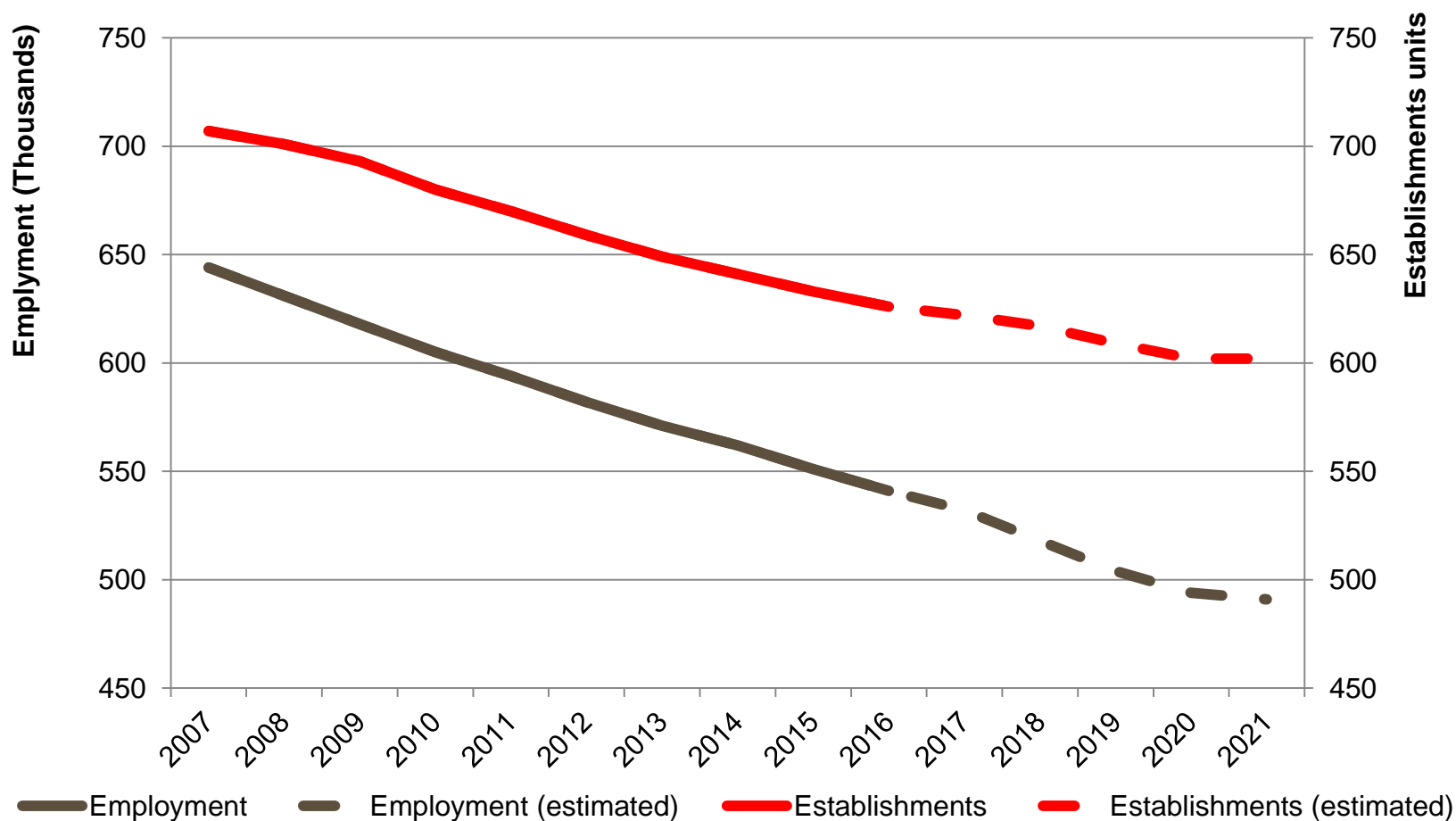


Source: Food and Agriculture Organization of the United Nations, 2017 (FAO, 2017)



Employment and establishments

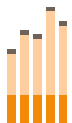
Evolution and estimated trend in cigarette manufacturing

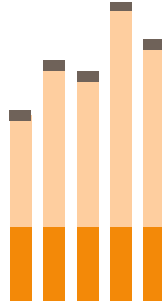


Source: Tobacconomics based on IBISWorld Industry Report: Global Cigarette & Tobacco Manufacturing

Tax impact in the employment

- Reductions in tobacco-dependent employment following tax increases are offset by increases in employment in other sectors as spending on tobacco products is replaced by spending on other goods and services.
- In most countries, it is likely that there will be either no net impact on jobs or, more likely, a small increase in jobs following a tax increase.
- If concerns exist about job losses in tobacco-dependent sectors, using a portion of new tobacco tax revenues to move tobacco farmers into other crops and/or to retrain those employed in tobacco product manufacturing for work in other sectors can reduce these concerns.

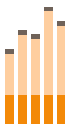




Summary

Conclusions

- Higher tobacco taxes will significantly reduce consumption
- Higher tobacco taxes will increase government revenues
- Counterarguments about negative economic impact false or greatly overstated
- Taxes generally considered one of the “best buys” in NCD prevention



THANK YOU!

For more information:

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