



The HEU, Centre for Health Economics presents

TOBACCO TAXATION A WIN-WIN-WIN-WIN POLICY:

Experiences and Implications For Public Health, Environmental Protection, Resource Mobilization & Equity

Honorary Professor Patricio V. Marquez

VIRTUAL SEMINAR

October 19, 2023

OVERVIEW

- Why taxes on tobacco matter for social and economic development?
- Common claims against tobacco taxation: Are they just “myths” not supported by evidence?
- Global evidence
- Key lessons from international experience
- Take-away message



Message 1

The Most Successful Industry of the Past Century

Some Facts

- The average returns from a company listed on the stock exchange was about 10% per year from the period between 1900 and 2010. **Tobacco stocks, however, produced annualized returns of 14.6% during the same period.**
- **One dollar invested in tobacco stocks in 1900 was worth \$6.3 million by 2010. That's 165 times greater than the average industry.**

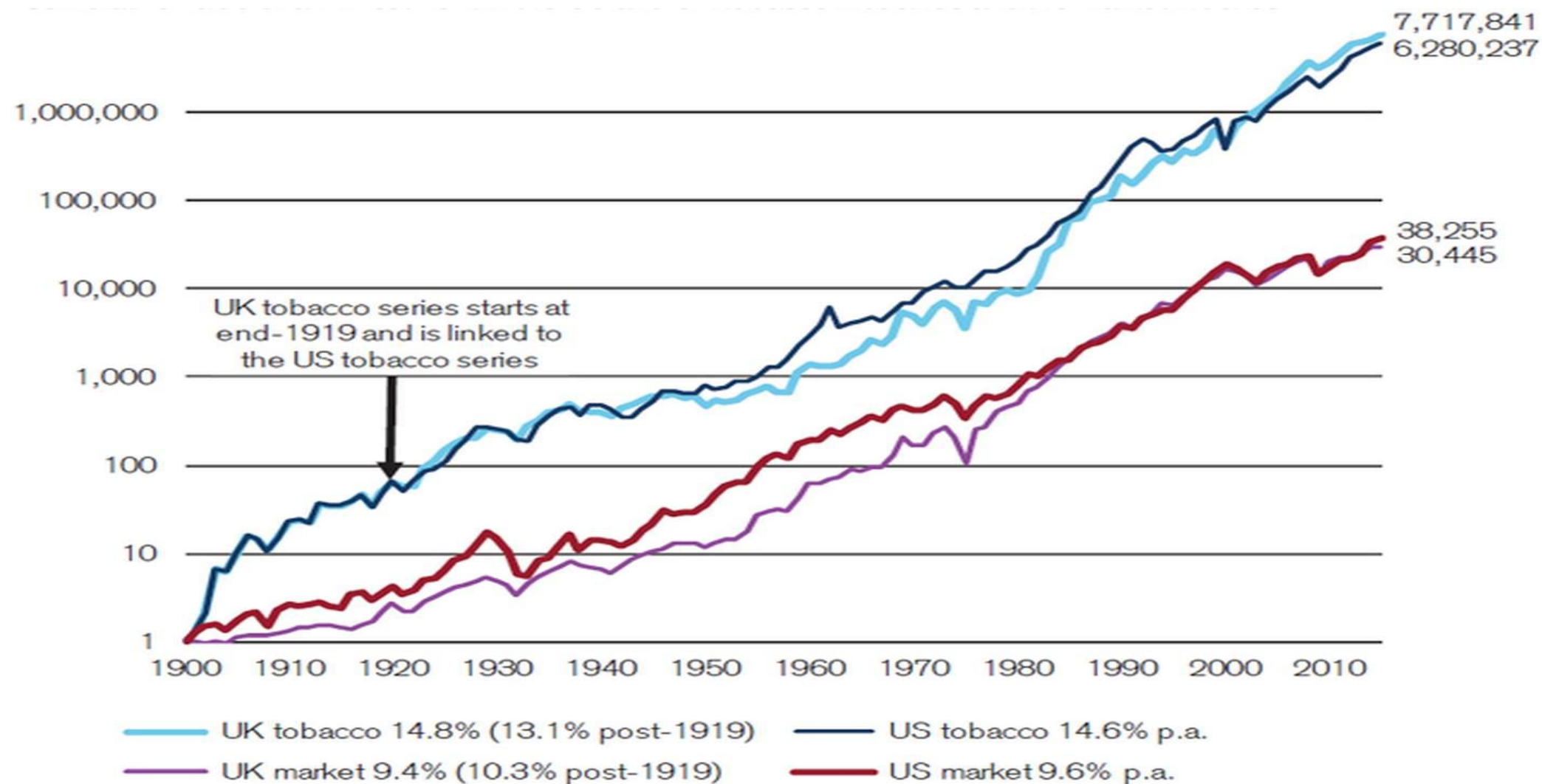
The secret for success?

- Tobacco industry is an **oligopoly dominated by a handful of players** in international markets.
- **Cigarettes are cheap to make and highly addictive, which allows for FAT MARGINS!**
- **It passes litigation and tax costs onto customers.**
- **It looks to international markets for growth based on market diversification and segmentation strategies.**

Source: Credit Suisse (2015)

Cumulative returns on tobacco and on equities, 1900–2014

(Source: Elroy Dimson, Paul Marsh and Mike Staunton, Credit Swiss, 2015). (Currencies are nominal USD and nominal GBP. Cumulative value of an investment in the US and UK tobacco industries and the market indexes).

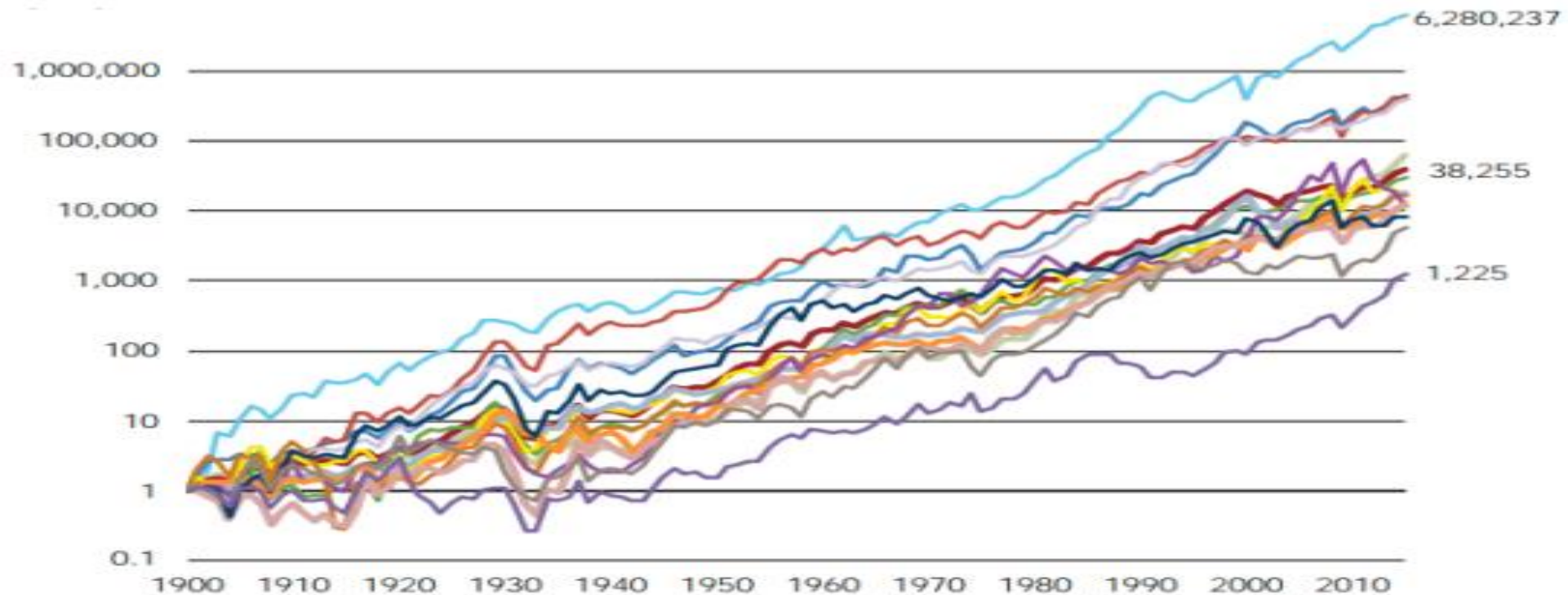


Tobacco industry at the top of all industries

Long-run performance of industries in the USA

Source: Elroy Dimson, Paul Marsh and Mike Staunton; Cowles (1938), Ken French industry data; DMS USA Index

Cumulative value of USD 1 invested in US industries at the start of 1900



The secret for success?

- Tobacco industry is an **oligopoly dominated by a handful of players** in international markets.
- **Cigarettes are cheap to make and highly addictive, which allows for FAT MARGINS!**
- **It passes litigation and tax costs onto customers.**
- **It looks to international markets for growth based on market diversification and segmentation strategies.**

Source: Credit Suisse (2015)

A central image of a globe, possibly representing Earth, is shown in a state of complete shattering. The glass is broken into numerous sharp, jagged fragments that are scattered across the dark background. The lighting highlights the edges of the broken glass, creating a sense of destruction and chaos. The text is overlaid on this image in a bold, white, sans-serif font.

**Despite transformation narratives, tobacco companies
continue to promote cigarettes.....**

**and challenge and delay lawsuits intended to hold
them accountable for the harms caused by their
products**

- The same tobacco industry that promotes e-cigarettes as harm reduction in high-income countries, derives the bulk of its profits by selling cigarettes in lower and middle-income countries.
- As pointed out in a Financial Times article, this “reduced-risk business model relies on there being smokers to convert”.
- Indeed, while the cultural dominance of cigarettes, has waned and consumption has fallen significantly in high-income countries over the past decades due to the adoption of stringent regulatory and tax measures and to growing awareness of the population about the health risks of tobacco use, the tobacco industry continues to thrive by expanding into new markets in emerging economies to promote the use of cigarettes, entrapping new generations of consumers in the web of tobacco addiction.

Message 2

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

-Thomas C. Shelling, 2005 Nobel Prize winner in Economics

Global Tobacco Use Prevalence

- Although tobacco consumption is still high, it is falling, representing a reversal of the rising trends before the late 1990s.
- Around 80% of the world's 1.3 billion tobacco users live in low- and middle-income countries.
- In 2020, 22.3% of the world's population used tobacco: 36.7% of men and 7.8% of women.
- E-cigarettes are becoming increasingly popular around the world.
- E-cigarettes first entered the United States market in mid-2000s and the sales have increased rapidly since 2007. The current e-cigarette use among adolescents in the United States has increased by 900% between 2011 and 2015.
- Between 2017 and 2019, figures for young individuals ranged from 0.7% in Japan to 18.4% in Ukraine, with a median country value of 8.1%.
- Currently, low-and middle-income countries are being targeted by the e-cigarette industry as they have a large smoking population with a growing e-cigarette market.

Message 3

Tobacco plays a major role not just in ill health and premature mortality but in the inequality of disease and premature death.

Risks from Smoking

Smoking can damage every part of the body

(US CDC
<https://www.cdc.gov/tobacco/infographics/health-effects/index.htm>)

Cancers

Head or Neck

Lung

Leukemia

Stomach

Kidney

Pancreas

Colon

Bladder

Cervix

Chronic Diseases

Stroke

Blindness

Gum infection

Aortic rupture

Heart disease

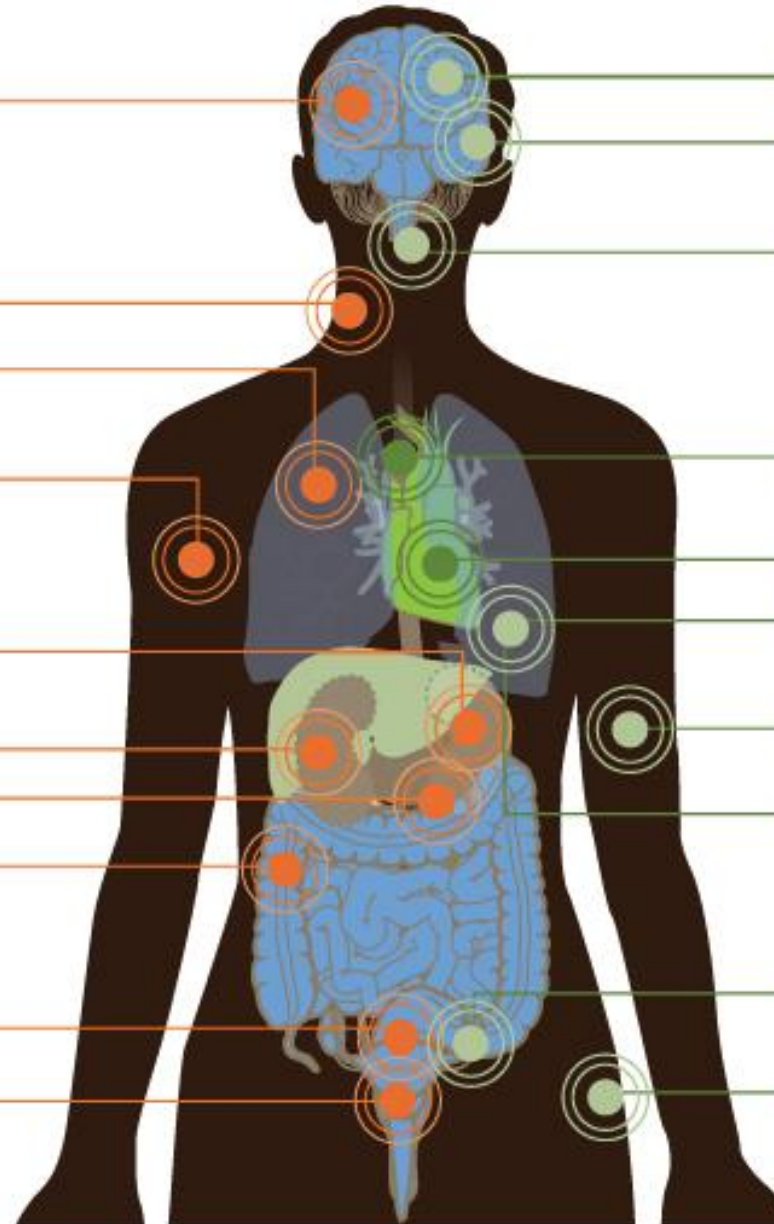
Pneumonia

Hardening of the arteries

Chronic lung disease & asthma

Reduced fertility

Hip fracture



Smoking, Ill Health and Premature Mortality

- Tobacco use leads to many adverse health effects, including negative reproductive health outcomes, cardiovascular diseases, chronic obstructive pulmonary disease, and the risk of twelve cancers. (IHME, 2017; 2020 US Surgeon General Report).
- Greatest health risks occur in countries where smoking is pervasive and where smokers consume a large quantity of cigarettes
- Second-hand smoking puts unsuspected family members and people at work and in other public venues at risk of developing or making worse a wide range of health conditions.
- Tobacco use is largest cause of preventable disease and death in the world, killing 8 million people per year (WHO 2017). This number exceeds the total 6.9 million deaths reported during the entire COVID-19 pandemic.
- On average, smokers lose a decade of their life compared to non-smokers (Jha et al. 2013).

Predicted tobacco
deaths this century:

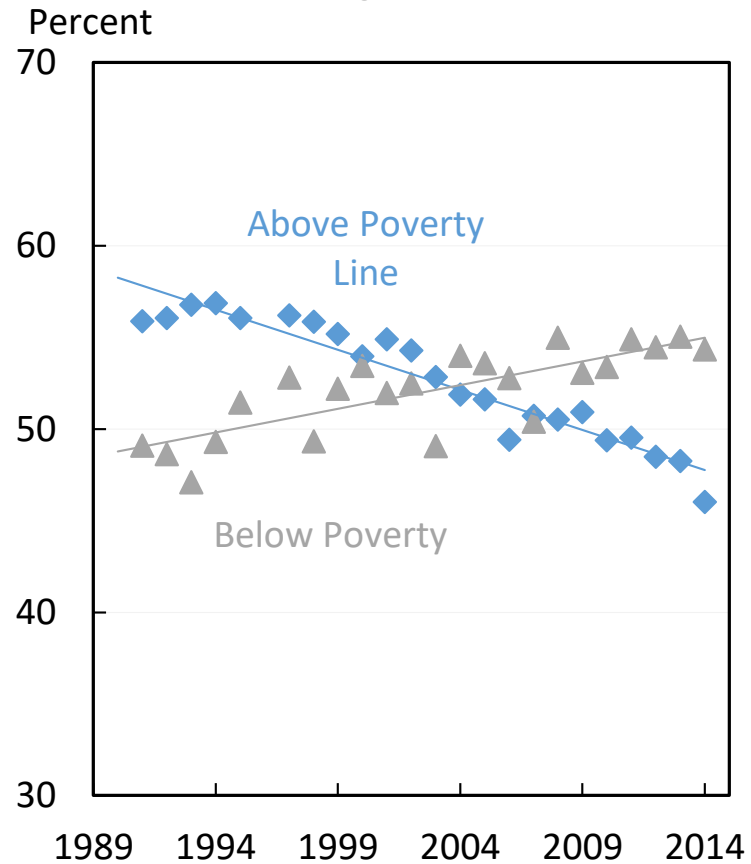
1 Billion



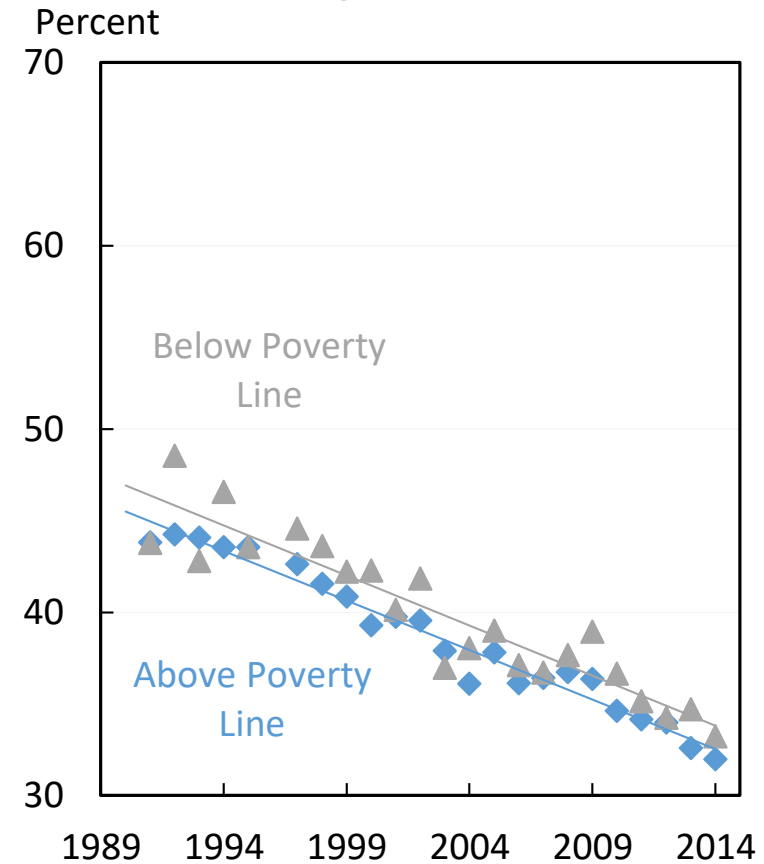
The Experience in the United States: Inequality in How Long People Live

Percent that Ever Smoked by Poverty Status, 1991-2014

Age 50+



Ages 18-40



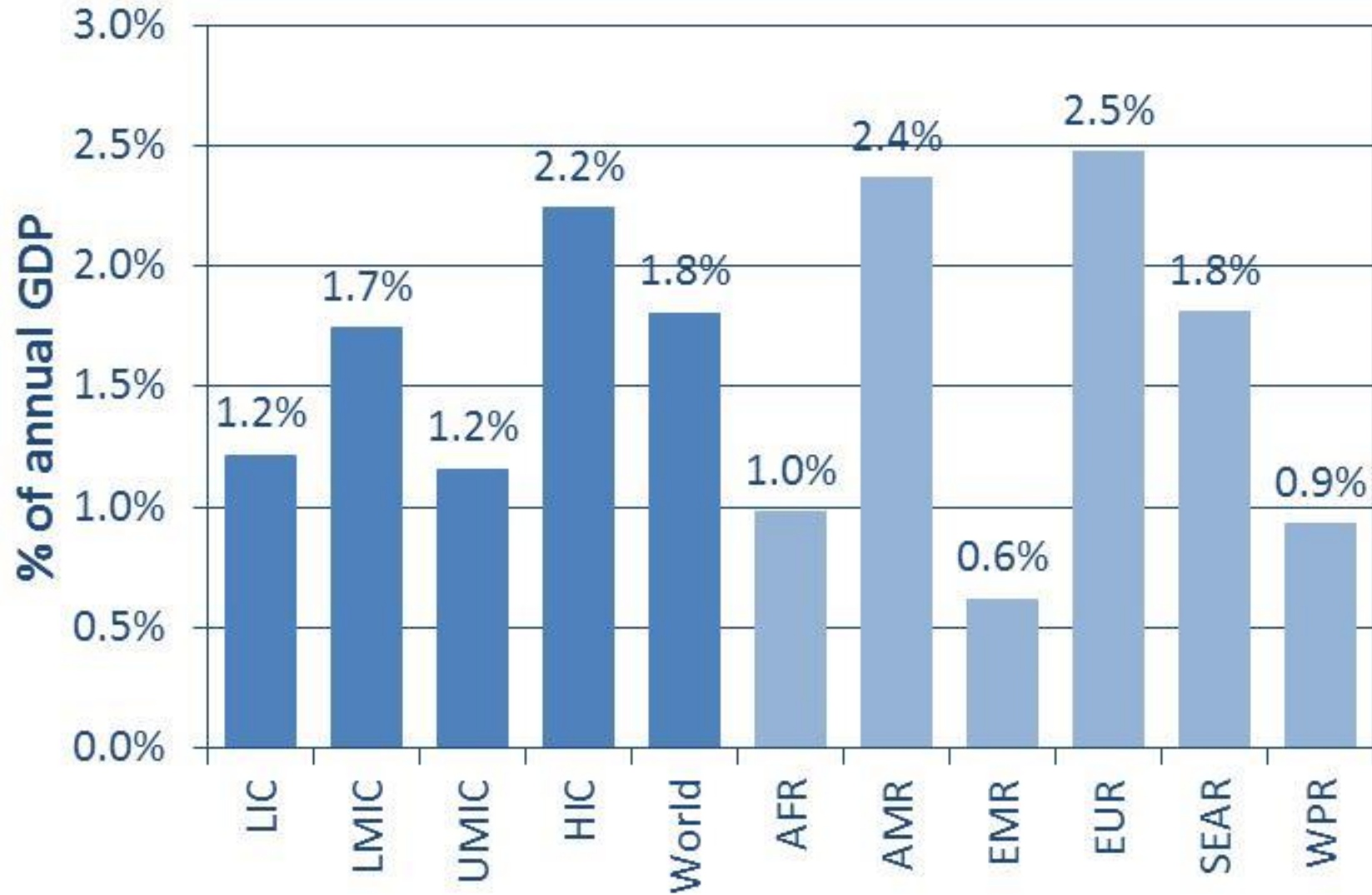
Direct and Indirect Economic Costs of Tobacco Use

Evidence from the United States:

- Based on recent data from the United States, it has been estimated that **8.7%** of annual health care spending could be attributed to cigarette smoking, amounting to as much as **US\$170 billion per year**.
- 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.

Economic loss totals US\$ 1.4 trillion

(Source: Goodchild, M., Nargis, N., Tursan d' Espaignet, 2017)



Message 4

While the devastating public health consequences of tobacco use are widely understood and documented, few people appreciate that tobacco also has profoundly negative environmental impacts.

A close-up photograph of a fish, likely a sand goby, lying on a beach of grey pebbles and shells. The fish's mouth is open, and it is holding a discarded cigarette filter. The filter is orange and has a white band near the tip, which is dark and charred. The fish's body is brown and green with blue and white stripes along its side. The background is a mix of grey and brown pebbles and shells.

**Cigarette filters
are the most
littered item on
the planet**

Photo Credit: Steven Kovacs



Short Communication

Time to kick the butt of the most common litter item in the world: Ban cigarette filters

Dannielle S. Green^a, Bethanie Carney Almroth^b, Rebecca Altman^c, Melanie Bergmann^d, Sedat Gündoğdu^e, Anish Kumar Warriar^f, Bas Boots^a, Tony R. Walker^g, Anja Krieger^h, Kristian Syberg^{i,*}

^a Applied Ecology Research Group, School of Life Sciences, Anglia Ruskin University, Cambridge CB1 1PT, United Kingdom

^b Dept. of Biological and Environmental Sciences, University of Gothenburg, Box 463, 405 30 Göteborg, Sweden

^c Independent Scholar, Providence, RI, United States of America

^d HGFMPG Group for Deep-Sea Ecology and Technology, Alfred Wegener Institute Helmholtz Centre for Polar and Marine Research, 27568 Bremerhaven, Germany

^e Faculty of Fisheries, Cukurova University, 01330 Adana, Turkey

^f Centre for Climate Studies, Manipal Academy of Higher Education, Manipal 576104, Karnataka, India

^g School for Resource and Environmental Studies, Dalhousie University, Halifax, Nova Scotia, Canada

^h Berlin, Germany

ⁱ Dept. of Science and Environment, Roskilde University, 4000 Roskilde, Denmark

HIGHLIGHTS

Cigarette filters are the most abundant litter item found in the environment globally.

Cigarette filters offer no human health benefits yet are a major source of plastic (cellulose acetate) pollution.

Cigarette filters contain contaminants adding to planetary burden of chemicals and pose ecological risks.

Cigarette filters should be considered hazardous waste.

Cellulose acetate cigarette filters should be banned.

GRAPHICAL ABSTRACT

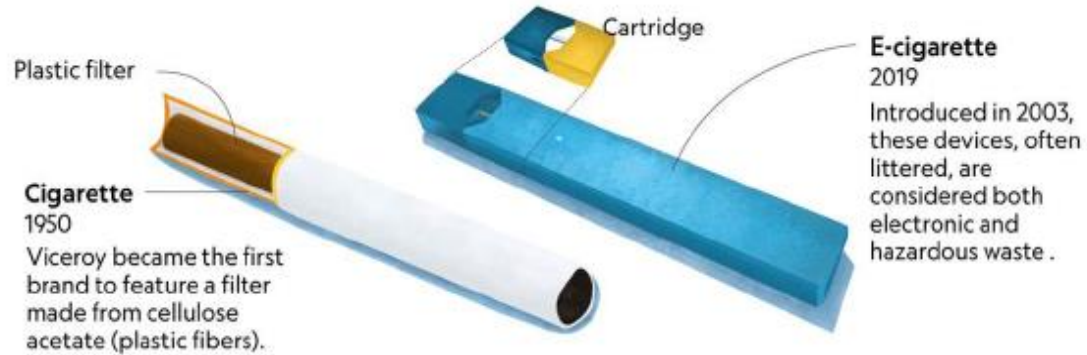


Some Facts

- Estimates suggest that more than five trillion butts are discarded each year, ending up on beaches and in waterways.
- Tobacco filters – made of cellulose acetate - are the number one ocean plastic, more numerous than plastic bottles, plastic bags, or plastic straws.
- Butts pollute water ways where they dissipate into microplastics and enter the food chain. They also leach a dangerous suite of chemicals that place water quality at risk.

THE STORY OF PLASTIC | CIGARETTES

Plastic filters were invented in the 1950s in response to lung cancer fears. By the mid-1960s, researchers realized that the substances being filtered, like nicotine, were what made cigarettes satisfying, so manufacturers made filters less effective. Today 98 percent of cigarette filters are made of plastic fibers.



Usage

About 4.5 trillion cigarettes are discarded each year worldwide, making them the most littered item on Earth.



Recycling

Cigarette butts aren't usually recycled at the municipal level; some companies recycle them.



Did You Know?

Cigarette butts leach toxic chemicals into water, where they can remain for as long as 10 years.

<https://www.nationalgeographic.com/environment/article/cigarettes-story-of-plastic>

The harmful impact of the tobacco industry on the environment is vast and places mounting unnecessary pressure on our planet's already scarce resources and fragile ecosystems

- Tobacco farming is highly water intensive, contributes to biodiversity loss, and causes 5 percent of deforestation in low- and middle-income countries, due to land clearing to grow the crops and procure wood for tobacco curing.
- When it comes to carbon emissions generated, tobacco has a similar footprint to entire countries. These staggering statistics are the impact of just a handful of companies.

Women and children most exposed to health risks

- In terms of public health, [research](#) shows that tobacco farm laborers, who often are women and children, often have limited knowledge regarding the toxicity of pesticides, fertilizers, and other chemicals used for tobacco cultivation.
- Unprotected exposure to these chemicals may poison them and/or increase their risk of developing certain chronic diseases. In addition, farmer laborers' transdermal and respiratory exposure to high doses of nicotine when handling tobacco leaf can result in a form of acute nicotine poisoning called [Green Tobacco Sickness](#).
- Moreover, the heavy use of [child labor](#) and women's labor in tobacco farming makes these populations vulnerable to health risks and commercial exploitation and hamper efforts for achieving [gender equality](#).
- Building [human capital](#) is increasingly being recognized as the main driver of sustainable and inclusive long-term economic growth—addressing the harmful impacts of tobacco leaf production, innovatively supporting greater food security, and enabling healthier communities will constitute key elements within this process.

The harmful impact of the tobacco industry on the environment is vast and places mounting unnecessary pressure on our planet's already scarce resources and fragile ecosystems

- Tobacco farming is highly water intensive, contributes to biodiversity loss, and causes 5 percent of deforestation in low- and middle-income countries, due to land clearing to grow the crops and procure wood for tobacco curing.
- When it comes to carbon emissions generated, tobacco has a similar footprint to entire countries. These staggering statistics are the impact of just a handful of companies.

Freeing up more land for food crops

- One way to help tackle acute food insecurity is to free up land used for tobacco cultivation to expand economically viable alternative food crops farming. In 2021, the total area of harvested tobacco amounted to around 3.13 million hectares globally.
- Tobacco is not generally a profitable crop for most smallholder farmers. For example, survey data from Indonesia show that tobacco farmers' profit from tobacco are negative, and incomes of farmers who had given up tobacco production were found to be higher than those of current tobacco farmers, who tended to be more dependent on social assistance and health care benefits provided by the government than former tobacco farmers.
- Among the top tobacco leaf producing countries, the share of tobacco farming to gross domestic product (GDP) is minimal (less than 1% in 2018, except in two countries, where it was less than 3%).

- The negative consequences for farm workers' health, as well as for the environment, however, are not considered in the economic valuation of tobacco leaf production.
- Given that these social costs are not recognized or compensated by the market, they become long-term liabilities for governments, becoming a de facto hidden subsidy to the tobacco industry at a high cost to public finances.
- These issues undermine the economic viability of tobacco leaf production and yield a strong justification for considering alternative crops, particularly for food.

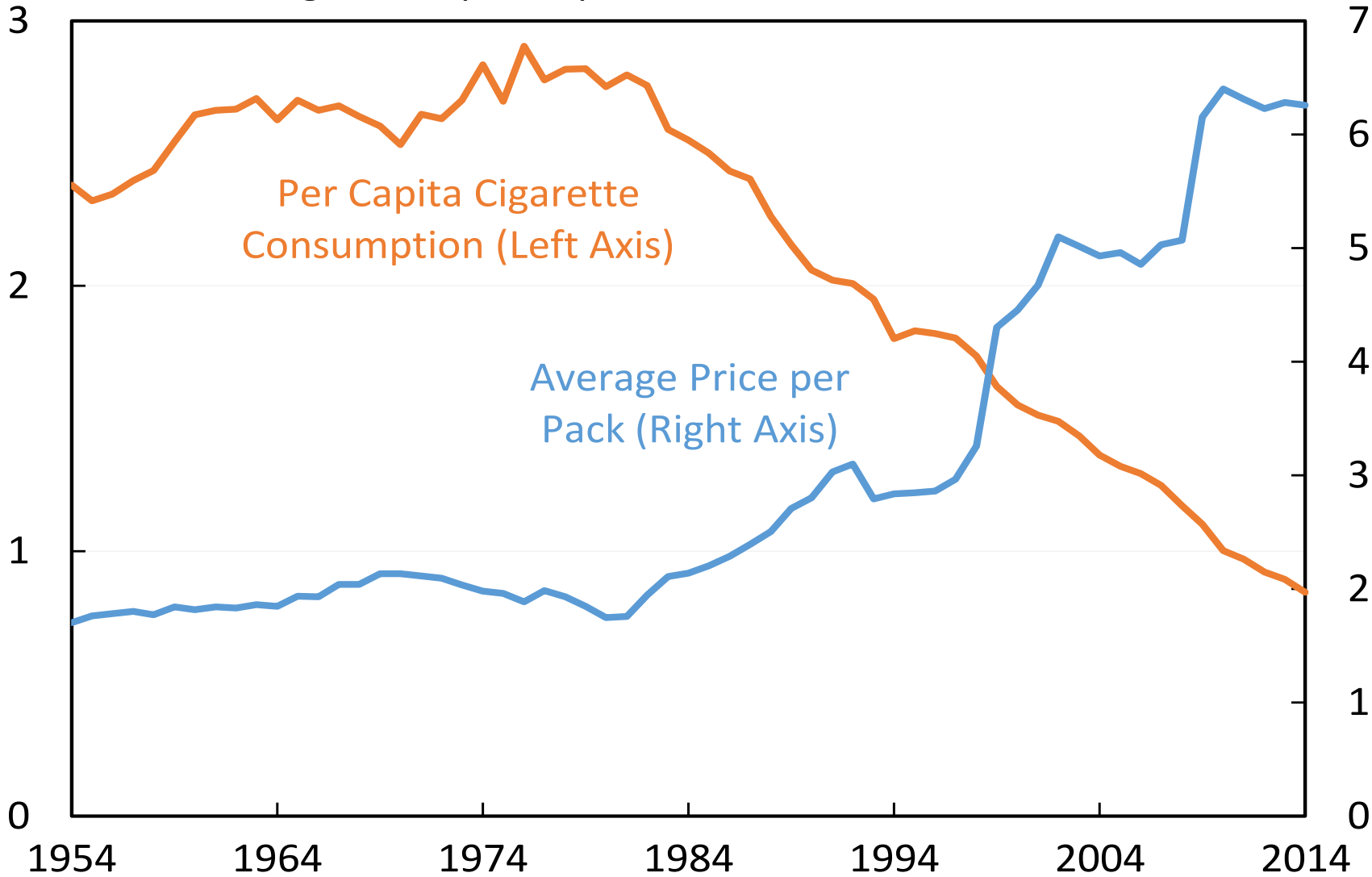
Message 5

Price Plays an Important Role in Smoking

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

Thousands of Cigarettes per Capita

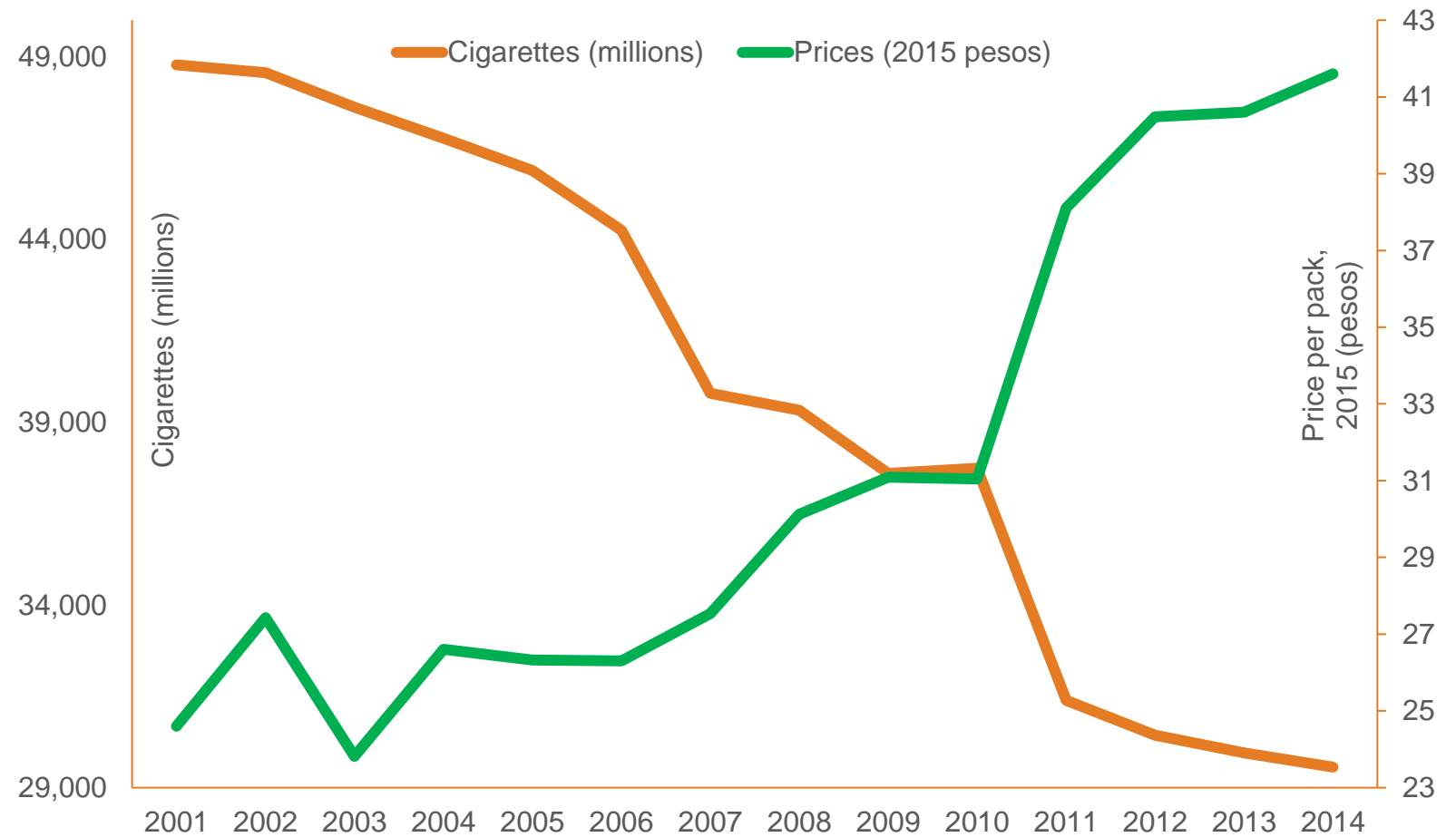
Price per Pack, 2014 Dollars



(Furman 2016)



Price and consumption of cigarettes: Mexico, 2001-2014



Sources: EIU, Euromonitor, and World Bank

Taxing tobacco:
good for public health, domestic resource mobilization, and equity

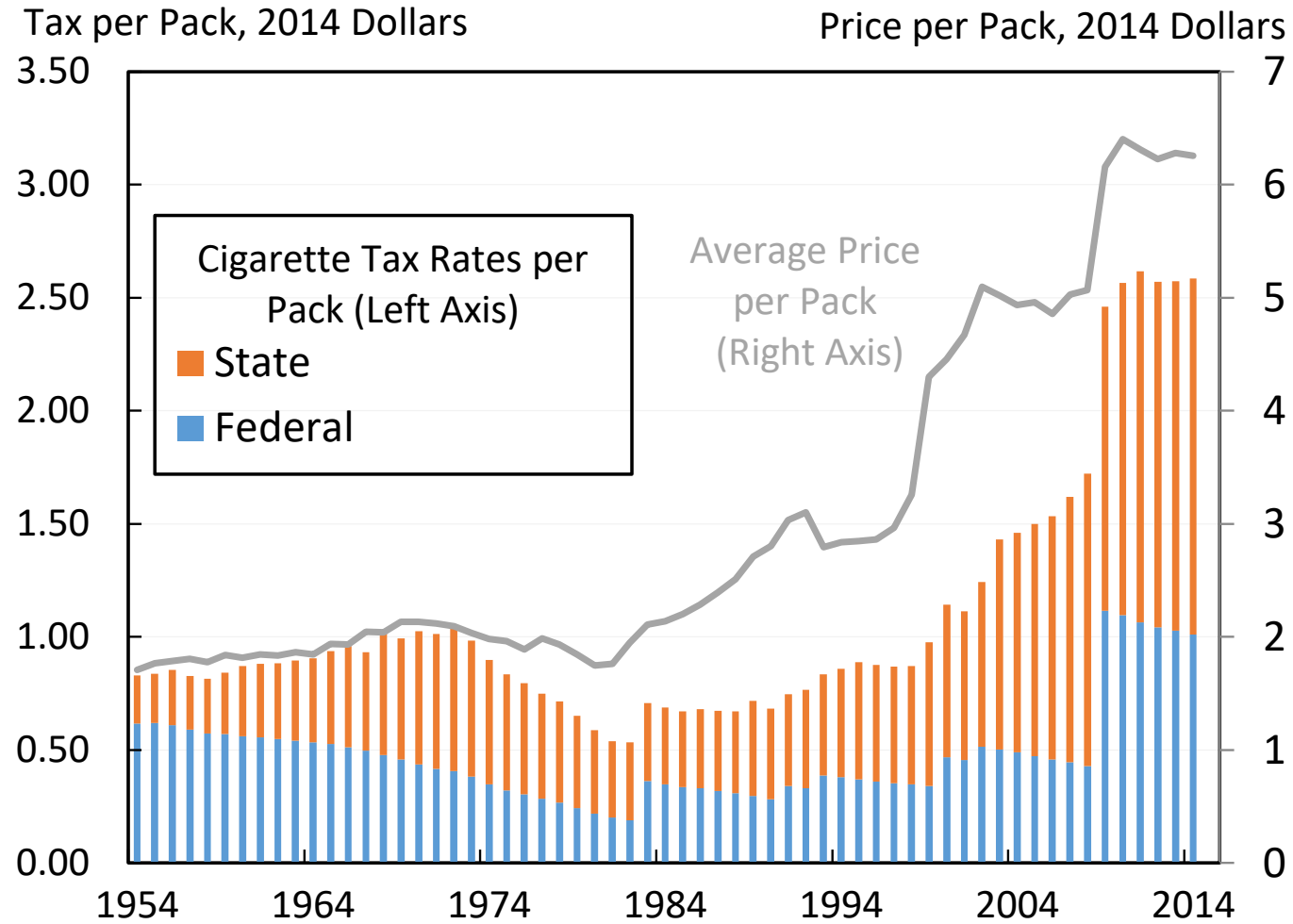
Message 6

**Cigarette Taxes Play an Important Role in
Cigarette Prices**

“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.”

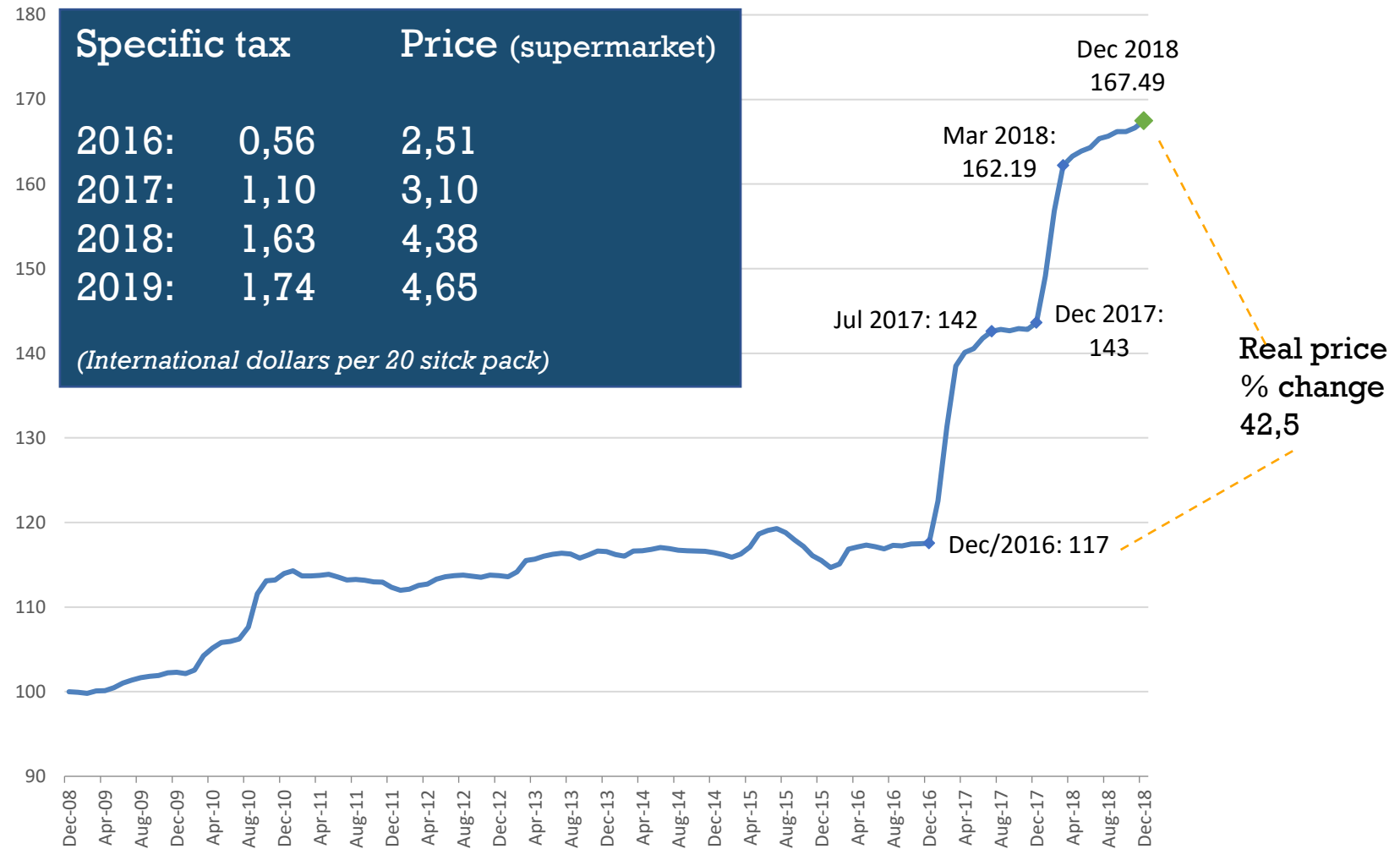
-Adam Smith, “An Inquiry into the Nature and Causes of the Wealth of Nations” (1776)

Average U.S. Cigarette Taxes and Prices, 1954-2014



Tax and Price Increases 2017-2018 in Colombia

(Llorente, B. 2019)

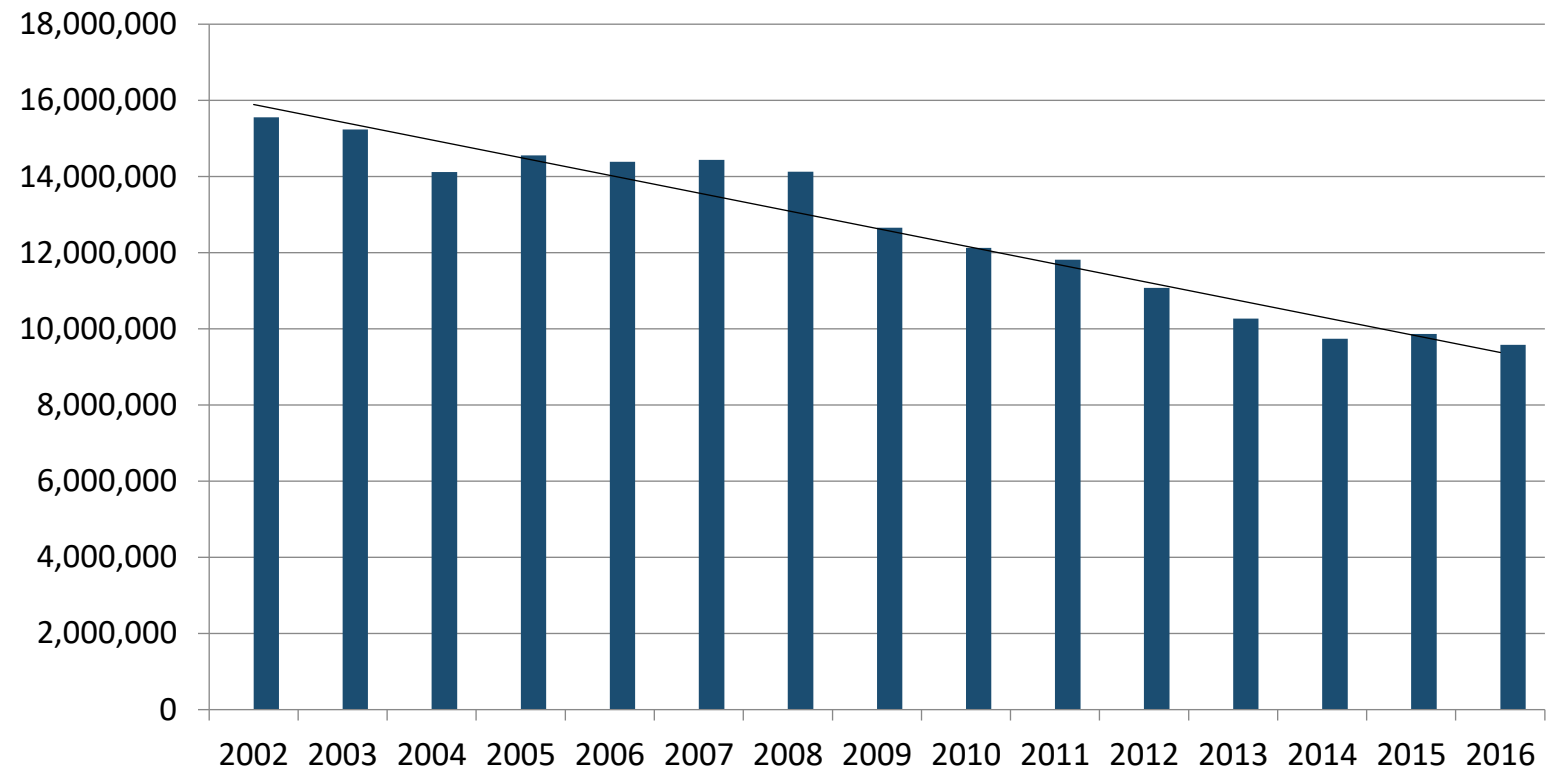


Price responsiveness of demand

- Studies have measured the price elasticities of tobacco and have centered around values of -0.4 (i.e, a 10% increase in prices implies a 4% decrease in quantity consumed) for high-income countries and around -0.5 for low- and middle- income countries.
- About half of the own- price elasticity is due to a decrease in prevalence (i.e, due to people quitting smoking), while the other half is due to a reduction in the number of cigarettes smoked by those who continue smoking.

Consumption levels of cigarettes in the EU, in packs

(Bouw, 2017)

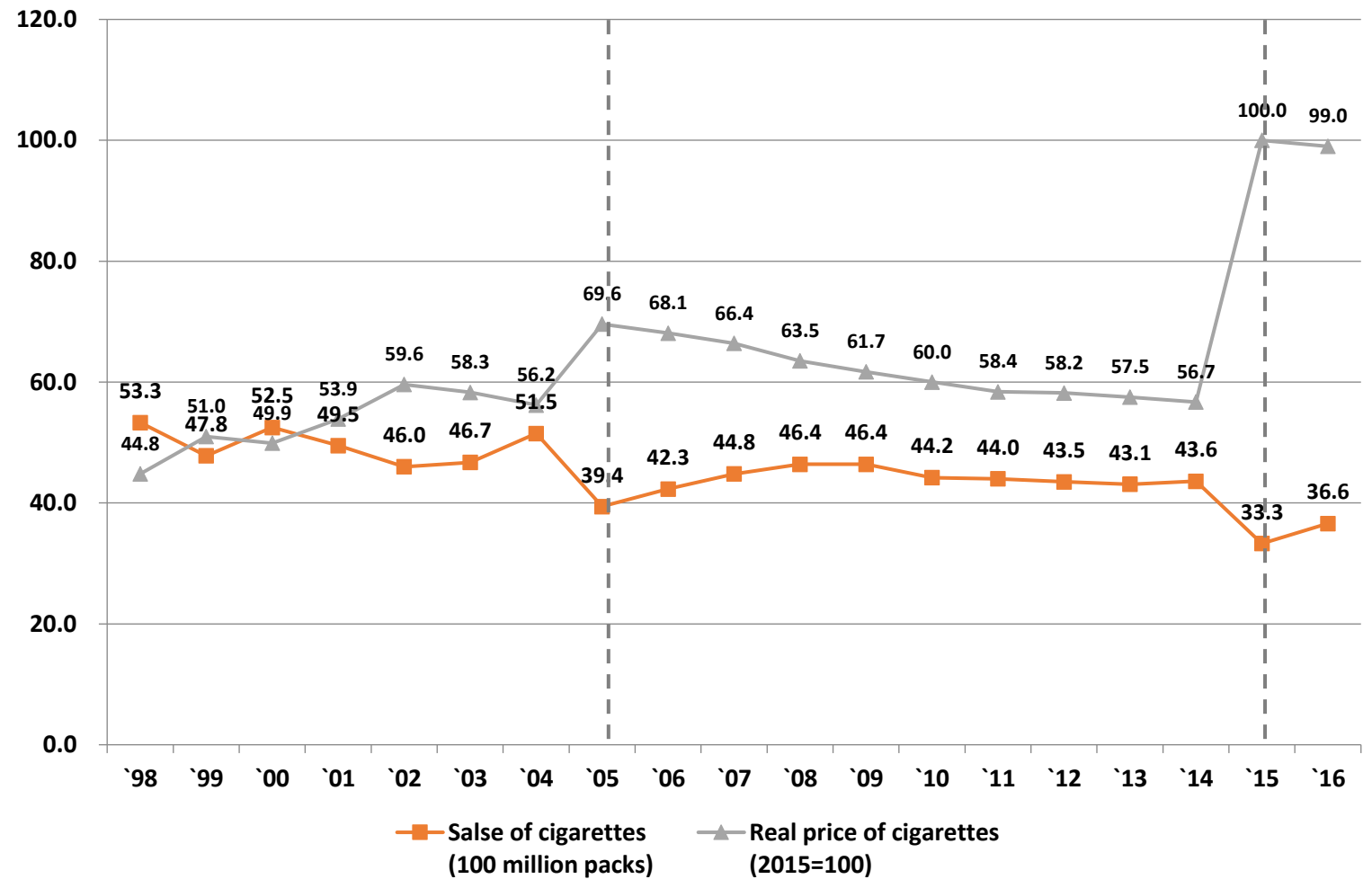


Sources: EIU, Euromonitor, and World Bank, reported by Bouw (2017)

Taxing tobacco:
good for public health, domestic resource mobilization, and equity

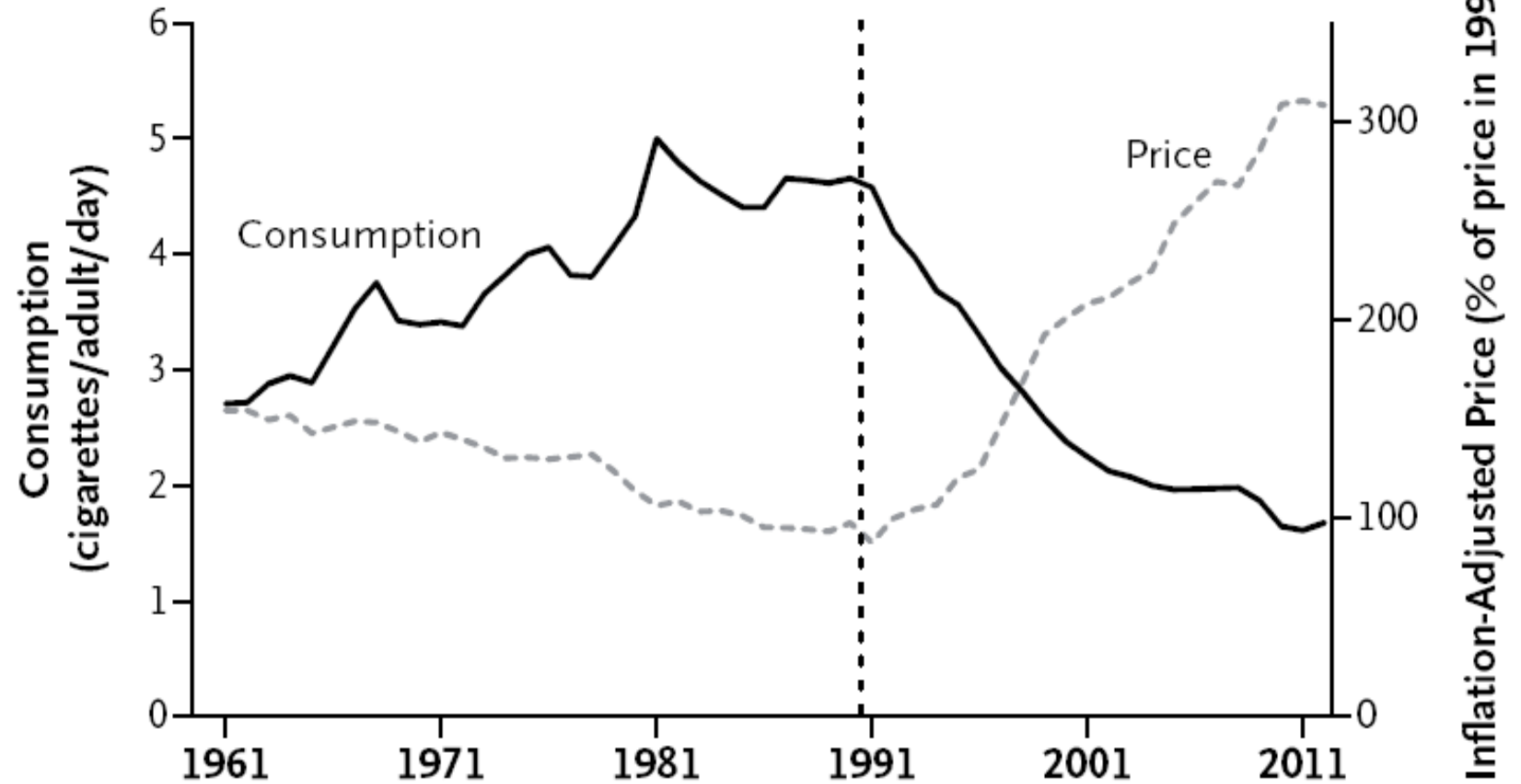
Real price of cigarettes & Sales volume in Rep. of Korea

(Eun Choi, S 2018)



Cigarette prices tripled, consumption halved in South Africa (Van Walbeek 2018)

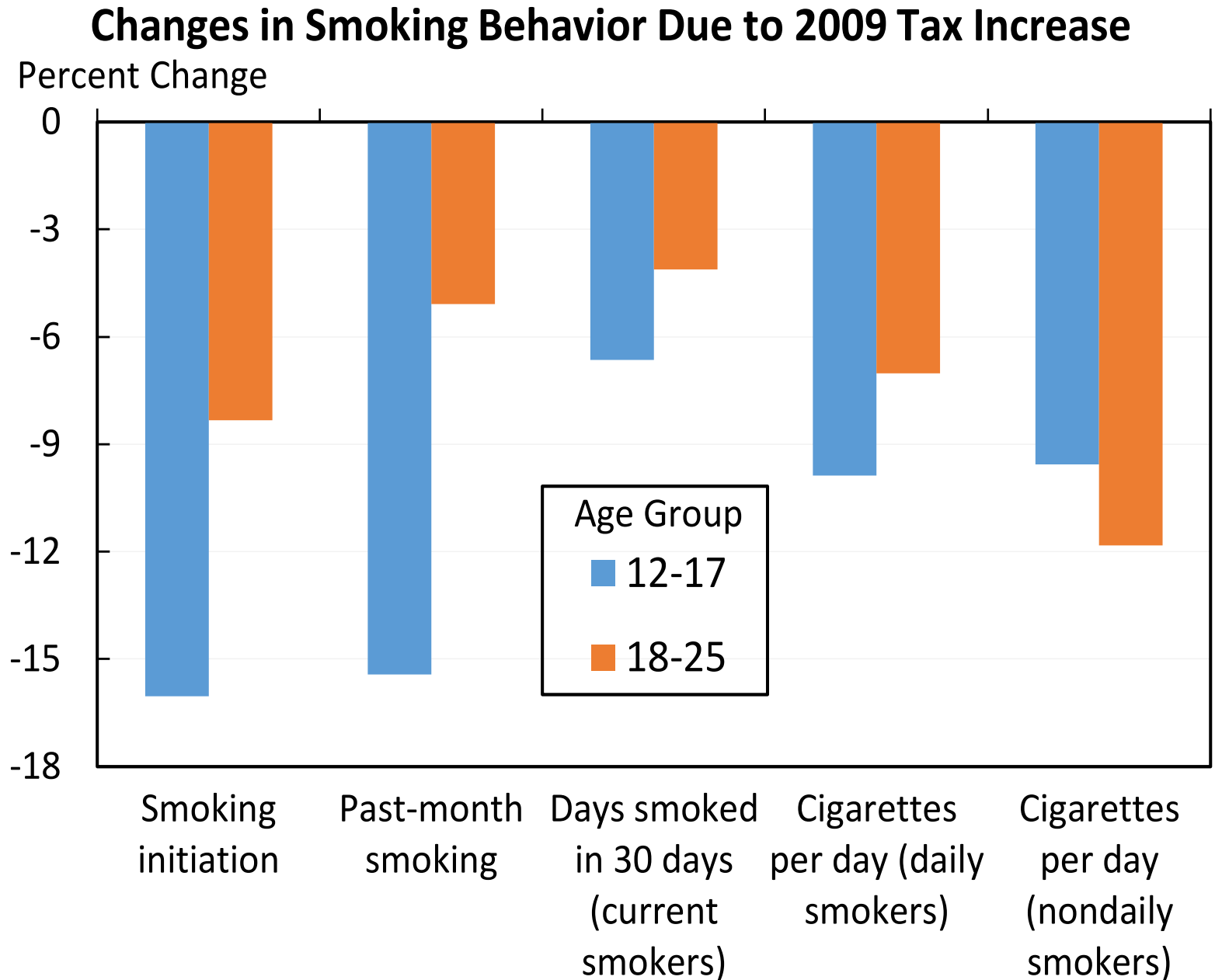
B South Africa



Message 7

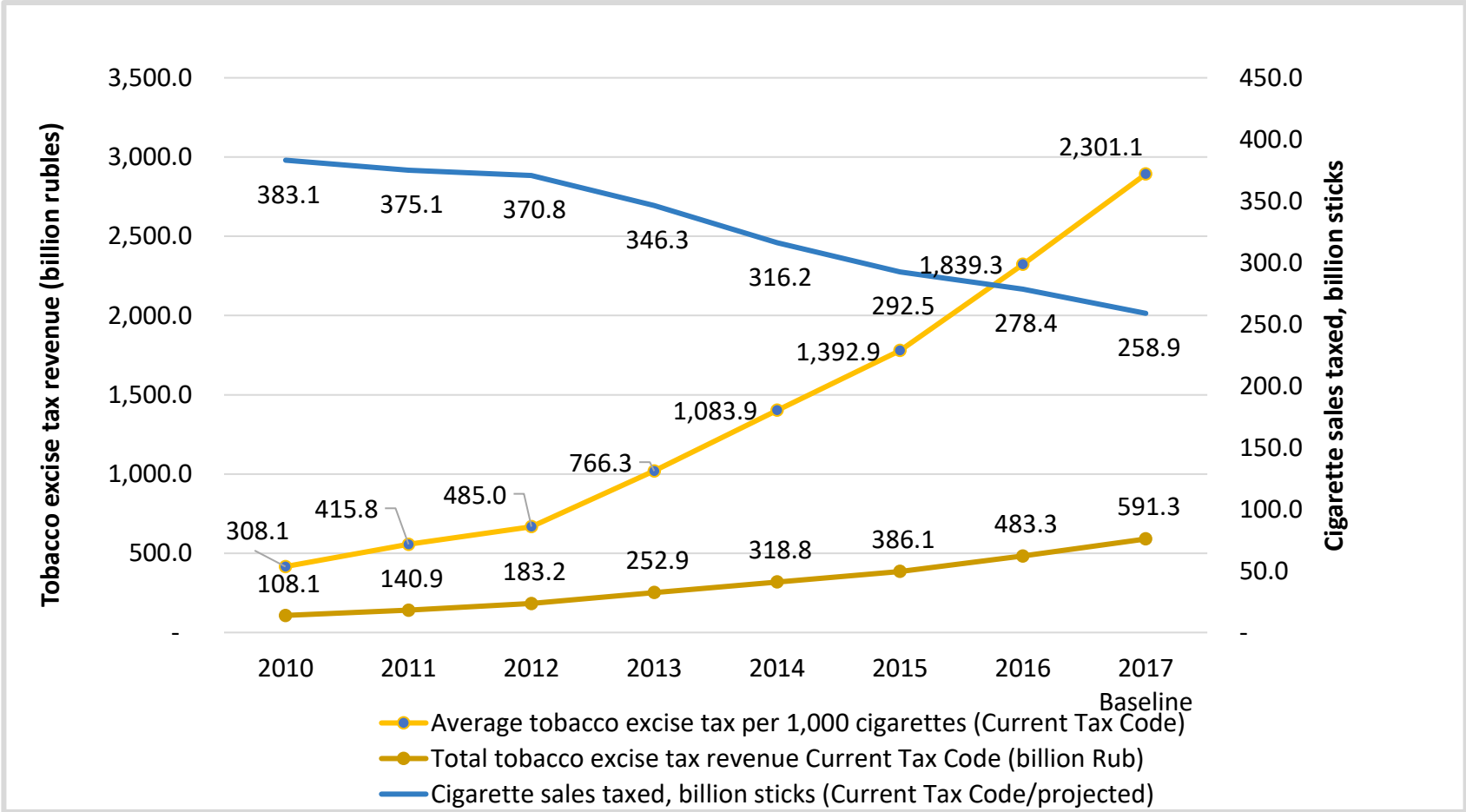
**Cigarette Taxes Have Large Aggregate Benefits
for Public Health**

Cigarette Taxes
Have Large
Aggregate
Benefits for
Public Health:
United States
experience



Source: van Hasselt et al. (2015).

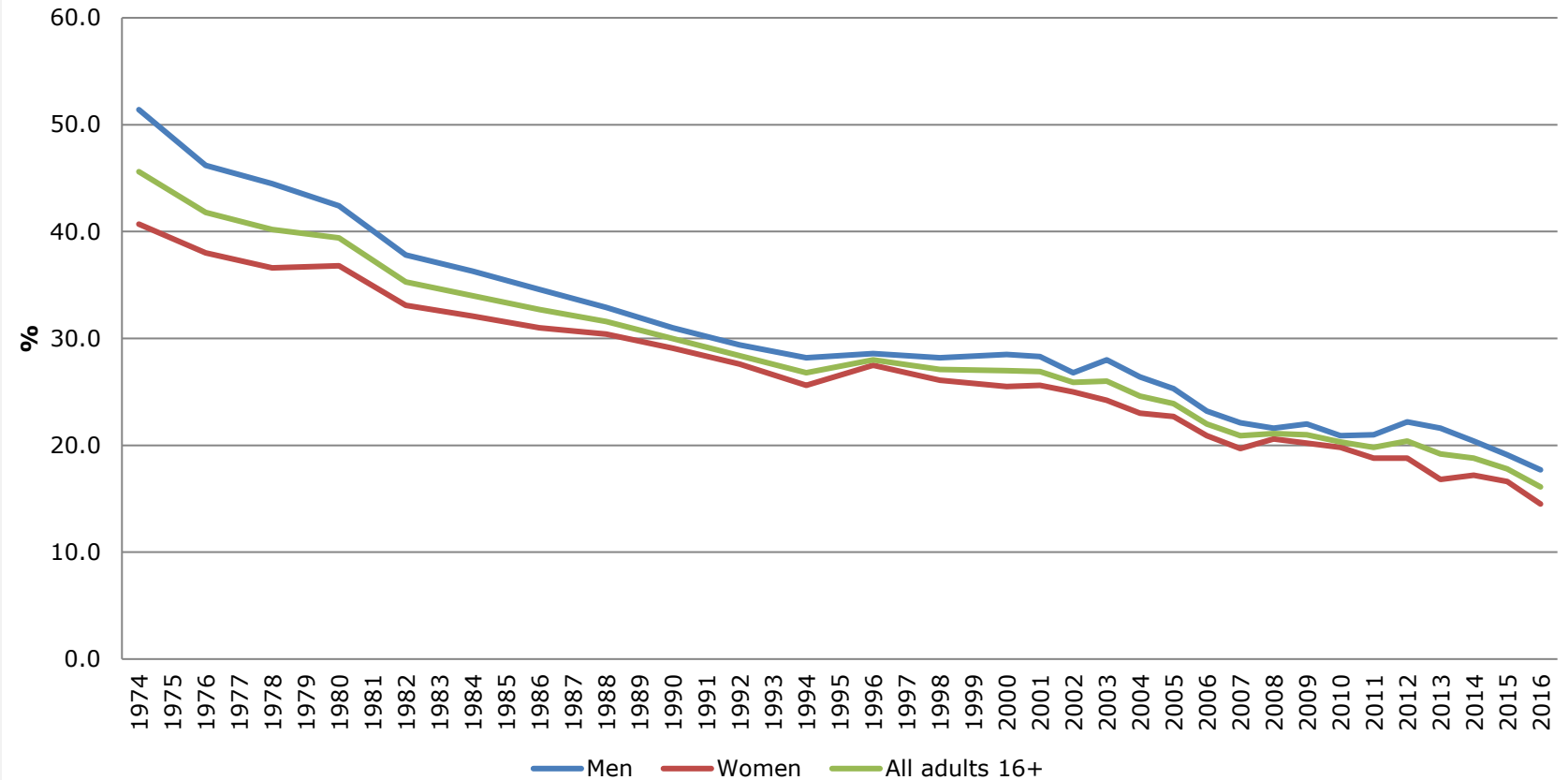
Tobacco Taxes, Sales and Tax Revenue in Russia



Source: WBG staff estimates based on cigarette sales taxed (Euromonitor 2017); tobacco excise tax revenue (Federal Tax Service, https://www.nalog.ru/rn77/related_activities/statistics_and_analytics/forms); and tobacco excise tax (current tax code).

Adult (16+) smoking prevalence in Great Britain, 1974-2016

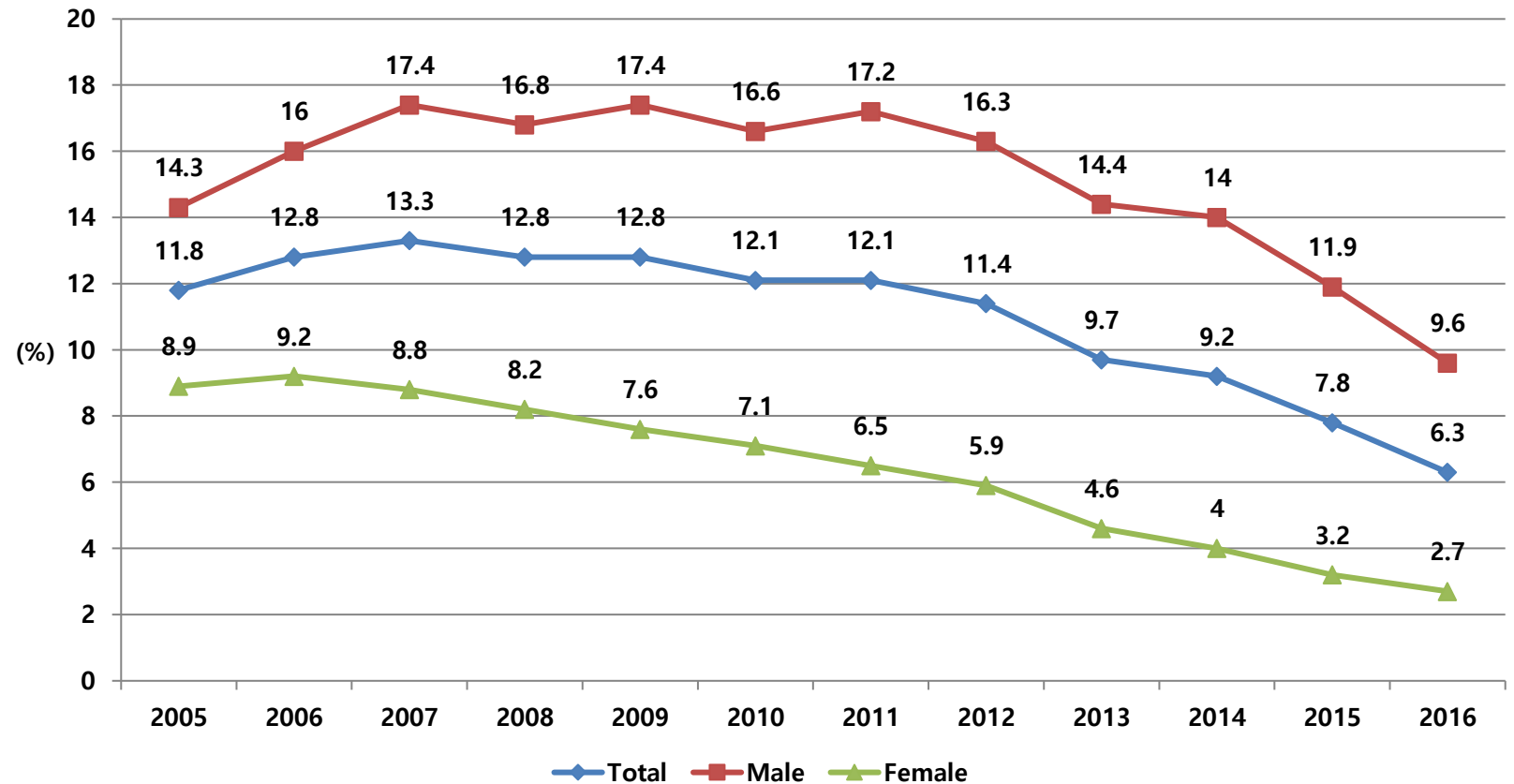
(Langley, T., et al., 2018)



Taxing tobacco:
good for public health, domestic resource mobilization, and equity

Smoking Prevalence of the Youth in Rep. of Korea

(Eun Choi, S 2018)



● Smoking prevalence of the Youth was significantly reduced.

➤ 9.2%p (2014) -> 7.8%p (2015) -> 6.3%p (2016)

Taxing tobacco:

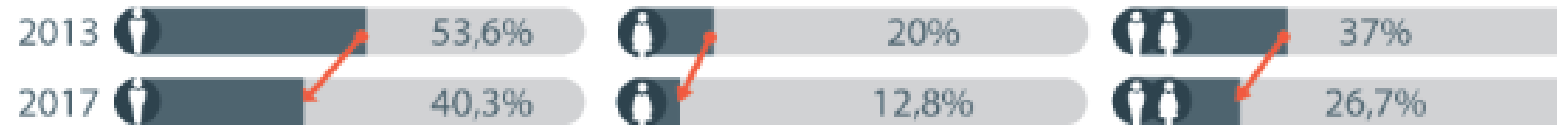
good for public health, domestic resource mobilization, and equity

Gradual decrease in smoking in Ukraine, 2013 and 2017

Smoking prevalence among adults 18+

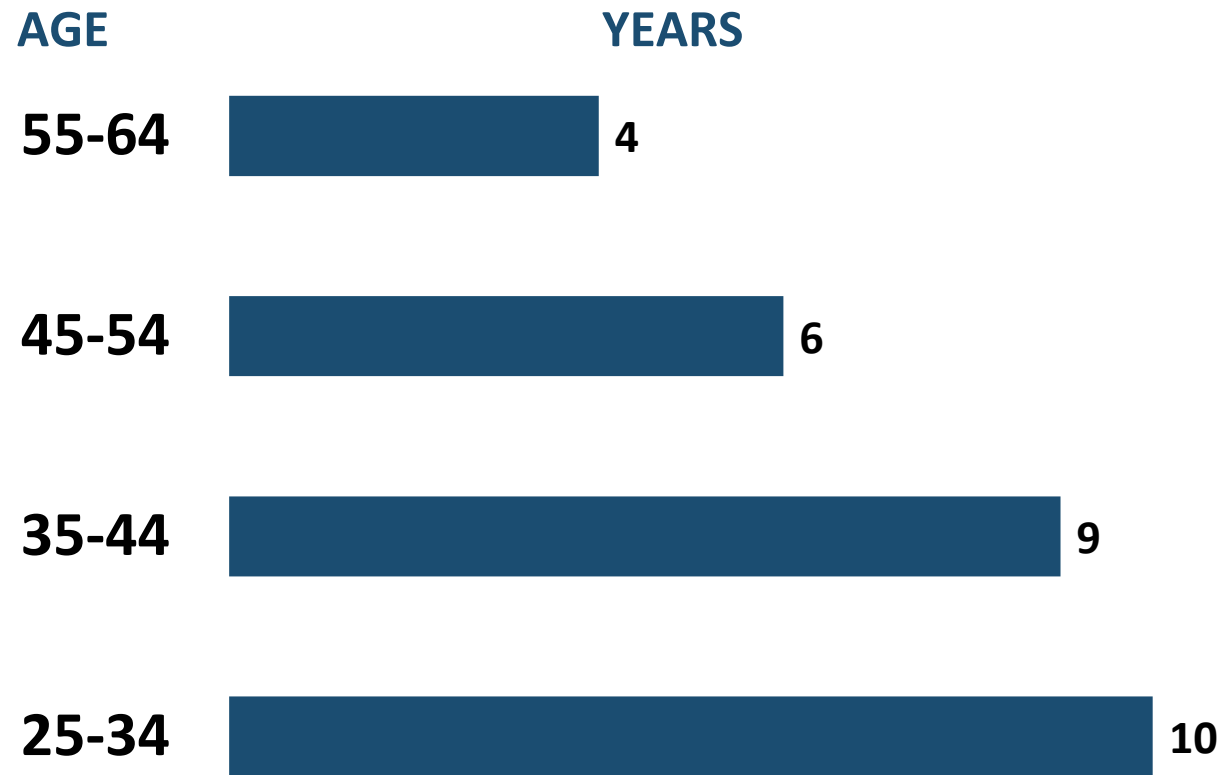


Higher smoking decrease among younger population 18-30



Data from Omnibus surveys, graphics from NGO LIFE

Years gained by quitting smoking by age



Source: Jha et al, NEJM, Jan 24, 2013

Taxing tobacco:
good for public health, domestic resource mobilization, and equity

Message 8

Taxing tobacco also contributes to mobilize domestic resources to fund priority investments and programs that benefit all

View from International Monetary Fund (IMF)

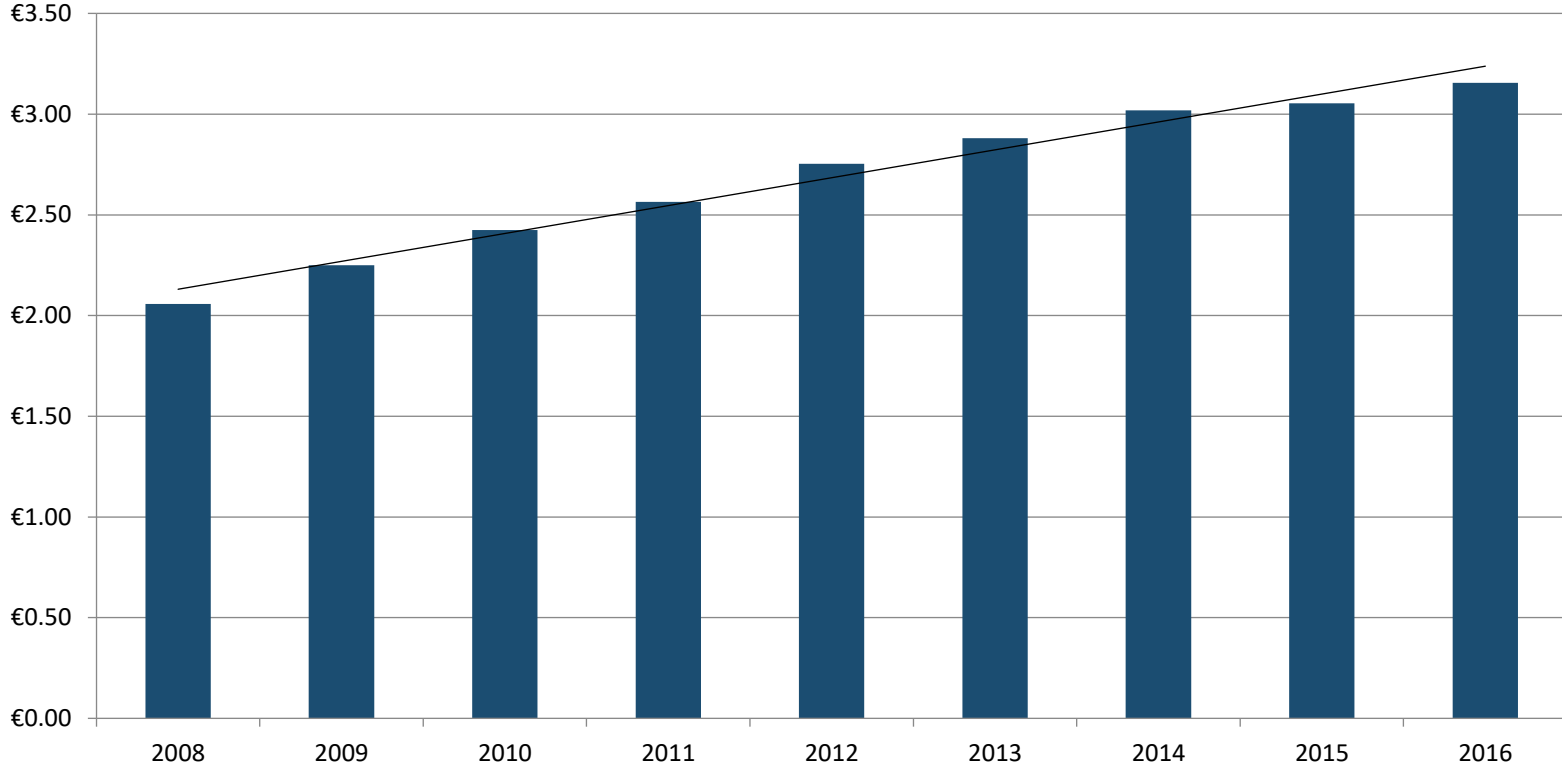
“In many countries, **raising tobacco taxes can offer a “win–win”**: **higher revenue and positive health outcomes**. Countries’ circumstances and governments’ weighting of revenue, health, and other objectives vary, and hence so too will the desirable level of tobacco tax rates.”

“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. |

Average revenue excise duties cigarettes in the EU, excise duty collected per pack in euro



Sources: EIU, Euromonitor, and World Bank

Taxing tobacco:
good for public health, domestic resource mobilization, and equity

China: Revenue generated from tobacco industry (2014-2018)

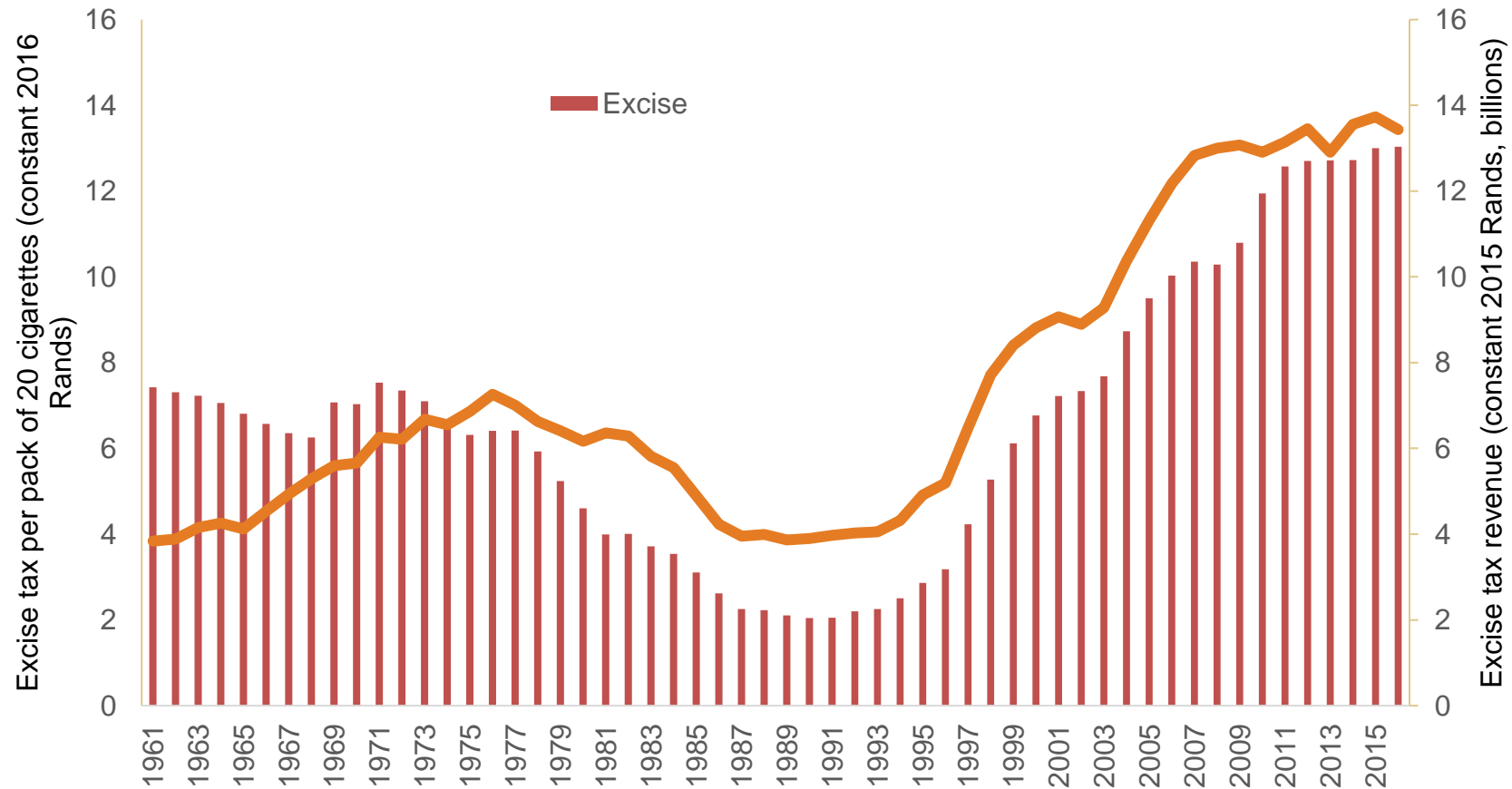
	Profit and tax		Tobacco tax (VAT, Excise, C&E)		Tax and profit turned over to the treasury	
	Billion USD	Billion RMB	Billion USD	Billion RMB	Billion USD	Billion RMB
2014	161.81	1051.76	118.43	769.82	140.16	911.03
2015	175.94	1143.6	129.29	840.4	168.46	1095
年△%	8.73%		9.17%		20.19%	
2016	166.08	1079.5	129.49	841.67	153.94	1000.6
Annual △ %	-5.60%		0.15%		-8.62%	
2017	171.46	1114.5	132.13	866.82	168.46	1095
Annual △ %	3.24%		2.04%		9.43%	
2018	177.78	1155.6	134.14	898.78	153.86	1000.08
Annual △ %	3.69%				-8.67%	

1.1USD=6.5CNY (2014, 2015, 2016, 2017); 1USD=6.7CNY(2018)
2. Tobacco tax of 2018 is calculated by TaXSiM

Excise tax per pack and excise tax revenue

(Van Walbeek, C., et al, 2018)

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

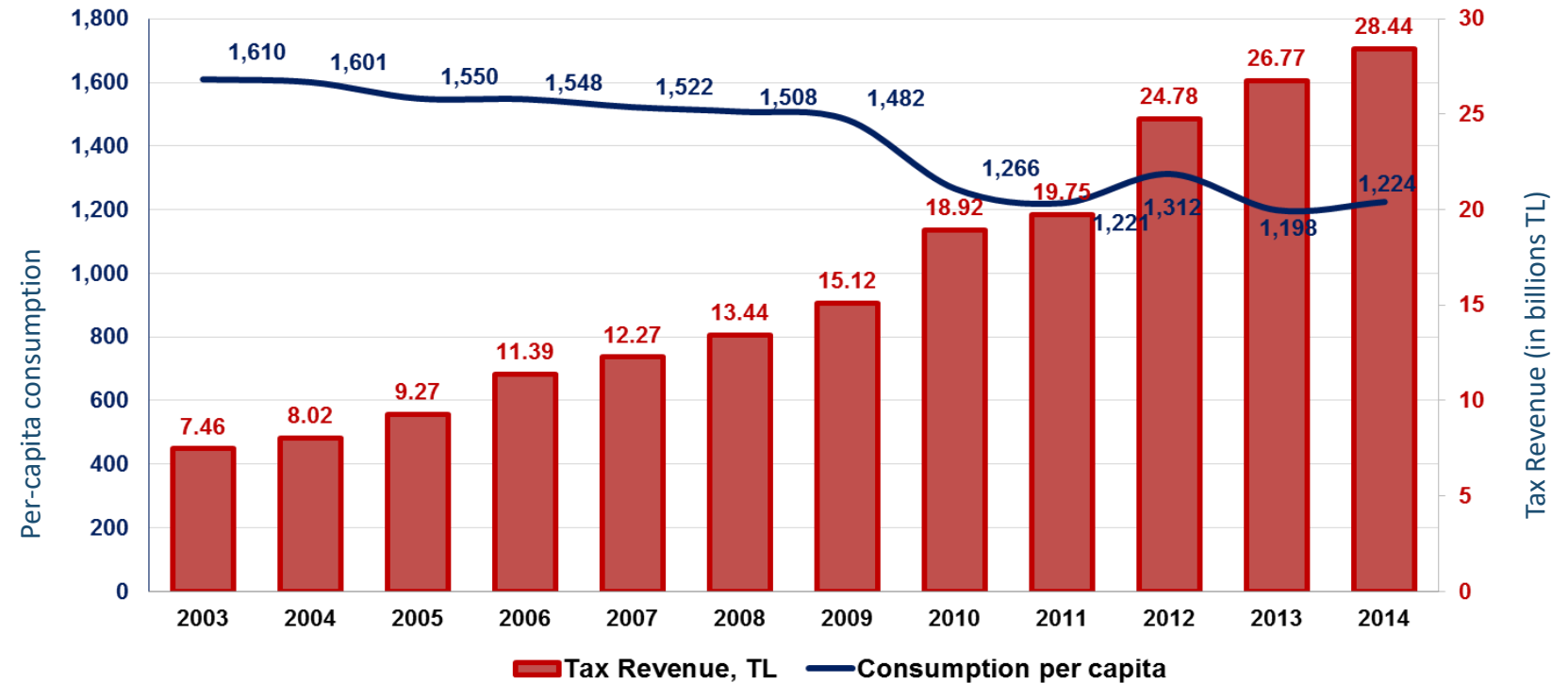


Taxing tobacco:
good for public health, domestic resource mobilization, and equity

Turkey lowered per-capita consumption (24%) while increasing tobacco tax revenue significantly (281%)

(Centinkaya, V., 2018)

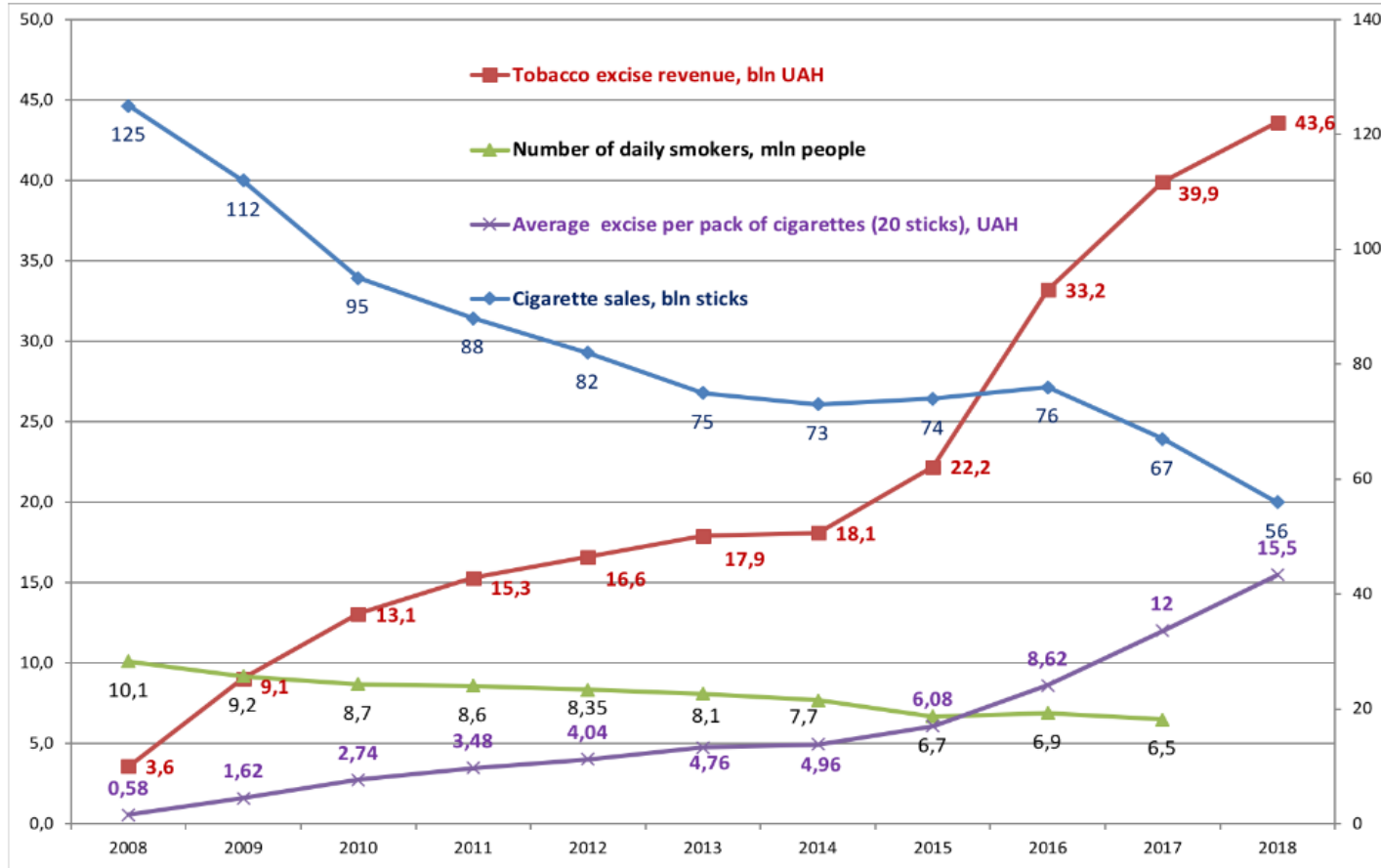
One thing shows up on second click – do you still want that animation?



- ✓ According to Global Adult Tobacco Surveys, percentage of population who smoke declined from 31.2% in 2008 to 27% in 2012
- ✓ There is 60 percent increase in Tobacco Tax Revenue in real terms (2003 prices)

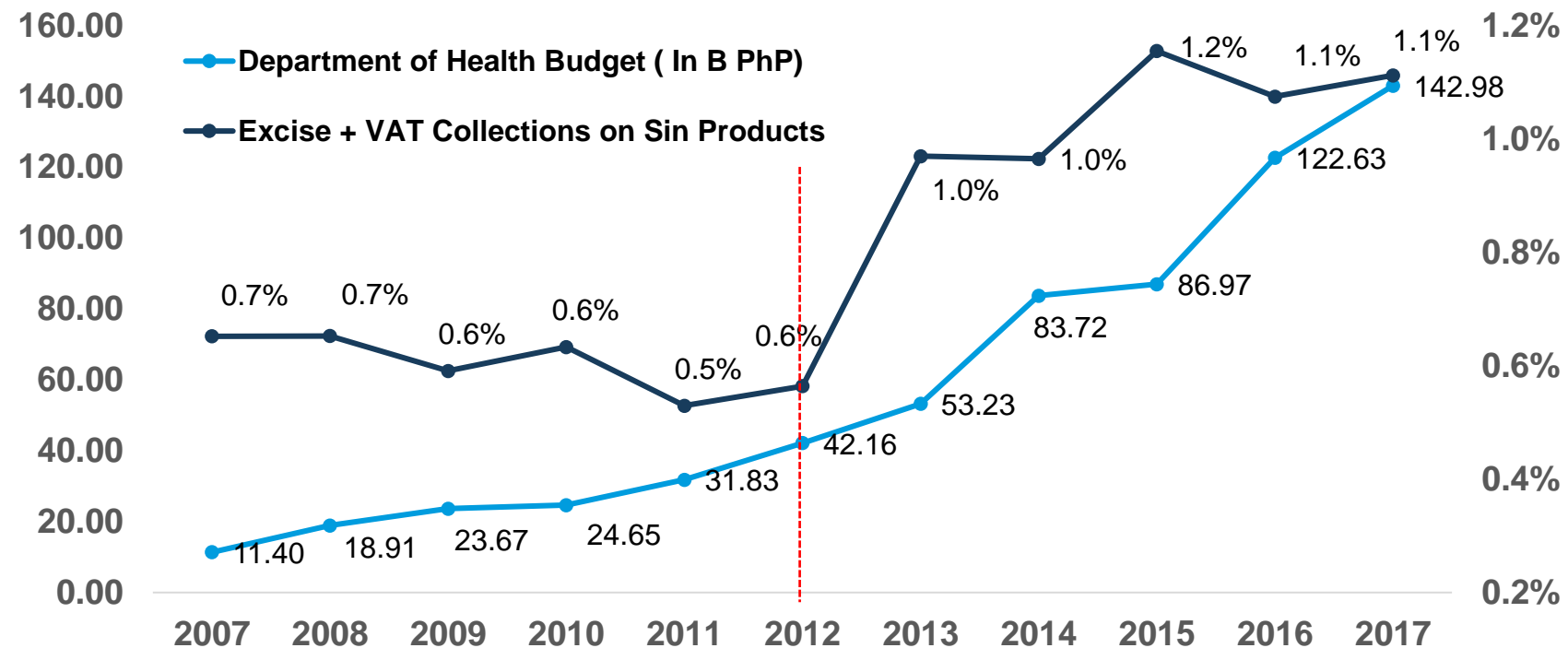
Results of tobacco excise policy in Ukraine in 2008-2018

Average excise rate for cigarettes: 27-fold increase (nominal)
Annual tobacco excise revenue: 12-fold increase (nominal)
Cigarette sales: 2.2 times decrease
Daily smoking prevalence: 1.6 times decrease



Philippine Sin Tax Reform: Win for Revenues and Public Health

- Excise and VAT collections on tobacco and alcohol products as % of GDP in 2017 is almost double that of the 2012 figures.
- US\$5.2 billion additional revenues generated in first 4 years of implementation, bulk of which came from tobacco taxes.
- Health budget (including health insurance premiums for the poor) in 2017 almost triple 2012 levels.



Source: Philippines Bureau of Internal Revenue (BIR) data presented by Paul J (2018)

Message 9

**Tobacco Taxes Disproportionately
Benefit Lower-Income Households**

When benefits of reduced morbidity and mortality are counted, these benefits are strongly progressive

(Furman 2016)

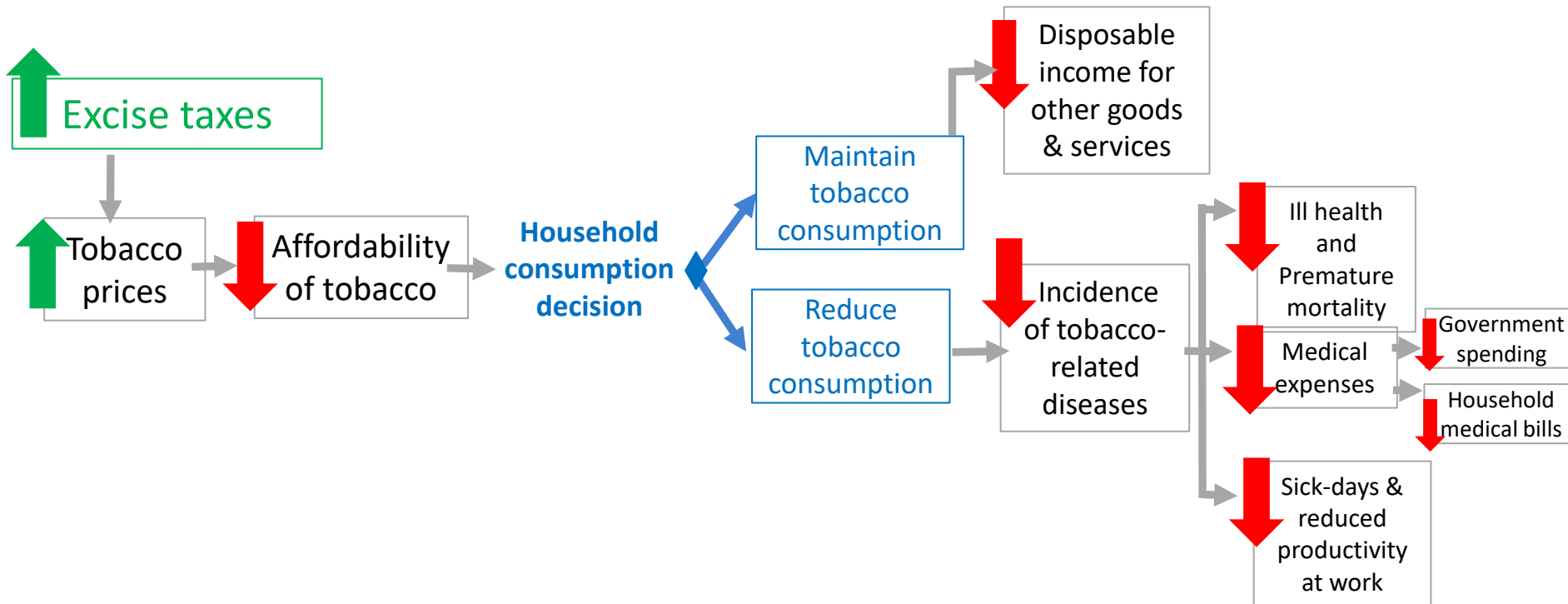
- First, smoking is more prevalent at lower incomes, so reductions in smoking are larger for poor since they are more sensitive to price increases
- Second, estimates assume that dollar value of health benefit does not vary with income and thus is proportionately more important to lower-income households.
- Third, estimates also incorporate not just the direct effects of the tax, but also the use of the revenue it generates—for example, expanding health insurance coverage for low- and moderate-income

Why this Policy is Pro-Poor?

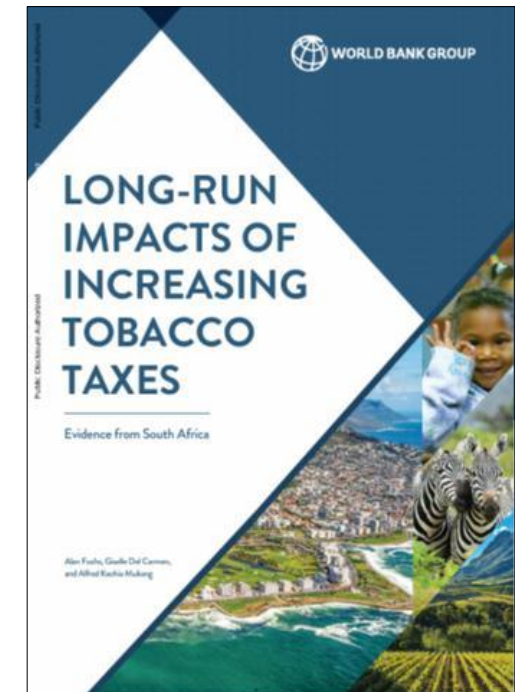
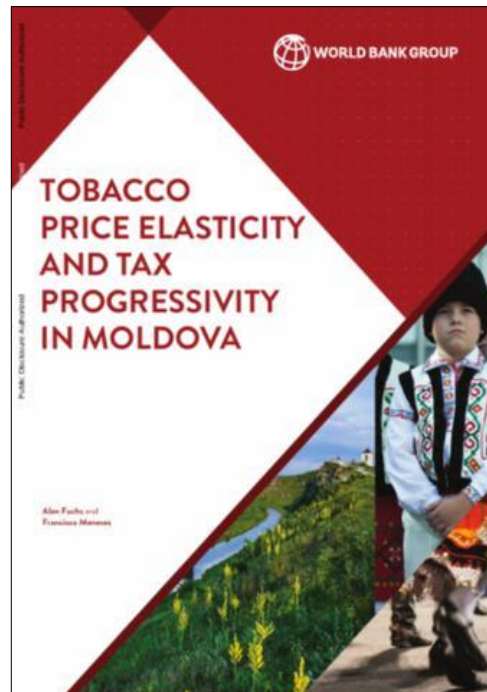
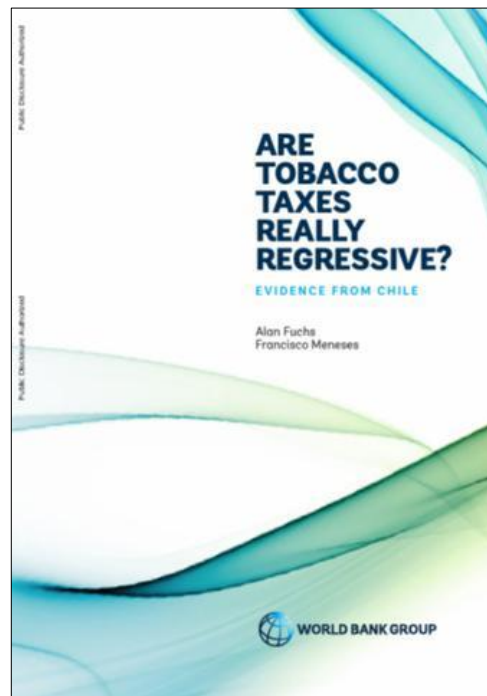
- Common arguments from tobacco industry claim that because poorer individuals spend more on these products as a proportion of their budget, any price increase induced by tax changes will affect them disproportionately more than, for instance, richer individuals. Hence, it is argued that these taxes are regressive.
- However, preventing health and economic harms associated with consuming these products generate large benefits (in health improvements, healthcare cost reductions, and higher disposable income for purchasing non-toxic goods and services) to current and potential consumers.
- Moreover, the financial impact of these prevented costs is disproportionately higher for poorer households, and they more than offset any negative immediate financial costs that taxation may have on them.

Economic Channels of Taxing Tobacco

- Taxes work by reducing affordability of tobacco.
 - Households shift consumption behavior, according to their price-responsiveness.

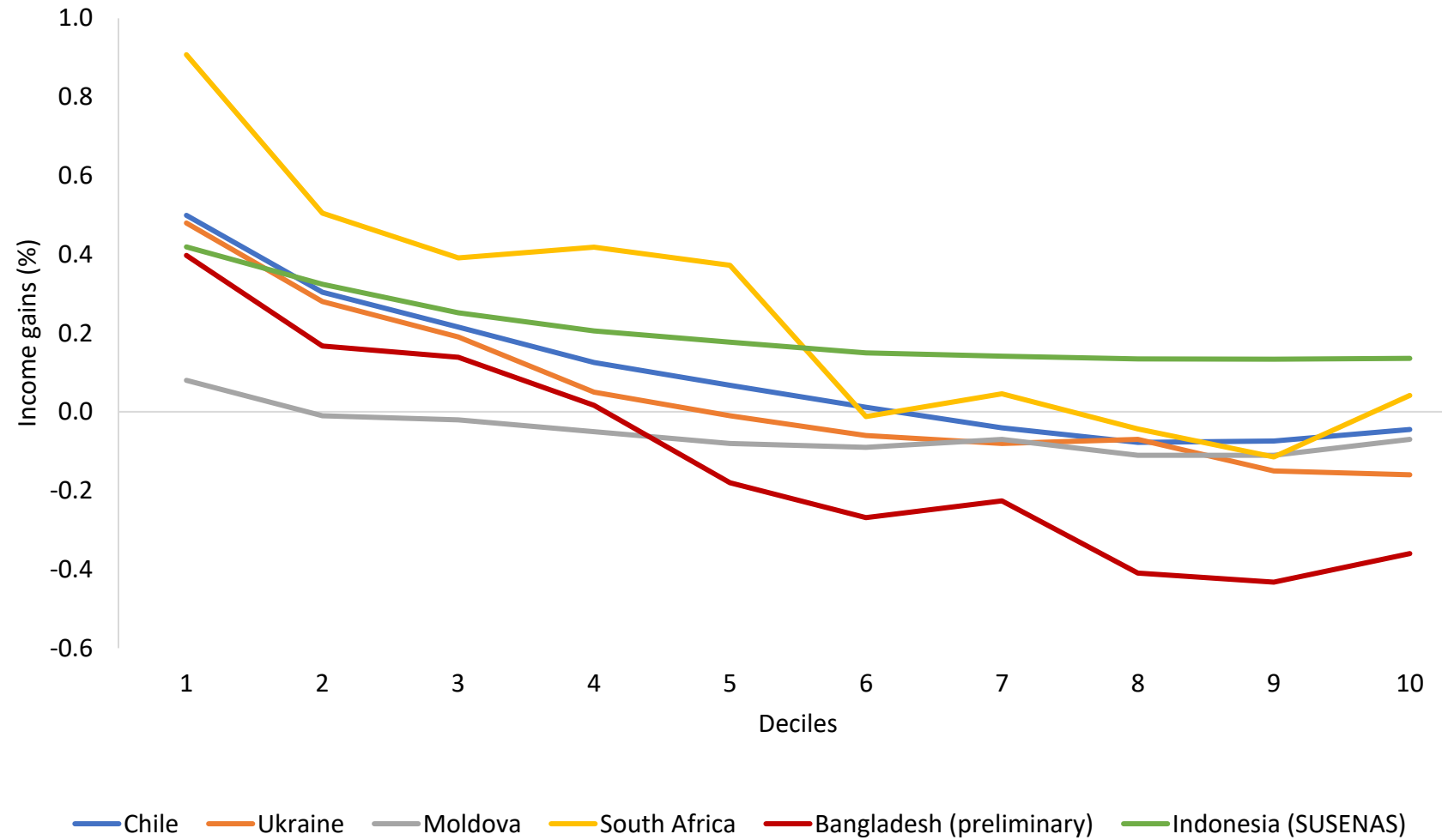


Evidence from Across the World



Comparison with between WBG studies in different countries (net effect)

(Fuchs, A., 2017, 2018)



United States: Increase in Federal Tobacco Taxes to Paid for Health Insurance of Poor Children (Furman 2016)

- Positive **impact of tobacco** tax increases on tax revenues is seen in different countries.
- **United States: Part of the 2009 reauthorization of the Children's Health Insurance Program.** Congress approved, and President Obama signed as the first law after being elected, a 62-cent per pack increase in the federal cigarette tax, increasing total federal cigarette tax to about US\$1 a pack.
- Federal cigarette tax revenue rose by 129%, from US\$6.8 billion to \$15.5 billion, in the 12 months after the tax (April 2009 to March 2010). Cigarette pack sales declined by 8.3% in 2009 – largest decline since 1932.
- The Office of Management and Budget (OMB) projects that proposed federal tobacco tax increases will generate more than **US \$95 billion in new revenues over ten years; the rate increase would reduce the number of adult smokers by an estimated 2.6 million over 10 years, which would result in thousands of adults saved from premature death. The rate increase would also prevent many children from becoming smokers.**

MESSAGE 10

**It is Important to Tax Similar Tobacco Products at
Similar Rates**

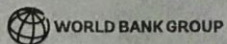
An Overlooked Aspect of Tobacco Taxation

- Important to harmonize tax rates on different tobacco products, given wide disparity in tax rates, not only among cigarettes, but also between tobacco products. For example, in the United States, pipe tobacco is taxed at a rate of less than \$3 per pound while roll-your-own tobacco is taxed at a rate of nearly \$25 per pound.
- **Raising the tax on one product without raising it on another, consumers can substitute to the cheaper product, potentially undoing some of the public health benefit the tax was intended to encourage.**

MESSAGE 11

Tobacco taxes play only a minor role in illicit trade

CONFRONTING ILLICIT TOBACCO TRADE:



A GLOBAL REVIEW
OF COUNTRY
EXPERIENCES

TECHNICAL REPORT OF THE WORLD BANK GROUP
GLOBAL TOBACCO CONTROL PROGRAM.

EDITOR:
SHEILA DUTTA



Key findings from this global report

(Dutta, S et al 2019)

- **To reduce illicit trade in tobacco products, it is both crucial and feasible for all countries to strengthen tax administration and enforcement.** There is growing experience and agreement on the package of steps needed to do so, as outlined in this report.
- **The strengthening of tax administration and tobacco tax reform should be viewed as complementary.** These actions reinforce each other in helping countries to reduce preventable morbidity and mortality and in increasing public revenues.

Tax Administration Measures (1) (IMF 2016)

1. A strong legal framework

- Clear definitions in legislation - for products (e.g., cigarillos vs. cigars), tax base, rates, point of tax collection (factory? warehouse? point of import?), exemptions (travelers), etc.
- Identification of responsibilities: Which level of government, which agency does what?



Tax Administration Measures (2) (IMF 2016)

2. Specialized excise administration and enforcement/audit services within the Revenue Administration

- ▶ Administration focusing on early stages with minimum number of players
- ▶ Empowerment of tax/excise/customs administration, Special financial and administrative guarantees
- ▶ Licenses for all operators, record-keeping, marking systems, management of supplies (warehouses, transit procedures, etc.), restrictions on out-of-network sales (internet, duty-free shops, etc.),



Tax Administration Measures (3) (IMF 2016)

- Trained, experienced and dedicated staff
- Information gathering and analysis, intelligence, Cooperation with other agencies
- Well-equipped enforcement teams; Mobile patrols at bottlenecks



Tax Administration Measures (4) (IMF 2016)

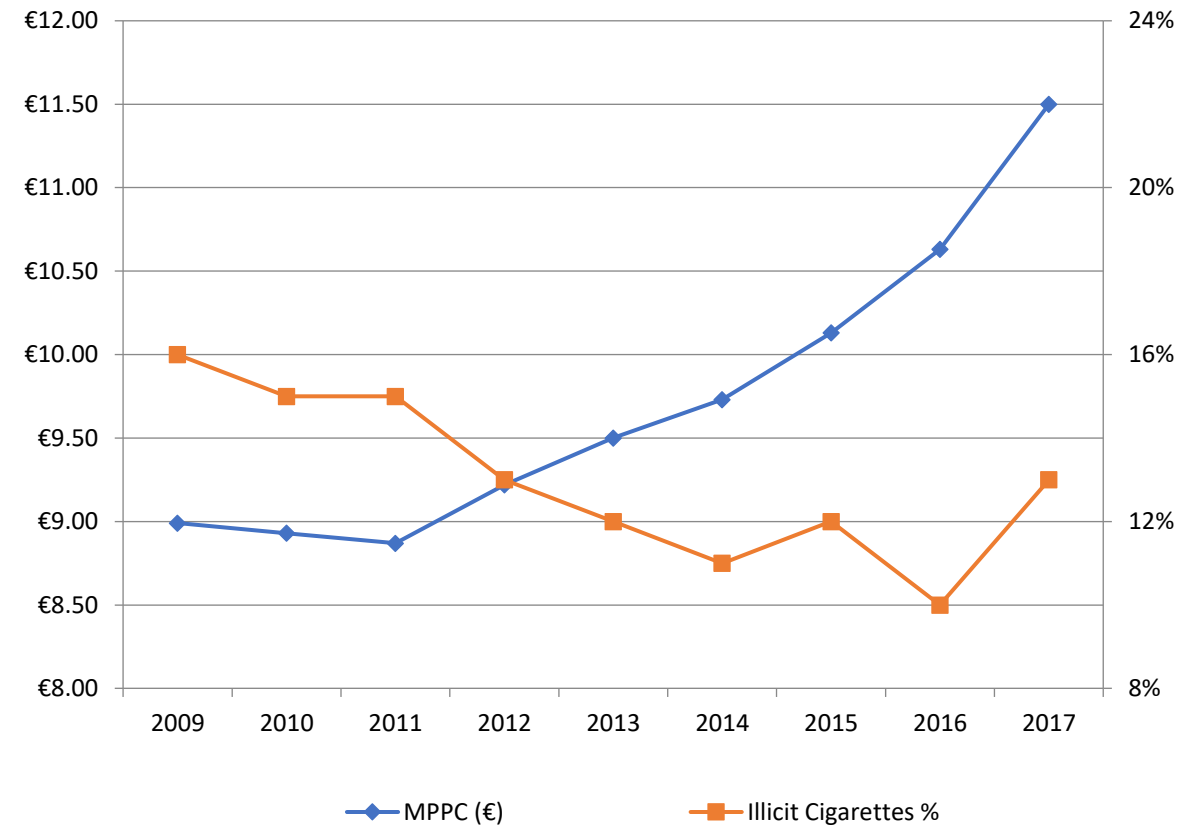
- Illicit operators always aim for the weakest point in the tax administration → Overall progress in revenue administration sets a limit to improving control of the tobacco supply chain
- Adequate levels of penalties, administrative and criminal sanctions for illegal activities
- Administrative and criminal investigation capacities: Increase deterrence and reduce incentives (criminalization of excise fraud – investigation, seizure and confiscation of proceeds of crime – push the threshold higher!)



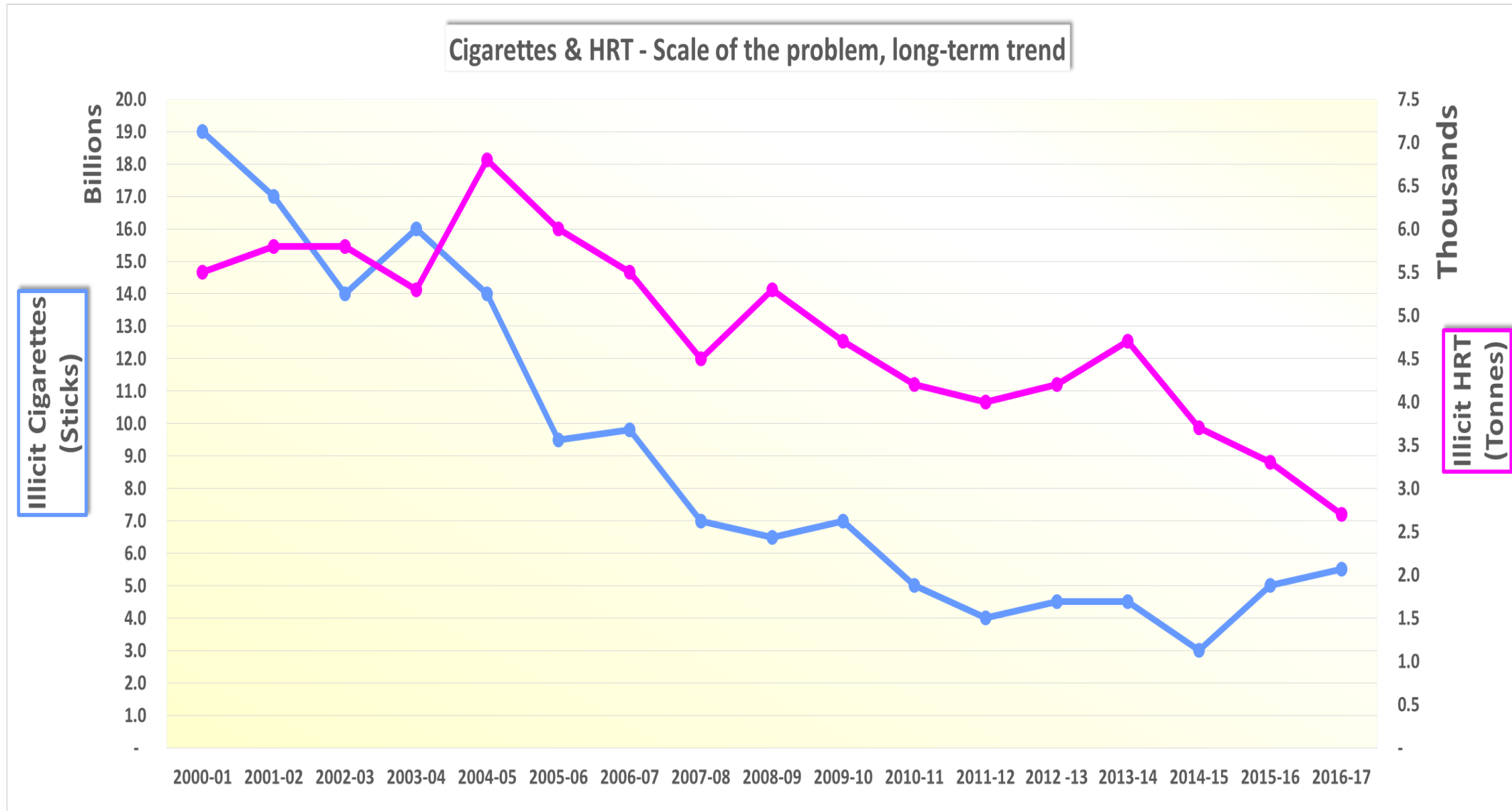
IRELAND: Illicit Cigarettes & Price of Cigarettes (Dutta et al, 2019)

- Ireland's most recent results indicate that the general trend for illicit cigarettes between 2007-2017 has been downward.
- Notably, this has occurred during a period where price of cigarettes has risen and smoking prevalence has declined by about percentage points
- While the illicit trade has not been eliminated, the extensive program of enforcement has contained it
- This is consistent with a key WBG report finding, indicating that the main driver of illicit flows is not relative levels of price or taxation, but the effectiveness of customs and tax enforcement.
- The most recent evidence suggests that 13 percent of cigarette consumption in Ireland is illicit

Percentage of Illicit Cigarette Compared to Most Popular Price Category (MPPC) at Current Market Prices



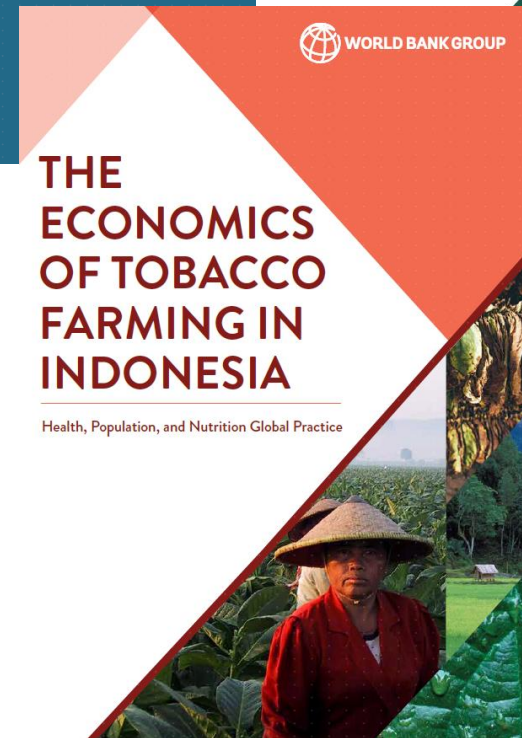
UK/HMRC Experience in Controlling Illicit Tobacco Trade (Kay 2019)



MESSAGE 12

**Increase in Tobacco Taxes Does Not Negatively
Affect Employment**

Evidence from Indonesia



Tobacco industry employment represents less than 1% of total employment in Indonesia

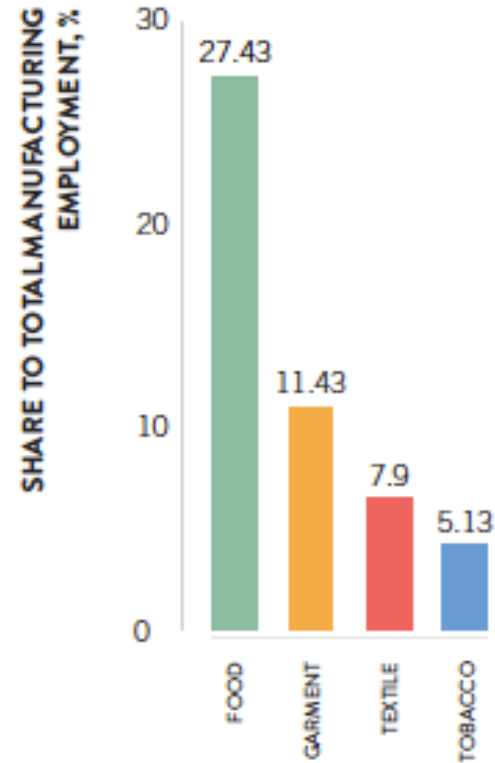
(Araujo et al 2018)

- The core-sector employment includes: 2,5 million
 - manufacturing workers (693k - 2014)
 - farmers (1,04 million clove farmers - 2013 and 750K tobacco farmers - 2011)
- Most tobacco sector workers are females and unskilled
 - 66% manufacturing workers
 - 92% production workers
- 43% of households with tobacco workers are poor
 - They contribute, on average, to 60% of household income
 - Male-female wage gap: female production workers earn 25% less

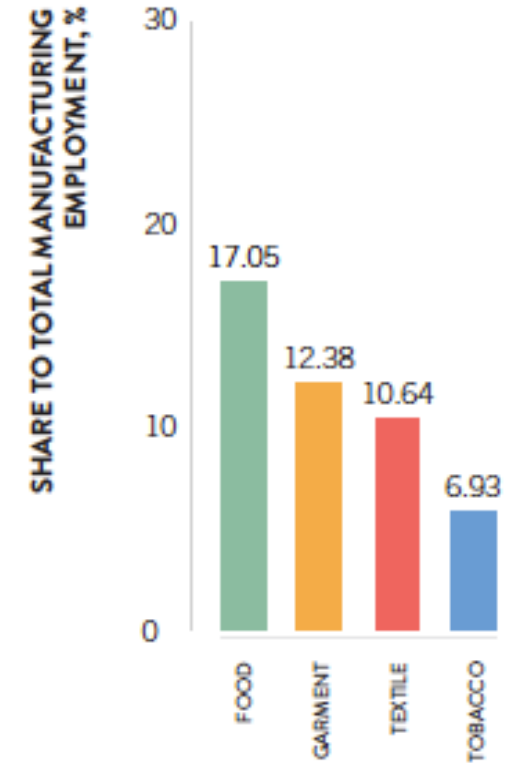
Employment in the tobacco manufacturing (5%) is smaller in comparison to employment in the food (27%), garment (11%), and textile (8%) sectors in Indonesia

(Araujo et al 2018)

PANEL A: ALL SCALES



PANEL B: MEDIUM AND LARGE SCALES



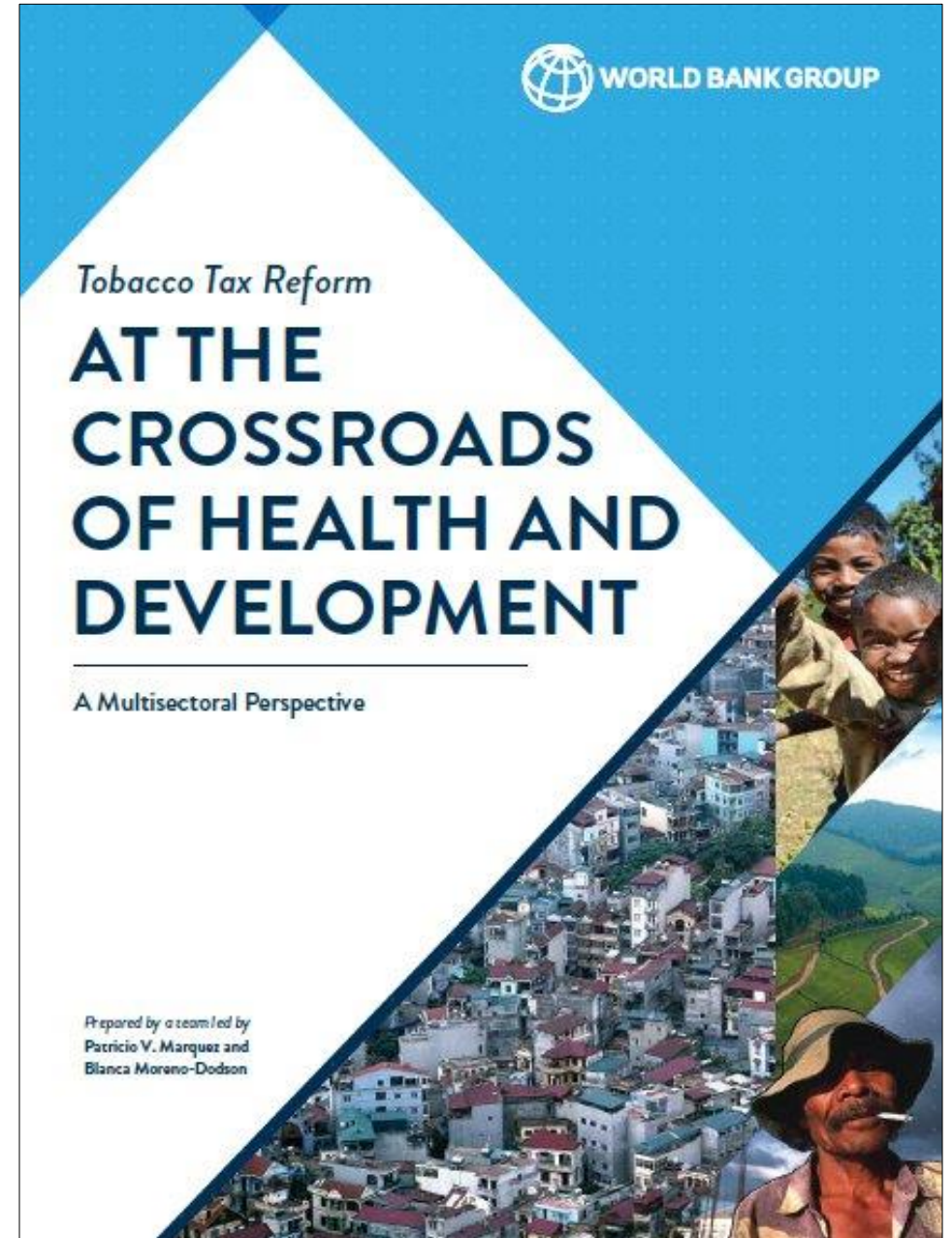
Source: Calculated using data from ASMSI (2014) and aggregated statistics of micro and small industry (2014).

Employment in the tobacco industry in Indonesia is decreasing over time, workers' productivity is low, and potential impacts of higher taxes is quite small

(Araujo et al 2018)

- The share of tobacco employment to total manufacturing and economy-wide employment is low 5.13 and 0.60 percent, respectively
- Raising cigarette taxes by an average of 47% and simplifying the cigarette tax structure to 6 tiers would:
 - reduce cigarette demand by 2%
 - increase government revenue by 6.4%
 - reduce gross employment in tobacco manufacturing sector by 0.43%
 - Net impact needs to consider employment in other sectors

Take-away messages



Take-away messages (1):

- **Go big, go fast.** Tax strategies should focus on health gains first, then on fiscal benefits. This means going for big tobacco excise tax rate increases starting early in the process. Adopting a slow, cautious timeline might sound prudent. But it means condemning large numbers of people to avoidable illness and premature death. In tobacco taxation, the rewards go to those who act boldly.
- **Attack affordability.** Tobacco taxes only reduce tobacco consumption if they reduce cigarette affordability. In most LMICs, wages are rising. Thus, cigarettes will become de facto more affordable for consumers, increasing consumption, unless tobacco taxes rise even faster. Effective strategies will generally involve combining big initial tax increases with recurrent hikes over time, to keep cigarette prices climbing more steeply than per capita real income growth (including inflation).

Take-away messages (2):

- **Change expectations.** Governments must make sure consumers know that a tax-rate hike is not just a one-off, but that cigarette prices will keep going up. This is a motivator for current smokers to quit and young people not to start.
- **Tax by quantity not by price.** The first key move is to use specific excises, as opposed to ad valorem (value-based) excises or other taxes, adjusted over time to at least keep pace with inflation and, preferably, at a faster rate so that affordability is reduced over time. Any strategy for adopting them should be accompanied by a framework/instrument to allow for annual increases over time (such as the United Kingdom's tobacco duty escalator). The second is to merge the multiple tobacco tax "tiers" used by most developing countries. This preempt smokers' switching to cheaper cigarette brands.

Take-away messages (3):

- **“Soft earmarks” can win support.** Linking increased taxes to increased health spending or priority programs— has helped generate grassroots support for the tax hikes, as shown in countries like Australia, Philippines, and the United States.
- **Regional collaboration can boost results.** Momentum for ambitious tobacco tax reform 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.
- **Build broad alliances.** Country leaders face sharp resistance to tax rate increases and other tobacco control measures from the tobacco industry. To counter these pressures requires robust scientific and economic analysis, as well as multi-sectoral policy development. It also demands the mobilization of civil society and opinion leaders. Support from international partners is also required.

The End Goal

“When health is absent, wisdom cannot reveal itself, art cannot become manifest, strength cannot fight, wealth become useless, and intelligence cannot be applied”

Herophilus, 325 BC

Physician to Alexander the Great

THANK YOU

Contact:

Email:

patriciovmarquez@outlook.com

Twitter: @pvmarquez1956

Website: <http://pvmarquez.com/>
