

## Development of guidelines for implementation of Article 6 (Price and tax measures to reduce the demand for tobacco)

Fourth session of the Conference of the Parties to the WHO Framework Convention on Tobacco Control, 15-20 November 2010, Punta del Este, Uruguay

### Recommendation

**The fourth session of the Conference of the Parties to the WHO Framework Convention on Tobacco Control should decide to establish a working group to elaborate guidelines for the implementation of Article 6.**

### **Background**

In Article 6 of the WHO Framework Convention on Tobacco Control (FCTC) Parties recognise that “price and tax measures are an effective and important means of reducing tobacco consumption by various segments of the population, in particular young persons.”

The Conference of the Parties (COP) decided at its third session (COP-3) to invite WHO’s Tobacco Free Initiative (TFI), through the Convention Secretariat, to develop a comprehensive technical report relating to price and tax policies. TFI’s technical report (document FCTC/COP/4/11) provides a valuable overview of tobacco taxation. It repeatedly highlights the simultaneous health and economic benefits of tobacco taxes, concluding that they are not only a powerful tool to improve health, but “are also a reliable source of government revenues” (paragraph 41).

Building upon this work, the Framework Convention Alliance (FCA) believes the time has come for the COP to establish a working group to elaborate guidelines on Article 6. The elaboration of guidelines will provide an excellent opportunity to discuss experiences and formulate recommendations relevant to Parties across all regions, strengthening Parties’ opportunities to harness the benefits of effective tobacco tax practices.

### **The need for guidelines**

#### *Achieved progress*

The COP has already developed guidelines for most of the measures addressing the reduction of demand for tobacco. Development of guidelines for Article 6, together with the ongoing work on Article 9 and 10, would round out the work on guidelines of Part III of the Treaty, representing yet another outstanding accomplishment for the FCTC and for all Parties.

Similarly, Parties have significantly progressed in their negotiations regarding the Illicit Trade Protocol (ITP). They have repeatedly demonstrated a strong interest in protecting their ability to tax tobacco products. Guidelines for implementation of Article 6 would help Parties use the tax tool even more effectively, both to protect public health and to raise money for budgetary revenues.

#### *Recommendations for effective solutions*

Tobacco taxes are an effective measure in many ways: they have clear health as well as fiscal benefits. Tobacco taxes have enormous potential to encourage quitting amongst tobacco users, prevent young people from starting – and simultaneously generate considerable tax revenue.

Tobacco taxes are supported by health experts, economists, and the public alike. Many studies have been developed over the past years. For instance, an excellent document, the WHO’s *Technical*

*Manual on Tobacco Tax Administration*, was published recently. It is now important to synthesise the findings of these studies and substantially increase the pace of policy implementation.

#### *Cooperation will enhance success*

Guidelines would be developed by the Parties and would allow them to share their experiences and draw their own conclusions. The policy recommendations of a working group, bringing together finance and health ministry officials and a range of experts, would have great weight.

Moreover, the effectiveness of tobacco taxes is greatly improved by regional and international cooperation. The working group would facilitate a global forum where diverse viewpoints could be raised and cooperation secured.

#### **What guidelines on Article 6 might include:**

FCA recommends that guidelines for implementation of Article 6 discuss the following areas, as well as additional needs that Parties may identify during the process of their elaboration.

##### *1. A summary of the scientific evidence on tobacco taxes and their impact*

Tobacco taxes and changes in tobacco tax rates can impact public health and tax revenues, as well as issues such as affordability and equity. Identifying precisely the impacts of tobacco taxes will allow Parties to maximise their potential.

##### *2. A summary of the scientific evidence on tobacco pricing and its health and revenue impact*

Different price structures and the price segmentation of tobacco products – often used to great marketing effect by the tobacco industry, for example via discounting – may negatively affect tax revenues and tobacco consumption. This issue must be better understood and policies should seek to alleviate this problem.

##### *3. Advantages and disadvantages of various types of tobacco taxes*

There is a range of ways of taxing tobacco products. It is important to discuss the practical advantages and disadvantages of each taxation model, such that individual Parties will implement the taxation schemes which fit best with existing institutions and overall development strategies.

Similarly, relevant methods of taxation for different types of tobacco products should be discussed.

##### *4. Principles for determining the most effective tobacco tax levels*

To secure the effectiveness of tobacco taxes, it is important to develop recommendations to ensure that taxation levels do not decrease over time. These recommendations should ensure that constant tax revenues are collected and/or that tobacco products become progressively less affordable.

##### *5. Recommendations to effectively tackle illicit trade while generating high tobacco tax revenues*

Reflecting frequently expressed concerns, it is important to look at the evidence of the link between illicit trade in tobacco products and taxation, and whether tax structures and collection systems can be adjusted to better control smuggling of tobacco products.

##### *6. Recommendations for further research*

Much of the information we now have on tobacco taxation comes from high-income countries. More research, particularly in developing countries and countries with economies in transition, is needed. The objectives of such research projects should be specified in order to reflect the needs of Parties and the objective of the Convention.

##### *7. Reporting objectives*

Monitoring progress in implementation of the FCTC is crucial to the achievement of its objective. The working group could play a useful role in clarifying which information regarding tobacco taxes and prices is the most relevant in providing a clear snapshot of progress in the implementation of Article 6.