

**Guidelines for FCTC Article 6 (Price and tax measures to reduce the demand for tobacco) – *Why Health Ministries should support them*****Fourth session of the Conference of the Parties to the WHO Framework Convention on Tobacco Control, 15-20 November 2010, Punta del Este, Uruguay****Introduction**

Good tobacco tax policies have enormous potential to encourage quitting amongst tobacco users, prevent young people from starting – and simultaneously generate considerable tax revenue. Of all the available tobacco control measures, taxation may well be the single most effective method of quickly reducing tobacco consumption.

Taxation may seem like a straightforward issue: you increase tobacco taxes to decrease consumption and reduce the death toll. But there are wide variations between countries, not just in tax rates but also in tax structures and tax collection systems. These affect both health and revenue outcomes. Countries have a great deal to learn from each other's experience in this area.

The Framework Convention Alliance (FCA) believes the time has come to set up a working group of the Conference of the Parties of the Framework Convention on Tobacco Control (FCTC) to develop guidelines on Article 6. These would complement substantially the proposed Illicit Trade Protocol (ITP), whose primary purpose is to increase the effectiveness of tobacco taxation.

**How much impact can tobacco tax increases have?**

There are huge variations in tobacco prices and tax rates around the globe. According to data collected by the World Health Organization in 2008, the price of a pack of 20 cigarettes ranges from a few cents to over \$US10 (in Ireland and Norway), i.e. roughly 100 times more.<sup>1</sup> In part, this simply reflects differences in the general cost of living and in incomes: food and shelter are also vastly more expensive in Norway than, say, most of Africa or Latin America.

Another way to compare countries is to look at tax *incidence* – the proportion of the overall retail price that is tax. By this measure, there is also considerable variation, from below 10% to as high as 90%. While tax incidence tends to be higher in richer countries, some low- and middle-income countries also have a high incidence, and some rich countries a low tax incidence. This suggests that all countries could aim for a relatively high tax incidence of at least 70%. (A long-standing international recommendation is 67-80%.<sup>2</sup>)

The results countries can achieve would be startling – *millions* of deaths from tobacco could be prevented through a well-conceived round of tax increases. In 2000, it was estimated that a 10% increase in average global price would prevent *10 million deaths* (90% of them in developing countries).<sup>3</sup>

1 See WHO Report on the Global Tobacco Epidemic, 2009, Appendix IV.

2 Cf. World Bank, *Curbing the Epidemic: Governments and the Economics of Tobacco Control*, 1999.

3 Ranson K et al, "The effectiveness and cost-effectiveness of price increases and other tobacco-control policies", in Jha P and Chaloupka F, *Tobacco Control in Developing Countries*, 2000.

More recently, national studies commissioned by the Bloomberg Initiative to Reduce Tobacco Use show equally spectacular results:

- In China, an increase that pushes tax incidence on cigarettes to 68% could save as many as *13.7 million lives*
- A similar tax increase in the Ukraine (increasing incidence to 70%) would avert *1 million* tobacco-caused deaths
- Increasing tax incidence to 75% in Mexico would also avert *1 million* deaths.

Some of the benefits of tax increases are spread out over many years. For example, a large tax increase today will decrease the likelihood that a child who is 10 years old will take up smoking during his or her teenage years. On the other hand, tax increases are one of the few tobacco control measures that cause an almost immediate and measurable drop in tobacco consumption and in prevalence rates. They reach virtually *all* users and potential users at the same time.

Tax increases have another advantage: they have a particularly strong impact on two important segments of the population: young people (who are generally less addicted to tobacco than adult users) and the poor (who are more likely to quit in the face of a price increase). This makes increases a good complement to many education measures, which are more likely to change the behaviour of older, more educated and richer tobacco users.<sup>4</sup>

#### **How much extra money could tobacco tax increases generate for governments?**

Tax increases that brought tax incidence up to 70% would generate *tens of billions of dollars per year* for cash-strapped governments around the world. Some examples:

- A modest increase of \$0.11 per pack in Vietnam would generate \$268 million per year. If tax incidence there went to just 61.5%, revenue would go up by at least \$650 million per year.
- In Russia, a tax increase that brought incidence up to 70% would be worth \$6 billion per year in extra revenue.
- In China, boosting tax incidence to 68% would be worth at least \$16 billion per year – more than the entire gross domestic product of at least 80 countries<sup>5</sup>

#### **Why haven't more governments increased tobacco taxes already?**

The tobacco industry has a very strong interest in preventing tobacco tax increases, because it knows that taxes cut directly into industry sales. The industry has been successful at propagating a series of myths about tobacco taxation. For example, it claims tobacco tax increases will actually cause tax revenues to decline – which, in fact, virtually never occurs. Or the industry portrays tobacco taxes as an unfair tax on the poor – although studies show that the poor benefit most from tobacco tax increases (both in terms of health and financially, due to higher quit rates among the poor than among richer tobacco users.) The industry also claims tobacco use is a “personal choice” for which consumers should not be punished. (Most users are addicted and wish they could quit.)

Another reason why tobacco taxes are not higher is that, within finance ministries, tobacco is sometimes seen as just one of many consumer products to be taxed, and there are many reasons why governments don't wish to increase consumption taxes too much. Hence, there is a need for increased knowledge among officials of the highly addictive nature of tobacco

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4 WHO Technical Manual on Tobacco Tax Administration, 2010, p. 82.

5 Based on IMF nominal GDP statistics for 2009.

(which makes users less price-sensitive) and its devastating impact on both health and economic well-being.

### **How could Art. 6 guidelines help?**

Tobacco taxes have been studied extensively over the last 30 years, primarily in high-income countries. More recently, there has been some excellent research in low- and middle-income countries demonstrating that tobacco taxes are effective in developed and developing countries alike. This year, WHO has produced an extensive and very helpful Technical Manual on Tobacco Tax Administration, which includes a series of useful policy recommendations; at COP-4 it will also present the technical report requested by COP-3.

Art. 6 guidelines could build on all this excellent work and substantially increase the pace of policy implementation. Guidelines would be developed by the Parties themselves and 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.

There are a number of issues about evidence, about the impact of tobacco taxes, about tax structures and collection systems on which authoritative guidance could be very helpful to governments.

By embarking on negotiations for an Illicit Trade Protocol, Parties have already demonstrated a strong interest in protecting their ability to tax tobacco products. Guidelines would help them use the tax tool even more effectively, both to protect public health and to raise money for public purposes.