

# **The guidelines on Article 6 of the WHO Framework Convention on Tobacco Control**

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**Francis Thompson  
Director of Policy  
and Advocacy**

# What does the FCTC say about tobacco taxes?

## Article 6

1. The Parties recognize 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.
2. Without prejudice to the sovereign right of the Parties to determine and establish their taxation policies, each Party should take account of its national health objectives concerning tobacco control and adopt or maintain, as appropriate, measures which may include:  
(*cont.*)



## What does the FCTC say about tobacco taxes? (2)

*(cont.)*

- (a) implementing tax policies and, where appropriate, price policies, on tobacco products so as to contribute to the health objectives aimed at reducing tobacco consumption; and
- (b) prohibiting or restricting, as appropriate, sales to and/or importations by international travellers of tax- and duty-free tobacco products.

## What are FCTC guidelines?

- *Guidelines* are guides to implementing specific articles of the FCTC.
- They are negotiated by Parties and *unanimously adopted* by the FCTC Conference of the Parties.
- In the case of Article 6, a working group to negotiate guidelines was set up by COP4 (2010), with equal participation of Health and Finance ministries.
- Final guidelines adopted in October 2014, at COP6 (Moscow).

## The guidelines say: tobacco taxes work for health...

- “Effective taxes on tobacco products that lead to higher real consumer prices (inflation-adjusted) are desirable because they lower consumption and prevalence, and thereby in turn reduce mortality and morbidity and improve the health of the population. Increasing tobacco taxes is particularly important for protecting young people from initiating or continuing tobacco consumption.”  
-- Para.1.2 of Guidelines

## ...and they work for revenue

- “Effective tobacco taxes contribute significantly to State budgets. Increasing tobacco taxes generally further increases government revenues, as the increase in tax normally outweighs the decline in consumption of tobacco products.”

-- Para.1.3 of Guidelines



# Affordability matters

- Some governments assume that if they raise tobacco taxes every few years, they are doing all they need to do.
- But the key issue is whether tobacco products are becoming *more* or *less* affordable.
- Particularly in countries with rapid economic growth, it is not enough to keep up with inflation – tobacco prices have to also keep up with rising incomes.
- Recommendation: “...Parties should take into account...inflation and changes in household income, to make tobacco products less affordable over time... Therefore, Parties should consider having regular adjustment processes or procedures for periodic reevaluation of tobacco tax levels.”

-- Section 2.2

# Tax structures

- A key issue in drafting the guidelines was *tax structure* – the relative merits of *specific* and *ad valorem* taxes and the issues with tiers.
  - *Ad valorem* taxes are percentage taxes – e.g. 25% of wholesale price, 33% of recommended retail price, 50% of actual retail price etc.
  - *Specific* taxes are fixed amounts per quantity of product, e.g. \$1 per pack of 20 cigarettes
  - *Tiered systems* have different tax rates for different categories of products, (e.g., lower rates for unfiltered vs filtered cigarettes)

# What do the guidelines recommend on ad valorem v. specific?

“Parties should consider implementing specific or mixed excise systems with a minimum specific tax floor, as these systems have considerable advantages over purely ad valorem systems.”

*-- Recommendation at end of Section 3.1*

Translated:

- If you already have a specific system, that's great.
- If you can move to a specific system, that's also great.
- If you have a purely ad valorem system, at least try to add a specific tax to it.

## What the guidelines say about tiers

- “Generally, more complex tax systems, particularly tiered systems and those with exemptions, are more difficult to administer, and tax exemptions in particular, may diminish the effectiveness of tax policies on public health outcomes.”

*-- Para. 3.1*

- “Parties should implement the simplest and most efficient system that meets their public health and fiscal needs...”

*-- Recommendation, section 3.1.*

## What about tax levels?

No numerical targets – but a key recommendation (at the end of section 3.2):

***Parties should establish coherent long-term policies on their tobacco taxation structure and monitor it on a regular basis including targets for their tax rates, in order to achieve their public health and fiscal objectives within a certain period of time.***

## Recommendation 3.2 (cont.)

***Tax rates should be monitored, increased or adjusted on a regular basis, potentially annually, taking into account inflation and income growth developments in order to reduce consumption of tobacco products.***

## Why is this recommendation so important?

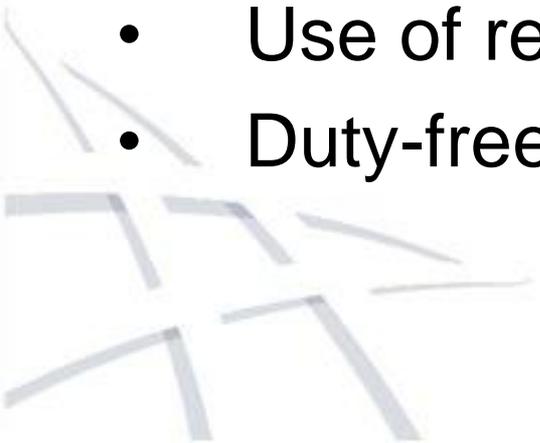
- If implemented, it moves Parties from short-term goals (more revenue for next year's budget, quick reduction in tobacco sales) to a longer-term approach = continuous improvement.
- Parties should make both health and fiscal objectives clear – for example: “halve youth smoking and triple tobacco tax revenue by 2020.”

## Why is this recommendation so important? (2)

- It emphasizes that tobacco tax policy will require regular increases, even after taxes have reached a high level – at least keep up with inflation + income growth.



## Other issues

- Similar tax rates on other types of products (e.g. roll-your-own cigarettes)
  - Tax administration:
    - Need for licensing system
    - Anti-forestalling measures
    - Tax stamps/fiscal markings
  - Use of revenues
  - Duty-free sales
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## Further information

- Text of the guidelines:  
<http://tinyurl.com/p85dbow>
- WHO manual:  
[http://www.who.int/tobacco/publications/tax\\_administration/en/](http://www.who.int/tobacco/publications/tax_administration/en/)
- IARC handbook: <http://tinyurl.com/n9mrcfa> .

E-mail: [thompsonf@fctc.org](mailto:thompsonf@fctc.org)