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ON TOBACCO CONTROL

SECRETARIAT • KNOWLEDGE HUB



Research Unit on the Economics
of Excisable Products



GLOBAL TRENDS IN TOBACCO TAXATION

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Sam Filby

Knowledge Hub on tobacco taxation and illicit trade
Webinar

30 June 2020



Why are tobacco taxes important?



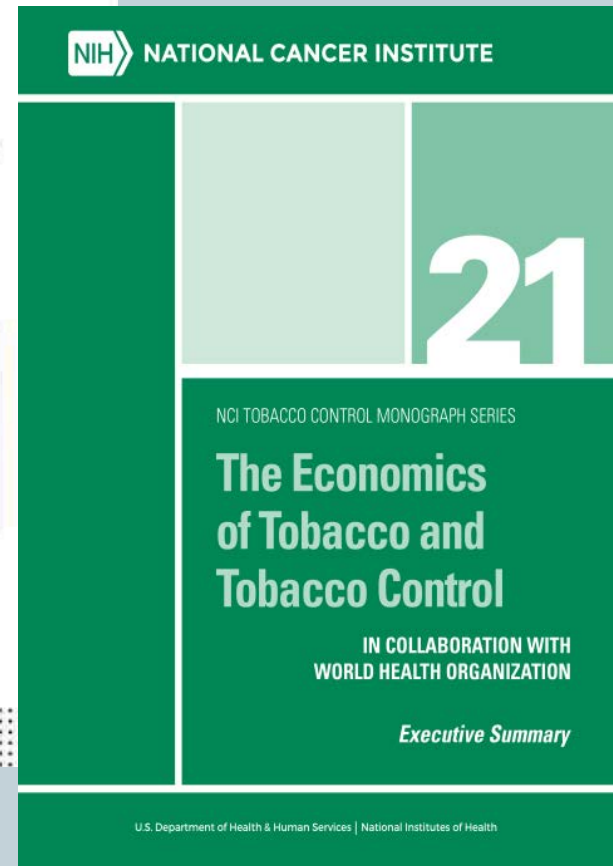
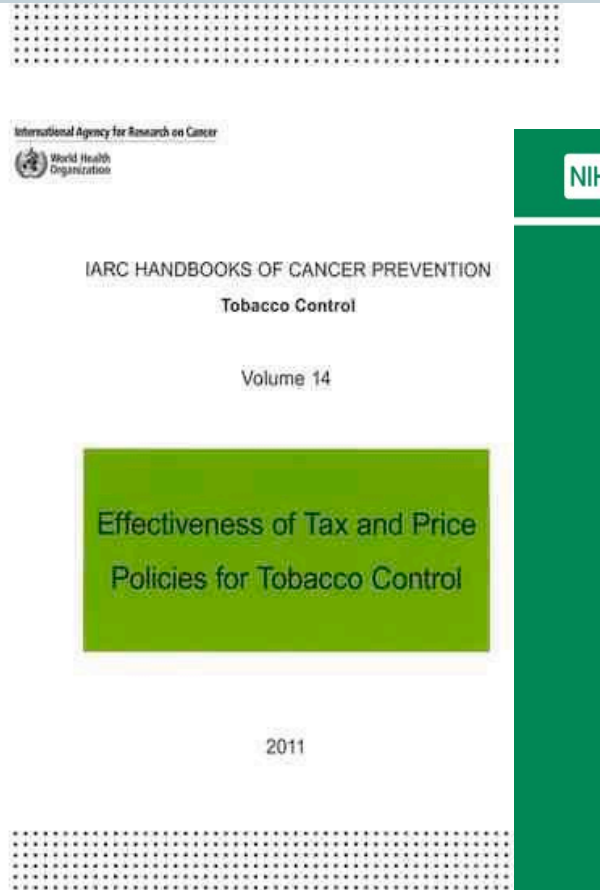
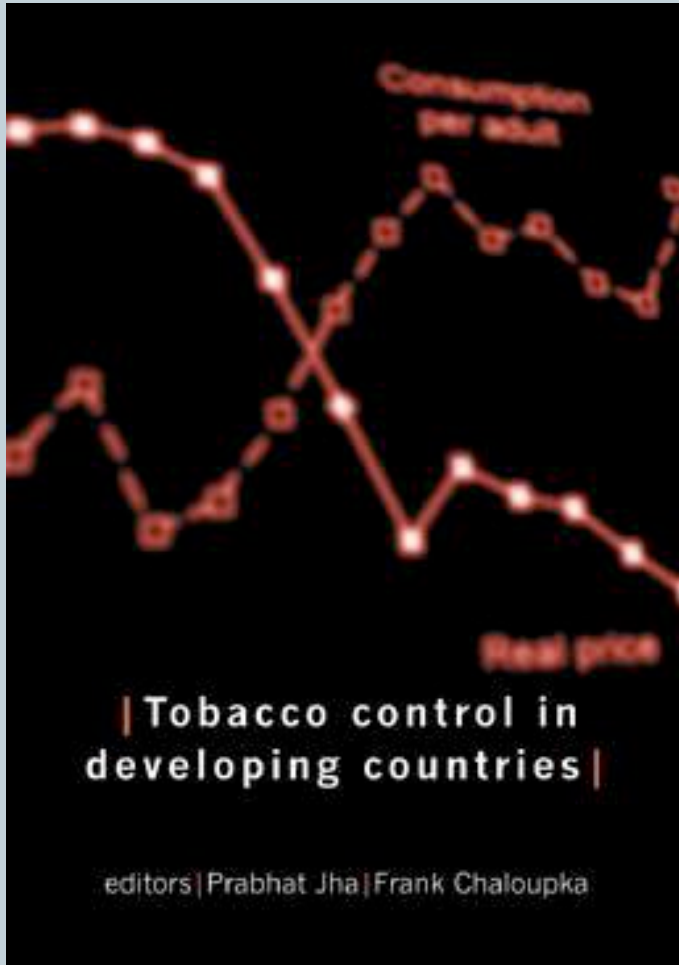
- Of all tobacco control interventions, tobacco tax increases are the most effective and cost-effective intervention to reduce tobacco consumption
- The economic rationale is the law of demand
- Increases in tobacco taxes increase the price of tobacco products
- Price increases lead people to reduce tobacco consumption:
 - Smokers quit
 - Non-smokers do not initiate smoking
 - Quitters are more likely to remain quit
 - Smokers smoke fewer cigarettes



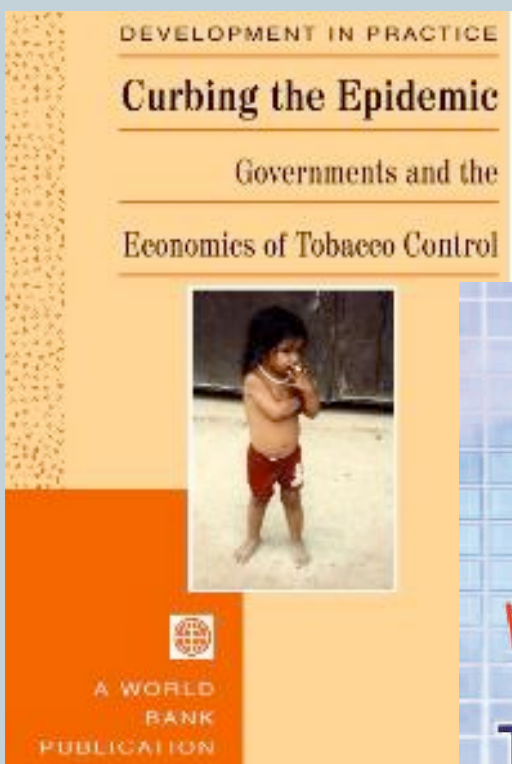
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The scientific evidence has been recorded over and over



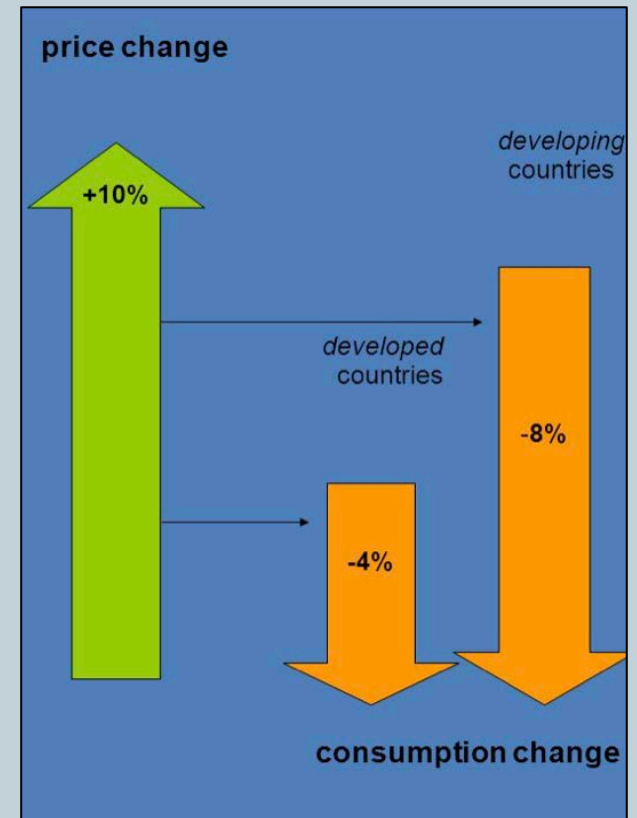
This has resulted in a
number of influential
policy documents



- The crucial concept is the **price elasticity of demand**

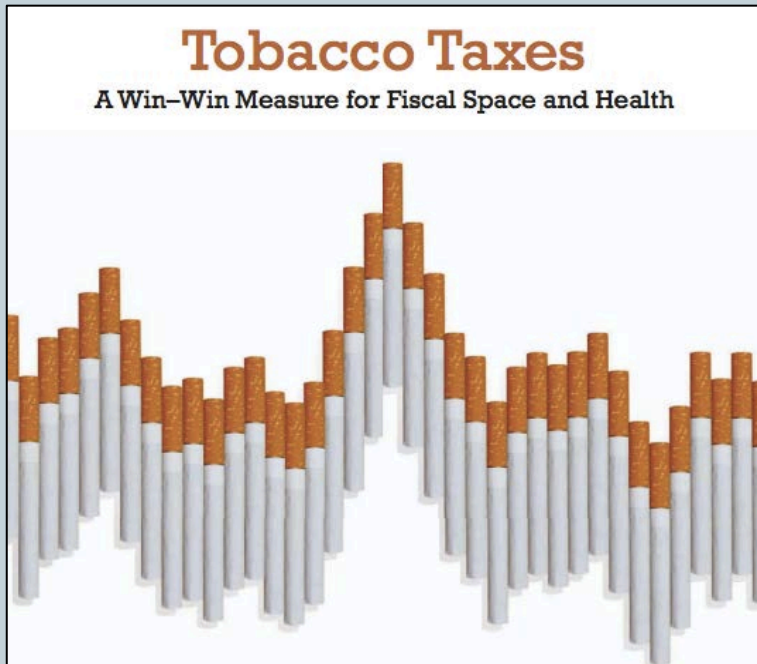
Price elasticity = the percentage change in consumption in response to a 1% change in the price of the product

- For most countries the price elasticity of demand for tobacco is between -0.4 and -0.8
- The poor and young are typically more price sensitive than the rest of the population





The win-win nature of increasing the excise tax



- An increase in the excise tax typically increases the retail price of cigarettes
- Through the law of demand, cigarette consumption decreases
- **This is a win for PUBLIC HEALTH**
- The percentage increase in the excise tax is nearly always more than the percentage decrease in consumption (demand for tobacco is price inelastic)
- Result: an increase in government revenue, despite the decrease in consumption
- **This is a win for the FISCUS**



The design of tobacco taxes is governed by Article 6 of the FCTC



- FCTC Article 6 provides guidelines for implementing effective **excise taxes** on tobacco products
- Excise taxes are *discriminatory* taxes levied on specific products, usually to discourage the use thereof
- VAT (and similar sales taxes) is a broad-based indirect tax aimed at raising revenue for government; it is not an excise tax



Excise taxes:
Taxes levied on specific products,
usually to discourage the use thereof

Specific: charged per quantity, such as per cigarette, pack, or kilogram (e.g., \$1.50 per pack of 20, regardless of price)

Ad valorem: charged as a percentage of the value of the product
Value of the product is measured by the manufacturer's price (e.g., 80% of the manufacturer's price) or by the price paid by consumers (e.g., 70% of pre-tax retail price)

Excise tax **structure** can be purely specific, purely *ad valorem* or mixed (a combination of *ad valorem* and specific)



FCTC recommendations on excise tax structure

“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.”

Translated:

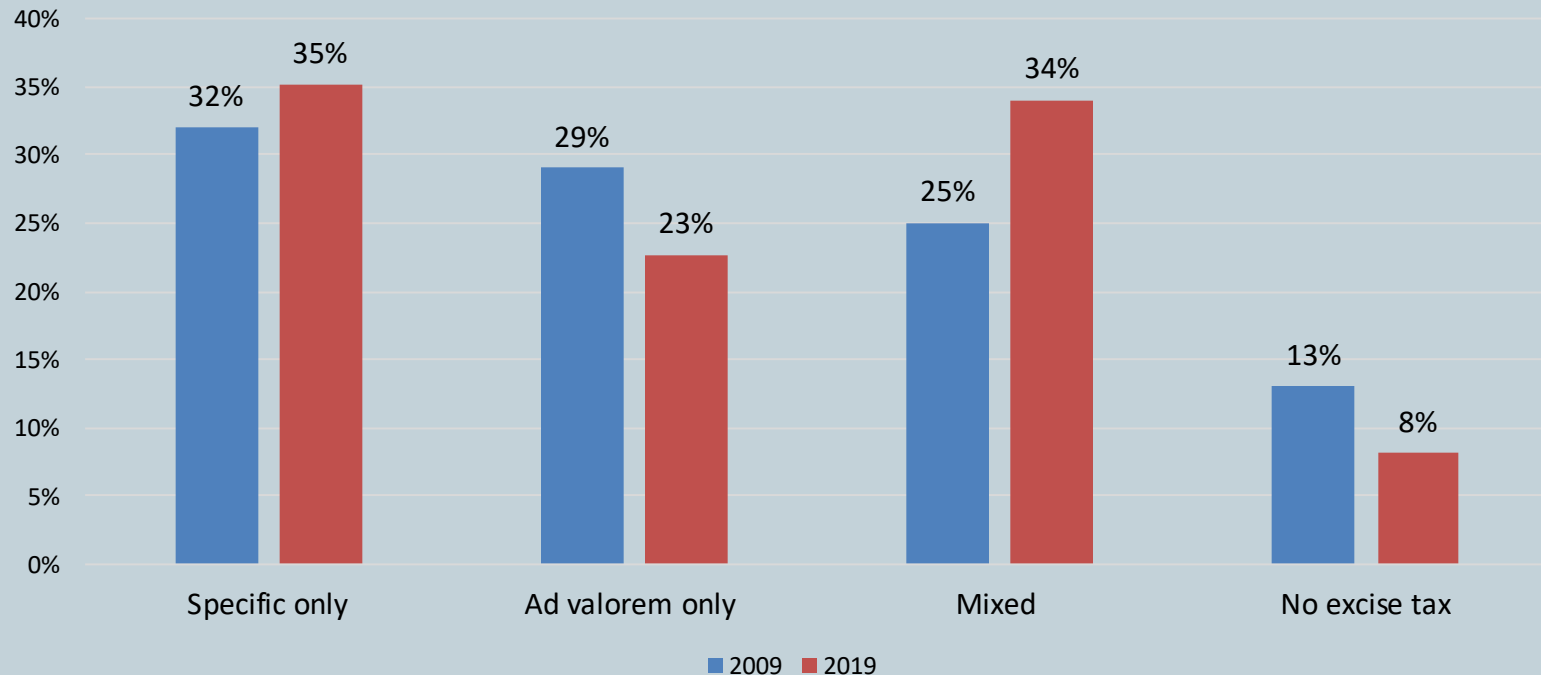
- If you already have a specific system, that’s great
- If you have a purely *ad valorem* system, add a specific element to it
- In a mixed excise tax system, ensure that the specific component is as big as possible

Why are specific taxes more important than ad valorem taxes?

	Specific excise tax	Ad valorem excise tax
Allows for a predictable revenue stream	✓	✗
Easy to determine the amount of the tax	✓	✗
Raises all product prices	✓	✗
Easy to administer	✓	✗
Keeps pace with inflation	✗	✓

Types of tax structures at the global-level

Global: Changes in tobacco excise tax structures, 2009 vs 2019



- Over the past decade, there has been a move away from ad valorem excise tax systems to specific and mixed excise tax systems

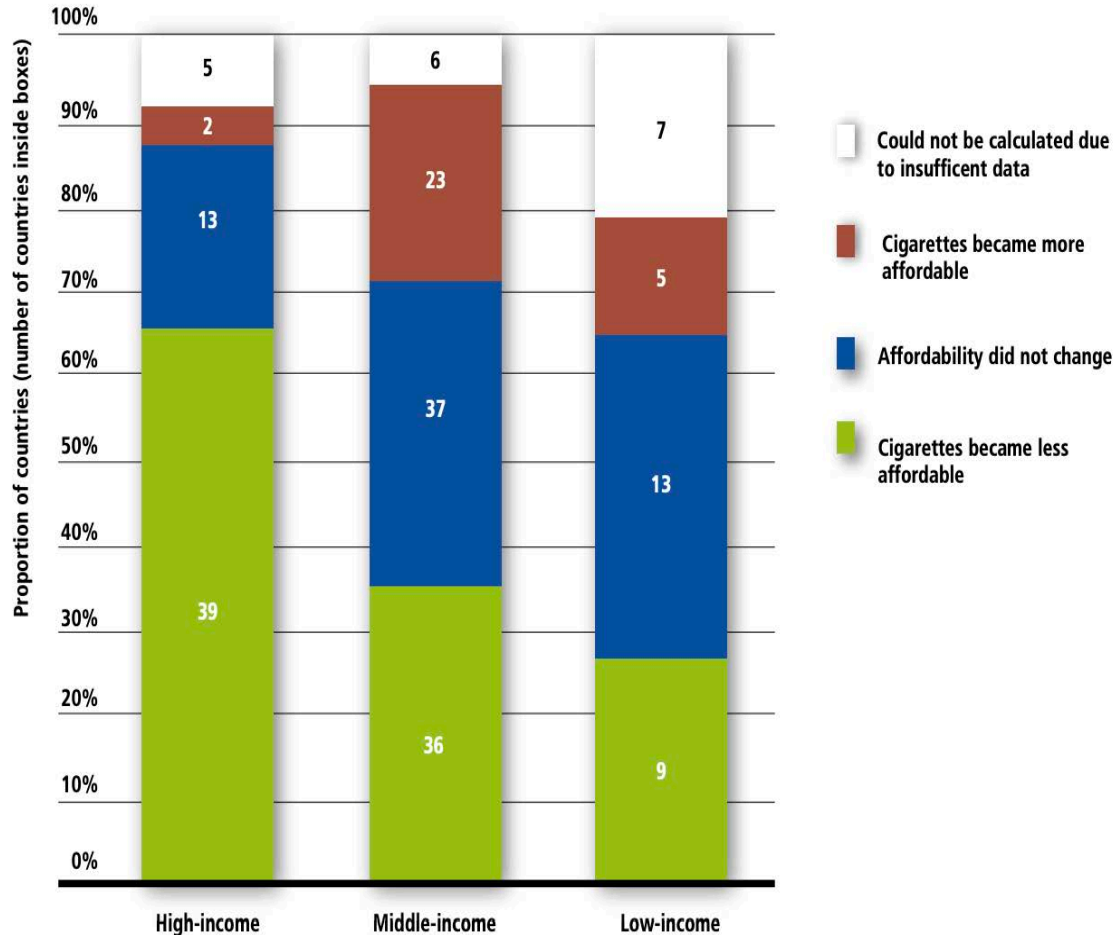


FCTC recommendations on excise tax rate

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

- Affordability refers to the ability of an individual to purchase a product.
- This is influenced by the price of the product and the individual's income.
- Tobacco products become more affordable if price increases do not keep pace with increases in per capita income and consumer purchasing power over time.
- The FCTC recommends that the price of cigarettes should increase by *at least* the sum of the inflation rate and the per capita income growth rate.

Changes in global cigarette affordability (2008-2018)



- Cigarettes have become less affordable in 84 countries between 2008 and 2018, of which 39 are high-income countries
- Cigarettes have become more affordable in 30 countries, 28 of which are developing countries.
- Cigarette affordability did not change in 63 countries, 50 of which are developing countries.
- Pay more attention to affordability in developing countries



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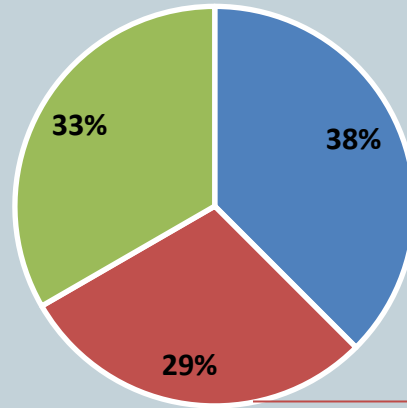
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FCTC 2030 countries: Implementation status in relation to the FCTC Article 6 guidelines

Type of excise tax structure amongst the FCTC 2030 countries, 2018 ($n = 24$)

Only half of the countries that have a mixed system follow the FCTC's recommendation of greater reliance on specific component



■ Specific only (38%) ■ Ad valorem only (29%) ■ Mixed (33%)

Ad valorem only:

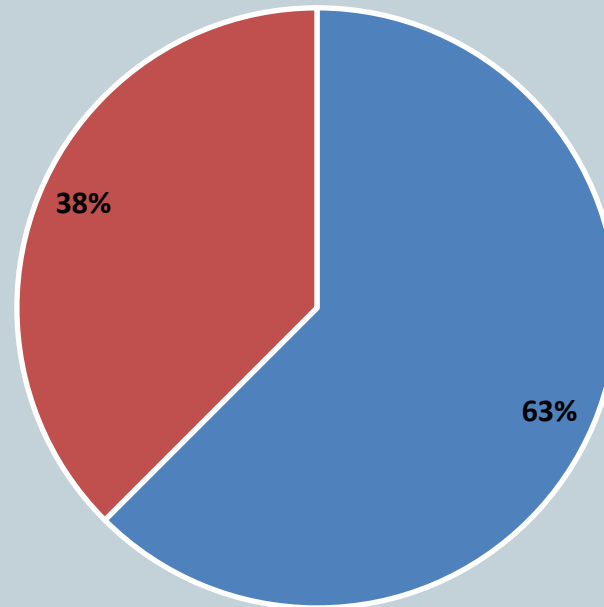
- Armenia*
- Cabo Verde*
- Cambodia
- Chad
- Madagascar*
- Sierra Leone
- Zambia

- Although most FCTC 2030 countries have either specific or mixed excise tax systems, only 4 FCTC 2030 countries follow the FCTC's recommendation of automatically adjusting the specific component for at least inflation

Uniform vs tiered excise tax structure amongst FCTC 2030 countries (n = 24)

FCTC 2030 Countries with tiered structures:

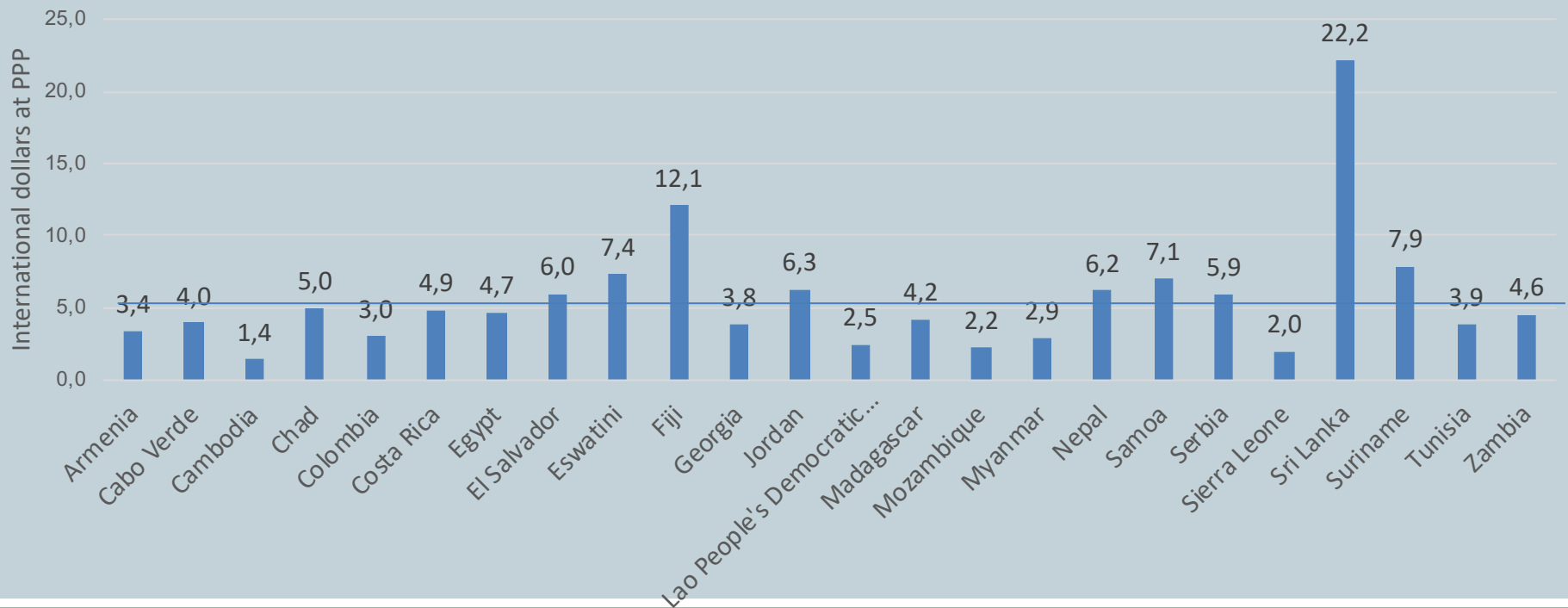
1. Egypt
2. Fiji
3. Georgia
4. Jordan
5. Lao PDR
6. Mozambique
7. Myanmar
8. Nepal
9. Sri Lanka



■ Uniform ■ Tiered

- The median price in the FCTC 2030 countries is \$4.60 PPP (the global average is \$ 5.53 PPP and the price is 7.80 PPP \$ in high-income countries)

FCTC 2030: Price of a 20 pack of the most sold brand of cigarettes (International dollars at PPP)



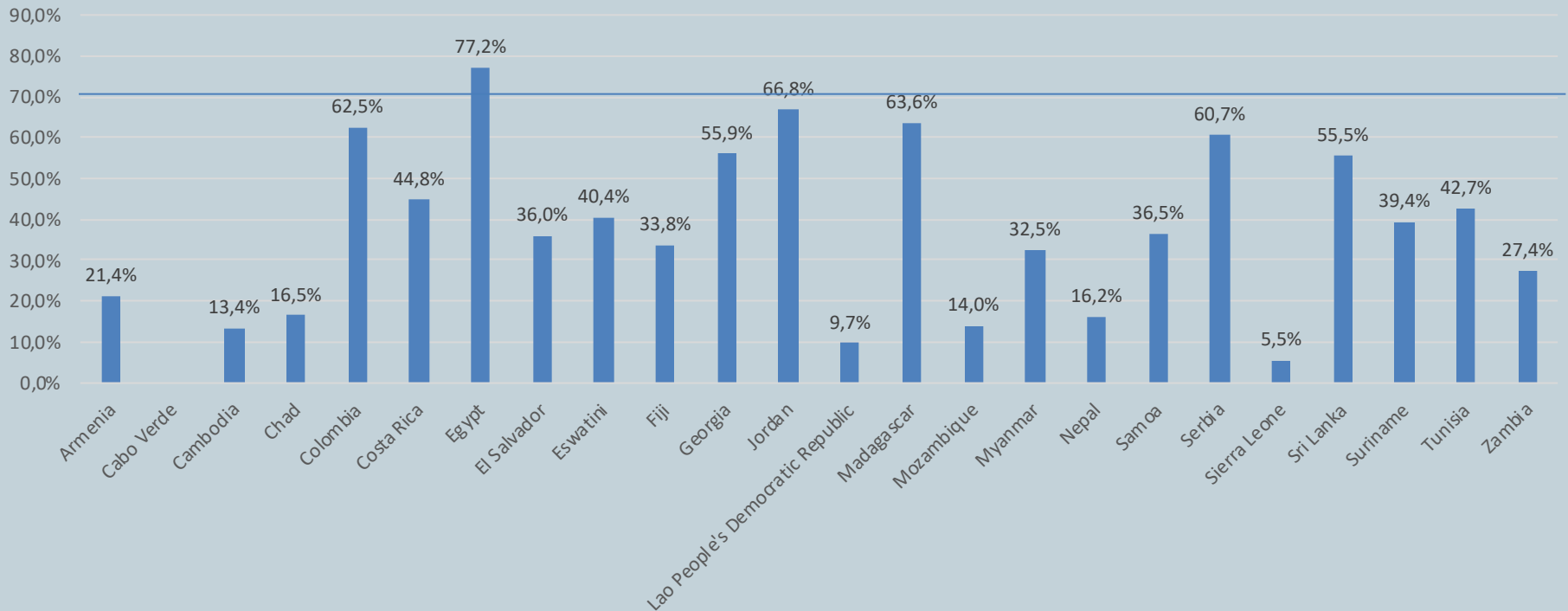


FCTC 2030 countries: Cigarette excise tax burden



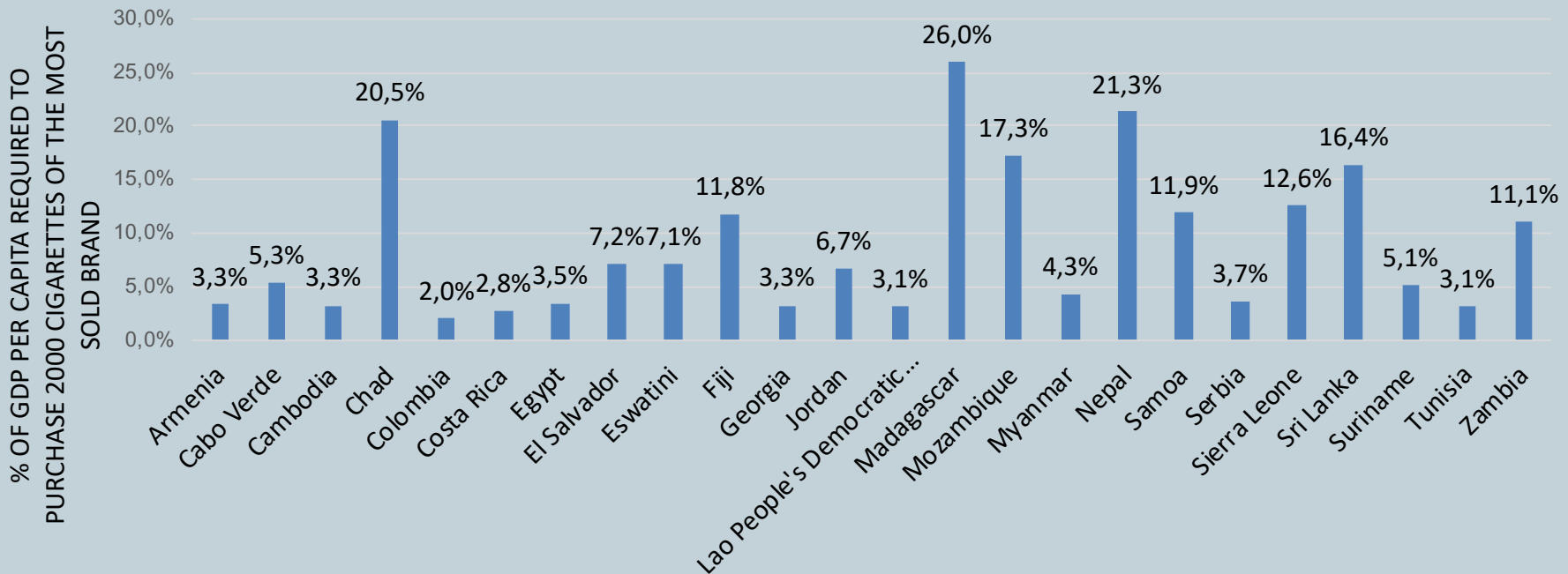
- The average excise tax burden amongst FCTC 2030 countries is 37.9%.
- Excise tax burden is highest in Egypt (77%) and lowest in Sierra Leone (5.5%)

FCTC 2030: Excise tax as a % of price, 2018



- Despite having the highest excise tax burden of 77%, Egypt has amongst the most affordable cigarettes of the FCTC 2030 countries.
- This highlights the importance of benchmarking tobacco taxes to decrease affordability over time

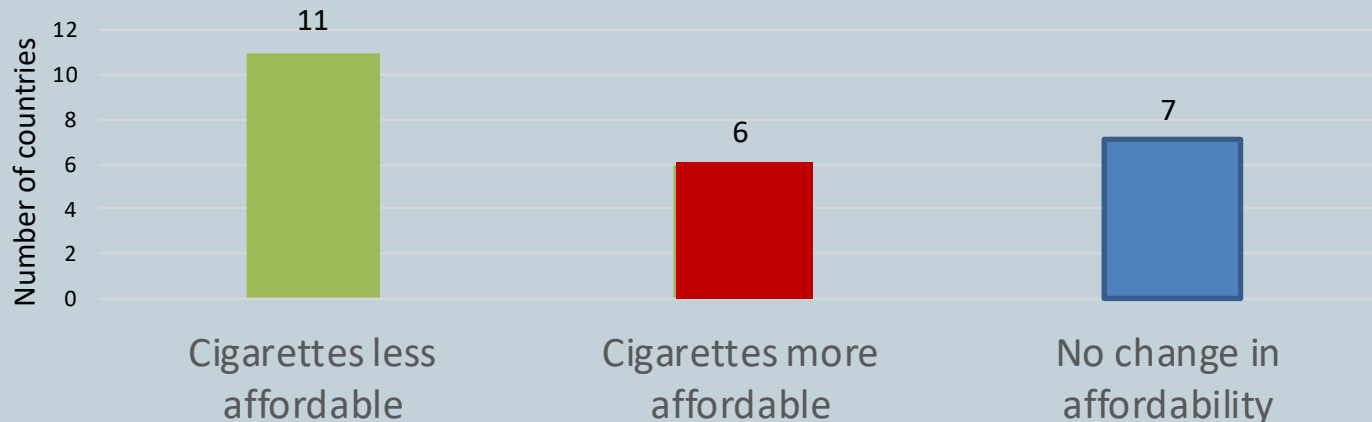
FCTC 2030: Comparing cigarette affordability, 2018



FCTC 2030 countries: trends in cigarette affordability

- Excise tax increases have not been larger than income growth in slightly more than half of FCTC 2030 countries (13/24)

FCTC 2030: Trends in cigarette affordability 2008 vs 2018



- | | |
|---------------|---------------|
| 1. Chad | 7. Mozambique |
| 2. Costa Rica | 8. Samoa |
| 3. Egypt | 9. Serbia |
| 4. Fiji | 10. Sri Lanka |
| 5. Jordan | 11. Suriname |
| 6. Madagascar | |

- | |
|------------|
| Armenia |
| Cabo Verde |
| Cambodia |
| Eswatini |
| Lao PDR |
| Myanmar |

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|--------------|
| Colombia |
| El Salvador |
| Georgia |
| Nepal |
| Sierra Leone |
| Tunisia |
| Zambia |



FCTC 2030 countries: How we can support



- Whether it is (1) cleaning up the excise tax structure, (2) increasing the excise tax rate, and (3) ensuring that tobacco products become less affordable over time ... each FCTC 2030 country has some work to do
- The MoF typically wants to know the impact of a tax change on revenue
- The WHO FCTC Knowledge Hub on tobacco taxation and illicit trade supports Parties in creating this evidence through:
 - Providing workshops to government officials on the economics of tobacco taxation
 - Providing technical assistance to develop and calibrate a country-specific model to assess the impacts of increased tobacco taxes and improved tax structure
 - Facilitating knowledge dissemination of information relevant to Article 6 and Article 15 of the FCTC through our online portal



Thank you



Please contact us if you have further questions, or if you would like to enquire about receiving technical assistance

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