

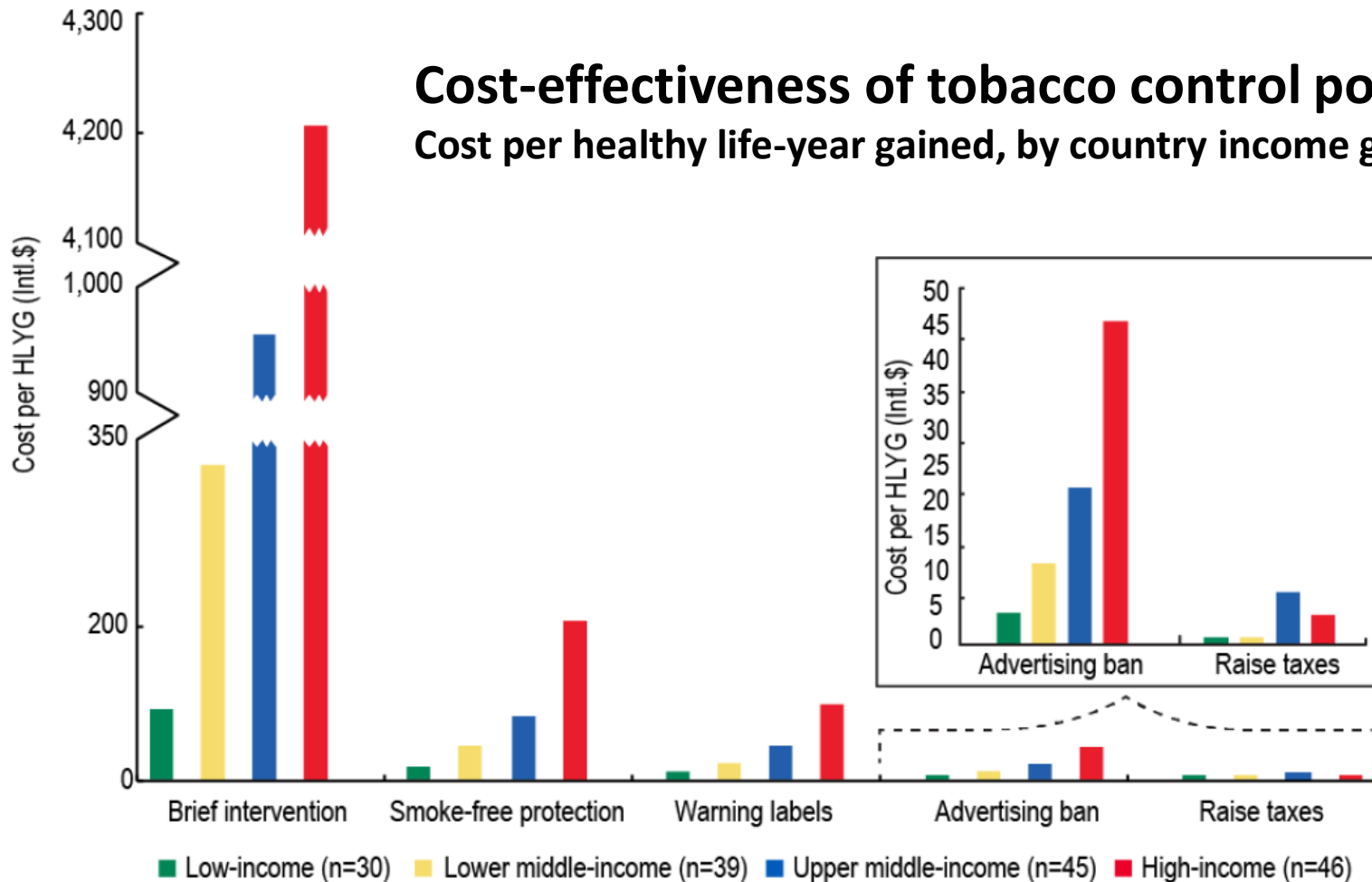
# The Global State of Economic Research on Tobacco Taxation

Jeffrey Drope, Vice President, Economic & Health Policy Research, American Cancer Society

Michal Stoklosa, Senior Economist, Taxation & Health, American Cancer Society



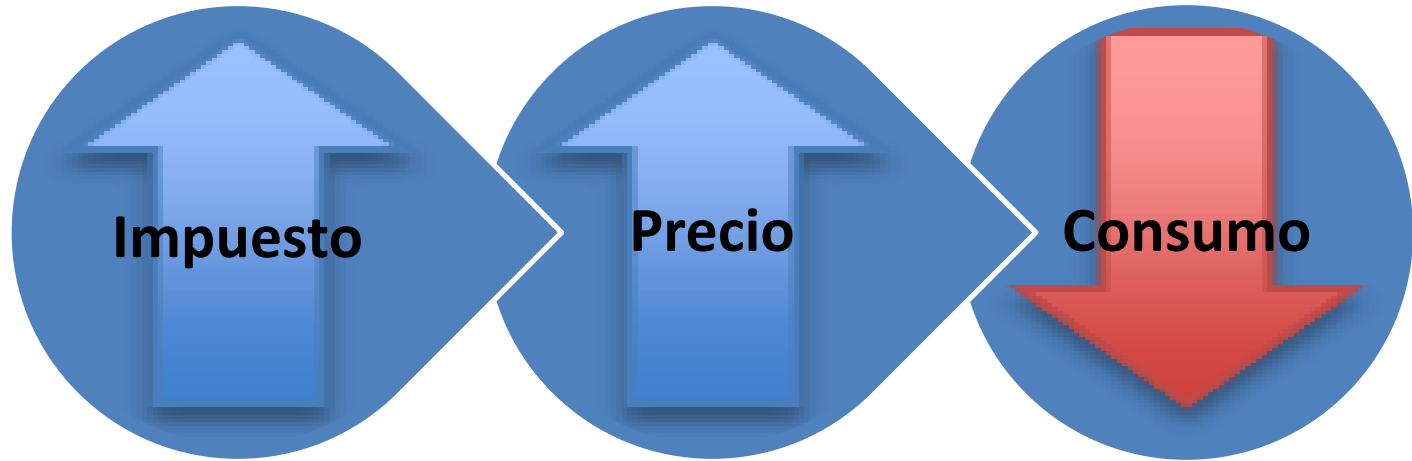
# Cost-effectiveness of tobacco control policies: Cost per healthy life-year gained, by country income group



Notes: HLYG = healthy life-year gained. Country income group classification based on World Bank Analytical Classifications for 2014.

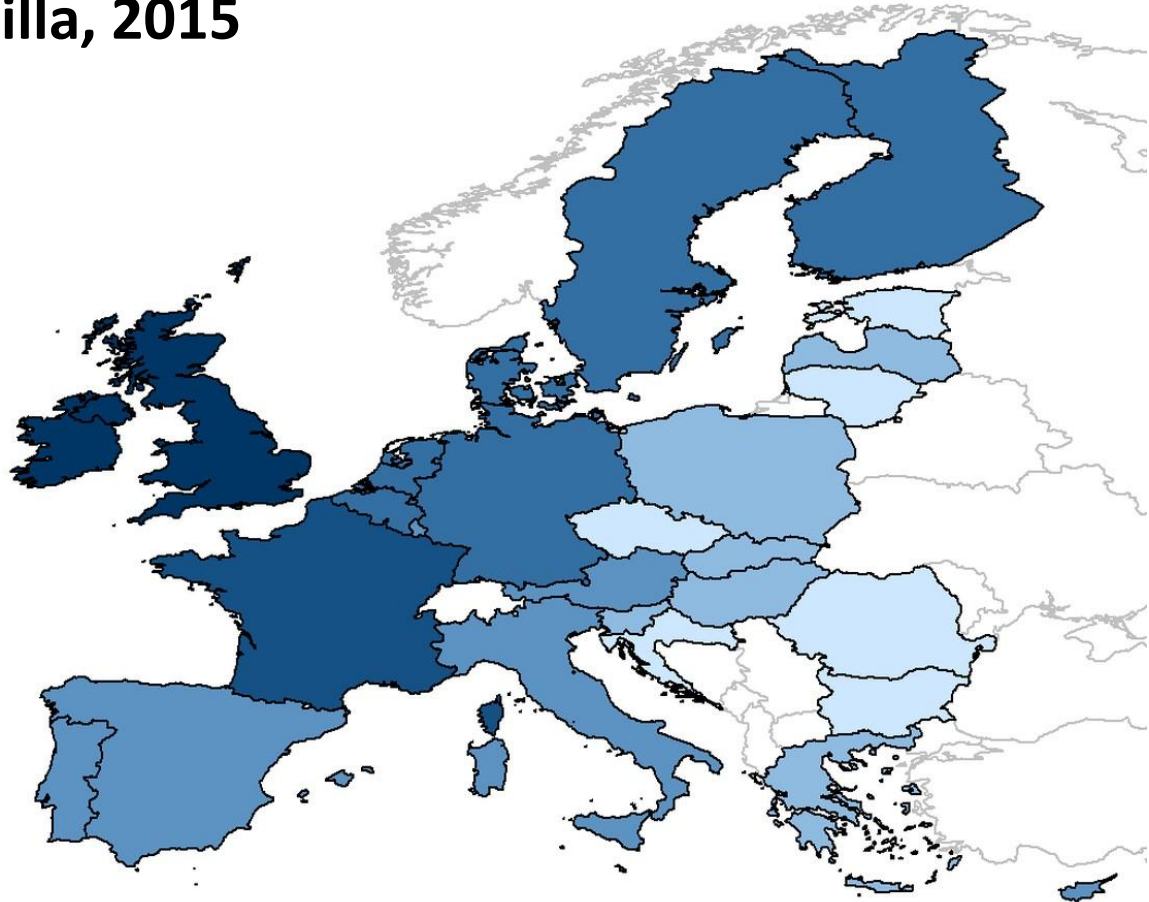
Source: Based on calculations from World Health Organization CHOICE model, 2016.

# Impuestos

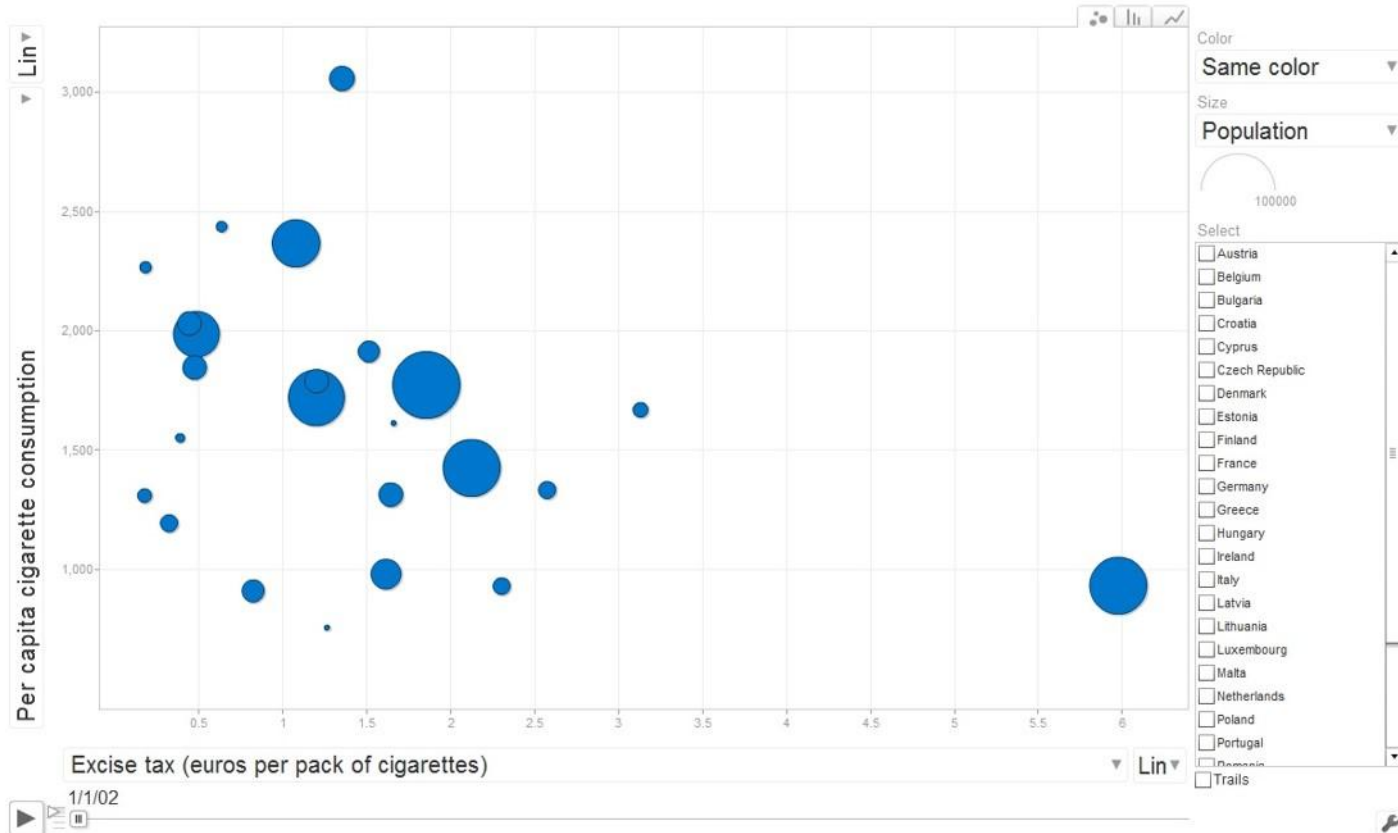


Más efectivos cuando se implementan como parte de un programa para el control del tabaco integral

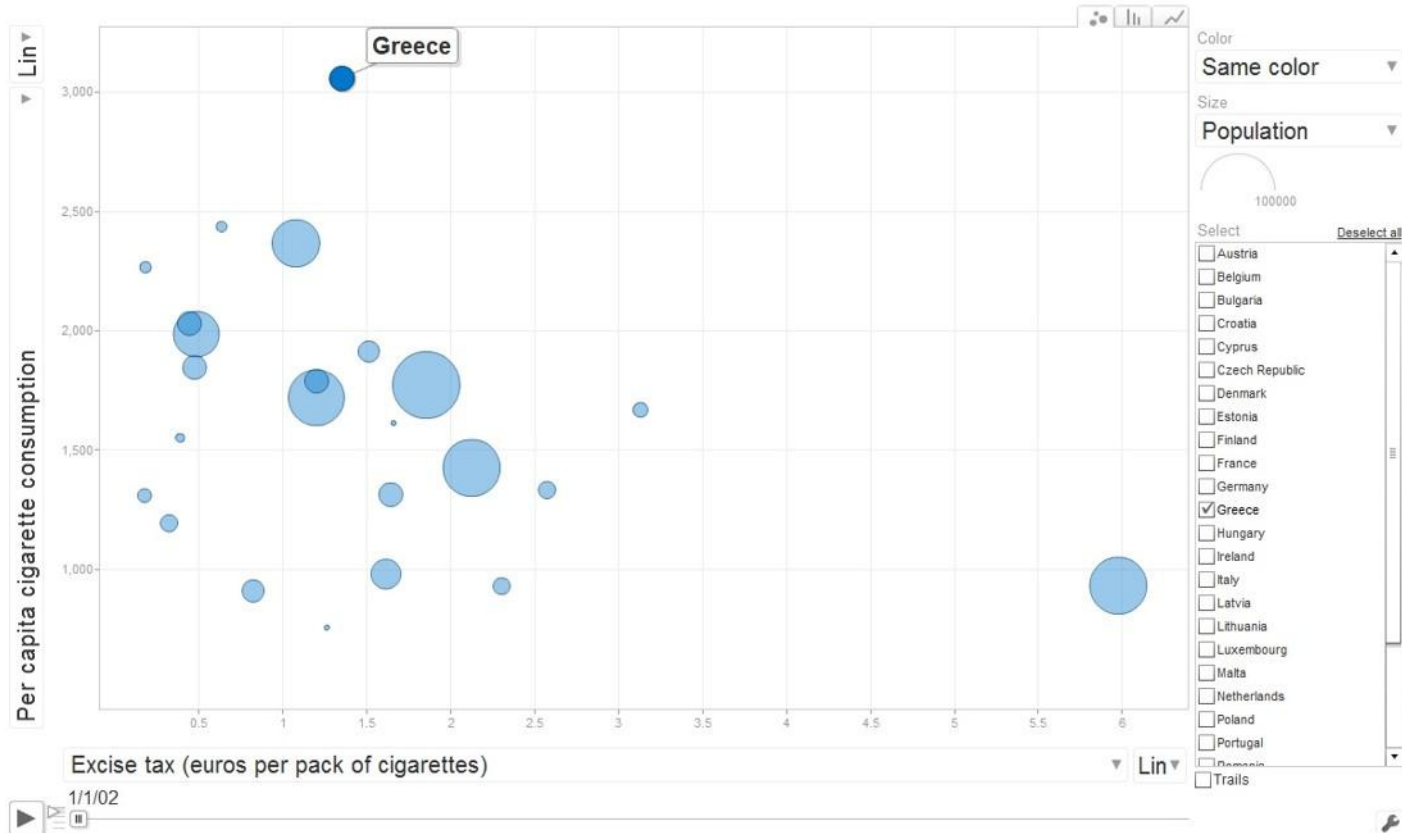
# Precio promedio de los cigarrillos en la Unión Europea, euros por cajetilla, 2015



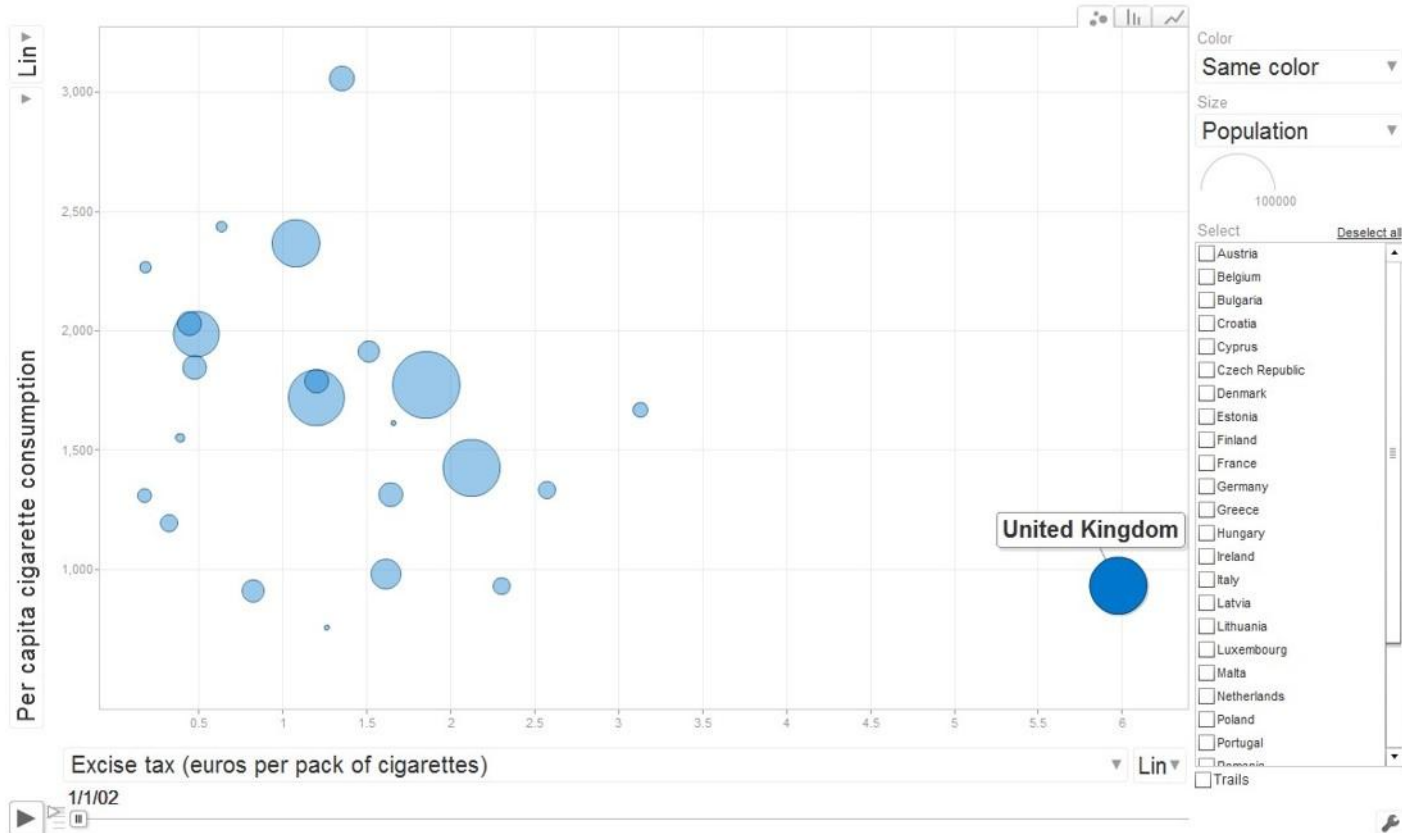
# Impuestos y consumo de cigarrillos en la Unión Europea



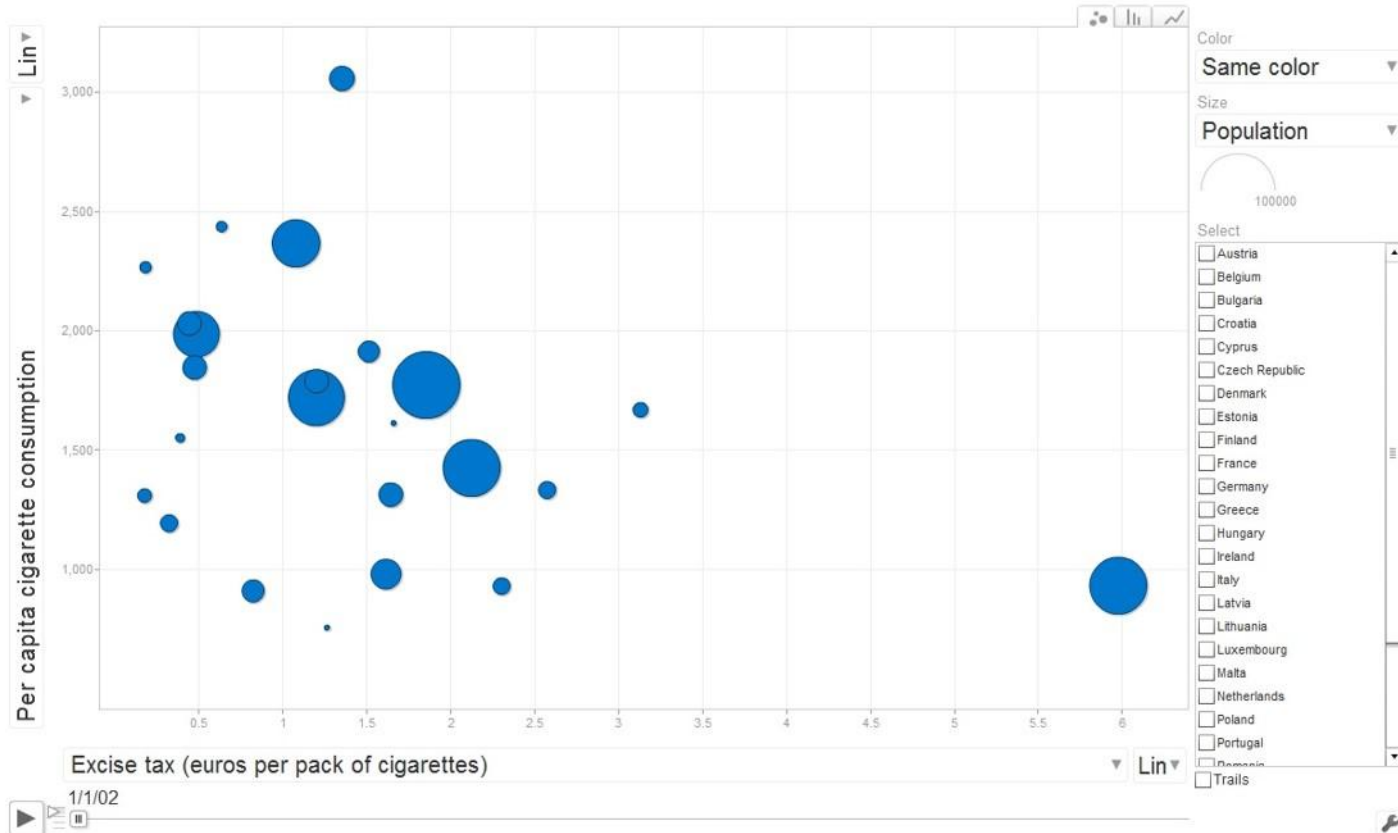
# Impuestos y consumo de cigarros en la Unión Europea



# Impuestos y consumo de cigarros en la Unión Europea

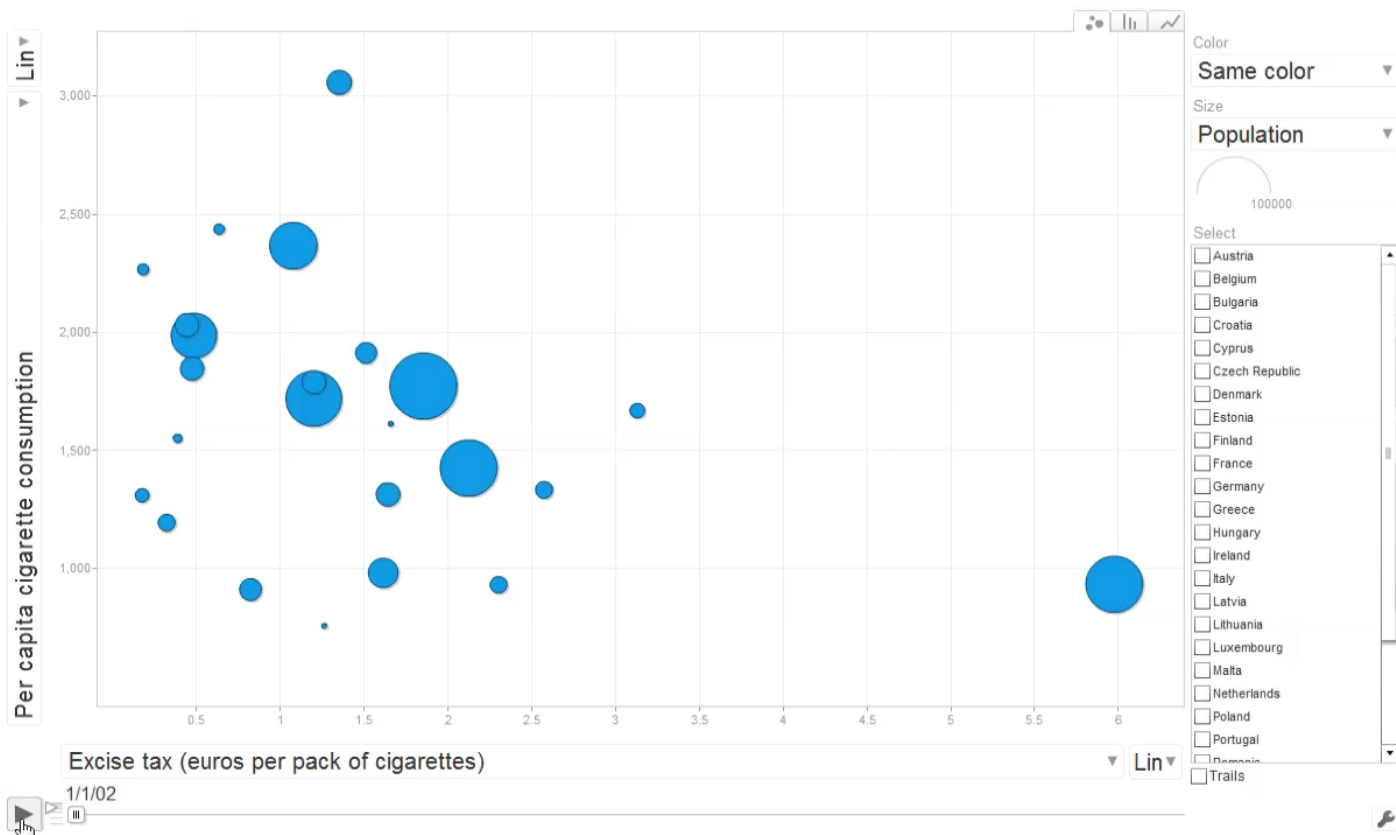


# Impuestos y consumo de cigarros en la Unión Europea

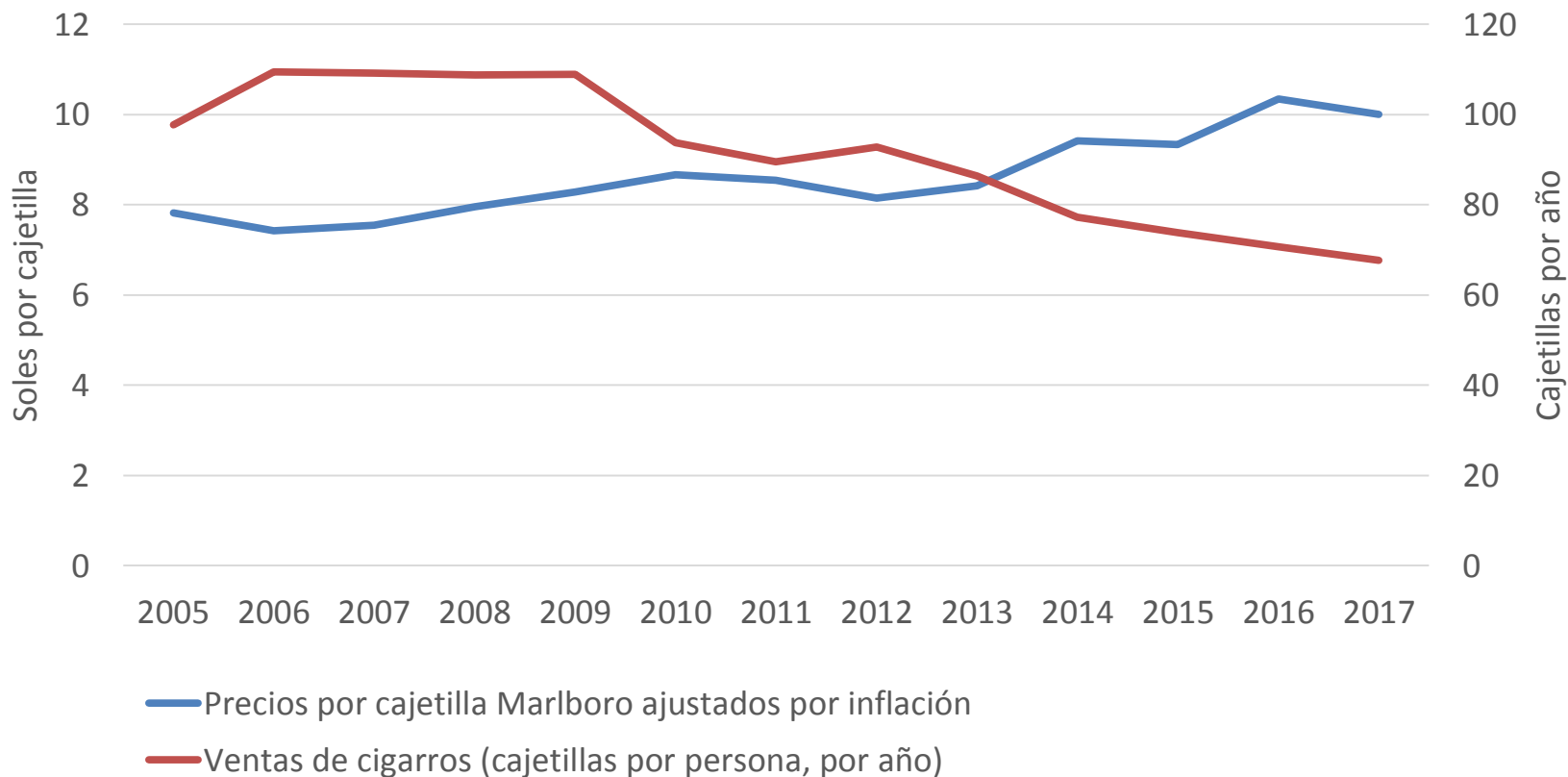




# Impuestos y consumo de cigarros en la Unión Europea

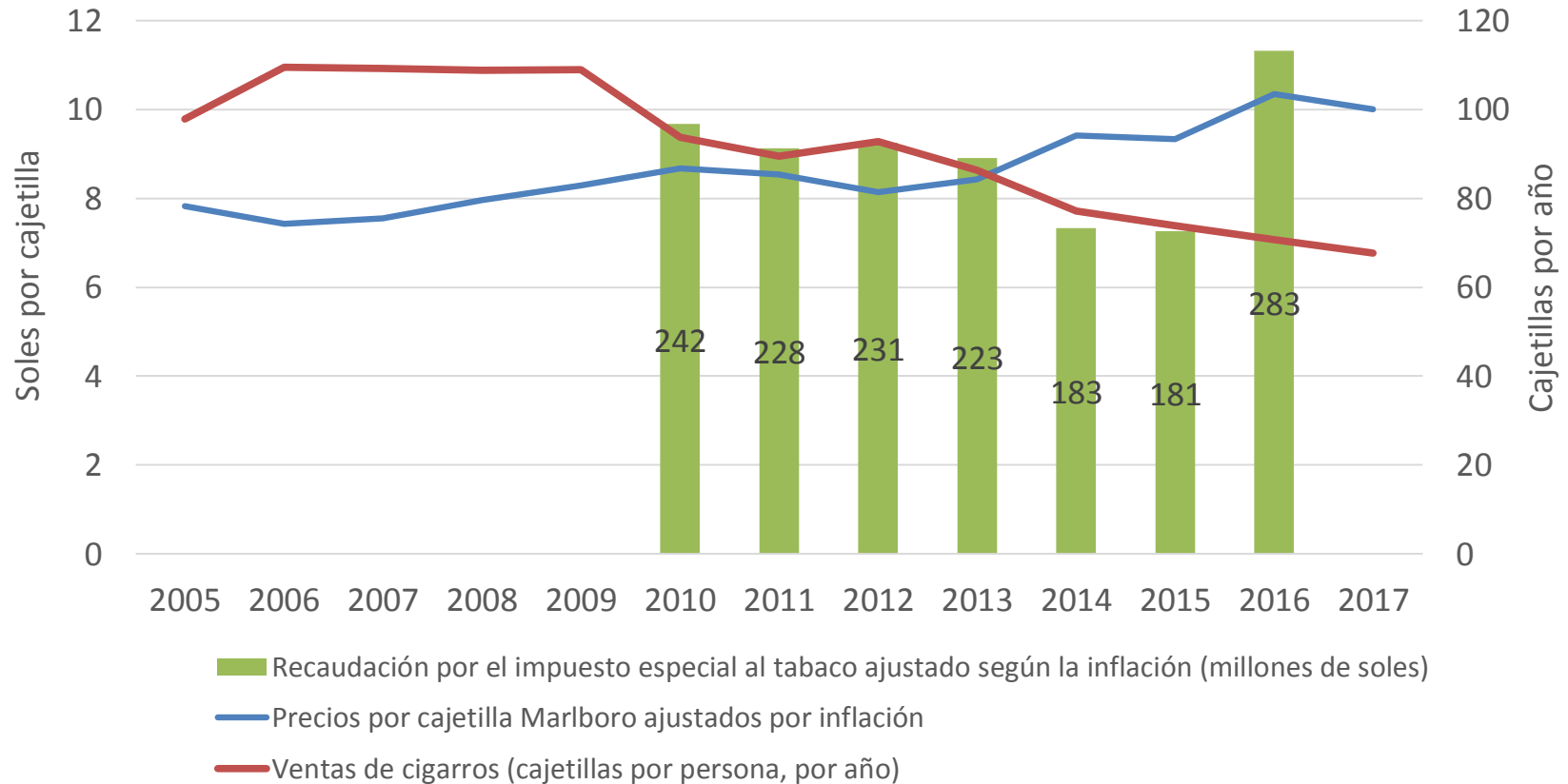


# Precios y ventas de cigarros en Perú



\* las ventas de cigarrillos para 2017 se pronostican. 2017 es el base para ajustados por inflación

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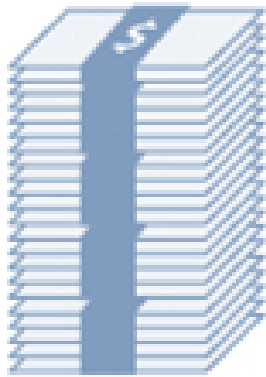
# Demand reduction by tax and price measures

Price elasticities of prevalence, initiation and cessation of tobacco use

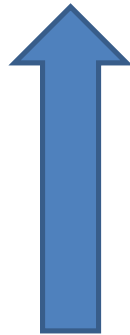


# Price elasticity for tobacco products

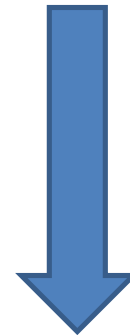
- The total price elasticity of demand for cigarettes in Bangladesh is  $-0.49$
- Most of the price effect result in smoking cessation
- The price elasticity of cigarette consumption is higher for people belonging to lower socioeconomic status.



Cigarette prices

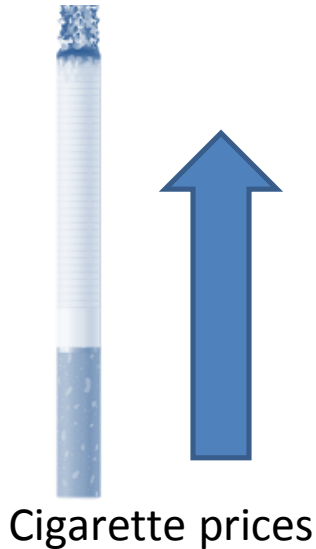


Cigarette sales



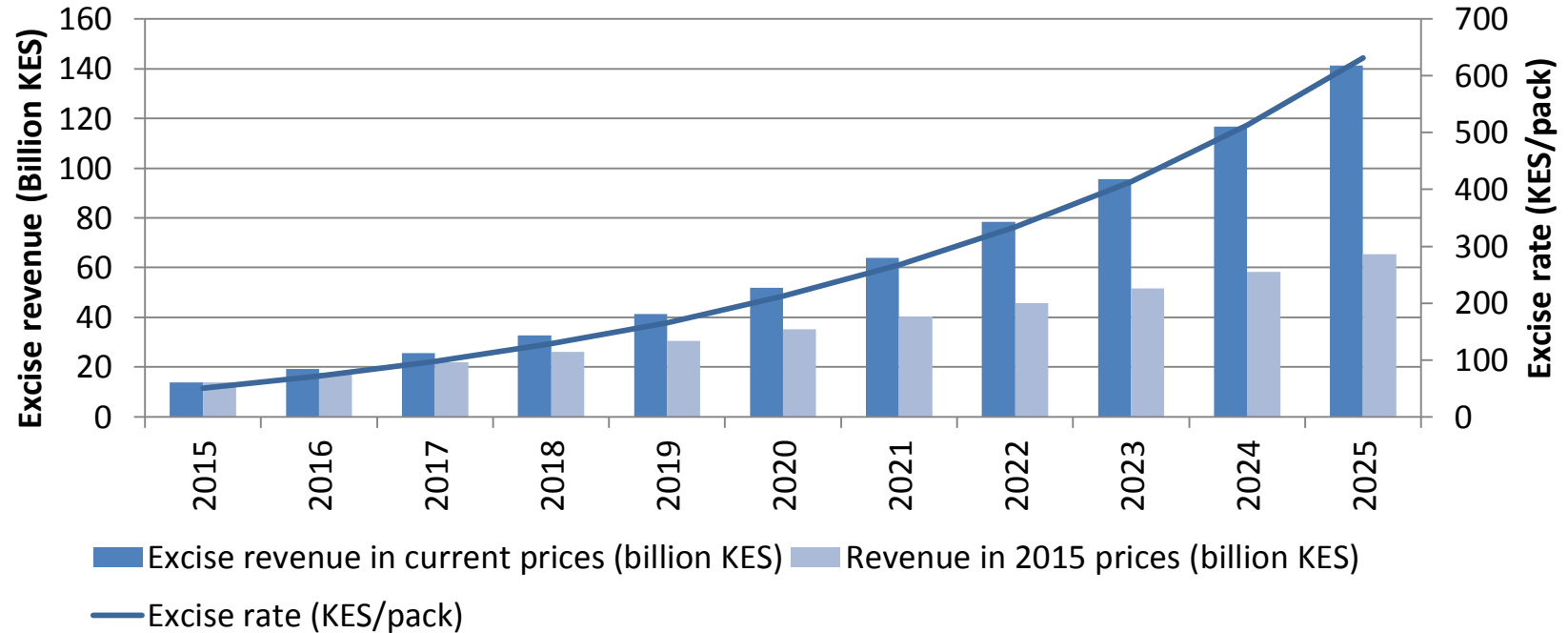
# Cross-price elasticities across brands/products

- In Zambia, a method involving a system of equations found substitution of factory-made cigarettes for roll-your-own cigarettes in the event of increase in factory-made cigarette prices.



# Scenario analysis and simulations

Simulated revenue growth from cigarette excise tax increases in Kenya, 2015-2025



Source: **Nargis N, Stoklosa M**, Ikamari L, Ong`ang`o JR, Fong GT, **Drope J**, Kimosop V, Chaloupka FJ. Cigarette Taxation in Kenya at the Crossroads: Evidence and Policy Implications. (October 2015) University of Waterloo, Waterloo, Ontario, Canada.

# Supply reduction

Reliable measures to determine the magnitude of illicit trade





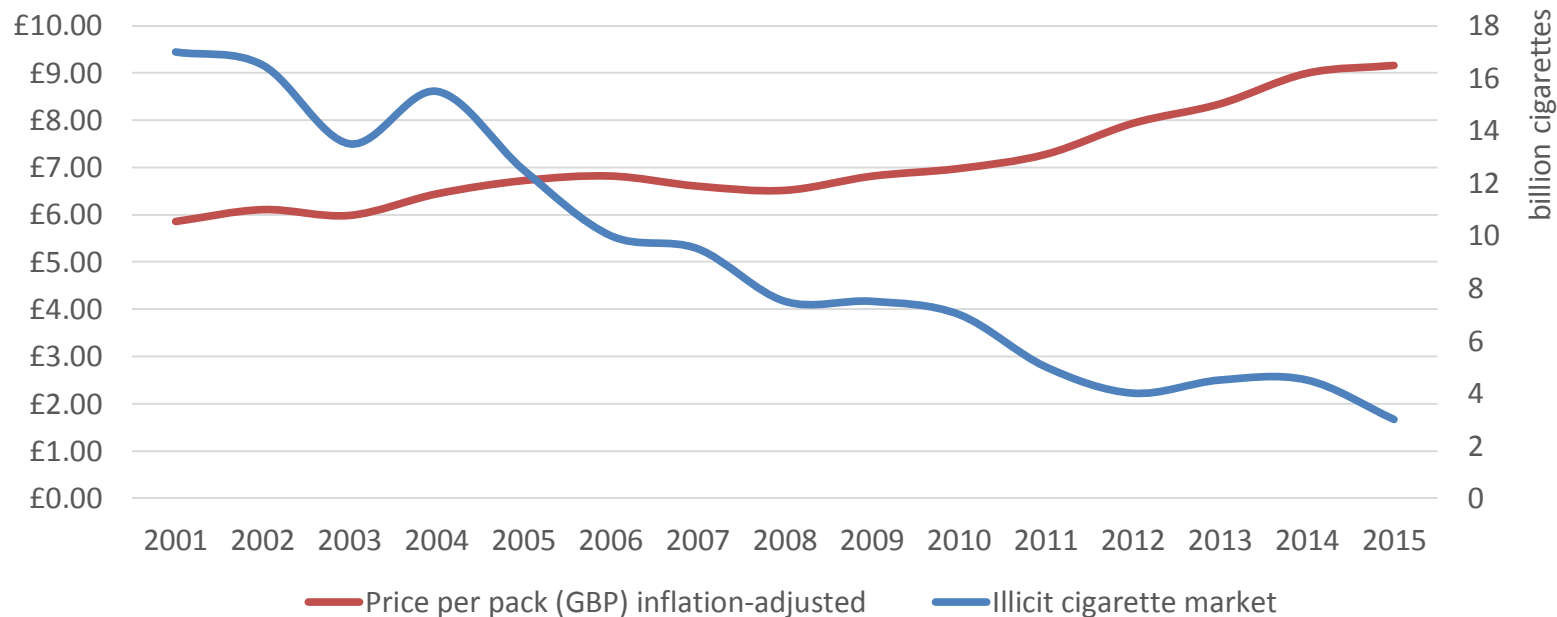
# El comercio ilícito de cigarrillos como argumento en contra de las políticas para el control del tabaco

” Este incremento del impuesto es buena noticia para los criminales, que ya ven al Reino Unido como el paraíso de los contrabandistas y no se preocupan por la edad de sus consumidores ”

—Japan Tobacco International, 2010

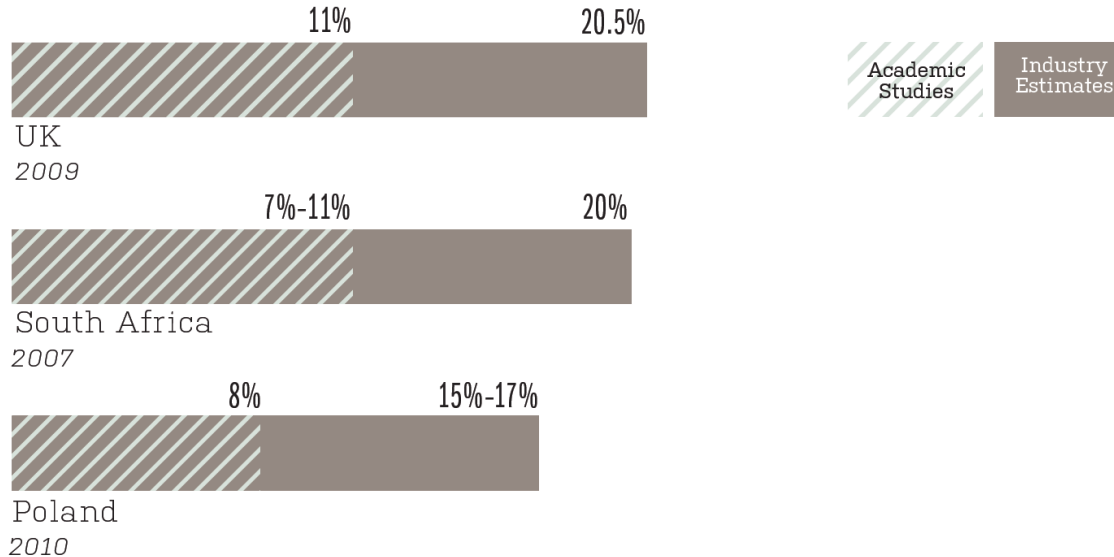
# El comercio ilícito de cigarrillos como argumento en contra de las políticas para el control del tabaco (cont.)

Cigarette prices vs. illicit market in the UK



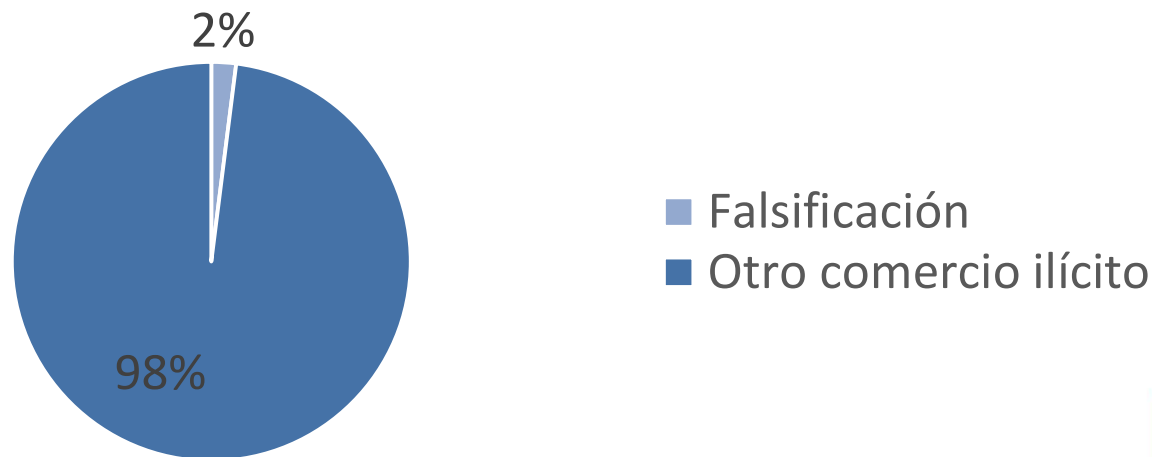
# La industria tiende a exagerar la magnitud del comercio ilícito de tabaco

Estimaciones de comercio ilícito de la industria vs. estimaciones de estudios académicos (comercio ilícito como porcentaje del consumo total)



# Las empresas tabacaleras se benefician del comercio ilícito de cigarros

Composición del comercio ilícito global de acuerdo con Philip Morris International, 2013



# Las empresas tabacaleras se benefician del comercio ilícito de cigarrillos – el caso de Ucrania (cont.)

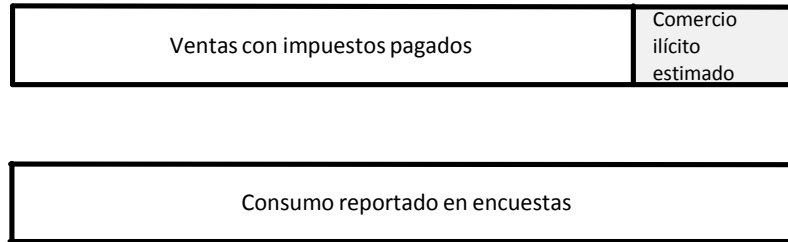
” Desde el punto de vista de una compañía que operaba en el mercado, la producción de artículos adicionales significaba mayores ganancias”

— Dmytro Redko, Director de Asuntos Corporativos para JTI  
Ucrania

# Reliable measures of illicit cigarette trade

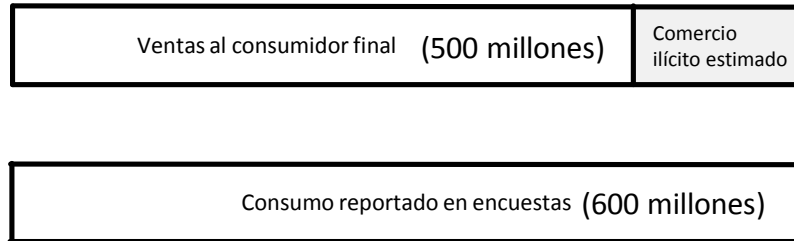


# Comparando las ventas de tabaco con el consumo reportado – Análisis de diferencias



- Los datos de encuestas proveen una estimación del consumo total en el área que cubre la misma, mientras que las ventas proveen una estimación del consumo legal.
- La diferencia entre estas dos medidas indica la extensión de la evasión y la elusión fiscal.

## Comparando las ventas de tabaco con el consumo reportado – Análisis de diferencias (cont.)



- Ejemplo:
  - Las encuestas reportan: prevalencia de fumadores de 20%, cada fumadores con un consumo de 3,000 cigarros por año, en promedio.
  - En un país con 1 millón de personas, significa que hay 200,000 fumadores (1 millón x 20%) y que el consumo total reportado en la encuesta es de 600 millones (200,000 x 3,000).
  - Si las ventas fueron de 500 millones, entonces el mercado ilícito es de 100 millones o 17%.



# Revisión de cajetillas

- Sellos fiscales
- Advertencias sanitarias
- Información de precios y/o contenidos faltante (si la ley lo requiere)
- Marcas que señalan ventas libres de impuestos (duty-free)
- Otras características



# Revisión de cajetillas (cont.)

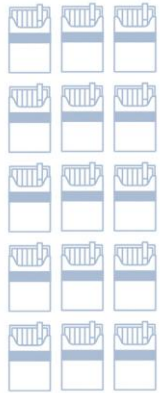
Revisión de  
cajetillas

Revisión de  
cajetillas  
desechadas

Revisión de  
cajetillas de  
fumadores



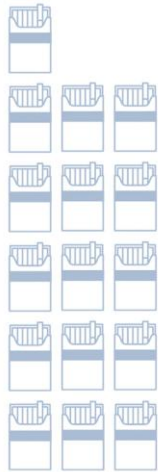
14.6%



Survey of packs  
presented by smokers

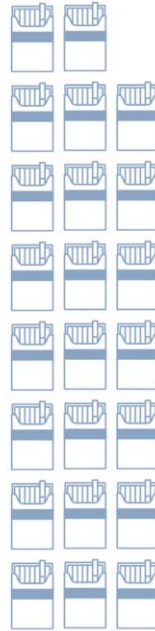
**Our studies**

15.6%



Survey of littered  
packs

22.9%

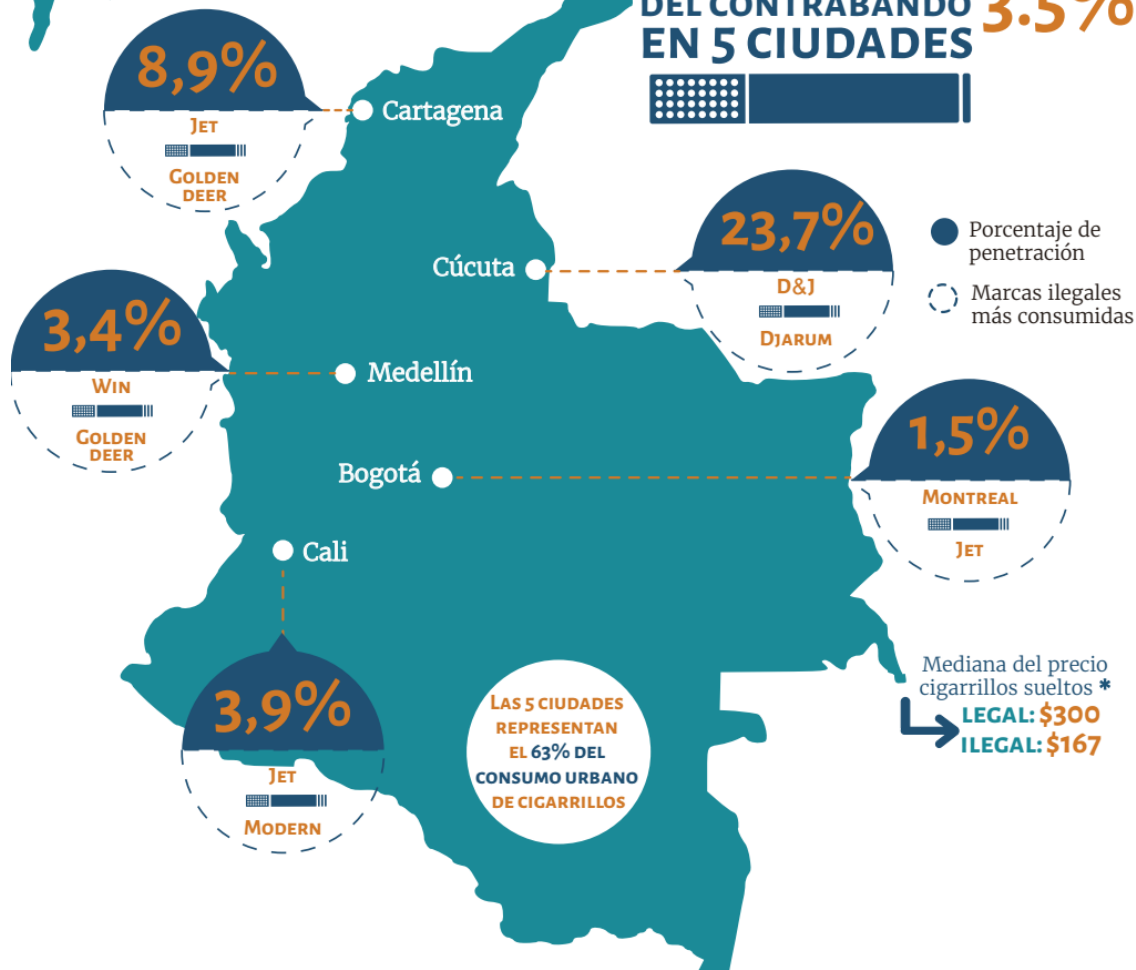


Survey of littered  
packs

**Tobacco industry study**

**Estudio en Varsovia  
Resultados**

# PENETRACIÓN DEL CONTRABANDO EN 5 CIUDADES 3.5%



Estudio en Columbia  
Resultados



# Estudio en México

# Situation analysis and mapping

## Economic costs of tobacco use



” Health is the obvious starting point for an enquiry into wellbeing. You need a life to have a **good** life...”

- Angus Deaton, Nobel Memorial Prize in Economic Sciences, 2015

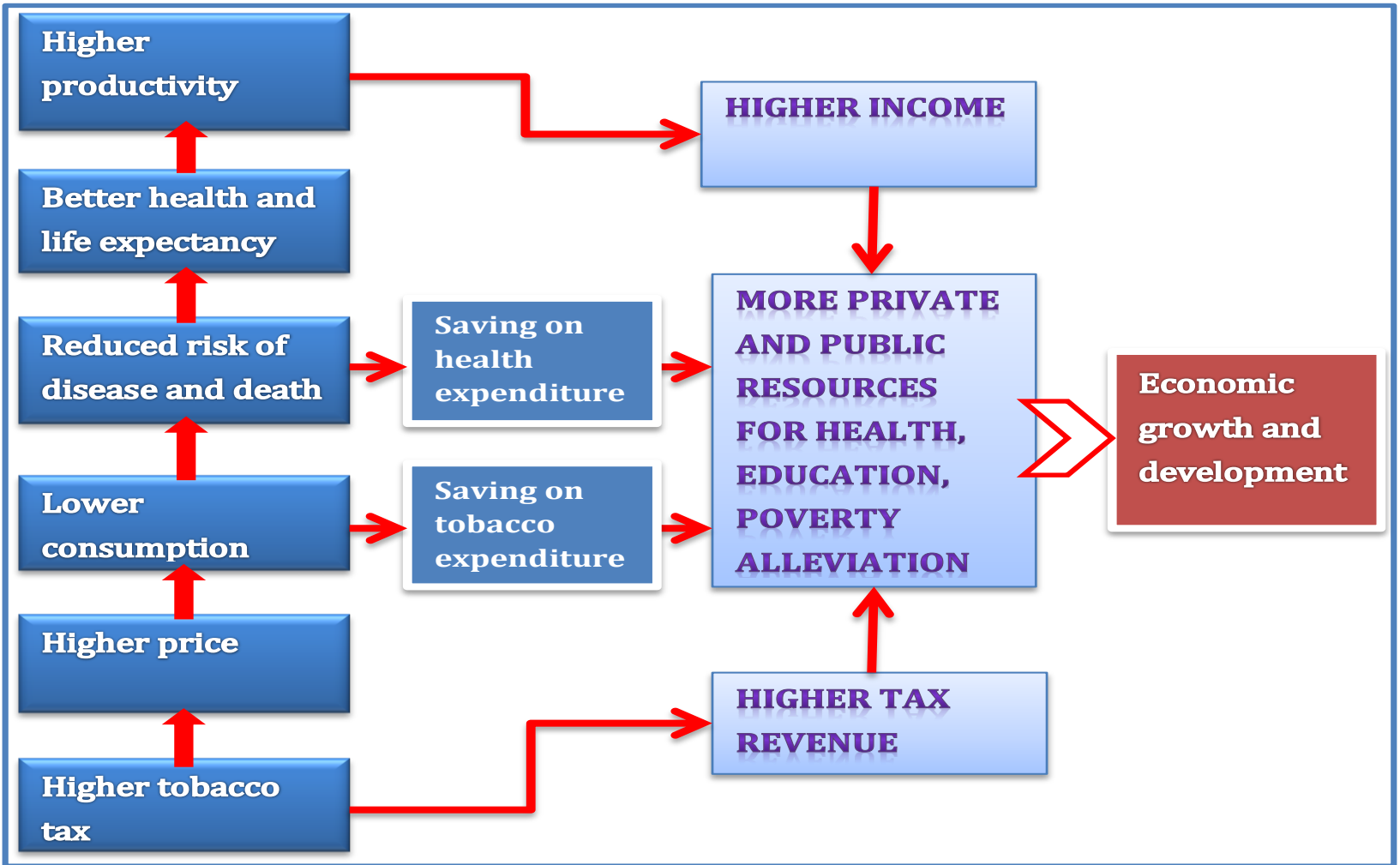


# Health improvements are DEVELOPMENT



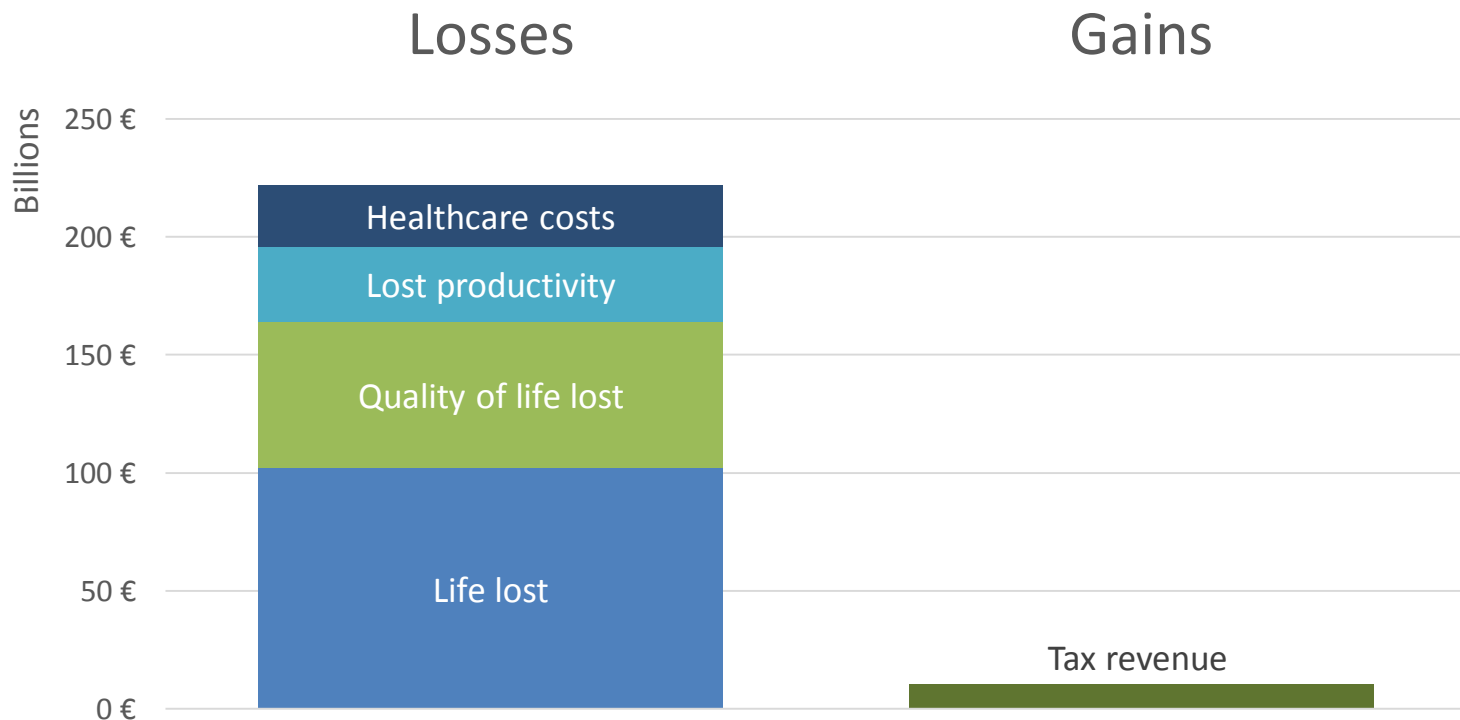
Tobacco control  
interventions  
save money  
in the long term



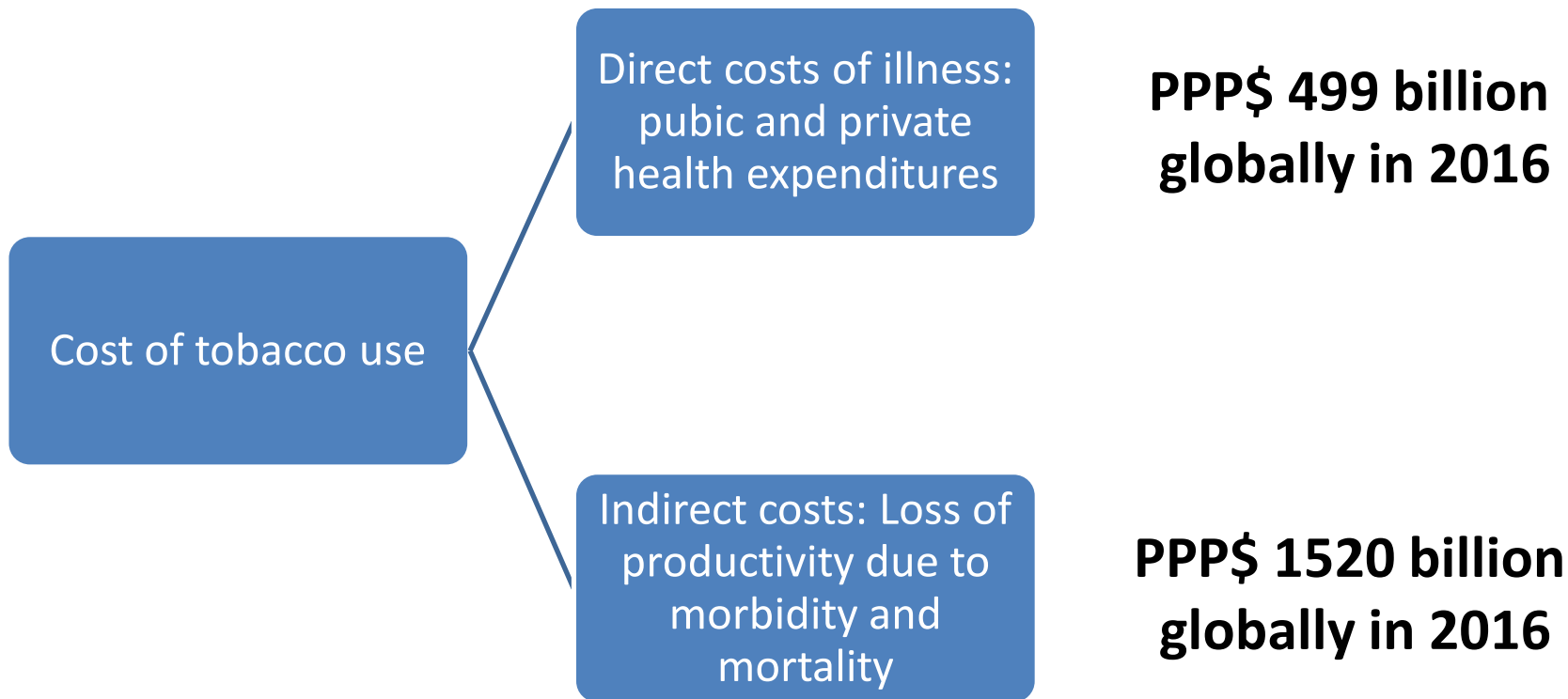


# Tobacco Control Leads to Social Gains

Social Costs of Smoking in France, 2010



# Global economic cost of smoking-attributable diseases



# Economic cost of smoking-attributable diseases in Peru

- A study based on recent Peru-specific data could produce updated estimates of smoking-attributable costs.
- These estimates will almost certainly demonstrate that the costs are increasing.

# Economic and other implications of tobacco control

## Impact of tobacco use on poverty

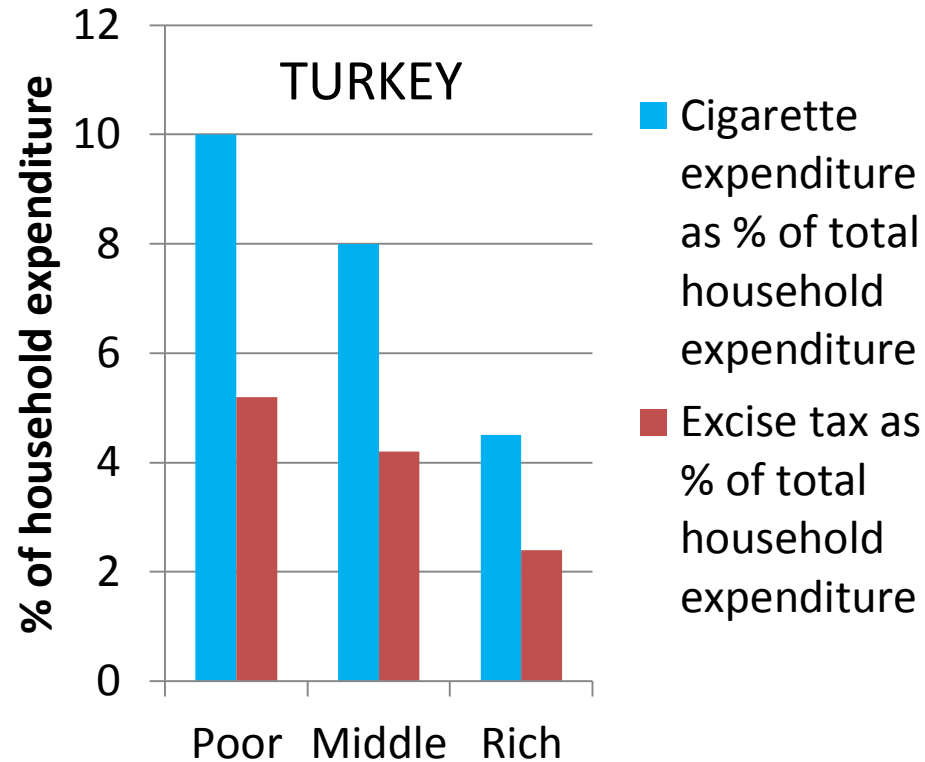


# What is regressivity of tobacco tax?

- The poor pay a higher share of their income in tax than the rich.
- The tax burden is disproportionately larger for the poor.

# What is regressivity of tobacco tax?

When tax is imposed on the goods that form a larger share of household expenditure for the poor than the rich, the tax becomes regressive.



Source: Önder and Yurekli, 2014.

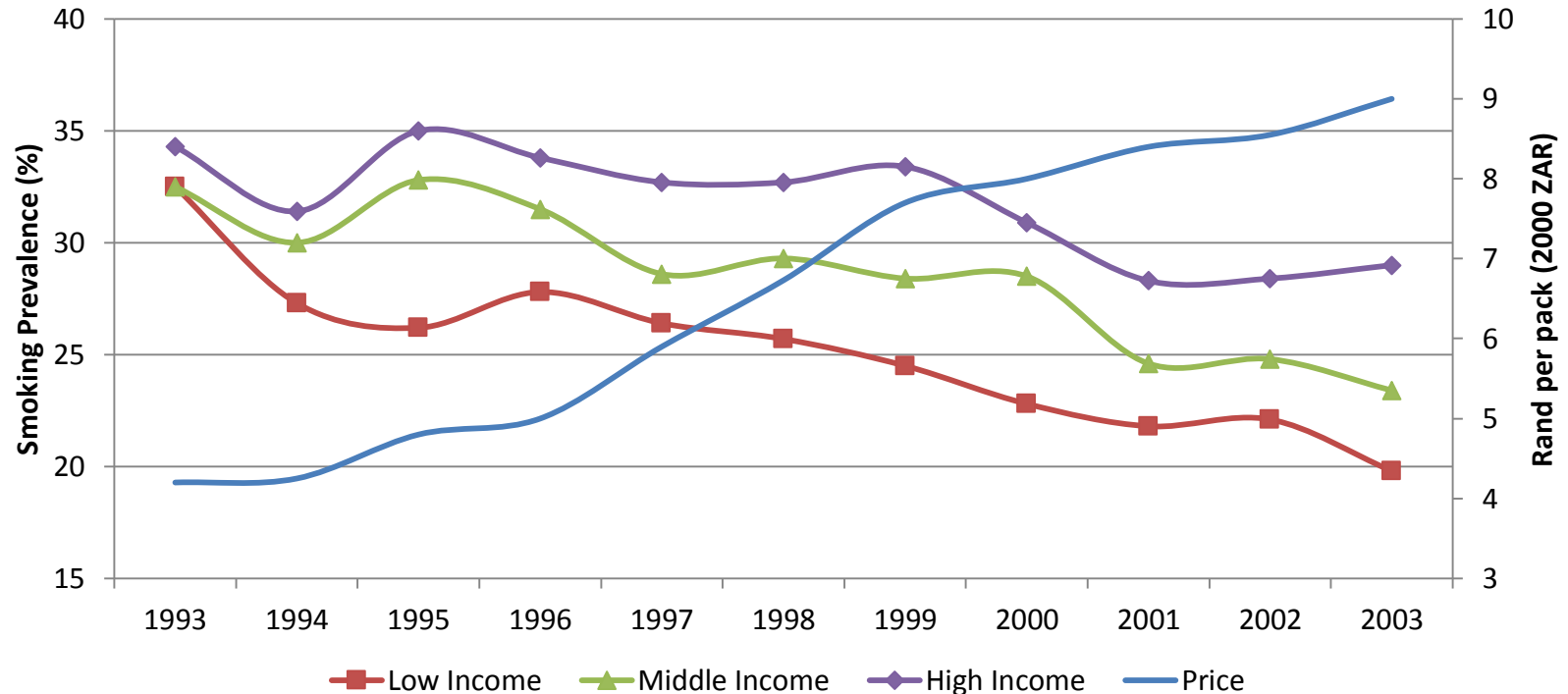
# Are tobacco tax increases regressive?

- Depends on how the poor and the rich will change tobacco consumption in response to tax-induced price increase.
- If poor are more price sensitive,
  - They reduce consumption more.
  - They make greater health benefits.
  - The tax burden is shifted to the rich.
  - Tobacco tax increase may not be regressive.
- The results from studies from low- and middle-income countries are mixed



# Are tobacco tax increases regressive?

- Cigarette prices and smoking by income group in South Africa; 1993–2003



# Why are the poor not always more price sensitive?

- Downward substitution due to
  - Availability of cheaper brands of the same product
  - Availability of cheaper substitutes (e.g. smokeless tobacco for smoked tobacco products)
- Preferential tax treatment of cheaper products
  - Complex tiered tax structure imposing lower or no tax on cheaper tobacco products
  - Does not necessarily alleviate regressivity, but jeopardizes the marginal progressivity of tax increases

# Opportunity cost of continued tobacco use by the poor after tax increase

- The poor can reallocate expenditures from basic necessities to tobacco to maintain the consumption of tobacco
  - China: evidence of reduction in food and non-food items (Wang et al, 2006)
  - Bangladesh: During 1992–1996, the average male smoker spent more than twice as much on cigarettes as he spent on clothing, housing, health, and education combined (Efroymsen et al, 2001)
- Outcome: Reduction in quality of life and welfare of the poor

# Conclusions and Policy Implications

- The tax system needs to be uniform to minimize the variability of price and the probability of downward substitution.
- The burden of the additional revenue collected from tax increases falls mostly on the rich.
- Tobacco tax policy needs to be part of a comprehensive tobacco control program.

# PROACTT

Tax tobacco. Save lives.

A partnership between



CANCER  
RESEARCH  
UK