


De-bunking the myths of tobacco taxation

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Tobacco industry is using libertarian
and economic arguments against
any tobacco control effort

Why?

- To divert attention away from the health consequences of tobacco use
- To protect the tobacco industry profits

The industry applies the same myths to
different tobacco control policies



Myths' Characteristics

False Premises

Premise #1: Tobacco control effort is ineffective

AND

Premise #2: Tobacco control efforts will be disastrous for the economy

How do they reconcile?

- Illicit tobacco business!
- Tobacco industry pretends to stand up for:
 - small businesses
 - legal way of conducting business
 - effective public policies



Myth #1

- A large tax increase is dangerous because it will reduce government revenues by decreasing legal cigarette sales.



Myth #2

- A tax increase will motive tax avoidance and tax evasion
- There will be more smuggling of lower-priced cigarettes from neighboring states or countries.



Myth #3

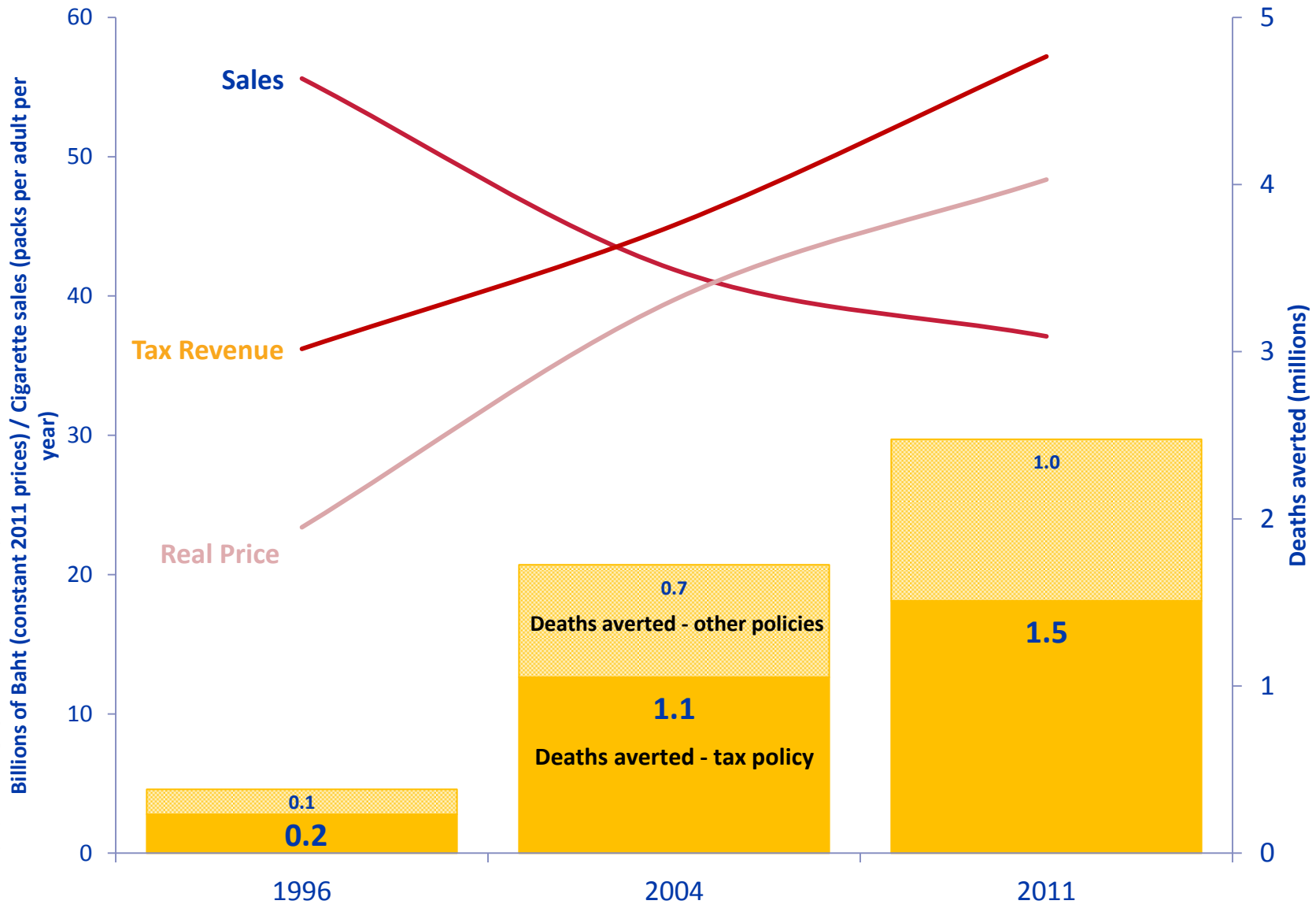
- The lower legal sales after a tax increase will be replaced by illicit cigarettes, thus higher tax cannot achieve its public health goal of lowering tobacco use.




Research shows

- A tobacco tax increase will result in higher government revenues,
- ... and better public health despite the presence of illicit tobacco trade
 - due to the inelastic nature of the cigarette market
 - due to illicit trade responding to factors other than tax/price differences

Impact of Tobacco Tax Policy in Thailand





Tax avoidance and tax evasion reduce, but do not eliminate the revenue impact of tobacco tax increases

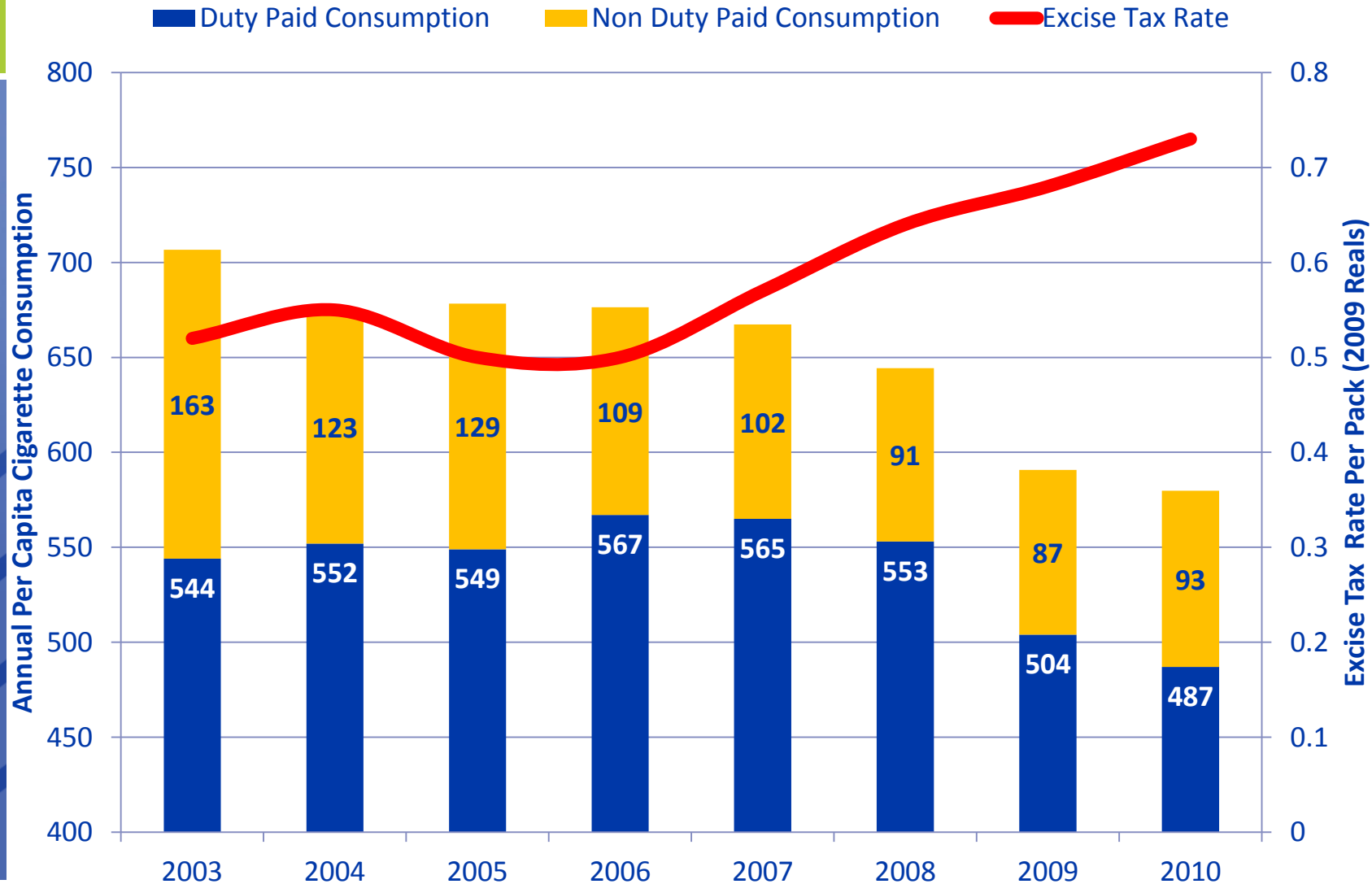
Revenue increases (%) after 10% tax increase, taking smuggling into account

Country	Unilateral	Multilateral
France	5.8	7.0
Germany	2.6	4.7
Spain	8.6	9.1
17 Countries	6.9	8.2

Source: Econometric estimates from Merriman et al, 2000

Tax avoidance and tax evasion do not eliminate the public health impact of tobacco tax increases

Excise Tax and Cigarette Consumption in Brazil



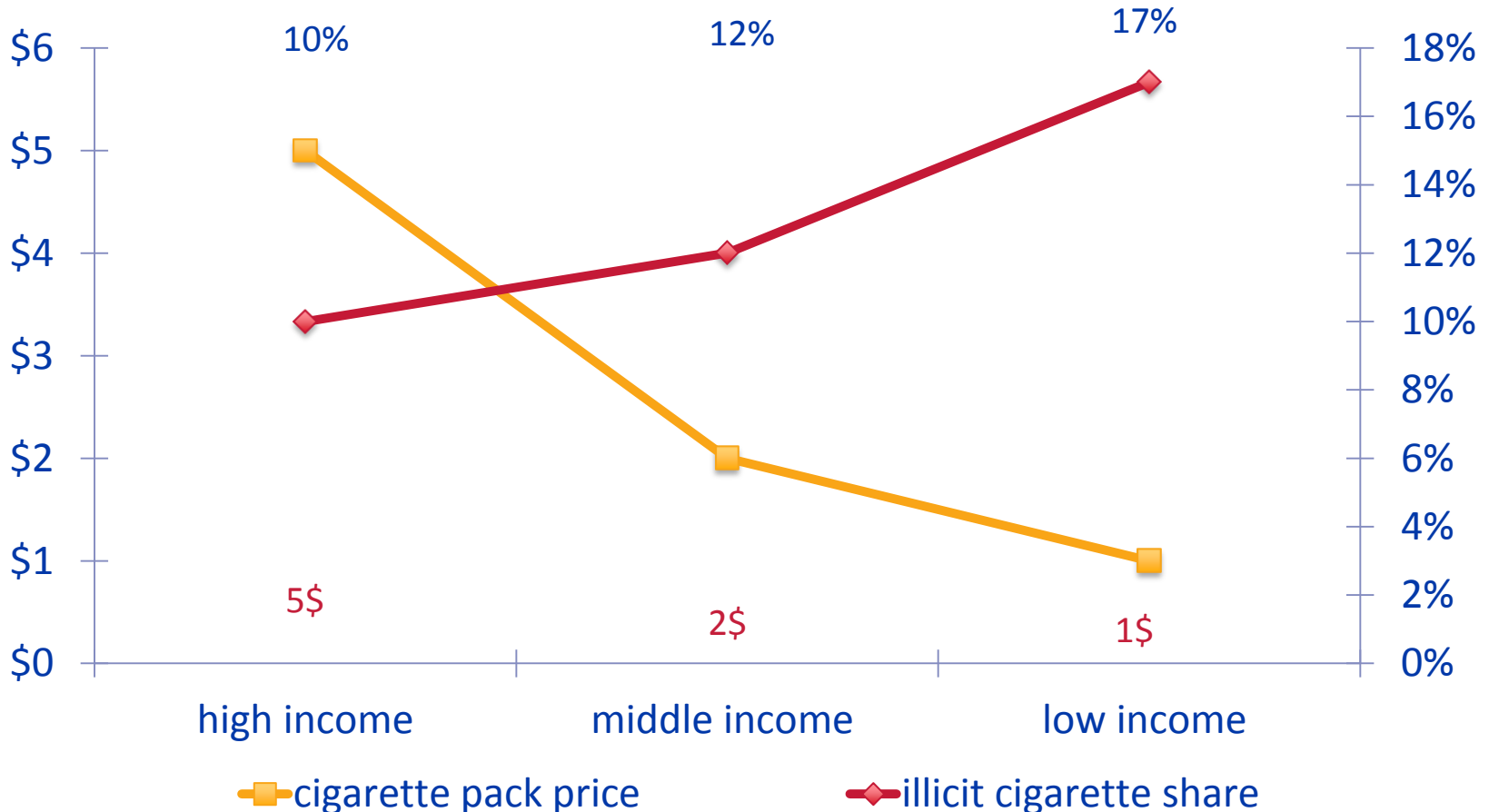


Research shows

- ... that there are many factors that motivate tax avoidance and tax evasion, and tax is not the most important one.
- More smuggling if :
 - Public is tolerant
 - Controls are weak
 - Corruption in the country is high
 - Tobacco industry is complicit
 - Organized crime plays a big role

Inverse Relationship Between the Average Cigarette Price and the Size of Illicit Cigarette Market

Illicit cigarette market share (%) and average cigarette pack price in high, middle and low income countries in 2007



Source: Joossens L, Merriman D, Ross H, Raw M. The impact of eliminating the global illicit cigarette trade on health and revenue. *Addiction*. 2010 Jul;105(9):1640-1649.

Cigarette Retail Prices ASEAN Countries (Mar 2010)

(Most Popular Price Category (MPPC))



Industry:
Cigarette price in Malaysia is the **second highest** amongst ASEAN countries, after Singapore. As such, Malaysia becomes an **attractive** market for illicit cigarettes to be smuggled into Malaysia for sale

Fact: Singapore has the lowest rate of smuggling in the region.

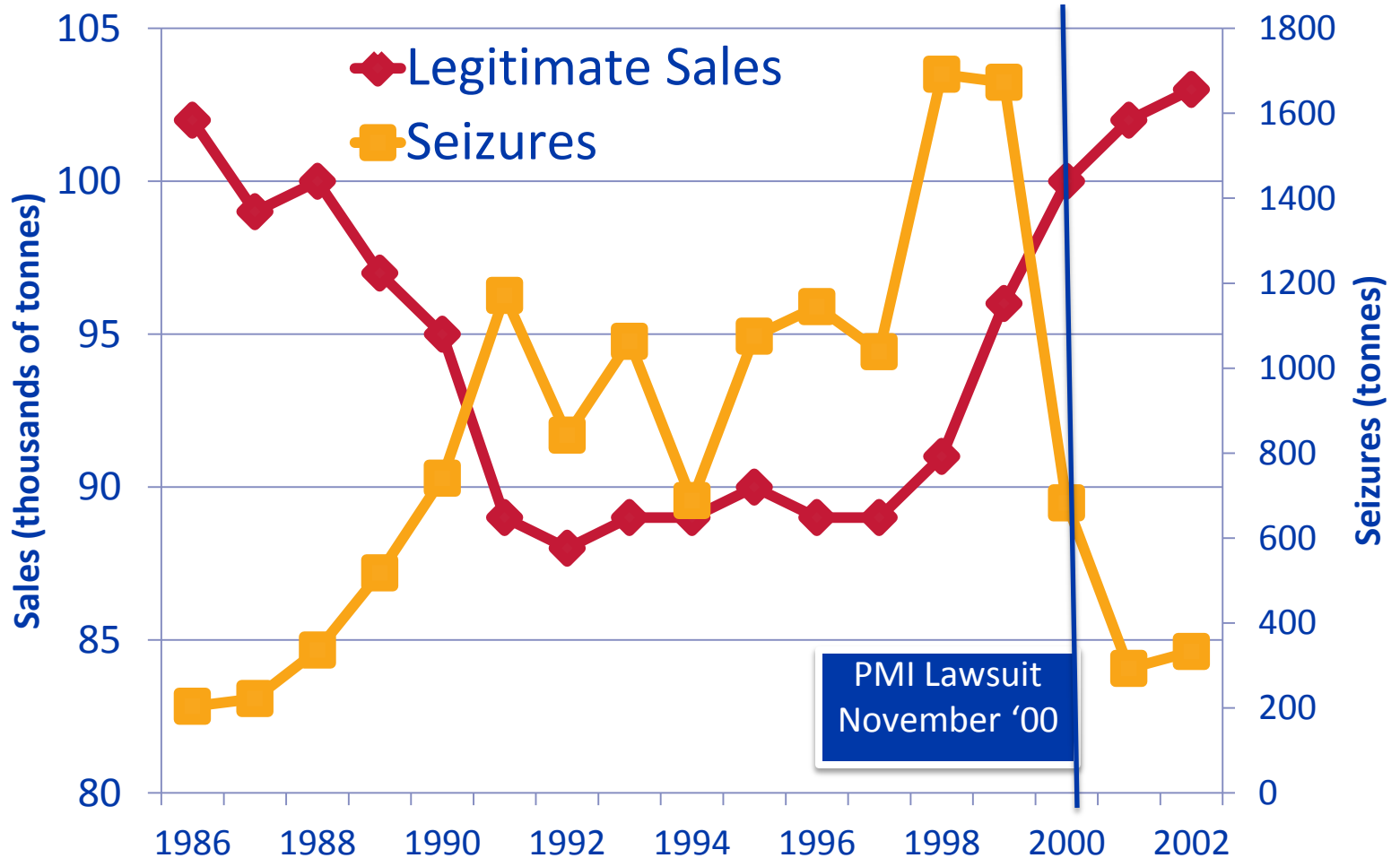
* Price review - March 2010. Other states still using 3rd quarter 2009 data.



Research shows

- ... that the tobacco industry itself has been implicated in tobacco smuggling.

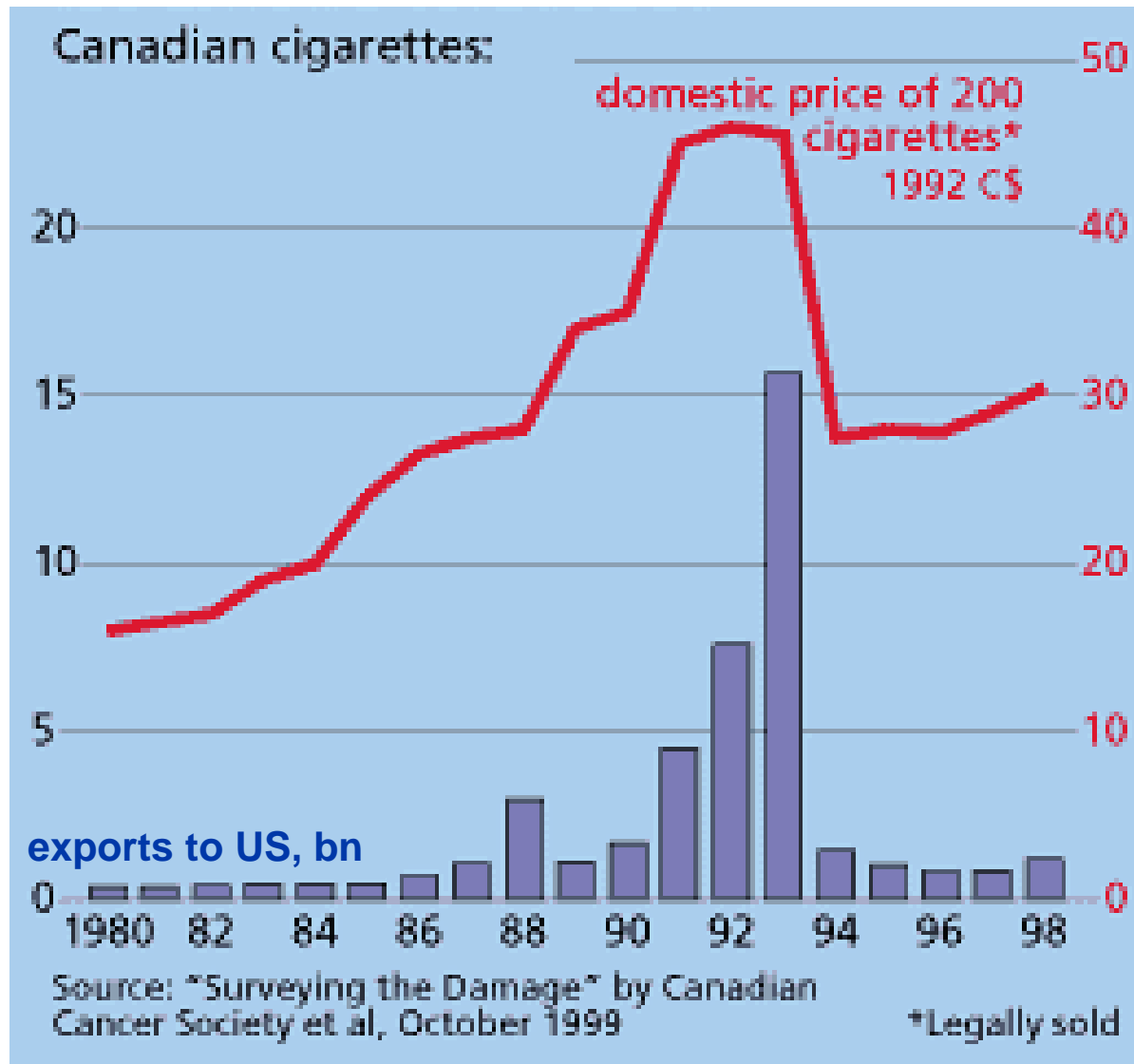
Italian Sales and Seizures (1986-2002)



Joossens L and Raw M. *Progress in combating cigarette smuggling: controlling the supply chain*. Tobacco Control 2008;17:399–404.

Smuggling by tobacco companies

Canada → US → Canada





Myth #4

- Even if a tax increase would raise government revenues and decrease smoking, it is fundamentally unfair because its burden would fall disproportionately on the poor.

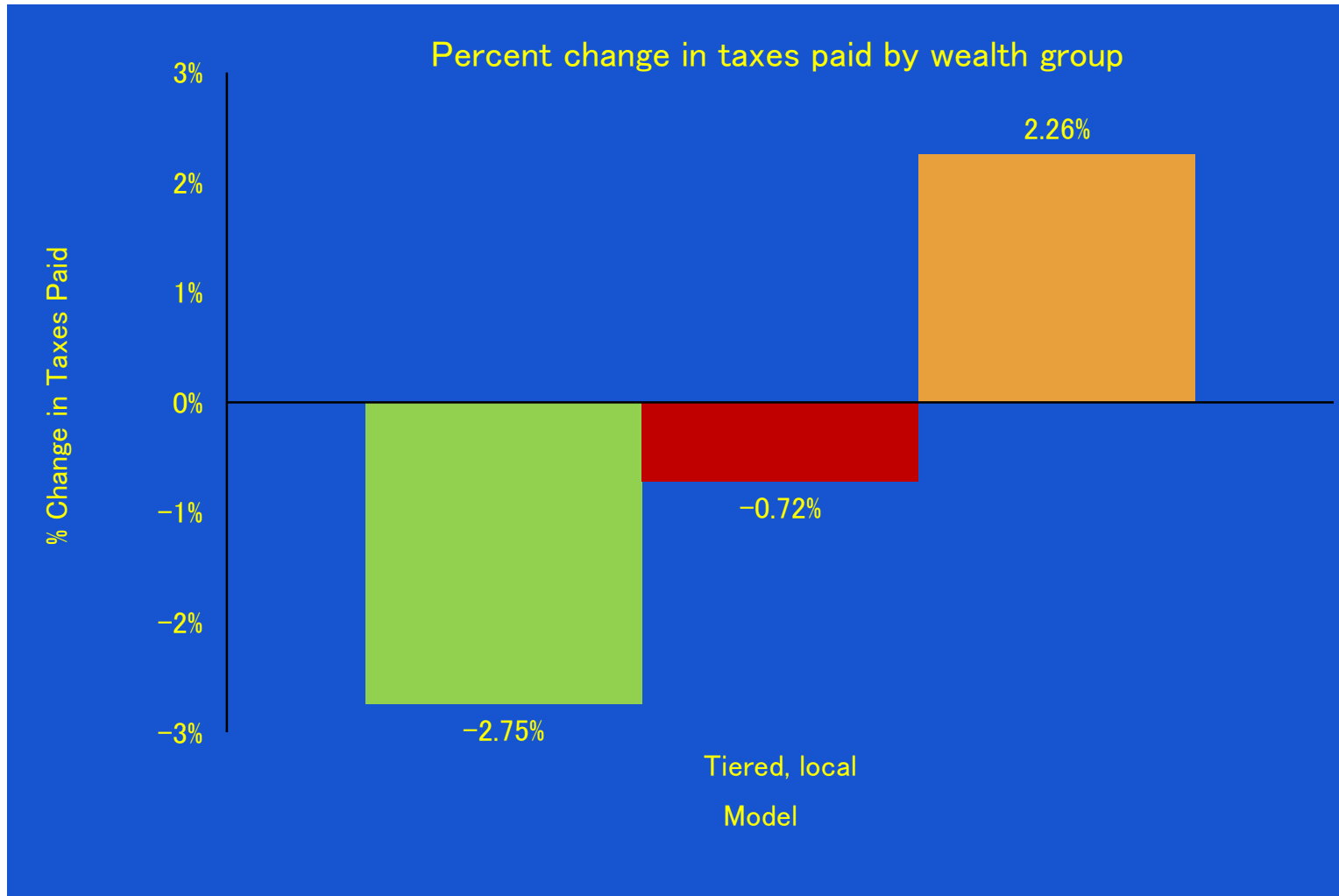


Tax Increase Can Help the Poor

- The majority of the tax revenue increase comes from the rich (they decrease their smoking only slightly in response to a price increase)
- The poor decrease consumption more relative to the rich.
- Therefore, the poor will enjoy more health benefits, and reduce the costs associated with smoking more than the rich

Who Pays & Who Benefits (1)

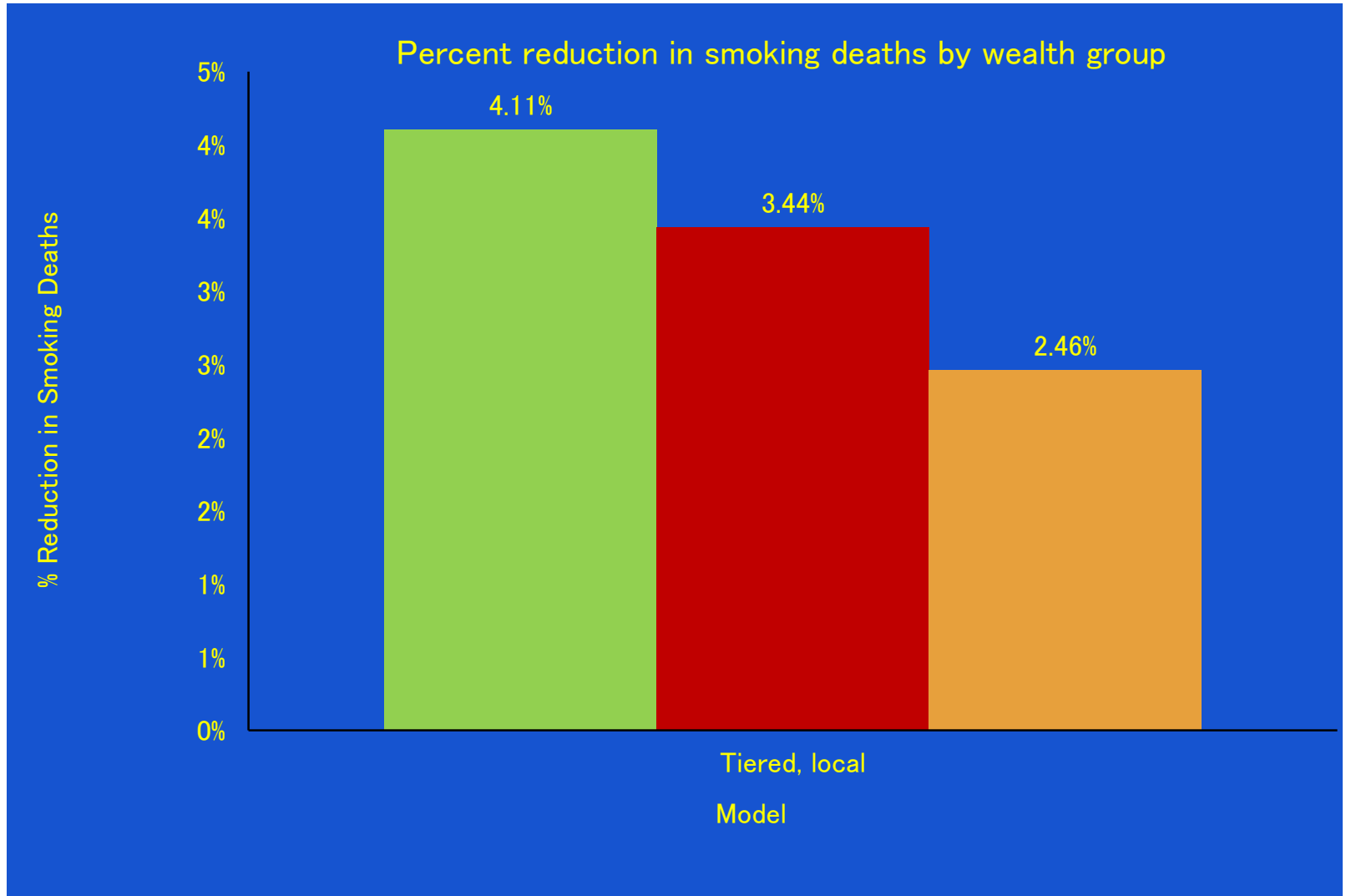
Impact of Hypothetical Tax Increase Philippines



Source: Li, Jha, Chaloupka et al., in progress;

Who Pays & Who Benefits (2)

Impact of Hypothetical Tax Increase Philippines



Source: Li, Jha, Chaloupka et al., in progress;



Furthermore...

- States and countries can compensate in part for any tax regressivity
 - e.g., by funding cessation services for poor smokers.



Myth #5

- Regardless of its health consequences, the tobacco business is crucial to a nation's (or region's) economy. A tax increase is going to hurt this important sector and the country's economy will suffer devastating economic consequences: jobs will be lost, incomes will fall, tax revenues will plummet, the trade balance will result in a deficit.



Reality...

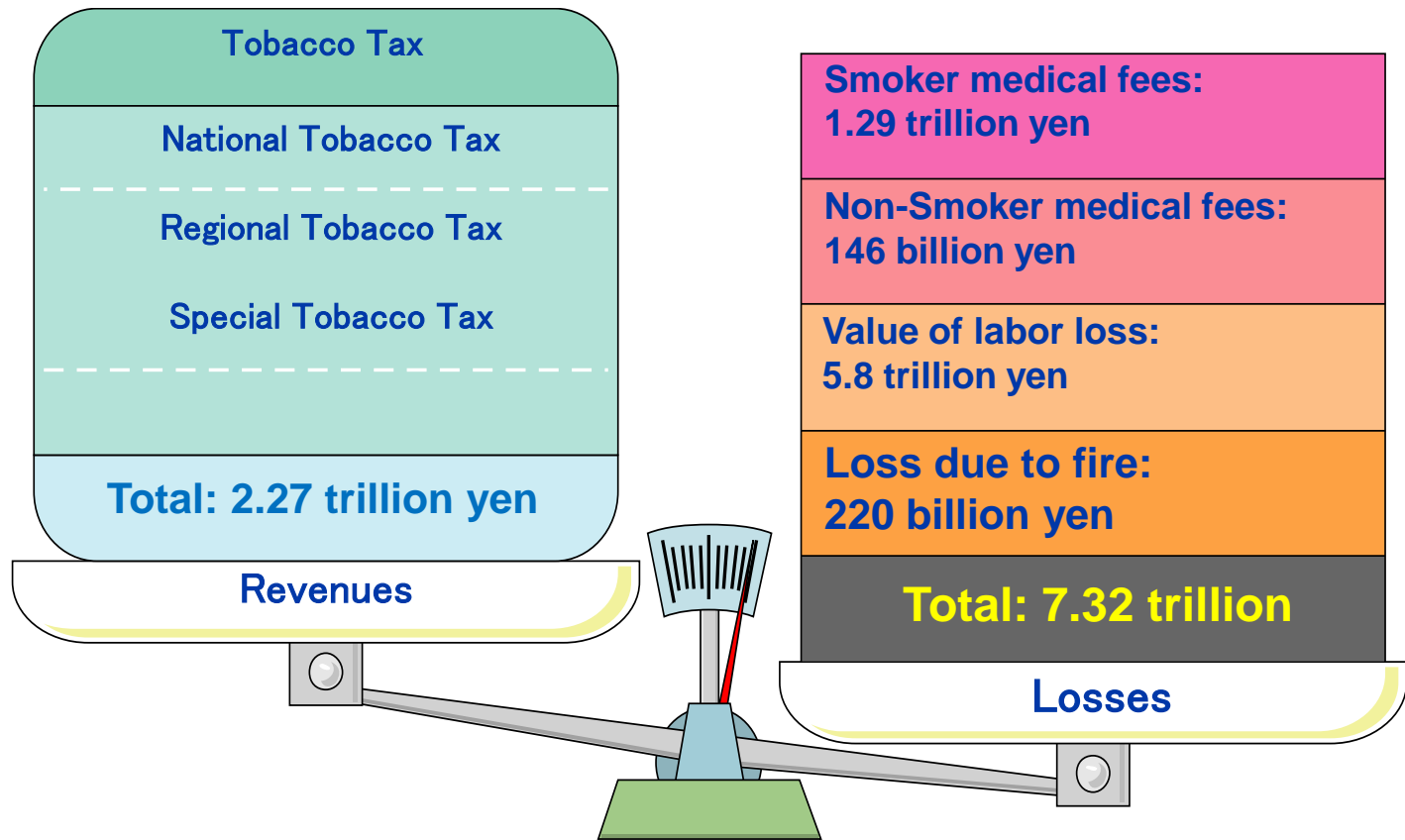
- The tobacco business is not vital for any economy:
 - Philippines: tobacco manufacturing accounts for only 0.1% of value added in the economy and employs 0.03% of total employment
 - Philippines: tobacco farmers account for 0.5% of agri labor
 - Vietnam: tobacco farmers account for 0.5% of agri labor and tobacco generated 0.3% of manufacturing jobs in 2000 while male smoking prevalence in 2002 was 56%
 - Indonesia: tobacco generated 0.53% of total employment in 2004 while male smoking prevalence was 63%)



Tobacco Farming Does Not Promote Economic Development

- The two main tobacco farming communities of Brazil were ranked 451 and 454 (out of 467) in 2000 in terms of their Socioeconomic Development Index (capturing education, income, sanitation, health)

Economic Loss due to Smoking in Japan





Negative Consequences of Tobacco Business

- Globally, 5.3 million hectares of arable land are currently under tobacco cultivation—land that could feed 10–20 million people.
- Tobacco has a negative impact on the balance of payments: Two-thirds of 161 countries, where data are available, are net importers of tobacco, losing more hard currency in cigarette imports than they gain by exporting tobacco.
- Health is a central issue for sustainable development, therefore TC is an important component of the development agenda.



Some Final Statistics, Not Myths

- Globally, nearly \$6,000 in profit for every death caused by tobacco
- Compare 400,000+ tobacco jobs per year in the U.S. to 400,000+ deaths caused by tobacco:
 - Each tobacco job, for one year, comes at the cost of one smoker's losing 15 years of life.
- The job is replaceable. The life is not.



THANK YOU!

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