

tobacconomics

Economic Research Informing Tobacco Control Policy

Tobacco Tax Reduction in the Presence of an Illegal Market: A Solution for Whom?

Frank J. Chaloupka, University of Illinois at Chicago

XII Seminar on Strategic Alliances for Health Promotion


19 August 2019, Brasilia, Brazil

TOBACCO CONTROL

DEVELOPMENT IN PRACTICE


Curbing the Epidemic

Governments and the
Economies of Tobacco Control



A WORLD BANK PUBLICATION

The International Tobacco Control Policy Evaluation Project
Tobacco Price and Taxation
ITC Cross-Country Comparison Report



MARCH 2012

UNIVERSITY OF WATERLOO

itc
International Tobacco Control Policy Evaluation Project

International Agency for Research on Cancer
World Health Organization


IARC HANDBOOKS OF CANCER PREVENTION
Tobacco Control

Volume 14

Effectiveness of Tax and Price Policies for Tobacco Control

2011

The Economics of Tobacco Control: Evidence from the International Tobacco Control (ITC) Policy Evaluation Project



Guest Editor: John Taurus

itc
International Tobacco Control Policy Evaluation Project

tobaccocontrol.bmj.com


BMJ



Tobacco control in developing countries

editors | Prabhat Jha | Frank Chaloupka

WHO Technical Manual on
Tobacco Tax Administration



World Health Organization

World Health Organization

WHO REPORT ON THE GLOBAL TOBACCO EPIDEMIC, 2015
Raising taxes on tobacco

fresh and alive
mpower

NIH NATIONAL CANCER INSTITUTE

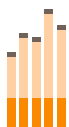
21

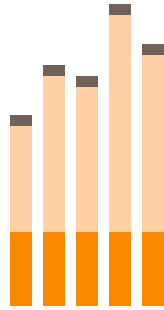
NCI TOBACCO CONTROL MONOGRAPH SERIES

The Economics of Tobacco and Tobacco Control

IN COLLABORATION WITH
WORLD HEALTH ORGANIZATION

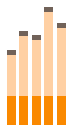
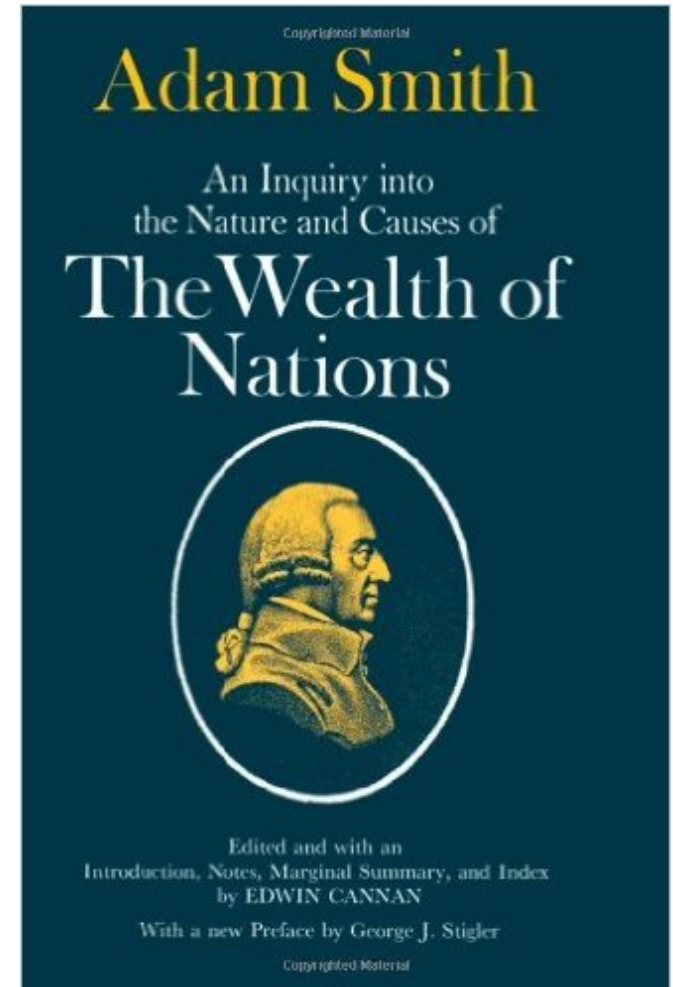
Executive Summary





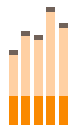
Impact of Tobacco Tax Increases

"Sugar, rum, and tobacco, are commodities which are no where necessaries of life, which are become objects of almost universal consumption, and which are therefore **extremely proper subjects of taxation.**



Cigarette Price & Consumption

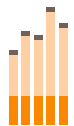
Mexico, 2001-2014, Inflation Adjusted



Sources: EIU, Euromonitor, and World Bank

Cigarette Price & Per Capita Consumption

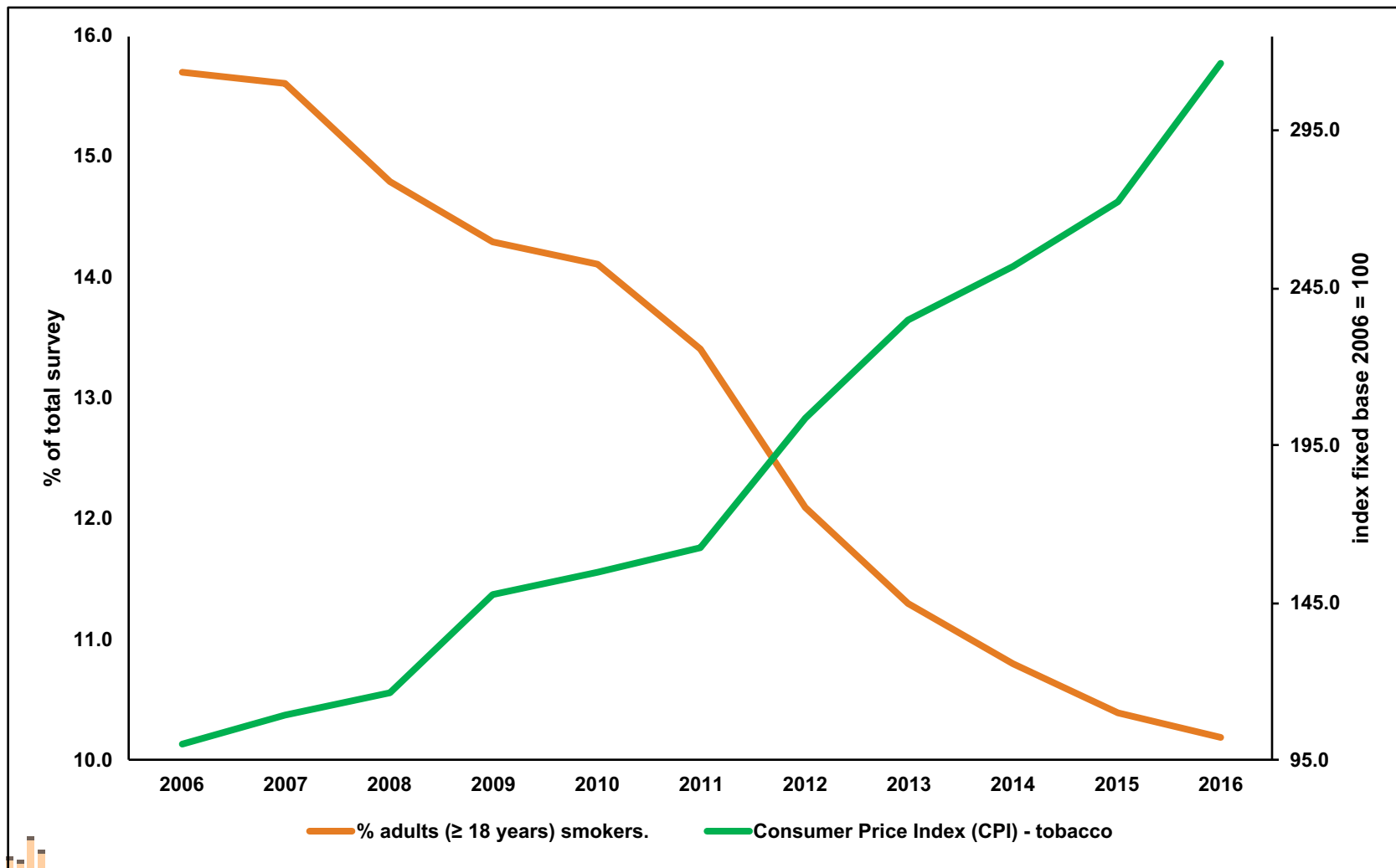
Chile, 2001-2014, Inflation Adjusted



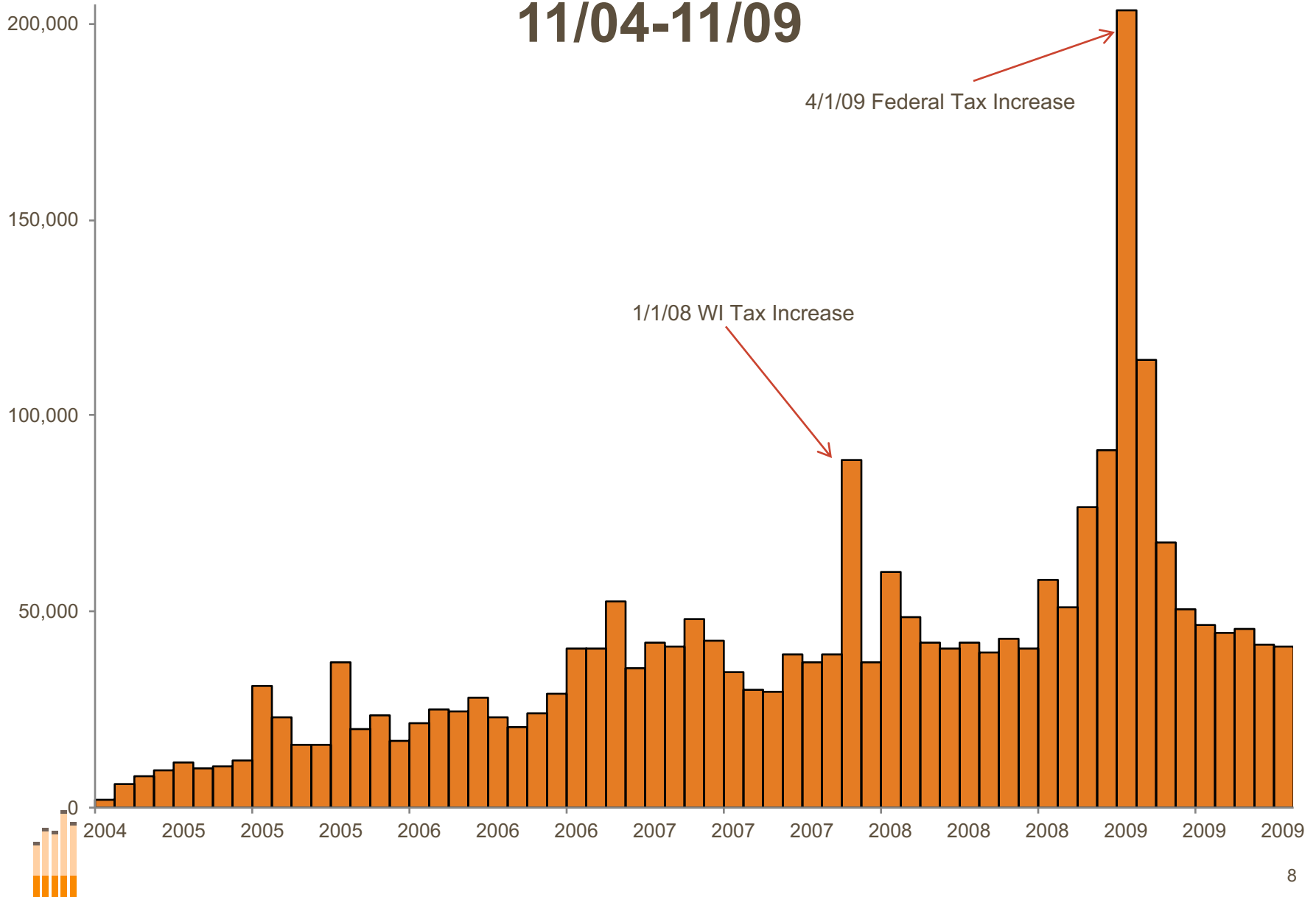
Sources: EIU, Euromonitor, and World Bank

Adult Smoking Prevalence and Price

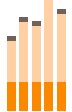
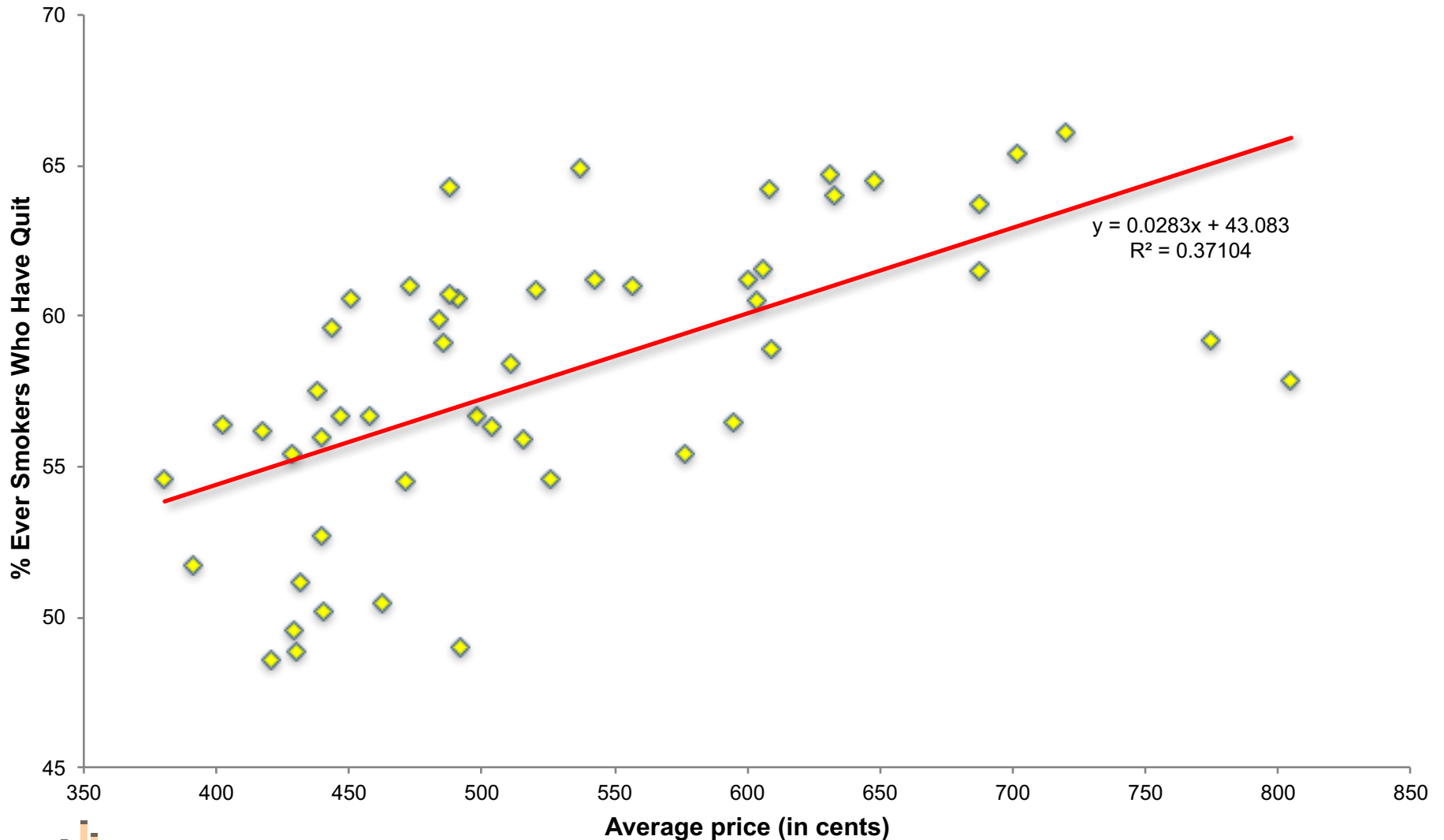
Brazil, 2006-2016, inflation adjusted



Monthly Quit Line Calls, United States 11/04-11/09

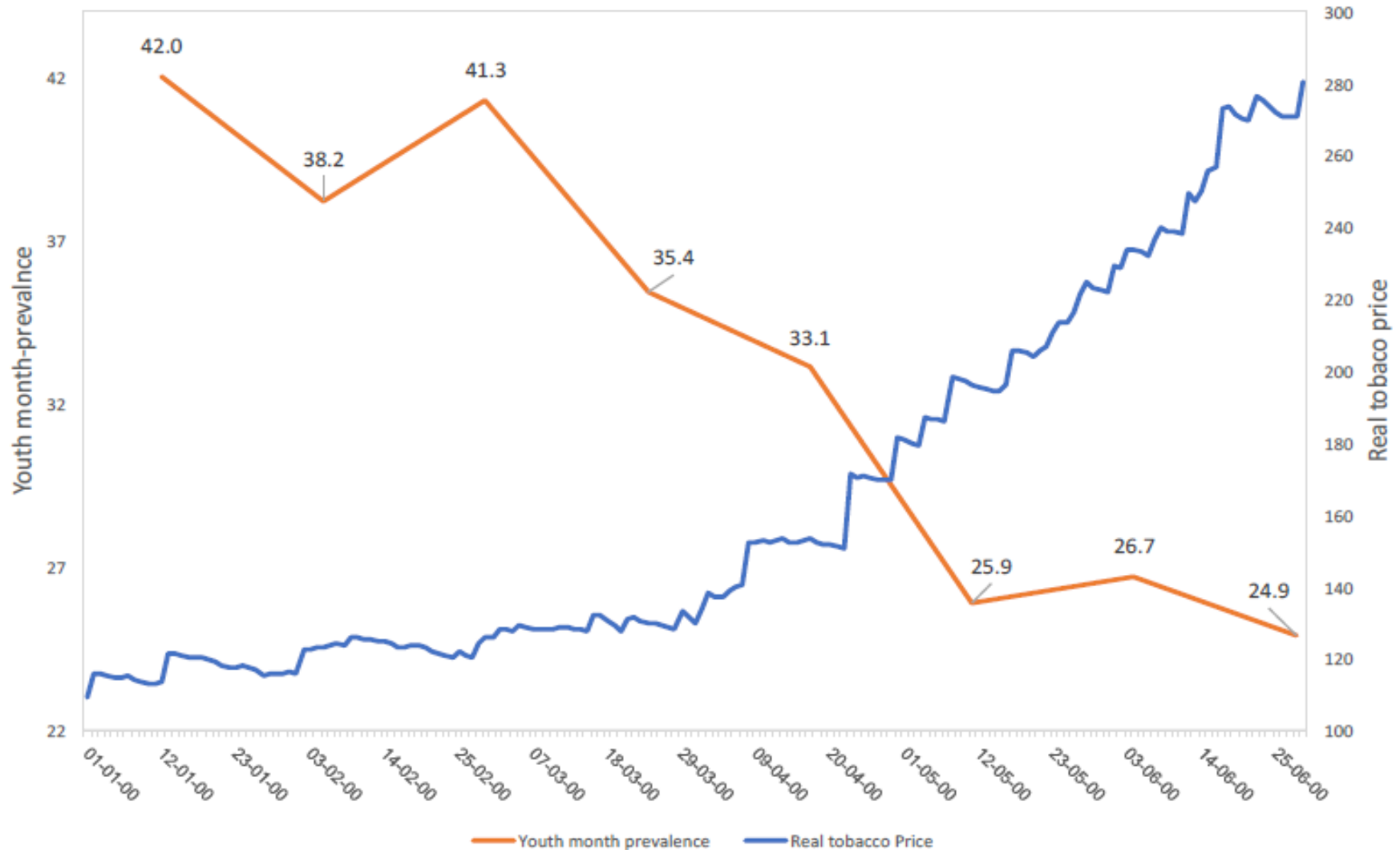


Cigarette Prices and Cessation US States & DC, 2009

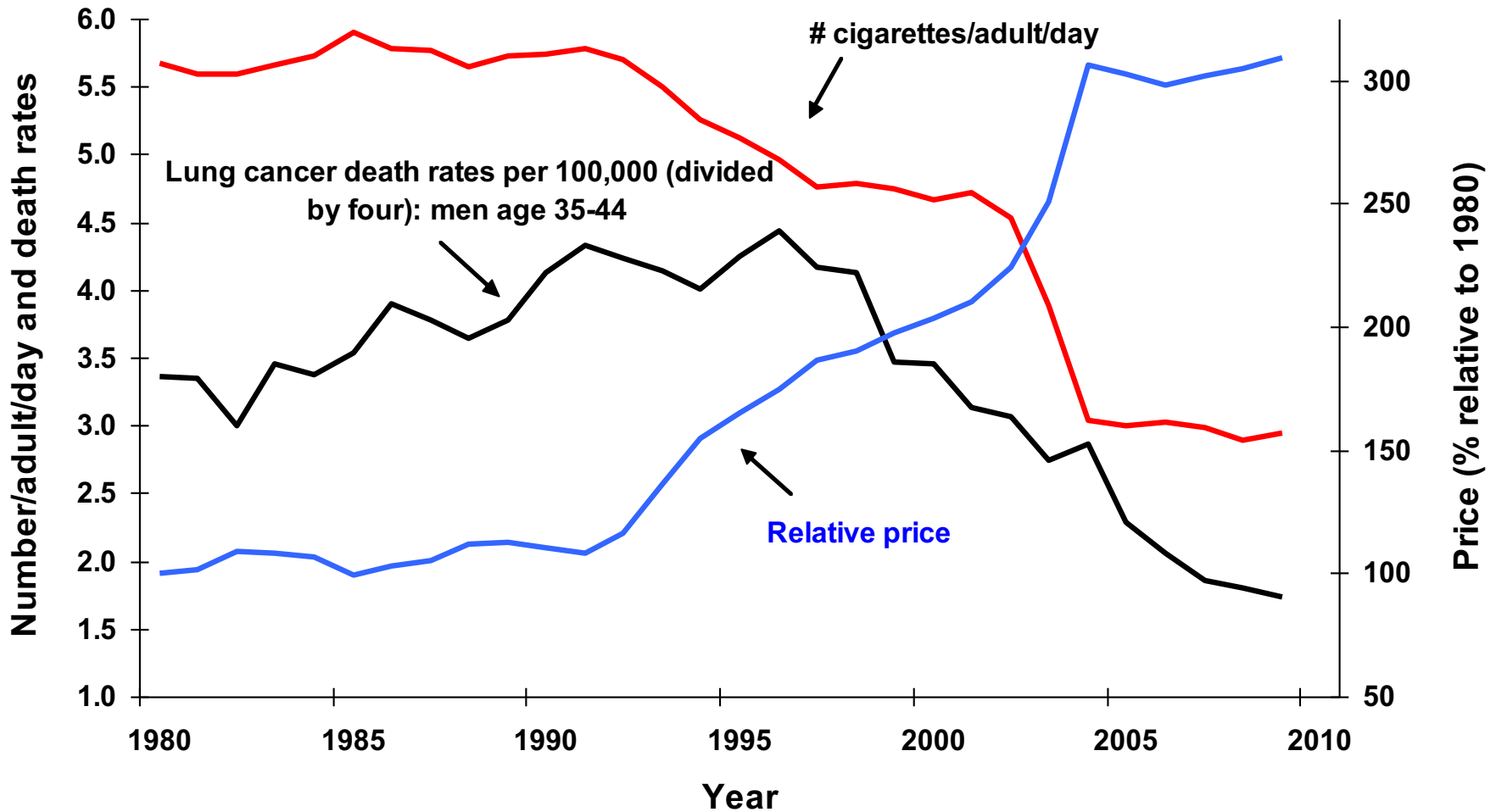


Source: BRFSS, *Tax Burden on Tobacco*, 2010, and author's calculations

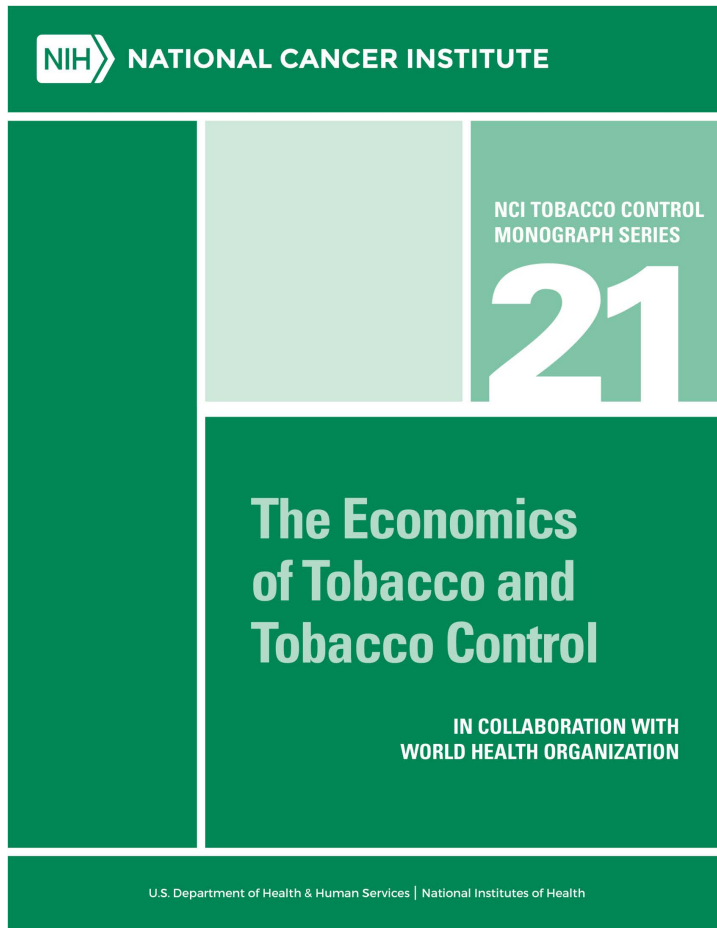
Cigarette Price & Youth Smoking Prevalence Chile, 2000-2015



Price, Consumption & Lung Cancer, France

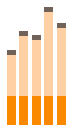


Effectiveness of Tobacco Taxes



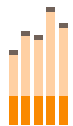
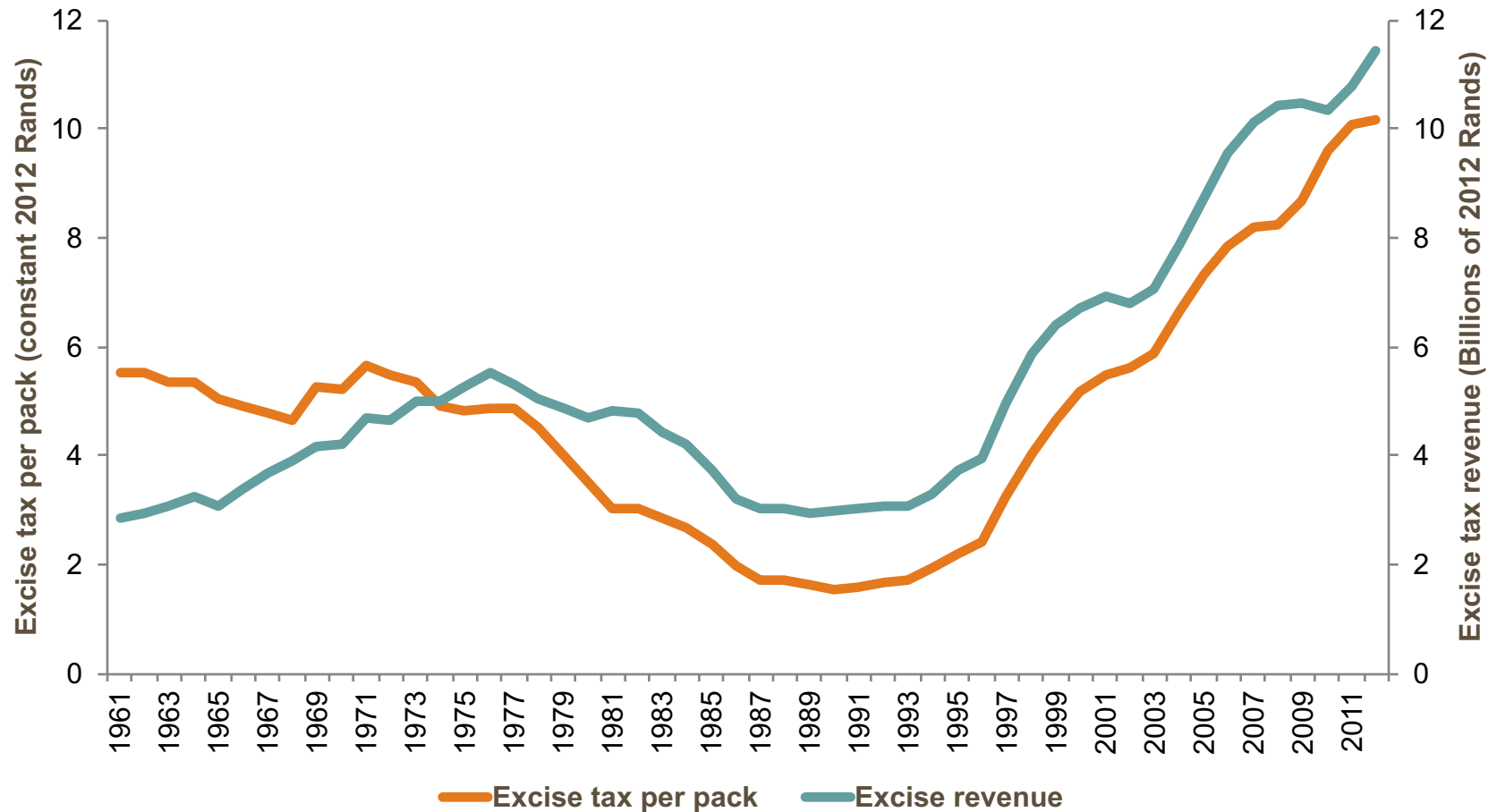
Chapter 4, Conclusion 1:

A substantial body of research, which has accumulated over many decades and from many countries, shows that **significantly increasing the excise tax and price of tobacco products is the single most consistently effective tool for reducing tobacco use.**



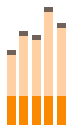
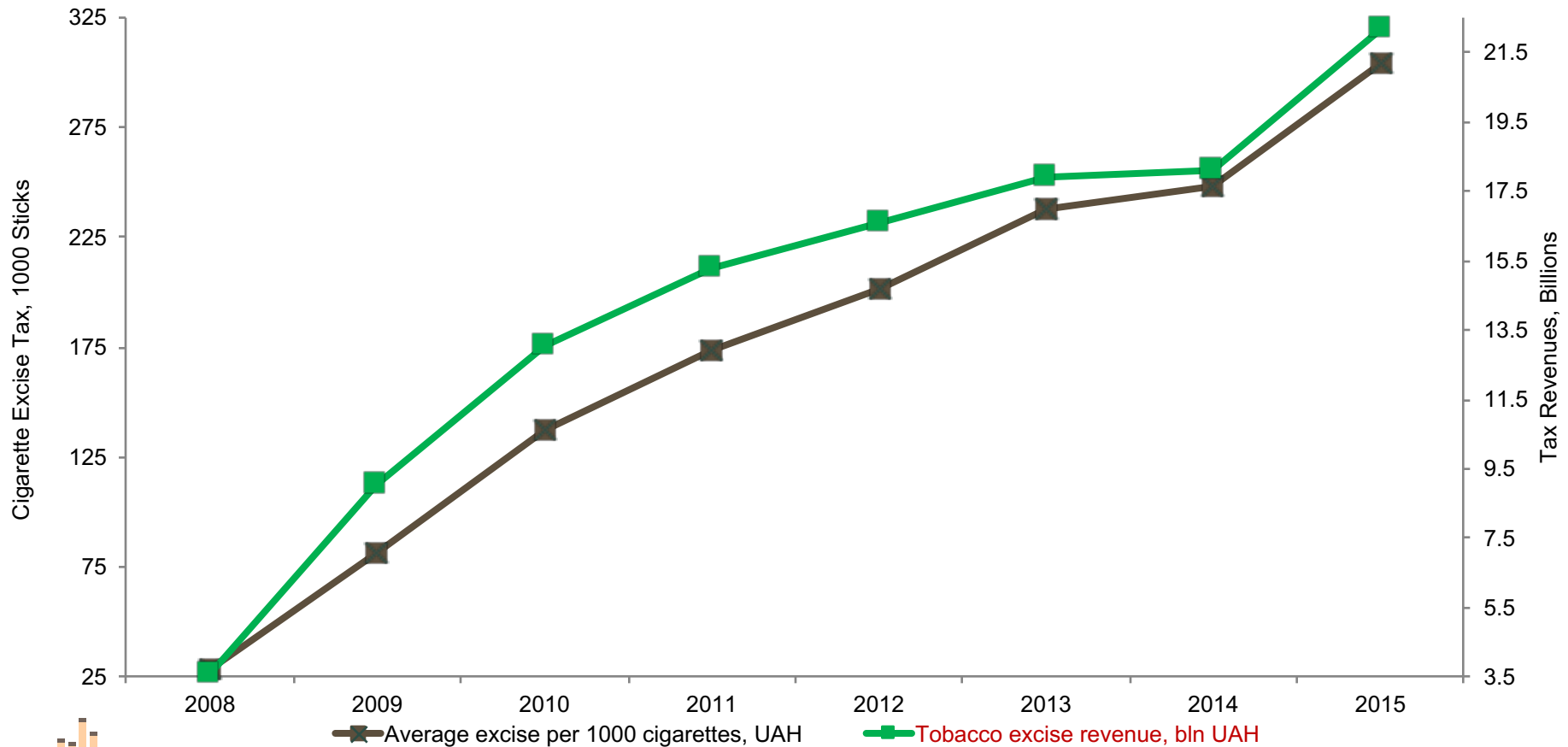
Tobacco Taxes and Revenues

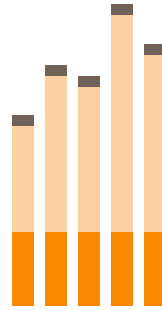
South Africa, 1961-2012



Cigarette Tax and Tax Revenues Ukraine: 2008-2015

Average excise rate for cigarettes – increased 10-fold
Cigarette Tax Revenue – increased 6-fold



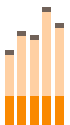


Oppositional Arguments

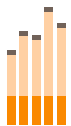
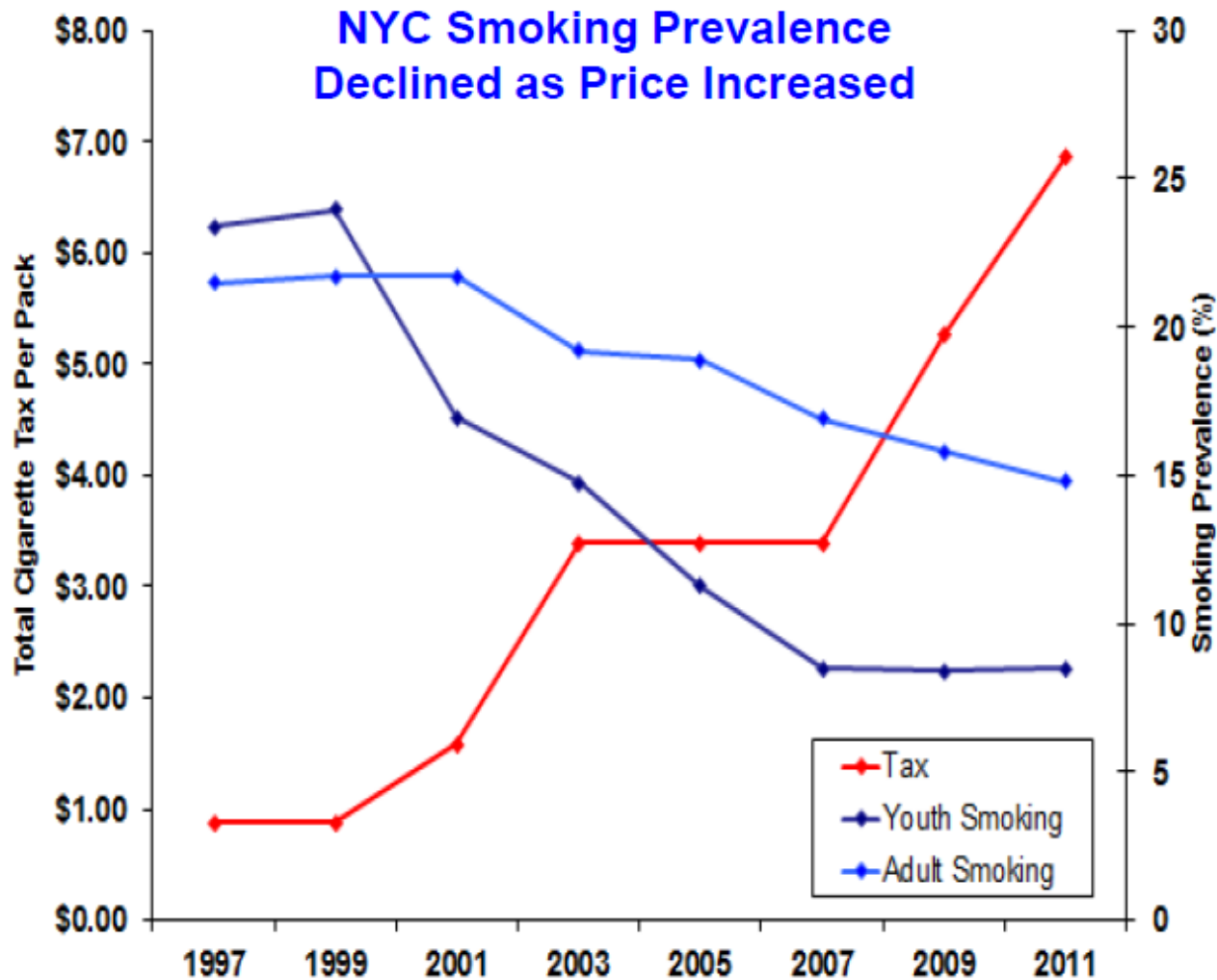
Myths & Facts

Oppositional Arguments

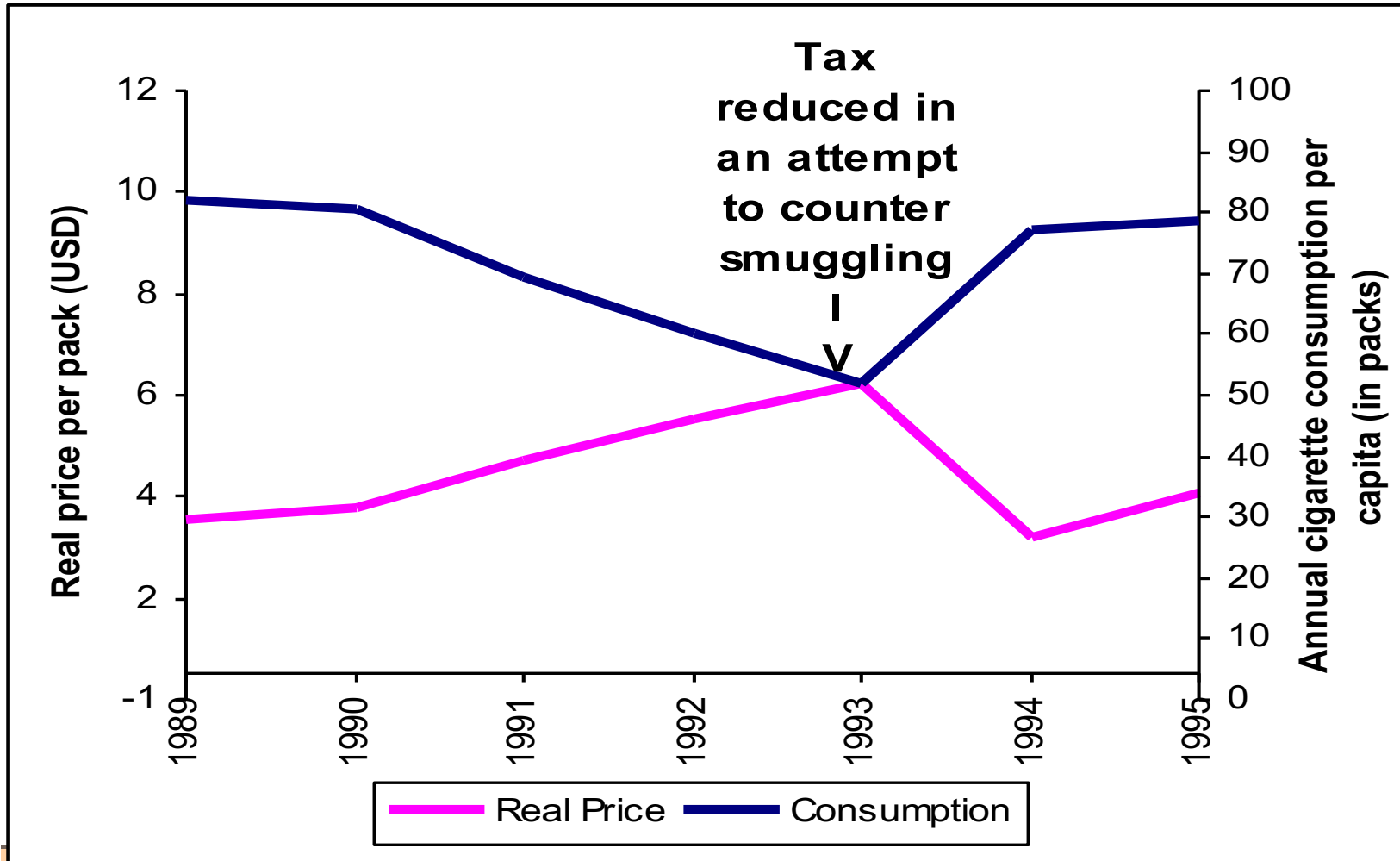
- Massive job losses as tobacco use falls in response to increased tobacco taxes
- Poor adversely affected by higher tobacco taxes
- **Increased tax avoidance and tax evasion in response to higher taxes**



Tax Avoidance & Evasion Do NOT Eliminate Health Impact of Higher Taxes

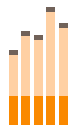
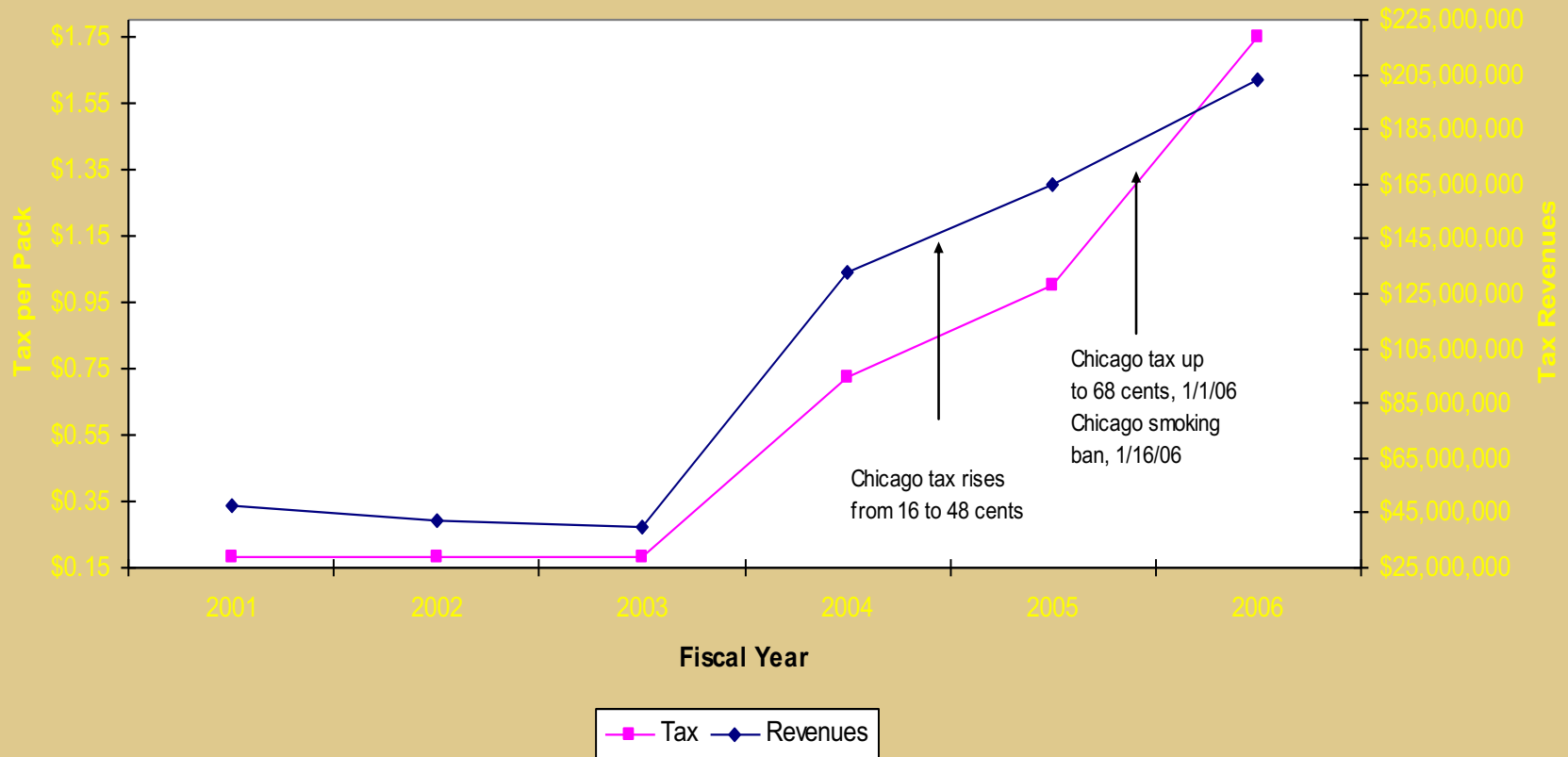


Lowering Taxes Leads to More Smoking



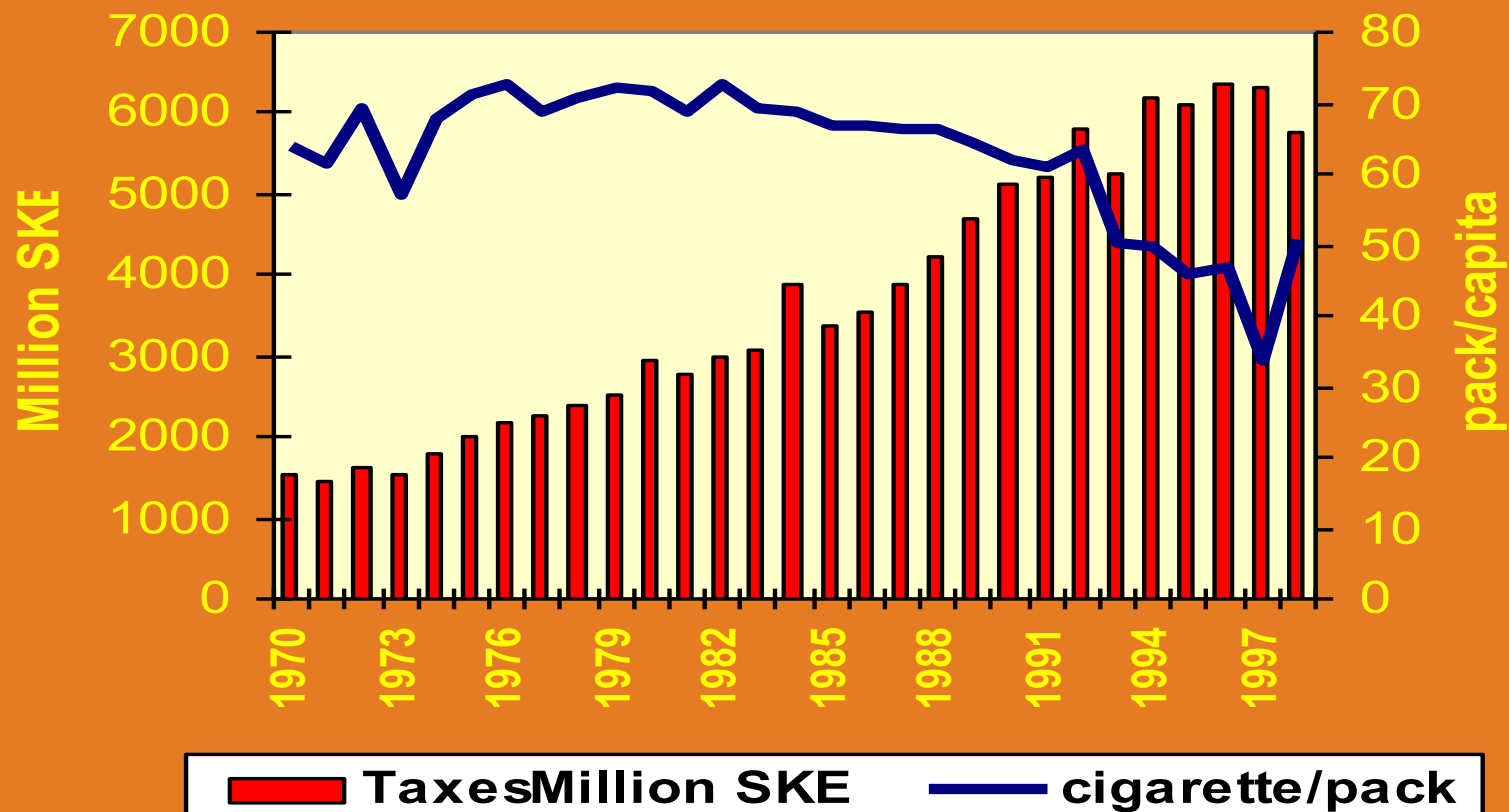
Tax Avoidance & Evasion Do NOT Eliminate Revenue Impact of Higher Taxes

Cook County Cigarette Tax and Tax Revenues - FY01-FY06

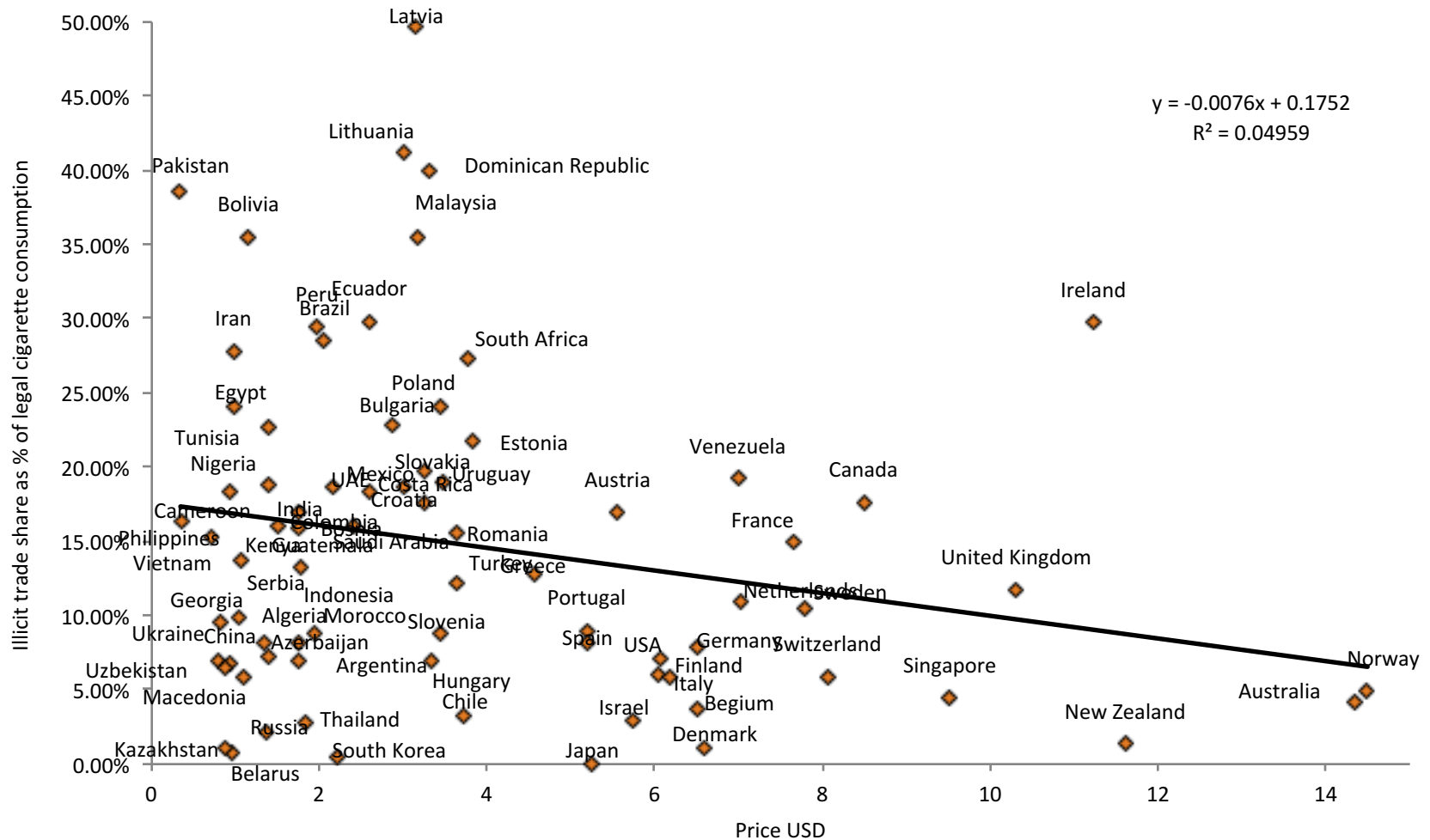


Lowering Taxes Reduces Cigarette Tax Revenue

Cigarette Tax Revenue and Consumption in Sweden, 1970-1998

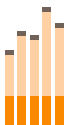


Illicit Cigarette Market Share & Cigarette Prices, 2012

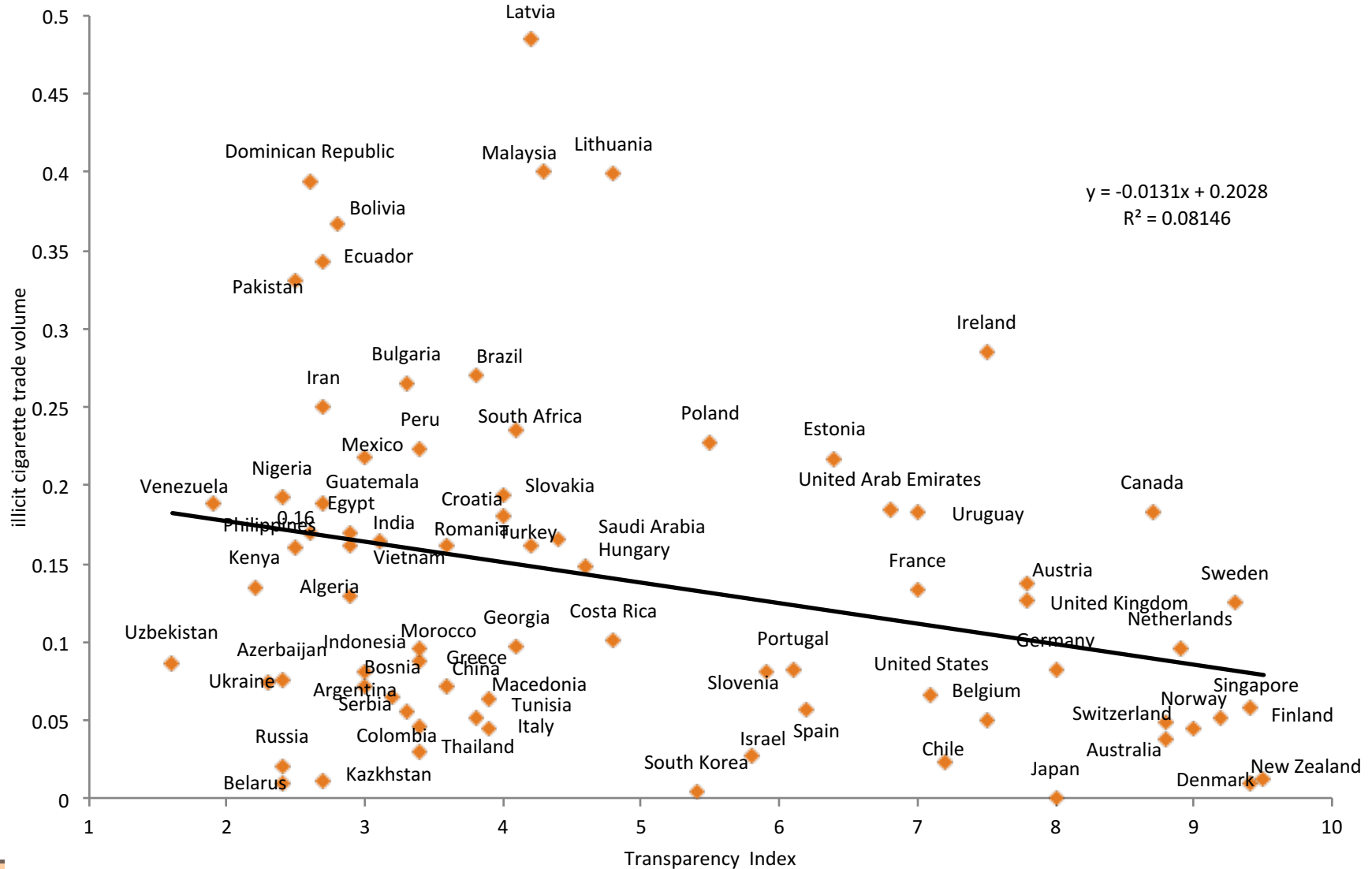


Determinants of Illicit Tobacco

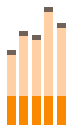
- Corruption
- Weak tax administration
- Poor enforcement
- Presence of informal distribution networks
- Presence of criminal networks
- Access to cheaper sources



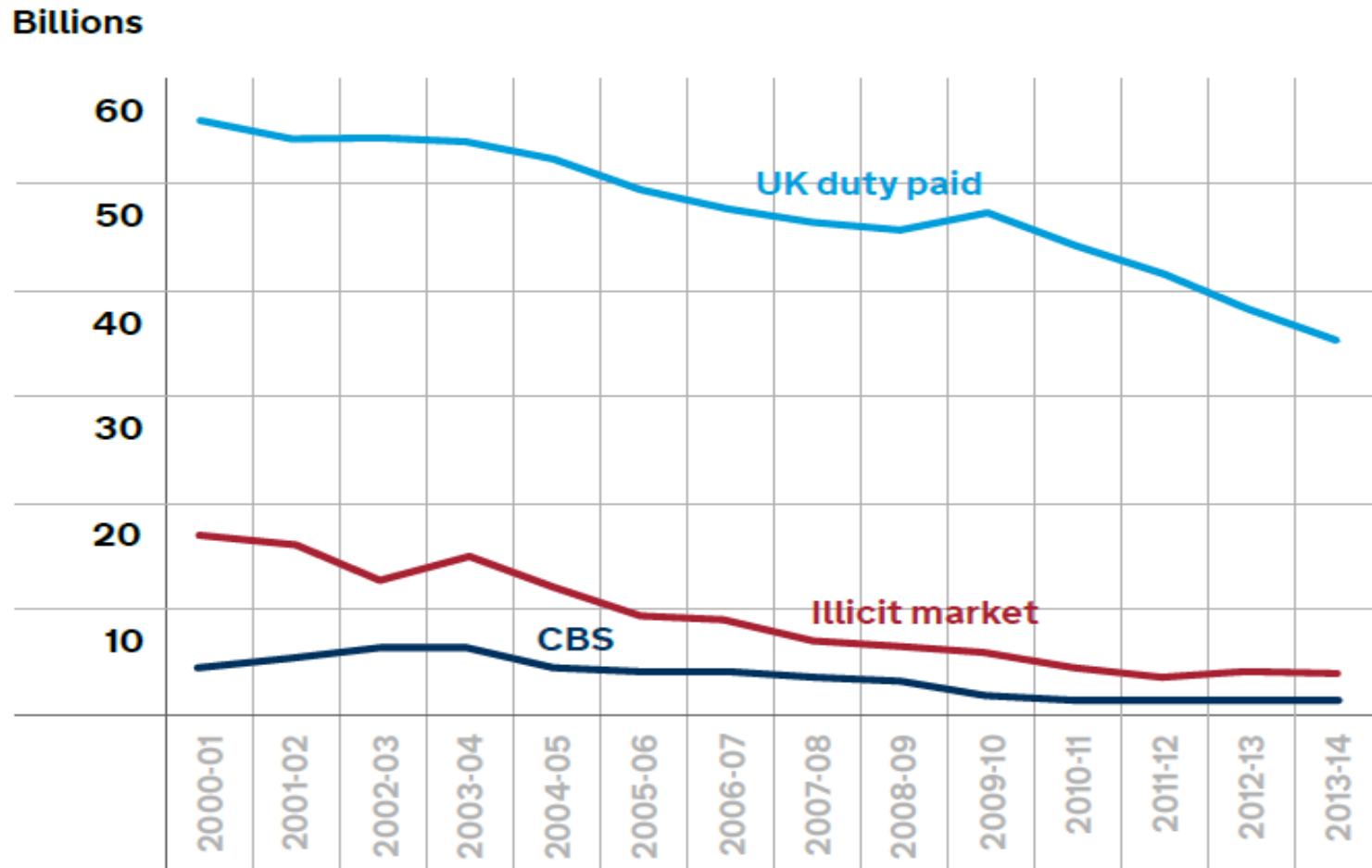
Smuggling and Corruption, 2011



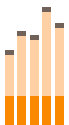
Sources: Euromonitor, Transparency International



Estimated Volumes of Cigarettes Consumed in the U.K. – Duty paid, illicit, and cross-border shopping, 2000-01 – 2013-14

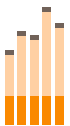


Source: HM Revenue & Customs, 2014

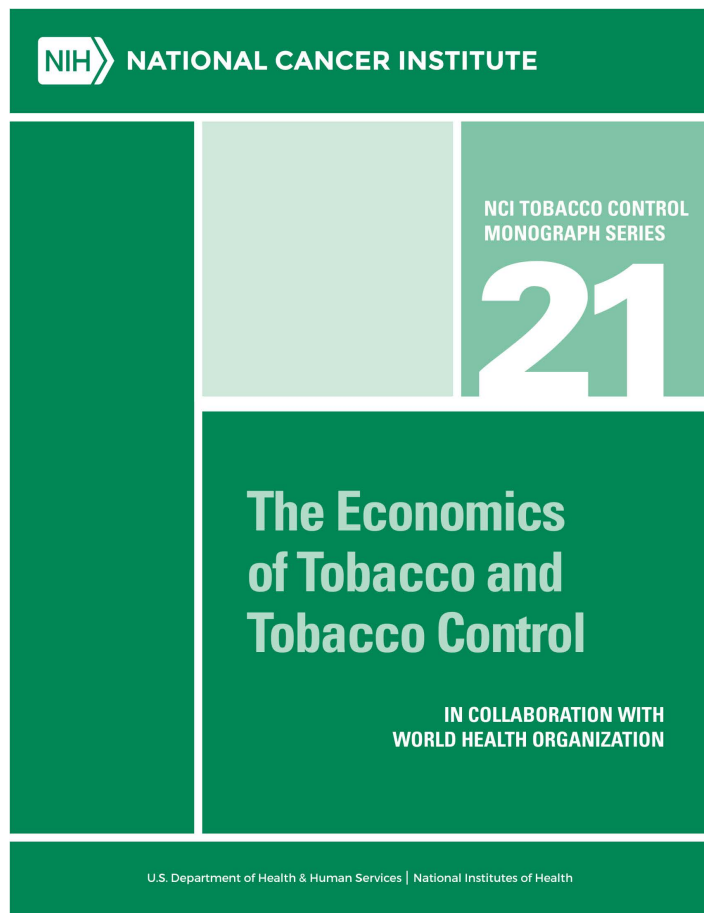


Combating Illicit Tobacco Trade

- Illicit trade protocol to the WHO FCTC
 - Entered into force September 2018
 - Provisions calling for:
 - Strong tax administration
 - Prominent, high-tech tax stamps and other pack markings
 - Licensing of manufacturers, exporters, distributors, retailers
 - Export bonds
 - Unique identification codes on packages
 - Better enforcement
 - Increased resources
 - Focus on large scale smuggling
 - Swift, severe penalties
 - Multilateral/intersectoral cooperation

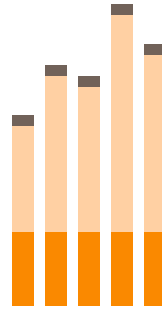


Control of Illicit Tobacco Trade



Major Conclusion #5:
Control of illicit trade in tobacco products, now the subject of its own international treaty, is the key supply-side policy to reduce tobacco use and its health and economic consequences.

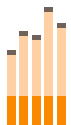




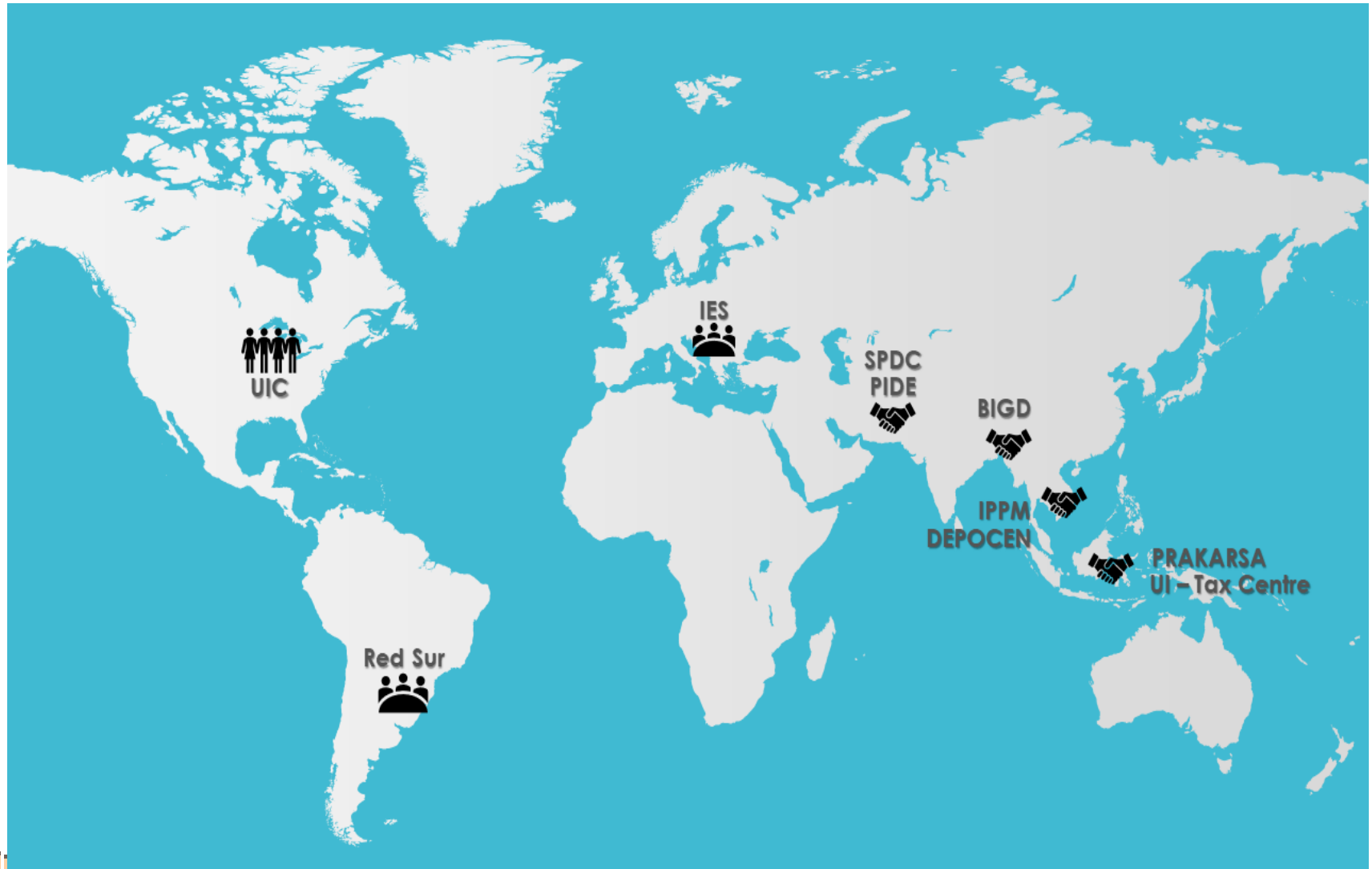
UIC and the Bloomberg Initiative

Bloomberg Initiative – UIC

- Build capacity of ‘think tanks’ in selected priority countries and regions to provide local evidence to support tobacco tax reforms and tax increases
- High-level engagement with decision makers to build technical capacity and political support for tobacco tax policy
- Develop/disseminate resources (policy briefs, white papers, etc) on tobacco taxation to build knowledge and support for tobacco tax policy



Technical Assistance



20 AÑOS RED SUR
Red Sudamericana
de Economía Aplicada

INSTITUTE FOR
HEALTH RESEARCH
AND POLICY



TOBACCO

TAXES

in Latin America

 **tobacconomics**
Economic Research Informing Tobacco Control Policy



UNSAM
UNIVERSIDAD
NACIONAL DE
SAN MARTÍN
CENTRO
DE IDEAS
Investigaciones
sobre desarrollo
económico de
América del Sur



IEP
INSTITUTO DE
ESTUDIOS
PERUANOS

FUNCEX



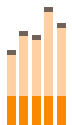
fundação
centro de estudos
do comércio
exterior



**UNIVERSIDAD
TORCUATO DI TELLA**



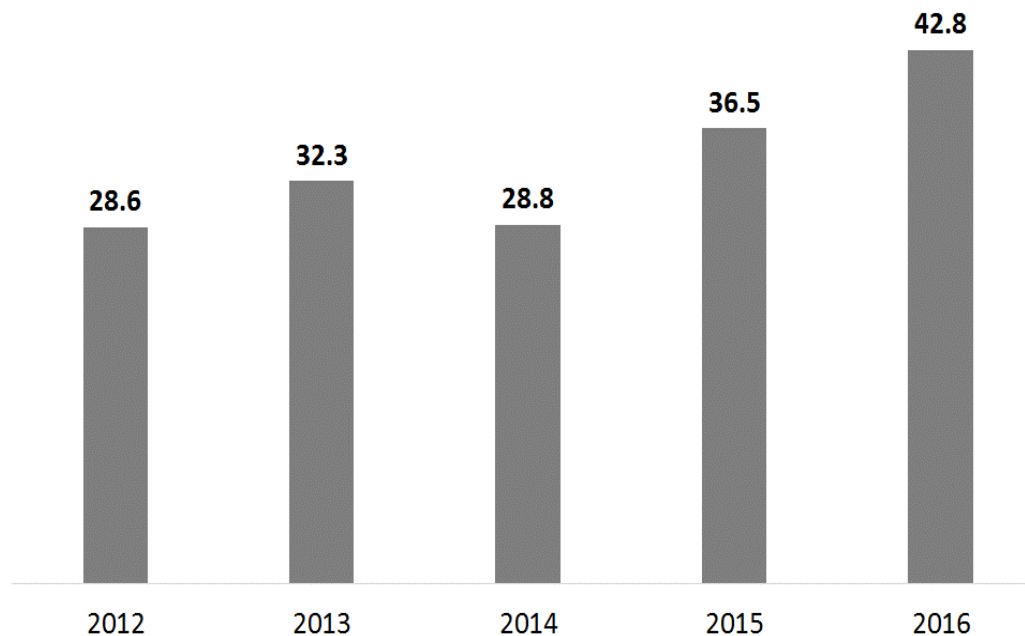
Pontificia Universidad
Católica del Ecuador



Illicit Trade in Brazil

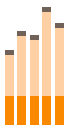
- Recent estimates suggest significant market share for illicit cigarettes in Brazil
- Illicit share rising over time

Illicit market estimates (share of total consumption)



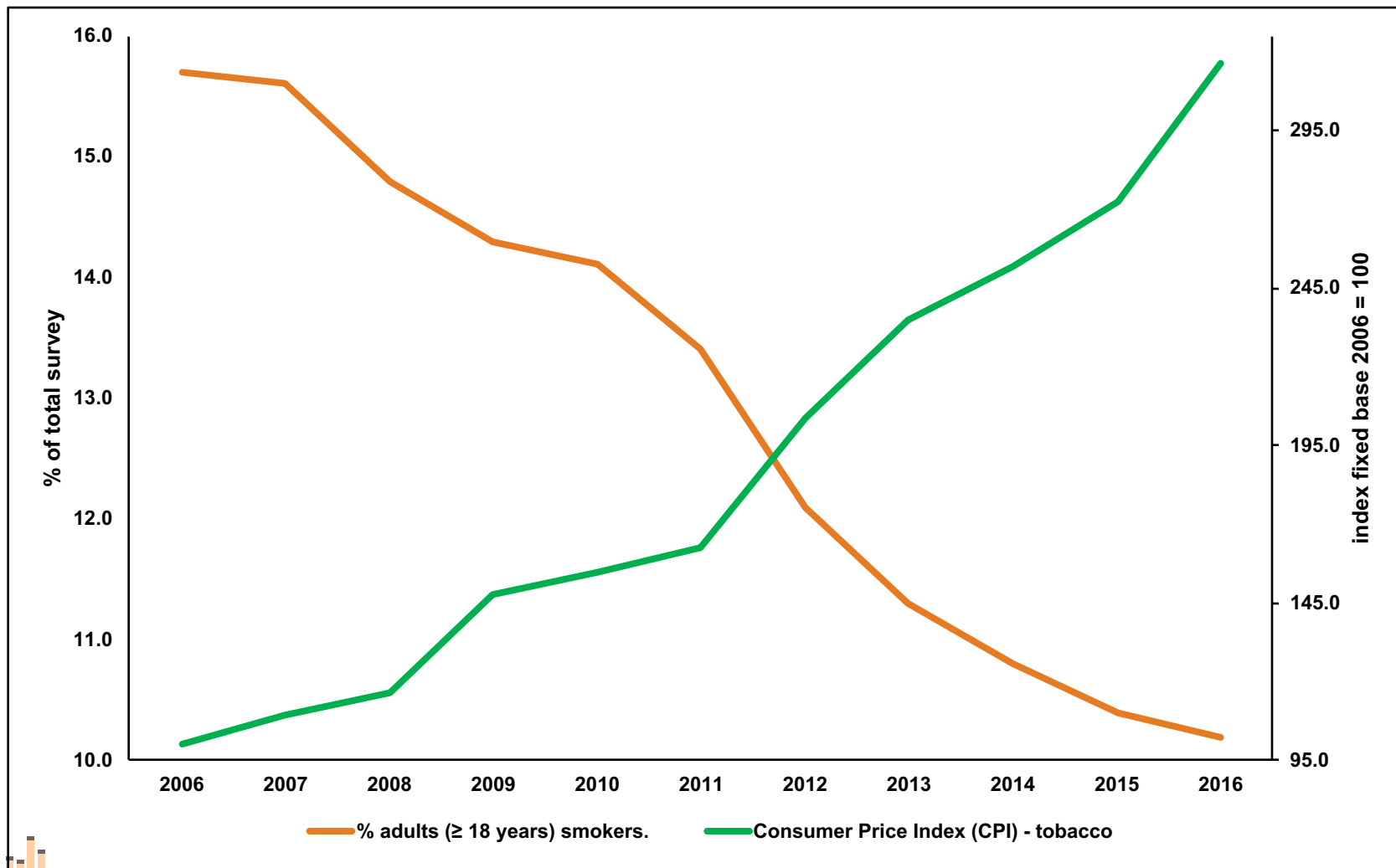
Source: Szklo et al (2018)

Source: Szklo et al., (2018)



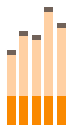
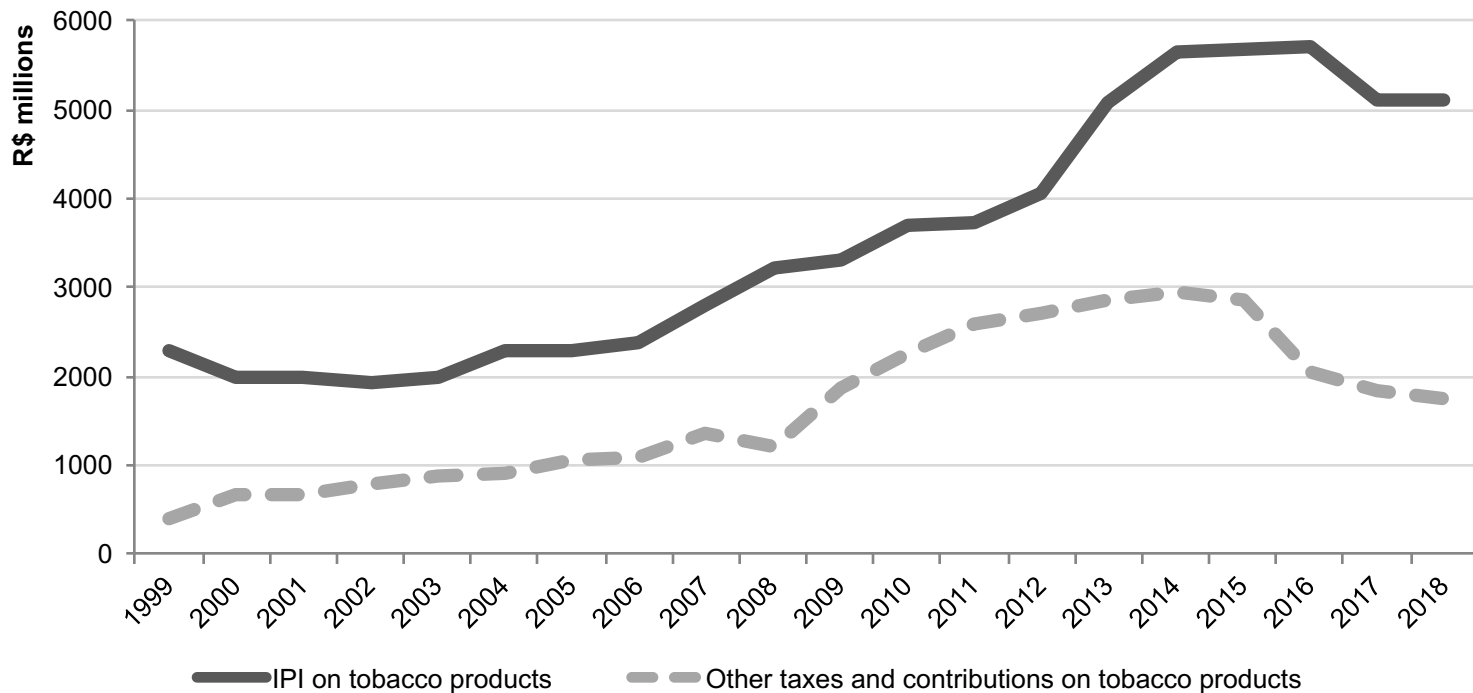
Adult Smoking Prevalence and Price

Brazil, 2006-2016, inflation adjusted



Tax Revenue in Brazil

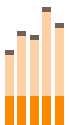
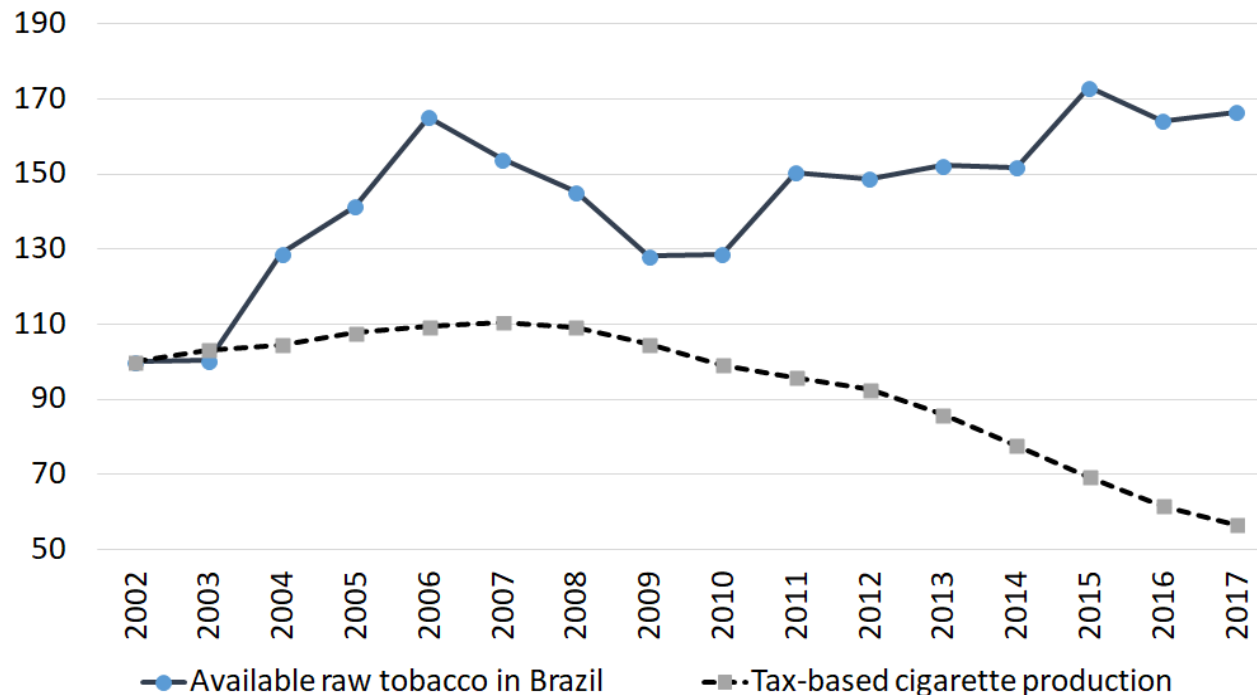
- Recent declines in tobacco tax revenues
 - From falling consumption and/or rising illicit trade?



Source: Tobacconomics (2019)

Inputs vs output trends

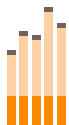
- Clear discrepancy between domestically available raw tobacco (input) and tax-based cigarette production (output) in Brazil.
- Growing difference over past decade
- Tax evasion by domestic firms?



Brazil, Paraguay & Inputs into Cigarette Production

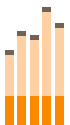
- Brazil is key supplier of cigarette inputs for Paraguay
 - Brazil accounts for 35% of Paraguayan tobacco imports (mostly raw tobacco)
 - Brazil is the source for 26.5% of Paraguayan filament tow since 2005.
 - Brazil is the source for 27% of Paraguayan paper for cigarettes.

	2000	2005	2010	2015	2016	2017
Tobacco and tobacco products (24.01, 24.02 and 24.03)	1 st	7 th	1 st	1 st	1 st	2 nd
Cigarette filter (48.13)	4 th	2 nd	2 nd	2 nd	2 nd	2 nd
Cigarette paper (55.02)	2 nd	8 th	2 nd	2 nd	2 nd	1 st



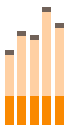
Policy Recommendations

- Create track-and tracing mechanisms for cigarette inputs, including acetate tow and raw tobacco production, imports and sales, expanding SRFB SCORPIOS system
- Increase surveillance on the Paraguayan border: Besides focusing of illicit cigarette flows from Paraguay to Brazil, Federal Police operations should also focus on illicit raw inputs flows from Brazil to Paraguay.
- Improve the understanding of the Paraguay/Brazil cigarette production chain
- Strengthen law enforcement on illicit activities: Not only illicit trading but also illegal production and tax evasion



Conclusions

- Increases in cigarette taxes and prices have led to reductions in smoking prevalence and tobacco-attributable deaths, diseases and economic costs
- Strengthening tobacco tax administration will enhance the effectiveness of future tax increases, both for reducing smoking and increasing tax revenues



THANK YOU!

For more information:

Tobacconomics

<http://www.tobacconomics.org>

@tobacconomics

fjc@uic.edu

www.redsudamericana.org

The cover features a close-up of a cigarette. At the top left, it displays the logos for '20 AÑOS RED SUR' and 'INSTITUTE FOR HEALTH RESEARCH AND POLICY' with the UIC logo. The title 'Tobacco Taxes in Latin America' is centered, with 'Policy Brief N° 3/2019' below it. A large yellow banner across the middle contains the word 'BRAZIL'. Below this, the subtitle 'ACCELERATING EFFECTIVE TOBACCO TAXES IN BRAZIL: TRENDS AND PERSPECTIVES' is written. At the bottom, a small text block states: 'This Policy Brief was developed by the South American Network on Applied Economics/Red Sur and presents the main findings and policy recommendations resulting from the background study for Brazil, developed by Fundação Centro de Estudos do Comércio Exterior (FUNCEX / Red Sur), within the UIC-Red Sur project "Tobacco taxes in Latin America", as part of the global project coordinated by The University of Illinois at Chicago's (UIC) Institute for Health Research and Policy and supported by the Bloomberg Initiative To Reduce Tobacco Use.'

The cover features the 'tobacconomics' logo and the subtitle 'Informe sobre políticas públicas | Marzo de 2018'. The title 'La economía del tabaco y el control del tabaco en América Latina' is prominent. Below it, the text reads: 'Informe basado en la monografía del Instituto Nacional del Cáncer de los Estados Unidos y la Organización Mundial de la salud: The Economics of Tobacco and Tobacco Control, de 2016.' The 'Introducción' section states: 'Casi el 80% de los fumadores viven en países de ingresos medios y bajos (PIMB), entre ellos, 127 millones en la Región de las Américas (América del Norte, Central y del Sur).² En esta región el consumo de tabaco provoca 1 millón de muertes al año y se espera que esta cifra aumente de manera considerable en los próximos años.³ En 2015, la carga económica del tabaquismo en los sistemas sanitario América Latina ascendió a \$34.000 millones, aproximadamente el 8 % de gasto sanitario regional.⁴' A second paragraph notes: 'En América Latina, como en otras partes del mundo, no existe un conocimiento generalizado del efecto del consumo de tabaco en la salud, los costos que el consumo de tabaco impone sobre fumadores y no fumadores. No existe siquiera un conocimiento básico del carácter adictivo y perjudicial de los productos derivados del tabaco. Esto supone un fallo del mercado de tabaco y proporciona a los gobiernos una justificación para intervenir en dicho mercado.' A third paragraph states: 'El presente informe sobre políticas públicas aborda los retos y las oportunidades frente a políticas de control de tabaco integrales en América Latina, con especial atención a los impuestos al tabaco.'

The cover features the 'tobacconomics' logo and the subtitle 'Informe sobre políticas públicas | Julio 2018'. The title 'Mejores prácticas para políticas fiscales al tabaco en América Latina y el Caribe' is prominent. Below it, the 'Introducción' section states: 'La herramienta más efectiva para el control del tabaco es aumentar significativamente los impuestos al consumo en productos de tabaco. También es una política costo-efectiva. El principio es simple: el aumento de impuestos lo suficientemente grande, aumenta también los precios del tabaco haciéndolo menos asequible y reduciendo así su iniciación, prevalencia y consumo. Debido a que la demanda del tabaco es inelástica^{1,2}, impuestos más altos generan incrementos en la recaudación fiscal. La demanda de un producto es inelástica cuando, por ejemplo, un aumento del 10 % en el precio produce una disminución menor del 10 % en el consumo.' A second paragraph notes: 'Este Informe sobre políticas aborda los retos y oportunidades para implementar eficazmente políticas fiscales al tabaco en América Latina, con especial atención en las mejores prácticas en impuestos al tabaco. Este Informe está basado en una monografía del Instituto Nacional del Cáncer de los Estados Unidos y de la Organización Mundial de la Salud.'

The cover features the '20 AÑOS RED SUR' logo and 'INSTITUTE FOR HEALTH RESEARCH AND POLICY' with the UIC logo. The title 'IMPUESTOS AL TABACO en América Latina' is prominent. At the bottom, it includes the 'tobacconomics' logo and subtitle 'Economic Research Informing Tobacco Control Policy'.