

HIGHER TOBACCO TAX, FEWER CIGARETTES CONSUMED

www.pide.org.pk

Based on

The Economic Cost of Tobacco-Induced Diseases In Pakistan. Durre Nayab, Muhammad Nasir, Junaid Alam Memon & Omer Siddique. 2021.

Reluctance to Switch to Cheaper Products Make Higher Taxes More Effective

Introduction

Global evidence shows that tobacco taxation is a very effective policy option to prevent tobacco-induced diseases and deaths. Tobacco taxation, which raises the tobacco products' prices for consumers, helps reduce tobacco consumption, keeps potential tobacco consumers from taking up smoking, and leads current tobacco consumers to quit.

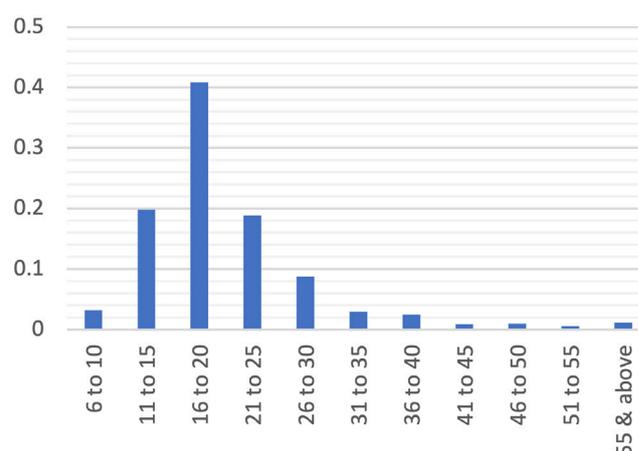
There is a significant pass-through of tax increase to prices

A tobacco tax policy will be ineffective in achieving the desired outcome if tax increases do not translate into higher prices. The pass-through effect of cigarette tax increases into the final price in Pakistan is 80 percent, which is significant enough to affect cigarette demand¹.

Smokers start young with cheaper brands

Sixty percent of smokers start smoking during their teens and some as early as six years old. Among the reasons for starting smoking at an early age is the affordability of cigarettes. As the age increases, the probability of starting smoking tapers off – very few start smoking in their 40s.

Figure 1. Age of Tobacco Initiation



Price increases make smokers quit or reduce smoking, with very few switching to cheaper products

If smokers change their behavior by either switching to cheaper brands or other tobacco products – known as economic compensation strategy – an increase in tobacco tax can be less effective. The present study reveals that most smokers choose to quit or reduce smoking in response to price increases rather than switch to cheaper brands or other products.

As prices increase, the number of quitters increases. The higher the percentage increase in price, the lower the number of people who would continue to smoke. The study also shows only 2.6 percent switch to a different brand or other tobacco products in response to a price increase. This hints at the reluctance of tobacco users towards switching. This makes tobacco taxation an even more potent tool to reduce its consumption.

¹Cevik, S. (2018). Smoke screen: Estimating the tax pass-through to cigarette prices in Pakistan. *Review of Development Economics*, 22(3), e1-e15.

Opportunities to increase prices through taxation and reduce consumption

Smokers' maximum willingness to pay (MWTP), according to the study results, is Rs 35.80 per cigarette stick, which is equal to Rs 716 (US\$ 4.5) for a pack of twenty cigarettes. No cigarette brand in Pakistan sells at Rs 716 or more. This demonstrates how low the price of cigarettes is in Pakistan.

Most smokers (65 percent) use cheaper brands when they start smoking, indicating that affordability is an important factor contributing to smoking initiation.

Policy Prescriptions

The study's findings provide strong support for using tax-induced price changes and other policies to discourage tobacco consumption in Pakistan.

Raise taxes, curb smoking

There is a need to revisit the current tobacco taxation policy urgently. The per-cigarette price is much lower than the average MWTP of Rs 35.80 per cigarette. Most smokers chose to quit or reduce smoking instead of switching to cheaper products. There is ample scope to raise cigarette prices through an increase in tobacco taxation. The current WHO-suggested excise tax threshold is 70 percent as the proportion of the retail price. Therefore, the taxes should be increased at least to this threshold to have a meaningful impact on reducing cigarette consumption in Pakistan.

Discouraging the young

The report's findings establish that since smokers start young in Pakistan, programs aimed at discouraging tobacco initiation should be redesigned to effectively target the youth, especially those in their teens and early twenties. Since the availability of cheap cigarettes is a major reason for youth to take up smoking, higher taxes leading to costlier cigarettes is an effective way to discourage them picking up this habit.

The Pakistan Institute of Development Economics (PIDE) is funded by the University of Illinois Chicago's (UIC) Institute for Health Research and Policy to conduct economic research on tobacco taxation in Pakistan. UIC is a partner of the Bloomberg Initiative to Reduce Tobacco Use. The views expressed in this document cannot be attributed to, nor do they represent, the views of UIC, the Institute for Health Research and Policy, or Bloomberg Philanthropies.



PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS
www.pide.org.pk