

Raising taxes on tobacco

(Conventional Cigarettes, RYO Tobacco, Heated Tobacco Products)

Silvano GALLUS

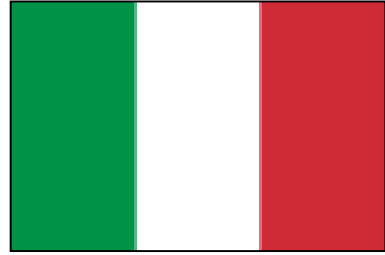


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Raising taxes on tobacco

Taxation as a tobacco control strategy

Price increases through higher taxes on cigarettes and other tobacco products is the most important **tobacco control strategy** that should be prioritised according to the **World Bank**;

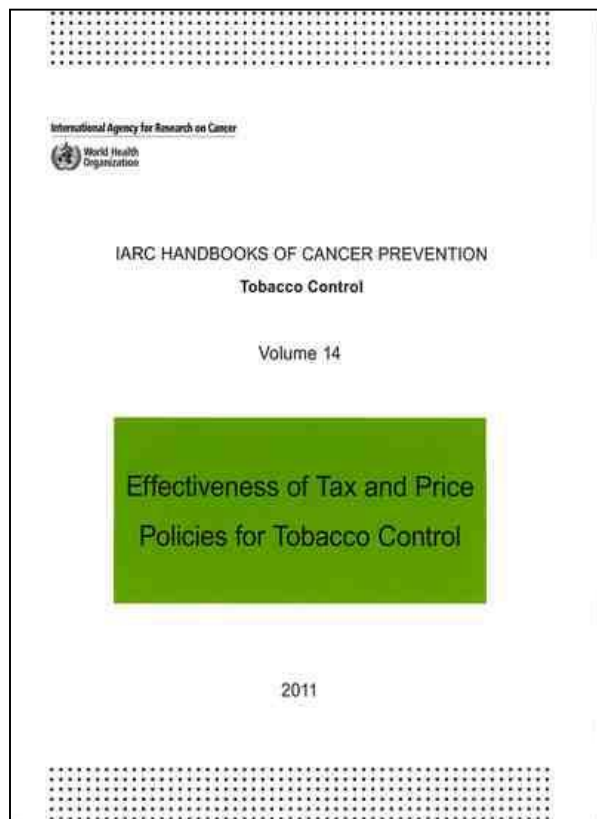
The 6th article of the WHO Framework Convention on Tobacco Control (FCTC) states:

Price and tax measures to reduce the demand for tobacco

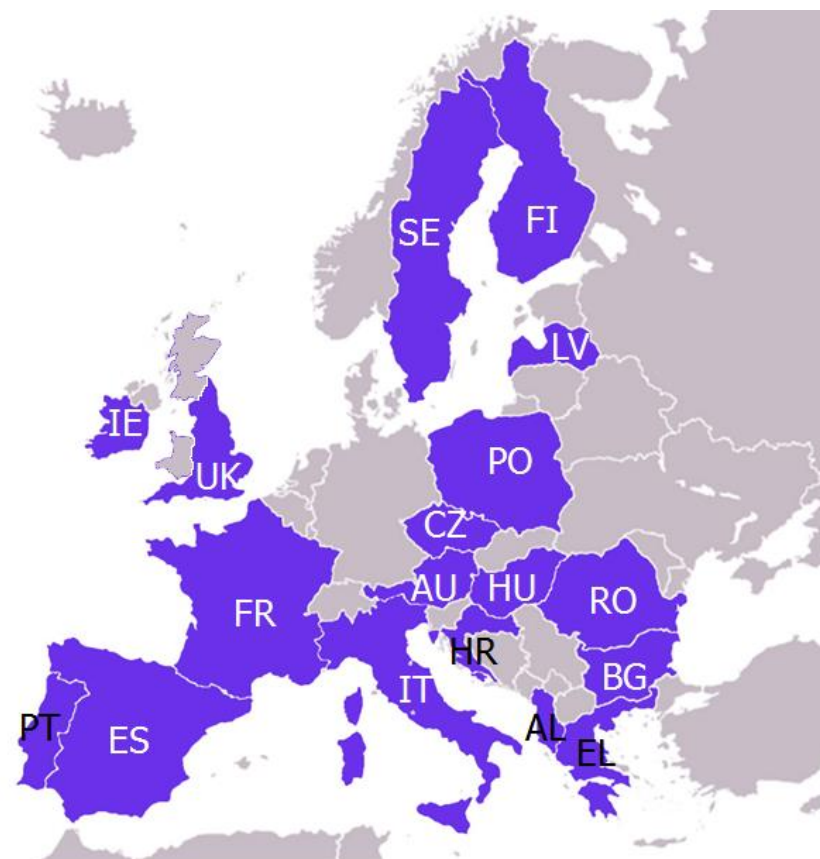
1. The Parties recognize that price and tax measures are an effective and important means of reducing tobacco consumption by various segments of the population, in particular young persons.



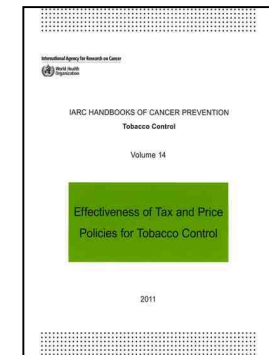
IARC Handbook



European survey



Handbook: are tax and price policies effective for Tobacco Control?

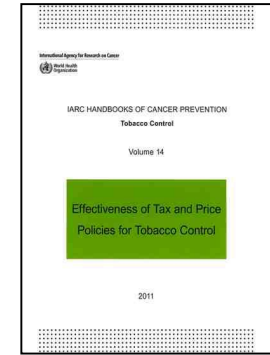


	Concluding Statements	Sufficient Evidence	Strong Evidence	Limited Evidence
1	Increases in tobacco excise taxes that increase prices result in a decline in overall tobacco use.	X		
2	Increases in tobacco excise taxes reduce the prevalence of tobacco use.			
3	Increases in tobacco excise taxes induce current tobacco users to quit.			
4	Increases in tobacco excise taxes lower the consumption of tobacco among continuing users.			
5	Increases in tobacco excise taxes reduce the prevalence of tobacco use among young people.			
6	Increases in tobacco excise taxes reduce the initiation of tobacco use among young people, and on the transition to regular use.			
7	Tobacco use among young people is more responsive to changes in tobacco prices than does tobacco use among older people.			
8	The demand for tobacco products in high-income countries is more responsive to price increases than is the demand for tobacco products in low-income countries.			
9	In high-income countries, tobacco use among lower-income populations is more responsive to tax and price increases than is tobacco use among higher-income populations.		X	
10	In low- and middle-income countries, tobacco use among lower-income populations is more responsive to tax and price increases than is tobacco use among higher-income populations.			X
11	Changes in the relative prices of tobacco products lead to some substitution to the products for which the relative prices have fallen.		X	

There is evidence that **increases in tobacco excise taxes** -that increases prices- **reduce tobacco use, smoking prevalence and smoking initiation among young people, and increase smoking cessation and tax revenues**

	Sufficient Evidence	Strong Evidence	Limited Evidence
	X		
	X		
		X	
	X		
		X	
	X		
18	X		

Handbook: price elasticity



- In large **systematic reviews** of the **scientific** and economic **literature**, a number of studies (**around 200**) using both aggregate and individual-level data consistently show that **prevalence and intensity of smoking are**

in

if price elasticity
for cigarette
consumption = -0.4



an increase in price
by 10% gives
a 4% reduction in
tobacco consumption

found
most

• The
to
-0

of low to middle income countries.



Price elasticity in Italy

Price and consumption of tobacco in Italy over the last three decades

S Gallus¹, E Fernandez^{2,3}, J Townsend⁴, A Schiaffino² and C La Vecchia^{1,5}

Changes in cigarette price have had an appreciable impact on smoking consumption in several countries. We analysed the price elasticity of demand for cigarettes in Italy over the period 1970–2001. A 1% increase in price of cigarettes led to a 0.30% decline in smoking prevalence and to a 0.43%

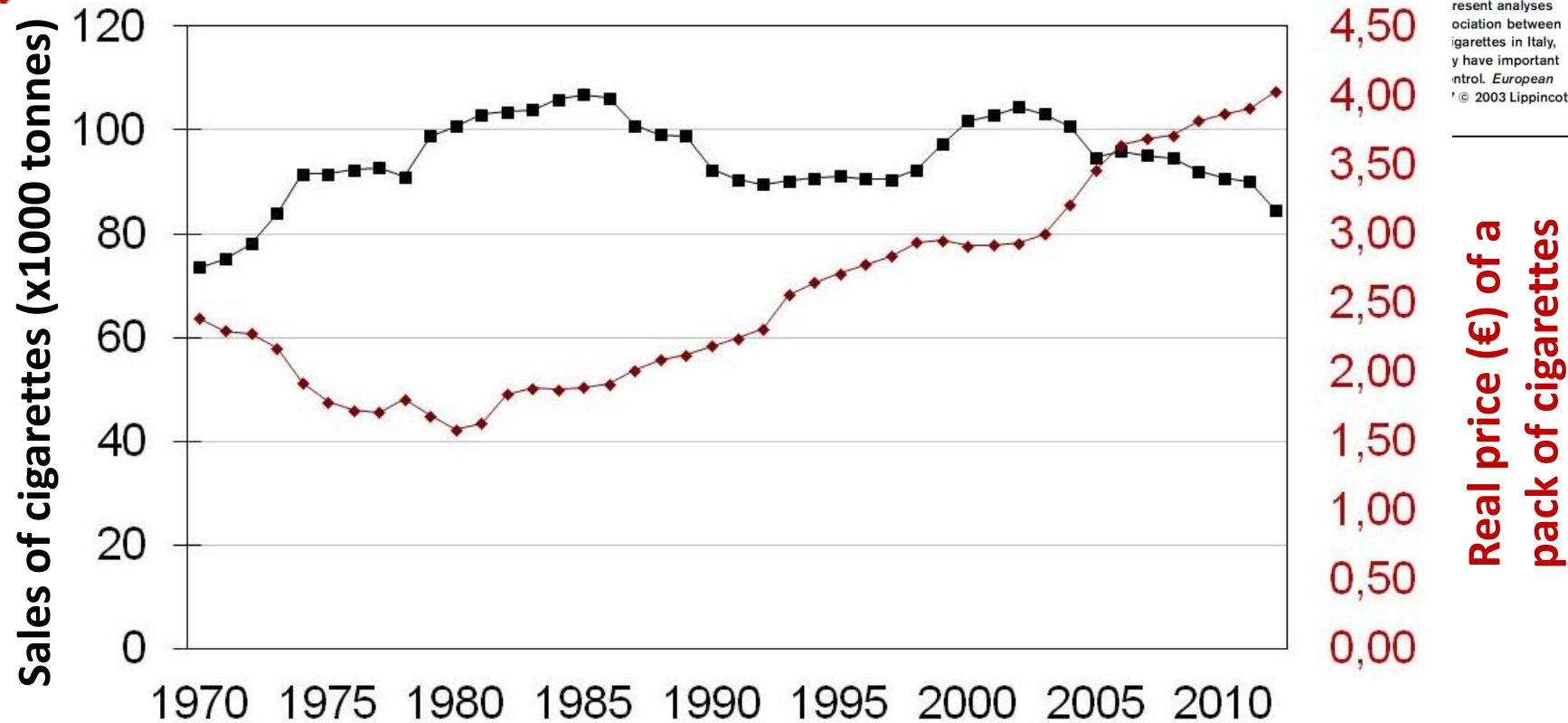
European Journal of Cancer Prevention 2003, 12:333–337

Keywords: Health policy, health surveys, Italy, price, smuggling, tobacco smoking.

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Analysing official legal sales data for the period 1970-2001 **in Italy**, we estimated in **-0.43** the **price elasticity** for cigarette consumption.

Adoption of an additional excise tax by 0.50€, 1€ and 2€ per pack in Italy

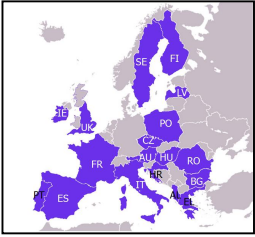
Increment	Price distribution for 1 kg of tobacco					Price per pack	Packs sold/year (billion)	Revenues (billions of €)
	Industry	Retailers	VAT	Excise Tax	Total			
STATUS QUO (0€)	€ 33.06	€ 25.00	€ 45.08	€ 146.86	€ 250.00	€ 5.00	3.250	12.5
Increase by 0.50€/pack	€ 33.06	€ 28.47	€ 51.34	€ 171.86	€ 284.70	€ 5.69	3.069	13.7
Increase by 1€/pack	€ 33.06	€ 31.95	€ 57.61	€ 196.86	€ 319.50	€ 6.39	2.888	14.7
Increase by 2€/pack	€ 33.06	€ 38.90	€ 70.14	€ 246.86	€ 389.00	€ 7.78	2.527	16.0

Assumptions: 65000 tons of cigarettes sold in one year; 5€ per pack; price elasticity=-0.4

Is tobacco price too high in Italy?

Country	Price (30) score of TCS 2016	Standardized price of a pack of cigarettes
UK	26	8.70€
France	19	6.30€
Romania	17	5.70€
Turkey	17	5.70€
Italy	15	5.00€
Spain	14	4.70€
The Netherlands	14	4.70€
Poland	14	4.70€
Germany	13	4.30€





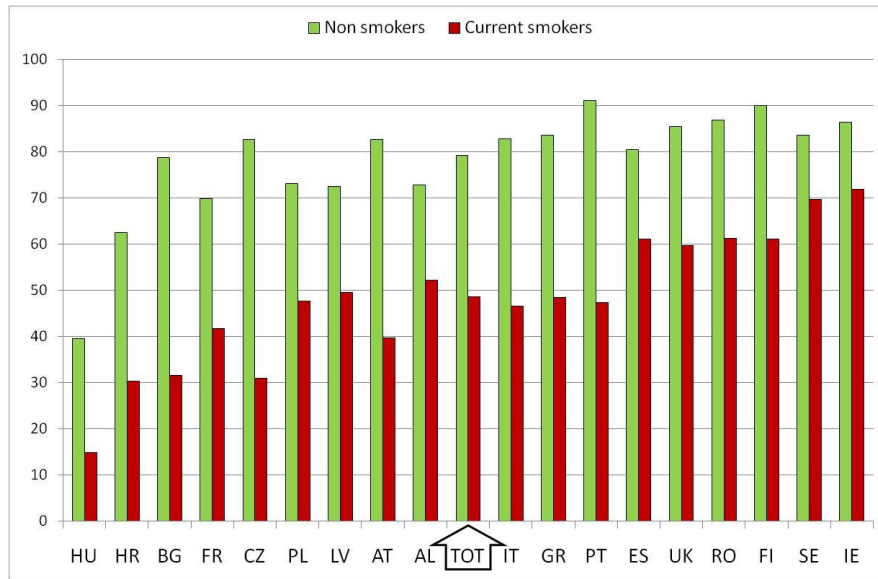
Are pricing policies supported by the population?

Pricing Policies And Control of Tobacco in Europe (PPACTE) project: cross-national comparison of smoking prevalence in 18 European countries
 Silvano Gallus^a, Alessandra Lugo^{a,b}, Carlo La Vecchia^{a,b}, Paolo Boffetta^{d,h}, Frank J. Chaloupka^e, Paolo Colombo^c, Laura Currie^{i,k}, Esteve Fernandez^{l,m,n}, Colin Fischbacher^o, Anna Gilmore^p, Fiona Godfrey^r, Luk Joossens^s, Maria E. Leon^t, David T. Levy^q, Lien Nguyen^l, Gunnar Rosenqvist^u, Hana Ross^v, Joy Townsend^q and Luke Clancy^k

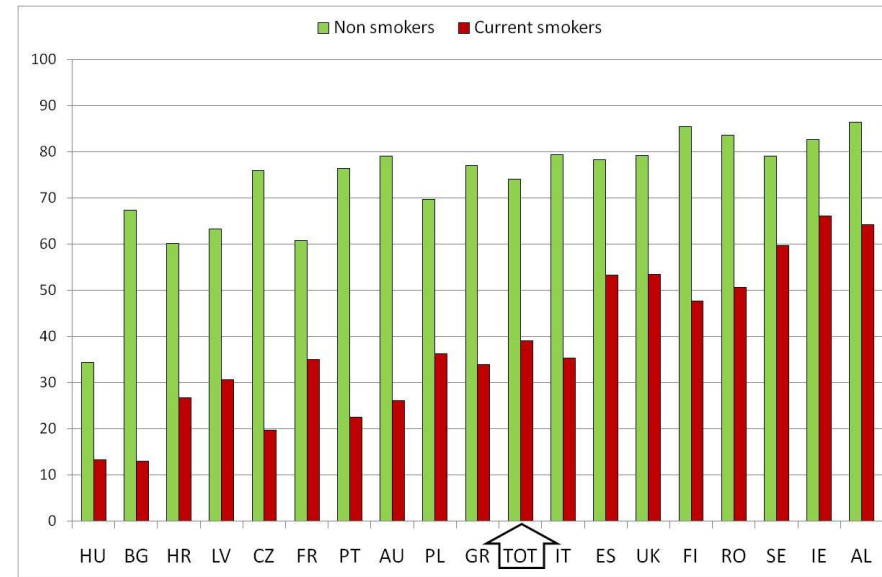
Limited data on smoking prevalence allowing valid between-country comparison are available in Europe. The aim of this study is to provide data on smoking prevalence and its determinants in 18 European countries in 2010, within the Pricing Policies And Control of Tobacco stage of the tobacco epidemic. *European Journal of Cancer Prevention* 23:177-185 © 2014 Wolters Kluwer Health | Lippincott Williams & Wilkins. *European Journal of Cancer Prevention* 2014, 23:177-185

Individuals (%) moderately to strongly in favour of an increase in price once revenues were allocated to support smoking cessation measures

■ Non smokers ■ Current smokers



Increase by 5%



Increase by 20%

Will price increases grow tax evasion?

WHO

FIGHTING THE MYTHS SPREAD BY THE TOBACCO INDUSTRY

The tobacco industry tries stalling discussions over tax increases in many countries by using arguments that are untrue or by exaggerating the expected impact. It is time to break down those myths to shed light on the real impact of tobacco tax increases.

MYTH: TOBACCO TAX INCREASES WILL REDUCE TAX REVENUE (BECAUSE CONSUMPTION GOES DOWN).

- **No:** Tax revenue actually increases (because reduction in sales is less than proportionate to the price increase). As demonstrated in Egypt and the Philippines, an increase in tobacco taxes does increase government revenues.

MYTH: TOBACCO TAXES WILL REDUCE ECONOMIC ACTIVITY

- **No:** Spending on tobacco will be replaced by spending on other consumer products and services.

MYTH: TAXES CREATE A FINANCIAL BURDEN ON POOR SMOKERS SINCE THEY SPEND A LARGER SHARE OF THEIR INCOME ON TOBACCO PRODUCTS.

- **Not exactly:** Because people on lower incomes are more sensitive to price increases, they will alter their consumption behaviour by either quitting or reducing the level of tobacco consumption more than higher-income consumers. Consequently, higher taxes will help reduce their own personal spending on tobacco as well as improve their health.

http://apps.who.int/iris/bitstream/10665/112841/1/WHO_NMH_PND_14.2_eng.pdf?ua=1&ua=1

WORLD BANK



Myths and Facts of Tobacco Control

at a glance

1. What are the common myths of tobacco and tobacco control?

Myth 1: Tobacco is only an issue for affluent people and affluent countries.

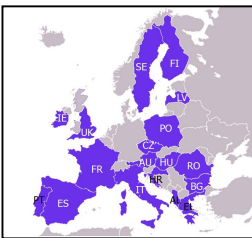
Fact: Within individual countries, tobacco consumption and tobacco-related disease burdens are generally greatest among the poor. Smoking is declining among males in most high-income countries. In contrast, it is increasing in males in most low- and middle-income countries and in women worldwide. In China and Russia, smoking prevalence among men is estimated at 60%. The World Health Organization analyzed the increased smoking prevalence of women worldwide in its new publication Gender, women and the tobacco epidemic (available at http://www.who.int/tobacco/publications/gender/women_tob_epidemic/en/index.html).

Myth 2: Governments should not discourage smoking other than making its risks widely known. Otherwise, they would interfere with consumers' freedom of choice.

Fact: First, many smokers are either unaware of their risks, or they simply underestimate and minimize the personal relevance of those risks, even in high-income societies where the risks are relatively widely known. Second, most smokers start when they are children or adolescents – a time when they have incomplete information about the risks of tobacco and its addictive nature – and by the time they try to quit, many are addicted. Third, smoking imposes costs on non-smokers. For these reasons, the choice to smoke and its harmful externalities to others differ from the choice to buy other consumer goods and governments may consider interventions justified.

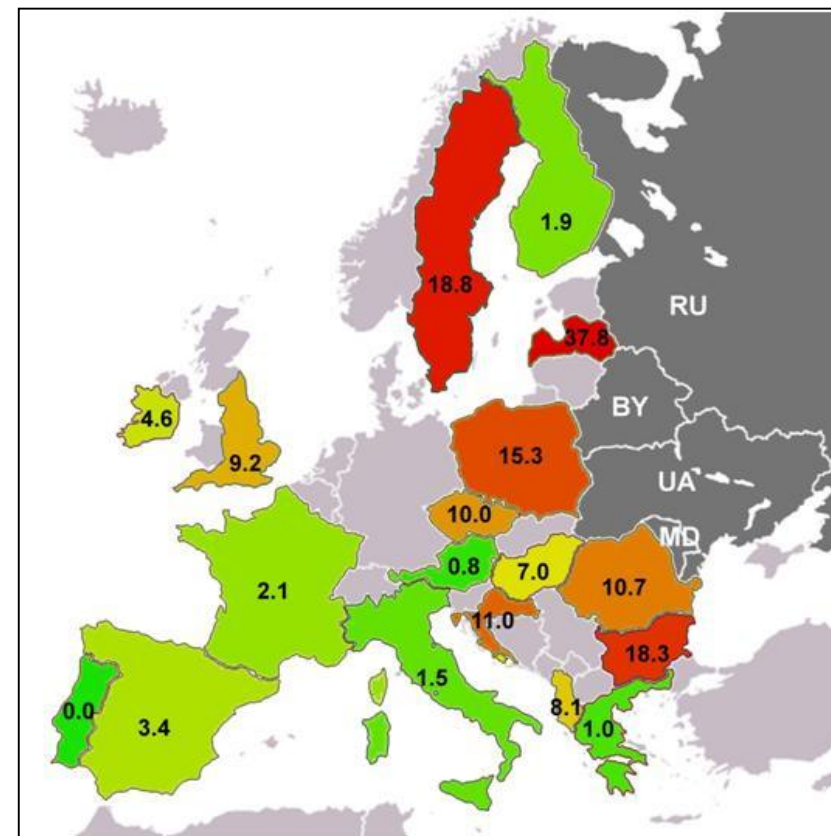
<http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/06/06/00044246420140606140944/Rendered/PDF/884910BRI0Myth0Box385225B000PUBLIC0.pdf>

Will price increases grow tax evasion?



Research paper
Illicit cigarettes and hand-rolled tobacco in 18 European countries: a cross-sectional survey
Luk Joossens,¹ Alessandra Lugo,² Carlo La Vecchia,^{2,3} Anna B Gilmore,⁴ Luke Clancy,⁵ Silvano Gallus²

- Validating self-reported information on tax evasion, we found that **in 2010, 6.5% of European adults** (range: 0% in Portugal and 38% in Latvia) **smoked illicit cigarettes**;
- The **supply of illicit tobacco** was a **key factor** contributing to tax evasion;
- **Price was not** an important **determinant for tax evasion**.





Taxation on Roll-Your-Own (RYO) tobacco

Price of RYO

The **minimum tax burden**, defined by law in Italy, is **largely lower for RYO** (€120.00 per kg) than for **manufactured cigarettes** (€175.54 per kg).

Brand name	Total price* for 1 kg (€)	Total tax burden (€)	Total tax burden (%)	Price for 1 cigarette (€)**
Manufactured cigarettes				
Austin (min price)	207.50	175.54	85%	0.21
MS	250.00	191.94	77%	0.25
Marlboro	275.00	209.20	76%	0.28
Davidoff (max price)	335.00	250.62	75%	0.34
RYO tobacco				
Fleur (min price)	180.00	147.46	82%	0.14
Camel	200.00	153.07	77%	0.15
Golden Virginia	206.67	158.43	77%	0.16
Manitou (max price)	220.00	168.37	77%	0.17

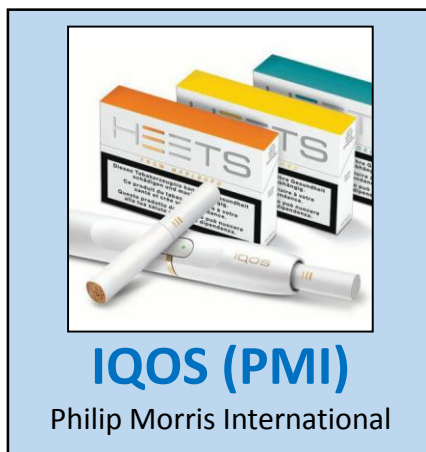
* Adapted from (Custom and Monopolies Agency, 2018 (Agenzia delle Dogane e dei Monopoli, 2018; July 2018).

** Estimated under the assumption that 1 RYO cigarette weighs 0.75 grams (Gallus et al., 2014).



Taxation

Heated tobacco products (HTP)

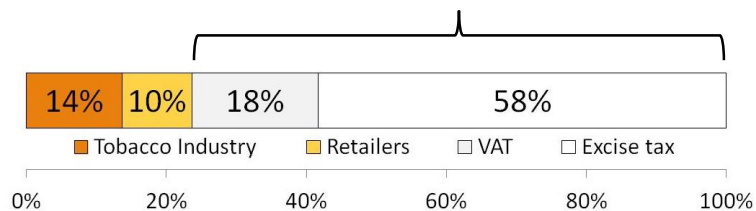


Most important TC strategies

Conventional Cigarettes

Price (20-pack): 5-5.50€

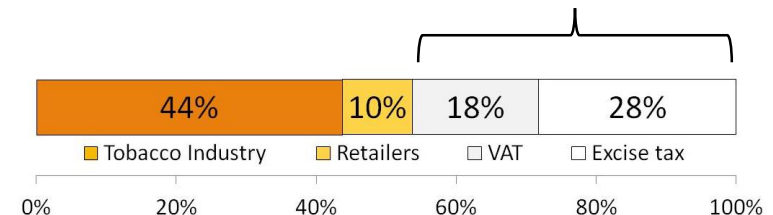
Around **76%** of the retail price of conventional cigarettes are taxes



Heated Tobacco Products (HTP)

Price (20-pack): 5€

HTPs are exempt from fiscal regulations of tobacco products
Around **46%** of the retail price of HTPs are taxes



Conclusions

- **In Italy, price and tax measures are effective, feasible, and recommended** by the whole scientific community;
- Price increase is **strongly supported** by non smokers but also **by a large proportion of smokers**; it does **not have major impact on tax evasion**;
- Increasing **tobacco taxes allows** governments **to obtain additional revenues** (to be possibly allocated for tobacco control measures);
- There is a **need for** an urgent and **substantial increase** (doubling from the current 120€ per kg) of the minimum fiscal burden of **RYO cigarettes**;
- The vast fiscal (and regulatory) **benefits** HTPs have in Italy compared to conventional cigarettes **should be urgently revised**.

Thank you for your attention!

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Most important TC strategies

Taxation

Smoking ban

Advertising ban

Health warnings

Cessation support

Most important TC strategies

Cigarettes



Taxation

Smoking ban

Advertising ban

Health warnings

Cessation support

HTPs

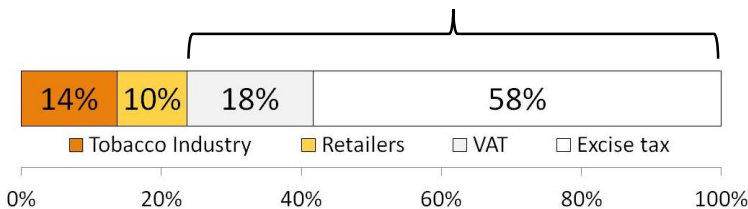
Most important TC strategies

Cigarettes



Price (20-pack): 5-5.50€

Around **76%** of the retail price of conventional cigarettes are taxes



Taxation

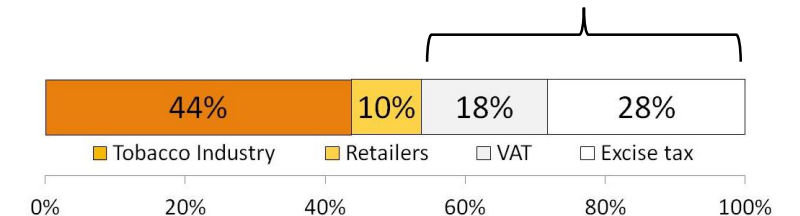
Smoking ban
Advertising ban
Health warnings
Cessation support

HTPs

Price (20-pack): 5€

HTPs are **exempt from fiscal** regulations of tobacco products

Around **46%** of the retail price of HTPs are taxes



Most important TC strategies

Cigarettes

In **January 2005** the **comprehensive Legge Sirchia** (law 3 - 16 Jan 2003) banned smoking in **all indoor public places** and in **public and private workplaces**



Taxation

Smoking ban

Advertising ban
Health warnings
Cessation support

HTPs

HTPs are exempt from this legislation (decision to ban in the hand of owners)



Most important TC strategies

Cigarettes

There is a **complete** promotion and advertising **ban** for all tobacco products in any form and in any media



Taxation

Smoking ban

Advertising ban

Health warnings

Cessation support

HTPs

HTPs are **exempt**



IQOS Embassy



Most important TC strategies

Cigarettes

They cover **65%** of the packaging **with** pictorial images



Taxation

Smoking ban

Advertising ban

Health warnings

Cessation support

HTPs

They cover **30%** of the packaging **without** pictorial images



Most important TC strategies

Cigarettes

Several pharmacological **treatments** (e.g., varenicline, NRTs) demonstrated **safety** and **efficacy for smoking cessation**, were **approved for marketing by EMA/AIFA** and are available in pharmacies **for smokers only**



Taxation

Smoking ban

Advertising ban

Health warnings

Cessation support

HTPs

Efficacy as a smoking cessation tool has never been **demonstrated**; there is evidence that **HTPs are not safe** (they **would never be approved by EMA/AIFA**) **BUT** are **available to all**, promoted as “harm reduction tools”