TRAINING ON ECONOMICS OF TOBACCO CONTROL FOR RESEARCHERS, GOVERNMENT OFFICIALS, AND ADVOCATES IN LATIN AMERICA AND THE CARIBBEAN

Washington, D.C., 5–7 February 2018
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Background

The smoking epidemic poses a serious threat to public health. Tobacco use is the only risk factor common to the four leading noncommunicable diseases (cancer, cardiovascular disease, diabetes, and chronic respiratory disease) and is the main cause of preventable deaths worldwide (1). Tobacco currently kills more than 7 million people each year globally and more than 900,000 in the Region of the Americas. Almost 80% of smokers live in low- or middle-income countries (2).

As well as being a major public health problem, smoking has become an obstacle to countries’ development. The global cost of the epidemic is estimated at US$ 1,436 billion or 1.8% of the world’s annual gross domestic product (GDP) (3), constituting a significant barrier to sustainable development, given its impact on health, poverty, quality of life, hunger, education, labor productivity, economic growth, gender equality, the environment, public finance, and governance (4). Recognizing the enormous barrier that tobacco represents for development, the Sustainable Development Goals (SDGs) set a specific target for tobacco control, Target 3.a.: “Strengthen the implementation of the World Health Organization Framework Convention on Tobacco Control in all countries, as appropriate.”

It is widely recognized that excise taxes on tobacco products are the single most powerful and cost-effective strategy for reducing consumption (in terms of both the number of consumers and the amount smoked). Moreover, such taxes delay and prevent smoking among young people and generate revenues that can be used to finance development. There is compelling international evidence on the effectiveness of this measure, with a growing body of studies from the Region of the Americas. In addition, the Addis Ababa Action Agenda of the Third International Conference on Financing for Development highlights the importance of tobacco control in generating revenues to achieve the 2030 Agenda for Sustainable Development (5).

Nonetheless, increasing taxes on tobacco products remains one of the most underutilized tools to combat the tobacco epidemic. This is especially true in the Region of the Americas, where retail prices are still very low compared to the rest of the world, facilitating early initiation of smoking (1). Tobacco industry scare tactics have sown doubts about the viability of increasing excise taxes. The trend in the share of taxes in the price has remained constant in the Americas. Even though many countries increased their excise taxes on tobacco products, these changes have been small overall.

As part of the activities to promote excise taxes on tobacco products as a control measure and to encourage the implementation of the World Health Organization (WHO) Framework Convention on Tobacco Control (FCTC) (6), the Pan American Health Organization (PAHO), the FCTC Secretariat, the Campaign for Tobacco-Free Kids, the American Cancer Society, the Johns Hopkins Bloomberg School of Public Health, the University of Illinois at Chicago, and the International Development Research Centre (IDRC) of Canada jointly held a training on the economics of tobacco control for government officials, researchers, and advocates in Latin America and the Caribbean.
Training Objectives

1. Provide participants with an overview of the most recent evidence on the economics of tobacco control at the global and regional level with a focus on guiding future research.
2. Familiarize participants with the FCTC and other global and regional mandates and commitments adopted by countries on tobacco taxation.
3. Provide a platform for Latin American and Caribbean researchers to present their most recent innovative work on the following topics:
   a) Effectiveness of increasing tobacco taxes
   b) Measuring tobacco illicit trade
   c) Tobacco and inequity
   d) Economic impact of the tobacco epidemic.
4. Facilitate the sharing of knowledge on recent regional experiences in increasing tobacco taxes and promote intersectoral collaboration.
5. Provide a platform for international stakeholders and funders working on tobacco taxation in the Region to identify opportunities for collaboration and avoid overlapping.
Implementation of Taxes on Tobacco in the Region of the Americas

The WHO FCTC took effect in 2005. The objective of this evidence-based international treaty is to reverse the tobacco epidemic and reaffirm the right of all people to enjoy the highest attainable standard of health. Today, 181 of the 193 member countries of the United Nations and 30 of the 35 countries of the Americas are parties to the WHO FCTC (the countries of the Americas that are not parties are: Argentina, Cuba, the Dominican Republic, Haiti, and the United States).

The WHO FCTC includes price-related and other evidence-based measures for reducing the demand for tobacco products. Article 6 recognizes 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.”

In order to facilitate the implementation of the WHO FCTC, in 2008, the WHO designed the MPOWER technical package, which consists of six measures constituting an opportunity to reach the complete implementation of the WHO FCTC:

- Monitoring tobacco use and prevention policies
- Protecting people from tobacco smoke
- Offering help to quit tobacco use
- Warning about the dangers of tobacco
- Enforcing bans on tobacco advertising, promotion, and sponsorship
- Raising taxes on tobacco.

As of 1 January 2018, 19 of the 35 countries in the Region had laws consistent with WHO FCTC Article 8 (Protection from exposure to tobacco smoke) and Article 11 (Packaging and labeling of tobacco products). This number falls to six countries in the case of Article 13 (Tobacco advertising, promotion, and sponsorship).

Since 2008, the WHO has been publishing the WHO Report on the Global Tobacco Epidemic. This report analyzes the trend in the implementation of the MPOWER package and especially the trend in the tax share, which represents total indirect taxes as a percentage of the retail price of a pack of the most popular brand of cigarettes. Between 2007 and 2016, the price of that pack (measured in international dollars adjusted to reflect purchasing power parity) increased in the 33 countries of the Region of the Americas for which data was available (all WHO Member States in the Region, with the exception of Cuba and Haiti). However, this observed increase in prices over time was not necessarily due to tax increase policies (7).

According to WHO best practices in tobacco tax administration, the tax share should be greater than 75% of the retail price. The WHO uses four categories to monitor the implementation of this best practice: 25% or less, 26-50%, 51-75%, and 75% or more. According to the WHO indicator, between
2008 and 2016, the tax share increased in 24 countries in the Region of the Americas,¹ but only five managed to move up to a higher category. The table below shows the respective tax share in these five countries in 2008 and 2016 (7):

<table>
<thead>
<tr>
<th>Country</th>
<th>2008</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>69.20%</td>
<td>80.25%</td>
</tr>
<tr>
<td>El Salvador</td>
<td>41.47%</td>
<td>52.52%</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>19.79%</td>
<td>35.09%</td>
</tr>
<tr>
<td>Panama</td>
<td>36.59%</td>
<td>56.52%</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>30.08%</td>
<td>53.09%</td>
</tr>
</tbody>
</table>

There were no changes in affordability² in 15 countries in the Region between 2008 and 2016. However, affordability decreased in 14 countries, namely: Antigua and Barbuda, Bahamas, Barbados, Bolivia, Brazil, Chile, Costa Rica, Ecuador, Honduras, Jamaica, Mexico, Suriname, Trinidad and Tobago, and Venezuela. Lower affordability is desirable, since it increases the proportion of income that an individual must allocate in order to purchase cigarettes. In the same period, affordability increased in four countries: Belize, Colombia, the Dominican Republic, and Guyana. This is an undesirable situation that indicates that these countries are lagging in terms of increasing excise taxes on tobacco products. There are no data for Cuba and Haiti.

The previous figures show that tobacco tax increases in the Region of the Americas have been rather small and that even though excise taxes on tobacco product is the most effective intervention to reduce the affordability of tobacco products, it has been underutilized or not implemented following WHO best practices. For example, in most countries, specific excise taxes are not indexed to macroeconomic indicators, such as the consumer price index, resulting in a reduction of the tax in real terms over time.

During the training, the representatives of the countries were exposed to relevant research topics and countries’ strengths in their efforts to control the tobacco epidemic. This exercise was key to fostering international collaboration that would help to reach the Region’s objectives.

¹ In 10 of the 35 countries in the Region, the tax share fell between 2008 and 2016; in Haiti, lack of data prevented tax share calculation in 2008.
² This indicator is defined as the percentage of GDP per capita required to purchase 2,000 cigarettes of the most sold brand. Affordability is inversely proportionate to this indicator.
What Is Necessary for Progress on Tobacco Taxes?

The discussion identified the following challenges: (1) tobacco industry opposition to tobacco taxes; (2) lack of key independent evidence to counter industry arguments; (3) lack of spokespersons in the sphere of finance and economics to promote excise taxes on tobacco products; and (4) synergy among stakeholders.

1. Tobacco industry opposition to tobacco taxes

The tobacco industry generally uses the same arguments in all countries to dissuade governments from raising taxes on tobacco products. The workshop described the industry’s marketing and political influence strategies, known as SCARE tactics.

   S: Smuggling, illicit trade
   The tobacco industry controls the dialogue on illicit trade and distorts the size of the problem. Its marketing exclusively targets the countries where smuggled cigarettes are sold, without considering their origin. It is important to compare industry’s estimates of the size of the illicit trade of cigarettes with independent estimates obtained through the best measurement methods, which do not rely on information (often overestimated) provided by the tobacco industry. Independent measurement methodologies that yield very reliable estimates have been used in the Region of the Americas to support the tobacco tax policy agenda. The conclusions of these studies were presented during the training (8).

   C: Courts, litigation
   The tobacco industry threatens litigation to block tax reforms that affect its products.

   A: Antipoverty rhetoric (inequity)
   The tobacco industry describes excise taxes on tobacco products as inequitable, claiming that they are regressive, meaning that they affect low-income people more than high-income people. However, this regressivity is offset when health benefits are taken into account and when the revenues from these taxes are allocated to programs for low-income people. Studies show that the greatest beneficiaries of these taxes are low-income people, as they represent the majority of those who quit smoking.

   R: Revenue reduction
   The tobacco industry claims that as excise taxes increase, revenues decrease, since consumption is diverted to illicit trade and the demand for tobacco decreases (Laffer curve). However, due to the addictive nature of tobacco products, their demand is relatively inelastic, making excise taxes a very efficient source of revenue, even more so in the short term.
**E: Employment impact**

The tobacco industry argues that raising excise taxes adversely impacts the employment created by the tobacco sector. Nevertheless, some studies show that even in countries where production has risen, the sector’s contribution to job creation has decreased, mainly due to the introduction of new technologies requiring fewer workers.

Other broader strategies are also employed. These include lobbying, campaign financing, partnerships, and even litigation. Among other examples of alliance-building, the tobacco industry has been actively involved in the anti-smuggling partnership that has been operating in the Region since 2016 and the creation of anti-smuggling observatories. By knowing about these types of practices, it is possible to anticipate them and take appropriate actions. International evidence suggests that industry strategies change very little from one country to another, making international collaboration essential to counter these marketing and lobbying strategies.

2. **Lack of key independent evidence to counter industry arguments**

Country representatives expressed concern about the lack of data to counter tobacco industry arguments and support the implementation of measures to apply or increase excise taxes. The two instruments described below were considered very important to increase the use of excise taxes and will receive ongoing support from WHO and other participating organizations:

   a. **Assessment of the impact of excise taxes on health and tax revenues**

   In order to convince finance ministries of the importance of excise taxes, it is essential to have data from sources independent from the tobacco industry regarding their impact on consumption and tax revenues. These assessments will also make it possible to accurately estimate the expected reduction in smoking prevalence when excise taxes are increased.

   b. **Affordability indicator**

   This indicator makes it possible to calculate the portion of GDP per capita needed to purchase cigarettes and therefore provides more complete information than the price of cigarettes per se. In Chile, for example, even though tobacco taxes are among the highest in the Region, cigarettes continue to be rather affordable for middle-income households; thus, consideration should be given to continue increasing excise taxes. Despite the existence of this indicator, there are no affordability assessments in the Region of the Americas.

   Although these matters require urgent attention, certain countries have made significant progress in other areas and have acquired tools to continue raising excise taxes on tobacco products. These tools are:

   a. **Illicit trade studies**

   The argument that smuggling increases with excise taxes is one of the most used arguments from the tobacco industry to discourage the use of this measure. Thus, it is necessary to understand the characteristics and magnitude of smuggling in each country to determine whether illicit trade actually results from price increases. In the case of Colombia, for example, smuggled brands compete with legal brands on the basis of flavor and not price. During the training, Hannah Ross
presented her work on the different methodologies to measure the illicit trade in tobacco products (8).

b. Demand elasticity studies
To understand why excise taxes are effective requires an understanding of how the demand for tobacco reacts to price changes. The price elasticity of demand measures the degree to which the demanded quantity for a certain good responds to changes in the price of that good. Studies of the elasticity of the demand for cigarettes have been conducted in different countries in the Region, among them Argentina (9), Chile (10), and Panama (11), as well as at the regional level (12).

c. Economic costs of smoking: reduced worker productivity and higher health costs
With regard to the economic costs, it should be noted that smoking has a heavy impact on social capital, causes premature death, and keeps people from achieving optimal performance. On average, 15 years of life are lost due to smoking. This has major implications for the economic development of a country: each life saved can represent an opportunity for growth. Argentina’s Institute for Clinical Effectiveness and Health Policy (Instituto de Efectividad Clínica y Sanitaria - IECS) has been conducting studies on the burden of diseases attributable to smoking in several countries in the Region (13).

Other topics mentioned in the training included the importance of having an impact assessment of track and tracing systems and of the taxes on new tobacco products.

3. Lack of spokespersons to promote tobacco excise taxes in the sphere of finance and economics
The multilateral financial institutions that participated in the training—the World Bank (WB), the International Monetary Fund (IMF), and the Inter-American Development Bank (IDB)—indicated that the measure is technically very sound and proposed specific initiatives to support the discussion on raising excise taxes on tobacco products in the Region. The representatives of these organizations shared the current concern about the costs associated with the smoking epidemic.

The participating multilateral financial institutions affirmed that they respect countries’ independence in formulating their budgets and fiscal measures. There was no consensus, however, on the allocation of the tax revenues generated. Some considered it advisable to allocate the revenues for a general purpose—for example, to support health sector financing—while others believed it would be better to allocate revenues to specific health programs.

The main idea during the debate was that while this measure boosts revenues, this result should be viewed as a positive externality, since the primary objective is to save lives.

Finally, one of the participating financial institutions reported that it was in the process of designing technical assistance activities in five countries of the Region on excise taxes on tobacco and its inclusion in the political agenda. This would offer an approach of studying these taxes in the context of fiscal scenarios. Government representatives from these countries should monitor and get involved in the process in order to ensure that research makes a valuable contribution and that political efforts are made to properly guide the discussions.
Statements by spokespersons from financial institutions offer an opportunity to position tobacco control measures. These institutions, especially the IMF, have close links with ministries of finance, making these authorities approachable when promoting tobacco taxes. The inclusion of the financial authorities, which has been lagging, is an imminent step toward progress in excise taxes on tobacco products in the Region.

4. **Synergy among stakeholders**

The use of excise taxes on tobacco products is heterogeneous in the Region, but what has been accomplished is due to the simultaneous participation of several institutions. This can be considered a great opportunity for stakeholders to share knowledge.

Academia, for example, has been a leader in offering evidence on the effectiveness of this measure, and its research should be used as a tool to influence policy. Civil society organizations have been key to making tobacco taxes a priority issue on the political agenda and should coordinate the timing with the ministries of health to make it more effective. Moreover, building relations between the ministries of health and financial authorities is critical and can be facilitated by the multilateral institutions’ involvement in the process.

Collaboration among countries should likewise be expanded. Each country is currently in a different situation, based on its achievements in each sector. Sharing evidence, for example, could serve as an input for middle- and low-income countries that are unable to conduct their own research.

For this to occur, just as in this training, spaces must be created to facilitate knowledge sharing, and there must be a willingness to create synergy among stakeholders and advance in the implementation process.

One such space is the Tobacco Tax Network of the Americas (Red de Impuestos al Tabaco de las Américas - RITA), which was introduced during the training. This network is a platform to coordinate the work and available resources of civil society, academics, and government institutions working to increase the cost of tobacco products and reduce their affordability through fiscal policies that include a substantial increase in the taxes applied to these products. The use of this platform facilitates the dialogue among stakeholders and guarantees that the tobacco industry is not participating in the discussions.

It should be recalled that, worldwide, the tobacco industry has been the main opponent of tobacco control measures. It has been demonstrated that the industry always uses the same arguments and that they are refutable; thus, collaboration among sectors will make it possible to win the battle for a smoke-free society.

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3 If you want to be part of RITA, please send your request to rita@salutia.org
Lessons Learned

1. Raising excise taxes on tobacco products has been shown to be the most cost-effective measure to reduce consumption and prevent smoking initiation. However, this measure is still underutilized in the Region of the Americas.

2. Although increasing excise taxes is within the scope of financial authorities, it should be considered primarily a public health tool. Health and financial authorities should therefore work together on this measure and jointly defend it. The new spokespersons from multilateral financial institutions can serve as excellent links to facilitate this cooperation while providing significant technical support.

3. “SCARE tactics” describe the strategies employed by the industry to fight against excise taxes on tobacco products. Governments, civil society, and other stakeholders that advocate for the adoption of this measure must recognize these challenges and design strategies to counter them.

4. A number of organizations can help develop evidence to promote the adoption of tobacco control measures. Research priorities should be based on the needs of the Region mentioned above. Civil society organizations, in turn, should continue to advocate for excise taxes as a priority on the political agenda.

5. Ongoing dialogue among the different sectors involved will be key to the success of this measure. RITA was developed and designed to serve as a discussion platform for the tobacco control community and to facilitate the coordination of efforts in the Region.

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Potential collaborating organizations include PAHO, the FCTC Secretariat, the Campaign for Tobacco-Free Kids, the American Cancer Society, the University of Illinois at Chicago, the International Union against Tuberculosis and Lung Disease, the Johns Hopkins Bloomberg School of Public Health, and the Institute for Clinical Effectiveness and Health Policy (Instituto de Efectividad Clínica y Sanitaria - IECS).
References


