



# Advances in tobacco taxation: the case of Argentina\*

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## ABSTRACT

In May 2016, the executive branch of the Government of Argentina enacted Decree 626, which raised ad-valorem excise taxes on cigarettes from 60% to 75%, amounting to a 50% increase in their average retail price. This measure was promoted by Argentina's InterAmerican Heart Foundation (FIC Argentina) through a strategy that included conducting local research to assess the measure's viability and impact; drafting a policy proposal; working in coordination with other national and international civil society organizations; pursuing collaborative advocacy activities with key members of the national executive branch; and implementing a communications strategy. The uniqueness of each economic, social, political, and institutional context in the countries of the Region of the Americas makes it necessary to adapt policy proposals to local conditions. This experience by FIC Argentina serves as a roadmap for other organizations in the Region that seek to promote increases in taxes on tobacco products or other policies designed to protect public health by adapting international recommendations and local evidence to each country's specific context. This article presents a series of lessons learned that may prove useful in other countries.

## Keywords

Tobacco products; taxes; health policy; Argentina.

## Background on tobacco control in Argentina

Argentina is one of the few countries in the world that has not ratified the WHO Framework Convention on Tobacco Control (FCTC) (1). Ratification has

been hampered by persistent multisectoral interference from the tobacco industry (mainly local governments and tobacco-growing sectors). The most frequent arguments against the FCTC are that it would hurt regional economies and increase illicit trade. Despite this, in 2011 the National Congress passed Law No. 26,687 which is aligned with the principal measures recommended by the Convention. This law includes implementation of 100% smoke-free environments in all indoor public spaces and workplaces, a comprehensive ban on tobacco advertising, promotion and sponsorship, and the

inclusion of health warnings on 50% of the display area of cigarette packages.

The law, whose regulations were adopted in 2013, marked historical progress for the country in terms of tobacco control. For more than 40 years prior to that, all bills that included effective measures for tobacco control had been systematically blocked in the National Congress (2). But the National Tobacco Control Law did not establish tax measures to increase the price of tobacco products, nor were measures adopted at that time to raise taxes on cigarettes as a public health measure.

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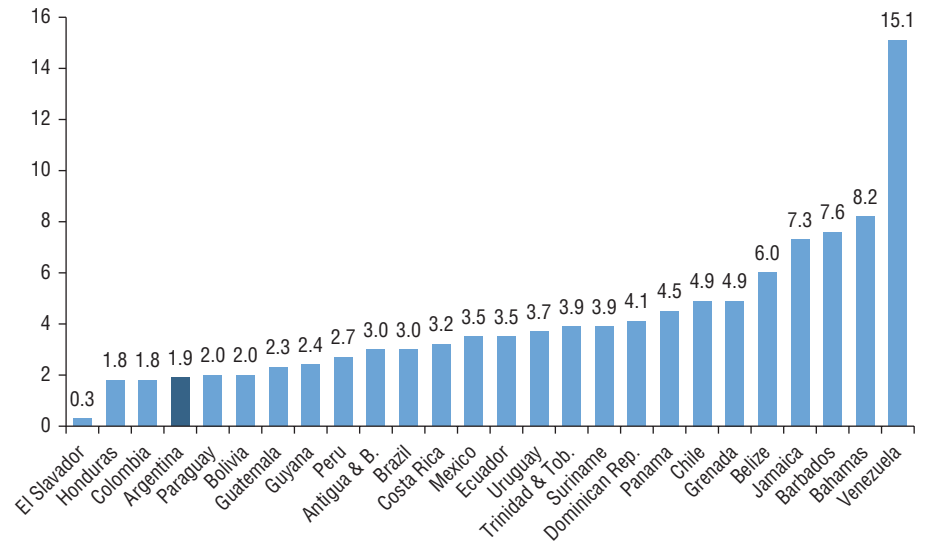
### Health costs, price elasticity, and the affordability of tobacco products

Before the law, tobacco use in Argentina caused more than 44,000 deaths per year and the national government spent more than 33 billion pesos every year treating diseases caused by smoking (12% of the total health expenditure) (3). In this context, an increase on cigarette prices became an essential public health measure. A study of demand showed that a 10% increase in the real price of cigarettes could reduce total cigarette consumption by around 3% (4).

Before the 2016 tax increase, the price of a pack of cigarettes in Argentina was one of the lowest in the Region of the Americas (figure 1). In April 2016, the average price of a pack of cigarettes was ARS\$25.88 (\$US 1.80) (5), with total tax revenue representing 68.41% of the average sale price of a pack of cigarettes.

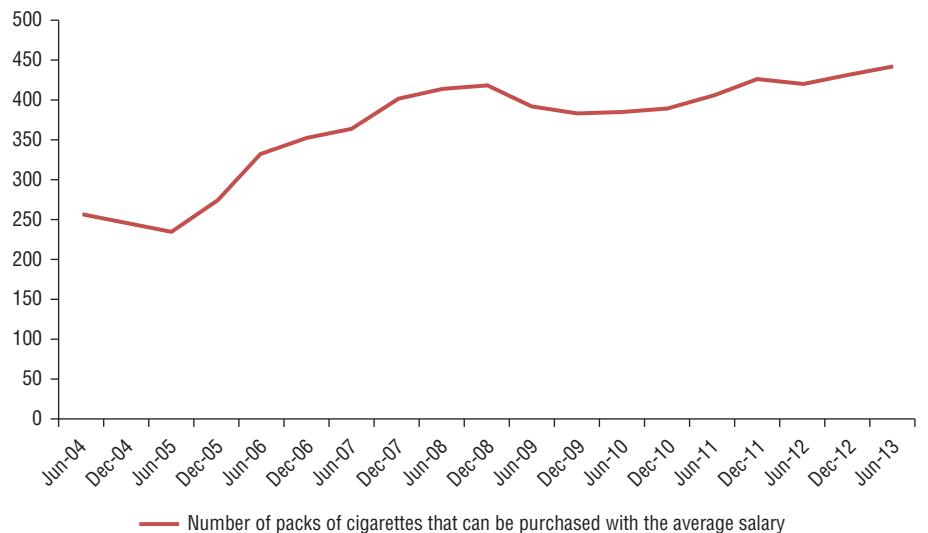
According to the World Health Organization (WHO) recommendations on taxation, in order to have the desired impact on tobacco use, taxes specific to tobacco should account for at least 70% of the sale price (6). Although tax revenue in Argentina was nearing the level recommended by WHO, the country had the most affordable cigarettes in the Region and they were becoming even more affordable. According to Ministry of Agriculture data, between 2004 and 2013 the nominal price of cigarettes increased in Argentina, but when adjusted for inflation, the real price was flat or even decreased. And according to research by Argentina's InterAmerican Heart Foundation (FIC Argentina<sup>2</sup>), cigarettes became twice as affordable during that period: while in mid-2005, 100 packs of cigarettes cost 42% of the average monthly Argentinian salary, by mid-2013, 100 packs only cost 22% of the average monthly salary. This means that in June 2005 one could purchase 236 packs of cigarettes with the

**FIGURE 1. Price in \$US (official exchange rate) of a pack of cigarettes in several countries of Latin America, 2014**



Source: prepared by the authors based on reference 7.

**FIGURE 2. Affordability of cigarettes: evolution of the quantity of packages that could be purchased with an average monthly salary over the last decade in Argentina**



Source: prepared by the authors based on references 5 and 8.

average monthly salary, while in June 2013, one could purchase 442 packs (figure 2) (personal communication with Rodríguez Iglesias G, González Rozada M, Champagne B, and Schoj V on evolution of the real price and affordability of cigarettes in Argentina over the last decade).

### Preparing the strategy: research and working groups

In this context, in which cigarettes were becoming increasingly affordable,

in 2013 the FIC Argentina team began to work with a project financed by Fogarty-NIH. They began receiving training to develop local research to analyze the viability and impact of a possible tax increase on tobacco products, and to develop an evidence-based policy proposal for a fiscal measure that could effectively protect the health of the population.

Argentina has a complex tax structure that taxes cigarettes through four ad valorem taxes—a value-added tax (VAT),

<sup>2</sup> FIC Argentina is a non-governmental non-profit organization founded in 2008 to promote public policies and social change to protect the right to health by reducing chronic non-communicable disease. Together with FIC México, FIC Jamaica, and FIC Bolivia, it is affiliated with the InterAmerican Heart Foundation (IAHF), an organization created in 1995 in the United States of America, which shares its mission. It is funded through international cooperation projects and donations. It does not receive funding from any corporations whose main activity is the manufacture or sale of tobacco products, weapons, unhealthy food, or alcoholic beverages. It does not accept donations from any corporation, business or institution that has proven relationships with such companies.

an Additional Emergency Tax (IAE), Internal Taxes (II), and a Special Tobacco Fund (FET)—which subsidize the production of tobacco and benefit the entire supply chain (which contains a small specific excise component).

Understanding the complex tobacco tax structure in Argentina required a detailed analysis of the viability of tax increases to identify which tax would have the greatest impact on prices without causing a decline in other tax revenue. To this end, a working group was convened with economists from local and international academic institutions that have vast experience in tobacco economics. They researched different aspects of the issue (cigarette price elasticity and demand, affordability, tax collection, illicit trade, etc.), and debated what would be the best way to promote an increase in cigarette taxes.

Once the research was conducted and the experts were consulted, it was decided that the most viable policy proposal was to promote an increase in the Internal excise taxes, since these are part of the tax-sharing system (i.e., revenue distributed between provinces and the central government). An increase in this tax would necessarily increase the sales price (the tobacco industry would not be able to absorb the cost) and it would not cause a reduction in the collection of other taxes. On the contrary, it would cause the entire tax structure to increase. This complex tax structure is not exclusive to Argentina. Each country in the Region should be analyzed not only in terms of its tax structure and the potential impact on reduced consumption and increased revenue, but other economic and social aspects as well, such as the impact on employment and regional economies. Consideration should also be given to the political viability of each potential measure.

### **FIC Argentina strategy for promoting taxes on tobacco products**

As a result of four years of research and work with a group of experts, a policy proposal was drawn up which included the estimated health and tax revenue impacts. Informational materials were also produced, the research was published, and work was done to make FIC Argentina a point of reference on tobacco taxation.

Based on this capacity-building effort and with the support of the Campaign for Tobacco Free Kids (CTFK), in 2014 FIC Argentina began to develop a political advocacy strategy to increase taxes on cigarettes. FIC worked, first of all, with the national Ministry of Health and a national legislator (the Chair of the Health Committee in the Chamber of Deputies). At this stage, the national legislators were made aware of the issue through presentations on the research and materials developed, which showed the need to increase the price of cigarettes to curb the tobacco epidemic.

Despite the efforts by civil society to encourage increases on the price of cigarettes, politics thwarted progress. There was a presidential election in Argentina in 2015, which kept the political agenda focused on other issues, especially in the National Congress.

The new administration took office in December 2015 and made increased tax collection a priority. In this context and before the end of the year, the national Ministry of Finance contacted FIC Argentina to consult about a possible tax increase on tobacco products. From late 2015 through the first few months of 2016, FIC Argentina advised the Ministry of Finance on the advisability of raising excise taxes on cigarettes. FIC presented the research findings, the estimated impact of the measure, and the advantages of raising this tax rather than others.

Despite the advice provided by FIC Argentina, the Ministry of Finance was secretive about the strategy it was going to follow for raising the price of cigarettes, and even suggested the possibility of raising the Additional Emergency Tax (IAE).<sup>3</sup> This would have yielded reduced revenue from other taxes and a consequently negative reaction from the tobacco-producing provinces. Given this uncertainty, between January and April of 2016 a peripheral strategy was developed to lobby the Chamber of Deputies, the Ministry of Health, and the President's Chief of Staff to promote increases to excise taxes. This option was not only the most effective one for increasing the

retail price of cigarettes, it was also unlikely to generate opposition in the tobacco-producing provinces.

Finally, after several months of work with policymakers and the mass media, Decree 626 was enacted in May 2016, increasing Internal ad-valorem taxes on cigarettes from 60% to 75%. This was an effective way to increase the sales price, protect health, and increase tax revenue for both the central and provincial governments. With this tax increase, the average price of a pack of 20 cigarettes increased by 50%, and tax pressure went up to 79.1%.<sup>4</sup> This measure went into force on 31 December 2016 and was renewed through Decree 15/2017 through 31 December 2017.

The decree represented a milestone for Argentina in terms of tobacco control policies, since it increased the retail price of cigarettes and significantly reduced their affordability.

### **Communications strategy to promote the tax increase and counter the tobacco industry**

A communications strategy was developed to promote the increase in tobacco taxes in Argentina. Its main objectives were to: a) put the need for developing a fiscal policy on the public agenda; b) establish FIC Argentina as an authoritative voice on economic matters; and c) step up direct pressure on policymakers through the communications media. To this end, an effort was made to have all key communications activities deliver one key message: taxes on tobacco products are not simply an economic measure, but an effective health policy to reduce tobacco consumption and prevent young people from starting tobacco use. It sought to link the economic agenda with the health agenda.

To meet the proposed objectives, communications efforts focused on producing and disseminating newsworthy content with local data that would generate interest in the media, simplifying the language and messages, presenting an array of topics and approaches to keep the issue at the forefront, and using

<sup>3</sup> Cigarette taxes in Argentina are based on their price when leaving the factory, plus taxes collected through II and FET. The IAE is not considered when calculating the II and FET. That is, if the IAE increases, that would not affect tax revenue per pack from II and FET. However, since increases in IAE increase prices and reduce revenue, the total amount collected for these two taxes decreases.

<sup>4</sup> The increase of the nominal value of the excise tax (II) from 60% to 75% is applied to a base comprised of the factory price plus the revenue collected from other tobacco taxes. Since the II is part of the tax base for which other tobacco taxes are calculated, the price increase it generates is around 50%.

multiple channels of communication to reach the largest audience possible. Several press activities were deployed between 2014 and 2016, each accompanied by a social network strategy.

These communication efforts succeeded in placing the topic on the media agenda and catching and keeping the attention of policymakers. The messages also reached the tobacco industry, which responded in the press through its front groups (such as their trade associations and some cigarette vendors) in an attempt to stop the tax hike. One of their main arguments against the tax was that it would cause an increase in the illicit cigarette trade. This tactic was nothing new, as it had been used in several countries of the Region and around the world. For example, after the 2010 increase in cigarette taxes in Mexico, an industry front group called “Partnership against Illegal Products” launched a mass media campaign to boycott the measure using this same argument.

The content developed for journalists not only countered industry’s argument, but also explained the need to raise taxes to protect public health. This was presented from different angles, such as: the increasing affordability of tobacco products in Argentina; a request from several civil society organizations that the government raise taxes; the population’s support for the policy (as revealed in an opinion poll); the potential impact of an increase in tobacco excise taxes on consumption and revenue; and debunking the myths propagated by the tobacco industry.

The strategy successfully kept the issue on the media agenda and more than 100 pieces were published in visual and digital media as well as TV, radio, and news agencies. Many of these were published by the leading Argentinian newspapers (such as *La Nación* and *Clarín*), digital dailies (Infobae), and news programs on the most widely viewed channels (Telefé, Channel 13, public TV, etc.). The media strategy extended its reach through Facebook and Twitter campaigns aligned with the press messages and adapted to the language of the social networks.

Extensive coverage was achieved, due in large part to the multiplicity of approaches, research- and local data-based content, simplified language, and messages that resonated with audiences.

## Lessons learned

Below are some of the main lessons learned from these tactics:

- It is crucial to find opportunities to raise awareness and exchange information on tax matters with civil society organizations, so that policymakers become involved and participate in the drafting of fiscal policies.
- Networking with strategic partners in national and international civil society maximizes the impact of advocacy work.
- Training journalists and the public (through a continuous process of producing and disseminating information using different communications channels) makes issues visible and helps win public support.
- If the studies and documents are prepared with scientific rigor, the organization can become a voice of authority on fiscal policy, much like the Ministry of Finance. To achieve the objectives, it is also important to have an alternative plan in case the first proposal is rejected.
- A nongovernmental organization with a mission to protect health can promote a tax policy and turn it into a high-impact public health measure.

## Future actions

The success achieved through these tax policies are significant because they have had a positive impact on public health in Argentina. However, to continue progressively reducing tobacco use rates and preventing children and young people from taking up tobacco use, work should continue toward the passage of a national law.

The greatest challenge now is to increase taxes through a law that includes certain essential criteria to make the policy effective in the medium and long term, such as a government mechanism to update prices so that inflation and income growth cannot reduce the health impact of the policy. The policy should also narrow the price gap between brands and be applied to all tobacco products (the decree only affects cigarettes) in order to prevent substitution with cheaper brands or other products (such “roll your own” tobacco). Finally,

the State must back up this measure with adequate control and enforcement, separate from the tobacco industry, in order to protect tax collection and prevent industry and its front groups from manipulating data.<sup>5</sup>

In conclusion, it should be emphasized that achieving the passage of Decree 626/2016 (updated by Decree 15/2017 until 31 December 2017), it was strategically important to have designed a tax proposal that reduced affordability, was viable, and included the different key stakeholders in a country ranked as the world’s fifth leading producer of tobacco.

On the other hand, although the election campaign slowed the process of increasing tobacco taxes, FIC Argentina continued to conduct research and raise awareness among policymakers. This was essential for consolidating the organization’s reputation not only as a public health reference point, but also as an authority on tobacco excise taxes. Furthermore, the change of administration and its need to increase tax revenue created an opportunity to promote the proposal.

It was also essential for the work teams to build capacity and knowledge with a multidisciplinary approach, allowing us to generate local scientific evidence and strengthen advocacy. Furthermore, networking and preparing a proposal that enjoyed the consensus of other civil society organizations was essential for putting this item on the public agenda and promoting the measure.

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<sup>5</sup> Authors’ note: this article was written while Decree 626/16 was in force. In October 2017 an amendment to the excise tax law was announced that would change the cigarettes and tobacco products component. In December of 2017, the National Congress passed Law 27,470 which amends the excise tax law, lowering the tax levied on cigarettes from 75% to 70%, with a minimum tax of 28 Argentine pesos (ARS), and increasing the tax levied on other tobacco products.



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## RESUMEN

### Avances en impuestos del tabaco: el caso de Argentina

En mayo de 2016, el Poder Ejecutivo de Argentina sancionó el decreto 626, que aumentó los impuestos internos de los cigarrillos de 60% a 75%, lo que implicó un aumento de 50% en su precio medio de venta al público. Esta medida fue impulsada desde la Fundación Interamericana del Corazón (FIC) Argentina a través de una estrategia que incluyó el desarrollo de investigaciones locales para determinar la viabilidad y el impacto de la medida, la elaboración de una propuesta política, el trabajo en red con otras organizaciones de la sociedad civil nacionales e internacionales, acciones de incidencia colaborativa con referentes del Poder Ejecutivo Nacional y la implementación de una estrategia de comunicación. La particularidad de cada uno de los contextos económicos, sociales, políticos e institucionales de los países de la Región de las Américas requiere que las propuestas políticas se adecúen a la realidad local. La experiencia de trabajo desarrollada por FIC Argentina sirve como guía para otras organizaciones que en la Región buscan impulsar aumentos de los impuestos al tabaco u otras políticas destinadas a proteger la salud pública, adaptando las recomendaciones internacionales y la evidencia local al contexto de cada país. En este artículo se comparte una serie de lecciones aprendidas que pueden servir en otros países.

## Palabras clave

Productos de tabaco; impuestos; política de salud; Argentina.

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## Avanços na tributação dos cigarros: o caso da Argentina

### RESUMO

Em maio de 2016, as autoridades do poder executivo da Argentina sancionaram o Decreto 626 que determinou um aumento da tributação interna dos cigarros de 60% a 75%, implicando em um aumento de 50% no preço médio de venda ao consumidor. Esta medida foi apoiada pela Fundação Interamericana do Coração (FIC) Argentina que adotou uma estratégia que abrangeu a realização de pesquisas locais para determinar a viabilidade e o impacto de tal medida, a elaboração de uma proposta política, o trabalho em rede com outras organizações nacionais e internacionais da sociedade civil, ações colaborativas com representantes do poder executivo nacional e a implementação de uma campanha de comunicação. As particularidades dos contextos econômicos, sociais, políticos e institucionais de cada país da Região das Américas exigem que as propostas políticas se adéquem à realidade local. A experiência de trabalho realizado pela FIC Argentina serve de modelo a outras organizações que defendem o aumento da tributação dos cigarros e outras políticas de proteção da saúde pública, com a adaptação das recomendações internacionais ao contexto de cada país e o uso das evidências locais. Este artigo expõe uma série de ensinamentos que podem servir a outros países da Região.

### Palavras-chave

Produtos do tabaco; impostos; política de saúde; Argentina

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