

# THE ECONOMIC AND HEALTH BENEFITS OF

T  BACC 

TAXATION 

“Raising taxes on tobacco products is one of the most effective – and cost-effective – ways to reduce consumption of products that kill, while also generating substantial revenue. I encourage all governments to look at the evidence, not the industry’s arguments, and adopt one of the best win-win policy options available for health.”

**Dr Margaret Chan**

Director-General, World Health Organization

JULY 2015



## THE IMPACT OF TOBACCO USE

### A growing threat to global public health

Tobacco-related illness is one of the biggest public health threats the world has ever faced. Tobacco use is a major preventable risk factor for most noncommunicable diseases (NCDs) including vascular disease, cancer and chronic respiratory diseases.

Approximately one person dies from a tobacco-related disease every 6 seconds, equivalent to almost 6 million people a year. Alarming, tobacco use is on the rise; it has doubled in the last four decades and it is more prevalent among young people and the poor.

If countries continue with a business-as-usual scenario using the tobacco control measures they currently have, it is estimated that tobacco use may account for the death of 150 million people (8 million per year) by 2030,<sup>1</sup> with over 80% of these deaths occurring in low- and middle-income countries.

Given the 30-year lag that exists between tobacco use rates and many of their associated illness, the worst impact of the tobacco epidemic is yet to be felt.<sup>2</sup>

### A barrier to economic development

Given the significant tobacco-related burden of disease, researchers estimate that a total economic loss of about US\$ 12.7 trillion over the next 20 years – or 1.3% of GDP annually – could be attributed to tobacco.<sup>3</sup>

The significant economic toll, coupled with a reduction in productivity, can greatly increase the impact tobacco can have on a country's poverty burden and on hindering sustainable development. Before introducing significantly higher tobacco taxation in 2012, the government of the Philippines had estimated annual losses due to tobacco-related diseases of at least 177 billion Philippines pesos (Php) (US\$ 4 billion) against annual tobacco excise revenues of only Php 32.9 billion (US\$ 747.3 million).<sup>4</sup>

The impact of tobacco on poor households is also severe. Tobacco use greatly increases their risk of catastrophic domestic expenditure on health, thus pushing them deeper into poverty.

Research has shown that low-income smokers have worse outcomes from tobacco-related diseases and that the proportion of tobacco spending within household spending is higher among low-income households with a resulting impact on their finances.<sup>5</sup>

## TOBACCO CONTROL STRATEGIES CAN DRIVE SUSTAINABLE DEVELOPMENT

### WHO FCTC and MPOWER: the need to scale up proven control measures

All countries have an obligation to protect the health of their people. All Parties to the WHO Framework Convention on Tobacco Control (WHO FCTC) have made specific commitments to implement strong tobacco control policies as an important means of providing that protection. Reversing the tobacco epidemic is of paramount importance and it is well within the world's reach.<sup>6</sup>

WHO introduced the **MPOWER** package of measures to assist in the country-level implementation of effective interventions to reduce the demand for tobacco, contained in the WHO FCTC. The six components of MPOWER are:

- Monitor tobacco use and prevention policies
- Protect people from tobacco smoke
- Offer help to quit tobacco use
- Warn about the dangers of tobacco
- Enforce bans on tobacco advertising, promotion and sponsorship
- Raise taxes on tobacco

Today, more than half of the world's countries, with nearly 40% of the world's population (2.8 billion people), have implemented at least one MPOWER measure to the highest level of achievement and many countries have implemented multiple MPOWER measures to the highest level.<sup>7</sup>

### Tobacco taxation: a powerful yet underused tobacco control tool

Increasing tobacco taxation has been classified as a "phenomenal" intervention within the framework of the Sustainable Development Goals.<sup>8</sup> WHO estimates the cost of implementing and administering tobacco tax increases at US\$ 0.05 per person per year in low- and middle-income countries, making it the least costly of all tobacco control policies.<sup>9</sup> Not only is tobacco taxation cost-effective and efficient to implement, it also has the potential to generate significant additional revenue for governments to fund health programmes and other essential services.

Yet, few countries have introduced comprehensive tobacco taxation policies. Cigarettes and other tobacco products continue to be relatively inexpensive, especially in low- and middle-income countries where the majority of the world's smokers live. In these countries, total tax as a proportion of the price of cigarettes varies between 45% and 55%. In high-income countries, on the other hand, taxes account for almost 65% of the price.<sup>10</sup>

## PUBLIC HEALTH BENEFITS OF RAISING TOBACCO TAXES

### Tobacco taxes reduce consumption

There is very strong evidence that higher tobacco taxes and prices lead to significant reductions in tobacco use. These reductions are larger in low- and middle-income countries than in high-income countries.<sup>11</sup>

It is estimated that a tripling of excise tax on tobacco in most low- and middle-income countries would double cigarette prices, reducing consumption by about 40%.<sup>12</sup>

In China for example – home to one third of the global population of smokers and where smoking kills 1 million people a year – it has been estimated that raising tobacco taxes so that they account for 75% of retail cigarette prices (up from 40% of the share of price in 2010) would avert nearly 3.5 million deaths from cigarette smoking.<sup>13</sup>

In South Africa, total taxes on cigarettes rose from 32% to 52% of retail price between 1993 and 2009. This contributed to a halving of tobacco consumption from about four cigarettes per adult per day to two cigarettes per day over a decade,<sup>14</sup> and a nine-fold increase in government tobacco tax revenues.<sup>15</sup>

“We urge all countries in the world to strengthen their commitment to the WHO FCTC as a health and development priority, including the treaty implementation as a target of the post-2015 sustainable development agenda”

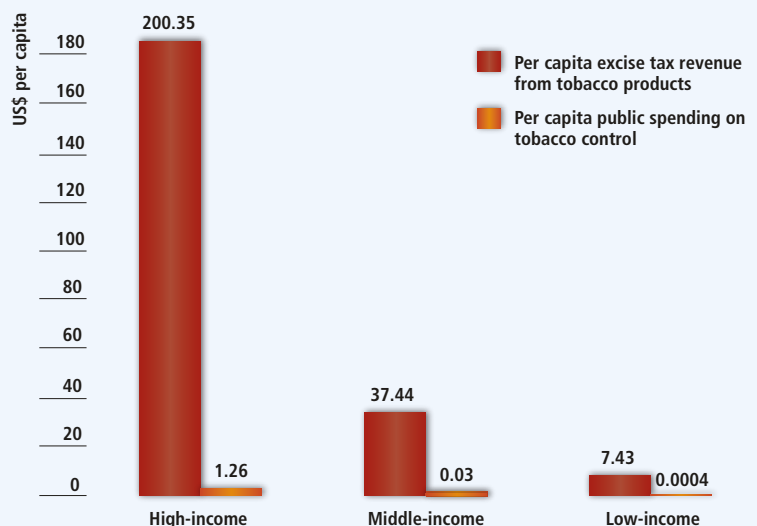
**Dr Vera Luiza da Costa e Silva**  
Head of the Convention Secretariat

## WHO Framework Convention on Tobacco Control

The WHO Framework Convention on Tobacco Control (WHO FCTC), with 180 Parties (179 countries and the European Union), is the first global health treaty designed to counter the tobacco epidemic. The Convention represents a milestone for the promotion of public health and provides new legal model for international health cooperation.

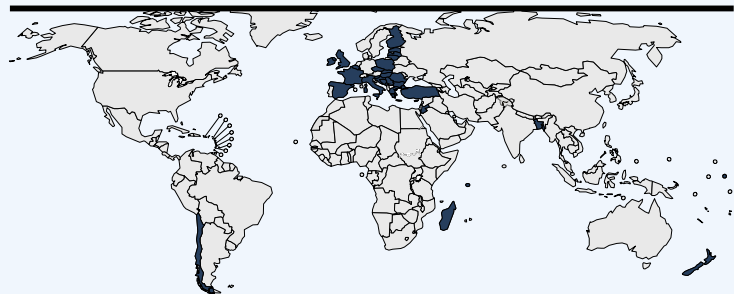
The WHO FCTC includes key tobacco control policies designed to reduce both demand and supply measures. In particular, Article 6 of the FCTC encourages price and tax measures as an effective means to reduce demand for tobacco. These include tax increases that result in an increase in the sales price of tobacco products, and prohibiting or restricting sales of tax- and duty-free tobacco products. Guidelines for the implementation of Article 6 were adopted in October 2014.

## TOBACCO CONTROL IS UNDERFUNDED



Note: Based on 76 countries with available tobacco excise revenue data for 2013 or 2014; expenditure on tobacco control for several of these countries was estimated from figures between 2004 and 2014, adjusting for inflation (average consumer prices, IMF World Economic Outlook 2015). Tax revenues are tobacco product (or cigarette) excise revenue in 2013–2014 for the countries covered. Per capita value is calculated by using 2014 UN forecasted population age 15+.

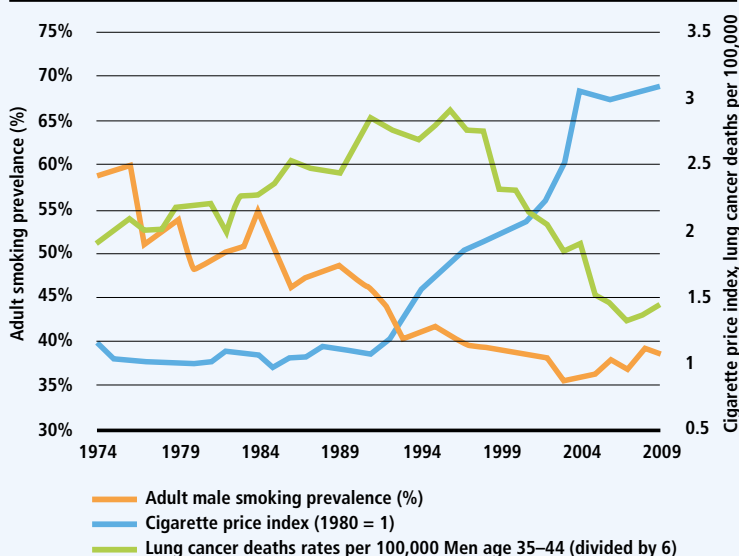
## RAISE TAXES ON TOBACCO – HIGHEST ACHIEVING COUNTRIES, TERRITORIES AND AREAS, 2014



Countries, territories and areas with the highest level of achievement: Bangladesh, \*Belgium, Bosnia and Herzegovina, \*Bulgaria, Chile, Croatia, \*Cyprus, Czech Republic, Estonia, Finland, France, Greece, Hungary, Ireland, Israel, Italy, Jordan, Kiribati, \*Latvia, Lithuania, Madagascar, Montenegro, New Zealand, \*Poland, Romania, \*Serbia, Seychelles, \*Slovakia, Slovenia, Spain, Turkey, United Kingdom of Great Britain and Northern Ireland, and West Bank and Gaza Strip.

\*Country newly at the highest level since 31 December 2012.

## DECLINES IN SMOKING PREVALENCE AND LUNG CANCER DEATHS ACCOMPANY LARGE PRICE INCREASES IN FRANCE (DATA 1974–2009)



Note: lung cancer death rates were divided by 6 to enable visual comparison.

## Tobacco taxes protect the poor and the young

Tobacco taxation is often misconceived as being regressive, disproportionately affecting vulnerable populations such as young people and poor people. On the contrary, all the evidence shows that poorer tobacco consumers are far more responsive to increases in price than higher income consumers, and therefore benefit the most in terms of avoiding death and disease associated with tobacco use. This makes it a pro-poor policy. The monetary burden of higher tobacco taxes will therefore fall more heavily on wealthier users whose habits are less influenced by price increases, while most of the health and economic benefits from reducing tobacco use accrue to the most disadvantaged social groups<sup>18,19</sup>. In Canada, for example, aggressive tobacco control and use of higher taxes has led to greater absolute declines in tobacco deaths among the lowest income group of men than in the highest income group of men.<sup>20</sup>

Similarly, research has found that young people are two to three times more likely than adults to reduce their tobacco consumption as a result of price increases. Higher taxes and prices can effectively prevent young people from taking up tobacco use and from making it a regular habit. This is especially important to reverse the tobacco epidemic in low- and middle-income countries given their large and growing populations of young people.<sup>21</sup>

## Bold tobacco taxation policies reversing national tobacco epidemics

### France: Reducing tobacco consumption and lung cancer rates through higher taxes



France's rise in smoking happened largely between the end of the Second World War and the mid-1980s. However, a sharp increase in tobacco taxation that began in 1990 led to a threefold increase in the inflation-adjusted price of cigarettes, and, by 2005, to a halving of cigarette consumption from around six cigarettes per adult per day (comparable to the per capita adult male consumption in India today) to three cigarettes per day. Corresponding lung cancer rates among men aged 35–44 years fell sharply after 1997. Revenues from tobacco taxation rose in real terms from about €6 billion to €12 billion by 2005.<sup>16</sup>

### New Zealand: Spearheading tobacco control in the Pacific



In 2011 New Zealand adopted the goal of reducing smoking prevalence and tobacco availability to a minimum, aiming to become a smoke-free nation by 2025, with an adult smoking prevalence of less than 5%. As a result, cigarette excise taxes have been raised by 10% annually from 2010 and legislation for standardized packaging is currently going through parliament. These initiatives have led to a remarkable reduction in adult daily smoking rates from 21% in 2006 to 15% in 2013. New Zealand's lead in tobacco control in the region inspired Pacific ministers of health in 2013 to endorse a Pacific Tobacco Free 2025 Goal.<sup>17</sup>

## THE ECONOMIC BENEFITS OF HIGHER TOBACCO TAXATION

### Financing universal health care

It is estimated that governments collect nearly US\$ 270 billion in tobacco excise tax revenues each year.<sup>23</sup>

Tobacco tax revenues have consistently been identified as an important source of new, sustainable funding for the health sector. For example, the Taskforce for Innovative Financing of Health Systems recognized the importance of tobacco taxation as a domestic measure of resource mobilization.<sup>24</sup>

The positive impact of tobacco tax increases on tax revenues is seen in country after country. Successes in Costa Rica, Finland, France, Mauritius, Mexico, New Zealand, the Philippines, Turkey and Uruguay, among others, have shown these measures can increase government revenue, which in turn can empower countries to effectively reduce tobacco use and sustainably fund these interventions through domestic resource mobilization.

To date, at least 30 countries around the world have chosen to earmark tobacco tax revenues for health purposes. Thailand, for instance, has used revenues generated from a 2% surtax on tobacco and alcohol to fund the ThaiHealth Foundation, which supports a variety of health promotion activities including tobacco control.<sup>25</sup> Costa Rica has set best practice in their region by devoting 100% of the excise taxes raised on tobacco to tobacco control activities and health promotion.<sup>26</sup> The Philippines' "Sin Tax" law (see case study) represents a bold and innovative way of using tobacco taxation to finance universal health care.

As public health improves over time as a result of higher tobacco taxes and prices, the overall economic toll of tobacco use also declines. National health systems benefit from having to devote less money and clinical health capacity to treat avoidable tobacco-related diseases. Economic productivity rises when former tobacco users live longer and lead more productive lives. Overall, gains to productivity and human capital from reduced tobacco use underscore how raising tobacco taxes is consistent with fiscal policies that enhance economic development.

“Tobacco taxation offers a ‘win-win’ policy option for governments, where raising tobacco taxes will both generate extra revenue and reduce consumption. Evidence from a growing number of countries shows that tax increases that lead to a 10% rise in retail tobacco product prices will cut consumption by 2% to 8%. Tax increases on tobacco products also generate significant revenues for the government. In low-income countries, for example, a doubling of excise tax per packet of cigarettes increases cigarette tax revenues by more than 30%.”

### Dr Margaret Chan

Director-General, World Health Organization

JULY 2015

### The Philippines' "Sin Tax" law

In 2013, the Philippines introduced the landmark Sin Tax law, simplifying its tobacco excise tax structure and increasing taxes by as much as 340%, one of the largest hikes in cigarette taxes ever adopted. In a country with an estimated 17.3 million tobacco consumers, the highest number in South-East Asia, the tax reforms were promoted primarily as a public health measure. The law received strong political support from the Aquino administration, ministries of health and finance, civil society and health professionals in order to generate new government revenues to fund a universal health insurance programme. Of the PhP 71.6 billion (US\$ 1.6 billion) revenues generated from the Sin Tax Law in 2013 alone, 85% were earmarked to the country's Universal Health Care Program. This enabled the government to subsidize the health insurance premiums of 14.7 million poor members in 2014, almost tripling the 5.2 million members registered in 2013.<sup>27</sup>



## ENSHRINING TOBACCO CONTROL AND THE WHO FCTC IN THE POST-2015 DEVELOPMENT AGENDA

This year marks the transition from the Millennium Development Goals to a new, unprecedented and far-reaching roadmap to transform for the better the world in which we all live, between now and 2030: A world in which we will end poverty and hunger once and for all and in which nobody will be left behind. This post-2015 agenda comprises 17 proposed universal Sustainable Development Goals (SDGs) complete with 169 targets. The means of implementation are encompassed by the outcome of the Third International Conference on Financing for Development and a renewed and strengthened Global Partnership for Sustainable Development (SDG 17).

Although addressing tobacco use is crucial to rolling back noncommunicable diseases to achieve proposed SDG 3 (Ensure healthy lives and promote well-being for all at all ages), comprehensive tobacco control programmes can also contribute to end poverty in all its forms everywhere, end hunger, promote sustainable agriculture, promote economic growth, and combat climate change, contributing to the achievement of a number of SDGs. All countries benefit from successful efforts to control the tobacco epidemic, thereby protecting their people from the harms of tobacco use and reducing its economic toll on their national economies.

Prioritizing the implementation of the WHO Framework Convention on Tobacco Control in all countries will be critical to the achievement of the SDGs. As a means of revenue generation for governments and a demand reduction measure, tobacco taxation should be recognized as an important revenue stream within the financing for development global framework. Ensuring that tobacco control, the implementation of the WHO FCTC and tobacco taxation are enshrined in the post-2015 agenda is imperative.

### Tobacco control in the draft SDGs<sup>28</sup>

Tobacco control is at the heart of the noncommunicable diseases (NCDs) section under (proposed) **SDG 3** – Ensure healthy lives and promote well-being for all at all ages.



#### PROPOSED TARGETS

Current proposed **SDG targets** relating to NCDs and tobacco control are strong:

- 3.4: By 2030, reduce by one third premature mortality from noncommunicable diseases through prevention and treatment, and promote mental health and well-being.
- 3.a: Strengthen the implementation of the World Health Organization Framework Convention on Tobacco control in all countries, as appropriate.

#### PROPOSED INDICATORS

Including specific tobacco indicators in the final post-2015 development agenda will be essential to gauge progress towards tobacco control. Two indicators are proposed in the current draft for measuring progress against target 3.4:

- Indicator 3.4.1: Probability of dying of cardiovascular disease, cancer, diabetes or chronic respiratory disease between ages 30 and 70.
- Indicator 3.a.1: Current tobacco use among persons 15 years and over.

These indicators are key to demonstrating change in NCD prevalence and tobacco consumption trends, and as such should be retained as part of the SDG framework.

“Increased tobacco taxes could bring in important revenue to finance the Sustainable Development Goals.”

#### World Bank Tweet





## Footnotes

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