



Lessons on Tobacco Tax Reform: Reflections on the Philippine Experience

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PRESENTATION OUTLINE



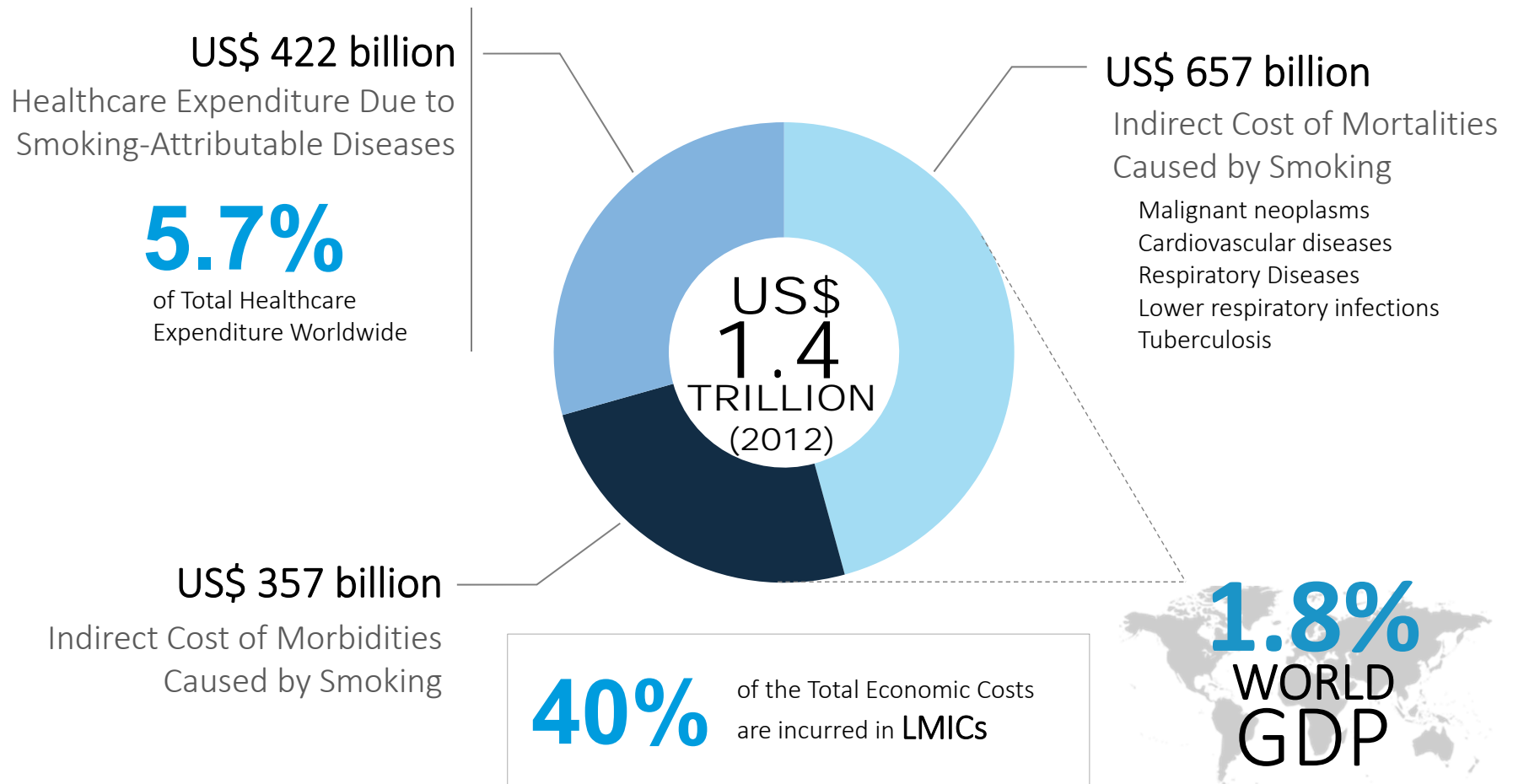
- I. Tobacco Tax Imperative
- II. Best practices and Global Lessons Learned
- III. Philippine Experience
- IV. Concluding Remarks

Tobacco Use Is Not Only Deadly ..



- Smoking causes more than **7 million** deaths per year globally
- It is a **major risk factor** for the main non-communicable diseases (**NCDs**) which are: cancer, cardiovascular disease, diabetes, and chronic lung disease
- **NCDs** account for **70% of all deaths**, and this is likely to increase further
- Over three-quarters of NCD deaths occurred in LMICs, most of them prematurely (before the age of 70)
- Decreased tobacco consumption can significantly reduce premature mortality from NCDs

... It Also Comes with Enormous Economic Costs

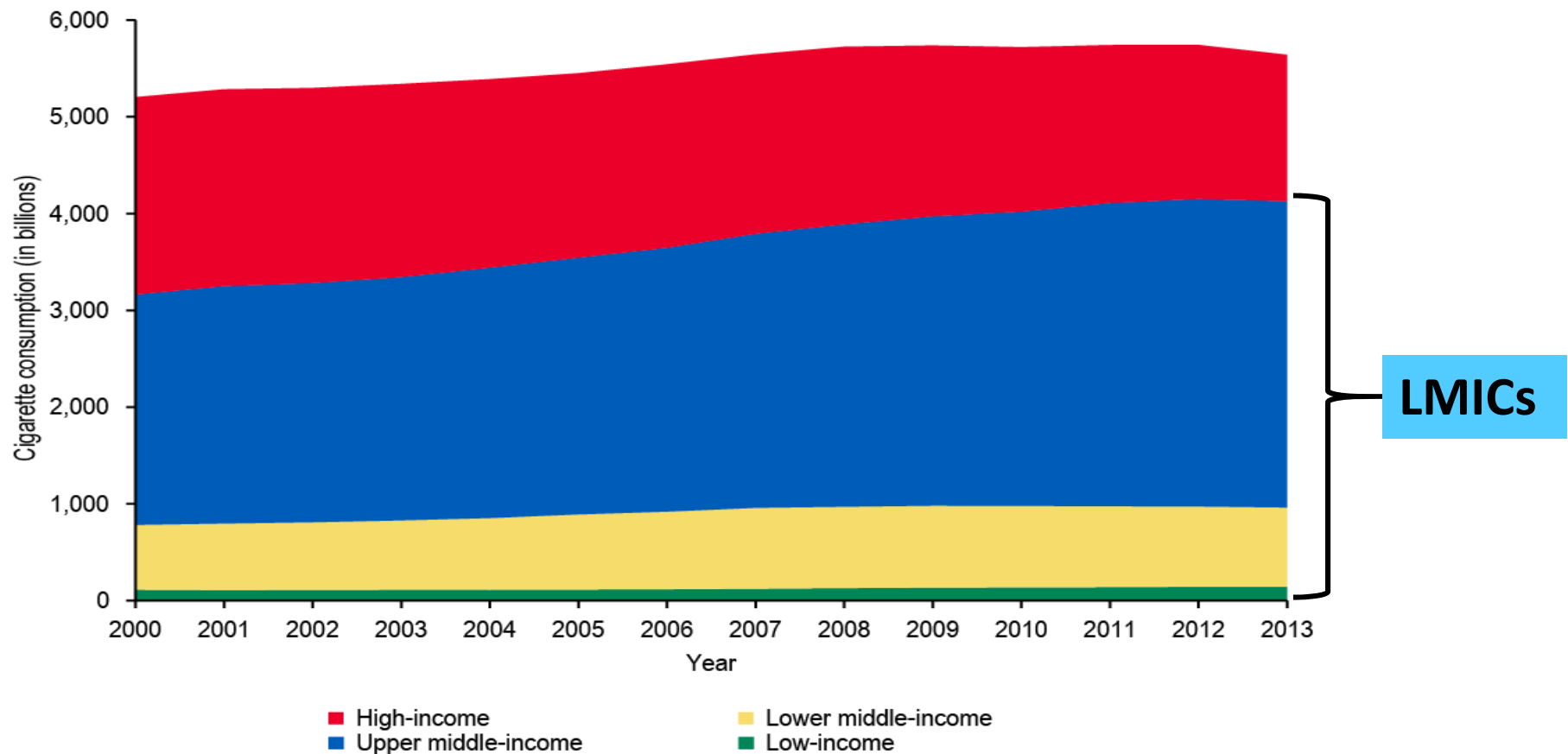


Source: Goodchild M, Nargis N, Tursan d'Espaignet E. Global economic cost of smoking-attributable diseases. *Tobacco Control* Published Online First: 30 January 2017. doi: 10.1136/tobaccocontrol-2016-053305

Most Smokers are in LMICs



Approximately 80% of tobacco consumers are from Low- and Middle- Income Countries (LMICs)

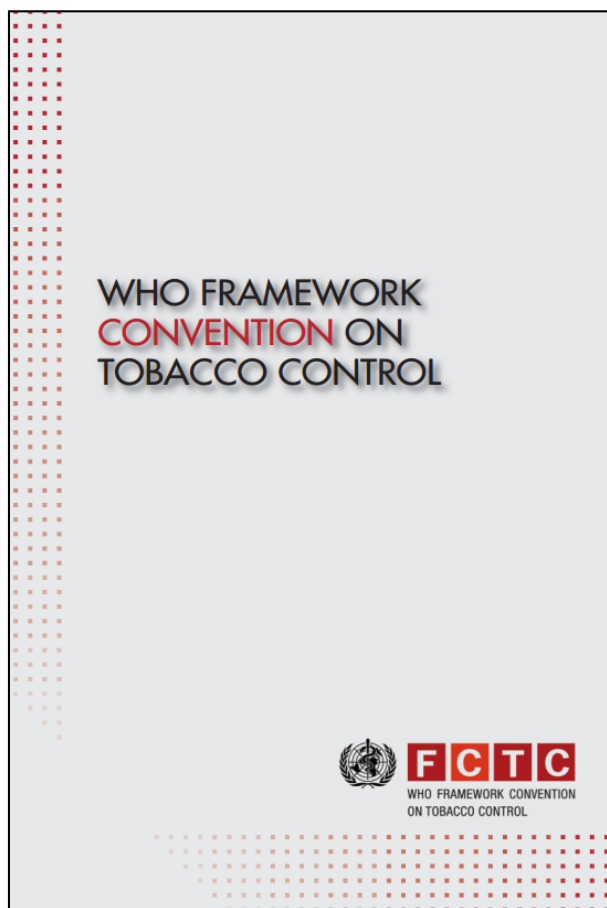


Source: NCI-WHO Monograph on the Economics of Tobacco and Tobacco Control

A Global Response to the Global Tobacco Epidemic



WHO Framework Convention on Tobacco Control (WHO FCTC)



The WHO FCTC, which entered into force on 27 February 2005, was the first negotiated global public health treaty

- Parties to the WHO FCTC: **181**

Article 6: *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.*

Further Reaffirmed by the SDGs



Increasing tobacco taxes will help meet goals stated in the 2030 Agenda for Sustainable Development (SDGs)



SDG 3.4
By 2030, reduce by one-third premature mortality from non-communicable diseases

SDG 3.a
Strengthen the implementation of the WHO Framework Convention on Tobacco Control

Tobacco Taxes are Crucial to Financing Development



Addis Ababa Action Agenda – Financing for Development



FINANCING FOR
DEVELOPMENT

13-16 JULY 2015 • ADDIS ABABA • ETHIOPIA
TIME FOR GLOBAL ACTION

*“price and tax measures on tobacco can be an effective and important means to reduce tobacco consumption and health care costs, and **represent a revenue stream for financing development in many countries**”*

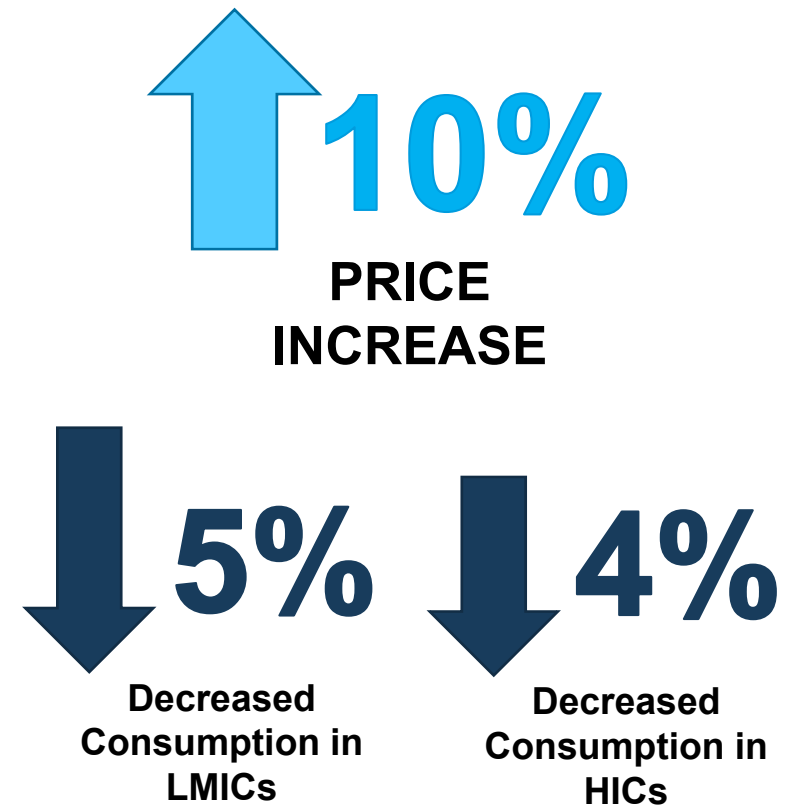


Raising Tobacco Taxes

Raising Tobacco Taxes: Win for Revenues, Win for Public Health



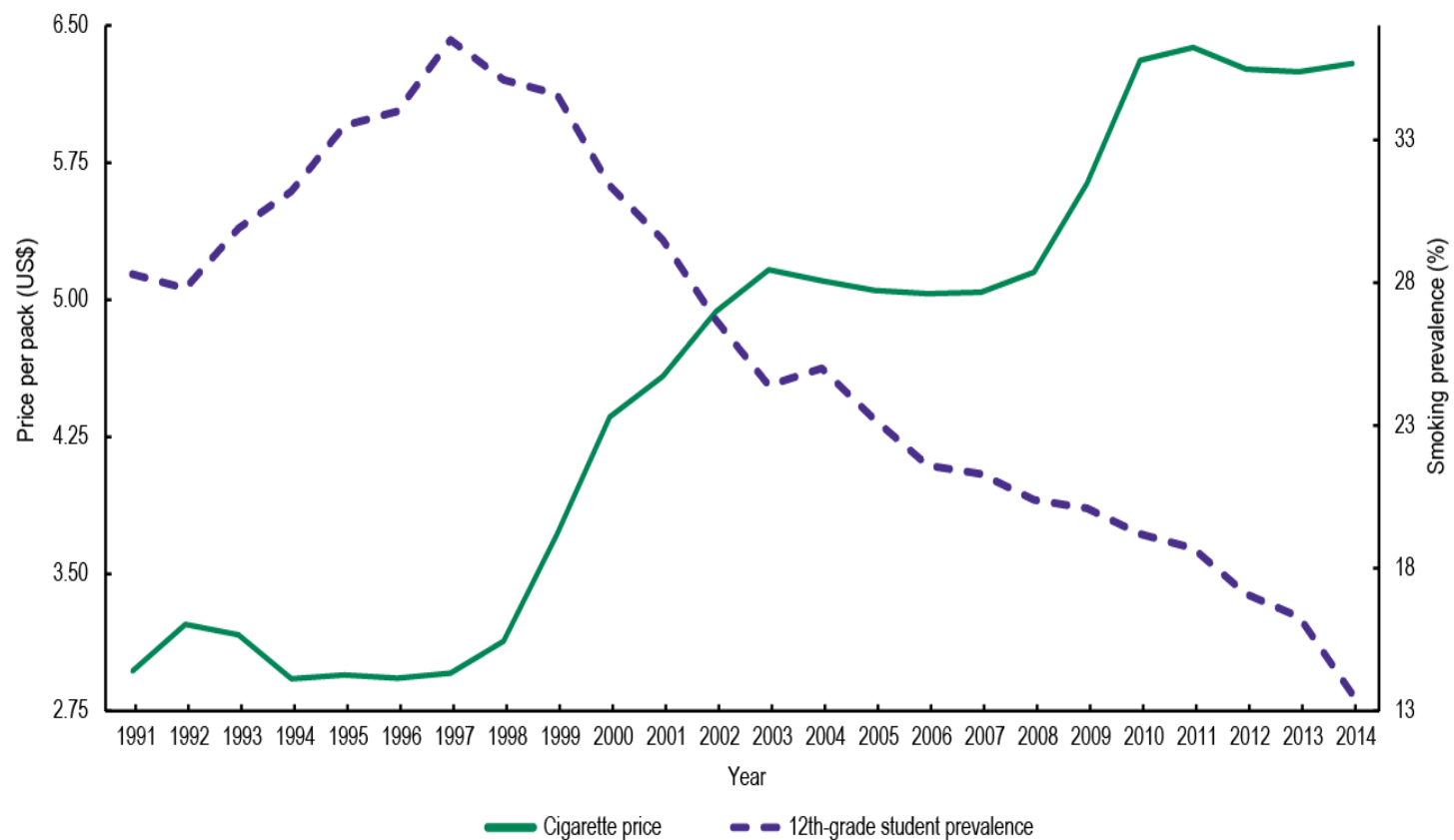
- Significantly increasing the excise tax and price of tobacco products is the **single most consistently effective tool for reducing tobacco use.**
- Young people and the poor are generally more responsive to changes in prices of tobacco products.
- In HICs, estimates of price elasticity of demand range from -0.2 to -0.6 , clustering around -0.4 . In LMICs, elasticity estimates range from -0.2 to -0.8 , clustering around -0.5 .



High Cigarette Prices Prevent the Youth from Smoking



Inflation-Adjusted Cigarette Prices and Prevalence of Youth Smoking in the United States, 1991–2014

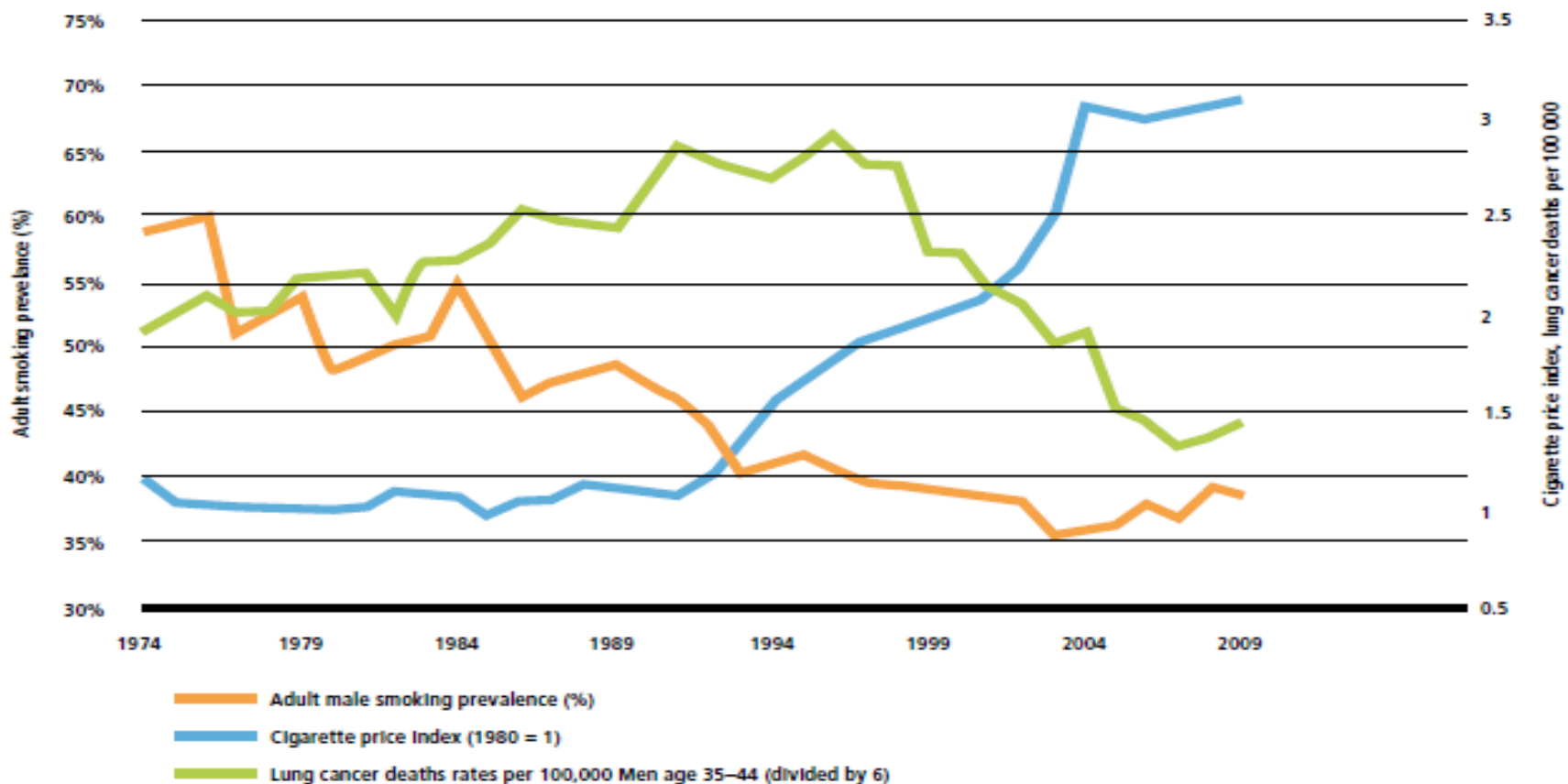


Source: NCI-WHO Monograph on the Economics of Tobacco and Tobacco Control

Significant Tobacco Tax Increases Reduce Consumption and Death



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



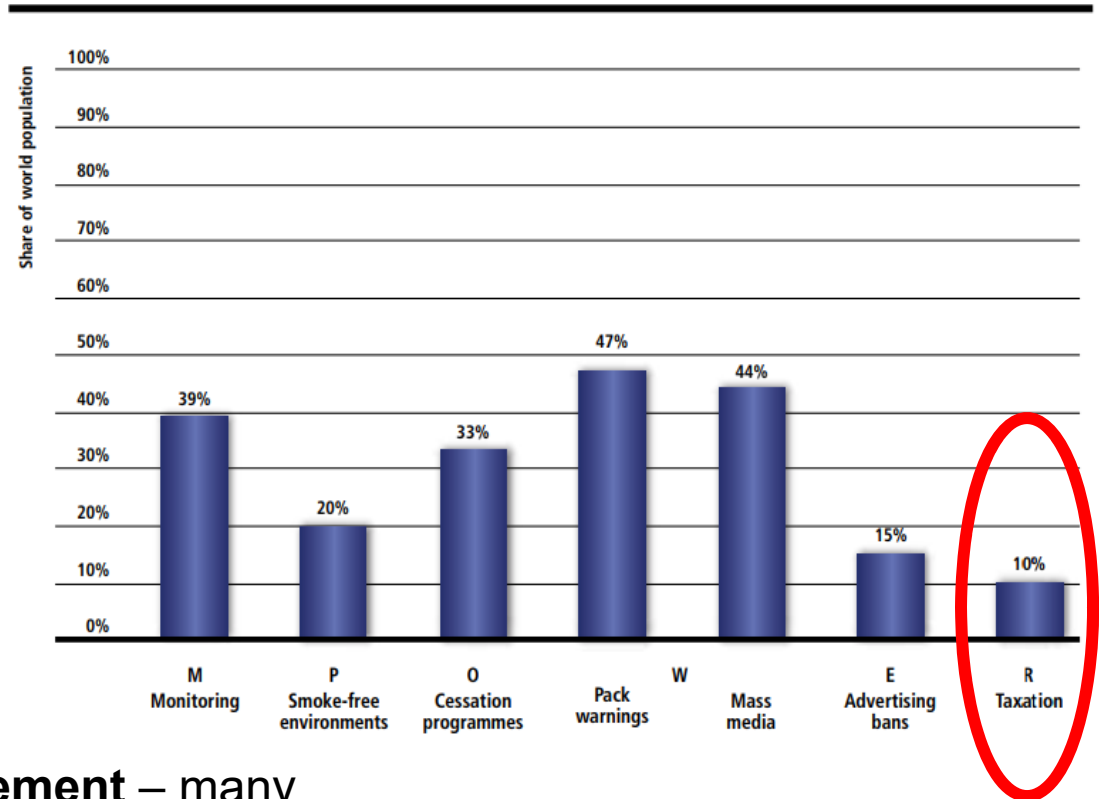
Source: WHO Report on the Global Tobacco Epidemic, 2015

Raising Tobacco Taxes: Highly Cost-effective Yet Least Implemented



- Though highly cost-effective in reducing tobacco use, increased tobacco taxation is **the least implemented intervention**
- Only **10% of the world's population** is covered by taxation policies that are judged to be at the highest level of enforcement, compared to other tobacco control policies.
- **There is big room for improvement** – many LMICs, as well as China, have excise tax shares below 50%

SHARE OF THE WORLD POPULATION COVERED BY SELECTED TOBACCO CONTROL POLICIES, 2016



SCARE Tactics of the Tobacco Industry



Tobacco Industry **SCARE** tactics and misinformation are the key hindrance to increasing tobacco taxes worldwide

This is especially the case in low and middle income countries (LMICs), that often lack technical capacity and/or political commitment

S – Smuggling & Illicit Trade

C – Court & Legal Challenges

A – Anti-poor Rhetoric

R – Revenue Reduction

E – Employment Impact

Best practices in tobacco tax policy



- ✓ Simple tax structures are easier to administer.
- ✓ Aspire for 70% excise tax share to retail prices.
- ✓ Adjust tax rates regularly to account for inflation and income effects.
- ✓ Tax increases are more effective if implemented as part of a package.

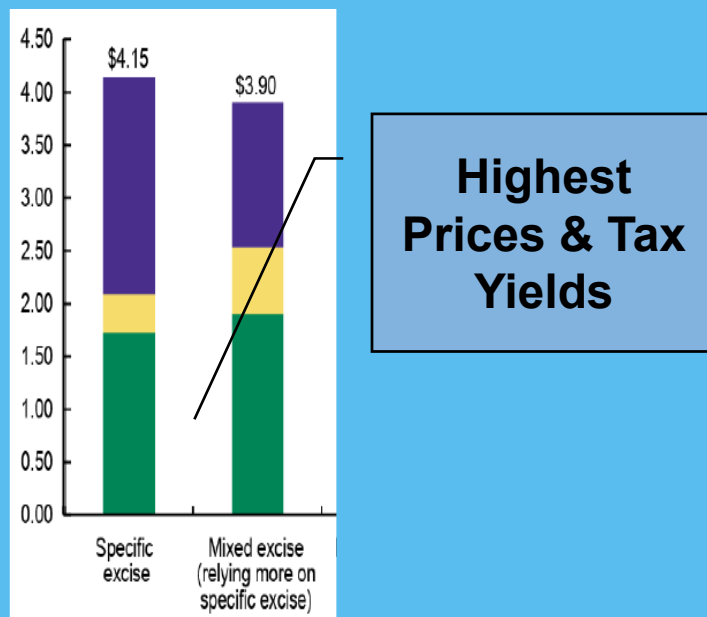
S – Simple and specific tax structures

T – Tax levels and tax shares sufficiently high to impact tobacco affordability

O – Overcome inflation and income effects by regular tax increases

P – Package

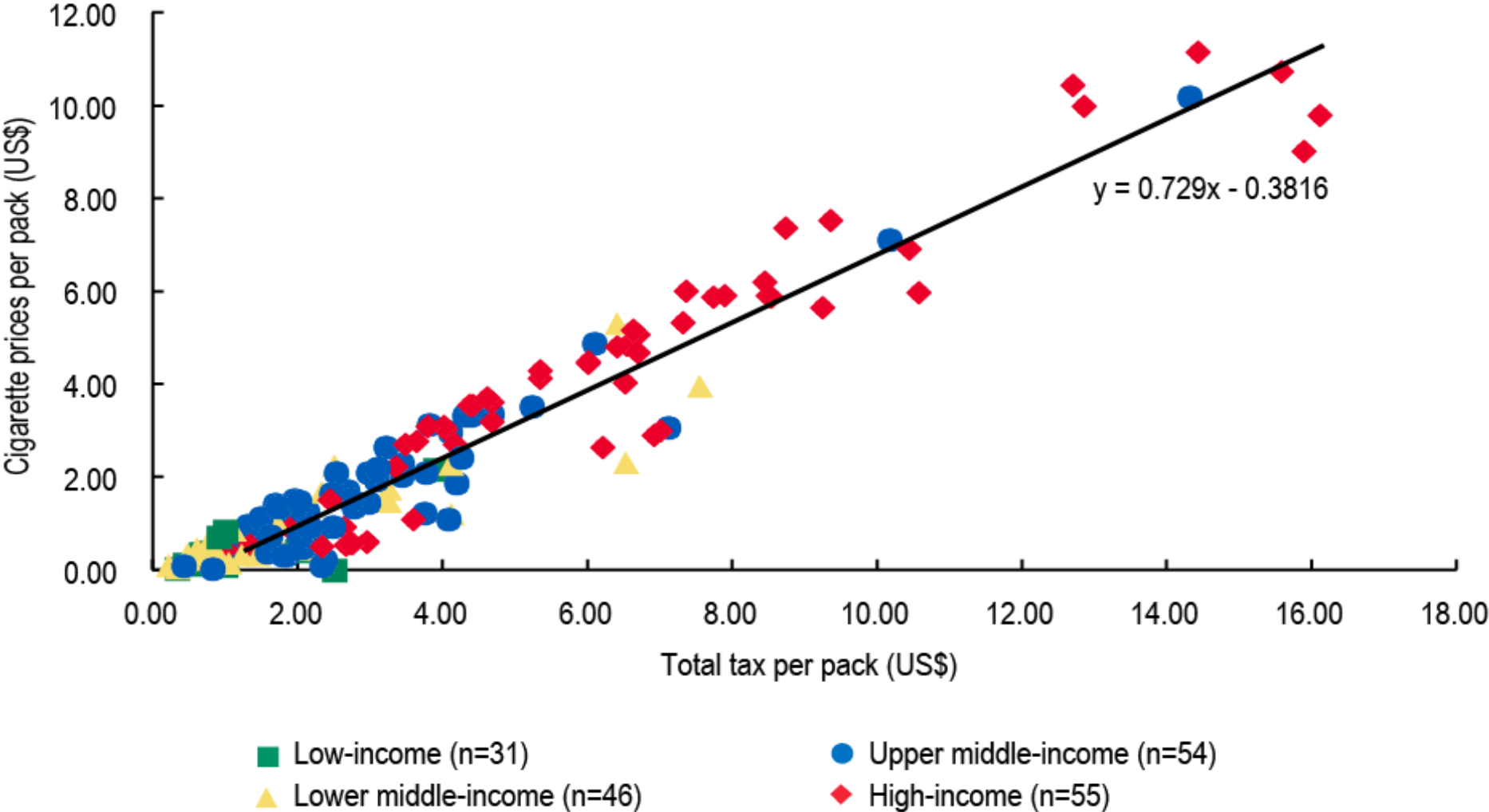
Tax Structure Matters



- Governments apply a variety of tobacco taxes, using different tax structures.
- Relying on import duties to generate revenue is not an effective tax policy and does not substantially affect public health.
- **Simpler is better** - reliance on high, uniform, and specific excise taxes will have the greatest public health impact.

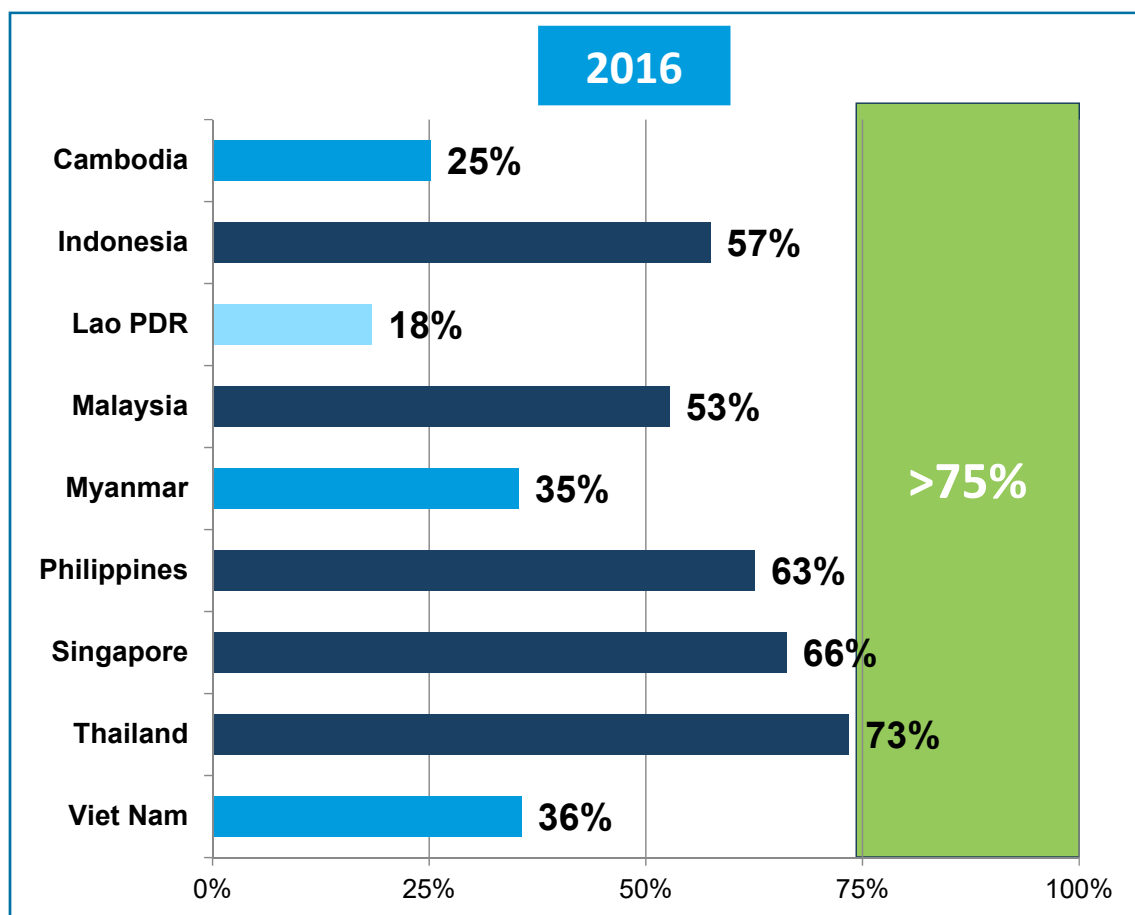
Tax shares are highly correlated to retail prices

Price of a Pack of Cigarettes Versus Total Tax on Cigarettes, by Country Income Group, 2014



Source: NCI-WHO Monograph on the Economics of Tobacco and Tobacco Control (Figure)

Share of Total Taxes in the Retail Price of the Most Sold Brand of Cigarettes in the ASEAN



	2010	2012	2014
Cambodia	17%	17%	22%
Indonesia	54%	51%	53%
Lao PDR	14%	20%	17%
Malaysia	52%	57%	55%
Myanmar	25%	50%	50%
Philippines	28%	29%	74%
Singapore	67%	66%	66%
Thailand	69%	70%	73%
Viet Nam	32%	32%	32%

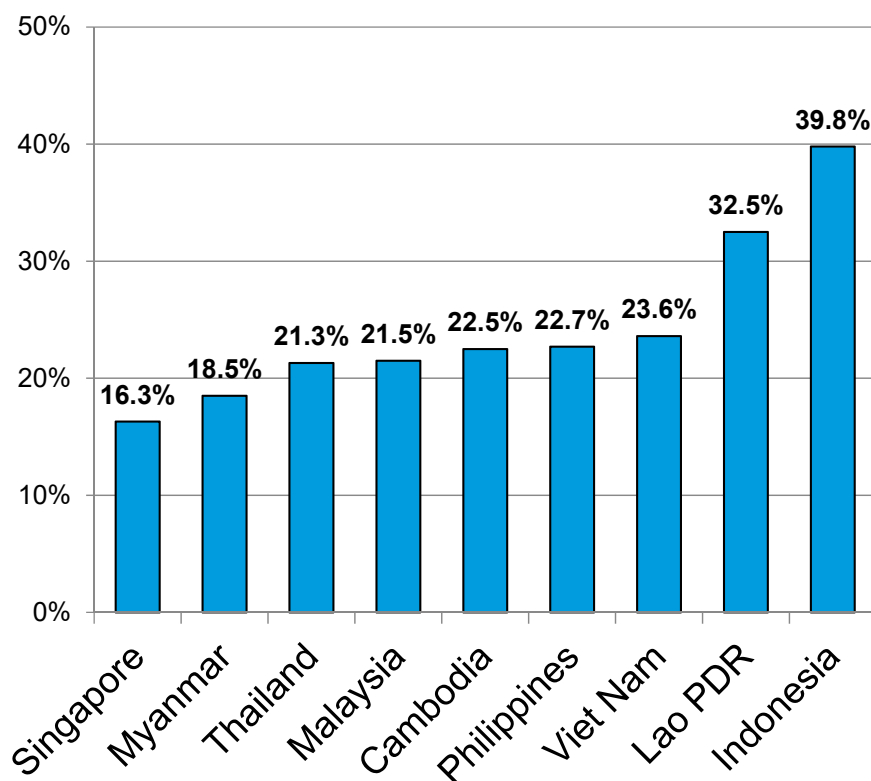
■ < 25% of retail price is tax
 ■ 25-50% of retail price is tax
 ■ 51-75% of retail price is tax

Source: WHO report on the global tobacco epidemic, 2017

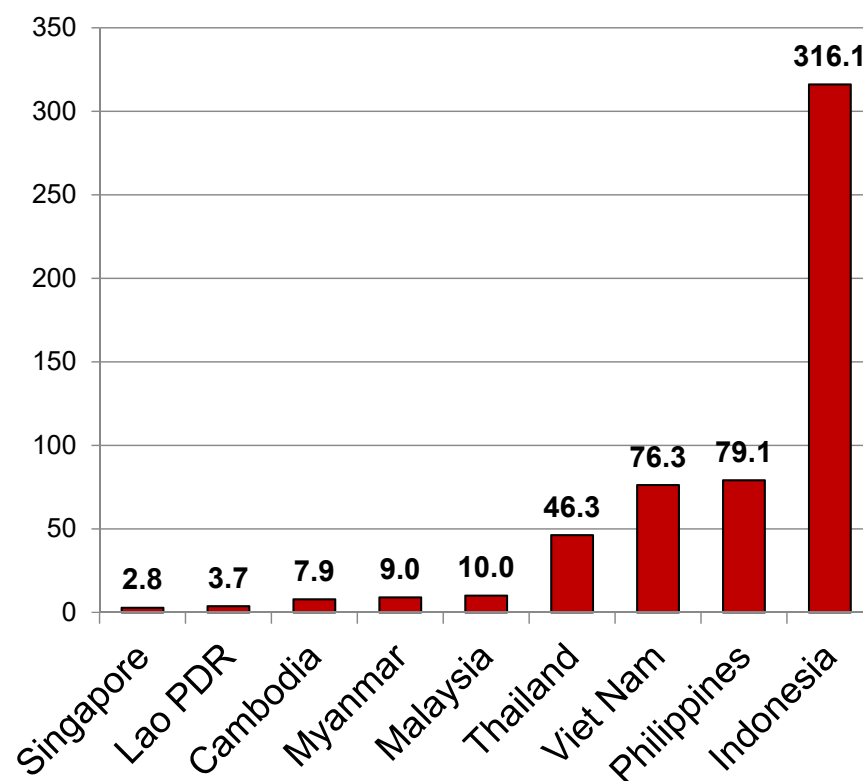
ASEAN: Smoking Prevalence and the Tobacco Market



Smoking Prevalence, 2015

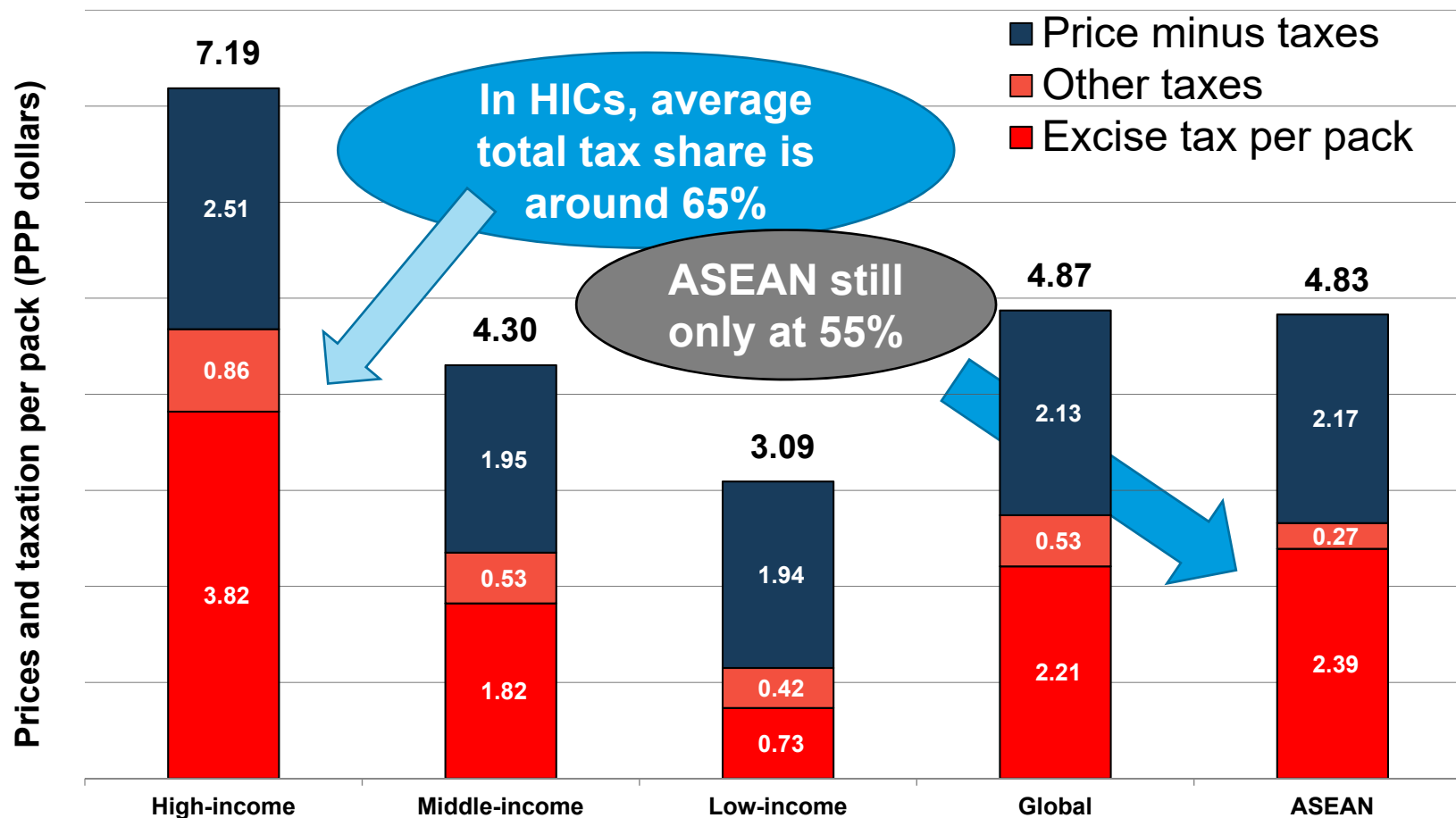


Market Size for Cigarettes: Retail Volume in Billions of Sticks, 2016



Sources: WHO Estimates and GATS (Philippines), 2015
Market Size for Cigarettes – Euromonitor Intl., 2016

Raising Tobacco Taxes: A Lot of Room to Increase Taxes



Note: Averages are weighted by WHO estimates of number of current cigarette smokers ages 15+ in each country in 2015. Prices are expressed in Purchasing Power Parity (PPP) adjusted dollars or international dollars to account for differences in the purchasing power across countries. Based on 53 high-income, 100 middle-income and 27 low-income countries with data on prices of most sold brand, excise and other taxes, and PPP conversion factors.

Global Lessons Learned



- **Go big, go fast.** Focus on health gains, then on fiscal benefits.
- **Attack affordability.** Tobacco taxes only reduce tobacco consumption if they reduce affordability.
- **Change expectations.** Communication with the public is critical.
- **Simpler is better.** Tax by quantity and go for simple systems.
- **Soft earmarks can win support.** Link revenues to health.
- **Regional collaboration can boost results.** Important to reduce risks of illicit trade
- **Build broad alliances.** Whole of government/society approach

The Philippine Experience

The Philippine Context and Rationale for Reform



CONTEXT (THEN)

- “No new taxes” promise of then President Aquino
- Universal Health Care as part of the administration’s social contract with the people
- WTO Distilled Spirits Case
- One of the top smoking countries, with tobacco taxes & prices among lowest in the world
- Strong tobacco lobby with deep business and political connections – hindered previous attempts at reform



RATIONALE FOR REFORM

- Help finance Universal Health Care (UHC)
- Address public health issues relating to alcohol and tobacco consumption, particularly the increase of noncommunicable diseases (NCDs)
- Fix long-standing weaknesses of the tax structure

Key Tax Design Considerations

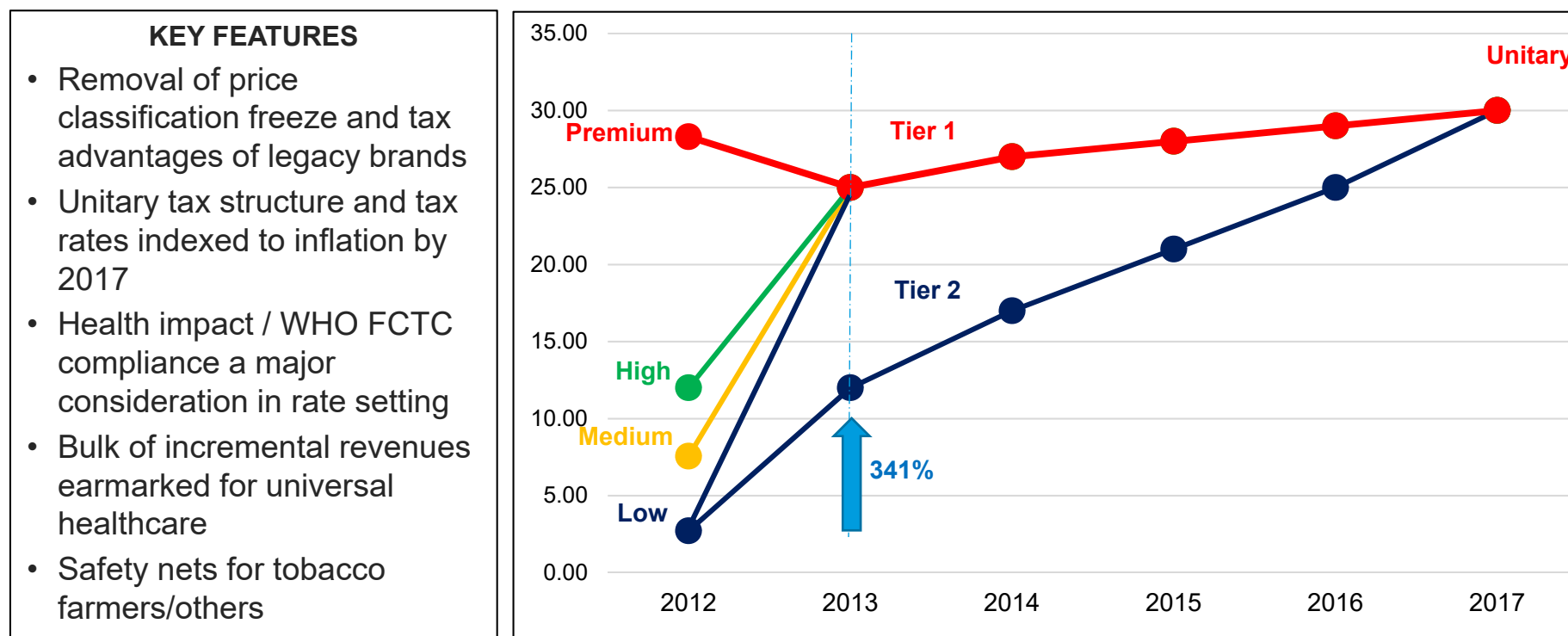


- ✓ **Best practice examples.** Consulted WB, WHO, IMF and academe
 - ✓ Keep it simple – uniform specific
 - ✓ Adjust tax rates for inflation and income effect
- ✓ **Political economy.** Need for strong public support
- ✓ **Consider health goal when setting tax rates.** Aspire for 70% excise tax share in retail prices
- ✓ **Tax Free/Duty Free Sales:** Remove excise tax exemption
- ✓ **Plug loopholes.** Eg. Exports and transshipments; require fiscal marks

The Case of the Philippines: Tobacco Tax Reform at a Glance



From multiple tiers, gradually merged into a single tier in 2017



Source: Philippine Department of Finance

Key Issues and Challenges



S

Increased Smuggling & Illicit Trade

- Manageable risk since cigarette prices are low relative to the region. Strengthen monitoring and enforcement.

C

Court & Legal Challenges

- Stay firm despite threats of court challenges.

A

Anti-poor Rhetoric: Negatively Impact the Poor

- Increased revenues will fund UHC and other social programs that will benefit the poor

R

Revenue Reduction

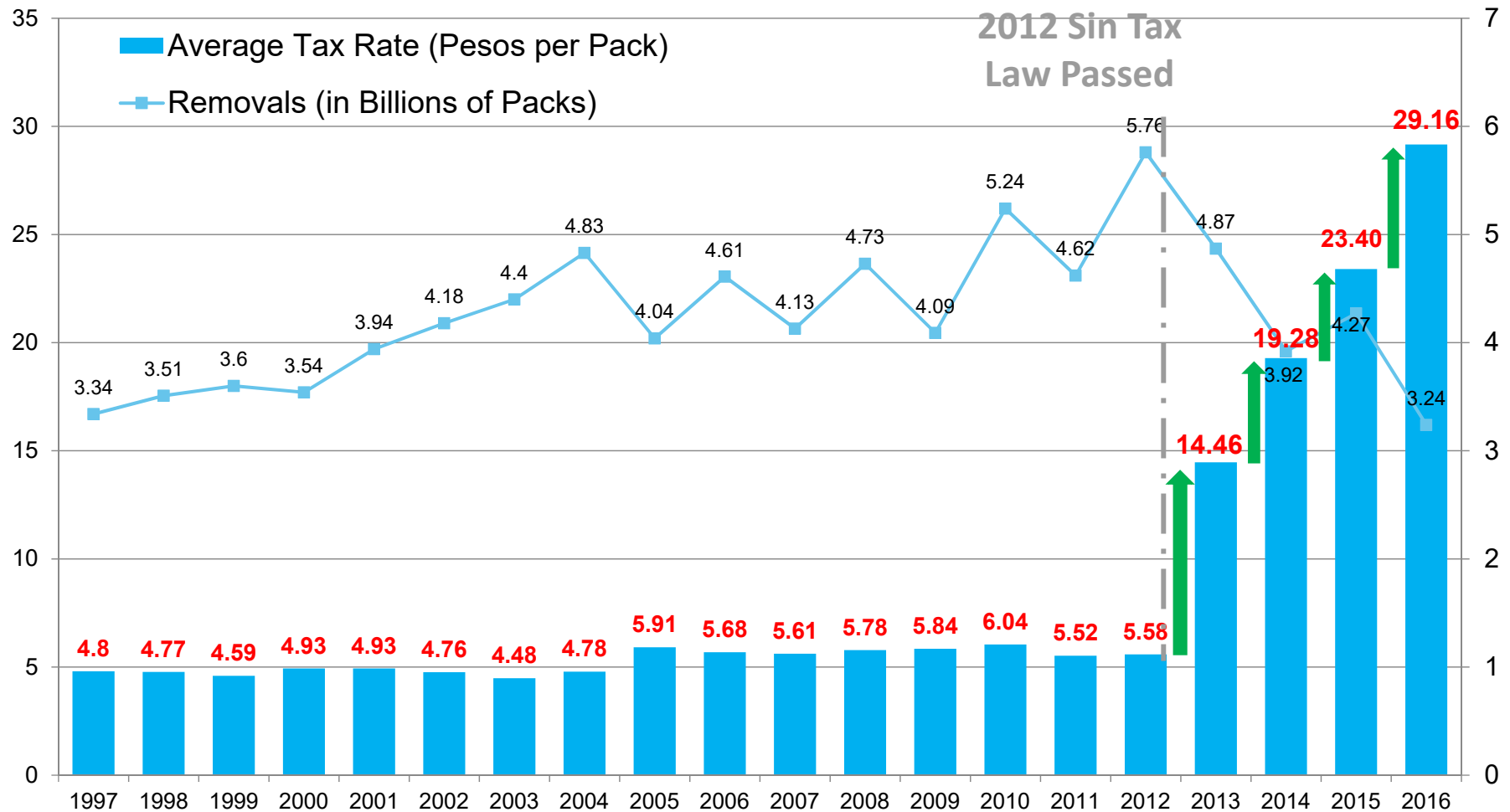
- More likely to increase. This is a health measure and not a revenue measure.

E

Employment Impact: adversely affect tobacco farmers

- Manageable risk as 80% of tobacco is exported. Provide support to shift to alternative crops.

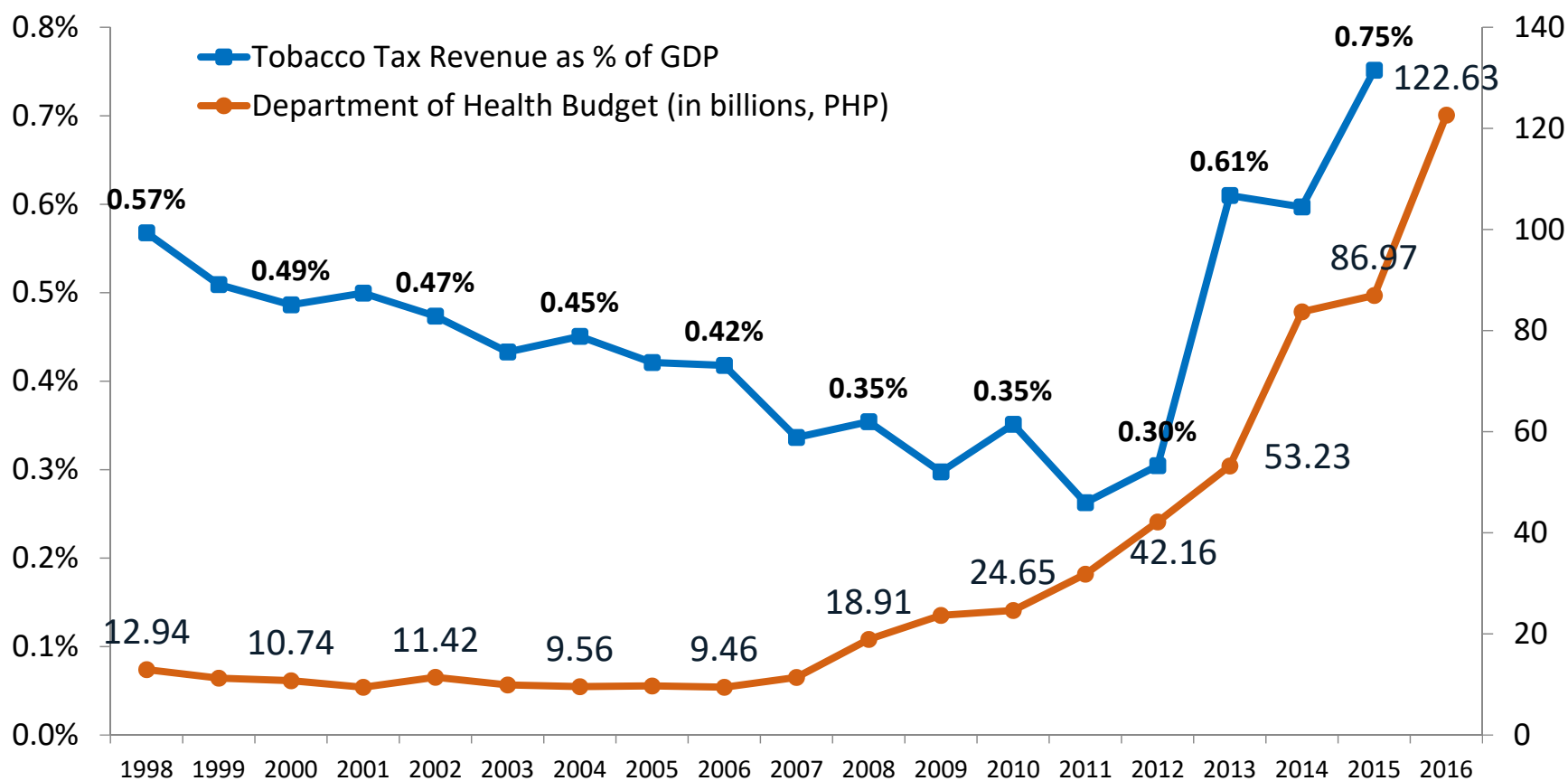
Paradigm shift in thinking about tobacco taxation



The Case of the Philippines: Incremental Revenues for Health



Additional revenues from increased tobacco tax rates were used to almost triple the health budget within four years

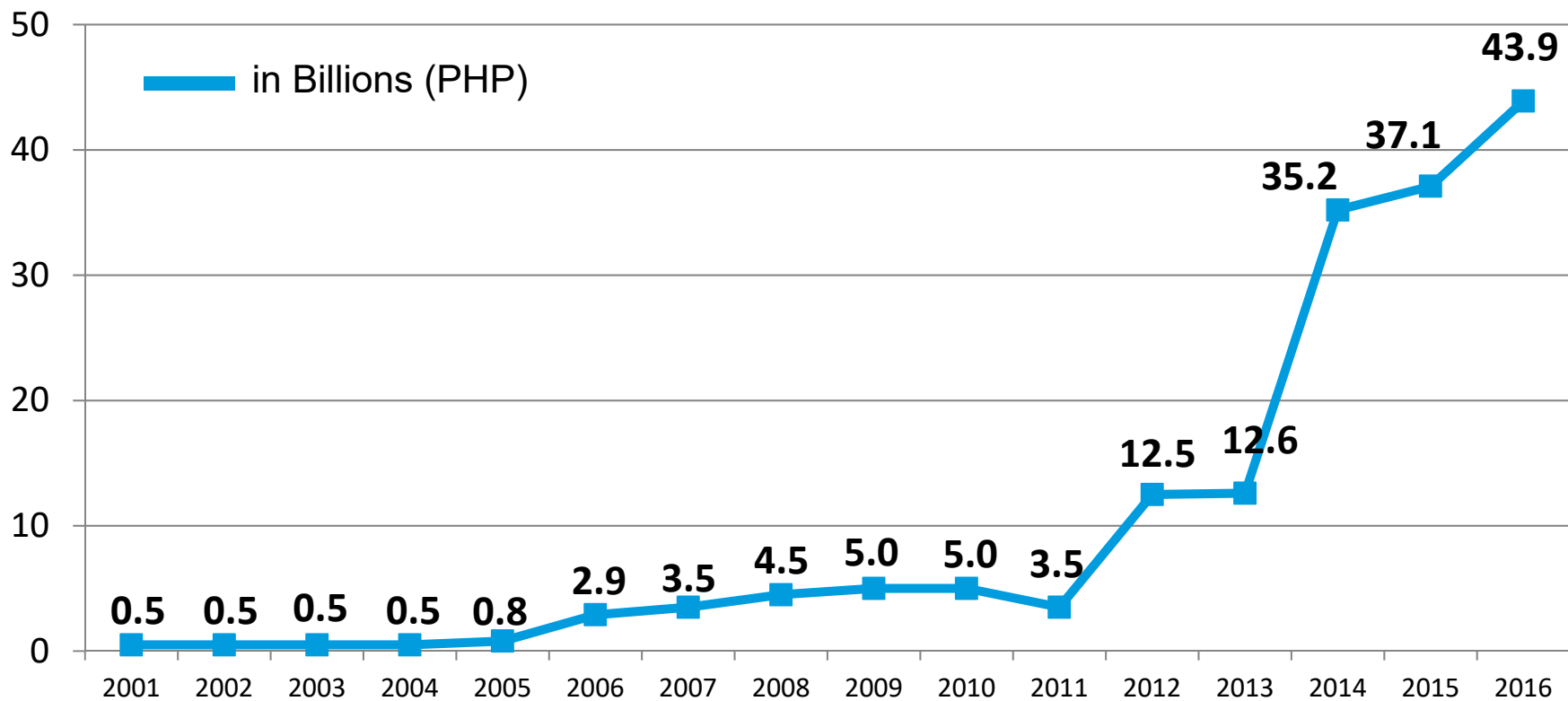


Source: Philippine Bureau of Internal Revenue and Department of Health

The Case of the Philippines: Higher Taxes Benefitting the Poor



National Government Allocation for Health Insurance Premiums for the Poor → helped expand coverage for 15.2 million families



Source: Philippines Department of Health

The Case of the Philippines: Decreased Smoking Prevalence



Higher taxes and other tobacco control policies helped more than **1 million** smokers to quit

GRAPHIC HEALTH WARNINGS, TAXES MAKE OVER 1M PINOYS QUIT SMOKING

By **Tina G. Santos**
@santostinaINQ

More than 1 million Filipinos have kicked the smoking habit, according to the latest Philippines' Global Adult Tobacco Survey (GATS), the global standard protocol in monitoring adult tobacco use.

In a press briefing on Monday, Health Secretary Paulyn Ubial said a number of tobacco control interventions, particularly taxation, has led to a significant drop in current smokers from 17 million in 2009 to 15.9 million in 2015.

"This figure represents a relative reduction of close to 20 percent of smokers. Or in simpler terms, 1 million Filipinos have quit tobacco use—the biggest decline we have seen in Philippine history, and we can do more to stop the suffering caused by this epidemic," Ubial said.

She said other measures that



Health Secretary Paulyn Ubial shows cigarette brands during a news conference in Quezon City. —NINO JESUS ORBETA

had contributed to the decline in smoking were graphic health warnings, local ordinances and advocacy of the health sector in strong partnership with civil society.

"The decrease in the number of smokers as well as exposures to secondhand smoke was due to increase in the prices of tobacco

products brought about by the Sin Tax Reform Law of 2012, among other things. Cigarette products have become more inaccessible to the public, especially to the poor and the youth," Ubial said.

"We look forward to more positive outcomes from Republic Act 10351 in the long

run," she said.

She noted that the reduction in tobacco use translated to a million Filipinos at lower risk for cancer, heart disease, asthma and chronic obstructive pulmonary disease.

A total of 11,644 were interviewed for GATS 2015, with a response rate of 92 percent.

Citing the results of the survey, Ubial said that currently, only 15.9 Filipino adults smoked tobacco—40.3 percent among men, 5.1 percent among women.

"Smoking among women declined by close to 50 percent—also a sign that measures to counteract smoking among women are working," Ubial said.

Aside from the number of smokers, victims of secondhand smoke have also gone down significantly in homes, from 54 percent in 2009 to 34 percent in 2015; and in the workplaces, from 32 percent in 2009 to 21 percent in 2015. INQ

The Case of the Philippines: Benefits to the Economy



Increased fiscal space created by higher tobacco taxes helped to attain investment grade status, which lessens the cost of borrowing

MOODY'S	Investment Grade Baa3 Positive (Oct. 3, 2013); Upgraded to Baa2 Stable (Dec. 11, 2014)
FITCH RATINGS	Investment Grade BBB- Stable (March 27, 2013); Affirmation (March 25, 2014); Upgraded to BBB- Positive (Sept 24, 2015)
STANDARD & POOR'S	Investment Grade BBB-/Stable (May 2, 2013) Upgraded to BBB /Stable (May 8, 2014) Affirmation (April 24, 2015)
JAPAN CREDIT RATING AGENCY (JCRA)	Investment Grade BBB/Stable (May 7, 2013); Affirmation (May 30, 2014); Upgraded to BBB+ /Stable (July 6, 2015)
RATING & INVESTMENT (R&I) INFORMATION, INC.	Investment Grade BBB/Stable (July 9, 2014); Affirmation (July 20, 2015)

The Philippines: Key Lessons Learned



- **Political support at the highest level is key.** Mapping the political economy of reform is important.
- **Leadership and coalition building are important.** Gather champions from finance, health and other stakeholders, including civil society to collaborate closely. Adopt a multi-sectoral and whole of government approach.
- **Think technical but act political.** Understand the different mindsets of key stakeholders (MOH, MOF, etc.) and leverage partnerships to overcome the tobacco industry.
- **Do not be threatened by the SCARE tactics of the tobacco industry.** Anticipate them and be prepared to apply pre-emptive moves and countermeasures.
- **Aim high for health.** Framing tax reform as a health measure allowed the Philippines to raise tobacco taxes significantly, than otherwise possible if it was framed only as a revenue measure.

CONCLUDING REMARKS



- ✓ Aim high for health. Framing sintax as a health measure allowed the Philippines to raise tobacco taxes significantly, than otherwise possible if it was framed as a revenue measure.
- ✓ Generated US5.2 billion incremental revenues in its first four years of implementation, bulk of which is accounted for by tobacco taxes. Indeed, raising tobacco taxes is a low lying fruit for raising domestic revenues for health and development.
- ✓ Earmarking revenues for health has almost tripled the health budget over 2012 levels and allowed the Philippine National Government to provide free health insurance to the poor and near poor (bottom 40% of the population).

CONCLUDING REMARKS



- ✓ Political support at the highest level is key. Mapping the political economy of reform is important.
- ✓ Leadership and coalition building are important. Gather champions from finance, health and other stakeholders, including civil society to collaborate closely. Adopt a systems and whole of government/society approach.
- ✓ Do not be threatened by the SCARE tactics of the tobacco industry. Anticipate them and be prepared to apply pre-emptive moves and countermeasures.
- ✓ Need to be vigilant and systematically monitor progress and outcomes.

Thank you

www.who.int/tobacco/economics

