

Taxation and pricing of smokeless tobacco products

Smokeless Tobacco Control Webinar Series
WHO FCTC Global Knowledge Hub on Smokeless Tobacco
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Tobacco Taxation: Single most effective and cost-effective tobacco control measure



More effective when implemented within a
comprehensive
tobacco control program

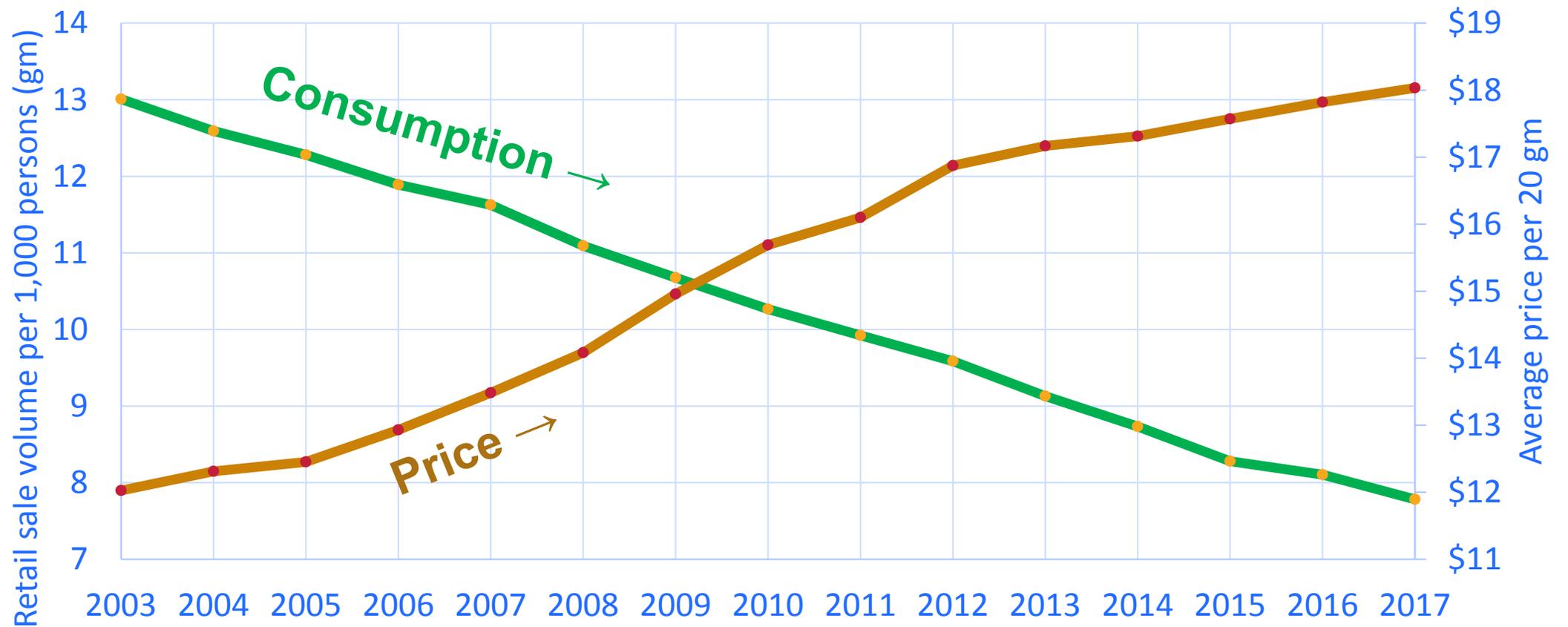




Outline

- Effectiveness of smokeless tobacco (SLT) taxation and pricing
- WHO FCTC Article 6 Guidelines
 - Tax parity or differentiation
 - Tax structure
 - Tax administration

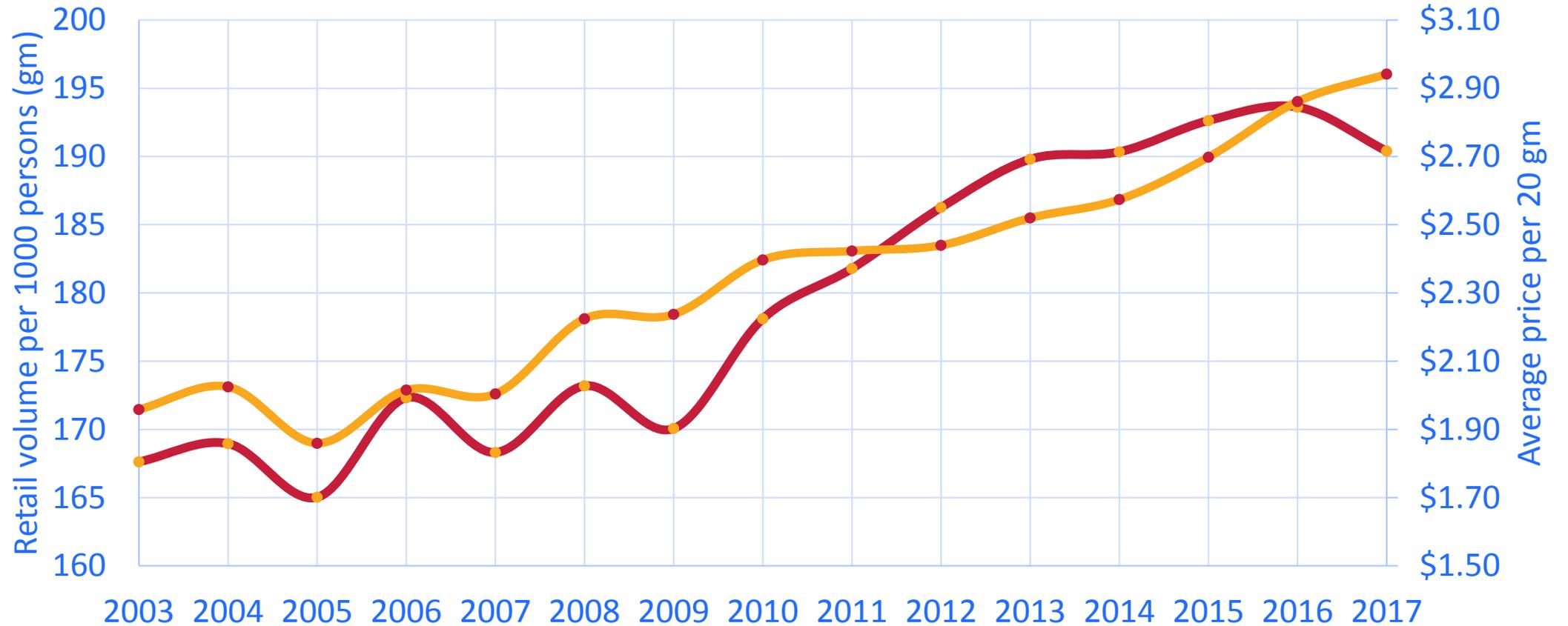
Canada: Smokeless tobacco price is ↑ and consumption is ↓



Source: Euromonitor International, June 2018.

- Smokeless tobacco retail volume per 1000 persons (gm)
- Smokeless tobacco price per 20 gm (CAD in 2017 constant prices)

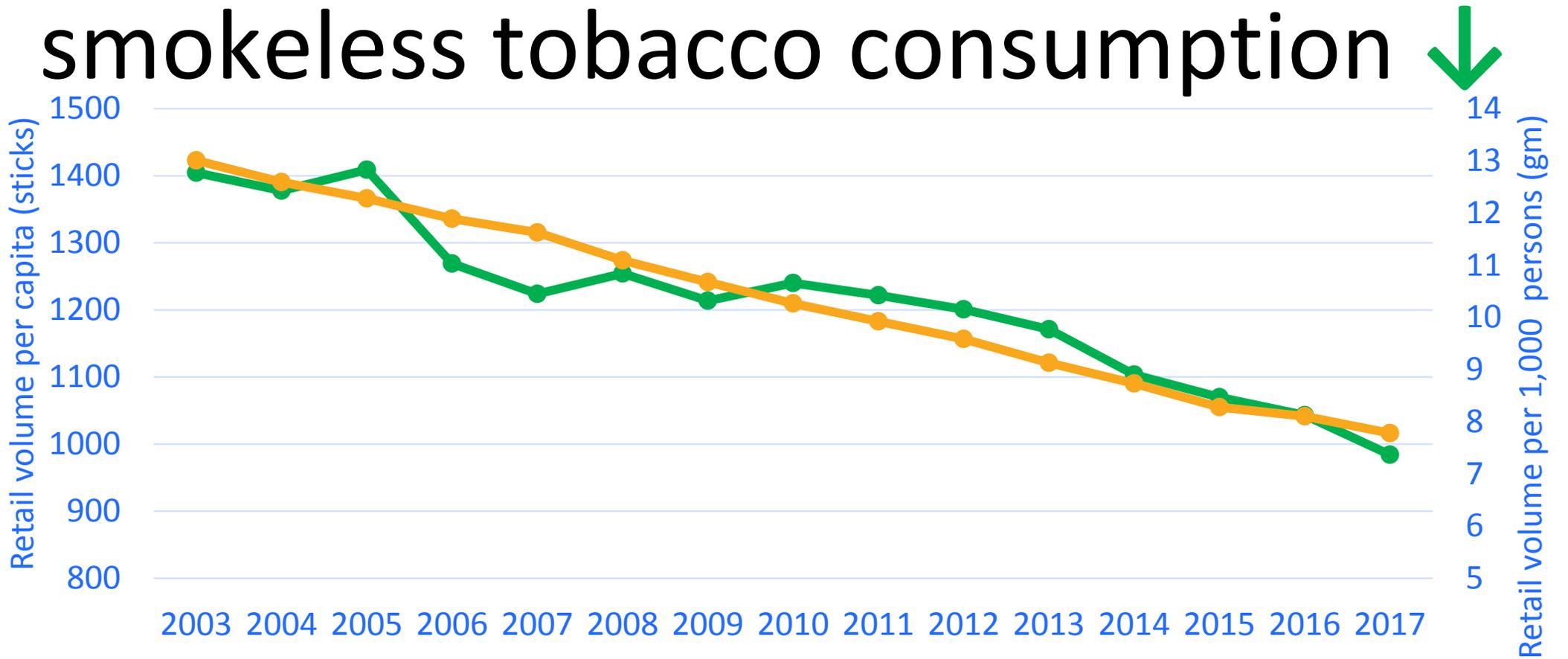
USA: Smokeless tobacco price is and consumption is



Source: Euromonitor International, June 2018.

-  Smokeless tobacco retail volume per 1000 persons (gm)
-  Smokeless tobacco price per 20 gm (USD in 2017 constant prices)

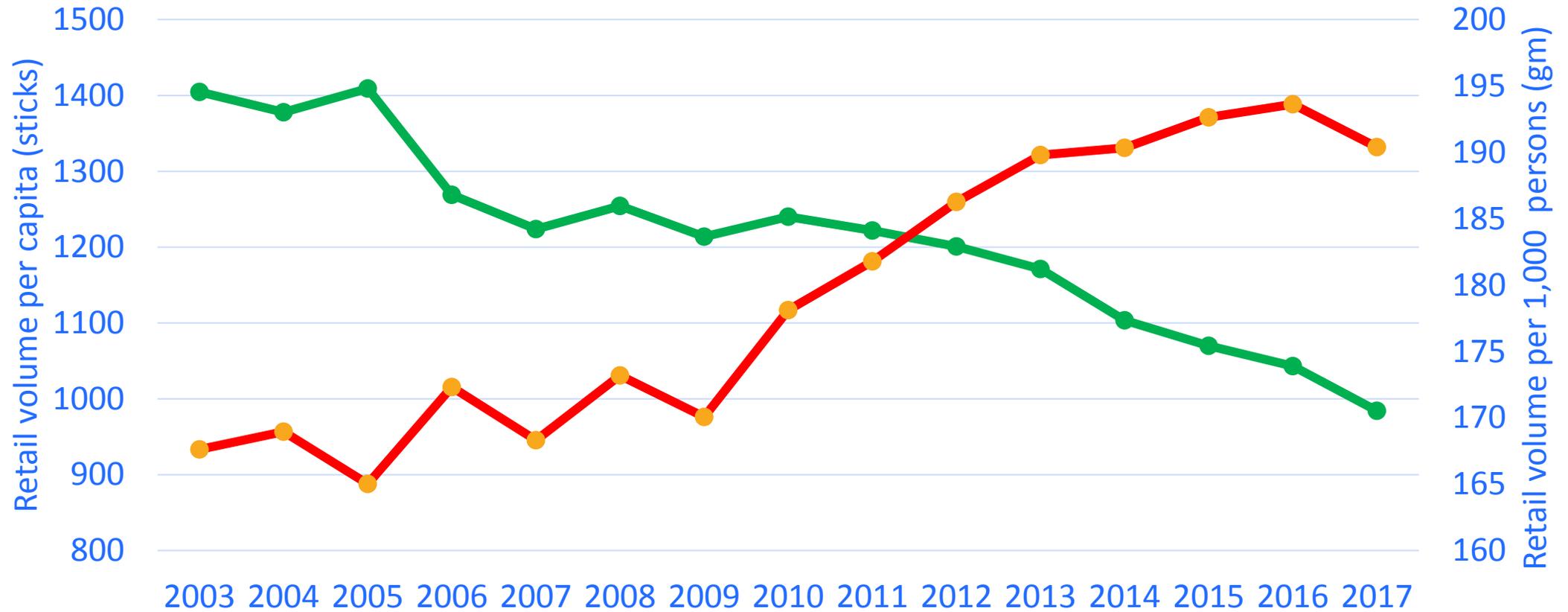
Canada: Both cigarette and smokeless tobacco consumption



Source: Euromonitor International, June 2018.

- Cigarette retail volume per capita (sticks)
- Smokeless tobacco retail volume per 1000 persons (gm)

USA: Cigarette consumption ↓, but smokeless tobacco consumption ↑

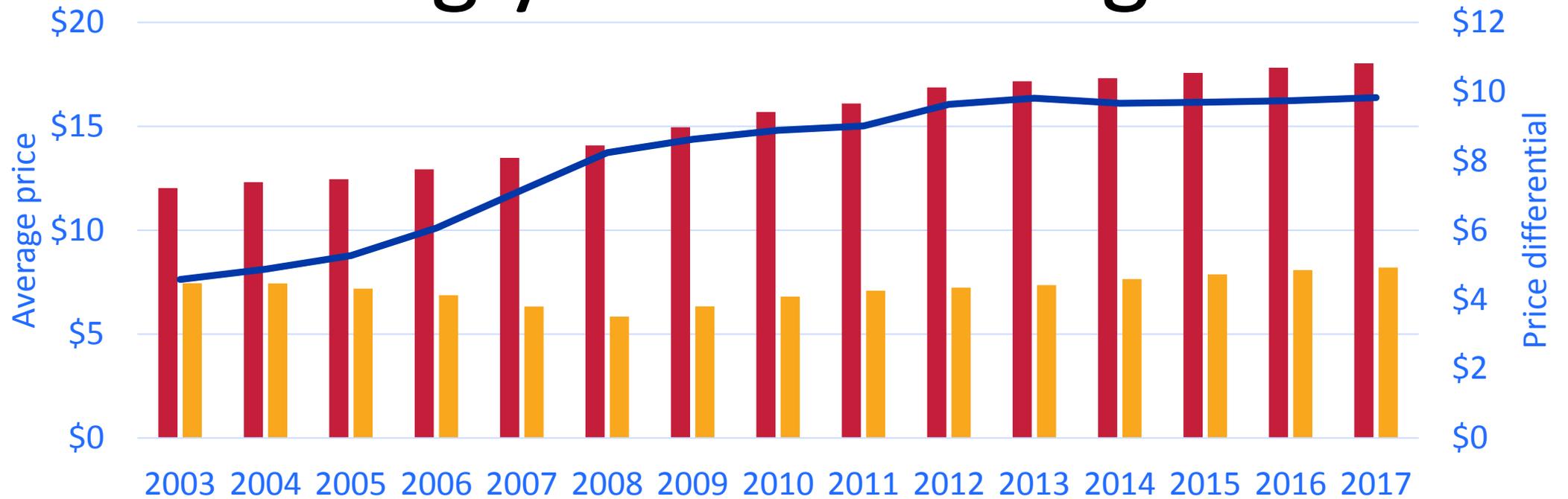


Source: Euromonitor International, June 2018.

- Cigarette retail volume per capita (sticks)
- Smokeless tobacco retail volume per 1000 persons (gm)

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- **Doesn't price increase always lead to decrease in consumption?**
 - **How do we explain this paradox?**

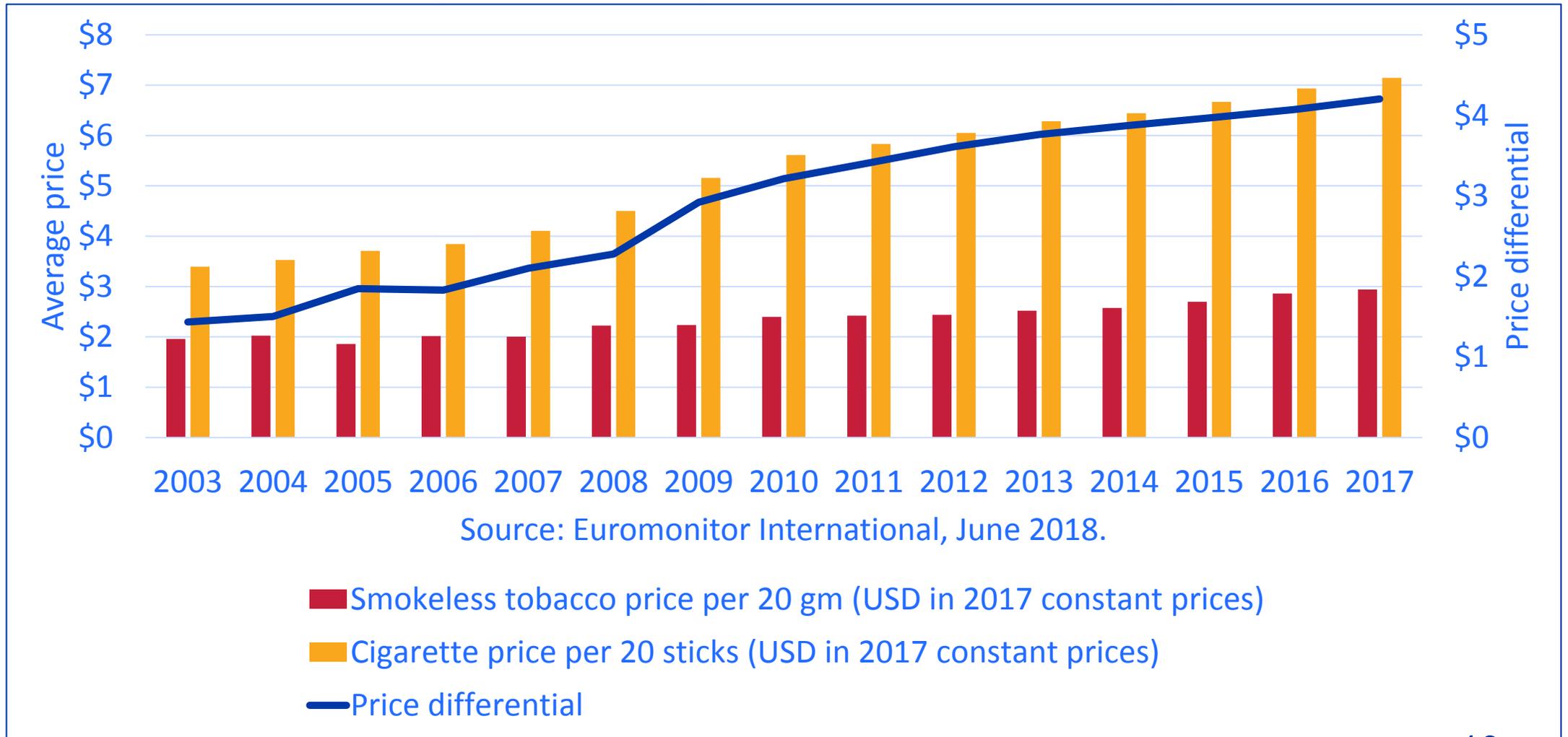
Canada: Smokeless tobacco costs increasingly more than cigarettes



Source: Euromonitor International, June 2018.

- Smokeless tobacco price per 20 gm (CAD in 2017 constant prices)
- Cigarette price per 20 sticks (CAD in 2017 constant prices)
- Price differential

USA: Smokeless tobacco became relatively cheaper than cigarettes



To sum up ...

- Canada
 - SLT is costlier than cigarette and became increasingly costlier relative to cigarette over time.
- USA
 - SLT is cheaper than cigarette and became increasingly cheaper relative to cigarette over time.

What does it suggest about the decreasing SLT consumption in Canada and increasing SLT consumption in USA?

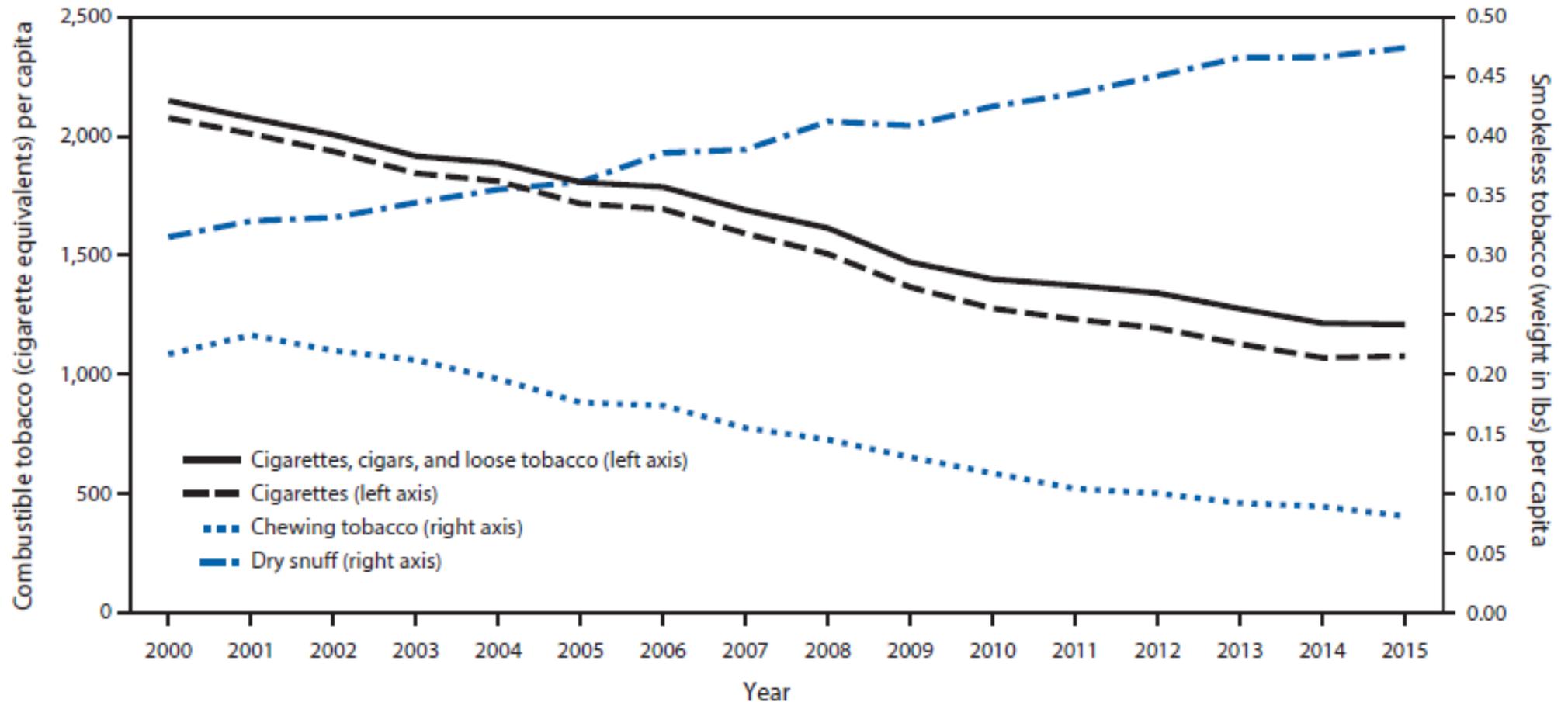
“Tax-induced relative price changes could be one factor among the multitude of factors affecting the growth in smokeless tobacco use among young males in the 1980s”

Tax elasticity of smokeless tobacco products

SLT tax (any smokeless tobacco)	-0.55
Cigarette tax (any smokeless tobacco vs. cigarettes)	+0.44
SLT tax (snuff)	-0.41
Cigarette tax (snuff vs. cigarettes)	+0.39
SLT tax (chewing tobacco)	-0.63
Cigarette tax (chewing tobacco vs. cigarettes)	+0.49

Source: Oshfeldt, R.L., Boyle, R.G., 1994. Tobacco Excise Taxes and Rates of Smokeless Tobacco Use in the US: An Exploratory Ecological Analysis. *Tob. Control* 3, 316–323.

USA: Consumption of dry snuff on the rise while cigarette consumption is decreasing



* Combustible tobacco includes cigarettes, cigars, and loose roll-your-own and pipe tobacco, and is measured as cigarette equivalents per capita.

† Smokeless tobacco includes chewing tobacco and dry snuff, and is measured as weight (lbs) per capita.

Source: Wang TW, Kenemer B, Tynan MA, Singh T, King B. Consumption of Combustible and Smokeless Tobacco — United States, 2000–2015. MMWR Morb Mortal Wkly Rep 2016;65:1357–1363.

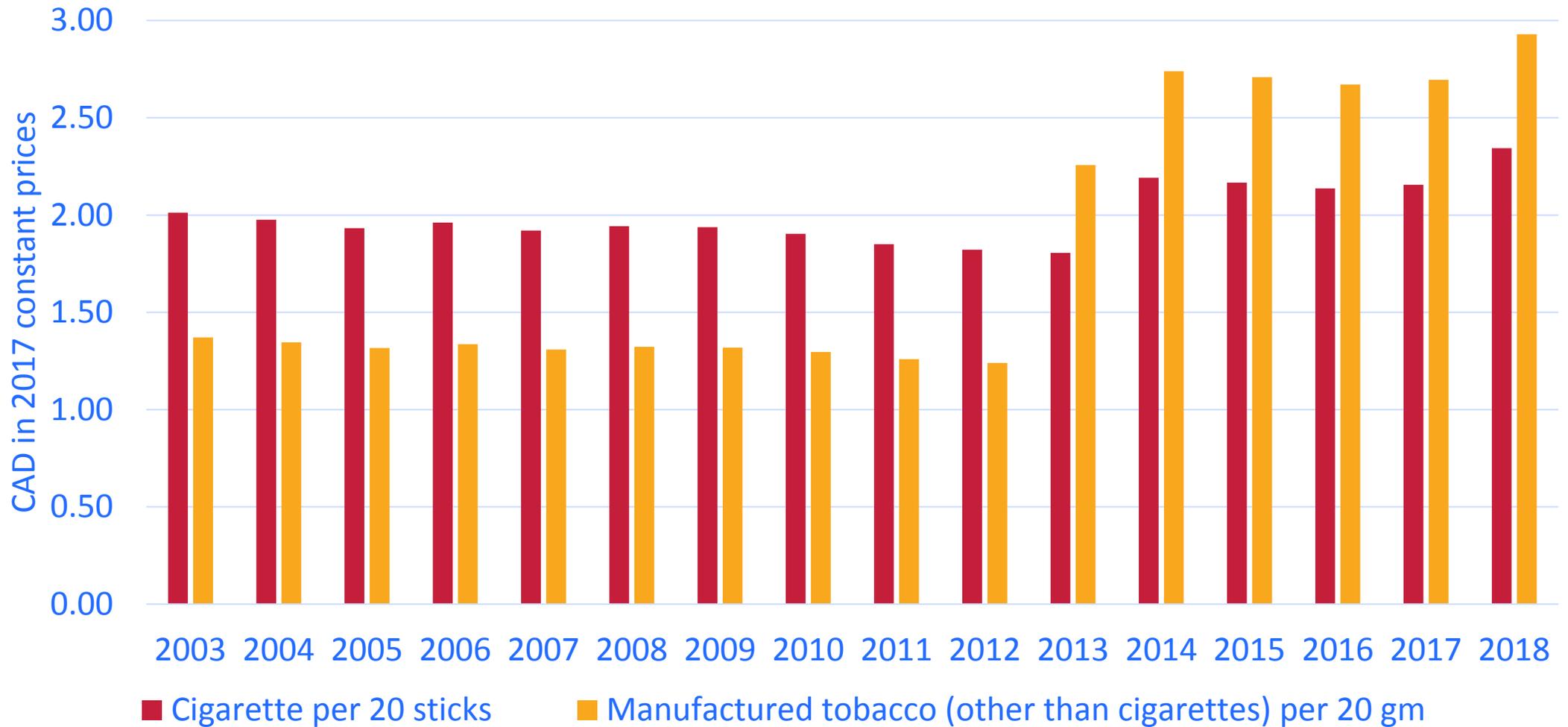


Non-price factors contributing to rise in smokeless tobacco consumption

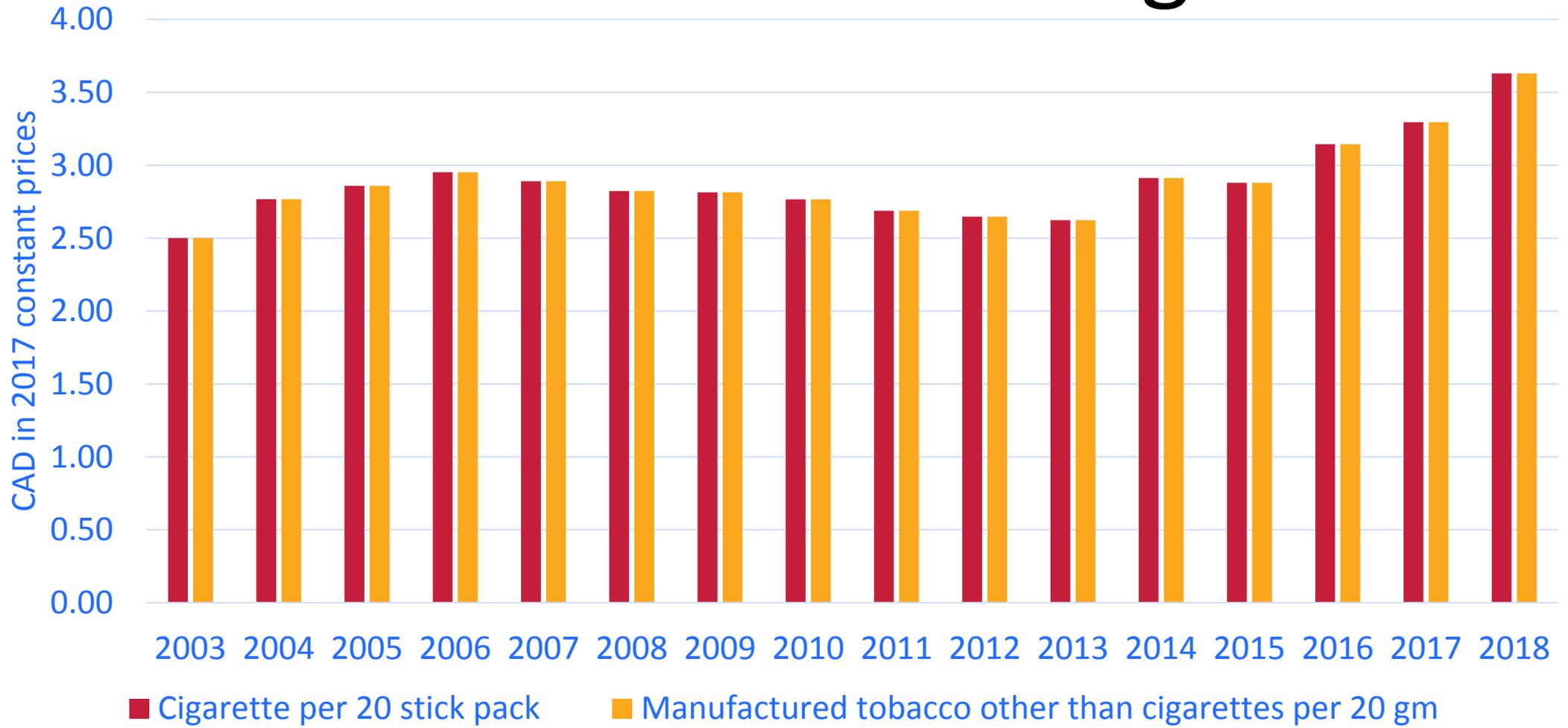
- Two dominant players—Reynolds American and Altria—entry in 2005 with aggressive market strategies
 - Dramatic increase in advertising expenditures using price-based promotions as a marketing strategy
 - Product innovation (snus, dissolvable tobacco products)
 - Promotion of smokeless tobacco products for use in places with smoking bans

Source: Levy et al. The effect of tobacco control policies on US smokeless tobacco use: A structured review. *Nicotine & Tobacco Research*, 2016, 1-9.

Canada: Federal excise duty on smokeless tobacco exceeds cigarette excise



Ontario: Provincial tax same on smokeless tobacco and cigarettes



British Columbia: Provincial tax on smokeless tobacco is even higher now

Product	Tax rate effective January 1, 2018 – March 31, 2018	Tax rate effective April 1, 2018
Cigarettes	24.7 cents per cigarette	27.5 cents per cigarette
Loose tobacco (tobacco other than cigarettes and cigars)	24.7 cents per gm	37.5 cents per gm



Manitoba: Fine cut tobacco draws much higher provincial tax

Products	Effective March 12, 2018
Cigarettes	29.5 cents per cigarette
Fine cut tobacco	45.0 cents per gm

USA: Federal excise tax rate is much higher on cigarettes than SLT

Federal excise (2009)	Current tax rate	Proposed by the Tobacco Tax Equity Act
Cigarette	\$1.0067 per pack of 20	Same
Smokeless – Moist snuff, Snus & Dissolvables	\$ 1.51 per pound (\$0.06 for SLT equivalent to 20 cigarettes)	\$26.04 per pound (\$1.06 for SLT equivalent to 20 cigarettes)
Smokeless – Chewing Tobacco	\$0.5033 per pound (\$0.02 for SLT equivalent to 20 cigarettes)	\$10.42 per pound (\$0.42 for SLT equivalent to 20 cigarettes)

Source: Tobacco Excise Tax and Parity Act of 2017. A Bill to amend the Internal Revenue Code of 1986 to reform and enforce taxation of tobacco products. H.R.729. Introduced in the House of Representatives on January 30, 2017.



Tax rate differentiation or parity?

- Individual level harm: SLT use can cause oral cancer.
- Population level harm reduces if
 - Adults use SLT to quit smoking
 - Youth who would otherwise smoke instead use SLT
- Population level harm increases if
 - Dual use of SLT and combustible tobacco products increases
 - SLT acts as a “gateway” to smoking among youth
- For high SLT burden countries (e.g., India, Bangladesh), tax parity is likely to reduce overall harm.



Article 6 Guidelines – Recommendations on tobacco taxation systems

- “All tobacco products should be taxed in a comparable way as appropriate, in particular where the risk of substitution exists.”
- “Parties should ensure that tax systems are designed in a way that minimises the incentive for users to shift to cheaper products in the same product category or to cheaper tobacco product categories as a response to tax or retail price increases or other related market effects.”
- “In particular, the tax burden on all tobacco products should be regularly reviewed and, if necessary, increased and, where appropriate, be similar.”



Article 6 Guidelines – Recommendations on tax structure and tax increases

- “Parties should implement the simplest and most efficient system that meets their public health and fiscal needs, and taking into account their national circumstances. Parties should consider implementing **specific or mixed excise systems with a minimum specific tax floor**, as these systems have considerable advantages over purely ad valorem systems.”
- “Tax rates should be monitored, increased or adjusted on a regular basis, potentially annually, **taking into account inflation and income growth developments** in order to reduce consumption of tobacco products.”



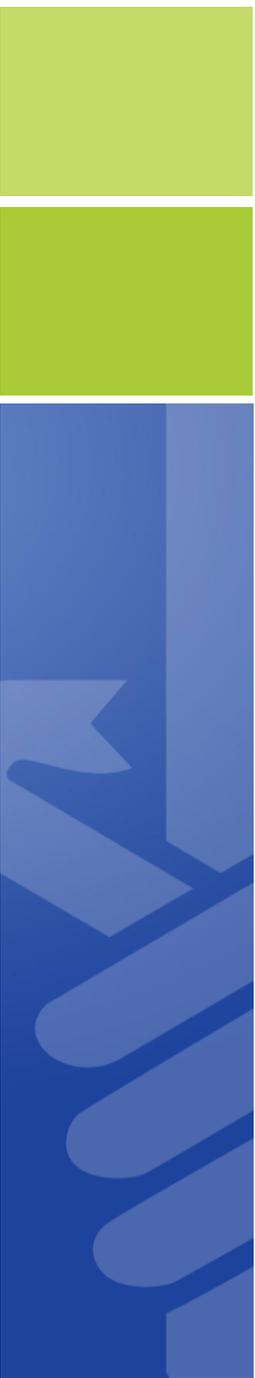
Article 6 Guidelines – Recommendations on tax administration

- “Parties should ensure that transparent licence or equivalent approval or control systems are in place.”
- “Parties are urged to adopt and implement measures and systems of storage and production warehouses to facilitate excise controls on tobacco products.”
- “In order to reduce the complexity of tax collection systems, excise taxes should be imposed at the point of manufacture, importation or release for consumption from the storage or production warehouses.”
- “Tax payments should be required by law to be remitted at fixed intervals or on a fixed date each month and should ideally include reporting of production and/or sales volumes, and price by brands, taxes due and paid, and may include volumes of raw material inputs.”
- “Tax authorities should also allow for the public disclosure of the information contained within the reports, through the available media, including those online, taking into account confidentiality rules in accordance with national law.”



Combat illicit trade

- Illicit trade in tobacco products increases the accessibility and affordability of tobacco products and undermines the effectiveness of tax and price measures.
- Ratify the Protocol to Eliminate Illicit Trade in Tobacco Products to the WHO FCTC.
- It will allow raising SLT taxes effectively
 - SLT consumption will decrease and SLT tax revenue will increase without increases in illicit trade.



Thank you

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