

WORLD HEALTH ORGANIZATION
Regional Office for the Eastern Mediterranean
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مَنْظِمَةُ الصِّحَّةِ الْعَالَمِيَّةِ
المكتب الإقليمي شرق المتوسط

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**Progress report on the
Tobacco-free initiative**

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1. Introduction

In 1999, the World Bank report on tobacco control *Curbing the epidemic* drew attention for the first time to the importance of taxation and price increase as a powerful tool to reduce tobacco consumption. Since then, there is growing evidence that raising the price of tobacco products through tax increases is the most effective way to reduce tobacco use. Higher prices discourage youth and nonsmokers from taking up smoking, encourage current smokers to quit, prevent former smokers from renewing smoking and increase countries' revenues.

The WHO Framework Convention on Tobacco Control (FCTC) states in Article 6 that: "*Price and tax measures are an effective and important means of reducing tobacco consumption ... Each Party should ... adopt ... tax policies and ... price policies on tobacco products, so as to contribute to the health objectives aimed at reducing tobacco consumption.*"

All Parties to the WHO FCTC are therefore obliged to take forward fiscal measures to reduce tobacco consumption. In the Eastern Mediterranean Region, 19 Member States are Parties to the Convention. These Parties should raise taxes on tobacco products on a regular basis to correct for inflation and consumer purchasing power.

2. Situation analysis

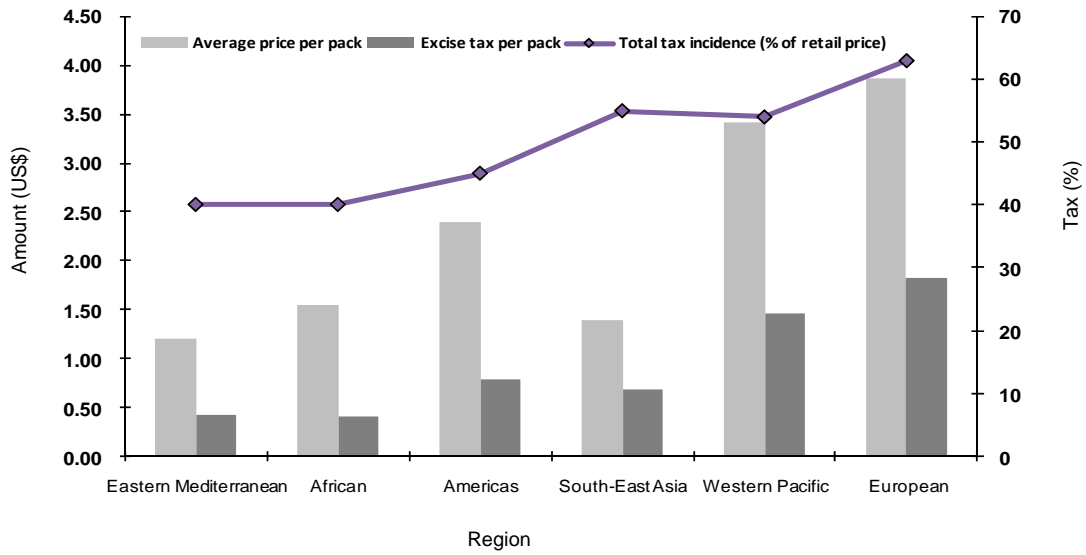
During 2010–2011, the Regional Office stepped up its support to countries in the area of tobacco pricing and taxation and provided technical assistance through holding a political ministerial session for all countries of the Region, as well as national missions, two sub-regional training sessions for GCC countries and four national training sessions for Egypt and Pakistan to support increasing prices of tobacco products.

The *WHO Report on the Global Tobacco Epidemic 2008* indicated that increasing tobacco taxes by 10% generally decreases tobacco consumption by 4% in high-income countries and by about 8% in low-income and middle-income countries, while tobacco tax revenues increase by nearly 7%. This equation is based on an estimate derived from the available international evidence and cannot be expected to apply to all scenarios. Each country has to undertake adequate research before deciding on the actual percentage of increase and on the exact taxation module that will be implemented.

The Eastern Mediterranean Region has the lowest prices of tobacco products among all WHO Regions (Figure 1), making it more affordable for young people to smoke. As well, the average tax incidence is the lowest among all WHO regions, accounting for 40% of prevalent retail prices. There is also variation of taxation structures; the price of cigarettes and the total tax share also vary considerably across countries of the Region. Seven countries in the Region do not apply domestic taxation on tobacco products but apply customs tariffs only, which are liable to diminish in light of international trade agreements. Excise tax incidence in the remaining countries is very low (Figure 2). This situation calls for in-depth review of existing prices and taxation policies to pave the way for adopting more evidence-based economic policies that will support tobacco control.

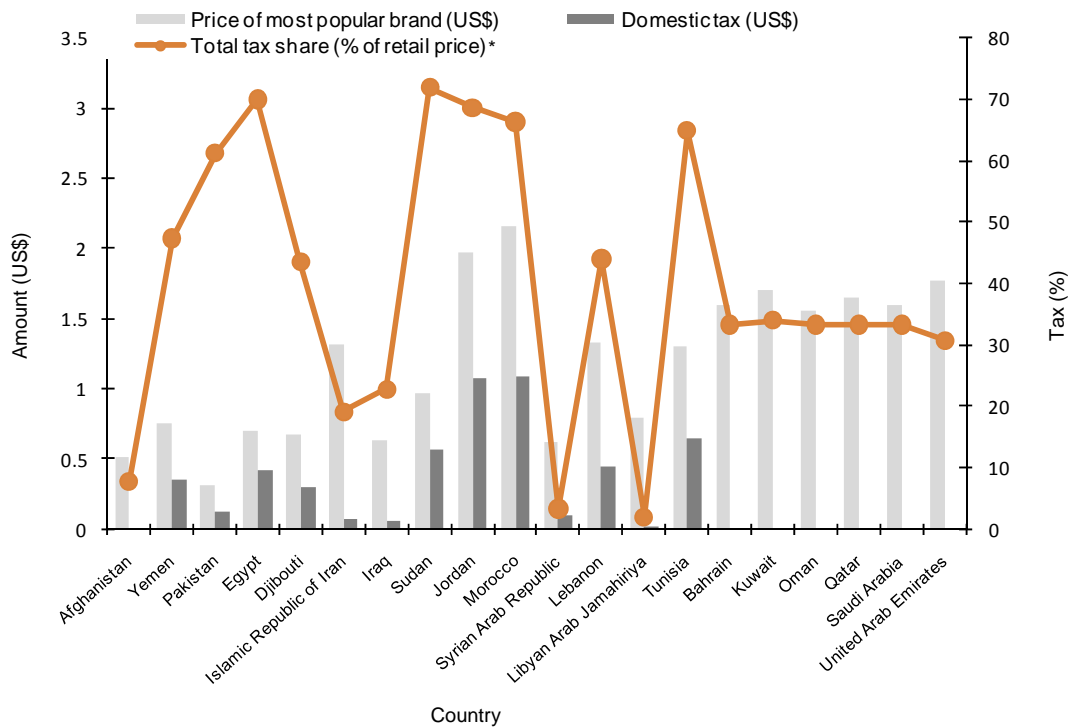
The two reliable tobacco products taxation modules as recommended by WHO are as follows:

1. Specific taxes – levied on a given quantity of tobacco, such as a tax paid per pack or carton of cigarettes.
2. *Ad valorem* taxes – based on a percentage of the wholesale or retail price. In some countries, a combination of excise taxes is used.



Source: Calculations based on data from the WHO Report on the Global Tobacco Epidemic 2008

Figure 1. Average tobacco price and tax incidence, by WHO region



Source: Calculations based on data from the WHO Report on the Global Tobacco Epidemic 2008

* Inclusive of domestic tax and import duties

Figure 2. Price and tax incidence on most popular cigarette brand, by country

There must be sufficient research before adopting a specific module. No module can be implemented without real consideration of national circumstances.

With seven countries in the Region applying no domestic taxes on tobacco products, only customs tariffs, and with at least five countries categorized as least developed countries, increasing tobacco taxation has great potential to enhance revenues as well as deter consumption.

It is worth noting that one of the arguments used by the tobacco industry to oppose increased taxation on tobacco products is that smuggling increases when taxes go up. However, it has been shown that increased tobacco smuggling is related to poor governance rather than to tax increases. Better regulatory measures with firm enforcement are needed to prevent tobacco smuggling.

Finally, the finance sector has classically opposed taxation increases. However, the experiences of both Pakistan and Egypt showed that early involvement of the finance sector in the process, combined with strong and persuasive evidence, helped to shift its position in support of increasing taxes on tobacco products.

3. Future directions

Taxation increase is an excellent tool for countries of the Region not only to reduce tobacco consumption immediately but also to enhance government revenues. In addition, the new revenues can be earmarked to support tobacco control programmes and increase their resources, as such programmes are usually underfunded at national level.

It must also be emphasized that countries should review taxation policies in parallel with the five other policies outlined by the WHO MPOWER package to counter the tobacco epidemic¹. Comprehensive tobacco control can only be achieved if the six policies are implemented together.

Ministries of health need to take the lead in initiating a process that will result in an increase in tobacco product taxes and prices. This process will require the following components.

1. Strong multisectoral collaboration with the taxation department to ensure that the finance sector will not oppose this step and that the rationale is well understood.
2. Strong multisectoral collaboration with the national authorities responsible for controlling smuggling of tobacco products.
3. A clear technical approach that includes:
 - adequate national research on existing taxation systems
 - more reliance on domestic taxation compared to customs tariffs
 - adoption of a mechanism that will automatically adjust taxation relative to inflation rates and regularly increase taxes accordingly
 - targeting tax incidence to become at least 75% of retail price
 - increasing taxes on all types tobacco product, locally manufactured and foreign, to avoid consumer shift from one product to the other
 - taking the regulatory and enforcement measures necessary to control smuggling.

¹ The six policies of the MPOWER package, as outlined in *WHO Report on the Global Tobacco Epidemic, 2008*, are to: **M**onitor tobacco use and prevention policies; **P**rotect people from tobacco smoke; **O**ffer help to quit; **W**arn about dangers of tobacco; **E**nforce bans on tobacco advertising and promotion; and **R**aise taxes on tobacco.