

AIM COMMENTS ON THE PUBLIC CONSULTATION ON EXCISE DUTIES APPLIED TO MANUFACTURED PRODUCTS



Recommendations

AIM recommends to **increase taxation** of all tobacco products which, on the other hand, should be taxed in a comparable way as appropriate, in particular where the risk of substitution exists. Tax systems should minimize the incentives for users to shift to cheaper products as a response to tax or retail price increase or other related market effects.²¹ This can be achieved through the raise and **harmonisation of taxation rates for all types of tobacco products**, which, as explained above, would also benefit vulnerable groups and help fight health inequalities.

AIM encourages the commission to adopt regulatory measures towards a **EU-harmonisation of tax regimes**. The use of a **Minimum Excise Duty** would particularly fit this purpose. As already mentioned, differences in prices and taxation frustrate the essential public health goals of taxation measures. Harmonisation both among Member States and among the various types of tobacco products would help fight **illicit trade**, harmful to tobacco control.

AIM recommends to **use the revenues** from taxation for financing tobacco-control programmes such as awareness-raising campaigns and activities, health promotion and disease prevention, cessation services, and financing of appropriate structures for tobacco control. Such a reallocation of revenues would help enhance the health benefits of taxation.

AIM calls for the **inclusion of e-cigarettes within the scope of excisable goods**. Given the known (and presumably unknown) effects of e-cigarettes on health and their particular appeal to young consumers, those products should be taxed in order to reduce the incentive to experiment with them or use them as a substitute.

Tobacco, a well-recognized Threat to Public Health

Tobacco consumption remains one of the largest avoidable cause of mortality and premature death in the European Union, with 15% of deaths attributable to its use –that is, over 650,000 deaths a year. The negative impacts of tobacco use are already well established and smoking has been proven to be linked to several forms of cancer, cardiovascular diseases, respiratory diseases, negative reproductive effects and other negative health impact such as poor wound healing. These tobacco-related diseases, apart from the burden they represent for healthcare, also incur considerable costs for society. The indirect costs related to productivity losses or sickness and unemployment benefits should not be overlooked. In 2000, these costs were estimated to mount up to €363 billion. If those were not enough, the pain and suffering resulting from deaths and illnesses attributable to tobacco constitute the ultimate condemnation of the habit.¹

1 RAND Europe, Assessing the Impacts of revising the Tobacco Products Directive, 2010

The impacts of increasing taxation

Tobacco taxation is an unneglectable tool which can help relieve those burdens and prevent millions of smoking-attributable deaths throughout the world while at the same time contributing to the achievement of global health objectives, such as SDG target 3.4 -reduce premature mortality from non-communicable diseases by one third- and target 3a -strengthen country-level implementation of the WHO Framework Convention on Tobacco Control. (FCTC)²

Article 6 of that very framework recognizes price and tax measures as effective means to reduce the demand for tobacco, and the guidelines for its implementation recommend the use of taxation in comprehensive strategies for tobacco control.³ Estimates from the World Bank indeed show that a raise in cigarette price of 10% would reduce the number of smokers worldwide by 42 million and save 10 million lives.⁴ Other figures reflect an estimated reduction of 1.5% in the number of deaths from respiratory cancers by 1.5%.⁵

Both adults' and young people's smoking prevalence and intensity of smoking are inversely related to price. According to the World Bank, the price elasticity of demand (that is, the percentage change in consumption of a product that results from a 1% price increase) is around 0.4 for developed countries and between 0.4 and 0.8 for developing countries.⁶ Furthermore, Studies referenced in the WHO technical manual on tobacco tax administration and IARC Handbook of Cancer Prevention: Tobacco Control. Volume 14 show that the decline in consumption which results from increased taxation falls even more in the long term.⁷ Cigarette prices and higher taxation also affect cessation-related outcomes: higher prices increase 'quitting' attempts and successful cessation.⁸ This in turn has a positive impact on non-smokers too by reducing their exposure to second-hand smoke and provides an economic disincentive to those who smoke or may be contemplating smoking.

However, it does not seem to have any proven impact on initiation.⁹

Apart from the benefits they bring to public health, price and tax measures on tobacco have been recognized (notably by the United Nations) as an important means to cut healthcare costs and to constitute a revenue stream for financing for development on many Member States, particularly in low- and middle-income countries.¹⁰ Raising excise duties by \$1.00 per 20-cigarette pack in all countries would not only lead to a decrease in global cigarette consumption of 18% but it could also increase the amount of cigarette excise revenue generated throughout the world by \$190 billion.¹¹ Effective taxation can thus help reduce the burden caused by tobacco by cutting down prevalence and consumption while simultaneously contributing to decreasing governments' expenditure for healthcare costs associated with tobacco consumption and possibly increasing budget allocation to healthcare. Indeed, as WHO Guidelines for the Implementation of Article 6 of the FCTC state, effective tobacco taxes significantly contribute to an increase in government revenues. If properly allocated to public causes, these extra revenues can in turn contribute to better public health by boosting public health expenditure worldwide by 4%, with a third of all low- and middle-income countries able to increment them by over 10%.¹² Social benefits also add to the healthcare and economical benefits. Smoking is strongly linked to socio-economic status and is a significant contributor to inequalities in health. Strong evidence shows that raising tobacco prices through increased rates is a highly effective control policy measure for reducing smoking behaviour among youth, young adults and people of low socio-economic status. Increasing tobacco taxation is a highly effective policy tool for decreasing smoking participation and consumption among those vulnerable groups, which have been proven to be more responsive

2 Goodchild, Mark; Perucic, Anne-Marie & Nargis, Nigar; Modelling the impact of raising tobacco taxes on public health and finance, Geneva: WHO, 2016

3 WHO, WHO Framework Convention on Tobacco Control, Geneva: WHO Document Production Services, 2003.

4 Chaloupa Jha P., Tobacco Control in developing Countries. Oxford: Oxford University Press, 2002.

5 After a substantial increase in cigarette taxes in France in the mid-1990s, the rates of death from lung cancer among French males dropped by 50%.

Goodchild, Mark; Perucic, Anne-Marie & Nargis, Nigar; Modelling the impact of raising tobacco taxes on public health and finance, Geneva: WHO, 2016

6 World Bank, Curbing the Epidemic: Governments and the Economics of Tobacco Control, International Bank for Reconstruction: Washington, 1999

7 WHO, Guidelines for Implementation of Article 6 of the WHO FCTC, 2003.

8 WHO, IARC Handbook of Cancer Prevention: Tobacco Control. Volume 14, 2011

9 Bader, Peter; Boisclair, David & Ferrence, Roberta. "Effects of Tobacco Taxation and Pricing on Smoking Behavior in High Risk Populations: A Knowledge Synthesis", International Journal of Environmental Research and Public Health, 2011.

10 Addis Ababa Action Agenda of the Third International Conference on Financing for Development. New York: United Nations, 2015.

11 Goodchild, Mark; Perucic, Anne-Marie & Nargis, Nigar; Modelling the impact of raising tobacco taxes on public health and finance, Geneva: WHO, 2016

12 Idem

to tax and price increases than the general population. These measures would thus result in a reduction in health inequalities and tobacco-related poverty.¹³

The benefits of harmonisation

Illicit trade increases the affordability and accessibility of tobacco products and therefore sabotages price and tax measures aimed at strengthening tobacco control. Smuggling and illicit trade must be tackled if the public health and revenue goals of tobacco taxation are to be met.¹⁴ In 2007 for example, losses due to smuggling were estimated to amount to €230 million.¹⁵ Reducing illicit tobacco trade would result in not only in economical advantages but also in larger reductions in smoking especially among young people and the poor.¹⁶ The first cause of tax avoidance and small-scale smuggling being differentials in taxes and prices across jurisdictions, a EU-harmonisation and the establishment of a Minimum Excise Duty (MED) are highly recommended as these would be beneficial both in financial and health outcomes, depending on the level of the harmonised price. They would help reach the '10% reduction in tobacco consumption within the next five years' target set by the Directive to Amend the Current EU Excise Duty Legislation on Tobacco (2010/12/EU).¹⁷

Going beyond "traditional forms" of tobacco

These last decades have seen the emergence of new forms of smoking. E-cigarettes have become very popular, especially amongst the youngest. The most commonly cited reasons for using e-cigarettes among both youth and young adults are curiosity, flavouring/taste, and low perceived harm compared to traditional cigarettes. However, e-cigarettes expose users to several chemicals in-

cluding nicotine, carbonyl compounds and volatile organic compounds known to have adverse health effects. "While nicotine is a highly addictive drug at any age, youth and young adults are uniquely vulnerable to the long-term consequences of exposing the brain to nicotine, and youth use of nicotine in any form is thus unsafe."¹⁸ Moreover, second-hand aerosol "vapour" that is exhaled into the air by e-cigarette users, though less toxic than combustible tobacco products, is far from being harmless. Therefore, and given the harmful health consequences e-cigarettes entail, EU legislation should be adapted in order to properly regulate their use. Taxation of these products would reduce the incentive to experiment with e-cigarettes, while not undermining the efforts of those who turn to them as a step in the cessation process.

Another issue worth mentioning here is the difference in prices and taxation rates between brands or categories of tobacco. Uniform specific taxes which create a price floor (minimum price) tend to lead to relatively higher prices, even on low-priced brands. They may thus reduce incentives for consumers to switch to those brands because of price differences.¹⁹ In the UK, for example, "roll-your-own" (RYO) use increased from 1996 to 2001, a period when the taxation and price of RYO declined relative to manufactured cigarettes. "Despite differing levels of use by country, in all cases RYO use was highest among younger men with lower incomes, a group defined by higher levels of nicotine addiction and stronger beliefs that RYO was less harmful than manufactured tobacco."²⁰ Differences in prices and taxation frustrate the very public health goals of taxation measures. It is therefore key to align the tax charges on different types of tobacco, in order not to undermine the overall tobacco control policies.

13 WHO, Guidelines for Implementation of Article 6 of the WHO FCTC, 2003.

14 Idem

15 RAND Europe, Assessing the Impacts of revising the Tobacco Products Directive, 2010

16 WHO, IARC Handbook of Cancer Prevention: Tobacco Control. Volume 14, 2011

17 RAND Europe, Assessing the Impacts of revising the Tobacco Products Directive, 2010

18 The Surgeon General, E-cigarette Use among Youth and young Adults, U.S. Department of Health and Human Services, 2016

19 WHO, Guidelines for Implementation of Article 6 of the WHO FCTC, 2003

20 RAND Europe, Assessing the Impacts of revising the Tobacco Products Directive, 2010

21 WHO, Guidelines for Implementation of Article 6 of the WHO FCTC, 2003

AIM is the umbrella organisation of health mutuals and health insurance funds in Europe and in the world. Through its 64 members from 31 countries, AIM provides health coverage to 240 million people in the world and 209 million in Europe through compulsory and/or complementary health insurance and managing health and social facilities. AIM strives to defend the access to healthcare for all through solidarity-based and non-for profit health insurance. Its mission is to provide a platform for members to exchange on common issues and to represent their interests and values in the European and international Institutions.



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