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Tobacco Control Policy

The Urgency of Improving Tobacco Taxation in Europe

Lessons from the Tobacconomics Cigarette Tax Scorecard, 3e

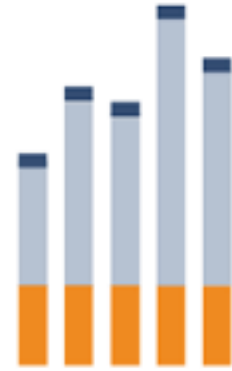
Conference on health tax reforms – challenges and lessons learnt – Vienna, Austria

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Cigarette Tax Scorecard

- Uses data from WHO's biennial reports on the global tobacco epidemic
- Scores for 2022, 2020, 2018, 2016, and 2014
- Extensive peer review
- Based on recommendations and guidance from multiple sources

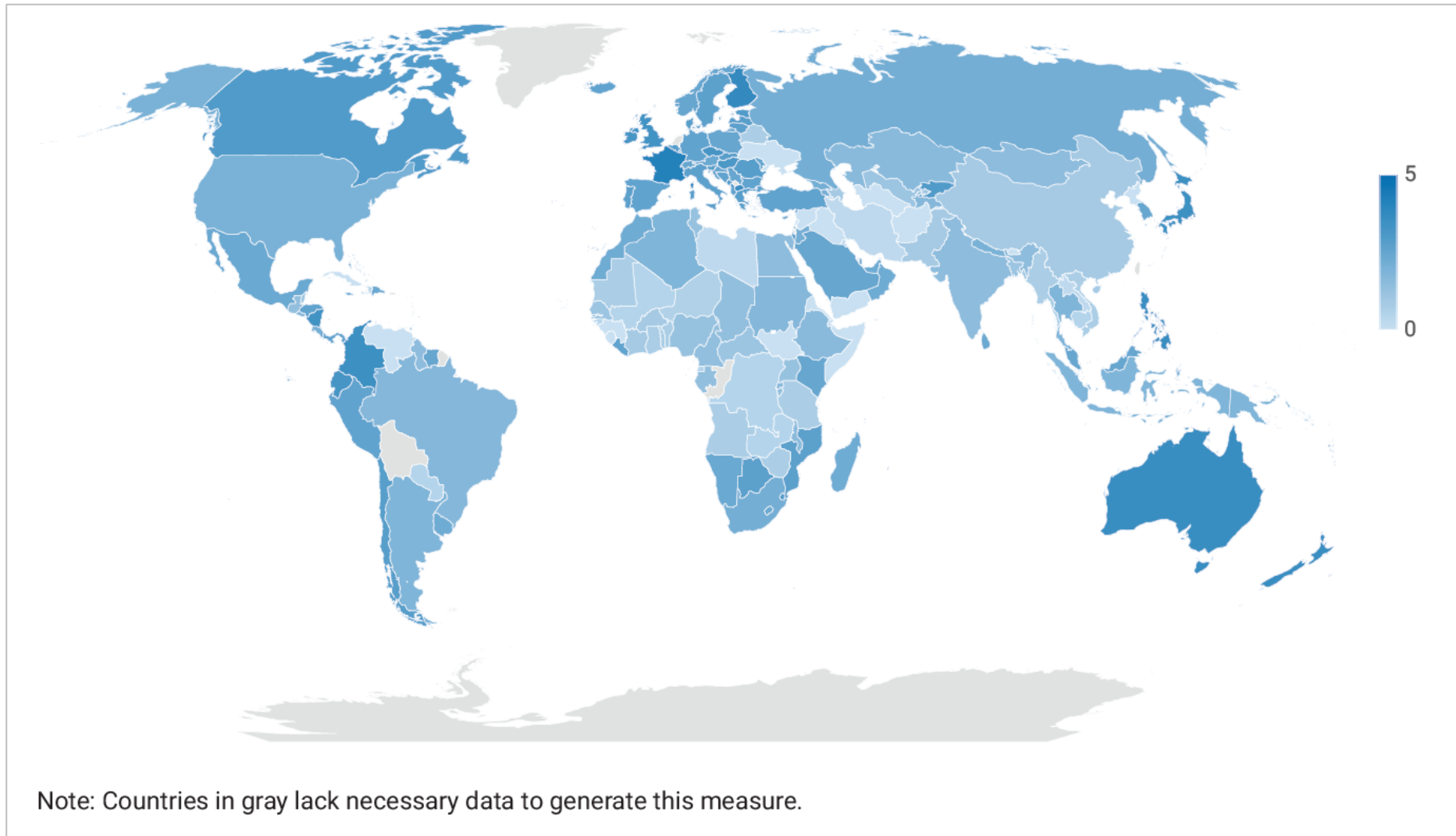


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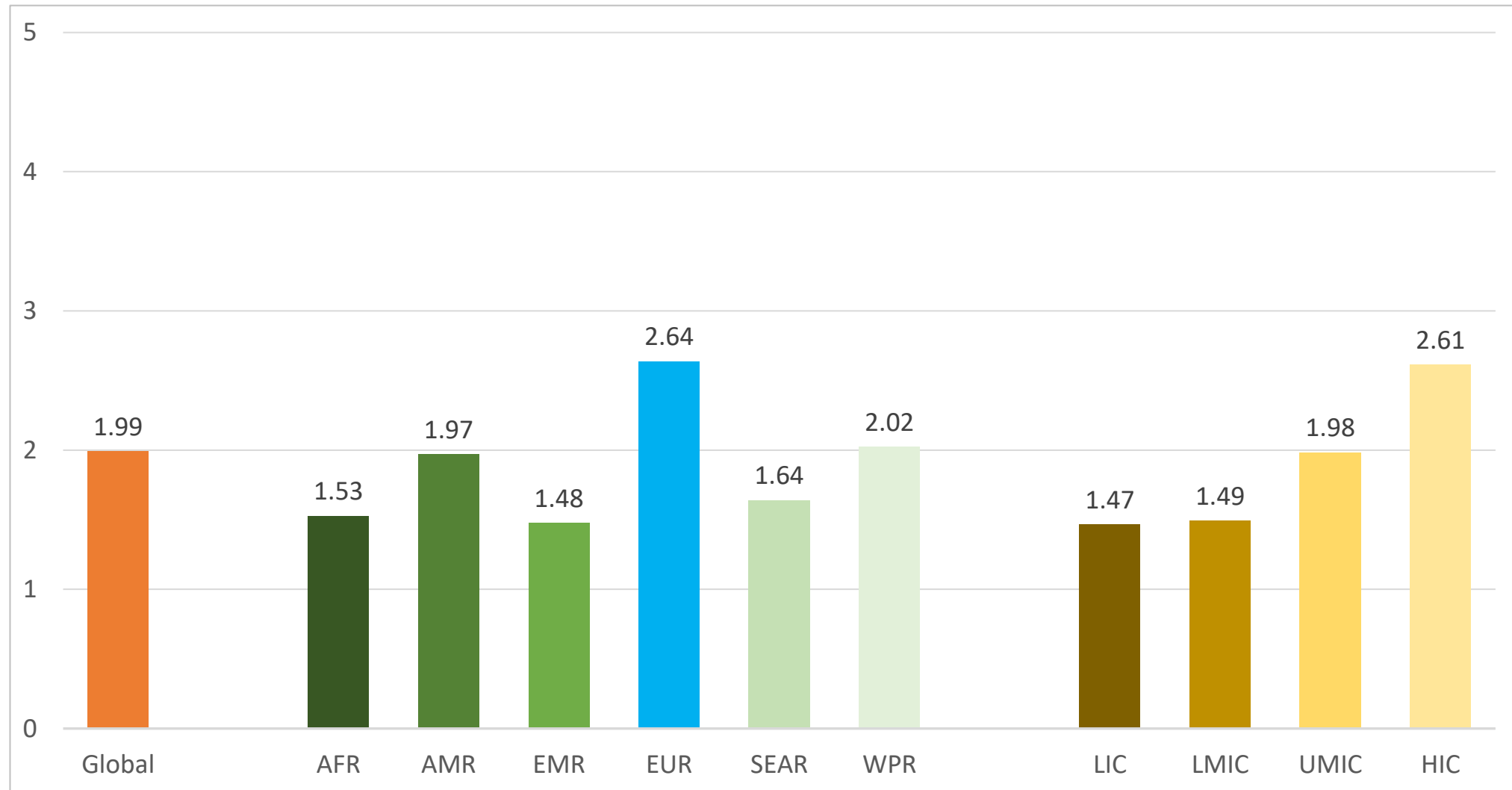
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Overall Scores

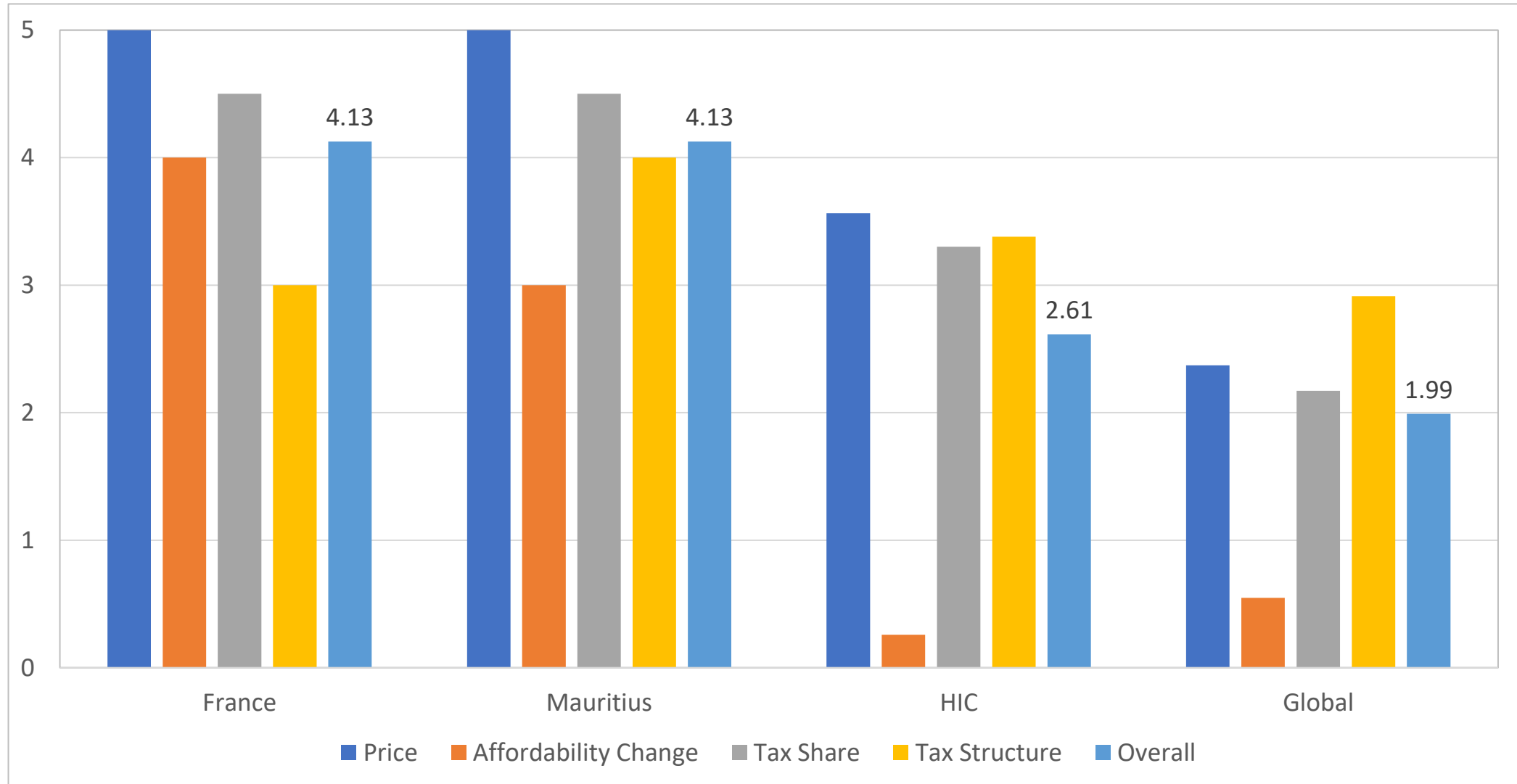
Overall Cigarette Tax Scores, 2022



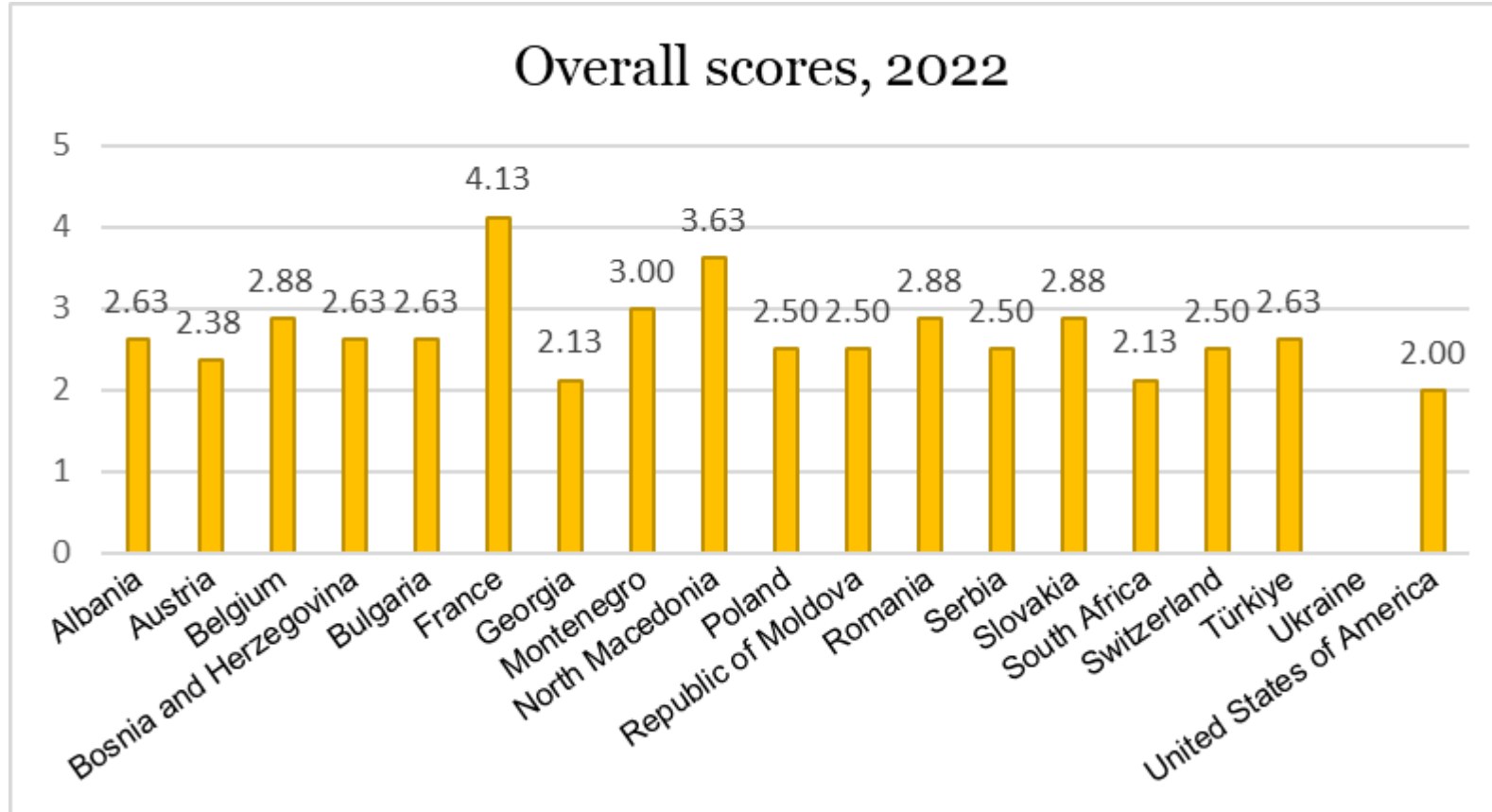
Overall Cigarette Tax Scores, 2022

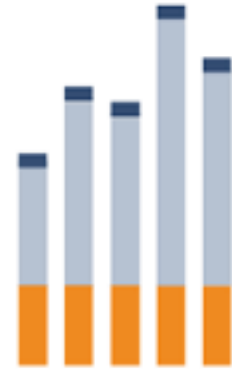


Top Performing Countries, 2022



Overall Scores – Meeting Participant Countries, 2022





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Score Component: **Price**

How Does Cigarette Price Affect Consumers?

- ~1/2 of price-related declines in consumptions are attributable to reduced smoking participation (quitting or not starting); the remaining decline is due to reduced smoking intensity among those who still smoke.
- Youth are 2 to 3 times more responsive to tobacco price increases than the general population, explained largely by limited income, lower addiction levels, and peer effects.
- Evidence from both high-income countries and LMICs show lower socioeconomic groups are more responsive to price changes than higher socioeconomic groups.
- Therefore, the poor benefit the most from price-related reductions in smoking, thereby improving health and economic equity.

Cigarette Price Scoring Rubric

5: Price \geq 10.0 Intl\$ PPP

4: $8.0 \leq$ price $<$ 10.0

3: $6.0 \leq$ price $<$ 8.0

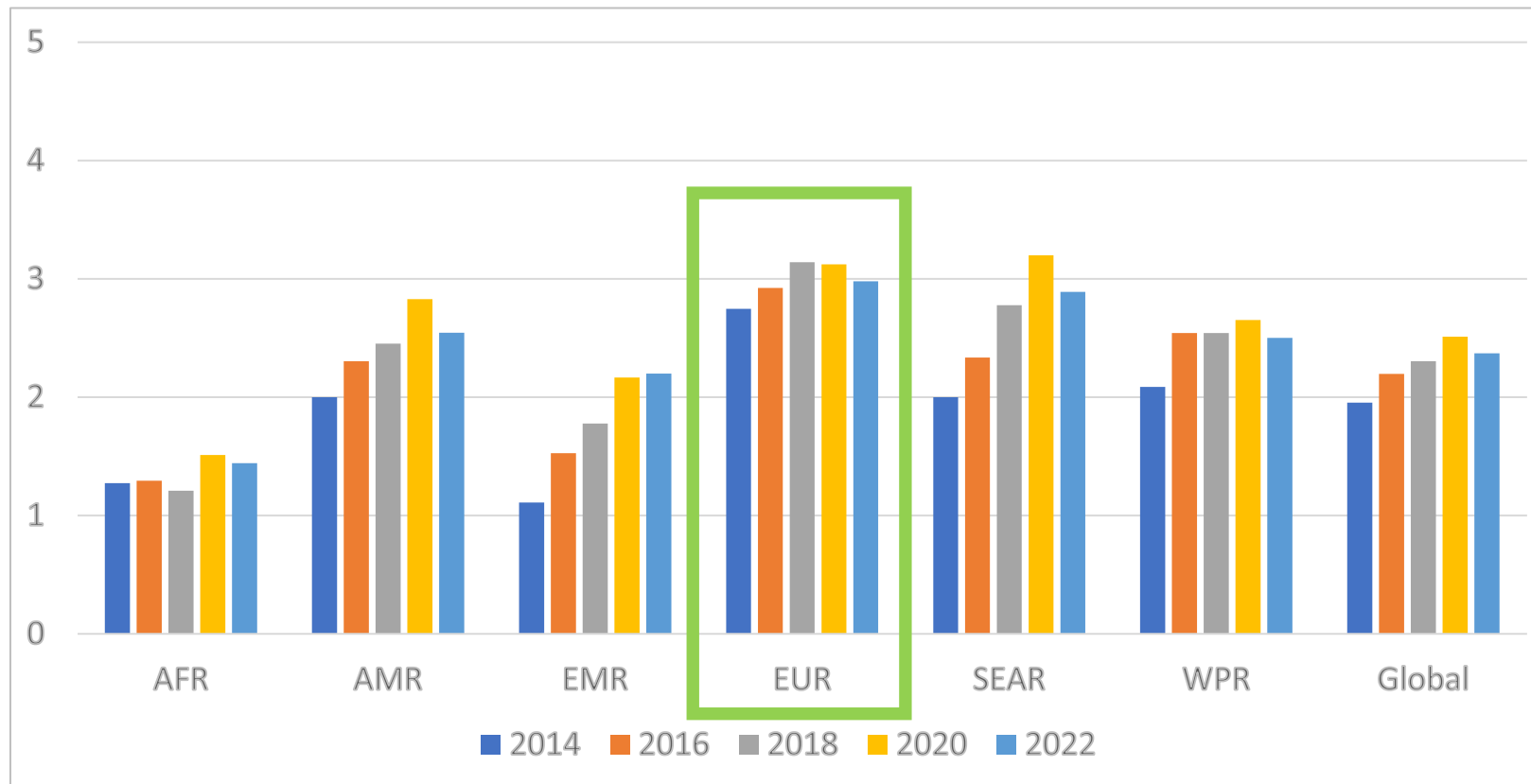
2: $4.0 \leq$ price $<$ 6.0

1: $2.0 \leq$ price $<$ 4.0

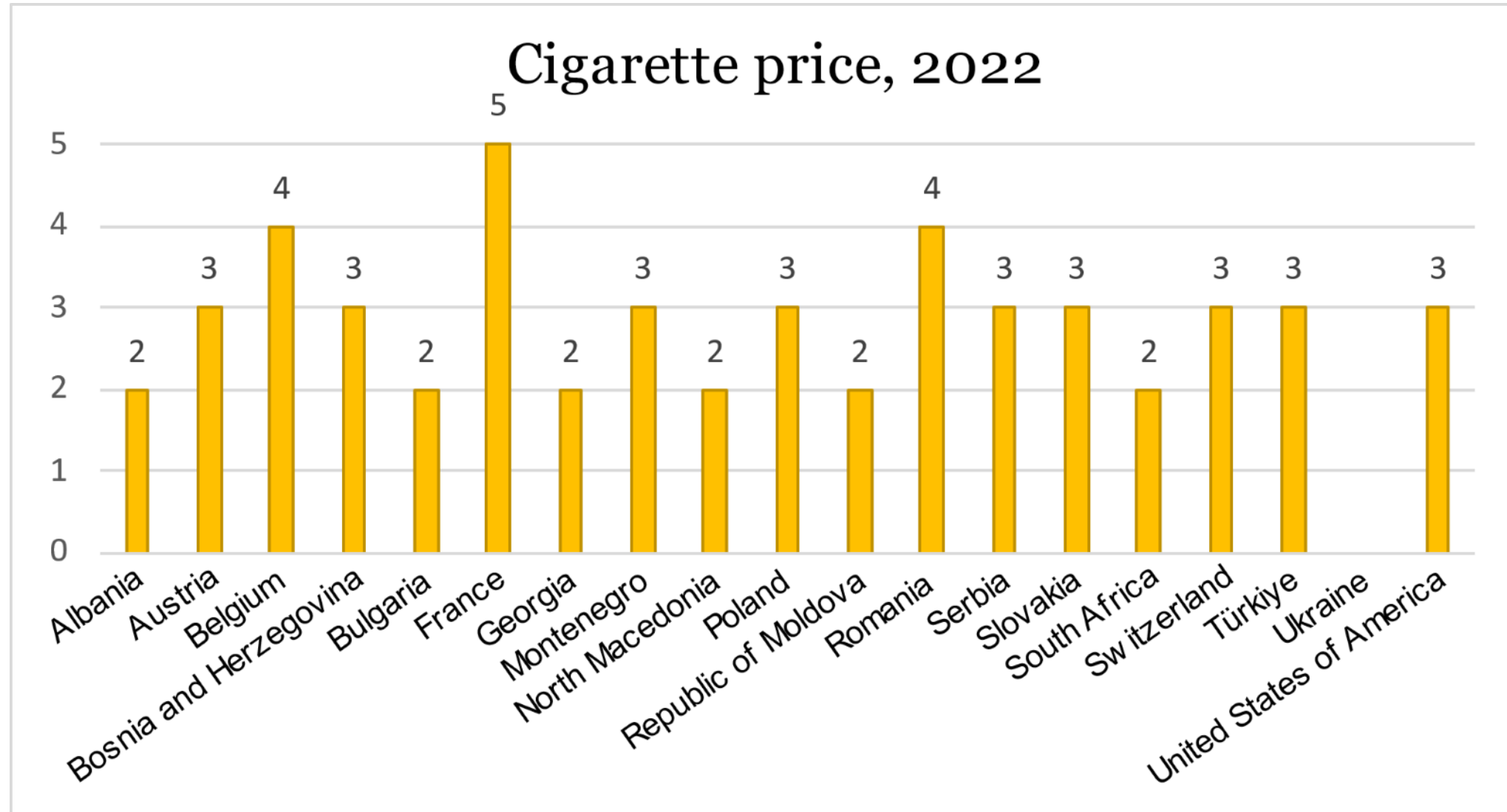
0: Price $<$ 2.0 Intl\$ PPP

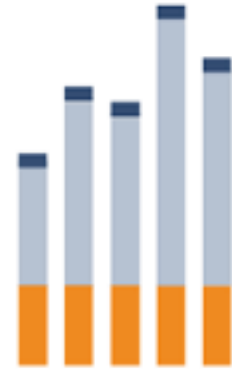
Average cigarette price score, globally and by WHO region, 2014–2022

Average cigarette prices rose in Europe from 2014 to 2018 but have declined slightly since.



Price – Meeting Participant Countries, 2022





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Score Component: **Affordability**

Why is Change in Affordability Important?

Affordability change is a key variable affecting smoking behavior.

- Cigarette consumption typically increases when prices decrease, while increases in income often result in greater consumption. Cigarette affordability addresses both price and income by reflecting an individual's ability to purchase cigarettes.
- In recent decades, many LMICs have seen rapid growth in incomes and inflation, and these increases in inflation and purchasing power can erode the impact of tax and price increases on consumption.

Change in Affordability Scoring Rubric

5: 7.5% average annual change or higher

4: $5.0\% \leq$ average annual change $< 7.5\%$

3: $2.5\% \leq$ average annual change $< 5.0\%$

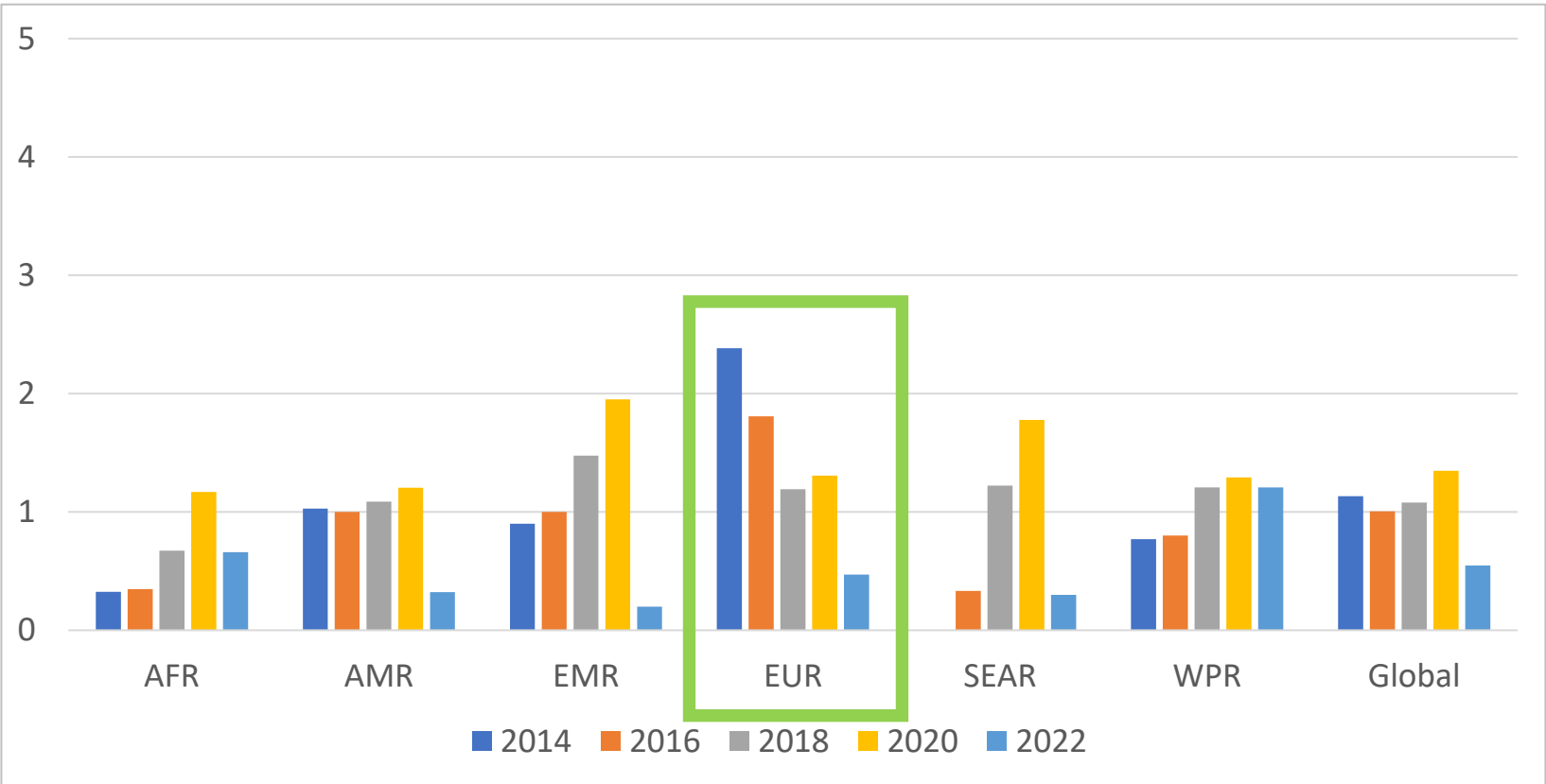
2: Average annual change $< 2.5\%$

1: Reduced affordability, but no excise tax increase

0: Increased affordability or no statistically significant change

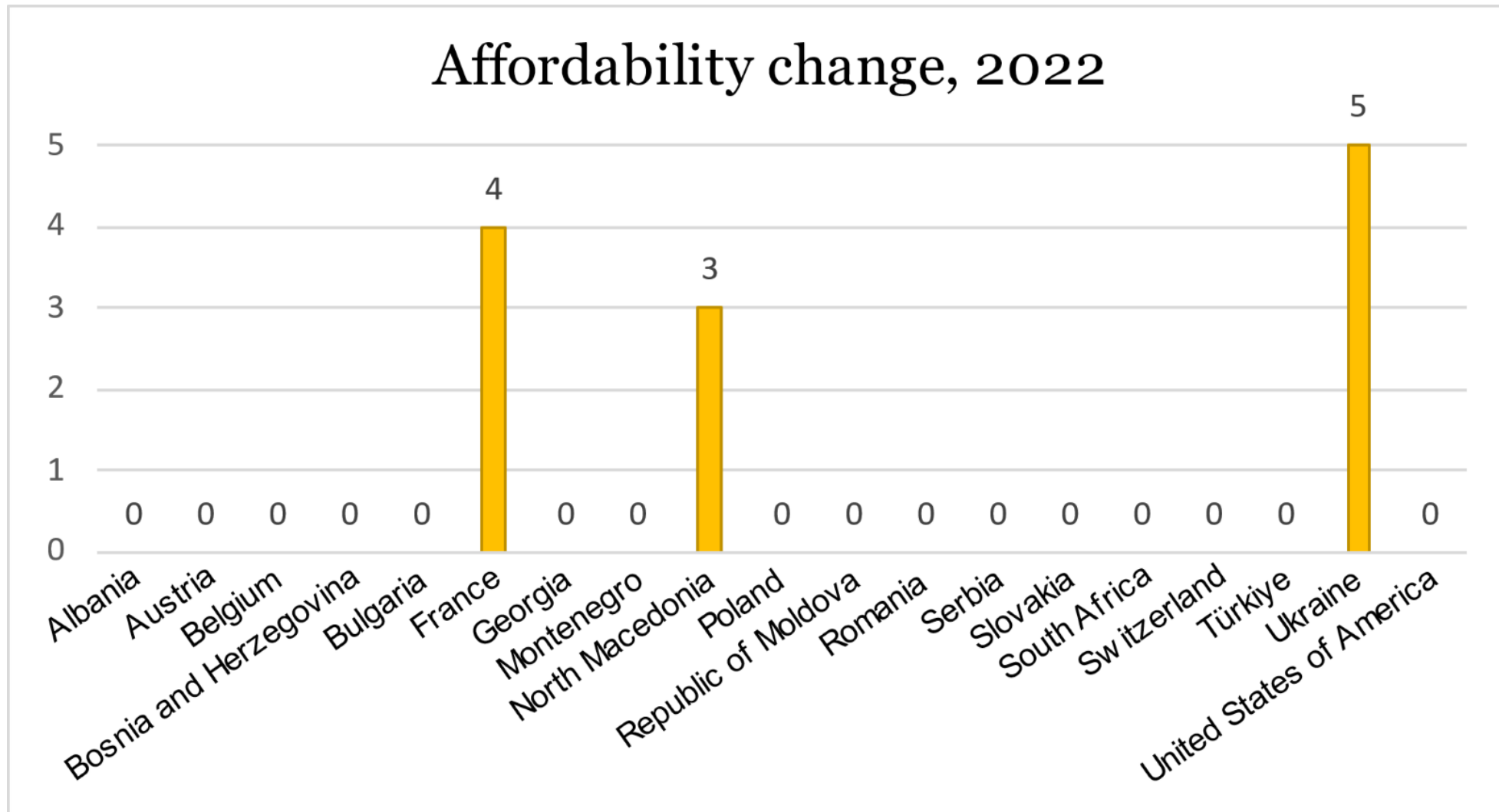
Average affordability change score, globally and by WHO region, 2014–2022

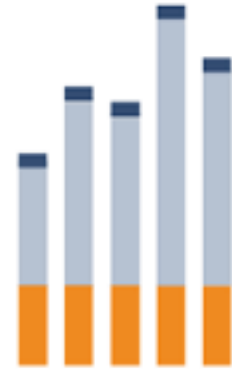
Previously, European countries were, on average, the most effective in making cigarettes less affordable, but this pattern did not hold for 2020-22.



Note: Affordability scores from 2020 were revised using the updated affordability measures in the most recent RGTE data (2023). A full list can be found in Appendix 4 of the Scorecard, third edition.

Change in Affordability – Meeting Participant Countries, 2022





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Score Component: **Tax Share**

Why is Tax Share Important?

The share of tax in retail price is a critical tax performance measure.

- Higher tax shares generally result in higher retail prices, reduced tobacco consumption, and greater government gains in revenue
- When taxes are increased to the recommended share of price, prices typically increase significantly, motivating many users to quit and deterring large numbers of youth from starting to use tobacco

Tax Share Scoring Rubric

- The score averages the Total Tax Share and the Excise Tax Share

Scoring – Total Tax Share:

5: 75% total tax share or higher

4: $65\% \leq \text{share} < 75\%$

3: $55\% \leq \text{share} < 65\%$

2: $45\% \leq \text{share} < 55\%$

1: $35\% \leq \text{share} < 45\%$

0: Total tax share $< 35\%$

Scoring – Excise Tax Share:

5: 70% excise tax share or higher

4: $60\% \leq \text{share} < 70\%$

3: $50\% \leq \text{share} < 60\%$

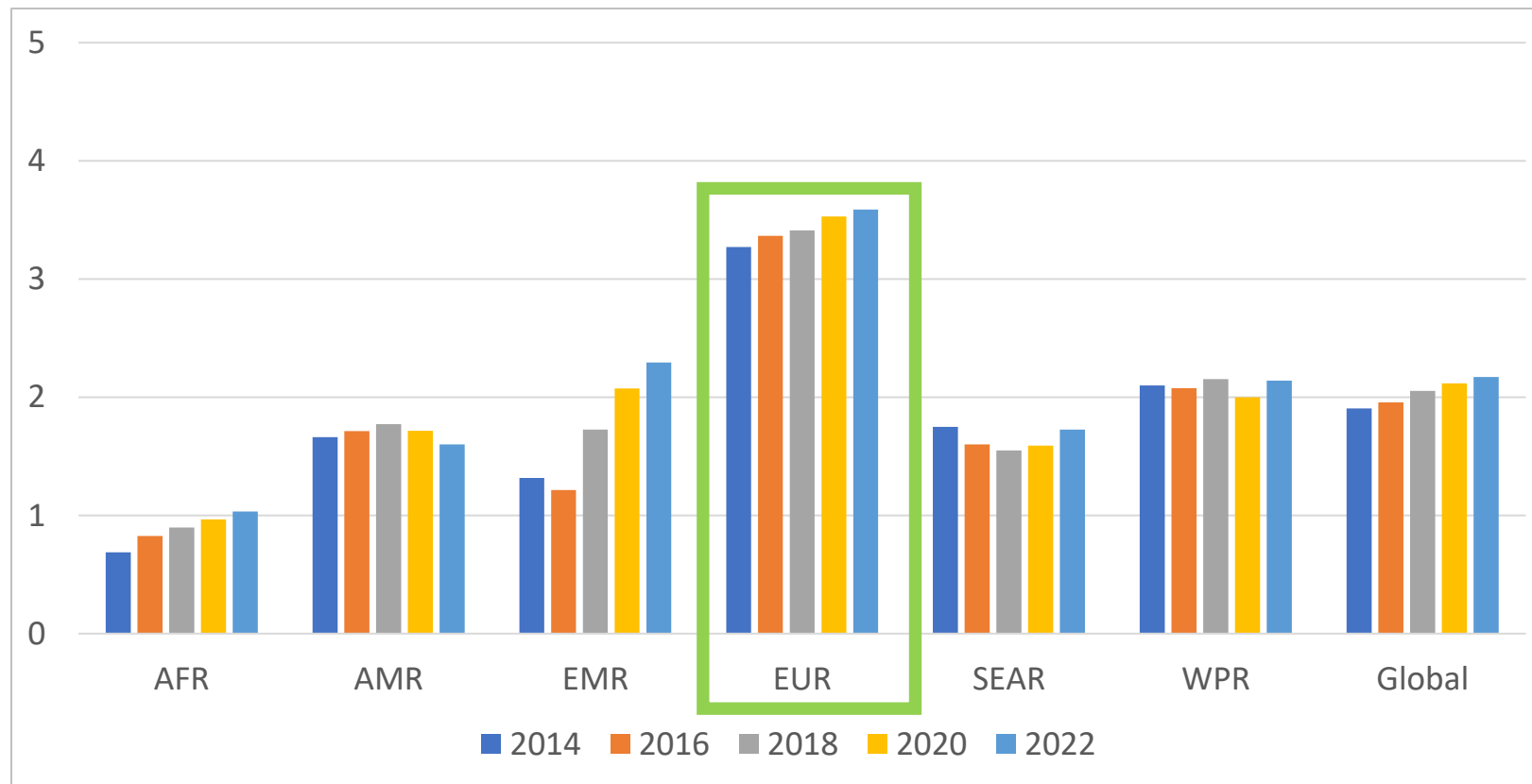
2: $40\% \leq \text{share} < 50\%$

1: $30\% \leq \text{share} < 40\%$

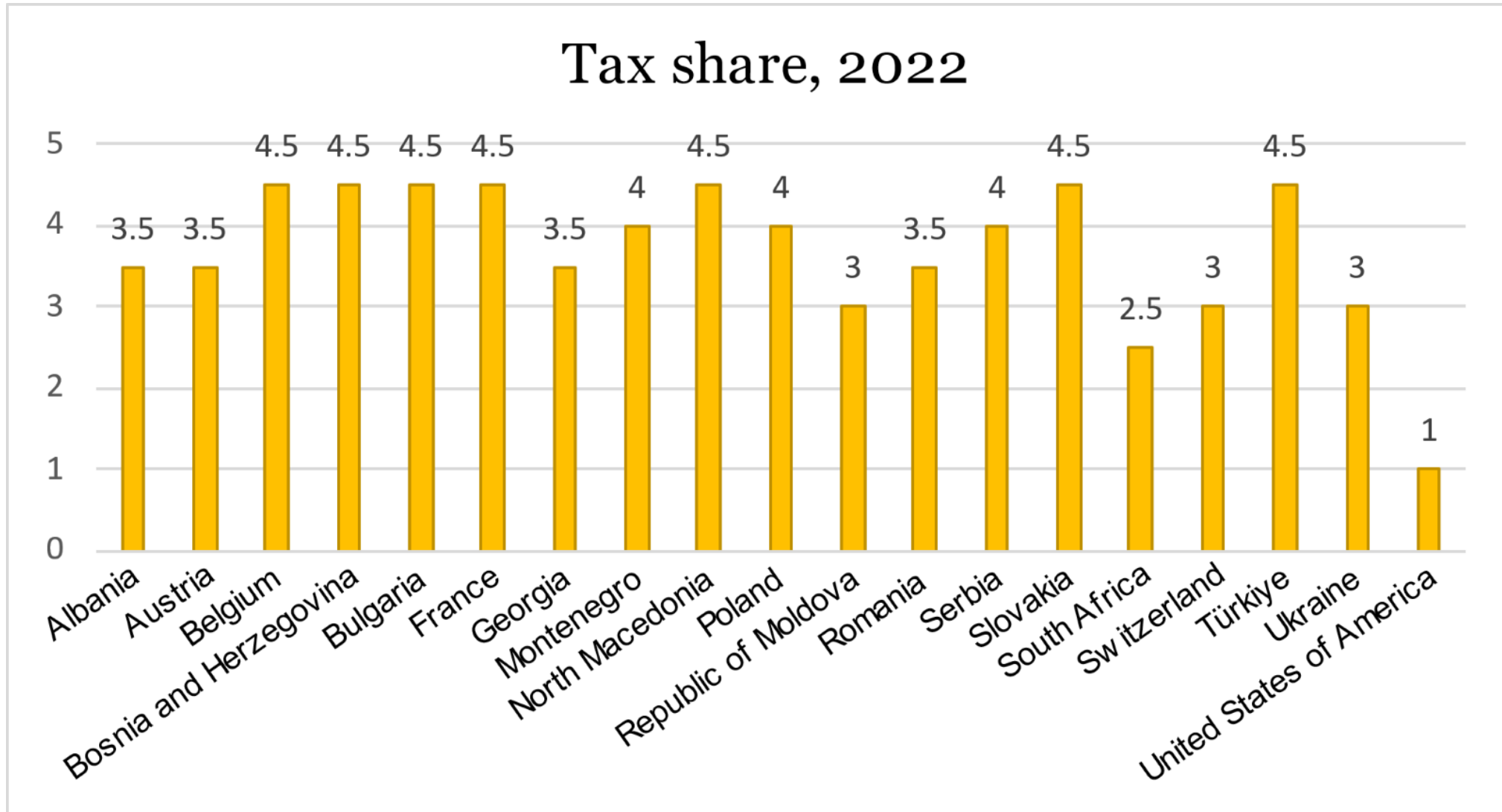
0: Excise tax share $< 30\%$

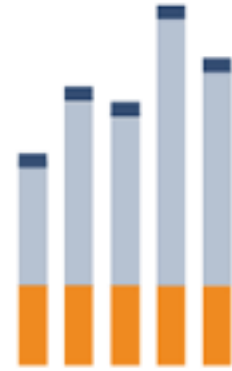
Average tax share score, globally and by WHO region, 2014–2022

Tax shares are highest in the European region and growing incrementally.



Tax Share of Price – Meeting Participant Countries, 2022





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Score Component: **Tax Structure**

Why is Tax Structure Important?

Tax structures greatly affect cigarette price and play an important role in the effectiveness of taxation in reaching governments' public health and revenue goals.

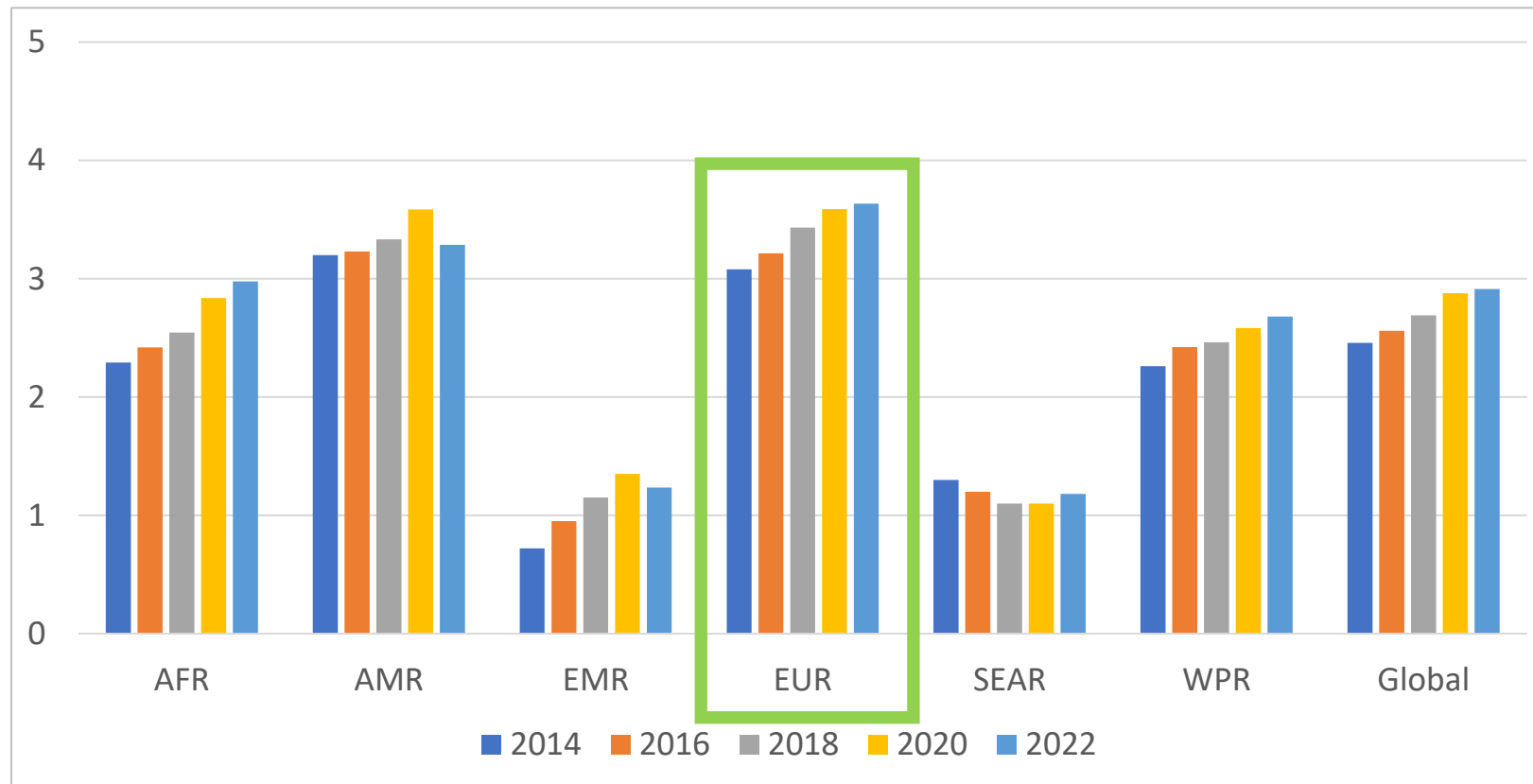
- Tax structure affects price variability
- Greater variability in prices creates more opportunities for smokers to “trade down” to cheaper brands in response to tax and price increases, rather than quitting or cutting back on consumption
- Specific excise taxes are reported to be more effective in raising consumer prices compared to ad valorem taxes -- resulting in greater reductions in cigarette consumption
 - A tax structure's complexity and ease of administration impact its effectiveness and resulting government revenue

Tax Structure Scoring Rubric

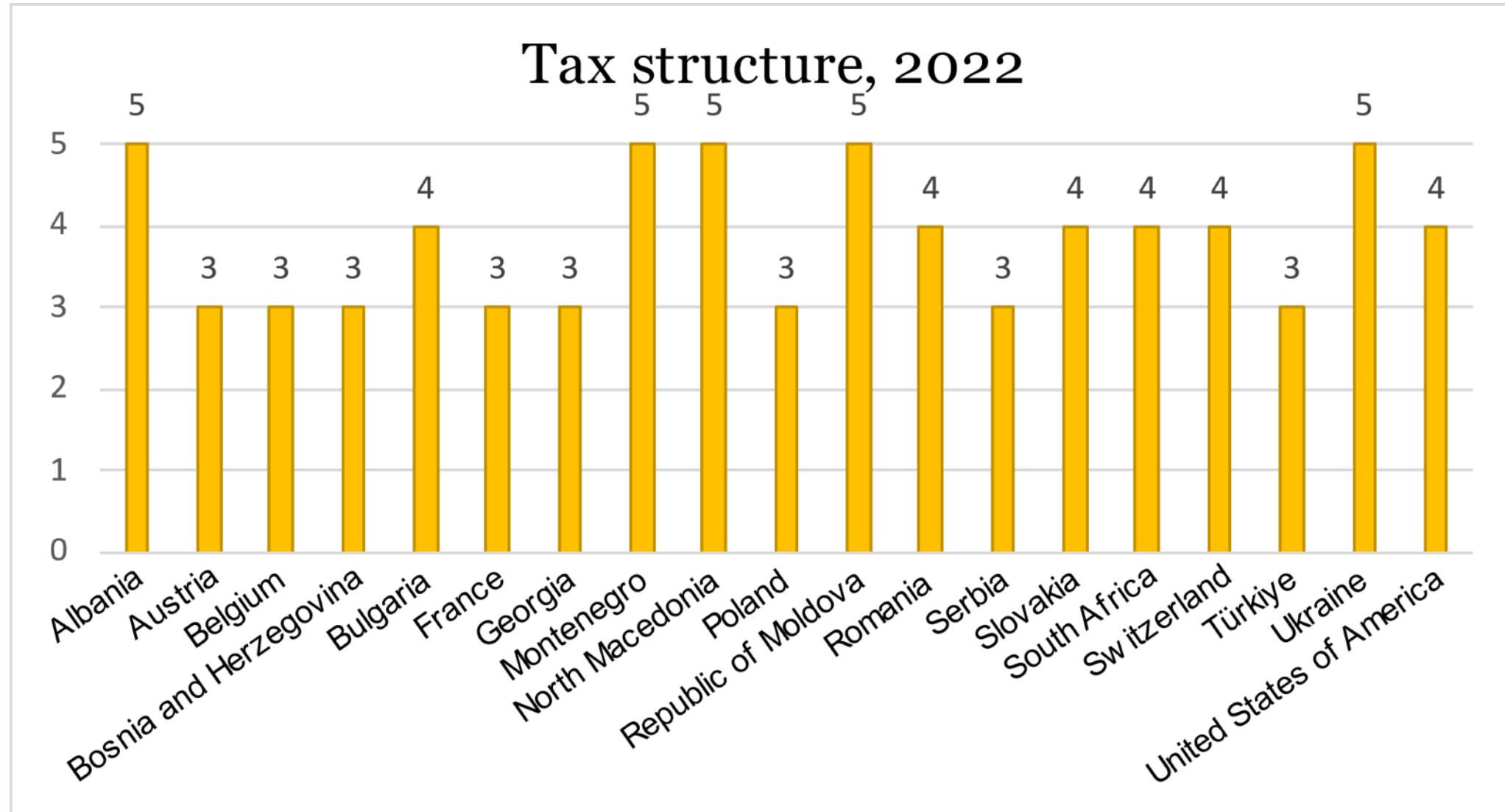
- 5: A uniform specific tax with an automatic inflation or other adjustment; or a uniform mixed system with greater share of specific tax, with an automatic adjustment for the specific component, the retail price as the base for the ad valorem component, and a minimum specific tax
- 4: A uniform specific tax or uniform mixed system with a greater share of specific tax but without other features listed above
- 3: A uniform mixed system with a greater share of ad valorem tax
- 2: A uniform ad valorem tax
- 1: A tiered specific or ad valorem excise tax
- 0: No excise tax

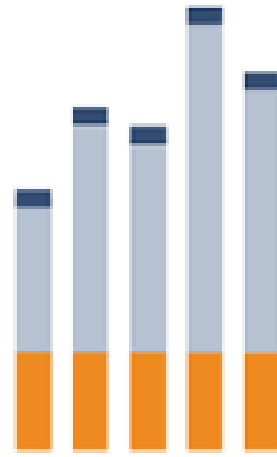
Average tax structure score, globally and by WHO region, 2014–2022

Europe scores the best of all regions and has incrementally improved its average score in each time period.



Tax Structure – Meeting Participant Countries, 2022





Conclusions

Trends

Cigarette Price	Change in Affordability	Tax Share	Tax Structure
<ul style="list-style-type: none">• Average cigarette prices have decreased across regions, including Europe.• Consumers react to price so low prices are problematic for improving public health outcomes (i.e., less smoking).	<ul style="list-style-type: none">• Only about ¼ of countries globally are achieving the goal of less affordable cigarettes.• In some countries, cigarettes are become more affordable.• Put simply, most governments are not raising taxes enough to affect prices to make cigarettes less affordable.	<ul style="list-style-type: none">• Tax share is a reliable indicator of cigarette excise tax performance.• Even most countries in Europe—the region with the highest average—are still falling well below the evidence-based international minimum benchmarks (75% total tax and 70% excise tax shares).	<ul style="list-style-type: none">• The Scorecard results suggest that the pace of reform of tax structures is too slow.• Challenges in Europe include:<ol style="list-style-type: none">1) Over reliance on ad valorem taxes.2) Insufficient adjustments of specific taxes.

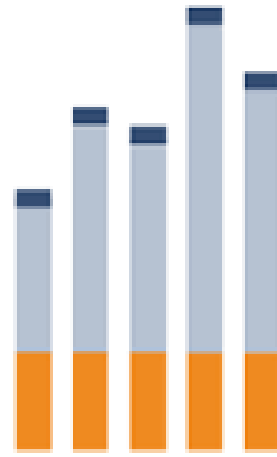
Recommendations

Policymakers should . . .

- Implement regular tax increases that outpace inflation and income growth to increase the price of cigarettes to make them less affordable.
- Shift to rely more on specific taxes in countries where this is not the case.
- At a minimum, implement annual inflation adjustments.

In order to . . .

- Protect vulnerable populations (including youth and those in lower socioeconomic groups) who are more sensitive to increases in cigarette price.
- Prevent the expansion of cigarette markets.
- Improve population health by preventing tobacco-induced disease and death (and accompanying costs including medical expenses, lost productivity, and lives).
- Increase government revenue that can be allocated to development priorities, including health and education.



Q & A

Thank you