

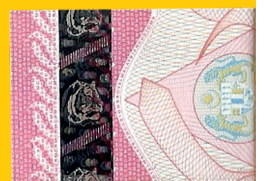
ASEAN Tobacco Tax Report Card

Regional Comparisons and Trends

February 2012



Southeast Asia Initiative on Tobacco Tax (SITT) Resource Center of the
Southeast Asia Tobacco Control Alliance (SEATCA)



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It is our hope that this document is useful to policy makers, tax and health officials, and advocates in attaining our common fiscal and public health objectives: saving human lives, saving on health care costs, and providing sustainable funding for tobacco control and health promotion.

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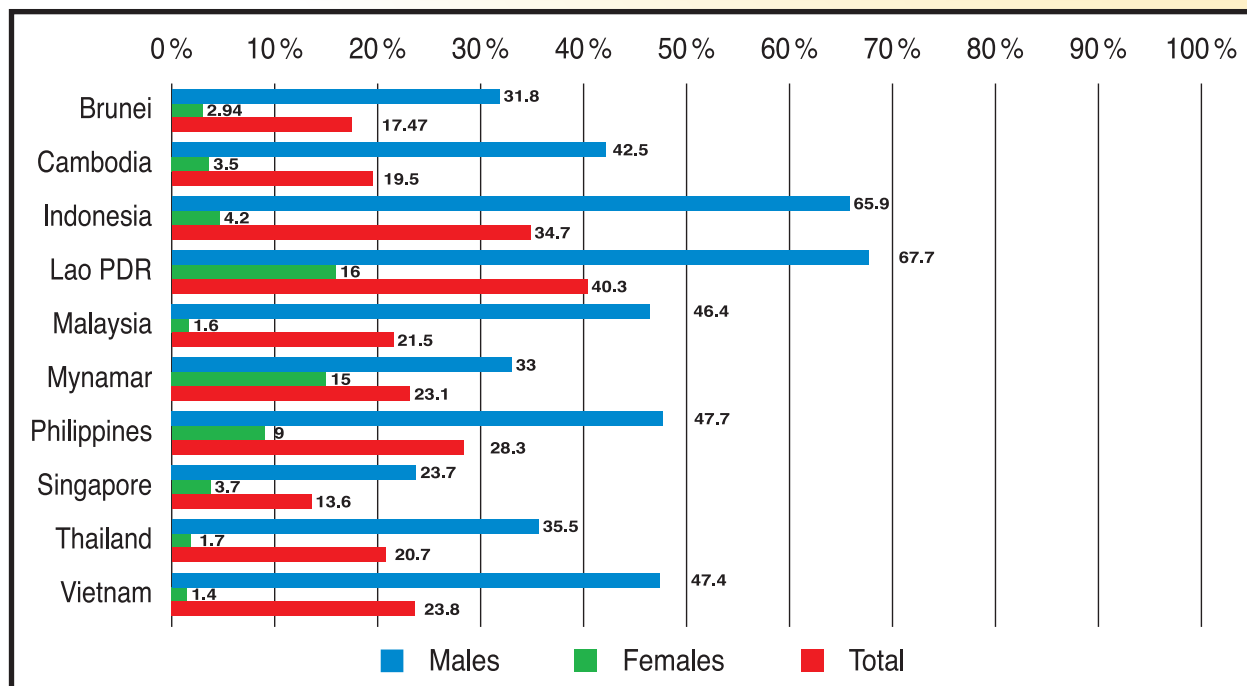
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Regional Tobacco Tax Comparisons and Trends in ASEAN countries

Tobacco Consumption

Tobacco consumption is increasing in Asia as transnational tobacco companies continue their aggressive expansion into the region, particularly targeting their marketing and production activities in developing countries in the ASEAN region. The Asia Pacific region alone accounts for 57.4% of the world smoking population.

Figure 1: Current smoking prevalence in ASEAN countries (figures in percent)²



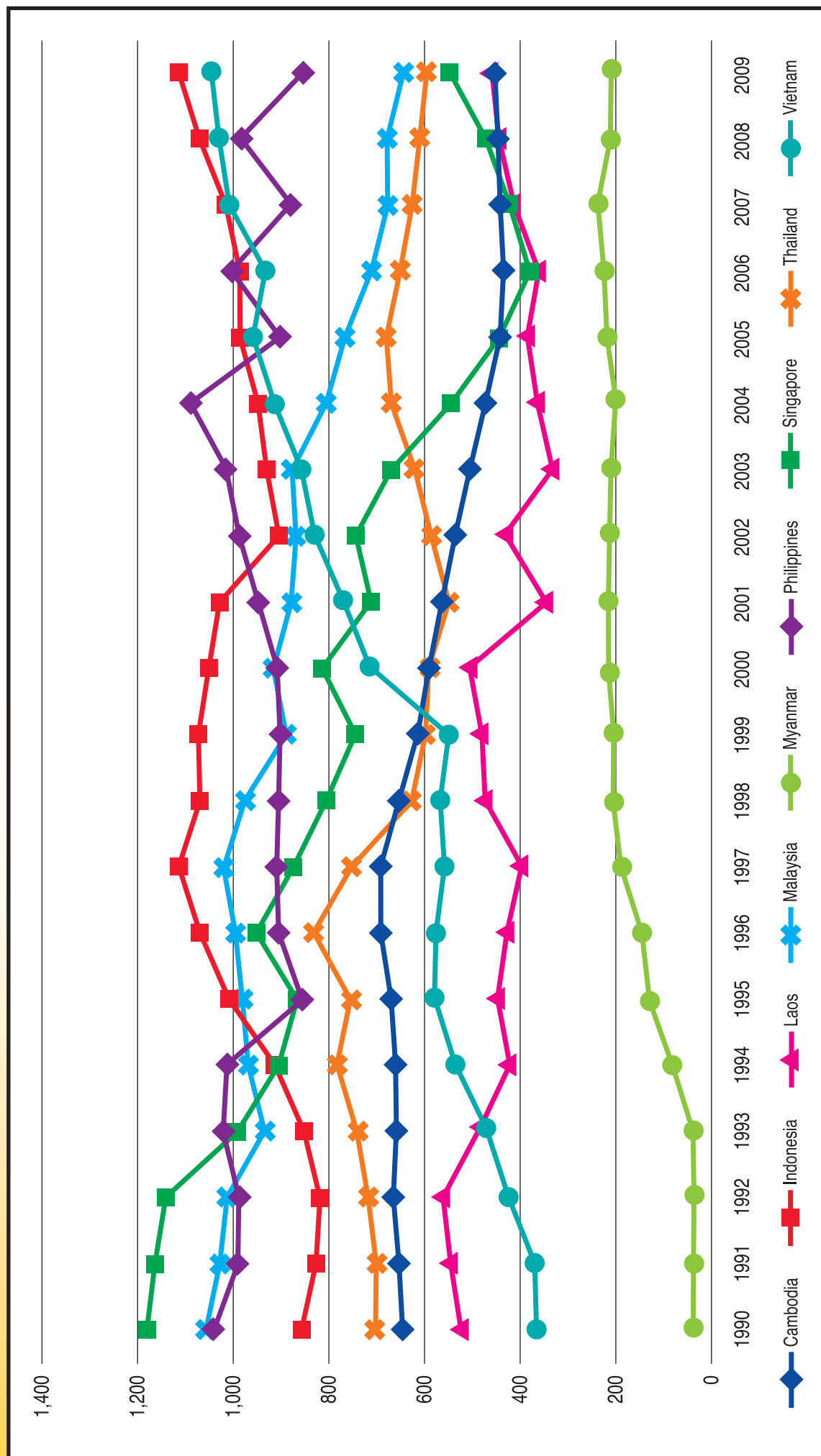
Note: Years in which prevalence surveys were conducted differ from country to country

Smoking prevalence rates among men remain generally higher than those of women, with Lao PDR and Indonesia facing very high prevalence rates (above 65%) among their male population, while Cambodia, Malaysia, Philippines, and Vietnam have male smoking rates nearing 50%. It should be pointed out that in addition to the health burden from smoking, Myanmar and Lao PDR also face significant “smokeless tobacco use”.

Cigarette per capita consumption in Asia Pacific amounts to around 873 sticks per year, and the average smoker spends around USD 52.90 on cigarettes annually.¹ With the exception of Singapore, and to a lesser extent Malaysia, Thailand and Cambodia, additional data for the ASEAN region (Figure 2) show no significant decline in cigarette consumption in the region, and countries such as Indonesia, Philippines, and Vietnam have per capita consumption rates that are higher than the regional average. Furthermore, from a public health perspective, there is a distressing trend of increasing consumption in Indonesia, Myanmar, and, most alarming, Vietnam.

These statistics clearly call for better tax and price measures on the part of national governments in order to curb tobacco consumption in the region. Increasing taxes and prices is internationally recognized as one of the most effective ways to curb tobacco consumption while generating significant revenue for national governments.

Figure 2: Regional cigarette per capita consumption 1990 – 2009³



Source: ERC (2010), *Includes non-duty sales

Cigarette Price Trends

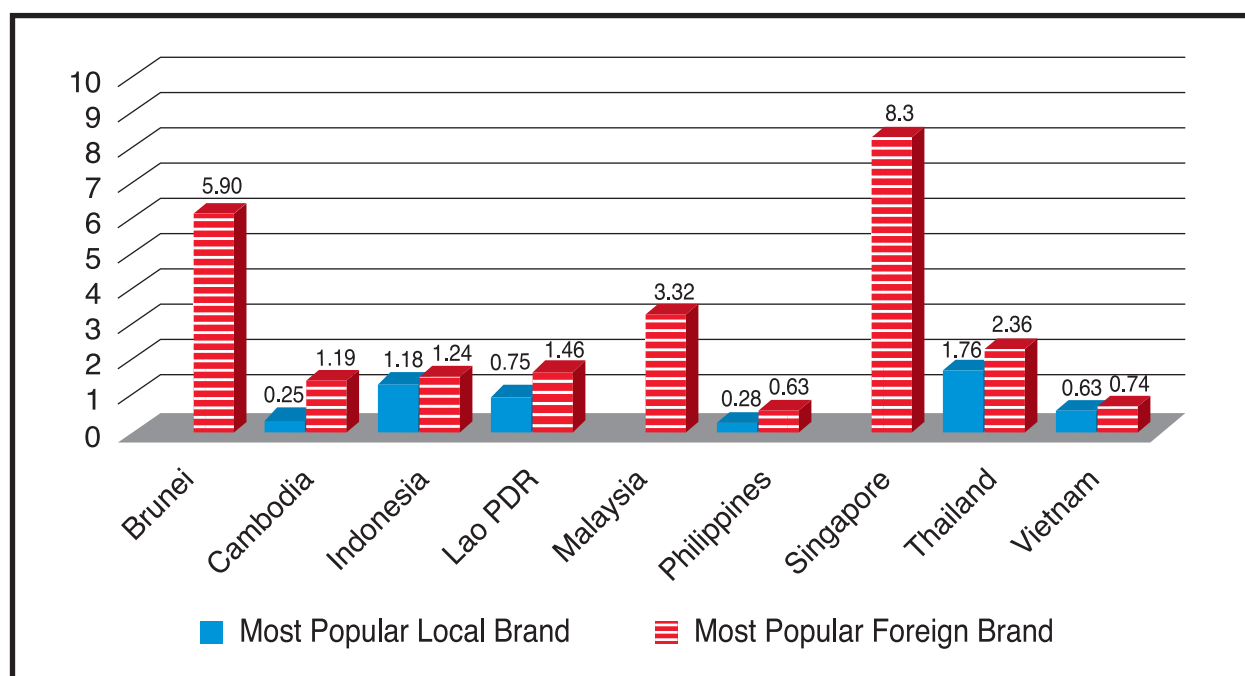
Brands of major tobacco companies like British American Tobacco (BAT) and Philip Morris International (PMI) dominate the various local markets (Table 1) through their local production facilities or joint ventures with local manufacturers. While foreign cigarette brands, whether produced locally or imported, are relatively more expensive than local brands, given the rapid economic development of Asian nations in recent years, cigarettes are becoming more and more affordable as domestic standards of living and local wages continue to improve. In addition, some brands are seemingly quite expensive in some countries compared to others in the region. For example, a pack of Marlboro costs around USD 8.30 in Singapore, while in the Philippines a similar pack costs only around USD 0.63 (Figure 3). Countries that rely exclusively on imports include Brunei and Singapore. In the case of Malaysia, while there are a number of local brands in the country, these are not significant enough to compete with the market strength of foreign brands from BAT that have saturated the market.

Table 1: Most popular local and foreign brands, 2011⁴

Country	Most Popular Local Brand	Most Popular Foreign Brand
Brunei	No local production	Marlboro Gold Ks (PMI)
Cambodia	ARA (BATC)	555 (BAT)
Indonesia	A Mild (PMI)	Marlboro (PMI)
Lao PDR	A Deng (LTL)	Marlboro (PMI)
Malaysia	Insignificant share of local market	Dunhill 20's (BAT)
Philippines	Fortune (PMFTC)	Marlboro (PMI)
Singapore	No local production	Marlboro (PMI)
Thailand	Krongthip (TTM)	Marlboro (PMI)
Vietnam	Vinataba (VINATABA)	White Horse (BAT)

* BATC = BAT Cambodia; KT&G = KT&G Corporation (Korea); LTL = Lao Tobacco Limited; PMFTC = Philip Morris Fortune Tobacco Corporation; TTM = Thai Tobacco Monopoly; VINATABA = Vietnam National Tobacco Corporation

Figure 3: Prices of most popular local and foreign brands in Table 1 (in USD), 2011



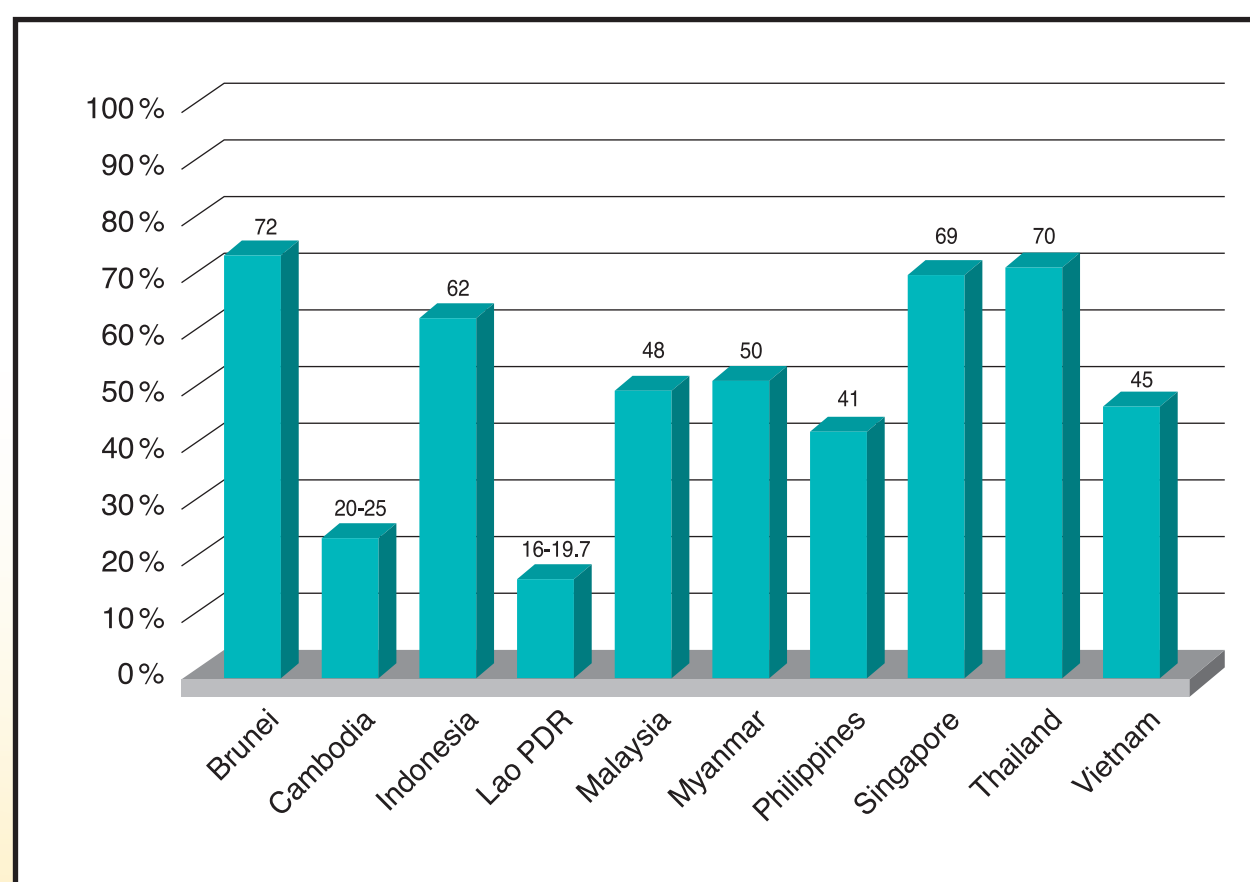
Tobacco Tax Rates

Within ASEAN, Brunei has the highest tax burden as a percentage of the retail price charged on a pack of cigarettes (72%), closely followed by Thailand (70%) and Singapore (69%) (Figure 4). In contrast, countries with the lowest tax rates are Cambodia (20-25%) and Lao PDR (16-19.7%). In the case of Lao PDR, however, although the law stipulates a 55% excise tax rate, the government's contract with the tobacco industry has meant the application of a much lower excise rate of 15 – 30%.

Recent reports indicate that Myanmar's government recently slashed their tax rate from 75% to 50% for domestic products and increased import duties on tobacco products to 100%. The government is believed to have vested interests in the tobacco sector.⁵

There is thus more than ample room for governments across the region to significantly raise tax rates in order to have a meaningful reduction in tobacco consumption. According to the World Bank, this rate should be at least 65% of retail price. Singapore and Thailand are good case studies where tax rates have been gradually increased over the past two decades, and these countries have experienced a decline in smoking prevalence rates alongside increased tobacco tax revenues.⁶

Figure 4: Tobacco tax burden as percentage of retail price, 2011



Note: Rates for countries following the tier-system are based on average/most applied rates

Government Tobacco Tax Revenue Trends

Further to the potential for saving lives, tobacco tax can be a reliable source of government revenue as seen in Table 2. In addition, countries such as Thailand have put some of this revenue to good use by establishing a health promotion fund (ThaiHealth), which is based on a 2% tobacco surcharge tax and drives many of the country's various public health promotion campaigns out of its USD 100 million annual budget. Similar opportunities exist for countries like Indonesia, Lao PDR, Vietnam, and the Philippines, which share high smoking prevalence rates among their population, to curb tobacco consumption, generate substantial government revenue, and ensure a sustainable source of income for various health promotion and social development initiatives.

Table 2: Government revenue from tobacco tax 2005 – 2009 (figures in USD)⁷

Country	2005	2006	2007	2008	2009
Brunei	14,139,272	14,139,272	14,139,272	14,139,272	14,139,272
Cambodia	5,100,000	6,200,000	7,800,000	11,100,000	13,100,000
Indonesia	3,548,913,043	4,017,391,304	4,726,086,957	5,426,086,957	6,019,565,217
Lao PDR	3,321,341	4,239,634	4,923,659	9,525,732	11,967,927
Malaysia	892,857,143	857,142,857	964,285,714	1,071,428,571	1,107,142,857
Philippines	512,987,013	580,086,580	500,000,000	595,238,095	523,809,524
Singapore	510,093,057	444,366,500	501,073,729	568,002,863	666,857,552
Thailand	1,157,363,636	1,080,333,333	1,267,393,939	1,267,636,364	1,331,393,939
Vietnam	380,200,000	378,800,000	395,600,000	444,700,000	521,100,000

Note: Brunei data reported 2010

Health Care Costs of Tobacco Consumption

Available estimates of economic health care costs incurred in each ASEAN country, as shown in Table 3, are considered conservative, as they do not account for all tobacco-related diseases and also do not factor in under-reporting of morbidities in countries with underdeveloped health surveillance systems. In spite of this limitation, low and middle-income countries are facing huge health costs for diseases that could have been prevented by curbing consumption, even in countries such as Lao PDR, Myanmar, Thailand, and Vietnam, where tobacco tax revenues seemingly outweigh the economic health costs. Countries like Indonesia, Philippines, and Malaysia however, are in an unacceptable situation where economic health costs are at least 1.2 to 13.7 times what their governments earn from tobacco taxes.

It is therefore imperative that tobacco consumption be reduced through effective tobacco control measures, primarily increasing tobacco taxes and prices, with a view of having tobacco taxes used to mitigate the negative externalities associated with tobacco use.

Table 3: Health care costs of tobacco consumption⁸

Country	Estimated health costs (USD million)	Tobacco tax revenue – average (USD million)	Net gain/loss (USD million)	Ratio of health costs to tax revenue	Remarks
Indonesia	13,900	1,800	-13,720	772%	2001
Lao PDR	3.34	4.9	1.56	68.1%	for only 3 diseases, 2007
Malaysia	1,338	1,107	-231	120.8%	for only 3 diseases, 2005
Myanmar	13.2	41.74	28.54	31.62%	for 9 diseases, 1999
Philippines	2,860 to 6,050	442	-2,418 to -5,608	647% to 1,368%	for only 4 diseases, 2003
Thailand	220	1,080	860	20.37%	for only 3 diseases, 2006
Vietnam	143.7	395.6	251.9	36.32%	for only 3 diseases, 2007

Note: Health costs estimates not available for Brunei and Cambodia. Estimates for Singapore are not publicly accessible.

Tobacco Tax System Comparisons

Tobacco tax systems vary from country to country (Table 4) as a result of diverse challenges including lack of government buy-in, tobacco industry interference, and slow tax and price increases. Countries such as Indonesia and Philippines that follow a tiered tobacco tax system also face additional challenges of loopholes being exploited by the tobacco industry that erode fair tax collection. While taxing tobacco products can be

Table 4: Regional comparison of tobacco tax systems, 2011⁹

Country	Total tax rate as a % of Retail Price	Types of Tax Applied				Tax Base for Domestic Products
		Excise	VAT/GST	Import Tariffs	Others	
Brunei	72%	BND 0.25/stick, specific tax	N/A	N/A	N/A	No domestic production
Cambodia	20% for domestic and 25% for imported	10%, ad valorem tax	10%	7% - 35% plus 10% import VAT	Public lighting tax 3% of invoice value, Profit tax 20% of profit, Turnover tax 2% of invoice value	65% of Invoice price
Indonesia	62%	IDR 65-325/stick, specific tax	8.40%	40%	N/A	Production Cost Price
Lao PDR	19.7% for domestic, 16% for imported	15% - 30%, ad valorem tax, 500 Kip additional specific tax	10%	Flat rate USD 119 for famous brands and USD 85 for other brands	Royalty Fee 15% of production cost	Ex-factory price
Malaysia	48%	MYR 0.19/stick, specific tax and 20%, ad valorem tax	5%	MYR 0.20/ stick	N/A	Ex-factory cost
Myanmar	50%	63%, ad valorem tax	16%	30% on CIF	1% special excise duty, Profit tax, Income tax	Retail Price
Philippines	41%	PHP 2.72 - PHP 28.30/ pack, specific tax	12%	3.67% - 4%	N/A	1996 Net F
Singapore	69%	SGD 0.32/stick, specific tax	7%	N/A	N/A	No domestic production
Thailand	70%	85%, ad valorem tax for cigarettes	7%	Exempted but other local taxes still applied	Local tax 0.0093 Baht/ stick, Thai health tax 2% of excise, and TV tax 1.5% of excise	Ex-factory price
Vietnam	45%	65%, ad valorem tax	10%	30% - 140%	N/A	Factory Price

done through creative and innovative ways, such as imposing a health tax or public TV tax, the system itself should be simple and easily manageable in order to be effective. In spite of the differences in tax systems, each country is encouraged to maximize the benefits of higher tobacco taxes and prices that can be used to reduce tobacco consumption and protect the health of the public.

	Tax Base for Imported Products	Remarks
	Weight and Type of Tobacco Product	Tobacco products in Brunei are imported and only excise duties are charged based on the type of tobacco product. BND 0.25 per stick is charged for cigarettes, BND 60.00 is charged per kilo of manufactured tobacco, and BND 200.00 is charged per kilo of cigar, cheroots and cigarillos.
	CIF	Some exemptions exist, including tobacco that is exported, cigarettes that are imported by international travelers for personal use that do not exceed 1 pack, and duty-free shops in airports.
	Transaction Value of Tobacco Product	Indonesia follows a tier system when imposing taxes on both domestic and imported tobacco products. These are quite comprehensive but are complicated and allow for loopholes within the system. Imported cigarettes constitute an insignificant part of consumption; in 2005, the ratio of imported cigarettes to domestic production was less than 1%.
	Number of packs	An excise rate of 55% is sanctioned by law but with the existence of a government contract with the industry, only around 15% - 30% is applied.
	CIF	Exported cigarettes and leaves are not taxed. Import duties are relatively high. However, consistent with AFTA, import duty for tobacco/tobacco products from ASEAN countries are only between 0-5%.
	CIF	10% tax on cheroots, 20% tax on betel quid with tobacco. Tax structure has not changed for 2 decades, but in 2010 the 75% tax rate on cigarettes was reduced to 50% by the government. Import duties are also charged on smokeless tobacco products. Profit tax is only charged on smokeless tobacco products.
at Retail Price		Import tariffs are collected from imported tobacco products. Rates vary for different products: tobacco leaves (3.67%), cigar and cigarettes (5%), and tobacco manufacturers (4%). Tax increases after 2011 will require new legislation.
	Weight and Type of Tobacco Product	Excise duties are applied based on the type of product. For unmanufactured tobacco and cut tobacco an excise duty of SGD 300/kg is applied. For other smokeless tobacco products an excise duty of SGD 181/kg is applied. An additional SGD 0.32 is applied for each cigarette stick weighing more than 1 gram.
	CIF	Like other excise tax in Thailand, the tobacco tax rate structure is a mixed system. It is calculated on both specific rate and ad valorem rate and then applying whichever rate generates a higher tax liability with the exception of the cigarette tax rate, which is exclusively an ad valorem rate. Import tariffs are applied accordingly to the specified codes, import country, and trade agreement.
	Import price	In 2008, the special excise tax was made uniform at 65% for all types of cigarettes. Vietnam lifted its ban on cigarette imports in 2007 and tax rates as a percentage of import price are applied for cigarettes (140%), cigars (125%), and tobacco materials (30%).

Recommendations to Advance Tobacco Tax in the Region

Parties to the FCTC 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. As tobacco products are becoming more affordable in developing countries, national governments should ensure that tax increases are indexed to inflation and significantly high enough (at least 65%) to discourage initiation among youths and curb current smoking.

- Tax should increase on an annual basis with governments utilizing a short-term strategy (1-3 years) to initially push up taxes to curb consumption and a long-term strategy to sustain tax increases to control consumption and generate substantial government revenues.
- Tobacco products should be taxed uniformly to discourage users from switching to lower priced brands.

National governments need to ensure that their tax systems are simplified and do not allow loopholes that the tobacco industry can take advantage of. Complicated systems like those of the tier-system should be avoided. Moreover, simplified tax systems make the tobacco industry accountable for reporting to tax authorities, following government-established criteria and requirements with little or no room for negotiation.

Clear legal boundaries need to be established to clearly define the relationship between the government and the tobacco industry. These will ensure formal channels for interaction and penalties for deviation from these channels. National governments should also establish clear ethical and moral codes for their government officers when working with the tobacco industry. These should hold tax and customs officers accountable for their work performance while ensuring that codes of conduct and efficiency standards are maintained and strengthened. These should follow the guidelines adopted to implement Article 5.3 of the FCTC.

With the initial short-term strategy recommended, the surge in government revenue derived from tobacco taxes should be used to strengthen tobacco control and health promotion within the country, in accordance with predetermined rules of allocation and disbursement. This will ensure the availability of funds and reduce the risk of losing them to other activities through an “allocation after collection” method.

National governments should also consider compelling the tobacco industry to pay a “health compensation” tax based on the health costs of tobacco-related illnesses that are borne by the government. This could be charged on a unit basis and will ensure that the government can utilize these funds in treating the various illnesses related to tobacco consumption by their citizens. Additional taxes like an environmental tax can also be introduced on top of other taxes applied.

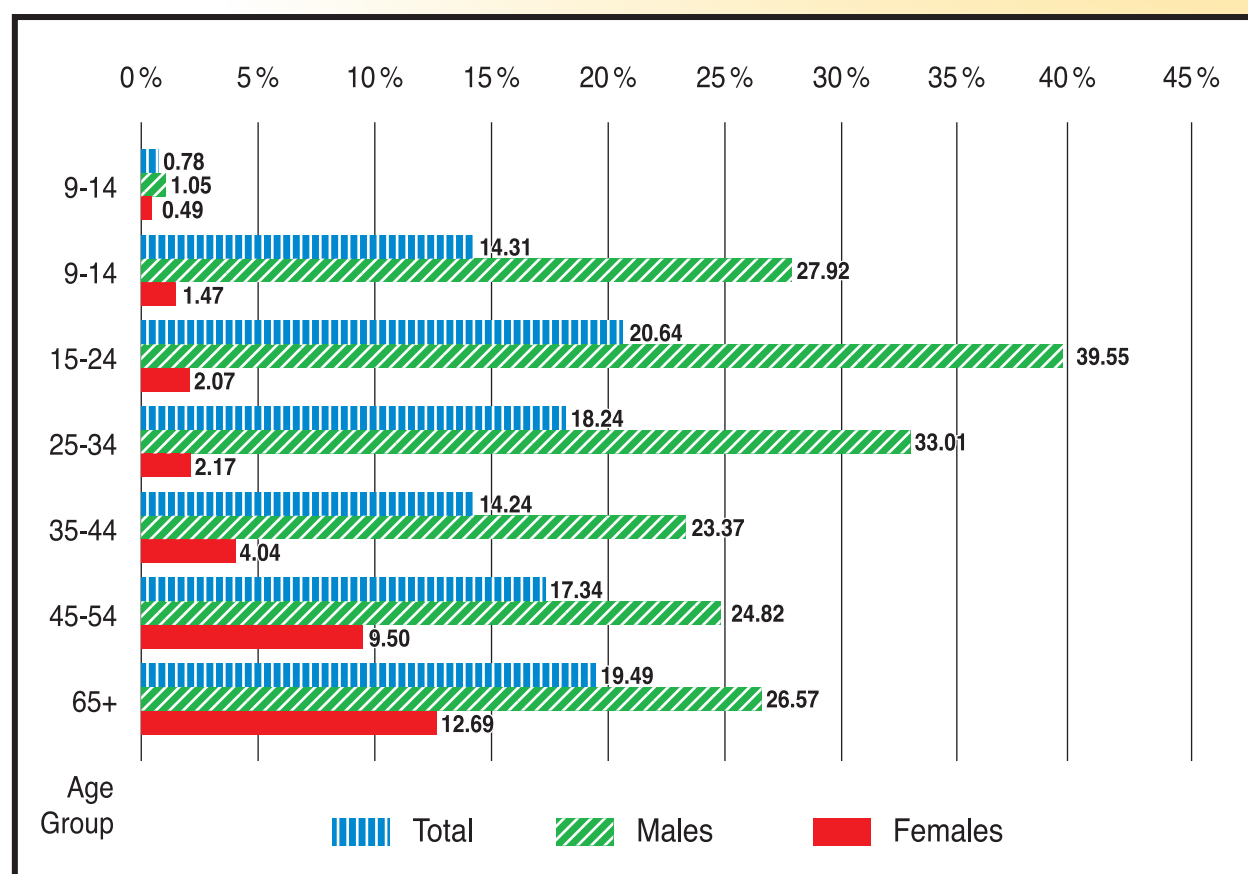
National governments need to establish systems to effectively monitor tobacco consumption, price data, illicit tobacco trade, corruption, and changes within the tobacco industry. Monitoring should be consistent and ensure efficient information dissemination to key decision makers and central government agencies.

Tobacco Tax in ASEAN Countries

BRUNEI

The most recent smoking prevalence data for Brunei is from 2001, which shows adult male smoking prevalence at 31.81% and female smoking prevalence at 2.94%, although with rates as high as 12.69% among women over 65 years⁹. There is no available data on tobacco-related economic health costs.

Figure 5: Smoking prevalence by age group in Brunei, 2001¹⁰



With a population of less than 400,000 people, Brunei has no tobacco growers or manufacturers in the country. All tobacco products are imported, with excise duties imposed on a per stick basis on cigarettes and weight basis on other tobacco products, following amendments to the Customs Duty Order and Excise Duty Order enforced in November 2010.

- BND 0.25 per stick for cigarettes of tobacco substitutes
- BND 60.00 per kg for unmanufactured tobacco, tobacco refuse
- BND 200.00 per kg for cigars, cheroots and cigarillos of tobacco substitutes

There are no other taxes or levies imposed on tobacco products. However, retailers are required to have a license to sell cigarettes and tobacco products. The Ministry of Health collects these license fees, which range from BND 1,000 - 2,000 annually.

Recommendations

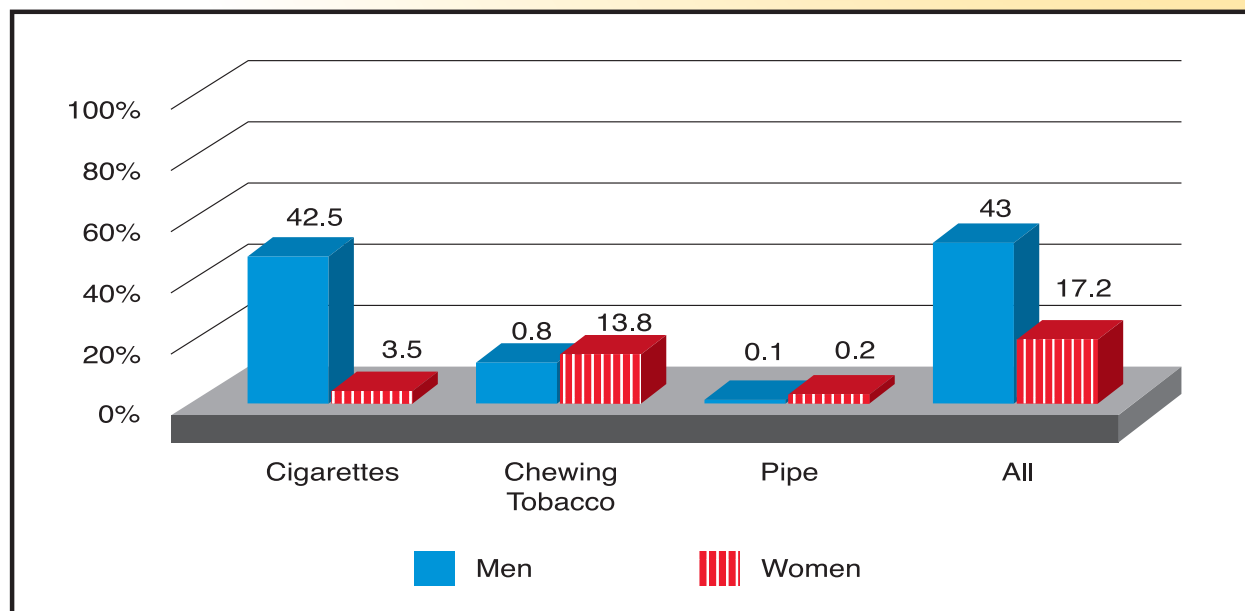
Brunei is well positioned to reduce tobacco use at an accelerated pace. It is important to enact measures to discourage young boys from starting and encourage adult males to quit.

- Excise taxes on tobacco should be increased regularly so as to make tobacco less affordable.
- Through proper licensing, the number of retail outlets selling cigarettes can and should be reduced.
- Effective policies must be evidence-based. Regular surveys should be undertaken to assess prevalence of tobacco use and the social and economic costs of such use.
- Stringent prohibition of misleading descriptors on tobacco packs and larger health warning labels (FCTC Article 11) and regulating innovation in tobacco products (FCTC Articles 9, 10, and 11) can assist Brunei further.

CAMBODIA

Tobacco use amongst men and women in Cambodia is significantly high with around 43% of the male population and 17.2% of the female population believed to be using some form of tobacco. These usually take the form of cigarettes, chewing tobacco, and pipe tobacco. Cigarettes are generally more popular among men while tobacco chewing is more popular among women (Figure 6).¹²

Figure 6: Tobacco use in Cambodia by gender and type (2011)



With a high number of people consuming tobacco in Cambodia, health costs are quite burdensome especially when 36% of the population lives below the poverty line. Poor families with at least one smoker spend around 9% of their income on tobacco products,¹³ and these lead to added health costs in treating tobacco-related illnesses like high blood pressure and lung and heart diseases, which have contributed to the growing burden of non-communicable diseases in Cambodia.¹⁴

There are about 10,000 people die from diseases related to tobacco use every year in Cambodia. The percentage of deaths from all tobacco-related diseases for the population age 30 and over is as high as 17% in male and 8% in female.¹⁵

Cigarettes in Cambodia have become more affordable over the years with the real prices of cigarettes remaining relatively unchanged or decreasing. Combined with the significantly low tax rate on cigarettes (20% - 25% of retail price), this has also contributed to the decreasing price trends of cigarettes in Cambodia for both domestic and imported products. Moreover, the tax system also needs to address the prevalence of tobacco chewing given that it follows cigarette smoking and is the most popular form of smokeless tobacco.

It is evident that increasing taxes in Cambodia can help solve some of these pressing health issues. Currently, the General Department of Taxation (GDT) is in charge of managing the country's tax system and while the current system seems quite straightforward with regards to tobacco tax, there are still some issues that need to be taken care of. For instance, the system uses the ex-factory sales price to determine the tax rate, and this is more complex compared to the invoice value method and involves using different cost components which are not consistent with those of the factories.

Major tobacco industry players in Cambodia include British American Tobacco, which also produces hand-rolled cigarettes in the country, Vinton, and Altadis. These three dominate the tobacco market in Cambodia.¹⁶

Recommendations

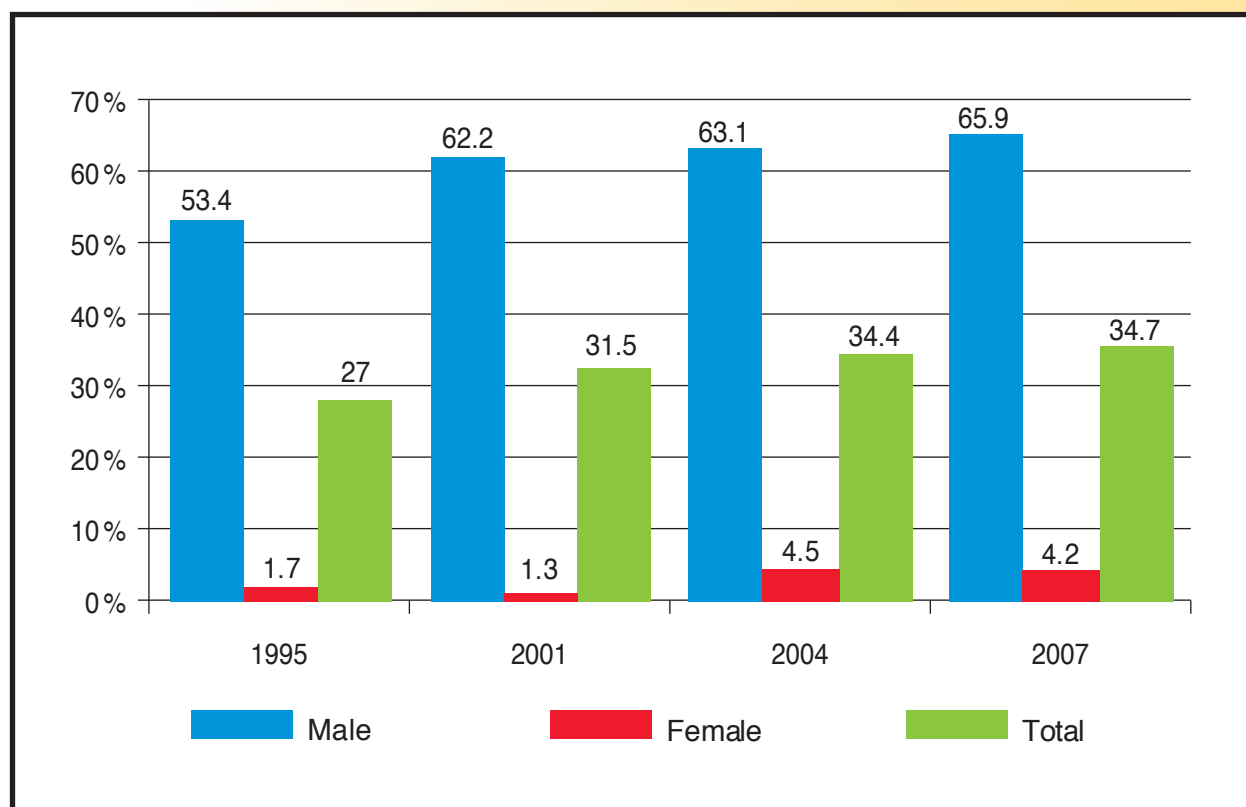
- Increase the excise tax rate from 10 % to 20% to 30%
- Increase the tax base from 65% to 75% to 85%
- Increase the value of tax stamps and their quality
- Require that all cigarette importers, manufacturers, wholesalers, distributors, and hand-rolled cigarette makers be officially licensed
- Confiscate and destroy all cigarettes without the required tax stamps
- Strengthen tax compliance by increasing taxpayer services and enforcement measures.

*Please refer to the Cambodia Tobacco Tax Report Card for more detailed information.

INDONESIA

Around 57 million Indonesians were estimated to be smokers in 2004. Men dominate prevalence trends, but there has also been an increase in the number of female smokers especially in recent years (Figure 7). In 2007, total prevalence rate reached around 34.2%.¹⁶

Figure 7: Trends in tobacco consumption in Indonesia



Health costs likewise have been estimated to be quite high with health costs estimated at around USD 13 billion in 2001 or 7.5 times the tax revenue generated in the same year.¹⁷ The comprehensive but complex nature of the current multi-tier tax system does not effectively address this fiscal and public health anomaly. At present, the various tiers and production scales offer tobacco firms a number of different ways to avoid the highest tax brackets, legally or otherwise, which reduce the impact of tobacco tax increases on revenue generation and social welfare. While the Indonesian government introduced a Tobacco Industry Roadmap in 2007, which has three main priorities, namely employment, government revenue, and health, this is believed to be flawed in several ways. A larger uniform specific tax would greatly simplify administration, protect revenues from industry pricing competition, and facilitate revenue forecast.

The need to improve tax measures in Indonesia is also evident in the increasing cigarette production trends within the country. Total cigarette production has grown from around 180 billion sticks in the early 1990s to around 232 trillion sticks in 2007. With this dramatic increase in production and the relatively unchanged real prices of cigarettes for the past two decades, cigarettes have become more affordable and accessible to more people over the years. Because the market is currently dominated by three major companies, namely Sampoerna/Philip Morris International (29% market share), Gudang Garam (21.1%), and Djarum (19.4%), which collectively control 70% of the cigarette market,¹⁸ it should be relatively easy to administer new tax measures.

Recommendations

- The tax increase already imposed has not yet effectively reduced the demand for tobacco, and therefore the price increase on cigarettes should be intensified (implement the maximum legally allowable excise tax rate for all tobacco products: 57% of Government Retail Price (HJE)).
- In 2006, about 63% of all Indonesian households (about 35 million families) reported tobacco expenses, indicating at least one smoker in most households in Indonesia. Furthermore, the data shows that tobacco and betel expenses are higher among lower income families than among families with higher incomes.
- Based on a cigarette price elasticity of -1.696% for lower-income citizens compared to that of -0.409% for higher-income citizens, we would expect Indonesians with lower incomes to be more sensitive to cigarette price increases than those with higher incomes; i.e. when faced with a higher cigarette price, Indonesians with lower incomes would more likely decrease their tobacco consumption and hopefully switch their spending to other consumer products. Therefore policies to increase the prices of tobacco will ultimately lower tobacco consumption for lower income families.
- In addition to raising taxes and prices, the tax system should be simplified to reduce the price gap between the most expensive and the cheapest cigarettes. This is important to reduce the substitution effect between brands of cigarettes that could lead to increased cigarette demand. This simplification of tobacco taxation system could be done by:
 - eliminating production tiers
 - using a uniform specific tax
 - implementing tax increases across all tobacco products, and
 - automatically adjusting the specific tax for inflation
- The government needs to consider carefully how it will effectively use its revenues from tobacco tax. One of the proposed uses is to direct those funds toward public health. Given the expensive health costs brought about by tobacco consumption, the allocation for public health needs to be optimized vis-à-vis other proposed uses.

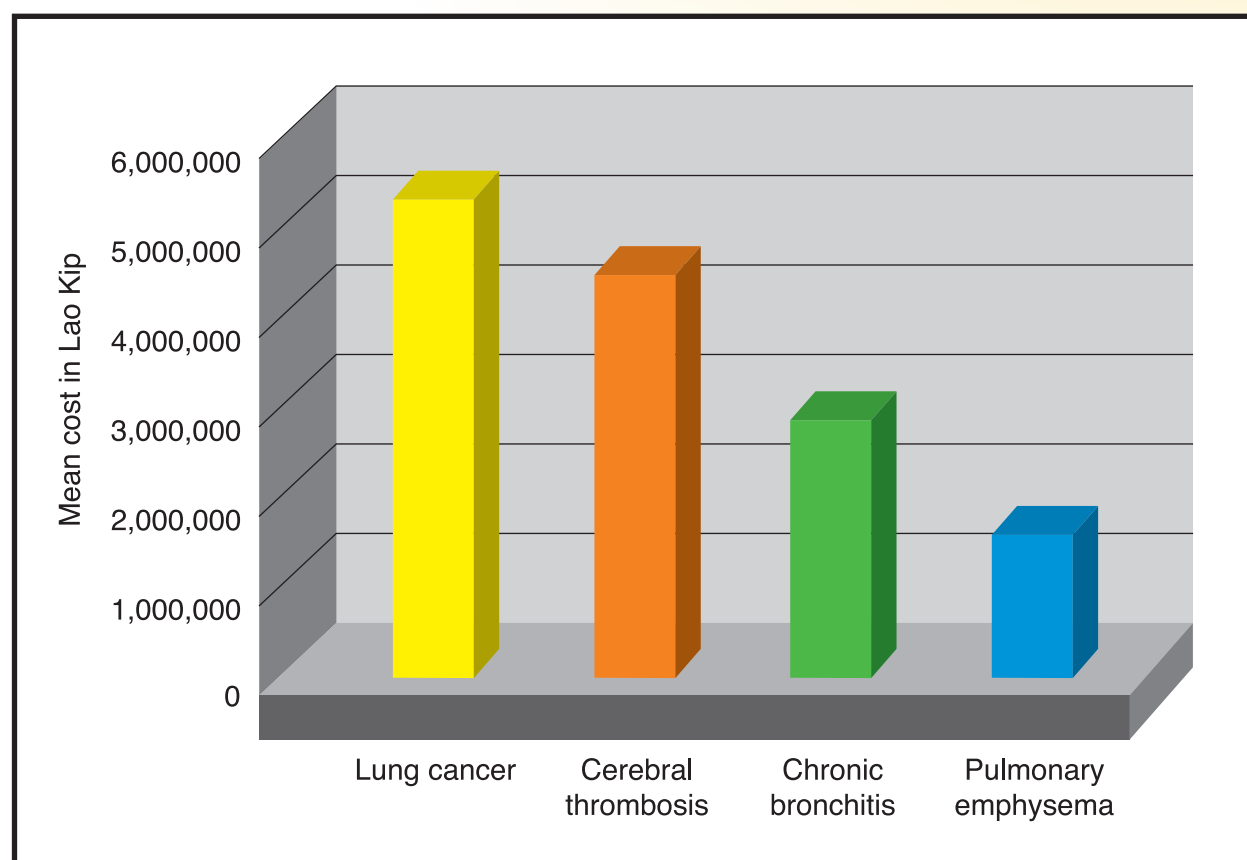
*Please refer to the Indonesia Tobacco Tax Report Card for more detailed information.

LAO PDR

Based on a 2003 national health survey, around 67.7% of the adult male population and 16% of the adult female population are believed to be smokers. Prevalence was also shown to be much higher amongst the poor in rural areas.¹⁹

Tobacco smoking causes a wide variety of serious diseases including stroke, chronic obstructive pulmonary disease (COPD) and lung cancer. The total costs of in-patient health care of these smoking-related diseases in Lao PDR reached 28,507,000,000 Kip (USD 3,341,577) in 2007 (Figure 8), representing 0.8% of Lao PDR's GDP and 22% of Lao PDR's Health Expenditure. Households directly financed 77% of these costs; the rest was financed either by the government (21%) or by the insurance sector (2%). From these findings, it can be seen that health-care costs are mainly borne by families themselves and given that the majority of these families are poor, greater challenges will emerge if effective measures are not taken to curb smoking in the country.²⁰

Figure 8: Estimates of health care costs of smoking-related diseases in Lao PDR, 2007



While there is interest within the government to utilize tobacco taxation as both a fiscal and public health tool, the current tax system has a major obstacle that the government needs to overcome, which is its 25-year (2001-2026) Investment License Agreement with the tobacco industry. This contract offers various benefits to the local tobacco industry and, in particular, limits the excise tax rate from the legally stipulated 55% to a mere 15% to 30%. This prevents the government from collecting a substantial amount of tobacco tax that can be utilized for various national programs including health promotion for its citizens.

The current biggest cigarette manufacturer in Lao PDR is Lao Tobacco Company limited, a joint venture between the Lao government and Imperial Tobacco Group. Lao-China Lucky Tobacco Company Limited is the second biggest manufacturer in Lao PDR and is solely owned by a Chinese company.

Recommendations

The Lao government is being held hostage by tobacco companies through the 25-year Investment License Agreement of the government with the tobacco industry, which severely limits government revenues from tobacco excise taxes. This contract should be re-examined, challenged, and eventually rescinded in favor of the government.

In spite of the Investment License Agreement, the government was successfully able to increase revenue through additional excise taxes (100 Kip per pack) in January 2010 and another increase (500 Kip per pack) in March 2011, with its associated increase in the retail prices of cigarettes, which provides more incentive for decreasing tobacco consumption. Thus, while the ILA is being scrutinized, the government should:

- Continue increasing the additional excise tax by at least 500 Kip per pack every year for at least the next three years.
- Study the real production costs of cigarettes and determine if the production costs are in fact higher than those declared by the tobacco industry.
- Maximize tobacco excise tax rates from 15% under the ILA to 30%.

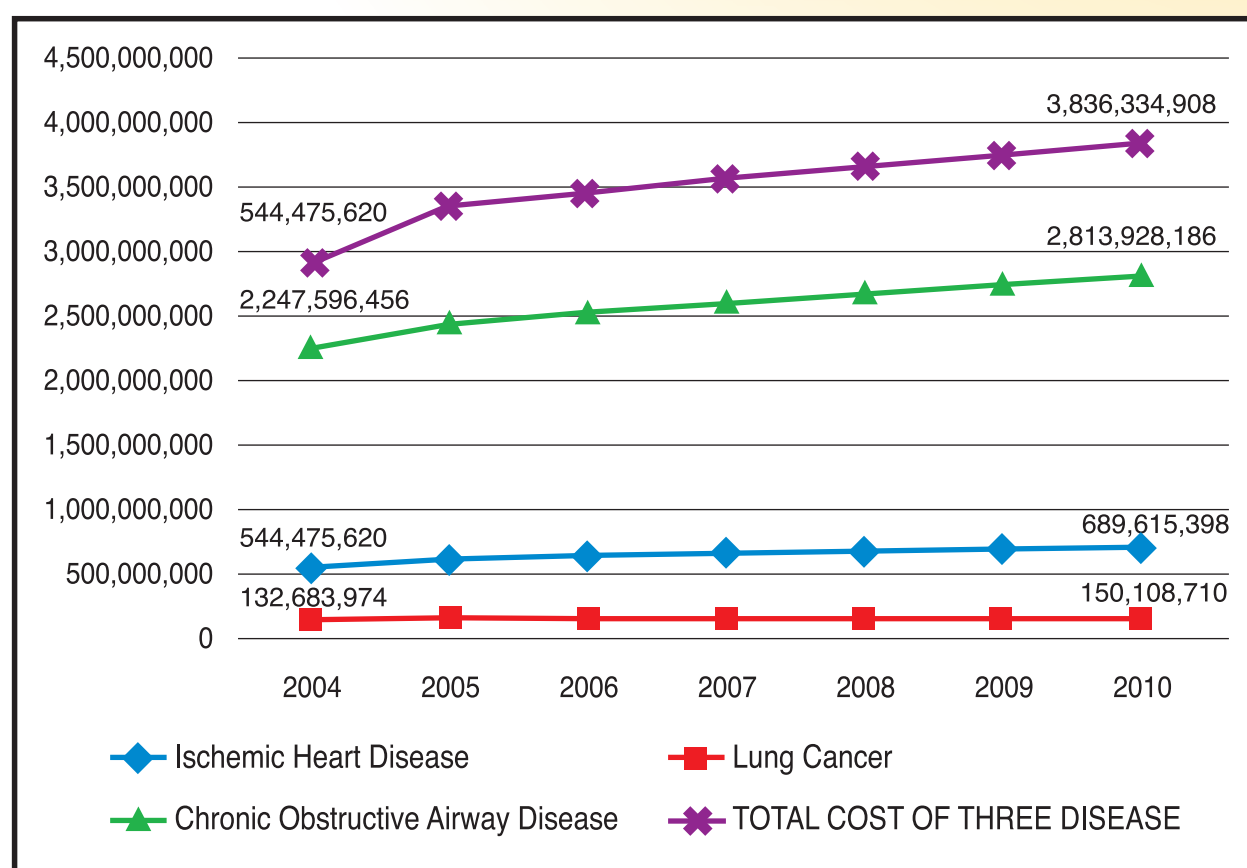
Considering the considerable health and economic losses due to tobacco, the government should establish, using tobacco excise taxes, a tobacco control and health promotion fund to effectively address this and other public health problems.

*Please refer to the Lao PDR Tobacco Tax Report Card for more detailed information.

MALAYSIA

Smoking prevalence in Malaysia was estimated in 2006 to be around 46.2% among males and 1.6% among females. Overall smoking rate was seen at 21.5%.¹⁹ Moreover, in 1998 it was estimated that Malaysia's annual health care costs for chronic obstructive pulmonary disease, ischemic heart disease, and lung cancer was equivalent to 1.27% of the country's GDP and that tobacco-related diseases accounted for 16.49% of the country's total health care budget. Smoking accounts for 25% of all deaths. The total smoking-attributable cost of the three diseases studied amounted to around USD 790.47 million. The burden on health care providers was estimated at USD 533.77 million and the projected total health care costs were projected to increase from USD 790.47 in 2004 to USD 1.03 billion in 2010, in other words, a 31% increase in the 6 year span (Figure 9).²¹

Figure 9: Projected health care costs for three smoking-related diseases in Malaysia (figures in MYR)



Source: Third National Health and Morbidity, Ministry of Health 2007

The cigarette market in Malaysia appears to be declining due to a rise in taxes (and prices) and other tobacco control measures put in place. Despite the government's introduction of a minimum price for cigarettes to induce a reduction in smoking, it was reported that British American Tobacco (BAT) engaged in price-cutting in November 2009 by lowering the prices of its popular brands including Pall Mall. The three main tobacco companies in Malaysia are British American Tobacco Malaysia, Japan Tobacco International Berhad (JTI), and Philip Morris International (PMI). In 2009, BAT reportedly controlled 61% of the tobacco market share while JTI had 19% of the market share and PMI the other 18% (Table 5 for brand market shares). These three major companies accounted for about 96% of the sales volume for that same year. It was also observed that the industry applied innovative packaging strategies to boost cigarette sales amongst different target groups.²²

Table 5: Cigarette brand market share 2008 – 2009²³

Brand	Company	2008	2009
Dunhill	BAT	42.8	43.7
Marlboro	PMI	11.2	11.6
Winston	JTI	9.6	10.1
Pall Mall	BAT	8.9	9.4
Salem	JTI	7.7	7.9
L&M	PMI	7.1	6.6
Kent	BAT	2.0	2.2
Peter Stuyvesant	BAT	2.0	1.5
Lucky Strike	BAT	1.5	1.3
Porilly's	BAT	1.3	1.1
Other		6.0	4.5
TOTAL		100.0	100.0

Source: Euromonitor International, 2010

Recommendations

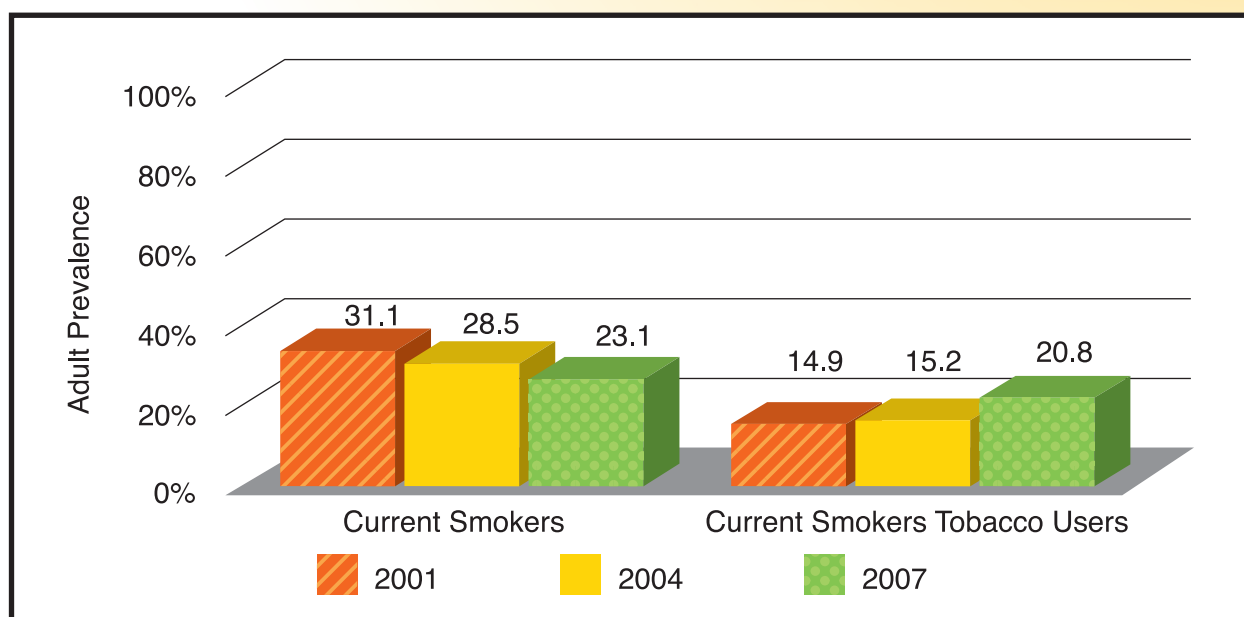
Tobacco companies will find ways to keep cigarette prices cheap and affordable. As the government tightens up tobacco promotions and other control measures, tobacco companies will utilize cigarette pack designs and innovation increasingly to make them more appealing to the young and new smokers. Since the bulk of the market is controlled by only three transnational tobacco companies, who are all aware of the FCTC, the government should be both strong and confident to enforce all obligations under the FCTC to reduce tobacco consumption. Tobacco tax should be used increasingly as a tobacco control measure.

- Tax increase must be substantial, consistent with inflation and followed by proportionate increase in cigarette prices
- Since effects tobacco related diseases are manifest later, health care costs should have increased further compared to what there were estimated in 1998. An update on current total smoking-attributable cost of diseases should be conducted.

MYANMAR

Around 23% of Myanmar's 50 million people are estimated to be smokers with 33% of men and an alarming 15% of women being smokers. While the sentinel prevalence studies of tobacco use conducted in Myanmar show that smoking prevalence is gradually declining, there is also a significant and steadily growing prevalence of smokeless tobacco use, such as chewing of betel quid with tobacco, with most recent estimates at 20.8% (31.8% of men and 12% of women) (Figure 10). Examining the various types of tobacco available and their affordability may explain these prevalence trends.

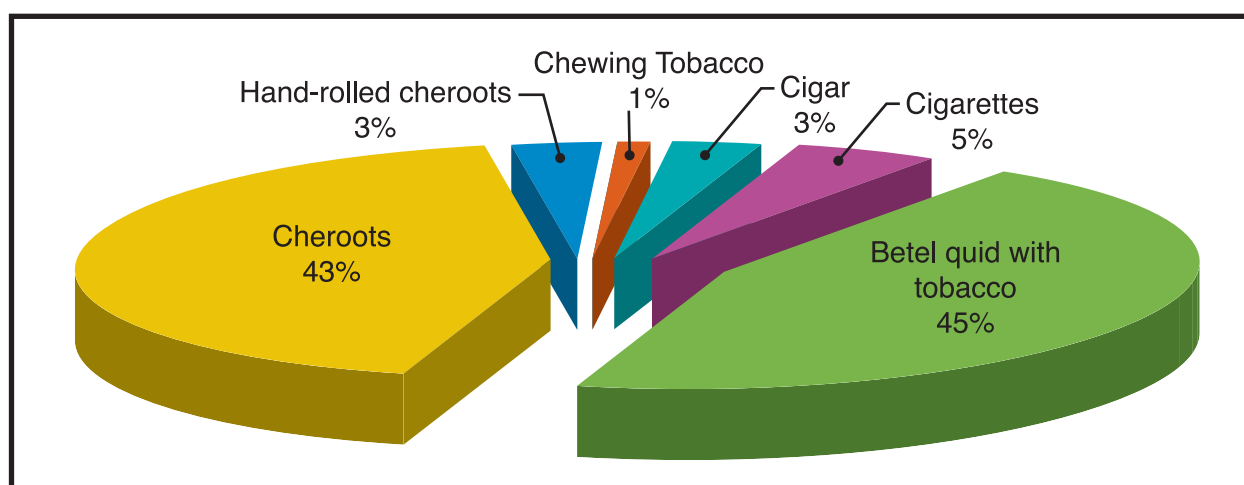
Figure 10: Prevalence of tobacco use among adults (>15 years)



Source: Brief Profile on Tobacco Control in Myanmar, Ministry of Health, 2009.

There is a wide variety of tobacco products available in Myanmar. Betel quid with tobacco is the most popular form of tobacco use (45%) closely followed by cheroots (43%). Other forms include hand-rolled cheroots, chewing tobacco, cigars, and cigarettes, though these take up much smaller portions of the tobacco market. The smoking population is believed to be concentrated in the central plains mainly because of the presence of the local cheroot cottage industries in the area. Popular cigarette brands include London, Vegas, Duya, and Golden Triangle.²⁴

Figure 11: Types of smoked and smokeless tobacco (%), 2001 and 2007



Source: Brief Profile on Tobacco Control in Myanmar, Ministry of Health, 2009.

Prices of tobacco products in Myanmar have become relatively cheaper over the past two decades. Cheroots, which are the most popular form of smoked tobacco, cost around 12.36 kyats in 1991 but dropped to around 7.4 kyats in 2000. This is reflective of the low tax rates applied on cheroots compared to those on locally manufactured cigarettes. Under Myanmar's 1990 Commercial Tax Law, all tobacco products are taxed; however, tax rates vary depending on the type of tobacco (Table 6). While domestic raw tobacco is exempted from all taxes, imported raw tobacco is taxed at 7.5% of landed cost plus 30% of CIF value. Imported cigarettes are taxed at the same rates as imported raw tobacco.

Table 6: Tobacco tax rates for locally produced tobacco in Myanmar, 2010

Locally produced tobacco products	Tax rate as % of retail price	Note
Cigarettes	50%	Prior to June 2010, this was 75%
Cheroots	10%	
Cigars and pipes	20%	
Betel preparations and pipe tobacco	25%	

When differential tax rates are applied to different types of tobacco products, users may shift to cheaper forms. In addition, the recent reduction in tobacco tax for locally produced products increases affordability and encourages tobacco use. Whether it will reverse the overall decline in consumption remains to be seen.

A study conducted in 2003 estimated the health costs of nine tobacco-related diseases in Myanmar. These included lung cancer, head and neck cancer, pulmonary tuberculosis, chronic obstructive airway disease, other respiratory diseases, ischemic heart disease, stroke, and hypertension. Costs for treating pulmonary tuberculosis and ischemic heart disease induced by tobacco smoking were highest followed by stroke and hypertension. The country saw a steady rise in admissions for tobacco-related diseases from 1995 to 1999. In 1995, around 803,505 patients were admitted for tobacco-related diseases while in 1999 this increased to 869,153 patients.²⁵

Cigarette production is believed to be increasing after declining from the year 1985 – 1994. The industry is dominated by local cheroots factories and cottage industries. The country has two state-owned factories that produce cigarettes. The market is also believed to be growing with the government opening up to imports through its laxer import duties.

Recommendations

- Utilize tobacco tax as a tobacco control measure. Apply tax increases across all tobacco products to close the price gap between product types and thus prevent users from shifting from one form of tobacco product to another.
- Undertake regular surveillance of both smoked and smokeless tobacco use, as well as tobacco-related diseases and the economic costs of their treatment.
- Increase public awareness of the harms of both smoked and smokeless forms of tobacco use, including applying large pictorial health warnings on all tobacco product packages in accordance with the FCTC Article 11 guidelines.

PHILIPPINES

Smoking prevalence among adult Filipinos was estimated to be around 17.3 million or 28.3% of the total population in 2009.²⁶ It is also estimated that around 4 million Filipino youths also smoke.²⁷ Health care costs were estimated at USD 2.86 billion to USD 6.05 billion in 2003 with major tobacco related diseases like lung cancer, cerebro-vascular disease, coronary artery disease, and chronic obstructive pulmonary disease identified as the most prevalent amongst smokers (see Table 7).²⁸

Table 7: Summary of economic costs for four smoking-related diseases (in USD), 2003

Method of Estimation	Peto-Lopez	SAMMEC
Lung Cancer	76,074,756	202,306,009
Cerebro-Vascular Disease	1,162,644,477	3,476,758,951
Coronary Artery Disease	1,267,531,634	246,984,579
Chronic Obstructive Pulmonary Disease	550,144,348	728,135,692
Total All 4 Diseases	2,855,168,287	6,045,848,339

The Philippine government follows a four-tier tax system in collecting tobacco taxes, using rates that are quite low compared to some of its neighboring countries that share similar economic development characteristics. Currently, cigarette excise tax burden is 30% based on 2011 cigarette prices, far below the recommended rate by the World Bank at 65% to 80% of the retail price. The most popular local and foreign brands are Fortune and Marlboro, which cost PHP12.77 (USD 0.27) and PHP 29.27 (USD 0.63), respectively. Based on the current tiered price classification system, cigarette excise tax as percentage of gross retail price is 39% for Marlboro and only 19% for Fortune. On the other hand, total tax on cigarettes, which includes excise tax and VAT, as percentage of gross retail price ranges from 24% to 53% based on 2010 cigarette prices. For Marlboro and Fortune, tax on cigarettes as percentage of gross retail price is 50% and 30%, respectively.

The current Tax Reform Code also provides protection for locally-produced brands like Marlboro, Philip Morris, Winston, Champion, Fortune, More, and Hope by classifying them in the lower-priced categories based on their 1996 net retail prices (NRPs). This therefore imposes on them a minimal tax between PHP2.00-PHP12.00 only, despite the fact that their retail prices have risen over the past 14 years. If products were reclassified according to their current retail prices, many of these brands would be placed in the higher-priced categories and subject to higher excise tax rates. Over time, however, as the market drives gross retail prices and the NRPs remain fixed at their 1996 values, the share of the excise tax to gross retail prices will continue to decrease and erode the tax burden.

This has resulted in yet another pressing problem, which is the increased consumption of low-priced cigarettes in the Philippines. The number of packs sold annually for low-priced cigarette brands has been rising significantly for the past few years in comparison to medium to high-priced cigarette brands.

Some current challenges include the merging of Philip Morris Manufacturing Inc. with Fortune Tobacco Corporation in 2010. The two giants currently control around 90% of the tobacco market.²⁹

Recommendations

The government should:

- Simplify the tax system by adopting a single rate for all tobacco products. Remove the many tiers and classifications so that tobacco excise taxes are easier to administer and do not provide an incentive for manufacturers and importers to misclassify.
- Impose a higher rate of excise tax on tobacco in order to reduce consumption of tobacco as well as the corresponding health costs.
- Index tobacco excise taxes to the general level of inflation or the consumer price index for all products.
- Remove the protection for locally produced brands existing in the market since 1996, the overwhelming majority of which belong to Philip Morris Fortune Tobacco Corporation.
- Set regular and frequent increases in order to sustain the reduction in tobacco consumption in the medium and long term.

*Please refer to the Philippines Tobacco Tax Report Card for more detailed information.

SINGAPORE

Singapore has come a long way since it banned tobacco advertising and began restricting smoking in public places in 1970. Over the years, Singapore has gradually expanded its tobacco control policies and programs to reduce both supply and demand for tobacco, including pictorial health warnings, public awareness campaigns, smoking cessation, and incremental increases in tobacco tax.

All tobacco products are imported and subject to excise tax or duty. For tobacco products in stick form (e.g. cigarettes) weighing less than 1 gram, the excise duty is SGD 0.352 per stick and each additional one-gram or part thereof is subject to an additional duty of SGD 0.352. For unmanufactured tobacco and cut tobacco, the excise duty is SGD 300.00 per kg. For beedies, ang hoon, and smokeless tobacco, the excise duty is SGD 181.00 per kg. For all other tobacco products, the excise duty is SGD 352.00 per kg. An additional 7% goods and services tax (GST) -- on the cost, insurance and freight incurred plus tobacco tax -- is imposed on top of the above excise duties.

Table 8: Excise tax on cigarettes, 2010

Excise tax/ stick	Excise tax/ pack	Retail price w/o GST	GST	Retail price with GST	Excise tax incidence	Total tax incidence
SGD 0.352	SGD 7.04	SGD 10.56	0.7392	SGD 11.30	67%	69%

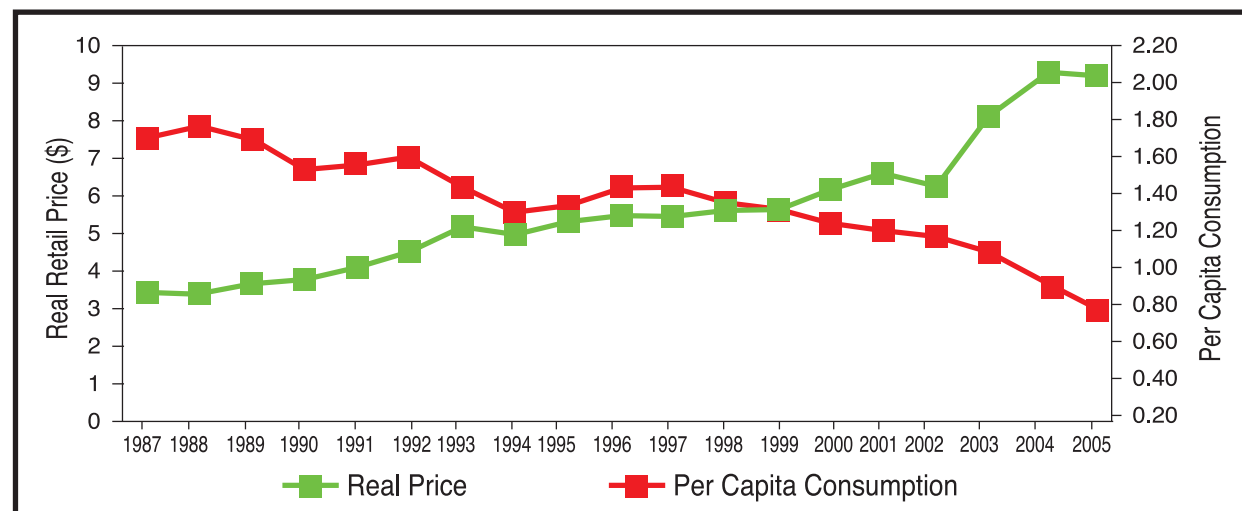
Up to March 2003, excise duty on cigarettes was by weight per kilogram of tobacco. From July 2003, excise duty on cigarettes was revised to a unit-based (per stick) system (Table 9). This change to a unit-based system was in response to the emergence in 2000 of low-priced cigarettes that had less tobacco content and less weight per cigarette and which, due to their price, were attracting young people to smoke and encouraging smokers to smoke more, as evidenced in a shift in consumer behavior pattern (sales of low-priced cigarettes increased from 6% in 2000 to 25% in 2003).

Table 9: Excise taxes on cigarettes, 1972-2008

Year	Excise Duty of Cigarettes (SGD)	Retail Price 20 sticks (SGD)
1972	N/A	N/A
1983	14 per kg	N/A
1987	34 per kg	2.80
1990	42 per kg	3.30
1991	50 per kg	3.70
1993	60 per kg	4.90
1995-98	115 per kg	5.50
1998-99	130 per kg	5.80
2000	150 per kg	6.40
2001	180 per kg	6.90
2002	210 per kg	6.50
Mar 2003	255 per kg	7.70
July 2003	0.255 per stick of <1g	8.50
2004	0.293 per stick of <1g	9.50
2005-2008	0.352 per stick of <1g	11.00

Over-all, with its general tobacco control strategy, Singapore has done a good job at reducing daily smoking prevalence among adults aged 18 years and older: from 18.3% in 1992 to 15.2% in 1998 to 12.6% in 2004. This reduction correlates well with the 300% increase in cigarette prices, averaging a 4% increase in price each year, and resulting in a 57% decrease in per capita cigarette consumption from 1987 to 2005 (Figure 12).³⁰

Figure 12: Real retail price vs. per capita cigarette consumption, 1987-2005



Adult smoking prevalence has increased, however, from 12.6% in 2004 to 13.6% in 2007 (23.7% among men and 3.7% among women), with the highest prevalence (17.2%) among 18-29 year olds.³¹ This higher prevalence rate, consistent with the increase in per capita consumption from 2006 to 2009 (Figure 2) and very similar to the prevalence rate in 2001, may be attributed in part to the stagnation of tobacco excise taxes (no increase since 2005) in a setting of continuing economic growth and purchasing power. Thus, even with relatively high prices, cigarettes have become more affordable over recent years. If Singapore is therefore to effectively address its leading causes of death, it needs to curb tobacco consumption even more.

Tobacco companies warn governments not to increase tobacco tax claiming it would result in increased smuggling; however, Singapore has been able to successfully curb cigarette smuggling and keep its incidence low. In 2007 and 2008, around 4.4% of cigarettes were smuggled, but this was significantly reduced in 2009 to around 2.37%.³² This can be attributed to Singapore's integrated and multi-pronged-government tobacco control strategy that includes not only demand reduction measures, but also supply reduction measures such as strengthening customs enforcement, which subsequently saw an increased number of arrests and seizures for cigarette smuggling.³³

Recommendations

Singapore should raise tobacco taxes even further in order to discourage smoking especially among young people, as real prices have likely dropped in recent years in relation to nominal prices.

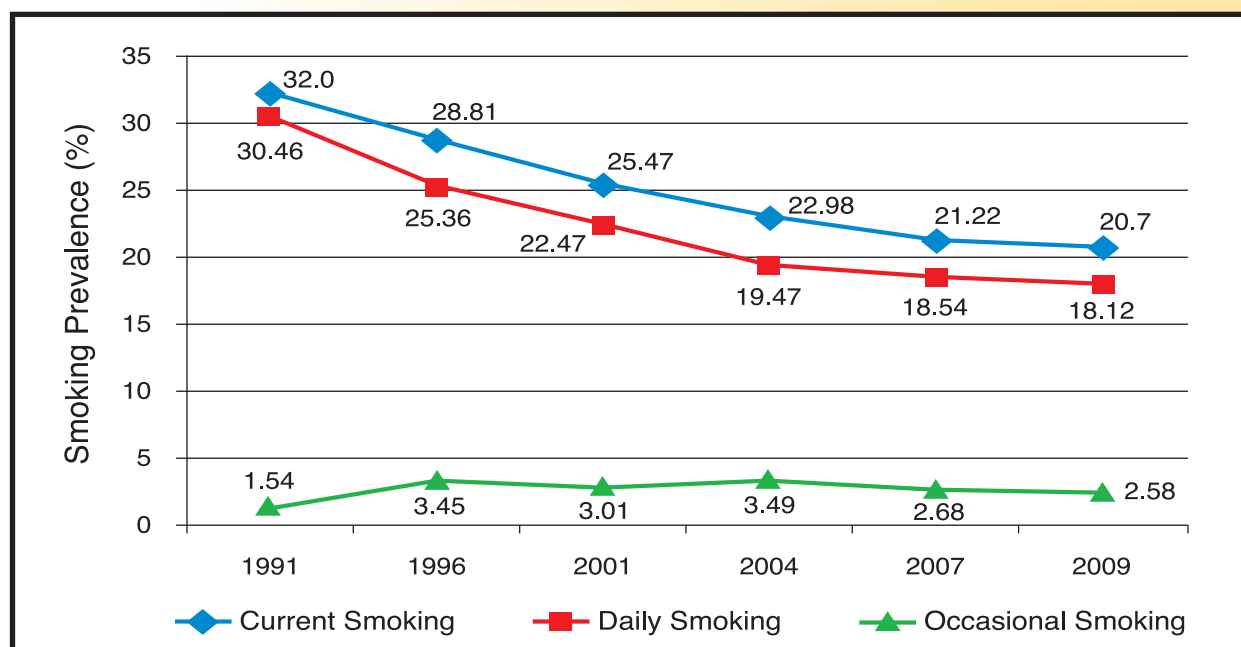
Singapore should consider documenting its successes in combating cigarette smuggling and share these with neighboring ASEAN countries, as well as with the FCTC Conference of the Parties in relation to the ongoing negotiations for a protocol on illicit trade in tobacco products.

Recently, amendments to existing legislation were approved in Parliament to further strengthen Singapore's tobacco control efforts in compliance with the FCTC. These include a ban on misleading descriptors such as "mild" and "light" as required under FCTC Article 11 and will come into effect by March 2013.

THAILAND

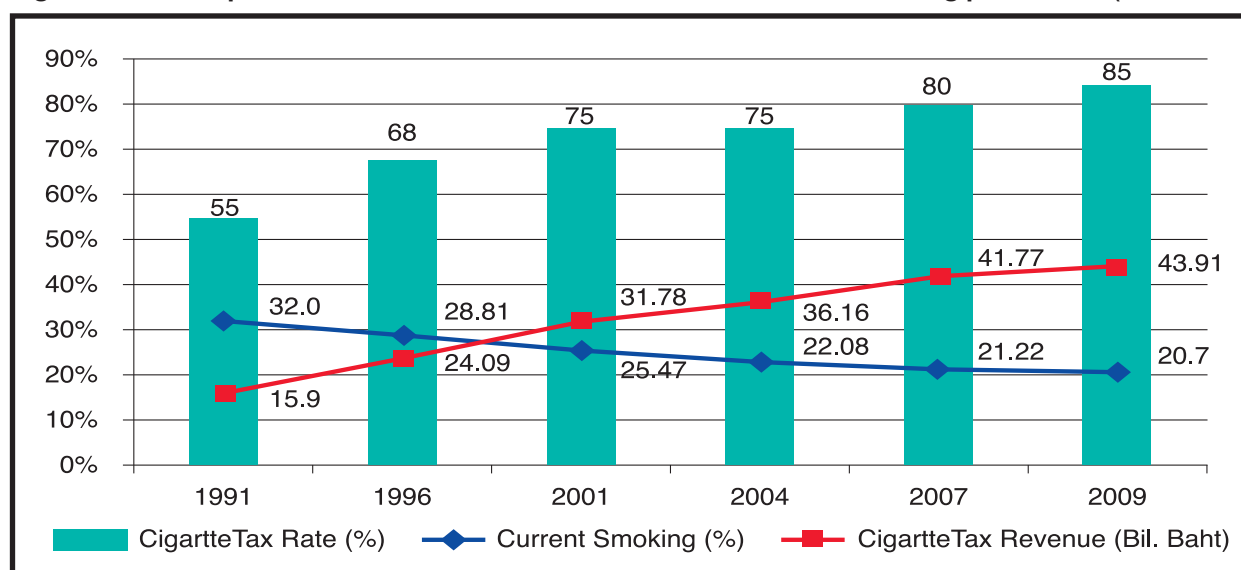
In 2009, smoking prevalence among adults in Thailand was at 20.7% or around 10.9 million people. Like other countries, prevalence rates in the country are much higher amongst males than females. However, a unique characteristic for Thailand is the declining smoking prevalence rates (Figure 13) in current smokers, daily smokers, as well as occasional smokers.³⁴

Figure 13: Smoking prevalence in Thailand



Health costs derived from tobacco-related illnesses revealed that lung cancer, coronary heart diseases, and chronic obstructive pulmonary diseases were major contributors to Thailand's healthcare costs in 2006. This resulted in an estimated total cost of around USD 220 million to treat these three diseases alone.³⁵ The Thai government has been able to tackle smoking prevalence in the country through a range of tobacco control measures, including effective tax increases. The cigarette excise tax rate has been raised nine times since 1992 from 55% to 85% of the ex-factory price in 2009, making it the highest in the region currently. Tobacco tax revenue has also increased (from THB 15,438 million in 1992 to THB 43,936 million in 2009), while the quantity of cigarette production and current adult smoking prevalence have continuously decreased.

Figure 14: The impact of tax increases on tobacco tax revenue and smoking prevalence (1991-2009)



The major portion of the industry belongs to the Thailand Tobacco Monopoly along with 14 private companies with all domestic production of cigarettes monopolized by law. Premium brands dominate the market followed by standard to low-priced brands,³⁶ however, with the recent increase in the tax rate, low-priced brands are expected to increase in sales.

Recommendations

- Include native tobacco varieties in the tobacco tax system and treat them as other types of tobacco.
- The gaps in cigarette tax rate across all tobacco products should be reduced to have a unitary tax rate for all kinds of tobacco products.
- Regularly increase tobacco tax rates so that the real retail sale prices of tobacco continuously increase higher than the inflation rate.
- Harmonize the Thai tobacco tax system with the regional tax system (both tax policy and tax administration) by 2015 to support the ASEAN Economic Community (AEC) and coordinate the enforcement scheme in illicit trade among ASEAN member countries.

VIETNAM

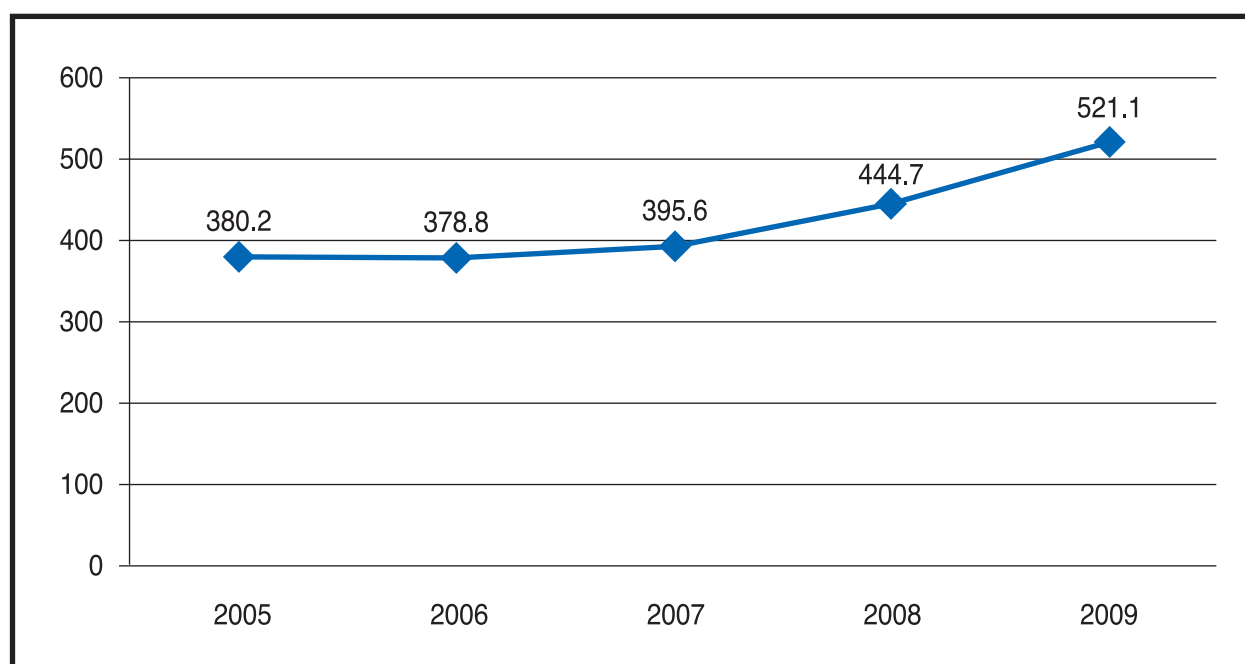
Smoking prevalence among males in Vietnam is quite high with around 47.4% adult males believed to be smokers, while only around 1.4% adult females are estimated to be smokers. Around 15.3 million people out of the total population of 85 million are smokers in Vietnam.³⁷

The Ministry of Health, in their health survey in 2007 discovered that Vietnam faces a high burden of non-communicable diseases, accounting for the largest share of annual mortality, 62.4% of hospital reported cases, and morbidity, 61.6% of hospital reported cases. This has also led to a higher number of non-communicable diseases in Vietnam accounting for the largest share of annual morbidity. It was estimated in 2008 that there were around 40,000 tobacco-use related deaths in Vietnam, and this figure is set to rise to well above 50,000 annually by 2023.³⁸ The total health costs for three diseases caused by smoking in Vietnam in 2007 alone reached USD 143.7 million.³⁹

The tobacco tax system has undergone a number of changes over the years. However, since tobacco tax has not been significantly increased over the past 10 years, tobacco products have become more affordable in Vietnam over time. Between 1998 and 2009, inflation-adjusted prices of tobacco products declined by approximately 20%, but at the same time the real per capita income has increased more than double thanks to the fast pace of economic growth.

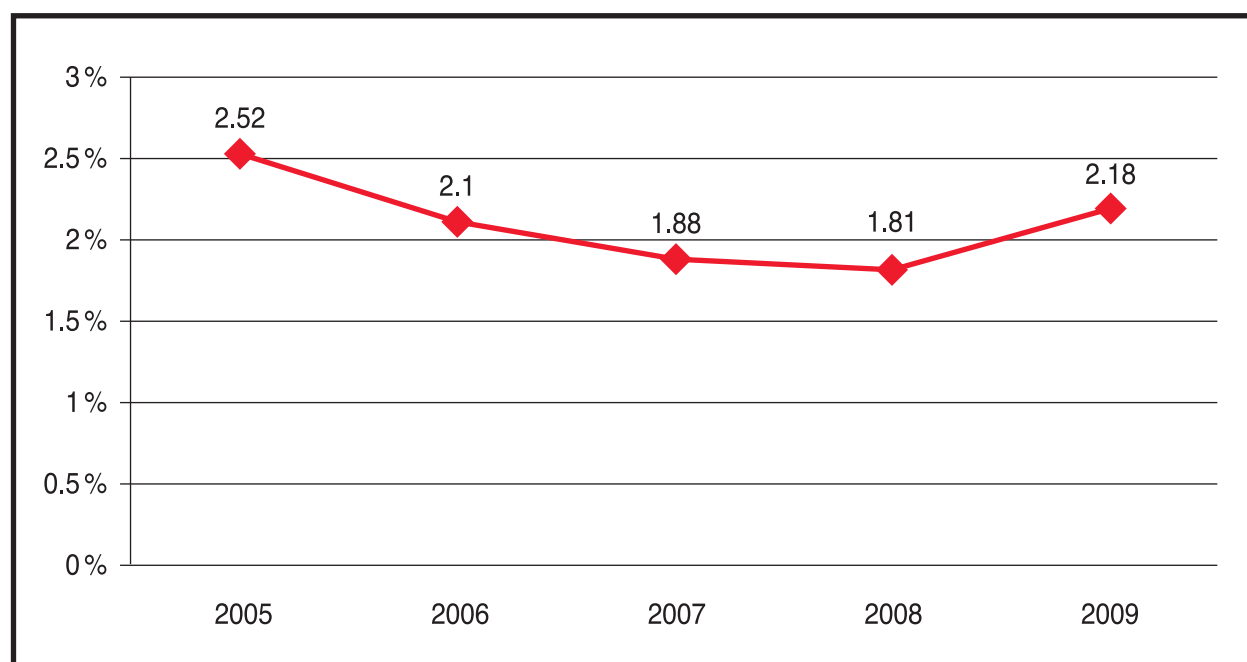
Currently, tobacco tax contributes around 2% to the country's annual government revenue. Given the slow increase in tobacco tax rates, it can be seen that even though the government has witnessed an increase in tobacco tax revenue (Figure 15), the percentage share from tobacco tax revenue has dipped a bit in the past few years with a slight increase in 2009 (Figure 16).

Figure 15: Government revenue from tobacco tax for the past 5 years (in million USD)



Source: Ministry of Finance, Vietnam (2010).

Figure 16: Percentage share of total government revenue from tobacco tax



Source: Ministry of Finance, Vietnam (2010).

The market consists of a plethora of brands but there are few that dominate the industry. These include Vinataba, White Horse, Craven A, Tourism, and 555 State Express. Of these five brands, Vinataba brand had the highest market share in 2005 taking hold of 6.8% of the industry's market share. White Horse had a 5.9% market share and 555 State Express had a 4.8% market share.⁴⁰

Cigarette smuggling is a major concern in Vietnam. The most popular brands of smuggled cigarettes are 555, Jet, Hero, White Horse, Marlboro, and Dunhill. The modes and routes of smuggling are varied, but the most popular route is via shared geographical borders with Lao PDR and Cambodia. Sale of smuggled cigarettes is widespread in the market.

The real price of cigarettes in Vietnam is low and has been decreasing in recent years, while at the same time, per capita income has risen significantly. Therefore, cigarettes have become more and more affordable in the country, which is reflected in the increasing volumes of production and sales of cigarettes in Vietnam in the past 10 years (almost 7% increase per year).

While higher taxes could translate into higher prices, the current tobacco tax as a percentage of retail sales is low (45%) compared to the World Bank's recommended level of 65% to 80%.

Recommendations

The Vietnamese government should increase tobacco tax at a rate higher than the combination of inflation and income growth so that tobacco demand will be curbed over time, thus fulfilling the country's health objective and obligation under the WHO FCTC, as well as implementing the Prime Minister's decision on implementation of the WHO FCTC. It is estimated that if Vietnam increased tobacco tax by 20% a year, the price would increase by about 10%. This will result in a decrease in consumption of about 5%, but at the same time increase government revenue by about VND 1,900 billion (USD 100 million) each year,⁴⁰ providing a significant funding source for tobacco control and health promotion, as well as other social services.

*Please refer to the Vietnam Tobacco Tax Report Card for more detailed information.

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The Southeast Asia Initiative on Tobacco Tax (SITT) is SEATCA's project to institute effective tax increases and to allow for sustainable funding mechanisms for tobacco control in Indonesia, Cambodia, Lao PDR, Philippines and Vietnam, in line with Article 6 of the WHO Framework Convention on Tobacco Control.

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