

Tobacco Tax Raise and Smuggling

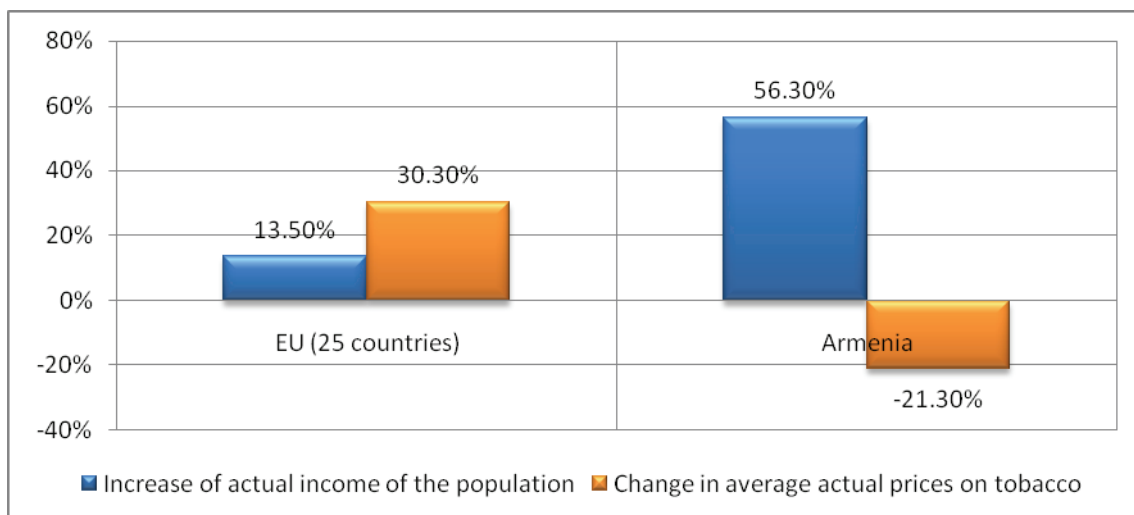
The imperative of tobacco tax raise

The experience of any country (regardless of its income level) shows that the most effective means to make smokers quit this fatal habit and prevent the process of enlarging the army of smokers with new recruits, is raising prices on tobacco through the increase of excise tax. Gradual price raise through tax increase has for long become one of the most important directions of long-term state policies of countries having a leading role in anti-tobacco campaigns.

In 2000-2004 in 25 countries of the European Union the real prices on tobacco increased by 30%, while the increase of the real income of the population comprised only 13.5%. This means that in comparison with the income increase, tobacco products have been rapidly going up in price which quite befits the logic of effective policy on public health.

The picture is quite different in Armenia. Only in 2000-2004 the average real price for tobacco decreased in more than 21%, whereas in the meantime the real income of the population has increased by 56%. This tendency is quite the opposite of the European one. In the European Union tobacco products get less and less available for the population, especially for its vulnerable groups, whereas in Armenia it is just the opposite: the deadly product becomes more and more easily available for all, including the poor, the young and the children.

The change in average real prices on tobacco and the real income of the population within five years, the average for EU countries and Armenia, 2000-2004



Source: For EU data see Eurostat at epp.eurostat.ec.eu.int, For Armenia see RA National Statistical Service "Statistical Yearbook of Armenia" 2004, 2005

Estimates¹ based on theories and the experience of other countries prove that raising the tax rate of AMD 5000 per each pack of 1000 cigarettes to at least AMD 10000 (doubling the tax rate) is

¹ Why to increase tobacco taxes in Armenia and for how much? International Center for Human Development. <http://www.ichd.org/files/pdf/TobTax2.pdf>

the least measure necessary to undertake in order to increase the state budget revenues and step into developing a more effective public health policy.

About the counterargument on increase in smuggling

Policy makers are pragmatic worldwide: Armenia is no exception. Officials responsible for taxation policy making on various levels basically welcome expert discussions. As a rule, their feedback regarding the concept of fighting against the bad habit of smoking through tax increase reveals understanding: they accept all the findings according to which tax increase, which will result in reduction of tobacco industry, will also provide for the increase of state budget revenues. However, any similar discussion ends up with an “irrevocable” statement: smuggling will increase...

Yes, tobacco is a delicious morsel for the smuggling business. Shadow circulation of tobacco exists everywhere, including Armenia. According to expert findings currently the share of tobacco smuggling in Armenia comprises 15%² of the consumption of tobacco products. It is a fact that tax increase may result on enlarging the scope of tobacco sales which is not taxed. However, let's try to understand what this “may” really means.

First, it is worth mentioning that a number of researches regarding the relations between tobacco taxation and smuggling³, which are based on empirical data from different countries, come to the same conclusion (taking into account both the reduction of consumption and increase in smuggling): *in any case tax increase will inevitably result in increasing state budget revenues as well.*

At the same time it should be emphasized that the RA Program on Midterm State Expenditures for 2004-2008 states that the imperative of eliminating smuggling and identifying additional budget sources is a state policy priority for the coming years. This implies diligent routine work, which aims at providing for the effectiveness of state policies implemented in various sectors facilitated through taxation policy. It is important not to confuse the cause-and-effect logical framework though: taxation policy cannot be developed drawn from the strategy of fighting against smuggling, just the contrary. The state implements its policies in one or another sector facilitated through taxation policy.

The above-mentioned proves that tobacco tax increase should be considered a state strategy for the public health sector. This is an extremely significant approach, which will not only allow saving thousands of lives, but in terms of adopted approaches will also position our country alongside the ones enjoying the reputation of being civilized given their state policies which target the human and human life.

This paper is elaborated based on the opinions passed by the participants of the discussion “Tobacco Smuggling in Armenia”. It was organized by ICHD on March 23, 2007. The round table was attended by businesspeople, independent analysts and government officials.

The round table was organized by the support of Open Society Institute Assistance Foundation - Armenia

² Amirjanyan P., Tobacco Smuggling in Armenia, 2006. <http://www.policy.hu/amirjanyan/paper.htm>

³ E.g. Merriman D., Yurekli A. and Chaloupka F.J. How big is the worldwide cigarette smuggling problem? www1.worldbank.org/tobacco/tcdc/365TO392.PDF