

**The final report of the South-South and Triangular Cooperation Workshop for Technical Assistance on Enhanced Tobacco Taxation**  
(Study Visit to the Philippines)

The workshop took place in Manila, the Philippines, on October 19-21, 2016.  
Participating countries: representatives of the Philippines, Mongolia and Malaysia.

**Background**

- South-South and Triangular Cooperation project began with a meeting in Montevideo, Uruguay, 29 September – 1 October, 2015 with the support of the WHO FCTC Secretariat and the UNDP. It was a gathering of Parties, organizations active in South-South and triangular cooperation, development partners, knowledge hubs, nongovernmental organizations, national and international tobacco control experts.
- The Uruguay meeting allowed sharing of experiences on implementation of FCTC as well as development of proposals and plan for future activities of the South-South and Triangular Cooperation.
- Philippines was selected as technical assistance provider on these FCTC articles:
  - o Enhanced Tobacco Taxation (Art. 6)
  - o Tobacco Industry Interference (Art. 5.3)
  - o Alternative Livelihood (Art. 17 and 18)

The objectives of the 2016 Manila workshop:

- To learn how to undertake tax reforms through estimation and use of effective strategies with multi-sectoral action;
- To learn how strategies are actually implemented in the Philippines focusing on the role of the government and non-governmental organizations;
- To know the challenges in sin tax legislation and current regulations to implement the law;
- To apply learnings and plan for a revised taxation system in Malaysia and Mongolia

**Day 1**

The first day of the workshop was dedicated to the presentation of the Philippines's experience. It was pointed out that the experiences of Thailand and Singapore were instrumental in helping the Philippines with tobacco tax reform. Now the Philippines can be a catalyst for tax reforms in the South East Asia region.

The main motivations for the tax reform initiative in the Philippines were:

- The country had the 3<sup>rd</sup> largest smoking prevalence in ASEAN
- Tobacco taxes were some of the lowest in the world



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- Cigarettes were highly affordable
- Alcohol consumption was increasing
- WTO deadline for alcohol tax reform
- The country was committed to universal health coverage and this required additional resources

The main success factors in the Philippines:

- Strong political will
- Articulating clear objectives (the reform was proposed primarily to improve health, and the revenue was only a secondary objective)
- Building a strong network of allies

The tax reform in the Philippines was linked to health care and the health insurance sector (85% of the incremental tax revenue was assigned to this sector) as well as to the agricultural sector (15% of the incremental tax revenue was assigned to this sector to help tobacco farmers to diversify away from tobacco). In the health care sector, 80% of the allocated money goes to health insurance and the remaining 20% goes to health care facilities.

Malaysia used to have a strong tobacco farmer lobby, but many farmers already switched to alternative products so it is no longer an issue in Malaysia. Mongolia imports all its tobacco leaves.

The tax earmarking in the Philippines is a soft earmarking, which means that the resources set aside for the health and agricultural sectors still need to go through a budgetary process.

In the Philippines, the tobacco tax increase was combined with an alcohol tax increase due to the WTO deadline for alcohol tax reform. Strategically, combining tobacco tax with another tax can be tricky due to multiple opposing parties, but it depends on the individual country's situation. For example, Mongolia believes that the only way to increase its tobacco tax is to combine it with an alcohol tax increase.

Key lessons learned from the Philippines when proposing the tax reform:

- Keep it simple
- Address inflation and income growth
- Use research evidence, show where you are and where you want to be by a certain time (e.g., set a prevalence reduction goal).
- Keep in mind that evidence is a necessary, but not a sufficient condition for success.
- Link your proposal to Millennium Development Goals (in the Philippines, they linked smoking to NCDs, showed impact on the poor, demonstrated structural weaknesses)
- Present different scenarios and show the impact on health, costs of smoking, revenue;
- Anticipate the moves of the opposition (understand the supply side of the market)
- Address the issue of illicit trade;
- Track outcomes – have an M&E plan.



The FCTC Article 6 guidelines can provide guidance in this respect.

Countries should not be afraid of a large tax increase -- the 1<sup>st</sup> year tax increase for the cheap brands in the Philippines was 341%. In 2012, excise tax in the Philippines represented 29.1% of the retail price; in 2017, the excise tax will represent 63% of the retail price.

Before the tax reform, one cigarette cost about 1 peso. In 2016, one cigarette costs 3 pesos. Based on a survey, the reservation price (price at which people would consider quitting) is about 10 pesos.

Another positive impact of the Philippines tax reform was a higher credit rating, which means that debt management got easier - the cost of borrowing was reduced, and there was more government income.

As part of the tax reform, excise tax was imposed on duty free shops. It seems politically easier to do so since this tax will primarily affect visitors who do not represent electoral votes. The situation may be different in Mongolia, where many members of Parliament own duty free stores. A previous attempt to tax goods in duty free shops in Mongolia failed. However, Malaysia may be a good candidate for this policy.

The Philippines require cigarette exporters to deposit bonds worth the value of excise taxes when they export their products. They get this money back if they submit proof that the cigarettes were exported. This is something that Malaysia should consider, given its issue with the illicit cigarette market. Mongolia does not export a lot of cigarettes; it mostly imports cigarettes.

The tax reform in the Philippines was accompanied by the introduction of fiscal markings on packs in order to address the issue of illicit trade.

The Philippines representatives stressed the importance of strategic communication -- it is important that the issues can be understood by lay people. Focusing on access to health care and benefits for the poor can generate a broad base support for the proposed policy.

It is important to build coalitions and to be strategic. It is important to gather the data, and present the evidence in a way that policy makers and the public can relate to. The cost of smoking was an important argument in the debate in the Philippines. Both Malaysia and Mongolia are interested of having a similar study done in their countries.

It is also important to evaluate the results of the reform and to disseminate them widely. For example, it was important to let the public and the policy makers know that revenue increased by \$3.9 billion in the first 3 years of the reform, and that 80% of the increase was due to the higher tobacco tax.

The monitoring and evaluation (M&E) framework for a Sin Tax needs to be set up before the tax increase/change. M&E annual reports provide an overview of public health achievements, tax gains, and the utilization of the earmarked tax.



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Tobacco use prevalence of adults declined, alcohol drinking also declined. The results for the youth smoking prevalence are less clear – some surveys show an increase, some a decrease in youth smoking prevalence. Prevalence among the poor initially declined (from 2012 to 2014), but it has been stable since then. Some smokers also switched to buying single cigarettes (instead of a pack), and some of them changed brands.

The plan for spending the earmarked tax was based on the projected revenue. Since the actual revenue exceeded the projection, the balance was carried over to the next budget year.

In the Philippines, different levels of government receive different shares of the tax revenue. The formula for revenue allocation is based on the production of Virginia and burley/native tobacco. Promote economic alternative for tobacco farmers (farming of alternative crop). A part of the new tax revenue has been allocated to local governments.

## Day 2

Mongolia and Malaysia worked on a taxation reform proposal during the second day of the workshop.

### Malaysia presentation

Dr. Netty Darwina Dawan presented on behalf of Malaysia. She provided information about the health care system in Malaysia (both public and private health care system are present), on the organization of the Ministry of Health, the State Health Department and the flow of resources between the federal and state budgets.

Further, she showed Malaysia health statistics (such as mortality rates, HIV rate) and discussed the Malaysia progress towards MDG 6 (in terms of malaria and TB deaths). The smoking prevalence in Malaysia is still relatively high. It amounted to 45.1% male, 1.4% female in 2015; 14.8% of youth smoked in 2016 (according to a GYTS style survey, which represent an increase compared to the last measurement).

Unfortunately, the Malaysian delegation had no representative from MoF due to upcoming budgetary speech/presentation in Malaysia.

Excise tax structure was reported according to three types of brands sold in Malaysia: low-price cigarettes; value for money; and premium brands. Malaysia has a minimum price law and the minimum price differs across these 3 types of brands.

Even though the overall tobacco tax revenue is increasing, the revenue has been a bit stagnant recently.

The MoH has to approve tobacco industry price increases (they can no longer increase price without a corresponding tax increase).

Tobacco industry: There are 6 local producers, the largest is BAT. The biggest importer is Philip Morris.

Illicit trade – only industry data presented (local industry + Euromonitor)

Plan of action:



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1. To do a cigarette demand study to calculate the price elasticity of cigarette use, to estimate the impact of tax policy on illegal market and to develop a SimSmoke model. This has been completed by the Universiti Putra Malaysia, Dr. Norashidah.
2. To conduct a study visit to learn about the advocacy and policy implementation.
3. Develop a plan for policy change

Malaysia also wants to move away from minimum cigarette price.

Malaysia has recently introduced tax stamps even for the domestic brands; originally, these stamps were only for imported cigarettes.

#### Mongolia presentation

Tulga Solongo from the MoF presented on behalf of Mongolia.

Current smoking prevalence is 27.1% (49.1% male, 5.3% female; 22% youth)

Exposure to SHS – 40.9% at home, 25.5% workplace.

The annual cigarette sales are 3 billion pieces, or 150 million packs.

Tax was doubled in 2012. Tobacco tax revenue was highest in 2014, right before the tax rate was changed from USD to local currency in 2015. In 2015 the revenue dropped significantly.

The current tax structure – specific uniform tax rate of USD 1.5 for 100 pieces, for both imported and domestic cigarettes; pipe and raw tobacco rate is USD 1.1/kg.

Current cigarette prices: \$2-3 for a pack of imported cigarettes (tax represent about 10-15% of retail price); \$0.8 – \$1 for a pack of domestic cigarettes (tax represent about 30% of retail price). The most popular brand is Esse (slims from North Korea).

It costs \$1.3 per pack and the tax represents about 23% of retail price). Cigarettes are perceived as not expensive – one pack of Esse is costs the same as 1 kg of beef.

All tobacco leaves are imported.

Since Mongolia is commodity dependent country, it is currently in an economic crisis and has a budget shortfall. This year, there was a proposal to increase tobacco and alcohol tax by 20% (the budget cycle in September to August), which would have generated additional 30 mil USD in tax revenue. The proposal was rejected and additional revenue was obtained by higher personal income tax, tax on luxury goods and royalty on gold.

Mongolia has a tobacco control law that prohibits smoking in public places, prohibits selling cigarettes to anybody under 21 years old. Cigarettes cannot be sold near schools, dormitories, kindergartens, and hospitals. There is pictorial health warning that covers 50% of the pack size.

Mongolia has a health promotion foundation, which is funded by 2% of total tobacco excise tax, 1% of alcohol excise, 2% of medicine duty. The annual contribution to the Foundation is about \$1.5 – 2 mil. This amount was allocated to the Foundation until 2014, and it stopped in 2015 due to budgetary crisis.

Workshop 1



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Countries worked independently to answer these questions:

What are objectives of tax reform?

What is the main message (health, finance perspective)?

Who is your champion(s)?

Who are the stakeholders (allies/opponents)?

When do you see it happen? What is your timeline?

What are the foreseen strength and challenges?

## Workshop 2

The representatives of Philippines presented tax simulation models for Malaysia and Mongolia. These were based on a complex model, which required a lot of assumptions. During the discussion, UCT pointed out that WHO has already built a tax simulation model for Mongolia that can be used for the planning purposes. Malaysia has a simulation model that has been presented to the government (SimSmoke model).

Mongolia tax plan (as presented by the representative of the MoF of Mongolia)

1<sup>st</sup> option: 200% tax increase, tax will represent 45% of retail price

This will generate USD 290 million (more kindergartens, new schools, new hospitals, advanced medical equipment. This can substantially help with the budget deficit.

Tobacco consumption will decline by 10-20%; alcohol decline by 5-10%.

2<sup>nd</sup> option – 100% tax increase, tax = 36.5% of retail price; USD 150 million additional revenue

Parliament is the main institution to target with the tax proposal. It has 76 members (among them 11 female members – they will be target for building alliance). There is a champion – a women who is currently the President of Social Committee of the Parliament and the current TC team knows her. Other allies – MoF, MoH, Public Health Institute, NGOs.

Opposition – domestic industry, cigarette importers, MPs with tobacco business interest.

Preparation – collect data, prepare evidence, meet with MPs, use media to explain tobacco harm, focus on youth. Timeline: Sept 2017 – introduce tax increase to the Parliament as a part of the budget law. If it passes, it can be enacted by Nov 2017, or even sooner.

Strength – commodity prices are still low, cutting of expenditures needed. New party promised no new tax, so the tobacco tax increase need to be rephrased as a sin tax (in contrast to an income tax).

Comments from the audience:

Mongolia has been chosen as WHO NCD priority country, the tax increase proposal should take that into consideration.

Show the tax increase not only as % increase, but as an absolute amount increase – it will look more palatable for the lay audience.

Educate your finance minister so that he talks as a public health person.

Could credit rating can be improved if tax is increased? Would it help with debt management?



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Consider a case study to document costs of smoking – treatment abroad is needed for severe cases due to lack of medical care capacity.

Malaysia tax plan (as presented by the representative of academia – Dr. Norashidah)

The main objective is to increase the government revenue (tobacco excise tax currently represent 1.14% of GDP; 5.5% of total tax revenue).

The secondary objective is to improve the health status of the population. MoH has target prevalence rate of 15% by 2025, and 5% by 2045.

The proposal is to raising tax gradually and consistently while taking into account inflation and income growth (this is about 10% annually).

Use example of Australia to show what is possible with tax increase in terms of achieving health and revenue objectives. Australia follows a plan of certain % increase above the adjustment factor (the level of inflation + income growth, which currently is 10%).

Optimal tax calculated – to get the most revenue.

Tax can be increased to up to 61% of retail price and government will still gain more revenue.

It will be important to demonstrate the impact on youth and the poor and address illicit trade.

Champions: MoH – MySihat (health promotion funds) and FCTC Secretariat; MoF – Royal Malaysia Customs; NGOs; Academia;

Opponents – tobacco industry, some NGO with pro-tobacco interests.

Malaysia has a TC Steering Committee since 2015. It consists of 11 ministers and 1 NGO. They championed one TC measure per year. The last topic was second hand smoking. This Committee should be convinced to select higher excise tax as its topic for the next year.

Academia is already involved and is supported by MoH. MoF need to be convince that the research is solid.

Strength – have data, evidence, MoH has targets for 2025 and 2014; there is national strategy of TC 2015-2020; commitment to WHO FCTC.

Challenges – lack of support from policy makers; the economic is weak and there are elections next year (i.e. policy makers are careful with tax increases); tobacco industry interference.

Comments from the audience:

Alcohol consumption is not a problem.

Considering Illicit Trade Protocol, tracking & tracing measures? The government working on illicit trade measure.

Tobacco farmers are no longer an issue since 2014. Most tobacco farmers switched to producing kenaf (a plant used for fibre).

### Day 3

The third day of the workshop was devoted to a presentation by Dudley Tarlton from UNDP followed by a synthesis/next steps presented by UCT Knowledge Hub.



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UNDP presentation laid out the case for investing in NCDs using the return on investment approach. UNDP works closely with WHO on modeling the impact of NCDs on the economy and the gains obtained by population level interventions with focus on prevention.

#### UCT synthesis

- Tax structure: both countries have a uniform specific tax.
- Neither country has an inflation and/or income growth adjustment factor.
- Both economies are commodity dependent – have budget shortfalls.
- Mongolia's tax is lower than Malaysia's (both in relative and absolute terms).
- Mongolia has a slightly higher smoking prevalence.
- Both countries have a huge difference between the male and female smoking prevalence.
- No issue with tobacco farmers.
- Different structure of the industry: Mongolia relies more on imports; Malaysia has strong domestic tobacco industry.
- Malaysia exports cigarettes (and has illicit trade problem); Mongolia does not export cigarettes (the size of illicit market unknown, but considered small)
- Malaysia has 3 primary brand types (low price, value for money, premium); Mongolia has 2 primary brand types (domestic and imported).
- Both countries have had a positive revenue experience with higher tobacco taxes in the recent past.
- Tax revenue has been stagnating recently.
- Both countries have money set aside for TC in the form of soft earmarking: the Health Promotion Foundation in Mongolia; and MySihat (Health Promotion Funds) in Malaysia.

#### **Next steps (presented by UCT)**

##### Mongolia

Mongolia can use its current budget crisis to push for higher tax. Budget amendment expected in 2017 and this will be an opportunity to increase tax.

It will be important to get good data and generate evidence to support a tax increase. Mongolia wants to use media to explain the importance of higher taxes. Some of the newly generated revenue can be used to improve treatment of tobacco dependence. The plan is to keep the specific tax and focus on youth smoking prevalence.

The political party that has a majority of seats in the Parliament promised no new taxes. They are concerned about budget deficit and building kindergartens. The plan is to propose different tax increase scenarios – one optimistic (relatively large tax increase), one realistic (something that policy makers will feel comfortable with). The proposal will need to include both alcohol and tobacco tax increase. Cigarette importers seem to have relatively more lobbying power compared to domestic cigarette producers. Since the tax is specific, its increase will reduce the relative price gap between the domestic and imported brands. This means that the importers may not strongly oppose a tax increase. Mongolia cannot address the issue of Duty Free



shops (which are located not only at the airport, but also at railway station and in diplomatic quarters), because many members of the Parliament own these shops.

To do:

- Estimate price elasticity of tobacco/alcohol demand
- Estimate the costs of smoking + case study to document burden on family budget
- Build coalition between MoF, MoH, Customs, and NGOs
- Public polling to determine support for higher tobacco and alcohol tax
- Adjust the specific tax for inflation rate (about 2%) and income growth (about 3% a year).

### Malaysia

Malaysia can use its current budget crisis to push for higher tax. Budget is usually discussed in October each year. Therefore, the next chance to propose a plan for a tax increase will be in September 2017.

Malaysia already has good data and generated research evidence to support a tax increase. They could consider calculating the costs of smoking. They need to prepare a strategy how to deal with industry interference and how to address the issue of illicit cigarette trade (e.g. propose excise tax on Duty Free cigarettes; require exporters to deposit a bond to secure actual departure of goods from the country, consider ratifying Illicit Trade Protocol, etc.)

To do:

- Estimate the costs of smoking
- Propose excise tax on Duty Free stores
- Propose bonds for cigarette exporters
- Adjust the specific tax for inflation rate (about 2%) and income growth (about 3% a year).
- Remove the minimum price
- Evaluate the impact of the November 2016 tax stamp requirement for all cigarettes (including domestic) and higher penalties on tax revenue

### **Appendixes**

Workshop agenda

UCT synthesis/next steps presentation

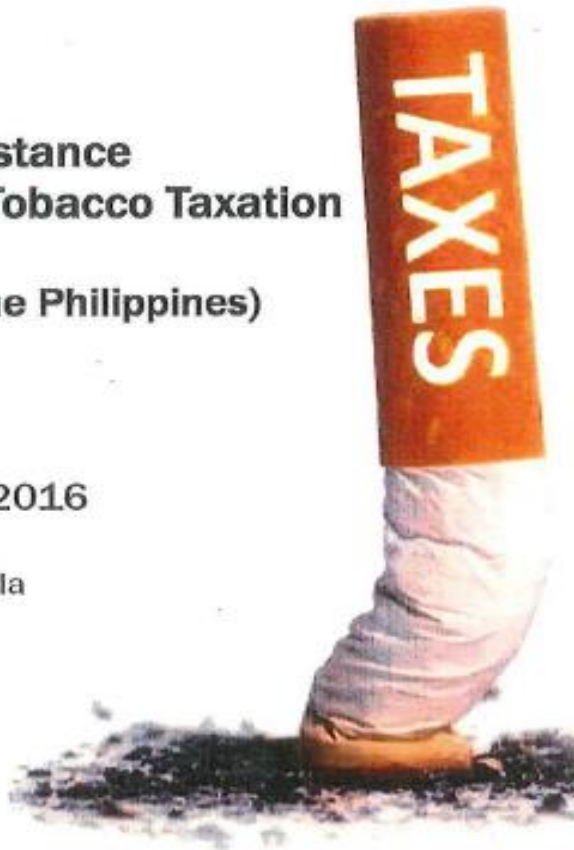


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Workshop agenda

**Technical Assistance  
on Enhanced Tobacco Taxation  
Article 6  
(Study Visit to the Philippines)**

**October 19-21, 2016**  
**Manila Hotel**  
One Rizal Park, Manila  
Philippines





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## DAY 1

TIME	ACTIVITY	
8:00 - 8:30	<b>Registration</b>	
8:30 - 9:00	<b>Opening Program</b>	
	a. Welcome Remarks	Dir. Mario S. Baquillo, Disease Prevention and Control Bureau, DOH
	b. Messages	Asec. Maria Francisca M. Laxamana Office for Technical Services, DOH
		Exec. Dir. Ma. Lourdes B. Recente, Privatization Management Office, DOF
9:00 - 9:15	Overview of the Program	Dir. Maylene M. Beltran, Bureau of International Health Cooperation, DOH
9:15 - 10:00	Fighting for the Sin Tax Reform Law (Health Perspective)	Usec. Lilibeth C. David, Office for Policy and Health Systems, DOH
10:00 - 10:45	Fighting for the Sin Tax Reform Law (Finance Perspective)	Mr. Jeremias N. Paul, Coordinator, World Health Organization HQ
10:45 - 11:00	<b>Group Photo and Break</b>	
11:00 - 11:45	Pushing for the Sin Tax Agenda: Academe	Dr. Antonio L. Dans, University of the Philippines
12:00 - 1:00	<b>Lunch</b>	
1:00 - 1:45	Pushing the Sin Tax Agenda: CSOs	Exec. Dir. Filomeno S. Sta. Ana, Action for Economic Reforms
1:45 - 2:30	The Sin Tax Law and IRR: Current Implementation	Dir. Elsa P. Agustin Fiscal Policy and Planning Office, DOF
2:30 - 2:45	<b>Break</b>	
2:45 - 3:30	Monitoring and Evaluation of Sin Tax for Health	Ms. Frances Mamanil, Chief of Planning Division Health Policy Development and Planning Bureau, DOH
3:30 - 4:15	Sin Tax Revenue Allocated for Local Government Units	Department of Budget and Management
6:00 PM	<b>Welcome Dinner</b>	



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## DAY 2

TIME	ACTIVITY	
8:00 - 8:15	Recap	
8:15 - 8:30	Presentation of Country Situations: Malaysia	Country Representative
8:30 - 9:00	Open Forum	
9:00 - 9:15	Presentation of Country Situations: Mongolia	Country Representative
9:15 - 9:45	Open Forum	
9:45 - 10:15	Break	
10:15 - 12:00	Visioning and Strategy Development of Tax Reform	Mr. Jeremias N. Paul, Coordinator World Health Organization HQ
	Workshop 1	
12:00 - 1:00	Lunch	
1:00 - 3:30	Estimation of tax revenues	Dir. Rowena S. Sta. Clara Ms. Johanna Hortinela, Fiscal Policy and Planning Office Department of Finance
	Workshop 2	
3:30 - 4:00	Presentation of Workshop 1 and 2 Outputs	
4:00 - 4:45	Open Forum	



*Master of Ceremony*  
**Mr. Ramon Theodore F. De Guzman**



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### DAY 3

TIME	ACTIVITY	
9:00 - 10:00	The Investment Case for Tobacco Control: Economic Advocacy for Scaled-up Action	Mr. Dudley Tarlton, Programme Specialist, Health and Development, UNDP HQ
10:00 - 11:00	Agreements on next steps	WHO Knowledge Hub: University of Cape Town
11:00 - 11:30	Synthesis	WHO Knowledge Hub: University of Cape Town
11:30- 12:00	Closing Remarks	DOH
	Lunch	

UCT synthesis/next steps presentation



## A Synthesis and Next Steps

UCT Knowledge Hub

**South-South and Triangular Cooperation Workshop**

21 October 2016, Manila, the Philippines



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## Objectives of the Workshop



- Share the experience of the tobacco tax reform in the Philippines
- Demonstrate the importance of the multi-sectorial approach in achieving the goals of a tax reform
- Demonstrate the importance of collaboration of governmental and non-governmental organizations in achieving a success.
- Understand the challenges of proposing and defending tax legislation; and understand the opposition.
- Provide enhanced technical assistance to Malaysia and Mongolia.



## Main Motivation for the Tax Reform in the Philippines



- The country had the 3rd largest smoking prevalence in ASEAN
- Tobacco taxes were one of the lowest in the world
- Cigarettes were highly affordable
- Alcohol consumption was increasing
- WTO deadline for alcohol tax reform
- The country was committed to universal health coverage and this required additional resources.



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## Main Success Factors in the Philippines



- Strong political will
- Articulating clear objectives (the reform was proposed to primarily improve health, the revenue was only a secondary objective)
- Building a strong network of allies



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## Key Lessons Learned From the Philippines



- Keep it simple
- Address inflation and income growth
- Use research evidence; show where you are and where you want to be by certain time (e.g. set prevalence reduction goal).
- Keep in mind that the evidence is necessary, but not a sufficient condition for success.
- Link the tax proposal to Millennium Development Goals (in the Philippines, they: linked smoking to NCDs, showed the impact on the poor, demonstrated structural weaknesses).
- Present different scenarios and show impact on health, costs of smoking, and revenue.
- Anticipate the moves of the opposition (understand the supply side of the market).
- Address the issue of illicit trade.
- Track outcomes – have an M&E plan.



## Situation Analysis – Malaysia & Mongolia



- Tax structure: both countries have uniform specific tax.
- Neither country has inflation and/or income growth adjustment factor.
- Both economies are commodity dependent – have budget shortfalls.
- Mongolia's tax is lower than Malaysia's (both in relative and absolute terms).
- Mongolia has a slightly higher smoking prevalence.
- Both countries have a huge difference between the male and female smoking prevalence.
- No issue with tobacco farmers.



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## Situation Analysis – Malaysia & Mongolia (cont)



- Different structure of the industry: Mongolia relies more on imports; Malaysia has strong domestic tobacco industry.
- Malaysia exports cigarettes (and has illicit trade problem); Mongolia does not export cigarettes (the size of illicit market unknown, but considered small)
- Malaysia has 3 primary brand types (low price, value for money, premium); Mongolia has 2 primary brand types (domestic and imported).
- Both countries have had a positive revenue experience with higher tobacco taxes in the recent past.
- Tax revenue has been stagnating recently.
- Both countries have money set aside for TC in the form of soft earmarking: the Health Promotion Foundation in Mongolia; and MySihat (Health Promotion Funds) in Malaysia.



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## Next Steps - Malaysia



- The main motivation for tax increase: to increase government revenue.
- The secondary objective is to improve the health status of the population.
- Raising tax gradually taking into account inflation and income growth (about 10% annually; inflation rate = about 3%; income growth = about 4 - 5% a year).
- Use Australia as an example of a country that achieved both its health and revenue objectives.
- Calculate an optimal tax increase from the revenue perspective (excise tax = 61% of retail price).



## Next Steps – Malaysia (cont)



- Demonstrate the impact of higher tax on youth and the poor.
- Address illicit trade.
- Make use of the TC Steering Committee.
- Strengths: good data, research evidence, MoH has prevalence targets for 2025 and 2045; there is national strategy of TC 2015-2020; the country is committed to WHO FCTC; tobacco farmers are no longer an issue.
- Challenges: lack of support from some policy makers; tobacco industry interference.



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## Malaysia May Consider



- Evaluate if the proposed tax increase achieves the prevalence targets set by MoH. Is 61% of excise tax in retail price high enough?
- Estimating the costs of smoking.
- Evaluating the impact of the November 2016 tax stamp requirement for all cigarettes (including domestic) and higher penalties on tax revenue.
- Proposing excise tax on Duty Free stores.
- Proposing an abandoning of the minimum price law.
- Proposing bonds for cigarette exporters.
- Considering tracking & tracing.
- Public polling to determine support for higher tobacco and alcohol tax.



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## Next Steps - Mongolia



- Similar to Malaysia: The primary objective for tax increase is to increase government revenue; the secondary objective is to improve the health.
- 1<sup>st</sup> option: 200% tax increase on both tobacco and alcohol; excise tax will represent 51% of retail price; USD 290 million additional tax revenue; tobacco consumption will decline by 10-20%; alcohol consumption will decline by 5-10%.
- 2<sup>nd</sup> option – 100% tax increase on both tobacco and alcohol, excise tax = 41.5% of retail price; USD 150 million tax additional revenue.



## Next Steps – Mongolia (cont)



- Strategy – target female MPs as allies, and find a champion among them.
- Build coalition of MoF, MoH, Public Health Institute, and NGOs (as well as possibly WHO, Secretariat and IMF).
- Consider and anticipate the moves of the opposition: domestic industry, cigarette importers, and MPs with tobacco business interest.
- Collect data and prepare evidence. This could include: a simulation model with different scenarios, show how the country ranks globally in terms of its tax rate, estimate the size of illicit cigarette market.
- Meet with MPs, and use media (including social media) to explain the harmful impact of tobacco. Focus on youth.
- The new party (People's Party) promised no new tax, so the tobacco tax increase needs to be rephrased as a SIN TAX. It can also be characterized as a measure that will help alleviate the budget deficit without raising income tax – and is thus in line with party agenda.



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## Next Steps – Mongolia (cont)



- Timeline: Sept 2017 – introduce tax increase to the Parliament as a part of the budget law. If it passes, it can be enacted by Nov 2017, or sooner.
- Use the fact that Mongolia has been chosen as WHO NCD priority country.
- Consider showing the tax increase as an absolute amount – it will look more palatable for the lay audience.
- Educate your finance minister so that he talks as a public health person.
- Estimate the impact of better credit rating after a tax increase.
- Show how many new day-care, educational and healthcare facilities can be built with the additional revenue.

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## Mongolia May Consider



- Estimating price elasticity of tobacco/alcohol demand (as well as cross-price elasticity).
- Estimating the costs of smoking + case study to document burden on family budgets.
- Public polling to determine support for higher tobacco and alcohol tax.
- Assessing impact of higher tax in illicit trade.
- Adjusting the specific tax for inflation rate (about 2%) and income growth (about 3% a year).



## Thank you!

Hana Ross

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