



<http://www.tobaccoevidence.net>

Economics of Tobacco Control and Industry Documents

Hana Ross, Ph.D.

Economic Issues & Documents

- Price and pricing policy
- Taxation
- Cost of smoking
- Importance of tobacco consumption for the economy
- Market structure

Information on Pricing Policy in Documents

- **Pricing strategy** – how to become a price leader, dealing with inflation
- **Promotional pricing** – discount coupons, buy one get one free, gift with purchase, etc.
- **Price related marketing strategies** - creating discount brands, premium brands, etc.

Information on Tax Policy in Documents

- **Tax as a part of pricing policy**
- **Arguments and strategic steps to oppose new taxes**
<http://tobaccodocuments.org/landman/03676085-6101.html>
- **How to defeat 1982-83 California tax proposal** (mobilize tax opponents, get media attention)
- **Response to new taxes** (absorb, pass along, etc.)

Research Example

- **Chaloupka, Cummings, Morley, Horan:**
**“Tax, price and cigarette smoking:
evidence from the tobacco documents
and implications for tobacco company
marketing strategies”**

Tobacco Control 2002, Issue 11

www.tobaccocontrol.com Supplements

Research Example (continues)

Objective: What industry knew about the impact of price on smoking behavior and how this knowledge affected pricing and marketing strategies

Methods: Study documents in Youth and Marketing database at

<http://roswell.tobacdocumentns.org>

and <http://tobacdocumentns.org>

Research Example (continues)

Search Terms: **pric***, **excise**, **tax**,
elasticity, **price elasticity**, **coupon**,
value brand, **discount**, **cents-off**,

Narrowing the search: **Myron Johnston**
(PM) **Diane Burrows (RJR)** at the
companies document websites

Eliminating # of documents: **Last name**
Price, **“price elasticity”** instead
“elasticity”

Research Example (continues)

Results I: Industry produced studies on price/tax effects – results either consistent with academic studies (adults), or discussing these studies (youth, young adults)

Reports on tax increases in CA, NY and MI – lower consumption, higher quit rate, switch to “price value”

Research Example (continues)

Results II: Industry was aware:

that low income groups (including youth) are more price elastic;

that demand for cigarettes is price inelastic (tax can be passed on to consumers without affecting the industry)

Research Example (continues)

Response of the Industry: Focus
advertising on youth (to overcome
higher price sensitivity)

Price-related promotion targeted at
youth to induce brand switching

Use tax hikes to increase price and
blaming the government, suggest
stocking up

Research Example (continues)

Results III: Industry consists of a group of price leaders (oligopoly) who dictated the general price

Extra earning due to the lack of competition was invested in marketing to gain market share

Pricing below maximum short term profit level to sustain long term profit

Research Example (continues)

Response of the Industry:

New marketing strategy to deal with price increases, high price elasticity and search for image **among youth: “branded generics”** (price “hook”)

Industry publicly opposed tax increases calling them regressive (action: postage pre-paid cards in cartons to be sent to Congressman by smokers)

Research Example (continues)

Response of the Industry: Strategies to offset the impact of tax increases: coupons, multi-pack discounts, direct mailing, point-of-purchase marketing - “retail value added programs” (gift with purchase, free samples, etc.);

Other proposals: “value packs” to be used in reusable tin; low cost easy-to-Roll Your Own cigarettes; slow burning cigarettes; # of cigs per pack (10, 14, 25, 30)

Implications for Public Policies

- **Tax** is a powerful tool in reducing smoking
- **Necessity to limit industry ability to use price based marketing** – widen restrictions
- **Partial limits are ineffective** (variety of options for the industry to switch to)
- **Implement large increase in taxes** – they are much harder to offset by promotional pricing

Non-Compliance Strategy Found in Documents

- Industry supports **non-compliance** with tobacco control measures

Example: Industry did not respect ban on promoting cigarettes at point-of-purchase in Taiwan;

violated limits on advertising and promotional activities in South Korea;

engaged in illegal activities by selling U.S. cigarettes in **unlicensed retail establishments**

Implications for Public Policies

- Tobacco control legislature require law enforcement
- Law enforcement can be self-financed from penalties
- Industry campaigns aimed at public health improvements are not to be trusted

Costs of Smoking

- **Industry attempts to misrepresent the costs of smoking to the society, to the state budget**

Example: Phillip Morris study in the Czech Republic

- **Estimated net benefit \$150 million for the state budget**

(collected taxes and savings from premature death outweigh health care costs)

BENEFITS OF SMOKING???



Costs of Smoking

- **Flawed framework and methodology** (taxes are viewed as benefits of smoking)
- **Upheaval among tobacco control advocates** (mainly in the US)
- **Global criticism of PM prevented similar studies in other countries**
- **Mobilization of local NGOs**
- **Importance of scientific analysis of industry arguments**

Economy and Tobacco

Industry's arguments

- **Budget contributions** (tobacco & income tax)
- **Employment** (mis- and double- counting; job reduction due to improved productivity)
- Importance for **entertainment industry**

Economy without tobacco: taxes collected on other goods, alternative spending, improved health and overall growth potential

Market Structure, Trade and Investment Agreements

- **Dividing market territory** (e.g. BAT and PM in Latin America), **cartel agreements** (e.g. 1981 U.S. Cigarette Export Association formed by PM, RJR, B&W), **price fixing**
- **Strategies how to enter new markets** (removing trade barriers, push for privatization, joint ventures, direct investment, support of smuggling, PR)

Example of Successful Lobbying

- Using the **Food for Peace Program** in 70's and 80's to send US tobacco to developing countries as humanitarian help
- **1984 Export Credit Guarantee Program** helped US tobacco producers to enter Middle East markets
- **Section 301 of the 1974 US Trade Act** – use of trade sanctions threats in Japan (1985), Taiwan (1986), South Korea (1988), and Thailand (1989)

Summary

- **Price and tax are key** strategic elements defining battlefield for the industry
- **Costs of smoking are** misrepresented
- **Tobacco consumption is portrayed as vital to overall economic growth**
- **Industry is willing to break the law, looks for natural allies, lobbies**
- **Industry cooperates to secure global markets**