



# **A Study on Increasing Tobacco Tax in Thailand**

Assist. Prof. Sathirakorn Pongpanich, Ph.D.  
The College of Public Health,  
Chulalongkorn University, Thailand

With Funding Support from the Thai Health Promotion Foundation

# Presentation Outline

- \*Introduction

- \*Objectives

- \*Methodology

- \*Results of the Study

  - \*Effects of Increasing Tobacco Tax on Tobacco Consumption

  - \*Effects of Increasing Tobacco Tax on Government Revenue

- \*Discussion and Argument on Increasing Cigarette Tax

- \*Recommendations

# Introduction

- Thailand is not a major tobacco-producing nation. In 1992, it produced 88,314 tones of unmanufactured tobacco (about 1.3% of the world total) and about 40,500 million cigarettes (0.8% of the world total)

- According to the World Bank, tobacco exports contributed only 0.04% of Thailand's GDP in 1999.
- The Thai tobacco market is dominated by the Thai Tobacco Monopoly (TTM) which controls over 87% of the local market.

- Prior to 1990, the only tobacco products on sale in Thailand were produced by TTM.
- In 1990, action by the United States under WTO rules forced Thailand to open its doors to tobacco imports. Since then the market share of tobacco multinationals has been growing due to their pricing policies.

- In contrast to the rest of Southeast Asia, tobacco smuggling in Thailand has been more or less contained (representing only 12% of domestic cigarette sales in 2000), contradictory to the tobacco industry's prediction that high taxes would lead to more smuggling.

- Thai cigarettes have undergone gradual tax increases raising the tobacco tax to 75% of the retail price.
- However, the effectiveness of taxation as a tool to reduce consumption has been weakened by foreign producers absorbing tax increases rather than passing them on to smokers

- Although these laws have dramatically decreased smoking rates, from 5% of women in 1993 to 2.4% in 1999 and from 58% of men in 1993 to 38.9% in 1999, the National Statistics Office's survey on the health and welfare of Thai people has indicated the total member of smokers is increasing.

- Public health advocates are concerned that youth smoking rates are rising as a result of both aggressive and subversive marketing by the transnational tobacco companies.
- It is a crucial time to strengthen and supplement evidence based tobacco control policy measures and to ensure effective implementation of such measures through cooperative partnerships of governments, tobacco control advocates, and concerned stakeholders

- To build upon past progress and success, it will be necessary to deny the tobacco industry a new generation of consumers.
- This will require continuous vigilance, ongoing education, tax increases, dynamic alliances and a coherent, consistent strategy for the future.

- This study is looking at what will affect the behavior of tobacco consumers when the price of tobacco is increased through tax and what level of tax increase will dramatically reduce the tobacco consumption while holding income constant.

# Objectives

- To review and summarize tobacco events and tax situation in Thailand
- To propose proper tobacco tax increase that will effect to consumer behavior
- To approximate tax revenue for government after increasing tobacco tax.

# Methodology

- Objective 1. Perform literature reviews through internet and library searches.
- Objective 2. Analyze data on tobacco consumption (Survey on Tobacco Consumption of the Thais, Thai Health Foundation May 24, 2002) by applying economic theory (price elasticity of demand). Data was processed through SPSS statistical software.

– Objective 3. Trend analysis was used on the data above to approximate tax revenue after increasing the tobacco tax.

# Results of the Study

- **Review and Summary of Tobacco Events and Tax Situation in Thailand**

- 1964 Smoking Cessation by 7<sup>th</sup> Day Adventists
- 1967 Health warnings requested by Medical Association
- 1974 Single health warning ‘Smoking may be dangerous to health’
- 1976 Ban on smoking in Cinemas in Bangkok and buses
- 1983 Public education - 1st national seminar

- 1986 Public places ban - buses
- 1986 Thai Anti-Smoking Campaign Project. a non-governmental organisation, started, supported by 10 health-related NGOs.
- 1987 Petition campaign to call for tobacco control legislation
- 1988 World No Tobacco Day observed - ongoing annual event
- 1988 More than 2 million Thai children will eventually die from smoking cigarettes. (Prediction by Richard Peto, a leading epidemiologist, statistician, and tobacco control researcher.)

- 1989 National Committee for Control of Tobacco Use established
- 1989 Feb Total advertising ban by order of the Commission on Advertising of the Consumer Protection Board
- 1989 April USCEA petition filed to USTR to impose trade sanctions to open cigarette market.
- 1989 July USTR initiated investigation
- 1989 Sept USTR's public hearing
- 1989 Oct USTR took Thai case to GATT

- 1990 Sept 9<sup>th</sup> Thai cabinet unilaterally announced market opening
- 1990 Sept 21<sup>st</sup> GATT Panel's report released, result:
  - Import ban not justified
  - Taxes consistent with GATT
  - Thailand could indiscriminately:
    - impose laws affecting sales, purchase, transportation, distribution or use of imported products
    - introduce labeling / ingredient disclosure
    - keep the ban on advertising
- 1990 November USTR terminated investigation

- **1992 Tobacco Products Control Act 1992<sup>5</sup>**
  - .Prohibition of sales to persons less than 18 years old.
  - .Prohibition of sales of tobacco products by machine.
  - .Prohibition of free sampling, exchanges, premiums or redemptions, or the offer of the right to show, sports, etc.
  - .Prohibition of advertising in all media, except international magazines, live telecast.
  - .Prohibition of advertising of products with tobacco names.
  - .Prohibition production, import, sale and advertising of products that imitate tobacco products and packages.
  - .Content of tobacco products shall be according to the Ministerial Regulations.
  - .Labeling shall be carried out according to the Ministerial Regulations.

- Health warnings on cigarette packages: 10 rotating warnings, 30 % of area of both principal surfaces of cigarette packs and cartons, black letters on white background or vice versa, and designated print type. (Health warnings to be implemented Sept 1993)

- 1992 November **Non-smokers' Health Protection Act<sup>6</sup>**
  - .Totally smoke-free: public buses, taxies, air-conditioned trains, public boats, domestic air flights, passenger elevators, school buses, cinema halls.
  - .Totally smoke-free, except for private rooms: Schools, museums and art halls, libraries, nurseries, air-conditioned passenger boats.
  - .Totally smoke-free except for private rooms and designated smoking areas: hospital, university buildings, air-conditioned department stores and trade centres, air-conditioned trade exhibition halls, indoor sports arena. Government offices (where people routinely contact the government officials), banks and financial establishments (where people routinely contact service representatives). Cinema waiting halls, air-conditioned bus terminals.
  - .Smoke-free area at least 50%: passenger trains, restaurants.

- 1992 Ban on smokeless tobacco products
- 1993 January Sir William Richard Doll of the United Kingdom and Dr. Chen Minzhang, Minister of Health of China, awarded the first annual Prince Mahidol Awards. The awards honor contributions to medical science and public health related to tobacco usage.
- **1993 December Tax hike leads to 15% price increase of cigarettes.**
- 1993 Tobacco Consumption Control Institute revealed 4.3% rise in the number of women smokers above the age of 11 in 1993.

- 1993 Sports Commission rejected a tobacco Industry proposal to sponsor sport event
- 1994 January Hotline advice line established by Mao Chao Ban Organisation.
- 1994 February Thai Airways short-haul routes become smoke-free.

- 1994 August Philip Morris sponsors first ASEAN ARTS AWARDS in Thailand, and invited Silpakorn University's Fine Art Faculty to co-host the award.
- 1994 September Advertising spending growing at a rate of 50% per annum, despite the prohibition of cigarette advertising in Thai media.

- 1994 November Thailand Tobacco Monopoly (TTM) announced it will increase its 1995 cigarette export target to 800 mn cigarettes, 4 times higher than 1994. It will mainly come from the increases in Vietnamese market.
- **1994** **First significant increase in the tobacco tax introduced raising it from 55% to 60%.**
- 1995 May World No Tobacco Day celebrated. Ministries of Education and Public Health organised school contest involving all age groups across the country, on smoking and the environment.
- 1996 TTM's plan to produce new cigarette brand targeting women is abandoned because of widespread criticism.

- 1998 Ministerial regulation requires all producers to reveal the ingredients of their cigarettes to MOPH but not to the public.
- 1998 New health warnings on 30% of upper area of the packs introduced
- **1999 Tobacco tax increased to 71.5% of the retail price of cigarettes.**
- 1999 Despite anti-smoking advocate requests for the release of tobacco product ingredients, the MOPH continues to withhold the information from the public domain due to Industry pressure.
- 2000 October Thai Health Bill - Passed the house of representatives / 2% of tobacco and alcohol taxes will be used to finance health promotion and tobacco control. (about \$38 million per year is expected).

- **2001 March**      **Excise tax on cigarettes rose from 71.5 % to 75 % on March 28<sup>th</sup> 2001. The cost of cigarettes rose by as much as Bt5 a pack. The Thai Health Bill, passed by the House of Representatives in October 2000 and enacted on March 28<sup>th</sup> 2001, was expected to bring unprecedented government funding to tobacco control.**

- Sources - Information compiled from:
- *Judith Mackay, UICC visit:*
- *Tobacco Control International Journal. June 2000, Vol 9. No 2, pg, 127*
- *Action on Smoking and Health Foundation Thailand [website] (accessed 2000) www.ash.or.th*
- Vateesatokit, P. “Tobacco Control in Thailand”, Mahidol Journal. Vol 4. No 2. pg 73-82, 1997.

# Effects of Increasing Tobacco Tax on Tobacco Consumption

- Thai Health Promotion Foundation conducted a tobacco consumption survey in 2002 and found that 11,964,800 Thais age above 15 years old or about 24 % of all Thais age above 15 smoke cigarettes.
- From this amount, 95% were men and 5% were women.

- Most of the cigarettes used were domestically manufactured (91%) and 9% were imported.
- People who lived in Bangkok and vicinity would consume imported cigarettes while people who lived in rural areas consume less and sometimes consumed handmade cigarettes.

- The calculation of Elasticity of Demand on price of cigarette below shows how increasing price (tax) of cigarette at different level will affect or decrease the demand for consumption of cigarettes.

Table 1. Elasticity of Demand on Price of Domestic Manufactured Cigarettes for Different Groups of Consumers in Thailand

Average Price Increase	Total	% Increase in Tax	Age		Male	Female	Bangkok	Rural
			15-24	Over 25				
1-2	-0.217	1.28	-0.663	-0.391	-0.024	-0.090	-0.075	-0.137
3-4	-0.387	2.35	-0.473	-0.256	-0.180	-0.213	-0.194	-0.373
5-6	-0.694	3.54	-0.761	-0.523	-0.286	-0.571	-0.334	-0.765
7-8	-0.721	4.67	-0.889	-0.654	-0.363	-0.774	-0.517	-0.942
9-10	-0.845	5.98	-0.933	-0.746	-0.563	-0.971	-0.662	-0.987

Calculation Based on Survey of Cigarette Consumer Behavior, Thai Health Promotion Foundation, 2002

- From Table 1 above, we can see that at the average price increase of 5-6 Baht shows the most drastic change in total elasticity of demand for domestic cigarettes (-0.694) which is equivalent to increasing cigarette tax by approximately 3 %.
- The result from increasing tax will increase the average price of domestic cigarettes from 35 Baht to 40-41 Baht and as a consequence of this, consumer will recognize the change in price and start to increase reducing the consumption of domestic cigarettes.

Table 2. Elasticity of Demand on Price of Imported Cigarettes for Different Groups of Consumers in Thailand

Average Price Increase	Total	% Increase in Tax	Age		Male	Female	Bangkok	Rural
			15-24	Over 25				
1-2	-0.016	1.37	-0.10	-0.009	-0.081	-0.002	-0.020	-0.001
3-4	-0.113	2.14	-0.06	-0.081	-0.101	-0.006	-0.151	-0.001
5-6	-0.267	3.58	-0.08	-0.19	-0.297	-0.012	-0.224	-0.002
7-8	-0.554	4.87	-0.34	-0.561	-0.677	-0.579	-0.637	-0.004
9-10	-0.691	5.63	-0.57	-0.704	-0.695	-0.451	-0.716	-0.010

Calculation Based on Survey of Cigarette Consumer Behavior, Thai Health Promotion Foundation, 2002

- From Table 2 above, at the average price increase of 7-8 Baht shows the most drastic change in total elasticity of demand for imported cigarettes (-0.554) which is equivalent to increasing cigarette tax by approximately 4.5 %.
- The result from increasing tax will increase the average price of imported cigarettes from 55 Baht to 62-63 Baht and as a consequence of this, consumer will recognize the change in price and start to increase reducing the consumption of imported cigarettes.

# Effects of Increasing Tobacco Tax on Government Revenue

- Experience from increasing tobacco tax in different countries show that the government revenue will increase as well.

- For the Thailand case, **if** we adjusted tobacco tax from 75% (current) to 80% (tax increase by 5%) of retail price, the government revenue would be increased in between 2,000-3,000 million baht and at the same time, it would reduce the number of teenage smokers by approximately 325,000 (the calculation based on survey of cigarette consumer behavior, Thai Health Promotion Foundation, 2002).

**Table 3. TTM and Foreign Cigarette Sales and Tax Revenue**

<b>Years</b>	<b>Sales of TTM Brands in Thailand (millions of packs)</b>	<b>Sales of Foreign Brands in Thailand (millions of packs)</b>	<b>Tax (%)</b>	<b>Tax Revenue (million of Baht)</b>
1998	1,660	*	55	10,729
1989	1,843	*	55	12,069
1990	1,941	*	55	13,641
1991	1,942	12	55	15,898
1992	1,983	51	55	15,438
1993	2,065	60	55	15,345
1994	2,258	71	60	20,002
1995	2,100	71	62	20,736
1996	2,373	77	68	24,092
1997	2,316	100	68	29,755
1998	1,786	165	70	28,691
1999	1,569	241	70	26,708
2000	1,881	259	70	28,133
2001	1,634	265	75	32,309
2002	1,577	251	75	31,696
Value Estimated	1,538	260	80	34,000

Source: Thai Tobacco Monopoly, 2001 and Calculation Based on Survey of Cigarette Consumer Behavior, Thai Health Promotion Foundation, 2002

# Discussion and Argument on Increasing Cigarette Tax

- It has often been claimed that
  - .Increasing cigarette tax will lead to reduce government revenue. This is claimed because consumers will increase consumption of smuggled cigarettes.
  - .Increasing cigarette tax will increase the price of cigarettes and consumers will increase consumption of smuggled cigarettes.

- .Increasing cigarette tax will not decrease the consumption of cigarettes. This is claimed to be just a mechanism to adjust cigarette price to the inflation rate.
- Increasing cigarette tax will reduce the profit of tobacco companies.

- .Increasing cigarette tax will increase the price of cigarettes, therefore consumers will use more of their hand rolled cigarettes
- .Increasing cigarette tax will increase the price of cigarettes and affect the income of the poor
- .Increasing cigarette tax is against the GATT treaty that Thailand has with many WTO countries.
- .Increasing cigarette tax will reduce government political popularity and support.

# Recommendations

- .Government through the Ministry of Finance should increase cigarette tax in the amount of 4% or 5 baht of retail price and this will be equally applied to both domestic and imported cigarettes.
- .Government should increase cigarette tax every 2 years. This will have a purpose of reducing teenager's smoking

50% of cigarette tax revenue will be used on different activities i.e.

- Campaign on reducing teenage smoking
- Educate general population on diseases related with tobacco
- Support on sport activities
- Health insurance for the poor
- Create more efficient public health professionals