

# Tobacco Industry Interference and Tobacco Taxation



July 2020

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The tobacco industry's business undermines development and should not be given benefits. Major tobacco transnationals have been complicit in tax evasion, smuggling and bribery, and should be held to account. There is a fundamental conflict of interest between tobacco industry and public health, and the tobacco industry must be strictly regulated.

## I. The Tobacco Industry



The "tobacco industry" includes those that further the interests of the tobacco industry such as:

- entities and subsidiaries engaged in the manufacturing, distribution and/or sale of tobacco or tobacco-related products;
- entities working to specifically further the interests of the tobacco industry through lobbying, advertising, legal advice or similar activities;
- entities being funded, supported or influenced in their governance by tobacco-related entities; and
- entities having tobacco industry or their representatives among their members.

In fiscal and trade matters, the tobacco industry's voice is coursed through farmers' groups, business associations, smokers' associations, taxpayers groups, and tax reform groups.

### Complicity in smuggling:



Major transnationals (JTI, PMI, BAT, ITG) have been found to be complicit in the operations of smuggling networks all over the world (Middle East, EU, Eastern EU, North America, Asia, Latin America).

The tobacco industry focuses public attention on counterfeit tobacco products. However, a significant portion of large-scale tobacco smuggling involves genuine products that are likely to come from legitimate tobacco companies that allowed their diversion to illegal channels (see lawsuits in Canada, Colombia, Ecuador, and the EU; some of which resulted in the major transnationals making substantial payments).

### Tax avoidance / evasion:



The tobacco transnationals are able to reduce their tax liability by stockpiling and reformulating/repositioning their products. Their financial practices allow them to reduce tax contributions in developing nations.

### Corruption / Bribery:



Major transnationals have paid bribes/are being investigated on bribes paid to interfere with tobacco related policy in Africa, Latin America, Eastern EU, and Asia.

## II. Common INDICATORS of Tobacco Industry Interference and Influence:



### A. The Tobacco Industry is:



1. Participating in policy development (such as officials accepting policy drafts and offers of assistance; tobacco industry is invited to sit in advisory groups);
  - a. given a role in setting or implementing public health policies concerning tobacco control;
  - b. allowed to assist in anti-smuggling activities, and there are no safeguards to ensure that tobacco industry-backed track and trace systems are avoided.
2. Not required to periodically submit information on a wide range of activities.
3. Partnering with government in so-called corporate social responsibility (CSR) activities (including technical expertise, training, and counter-smuggling).
4. Hiring retired senior government officials and current government officials or their relatives to hold positions in its business.
5. Receiving benefits and preferential treatment such as privileges, incentives, tax exemptions or accommodations for a longer time to implement.

### B. Government allows:



1. Unnecessary interactions with the tobacco industry such as social events or events sponsored by the tobacco industry or those that further its interests.
2. Meetings with the tobacco industry that are not transparent (lack of rules for disclosure of the registration and records of such interactions).
3. The absence of a policy/practice to avoid conflict of interest (e.g. declare interests, reject contributions, invitations, and gifts from the tobacco industry).
4. Proclamations that tobacco production or exportation, or tobacco foreign direct investments, are deemed a tool for economic development, even if tobacco contributes to a net economic loss.

### C. Tobacco Taxes:



Are low; increases are gradual, or multi-tiered, or varied tax for different products; or there is a restriction in the executive branch's ability to increase tobacco taxes even if otherwise legally feasible.

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## III. Responses to Common Arguments of the Tobacco Industry



Globally, the economic costs of tobacco use are US\$ 1436 billion (2012) while tax collection amounts to only US\$ 269 billion (2015). At the country level, the economic loss from tobacco use (such as loss of productive days and health costs from tobacco related diseases) far outweighs the tax revenue collected, and yet the tobacco industry argues against tax increases that are miniscule compared to the economic losses caused.

- **Illicit trade:** Countries with high taxes do not necessarily have high smuggling levels; e.g. EU. Curbing illicit trade requires stronger enforcement and governance measures, not lower taxes.
- **Regressive or Anti-Poor:** Tobacco tax increases are considered progressive because poorer smokers are more price-sensitive, and hence, taxes will discourage smoking-related costs. Tobacco tax increases can help reduce poverty.
- **Anti-Smoker:** Smokers smoke because they are addicted. Over 70% of smokers want to quit. The increase in taxes will help smokers quit.
- **Livelihood:** The public health benefit and net economic gain from tax increases are far more significant than any potential business loss. Job losses are largely attributed to tobacco companies' automation and consolidation.
- **Business losses:** Tax/price increases lead to reduced consumption but increased revenue. Because of addiction (price inelasticity) and increases in population, tobacco companies continue to thrive despite significant tax increases.

## IV. Common tactics the tobacco industry uses directly or through third party allies



- Using research to exaggerate the impact on illicit trade and misrepresent the economic importance of the industry (ignore negative impact of tobacco, wrongly attribute job losses to tobacco control, embellish the profitability of farming).
- Lobbying, facilitated by political contributions, bribery, and so-called corporate social responsibility activities such as disaster management, environment, child labor, anti-smuggling, and/or anti-smoking.
- Using media campaigns to divert the attention onto other issues e.g. other taxes or commodities, the need to focus on illicit trade instead, rights of business community or smokers.

These tactics have been challenged by the public health community and the WHO – resulting in some entities disengaging with the tobacco industry.

## V. Good practices in addressing tobacco industry interference



1. Prevent unscrupulous practices of the tobacco industry by requiring information needed to implement laws and to avoid conflicts of interests; imposing harsh

penalties for false or inaccurate information. Information includes market share, marketing expenditures, lobbying, philanthropy, political contributions, etc. (e.g. France, Thailand, Uganda).

2. Make the tobacco industry bear the costs associated with achieving treaty obligations, but do not delegate government duties to the tobacco industry. Over 40 countries have dedicated the proceeds of tobacco tax increases to finance healthcare costs, sports, and other development issues.
3. Divest and remove benefits or incentives. Many government pension funds and large asset management firms have removed tobacco firms from their investment portfolios (Aus, EU, UK). Others are reducing incentives to tobacco growing and blocking the tobacco industry from accessing investment tribunals under the investment treaties.
4. Reject partnerships with and participation in tobacco industry activities, and regulate public officials' conduct with the tobacco industry (e.g. Australia, Philippines, Uganda, UK). Limit interaction only to the extent strictly necessary to implement policies, and ensure maximum possible transparency with respect to any interactions with the tobacco industry. Avoid all forms of conflicts of interest with the tobacco industry.

## VI. Resources on preventing and dealing with tobacco industry interference



Resources are available at the Knowledge Hub for Article 5.3 ([www.untobaccocontrol.org](http://www.untobaccocontrol.org)). It provides country studies, training modules, hosts an E-learning Tool, and provides Technical Assistance upon request.

For a list of publications, news, and tobacco tactics per country, visit: [www.ggtc.world](http://www.ggtc.world).

For more information on tobacco industry persons, visit [tobaccotactics.org](http://tobaccotactics.org).

### Acknowledgements

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