

Tobacco industry's price games undermine taxation policies

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Increasing tobacco tax to increase its price to consumers and therefore reduce its affordability is one of the most effective public health measures to curb the tobacco epidemic, and one that generates government revenue.

The higher price encourages existing smokers to quit, whilst also deterring individuals from starting, with cost being a particular barrier to young people. The associated decline in smoking rates is particularly pronounced in low and middle-income countries (LMICs) where a [10% increase in price reduces consumption by 5-8%](#) [1].

However, a review that systematically assessed global literature on the [tobacco industry's \(TI\) response to excise tax policies](#) [2], by the researchers at the Tobacco Control Research Group at the University of Bath found that the TI responds to tax increases in multiple ways. It uses a variety of sophisticated pricing strategies to weaken tax policies as they seek to maintain and enhance their profitability. This significantly impacts the desired health and economic outcomes of increasing tobacco tax and means that the [1.3 billion smokers globally](#) [3] can continue to easily access and consume the deadly product.

The research shows that the significant pricing power of the TI cannot be overlooked when tobacco tax policy is formulated. Ultimately the success of tobacco taxation is dependent on the extent to which the increase in taxes is passed onto consumers or absorbed to prevent increase in prices and retain price sensitive consumers. With tax being a tool to reduce consumption of other harmful products (such as alcohol and sugar) that lead to non-communicable diseases (NCDs), highlighting the strategies that the TI uses to mitigate its effect, can also inform policy development in other health-related areas.

Pricing strategies

The review found that the TI utilises six broad pricing strategies to undermine tax increases in both high-income countries (HICs) and LMICs:

- Differential 'shifting' of taxes between brands/products,
 - overshifting – raises price above the tax increase, particularly on premium products to enhance its profits in such settings. This is mostly observed in HICs as a strategy to maximise profits.
 - undershifting – absorbs the tax increase to delay/prevent a price increase. Practiced mostly in LMICs as a strategy to maximise demand of the products.
- Launching new brands/variants/products in the market to encourage smokers to switch instead of quitting.
- Targeted product promotions, or charging different customers different prices for the same products. For example, [Native American reservations](#) [4] in the US and Canada are lower tax jurisdictions so they have cheaper cigarettes.
- Price smoothing, whereby the company raises the prices incrementally and regularly after a tax increase to avoid a price hike that may discourage smoking.
- Shrinkflation: companies may reduce, or 'shrink', the number of sticks in a pack, or the weight of tobacco per pack to disguise the price rise for example sell a 19 stick pack at the same price as a 20 stick pack was previously sold.
- Changing product's attributes (length, weight, type) or its classification to achieve a lower-tax category.

Colombia – a case study

The findings of the international review are backed up by further academic study that examined [the industry's pricing strategies in response to tobacco tax increases in Colombia](#) [5], and whether they differ by price categories/segments (cigarettes differentiated by prices such as premium, economy, and low-price) or presentation (packs or individual sticks). It is a first such academic study in Latin America and the first anywhere in the world to include the market for single sticks.

The results showed that the TI in Colombia employed targeted pricing strategies after some major tobacco tax increases in the country between 2017-2020: differential tax shifting; and launching new brands/brand variants. The industry overshifted taxes when increases were smaller and predictable, but used undershifting more when there was a larger increase in tax. The prices for single sticks however, increased more than the tax increase accompanied by an increase in their consumption (as the expense of sales in packs). These findings highlighted the importance of understanding the pricing strategies that the industry uses both for packs and single cigarette to undermine taxation and a need to further increase the excise taxes.

Call for action

These studies demonstrate that governments and policy makers especially in LMICs should consider these TI pricing strategies while devising effective tobacco control policies. Tobacco taxes in several countries are still lower than the hence they should be significantly increased in line with the economic growth and inflation and with greater reliance on the specific excise duties. Some counter regulation policies to the pricing tactics should also be developed and implemented such as price cap regulation, banning promotional discounts and limiting brands to one variants. As shown in Colombia where smokers faced with higher prices shifted from buying cigarette packs to single sticks, the sale of single cigarettes should also be closely monitored as their availability hinders any tobacco control policy. With these measures and initiatives in place, we are hopeful to radically increase the effectiveness of tobacco tax policies reduce premature deaths and noncommunicable diseases while also increasing government revenues.

About the author:

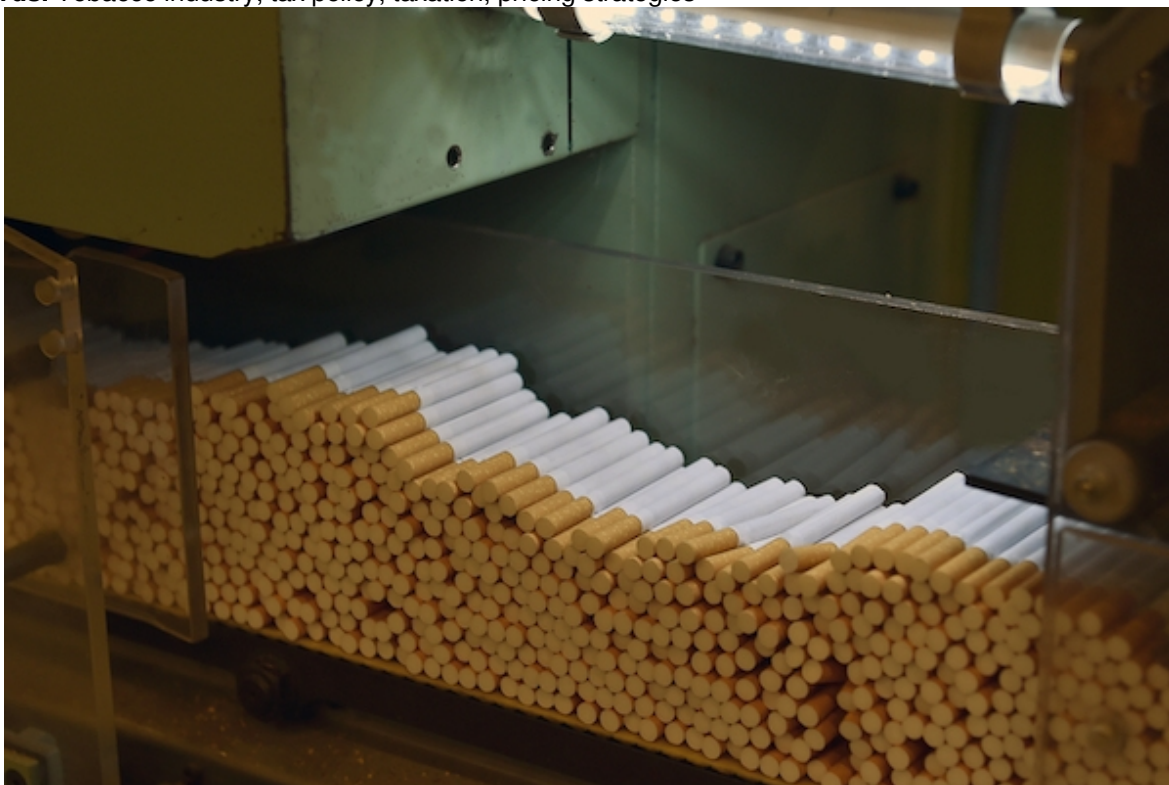
Zaineb Sheikh is a medical doctor with specialist training in community medicine and holds a Master's degree in public health degree from the London School of Hygiene and Tropical Medicine. She is currently a PhD student in the Department of Health at the University of Bath and a member of the Tobacco Control Research Group. Her research focuses on examining tobacco industry strategies relating to pricing, profitability, and influence on tobacco tax policy in low- and middle-income countries and gathering new evidence on the tobacco industry's conduct to help advance effective tax policy implementation.

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[1] <https://cancercontrol.cancer.gov/brp/tcrb/monographs/monograph-21>

[2] <https://tobaccocontrol.bmj.com/content/early/2021/08/01/tobaccocontrol-2021-056630#ref-59>

[3] <https://www.who.int/news-room/fact-sheets/detail/tobacco>

[4] <https://www.sciencedirect.com/science/article/pii/S0167629696004985?via%3Dihub>

[5] <https://tobaccocontrol.bmj.com/content/early/2022/05/31/tobaccocontrol-2022-057333>

[6] <https://old.ncdalliance.org/taxonomy/term/1438>

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