Tobacco Taxes in Viet Nam

Questions and Answers

May 2018
We are pleased to present *Tobacco Taxes in Viet Nam: Questions and Answers*. This publication was jointly developed by the Tobacco Control Fund of the Ministry of Health Viet Nam, HealthBridge Viet Nam and the World Health Organization country office in Viet Nam.

Viet Nam is among those countries with the highest rates of adult male smoking (45.3% in 2015) and indoor second-hand smoke exposure. In 2013, Viet Nam launched the *National Strategy on Tobacco Control through 2020*, which sets specific targets for the reduction in the rates of smoking in the following groups: youth (ages 15–24 years), from 26% in 2011 to 18% in 2020; men from 47.4% in 2011 to 39% in 2020; and women to less than 1.4% in 2020.

Tobacco tax increases have been proven to be the most effective – and cost-effective – measure to reduce tobacco use, especially among young people. Raising tobacco taxes not only is good for health, but also increases tobacco tax revenues for the Government. Therefore, raising tobacco taxes is considered a win–win measure: a win for public health and a win for the state budget.

This document provides key information about the benefits of raising tobacco taxes and addresses some of the issues that policy-makers must consider, such as how tax increases will impact tobacco consumption, tax revenue collection, and labour in tobacco growing and production. This document also addresses the relationship between tobacco tax increases and cigarette smuggling in Viet Nam, as well as the most suitable level for future tobacco tax increases.

We hope this document will provide policy-makers with relevant information on the benefits of raising tobacco taxes so that they can formulate effective tobacco tax policies and protect the health of the Vietnamese people.
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PART I
WHY TOBACCO TAXES NEED TO BE INCREASED
Raising taxes on tobacco has two main benefits: 1) it reduces the consumption of tobacco and reduces the tobacco-related burden of disease and death; and 2) it raises revenue for the state budget. Therefore, raising taxes on tobacco is a win–win measure: a win for public health and a win for the state budget.

**First benefit: Raising taxes on tobacco reduces the consumption of tobacco, preventing children and adolescents from taking up smoking.**

Evidence from many countries has shown that increasing the price of and taxes on tobacco has a strong impact on reducing demand. Increasing the price of tobacco through higher taxes will encourage tobacco users to quit, or to reduce the number of cigarettes they consume, and prevent people from beginning to smoke.

According to World Health Organization (WHO) estimates, based on the experiences of various countries, a 10% price increase on a pack of cigarettes would be expected to reduce the demand for cigarettes by about 4%, on average, in high-income countries and by about 5% in low- and middle-income countries. This pattern has been observed in many countries. For example, in South Africa from 1961 to 2012, the movement in the level of price and taxes almost perfectly mirrors the level of cigarette consumption: when price is reduced consumption is increased, when price is raised consumption is reduced (Fig. 1).

**Figure 1. Inflation-adjusted cigarette prices, excise taxes and consumption in South Africa, 1961–2012**

![Graph showing inflation-adjusted cigarette prices, excise taxes and consumption in South Africa, 1961–2012](source)

Source: Graph provided by the WHO Tobacco Control Economics unit; 2016.

Tax measures are particularly effective for children and adolescents – an estimated 10% increase in cigarette prices will reduce tobacco use by 10% or more among young people, a much stronger impact compared to the adult group.
For example, studies in the United States of America showed that the smoking rate in 12th-grade students decreased in proportion to the increase in cigarette prices over the years (Fig. 2).

Figure 2. The trend of cigarette prices and the 12th-grade student smoking prevalence, United States, 1991–2014

Source: United States National Cancer Institute & WHO; 2016 [1].
Note: Prices have been adjusted for annual inflation.

**Second benefit: Increasing taxes on tobacco helps raise revenue for the state budget**

- According to the World Bank, a 10% increase in taxes globally would increase government revenues by 7% [2].

- According to WHO, governments around the world can collect US$ 141 billion more from tobacco taxes by raising taxes on cigarettes by just US$ 0.80 per pack in all countries [3].

- While tobacco tax increases help reduce consumption, they also lead to increased tax revenues for the following reasons:
  - Tobacco is a commodity that is addictive; therefore, the rate of reduction in consumption will be lower than the rate of price increases.
  - Due to population growth, even if the rate of smoking is reduced, there is always a pool of potential new smokers. As a result, a reduction in the number of total smokers often takes a long time.

- In countries where the share of taxes in the final price of cigarettes is very low, such as in Viet Nam, tax increases often do not lead to large price increases or consumption decreases, but they will generate increased revenues.
In both developed countries – and in developing countries – the benefits of raising taxes on tobacco have been clearly demonstrated. Here is a brief summary of the experience of some countries.

**South Africa**

In South Africa, from 1991 to 2011 tobacco taxes per pack have increased from less than 2 rand per pack (US$ 1 = 12.7 rand on 5 January 2018) to about 10 rand per pack (Fig. 3). As a result, tobacco tax revenue has increased from 3 billion rand to almost 12 billion rand during the same period.

**Thailand**

From 1993 to 2012, cigarette taxes increased from 55% to 87% of the wholesale price, which is equivalent to an increase from 120% to 670% of the factory price. As a result, tax revenues increased fourfold (from US$ 500 million in 1993 to US$ 2.1 billion in 2015), while the nationwide smoking rate dropped from 32% in 1991 to 19.9% in 2015, with cigarette consumption fluctuating at around 2 billion packs per year [4].

**Philippines**

In 2012, the Philippines adopted a tax law that increased tobacco taxes with different rates (between 100% and 300% compared to the level before tax increase) for different types of cigarettes, with the goal of reaching a common tax rate by 2017. As a result, tax revenues increased more than two times after the first year, from US$ 680 million in 2012 to US$ 1.6 billion in 2013. This figure increased to US$ 2.2 billion in 2015, three times more than it was before the tax increase [5].
Question 2. What are the benefits of raising tobacco taxes in developing countries?

The smoking rate in the Philippines fell from 29.7% in 2009 to 23.8% in 2015 (6); the smoking rate among young people (13–15 years) dropped from 6.8% to 5.5%.

Brazil

From 2006 to 2013, excise taxes for each package of cigarettes increased by 116%, while average real cigarette prices increased by 74%. As a result, government revenue from tobacco taxation increased by 48% (from 3.5 billion reais in 2006 to 5.1 billion reais in 2013), while consumption decreased by nearly 30% during that time (7).

Viet Nam

In 2008, after applying the new tax rate of 65%, an increase of 10 percentage points over the 55% tax rate in 2007, tobacco sales revenue increased by more than 1 trillion Vietnamese dong (₫), while consumption in 2008 decreased by 8% compared to 2007. However, the tax increased only in that year and not in subsequent years, thus it did not have much effect as the consumption continued its increasing trend in the subsequent years. In 2009, consumption increased by 10% compared to 2008 and continued to increase in the following years.

In 2016, after imposing a new tax of 70% (an increase of 5 percentage points over the existing tax rate of 65%), tobacco tax revenue in 2016 grew by about ₫1.25 trillion compared to 2015. The reduction in consumption was small as the tax increase also was small.
The proposed plan to raise tobacco taxes in the draft law on amending and supplementing some articles of the Law on the Value-added Tax, the Law on Special Consumption Tax, the Law on the Corporate Income Tax and the Law on Personal Income Tax was posted online in August 2017. Regarding the tobacco excise tax, it is proposed that:

From 1/1/2020: applying the mixed excise tax, in addition to the current tax, by applying a specific tax of ₫ 1000 per pack of 20 cigarettes and ₫ 15 000 per cigar.

According to calculations by WHO experts, under the above-mentioned planned tax increase, in 2020 the smoking rate of men will decrease by 1.5 percentage points compared to the current rate of 45.3% (estimates from the 2015 Global Adult Tobacco Survey, or GATS). At the same time, the Government’s tobacco tax revenue will increase by ₫ 3.9 trillion. Thus, the level of reduction in smoking rate expected under this plan is very small – 1.5 percentage points.
Question 4. Does the proposed tax increase help to achieve the national target for reducing smoking rates?

The *National Strategy on Tobacco Control through 2020* approved by the Prime Minister aims to reduce the prevalence of smoking among adult males to 39% in 2020. The 2015 GATS estimated that the rate of smoking among adult males in Viet Nam was 45.3% in that year. In order to achieve the national target, tobacco taxes must be increased to a level high enough so that the smoking rate will decrease by 6.3 percentage points in 2020 compared to 2015.

The current proposed tax increase of the Government will have a positive impact on smoking reduction; however, it is relatively modest (1.5 percentage points), and is far from the level needed to achieve the targets in the *National Strategy on Tobacco Control through 2020*. 


Raising taxes on tobacco is one of the key measures in the National Strategy on Tobacco Control through 2020 approved by the Prime Minister to achieve the target of reducing the smoking rate of men to 39% by 2020.

International experience shows that taxation is the most important and most effective measure in reducing tobacco consumption, contributing to a 50–60% reduction in smoking rates in countries where comprehensive interventions have been implemented (8).

**Option to achieve the objective of the National Strategy**

Based on evidence mentioned above, WHO experts estimate that in order to achieve the targets of the National Strategy, tobacco taxes should be high enough so as to reduce the male smoking rate by 3 percentage points in 2020.

To achieve the above targets, tobacco taxes should be increased by ₫2000 per pack, with details as below:

From 1 January 2020, in addition to the current tax, apply a specific tax of ₫2000 per pack of 20 cigarettes.

Under this plan, the smoking rate will be reduced by 3 percentage points (absolute), and tax revenue of the Government will be expected to increase by ₫6.3 trillion per year.

More importantly, the number of smokers will decrease by nearly 600,000 and about 300,000 premature deaths will be avoided in the future.

**Optimal tax increase option**

Taxes and prices in Viet Nam are very low, so the Government should consider a higher tax rate. Therefore, it is recommended that the optimum tax increase plan for Viet Nam should be an increase of a specific excise tax at ₫5000 per pack. The proposed tax increase plan should be:

From 1 January 2020, in addition to the current tax, apply a specific tax of ₫5000 per pack of 20 cigarettes.

With this option, the smoking rate is expected to decline by 6.5 percentage points (absolute), and tax revenue of the Government is expected to increase by ₫10.7 trillion annually.

More importantly, the number of smokers will decrease by 1.8 million and about 900,000 premature deaths will be avoided.
The definitions of specific and ad valorem tax

The “specific tax” is a fixed amount of tax levied per unit of a product, such as packs of cigarettes or by weight, by a carton of cigarettes or by the number of cigarettes. For example, Singapore applies a specific tax of S$ 8 per pack of 20 cigarettes.

The “ad valorem tax” is calculated as a percentage of the price of the product at a certain point in the supply chain, such as the factory price, wholesale price or retail price. In Viet Nam, taxes are collected as a percentage of the factory price.

Specific tax is a simpler and more effective way of collecting taxes

According to the Guidelines for Implementation of Article 6 of the *WHO Framework Convention on Tobacco Control*, “The Parties should consider implementing a specific or mixed excise tax system, with minimum prices for tobacco products, because these tax systems have an advantage over the pure percentage tax system”.

The method of specific tax collection has obvious advantages:

1. Specific tax applies a uniform amount of tax on all packs of cigarettes, thereby reducing the price difference between cigarette products. This tax helps reduce the number of inexpensive cigarette products, which in turn reduces the access and use of tobacco among children and adolescents.
2. It reduces the risk of price transfer between producers and distribution companies.
3. It is easier to manage and predict tax revenue collection.

The disadvantage of the ad valorem tax (the current method of excise tax in Viet Nam)

Viet Nam is currently using only an ad valorem tax, calculated as a percentage of the factory price. This tax system has some shortcomings, including:

1. It is difficult to ascertain the real price of the product, which poses challenges in accurately determining the taxable price and creates a risk of price transfer by producers.
2. The ad valorem tax system tends to create a big price gap among cigarette products, thereby reducing the effectiveness of tax increases, as consumers will buy cheaper brands instead of quitting when the tax increases.
3. The system also encourages the production of low-cost cigarettes – since tax rates are calculated on product prices, low prices mean low taxes – thereby increasing access to and the use of tobacco among children and adolescents.

The trends in the world

Fewer countries are using the ad valorem tax system and instead are shifting to specific taxes or mixed taxes. The number of countries applying the ad valorem tax fell from 57 countries in 2008...
to 46 countries in 2016. Meanwhile, the number of countries applying mixed taxes increased from 48 to 61 countries over the same period. The number of countries applying pure specific tax increased from 48 to 66 countries (Fig. 4).

Figure 4. Three tax systems used around the world

In South-East Asia, most countries are also applying specific or mixed taxes. Five countries are currently applying the specific tax system (Brunei Darussalam, Indonesia, Malaysia, the Philippines and Singapore), two countries are applying a mixed tax system (the Lao People’s Democratic Republic and Thailand), and only three countries are applying ad valorem taxes only (Cambodia, Myanmar and Viet Nam).

In countries that have mixed systems, the trend is to rely more on the specific component (that is, to increase the specific rate).

Recommendations

1. Tobacco taxes should be increased by ₫ 2000 per/pack or optimally by ₫ 5000 per/pack by 2020.
2. Tobacco taxes should be increased regularly to keep up with the increase of income and inflation.
3. Taxes should increase until reaching 70% or more of retail price, as recommended by WHO.
PART II
FREQUENTLY ASKED QUESTIONS ABOUT TAX INCREASE
Evidence from various countries shows that raising tobacco taxes does not have a negative impact on employment. This is also likely the case for Viet Nam due to several reasons.

**Cigarette production does not drop sharply in the short term**

Cigarettes are addictive, and it is very hard to quit smoking. Furthermore, even if the prevalence of smoking decreases, the number of smokers and the number of cigarettes consumed may not decrease as the population continues to increase and new smokers enter the market.

In Thailand, between 1993 and 2015, comprehensive tobacco control measures were applied, in addition to 10 separate tax increases. As a result, the smoking rate in men dropped from 59% to 41.6% and the general smoking rate fell from 32% to 19.9%. However, consumption still fluctuated at around 2 billion packs per year [4].

**Raising taxes on tobacco increases employment and positively impacts gross domestic product**

The 2017 World Bank report on tobacco taxes [9] concluded that, “When cigarette consumption drops after a tax rate hike, money not spent on tobacco products will mostly flow to other economic sectors, stimulating their production and so creating jobs there, while contributing to economic diversification. Studies show that over time there is likely to be a net gain rather than a loss in employment in nearly all countries that raise tobacco excise rates.”

In Viet Nam, a study by the Institute of Public Policy and Management at the National Economics University [10] on the impact of tax increases on employment and production of the economy in Viet Nam (2014) shows that if the Government had increased the tax rate from 65% to 85% in 2014, total production in the economy would have increased by 0.09% (equivalent to $1.98 trillion) and the total employment would have increased by 0.12% (equivalent to 60,278 jobs).

**Even if production decreases to a level at which a reduction in labour would be required, the number of employees affected in the tobacco industry is insignificant**

According to data from the Viet Nam Tobacco Association, there are about 600,000 employees in the tobacco industry, accounting for 0.31–0.35% of the country’s labour force, including workers, farmers, traders and service providers [10].

- **For tobacco farmers:** According to a report from the Ministry of Industry and Trade, Viet Nam still imports about half of its tobacco leaves annually. Consequently, even if consumption decreases, the tobacco industry can reduce the import of raw materials, therefore it will not affect the tobacco growers in the country. Even if the farmers do not grow tobacco, they can grow other crops that generate no less income than tobacco.

- **For distributors/sellers:** In Viet Nam, except for a few wholesalers, retail sales of tobacco products are often made in convenience stores and in tea and coffee shops that also sell many other products. Therefore, if the retail sales of cigarettes decrease, it will not affect the income of these retailers significantly.

- **For labourers in the cigarette industry:** The number of labourers in the cigarette industry represents a very small share of the labour force of the tobacco industry (about 0.13%).[10] Hence, they can be supported for retraining to adapt to jobs in other sectors, if necessary. However, assuming that significant reductions in production are unlikely or will occur only over a long period of time, workers or growers have sufficient time to seek new employment.
**Question 8. Does an increase in excise taxes cause cigarette smuggling in Viet Nam?**

**The short answer is “no”**

The cigarette smuggling in Viet Nam can be traced to two main reasons:

**First reason: Cigarettes are smuggled into Viet Nam to avoid import tax**

There is a need to distinguish between import taxes, which are applied only to imported cigarettes, and other taxes such as excise taxes and value added taxes (VAT) that are applied to all cigarettes. The Government of Viet Nam is maintaining a high import tax in order to reduce the import and consumption of foreign cigarettes.

The import tax rate is now 135% of import prices. After the import tax is applied, the excise tax and VAT will then be applied. Thus, if a pack has an original import price of ₫10,000, the selling price will be at over ₫50,000 per pack after applying the import tax and other taxes.

The high import tax rate makes it difficult for legally imported cigarettes to compete in terms of price, thus providing an incentive for smuggling foreign cigarettes.

Therefore, whether the excise tax is low or high there will still be strong motivation to smuggle cigarettes to avoid import tax.

**Second reason: due to user habits – or “taste” – smokers prefer well-known, illicit brands**

The taste preference is detailed in the following three points:

1. According to the reports from the Viet Nam Tobacco Association, in recent years about 80–90% of the smuggled cigarettes belong to the two brands: Hero and Jet. These brands have high levels of tar and nicotine and are more suitable for heavy smokers.

2. These brands are most popular in two southern regions in Viet Nam. According to the 2015 GATS, nearly 92% of Hero and Jet brands are consumed by smokers from the Southeast-East and the South-West regions. More specifically, about 75% of the consumption of these two brands takes place in 10 provinces and cities in these areas, including: Binh Thuan, Tay Ninh, Ho Chi Minh City, Long An, Vinh Long, Dong Thap, An Giang, Kien Giang and Can Tho.

3. Smokers of smuggled cigarettes are willing to pay higher prices for smuggled brands than domestically produced brands. According to the 2015 GATS, the average price of Hero and Jet are 30–60% higher than the average prices of other legal tobacco brands in Viet Nam.

With the above, it can be concluded that increase in excise taxes is not a main reason for tobacco smuggling in Viet Nam.
**Question 9. What is the international experience concerning the relationship between taxes, prices and smuggling?**

High taxes and prices for cigarettes do not mean high levels of smuggling

Evidence in 76 countries shows that smuggling is even more common in countries with lower tobacco prices than in those with higher tobacco prices, as can be seen in Figure 5.

**Figure 5. Smuggling is even more common in countries with low taxes and tobacco prices**

\[ y = -0.005x + 0.149 \]
\[ R^2 = 0.0264 \]


Country Abbreviations: AE = United Arab Emirates, AR = Argentina, AT = Austria, AU = Australia, AZ = Azerbaijan, BA = Bosnia and Herzegovina, BE = Belgium, BG = Bulgaria, BO = Bolivia, BR = Brazil, BY = Belarus, CA = Canada, CH = Switzerland, CL = Chile, CM = Cameroon, CN = China, CO = Colombia, CR = Costa Rica, CZ = Czech Republic, DE = Germany, DK = Denmark, DO = Dominican Republic, DZ = Algeria, EC = Ecuador, EE = Estonia, EG = Egypt, ES = Spain, FI = Finland, FR = France, GB = United Kingdom, GE = Georgia, GR = Greece, GT = Guatemala, HR = Croatia, HU = Hungary, ID = Indonesia, IE = Ireland, IL = Israel, IN = India, IR = Iran, IT = Italy, JP = Japan, KE = Kenya, KR = Republic of Korea, KZ = Kazakhstan, LT = Lithuania, LV = Latvia, MA = Morocco, MK = Macedonia, MX = Mexico, MY = Malaysia, NG = Nigeria, NL = Netherlands, NO = Norway, NZ = New Zealand, PE = Peru, PH = Philippines, PK = Pakistan, PL = Poland, PT = Portugal, RO = Romania, RS = Serbia, RU = Russian Federation, SA = Saudi Arabia, SE = Sweden, SG = Singapore, SI = Slovenia, SK = Slovakia, TH = Thailand, TN = Tunisia, TR = Turkey, UA = Ukraine, US = United States, UY = Uruguay, UZ = Uzbekistan, VE = Venezuela, VN = Viet Nam, ZA = South Africa.
Many countries have successfully controlled cigarette smuggling, even as tobacco taxes and cigarette prices increase, with the experience of Italy illustrated in Fig. 6.

**Figure 6. Market share of smuggled cigarettes and tax rates in retail prices, most popular brand, Italy**

In Italy, cigarette smuggling was at a high level (about 13% of total consumption) in 1992. The Government decided to increase the tobacco excise tax three times from 1993–2000 to a rate of 75.2% of the retail price. To combat smuggling, the Italian Government implemented several measures, including introducing barcodes on cigarette packs to help detect illicit cigarettes, adopting legislation treating tobacco smuggling like other serious crimes, and increasing control over the Italian coast and additional surveillance by enforcement authorities, which were given increased powers and logistic and technical support. The Italian Government also strengthened its cooperation with the European Union. These efforts paved the way for law enforcement and judicial authorities to tackle tobacco smuggling efficiently and effectively. As result, the rate of smuggled cigarettes was brought down to about 3% in 2000 and has been maintained at this low level in the following years.

In countries that are members of the Association of Southeast Asian Nations (ASEAN), there are also good examples. The Philippines increased tobacco taxes year by year from 2013 to 2017, which helped increase tobacco tax revenue by 300%. Over the same period, there was no significant increase in cigarette smuggling. Thailand increased its tobacco tax 10 separate times, every one or two years on average, between 1993 and 2015. Tobacco tax revenue increased by 400%, but there was no problem with tobacco smuggling.

Most importantly, even if there is smuggling, increased tobacco taxes can still help countries to achieve the desired outcomes: reduce consumption and increase government tax collection from tobacco. This is the conclusion of the World Bank report, *Myths and Facts of Tobacco Control* [11].

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**World Bank**

“Smuggling is a serious concern. But even in the face of smuggling, the evidence from a number of countries shows that tax increases still increase revenues and reduce cigarette consumption.”
First, Viet Nam should consider signing and ratifying the Protocol to Eliminate Illicit Trade in Tobacco Products. This is a protocol under the WHO Framework Convention on Tobacco Control, which Viet Nam ratified in 2004. So far, 53 countries have signed the Protocol and 35 countries have ratified it. The protocol is estimated to enter into force by 2018, after it is ratified by 40 countries.

The treaty aims at eliminating all forms of illicit trade in tobacco products. It provides tools for preventing illicit trade by securing the supply chain, including by establishing an international tracking-and-tracing system, and a suite of measures to enable international cooperation.

Second, Viet Nam should strengthen enforcement of smuggling control both along its border and at points of sale. In order to effectively control cigarette smuggling in Viet Nam, authorities should focus on big cities, especially the 10 cities and provinces mentioned above.

Third, Viet Nam should cooperate with neighbouring countries, which are being used as transit hubs to introduce illicit cigarettes in Viet Nam. Initial steps should be an exchange of information about tobacco imports and trade, as well as tax data and collaboration on controlling tobacco smuggling in border areas.
PART III
TOBACCO USE AND TOBACCO TAX IN VIET NAM
Globally 1.1 billion people use tobacco, and an estimated 82% of smokers live in low- and middle-income countries (1). Each year tobacco use causes a loss of US$ 1.4 trillion in treatment costs and productivity losses due to disease and premature death caused by tobacco use (12).

In Viet Nam, according to the 2015 GATS (13):

- 45.3% of men and 1.1% of women, aged 15 and above, currently use tobacco;
- 15.6 million Vietnamese people over 15 years of age are smoking cigarettes, with Viet Nam having the third-highest number of smokers in ASEAN;
- 28.5 million non-smokers are exposed to second-hand tobacco smoke at home; and
- 5.9 million non-smokers are exposed to second-hand tobacco smoke in workplaces.
Tobacco smoke contains more than 7000 chemicals, including 69 carcinogens. Tobacco use causes 25 types of disease, mainly in four main groups, as illustrated in Fig. 7:

1. **Cancers**: with 12 types of cancers caused by smoking, these are the most common and dangerous: lung cancer (most common), laryngeal cancer, bronchial cancer, larynx cancer, oral cavity cancer and throat cancer;
2. **Cardiovascular diseases**: including strokes and heart attacks;
3. **Respiratory diseases**: including chronic obstructive pulmonary disease and pneumonia; and
4. **Reproductive and sexual diseases in both sexes**: including decreased sperm quality and erectile dysfunction in males, increased risk of infertility, premature delivery, miscarriage and stillborn babies.

Worldwide, smoking cigarettes causes 7.1 million deaths annually (14) and this number is expected to reach more than 8 million annually by 2020, with 70% of deaths in developing countries. If tobacco control measures are not effectively implemented, tobacco use will have killed 1 billion people in this century.

Passive, or second-hand, smoke also affects health. Non-smokers who regularly inhale passive smoke also suffer from many of the same diseases as smokers. Of the 7.1 million tobacco-related deaths, 890 000 are caused by diseases resulting from exposure to second-hand tobacco smoke (14).

**Figure 7. Diseases caused by tobacco use**

Health consequences

More than 40,000 deaths from tobacco-related diseases occur each year in Viet Nam. This number will increase to 70,000 cases per year in 2030 if Viet Nam fails to implement effective tobacco control measures (15).

Tobacco-related diseases, such as stroke, coronary artery disease, lung cancer and chronic obstructive pulmonary disease, are the leading causes of death in Viet Nam (16).

Economic loss

Although the tobacco industry contributes to the state budget (about ₫16 trillion in 2015), the contribution is insufficient to offset the economic losses and health damage caused by tobacco use.

These losses include health-care services for smoking-related diseases, loss of productivity due to illness and premature death, and loss caused by smoking related fire and environment pollution.

The economic losses were estimated at more than ₫24 trillion per year in 2011, which was almost 1% of the country’s gross domestic product (17). These numbers represent the cost of health-care services and the loss of productivity due to illness and premature deaths caused by smoking in Viet Nam.

In addition, Vietnamese people spend ₫31 trillion annually to buy cigarettes (estimated from the 2015 GATS) (13).
Question 14. What are the key policy documents related to tobacco taxes in Viet Nam?

The following are the key policy documents related to tobacco taxes in Viet Nam:

**Party Resolution on Health Care in the New Situation**

Resolution No. 20/NQ-TW dated 25 October 2017 on “Strengthening the protection, care and improvement of people’s health in the new situation” has directed “increase the excise tax on goods that are harmful to health such as alcoholic drinks, carbonated drinks, cigarettes so as to limit the consumption”.

**Law on Prevention and Control of Tobacco Harm**

Clause 2, Article 4, of the Law on Tobacco Control stipulates the application of “a suitable tax policy in order to reduce the rate of tobacco use”.

**National Strategy on Tobacco Control through 2020**

Prime Ministerial Decision No. 229/QD-TTg, dated 25 January 2013, on the National Strategy on Tobacco Control through 2020 aims to reduce the smoking rate in:

- youths and adolescents (from 15–24 years old) from 26% in 2011 to 18% in 2020
- adult males from 47.4% in 2011 to 39% in 2020.

The intervention measures under the strategy include a tax-and-price measure that aims “to formulate a tax adjustment road map and define the minimum price of tobacco products to limit the demand for tobacco use”.

In addition, it states that “the tax adjustment road map and the provision for minimum price of tobacco products should aim to ensure no increase in the affordability and gradually decrease in the affordability of tobacco products”.

**Tax System Reform Strategy for 2011–2020**

The Tax System Reform Strategy stipulates that for excise tax: “[the Government] to study the adjustment and supplementation of goods and services subjected to excise tax so as to regulate the consumption in compatibility with the socioeconomic development situation; formulate a road map of tax adjustment for tobacco, beer, wine and automobiles to regulate consumption and implement international commitments...[and] study the application of the combination of an ad valorem and specific taxes for a number of taxable goods and services.”

**WHO Framework Convention on Tobacco Control (WHO FCTC)**

This is an international convention developed under the sponsorship of WHO. The WHO FCTC was ratified by the President of Viet Nam on 11 November 2004, and the Convention entered into force in the country on 17 March 2005. Article 6 of the WHO FCTC provides that “price and tax measures are an effective and important measures of reduce tobacco consumption by various segments of the population, in particular young persons”.

Regarding the tax system, the Guidelines for Implementation of Article 6 of the WHO FCTC recommend: “Parties should implement the simplest and most efficient system that meets their public health and fiscal needs, and taking into account their national circumstances. Parties should consider implementing specific or mixed excise systems with a minimum specific tax floor, as these systems have considerable advantages over purely ad valorem systems.”
The tobacco tax in Viet Nam is very low compared to taxes in the WHO Western Pacific Region and around the world.

Under the current tax law, excise taxes on cigarettes are equal to 70% of the factory price. However, when tax is calculated as percentage of retail price, which is the international standard for the tobacco tax rate the current tobacco tax in Viet Nam (including VAT) only accounted for about 35.6% of retail price. This tax rate is much lower than the world average of 56% and lower than most ASEAN countries as shown in Fig. 8. The tax rate in Viet Nam is similar to the rate in Myanmar, but lower than all other ASEAN except for Cambodia and the Lao People’s Democratic Republic.

Figure 8. Tobacco tax share on retail prices in ASEAN Member States, 2016

![Graph showing tobacco tax share on retail prices in ASEAN Member States, 2016](image)

Lao PDR: Lao People’s Democratic Republic  
Source: Data from the WHO Global Tobacco Control Report 2017.

Because of low taxes and the use of a purely ad valorem system, the price of cigarettes in Viet Nam is also one of the lowest in the world and in the Western Pacific Region. As can be seen in Figure 9, when calculating using the “international dollar” as expressed by purchasing power parity (PPP), which takes into account the differences in income and living costs in different countries, the price of one pack of the most popular cigarette brand in Viet Nam (Vinataba) is only 2.18 dollars PPP. With this price, Viet Nam ranks 19th, almost the lowest, out of 20 countries in terms of cigarette price. The original price in US dollars was also given as a reference point.

Figure 9. Price of the most popular brand of cigarettes in Viet Nam compared to other countries in WHO Western Pacific Region, 2014

![Graph showing price of the most popular brand of cigarettes in Viet Nam compared to other countries in WHO Western Pacific Region, 2014](image)

PPP = purchasing power parity.  
Source: Data from the WHO Global Tobacco Control Report 2015.
As income has risen faster than the increase in the price of cigarettes, cigarettes have become less expensive relative to income, in other words more affordable, in recent years. From 2005 to 2016, nominal income per capita increased by 4.7 times, meanwhile, the price of a popular brand of cigarettes increased by 2.2 times (Fig. 10).

Figure 10. Retail (nominal) price of cigarettes and income per capita Viet Nam, 2005–2016

To further assess the affordability of cigarettes, an indicator called relative income price (RIP) is used. This indicator is calculated as the percentage of income (using the GDP per capita as a proxy) required to purchase 100 packs of cigarettes (20 cigarettes each). The smaller the RIP is, the cheaper cigarettes are, and thus are more affordable.

In Viet Nam, the RIP for the most popular brand (Vinataba) fell steadily from around 9% in 2005 to 4.3% in 2016 (Fig. 11). This means tobacco prices fell steadily against income, and that affordability increased steadily during this period.

Figure 11. Relative Income Price (RIP), most popular brand 2005–2016

Source: Data from General Statistic Office & WHO Global Tobacco Control Reports
Viet Nam has adjusted and increased tobacco taxes three times since 2006:

1. In 2006, the excise rate on cigarettes was adjusted from three levels (25%, 45% and 65%) to a uniform level of 55%, calculated on the factory price.
2. In 2008, the excise tax rate increased from 55% to 65%, calculated on the factory price.
3. In 2016, the excise tax rate increased from 65% to 70%, calculated on the factory price.

The tobacco tax rate had not changed for a long period from 2008 until 2016.

When the tax is calculated as a percentage of retail price, e.g. the international standard for the tobacco tax rate, the current tobacco tax in Viet Nam only accounted for 35.6% of retail price. This is much lower than the world average of 56% and lower than most ASEAN countries.

**Common characteristics and impacts of recent tax increases**

In general, these are quite small tax increases and have not produced much impact:

1. Consumption decreased only in the year of the tax adjustment and then increased in the following years (Fig. 12). From Figure 12, it can be noted that domestic consumption fell in 2006 and then increased the following year; the same pattern occurred in 2008–2009. In 2016, consumption fell slightly, and it was expected to increase again in the following years.
2. The price increased after the tax increase but the increase was not enough to keep up with the increase in income and inflation. As mentioned above in Figure 10, from 2005 to 2016 nominal income per capita increased by 4.7 times; meanwhile, the price of a popular brand of cigarettes increased by 2.2 times. At the same time, the RIP (percentage of income required to purchase 100 packs of cigarettes) of the most sold brand has reduced from 9.3% of GDP per capita to 4.3% of the GDP per capita (Fig. 11).
3. Tax revenues increased in the first year of tax increases, however, at a modest level because the tax increases were also modest – it is estimated that tax revenue increased by ₡1 trillion in 2008 and by ₡1.25 trillion in 2016.

**Figure 12. Tobacco consumption in Viet Nam, 1990–2017**

Source: Data from General Department of Statistics, reports of the Tobacco Association, Vinataba Tobacco Corporation.
**Lessons learnt and recommendations from tax increases in 2008 and 2016**

Increasing tobacco taxes helps reduce tobacco consumption. However, personal income continues to rise due to economic growth. As a result, if the tax increases at a relatively low rate it will only drive down consumption for a year before consumption once again rises. Taxes must be increased regularly over time to keep up with the pace of economic growth.

Taxes increases have two benefits: they reduce consumption and increase budget revenue.

Viet Nam’s current tax rate is very low, at about 35.6% of the retail price; therefore, tobacco taxes must be high enough to significantly reduce tobacco consumption and to generate additional tax revenue. Tobacco taxes in Viet Nam should continue to increase until reaching 70% or more of retail price, as recommended by WHO.
PART IV
EXAMPLES OF SUCCESSFUL TOBACCO TAX POLICIES
As can be seen in Figure 13 (4), from 1993 to 2012, the Government of Thailand increased the special consumption tax on cigarettes 10 separate times, about one tax increase every two years. As a result, the tax rate has increased from 55% to 87% of the wholesale price, which is equivalent to an increase from 120% of the factory price to 670% of the factory price.

**Impact of tax increase in Thailand**

- **Increased cigarette prices:** Tobacco prices increased from 15 baht per pack (1993) to 65 baht per pack (2015).
- **Reduced smoking rate:** The national smoking rate dropped from 32% in 1991 to 19.9% in 2015, while tobacco production did not change much, due to population growth, fluctuating at around 2 billion packs per year.
- **Premature deaths avoided due to tax increase (8):**
  - 5729 lives were saved in 2006
  - 31,867 lives were saved in 1993–2006
  - 18,409 lives will be saved in 2026
  - 319,456 lives will be saved in 1993–2026.

**Figure 13. Tax rate for wholesale prices, sales volume and excise revenue in Thailand, 1991–2015**

*Source: The ASEAN Tobacco Atlas 2016.*
• **Increased revenue collection**: tobacco tax revenue increased more than four times, from US$ 500 million in 1993 to US$ 2.1 billion in 2015.

• **No increase in tobacco smuggling**: Thailand’s GATS 2011 survey showed that only 4.8% of smokers used smuggled cigarettes.

**What is the lesson learnt here?**

Regular tobacco tax increases are proven to be win–win measures by reducing smoking rates while also increasing government tax revenues.
In 2009, 29.7% of adults in the Philippines smoked; almost half of men (49.5%) and one in 10 women (10.1%) smoked. In 2011, the prevalence of smoking among adolescents (13–15 years old) was 8.9%, with 12.9% boys smoking and 5.3% of girls smoking (5).

**Tobacco tax structure and tobacco tax reform process in the Philippines**

The Philippines applies the specific excise tax system. Prior to 2012, the Philippines used a four-tiered tax system, with various tax rates ranging from 2.72 Philippine pesos (PHP) to 28.3 PHP per pack of cigarettes, applicable to tobacco products at different prices.

In 2012, the Philippines adopted the *Tax Reform Act*, the so-called “sin tax”, shifting the four-tiered tax structure to a two-tiered tax structure and steadily increased tax rates from 2013–2016 to reach a common tax rate in 2017 of 30 PHP (roughly US$ 0.75) per pack of 20 cigarettes. Tax rates will continue to be increased 4% every year after 2017 (Fig. 14).

**Impact of tax increases**

- **Increased cigarette prices**: After applying the excise tax increase, the average price per cigarette pack increased from 21.1 PHP in 2012 to 31.3 PHP in 2013.
- **Reduced consumption**: Domestic consumption fell from 5.76 billion packs in 2012 to 4.97 billion packs in 2013. A part of the decline was due to the tobacco industry’s “increased production” in 2012 in order to market more products before the new tax rate took effect. Data from the 2009 and 2015 GATS showed that the rate of smoking among Filipino adults dropped from 29.7% in 2009 to about 23.8% in 2015. The smoking rate among young people (13–15 years) dropped from 6.8% to 5.5%.
- **Increased budget revenue**: Government budget revenue from taxes on tobacco increased by more than twofold, from $ 680 million in 2012 to $ 1.66 billion in 2013, despite declining sales. Tax revenue continued to rise to $ 2.2 billion in 2016. Much of the increase in revenue is being used for health care, mostly for the national health insurance programme.
**Lessons learnt**

Similar to the experience of Thailand, when taxes rise, consumption decreases and smoking rates decrease – but government revenue still rises. In particular, the Philippines increased taxes significantly; therefore, the Government’s cigarette tax revenue also increased sharply, from US$ 680 million in 2012 to US$ 2.2 billion in 2015, a threefold increase.

**Comparison between Thailand, the Philippines and Viet Nam**

Table 1 presents a brief comparison of tobacco tax as a percentage of retail price, consumption and tax revenue in Thailand, the Philippines and Viet Nam.

<table>
<thead>
<tr>
<th>Country</th>
<th>Tobacco tax as a % of retail price</th>
<th>Consumption (million packs)</th>
<th>Revenue from tobacco tax (million US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand (2015)</td>
<td>70%</td>
<td>2191</td>
<td>2091</td>
</tr>
<tr>
<td>Philippines (2014)</td>
<td>53%</td>
<td>3638</td>
<td>2200</td>
</tr>
<tr>
<td>Viet Nam (2015)</td>
<td>36%</td>
<td>3900</td>
<td>708</td>
</tr>
</tbody>
</table>

**Summary**

**Thailand** consumed 2.2 billion packs of cigarettes and collected US$ 2.1 billion in tobacco taxes;

The **Philippines** consumed 3.6 billion packs of cigarettes and collected US$ 2.2 billion in tobacco taxes.

**Viet Nam** consumed 3.9 billion packs of cigarettes and collected only US$ 0.7 billion in tobacco taxes.

These data further confirm that Viet Nam’s tobacco tax rate is very low, with much room to increase towards levels found in other countries.
CONTACT INFORMATION

For more information, please contact us:

VIET NAM TOBACCO CONTROL FUND – MINISTRY OF HEALTH
Address: 273 Kim Ma, Ba Dinh, Hanoi
Tel.: 024.38314892
Fax: 024.38315440

WORLD HEALTH ORGANIZATION, REPRESENTATIVE OFFICE FOR VIET NAM
Address: 304 Kim Ma, Ba Dinh, Hanoi
Tel.: 04.38500100/04.38500294
Fax: 04.37265519/04.37265520

HEALTHBRIDGE FOUNDATION OF CANADA, VIET NAM OFFICE
Address: 202 & 203 E4 Building, Trung Tu Diplomatic Area No. 6 Dang Van Ngu, Dong Da, Hanoi
Tel.: 04.35119904
Fax: 04.35119905
REFERENCES

10. Giang TL, Nguyen TTH. Impact of tax increase on employment: review of research in Viet Nam and other countries. Law study magazine (Tap chi Nghien cuu Lap phap); 2014.
Raising taxes on tobacco has two main benefits: 1) it reduces the consumption of tobacco and reduces the tobacco-related burden of disease and death; and 2) it raises revenue for the state budget. Therefore, raising taxes on tobacco is a win–win measure: a win for public health and a win for the state budget.

The first benefit: Raising taxes on tobacco reduces the consumption of tobacco, preventing children and adolescents from taking up smoking.

- **International experience:** Evidence from many countries has shown that increasing the price of tobacco through higher taxes will encourage tobacco users to quit, or to reduce the number of cigarettes they consume, and prevent people from beginning to smoke.

- **WHO guideline:** A 10% price increase on a pack of cigarettes would be expected to reduce the demand for cigarettes by about 4%, on average, in high-income countries and by about 5% in low- and middle-income countries.

- **Stronger impact on youths and adolescents:** Tax measures are particularly effective for children and adolescents – an estimated 10% increase in cigarette prices will reduce tobacco use by 10% or more among young people, a much stronger impact compared to the adult group.

The second benefit: Increasing taxes on tobacco helps raise revenue for the state budget.

- **World Bank:** A 10% increase in taxes globally would increase government revenues by 7%.

- **WHO:** Governments around the world can collect US$ 141 billion more from tobacco taxes by raising taxes on cigarettes by just US$ 0.80 per pack in all countries.

While tobacco tax increases help reduce consumption, they also lead to increased tax revenues for the following reasons:

- Tobacco is a commodity that is addictive; therefore, the rate of reduction in consumption will be lower than the rate of price increases.
- Due to population growth, even if the rate of smoking is reduced, there is always a pool of potential new smokers. As a result, a reduction in the number of total smokers often takes a long time.

**Thailand:** From 1993 to 2012, cigarette taxes increased from 55% to 87% of the wholesale price, which is equivalent to an increase from 120% to 670% of the factory price. As a result, tax revenues increased fourfold (from US$ 500 million in 1993 to US$ 2.1 billion in 2015) while the nationwide smoking rate dropped from 32% in 1991 to 19.9% in 2015, with cigarette consumption fluctuating at around 2 billion packs per year.
WHY TOBACCO TAXES NEED TO BE INCREASED

Tobacco use causes huge health and economic burden in Viet Nam

- More than 40,000 deaths caused by tobacco-related diseases occur each year in Viet Nam.
- The economic losses were estimated at more than ₫ 24 trillion per year. These are healthcare costs and productivity loss due to illness and premature deaths from smoking.
- In addition, Vietnamese people spend ₫ 31 trillion annually to buy cigarettes (2015 GATS).

Tobacco products become more and more affordable

- From 2005 to 2016, nominal income per capita increased by 4.7 times; meanwhile, the price of a popular brand of cigarettes increased by 2.2 times.
- relative income price (RIP), calculated as the percentage of income required to purchase 100 packs of cigarettes (20 cigarettes each), has fallen significantly in past decade. The RIP for the most popular brand fell steadily from around 9% in 2005 to 4.3% in 2016.

Tobacco tax and price in Viet Nam very low compared with other countries

- Under the current tax law, excise taxes on cigarettes are equal to 70% of the factory price. However, when tax is calculated as percentage of retail price, e.g. the international standard for the tobacco tax rate, the current tobacco tax in Viet Nam only accounted for 35.6% of retail price. This is much lower than the world average of 56% and lower than most ASEAN countries.
- As a result, prices of cigarettes in Viet Nam are lower than in most of the countries in the Western Pacific Region; Viet Nam ranked 19 of 20 countries in terms of the price of the most sold brand.

Recommendations

1. Viet Nam should add a specific tax of ₫ 2000 or optimally of ₫ 5000 per pack by 2020.
2. Tobacco taxes should be increased regularly to keep up with the increase of income and inflation.
3. Taxes should increase until reaching 70% or more of the retail price, as recommended by WHO.
The *National Strategy on Tobacco Control through 2020* aims to reduce the smoking rate in:

- Adult males: to 39% in 2020
- Youths (15–24 years): to 18% in 2020.

### Option to achieve the objective of the National Strategy

WHO experts estimate that in order to achieve the targets of the National Strategy, tobacco taxes should be high enough so as to reduce the male smoking rate by 3 percentage points in 2020. To achieve the above targets, tobacco taxes should be increased by ₫2000 per pack, with details as below:

From 1 January 2020, in addition to the current tax, apply a specific tax of ₫2000 per pack of 20 cigarettes.

### Optimal tax increase option

Taxes and prices in Viet Nam are very low, so the Government should consider a higher tax rate. Therefore, it is recommended that the optimum tax increase plan for Viet Nam should be an increase of a specific excise tax of ₫5000 per pack. The proposed tax increase plan should be:

From 1 January 2020, in addition to the current tax, apply a specific tax of ₫5000 per pack of 20 cigarettes.

### Impact of the two options

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Option 1: Adding a specific tax of ₫2000 per pack from 1/1/2020</th>
<th>Option 2: Adding a specific tax of ₫5000 per pack from 1/1/2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce male smoking rate</td>
<td>From 45.3% (2015) to 42% (2020)</td>
<td>From 45.3% (2015) to 39% (2020)</td>
</tr>
<tr>
<td>Reduce number of smokers</td>
<td>by 600 000 smokers</td>
<td>by 1.8 million smokers</td>
</tr>
<tr>
<td>Reduce number of mortalities</td>
<td>300 000 cases</td>
<td>900 000 cases</td>
</tr>
<tr>
<td>Increase tax revenue</td>
<td>₫ 6.3 trillion per year</td>
<td>₫ 10.7 trillion per year</td>
</tr>
</tbody>
</table>

### Policy documents related to tobacco taxes in Viet Nam

**Party Resolution on Health Care in the New Situation**

Resolution No.20/NQ-TW dated 25 October 2017 has directed “increase the excise tax on goods that are harmful to health such as alcoholic drinks, carbonated drinks, cigarettes so as to limit the consumption”.

**Tax System Reform Strategy for 2011–2020**

The *Tax System Reform Strategy* stipulates that for excise tax: “[the Government] to formulate a road map of tax adjustment for tobacco, beer, wine and automobiles to regulate consumption and implement international commitments...[and] study the application of the combination of an ad valorem and specific taxes for a number of taxable goods and services”.
Disadvantage of the ad valorem tax (the current type of excise tax in Viet Nam)

Ad valorem tax has some shortcomings, including:

- It is difficult to ascertain the real price of the product and creates a risk of price transfer by producers.
- The ad valorem tax system tends to create a big price gap among cigarette products, thereby reducing the effectiveness of tax increases, as consumers will buy cheaper brands instead of quitting when the tax increases.
- The system also encourages the production of low-cost cigarettes – thereby increasing access to and the use of tobacco among children and adolescents.

Specific tax is simpler and more effective way of collecting taxes

The method of specific tax collection has obvious advantages:

- Specific tax reduces the price difference between cigarette products. Therefore, this tax helps reduce the number of inexpensive cigarette products, which in turn reduces the access and use of tobacco among children and adolescents.
- It reduces the risk of price transferring between producers and distribution companies.
- It is easier to manage and predict tax revenue collection.

Trend in the world

- Fewer countries are using the ad valorem tax system and instead are shifting to specific taxes or mixed taxes.
- In South-East Asia, most countries (7 out of 10) are also applying specific or mixed taxes. The remaining three countries that still rely on ad valorem tax only are Cambodia, Myanmar and Viet Nam.

Recommendations

1. Viet Nam should add a specific tax of ₫2000 or optimally of ₫5000 per pack by 2020.
2. Tobacco taxes should be increased regularly to keep up with the increase of income and inflation.
3. Taxes should increase until reaching 70% or more of retail price, as recommended by the WHO.
DOES AN INCREASE IN EXCISE TAXES CAUSE CIGARETTE SMUGGLING IN VIET NAM?

The short answer is NO

Cigarette smuggling in Viet Nam can be traced to two main reasons:

First reason: cigarettes are smuggled into Viet Nam to avoid import tax

- There is a need to distinguish between import taxes, which are applied only to imported cigarettes, and other taxes such as excise taxes and value added tax (VAT) that are applied to all cigarettes.
- The Government of Viet Nam is maintaining a high import tax in order to reduce the import and consumption of foreign cigarettes. The rate is now 135% of import prices.
- It is estimated that, after the import tax is applied, the excise tax and VAT will then be applied. Thus, if a pack has an original import price of ₫10,000, the selling price will be at over ₫50,000 per pack after applying the import tax and other taxes.

Therefore, whether the excise tax is low or high, there will still be strong motivation to smuggle cigarettes to avoid import tax.

Second reason: due to user habits – or “taste” – smokers prefer well-known, illicit brands

The taste preference is detailed in the following three points:

1. According to the reports from the Viet Nam Tobacco Association, in recent years about 80–90% of the smuggled cigarettes belong to the two brands: Hero and Jet. These brands have high levels of tar and nicotine and are more suitable for heavy smokers.
2. These brands are most popular in two southern regions in Viet Nam. According to the 2015 GATS, nearly 92% of Hero and Jet brands are consumed by smokers from the south-east and the south-west regions.
3. Smokers of smuggled cigarettes are willing to pay higher prices for smuggled brands than domestically produced brands. According to the 2015 GATS, the average prices of Hero and Jet are 30–60% higher than the average price of other legal tobacco brands in Viet Nam.

Global experience: high cigarette taxes & prices do not mean high levels of smuggling

Evidence in 76 countries shows that:
In countries with lower tobacco prices, smuggling is even more common than in countries with higher tobacco prices, (as can be seen in the figure.)

The World Bank recommended that:
“Smuggling is a serious concern. But even in the face of smuggling, the evidence from a number of countries shows that tax increases still increase revenues and reduce cigarette consumption.”

Recommendations

1. Viet Nam should sign and ratify the Protocol to Eliminate Illicit Trade in Tobacco Products.
2. Viet Nam should strengthen enforcement of smuggling control both along its border and at points of sale. Authorities should focus on provinces and areas with high cigarette smuggling.
3. Viet Nam should cooperate with neighbouring countries to address the smuggling issue.
The short answer is NO

Evidence from various countries shows that raising tobacco taxes does not have a negative impact on employment. This is also likely the case for Viet Nam due to several reasons:

Cigarette production does not drop sharply in the short term

Cigarettes are addictive, and it is very hard to quit smoking. Furthermore, even if the prevalence of smoking decreases, the number of smokers may not decrease as the population continues to increase and new smokers enter the market.

Raising tobacco taxes increases employment and positively impacts GDP

The 2017 World Bank report on tobacco taxes concluded that, “When cigarette consumption drops after a tax rate hike, money not spent on tobacco products will mostly flow to other economic sectors, stimulating their production and so creating jobs there, while contributing to economic diversification. Studies show that over time there is likely to be a net gain rather than a loss in employment in nearly all countries that raise tobacco excise rates.”

In Viet Nam, a study by the Institute of Public Policy and Management at the National Economics University (2014) shows that if the Government had increased the tax rate from 65% to 85% in 2014, total production in the economy would have increased by 0.09% (equivalent to ₫1.98 trillion) and the total employment would have increased by 0.12% (equivalent to 60,278 jobs).

Even if production decreases to a level at which a reduction in labour would be required, the number of employees affected in the tobacco industry is insignificant

There are about 600,000 employees in the tobacco industry in Viet Nam, accounting for 0.31–0.35% of the country’s labour force, including workers, farmers, traders and service providers:

- **For tobacco farmers:** Viet Nam still imports about half of its tobacco leaves annually. Consequently, even if consumption decreases, the tobacco industry can reduce the import of raw materials; therefore, it will not affect the tobacco growers in the country. Even if the farmers do not grow tobacco, they can grow other crops that generate no less income than tobacco.
- **For distributors/sellers:** In Viet Nam, retail sales of tobacco products are often made in convenience stores and in tea and coffee shops that also sell many other products. Therefore, if the retail sales of cigarettes decrease, it will not affect the income of these retailers significantly.
- **For labourers in the cigarette industry:** The number of labourers in the cigarette industry represents a very small share of the labour force of the tobacco industry (about 0.13%). Hence, they can be supported for retraining to adapt to jobs in other sectors, if necessary.

**Recommendations**

1. For the whole economy, a tobacco tax increase will result in a net gain in employment.
2. Tobacco taxes should be increased to benefit employment and the whole economy.
Recent tax adjustment and increases in Viet Nam

Viet Nam has adjusted and increased tobacco taxes three times since 2006:

1. In 2006, the excise rate on cigarettes was adjusted from three levels (25%, 45% and 65%) to a uniform level of 55%, calculated on the factory price.
2. In 2008, the excise tax rate increased from 55% to 65%, calculated on the factory price.
3. In 2016, the excise tax rate increased from 65% to 70%, calculated on the factory price.

The tobacco tax rate had not changed for a long period from 2008 until 2016.

When the tax is calculated as a percentage of retail price, e.g. the international standard for the tobacco tax rate, the current tobacco tax in Viet Nam only accounted for 35.6% of retail price. This is much lower than the world average of 56% and lower than most ASEAN countries.

Common characteristics and impacts of the recent tax increases

In general, these are quite small tax increases and have not produced much impact.

1. **Consumption decreased only in the year of the tax adjustment and then increased in the following years.** As can be seen in Figure 1 below, domestic consumption fell in 2006 and then increased the following year; the same pattern occurred in 2008–2009. In 2016, consumption fell slightly, and it was expected to increase again in the following years.

Figure 1. Tobacco consumption in Viet Nam, 1990–2017

![Figure 1](image)

**Source:** Data from General Department of Statistics, reports of the Tobacco Association, Vinataba Tobacco Corporation.
2. The price increased after the tax increase but the increase was not enough to keep up with the increase in the income and inflation: As can be seen in Figure 2, from 2005 to 2016 nominal income per capita increased by 4.7 times, meanwhile, the price of a popular brand of cigarettes increased by 2.2 times. At the same time, the relative income price (percentage of income required to purchase 100 packs of cigarettes) of the most sold brand has reduced from 9.3% of GDP per capita to 4.3% of the GDP per capita (Fig. 3).

Figure 2. Retail (nominal) price of cigarettes and income per capita Viet Nam, 2005–2016

![Figure 2. Retail (nominal) price of cigarettes and income per capita Viet Nam, 2005–2016](image)

Figure 3. Relative income price (RIP), most popular brand 2005–2016

![Figure 3. Relative income price (RIP), most popular brand 2005–2016](image)

3. Government tax revenues increased in the first year of tax increases, however, at a modest level. This is because the tax increases were also modest – it is estimated that tax revenue increased by ₫1 trillion in 2008 and by ₫1.25 trillion in 2016.

**Lessons learnt and recommendations from tax increases in 2008 and 2016**

(i) Increasing tobacco taxes helps reduce tobacco consumption. However, personal income continues to rise due to economic growth. As a result, if the tax increases at a relatively low rate it will only drive down consumption for a year before consumption once again rises. Taxes must be increased regularly over time to keep up with the pace of economic growth.

(ii) Taxes increases have two benefits: they reduce consumption and increase budget revenue.

(iii) Viet Nam’s current tax rate is very low, only 35.6% of the retail price; therefore, tobacco taxes must be high enough to significantly reduce tobacco consumption and to generate additional tax revenue. Taxes should increase until reaching 70% or more of retail price, as recommended by the WHO.

**Recommendations**

1. Viet Nam should add a specific tax of ₫2000 or optimally of ₫5000 per pack by 2020.
2. Tobacco taxes should be increased regularly to keep up with increases of income and inflation.
3. Taxes should increase until reaching 70% or more of retail price, as recommended by the WHO.
**THAILAND**

**Tobacco tax policy in Thailand**

As can be seen in the figure below, from 1993 to 2012, the Thai Government increased the excise tax on cigarettes 10 separate times, about one tax increase every two years. As a result, the tax rate has increased from 55% to 87% of the wholesale price, which is equivalent to an increase from 120% to 670% of the factory price.

**Impact of the tax increase**

- **Increased cigarette prices.** Tobacco prices increased from 15 baht per pack (1993) to 65 baht per pack (2015).
- **Reduce smoking rate.** The national smoking rate dropped from 32% in 1991 to 19.9% in 2015, while tobacco production did not change much, due to population growth, fluctuating at around 2 billion packs per year.
- **Premature deaths avoided due to tax increase:** (Source: David T. Levy, March 2007)
  - 5 729 lives saved in 2006
  - 31 867 lives saved in 1993–2006
  - 18 409 lives will be saved in 2026
  - 319 456 will be saved in 1993–2026
- **Increased revenue collection.** Tobacco tax revenue increased more than four times, from US$ 500 million in 1993 to US$ 2.1 billion in 2015.
- **No increase in tobacco smuggling:** Thailand’s GATS 2011 survey showed that only 4.8% of smokers used smuggled cigarettes.
PHILIPPINES

Tobacco tax structure and tobacco tax reform process in the Philippines

The Philippines applies the specific excise tax system:

- Prior to 2012, the Philippines used a four-tiered tax system, with various tax rates ranging from 2.72 Philippine pesos (PHP) to 28.3 PHP per pack of cigarettes.
- In 2012, the Philippines adopted the Tax Reform Act, the so-called “sin tax”, shifting the four-tiered tax structure to a two-tiered tax structure.
- 2013–2016: Tax increase steadily year after year
- 2017: Reached a common tax rate of 30 PHP (roughly US$ 0.75) per pack of 20 cigarettes.
- After 2017: Tax rates will continue to be increased 4% every year.

Impact of tax increase

- **Increased cigarette prices:** After applying the excise tax increase, the average price per cigarette pack increased from 21.12 PHP in 2012 to 31.26 PHP in 2013.
- **Reduced consumption:** Domestic consumption fell from 5.76 billion packs in 2012 to 4.97 billion packs in 2013. The rate of smoking among Filipino adults dropped from 29.7% in 2009 to about 23.8% in 2015. The smoking rate among young people (13–15 years) dropped from 6.8% to 5.5%.
- **Increased budget revenue:** Government budget revenue from taxes on tobacco increased by more than twofold, from $ 680 million in 2012 to $ 1.66 billion in 2013, despite declining sales. Tax revenue continued to rise to $ 2.2 billion in 2016. Much of the increase in revenues is being used for the national health insurance programme.

Comparison between Thailand, the Philippines and Viet Nam

As seen in the table, Thailand and the Philippines both have less consumption but collect about 3 times the amount of tobacco tax collected in Viet Nam.

<table>
<thead>
<tr>
<th>Country</th>
<th>Tobacco tax as a percentage of retail price</th>
<th>Consumption (million packs)</th>
<th>Revenue from tobacco tax (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand (2015)</td>
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