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The Economics of a Tobacco-free Society

*Report on a WHO seminar
Vienna, 11-13 March 1993*

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1994

EUR/HFA TARGET 17

Target 17

Tobacco, alcohol and psychoactive drugs

By the year 2000, the health-damaging consumption of dependence-producing substances such as alcohol, tobacco and psychoactive drugs should have been significantly reduced in all Member States.

THE ECONOMICS OF A TOBACCO-FREE SOCIETY

The Third WHO Seminar for a Tobacco-free Europe was organized in Vienna on 11-13 March with support from the Austrian Ministry of Health, Sport and Consumer Protection. It was attended by 79 people representing 35 countries and 12 major international organizations working in the health field.

The purpose of the Seminar was to promote the implementation of the Action Plan for a Tobacco-free Europe by enabling people to share ideas and experience, by encouraging joint practical projects and international cooperation, and, through all of these, to encourage more efficient use of resources by sharing. Although information remains a cornerstone of all public health campaigning and advocacy, an explicit priority of this Seminar was to build on and enhance the networks forming in the European Region. The seminar focused on the theme: the economic benefits of a tobacco-free society.

The most general concern of the Seminar was the need to reverse the traditional way of thinking about the economic role of tobacco in society. At the moment, the assumption of others, including both the tobacco industry and other organizations, that tobacco is beneficial economically, is accepted. Evidence is emerging that it is not. The challenge is to understand these ideas, collect the evidence, organize its presentation and talk to people, especially finance ministries.

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The Economics of a Tobacco-free Society

Introduction	1
Structure and purpose of the seminar	1
Progress on the Action Plan for a Tobacco-free Europe	1
The presentations on the economics.....	2
The working groups.....	2
Selected issues from the working groups	3
Recommendations	3
Conclusions	4
Appendices	5
Appendix 1. Selected list of working papers.....	5
Appendix 2. List of main recommendations of working groups.....	7
Appendix 3. List of participants	9

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The support of the Federal Ministry of Health, Sport and Consumer Protection of Austria in hosting the Third Seminar for a Tobacco-free Europe and in producing this report is gratefully appreciated.

Introduction

The *Action Plan for a Tobacco-free Europe* was launched in November 1988 in Madrid, at the First European Conference on Tobacco Policy. Because tobacco is an international problem the public health response must also be international. Since Madrid there has been steadily increasing collaboration on tobacco control between the World Health Organization, European Commission, governments and many individuals and organizations throughout Europe. One of the fruits of this co-operation has been the organization by WHO of European seminars on tobacco or health for national policy advisors and programme managers, of which this is the third. The first two were held in Copenhagen (September 1990) and Budapest (January 1992).

One indication of the success of the action plan is that at this third seminar many participants were attending for the third time. In this simplest sense then the action plan is working - networks are forming and co-operation is developing. The Vienna seminar was attended by delegates from 34 countries, 12 other organizations (for example the European Commission, Nordic Council, UICC), observers from 10 more, WHO collaborating centres, temporary advisers and WHO staff Helene Cox, Cees Goos, Ilona Kickbusch, Tapani Piha, Liz Shrapnel and Neil Collishaw.

Structure and purpose of the seminar

The Action Plan makes proposals in six areas: alliance building, multisectoral policies, smoke free environments, nonsmoking generations, support to smokers for quitting, and leadership. The purpose of the seminar was to promote the implementation of the action plan by enabling people to share ideas and experience, by encouraging joint practical projects and international co-operation, and through all of these to encourage more efficient use of resources by sharing. Although information remains a cornerstone of all public health campaigning and advocacy, an explicit priority of this seminar was to build on and enhance the networks forming in Europe. To this end participants were provided with a substantial pack of background documents which included the action plan, the formal presentations, country reports and much other useful material (for example the 1993 World No Tobacco Day pack). The seminar also had many working group sessions and enough break time to allow for "informal" relationships to develop. For the first time the seminar focussed on a theme - the economic benefits of a tobacco-free society.

Progress on the Action Plan for a Tobacco-free Europe

Tapani Piha set the scene for the seminar by outlining progress as a result of the action plan. The first action plan (1987-92) aimed to promote the formulation of national programmes, greater co-operation, wider availability of information to the public and a monitoring and evaluation system. Co-operation between NGOs and intergovernmental organizations has increased and a system for monitoring and evaluation has been created. WHO asked all countries to implement policies and programmes that will bring the proportion of nonsmokers to 80% in the population. The goal was ambitious and although the basic principles and strategies proved to be right policy implementation and political commitment at international and national level have not been adequate. Nor has five years been long enough.

In the year since the Budapest meeting WHO has concentrated on completing the second action plan, included in the background documents, and on missions to central and eastern European countries. Many other activities of the last year are reported in the background documents. Participants were urged throughout the meeting to use the resources in the background documents, to create alliances, networks and collaborations with each other and to make use of the many resources throughout the region. These include the Paris collaborating centre, which has a good database on health promotion campaigns and materials. The Regional Office has a growing database, already consisting of 120 files, on the situation in Europe. But remember that WHO cannot do everything, they only have one regional adviser concentrating on tobacco, and do not only give support, they need it as well.

Michael O'Connor and Neil Collishaw reported on WHO sponsored missions to Hungary, Lithuania, Poland, Latvia, Czech Republic, Slovak Republic and Albania. More countries have requested help and WHO hopes to continue new missions later in 1993. However they will first evaluate the usefulness of these seven and continuation of this initiative will depend on financial support, which has so far come from several organizations and countries.

The presentations on the economics

The presentations are available from WHO and will be published separately at a later stage. They cover the following areas: an outline and explanation of the economic approach; some basic facts and common myths about tobacco production and trade (for example the myth that tobacco manufacturing creates jobs); an analysis of the health and socio economic costs of tobacco use; an analysis of how taxation structure can be used for public health goals; an example of health promotion funded from a tobacco tax levy (the Victorian Health Foundation); a review of the levels of funding of tobacco control in some European countries; the tobacco industry in central and eastern Europe; tobacco subsidies in the European Community; recent changes in tobacco price in Poland; the health levy in Romania.

These papers will provide valuable information for participants, helping them to analyze the situation in their country and develop the arguments, and eventually the action needed to campaign for a tobacco free society. They should help deal with some powerful, common myths, for example that cigarette manufacture creates jobs. Modern cigarette manufacture is so mechanized that new factories employ only few workers. The analysis of taxation structure highlighted the effects of specific and ad valorem tax, the power of taxation as a policy tool and the crucial point that because of the **inelasticity** of tobacco price (because it is addictive) governments can put up the tax on tobacco or companies price of tobacco without losing money although the consumption declines. The paper on the industry in central and eastern Europe is essential reading for participants needing to learn how the tobacco industry is operating in the changing economies and the urgency of the need for action.

The working groups

The topics covered by the working groups included: women's networks, a tobacco control law, implementation of legislation, legislation for smoke-free environments, school programmes, sport, World No-Tobacco Days, information exchange, taxation and price, trade policies and subsidies, state monopolies versus private enterprise, tobacco economics in central and eastern Europe, and funding of tobacco control. Additional groups were also established during the meeting to discuss other areas covered by the action plan, for example smoke-free flights.

Selected issues from the working groups

One of the ironies of tobacco marketing is its dependence on glamorous "western" images to sell cigarettes in the east, when a more truthful or balanced image emphasize the high disease rates and declining prevalence in the west. In a helpful reversal of the western image of smoking in Hungary some western companies have introduced smoke-free workplaces, thus identifying the west with healthy lifestyles.

The "freedom of speech" argument against a tobacco advertising ban must be countered - the UN Universal Declaration of Human Rights states that commercial freedom of speech should not take precedence over health; campaigns on involuntary or passive smoking will support the introduction of legislation of smoke free environments; nonsmoking promotion projects should be incorporated into the normal educational process; could nicotine, which is a psychoactive substance, be classified as a doping drug for athletes? the last day of May is not the best date for World No Tobacco Day for all countries; tobacco tax should have specific and ad valorem components but also with a large minimum level in order to ensure a high price; international legislation is needed to control the promotional practices of the multi-national corporations especially in developing markets; the lack of good econometric data in central and eastern Europe is impeding progress; a 1% levy on tobacco sales is recommended to fund tobacco control activities and more publicity about the Victorian tobacco policy and health promotion foundation would be helpful.

Recommendations

At the conclusion, meeting participants recommended that WHO:

1. promote greater knowledge and understanding on the economics of a tobacco-free society. Emphasis will be placed on the benefits to the economy of a healthy population and to the gains made by a shift of resources into economic activities which enhance and sustain life rather than causing its destruction and depletion;
2. contribute particularly to a clearer understanding of the increasing damage done by tobacco to the economies of countries of Central and Eastern Europe. This evidence will be widely disseminated to hasten the transition to a tobacco-free Europe. Maximum use will be made of sub-regional workshops to share knowledge and train key workers.

In addition to these broad recommendations, participants called for action on a number of more specific items. In particular, they urged WHO to:

1. encourage greater collaboration between Ministers of Health and Finance in joint strategies to improve national economies by reducing tobacco use and production;
2. press for high rates of tobacco taxation, with regular increases, based on a combination of specific, ad valorem and high minimum tax rates. A total of [at least] 1% of the revenue collected should be devoted to health promotion activities. Tobacco taxes should be harmonized, where practical, to a high level to reduce smuggling which should also be discouraged by methods including tax stamps, licensing of retailers and adequate border controls;
3. encourage all Member States to remove tobacco taxation from retail price indexes in order to remove the disincentive to raise taxes because of the effect on inflation;

4. ask Member States to increase their capacity for implementing policy on taxation by identifying suitably qualified individuals who can facilitate discussions with Ministries of Finance on taxation matters;
5. commission a study of economic data linking price, consumption and basic tobacco market data in European countries. Member States will be asked to provide raw data to allow this analysis to be carried out;
6. seek a Collaborating Centre to support the Regional Office in this endeavour.

Conclusions

This seminar has fulfilled several important functions. Participants have discussed important technical aspects of tobacco economics and during the discussion many issues have become clearer (how the industry operates in central and eastern Europe, the effects of different components of tax structure, the true effects of the tobacco trade on employment, and so on). Equally important participants have got to know each other better, worked together, shared problems and experience and gained a better understanding of how they and WHO can help each other. In his closing presentation Tapani Piha reminded participants that the background documents contain all their addresses, telephones and fax numbers.

The most general theme or concern of the seminar has been that we need to reverse the traditional way of thinking about the economic role of tobacco in society. At the moment our thinking tends to accept the assumptions of others, including both the tobacco industry and other organizations, that tobacco is beneficial economically. Evidence is emerging that it is not. The challenge for us is to understand these ideas, collect the evidence, organize its presentation and talk to people - especially finance ministries. We should also, of course, challenge the implicit thinking of many politicians that only economic values and arguments matter. But until that argument is more widely understood they can be challenged on grounds which will capture their attention. The evidence reviewed in this seminar could be used to put out a press release whose headline was: **"New evidence that tobacco manufacturing destroys jobs"**.

Appendices

Appendix 1. Selected list of working papers

ICP/TOH 018(c)/2	Scope and purpose
ICP/TOH 018(c)/3	Provisional agenda
ICP/TOH 018(c)/4	Provisional programme

Action Plan for a Tobacco-free Europe

ICP/TOH 018(c)/14	The network for a tobacco-free Europe (Dr Tapani Piha)
ICP/TOH 018(c)/7	Progress in central and eastern Europe (Mr Michael O'Connor and Mr Neil Collishaw)
	The new Action Plan for a Tobacco-free Europe: 1992-1996 (a feature article)
ICP/TOH 199	Action Plan for a Tobacco-free Europe. Copenhagen, WHO Regional Office for Europe, 1993
ICP/TOH 023	Implementation in central and eastern Europe 1993-94 (unpublished document)
EUR/ICP/TOH 018/A	Working together towards a Tobacco-free Europe. A report on a WHO Seminar, Budapest, 22-24 January 1992.
	Health services: our window to a tobacco-free world. WHO Advisory kit 1993.
	A proposal for Guidelines for smoke-free meetings.

Economics of a tobacco-free society

ICP/TOH 018(c)/6	The economics of a tobacco-free society (Dr Markku Pekurinen)
ICP/TOH 018(c)/7b	Tobacco production and trade: basic facts and common myths (Mr M.J. van Iwaarden)
ICP/TOH 018(c)/8	Health and socio-economic costs of tobacco use (Dr Markku Pekurinen)
ICP/TOH 018(c)/9	Taxation of tobacco as a tool of a healthy public policy (Mr James Rentoul)
ICP/TOH 018(c)/10	Funding a health promotion foundation through a levy on tobacco (Ms Rhonda Galbally)
ICP/TOH 018(c)/11	Funding of nonsmoking promotion and tobacco control (Ms Hélène Cox and Ms Brigitte Caretti)
ICP/TOH 018(c)/15	The tobacco industry and Eastern Europe (Mr Luk Joossens)
ICP/TOH 018(c)/12	Tobacco price and its changes during the last years in Poland (Mr Tomasz Sieniutycz)
ICP/TOH 018(c)/12b	EC subsidies to tobacco production (Mr Luk Joossens)
ICP/TOH 018(c)/13	The economics of the tobacco-free society (Dr Tapani Piha and Mr Michael O'Connor)
	<i>Tobacco price and the smoking epidemic</i> . Smoke-free Europe Series No. 9. Copenhagen, WHO Regional Office for Europe, 1988.

Miscellaneous

- Country reports for 1992 (unpublished documents)
- Reports on various organizations 1992 (unpublished documents)
- Action taken by the European Community to control the use of tobacco (fact sheet)
- Key resources on the tobacco advertising ban (fact sheet)
- A set of overhead originals on the Action Plan for a Tobacco-free Europe

Appendix 2. List of main recommendations of working groups

Women's networks against tobacco

- 1) Develop national, regional and international conferences for women.
- 2) Develop regional groups with different languages in Europe.
- 3) Promote leadership in women in the tobacco control movement.
- 4) Promote individual links between women and through them east-west links, using Globalink to promote the network generally.
- 5) Use women in heart, cancer, medical and nursing associations etc to promote the network.

A comprehensive tobacco control law

- 1) WHO should circulate a checklist for model legislation and monitor and report progress and problems.
- 2) Health advocates should encourage key figures in each country to take responsibility for legislation.
- 3) WHO should encourage collaboration between health and finance ministers
- 4) WHO should identify countries which are particularly vulnerable and offer assistance missions
- 5) WHO should publicise how transnational tobacco companies break tobacco advertising laws in CCEE.
- 6) A tobacco law should ban all forms of advertising and sponsorship, control labelling, limit tar yield, control sales to minors, vending machines and smoking in public places, licence retailers and importers, combat smuggling, levy a tax for health promotion, ban new forms of nicotine delivery

Tobacco-free sports

- 1) Sports venues should adopt smoke-free policies.
- 2) Athletes and the sporting community should promote a healthy lifestyle.
- 3) Nicotine should be made a banned doping substance in sports.
- 4) Tobacco sponsorship should be stopped.

Taxation and price

- 1) Governments should increase tobacco price through taxation in order to reduce consumption.
- 2) Tobacco should be removed from the consumer price index, although various arguments were presented.
- 3) From a health point of view, a combination of a specific duty on tobacco and ad valorem tax with a high minimum level is best.
- 4) Countries should develop a tax and price structure that guarantees against low price tobacco.
- 5) CEE countries should narrow tobacco price differences through taxes to reduce smuggling.
- 6) WHO should advise international monetary authorities like the World Bank and the International Monetary Fund to take into account the implications of their economic advice and help for health.

State monopolies versus private enterprise and CCEE

- 1) Monopolies have some advantages for control. Countries which want to keep them should be encouraged.
- 2) Tobacco companies should be forced to respect their own countries' rules in their marketing and exporting.
- 3) It is essential to break the link between the tobacco industry and ministries of finance.
- 4) WHO should support CCEE countries in developing and collecting econometric data.

Funding of tobacco control

- 1) A tobacco tax levy is the best way of raising money to finance tobacco control.
- 2) A 1% levy on sales is recommended.

Appendix 3. List of participants

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Finance and Health Ministers: Accounting For Health

The European epidemic of deaths caused by tobacco can be contained only if finance ministries collaborate with health ministries and governments act now to harmonize tobacco taxes at a high level, declared public health experts.

Delegates from more than 30 European countries meeting at a World Health Organization (WHO) seminar, *The Economics of a Tobacco-free Society*, said finance ministers making tobacco pricing decisions were also making health decisions, since price was one of the most important influences on national tobacco consumption.

Dr Ilona Kickbusch, Director, Lifestyles and Health, WHO Regional Office for Europe, said:

Sound economic policies on tobacco are indisputably an investment in health. But we also know that tobacco economics is a cross-border issue. Now that trading barriers in Europe are being removed, coordinated economic policies are more important than ever. It is deeply disturbing that cheap cigarettes from other parts of the world are reportedly being smuggled into Europe and sold at prices well below the official rate. Smuggling not only deprives governments of much-needed revenue, but also threatens public health.

Delegates identified practical economic policies that could be adopted immediately to reduce tobacco use. These includes harmonizing tobacco prices at a high level, licensing importers and retailers to sell tobacco, using "duty paid" stamps, and maintaining regular custom checks.

Funding health promotion by a levy on tobacco

In the current economic climate, many governments are under pressure to find the resources to fund health promotion. And those countries where the tobacco industry has been allowed to sponsor sport and cultural events have the additional problem of trying to replace this funding when tobacco promotion is banned.

Ms Rhonda Galbally from the State of Victoria in Australia told how the government there had found a solution to both these problems. The state government has used a 5 % levy on wholesale price of tobacco products to institute the Victorian Health Foundation, which funds a wide ranging programme of healthy promotion activities, health research and evaluation and community events. Ms Galbally, Chief Executive Officer, impressed European representatives by describing how such funding has completely replaced tobacco sponsorship of 12 sports as well as sponsorship of opera, ballet and visual arts.

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