

PAHO



Seminar: HEALTH TAXES POLICIES IN LATIN AMERICA AND THE CARIBBEAN:

Are we making progress?

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Taxation in novel and emerging tobacco
and nicotine products

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What are those novel and emerging products we are interested in?

- **Heated Tobacco products (HTPs)**

- HTPs are tobacco products that produce aerosols containing nicotine and toxic chemicals when the tobacco is heated or a device containing the tobacco is activated.
- Currently, there is no evidence demonstrating that HTPs are less harmful than conventional tobacco products.

- **Nicotine and non-nicotine delivery systems (ENDS/ENNDS) products**

- These systems heat a liquid to create aerosols that are inhaled by the user. These “e-liquids” may or may not contain nicotine (they do not contain tobacco).
- Are not harmless and their long-term health effects have yet to be established.
- Evidence over the effectiveness of ENDS as smoking cessation aids remains inconclusive. It is worth noting also that dual use of ENDS and tobacco products (mainly cigarettes) is a concerning issue.

The ENDS/ENNDS market is diversified and complex

Some key specifications you need to know about ENDS/ENNDS products

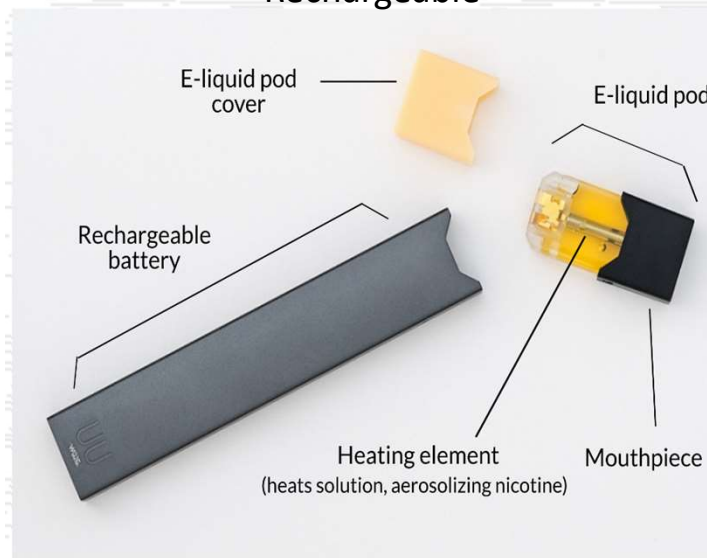
- Are presented in different forms: most common are electronic cigarettes (or “e-cigarettes”). Other categories of ENDS include “e-hookahs”, “e-pipes” and “e-cigars”.
- Types of systems:
 - Open systems are devices where users can make their own mixes of the e-liquids they buy, which could be with no nicotine, different nicotine concentrations and/or flavours.
 - Closed systems come with a prefilled container (called a cartridge, pod or tank) with no possibility for the users to make their own mixes.
- Types of liquids:
 - Non-nicotine containing e-liquids (ENNDS)
 - Nicotine containing e-liquids:
 - Freebase nicotine: nicotine is in its purest form, method used since the 1960s. When heated, it can be absorbed fast in the lungs and in the brain.
 - Nicotine salts: Compared to e-liquids with freebase nicotine, those with nicotine salts deliver higher levels of nicotine to the user while masking its harshness.

Typical ENDS/ENNDS (e-cigarettes) products

Open system



Closed system Rechargeable



Closed system

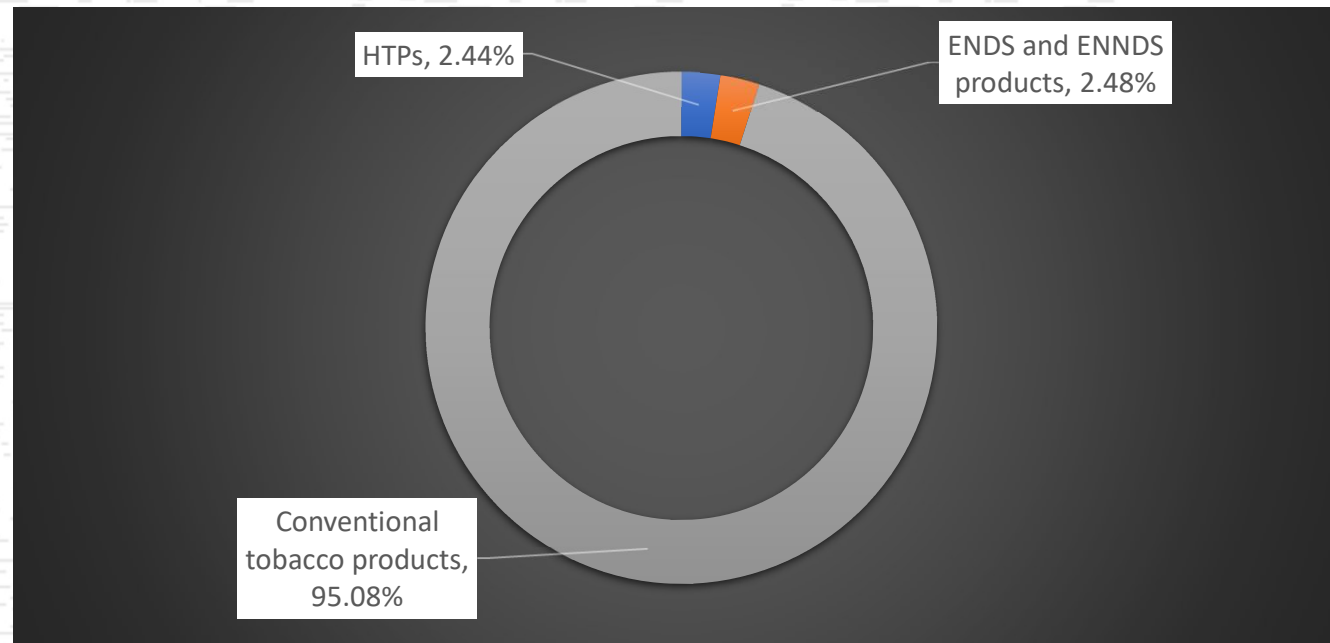
Cig-a-likes,
older version
of disposables

Latest version of
disposables



Source: WHO Technical manual on tobacco tax policy and administration, 2021 ;
WHO Report on the Global Tobacco Epidemic 2021: Addressing new and emerging
products

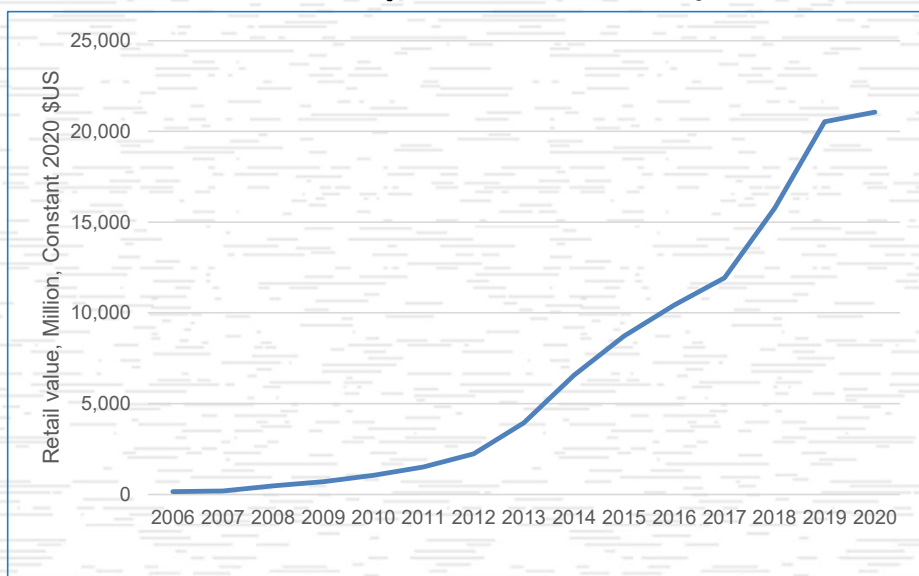
ENDS and HTPs make up only a fraction of the global tobacco market



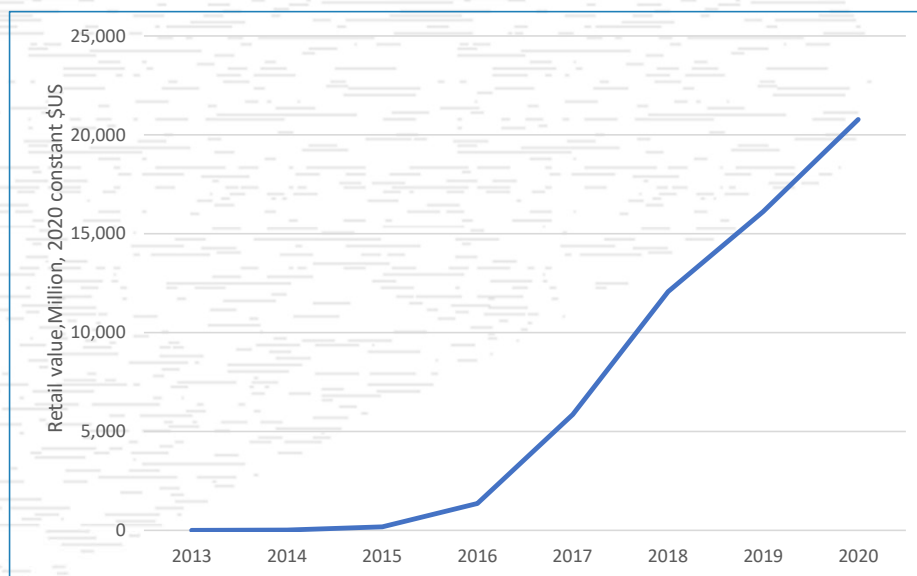
Note: Breakdown based on retail sales value in USD, 2020.
Source: Euromonitor 2021

But sales are growing rapidly and requires regulators to have a closer look at this market

Sales value – ENDS/ENNDS products (e-liquids and devices)



Sales value – HTPs (sticks and devices)



Source: Euromonitor, 2021

Why is regulation needed?

The precautionary approach

- HTPs, ENDS and ENNDS products mimic the use of cigarettes and they are presented as a safer alternative to tobacco products. They are also presented with shapes and flavours that are attractive to youth. The potential risks of keeping them unregulated are many:
 - Present the risk of “re-normalizing” smoking,
 - Can attract non-tobacco users, especially youth,
 - Can become a gateway for tobacco smoking,
 - Unknown health risks for dual users (worse than using each product alone?),
 - Are not harmless and their long-term health impact is unknown.

Taxation of HTPs

- Most countries that impose an excise tax on HTPs, apply a specific excise per weight of tobacco – lower than on cigarettes.
- Countries that apply the same tax on HTPs and cigarettes: Azerbaijan, Colombia, Georgia, Israel, Republic of Moldova, Saudi Arabia, UAE, Ukraine, USA (Federal), Palestinian territories, Paraguay.
- In PAHO, HTPs are banned in Brazil, Mexico and Panama.

PAHO countries taxing HTPs		
Type of excise	Base unit is kg (for specific excise), generally rate lower than cigarettes	Base unit is sticks (for specific excise) rate is the <u>same as cigarettes</u>
Specific excise	Canada ^a	USA ^b
Ad valorem excise (base is retail price)	Costa Rica, Ecuador	Paraguay
Mixed system (ad valorem component based on retail price)		Colombia

^a This refers to the federal tax applied on HTPs. Additionally, Provinces have opted to include additional specific excise taxes. Most provinces include another specific excise tax that uses gram as a base unit (except British Columbia, where tax is the same as cigarettes is implemented, and Saskatchewan, where tax is specific per stick but lower than cigs).

^b This refers to the federal tax applied on HTPs, a number of States also apply a State level excise tax on those products.

Taxation of ENDS/ENNDS products

- Most countries that impose an excise tax on e-liquids, apply a specific excise per ml.
- An increasing number of countries tax both nicotine and non-nicotine e-liquids.
- In PAHO, Argentina, Brazil, Mexico, Panama, Suriname, Uruguay and Venezuela have banned sales of ENDS/ENNDS products.
- With regards to taxation only Costa Rica and Ecuador tax them. Costa Rica applies an ad valorem tax on retail price for all e-liquids, Ecuador also applies ad valorem but only on e-liquids containing nicotine.

Recommendations on HTP taxation

- HTPs contain tobacco and should be treated as tobacco products. Decision 22 of the WHO FCTC COP recognizes that *“heated tobacco products are tobacco products and are therefore subject to the provisions of the WHO FCTC”*.
- HTPs should be taxed at the same level and in the same way as tobacco cigarettes. This is already applied in a number of countries.
- In terms of structure, the best is to apply a specific excise per unit.
 - The definition of unit may vary by product within the HTP category. For example, one unit of IQOS is one heat stick, for Glo it is one Neo Stick and for Ploom TECH it is one tobacco pod. Governments will need to determine the exact definition of a unit for each product allowed on the market.
- Countries can also consider taxing the devices used for HTP consumption, but they need to adequately assess their administrative capacity to do so.

Source: WHO Technical manual on tobacco tax policy and administration, 2021

Recommendations on ENDS/ENNDS taxation

- There is currently a lack of evidence on the practical challenges being faced by countries favouring one tax structure approach over the other. The constantly evolving market of those products adds a layer of complexity to the discussion.
- Taxing e-liquids is a key component of ENDS/ENNDS products taxation. Nicotine- and non-nicotine-containing e-liquids should be taxed equally.
- If ad valorem excise is chosen as the structure, the base should be applied on the retail price.
- Countries may also consider taxing the devices used for ENDS/ENNDS consumption, but they need to adequately assess their administrative capacity to do so.

Source: WHO Technical manual on tobacco tax policy and administration, 2021

Additional considerations

- Regulation of the characteristics of ENDS/ENNDS products is essential and should be implemented along with any tax policy adopted. Regulations should include:
 - setting a maximum nicotine concentration per millilitre to safeguard public health, including reducing the risk of dependence, especially among youth;
 - setting a maximum volume for cartridges to reduce toxicants exposure and possibly limit use;
 - setting a maximum capacity for refill containers to reduce toxicants exposure and possibly limit use;
 - setting a maximum battery power to reduce the possibility of influencing nicotine and toxicant delivery; and
 - taxing nicotine regardless of its source (e.g. tobacco, eggplant, synthetic).

Source: WHO Technical manual on tobacco tax policy and administration, 2021

Conclusions

- The market for HTPs, ENDS and ENNDs products is small compared to conventional tobacco products but growing fast.
- Health risks (at least in the long term) are still unknown and evidence of those products as tool for smoking cessation is unclear.
- Regulation is needed to mitigate the potential harm these products can cause.
- Taxation is an important regulatory tool to control the use of those products.