

Tobacco Taxes in Latin America

Policy Brief N° 2/2019

ARGENTINA

ACCELERATING EFFECTIVE TOBACCO TAXES IN ARGENTINA: FISCAL AND PRODUCTIVE ASPECTS

This Policy Brief was developed by the South American Network on Applied Economics/Red Sur and presents the main findings and policy recommendations resulting from one of the background studies for Argentina, prepared by Centro iDeAS/EPyG, Universidad Nacional de San Martín (UNSAM), within the UIC-Red Sur project "Tobacco taxes in Latin America", as part of a global project coordinated by The University of Illinois at Chicago's (UIC) Institute for Health Research and Policy and supported by the Bloomberg Initiative to Reduce Tobacco Use.

INTRODUCTION

Argentina has come a long way over the last few decades with a comprehensive policy on controlling and preventing the demand for cigarettes, including taxation, smoking bans in public places, raising awareness of health impacts, and introducing limitations in advertising, among other initiatives. However, although the percentage of smokers among people older than 15 years has decreased, tobacco remains the leading factor in deaths due to cardiovascular problems in the country.

Argentina ranks as the eighth largest producer and seventh largest exporter of tobacco. In terms of employment, the early stages require some 50,000 people¹, while the industrial stage generates an estimated 6,800 formal jobs. Apart from the efforts to reduce consumption, little has been done in Argentina in recent decades in terms of regulating supply restrictively, and the initiatives aimed at diversifying and/or shifting the specialization of regional economies involved have so far been few and largely unsuccessful. On the contrary, action to stimulate this activity is still being taken as part of the Special Tobacco Fund (FET, as per its Spanish acronym), a specific tax introduced by Law 19800/72 for the purpose of promoting the activity. Indeed, one of the main characteristics that differentiates this production from other activities is that it enjoys the benefits of the FET.

The objective of this study is to contribute to a more comprehensive view of the tobacco issue (and its direct and indirect effects), with a focus on the production structure, its impact on regional economies and the complex role of the FET, the main public policy instrument in connection with the tobacco sector. Part of the hypothesis is that any tobacco control measure (including taxes) in Argentina requires special attention to the supply side.

TOBACCO CONSUMPTION AND TAXATION STRUCTURE IN ARGENTINA

According to the Pan American Health Organization (PAHO, 2018), the prevalence rate in percentage of adults by sex in Argentina is 29.9% for men and 20.9% for women, with a ratio of 1.43 male smokers per female smoker. At the global level, this ratio is as high as 5.8 men per woman. Argentina follows the pattern that is usually observed worldwide, characterized by a concentration of the number of smokers in the poor sectors with lower educational levels. Despite the taxes levied on tobacco activities in Argentina – as much as 79.8% of the final price of cigarettes, according to the Chamber of the Tobacco Industry – the average value of the best-selling brand of 20 cigarettes in the country is very low compared to other countries.²

TOBACCO TAXATION STRUCTURE IN ARGENTINA

As shown in the table below, the FET is financed through a tax of 7% of the retail price excluding VAT of each packet of cigarettes.³ Furthermore, cigarette manufacturers must apply two kinds of withholdings, which – although unrelated to the FET – play a significant role in the political economy of the sector: 0.35% of the retail price excluding VAT, which goes to the social welfare of the labourers in the sector; and 1% of the same value, used to cover marketing costs on the domestic market.

1> Mostly seasonal and informal work. Informal jobs in the tobacco sector accounts for 58%, surpassing the average of unregistered employment in agricultural activities.

11.1% in Jujuy and 5.9% in Misiones).

2> For instance, the average price in Spain is twice that observed in Argentina, while in the United States it is three times higher (WHO, 2017).

3> A fixed additional amount of \$ 0.142 is also applied on each pack sold (this value is modified periodically).

Table 1: Tobacco taxation structure

Tax	Products levied	Current rate
Internal Taxes	Cigarettes	70%. Minimum to be paid: \$ 28 per pack of 20 units, subject to +25% or -10% as determined by the National Executive Branch (PEN), to be updated on a quarterly basis by the CPI
	Cigars / Cigarettes	20%, may not be less than \$ 10 per cigar or \$ 20 per packet of 20 units, to be updated on a quarterly basis by the CPI
	Roll your Own / Ground tobacco	25% minimum, may not be less than \$ 40 for every 50 grammes, to be updated by the CPI
	Other tobacco products	70%
Additional Emergency Tax	Cigarettes	7%
Special Tobacco Fund	Cigarettes	Tax: 7.35% and “non-taxable” tax: 1% + specific component defined semi-annually (about 3% of the weighted average price).
VAT	Tobacco/Cigarettes	21%
Gross Income	Tobacco/Cigarettes	As much as 8% of trade, depending on the province

Source: Devised by Centro iDeAS/UNSAM based on the Ministry of Production (2018).

A significant part of the FET (as much as 75 million dollars) becomes the payment of a direct surcharge to the producers depending on the tobacco stockpiled, while the rest is distributed through plans that, one way or another, also end up financing the different stakeholders along the tobacco value chain. Although originally a part of these schemes was supposed to fund restructuring and/or crop diversification projects, in practice this happens only very marginally. Therefore, the FET largely continues to support – and consolidate – tobacco production in Argentina.

Apart from that, the distribution of FET funds among the producing provinces shows a high degree of concentration: Jujuy receives 40%, Salta and Misiones 26% each. These three provinces account for 92% of total funds. While the producers in Misiones are small, the production structure in Salta and Jujuy is based on large producers. In addition to benefiting producers of greater

relative size, the FET also benefits cigarette-related stockpilers, dealers/exporters and producers, since it reduces the price they pay for the raw tobacco.

It should also be pointed out that the FET funds come from the sales of cigarettes on the domestic market, and then finance 100% of tobacco production, 80% of which is exported. The remaining 20% is sold on the domestic market for the manufacture of cigarettes. Over the last five years Argentina’s exports averaged USD 317 million annually, while the FET’s average revenue per year in the same period was USD 380 million. Directly (via surplus to tobacco growers) and indirectly (via plans), the FET allows tobacco leaf merchants and dealers to lower the price they pay to producers. In the case of dealers, who export tobacco, the FET constitutes an export subsidy. Comparing the FET value and the tobacco exported value, FET seems to be more of a transfer from Argentinian smokers to international dealers than a subsidy to vulnerable tobacco growers.

RESEARCH FINDINGS

Tobacco-related public policies in Argentina combine measures to boost the growth of production supply with taxation and restriction mechanisms against consumption in order to curb demand. This mixture of interventions, not entirely robust, responds to factors as broad and diverse as the significance of tobacco in the provinces in the north of the country, the sectoral lobbies, a call to reduce the harmful effects of tobacco consumption on health (and associated costs), among others.

The value chain of the tobacco business in Argentina has some natural differences with other crops: higher average prices (observed in a long series), higher demand for labourers per hectare in the early stages, the existence of mid-sized to large stockpiling companies that articulate, fund and organize production, logistics and marketing, significant export potential, etc. However, the main characteristic that differentiates this production from other agribusiness activities is that it enjoys the benefits of the Special Tobacco Fund (FET), which brings spurious competitiveness into the production complex.

The FET not only provides the funds without which the primary producers, for the most part, could not subsist, but it also represents the institutionalization of a subsidy mechanism that has given rise to a powerful coalition of interests contrary to any change in the status quo, despite the fact that the benefit is mainly concentrated in the strongest link in the chain; more precisely in only three provinces: Salta, Jujuy and Misiones. It is clear that far from encouraging crop diversification, the FET has helped to expand and consolidate tobacco production, subsidizing tobacco exports.

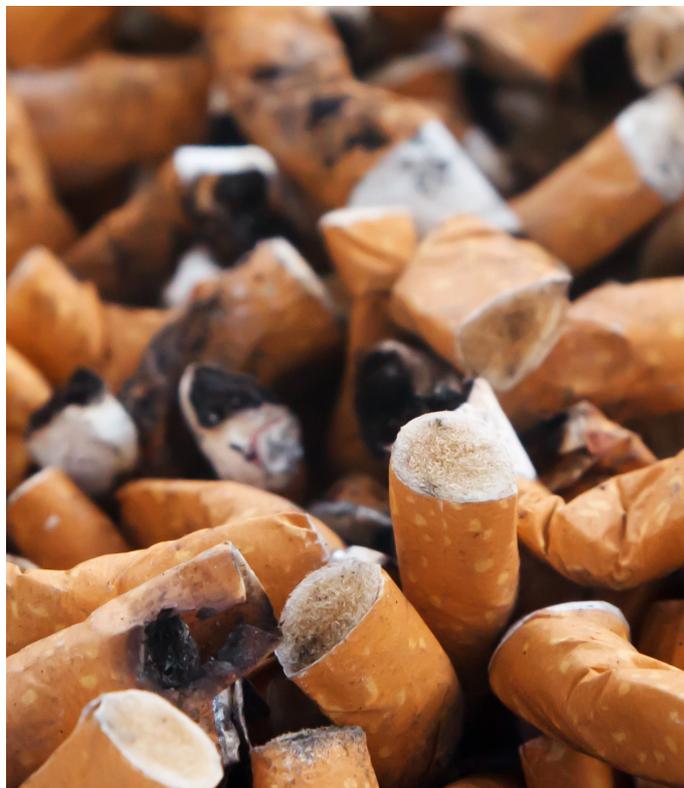
The following are the stakeholders that for different reasons are part of the coalition that opposes the modification of the FET:

- the primary producers, since the funds they receive from the FET allow them to supplement the price they receive from the stockpilers, without whom they would operate at a loss in many cases;
- the stockpilers and traders or exporters, because the “FET price” and the schemes received by the

primary producers allow them to pay for the raw material at a lower price, which increases their profits;

- the cigarette manufacturers, because they also pay less for the raw material and because the FET subsidizes the cost of marketing on the domestic market;
- the business associations in the sector, because they defend the interests of their associates, mainly those of the large producers, who are the ones who receive the greatest benefits from the fund;
- the unions, because they receive funds to finance the health care plans of the tobacco labourers;
- the governments of the seven tobacco-producing provinces, because the sector is a major source of employment for rural workers and income for small producers; and because the big tobacco producers are part of the economic and political elite in these provinces.

This system also has very important political and institutional representation. Indeed, given the federal organization of Argentina, each of the 24 provinces has three representatives in the Senate,



one of the two houses of the National Congress. As detailed in the full iDeAS/UNSAM report, tobacco is produced in seven provinces of northern Argentina and their main stakeholders (producers, business associations of the sector) have a decisive influence on the politics of these provinces, which is not only reflected in the presence of representatives of the sector in the main levels of the three branches in each of them, but also in the representation of the provinces in the national parliament, particularly in the Senate. This legislative representation, which goes beyond party logic (all the representatives of the provinces vote en bloc when dealing with issues related to the sector, regardless of the political party they represent), constitutes an enormous power of veto against any modification to the regulatory framework of the activity.

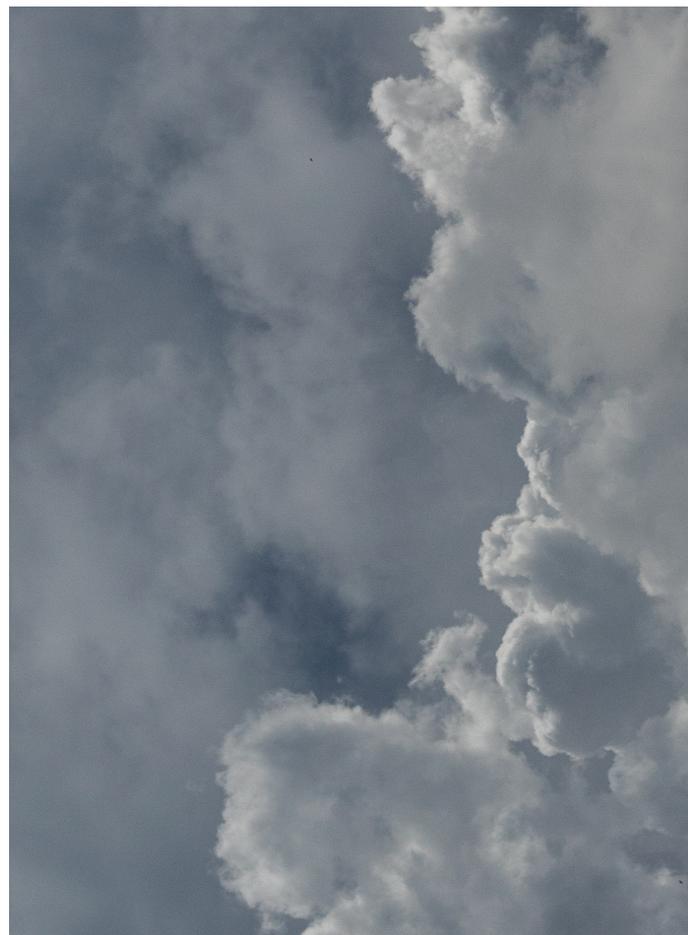
Therefore, any modification in the status quo poses a real political economy challenge. This includes not only the production side, but also any action aimed at reducing tobacco consumption, mainly because the FET comes from a tax on cigarette consumption.

POLICY RECOMMENDATIONS

As a result of the political constraints, any possibility of taking action on the supply side to complement efforts to reduce tobacco consumption requires gradual progress on different fronts.

In this regard, **some actions that could be implemented without the need for substantial modifications to the FET** are:

- Improving the use of the funds, which by law should be used to restructure and/or diversify the production of small producers.
- Prioritizing productive diversification projects rather than restructuring projects in schemes for small producers.
- Extending for a period of 3 to 5 years the benefits of the FET allocated to crop diversification after stopping operations as a tobacco producer.



Some additional further-reaching actions could involve:

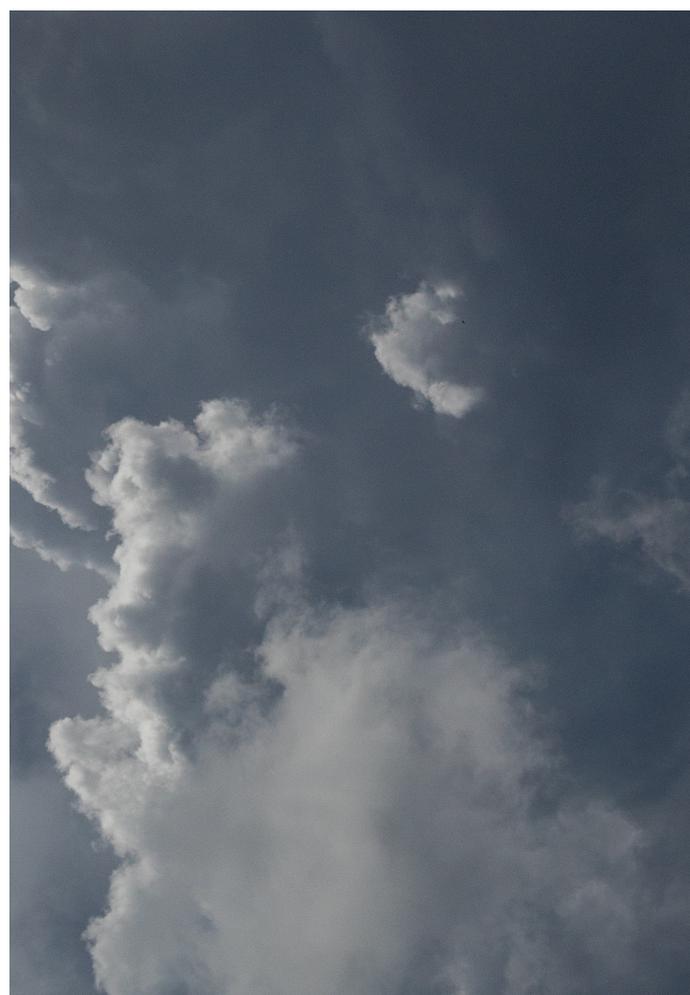
- Implementing a comprehensive regional development program that includes – but is not limited to – the restructuring of tobacco production.
- Conducting a campaign aimed at raising awareness among producers of the worldwide trend towards a reduction in tobacco consumption.
- Contemplating a possible increase in tax withholdings on tobacco exports as a means of countering the encouragement for traders and limiting the incentive to expand production/exports.
- Amending legislation in order to turn the FET into a co-participatory tax resource for the producing provinces.

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This Policy Brief was produced based on one of the background studies for Argentina “Accelerating Effective Tobacco Taxes in Argentina: Fiscal and Productive Aspects”, elaborated within the project “Tobacco taxes in Latin America”.

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Luis Piera 1992, Piso 3 - Edificio Mercosur, CP 11200,
Montevideo, Uruguay
Website: www.redsudamericana.org
ISBN print edition: 978-9974-8717-7-9
ISBN electronic edition: 978-9974-8717-8-6
March, 2019

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Communication and design: ALVA Creative House
Layout and production: Diego García

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CONTRIBUTIONS AND ACKNOWLEDGMENTS

The publication of this Policy Brief was made possible through the support of the Institute for Health Research and Policy of the University of Illinois, Chicago (UIC IHRP). UIC is a partner in the Bloomberg Philanthropies' **Initiative to Reduce Tobacco Use**, which studies fiscal policy alternatives as an effective tool to reduce the levels of tobacco consumption and improve health. It does so through a web-based platform called "**Tobacconomics**" (see more information on <https://tobacconomics.org>).

Within this global initiative, Red Sur led the regional research "Tobacco taxes in Latin America", which mobilized seven research centers to study the different options for tobacco tax policies in Argentina, Brazil, Ecuador, Mexico and Peru.

The Project "**Tobacco taxes in Latin America**" was under the Executive Direction of Andrés López (IIEP-BAIRES/FCE UBA, Argentina/Red Sur) and the Coordination of Cecilia Alemany (Red Sur). The Academic Coordination was under the responsibility of a Regional Technical Coordination team, led by Fernando Lorenzo (Centro de Investigaciones Económicas, CINVE/Red Sur) and Oscar Cetrángolo (Instituto Interdisciplinario de Economía Política de Buenos Aires, IIEP-UBA-CONICET/ Red Sur), with the collaboration of Pedro Velasco (UNLP, IIEP-UBA-CONICET/Red Sur) and Carlos Grau (CINVE/Red Sur). The team acknowledges and thanks the comments of Germán Rodríguez-Iglesias (UIC IHRP). The dimensions of analysis were discussed during two research workshops held in Montevideo in 2018, which brought together all national teams, the regional team and the Global Technical Coordination team of Tobacconomics Frank J. Chaloupka, Germán Rodríguez-Iglesias and Erika Siu (UIC IHRP).

No.	Country Study title	Research Team	Center/Country
1	Accelerating effective tobacco taxes in Argentina: The impact of tax reforms	Martín González-Rozada and Julio Berlinski	Instituto Torcuato Di Tella (ITDT/Red Sur) Argentina
2	Accelerating effective tobacco taxes in Argentina: Fiscal and productive aspects	Ricardo Rozemberg, Gabriel Bezchinsky and Ariel Melamud	Centro iDeAS, Universidad Nacional de San Martín (UNSAM) Argentina
3	Accelerating effective tobacco taxes in Brazil: Trends and perspectives	Livio Ribeiro and Vilma Pinto	Fundação Centro de Estudos do Comércio Exterior (FUNCEX/Red Sur) Brazil
4	Accelerating effective tobacco taxes in Peru: Towards sustainable policies	Carlos De los Ríos, Hugo Córdova and Marco Ugarte	Instituto de Estudios Peruanos (IEP) Peru
5	Accelerating effective tobacco taxes in Ecuador: The impact of tax policy	Pedro Páez, Paola Minda, María Dolores Almeida, Ximena Amoroso and Sebastián Burgos	Pontificia Universidad Católica del Ecuador (PUCE) Ecuador
6	Accelerating effective tobacco taxes in Mexico: Tax policy and health costs	Claudia Córdova, Rodrigo Bolaños, Dalia Toledo, Alejandro Alegría and Liliana Alvarado	Laboratorio de Políticas Públicas (ETHOS) Mexico
7	Accelerating effective tobacco taxes in Mexico: Special taxes, consumption, inequality and poverty	Luis Huesca, Linda Llamas, Cuauhtémoc Calderón and Abdelkrim Araar	Centro de Investigación en Alimentación y Desarrollo (CIAD) Mexico

