

**FCTC**WHO FRAMEWORK CONVENTION
ON TOBACCO CONTROL**Conference of the Parties to the
WHO Framework Convention
on Tobacco Control**Fifth session
Seoul, Republic of Korea, 12–17 November 2012**17 November 2012****DECISION****FCTC/COP5(7) Set of guiding principles and recommendations for implementation
of Article 6 of the WHO Framework Convention on Tobacco
Control (*Price and tax measures to reduce the demand for tobacco*)**

The Conference of the Parties,

Taking into account Article 6 (*Price and tax measures to reduce the demand for tobacco*) of the WHO Framework Convention on Tobacco Control (WHO FCTC);

Recalling its decision FCTC/COP4(13) to establish a working group to elaborate guidelines for implementation of Article 6 of the WHO FCTC;

Having considered the report of the working group contained in document FCTC/COP/5/8;

Emphasizing that the aim of this set of guiding principles and recommendations is to assist Parties in implementing provisions under Article 6 of the WHO FCTC;

Mindful of the provisional nature of this set of guiding principles and recommendations and the possible need for reassessment in light of further work on the draft guidelines,

1. ADOPTS the set of guiding principles and recommendations for implementation of Article 6 of the WHO FCTC contained in the Annex to this decision;
2. DECIDES to establish an open-ended intersessional drafting group to continue the work of elaborating guidelines for implementation of Article 6 of the WHO FCTC and present a complete draft for consideration by the sixth session of the Conference of the Parties;
3. ALSO DECIDES, in accordance with decision FCTC/COP4(13):
 - (a) to request the Convention Secretariat to provide assistance and make the necessary arrangements including budgetary arrangements for the continued work, and to ensure, in

consultation with the Bureau of the Conference of the Parties, that Parties have access to the draft text (for example, via a protected web site) and can provide comments;

(b) to adopt the timeline set out below:

Draft report made available by the Secretariat for comments by the Parties	At least six months before the opening day of the sixth session of the Conference of the Parties
Submission of the final report by the drafting group to the Secretariat	At least three months before the opening day of the sixth session of the Conference of the Parties
Circulation to the Conference of the Parties	At least 60 days before the opening day of the sixth session of the Conference of the Parties in accordance with Rule 8 of the Rules of Procedure of the Conference of the Parties

(c) to invite Parties, by 31 January 2013, to confirm to the Convention Secretariat their intention to participate in the work of the drafting group.

ANNEX

**SET OF GUIDING PRINCIPLES AND RECOMMENDATIONS FOR
IMPLEMENTATION OF ARTICLE 6 OF THE WHO FRAMEWORK CONVENTION
ON TOBACCO CONTROL****1. Guiding principles****1.1 Determining tobacco taxation policies is a sovereign right of the Parties**

All parts of the guidelines respect the sovereign right of the Parties to determine and establish their taxation policies, as set out in Article 6.2 of the WHO FCTC.

1.2 Effective tobacco taxes significantly reduce tobacco consumption and prevalence

Effective taxes on tobacco products that lead to higher real consumer prices (inflation-adjusted) are desirable because they lower consumption and prevalence, and thereby in turn reduce mortality and morbidity and improve the health of the population. Increasing tobacco taxes is particularly important for protecting young people from initiating or continuing tobacco consumption.

1.3 Effective tobacco taxes are an important source of revenue

Effective tobacco taxes contribute significantly to State budgets. Increasing tobacco taxes generally further increases government revenues, as the increase in tax normally outweighs the decline in consumption of tobacco products.

1.4 Tobacco taxes are economically efficient and reduce health inequalities

Tobacco taxes are generally considered to be economically efficient as they apply to a product with inelastic demand. Low- and middle-income population groups are more responsive to tax and price increases; therefore consumption and prevalence are reduced in these groups by greater magnitudes than in higher-income groups, resulting in a reduction in health inequalities and tobacco-related poverty.

1.5 Tobacco tax systems and administration should be efficient and effective

Tobacco tax systems should be structured to minimize the costs of compliance and administration while ensuring that the desired level of tax revenue is raised and health objectives are achieved.

Efficient and effective administration of tobacco tax systems enhances tax compliance and collection of tax revenues while reducing tax evasion and the risk of illicit trade.

1.6 Tobacco tax policies should be protected from vested interests

The development, implementation and enforcement of tobacco tax and price policies as part of public health policies should be protected from commercial and other vested interests of the tobacco industry, including tactics of using the issue of smuggling in hindering implementation of tax and price policies,

as required under Article 5.3 of the WHO FCTC and consistent with the guidelines for its implementation as well as from any other actual and potential conflicts of interests.

2. Taxation and affordability (income elasticity)

Recommendation

When establishing or increasing their national levels of taxation Parties should take into account – among other things – both price elasticity and income elasticity of demand, as well as inflation and changes in household income, to make tobacco products less affordable over time in order to reduce consumption and prevalence. Therefore, Parties should consider having regular adjustment processes or procedures for periodic revaluation of tobacco tax levels.

3. Structure of tobacco taxes (ad valorem, specific, mixture of both, minimum taxes, other taxes on tobacco goods)

Recommendation

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.

4. Level of tax rates to apply

Recommendation

Parties should establish coherent long-term policies on their tobacco taxation structure and monitor on a regular basis including targets for their tax rates, in order to achieve their public health and fiscal objectives within a certain period of time.

Tax rates should be monitored, increased or adjusted on a regular basis, potentially annually, taking into account inflation and income growth developments in order to reduce consumption of tobacco products.

5. Comprehensiveness/similar tax burden for different tobacco products

Recommendation

All tobacco products should be taxed in a comparable way as appropriate, in particular where the risk of substitution exists.

Parties should ensure that tax systems are designed in a way that minimises the incentive for users to shift to cheaper products in the same product category or to cheaper tobacco product categories as a response to tax or retail price increases or other related market effects.

In particular, the tax burden on all tobacco products should be regularly reviewed and, if necessary, increased and, where appropriate, be similar.

6. Authorization/licensing

Recommendation

Parties should ensure that transparent licence or equivalent approval or control systems are in place.

7. Warehouse system/movement of excisable goods and tax payments

Recommendation

Parties are urged to adopt and implement measures and systems of storage and production warehouses to facilitate excise controls on tobacco products.

In order to reduce the complexity of tax collection systems, excise taxes should be imposed at the point of manufacture, importation or release for consumption from the storage or production warehouses.

Tax payments should be required by law to be remitted at fixed intervals or on a fixed date each month and should ideally include reporting of production and/or sales volumes, and price by brands, taxes due and paid, and may include volumes of raw material inputs.

Tax authorities should also allow for the public disclosure of the information contained within the reports, through the available media, including those online, taking into account confidentiality rules in accordance with national law.

8. Anti-forestalling measures

Recommendation

In anticipation of tax increases Parties should consider imposing effective anti-forestalling measures.

9. Fiscal markings

Recommendation

Where appropriate, Parties should consider requiring the application of fiscal markings to increase compliance with tax laws.

10. Enforcement

Recommendation

Parties should clearly designate and grant appropriate powers to tax enforcement authorities.

Parties should also provide for information sharing among enforcement agencies in accordance with national law.

In order to deter non-compliance with tax laws, Parties should provide for an appropriate range of penalties.

11. Use of revenues – financing of tobacco control

Recommendation

Parties could consider, while bearing in mind Article 26.2 of the WHO FCTC, and in accordance with national law, dedicating revenue to tobacco-control programmes, such as those covering awareness raising, health promotion and disease prevention, cessation services, economically viable alternative activities, and financing of appropriate structures for tobacco control.

12. Tax-free/duty-free sales

Recommendation

Parties should consider prohibiting or restricting the sale to and/or importation by international travellers, of tax-free or duty-free tobacco products.

(Fourth plenary meeting, 17 November 2012)

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