Tobacco companies in Taiwan change prices during low taxes

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Data from Taiwan shows how tobacco companies implement aggressive pricing and market-segmentationstrategies when governments do not raise taxes

New research published in *Tobacco Control* shows transnational tobacco companies can increase their profits at the expense of national governments if policy makers do not increase tobacco taxes. The authors analyzed Taiwan's cigarette market from 2009-2016 and found that the four leading international companies took advantage of low taxes to increase the prices of luxury cigarette brands, boosting overall profits by driving more consumers to cheaper cigarettes.

The research was conducted by experts at Taipei Medical University, China Medical University Hospital, National Health Research Institutes and the University of Bath in its partnership with STOP (Stopping Tobacco Organizations and Products), a global tobacco industry watchdog.

"International tobacco companies profit handsomely whenever they spot a weakness in national regulatory structures," said J. Robert Branston, Associate Professor in Business Economics at University of Bath's School of Management and researcher for STOP (Stopping Tobacco Organizations and Products), a study co-author. "In Taiwan, tobacco companies changed their prices to make sure their deadly products remain affordable. Increasing tobacco taxes can help thwart this strategy."

During the period in Taiwan that the researchers examined, 2009-2016, smoking rates declined from 20% to 15% among adults and from 14.8% to 9.3% among 16-18-year-olds while the number of cigarette packs sold only decreased by 1.7% from 2011 to 2016. Correspondingly, the real net revenue of the state-owned Taiwan Tobacco and Liquor Corporation (TTL) decreased by 19%, changing from NT$16,751 in 2011, to NT$ 13,850 in 2016.

In contrast, the real net revenue of the four transnational tobacco companies (TTCs) increased considerably:

- Philip Morris International by 55%, from NT$3,188m to NT$5,609m; (102 million to 179 million USD)
- British American Tobacco by 21%, from NT$4,559m to NT$5,628m; (145 million to 179 million USD)
- Imperial Brands by 8.1%, from NT$9,045m to NT$9,812m and (288 million to 313 million USD)
- Japan Tobacco by 15%, from NT$29,105m to NT$33,818m. (927 million to 1,078 million USD)

Researchers noted that in 2011, the four TTCs sold their premium brands in a range between NT$75 and NT$85; by 2016, these premium brands were all priced at about NTS$95.

“This study points to an important decision that governments have to make,” said Dr. Wayne Gao of the College of Public Health at Taipei Medial University, the study’s lead author. “Either allow increased profits for the tobacco industry, keeping them in business at the cost of the population’s overall health, or increase government revenue and improve the public health. There is no option in between.”

The toll of death and disease caused by tobacco smoking has declined globally. However, tobacco consumption remains a critical problem in Asia. Currently, about half the world’s male smokers live in three Asian countries: China, India, and Indonesia. Japan and Bangladesh also rank among the top 10 countries with the largest smoking populations.

A Successful Government Response

In 2017, as this study was being conducted, the Taiwanese government increased the tobacco tax by 67% to 20 NT (0.6 USD) per pack of cigarettes. In contrast to similar price increases by the industry which only applied to higher-end brands, this tax-induced price increase was universal across all cigarette brands and segments. The outcome was a phenomenal success, with national cigarette consumption declining rapidly by 18%—from 1.72 billion packs in 2016 to 1.45 billion packs in 2018, representing the first significant decline in tobacco consumption in the last decade. The 37% increase in tax revenue (from1.82 billion USD to 2.4 billion USD) is being used to fund long-term care for the aging nation. Families with dependent elderly members who need long- term care have praised this policy change funded by increased taxes on tobacco products.