Argentina

Overview of TOBACCO USE, TOBACCO CONTROL LEGISLATION, AND TAXATION

World Bank Group
Global Tobacco Control Program
Country Brief
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Argentina

Overview of Tobacco Use, Tobacco Control Legislation, and Taxation

A Country Brief

Executive summary

Argentina is the only country in Latin America which did not become a Party to the WHO Framework Convention on Tobacco Control. Still, many of the FCTC provisions are included in the legislation.

The prevalence of smoking was quite high in 1970-1990s ranging between 40-58% among men and 20-25% among women, but after tobacco control measures were implemented, the prevalence of smoking decreased to 30% among men and 21% among women in 2013. Tobacco consumption and smoking prevalence in Argentina decreased due to the implementation of comprehensive tobacco control policies and some economic factors, which reduced cigarette affordability in the country.

In Argentina, cigarette affordability and tobacco consumption reduction were observed in: (1) 1999-2002; (2) 2014-2015; (3) 2016. In the first case (1999-2002), it was mainly caused by the reduction in population income during the economic recession. In 2014-2015, tax rates were not changed, and the main factor of the affordability reduction was the pricing policy of the tobacco industry.

The largest decline in affordability was achieved by the government taxation policy implemented in May 2016: the effective excise tax rate was actually increased by about 100%. This excise increase caused the growth in nominal cigarette prices by about 70%, while real prices increased only by 22%. Cigarette sales in 2016 declined by 5 billion sticks or by 12%. The real (inflation-adjusted) tobacco excise revenue increased both in 2016 and 2017: by 33% for two years.

In 2017-2018, the tobacco taxation policy was not consistent, and cigarette affordability slightly increased, but cigarette consumption continued to decline, as the large affordability reduction of 2014-2016 had a long-term effect. Real (inflation-adjusted) government tobacco excise revenue decreased in 2018 by 25%.

Tobacco tax hike implemented in Argentina in May 2016 was very successful both for the reduction in tobacco consumption and the increase in government revenue. However, the current tobacco tax policy is not able to either reduce tobacco consumption or to increase real tobacco excise revenue.

Tobacco tax increases in 2016 did not provoke much cigarette smuggling into the country. Most illicit cigarettes are produced within the country. The government should implement effective policies to stop excise tax evasion practices of the local tobacco factories, including the production of counterfeit cigarettes and false tobacco stamps.

Tobacco taxation system should be simplified to one excise tax with a unified ad valorem rate for all tobacco products and specific minimum excise rates for each tobacco product. The specific tax rates should be set high enough to prevent the sales of very cheap tobacco products, and these specific rates should be annually increased above the inflation rate to ensure both the reduction of tobacco consumption and the increase of governmental revenue.

Subsidies for tobacco growers through the Special Tobacco Fund are counterproductive from both public health and economic perspectives. They encourage tobacco consumption, illicit cigarettes sales and child labor in Argentina. The money, currently used to support tobacco growing should be used for encouraging farmers' transfer to more healthy outputs as well as for rural development programs.

Tobacco use surveillance and monitoring should be further developed in Argentina, including regular surveys with a collection of comprehensive information on tobacco products consumed in the country.
Acknowledgments

This country brief was prepared by a team from the World Bank Group Global Tobacco Control Program led by Patricio V. Marquez, including Konstantin Krasovsky, and Tatiana Andreeva.

June 17, 2019
Introduction

The Objective of the Country Brief

This country brief presents an overview of current tobacco control legislation, tobacco use, and taxation policy in Argentina. Data and information were collected from various sources. The brief is intended to serve as the context for complementary assessments on different aspects of tobacco taxation in the country to be shared with government teams and other national and international stakeholders.

Tobacco control legislation

Argentina is the only country in Latin America which did not become a Party to the WHO Framework Convention on Tobacco Control. Argentina signed the FCTC on September 25, 2003, but has not ratified the treaty.

Transnational tobacco companies have been actively influencing public health policymaking in Argentina since the early 1970s. As in other countries, in 1977 the tobacco industry created a weak voluntary self-regulating code to avoid strong legislative restrictions on advertising. In addition to direct lobbying by the tobacco companies, these efforts involved the use of third-party allies, public relations campaigns, and scientific and medical consultants. During the 1980s and 1990s, efforts to pass comprehensive tobacco control legislation intensified, but the organized tobacco industry prevented its enactment [1].

In the 1990s, Argentina, like other Latin American countries, was targeted by various campaigns launched by the tobacco industry, including the "Courtesy of Choice" campaign in 1994-96 [2], a campaign to "discourage juvenile smoking" conducted in 1997-1998 [3].

In 1992-94, Argentina became one of the countries targeted by the "Latin project" funded by Philip Morris International and British American Tobacco, in which the consultants representing a wide variety of scientific disciplines--including chemistry and biochemistry, epidemiology, oncology, pulmonary and cardiovascular medicine--were recruited to generate scientific arguments minimizing the role of secondhand smoke as a health hazard, to produce low estimates of exposure, and to lobby against smoke-free workplaces and public places [4].

More recently, tobacco producers opposed FCTC ratification in Argentina. The principal strategy used was lobbying of provincial legislators and federal officials from the Ministry of the Economy by the tobacco growers associations. A typical legislative strategy used was to request additional analyses of the proposed bills from committees that prioritized economic issues over health. Direct physical threats to legislators who were openly supportive of FCTC ratification were made. These activities have led to a delay in consideration of Argentina's ratification of the FCTC despite the President's signature in 2003 [5].

Presence in Argentina of the global organization of tobacco companies is a recognized factor that hinders the development of tobacco control legislation [6].

In 2011, a National Tobacco Control Law (No.26687) was enacted in Argentina. It included implementation of 100% smoke-free environments, a comprehensive advertising ban (prohibiting advertising, promotion, and sponsorship of cigarettes or tobacco products through any media or communications outlets), pictorial health warnings, and a prohibition against the sale of tobacco products through any means to people younger than 18 years [7].

Decree 602/2013 was issued under Law 26687 to implement its provisions on smoking in public places; tobacco advertising, promotion and sponsorship; and tobacco packaging and labeling. Resolution 425/2014 established the General Regimen for Enforcement and Processing Complaints of Violation of Law 26687. Resolution 497/2012 was also issued under Law 26687. It contains packaging and labeling requirements, as well as health warning requirements for tobacco advertising. Resolution 494/2014
updated the contents of the pictorial health warnings required to appear on packaging. It also updated the text of the health warning required on permitted forms of tobacco advertising and promotion. In 2015 [8], tobacco control policies in Argentina were assessed at 33 out of 37 points. The conducted studies demonstrate the general support of the population of Argentina for stronger tobacco control measures [9].

**Smoke-free places**

In 2005, Argentina became the first Latin American country to adopt an effective smoke-free policy at the sub-national level. To evaluate the impact of these legislative changes, a study [10] compared PM$_{2.5}$ levels in 15 cities with different legislative contexts and found that PM$_{2.5}$ levels were 5 times higher in cities with no legislation vs. smoke-free cities (p<0.001). In cities with designated smoking areas, PM$_{2.5}$ levels were not statistically different between smoking and non-smoking areas (p=0.272). Non-smoking areas had significantly higher PM$_{2.5}$ levels compared to 100% smoke-free venues in the same city (twofold higher) (p=0.017).

Currently, smoking is prohibited in indoor workplaces, indoor public places, and public transport, except for (1) enclosed private office space that is not shared with other workers and is not used for public services; (2) clubs for smokers of tobacco products; and (3) tobacco shops. Smoking is also prohibited on outdoor patios, terraces, and balconies of healthcare facilities and primary and secondary educational facilities, and in areas covered with a roof which are intended for public gathering. Sub-national jurisdictions may enact smoke-free laws that are more stringent than the national law [11].

**Tobacco advertising, promotion, and sponsorship**

Almost all forms of tobacco advertising and promotion are prohibited, except for (1) some limited signage at points of sale, and (2) some direct communication of exclusively informational content to consenting persons over 18 years of age. Permitted advertising must contain health warnings on 20 percent of the advertising surface. All forms of tobacco sponsorship are prohibited [11].

As the study of point-of-sale advertising in Buenos Aires revealed, 80% of the stores had cigarette ads, and few differences were observed by neighborhood socioeconomic status. 'No sales to minors' signs were prevalent [12, 13]. Among the survey participants who attended a store that sells cigarettes in the previous 30 days, 54.1% reported having seen tobacco advertising at the points of sales [14].

**Tobacco packaging and labeling**

Rotating pictorial health warnings must occupy 50 percent of principal display areas. The image must appear on the lower 50 percent of the front of the package and the accompanying text must appear on the lower 50 percent of the back of the package. The set of 10 health messages and images must be updated every 12 to 24 months. Fifty percent of one side of the tobacco product package must contain information about the free service for quitting smoking that is provided by the Ministry of Health. Misleading packaging and labeling, including such terms as “light” and “low tar” and other signs, is prohibited [11, 15].

**Tobacco use**

**Tobacco use among adults**

In 1971, 40% of adults aged 15-74 in Argentina were current smokers (58% among men and 20% among women) [16, 17].
According to the 1988 Gallup data [16], 43% of men and 27% of women were current smokers in Argentina.

In 1992, 40% of men and 23% of women in Argentina were estimated to be smokers [18].

In a nationwide household Living Standard Survey conducted in 2001 [19], 38% of men and 24% of women were current smokers, and 20% of current smokers smoked occasionally.

Within CARMELA project [20], a multistage cross-sectional epidemiological study was conducted between September 2003 and August 2005. In Argentina, 1482 urban dwellers aged 25-64 years living in Buenos Aires participated. The prevalence of current smoking among men was 39.7% with a higher percentage of smokers among those aged 25-44 (over 40%); among women, 37.7% were current smokers with a higher prevalence of smoking found among women aged 45-54 years: it constituted 41.2%.

A survey of pregnant women conducted in 2005 [21, 22] found that 44.3% of women in Argentina had ever smoked regularly; of these, 22.1% kept smoking during pregnancy which constituted 10.3% of all surveyed pregnant women.

In 2006, the prevalence of current tobacco use was 32.1% (35.2% among males 29.1% among women). Approximately 90% of the population who smoked did so on a daily basis, and 30% smoked an average of 20 cigarettes per day [23].

The National Survey of Risk Factors for Non-communicable Diseases was conducted in Argentina in 2005, 2009 and 2013 (see
In 2005 [24, 25], 37.2% of men and 25.2% of women were current smokers. A higher socioeconomic position was associated with lower prevalence of smoking among men in all age groups, although the association was strongest among younger men. For women, a higher socioeconomic position was associated with more smoking in older age groups but less smoking in younger age groups. A higher socioeconomic position was also associated with higher odds of recent quitting compared to not considering quitting for men regardless of age group but for women only in younger age groups.

The decrease in the prevalence of tobacco use found in the second survey [26] was documented in almost all the provinces across Argentina.

The third survey documented a significant decline in the prevalence of tobacco use in 2013. The prevalence remained higher among men compared to women [27]. The third survey stated that the prevalence of tobacco use was higher among the poorer households compared to more affluent ones; however, the second survey documented no difference by income [26], and some of the analyses of the first survey revealed that the prevalence was higher among those who earned more. Thus, the more rapid changes in the prevalence of smoking were found in more affluent groups of the Argentinean population.

The analysis of socio-economic inequalities in smoking prevalence revealed [28] that although the prevalence of smoking decreased from 29.7% to 25.1% between 2005 and 2013, socio-economic inequalities in smoking persisted. In men, a higher smoking prevalence was associated with lower educational levels and lower household. In women, the disparity was related to unemployment.
Table 1. The prevalence of tobacco use among the population of Argentina aged 18 years and older, results of the National Survey of Risk Factors for Non-communicable Diseases

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2009</th>
<th>2013</th>
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</thead>
<tbody>
<tr>
<td>Group</td>
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<tr>
<td>All population 18+</td>
<td>29.7 (28.7 - 30.8)</td>
<td>27.1 (26.3 - 27.9)</td>
<td>25.1 (24.2 - 26.2)</td>
</tr>
<tr>
<td>Men</td>
<td>35.1</td>
<td>32.4</td>
<td>29.9 (28.4 - 31.4)</td>
</tr>
<tr>
<td>Women</td>
<td>24.9</td>
<td>22.4</td>
<td>20.9 (19.7 - 22.1)</td>
</tr>
</tbody>
</table>

Another survey with data on tobacco use conducted in Argentina several times was the study of psychoactive substances use which was conducted in 1999 [29], 2004 [30], 2008 [31], 2010 [32] and 2017 [33]. The results are shown in
Table 2. As the table shows, the approach to choose the period prevalence indicators of tobacco use and the age cutoffs was extremely inconsistent across this series of surveys. No single tobacco use indicator was reported across all surveys. Where comparable indicators are reported, it is seen that in 1999-2004, the prevalence of ever smoking declined dramatically. In 2004-2008, the prevalence of tobacco use increased among people younger than 35 and decreased among those older than 35 years. In 2008-2010, all the comparable indicators decreased except for the people older than 50 years.

The attention researchers paid to the longer-term indicators (lifetime, last year, and last month) is unusual from the point of view of global tobacco surveillance. However, it is explainable given the low prevalence of daily tobacco use. As stated in the 2008 report [31], only about a quarter of all current (last month) smokers reported smoking on a daily basis.

The format of the survey conducted in 2017 has undergone even more dramatic changes than the previous ones. It was the first one to report the prevalence of daily smoking. The survey revealed that just over half of the population between the ages of 12 and 65 smoked cigarettes at some point in their life; 28.6% of people currently (at least once a month) smoked. Among males, the prevalence of smoking was higher than among women (32.2% and 25.3% respectively) [33]. The percentage of ex-smokers in the population older than 18 years was 15.3%.
Table 2. Period prevalence of tobacco use according to the study of psychoactive substances use

<table>
<thead>
<tr>
<th>Period</th>
<th>Age group</th>
<th>Gender</th>
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<th>2004</th>
<th>2008</th>
<th>2010</th>
<th>2017</th>
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<tbody>
<tr>
<td>Lifetime</td>
<td>12-15</td>
<td>All</td>
<td>27.34</td>
<td>11.0</td>
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<td></td>
<td></td>
<td>Males</td>
<td>31.03</td>
<td>11.0</td>
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<td></td>
<td></td>
<td>Females</td>
<td>23.93</td>
<td>11.1</td>
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<td></td>
<td>16-65</td>
<td>All</td>
<td>67.02</td>
<td>58.2</td>
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<tr>
<td></td>
<td></td>
<td>Males</td>
<td>76.02</td>
<td>64.3</td>
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<td></td>
<td></td>
<td>Females</td>
<td>58.6</td>
<td>52.7</td>
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<tr>
<td></td>
<td>12-65</td>
<td>All</td>
<td></td>
<td>52.2</td>
<td>47.3</td>
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<td></td>
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<td>Males</td>
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<td>57.7</td>
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<td>Females</td>
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<td>46.8</td>
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<td>12 months</td>
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<td>Females</td>
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<td>12-65</td>
<td>All</td>
<td>32.2</td>
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<td>Males</td>
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<td>36.1</td>
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<td>Females</td>
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<td>16-65</td>
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<td>39.8</td>
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The Global Adult Tobacco Survey conducted in Argentina in 2012 among people aged 15 years and older found that 29.4% of men and 15.6% of women were current tobacco smokers. Both daily tobacco smoking and daily cigarette smoking was reported by 21.9% of men and 12.7% of women [15, 34]. Among women, smoking was more prevalent in younger age groups, i.e. among those aged 15-34 years than among those older than 35 years [35]. As regards the whole population, the highest prevalence of daily smoking was
found among the oldest group aged 50-64 (22.1%) followed by those aged 25-34 years (20.4%) [15]. The mean number of cigarettes per day was found to be 12.2 among current smokers and 15.2 among daily smokers (16.6 among men and 13.0 among women).

**Estimates of trends in adult smoking**

According to published international estimates [36], the age-standardized adult smoking prevalence in Argentina decreased from 30.8% in 1980 to 23.9% in 2012 among men and from 22.5% in 1980 to 15.9% in 2012 among women.

Abascal [37] analyzed three Argentinean risk-factor surveys of respondents aged 18–64 years conducted in 2001, 2005 and 2009 and four drug-use surveys conducted in 2004, 2006, 2008 and 2010 among individuals aged 16–65 years living in urban areas. From 2001 to 2009, the prevalence of current smoking among Argentinean men decreased by 3.2 percentage points, but in Argentinean women, it increased by 0.1 percentage points. No trends in the prevalence of tobacco use in adults before 2005 were detected, but from 2005 to 2011, the prevalence of current tobacco use in Argentina decreased annually by 1.7%.

As seen in Figure 1, the prevalence of smoking was declining among men but kept rather stable among women. However, conclusions regarding the prevalence trend are complicated because the surveys apply varying definitions of current smoking: some count those who smoked at least once within 30 days before the survey, other surveys count those who smoked every day or some days, and yet other surveys count those who smoked at least 100 cigarettes in their lifetime [15].

**Figure 1. Changes in the prevalence of current smoking among men and women in Argentina**

A recent survey was conducted by the Inter-American Heart Foundation (FIC) among inhabitants of large urban agglomerates of the country (the Autonomous City of Buenos Aires, province of Buenos Aires, Córdoba, Rosario, Mendoza, and Tucumán) in December 2016 in a sample of 1,400 people aged 18-74 years. The survey found that 52% used to be smokers and 8.2% of smokers in Argentina quit using tobacco after the national government raised a tax in May 2016\(^\text{1}\); 40.5% of smokers said that the tax-driven rise in cigarette prices affected their consumption behavior. Among them, 81.7% decreased the number of consumed cigarettes; 26.7% switched to a cheaper brand; 19.5% started buying loose cigarettes.

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Tobacco use among youth

In a survey conducted in 1997 among high school students (8th and 11th graders), 32% of females and 29% of males were current smokers [38]. Of 8th and 11th graders, 20% and 43%, respectively, were classified as current smokers.

A survey comprising 239 schools was conducted in 2002, and it covered adolescents aged 12-18 years [39]. In all, 30.0% of males and 35.0% of females were smokers, i.e. smoked at least one cigarette within 30 days before the survey. In the 12-14 year age group, 22.5% were smokers (19.3% among males and 26.1% among females) and in the 15-18 years group - 40.1% (38.3% among males and 42.2% among females). More than 70% of the adolescents were living with a smoker.

The survey conducted in 2004 in a random sample of 3218 adolescents from 27 schools [40] found that the prevalence of smoking was higher among indigenous adolescents than among those having a European background. The prevalence of alternative tobacco product use was 24.1%: 15.3% of youth used hand-rolled cigarettes, 7.8% smoked cigars, 2.3% chewed tobacco leaf, and 1.6% smoked a pipe [41].

The Global School-based Health Survey (GSHS) was conducted in Argentina at the national level in 2007 [42, 43]. The prevalence of smoking was 19.8 ± 4.8 % among boys and 21.9 ± 3.9 % among girls.

The Global Youth Tobacco Survey (GYTS) was conducted in Argentina in the capital city in 2000 [44], 2003 [45] and 2007 [46, 47], and then in 2012 [7, 48] one year after a tobacco control law was enacted.

Table 3. Prevalence of tobacco use-related behaviors among adolescents aged 13-15 years in Argentina, %, GYTS

<table>
<thead>
<tr>
<th></th>
<th>Capital city</th>
<th>National level</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Currently used any tobacco product</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(at least once during the last 30 days)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>boys</td>
<td>25.7</td>
<td>27.3</td>
</tr>
<tr>
<td>girls</td>
<td>30.0</td>
<td>32.7</td>
</tr>
<tr>
<td><strong>Currently smoked cigarettes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(at least once during the last 30 days)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>boys</td>
<td>21.9</td>
<td>24.4</td>
</tr>
<tr>
<td>girls</td>
<td>28.1</td>
<td>30.8</td>
</tr>
<tr>
<td><strong>Lived in homes where others smoke in their presence</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>68.2</td>
<td>71.0</td>
</tr>
<tr>
<td><strong>Had at least one parent who smoked</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>57.2</td>
<td>56.6</td>
</tr>
</tbody>
</table>

As concluded from the two surveys mentioned above, the prevalence of tobacco use was reduced from 28% in 2007 to 24% in 2012 and the prevalence of cigarette smoking from 24.5% in 2007, 19.6% in 2012, but access to tobacco products and exposure to secondhand smoke remained high in public places, including schools [49].

In 2003–09, the 30-day prevalence of tobacco use in Argentinean students aged 13 years, 15 years, and 17 years decreased by an estimated 2.5% annually [37].

In a survey conducted in 2014 [50] among adolescents aged 12-15 years, only 10% were reported to be smoking within 30 days before the survey.

Tobacco use among health professionals

In 1998, the prevalence of smoking among physicians in Argentina was reported to be 31% [51].
A study conducted in 2002 among pediatric residents [52] revealed that 22.2% of them were smokers. The risk factors for smoking were having a mother who smoked and living alone.

Global Health Professions Students survey conducted in 2005 revealed that among male medical students, 33.4% (30.4-36.4) were current cigarette smokers and among female students, 36.5% (34.1-39.1) [53]. The survey conducted in 2007 among dental students reported that the prevalence of current cigarette smoking among male students was 38.7% (34.5-43.2), among female student 38.0% (35.0-41.0)[54]. Among nursing students in 2007, the prevalence of current cigarette smoking among males was 38.4% (31.5-45.8) and among females 36.0% (32.5-39.6); additionally, 9.3% of females used other tobacco products [55].

A survey conducted in 2011 among the students of Buenos Aires School of Medicine found that 29% of them were smokers [56], and this prevalence was higher than among the general population.

An online self-administered survey conducted in 2011 among eligible medical students and recent graduates from the University of Buenos Aires found that 27.3% of them were current smokers [57, 58].

**Tobacco growing**

According to the FAO database [59], raw tobacco production in Argentina increased from about 50,000 tons a year in the early 1960s to over 160,000 tons in 2005, but then it decreased to 93,671 tons in 2016. Most (about 80%) of raw tobacco is exported. The area harvested for tobacco increased from about 40,000 hectares in the early 1960s to 83,169 hectares in 2005, but then it decreased to 43,815 hectares in 2016.

Tobacco production concentrates in the north of the country. The provinces of Jujuy, Salta, and Misiones are the leading ones. Argentina’s tobacco-growing sector in 2009 included 17,243 farmers who employed 49,517 workers; 95% of tobacco producers owned five hectares of land or less which together constitute 50% of the cultivated area [60]. An important number of Argentina's tobacco industry employees are underage workers. Tobacco cultivation has been promoted in Argentina since 1967 with the creation of the Tobacco Technological Fund, originally as a temporary and emergency measure. In 1978, The Decree No.19800 established the Special Tobacco Fund (FET) which made the tobacco promotion policy permanent. FET gets funded through the tobacco excise tax representing approximately 7% of the retail price of each cigarette pack. According to the law, 80% of the FET tax collected goes to the direct support of tobacco producers (subsidy); the remaining 20% goes to the retrofitting and diversification plans in the tobacco-growing provinces. Argentina began to reduce subsidizing tobacco growers in 1997 when it signed the Agricultural Agreement of the World Trade Organization (WTO). According to the agreement, Argentina was not allowed to provide more than USD75 million a year in direct subsidies to tobacco-growing activities [60], but the transfers (in dollar value) for the local tobacco subsidies have multiplied by nine in the last ten years [61].

**Tobacco production and sales**

Cigarette production and sales in Argentina is highly concentrated and privately owned. There are two major companies— Massalin Particulares (a Philip Morris subsidiary) and Nobleza Piccardo (linked to British American Tobacco) representing 72.9% and 16.5% of cigarette sales in 2017 [62], respectively. Tabacalera Sarandí is a national company which focuses on the production and marketing of cigarettes in the economy segment and had a 7.9% share on the cigarette market in 2017. It has a production plant in

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2 https://en.wikipedia.org/wiki/Tobacco_industry_in_Argentina
the province of Buenos Aires, which produces the brand Red Point. There are also some other small cigarette producers in Argentina.

In 2007-2015, annual cigarette sales exceeded 40 billion sticks, but the sales decreased to about 36 billion in 2016 and 2017 (Table 4).

**Table 4. Cigarette sales in Argentina, billion sticks**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cigarette sales</td>
<td>37,2</td>
<td>39,8</td>
<td>41,1</td>
<td>43,4</td>
<td>42,6</td>
<td>41,9</td>
<td>43,8</td>
<td>42,8</td>
<td>41,7</td>
<td>41,3</td>
<td>40,6</td>
<td>35,8</td>
<td>35,9</td>
<td>35,0</td>
</tr>
</tbody>
</table>

*Source: report by the Ministry of Agroindustry*.

In 2018, 35.1 billion cigarettes were sold, which is 2.4% less than in 2017.

Smoking tobacco sales decreased from 2,538 tons in 2013 to 2,159 tons in 2017 [63].

Among other tobacco products, a growing share was recently observed for flavor capsule cigarettes. Argentina was found among the top five countries with the highest market share of these tobacco products which reached in 2014 nearly 10% [64].

The National Administration of Food, Drugs and Medical Technology has banned the marketing and use of electronic cigarettes because there is insufficient evidence to determine whether they are safe for human consumption. Consequently, the law prohibits the import, distribution, marketing, advertising or any form of promotion of electronic cigarettes.

**Cigarette consumption**

As revealed by the Global Adult Tobacco Survey, 98.2% of tobacco consumers in Argentina smoke cigarettes [34].

Cigarette consumption per capita in Argentina increased and reached a plateau at about 2000 cigarettes per year in the 1970s and 1980s and then declined to about 1500 by 1990 [16]. Estimated cigarette consumption per capita among adults (>15 years of age) from 1970-72 to 1990-92 decreased from 1810 to 1610 [18] and then to 1456 by 2000 [65].

Ministry of Agroindustry publishes annual estimates of cigarette consumption per capita (all ages) (Figure 2).
Cigarette consumption declined from 56 packs in the late 1990s to about 50 packs in the early 2000s (after the economic crisis), but then it increased again in 2005-2008 to 56 packs per capita and was rather stable in 2009-2011. In 2012-2015, it gradually declined to 47 packs. The largest decline in cigarette consumption was observed in 2016 when it decreased to 41 packs. However, in 2017, there was almost no change in consumption.

Consumption of roll-your-own cigarettes in Argentina is rather low (7.7%) while in neighboring Uruguay, it is 32.4% [66].

**Tobacco taxation**

Argentina’s overall tax system is extremely complicated; the structure of tobacco taxation and, in particular, the taxation of cigarettes, is even more so. Tobacco taxes have a dissimilar, vague origin; their bases differ significantly and are not applied similarly for cigarettes and other tobacco products.

Tobacco products in Argentina are taxed by two general taxes: Value Added Tax (IVA) and Gross Income tax (IIBB). There are also two special tobacco taxes: Internal Tobacco Tax (INT) and Additional Emergency Tax (IAE) which is applied only to cigarettes. In addition to these four taxes, Law No.19800 established an additional charge on the price of cigarettes to feed the Special Fund for Tobacco – FET.

The VAT was established by Law No.23349 and applies to all phases of production and distribution. On cigarettes, it levies a 21% rate of the non-tax price (which consists of the factory prices plus the distribution margin).

The Gross Income tax (IIBB) is earmarked for provincial financing; the companies, the retail distributors, and the retail vendors have to pay it. The rate ranges from 1.5% to 3.5%, depending on the jurisdiction where the sales occur.

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6 http://servicios.infoleg.gob.ar/infolegInternet/verNorma.do?id=17440
The Law No.24625 adopted in December 1995\(^7\) established the Additional Emergency Tax (IAE) aimed to finance social programs (especially health programs) within the Rural Change Program and the Social-Livestock Program. The rate of this tax was 7%, and it was applied to the final cigarette retail price, including the rest of the taxes involved in the final price. The Article 9 of Title IX of Law No.25239\(^8\) of December 1999, modified the Additional Emergency Tax, raising the rate to 21% and also empowering the government to reduce it to a minimum of 7%, following a favorable and founded technical report from the relevant ministries. The Decree No.518 of June 30, 2000, established a progressive schedule for the reduction of the tax rate: 16% from July 4, 2000, to October 19, 2000; 12% from October 20, 2000, to February 19, 2001, and 7% from February 20, 2001. Since then, through successive decrees, the application of the reduced rate of 7% was maintained.

Internal tax (INT) is a single-phase tax applied to the final manufacturer. The Law No.24674 Article 15 established a 60% rate of the final price of cigarettes, excluding other taxes, such as the value-added tax (VAT) and the Additional Emergency Tax (IAE). Article 14 of the law No.24674 granted to the government a power to increase the rate by up to 25% temporary, when the economic situation of certain or specific industries advises them.

The government used this power in April 2016 and issued the Decree No.626\(^9\) to increase the 60% rate to 75% (by 25% - 60*1.25=75) as of May 1, 2016, and until December 31, 2016. While the increase of ad valorem rate from 60% to 75% looks rather moderate, due to the specificity of the tax base for calculation of the INT excise tax, it actually increased by about 100% in monetary terms. Weighted average cigarette retail price increased from ARS25.88 per pack in April 2016 to ARS39.09 in May 2016\(^10\). At the same time, non-tax price, VAT, and IIBB almost did not change, but INT increased from ARS11.8 to ARS23.2. Other tobacco taxes (IAE and FET) also increased by 40-50% in monetary terms.

The governmental Decree 15/2017 prolonged validity time period for the 75% excise rate to 31st December 2017. Then the Decree No. 99/2018\(^11\) extended the 75% rate till February 28, 2018. The INT rate was 60% till April 30, 2016. Then it was 75% from May 1, 2016, to February 28, 2018, and from March 1, 2018, it became 70% as Article 103 of Law No.27430 of 29 December 2017 changed the Article 15 of the Law No.24625 and established a new rate (70%) for cigarettes.

The Law No.27430 also updated Article 16 of the Law No.24625 and increased the rate for cigars and cigarillos from 16% to 20%. The minimum specific excise became 10 pesos per cigar and 20 pesos for each pack of twenty cigarillos. The rate for roll-your-own tobacco, snuff, and other loose tobacco was increased from 20% to 25%, with minimum specific rate becoming 40 pesos per 50 grams of tobacco (updated Article 18 of the Law No.24625).

From 2009, the INT tax should not be less than 75% of the tax corresponding to the price of the most sold category of cigarettes (this rule was incorporated by Article 2 of Law No.26467 published 9/1/2009). For the purpose of determining the minimum tax the most sold category of cigarettes (CMV), the price was

\(^7\) [http://servicios.infoleg.gob.ar/infolegInternet/anexos/30000-34999/31989/norma.htm](http://servicios.infoleg.gob.ar/infolegInternet/anexos/30000-34999/31989/norma.htm)

\(^8\) [http://servicios.infoleg.gob.ar/infolegInternet/anexos/60000-64999/61784/norma.htm](http://servicios.infoleg.gob.ar/infolegInternet/anexos/60000-64999/61784/norma.htm)


calculated and published quarterly\textsuperscript{12}. In December 2017, the minimum tax was ARS22 per pack of 20 cigarettes [61].

The Law No.27430 of 29 December 2017 established a new way of calculating the minimum INT tax applicable to cigarettes. Starting from January 2018, it was transformed into a fixed amount that can be updated each calendar quarter based on the variations of the Consumer Price Index (CPI), provided by the National Institute of Statistics and Census. The initial specific rate is ARS28 per pack of 20 cigarettes. For June-August 2018, the minimum specific rate was ARS29.87 for cigarettes; ARS10.67 for cigars; ARS21.34 for cigarillos and ARS42.68 for loose tobacco\textsuperscript{13}. The Government has the power to change the minimum specific tax rate in some special conditions: increase up to 25% or decrease up to 10%.

The FET tax is an earmarked contribution established by Law No.19800\textsuperscript{14}. It aims to meet the economic and social needs of tobacco growers. After several revisions, FET consists of an 8.35% ad valorem rate (7.0% for the FET (Article 23), 1.0% for payment of the wholesale and retail marketing percentage throughout the country (Article 24), and 0.35% to finance the welfare and healthcare institutions managed by trade unions of the tobacco sector (Article 25). The ad valorem FET component amount equals the FET tax rate multiplied by the retail net price (i.e. retail price minus Additional Emergency Tax and the Value Added Tax) [67]. The FET also has a specific component: a lump sum (according to Article 25 of the Law No.19800) increased twice a year in line with the increase of the Weighted Average Price. From July 2018, the specific component constitutes ARS1.8939\textsuperscript{15}.

As tobacco taxation system is very complicated, we present available estimates of various tax shares in the cigarette retail price in Table 5.

\textbf{Table 5. Shares of various taxes in the final cigarette retail price}

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal tax (INT)</td>
<td>45,73</td>
<td>46,13</td>
<td>59,3</td>
<td>59,7</td>
</tr>
<tr>
<td>Additional Emergency Tax (IAE)</td>
<td>7,00</td>
<td>7,00</td>
<td>7,0</td>
<td>7,0</td>
</tr>
<tr>
<td>Tax for Special Fund for Tobacco (FET)</td>
<td>10,38</td>
<td>9,67</td>
<td>10,0</td>
<td>9,2</td>
</tr>
<tr>
<td>Value Added Tax (IVA)</td>
<td>6,46</td>
<td>6,46</td>
<td>4,0</td>
<td>3,9</td>
</tr>
<tr>
<td>Gross Income tax (IIBB)</td>
<td>0,9</td>
<td>0,9</td>
<td>0,9</td>
<td>0,6</td>
</tr>
<tr>
<td><strong>Total tax share</strong></td>
<td>63,11</td>
<td>69,26</td>
<td>81,1</td>
<td>80,4</td>
</tr>
</tbody>
</table>

The share of IAE and FET taxes did not change much in 2013-2018. After the tax reform of 2016, the share of the Internal tax increased from 46% to almost 60%, and it was the main factor of the final price increase. VAT share decreased from 6.5% to 4% as VAT is a percentage of the non-tax part of the price, which increased much less than the final retail price. Total tax share was almost 70% in 2014, but in 2017-2018, it exceeded 80%.

WHO Global report [69] also demonstrated that in 2008-2014, the total tax share in Argentina was 69-70%, but in 2016, it increased to 80.25%.

\textsuperscript{12} http://biblioteca.afip.gob.ar/estaticos/cuadrosLegislativos/internos_cmv.aspx
\textsuperscript{13} https://www.afip.gob.ar/noticias/documentos/ANEXO4257.pdf
\textsuperscript{14} http://servicios.infoleg.gob.ar/infolegInternet/anexos/15000-19999/17440/texact.htm
\textsuperscript{15} http://biblioteca.afip.gob.ar/estaticos/cuadrosLegislativos/tabaco_monto_adicional_fijo.aspx
\textsuperscript{16} http://www.batargentina.com/group/sites/BAT_9YXKEP.nsf/vwPagesWebLive/DO9Z3F9Z?opendocument
Cigarette prices

The Ministry of Agroindustry publishes average cigarette prices, and they are available from January 2005 to July 2018\(^1\). The nominal average price of 20-cigarette pack decreased from ARS3.15 in January 2005 to ARS2.75 in May 2006 and then started to increase. In October 2007, it was ARS3.18, almost the same as 33 months ago. Then nominal cigarette prices increased almost every month, and in July 2018, the average price of a 20-cigarette pack was ARS54.44 – almost 20 times higher than in May 2006.

Estimation of real (inflation-adjusted) cigarette prices in Argentina is a challenge, as the official inflation rates are not reliable. The International Monetary Fund accused the National Statistical Office (INDEC) of deliberately reporting lower inflation figures \([70]\). Only in November 2016, IMF declared that Argentinean statistics were again in accordance with international standards.

Online prices collected from the largest supermarket between October 2007 and March 2011 showed that Argentina’s online inflation rate was nearly three times higher than the official estimate: the online index increased over 100%, while the official index grew only by 35%\(^1\). From 2007, trends in real cigarette prices depend greatly on which estimates of overall inflation are used. We used both official INDEC inflation rates\(^1\) and alternative “Congreso” rates\(^2\) for 2007-2015 to calculate real cigarette prices.

Figure 3. Average cigarette prices, ARS per pack of 20 cigarettes in December each year, nominal and inflation-adjusted (base 2006=100).

There were no large changes in real cigarette prices in 2007-2011 if alternative inflation rates are used \([71]\). Then, a small decline in real prices was observed in 2011-2013, but in 2014-2016, real cigarette prices increased. In 2015, the price of a 20-cigarette pack of the top selling cigarette brand was reported to cost $1.77 \([72]\). The largest increase took place in 2016, when the real (alternative) price increased by 22%,

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\(^2\) https://dspace.mit.edu/openaccess-dissertate/1721.1/107462

\(^3\) https://es.wikipedia.org/wiki/Anexo:Evolución_del_%C3%A1ndice_de_Precios_al_Consumidor_en_Argentina

Despite very high (40.6%) inflation that year. In 2017 and in the first half of 2018, real cigarette prices decreased.

Rather high increase in nominal cigarette prices (65%) also occurred in 2014: the Ministry of Finance and the tobacco industry set an agreement to reach particular tax collection objectives [73]. The agreement was the exclusive factor responsible for the price increases in those years [74].

The WHO Global Tobacco Report, 2017 [69] contains information on cigarette prices and taxes in Argentina and other Latin American countries in 2016 (Table 6).

**Table 6. Cigarette prices and taxes in Argentina and some neighboring countries in 2016**

<table>
<thead>
<tr>
<th>Country</th>
<th>Price of a 20-cigarette pack of the most sold brand</th>
<th>Taxes as a % of price of the most sold brand</th>
<th>Net-of-tax part of the price, $</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In reported currency</td>
<td>Reported currency</td>
<td>In US$</td>
</tr>
<tr>
<td>Argentina</td>
<td>40.00</td>
<td>ARS</td>
<td>2.67</td>
</tr>
<tr>
<td>Bolivia</td>
<td>11.00</td>
<td>BOB</td>
<td>1.59</td>
</tr>
<tr>
<td>Brazil</td>
<td>6.24</td>
<td>BRL</td>
<td>1.91</td>
</tr>
<tr>
<td>Chile</td>
<td>2 178</td>
<td>CLP</td>
<td>3.28</td>
</tr>
<tr>
<td>Paraguay</td>
<td>2 000</td>
<td>PYG</td>
<td>0.36</td>
</tr>
<tr>
<td>Uruguay</td>
<td>110.00</td>
<td>UYU</td>
<td>3.70</td>
</tr>
</tbody>
</table>

We calculated the net-of-tax price of the most popular cigarette brand as follows: Price in USD * (1 – Total tax share). Cigarettes in Argentina had lower retail prices and taxes than in Chile and Uruguay, but the net-of-tax cigarette price in Argentina was higher than in Chile. The price differences are high enough to smuggle cigarettes from Paraguay to Argentina but also from Argentina to Chile and Uruguay.

**Cigarette affordability**

According to the recent analysis, published by the Ministry of Health [61], throughout 2005-2013, cigarettes became more affordable for the population. While at the beginning of 2005 the purchase of 100 packs of 20 cigarettes required around 25% of the average worker salary in the private sector, by the beginning of 2014, this percentage became twice lower. The analysis of the average individual income of an adult person obtained from the Permanent Household Surveys (EPH) [61] came to similar conclusions. According to the EPH, the cost of cigarettes in relation to income fell sharply between 2005 and 2006, and more slowly but steadily until the beginning of 2014. Both the upturn of the real wage and the cheapening of cigarettes in relation to other goods contributed to this trend.

Affordability of cigarettes increased significantly in 2004-2014 in all income quartiles, but the largest growth occurred in the poorest quartile. This situation constitutes a significant public health problem because it increases social inequities by means of generating greater tobacco consumption among the most vulnerable sectors in the population. As it is precisely these people who are most harmed by the tobacco epidemic, this perpetuates a cycle of poverty and disease and creates additional obstacles to social and economic development [73]. In Argentina, poor smokers are more sensitive to the changes in the price of cigarettes. Price elasticity of demand was -0.21 among the population richest tertile and -0.34 among the poorest tertile [75].

According to the WHO estimates [69], cigarette affordability in Argentina was rather stable in 2008-2014 but substantially reduced in 2016.

In the current analysis, a modified tobacco affordability index (TAI) [76] is used to estimate the changes in tobacco affordability in 2007–2017. TAI is calculated as the percentage annual change in nominal
average income per capita divided by the tobacco price increase: TAI = (income increase/consumer price index tobacco – 1) * 100. A negative TAI value means that tobacco became less affordable, and tobacco consumption is expected to decrease. For the TAI calculations, we used as income proxy the World Bank indicator “Annual percentage growth rate of GDP per capita based on constant local currency” \(^{21}\). Information on GDP changes in 2018 was taken from Trading Economics site\(^ {22}\). As INDEC did not publish CPI for tobacco till 2016, we used average cigarette prices in December each year to calculate CPI for cigarettes. As the GDP change is expressed in constant (adjusted for the effects of price inflation) local currency, the price indicator is also expressed in real (inflation-adjusted) terms. In this case, the TAI is calculated as GDP annual change divided by the (inflation-adjusted) cigarette price increase minus 100: (GDP growth * CPI_all_items / CPI_cigarettes – 100). For CPI_all_items, we used alternative (Congreso) inflation estimates\(^ {23}\). The results of the Tobacco Affordability Index estimation are presented in Table 7.

### Table 7. Tobacco affordability in Argentina in 2005-2017

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP per capita growth (annual %)</th>
<th>CPI cigarettes</th>
<th>CPI all items</th>
<th>Tobacco Affordability Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>7.7</td>
<td>94.6</td>
<td>109.8</td>
<td>25.0</td>
</tr>
<tr>
<td>2006</td>
<td>6.9</td>
<td>99.7</td>
<td>110.9</td>
<td>19.0</td>
</tr>
<tr>
<td>2007</td>
<td>7.9</td>
<td>112.8</td>
<td>125.7</td>
<td>20.2</td>
</tr>
<tr>
<td>2008</td>
<td>3.0</td>
<td>115.2</td>
<td>123.0</td>
<td>10.0</td>
</tr>
<tr>
<td>2009</td>
<td>-6.9</td>
<td>127.7</td>
<td>114.8</td>
<td>-16.3</td>
</tr>
<tr>
<td>2010</td>
<td>9.0</td>
<td>121.3</td>
<td>125.7</td>
<td>13.0</td>
</tr>
<tr>
<td>2011</td>
<td>4.9</td>
<td>121.7</td>
<td>122.5</td>
<td>5.6</td>
</tr>
<tr>
<td>2012</td>
<td>-2.1</td>
<td>117.9</td>
<td>127.9</td>
<td>4.0</td>
</tr>
<tr>
<td>2013</td>
<td>1.3</td>
<td>122.8</td>
<td>138.5</td>
<td>5.5</td>
</tr>
<tr>
<td>2014</td>
<td>-3.5</td>
<td>165.3</td>
<td>127.8</td>
<td>-19.1</td>
</tr>
<tr>
<td>2015</td>
<td>1.7</td>
<td>138.0</td>
<td>140.7</td>
<td>-5.8</td>
</tr>
<tr>
<td>2016</td>
<td>-2.8</td>
<td>171.6</td>
<td>124.7</td>
<td>-20.3</td>
</tr>
<tr>
<td>2017</td>
<td>1.9</td>
<td>119.0</td>
<td>147.6</td>
<td>6.8</td>
</tr>
<tr>
<td>2018</td>
<td>-9.5</td>
<td>134.5</td>
<td></td>
<td>-0.7</td>
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The TAI values demonstrate that cigarettes became much more affordable in 2005-2008, while in 2009-2013 the affordability did not change much. In 2014-2016, a large reduction in cigarette affordability took place, but in 2017 cigarettes became more affordable again.

### Tobacco excise revenue

The cigarette producers and the government, through the Ministry of Economy, agree on semi-annual collection goals. The revenues from internal taxes, the VAT, supplementary emergency taxes, and FET are to secure these goals. Between 2006 and 2010, the collection goals increased, due to large price increases, from 4.0 billion pesos to 7.6 billion pesos \([60]\). If the revenues from cigarette taxes do not reach the goal, the tobacco companies pay the government the difference between the goal and the amount collected. If the collected taxes exceed the goal, the excess is transferred to the next fiscal period. This agreement also establishes that the Ministry of Economy does not create or modify any tax, contribution, fund, or surcharge on tobacco \([60]\). The tobacco industry also contributes to revenues with other taxes, such as export licenses that amount to 10% for non-finished products (de-stemmed tobacco, tobacco leaves) and 5% for value-added products (cigarettes, cigarillos), and the taxes on the companies’ profits.

Several taxes are applied to tobacco products, and different authorities collect these taxes. The Federal Administration of Public Revenues (AFIP) publishes monthly data on revenues\(^ {24}\), including revenue on the internal tax on cigarettes and other tobacco products and Additional Emergency Tax (IAE) for cigarettes. Table 8 shows annual data on these revenues.

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\(^{21}\) https://data.worldbank.org/indicator/NY.GDP.PCAP.KD.ZG?locations=AR

\(^{22}\) https://tradingeconomics.com/argentina/gdp-growth-annual

\(^{23}\) https://es.wikipedia.org/wiki/Anexo:Evolución%C3%B3n_del_%C3%BAdice_de_Precios_al_Consumidor_en_Argentina

\(^{24}\) http://www.afip.gob.ar/institucional/estudios/
Table 8. Tobacco excise revenue, million pesos (ARS)

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<tbody>
<tr>
<td>Internal tax,</td>
<td>2297</td>
<td>2700</td>
<td>2717</td>
<td>3021</td>
<td>3641</td>
<td>4323</td>
<td>5081</td>
<td>6283</td>
<td>7513</td>
<td>9059</td>
<td>12925</td>
<td>19497</td>
<td>32655</td>
<td>46801</td>
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<tr>
<td>cigarettes</td>
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<tr>
<td>Additional</td>
<td>343</td>
<td>392</td>
<td>398</td>
<td>447</td>
<td>555</td>
<td>658</td>
<td>786</td>
<td>1026</td>
<td>1197</td>
<td>1392</td>
<td>2013</td>
<td>2940</td>
<td>4238</td>
<td>5750</td>
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<tr>
<td>Emergency Tax,</td>
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<tr>
<td>cigarettes</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>9</td>
<td>10</td>
<td>12</td>
<td>20</td>
<td>37</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>Internal tax,</td>
<td>2647</td>
<td>3098</td>
<td>3120</td>
<td>3473</td>
<td>3673</td>
<td>4986</td>
<td>5873</td>
<td>7316</td>
<td>8719</td>
<td>10461</td>
<td>14950</td>
<td>22457</td>
<td>36930</td>
<td>52616</td>
</tr>
<tr>
<td>cigars and other</td>
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<tr>
<td>tobacco</td>
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<tr>
<td>Total tobacco</td>
<td>3120</td>
<td>3480</td>
<td>3612</td>
<td>3980</td>
<td>4228</td>
<td>4809</td>
<td>5173</td>
<td>5596</td>
<td>6455</td>
<td>7546</td>
<td>9111</td>
<td>10401</td>
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<td>19497</td>
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<tr>
<td>excise revenue</td>
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</table>

We also calculated real (inflation-adjusted) revenue, using both official (INDEC) and alternative (Congreso) inflation rates (Figure 4).

Figure 4. Tobacco excise revenue, nominal and inflation-adjusted (base 2006=100), million ARS

In 2006-2017, the nominal revenue increased almost 17-fold. Inflation (INDEC) adjusted revenue increased every year; however, when the alternative inflation rates are used, the trends are different. In 2006-2013, the real revenue decreased by 23%; yet, in 2015-2017, real revenue increased by 57% in three years.

In 2018, nominal cigarette excise revenues increased by 12% while the inflation rate was 47.6%; and the real excise revenue decreased to the level of 2015 (Figure 4).

The revenues for the Special Fund for Tobacco (FET) are not collected by the AFIP, and these revenues return to the tobacco industry; so, these taxes cannot be considered governmental revenues.
Illicit cigarette trade

According to the media reports, in 2001, cigarette smuggling into Argentina took almost 20% of the market, but after a devaluation of the national currency, the smuggling share decreased to 7% in 2003\(^25\). However, according to studies conducted by the BAT, smuggled cigarettes constituted 12% of the market in 2002, but this share increased to 20% in 2005\(^26\). Another BAT estimate stated that in 2003, 4,500 million cigarettes were illicit which corresponds to a market share of 11% [77].

Analysis of illicit cigarette trade in five South American countries used gap analysis estimates for cigarette tax evasion/avoidance, by comparison on the evolution of the difference between registered cigarette sales and measured population consumption [78]. It showed that in Argentina, after a relative decrease between 2005 and 2009, illicit cigarette trade seems to have stabilized. The study concluded that claims by the tobacco industry of a positive association between price/tax changes and illicit trade were unsubstantiated.

In May 2015, KPMG agency issued a report called “Project Frost” [74] funded by British American Tobacco (BAT). The study had to consider the smuggling and the counterfeit segments of the tobacco market in 16 Latin American markets (including Argentina) and Canada (with a focus on Ontario). A special agreement with the BAT established the purpose and scope of this study. According to this agreement, KPMG had to show the country-specific preliminary results for each of the markets included in the study to the BAT administration teams in order to obtain feedback and comments before finalizing the results. Most data for the study (sales, prices, taxes) were provided by the BAT. The estimates of illicit sales were based on so-called empty pack surveys (EPS). BAT provided the results of EPS to KPMG.

According to the EPS results shown in the 'Project Frost' report [74], contraband and counterfeit cigarettes accounted for 5.6% of cigarettes consumed in Argentina in 2014, a volume of 2,530 million cigarettes: 1,100 million smuggled from Paraguay; 1,090 million cigarettes with false tax stamps and 350 million – counterfeit cigarettes. A considerable volume of cigarettes in Argentina has counterfeit tax stamps. The Red Point trademark owned by Tabacalera Sarandi was the most common brand. The KPMG report also estimated that 320 million cigarettes sold and taxed in 2014 in Argentina were actually smoked in Chile.

According to Euromonitor estimates [62], the number of illicit cigarettes in Argentina decreased in 2012-2014 but increased in 2015-2017 (Table 9).

Table 9. Estimates of illicit cigarette sales, billion cigarettes, Euromonitor

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal sales</td>
<td>42.92</td>
<td>41.77</td>
<td>40.90</td>
<td>39.98</td>
<td>35.61</td>
<td>35.84</td>
</tr>
<tr>
<td>Illicit sales</td>
<td>3.22</td>
<td>3.07</td>
<td>2.98</td>
<td>3.28</td>
<td>3.64</td>
<td>3.83</td>
</tr>
<tr>
<td>% penetration of illicit trade</td>
<td>7.0</td>
<td>6.8</td>
<td>6.8</td>
<td>7.6</td>
<td>9.3</td>
<td>9.7</td>
</tr>
</tbody>
</table>

In 2016, legal sales decreased by 4.37 billion cigarettes, while illicit sales increased only by 0.36 billion. Estimated share of illicit sales increased from 7.6% in 2015 to 9.3% in 2016, but the reduction of legal sales was the main factor of the share increase. Total (licit + illicit) cigarette consumption in 2012-2016 decreased from 46.1 billion to 39.3 billion cigarettes, or by 15%.

According to the Euromonitor [62], about 35% of illicit trade belong to contraband, with Paraguay as the largest supplier, whilst the remaining 65% of illicit packs bear either counterfeit stamp or falsified brands.

\(^{25}\)https://www.lanacion.com.ar/504341-cigarrillos-las-marcas-de-la-crisis

\(^{26}\)https://www.lanacion.com.ar/758205-proviene-del-contrabando-el-20-de-los-cigarrillos
Many small companies take advantage of the lack of controls and sell products without paying taxes at a price below the price set by the law.

TNS agency estimated that in 2015, cigarettes with counterfeit stamps constituted 5% of the market, smuggled cigarettes – 2.8% and counterfeit cigarettes – 0.3%. In total, illicit cigarettes constituted 8.1% of the total cigarette market27.

A representative of BAT claimed that after the tax reform of May 2016 which increased the tax burden for cigarettes by more than 100%, illicit cigarette share increased from 10.9% to 14.2%28.

A study conducted in 2017 by the consultancy TNS Kantar aimed to measure the penetration level of illegal cigarettes in the Argentinean market and revealed that 13.1% of smokers used cigarettes of illegal origin. In terms of volumes, this corresponded to 14.2% of the market, with a growth of 3.3 percentage points over 2016. The study estimated that around 3,100 million illicit cigarettes were produced in the country by local factories and some 2,600 million were smuggled in from Paraguay29. TNS Kantar agency usually conducts tobacco-related surveys with tobacco industry funding30.

Smuggling of cigarettes OUT OF Argentina to Chile31 32 and Uruguay33 also takes place. According to the ITC results in Uruguay [79], smokers in cities which border Brazil and Argentina are substantially more likely to purchase illicit cigarettes than smokers in non-border cities.

Discussion

Trends in cigarette consumption

Argentina experienced several periods with different trends in cigarette consumption.

In 1993-2001, cigarette consumption per capita in Argentina reduced from 59 to 48 packs. One of the reasons for the reduction in cigarette consumption per capita was the increasing real price of cigarettes by 16% in 1994-199934 and the economic crisis of 1999-2002, when the GDP declined for over 4 years35.

Then, the economy recovered; however, real cigarette prices did not increase (in 2007 even nominal prices were almost the same as in 2005). So, cigarettes became much more affordable (see Table 7), and consumption per capita increased from 49 packs in 2005 to 56 packs in 2008.

In 2009-2013, the economic situation was not stable, but real cigarette prices slightly declined (see Figure 3), and cigarette affordability increased encouraging tobacco consumption growth (Table 7). However, the tobacco control legislation introduced in 2011 could work in the opposite direction and reduce

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29 http://www.puntal.com.ar/nacionales/Por-ao-Argentina-consume-millones-de-cigarrillos-ilegales-20180711-0085.html
34 http://siteresources.worldbank.org/INTPH/Resources/Argentina_e.pdf
tobacco consumption in the country. According to the Philip Morris International annual reports, cigarette market in Argentina in 2009-2013 was rather stable (about 43 billion cigarettes annually).

In 2014-2015, the cigarette market decreased to 40.8 billion cigarettes in 2015 as cigarettes became less affordable. The main factor of cigarette affordability reduction was the substantial increase of nominal cigarette prices undertaken by the tobacco industry: the average nominal price per cigarette pack increased from ARS10 in 2013 to ARS24 in 2015. So, despite high inflation, real cigarette prices did increase. As Argentina has ad valorem excise system, cigarette prices hike increased real governmental revenue in 2013-2015 by 21%, while in 2006-2013 real tobacco excise revenue decreased by 23% (see Figure 4).

The most substantial reduction in tobacco consumption took place in 2016, after the sharp increase in tobacco excise in May 2016: in 2016 cigarette sales decreased by about 5 billion cigarettes. In May 2016, the average nominal price of a cigarette pack was over ARS39, while in April 2016 it was less than ARS26. As the tobacco excise tax was increased from May 2016, the excise revenue increased both in 2016 and 2017: by 33% for two years. Argentina received the "Bloomberg philanthropies for global tobacco control" award for the increase in excise taxes on cigarettes in 2016, a measure that caused a reduction in smoking and dropped sales by 10%.

Tobacco industry continued to increase nominal cigarette prices after the excise hike of May 2016 and the average price per cigarette pack increased to ARS76 in April 2019. However, the inflation rate was even higher; so, the real cigarette price declined in 2017-2018 (see Figure 3), and cigarette sales in 2017 and 2018 were almost the same as in 2016.

Tobacco taxation history in Argentina confirms the basic conclusion of the monograph by the National Cancer Institute and WHO: “Changes in cigarette affordability (rather than the level of cigarette affordability) are expected to drive changes in cigarette consumption over time”. In Argentina, cigarette affordability and tobacco consumption reduction were observed in: (1) 1999-2002; (2) 2014-2015; (3) 2016.

In the first case (1999-2002), it was mainly caused by the reduction in population income during the economic recession but partly by the tobacco taxation policy: the Additional Emergency Tax (IAE) rate was increased from 7% to 21% in December 1999. However, then the rate was gradually reduced, and from February 2001 it was again 7%.

In 2014-2015, tax rates were not changed, and the main factor of the affordability reduction was the pricing policy of the tobacco industry. As NCI-WHO monograph states: “Ironically, the industry engineered a greater decrease in cigarette consumption in the short term by raising prices than the government was able to achieve by increasing the excise tax alone.”

The largest decline in affordability was achieved by the government taxation policy implemented in May 2016: the effective excise tax rate was actually increased by about 100%. This excise increase caused the growth in nominal cigarette prices by about 70%, while real prices increased only by 22%. In 2016, cigarette sales decreased by 11.5% (see Table 4); so, real price elasticity was about -0.5. Cigarette price elasticity in Argentina was estimated to be about -0.3. However, it should be taken into account

36 https://www.pmi.com/investor-relations/reports-filings
that real GDP per capita in Argentina decreased in 2016 by 2.8%; so, the population income also decreased. The income elasticity in Argentina was estimated to be about 0.4 [67, 81]. The combined effect of real price growth and real income reduction caused a substantial reduction in tobacco consumption in Argentina in 2016.

Argentina's experience also confirmed that tobacco consumption can hardly decline if tobacco affordability is not reduced. When cigarettes were getting substantially more affordable (as was seen in 2005-2008), tobacco consumption even increased. In 2017-2018, cigarette affordability slightly increased, and cigarette consumption almost did not decline in recent two years.

**Tobacco tax reform of 2018**

Argentina is a case showing that tobacco tax as a share of the price by itself is not a good indicator of tax policies' effectiveness in reducing the tobacco epidemic [73]. The tax share was about 70% before 2016 and 80% in 2017-2018. Still, it did not help to reduce the tobacco consumption as tax share by itself is not able to reduce tobacco affordability. So, tobacco taxation system should ensure an annual reduction of tobacco affordability.

The tobacco tax reform, effective in Argentina from March 2018, has the following main features:

1) According to the Law No.27430 of December 29, 2017, the fixed internal tax rate was increased from 60% to 70%. But before this law entered into force, the rate was 75%, and it was effective from May 2016 till March 2018.

2) Internal tax rates for tobacco products other than cigarettes, were increased by 25%, but such rates are still much lower than the tax rate for cigarettes. This could encourage some smokers to switch to these cheaper products instead of quitting smoking.

3) Minimum specific excise rate was introduced, and this rate is regularly increased in line with the inflation rate. Such policy is progressive, but local cigarette producers manage to ignore this rate. From July 2018, the minimum specific tax was ARS29.87 per pack of 20 cigarettes. Such tax rate should apply to all cigarettes with prices below ARS55. In the past, small local producers managed to survive without paying similar tax (75% of the internal tax for the most popular cigarette brand) through judicial appeals against the regulations that generally had a favorable response [61]. It is likely that the new minimum specific excise rate is also not going to work with the local producers.

The complicated tobacco taxation system in Argentina can be simplified and improved to ensure both the reduction in tobacco consumption and the growth in government revenue. The main features of a new taxation system could be the following:

A. Unified ad valorem excise tax (with the rate 70-75% of the final retail price) is set for all kinds of tobacco products instead of three current excise taxes (INT, IAE, and FET).

B. Minimum specific excise rates should be set for each main kind of tobacco products. Such specific rate first should be set at the monetary level of the ad valorem excise tax, applied to each main kind of tobacco products with the average weighted price. Then, such specific excise should be annually increased in line with inflation rate + some additional percent, as a simple adjustment for inflation is not able to reduce tobacco affordability. The government should have the right to set the size of the additional percent each year.

Such strategic tax reform should be approved by the parliament; however, it may be difficult in the current political situation. Alternatively, the government can use two tactical ways to adopt increased tobacco taxes in order to reduce tobacco consumption and increase governmental revenue:

1) Increase the Additional Emergency Tax rate from the current 7% to 21%. In this case, the final retail cigarette price would increase by about 18%.
2) Ensure that all cigarette producers and importers pay the minimum specific excise (Internal tax) and annually increase the minimum specific rate by at least 250% above the inflation.

**Special Tobacco Fund**

The government annually spends 75 million US dollars through the FET tax to support tobacco cultivation in the Northern provinces with subsidies for the purchase of inputs, capital goods, and labor [61]. The FET tax perpetuates a mechanism to maintain a lower price for cigarettes and represents a direct subsidy of the tobacco industry [82]. Such subsidies contradict the World Bank policy. Since 1991, the World Bank’s policy has been not to lend, invest in, or guarantee investments or loans for tobacco production, processing, or marketing[39].

Special Tobacco Funds financially benefits small local tobacco factories, but such support eventually produces numerous problems for the country:

A. All reports on illicit cigarettes (Euromonitor, KPMG, TNS) demonstrate that most of the illicit cigarettes in Argentina are not smuggled from other countries but produced within the country by small tobacco factories and sold with false tax stamps or other ways of tax evasion. A recent report on illicit trade in sales outlets in Greater Buenos Aires revealed that almost 15% of the tax stamps found on the cheapest brands of the surveyed kiosks were counterfeited compared to 4% on average. For some brands manufactured by small factories, counterfeiting would reach 40% [61]. In September 2016, a production plant of the tobacco company Espert was closed for alleged evasion of $1,000 million in taxes.

B. Small tobacco factories do not pay minimum specific excise tax. Such a situation has negative consequences from fiscal (the government receives less revenue) and public health (smokers can buy cheap cigarettes instead of quitting smoking for good) points of view.

FET tax creates no economic benefits for the country. In the 2016-2017 harvest year, the tobacco growers sold the grown raw tobacco for ARS3,483 million while the Government distributed ARS7,591 million via FET resources, of which ARS1,200 million were transferred via price, ARS6,159 million for projects linked almost entirely to the support of tobacco growing activity, and ARS228 million went to the social work for the tobacco sector [61].

According to a study conducted by Torcuato Di Tella University, FET funds do not necessarily benefit small producers; rather, they are distributed based on the value of the production each province generates. For example, Salta and Jujuy, which are the major producers, receive two-thirds of the funds. But in these provinces, a few large producers account for most of the tobacco farming, so the FET benefits them, not the small farmers [83].

Tobacco subsidies actually encourage children labor in Argentina. Children who work in tobacco fields in the northwest provinces face serious dangers: with their smaller height, they are forced into more direct contact with harmful pesticides than their adult counterparts[40]. José Aranda, from the Tobacco Producers’ Cooperative of Salta, claimed that they have “eradicated child labor”[41], but media report published in 2017 revealed that in Salta and Jujuy provinces, parents continue to use children on tobacco field during

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40 https://revista.drclas.harvard.edu/book/child-labor-argentina

the school breaks\textsuperscript{42}. According to the UN’s International Labor Organization (ILO) report, the number of children working in tobacco fields in Argentina increased between 2000 and 2013\textsuperscript{43}.

Tobacco subsidy locks small farms into the production activities that do not have a sustainable future. According to the FAO database, area harvested for tobacco in Argentina in 2005-2016 decreased by 47% and raw tobacco production – by 41%. Since January 1, 2010, the European Union has not granted any subsidies for raw tobacco production\textsuperscript{44}. Instead, the EU supports rural development programs, particularly in tobacco-growing regions. So it is recommended to gradually decrease tobacco subsidies in Argentina and to facilitate farmers’ shifting towards more healthy and economically beneficial outputs like fruits and vegetables.

### Conclusions

Tobacco tax hike implemented in Argentina in May 2016 was very successful both for the reduction in tobacco consumption and the increase in governmental revenue. However, the current tobacco tax policy is not able to either reduce tobacco consumption or to increase real tobacco excise revenue.

Tobacco consumption and smoking prevalence in Argentina also decreased due to the implementation of comprehensive tobacco control policies and non-tax factors, which reduced cigarette affordability in the country.

Subsidies for tobacco growers through the governmental Special Tobacco Fund are counterproductive both from public health and economic perspectives.

Tobacco tax increases did not provoke much cigarette smuggling into the country. Most illicit cigarettes are produced within the country.

### Recommendations

1. The WHO Framework Convention on Tobacco Control should be ratified by Argentina.
2. Tobacco taxation system should be simplified to one excise tax with a unified ad valorem rate for all tobacco products and specific minimum excise rates for each tobacco product. The specific tax rates should be set high enough to prevent the sales of very cheap tobacco products, and these specific rates should be annually increased above the inflation rate to ensure both the reduction of tobacco consumption and the increase of governmental revenue.
3. The money, currently used to support tobacco growing in Argentina should be used for encouraging farmers' transfer to more healthy outputs as well as for rural development programs.
4. The government should implement effective policies to stop excise tax evasion practices of the local tobacco factories, including the production of counterfeit cigarettes and false tobacco stamps.
5. Tobacco use surveillance and monitoring should be further developed in Argentina, including regular surveys with a collection of comprehensive and comparable information on tobacco products consumed in the country.

\textsuperscript{43} https://www.theguardian.com/world/2018/jun/25/revealed-child-labor-rampant-in-tobacco-industry
\textsuperscript{44} https://ec.europa.eu/agriculture/tobacco_en
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