

WHOLESALE CIGARETTE PRICES IN CANADA: INDUSTRY REVENUE VS. EXCISE TAX, 2003-2016

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INTRODUCTION

- A key aspect of tobacco industry lobbying in Canada is strong opposition to all increases in tobacco taxes. At the core of this lobbying is the argument that taxation hikes increase contraband activity. Some organisations, such as the Fraser Institute, call for the elimination of tobacco taxes to fight contraband.¹
- Excise taxes, of course, are an important component of tobacco prices and have been a very effective tool for reducing tobacco consumption in Canada.² A much less examined component of tobacco prices in Canada has been the revenue companies receive for their products and how those revenues are driven by cigarette price increases initiated by the companies themselves.

OBJECTIVES

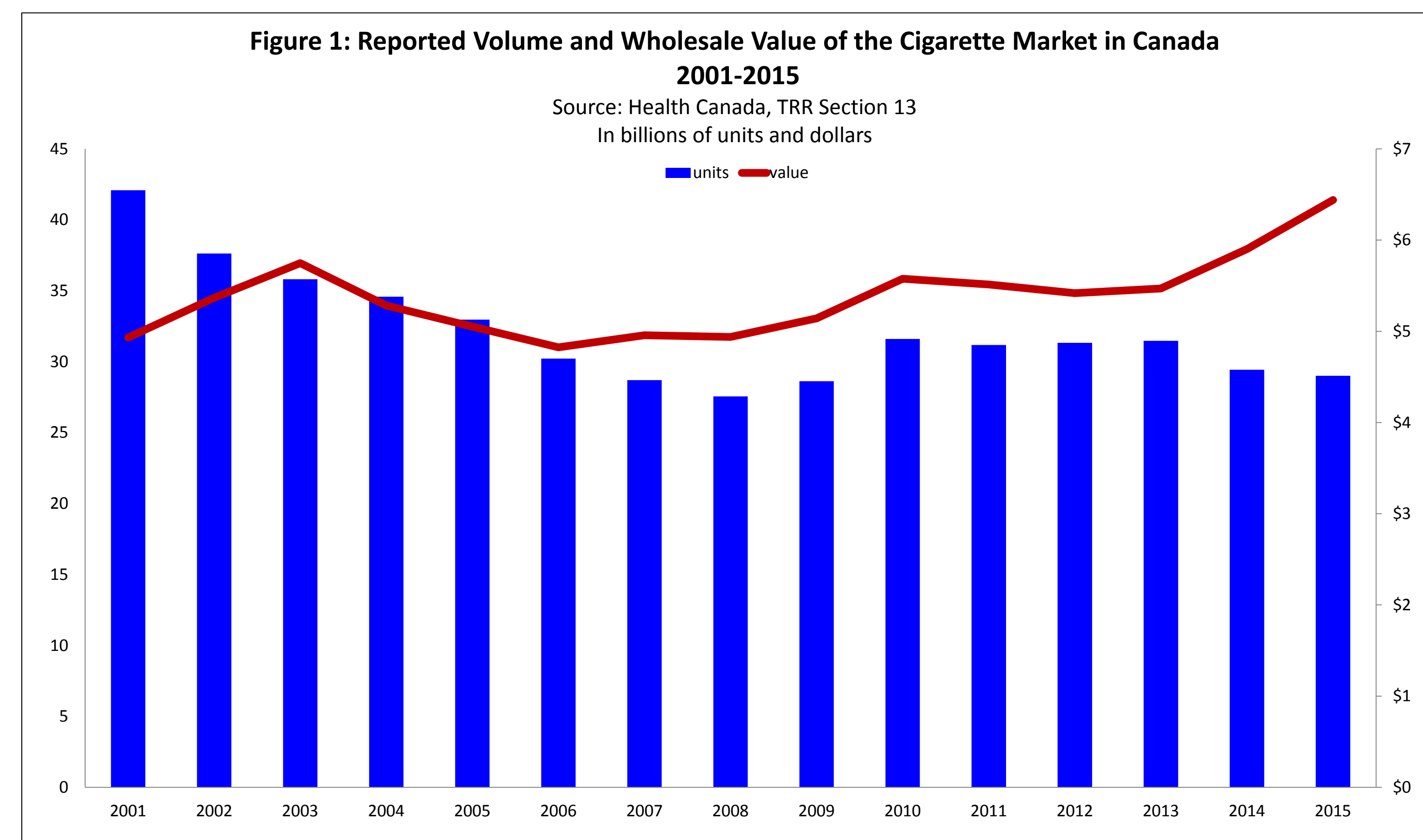
- This presentation examines key trends in reported wholesale cigarette prices in Canada since 2003, with a specific emphasis on how price increases have been driven both by federal excise tax and tobacco industry revenue.

METHODOLOGY

- Canada's *Tobacco Reporting Regulations* (TRR) require tobacco manufacturers and importers to report information on their products, including sales volume and wholesale value for each brand of cigarettes.
- The reported wholesale value for cigarettes under the TRR consists of two components: tobacco company revenue and the federal excise tax. The excise duty rate is fixed on a per unit basis. It was raised three times since 2003 (2006³, 2008 and 2014). The excise rate increased from \$0.079 per cigarette in 2003 to \$0.105 per cigarette in 2016.⁴
- Knowing both the average per-unit wholesale price of cigarettes and the excise tax rates since 2003, we asked the following question: **To what extent have tobacco company price increases contributed to increases in the reported wholesale price under the TRR?**

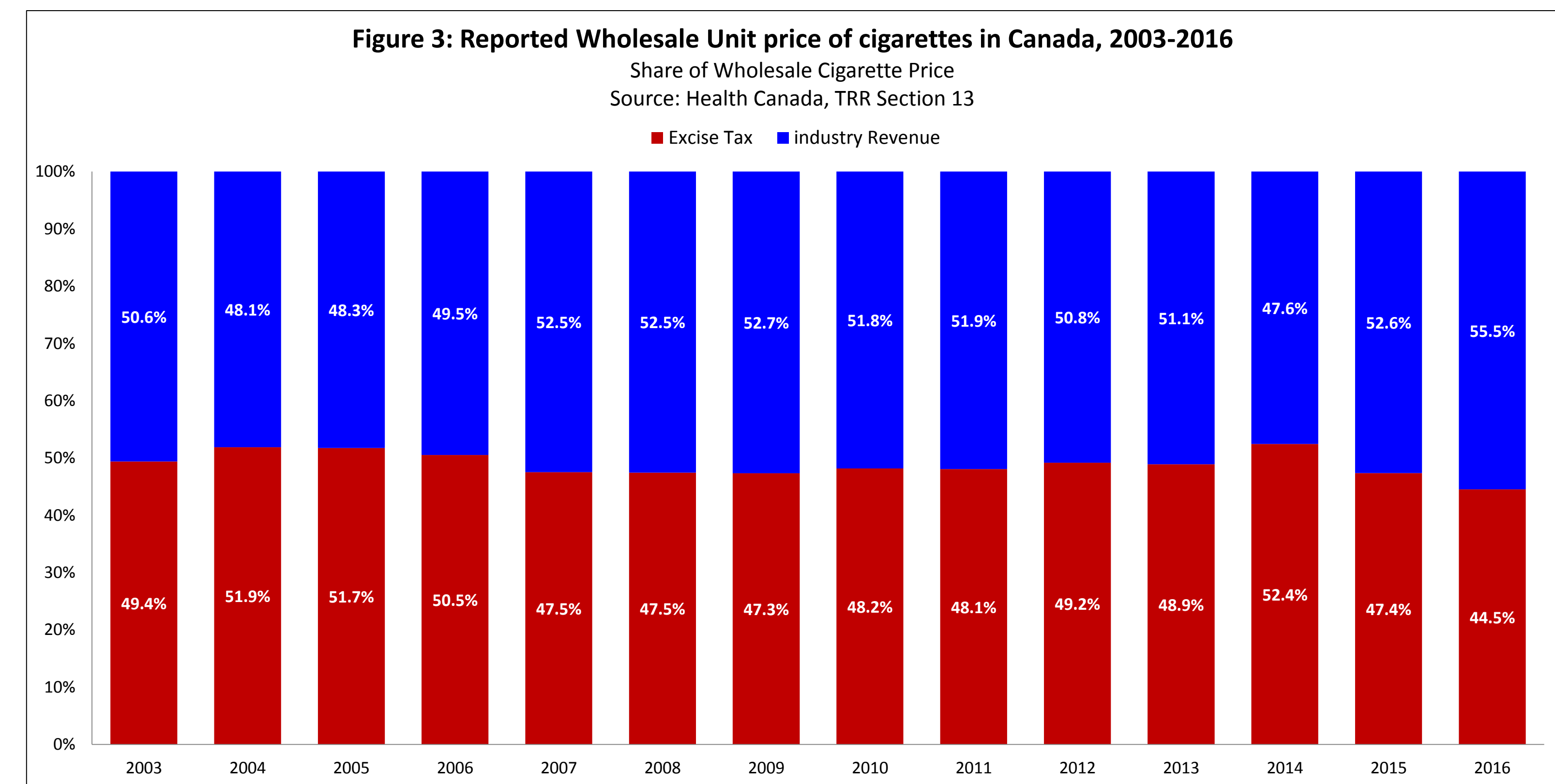
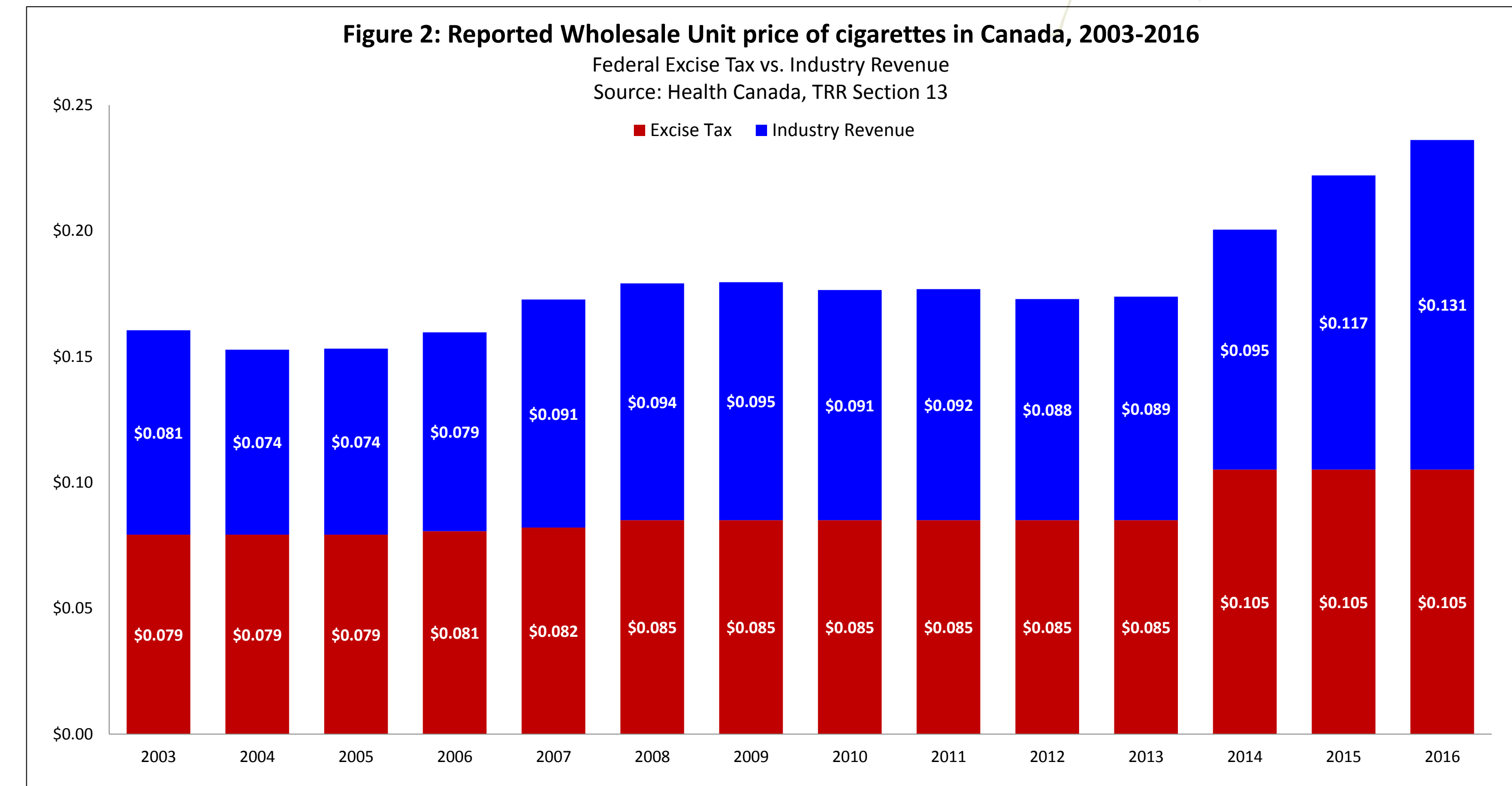
RESULTS

- Between 2001 and 2015, the Canadian cigarette market saw sales volume of cigarettes decline by more than 30%. In contrast, the reported wholesale value of cigarettes increased to a high of \$6.4 billion, an increase of over 30% from 2001 (Figure 1).



- The average unit wholesale price of cigarettes increased by 47% between 2003 and 2016.⁵ The federal excise tax has been responsible for 34% of this increase, while tobacco industry cigarette price increases have been responsible for 66%. (Figure 2)
- As the federal excise tax on cigarettes increased, tobacco companies implemented price increases that maintained their share of the reported wholesale price of cigarettes between 48% and 55%. (Figure 3)
- In 2015 and 2016, there were significant increases in the average wholesale cigarette price. During these years, in which there were no increases in the federal excise tax, the average wholesale cigarette price increased by 18% and tobacco industry wholesale revenue per cigarette increased by 37% (Figure 2). In a market of 29 billion cigarettes, these price increases will result in a revenue increase of approximately \$1 billion annually to the industry.
- Tobacco industry price increases have stayed ahead not only of the federal excise tax, but also well ahead of inflation. Tobacco industry per unit cigarette revenue has increased by 61% since 2003 (Figure 2), more than twice the rate of inflation.⁶

RESULTS (CONTINUED)



CONCLUSION

- Despite tobacco industry opposition to increases in the federal excise tax on cigarettes, industry reported data under the TRR indicates that the wholesale value of the cigarette market in Canada is highly dependent on industry-led price increases.
- Since 2003, tobacco industry price increases have increased the reported wholesale price of cigarettes to a significantly greater extent than have increases in the federal excise tax.
- Since 2014 this trend has accelerated, as tobacco companies have increased cigarette prices faster than at any time since 2003, resulting in a dramatic increase in tobacco industry revenue from cigarettes in Canada.

1. Gabler, Nachum. *Combating the Contraband Tobacco Trade in Canada*. Fraser Institute, 2011. <http://www.thecre.com/ccsf/wp-content/uploads/2011/12/combating-contraband-tobacco-trade-in-canada.pdf> Evaluation of the Federal Tobacco Control Strategy, 2001-2010, Health Canada.

2. Evaluation of the Federal Tobacco Control Strategy, 2001-2011, Health Canada.

3. The excise rate for 2006 was calculated with a weighted average of sales.

4. "1.5.1 Rates of Excise Duty," *Canada Revenue Agency*. http://www.cra-arc.gc.ca/E/pub/em/edm1-5-1/edm1-5-1-e.html#_Toc396464382

5. Data for 2016 are half-year data (January-June 2016)

6. "Consumer Price Index, 2000 to Present," *Bank of Canada*. <http://www.bankofcanada.ca/rates/price-indices/cpi/>