

Update on Tobacco Use, Tobacco Industry, and Tobacco Taxation in Myanmar, 2018



Than Sein
President, People's Health Foundation
Yangon, July, 2018



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Note: This paper is an update of the original paper on “Tobacco Use, Tobacco Industry, and Tobacco Taxation in Myanmar”, published jointly by SEATCA and PHF in 2015, written by the same author.

Cover: People’s Health Foundation

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WHO Framework Convention on Tobacco Control (WHO FCTC)

ARTICLE 6

Price and tax measures to reduce the demand for tobacco

1. The Parties recognize that price and tax measures are an effective and important means of reducing tobacco consumption by various segments of the population, in particular young persons.
2. Without prejudice to the sovereign right of the Parties to determine and establish their taxation policies, each Party should take account of its national health objectives concerning tobacco control and adopt or maintain, as appropriate, measures which may include:
 - (a) implementing tax policies and, where appropriate, price policies, on tobacco products so as to contribute to the health objectives aimed at reducing tobacco consumption; and
 - (b) prohibiting or restricting, as appropriate, sales to and/or importations by international travellers of tax- and duty-free tobacco products.
3. The Parties shall provide rates of taxation for tobacco products and trends in tobacco consumption in their periodic reports to the Conference of the Parties, in accordance with Article 21.

Guidelines on implementation of Article 6 of the FCTC establish that effective tax and price policies reduce tobacco consumption, represent an important source of government revenue, are economically efficient and reduce health inequities and should be protected from vested interests. The guidelines recommend that countries:

- Implement the simplest, most efficient excise tax system to meet health and fiscal needs. Specific or mixed excise with minimum specific floor are recommended over purely ad valorem systems.
- Make tobacco products less affordable over time, adjusting taxes regularly for inflation and income growth.
- Establish coherent long-term tax policies in order to achieve their health and fiscal objectives.
- Tax all tobacco products in comparable ways and ensure systems are designed to minimize incentives for users to shift to cheaper products.
- Design tax administration system to collect taxes efficiently and effectively.
- Consider dedicating revenue to tobacco control programs. Tobacco taxes can provide a source of funding for tobacco control.

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Introduction

The 180 States Parties to the World Health Organization Framework Convention on Tobacco Control (WHO FCTC) have committed to continually and substantially reduce the prevalence of tobacco use and recognized in WHO FCTC Article 6 that “price and tax measures are effective and important means of reducing tobacco consumption by various segments of the population, in particular young persons”.¹ WHO and many international agencies, as well as the Parties to WHO FCTC, have described tobacco tax increase as a “best buy” intervention that has significant public health impact and is highly cost-effective, inexpensive and feasible to implement.²

Higher tobacco taxes would lead to higher prices of tobacco products, that could encourage smokers to quit, reduce the number of cigarettes smoked, and prevent initiation among potential new users. Studies showed that a 10 percent increase in the retail price of cigarettes would reduce consumption by about 5-8% in the low- and middle-income countries. Youth, minorities, and low-income smokers are two to three times more likely than older or high-income smokers, to quit or smoke less in response to price increases. Since cigarette prices strongly influence smoking initiation in youth, price increases could significantly reduce long-term trends in cigarette consumption.

Raising tobacco tax is a simple and effective tobacco control measure. In addition to reducing cigarette consumption, tobacco tax typically generates higher tax revenue. A certain proportion of this revenue could be earmarked to use for implementing and enforcing tobacco control policies, and for funding related public health and social programmes.

According to the WHO Report on the Global Tobacco Epidemic, 2017, 139 out of 180 Parties imposed tobacco tax in different ways. While 65 countries had a *specific tax* system for tobacco control, 47 countries had adopted *ad valorem* system, and 61 countries had a mixed system.³ Countries have made progress in simplifying their tax structures and relying more on specific tax systems. There are still 38 countries that have complex tiered taxes, and also that levied lower taxes on some categories of tobacco products. The

¹ WHO Framework Convention on Tobacco Control (WHO FCTC) (2005), An updated version

² National Institutes of Health, National Cancer Institute and WHO, *The Impact of Tax and Price on the demand for Tobacco Products, in the Economics of Tobacco and Tobacco Control, Monograph 21*, National Cancer Institute, USA and WHO, Geneva (https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21_complete.pdf accessed on 21 Jan 2018)

³ WHO (2017), *WHO Report on the Global Tobacco Epidemic, 2017*, WHO Geneva (http://www.who.int/tobacco/global_report/2017/en/ accessed on 15 Jan 2018)

number of countries that levied tobacco taxes more than 75% of the retail prices had raised from 22 in 2008 to 32 in 2016.

Present paper highlights a brief update on the current situation of tobacco use, tobacco industry, and tobacco taxation in Myanmar, as of July, 2018. It provides background information on how Myanmar is trying to implement the guidelines on WHO FCTC Article 6 adopted by the Parties to WHO FCTC in 2014.⁴

Myanmar Tobacco Legislation

WHO FCTC and Myanmar

Myanmar started formulation of its national tobacco legislation since 2002. In October 2003, Myanmar became a signatory to the WHO FCTC, and later became a Party to the Convention, having ratified this international treaty in April 2004. Myanmar enacted a national tobacco control law on 4 May 2006, known as “Control of Smoking and Consumption of Tobacco Product Law” and also called State Peace and development Council Law No.5/2006, which came into effect after a year, by 4 May 2007.⁵

Existing national tobacco control law covered more on demand reduction measures such as designation of smoke-free areas, limitation on sale of tobacco and tobacco products to minors (below 18 years old), establishment of health warning labels, ban on tobacco advertisement in public media such as TV, newspapers, billboards, etc., ban on internet sale, ban on sale promotion and sponsorship, and also promoting tobacco cessation programmes. The national tobacco control law has not covered about taxation policy or taxation measures.

The Government has established a Central Board of the Control of Smoking and Consumption of Tobacco Products, with the Union Minister of Health as Chairperson, and consisting of senior officials from related ministries and departments. The main role of the Board is for policy guidance, coordination and adoption of rules and regulations. Within the national tobacco control programme under the National Health Plan, Myanmar Ministry of Health continued pursuing the implementation of national tobacco control legislation.

National tobacco control programme

Myanmar implemented tobacco control activities as an integral part of national health plan and an intersectoral tobacco control committee by the Ministry of Health was established in March 2002, which was later replaced by the Central Board in 2007, as prescribed by the national tobacco control law of 2006. Since early 2002, a series of national tobacco control activities were initiated such as banning smoking at all public establishments (hospitals, movie houses, public transport vehicles and terminals, enclosed public places like restaurants, and sports facilities), restricting sales to minors,

⁴ Guidelines for implementation of WHO FCTC Article 6: *Price and tax measures to reduce the demand for tobacco*, WHO FCTC, 2014

⁵ Ministry of Health (2006), *Control of Smoking and Consumption of Tobacco Product Law, 2006, Myanmar*, <http://www.searo.who.int/tobacco/data/myanmar.pdf?ua=1>, accessed on 23 February 2018}

banning sales near the vicinity of schools, establishing tobacco-free schools, and organizing annual events on World No-Tobacco Day.

Community-based awareness and tobacco cessation campaigns were organized. Prohibition of tobacco advertisement was also introduced for all electronic and print media such as newspapers, magazines, journals, television, video movies and radio. Prohibition of billboards showing tobacco and tobacco products in any form was also carried out. These activities continued till date as per stipulation of the Law, including introduction of health warning text in Myanmar language on cigarette packages.

The Ministry of Health has established monitoring system including setting up of sentinel sites, for effective implementation of tobacco control activities. It has participated in the global tobacco surveillance schemes by conducting various surveys in time series, such as the Global Youth Tobacco Survey (GYTS), Global School Personnel Survey (GSHS), Global Health Professional Survey (GHPS), STEPS survey for NCD Risk Factors, studies on tobacco economics, poverty and tobacco, and national sentinel prevalence surveys for the last decades. Ministry of Health had issued notifications on the rules for designation of smoking and non-smoking areas, as well as guide for warning to be used for identifying no-smoking area in 2014. Ministerial notification for compulsory health messages and pictorial warnings in all packagings of tobacco products was issued on February, 2016.

Under the guidance of the Health and Sports Committee of the Union Parliament, the Ministry of Health and Sports (MoHS) had reviewed the implementation of national tobacco program in 2017, with a view to make the revision of existing law. Several meetings for drafting a new law is underway.

Tobacco Use

Prevalence of tobacco use (smoking and smokeless)

Several studies on use of tobacco and tobacco products in Myanmar in the last 25 years have highlighted the need for addressing tobacco issues seriously. Although no national representative survey on tobacco use has been carried out till 2015, all sample surveys showed a high prevalence of tobacco use (both smoking and smokeless tobacco use) (over 40%) among adults from age 15 years. Smoking prevalence study carried out during 1999-2000 in randomly selected 25 townships in three central regions found that around 60% of males and 29% of females were current smokers; and cheroot (local hand-rolled tobacco mix wrapped in leaves) is the most common tobacco product used by them.

Another study conducted in 2001 in five townships representing geographical differences (plain, hilly, delta and coastal) found that around 20% of the studied population both in urban and rural areas had smoked at least once in their lifetime (ever users); and 34% of males and 8% of females were ever users. Around 30% of males and 7% of females were current smokers.

Myanmar School Health Survey, conducted as part of the Global School-based Student Health Surveys (GSHS) done in September 2007, covered representative students of Class 7 to 10 (Age 12-18 years), from 50 high schools around the country. The study showed that about 3% of students smoked cigarettes on one or more days during the past 30 days. Male students were more likely to smoke cigarettes than their female counterparts. 34% of students tried their first cigarette at the age of 13 years or younger. Overall, 5.5% of students used other form of tobacco products (mainly processed tobacco in betel quid). Around 67% of the students reported that people smoked in their presence on one or more days in the past seven days. Around 38% of students had a parent or guardian who used some form of tobacco products.⁶

According to Global Youth Tobacco Surveys (GYTS) done in Myanmar for 2001, 2004, 2007, 2011 and 2016, the prevalence of tobacco use among the 8th, 9th and 10th graders (13-15 years old students) was relatively high. Cigarette smoking among youth is much higher in Myanmar schoolchildren compared to those in the countries of WHO South-East Asia Region, i.e., Bangladesh, India, Maldives, Nepal, and Sri Lanka.

The overall current cigarette smoker rate (the weighted percentage of respondents who reported having smoked a cigarette any time during the previous 30 days) showed an increased that was not statistically significant from 4.9% in 2007 to 8.3% in 2016.⁷ Among males, the rates were statistically significant increased to double from 8.5% in 2007 to 17% in 2016. Rates of ever cigarette smoking (ever taking a puff on a cigarette) significantly increased from 14.7% in 2007 to 22.3% in 2016, and moreover, among males, the rate increased nearer to double from 23.4% in 2007 to 41.1% in 2016. In addition, the overall rates for frequent cigarette smoking (smoking on 20 or more days of the previous 30 days) in 2016 were 0.6% and 1.1% among males. The tobacco use rate (either smoked or smokeless) remained above 10% and the overall ever tobacco users (ever taking either smoked or smokeless) were more than double to current tobacco users in 2016.

Exposure to second-hand smoke at home, inside enclosed public place, and any outdoor public place were reported by student 33.2%, 28.4%, and 29%, respectively, in 2016. Importantly, three in five (64.5%) students saw anyone smoking inside school or near to school premises. In 2016, two in five students who were ever cigarette smokers reported that they first tried a cigarette at the age less than 10 years. Mostly, two in five (40.8%) students initiated cigarette smoking between aged 12 and 13 years, followed by 30.9% of students started between aged 14 and 15 years.

The accessibility of cigarettes and other tobacco products become more than double from 23.7% in 2007 to 54.5% in 2016. Tobacco products seem easily available in Myanmar, because 38.8% of students reported that they purchased cigarettes from a

⁶ Aung Tun (2008). *Myanmar Global School-based Student Health Survey (GSHS)*, Ministry of Health, Nay Pyi Taw, Myanmar (CDC/WHO GSHS Country Report), 2008

⁷ MoHS (2016), *Global Youth Tobacco Survey (GYTS)*, Myanmar 2016, WHO-SEARO, New Delhi (accessed at http://www.searo.who.int/tobacco/data/mmr_gyts_2016_fs.pdf) and Nyein Aye Tun, *et.al* (2017) *Tobacco Use among Adolescents in Myanmar: Global Youth Tobacco Survey*, Indian Journal of Public Health, India, 2017: 61:S54-9. (accessed at http://www.ijph.in_on_Friday,September_15,2017)

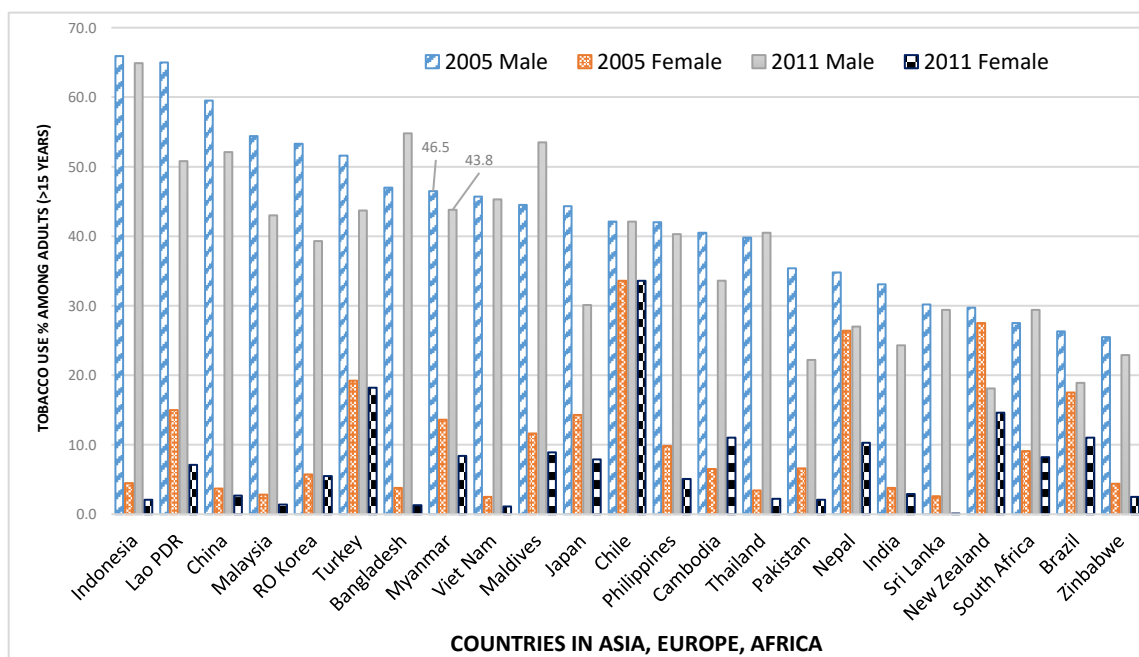
street vendor. Importantly, more than half (62.9%) of current cigarette smokers had not been prohibited from buying cigarette, though they were minors. Three in five (61.9%) current cigarette smokers purchased loose cigarettes as individual sticks.

Over two in five (42.3%) students had noticed tobacco advertisement at the point of sale, and over four in five (83.4%) students who watched television, videos, and movies, saw anyone who was smoking. Four in five (80.2%) students reported that they noticed anti-tobacco messages in the media and three in five students (59.6%) attended and saw anti-tobacco messages in sports and community events. Two in five (40%) students noticed health warnings on cigarette packages and thought of quitting tobacco. More than three in five (64.2%) students said that they have been taught in school about the danger of tobacco use.

The majority of students were in favor of ban smoking in public places, and thought that other people’s smoking was harmful to them. To meet reduced prevalence of NCDs and meet a 30% relative reduction in the prevalence of current tobacco use in persons aged 15+ years by 2025, reducing the prevalence of cigarette smoking among youth are crucial, and therefore, Myanmar should accelerate its comprehensive tobacco control activities, with focus on youths.

According to the WHO Report on the Global Tobacco Epidemic, 2017, the prevalence of tobacco use among Myanmar adults stand at modest, when comparing to other countries, but still at higher level as compared to other tobacco-growing developing countries (in South America and Africa) (See Figure 1).

Figure 1: Prevalence of Tobacco Use among Adults in Selected Countries, both sexes, 2005 and 2011



Source: WHR 2007 and WHO Report on the Global Tobacco Epidemic, 2017

Smokeless tobacco

The use of smokeless tobacco (SLT) among adults in Myanmar is very high, when compared to similar prevalence in other Asian countries. The use of SLT products is a well-known formidable public health challenge, not only in Myanmar, but also in many Asian countries that results in preventable morbidity and mortality effects due to its high prevalence.⁸ In WHO South-East Asia Region, there are approximately 246 million smokers and 290 SLT users, and every year more than 1.3 million people die as a result of using tobacco. The most common SLT product is raw or cured tobacco, which is used as the main condiment ingredient in betel quid.

The SLT use in Myanmar has strong traditional social, cultural and economic links, and with the recent economic development, the SLT market and demand has increased even more.⁹ Majority of adult SLT users, both males and females, in rural and urban areas wrongly believe that it is breath-refreshing and mouth-cleansing. Undoubtedly deeply rooted cultural practices have contributed to the alarmingly high prevalence of SLT users in rural areas.

A variety of tobacco products are used in the betel quid preparation: dried raw leaves or cured and roasted tobacco leaves, tobacco leaves including stems treated with alcohol and honey, scented tobacco soaked in honey and water (Black Water), and varieties of tobacco mixed with fragrances. While the majority are locally produced, several popular SLT products, such as *92*, *162*, *Signal 350*, *Parijat*, *Baba*, *100*, *Sagar* brands of tobacco mix, are imported from India and Bangladesh or produced in border areas. These products are marketed widely in Myanmar, reflecting an increase in overall consumption. With the recent ban of SLT products in several States in India, there are reports in local newspapers of a greater influx and availability of SLT products imported from India into Myanmar.

In many parts of Myanmar, it is a widely accepted behaviour for youths to chew betel quid with tobacco by elders. Betel quid preparation (mostly without tobacco) is usually fed to children by their parents and senior relatives, as a digestive aid and mouth-freshener. Later, young children started to take betel quid, and add tobacco in the preparation, making them addicted. In Myanmar, it is generally accepted by the society for women to chew betel quid with tobacco.

According to the WHO Non-communicable Disease (NCD) Risk Factor Survey conducted in 2009 in Myanmar, around 51% of males and 16% of females above the age of 15 were regular users of SLT products.¹⁰ More than 45% of youths (15-24 years male) consumed SLT products. The consumption was highest among 25-34 years old men (63%), and 45-54 years old women (32%). The number of women who use SLT was

⁸ Sinha DN, Gupta PC, Ray C, Singh PK. *Prevalence of smokeless tobacco use among adult in WHO South-East Asia*. Indian J Cancer 2012;49:342-6

⁹ Sein T., Maung N.S. (2012). *Tobacco legislation and ways of tobacco industry in Myanmar*, Report submitted to WHO SEARO, University of Public Health, Yangon, 2012

¹⁰ WHO (2009), *WHO NCD Risk Factor Survey Myanmar 2009*, WHO Regional Office for South-East Asia, New Delhi (Doc. SEA-TOB-40), 2011

double that of smokers. NCD Risk Factor Survey conducted in 2014 revealed that 62.2% of adult male and 24.1% of adult female (25-64 years) were smokeless tobacco users.¹¹

When the parents (both father and mother) are regular users of betel quid with SLT product from young, their children and other family members were more likely to start consuming SLT. The young users of SLT were more likely to maintain this bad behavior in their later lives.¹² They believed that consuming SLT product is a way to get “attention” and “focus”, and, that use of SLT helped them work harder and work for longer periods. While the immediate stimulant effects of nicotine cannot be denied, these youths must be educated on the long-term negative health impacts.

Tobacco-related diseases

The trend in tobacco-related diseases had increased steadily in Myanmar. A study done in 1990, reviewing clinical profiles of 360 patients with acute myocardial infarction (heart attacks), admitted to Yangon General Hospital and New General Hospital, Yangon, from 1987 to 1990, showed that 26% of them were under 45 years of age, and 77% of patients are smokers. Among smokers, 65% use cheroots, 20% cigarettes, and the rest cigars and pipes.¹³

The lung cancer cases admitted to Yangon General Hospital increased from around 150 in 1995 to nearly 300 in 2005. It was seen that lung cancer rates were higher among males than females, reflecting higher tobacco use among males. There was a significant decrease in ventilatory function of the lungs with increased cheroot smoking. It was also found that there was a significant rise of serum free fatty acids (major cause of ischemic heart disease) in heavy smokers who used both cheroots and cigarettes. Hospital statistics and community surveys also showed that there was higher incidence of chronic respiratory diseases, and an increase in oral cancer rates.

A study in sub-urban township of Yangon City in 2013 investigated the knowledge and practice of betel quid chewing of the local populace, and compared the prevalence of oral pre-cancerous lesions between betel quid chewers and non-chewers. It was found that over 50% of adult surveyed used betel quid, and 85% of current betel chewers used the SLT products. Nearly 5% of the survey population has oral lesions (pre-cancerous stage), all confined to current betel quid chewers.¹⁴ For those that swallow betel quid instead of spitting have faced a greater risk of developing kidney stones. Recently more and more evidence has shown that betel quid is not only a threat to the consumer, but the

¹¹ Ministry of Health (2015), *Report on National Survey of Diabetes Mellitus and Risk Factor for Non-Communicable Diseases in Myanmar, 2014*. Available from: [http://www.who.int/ncds/surveillance/steps/ Myanmar_2014_STEPS_Report.pdf?ua=1](http://www.who.int/ncds/surveillance/steps/Myanmar_2014_STEPS_Report.pdf?ua=1) (accessed on 20 February 2018)

¹² Sein T., Swe T, Toe MM, Zaw KK, Sein TO. (2014), *Challenges of Smokeless Tobacco Use in Myanmar*. *Ind J Cancer*, Vol. 51 (Supplement), December 2014

¹³ Nyo Nyo Kyaing. (2003), *Tobacco economics in Myanmar*, Economics of Tobacco Control Paper No.14, the World Bank and World Health Organization, 2003

¹⁴ Zaw K. K., et al, (2014), *Betel Quid Chewing in Dagon (East) Township in 2013*, a paper presented at the Myanmar Medical Research Congress, January 2014, Department of Medical Research (Lower Myanmar), Yangon, 2014

vendor as well, since higher incidences prevalence of skin diseases have begun afflicting betel quid vendors.

Economic impact

Tobacco users usually spend a considerable proportion of their hard-earned income on tobacco. They have spent more money on tobacco than the actual amount they would spend on basic necessities such as health, education, food, clothing and shelter. This tobacco expenditure could be shifted to basic food and other necessities to improve health, nutrition and wellbeing. A significant shifting of tobacco expenditure to food could greatly reduce the prevalence of malnutrition and improve the nutrition status of families.

Several studies in Myanmar showed that poor families would benefit greatly if they shifted their tobacco expenditure to essential food and clothing. Rough estimates showed that with the amount of money spent on a 20-stick pack of cigarette, a family of five members could buy two kilo of rice; and this could add 1100 calories per person a day which is nearly half the daily requirement. Alternatively, nearly 300gm of cooking oil, 300gm of fish, chicken or beef, 6 eggs and 3 kg of lentils could be bought with the money spent on tobacco products for a day. The average consumption of tobacco per person was about 5 cigarettes/cheroots per day with a range of 2 to 35 cigarettes/cheroots.¹⁵

Children as young as 8 years old are seen buying and consuming cigarettes and betel quid, prepared and sold in road-side stalls. Many young children and youths themselves are road-side vendors, and they sell pre-packaged betel quid and loose cigarette and packages at major traffic junctions in the cities. The availability of extremely cheap tobacco products serves to encourage their use by the poor and youths. The cheapest cigarettes in the market costed as little as MMK 250-300 per pack, while betel quid with tobacco is sold for just MMK 100 for four pieces.¹⁶

These are within the affordable range of low-income earners, even for teenagers. Average daily income from selling betel quid will range from MMK 10,000 to 100,000. Some SLT users chew up to 100 pieces of betel quid per day (MMK 2000/-), spending large portion of their daily income (Note: average minimum daily wage is around MMK 4000). If the average consumer used 20 pieces of betel quid, he or she would have been able to purchase 5 eggs or 1 kilo of rice instead. People can easily buy cigarettes and smokeless tobacco products (domestic and imported ones) even in remote villages, while they may not have easy access to basic goods such as essential medicines, purified drinking water, family planning materials or vaccines. Since there are an estimated of 10 million adult male and 2 million adult female are on average consuming betel quid worth MMK 1000/- a day, they actually are spending MMK 12 billion a day just for chewing and spitting out betel quid fluid.

¹⁵ Nyo Nyo Kyaing et.al. (2005), Study on Poverty Alleviation and Tobacco Control in Myanmar, Economics of Tobacco Control Paper No.31, the World Bank and World Health Organization, 2005

¹⁶ MMK = Myanmar Currency and One USD equals MMK 1350/- in June, 2018

Tobacco Industry

History

Tobacco was a new product coming into Myanmar introduced by foreign travelers and traders around First Innwa (Ava) period of 14-15 centuries, to be used for smoking, and also for chewing as main ingredient of betel quid. Tobacco use became more popular in Hanthawaddy Dynasty around 15 centuries. Replica of betel quid containers of Hanthawady period displayed as the Royal regalia at the Kanbawza Thadi Palace at Bago (15 century), and the same of Konbaung Period (17-18 centuries) shown at National Museum at Nay Pyi Taw, indicated how the betel quid chewing was popular among the royal families. Rolling tobacco mix was also introduced around the same century.. The local tobacco product called *cheroot*, prepared by mixing tobacco with other ingredients wrapped in local leaves called *thanatpet*¹⁷, is popular in Myanmar till today. The term *cheroot* may have been derived from Tamil word – *shurutte*, meaning rolling. After Second World War, cigarette, cigar and chewing tobacco became more popular as imported products. Westerners visiting Myanmar in those days liked to take photographs of Myanmar ladies with *cheroots* in their hands, as a fashion. A few years after the independence, the Government introduced wide-scale cultivation of tobacco in central Myanmar, in order to replace importation and also to promote local tobacco industries.

Import/Export Policy

Taxation on import of cigarettes and tobacco leaves was introduced under sales tax of 1952. Since locally produced cigarettes were not available widely and foreign imports were of high-priced, many people used locally produced hand-rolled cheroots in 1950s-1960s. During Military and Socialist Governments (1962-1988), all tobacco curing factories, large-scale cheroot production places, and all cigarette factories were nationalized, and the production was put under the control of the Government. Meanwhile, betel-quid chewing habit had spread with increasing use of tobacco and other tobacco products.

With economic liberalization policy introduced by early 1990s, the Government allowed private ownership and expansion of cigarette industries, both from local and foreign investors. Despite the international pressure and sanctions, the international tobacco giant like British American Tobacco (BAT), with its subsidiary, Rothman's of Pall Mall Myanmar, joined in quickly as joint-venture investment taking the advantages of tax incentives and tax holidays for investments.¹⁸ Investments in beverages (both soft and hard drinks) and cigarettes had increased by billions of US Dollars in the last 20 years. Only in 2013, the Union Government had stopped such tax holidays for tobacco products and alcoholic beverages.

In early 2010s, the Union Government introduced another wave of foreign investment after the United States and the European Union released economic sanctions

¹⁷ Note: *Thanatphet* is the dried and cured leaf of *carbia myxa* trees grown in Shan State, Myanmar.

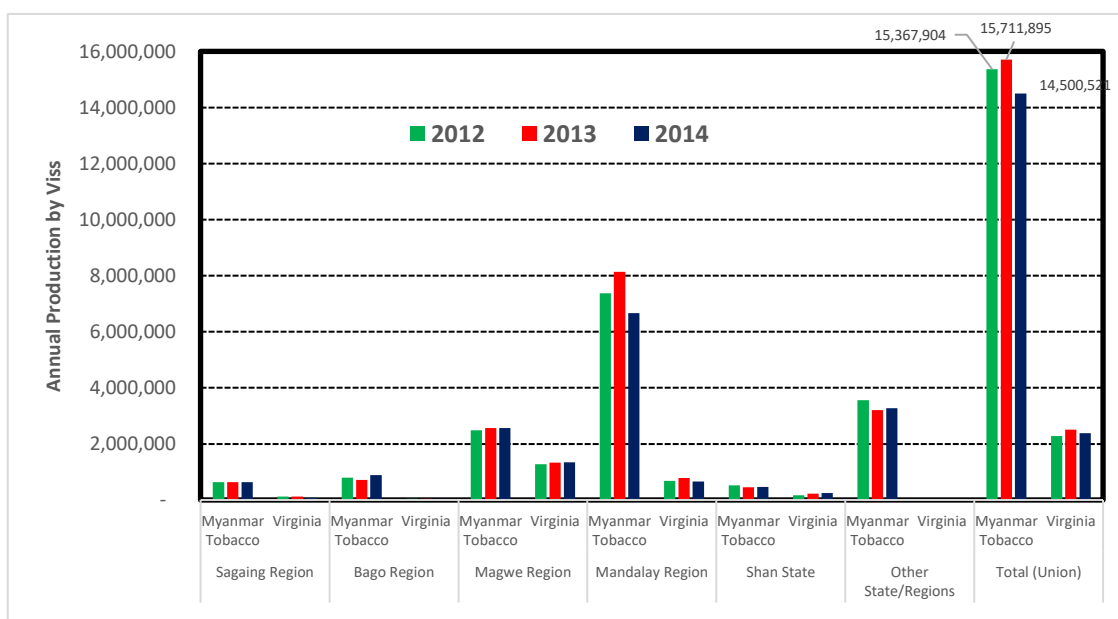
¹⁸ Ross MacKenzie (2018), *An example for corporate social responsibility: British American Tobacco's response to criticism of its Myanmar subsidiary, 1999-2003*, Asia Pacific Policy Study, 2018: 5, 298-312

to Myanmar. In August 2014, the Union Government announced that the joint venture for cigarette production can be undertaken with local Virginia to be used 50% within first 3 years or the raw materials must be used at least 50%, which is bought by the income earned after exporting local Virginia, and then, exporting 90%. Information on the actual situation of import of raw tobacco and export of finished products (cigarettes and cigars), as well as actual amount of tax deductions has not yet been made public. Since then, many multinational tobacco industries, including BAT, Japan Tobacco International, etc., came into Myanmar with heavy investment incentives.

Tobacco agriculture

Two main types of tobacco - Virginia tobacco (*Nicotiana tabacum*) and Myanmar tobacco (*Nicotiana rustica*), were sown in less than 0.1% of the net area sown in Myanmar. While Myanmar tobacco is grown in all States and Regions of the country, 2 regions, i.e., Mandalay and Magway in central Myanmar are known to have the largest tobacco growers/producers with annual production of 7.3 million viss and 2.5 million viss¹⁹ respectively. Total annual yield of Myanmar tobacco is around 15 million viss (around 22,500 tons). While the Government has a ban on import of manufactured cigarettes, there is no limitation on importation of tobacco leaves or any other raw material for production of cigarettes and cigars.

Figure 2: Tobacco Production by State/Region in Myanmar, 2012-2014



There are subsidies and incentives, both technology, farm inputs and cash, provided by cigarette companies in the last decade for improved yields of high quality tobacco leaves, and better quality tobacco products. Agricultural input (production costs including labor costs, farm implements, fertilizers, and insecticides, etc.) per acre for Myanmar tobacco is around MMK 400,000 (USD 300). Each acre has an average yield of

¹⁹ Viss is Myanmar measure of weight, and One Viss being equivalent to 1.63 kilogram.

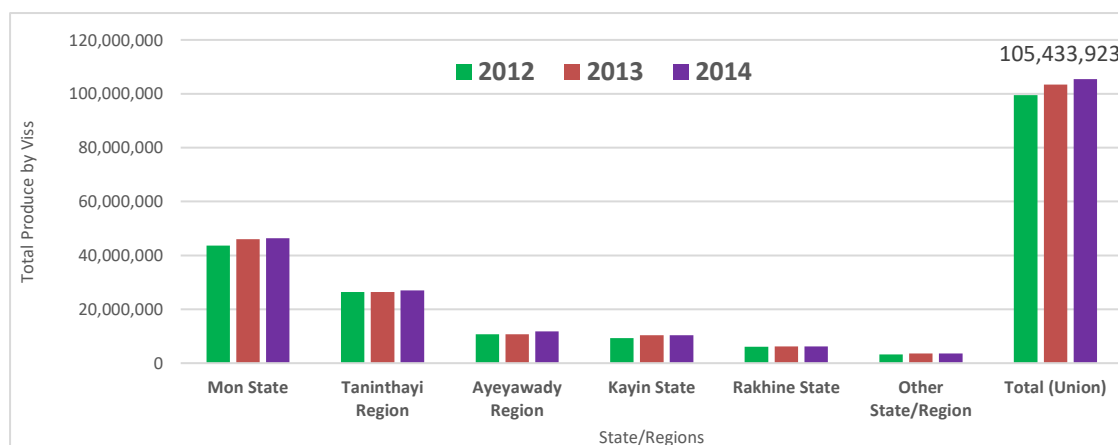
raw tobacco of 1000 viss or 1630 kg, and the income per acre would be around MMK 1,050,000 (USD 780). Per acre profit will be around MMK 650,000 (USD 480).

Total profit of Myanmar tobacco produced during 2014 alone would be nearly 1,000 billion MMK. Per acre profit for Virginia tobacco is around MMK 336,000 (USD 250) which is half of those gained for Myanmar tobacco. Thus, the acreage of Myanmar tobacco (with higher content of nicotine) is 7 times more than those for Virginia tobacco.²⁰

Raw and processed Tobacco Products

Raw or cured tobacco or other processed tobacco products mixed with areca nut and other condiments were used for chewing as betel quid (called locally as *Kun-yar*) and this practice has been part of the tradition adopted by Myanmar people for more than six centuries. Despite education campaigns and ban on spitting of red-colored staining saliva in public places, many young and old people are chewing betel quid till date. The 2014 STEPS survey showed that over 62 percent of adult male (25-64 years) and over 24 percent of adult female (25-64 years) were using betel quid at their daily life.²¹

Figure 3: Betel Nut (Areca Nut) Production by State/Region in Myanmar, 2012-2014



While the land used for areca nuts (betel nuts) remained around 200,000 acres with annual production of 100 million viss for the last 3-4 years, the land used for betel leaves have almost tripled from 10,000 acres in 2000 to 33,000 acres in 2014. Mon State is largest producers (almost 50% of the national produce) of betel nuts, and Mon State together with 4 other States and Regions are producing betel nuts nearly 96% of the country (Figure 3).²²

Annual production of betel leaves is around 160 million viss and it is increasing each year (See Figure 4). Ayeyawady Region produces almost 50% of overall national production, and Ayeyawady Region together with 3 other Regions (Mandalay, Yangon and Sagaing) and Mon State had produced almost four-fifth of the total production. Each garden of betel leaf can produce betel leaves for 3 consecutive years, and total profit of

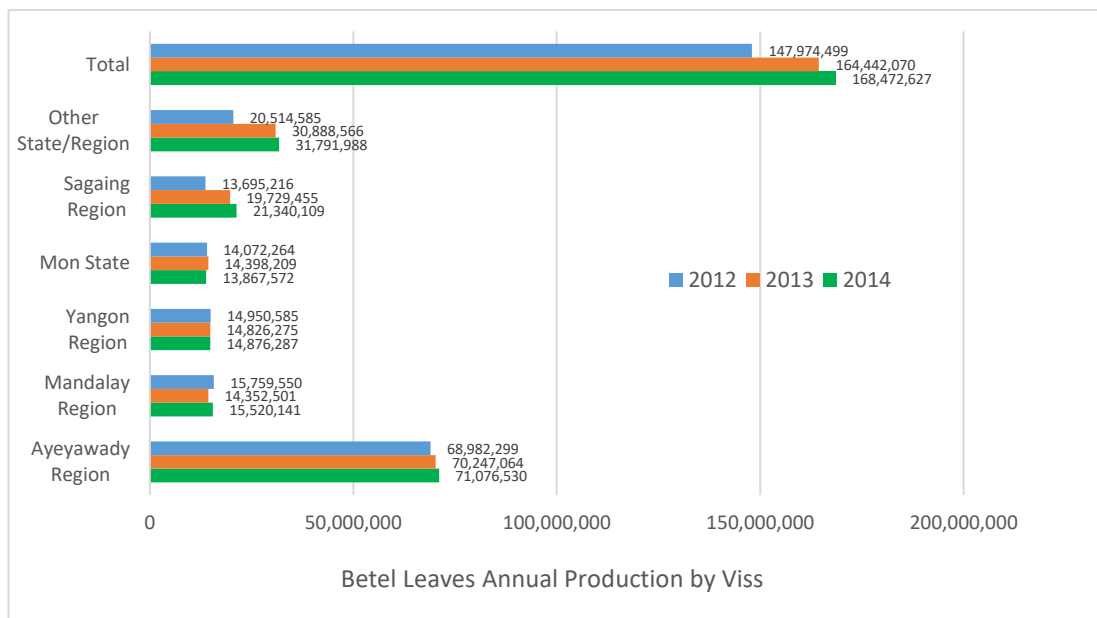
²⁰ Source: Informal study on agricultural based tobacco and tobacco products, 2015

²¹ Ministry of Health (2015), Report on National Survey of Diabetes Mellitus and Risk Factor for Non-Communicable Diseases in Myanmar 2014. Available from: http://www.who.int/ncds/surveillance/steps/Myanmar_2014_STEPS_Report.pdf?ua=1 (accessed on 20 February 2018)

²² Source: Informal study on agricultural based tobacco and tobacco products, 2015

one acre garden of betel leaf is around MMK 48 million. While a small percentage of local betel leaves are exported, the bulk are for local consumption. This can be noted with increasing number of people chewing betel quid with tobacco, and the mushrooming of small and big kiosks selling betel quid in every street corner in both rural and urban areas in Myanmar.

Figure 4: Betel Leaves Production by State/Region in Myanmar, 2012-2014



Tobacco products for smoking

In early 2000, few surveys showed that around 60-80% of tobacco smokers use the *cheroots*, which are produced commercially by local cottage industries and/or locally available from hand-rolled home-based producers. A *cheroot* (locally called as *say-paw-lait*) is a 3-6 inches long, hand-rolled, cigar-like smoking product, thinly wrapped with a tree leaf called *thanatphet*. It contains a mixture of processed tobacco, wood chips, and other ingredients (what contained in cheroot mixture is usually kept as trade secret for each manufacturer). Some of the home-made *cheroots* may have been wrapped with dried corn-leaves or even with old newspaper sheets. *Cheroots* rolled with corn leaves or papers are longer and bigger in size, mostly available in rural areas. Over 2000 brands of *cheroots* are available all over the countries, and majority are of local and regional specific. Only few brands of *cheroots* are available beyond the regions/states where they are produced. After local- and foreign-made cigarettes became available abundantly and cheaply in the market after 1990s, the *cheroot* production, except for very popular brands, has declined year after year. Production data, as per Myanmar Statistical Year Book 2016, showed that there was a marked decrease in *cheroot* production from five billion sticks in 1990s to around two billion sticks by 2015. Around the same period, the cigarette production is increased from 2.5 billion in early 2000, to nearly 9 billion by 2015-16.²³

Local production of cigarettes started in mid-1960s with three state-owned cigarette factories (two in Yangon and another in Pakokku) which produced around 3

²³ Myanmar Statistical Yearbook 2016, Central Statistical Organization, Myanmar, 2016

billion sticks yearly till early 2000. The famous brands were *Duya* (filtered) and *Khabaung* (non-filtered). Majority of foreign brands like *555*, *Marlboro*, *Benson and Hedges*, *Mild Seven*, *London*, etc., are easily available through illicit or duty-free imports. After economic liberalization policy launched by mid-1990, more than a dozen cigarette factories are established at various locations in Myanmar, mainly through joint ventures with foreign multinational tobacco companies, such as British American Tobacco (BAT), Japan Tobacco International (JTI), Korean Tobacco Company, Sampoerna Indonesia, and Chinese Tobacco Companies.

Local industries owned by national economic giants like Myanmar Economic Holding Ltd. (MEHL), Myanmar Economic Corporation (MEC), Htoo Group of Companies, Shwe Than Lwin Group of Companies, IMU Enterprises Ltd of Sein Wut Hmon Group, Fu Xing Brothers Group of Companies, and the Ministry of Industry joined in to form as joint ventures for cigarette production at various parts of the country. The original motive of these foreign-direct-invested joint-ventured companies is for export production, but their products have also flooded the domestic market.

British American Tobacco (BAT) initially made a joint venture with Myanmar Economic Cooperation by mid-1990, and established Rothman's of Pall Mall Myanmar Ltd. to produce *London* and other brands including *Red Ruby*. It later went off due to economic sanction by western nations. Virginia Tobacco Co. Ltd., a joint venture subsidiary of Myanmar Economic Holding Ltd. (MEHL) and Rothman's of Pall Mall Myanmar Pte Ltd (Singapore-based Company), with its factory in Mingaladon Industrial Area, has produced the popular brand - *Red Ruby* and 2 other brands - *Premium and Super 5* (mid-price range). *Red Ruby* is currently holding major share of Myanmar cigarette market.

In 2013, BAT came back in Myanmar to have a joint venture with IMU Enterprises Ltd, a unit of Sein Wut Hmon Group, which has the experience of distributing local brands like *Vegas* and *Golden Eagle*.²⁴ This joint venture investment (later 100% foreign owned, as BAT Myanmar) with estimated budget of USD 50 million over five years has the production facility in the Shwe Than Lwin Industrial Zone in Hlaing Tharya Township, Yangon, and producing major international brands like *London and Lucky Strike*, with several flavours, and a low-price brand like *Richland*.

Japan Tobacco International (JTI) Company, having joint venture with MEC, forming as Myanmar Japan Tobacco Co. Ltd, has its production facility in the industrial zone at Mingaladon, Yangon, and it is producing major international brands like *Mevius*, *Winston and Camel*, with various flavours.

Since 2012, Hongyun Honghe Tobacco (Group) Co. Ltd. (one of the China's largest tobacco manufacturing enterprises) signed a joint venture agreement to operate the Muse Universal Cigarette Factory (later known as Global Cigarette Factory) at Muse, in north-eastern Shan State, Myanmar, bordering with Yunnan Province, China, to produce and market around 6 billion sticks of cigarettes with major high price brands like *Yun Yan*,

²⁴ Tim McLaughlin, *Cigarette Seller Returns to Myanmar*, Myanmar Times, 15 July 2013

Hongtashan, and Honghe, and Xing Xing, mid-priced brand like *Yuxi*, and low-priced brand like *Win* in Myanmar, and also export them to China over the years since 2012.²⁵

Myawady and Golden Hill (M&GH) International Company, with its factory in Mae-ze-gon Street, Hlaing township, Yangon, is producing low-priced cigarette brands like *Red and Blue, Villa and Karaweik*.

Another company, Blue Diamond Manufacturing Company, is producing low- and mid-priced brands of *Blue Diamond, Flavour, Inn-lay, Perfact, and MG (Myanmar Gold)*.

Myanmar Muse Kokang (MMK) factory²⁶ at Muse, Northern Shan State, is producing more than 16 brands of low-priced cigarettes. Its popular brands are *Duya, Kabaung, GEM, 99 International, Golden Elephant, Boss, Lincoln, Hummer, EURO, Marcopolo, Golden Myanmar, Red Bull*, etc.

Khine Khant Hein Co in Pakokku, Magwe Region and Myanmar Kokang Cigarette Factory in Lauk-kai, Northern Shan State are producing *Kabaung* brand, that is popular in China. Golden Oriental Leaf Factory in Mandalay City is producing low- and mid-priced cigarette brands like *Duya, Mount Popa, V-Mild, and V-Valiant*. Another factory in Mandalay, known as Yong Fong Cigarette Factory, is producing low-priced *Mandalay and Innlay* brands. Myanmar PiOhNi Co. Ltd in Lashio, Northern Shan State, produced low-priced brands like *3G, Classy and Manton*.

Although the Government has issued a total ban on import of cigarettes, except those to be sold at Duty-Free Shops, many international brands like *Marlboro, State Express 555, Benson and Hedges Gold, Dunhill and Esse* (all without Myanmar tax stamp or with stamps from China or elsewhere) are widely available in the retail stores at regional capitals and tourist places.

As of 2017, over 94 brands of cigarettes are produced in Myanmar (See Annex Table on Cigarette Brands and Prices, 2017). According to Euromonitor Report on Myanmar, 2017, *Red Ruby*, a product of Rothman's of Pall Mall Myanmar, is the most sold brand by volume (around 40%). It is followed by *London and Lucky Strike* (BAT), and *Mevius and Winston* (JTI).²⁷ All major foreign brands produced locally have the cost around MMK 1200-1400/- (around 1.0 USD) per pack. The average costs of cigarette pack range from around MMK 300/- to 400/- (less than US 30 cents) per pack for low-end brands (*Karaweik or Villa*), to MMK 2000-4000/- (USD 2-3) per pack for high-end illegally imported brands (*Malboro or Dunhill*).

While tobacco products as percentage of total exports was less than 0.1%, the import of tobacco and tobacco products increased from less than 0.5% in 1995 to around 1.2% of the total imports. There was a steady increase in imports of tobacco and its related products in the 1990s coinciding with increases in local production, and reached to nearly

²⁵ Accessed on web - <http://english.hyhlhgroup.com/en/newsview.php?arcid=273>

²⁶ MMK Company at Muse, in north-eastern Shan State, had used one of its tobacco product with brand name, *Golden Elephant*, to sponsor the mini-marathon race organized by Mandalay City Mayor in December, 2017, in disguise of the same brand name for mineral water. {Note: Myanmar Tobacco Law of 2006 prohibited such sponsorship.}

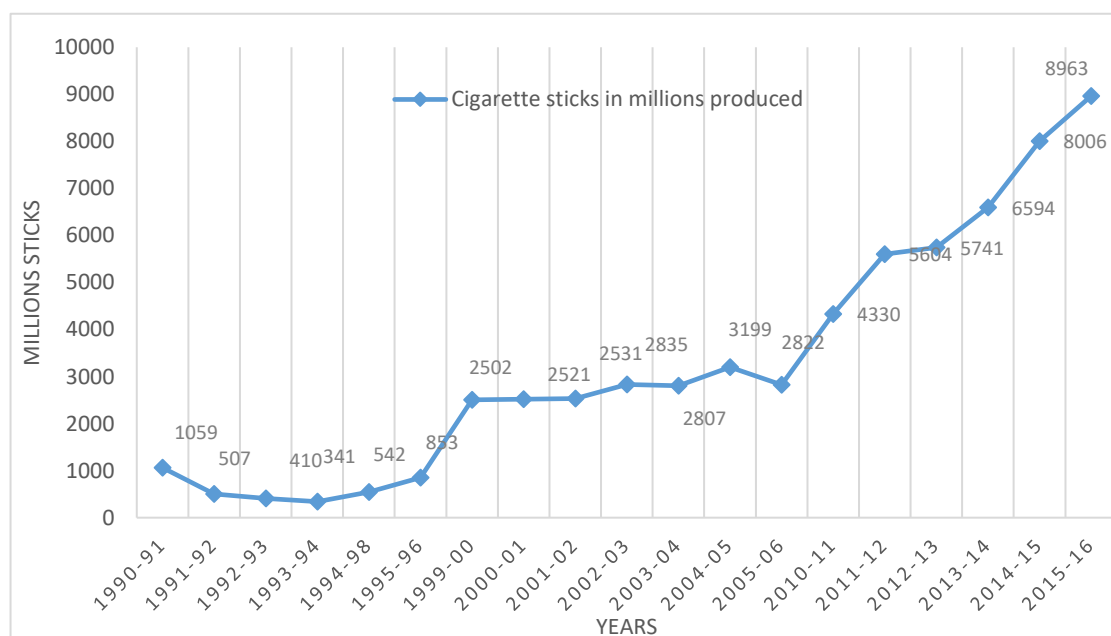
²⁷ SEATCA (2017), *Maximizing Tobacco Tax Reform in Myanmar: Policy Recommendations*, Fig.3, p6

7,000 metric tons by 2005. Major foreign branded cigarettes produced locally are supposed to be marketed for export.

Tobacco market is growing

According to Euromonitor analysis, the tobacco market in Myanmar in 2016 was worth Myanmar MMK 181 billion. According to the official report of the Government, the quantity of cigarettes produced was around 500 million in early 1990, and had gone up to around 900 million (450 million pack of 20 sticks) by mid-1990 due to increasing number of cigarette factories, exploiting the investment policy favouring tax holidays for foreign investments. By 2013, with the opening up of trade restrictions to Myanmar, major international tobacco industries like BAT and JTI came into Myanmar with multi-million dollars of investment for joint ventures with local entrepreneurs, and several well-known international brands like *London*, *Lucky Strike*, *Mild Seven (Mevius)*, *Winston*, etc., are produced for exports as well as for local sale. The official estimates of cigarette produced around 2015-16 was around 9 billion (Figure 5). If this quantity of cigarettes is combined with the estimated annual production of 2-3 billion sticks of cheroots, the total annual sale of smoking tobacco will be around 11-12 billion sticks in 2018.

Figure 5: Cigarette Production in Myanmar, 1990-2016*



*Source: Myanmar Statistical Yearbook 2016, Central Statistical Organization, Myanmar, 2016

Tobacco market demand

The tobacco use rate (either smoked or smokeless) among youths remained above 10% and the overall ever tobacco users (ever taking either smoked or smokeless) were more than double in 2016. Overall, around two in five students who were ever cigarette smokers reported that they first tried a cigarette at less than 10 years old. Mostly, two in five (40.8%) students initiated cigarette smoking between aged 12 and 13 years, followed by 30.9% of students started between aged 14 and 15 years. The accessibility of cigarettes and other tobacco products increased and become more than double from 23.7% in 2007 to 54.5% in 2016. Around 39% of students reported that they had purchased cigarettes

from a street vendor. Importantly, more than half (62.9%) current cigarette smokers not prohibited from buying cigarette though they were minors. Three in five (61.9%) current cigarette smokers purchased loose cigarettes as individual sticks.²⁸

With the growing GDP per capita in Myanmar, cigarettes are cheaper and more affordable. Majority of cigarette brands are low- and middle-priced range (less than MMK 500/- or between MMK 600-800/-). Enforcement action on selling loose form (less than 20 sticks in pack) is also inadequate, especially retail level, and thus cigarette is easily accessible to youths.

According to the Youth Opinion Survey on Cigarette Prices in Myanmar 2017:²⁹

- 39% of youths said that cigarette price is reasonable (standard like any other consumable items), and 41.6% had indicated that cigarette prices are cheap
- Majority of youths (79.4%) believed that raising cigarette price (especially price per pack of 20 sticks above MMK 1500/>) will have an impact on their consumption.
- The price of rice (daily consumption of 250gm) is around MMK 150 and one egg is also at the same price. Average price of one meal for lunch is MMK 1,000. Instead of daily required meal, youths are spending on cigarettes and smoking.

Tobacco Taxation

Background

In Myanmar, tax on cigarettes and other tobacco products is levied under manufactured goods based on the Burma Income Tax Act 1922 and Cigarettes Duty Act 1931 during the British Colonial period. After independence in 1948, tax on cigarettes and tobacco products was collected under successive legislation at different times, i.e., General Sales Tax Act 1949; Sales Tax Act 1952; Income Tax Law 1974; Goods and Services Tax Law 1976; Profits Tax Law 1976; Commercial Tax Law 1990, and Union Tax Law since 2014.

Under the General Sales Tax Act, 1949, local production of tobacco and tobacco products was not taxable, but importation of cigarettes and tobacco for pipes was taxed at one pence per one MMK on the proceeds of sale. Under the Sales Tax Act, 1952, tobacco products become taxable items both for sales and imports.

In 1972, the Revolutionary Council Government, in order to fit with new Constitution, had initiated reforms on various tax administrative agencies/directorates dealing with Income Tax, Commercial Tax, Stamp Duty, State Lottery, Salt Revenue, Excise, the Revenue Section of the General Administration, and the Office of the Financial Commissioner, which were existed separately, into one responsible unit by establishment of a new Department – Department of Internal Revenue (IRD), under the Ministry of

²⁸ Nyein Aye Tun, et.al (2017), *Tobacco Use among Adolescents in Myanmar: Global Youth Tobacco Survey*, Indian Journal of Public Health, India, 2017: 61:S54-9 (Accessed at <http://www.ijph.in> on Friday, September 15, 2017)

²⁹ People's Health Foundation (2018), *Youth Opinion Survey on Cigarette Prices in Myanmar 2017*, part of the study of 5 ASEAN countries, supported by SEATCA, PHF/SEATCA, 2018

Planning and Finance. From 1972 till 1976, the IRD administered NINE different types of taxes and duties, viz., income tax, commercial tax, excise duty, customs duty, State lottery tax, stamp duty, land revenue, embankment tax and tax on extraction of minerals. In 1976, the Government introduced the Goods and Services Tax (GST) Law, where all manufactured and imported cigarettes and other tobacco products were levied at 125% and 60% respectively based on the factory price or CIF value. In the same year, the Profit Tax Law was introduced and all manufacturers of tobacco products were levied according to their income and profits.

From 1976 to 1988, 10 types of taxes and duties such as income tax, goods and services tax, profit tax, stamp duty, State lottery tax, land revenue, water tax and embankment tax, excise duty, mineral tax and tax on fisheries were administered by IRD. In 1989, the Government of the Union of Myanmar (State Law and Order Restoration Council -SLOC) transferred the duties of collecting five types of taxes and duties, out of 10 types of taxation administered by the IRD, to other relevant departments. The Profit Tax Law, which was enacted in 1976, was revoked by the Pyidaungsu Hluttaw (Union Parliament) Law No 1 in 2011. By 2012, IRD has been collecting only 4 types of taxes and duties, namely income tax, commercial tax, stamp duty and State Lottery tax.

Commercial Tax and Union Tax

In 1990, the Government of the Union of Myanmar, after adopting the trade liberalization policy, enacted the Commercial Tax Law (SLOC Law No.8/1990) to revise its taxation on all commodities of commercial values covering local production, importation, and services. According to Section 5, Sub-section (c) of the Commercial Tax Law, special goods including cigarette, Virginia tobacco, cured tobacco, cheroot, cigar, pipe, materials for pipe, betel chewing preparations, are covered for taxation.

Table 2: Commercial Tax* on Tobacco Products, from 1976 to 2015

No	Tobacco Products	1976-1990	1990-1991	1991-2009	2009-2012	2012-2014	2015
1	Virginia Tobacco Cured	--	--	--	25	50	60
2	Raw Tobacco	--	--	--	25	50	60
3	Cigarettes	125	125	75	75	100	120
4	Cheroots	30	10	10	10	50	60
5	Cigars, pipes, all sorts	30	20	20	20	50	60
6	Piped tobacco	60	20	25	25	50	60
7	Tobacco for Betel chewing	60	30	25	25	50	60

Note: *Commercial Tax as Percentage of factory sale price value or CIF for imports

Source: Internal Revenue Department, Ministry of Finance (2017)

In 2012, the Union Parliament enacted the Union Tax Law, in which taxation on tobacco and tobacco products were included under items of special commodities/goods. Taxation rates for different tobacco products varied with the price-ranges of the products. Taxation is based on the certain percentage (as approved by the Parliament) on the ex-factory price of the commodities (*ad valorem*). The taxation on tobacco (raw or cured), cigarettes and other tobacco products since 1976 till 2015 is shown in the Table 2.

Globally, almost 90% of countries levy various types of taxes on tobacco products, either as excise taxes or tobacco-specific taxes that are like excise. In most countries, excise taxes account for a larger share of the price of tobacco products, than any other forms of taxes. In Myanmar, taxes on tobacco products are levied as '*ad-valorem*', meaning excise tax based on value of the product (usually ex-factory price or CIF value), until the "Special Goods Tax Law" was introduced in 2016, at which tobacco taxation was done with *specific tax rate* on market price of cigarettes, and still retaining *ad-valorem* taxation system for specific items of tobacco products. As per the global experience on *ad-valorem* taxation system, companies have greater opportunities to avoid higher taxes and preserve or grow the size of their market by manufacturing and selling lower priced brands. This also makes government tax revenues more dependent on industry pricing strategies and increases the uncertainty of the tobacco tax revenue stream.³⁰

When *ad valorem* taxes are levied early in the distribution chain, opportunities arise for companies to set prices artificially low at the initial point where the tax is levied to reduce their tax liability, and then, they raised sale prices later in the distribution chain (known as "*transfer pricing*"). This has led some governments that rely on *ad valorem* excises to include a minimum specific excise tax to reduce this type of tax avoidance. Using retail price for taxation as the base could help solve the problem of "*transfer pricing*", but it creates its own challenges given the difficulties of monitoring retail prices. And, *ad valorem* taxation usually is based on a measure of quantity rather than value, while specific taxes are not subject to this type of abusive "*transfer pricing*", again increasing their effectiveness in achieving the health goals of tobacco taxation.³¹

In Myanmar, the ex-factory price of a 20-cigarette pack of most consumed brands, like '*Red and Blue*', '*Red Ruby*' or '*London*', are ranging from MMK 60, 190 and 440 respectively in 2014, while the actual retail sale prices of these brands are MMK 250, 600 and 800. Based on available evidence for the financial year of 2013-14, the level of tax in Myanmar was just MMK 68/pack or only 11% of the retail price. This is well below the tax levels in neighboring ASEAN countries which have an average of above 40% except Cambodia and Lao PDR. It is also well below the average for all low income countries (LIC) globally, where excise tax accounts for 37% of the retail price of cigarettes on average.³²

Low cigarette taxes, leading to low prices, have contributed to an alarming expansion in consumption. The quantity of cigarettes for local consumption increased by 45% from 475 million to 693 million packs between 2012 and 2014. Latest estimates for cigarette production showed around 10 billion sticks (around 500 million packs of 20 sticks) by 2016. Furthermore, the use of traditional tobacco products such as *cheroots* and betel quid remains very high in Myanmar, that make challenging tax collection from this informal sector.

³⁰ World Health Organization. *WHO Report on the Global Tobacco Epidemic, 2015: Raising tax on tobacco*, Geneva, 2015

³¹ WHO, *WHO Technical Manual on Tobacco Tax Administration*. Geneva, 2010 (http://www.who.int/tobacco/publications/tax_administration/en/index.html, accessed 10 June 2015)

³² WHO, *WHO Report on the Global Tobacco Epidemic, 2015: Raising tax on tobacco*. WHO, Geneva, 2015

In January 2016, the Union Parliament has passed two laws on taxation, i.e. Special Goods Tax Law (Law No.11), and the Union Tax Law (Law No. 22), that make changes on taxation (rates and administration) for specific goods (majority being excisable goods including tobacco products). There are 7 items of tobacco products, i.e. cigarettes, tobacco (raw), Virginia tobacco, cheroots, cigars, tobacco product for pipes, and tobacco products for betel quid. These products were levied based on the retail price, some specific and some *ad valorem*. Cigarettes were taxed with specific price for each stick in 4 tiers, classified on retail price per 20 sticks pack. In 2017, the tax rates has been increased with minor adjustment only, and introduced specific tax rate for cheroots in 2 tiers of prices. With the Union Tax Law of 2018, the tax rate for cheroot has changed from 2 tiers to a single tier with 25 pyar (0.25 MMK) per stick for specific tax rate. Other products were still collected on specified tax rates based on retail price with some changes. Retail prices for each item of specific good have been established by a committee in the IRD, according to the prescribed procedures ruled under the Special Goods Tax Law. Table 3 (on next page) showed the taxation rates for different tobacco products levied under the Union Tax Laws of 2016, 2017 and 2018.

One important clause in the Union Tax Law is the exemption given to the producers of **tobacco leaves, cheroots and cigars**, that they could be exempted from paying the Special Goods Tax, if the total production cost is not more than MMK 200 lakhs (USD 14,800/-). This tax exemption provided to the local tobacco industries is against the principle laid down in WHO FCTC Article 5.3, i.e., “In setting and implementing their public health policies with respect to tobacco control, Parties shall act to protect these policies from commercial and other vested interests of the tobacco industry in accordance with national law.” The exemption clause also provides opportunity for the industries to avoid/evade taxation by dividing the companies under different names.

Import duties

For imported tobacco, the import duty (customs tax) differs for various types of tobacco products. Import of cigarettes to Myanmar is not allowed, except those imported for sale at duty-free shops and hotels. Customs duty is payable for the import of raw materials used in the production of cigarettes including tobacco leaf, paper, filter, etc. An import tariff of 30% on the CIF value of imported Virginia and cured tobacco, and the cigarettes is levied (note: before 1997, this tariff was 300%). In addition to customs duty, commercial taxation is also applied to imported cigarettes and raw tobacco, levied at 7.5% on landed costs (the customs tariff plus CIF value of the imports). Under ASEAN Free Trade Area (AFTA) Agreement, tariff of 5% for cigarettes and 3% for tobacco have been set currently and negotiations are underway to arrive at zero tariff.

Table 3: Tax Rate on Cigarette and other tobacco products under the Union Tax Laws, 2016, 2017 and 2018

Sr No	Description of Specific Goods	Market Price Level	Specific Tax Rate (2016)	Specific Tax Rate (2017)	Specific Tax Rate (2018)
1.	(a) Cigarettes of all sorts	Sale price of packet containing 20 sticks not exceeding 400 MMK (2016 & 2017) or 500 MMK (2018)	3 MMK per stick	4 MMK per stick	4 MMK per stick
	(b) Cigarettes of all sorts	Sale price of packet containing 20 sticks from 401 to 600 MMK (2016 & 2017) or 501 to 700 MMK (2018)	8 MMK per stick	9 MMK per stick	9 MMK per stick
	(c) Cigarettes of all sorts	Sale price of packet containing 20 sticks from 601 to 800 MMK (2016 & 2017) or 701 to 900 MMK (2018)	12 MMK per stick	13 MMK per stick	13 MMK per stick
	(d) Cigarettes of all sorts	Sale price of packet containing 20 sticks from 801 MMK and above (2016 & 2017) or 901 MMK and above (2018)	15 MMK per stick	16 MMK per stick	16 MMK per stick
2.	(a) Cheroots	Sale price per stick of cheroot for 10 MMK and below (2017)		50 pyar per stick	-
	(b) Cheroots	Sale price per stick of cheroot more than 10 MMK (2017)		1 MMK per stick	-
	Cheroots	2016 & 2018	60%	-	25 pyar per stick
3.	Tobacco Raw		60%	60%	60%
4.	Virginia Tobacco		60%	60%	60%
5.	Cigars		80%	80%	80%
6.	Piped tobacco		80%	80%	80%
7.	Tobacco products for betel quid		80%	80%	80%

Source: Union Tax Laws, 2016, 2017 and 2018

Income tax

Any industry that produces cigarettes/cheroots, being registered under the Company Act, is liable to pay both commercial tax and income tax. State-owned or other domestic companies (local owners and multinational companies residing in Myanmar) that produce cigarettes are subject to 30% income tax, while non-resident foreign-owned companies are subject to 35% income tax. *Cheroots*, cigars, piped tobacco and tobacco leaves are produced by small-scale cottage enterprises, while tobacco product for betel quid is produced by local factories. Commercial tax and income tax are levied on all tobacco products sold by these enterprises ranging from 0%-50%, depending on the total sales value (cost of production plus overhead expenses).

Tax stamp

In Myanmar, the tax labels (tax stamps) have been used on commodities (spirit/liquor, beer, wine, cigarette and imported purified water) since 2007, to know the quantity of their sales and to control tax evasion and smuggling. All foreign-brand cigarette packs legally imported, and all tobacco products produced locally, must carry the tax stamps. Present tax stamps are paper-based and they are issued free to the companies, who will later reported to respective tax administration of the quantity they have used, and paid necessary tax. Myanmar is planning to introduce new tax stamps with advanced technology in order to strengthen tax administration.

Other taxation

There is no agricultural taxation specific to tobacco and its products, except for general land and water use taxation, which is very minimal. Ministry of Finance in Myanmar is planning to introduce the value added taxation (VAT) system in a phased manner over 10 years period. Myanmar Internal Revenue Department is involving on rising taxes on tobacco products by transforming current commercial tax into a new form, which is a mix of turnover tax and some features of VAT and GST or VAT alone whichever is appropriate with national economy.

Tax administration

The Internal Revenue Department (IRD) under the Ministry of Finance is directly responsible for collection of taxes in 5 areas: (1) income tax; (2) profit tax; (3) customs duties; (4) commercial tax; and (5) lottery. General Administration Department under the Ministry of Home Affairs is responsible for tax collection for land, mining, excise (for alcoholic beverages), electricity and water supply, etc.; and there are other ministries responsible for taxation on forest and rubber products, licensing for transportation, road tax, etc. under their jurisdiction.

Tax collected annually from 2009 to 2014 for 3 tobacco products is shown in Table 4, which indicates that the tax revenue has increased every year. Tobacco companies pay taxes on their products in advance for the whole year. The total declared amount of cigarette packs to be produced in 2014-15 financial year was around 461.8 million packs, up 27% compared to 2013-14 Financial Year (FY). The IRD had collected MMK 30.96 billion in taxes for the 362.5 million packs produced in 2013-14 FY.

Rothman of Pall Mall Myanmar Pte. Ltd, the producer of locally popular cigarette brand, *Red Ruby*, had produced 329 million packs in 2013-14, and paid MMK 300.6 billion in commercial and income taxes. For 2014-15 FY, it had used 344 million tax stamps and paid MMK 31.3 billion for tax stamps alone. Myanmar-Japan Tobacco Co. Ltd. that produces *Mild Seven* cigarette brand in Myanmar had paid in advance taxes of MMK 262.5 million for 2014-15 FY, while BAT Myanmar, that produces *London and Lucky Strike* brands, had paid MMK 4.55 billion in advance for tax stamps.³³ According to this, tobacco companies had paid more in commercial tax and income tax than in tax stamps. Thus, the taxation authority needs to collect more on tax stamps, by not giving tax holiday to certain companies.

Table 4. Tax Collection on the Producer of Cigarette, Cheroot and Tobacco
2013-2014 to 2016-2017 Fiscal Years (MMKs in Millions)

	Types of Tax	Types of Goods	2013-2014 Fiscal Year	2014-2015 Fiscal Year	2015-2016 Fiscal Year	2016-2017 Fiscal Year (Until July)
A	Commercial Tax	Cigarette	6594.355	8184.899	15572.387	81.850
		Cheroot	77.540	76.355	77.779	19.295
		Tobacco	0.357	0.429		
Total			6672.252	8261.683	15650.166	101.145
B	Income Tax	Cigarette	177.616	307.215	429.462	7.937
		Cheroot	32.71	35.616	34.260	1.224
		Tobacco	1.728	0.842	0.063	
Total			212.054	343.673	463.785	9.161
C	Specific Goods Tax	Cigarette				22117.348
		Cheroot				
		Tobacco Products				26.136
Total			0.000	0.000	0.000	22134.483
Sum of Tax			6884.306	8605.356	16113.951	22253.79

Source: IRD/Myanmar

Dedicated Taxation

For over 30 years, OECD countries³⁴ such as Australia, Rep. of Korea and the United States have adopted different forms of earmarked or dedicated taxes from a certain proportion of general tax revenue, usually from the tax levied on tobacco, alcohol, lottery and/or gambling (sin-tax)³⁵, in addition to the usual allocation of funds for public health interventions. While the main purpose of the dedicated tax is to increase the general revenue to be used for general public health expenditure, in many cases earmarked taxes have been used to reduce or eliminate the consumption of harmful

³³ Htun Htun Minn, Tobacco production in Myanmar to go up 27pc in 2014-15 FY, *Myanmar Business Today*, Vol. 2 Issue 32, August 2014

³⁴ OECD = Organization for Economic Cooperation and Development

³⁵ *Sin-tax* is the tax levied on items that are culturally disfavoured but are nonetheless legal and widely consumed. In many countries it is almost exclusively referred to taxes levied on tobacco, alcohol, and lottery and gambling. Attempts are made to expand the taxable items to include unhealthy food, including high sugar food items.

consumer products. In the ASEAN region, Thailand has applied a 2% surcharge tax on tobacco and alcohol products since 2001 to be used for Thailand Health Promotion Foundation (Thai Health). Vietnam and Lao PDR have established tobacco control fund, generated from the revenue collected as specific tax on cigarettes since 2016. The rationale for this tax is that excessive consumption of harmful products is detrimental to one's self, and also incurs additional expenses and burden for families, the government and society as a whole. The revenue collected is therefore spent on health promotion including tobacco control, social welfare, sports and education.

Some argue that dedicated taxes place an extra burden on the poor rather than helping them. However if the overall tax is sufficiently high and reflected in more expensive tobacco products, it will discourage the poor from purchasing them. In many cases, ministries of finance are reluctant to earmark taxes for a particular purpose.³⁶ The main problem hampering governments in developing countries from doing more for public health is the lack of funds and resources. Thailand's experience in dedicated tobacco taxes has demonstrated that it works to secure sustainable funding for supporting long-term health promotion programs. WHO has also advocated for the introduction of dedicated tax or sin-tax in Myanmar, more than two decades ago, to generate additional revenue for health, especially for health promotion and prevention and control of priority diseases.³⁷

Myanmar has some experience in introducing specific tax earmarked for development activities. It relates to the taxation of transfer of property in Yangon and Mandalay cities, where 2% of property transfer tax has been retained by the respective City Development Authorities for developmental activities of their respective cities. Similarly, 5% of the revenue collected for transfer of property in other places has been kept for local development. With this experience, there is a possibility of advocating introduction of specific taxation on tobacco products and a proportion of such surcharge could be dedicated towards the prevention and control of tobacco use and other health promotion activities. In 2016, the Union Government has used the revenue, generated from the commercial tax of 5% of sales and services from telecommunication, for education development. To control tobacco use, an integrated social, cultural and economic policy that includes taxation, must be developed so that a systematic set of effective measures can be implemented.

Tobacco Prices

Measure for raising taxes and prices of tobacco products has been described as the single most effective measure for reducing tobacco consumption. Various studies around the world have shown that an increase in the price of tobacco products (especially cigarettes and betel quid) can encourage tobacco users to quit or reduce consumption. It can also prevent poor people and young adults from starting. Data showed that there is

³⁶ EP Mach & B. Abel-Smith, *Planning the finances of the health sector - A Manual for Developing Countries*, WHO Geneva, 1983

³⁷ Abel-Smith B., *Health Financing in Myanmar*, Assignment Report, October 1994, WHO SEARO (SEA/Econ/12)

a possibility for a substantial increase in nominal retail prices of tobacco products like cigarettes from 250-500 MMK per pack to over 1200 MMK.

Marketing and Sale

Myanmar Tobacco Control Law of 2006 stipulates a total ban on advertisement, free distribution, handing out or giving as present goods and sponsoring or rendering service to hold athletic game, funfair or exhibition or any welfare activity. The total number of smokeless tobacco users and cigarette smokers has rapidly increased even after the law, reflected by mushrooming small and big kiosks selling cigarette and betel quid (with tobacco) on every street corner and cigarette stands in every tea-shop both in rural and urban areas.

These kiosks have posters on sale promotion for various brands of cigarette and other tobacco products. Unlike other countries, tobacco products are freely displayed and sold openly, with different way of advertisements at the points of sale. With 4-5 kiosks at each street corner in the busy parts of the town, these kiosks/vendors are the sources of constant advertisement and sales promotion, usually controlled by the wholesalers.

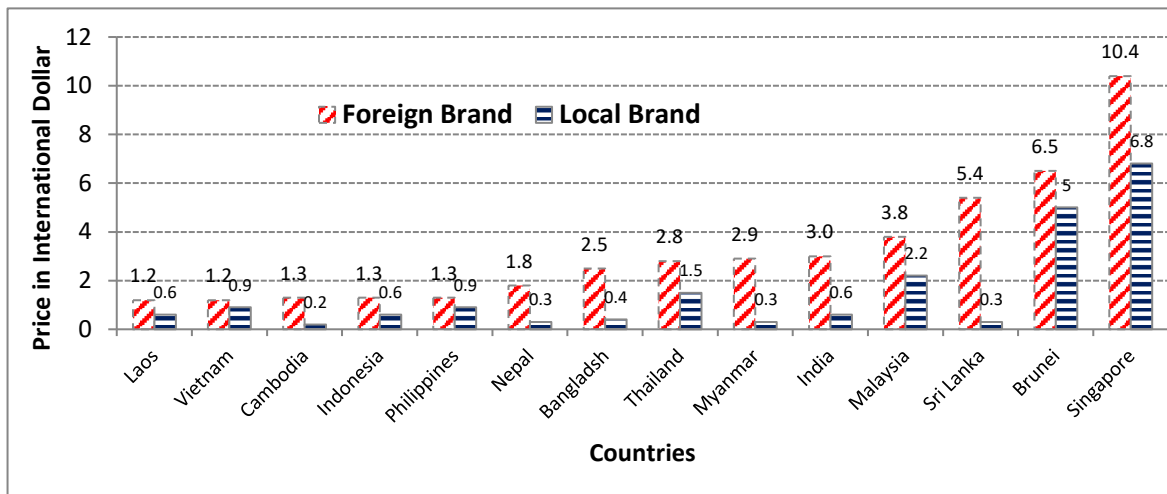
At present, labeling on all tobacco products with picture and text warnings on health is regulated under the ministerial notification issued in February, 2016. All tobacco products carry labels indicating that sale to under-18 years is prohibited. Cigarettes and SLT products are sold in loose form, without any information on the origin of the product, the disclosure of contents. In some supermarkets, ready-made betel quid preparations wrapped in plastic pouches in metal containers are sold as refrigerated items.

Availability and Price

According to ASEAN Tobacco Control Atlas of 2014, the retail price of most popular foreign brand in each country in ASEAN varies due to the differences in taxation systems, and the price in Singapore or Brunei is 9 and 6 times higher than Cambodia, Laos or Vietnam. The prices for most popular local brand are also very low in many countries, mainly least-developed ones (See Figure 6). In these countries, when the retail price of a 20-stick pack of foreign brand was compared with local products, the foreign brands were still 2-5 times more expensive. It should be noted that the tax rates of cigarettes in developed countries are often above 65% of the retail price, while it was between 30-70% of the retail price of cigarettes in developing countries.

Two of the major economic factors driving the demand for tobacco products is the price of said products and average income levels (IARC, 2011). These two factors jointly determine the affordability of tobacco products. A change in the tobacco excise tax structure and level is a tool oft used by policy makers to affect the price levels of tobacco, but rarely takes into account changing average income levels within the country. Increasing cigarette price are not likely to decrease demand if the price increase is smaller than the average growth in income, making cigarettes more affordable.

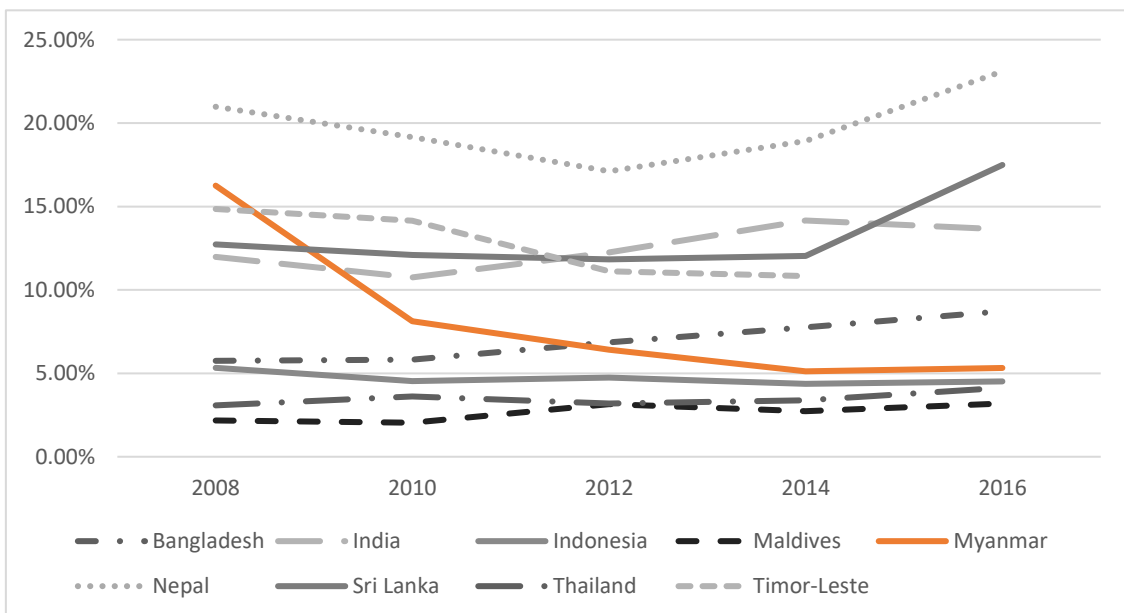
Figure 6: Retail Price in International Dollar of 20-cigarette Pack of the most popular Foreign and Local Brands in ASEAN and selected Asian Countries in 2014/15



Note: The Price of Foreign Brand means the international dollar converted price of a 20-cigarette pack of Marlboro or similar high-price premium brand. The Price of Local Brand means the international dollar converted price of a 20-cigarette pack of locally available cheapest local product.

Source: ASEAN Tobacco Atlas, 2nd edition, SEATCA, 2014 and World Report on the Global Tobacco Epidemic, 2015, WHO-Geneva

Figure 7: Cigarette affordability: % of GDP per capita required to purchase 2000 cigarettes of the most popular brand



Source: Data for above Figure created from World Report on the Global Tobacco Epidemic, 2015

Figure 7 above illustrates how cigarettes have become more affordable over time in Myanmar between 2008 and 2016. The y-axis reflects a measure of relative affordability, namely the percentage of GDP per capita required to purchase 2000

cigarettes of the most affordable brand (the measure of affordability used by the WHO in their bi-annual Global Tobacco Epidemic Reports). This measure takes into account differences in buying power between countries, making comparisons across the region possible. A higher value means that a product is less affordable. The data shows that cigarettes became more affordable between 2008 and 2016, and that by 2016 cigarettes in Myanmar was among the most affordable in the region, similar to levels in Thailand, Indonesia and Maldives. This increase in affordability could have been driven by a rapid increase in the economic growth rate of Myanmar, coupled by a slow increase in the retail price of cigarettes. A proper analysis and decomposition is necessary to determine the precise driving factor.³⁸

With the technical support from the Knowledge Hub of WHO FCTC on tobacco taxation, stationed at the Cape Town University of South Africa, SEATCA and PHF, a model on tobacco tax simulation (TETSIm) has been developed for Myanmar, and appropriate briefing and training to the staff of IRD as well as parliamentarians were organized in July 2018. The model provided the background facts on how the taxation policy shift would have made a benefit to the increased the Government revenue on one side and a possible reduction of tobacco use on the other side, on a longer trend.

Policy Shift on Taxation³⁹

Policy reforms that simplify the commercial tax for cigarettes would offer wins for revenues, tax administration and health. The current ad valorem commercial tax is not effective at efficiently raising revenues and curbing smoking. The low incidence of taxation in the final retail prices suggests that either the basis of taxation is too low due to under-declaration of the ex-factory price, or that significant parts of sales are not taxed.

Both global and regional experience shows that specific taxes are more productive and easier to administer, especially where tax administration is a challenge. Myanmar should implement a unitary specific rate for cigarettes under the new Union Tax Law for next Budget year. It is fully consistent with the guidelines for implementation of Article 6 (tax and price measures) of the WHO FCTC to which Myanmar is a Party. Preliminary analysis suggests that a unitary rate would both significantly increase revenues, but also have a positive health impact by curbing smoking. A transition to a simpler unitary rate would also allow Myanmar to manage taxation across both the traditional cheroot sector and white cigarettes.

Conclusion and Recommendations

Similar to the experiences of other Asian countries Myanmar too has a long tradition of tobacco use introduced by foreigners (fa-rang), in early 15th century. Tobacco use,

³⁸ SEATCA, PHF, WHO, The World Bank Group, WHO FCTC University of Cape Town Knowledge Hub On Taxation, *Myanmar Tobacco Tax Reform Proposal, 2018*, submitted at the Seminar on Tobacco Taxation, 2018, held on July 4-5 2018, Nay Pyi Taw (unpublished)

³⁹ Mark Goodchild, WHO, Personal discussions at *National Seminar on Tobacco Taxation Modelling and Taxation Reform in Myanmar, 22 May 2015*

especially among youths is still high in Myanmar compared to some ASEAN countries. While extensive education campaigns have been conducted since 2002, and especially after the national legislation on tobacco control came into effect in 2006, more works need to be done.

Strengthening tobacco legislation

Existing national tobacco legislation, which covers mainly demand reduction, needs to be upgraded to become a comprehensive legislation in accordance with the international health treaty - WHO FCTC, and also in harmony with other ASEAN countries.

Demand reduction measures such as raising taxation on tobacco products, improving the regulation of tobacco products contents and disclosure, and providing large pictorial warnings on tobacco packs (as per relevant FCTC Guidelines) need to be strengthened. Additional measures relating to the reduction of the supply of tobacco and tobacco products such as elimination of illicit trade in tobacco products, provision of support for economically viable alternative activities to tobacco farmers, are needed.

To ensure that the points of sale of tobacco products do not have any promotional elements, the legislation needs to be strengthened to include clauses on proper packaging and labeling, a total ban on pack display, and a more visible warning on tobacco products at points of sale.

Raising tax to promote health

Consistent favourable economic growth in Myanmar in the last few decades, provides an opportunity for strong public support to allocating more financial resources to health sector, including health promotion activities. It gives good ground to reorient and increase quality of life through cost-effective interventions on primary prevention of risk factors, notably tobacco, alcohol, unhealthy diet, obesity and sedentary life styles.

Appropriate price and tax measures should be implemented to raise prices of tobacco products, because it is the most effective way to reduce consumption. Price and tax measures should aim at increasing prices harmoniously for all tobacco products both local and imported in order to prevent substitution.

In addition to price and tax measures, smokeless tobacco products should also be brought under regulatory measures, including creating awareness about the dangers of using these products. Myanmar has to explore potential feasibility to establish innovative sustainable financing for health promotion by introducing earmarked taxation of tobacco and its products, necessary for effective implementation of tobacco control measures.

Myanmar needs to consider increasing investment for health promotion utilizing general public revenue and specific taxation. Although the health sector plays a key role in providing leadership to frame policies and build partnerships for health, the core responsibility for addressing the determinants of health rests with other ministries and whole of government.

Evidence for policy

There is a need for concept papers to support multi-sectoral discussion for development of policies, strategies and programmes on tobacco control. Evidence on tobacco use and economics of tobacco control, more in-depth, is vital for:

- generating knowledge and facts on the need for higher investment and effectiveness of health promotion in the reduction of morbidity and mortality of tobacco-related chronic diseases;
- experience of use of the dedicated tax and alternative financing; and,
- sharing experience and lessons learnt from other middle- and low-income countries.

National institutions responsible for health policy and health systems research and strategic studies are essential for playing such role. Public health specialists and tax reform policy developers are the prime movers to observe the window of opportunities, through networks and coalition partners and especially using the opportunity which usually open during the transition to new governments, and to formulate public opinion towards increasing taxation on tobacco products and effective use of such taxation for investment in health promotion.

Recommendations

The following actions are recommended:

- 1) **Effective policy and legislation**: National policy as well as appropriate amendment of legislation on tobacco control need to be developed for effective and efficient control on use of smokeless tobacco products, within the guidelines of WHO FCTC. The amended national legislation should include such clauses on raising taxation on tobacco products, improving the regulation of tobacco products contents and disclosure, providing large pictorial warnings on tobacco packs, adding clauses on proper packaging and labeling, a total ban on pack display, and a more visible warning on tobacco products at points of sale, and also to cover ban on e-cigarette and waterpipe.
- 2) **Transparent and comprehensive information on tobacco industry**: Transparency on comprehensive information related to tobacco-related industries is required for effective control measures. Information about registered companies, how much they earned, how much they pay for tax, where are their main offices and factories, what is the annual production target and actual amount of produce, what proportion of this factory products sold inside the country and exported, etc., is required for tax and illicit trade control.
- 3) **Licensing**: Those involved in the whole process of production cycle, from agriculture to industries, to local retail outlets, should be registered and necessary licenses have to be given. This measure will ensure for effective taxation coverage, and also for effective control measures.
- 4) **Raising tax on tobacco products**: Control on the taxes and prices of tobacco products has been described as the single most effective measure for reducing tobacco consumption. Myanmar's policy on taxation of tobacco and tobacco

products need to be reviewed in the context of raising revenue, taxation methodology (*ad-valorem*, specific, mix, tiered, GST, and VAT), taxation rates, sharing revenue at Union and Regional levels, and sharing collected tax resources for health and other social development.

- 5) **Action-oriented Research**: Latest national representative information on the prevalence of tobacco use (smoking and smokeless) and the disease burden on tobacco related diseases need to be ascertained. Health researchers should not concentrate their efforts on just doing research on behavioural aspects of tobacco use, but more on research-cum- action intervention studies for reducing use of tobacco both smoking and smokeless.

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