

Myanmar Update on Tobacco Use, Tobacco Industry and Tobacco Taxation, 2020

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Yangon
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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, adopted in 2014, had established 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.

Executive Summary

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 dedicated to use for implementing and enforcing tobacco control policies, and for funding related public health and social programmes. Present paper is an update of the original paper published in July 2018 by the People's Health Foundation (PHF), on "Update on Tobacco Use, Tobacco Industry, and Tobacco Taxation in Myanmar, 2018". It highlights a brief update on the current situation of tobacco use, tobacco industry, and tobacco taxation in Myanmar as of July, 2020. It provides background information on how Myanmar is trying to implement the guidelines on WHO FCTC Article 6.

Several studies on the use of tobacco and its products in Myanmar in the last 25 years highlighted the need for addressing tobacco issues seriously. Although no national representative survey on tobacco use has been carried out until present date, all surveys showed a high prevalence of tobacco use (both smoking and smokeless tobacco) (around 40%) among adults of above 15 years. According to the WHO Non-communicable Disease (NCD) Risk Factor Survey conducted in 2014 revealed that 62.2% of adult male (25-64 years) and 24.1% of adult female were smokeless tobacco users. To meet the reduced prevalence of NCDs goal 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 greater focus on youths.

Regarding the tobacco growing in Myanmar, there are two main types of tobacco - Virginia tobacco (*Nicotiana tabacum*) and Myanmar tobacco (*Nicotiana rustica*), covering less than 0.2% of the net area sown. Mandalay and Magway Regions in central Myanmar are known to have the largest tobacco producers with the annual production of 7.3 million viss and 2.5 million viss respectively. Total annual yield of Myanmar tobacco is around 15 million viss (around 22,500 tons).

Production data, as per Myanmar Statistical Year Book 2016, showed that there was a marked decrease in *cheroot* production from five billion sticks in late 1990s to around two billion sticks by 2015. Around the same period, the cigarette production is increased from 2.5 billion in late 1990s to nearly 9 billion sticks by 2015-16.

Existing national tobacco control 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 its guidelines, and also in harmony with other ASEAN countries.

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.

Policy on raising taxes and prices of tobacco products has been described as the single most effective measure for reducing tobacco consumption. Myanmar's policy on raising 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, tax administration, sharing revenue at the Union and Region levels, and sharing collected tax resources for health and other social development.

Transparency on comprehensive information related to tobacco-related industries is required for effective control measures. Information about registered companies,

- how much they earned (tobacco industry profit),
- how much they pay for tax (tax payment),
- where are their main offices and factories,
- what is the annual production target and actual amount of produce (production volume and target),
- what and from where they have imported tobacco related materials,
- what proportion of this factory products sold within and exported, etc.,

is required for taxation policy and illicit trade control.

Myanmar Update on Tobacco Use, Tobacco Industry and Tobacco Taxation, 2020

Than Sein

President, People's Health Foundation

Introduction

The 181 Parties to the World Health Organization Framework Convention on Tobacco Control (WHO FCTC)¹ 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”. WHO and many international agencies including the World Bank, 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 in the low- and middle-income countries showed that a 10 percent increase in the retail price of cigarettes would reduce consumption by about 5-8%. Youth, minorities, and low-income smokers are two to three times more likely than older or high-income smokers, to quit or smoke less number of sticks 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 dedicated 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, 2019, 37 countries had a *specific tax* system for tobacco control, 41 countries had adopted *ad valorem* system, and 62 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.

Present paper is an update of the original paper published in July 2018 by the People's Health Foundation (PHF) - **Update on Tobacco Use, Tobacco Industry, and Tobacco Taxation in Myanmar, 2018**.⁴ Since there are additional information on the situation of tobacco use, tobacco industry, and tobacco taxation in Myanmar, PHF has made an update of this document as of July, 2020. The paper provides background information on how Myanmar is trying to implement the “Guidelines on WHO FCTC Article 6”⁵ and what would be future direction in dealing with tobacco industries and tobacco taxation.

Myanmar Tobacco Legislation

WHO FCTC and Myanmar

The Union Republic of Myanmar (Myanmar in short) started formulating 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 the “Control of Smoking and Consumption of Tobacco Product Law” (referred later as national tobacco control law), on 4 May 2006, which came into effect after a year.⁶ Under this law, 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, 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.

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 (MoH)⁷ was established in March 2002. Since then, 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, 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 national tobacco control law, including introduction of health warning text in Myanmar language on cigarette packages.

The MoH 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 specific time series, such as the Global Youth Tobacco Survey (GYTS), STEPS survey for NCD Risk Factors, studies on tobacco economics, poverty and tobacco, and national sentinel prevalence surveys for the last decades. MoH 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 non-smoking areas 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 MoHS had reviewed the implementation of national tobacco program in 2019, with a view to make the revision of existing law within a year. Several meetings for drafting a new law is underway to complete the tasks by mid-2021.

Tobacco Use

Prevalence of tobacco use

Several studies on the use of tobacco and its 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 (for adult 15+) has been carried out until now, all surveys showed a high prevalence of tobacco use (both smoking and smokeless tobacco) (around 35%) among youths and adults.

Myanmar School-based Student Health Surveys conducted as part of the Global School-based Student Health Surveys (GSHS) done in 2007⁸ and 2016⁹ showed that students that had smoked cigarettes on one or more days during the past 30 days had increased from 3% to 7.2%. Similarly, current use of smokeless tobacco had increased from 5.5% to 8.5% for the respective period. 69% of students in 2016 had tried their first cigarette at the age of 14 years. Around 70% 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 have used some form of tobacco products.

According to Global Youth Tobacco Surveys (GYTS) done in Myanmar in 2001, 2004, 2007, 2011 and 2016, the 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 2016.¹⁰ 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.

Successive GYTS done from 2001 to 2016, the prevalence of tobacco use among the 8th, 9th and 10th graders (13-15 years old students) was around 35%. The overall current cigarette smoker rate showed an increased from 4.9% in 2007 to 8.3% in 2016. Among males, the rates were increased to double from 8.5% in 2007 to 17% in 2016. Rates of ever cigarette smoking significantly increased from 14.7% in 2007 to 22.3% in 2016, and more over, 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.

A survey of 300 students of Grade 10 and Grade 11 (aged 14-17) at Nay Pyi Taw, Capital City of Myanmar, carried out in September, 2015 also showed that 34.7% were smokers and 28.3% were users of smokeless tobacco. Average age of first use of tobacco was 14 years.¹¹

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 street vendor. Importantly, more than half (62.9%) of current cigarette smokers had not been prohibited from buying cigarette, though they were minors. About 42% of students had noticed tobacco advertisement at the point of sale, and 83% of students who watched television, videos, and movies, saw someone 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.

A study of 1339 high school students (554 boys and 785 girls) from 2 Regions and 2 States of Myanmar, in November, 2015, showed that 78% of boys and 86% of girls responded that they noticed sale of tobacco products in or within 100 feet from the school, and 83.4% of boys had seen someone selling tobacco products to minors.¹² The majority of students were in favor of banning 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 greater focus on youths.

Smokeless tobacco use

The use of smokeless tobacco (SLT) among adults is a well-known daunting public health challenge, not only in Myanmar, but also in many Asian countries, that results in preventable morbidity and mortality.¹³ In WHO South-East Asia Region, there are approximately 246 million smokers and 290 million SLT users, and every year, more than 1.3 million people die as a result of tobacco use.

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.¹⁴ Majority of adult SLT users, both males and females, in rural and urban areas wrongly believe that it is breath-refreshing, mouth-cleansing and body soothing. When the parents (both father and mother) are regular users of betel quid with SLT products, their children and other family members are more likely to start consuming SLT. The young users of SLT are more likely to maintain this behavior in their later lives.¹⁵ They believe that consuming SLT product is a way to gain "concentration" and "focus", euphoria and psychoactive, and that use of SLT have 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.

A variety of SLT products are used in the betel quid preparation: dried raw leaves or cured and roasted or fermented tobacco leaves, or tobacco leaves including stems treated with alcohol and honey, or scented tobacco leaves soaked in honey and water, and/or varieties of tobacco mixed with flavours and fragrances. While the majority are locally produced, several popular SLT products, such as 92, 162, *Signal 350*, *Parijat*, *Baba*, and *Sagar* brands of tobacco mix, are imported from neighbouring India and Bangladesh.

According to the WHO Non-communicable Disease (NCD) Risk Factor Survey conducted in 2014 revealed that 62.2% of adult male (25-64 years) and 24.1% of adult female were smokeless tobacco users.¹⁶

Tobacco-related diseases

The trend in tobacco-related diseases had increased steadily in Myanmar. A study conducted 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.¹⁷ 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.

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.¹⁸

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

Tobacco Industry

History and Import Policy

Tobacco is a foreign agricultural product introduced into Myanmar by travelers and traders during *First Innwa (Ava) Dynasty* of 14 centuries. Tobacco use became more popular in *Hanthawaddy Dynasty* around 15 centuries. Local Myanmar tobacco product called *Hsey Pawt Leik or cheroot*, prepared by mixing tobacco with flavours and other ingredients wrapped in local leaves called *thanatphet*¹⁹ is introduced and popular till today. After the Second World War, cigarettes, cigars and chewing processed tobacco are imported and became more popular due to heavy advertisement. A few years after the independence in 1950s, the Government introduced wide-scale cultivation of tobacco in central Myanmar, in order to replace importation and also to promote local cigarette industries.

Taxation on import of cigarettes and tobacco leaves was introduced under the 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* till 1980s. During the early years of the Military and Socialist Governments (1962-1988), all tobacco curing factories, large-scale cheroot production establishments, and all cigarette factories were nationalized, and the production of tobacco was monopolized under the

control of the Government. Meanwhile, betel-quid chewing habits with increasing use of tobacco and other tobacco products had spread throughout the country.

With introduction of economic liberalization policy in early 1990s, the Military Government in those days allowed the private ownership and expansion of cigarette industries, with the help of local and foreign investors. Raw materials such as processed tobacco, filters, papers and other related products for producing cigarettes were imported. Despite the international pressure and sanctions, the international tobacco giants like Phillip Morris International (PMI) and British American Tobacco (BAT), joined in quickly as joint-venture investment taking the advantages of tax incentives and tax holidays for investments.²⁰

Tobacco agriculture

Two main types of tobacco - Virginia tobacco (*Nicotiana tabacum*) and Myanmar tobacco (*Nicotiana rustica*), are grown in Myanmar, covering less than 0.2% of the net area sown for agriculture. Though tobacco is grown in all States and Regions of the country, TWO regions - Mandalay and Magway in central Myanmar, are known to be the largest tobacco producers with annual production of 7.3 million viss and 2.5 million viss²¹ respectively. According to the UNCTAD (United Nations Conference on Trade and Development), tobacco leaf production in Myanmar has reduced from 50,900 metric tons in 2000 to 29,000 metric tons in 2012. Similarly, land areas devoted to tobacco growing (% of agricultural land) also reduced from 0.31% to 0.13% for the same period. Meanwhile, the import of tobacco leaf was increased and by 2012, tobacco and its related materials in US\$ trade value was 1.45 million.²²

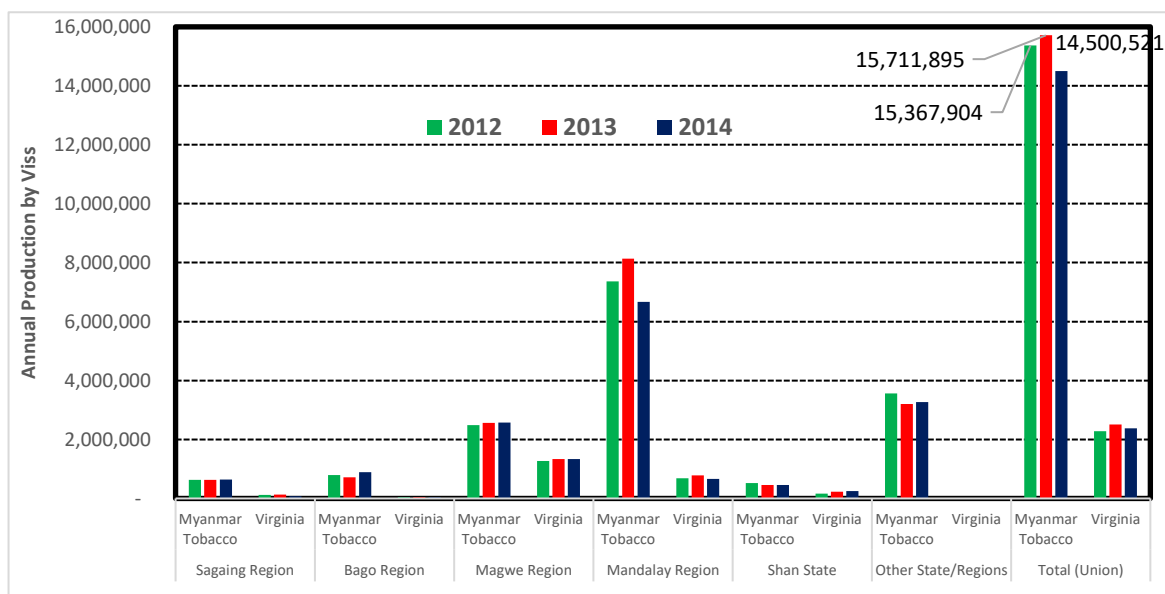
Agricultural input (production costs including labor costs, farm implements, fertilizers, and insecticides, etc.) per acre for Myanmar tobacco is around MMK 400,000 (USD 300.-). Each acre has an average yield of raw tobacco around 1000 viss or 1630 kg, and the income per acre would be around MMK 1,050,000 (USD 780.-). Per acre profit will be around MMK 650,000 (USD 480.-) in 2018. Total profit of Myanmar tobacco produced, estimated for 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.²³

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. 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.

Smokeless tobacco

Raw or cured tobacco or other processed tobacco products (used as smokeless tobacco) mixed with areca nut and other condiments are used for chewing as main ingredient of betel quid (called locally as *Kun-yar*). Despite education campaigns and ban on spitting of red-colored staining saliva in public places, many young and old people are chewing betel quid on their everyday lives till date.

Figure 1: Tobacco Production by State/Region in Myanmar, 2012-2014



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

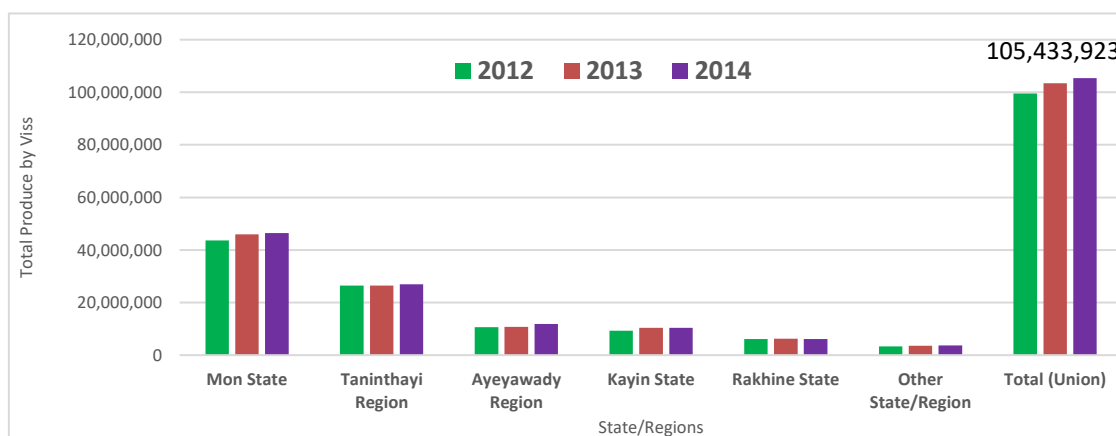
While the land used for areca nuts (betel nuts) remained around 200,000 acres with annual production of 100 million viss for the last 3-4 years, the land used for betel leaves have almost tripled from 10,000 acres in 2000 to 33,000 acres in 2014. Mon State is the largest producer of betel nuts (almost 50% of the national produce), and Mon State together with 4 other States and Regions are producing betel nuts nearly 96% of the country (Figure 2).

Annual production of betel leaves is around 160 million viss and it is increasing each year (See Figure 3). Ayeyawady Region produces nearly 50% of overall national production, and Ayeyawady 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 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.

Cheroots

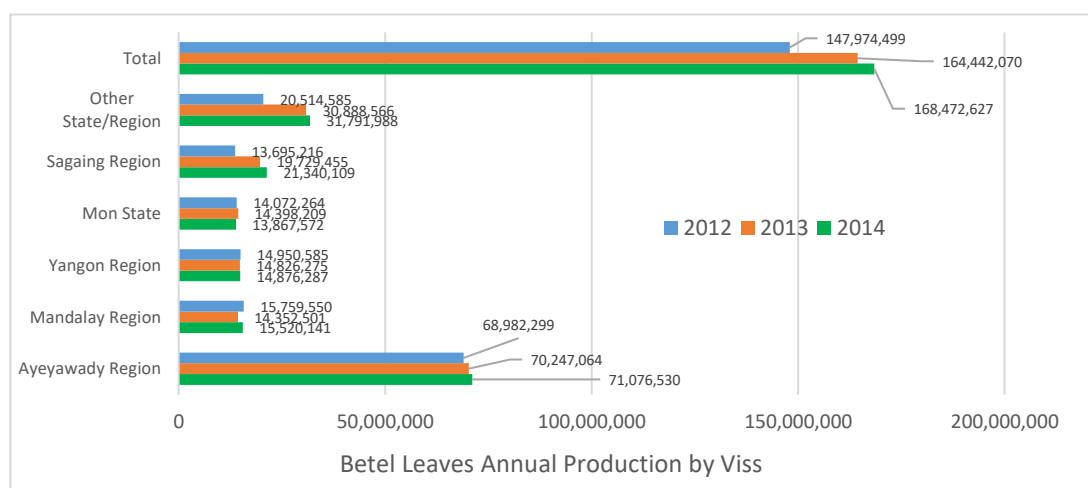
Hsey Pawt Leik or *cheroot* is a 3-6 inches long, hand-rolled, cigar-like smoking product, thinly wrapped with a tree leaf - *thanatphet*. It contains a mixture of processed tobacco, chopped tobacco leave stalks, soft wood chips, and other ingredients (flavours and other additives). Some of the home-made *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 some rural areas.

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



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

Figure 3: Betel Leaves Production by State/Region in Myanmar, 2012-2014



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

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 1980s, the *cheroot* production except for very popular brands has declined year after year. Production data, as per Myanmar Statistical Year Book 2018, showed that there was a marked decrease in *cheroot* production from five billion sticks in late 1990s to around two billion sticks by 2018. Around the same period, the cigarette production is increased from 2.5 billion sticks in late 1990s to nearly 9 billion sticks by 2017-18.²⁴

Domestic production of cigarettes

Local production of cigarettes started in Myanmar in mid-1960s with two state-owned cigarette factories (one each in Yangon and Pakokku) which produced around 2-3 billion sticks annually till late 1990s. The famous brands in those days were *Duya* (filtered) and *Khabaung* (non-filtered). Majority of foreign brands like *555*, *Marlboro*,

Benson and Hedges, Mild Seven, London, etc., are easily available in the market in those days through illicit or duty-free imports.

British American Tobacco (BAT) initially made a joint venture with Myanmar Economic Cooperation (MEC) by mid-1990s, and established 'Rothmans of Pall Mall Myanmar Ltd.' in 1995, to produce *London* and other brands of cigarettes. It later went off the country due to economic sanction by western nations. A new enterprise - Virginia Tobacco Co. Ltd., a joint venture subsidiary of Myanmar Economic Holding Ltd. (MEHL) and Rothmans of Pall Mall Myanmar Pte Ltd²⁵ (Singapore-based Company, linked to BAT), with its factory in Industrial Estate, Mingaladon, has produced and distributed through Myawaddy Trading (a subsidiary of the MEHL), the popular brand - *Red Ruby* and 2 other brands - *Premium Gold and Super 5* (mid-price range).

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*.²⁶ This joint venture investment (later 100% foreign owned, as BAT Myanmar) has the production facility in Shwe Than Lwin Industrial Zone in Hlaing Tharya Township, Yangon, and producing major international brands like *London, Lucky Strike, and State Express 555* with several flavours, and a low-price brand like *Richland*.²⁷

Japan Tobacco International (JTI) Company, having joint venture with Focus Star Co. Ltd., forming as *Myanmar Japan Tobacco Co. Ltd* in 2012, has its production facility in the industrial zone at Mingaladon, Yangon, and is producing major international brands like *Mevius, Winston and Camel*, with various flavours.²⁸

Since 2012, Hongyun Honghe Tobacco (Group) Co. Ltd. (one of the China's largest tobacco manufacturing enterprises based in Kuming, Yunnan) signed a joint venture agreement to operate the Muse Universal Cigarette Factory (later known as Global Cigarette Factory) at Muse Town 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, 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.²⁹

Myawady and Golden Hill (M&GH) International Company³⁰, with its factory in Mae-ze-gon Street, Hlaing township, Yangon, established in 2009, is producing low-priced cigarette brands like *Red and Blue, Villa and Karaweik*. Another company, Blue Diamond Manufacturing and Distributing Company Ltd. (subsidiary of Htoo Group of companies), situated at No(4), Ngwe Pyithar Yeikthar, Thu Mingalar Road, Mayangone, Yangon, is producing low- and mid-priced brands of *Blue Diamond, Flavour, Inn-lay, Perfact, and MG (Myanmar Gold)*.

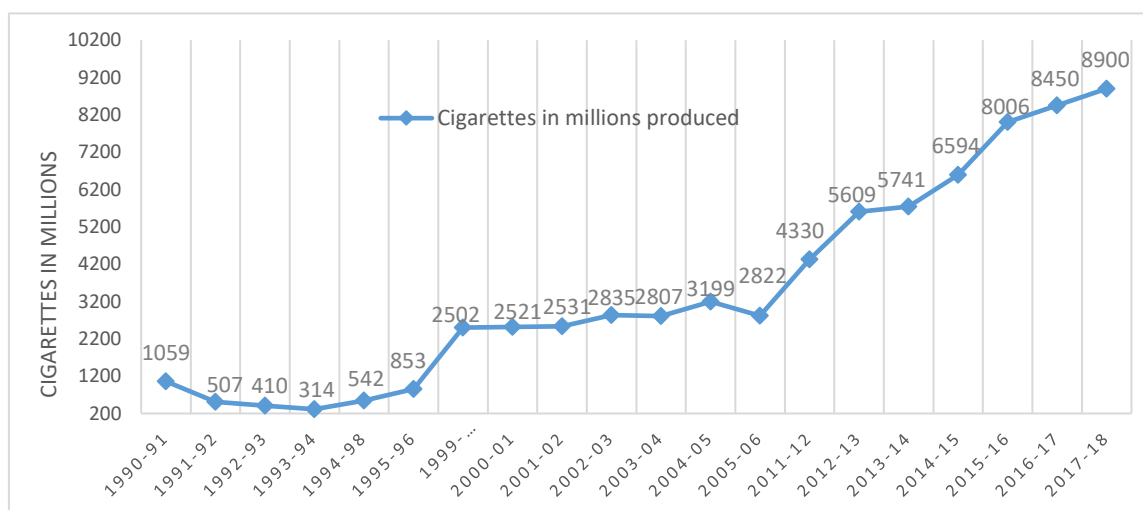
Myanmar Muse Kokang (MMK) factory³¹ at Muse, Northern Shan State, is producing more than 16 brands of low-priced cigarettes, such as *Duya, Kabaung, GEM, 99 International, Golden Elephant, Boss, Lincoln, Hummer, EURO, Marcopolo, Golden Myanmar, Red Bull, etc.* Khine Khant Hein Co in Pakokku, Magwe Region 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 Pi Oh Ni Co. Ltd in Lashio, Northern Shan State, produced low-priced brands like *3G*, *Classy* and *Manton*.

As of 2017, over 90 brands of cigarettes are produced in Myanmar. According to the global study on tobacco industry in Myanmar, *Red Ruby*, a product of Rothmans of Pall Mall Myanmar, is the most sold brand by volume (around 40%). It is followed by *London and Lucky Strike* (produced by BAT), and *Mevius and Winston* (produced by JTI).³² 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 USD 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*).

Tobacco market in Myanmar was worth Myanmar MMK 200 billion in 2019. 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 2017-18 due to increasing number of cigarette factories in Myanmar. (Figure 4) Some informal data showed that actual production could be double this amount. 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 12 billion sticks in 2018.

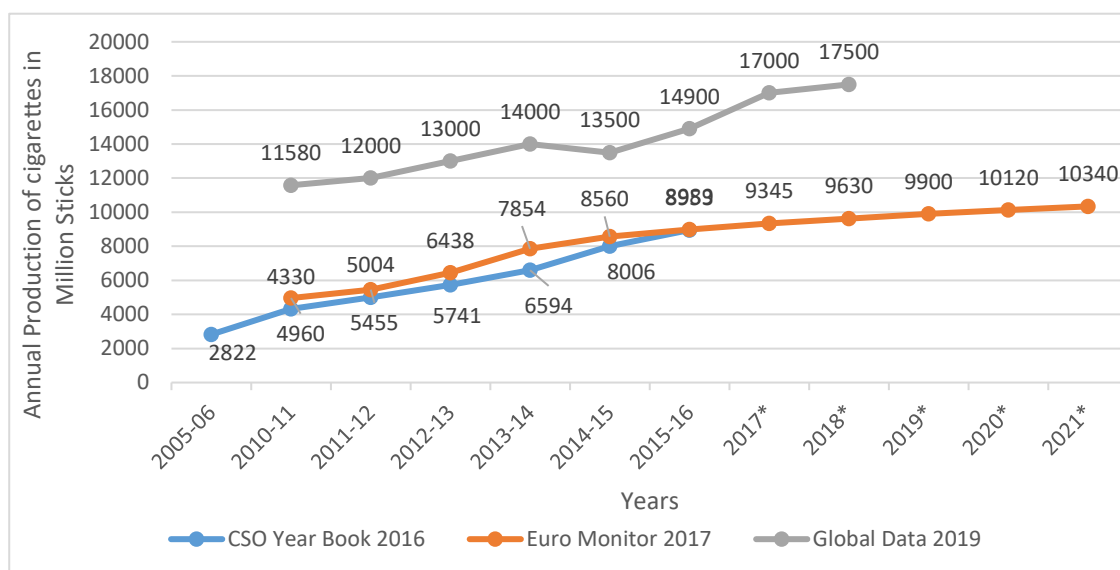
Figure 4: Cigarette Production in Myanmar, 1990-91 to 2017-18*



*Source: Myanmar Statistical Yearbook 2018, Central Statistical Organization, Myanmar, 2019

Original estimates of the cigarette production in Myanmar showed annual production around 10,000 million or 10 billion sticks in 2017 and beyond. Recent estimates done by the Global Data in 2019 showed that it was around 12-17 billion sticks per year. (Figure 5)³³

Figure 5: Cigarette Production in Myanmar of various sources, 2005-2021*



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

Importation of cigarettes

Although the Government has issued a total ban on import of cigarettes, except those to be sold at Duty-Free Shops (opened at International Airports, and Hotels), 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..

Imports have had mixed performance. From 23.6% in 2000, their share dropped back to 5% in 2009. They grew to 20.5% in 2010 but have since dropped back with the introduction of tax stamps hitting importers such as Sampoerna in 2013 and 2014. The impact of BAT producing locally may well have reduced import volumes in 2018, which were down and accounted for a reduced 11.7% of sales. Annual importation of cigarettes is around 2 billion sticks and all are duty-free imports. Annual imports on tobacco and related products accounted for USD 67 million.

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 7,000 metric tons by 2005.

Illicit Trade on cigarettes

Estimates of illicit trade on cigarettes or other tobacco products are controversial, as some reports indicated low incidence, while some said an increasing trend. It was indicated that Myanmar is a transit trade place for smuggling of international cigarette brands from China and Korea to neighbouring countries. There was an extensive smuggling of locally manufactured cigarettes from Myanmar to India and Bangladesh.³⁴

Economic burden

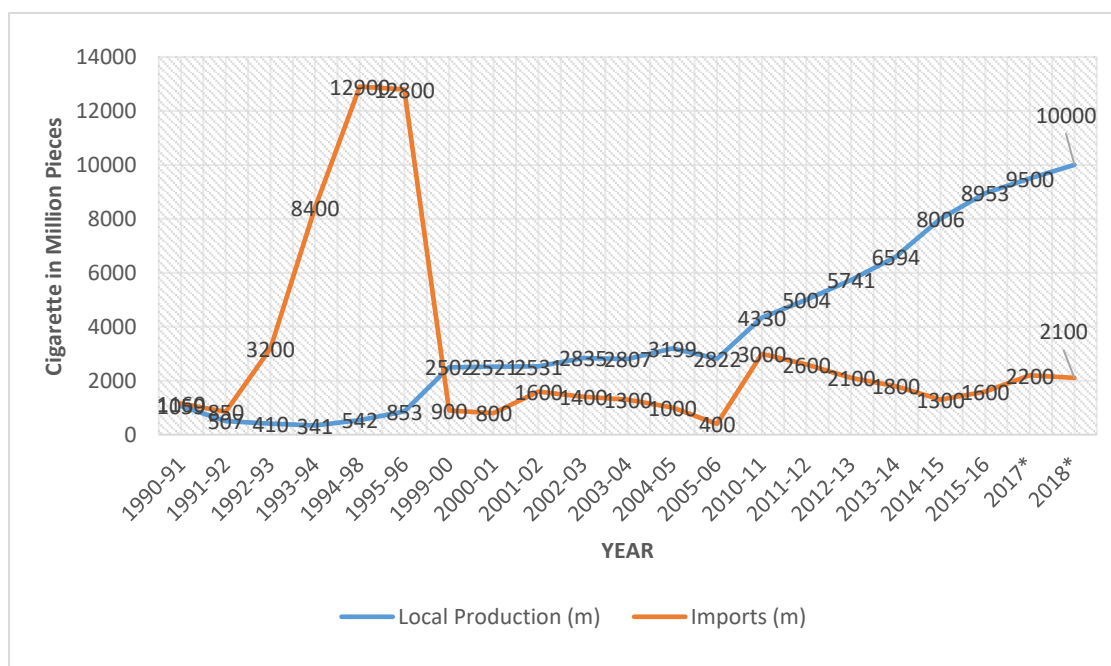
Total estimated cost of tobacco use in Myanmar is around MMK 2.62 trillion in 2016, which is equivalent to 3.3 per cent of Myanmar’s GDP that year.³⁵

Tobacco users usually spend a considerable proportion of their hard-earned income on tobacco and related products. 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 during previous decades showed that poor families would benefit greatly if they shifted their tobacco expenditure to essential food and clothing. Less household spending on tobacco products and tobacco-related attributable diseases can unlock resources for the poor to potentially invest in nutritional food, children’s education, better housing and other productive purchases for the household.³⁶

Rough estimates in 2016 showed that with the amount of money spent on a 20-stick pack of cigarette (MMK 800.- for *Red Ruby*), 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.³⁷ 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.

Figure 6: Cigarette Production (Local and Imports) in Myanmar, 1990-2018*



*Source: Myanmar Statistical Yearbook 2018, Central Statistical Organization, Myanmar, 2019 and SEATCA

Children as young as 8 years old are seen buying and consuming cigarettes and betel quid, prepared and sold at road-side stalls. Many young children and youths themselves are also road-side vendors, and they sell pre-packed betel quid and loose

cigarettes 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 cost as little as MMK 250-300 per pack, while betel quid with tobacco is sold for just MMK 100 for four pieces.³⁸

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 could easily buy cigarettes and smokeless tobacco products (both domestic and imported) even in very remote villages, while they may not have easy access to basic goods and services 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, who are on average consuming betel quid worth MMK 1000/- a day, they actually would be spending MMK 12 billion a day, just for chewing and spitting out betel quid fluid.

Affordability for tobacco products

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. 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.³⁹

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 2017.⁴⁰

- 39% of youths said that cigarette price is reasonable (comparable price 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.

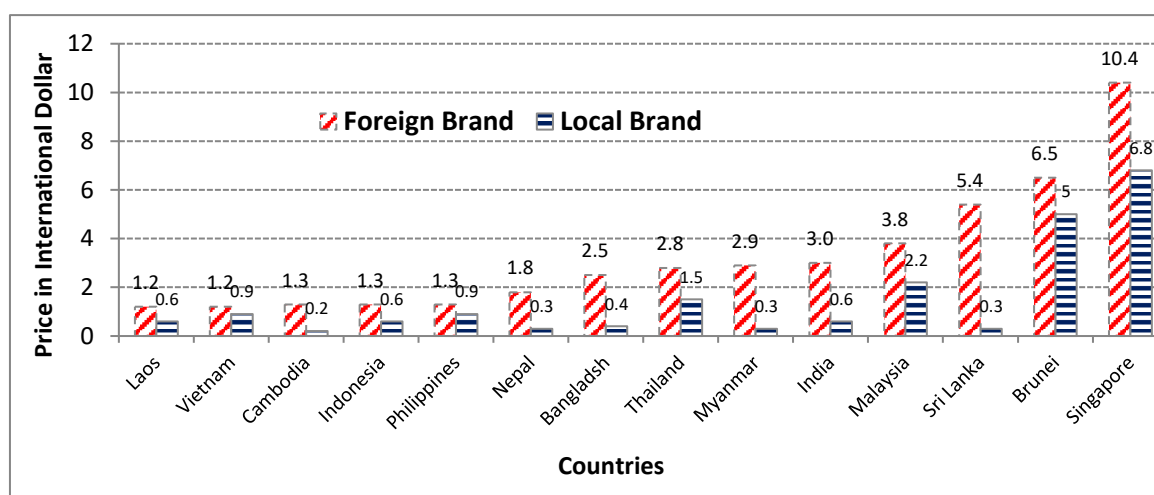
Availability and Price

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

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. The retail price of a cigarette pack (20 sticks) in Singapore or Brunei will be 6 to 9 times higher than Cambodia, Laos, Myanmar or Vietnam. The prices for most popular local brand are very low in many countries (See Figure 7). 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.

Figure 7: 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.

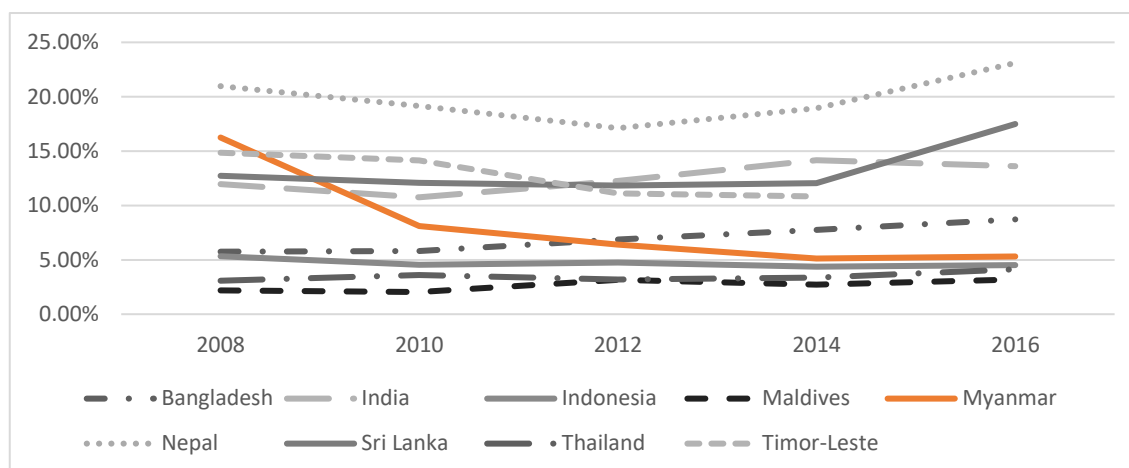
Source: ASEAN Tobacco Atlas, 2nd edition, SEATCA, 2014 and World Report on the Global Tobacco Epidemic, 2015, WHO-Geneva

Two of the major economic factors driving the demand for tobacco products is the price of said products and average income levels. These two factors jointly determine the affordability of tobacco products. A change in the tobacco excise tax structure and level is a tool often used by policy makers to affect the price level of tobacco, but rarely takes into account changing average income level 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 8 illustrates how cigarettes 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.⁴¹

Figure 8: 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

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.

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 Planning and Finance. From 1972 till 1976, the IRD administered NINE different types of taxes and duties, viz., (1) income tax, (2) commercial tax, (3) excise duty, (4) customs duty, (5) State Lottery tax, (6) stamp duty, (7) land revenue, (8) embankment tax and (9) 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 (GST), 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) transferred the duties of collecting five types of taxes and duties (water tax, embankment tax, excise duty, mineral tax and tax on fisheries) 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 (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 like cigarette, Virginia tobacco, cured tobacco, cheroot, cigar, pipe, materials for pipe, betel chewing preparations, are covered for taxation.

Table 1: 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 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 products since 1976 till 2015 is shown in the Table 1 above.

Globally, almost 90% of the countries levy various types of taxes on tobacco products, either as *excise taxes* or *tobacco-specific taxes*. 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 levy as '*ad-valorem*', meaning excise tax based on value of the product (usually ex-factory price or CIF value), until the "**Special Goods Tax (SGT) Law**" introduced in 2016, at which tobacco taxation was done with *specific tax rate* on market price of the products, and still retaining *ad-valorem* taxation system for some specific products of tobacco. 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.

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.⁴²

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 tobacco tax 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.⁴³

Low cigarette taxes leading to low prices have contributed to an alarming expansion in consumption by youths. 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 2018. 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.

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 made changes on taxation (rates and administration) for tobacco and alcohol products as **special goods**.

There are 7 items on tobacco products, i.e. (1) cigarettes, (2) tobacco (raw), (3) Virginia tobacco, (4) *cheroots*, (5) cigars, (6) tobacco products for pipes, and (7) tobacco products for betel quid. These products are levied based on the retail price, some specific and some *ad valorem*. Cigarettes are taxed with specific price for each stick in 4 tiers, classified on retail prices per 20 sticks pack. In 2017, the tax rates had 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 *cheroots* has changed from 2 tiers to a single tier with 25 pyar (0.25 MMK) per stick as 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 2 showed the taxation rates for different tobacco products levied under the Union Tax Laws of 2016, 2017, 2018 and 2019.

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.

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 exemption

One important clause in the Union Tax Law 2017⁴⁴ (similar clauses are also in 2018, 2019 and 2020) 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 cost of total production is not more than MMK 200 lakhs (USD 15,000/-).

Table 2: Tax Rate on Cigarette and other tobacco products under the Union Tax Laws, 2016 to 2019

Sr No	Description of Specific Goods	Market Price Level	Specific Tax Rate (2016)	Specific Tax Rate (2017)	Specific Tax Rate (2018)	Specific Tax Rate (2019)
1.	(a) Cigarettes of all sorts	Sale price of packet containing 20 sticks not exceeding 400 MMK (2016 & 2017) or 500 (2018) or 600 (2019)	3 MMK per stick	4 MMK per stick	4 MMK per stick	10 MMK per stick
	(b) Cigarettes of all sorts	Sale price of packet containing 20 sticks from 401 to 600 MMK (2016, 2017 & 2018) or 601 to 800 MMK (2019)	8 MMK per stick	9 MMK per stick	9 MMK per stick	19MMK per stick
	(c) Cigarettes of all sorts	Sale price of packet containing 20 sticks from 601 to 800 MMK (2016, 2017 & 2018) or 801 to 1000 MMK (2019)	12 MMK per stick	13 MMK per stick	13 MMK per stick	24 MMK per stick
	(d) Cigarettes of all sorts	Sale price of packet containing 20 sticks from 801 - 900 MMK and above (2016, 2017 & 2018) or 1001 MMK and above (2019)	15 MMK per stick	16 MMK per stick	16 MMK per stick	27 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	1 MMK per stick
3.	Tobacco Raw		60%	60%	60%	60%
4.	Virginia Tobacco		60%	60%	60%	60%
5.	Cigars		80%	80%	80%	80%
6.	Piped tobacco		80%	80%	80%	80%
7.	Tobacco products for betel quid		80%	80%	80%	80%

There is also an exemption clause given to given to the producers of tobacco leaves, cheroots and cigars, that they could be exempted from paying the commercial tax, if the cost of total production is not more than MMK 500 lakhs (USD 37,500/-). 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."

WHO FCTC Article 5.3 Implementation Guidelines specifically recommended that the Parties (Governments) should not provide incentives, privileges or benefits to the tobacco industry to establish or run their businesses, and provide any preferential tax exemption to the tobacco industry. The exemption clauses of the Union Tax Law are against these principles guided by WHO FCTC and they also provide opportunity for the industries to avoid/evade taxation by dividing the companies under different names.

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, by 2021, 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 collection

Tax collected annually from 2009 to 2014 for 3 tobacco products is shown in Table 3, 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.⁴⁵ 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 3. Tax Collection on the Producer of Cigarette, Cheroot and Tobacco 2013-2014 to 2016-2017 Fiscal Years (MMKs in Million)

	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 countries⁴⁶ 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-tax⁴⁷), 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 consumer products (usually

alcohol, tobacco and sugar). In the ASEAN region, Thailand has applied a 2% surcharge tax on tobacco and alcohol products since 2001 to be used as Thai Health Promotion Fund managed by 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 extra-taxation 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.⁴⁸ 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 and half decades ago, to generate additional revenue for health, especially for health promotion and prevention and control of priority diseases.⁴⁹

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. In addition, there are instances for establishing special funding mechanism(s), managed by a specific body.

With this experience, there is a possibility of advocating on the introduction of specific surcharge 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.

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 the sale of cigarettes to under-18 years is prohibited. According to the Myanmar Tobacco Control Law, the notice indicating that “the sale of cigarettes to under-18 years is prohibited” should be displayed at the front desk of all sale counters at point of sale. Cigarettes and SLT products are sold in loose form, without any information on the origin of the product or the disclosure of contents. In some supermarkets, ready-made betel quid preparations wrapped in plastic pouches in metal containers are sold as refrigerated items.

Policy Shift on Taxation

Policy reforms⁵⁰ 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 Union Tax Law for the coming Budget years. 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.⁵¹

Conclusion

Similar to the experiences of ASEAN and other Asian countries, Myanmar too has a long tradition of tobacco use introduced by foreigners since 15th century. Tobacco use, especially among youths is still very high in Myanmar. While extensive education campaigns have been conducted since 2002, and especially after the national legislation on tobacco control came into effect in 2007, more works need to be done to curb the tobacco epidemic.

Strengthening tobacco legislation

Existing national tobacco control 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 its guidelines, 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 WHO 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 advertisement and promotion of tobacco products at the points of sale are banned, 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, sale of smokeless tobacco products should also be brought under regulatory measures, including creating awareness about the dangers of using these products, and licensing. 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.

Recommendations

The following policy and strategic actions are recommended:

- 1) **Effective policy and legislation:** National policy as well as appropriate amendment of legislation on effective tobacco control need to be developed for efficient control on use of smoking and smokeless tobacco products, within the guidelines of WHO FCTC. The amended national legislation should include such clauses on raising taxation on all 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 point of sale, and also to cover ban on e-cigarette, heated tobacco products and waterpipes.

- 2) **Evidence for policy:** There is a need to develop 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.

- 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:** Policy on raising taxes and prices of tobacco products has been described as the single most effective measure for reducing tobacco consumption. Myanmar's policy on raising 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, tax administration, sharing revenue at Union and Region 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.

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.

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