

Annex C: Summary report: Changing Duty Taxes in Saint Helena (SH)¹

This paper was developed as a variation on Option 2 outlined in the Tobacco Tax Saint Helena report of December 2018. In that report Option 2 considered a year on year increase of 13.98%. This exercise considers a variation, which is to increase by 13.98% in the first year and inflation plus 1% thereafter.

Using the University of Cape Town's TETSIM model, options were simulated each with a different impact on cigarette retail prices, cigarette consumption, smoking prevalence, government revenue and the duty tax burden. Modelling was performed on St Helena Customs and other Government data.

The results of the modelling considering the recommendation made to Executive Council in August 2019 are as follows.

Preferred Policy option: 13.98% increase in duty tax in 2019, followed by an annual inflationary tax increase of 3.8% plus an additional 1%.

	Absolute Values – annual values						
	Baseline	2019	2020	2021	2022	2023	5-Year**
Total Duty Revenue, 2018 prices	931	1018	1046	1075	1105	1136	205
Duty Tax Burden (%) 2018 prices	63.6	65.4	65.4	65.3	65.3	65.2	1.7
Duty Tax Per Pack, 2018 prices	3.7	4.2	4.5	4.7	4.9	5.1	1.4
Percentage Increase in tax, 2018 prices	base	13.98	4.8	4.8	4.8	4.8	
Retail Price per pack, 2018 prices	5.9	6.5	6.8	7.1	7.5	7.9	2.0
Consumption in packs of 20	249924	239690	235072	230493	226062	221719	-28204
Smoking Prevalence, 15+	24	24	23	23	23	23	-1
No. of premature deaths avoided	-	10	7	7	6	6	

- There is an expected increase in duty revenue collected from tobacco: By 2023, government could expect to collect £ 1136 000 annually from duty revenue (in 2018 prices). This is an increase from the £ 931 000 annual collection from tobacco duty revenue.
- There is expected to be a substantial drop in cigarette consumption, resulting in public health benefits. In 2018, approximately 250000 packs of 20 cigarettes were consumed. This is expected to drop to 221 719 packs of 20 consumed annually by 2023.
 - This drop in consumption translates into a one percentage point drop in smoking prevalence of the country.
 - Approximately 36 premature deaths are expected to be avoided only because of this small change in the duty rate.

The main recommendation for SH is to increase the level of real duty tax on cigarettes in the coming years to make cigarettes less affordable. This should lead to both an increase in government revenue and a decrease in smoking prevalence or smoking intensity. SH's duty tax structure is ideal in that it is administratively simple, and would be efficient in increasing cigarette prices, for the ultimate goal of

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increased government revenue and reduced smoking prevalence. This is in line with the WHO recommendations and FCTC article 6 guidelines.

Model Assumptions and Parameters

The model is designed to reflect the specific circumstances and tax system in SH. This follows from consultation with officials and data collected.

1. A decrease in consumption is either driven by current smokers deciding to quit, current non-smokers deciding not to initiate or current smokers just smoking less. To calculate the effect on prevalence, we assume that 50% of the decrease in consumption is due to current smokers quitting.
2. The price elasticity of demand for cigarettes is estimated at about -0.4 for developed countries and between -0.4 and -0.8 for developing countries. This implies that a 10% increase in the real (inflation-adjusted) price of cigarettes decreases tobacco consumption by 4% in developed countries and by between 4 and 8% in developing countries.
Since there are no price elasticity estimates for SH, we use the range derived from developing country data. If the price in the mid-range or expensive priced cigarettes increases, individuals may switch to lower priced cigarettes. Hence, we assume that the price elasticity across price segments are varied. The price elasticity is higher for the cheapest brand as these consumers cannot switch to an even cheaper brand. They could also continue to smoke, but just decrease their smoking intensity.
3. We assume an income elasticity of 0.5, based on evidence from low- and middle-income countries (see van Walbeek, 2010).
4. The model assumes current economic growth rate to be 1.7% and stays constant over the simulation period. The same assumption is made about the level of inflation, 3.8% for 2019–2023.
5. We assume that the tobacco industry increases the net-of-tax price by 5% in response to any increase in the duty tax rate.
6. The model does not assume any effect of illicit trade, or substitutes of the product.
7. The model also assumes that SH's population grows at 1.28% annually and therefore expect the number of smokers to grow by 1.28% annually. We also assume that cigarette consumption increases by 0.5% when there is a 1% growth in population.