

Tobacco Industry Pricing Undermines Tobacco Tax Policy: A Tale from Bangladesh

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Abstract

The effectiveness of tax increase in reducing tobacco use depends on the extent to which the industry passes on the tax to consumers. Evidence suggests that tobacco industry may absorb or raise the price more than the tax increase depending on the price segment of tobacco products. In this paper, we examined the industry's pricing strategy by price segment of the cigarette market in Bangladesh by observing the deviation between the market retail prices (MRP) of cigarettes faced by consumers and government recommended retail prices (RRP) used as tax base in a four-tiered ad valorem tax structure. The RRP by brands were collected from government sources. The MRPs by brands were collected by the International Tobacco Control Bangladesh Wave 3 Survey 2011-12 and Wave 4 Survey 2014-15. Applying linear regression to the deviation of MRP from RRP by price tiers, we found MRPs were higher than RRP for higher-price brands allowing extra profit margin from the high end while lowering the relative price of and expanding demand for cheaper brands. Bangladesh cigarette industry adopted a differential pricing strategy that undermined the intended effect of tax policy change in reducing cigarette consumption and improving public health. This pricing strategy was supported by the tiered excise tax structure which should be replaced with a uniform specific excise system. In the face of growing cigarette affordability, it is crucial that the specific tax be increased routinely by an amount that induces cigarette price increases large enough to make cigarettes less affordable over time.

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