

Vietnam

***OVERVIEW  
OF TOBACCO  
CONTROL  
LEGISLATION,  
USE AND  
TAXATION***

World Bank Group  
Global Tobacco Control Program  
Country Brief

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# VIETNAM

## Overview of Tobacco Control Legislation, Use, and Taxation

### A Country Brief

#### Executive summary

**This country brief presents an overview of current tobacco control legislation, use, and taxation policy in Vietnam.** Data and information were collected from different sources. The brief is intended to serve as the context for complementary assessments on different aspects of tobacco taxation in the country to be shared with government teams and other national and international stakeholders

**Vietnam is a party of Framework Convention on Tobacco Control, and its legislation contains several effective measures aimed to curb the tobacco epidemic.** There is a growing consensus in the country about the need for the government to strengthen tobacco control to protect the population from health risks associated with tobacco use. However, the state-ownership of tobacco industry poses a major paradox within the government that benefits from the manufacturing of tobacco products and is also responsible for controlling tobacco consumption.

**The prevalence of smoking is high, especially among men.** Although it was the highest in the world in the 1990, it has substantially declined since that period. However, over 35% of men are still regular cigarette smokers. While fewer than 2 percent of women smoke, women and children are exposed to high levels of second-hand smoke at home and in public places, and this exposure also harms and kills.

**It is estimated that 40,000 people are dying prematurely each year in Vietnam from tobacco-related diseases.** In Vietnam, as in other countries across the world, smoking-related illnesses cost millions of dollars each year, both in terms of direct medical costs and productivity losses, imposing a heavy economic toll on households and governments.

**Tobacco taxation policy in Vietnam with its exclusively ad valorem system, non-transparent tax base and insufficient increase of excise tax rates made cigarettes more affordable.** Because of the low tax burden, cigarettes in Vietnam are among the cheapest in the world, with the price of a 20-cigarette pack of the most popular brand at less than US\$1 and for economy brands as low as US\$0.15-0.20 cents per pack. High affordability of tobacco products encouraged the increase in tobacco consumption in the country over recent years.

**Legal annual tobacco sales increased from about 44 billion cigarettes in 1998 to about 60 billion cigarettes in the mid-2000s and about 80 billion cigarettes in 2010-2017.** The increase in legal sales did not discourage cigarette smuggling into Vietnam. While the tobacco industry overestimates smuggling volumes, total (licit + illicit) cigarette consumption definitely increased during the last decade.

**The nominal revenue from tobacco taxes increased in 2008-2016; however, in real (inflation-adjusted) terms the revenue growth was smaller than the increase in cigarette sales.** Tobacco tax revenue as percentage of the nominal GDP per capita in 2016 was 42% lower than in 2005.

**The proposed tobacco tax reform in Vietnam, being considered as part of broader fiscal reforms, would aim to introduce a mixed excise tax structure by applying a specific tax on top of the ad valorem excise.** A substantial annual increase of tobacco taxes is needed to reduce tobacco affordability in the country in line with the FCTC Guidelines.

**The proposal to introduce the specific excise tax in addition to the existing ad valorem taxes is very timely.** This is a good policy measure as the introduction of a specific excise tax uniformly applied to all brands would help the government tax cigarettes based on their quantity, and not only their declared value, and the tax hike would raise prices by the same large amount on all brands at once preempting smokers' switching to cheaper cigarette brands. To ensure a reduction in tobacco consumption, the initial specific excise should be at the very least 2,000VND per pack – around 50% for lower priced brands -- and potentially significantly more. Further on, the specific excise tax rate should be annually increased by at least 2,000 VND per pack or more for at least five years in a row. This annual adjustment is needed so that affordability is reduced over time. To achieve this, the specific excise annually needs to increase at a faster rate than inflation. Current ad valorem tax rates for tobacco products should not be decreased. Such taxation policy will be beneficial for both public health and governmental revenue.

**To ensure the effective implementation of tobacco taxation policy, reliable data on number and prices of taxed tobacco products are needed.** The data currently available are rather contradictory: over the last three years, volumes of cigarette turnover (production + import – export) exceed the reported cigarette sales by 10-20 billion cigarettes annually.

**To prevent industry manipulation of data on the cigarette production, sales, and prices, the monthly information on these indicators should be collected by the Ministry of Finance and published online by the MOF and the Tobacco Control Fund in a timely manner.**

**Improvement of surveillance is another urgent need.** Some of the surveys which collect tobacco use data in other countries (for example DHS and MICS) can be used similarly in Vietnam. Regular collection of data on tobacco consumption, licit and illicit cigarette sales, prices and other economic indicators will allow generate evidence-based policy decisions.

**Implementation of effective policies to counteract the tobacco smuggling and other kinds of illicit tobacco sales will allow both reduce tobacco consumption and increase revenues.** The FCTC Protocol to Eliminate Illicit Trade in Tobacco Products should be ratified by the country. While cigarette smuggling is a problem, it is important not to overestimate it and not to allow using it as an argument against further excise increases.

## **ACKNOWLEDGMENTS**

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## Introduction

**Objective of the Country Brief.** This country brief presents an overview of current tobacco control legislation, use, and taxation policy in Vietnam. Data and information were collected from different sources. The brief is intended to serve as the context for complementary assessments on different aspects of tobacco taxation in the country to be shared with government teams and other national and international stakeholders.

### 1. Tobacco Control Legislation

**Vietnam became a Party to the WHO Framework Convention on Tobacco Control on March 17, 2005. In 2012, the Law on Prevention and Control of Tobacco Harms was enacted, which significantly strengthened tobacco control policies in Vietnam.** The law took effect on May 1, 2013. The new law established smoke-free places; increased the size of graphic health-warning labels; instituted a comprehensive ban on tobacco advertising, promotion, and sponsorship; and established the first Vietnam Tobacco Control Fund.

**In 2013, Vietnam launched the *National Strategy on Tobacco Control through 2020*.** It sets specific targets for the reduction in the prevalence of smoking in the following groups: youth (ages 15–24 years), from 26% in 2011 to 18% in 2020; men: from 47.4% in 2011 to 39% in 2020; and women to less than 1.4% in 2020.

#### Smoke-free places

**Smoking is banned in the entire indoor and outdoor premises of health facilities, educational facilities (other than universities, colleges, and academic institutes where smoking is prohibited indoors only), and childcare and entertainment areas designated for children.** In other public places and workplaces, smoking is prohibited indoors, with the exception of airport waiting areas, bars, karaoke lounges, discos, hotels, and guesthouses, where designated smoking rooms are permitted.

**The prevalence of indoor exposure to second-hand smoke in most places significantly declined from 2010 to 2015,** including in homes (73.1% to 59.9%), in workplaces (55.9% to 42.6%), in schools (22.3% to 16.1%), and on public transportation (34.4% to 19.4%)<sup>1</sup>.

#### Tobacco advertising, promotion, and sponsorship

**Tobacco advertising and promotion are prohibited, with the exception of point of sale displays of tobacco products.** Tobacco product displays are restricted to one pack, carton, or box of each cigarette brand. There are some restrictions on tobacco sponsorship and the publicity of such sponsorship.

#### Tobacco packaging and labeling

**Joint Circular 05/2013/TTLT-BYT-BCT<sup>2</sup> on labeling and printing health warnings on the packaging for tobacco products was issued in line with the Tobacco Control Law.** Warnings were to appear on soft packs by August 8, 2013,

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<sup>1</sup> [https://www.who.int/tobacco/surveillance/survey/gats/VN-2015\\_FactSheet\\_Comparison\\_E\\_Oct2016.pdf](https://www.who.int/tobacco/surveillance/survey/gats/VN-2015_FactSheet_Comparison_E_Oct2016.pdf)

<sup>2</sup> <https://www.tobaccocontrolaws.org/files/live/Viet%20Nam/Viet%20Nam%20-%20PL%20Circular.pdf>

and on hard packs by November 8, 2013<sup>3</sup>. Combined picture and text health warnings are required to cover 50 percent of the front and back of the unit and outside packaging and labeling. Misleading terms are prohibited on tobacco products; however, an exemption applies to terms that comprise brand names registered as intellectual property prior to the effective date of the 2012 Tobacco Control Law. The Law requires the rotation of health warnings to happen every two years<sup>4</sup>, but it was not reported if any new set of warnings had been introduced after 2013<sup>5</sup>.

## **Tobacco contents and disclosures**

**The Law regulates that the imported/local produced cigarettes consumed in Vietnam needs to meet national technical regulations and grants responsibility to the Ministry of Health (MOH) for issuing regulations.** The Circular number 23/2015/TT-BYT on National Technical Regulation for cigarette was passed by MOH in 2015 to regulate the content of nicotine and tar in the emissions. The law requires that manufacturers and importers disclose to the government information on the contents and emissions of their products.

**The state-ownership of tobacco industry poses a major paradox within the government that benefits from the manufacturing of tobacco products and is also responsible for controlling tobacco consumption.** The perceptions of negative implications on government revenue and the macro-economy, coupled with the reluctance to challenge these issues from a health perspective too directly, means that tobacco control has yet to secure itself a place on the priority policy agenda[1].

## **2. Tobacco use**

### **Prevalence of tobacco use among adults**

**Between 1992 and 2006, four national surveys were undertaken to measure the extent and distribution of tobacco use in Vietnam:** Vietnam Living Standards Survey (VLSS) in 1992–93 and 1997–98; Vietnam National Health Survey (VNHS) 2001–02; Vietnam Household Living Standards Survey (VHLSS) in 2006 [2]. Unlike VLSS and VNHS, VHLSS does not differentiate between cigarette and waterpipe tobacco use.

**In the comparison of the 1992–1993 and 1997–1998 Vietnam Living Standards Surveys, it was found that consumption fell among both sexes.** However, difference in the way the questions were structured, and samples used, may have contributed to the estimation of different and non-comparable smoking prevalence rates. A 1997 nationwide survey found that 50% of males and 3.4% of females aged 15 years and older used tobacco, with the highest prevalence among those with only primary school education [3].

**STEPS surveys were conducted in Vietnam in 2005 and 2015<sup>6</sup>.** In 2005, the prevalence of current smoking was 67.8% among men and 1.1% among women [4]. In 2015, in the STEPS-GATS combined survey, the prevalence of tobacco use was 45.3% among men, 1.1% among women, and 22.5% overall for both sexes [5]. The comparison of the two STEPS surveys led to the conclusion that the prevalence of smoking was declining in recent cohorts of men and continued to decline in successive cohorts of women [6].

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<sup>3</sup> <http://www.tobaccolabels.ca/countries/vietnam/>

<sup>4</sup> <https://www.tobaccocontrolaws.org/legislation/country/viet-nam/pl-health-warnings>

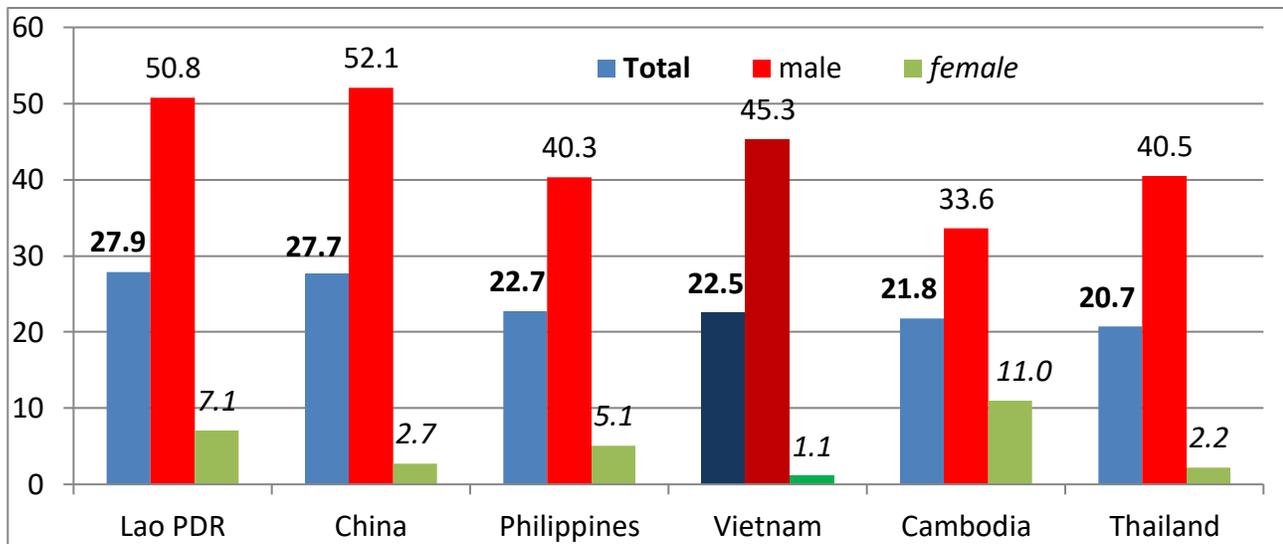
<sup>5</sup> <http://www.tobaccolabels.ca/countries/vietnam/>

<sup>6</sup> [https://www.who.int/ncds/surveillance/steps/viet\\_nam/en/](https://www.who.int/ncds/surveillance/steps/viet_nam/en/)

**Global Adult Tobacco Survey (GATS) was conducted in Vietnam in 2010 and 2015.** The Vietnam GATS 2015 found that the prevalence of smoking was 22.5% overall, 45.3% among men, and 1.1% among women. The overall 2010-2015 reduction in the prevalence of any tobacco product use was 5.3%. However, this reduction was not statistically significant. The significant reduction in the prevalence of tobacco smoking was found for any type of cigarette (-8.4%), and especially for hand-rolled cigarettes (-38.3%). The use of cigarettes significantly decreased in urban areas (-14.7%) [7]. The GATS 2015 estimate of the prevalence of daily smoking among men was reported to be 38.7%<sup>7</sup>.

**According to the WHO Global Tobacco Control Report [8], current tobacco smoking prevalence in Vietnam in 2015 was on similar levels with neighboring Asian countries (Figure 1).** However, the analysis of tobacco consumption based on the survey data (see below) revealed that respondents in Vietnam have tendency to greatly underreport their cigarette consumption.

**Figure 1. Prevalence of current tobacco smoking among the population aged 15 years and older in selected Asian countries, 2015, % [8]**



**The potential sources of surveillance data are not fully used in Vietnam.** MICS surveys were conducted in Vietnam in 1996, 2000, 2006, 2011, and 2014<sup>8</sup>. However, tobacco smoking is mentioned in the reports as an important factor but not as a collected indicator. DHS was conducted in Vietnam in 1997, 2002, and 2005<sup>9</sup>. However, none of these collected data on tobacco use.

<sup>7</sup> <https://untobaccocontrol.org/impldb/viet-nam/>

<sup>8</sup> <http://mics.unicef.org/surveys>

<sup>9</sup> <https://dhsprogram.com/What-We-Do/survey-search.cfm?pgType=Immain&Cyear=2018>

**Table 1: Prevalence of tobacco use in Vietnam among the population aged 15 years and older**

Survey	Tobacco use			Cigarette smoking			Waterpipe smoking		
	male	female	Overall	male	female	Overall	male	female	Overall
VLSS 1993	61,3	4,1		43,9	2,3		19,7	1,9	
VLSS 1998	50,7	3,2		34,9	1,0		19,4	2,3	
VNHS 2001	56,1	1,8	27,0	38,8	0,9		13,0	0,9	
STEPS 2005	67,8	1,1							
VHLSS 2006 <sup>10</sup>	47,0	1,5	23,5	x	x	x	x	x	x
GATS 2010	47,4	1,4	23,8	39,7	1,2	19,8	13,0	0,1	6,4
GATS 2015 [9]	45,3	1,1	22,5	36,7	0,8	18,2	13,9	0,2	6,8

### ***Waterpipe smoking***

According to a study among male smokers in Vietnam conducted in 2001–2002, 69.1% of men smoked cigarettes only, 23.2% smoked waterpipe only, and 7.7% reported using both products. In 2010, a total of 6.4% of adults in Vietnam aged 15 years or older reported current waterpipe tobacco use [10]. The proportion of those who smoked exclusively waterpipe tobacco was 3.8% versus 2.6% for mixed waterpipe and other tobacco use. Among current smokers who did not smoke waterpipe tobacco, 18.5% reported using other tobacco products.

In 2015, the overall prevalence of traditional bamboo waterpipe was 6.7%. Prevalence of shisha use was 0.1%. The use of bamboo waterpipe was significantly more common among those aged 45–64 (8.9%) than among those in other age groups and living in rural areas (8.3% vs. 3.5%) [9].

The prevalence of traditional bamboo waterpipe tobacco use is higher in rural areas. In 1998, 23% of rural men used waterpipe, while in 2015 it decreased to 16.8%.

### ***Smokeless tobacco use***

Smokeless tobacco in Vietnam is mostly used in the form of chewing tobacco with betel. In 2010 and 2015, [9] the overall prevalence of current smokeless tobacco use was respectively 0.3% and 0.8% for males and 2.3% and 2.0% for females.

### **Tobacco use by men**

Vietnam has a very high prevalence of smoking among men. Smoking has been an integral part of male social behavior for many decades. Offering cigarettes was considered a matter of common courtesy [3, 11].

The surveys conducted in the 1990s concluded that Vietnam has the highest reported male smoking prevalence rate in the world (72.8%). This was linked to the impact of transnational tobacco corporations and non-Vietnamese brands, which were most commonly advertised [12].

<sup>10</sup> [https://www.gso.gov.vn/Modules/Doc\\_Download.aspx?DocID=8999](https://www.gso.gov.vn/Modules/Doc_Download.aspx?DocID=8999)

The study which analyzed the results of the Global Adult Tobacco survey [13] with regard to the so-called hardcore smokers among men aged 25 years and above in Vietna found that the trends in the prevalence of hard-core smoking (defined as smoking daily 15 cigarettes or more and showing no interest in quitting) differed by socioeconomic status. The percentage of male hardcore smokers declined in the richest group, whereas it increased in the middle, poor and poorest groups.

### **Tobacco use among women**

As elsewhere in Asia, smoking by young women has been frowned upon, although older, less educated rural women have traditionally used hand-rolled or chewing tobacco (often with areca) [3].

### **Tobacco use among youth**

The prevalence of smoking among adolescents aged 15-24 in Vietnam was found to be 31.6% among male and 0.3 among female<sup>11</sup> in 2001.

According to the Global Youth Tobacco Survey (GYTS) in 2003, among adolescents aged 13-15 years old, the prevalence of tobacco use was higher in Ho Chi Minh city than in Hanoi city (Table 2). The prevalence of tobacco use apparently increased between 2003 and 2007. The prevalence of cigarette smoking in GYTS 2007 was 3.3% overall [14] while it decreased to 2.5% in 2014 [15, 16]. The exposure to tobacco smoke at home also decreased between 2007 and 2014. The prevalence of smoking among boys was higher than that among girls [17]. According to GYTS-2014, 48.6% of the students experienced exposure to at least one type of tobacco advertising or promotion. Wearing or otherwise using products related to tobacco was the most exposure TAP type reported by students (22.3%) [18].

The proportion of adolescents who had one or more parents who smoke decreased from about 58% in 2003-2007 to 45% in 2014 (see Table 2) which is an indirect indicator of a downward trend in the prevalence of smoking among adults. Girls who were exposed to billboard cigarette advertising, were more likely (OR (95%) = 1.6) to be susceptible to smoking than those, who had not seen advertisements [19].

**Table 2. Tobacco use among adolescents aged 13-15 years old in Vietnam, Global Youth Tobacco Survey (GYTS), %**

	2003 (Hochiminh) [20]	2003 (Hanoi) [21]	2007 (national) [17]	2014 (national) [15]
Currently use any tobacco products				
All	3,7	2,2	3,8	4,0
Boys	5,2	3,2	6,5	6,9
Girls	2,5	1,0	1,5	1,3
Currently smoke cigarettes				
All	2,9	1,2	3,3	2,5
Boys	4,2	1,5	5,9	4,9
Girls	1,8	0,8	1,2	0,2
Exposed to tobacco smoke at home	64,7	57,7	58,5	47,7
Having one or more parents who smoke	60,6	56,1	58,5	44,5

<sup>11</sup> [https://untobaccocontrol.org/impldb/wp-content/uploads/reports/viet\\_nam\\_report.pdf](https://untobaccocontrol.org/impldb/wp-content/uploads/reports/viet_nam_report.pdf)

**According to the Global School-based Health Survey (GSHS) conducted in 2013, 5.2% of Vietnamese adolescent aged 13-18 years currently used any tobacco, 4.7% smoked cigarettes, and 2.4% used smokeless tobacco [22].** No comparison with previous period is possible as this survey was not conducted in previous years. Among medical students in 2008, the overall prevalence of smoking was 25%, and among male medical students, it was 43.7%. Smoking prevalence was higher among the students in later academic years of medical training, being highest in years 5 to 6 (35.0%) [23].

### **Socio-economic disparities in tobacco use**

**Low-priced cigarette smokers account for a large share of total cigarette consumption, with most consumers of low-priced cigarettes being poor and living in rural areas or small towns.** In Vietnam, the poor are likely to smoke low-priced cigarettes, and they are particularly responsive to cigarette prices. Social equity and public health goals would dictate moving toward a higher uniform, tax [24].

**There is extensive evidence that tobacco use contributes to poverty and inequality in Vietnam and that tobacco control policies would not have a negative impact on overall employment [25].** Tobacco use wastes household and national financial resources and widens social inequality. The implementation and enforcement of a range of tobacco control measures could prove beneficial not only to improve public health but also to alleviate poverty [25].

### **3. Costs of smoking in Vietnam**

**The total cost of inpatient healthcare for three tobacco-attributable diseases in Vietnam in 2005 was estimated at 1 161 829 million Vietnamese dollars (\$VN) (or \$US 77.5 million) [26].** This represented about 0.22% of Vietnam gross domestic product (GDP) and 4.3% of total healthcare expenditure. The majority of these expenses were related to COPD treatment (\$VN 1,033,541 million or \$US 68.9 million per year) followed by lung cancer (\$VN 78,143 million, or \$US 5.2 million per year) and ischemic disease (\$VN 50,145 million, or \$US 3.3 million per year). According to these estimates, the government directly financed about 51% of these costs. The rest was financed either by households (34%) or by the insurance sector (15%) [26].

**The total economic cost of five tobacco-attributable diseases in 2011 was estimated at 24 679.9 billion Vietnamese dong (VND), equivalent to US\$1173.2 million or approximately 0.97% of the 2011 gross domestic product.** The direct costs of inpatient and outpatient care reached 9896.2 billion VND (US\$470.4 million) and 2567.2 billion VND (US\$122.0 million), respectively. The government's contribution to these costs was 4534.3 billion VND (US\$215.5 million), which was equivalent to 5.76% of its 2011 healthcare budget. The indirect costs (productivity loss) due to morbidity and mortality were 2652.9 billion VND and 9563.5 billion VND, respectively. These indirect costs represent about 49.5% of the total costs of smoking [27].

### **4. Tobacco growing**

**According to the FAO database [28], the area harvested for tobacco in Vietnam increased from 11,000 hectares in 1961 to 31,484 hectares in 2010, but then it decreased to 14,2014 hectares in 2017.** The raw tobacco production in Vietnam increased from 10,000-15,000 tons annually in 1960-1970s to 56,530 tons in 2010, but then it decreased to 32,065 tons in 2017.

According to the Ministry of Industry and Trade, Vietnam still imports about half of its tobacco leaves annually [29]. A study of tobacco farming in rural Vietnam [30] revealed that the profit from tobacco cultivation was minimal once labor costs were taken into account.

## 5. Cigarette production and sales

The Vietnamese government largely controls the country’s tobacco industry through its ownership and management of Vietnam National Tobacco Corp (Vinataba). Multinational companies such as British American Tobacco are required to work with Vinataba as part of a joint venture to produce and distribute cigarettes. Vinataba dominates the cigarette market and in 2015-2017 had 60% market share [31]. BAT has 26% market share, PMI – 3%, JTI – 1.5%. Other local tobacco companies have the rest of the market.

According to the General Statistics Office (GSO) of Vietnam<sup>12</sup>, cigarette production in the country increased from about 2 billion packs in the late 1990s to more than 4 billion packs in 2004-2009 and more than 5 billion packs in recent years (almost all cigarettes in Vietnam are sold in packs of 20 cigarettes). Recent data on cigarette production are presented in Table 3. In 2018, the production was 113.5 billion cigarettes<sup>13</sup>.

According to the UN<sup>14</sup>, the volume of cigarettes imported to Vietnam is very small: in 2007-2017, Vietnam annually imported less than 100 million cigarettes. Annual cigarette export from Vietnam increased from about 8,000 tons in 2007-2009 to 14,000-19,000 tons in 2011-2017. We assume that the average weight of one cigarette (tobacco, paper, filter, and package) is 1 gram and calculated cigarette turnover in Vietnam as follows: production + import – export (Table 3). For 2012, export and import data were taken from the Vietnam FCTC report 2014<sup>15</sup>.

**Table 3. Cigarette production and turnover in Vietnam**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Production, billion cigarettes	91.0	87.1	96.7	101.5	106.3	109.3	114.0	98.2	109.2	112.1	114.2
Import, thousand tons	0.16	0.25	0.09	0.005	0.095	0.45	0.111	0.081	0.084	0.084	0.002
Export, thousand tons	8.4	7.9	9.0	10.9	15.2	20.6	19.2	16.7	15.97	16.05	14.2
Turnover, billion cigarettes	82.8	79.5	87.8	90.6	91.2	89.2	94.9	81.6	93.4	96.2	100.0

Source: General Statistics Office (GSO) of Vietnam and the UN database.

Euromonitor International (EMI) reports have almost the same figures on cigarette production as reported by the GSO (Table 4). According to the EMI reports, in 2010-2017 annual cigarette export ranged from 20 billion cigarettes to 26.7 billion cigarettes. Euromonitor and Oxford Economics<sup>16</sup> also reported cigarette legal sales data (Table 4). The volumes of sales are much lower than the turnover. In 2015-2017, annual turnover exceeded the legal sales volumes by about

<sup>12</sup> [https://www.gso.gov.vn/default\\_en.aspx?tabid=779](https://www.gso.gov.vn/default_en.aspx?tabid=779)

<sup>13</sup> <http://www.dangcongsan.vn/kinh-te/vinataba-thuc-hien-tot-cong-tac-tai-co-cau-va-co-phan-hoa-510667.html>

<sup>14</sup> [http://data.un.org/Data.aspx?q=cigarettes&d=ComTrade&f=\\_l1Code%3a25%3bcmdCode%3a240220](http://data.un.org/Data.aspx?q=cigarettes&d=ComTrade&f=_l1Code%3a25%3bcmdCode%3a240220)

<sup>15</sup> [https://untobaccocontrol.org/impldb/wp-content/uploads/reports/vietnam\\_2014\\_report\\_final.pdf](https://untobaccocontrol.org/impldb/wp-content/uploads/reports/vietnam_2014_report_final.pdf)

<sup>16</sup> [https://illicittobacco.oxfordeconomics.com/media/OXFO5877\\_Vietnam\\_2018\\_Report\\_Final.pdf](https://illicittobacco.oxfordeconomics.com/media/OXFO5877_Vietnam_2018_Report_Final.pdf)

10 billion cigarettes (if the EMI export data are used), or by 20 billion cigarettes (if we use UN export data). Such a large difference can be explained either by very large stocks or by some systematic error in statistics.

**Table 4. Cigarette production, export, turnover, and sales by Euromonitor International (EMI) and Oxford Economics (OE) reports, billions of cigarettes**

	2010	2011	2012	2013	2014	2015	2016	2017
Production	101,5	106,3	109,3	114,0	98,2	109,2	114,8	114,7
Export	20,3	21,0	20,0	26,7	24,0	24,7	25,2	26,0
Turnover	81,2	85,3	89,3	87,3	74,2	84,5	89,6	88,7
Legal sales, EMI	79,7	82,6	83,5	85,3	70,4	73,9	76,3	77,0
Legal sales, OE			82,8	80,8	75,3	75,3	76,9	78,9

## 6. Tobacco Taxation

**For Parties of the WHO Framework Convention on Tobacco Control (FCTC), as Vietnam is, tobacco tax policy should be considered as a health promotion tool, rather than as solely as a fiscal instrument for revenue collection.** According to article 6 of the WHO FCTC, tobacco taxation policy is “an effective and important means of reducing tobacco consumption by various segments of the population, in particular young persons.” For this reason, that article states that the Parties of the Convention should take into account its national health objectives concerning tobacco control when implementing tax policies on tobacco products. In other words, tobacco taxation policy should also contribute to the health objective of reducing tobacco consumption. In 2014, the Conference of the Parties of the WHO FCTC agreed on a set of Guidelines for Implementation of Article 6 of the WHO FCTC [32].

**The Guidelines for Implementation of Article 6 of the WHO FCTC recognize that effective tobacco taxes must significantly reduce tobacco consumption and prevalence and are an important source of government revenues.** This consumption reduction role of tobacco taxation is due to the fact that special consumption or excise taxes may be able to increase prices of tobacco products relatively to other consumption products or income; and through this to reduce smokers’ demand. In order to do that, the Guidelines recommends that: “taxes rates should be monitored, increased or adjusted on a regular basis, potentially annually, taking into account inflation and income growth developments in order to reduce consumption of tobacco products”. Also, effective tobacco taxation may contribute significantly to State budgets, if increasing tax rate growth outweighs the percentage decline in consumption of tobacco products.

**There are two main characteristics of the excise taxation system in Vietnam (officially called Special Consumption Tax - SCT).** Tax rates on those goods and services included in the system are **ad valorem**, except for specific taxes on imported used cars. And excise tax bases are selling prices of domestic producers, without the VAT and excise tax itself, or prices of imports plus import tariffs. The payable excise tax amount is equal to the selling price by manufacturers multiplied by the excise tax rate.

**Immediately after the SCT introduction, cigarette and tobacco-product tax rates were differentiated, creating a complex and discriminatory system until 2005.** Table 5 present the evolution of SCT tax and other taxes and tariffs on tobacco products since the inception of the SCT in 1990. Between the end of 1993 and end of 2005, discrimination against filtered cigarettes produced with imported material was exacerbated; and worse than that, tax rates on other type of cigarettes and cigars were diminished.

**The application of different tax rates on cigarettes manufactured with imported and domestic raw materials favored domestic brands. This tax structure encourages cigarette use.** This policy also encouraged the development of domestic cigarette material growing areas, discouraged imports of raw material, and reduced imports. While it had the apparent advantage of collecting more for state revenue from smokers of imported raw material cigarettes, who had higher incomes, it had the disadvantage of encouraging higher smoking, and so higher death rates, from those with lower incomes.

**Table 5: Evolution of Tobacco Special Consumption Tax, VAT and Import Tariffs**

Period	Special Consumption Tax (tax base is pre-tax factory price)				Value added tax	Tariffs
	Cigarettes			Cigars		
	Filtered produced from imported material	Filtered produced from domestic material	Non-filtered			
10/1990- 8/1993	50	50	40	40	-	NA
9/1993-12/1995	70	52	32	32	-	NA
1/1996-12/1998	70	52	32	70	-	NA
1/1999-11/2001	65	45	25	65	-	NA
11/2001 -12/2003	65	45	25	65	-	Import prohibited
1/2004-12/2005	65	45	25	65	10	Import prohibited
1/2006-12/2006	55			65	10	Import prohibited
1/2007-12/2007	55			65	10	100
1/2008 -12/2009	65				10	140
1/2010-12/2015	65				10	135
1/2016-12/2018	70				10	135
1/2019-...	75				10	135

Sources: Tax Policy Department (TPD) – Ministry of Finance (MOF)

**The value added tax** is imposed on the added value of goods or services arising during the process from manufacturing up to consumption. Organizations and individuals engaging in manufacturing and conducting business in tobacco or importing tobacco are taxpayers. The VAT taxable price of cigarettes sold or supplied by production or business establishments is the sale price including the excise tax but excluding VAT. For imported tobacco, the VAT taxable price is the import price at the border gate plus import duties and plus excise tax.

**Tobacco selling in Vietnam has been taxed at 10%; and if exported, as other goods, VAT rate would be by 0%. All VAT on input goods and services used to export tobacco are refunded.** VAT rate in Vietnam (10%) is lower, than in China (16%), Bangladesh (15%) and Philippines (12%), the same as in Cambodia, Indonesia and Lao PDR (10%), and higher than in Thailand (7%).

**Cigarette imports were prohibited till 2007.** Only tobacco material was permitted to import for domestic cigarette production. Since the accession of Vietnam into the WTO by January 2007, this prohibition has been lifted and replaced by high import tariffs. Under the WTO’s commitment, import tariff was reduced to 135% in 2010. Tariffs on various tobacco products range from 30% to 145%. Tariffs are applied on Cost, Insurance, and Freight (CIF) price, including all fees and charges to import gate.

**The statistical requirements imposed on tobacco companies are not comprehensive.** Due to current requirements of revenue collection, no specific statistical norm or typically standard database on tobacco production and pricing are

imposed. Because taxpayers submit their tax declaration dossiers to local tax agencies directly managing them, only those tax agencies could hold the brand names, corresponding turnover or import values and recommended price of each brand sold. However, at the policy decision level, there is no availability of aggregate values of key variables for the purpose of monitoring and performance evaluation and, when the moment comes, for policy analysis. For example, average selling prices per brand of manufacturers (or import values) and actual retail price of the products, which are key variables for monitoring the tax base and the consistency of the information supplied in tax returns by manufacturers and importers, are not available. Additionally, other key information, such as quantities per brand and manufacturer, which are necessary to see the overall consistency of production with main raw material purchases and third-party information on the tobacco business.

### **Current Tobacco Tax Structure and Rates**

**Vietnam levies a uniform ad valorem excise tax on all cigarettes [33].** The special consumption tax (excise) was unified for all tobacco products from 2006. In 2006-2007, it was 55%, in 2008-2015 – 65%, in 2016-2018 – 70% and since January 2019 it is 75%. For domestic tobacco products, the tax base is the factory price (without VAT and excise tax).

**The VAT rate is 10%**, and for domestic tobacco products, the tax base is factory price plus excise, so the actual VAT rate in 2019 was  $10\% \times (1+0.75) = 17.5\%$  of the factory price.

**Import tax rate for cigarettes was 150% in 2007, 140% in 2008-2009 and 135% from 2010.** The tax base for import tax is the import (CIF) price. The excise tax base for imported cigarettes is the import price + import tax, so in 2019, the actual excise rate is  $75\% \times (1+1.35) = 176.25\%$  of the import price. The VAT rate for imported cigarettes is  $10\% \times (1+1.4+1.7625) = 41.625\%$  of the import price.

**The Vietnam Tobacco Control Law which was passed on June 18, 2012, established the Tobacco Control Fund (TCF).** The fund helps to secure sources of funding for the implementation of the WHO FCTC. The Vietnam Tobacco Control Fund receives compulsory contributions of 1% of the taxable price of all cigarette packs produced locally or imported for local consumption beginning from May 1, 2013. This rate was increased to 1.5% from May 1, 2016, and to 2% from May 1, 2019<sup>17</sup>. So, from May 2019 the total tax for domestic cigarettes (excise +VAT + TCF) is as follows:  $75+17.5+2=94.5\%$  of the factory price.

**The proposed plan to raise tobacco taxes was submitted in August 2017.** The draft law suggested amending and supplementing some articles of the Law on the Value-added Tax, the Law on Special Consumption Tax, the Law on the Corporate Income Tax and the Law on Personal Income Tax. Regarding the tobacco excise tax, it was proposed to apply the mixed excise tax, in addition to the current tax starting from January 1, 2020. This is to be done by either applying a specific tax of VND1000 per pack of 20 cigarettes [29] or by increasing the ad valorem tax from 75 to 80 percent of the tobacco's price from 2020 onwards and from 80 to 85 percent from 2021 onwards<sup>18</sup>. Health advocates favor the first option but suggest the fixed (specific) tax be higher at VND2,000-5,000<sup>19</sup>.

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<sup>17</sup>

[https://seatca.org/dmdocuments/Tobacco%20Control%20Fund%20as%20Catalyst%20for%20Public%20Health%20Gain\\_Final%20Version\\_Nov%202014.pdf](https://seatca.org/dmdocuments/Tobacco%20Control%20Fund%20as%20Catalyst%20for%20Public%20Health%20Gain_Final%20Version_Nov%202014.pdf)

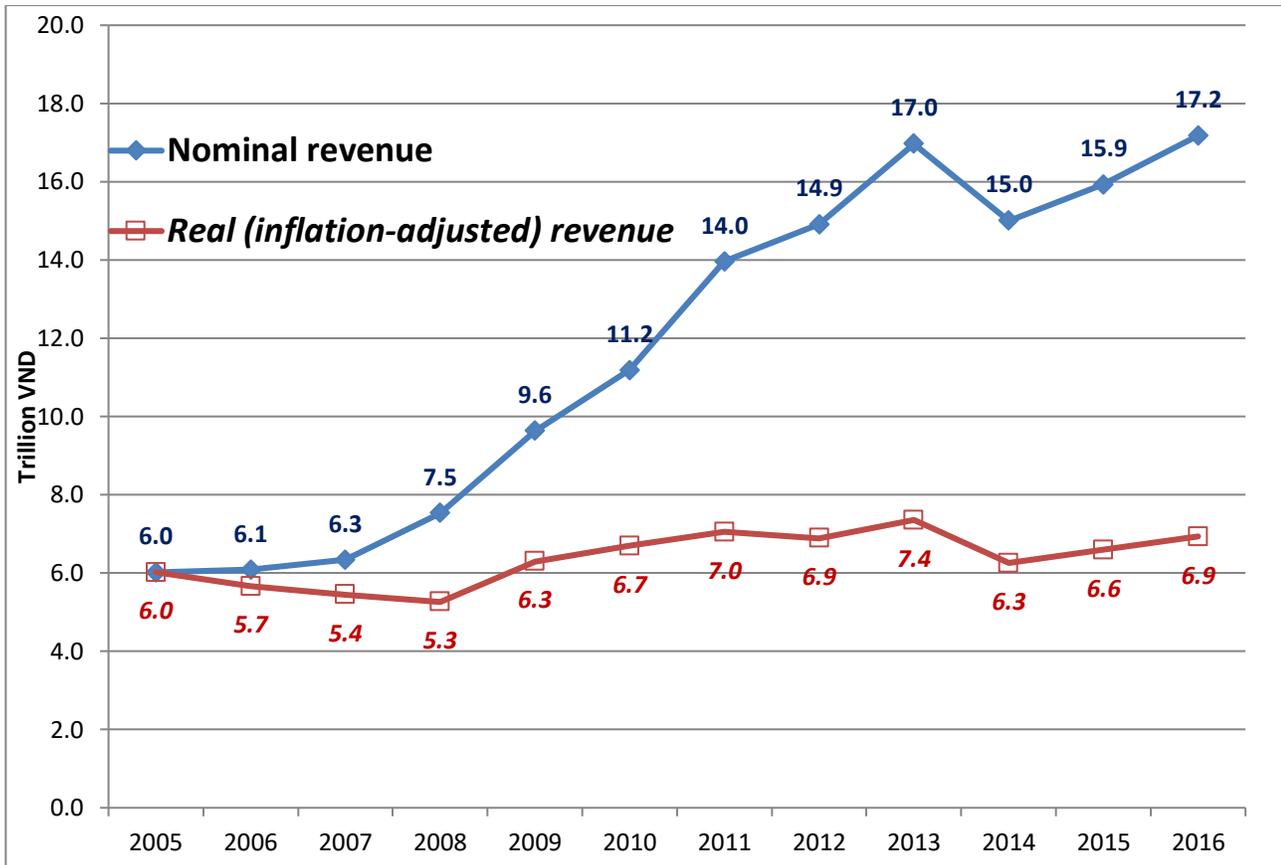
<sup>18</sup> <https://seatca.org/?p=12338>

<sup>19</sup> <https://seatca.org/?p=12886>

### Government Revenue from Tobacco Taxes

Data on governmental revenue from tobacco tax in 2005-2016 are presented in the Vietnam Tobacco Tax Report Card [34]. The Global Tobacco Control Report [8] also reports the same revenue data for 2015 – 15.9 trillion VND, which consists of 11.4 trillion excise tax, 2.9 trillion VAT and 1.6 trillion other taxes. It was also reported that tobacco tax revenue in 2016 grew by about 1.25 trillion VND compared to 2015 [29]. The calculated real (inflation-adjusted) tobacco tax revenue, using the GSO data<sup>20</sup>, is shown in Figure 2.

Figure 2. Tobacco tax revenue in Vietnam, trillion VND



<sup>20</sup> [https://www.gso.gov.vn/default\\_en.aspx?tabid=780](https://www.gso.gov.vn/default_en.aspx?tabid=780)

In 2005-2016, the real revenue increased by 0.9 trillion VND or just by 15%, while cigarette production in those years increased from 90 billion cigarettes to 112 billion cigarettes, or by 25%. The cigarette turnover also increased by about 20% (Table 3); so, the real revenue increase was smaller than the increase in cigarette sales. A substantial increase in the real revenue was observed only in 2009, after the increase in the tax rate in 2008.

The ratio of revenues from the Tobacco Taxes to GDP (Table 6<sup>Error! Reference source not found.</sup>) has been declining since 2005, despite a temporary increase in 2009 due to the excise reform. Table 6 shows how this ratio has been declining since 2005 and how the 2008 tax increase only had a temporary upward effect on this relationship.

**Table 6: The ratio of tobacco tax revenues to GDP**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Tobacco tax Revenue as % of current GDP in USD	0,66	0,57	0,51	0,45	0,49	0,49	0,48	0,46	0,47	0,38	0,37	0,38

Sources: World Bank database<sup>21</sup>, Tobacco Tax report card [34]

The upward effect of 2009 due to tax reform was not able to raise taxes enough to reach the tobacco tax collection levels of 2006. Some high and upper middle-income countries have experienced a similar decline of tobacco revenues to GDP, due to declines in smoking behavior, but this was not the case in Vietnam. In 2014, the tobacco tax revenue as percentage of GDP further declined but slightly increased in 2016, after the increase in excise rate.

## 7. Cigarette Prices

In nominal terms, prices of tobacco products have increased by more than 50% between 1995 and 2006. However, during the same period, overall prices increased by more than 60% [2].

According to GSO data [29], in 2005-2009 retail cigarette price of the most popular brand (Vinataba) increased from 9,000 VND to 12,000 VND per pack, or by 33% over 4 years, while inflation rate in Vietnam in those four years was 55%, resulting in a decline in real terms of 14%.

WHO reports [8] that the price of the most popular cigarette brand in 2008-2016 increased from 11,000 VND to 20,000 VND per pack, or by 82% with the inflation rate over those eight years 108%.

GATS 2015 [9] reports that the average cigarette price in 2015 was 11,800 VND per pack, while in 2010 the inflation-adjusted price was 12,800 VND, so the real price decreased. The inflation rate over those five years was 57%, so in 2010 the nominal average price was about 8,100 VND per pack.

The GSO does not report average cigarette price and CPI for tobacco products, but in the Statistical Yearbooks, it reports price indices of tobacco producers. In 2008-2017 combined, the tobacco producer price index was 207%, while the combined consumer price index was 215%.

All these data indicate that the cigarette price increase was below inflation for more than 20 years.

It is worth noting that the average cigarette price was much lower than the price of the most sold brand (MSB). In 2010, the average price was 8,100 VND, and the MSB price was 14,000 VND; in 2015, the average price was 11,800

<sup>21</sup> <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=VN>

VND, and MSB price was about 19,000 VND. According to the survey conducted in 2018<sup>22</sup>, the average cigarette price was 15,000 VND per pack, while prices for most popular brands were 20,200 for Vinataba and 20,600 for Craven A in December 2016 [34].

**Vietnam’s Ministry of Finance also sets minimum prices for cigarettes.** In 2008, Ministry of Finance issued the Decision No 69/2008/QĐ-BTC requiring the minimum price to cigarette products: for hard packs it was set as VND 2,500 and for soft packs -- VND 2,100<sup>23</sup>. From January 2016, the minimum price of cigarettes increased from 4,050 VND to 4,390 VND per pack for hard-cover cigarettes and from 3,450 VND to 3,860 VND per pack for soft-cover cigarettes<sup>24</sup>. In 2016, the minimum price was more than 5 times lower than the price of the most sold brand (20,000 VND). However, if the minimum price increased in 2008-2016 just in line with inflation, it would be 5,200 VND for hard packs.

**There are two technical issues affecting policy decisions about the excise tax amount per cigarette pack in the country: the behavior of the real tax base, determined by companies, and the perception of main stakeholders that excise tax rates are high enough.** The government increased excise tax rates on cigarettes in 2008 (from 55% to 65%), but these rates were applied to a lower real tax base, producing a declining real tax amount per pack. During the tax policy discussion of 2013-2014, excise rate increases were framed in absolute values (from 65% to 75% or more). These are quite high percentage, but they would be applied to an average low real tax base. In what follows, we discuss the evidence on tax bases and tax rates and compare Vietnam with countries of similar economic development.

**The known problem of “transfer pricing problem” could not be discarded.** As known, ad valorem taxation is more difficult to administer and enforce than specific taxation, requiring stronger and more evolved tax administration capacity. This is because under ad valorem regimes it is necessary to evaluate and periodically assess the value of products, which constitute the tax base. Tax administration could rely on manufacturers’ declaration of price at manufacturing or at the retail level. But undervaluation of the tax base could be an issue in those systems, especially if the tax base is the manufacturer’s price. Basically, producers have the potential to sell their products to a related marketing company at an artificially low price or including discounts, in order to reduce their tax liability (i.e., transfer pricing problem). When the tax base is related to retail prices, verification of the tax base is easier. In 2015, the government has issued Decree 108/2015/ND-CP that introduced a reform aiming at addressing the “transfer pricing” issue among taxpayers selling excisable products. According to Decree 108 and guiding Circular 195/2015/ND-CP, “taxable prices are selling prices imposed by such importer or manufacturer and must not fall below 7% of the average price of products sold by the trading establishments in the month”. Trading establishments in this context are non-related parties to the manufacturers or importers. Since then, the taxable prices have increased significantly. To assess retail prices, the tax administration authority needs to conduct at least annually price surveys at different points of sales throughout the country to obtain good average retail price per brand.

**There is an argument, particularly among cigarette companies, that excise tax rates are high in Vietnam, even though they are very low by world standards. And it should be remembered that those rates are applied to low tax bases (ex-factory prices), resulting in a small proportion of excise on retail sale prices.** There are difficulties to have a representative and accepted sample of actual retail sales prices in the country due to a lack of a representative survey of cigarette retail prices. Ex-factory prices are implicitly declared by companies, but there is no systematic analysis and

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<sup>22</sup> <https://e.vnexpress.net/news/business/data-speaks/90-percent-of-vietnamese-want-tobacco-tax-raised-survey-3815527.html>

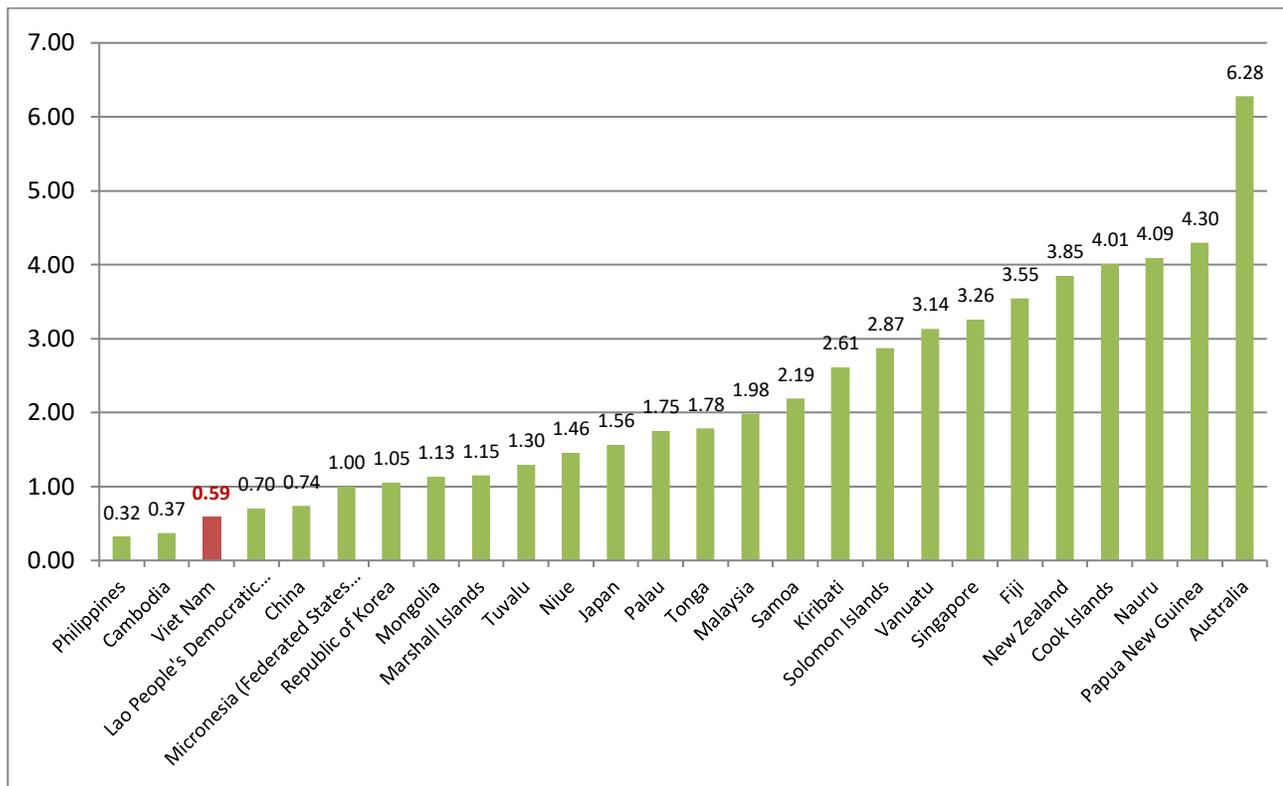
<sup>23</sup> [https://untobaccocontrol.org/impldb/wp-content/uploads/reports/Viet\\_Nam\\_5y\\_report.pdf](https://untobaccocontrol.org/impldb/wp-content/uploads/reports/Viet_Nam_5y_report.pdf)

<sup>24</sup> [https://seatca.org/dmdocuments/Decision%2070\\_QD-BTC%20on%20minimum%20selling%20price%20of%20cigarettes\\_English.pdf](https://seatca.org/dmdocuments/Decision%2070_QD-BTC%20on%20minimum%20selling%20price%20of%20cigarettes_English.pdf)

comparison with retail prices to evaluate consistency between informed ex-factory and retail sale prices per each brand.

**Figure 3 presents the ex-factory or producer prices, calculated from a WHO report.** In order to obtain those prices, all taxes are deducted from retail sale prices. The calculation does not consider standard distribution and retail margins, so ex-factory are overestimated, but relative position may not be altered as margins are similar proportion of the retail price all over the world. Comparing with the countries of the WHO Western Pacific Region in 2016, the ex-factory cigarette price in Vietnam was 0.59 USD per pack, which is higher than in Philippines (0.32) and Cambodia (0.37), but lower than in Laos (0.70), China (0.74) and in other WPR countries net-of-tax price exceeds 1 USD.

**Figure 3: Cigarette producer prices in the WHO Western Pacific Region countries, 2016, US dollars per pack of 20 cigarettes**



Source: Own calculations based on 2016 Global Tobacco Control Report – TFI/WHO [8]

## 8. Tax Share of the Cigarette Price

In 2016, the total tax share in the most sold cigarette brand (Craven A) was 35.7% including 28.1% excise tax, 0.6% TCF levy and 7% VAT [35]. The final retail price was 20,000 VND per pack, and the calculated factory price was 8,028 VND, so the factory price was 40% of the retail price.

According to the Euromonitor report, based on industry data, issued in 2017, Craven A was the most sold brand in 2016, but its market share was just 10.3%. However, in the report issued in 2018, Euromonitor informed that the most sold brand in 2016 was not Craven A but Vinataba brand with market share 13.9%.

On the other hand, GATS-2015 reports that in 2015 the most popular brand was Thang Long (19.3%), which was much cheaper: in 2017, its price ranged from 6,600 to 8,000 VND per pack<sup>25</sup> (Table 7).

**Table 7: Prices for 20-cigarette pack in Vietnam**

Price category	Brand	Price, VND	Price, USD
Premium	555	29000	1.24
Mid-price	Vinataba	20000	0.86
Economy	Thang Long	8000	0.34

As Vietnam currently has only ad valorem taxes for tobacco products, the governmental tax revenue depends not only of the number of taxed cigarettes but also on their average price. According to GATS report [9], in 2015, the average price was 11,800 VND per pack. Cigarette turnover was 93.4 billion cigarettes (Table 3), so the total cigarette market value was  $11,800 * 93.4 / 20 = 55$  trillion VND. Total tobacco tax revenue was 15.9 trillion VND (Figure 2), so the total tax share was 29%. If we take the estimate of legal sales from the Oxford Economics report (Table 4) equal to 75.3 billion cigarettes, the market value is to be:  $11,800 * 75.3 / 20 = 44.4$  trillion VND, and in this case, the total tax share is 35.8%, the same as in the WHO report. These contradictory results demonstrate that for the development of taxation policy, careful monitoring of the tobacco market (including prices and number of taxed tobacco products) is needed.

## 9. Tobacco Affordability

In real terms, the prices of tobacco products in Vietnam declined by about 5% between 1995 and 2006. This was in sharp contrast to the evolution of real income in Vietnam. Real per capita GDP increased by more than 80% between 1995 and 2006, thus making tobacco a much cheaper commodity on average. The increasing gap between income and tobacco prices has made tobacco increasingly affordable [2].

The ad valorem tax rate was increased twice during 2006-2016, but this had little impact because the tobacco industry lowered the factory price during the same period. With inflation, the significantly smaller increases in the average excise tax per pack resulted in cigarettes becoming more affordable in Vietnam during this time. Combined with the rapid economic growth that Vietnam experienced, this increase in affordability was very large. An assessment done shows that by 2016, cigarettes became 38% more affordable in Hanoi and 34% more affordable in Ho Chi Minh City relative to the 2006 level of affordability [35].

As income was rising faster than the increase in the price of cigarettes, cigarettes have become less expensive relative to income, in other words, more affordable, in recent years. From 2005 to 2016, nominal income per capita increased by 4.7 times, meanwhile, the price of a popular brand of cigarettes increased by 2.2 times [29].

Another assessment also demonstrated that the nominal prices of three cigarette brands increased between 1998 and 2016 in Vietnam, but the inflation-adjusted retail prices have decreased, which indicates an increase in cigarette affordability [36].

<sup>25</sup> <https://deeponion.org/community/threads/i-miss-vietnam-and-viet-products.255/>

The WHO GTCR-6 [8] also confirms that cigarettes became more affordable in Vietnam in 2008-2016.

**Taken together, there is a consensus among recent research that affordability of cigarettes in Vietnam has increased during the last 20 years.**

## **10. Illicit Cigarette Sales**

**By its very nature, it is difficult to measure the extent of smuggling in any country.** In Vietnam, for example, the estimates of smuggling activity in 1996-2006 range from as low as 20 million packs to 400 million packs per year. This represents from 0.5% to 10% of market share [2].

**Accurate and timely measurement of illicit trade is vital for the tobacco control policy.** The study of Nguyen et al (2014) [37] used the methods first suggested by the World Bank [38] to estimate the consumption of illicit cigarettes and cigarette smuggling into Vietnam. Most existing estimates of illicit trade in Vietnam are industry sponsored and rely on opaque or undisclosed methods, or on the methods that are difficult to apply repeatedly over time.

**The study [37] estimated the consumption of illicit cigarettes by calculating the discrepancy between tax-paid sales of cigarettes and a survey-based estimate of consumption. Consumption of illicit cigarettes is indicated where the consumption estimate exceeds tax paid sales.** National health surveys only provide estimates of consumption of tobacco for the years of 1998, 2002, 2006, and 2010. Most of the literature suggests that survey respondents understate their consumption of tobacco; therefore, three magnitudes of under-reporting, 10, 20 and 30% were applied to sensitivity analysis. Estimated consumption in 1998, 2002, 2006 and 2010 was respectively 40 billion (1998); 64 billion (2002); 52 billion (2006) and 51.4 (2010) billion cigarettes. During all these years, legal cigarette sales exceeded the consumption, provided there was no underreporting. With the highest hypothetical level of underreporting (30%) illicit consumption as a share of total consumption was 16% in 1998, 20% in 2002 and 8% in 2006. However, in 2010 legal sales were about 88 billion cigarettes, while estimated consumption was only 51.4 billion cigarettes. It means that the health surveys underestimated consumption by 70%, even if the illicit trade was zero.

**GATS [9] reported that in 2015, there were 13.3 million daily tobacco users and 12.36 million current cigarette smokers in Vietnam.** Average cigarette consumption by a daily cigarette smoker was 13.7 cigarettes a day. The total consumption therefore was estimated at:  $12 * 13.7 * 365 = 60$  billion cigarettes. With the highest level of underreporting (30%), the consumption was to be 78 billion cigarettes. However, the estimated cigarette turnover in 2015 was 93 billion cigarettes (Table 3), and the reported legal cigarette sales were about 75 billion cigarettes (Table 4). There are two options for interpretation: (1) GATS substantially underestimated cigarette consumption in Vietnam; (2) Volumes of cigarette turnover and sales are substantially higher than the volume of actual cigarette consumption. This could be the case if cigarettes are sold in Vietnam but, because cigarette prices are so low in Vietnam, consumed in other countries.

**The tobacco industry also provides estimates of licit and illicit cigarette consumption.** According to the industry estimates<sup>26</sup>, Vietnam's total market size for cigarettes in 2005 was 68 billion sticks which consisted of 65% Vietnamese products, 25% foreign products made in Vietnam by Vietnamese manufacturers and 10% illegally imported products. It means that in 2005 illicit sales were about 7 billion cigarettes, and licit sales constituted 61 billion cigarettes.

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<sup>26</sup> <http://www.mondaq.com/x/107018/Government+Statutory+Law/The+Tobacco+Industry+In+Vietnam>

In an analysis of the market in 2011, the Vietnam Tobacco Association (VTA) stated that smuggled cigarettes constitute from 18% to 22% of the total cigarette consumption in Vietnam, which was estimated to be between 3.5 billion and 3.8 billion packs per year<sup>27</sup>. Similar estimates for 2011 were made in another report<sup>28</sup>: *Around 800 million packs were smuggled into Viet Nam through the southern region's western border, equivalent to 20% of the nation's total consumption.* So, according to the VTA estimates, the total market in 2011 increased to 75 billion cigarettes, including about 15 billion illicit, while licit sales were 60 billion cigarettes, almost the same as in 2005. However, according to the Euromonitor reports, legal sales in 2011 were 82.6 billion cigarettes (Table 4), and illicit sales were estimated to be 11.1 billion cigarettes.

**Another agency, Oxford Economics (OE), issues regular reports on illicit tobacco trade in Asian countries, including Vietnam, starting from 2014<sup>29</sup>.** It openly states that OE prepared the reports in accordance with specific terms of reference agreed between Philip Morris International and OE. The key method used by ITIC-OE to estimate illicit cigarette sales is the Empty Pack Survey (EPS). The method uses the discarded (empty) cigarette packets collected from various places in the country to extrapolate and determine the size of the illicit cigarette segment. ITIC-OE indicates that PMI was a “participating company” for the EPS; so, most packs were actually collected by Philip Morris. South-East Asia Tobacco Control Alliance (SEATCA) offered a critique of the PMI funded report [39]. The author of the critique claimed that the figures and statistics presented in the report were “incorrect”, “unverified/unverifiable”, and “inconsistent with results from other studies” in the region. The author criticized the report’s lack of transparency in relation to its EPS methodology used to estimate levels of illicit cigarette sales: *“The Empty Packs Survey (EPS), which is a crucial component of the “IT Flows model” upon which most of the report is based, does not fully disclose its sampling frame, the timing of data collection, the criteria for distinguishing legal and illegal packs, and other crucial survey parameters, even though the validity of data generated by the survey are very sensitive to such issues.”* *“No information is provided about the packs that could not be classified as illegal or legal with certainty, and whether or not the collected packs are available for reinspection.”*

Estimates of illicit tobacco sales in Vietnam from EMI and OE are presented in

Table 8 below.

**Table 8: Estimates of illicit cigarette trade by Euromonitor International (EMI) and Oxford Economics (OE)**

	2011	2012	2013	2014	2015	2016	2017
EMI Total (licit + illicit) consumption	93 .7	96 .8	101 .1	84 .4	87 .6	92.0	93 .4
<b>EMI Illicit trade, billion cigarettes</b>	<b>11 .1</b>	<b>13 .3</b>	<b>15 .8</b>	<b>14 .1</b>	<b>13 .7</b>	<b>15 .1</b>	<b>16 .4</b>
<i>EMI, Penetration of illicit, %</i>	<i>11 .8</i>	<i>13 .8</i>	<i>15 .6</i>	<i>16 .7</i>	<i>15 .6</i>	<i>16 .5</i>	<i>17 .5</i>
OE Total (licit + illicit) consumption		103 .4	102 .9	97 .5	99 .1	100	103 .9
<b>OE total Illicit consumption, billion cigarettes</b>		<b>20 .1</b>	<b>21 .3</b>	<b>21 .4</b>	<b>23 .1</b>	<b>22 .2</b>	<b>24 .3</b>
<i>OE total Illicit consumption, %</i>		<i>19 .4</i>	<i>20 .7</i>	<i>22 .0</i>	<i>23 .3</i>	<i>22 .2</i>	<i>23 .4</i>

<sup>27</sup> <https://www.phnompenhpost.com/business/cigarette-smuggling-cambodia-vietnam-abounds>

<sup>28</sup> <http://snus-news.blogspot.com/2011/01/vietnam-no-headway-has-been-made.html>

<sup>29</sup> [https://www.pmi.com/resources/docs/default-source/pmi-sustainability/asia-14---illicit-tobacco-indicator-\(2014\).pdf?sfvrsn=a0cb0b5\\_0](https://www.pmi.com/resources/docs/default-source/pmi-sustainability/asia-14---illicit-tobacco-indicator-(2014).pdf?sfvrsn=a0cb0b5_0)

**Vietnam Tobacco Association claimed<sup>30</sup> that in 2014 the number of smuggled cigarettes had to increase by 30-40% compared to 2013, and explained it by two main factors:**

- The government issued Directive 30 on strengthening the combat against the smuggling of cigarettes and decided to destroy all smuggled cigarettes.
- It was the first year that the implementation of the Law on Tobacco Hazard Prevention was fully enforced, which had a strong impact on the production and operation of the manufacturers.

**Apparently, the VTA used their estimates of smuggling to explain the sharp decline of cigarette production in 2014 compared with 2013 (by 16 billion cigarettes, see Table 3) and also in tobacco revenue (by 2 trillion VND) (Figure 2).**

In January 2015, Vu Van Cuong, the Chairman of the VTA, said: "*the smuggling of tobacco is highly profitable as Vietnam has implemented strict regulations for made-in-Vietnam tobacco production, which has indirectly created conditions that are conducive to the growth of smuggling activities. The smuggled tobacco volume accounts for 30 percent of the local tobacco market and resulted in a 20 percent reduction in the consumption of domestic tobacco products<sup>31</sup>*".

**However, the declines were caused by the implementation of the Tobacco Control Law: (1) tobacco consumption declined, but the excise rates did not change in 2014, so, the revenue decreased; (2) Vietnam introduced pictorial health warnings on tobacco packages in 2013.** All tobacco packages are required to have a health warning covering 50% of the front and 50% of the back of the package. Warnings were to appear on soft packs by August 8, 2013, and on hard packs by November 8, 2013<sup>32</sup>. The tobacco industry in Vietnam over-produced packs with old health warnings in 2013 (such practice is legal, and it is typical for the tobacco industry in other countries) and paid taxes from over-produced cigarettes. Then in 2014, it sold packs with old health warnings from stocks, and so, cigarette production and tax payments decreased. When the stocks with old warnings were sold, production increased again. And soon VTA reported that cigarette smuggling fell by 30% in 2015, compared with the previous year<sup>33</sup>, while there were no changes in tax rates in 2013-2015.

**According to the EMI, cigarette smuggling in 2014 was much lower than in 2013, and OE reported that smuggling increased in 2015 (**

**Table 8).** Surprisingly, OE indicated that their data on illicit trade were based on Vietnam Tobacco Association estimates and PM data. So, VTA, EMI, and OE reported very different trends in cigarette smuggling in 2013-2015, making their estimates doubtful.

**Tobacco industry often tries to subvert the tobacco control policy by temporarily changing production and sale volumes.** OE admitted that "*An increase in Excise Taxes implemented in January 2016 led to substantial "trade loading" in 2015. Legal Domestic Sales data has been adjusted to reflect this activity*"<sup>34</sup>. However, again the Vietnam Tobacco Association reported that in 2016 the tobacco smuggling increased by 10% against 2015<sup>35</sup>, while the OE reported that smuggling decreased in 2016 (Table 4).

<sup>30</sup> <https://www.tobaccoasia.com/news/vinataba-anniversary-past-present-future/>

<sup>31</sup> [http://haiquanbinhduong.gov.vn:8081/EN/SitePages/noidung/tintuc/View\\_All.aspx?ItemID=1776&ChuyenMuc=TSK](http://haiquanbinhduong.gov.vn:8081/EN/SitePages/noidung/tintuc/View_All.aspx?ItemID=1776&ChuyenMuc=TSK)

<sup>32</sup> <http://www.tobacolabels.ca/countries/vietnam/>

<sup>33</sup> <https://www.tobaccoasia.com/features/vinataba-vs-illicit-trade/>

<sup>34</sup> [https://illicittobacco.oxfordeconomics.com/media/OXFO5877\\_Vietnam\\_2018\\_Report\\_Final.pdf](https://illicittobacco.oxfordeconomics.com/media/OXFO5877_Vietnam_2018_Report_Final.pdf)

<sup>35</sup> <https://customsnews.vn/why-does-tobacco-smuggling-increase-2842.html>

However, both EMI and OE had to recognize that total cigarette consumption decreased in 2014-2015, so the Tobacco Control Law was effective. Unfortunately, it was not supported by other policies, and in 2016-2017 both legal sales (Table 4) and estimated illicit tobacco consumption (Table 8) increased.

As cigarettes in Vietnam are cheap compared with other countries, some cigarette smuggling out of Vietnam also takes place. OE reported: *Outflows of Domestic Duty-Paid cigarettes to the other 13 markets are estimated at 222 million cigarettes in 2013, the majority of which were identified in Laos, with small amounts also present in Hong Kong, Australia, and Thailand*<sup>36</sup>. Cigarette smuggling from Vietnam to Laos means that in Vietnam tax-paid cigarettes are cheaper than in Laos.

Results of research done by the Center for Policy Research and Development on tobacco smuggling in three provinces in North, Central and South Vietnam<sup>37</sup>, showed a significant reduction in the proportion of illegal cigarettes in Vietnam between 2012 (20.7%) and 2017 (13.6%), even though Vietnam increased tobacco taxes in 2016. Two cigarette brands HERO and JET made up the bulk of the smuggled cigarettes market (84.9% in 2012 and 83.6% in 2017). In terms of price, the study found that illegal cigarettes cost significantly higher than legal cigarettes. This clearly reflects the use of illegal cigarettes in Vietnam as consumer preference, rather than a price issue.

The peculiarity of the cigarette smuggling phenomenon into Vietnam is “two brands smuggling”. By most estimates, 80-90% of cigarette smuggling are just two brands: JET and HERO. These two brands have several common features:

- **They do not bear any health warnings and the indicated place of production; so, they cannot be legally sold in any country.** The words typed on the HERO pack are as follows: “Made under authority of Hudson Tobacco, London.” However, a 2010 public filing to a UK-based registrar shows that Hudson had no business since it was established in 1985<sup>38</sup>. The OE called them “Unspecified Market Variant” and noted that they are not counterfeit cigarettes.
- **OE has to admit that these brands “fall into the premium market segment and are largely consumed in more affluent urban areas”**<sup>39</sup>. According to the GATS survey, the average price of HERO and JET are 30% to 60% higher than the average price of legal tobacco brands in Vietnam [29]. Brown et al, 2017 reported that in 2013 in Vietnam the median price of an illicit cigarette pack was 67% higher, than the price of legal cigarettes [40].
- **These two brands are mostly used in two southern regions in Vietnam.** According to the GATS 2015 survey, nearly 92% of Jet and Hero brands are consumed by smokers from the Southeast East and the South West<sup>40</sup>.

**Indonesian tobacco company Sumatra Tobacco Trading Company (STTC) owns the brands JET and HERO.** According to the media report<sup>41</sup>, these cigarettes are shipped from Indonesia to Cambodia, and then the cigarettes are bootlegged to Vietnam. Data from international market research agency ERC International Plc show that in 2008, Cambodia

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<sup>36</sup> [https://www.pmi.com/resources/docs/default-source/pmi-sustainability/asia-14---illicit-tobacco-indicator-\(2014\).pdf?sfvrsn=a0cb0b5\\_0](https://www.pmi.com/resources/docs/default-source/pmi-sustainability/asia-14---illicit-tobacco-indicator-(2014).pdf?sfvrsn=a0cb0b5_0)

<sup>37</sup> <https://customsnews.vn/proposal-of-high-increase-in-tobacco-tax-is-supported-8516.html>

<sup>38</sup> <https://www.phnompenhpost.com/business/cigarette-smuggling-cambodia-vietnam-abounds>

<sup>39</sup> [https://illicittobacco.oxfordeconomics.com/media/OXFO5877\\_Vietnam\\_2018\\_Report\\_Final.pdf](https://illicittobacco.oxfordeconomics.com/media/OXFO5877_Vietnam_2018_Report_Final.pdf)

<sup>40</sup> <https://www.who.int/vietnam/news/commentaries/detail/who-suggests-solutions-to-cigarette-smuggling-in-vietnam>

<sup>41</sup> <https://www.phnompenhpost.com/business/cigarette-smuggling-cambodia-vietnam-abounds>

imported a total of 22.7 billion cigarettes while producing another 4.5 billion. Of those, 525 million were legally exported, while 6.4 billion were consumed, leaving 20.27 billion cigarettes unaccounted for.

**In 2014, HERO and JET smuggling routes were reported on, describing the warehouses in Bangkok, the routes to Laos and Sihanoukville in Cambodia** before the products are hand carried across the border into Vietnam for onward distribution. Reports said it has been going on for decades<sup>42</sup>.

There are two main conclusions from this smuggling phenomenon:

- 1) **Smokers of smuggled cigarettes in Vietnam are willing to pay higher prices for smuggled brands than domestically produced brands;** so, the increase in excise taxes is not the main factor for tobacco smuggling in Vietnam.
- 2) **The smuggling is caused not by the excise rate differences between countries,** but by international criminal activities that avoid paying any taxes or having any health warning. Such activities need to be counteracted by coordinated international efforts.

## **11. Discussion**

**Tobacco taxation policy in Vietnam during the last 20 years has made cigarettes more affordable, and this could encourage tobacco consumption in the country.** Legal annual tobacco sales increased from about 44 billion cigarettes in 1998 to about 60 billion cigarettes in the mid-2000s and about 80 billion cigarettes in 2010-2017. Annual legal tobacco turnover (production + import – export) is even higher: 90-100 billion cigarettes. As demonstrated by the data presented for 2013, the tobacco industry keeps overproduced cigarettes in stock to release them after the planned increase in excise rates. In such a case, governmental revenue can decrease despite the increase in excise rate, and the industry will use this revenue reduction to exaggerate the smuggling volume to support its claims that excise rates should be reduced “to prevent smuggling”. This phenomenon is called forestalling, and it was commonly used by the industry in many countries. The FCTC Guidelines have specific recommendations to counteract forestalling.

**The revenue from tobacco taxes increased in 2008-2016; however, in real (inflation-adjusted) terms the revenue growth was smaller than the increase in cigarette sales.** Tobacco tax revenue as percentage of the nominal GDP per capita in 2016 was 42% lower than in 2005.

**The increase in legal sales did not discourage cigarette smuggling into Vietnam.** The tobacco industry estimates show that the volumes of smuggling increased from about 7 billion cigarettes in 2005 to 16-24 billion cigarettes in 2017. While the tobacco industry usually overestimates smuggling volumes, total (licit + illicit) cigarette consumption definitely increased during the last decade.

**The Law on Prevention and Control of Tobacco Harms adopted in Vietnam in 2012 significantly strengthened tobacco control policies in Vietnam, discouraged cigarette consumption, and some reduction of cigarette consumption took place.** The analysis of the cost-effectiveness of four population-level tobacco control interventions in Vietnam showed that the introduction of graphic warning labels on cigarette packs was the most cost-effective option, followed by excise tax increases, mass media campaigns, public smoking bans, and workplace smoking bans [41]. However, smoke-free

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<sup>42</sup> <https://www.rouse.com/magazine/articles/ip-komodo-blog/vietnams-tobacco-wars/>

policies, pictorial health warnings, and other effective policies were not supported by effective taxation policies, and tobacco consumption started to grow again in 2016-2017.

**In 2014, the Ministry of Finance planned to increase the tax on tobacco products by 10 percentage points to 75 percent by July 2015, and by another 10 percent in 2018.** However, the Vietnam Tobacco Association (VTA) asked the government to delay raising the excise tax on tobacco until smuggling is “considerably” reduced. Unfortunately, the tax increase was delayed, but the industry continued to claim that the smuggling was still increasing.

**The Central Committee of the Communist Party of Vietnam adopted Resolution No 20-NQ/TW dated 25/10/2017 on Health Care and Improvement of People's Health, which included the proposal: *To increase Excise tax on harmful goods such as alcoholic beverages, carbonated beverages, cigarettes to limit the "consumption"* [42].**

**In 2018 the Ministry of Finance (MoF) proposed to raise the excise tax on tobacco.** The Vietnam Tobacco Association and the Vietnam National Tobacco Corporation (VINATABA) requested no excise tax increase *as raising excise tax will lead to difficulties in tobacco production and business operation and the increase of smuggling*<sup>43</sup>. MoF replied that it recommended that a 20-cigarette pack would be subject to the absolute tax rate of VND1,000 in order to meet the goal of reducing the smoking rate by 8 percent in accordance with the aforementioned National Strategy. The Ministry added that WHO, the Vietnam Tobacco Control Fund (VNTCF) and the Vietnam Public Health Association advised increasing the absolute tax rate on tobacco pack from VND1,000 per pack to VND 2,000 per pack<sup>44</sup>. Health officials said the fixed tax should be higher at VND2,000-5,000 per pack<sup>45</sup>.

**If the MoF proposal is adopted, and specific excise tax of 1,000 VND per pack is introduced, the price of the most popular brand, which is currently about 20,000 VND per pack, will increase by 1000VND (specific excise) + 100 VND (10% VAT) as the ad valorem excise is calculated as percent of factory price, which does not include any excise.** So the price is going to increase in this case by just 5.5%, and it will hardly have any impact on tobacco affordability. World Bank [43] states that tobacco taxes only reduce tobacco consumption if they reduce cigarette affordability. Even if the proposal of health officials is adopted and the specific tax is set at the level of 2,000 VND per pack, the price of the most sold brand will increase by only 11%, with a real but modest potential to reduce tobacco consumption.

**Currently, lower-priced brands have price about 8,000 VND per pack (Table 7), including all current taxes (about 3,000 VND) with tax share in the final price about 37%.** If the specific excise (2,000VND) is introduced, the final price will increase to 10,000 VND and tax share in the final price will be 50%.

**Specific excise has a much higher impact on cheap cigarette brand prices;** so, it will not encourage switching to smuggled cigarettes, which are usually more expensive than domestic cigarettes.

**The estimated price elasticity for cigarette demand in Vietnam [44] is centered around -0.53, and it means that the increase in cigarette prices will both reduce cigarette consumption and increase governmental revenue.** The price elasticity of male smoking participation is -0.9 for the whole population, and higher for the low-income group (-1.16), and the elasticity with respect to quantity is -0.5 for all smokers and -0.6 for low-income smokers [24].

**A dynamic population model used to estimate future patterns (both prevalence and consumption) of tobacco use in Vietnam,** with and without changes to tobacco excise for the period 2006-2016, showed that compared to base case

<sup>43</sup> <https://e.theleader.vn/mof-is-strong-willed-to-increase-the-excise-tax-on-various-kinds-of-items-20180112170134856.htm>

<sup>44</sup> <https://e.theleader.vn/mof-is-strong-willed-to-increase-the-excise-tax-on-various-kinds-of-items-20180112170134856.htm>

<sup>45</sup> <https://e.vnexpress.net/news/business/data-speaks/90-percent-of-vietnamese-want-tobacco-tax-raised-survey-3815527.html>

estimates, all considered scenarios result in a fall in the number of smokers, a reduction in the amount of tobacco consumed and an increase in overall taxation revenue [45].

### **Comparison with pure ad valorem excise system**

1. **Under the current ad valorem system, the rate would need to be at least 86% in order to generate the same amount of tax revenue as a 75% plus 1,000 VND.** However, there would still be 100,000 more smokers compared to this mixed system.
2. **Under the current ad valorem system, the rate would need to be at least 117% to generate the same amount of tax revenue as 75% plus 3,000 VND.** However, there would still be 250,000 more smokers compared to this mixed system.
3. **Manufacturers have more scope under Vietnam’s current system to engage in transfer pricing which, if occurs, would reduce the amount of revenue generated from any given increase in the ad valorem rate.** Smokers also have more opportunity to ‘trade-down’ rather than to reduce their use under a pure ad valorem system, which would weaken the predicted impact on smoking.

## **Conclusions and recommendations**

1. **Tobacco taxation policy in Vietnam made cigarettes more affordable and encouraged the increase in tobacco consumption in the country over recent years.**
2. **A substantial annual increase of tobacco taxes is needed to reduce tobacco affordability** in the country in line with the FCTC Guidelines.
3. **The proposal to introduce the specific excise tax in addition to the existing ad valorem taxes is very timely. To ensure a reduction of tobacco consumption, the initial specific excise should be at the very least 2,000VND per pack – around 50% for lower priced brands -- and potentially significantly more.** Then the specific excise tax rate should be annually increased by at least 2,000 VND per pack or more for at least five years in a row. Current ad valorem tax rates for tobacco products should not be decreased. Such taxation policy will be beneficial for both public health and governmental revenue.
4. **To ensure the effective implementation of tobacco taxation policy, reliable data on number and prices of the taxed tobacco products are needed,** while the available data are rather contradictory: volumes of cigarette turnover (production + import – export) exceed the reported cigarette sales by 10-20 billion cigarettes annually over the last three years.
5. **Introduction of the unified specific excise tax can help monitor the number of taxed cigarettes, as revenue from specific excise will clearly show the number of taxed cigarettes.**
6. **To prevent industry manipulation of data on the cigarette production, sales, and prices, the monthly information on these indicators should be collected** by the Ministry of Finance and published online by the MOF and the Tobacco Control Fund in a timely manner.
7. **Improve surveillance.** Some of the surveys which collect tobacco use data in other countries (for example DHS and MICS) can be used similarly in Vietnam. Regularly collect the information on tobacco consumption, licit and illicit cigarette sales, prices and other economic indicators.
8. **Implement effective policies to counteract the tobacco smuggling and other kinds of illicit tobacco sales in line with the provisions of the FCTC Protocol to Eliminate Illicit Trade in Tobacco Products, which should be ratified by the country.** While cigarette smuggling is a problem, do not allow overestimating it and using it as

an argument against further excise increases. The FCTC Article 6 Guidelines state [32]: *The development, implementation and enforcement of tobacco tax and price policies as part of public health policies should be protected from commercial and other vested interests of the tobacco industry, including tactics of using the issue of smuggling in hindering implementation of tax and price policies.*

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