

LAO PDR Tobacco Tax Report Card

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Prevalence of tobacco use

Due to limited investments in research on the tobacco epidemic in the country, trends in smoking prevalence over the years have not yet been defined; however, the Lao PDR Health Survey in 2003 provides a snapshot of the smoking prevalence in the country: 40.3% among adults (above 18 years old). Prevalence was much higher among males (67.7%) than females (16%) and also significantly higher in the poorer rural areas (44.8%) than in the more affluent urban areas (27%), indicating that the poor smoke more than the rich.¹

Based on the 2007 Global Youth Tobacco Survey (GYTS) conducted in 4 major provinces in Lao PDR, cigarette smoking prevalence among youths (13-15 year olds) was 5.0% among boys and 1.1% among girls.² Another study in 2007 also found that smoking rates were highest among the Lao Loum ethnic group compared to those in the Lao Theung and Lao Soung ethnic groups (Figure 1).³

Figure 1: Smoking prevalence by ethnic group, 2007.

Ethnic	Central		South		North		Average total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Lao Theung	10	2.52	27	6.77	47	22.21	84	7
Lao Loum	373	93.95	362	90.73	334	79.71	1069	88
Lao Soung	14	3.53	10	2.51	38	9.06	62	5
Total	397	100	399	100	419	100	1215	100

Source: Phoydouangsy et al. (2007)

Average retail price (1 USD = 8,200 Kip, as of 31 May 2010)

Cigarettes in Lao PDR are generally inexpensive. A pack of A Deng (Soft Pack), a local brand and the most popular brand in the country, currently costs only 4,000 Kip (or barely USD 0.48). Marlboro, the most popular imported brand, costs 12,000 Kip (USD 1.46) per pack. Cigarette prices have remained virtually unchanged since 2001 (Table 1), as will be discussed below.

Table 1: Cigarette Price Structure, 2000-2006

Year	Unit Production Cost (Kip/pack)	Wholesale Price (Kip/box)	Retail Price (Kip/box)
2000	550	750,000	750,000
2001	600	1,000,000	1,000,000
2002	493	650,000	650,000
2003	506	650,000	650,000
2004	600	650,000	650,000
2005	629	650,000	650,000
2006	629	675,000	675,000

Source: Sarntisart (2008)

Government revenue from tobacco tax

Table 2: Government revenue from tobacco tax, 2003-2008.

Year	Government revenue from tobacco tax (million Kip)	Tobacco Tax Share of Government Revenue (%)
2003	19,782	2.10
2004	24,284	2.25
2005	27,235	1.97
2006	34,765	1.96
2007	40,374	1.54
2008	78,111	2.39

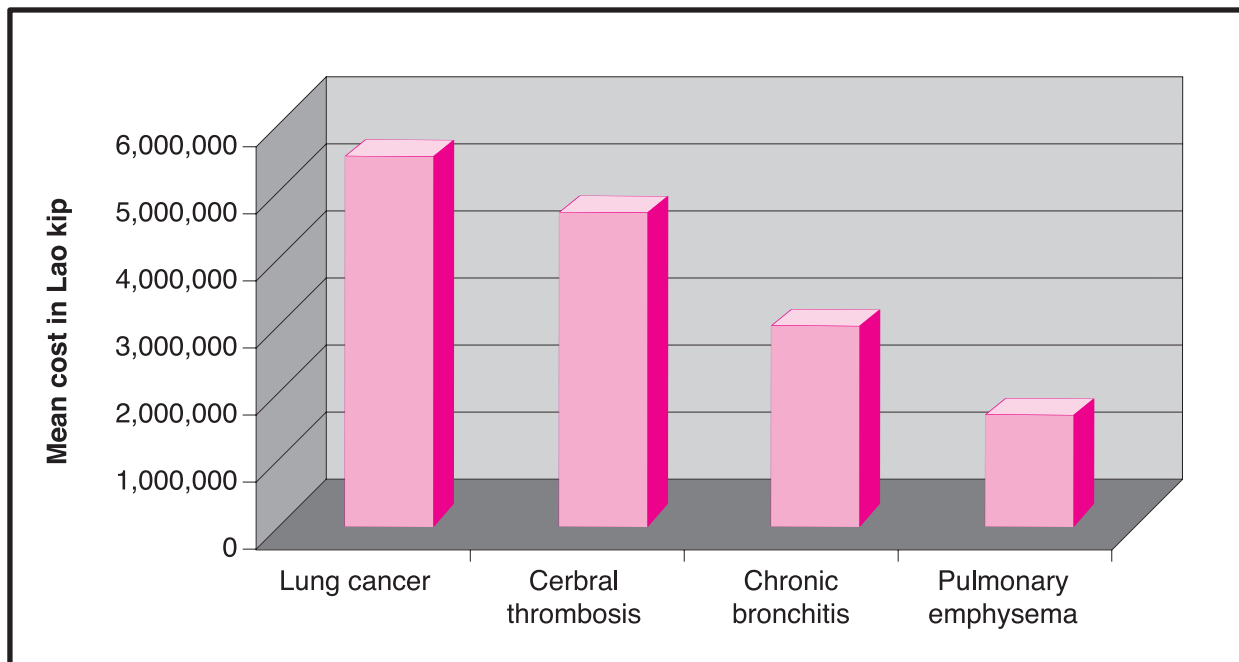
Source: Ministry of Finance, Lao PDR

Although government revenue from tobacco taxes has been slowly increasing over the past several years, its contribution to total government revenue has remained small (Table 2). This may well be attributed to the government's contract with the tobacco industry, which provides local manufacturers with significant tax breaks as discussed below.

Health costs of tobacco

Tobacco smoking causes a wide variety of serious diseases including stroke, chronic obstructive pulmonary disease (COPD) and lung cancer. The total costs of in-patient health care of these three smoking-related diseases reached 28,507,000,000 Kip (USD 3,341,577) (Figure 3), representing 0.80% of Lao PDR's GDP and 22% of Lao PDR's Health Expenditure. Households directly financed 77% of these costs; the rest was financed either by the government (21%) or by the insurance sector (2%) (VangChu, 2008).⁴

Figure 3: Estimates of health care costs of smoking-related diseases in Lao PDR 2007



Source: Vang Chu et al. (2007)

Tobacco taxation

Description of current tobacco tax system in Lao PDR

Lao PDR's Tax Law of 2005 stipulates that the tobacco excise tax should be 55% of the product's retail price, however in practice, this has not been fully implemented, and only 15% excise tax can be collected from the product's retail price because of a 25-year Investment License Agreement (ILA) signed in 2001 between the National Committee for Planning and Investment and the local tobacco industry, currently valid till 2026.

As per the ILA, if the production cost per pack of cigarettes is less than 1,500 Kip, only 15% excise tax is to be imposed, while for products that have production costs equal to or higher than 1,500 Kip per pack, a 30% excise tax is to be imposed (Table 3). Currently, the reported production cost per cigarette pack is less than 700 Kip (Table 1), but this excludes other costs like labor cost, royalties, and miscellaneous costs, which if included would raise production costs to more than 1,500 Kip, allowing the government to impose a 30% excise tax rate.⁵

Because the ILA puts the Lao government at a significant disadvantage, the government issued decrees at the beginning of 2010 for the collection of value-added tax (VAT) set at 10% of the product's retail price and of an additional tax in the amount of 100 Kip per pack, in addition to the existing tobacco excise tax. Thus at present, there are three types of tobacco tax applied to locally produced cigarettes: (1) tobacco excise tax, (2) an additional specific tobacco excise tax, and (3) value-added tax (VAT) (Table 3).

Table 3: Tax rates on locally produced cigarettes

Tax Type	General Rate	Applied Rate	Remarks
Excise Tax	55% of ex-factory price	15% of production cost	Unit cost < 1,500 Kip
		30% of production cost	Unit cost ≥ 1,500 Kip
Value-Added Tax	10% of ex-factory price	10% of ex-factory price	-
Additional Excise Tax	100 kip	100 kip	Per pack
Royalty Fee	15% of production cost	15% of production cost	Per pack

**Note: For Excise Tax, the general rate of 55% is prescribed by law but due to the government's contract with the tobacco industry, only 15% and 30% excise tax is applied.*

These tax rates are applied to only locally produced cigarettes, which account for the most saleable cigarettes in the country. There is no specific excise tax on imported cigarettes. The fee for imported cigarettes is collected at a single flat rate of USD 119 for 500 packs of famous brands (Marlboro, Benson & Hedges, and Mild Seven) and USD 85 for other brands.

How tobacco tax is calculated in Lao PDR

Tobacco tax for local products in Lao PDR is calculated in the following way:

Example: Structure of the price and tax of 'A Deng' Soft Pack (which cost 3,000 Kip/pack)

Calculation Items	Amount in Kip	Note
Retail Price	3,000	Based on 2009 price data
• Production cost	764	Set by tobacco industry
• Ex-factory price	2,300	Set by tobacco industry
Tax		
• Royalty fee	115	Calculated at 15% of the production cost
• Excise tax	115	Calculated at 15% of the production cost
• Additional excise tax	100	Fixed rate
• VAT	230	Calculated at 10% of the ex-factory price
Total tax per pack	560	

**Note: VAT and Additional Excise Tax rates effective January 2010. For imported brands, excise tax calculations are not possible because tax for these products is collected in lump sum*

The process for tobacco tax to be imposed and increased

The Tax Department is responsible for initiating policy processes related to tobacco taxation. The Department initiates this through a proposal handed over to the Ministry of Finance for review and approval. Once approval is granted, the Tax Department will draft a Decree and process it through their Ministry before getting approval from policy makers during the Finance Ministry Meeting (involving all departments, cabinet office, and other participants). If approved again, the document is then sent to the Ministry of Justice for review and subsequently submitted to the Prime Minister's Office for a Government Meeting. At this meeting, the Ministry of Finance with the Tax Department will defend the proposed Decree in front of other Ministries. If passed, the Decree is officially signed by the Prime Minister and then sent to the President's Office for final approval.

The Tax Department of the Ministry of Finance requires all local cigarette manufacturers to register all their cigarette products with the agency. The Invoice Management and Printing Division under the Tax Department is responsible for printing tax stamps according to the registration numbers of the manufacturers. They are also in charge of stamp sales to tobacco factories that are required to adhere to the regulations set by the Invoice Management and Printing Division. There are two types of customs stamps issued by the customs department, one for duty-paid cigarettes and one for duty-free cigarettes. The Customs Department is responsible for printing and controlling the sales of these customs stamps. Regular tax stamps are used for imported cigarettes.

Conclusion and recommendations

The Lao government is being held hostage by tobacco companies through the 25-year Investment License Agreement of the government with the tobacco industry, which severely limits government revenues from tobacco excise taxes. This contract should be re-examined, challenged, and eventually rescinded in favor of the government.

In spite of the Investment License Agreement, the government was successfully able to increase revenues through an additional excise tax (100 Kip per pack), with its associated increase in the retail price of cigarettes, which provides more incentive for decreasing tobacco consumption. Thus, while the ILA is being scrutinized, the government should:

- Increase the additional excise tax by at least 500 kip per pack every year for at least the next three years.
- Study the real production costs of cigarettes and determine if the production costs are in fact higher than those declared by the tobacco industry.
- Maximize tobacco excise tax rates under the ILA from 15% to 30% of production cost, with a view to amending the ILA so that the ex-factory price, instead of the production cost, is used as the excise tax base.

Considering the considerable health and economic losses due to tobacco, the government should establish, using tobacco excise taxes, a tobacco control and health promotion fund to effectively address this and other public health problems.

Short profile of the Lao tobacco industry

The tobacco industry in Lao PDR has performed relatively well (Table 4 and Figure 4). It is worth noting though that while tobacco leaf production has been declining, tobacco manufacturing, cigarette production, and cigarette consumption continue to climb. This suggests that while tobacco farmers are producing and earning less and less from tobacco leaf, manufacturers continue to reap huge profits while paying very low excise taxes.

Table 4: Tobacco and Cigarette Production: 2002-03 and 2005-06

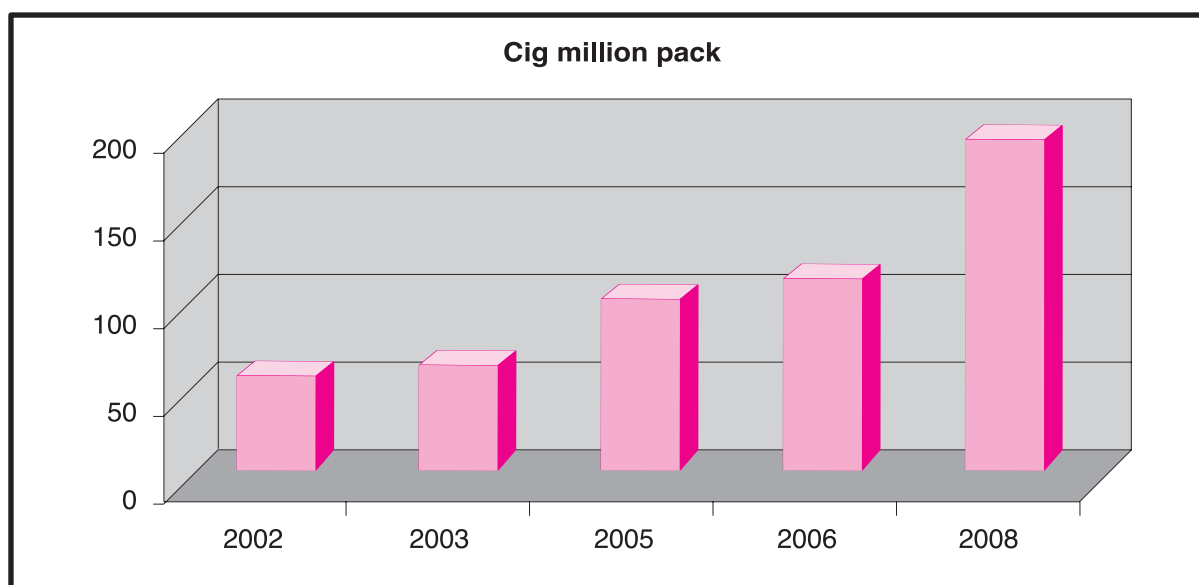
Sector	2002	2003	2005	2006
Tobacco Harvested Area (Ha)	5,476	4,772	5,360	5,615
	Change -12.86%		Change 4.76%	
Tobacco Leaf Production (Ton)	27,497	25,713	28,100	24,690
	Change -6.49%		Change -12.14%	
Manufactured Tobacco (Ton)	593	947		
	Change 59.70%			
Cigarette (Million Packs)	55	68	105	117
	Change 23.64%		Change 11.43%	
Per Capita Cigarette Consumption (Packs)	17.85	21.47		
	Change 20.31%			

Source: Samtisart (2008)

The increased cigarette production in the past decade is attributed to the performance of two major cigarette producers in Lao PDR: Lao-China Lucky Tobacco Company Limited (fully owned by a Chinese company and owner of the popular cigarette brand, Dok Mai Daeng) and Lao Tobacco Company Limited (a joint ownership between the Lao PDR Government-47%, a French company-34%, and a Singaporean company-19% that produces the country's most popular cigarette brand, A Deng). The combined production of these two companies is believed to comprise the majority of cigarette sales in Lao PDR.

Imported cigarettes account for a small minority of cigarette sales in Lao PDR. Major brands include Marlboro, 555, and Mild Seven.

Figure 4: Local Cigarette Production in Lao PDR, 2002-2008 (in million packs)



Source: Samtisart (2008) and Industry Department of Ministry of Industry and Commerce

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The Southeast Asia Initiative on Tobacco Tax (SITT) is SEATCA's project to institute effective tax increases and to allow for sustainable funding mechanisms for tobacco control in Indonesia, Cambodia, Lao PDR, Philippines and Vietnam, in line with Article 6 of the WHO Framework Convention on Tobacco Control.

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