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# PHILIPPINES

## ECONOMIC REPORT

**Prepared by**

Milwida M Guevara, Maria Lourdes B. Recente,  
and Lina P. Figueroa



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## Chapter 1

# The Program to Control Smoking

### 1. Introduction and Objectives of the Study

The reform of the cigarette tax has had a long and colorful history in the Philippines. It started in 1991 when the Department of Finance (DOF) studied the movement in the prices of cigarettes declared by manufacturers. To its surprise, the factory prices that were reported declined through time despite rising inflation. Intensive investigations revealed that manufacturers were using marketing arms to avoid paying the right amount of tax. Tax evasion was estimated at a minimum of P25.0 billion.

The DOF concluded that ad valorem taxation was difficult to enforce. The Bureau of Internal Revenue (BIR) did not have an effective control on cigarette valuation, and a decision was made by the government to shift to specific taxation. Cognizant of the inelasticity of specific tax rates to price changes, the DOF proposed an automatic indexation scheme, under which tax rates would be automatically adjusted based on inflation.

The DOF's proposal faced strong opposition in Congress, primarily due to lobbying efforts from cigarette companies, and did not receive any support from the Department of Health. The reform was purely a tax evasion issue.

After five long years, the shift to cigarette taxation was finally legislated in 1996, but not without being torn apart. Four tax rates were adopted instead of a unitary tax rate. The automatic indexation scheme was dropped. However, a major victory was won: a shift to cigarette taxation.

Today, the taxation of cigarettes has now become a significant health issue. The World Health Organization (WHO) calls the tobacco epidemic one of the biggest public health threats the world has ever faced, killing more than 8 million people a year worldwide.<sup>1</sup> The dangers of smoking have generated significant support for tobacco control, particularly strengthening excise taxation. To strengthen the link between the tax increase and public health, proceeds have been earmarked for health, and a portion of the proceeds is intended to promote alternative livelihoods for tobacco farmers.

The government formulated complementary policies to reinforce its anti-smoking campaign. Smoking has been banned in public places, cigarettes are not allowed to be advertised, and warnings on the health effects of tobacco are required on cigarette packaging.

Recognizing that the market has become hostile to smoking, cigarette companies have presented alternative products such as electronic nicotine/non-nicotine delivery systems, vaping, and Heat Tobacco Products (HTPs) as less harmful to health. But health advocates maintain that they are as harmful, and a strong lobby was made for their regulation. As a result, Executive Order 106 was issued by the President, which banned alternatives to smoking in public places. The Food and Drug Administration regulates their production, and the minimum age for access was raised from 18 to 21. A ban was likewise imposed on their advertisement.

This research is an independent assessment of the effectiveness of the government's policies on tobacco control. It also explores the market for non-tobacco products and how consumers and government receive them. The study identifies and recommends areas that need a fuller evaluation and a more in-depth investigation from the assessment results.

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<sup>1</sup> WHO, "Tobacco" <https://www.who.int/news-room/fact-sheets/detail/tobacco>

## 2. The Taxation of Cigarettes

Major structural changes in the excise taxation of tobacco products were legislated in this decade. Specific taxes were increased, leading to a unitary tax rate on cigarettes starting in 2017. Annual adjustments in the specific tax were provided by law to make revenues more buoyant. The government began to impose taxes on non-traditional cigarette products like heated tobacco and vapor products. The changes in specific taxes on cigarettes were meant to curtail smoking among Filipinos and raise revenues for the country's universal health program. It is the first time that the government promoted cigarette tax reform around health and tobacco cessation goals.

Republic Act No. 10351 (December 19, 2012) was a breakthrough in reforming the cigarette tax. It simplified the excise tax structure on tobacco products,<sup>2</sup> imposed annual excise tax increases from 2013, and eventually adopted a unitary specific tax on cigarettes of P30.00/pack in 2017. From 2018, the specific tax would be adjusted annually by 4%.

Another specific tax increase was legislated after seven years on July 25, 2019. Republic Act No. 11346 increased specific taxes in 2020 and increased the tax adjustment factor from 4% to 5% starting in 2024. RA 11346 was also the first attempt of the government to impose specific taxes on heated tobacco products and vapor products beginning in January 2020. An amendatory law, Republic Act 11467, was approved on January 22, 2020, which revised the specific taxes on heated tobacco products and vapor products starting in 2020. Vapor products were differentiated as to nicotine salt and conventional "freebase" or "classic nicotine" products.

A P50/pack excise tax is currently imposed on cigarettes. Heated tobacco products are taxed at P27.50/pack of 20 units, vapor products classified as nicotine are charged P42/ml while classic nicotine are imposed a tax of P50/10ml.

**Table 1. The Taxation of Cigarettes and Alternatives to Smoking**

RA 10351 (December 19, 2012)						
	Effective Jan.1,2013	Effective Jan.1,2014	Effective Jan.1,2015	Effective Jan.1,2016	Effective Jan.1,2017	Effective Jan.1,2018
Cigars	20% ad valorem P5.00 specific tax/cigar	Specific tax shall be increased by 4% annually				
Cigarettes packed by hand	P12/pack	P15/pack	P18/pack	P21/pack	P30/pack	Tax shall be increased by 4% annually
Cigarettes packed by machine	If Net Retail Price is < P11.50, P12/pack	If NRP < P11.50, P17/pack	If NRP < P11.50, P21/pack	If NRP < P11.50, P25/pack	P30/pack	Tax shall be increased by 4% annually
	If NRP > P11.50, P25/pack	If NRP > P11.50, P27/pack	If NRP > P11.50, P28/pack	If NRP > P11.50, P29/pack		

<sup>2</sup> From the multi-tiered classification of cigarettes based on net retail price and the price classification freeze imposed in 1996, a two-tiered structure was implemented from 2013 to 2017 before shifting to the unitary rate.

**RA 11346 (approved July 25, 2019)**

<b>Effective January 1<sup>st</sup></b>					
	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Heated Tobacco Products	P10.00/pack of 20 units or packaging combinations of not more than 20 units	The tax shall be increased by 5% annually			
Vapor Products	Individual cartridge, refill, pod or container of vapor products containing liquid solutions or get sold in the following	The tax shall be increased by 5% annually			
	Quantities/ml	Tax			
	0-10	P10			
	10-20	P20			
	20.01-30	P30			
	30.01-40	P40			
	40.01-50	P50			
	>50	P50+P10/ additional ml			
Cigars					Specific tax shall be increased by 5% annually
Cigarettes packed by hand	P45/pack	P50/ pack	P55/ pack	P60/ pack	Tax shall be increased by 5% annually
Cigarettes packed by machine	P45/pack	P50/ pack	P55/ pack	P60/ pack	Tax shall be increased by 5% annually

**RA 11467 (approved January 22, 2020)**

<b>Effective January 1<sup>st</sup></b>					
	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Heated Tobacco Products	P25/pack of 20 units	P27.50/pack of 20 units	P30.00/pack of 20 units	P32.50/pack of 20 units	Tax shall be increased by 5% annually
Vapor Products					
-Nicotine salt or salt nicotine	P37/ml or fraction thereof	P42/ml or fraction thereof	P47/ml or fraction thereof	P52/ml or fraction thereof	Tax shall be increased by 5% annually
-Conventional "free base" or "classic nicotine"	P45/10ml or fraction thereof	P50/10ml or fraction thereof	P55/10ml or fraction thereof	P60/10ml or fraction thereof	Tax shall be increased by 5% annually

### 3. The Initial Effects of the Cigarette Tax Reforms

The number of smokers declined from 27.93% of the legal smoking population in 2011 to 23.12% in 2020, a decrease of 4.8 percentage points. The number of smokers substantially dropped in 2013 when the sin tax reform was legislated and is seen to be steadily falling.

Data from the WHO showed a declining prevalence of current tobacco use among persons aged 15 years and above. In 2000, tobacco prevalence was relatively high at 35.3% for all Filipino males and females. More males were smoking (57.3%) than women (13.2%). In 2010, tobacco prevalence declined to 28.6%. In 2013, it was down to 26.9%, and declined further to 24.3% in 2018.

**Table 2. Prevalence of Tobacco Use by Gender**

2000			2005			2010		
Male	Female	All	Male	Female	All	Male	Female	All
57.3%	13.2%	35.3%	52.2%	11.1%	31.7%	47.8%	9.3%	28.6%

2013			2016			2018		
Male	Female	All	Male	Female	All	Male	Female	All
45.4%	8.3%	26.9%	42.7%	7.6%	25.1%	41.6%	7.8%	24.3%

The 2015 Global Adult Tobacco Survey (GATS) reported declining tobacco use among adult Filipinos. From 29.7% of adult smokers in 2009, the number declined to 23.4% in 2015. More smokers, 76.7%, were "interested" in quitting smoking in 2015. Some 55.5% of current smokers in 2015 attempted to quit because of the increase in the price of cigarettes, while 44.6% thought about quitting because of the warning labels on cigarette packs. Almost all adults, or 95%, believed that smoking causes serious illnesses like cancer, heart attack, stroke, and tuberculosis.

The number of cigarettes produced per smoker declined after 2012. From an average of 19 sticks per day, the number of cigarette sticks that was produced per smoker went down to 17 sticks in 2013. This number further declined to only 13 sticks in 2019. We can assume that this also reflects a declining consumption of cigarettes. Manufacturers do not produce more than the market could absorb. Smokers could have been swayed away from or tempered their smoking habit because of costlier cigarettes. Some cigarette smokers could have shifted to electronic cigarette products as data started to capture an increasing number of vapers since 2013. The market began to offer e-cigarettes that are advertised as less harmful and less addictive, which became an alternative to smokers trying to kick their smoking habit.

The size of the cigarette market in the Philippines shrunk. In peso terms, the market only grew by 6.73% from 2011-2020. From 2012 to 2014, the market for cigarettes grew by a mere 0.4%. The market stood at P169.97 billion in 2012 but shrunk by P9.61 billion by 2014. The market started to recover in the following years, except for slow movement in 2016 and 2017. The effect of Covid-19 was very evident in the cigarette market, which grew by only 2% in 2020 compared to robust 18% and 19% growth rates in 2019 and 2018.

**Table 3. Size of the Cigarette Market, Philippines**

Cigarette Market Size										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Market size (in P billion)	158.94	169.97	161.82	160.37	185.46	191.49	201.96	240.32	283.88	289.49
Growth rate (in %)		6.9	-4.8	-0.9	15.6	3.3	5.5	19.0	18.1	2.0

Source: Euromonitor

Production slowed down following a decline in cigarette consumption. The volume of removals of cigarettes from factories fluctuated and ended the decade on a downtrend. The quantities have not breached the pre-Sin Tax Reform levels of 2012 and 2011. The average growth rate was a negative 2.06% over the 10-year period. In 2012, removals hit 5.8 billion packs as cigarettes could have been released to the market to take advantage of lower taxes before the new law was approved towards year-end. The volume of removals declined after 2012, including a substantial decrease (19%) in 2016. In 2020, removals grew negatively by 22.1% compared to the 2019 level. Only 3.3 billion cigarette packs were removed from factories for market distribution. The 2020 volume was the lowest over the past decade.

**Table 4. Volume of Cigarette Removals from Factories**

	Volume of Removals									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cigarettes (in billion packs)	4.6	5.8	5.0	4.0	4.4	3.5	3.5	4.1	4.3	3.3
Growth Rate (in %)		24.8	-13.8	-20.3	10.3	-19.0	0.03	15.1	4.4	-22.1
Heated tobacco products (in million packs)										6.4
Vapor products (in million ml)										0.4

Source: Department of Finance and Bureau of Internal Revenue

Notes:

1. 2013-2020 volume of removals refers to locally manufactured and imported cigarettes. For HTP and vapor products, data refer to the reported volume of removals of imported HTP and vapor products.
2. 2011 and 2012 volume of removals refers to locally manufactured cigarettes only.

The production of cigarette sticks went down as well. From 118,521 million sticks produced in 2011, production declined to 73,655 million sticks in 2019. On average, production of cigarettes declined by 5.28% annually.

**Table 5. Volume of Cigarette Production**

	Cigarette Production (in billion sticks) & Annual growth rate (%)									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cigarette production	118.5	116.2	98.1	93.8	84.1	85.0	83.5	80.5	73.7	n.a.
Growth Rate (in %)		-1.99	-15.58	-4.29	-10.4	0.99	-1.71	-3.60	-8.51	

Source: Euromonitor

## 4. Revenues from Cigarette Taxation

Despite declining tobacco consumption, government generated substantial revenues from taxes on cigarettes. These increased revenues came from the increase in the excise tax rates and the adoption of a uniform tax rate. Excise tax revenues from tobacco products increased from P25.5 billion in 2011 to P149.0 billion in 2020, or 484 percent. Revenues were almost 1% of GDP in 2019 and could have grown more in 2020 were it not for the pandemic.

From 2012 to 2013, revenues more than doubled and grew by 118.8%. Moderate yearly growth followed. Revenues dipped by (5.5%) in 2016, an election year. Historically, tax collections slow down when government administrations change mid-year. In 2017, the push and pull effect of regulations dampened the growth in revenues. A unitary excise tax of P30/pack was imposed on all cigarette products, which should have positively impacted revenue collection. However, the imposition of stricter anti-public smoking rules through Executive Order 26, the law requiring graphic warnings on cigarette packs, dampened revenue growth.

**Table 6. Revenues from the Taxation of Cigarettes**

	Excise Tax Collections, 2011-2020									
	2011/2	2012/2	2013	2014	2015	2016	2017	2018	2019	Prelim 2020
Excise Taxes on Tobacco products (in PHP billion) /1	25.5	32.2	70.4	75.5	100.0	94.5	106.1	133.7	148.3	149.0
Growth rate (in %)			118.8	7.3	32.5	-5.5	12.3	26.0	10.9	0.4
Percent of GDP (in %)		0.3	0.6	0.6	0.7	0.6	0.6	0.7	0.8	0.8
Excise taxes on Heated tobacco products (in Php B)										0.2
Growth rate (in %)										-
Percent of GDP (in %)										0.001
Excise taxes on Vapor Products (in PhP B)										0.01
Growth rate (in %)										-
Percent of GDP (in %)										0.000001

Source: Department of Finance

Notes:

1. Excise tax collections from tobacco products, including locally manufactured and imported cigarettes, cigars, and tobacco inspection fees, and from heated tobacco products and vapor products are based on the volume of removals. The figures may differ from the reported cash collections in the GFS report.

2. Excise tax collections in 2011 and 2012 from locally manufactured cigarettes, cigars, and tobacco inspection fees were based on the volume of removals reported by BIR.

Cigarette tax revenues were almost flat in 2020 because of the pandemic. In 2020, the government collected P149 billion compared to P148.3 billion in 2019, or a minimal 0.4% growth. The pandemic broadly impacted the economy and consumption habits. Production in all sectors slowed down, there was widespread unemployment, and the Philippines' GDP plunged by (11.6%) in 2020. Individually, people became more health-conscious to strengthen their immune system. Many stopped their smoking habits to take good care of their health and economize, along with their inability to go out of their houses during the first few months of complete community lockdown, as well as the closure of neighborhood 'sari-sari' stores.

## 5. Where Do the Cigarette Tax Revenues Go?

Eighty-five (85%) of the incremental revenues from cigarette tax reform (and alcohol tax reform) are earmarked for health care. The National Health Insurance Act that was legislated in 2013 made the enrollment of every Filipino to PhilHealth mandatory. The DOH was made responsible for subsidizing the health premiums of indigent families. The remaining 15% of these incremental revenues were earmarked for economic development projects in tobacco-growing provinces, mainly to provide tobacco farmers with alternative means of livelihood.

The bulk of this health financing goes to PhilHealth's Universal Health (UHC) care programs and the Department of Health (DOH). In 2013, the DOH spent P22.71 billion to enroll 45.1 M identified poor Filipinos (14.7 million household heads and their 30.4 million dependents<sup>3</sup> under the program. The rest of the health allocation was spent for health awareness programs, sending doctors to the barrios, and hospital operations (Table 7).

**Table 7. Functional Distribution of the Cigarette Tax Revenues, 2013 (in billion pesos and in percent)**

Program	Amount	Percent
PhilHealth Enrolment	22.71	74
Attainment of MDG	1.68	6.0
Health Awareness Program	0.003	0.01
Doctors to the Barrios	0.09	0.29
Hospital Operations	2.17	7.0
Health Policy and Regulations	0.14	0.46
Quick Response Fund	0.50	2.0
Assistance to Indigents	3.19	10
<b>Total</b>	<b>30.49</b>	

The DOH implemented programs to prevent TB, HIV, dengue, and diseases such as malaria. The health awareness program of the Department promoted breastfeeding, family planning, immunization, and the prevention of measles.

However, the DOH was less prepared to utilize its windfall gains. In total, the health tax reform raised P51.11 billion for health care (P41.82 from the cigarette tax and P9.29 billion from the tax on alcohol). Only 60% of this revenue bonanza was spent. Then Budget Secretary Florencio Abad observed that the DOH operational capacity<sup>4</sup> was incapable of taking full advantage of the revenue gains. Using a Filipino expression – "Sayang" – describes the lost opportunities.

The revenue windfall continued. By 2020, the cigarette and alcohol tax allocation increased from P33.96 billion in 2014 to P93.57 billion in 2020. Almost one-half of the total budget of the Department of Health, or 47.18% on average, comes from sin taxes.

<sup>3</sup> Department of Health, "Sin Tax Law Incremental Revenues, 2013", <https://doh.gov.ph/sites/default/files/publications/Sin%20Tax%20Law%20Incremental%20revenue%20for%20Health%20Annual%20Report%202014.pdf>

<sup>4</sup> Harvard Medical School and Brigham and Women's Hospital, "Cases in Global Health Delivery", October 2015.

**Table 8. Contribution of Cigarette Tax Revenues to the DOH Budget, 2014-2020**

Year	Amount Contributed by Cigarette Taxes (in P billion)	% of Cigarette Tax Revenues to Total Budget for Health	Total Health Budget (in P billion)
2014	33.96	40.56	83.72
2015	53.62	61.65	86.97
2016	50.37	41.08	122.63
2017	68.92	46.41	148.50
2018	66.55	41.40	160.73
2019	73.81	44.73	165.01
2020	93.57	54.43	171.91
<b>Average</b>		<b>47.18</b>	

Source: Department of Health Sin Tax Law Incremental Revenue Annual Report 2020

The DOH reported that the health tax reforms bankrolled the enrollment of 1,599,294 indigent patients in PhilHealth in 2019. PhilHealth shouldered 79% of every P100 hospitalization expenses of its indigent members. No balance billing covered 83.13% of PhilHealth's eligible members.

Preventive health programs of DOH continued to be financed by cigarette tax revenues. These programs included immunization, eliminating diseases, family health and nutrition programs, and public health management. Preventive health programs received P15.85 billion from excise taxes in 2020. The DOH reported that it fully immunized 69% of children and covered 86.67% of target in NCR and 93.25% of target in Mindanao for its synchronized polio vaccination program. Funding was also allocated for the elimination of diseases such as tuberculosis control. The WHO (2017) reported that the Philippines is one of 30 high TB burden countries with a high TB incidence of 554 per 100,000 population in 2016.

The Health Facilities Enhancement Program (HFEP) received P7.84 billion out of the P93.57 billion allocated for health in 2020. Support to the HFEP program involved repairing or providing equipment and infrastructure in Barangay Health Stations, Rural Health Units, and LGU hospitals. There were 5,868 HFEP projects in 2019 funded from excise tax revenues.

The availability of funding from cigarette excises also ensured the deployment of health professionals in primary care to the LGUs to augment their health workforce. In 2019, the DOH reported that it was able to deploy 28,478 health workers, including nurses, midwives, public health associates, medical technologists, doctors, pharmacists, dentists, nutritionists, and physical therapists. More than 2,000 medicine and midwifery students, mainly from the indigenous communities and geographically isolated and disadvantaged areas (GIDA), were granted scholarships in 2019.

However, the disbursement rate of the DOH remained too weak to take advantage of its revenue bonanza fully. In 2014, 35% of the earmarked revenues for health were unutilized and returned to the Treasury. In 2018 and 2019, the disbursement rate was much lower at 60%. Procurement problems and allegations of corruption hamstrung the implementation capacity of the agency. The DOH does not have an efficient and reliable supply chain. It does not have the resources and expertise needed to obtain resources, manage supplies, and deliver goods and services to providers and patients.

The PhilHealth program, which is subsidized by revenues from cigarette taxes, also suffers from

inefficiencies. Studies show the inability of PhilHealth to help indigent families.<sup>5</sup> The poor are not well informed of their benefits from PhilHealth. It was estimated that only 3% of members in the DOH Sponsored Program used their benefits. The other factors relate to the stringent accreditation procedures of PhilHealth, which restrict access to rural health providers. The high costs of medicine discourage the poor from going to hospitals, and they prefer to use traditional forms of health care such as herbs. More recently, PhilHealth was subject to allegations of corruption and slow turnaround in providing reimbursements to hospitals.

## 6. Help for Tobacco Farmers

Fifteen percent (15%) of the proceeds from cigarette tax reforms are earmarked to assist tobacco farmers who may have been affected by the declining demand for tobacco. Based on production volume, revenues are distributed to provinces producing Virginia-type burley and native tobacco. Provinces, in turn, re-allocate the proceeds to component cities and municipalities, again, based on the volume of tobacco produced. These funds are intended to support tobacco farmers through training, financial assistance, infrastructure projects, and alternative livelihood programs.

Revenues earmarked for tobacco-growing communities amounted to P15.81 billion in 2018.<sup>6</sup> A majority share went to local governments from Northern Luzon. Seventy percent (70%) of tobacco in the country is produced in the Ilocos Region: Ilocos Norte, Ilocos, Sur, La Union and Pangasinan.

A two-year time lag in allocating revenues is provided for in the law, i.e., revenues are distributed two years after the central government collects them. This explains the disparity between the data provided by the DOF and the Budget Department. Based on the DOF data, P21.2 billion were earmarked for LGUs in 2018. Because of the two-year lag, only P15.81 were distributed to LGUs.

**Table 9. Amount of Cigarette Tax Revenues Earmarked for Tobacco Farmers, 2011-2029**

	Earmarked Revenues for Tobacco Farmers									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	Prelim 2020
Share of beneficiary LGUs (in P billion)	4.0	5.6	10.7	13.0	17.1	15.8	18.0	21.2	24.8	21.0
Growth rate (in %)		40.0	91.1	30.0	31.5	(7.6)	13.9	17.8	17.0	(15.3)

Source: Department of Finance

Notes:

1. From 2013 to 2019 – based on the submitted BIR certifications following the earmarking provisions of RA 7171 and RA 8240 for the beneficiary LGUs.
2. For 2020 – estimated maximum shares following the provisions under Sections 288-A and 289-of RA 11346, and based on the preliminary 2020 excise tax collections from tobacco products.

The revenues that LGUs receive from the cigarette tax reform are quite substantial. The province of Ilocos Sur received P3.365 billion in 2018, and the share of its municipalities amounted to a total of P8.09 billion. Among the cities, Candon received the lion's share of P634 million.

<sup>5</sup> Salaheddine El Omari & Mahmoud Karasneh, "Social health insurance in the Philippines: do the poor really benefit? *Journal of Economics and Finance*, **45**, pages 171–187 (2021); Nina Castillo-Carandang, et. al. "Interim Assessment of the PhilHealth Cares Program, PIDS Discussion Paper Series 2014-41; Harvard Medical School op. cit.

<sup>6</sup> Department of Budget and Management, **Budget of Expenditures and Sources of Financing**, 2018

**Table 10. Amount of Earmarked Tax Revenues by Local Government, 2018**

Total Shares of Recipient-Municipalities, 2018		
Region	All recipient municipalities in tobacco growing Provinces	Total 2018 Shares (in P million)
CAR	Abra	876.96
Region 1	Ilocos Norte	1,770.95
	Ilocos Sur	8,089.42
	La Union	1,863.52
	Pangasinan	168.89
Region 2	Cagayan	120.18
	Isabela	595.55
	Nueva Vizcaya	5.11
Region 3	Pampanga	0.09
	Tarlac	0.44
Region 4-A	Laguna	0.09
	Quezon	0.00
Region 4-B	Occidental Mindoro	93.32
Region 10	Misamis Oriental	9.99
Region 11	Davao del Norte	0.00
BARMM	Maguindanao	8.34

Total Shares of Recipient-Provinces, 2018		
Region	Recipient-Provinces	2018 Shares (in P million)
CAR	Abra	1,050.72
Region 1	Ilocos Norte	893.32
	Ilocos Sur	3,365.58
	La Union	1,000.21
Region 2	Isabela	190.10

Total Shares of Recipient-Cities, 2018		
Region	Recipient-Cities	2018 Shares (in P million)
Region 1	Candon	634.96
	Laoag	25.94
	San Fernando	42.55
	Vigan	102.12
Region 2	Iligan	146.68

Region 3	Gapan	1.17
Region 10	El Salvador	4.19

Source: Budget of Expenditures and Sources of Financing, Department of Budget and Management

For some LGUs, their share from cigarette taxes is much bigger than their revenues from using their taxing powers. The share of Vigan is 11 times bigger; Ilocos Norte, 16 times bigger; and in Ilocos Sur, the ratio is 280.

**Table 11. A Comparison of the Revenues of LGUs from the Cigarette and Real Property Tax (In million pesos, 2018)**

Local Governments	Share from Cigarette Taxes A	Real Property Tax Collection B	Ratio of Share from Cigarette Taxes to Real Property Tax Collection A/B
Candon	634.96	12.90	49.22
Ilocos Norte	893.32	57.17	15.62
Ilocos Sur	3,365.55	12	280.42
La Union	1,000.21	61.24	16.33
Vigan	102.12	9.3	10.98

Data show the lack of certainty and regularity in releasing earmarked funds from cigarette taxes. There were periods when LGUs did not receive any allocation from cigarette taxes, and their revenue shares are then released after years of delays. A case in point is Vigan City, which did not receive any funds in 2014 and 2017. Then, its fund allocation ballooned to P102 million in 2018- an amount that is seven times bigger than its average annual share of P15.0 million. This is also the case in San Gabriel, La Union, with a yearly allocation averaging P6.0 million. Its revenue share in 2018 reached P76.8 million. The Budget Officer explained that it was only in 2018 when the Budget Department released what should have been given to them in 2014 and 2017.

**Table 12. Annual Shares of LGUs from the Cigarette Tax (in Philippine pesos)**

Year	San Fernando City	Vigan City	Municipality of San Gabriel
2011	21,454,148.00	13,599,949.00	5,730,661.00
2012	14,948,777.00	16,651,970.00	6,723,410.00
2013	40,495,331.00	13,895,707.00	4,798,340.00
2014	5,189,834.00	-	-
2015	5,375,453.00	16,247,237.00	6,695,588.00
2016	78,829,331.00	26,826,390.00	17,223,986.00
2017	-	-	-
2018	42,550,579.00	102,122,882.00	76,758,172.00
2019	47,406,880.00	45,000,000.00	-
2020	36,124,295.00	n.a.	14,490,367.00

## 7. Programs for Tobacco Farmers<sup>7</sup>

Cigarette tax revenues are devoted to infrastructure projects and livelihood programs. In 2019, 25 out of 33 projects, or 76% that San Fernando City implemented, were on infrastructure: farm-to-market roads, bridge and drainage canals, and solar-powered irrigation pumps. San Gabriel, La Union prioritized infrastructure likewise. The LGU rehabilitated 70% of its entire road network using its allocation from cigarette taxes. In addition, the LGU built two multi-purpose farmers' buildings and implemented irrigation projects. Farmers welcomed road construction as it facilitated trade and mobility.

In 2020, there was a greater balance in the types of projects and fund utilization. San Fernando City implemented 21 projects, 10 of which were on infrastructure projects and 11 were on livelihood. Some P20.6 billion were disbursed for infrastructure projects or 57% of total revenue shares received. These projects included: drainage systems, slope protection, pathways, road widening, mini-dam repair, feeder roads, and groundwater irrigation. The city's livelihood project was on hog fattening and providing farmers with subsidies for rice seed, fertilizer, drying nets, knapsack sprayers, water pumps, tractors, power tillers, water hoses and carabaos. The city set up a demonstration farm for organic farming, and plans to build a mushroom production facility.

Vigan City concentrates on improving the productivity of farmers. Qualified farmers and their associations are provided with hand tractors for tilling their land. They are quite happy with this program—they can save P800.00 or US\$16.00, which is the cost for renting farm equipment, and they save time queuing up to borrow the equipment. Farmers' associations, which received rice harvesters, were able to build up a good amount of capital, one million pesos (US\$ 20,000), for the benefit of farmer-members.

Vigan invests in cattle fattening and animal dispersal. The city provides a female cow to a farmer beneficiary who takes care of it. Once the cow breeds, the farmer retains the calf, and the LGU gives the mother cow to another farmer. The farmer raises the calf and uses it in his land, or sells it and keeps the proceeds from the sale. Either way, the farmer gains an asset as farm cattle cost around P42,000-45,000 or US\$900.00 per head.

These cigarette taxes support farmers' cooperatives and the loom weavers association in Vigan, which continues the traditional weaving of the famous Abel fabric of Ilocos.

## 8. Farmers' Consultations

The allocation of cigarette tax revenues is a product of regular consultation with farmers. The city agricultural officer in San Fernando convenes the City Agriculture and Fisheries Council every month, where farmers submit and discuss their proposals before the Council. It is the same process in Vigan and San Gabriel. Meetings with farmer associations, town halls, and barangay cluster meetings are held, and proposals are submitted to the LGU. San Gabriel added that another platform is the Municipal Development Council, where farmers and fisherfolk associations are represented and given opportunities to present their proposals. The farmers' proposals feed into the local development and annual investment plans, the basic documents for prioritization and budgeting.

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<sup>7</sup> Based on interviews and case studies that were conducted in San Fernando City, Vigan City and San Gabriel La Union. The case studies are appended.

## 9. Wish Lists

Farmers shared the other projects that they needed. San Fernando tobacco farmers requested shredder machines to shred tobacco stalks as fertilizer and 4-wheel tractors to mechanize production fully. They requested the LGU for a management training course to help them run their farmers' cooperative more efficiently. Vigan farmers wished for better storage and drying areas, more farm machinery, fertilizers, and training on how to milk their farm animals.

The Mayors of the three LGUs have put forward some recommendations. San Gabriel Mayor Hermenegildo Velasco plans to use their revenue shares for future agricultural tourism projects to promote local economic development. San Fernando Mayor Hermenegildo Gualberto suggested using funds for scholarship programs for children of tobacco farmers. This has also been put on the table by Vigan Mayor Juan Carlo Medina. Mayor Medina also suggested using farmers' funds for crop insurance or health programs, but the DBM disapproved of it. He wondered why this was so when revenues are mainly allocated for universal health at the national level. He recommends that Mayors should be given more leeway to decide the usage of tobacco revenue shares, since they are more familiar with the needs of their farmers.

## 10. Assessing the Efficiency of LGU Fund Utilization

As early as 1991, the earmarking of cigarette tax revenues was intended to minimize objections to the excise tax reform. The strongest objections came from legislators from tobacco-growing provinces, however it cannot be discounted that rent-seeking behavior is behind their objections. The channeling of funds to their districts would give them greater popularity and power.

There are governance problems associated with earmarking. The fragmentation of revenues from a tax measure "reduces accountability by confusing voters as to who is responsible for what and who is paying for what."<sup>8</sup> It does away with a "hard budget constraint," a necessary condition in strengthening local governance. LGUs are not pressured to raise more revenues by utilizing their taxing powers by providing revenues from a centrally imposed tax. As earlier shown, tobacco growing LGUs have become reliant on their share from cigarette taxes.

Earmarking limits efficiency in fund management, and budgeting priorities are disparately set. Fund fragmentation works against a comprehensive approach in budgeting, and it can result in the misallocation of resources and inequity in fund allocation. Taxpayers pay cigarette taxes all over the country, yet its revenues are only used to benefit certain regions. Most seriously, earmarking can lead to corruption and incentivize the promotion of personal agendas in budgeting.

There are no studies to assess the efficiency of LGUs in spending their shares from cigarette taxes. Since funds are fungible, the Commission on Audit is unable to evaluate how LGUs spend their earmarked funds. This is an area that needs to be examined to establish accountability on how an amount of significant proportion has helped tobacco farmers. It is important to note that the earmarking of funds for tobacco-growing provinces has been practiced since 1991. Republic Act 7171 started allocating 15% of the excise taxes on cigarettes in tobacco-growing provinces. Thirty years later, we are still in the dark about how tobacco farmers have been helped.

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<sup>8</sup> Richard Bird and Michael Smart, "Earmarked Grants and Accountability in Government"> <https://english.im.dk/media/22429/richard-bird.pdf>

## Chapter 2

# The Market for Tobacco Alternatives

### 1. Difficulties in Giving Up Smoking

Smokers find it difficult to quit the habit. The 2009 Philippine Global Adult Tobacco Survey<sup>9</sup> reported that among those who smoked in the last 12 months, 47.8% attempted to quit smoking, and 12.3% stated that they used counseling. Still, only a small number, 4.5%, successfully stopped the habit. The Philippine Statistics Authority had similar findings, where only 4.0% of the country's 15.9 million smokers (4.02%) successfully kicked the habit. Another study observed that the decline in cigarette consumption in the country was accounted for by the decrease in the amount of cigarettes consumed by smokers, or a decline in smoking intensity, rather than by a decrease in the number of smokers.<sup>10</sup> This means that tax rate increases and the government's regulations effectively lowered the volume of cigarette consumption, but did not significantly reduce the number of smokers.

Several factors affect smoking habits. Smokers find it hard to overcome nicotine addiction and cannot resist the temptation to smoke due to work and lifestyle. Assistance to smokers to quit smoking<sup>11</sup> is perceived as inadequate and not user-friendly.

Similar studies in many cultures affirm that many smokers want to quit. A study in Switzerland places the figure at more than 70%. However, only a tiny fraction indicated that they had embarked on a preparation stage.<sup>12</sup> The difficulties in quitting smoking are associated with nicotine dependence. Every drug of abuse, including nicotine, releases dopamine, making the habit pleasurable. When smoking is stopped, the smoker experiences a deficiency of dopamine which cause states of dysphoria, anxiety, or depression.<sup>13</sup>

A focus group discussion<sup>14</sup> Synergeia conducted with smokers reaffirmed their difficulties in giving the habit up. Almost all of the respondents continued their smoking habits, notwithstanding the increase in excise taxes. Forty percent (40%) did not alter their smoking habits, and 60% made some adjustments. About 27% said they reduced the number of cigarette sticks they consume. Nine percent (9%) stated that they shifted to cheaper brands, and 5.0% continued smoking through the charity of their friends. Almost all of them (96.4%) believe that cigarettes are harmful effects on their health, but find it difficult to turn away from a practice that gives them pleasure.

- Many of them, or 43.6%, say that smoking relieves stress and fatigue.
- Nearly one-fourth, 23.6%, enjoy their food and coffee better while smoking.
- Nearly 20% (18.2%) believe that smoking helps them think clearly.
- A minority said smoking helps them forget their problem, allows them to bond with friends, and lose weight.

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<sup>9</sup> Department of Health, Philippines GATS Country Report, March 16, 2010

<sup>10</sup> Myrna Austria and Jesson Paduan, "Are Filipino Smokers More Sensitive to Cigarette Prices due to the Sin Tax Reform Law?: A Difference-", *DLSU Business & Economics Review* 28(2) 2019, pp. 10–25

<sup>11</sup> Kooi-Yau Chean, et. al. Barriers to in-difference Analysis smoking cessation: a qualitative study from the perspective of primary care in Malaysia

<sup>12</sup> P Marques-Vidal, "Prevalence and Factors Associated with Difficulty and Intention, 2011.

<sup>13</sup> American Heart Association News, "Why it is so hard to Quit Smoking?" October 17, 2018, <https://www.heart.org/en/news/2018/10/17/why-its-so-hard-to-quit-smoking>

<sup>14</sup> The results of the FGD are appended to this study.

Eighty percent (80%) of smokers expressed their desire to stop smoking, and nearly 40% see vaping as the most feasible alternative to smoking. Other reasons for cessation include marriage, raising a family, getting sick, and reaching 65.

## 2. New Markets

The birth of new markets accompanied the shrinking cigarette market. Heated tobacco products (HTPs), Electronic Nicotine and Non-Nicotine Delivery System (ENDS/ENNDS), and vapor products had been introduced. There has been a steady increase of consumers of these products, growing at an annual average of 38.69% from 2013 to 2020. While the number of vapers makes up less than 1.0% of the legal smoking population of the country, it is an increasing market, growing at an annual average of 38.69% from 2013 to 2020. Euromonitor estimated the vaping population in the Philippines at 250,000, which increases annually by 20% to 25%. More than half of them (55%) are daily vapers.

**Table 11. Number of Vapers and Consumers of Heated Tobacco Products (HTPs) in the Philippines**

Smokers, Vapers and Users of HTPs in the Philippines							
Year	Total Legal Smoking Population (1)	Total Number of Smokers (2)	% (2)/(1)	Total Number of HTP Users (3)	% (3)/(1)	Total Number of Vapers (4)	% (4)/(1)
2011	57,447,000	16,044,000	27.93				
2012	58,839,000	16,425,000	27.91				
2013	60,212,000	15,654,000	25.99			36,000	0.06
2014	61,582,000	15,323,000	24.88			67,000	0.10
2015	62,965,000	15,029,000	23.87			114,000	0.18
2016	64,390,000	15,204,000	23.61			160,000	0.25
2017	65,848,000	15,446,000	23.46			192,000	0.29
2018	67,337,000	15,677,000	23.28			228,000	0.34
2019	68,840,000	15,974,000	23.20			270,000	0.39
2020	70,343,000	16,269,000	23.12	4,000	0.006	316,000	0.45

Source: Euromonitor International Ltd, 2020, HTP: Heated Tobacco Product

These cigarette alternatives are described as "less harmful" and have been introduced as "harm reduction products." Vapor products have been presented as less harmful to health. Its proponents cite the research study of American Cancer Society, which concludes that e-cigarette use is likely to be significantly less harmful for adults than smoking regular cigarettes." It further explains that e-cigarettes do not contain or burn tobacco – a process that produces an estimated 7,000 chemicals, including at least 70 chemicals that cause cancer. However, the society poses a caveat: "the health effects of long-term use are not known," also mentioning that the aerosol that comes out of an e-cigarette could be harmful because it contains substances that are addictive.<sup>15</sup>

<sup>15</sup> American Cancer Society, "What do we know about e-cigarettes?" <https://web.archive.org/web/20190806152535/https://www.cancer.org/cancer/cancer-causes/tobacco-and-cancer/e-cigarettes.html>, accessed n June 26, 2021.

The US Center for Disease Control and Prevention warns that the effects of e-cigarettes on health are still being studied, noting that "the available science shows they contain harmful and potentially harmful ingredients and that youth use of any tobacco products, including heated products, is unsafe."<sup>16</sup>

Another study commissioned by Public Health England<sup>17</sup> came out with more definitive results. This study reported that electronic cigarettes (EC) are 95% safer than smoking, pose no risk of nicotine poisoning, and can help people quit smoking and reduce their cigarette consumption.

The DOH reiterated the Food and Drugs Authority (FDA) advisory that the nicotine replacement therapy of e-cigarettes has not been proven, referencing the WHO statement that there is no scientific evidence to confirm the efficiency and safety of e-cigarettes.

### 3. Harm Reduction Products.

Harm reduction products take several forms.<sup>18</sup> E-cigarettes can look like cigarettes, cigars, pipes, pens, USB flash drives, or maybe in other forms.

- E-cigarettes include a battery that turns the device on a heating element that heats the e-liquid and turns it into a vapor. It has a cartridge that holds the e-liquid and a mouthpiece to inhale the vapor. E-cigarettes are available in many shapes and sizes.



- E-cigarettes heat a liquid – called e-liquid or e-juice – to turn it into an aerosol or vapor. E-cigarette users inhale the vapor into their lungs, which is called "vaping." The e-liquid in most e-cigarettes contains nicotine but at different levels. Some e-cigarettes claim that they do not have nicotine. The WHO notes that E-cigarettes heat e-liquid, which may or may not contain nicotine and, in most cases do not contain tobacco.<sup>19</sup> The FDA has issued an advisory that there is no scientific evidence to confirm the safety and efficacy of these products.
- JUUL is a brand of e-cigarettes. They are small and look like USB flash drives, and can be charged in a computer.

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<sup>16</sup> [https://www.cdc.gov/tobacco/basic\\_information/e-cigarettes/Quick-Facts-on-the-Risks-of-E-cigarettes-for-Kids-Teens-and-Young-Adults.html](https://www.cdc.gov/tobacco/basic_information/e-cigarettes/Quick-Facts-on-the-Risks-of-E-cigarettes-for-Kids-Teens-and-Young-Adults.html), accessed January 20, 2022

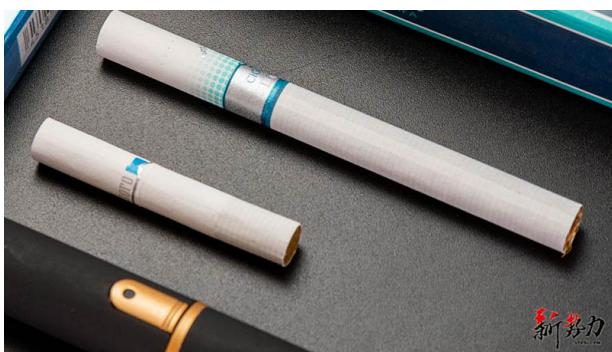
<sup>17</sup> McNeill A et. al, "E-Cigarettes: An Evidence Update-a Report Commissioned by Public Health England", 2015

<sup>18</sup> Ibid.

<sup>19</sup> World Health Organization, "Tobacco Free Initiative", [https://apps.who.int/tobacco/publications/prod\\_regulation/heated-tobacco-products/en/index.html](https://apps.who.int/tobacco/publications/prod_regulation/heated-tobacco-products/en/index.html)



- Heated Tobacco Products (HTP) are tobacco products that produce aerosols containing nicotine and other chemicals inhaled by users through the mouth. They contain nicotine and non-tobacco additives and are often flavored. HTPs mimic the behavior of smoking conventional cigarettes, and some use specifically designed



cigarettes to hold the tobacco for heating.<sup>20</sup>

- Philip Morris International (PMI) introduced HeatSticks (HEETS) in the Philippines in 2014, which are heated using a



device called IQOS with 0.5mg of nicotine. JTI introduced Ploom X, a device for heated tobacco sticks in 2021. BAT has introduced Glo, a similar product.

Other variants have been introduced in the market. There are battery-powered smoking devices with a cartridge filled with e-liquid or e-juice that contains nicotine, flavorings, and chemicals. The liquid is heated into a vapor, which the person inhales; thus, the term vaping.<sup>21</sup> There are several manufacturers in the country: Vapor Drops Manufacturing, Drizzle, etc. Their distributors and vaping stores have mushroomed in the

<sup>20</sup> WHO, Ibid.

<sup>21</sup> Kids' Health, "Vaping What You Need to Know," <https://kidshealth.org/en/parents/e-cigarettes.html>

country: Vape Warehouse with several branches, Vape Xpress in Manila, and Dark Vapers in Quezon City are some examples. They are available online and conveniently delivered to consumers' doorsteps with minimal costs.

### 3. Regulation of Tobacco Alternatives.

The production and distribution of cigarette alternatives are regulated in the Philippines. Executive Order 106, February 2020, requires that e-liquids, solutions or refills forming components of ENDS/ENNDS and HTP should be registered with FDA. All establishments engaged in manufacturing, distribution, and importation must secure a license to operate from the FDA. All devices that form components of ENDS (Electronic Nicotine Delivery Systems) or e-cigarettes and Heated Tobacco Products (HTPs) are subject to product standards from the Department of Trade and Industry (DTI). The sale of these products to individuals below 21 is prohibited and carries a penalty of P10,000 and imprisonment of 30 days. The World Health Organization (WHO) maintains that HTPs contain nicotine and are addictive.

The Philippine government levied an excise tax on alternatives to cigarettes. Heated tobacco is levied at lower rates than cigarettes, but vapor products will be taxed most heavily starting in 2023.

**Table 13. Taxation of Cigarettes and Their Alternatives, in pesos and per pack**

Product, per pack	2020	2021	2022	2023	2024
Cigarettes	45.00	50.00	55.00	50.00	5% increase annually
Heated tobacco	25.00	27.50	30.00	32.50	5% increase annually
Vapor products	37.00	42.00	47.00	52.00	5% increase annually

Smoking and vaping are prohibited in enclosed public places, except in Designated Smoking Areas (DSAs). There are places where DSAs are not allowed, such as in centers of youth activities, elevators and stairwells, locations with fire hazards, health facilities, and food preparation areas. The requirements for DSAs are rigorous, including those on location, size, signage, and buffer zones.

### 4. The Consumers of Heated Tobacco Products (HTPs) and Vaporized Nicotine Products (VPNs).

Synergeia conducted an online survey and followed it through with personal interviews in 55 <sup>22</sup>different localities to obtain a profile of vapers and HTP consumers.

- They are primarily young, and more than one-half are within the 22-24 age group. We also found vapers who are below the age of 18.
- 40% are college students, and 41.5% are college graduates.
- 40% are employees, and 22% are laborers.
- About 50% of the vapers earn P12,000 and below every month.

<sup>22</sup> Our online survey had 55 respondents and we interviewed an equal number who were in vaping stores in Obando, Bulacan, Muntinlupa, Pasay, Bacolod City, and Baguio city.

- Over 40% (41.5%) vape regularly, and an almost equal number do it once in a while.
- Over a quarter (32%) have been vaping for more than two years; 29% are new vapers
- Most of them have shifted to vaping as a means to stop smoking.
- Thirty percent (30%) believe that vaping is not as harmful as cigarettes. A common observation is that "Vaping can relieve stress without harming our lungs."
- All respondents consider vaping to be cheaper and more affordable than cigarettes.
- 50% said they limit their puffs to 100 per day; a significant number says they do as many as 200 puffs.

All respondents agree that vaping is better than cigarettes in many respects. They find delight in the many flavors of e-juice—strawberry, cheesecake, menthol, apple, banana, and other citrus fruits. They are rid of smokers' breath and stains in their teeth. And they are given peer support through group chats in Viber and Facebook: Vapers Philippines 21 +, Vapers Community ph; Makati Vapers; Vaper Hut; and Pro Vape, among many others. These online groups enable them to share experiences, connect with new acquaintances, and become introduced to new products.

Firms like Philip Morris International have launched an aggressive campaign to entice smokers to shift to vaping, and non-smokers are incentivized to try vaping. The "Test Drive" campaign gives prospective users a free trial of the IQOS device for 14 days upon registration to the IQOS website and two packs of Heets (tobacco stick with 0.5mg of nicotine). During the trial period, an IQOS coach is assigned to guide users in using the device and give him/her assistance. At the end of the trial, the user is given the option to purchase the device at a lower price of P2,990 (i.e. with a P1,000 discount). Based on interviews, most users who try the device end up buying it. If a friend is referred for a trial by an IQOS user, a P1,500 voucher is given. IQOS has a dedicated Facebook page to connect with their clients as part of customer support. There are seven IQOS Boutique stores and eight pop-up stores located in popular malls in Metro Manila. The device is available only at the NCR, but plans are in place for distribution in key cities in the country. As part of customer support, IQOS connects with their clients through a dedicated Facebook page, Messenger, Chatbot, Viber <http://bit.ly/iqosviberph>, email: [contact.ph@iqos.com](mailto:contact.ph@iqos.com), and dedicated phone support (#83838). PMI makes use of influencers on social media to target young people. Social media posts using #iqos have been viewed 179 million times on Twitter and Instagram between March 20, 2018, and March 20, 2019.

## 5. The Tobacco Cessation Program of DOH.

The DOH, in partnership with the Lung Center of the Philippines, has a dedicated program called Quickline that provides behavioral support and pharmacotherapy to those who would like to quit smoking. A hotline "1558" and a Facebook page are part of the program. This Facebook page features videos and infographics that incentivize people to overcome their smoking habits.

However, this Facebook page has only 2,100 followers, and most of its posts are from DOH. In contrast, a small vape shop in Valenzuela City has 9,400 followers and is populated with personal messages, like "Are u up?" Members exchange offers like swapping a silver necklace for an electronic device and police themselves by reporting posts by customers who are below 21.

The DOH program, though, has several redeeming factors. Its hotline is staffed with capable and courteous counselors. They are psychology majors who have had special training in helping people with smoking cessation. A caller is guided to develop a "quit plan" after a virtual assessment of his or her smoking history,

and is then assigned a coach who follows up his or her progress for three days. This monitoring continues weekly for up to two months, when the program is expected to be completed. Special cases are referred to a doctor who can prescribe the use of free nicotine patches.



## 6. Anti-Vaping Campaign.

The DOH has embarked on an anti-vaping campaign in the face of a growing market for tobacco alternatives. The 2019 Global Youth Tobacco Survey (GYTS)<sup>23</sup> revealed that about 14.1% or one in seven students aged 13 to 15 said they are currently using e-cigarettes. One in four or 24.5% of students have tried using e-cigarettes. The same survey reported that about two in five students said that it was easy for them to buy tobacco products regardless of their age.

Another study conducted by the Philippine Pediatric Society (PPS)<sup>24</sup> reported that 6.7% of 11,500 juniors and high school students use e-cigarettes. The reasons they gave for vaping are the following: their online accessibility (32%), varied flavors of e juice (22%), and the belief that e-cigarettes are safer than tobacco (17%). These findings are similar to the online survey results and interviews that Synergeia conducted. Our interviews noted that youth below 18 were found in vape stores. The owner admitted that they do not ask for proof of their customers' age. Minors have easy access to online purchases, and the only qualifier for access is a "Yes" answer that the online user is 21 years old and above.

To strengthen its campaign against heated tobacco products, the DOH embarked on a massive campaign supporting HB 9007, entitled "Non-Combustible Nicotine Delivery Systems Regulation Act," introduced in the Lower House of Congress. This bill provides for the following:

- Retailers can only sell electronic nicotine delivery systems (ENDS), electronic non-nicotine delivery systems (ENNDS), or HTPs.
- Selling to minors is prohibited. Retailers are required to ask buyers to present a valid ID
- Packaging is regulated, and packages should carry the following warning: "This product contains nicotine, a highly addictive substance."

<sup>23</sup> <https://www.plcpd.org.ph/new-study-reveals-1-in-7-pinoy-students-aged-13-15-use-e-cigarettes/>, September 23, 2021.

<sup>24</sup> <https://www.deped.gov.ph/2021/04/04/deped-supports-strict-measures-against-e-cigarettes/>, accessed, January 20, 2021.

- All e-liquid receptacles must be child-resistant, tamper-resistant, and protected against breakage and leakage.
- Alternative products are prohibited in all enclosed public places except in designated vaping areas. Indoor use of these products is not allowed in schools, hospitals, government offices, and facilities intended for minors.
- The sale or distribution of ENDS, ENDDS, HTPs within 100 meters from any point of the perimeter of a school, playground, or other facility frequented by minors is prohibited.
- Manufacturers are prohibited from sponsoring any sport, concert, or cultural or art event.
- Requirements are prescribed for vaping areas—they shall not be bigger than 20 percent of the total floor area of the building or conveyance but shall not be less than 10 square meters.

The bill, however, allows the online selling of the products.

The DOH presented a survey conducted by Pulse Asia, which showed that 4% of Filipinos use vape products<sup>25</sup>. Almost 80% (77%) believe that vape products pose a serious health hazard. A significant number, 70% to 74%, support a 100% vape-free policy in public places and restrict access to those who are at least 21 to the products.

Opposition to the bill was equally organized, led by the National Consumers Union of the Philippines (NCUP), Vaper AKO<sup>26</sup>, the Philippines E-Cigarette Industry Association, and Vapers' Alliance.<sup>27</sup> They challenged DOH and anti-vaping organizations to base their arguments on scientific studies. They also raised the danger that vapers will turn to smoking, which presents more health risks, and advocated for the right of vapers to choose less harmful alternatives.

The Senate of the Philippines significantly amended the House bill. The Senate-approved version sets significant restrictions on the use of vape and heated tobacco products. However, this bill lowers the minimum age of access from 21 to 18, and transfers supervision of these products from the FDA into the Department of Trade and Industry.

In explaining his vote, the Senate Minority Leader, Senator Frank Drilon, said that it had not been conclusively and concretely shown that vaping is as harmful as cigarettes. The Senate's intentions to "help bring down further the prevalence of smoking in the country by helping those who want to quit smoking to turn to vapes and E-cigarettes as cessation aids."<sup>28</sup> He advised using persuasion instead of compulsion and coercion, which the government used in the past.

The DOH and some 48 medical organizations vehemently opposed the Senate version. They emphasized that lowering access to vaping from 21 to 18 puts young Filipinos at risk by exposing them to harmful substances. They questioned the transfer of the regulatory powers on a health issue from FDA to DTI. A veto of the bill was strongly recommended.

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<sup>25</sup> This is the same number which is estimated by Euromonitor International Ltd.

<sup>26</sup> <https://newsinfo.inquirer.net/1524629/groups-allegedly-funded-by-bloomberg-philanthropies-accused-of-demonizing-vaping-bill> accessed on January 20, 2022.

<sup>27</sup> The Alliance is alleged to be funded by British American Tobacco. ><https://www.thedailybeast.com/world-vapers-alliance-slams-cigarettes-big-british-american-tobacco-is-secretly-behind-it>

<sup>28</sup> Photo release, Senate of the Philippines, [http://legacy.senate.gov.ph/photo\\_release/2021/1216\\_07.asp](http://legacy.senate.gov.ph/photo_release/2021/1216_07.asp), accessed January 20, 2022.

## Concluding Notes

The reform of excise taxation in the Philippines has a long and colorful history. It started in 1991 as a fiscal issue. Cigarette manufacturers were found to be under-declaring the value of cigarettes to avoid paying taxes. The Department of Finance estimated that tax avoidance practices were costing the government some P25.0 billion annually. The opportunity costs of tax avoidance were significant. Tax avoidance was tantamount to depriving the poor of better social services such as health, housing and education. The DOF fought hard to shift from ad valorem to specific taxation by advancing the argument that specific taxation is easier to administer. A tax per pack of cigarettes is also more effective in internalizing the costs of smoking. However, health issues were not on the agenda, and the Department of Health did not take part in the campaign.

Specific taxation was adopted, but the other features of the reforms were not: adoption of a unitary rate and an automatic indexation of tax rates to inflation. The earmarking of the revenues from the reforms was introduced as a political tool to help fend off objections from Legislators from tobacco-growing provinces.

A decade later, the dangers of smoking became a worldwide issue. The Philippine government was a signatory to the Framework Convention on Tobacco Control (FCTC), a treaty initiated by the World Health Organization (WHO). Pursuant to the FCTC, the parties shall develop and implement comprehensive national tobacco control strategies, plans, and programs according to the provisions of the Convention and the protocols.

As a party to the Treaty, the Philippines has enacted a full complement of laws and regulations towards tobacco control that now covers all tobacco products, including ENDS, ENNDS, HTPs and newer tobacco products. With the help of international organizations like WHO and civil society, the government successfully legislated its needed cigarette tax reforms: a unitary tax rate and a periodic increase in the tax rates. In addition, policies and programs were formulated to curb smoking and help those who are hooked on smoking. For five years from the enactment of the Tobacco Regulation Act of 2003, the National Government and its agencies were tasked to undertake the following programs and projects, among others:

- a. National Smoking Cessation Program to be led by the DOH
- b. National Tobacco-Free Public Education Program to provide scholarships to dependents of tobacco growers
- c. Health programs award grants to medical institutions planning, implementing and evaluating activities on smoking-related illness.
- d. Withdrawal Clinics to be established by DOH

The Department of Education was tasked to use the graphic health warning templates to educate children and ensure that these are included as part of the relevant subjects in the K-12 curriculum.

The laws were also specific on how the revenues from the tax reforms were to be used. Eighty-five percent was to be used for health promotion and universal health care, and fifteen percent was earmarked to provide tobacco farmers access to alternative livelihoods. Under the Tobacco Regulations Act of 2003, the National Government and its agencies were tasked to undertake the following programs and projects for 5 years:

- a. Tobacco Growers' Assistance Program for farmers who were displaced or voluntarily ceased to produce tobacco.
- b. Tobacco Growers Cooperative to assist shifting to alternative farming systems or crops.
- c. The research and development program on tobacco farming and alternative uses spearheaded by the

NTA and DOST.

- d. National Tobacco-Free Public Education Program to provide scholarships to dependents of tobacco growers.
- e. Displaced Cigarette Factory Worker Assistance Program to be established by the Department of Labor and Employment.

The cigarette tax reforms generated substantial revenues for the government. Before the pandemic, the government realized P148.3 billion in 2019 from their legislation.

However, the other equally-important objectives of the reforms have not been successfully pursued, including the control of smoking, promotion of better health, and providing farmers with better access to alternative livelihoods.

Data showed that only a tiny portion of smokers successfully kicked the habit: only 4.0% of the 15.9 million smoking population.

Health programs continue to be under-funded and under-delivered because of the low absorptive capacity of the DOH, an inadequate campaign to inform vulnerable families of the universal health care program, bureaucratic procedures, and allegations of inefficiencies and corruption.

Earmarking of revenues to LGUs has not been accompanied by measures to promote accountability in expenditure management. Recipient provinces also raise delays of the central government in fund releases, which hamper systemic planning and implementation.

With these issues still unresolved, the government is now engaged in another campaign to prevent the development and growth of the market for electronic cigarettes, vaping, and heated tobacco products. The issues are contentious. Tobacco alternatives are presented as less harmful to health and would be helpful to those who are trying to quit smoking. But the WHO contends that the short and long term-effects of alternatives to tobacco have not been scientifically proven. The government is alarmed with the attraction of youth to vaping.

Studies on these issues will be helpful, especially on:

- Processes on how the DOH can better utilize the revenues from cigarette taxes to promote the efficient delivery of health services, particularly to the poor.
- Assessment of the effectiveness and results of the smoking cessation program of DOH.
- Promoting accountability on how local governments utilize revenues to help the farmers.
- Assessing how farmers have benefited from programs that were mandated by law.
- Programs that can promote a widespread education of students on tobacco alternatives.
- Efficient implementation of government regulations on access to tobacco alternatives.

The tobacco control program has been pursued through compulsion and regulation. There is wisdom in strengthening the program through persuasion, education, and effective delivery of government services.<sup>29</sup>

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<sup>29</sup> Quoting Senator Franklin Drilon.