

Tobacco Market in Iran and Political Economy of Tobacco Control

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An overview of Iran's economy

Table 1. Iran Macroeconomic Indicators

Indicator	2021*	2020	2019	2018
Country Population (million)	85	84.149	83.27	82.36
Population growth (Annual percent change)	1.01	1.06	1.10	1.15
GDP per capita, current prices (PPP dollars per capita)	13510	13070	12860	13700
GDP based on PPP, share of world (Percent)	0.81	0.84	0.79	0.88
GDP per capita, current prices (U.S. dollars per capita)	8030	7550	6980	5540
Real GDP growth (Annual percent change)	2.5	1.5	-6.80	-6
Inflation rate (CPI annual percent change)	39	36.50	34.6	30.2
Unemployment rate (Percent)	11.2	10.80	10.7	12
Economic Participation Rate (Percent)	40.90	44.10	44.5	44.9

* Predictions
Sources: IMF (2021) & Economic and Financial Databank of Iran (2021)

- ❑ Current population is more than 85 million.
- ❑ Population pyramids shows higher proportions in youth.
- ❑ Population growth rate is diminishing
- ❑ Population is getting older

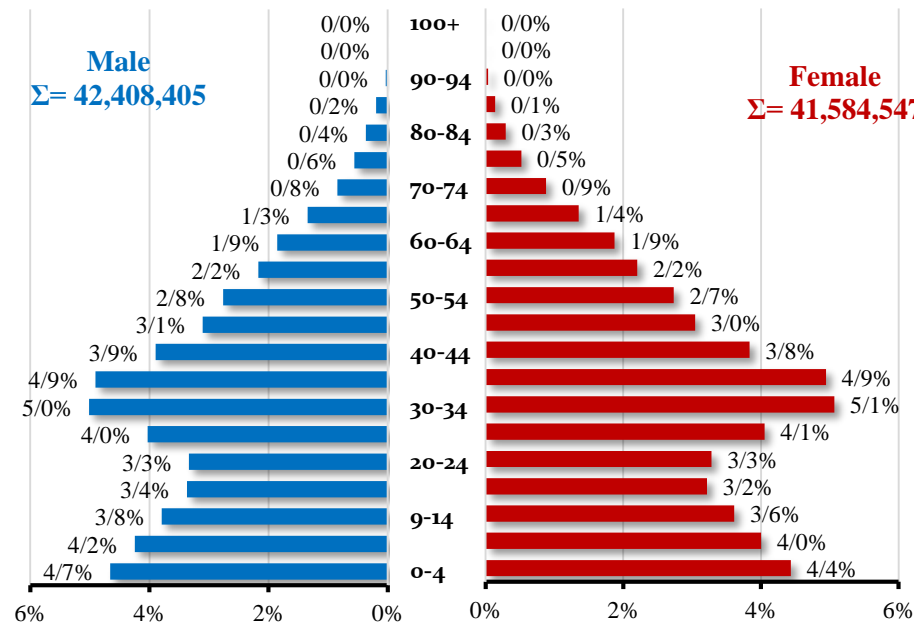


Figure 2. Population Pyramids of the Iran, 2020

Smoking will greatly increase the future costs of society by exacerbating the effects of aging and causing disease

Tobacco Supply Chain in Iran

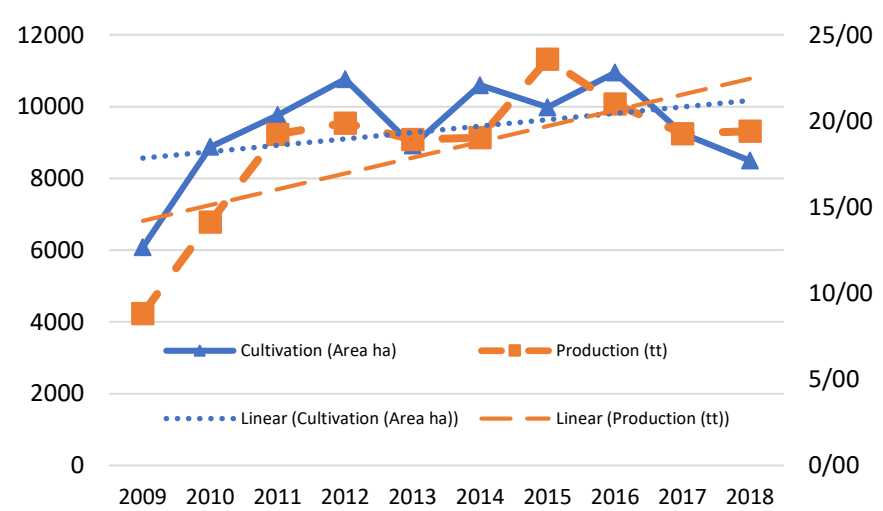
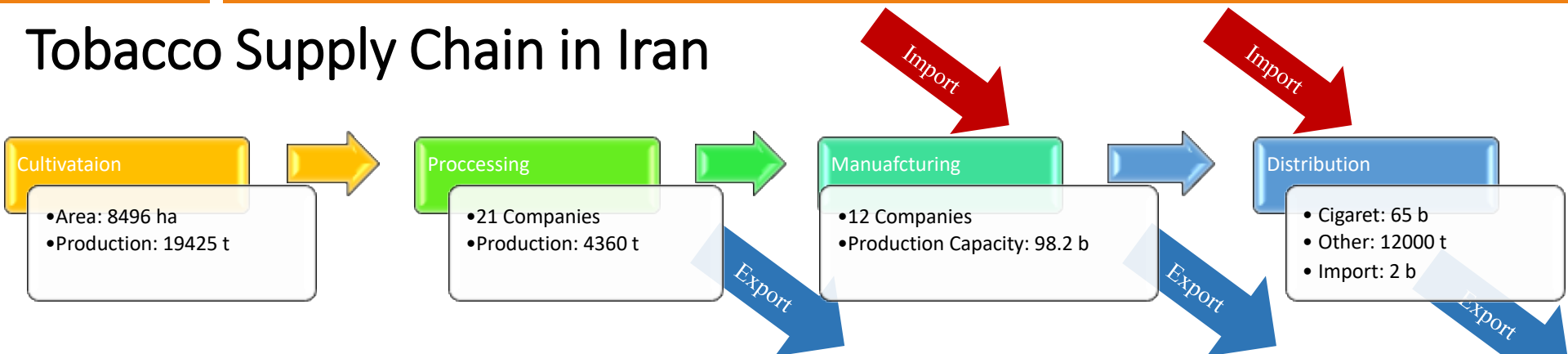


Figure 6. Tobacco Cultivation

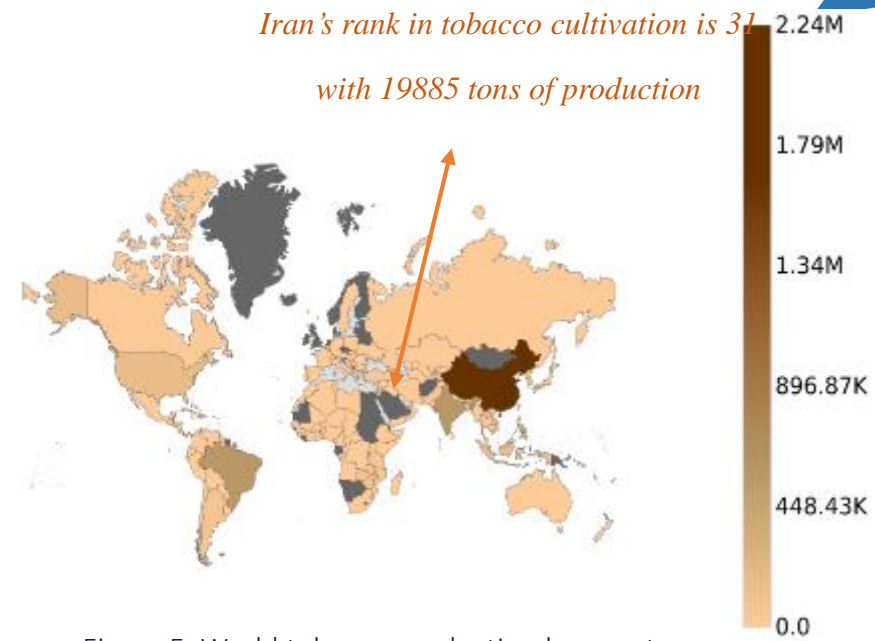


Figure 5. World tobacco production by country

Investigating tobacco market in Iran

Tobacco Supply Chain in Iran

Table 6. Employment in tobacco sector

Sector	Direct	Indirect	Sum
Cultivation Sector	4280	84960	89240
Manufacturing Sector	8131	33624	41755
Distribution and Retail Sector	7904	420000	427904
Sum	20315	538584	558899

Source: Authors based on official data

Table 16. Iran Cigarette Market Overview (2013-2019)

#	Year	2013	2014	2015	2016	2017	2018	2019
1	Consumption*	55	55	55	57	57.6	58.3	60
2	Official Import	10	13.6	16.4	4	3.3	0	0
3	Domestic Production	38	29.5	30	45	49.4	48	54.8
4	Export	0	0.6	0.1	0.1	1.8	0.15	0.18
5	Cigarette Smuggling*	7	12.5	8.6	8	6.7	10.3	4.5
6	Discovered Cigarette Smuggling	0.24	0.38	0.44	1.74	0.78	0.57	0.52

* Estimation

Source: Based on data retrieved from Tobacco Planning and Monitoring Center and Iran Headquarters for Combating the Smuggling of Commodities and Foreign Exchange

Figure 7. Unorganized Tobacco Product Wholesale Market
(Tehran Grand Bazaar)



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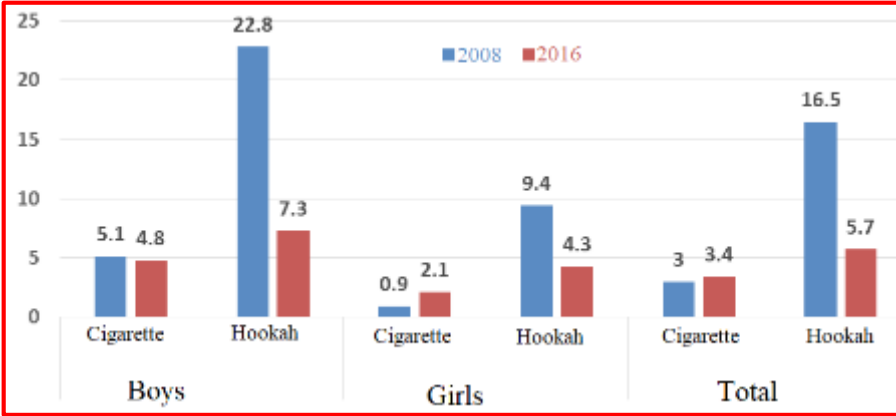
Tobacco Market Demand Side

Table 15. Daily tobacco prevalence among 15 years and older in Iran (2008-2016)

Prevalence in 15 years & older	Sex	2008	2009	2010	2011	2012	2016*
Daily Cigarette Smoking	Male	20.82	21.65	21.19	20.39	20.26	20.06
	Female	0.86	0.88	0.81	1.02	0.63	0.93
	Total	10.96	11.39	1.13	10.82	10.56	10.08
Daily Hookah Smoking	Male	-	3.46	3.56	2.93	4.72	-
	Female	-	2.31	1.69	2.01	2.3	-
	Total	-	2.89	2.64	2.48	3.52	-

* In 2016, the prevalence in the age group over 18 years was estimated.
There is no information about hookah this year.
Source: CSS, 2021

Figure 10. Tobacco prevalence among teenager (13-15)



- ❑ 10.2% of teenagers were smokers at the time of the project (12.9% boys and 7.7% girls)
- ❑ 3.4% of teenagers were cigarette smokers at the time of the project (4.8% of boys and 1.2% of girls).
- ❑ 5.7% of teenagers were hookah smokers at the time of the project (4.8% of boys and 1.2% of girls).
- ❑ 1.9% of teenagers were smokeless smokers at the time of the project (3.1% of boys and 0.8% of girls).

Investigating tobacco market in Iran

Tobacco Affordability in Iran

Table 17. Cigarette Affordability in Iran and Selected Countries (2018)

Country	Affordability	Rank	Country	Affordability	Rank
Iraq	0.73	5	Tajikistan	10.82	45
Kuwait	0.88	6	India	13.49	55
Japan	1	8	China	2.22	74
US	1.1	10	Estonia	2.26	75
Republic of Korea	1.28	14	Mexico	2.66	86
UAE	1.31	15	UK	2.98	96
Brazil	1.52	17	Turkey	3.02	108
Azerbaijan	1.54	18	Saudi Arabia	3.16	111
Germany	1.56	19	Georgia	3.3	113
Iran	1.83	30	Egypt	3.5	121
Russian Federation	1.83	31	Malaysia	3.87	128
Lebanon	1.86	32	Indonesia	4.71	140
Canada	1.96	39	Morocco	6.48	158

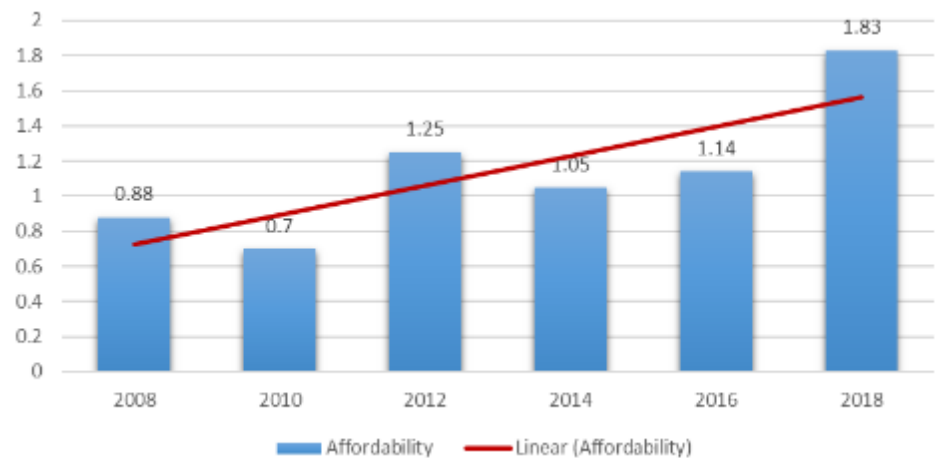


Figure 11. Changes in cigarette affordability in Iran (2008-2018)

- Even though the price of cigarettes, expressed in a common currency, is much higher in high income countries, cigarettes are much more affordable in these countries than in low- and middle-income countries. The reason is that the relative difference in average income levels between high income and low- and middle-income countries is larger than the relative difference in cigarette prices.
- Since cigarette affordability is defined as the cost of cigarettes relative to income, changes in cigarette affordability are determined by changes in cigarette prices and changes in income.

Investigating tobacco market in Iran

Tobacco Affordability in Iran

Table 18. Share of Tobacco Cost in Household Budget (2019)

Income Decile	Income	Tobacco Expenditure	Share
1	69567080600	308979500	0.444%
2	198853000000	500010000	0.251%
3	318979000000	453596000	0.142%
4	383332000000	517513000	0.135%
5	470010000000	563055200	0.120%
6	562890000000	480883400	0.085%
7	666856000000	428188840	0.064%
8	796024000000	425657000	0.053%
9	1044260000000	418452500	0.040%
10	3867480000000	527306000	0.014%
Average	8378250000000	4623641440	0.055%

Despite the large fluctuations in total household expenditures from 2011 to 2019, expenditures on tobacco have fluctuated less and its share is diminishing.

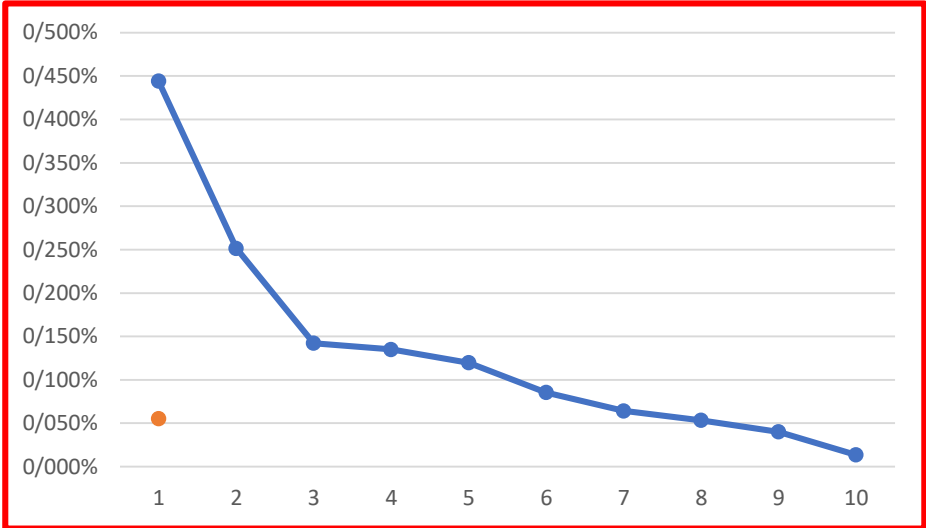


Figure 12. Share of Tobacco Expenditure in Household Budget (2019)

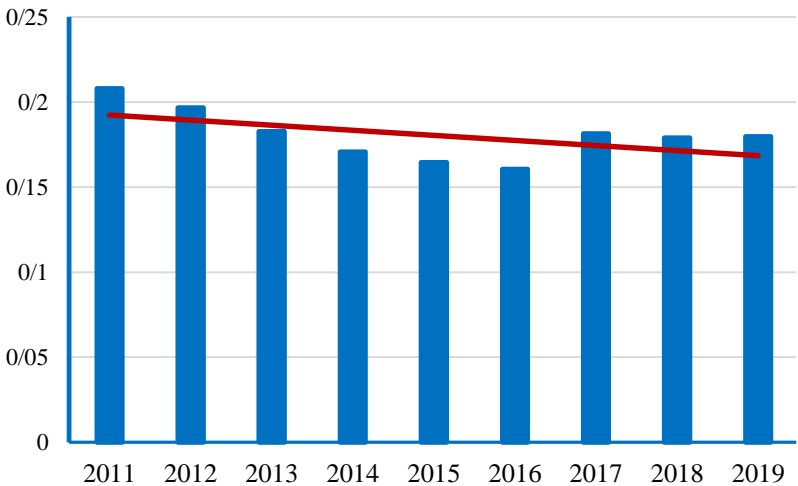


Figure 14. Share of tobacco expenditures in households' total expenditure (2011-2019)

Tobacco market regulation and Taxation

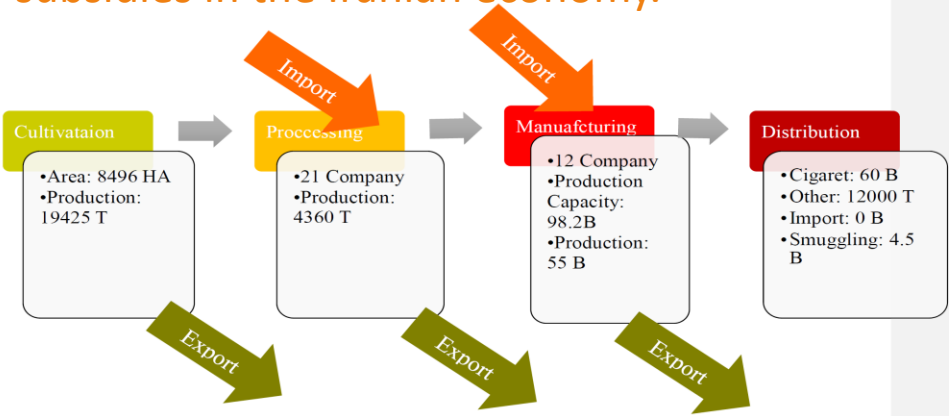
Most of the laws enacted in Iran have focused more on demand side than supply side. It seems that an attempt has been made to control tobacco using by adopting command and control and incentive-based tools on the demand side.

- Comprehensive Act on National Control and Campaign Against Tobacco, 2006
- Comprehensive Act on National Control and Campaign Against Tobacco, 2007
- Executive Bylaw: Affixing Health Warnings on the Packages of Cigarettes and Tobacco Materials, 2008
- Executive Guidelines of Clause A, Article 2 of the Comprehensive Act on National Control and Campaign Against Tobacco, 2014

#	Title	Base	Rate (%)	Base Valuing
1	Entry Fee	Import	5%	CIF Value
2	Commercial profit	Import	20%	CIF Value
3	Fees	Import	40%	CIF Value
4	Fees	Domestic Products	10%	Factory price
5	Fees	Joint Products	20%	Factory price
6	Fees	Foreign Brand Production	25%	Factory price
7	Monopoly Right	Production	2%	Factory price
8	Monopoly Right	Import	10%	F.O.B Value
9	Red Crescent Fee (General)	Import	5%	Entry Right
10	VAT	Production and Import	15%	Sale/CIF Value + Entry Right

Explicit and implicit subsidies in various stages of production and distribution of tobacco products

There are more than \$ 63 billion in hidden subsidies in the Iranian economy.



Highlights

- Annual cigarettes consumption is 60 billion and hookah tobacco consumption is more than ten thousands of tons.
- In recent years, the production of tobacco to replace imports, has increased.
- The area under tobacco cultivation and its production has increased. Production of final products is also increasing.
- Production capacity is about 98 billion cigarettes in the country. The nominal capacity of manufacturing companies exceeds the domestic consumption and the export of their products is small!
- Although there have been some successes in controlling tobacco use, there are fundamental concerns due to the lack of strict policies.
- Government intervention in tobacco market in order to control tobacco use, is focusing more on the demand-side and there is no serious action to impose restrictions on the supply-side.
- There are many subsidies in the Iranian economy that practically neutralize the effect of taxes imposed. So we need very high tax rates to control tobacco.

Methodology

- Main technique to address the political economy of the tobacco sector is the “Problem-Driven Analysis” framework, developed by the World Bank.
- Qualitative synthesis of document sources related tobacco sector and stakeholders, policy making process in Iran is conducted.
- Websites of key stakeholders (identified after an initial screening of documents) was reviewed to identify grey literature relevant to the analysis.
- Data included scientific publications (reviews, research articles, case studies, and commentaries), reports, newspaper articles, legal documentation and press releases by organizations and government officials generated.

Macro-level country analysis:
for general sensitization to
country context

Analysis focused on a sector
or cross-cutting issue:
for identification of specific
barriers and opportunities

Problem-driven analysis:
for illuminating a particular
problem of policy or operations

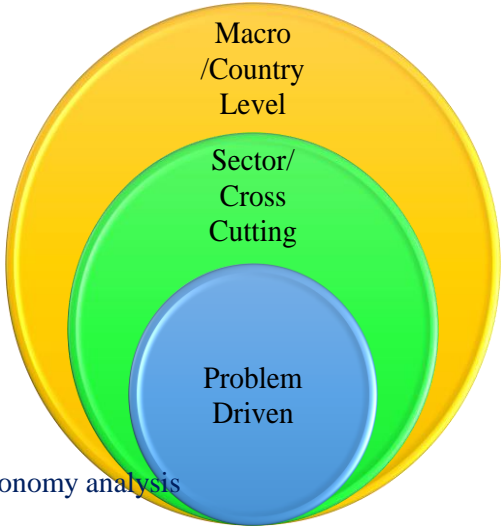


Figure 2. Levels of political economy analysis

Table 1. Analytical framework based on problem driven political economy framework

Problem Identification	
The Players Influence on Tobacco Taxation and Control Programs in Iran	
Structural Diagnosis	Agency Diagnosis
<ul style="list-style-type: none">• Context¹• Institutional arrangements• Policy process• Governance principles²	<ul style="list-style-type: none">• Actors involved• Market and non-market strategies• Motivations and framings for and against policy• Nature of policy coalitions
What can be done? (Challenges and opportunities identified)	
<ul style="list-style-type: none">• Lessons learned• Alternative and plausible changes to the current things	

1. Socio-political conditions
2. Transparency, Accountability, Participation
3. Power imbalance etc., Normative values

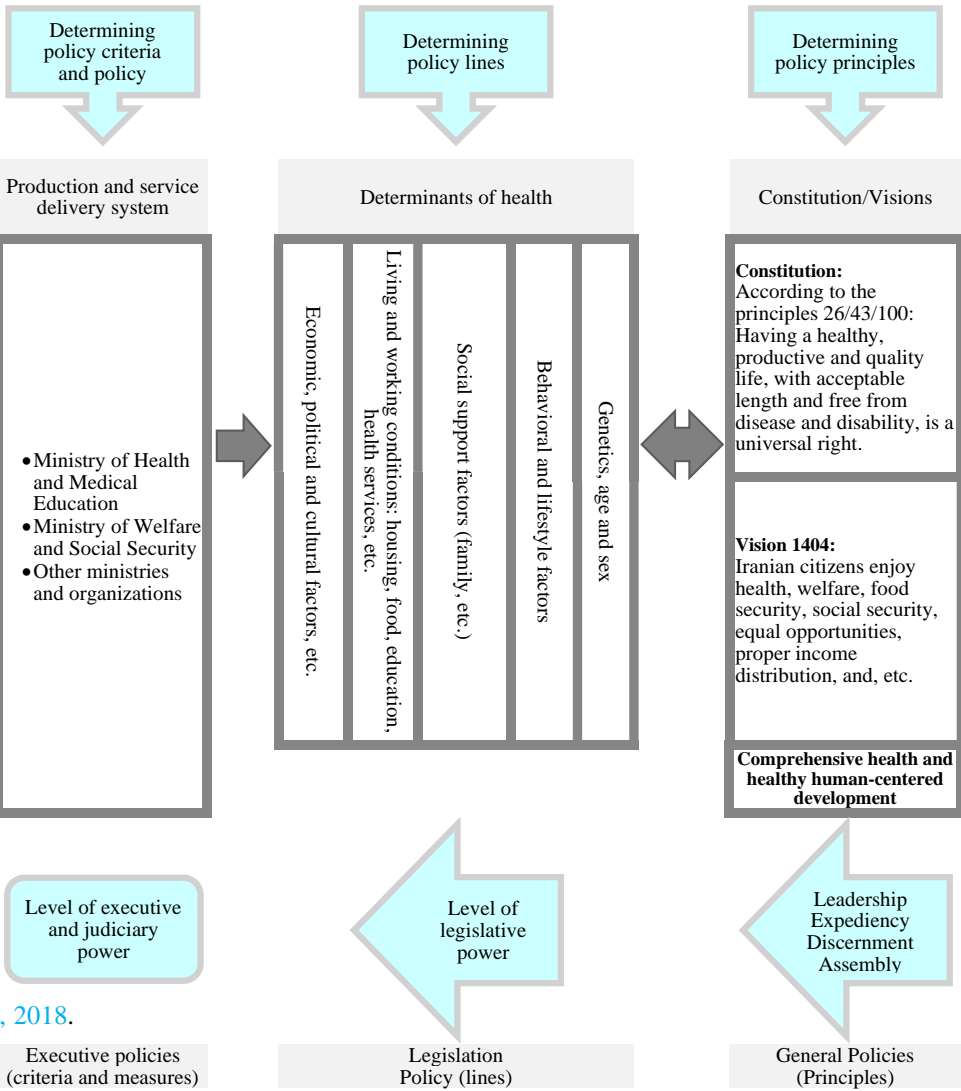
Structure and Context

Table 2. effective institutions in health policy-making

#	Level	Institutions
1	Level of General policies/Macro	<ul style="list-style-type: none">• Leadership Institution: approving and communicating the general policies of the country• Expediency Discernment Assembly (Majma'-e Taākhīs-e Maslahat-e Nezām): Designing the general policies of the country
		<ul style="list-style-type: none">• High Insurance Council: Design and approval of insurance policies• High Council for Health Food Security: Improving health and improving the quality of life
2	Executive policies Plan and act	<ul style="list-style-type: none">• Parliament: enacting legislation, approving budgets and mobilizing resources for health programs• High Council for Medical Sciences Planning: Design and approval of macro policies in the field of health
3	Planning and Execution level	<ul style="list-style-type: none">• Ministry of Health and Medical Education (MHME)• Ministry of Welfare and Social Security (MWSS)
		<ul style="list-style-type: none">• Ministry of Economic Affairs and Finance (MEAF)• Ministry of Industry, Mine and Trade (MIMT)• Ministry of Agriculture Jihad (MAJ)• Judiciary System

Figure 3. Public health policy system in Iran

Source: Adopted from [Vahdaninia and Moghaddam, 2018](#).



Stakeholders and their influence

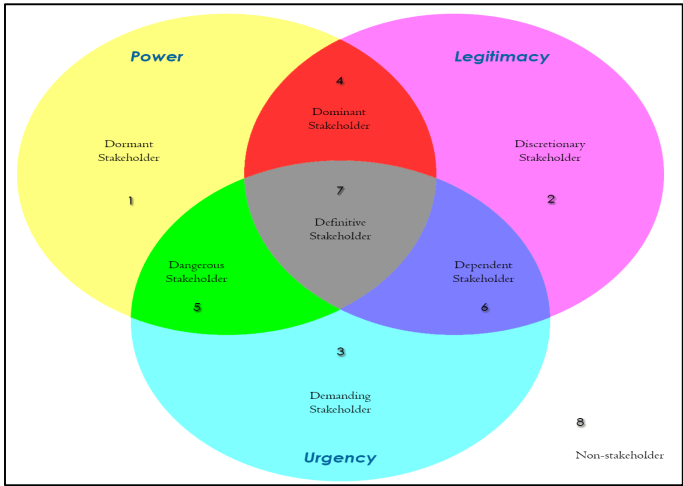


Figure 4. Stakeholder typology in political economy analysis

Source: Mitchell et.al. (1997)

Table 4. Stakeholders identified to be involved in tobacco control policy making

Type of Actor	Stakeholder
Government	Ministry of Health and Medical Education (MOHME)
	Parliament (Majles-e Shouraye Islami)
	Ministry of Economic Affairs and Finance (MEAF)
	Ministry of Industry, Mine and Trade (MIMT)
Private Sector	Ministry of Agriculture Jihad (MAJ)
	National Tobacco Company (NTC) ¹
	Tobacco Importers
	Tobacco Products, Manufactures, Exporters and Importers Association (TIEMA)
Civil Society	Tobacco Products Distributors Association (TPDA)
	Tobacco Control Research Center (TCRC)
	Media
	Health Activists
Academia	Tobacco Users
	Tobacco Users' Family and Colleagues (People around)
	National Institute for Health Research (NIHR)
	Tobacco Prevention and Control Research Center (TPCRC)

1. NTC is a state-owned enterprise but act like a private company
Source: Researchers based on literature

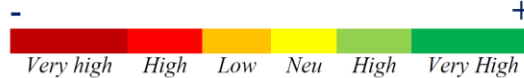
Political economy of tobacco sector

Stakeholders and their influence

Table 5. Tobacco stakeholders and their preferences toward tobacco control policies

#	Stakeholder	Preferences	Intensity of Preferences	Power	Result
1	MOHME	+		M	
2	Parliament	UNK		H	
3	MEAF	UNK		M	
4	MIMT	-		M	
5	MAJ	-		M	
6	NTC	-		M	
7	Tobacco Importers	-		L	
8	TIEMA	-		L/M	
9	TPDA	-		L/M	
10	TCRC	+		L	
11	Media	+		M	
12	Health Activists	+		L	
13	Tobacco Users	-		L	
14	People around	+		L	
15	NIHR	+		L	
16	TPCRC	+		L	

H: *High*, M: *Medium*, L: *Low*



Source: Current research

Policy Making Process in Iran for tobacco control

- 1. Forming a policy or legislative proposal
- 2. Formulating policies in the form of a parliament proposal or government bill
- 3. Negotiation, consultation and approval of policies
- 4. Policy implementation
- 5. Policy evaluation

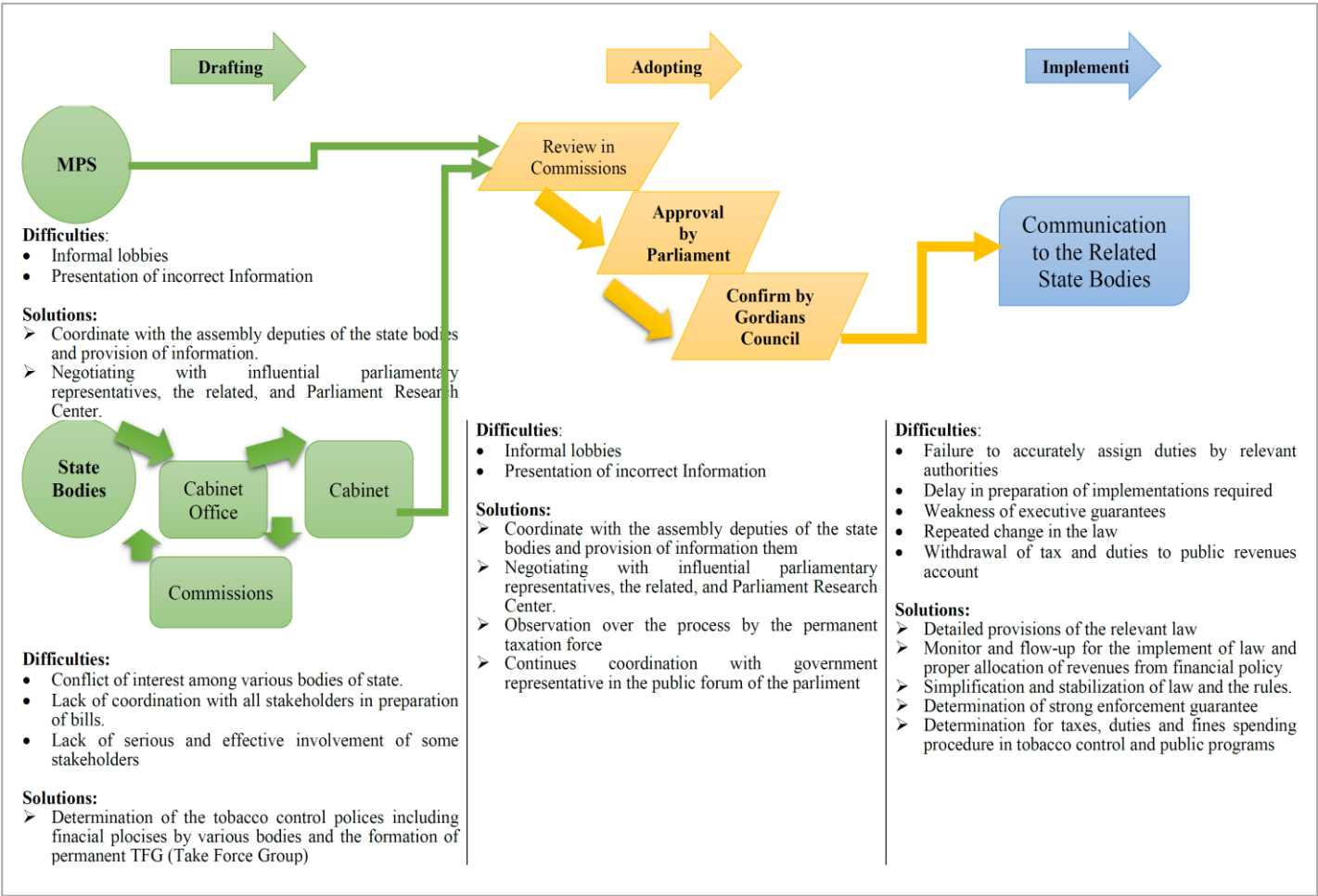


Figure 6. Tobacco control policy making in Iran's political system

Highlights

- Effective tobacco control policies are well researched and widely disseminated, but they remain largely unimplemented in Iran.
- Iran's governance system and sectoral organization in the public administration of the country, regardless of overlaps, synergies and inter-sectoral conflicts, have complicated the mission to pursue health goals in the field of tobacco control.
- Conflicts of widespread interest in the country have posed serious challenges to the implementation of globally recommended policies.
- Stakeholders' intensity of preferences toward tobacco control does not necessarily determine and enforce tobacco control policies.
- Conflict of interests in the public and private sectors, reducing tobacco use is not simply possible by relying on control policies, including fiscal policies
- Ambiguity, instability and a lot of tax directives along with disproportionate and irrational policy are among the legal damages in the country's tax system.

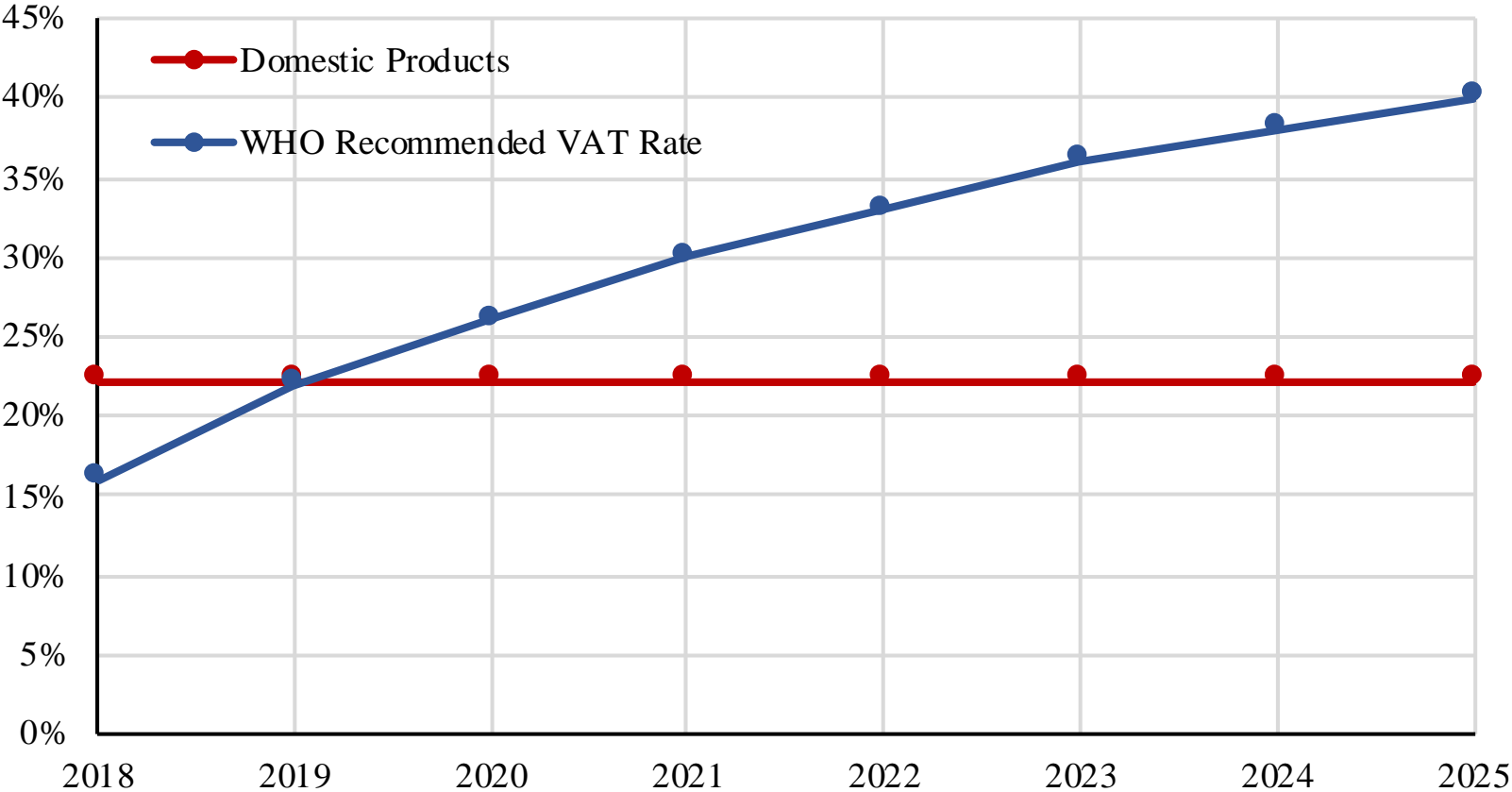
Highlights

- Deficiencies in the basic and fundamental legal guarantees are considered as a major challenge in the process of implementing tax policies due to the lack of provision and establishment of economic and tax rules in the constitution from the perspective of compliance of public laws with it.
- Lack or defect in the quality of tax laws and regulations has led to major problems in their implementation and supervision, such as a number of laws and procedures that are sometimes in conflict with each other
- Existence of weakness and inadequacy in criminal policy and tax procedure is evident from the legislator's inattention to the formulation and implementation of appropriate criminal responses
- Due to weaknesses in criminal policy and tax procedure, taxpayers easily evade or avoid paying taxes, and this is one of the inefficiencies of fiscal policies in controlling tobacco.
- Tax rates are complex in various areas, including sales taxes, and in this regard, the permanent tax law is violated. This is especially the case in the annual budgets, where tax rates, duties and the basis in case of cigarettes and tobacco changes every year.
- A coherent legal framework, continuous participation and acceleration in dealing with tobacco-related issues that deal with public health and impose can lead to better acceptance of control policies that are multi-sectoral in nature

Assessing opportunity cost of postponing optimal policies

- The Gap between WHO Programs and Status quo in Tax Regulations in Iran

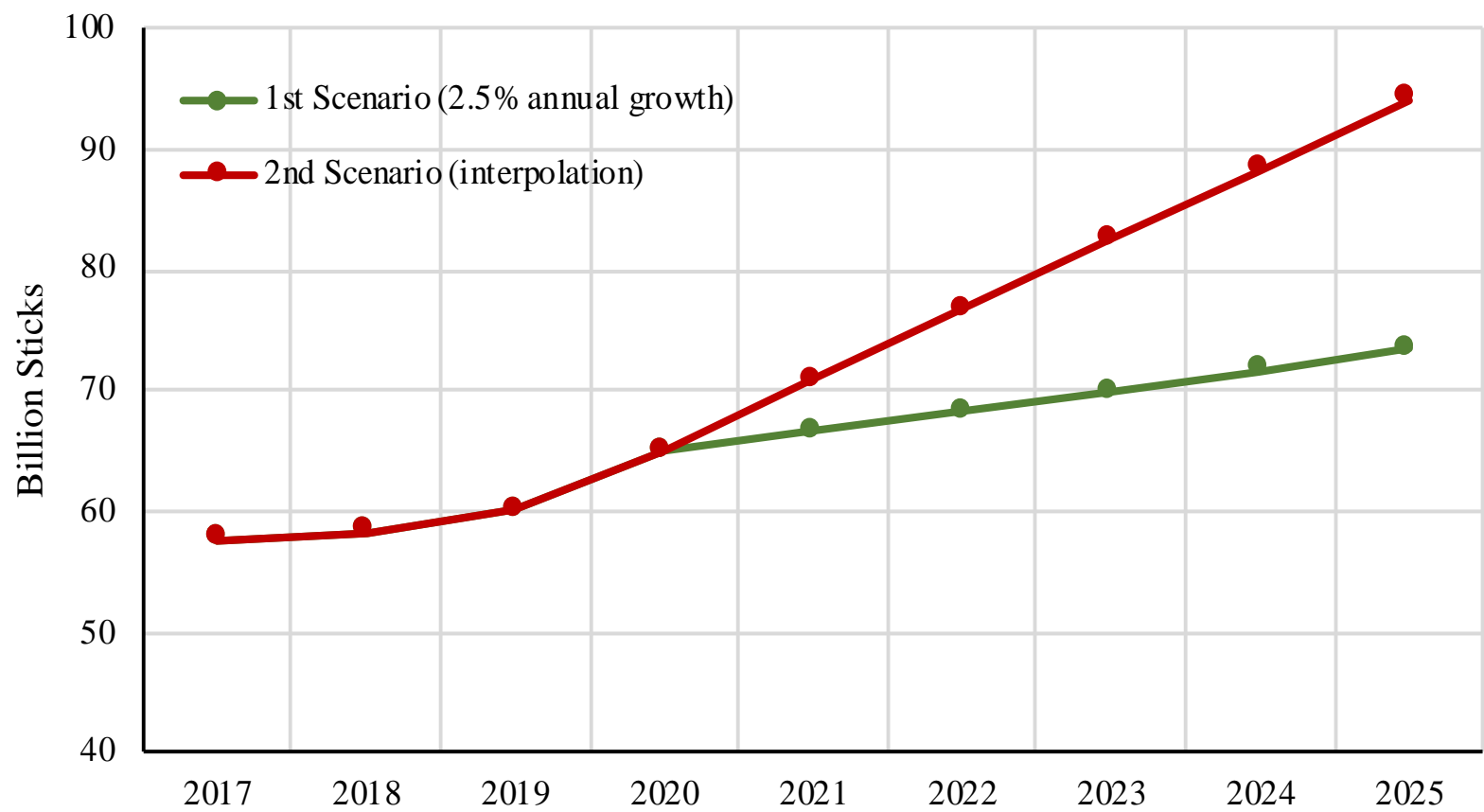
Figure 1. Current vs. Recommended Taxing Conditions Based on the Second Program



Assessing opportunity cost of postponing optimal policies

- Predictions on the Future Cigarette Consumption in Iran

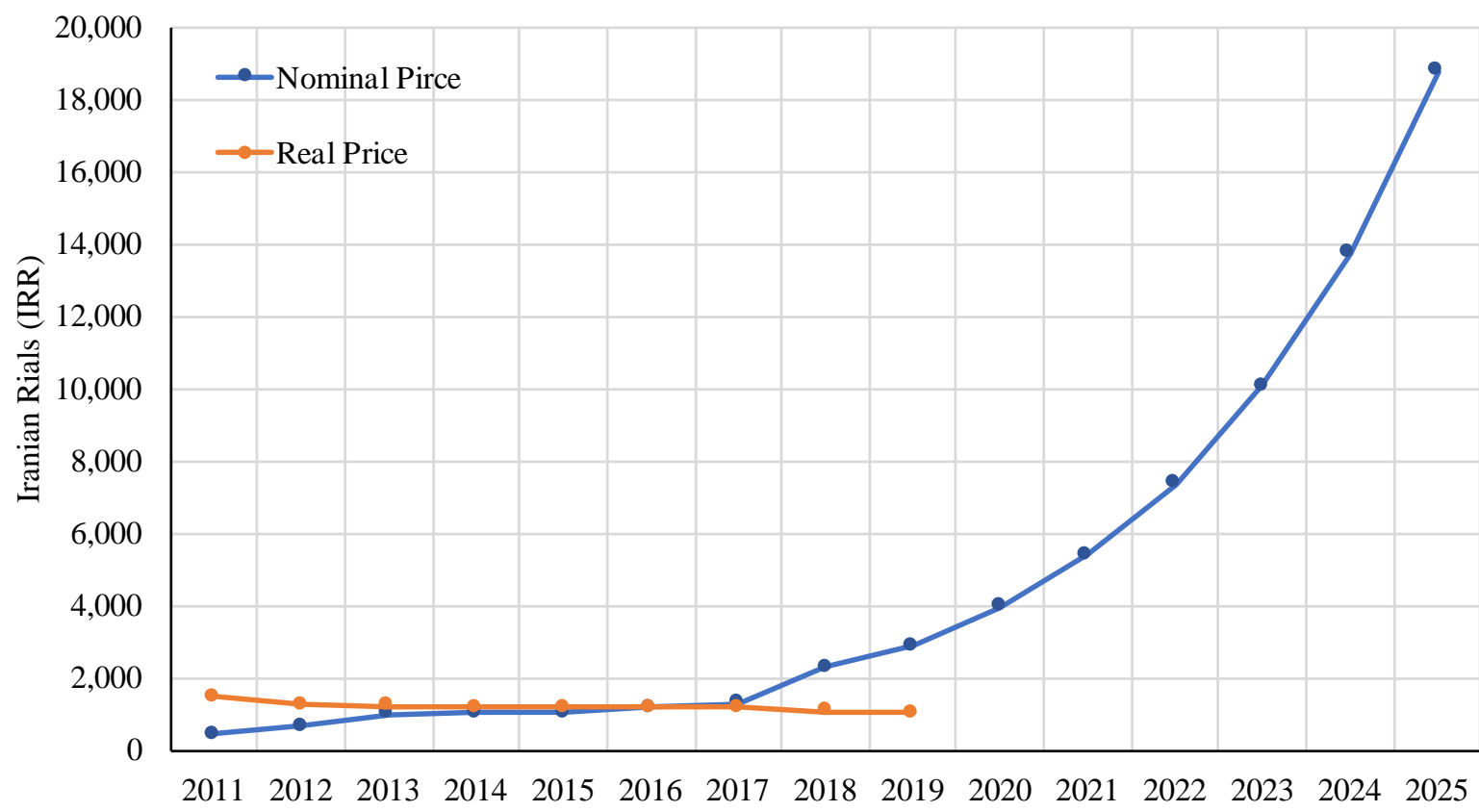
Figure 2. Expected Consumption Trends for the 2021-2025 period



Assessing opportunity cost of postponing optimal policies

- Predictions on the Future Cigarette Prices in Iran

Figure 3. Cigarette Retail Prices (IRR per stick), 2011-2025

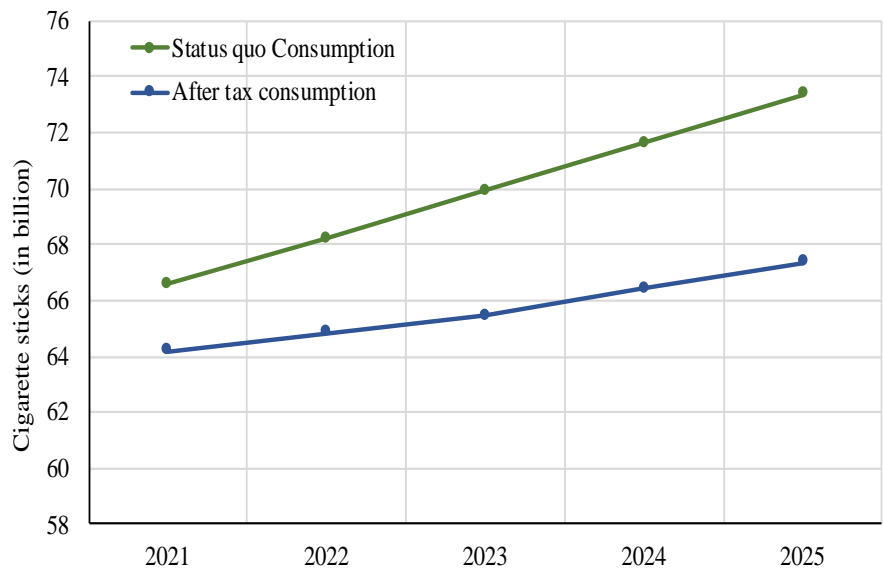


Assessing opportunity cost of postponing optimal policies

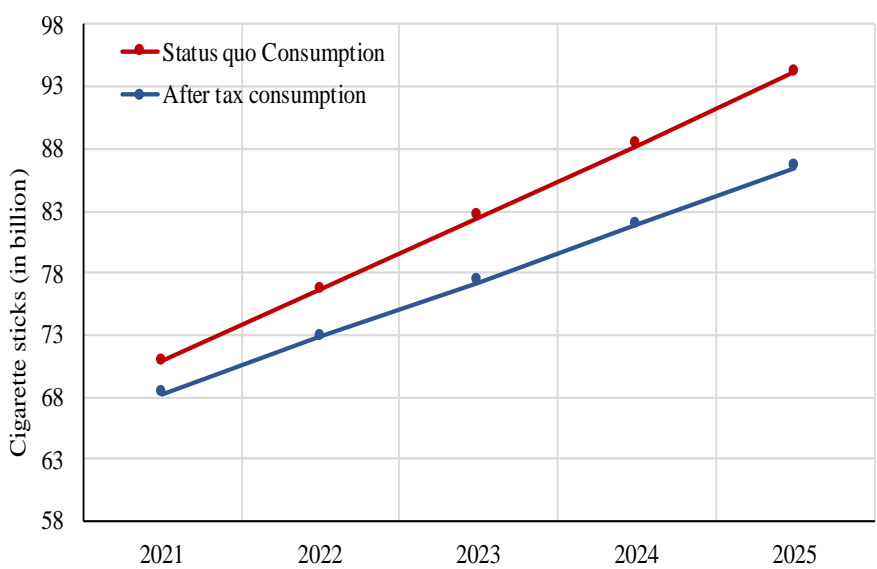
- Effect of the WHO Suggestions on Cigarette Consumption

Figure 4. WHO Tax Rates and Cigarette Consumption under Two Scenarios (billion sticks), 2021-2025

A. 1st Scenario (2.5% annual growth)



B. 2nd Scenario (interpolation)



Assessing opportunity cost of postponing optimal policies

- Effect of the WHO Suggestions on Cigarette Consumption and Tax Revenues

A. First Consumption Scenario

Year	Adjusted consumption (stick)	Nominal retail prices (IRR)	Tax difference	Missed Tax Revenue (IRR)
2021	64,203,479,658	5,405	7.8%	27,069,837,608,349
2022	64,835,290,507	7,380	10.8%	51,676,442,326,492
2023	65,459,512,379	10,076	13.8%	91,019,438,380,888
2024	66,404,797,017	13,756	15.8%	144,332,371,847,428
2025	67,357,101,834	18,782	17.8%	225,182,953,906,999
Total	328,260,181,396			539,281,044,070,156

B. Second Consumption Scenario

Year	Adjusted consumption (stick)	Nominal retail prices (IRR)	Tax difference	Missed Tax Revenue (IRR)
2021	68,299,799,378	5,405	7.8%	28,796,951,313,182
2022	72,858,402,992	7,380	10.8%	58,071,199,045,758
2023	77,256,219,075	10,076	13.8%	107,422,396,166,457
2024	81,899,512,732	13,756	15.8%	178,010,497,084,047
2025	86,450,268,490	18,782	17.8%	289,013,723,788,227
Total	386,764,202,668			661,314,767,397,671

Assessing opportunity cost of postponing optimal policies

- The Opportunity Cost of Missed government Revenues in the 2021- 2025 Period

Cost coverage	Average Cost (million IRR)	First Consumption Scenario	Second Consumption Scenario
Schooling in number of students	552.5	976,074	1,196,950
Hospital per beds	17,500	30,816	37,789
Road per kilometer	300,000	1,798	2,204
Employment per person	3,000	1,798	2,204
Government budget deficit in 2020	6,470,000,000	8%	10%

Other aspects discussed in the report

- Effect of Penalties and Licensing Fees on the Government Revenues and Consumption
- Healthcare Expenditures
- The Impacts of Smoking on the Labor Market
 - Impact of Smoking on Earnings
 - Smoking-related Deaths
 - Diminished Productivity

Assessing opportunity cost of postponing optimal policies

Highlights

- Although the government levies about 22.2% tax on tobacco retail prices, the real price of tobacco remained almost unchanged due to the high inflation rate in the country, and consequently the consumption level keeps rising.
- Leveling additional tax rates, recommended by the WHO programs, the consumption level would decrease by only 6%.
- The government might lose revenue between 539 to 661 trillion IRR after five years of ignoring the WHO's tax policy recommendation. These numbers are equivalent to building schools for about one million students, 35 thousand hospital beds, constructing a 2000 km road, creating jobs for 2000 unemployed people, or covering 8-10% of the budget deficit.

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Any opinions expressed are those of the authors and not those of the WHO.

Thank you!