



# Report

A grayscale, close-up photograph of cigarette packs, slightly out of focus, serving as the background for the right side of the page. The packs are stacked, and some text like '100' and 'Greatly Reduces' is visible on them.

## Unpacking Cigarette Prices

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Cigarettes in Switzerland are cheaper than those of its neighbours.

The Consequence: The number of smokers remains stubbornly high.

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July 2025



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This information sheet provides information on the principles of tobacco taxation, the current debates and the specific political decisions in Switzerland and the strategies of the tobacco industry to circumvent and undermine an effective tax policy.

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# Key

Raising taxes on cigarettes is the single most efficient and cost-effective policy to reduce smoking prevalence.



New tobacco products are taxed significantly lower, with e-cigarettes having gone untaxed for years.

Switzerland's high cost of living masks that a package of cigarettes in Switzerland costs less than half of what it does in the UK.

Poor taxation is a key reason why Switzerland ranks second last in both the [Tobacco Control Scale](#) and the [Global Tobacco Interference Index](#).



 .10

Last increase of the Swiss tobacco tax in 2012.



Ireland and the United Kingdom have consistently increased cigarette taxes above the rate of inflation.

Smoking became more expensive from year to year and government revenues increased.

# Facts

# Switzerland still wants to Smoke.

# 01

Almost 85% of the populations consider themselves healthy and 83% consider themselves happy.

However: Nearly one in four people over the age of 15 smoke, a behaviour which is liked to and 1 in 7 deaths.

These figures were published by the Federal Statistical Office as part of the Swiss Health Survey (ESS) 2022. The number of smokers has fallen by 6% in the last 30 years. Nevertheless, it remains stubbornly high, especially in comparison to other countries.<sup>1</sup> According to the World Health Organisation (WHO), the desire to smoke has fallen by just 2.6% in Switzerland over the last 15 years, and by 14.3% in the UK.

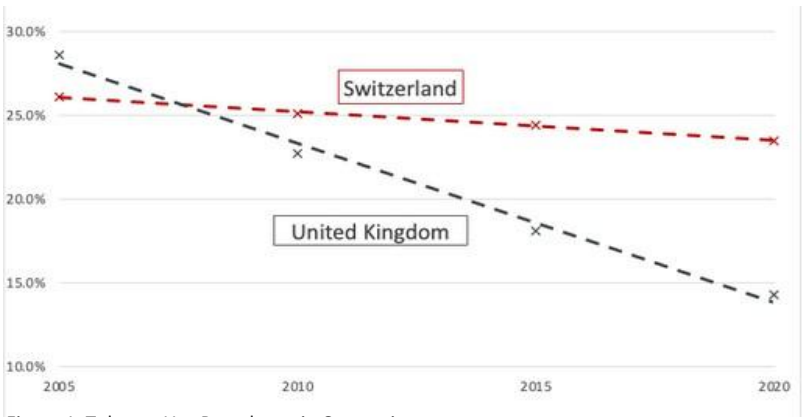


Figure 1: Tobacco Use Prevalence in Comparison

Swiss national data shows a similar, but more negative trend: Smoking prevalence among individuals aged 15 years and older remained high between 2007 and 2017. Only in 2022 was a 4% drop observed, this was likely due to the emergence of new tobacco products.

# Tobacco Taxes.

## What works best.

02

Tobacco taxes are regarded as the most effective tobacco control policy and form a central component of the WHO's Framework Convention on Tobacco Control (FCTC).<sup>2</sup>

- They focus on a critical aspect of consumption— price.
- They provide a strong incentive for current smokers to quit and discourage non-smokers from taking up the habit.<sup>3</sup>
- They deter former smokers from taking up smoking again.

As quitting smoking often takes people multiple attempts, the long-term impact of raising tobacco taxes on lowering smoking prevalence is double what we see in the short term.<sup>4</sup> Even continuing smokers benefit, as half of tax-related decreases in tobacco consumption come from smokers who reduce the intensity of their smoking.

**The WHO finds that on average a 10% tax increase in a high-income country such as Switzerland would reduce consumption by 4%.<sup>5</sup>**

A recent behavioral study found that a CHF 7 increase in price would decrease the appeal of cigarettes and e-cigarettes by 80% among non-smokers, and 54% among current smokers.<sup>6</sup> Price increase also have a considerable effect on youth: they reduce consumption and prevent initiation.<sup>7</sup>

An additional benefit: Raising taxes also raises government revenue in the medium term, which combined with the long-term health savings from reducing smoking rates making it most cost-effective form of tobacco control.<sup>8</sup>

# Not all Taxes are Equal.

When discussing tobacco taxes in different countries, we should start with the type of tax levied. Not all taxes affect tobacco consumption in the same way. Taxes that are only levied on a few selected goods are called excise taxes and are often applied to alcohol and tobacco because they are not essential products and also have a negative impact on the health of individuals and society. Here it depends on whether they are levied on the product price or on the product unit.


The advantages and disadvantages of the two types of tax are listed below, although it should be noted that Switzerland is one of the countries that levy a 'hybrid' tobacco tax, i.e. both types of tax are used.

## **Ad-Valorem Tax**

An 'ad valorem' tax is based upon a set percentage of a product's price at the point of sale. This type of tax is transparent but has the disadvantage that consumers can switch to cheaper brands in the event of tax increases, as a lower base price also means a lower price increase.<sup>9</sup>

Example:

A 20% ad-valorem tax on a packet of loose tobacco worth CHF 10 would incur a tax of CHF 2, plus VAT and other charges. A 20 CHF packet would in turn incur a tax of CHF 4.

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- Unstable and unpredictable tax revenue
  - Difficult to administer
  - Leads to reduced revenue and large price differences between products
  - Leads to a substitution effect (switching to cheaper products)
  - Difficult to determine the amount of tax
  - Negative incentive for improving products




Automatic adjustment to inflation

### «Specific» Excise taxes

The other method of taxation is ‘specific’ excise taxes that are based on a per-unit basis and are recommended by the WHO, as they are easier for governments to implement and lower consumption by reducing the price differences between cheap and high-quality tobacco products, making it more difficult to switch easily.<sup>10</sup>

Example:

A tax of CHF 0.10 per cigarette results in an excise duty of CHF 2 per pack of 20, regardless of whether the pack costs CHF 8 or CHF 10.



Real value falls with inflation



- Stable and predictable source of revenue
- Simple administration
- Narrows price gaps
- Easy to determine the amount of tax
- More effective in reducing tobacco use
- Encourages high-quality products (increase in sales for manufacturers)

The complexities of taxation do not stop there. When implementing an ad valorem tax, countries may apply the percentage tax base prices, including the factory price, the value declared at customs for imports, or the retail price. Additionally, some countries have different tax brackets for tobacco depending on criteria such as cigarette length (Sri Lanka), domestic versus imported (Lebanon), or price (Egypt).<sup>11</sup>

The WHO recommends countries adopt a tobacco taxation regime that is transparent and simple, using retail prices as their base for taxation. Retail prices, which can be easily monitored, are a more reliable basis for taxation than factory or import prices, which are set by private entities and can be manipulated by the tobacco industry to undervalue products and evade higher prices.<sup>12</sup> Taxing tobacco with differing ‘tiers’ is also not favoured by the WHO, as these give tobacco companies the opportunity to manipulate their product to fall into lower tax brackets. These also give more opportunities for tobacco users to trade down to cheaper products rather than quitting.





# How much **Tax** is included in the **Price**?

## Not enough.

The WHO recommends a uniform tax rate on tobacco products of more than 75%. <sup>13</sup>

Extensive studies have clearly shown that high tobacco taxes reduce tobacco consumption. In Switzerland, the total tax share of the average sales price of cigarettes is only 59.5% - and this figure has been falling since 2011.

This trend has two explanations: first, Swiss tobacco taxes contain a specific excise tax of CHF 2.52 per cigarette package. Since this amount hasn't changed since 2013, inflation, which was 2.4% from 2013 to 2022, has effectively reduced the value of this tax. Despite inflation, the tax's share of the retail price fell by 2.7% during this period. Even if the entire tobacco tax were a specific excise tax (currently, it's about half), there would still be a 0.3% decrease in tax revenue that can't be explained by inflation alone.

Another possible reason is that tobacco companies are raising cigarette prices in Switzerland beyond what is necessary to compensate for price increases in markets where tobacco consumption is rising. These concepts are further explained in the [section on lobbying and manipulation](#) below.

To illustrate Switzerland's shortcomings compared to similar high-income European countries, the next chart shows the tax share of the retail price from the United Kingdom, Ireland, Germany and France, and Switzerland.

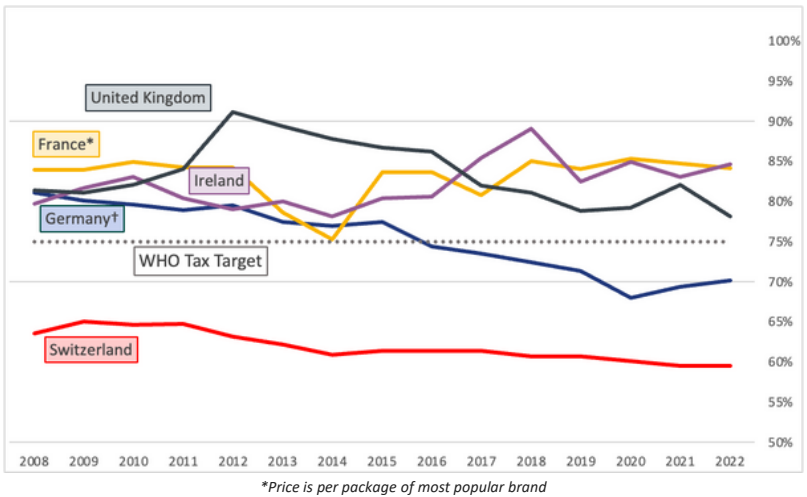


Figure 2: Comparison of Tax Share of Retail Price

Multiple Trends are visible:

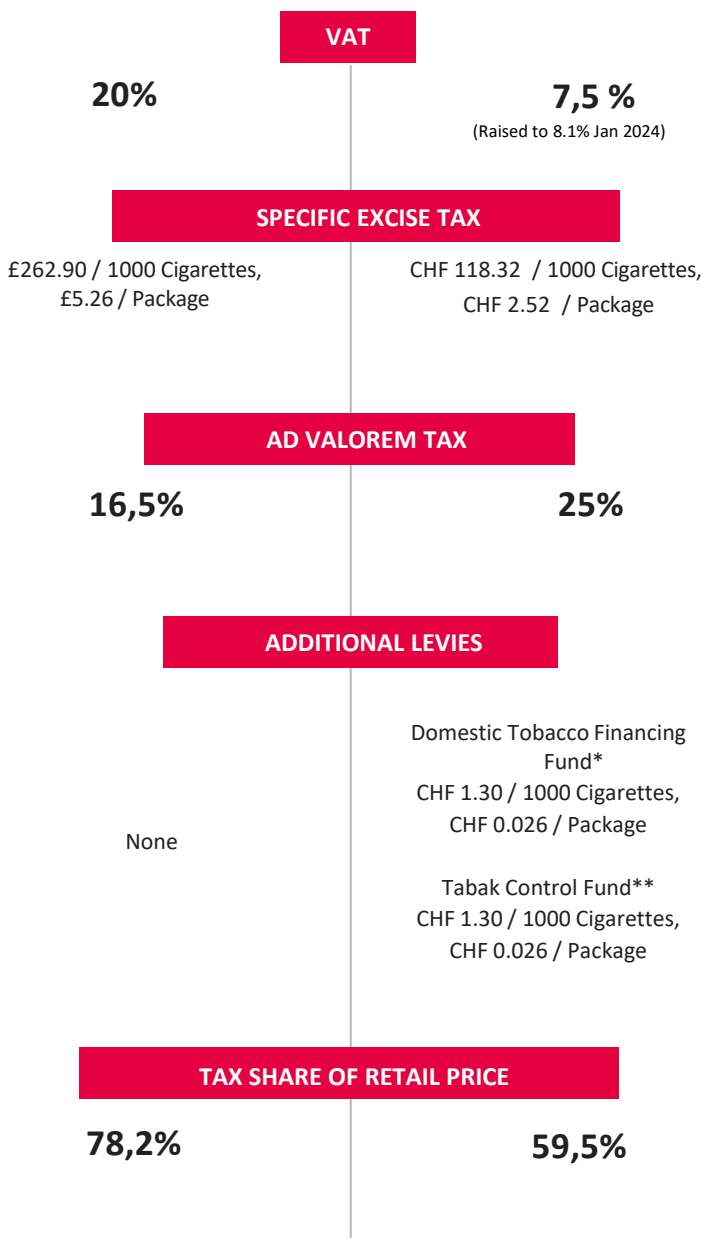
- **Ireland and the United Kingdom** have kept the share of taxes in the retail price well above the WHO minimum target.
- **France** was at risk of falling below the WHO tax target but was able to correct its course.
- **Germany** fell below the WHO target over time.
- **Switzerland** is far below other countries, not being even close to the 75% tax target and only falling farther over time.

The WHO recommends the use of specific excise taxes on tobacco but as these taxes are fixed at a certain value, the taxes must be updated year-by-year to not have their effectiveness diluted by inflation.<sup>14</sup> In our sample, all countries have implemented a combination of specific excise and ad valorem taxes, but only the UK tax policy includes automatic yearly tax increases pegged to 2% above inflation.



# Tax Structure

UK vs. Switzerland  
2022



\* Subsidies to Swiss tobacco farmers

\*\* Provides funding to Swiss tobacco control groups, including AT Switzerland

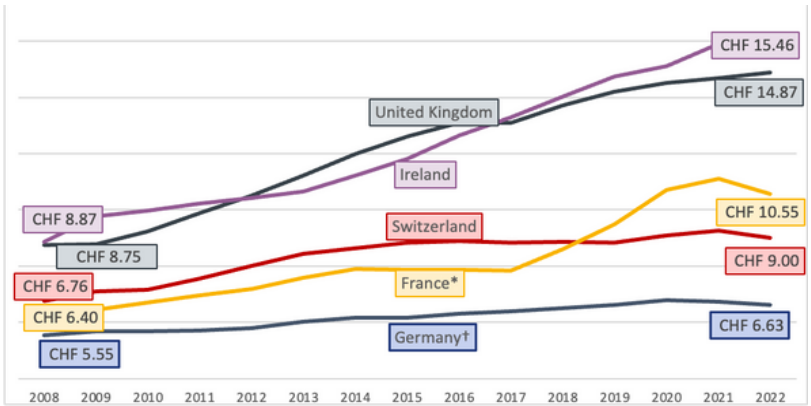


# Prices in Switzerland are climbing **very slowly.**

## Price trends for cigarettes

To better understand the impact that tobacco taxes have on prices, we can examine the changes in the price of a standard 20-package of cigarettes over several years.

This is done for the following reasons: using price as an indicator of whether tobacco taxes are effective or not has two advantages: Simplicity and universality. We come across prices everywhere in our everyday lives and can easily make a comparison with other products. Since 90% of smokers in Switzerland consume cigarettes, the price of a packet of cigarettes is a simple and appropriate measure for the development of tobacco prices.<sup>15</sup> In the following chart, the cigarette prices of various countries over the last 15 years were used, adjusted for inflation and converted to CHF for better comparability (exchange rates from 2023).<sup>16</sup>



\*Price is per package of most popular brand

†Data on cigarette price in Germany is per cigarette, so for standardisation reasons this has been multiplied by 20

Figure 3: Evolution of Cigarette Prices Over the Past 15 Years, in CHF

**Ireland and the UK** perform well in raising cigarette prices, while **Switzerland and Germany** see only a small price increase relative to inflation (although Germany has introduced a tax increase from 2022-26).<sup>17</sup>

Prices in **France** have risen sharply in response to tax increases, but as there are no annual tax increases, inflation ensures that cigarettes become more affordable over time. Despite this, smoking prevalence among under-17s fell by 9.5% between 2017 and 2022. Additionally, the French government has committed to raising prices to €13 (CHF 12.75) per pack by 2027.<sup>18</sup>

In order to be able to make international comparisons, the price of a packet of cigarettes in Switzerland was determined using data from the Swiss Federal Office for Customs and Border Protection. However, the accuracy of this reference price is questionably. Although cigarettes are available at this price, AT Switzerland estimates that the average price in 2022 of CHF 7 was in fact much lower than the official reference price of CHF 9. This official price only applies to the most expensive and best-known cigarette brands.

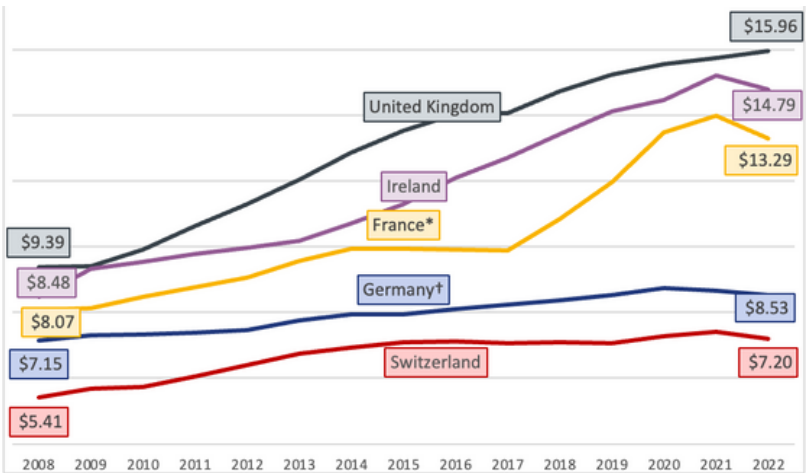
Budget cigarette brands and frequent discounts make it possible to buy a packet for just CHF 4. Even when official reference prices are taken into account, prices in Switzerland are significantly lower than in other countries, with the discrepancy in real average prices being even more pronounced. Implementing high taxes on cigarettes can be politically costly in face of industry lobbying and more pressing political issues, but countries like the UK have dealt with this by having the tax duty on cigarettes be automatically raised a minimum of 2% above inflation every year.<sup>19</sup>

**By increasing tobacco prices above inflation year by year, consumers pay more and more for the same amount of tobacco compared to other goods<sup>20</sup>**

But the comparison of price is still not entirely accurate – the same croissant in a store costs more in Switzerland than in France or Germany. To get the best measure, we need to adjust not just for inflation but also for cost of living.

# The most accurate price comparison.

Using World Bank methodology and data, we convert the price of a package of cigarettes in each country into 'international dollars' (INT\$), adjusting the values for the purchasing power of each country. This method is used by other tobacco control organisations to compare prices, though we have also included inflation adjustments to compare prices over the past 15 years.<sup>21</sup>



\*Price is per package of most popular brand

†Data on cigarette price in Germany is per cigarette, so for standardisation reasons this has been multiplied by 20

Figure 4: Evolution of Cigarette Prices Over the Past 15 Years, in INT\$

Looking at the results in Figure 4, Switzerland ranks the worst out of our sample, with high cost of living masking how cheap cigarettes are compared to other goods: **the most recent price for a package of cigarettes is not even half that of the UK.**

These prices have risen by an average of just INT\$ 0.11 annually, and as there have been no increase in tobacco duties since 2011, the majority of the incremental rises in price are attributable entirely to profit-taking by the tobacco industry.

In contrast, France's tax increase reversed years of price stagnation to bring the cigarette package price close to the high performers like Ireland, with an unadjusted price gap of CHF 4.74 in 2021 closing to INT\$ 1.21 once adjusting for cost of living.

### **Conclusion**

Even if Switzerland were to implement an ideal tax system where the tax share of retail price is more than 75% with adjustments for inflation, the low price of tobacco compared to other goods would hinder the tax's effectiveness in reducing smoking.



# We are forfeiting **400 million CHF** per year!

Switzerland has not raised the tobacco tax for over a decade.<sup>23</sup> Because of this, the country is forgoing the single most efficient and cost-effective policy for reducing tobacco consumption – and a lot of money.

Tobacco taxes are a proven source of revenue for governments in the medium term: due to the increase in tax (and therefore price) of tobacco, France collected an additional €3.43 billion in 2020 compared to 2017.<sup>24</sup>

**According to estimates from Unisanté, Switzerland's following WHO guidelines to tax tobacco at 75% would generate an additional CHF 400 million per year.**<sup>25</sup>

While the WHO considers tax revenues a secondary goal to reducing tobacco consumption, the additional funds from higher taxes could support health programs to offset some of the tobacco-related costs on the healthcare system and gain public support for a tax increase.<sup>26</sup>

Under current tax rates, Switzerland takes in CHF 2.1 billion in tobacco taxes, which is used to fund the Old Age and Survival Insurance (OASI), but constitutes only 5% of this insurance.<sup>27</sup>

Tobacco taxes in Switzerland are based on the 1969 Federal Law on Tobacco Taxation (641.31) that sets a maximum tax level of 60%, which was reached with the last tax raise in 2013.<sup>28</sup> To raise taxes to the WHO minimum of 75%, the tobacco tax law would need to be revised, but an attempt in 2021 was thwarted by the tobacco lobby.<sup>29</sup>



Andreas Fischinger, Unsplash

**The failure of the federal government to increase tobacco taxes means that tobacco prices will continue to be set by the tobacco industry. With minimal increases, they maximise their profits - but naturally without having a deterrent effect on consumers.**



### **The Market is Booming**

For the past several years, new nicotine products such as e-cigarettes, heated tobacco products, and nicotine pouches have been flooding into Europe.

# New Products, New Taxes?

## **Taxation of E-Cigarettes and Vapes**

While cigarettes, cigarillos, and other traditional products represent the majority of tobacco products sold, the taxation of new tobacco products such as 'heated tobacco products' (HTPs, e.g. IQOS/ILUMA) or 'electronic nicotine delivery systems' (ENDS), more commonly called vapes or e-cigarettes, are becoming an emerging issue as their share of the market increases. At the heart of tobacco companies' marketing strategies is the portrayal of their products as 'lower' or 'reduced' risk compared to traditional tobacco. However, the validity of these claims is only supported by industry-sponsored research and is rejected by tobacco control experts.<sup>30</sup>

## **The «Smokefree» Free Future and Other Slogans**

In their marketing Tobacco companies promote new products, claiming that HTPs and ENDS have '95% reduced risk' compared to traditional tobacco. They claim these products represent the 'smoke free' future of the industry. However, the paper from which the '95% less harmful' assertion originates has been heavily criticised as having 'no scientific basis' and as being 'totally arbitrary' by the Lancet and BMJ (both prestigious scientific journals). The authors as well had strong links to the tobacco industry.<sup>31</sup>

Despite these claims, the tobacco industry continues to aggressively market cigarettes and increase cigarette production, even funding campaigns against public health measures like the 'Children Without Tobacco' referendum of 2022.<sup>32</sup>

## Weniger schädlich, weniger Steuer?

The industry's logic suggests that if new products are less harmful, they should be taxed less, arguing that lower prices would encourage smokers to switch, thus reducing the impact of tobacco on society.<sup>33</sup> New products would thus serve as a substitute for conventional tobacco consumption. Less risky products, lower prices, everyone is happy.

In order to be able to offer these lower prices, however, the state would have to tax HTPs and ENDS less, as taxes have a strong influence on the price. On the other hand, the fact is that the consumption of these products still carries health risks which could be completely avoided by giving up tobacco altogether. What's more, these products often act as a gateway for people to be addicted to nicotine.<sup>34</sup>

The consumption of disposable e-cigarettes in particular has increased significantly in recent years.



# HTPs – Heated Tobacco Products

HTPs are similar to traditional cigarettes in that the combustible sticks are sold in packages, smoked (using a proprietary device), and then discarded after their one-time use. The market for HTPs has rapidly expanded, with the number of sticks sold increasing from 2.4 million in 2013 to 94.5 billion in 2020, (though this still only represents 2.4% of the market share of tobacco).<sup>35</sup>

HTP taxation takes multiple forms depending on the country: an excise tax based on tobacco content, an excise tax based on the number of sticks, an ad valorem tax, or a mixed system.<sup>36</sup> The level of taxation is generally below that of cigarettes, with Switzerland imposing solely an ad valorem tax of 12% on HTPs versus an average tobacco tax of 53% on cigarettes in 2021.<sup>37</sup> To simplify tax implementation, the WHO advocates for a per-stick excise tax on HTPs, mirroring its stance on traditional cigarettes.<sup>38</sup>

One element that makes the HTP market different from conventional cigarettes and ENDS is that the market is supplied by a handful of companies, with proprietary sticks that are incompatible with other brands' devices.<sup>39</sup> The lower competition amongst HTPs may be one explanation why HTP and cigarette packages in Switzerland have similar prices, despite much lower taxes on HTPs.<sup>40</sup>

**The result: rising tobacco company profits thanks to ineffective tax policy, blunting an important policy tool.**

# ENDS –

## Electronic Nicotine Delivery Systems

In contrast to HTPs, ENDS offer a wider variety of products. The most significant difference lies between refillable (open system) vapes and disposable (closed system) vapes. Beyond the complexity of the quantity and concentration of e-liquid, or the strength of the vaporiser, some ENDS also contain no nicotine which are termed ENNDS, or electronic non-nicotine delivery systems.

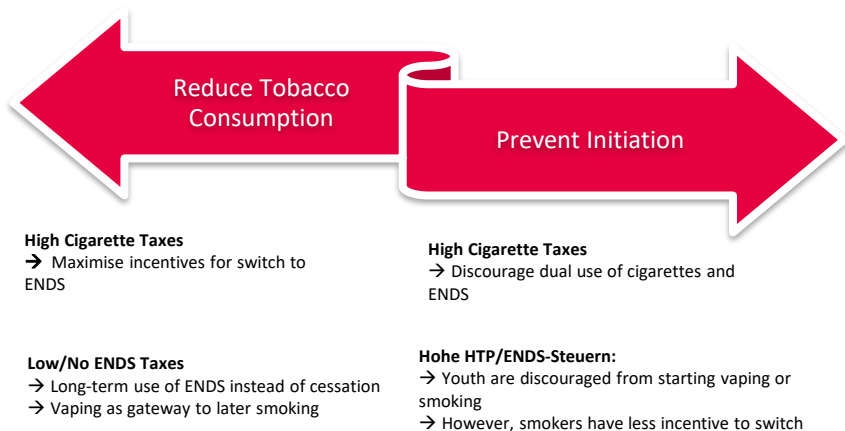
More information on this topic can be found in the [AT ENDS Brief](#).

### ENDS Regulation is a Work in Progress

Switzerland already failing to ensure sicherzustellen, that closed system ENDS in the country comply to the legal limit of 2ml per vape. The most common form of taxation imposed is an excise tax on e-liquid per millilitre, with the WHO recommending that ENDS with and without nicotine are taxed at the same level to simplify enforcement.<sup>41</sup>

When determining how much ENDS should be taxed, policymakers face a dilemma. Although not as harmless as they are portrayed by the industry and with their health consequences still under discussion, ENDS are generally considered less harmful than cigarettes for a smoker and so taxes could be structured to encourage existing smokers to switch.<sup>42</sup> On the other hand, ENDS are a pathway into smoking initiation and nicotine addiction, and a higher tax would discourage non-smokers from picking up the habit.<sup>43</sup> The dilemma is illustrated in the following figure.

## Contradicting Goals of ENDS Taxation



Adapted from : Merz, Larissa; Puhan, Milo A. (2021): Besteuerungsmöglichkeiten von Nikotin- und Tabakprodukten in der Schweiz - ein Überblick über die Steuerpolitik. In: Swiss Med Wkly 151. DOI: 10.4414/smw.2021.w30083

### New Law to be Introduced this Year

While currently ENDS are not subject to any excise tax, the new law on tobacco products, which should enter into force on 1 October 2024, should impose an excise tax of CHF 1 per millilitre of e-liquid for closed systems, and CHF 0.20 per millilitre of e-liquid for refillable systems.<sup>44</sup> Leider kann diese Besteuerung von den Importeuren leicht aufgefangen werden, indem sie die Preise erhöhen oder auf einen kleinen Teil ihrer sehr hohen Gewinn-spannen verzichten. This taxation on ENDS can easily be absorbed by importers by raising the prices or slightly diminishing their very large profit margins.

**While this is a step in the right direction, the current price of cigarettes in Switzerland is too low to significantly reduce consumption or to prevent smoking initiation among youth.<sup>45</sup>**



Unfortunately, ENDS brings with it a new problem: The tendency for young people to smoke. Disposable e-cigarettes are particularly popular with this target group due to their low cost, ease of use and purchase, and attractive flavours.

# 21%

of **Swiss youth between 14 & 15** surveyed admitted to using an electronic cigarette in the last 30 days.<sup>46</sup>



Rich Smith, Unsplash

As a result of this trend, ENDS are becoming the target of tobacco control measures. Here are a few examples:

- The **Canadian province of Quebec** has restricted the range of legal flavours
- **Belgium** (from the 1st of January 2025), **France**, and **the Netherlands** have forbidden flavoured e-cigarettes.<sup>47</sup>
- **China**, a major producer of e-cigarettes, banned the sale of flavoured ENDS domestically in 2022 as part of a crack-down on youth vaping, but has continued to allow their manufacture for export<sup>48</sup>

More information on this topic can be found in the [AT Infosheet on Puff Bars](#).

# Nicotine Pouches

Alongside disposable vapes, another new nicotine product that is increasingly used among youth are 'nicotine pouches' such as VELO or Nordic Spirit, which are pouches of dehydrated nicotine that are placed under the lip to deliver nicotine into the bloodstream. Available in a range of flavours and heavily marketed by tobacco companies through social media, their being discretely consumable makes them appealing to youth in much the same way as disposable vapes.<sup>49</sup>

Regulation of nicotine pouches is uneven, as they are a new product in many markets. A key question is whether they count as a tobacco product if they are produced with synthetic rather than tobacco-derived nicotine.<sup>50</sup> From a tax perspective, currently they are subject to an ad valorem tax of 6%, startlingly low for such an addictive and harmful product.<sup>51</sup>

However, frozen cigarette taxes, poor taxation of new products, and low prices are just part of the larger political problems, with Switzerland failing its FCTC obligations and its public health responsibilities to the benefit of an unethical industry.



In the next chapter, we show how the tobacco industry is resisting tax increases through lobbying in Switzerland or price and product manipulation.

# 04

## Lobbying und Manipulation: The Tactics of the Tobacco Industry

Tobacco taxes are effective in reducing the smoking rate. Therefore the tobacco industry sees them as a threat to its profits and responds with a variety of tactics. It engages in direct and indirect lobbying aimed at political decision-makers. Issues such as the illegal tobacco trade are distorted to hamper effective tobacco control.

When new taxes are introduced, the tobacco industry manipulates prices and its products to discourage consumers from quitting smoking. Due to the long history of dishonesty and manipulation in this industry, the WHO FCTC calls for public health policy to be protected ‘from commercial and other interests of the tobacco industry’.<sup>52</sup>

Although Switzerland signed the FCTC in 2004, it has not yet ratified it. This reflects the strong influence of the tobacco industry has in the country and its great influence in this public and political discourse. The tobacco lobby is deeply entangled in Swiss policymaking, which is reflected in the poor state of tobacco control. That Switzerland scored second to last both on in the Global Tobacco Industry Interference Index (ranking 89th out of 90 countries) and the Tobacco Control Scale (36th out of 37 countries) is a clear illustration of this link.<sup>53</sup>

The industry’s reach extends from funding research at ETH University in Zurich to influencing discussions on tobacco waste with the Federal Office of Environment, as well as maintaining direct legislative access through a parliamentarian employed by the tobacco industry.<sup>54</sup> That a ban on tobacco advertising and sponsorship will only come about from a referendum, and the parliament’s opposition to it, demonstrates a legislative environment that not only tolerates but also supports the tobacco industry.<sup>55</sup> Direct political donations, such as Phillip Morris International’s (PMI) CHF 35,000 contributions to the SVP/UDC and FDP/PLR for the 2023 election, further entrench the industry’s influence.<sup>56</sup> Moreover, the tobacco industry enjoys influence over federal policy by being invited to give input on issues ranging from the revision of tobacco taxes and to reducing tobacco litter. The WHO’s FCTC, which Switzerland signed more than 20 years ago, set out measures in article 5.3 to increase transparency and limit tobacco industry interference.

**If Switzerland were to finally ratify the WHO FCTC and adopt these measures, the tobacco lobby’s ability to advocate for its own profits over the health of the Swiss public would be drastically curtailed, with better outcomes for Swiss public health and society as a whole.**

# Illicit Trade of Cigarettes

A common argument pushed by the tobacco industry against tobacco tax increases is that higher prices would drive consumers to the black market. They contend that counterfeit and contraband cigarette consumption would fund criminal networks at the expense of government revenue, with little impact on smoking prevalence.<sup>57</sup> But the tobacco industry's self-portrayal as a stakeholder concerned with the dangers of the illicit trade rings hollow - we know from leaked documents that transnational tobacco companies were deeply involved in cigarette smuggling in the 1990s.

# 93%

According to these documents, 93% of illegal cigarettes have strong connections to legal manufactures.<sup>58</sup> This means the industry still profits.

The 2018 WHO Protocol to Eliminate Illicit Trade in Tobacco Products identifies the tobacco industry as an accomplice of the illicit trade.<sup>59</sup> Therefore the protocol states that no obligations related to combatting illicit trade be performed by or delegated to the tobacco industry. The industry narrative between higher price and higher illicit consumption also does not hold water, as seen in the UK where, despite cigarette prices rising significantly year-on-year since 2009, the illicit market share was 6% lower in 2020 than it was in 2009.<sup>60</sup>

A well-documented tactic the industry uses to push this narrative is the financing of supportive third-party reports. Well known firms like KPMG are funded to create reports in anticipation of, or in reaction to, tobacco control legislation, such as a 2017 report on the importance of the tobacco sector to the Swiss economy.<sup>61</sup>

Similarly, in France PMI funded a KPMG report that used PMI data to falsely over-represent extra-legal cigarette sales as an instrument to argue against tobacco tax increases.<sup>62</sup>

Another example of KPMG being funded to repeat tobacco industry points comes from New Zealand. Shortly after New Zealand's government announced they were reviewing tobacco taxes in 2018, KPMG published a report on illicit tobacco, commissioned by a local branch of Imperial Tobacco, that claimed illicit consumption to be more than triple previous estimates. This was then used by the acting prime minister to link higher excise taxes to violent crime<sup>63</sup> Two years later KPMG produced another report, again commissioned by PMI, which repeated the same overestimation of illicit tobacco rates<sup>64</sup>

When tobacco companies engage with the problem of illicit trade, it gives them access and insight into customs and law enforcement circles. Sometimes this access is gained through financial contributions to organisations such as Interpol or by backing proxy lobbying groups.<sup>65</sup>

The industry drives pursues avenues of lobbying to claim that higher cigarette taxes will only bolster the black market and that plain packaging will aid counterfeiters.<sup>66</sup> Independent research, however, has found that there was no increase in the illicit market share after either of these measures was implemented.<sup>67</sup>

**As the tobacco industry is heavily involved in the illicit trade and uses the issue to promote its own interests, its research and recommendations should not be trusted to be in the public interest.**



## Product and Price Manipulation

In addition to resisting tax increases and regulation through lobbying and exaggerating illicit trade, the tobacco industry also uses several strategies to counteract taxes once they are implemented.

These strategies focus on keeping tobacco consumption affordable for those sensitive to price increases - i.e. those most likely to quit when the price of a package goes up. An overview of these strategies can be seen on the next page.



## Price Manipulation Tactics

Tactic	Response to Tax increase of CHF 0.50	Tobacco Industry Rationale
<b>Overshifting</b>	1 CHF price increase	Shift burden of tax increase to consumers
<b>Undershifting</b>	0.30 CHF price increase	Prevent quitting, expand market share
<b>Price Smoothing</b>	0.10 CHF/month price increase for next 5 months	Prevent price-shock, prevent quitting
<b>Differential Shifting</b>	1 CHF price increase for luxury brand and CHF 0.30 price increase for budget brand	Keep profits high while retaining price-sensitive consumers

### Overshifting

If a government introduces a new tax or increases an existing tax, tobacco companies can raise the price of their cigarettes by more than the amount of the tax increase. By raising the price beyond what is necessary, tobacco companies shift the financial burden entirely to other consumers and maximise their profits. This is known as ‘overshifting’ and is particularly prevalent in high-income countries and with high-end cigarette brands.<sup>68</sup>

### Undershifting

Alternatively, prices can be ‘undershifted’ compared to taxes. This is where the company absorbs part of the tax increase in order to delay or prevent a price increase. This is most often the case in low-income countries and with low-cost brands, as the company wants to prevent price-sensitive consumers from reducing their consumption or increasing their market share.<sup>69</sup>

### **Price Smoothing**

If a tobacco company does not want to absorb the price increase, but still wants to prevent a sudden jump that would encourage quitting, it can also engage in 'price smoothing' where the price is increased in small increments.<sup>70</sup>

### **Differential shifting**

Over- and undershifting can occur simultaneously, with an overshift in price of up-market brands covering the costs of undershifting the price of budget brands. This 'differential shifting', observed in the UK and Ireland, keeps profits high while retaining a larger market share of price-sensitive consumers.<sup>71</sup>

The tobacco industry also uses strategies that do not have an obvious relation to the price of a cigarette package, but still aim to reduce the impact that a tax increase has on price. **Targeted price promotions**, such as 20% discounts only available in budget supermarket chains, are aimed at price-sensitive consumers that would consider quitting or reducing consumption, while less price-sensitive consumers shopping at non-budget supermarkets will not enjoy the same discounts.<sup>72</sup>








**Shrinkflation** is another tactic to keep price of a package of cigarettes constant by reducing the number of cigarettes or total tobacco content. For example, in the UK this tactic kept the real package price of the cheapest cigarettes constant between 2012 and 2017 despite constant tax increases by in some cases only having only 17 instead of the usual 20 cigarettes in a package<sup>73</sup>


Lastly, tobacco companies can adapt their products to exploit differences in tax rates. In the UK, for instance, cigars and cigarillos, which are subject to lower taxes and fewer restrictions than cigarettes, became a focus for tobacco companies. They began producing filtered cigarillos, similar to cigarettes but taxed at a lower rate, and marketed them under established cigarette brand names.<sup>74</sup> In Switzerland, due to cigars and cigarillos also being taxed at lower rates than cigarettes, we are seeing the same trend of low-cost flavoured and filtered cigarillos being promoted and sold.

# How do we **prevent** product and price manipulation?

To effectively counter the tobacco industry's manipulative tactics when it comes to products and prices, tobacco control groups recommend a comprehensive set of policy measures. These measures extend beyond tax policy and include new regulations for both products and the industry. The most important policy responses are summarised below.

## Policy Responses to Price and Product Manipulation

Manipulation	Policy Response
<b>Price Smoothing</b> Minimise price shocks	Limiting number of times prices can be changed 
<b>Over- &amp; Undershifting</b> Shifting tax burden	Large tax increases 
<b>Price Promotions</b> Targeting those most likely to quit	Ban promotional discounts on tobacco 
<b>Shrinkflation</b> Same package, less contents	Specify a legal package size 
<b>Down-Trading</b> to cheaper brands, to less taxed products	Introduce minimum price for tobacco  Equalising tax levels among tobacco products 
<b>Einführung neuer Produkte,</b> e.g. filtered cigarillos	Limit or ban introduction of new brands/brand variants 

 Tax measure

 Regulatory measure

Switzerland mandates a minimum package size for cigarettes,<sup>75</sup> yet falls short in other regulatory aspects. The last tobacco tax raise was by only CHF 0.10 in 2013. Additionally, discounts and sales on cigarettes are commonplace and the excise tax gap between products is huge, with a 52% excise tax for cigarettes versus a 0% excise tax for vapes in 2023.

**Switzerland has seen the proliferation of numerous new products such as HTPs, ENDS, and nicotine pouches over the last 10 years. Even if Switzerland were to increase tobacco taxes, it would only be the first step in restricting the influence tobacco companies have on the consumer and maximising the benefit to public health.**

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