

To: Mr. Moshe Kahlon,
Minister of Finance, Israel

CC: Mr Shai Babad,
Director General, Ministry of Finance, Israel

Mr. Moshe Asher
Director of Tax Authority, Israel

8 November 2017

Dear Minister Kahlon

Policy on taxation of heat-not-burn tobacco

We write as longstanding supporters of effective tobacco and public health policy. We are writing again following our previous letters of 8 May¹ and 21 June, 2017² regarding the fiscal and public health strategy considerations in taxation of heated-not-burn tobacco products. We were concerned to see media reports³ indicating pressure within the government for an equalisation of tax on low-risk (heated) and high-risk tobacco products (cigarettes). This would be harmful from a health perspective. From a commercial perspective, it would amount to an unjustified fiscal protection of the incumbent cigarette industry and *de facto* support for the most harmful products.

As we set out in the letter of 21 June, there are solid scientific grounds to proceed on the basis that these products are *much less* harmful to the user than smoking cigarettes. We argue, therefore, that the risk-differentiated fiscal framework proposed by Chaloupka, Sweanor and Warner⁴ should apply in the case of heated tobacco products. The public policy purpose is to use a fiscal incentive to encourage smokers to switch to the lower risk option and thereby greatly reduce their smoking-related risks and improve their health, welfare and productivity. This is the concept of *tobacco harm reduction*, and a parallel fiscal strategy is integral to delivering its benefits.

The best example of fiscal policy in this area is from Sweden, where a very successful transition of the market away from cigarettes to a smoke-free product known as 'snus' was driven by risk-differentiated tax rates (taxing snus much less than cigarettes). Sweden now has the lowest rates of smoking (7 percent) and tobacco-related disease in OECD countries, and by some distance^{5 6}. It is a success worth trying to emulate in Israel.

We have recently seen dramatic experience in Japan, where smoking rates have fallen rapidly with the introduction of heated tobacco products like PMI's iQOS and BAT's Glo, driven in part by a strong fiscal incentive to switch. Analysts and tobacco companies are suggesting heated tobacco products will displace *18 percent* of the Japanese cigarette market by the end of 2017⁷. That would be a remarkably rapid change by any historic standard and a great outcome for public health.

The United States Food and Drug Administration has reset its tobacco strategy to favour reduced-risk nicotine products while initiating a dialogue on phasing out addictive and combustible cigarettes⁸ - the US FDA approach is *deliberately discriminatory* towards the most harmful products. In the United Kingdom, the concept of harm reduction is now at the heart of tobacco policy⁹. By default, iQOS is placed in the lowest of the existing tobacco tax bands (it would be absurd to tax iQOS at a *higher* rate than any smoked tobacco products). The result is that total UK tobacco

excise on 20 HEETS is 69% lower than on 20 Marlboro Red cigarettes and total tax (inc. VAT) is 60% lower¹⁰.

Israel's Ministry of Finance and the Tax Authority now has the opportunity to introduce risk-differentiated tobacco taxation by design. Because of its imminent decision, Israel is in a position to lead with a model, pro-health tobacco tax policy. We hope the government seizes this opportunity.

We are happy to provide further advice or information if that would be of assistance.

Yours sincerely

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References

- ¹ Letter on tobacco policy in Israel to Minister of Finance and Director of Tax Authority from Clive Bates, Mark Kleiman, David Levy, Sally Satel, Jeff Stier, David Sweanor. Full letter: Policy on taxation of tobacco and nicotine products. 8 May 2017 [\[link\]](#)
- ² Follow up letter on tobacco tax policy in Israel to Ministry of Health from Clive Bates, Martin Jarvis, Mark Kleiman, Sally Satel, Jeff Stier, David Sweanor. Full letter: Policy on taxation of tobacco and nicotine products – relative risk of heated tobacco products compared to smoking. 21 June 2017 [\[link\]](#)
- ³ The Marker. Consumer Health. Is there no tax on IQOS cigarettes? The Attorney General issues a red card 24 September 2017 – original Hebrew [\[link\]](#)
- ⁴ Chaloupka FJ, Sweanor D, Warner KE. Differential Taxes for Differential Risks--Toward Reduced Harm from Nicotine-Yielding Products. *New England Journal of Medicine* 2015;373:594–7. [\[link\]](#)
- ⁵ European Commission. Eurobarometer Special Survey 458: Attitudes of Europeans towards Tobacco and Electronic Cigarettes. 2017. Fieldwork March 2017. Published May 2017 [\[link\]](#) [\[PDF\]](#)
- ⁶ Ramström L, Borland R, Wikmans T. Patterns of Smoking and Snus Use in Sweden: Implications for Public Health. *Int J Environ Res Public Health*. Multidisciplinary Digital Publishing Institute (MDPI); 2016 Nov 9;13(11). [\[link\]](#)
- ⁷ Vivien Azer, Cowen & Company. Japan Tobacco: Let it Burn . . . HnB Disrupts Japan Market as JT waits for Ploom Impact, August 7, 2017.
- ⁸ U.S. Food and Drug Administration, "FDA announces comprehensive regulatory plan to shift trajectory of tobacco-related disease, death, News release, July 28,2017. [\[link\]](#) U.S. Food and Drug Administration, "FDA's New Plan for Tobacco and Nicotine Regulation," July 28, 2017. [\[link\]](#)
- ⁹ Department of Health (UK). Tobacco Control Plan for England: Towards a smoke-free generation: tobacco control plan for England [\[link\]](#) [\[PDF\]](#) Blog: English tobacco control plan embraces tobacco harm reduction, 18 July 2017 [\[link\]](#)
- ¹⁰ Marlboro cigarettes retail at £10.35 for 20. Of this, £1.73 is VAT, £1.71 is *ad valorem* duty and £4.16 is specific duty. Total tobacco excise = £5.87. Total tax = £7.59
HEETS retail at £7.50 for 20. Of this, £1.25 is VAT and £1.82 is specific duty. There is no *ad valorem* duty. Total tobacco excise = £1.82. Total tax = £3.07
For full details of this price and tax comparison, please see online Google [spreadsheet](#), 4 November 2017.