



Press Statement

2 May 2012

TAX REFORM FOR A HEALTHIER AND COMPETITIVE SOCIETY

The Makati Business Club welcomes the initiative to reform excise taxes on tobacco and alcohol products, which would allow the government to optimize its revenue potential and create a strong disincentive for excessive tobacco and alcohol use.

We especially support the restructuring of the excise tax system from a multi-tiered structure to a unitary excise tax structure for tobacco and alcohol. This will effectively improve equity across cigarette and alcohol brands, promote market-based pricing in the industry, and encourage the entry of legitimate competition. It will also demonstrate the country's commitment to open and fair competition, as well as its respectful compliance to international agreements.

We further push for the elimination of the price classification freeze so the government is free to levy competitive excise tax rates on tobacco and alcohol products. We believe that the current system has eroded the tax base, costing the Philippine government a substantial amount of foregone revenue. To address this loophole, we urge lawmakers to raise the excise tax rates and burden of tobacco and alcohol products, taking inflation into account yearly, to adequately reflect the negative externalities of consuming these goods.

More importantly, MBC joins the medical community in expressing concern over the increasing number of smokers among our youth; the large percentage of preventable deaths and disabilities due to smoking-related diseases; and the fact that the Philippines is the 15th-largest market for tobacco in the world, with one of the lowest taxes imposed on tobacco products. The flawed tax structure governing tobacco and alcohol products has allowed the abuse of their consumption and has failed to curb the growth of new smokers and drinkers, particularly from the youth and the poor. It is the society that carries the burden, as evidenced by the annual increase of economic and productivity losses tied to excessive drinking and smoking.

In response to some sectors' fear that the resulting higher prices of tobacco and alcohol products will encourage black markets, MBC urges the government to further strengthen its campaign against smuggling and the trading of illicit goods. We firmly believe that strict implementation of customs laws and regulations, and effective anti-corruption efforts in customs and border control, are still the key elements in winning the war against smuggling. The fear is valid, but it should not deter the government from imposing correct excise tax rates, nor should this be made an excuse to nurture anti-competitive policies and practices.

Lastly, we propose that the government utilize portions of additional revenue from excise tax collections for promotional and educational activities on the dangers of smoking and drinking, as well as allot a substantial share of the revenue for the Philippine healthcare program. We also recommend that the government expand its technical and financial support for Filipino farmers.
