Nicaragua

Overview of

TOBACCO USE,
TOBACCO CONTROL
LEGISLATION,
AND TAXATION

World Bank Group
Global Tobacco Control Program
Country Brief
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Nicaragua
Overview of Tobacco Use, Tobacco Control Legislation, and Taxation
A Country Brief

Executive summary
Nicaragua became a Party to the WHO Framework Convention on Tobacco Control in 2008 and was the first country in the world which ratified the FCTC Protocol to Eliminate Illicit Trade in Tobacco Products.

Data on smoking prevalence and tobacco consumption in Nicaragua are scarce, and it is difficult to estimate recent tobacco consumption trends among adults. However, the decline in the prevalence of current smoking among GYTS participating adolescents from 20.4% in 2003 to 13.8% in 2014 among boys and from 12.8% in 2003 to 10.3% in 2014 among girls may be considered an indicator of tobacco control policy success.

In 2009, Nicaragua switched from ad valorem to specific excise system for cigarettes. The specific excise tax rates and cigarette prices increased in 2012-2016. Available data demonstrate some decline in cigarette sales in Nicaragua in 2013-2017, as cigarettes became less affordable after the price increase and the taxation policy was beneficial for public health.

Specific excise rates in 2017 and 2018 were increased by only 5% annually, and it was insufficient both for the reduction of tobacco affordability and for the increase of the government revenue.

In February 2019, Nicaragua adopted rather substantial cigarette excise hikes: by 210% in 2019 and further by 25% in 2020 and 38% in 2021. These tax hikes are able to reduce tobacco consumption in the country and bring additional resources to the government coffers.

However, the tobacco industry will probably try to distort positive results of the taxation reform, using its common tactics such as (1) Forestalling - increases in cigarette import just before January each year and sharp reduction of import at the beginning of the year; (2) Price over-shifting - the increase of cigarette prices by more than the tax increase and the inflation rate would require to increase its profits and reduce the excise revenue; (3) Overestimating the illicit cigarette trade by producing deceptive reports to claim that excises are “too high” and should be decreased for the smuggling reduction.

The government should be ready to counteract these tactics using the experience of other countries and conducting careful and timely monitoring of indicators of cigarette prices, supply, and sales.

Tobacco use surveillance and monitoring should be developed in Nicaragua, including a regular collection of information on smoking prevalence, tobacco consumption and various economic indicators.
Acknowledgments

This country brief was prepared by a team from the World Bank Group Global Tobacco Control Program led by Patricio V. Marquez, including Konstantin Krasovsky, and Tatiana Andreeva.

June 19, 2019
Introduction

The Objective of the Country Brief

This country brief presents an overview of current tobacco control legislation, tobacco use, and taxation policy in Nicaragua. Data and information were collected from various sources. The brief is intended to serve as the context for complementary assessments on different aspects of tobacco taxation in the country to be shared with government teams and other national and international stakeholders.

Tobacco control legislation

Nicaragua became a Party to the WHO Framework Convention on Tobacco Control on July 8, 2008. Nicaragua was the first country in the world which ratified (in 2013) the FCTC Protocol to Eliminate Illicit Trade in Tobacco Products. The President of Nicaragua, Daniel Ortega Saavedra strongly supported the ratification of the Protocol.

In 1996, the National Assembly passed a Law to Protect the Human Rights of Non-Smokers. In 2010, the Tobacco Control Law (No 727) was approved by the parliament of Nicaragua. In 2011, regulations on the Tobacco Control Law were adopted (Decree No 41-2011).

Smoking is banned in healthcare, educational, governmental facilities and public transport (Article 6 of the law), but not in bars, restaurants, hotels, clubs, and airports, where special smoking rooms are allowed (Article 8 of the law).

There are six different and annually rotating health warnings that cover 50% of both the front and back sides of tobacco packs. From January 2015, health warnings should include a pictorial.

Tobacco advertising is banned on national TV and radio, as well as on billboards, while tobacco advertising is still allowed in local newspapers and magazines and at points of sale. Tobacco sponsorship and promotion are not restricted.

As of 2015 [1], tobacco control policies in Nicaragua were assessed at 14 out of 37 points.

Tobacco consumption

Per capita cigarette consumption among adults (>15 years of age) in Nicaragua was estimated to be 1380 cigarettes per year in 1970-72 [2], 1440 in 1980-82 [2], 1380 in 1985 with a growth of 10% in 1970-1985 [3], and 1460 in 1990-92 [2]. The estimated cigarette consumption per capita in 2014 was 14.4% above the 1990 levels.

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1 http://www.who.int/fctc/protocol/about/Nicaragua.pdf
2 http://legislacion.asamblea.gob.ni/normaweb.nsf/3133c0d121ea3897062568a1005e0f89/c869b6ad20d89d5a062577a5006c15d5?OpenDocument
3 http://legislacion.asamblea.gob.ni/normaweb.nsf/9e314815a08d4a6206257265005d21f9/642b2ad34c9827df0625791000538ca8?OpenDocument
4 http://iris.paho.org/xmlui/bitstream/handle/123456789/28393/9789275118863_eng.pdf?sequence=1&isAllowed=y&ua=1
According to published international estimates [4], the annual cigarette consumption decreased from 2.7 billion cigarettes in 1980 to 1.2 billion cigarettes in 1996 but then increased to 2.6 billion cigarettes in 2012. Estimated mean daily cigarette consumption per smoker was about 16 cigarettes in 2012.

**Tobacco use among adults**

In Nicaragua, 30% of current morbidities are associated with tobacco smoking [5].

There were no representative surveys on tobacco use among the adult population of Nicaragua. In 1988, a non-representative survey was conducted in Northern Nicaragua among 520 young (18 years and older) employed people, and it reported that the prevalence of current smoking was 51% among men and 16% among women [3, 6].

According to the Demographic and Health survey (ENDESA) conducted in 2001 [7], 95% of Nicaraguan women aged 15-49 years did not smoke. Prevalence of smoking cigarettes was higher among older women (8.3% among women aged 25-49 years) than among younger ones (2.6% among those aged 15-19 years and 4.6% among those aged 20-34 years) and among urban and more educated women than among rural and less educated women. This pattern could predict a further increase in cigarette smoking among Nicaraguan women. However, there was no opportunity to estimate the trend as there were no questions on tobacco use in the next ENDESA surveys in 2006/2007 and 2011/2012.

According to the data collected by the Central American Diabetes Initiative in 2003 [8], the prevalence of smoking among adults constituted 21.0% (32.9% among men and 7.8% among women).

A cross-sectional study of 1,355 participants aged 20–60 years from six communities in Nicaragua was conducted in September 2007–July 2009 [9] and revealed that 31.3% of participants (57.2% of men and 11.4% of women) reported ever smoking tobacco.

In 2014, the overall prevalence of smoking was reported to be 14.2% (18.5% in men and 9.7% in women; 25.1% in young people) [8].

In 2016, the Institute of Alcoholism and Drug Addiction conducted a survey in 16 Rehabilitation Centers of the country, in which 516 patients (93% male) were approached: 23.5% of survey participants reported that they used tobacco.

According to published international estimates [4], the age-standardized adult smoking prevalence in Nicaragua decreased from 17% in 1980 to 11% in 2006-2012 and in 2012 it was 17.3% among men and 5.6% among women.

The Global Burden of Disease [10] estimates of tobacco smoking for Nicaragua mention the prevalence of smoking in 2015 among women to be 5.4% (3.9-7.2), and among men 12.6% (10.0-15.7). No significant change in the prevalence of smoking in 1990-2015 was revealed.

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6 [http://apps.who.int/medicinedocs/documents/s18997es/s18997es.pdf](http://apps.who.int/medicinedocs/documents/s18997es/s18997es.pdf)
Tobacco use among adolescents

In a survey of 468 high school students aged 15-18 years in Managua in 1988, 40% male participants and 52% female participants were reported to be smokers [3].

In a study conducted in 1994 [11], 7.5% of adolescents aged 12-19 years were found to be ever tobacco smokers.

According to the surveys conducted among adolescents aged 10-18 years in 1999-2000 within PACARDO research project [12], 34% of study participants in Nicaragua were tobacco users (probably at least once in their lifetime).

The prevalence of current smoking among young people aged 11-22 years in 2001 was reported to be 49.6% among males and 23.9% among females [6].

Global Youth Tobacco Survey was conducted in Nicaragua in 2003 and 2014. In 2003, the survey was not nationally representative, it covered five regions (Table 1). However, in some papers, the prevalence is summarized as 20.4% among boys and 12.8% among girls [13]. In 2014, the corresponding prevalence changed to 13.8% among boys and 10.3% among girls [14]; thus, this can be considered an indicator of tobacco control policy success.

Table 1. Prevalence of current (at least once within the last 30 days) tobacco use among adolescents (13-15 years old) in the regions of Nicaragua in 2003 and on a national level in 2014 [14], Global Youth Tobacco Survey

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regions</td>
<td>Centro Managua</td>
<td>Atlantico</td>
</tr>
<tr>
<td>Use of any tobacco product</td>
<td>25.1</td>
<td>23.9</td>
</tr>
<tr>
<td>boys</td>
<td>30.4</td>
<td>29.2</td>
</tr>
<tr>
<td>girls</td>
<td>20.5</td>
<td>20.0</td>
</tr>
<tr>
<td>Smoking cigarettes</td>
<td>21.2</td>
<td>20.0</td>
</tr>
<tr>
<td>boys</td>
<td>25.6</td>
<td>25.4</td>
</tr>
<tr>
<td>girls</td>
<td>17.4</td>
<td>15.7</td>
</tr>
<tr>
<td>Use of other tobacco product</td>
<td>9.6</td>
<td>9.3</td>
</tr>
<tr>
<td>boys</td>
<td>12.8</td>
<td>9.3</td>
</tr>
<tr>
<td>girls</td>
<td>6.7</td>
<td>8.9</td>
</tr>
</tbody>
</table>

In 2003, the highest smoking rates were observed in the Centro Managua region10 and the lowest – in the Centro region11. However, there were no large differences between the regions and in 2003 about 27% of boys and 18% of girls were current (at least once during the last 30 days) tobacco users.

In 2014, in a GYTS survey [15] with 3006 participants 394 were smokers, which makes on average 13%.

Tobacco use among medical students

The survey conducted among medical students in 2008 in Leon, Nicaragua [16] found that 25.4% were current tobacco users (20% among female students and 64% among male students) with 18.2% being daily smokers and 7.1% occasional smokers. The prevalence increased with age from 19.8% among those aged 15-19 years to 31.0% among those aged 25-29.

The survey conducted in the same university in 2009 [17] found that 34.2% used tobacco within the last year, and 29.6% within the last month.

Tobacco growing

As estimated in 1983, 0.2% of arable land in Nicaragua was used for tobacco growing [3].

According to the FAO database [18], annual production of unmanufactured tobacco was about 2,000 tons in 2000, then it gradually increased and in 2011-2016 average annual production was about 5,000 tons. In 2011-2016, more than 3,000 hectares were used to grow tobacco.

According to the official statistics, about 800 tons of raw tobacco was exported annually in 2012-2016. The rest was being used for cigar production.

Cigar industry

The history of Nicaraguan cigars begins in 1959 with the exodus of the Cuban cigar makers. Cigarette tobacco had been cultivated in Nicaragua for years, but cigar tobacco had not been supported until the Somoza government decided to finance it as a new industry for Nicaragua. Up until the fall of Somoza’s dictatorship to the Sandinistas in 1979, Nicaragua was producing premium cigars. During the Sandinistas’ reign, the farms and factories of the tobacco region were liquidated and the property redistributed under the new socialist government. In 1984, the US imposed a commercial embargo on Nicaragua, making it impossible to sell cigars in their largest market. Most of the production was redirected toward burley cigarette tobacco for Eastern European markets. With the end of the civil war in 1990, the cigar factories started working again until 1998, when Hurricane Mitch devastated the country and affected the tobacco farms and factories. Currently, Nicaragua is becoming an essential actor in the cigar industry.

Most of the produced cigars are exported and only a small part is used for local consumption.

The secretary of the Association of Nicaraguan Cigar makers, Leonel Raudez, said that exports had grown rapidly, from 16 million in 1996 to 102 million in 2011. The USA was the main market, where 95% of production went. Raudez said that there were 25 cigar factories that created 15,000 direct jobs and 22,000 indirect jobs, mostly in the northern region, in Esteli in particular. Cigar factories were operating within the tax-free zone. In 2016, foreign sales of cigars grew by 11% over 2015, reaching $178 million, of which 84% were destined for the USA market.

In November 2015, the Government representatives noted that the 1000 square meter cigar production plant was going to operate under the free zone regime, employing 400 people. British American

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Tobacco announced that it would be investing $4.5 million in the construction of offices and a distribution center measuring 17 thousand square meters, which was to start operating in June 2018\(^\text{18}\).

**Cigarette production**

According to the official statistics report\(^\text{19}\), about 1.6 billion cigarettes were annually produced in Nicaragua in 1991-1998, but in 1999 only 0.78 billion cigarettes were produced. No consistent data is available on cigarette production in Nicaragua in the 2000s. In the mid-1990s, BAT consolidated six independent companies in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama into one large factory in Honduras [19].

**Cigarette import**

Currently, the cigarette market in Nicaragua is entirely supplied through imports, originating mainly from either Honduras or Guatemala (starting from 2013, from Costa Rica, after the PMI’s closure of its Guatemala factory) and, to a lesser extent, Panama, Mexico, and Chile. BAT took over 80% of the market in 2014 whilst PMI took less than 20%.

Cigarette import in Nicaragua was estimated at the level of 134 metric tons in 1970; 1 in 1980; 25 in 1995; 24 in 1996; 37 in 1997; 100 in 1998; 1051 in 1999 and 1924 in 2000 [20].

It was reported that in 2004–06 Nicaragua’s cigarette imports averaged about 2.2 billion pieces compared with 2.07 billion pieces during 2003\(^\text{20}\).

According to UN database\(^\text{21}\), cigarette import to Nicaragua in 2010-2017 was about 2,400 tons annually, while in 2013-2017 it decreased by 19% (Figure 1).

**Figure 1. Cigarette imports to Nicaragua (source: UN database)**

![Cigarette imports to Nicaragua](image)

**Cigarette sales**

KPMG Project Frost study\(^\text{22}\) (commissioned by British American Tobacco) reported that legal cigarette sales in Nicaragua increased from 1.6 billion cigarettes in 2010 to 2.0 billion in 2012 and then declined to 1.8 billion in 2014.

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\(^{18}\) https://www.centralamericadata.com/en/article/home/Nicaragua_Investment_in_the_Tobacco_Industry

\(^{19}\) http://www.inide.gob.ni/bibliovirtual/publicacion/comp90_99.pdf

\(^{20}\) http://www.tobaccointernational.com/1007/feature2.htm


Tobacco taxation

In the 1990s - early 2000s, Nicaragua applied ad valorem excise tax for cigars and cigarettes. The base for calculation of ad valorem excise was retail price set and published by tobacco producers or importers [21].

In 1994, the Decree on the consumption tax was adopted. In its Annex 1, the Decree set\(^\text{23}\) ad valorem rate for all tobacco products as 40%. Later, the rate was increased to 59%, but from July 1998, it was decreased to 57% (Law 257 of 15 May 1997).

In 1999, (Law No 303 of 12 March 1999\(^\text{24}\)) the ad valorem rate was set as 61%, but it was established that from January 2001 this rate would be reduced by 3% annually to 56%. However, in April 2000 (Law No 343\(^\text{25}\)), the rate was decreased to 40% and it was announced that from January 2002 this rate would be reduced by 1% annually to 38%. In 2002 (Law No 439 of 14 August 2002), the ad valorem rate was changed to 39%. In February 2003, the ad valorem rate for imported cigars and cigarillos was set at 43% (Law No 447\(^\text{26}\)).

In December 2009, the parliament (law No 712\(^\text{27}\)) canceled ad valorem excise and set specific excise rates for cigarettes (225 NIO per 1000 cigarettes). In November 2012, the parliament adopted new taxation law (No 822) which set specific excise rates for cigarettes for 2012-2016 (Figure 2). According to the article 191 of the law from January 1, 2017, the specific excise rate will be updated annually, taking into account the annual devaluation of the official exchange rate of Cordoba (NIO) to the United States Dollar, published by the Central Bank of Nicaragua (BCN), and the annual inflation rate by the Consumer Price Index (CPI) published by the Institute for Information and Development (INIDE), observed in the last twelve months available.

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\(^\text{25}\) https://www.dga.gob.ni/ley/LEY%20No%20343%20-Reforma%20a%20La%20Ley%20257.pdf
The updated cigarette excise rate is calculated and published by the Ministry of Finance and Public Credit by a ministerial order during the first twenty days of the month of December of the year prior to its entry into force. In 2017, the Ministry of Finance increased the rate by 5% (Order No 31-2016\textsuperscript{28}), in 2018 by 5.5% (Order No 28-2017\textsuperscript{29}) and in 2019 again by 5.5% (Order No 16-2018)\textsuperscript{30}.

The VAT rate in Nicaragua is 15%.

**Tax reform of 2019**

The new tax law\textsuperscript{31} was adopted on February 15, 2019, and it went into effect on February 28, 2019. The new law, among other taxes, substantially increased excise taxes for alcohol and tobacco products.

Specific excise tax rates for cigarettes (in NIO per 1000 cigarettes) are established as follows: 2000 in 2019; 2500 in 2020; 3450 in 2021 (Figure 2).

For cigars and cigarillos, specific rates (in NIO per 1 kg) are established as follows: 1335 in 2019; 1670 in 2020; 2300 in 2021.

Later on, the specific rates will be updated annually as of January 1, 2022, taking into account annual devaluation of the official exchange rate of Cordoba with respect to the United States Dollar and the annual inflation rate.

**Tobacco excise revenue**

According to the OECD database\textsuperscript{32}, cigarette excise revenue in Nicaragua gradually increased from 100 million NIO in 2001 to 177 million NIO in 2008, but then it decreased to 39 million NIO in 2010. In subsequent years, the recorded cigarette revenue was 0 (except 2013, when it was 174 million NIO) because the Nicaraguan tobacco company stopped producing and the tax was collected by Customs as

\textsuperscript{28} http://www.hacienda.gob.ni/Ministerio/direccion-superior/DespachoViceministra/Acuerdo%20Ministerial%2031_19dic2016_Impuesto%20Selectivo%20Cons umo%20Cigarrillos.pdf/view

\textsuperscript{29} http://www.hacienda.gob.ni/documentos/Documentos-DespachoViceministra/Acuerdo-Ministerial-28-2017-actualizacion-tarifa-IEC.pdf/view

\textsuperscript{30} https://drive.google.com/file/d/1gLcmSSPtXmuZuQa3r9VkJz_uRJ-jYmEF/view?usp=sharing


\textsuperscript{32} https://stats.oecd.org/Index.aspx?DataSetCode=REVNIC
an excise on imported products. Revenue from excise on imports increased from 55 million NIO in 2008 to 156 million NIO in 2010, but then gradually decreased to 117 million NIO in 2016. It should be noted that total revenue from customs duty (for all kinds of products) increased from 908 million NIO in 2009 to 2,631 million NIO in 2016.

According to the WHO Global tobacco control reports, in 2015 tobacco excise revenue in Nicaragua were 453 million NIO, a decrease from 500 million NIO in 2011.

However, taking into account that specific excise rate for cigarettes increased in 2012-2015 by 102% (see Figure 2), and cigarette import decreased in those years by about 10% (see Figure 1), cigarette excise revenue should have substantially increased in 2013-2015.

**Cigarette prices**

According to national statistics reports, the price for a pack of 20 most popular cigarettes (Belmont) increased from 3.29 NIO in 1992 to 9.77 NIO in 1999 and then to 11.94 NIO in 2002. No information on cigarette prices for the subsequent years is available in the official statistics reports.

According to the WHO Global tobacco control reports, the price of Belmont cigarette pack increased from 21 NIO in 2008 to 28 NIO in 2010 and 2012, then to 39 NIO in 2014 and 50 NIO in 2016. In 2008-2012, the price increased by 33%, while the inflation rate for those four years was 27%. In the next four years (2012-2016), cigarette price increased by 79%, while the inflation rate was 22%. Price of the most popular cigarettes increased by 22 NIO in 2012-2016, while specific excise rate increased only by 6.5 NIO (from 4.5 to 11 NIO per pack of 20 cigarettes). So the cigarette price increase was mainly caused by the pricing policy of the tobacco industry, but not by the government taxation policy.

According to the World Bank database (Table 2), GDP per capita based on constant local currency increased in 2008-2012 by 9% and in 2012-2016, by 15%. In 2008-2012, cigarette affordability did not change much. However, in 2012-2016, cigarette price growth considerably exceeded both inflation and GDP growth, and cigarettes became less affordable in Nicaragua in these years. Apparently, the reduced affordability caused some decline in cigarette consumption as cigarette import to Nicaragua decreased by 19% in 2013-2017 (Figure 1).

<table>
<thead>
<tr>
<th>Table 2. Inflation and GDP growth in Nicaragua</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation, consumer prices (annual %)</td>
</tr>
<tr>
<td>11.1  19.8  3.7  5.5  8.1  7.2  7.1  6.0  4.0  3.5  3.9  5.0</td>
</tr>
<tr>
<td>GDP per capita growth (annual %)</td>
</tr>
<tr>
<td>3.7  2.1  -4.5  3.1  5  5.2  3.7  3.6  3.7  3.5  3.7</td>
</tr>
</tbody>
</table>


**Changes in cigarette prices after the tax reform of 2019**

There is no official information on cigarette prices after the implementation of the taxation reform. In January-May 2019 prices for alcohol and tobacco increased by 45.8% with inflation rate 3.6%.

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36 [https://countryeconomy.com/countries-cpi/nicaragua](https://countryeconomy.com/countries-cpi/nicaragua)
In 2016, the price of the most popular cigarettes pack (Belmont) was 50 NIO. We estimated possible changes in cigarette prices (Table 3) if the tobacco industry increases its (net-of-tax) part of the price by 10% (in line with inflation in 2017-2019).

Table 3. Possible changes of 20-cigarettes pack price after the tax reform of 2019

<table>
<thead>
<tr>
<th></th>
<th>Price, NIO</th>
<th>Excise, NIO</th>
<th>Excise share, %</th>
<th>VAT, %</th>
<th>Total tax, NIO</th>
<th>Total tax, %</th>
<th>Net-of-tax, NIO</th>
<th>Net-of-tax, %</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>50</td>
<td>11,02</td>
<td>22.0</td>
<td>13.0</td>
<td>17,52</td>
<td>35.0</td>
<td>32.5</td>
<td>65.0</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>87</td>
<td>40</td>
<td>46.0</td>
<td>13.0</td>
<td>51,31</td>
<td>59.0</td>
<td>35.7</td>
<td>41.0</td>
<td>74</td>
</tr>
<tr>
<td>Change</td>
<td>74</td>
<td>263</td>
<td>109</td>
<td>0</td>
<td>193</td>
<td>68</td>
<td>10</td>
<td>-37</td>
<td></td>
</tr>
</tbody>
</table>

From March 2019, the excise rate increased by 263% in comparison with 2016 or by 210% in comparison with January 2019. The final retail price increased by 74%; however, the excise share in retail price increased from 22% to 46%, and the total tax share increased from 35% to 59%.

Experience of other countries reveals that after sharp excise hike, the tobacco industry usually increases its part of cigarette price much higher than inflation to compensate its profits on the declining market. So, the real retail prices are expected to be higher than the price presented in Table 3.

Comparison of cigarette prices and taxes in Nicaragua and neighboring countries

The WHO Global Tobacco Report, 2017 [22], contains information on cigarette prices and taxes in Nicaragua and other countries of the WHO Americas Region (AMRO) in 2016 (Table 4).

Table 4. Cigarette prices and taxes in Nicaragua and some neighboring countries in 2016, WHO report data [22]

<table>
<thead>
<tr>
<th>Country</th>
<th>Price of a 20-cigarette pack of the most sold brand</th>
<th>Taxes as a % of the price of the most sold brand</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Price in reported currency</td>
<td>Currency reported</td>
<td>In US$ at official exchange rates</td>
<td>Specific excise</td>
<td>Ad valorem excise</td>
<td>Total excise</td>
</tr>
<tr>
<td>Nicaragua-2016</td>
<td>50.00</td>
<td>NIO</td>
<td>1.74</td>
<td>22.0%</td>
<td>0.0%</td>
<td>22.0%</td>
</tr>
<tr>
<td>Nicaragua-2019</td>
<td>87.00</td>
<td>NIO</td>
<td>2.64</td>
<td>46.0%</td>
<td>0.0%</td>
<td>46.0%</td>
</tr>
<tr>
<td>Belize</td>
<td>5.00</td>
<td>BZD</td>
<td>2.50</td>
<td>26.0%</td>
<td>0.0%</td>
<td>26.0%</td>
</tr>
<tr>
<td>Canada</td>
<td>10.29</td>
<td>CAD</td>
<td>7.89</td>
<td>57.2%</td>
<td>0.0%</td>
<td>57.2%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>1.700</td>
<td>CRC</td>
<td>3.09</td>
<td>26.6%</td>
<td>31.2%</td>
<td>57.9%</td>
</tr>
<tr>
<td>El Salvador</td>
<td>2.00</td>
<td>USD</td>
<td>2.00</td>
<td>22.5%</td>
<td>18.5%</td>
<td>41.0%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>16.50</td>
<td>GTQ</td>
<td>2.18</td>
<td>0.0%</td>
<td>38.3%</td>
<td>38.3%</td>
</tr>
<tr>
<td>Honduras</td>
<td>44.00</td>
<td>HNL</td>
<td>1.92</td>
<td>19.1%</td>
<td>0.0%</td>
<td>19.1%</td>
</tr>
<tr>
<td>Mexico</td>
<td>47.39</td>
<td>MXN</td>
<td>2.51</td>
<td>14.8%</td>
<td>38.7%</td>
<td>53.5%</td>
</tr>
<tr>
<td>Panama</td>
<td>4.25</td>
<td>PAB</td>
<td>4.25</td>
<td>0.0%</td>
<td>43.5%</td>
<td>43.5%</td>
</tr>
<tr>
<td>United States of America</td>
<td>6.43</td>
<td>USD</td>
<td>6.43</td>
<td>37.8%</td>
<td>0.0%</td>
<td>37.8%</td>
</tr>
</tbody>
</table>

In 2016, cigarette prices and taxes (in monetary terms) in Nicaragua were the lowest among all countries of the region. Total tax share in Nicaraguan cigarettes was just 35%, just a little more than in Honduras, but much lower than in other countries.
In 2019, the expected cigarette price in Nicaragua will be at a similar level with Belize and Mexico, while they are still lower than cigarette prices in 2016 in Costa Rica, Panama, USA, and Canada. Taking into account that in 2016-2019, cigarette prices increased in all countries, there will be no substantial differences in prices between neighboring countries to encourage cigarette bootlegging.

**Cigarette smuggling**

In 2001-2002, the illicit cigarette market in Nicaragua was estimated as 10% [23], while the methods of estimation were not disclosed.

In May 2015, KPMG agency issued a report called “Project Frost” [24] funded by British American Tobacco (BAT). The purpose and scope of this study were established through an agreement with the BAT. The study had to consider the smuggling and the counterfeit segments of the tobacco market in 16 Latin American markets (including Nicaragua) and Canada (with a focus on Ontario). According to this agreement, KPMG had to show the country-specific preliminary results for each of the markets included in the study to the BAT administration teams in order to obtain feedback and comments before finalizing the results. Most data for the study (sales, prices, taxes) were provided by the BAT. The estimates of illicit sales were based on so-called empty pack surveys (EPS). The results of EPS were provided to KPMG by the BAT.

According to the EPS results shown in the ‘Project Frost’ report [24], contraband cigarettes accounted for 5.3% of cigarettes consumed in Nicaragua in 2014. Almost all contraband cigarettes in Nicaragua were labeled Panamanian. In 2014, the average price of a legal tobacco pack in Nicaragua was $1.29 compared to $4.08 in Panama. However, the report claims that the empty Panamanian packs found in Nicaragua were Chinese brands from the free zone of Panama and were likely to have lower prices. No counterfeit packs were identified in the EPS.

The number of collected packs for the EPS in Nicaragua is not disclosed, but only two illicit brands were found: Silver Elephant (90% of all illicit empty packs) and Marshal (10%). Such results make us suspect that the number of empty packs collected by BAT team was very small and limited to some areas, where consumption of illicit cigarettes was most probable.

The KPMG report had to admit that some cigarettes legally sold in Nicaragua are smuggled out of the country to Honduras. This kind of smuggling was confirmed by police reports. For example, in November 2017, Honduras police reported that it seized 76,000 cigarettes of Nicaraguan origin[^37].

**Discussion**

Data on smoking prevalence and tobacco consumption in Nicaragua are scarce and it is difficult to estimate recent tobacco consumption trends.

In 2009, Nicaragua switched from ad valorem to specific excise system for cigarettes. The specific rates increased by 145% in 2012-2016, while cigarette prices increased by 79% over the same time. Available data demonstrate some decline in cigarette sales in Nicaragua from 2012, as cigarettes became less affordable after the price increase. So, the taxation policy was beneficial for public health. However, the sales decline was rather moderate (about 19% in 2013-2017), thus governmental tobacco excise revenue should have increased. Unfortunately, the data on tobacco excise revenue for recent years are not available.

The tobacco industry used the excise hikes of 2013-2016 to increase net-of-tax cigarette price to get additional profits. However, even after these tax and price increases, cigarette prices in Nicaragua in 2016 were the lowest in the region. This demonstrates that the government still has substantial potential for a further excise tax increase.

In 2017 and 2018, specific excise rates were increased by only 5% annually. This was insufficient both for the reduction of tobacco affordability and for the increase of the governmental revenue.

In February 2019, Nicaragua adopted sizable tobacco excise hikes, which are able to reduce tobacco consumption in the country and bring additional resources to the government coffers. However, the tobacco industry uses some common responses to excise hikes, which include the following elements:

1) **Forestalling** - increases in supply or stock of the product in anticipation of a tax increase. Most probably, cigarette imports to Nicaragua will highly increase in October-December each year (before the increase of the excise rate), and then, a substantial decline in cigarette import will be observed in January-March

2) **Price over-shifting** - the increase of cigarette prices by more than the tax increase and the inflation rate would require. As tobacco excise in Nicaragua is specific, any increase in the industry part of cigarette price (net-of-tax) will not increase excise payments of the industry but will increase its profits. However, the industry will claim that the price increase is only “tax-driven”. The increase in the net-of-tax price further increases the final retail price and reduces tobacco affordability which can cause a more substantial decline in cigarette sales than expected. In such a situation, government revenue will decline, while the industry profits will increase despite the reduction of cigarette sales.

3) Overestimating the illicit trade – the creation of the public impression that illicit cigarette trade is very massive and is growing with every excise increase. Several agencies will use the money from the tobacco industry to produce similar reports which will demonstrate a very high share of illicit cigarette trade.

The World Bank recently reported [25] that the cases of several country testified that the tobacco industry used exaggerated estimates of illicit trade to argue against tobacco tax increases. A recent review of tobacco industry reports on illicit tobacco trade shows that such reports routinely overestimate the illicit trade, feature substantial methodological problems and fail to meet the standards of accuracy and transparency that are set by high-quality research publications. The primary purpose of tobacco industry-funded estimates on illicit tobacco trade is likely to create a platform for the industry’s lobbying and public relations strategies [26]. The real aim of tobacco industry-inspired reports on illicit tobacco trade is not a reduction of cigarette smuggling, but a reduction of cigarette excise rates.

As to cigarette smuggling into Nicaragua, the only available relatively recent estimate (5% of the cigarette market) is fully based on the empty pack survey conducted by the BAT in 2014. Further on, this estimate was used in the KPMG Project Frost report. Later on, the CID Gallup agency issued a presentation called **THE ILlicit TRADE OF CigaretTES IN CENTRAL AMERICA - From ant smuggling to an elephant in the market**[28]. This presentation contains footnotes that KPMG Frost is the source of estimates, but BAT is not mentioned at all. Then CID Gallup manager for Latin America, Esteban Álvarez, presented these results as a CID Gallup own study, commissioned by the North American Costarican

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[26] "Illicit Trade of Cigarettes in Central America: From Ant Smuggling to an Elephant in the Market," CID Gallup, 2018

Chamber of Commerce (AmCham)\textsuperscript{39,40}. At this stage, not only BAT but even KPMG was not mentioned. The whole process looks like “data laundering” as BAT was probably aware that their survey results would not look credible. However, the experience of other countries demonstrates that governments can counteract the deceptive tactics of the tobacco industry. The basis of counteraction is careful monitoring of various indicators such as cigarette prices (with estimating net-of-tax part), cigarette supply and revenue by months, consumption of licit and illicit cigarettes by population surveys conducted by independent agencies and others.

Conclusions and recommendations

1. In 2013-2016, Nicaragua substantially increased specific cigarette excise rate, and this caused some decrease in tobacco consumption as cigarettes became less affordable. Tobacco excise revenue also apparently increased in 2013-2016. However, cigarettes in Nicaragua still have the lowest prices among the Central American countries.
2. The tobacco taxation policy conducted in 2017 and 2018 (an annual increase of the specific excise rate by 5%) is able to increase real governmental tobacco excise revenues only in case of tobacco consumption growth.
3. The tobacco taxation reform of February 2019 is very progressive. It will reduce tobacco affordability and tobacco consumption in the country and will increase government excise revenue.
4. The tobacco industry will use some tactics to distort the results of the taxation reform. Careful monitoring of economic indicators of cigarette sales can disclose the industry tactics and help to develop and implement proper counteractions.
5. Tobacco taxation policy within the country has no impact on tobacco growing and cigar production, as raw tobacco and most produced cigars are exported.
6. There are no factors which could substantially increase cigarette smuggling into Nicaragua, and the estimates of smuggling levels made by the tobacco industry and its allies are usually misleading.
7. Tobacco use surveillance and monitoring should be developed in Nicaragua, including a regular collection of information on smoking prevalence, licit and illicit tobacco consumption, tobacco smoke exposure and other indicators.

References


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