PLAIN PACKAGING AND ITS UNINTENDED CONSEQUENCES

This *Economic Note* is the second in a series on the growing tendency of governments around the world to regulate the advertising industry more and more strictly. Whether in the name of consumer protection or health concerns, decision makers prefer to attack advertising for products deemed harmful rather than prohibiting them directly. The head of planning for a well respected ad agency recently predicted in the British newsweekly *The Observer* that this regulation would take the form of mandatory plain packaging for products like cigarettes, a measure intended to discourage their use.[1]

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Plain packaging means removing all distinctive elements (logo, colours, lettering) associated with a product and replacing them with a generic package usually including government mandated warnings (related to health or the environment). For example, a cigarette package would indicate only the brand in small letters that would be standardized for all companies.

Some governments, including those in New Zealand and the U.K., are considering the possibility of introducing legislation to mandate plain packaging in the case of cigarettes. The Australian government plans to implement such a requirement by July 2012. The federal government of Canada, which considered and rejected plain packaging 15 years ago, announced last December that it was increasing the size of the compulsory health warning from 50% to 75% of the space on cigarette packages, a measure that reduces, in a roundabout way, the distinctiveness of cigarette brands.

While empirical research is inconclusive as to the actual effectiveness of this approach, some studies suggest that plain packaging could on the contrary have unintended negative consequences. It is a classic case of a policy that focuses on "that which is seen" and ignores "that which is not seen" directly.[2]

The importance of brand names

Plain packaging, by prohibiting the visual elements that allow consumers to differentiate products, would hamper brand recognition. The benefits of branding, though, are well understood. From the consumer's point of view, the function of a brand name is to convey information about a producer's reputation. Consumers rely on brand names because they know that the producers to whom they belong have an incentive to maintain the quality of their products in order to preserve the value of their brands. In other words, brands simplify choices.[3]

For these reasons, consumers are usually willing to pay more for brand name products than for generic products. They pay more for used cars with brands associated with higher quality.[4] Similarly, they pay a premium for brand-name prescription drugs as opposed to generic drugs, for brand-name clothes, etc. When retailers—grocery stores, for example—eschew well-known brands, they often replace them with their own "private labels."

Because of this consumer attachment, brand names are worth a lot to producers. In 2008, for example, the "Guinness World Records" brand was sold for £60 million (nearly CAN$118 million).[5] Table 1 shows estimates of the values of

1. Russell Davis, planning director at Ogilvy & Mather, quoted in "20 Predictions for the Next 25 Years," *The Observer,* January 2, 2011, at http://www.guardian.co.uk/society/2011/jan/02/25-predictions-25-years/print.
2. See the booklet *Frédéric Bastiat, Defender of Sound Economics* on the MEI's website for a simple explanation of the "unintended consequences" concept, http://www.iedm.org/154-frederic-bastiat-defender-of-sound-economics.
3. "You Choose", *The Economist,* December 16, 2010.
4. Automobile Leasing Guide, 2009, *Perceived Quality Study,* Summer 2009, p. 5, at https://www.alg.com/pdf/perceived_quality_study.pdf.
5. Patrick Foster, "Guinness World Records Brand Sold to Ripley Entertainment," *Sunday Times,* February 15, 2008.

the 10 most valuable global brands, which reach upwards of $70 billion for Coca-Cola—and that's just for the "name."

Will plain packaging reduce tobacco consumption?

Efforts to promote plain packaging emphasize the goal of reducing tobacco consumption and youth smoking initiation rates. Since no country has yet imposed plain packaging for cigarettes, the scientific literature on this subject offers no definitive conclusions. Analyses of the impact of such a measure usually rely on interviews, focus groups and experiments on recognizing and recalling cigarette brand names. A number of such studies have been carried out over the years. But a review of 13 major public-health studies that had found a potentially effective impact of plain packaging on smoking (and especially on youth smoking) has exposed major flaws in those studies.[6] Their results are ambiguous at best, and moreover do not support their conclusions.

First, the studies often limit themselves to showing that consumers have a positive evaluation of brands, or that health warnings are more readily noticed on a generic package, without actually showing that such factors have a determining influence on tobacco consumption.

Also, the studies in favour of generic packaging do not follow the recognized methods of statistical analysis, which are required to demonstrate a causal link in the social sciences. They do not consider other factors that have an impact on youth smoking decisions—cigarette prices, parent and peer influence, access, etc.—and that are potentially more important than packaging. Such factors could reduce or completely cancel out the alleged positive impact of plain packaging.

Finally, many of the studies reviewed show spurious correlations. A classic example of this unfortunate methodological error is provided by the positive correlation between drownings at sea and ice cream sales. Even though the correlation is real, it would be absurd to deduce that ice cream causes drowning. Rather, the positive correlation arises because both variables are correlated with a third, hidden variable: warm summer weather. Similarly, an apparent correlation between cigarette brand recognition and

the consumption of branded cigarettes could very well depend on the action of a third causal variable like peer influence.

To sum up, the direct consequence of these methodological shortcomings is that no causal relation has been established between plain packaging of cigarettes and tobacco consumption. In other words, there is no scientific basis for the promotion of plain packaging.

Proponents of plain packaging have long realized that its effects would be at best marginal, as illustrated by an expert panel study commissioned by Health Canada,[7] whose conclusions are ambivalent. Indeed, a large part of the "evidence" reported was based on the opinions of teenagers interviewed in a mall. Half of them thought that plain packaging would not reduce the number of teenagers who decide to start smoking cigarettes, and just 5.6% thought it was the best way to stop youths from smoking. The study concludes that, "generic packaging will not have major effects," but nonetheless states that "it will be another nail in the coffin of smoking."

The real impact of packaging on tobacco consumption

More useful are indirect studies that use actual health warnings as a proxy for plain packaging. Indeed, if plain packaging is to have an impact, existing health warnings, which amount to partial plain packaging, should have had some impact too. On the contrary, however, studies show that these health warnings have had no impact.

An econometric study of the Canadian case highlights the fact that one year after appearing on Canadian packs of cigarettes in 2001, aggressive, graphic health warnings had had no statistically significant effect on the proportion of smokers in the population, even in the 15—19 age group.[8]

Health warnings on tobacco products have long been much more visible in Canada than in the United States. These warnings have occupied 20% of the front of each package since 1989, and 50% since 2001, compared to around 5% in the United States, usually on the side of the package.

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6. Jorge Padilla and Nadine Watson, *A Critical Review of the Literature on Generic Packaging for Cigarettes: A Report for PMI,* LECG Consulting Belgium, January 4, 2010.

7. Health Canada, Expert Panel Report, *When Packages Can't Speak: Possible Impacts of Plain and Generic Packaging on Tobacco Products,* 1995, Appendix C.

8. Nikolay Gospodinov and Ian J. Irvine, "Global Health Warnings on Tobacco Packaging: Evidence from the Canadian Experiment," *The B.E. Journal of Economic Analysis and Policy,* Vol. 4 (2004), No. 1.

Table 1 - The Ten Most Valuable Global Brands in 2010			
	Brand	**Sector**	**Value (US$ billion)**
1	Coca-Cola	Beverages	70.5
2	IBM	Business services	64.7
3	Microsoft	Computer software	60.9
4	Google	Internet services	43.6
5	GE	Diversified	42.8
6	McDonald's	Restaurants	33.6
7	intel	Electronics	32.0
8	NOKIA	Electronics	29.5
9	Disney	Media	28.7
10	hp	Electronics	26.9

Source: Estimates by Interbrand, http://www.interbrand.com/en/best-global-brands/best-global-brands-2008/best-global-brands-2010.aspx.

Logically, smoking rates should be lower in Canada since these warnings became more visible, if we adjust for other factors related to demographics, price and other variables. This is not, however, what is observed. Smoking rates in the United States, for young and old alike, have not been higher than in Canada in the last two decades, despite the less visible health warnings.[9] These health warnings have therefore clearly not produced the kinds of results expected.

The real consequences

Cigarette packages have recently been attacked by prohibiting the display of tobacco at points of sales in Canada, Thailand, Iceland and Ireland. In the Canadian provinces, these prohibitions have led to the closure of hundreds of small convenience stores.[10] However, they have had no discernable impact on smoking rates. They have merely encouraged smokers to buy their cigarettes at the supermarket (convenience stores no longer being able to display their range of available products) and especially to buy contraband cigarettes. With the prohibition of advertising, including at points of sales, packaging

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remains the main method of branding, if not the only one, still available to cigarette producers.

As with the display ban, there is a strong chance that plain packaging for cigarettes would entail unintended negative consequences without achieving its declared objective of improving the health of the population. Indeed, if consumers cannot rely on a brand as a warranty of quality and reputation, they will not be willing to pay a premium for those products. Concretely, plain packaging would reduce the brand premium and therefore the price of brand cigarettes. The consumption of tobacco would not fall, but cigarette manufacturers that have invested in establishing their reputations would be harmed.[11]

The distinction between the goal of reducing smoking and that of needlessly harming legitimate corporations is important here because the latter is clearly no longer a public health issue. Plain packaging would harm manufacturers just as the display ban harmed convenience stores, all without improving anybody's health.

In fact, by abolishing the brand premium, we can predict that sales will increase, according to the law of demand.

9.   Casey Mulligan, *Comparing Health Warning Label Sizes and Smoking Prevalence Rates in the US and Canada,* December 2010.
10. Patrick Basham, *Canada's Ruinous Tobacco Display Ban: Economic and Public Health Lessons,* Institute of Economic Affairs, July 2010, p. 11.
11. See: Denis Campbell, "'Plain Packets' Law to Strip Cigarettes of Their Glamour," *The Observer,* September 21, 2008.

According to a simulation on brand value carried out in Australia, prices would fall by 5% to 19%.[12] Using conservative estimates for the Canadian market, we can predict that the reduction of the price of cigarettes resulting from a plain packaging policy would lead to the addition of 135,000 extra smokers (there are currently 4.8 million), an increase of nearly 3%.[13] Although estimates are approximate by nature, logic dictates that a decrease in the price of cigarettes caused by the disappearance of brandnames could provoke an increase in tobacco consumption.

Thus, unless plain packaging succeeded in compensating for this probable increase, which it likely would not according to the current scientific literature, the adoption of this measure would have the opposite effect of what is intended.

Conclusion

The existing scientific literature does not establish a causal link between plain packaging and tobacco consumption. In the absence of proof, any implementation would at best represent merely a shot in the dark as far as public health is concerned, and unfortunately risks provoking consequences that are more negative than positive.

What the available evidence does show is that enforcing plain packaging on tobacco products would have detrimental consequences on legal producers and their brands, without reducing the consumption of tobacco. On the contrary, instead of reducing health risks, this policy would achieve the exact opposite of its stated purpose by leading to an increase in the number of smokers. It would not be the first time that a seemingly well-intentioned policy produces harmful unintended consequences.

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Moreover, tobacco may be just the first victim in a global attack on branding. Other products deemed "sinful" may well be targeted in the future: fast food, alcohol, lottery tickets (although the two latter cases currently enjoy the sanction of the Quebec government), etc.

In economics, the availability of information is important. However, once the risks of using a product are known, to what extent does the government need to interfere with the choices of individuals in order to protect them from themselves? If everybody already knows that cigarettes cause health problems – and even impotence! – could we respect the choices of those who adopt this behaviour, even if this decision remains inscrutable to some?

12. Jorge Padilla, *The Impact of Plain Packaging in Australia: A Simulation Exercise,* LECG, 2010, p. 8; Jorge Padilla, *The Impact of Plain Packaging of cigarettes in UK:* A Simulation Exercice, LECG, 2010.
13. Calculations by the author based on: Jessica Reid and David Hammond, *Tobacco Use in Canada: Patterns and Trends,* Propel Centre for Population Health Impact, 2011, p. 15; Gospodinov and Irvine, *op. cit.,* footnote 8, p. 12.