

# Regulatory Impact Analysis Exercise

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# RIA Checklist

- ✓ Identify the problem.
- ✓ Establish a baseline.
- ✓ Assess benefits.
- ✓ Assess costs.
- ✓ Consider alternatives.
- ✓ Consider the net.

**Identify the problem to  
establish the need for the  
regulatory action.**

# RIA Case Study: Warning Labels for Cigarette Packages

**PROBLEM:** Insufficient/ineffective information available to the public regarding the harmful health effects of smoking cigarettes.

**Market failure:** information asymmetry and lack of information salience (lack of attention to and ineffectiveness of existing cigarette health labels).

**Other examples?** Externalities, market collusion

# RIA Case Study: Warning Labels for Cigarette Packages

- One of nine new health warnings to be displayed directly, and on the upper portion and rear panel of cigarette packages.
- Health warnings must be included in advertisements for cigarettes.
- Cigarette labels must include information on resources to assist individuals to quit smoking.



# **Establish the baseline.**

What does the world without the  
regulation look like?

# RIA Case Study: Warning Labels for Cigarette Packages

**BASELINE:** The number of smokers that would be expected, based upon currently projected trends, during the time horizon of the analysis.

**Set the Time Horizon for Analysis** – period long enough to encompass all important benefits and costs likely to result from the regulation.

**TIMEFRAME:** 20 years to capture one-generation of smokers (2012-2031)

**Other considerations?** state of technology, available substitutes



## **Assess the benefits.**

How do proposed solutions improve  
on the problem?

# RIA Case Study: Warning Labels for Cigarette Packages

## Benefits of the rule:

- Reduction in the number of U.S. smokers. (Smokers' life years saved)
- Health status improvements - reduction in number of people who will ultimately become ill or die from diseases caused by smoking.
- Medical expenditure reduction
- Fire loss averted (less homes burned down by cigarettes!)
- Other financial effects

**Other examples?** Public health (asthma, IQ, birth defects), visibility, natural resources, safety (avoided death/injury)

How much do you think a life is worth?

How much do you think a an extra year of life is worth?

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For this rule, the U.S. Federal and Drug  
Administration established a Value of  
Statistical Life Year (VSLY) of:

\$106,308

\$212,615

\$318,923

## **Assess the costs.**

What costs do the proposed solutions impose?

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## **Costs of the rule:**

- Manufacturing costs to change cigarette labels.
- Market testing of new cigarette package labels.
- Recordkeeping and administrative costs to ensure equal and random display of 9 warning labels over time.
- Costs to manufacturers and retailers to remove point of sale advertising that does not comply with the regulation.
- Government cost associated with administering and enforcing the regulation.

**Other examples?** Available substitutes? Loss to society?

Distributional impacts – who bears costs (e.g. supply chains)?

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## Best Practices:

- **Quantify and Monetize the Benefits and Costs of the Regulation** using the best obtainable scientific, technical, economic and other information.
- **Discount Future Benefits and Costs**
- **Evaluate Non-Quantified and Non-monetized Benefits and Costs** (those that are difficult or impossible to quantify/monetize)
- **Characterize uncertainty** in benefits, costs, and net benefits.

# **Consider alternatives.**

What trade offs do alternate approaches present?



# RIA Case Study: Warning Labels for Cigarette Packages

## Identify a Range of Regulatory Alternatives

Alternatives should especially consider flexible approaches, economic incentives (user fees/marketable permits), information disclosure.

- ALTERNATIVES to the Proposed Cigarette Labeling Rule:
- Shorter (6 month) or longer (24 month) compliance period for cigarette manufacturers.
- Different graphical images/messages to be displayed on cigarette label.

**Other examples?** Achieving same benefits at lower costs (e.g. half-life); when no substitute readily available in the market (industry agreement)

# **Consider the Net.**

What approach maximizes net benefits?

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## SUMMARY OF BENEFITS AND COSTS

	PRIMARY ESTIMATE	LOW ESTIMATE	HIGH ESTIMATE	YEAR DOLLARS	DISCOUNT RATE	PERIOD COVERED
<u>BENEFITS</u>						
\$ MILLIONS/YEAR	\$221.50	\$0	\$3,360.70	2009	7%	2012-2031
<u>COSTS</u>						
\$ MILLIONS/YEAR	\$37.00	\$34.70	\$52.70	2009	7%	2012-2031