



Tobacco and taxes: a winning strategy

IDRC, with funds from Health Canada, supported an economic study that helped the Jamaican government rebut the tobacco industry's arguments against higher taxes on cigarettes, in the process breathing new life into the country's tobacco control strategy.

"The research is showing that an increase in taxes to an optimum level, approximately 70% of the retail price, would have a win-win effect both in terms of reducing tobacco consumption and in increasing revenue."

Eva Lewis-Fuller, Director of International Health, Jamaican Ministry of Health

The Development Challenge: **Reduce tobacco use without threatening government revenues**

Tobacco consumption is a major global public health threat. Current figures place the global annual tobacco-related death toll at 5 million. That count is expected to double to 10 million annually by 2020, if current trends continue. By 2030, 70% of deaths attributable to tobacco will occur in developing countries. One in two smokers will die prematurely as a result of tobacco use, many in their productive middle years.

To counter these effects, the World Health Organization (WHO) introduced the Framework Convention on Tobacco Control (FCTC). Unanimously adopted in May 2003 by WHO member states, the treaty entered into

force in February 2005 when it was ratified by 40 countries. At the

present time, more

than 100 countries have signed or ratified the treaty. The FCTC outlines measures relating to the reduction of both supply and demand for tobacco. The demand-side prescriptions include raising tobacco prices through an increase in excise tax, creating smoke-free public places, requiring health warning labels on tobacco packages, restricting advertising, promotion, and sponsorship by tobacco companies, and initiating programs to help smokers quit. The Convention also aims to reduce the supply of tobacco products by advocating restrictions on tobacco sales to minors, curbing the illicit trade in tobacco, and promoting alternative crops for tobacco growers.

Expectations for the measure's social impact are also high — less people smoking means a healthier population.

However, countries that want to support the aims of the FCTC at the national level face some obstacles. For example, many governments seriously consider the arguments of the tobacco industry that increased tobacco taxes deplete government coffers both by reducing the number of smokers and by encouraging the creation of tobacco black markets that are outside the reach of the tax department.

In Jamaica, the economic spin-offs were a major consideration for a government contemplating raising taxes on tobacco. While the Ministry of Health was in favour of exploring such options, the Ministry of Finance was reluctant. Jamaica has experienced economic stagnation since 1980, accompanied by heavy bouts of high inflation. Two-thirds of the government's total expenditures go toward servicing its foreign debt. It therefore wanted to be sure that raising tobacco taxes would not create further economic harm.

The Idea: Good research as the foundation for effective public policy

Jamaica's rate of tobacco use has been falling, but before the government could use economic policy to further reduce tobacco use, it wanted to be certain of the economic consequences. One study (later seen as deficient) conducted locally had supported the industry position that the economic effects of raising tobacco taxes would be negative.

As part of its ongoing support to Jamaica's Ministry of Health in the area of tobacco control research, and with funding provided by Health Canada, the International Development Research Centre (IDRC) through its Research for International Tobacco Control (RITC) program, twinned the Jamaicans with a research partner from South Africa, to analyze the economic impact of increasing the cigarette excise tax as an appropriate tobacco control strategy.

The study was produced by Corné Van Walbeek, a senior lecturer at the University of Cape Town's School of Economics in collaboration with Eva Lewis-Fuller and her colleagues in the Jamaican Ministry of Health. Van Walbeek is an expert in the economics of tobacco control, whose previous RITC-funded work has influenced tobacco-control policy in South Africa. His familiarity with the South African situation allowed for interesting South-South comparisons and knowledge sharing between Jamaica and South Africa.

The Research: Clarifying the economics of tobacco control

International research shows that increasing the price of cigarettes is the most cost effective of all interventions in reducing the demand for tobacco products. It was once believed that the addictive nature of tobacco made this commodity an exception to the microeconomic principle that higher prices will invariably lead to lower demand. However, data from a large number of empirical studies proves that this is not the case. Higher prices influence demand for tobacco in two ways: by influencing current smokers to quit or smoke less, and by dissuading nonsmokers from starting. Evidence suggests that teenagers are more sensitive to price influences than adults, which implies that higher prices will be a strong factor in discouraging youth from starting smoking.

Van Walbeek constructed economic models using Jamaican data to examine the potential impact of a rise in excise tax on both tobacco sales and government revenue. These projections showed that increasing tobacco taxes from the current level of 52% of the market price to around 72% would both increase government revenue from tobacco by roughly 50%, while at the same time decreasing demand by nearly 40%. This is described as a “win-win” situation with both positive public health and economic effects.

This scenario is supported by practical experience in other countries. South Africa, for example, increased excise tax from 34 to 50% of the retail price of cigarettes between 1994 and 1998. The results were a 15% aggregate decrease in tobacco consumption, a decrease in per capita consumption of 20%, and a 75% increase in real government revenues from tobacco taxes.

On the Ground: A roadmap to a place where good health and finances meet

The economic report has had a direct impact upon government policy.

In April 2005, Van Walbeek and Lewis-Fuller met with numerous stakeholders in Jamaica, including policymakers, academics, tobacco-control advocates, and the media, to discuss the project's findings. The research was particularly well received by representatives from the Ministry of Finance. The government has accepted and acted upon the report's recommendation that there should be incremental increases on tobacco taxes, leading to the point where tobacco taxes ultimately account for 70% of the retail price of the product (a proportion similar to that in some European countries). In April 2005, the government announced its new policy and the first of a series of planned tax hikes on tobacco products. The first tax increase raised the price of cigarettes by 8 to 10%.

The release of the report, *The Economics of Tobacco Control in Jamaica: Will the Pursuit of Public Health Place a Fiscal Burden on Government?*, also provided the occasion for a public forum on the subject. This was an opportunity to explain to the public and several journalists the win-win nature of the new tax regime.



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Less people smoking means a healthier population.

RESEARCH THAT MATTERS



IDRC: N. Male

The Impact: An expected pay-off in finances and public health

It is too early to determine whether the actual financial and public health results of the new tobacco tax measure will match the economic projections contained in the report. However, the expectation is high — given experiences elsewhere — that government revenues will rise and cigarette consumption will fall. The decrease in smoking is also anticipated to have another spin-off economic effect, as fewer smoking-related illnesses lead to a lesser economic burden on the health system. Expectations for the measure's social impact are also high — less people smoking means a healthier population.

Future Challenges: Proceeding on more fronts

The Jamaican Ministry of Health is interested in publishing the study's results in booklet form, to further disseminate the findings, not only among relevant government ministries in Jamaica, but throughout the greater Caribbean region.

As well, Jamaica is now well positioned to implement other tobacco-control measures prescribed in the FCTC, which Jamaica ratified on 7 July 2005. These future actions include a ban on tobacco advertising and legislation in support of smoke-free public spaces. It is expected that public support for such measures will be high, given the country's disproportionately large anti-tobacco lobby (in relation to its small population size) and the active role of the Jamaican media in discussing the health effects of tobacco use. IDRC is currently supporting a study on tobacco-related healthcare costs in Jamaica.

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