



Southeast Asia Tobacco Control Alliance

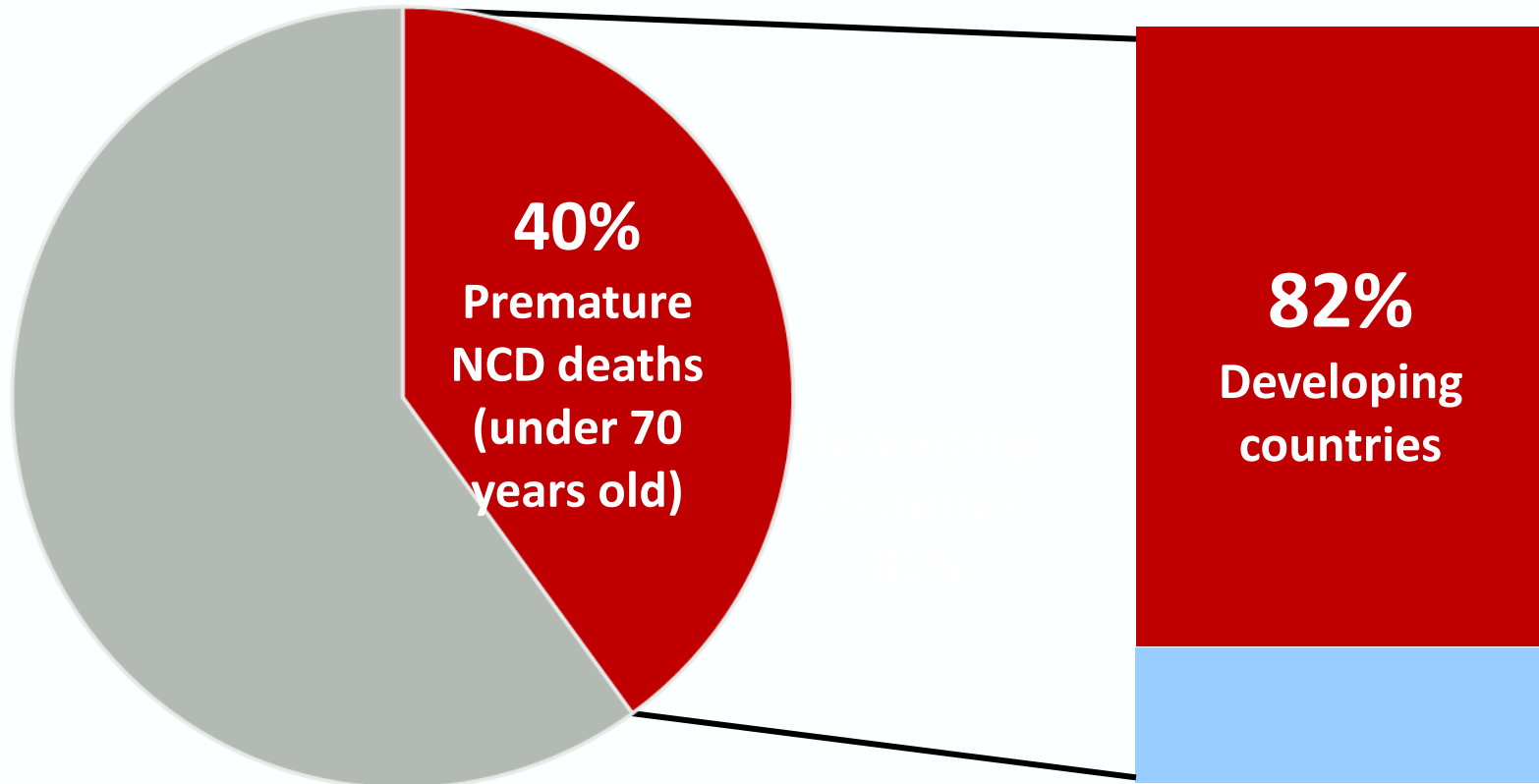


Effective Tobacco Taxation to Reduce Poverty and Achieve SDGs

Sophapan Ratanachena
Tobacco Tax Program Manager

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Jakarta, Indonesia

Over 80% of premature NCD deaths occur in developing countries

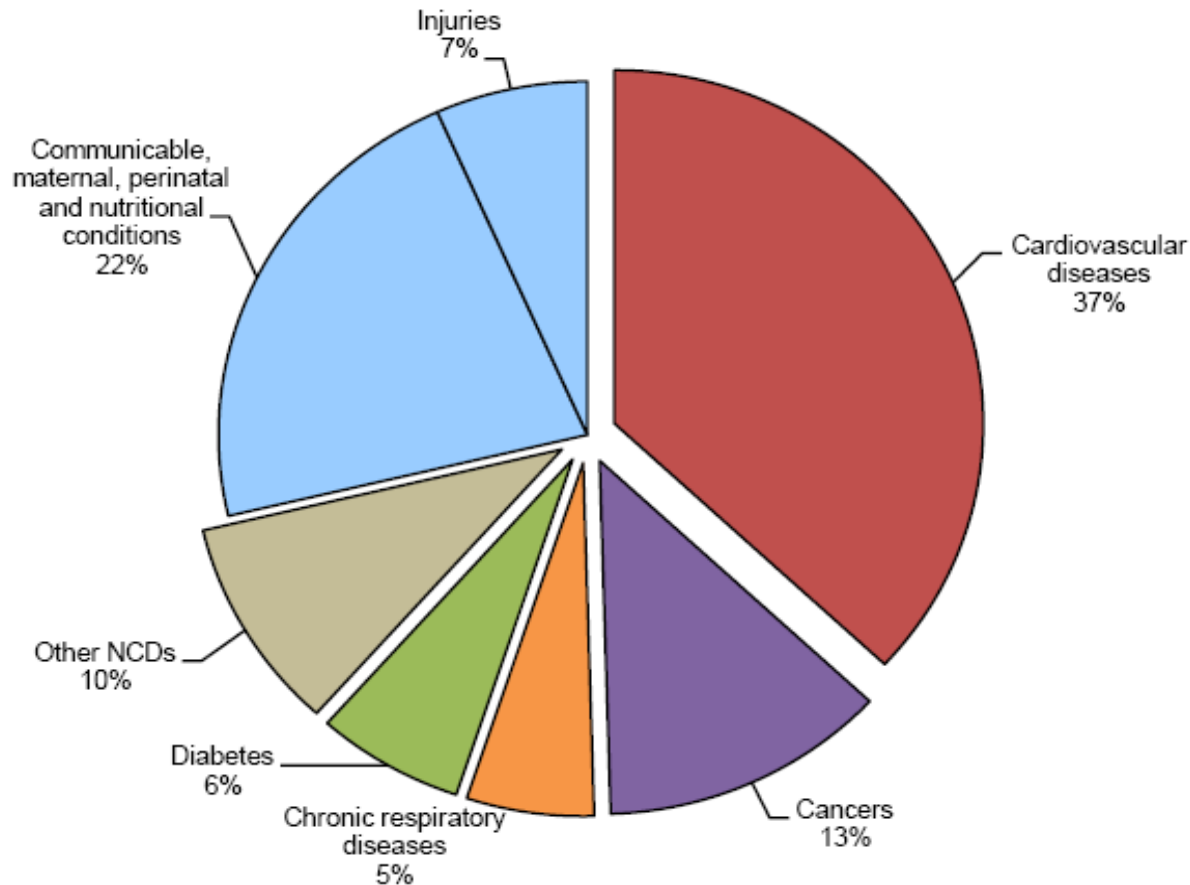


Total deaths from NCDs, 2014

Source: WHO (2014) "Global status report on NCDs 2014"



NCDs account for 71% of total deaths in Indonesia



**Proportional
Mortality**
(% of total deaths, all ages,
both sexes)





- The 17 Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development — adopted by world leaders in September 2015
- Build on the success of the Millennium Development Goals (MDGs) and aim to go further to end all forms of poverty
- Call for action by all countries, poor, rich and middle-income to promote prosperity while protecting the planet
- Ending poverty must go hand-in-hand with strategies that build economic growth and addresses a range of social needs including health

Indonesia's Commitment to SDGs



“Drawing from the MDG implementation, Indonesia has just mainstreamed the Post-2015 Development Agenda into its national development planning.”

Vice President Yusuf Kalla



“Health Ministry would focus on preventive measures when implementing the sustainable development agenda.”

Health Minister Nila Moeloek

September 2015, New York

Noncommunicable Diseases

4 Diseases, 4 Modifiable Shared Risk Factors

	Tobacco Use	Unhealthy diets	Physical Inactivity	Harmful Use of Alcohol
Cardio-vascular				
Diabetes				
Cancer				
Chronic Respiratory				



17 Sustainable Development Goals

1 NO POVERTY



2 NO HUNGER



3 GOOD HEALTH



4 QUALITY EDUCATION



5 GENDER EQUALITY



6 CLEAN WATER AND SANITATION



7 CLEAN ENERGY



8 GOOD JOBS AND ECONOMIC GROWTH



9 INNOVATION AND INFRASTRUCTURE



10 REDUCED INEQUALITIES



11 SUSTAINABLE CITIES AND COMMUNITIES



12 RESPONSIBLE CONSUMPTION



13 PROTECT THE PLANET



14 LIFE BELOW WATER



15 LIFE ON LAND



16 PEACE AND JUSTICE

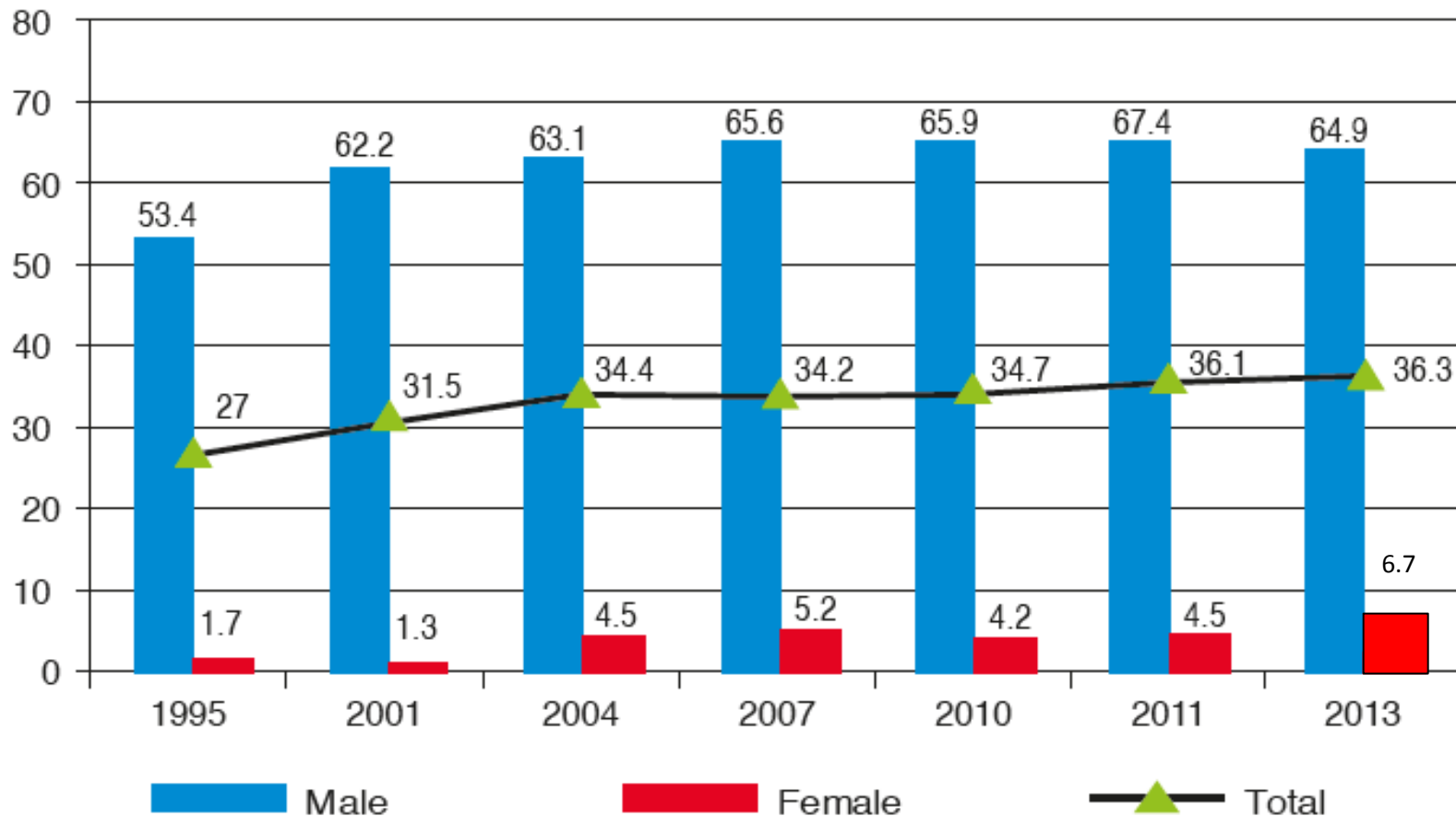


17 PARTNERSHIPS FOR THE GOALS

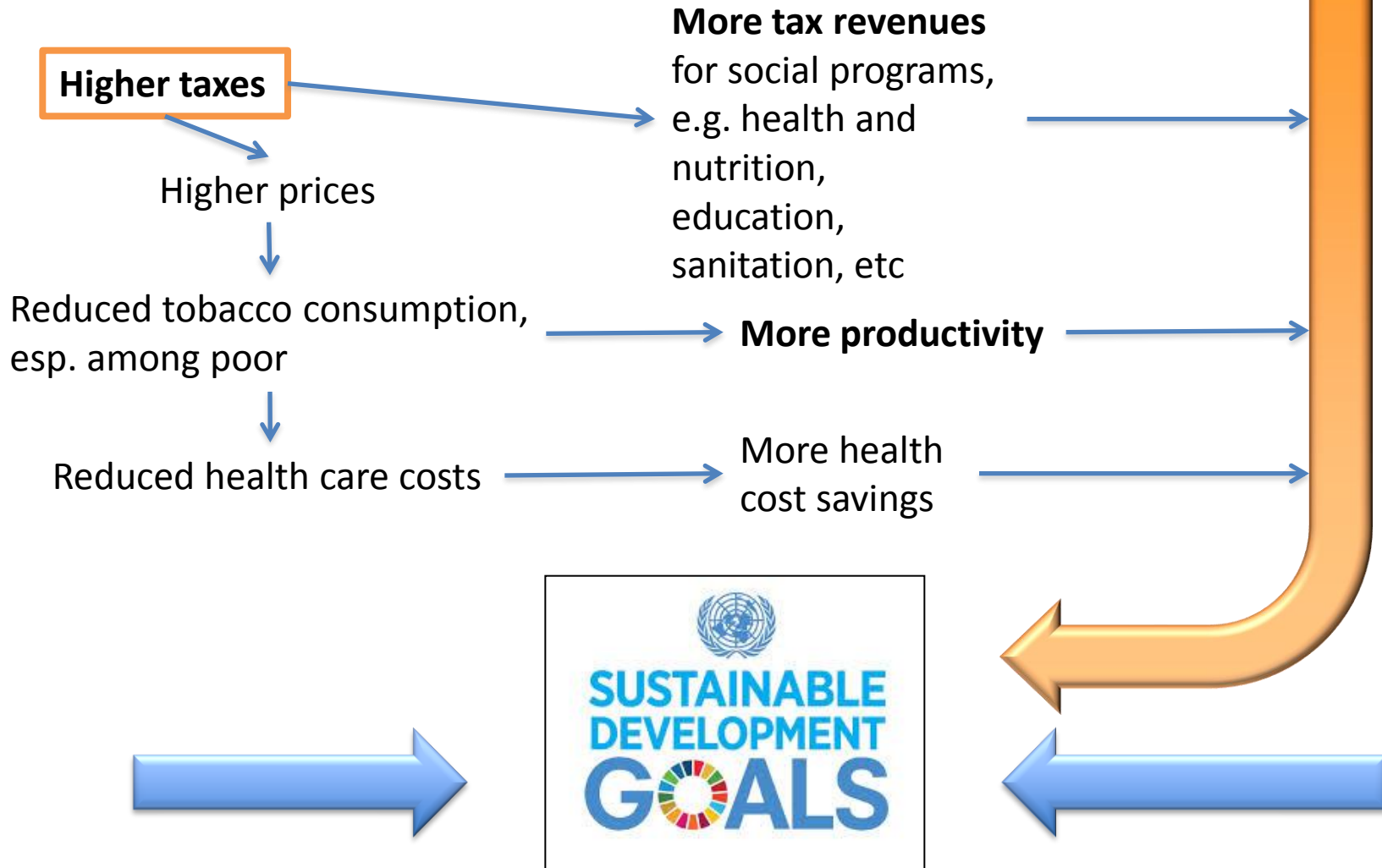


SUSTAINABLE DEVELOPMENT GOALS

Smoking prevalence trends in Indonesia, 1995-2013



FCTC Article 6 (Taxes and Prices)



Challenges in Indonesia

Complicated tobacco tax system

Cheap and affordable cigarettes

Tobacco business trend & its interference in tobacco tax policy

Government's tax roadmap



Complicated tax system

- 12 tax rates for different tobacco products
 - 19 tiers in 2009 to 12 tiers in 2015
- Tobacco excise rate capped at 57% of HJE
- Effective 1 January 2016, the tobacco excise rate increased on average by 11.3%
 - **highest** increase (16.5%) for machine-made white cigarette production group
 - **no** increase for hand-made kretek production group IIIB that produces below 50 million sticks per year



Complicated tax system

- 2016 revenue target for tobacco excise:
IDR 139.82 trillion
- If MOF uses a single tariff, applying the highest tariff rate of IDR 495, potential tobacco excise revenue would be **IDR 168 trillion**.

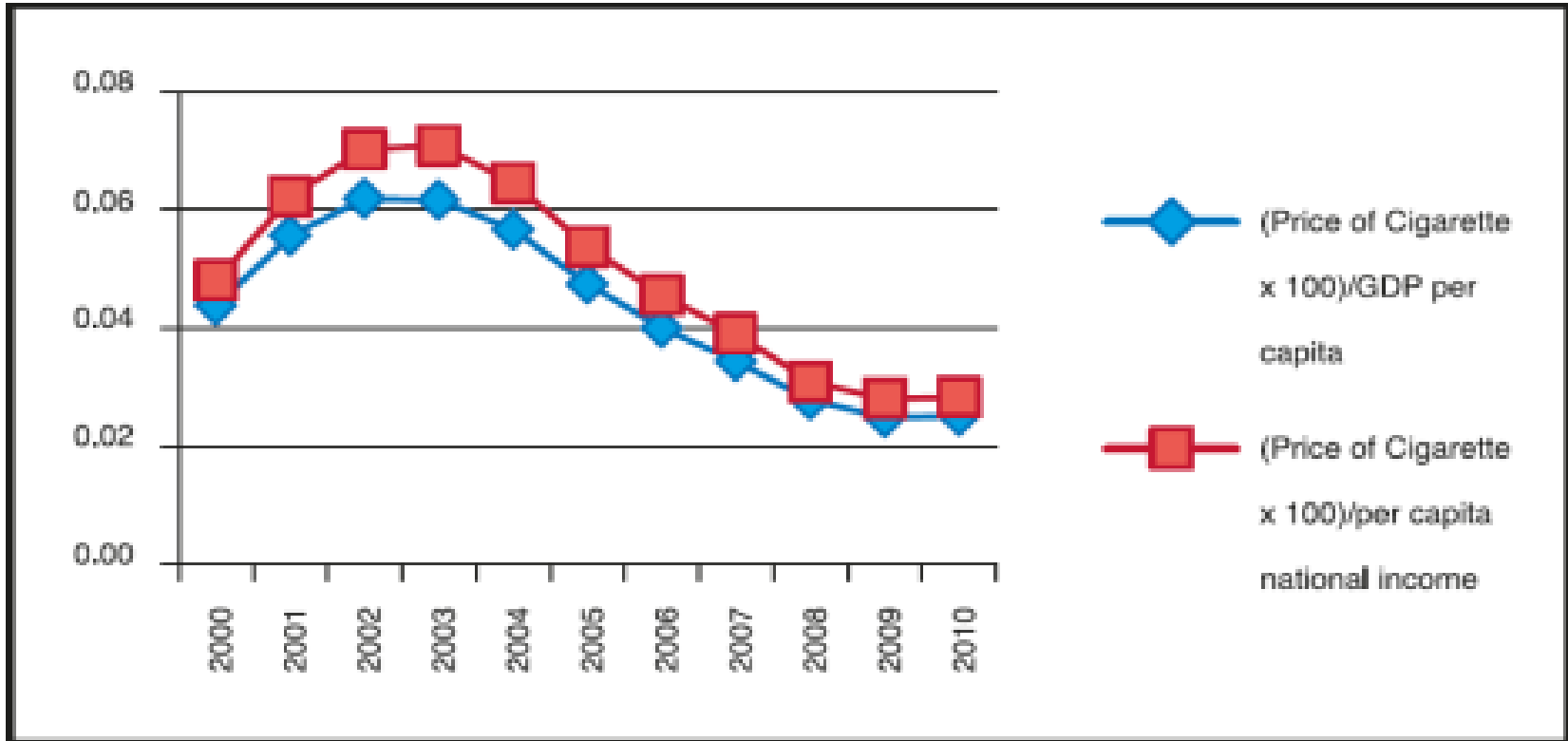


Cheap and affordable cigarettes

- Among the world's cheapest, most affordable cigarettes
 - most expensive cigarette costs **IDR 1,115**
 - far below consumer price turning point to decrease consumption: **IDR 4,166** per stick (IDR 50,000 per 12-stick pack)
 - steady growth of consumers' income levels
 - nominal cigarette prices unchanged since 2003



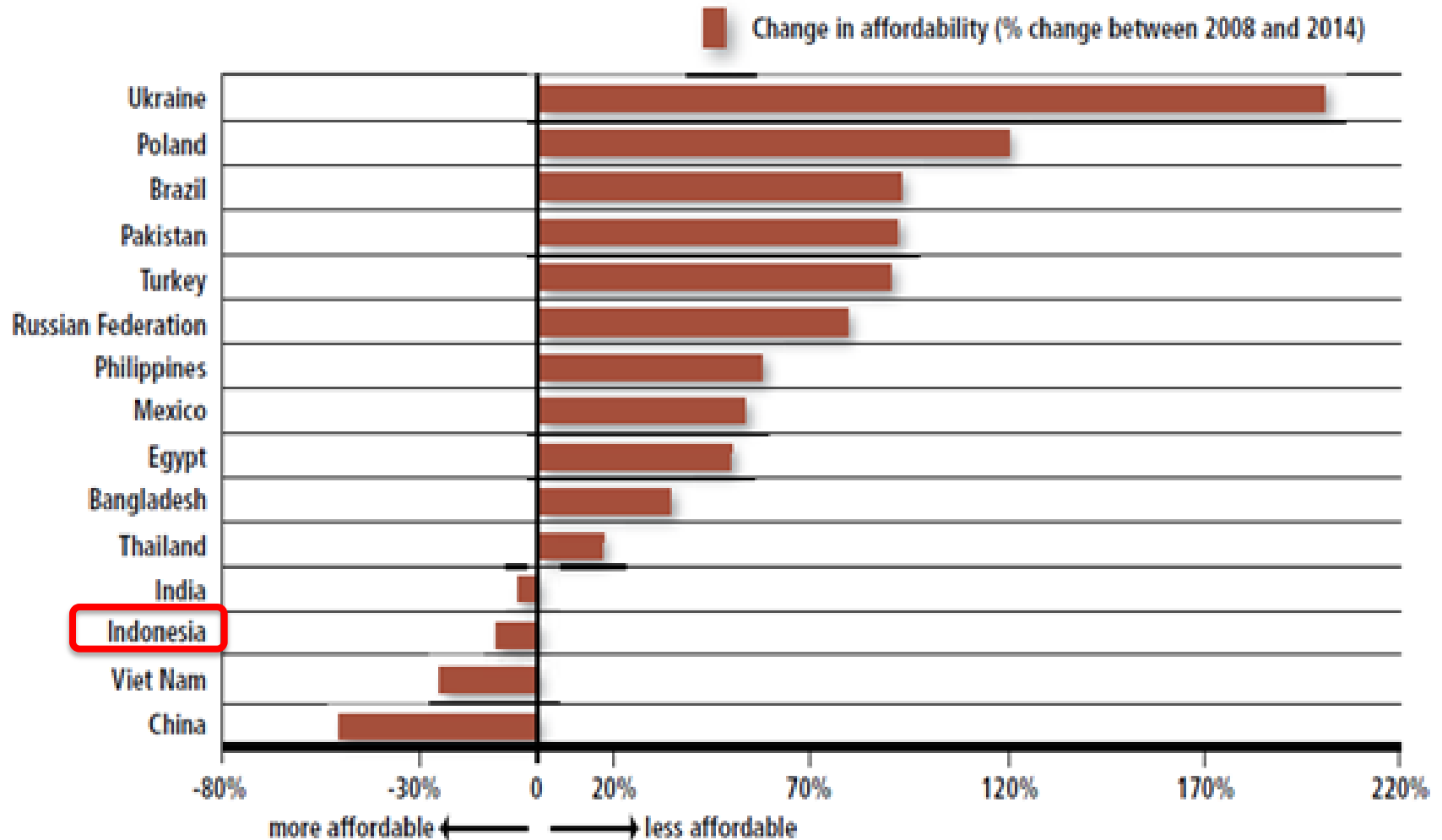
Relative Income Price of Cigarettes, 2000-2010



Source: SEATCA (2011) "Cigarette Affordability Study in Indonesia"



Change in Affordability of Cigarettes between 2008 and 2014



Source: WHO (2015) "WHO Report on the Global Tobacco Epidemic"



Cheap and affordable cigarettes

- Large tobacco companies manufacture and sell a wide range of cheap, mid-priced and premium-priced cigarettes
- Cheap cigarettes have grown threefold from 5% in 2009 to about 16% in 2014 and are projected to further increase to about 19% in 2019
- Premium-priced cigarettes have grown almost fourfold, from 9% to 32% of market share



Tobacco business trend & its interference in tobacco tax policy

- Tobacco industry forecast: business growth in next five years (2014 – 2019) will be very strong and profitable
- Government deal with PMI for IDR 26 trillion for further PMI expansion in Indonesia



Tobacco business trend & its interference in tobacco tax policy

- Multi-tier system is not commensurate with the trend in the tobacco business
- Current tax policy is claimed to protect small manufacturers (about 1,000 manufacturers)
- 88% of market share in Indonesia is controlled by just 5 companies, including 2 foreign companies
 - Philip Morris International (PMI): owns PT HM Sampoerna
 - British American Tobacco (BAT): owns Bentoel



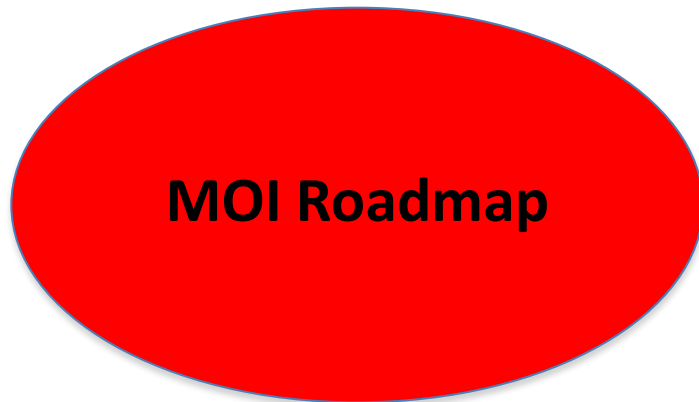
Tobacco business trend & its interference in tobacco tax policy

- Foreign companies (PMI and BAT) will intensify competition with leading local companies, Gudang Garam and Djarum, in coming years
- Small manufacturers will disappear, unable to compete with aggressive market expansion of larger companies
- Tax policy to protect small manufacturers is unsustainable and results in a loss



Government's tobacco tax roadmap

- Two conflicting roadmaps:
 - tobacco **industry** roadmap of Ministry of Industry (MOI)
 - tobacco **control** roadmap of Ministry of Health (MOH)



vs



Government's tobacco tax roadmap

MOI Roadmap

- Tobacco production in 2015-2020 will contribute to the country's annual growth of 5-7%
- Cigarette production will reach 524 billion sticks by 2020

MOH Roadmap

- By 2015-2019, smoking prevalence should be decreased by 1% per year
- By 2024, the smoking prevalence should be 26.3% or 10 percentage points lower than the smoking prevalence in 2013 (36.3%)

Conclusion

Complicated tobacco tax system

Cheap and affordable cigarettes

Tobacco business trend & its interference in tobacco tax policy

Government's tax roadmap



Increased consumption
Worse health of people
Reduced productivity
More health spending



Increasing poverty



Recommendations

Government should:

- **Prioritize health to reduce poverty and achieve sustainable development**
 - **Consistently protect health before investments related to tobacco**
 - **Strengthen tobacco control and ratify the WHO FCTC urgently to reduce tobacco consumption and its health, socio-economic, and environmental harms**
 - **Implement a code of conduct for all government ministries and officials** that prohibits unnecessary government interactions with the tobacco industry



Recommendations

Government should:

- **Apply international best practice (FCTC Article 6 Guidelines) to strengthen tobacco tax policies**
 - **Simplify the tax system:**
 - eliminate tiers and implement a uniform specific tax
 - increase tax for all tobacco products
 - automatically adjust the specific tax to inflation
 - **Provide access to tobacco farmers and small manufacturers to the 2% and 10% excise tax revenue sharing**

