



## Tobacco Taxation Can Reduce Tobacco Consumption and Help Achieve Sustainable Development Goals

### Introduction

A substantial body of research shows that significantly increasing the taxes and prices of tobacco products is the single most effective way to reduce tobacco use and its devastating health consequences.<sup>i</sup> A tax increase that raises prices by 10% can reduce tobacco consumption on average by 5% in low and middle income countries (LMICs).<sup>ii</sup>

Tobacco also poses a threat to development, especially in the LMICs that have the highest rates of tobacco use. The global economic costs from smoking due to medical expenses and lost productivity in 2012 alone totaled over \$1.4 trillion dollars.<sup>iii</sup>

Besides the growing recognition of the obvious harmful effects of tobacco on health and healthcare, there is a noticeable international movement recognizing the harmful effects of

tobacco use on sustainable development. The United Nations (UN) 2030 Agenda for Sustainable Development has set 17 Sustainable Development Goals (SDGs) and 169 related targets. One of those targets focuses specifically on tobacco, and urges “strengthened implementation of the Framework Convention on Tobacco Control (FCTC).” The FCTC is an international treaty created under the auspices of the World Health Organization (WHO). It focuses on reducing the demand and supply of tobacco products. In order to finance the SDGs, the Addis Ababa Action Agenda of the Third International Conference on Financing for Development noted that “price and tax measures on tobacco can be an effective and important means to reduce tobacco consumption and healthcare costs and represent a revenue stream for financing for development in many countries”.

### Raising tobacco excise tax by 1 International Dollar (about US\$ 0.80) in all countries would:



Increase average cigarette prices by 42% globally



Increase excise revenue by 47%, representing an extra US\$ 141 billion



Global increase in public health expenditures



Reduce smoking prevalence by 9%, representing 66M fewer smokers

Source: WHO

In addition to curbing healthcare costs and yielding revenues, well-designed tobacco taxes (specific excise taxes, increased regularly) can result in even broader gains toward achievement of sustainable development goals.

This Policy Brief examines the impact of tobacco use in LMICs and the need for significant increases in tobacco taxes to achieve both, a reduction in tobacco use and broader gains in reversing tobacco's impact on sustainable development goals. This Brief focuses on tobacco's impact on health, poverty, hunger, education, inequalities, and responsible

consumption and production. These impacts present an immediate case for raising tobacco taxes, though tobacco can also impact many other sustainable development goals.

The data and conclusions in this Policy Brief come mainly from the US National Cancer Institute and World Health Organization (WHO) report on [The Economics of Tobacco & Tobacco Control](#),<sup>v</sup> the [WHO Framework Convention on Tobacco Control: An Accelerator for Sustainable Development](#),<sup>vi</sup> and the [Addis Ababa Action Agenda on Financing for Development](#).

*“Tobacco is not just one of the world’s most pressing health concerns – virtually no major development objective is spared from tobacco’s extensive harms.”*

--The WHO Framework Convention on Tobacco Control an Accelerator for Sustainable Development

## Tobacco's Impact on Health

It is commonly known that tobacco use is the leading cause of heart disease, many cancers and lung disorders. Tobacco use kills 7 million people every year, and 80% of those deaths occur in LMICs. Tobacco use accounts for more deaths per year than HIV/AIDS, TB and Malaria combined, and burdens millions more with disability and ill health.<sup>vii</sup>

A 2011 study in *The Lancet* identified tobacco control as “the most urgent and immediate priority” for combating non-communicable diseases (NCDs). It estimated that implementation of FCTC policies would prevent 5.5 million deaths over 10 years in 23 LMICs with a high burden of NCDs.<sup>viii</sup>

Similarly, the WHO's Global Action Plan for the Prevention and Control of NCDs (2013-2020) calls for a 30% reduction in tobacco use in persons aged 15 or older. The Plan recommends a number of policies aimed at reducing demand for tobacco, including an increase in tobacco taxes and prices to reduce the affordability of tobacco products. Increasing prices and taxes on tobacco is also identified by WHO as a “best buy” in reducing tobacco use because it is an effective intervention with the highest level of cost-effectiveness.

Raising tobacco taxes, as a part of a comprehensive tobacco control policy, can reduce tobacco use and the death and disease associated with tobacco use. Significant increases in tobacco taxes can generate revenues that can be spent on both, public health education to prevent tobacco use and providing healthcare.

## Reducing Tobacco-related Poverty

Across the globe, tobacco use exacerbates poverty. Tobacco use results in premature death and disability, with breadwinners exiting the labor market in the prime of their lives, and caregivers--often women and girls--denied the opportunity to stay in school or engage in productive employment.

Treating diseases associated with tobacco use can result in catastrophic out-of-pocket medical expenditures especially for the poor, trapping families in a “vicious cycle” of poverty and poor health. Meanwhile, spending on tobacco diverts a significant percentage of household resources from food, education and other investments that can lift people out of poverty.

- Globally, each year 100 million people are driven into poverty due to out-of-pocket health spending on catastrophic illnesses.
- In Thailand, low-income families spend 13.6 percent of their annual income on tobacco products, a proportion five times greater than what high-income Thai families spend.
- To purchase ten of the cheapest cigarettes to smoke each day, a smoker in Zambia must expend 18.2 percent of the national median income; in the Eastern European country of Georgia, this number, while smaller, is still a sizable 4.2 percent.
- In India alone, tobacco consumption impoverished roughly 15 million people in 2004-2005.

The benefits of raising tobacco taxes and tobacco prices can be progressive because higher tobacco taxes lead to the greatest reductions in tobacco use among the poor, while revenues from increased tobacco taxes can be used to finance the health and social needs of the poor. At the same time, reduction in tobacco use means a reduction in out-of-pocket expenditures (which are financially more important for poor), and an increase in productivity and income.

Tobacco taxes and prices, however, are low in many countries, and particularly in many LMICs. Big increases in taxes are needed to make tobacco products less affordable and to reduce tobacco use and its health and economic consequences. A more detailed review of the evidence of tobacco’s impact on poverty is available in a separate Policy Brief on [Tobacco & Poverty](#).

Well-designed tobacco taxes can confront the debilitating tobacco-poverty dynamic, especially when combined with adequate social protection and universal health coverage, including access to tobacco cessation support.

## Reducing Tobacco-related Hunger

Tobacco use also aggravates hunger. The addictive nature of tobacco causes household expenditures to be diverted to using tobacco products. In addition to that, out-of-pocket medical costs for tobacco-related health problems means less money is available for food and nutrition. Current smokers are more likely to be food insecure (without reliable access to a sufficient quantity of affordable, nutritious food) than nonsmokers, including in wealthier countries. Nutritional deficiencies can have several developmental impacts on children and potentially impact their future earning potential.<sup>xi</sup>

- According to 2013 data, a Sri Lankan could purchase 83 servings of rice and 65 slices of bread for the price of just one average pack of cigarettes.
- In Bangladesh, an estimated 10.5 million malnourished persons could have an adequate diet if money currently spent on tobacco went toward food, with the lives of 350 children saved each day.
- Land use for tobacco production, which could otherwise be devoted to growing food crops, is expanding in Zambia (a top tobacco producing country) – even as the hunger situation in Zambia is classified as “alarming.” Zambia also has one of the highest deforestation rates

in the world (250,000 – 300,000 hectares per year) and is also a top-ten country in terms of percentage of arable land devoted to tobacco production.

- In 2005, Indonesian households with smokers spent 11.5% of their household income on tobacco products compared to 11% spent on fish, meat, eggs and milk combined.<sup>xii</sup>

Significant increases in tobacco taxes and prices can reduce tobacco consumption, which in turn can increase money available for households to spend on affordable and nutritious foods.

## Tobacco's Impact on Education

A quality education allows children to lead healthy, productive lives, which creates many developmental benefits. Household spending on tobacco products and expenditures in response to tobacco-related ill health, is money not used to support other important items such as children's education. When families are healthier, children are not forced to drop out of school to take care of a sick relative or to find work to make up for lost wages. In addition, in tobacco growing families, children are often kept from school to work in tobacco cultivation/production. By cutting down on educational opportunities for children, tobacco use is having inter-generational effects on development and growth.

- In Bulgaria, Egypt, Indonesia, Myanmar and Nepal, low-income households spend 5–15 percent of their disposable income on tobacco, often surpassing income spent on education. In Viet Nam, smokers spent 3.6 times more on tobacco than on education in 2003.
- According to a 2011 analysis, approximately 1.3 million children (14 and under) are engaged in tobacco farming worldwide, with 500,000 in India alone. Some 10-14 percent of children from tobacco growing families are out of school because of working in tobacco fields.

- Tobacco spending households were found to compromise expenditures on education in India.<sup>xiii</sup>

Tobacco control, which includes well-designed tobacco taxes, reduces demand for tobacco and thus it helps keep children in school.

## Inequalities Caused by Tobacco

In many regions of the world the poor are those most likely to use tobacco, have reduced access to healthcare, especially preventative and treatment services, and as a result experience higher rates of death from tobacco related diseases.<sup>xiv</sup> Tobacco use and its detrimental effects on health and household incomes only exacerbates these inequalities.

Given the greater responsiveness of the poor to higher tobacco prices, well-designed tobacco taxes, as a part of comprehensive tobacco control measures, have been proven to discourage tobacco use (decreasing future healthcare costs) and lower consumption among the poor, thus reducing inequities in smoking and its impacts. This is particularly so when revenues from taxes are reinvested into disadvantaged communities. Improved health from tobacco control can confer important opportunities in education, employment, nutrition, and other domains, which can further reduce inequalities.

## Responsible Production and Consumption

Tobacco control can enhance responsible consumption and production because the “environmental life cycle of tobacco,” if not fundamentally altered, will continue to generate tons of waste, and release thousands of chemicals into the planet's air, water and soil.

Tobacco cultivation eats up large swaths of land which could otherwise support sustainable food production systems. About 90 percent of commercial tobacco leaf is grown in the southern

hemisphere, often in countries where undernourishment and child labor continue to pose challenges. Shifting from tobacco cultivation to land use that provides nutrient-dense calories is a significant opportunity, one which can be achieved by significant increases in tobacco taxes and using tobacco tax revenues to support tobacco farmers to engage in economically viable alternatives.

Tobacco farming uses large amounts of chemical fertilizers, pesticides, growth regulators and wood for flue-curing. Tobacco crops strip soil of nutrients such as nitrogen, phosphorus and potassium to a greater extent and faster than other major food and cash crops.

The environmental consequences of tobacco are not limited to farming. Cigarette butts are the most widely littered product globally, often dumped into oceans, lakes and other water sources. Meanwhile, tobacco production is not only water intensive, but also disperses chemicals into nearby waterways.

- In parts of Nicaragua, where most tobacco farms are close to important rivers, researchers found pesticide contamination in both the superficial aquifer and deep groundwater. Studies in Brazil have found excessive agrochemical residues in waterways near tobacco farming communities.
- In 2014, 2,248,065 discarded cigarette butts were picked up from beaches and water edges across 91 countries.
- Arsenic, lead, nicotine and ethyl phenol are leached from discarded butts into aquatic environments and soil, but the impact of these on the quality of drinking water is not yet specifically defined. Even unsmoked filters are toxic to water and life below it.

## Conclusion

Tobacco consumption in LMICs threatens sustainable development. Well-designed tobacco taxes can reduce this threat by decreasing tobacco consumption.

WHO recommends that tobacco excise taxes account for at least 70% of the retail price of tobacco products, but taxes in nearly all countries fall far short of this target. In 2016, the average excise tax as a share of the most popular cigarette brand in LMICs was only 32%.<sup>xv,xvi</sup> Given relatively rapid income growth and little or no increases in tobacco taxes, the affordability of tobacco products has been increasing in many LMICs.<sup>xvii,xviii</sup>

This situation can be reversed by raising tobacco taxes that are: based on simplified tax structures that are easy to administer, and revised regularly to outpace inflation and income growth. Current levels of tobacco taxes, however, are not even close to covering the healthcare costs for treating the consequences of tobacco use. The revenues needed to reverse tobacco's impact on sustainable development will require significant increases in tobacco taxes, especially in LMICs where most of the world's tobacco is produced and consumed.

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## About Tobacconomics

Tobacconomics is a collaboration of leading researchers who have been studying the economics of tobacco control policy for nearly 30 years. The team is dedicated to helping researchers, advocates and policymakers access the latest and best research about what's working—or not working—to curb tobacco consumption and the impact it has on our economy. As a program of the University of Illinois at Chicago, Tobacconomics is not affiliated with any tobacco manufacturer. Visit

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