

# ECONOMICS OF TOBACCO CONTROL IN NIGERIA

**Modelling the Fiscal and Health Effects of a  
Tobacco Excise Tax Change in Nigeria**



CSEA

**Communique Issued at the end of a one day Policy Dialogue on the Economics on Tobacco Control in Nigeria organized by the Centre for the Study of the Economies of Africa (CSEA) on the 27<sup>th</sup> of February, 2018 at Bolton White Hotels.**

The Centre for the Study of the Economies of Africa (CSEA) is a non-profit think tank that conducts independent, high quality applied research on economic policy issues in Nigeria and the rest of Africa. CSEA's mission is to enhance development outcomes through evidence-based research.



**1. PREAMBLE**

On Tuesday, February 28, 2018, CSEA with support from the African Capacity Building Foundation (ACBF) and the University of Cape Town (UCT)'s Economics of Tobacco Control Project organized a one day Policy Dialogue on the Economics of Tobacco Control. The dialogue was held at the Emerson Hall of the Bolton White Hotel, FCT, Abuja. CSEA's policy dialogues are organized to disseminate policy-oriented research carried out by the Centre, including the articulation of policy choices, tradeoffs and implications to the general public and decision-makers to stimulate rigorous debates on the effects of government policies on economic growth and development in Nigeria and Africa.





The participants at the meeting include Hilda Ochefu, the Sub-Regional Coordinator for West Africa Campaign for Tobacco-Free Kids (CTFK); Ogunsanmi Abiodun, Federal Ministry of Finance (FMF); Babatunde Oladapo, West African Tax Administration Forum (WATAF); Osubor Gregory, African Development Bank (AfDB); Ugbagu Micheal, Nigerian Customs Service, Amah Maria and Muhammad Ibn Yamma, Federal Inland Revenue Service (FIRS).

The meeting also drew participants from civil society organizations such as the Nigerian Control Tobacco Alliance (NTCA) represented by Oluseun Esan, Cedars Refuge Foundation represented by Peter Unekwu, the Civil Society Legislative Advocacy Centre (CISLAC) represented by Emmanuel Ebu, the International Society of Media in Public Health represented by Victoria Altine Sambe and Bunmi Aweda as well as media representatives.

## 2. OBJECTIVES

The main objective of the dialogue was to disseminate the findings of CSEA's study on *"The Economics of Tobacco Control: Modelling the Fiscal and Health Effects of a Tobacco Excise Tax Change in Nigeria"*, as well as to receive feedback from relevant stakeholders including policy-makers, economists, academia, and CSOs. The study estimates the impact of changes in the excise tax structure and level on cigarette consumption, government revenue, smoking prevalence, net-of-tax revenue, and excise tax burden. Specifically the objectives of the event was to:

- Review the dangers of tobacco products as well as the successes and challenges of tobacco control;
- Illustrate the potential impact of a tobacco excise tax on public health and government revenue in Nigeria using a simulation model;
- Provide policy guidance for effective tobacco control taxation in Nigeria.



### 3. OPENING REMARKS



Dr. Chukwuka Onyekwena, the Executive Director of CSEA stated while tobacco control had been gaining traction in the policy circle, there was still very little evidence to support advocacy efforts. He explained that tobacco remained the single greatest preventable cause of death worldwide with 17, 500 deaths recorded each year in Nigeria on account of tobacco related diseases. He argued that while there is a perception of relatively low smoking prevalence in Nigeria, prevalence is rising at 4 percent yearly

necessitating the need for the effective implementation of tobacco control measures. Dr. Chukwuka added that tobacco taxation had proven to be the most effective tobacco measure and that CSEA's study on the **Economics of Tobacco Control** which is the first of such study in Nigeria and is aimed at strengthening advocacy efforts for tobacco control.



Hilda Ochefu gave a presentation on “**Background on Tobacco Control in Nigeria: Successes and Challenges**”. Her presentation revealed that 5.6% of

Nigerians totaling 6 million people use tobacco products while about one-third of adults are regularly exposed to second-hand smoking (SHS) which is responsible for about 600, 000 premature deaths per year globally. Of all the deaths attributable to SHS, 31% occur among children and 64% occur among women. She outlined stroke, lung cancer, asthma, induction and exacerbation, low birth-weight, pre-term delivery as some of the attendant consequences of exposure to SHS. She also stated that tobacco-related deaths in sub-Saharan Africa which accounts for 25% of all deaths was proportionate to the deaths caused by HIV/AIDS (12%) and malaria (13%) combined according to a 2012 survey. Hilda further stated that globally that countries were putting in stringent measures to control tobacco and tobacco companies were responding innovatively. Nigeria became party to the World Health Organization (WHO)'s Framework Convention on Tobacco Control in January 18, 2006. Over nine years later, the Nigerian Tobacco Control Act was passed at the House of Representatives and Senate on April 23, 2015 and May 12, 2015 respectively. On July 12 2016, the Hon. Minister of Health, Prof. Isaac Adewole, inaugurated the National Tobacco Control Committee (NATOCC). Hilda outlined the issues of poor regulation, lack of enforcement of provisions of

the NTC Act, inadequate funding of NATOCC, insufficient coordination and collaboration between government ministries, departments and agencies and strong tobacco industry interference at all levels as hindrances to effective tobacco control in Nigeria. She added that foreign tobacco companies were migrating into the African continent because of poorly implemented Tobacco control laws. She reiterated that “Research was critical for policy action” and lauded the CSEA team for putting the policy dialogue together.



#### 4. TECHNICAL SESSION WITH CSEA TEAM



**Topic:** The Economics of Tobacco Control: Modelling the Fiscal and Health Effects of a Tobacco Excise Tax Change in Nigeria

**Presenters:** Joseph Ishaku and Precious C. Akanonu

Joseph began the presentation by stating facts on tobacco market: Tobacco remains the single greatest preventable cause of death worldwide. In Nigeria, more than 175, 000 deaths are recorded each year on account of tobacco related diseases; this translates to about 207 men and 130 women weekly (Tobacco Atlas, 2015). In addition to the serious health consequences, tobacco usage also has significant economic cost estimated at US\$591 million Nigerian tobacco market is dominated by local production, with

British American Tobacco Nigeria (BATN) accounting for 75% of market share. A total of 920 million cigarette packs were consumed in Nigeria in 2015 (GlobalData Plc., 2016), out of which 74 percent is domestically produced (NCS, 2015). An average pack of cigarette costs approximately ₦183.50 in 2017 (CSEA Survey, 2017). In Nigeria, there is no specific tax regime on tobacco products, but an ad volarem excise tax on domestically produced items which currently stands at 20% of Unit cost of production (UCA). UCA is reported to be around ₦60 per pack of cigarette (NCS, 2017). Thus, excise tax rate amounts to 12% of retail price, whereas, the WHO recommended an excise tax rate of 75% of retail price on tobacco products. Imported cigarettes are excluded from excise tax; an imported tax levy of 40% of all CIF in addition to other levies such as ETLS, CISS, import duty and surcharge.

Therefore, there is a need to implement an effective tobacco control program to curb the epidemic of rising smoking prevalence rates and their impacts on public health. Tobacco taxation has proven to be the best tobacco control measure as it can reduce smoking prevalence and generate revenue which can be earmarked to fund some other tobacco control measures. Tobacco taxation can prevent millions of smoking-attributable deaths throughout the country, reduce the number of young people initiating



smoking, and contribute to the achievement of national public health objectives. Tobacco taxation can also create the fiscal space needed to finance the country's economic development and public health programmes.

Precious continued the presentation; explaining the methodology and findings of CSEA's recently concluded study. CSEA's study examines the potential for tobacco tax to improve public health and raise government revenues in Nigeria.





The effects of the proposed policy changes are as follows:



- a) On Cigarette Consumption and Smoking Prevalence: We find that cigarette consumption and smoking prevalence decrease in all twelve scenarios under PI.3 and PI.4 – which impose higher tax levels alongside specific tax systems relative to PI.1 and P1.2. Thus, changes in tax policy need to be significant and operate under a specific tax system in order to have the desired effect on smoking prevalence under all scenarios considered.
- b) On Government Revenue: Under all policy interventions and in all scenarios considered, government excise tax revenues from cigarette



- production increase significantly. Excise tax revenues are most significant under specific tax system (as in PI.3 and PI.4) relative to ad valorem tax system (as in PI.1 and PI.2).
- c) On Net-of-Tax Revenue: Under all policy interventions, the optimal response for the tobacco industry is to increase industry price in order to maximize NOT revenue. The industry stands to lose revenue when they do nothing or decrease industry price in efforts to possibly frustrate policy interventions
- d) On Excise Tax Burden: Under all policy interventions and in all scenarios considered, the excise tax burden to the consumer will at least double. The excise tax burden shows the impact of policy interventions after the industry

response, whereas simply focusing on the excise tax rate will mask the pass-through effect on retail prices. Therefore, in terms of setting policy target and monitoring impact, tracking excise tax burden is the most useful indicator relative to the excise tax rate.

We also performed a three-year projection of the proposed policy change, which shows a consistent trend of increasing government revenues, decreasing consumption, and decreasing smoking prevalence rates if policy interventions are sustained each year over the three-year period. It is important to note that the measured outcomes from our model incorporates the potential impact of illicit trade in cigarettes following price adjustments of licit cigarettes.

Therefore, an effective tobacco control tax policy will require that: the tax system is changed from ad valorem to specific tax system; excise tax burden on tobacco products is continuously increased at least until it reaches 75 percent; and tax administration and revenue-collecting agencies are strengthened. The implementation of other MPOWER measure and international cooperation should also accompany any tobacco tax policy in order to yield the optimal results. In this regard, the Ministry of Finance; Ministry of Industry, Trade and Investment; Ministry

of Health; Federal Inland Revenue Service, and the Nigerian Customs Service all have key roles to play in creating a successful and effective tobacco tax policy in Nigeria. Lastly, it is important to note that the effectiveness of tobacco tax increase is enhanced when implemented as part of a comprehensive tobacco control strategy.



## 5. REACTIONS AND DISCUSSIONS

### **Advocacy and Awareness on the Dangers of Tobacco Smoking**

Contributor:

***Babatunde Oladapo (WATAF)***

Babatunde stated that the level of awareness and publicity on the dangers on tobacco smoking was paltry when compared to awareness on communicable diseases like HIV/AIDS. According to statistics, HIV/AIDS is responsible for 12% of deaths in Sub-Saharan Africa, while Tobacco-related diseases is responsible for 25% of deaths. He recalled that the advocacy and awareness of HIV/AIDS was taken even to the grassroots level. Babatunde stated that the social media has the ability to reach millions of people and suggested that social media be incorporated into advocacy and awareness campaigns on tobacco smoking.



He further suggested that advocacy organizations think towards the establishment of Tobacco awareness clubs in Secondary Schools. Babatunde also opined that the lack of coordination and synergy between CSO's was an area available for exploitation by tobacco companies. He therefore called for a more cordial relationship between CSO's, "so there is no discordance" in advocacy.

## **Lack of Political Will in Implementing Tobacco Control Act**

Contributor:

*Hilda Ochefu, Sub-Regional Coordinator for West Africa CTFK*

Hilda stated that while there had been little or no political will from the government to implement the tobacco control act in the past, there had been an improvement in the last 3 years.



She said that tobacco control advocates were quite optimistic in the government and added that the incumbent Federal Minister of Health was totally committed to tobacco control.

## **Call for a Ban on Tobacco Products**

Contributor:

*Hilda Ochefu, Sub-Regional Coordinator for West Africa CTFK*

Hilda stated that although what tobacco control advocates and governments would love a completely ban on the tobacco products, tobacco is a legal product. Hilda revealed that there had been a call on a total ban on tobacco products in some policy circles, but that the legality of the products made it impossible. She stated that the only viable and available option was to enforce effective tobacco control measures.

## **Backlash from Tobacco Control Policy Interventions**

Contributor:

*Precious C. Akanonu and Joseph Ishaku, Research Associates, CSEA*

*Hilda Ochefu, CTFK*

Precious stated that tobacco industry still stands to make substantial revenue despite any change in tobacco excise tax rate, as excise tax is levied on the product not on company's income (unlike income tax). Therefore, the tobacco industry will only witness

revenue losses if they fail to pass on the tax burden to consumers by allowing the retail price of tobacco products to increase. She also stated that while tobacco taxation is very important, a comprehensive strategy involving other MPOWER strategies and international cooperation is important to effectively control tobacco consumption



Joseph stated that although that tobacco companies have threatened that there would be job losses if stringent measures were taken against them, evidence from research has shown that there would be no drastic job losses if taxes were imposed on tobacco products.



Tobacco is an addictive product and despite measures taken to limit its consumption, smoking prevalence is rising. Joseph added that the inelastic nature of tobacco demand makes it difficult for people to stop smoking. Joseph acknowledged that there were positive economic gains from the activities of the Tobacco industry but added that it wasn't significant enough to counteract the severe negative implications of tobacco smoking.

Hilda stated that contrary to the perception of job creation by Tobacco companies, their operations were mainly mechanized. Hilda also revealed the health risk posed to staff of tobacco companies in Nigeria and unlawful dismissal of staff with tobacco-related

diseases. She added that Tobacco companies transfer the tax burden to the consumers by increasing retail price of tobacco products. Hilda also encouraged participants to focus more on public health than on the economic gains from the Tobacco industry.

### **Reactions from the Policymakers in Increasing Tobacco Excise Tax**

Contributor

*Michael Ugbagu, Assistant Comptroller, Nigerian Customs Service*

Michael stated that there was a recommendation before the House of Assembly on a 20 percent ad valorem and an additional 1 naira per cigarette specific tax on tobacco products. He stated that an increase in tobacco excise tax will result in reduction in consumption. He also stated that one of the expected implications of an increase in excise tax burden would be an attempt by tobacco companies to engage in illegal trading through the borders. ACG Michael suggested that Nigerian adopts the 'track and trace' tobacco control measure enforced by the Kenyan Government which makes tracking smuggled and illegal goods easier.

### **ECOWAS Fiscal Transition Program**

Contributor:

*Babatunde Oladapo (WATAF)*

Babatunde said the ECOWAS was heavily vested in tobacco control advocacy under the ECOWAS Fiscal Transition Program with an aim to harmonize tariff across borders. Babatunde reiterated that Nigeria was a choice market for foreign tobacco companies because of its favorable tobacco tax policies. He called for a closer collaboration between the different agencies responsible for policy making and policy implementation. Babatunde also said that one of the inevitable backlash of an increase in excise tax burden was the loss of jobs of tobacco farmers and sellers. He suggested that a provision of alternate crops for the farmers by the Government would effectively mitigate the effect of job losses.

## **Best Practices in Reducing Tobacco Prevalence**

Contributor:

***Dr. Noel Arua- Asokoro District Hospital***

Dr. Noel stated that according to statistics, 45% of children exposed to tobacco smoking through their parents, end up smoking. He encouraged advocates of tobacco control to educate smokers and non-smokers alike on the dangers of tobacco smoke to public health. For the smokers, Dr. Noel suggested models of change such as lifestyle modification and behavioral change modification.



## **Earmarking Tobacco Revenue**

Contributor:

***Dr. Adedeji Adeniran, Senior Research Fellow, CSEA***

Dr. Deji opined that tobacco companies over publicize their benefits, and added that policy makers as well as activists have to look at the cost-benefit e.g the impact on public death. He urged policy makers to look at innovative ways of administering tobacco revenue such as education, awareness and publicity, public health etc rather than looking at it as an avenue to increase government revenue.

## 6. Recommendations

- There is an urgent need to raise taxes on tobacco products given the currently low tobacco tax levels, its dangers to public health and benefit for public finance.
- Based on the study presented, a substantial upward review of excise tax levels on cigarettes alongside a change from ad valorem to the specific tax system yields the most significant gains in public health (measured by reductions in cigarette consumption and smoking prevalence) as well as fiscal revenue (measured by increase in excise tax and other government revenues).
- An effective tobacco control tax policy will require that: the tax system is changed from ad valorem to specific tax system; excise tax burden on tobacco products is continuously increased until it at least reaches 75 percent excise tax burden; and tax administration and revenue-collecting agencies are strengthened.
- There is a need for strong and consistent political will for tobacco control policies in order to continuously raise excise tax burden (thereby raising the retail price of tobacco products) annually to meet up with the WHO benchmark.
- Improvements in border control, monitoring and tracking systems, enforcement measures and international cooperation must accompany a tobacco tax policy to ensure optimal results.
- The Ministry of Finance, Ministry of Industry, Trade and Investment, Ministry of Health, Federal Inland Revenue Service, and the Nigerian Customs Service have to efficiently synergize resources in order to create a successful and effective tobacco tax policy in Nigeria.
- There is also need for synergy between Civil Society Organizations interested in public health and tobacco control.
- The effectiveness of tobacco tax policy change is enhanced when implemented as part of a comprehensive tobacco control strategy.
- There is need for an increased awareness on the dangers of tobacco use to public health among the general populace.



- Tobacco policies have to be monitored in order to gauge their effectiveness and to enhance government-led programmes and interventions.

## Conclusion

Participants thanked CSEA, ACBF and the UCT for providing a platform for the dialogue and for providing evidence based research on tobacco tax policy which would further strengthen advocacy and efforts towards tobacco control measures in Nigeria. Likewise, the Centre appreciated participants for their insightful discussions and contributions as these feedbacks from stakeholders would be used to further strengthen the study



You can view more photos of the event here:

<https://flic.kr/s/aHsktYJ7yg>

For further enquiries please contact us:

Email: [enquiries@cseaafrica.org](mailto:enquiries@cseaafrica.org)

Tel: +234-9-2914820, 2914822.

# PHOTO GALLERY

