

CSEA POLICY BRIEF

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Research Project

A Scoping Study of Nigeria's Tobacco Market



Snapshot of Taxes & Prices of Tobacco Products (pre-June 2018 tax regime)

Adedeji Adeniran, PhD

Joseph Ishaku

INTRODUCTION

This policy brief discusses the key structure of the tobacco market in Nigeria. Specifically, we explore price, tax share, and affordability of cigarettes nationally and across geopolitical zones, prior to the June 2018 excise duty review, with the aim of assessing the scope for tobacco taxation in Nigeria.

Nigerian tobacco industry operates within an oligopolistic market structure, with BAT owning 79% of market brands, which allows for price differentiation across brands. However, price variations are also observed between the same brand both within and across regions, which suggests non-market factors could also contribute to the variability. For instance, the sale of cigarettes in sticks and the significant distance between production hubs and retail points, which generates asymmetric information, transportation cost and opportunity for arbitrage.

Regardless of the driving factors, price variability is important to understanding tobacco market structure and assessing where and when tobacco taxation will be more effective. Higher price gap across brands could increase the substitution effect between brands and dampen the effectiveness of tobacco taxation. Also, tobacco industry has more leverage to absorb tax increment in an environment where prices are highly dispersed. In essence, tax increase could be more effective with less variation and ensure more targeted intervention and less uncertainty in outcomes.

METHODOLOGY

The study uses retail prices based on market survey of the tobacco market conducted by CSEA between January and February, 2018 in twelve selected states in Nigeria. We adopt a stratified sampling technique in order to reflect the geopolitical composition in Nigeria. Specifically, two states were selected in each geopolitical zone: South West (Lagos, Ekiti), South South (River and Cross Rivers), South East (Anambra and Imo), North Central (Kwara and FCT), North East (Adamawa and Bauchi) North West (Kaduna and Sokoto). Thereafter, we randomly select the retailers in each of the state. Overall, the survey covers 14 cigarette brands and 230 retailers across the country.

We obtain tobacco tax data from the Nigeria Customs Service and the Ministry of Finance. Notably, there is data limitation when it comes to Nigeria's tobacco tax administration.

Particularly, there is no publicly available official data on the ex-factory prices of cigarettes, which are the basis for excise taxation, across the different price segments. The producer price applied according to the Ministry of Finance and used in the analysis is ₦60 per pack, which applies to all taxable cigarettes containing tobacco.

Computation of Key Indicators

Price Variation

To provide a detailed analysis of the price variations across tobacco product brands (particularly cigarettes), sectors and regions in Nigeria, the co-efficient of variation (CV) method was used. CV is calculated as the standard deviation as a percentage of the average price. It is widely used as a measure of price variability because it is independent of the unit in which the measurement is taken and allows for comparison across different brands, sectors, regions.

Tax Share

Tax share is calculated as the percentage of retail price that goes into tax. We first calculate the total taxes applicable to cigarettes in naira terms and then calculate, in percentage terms, how much of the retail price the taxes comprise of.

Affordability

To estimate affordability, the relative income price (RIP) is used. RIP, is derived by interacting consumer's income with cigarette price (Blecher & Walbeek, 2004). Specifically, RIP measures the share of per capita income required to buy a hundred packs of cigarettes. For this analysis, we use region-specific per capita expenditure instead of per capita income. The per capita expenditure data used is gotten from the Harmonized Nigeria Living Standards Survey (HNLSS) 2009/10 sourced from the National Bureau of Statistics (NBS). To compute the per capita expenditure over the years, the median expenditure is assumed to grow at the same pace with national growth rate. This enables us compute the annual per capita expenditure from 2010-2017.

RESULTS

Table 1 shows the average cigarette price and estimated CV across the twelve-selected states and 14 brands. *Across the region, on average, cigarette price and variation is lowest in the North—the region with the highest demand and intensity for cigarette consumption.* Price variation is lowest in the North East (8.9%), followed by North Central (13.1%), South West (15.2%), South East (15.3%), South South (15.3%) and North West (16%). With respect to cigarette brand, the result indicates that economy brands have the highest variability, while premium brands such as Benson and Hedges, Benson Switch and Rothmans have the lowest variability. Interesting, Benson and Hedges, Benson Switch and Rothmans account for about 63.8% of cigarette market in Nigeria.

Table 1: Cigarette Price Variation across State and Brands

Zone/State	Average (₦)	CV (%)	Brand	Average (₦)	CV (%)	Market Segment
North Central	188.7	13.1	Pall Mall	148.55	42.99	Economy
FCT Abuja	195.3	14.4	Oris Slims	198.78	16.58	Mid-Priced
Kwara	179.1	8.1	St. Moritz	196.78	16.16	Mid-Priced
North East	195.2	8.9	London	186.36	15.75	Mid-Priced
Adamawa	203.7	8.0	Rothmans	199.29	12.54	Mid-Priced
Bauchi	186.1	7.3	Benson & Hedges	232.64	14.87	Premium
North West	214.0	16.0	Royal Standard	141.89	27.31	Economy
Kaduna	234.7	10.2	Dunhill	315.99	19.25	Premium
Sokoto	184.9	12.8	Dorchester	185.26	18.94	Mid-Priced
South East	213.4	15.3	Aspen	187.08	18.17	Mid-Priced
Anambra	205.7	12.8	Benson Switch	243.28	13.09	Premium
Imo	218.9	16.5	Bohem	214.77	21.43	Premium
South South	212.6	15.3	Chesterfield	210.83	20.85	Premium
Cross River	202.8	15.7	Esse	196.67	18.46	Mid-Priced
Rivers	224.1	13.6				
South West	204.5	15.2				
Ekiti	197.0	14.8				
Lagos	213.0	14.8				

Source: CSEA Tobacco Survey 2018.

Figure 1 presents the tax share, tax rate and average retail price across brands. We found that the premium brands have a lower tax share relative to the economy brands. This observed disparity is explained by uniform excise duty impose on each cigarette pack, irrespective of their value or market segmentation. In essence, there is opportunity to extend tobacco tax reform to reflect more accurately cigarette value.

Figure 1: Tax Share Variability

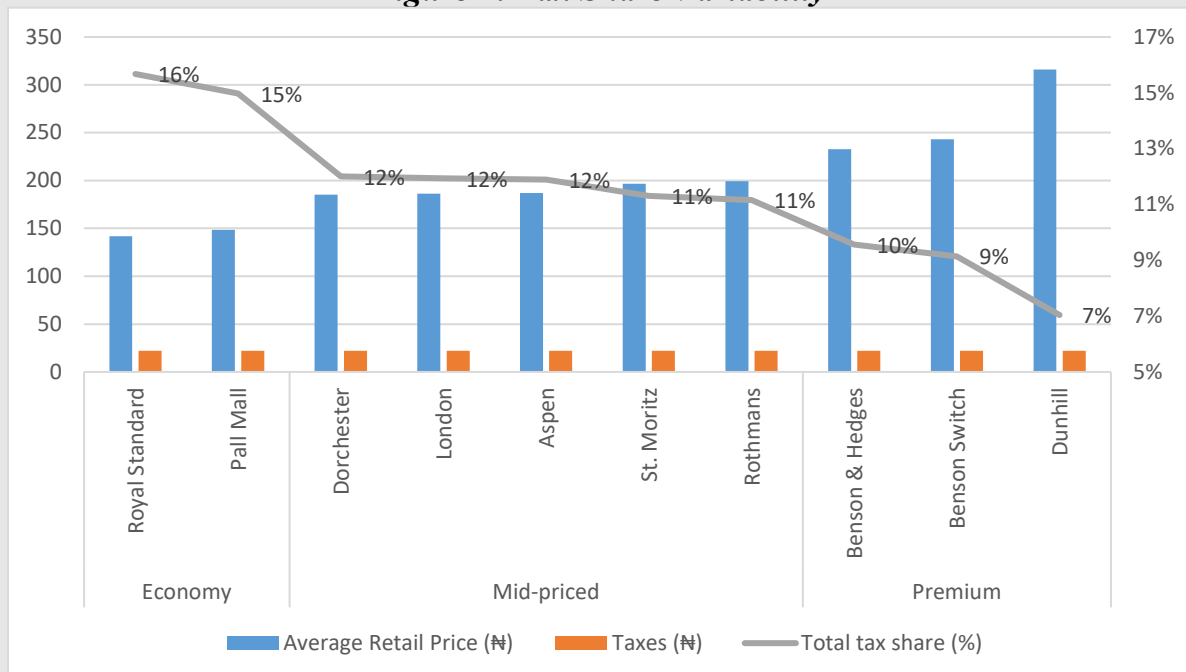


Table 2 reports on the result of cigarette affordability across region. On average, cigarettes are less affordable in northern states relative to states in the south of the country. Specifically, it takes 7.4% of the median per capita expenditure in the north to purchase a hundred packs of the cheapest cigarettes, whereas it takes about 5.9% of the median per capita expenditure in the south. These findings mirror the disparity in affluence across the country. This buttresses the need for policymakers to pay closer attention to cigarette affordability rather than just nominal prices in adjusting excise tax on tobacco products.

Table 2: Cigarette Affordability: RIP (%) across region and states

North Central	North East	North West	South East	South South	South West
5.6	7.9	8.9	5.0	6.2	6.3

Recommendations

Although the government has made good progress by introducing a new excise tax (and should not be reversed), much more should be done to counter tobacco use. Particularly increasing the specific share of the tobacco tax/duty and countering affordability is crucial.

The analysis suggests substantial scope and opportunity for tobacco taxation in Nigeria. Clearly, the lower price variation among popular brands combined with less affordability in high tobacco consuming regions indicate a high potential to reduce smoking prevalent through tobacco taxation.

- ⇒ Given price variation across states and cigarette brands as well as currently low tax burden, a higher share of specific tax/duty is important to discourage the tobacco industry from increasing price variability.
- ⇒ The recent reform in tobacco tax represents an important step to mitigate growing smoking prevalent in Nigeria. Therefore, sustaining the policy intervention overtime, even beyond the year 2020 that the ongoing reform covers, will be crucial to meeting the objective of reducing tobacco consumption and catastrophic health outcomes it could generate.

The Campaign for Tobacco-Free Kids (CTFK) funded the Centre for the Study of the Economies of Africa to conduct a scoping study on the tobacco market. This policy brief presents one out of the three components of the study. The full report will be made available on CSEA website: www.cseaafrica.org

Centre for the Study of the Economies of Africa (CSEA)
 Address: No 4 dep street off Danube crescent Maitama, Abuja, Nigeria
 Email: enquires@cseaafrica.org
 Web: www.cseaafrica.org