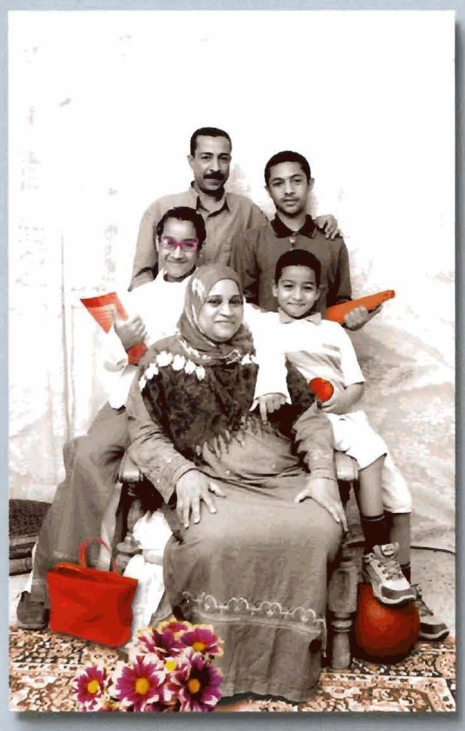
The economics of tobacco in the Eastern Mediterranean Region



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Introduction

By 2030 tobacco will be the single biggest cause of death worldwide, killing some 10 million people per year. That figure is more than the projected mortality from pneumonia, diarrhoeal diseases, tuberculosis and complications from childbirth combined.

Smokers face a 1 in 2 risk of being killed by tobacco. With current smoking patterns, that means about 650 million people alive today will eventually be killed by tobacco use. Today, smoking kills 1 in 10 adults. By 2030, or sooner, this proportion will be 1 in 6. Moreover, the developing world will bear the brunt of this global epidemic. By 2020, 7 of every 10 people killed by smoking will be in low and middle-income nations.

A global epidemic

1.3 billion people currently smoke. That number is expected to rise to more than 1.7 billion by 2025. While smoking levels have been decreasing in high-income countries, cigarette consumption has been increasing in low and middle-income countries for years.

Of the 1 in 3 adults who smoke today, 84% live in low and middle-income countries. Cigarette consumption has been increasing in these countries since about 1970. Trade liberalization has contributed significantly to this increase.

Meanwhile, consumption has decreased in places like the United States. In 40 years (from the mid 1950s to the 1990s), consumption among American men went from 55% to 28%.

In most countries, the poor are more likely to smoke than the rich. Individuals who have received little or no education are also more likely to smoke than those who are educated.

Even when smoking is very common in a population, the damage to health may not yet be visible, because the diseases caused by smoking can take several years to develop.

Thus, because the tobacco-related epidemic is still at an early stage in low and middle-income countries, the full extent of the resulting burden of disease and premature death and associated health care costs will emerge only in the decades to come. These costs are already high in many countries, and will continue to grow unless current tobacco use trends change.

A regional catastrophe

Tobacco consumption increased by 24% in the Middle East from 1990 to 1997. In fact, the Middle East and Asia are the only two regions in the world where cigarette sales increased during that time period. Half of adult males in the Middle East are smokers. Egypt has the highest tobacco consumption rate in the Arab world. It rose from 12 billion sticks in 1970 to 52 billion in 1997. Over the past 30 years, the number of smokers increased twice as fast as population growth, and continues to increase by 8% per year. A 1980 survey indicated that there were 25 new smokers in Egypt per hour.

With a consumption rate of 2280 cigarettes per person per year, Kuwait ranks 19th globally in tobacco consumption. Saudi Arabia is 23rd, at 2130.

The countries of the Gulf Cooperation Council (GCC) as a whole spend US$ 800 million per year on tobacco.

The number of tobacco shops in Morocco increased from 9600 in 1969 to 20 000 in 2003.

A local nightmare

Half of all long-term smokers will eventually be killed by tobacco. Of these, half will die during productive middle age, losing 20 to 25 years of life.

Smoking will kill 12.5% of 15-year-olds in low and middle-income countries by the time they reach middle age. Another 12.5% will be killed in old age. In comparison, 2% will die of road accidents and violence.

In Egypt, the direct annual cost of treating diseases caused by tobacco use is estimated at US$ 545.5 million. The percentage of cancer deaths among men attributable to tobacco increased from 8.9% in 1974 to 14.85% in 1987. Smoking causes 90% of lung cancer cases in Egypt.

There are 30 000 smoking-related deaths per year in countries of the GCC. With lung cancer topping the list of the region's ailments, 15% of the total medical costs in the GCC, where health care is free, go towards the treatment of smoking-related illnesses.

An unhealthy dilemma

Although smokers would appear to be making the choice to smoke, seemingly after weighing the benefits and the costs, this may not actually be the case. Many are not aware of the longer-term health costs of their habit. A survey conducted in China, for instance, showed that 61% of smokers thought tobacco did them "little or no harm".

Most people do not realize that tobacco is at least as addictive as heroin and cocaine. Most smokers say they want to quit but cannot. Fewer than 40% of those who think they will quit within 5 years actually do. Seventy per cent of smokers in high-income countries also say they regret having ever started in the first place.

The longer a person has smoked, the more the risk. Those who start to smoke in their teens face the biggest risks. In fact, a person's risk of developing lung cancer is affected more by the length of time as a smoker than by the number of cigarettes smoked daily.

Compounding the problem, 85% of smokers in Egypt also smoke sweetened tobacco (*shisha*) in water pipes, a practice that is also very prevalent in the GCC.

Young and hurting

Young people, especially, suffer high costs from a decision to smoke, and from an inability to quit. Between 82 000 and 99 000 young people worldwide start smoking every single day. The number of children and young people taking up smoking ranges from 14 000 to 15 000 per day in high-income countries, while in low and middle-income countries, the estimated numbers are 68 000 to 84 000.

In the GCC, 50% of students aged 14 to 18 years smoke. Around 25% of them started between the ages of 10 and 15 years.

82% of Egyptian students who smoke want to stop.

Food, shelter, tobacco?

Many people in the developing world spend their resources–scant in many cases–on tobacco, rather than food, clothing, health and education. In Bangladesh, for some poor families, smoking represents 15% to 45% of daily household income. In Malaysia, the figure is between 15% and 30%, and in some parts of China, it can approach 60%. In Viet Nam, Bangladesh and Niger, some poor households spend one third more on tobacco than on food. In fact, in Bangladesh, over 10.5 million children could be saved from malnutrition if their parents diverted expenditure from tobacco to food. The poorest households there spend 10 times more on tobacco than on education.

A 1989 study revealed that Egyptian families spent approximately 5% of their income on tobacco products–more than spending on medical care, culture or sports. Urban households spend approximately 10% of total food and beverage expenditure on cigarettes. The highest expenditure on cigarettes and tobacco as a share of total expenditure tends to be in those working in the lowest-wage occupations. All of these figures show just how serious an economic burden smoking can be.

Reducing supply and demand

Many governments have avoided taking serious action to control smoking–by applying higher taxes, comprehensive bans on advertising and promotion, and restrictions on smoking in public places–because of concerns that their interventions might have harmful economic consequences, such as decreased tax revenue, job losses and undue economic burden on the underprivileged.

Extensive research, however, has indicated that policies that reduce the demand for tobacco, such as increasing tobacco taxes, would not cause long-term job losses in the vast majority of countries, nor would they reduce tax revenues. In fact, revenues would climb in the medium term, and there might even be a net gain in jobs as people switch from buying tobacco and buy other goods and services instead.

In high-income countries, demand tends to go down by about 4% when the price of a pack goes up by 10%. Demand goes down by about 8% in

low and middle-income countries. In the United Kingdom, although the number of cigarettes sold annually decreased from 138 to 80 billion over the course of 30 years (mainly due to higher prices), tax revenues rose.

In Egypt, it is estimated that cigarette price increases would lead not only to significant reduction in consumption, but also to increased government revenues. A 1995 study showed that a 9% increase in cigarette prices in Egypt would result in 4% more government revenues, despite the projected decrease in demand.

The price is not right

Researchers have consistently found that price increases encourage some people to stop smoking, deter others from starting, and reduce the number of ex-smokers who resume smoking.

Children and adolescents tend to respond more to price increases. Governments can help sway young people away from smoking by increasing taxes on tobacco, thus making smoking a more difficult financial choice for the young.

In a survey of Egyptian university students, 45% said higher prices would help them stop smoking. Pricing, however, has not been a major control measure in Egypt, where there was only a 24.5% price increase between 1991 and 1995. Only Hungary, Norway, Poland, United Kingdom, United States and Venezuela had smaller increases in prices.

In 1991, the Egyptian government proclaimed that cigarettes were a strategic commodity. Since then, prices have been falling in real terms.

To tax or not to tax?

Increasing taxes on cigarettes can provide tremendous revenue potential for nations. In China, conservative estimates suggest that a 10% increase in cigarette tax would decrease consumption by 5% and increase revenue by 5%. The increase would help to finance a package of essential health services for one third of China's poorest 100 million citizens.

Increasing taxes on cigarettes has proven successful, especially in countries where the tax component is between two thirds and four fifths of the retail cost.

In lower income countries, taxes amount to not more than half the retail price per pack.

In South Africa, in the 1990s, taxes on cigarettes went up from 38% to 50% of sale prices, and although sales fell more than 20%, total tax revenue more than doubled.

A study of the economics of tobacco in Morocco showed that modest increases in tobacco tax rates would generate additional revenues and reduce consumption. A 10% tax increase would decrease demand by 3.3%, while revenues would go up by 6%.

In Egypt, the price inelasticity of cigarettes means that although a tax or price increase will lead to a significant reduction in consumption across the board, the higher tax per pack more than offsets the revenue effect of the fall in sales.

Advertising

The tobacco industry advertises 50% more than other industries, on average. Philip Morris's annual advertising expenditure in countries of the GCC is US$ 10 million, making the company one of the region's biggest advertisers. Of that, US$ 3.9 million is spent in Kuwait, and US$ 3.4 million is spent in Saudi Arabia.

In Morocco, largely due to the extension of the marketing network to rural areas, the per capita percentage of income going towards tobacco went from 1.2% in the 1960s to 2.5% in the 1990s. The increase was higher in rural areas.

Comprehensive bans on advertising and promotion can reduce demand by around 7%. Partial bans have had little or no effect.

Negative role models

Research on smoking habits of college students in Egypt showed that positive role models can potentially be effective in encouraging young people not to smoke.

Yet those same people who should be positive role models often smoke more than others. In Egypt, 45% of teachers and 43% of doctors smoke. Between 33% and 50% of the doctors in Kuwait, Saudi Arabia and United Arab Emirates also smoke.

Students also cited bans on smoking in public places, and information on television and in newspapers, as being potentially effective.

Only 12% of those surveyed thought that current anti-smoking advertising was effective, while 50% thought better counter-advertising would be more effective.

The same study showed that increased health awareness, likely to be greater among higher socioeconomic classes, might result in a lower percentage of smokers.

Awareness helps

Globally, "information shocks" have proven helpful in reducing smoking rates.

From 1960 to 1994 in the United States, as information about the risks of passive smoke became more widely known, parents reduced their consumption of cigarettes much more rapidly than single adults without children.

In the United States in 1950, 45% of the public identified smoking as a cause of lung cancer. By 1990, 95% did. Smoking rates fell from 40% to 25% during the same period.

Collecting data about consequences of smoking is essential to publicizing such consequences. One way would be to note individual's smoking status on death certificates.

In Morocco, more surveys of consumption are needed, especially among the poor. The overall health impact of smoking also needs to be better studied.

There have not been enough studies in the GCC region of the effects of tobacco or how to counter it. As elsewhere in the region, the studies that have been done tend to be skewed because women and children are reluctant to reveal that they smoke, fearing retribution or reproach.

Great labels

Better labelling on packaging has proven helpful in tobacco control.

Health warnings on packaging in Turkey helped bring consumption down 8% in eight years. In South Africa, 58% of smokers said warning labels motivated them to reduce consumption or quit. The only downside to this in low-income countries is that many people buy their cigarettes individually rather than by pack.

Spending on tobacco control needs to increase; around 60 times more is spent on research and development in HIV control than tobacco control.

A multi-pronged approach

Developing nations need to adopt multi-pronged approaches to tobacco control. Cigarette prices need to be raised. The public needs better information on the effects of tobacco use and benefits of quitting. A complete and comprehensive ban on all advertising and promotion needs to be enacted and enforced. Smoking bans in public places and workplaces need to be expanded and enforced to protect non-smokers from having to inhale smoke from other people's cigarettes. More help needs to be given to those who want to quit.

Countries need to apply these measures to both imported and domestically produced cigarettes for maximum effectiveness. At the same time, they need to implement strict controls on smuggling.

Smuggling controls not only reduce illegal supply and sales that cheat governments of tax revenue, but also help the effective implementation of price increases that reduce demand.

Countries can help prevent smuggling by enforcing labelling of packages in local languages and placing prominent tax stamps based on destination.

Giving it a try

An Egyptian national campaign to stop smoking, aimed especially at young people, was launched in 2000. It aimed to restrict the sale of tobacco to minors, introduce education about the health hazards of smoking into preparatory school curriculums and produce anti-tobacco posters, television programmes, pamphlets and stickers.

In the GCC region, Health Ministers have recommended that 0.5% of the recommended tobacco tax should be collected and used for research and anti-tobacco programmes. One per

cent should be taken from distributors at a pre-customs stage, and given to the Ministry of Health for anti-tobacco efforts.

Attempts should also be made to obtain legal victories for compensation on health loss cases.

Other recommendations include:

- Setting up high entry costs to become a distributor (US$ 12 million);
- Requiring a costly license to sell to consumers; and
- Enforcing stricter penalties for violators, including those caught smoking in no-smoking zones.

The Framework Convention on Tobacco Control

On Wednesday, 21 May 2003, the World Health Organization's (WHO) 192 Member States adopted the Framework Convention on Tobacco Control (FCTC). This landmark event should pave the way for nations across the world to take a series of critically effective steps to curb the global tobacco epidemic.

Only by moving forward with bold but proven strategies–which include total bans on advertising and smoking in public places and significantly increasing taxes on tobacco products–can the developing world hope to defeat the scourge that is rapidly devouring both its health and wealth. Time is of the essence, lest tobacco's devastating ramifications become not only all too clear–but irreversible as well.

Extra notes

General

International trade liberalization treatises allow countries to take actions to protect public health as long as they do so for both imported and domestic products.

The quitting rates are much lower in low and middle-income countries.

Egypt

In Egypt, legislation and tobacco control exists since 1981 but was not fully enforced. There has been a ban on television and radio advertising since 1977. In 2002, legislation was enacted banning all forms of tobacco advertising, requiring health warnings on 30% of cigarette packs and prohibiting the sale of cigarettes to minors under 18 years. Smoking is not permitted on domestic air flights, and in cinemas and theatres. It is restricted in health care institutions. Tar rates have been reduced by the government, from 20 mg maximum in 1981 to 15 mg maximum in 1997.

Employment in Egypt's tobacco industry went up from 13 100 in 1970 to 17 900 in 2000. Currently, it represents 1% of total employment.

Per capita consumption in Egypt went down between 1990 and 1995 in response to price increases. This was reversed by a price freeze policy.

Countries of the Gulf Cooperation Council

In countries of the GCC, the government provides funds for tobacco control to conduct activities like sponsorship and research–in direct competition with tobacco companies.

Currently, there are 45 tobacco deaths in GCC countries every day.

The GCC Health Ministers have come to the conclusion that among all possible anti-tobacco measures, the most important is increasing tobacco product price.

GCC countries do not implement a sales tax. Only a coordinated customs policy between GCC states will help to control smuggling. For years this was not the case, resulting in a confused, chaotic market. When customs rates went up, the multinationals agreed to provide 50% to 65% of the increase. This was unsurprising given that huge profits, some of which they were willing to give up to protect their market. At least a 40% to 50% price increase is needed. For maximum effect it should be 100%. GCC Health Ministers are recommending a 200% customs increase. False propaganda from tobacco companies about negative ramifications of raising prices must not affect decision-makers.

Morocco

In Morocco, the tobacco industry generated 2.1% of Moroccan Gross Domestic Product (GDP) in 2000. That is equivalent to the country's fishing industry. The employment effects of more stringent tobacco control policies would be moderate. The tobacco farming industry is small, and the reduction in demand could be covered by reducing imports.

Taxes represent 73% of the retail price of cigarettes in Morocco. It is estimated that a 10% increase would increase revenues by 6%. Furthermore, since few jobs are generated by the tobacco industry in Morocco, and 70% of all raw tobacco is imported, a fall in consumption would not be likely to cause any significant loss of employment. Moreover, as consumers switch expenditures to other goods and services, new jobs and incomes would be generated.

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