



2022/05/31

Will the newly appointed Prime Minister be able to establish a rational tax policy on Tobacco?

World No Tobacco Day is celebrated annually on the 31st of May, to inform the public on the dangers of using tobacco, the business practices of tobacco companies, what the World Health Organization (WHO) is doing to fight the tobacco epidemic, and what people around the world can do to claim their right to health and healthy living and to protect future generations.

WHO has announced the 2022 global campaign for World No Tobacco Day under the theme, “Tobacco: Threat to our environment.” The objective of the campaign is to increase awareness among the public regarding the environmental impact of tobacco with regard to cultivation, production, distribution and waste.

Even though tobacco is harmful in many aspects, the tobacco industry takes efforts to ‘greenwash’ its reputation as environmentally friendly.

According to WHO, tobacco kills about eight million people every year globally, while approximately five tobacco-related deaths are reported per day within Sri Lanka.

While tobacco products are deadly and largely contribute to health issues within a country, tobacco causes more damage to the environment in terms of air, water and land pollution.

With an annual greenhouse gas contribution of 84 megatons carbon dioxide equivalent, the tobacco industry contributes to climate change and reduces climate resilience, wasting resources and damaging ecosystems. In the year 2020, the usage of cigarette sticks was reported as 2300 million, while more than 35,000 million cigarettes have been used during the last decade, in Sri Lanka. Cigarette butts, being the world’s second most littered item after food wrappers, contain several toxic chemicals, heavy metals and residual nicotine. Due to low biodegradability, improper disposal of cigarette butts largely contributes to contamination of air, land and water, adding a substantial cost of clean-up, creating an additional burden on the country’s economy.

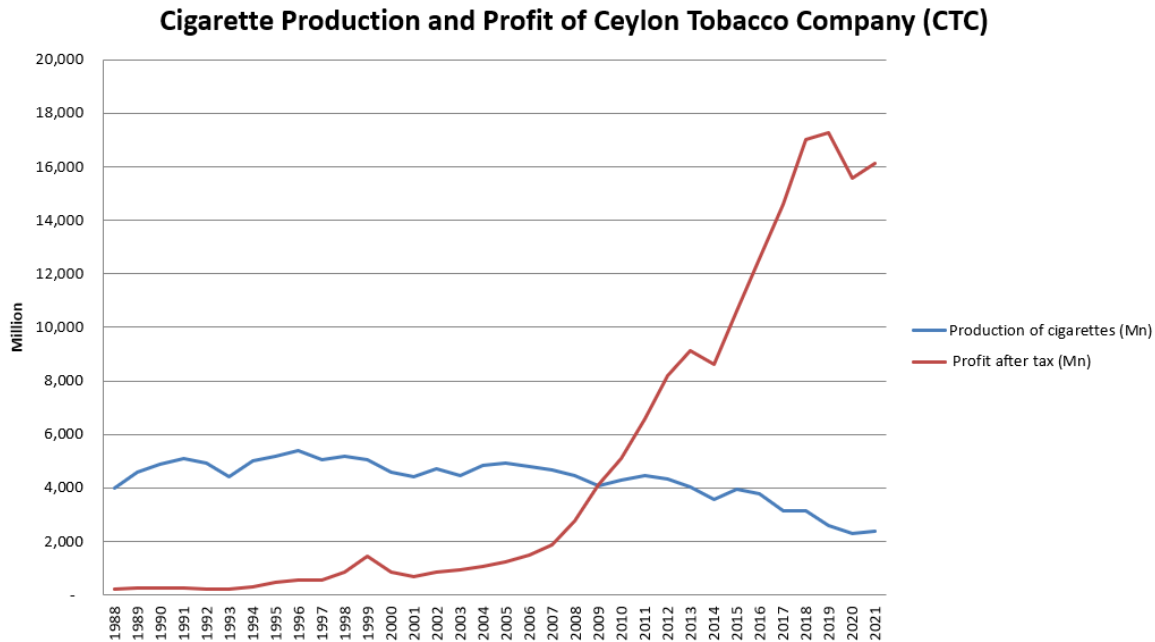
Tobacco cultivation causes a reduction in land productivity due to severe soil erosion, downstream sedimentation and depletion of water resources. The soil erosion rate is highest in tobacco, when compared to other crops. Heavy chemical application during tobacco cultivation causes a large threat to the environment. Furthermore, tobacco depletes soil nutrients due to rapid intake of nutrients from the soil. Therefore, tobacco cultivation directly influences reduction in soil fertility, causing the land to become less suitable to grow other important food crops.

Sri Lanka has been successful as a nation in controlling tobacco use through active community involvement and effective policy implementation, which has resulted in an overall reduction in tobacco consumption during the past decade. The Global Adult Tobacco Survey (GAT Survey), a collaborative effort between World Health Organization (WHO), National Authority on Tobacco and Alcohol (NATA), Ministry of Health and Department of Census and Statistics has revealed that smoking has reduced to 9.1% in Sri Lanka, making it a leading nation in reduced tobacco usage.

Even though Sri Lanka has reported a considerably lower rate of tobacco use still LKR 40 million is spent daily on cigarettes, causing it to become a heavy burden to the country's economy. British American Tobacco (BAT) is the monopoly which controls 84% of shares of the Ceylon Tobacco Company (CTC). Therefore, 84% of the profits obtained by CTC, goes to a foreign company.

As Sri Lanka is facing an economic crisis at present, the government urgently needs to implement crucial policy solutions to address the issues in the fiscal sector.

Within the last 10 years, production of cigarette sticks has reduced by 45%, but the profits earned by the Ceylon Tobacco Company (CTC) has increased by 121%. This can be clearly identified from the following graph.



Most of the other industries faces a loss of profit when production levels are reduced, but the tobacco company faces a situation that is contradictory. Using this to their advantage, the tobacco company obtains large sums of money as profits and the reason is, the absence of a rational tax policy for tobacco-related products.

2021 සිට 2022
භාණ්ඩවල මිල ඉහළ යාම

භාණ්ඩය	2021 (රු)	2022 (රු)	වෙනස %
තල් (1Kg)	101	211	109%
පන් පිටි (1Kg)	91	280	204%
මයිකුටි පරිප්පු (1Kg)	209	630	201%
තල් මැස්සා (1Kg)	721	1486	106%
පෙට්‍රල් (1 L)	121 <small>(අගෝස්තු 2021)</small>	420	250%
ඩීසල් (1 L)	117 <small>(අගෝස්තු 2021)</small>	400	230%
සිගරට් එකක් (අන්තර්ජාතික)	65	70	8%
ගල් අරක්කු බෝතලයක් (750ml)	1650	2030	23%

සෑම අතවලස භාණ්ඩයකම මිල 100% වැඩි ප්‍රමාණයකින් ඉහළ යන විට සිගරට්වල මිල වැඩි වී ඇත්තේ 8% කින් පමණි.
මද්‍යසාරවල මිල වැඩි වී ඇත්තේ 23% කින් පමණි.

When comparing the years 2021 and 2022, due to the inflation, the price of essential goods has been drastically increased. There's a 109% increase in rice, 204% in wheat flour, 201% in dhal, 230% in diesel and 250% in petrol. But, the price of a cigarette, the main tobacco-related product has only been increased by 8%, and price of alcohol by only 23%.

The revenue which can be earned by the government from increased cigarette and alcohol taxes can be effectively utilized to prevent drastic price increases in essential commodities, at a period where the country is at a difficult economic juncture. Ministry of Finance, the government body responsible for functioning towards developing a solution to the economic crisis in the country, should be working towards increasing the revenue to the government through proper tax policy implementations.

In a survey conducted by Alcohol and Drug Information Centre (ADIC) in September 2021, 89.3% of the respondents have mentioned that they would support a move to increase tobacco taxation to improve government revenue. Institute of Policy Studies (IPS) estimates that by increasing tobacco taxes by LKR 20 for all cigarettes (irrespective of length), the government could have earned nearly LKR 5 billion.

Ministry of Finance, the government body responsible for functioning towards developing a solution to the economic crisis in the country, should be working towards increasing the revenue to the government through proper tax policy implementations. Unfortunately, during the past few years it was observed that the implemented strategies were in favour of the tobacco company, thereby losing a large tax revenue to the country, while the tobacco company accumulated this amount as profits.

As smoking is directly linked to social and economic status of a population, tobacco taxation is an essential component in extensive tobacco control strategies. Increased tax results in increased prices of tobacco-related products, which in turn makes it less available for the consumers. This method is quite effective in reducing smoking and its adverse health consequences as well. Reducing tobacco consumption by increasing prices through increased taxation, will reduce tobacco-caused illnesses and ease the pressure on the health system at a time where Sri Lanka's healthcare system is severely overburdened. Therefore, the best strategy to be implemented at a time where Sri Lanka is facing an economic crisis is, increasing the tax for cigarettes and obtaining the maximum income to the government.

While the newly appointed Prime Minister and other responsible individuals are making an effort to develop alternative measures to bring revenue to the government, we would like to propose to implement a proper tax policy for tobacco products, which would bring a large revenue to the country, thereby providing a satisfactory solution to the prevailing economic crisis.

In the past, in line with the global best practices, Sri Lanka has taken several important positive measures to control tobacco use, including tax increases, leading to significant revenue boosts for Government as well as public health benefits for the public. But, due to several forces acting through the Ministry of Finance, there is a delay in taking the relevant measures to provide a solution to the ongoing economic crisis in the country.

It is our hope that the newly appointed Prime Minister and Minister of Finance Mr. Ranil Wickramasinghe, Secretary of the Ministry of Finance Mr. Mahinda Siriwardena and and the Governor of the Central Bank, Mr. Nandala Weerasinghe will implement necessary interventions to correct the disadvantageous tobacco tax policy in the country, which will aid in providing a satisfactory solution to the prevailing economic crisis.



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