

## **SPEECH TO MEMBERS OF PARLIAMENT IN SURINAME**

By Corne van Walbeek

(Slide 1)

Honourable Speaker and Honourable Members of Parliament

I am honoured to stand here today to talk about tobacco control. Thank you for the opportunity.

My name is Corné van Walbeek. (Slide 2). I am the Director of the Research Unit on the Economics of Excisable Products, based at the University of Cape Town. The aim of the Research Unit is to conduct research into various aspects related to the economics of tobacco control. We help countries implement effective and evidence-based policies that will reduce the health and economic burden caused by tobacco smoking.

The Research Unit houses the Knowledge Hub on Tobacco Taxation. This Knowledge Hub was created by the secretariat of the WHO Framework Convention on Tobacco Control in 2015. The Knowledge Hub supports Parties to implement better tax structures, and to estimate the impact of changes in the excise tax rate. In the past year we have supported officials from the Ministry of Health and the Tax Administration Department of Suriname to predict the likely impact of excise tax increases. Two days ago we had another meeting where we discussed tobacco excise taxes, as well as the illicit trade problem in Suriname.

The health burden of tobacco is devastating. The World Health Organization estimates that each year 8 million people die prematurely from diseases caused by tobacco use. (Slide 3). Tobacco use is detrimental to every part of the body. The most well-known tobacco related disease is lung cancer. However, a much larger number of people die from heart attacks, emphysema, and other cancers. Epidemiologists estimate that one in two regular smokers die prematurely because of tobacco-related diseases. These smokers typically lose more than 10 years of life.

The world is slowly recovering from the Covid pandemic. The human cost of this pandemic has been enormous. Since the outbreak of the pandemic in late 2019 nearly 6.5 million people have died globally. These are the official figures. The actual number may be substantially higher than 6.5 million deaths.

In order to reduce the number of Covid deaths, governments around the world have implemented drastic measures, such as travel bans and shut-downs. These

measures had very detrimental economic consequences. Many people lost their jobs or suffered income loss, at least temporarily. The prevalence of poverty and hunger has increased. (Slide 4). In 2020 the global GDP decreased by 3.6%, which was the largest one-year decrease in nearly a century. Some countries experienced much larger decreases. In Suriname the GDP decreased by 15%.

What the Covid epidemic has shown is that people's lives matter. We do not want people to die prematurely. We have seen that societies and governments are willing to pay a huge economic price to reduce the death toll from a horrible disease.

However, let's place the 6.5 million Covid deaths in context. Since January 2020 more than 20 million people have died from diseases caused by tobacco smoking. This is three times more than those who died from Covid-19. With Covid-19 there were daily updates on the number of new infections and the number of deaths. We do not have that for diseases caused by smoking. Why the discrepancy? Have we, as society, become too used to tobacco-related deaths that we do not give it more attention? Are tobacco-related deaths somehow less important or newsworthy than Covid deaths? Do we shrug our shoulders and say that a premature death caused by tobacco is simply the logical result of people's poor decisions?

Epidemiologists estimate that in the 20<sup>th</sup> century about 100 million people died prematurely because of tobacco use. They estimate this death toll will increase to one billion people in the current century if the trend continues. These are staggering numbers.

To address the tobacco epidemic, the World Health Assembly adopted the Framework Convention on Tobacco Control in 2003. (Slide 5). The FCTC is an evidence-based treaty that commits Parties to implement effective policies aimed at reducing the consumption of tobacco products. Articles 6 to 14 of the FCTC focus on interventions that reduce the demand for tobacco, whereas articles 15 to 18 focus on interventions that reduce the supply of tobacco. The treaty came into effect in February 2005. Suriname ratified the treaty in December 2008.

Currently the Framework Convention has 182 Parties, covering more than 90% of the world's population.

In 2013 Suriname passed tobacco control legislation that was informed by the FCTC provisions. Among other things, the legislation banned smoking in all

public places, workplaces and on all public transport. Smoking is also prohibited on the outdoor grounds of educational and childcare facilities. The legislation banned all tobacco advertising, promotion, and sponsorship. It also mandated the introduction of graphic warning labels on tobacco product packages. Warning messages should cover at least 50% of the front and back of the package.

The legislation also prohibits the sale of tobacco products in a variety of settings, including sales via vending machines, and in educational facilities, playground, and healthcare facilities. Sales of single cigarettes and small packets of cigarettes are prohibited. The sale of tobacco products is prohibited to persons under the age of 18.

These are good tobacco control measures. They create an environment where tobacco use becomes *denormalised*. Thirty, forty years ago, smoking was completely normal. In many cultures it was seen as a sign of hospitality to offer guests a cigarette when they visited. It was considered completely normal to have guests smoking in the home, even when the hosts did not smoke at all. Smoking was even allowed on aeroplanes.

Fortunately, this attitude towards smoking has changed. Smoking is no longer seen as a normal activity, but as a harmful and addictive habit. People are more aware of the harms of smoking to themselves and to the people around them.

Legislation that restricts smoking in certain areas makes it clear to everyone that the right to clean air trumps the so-called “right” to smoke. This is real progress.

Yet, despite these advances, smoking prevalence remains high in many countries, including Suriname. (Slide 6). According to the latest national survey conducted in 2013, 34% of adult males and 7% of adult females in Suriname used tobacco. Unfortunately, we do not have more recent official estimates of smoking prevalence in Suriname, but it stands to reason that smoking rates in Suriname have dropped in the past decade because of the tobacco control legislation that was passed in 2013. More recent national surveys among school children in Suriname indicates that smoking prevalence is decreasing. A decrease in smoking rates in Suriname aligns with a global decrease in smoking rates.

In 1964 the US Surgeon-General provided conclusive proof that smoking causes lung cancer. In response, policy makers argued that more and better information about the detrimental impact of smoking would persuade people

to stop smoking or to not start smoking. This strategy has been largely unsuccessful. The power of addiction is stronger than any educational campaign. It seems that people need stronger incentives than simply more information to reduce tobacco use.

Research from the past 20 to 25 years indicates that the single most effective tobacco control measure is an increase in the excise tax on tobacco products. (Slide 7). An increase in the excise tax increases the retail price of the product, which makes it less affordable. Even though nicotine is highly addictive, an increase in the price of tobacco reduces the demand for them.

Of course, if the price of tobacco increases, not everyone will respond in the same way. Some smokers will simply continue smoking, irrespective of the higher price. Some smokers might smoke less. But for some smokers the increase in the retail price is the trigger for them to quit smoking. Most smokers regret that they started smoking and want to quit. Quitting is hard, and many smokers may have to try multiple times before they succeed. Those who quit are the ones that get the most benefit from the tax and price increase.

Other than encouraging existing smokers to quit, an increase in the price of cigarettes discourages non-smokers from starting. Most people who smoke, started in their teens and early twenties. This is a particularly vulnerable stage of life, where peer pressure is high.

Targeting young people is therefore crucial. Excise tax increases are even more effective for this age group, because they are more price sensitive than the rest of the population. For every 10% increase in the price of cigarettes, total consumption of cigarettes decreases by about 4% in high-income countries and by between 4% and 8% in low- and middle-income countries. However, young people's demand for cigarettes is between two times and three times more sensitive to a change in the price than the rest of the population. If young people do not take up smoking, it will be a matter of time before smoking slowly dies out.

Many countries have used excise tax increases very effectively to reduce the consumption of tobacco. South Africa, my home country, is an interesting case in point. In 1994 smoking prevalence was about 32%. In that year Nelson Mandela became president after the first democratic elections. The government made it clear that it would prioritise *primary* health care. Instead of treating sick people, the government wanted to implement policies that would prevent

people from getting sick in the first place. Reducing tobacco use was a good starting point. (Slide 8).

Like in Suriname, the excise tax in South Africa is levied as a specific tax. In South Africa, the excise tax can be increased each year at the reading of the budget in Parliament. Between 1994 and 2004 the excise tax was increased by more than 500% in nominal terms, and by 250% in real (inflation-adjusted) terms. As a result of these very large tax increases, the price of tobacco, adjusted for inflation, more than doubled within the space of 10 years.

The public health and fiscal consequences of this tax strategy were remarkable. Within the space of ten years aggregate cigarette consumption decreased by nearly a third and per capita cigarette consumption decreased by more than 40%. Smoking prevalence decreased from 32% in 1994 to 25% in 2004.

The increase in the excise tax has decreased the number of smokers in South Africa by least 1.5 million. At least 750 000 premature deaths were averted. The public health impact is enormous.

Excise tax increases also increased government revenue. Real tobacco tax revenue increased by 140% between 1994 and 2004, despite cigarette consumption dropping by a third. South Africa's success with tobacco control made it a model for other low- and middle-income countries for its effective use of excise tax increases.

After the FCTC became effective in 2005, many countries used excise tax increases as the primary instrument to reduce tobacco use. Research conducted during the last 20 years has indicated that the *structure* of the excise tax has a major impact on its effectiveness. Excise tax structures have multiple dimensions. One dimension is whether the tax is levied as a specific tax or an ad valorem tax. A specific tax is a tax levied on the quantity of the product, whereas an ad valorem tax is levied on the value of the product. Suriname has a specific tax structure. (Slide 9).

Uniform tax structures are better than ad valorem tax structures. Administratively they are much easier than ad valorem tax structures. With a specific tax, the tax liability is determined by simply counting the number of cigarettes. With an ad valorem tax, the tax liability depends on the assessed value of the products; this can easily be manipulated by the industry. Furthermore, a specific tax results in a lower dispersion of the retail price of cigarettes. This is good for public health, because smokers have fewer

opportunities to switch to lower-priced cigarettes when the excise tax is increased.

The other dimension of a tax structure is whether the tax is levied as a uniform tax or a tiered tax. With a uniform tax, all cigarettes are levied the same tax amount. Suriname currently implements a uniform specific tax. With a tiered system (in Dutch, a “gelaagde belastingstelsel”), some cigarettes are charged a higher tax and other cigarettes are charged a lower tax, based on things like price, or cigarette length, or type of packaging, or some other characteristic.

Tiered tax systems are ineffective. The differences in the tax rate are often exploited by the tobacco industry to reduce their tax liability. For example, a tobacco company might decide to reduce the retail price of its product to get into a lower tax tier. This is detrimental from both a fiscal and public health perspective and makes tax revenue budgeting harder. The best tax system is a uniform specific tax, but which is regularly adjusted to account for inflation and income growth.

In the recently agreed Tripartite Accord, the possibility of introducing a second, lower-tax tier was mentioned. Within the context of a large illicit market, this idea was offered as a possible solution. It was thought that somehow the illicit cigarettes would be pulled into the tax net, where they pay the lower excise tax rate. We consulted with the Tax Administration Department and indicated that this was a very bad idea. Implementing a second tier would not solve the illicit trade problem. It would simply create an incentive for companies to shift their cigarettes from the existing higher tax tier to the lower tax tier. I understand that the proposal to introduce a second tax tier has been shelved. This is a good thing.

I want to briefly describe the experiences of two countries, who have adopted innovative tobacco tax interventions. (Slide 10).

The first country is the Philippines. In 2012 the country adopted the Sin Tax Reform Act, where they transformed their very inefficient tiered tax system to a uniform specific tax. The additional revenues were used to help implement universal health care and to support tobacco farmers to switch to other crops. As a result of this intervention, the price of all cigarettes, but especially cheap cigarettes, increased rapidly. Cigarette consumption in the Philippines has dropped sharply.

(Slide 11). The second country is Australia. Australia has been a leader in tobacco control policy for many years. In December 2012 it became the first country to introduce plain packaging. But it has also been very creative with tobacco taxation. In 2013 the government of Australia adopted a policy to increase the excise tax by 12.5% above the average wage increase for each of the following four years. This proved so successful that the policy was repeated for another four years when the initial period expired in 2016. As a result, smoking prevalence, which was 24% in the early 1990, has decreased at an accelerated pace and currently stands at about 10%.

These two countries provide some guidance for Suriname. Suriname imposes a uniform specific excise tax on all tobacco products. The structure of the tax aligns with international best practice. (Slide 12). The current rate is 66 US dollars per 1000 cigarettes. Cigars and cigarillos are taxed at 66 US dollars for 500 sticks and other tobacco products are taxed at 66 US dollars per kilogram.

The excise tax is expressed in US dollars, which protects the excise tax from inflation. As the Suriname dollar depreciates against the US dollar, the excise tax increases in local currency terms.

The US dollar excise tax rate in Suriname has not changed since 2011, when it was increased by 50%. The excise tax rate has remained unchanged for eleven years.

In the past year, we have engaged with colleagues in the Ministry of Health and the Tax Administration Department, to develop some scenarios about the impact of an increase in the excise tax. We have developed a model that aims to quantify the public health and fiscal consequences of an increase in the excise tax. (Slide 13). The model incorporates appropriate baseline economic data and applies economic principles to estimate the likely impact of an increase in the excise tax. In the slide you can see some of the most important input variables. We assume that, in the baseline scenario the illicit trade comprises 50% of the market. In the legal market, there are three price segments. The premium market comprises 52% of the legal market; the mid-price segment comprises 35% of the legal market and the economy segment comprises 13%. The model allows for substitution effects, where people can switch from higher-priced segments to lower-priced segments and can even switch from the legal market to the illicit market when faced with higher prices.

In the model we assumed that the excise tax would increase from the current level of 66 dollars per 1000 cigarettes to 99 dollars per 1000 cigarettes. This is a 50% increase in the excise tax, similar to the excise tax increase of 2011. (Slide 14). Based on the model, we expect cigarette consumption to decrease by 12%, and government revenue to increase by 28%. We expect smoking prevalence to decrease from 17% to 16.61%. The fact that there is a very substantial illicit market, reduces the impact of a tax increase on smoking prevalence. People who smoke illicit cigarettes are not affected by the tax increase.

However, what this analysis shows is that, *even in the presence of a very large illicit market*, an excise tax increase will result in an increase in government revenue and a decrease in cigarette consumption and smoking prevalence. Had the illicit market been smaller, the decrease in consumption would have been larger.

The model indicates that the tax increase has an immediate impact on cigarette consumption and smoking prevalence. However, if excise taxes are not continuously increased in subsequent years, consumption and smoking prevalence will not decrease further. In fact, consumption will actually increase slowly, as per capita income grows, and people have more disposable income.

The legislative process to change the excise tax is not a simple administrative process. To avoid smoking prevalence to increase in the years after the initial tax change, the excise tax needs to be adjusted on a regular basis. In line with international best practice, I recommend that, when you do adjust the tobacco tax legislation, you include an automatic annual increase in the excise tax in the legislation. For example, you can indicate in the legislation that the excise tax should increase by 10% in each of the following five years after the initial tax increase.

In the last part of my presentation, I would like to address the illicit trade in cigarettes in Suriname. (Slide 15). In discussions with officials from the Ministry of Health and the Tax Administration department it has become very clear that the illicit cigarette trade is top of mind for many people.

I do not claim to know everything about the illicit trade situation in Suriname. In fact, this is my first trip to Suriname, and I am delighted to be here. Colleagues in the Research Unit and I have investigated the illicit tobacco market in many countries, and we see many common themes. My comments are based largely on this experience.



The first point is that the tobacco industry has a strong incentive to exaggerate the size of the illicit market. Related to this, the tobacco industry will blame the high excise tax for the increase in illicit trade. The rationale for such a strategy is to put pressure on the government to not increase the excise tax, or even to decrease the excise tax. The tobacco industry hates excise tax increases because it reduces their sales and profitability. If they can create a believable narrative that the illicit market is driven by tax increases, it could discourage the government from increasing the excise tax.

From my understanding of the situation, this is exactly what has happened in Suriname. (Slide 16). The tobacco industry and some of their front groups have been arguing for the introduction of a second excise tax tier on tobacco products, supposedly to reduce the illicit trade in Suriname. A tiered tax system (“gelaagde belastingstelsel”) is a particularly bad tax system and should be avoided at all costs. It allows the tobacco industry to manipulate the system and plays havoc with public health and with the fiscus. Earlier this year we had meetings with Suriname’s Director of Taxation, where we argued strongly that introducing a second tax tier is not the way to address the illicit trade problem.

Having said this, the evidence indicates that the illicit trade in cigarettes is a real problem in Suriname. One cannot deny this. However, one has to be very sceptical about the tobacco industry’s estimates of the size of the illicit market, because they have an interest to present an exaggerated picture of the problem. I have seen one industry document which claims that the illicit market is more than 80% of the total market. Based on other data I have seen, I don’t believe this is true.

There are many ways to measure illicit trade, and I would strongly recommend that you engage someone to conduct an *independent* investigation into the illicit cigarette market in Suriname. Other than estimating the size of the illicit market, you would want to know the nature of the illicit market. Are illicit cigarettes primarily smuggled in, or are they produced domestically, but not declared? Do you know for sure that locally produced cigarettes, that are destined for the export market, are not diverted into the local market? If cigarettes are smuggled in from abroad, what are the channels? These are questions that need to be answered by independent researchers.

One way to estimate the size of the illicit market is by means of a so-called gap analysis. The method has been used in numerous countries worldwide and gives a rough indication of the potential size of the illicit market. It compares the

number of tax paid cigarettes to the total number of cigarettes consumed. Total consumption includes both legal and illicit cigarettes.

(Slide 17). In 2013 the smoking prevalence in Suriname was 20%. Within the context of strong tobacco legislation passed in 2013, decreases in disposable income in 2015, 2016 and 2020, and a substantial decrease in youth smoking, it seems probable that smoking prevalence has decreased. In the simulation analysis I worked with a smoking prevalence of 17%. On the assumption that the average smoker smokes 8 cigarettes per day, which is the average in most middle-income countries, total cigarette consumption was 215 million cigarettes. According to the Tax Administration Department, about 103 million cigarettes were declared for tax purposes in 2020. These were all imported. This implies that the illicit market comprises about 50% of the total market. While this is not as high as the 80% that has been indicated by the Caricom Private Sector Organisation, it is nevertheless cause for concern.

The government is losing a lot of revenue on these untaxed cigarettes. Currently the excise tax is about 30 SRD per pack of cigarettes. Our best estimate of the illicit market is about 110 million sticks or 5.5 million packs. That suggests that the government is losing about 165 million SRD every year. However, this would be an exaggeration. Illicit cigarettes are cheaper than legal cigarettes. If it were possible to miraculously eliminate the illicit market completely, some people who currently smoke illicit cigarettes would quit smoking because the cigarettes become too expensive. Thus the revenues lost to the illicit market is probably closer to 100 million SRD than to the 165 million SRD.

Without further study, it is impossible to know what is causing the high level of illicit trade. Officials tell me that the illicit market has been increasing in the past number of years. I have seen a large number of recent newspaper articles reporting on the arrest of suspected illicit cigarette traders and smugglers. I would suspect that the tobacco industry is blaming the increase in illicit trade primarily on the excise tax.

However, the fact that the excise tax on tobacco products has not changed since 2011 is clear evidence that it is *not* the increase in the excise tax that is causing the increase in the illicit market. There are other issues at play.

The illicit cigarette market has been investigated in detail in numerous countries and in a global context, and there is a consensus that high excise taxes and large increases in the excise tax do *not* have a significant impact on the size and the

growth of the illicit market. In fact, countries with high excise taxes generally have much lower levels of illicit trade than countries with low excise taxes.

High levels of illicit trade is more correlated with weak governance and weak enforcement than with high or growing tax rates. Countries with high levels of corruption are more likely to have problems with illicit trade than countries that are not plagued with corruption.

Again, the example of South Africa is instructive. As I have indicated previously, South Africa was able to substantially decrease smoking prevalence between 1994 and 2004 through rapid excise tax increases.

In 2009 Jacob Zuma became president of South Africa. His term of office was characterised by a massive increase in corruption and by state capture. Government institutions were severely compromised. Special investigate units at the South African Revenue Services that specifically focused on the illicit trade in cigarettes were disbanded. (Slide 18). Whereas illicit trade was negligibly small before 2009, the illicit market grew steadily after 2010 and comprised at least 30% of the market by 2017.

Between 1994 and 2010 the government increased the excise tax by an average of more than 10% above the inflation rate each year. Since 2010, the excise tax was increased by an average of only 2% each year. The irony is that, in the period where the excise tax was increasing rapidly, illicit trade was low and there was no noticeable increase in illicit trade. However, in the period where the excise tax was roughly stable, there was a massive increase in illicit trade. The big difference is that governance and enforcement broke down in the second period.

So, the question is: What should the government of Suriname do to combat the illicit trade in cigarettes?

A vital prerequisite is that there should be the political will and desire to address the issue. It would require a whole-of-government approach. Addressing the illicit trade problem requires the support of the police services, the customs department, the revenue authority, and the prosecuting authority.

(Slide 19). There are technological solutions as well. The Protocol to Eliminate the Illicit Trade in Tobacco Products provides the blueprint for curbing illicit trade. The Protocol came into force in October 2018. Countries that ratify the Protocol commit themselves to implement measures that secure the supply

chain of tobacco products. One of these commitments is to implement a track and trace system within five years. Such a system will allow any person with a scanner to trace the cigarettes through the whole value chain, back to the point of manufacture. It will be relatively easy to determine whether the product is illicit or not. Track and trace systems have been used very successfully by numerous industries around the world, such as the pharmaceutical industry. Middle income countries like Kenya and Turkey have successfully implemented them in the cigarette trade, and report that they have substantially reduced the illicit trade.

Parties to the Protocol to Eliminate the Illicit Trade in Tobacco Products also commit to secure the supply chain through licensing, due diligence, record keeping, and security and preventive measures. They also commit to implement measures related to Internet sales, duty free sales, free zones, and international transits.

Because illicit trade usually involves cross-border movement of cigarettes, the Protocol provides for international cooperation and information sharing.

By March 2022, 64 countries have ratified the Protocol. Suriname would do well to ratify the Protocol and to start implementing its provisions.

Just one word of caution about implementing a track and trace system. The Protocol strongly recommends that the track and trace system should be independent of the tobacco industry. There are a number of track and trace systems on the market. Most have been developed independently from the industry. The tobacco industry has developed a track and trace system called Codentify. It also goes under other names, such as Inexto or Impala, and has been adopted by companies such as Atos or Dentsu Aegis . Given the tobacco industry's history of deception and their incentive to control their supply chain, they are likely to push you to adopt the Codentify system. That would be an error. Track and trace systems are meant to monitor the industry. You would put the fox in charge of the hen-house if you decide to adopt their track and trace system.

Honourable Speaker and members of Parliament, I want to thank you for the opportunity to address you today. Thank you for making time to listen to me. As elected servants of the people, you have committed yourselves to improve the lives of the people of Suriname. Among other things, this means that they will live long and healthy lives. Tobacco makes people sick and shortens their lives.

You have the authority to implement measure that can change that. The tobacco control legislation of 2013 was an excellent start. You need to follow this up with a large increase in the excise tax, and by implementing strong measures to reduce the illicit trade in cigarettes. Use your authority to improve the lives of your citizens.

Thank you.

(Slide 20)