

# P R A K A R S A *Policy Brief*

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## The Effect of Large Cigarette Price Increases on Smoking Behavior In Indonesia: What Smokers Tell Us

### Key Points:

- Indonesia has very low cigarette prices because of low cigarette taxes and a large number of tax tiers. This contributes to Indonesia having amongst the highest rates of smoking in the world.
- Global evidence shows that increases in taxes and prices cause smokers to quit, continuing smokers to smoke less, and lower initiation among youth.
- New research in Indonesia confirms that large price increases, as a result of large tax increases, will result in dramatic declines in smoking, and could result in up to a third of smokers wanting to quit.

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### PRAKARSA *Policy Brief* is

an independent policy analysis and recommendation about various critical issues related to development and welfare.

**T**his policy brief is based on a more extensive report entitled "The Illicit Cigarette Trade in Indonesia"

### Background:

- In Indonesia, Law No. 39 of 2007 (Amendments to Law No. 11 of 1995) allows excise taxes of up to 57 percent of the selling price of cigarettes. Currently, though, cigarette taxes comprise significantly less (approximately 40 percent). This results in Indonesia having, undoubtedly, some of the lowest cigarette prices in the Southeast Asian region.
- In the past decade, rapid economic growth in Indonesia, which has increased faster than the increase in retail prices of cigarettes, has made cigarettes significantly more affordable than a decade ago.
- Global evidence has shown that increases in cigarette excise taxes which result in price increases reduce tobacco use (The Economics of Tobacco and Tobacco Control, 2018).
- The prevalence of smokers in Indonesia is relatively high compared to other countries in the Asian region. Data from the World Health Organization (2016) shows that during the period 2000 to 2015 smoking prevalence declined in countries like China and India, but increased in Indonesia.
- While the Government of Indonesia has taken steps to increase cigarette excise taxes and simplify excise tax tariffs in recent years, the Minister of Finance Regulation (PMK 156) not to raise the cigarette excise in 2019 has dealt a blow to these efforts. Furthermore, the Minister of Finance Regulation (PMK) 146, which planned to simplify excise tax tiers further, was also stopped in this decree.

### The Burden of Tobacco Use in Indonesia:

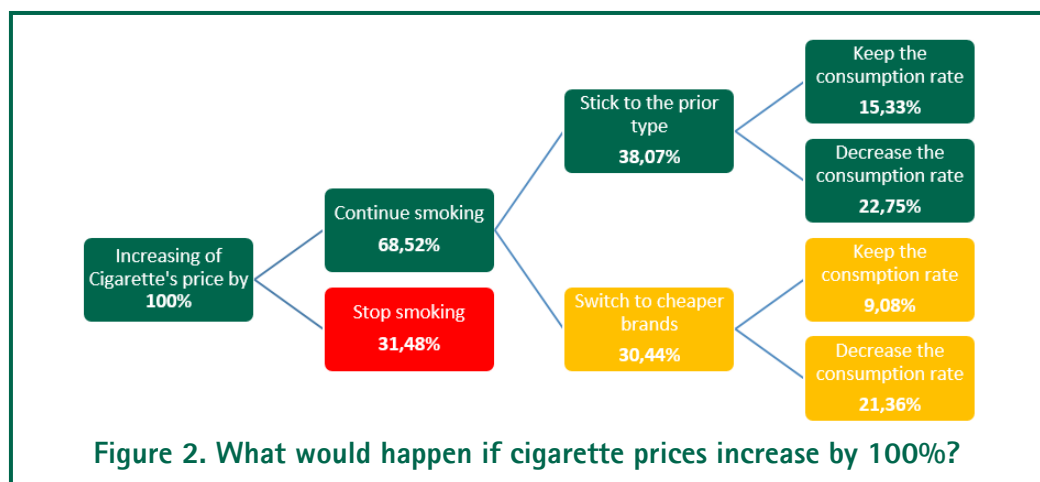
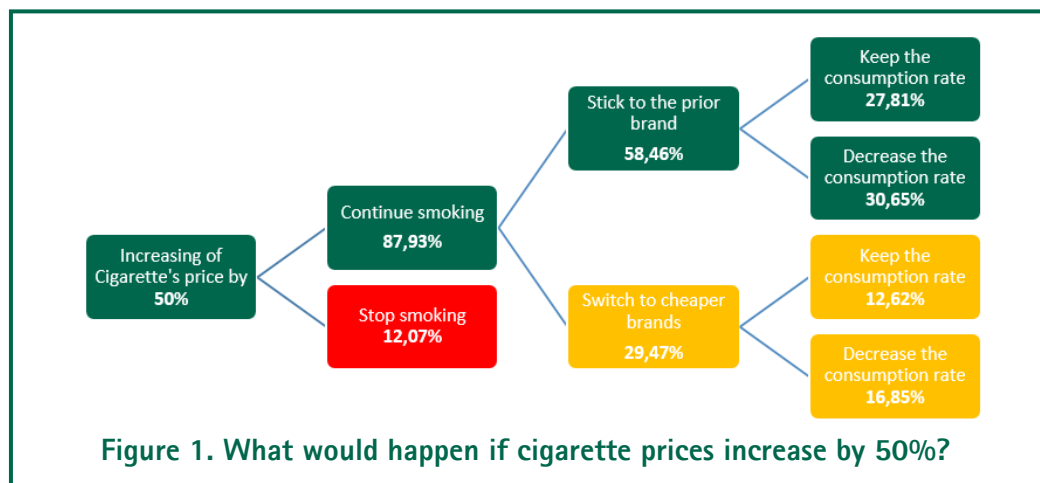
- Total medical expenses for smoking related diseases such as chronic obstructive pulmonary disease (COPD), coronary heart disease, and certain perinatal and cancer disorders caused by tobacco use in 2010 reached 1.85 trillion rupiah (IAKMI, 2010).

- In 2010, productivity losses due to early mortality and disability due to tobacco consumption were more than 3.5 million disability-adjusted life years (DALY), equivalent to an economic loss of 106 trillion rupiahs.
- In 2015, cigarettes were the second largest household expenditure after rice. Indonesian households spend three to five times more on cigarettes than education. Cigarette expenditure in households causes low investment in child development.
- On the other hand, cigarettes are one of the contributors to catastrophic diseases which are the largest portion of BPJS Health costs up to 4.6 trillion rupiahs (BPJS Kesehatan, 2018).

### Research Results:

- Prakarsa conducted a nationally representative survey of 1440 smokers in 6 districts (Malang, South Lampung, Tangerang, Gowa, Bandung and Banyumas Districts) in 2018. As part of this survey, smokers were questioned on their expected responses to price increases of 50% or 100%.
- Smokers were asked if they intended to continue smoking in response to the price increases or if they would quit. If they expected to continue smoking they were asked if they would switch to cheaper brands or reduce the number of cigarettes smoked per day.
- Based on smoker responses in this survey, detailed in the Figures 1 and 2 below, the price increases of 50% and 100% would have a significant impact on the smoking by reducing smoking prevalence as well as reducing cigarettes smoked per day by continuing users.
- Up to 12% and 32% of smokers intended to quit smoking in response to a 50% or 100% increase in cigarette prices, respectively. By comparison, cigarette prices increase by less than 10% in 2018.
- Even those smokers than indicate that they don't intend to quit, more than half will reduce the number of cigarettes smoked. The higher the increase in prices, the more smokers will reduce the number of cigarettes smoked.

- A significant number of continuing smokers will trade down to cheaper brands in response to price increases. It should be noted that the large number of tax tiers in Indonesia contributes to more opportunities for smokers to trade down to cheaper brands.



**Policy Recommendations:**

1. Tax increases that result in price increases will be effective in reducing tobacco use in Indonesia, and government should take note of this evidence.
2. Further reductions in the number of excise tariff tiers will result in tax increases having a larger impact on price increases, and government should continue to reduce the number of excise tariff tiers in order to improve the effectiveness of tobacco tax policy.
3. Larger tax increases are more effective than smaller tax increases at reducing tobacco use.

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