



## NIGERIA PROFILE REGARDING TOBACCO TAXATION

### Increasing tax pressure on tobacco to combat smoking

#### Context

#### Tobacco control is a global public health priority.

Two of the five million annual deaths caused by smoking in the



Nigeria emblem

world occur in Africa and the WHO predicts that if nothing is done, this figure will reach ten million by 2030, 70% of which in developing countries. The Framework Convention for Tobacco Control (FCTC), which is the bedrock of a global response based on strategic information, political commitment, international cooperation, a multisectoral holistic approach, accountability, technical and financial assistance for tobacco farmers' retraining, and the participation of the civil

society. Increasing tobacco prices by accentuating tax pressure is an instrument of public policy, which helps apply the principle of getting the prices of tobacco right; the State integrating all the costs incurred by the smoker's behavior in the price that the latter should pay. Dozens of irrefutable studies have confirmed that the increase in tobacco prices through the imposition of additional specific excise duties drastically reduces smoking among adolescents, young adults and poorer people (Bader et al, 2011). A meta-analysis published by the WHO's Newsletter in July 2013 shows a reduction in the number of smokers by 14.8 million and the avoided premature deaths by 7.4 million, in 41 countries having adopted between 2007 and 2010, the strategies recommended by the MPOWER Initiative, as a result of the tax increase on cigarettes (3.5 million) and the anti-smoking laws (2.5 million) (Levy et al, 2013). All ECOWAS member countries are signatories of the Framework Convention (FCTC), but the taxation of tobacco products is governed by the two UEMOA and ECOWAS Directives, which do not integrate the pertinent provisions of FCTC on taxes.

#### Smoking is a major socio-sanitary issue in Nigeria.

The smoking epidemic is characterized by a prevalence of about 15% among adults and 20% among adolescents. Across-sectional survey on the determining factors of the consumption of cigarettes among adolescents in the north of the country has shown that 85% of smokers were actually consuming less than ten cigarettes per day, while the prevalence was 33.9%. The age for initiation was 13-15 years under the influence of a parent, a friend or advertisement. The population living under the poverty line (70%) is the most affected. Tobacco control efforts started before the advent of FCTC, through a 1990 decree turned into legislation in 2001, banning smoking in public places and regulating tobacco advertisement and promotion. In 1999, the launch of a national smoking control committee led to the partial ban on tobacco advertisement. In the Cross River State, the prevalence of the consumption of cigarettes dropped between 2000 and 2008 from 7% to 4.1% among students aged 13 to 15 years, while the that of



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other tobacco products jumped from 14% to 23.3%, in the wake of the anti-tobacco law.

The turnover of BATN increased from N31.3 billion to N47.1 billion between 2007 and 2011. The production of raw tobacco started in the 1930s, originally in a region and now in six regions, and according to estimates, some 300,000 people live essentially on tobacco farming. The adoption of anti-tobacco legislation in line with FCTC has resulted in fruitful discussions supported by a dozen civil society organizations, whose activism has led to a series of trials against tobacco manufacturers to seek compensation for sanitary harms of their activities. Public actions in the form of awareness-raising campaigns were funded to the tune of US\$50,000/year in 2009; the consumption of cigarettes has been rising by 2% per year since 2007 and the projections indicate a progression to the tune of 6% between 2014 and 2016.

### **The Problem: The taxation of tobacco is not effective enough to reduce its accessibility**

Taxes on tobacco on an ad valorem basis range from 5% to 35% of the CIF value; this mode of taxation does not increase cigarette prices and the resale prices cigarettes remain very reasonable for the adolescents. Considering the amount of tax revenues on tobacco, the prevalence of smoking, its precocity, the selling price of the packet of 20 cigarettes between N74 and N272 is far from being the right price to pay by the Nigerian smokers, compared with smokers in other countries, such as Germany, France, the United Kingdom and Spain. The ad valorem taxation leaves the tobacco industry to decide alone on the level of tobacco prices, in total contradiction with the pertinent provisions of Articles 5 and 6 of FCTC. The rates in use are below the ECOWAS directive (100%) and the rate used in Ghana (150%). Among others, the underlying factors of this situation are: (i) the great influence of the

industrial sector and importers in the determination of the market value of tobacco products, (ii) the obsolescence of the ECOWAS community directive on the taxation of tobacco, whose primary objective was regional integration, not tobacco control, (iii) A differential excise duty with the possibility of exemptions and (iv) the vulnerability to fraud and manipulation of the declarative system of the CIF value. Tobacco products sold at a paltry price have a higher content of nicotine the addiction to which increases with the dose and pressure from the community and friends. Taxes used as a tool to fight smoking should result in such a dissuasive increase in the selling price that smokers will reduce or stop smoking and potential smokers will be discouraged. This impact should be maximal among the youth and the poor sections of society, whose prevalence nears 70%. For the ad valorem excise tax to reduce smoking, and increase tax revenues, the declarative system should be honest. The argument on the disastrous economic consequences of the tax increase is an exaggerated claim (Chaloupka et al, 2012).

### **What to do? Three additional measures to increase tobacco prices**

- i. Subject all tobacco products (scrapping of exemptions) to a single Customs duty rate with a minimum CIF value set on a regular basis by the authorities to reduce the importation of tobacco products at derisory, which have a higher nicotine content and therefore more addictive.
- ii. Institute a specific excise duty in the form of a stamp

whose value indexed to inflation will help simplify its collection, while improving the traceability of tobacco products and curbing smuggling.

iii. Initiate community harmonization and simplification of the tax system on tobacco to index it to FCTC by suggesting an increase of Customs duties with a 5th Band at 35% and a simplified nomenclature of tobacco with a single regional tariff; the replacement of the ad valorem excise duty by a specific excise duty in the form of a stamp on every packet of ready-for-consumption cigarettes, in order to improve its traceability, contain smuggling, increase tax revenues and fund the health systems.

### What considerations should be taken into account for the implementation?

The measures proposed are in line with FCTC but their application requires an all-inclusive synergy of the stakeholders through a multisectoral body at the federal and state levels. Such a body would steer tobacco control efforts, informed by scientific evidence and mobilize resources to create synergies between the administrations and the civil society. Some resistance can arise from cigarette manufacturers, wholesalers and retailers, and from tobacco small (scale producers, for financial reasons. The frustration of nicotine addicts requires the

setting up of cessation-support units. Despite the fact multisectoral collaboration is not always a common practice, the administrations in charge of Finance (Customs, Taxes and Treasury department), Youth, Education, Trade, Agriculture, Rural Development, Poverty Alleviation, Security and Health should work in unison with civil society organizations (CSOs). The cultural practice of tobacco traditional farming will require anthropological studies to identify the roots and alternatives for farmers to find new occupations. A collaborative follow-up and evaluation framework is essential to keep tobacco control going.

## Turnover, Corporate taxes, VAT and taxes for education on tobacco (N million)

Year	Turnover	Company income tax	VAT	Education tax
2007	31,291.41	1,838.53	348.22	173.12
2008	33,497.57	2,297.27	1,492.88	195.73
2009	38,181.11	3,295.30	1,311.24	254.98
2010	41,051.62	2,823.18	1,348.92	211.44
2011	47,095.67	2,194.11	1,548.31	208.01

Source: Federal Inland Revenue Service (FIRS)

## Percentage of taxes in the total price of tobacco

ECOWAS countries	%	Other countries	%
Nigeria	32.75	Germany	78.5
Cote d'Ivoire	50.25	France	80.4
Senegal	36.25	UK	76.5
Benin	17.25	Spain	77.6

## KEY MESSAGES

- The specific excise duty used as a tool to increase tobacco prices is the most effective strategy to fight tobacco and prevent chronic tobacco-related diseases. Its effectiveness increases as the regional tax system becomes more coherent, which is far from being the case in the ECOWAS region where the disparate tax system ruins all tobacco control efforts and promotes smuggling.
- In Nigeria, a country producing raw and manufactured tobacco, the absence of institutional visibility of tobacco control falls short of backing up the scale, the determining factors and the consequences of smoking. According to the fragmented data on the smoking epidemic, the prevalence is 15% among adults and 20% among adolescents, half of whom have had early initiation into smoking between the age of 13-15, under the influence of a parent, a friend or advertisement.
- The addiction to tobacco contributes to the increasing number of chronic cardio-respiratory diseases and household pauperization, 70% of

which are poor. Despite the 2001 anti-tobacco law and the ratification of FCTC in 2004, Nigeria is the leading producer of cigarettes in central and Western Africa, with an annual consumption of 20 billion cigarettes in 2010 and a 50% increase of the turnover of the industrial sector between 2007 and 2011.

- The tax system on tobacco products is conform to FCTC and has not increased the price of the packet of 20 cigarettes, which costs between N74 and N272. The differential ad valorem excise duty leaves the control over the selling price of tobacco in the hands of the industrial sector.

- Additional measures are suggested to increase tobacco prices:

- i. Replace the ad valorem taxation by a specific excise duty in the form of a stamp, whose value aligned to inflation will help increase the price of cigarettes, improve to traceability of tobacco and better contain smuggling.

- ii. Scrap the exemptions of Customs duties on tobacco products, regardless of their origin.

- iii. Launch efforts to harmonize and increase taxes on tobacco with the ECOWAS, especially the shifting to a Customs tariff band 35% for all tobacco products and the replacement of the ad valorem duty base by a specific excise stamp on all tobacco products.

- These measures can trigger an outcry from the industrial sector, distributors and retailers, for financial reasons. The frustration of nicotine addicts requires the setting up of cessation-support units. An all-inclusive multisectoral approach for a tobacco control strategy, guided by convincing data, sensitization, advocacy and retraining-support bodies for tobacco farmers are necessary. Consciousness-raising for a contextual application of anti-tobacco legislation by the all the States of the Federation will create favorable conditions for the success of the reform.

## METHODOLOGY

The International Development Research Centre (IDRC) has given a grant to the Consortium for Economic and Social Research (CRES) to conduct a research-action, in order to make a profile of national and regional tax systems on tobacco within the ECOWAS region. The dissemination of the findings in late November 2012 in Ouagadougou has informed national and regional leaders of regional tax disparities and led to recommendations for their harmonization. Each country team, with CRES support has made an overview of tobacco smoking and its consequences, of the tobacco sector, of the taxation of tobacco and of the contextual challenges. The present policy note is prepared from this overview and from recent studies of universal scope, in view of paving the way for the discussions between the various stakeholders of the fight against tobacco in Nigeria and in West Africa.

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