Lessons from the Impact of the Crisis on Tobacco Consumption

Policy Brief

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Key Messages

1. Tobacco consumption is a major public health issue in Lebanon, with significantly high prevalence rates across different sociodemographic groups.

2. There are alarming trends in tobacco consumption that could exacerbate the challenge of tobacco control in Lebanon in the future. This makes addressing tobacco consumption an immediate priority for policy makers.

3. Evidence from the financial crisis shows limited reduction in tobacco prevalence and frequency of consumption, but a significant brand-switching response.

4. While the ratio of foreign to local brand prices decreased as a result of currency devaluation, the reduction in disposable income dominated the relative price variation. The decrease in affordability of tobacco encouraged smokers to substitute towards the cheaper local Cedars cigarette brand.

5. Policy implications: Tax reform is needed to progressively decrease the affordability of tobacco, especially among the most vulnerable groups. Moreover, tobacco taxes should be designed to reduce the incentive for brand switching. Specifically, a high and uniform specific tax on cigarettes will raise the price of all brands and shrink price variation, thereby driving down consumption and limiting substitution.

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Background

The high prevalence of tobacco consumption in Lebanon is well documented (Nakkash et al., 2022). Using primary data collected in a nationally representative survey, we confirm previously identified smoking behavior patterns. Most notably a 66-percent prevalence rate of smoking, which is one of the highest global rates. Cigarettes are the primary tobacco products used by 54 percent of smokers, followed by waterpipe at 39 percent. Tobacco prevalence is high and persistent among all sociodemographic groups, with remarkable variations in product and brand preferences. Some of the notable patterns include the dominance of cigarettes as the primary tobacco product for men, while women show a preference for smoking waterpipe. The increased preference for waterpipe is also common among younger age groups, higher-income, and more educated individuals.

Prevalence figures show some additional alarming trends, most notably: 1) the decrease in age of onset of smoking for younger birth cohorts; 2) the high quantity of tobacco consumption, with an average weekly consumption of nine packs of cigarettes and 10 bowls of waterpipe among active consumers; and 3) extremely elevated rates of smoking among low-income groups, who tend to consume cheaper local brands.

The social cost of tobacco consumption in Lebanon is very high. A recently published study[2] by the UNDP and WHO shows that the expected economic losses from tobacco smoking in Lebanon are estimated to be USD 402 million by 2037. This includes both reduction in economic productivity and private and public health care costs. Moreover, the recent crisis has reduced the fiscal space of health care insurers and raised costs of treatment for providers. These effects reduced access to health care in the country for many vulnerable populations, most notably low-income and informally employed workers and the uninsured elderly. The alarming high trends of tobacco consumption, combined with the challenges of the health care system, are likely to increase the health costs of smoking in the future.

These facts underscore the urgency of prioritizing tobacco control and elevating policies aimed at reducing tobacco prevalence and consumption to the forefront of policy makers' agendas.

Evidence on the Impact of the Crisis on the Tobacco Market

The financial crisis that started in October 2019 had significant impacts on tobacco sales and consumption. The devaluation of the currency, and the slow response by fiscal authorities to adjust nominal taxes, led to significant variations in tobacco prices and tax burden. The devaluation of the currency led to changes in the nominal prices of tobacco products, raising them almost 40 fold. The slow adjustment of tax rates to match the currency devaluation reduced the tax burden on tobacco. This led to: 1) a major change in relative prices, most notably between the local brand Cedars and foreign brands, with the

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[2] https://www.emro.who.int/lbn/lebanon-news/lebanon-stands-to-gain-us-400-million-by-implementing-stronger-tobacco-control-measures.html

foreign brands becoming relatively less expensive compared to Cedars in dollar terms, and 2) an ambiguous impact on affordability of tobacco. In addition to affecting nominal prices of goods, the devaluation caused significant changes in real income distribution. The combined effect of these changes increased the variance in disposable income. The affordability of tobacco became highly variant between the different parts of the income distribution.

Changing consumption trends documented in sales and survey data show that brand substitution was the primary response of cigarette smokers. In the primary data collected in the survey, we find that the proportion of consumers who switched to the local brand Cedars doubled after the crisis. This highlights some degree of price responsiveness among consumers, likely driven by the reduction in disposable income.

Policy Recommendations

In light of the findings discussed above, there is a need for urgent reform to slow down and reverse the current prevalence trends. Based on our analysis we recommend the following steps:

1. **Improve tobacco tax policies**

    a. Implement uniform specific excise taxes: In contrast with other types of consumption taxes, excise tax will reduce price gaps between tobacco products, discouraging brand substitution.

    b. Regular affordability adjustments: Tax rates should be adjusted to outpace the combination of overall inflation and income growth to ensure reduction in affordability of tobacco products.

    c. Price floor: The tax should guarantee a suitably high price floor for all tobacco products to eliminate extremely cheap brands.

2. **Strengthen tobacco control measures targeting the youth**

    a. Enforcement of access restriction: Implement stricter age-verification mechanisms including more aggressive penalties for under-age sales.

    b. Introduce higher taxes for new tobacco products: taxes on e-cigarettes and vapes that are favored by the younger age groups that are sufficiently high to discourage initiation.

3. **Health-promoting taxes including tobacco taxes should be considered a primary source for financing health care provision**

    a. Introduce a supplemental tax rate on businesses for whom tobacco sales is one of the primary activities. This includes restaurants that offer waterpipe, hookah cafes, and other similar service providers.

    b. Earmark this tax to subsidize and finance health services.

4. Reinforce smoke-free environments in public spaces.

References

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