Capacity Building Program on Tobacco Taxation for Ministry of Health Officials in Indonesia
Jakarta, 2-4 October 2017
(see Annex 1 for the Program)

Tobacco taxation workshop for civil society
5th October 2017, Jakarta, Indonesia
(see Annex 2 for the Program)

High Level policy meeting on tobacco taxation
6th October 2017, Jakarta, Indonesia
(see Annex 3 for the Program)

Rationale:
Ministry of Health (MoH) often participates in inter-ministerial policy discussions on tax. Therefore, MoH needs to be equipped with knowledge, evidence, and technical skills to strengthen MoH participation in tax policy work and discussions.

Background:
Indonesia introduced universal health coverage (UHC) in 2014, and it aims at providing comprehensive health care for the entire population by 2019, with government-subsidized coverage for low-income groups. In addition, it aims to reduce the prevalence of communicable diseases, such as tuberculosis, and to improve maternal and child health, including child nutrition. It also wants to improve access to quality health care and essential health services. Despite substantial improvements in recent years, life expectancy in Indonesia remains below countries at a similar level of development. With demand for healthcare accelerating rapidly, achieving the UHC goal requires mobilizing new resources and investing in service delivery capacities. It is important to do so in ways that ensure fiscal sustainability and equity of access for those most in need.

Overall goal of the 3 meetings was to motivate policy makers to increase tax on tobacco products in Indonesia

Objectives
1. Assess the current situation of tobacco taxation, stakeholders’ engagement, political opportunities, and possible barriers to higher tobacco tax
2. Build knowledge on health impact of tobacco use in terms of morbidity, mortality, and health care costs
3. Build knowledge on tobacco control measures with emphasis on tobacco taxation; understand the benefits of higher tax in: i) reducing smoking prevalence, deterring new initiation, preventing deaths and diseases, thus improving public health; ii) gaining economic benefits by reducing out-of-pocket expenditure, lowering health care costs, increasing labor productivity, and national revenues, iii) financing health programs, universal health coverage, and other development programs
4. Build knowledge about the impact of higher tax on: i) employment, ii) tobacco farming, iii) illicit trade
5. Prepare and finalize a tax policy paper from a health perspective covering all elements mentioned above.

Target group:
Public officials from areas of non-communicable disease control, communicable disease control, health promotion center, National Institute of Health and Development, National Agency of Food and Drugs Administration, Universal Health Coverage Unit, and Ministry of National Planning and Development and academic and professional organizations.

Expected outputs/outcomes:
1. Participants will gain practical knowledge and skills to understand MoH role in the tobacco tax policy discussion
2. Participants will become familiar with national and international evidence of the health impact of tobacco use and the effectiveness of tobacco taxation to curb the tobacco epidemic
3. Participants will develop a tobacco tax policy paper from the health perspective. This paper will provide a platform for tax policy discussions.

Capacity Building Program for Ministry of Health Officials on Tobacco Taxation in Indonesia

Day 1
Dr. Lily Sulistyowati, Director, NCDC/Ministry of Health, showed the grim state of public health in Indonesia. Smoking prevalence is high among all socio-economic groups.

Mr. Pak Joko Nazarudin from the Fiscal Policy Department of the MoF stated that MoF is preparing a new tax policy, considering for the first time the health impact of tobacco taxes. MoF also must consider employment in tobacco farming and in kretek rolling, particularly in the Eastern and Central Java. Illegal cigarette market is also an issue.

The majority of consumed cigarettes are the machine-rolled kretek. Only 20% of the market consists of hand-rolled kretek. About 5% of the market consists of white machine-made cigarettes.

The largest contribution to tobacco excise revenue comes from machine-made products (89% of tobacco revenue); only 10% of the revenue comes from hand-rolled products. The contribution of machine-made products to revenue is increasing. The tobacco tax increase is annual and it is linked to a revenue target set by the Parliament. On average, taxes have been increasing by 10% annually from 2011 to 2016. The tax is increasing above the rate of inflation.
Indonesia has a road map calling for smoking prevalence to decline by 1% annually. MoF sets minimum retail prices. Tax rate cannot exceed 57% of retail price. Market transaction price is often lower than the minimum retail price set by MoF. Currently, there are 12 tobacco tax tiers. The goal is to simplify the tax structure. MoF believes that 9% tax increase will achieve 0.9% decline in consumption. MoF is using Laffer curve to optimize tax revenue. (Prof. Laffer came to Indonesia and presented to the MoF). There is some tobacco tax earmarking for local governments.

Excise tax revenue represents 2% of total government revenue. Revision of the regional tax and redistribution (local earmarking) is under way. There is a new effort to control illicit cigarette market. MoF needs to expand its tax base – impose excise tax on other products (plastics, SSBs, etc.). MoF understands the affordability rule – their goal is to increase the tax by % higher than inflation (about 4%) plus income growth (5.6%). MoF want to increase tax rate to regulate international investments. For example, Chinese investors are buying into companies currently subject to low tax tiers.

Day 2

Abdillah presented on the potential of tobacco tax to fund public health insurance. A MoF representative presented on the current budget allocation in Indonesia. Most of the budget goes to education and infrastructure. About 5% of the state budget went to health in 2017. It used to be only 3% in 2011. Tax ration (government revenue/GDP) is 11.4%, which still very low. Subsidies are currently going to people that do not need them. Excise tax revenue is part of the consolidated budget. Tax earmarking is sub-optimal government policy.

Presentation by Pandu Harimurti from the World Bank on the impact of tobacco tax on employment (results of the ACS study). Even though tobacco tax has been increasing annually, the price of cigarettes does not keep up with their affordability, making cigarettes more affordable over time. There are 4 reports: employment trend from secondary data; survey among tobacco farmers, survey among kretek rollers; simulation of the impact of tax increase on employment.

Tobacco employment 2.4 mil workers (5% of industrial employment, 0.6% of total employment). About 692,000 in manufacturing (93% are rollers), 1.04 mil clove farmers and 760,000 tobacco farmers, but many not full time farmers. The employment is concentrated in Central and East Java. Majority of kretek rollers are female with low salaries, low education. Women rollers earn 25% less compared to male rollers. 2/3 of rollers receive social support from the state. Those who work in tobacco sector earn only 60% of the household income from tobacco. Total output grows faster than the employment in the sector. The productivity of tobacco sector is lower compared to other sectors.

Only 1.6 % of farmers grow tobacco; 2.7% of farmers grow clove. Tobacco and clove farmers are poor. Those who move out of tobacco farming make more money. Tobacco tax reform is unlikely to cause a large economic disruption to most clove-growing households. Hand rollers – usually not full time, most of them receive social benefits; most of them are female. Simulation study is predicting the impact of collapsing 12 tiers to 6 tiers with some tax increase: Tobacco leaves are mostly imported – thus lower
consumption will not affect tobacco farmers much. The study used tobacco processing sector elasticity of labor of 0.092; output elastic of labor demand is 0.160

If tax is increased by 47%, it will result in 4.79% lower employment in tobacco manufacturing (mostly among hand rollers), and in higher poverty level. The income loss due to lower employment will represent only 1.4% of the newly gained revenue. Therefore, it would be easy to compensate those who would be affected. Government should use some of the resources to develop alternative employment – education, training, access to credit, etc. Employment generated by the shift of expenditures to other products is not considered. The messages regarding the loss of employment (5% loss in manufacturing; 8.6% loss among hand rollers) and higher poverty (from 1.8% to 2.6% among rollers) are not very strategic, particularly since the study has not considered employment generated in other sectors due to the shift in expenditures. Also, it is not clear why the simulation study collapses the tiers from 12 to 6 if the ultimate goal is to get rid of tiers. Abdillah presented his research on the dire situation of tobacco farmers in Indonesia.

**Day 3**

A representative of the Department of Customs spoke about how tax evasion has been growing since 2008. The goal is to stop this growth in 2018. The current estimate is that about 13% of the market is illicit. The majority is re-use of old stamps and using tax stamps from lower tier on higher tier cigarettes. Local governments do not utilize the revenue sharing fund from tobacco tax properly.

The groups reviewed a draft of the policy paper and discussed various statements. The policy paper will have 10 pages – about half will be devoted to the health impact of tobacco use; the rest will be devoted to policies to support tobacco control and to various policy statements. The main messages:

1. increase price
2. increase tax rate
3. simplify tax system

And possibly expand the tax base for excisable goods – add other goods to be subject to excise.

A draft policy paper will be presented on Friday during the high level workshop.

**Tobacco taxation workshop for civil society**

Meeting with NGOs in Bahasa without translation.
(see Annex 2 for the Program)

**High Level policy meeting on tobacco taxation**

Meeting conducted in Bahasa without translation.
(see Annex 3 for the Program)

Annex 1
<table>
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<tr>
<th>Time</th>
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| 08:30-09:00| - Pak Marisi Zainudin Sihotang, Director, Technique and Excise Tax, Ministry of Finance  
- Dr. Lily Sulistyowati, Director, NCDC/Ministry of Health  
- WHO  
- The Union |
| 09:00-11:00| **Situation analysis** (current situation of tobacco taxation, stakeholder’s engagement, political opportunity and possible barriers and countermeasures)  
**Speakers:**  
1. Fiscal Policy Department, Ministry of Finance, “Current situation of tobacco taxation” (30 mins)  
2. Prof Hasbullah Thabrany, CHEPS, University of Indonesia “Tobacco taxation: Stakeholders’ engagement and Political Opportunity” (30 mins)  
3. Abdillah Hasan, Demographic Institute, University of Indonesia, “Tobacco taxation: Possible Barriers and Countermeasures in Indonesia” (30 mins) |
| 11:00-11:15| **Tea/coffee Break** |
| 11:15-13:00| **Drafting MOH policy paper**  
Group work: speakers lead the group work  
Group 1:  
- developing an abstract with not more than 300 words on current situation of tobacco taxation in Indonesia  
Group 2:  
- Developing an abstract (about 300 words) on stakeholders’ engagement and Political Opportunity for tobacco taxation in Indonesia  
Group 3:  
- Developing an abstract (about 200 words) on burden of tobacco use, and possible barriers and countermeasure for tobacco taxation in Indonesia |
| 13:00-14:00| **Lunch Break** |
| 14:00-15:00| **Health and economic impact of tobacco use**  
**Speaker**  
1. Hana Ross, Technical Consultant, The Union, “health and economic impact of tobacco use; smoking prevalence, morbidity and mortality due to tobacco use, health care costs, lost productivity, out of pocket expenditure” (45 mins) |
2. Dr. Lily Sulistyowati, Director, NCDC, Ministry of Health: “Burden of tobacco use in Indonesia”

3. Pak Joko Nazarudin, Ministry of Finance: Expected supports to Ministry of Finance from Ministry of Health

15:00
15:15 - Tea/Coffee break

15:15 – 17:15
Continued to drafting MOH policy paper

Group work: speakers provides evidence based information

Group 1:
- developing an abstract (about 150 words) on burden of tobacco use in Indonesia

Group 2:
- developing an abstract (about 200 words) on impact of lower tobacco tax to morbidity, mortality and lost productivity

Group 3:
- Developing an abstract (about 150 words) on the impact of lower tobacco taxes to health care cost, out-of-pocket expenditure

17:15 – 18:15
Wrap-up and review of the draft MOH policy paper

Day 2: Tuesday, 3 October 2017

08:30-10:30

The benefits of higher tax on tobacco products

Speakers

1. Hana Ross, Technical Consultant, The Union, “the benefit of higher tax in: i) improving public health via lower smoking prevalence by deterring new initiation, and promoting cessation and via lower exposure to second hand smoke, and thus preventing deaths and diseases, ii) gaining economic benefits via lowering out-of-pocket expenditure on tobacco products, saving health care costs, increasing national revenues

2. Prof Hasbullah Thabrany, CHEPS, University of Indonesia the benefit of higher tax in “financing universal health coverage and other health programs and development in Indonesia”

3. Abdillah Ahsan, Demographic Institute, University of Indonesia, “the benefit of higher tax in “financing subnational tobacco control, health and development programs in Indonesia”

4. Pak Joko Nazarudin, Ministry of Finance: Opportunities for government to use tobacco taxes for health and development

10:30 – 10:45
Tea/coffee break

10:45 – 13:00
Continued to drafting MOH policy paper

Group work: speakers provides evidence based information

Group 1:
- developing an abstract (about 300 words) on “the benefit of higher tax in: i) improving public health via lower smoking prevalence by deterring new initiation, and promoting cessation and via lower exposure to second hand smoke, and thus preventing deaths and diseases, ii) gaining economic benefits via lowering out-of-pocket expenditure on tobacco products, saving health care costs, increasing national revenues

Group 2:
- developing an abstract (about 200 words) on the benefit of higher tax in “financing universal health coverage and other health programs and development in Indonesia”

Group 3:
- Developing an abstract (about 150 words) on “the benefit of higher tax in financing subnational tobacco control, health and development programs in Indonesia”

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<tr>
<td>13:00</td>
<td>Lunch Break</td>
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<tr>
<td>14:00</td>
<td>Countering tobacco industry arguments</td>
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<tr>
<td>14:00</td>
<td>Speakers:</td>
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<tr>
<td>15:30</td>
<td>1. Hana Ross, Technical Consultant, The Union; Impact of higher tax on:</td>
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<td>i) employment, ii) tobacco farming, iii) illicit trade – global perspective</td>
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<td>2. Abdillah Ahsan, Demographic Institute, University of Indonesia, “Facts and figures on tobacco employment, tobacco farming and illicit trade in Indonesia”</td>
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<td>3. Marisi Zainudin Sihotang, Ministry of Finance: How to curb illicit trade in Indonesia</td>
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<tr>
<td>15:30</td>
<td>Tea/coffee break</td>
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<tr>
<td>15:45</td>
<td>Continued to drafting MOH policy paper</td>
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<td>Group work: speakers provides evidence based information</td>
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<tr>
<td>15:45</td>
<td>Group 1: developing an abstract (about 200 words) on Impact of higher tax on: i) employment, ii) tobacco farming, iii) illicit trade – global perspective</td>
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<tr>
<td>17:45</td>
<td>Group 2: developing an abstract (about 200 words) on “Facts and figures on tobacco employment, tobacco farming and illicit trade in Indonesia”</td>
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<td>17:45</td>
<td>Group 3: Review of previously drafted MOH policy paper</td>
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Day 3: Wednesday, 4 October 2017

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<tr>
<td>08:30</td>
<td>Group presentation and review</td>
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<td></td>
<td>Group 1: Situation analysis and Health and Economic Impact</td>
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<tr>
<td>10:30</td>
<td>Group 2: The benefits of higher taxes on tobacco products</td>
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<tr>
<td>10:30</td>
<td>Group 3: Impact of higher taxes on tobacco employment, tobacco farming and illicit trade</td>
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<tr>
<td>10:45</td>
<td>Tea/coffee break</td>
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<tr>
<td>13:00</td>
<td>Developing Recommendations</td>
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<tr>
<td>13:00</td>
<td>Lunch break</td>
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<tr>
<td>14:00</td>
<td>Presenting a final draft of MOH Policy paper</td>
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<tr>
<td>15:30</td>
<td>Closing</td>
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**Annex 2**

**Tobacco taxation workshop for civil society**  
5th October 2017, Jakarta, Indonesia

<table>
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<th>Time</th>
<th>Activities</th>
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<tr>
<td>08.30 – 09.00</td>
<td>Registration and morning tea/coffee</td>
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| 09.00 – 09.30 | **Remarks**  
Dr. Ridhwan Thaha, Chair of Indonesian Public Health Association  
Dr. Lily Suliswati, Director, NCDC, MOH  
Representative from Ministry of Finance |
| 09.30 – 10.30 | **Technical Presentation**  
Chair: Dr. Sumarjati Arjoso, SKM, TCSC-IPHA  
**Speakers:**  
The benefit of higher tax in “financing universal health coverage and other health programs and development in Indonesia”  
Prof. dr. Hasbullah Thabrany, MPH, Dr.PH, University of Indonesia  
Benefit of Higher Tobacco Taxation to Health and Economy  
Hana Ross, Technical Consultant, International Union Against Tuberculosis and Lung Disease (The Union) |
| 10.30 – 12.30 | **Panel Discussion: “Make tobacco product unaffordable”**  
Moderator:  
Panellist:  
Komisi XI, Member of Parliament  
Sandiaga Uno, Vice Governor Elect, Jakarta  
Abdillah Ahsan, Demographic Institute, University of Indonesia  
Dr. Ridhwan Thaha, Chair of Indonesian Public Health Association  
Prof. dr. Hasbullah Thabrany, MPH  
Discussion |
| 12.30 – 13.00 | Summary, Recommendation and Closing  
Dr. Sumarjati Arjoso, SKM, Chair of TCSC IAKMI |
| 13.00       | Lunch                                                                 |
### Annex 3

**High Level policy meeting on tobacco taxation**  
**6th October 2017, Jakarta, Indonesia**

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<tr>
<th>Time</th>
<th>Activity</th>
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| 08:30-09:00 | **Opening remarks**  
- Dr. H. Mohammad Subuh, Director General, Disease Control and Environmental Health, Ministry of Health Republic of Indonesia  
- Representative from Ministry of Finance |
| 09:00-10:00 | **Technical Presentations**  
- Burden of tobacco use in Indonesia, Dr. Lily Suliswati, Director, NCDC, Ministry of Health Republic of Indonesia  
- The benefit of higher tax in “financing universal health coverage and other health programs and development in Indonesia” Prof. dr. Hasbullah Thabrany, MPH, Dr.PH, University of Indonesia  
- Benefit of Higher Tobacco Taxation to Health and Economy, Hana Ross, Technical Consultant, International Union Against Tuberculosis and Lung Disease (The Union) |
| 10:00-11:30 | **Panel discussion: Preventing diseases and deaths from tobacco use**  
**Moderator:** Prof. dr. Hasbullah Thabrany, MPH, Dr.PH, University of Indonesia  
**Panellist:**  
Dede Yusuf Commission IX Parliament member  
Dr. Ir. Subandi, MSc, Ministry of National Planning and Development  
Dr. Hasto Wardoyo, SpOG, Regent of Kulon Progo District, Yogyakarta  
Dr. H. Mohammad Subuh, Director General, Disease Control and Environmental Health, Ministry of Health Republic of Indonesia  
Marisi Zainudin Sihotang, Director, Technique and Excise Tax, Ministry of Finance |