

MOET NEWSLETTER

THE TOBACCO INDUSTRY: A DANGEROUS LIVELIHOOD



Lebanon is considered one of the weakest countries in the Arab region when it comes to regulating tobacco use. This failure is largely the result of pressures from tobacco industry lobbyists and allies who ensure mass tobacco advertising and promotion as well as preventing the successful implementation of all inclusive anti-tobacco advertising laws, policies and health warnings. The fact that the tobacco industry is an additional source of employment and income for many people in rural Lebanon has also played a major role in their slow delivery.

This issue will summarize the costs and benefits of the tobacco smoking on the Lebanese economy and the reasons for the failures to regulate the industry. Alternative programs that could be designed to counteract for the loss of employment and income that would result from such a ban will then be explored.

I. Overview and costs-benefits of the Lebanese Tobacco industry to the economy

The costs of tobacco smoking are no secret to the wider public's knowledge. They include direct health costs, of which the most prominent diseases are cardiovascular diseases, a variety of cancers as well as respiratory diseases, and economic costs such as inefficiency costs and environmental costs. An indirect economic cost of tobacco smoking is the estimated present value of lost production from premature death caused by smoking.

In Lebanon, tobacco smoking is particularly prevalent when compared to the rest of the region. Male smokers, for instance, constitute 45% of the population in Lebanon relative to 38% in the region, while females make up 35% of the population relative to 7% in the region. Using the year 2008 as an index, a cost-benefit assessment of the tobacco industry was made by AUB professors, as part of the University's Tobacco Control Research Group.

In detail, the group's findings first account for the direct costs of tobacco, which primarily includes the average costs of disease-related incidences such as the average cost of doctor visits, hospital admissions, healthcare treatments and curative care expenses. Next, the productivity costs related to smoking are measured, that is, the number of working days missed by smokers and past smokers as a result of smoking, which in turn, affects the productivity of the business or enterprise in which they work. The environment related detriments of smoking include the

disposal of lit cigarettes, which may result in forest fires and a subsequent loss of mature trees as well as the financial and timely costs related to picking up cigarette buds. The indirect costs of tobacco smoke are related to the cost from the number of deaths resulting from smoke-related diseases, in other words, the value of lost production from premature death. In summary, the total cost of smoking to the Lebanese economy was estimated to be 1.1% of GDP in 2008, that is, around US\$326.7 Million, as shown in table 1 below.

Table 1: Summary of the Total Cost of Tobacco (2008)

	Million US\$
Total Cost	326.7
Direct Cost	262.1
Cost of Disease	146.7
of which:	
Cardiovascular Disease	104.5
Smoking related Cancer	33.6
Respiratory Diseases	8.6
Productivity Cost	102.2
Environmental Degradation	13.2
of which:	
Forest Fires	6.5
Street Waste	6.7
Indirect Cost	64.6

Source: Chaaban, Naaman, Salti (April 2010)

On the other hand, the benefits from tobacco to the Lebanese economy are unveiled through a summary of the net gains of the transaction flows

of the tobacco trade made by a variety of parties. These parties comprise of the Regie Libanaise des Tabacs et Tombacs (Regie)- the monopoly run by the Ministry of Finance in charge of the exports and imports of tobacco products as well as subsidizing farmers, the government, the Transnational Tobacco Companies (TTCs) such as Phillip Morris and British American Tobacco, the licensed tobacco distributors, as shown in table 2, as well as through the large employment and income opportunities tobacco production presents to farmers. The group's findings indicate that total national net gain from the tobacco industry amounted to US\$271.1 Million in 2008.

Table 1: Summary of Economic Flows
(2008)

	Payments (Million US\$)	Revenues (Millions US\$)	Net Million US\$)
Regie	214.8	265.1	50.3
Transnational Tobacco Companies (TTCs)	48.8	163.7	114.9
Distribution Channels	352.9	437.3	84.4
Government	67.5	189.1	121.6
Total Local Net Revenue			271.3

Source: Chaaban, Naaman, Salti (April 2010)

In conclusion, when subtracting the net costs from the net gains of the tobacco industry presented in the previous tables, the net drain on the public budget is therefore said to be equivalent to US\$55.4 Million in 2008.

II. Regulations on Tobacco

Rima Nakkash, assistant research professor in the department of health behavior and health education at the Faculty of Health Sciences at AUB, argues that Lebanon is still considered to be one of the weakest countries in the region in terms of regulating tobacco usage, despite having ratified the World Health Organization's framework convention on Tobacco Control in 2005. Although regulations on tobacco in Lebanon are currently in existence, they are in fact ineffectual. Ministe-

rial decision number 1/213 issued on 2/3/93, for instance, prohibits smoking in hospitals, infirmaries, pharmacies, theaters, public transport services, health clubs, elevators, schools and universities. This decision however is loosely implemented, not enforceable by law and not inclusive of all public places. Furthermore, the only warning present on tobacco product packets has remained the same since it was first issued in 1995, which reads, "the Ministry of Health warns: smoking leads to serious and fatal diseases" and has not done much to discourage tobacco usage.

In order to understand the reasons for the weak regulation on tobacco smoke in Lebanon, it is important to realize that regulations on tobacco at the country level are directly linked to the immediate stakeholders involved in the consumption, promotion and production of tobacco. The Lebanese experience demonstrates that the stakeholders involved in the tobacco industry have played a significant role in weakening the content and scope of regulations on tobacco as well as delaying their adoption and implementation.

The stakeholders involved are made up of the following three categories:

- Tobacco smokers, who are involved in the consumption process
- Licensed tobacco farmers, who are involved in the production process
- The Regie, TTCs, media corporations and local licensed distributors of imported tobacco products, who make up the trade, financial and marketing side of the industry.

The main reasons for the lack of and delay in setting appropriate tobacco legislations in Lebanon are twofold:

1. Key Lobbyists

In another study conducted by Rima Nakkash, the failure to control tobacco legislation is argued to have been the product of an effective tobacco industry plan to weaken the content and scope of regulation and delay adoption and implementation. This is clearly witnessed given that the tobacco industry's main ally in opposing the marketing and advertising bans on tobacco products

has been the advertisement sector itself, along with local agents and distributors with interests in the sector. This was implicitly cited by former Minister of Public Health, H.E Mr. Marwan Hamade, who stated that “In parliament, whenever we attempted to go further on banning tobacco advertising, we always clashed with the lobbyists (...) the tobacco advertising lobby”.

Tobacco industry lobbyists as well as the Regie have furthermore, individually or collectively, put a stop to publicizing health warnings in the past by limiting their scope and undermining their implementation on various occasions. Between 1980-2004, proposals to market tobacco products with strong visual messages on the pack— such as “smoking is the main cause of lung cancer, cardiovascular disease and arterial disease”, “The Ministry of Health warns: Smoking leads to serious and fatal diseases” — were challenged by local distributors. They argued that the decrees were either “made without the consultation of interested parties”, were “strict and arbitrary” or would have “negative economic repercussions”. The argument for the latter was attested through Lebanon’s significance on Pan Arab press coverage since “unreasonable warnings on advertising might encourage advertisers to reduce them in Lebanese publications, in favor of sources where less obnoxious warnings apply”.

Furthermore, key informant interviews suggest that strong tobacco industry representation within the Parliamentary Committee for Public Health, Labor and Social Affairs (PHC) - the main public body where tobacco control legislation has been debated - has been a key factor in this failure. In 2003, a comprehensive tobacco advertising ban was submitted by MPs, with the support of the Islamic Health Society, WHO, NTCP and Lebanese Consumer Association. The bill was discussed several times but rejected in August 2004. According to George Saade, former director of the National Tobacco Control Program, one of the reasons for the rejection was the Regie’s claim, supported by the Ministry of Finance, of the negative economic impact it would have to advertising, which was set at around US \$20 million annually. In fact, the media supposedly makes a lot of money from TTCs to ad-

vertize and market their products, especially in Lebanon, with its important position as a regional “trendsetter”. It is therefore not in the media’s interest to ban tobacco advertising. However, according to Arabad Magazine, cigarettes are not amongst the top 10 advertised brands. In fact, tobacco advertising merely constitutes 13% of the total advertising spending in the country, which suggests that the advertising sector will not lose much if tobacco advertising is banned.

2. Employment and Income-Related Factors

The tobacco industry is a major source of employment and income for people in the rural areas of Lebanon, especially in the South (57% of production), Bekaa (23% of production) and the North (20% of production). In order to understand the importance of the tobacco industry and the overall consequences of its ban on employment, a detailed understanding of the Lebanese Price Support Program (PSP) is required.

The PSP was established by the Regie and aims to provide subsidies to licensed tobacco farmers by setting a pre-determined price and quota for the quantity of tobacco produced. This in turn provides them with a reliable and regular source of employment and income regardless of market, man-made or natural disasters.

This system however faces many setbacks:

- The fact that Lebanon continues to support tobacco production conflicts with the country’s goals of integrating with the world economy. For instance, the World Trade organization (WTO) opposes tobacco PSPs because of the distortionary effects they encourage. The fact that PSPs reward farmers for quantity not quality of production encourages a dumping behavior of products on world markets and hence, an oversupply and reduction in their price. The WTO, as a result, contests the adoption of PSPs because of such distortionary

effects. Although the tobacco industry in Lebanon has little distortionary effects on world prices because of its relatively small size, the concept of PSPs is still not favored by the WTO and hence, poses a barrier to the country's ascension to the WTO.

- The tobacco PSPs are becoming increasingly expensive on the country's financial balance since the gap between producer price and export price is widening. The Regie is consequently buying tobacco from local farmers at a price that is a lot higher than the international selling price of exported tobacco and hence, the system will become increasingly problematic for the Regie to finance such a scheme in the long run since it will continue to make a loss.
- The Regie finances the PSP with its tax revenue, which means more money is being wasted on unsustainable activities. This revenue from taxes however, could have been used for many other purposes, including public programs such as infrastructure, education, agriculture and health rather than to pay for PSPs and tobacco imports.
- The PSP focuses farmer's interest on the quantity and not quality of the tobacco produced, which means the jobs created have no potential for to add value to the product. Together with the fact that the system itself is not sustainable in the long run because of the financial loss it generates, the tobacco PSP encourages poverty traps by failing to provide long term, sustainable solutions to rural economic distress.

III. The Road Ahead: Lessons from Turkey and Mexico

Given the income security to farmers in cultivating tobacco through the PSPs of the Regie, tobacco farmers are consequently not willing

to shift from tobacco production into other crops. New ways are therefore needed to divert their attention away from tobacco. Suggested methods include Direct Income Supports (DIS) and the establishment of an Agricultural Fund.

1. Direct Income Support (DIS)

This method suggests that since payments in the form of cash transfers are not tied to production, farmers can produce goods for which there is an actual demand while also earning a basic stipend in the form of a government transfer. The program is not essentially intended to be a perpetual source of income but rather, a temporary form of income support to give farmers the liquidity to modernize and adapt to free market conditions.

Simulations performed for Lebanon show that decoupling payments from tobacco production would likely lead to widespread abandonment of tobacco cultivation. At the household level however, decoupling PSPs from tobacco production will depend on the alternative economic activities available and the requirements attached to receiving direct payments. This can clearly be seen from the country experiences of Turkey and Mexico, who both adopted DIS programs to encourage the decoupling of income from tobacco production and encountered a variety of problems when administering this strategy.

a. Turkish Experience

The DIS program was introduced in Turkey in 1999 with the aim of phasing out financially unsustainable and incentive distorting agricultural subsidies while paving way for bringing local agricultural policy closer to meeting the regulations imposed by the WTO and EU. The mixed results of the Turkish experience suggest that the following criteria should be ensured to prevent an unsuccessful encounter:

- That landowners as well as landless workers are targeted by the DIS program so that all farmers benefit.
- That the rules for enrolling in the DIS pro-

gram are not too strict or confusing.

- That all farmers are eligible and clearly conveying this.
- That the DIS program is accompanied by a wide spread information campaign to ensure that eligible farmers understand how to receive payments.

b. Mexican Experience

The North American Free Trade Agreement, which was signed by the USA, Canada and Mexico in 1992, led to a fall in Mexican crop prices. This compelled the Mexican government to unleash PROCAMP, a Conditional Cash Transfer (CCT) Program in 1993, which aimed to compensate farmers for the losses faced from these lower prices. The CCT was intended to last 15 years, allowing farmers enough time to switch to more competitive crops of the liberalized markets. The lessons learnt from the Mexican experience of DIS program are as follows:

- To ensure that payments are made conditional on farmers staying in their land and as such, prevent mass urbanization. In other words, the land could not be left idle. This in turn guaranteed that the household did not reduce on-farm labor and still receive payment as the excess labor migrated in search of off-farm employment.
- To encourage labor intensive activities in order for upcoming income generating activities to remain rural.
- Transfers should be targeted towards an effective strategy; one which encourages a reduction in poverty, that increases investment and generates a multiplier effect at the household level.
- DIS programs can also promote social benefits by encouraging technical assistance, such as training and microfinance programs, to help farmers identify quality investment opportunities with high rates of return.

2. Agricultural Fund

The idea is to establish a national fund that would help promote agricultural investment in Lebanon while implementing a comprehensive agricultural economic plan. The agriculture economic plan would help guide production while the promotion of agricultural investment would help in the sector's strengthening and modernization. In order to improve its agricultural sector, Lebanon should work towards overcoming the challenges associated with meeting the obligations related to:

- The European Partnership Agreement
- The opening up of global trade markets,
- The Great Arab Free Trade Area (GAFTA),
- The catch-up with modern science and technology,
- The corresponding standards and specifications for the marketing of Lebanese exports abroad.

Studies reveal that the agricultural sector is an important constituent of the economic development, as it greatly reduces poverty and unemployment levels when compared to other sectors. This comprehensive agricultural economic plan is therefore a significant step towards improving Lebanon's economic development efforts through its positive effect on rural income generation and the resulting reductions in poverty. The plan suggests the implementation of projects that are designed to:

- Develop agriculture and alternative crops in Lebanon.
- Develop agricultural markets by encouraging more projects in the sector and by enhancing food safety measures.
- Encourage the marketing of organic produce and natural fertilizers while reducing the use of artificial pesticides.
- Reduce poverty levels, create employment opportunities and encourage income generating activities in rural areas.

Although Lebanon has not instigated the process of decoupling income support from tobacco production or setting up a fund exclusive to the development and modernization of the agricultural sector, the process of moving away from tobacco by encouraging the activity of other crops through the provision of technical assistance is currently underway. One project managed by the International Labor Organization (ILO) and supported by the Lebanese government in Southern Lebanon aims to enhance the capacities of beneficiaries in order to improve and sustain their businesses. This has partly involved a shift in the behavior of farmers and beneficiaries from tobacco production into oregano farming.

IV. Conclusion

There is no doubt that the negative effects resulting from tobacco smoke are more wide ranging than the benefits the industry brings to the Lebanese economy as a whole. The resulting health, inefficiency, environmental and lost production costs of tobacco smoking as well as the drain in public finances of supporting the industry far outweigh the marketing value of the industry to the Lebanese economy and the socio-economic advantages it has to rural communities.

Despite this, conflicts of interest continue to influence the decision making process related to the tobacco industry and the extent to which it should be regulated. This failure to fully control tobacco is largely the result of pressures from tobacco industry lobbyists and allies, which include local licensed distributors, TTCs, media corporations and the Regie. In reality, it may take a while before Lebanon witnesses any significant changes in legislation due to the power of these various groups in the decision-making framework.

In terms of reducing farmer dependence on tobacco, a number of solutions exist that would encourage the gradual disintegration of this sector in the Lebanese economy. The steady removal of the PSPs as well as proposals of establishing an agricultural fund dedicated to the enhancement of the sector are ideas that can be put forward as

alternative methods and whereby tobacco farmers can move into substitute crop productions.

It is important to recognize that not only will the Lebanese economy be directly harming itself in the long run, but with international communities taking this industry as a serious hazard to the health and socio-economic welfare of their economies, delayed action to regulate tobacco in Lebanon may result in an increased exclusion from the global community. As such the political costs of maintain tobacco unregulated must also be taken into account and evaluated in the future.

The MOET Newsletter hopes to keep its readers up-to-date on topics important to the Ministry as well as on the current economic climate.

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