

# Dilemma of Tobacco's Policy in Indonesia: Increasing Country's Income or Increasing the Country's Poverty with National Health Insurance's Deficit?

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**Abstract:** Tobacco is still an issue in politics, economy and healthy in Indonesia. Indonesia gets attention about its tobacco's policy, because Indonesia has not been doing the FCTC's ratification steps. It's because Indonesia still has dilemmas associated with its tobacco's policy. Cigarette tax can increase the country's income, but cigarettes can cause catastrophic illnesses that generate a high absorption of the national health insurance's funds. The objective of this study is to describe the tobacco policies in Indonesia from the perspective of the economy and health in order to provide recommendations. The method of this research is a literature study with analysis about the topic from previous research studies, journals and other policies in Indonesia. The result of the research indicated that 95% of Indonesia's tax income is from cigarette tax. But, in 2015, about 23.90% of the national health insurance fund is for the treatment of catastrophic illnesses associated with smoking, and this condition can cause the fund to become deficit in the future. The conclusion of this study, there needs to be an accurate review to resolve the tobacco policy dilemmas in order to avoid the deficit of BPJS.

## 1 INTRODUCTION

Cigarette problems are endless to discuss. The issue of cigarettes is one of the delicate problems faced by Indonesia. Related to the dangers caused by cigarettes, WHO published an international agreement upheld by the parties involved called the FCTC (Framework Convention of Tobacco Control). Indonesia is one of the countries that played an active role in the formulation of FCTC as a drafting committee. The FCTC has been ratified by 177 governments from 192 countries that are members of the WHO. Indonesia which was active in the formulation of FCTC has proven to be the only country in the Asia Pasific region that has not ratified this convention (Ahsan, 2013).

Indonesia is still hesitant about ratifying the FCTC because Indonesia still having dilemmas with its tobacco policy. On one side, Indonesia relies heavily on tobacco taxes as a large percentage of the income for its country. If Indonesia ratifies the FCTC, people are worried that it could cause economic upheaval. On the other side of the coin, it cannot be denied that cigarettes are one of the main

causes of catastrophic diseases that can disturb the health of society. The health problem due to smoking behaviour such as lung cancer, heart disease, chronic kidney failure, stroke, and etc.

2014 was the first year of Indonesia's movement to start moving forward with the JKN (National Health Insurance) program to realise and implement universal health coverage. JKN is commonly referred to as BPJS, which is the organiser. JKN is an effort to be able to handle health problems with a system of working together, where one sick person is helped by many people. In fact, from year to year, BPJS's spending continues to increase beyond its accepted means. Projections up to 2019 say that the deficit will continue to occur. One of the reasons for this is because of the many costs incurred by BPJS when dealing with patients with catastrophic diseases, with one of the primary causes being the consumption of cigarettes (Pardede, 2016).

## 2 METHODS

The type of data in this study was secondary data that was obtained through studying the literature. A literature study is a type of research conducted by finding references or theories relevant with the case or problems associated with the study theme or question that is to be answered. References can be obtained through books, journals, articles on littering reports, and internet sites (Kuntjojo, 2009). In relation to the problem of tobacco policies in Indonesia, the literature collected relates to the tobacco policy advantages to do with the cigarette excise duty in order to see the current Indonesian tobacco position in relation to production or import export activities. It will also be in order to see the negative impact in the health sector, like BPJS, who have experienced a big deficit caused by them cover the charges of catastrophic diseases, where one of the causes is by cigarettes. The literature in this study is relevant because it's explain enough about the condition about tobacco and tobacco's policy in Indonesia. In other side, the literature also explain about the data of BPJS's financing absorption in catastrophic disease.

The data analysis that was used in this research study was the quantitative descriptive analysis method. This study aims to describe the problems that occurred, as well as describing the responses or perceptions of the people about the issues raised.

## 3 RESULTS

Indonesia is one of big country that provide tobacco for its own country or for other countries. Temanggung, Jember, Deli, Madura, and Lombok are the biggest region that provide tobacco in Indonesia. In the table 1, there are the data about tobacco production in Indonesia in 2015-2017.

Table 1: Tobacco Production in Indonesia 2015-2017

Year	Production (Ton)			
	Smallholder	Government	Private	Total
2015	192.899	577	314	193.790
2016**	195.559	462	133	196.154
2017*	197.497	660	139	198.296

Source: Indonesian Plantation Statistics for Tobacco 2015-2017

Information:

1. Preliminary figures \*
2. Estimation Rate \*\*

Table 2: Indonesian Tobacco Import- Export in 2014-2016<sup>4</sup>

Year	Export		Import	
	Volume (ton)	Value (USD)	Volume (ton)	Value (USD)
2014	35.009	181.323	95.732	569.776
2015	30.675	156.784	75.353	412.328
2016	21.933	95.236	52.482	328.585

Source: Central Bureau of Statistics

Based on data from the Central Bureau of Statistics, there has been a downward trend related to tobacco import and exports from year to year. In the relation to the 'agree' and 'disagree' points of view about tobacco regulation policy in Indonesia, tobacco farming includes export and import values that can often be the reason for the disagree side. The data shows that, for the ingredients of processed tobacco products in Indonesia, there is more use of tobacco imports, while the number of exported tobacco is much smaller.

Indonesia has own regulation about tobacco's policy. The policy is about the excise tax of tobacco, the cigarette tax, and the excise tariff. In the table 3, there is tobacco excise policy in 2014-2017.

Table 3: Tobacco Excise Policy 2014-2017

Year	2014	2015	2016	2017
Increase in excise tax rates	0%	8,7%	11,3%	10,5
Cigarette tax	10%	10%	10%	10%
Total increase in excise duty + cigarettes	10%	9,6%	12,5%	11,55%
Average excise tariff	51,4%	48,2%	44,4%	49,1%

Source: Fiscal Policy Office, Ministry of Finance

In 2014, there was a 10% increase in the tax burden due to the introduction of the cigarette tax - 10% of the excise tax. Thus, the greater the excise tax, the more it will obtain a greater tax income from cigarettes too. Based on the table above, there is an upward trend associated with the average revenue excise tax per year, so it is not appropriate if it is said that the excise tax depends on the production of tobacco. Tobacco production in Indonesia has always increased as the data indicates in Table 1.

Table 3 show, there was 10% increasing in excise tax from 2014 to 2017. The increasing of excise tax make some effect. There is some

research's result about the impact of 10% tax rate on consumption and acceptance of excise duty.

Table 4: Impact of 10% Excise Tax Rate on Consumption and Acceptance of Excise Duty<sup>5</sup>

Study	% Decrease in Consumption	% Increase in Excise Duty
De Beyer dan Yurekli, 2000	2,0	8,0
Djutaharta et al, 2005	0,9	9,0
Adioetomo et al, 2005	3,0	6,7
Sunley, Yurekli, Chaloupka, 2000	2,4	7,4

Source: Fiscal Policy Office, Ministry of Finance

Table 4 shows that an increase in the excise tax can reduce cigarette consumption by about 0.9% - 2.4%, and increase tax revenue by about 6.7-9.0%. This means that the increase in excise tax can increase tax revenues and reduce cigarette consumption.

As we know, tobacco's policy in Indonesia is still dilemma. One side, from the policy Indonesia can take advantage from the tax to develop the country. But in other side if we depend on tobacco's tax, that can increase the catastrophic disease and absorb a lot of fund of BPJS.

Table 5: Percentage of Health Service Financing with BPJS related to Catastrophic Disease for about 23.90% in 2015

Disease	Health Care Costs (%)
Heart disease	13%
Chronic Kidney Failure	7%
Cancer	4%
Stroke	2%
Thalassemia	0,7%
Haemophilia	0,2%
Leukemia	0,3%

Source: Indonesia National Health Insurance

An expenditure of 23.90% out of BPJS's fund in 2015 was used to finance health services associated with catastrophic diseases, of which one primary cause is due to cigarette consumption. About 1.3 million or 0.8 recipients of national health insurance received catastrophic services and the most predominant was chronic renal failure.

## 4 DISCUSSION

Indonesia is one of the many countries that producing tobacco. The production of tobacco from 2015-2017 has continued to increase (Kementrian Pertanian, 2016). The product resulting from tobacco farming has become an important aspect for the disagree team, in order for Indonesia to ratify the FCTC. The side has said that Indonesia is a large tobacco producing country and that it can disturb Indonesian agriculture if Indonesia ratifies the FCTC. In fact, the increase of tobacco production in Indonesia apparently has not been able to meet the needs of tobacco in the country. It can be seen in Table 2 that the value of Indonesian imports of tobacco is much higher than the value of Indonesian tobacco exported to other countries (Kementrian Pertanian, 2016).

Additionally, Indonesia relies heavily on tobacco excise tax as the main revenue of the State through excise duty. 95% of excise revenues comes from tobacco taxes,<sup>6</sup> and it is expected that by 2017, it will make up 98.7% of the excise revenue out of the target of APBN (State Budget and Expenditure of State) in 2016<sup>7</sup>. The way to achieve the target set out is to increase the excise tax by as much as 10%<sup>7</sup>. Based on several studies conducted in accordance with Table 4, it has been stated that a 10% increase in excise tax can reduce cigarette consumption and also increase tax revenue (Directorate General of Customs and Excise Ministry of Finance Republic of Indonesia, 2016).

The policy of increasing tobacco excise tax needs to be viewed wisely from all of the different sides. Indonesia should not only be driven by revenue in relation to the tobacco excise duty. According to the regulation of the Finance Minister (*Peraturan Menteri Keuangan Republik Indonesia Nomor 40 tahun 2016*), it was mentioned that the state revenue on excisable goods includes tobacco excise taxes, the excise of ethyl alcohol, the excise of ethyl alcoholic beverages, the fine from excise administration, other excise income, cigarette tax and non-tax state revenue (Ministry of Finance Republic of Indonesian, 2016). Goods subject to excise are goods that have characteristics such as their consumption needing to be controlled, their circulation monitored, having a negative impact, or their use needs to have imposed on them state levies for the sake of justice and equilibrium (Indonesian Government, 2007). There are many other items whose use needs to be controlled, such as plastic-based goods. Indonesia should increase state revenue through excise with more varied goods. Indonesia is

far behind other countries that have the political will to impose excise duty on plastic-based goods as a source of acceptance as well as an effort to control in order to protect citizens and their respective countries from negative impacts (Directorate General of Customs and Excise Ministry of Finance Republic of Indonesia, 2016).

Cigarettes are small bars that contain substances that can cause addiction, dependence and even death. In cigarettes, there are approximately 4000 types of chemicals that can endanger human health. The diseases caused by smoking are catastrophic such as cancer, heart disease, kidney failure, and others. The health impact of tobacco and tobacco products in the form of cigarettes has been anticipated with the use of the excise itself. Based on article 31 of the constitution (UU No. 28 tahun 2009) about district tax and district retribution, the tax revenue of cigarettes, both in provincial and district / city sections, is allocated at least 50% (fifty percent) to fund public health services and law enforcement by authorised personnel (Indonesian Government, 2009). The use of cigarette taxes in the health sector is among others, for: procurement and for the maintenance of facilities and infrastructure of the health care units, the provision of adequate public facilities for smoker activities (smoking area), and to popularise the dangers of smoking, and to generate public service ads about the dangers of smoking (Indonesian Government, 2009).

The regulation does not mention the negative impacts caused by cigarettes, such as medical expenses for smokers or for the people exposed by smoke. The treatment of diseases caused by cigarettes costs a lot of money. Indonesia is currently in the process of realising universal health coverage with national health insurance that has been implemented since 2014. As we knew, BPJS spending is much more than its revenue. One reason for this is because 23.90% of BPJS spending is used to finance the treatment of patients with catastrophic disease (Pardede, 2016). It is the reason why deficit and BPJS has become a big issue in relation to public health.

Based on article 25 of President Regulation (Peraturan Presiden No. 111 tahun 2013) about health insurance, there are several health services not covered by BPJS, such as health problems due to deliberate self-harm, and/or the consequences of self-harmful hobbies. Future discourse to do with BPJS will include the consumption of cigarettes as one cause of health problems - a hobby that can endanger the individual, so the disease and subsequent cost caused by cigarettes is not borne by

BPJS. It is a discourse that should receive attention and careful study because the financing of cigarette disease treatment has swallowed much of the BPJS budget. For example, in 2015, there were 1,211 cases of cirrhosis renal diseases costing Rp 1,613 billion, 757 cases of cancer costing about of Rp 1,413 billion, and 468 cases of stroke with a Rp 687 billion cost (Hafizd, 2016). This is only three out of the many diseases caused by cigarettes. From that, we can also imagine how much cost has been incurred, so it is no wonder that the treatment of diseases caused by smoking causes the budget of BPJS to become a deficit. In addition, Indonesia also needs to pursue a health insurance policy implemented in Thailand that emphasises additional financing for high-cost diseases that could prevent budget deficits (Jongudomsuk et al, 2015).

## 5 CONCLUSIONS

There is a dilemma to do with the tobacco policy in Indonesia; one side is favourable because of the high taxes and help towards the state revenue, and on the other side, it can bring a negative impact to public health. The negative health impact also makes the BPJS budget in deficit in the midst of Indonesia's efforts to realise universal health coverage. There needs to be an accurate review to resolve the tobacco policy dilemmas such as cigarette tax increments, tax revenue sharing for rehabilitative and curative services for smokers, and an agreement to include smoking diseases as a disease not covered by BPJS in order to avoid the deficit.

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