

# Impact of Tobacco Control on Tobacco Farmers and State Revenue in Indonesia

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Abstract: According to the estate office (2002:1), it states that the notion of tobacco is as follows; the "tobacco plant known by the Latin name is *nicotiana tabacum*. It is one of the plantations that have important role for the national economy that is contributing to the state revenue through cigarette and foreign tax, and as one of the economic sources in the village in the form of smallholder plantation business". This study aims to add new insights related to the impact of tobacco control on tobacco farmers and the state revenue in Indonesia. The method used in the study was the qualitative methodology. The results obtained are from the employment aspect. The excise policy affects the sustainability of formal sector employment, consisting of 401,989 people, of which three quarters or 291,824 people are involved in the production of hand-rolled cigarettes which is a labour-intensive industry. When added to the informal sector, this policy impacts the lives of 2.3 million tobacco farmers, 1.5 million clove farmers, 600 thousand tobacco workers, and 1 million retailers. Based on this data, it can be concluded that the excise policy has an impact on the lives of more than 5.8 million people in Indonesia.

## 1 INTRODUCTION

The tobacco plant, which has the Latin name *Nicotiana tabacum*, has an important role in the economy and state development through tobacco taxes, and has become a common source of employment for society. Tobacco products are the result of processed tobacco leaves. They can be consumed by burning, sucking, and chewing. One of the most common products from tobacco are cigarettes.

Plants of *Nicotiana tabacum* produce various *nicotiana* by smoke which contains tar and nicotine. According to PPRI number 109 of 2012, "tar is a smoke condensate which is a total residue that produced when cigarettes are burned after nicotine and water are reduced, which is carcinogenic." Whereas, "nicotine is a substance, or *pyrrolidine* compound contained in *nicotiana tabacum*, *nicotiana rustica*, and other species or its addictive synthetic. It makes people who consume it become dependent," (Indonesia Government, 2012).

Over time, the consumption of cigarettes among children to adults has been increasing. Women are also no longer rare to find smoking. The habit or

addiction to smoking cigarettes is an effect of the environment and associations with addicted adolescents and adults.

The increase that occurs due to cigarette consumption can impact on productivity at an early age, and death (Data and Information Centre Ministry of Health RI, 2017). There is a burden on the economic, social, health, and environmental costs of society. If an active smoker smokes, then a lot of smoke is inhaled by passive smokers. It causes various diseases, especially for children and infants. Therefore, the control of tobacco has been done by raising cigarette taxes.

## 2 METHODS

The research used a qualitative approach by collecting secondary data, which is data that already exists. The purpose of this study is to gain insights into the impact of tobacco control on tobacco farmers and the country's income in Indonesia

### 3 RESULT AND DISCUSSIONS

#### 3.1 Cigarette Consumption in Indonesia

The smoking prevalence in Indonesia is very high. It ranges from children to adults without filtering by way of sex (male or female) and occupation. Figure 1 shows the proportion of the population aged  $\geq 10$  years according to smoking habit and characteristics.

Karakteristik	Perokok saat ini	
	Perokok setiap hari	Perokok kadang-kadang
Kelompok umur (tahun)		
10-14	0,5	0,9
15-19	11,2	7,1
20-24	27,2	6,9
25-29	29,8	5,0
30-34	33,4	5,1
35-39	32,2	5,2
40-44	31,0	5,4
45-49	31,4	5,5
50-54	31,4	5,3
55-59	30,3	5,0
60-64	27,6	4,8
65+	21,7	5,1
Jenis kelamin		
Laki-laki	47,5	9,2
Perempuan	1,1	0,8
Pendidikan		
Tidak sekolah	19,7	3,1
Tidak tamat SD	18,3	3,2
Tamat SD	25,2	4,5
Tamat SMP	25,7	5,7
Tamat SMA	28,7	6,6
Tamat D1-D3/PT	18,9	5,6
Pekerjaan		
Tidak bekerja	6,9	3,0
Pegawai	33,6	7,4
Wiraswasta	39,8	6,5
Petani/nelayan/buruh	44,5	6,9
Lain-lain	32,4	5,8

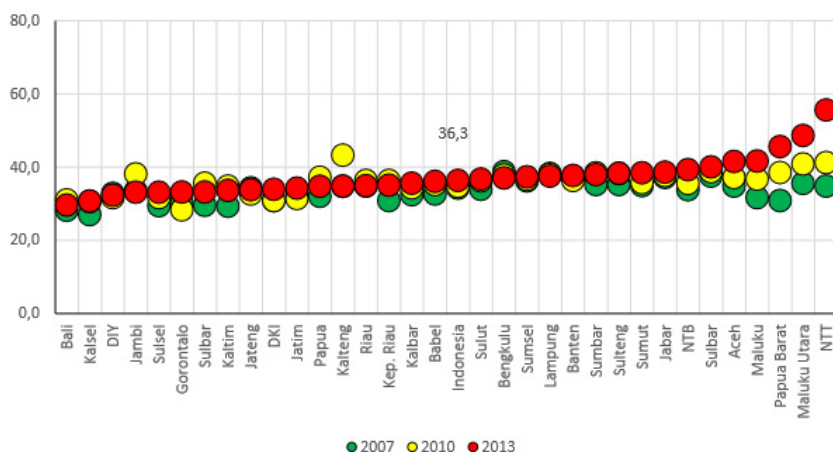
Source: Riskesdas 2013

Figure 1: Proportion of Population Aged  $\geq 10$  Years According to Smoking Habit and Characteristic of Indonesia 2013.

#### 3.2 Agency for Health Research and Development

From the data, it can be concluded from the population data aged  $\geq 10$  years that everyday-active-smokers are primarily aged 30-34 years old (33.4%) and 35-39 years old (32.2%). The proportion of male smokers is more than female smokers (47.5%). The highest education level of cigarette consumers is that of a high-school graduate at 28.7%. For occupation,

44.5% are farmers, fishermen and labourers compared to other work groups. From the age of  $\geq 15$  years, there is some data that serves as evidence of inhaled and chewed tobacco consumption. According to Riskesdas in 2007, 2010, and 2013, the consumer tends to increase their consumption as they age. The results of 2007 amount to 34.2%, in 2010 of 34.7%, and in 2013 to 36.3%. The highest proportion in 2013 was in East Nusa Tenggara (55.6%).



Source: Riskesdas 2013, Agency for Health Research and Development

Figure 2: The Combined Data of Smokers of Suction and Chewing of Tobacco in the Age Group ≥15 Years

### 3.3 Cigarette Production

There are three types of cigarette production in Indonesia; SKM (Clove Cigarettes Machine), SKT (Hand Clove Cigarettes), and SPM (Cigarette White

Machine). From 2005 to 2010, the average result of SKM was 58%, SKT was 35%, and SPM was 7% every year.

	2005	%	2006	%	2007	%	2008	%	2009	%	2010	%
a. SKM	126,6	57,5	125,3	57,8	131,7	56,8	144,5	57,9	141,2	58,3	144,2	58,1
b. SKT	78,2	35,5	77,9	35,9	84,3	36,3	88,2	35,3	84,7	34,9	87,2	35,1
c. SPM	15,3	7,0	13,5	6,2	16,0	6,9	17,0	6,8	16,5	6,8	17,0	6,8
	<b>220,1</b>	<b>100,0</b>	<b>216,7</b>	<b>100,0</b>	<b>232,0</b>	<b>100,0</b>	<b>249,7</b>	<b>100,0</b>	<b>242,4</b>	<b>100,0</b>	<b>248,4</b>	<b>100,0</b>

Source: Ministry of Finance. Financial Note and RAPBN 2011

Figure 3: Production of Cigarettes by Type of Cigarettes, 2005-2010 (Billion Stems/ Year)

The consumption of cigarettes in Indonesia reached 36.6% of the population because the number of people who consume cigarettes will affect

cigarette production by way of supply and demand. Cigarette production increased from 1985 to 2010, which resulted in 269 billion cigarettes.

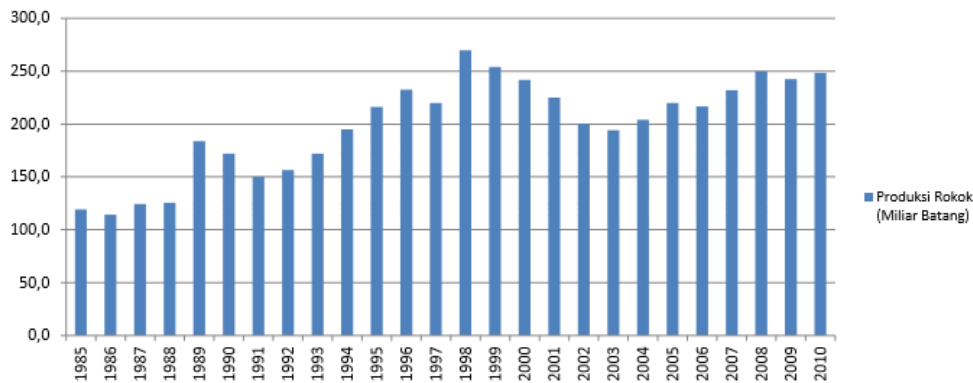


Figure 4: Trend of Cigarette Production Year 1985-2010 in Indonesia

### 3.4 Cigarette Control

The Law of the Republic of Indonesia number 39 2007 concerns the Amendment to Law Number 11, 1995. This relates to customs, which is the characteristic of goods subject to customs charges. Their consumption needs to be controlled. Its circulation needs to be supervised; it may have a negative impact on society or the environment, or its use requires the imposition of state levies for the sake of justice and equilibrium. Cigarette consumption can be reduced if the control of

cigarettes raises the customs tax. Consuming cigarettes continuously will have an impact on others, as well as the individual. It will lead to a lack of productivity, as many people will be less healthy, increasing the number of deaths. It could affect Indonesia’s overall state income.

In Figure 5, it can be seen that cigarette consumption decreased by 1-3% and increased the state income earned from cigarette taxes by 7-9%. Cigarette consumption leads to an increase in state income. The control of cigarettes, by raising the duty of 10%, will affect the state income.

Study	% Consumption Decreased	% Revenue Increased
De Beyer and 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: World Health Organization

Figure 5: Impact of 10% Excise Tariff Increase on Consumption and Revenue

Cigarettes are harmful to the health of the individual. The efforts to raise the taxes by 2016 requires careful consideration, such as labour, illegal cigarette distribution, tobacco farmers, and state income. Therefore, according to him, all aspects need to be considered when making a policy that relates to the price and customs to do with cigarettes. From the employment aspect, the customs policy also affects the sustainability of the formal sector employment of 401,989 people. Three quarters of people, or 291,824, are involved in the production of handmade cigarettes which are labour-intensive

industries. When added to the informal sector, this policy impacts 2.3 million tobacco farmers, 1.5 million clove farmers, 600 thousand tobacco workers, and 1 million retailers’ lives. Based on the available data, it can be concluded that the customs policy has a significant impact on 5.8 million Indonesians’ lives. This data is also supported by the LPEM UI study in 2013, which found that the customs policy affects more than 6 million people directly.

For 2017, the government issued a new customs policy by way of regulation by the Minister of

Finance number 147 / PMK.010 / 2016. In this new policy, the increased fare is 13.46% for White Cigarette Machine Tobacco (SPM) tobacco products, and the lowest is 0% for Cigarette Tobacco (Tobacco) with an average increased weight of 10.54%. In addition to the increased fare, the retail price (HJE) has also increased to an average of 12.26%. The main problem that must be considered to do with the increases is the control of production, labour, illegal cigarettes and tax receipts which the policy have been discussed from various stakeholders (Directorate General of Customs and Excise of the Ministry of Finance. 2016).

#### 4 CONCLUSIONS

Cigarette control is done by raising the tax, so that people in Indonesia can limit their consumption of cigarettes. It is better to reach 1-3% because there are a lot of disadvantages in the economic, social, environmental aspects otherwise. The formal sector of employment consists of 401,989 people, which is three quarters of society or 291,824 people, who are involved in the production of hand-rolled cigarettes, which is a labour-intensive industry. When added to the informal sector, the policy impacts 2.3 million tobacco farmers, 1.5 million clove farmers, 600 thousand tobacco workers, and 1 million retailers' lives. Based on the data, it can be concluded that the customs policy has a significant impact on more than 5.8 million Indonesians' life.

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