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POLICYINSIGHTS

INSTITUTE OF POLICY STUDIES OF SRI LANKA

TOWARDS A HEALTHIER SRI LANKA: TAX STRATEGIES TO CONTROL BEEDI CONSUMPTION

Introduction

Since signing the World Health Organization Framework Convention for Tobacco Control (WHO-FCTC) treaty in 2003, the government has introduced several tobacco control policies relating to the sale, taxation, pricing and packaging of tobacco products. Despite a notable reduction in formal cigarette consumption, the use of informal cigarettes such as beedis remains a significant concern in Sri Lanka. Due to its informal nature, the beedi industry is less stringently regulated, but as tobacco consumption in any form is harmful to health, it is imperative to control all forms of tobacco through comprehensive policy measures. The IPS study,¹ on which this policy insight is based explores the complex landscape of tobacco consumption in Sri Lanka and offers strategies to strengthen tobacco control efforts in the country.

Policy Options

Taxing tobacco is a win-win strategy: a win for public health and averted health spending; a win for the government to generate additional tax revenue and reduce long-term health care costs. Until January 2023, Sri Lanka imposed taxes on the imported raw materials needed for beedi sticks, but the final product was not taxed. The 2023 budget commits to imposing a tax of Sri Lankan Rupees (LKR) 2 per locally produced beedi stick to discourage consumption.² However, implementing the tax will be challenging due to the informal nature of the beedi industry.

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Background: Nature of the Beedi Industry

Beedi industry stakeholders include input suppliers, service providers, local manufacturers, sub-contractors, wholesalers and retailers. According to government regulations, the beedi producers should register their business under the Department of Excise (DOE). The DOE monitors the annual production and license renewal annually.

According to the DOE's 2020 data, there are 589 registered beedi manufacturers, with nearly 60% of production concentrated among 10 manufacturers (Figure 1). The beedi industry is primarily considered a cottage industry, employing low-income groups, representing 0.1% of Sri Lanka's labour force.³ The manufacturers offer subcontracts (81%) to meet their production targets. These subcontracts are mostly informal and paid for quantity-wrapped.

¹ Jayawardena, Priyanka., Pathiraja, Erandathie., & Dissanayaka, Nimesha. (2024). *Strategies to Curb Beedi and Smokeless Tobacco Consumption in Sri Lanka*. Colombo: Institute of Policy Studies of Sri Lanka.

² Ministry of Finance - The Treasury of Sri Lanka, *Budget Speech 2023*, <https://www.treasury.gov.lk/api/file/192322fd-7967-49d8-ad59-6046470d68c8>

³ Jayawardena, Priyanka., Pathiraja, Erandathie., & Dissanayaka, Nimesha. (2024). *Strategies to Curb Beedi and Smokeless Tobacco Consumption in Sri Lanka*. Colombo: Institute of Policy Studies of Sri Lanka.

Why Beedi Taxes are Crucial for Reducing Tobacco Consumption?

The high prevalence of beedi consumption among lower-income groups is linked to affordability, availability, and personal preferences (Figure 2). As efforts to combat tobacco-related health issues continue, understanding the complexities of consumer behaviour, particularly in the context of pricing strategies, is paramount.

Figure 1
Market Concentration Curve of Beedi Manufacturers

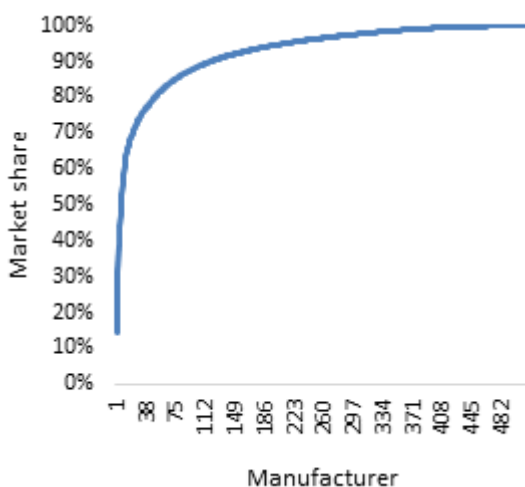
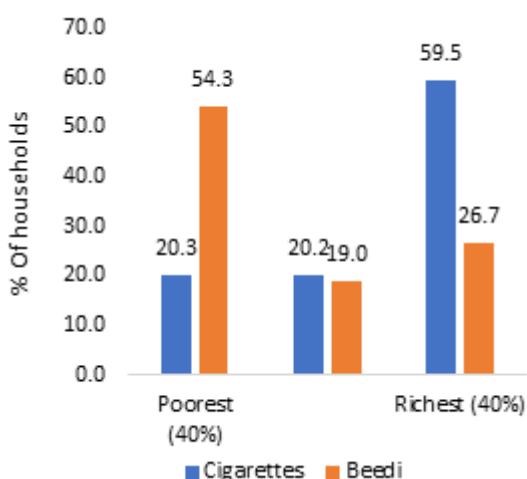


Figure 2
Distribution of Cigarettes / Beedi User Households



Source: Jayawardena, Priyanka., Pathiraja, Erandathie., & Dissanayaka, Nimesha. (2024). *Strategies to Curb Beedi and Smokeless Tobacco Consumption in Sri Lanka*. Colombo: Institute of Policy Studies of Sri Lanka.

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How Could a Tobacco Tax Reduce Tobacco Consumption?

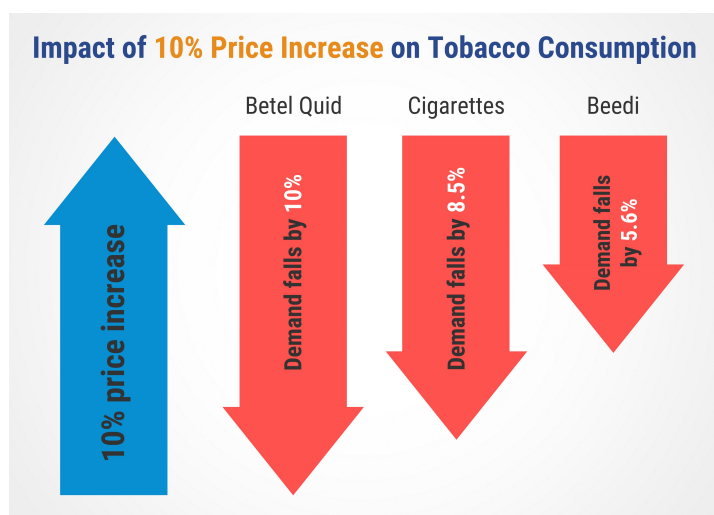
Effective taxation of beedis and cigarettes could discourage new smokers in Sri Lanka. The IPS study reveals a substantial price sensitivity of beedis and cigarettes.⁴ For instance, the study reveals that a 10% increase in the beedi price would lead to a 5.6% reduction in consumption. Furthermore, the higher prevalence elasticity values for both cigarettes and beedis suggest that price increases could serve as a potent mechanism to control entering new smokers. This finding is particularly crucial for public health initiatives aimed at preventing the uptake of smoking, as it indicates that consumers, especially those new to smoking, are highly responsive to price changes.

“Effective taxation of beedis and cigarettes could discourage new smokers in Sri Lanka.”

Will Beedi Consumption Increase Due to the Increase in Cigarette Tax?

A key empirical finding from the IPS study challenges the misconception that beedis are direct substitutes for cigarettes. Industry lobbyists oppose cigarette tax increases, arguing that such measures lead to higher consumption of beedis and an increase in illicit tobacco trade. The cross-price elasticity analysis provides valuable insights into the nuanced relationship between cigarette and beedi consumption in Sri Lanka. Contrary to industry arguments, changes in cigarette prices do not yield a significant substitution effect on the use of beedis. The evidence suggests that consumers do not readily shift

⁴ Jayawardena, Priyanka., Pathiraja, Erandathie., & Dissanayaka, Nimesha. (2024). *Strategies to Curb Beedi and Smokeless Tobacco Consumption in Sri Lanka*. Colombo: Institute of Policy Studies of Sri Lanka.



Source: Jayawardena, Priyanka., Pathiraja, Erandathie., & Dissanayaka, Nimesha. (2024). *Strategies to Curb Beedi and Smokeless Tobacco Consumption in Sri Lanka*. Colombo: Institute of Policy Studies of Sri Lanka.

their preference from one tobacco product to another in response to price fluctuations. This indicates that the two tobacco products, despite sharing similarities, exhibit distinct consumer preferences and behaviours.

“Changes in cigarette prices do not yield a significant substitution effect on the use of beedis.”

Conclusion

The IPS study reveals that beedi consumers are price-sensitive. Further, it shows that an increase in the prices of cigarettes and beedis could also reduce the entry of new smokers. The WHO recommends effective taxes on tobacco products, which lead to higher real consumer prices.⁵ Thus, effective taxation for both cigarettes and beedi can be leveraged as an effective tool in discouraging new smokers.

Policy Recommendations

Broad-based tobacco taxes should be introduced to control tobacco use in Sri Lanka effectively. The analysis underscores the price sensitivity of beedi and

“Implementing systematic beedi taxation through tax stamps or banderoles at the manufacturing point.”

cigarettes and highlights the potential of price hikes to discourage new smokers. The WHO-FCTC recommends broad-based taxes to minimise incentives for consumers to switch to lower-cost options.⁶ Making tobacco products less affordable over time by regularly adjusting tax levels in line with inflation, is also crucial.

Efforts should focus on implementing systematic beedi taxation through tax stamps or banderoles at the manufacturing point. The government could start working closely with a few key producers to introduce these systems. When introducing these measures, the government should consider more digitalised systems to overcome fake labels and malpractices. Proper monitoring mechanisms and laws are also necessary to prevent illegal production and punish offenders.

Additionally, measures should be devised to mitigate adverse effects on stakeholders and communities resulting from reduced beedi demand. The IPS study reveals that around 42% of manufacturers are willing to shift to alternative income sources, while 49% of manufacturers' children are not interested in continuing the trade.⁷ Building alternative income-generating opportunities for groups employed in the beedi industry and ensuring these opportunities are economically viable and safe, is imperative to support those affected by increased beedi taxes.

This Policy Insight is based on findings from an IPS study on Strategies to Curb Beedi and Smokeless Tobacco Consumption in Sri Lanka' carried out by IPS researchers Priyanka Jayawardena, Erandathie Pathiraja and Nimesha Dissanayaka.

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⁵ World Health Organization. (2017, January 1). *Price and Tax Measures to Reduce the Demand for Tobacco*. <https://fctc.who.int/publications/m/item/price-and-tax-measures-to-reduce-the-demand-for-tobacco>

⁶ *Ibid.*

⁷ Jayawardena, Priyanka., Pathiraja, Erandathie., & Dissanayaka, Nimesha. (2024). *Strategies to Curb Beedi and Smokeless Tobacco Consumption in Sri Lanka*. Colombo: Institute of Policy Studies of Sri Lanka.