

# WHAT MINISTRIES OF FINANCE NEED TO KNOW ABOUT NON- COMMUNICABLE DISEASES

## A Sectoral Brief for Thailand

### Key points

- Non-communicable diseases (NCDs) are a drag on the economy. The Ministry of Finance can play a critical role in reducing both economic and health risks associated with NCDs.
- Fiscal policies can generate substantial additional revenue for the government, while improving public health.
- Preventing NCDs makes economic sense.
- Price and tax measures are very effective at getting people to quit tobacco use and reduce consumption of alcohol as well as unhealthy foods and beverages.
- Price and tax measures can be used to actively encourage healthier behaviours and consumption of healthier products.
- Industry interference is a major challenge: ministries of finance, tax and revenue must be alert to the myths spread by industry.
- Ministries of finance, tax and revenue need to collect robust data to monitor the impacts of tax and price policies.
- Thailand is making good progress in using fiscal policies to address NCDs.

## What are NCDs and why must government ministries work together

There are four main NCDs: cardiovascular diseases (which include heart disease and strokes), cancers, diabetes, and chronic respiratory disease. In Thailand, NCDs caused nearly 400,000 deaths, or 74 percent of total deaths in 2016. The major causes of death were cardiovascular diseases, cancer, and diabetes.<sup>1</sup>

Most premature NCD deaths (i.e. deaths before the age of 70) are from four main behavioural risk factors – tobacco use, harmful use of alcohol, physical inactivity and unhealthy diet.<sup>2</sup>

Thailand has the highest level of alcohol use among ASEAN countries,<sup>3</sup> and 27 percent of the population use some form of tobacco,<sup>4</sup> including more than 256,000 children who use tobacco every day.<sup>5</sup> More men and women die of tobacco related illnesses in Thailand, compared to other middle-income countries.<sup>6</sup>

Only 23.2 percent of youth and children in Thailand meet the recommended minimum physical activity levels, with girls being less physically active than boys.<sup>7</sup> The prevalence of

obesity in children rose from 7 percent in 1996 to 10 percent in 2009. Childhood obesity is highest for children at ages 12–14 years (7.2 percent) followed by 1–5 years (4.6 percent) and 6–11 years (3.5 percent).<sup>8</sup>

Population exposure to behavioural risk factors for NCDs is determined largely by policies in trade, education, labour, tax, urban planning and other 'non-health' sectors. This means that early death and disability from NCDs could be largely avoidable through better policy coherence across sectors. Given the social, economic and environmental burdens of NCDs, it is possible to identify strategies and approaches that deliver shared gains for all sectors involved.

### 1. NCDs are a drag on the economy.

- NCDs reduce productivity and economic growth, whether through losses to the workforce due to illness and premature death or through reduced performance of unwell workers who remain on the job. In 2013, the economic cost of NCDs in Thailand was an estimated THB 280 billion, or 2 percent of GDP, due to premature deaths and loss of productivity among the workforce.<sup>9</sup>
- Premature deaths from NCDs result in a loss of income for families, communities and countries. In Thailand, NCDs caused nearly 400,000 deaths in 2016. Half of these were premature deaths occurring among people aged between 30 and 70.
- Health costs from NCDs are a major burden on the national budget. In 2008, total public expenditure for the treatment of four major NCDs- hypertension, heart disease, stroke and diabetes- was approximately THB 25 billion.<sup>10</sup>



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- In 2017, the budget for NCDs comprised of 48.7 percent of Universal Coverage Scheme (UCS) with the largest percentage allocated to inpatient services (20.3 percent) and 1.78 percent for health promotion.<sup>11</sup> In the coming years, NCDs will account for more spending, unless the fiscal space is increased, potentially with higher excise taxes on health-harming products.<sup>12</sup>
  - The estimated cost of productivity loss due to absenteeism as a result of obesity-related conditions is THB 694 million annually.<sup>13</sup>
  - The total economic cost of alcohol use was estimated to be 2 percent of Thailand's GDP in 2006 (THB 156 billion).<sup>14</sup>
- 59.91 billion (approximately US\$2 billion) over the same period.<sup>16</sup>
- In 2017, Thailand introduced a tax on sugar-sweetened beverages to reduce consumption of unhealthy drinks.
  - In 2016, Thailand generated a total excise tax revenue of THB 522.5 billion (about 19 percent of the gross government revenue), which is expected to reach THB 600 billion in fiscal year 2018.<sup>17</sup> Almost all the major excise taxes in Thailand can be considered as pro-health, including those on petroleum products (36.1 percent of the total excise tax revenue), tobacco (12.7 percent), alcohol (11.6 percent), beer (16.2 percent), motor vehicles (18.6 percent), soft drinks (3.4 percent), and motorcycles (0.6 percent).

## 2. Fiscal policies can generate substantial additional revenue for the government, while improving public health

- Taxes on health-harming products such as tobacco and alcohol can help reduce consumption by increasing prices and generate resources for investing in health and sustainable development.
  - In Thailand, a surcharge on tobacco and alcohol taxes contributes to financing health promotion.<sup>15</sup>
  - As of 2016, Thailand taxes cigarettes at a rate of 90 percent of the ex-factory price, meeting the WHO-recommended standard that tobacco excise taxes account for at least 70 percent of the retail price for tobacco products. Thailand raised its cigarette excise tax rate 11 times between 1991 and 2012 (from 55 percent to 87 percent of factory price), which resulted in an almost fourfold gain in revenues from THB 15.89 billion (US\$ 530 million) to THB
- Excise taxes are used to fund government programs with social benefits. Annually, 2 percent of the alcohol and cigarette taxes, without a monetary limit, is sent to the state-operated public television; 2 percent, up to 2 billion baht (about US\$60.3 million), is given to the Thai Health Promotion Foundation; and 2 percent, also up to 2 billion baht, benefits the National Sports Development Fund. In addition, in 2017, the Cabinet announced it will establish an Elderly Fund, which will receive 2 percent of the sales, up to 4 billion baht a year (about US\$ 127 million).<sup>18</sup>
  - In 2012, 12.6 million deaths were attributed to environmental causes globally, with 8.2 million of those from NCDs caused by air pollution.<sup>19</sup> Removing fossil fuel subsidies, instituting road-user charging schemes/urban road pricing, and taxing fuel and motor vehicles can help reduce pollution and improve health.

## Return on investment facts<sup>20</sup>

### Fact 1. The economic consequences of NCDs are enormous.

- Under a 'business as usual' scenario, cumulative economic losses to low and middle income countries from the four main NCDs are estimated to surpass US\$ 7 trillion between 2011-2025, equivalent to approximately 4 percent of their annual output in 2010.

### Fact 2. The costs of scaling-up NCD prevention and control are very low compared to their burden.

- Population-based measures for reducing tobacco and harmful alcohol use, as well as unhealthy diet and physical inactivity, are estimated to cost US\$ 2 billion per year for these countries – less than US\$ 0.4 per person;
- The most cost-effective NCD interventions for individuals cost US\$ 11.4 billion per year (annual investment ranging from under US\$ 1 per person in low-income countries to US\$ 3 per person in upper middle-income countries).

### Fact 3. The returns on scaling up prevention and treatment are massive.

- In economic terms, the return will be many billions of dollars of additional output; for example reducing death rates from ischaemic heart disease and stroke by 10 percent would reduce economic losses in LMICs by an estimated US\$ 25 billion per year, which is three times greater than the investment needed for the measures to achieve these benefits;
- In health terms, the return on investment would be many millions of avoided premature deaths.

## 3. Preventing NCDs makes economic sense. The costs of inaction on NCDs far outweigh the investments required to avoid these costs and ensure healthy and productive societies.

- Although there were significant increases in the budget for the Universal Coverage Scheme (UCS), the largest program under Universal Health Coverage in Thailand, from 2003 to 2013 (from THB 30 billion to THB 108 billion), it was mostly used for curative services, with a less than 15 percent allocation for prevention and health promotion.<sup>21</sup>
- Childhood obesity may cost Thailand as much as THB 5.5 billion a year.<sup>22</sup> Programs to prevent childhood obesity are

essential to prevent NCDs in childhood, and throughout the life-course.

- It is recommended that innovative financing mechanisms be sustained from tobacco, alcohol, and Sugar-Sweetened Beverage (SSB) taxation, and availability of regular budgets increased for health promotion from all line ministries as well as from local governments for the prevention and control of NCDs.<sup>23</sup>

## 4. Price and tax measures are effective at getting people to quit tobacco use and reduce consumption of alcohol as well as unhealthy foods and beverage

- Between 1991 and 2013, smoking prevalence among Thai adults declined from 59 percent to 37.4 percent among

men, and from 5 percent to 2.2 percent among women.<sup>24,25</sup> (During the same period (1991-2012), Thailand raised cigarette excise tax rates 11 times.)

- Thailand's smoking rates in 2006 were 25 percent lower among men and 24 percent lower among women than they would have been if not for the new laws and regulations including higher tobacco taxation. Policies saved roughly 32,000 lives between 1991 and 2006—and if current trends continue, a total of nearly 320,000 lives will be saved by 2026.<sup>26</sup>
- Extensive econometric research shows that a 10 percent rise in alcohol prices would bring about a 4.4 percent decrease in overall consumption of alcohol and a 2.8 percent decrease in heavy drinking, and would have larger effects on youth and young adults.<sup>27</sup>

## 5. Price and tax measures can be used to actively encourage healthier behaviours and healthier products

Countries should assess and consider:

- Implementing fiscal measures to encourage the consumption of healthy foods and healthy beverages (e.g. subsidizing fruit and vegetable sales and vendors, decreasing import duties on fresh fish);

### Why taxes matter

- Higher tobacco and alcohol taxes, and new sugary beverage taxes will significantly reduce consumption of these health-harming products
- Reduced consumption will lead to fewer cases of cancer, cardiovascular disease, diabetes, and other non-communicable diseases, with significant positive economic impacts
- Counterarguments about negative economic impact are largely false or greatly overstated
- Taxes are generally considered one of the most effective measures or “best buys” in NCD prevention<sup>28</sup>



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## Tobacco industry myths debunked

### **Myth 1. Tobacco tax increases will reduce tax revenue (because consumption goes down).**

No: Tax revenue actually increases (because reduction in sales is less than proportionate to the price increase). As demonstrated many countries around the world, an increase in tobacco taxes raises government revenues.

### **Myth 2. Tobacco taxes will reduce economic activity.**

No: Spending on tobacco will be replaced by spending on other consumer products and services.

### **Myth 3. Taxes create a financial burden on poor smokers since they spend a larger share of their income on tobacco products.**

Not exactly: Because people on lower incomes are more sensitive to price increases, they will alter their consumption behaviour by either quitting or reducing the level of tobacco consumption more than higher-income consumers. Consequently, higher taxes will help reduce their own personal spending on tobacco as well as improve their health.

### **Myth 4. Tobacco tax and price differences between countries create an incentive for illicit trade in tobacco products.**

Not exactly: There are other more important factors that encourage illicit trade, such as weak governance/lack of high-level commitment, weak customs and excise administration, corruption and complicity of cigarette manufacturers. Consequently: Tax increases should be introduced together with actions to strengthen tax administration (such as simplifying taxation, monitoring the tobacco products market and strengthening customs and police) to reduce incentives for tax evasion by manufacturers and smuggling as a source of revenue for criminal organizations.

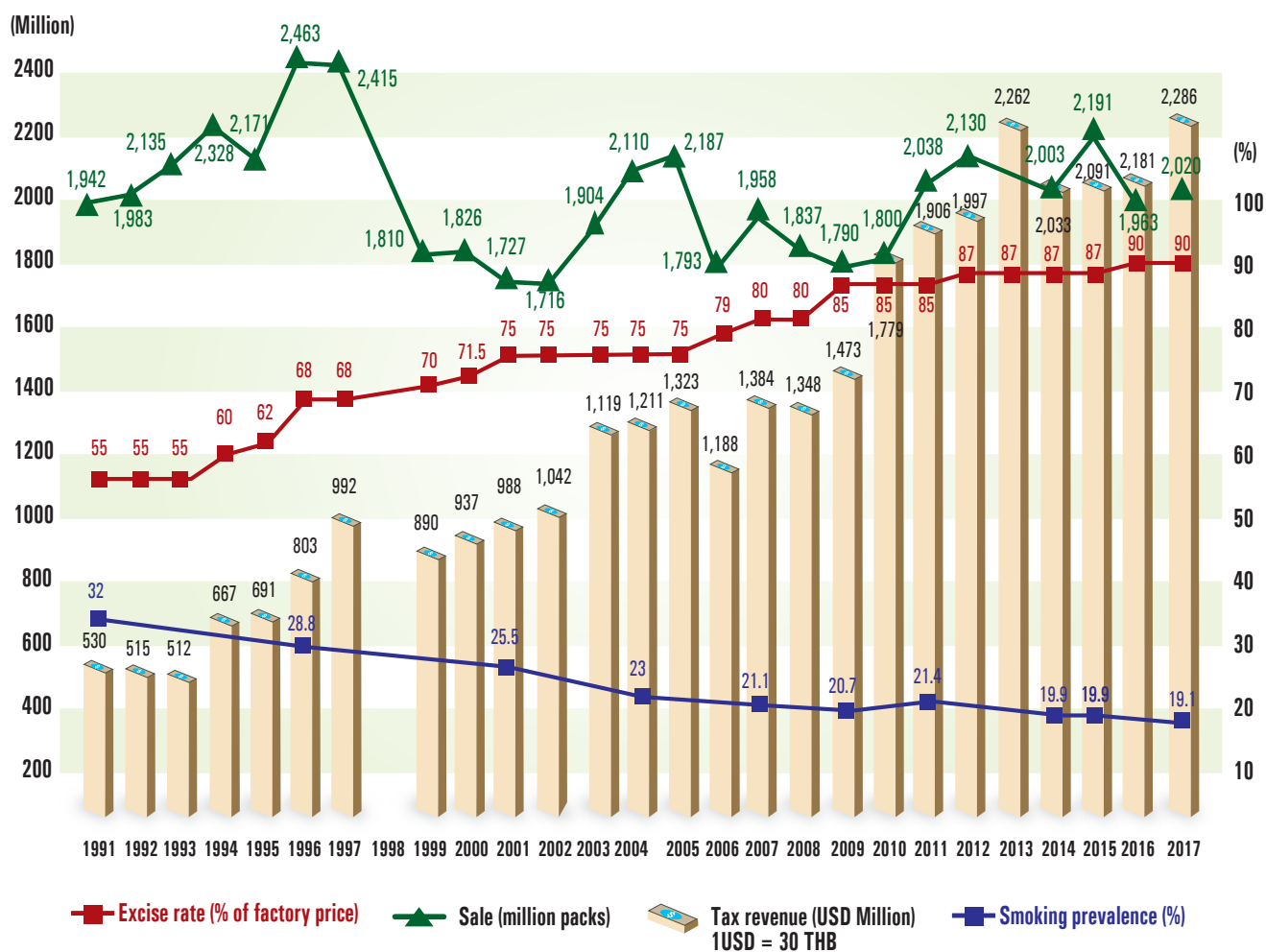
## Taxes on health-harming products are not regressive

Exactly the opposite. Across the world, NCDs burden the poor most. Tobacco, alcohol and food companies target poorer countries and lower income populations. The poor are also more likely to live in environments that make the healthy choice the difficult choice.

Taxes even the playing field. Their multiple benefits – in health, poverty reduction, education and opportunity – accrue mostly to the poor. Meanwhile, wealthier users, whose use typically declines less relative to price increases, wind up paying the majority portion of the tax increases. Revenue from these taxes can then be reinvested into programmes that benefit the poor, increasing their progressive nature.

- A manufacturers' excise tax on processed food producers, to encourage the production of foods and beverages with less salt, sugar and fat. Such reformulation has the potential to have a large public health impact;<sup>29</sup>
- Gradually shifting price controls to healthier products as a revenue-neutral way to improve health. Currently, many countries subsidize or institute price controls for products such as sugar, salt, palm oil and refined flour, making healthier alternatives less affordable.<sup>30</sup>

## Thailand: Higher tax rates, higher revenues, and reduced smoking prevalence



Source: SEATCA (2018) The Tobacco Atlas ASEAN Region, with additions.

“The bottom line is this: when we look at all the facts, tobacco taxes are not regressive, but highly progressive, as the full health and economic benefits of this measure far outweigh its relative cost.”

The World Bank

## 6. Industry interference is a major challenge: ministries of finance, tax and revenue must be alert to the myths spread by industry

Tobacco, alcohol and food companies often seek to influence governments with a number of false arguments as to why they should not tax health-harming products.<sup>31</sup> They argue, for example, that such taxes are regressive and unfair to the poor, for whom taxes represent a larger share of income. In reality, unregulated policy environments are unfair to the poor because such environments allow stark inequities in how NCDs and their risk factors are distributed to persist. Rates of disease are significantly higher amongst the poorest and most excluded groups. Health conditions amongst the poor are also more likely to go undetected and untreated, further increasing inequities.

- Interference from the tobacco industry remains a serious threat in Thailand although the government is adopting policies to address it.<sup>32</sup>
- While most governments do not have a procedure for disclosing interactions with the tobacco industry, Thailand has instituted concrete measures to prevent and reduce unnecessary interactions. In May 2015, the country approved legislation to ban corporate social responsibility activities funded by the tobacco industry and is drawing up implementing measures.
- Thailand reports that top-level government officials do not meet or foster relations with tobacco companies, such as attending social functions and events sponsored or organized by the tobacco companies.<sup>32</sup> It is critical that all the ministries observe these policies.

## 7. Ministries of finance, tax and revenue need to, in collaboration with other ministries, collect robust data to see the impacts of tax and price policies.

Monitoring and evaluation of tax policies is essential in order to assess their impact on prices, which can guide their revisions and improvements. It can also help assess in an independent manner the impact of those policies and refute the common industry arguments used to counter their implementation or expansion.

## 8. Advancing actions on NCDs in the finance sector

Ministries of finance, tax and revenue should:

- Work with the ministry of health to develop an investment case assessing the returns on investment in scaled up action to prevent and control NCDs.
- Be key partners in the government's response to NCDs, engaging fully in policy and plan development and implementation;
- Build political capital for price and tax measures to address NCDs;
- Ensure mechanisms are in place to protect against industry interference in government policymaking.
- Implement uniform tier tax on all cigarettes (single tier) and increase tax on roll-your-own (RYO) to reduce gaps between cigarettes and RYO.
- Increase taxes on sugar beverages, consider increasing taxes on unhealthy energy dense foods and salty foods.
- Subsidize healthy food and physical activity.



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