Cautionary tale of tax incentives for cigarette makers from Zambia

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Disclosure statement

Ronald Labonte receives funding from Canadian Institutes of Health Research and the National Institutes of Health. He is an active member of the People's Health Movement, a not-for-profit global civil society organisation.

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Zambia's daliance with cigarette manufacturing is a cautionary tale for other African countries. Shutterstock

Tobacco companies are zeroing in on one of the last global markets still ripe for exploitation: the African continent.

Much of the tobacco leaf and some of the manufactured cigarettes produced on the continent are exported. These exports earn the foreign currency that's attractive to the finance ministries of tobacco producing countries. But increasing amounts of the continent's tobacco outputs remain in Africa, with tobacco companies taking advantage of countries with weak tobacco control measures and comparatively low consumption rates that they consider ripe for expansion.

While tobacco production is decreasing (slightly) in most of the rest of the world, it is increasing in Africa. In 2012 Africa accounted for just under 10% of all tobacco grown worldwide.

The major tobacco producing countries by tonnes grown in 2017 were (in order) Zimbabwe, Zambia, Tanzania, Mozambique and Malawi. Smoking rates in most African countries are still low by global comparisons. They are, however, rising in several sub-Sarahan nations.

Economic benefits exaggerated

For the past several years our research team has been studying the political economy of trade, tobacco control, and tobacco farming in three African countries: Kenya, Malawi, and Zambia.

We chose these countries because they represent different degrees of tobacco reliance and tobacco control, which allows us to make meaningful comparisons among them over time. Zambia and Malawi are major tobacco producers, whereas Kenya is not (though it has several concentrated areas of tobacco farming).

Zambia has ratified the World Health Organisation's Framework Convention on Tobacco Control and has some tobacco control measures in place. Malawi has not ratified the Convention, has fewer tobacco control measures, and is more reliant on tobacco as a cash crop. Kenya has also ratified the Convention. But compared to the other two countries, it has much stronger tobacco control measures and is less economically dependent on tobacco.

There is, however, a common finding amongst all three countries. The economic importance of tobacco for government treasuries is often exaggerated while tobacco growing has failed to fulfil its promise of lifting farmers out of poverty. In fact, it's often been the reverse. Many smallholder tobacco farmers have been losing money or making so little they remain deeply impoverished or deeply in debt.

Read more: Big Tobacco woos African farmers with bogus promises of prosperity

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Our ongoing research in Zambia recently drew further attention to another risk. When governments provide economic incentives to tobacco manufacturers as an economic development strategy, they're shooting themselves in the foot. This is because the health and economic development costs of increased tobacco related diseases will far outstrip any benefits, including the creation of new jobs.

The effect of incentives

Zambia, like many African countries, wants to attract or stimulate both foreign and domestic investment to diversify its manufacturing base. In an article reporting earlier findings from our study we cautioned that it needed to exclude tobacco from its investment incentives.

The reasons for this were twofold. Firstly, this is something Zambia is actually obliged to do as a party to the WHO Framework Convention on Tobacco Control. Eleven years after Zambia ratified the Convention it has yet to implement all of its requirements in significant part by adopting and implementing corresponding legislation and regulation.

Secondly, we predicted that the government would be actively encouraging tobacco production if it provided incentives. This is exactly what's happened. Two new cigarette manufacturing plants recently opened in a special 'Multi-Facility Economic Zone' on the edge of the capital Lusaka.

One is owned by British American Tobacco (BAT) Zambia and, according to our research participants, produces five million cigarettes a day. The company opened the plant to "localise its brands in Zambia", with around 40% of its output destined for the domestic market.

Government officials said the fiscal incentives it offered BAT's new plant were in line with the country's development plan, praising the 72 new manufacturing jobs the plant created. BAT's fiscal incentive, offered to all investors in the economic zone, was 0% tax for the first five years of operation.

Around the same time that BAT set up shop, a local Zambian tobacco company took similar advantage of the tax offering. It opened a second cigarette factory capable of producing 20 million cigarettes a day creating 100 new jobs.

The company behind the new plant described its efforts as "feeding the nation's favourite habit" and noted the significant potential to grow the local market. To assist in that growth, it has 34 sales staff employed as "Foot Soldiers" to promote its product in places that motor vehicles can't reach.

Cautionary tale

Many of the government officials with whom we met in late 2018 continue to claim that Zambians don't smoke much and that most of the tobacco leaf (and now cigarettes) are simply exported elsewhere.

But an increasing number of Zambians do smoke . And that number is almost certain to rise with local cigarette manufacturing targeting local consumers. While female adult smoking remains in single digits, male adult current smoking is now greater than 25%. More troubling is that smoking among girls is now roughly equal to boys.

Zambia has since changed its investment policy and is no longer offering the 5 year tax free break. This was too late to prevent the new cigarette factories from taking advantage of the tax incentive. But it offers a cautionary tale to other African countries trying to attract investors to ensure tobacco is excluded from its offers.

Meanwhile Zambia, like many other countries around the world, finds itself caught between pro-tobacco development policies and efforts to implement tobacco control measures. The Zambian legislature is presently considering a new comprehensive tobacco control bill. If it becomes law, it will help to minimise the unhealthy consequences of its past investment policy, and to provide meaningful support for Zambians' future well-being.