

# Implications of the Agreement on South Asian Free Trade Area on Tobacco Trade and Public Health in the SAARC Region



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# Contents

Foreword .....	v
Executive summary .....	vii
1. Introduction .....	1
2. Objectives of the study .....	3
3. Methodological approach .....	4
3.1 Literature review .....	4
3.2 Interview and discussions with relevant officials of the SAARC Secretariat, country-level policy-makers and individual multilateral and regional trade experts .....	4
4. Tobacco production and consumption in SAARC countries .....	5
4.1 Tobacco use .....	5
5. Tobacco in SAFTA .....	9
5.1 Bangladesh .....	10
5.2 India .....	10
5.3 Maldives .....	11
5.4 Nepal .....	11
5.5 Pakistan .....	12
5.6 Sri Lanka .....	12
6. Trade and consumption effects of SAFTA .....	13
6.1 Bangladesh .....	14
6.2 Bhutan .....	16

6.3 India .....	16
6.4 Maldives .....	17
6.5 Nepal .....	18
6.6 Pakistan .....	19
6.7 Sri Lanka .....	21
7. Smuggling of tobacco product and tax measures .....	24
7.1 Smuggling of tobacco products in South Asia .....	25
8. Tobacco control policies and implementation in SAARC countries .....	28
8.1 Smoke-free environments .....	28
8.2 Advertisement bans .....	30
8.3 Packaging and labelling .....	31
8.4 Cessation .....	32
8.5 Taxation .....	33
9. Tobacco control within SAARC: SAPTA, SAFTA and institutional mechanisms .....	34
9.1 Tobacco control and international trade agreements .....	34
9.2 Progression from SAPTA to SAFTA and its overall implications for tobacco trade and its control .....	35
9.3 Potential of SAARC's legal and policy instruments for promoting tobacco control .....	36
9.4 Implications of SAARC trade liberalization programme, SAFTA Agreement And Sensitive List For Tobacco Control .....	38
9.5 Role of institutional mechanisms in tobacco trade and control .....	38
10. Conclusion and policy options .....	41
Bibliographies .....	48
Annex: Key socio-economic Indicators in South Asia, 2004 .....	50

## Foreword

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Every year 5.4 million people die from tobacco use globally, out of which 1.2 million deaths occur in the South-East Asia (SEA) Region. At the same time, free trade in tobacco products increases the use of this deadly commodity. Given the scenario of expanding tobacco epidemic and the harmful effects of tobacco use, as well as the implications of trade in tobacco products on tobacco control efforts, the WHO Framework Convention on Tobacco Control (FCTC) in its Article 6 recognizes the importance of price and tax measures for reduction of tobacco consumption. It also calls upon the Parties to the Convention to implement appropriate tax and price policies for tobacco products. On the other hand, Article 15 of the Convention recognizes the need to eliminate all forms of illicit trade, including smuggling, and calls on all the Parties to adopt and implement effective legislative, executive, administrative or other measures to eliminate illicit trade in tobacco products.

Member countries of the South East Asian Association for Regional Cooperation (SAARC) have negotiated a free trade agreement, called the South Asian Free Trade Area (SAFTA) to liberalize trade in the region. Often, trade liberalization policies and agreements have implications for certain aspects of public health. Fortunately, Member countries of SAARC have included tobacco products in the “Sensitive List” of SAFTA, which in its Article 7 refers to the issue of non-price measures for tradable commodities.

Against this backdrop, a study entitled “Implications of the Agreement on South Asian Free Trade Area (SAFTA) on Tobacco Trade and Public Health in the SAARC Region” was undertaken in collaboration with the SAARC Secretariat with the objectives of assessing the magnitude and gravity of the trade in tobacco products and its implications for tobacco control efforts in the SEA Region. The study shows how trade in tobacco products can be managed under SAFTA in the context of the WHO Framework Convention. It also suggests that the SAFTA Ministerial Council can use its findings in controlling trade in tobacco products and restricting illicit

trade of tobacco products across the region. Furthermore, the study points out that the SAARC Technical Committee on Agriculture and Rural Development can provide support to countries in implementing crop substitution for tobacco leaf growers, while the Technical Committee on Health and Population Activities can recommend to countries to enhance tobacco control measures for overall health development. Similarly, the Technical committee on Women, Youth and Children can guide Member countries to reduce tobacco use among these groups of the population in the region.

I hope that the findings of the study would be helpful for the Parties to the Convention from the SAARC Region to meet their obligations under the Framework Convention. WHO would work closely with the SAARC Secretariat to disseminate the findings of the study as well as to utilize them under the existing Memorandum of Understanding (MoU) between the two organizations for effective tobacco control in the South-East Asia Region.



Samlee Plianbangchang, M.D., Dr.P.H.  
Regional Director

## Executive summary

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The present study makes a comprehensive assessment about the implications of South Asian Free Trade Area (SAFTA) on tobacco trade and the implementation of the WHO Framework Convention on Tobacco Control (WHO FCTC) in South Asia.

Tobacco and tobacco products have been placed on the sensitive lists of every contracting State of SAFTA, which implies that these will be traded but will not be included within the purview of trade liberalization programmes. Smuggling of tobacco and tobacco products is an issue of concern in the WHO South-East Asia (SEA) Region. Tobacco products are smuggled from countries levying low tax on them to those imposing high duties. Smuggling of tobacco products in the Region may be curbed mainly through non-fiscal measures such as licensing, health warnings, and introduction of a unique code system, etc. In addition, tobacco smuggling can be suppressed through legal measures envisaged in the Convention on Terrorism.

The South Asian Association of Regional Cooperation (SAARC) Convention on Child Welfare provides certain general alternatives for tobacco control. The SAARC Social Charter has significant implications on tobacco trade in SAARC countries. Since tobacco use and trade have serious health concerns, individual Member countries at the SEA Region have been urged to introduce legal measures to promote tobacco control. Most SAARC countries are parties to the WHO FCTC. Further to this, regular consultation between the National Coordination Committee and the SAARC Secretariat may bolster the implementation of the Framework Convention through curbs on cross-border advertisements and cross-border smuggling within the Region.

The SAFTA Ministerial Council has a pivotal role to play in promoting or controlling tobacco trade in the Region. It can take policy decisions on continuing to keep tobacco items in the sensitive list for a longer time in the future. The SAFTA Committee of Experts, which deals with negotiations on the determining clauses of SAFTA, can exert influence to act in favour of tobacco control in future rounds of negotiations.

The Technical Committee on Agriculture and Rural Development can help rehabilitate the farmers involved in tobacco production to other sectors of agriculture, most importantly in food and livestock production that will also bolster the food security situation in the Region. The Technical Committee on Health and Population Activities can also work to establish a strong health unit within SAARC to champion public health issues such as tobacco control. The Technical Committee on Women, Youth and Children may work to have the governments adopt measures to combat tobacco use among these groups of population in the Region.

A regional dialogue needs to be arranged with tobacco companies under the aegis of SAARC to work out how to gradually reduce investment in this sector. SAFTA has to chalk out measures to control tobacco smuggling with effective coordination among interior ministries. There is a need to set up a focal point on tobacco control in the SAARC Region. Health ministers of South Asian countries should raise the regional tobacco control issues at the SAARC Summit to prepare a combined programme on tobacco control in the Region.

## 1. Introduction

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The trend in tobacco consumption in many SAARC countries is still worrying because of the millions of deaths and related suffering, and of its negative impact on economic development. The use of tobacco products has been linked to more than 30 diseases including hypertension, heart disease, stroke, chronic respiratory disease, pulmonary tuberculosis and cancers of the lung, oesophagus, bladder, pancreas, mouth, pharynx and larynx (Doll, 1998). An estimated 4.9 million deaths were perceived to have originated from tobacco use in 2000. If the current trend prevails, it is predicted that by 2020 the mortality burden attributable to tobacco consumption will nearly double and approximately 70% of these deaths will occur in developing countries alone (WHO, 2002). The number of deaths from tobacco and tobacco products has been shown to play a significant role in the development of fatal diseases (Dikshit and Kanhere, 2000). Tobacco is used in numerous forms in South Asia. However, more than one third of tobacco is consumed in chews with areca nut or betel leaf, manufactured "*paan masala*" and "*gutka*", and numerous other products, including tooth powders (for example, "*gul*"). Smokeless tobacco use is associated with mortality similar to that from cigarette smoking and with increased oral cancers. India has one of the highest rates of smokeless tobacco consumption. Overall, tobacco accounts for about one half of all cancers in men and one quarter in women in India.

Smokers have markedly increased risks of multiple cancers, particularly lung cancer, and are at far greater risk of heart disease, strokes, emphysema and many other fatal and non-fatal diseases. If they chew tobacco, they risk cancer of the lip, tongue and mouth. Smoking in pregnancy is dangerous to the mother as well as to children, especially in developing countries where health facilities are inadequate. Tobacco already kills more men in developing countries than developed. While 0.1 billion people died from tobacco use in the 20<sup>th</sup> century, it is apprehended that ten times as many will die in the 21<sup>st</sup> century. However, tobacco's cost to governments, to employers and to the environment includes social welfare and health care spending, loss of foreign exchange in importing cigarettes; loss of land that could otherwise grow food; costs of fires and damage to buildings caused by careless smoking; environmental cost ranging from deforestation to collection of

smokers' litter, absenteeism, decreased productivity, higher numbers of accidents and higher insurance premiums.

SAARC countries suffer negatively from tobacco on a large scale, where it is used in numerous forms. The high rates of tobacco consumption as well as the diversity of tobacco products available influence the profile of common cancers. Lung and oropharyngeal cancers are linked to tobacco chewing, a distinctive South Asian habit (Gaffer et al, 2004). The most common smoked product is bidi, and cigarette consumption is high in some countries, with an average annual use of 1440 cigarettes for every inhabitant in Maldives, 620 in Nepal and 560 in Pakistan. Smoking increased substantially between 1990 and 1999 in Bangladesh, India, Maldives and Pakistan, reflecting a shift in the focus of tobacco multinationals towards poorer countries, which have less effective regulations in the new globalized set-up (Samarasinghe and Goonaratna, 2004).

Tobacco is cultivated in nearly all SAARC countries, with India accounting for over 93% of SAARC production. India is the third largest global producer of tobacco and has more than 200 million tobacco users. Significant tobacco cultivation skews national tobacco control policies in some South Asian countries. Tobacco trade uses tobacco farmers as a powerful lever in its political machinations. However, the Royal Government of Bhutan ordered shops, hotels, restaurants and bars selling tobacco products to dispose of existing stocks ahead of the ban. The predominantly Buddhist nation is thought to be the first country in the world to impose such a ban. The export index of Revealed Comparative Advantage (RCA) in agriculture for tobacco and tobacco products in Bangladesh, India and Sri Lanka has been significant and even increased between 1995 and 2004 — RCAs in 2004 were 2, 1 and 4 respectively for these countries (ESCAP, 2006). However, South Asian Free Trade Area (SAFTA) has come into force in July 2006 after required formalities, including ratification by all Member States. SAFTA promises to be a major milestone in South Asian trade relations. Each Member State will maintain a sensitive list of products in which tariffs will not be reduced. One of the important trade items in South Asia is tobacco and tobacco products, which will be influenced by SAFTA. Given this broad context, the proposed research will make a comprehensive assessment about the implications of SAFTA on tobacco trade and on the implementation of the WHO Framework Convention on Tobacco Control (WHO FCTC) in South Asian countries.

## 2. Objectives of the study

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The general objective of the proposed research is to carry out a comprehensive analytical study about the implications of SAFTA on tobacco trade in SAARC countries. The specific objectives are:

- To study the SAFTA document, the WHO FCTC and other relevant documents;
- To gauge the overall trade and consumption of tobacco products in SAARC countries, including illicit trade/smuggling in tobacco products;
- To assess the implications of SAFTA on tobacco trade and on the implementation of the WHO FCTC, and
- To suggest policy measures based on the study.

## 3. Methodological approach

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In order to achieve the objectives, a methodological approach, primarily qualitative, was adopted to understand the likely impacts and implications of SAFTA on tobacco trade and consumption in the region. Specifically, it consisted of:

### 3.1 Literature review

The writers analytically reviewed documents related to the topic of the study. For this, they extensively reviewed documents, papers, articles and reports on tobacco trade in other free trade areas, and scanned documents of SAFTA and several other selected free trade areas. A detailed analysis of the WHO FCTC and relevant agreements was undertaken in the context of SAFTA.

### 3.2 Interview and discussions with relevant officials of the SAARC Secretariat, country-level policy-makers and individual multilateral and regional trade experts

In order to get a practical idea about what was going on and upcoming in the policy arena about tobacco trade within the region, comprehensive interviews were carried out with policy-makers in the region. Specifically, relevant officials of the SAARC Secretariat, key policy-makers in Bangladesh, India, Nepal, and particularly Pakistan, and individual trade experts in the region in general, and concerned WHO officials were interviewed and discussions held with them to understand the changes in policies related to tobacco trade and tobacco products from October to December 2006.

## 4. Tobacco production and consumption in SAARC countries

India (3<sup>rd</sup>), Pakistan (10<sup>th</sup>) and Bangladesh (19<sup>th</sup>) are among the 20 top tobacco leaf producers in the world. Over 10% of world's tobacco is being produced in SAARC countries (Table 4.1) and, surprisingly, 80% of that is consumed within these countries.

**Table 4.1:** *Tobacco production in SAARC Countries*

	Tobacco Leaf production (million tones) in 2004	World's%
India	598 000	9.25%
Pakistan	83 700	1.29%
Bangladesh	40 000	0.60%
Sri Lanka	3770	0.05%
Nepal	3310	0.05%
World	6 496 368	11.04%

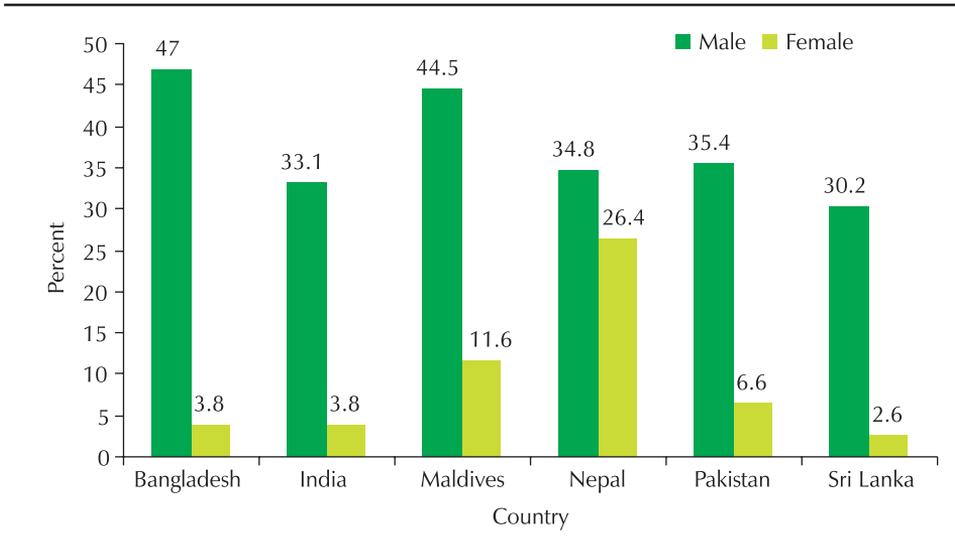
Among SAARC countries, India is one of the largest exporters. It ranks 11<sup>th</sup> on the global exporters' list, but exports less than 1% of the global total.

### 4.1 Tobacco use

Two Member States – India and Bangladesh – in SAARC are among the 10 top tobacco-consuming countries where nearly two thirds of the world's smokers live. India ranks 2<sup>nd</sup> and Bangladesh 8<sup>th</sup> among the top 10.

The current levels of tobacco use among male adults in SAARC countries vary from 30.2% in Sri Lanka to 47% in Bangladesh. The corresponding figures for adult females in SAARC countries vary from 2.6% in Sri Lanka to 26.4% in Nepal.

**Figure 4.1:** Current use of tobacco among adults (aged 15+ years) in selected SAARC countries (2000-2007)



Source: World Health Statistics, 2008

Traditionally, in most SAARC countries men smoke cigarettes, *bidis* and *hukka* ("hubble bubble"), *kakkad / sulfa* (tobacco smoked in clay pipes in Nepal), *chutta* ("reverse smoking" in India's Andhra Pradesh state) and chew smokeless tobacco products such as tobacco leaf with betel leaf (*paan*), *khaini* (mixture of tobacco leaves and lime); or as dentifrice through the oral route in the form of *gul* (in different parts of India, Bangladesh and Nepal) or *gudaku* or *mishri / masher* (in western and eastern parts of India); or use nasal snuff (*naswar*).

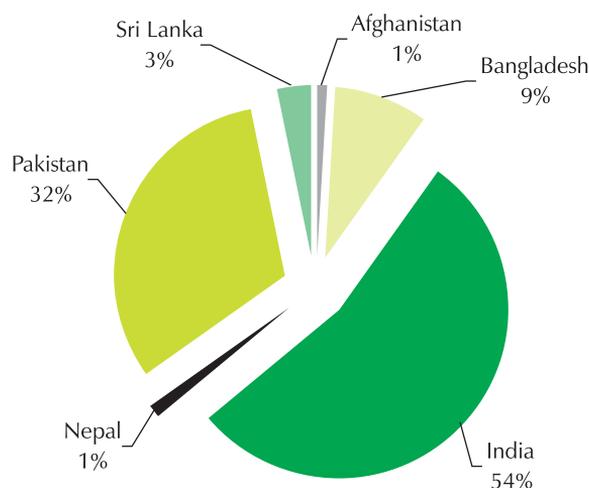
Women do not usually smoke in public but chew tobacco in various forms at home. Widespread use of smokeless tobacco among women, particularly from the disadvantaged sections, still persists in the country. Rural women smoke more than urban. Smoking among women has geographical and cultural variations. For example, smoking among women is more prevalent in the north-eastern region of India and the hilly and mountainous parts of Nepal. Many younger women from the upper income groups have been reported to have taken to smoking in the recent past.

Despite religious tenets and beliefs that act as an impediment to consumption, tobacco and tobacco products have been part of the life of the people of SAARC countries. Tobacco consumption in SAARC has been linked to social status and lifestyle. The habit of rural men, usually assembled in social class-based groups, sharing a *hukka* or *khaini* or *bidi* at daily get-togethers is an exercise in bonding, fellowship and solidarity and part of a broader social consultative process. In SAARC

countries, however, indigenous smoking products such as *bidis* are the most widely consumed, followed by cigarettes. *Paan* with tobacco ingredients is the most widely used form of chewing tobacco. Dry tobacco and areca nut preparations in the form of *paan masala*, *gutka* and *mawa* are also popular in many SAARC countries. *Bidi* is the cheapest smoking product available and is used mainly by the lower income groups. The highest prevalence of smoking is among the poor and illiterate people.

India, Pakistan and Bangladesh are the leading (together accounting for 95% of the total) cigarette consumers among SAARC Member countries (Figure 4.2).

**Figure 4.2:** Cigarette consumption in South Asia (Percentages)

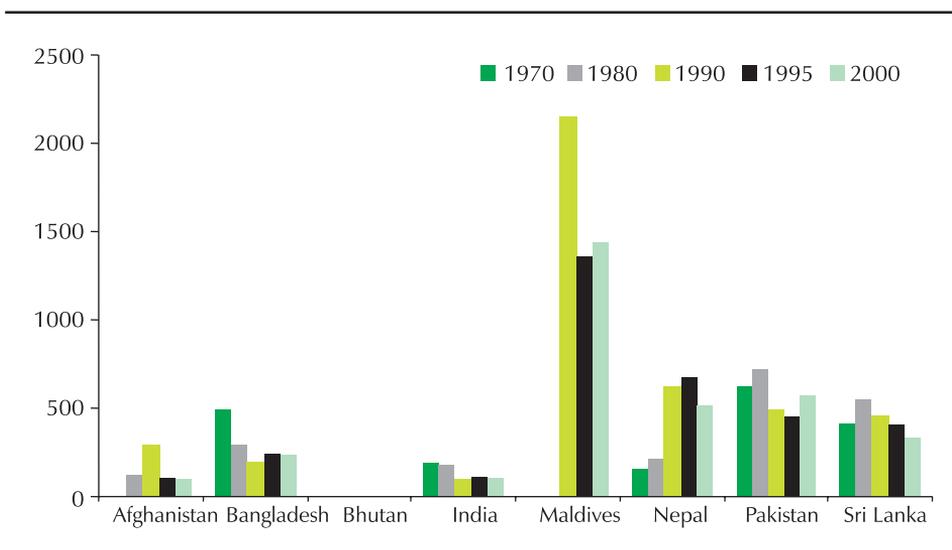


Source: Economics of tobacco for the South Asia (SA) Region (2001).

The per capita consumption of cigarettes is low in Afghanistan, Bangladesh and India as compared to Maldives, Nepal, Pakistan and Sri Lanka. Consumption of other tobacco products is high in SAARC countries.

The Global Youth Tobacco Survey (GYTS) findings in SAARC countries reveal that current tobacco use among students aged 13-15 years varies from 5.9% in Maldives to 20.3% in Bhutan. Tobacco use among boys is greater than among girls in most SAARC countries. The current levels of tobacco use among boys aged 13-15 years who attend school in SAARC countries vary from 8.5% in Maldives to 28.6% in Bhutan. The corresponding figures for girls vary from 3.2% in Afghanistan to 9.3% in India (Table 4.2).

**Figure 4.3:** Per capita cigarette consumption (cigarette sticks) – 1970-2000



Source: Corrao et al, 2003

**Table 4.2:** Current use of any form of tobacco among students aged 13-15 years in SAARC countries

	Sample	Total	Boy	Girl
Afghanistan (Kabul)	Sub-national <sup>1</sup>	9.8	13.1	3.2
Bangladesh	National, 2007	6.9	9.1	5.1
Bhutan	National, 2006	20.3	29.8	11.4
India	National, 2006	13.7	16.8	9.3
Maldives	National, 2007	5.9	8.5	3.4
Nepal	National, 2007	9.4	13.0	5.3
Pakistan (Islamabad)	Sub-national <sup>1</sup>	10.0	12.4	7.5
Sri Lanka	National, 2007	9.1	12.4	5.8

(Figures in percentages)

Source: WHO Report on the Global Tobacco Epidemic 2008  
WHO World Health Statistics 2008 <sup>1</sup>

## 5. Tobacco in SAFTA

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Although at the initial stage there was agreement among Member countries to confine the sensitive list to 10% of total tariff lines at 6-digit level<sup>1</sup>, at a later stage it was agreed that to foster initiation of negotiations, the list would not exceed 20% of the total HS (Harmonized System) lines<sup>2</sup>, while the Least Developed Countries (LDCs) would have the flexibility to maintain longer lists. Finally, SAFTA members set their negative lists containing nearly 25% of the total tariff lines at 6-digit level. At the same time, most members agreed to reduce the size of negative lists to 20% through bilateral consultation.

The SAFTA Agreement clearly stated about ceiling and flexibility of sensitive list in its Article 7. "... a)...The number of products in the Sensitive Lists shall be subject to a maximum ceiling to be mutually agreed among the Contracting States with flexibility to Least Developed Contracting States to seek derogation in respect of the products of their export interest; and b) The Sensitive List shall be reviewed after every four years or earlier as may be decided by SAFTA Ministerial Council (SMC), established under Article 10, with a view to reducing the number of items in the "Sensitive List" (Article 7).

However, General Exceptions Article 14(b) provides a strong ground for tobacco control under the provision of public morals and human life and health. "... b) Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where similar conditions prevail, or a disguised restriction on intraregional trade, nothing in this Agreement shall be construed to prevent any Contracting State from taking action and adopting measures which it considers necessary for the protection of:

- (1) public morals;
- (2) human, animal or plant life and health."

Other than Bhutan all the countries signing SAFTA have tobacco and tobacco products in their Sensitive List. The Harmonized System code varies from 6-8 digit level for the items. Among the countries, Maldives and Sri Lanka have the lowest and highest number of items in the List.

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<sup>1</sup> The international classification system that identifies the group of commodities that appears in the world market for trade. At 8-digit level a specific traded item can be identified.

<sup>2</sup> Under the System, codes have been assigned to a specific group of items or a specific traded item.

## 5.1 Bangladesh

Bangladesh has kept 6-digit level tobacco and tobacco products of eight categories in the sensitive list of SAFTA (Table 5.1). This list of products is the same for both LDC and non-LDC members of SAARC.

**Table 5.1: Sensitive List of Bangladesh**

SI	HS Code	Description
142	2401.10	Tobacco, not stemmed/stripped
143	2401.20	Tobacco, partly or wholly stemmed/stripped
144	2401.30	Tobacco refuse
145	2402.10	Cigars, cheroots cigarillos, containing tobacco
146	2402.20	Cigarettes containing tobacco
147	2402.90	Cigars, cheroots, cigarettos and cigarettes, of tobacco substitutes
148	2403.10	Smoking tobacco, whether or not containing tobacco substitutes in any proportion
149	2403.91	“Homogenised” or “reconstituted” tobacco

## 5.2 India

Like Bangladesh, India has kept 6-digit level tobacco and tobacco products of nine categories in the Sensitive List of SAFTA (Table 5.2). The list of products is the same for both LDC and non-LDC members of SAARC.

**Table 5.2: Sensitive List of India**

SI	HS Code	Description
267	240110	Unmanufactured tobacco not stemmed or stripped
268	240120	Tobacco partly or wholly stemmed or stripped
269	240130	Tobacco refuse
270	240210	Cigars, cheroots and cigarillos containing tobacco
271	240220	Cigarettes containing tobacco
272	240290	Other cigarettes/cigarillos of tobacco substitutes
273	240310	Smoking tobacco whether or not containing tobacco substitutes in any proportion
274	240391	Homogenised or reconstituted tobacco
275	240399	Other tobacco

## 5.3 Maldives

Maldives, despite its present favourable economic situation, future prospect and gradual escape from the LDCs group, has been assured “no less favourable” treatment by “Special Provision for Maldives” in Article 12 of the SAFTA Agreement. However, the country has kept 6-digit level tobacco and tobacco products of only two categories in the Sensitive List of SAFTA, and it has no separate list for LDC and non-LDC members (Table 5.3).

**Table 5.3:** *Sensitive List of Maldives*

SI	HS Code	Description
171	2402.20	Cigarettes containing tobacco
172	2405.90	Others

## 5.4 Nepal

Nepal has kept 8-digit level tobacco and tobacco products of ten categories in the Sensitive List. However, it has no separate list for LDC and non-LDC members (Table 5.4).

**Table 5.4:** *Sensitive List of Nepal*

Heading	Sub-heading	Description
24.01	Unmanufactured tobacco; tobacco refuse	
	2401.10.00	Tobacco, not stemmed/stripped
	2401.20.00	Tobacco, partly or wholly stemmed/stripped
24.02	2401.30.00	Tobacco refuse
	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco Substitutes	
	2402.10.00	Cigars, cheroots and cigarillos, containing tobacco
24.03	2402.20.00	Cigarettes containing tobacco
	2402.90.00	Other
	Other manufactured tobacco and manufactured tobacco substitutes; “homogenized” or “reconstituted” tobacco extracts and essences	
	2403.10.00	– Smoking tobacco, whether or not containing tobacco substitutes in any proportion: – Other:
	2403.91.00	“Homogenised” or “reconstituted” tobacco
	2403.99.00	Other

## 5.5 Pakistan

The country has kept 6-digit level tobacco and tobacco products of six categories in the Sensitive List (Table 5.5). However, although it has separate lists for contracting LDCs and non-LDCs, tobacco items are actually the same.

**Table 5.5:** *Sensitive List of Pakistan*

SI	HS Code	Description
132	240210	Cigars, cheroots and cigarillos containing tobacco
133	240220	Cigarettes containing tobacco
134	240290	Other
135	240310	Smoking tobacco whether or not containing tobacco substitutes in any proportion
136	240391	Homogenised or "reconstituted" tobacco
137	240399	Other

## 5.6 Sri Lanka

The country has kept 6-and 8-digit level tobacco and tobacco products of twelve categories in the Sensitive List, which is the highest among SAARC countries. Nonetheless, it has no separate list for LDC and non-LDC members.

**Table 5.6:** *Sensitive List of Sri Lanka*

Heading	Sub-heading	Description	
24.01	Unmanufactured tobacco; tobacco refuse		
	2401.10.00	Tobacco, not stemmed/stripped	
	2401.20.00 2401.30.00	Tobacco, partly or wholly stemmed/stripped Tobacco refuse	
24.02	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes		
	2402.10.00	Cigars, cheroots and cigarillos, containing tobacco	
	2402.20.00	Cigarettes containing tobacco	
	2402.90.00	Other	
24.03	Other manufactured tobacco and manufactured tobacco substitutes; "homogenized" or "reconstituted" tobacco extracts and essences		
	2403.10	Smoking tobacco, whether or not containing tobacco substitutes in any proportion: Pipe tobacco Other (processed tobacco for Beedies) Other	
		2403.91	"Homogenised" or "reconstituted" tobacco
		2403.99	Other

## 6. Trade and consumption effects of SAFTA

The amount of intra-regional trade among South Asian countries is very meagre, not exceeding on average 5% of trade of the countries. SAFTA's trade liberalization programme opened up a new avenue of trade enhancement in near future. However, as mentioned earlier, tobacco and tobacco products have been kept in the sensitive lists of every contracting state of SAFTA. This clearly indicates that there is no incentive for tobacco trade in the region since there will not be any tariff reduction in at least the following four years until the next review. Personal communication with commerce and foreign ministry officials and scholars working in the field also confirm this.

It was not possible to bring together the amount of intra-SAARC tobacco trade due to paucity of data. Table 6.1 describes the trade of tobacco and tobacco products in South Asian countries. It describes that trade in some items have increased while that in some items have decreased in the last few years. For example, cigarette import increased in India, Nepal, Pakistan and Sri Lanka, but export decreased only in Pakistan. Bangladesh's tobacco leaf import increased substantially, and was the highest among the SAARC countries. Tobacco leaf export increased in all the countries except Sri Lanka.

**Table 6.1:** *Tobacco trade in South Asian countries*

	Cigarette imports <i>sticks in million</i>		Cigarette exports <i>sticks in million</i>		Tobacco leaf imports <i>metric ton</i>		Tobacco leaf exports <i>(% of total exports) metric ton (%)</i>	
	1998	1995	1998	1995	1998	1995	1998	1995
Bangladesh	52	70	47	..	5012	1137	2307 (..)	278 (0.02%)
Bhutan	20	20	0	0	4	4	..	..
India	252	157	1700	1206	230	409	81 791 (..)	77 678 (..)
Maldives	..	185	0	0	70	70	..	..
Nepal	80	67	1	1	4580	4124	..	..
Pakistan	14	8	22	478	290	15	3019 (0.06%)	255 (0.01%)
Sri Lanka	230	41	1035	726	2519	1837	1842 (..)	2384 (..)

Source: Corrao et al, 2003

The destination and source of tobacco exports and imports respectively of SAARC are in most of the cases outside the region, not even part of the Association of South East Asian Nations (ASEAN). This regional group has also kept tobacco and tobacco products in their sensitive lists. This implies a similar likely impact of tobacco trade among two regional groups in the near future.

## 6.1 Bangladesh

Production of tobacco has been increasing in the last five years in Bangladesh. Whereas in 1999-2000, the tobacco leaf production was 35 480 metric tonnes, it increased to 38 690 metric tonnes in 2003-2004 (BBS, 2005). In 2001-2002 the production of cigarette sticks was 20.38 billion and the per capita availability was 155 sticks (Table 6.2).

On the other hand, the direction of tobacco trade shows that in 2002-2003 Bangladesh's tobacco and tobacco products were exported to only Bhutan and India among South Asian countries, but imported from all countries except Maldives. The monetary value of imports was much higher than that of exports. The important traded items were unmanufactured tobacco and tobacco refuse, cigar cheroot cigarillos/cigarette, and manufactured tobacco/substitute and others. The value of import and export of tobacco and tobacco products was US\$ 35.43 and US\$ 3.6 million respectively (BBS, 2005). The national balance of trade in tobacco and tobacco products is negative. Bangladesh exports some tobacco leaves, but imports much more in monetary terms of tobacco products, particularly cigarettes (Ali *et al*, 2003).

**Table 6.2:** *Tobacco trade and agriculture in Bangladesh*

	Unit of measurement	1970	1980	1990	1995	2000
Cigarette imports	sticks in million		177	86	70	
Cigarette exports	sticks in million			2	0	15
Tobacco leaf imports	metric ton		740	805	1137	3750
Tobacco leaf exports (% of total exports)	metric ton (%)			870 (0.11%)	278 (0.02%)	800 (-)
Cigarette production	sticks in million	17 787	13 830	12 289	17 379	19 732
Tobacco leaf production	metric ton	41 200	39 524	37 800	38 000	35 000
Land devoted to tobacco growing (% of agricultural land)	Hectare (%)	45 700 (0.47%)	45 091 (0.46%)	45 070 (0.45%)	36 000 (0.41%)	31 161 (0.34%)
Number of people employed in tobacco manufacturing		4190	6340	27 155		

Source: Corrao et al, 2003

At present SAFTA does not have any specific impact on tobacco trade for Bangladesh. The country has kept all tobacco items in the Sensitive List. However, there is a provision that contracting countries can review the Sensitive List every four years. Therefore one could expect at least theoretically that there is a chance of reviewing tobacco items for trade liberalization through tariff reduction.

But in reality duties on tobacco items are important sources of government's revenue. For example, besides over 20 billion cigarettes, 24 billion *bidis* were also produced in 2000. Therefore if one considers the present tax structure on tobacco, specifically excise duty from 32% to 51% based on the retail price of 10 cigarettes and value added tax (VAT) being 15%, the amount of revenue is considerably high. On the other hand, general import duty on cigarettes is 45% and other import duties are on average 12.5%, and supplementary duty is 250%. With respect to volume of import, the revenue from high import and supplementary duty is also significant. However, high import duty is imposed to protect the interest of domestic producers and not of the consumers, it is obvious in the given context of lucrative revenue from domestic production and imports that the government will not be interested to liberalize the market in the near future under the aegis of SAFTA.

Ali *et al* (2003) estimated price and income elasticity of demand for tobacco in Bangladesh. According to their estimation, Bangladeshi people buy less chewing tobacco and more cigarettes as incomes increase. They have shown that for each 10% income increase, cigarette consumption increases by 6.2% which is indeed very high. Based on this calculation they suggested that tax increases that result in increase in cigarette prices could be used to offset the impact of rising incomes on the demand for tobacco products. They have also found that each 10% increase in the price of cigarettes would reduce demand by 2.7%. The demand for chewing tobacco was found to have increased with price increase.

It can be inferred from the above elasticity estimation that for a rapidly growing economy with 6.7% Gross Domestic Product (GDP) growth and growing per capita Gross National Income (GNI), demand for both cigarette and chewing tobacco items of Bangladeshi people will increase in future unless the government imposes real measures to curb increasing consumption.

However, SAFTA does not have a clear position in liberalizing investment regime, but it is expected that the contracting countries will be able to take common measures on eliminating barriers on investment. But even if countries liberalize investment, it is less likely that given the nature of general exception article of SAFTA agreement, the Government of Bangladesh will encourage further foreign investment in tobacco industry. Therefore the nature of demand for and trade of tobacco will remain the same at least in the foreseeable future.

## 6.2 Bhutan

The government has been visibly successful in curbing cigarette consumption in Bhutan, although media reports suggest that tobacco items are still sold and consumed among the youth. However, in SAFTA, Bhutan does not have tobacco items in the Sensitive List. This does not mean that the country has fully liberalized the tobacco market. Rather, the country assumes that anti-tobacco policies and programmes are sufficient to curb tobacco use.

## 6.3 India

Tobacco was produced in 0.24% of the total agricultural land in the country in 2000. Tobacco leaf production was 609 000 tonnes in the same year (Table 6.3). The Indian Tobacco Company has the highest market share (66.9%). The other important manufacturers are Godfrey Phillips India (12.3%), GTC Industries (12%), and VST Industries (7.8%).

Although India is one of the largest producers of tobacco in the world, tobacco export comprises a small fraction of its total production. This is mainly because the product mix of Indian tobacco production is heavily tilted towards *bidis* (Gupta and Sankar, 2003). Cigarette imports and exports were 44 million and 3.65 billion sticks respectively. Tobacco leaf imports were only 1.400 metric tonnes in 2000, but exports were high as 97 300 tonnes in that year.

**Table 6.3:** *Tobacco trade and agriculture in India*

	Unit of measurement	1970	1980	1990	1995	2000
Cigarette imports	sticks in million	5	8	68	169	44
Cigarette exports	sticks in million	27	2187	6363	1220	3655
Tobacco leaf imports	metric ton	32	88	38	409	1423
Tobacco leaf exports (% of total exports)	metric ton (%)	47 905 (2.09%)	71 146 (2.01%)	69 965 (0.61%)	77 678 (0.37%)	97 363 (0.33%)
Cigarette production	sticks in million	62 930	77 376	61 162	69 589	75 085
Tobacco leaf production	metric ton	337 100	438 500	551 600	566 700	609 000
Land devoted to tobacco growing (% of agricultural land)	Hectare (%)	437 900 (0.25%)	425 400 (0.24%)	413 100 (0.23%)	381 000 (0.21%)	433 400 (0.24%)
Number of people employed in tobacco manufacturing		121 000	358 000	431 452	471 657	–

Source: Corrao et al, 2003

Like Bangladesh, SAFTA seems to have no specific impact on tobacco trade for India. The country has kept all tobacco items in the Sensitive List. However, soft resumption of WTO negotiations suggests that India may put additional pressure on trade liberalization in agricultural items, although the Government of India is not thinking about tariff reduction on tobacco items.

On the other hand, there are several types of taxes imposed on tobacco products. Among those, excise tax is 135-450 Local Currency Unit (LCU) /1000 for plain and 670-1780 LCU/1000 for filtered cigarettes, and 7-17 LCU/1000 for *bidis*. Import duty is 35% of Cost, Insurance and Freight (CIF) value. The other kind of Import duty is 4%. In the fiscal year 2002-2003 budget, a 16% central value-added tax was imposed on cigars, cheroots and cigarillos. Likewise, a 60% total duty has been levied on *paan masala*. This means that India has a much lower duty on cigarettes, import compared to Bangladesh. Due to two thirds share of Indian Tobacco Company in tobacco market and additional share of domestic companies in other forms of tobacco items (*e.g., zarda, paan masala, etc.*), thereby generating considerable amount of revenue, the Government of India will not be interested in liberalizing tobacco trade regime. Therefore production and consumption of tobacco in India will remain status quo in the near future.

## 6.4 Maldives

Cigarette consumption has been increasing in the country day by day. From 1988 to 1999 tobacco imports increased substantially. Cigarettes account for 97% of all tobacco products, cigars for about 2% and stemmed tobacco only about 0.2%. The other types of imported tobacco are insignificant (Afaal and Shareef, 2003). There is very little local tobacco production in the country; only small amounts of *bidi* and tobacco for *hukka*.

The only direct levy on tobacco products used to be import duty. This duty is levied at a rate of 50% of CIF value of all imported tobacco products. A unit tax has been introduced of 30 *laari* per manufactured cigarette, regardless of the type or brand. For other tobacco products the tariff is unchanged at 50% of their CIF value (Afaal and Shareef, 2003).

Maldives is a rapidly growing economy and tourism contributes a significant share to its national income. Tobacco is an important part of the tourism sector. The first national tobacco prevalence survey, conducted in 1997, revealed that among males, 57% were smokers and among females 29% were smokers. Because of the anti-tobacco campaign in the country, tobacco use among males decreased to 37.4% and to 15% among females in 2001 (Moosa and Afaal, 2002). However,

the import tax on tobacco products is one of the lowest in Maldives among South Asian countries.

Keeping tobacco items in the Sensitive List of SAFTA means the country did not consider tobacco for trade liberalization. Therefore, the present level of trade and consumption will prevail in the coming years.

## 6.5 Nepal

Tobacco is exported from Nepal but export values are small as compared to imports. Although the country produces a large quantity of cigarettes, foreign cigarettes are also imported for consumption. Cigarette imports have been increasing fast. In 1998-1999 imports were of the value of nearly Rs 100 million (Table 6.4).

**Table 6.4:** *Tobacco trade and agriculture in Nepal*

	Unit of measurement	1970	1980	1990	1995	2000
Cigarette imports	sticks in million		40	4	70	90
Cigarette exports	sticks in million				1	
Tobacco leaf imports	metric ton	2170	2	5000	4124	7350
Tobacco leaf exports (% of total exports)	metric ton (%)		241 (0.31%)	90 (0.03%)		40 (0.01%)
Cigarette production	sticks in million	11 135	1811	6691	8067	6979
Tobacco leaf production	metric ton	6700	5500	6600	5447	3809
Land devoted to tobacco growing (% of agricultural land)	Hectare (%)	8800 (0.24%)	7520 (0.18%)	7610 (0.18%)	6028 (0.13%)	4283 (0.09%)
Number of people employed in tobacco manufacturing				4660		

Source: Corrao et al, 2003

Real cigarette prices in Nepal have fallen by as much as one third during the past three decades. Consequently, in 2000 cigarettes were about 60% more affordable than they were at the beginning of the 1970s. Three types of tax on manufactured cigarettes are levied in Nepal. They are excise tax, health (smoking) tax and a 10% value added tax. The most important of these is the excise tax, which is levied according to the type of cigarette and the length of the cigarette stick. Excise tax is 285-675 LCU/1000 filter cigarettes based on length. In addition, there is an import duty of 675 LCU/1000 cigarettes.

The tax incidence ranges from 25% on highly priced international brands to a little more than 50% on popular domestic brands. This is low in comparison to international tobacco tax incidence levels, which often reach 75-85%. The current tax structure also appears to favour international brands at the expense of domestic brands as the country relies primarily on a “per quantity” (specific) excise as opposed to a “percentage” (ad valorem) excise.

Tobacco tax revenue has remained very stable from 1985 onwards in real terms. About Rs 2500 million (US\$ 60 million) have been collected annually in tobacco taxes. As the total government tax and other revenues have risen, tobacco tax revenue’s share of the total tax revenue has decreased from more than 30% in 1985 to about 11.5% in 1998-1999.

Karki *et al.* (2003) calculated income and price elasticity of tobacco products. The total income elasticity has been found to be positive and significant but does not have a very high value. An increase in income of 10% will only increase consumption by 1.77%. The total price elasticity for the whole population is found to be  $-0.882$ . This is significant and means that an increase in price of 10% will reduce tobacco consumption by 8.82%. The values of elasticity of smoking participation and conditional elasticity of demand are close ( $-0.459$  compared to  $-0.423$ ); this means that an increase in the price of tobacco has almost the same effect in reducing the quantity of tobacco consumed by smokers as on the decision to quit smoking.

It can be deduced from the above elasticity estimation that the demand for tobacco items will not increase significantly in the future even if the per capita income of the Nepalese people rises substantially. On the other hand, tobacco use has been found to be highly sensitive to price hike. Therefore if the government liberalizes the industry, there is a fair chance of the demand for tobacco items increasing in the country. But Nepal has kept all tobacco items in its Sensitive List. This means SAFTA is not creating any environment for opening up the tobacco market in the country. Therefore, the present level of trade and consumption will prevail in the future under the Agreement.

## 6.6 Pakistan

The tobacco industry is an important source of government income for the Government of Pakistan. It contributes about Rs 27.5 billion per year, as high as 4.4% of the country’s GDP. It has the largest yield of any crop in that country and employs some one million people (Table 6.5).

**Table 6.5:** *Tobacco trade and agriculture in Pakistan*

	Unit of measurement	1970	1980	1990	1995	2000
Cigarette imports	sticks in million	130	3	3	8	14
Cigarette exports	sticks in million	40	496	796	478	22
Tobacco leaf imports	metric ton	1800	247	78	15	290
Tobacco leaf exports (% of total exports)	metric ton (%)	30 000 (-)	375 (0.03%)	183 (0.01%)	255 (0.01%)	3 019 (0.06%)
Cigarette production	sticks in million	22 369	34 647	32 279	32 747	46 976
Tobacco leaf production	metric ton	115 800	77 800	68 096	80 917	107 700
Land devoted to tobacco growing (% of agricultural land)	Hectare (%)	60 300 (0.25%)	49 900 (0.20%)	40 911 (0.16%)	47 443 (0.18%)	56 400 (0.21%)
Number of people employed in tobacco manufacturing		10 655	9644	6804		

Source: Corrao et al, 2003

Tobacco is considered to be an important cash crop in Pakistan because of its domestic and foreign demand. WHO-Pakistan (2003) revealed that tobacco is grown in 0.24% of the total cultivable land in the country. Pakistani tobacco is exported to many countries of the world. The big buyers are UAE, Germany, Yemen, Lithuania, Indonesia and South Africa.

**Table 6.6:** *Export and revenue of tobacco items in Pakistan*

	Quantity exported		Value		Total Value	
	Tobacco (million kg)	Cigarettes (million stick)	Tobacco (million Rs)	Cigarettes (million Rs)	(million Rs)	(million US\$)
1999-2000	3.90	16.060	273.13	7.440	280.57	5.420
2000-2001	5.98	11.770	578.05	6.220	586.18	10.032
2001-2002	3.20	108.240	231.11	49.180	286.41	4.659
2002-2003	5.49	74.23	316.75	45.62	362.37	6.25
2003-2004	8.27	163.96	642.74	124.35	767.09	13.23
2004-2005	7.17	44.73	626.67	46.94	673.61	11.23

Source: Ministry of Commerce, Pakistan

In 1997 tobacco export was 1.52 million kg, which drastically increased to 7.17 million kg in 2005 (Table 6.6). Cigarette export also increased substantially, with some fluctuations. The total value of export is also significant, US\$ 11.23 million in 2005. However, Pakistan imports some tobacco and cigarettes but the

amount is not that significant. For example, in 2001 only 6 600 kg tobacco was imported into the country.

There are several types of tax on cigarettes in Pakistan: excise duty of 4.48 LCU per 10 cigarettes or 63% of the retail price, sales tax 15%, import duty 30% on CIF value, and other import duties 4%. However, tax on domestic cigarettes is high compared to other South Asian countries, but import duties are much lower than in other countries. Therefore, the price of imported cigarettes is seen to be the lowest in South Asia. In other words, Pakistan has the most liberal tobacco market in the region.

Even then the country has kept all its tobacco items in the Sensitive List of SAFTA. This is because recently Pakistan has taken a number of measures to fulfil the requirements of FCTC. At the same time, the General Exception clause of SAFTA also required tobacco be in the Sensitive List. However, it seems that Pakistan would not object to any other country of the region bringing tobacco into review discussion. But the trade and consumption of tobacco will be as it is for the country during the implementation phase of SAFTA.

## 6.7 Sri Lanka

Sri Lanka imports and exports both manufactured and raw tobacco. The domestic cigarette manufacturing industry absorbs most of the crop, and export of tobacco leaf has been somewhat insignificant. Some specific types of tobacco needed for special blends have been imported even in years when the total volume of tobacco grown in the country exceeded the amount needed for domestic tobacco product manufacturing.

The value of total tobacco imports to the country, mainly due to a rise in raw tobacco products, has increased in nominal terms over the last ten years, but fallen in real terms in general, while the value of exports has decreased considerably in real and nominal terms (Table 6.7). The country has moved from being a net exporter of tobacco products to a net importer with a corresponding outflow of foreign exchange. Trade in manufactured tobacco products has fallen, but it was always much smaller than the value of trade in raw tobacco.

**Table 6.7:** *Tobacco trade and agriculture in Sri Lanka*

	Unit of measurement	1970	1980	1990	1995	2000
Cigarette imports	sticks in million		44	84	41	188
Cigarette exports	sticks in million		40	376	726	368
Tobacco leaf imports	metric ton		2	122	1837	5559
Tobacco leaf exports (% of total exports)	metric ton (%)	235 (0.11%)	230 (0.04%)	1333 (0.20%)	2384 (-)	1888 (-)
Cigarette production	sticks in million	3035	5225	5621	5822	4889
Tobacco leaf production	metric ton	8600	18 602	10 335	11 383	5400
Land devoted to tobacco growing (% of agricultural land)	Hectare (%)	12 402 (0.53%)	15 692 (0.68%)	8920 (0.38%)	8577 (0.37%)	4480 (0.19%)
Number of people employed in tobacco manufacturing		1611	3370	8254	23 114	-

Source: Corrao et al, 2003

Manufactured tobacco exports consist mostly of cigarettes exported by CTC. The main market is the Middle East, although exports to that region have decreased over the past five years due to price increases in that market. The main sources of imported manufactured tobacco products are the United States, Hong Kong and Singapore.

**Table 6.8:** *Government tax revenues (in million Rs)*

	Total tax revenue	Tobacco excise Tax	Excise % of Total
1988	35 946	2665	(7.4)
1989	47 513	3855	(8.1)
1990	61 206	5461	(8.9)
1991	68 157	6884	(10.1)
1992	76 352	5573	(7.3)
1993	85 891	6866	(8.0)
1994	99 417	7888	(7.9)
1995	118 543	8788	(7.4)
1996	130 202	12 833	(9.9)
1997	151 451	15 175	(10.0)
1998	164 049	16 295	(9.9)

Source: World Bank, 2003

Tobacco tax contributes a significant portion to the total tax revenue in Sri Lanka (Table 6.8). Among taxes and duties, excise tax is 100% on cigarettes and 50% on *bidis*, excise tax is 1.468-4.042 LCU per cigarette based on length, sales tax is 12.5%, and national reconstruction levy 7.5%. By the end of 2000, excise levies accounted for about 77% of the retail price, and total cigarette revenues had risen to nearly Rs 19 million. Throughout the 1990s, tobacco taxes provided about 10% of the total government revenue. However, the government has not imposed duty on imported tobacco items. Therefore, the price differential is very low between domestic and foreign brands of cigarettes.

The government would lose significantly from initiating trade with other South Asian countries if the price factor is considered. The retail price of local cigarettes is the highest in the region. For example, the retail price of 20 cigarettes was only US\$ 0.20 in Nepal and US\$ 1.56 in Sri Lanka in 2002. Now if the country starts importing cigarettes from Nepal, after paying all taxes the price of imported cigarettes will be one third of the local brand.

Arunatilake and Opatha (2003) calculated income and price elasticities for tobacco items. They found that income had a positive impact on tobacco use as well as in the likelihood that a household member will use tobacco, and particularly, in the poorest expenditure quintile. The price variable was only significant in the estimates for the richer expenditure quintiles. This suggests that price has little impact on the decision to smoke/chew or not for the rich. But the total price elasticity has been found to be negative. This implies that at higher prices, the demand for tobacco will be lower for all expenditure groups. The total price elasticity of demand was  $-0.29$  in the richest expenditure quintile, while it varied between  $-0.55$  and  $-0.64$  among the other four expenditure quintiles.

The elasticity estimates suggest that since the country is growing well despite the devastating impact of a long-standing civil war on the economy, the demand for both cigarettes and chewing tobacco items will increase in the future for all income groups given the fixed price. On the other hand, tobacco use will decrease significantly among the majority of population if prices increase. Therefore although the impact of SAFTA on tobacco items will be the same, nothing can be deduced on the future consumption pattern of tobacco.

## 7. Smuggling of tobacco product and tax measures

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Smuggling of tobacco and tobacco products is a wide international concern. Criminal organizations operating in various parts of the world distribute international brands of cigarettes produced by multinational companies. In 2005, a total of 851 billion cigarettes were exported worldwide but only 664 billion were reported as imports. The enormous number of “missing” cigarettes suggests that the global cigarette smuggling problem could only continue with the complicity of the tobacco industry.

Cigarette smuggling increases a number of health-related concerns as well. Since smuggled cigarettes compete with the legal ones, smoking in the face of smuggling can be higher and cigarette prices may be lower. As a consequence, higher consumption will lead to greater smoking-related morbidity and mortality. Smuggling can discourage governments from raising tobacco taxes, or can lead others to reduce their taxes. This results in lower prices than what they would be in the absence of smuggling. Canada (1994) and Sweden (1998) reduced cigarette taxes significantly in order to lessen cigarette smuggling, while proposals for substantial tax increases in the United States (1998) were defeated partly by the threat that a black market would be in effect. Given the greater price sensitivity of youth and persons with lower incomes, the availability of lower-priced smuggled cigarettes will have the greatest impact on smoking and health among children and the poor.

Organized criminal networks play a significant role in large-scale cigarette smuggling. The European Commission (EC) notes that over 50 criminal networks have been identified by investigations of large-scale smuggling of various products, including tobacco products. The EC goes on to note that these crime syndicates adapt quickly to smuggling counter-measures, and are very flexible when it comes to using different methods of transport, distribution and money laundering. Corruption is more pervasive in low-income and middle-income countries than in high-income countries, placing them at greater risk for large-scale smuggling activities (Joosens *et al*, 2000).

It has been argued, often by the tobacco industry, that higher cigarette taxes will not have their intended effect of raising revenues and, in some countries, discouraging cigarette consumption. This is largely based on the argument that higher taxes will lead to increases in all forms of legal and illegal circumvention in order to avoid the tax increases, thereby significantly reducing sales of the higher taxed cigarettes but not reducing overall consumption as legal and illegal substitutes are found. Some countries, most notably Canada and Sweden, have accepted these arguments, rolling back prior tax increases; others have foregone new increases given fears of increased cigarette smuggling. Others however, have increased tobacco taxes, thereby achieving their goals of increasing revenues and/or reducing tobacco use.

In early 1990s increase in tobacco tax led to 30% increase in market share of smuggled cigarettes. Sweden had much the same experience as Canada following two significant tax increases and their subsequent roll-back in the mid-1990s. The experiences of many other countries mirror those of Canada and Sweden. That is, in country after country, with very rare exceptions, increases in cigarette and other tobacco excise taxes have led to increases in tax revenues and reductions in tobacco use, but smuggling increase was insignificant (*e.g.* 6% in South Africa). In the United Kingdom and France increased taxes and prices led to reduction of smoking prevalence, increase in tobacco tax revenues while smuggling remained relatively unimportant (Joosens *et al*, 2000).

## 7.1 Smuggling of tobacco products in South Asia

Now Asia is one of the key targets of global smuggling of international brands of tobacco products due to fiscal barriers, *e.g.*, high import and supplementary duties, domestic sales and value added taxes and bar on import, etc. In Bangladesh British American Tobacco (BAT) exerts significant control over illegal imports over cigarettes. However, high tax on cigarettes in India, ranging from Rs 100 to 2000 per 1000 cigarettes and the resultant high cigarette price leads to smuggling from neighbouring countries. This accounts for 8 to 10% of domestic cigarette consumption in the country with a revenue loss of more than Rs 6.5 billion. Many claim that smuggled cigarettes come from three South Asian countries Bangladesh, Bhutan and Nepal.

According to Campaign for Tobacco-free Kids (2003), large volumes of cigarettes have been smuggled into Bangladesh for quite some years. Although British American Tobacco (BAT) has fostered cigarette smuggling throughout much of Asia, Bangladesh has been an important destination because of its large population, the local preference for British-style cigarettes, and its location close to the growing market for major-brand cigarettes in India. There is little benefit to

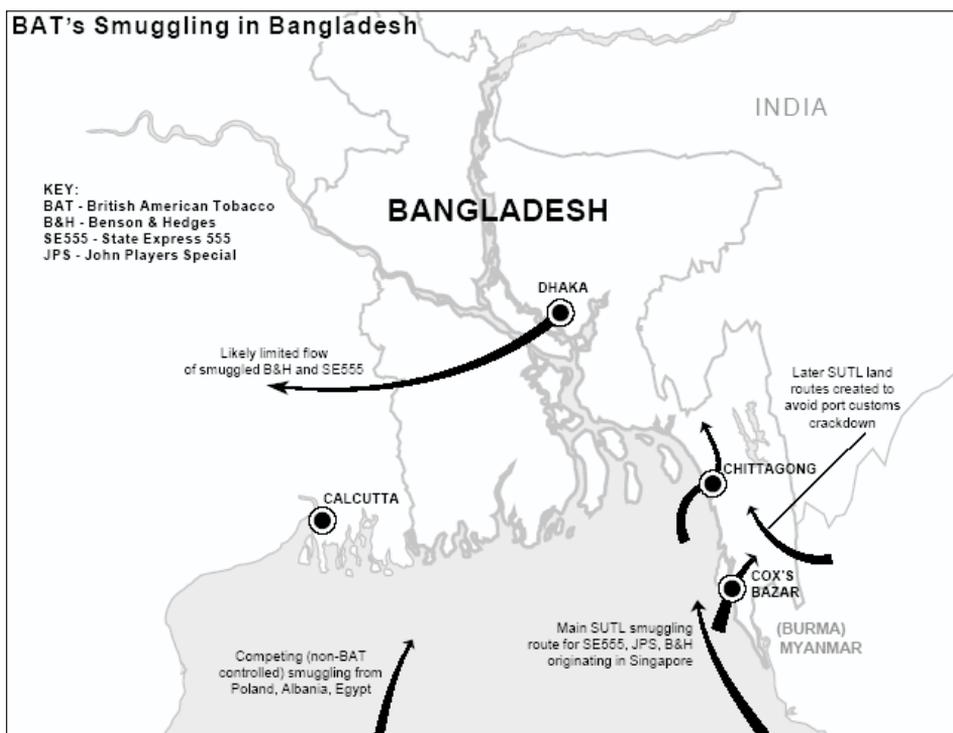
**Table 7.1:** Price of 20 cigarettes with tax, 2002

	Domestic brand (US\$)	Foreign brand (US\$)	Smuggling as % of domestic sales, 1995
Bangladesh	0.83	1.38	38
Bhutan	–	–	–
India	1.09	1.43	10
Maldives	–	1.33 (a)	1
Nepal	0.20	1.00 (b)	–
Pakistan	0.65	0.93	–
Sri Lanka	1.56	1.67	10

Source: Corrao et al, 2003

companies from their legal imports except as a cover for their illegal sales. Its cause in the country is a little more complex due to a local BAT cigarette manufacturing subsidiary called Bangladesh Tobacco Co. (BTC), as well as both legal imports and smuggled cigarettes.

**Figure 7.1:** BAT’s smuggling in Bangladesh



Source: Campaign for Tobacco-Free Kids (2003).

Price plays an important role in continuing cross-border smuggling of tobacco items. Among SAARC countries, the price of domestic cigarettes is the lowest in Nepal. Therefore it is expected that in the absence of normal trading arrangement, Nepal's cigarette production will be spread out among other countries in the region through an informal channel. Cigarettes produced in Bangladesh and Pakistan are also cheaper and therefore it is obvious that these will be smuggled to neighbouring countries.

In recent years, smuggling of tobacco products (both smoking and non-smoking), through various entry points on the Nepal-India and Nepal-China (Tibetan region of China) borders and via Bangladesh has become a common phenomenon. Nepal is surrounded by India on three sides — east, south and west — and by the Tibetan region of China in the north. In the east, Bangladesh is only about 12 kilometres away. On the Nepal-India border, there are 24 customs posts and on the Nepal-China border there are four such posts.

Many families make their living by smuggling goods through the Nepal-India open border. Small business houses do not need to keep records of their trade, which in a way encourages smuggling. Most smokeless tobacco products such as *khaini*, *zarda* and *paan parag* are smuggled into Nepal from India through these porous borders and are sold on the waysides as cheaply as in India. Highly powerful and well-connected people are perceived to be behind these organized smuggling activities.

Smuggling poses a limit to the effectiveness of efforts to contain and reduce the overall availability of tobacco and tobacco products. Smuggled cigarettes normally do not have health warnings in the local language. At the same time, smuggling weakens governments' tobacco control strategy. On the economic front, it reduces the government's revenue and employment in the domestic tobacco industry.

Increase in tobacco tax and the resultant higher price would reduce smuggling outflow, but it may also reduce government's revenue from internal sale. On the other hand, an increase in import duty and supplementary duty may increase smuggling inflow, and its decrease may reduce it through increased importation through a formal channel. But here as well, there is a sheer possibility of reduction of government's revenue from decreased internal sale. Therefore, fiscal measures would not bring about good results in the macroeconomic sense. Non-fiscal measures such as licensing all persons related to the business of tobacco, introducing unique serial numbers for all packages, computerizing record-keeping and tracking system, and stricter punishment would be good ways to counter smuggling.

## 8. Tobacco control policies and implementation in SAARC countries

All SAARC countries have signed the WHO Framework Convention on Tobacco Control and with the exception of Afghanistan are parties to the Framework Convention (Table 8.1).

**Table 8.1:** *Member countries having signed and ratified Framework Convention and date of signature and ratification*

	Signature date	Ratification
Afghanistan	29 June 2004	-----
Bangladesh	16 June 2003	14 June 2004
Bhutan	9 December 2003	23 August 2004
India	10 September 2003	5 February 2004
Maldives	17 May 2004	20 May 2004
Pakistan	18 May 2004	3 November 2004
Nepal	3 December 2003	7 November 2006
Sri Lanka	23 September 2003	11 November 2003

<http://www.who.int/tobacco/framework/countrylist/en/index.html>  
(accessed on 26 May 2008)

Three SAARC countries (Bangladesh, India and Sri Lanka) have comprehensive tobacco control legislation and others are in the process of formulating comprehensive tobacco control legislation. A national objective on tobacco control is available in five SAARC countries and eight Member countries (Table 8.2) have a national agency for tobacco control.

### 8.1 Smoke-free environments

One of the provisions of the Framework Convention is protection from second-hand smoke in all indoor public places and workplaces.

In all SAARC countries there exists a set of measures banning smoking in public places. These, however, are not adequate or comprehensive enough.

**Table 8.2:** National objectives on tobacco control and national agencies for tobacco control in SAARC countries

	National objectives on tobacco control	National agency for tobacco control
Afghanistan	No	No
Bangladesh	Yes	Yes
Bhutan	No	Yes
India	Yes	Yes
Maldives	No	Yes
Pakistan	Yes	Yes
Nepal	Yes	No
Sri Lanka	Yes	Yes

Source: WHO Report on the Global Tobacco Epidemic 2008

Smoking is completely banned in health-care and educational facilities in six SAARC countries; in universities, governmental facilities and other workplaces in five; in indoor offices in four; in restaurants in one; and in pubs and bars in three SAARC countries (Table 8.3).

The ban on smoking in public places is not being effectively enforced. Global Youth Tobacco Survey (GYTS) results show that more than half of students are exposed to second-hand smoke in public places in most SAARC countries.

**Table 8 3:** Regulation on smoke-free environments in SAARC countries

Country	Health-care facilities	Educational facilities <sup>1</sup>	Universities	Governmental facilities	Indoor offices	Restaurants	Pubs and Bars	Other indoor workplaces	Other sub-national measures on smoke-free environment ^
Afghanistan	No	No	No	No	No	No	No	No	No
Bangladesh	Yes	Yes	No	No	No	No	No	No	No
Bhutan	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
India	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
Maldives	Yes	Yes	Yes	Yes	No	No	....	No	No
Pakistan	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Nepal	No	No	No	No	No	No	No	Yes	No
Sri Lanka	Yes	Yes	Yes	Yes	Yes	No	No	Yes	No

! Data were not validated by country focal point in time for publication of this report. <sup>1</sup> Except Universities

.... Data not reported/not available

— Data not required/not applicable

Source: WHO Report on the Global Tobacco Epidemic 2008

## 8.2 Advertisement bans

Direct advertisement of tobacco and allied tobacco products on the national television and radio networks is banned in seven SAARC countries. Advertisements in local magazines, newspapers and billboards are banned in five SAARC countries; at point of sale in three; and on the Internet in two (Table 8.4). SAARC countries have taken certain initiatives for the implementation of such bans with some success stories. However, the rate and degree of enforcement is not satisfactory. Global Youth Tobacco Survey (GYTS) data reveal that over 60% students in many SAARC countries are exposed to advertisements on billboards and in newspapers.

**Table 8.4:** Advertising ban at the national/federal level in SAARC countries

Country	National TV and radio	Inter-national TV and radio	Local magazines and news-	Inter-national magazines and newspapers	Bill-boards and outdoor advertising	Point of Sale	Internet	Other sub national bans on advertising
Afghanistan	Yes	No	Yes	No	Yes	No	No	Yes
Bangladesh	Yes	No	Yes	No	Yes	No	No	No
Bhutan	Yes	No	No	No	No	Yes	No	No
India	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Maldives	Yes	No	Yes	No	Yes	Yes	No	No
Pakistan	No	No	No	No	No	No	No	Yes
Nepal	Yes	No	No	No	No	No	No	No
Sri Lanka	Yes	No	Yes	No	Yes	Yes	Yes	No

Source: WHO Report on the Global Tobacco Epidemic 2008

Indirect advertisement through free distribution in mail or by other means is banned in five SAARC countries; through sponsored events is banned in two SAARC countries; through non-tobacco products promotion with tobacco brand name is banned in three SAARC countries; through promotional discounts and through brand name of non-tobacco product used for tobacco products is banned in two SAARC countries (Table 8.5). However the enforcement of curbs on indirect advertisements is inadequate in all Member countries. GYTS data reveal that one in 10 students possesses objects which feature the brand logo of cigarettes and one in 10 students has been offered free samples of cigarettes at some point or the other in most SAARC countries.

**Table 8.5:** *Ban on promotion and sponsorship in South-East Asia*

Country	Free distribution in mail or by other means	Promotional discounts	Non-tobacco products identified with tobacco brand names	Brand name of non-tobacco products used for tobacco products	Appearance of tobacco products in TV and/or films	Sponsored events
Afghanistan	No	No	No	No	Yes	No
Bangladesh	Yes	No	Yes	No	No	Yes
Bhutan	No	No	No	No	No	No
India	Yes	Yes	Yes	Yes	Yes	Yes
Maldives	Yes	Yes	No	No	No	Yes
Pakistan	Yes	No	No	No	Yes	Yes
Nepal	No	No	No	No	No	No
Sri Lanka	Yes	Yes	Yes	Yes	Yes	Yes

— Data not required/not applicable

Source: WHO Report on the Global Tobacco Epidemic 2008

### 8.3 Packaging and labelling

By law general health warnings are mandatory on cigarette packets in most SAARC countries. However their effectiveness is limited because of the general and non-specific nature of the warning and the tiny print size. There is scientific evidence that placing specific health warnings on tobacco products work. There is provision of placing specific health warnings on tobacco labels in four SAARC countries (Table 8.6).

Thirty per cent of the principal display area is mandated in Bangladesh, Maldives and Pakistan and 50% in India. There is provision for three rotatory graphic health warnings on all tobacco products in India though it is not implemented. There are provisions of rotating textual health warnings in Bangladesh and Maldives.

Article 11 of the Framework Convention makes it mandatory to implement this law within three years of ratification and states that it should cover at least 30% and preferably 50% of main display areas. Bhutan, Nepal and Sri Lanka have ratified the Convention but have not been able to create the provision on packaging and labelling till date.

**Table 8.6: Regulation on packaging in South-East Asia**

Country	Ban on deceitful terms #	Percentage of principal display area mandated to be covered by a health warning	Does the law mandate specific warning?	If so, how many?	Do warnings appear on each package and outside packaging?	Do warnings describe the harmful effects of tobacco?	Are warnings large, clear, legible and visible?	Are the health warnings rotating?	Are health warnings written in the principal language of the country?	Do warnings include a picture?
Afghanistan	No	Not mandated	—	—	—	—	—	—	—	—
Bangladesh	No	30%	Yes	6	Yes	Yes	Yes	Yes	Yes	No
Bhutan	No	Not mandated	—	—	—	—	—	—	—	—
India	Yes	50%	Yes	4	Yes	Yes	Yes	Yes	Yes	Yes
Maldives	No	30%	Yes	5	Yes	Yes	Yes	Yes	Yes	No
Pakistan	No	30%	Yes	1	No	Yes	Yes	No	Yes	No
Nepal	No	Not mandated	—	—	—	—	—	—	—	—
Sri Lanka	Yes	Not mandated	—	—	—	—	—	—	—	—

# including but not limited to “low tar”, “light”, “ultra light” or “mild” in any language

— Data not required/not applicable.

Source: WHO Report on the Global Tobacco Epidemic 2008

## 8.4 Cessation

Access to a toll-free quit helpline is non-existent in SAARC countries. Tobacco cessation facility in some primary care centres and some hospitals is available in India, Maldives and Sri Lanka and in some offices of health professionals in Sri Lanka only. Cessation facilities are available in some communities in Bangladesh, India, Maldives and Sri Lanka (WHO, SEARO). Nicotine Replacement Therapy is available on prescription in all SAARC countries with the exception of Bhutan and Pakistan. Pharmacotherapy (Bupropion) is available on prescription in limited locations in India only (Table 8.7).

**Table 8.7: Support for treatment of tobacco dependence in South-East Asia**

Country	Population with a access to toll-free quit line	Nicotine Replacement Therapy		Bupropion		Is smoking cessation support available in...? *				
		Available	Place available*	Available	Place available*	Primary care facilities	Hospitals	Offices of health professionals	Community	Other
Afghanistan	No	Yes	Pharmacy	No	—	No	No	No	No	No
Bangladesh	No	Yes	Pharmacy	No	—	No	No	No	Yes, in some	No
Bhutan	No	No	—	No	—	No	No	No	No	No
India	No	Yes	Pharmacy	Yes	Pharmacy with Rx	Yes, in some	Yes, in some	No	Yes, in some	Yes, in some
Maldives	No	Yes	Pharmacy with Rx	No	—	Yes, in some	Yes, in some	No	Yes, in some	No
Pakistan	No	No	—	No	—	No	No	No	No	No
Nepal	No	Yes	Pharmacy with Rx	No	—	No	No	No	No	No
Sri Lanka	No	Yes	Pharmacy with Rx	No	—	Yes, in most	Yes, in most	Yes, in most	No	No

\*Pharmacy with Rx” means that a prescription is required.

# “Most” means that availability of service is generally not an obstacle to treatment; “Some” means that low availability of treatment is often an obstacle to treatment

.... Data not reported/not available

— Data not required/not applicable

Source: WHO Report on the Global Tobacco Epidemic 2008

## 8.5 Taxation

Taxation on cigarettes varies from 9% in Afghanistan to 70% in Nepal (Table 8.8).

**Table 8.8:** *Taxation in SAARC countries*

	Taxation (percentage)
Afghanistan	9.0
Bangladesh	50.0
Bhutan	—
India	58.0
Maldives	33.0
Nepal	70.0
Pakistan	17.0
Sri Lanka	54.0

*Source:* WHO Report on the Global Tobacco Epidemic 2008

However, there is a wide gap in taxation between cigarettes and other tobacco products (like *bidi* and smokeless tobacco).

In fact, SAFTA provides ways for implementation of the WHO FCTC. Since tobacco items have been kept in the Sensitive List of all countries, South Asian governments can easily implement all the articles of the Convention in their countries. Health Ministers of South Asian countries can indeed play a more proactive role in taking FCTC to the SAARC summit for wider attention of the highest leaders.

The Framework Convention (ratified by all SAARC countries except Afghanistan) and the South-East Asia and Western Pacific Regional Tobacco Control Action Plans provide useful frameworks for implementing such a comprehensive approach. The synergy evidenced between SAARC countries passing tobacco control laws, regulations or decrees, ratifying the Framework Convention, and in monitoring and evaluation of the tobacco epidemic through surveys offers SAARC Member countries a unique opportunity to develop, implement and evaluate comprehensive tobacco control policies that can be beneficial to each country.

## 9. Tobacco control within SAARC: SAPTA, SAFTA and institutional mechanisms

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### 9.1 Tobacco control and international trade agreements

The World Trade Organization (WTO) administers more than a dozen trade agreements covering tariffs for industrial and agricultural products, as well as non-tariff issues, including plant and animal safety rules, and technical barriers to trade such as product-related regulations, rules and regulations covering services, government procurement, investment rules and intellectual property. WTO is backed up by a very strong enforcement mechanism. The other prominent trading agreements are the North American Free Trade Agreement (NAFTA), European Community (EC), ASEAN Free Trade Area (AFTA), the Economic Community of West African States (ECOWAS) and the entirety of the Western Hemisphere except for Cuba (the Free Trade Area of the Americas-FTAA).

The historic and still core feature of trade agreements is a commitment by signatories to reduce tariffs on imported goods. Tariff reduction agreements typically include cigarettes and tobacco products. WTO and most bilateral and regional trade agreements require Member States to provide strong protections for intellectual property — patents, copyright, trademark and trade secrets.

WTO agreements contain a public health exception, permitting measures which violate general trade rules if they are “necessary” to advance public health. So far, this exception has been treated very narrowly, covering regulatory measures only if they are deemed the “least trade-restrictive” way to accomplish a particular public health goal.

Technical barriers to trade (TBT) agreements establish international rules relating to how, under what circumstances, and with what restrictions countries can establish technical regulations concerning products or processes related to products. Technical regulations may cover such matters as health and safety, and environmental and consumer regulations. Under trade agreement rules, technical regulations must not be more trade restrictive than necessary to achieve a public health or other

objective. Second, where international standards exist, or their adoption is imminent, countries must use them unless they can meet very stringent tests.

## 9.2 Progression from SAPTA to SAFTA and its overall implications for tobacco trade and its control

SAARC's first agreement on preferential trade called SAARC Preferential Trading Arrangement (SAPTA) was signed in 1993; it came into force in 1995. The basic principles of this agreement include overall reciprocity and mutuality of advantages to "equitably" benefit the contracting states, negotiation of step-by-step tariff reform, and inclusion of "all products", in raw, semi-processed and processed forms in the preferential trading arrangement. The agreement, however, did not contain any specific mention about preferential trade on tobacco items. Hence, SAPTA regime can be said to be friendlier to tobacco trade in SAARC region.

The Colombo Summit of 1998 decided to set up a Committee of Experts (COE) to draft a treaty framework of SAFTA; the Agreement on SAFTA was signed at the Islamabad Summit 2004. Afterwards, a number of negotiations were held on sensitive lists, rules of origin, mechanism for revenue loss compensation and technical assistance to LDC Member States till December 2005. The Agreement came into force on 1 July 2006. Its trade liberalization programme envisages progressive reduction of customs duty and special and differential treatment for LDC Member States.

SAFTA has a specific advantage over SAPTA to influence tobacco trade in the region. In the first place, it has a defined set of sensitive lists comprising tobacco products. This will provide no privilege to tobacco items in trade liberalization programme. The items may be traded but duty thereon may not be reduced if the technical committee does not agree to reduce tariff on tobacco products in every four-year review.

One of the basic principles of SAFTA is its clear position against traded items that contain health hazards. Tobacco and tobacco products bear significant human health concerns. Article 14 provides an open-ended option for the contracting states to adopt measures to protect human health. Personal communication with relevant officials and scholars reveals that there is no chance of reducing tariff on tobacco products in the near future. Even in 2016, when there will be full realization of the trade liberalization programme, tobacco tariff may not be reduced. On the other hand, vis-à-vis SAFTA, individual countries are adopting various measures to curb tobacco use. Policy-makers are also getting increasingly sensitised about harms

of tobacco. This implies a limited scope for inclusion of tobacco in the next rounds of review.

## 9.3 Potential of SAARC's legal and policy instruments for promoting tobacco control

### Convention of Child Welfare

The SAARC Convention on Regional Arrangements for the Promotion of Child Welfare was signed during the Eleventh Summit, 2002, with the objective of facilitating development of South Asian children. The Convention provides some general options for tobacco control. For example, Article 4.1 mentions that "State Parties shall place special emphasis on the important areas for child development and well-being as regional priorities". This is a general requirement for child development in the SAARC countries. Article 4.5 states, "State Parties shall encourage the mass media to disseminate information and material and cultural benefit to the child". This implies that the states can insist on media disseminating information on serious health harms of tobacco use by children. On the other hand, Article 7.1 makes it obligation for the countries to introduce necessary legal and other measures to implement the Convention, "The State Parties to the Convention shall adopt, in accordance with their constitutions, legislative and other measures necessary to ensure the implementation of the Convention".

However, although the Convention does not have specific reference to tobacco trade and consumption, it has broad policy implications for tobacco control. For instance, it can be used as a policy tool to prevent tobacco consumption by children, or sale of tobacco products to the child. Cigarette packets should also warn about health and social consequences of tobacco use by the child. The states can undertake advocacy programmes among children through school programmes for curbing tobacco consumption. Policy and legal actions can also be introduced in this respect.

### Convention on Terrorism

During the Third SAARC Summit 1987, the *SAARC Regional Convention on Suppression of Terrorism* was signed; it came into force in 1988. It provides for a regional approach to well-established principles of international law regarding terrorist offences. Member States are committed under its provisions to extradite or prosecute alleged terrorists. Regional cooperation is also envisaged in preventive action to combat terrorism through exchange of information, intelligence and expertise. Subsequently, at the Twelfth SAARC Summit in 2004, an additional protocol was signed.

The spirit of the Convention is to extradite or prosecute alleged terrorists. In addition, the additional protocol deals with funding of terrorists. Although this Convention does not directly deal with tobacco smuggling, if individual terrorists or groups be involved with tobacco smuggling and thereby money laundering, they can be suppressed by both State Parties and regionally through legal measures envisaged in the Convention. In this way tobacco smuggling can be curbed.

## SAARC Social Charter

The Tenth SAARC Summit in 1998 decided to adopt a Social Charter incorporating a range of targets to be achieved across the region in areas of poverty alleviation, population stabilization, women's empowerment, youth mobilization, human resource development, promotion of health and nutrition, and child protection. The Charter was signed during the Twelfth SAARC Summit. It requires Member States to formulate national plans of action to operationalize the provisions of the Charter.

Article 1.2 states that the countries agree that they shall respect, protect, and fulfil the obligations of the Charter "without reservation and that the enforcement thereof at the national level shall be continuously reviewed through agreed regional arrangements and mechanisms". One such requirement is implementation of Article 4.4 which deals with health. It states, "... health issues are related to livelihood and trade issues which are influenced by international agreements and conventions, the State Parties agree to hold prior consultation on such issues and to make an effort to arrive at a coordinated stand on issues that relate to the health of their population."

It has significant implications for tobacco trade in SAARC countries. Since tobacco use and trade have serious health concerns, it has been made obligations for individual countries to introduce legal measures to promote tobacco control, mainly through NPA. However, Article 11.1 also describes the method to implement the Charter, "The implementation of the Social Charter shall be facilitated by a National Coordination Committee or any appropriate national mechanism as may be decided in each country. Information on such a mechanism will be exchanged between State Parties through the SAARC Secretariat. Appropriate SAARC bodies shall review the implementation of the Social Charter at the regional level."

Tobacco control may not attain complete success without regional cooperation and coordination. India has initiated a number of successful measures to curb tobacco use that can be shared with other countries. Meetings between National Coordination Committees and the SAARC Secretariat on tobacco control should

be held regularly to observe progress of the implementation of FCTC and other measures to restrain tobacco consumption and impose pragmatic non-tariff barriers on tobacco trade within the region.

## **9.4 Implications of SAARC trade liberalization programme, SAFTA Agreement And Sensitive List For Tobacco Control**

The trade liberalization programmes of both SAPTA and SAFTA has implications for tobacco control in the region. Article 17 of SAPTA provides flexibility to the Contracting States for bringing about modifications and withdrawal of concessions (tariff, para-tariff and non-tariff concessions) after three years from the day concession was extended. Such flexibilities have a bearing on tobacco trade. A contracting state, under this Article, is empowered to withdraw or relax tariff, para-tariff and non-tariff barriers on tobacco trade if needed. This type of option may increase tobacco trade and consumption, and consequently weaken tobacco control measures taken by other states.

Article 7.3 of SAFTA has direct implications for tobacco control in the region. It says, "... b) The Sensitive List shall be reviewed after every four years or earlier as may be decided by SAFTA Ministerial Council (SMC), established under Article 10, with a view to reducing the number of items in the Sensitive List." Hence, SMC is fully empowered to decide whether they would bring in all or partial tobacco and tobacco products from the Sensitive List to the trade liberalization programme. Therefore, for effective tobacco control there must be pressure on SMC which must be sensitised not to discuss tobacco items at review meetings.

However, separate rules of origin requirements, consultations and dispute settlement mechanisms, and safeguard measures in SAFTA do not have instant or potential impact on tobacco trade in the SAARC region unless tobacco items are brought into the liberalization programme. If those items are moved to the normal list of traded items in future, then questions regarding rules of origin requirements and related issues will arise.

## **9.5 Role of institutional mechanisms in tobacco trade and control**

### **SAFTA Ministerial Council**

The SAFTA Ministerial Council (SMC) comprises ministers for commerce and industry from the SAARC countries, who meet to discuss institutionalized

development for implementation of the SAFTA Agreement. They are supposed to meet in order to review non-tariff barriers and issues related to tariff regime to facilitate trade in SAARC countries. The Council has a pivotal role to play in promoting or controlling tobacco trade in the region. It can take policy decisions relating to continuance of tobacco items in the Sensitive List for a longer duration.

### SAFTA Committee of Experts

The SAFTA Committee of Experts (SCOE) deals with negotiations in determining clauses and items relating to rules of origin, Sensitive List, mechanism for revenue loss compensation and technical assistance. The decision came through an inter-ministerial meeting where intensive discussions were held before finalizing the SAFTA Agreement. The committee played an important role in keeping tobacco items in the Sensitive Lists. Thus in any future revision, the Committee can influence policy-decisions in opening up tobacco trade or control. Therefore inter-ministerial meetings held in commerce ministries in the Contracting States should adopt a clear position against any concession on tobacco trade in future, which will ultimately influence SCOE to act in favour of tobacco control in future rounds of negotiations in SAFTA.

### Integrated Programme of Action

SAARC's core work programme was the Integrated Programme of Action (IPA) when it was established in 1985. It consists of a number of Technical Committees (TCs) on agreed areas of cooperation. As the agenda of SAARC expanded, new areas were identified for regional cooperation that led to expansion of IPA as well. Its objective was to focus more on activities that would yield tangible benefits to the people of South Asia. In subsequent years IPA has been substantially reviewed and in 1999, the SAARC Integrated Programme of Action (SIPA) was introduced, which was approved by the Council of Ministers at the Twenty-first Summit. At its 24<sup>th</sup> session, SIPA was transformed into the Regional Integrated Programme of Action (RIPA). There are seven Technical Committees under RIPA including Agriculture and Rural Development; Health and Population Activities; and Women, Youth and Children. As the SIPA, an in-built mechanism for automatic review of activities under RIPA has been provided. The review is supposed to be undertaken every three years by an independent multidisciplinary expert group to be constituted by the Secretary-General in consultation with Member States. The Secretary-General of SAARC reports to the Standing Committee on the progress of implementation of RIPA both at its inter-Summit and pre-Summit sessions.

## Technical Committee on Agriculture and Rural Development

Under Technical RIPA there is a Committee on Agriculture and Rural Development (TCARD). Its areas of work are food security, poverty alleviation, enhancing food production through storage, processing and quality control, including aspects of distribution, employment generation, water resources management for agriculture, enhancement of agriculture sub-sectors like dairy, poultry and fisheries. This committee may work for tobacco control in the region. It can help shift the farmers involved in tobacco production to other agricultural activities, most importantly in food and livestock production in order to enhance food security in the region. This committee can insist on Member States to introduce work programmes that would help control tobacco consumption.

## Technical Committee on Health and Population Activities

The primary focus of the Technical Committee on Health and Population Activities (TCHPA) is maternal and child health care, and combating major diseases including tuberculosis. Already under SAARC there is a regional centre for prevention of tuberculosis (TB) in the region. The growing menace of TB is one of the greatest health concerns in the region. Tobacco consumption has been found to be a major root of TB. Therefore the Committee can work closely with the Member States to introduce policies and adopt legal measures for tobacco control. The Committee can also work to establish a strong Health Unit within SAARC to champion public health issues such as tobacco control.

## Technical Committee on Women, Youth and Children

The Technical Committee on Women, Youth and Children (TCWYC) deals with social development and progress of women, youth and children in SAARC region. It can work to adopt measures by Member States to combat tobacco use among these population groups in the region. Especially, smoking among young population aged below 25 years has been increasing in SAARC countries, which is posing a serious threat to public health. Smoking by pregnant mothers can create complications to their child's physical health. Keeping this in mind, this Committee can insist on Member States to take direct and indirect action to prohibit tobacco consumption among these people.

## 10. Conclusion and policy options

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Tobacco is extremely harmful to human health and causes deadly diseases to millions of people in South Asia every year. No doubt countries in the region have taken many actions to control tobacco. SAFTA has kept all tobacco items in the sensitive list, which suggest that tobacco will be traded but not included in the trade liberalization programme unless it comes into tariff reduction items. There is a provision that the contracting countries would review their sensitive lists every four years. It is unlikely that tobacco will come out of the sensitive list given the high level of public demand for its restrictive use, if not ban. So status quo will be maintained in regard to tobacco trade.

For effective control of tobacco in South Asia, individual countries and SAARC can adopt further measures and enact legislation. However, both fiscal and non-fiscal measures can contain production and use of tobacco in the region. The following policy options are suggested for further tobacco control in South Asia:

- (1) Studies on the economics of tobacco control suggest that an increase in income would enhance the level of tobacco consumption in Bangladesh, Nepal and Sri Lanka, and a hike in the price of tobacco would reduce tobacco use prevalence and tobacco consumption in households in all income categories. Studies have found that a 10% increase in cigarette tax would reduce cigarette consumption by 2.4, 5.86 and 1.91% and cigarette tax revenue by 7.36, 3.56 and 7.9% in Bangladesh, Nepal and Sri Lanka respectively (Reddy and Gupta, 2004). Thus there is considerable room for further increase in tax on tobacco and governments could decrease tobacco use by increasing the average price of tobacco products.
- (2) An increase in tobacco prices by at least 5% in real terms annually, as recommended by WHO, would not only reduce tobacco consumption and improve health outcomes but also significantly increase government revenue. The cumulative revenue gain from increasing tobacco prices by 5% in real terms annually is quite significant. However, given the current taxing system in Sri Lanka, cigarette consumption can only be

influenced through taxes. As long as cheaper tobacco products are available, the effectiveness of price as a mechanism for reducing tobacco-related harm may not be maximized. Hence, further studies should be undertaken on how tax measures can help to reduce tobacco consumption among different income groups. It is also desirable that Indo-Sri Lanka free trade agreement be made compatible with SAFTA sensitive list so that there is no loophole in the trading system which facilitates further cigarette consumption between the two neighbours.

- (3) Despite governments' anti-smoking measures, tobacco companies are investing heavily in tobacco promotion. Legislation in regard to tobacco control should be enacted without delay. The goal should be a complete and comprehensive ban on all tobacco product advertising and promotion, direct and indirect.
- (4) There is an acute shortage of available information in regard to tobacco industry and tobacco use. A reliable system of data collection and record-keeping is needed for cigarettes and other tobacco products. This would improve revenue collection and deter corruption.
- (5) Primary and secondary data on health risks and medical costs of tobacco use are not available. A detailed study would be needed to address these gaps. Information is needed on cigarette smoking and other tobacco products, and related causes of death and morbidity broken down by region, residence, sex and age, treatment costs, both direct and indirect, for major tobacco-attributable illnesses.
- (6) Tobacco control measures should be integrated into other public health initiatives, and their priority increased. As literacy and smoking prevalence are inversely correlated, a drive to increase literacy rates might also help to decrease smoking. Tobacco production and use and tobacco-related health issues touch different spheres of government, including health, finance, industry and labour, and nongovernmental organizations.
- (7) A Tobacco Free Initiative unit or task force should be set up in every SAARC country to coordinate tobacco control activities. Tobacco tax revenues, in spite of leakage and smuggling, contributes about 9% of all government revenues. Ministries of Finance should have a strong interest in raising tax rates regularly, and introducing tighter controls. This will also help to control smuggling.
- (8) Tobacco manufacturing industries should also be made responsible for informing people about the damaging aspects of tobacco use, requiring much larger, stronger and more specific and informative health warnings

on all tobacco product packages and advertisements, as long as advertising is permitted.

- (9) Governments should impose a comprehensive ban on all forms of promotion of tobacco products including advertising and sponsorship. Governments should declare all public places tobacco-free, and educate the public on the benefits and reasons, to increase compliance. Nongovernmental organizations and civil society should be asked to integrate the issue of tobacco control in their activities.
- (10) Tobacco production is associated with harm to people and to the environment. Tobacco is cultivated in nearly all countries of the region. Significant tobacco cultivation distorts national tobacco control policy. The tobacco trade uses tobacco farmers as a powerful leverage in its political machinations. For further improvement of policies related to tobacco control this aspect has to be kept in mind.
- (11) Literature covering South Asian region reveal that freeing the trade of tobacco and its related products may adversely affect economic development and public health. As long as multinational companies are associated with this trade, it will be difficult to ban tobacco consumption. In this context, a regional dialogue should be arranged with tobacco companies with support from SAARC to work out how to gradually reduce investment in this sector.
- (12) A rational tax structure needs to be designed to provide a tax- and price-based disincentive for tobacco consumption in all forms rather than merely transferring consumption from one tobacco segment to another. While taxes on cigarettes must be progressively increased, *bidis* and oral tobacco products should be taxed at sufficiently higher rates. Several countries, *e.g.*, New Zealand, Australia and USA, have used an earmarked tobacco tax to generate financial resources for funding health promotion programmes and specifically designed tobacco control programmes. India has used an earmarked *bidi* tax to provide several benefits to bidi workers. This concept needs to be extended to a dedicated tax or cess that will be utilized for resourcing tobacco control programmes.
- (13) Supply side actions are complementary to demand side measures to control tobacco consumption in India. Supply side actions pertain mainly to crop substitution, trade restrictions, controlling smuggling and even banning of the product. It is feasible and viable for tobacco cultivators to switch over to alternative crops such as cotton, chillies, isabgol (*Plantago*), cotton, maize, soyabean, sugarcane and potato. An in-depth market

analysis is required to identify alternative crops. This should include considerations such as size of the potential market, both domestic and international, elasticity of demand and supply, inter-regional and international competition, and the relative advantages of the tobacco-growing region (*i.e.*, production, costs, soils and access to markets) compared with competing regions. Governments should provide assistance during transition, especially to poorer farmers, which include rural training, broader off-farm employment opportunities and assistance with crop diversification. Here, NGOs too can be involved as partners. Tobacco diversification needs to be considered within a broader developmental framework. The feasibility of non-farming jobs should also be considered, which might entail infrastructural investment.

- (14) There is convincing evidence that tobacco advertising plays an important part in encouraging non-smokers to begin smoking. When countries ban tobacco advertising in one medium, such as television, the industry switches advertising to other media with little or no effect on overall marketing expenditures. Comprehensive bans on tobacco advertising and promotion can result in considerable reduction of tobacco consumption at the national level. A complete ban on advertisements coupled with intensive public information campaign on the ill-effects of using tobacco products will lead to a reduction in tobacco consumption by 6%. In India, surrogate advertisements are still prevalent in the media and existing laws need to be strengthened and enforced to curb such practices.
- (15) WHO and the World Bank recommended warning labels on tobacco products, which are an effective way to inform smokers about the hazards of tobacco consumption, encourage smokers to quit, and discourage non-smokers from starting to smoke. Warnings are effective only if they contain multiple, strong and direct messages that are prominently displayed. Health warning message labelling on the product package is a critical component of a comprehensive tobacco control strategy. Health warning message labels are a cost-effective way to inform the public, especially smokers, of the hazards of tobacco use.
- (16) The poor, the young and women are particularly vulnerable to becoming victims of tobacco. Tobacco control policies must encompass a human rights approach to protect vulnerable groups from the hazards of tobacco. Tobacco smoking is inversely associated with educational status. Homeless people in India spend more on tobacco than on food, education or savings. Enabling conditions must be created to help individuals make informed choices.

- (17) Increasing knowledge and awareness about the harmful effects of tobacco use among the people is one of the ways to reduce tobacco use. Health education leads to a long-lasting reduction in tobacco use, when it is imparted through the mass media and combined with a school- and community-based education programme. Education campaigns through the mass media are among the most cost-effective methods currently available to prevent or reduce tobacco use. School-based tobacco prevention programmes that identify social influences which promote tobacco use among the youth and teach skills to resist such influences can significantly reduce or delay adolescent smoking, especially if strengthened by booster sessions and communitywide programmes involving parents and community organizations. Public education programmes should be well funded and based on rigorous research. The distinct cultural profiles of the targeted population groups should be kept in mind while designing programmes.
- (18) Tobacco cessation is an essential component for reducing mortality and morbidity related to tobacco use. Tobacco cessation provides the most immediate benefits of tobacco control and maximizes the advantages for a tobacco user who quits the habit. Tobacco cessation services should be made widely accessible to tobacco users.
- (19) There is a need to consolidate these measures and formulate a comprehensive tobacco control law in the country. This would enhance surveillance and enforcement issues that hinder the current programme and also lay the foundation for ratification of FCTC.
- (20) Recognizing the deadly health impacts of tobacco use, tobacco items should be considered as highly sensitive in SAFTA. At the same time, the Health Ministers of South Asian countries should work in close coordination with the Ministers of Foreign (External) Affairs to raise tobacco control issues at the SAARC Summit in order to work out a combined programme on tobacco control in the region. In fact, the highest leadership of Member States should be sensitized to commit themselves to take the anti-tobacco drive forward.

## Control of smuggling

- (1) Side by side with cigarette tax increases, an appropriate response to smuggling would be to adopt policies that make it less profitable, more difficult, and more costly to engage in smuggling.

- (2) Cigarette packs can be marked in several different ways to make it easier to detect smuggled cigarettes. Prominent tax stamps that are difficult to counterfeit can be placed on all packages under the cellophane.
- (3) For cigarettes that are destined for export, packages can be labelled to indicate the country of final destination and include appropriate, country-specific health-warning labels.
- (4) A unique serial number be printed on all packages of tobacco products, making it easier to identify the manufacturer.
- (5) A chain of custody mark be attached to all packages at each step in the distribution chain, making it less difficult to identify the source of cigarettes that disappear while in transit.
- (6) More extensive computerized record keeping and tracking systems be introduced in order to facilitate the monitoring of cigarette exports and imports from their original source to their final destination.
- (7) Exporters should be required to post bonds on cigarette shipments that could only be released after all of the cigarettes reach their intended destinations.
- (8) All manufacturers, importers, exporters, wholesalers, transporters, warehouses, and retailers be required to have a licence for their tobacco-related activities. This would help identify and monitor the different players in the tobacco-distribution network. Suspension or revocation of licences for participation in smuggling would deter would-be smugglers.
- (9) Stronger penalties should be introduced so as to significantly raise expected costs associated with smuggling.
- (10) Mass media campaigns and other efforts be used to raise public awareness concerning problems associated with cigarette smuggling.
- (11) Efforts should be made to coordinate tax rates among neighbouring countries so as to minimize incentives for tax evasion.
- (12) France and Singapore require licences for at least some of those involved in cigarette manufacturing and distribution. Hong Kong employs a sophisticated computer-tracking system to monitor the movement of cigarettes through the distribution chain. Germany is engaged in an effective mass media campaign to combat the view that cigarette smuggling was relatively harmless. These experiences can be replicated.
- (13) Regional agreements such as that governing the EU set floors on tobacco taxes for Member States. Proposed agreements such as WHO's FCTC would further coordinate tobacco control efforts across countries, including tobacco taxes and efforts to combat smuggling.

(14) As the degree of smuggling in a country is linked to a country's overall corruption, the government should take steps to reduce corruption. Tighter import controls should be introduced at border posts. SATFA has to chalk out measures to control tobacco smuggling. Ministries of Home Affairs (Interior Ministries) of SAARC countries should evolve measures to curb tobacco smuggling. There is a need to set up a focal point in SAARC in regard to tobacco control.

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## Annex

### Key socio-economic Indicators in South Asia, 2004

	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Per capita GDP (US\$)	470	751	640	2345	252	632	1033
Economic growth (%), 1900-04	2.5	–	4.0	–	2.1	1.6	3.8
Population (million)	139.2	2.1	1,087.1	0.3	26.6	154.8	20.6
Life expectancy at birth (years)	63.4	63.4	63.6	67.0	62.1	63.4	74.3
Adult literacy rate (%)	65.0	47.0	61.0	96.3	48.6	49.9	90.7
Human Development Index (value)	0.530	0.538	0.611	0.739	0.527	0.539	0.755

Trade liberalization programme has become operational through the introduction of the South Asian Free Trade Area (SAFTA) among South Asian nations. The agreement includes tobacco and tobacco products under the "Sensitive List". This document lists ways in which trade in tobacco products can be managed under SAFTA in the context of the WHO Framework Convention on Tobacco Control.



**World Health  
Organization**

Regional Office for South-East Asia  
World Health House  
Indraprastha Estate,  
Mahatma Gandhi Marg,  
New Delhi-110002, India

