

**TOBACCO
TRADE LIBERALIZATION
UNDER
CEPT SCHEME FOR AFTA**

**Regional Research Workshop on Advancing
Tobacco Tax Policy in Southeast Asia
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Overview

- Brief on AFTA
- Tobacco Trade Liberalization under CEPT Scheme for AFTA
- ASEAN Trade Statistic on Tobacco
- Implication of AFTA in Tobacco Trade

BRIEF ON AFTA

ASEAN Free Trade Area (AFTA)

- In 1992, at the 4th ASEAN Summit in Singapore, ASEAN Leaders announced their goal to achieve a free trade area in ASEAN within 15 years beginning 1 January 1993, using Common Effective Preferential Tariff Scheme as the main mechanism.
- The 26th AEM Meeting in Singapore (1994) agreed to accelerate the implementation of AFTA by 1 January 2003 instead of 1 January 2008
- The 6th ASEAN Summit (held in 1998) then accelerated the time frame for AFTA to 2002 (with flexibility) for the 6 original members of ASEAN

ASEAN Free Trade Area (AFTA)

- Decisions of the 8th Summit held in 2002 in Phnom Penh:
 - ASEAN Economic Community: an end goal for the *Roadmap for the Integration of ASEAN and Vision 2020*
 - intensify actions to ensure the integration of the broader Southeast Asian market
 - Faster integration means actions on tariffs in schemes such as the *ASEAN Integration System of Preferences* allowing Cambodia, the Laos, Myanmar and Viet Nam to gain tariff-free access to the more developed ASEAN markets by 2003, seven years ahead of the agreed target of 2010.

ASEAN Free Trade Area (AFTA)

- ASEAN and Chinese leaders signed the *Framework Agreement on ASEAN – China Economic Cooperation*, which will serve as the fulcrum for establishing the free-trade area by 2010 for the older ASEAN members and 2015 for the newer members with flexibility on sensitive commodities. Premier Zhu outlined China's vision for strengthened ties with ASEAN, emphasizing the goal of establishing an ASEAN - China Free Trade Area *within the next decade*.

Product Coverage

- All manufactured and agricultural products (processed and unprocessed) are included
- For a product to be eligible for the lower CEPT tariff rate, it must meet the criterion for ASEAN Origin: at least 40% of its content, singly or cumulatively, originates from any Member States

Common Effective Preferential Tariff (CEPT) Agreement

- Reduce Intra-ASEAN Tariffs to 0-5% within 10 Years
 - For Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand, the deadline is 2002
 - For Viet Nam, the deadline is 2006
 - For Lao PDR and Myanmar, the deadline is 2008
 - For Cambodia, the deadline is 2010
- Eliminate Quantitative Restrictions (QRs) Immediately upon Enjoyment of CEPT Concessions
- Eliminate Other Non-Tariff Barriers (NTBs) Within 5 Years upon Enjoyment CEPT Concessions

CEPT Product List

- Inclusion List – IL
- Temporary Exclusion List – TEL
- Sensitive List – SL
- General Exception List - GEL

Inclusion List

- **INCLUSION LIST:** Products that are placed in the Inclusion List must satisfy the following requirements:
 - There should be an accompanying tariff reduction schedule
 - No quantitative restrictions (QRs)
 - Other non-tariff barriers (NTBs) are to be eliminated within 5 years

Temporary Exclusion List

- **TEMPORARY EXCLUSION LIST:** Products in this category are temporarily exempted from tariff reduction, elimination of QRs and other NTBs
 - TEL Manufactured Products
 - TEL Unprocessed Agricultural Products

Sensitive List

(2 annexes: Sensitive & highly sensitive)

- Covered by the Protocol on Sensitive and Highly Sensitive Products
- Composed of unprocessed agricultural products, e.g. rice, sugar, meat products, wheat, garlic, cloves, etc.
- Allowed to be phased into the CEPT Scheme at a later date: 2010 for Brunei Darussalam, Indonesia, Malaysia, Philippines and Thailand, 2013 for Viet Nam, 2015 for Laos and Myanmar, 2017 for Cambodia

General Exception List

- According to Article 9B of the CEPT Agreement, products that can be permanently excluded from the CEPT Scheme for the following reasons: national security, to safeguard human, animal and plant life and health, to preserve archeological objects, etc. e.g. ammunition, narcotics.

**Tobacco Trade
Liberalization under CEPT
Scheme for AFTA**

Status of Tobacco Products in CEPT Scheme

Country	IL	TEL	SL	GEL	Ttl
Brunei Darussalam	4			15	19
Indonesia	15				15
Malaysia			19		19
Philippines	10				10
Singapore	20				20
Thailand	19				19
ASEAN-6	68	0	19	15	102
Cambodia		25			25
Lao PDR		6	3		9
Myanmar		9			9
Vietnam				10	10
ASEAN-4	0	40	3	10	53
ASEAN-10	68	40	22	25	155

- In CEPT Product List of 2001, there are 155 tariff lines of tobacco product
- 66 tariff lines are in Inclusion List; Brunei Darussalam, Indonesia, Philippines, Singapore and Thailand, with average CEPT tariff rate 5.6%
- 40 tariff lines are in TEL; Cambodia, Lao PDR and Myanmar
- 22 tariff lines are in SL; Malaysia and Lao PDR
- 25 tariff lines are in GE List; Brunei Darussalam and Viet Nam

Phase-in Schedule of Tobacco Products listed in TEL and SL

- Schedule for Cambodia:
 - For TEL manufactured products: 1 Jan 2003 – 1 Jan 2007
 - For TEL unprocessed agricultural products: 1 Jan 2004 – 1 Jan 2010
- Schedule for Lao PDR:
 - For sensitive products: 1 January 2006 (with flexibility but no later than 2008)- 1 January 2015 at ending rate 0-5%
 - For TEL manufactured products: 1 January 2001 – 1 January 2005
 - For TEL unprocessed agricultural products: 1 January 2002 – 1 January 2008

Phase-in Schedule of Tobacco Products listed in TEL and SL

- Schedule for Malaysia:
 - Sensitive List: 1 January 2001 (with flexibility but no later than 2003) - 1 January 2010
- Schedule for Myanmar:
 - For TEL manufactured products: 1 January 2001 – 1 January 2005
 - For TEL unprocessed agricultural products: 1 January 2002 – 1 January 2008

Tobacco Products in Singapore

- In line with 13th AFTA Council decision, that products retained in GE List should strictly comply with the provisions of Article 9B of the CEPT Agreement, Singapore transferred tobacco products from her General Exception List into the Inclusion List, effective 1 March 2000

Tobacco Trade in ASEAN

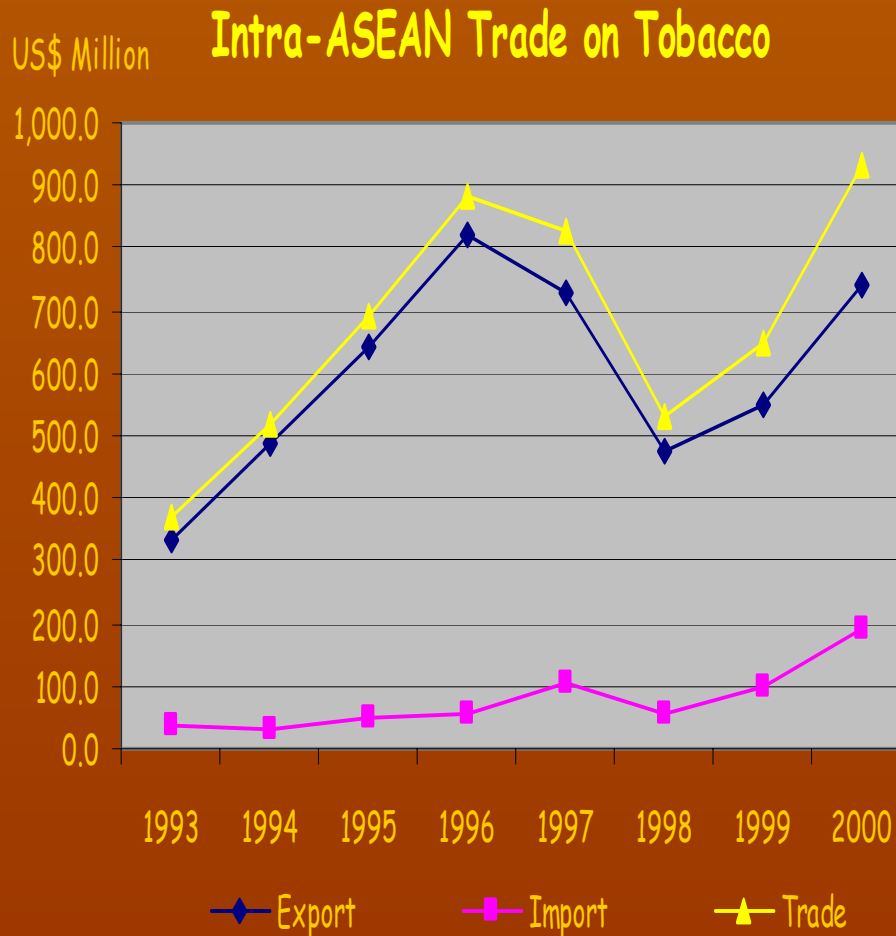
Intra-ASEAN Trade

Country	INTRA-ASEAN TRADE ON TOBACCO - (US\$ Million)								Growth Rate 1993 - 2000
	1993	1994	1995	1996	1997	1998	1999	2000	
Brunei Darussalam	14.6	9.1	11.4	20.9	8.8	5.9	8.8	8.4	-42.0
Indonesia	88.6	68.2	126.1	163.3	178.5	118.4	127.3	191.0	115.6
Malaysia	38.9	30.5	56.6	82.7	68.9	44.5	53.7	73.7	89.7
Philippines	3.8	5.4	5.7	8.5	11.6	15.6	26.8	36.1	846.9
Singapore	222.3	399.6	484.6	593.8	537.2	328.1	393.0	570.1	156.5
Thailand	4.3	4.4	5.0	10.8	24.7	18.5	37.0	55.7	1,202.7
ASEAN	372.4	517.1	689.4	880.1	829.7	530.9	646.6	935.1	151.1

Figures cover only Brunei D., Indonesia, Malaysia, Philippines, Singapore and Thailand.

- For the period of 1993-2000, intra-ASEAN trade on tobacco has grown 151.1% or at an average of 21.6% per annum.

Intra-ASEAN Trade



- After significant downturn for the period of 1996-1998, intra-ASEAN trade on tobacco started to recover in 1999-2000
- Intra-ASEAN exports contributed significantly to the growth in total intra-ASEAN trade

Intra-ASEAN Trade

Share of Tobacco Trade in Intra-ASEAN Trade (US\$ Million)

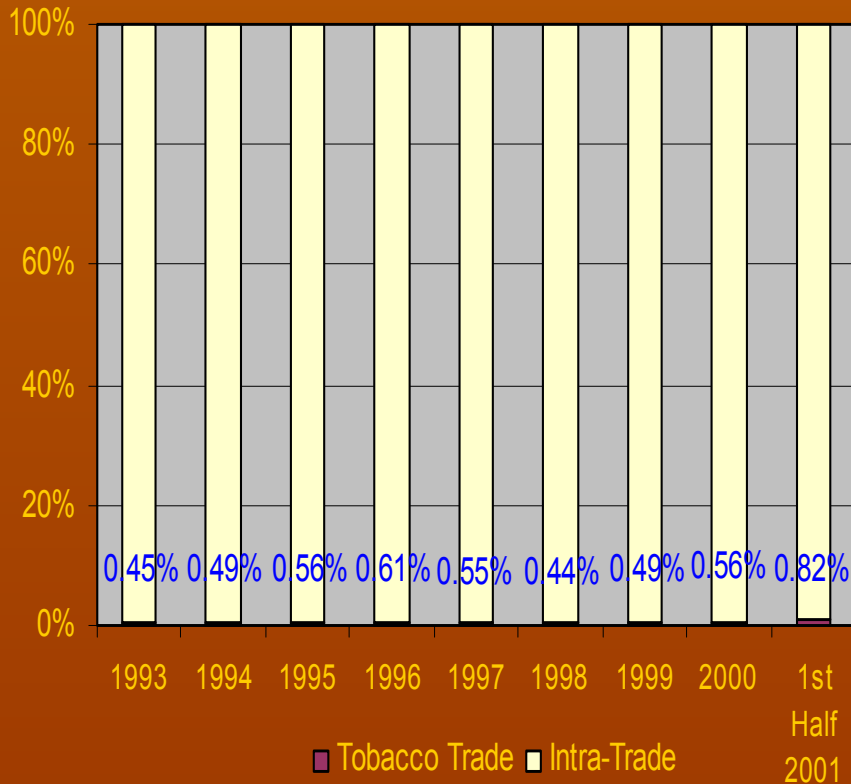
Intra-ASEAN Trade	1993	1994	1995	1996	1997	1998	1999	2000	1st Half 2001
ASEAN-Tobacco	372.4	517.1	689.4	880.1	829.7	530.9	646.6	935.1	614.4
Total Intra ASEAN	82,444.4	105,483.3	123,780.9	145,184.9	149,973.1	120,917.8	131,480.3	166,771.1	74,963.0
% Tobacco	0.45%	0.49%	0.56%	0.61%	0.55%	0.44%	0.49%	0.56%	0.82%

Figures cover only Brunei D., Indonesia, Malaysia, Philippines, Singapore and Thailand.

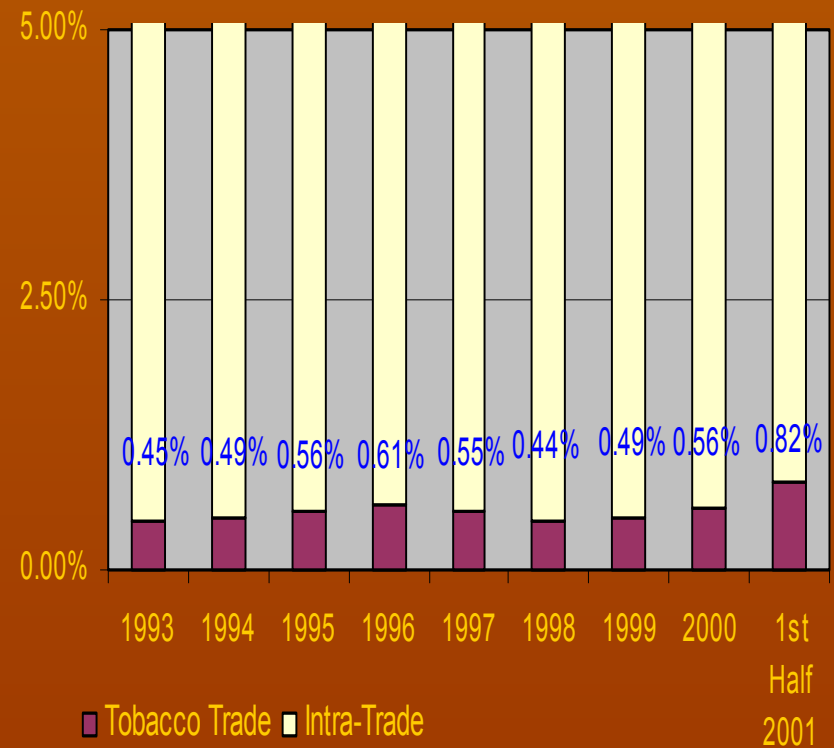
- Tobacco trade share, though insignificant, grew to some extent for the period of 1993 - 2000
- In the same period, value of tobacco trade in ASEAN grew slightly stronger than the value of intra-ASEAN trade (tobacco trade grew 151.1% and intra-ASEAN trade grew 102.3%)

Intra-ASEAN Trade

Share of Tobacco Trade in Intra-ASEAN Trade



Share of Tobacco Trade in Intra-ASEAN Trade



- Contribution of tobacco trade in total intra-ASEAN trade is not significant (less than 1% of intra ASEAN trade)

Extra-ASEAN Trade

Country	Extra-ASEAN Trade on Tobacco (US\$ Million)								Growth Rate 1993 - 2000
	1993	1994	1995	1996	1997	1998	1999	2000	
Brunei Darussalam	NA	11.3	11.7	12.6	7.5	1.8	0.5	1.3	-88.9
Indonesia	187.6	193.4	216.8	269.6	270.2	218.6	225.8	193.7	3.2
Malaysia	51.5	61.4	113.4	137.4	237.4	224.7	237.3	261.2	407.5
Philippines	132.5	202.3	120.8	116.2	184.7	136.9	162.7	148.2	11.9
Singapore	1,647.0	1,441.9	1,131.9	1,547.8	2,074.3	1,806.1	1,020.7	728.8	-55.8
Thailand	206.9	175.1	106.5	178.2	158.9	143.7	135.0	137.0	-33.7
ASEAN	2,225.4	2,085.3	1,701.1	2,261.8	2,932.9	2,531.9	1,782.1	1,470.1	-33.9

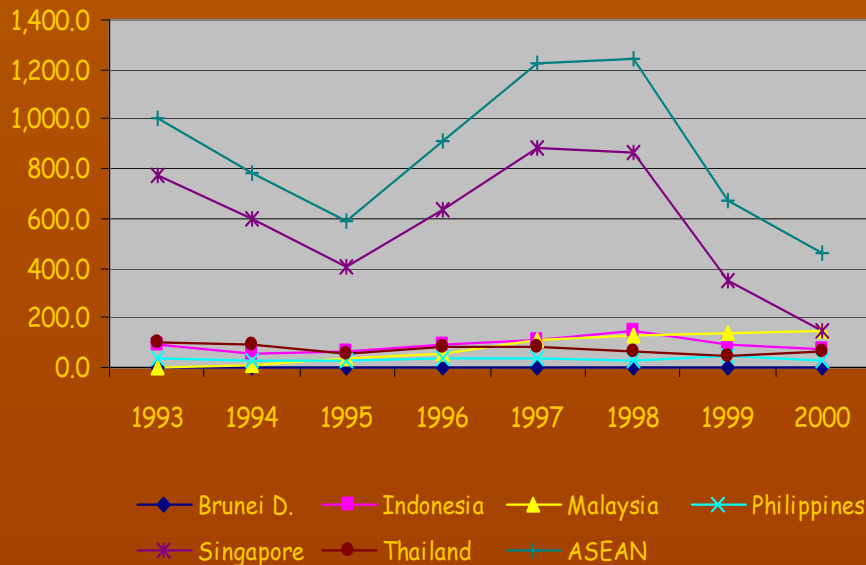
- For the period of 1993 – 2000, extra-ASEAN trade decreased 33.6% or average 4.8% per annum, from US\$ 2,225.4 million in 1993 to US\$ 1,470.1 million in year 2000

Extra-ASEAN Trade

Extra-ASEAN Export on Tobacco

1993 - 2000

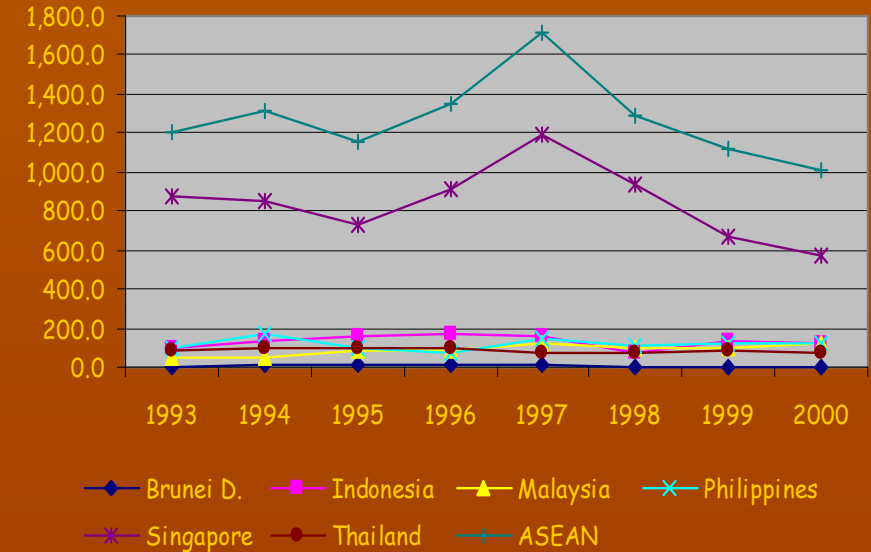
US\$ Million



Extra-ASEAN Import on Tobacco

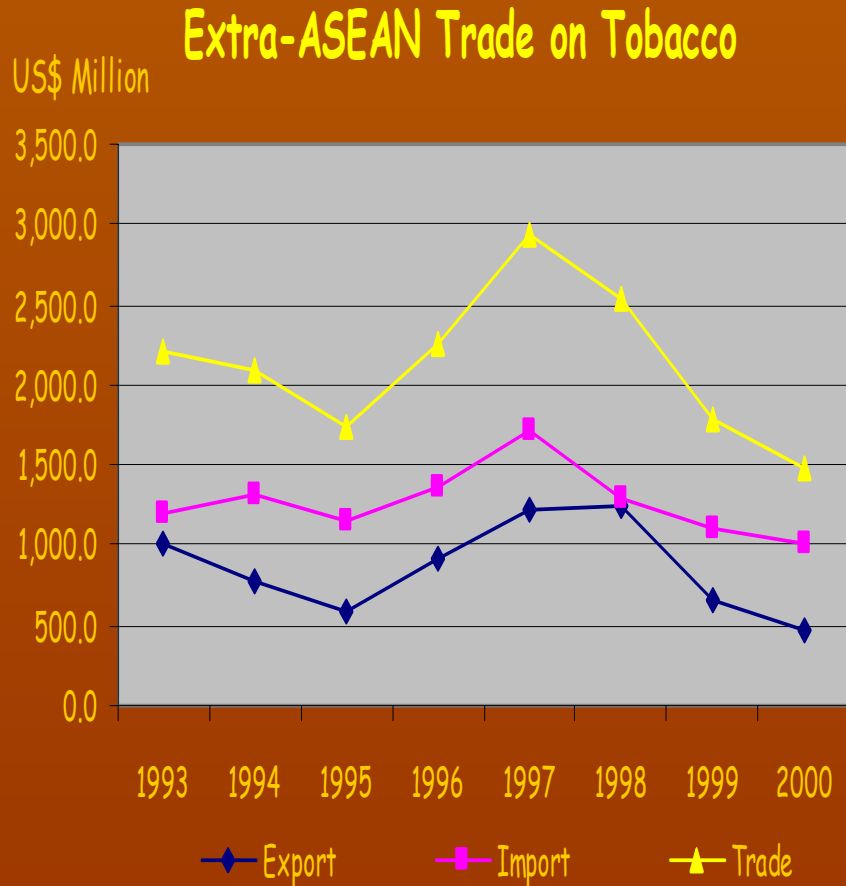
1993 - 2000

US\$ Million



- The fluctuation in extra-ASEAN trade of tobacco mostly influenced by Singapore, the highest contributor in extra-ASEAN trade of tobacco products

Extra-ASEAN Trade



- In extra-ASEAN trade, proportion of import is slightly higher than that of export, for the period of 1993 – 2000
- The highest growth of tobacco trade reached at the period of 1995-1997
- Since economic crisis hit the region in 1997, tobacco trade seems to decline significantly

Extra-ASEAN Trade

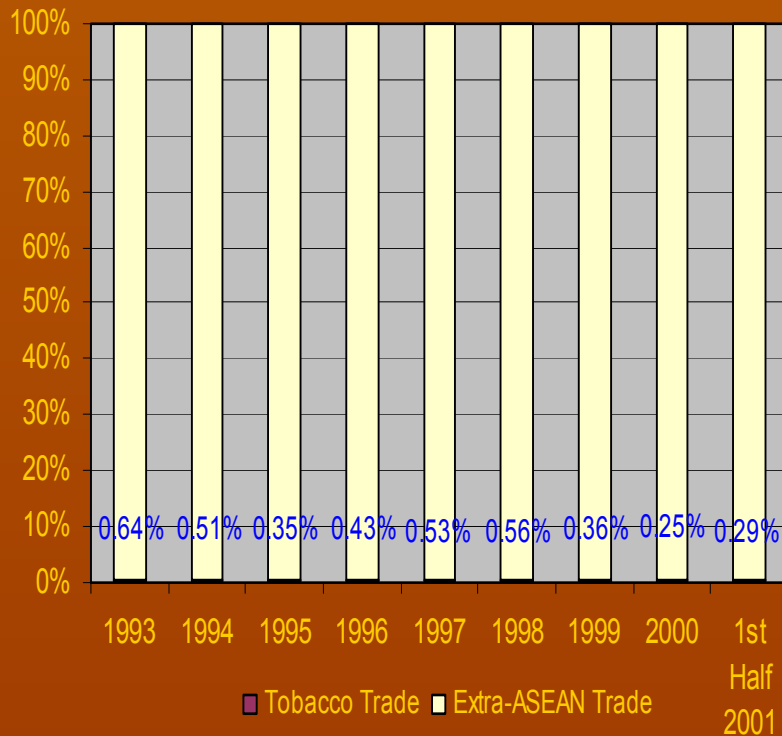
Intra-ASEAN Trade	1993	1994	1995	1996	1997	1998	1999	2000	1st Half 2001
ASEAN-Tobacco	2,225.4	2,085.3	1,701.1	2,261.8	2,932.9	2,531.9	1,782.1	1,470.1	794.3
Intra ASEAN	347,503.6	408,523.0	491,470.5	528,782.8	548,668.8	455,189.9	489,046.6	583,564.5	274,466.4
% Tobacco	0.64%	0.51%	0.35%	0.43%	0.53%	0.56%	0.36%	0.25%	0.29%

Figures cover only Brunei D., Indonesia, Malaysia, Philippines, Singapore and Thailand.

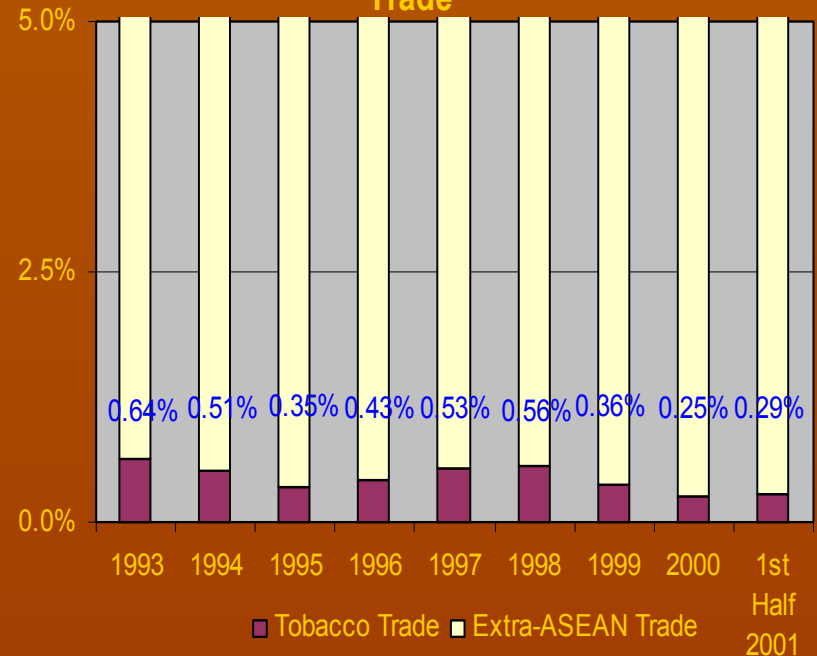
- For the period of 1993 – 2000, the contribution of tobacco trade is less than 1% and this contribution tends to decrease during the same period

Extra-ASEAN Trade

Share of Tobacco Trade in Extra-ASEAN Trade



Share of Tobacco Trade in Intra-ASEAN Trade



- For the period of 1993 -2000, tobacco trade did not significantly contribute to Extra-ASEAN trade (less than 1% of total Extra-ASEAN trade)

Extra-ASEAN Trade

COUNTRY	TRADE (US\$ Million)							
	1993	1994	1995	1996	1997	1998	1999	2000*
Australia	4.9	4.3	4.3	2.8	6.3	3.8	3.2	4.6
Canada	2.1	3.1	4.6	7.6	5.3	7.8	3.7	2.1
China	185.6	185.8	207.9	443.8	672.4	550.5	221.9	186.7
EU	359.6	282.9	306.0	461.5	541.5	457.3	378.8	347.3
India	22.2	22.4	15.9	26.4	49.3	38.6	65.5	20.8
Japan	410.6	140.9	36.5	67.2	51.0	41.1	45.6	51.2
New Zealand	0.6	0.7	0.2	0.3	0.8	0.5	0.2	0.0
Pakistan	1.8	1.9	1.8	2.2	1.6	1.0	1.8	1.0
Republic of Korea	264.7	324.7	201.2	120.7	174.7	199.1	86.2	33.9
Russia	10.5	0.6	1.7	42.1	63.6	11.9	0.5	0.3
USA	558.2	626.4	598.2	614.4	739.4	598.2	576.3	409.4
Rest of the World	391.1	496.2	368.1	472.8	627.1	622.3	398.4	380.6
Total	2,212.1	2,090.0	1,746.4	2,261.8	2,932.9	2,531.9	1,782.1	1,437.9

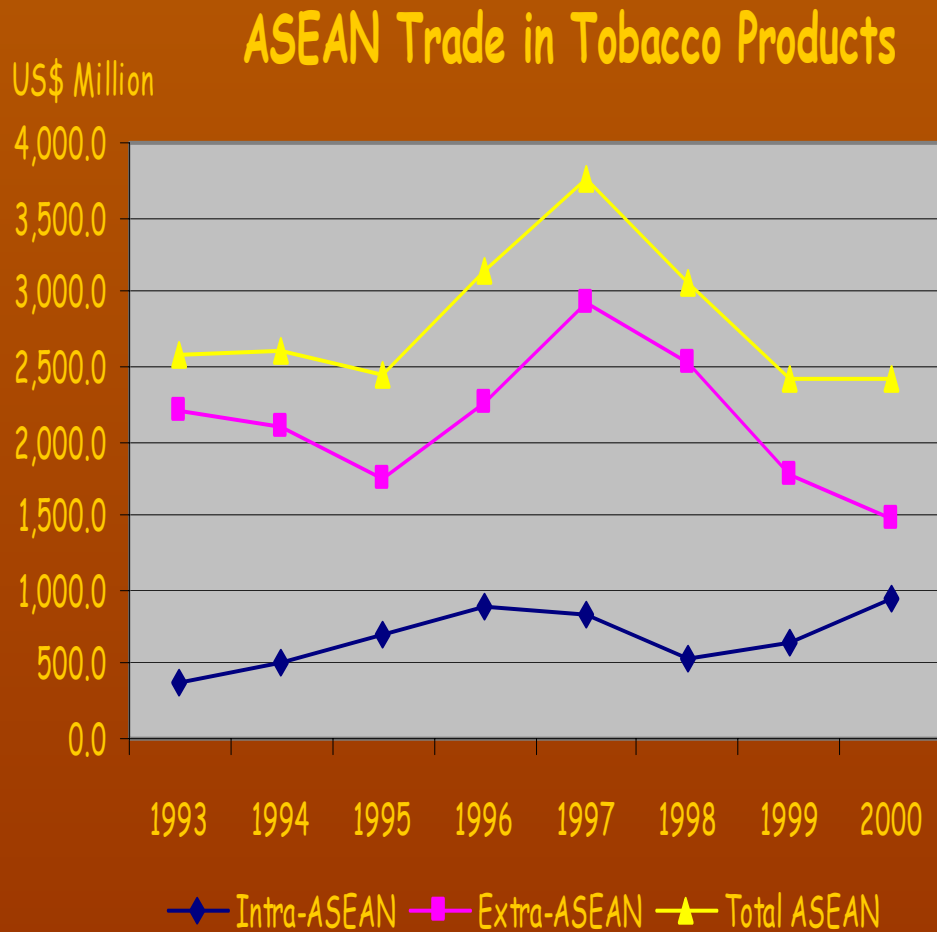
Figures cover only Brunei D., Indonesia, Malaysia, Philippines, Singapore and Thailand.

* Year 2000 data of Thailand covers only January to September 2000

Extra-ASEAN Trade

- The major trading partners of ASEAN in tobacco products are USA, EU and China
- After the economic crisis in 1997, the tobacco trade with ASEAN dialogue partners started to decline and has yet to recover

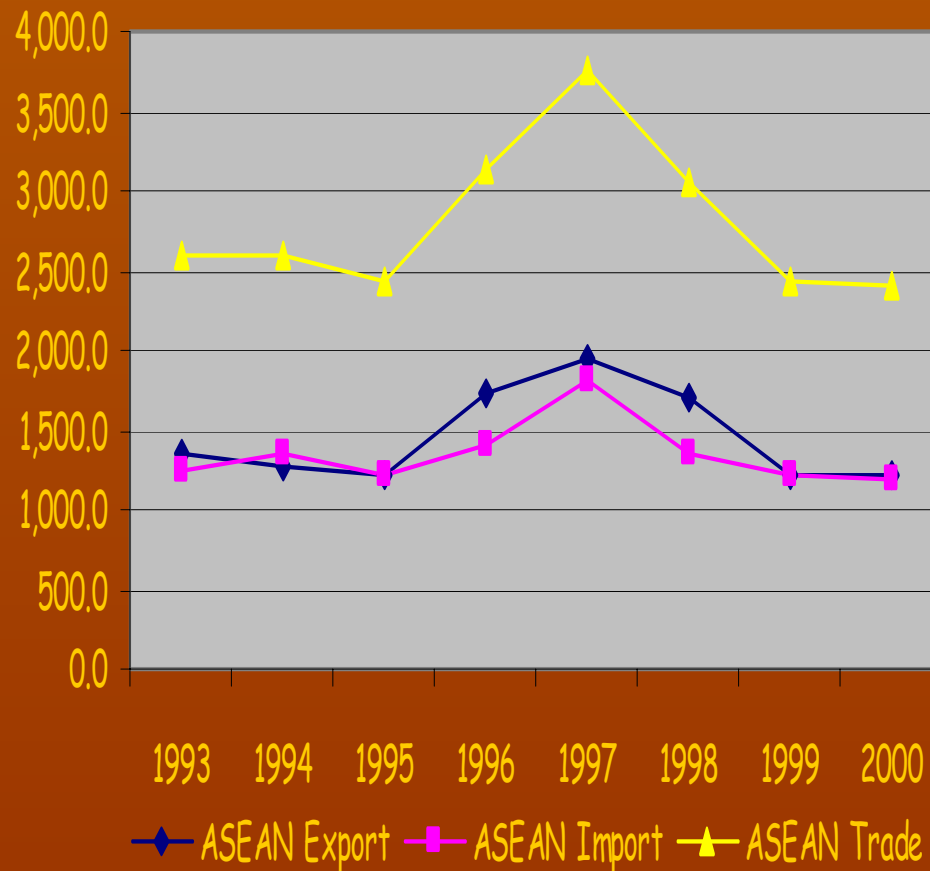
Total ASEAN Trade



- Intra-ASEAN trade in tobacco tends to increase, for the period of 1993 - 2000
- On the contrary, extra-ASEAN trade decreased significantly since 1997

Total ASEAN Trade

US\$ Million **ASEAN Trade in Tobacco Products**



- As a total, the contribution of ASEAN Export and ASEAN Import to Total-ASEAN Trade is almost the same

Implications of AFTA on Tobacco Trade

Implications of AFTA on Tobacco Trade

- From 155 tariff lines of tobacco products listed in AFTA, there are 62 items still listed in Temporary Exclusion List and Sensitive List.
- Products in TEL and SL are scheduled to be phased into Inclusion List and eventually have 0% tariffs

Implications of AFTA on Tobacco Trade

- As tariffs reduced, implications expected:
 - Increased intra- and extra-ASEAN trade of tobacco products
 - Investment increase in the region that will lead to the increasing in production of tobacco products (increasing of tobacco industry)
 - More investment in the region, more industrial activities means more jobs, thereby increasing the economic welfare of the people
 - It is expected that there would be an increased consumption of tobacco products, thus, there is a need to intensify campaign on Tobacco Control Programme and promotion of FCTC

Challenges

- liberalizing trade poses challenges to implement tobacco control measures from the health approach, particularly the Promotion of the FCTC.
- *Applying the health exception in the GATT 1994 to the CEPT may offer some guidance for the implementation of the health exception in the ASEAN. With the imminent end of tariff concessions, in view of CEPT time frame. it is recommended that ASEAN States should invoke the health exceptions to restrict tobacco trade to protect the health.* The Framework Convention on Tobacco Control will provide for a number of measures for tobacco control. Future tobacco control measures in the ASEAN as a result of measures established by the FCTC could be argued to be consistent with the health exception. (William Onzivu, Legal Officer (TFI) (WHO))

THANK YOU