

**POLICY ON TOBACCO INDUSTRY
IN MALAYSIA**

TOBACCO AND ECONOMY

- **Socio-economic Upgrading:**
 - **To eradicate rural poverty**
 - **Provide job opportunities**
- **Small-holder Crops:**
 - **1900 household growers**
 - **2000 grower-curiers**
 - **350 curiers**

TOBACCO AND ECONOMY

- **Intercropping: Maximum 2 times/year**
- **Intensive but permanent crop for marginal soil**
- **Import substitution industry (Total domestic market value USD1.3 bil)**

TOBACCO AND ECONOMY

- **ECONOMIC OPPORTUNITIES**

- Stable and Increasing Market
- A source of revenue potentials
- Export market potentials
 - ← Tobacco leaf @ 2 million ton
 - ← Cigarettes 650 billion sticks

TOBACCO AND ECONOMY

- **High Production Cost, Low Productivity**
 - Curers RM13 (USD3.45)/kg
 - Other ASEAN Countries RM4-5 (USD 1.35)/kg
 - Malaysia: Productivity: 936 kg/hectre
 - Other ASEAN: >1,500 kg/hectre
- **Nature of Industry**
 - highly regulated in terms of import duty

EXISTING TAX ON CIGARETTES

Tax	CIGARETTES	
	Locally-produced	Imported
Excise Duty	RM48 (USD 12.6) per kg	
Sales Tax	25% (value + excise duty)	25% (value + import duty)
Import Duty	NONE	Tobacco Leaves: 5% of value + RM40 (USD10.5) per kg
Import Duty		Cigarettes: RM216 (USD 56.8) per kg

EXISTING TAX ON CIGARETTES

☒ Cigarettes manufactured in Malaysia are more expensive than imported ASEAN Cigarettes.

	RM
• Raw Material Cost	28/kg
• Processing Cost	<u>15/kg</u>
<i>Direct Cost</i>	43/kg
• Excise Duty	48/kg
• Sales Tax	23
<i>Market Entry Cost</i>	114 with duty of RM71

EXISTING TAX ON CIGARETTES

Import, Excise and Sales Tax 1990 - 2003

Year	Import	Excise	Sales
	RM/KG	RM/KG	%
• 1990	85	13	15
• 1991	135	14	15
• 1992 - 1997	162	29	15
• 1998 - 1999	180	40	15
• 2000-2003	216	48	25

EXISTING TAX ON CIGARETTES

Potential for Tax Increase

- **Price per pack = RM 5.00**
- **Tax per pack = RM 1.40**
- **Tax Rate = 28%**

EXISTING TAX ON CIGARETTES

Lobby from Tobacco industries.....

- **Discourage government to increase tax significant level**
- **High tax will lead to smuggling**
- **Proposed annualised and moderate tax regime**

“ High sporadic tax increase create a disruptive and unpredictable business environment to legitimate manufacturers”

**•Malaysian Tobacco Industry
Document for Budget 2003
Dialogue**

PRESENT POLICY

What in mind of policy makers now???

- Need to restructure the industry in order to make the price of Malaysian tobacco industry to be more competitive
- Reforming the current tax and duties to make imported cigarettes on the same level playing field with locally-manufactured ones
- Prevent extremely cheap cigarettes from being dumped in Malaysia

PRESENT POLICY

What in mind of policy makers now???

- Ensure government tax revenue be maintained and continue to grow
- Reduce incidence of smuggling which can affect revenue and cost of manufacturing
 - increase surveillance on contraband cigarettes
 - introduce tax label on cigarettes
- Enforce strict regulations on health standards in terms of tar content (<20mg) and nicotine content (<1.5 mg)

PRESENT POLICY

What in mind of policy makers now???

- Create public (smokers') awareness on real risk of smoking
- Regulate the tobacco industry at various stages:
 - planting
 - Processing
 - Sales & Promotion, etc (e.g Health Warning on cigarette)

ACTION PLAN

- Research to convince policy-makers
 - Current tax rate is low
 - Increase tax will reduce consumption without negative impact on revenue
 - Cost of tobacco related illness is extensive
- Lobby for government to increase cigarette tax
 - Introduce Excise Duties on Imported Cigarette
 - Further increase in Sales and Import Tax
 - Surcharge dedicated for Health Promotion Foundation
- Examine proposed changes in tax policy *vis-à-vis* WTO, AFTA

ACTION PLAN

- Enhance other anti-smoking measures and health promotion/health lifestyle activities
- Draft legislation for the establishment of Health Promotion Foundation funded by dedicated tobacco tax
- Include policy-makers from relevant agencies as stakeholders

Key Players

- Ministry of Health
- Ministry of Finance
- Ministry of Primary Industries
- Economic Planning Unit
- MITI
- Ministry of Agriculture
- Researchers
 - Universities
- NGOs
 - Consumer Groups
 - Malaysian Health Foundation
 - Medical Associations
- Manufacturers and Importers

Thank You....

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