Summary report on the

Subregional meeting on tobacco control taxes for countries of the Gulf Cooperation Council and Yemen

Cairo, Egypt
1–3 May 2012
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1. Introduction

The WHO Framework Convention on Tobacco Control (FCTC) states in Article 6 that “Price and tax measures are an effective and important means of reducing tobacco consumption … Each Party should … adopt … tax policies and … price policies on tobacco products, so as to contribute to the health objectives aimed at reducing tobacco consumption.” All parties to the FCTC are obliged to take forward fiscal measures to reduce tobacco consumption as per the FCTC and the international best practices.

As backed by international evidence, increasing taxation on tobacco products is one of the most significant measures to boost tobacco control. Raising taxation on tobacco products can provide considerable short- and long-term benefits to governments, generating additional revenues and also providing important financial resources to benefit national efforts in tobacco control. Evidence also shows that increased taxation on tobacco products helps to avert significant numbers of premature deaths. Higher prices deter youth from using tobacco and encourage adult smokers to quit. This leads to substantial reductions in the health and economic burden caused by tobacco use.

Taxation on tobacco products in the WHO Eastern Mediterranean Region has as yet been an underutilized resource that can provide significant short- and long-term financial and health benefits to support tobacco control. The prices of tobacco in the Region and taxation incidence are among the lowest compared to the rest of the world. More importantly, many other forms of smoking and smokeless tobacco, such as waterpipe (shisha), cigars and snuff have not been fully brought into the tax net. The Region has recently seen some successful tobacco taxation examples from Egypt and Pakistan, providing a significant boost to government revenues.
Countries of the WHO Eastern Mediterranean include a diverse group and range from high-income to low-income countries. Those countries in the high-income group are essentially the member countries of the Gulf Cooperation Council (GCC). GCC countries apply import duties on tobacco products that will eventually be eliminated within a few years time in line with international trade agreements. These countries have yet to consider any alternate national level taxation structure as a possible replacement for these duties. Experiences from other countries with similar economies show that internal taxes on tobacco are an important source of sustainable revenues. By developing their capacities and understanding of the dynamics of tobacco taxation, GCC countries would have an opportunity to attain the long-term fiscal and health benefits associated with raised taxes.

To address this situation, the WHO Regional Office for the Eastern Mediterranean held a subregional meeting on tobacco control taxes for GCC countries and Yemen in Cairo, Egypt on 1–3 May 2012. It was the third of a series of meetings conducted during the past eighteen months that brought together experts from health, finance and customs sectors to build their understanding of tobacco tax systems prevalent in the world, advocate for moving towards internal taxes and train them on using tobacco sales/import data in developing tax policies and estimating tax revenues. The meeting was attended by representative health, customs and finance officials from Bahrain, Egypt (as presenter), Kuwait, Oman, Qatar and Yemen. The main objectives of the meeting were to:

1 Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates
• discuss the importance of introducing an internal taxation (excise) system in GCC countries;
• discuss ways to increase the efficiency and effectiveness of tobacco excise system in Yemen;
• increase the technical knowledge of tax and customs officials from GCC countries and Yemen on tobacco taxes, tax systems and the ways of administration; and
• explore the ways of introducing excise tax systems as internal taxes in GCC countries.

The meeting was inaugurated by Dr Haifa Madi, Director of Health Promotion and Protection, WHO Regional Office for the Eastern Mediterranean, who delivered a message from Dr Ala Alwan, WHO Regional Director for the Eastern Mediterranean. In his message Dr Alwan reiterated the need for countries to use the full potential of tobacco taxation on all tobacco products. Citing international evidence in this arena, he noted that tobacco taxation provided the dual benefits of additional revenue and reduced consumption; a 10% increase in price was likely to reduce consumption by 8% for middle-income and by 4% for high-income countries. In addition, there were substantial increases in government revenues. It was important for GCC member countries to consider options for internal taxation on all tobacco products and to develop effective laws to monitor tobacco production, the import and supply chain, and a strong and efficient tax administration system to effectively overcome the challenges of illegal domestic and cross-border trade.

The three-day proceedings were divided into an introductory session, five technical sessions, group work and a concluding session.
2. Summary of discussions

Increases taxes on tobacco products is an important tobacco control measure for countries of the Eastern Mediterranean Region, as the Region has an average lowest prices and taxes on tobacco products compared to other regions. Even the taxation incidence in GCC member states is significantly low when compared to countries from other regions with similar economic status.

The Region also has the highest incidence of tobacco consumption, especially among youth, if all different forms of tobacco are accounted for. Therefore it is important for countries not only to increase taxes on cigarettes, but also to apply uniform levels of taxation on all forms of tobacco.

The meeting discussed the types of tobacco tax systems prevalent in the world, their political economy and relative significance and included the evidence on positive or negative implications of various taxation structures. Three key messages were emphasized. One was that governments need to adopt internal taxes as, unlike custom/import duties, these are not dependent on international agreements. Another was that taxes should be high and should represent up to 70% of the consumer price; however it is also important consider price levels according to affordability of products over time. Finally, the need for timely, accurate and detailed data collection at import/production level was emphasized, in order to help estimate taxes, evaluate tax structures/policies and curb tax evasion/avoidance or illicit trade.

Egypt is one of the countries that worked with WHO to review their taxation structure since 2010. After having being trained and supported by a WHO team, Egypt was able to develop an Egypt-
specific tax simulation module. Using the simulation module, the tax department was able to analyse accurately the needed adjustments in tax structure that ensured significant revenues. In addition, it was also able to confront industry interference in the tax policy process, and enhance tax levels three times within two years. Participants agreed the sharing of this experience helpful in understanding the challenges faced by tax officials in the process, and the way such challenges could be overcome by using estimates from simulation module, to convince political decision-makers on new tax regimen.

TaXSim is a country-specific Microsoft Excel-based simulation model that enables countries to analyse their tobacco market so that appropriate tax policies and their consequences on cigarette prices, sales, revenues and also illicit market can be analysed. During the meeting, the participants were introduced to the data requirements for TaXSim, and hands-on exercises were conducted to introduce some basic concepts related to development of this module.

After having introduced the technical and policy aspects of tobacco taxation, the participants had an interactive discussion on possible way forward for individual Member States, keeping in view their existing tax system, the need to review their tobacco tax regimes, and the expected steps to introduce the tax proposals to high level policy-makers. Individual country steps were further discussed and agreed in one-to-one meetings of WHO team with country representatives.
3. Recommendations

To GCC countries and Yemen

1. In collaboration with WHO, review the current tax system as it pertains to tobacco products, especially in the light of eventual phasing out of import duties as a result of international bilateral and multilateral agreements including free trade agreements.
2. Consider moving to an internal taxation scheme, such as excise taxes for all tobacco products, as a possible replacement for import duties.
3. Consider the application of equivalent internal (excise) tax structure and level to all forms of tobacco.
4. Consider improving data recording for tobacco and tobacco products (raw and manufactured tobacco) imported to and exported from the country.
5. Organize national debriefing sessions for all relevant national authorities at national level on the deliberations of this meeting.

To Yemen

6. With technical support from WHO, review the existing national tobacco tax system and develop comprehensive tobacco control tax legislation.

To WHO

7. Engage with GCC ministerial boards on proposed system changes for tobacco products taxes.
8. Provide technical assistance to GCC member states at two levels, the GCC level and national level, to address the
challenges in the area of tobacco taxation and the possibility of taxation structure reforms.

9. Support countries to build their capacity on administration and implementation of types of tobacco taxes, including estimating tax revenues, analysing sales data for taxation purposes and developing a monitoring system for tax policy and administration.

10. In collaboration with the Ministry of Finance of Egypt, share the Egyptian experience on tobacco tax policies with the GCC and other countries of the Region.

11. Support countries in identifying the existing challenges, especially regarding data related to tobacco at import and retail level, and accordingly make recommendations for improving data systems in each GCC member state. Existing data should also be analysed to map out the movements in tobacco trade in and out the GCC region.

12. In collaboration with the GCC member states and Yemen, develop joint and individual country plans for all countries on moving forward in adoption of the excise tax system.

4. Next steps

In addition to the general recommendations, participants agreed on country-specific recommendations to be implemented at national level during 2012–2013. When WHO support is needed, an official request from the Ministry of Health will be sent either through the country offices where they exist or directly to the Regional Office.

Kuwait

- Prepare and submit a report to relevant authorities on the current meeting.
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- Submit a report to the national tobacco control committee on the meeting.
- Implement a comprehensive strategy for tobacco control.
- Support an increase in taxation on all tobacco products.
- Propose to the Ministry of Health studies on health costs to encourage taxation increase.
- Propose to the government strict laws to control smuggling in line with the FCTC protocol; WHO support will be needed on the development of this legislation.

*Bahrain*

- Prepare and submit a report to relevant authorities on the current meeting.
- Submit a report to the national tobacco control committee on the meeting.
- Send a letter to the customs authority proposing a collaboration between the Ministry of Health and customs to develop a detailed real-time database of imported cigarettes (by brands and volume, etc) to get the information needed for taxation analyses.
- Develop a proposal for national authorities on why a change in tobacco taxation structure is needed and how this can be achieved.
- Invite the concerned authorities (Ministry of Health, customs, finance) for a workshop to introduce the proposal.
- Invite experts from WHO in tobacco economics to train finance teams and develop a proposal for revised taxation system for increased taxes; and how to implement and proceed.
- Seek the commitment of the GCC and GCC Health Ministers Council in this area.
**Qatar**

- Prepare and submit a report to relevant authorities on the current meeting.
- Submit a report to the national tobacco control committee on the meeting.
- Prepare a report for and brief Ministry of Finance and customs officials about the excise tax system, highlighting the opportunity to raise revenue for health and education.
- Send recommendations to the Ministry of Finance and Customs to invite WHO to train the nationals in this area.

**Oman**

- Prepare and submit a report to relevant authorities on the current meeting.
- Submit a report to the national tobacco control committee on the meeting.
- Discuss and review the current tobacco tax system with relevant government sectors.
- Follow up on efforts done at the GCC level about tobacco tax revision.
- Prepare an official report for officials including documentation on the experience of Egypt.
- Organize training on taxation policy (Ministry of Finance and Customs Secretariat) through the support of WHO experts and develop a taxation system for increased taxes.

**Yemen**

- Prepare and submit a report to relevant authorities on the current meeting.
- Submit a report to the national tobacco control committee on the meeting.
- Share with relevant officials the Egyptian experience on raising excise tax, and familiarize them with the steps to achieve enhanced taxation.
- Conduct a meeting with relevant authorities, inviting an Egyptian Ministry of Finance representative to present their experience, and agree on a way forward.
- Review and revisit available data regarding tobacco to improve the database to support tax analyses and draft a law to this effect.
- Plan to impose an indirect tax on places/services that provide tobacco (shisha bars).
- Plan to impose tax on other (than cigarettes) types of tobacco product.