

OPINIONS ON PLANNING AND DEVELOPMENT ISSUES

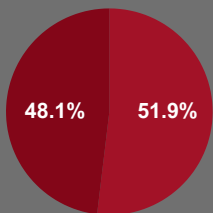
The Economics of Tobacco and Tobacco Taxation in Egypt



1. Background

Egypt has high cigarette usage rates.

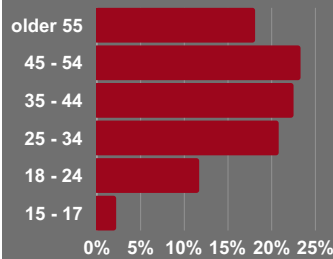
Adult males (aged 15 and older) smoking tobacco (48.1%)



Adult males same age not smoking tobacco (51.9%)

The age group (45-54 years) has the highest percentage of smokers. Also, lower-income customers are more addicted to smoking out of habit and routine.

Percentage of smokers by age group



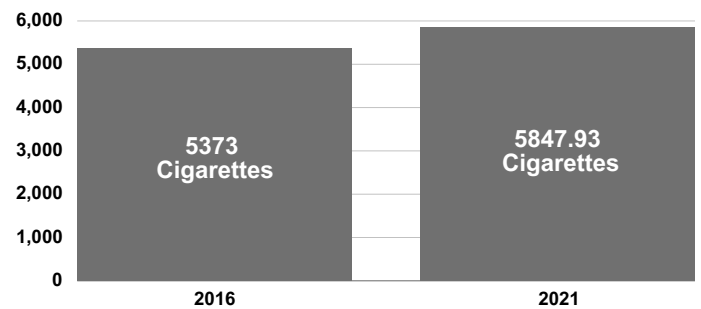
Half of the Egyptian adults are exposed to passive smoking at home (50%)



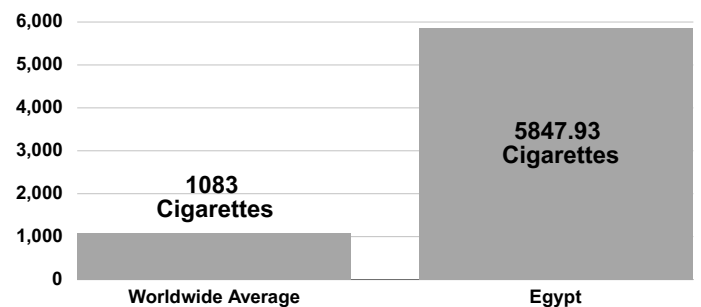
Accordingly, the above figures highlight the very high rate of tobacco consumption in Egypt with economic, social, and health consequences. Therefore, it is of value to conduct more research on proposing policies to reduce tobacco consumption in Egypt.

It is worth noting that the number of cigarettes per smoker per year increased, reaching 5,847.93 cigarettes in 2021 compared to 5,373 cigarettes in 2016, while the worldwide average was 1,083 cigarettes per year per person above the age of 14 in 2018. Also, expenditure on cigarettes per year per smoker increased by 58.94% from EGP 4,195.2 in 2016 to EGP 6,667.69 in 2021 (Euromonitor, 2022; Tobacco Atlas, 2018).

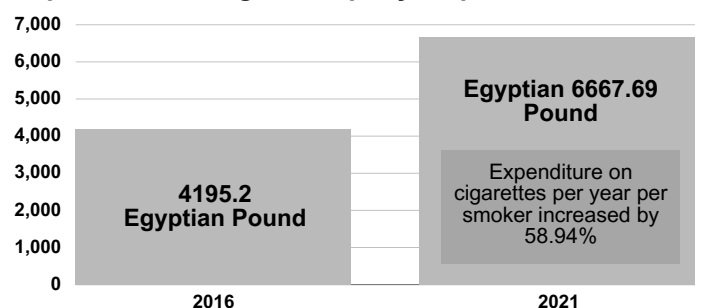
Number of cigarettes per smoker per year in Egypt



Number of cigarettes per year per person above the age of 14



Expenditure on cigarettes per year per smoker



2. Tobacco Supply in Egypt

In Egypt, there are two supply chains for tobacco:

1. for domestically produced tobacco products
2. for imported manufactured tobacco products.

The cultivation of tobacco is banned in Egypt, so companies that manufacture tobacco products must import raw tobacco. Egypt became the world's 17th-largest importer of raw tobacco in 2020.

Although Hanafy et al. (2010) found that income elasticity is elastic, Nassar (2003), the semi-structured interviews, and the findings of the current study revealed that cigarette demand is inelastic to income and positive as cigarettes are normal, necessary goods. Whereas, over time, when income rises, smokers will continue to smoke and buy cigarettes because it is a normal, necessary good, and they will not increase more than their consumption needs (demand increases with income but not much). Therefore, low-income smokers continue to smoke as their incomes rise over time, and their consumption does not keep pace with income increases over time.

3. Tobacco Demand in Egypt

Nassar (2003) used CAPMAS household surveys for two periods of time (1995/1996 and 1999/2000) in Egypt to reveal that cigarette price elasticities are -0.397, -0.412, and -0.385 at the national, urban, and rural levels, respectively (inelastic). Also, demand is found to be inelastic to income. In addition, Hanafy et al. (2010) used annual data for the period from 1990 through 2006 to reveal that cigarette price has a negative and statistically significant (at the 10-percent level) impact on per capita cigarette consumption, with an estimated price elasticity of demand of -0.47. Demand is found to be quite elastic to income, with an estimated income elasticity of 1.60.

Based on the data collected, cigarette price is found to have a negative and statistically significant (at the 5% level) impact on Cigarette Consumption, with an estimated price elasticity of demand of -0.55. Also, income elasticity is positive and equals 0.27, which means that cigarette demand is inelastic to income, and cigarettes are normal, necessary goods.

This finding is consistent with the results obtained from Nassar (2003), and Hanafy et al (2010), who revealed that cigarette demand is inelastic to price levels, estimated at about -0.41, and -0.47, respectively. These results were confirmed by the semi-structured interviews. It is worth noting that the inelasticity of demand for cigarettes is due to Egyptian beliefs and habits of consumers who are addicted to the product, such that they will buy it no matter the price, for instance, smokers who have been smoking for years.

Cigarettes' prices have surely gone up due to inflation or taxes, but that did not stop them from purchasing cigarettes even though they noticed the increase in price. So, the demand for cigarettes changes by less than the proportion of the change in cigarette prices, and this suggests there is room for increasing taxes on cigarettes without compromising the tax revenue.

4. Tobacco taxes in Egypt

At the start of 2020, amendments were made to the tax structure for cigarettes.

Tiered-specific taxes on cigarettes sold locally were increased, while the ad valorem tax remained at 50% of the retail price.

Waterpipes are subject to scheduled taxes. For domestically produced mu'assel, the tax rate is 165%, while for imported mu'assel, it is 200% along with an import tariff of EGP 9 per kilogram.

Smoking waterpipes in cafes, a 14% value-added tax and a 12% service tax are supplemented, resulting in an additional 26% indirect tax on waterpipes.

Imported tobacco products are subject to customs tariffs, value-added taxes, and scheduled taxes.

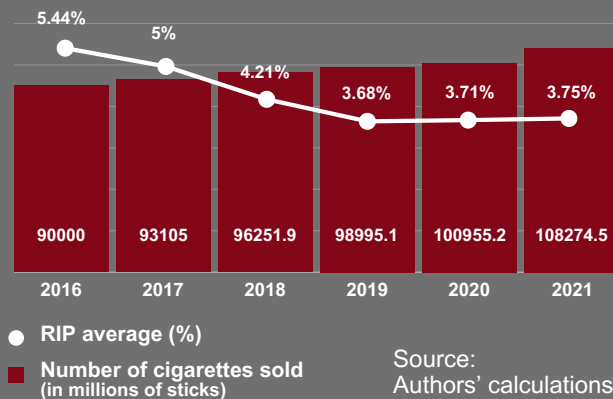
Cigarette taxes currently make up approximately 70% of the retail sale price.

It is worth noting that from 2019 to 2021, cigarette affordability decreased, but this did not lead to a reduction in cigarette consumption. The volume of cigarette sales continued to increase, reaching 108.27 billion cigarettes in 2021. The increase in cigarette consumption during this period can be attributed to factors such as the COVID-19 pandemic and other variables rather than changes in affordability.

Studies found that adult smokers increased their cigarette consumption during the pandemic to cope with negative feelings and social impacts. Smokers also made efforts to ensure a steady supply of cigarettes, even in the face of financial difficulties.

However, in general, from 2016 to 2021, cigarette consumption increased alongside increased affordability.

Relating affordability to consumption of cigarettes, Egypt (2016–2021)



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5. Recommendations

- **Tax Regime:** Increasing cigarette taxes, imposing a uniform specific tax on all types of cigarettes, adjusting tobacco tax rates yearly, increasing taxes on waterpipe tobacco/shisha and other smokeless tobacco products, and taking the appropriate steps to combat tobacco smuggling.
- **Youth protection and prevention:** Adopting a comprehensive policy to limit and enforce access to tobacco for kids by raising the purchase age from 18 to 21, developing mass media campaigns, and imposing penalties on any company that markets cigarettes to youth.
- **Providing Incentives:** Mitigating any potentially regressive effects of the higher taxes on the significant portion of Egypt's population that live in poverty and implementing a truly digital comprehensive health insurance system.

This issue of "Opinions on planning and development issues" has been prepared based on a report entitled "the Economics of Tobacco and Tobacco Taxation in Egypt", which was developed, and published in June 2023 by a research team (Professor Khaled Hanafy, Professor Sara ElGazzar, Ms Dina Samir Elwakkad, Ms. Nada Ashraf) as a part of a regional network of researchers in the Eastern Mediterranean Region on tobacco taxation, coordinated by Social Policy and Development Centre, The University of Illinois at Chicago – UIC (Institute for Health Research and Policy), and The World Health Organization Office for the Eastern Mediterranean Region.

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