

## AFTA and Tobacco Tax Policy

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## Why Free Trade?



## ASEAN Free Trade Area (AFTA)

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- 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 (CEPT) as the main mechanism.
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## Product Coverage

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- 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
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## 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

## Common Effective Preferential Tariff (CEPT) Agreement

- 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

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

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- 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
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## Temporary Exclusion List

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- 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
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## Sensitive List

(2 annexes: Sensitive & highly sensitive)

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- 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
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## General Exception List

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- 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.
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## Implications of AFTA on Tobacco Trade

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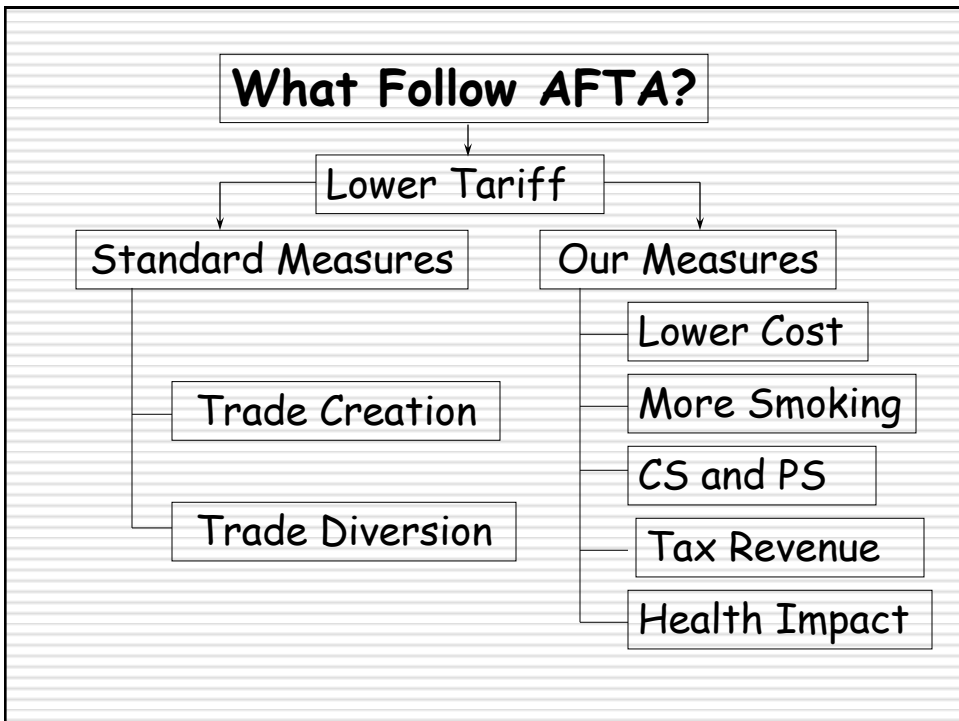
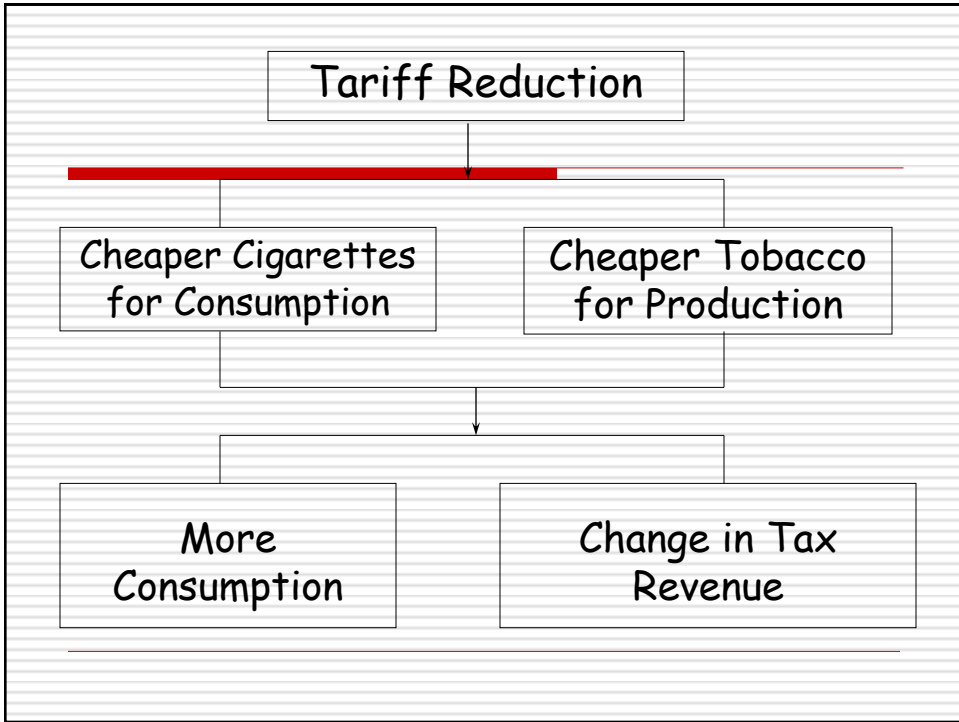
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- From 155 tariff lines of tobacco products listed in AFTA, there are 62 items still listed in Temporary Exclusion List and Sensitive List.
  - Products in TEL and SL are scheduled to be phased into Inclusion List and eventually have 0% tariffs
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##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

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- Taylor et al. (2000)
    - Found that trade liberalization increases cigarette smoking
    - Significant in low-income and middle-income countries
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## Impact of AFTA

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- Raise of overall tobacco consumption
    - Health cost and number of deaths caused by tobacco related diseases
  
  - Increase popularity of imported cigarettes
    - Price decreases
    - Gained more market share
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## Thailand: case study

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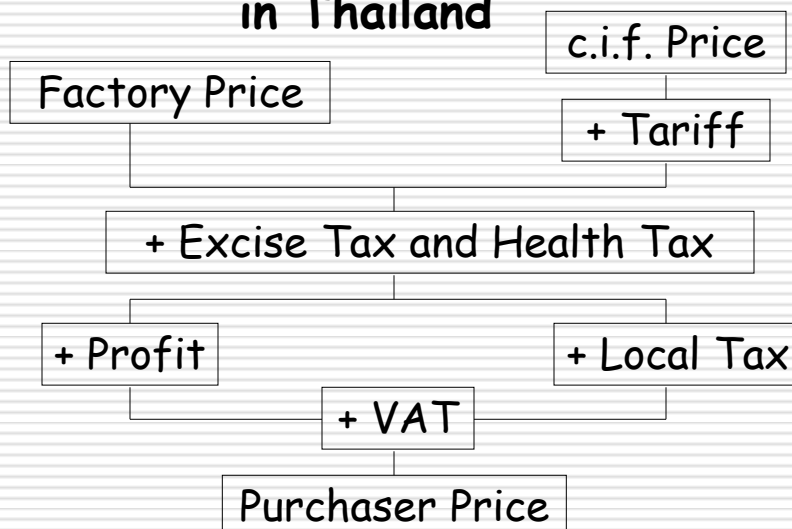
### Country Background

- Population of 62 million (2005)
  - 25% smoking prevalence rate
  - Smaller cigarette market compared to Indonesia
  - One state-owned cigarette factory
  - Allow importation of raw tobacco and cigarettes
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## Price Policy

- Maximum retail prices of cigarettes are determined by the government and differ across brands
- Tax revenue
  - Tariffs on imported tobacco leaves and cigarettes
  - Excise tax (80%), health tax (2%), local tax, and value-added tax (7%)

## Structure of Cigarette Prices in Thailand



## Impact on Thailand

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### **If the government decide not to change the cigarette retail prices**

- Demand will be unaffected
  - Decrease in tariff rates will reduced total government revenue by around 11 percent, i.e. 1,185 million Baht
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## Impact on Thailand

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### **If the government decide to lower the retail price of cigarette**

- Increase total cigarette demand by more than 2 percent
  - But, import cigarettes will gain benefit and market share
  - Government tobacco revenue decrease around 1,034 million Baht
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## Impact on Thailand

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- ❑ 134 tobacco related deaths in the next 20 years (year 2023 and so on)
  - ❑ Smoking related disease and health cost will damage Thai economy around 82 million Baht or \$2 million USD in 2023 and every year after
  - ❑ Demand increase will be more among urban smokers and among those in lower income classes
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## Conclusions and Implementations

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- ❑ CEPT scheme is relatively in favor of imported cigarettes
  - ❑ Decrease prices of cigarettes will encourage more smoking
  - ❑ Price control, that do not allow cigarette demand to change, may have some effects on tax revenue
  - ❑ Increase excise tax is the best alternative to protect ASEAN smokers
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