



**Illicit tobacco trade and taxation
in the Eastern Mediterranean
8-9 November 2018
American University of Beirut**

**Mr. Mohammed Madbouly
Senior Technical Member
Ministry of Finance,
Egypt**

Introduction

Egypt is the biggest country consuming tobacco products in the Arab region.

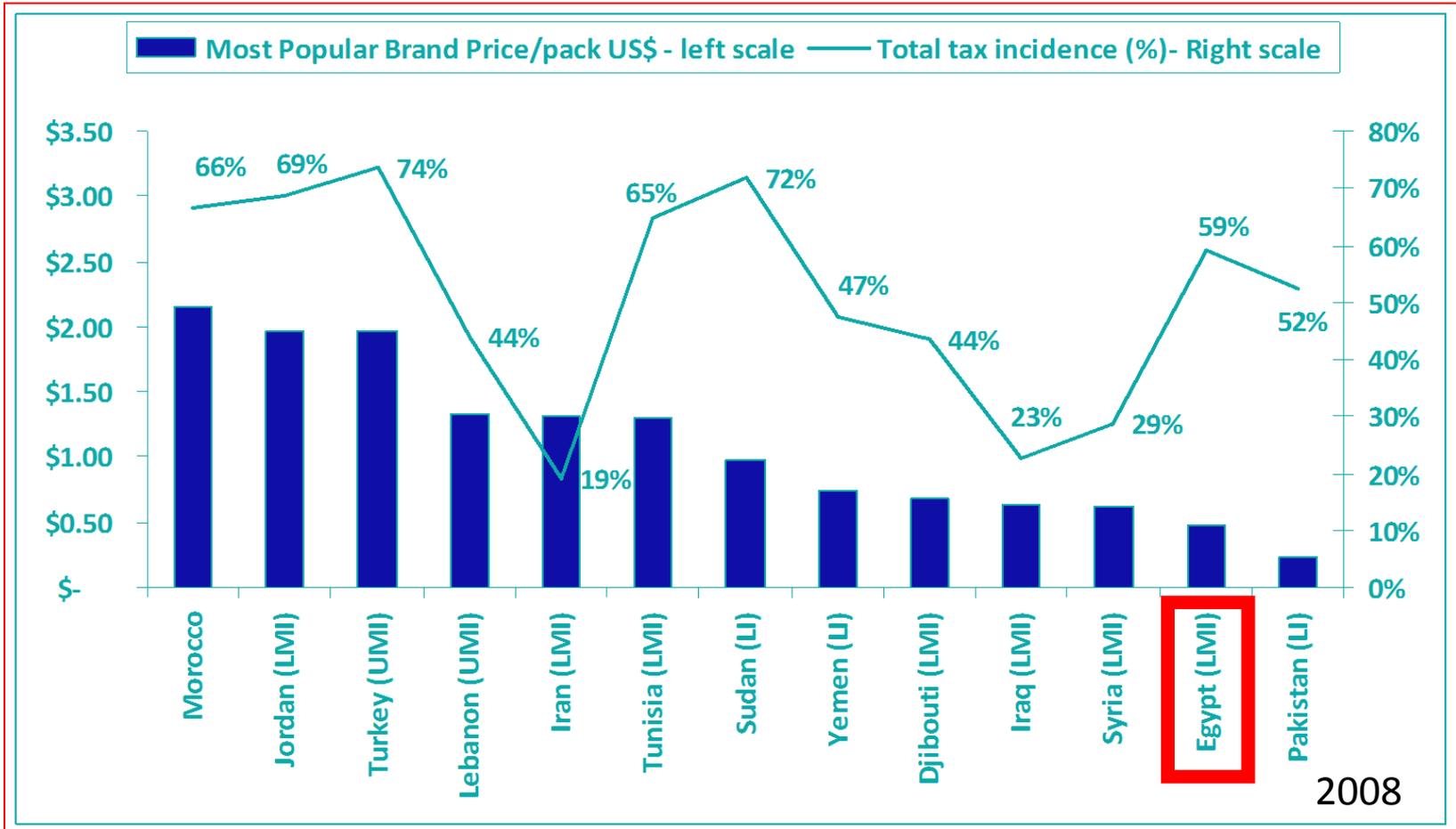
More than 80 billion cigarettes is consumed yearly.

According to Egyptian laws, tobacco cultivation is prohibited.

So, All crude tobacco are imported.

Most of Tobacco Products like Cigarettes & Water Pipe tobacco are locally manufactured .

Before 2010 cigarettes prices in Egypt were very low, So that no illicit trade problem.



Old tax system on cigarettes

Egypt's old tax system on cigarettes is a general sales tax but acts like an excise tax system. The GST on cigarettes is a tiered specific tax.

Factory price per pack of 20 cigarettes	GST/pack
less than 65 P.T.	108 P.T
more than 65 to 73 P.T	112 P.T
more than 73 to 84 P.T.	125 P.T
more than 84 to 95 P.T .	140 P.T
more than 95 to 106 P.T.	153 P.T
more than 106 to 300 P.T	173 P.T
more than 300 to 425 P.T.	315 P.T
more than 425 P.T.	325 P.T

WHO Role

In 2009 Many studies had been taking place between the Egyptian tax authority and WHO in reference to FCTC article 6. This cooperation leads to the success of tax reform which combine between specific and ad valorem tax.

On 1/7/2010 Egypt made a tax reform for tobacco products which increased tax burden on it.

New Tax system

A specific excise tax of 1.25 L.E per pack (20 cigarettes).

And ad valorem tax at a rate of 40 % of Retail Price.

This new system started from the 1st of July 2010.

Tax rates on WT products was also changed to be 100% of producer price instead of 50%.

New Tax system

On 22/6/2011 Egypt modified the tax rate on cigarette to be 50% from retail price instead of 40% per pack +1.25 L.E (specific excise tax).

On 2/7/2014 Egypt modified the (specific excise tax rate) on cigarette to be 3 tiers :

Retail price for pack of 20 cigarettes	A specific excise tax
Les than 9 L.E	1.75 L.E
Between 9 and 15	2.25 L.E
More than 15	2.75 L.E

On 8/9/2016 VAT applied in Egypt, cigarettes are subjected to an excise tax which increased again on 24/11/2018 to be 50% from retail price plus one of the next 3 specific tiers :

Retail price for pack of 20 cigarettes	A specific excise tax
Not more than 18 EGP	3.5 EGP
More than 18 but not exceed 30 EGP	5.5 EGP
More than 30 EGP	6.5 EGP

Outcomes of tax reform

- ❑ Tax revenues on cigarettes increased from 7.498 billion in physical year (2009/2010) to be 13.45 billion (2010/2011).**
- ❑ Reduces cigarette consumption from 4.279 billion packs to be 3.7 billion packs at that year .**
- ❑ On (2012/2013) tax revenues was 19 billion and consumption was 3.9 billion packs.**

Why Track & Trace System

- ❑ Increasing tax rates on tobacco products generates more tax revenues, but increasing tobacco product prices without controlling country borders encouraged many importers & retailers to trade in smuggled tobacco products.
- ❑ According to an assessment conducted in 2011 about illicit tobacco trade, it showed that illicit trade on cigarettes was 21% of cigarettes market.

Actions taken

- 1. In 2011, the Sales Tax Law was amended to state that "the trade of products subjected to excise tax without stamping a tax stamp is a tax evasion crime “.**
- 2. At that time Egypt started putting a Track & Trace System which is applied in 85 countries.**
- 3. In 2013 Egypt started to apply that system on WT products & imported cigarettes.**
- 4. In 2015 Egypt started to apply it on specific cigarette brands.**

Actions taken

5. On Feb. 2016 the system fully applied on all tobacco products (Imported - Domestic).



Actions taken

- 6. All importers aren't allowed to sell crude tobacco unless the purchaser is registered as tobacco manufacturer at Tax authority.**
- 7. All these actions are taken in parallel with controlling country borders & Conducting periodic and sudden inspections of manufacturers' and traders' warehouses.**

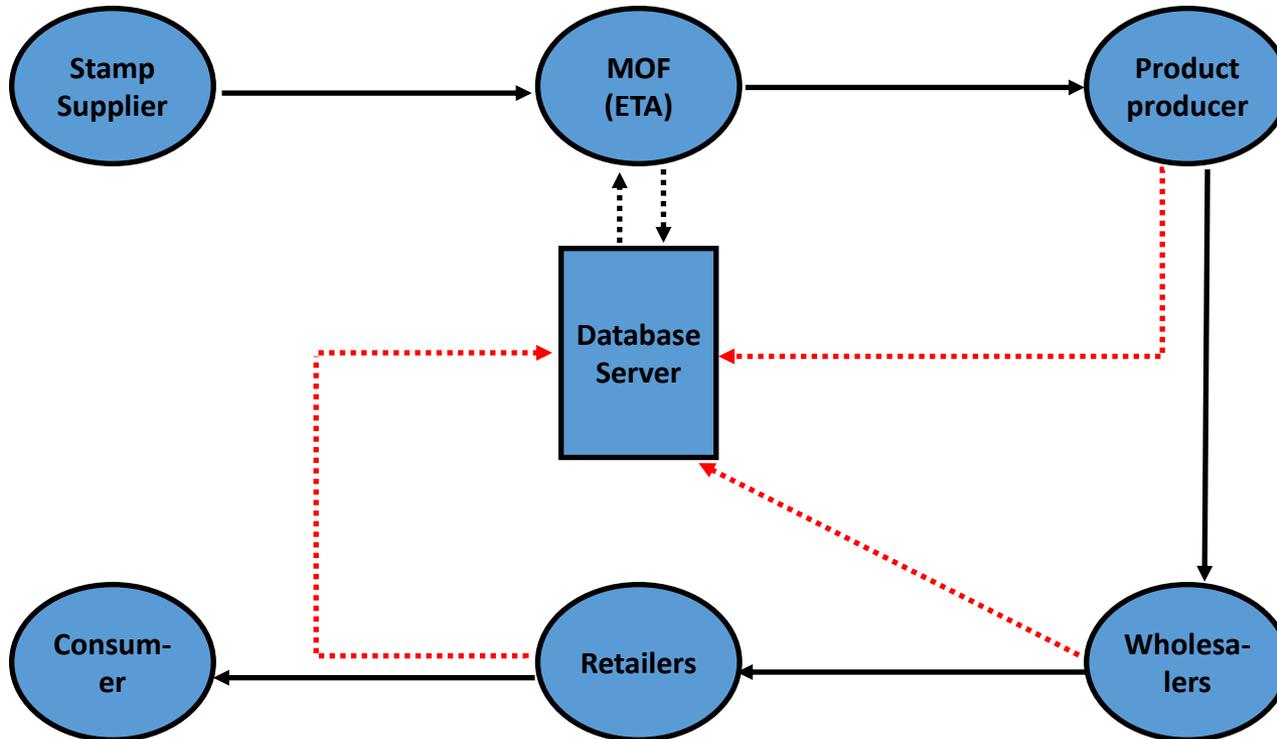
Track & Trace System

Track & Trace System is not only a tax stamp (Label) but it is an integrated system that allows the regulators to:

- 1. Track the stamp from being printed until the products sold at small retailers by a smart database (Egypt now applies the system on manufacturers only) .**
- 2. Very easy to Distinguish between the original and fake products.**
- 3. The Egyptian Government doesn't pay for the system as the tobacco producers is paying any expenses.**

Track & Trace System

Prosses of Track & Trace System



Track & Trace System

Stamp Features

The Stamp contains more than 30 features like:

- ❑ Security paper with a holographic foil strip.**
- ❑ Complex security print design with both overt and covert features on a UV dull paper (visible & invisible print).**
- ❑ Each stamp contains a unique random alphanumeric digit code (12 digit code).**
- ❑ 2 dimensional bar code representing the code.**

Track & Trace System Stamp Features



Track & Trace System (Used Devices)

Ink detector.



Hidden ink detector.



Handheld Computer Unit.



-
- 1. Illicit tobacco trade on cigarettes decreased from 21% on year 2011 to be 8% on year 2017 according to an assessment made by Ministry of Health & WHO.**
 - 2. About 60% of illicit tobacco trade has been eliminated after 1 year of full applied system.**

Outcomes/Impact

محمد عبد الهادي

أحمد السيد النجار

ضبط 4 ملايين عبوة سجائر مهربية ومسرطنة بالقاهرة

8 فبراير 2016

كتب - ناجي الجرجاوي:

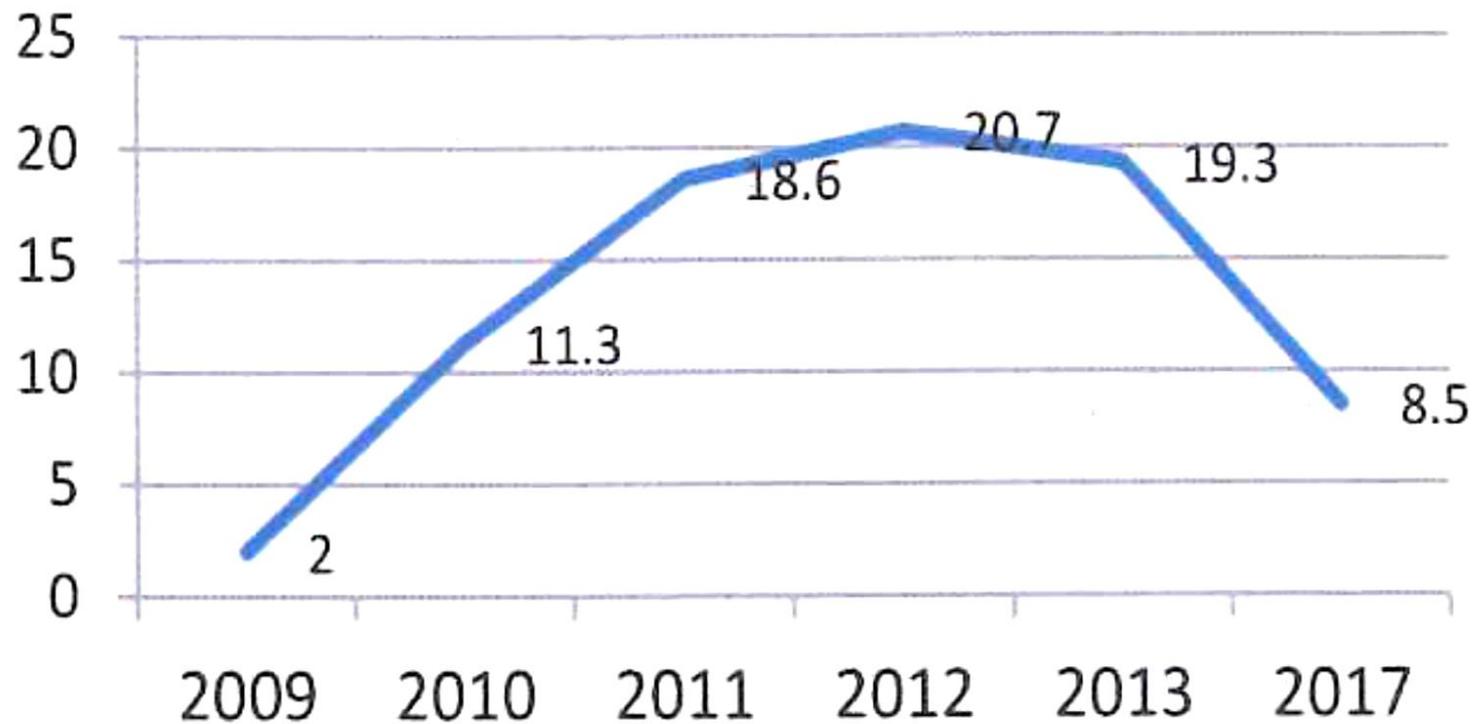


في ضربة أمنية ناجحة داهمت الإدارة العامة لمباحث الضرائب والرسوم مدعومة بعناصر من القوات الخاصة للأمن المركزي بالتنسيق مع مصلحتي الجمارك والضرائب إحدى اكبر اليور الإجرامية بمنطقة باب البحر بباب الشعبة ،

حيث تم ضبط 17 تاجرا ومحلا ومخزنا، بحوزتهم 500 كارتونة تحتوي على 4 ملايين عبوة سجائر مهربية من بينها عبوات مسرطنة، تم إخطار اللواء صلاح حجازي مساعد أول وزير الداخلية للأمن الاقتصادي وأمر اللواء طارق الاعصر مساعد الوزير لمباحث الضرائب والرسوم بإحالة المخالفين الى النيابة التي تولت التحقيق.

Outcomes/Impact

Illicit tobacco trade



Outcomes/Impact

- 5. Egyptian consumer awareness increased now as he doesn't buy tobacco product if it doesn't have the tax stamp.**
- 6. Reduce the side effects of smoking unknown products which is more harmful than legal one as illicit trade uses materials which is not compiling with the standards of tobacco industry.**

Conclusion

- 1. There is no relation between increasing tax burden on tobacco products & illicit tobacco trade.**
- 2. There is a relation between Losing control on markets & country borders.**
- 3. All related parties must work together to control the illicit trade.**

Thank You

Mohammed Madbouly
mmmadbouly@gmail.com