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Increase in tobacco products excise duty to be hefty

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ANY increase in the excise duty for tobacco products in the 2001 Budget will likely be a hefty one.

Pesaka Jardine Fleming Sdn Bhd head of equities Clement Chew said historically, every time the duty on tobacco products was raised, the increase had been significant.

In 1991, it was increased by 10 per cent and in 1992 the duty was increased by 100 per cent. The last increase, which was in October 1998, was 40 per cent.

"As such, if there is going to be an increase, it will be a significant one," he added.

Pesaka Jardine estimates the increase to be between 25 per cent and 50 per cent.

"Assuming the increase is within our estimated range, the domestic consumption volume is expected to decline by between five per cent and 10 per cent," Chew said.

He added that since tobacco companies have always passed along the increase in duty to the customers, Pesaka Jardine estimates cigarette prices to increase by between seven per cent and 14 per cent.

This means there shouldn't be any impact on the profitability of the tobacco companies, he said.

The only time the companies recorded a lower profit was last year, and that was due to the financial crisis coupled with the duty increase in 1998.

Last Tuesday, Prime Minister Datuk Seri Dr Mahathir Mohamad said that even if the the Budget does include higher duty for tobacco products, the tobacco industry will still survive and be profitable.

He was commenting on recent speculation of higher duty for tobacco products, sparked by the tobacco industry's recent release of a study showing that the industry pays hefty taxes.

However, Chew pointed out that higher excise duty for tobacco products isn't really necessary because the Government's revenue position is healthy.

Meanwhile, an analyst at a local stockbroking firm feels that if the Government decides to raise the duty on tobacco products, it will be at between two per cent and five per cent.

Such a hike, he said, will have a minimal effect on cigarette prices.

"The price of a pack of 20 is expected to increase by a mere five sen if the tobacco companies decide to pass on the higher duty to the end customer," he added.

He also agreed that any increase is not expected to have a negative effect on the bottom line of the industry players.

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