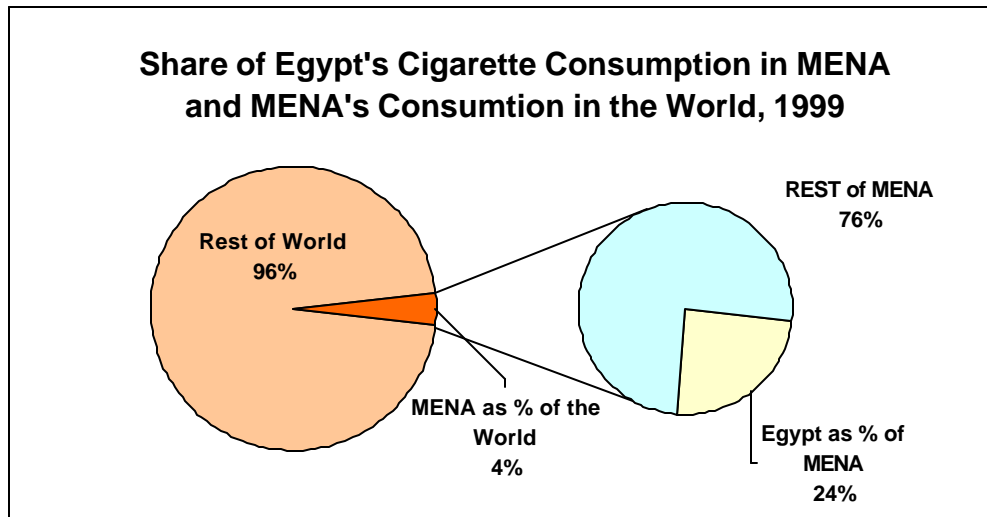


Economics of Tobacco in Egypt

Cigarette Consumption and Prevalence

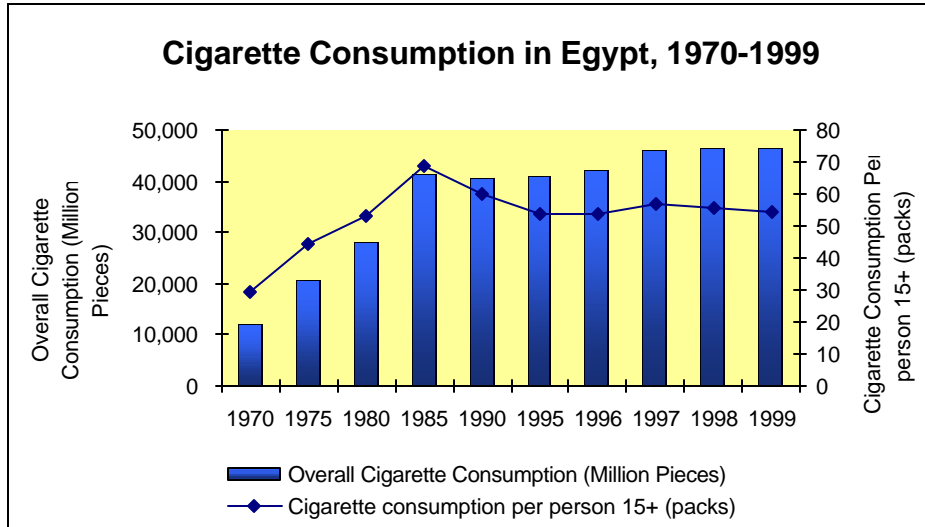
?? Egypt has the highest cigarette consumption in the Middle East and North Africa region (MENA). In 1999, Egypt consumed 46,600 million cigarettes, or 24% of the total MENA consumption, despite that Egypt only accounted for 21% of MENA's total population.



Note: MENA region includes Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates (UAE) and Yemen.

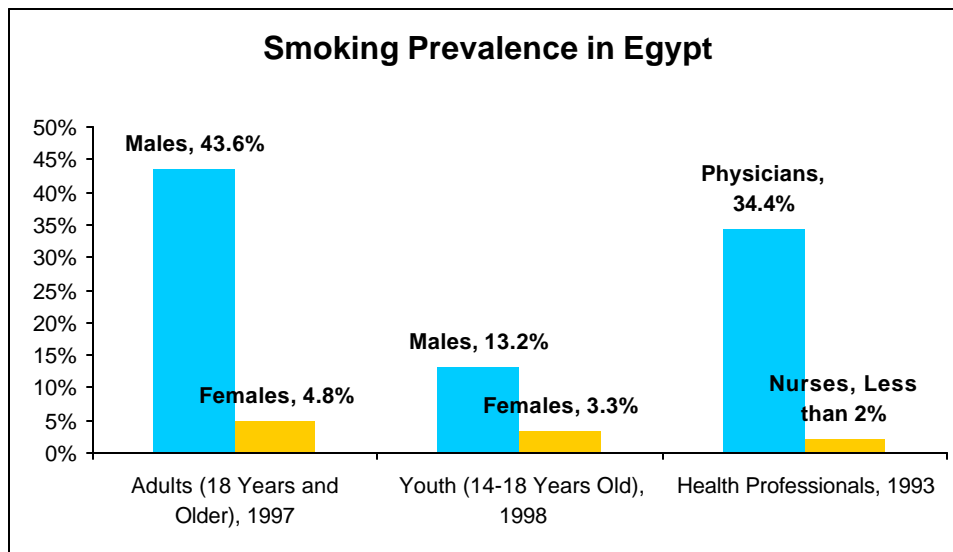
Source: USDA

?? In Egypt, cigarette consumption per person aged 15 or older increased very rapidly in the 1970s and early 1980s. It fell a little between 1985 and 1995, and has remained relatively stable since 1995. In 1999, Egyptians consumed 46,600 million cigarettes, with consumption per adult (15 years and older) at 54 packs.



Sources: USDA and The World Bank

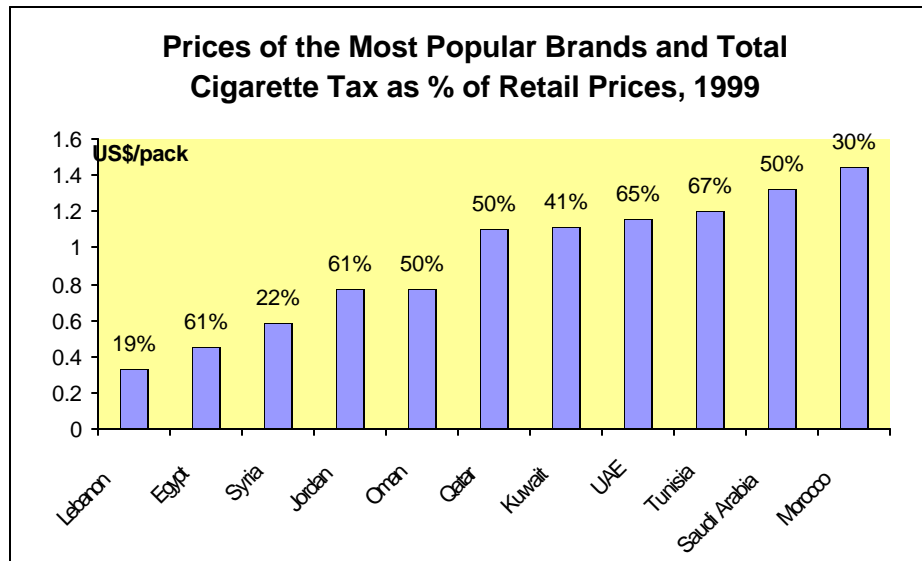
?? Despite some religious disapproval (Islam prohibits practices that harm the body) and growing health awareness, smoking is very popular in Egypt. It is estimated that 28% of Egypt's population are smokers -- about 19 million smokers in 2000.



Source: Adult Data: Daily smoking of cigarettes, cigars and/or goza in the Fakkous region (1997 is date of publication); Omar, S. et al. (1997). Final Report: Study of cancer cases in the East Side of Delta. Cairo: National Cancer Institute, Cairo University. Youth Data: Current smoking measured by the Egyptian Ministry of Education; Ahmad, O. et al. (1999). Tobacco education in Cairo, Egypt: is there an effect on adolescent smoking?. Tobacco control, 8, 440-441. Health Professional Data: Estimated current smoking among male physicians and female nurses in Ismailia (1993 is date of publication); information provided by Fatma Hassan of the Suez Canal University.

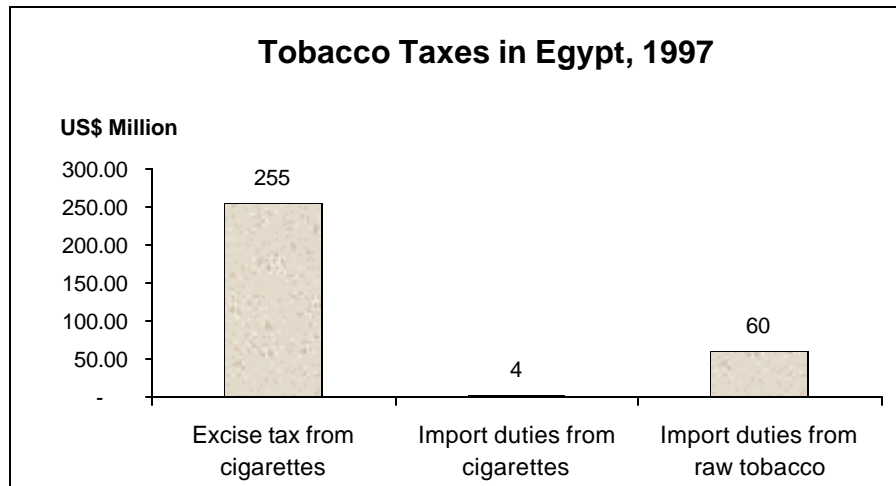
Tobacco Taxes

?? In 1999 in Egypt, taxes on imported cigarettes amounted to 65% of the final price. Meanwhile, taxes made up 61% of the total price of domestic cigarettes. The excise tax is 0.925 Egyptian Pound per pack for cigarettes with ex-factory price less than 0.65 Egyptian Pound, and 1.37 Egyptian Pound per pack for cigarettes with ex-factory price over 0.65 Egyptian Pound. In addition, imported products are subject to 85% import duties on c.i.f. value. In 1999, imports only accounted for 1% of Egyptian consumption and the overall cigarette tax incidence was 61%.



Source: World Bank Estimates: Cigarette tax as % of retail price is estimated by including domestic and imported cigarettes. Estimation is done by dividing tax revenues from imported cigarettes (includes excise+VAT+import duties) and domestic cigarettes (excise+VAT taxes) to import and domestic cigarette expenditures.

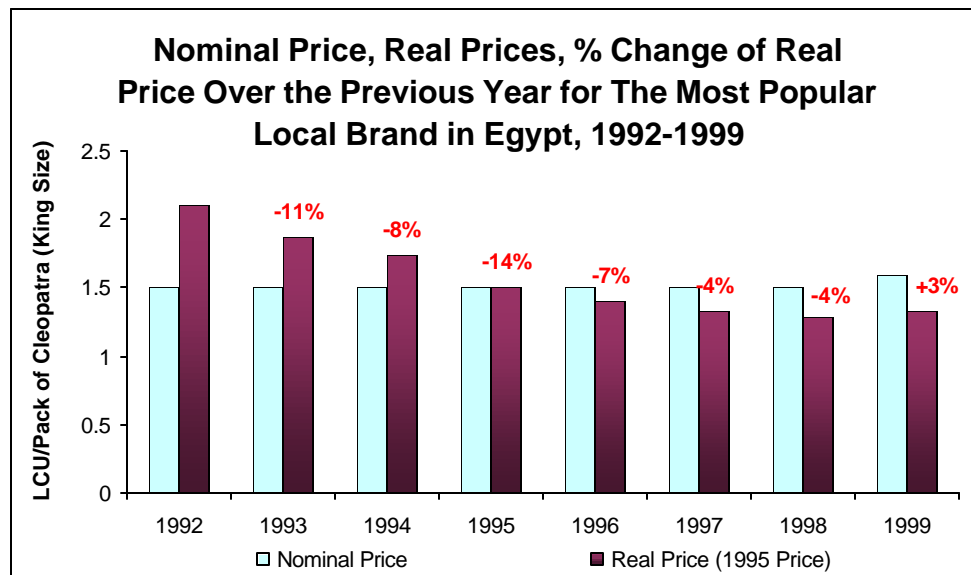
?? In Egypt, total tax revenues from cigarettes were about US\$259 million in 1997, including excise taxes and import duties. In addition, import duties from raw tobacco contributed another US\$60 million to government revenues. The total tax “take” from tobacco of US\$319 million was 2.5% of total government tax revenue in 1997.



Source: World Bank Estimate

Prices

?? Egypt's prices of domestic cigarettes were fixed from 1992-1998. The price of the most popular brand, Cleopatra king size 80mm, which accounted for 57% of the Egyptian cigarette market in 2000, increased slightly in 1999 to 1.6 Egyptian pound (it was 1.5 from 1992-1998). The real price (adjusted for inflation) decreased steadily during the 1990s, with a small increase of 3% in 1999.

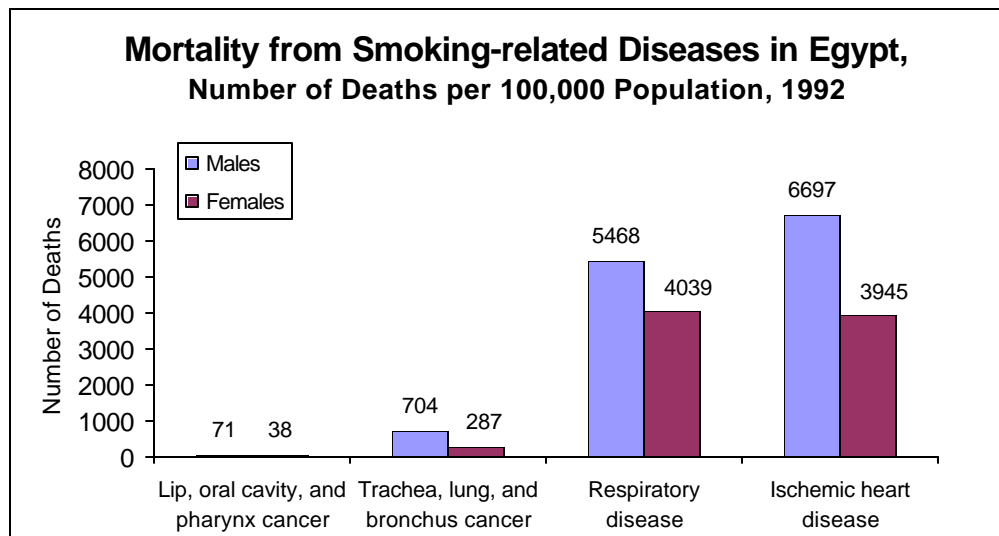


Source: Eastern Tobacco Company

?? Price controls on cigarettes became less stringent after 1999, when shares in the Egyptian tobacco monopoly, Eastern Tobacco Company were sold to the public. The company is now allowed to increase prices on revamped old brands and new brands. This may lead to price increases in future.

Health Issues

?? In 1992, there were an estimated 704 deaths per 100,000 males aged over 35 from cancers of the trachea, lung and bronchus in Egypt. By comparison, 287 females 100,000 over 35 died of these diseases. For all smoking related diseases, mortality rates for women are substantially lower than men, reflecting relatively low smoking prevalence among women. A large part of the gender differences in these mortality rates is attributable to tobacco use.



Source: World Health Organization. (1998). *World Health Statistics Annual, 1996*. Geneva, Switzerland.

Tobacco Control Measures

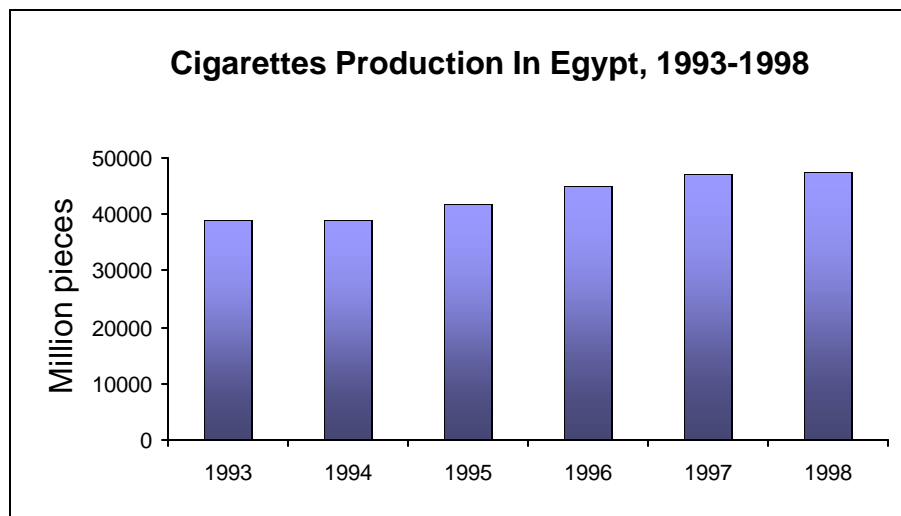
- ?? Since 1981, tobacco control legislation has required that health warnings be printed on cigarette packets along with the tar and nicotine content of the cigarettes.
- ?? Cigarette advertising is strictly regulated in Egypt. Since 1977, there has been a complete ban on radio and television advertising. Advertising is allowed on billboards, in the press and at point-of-sale outlets, but a statutory warning must be displayed with the advertisement.
- ?? Smoking is banned in enclosed public places and on public transport such as the Cairo metro, trams and buses. Smoking is prohibited on domestic airline flights and trains must have designated no-smoking cars. Smoking is also banned in cinemas and theatres. The ban has recently begun to be enforced in Ministry of Health buildings, and the intention is to extend enforcement in schools and the Ministry of Education.
- ?? The Mufti, Egypt's spiritual advisor, announced in 2000 that smoking (like drinking alcohol) is contrary to Islamic principles. Health education programs in schools,

universities and women's organizations include tobacco, and there are ongoing efforts to improve the curriculum and the messages targeted at children.

- ?? The "Healthy Egypt 2010" goals include 12 specific targets for reducing and monitoring tobacco use and reducing related morbidity and mortality.
- ?? There is also a new initiative to provide cessation counseling and support to TB patients.
- ?? Legislation proposing increases in tobacco taxes was introduced recently in Parliament (but not passed).

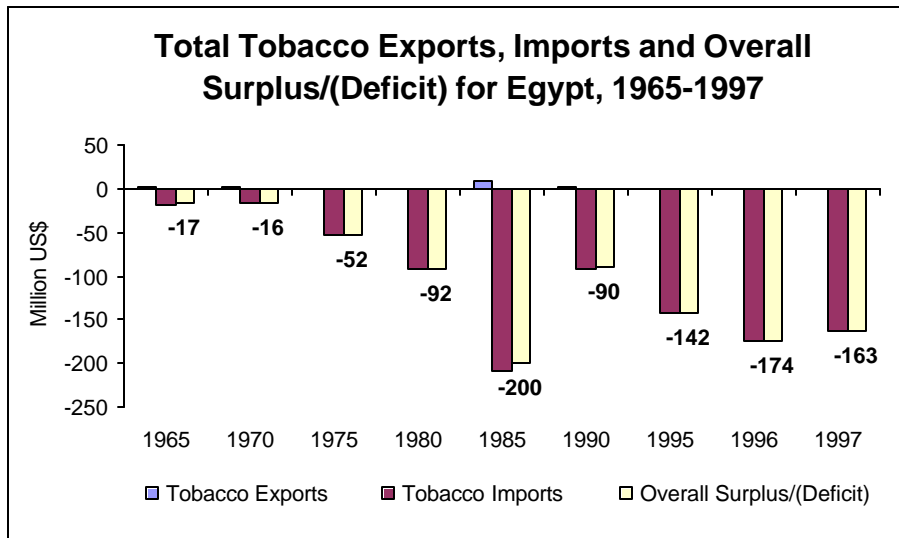
Tobacco Production and Trade

- ?? The Eastern Tobacco Company (ETC) is the sole manufacturer of cigarettes in Egypt. In 1998, ETC produced 47,500 million cigarettes (pieces). Over 95% of cigarettes produced were domestic brands. The remaining 5% are foreign brands manufactured by ETC under agreement with foreign companies.



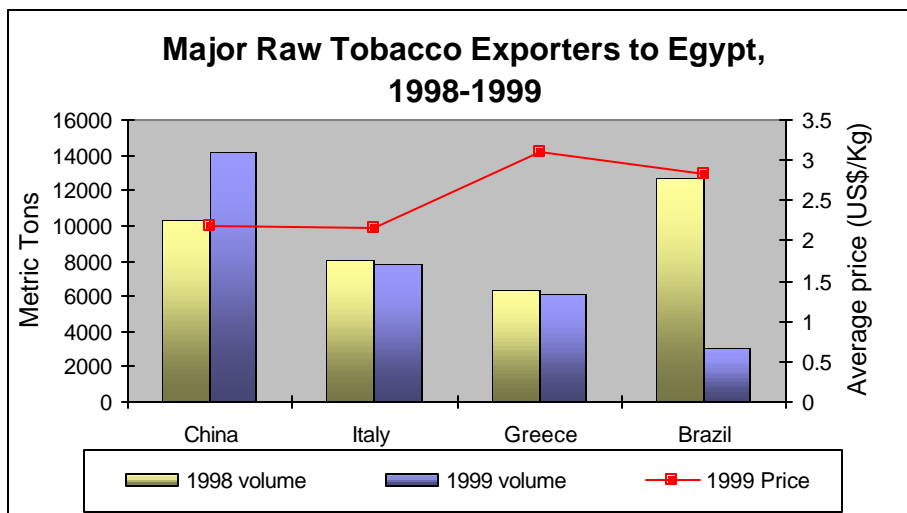
Source: USDA

- ?? Overall Egypt is a net tobacco importer. Since Egypt does not grow raw tobacco, it imports all the raw tobacco for domestic use. Both exports and imports of cigarettes are small compared with raw tobacco imports. In 1997, Egypt's net deficit from tobacco trade was US\$163.5 million.



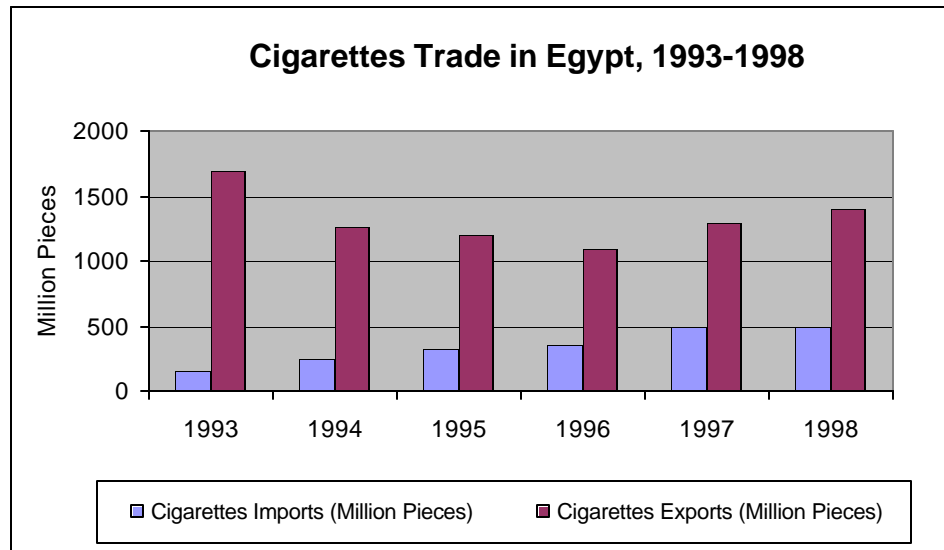
Source: FAO

?? Raw tobacco cultivation is prohibited in Egypt, so all tobacco leaves have to be imported. China was the biggest tobacco leaf exporter to Egypt in 1999, followed by Italy, Greece and Brazil. Between 1998 and 1999, there was a significant shift in import source -- the import volume from China increased by 38%, offset by declines from the other countries, especially Brazil.



Source: USDA

?? Egypt exports some manufactured cigarettes to other Arab countries, mainly for consumption by Egyptian expatriate workers. It also imports some cigarettes for domestic consumption. However, the overall cigarette trade is small in scale. In 1996, cigarette imports and exports each accounted for less than 0.01% of the value of total imports and exports.



Source: FAO

Privatization and Competition in the Tobacco Industry

?? The Eastern Tobacco Company (ETC) was owned by the Egyptian government. Partial privatization began in June 1995, when the holding company for Mining and Refractories sold 20 per cent of its stake in ETC via the issue of 5 million shares equally divided between employees and the public. The company made another public offering in 1999. Currently the holding company holds 66% of ETC, and the other 34% is owned by the public.

?? The tobacco industry is under pressure to open up to private sector competition. In 1996, Philip Morris unsuccessfully lodged an application to set up an independent cigarette production plant in Egypt. ETC remains the sole producer of cigarettes in Egypt.