

Clear regulations on vape industry needed

Taxing e-cigarettes could streamline the industry, but a rise in retail prices could result in illegal trading, says analyst

by RAHIMI YUNUS

ELECTRONIC cigarette (e-cigarette) and vape enterprises are seeking a holistic regulation to further drive the growth of the industry following the introduction of a 10% excise duty on cigarette devices starting next year.

Malaysian Vape Chamber of Commerce (MVCC) president Syed Azaudin Syed Ahmad said the

announcement made in Budget 2021 related to e-cigarettes and vapes is the first step in the right direction to introduce appropriate regulation on the vape industry.

"The next step is to develop a clear and holistic regulation to enable the industry to operate in a clear direction. We look forward to working with the government on the implementation of the taxation requirement and developing holistic regulations for the industry," Syed Azaudin told *The Malaysian Reserve* (TMR).

The government will impose an excise duty of 10% on devices for all types of e-cigarettes and non-e-cigarettes, including vapes,

effective from Jan 1, 2021.

Additionally, the liquid used in e-cigarettes will be imposed an excise duty at a rate of 40 sen per millilitre, which is more than 90% lower than the excise duty on cigarettes, according to an estimation by CGS-CIMB Research.

Syed Azaudin said the impact of the taxation regime on businesses is still "too early to tell" at this point.

Malaysia Retail Electronic Cigarette Association president Datuk Azdwan Ab Manas said the industry recognises the need for the government to collect additional revenue with the new taxation on vaping products.

At the same time, he said the government is urged to focus on developing approaches that assist adult smokers looking to switch to less harmful products, quoting research by Public Health England in 2018 that found vaping is 95% less harmful than tobacco.

Adzwan said vaping offers the opportunity to reduce smoking-related harm by providing 4.9 million adult smokers in Malaysia with access to nicotine, while potentially reducing the risks posed by the combustion of tobacco.

"The industry supports policies that reduce the prevalence and burden of smoking-related diseases.

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Pic by Muzd Amin Naharul

VAPING IS LESS HARMFUL: The announcement made in Budget 2021 related to e-cigarettes and vapes is the 1st step in the right direction to regulate the vape industry with the introduction of a 10% excise duty on cigarette devices and liquid used in e-cigarettes starting next year.

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The wider adoption of e-cigarettes can help play a role towards that goal," Adzwan told *TMR*.

TMR reported that the duty imposed on the devices, including the vape liquid, could generate hundreds of millions of ringgit to the government's tax revenue, according to Thannees Tax Consulting Services Sdn Bhd MD SM Thanneermalai.

KPMG Malaysia head of tax Tai Lai Kok told *TMR* that taxing

e-cigarettes could streamline the industry, but a rise in retail prices could result in illegal trading as observed in the tobacco industry at present.

He further said the new excise duty also poses an immediate challenge of product classification according to the relevant legislation and orders, including businesses along the supply chain who are subjected to the duty.

CGS-CIMB Research analyst Kamarul Anwar said the 40 sen

per millilitre excise imposed on vapes does not seem anywhere as punishing as that on conventional cigarettes.

"This should thwart any risk of engendering the issue of consumer affordability. While the vape market is heavily fragmented, with disparate types and variations, we use the example of Nanostix Innovations Sdn Bhd's (unlisted) closed-system vape pods to illustrate how low the excise duty on vapes will be," Kamarul

said in a report on Saturday.

He noted that Nanostix claimed that its 1.5ml pod can yield the same amount of puffs as 40 cigarettes, or two cigarette packs.

Thus, the analyst said when one buys a Nanostix pod, one pays excise duty of only 60 sen, whereas two cigarette packs carry excise duties of RM16 — a 99.96% difference.

He said regulations on e-cigarettes and vapouriser products will pave the way for British American

Tobacco (M) Bhd's entry into the burgeoning market, which has grown from a virtually zero market share in 2017 to 9% in the fourth quarter ended Dec 31, 2019.

Malaysia's e-cigarette market is valued at between RM1.5 billion and RM2 billion a year, serving about 1.2 million e-cigarette users, according to industry data.

Excluding the black market, Malaysia exports about RM300 million worth of vape liquids, placing the country second after the US.