Taxes and tobacco consumption in the Gulf

Government spending in the Gulf Cooperation Council (GCC) countries has been rising rapidly since the onset of the Arab Spring. On the revenue side, oil & gas revenues account for more than 85 percent of GCC government revenue. This high dependence on oil & gas makes the GCC countries highly vulnerable to oil price fluctuations, with the recent decline in oil prices bringing fiscal sustainability concerns to the forefront. The IMF estimates that the GCC fiscal balance is expected to turn into deficit of USD 113 billion (8 percent of GDP) in 2015 from a surplus of USD 76 billion (4.5 percent of GDP) a year ago.

To address their revenue vulnerability and fiscal sustainability the GCC countries should prioritize fiscal reform and put in place policies to diversify the sources of government revenue. Revenue diversification policies should be directed not only at mobilizing non-oil revenue in the short run, but also at improving the buoyancy of tax revenue. Government revenue diversification reforms are recommended with the most efficient plan being to introduce both broad-based sources of taxation (a Value Added Tax) and indirect taxes (excise taxes) on specific goods and products like gasoline, diesel, alcohol and tobacco.

"The Global Tobacco Epidemic 2015" report, states that 6 million people a year die from tobacco-related diseases, with that number estimated to increase to 8 million people by 2030. According to the World Health Organisation (WHO) and Tobacco Free Initiative (TFI), a 10 percent price increase on a pack of cigarettes would be expected to reduce demand for cigarettes by about 4 percent in high-income countries and by about 5 percent in low- and middle-income countries, where lower incomes tend to make people more sensitive to price changes. This price increase is interlinked with price and tax measures, as Article 6 of the WHO Framework Convention on Tobacco Control states: 'Price and tax measures are an effective and important means of reducing tobacco consumption by various segments of the population, in particular young persons.'

However, despite clear evidence that increasing taxes is an effective intervention to reducing tobacco use whilst increasing government revenues, GCC countries remain constrained by international & bilateral trade agreements from raising the common external tariff on cigarettes and other tobacco products thereby restricting the ability of the GCC to raise prices to reduce tobacco consumption.

Tobacco Consumption in the Middle East

The Middle East and North Africa region is one of the fastest growing consumers of tobacco products, especially cigarettes. With a young, fast-growing population, where smoking is culturally acceptable and with low awareness of health implications, tobacco consumption is high. In 2010, the region accounted for a 7.1 percent market share of global cigarettes volume, the fourth largest globally. Significantly, the smoking of pipe tobacco in the region, popular due to the consumption of shisha, represents roughly 45.5 percent of global demand. By country, Saudi Arabia has the highest per capita consumption of shisha pipe tobacco in the world while Egypt, which is MENA's largest cigarettes market, consumes most in volume terms. Saudi Arabia, with the largest GCC population, is the largest market for the cigarette industry1, closely followed by the UAE.

Constraints on GCC Tobacco Tax Policy Options

The GCC countries are considering raising custom duty on tobacco, both to raise revenues and for health objectives of reducing consumption and smoking incidence (as per WHO guidelines). Earlier this month, the GCC endorsed a call by the WHO to raise taxes on tobacco. However, they face a number of constraints in achieving their objectives given their international obligations.

International & bilateral trade agreements constrain the GCC countries from raising the common external tariff on cigarettes and other tobacco products thereby restricting the ability of the GCC to raise prices to reduce tobacco consumption and smoking incidence, while increasing government revenue from tobacco taxation. The GCC nations are members of the WTO and have to comply with their treaty commitments and with a maximum import duty, known as the 'bound' rate. The current 100 percent import duty across the GCC is set at the bound rate for both Bahrain and Kuwait.

Furthermore, free trade agreements signed by Bahrain and Oman separately with the US dictate that the countries remove tariffs on cigarettes (among other products) within a ten-year timeframe (due 2016 and 2019 respectively). Last, but not the least, the GCC Customs Union agreement includes a Common External Customs Tariff (CET) for goods imported from outside the GCC, as well as common customs regulations and procedures, which further constrains tobacco tax policy options.

Tobacco taxation in the GCC

The uniform system of cigarette taxation places the Common External Tariff at 100 percent of the CIF price (ad valorem) and a minimum specific duty equivalent to SAR 100 per 1,000 cigarettes, whichever is higher. The minimum specific duty component of taxation is an essential component, given that it enables a secure contribution towards the government revenue base. The minimum specific duty was first introduced by Saudi Arabia in the 1990s and was fully harmonized among GCC member states when Kuwait adopted the current KD 8 per 1,000 cigarettes minimum in 2002.

In the years that followed, manufacturers have increased prices of many brands above the levels at which the minimum duty applies, thus increasingly subjecting them to the ad valorem component of the tariff. However, the minimum specific duty was not systematically adjusted for inflation and its real value and incidence has declined.

Any increase in specific duty would mean that all cigarettes must pay the minimum amount of tax regardless of their CIF price. By contrast, when the ad valorem duty rises, the price of mid and premium price cigarette brands increase by more than that of low and cheap brands given that the tax charged is a proportion of the CIF price. This provides an incentive to consumers to substitute, trading down to cheaper and lower quality products, which could reduce government revenues under a purely ad valorem tax regime and undermine governments' health objectives.

Proposal for a New GCC Excise Duty Regime for Tobacco

The GCC countries should agree and introduce excise taxes on tobacco consumption as a policy tool to increase tobacco prices for health reasons and to raise revenue. Ideally, the introduction of domestic excise taxes on tobacco should be in the form of a specific nominal excise duty to be introduced in each GCC member state consisting of a fixed amount per 1,000 cigarettes or equivalent units of other tobacco products. The new excise duty would be introduced by the Ministries of Finance, with a revised mandate enabled by the requisite legal & regulatory reforms, which would set up the revenue administration. It is also feasible that the revenue administration be out-sourced to customs, which then becomes Customs & Excise.

Additionally, there should be GCC policy harmonization ie, introduction of tobacco excise taxes should be applied uniformly (including on domestic production), equally and in synchronized manner in all countries in order to prevent arbitrage opportunities and illicit trade or smuggling. The process of implementation of the new tax structure should also be gradual to avoid encouraging smuggling & illicit trade. This will enable the building of tax capacity in the form of tax revenue authorities to implement the fiscal reform, monitor and collect revenue. The set-up of an excise revenue administration has the added advantage of facilitating the introduction of other excises, notably on gasoline, diesel and other oil products - gradually leading to revenue diversification and eventually fiscal consolidation.

POY innovation seminar 2015

DUBAI: Every year, the biggest brand names from across the gulf gather under one roof to recognize the most innovative products at the Product of the Year Awards (POY). The prestigious award rewards innovation in the FMCG sector, by allowing the customers themselves to vote and select winners. And every year after the award ceremony, POY conducts an interactive seminar for all participating brands under the umbrella of POY Talks: supporting innovation.

The topic for this year's seminar, held at the Dubai Marina Yacht Club, was 'How can FMCG brands succeed in establishing online engagement through social media?' The seminar helped FMCG clients understand the progressing social media landscape and how they can optimize their efforts and investments to build effective social media presence. Key speakers from Facebook- Instagram, Diwanee publishing group, Shahiya.com, U Turn and TNS market research addressed the penetration and use of online tools in the GCC market and how women are specifically engaging through the different social media platforms.

The digital world has been evolving since the very beginning. New engagement platforms are popping up every day and getting outdated the next day. Only a few have survived the test of time by changing with the times. The seminar also shed light on how different social media platforms have experienced changes and how a business can build healthy engagement with their audiences, by understanding what sort of content consumers like to engage with. The growing popularity of video content was also discussed, focusing on what it takes to develop interesting video content that can go viral and simultaneously achieve brand objectives. Examples were used to show how it is not only important to develop interesting content, but to also distribute it at the right time to the right people.

The panel consisted of some of the most renowned speakers from the industry. Stephen Hillebrand, CEO TNS Market Research gave a snapshot of the region's online media consumption habits and where this region is heading in terms of social media, with a special focus on GCC women. Amira Rashad, Head of Brand, Facebook Middle East, discussed the measures of success for FMCG brands on Facebook and Instagram, and how it is important to present the new changes occurring within Facebook and Instagram tools in order to help set the foundation for a proper understanding of the platforms.

Kaswara Al-Khatib, Chairman at UTURN, shed light on how online video is different from conventional TVCs, he explained how there are many ways to create video content that can go viral, and how people need to understand what makes a really good piece of video. Herve Cuviliez, CEO at Diwanee, spoke about the increase of program-led advertising and competition on main social platforms, he urged brands to look at improving their earned media to generate better data and improve ROI on the marketing investments. Also present in the panel was Daniel Neuwirth, the co-founder of Shahiya.com. He spoke about how Shahiya engages housewives on social media, and about engaging home cooks and online influencers on shahiya.com.

As always, the seminar received immense response and strong participation. All-in-all, a healthy recap for everyone to remember to keep their audience at the forefront of all marketing activities, as it is consumers that decide the rise and fall of any brand - a philosophy the Product of the Year Award truly stands for. Product of The Year is currently receiving registrations for its 2016 edition, the deadline for closing the edition is September 30, 2015.

Burgan Bank announces names of daily winners of Yawmi account

KUWAIT: Burgan Bank announced the names of the lucky winners of its Yawmi account draw, each taking home a prize of KD 5,000.

1. FAISAL MUSALLAM FALAH AL HUBAIDAH
2. LUOLWAH MOHAMMAD RABEIA
3. SAMI MAHMOUD HASAN AL RABIAH
4. KHALED AHMAD ABDULLAH AL JASEM
5. LILIIA ABDU

To further add to the anticipation of Yawmi account customers, Burgan Bank now offers a Quarterly Draw with more chances to win higher rewards, entitling one lucky customer to win KD 125,000 every three months. The Yawmi Account now offers daily and quarterly draws - the quarterly draw requires customers to maintain a minimum amount of KD 500 in their account for 2 months prior to draw date. Additionally, every KD 10 in the account, will entitle customers to one chance of winning. If the account balance is KD 500 and above, the account holder will be qualified for both the quarterly and daily draws.

Burgan Bank encourages everyone to open a Yawmi account and/or increase their deposit to maximize their chances to becoming a winner. The more customers deposit, the higher the chances they receive of winning. For more information on opening a Yawmi account or about the new quarterly draw, customers are urged to visit their nearest Burgan Bank branch and receive all the details, or simply call the bank's Call Center at 1804080 where customer service representatives will be delighted to assist with any questions on the Yawmi account or any of the bank's products and services. Customers can also log on to Burgan Bank's www.burgan.com for further information.

Strategy, not tech drives digital transformation

DUBAI: Eighty percent of employees across all generations want to work for a digitally enabled company or digital leader, according to the latest Deloitte report "Strategy, Not Technology, drives Digital Transformation". In addition, more than 75 percent of respondents from digitally mature companies agree that their organizations provide the necessary skills to capitalize on digital trends. Among low maturity entities, the number drops to 19 percent.

The report, conducted by Deloitte and MIT Sloan Management Review, is based on findings from the fourth annual global survey of more than 4,800 business executives across 27 industries and 129 countries. It reveals that the ability to digitally transform and reimagine a business is determined in large part by a clear digital strategy supported by leaders who foster a culture able to change and reinvent their organizations. "The importance of having a clearly articulated digital strategy was a major finding. Those companies developing enterprise-level digital strategies are moving ahead, while those that are not, are struggling," Rashid Bashir, consulting partner and Monitor Deloitte Leader in the Middle East. "These digitally maturing companies embrace innovation and collaboration; they have leaders who understand both technology and its potential impact on the business, and they understand that continued digital advancement depends upon retaining and developing talent," he added.

Other key findings of the report include:

● Digital strategy drives digital maturity - Only 15 percent of respondents from companies at the early stages of what the study refers to as digital maturity - in which digital has transformed processes, talent engagement and business models - say that their organizations have a clear and coherent digital strategy. Among the digitally maturing, more than 80 percent do.

● The power of a digital transformation strategy lies in its scope and objectives - Less digitally mature organizations tend to focus on individual technologies and have strategies that are decidedly operational in focus. Digital strategies in the most mature organizations are developed with an eye on transforming the business.

● Taking risks is becoming a cultural norm - Digitally maturing organizations are more comfortable taking risks than their less digitally mature peers. More than 50 percent of respondents from less digitally mature companies see their organization's fear of risk as a major shortcoming. To make their organizations less risk averse, business leaders should embrace failure as a prerequisite of success. They must also address the likelihood that employees may be just as risk averse as their managers and will need support to become bolder.

● The digital agenda is led from the top - Maturing organizations are nearly twice as likely as less digitally mature entities to have a single person or group leading the effort. In addition, employees in digitally maturing organizations are highly confident in their leaders' digital fluency. Digital fluency, however, does not demand mastery of the technologies. Instead, it requires the ability to articulate the value of digital technologies to the organization's future. More than 75 percent of respondents from digitally mature companies say their leaders have sufficient skills to lead digital strategy. Nearly 90 percent say their leaders understand digital trends and technologies. Only a fraction of respondents from early stage companies have the same level of confidence: 15 percent and 27 percent, respectively.

● Stories gain employee buy in and organizational traction for digital transformation - Telling digital stories creates pride in organizations. Companies need to demonstrate their ability to tell the digital story, and what it means to live in the digital world for business.

● Innovation of digital technologies must be fostered - More than 70 percent of respondents from maturing companies say that their managers encourage them to innovate with digital technologies. At lower levels of maturity, only 28 percent of respondents express the same sentiment.

MEA PC market suffers sharpest ever decline

DUBAI: The Middle East and Africa (MEA) PC market suffered a sharp year-on-year decline of 25.6 percent in Q2 2015, marking it as steepest decline ever recorded in the region for a single quarter. The latest market insights from global technology research and consulting firm International Data Corporation (IDC) show that overall PC shipments for the quarter fell to 3.3 million units. Desktops were down 21.2 percent year on year to 1.4 million units, while the notebook segment declined 28.6 percent to total 1.9 million units.

"Two of the biggest declines were seen in Turkey and the 'Rest of the Middle East' region (Iran, Iraq, Syria, Yemen, Afghanistan and Palestine)," says Fouad Charakla, research manager for personal computing, systems, and infrastructure solutions at IDC Middle East, Africa and Turkey. "Both these territories carried over high inventory levels from the previous quarter as a result of a slowdown in demand. This factor was an inhibitor of PC shipments in other parts of the region as well, including the UAE. Currency fluctuations also had a negative impact on supply and demand in several key markets across the region. In the UAE, a slowdown in tourism spending - primarily from Russia and Europe - continued to inhibit PC demand."

The top three vendor positions remained unchanged from the last few quarters, with each of the leading vendors suffering significant year-on-year declines in their shipments to the region. HP continued to lead in terms of market share, but saw its shipments fall 26 percent year on year. Second-placed Lenovo suffered a 19 percent decline, third-placed Dell posted a downturn of 10.3 percent, and fourth-placed Acer recorded a decrease of 29.3 percent, while Asus maintained its position at number five but experienced a decline of 26.7 percent. Once again, local desktop assemblers suffered significantly in comparison to the previous year as demand for their devices continues to be cannibalized by the growing availability of refurbished PCs.

2015 as a whole is expected to be the region's worst ever performance, with overall PC shipments for the year set to fall 15.7 percent year on year to total 15.2 million units. "Currency fluctuations both inside and outside the MEA region will remain largely responsible for the slower demand, particularly in key markets such as Turkey and Nigeria," continues Charakla. "Low oil prices are also impacting those countries whose budgets rely strongly on oil revenues, ratcheting up the pressure on governments to control their spending. At the same time, the cannibalization of PC demand by tablets and smartphones continues to hamper the market's performance."

In the longer run, IDC expects the MEA PC market to experience a partial recovery in 2016, with shipments tipped to grow 10 percent year on year during those 12 months. The following years are forecast to remain close to flat in terms of shipment growth. However, as previously reported, there will be a gradual shift in the weight of demand from consumers to the commercial segment as a growing proportion of home users switch from PCs to tablets and smartphones and commercial end users maintain their loyalty to PCs. As a result, commercial demand for PCs in the region is expected to surpass that from home users by the year 2017.

Etihad Airways to carry 230,000 guests over Eid Al-Adha period

Etihad Airways, the national airline of the UAE, expects to carry over 230,000 guests during the upcoming Eid Al Adha period, an increase of almost 20 per cent over the same period last year. Between 45,000 and 50,000 guests will travel during Eid Al Adha with the busiest travel day expected to be Saturday, 26 September. Top destinations for travel over the period are London, Bangkok, Manila, Sydney, New Delhi, Paris, New York, Melbourne and Munich.

Peter Baumgartner, Etihad Airways' Chief Commercial Officer, said: "We are pleased to be able to fly a large number of guests during the Eid Al Adha period, covering destinations from all corners of our global network". "This year we have already introduced five new routes, with the addition of Kolkata, Madrid, Entebbe, Edinburgh and Hong Kong to our network, providing our guests more travel options," said Baumgartner. Guests are encouraged to check-in online 24 hours before flights depart and arrive at the airport at least three hours before flight departure out of Abu Dhabi.