

# Liquid E-Cigarette Industry Indonesia Subject to 57% Excise Tax

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Considering the relatively recent appearance of the (modern) e-cigarette in the world, its health risks are not yet fully known although many would say that it is a safer choice than smoking conventional (tobacco) cigarettes.

The Indonesian government announced that it decided to impose a 57 percent excise tax on (the price of) the e-cigarette (effective per 1 July 2018), a decision that is a blow for local e-cigarette players. Heru Pambudi, Director General of the Finance Ministry's Directorate General of Customs and Excise, said the government's decision was taken while keeping in mind the following matters: (1) health issues, (2) the e-cigarette industry, (3) consumers' purchasing power, and (4) the threat of illegal e-cigarette trade.

Pambudi added that the 57 percent excise tax hike is actually not too big. He has also already discussed the issue with various institutions and stakeholders in the e-cigarette industry. Meanwhile, the Finance Ministry's Excise Tariff Sub-directorate Head Sunaryo said four other countries have introduced an excise tax on liquid e-cigarettes, namely South Korea (16.7 percent), Russia (81.2 percent), Greece (13.5 percent), and Portugal (62.9 percent).



However, the Association of Personal Vaporizer Indonesia (APVI) stated that the 57 percent excise hike is too much and may even kill the smaller sized e-cigarette companies in Indonesia. There are currently around 5,000 "vape" shops in Indonesia with average daily sales reaching IDR 3 million (approx. USD \$225) per shop. A 57 percent excise hike could have a devastating impact on these shops.

Besides financial pressures on e-cigarette producers, distributors and sellers, what are other potential consequences of the 57 percent excise tax on the liquid e-cigarette? Firstly, e-cigarette consumers will see their purchasing power decline as they will need to pay a

higher price for consuming e-cigarettes (provided shops raise prices). Secondly, part of the e-cigarette smoking community could decide to replace the e-cigarette with the conventional cigarette, a much healthier choice.

This could then boost demand for conventional cigarettes in Indonesia in the second half of 2018. This would be welcomed by the conventional cigarette producers who have been experiencing tough times in recent years amid a series of excise tax hikes and other anti-smoking policies. The cigarette industry of Indonesia is currently in the *sunset* phase. Big companies such as HM Sampoerna and Gudang Garam can now only grow by acquiring existing smaller producers, benefit from the collapse of smaller cigarette producers, and benefit from the government's crackdown on the spread of illegal cigarettes across the country.

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