



Report and proposal
on the structure and rates of excise duty applied
on cigarettes and
other manufactured tobacco products



Main objectives of the current legislation

- Improve the operation of the **internal market**:
 - Establish minimum rates of excise duties
 - Approximate the structure of excise duties
- Prevent **distortion of competition** between different tobacco products
- Safeguard free determination of the maximum **retail selling price**



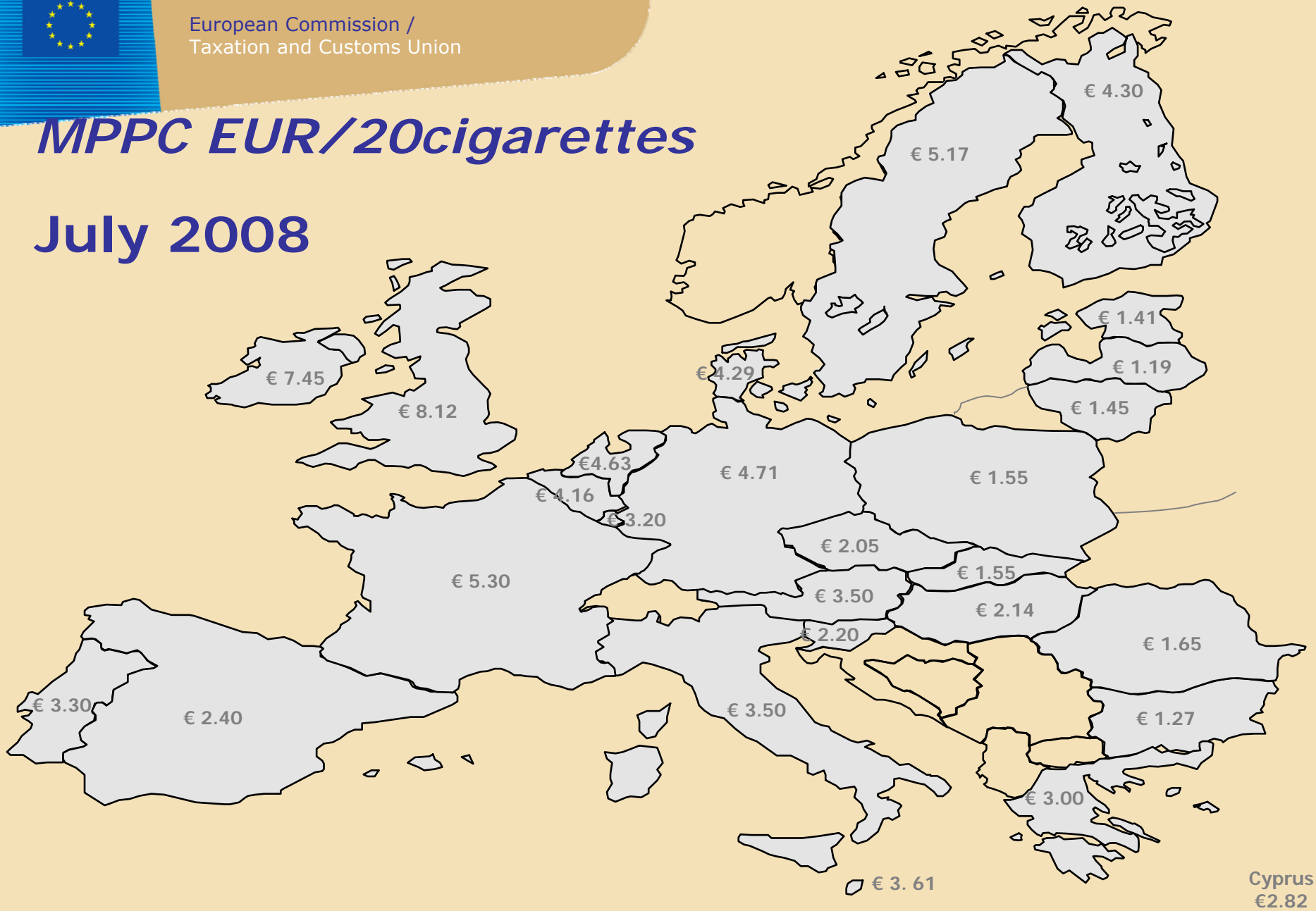
Article 4 review

- The Commission has to submit **a report to the Council and the European Parliament** every four years on excise duties on manufactured tobacco products.
- Decision making proces: Article 93 ECT: **unanimity** and **consulation** procedure



MPPC EUR/20cigarettes

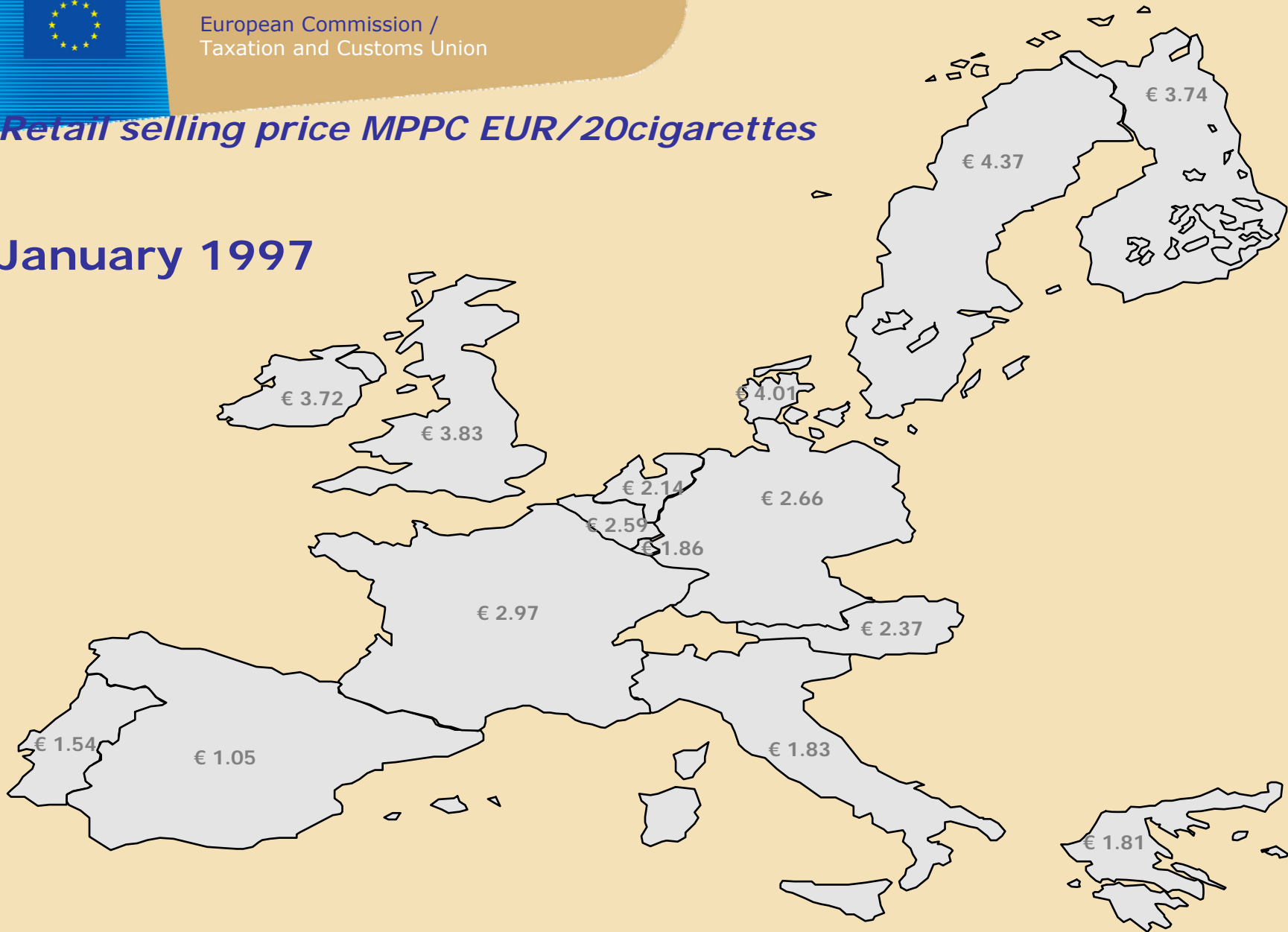
July 2008





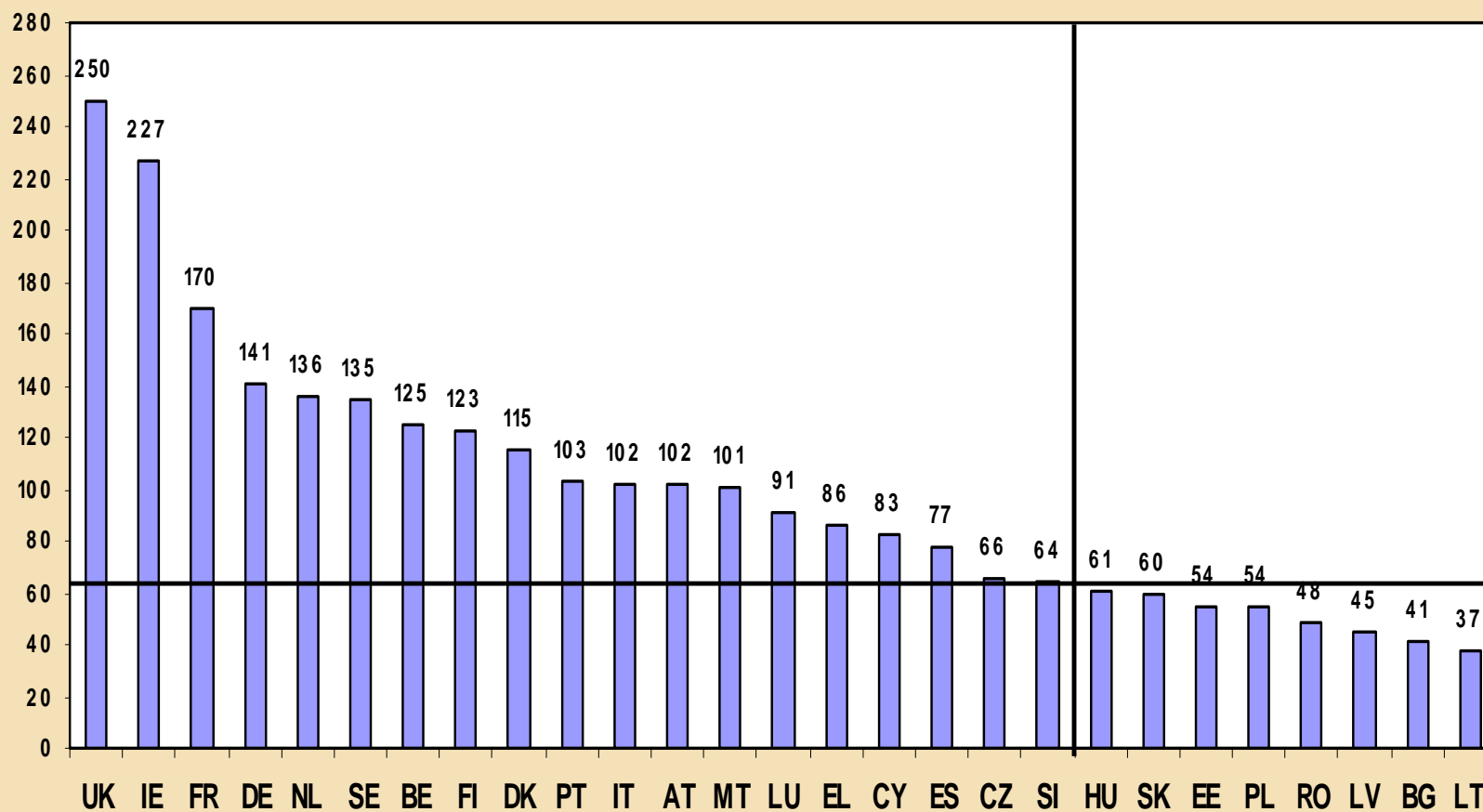
Retail selling price MPPC EUR/20cigarettes

January 1997



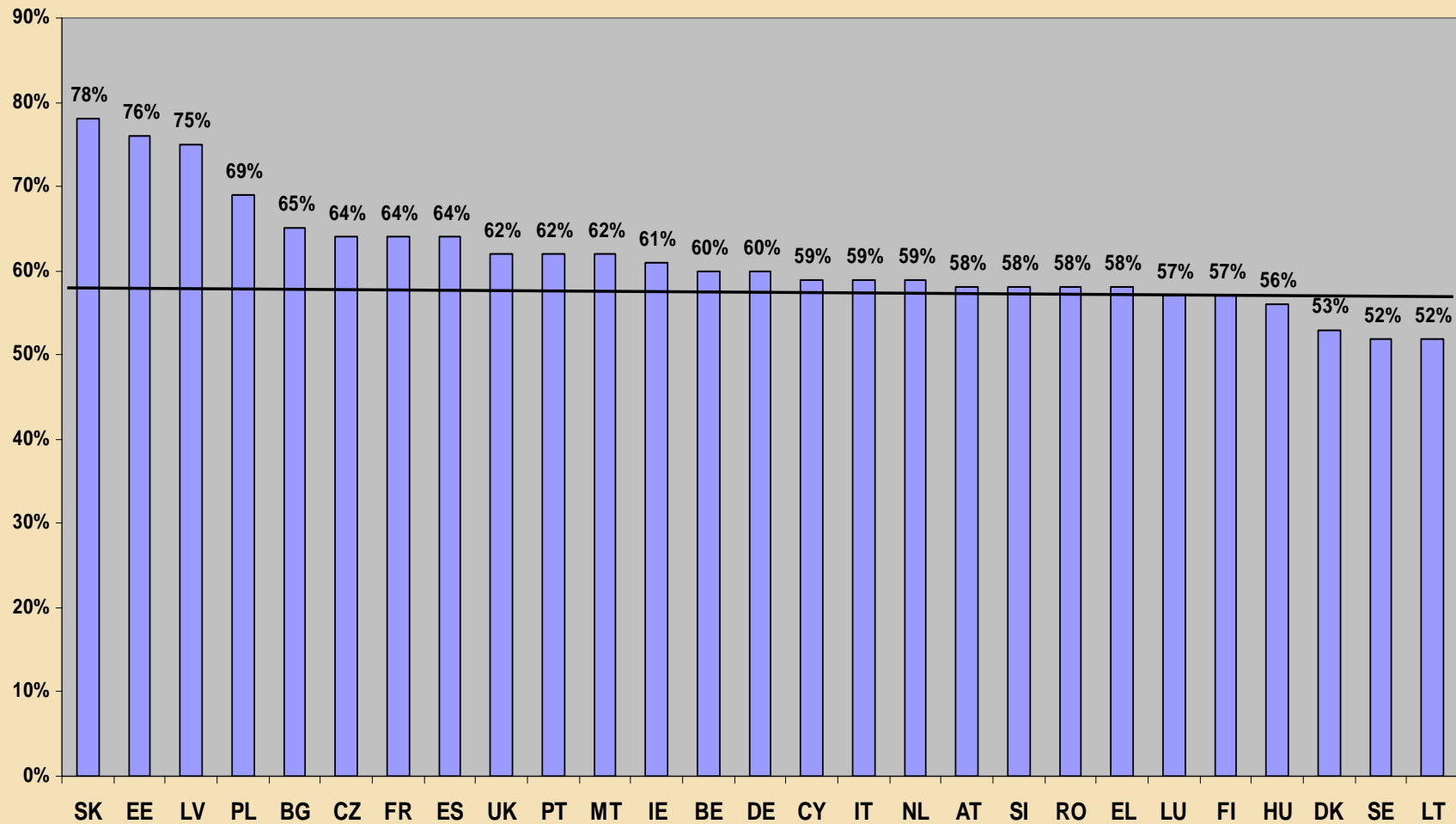


Excise tax yield on MPPC July 2008 (Euro/000)



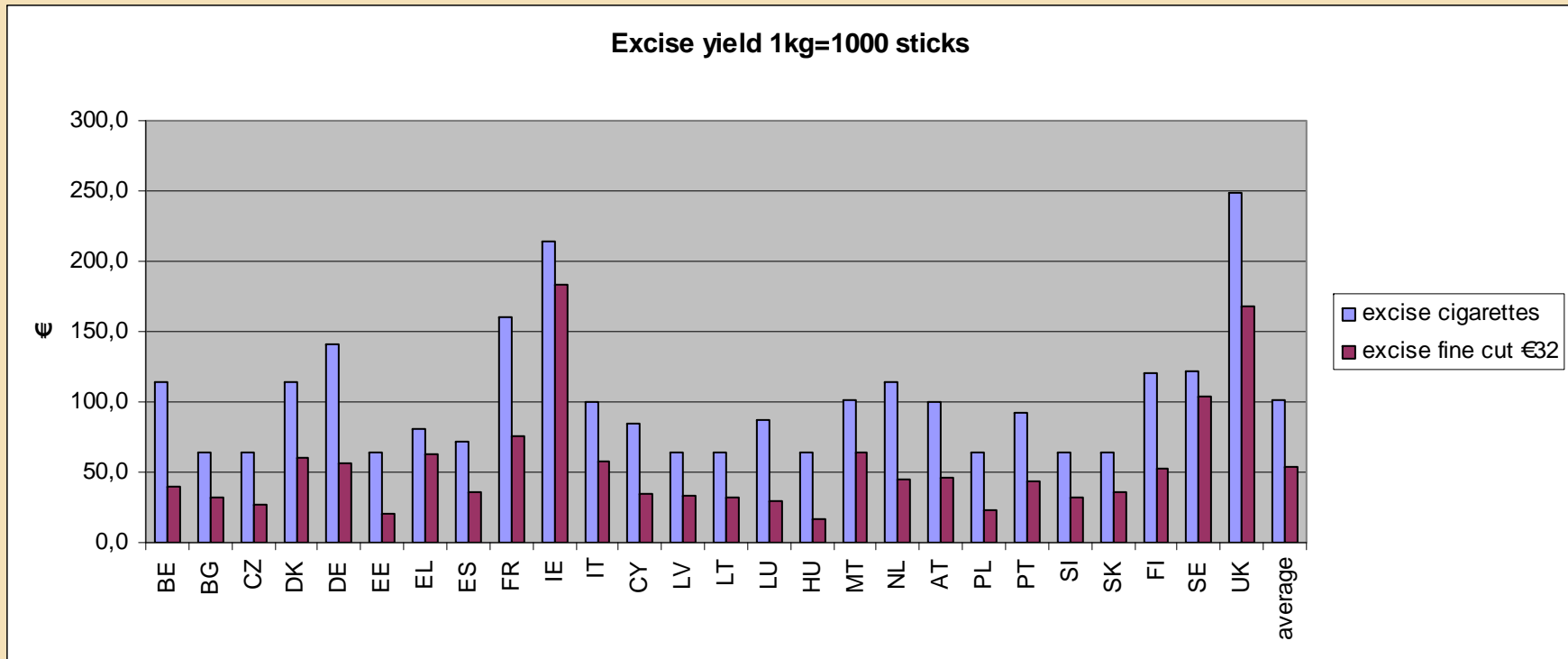


Excise tax incidence on MPPC July 2008 (% of MPPC)



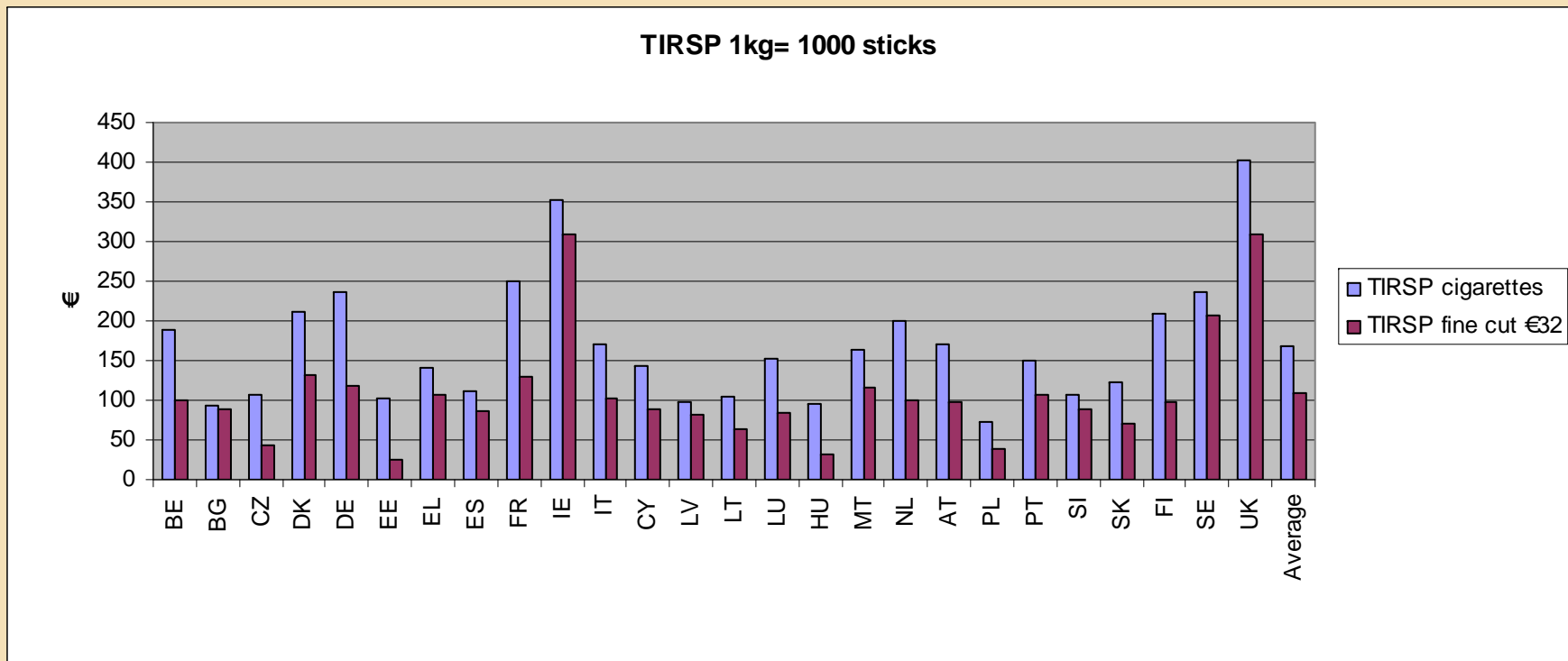


Fine cut (2007)





Fine cut (2007)





2008 Report and proposal

- An extensive consultation preceded the preparation of the report and proposal.
- Member States have given their views by way of a detailed **questionnaire**. The answers have been discussed in several bilateral meetings
- Numerous **bilateral meetings** have taken place with tobacco companies and health organisations.
- A **web consultation** was launched in 2007. The contributions are published on DG TAXUD's website.



The objectives of the proposal

- to ensure the **smooth operation of the single market** and to ensure stability of budgetary resources for Member States;
- to contribute to the Community objectives of creating a **high level of health protection**;
- to **modernise** the current arrangements



Proposed changes

The proposal is based on the following five pillars:

1. Modernisation of the structure for cigarettes:

- National markets are no longer dominated by one most popular brand.
- Therefore the concept of the "most popular price category" should be abandoned in favour of a "**weighted average price of all cigarettes**" for determining the tax base.
- It will be combined with a **monetary minimum tax applicable to all cigarettes**.



Proposed changes

The proposal is based on the following five pillars:

2. Increase of taxes for health reasons:

- Over the last 5 years the tobacco consumption lowered by 10%; we want to obtain the same for the next 5 years.
- The proposal foresees a gradual increase in the minimum taxation levels. Excise duties levied on cigarettes will be at least **90 €** per 1000 cigarettes and **63%** of the weighted average price by 2014.
- The two requirements arrange efforts equably on old and new Member States.



Proposed changes

Expected impact cigarettes

- Price increases: in all Member States except DE, FR, UK and IRL
 - 63% will affect mainly EU-15
 - €90 tax-floor will affect mainly EU-12 (except Malta).
- Decline of tobacco consumption; 10% over coming 5 years
 - on average 10% in 21 MS
 - indirect effects
- Significant increase of revenue from tobacco
- Decrease of illicit trade and cross-border shopping in the EU (not possible to quantify)



Proposed changes

The proposal is based on the following five pillars:

3. Fine-cut tobacco:

- Its consumption increased by 10%, because the more cigarettes get expensive, the more people smoke fine-cut tobacco.
- To address this problem a **partial alignment** of the minimum rate for fine-cut tobacco to the minimum rate for cigarettes is proposed (2/3, €60 and 42%).



Proposed changes

Expected impact fine-cut

- Decline of consumption;
 - on average 20% in 19 MS
 - indirect effects
- Increase of revenue.
- Decrease of illicit trade and cross-border shopping in the EU (in particular towards FR and UK).



Proposed changes

The proposal is based on the following five pillars:

4. More flexibility to Member States

Abolishing the current rule which fixes a cap on the minimum excise tax they can apply on cigarettes.



Proposed changes

The proposal is based on the following five pillars:

5. Modernise definitions of tobacco products:

- Cigars for instance are expensive, that's why taxes are lower for them.
- New products have emerged which fall within definition of cigars but are consumed and presented like cigarettes and are benefiting therefore from a lower tax rate.
- Similar things happen for pipe tobacco. We need to narrow the definitions of these products.



European Commission /
Taxation and Customs Union

Thank you

END