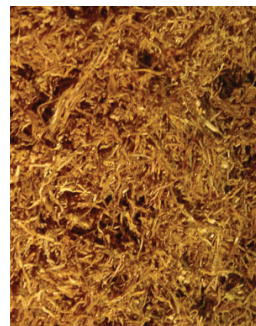




ADVOCACY TOOLKIT ON EU EXCISE DUTY ON MANUFACTURED TOBACCO PRODUCTS



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INTRODUCTION

The public health community has long been engaged in tobacco control initiatives. Over the years, tobacco control efforts have diversified into areas such as education, advertising, promotion, marketing and retailing. More recently there has been a focus on taxation as a way of influencing the price of tobacco and therefore consumption patterns. The World Health Organization and the World Bank have concluded that taxation is one of the most effective measures for public authorities to use to reduce tobacco smoking. The Framework Convention for Tobacco Control also puts an emphasis on taxation as part of a comprehensive policy framework to reduce tobacco use.

Taxation of tobacco products remains a complex issue and public health experts often have limited understanding or expertise on this issue. The tobacco industry, on the other hand, has invested significantly in developing relationships with finance and tax officials. It argues persuasively that taxation is an inappropriate or ineffective way to reduce tobacco smoking. The public health community needs to engage proactively with tax issues, building bridges

between champions in health ministries and their colleagues in tax agencies.

In June 2008, the European Commission published a draft Directive on excise duty on manufactured tobacco products. The proposal explicitly includes an objective of public health as well as the functioning of the internal market. At EU level, decisions on taxation are made in unanimity, meaning that every country has to agree with the proposal. The European Parliament will have the opportunity to deliver a non binding opinion through the consultation procedure.

It will not be easy to find agreement among EU Member States on the Commission's proposal. The tobacco control community needs to mobilise effectively in all EU countries in order to communicate the evidence and arguments that support a strengthening of the minimum excise duties.

This advocacy toolkit provides an outline of the draft Directive, the key aspects of tobacco taxation and the range of potential actions that could be taken.

WHAT IS IN THE COMMISSION'S PROPOSAL?

The Commission published their draft legislative proposal on 16 July 2008 for a Directive amending Directives 92/79/EEC, 92/80/EEC and 95/59/EC on the structure and rates of excise duty applied on manufactured tobacco. The draft Directive foresees a gradual increase in the EU minimum taxation levels on cigarettes and fine cut tobacco up to 2014. The proposal also aims to contribute to reducing tobacco consumption by 10% within the next 5 years.

The last proposal by the European Commission to increase minimum excise rates on tobacco was in 2001. In 2004 and 2007, EU enlargements took place, adding new Member States many of which had been granted derogations to the existing minimum taxes so the timing was not right to introduce a proposal for higher excise rates.

It is important to bear in mind that the draft Directive sets

out the minimum rules and rates of excise duty which should be applied across the EU. Member States are free to determine their own higher rates.

Taxation is covered by Article 93 of the EC Treaty and requires unanimity or agreement by all Member States for decision-making. The most recent discussions on excise duty at EU level in 2005/6 covered alcoholic beverages. At that time, opposition by just one country was sufficient to block the Commission's proposal and it has since remained unresolved. Therefore it is vital to build support among Member States for the Commission's proposal, which will be opposed by the tobacco industry and other vested interests. The European Parliament has the right to provide an opinion on a Commission proposal on excise duty but it is only a consultation process rather than a binding opinion.

THE ROOM FOR MANOEUVRE

In the past decade, *cigarette price increases across the EU on average* have been more than double the rate of inflation. Although higher taxes are not the only reason for the price rises, they are the main reason. The current minimum tax is 64 € per 1,000 *cigarettes*; in 2008 8 new Member States still had transitional periods and therefore have not yet reached this level.

In some countries, *the level of tax on finecut tobacco is half or less that on cigarettes*. This has had an impact on smoking trends, *so that although there has been a 10 % reduction in cigarette smoking, there has also been a 10% increase* in use of finecut tobacco. The Commission's proposal is designed to provide a financial incentives for smokers to quit rather than to switch to a less expensive form of smoking. *It therefore* introduces a compulsory *ad valorem* minimum tax rate for fine-cut *tobacco although this is only 2/3rds* the proposed new level for cigarettes, *i.e.* € 60.

A combination of a €90 per 1000 cigarettes and a 63% of *the weighted average price (WAP)* will affect 22 of the Member States. Germany, France, Ireland and the UK would be free to raise their rates but not required to because *their* existing excise rates are above the monetary and proportional EU minimum threshold.

The most popular price category (MPPC) concept, *which is the current basis for taxation*, will be replaced by WAP as a reference point for EU minimum requirements. The MPPC was the price of the most popular brand in each country. As national markets are no longer dominated by one particular brand this is an outdated concept. The *introduction of WAP* will be combined with a monetary minimum applicable to all cigarettes.

In addition, the Commission proposes to give more flexibility to Member States to fix the structures of *their excises duties*. Member States have to apply both a specific (a fixed amount per 1000 cigarettes) and a proportional (or '*ad valorem*') excise duty on cigarettes. *At present* the specific component of the excise duty may not be less than 5% or more than 55% of the amount of the *total tax resulting* from the aggregation of the proportional excise duty, the specific excise duty and the VAT levied on these cigarettes. The Commission's new proposal widens the band from 5-55% to 10- 75% of the total tax burden. This system gives Member States more flexibility to determine freely the relative weight of both excise elements, taking into account the characteristics of their national market for cigarettes. Moreover, the Commission *plans to allow* Member States to fix minimum tax levels without any cap.

WHAT ARE THE HEALTH BENEFITS OF THE PROPOSAL?

- it will make it easier for Member States to ensure a minimum price level for cigarettes and to tackle the problem of very cheap cigarettes on the markets.
- by increasing taxes on 'other tobacco products' which

are substitutes for cigarettes, it will help to avoid substitution of such products which are equally harmful for health.

- it will increase taxes on fine-cut tobacco, with a view to reducing its consumption.

WILL THE NEW PROPOSAL CONTRIBUTE TO CONVERGENCE ON CIGARETTE PRICES ACROSS EUROPE?

Yes. The increase in the minimum duties from 60 € per 1,000 cigarettes to €90 and from 57% to 63% on WAP will decrease the gap between the cheapest and most expensive cigarettes in the EU and simultaneously reduce price differentials at regional level taking into account the geographical spread of the enlarged EU. The minimum specific excise duty of €90 per 1,000 cigarettes would lead to an increase in excise duty on cigarettes in the new Member States (except Malta), as well as in Spain and Greece. However, the 63% rule would mostly affect the EU-15 Member States leading to an increase of excise duties in those Member States.

WHAT ABOUT WATER PIPE TOBACCO?

The Commission's main responsibility is the EU internal market. The current proportion of use of water pipe tobacco is so small that it is hard to claim that there is a genuine EU interest in regulating the internal market for this product. The Commission will monitor market developments and may need to revisit this issue at a later date.

TIMEFRAME FOR REVIEW

The Directive requires Member States to provide information on quantities and prices of tobacco products. This will assist the Commission in monitoring the impact of the tax changes. In principle, once the Directive is adopted, it will be reviewed every four years – e.g. 2013 or 2014. However, the timing of a review will be based on a political judgement of what is achievable. For tobacco control advocates this means that efforts will be needed to get a strong Directive adopted and to maintain the pressure to keep the real value of the tobacco taxes through subsequent reviews.

DEVELOPING A HEALTH PERSPECTIVE ON TAXATION OF TOBACCO PRODUCTS

The rationale for special tobacco taxes is that they incorporate some of the external costs of smoking into the price. Therefore we need to estimate the social costs and compare them with the level of taxation. A very rigorous study: (Sloan et al 'The price of smoking' in 2004¹) identified a net external cost per smoker of 6,201 USD. Semi-external costs (those borne by the household members other than the smoker) were even greater at 23,000 USD. Tobacco taxes cover only a small proportion of these costs and therefore standard economic arguments suggest that taxes need to be increased.

The 'rational addiction' theory states that smokers compare private costs with private benefits of smoking and will not smoke if these are smaller than the costs. But new insights from behavioural economics show that individuals also experience a conflict between short term and long term objectives. The economics of procrastination need to be taken into account because individuals have time-inconsistent preferences, .i.e. they intend to start a diet or quit smoking next week but don't actually do so when the deadline arrives. In these circumstances, taxes can be viewed as 'nudges' to help individuals towards their long term goals without limiting their freedom of choice.

Fiscal policy is rarely linked to public health objectives. However, in preparing this proposal DG SANCO and DG TAXUD have collaborated closely to actively explore how taxation can be used for health purposes. As part of their approach to tobacco control across other policies, DG SANCO is also working with DG AGRI on CAP subsidies, with OLAF on illicit trade, DG AIDCO and

ECHO to address development policy, DG Research to build the scientific evidence base.

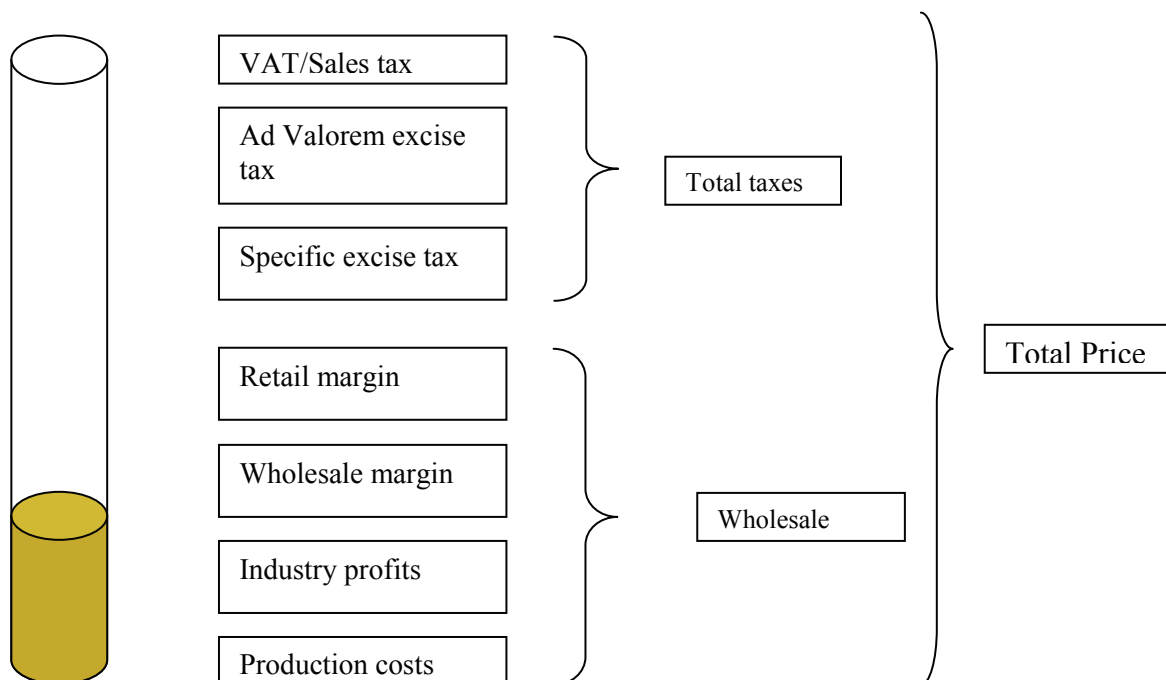
DG SANCO objectives for the legislation are clear; for health reasons tobacco needs to be more expensive. The Directive is also an opportunity to demonstrate to Member States that tax can be a health tool in addition to a finance mechanism.

The key objective is to increase the final price of tobacco. Between minimum retail prices for cigarettes or excise tax, the Commission prefers the latter (excise taxes) because the minimum retail price approach enables the industry to safeguard their profit margins. Some of the basic principles of the Directive are that all tobacco products should be equally taxed. The goal is to reduce the wide price differences of different tobacco brands within and between Member States, and to encourage smokers to quit rather than to switch to cheaper brands or shop across borders to find cheaper cigarettes.

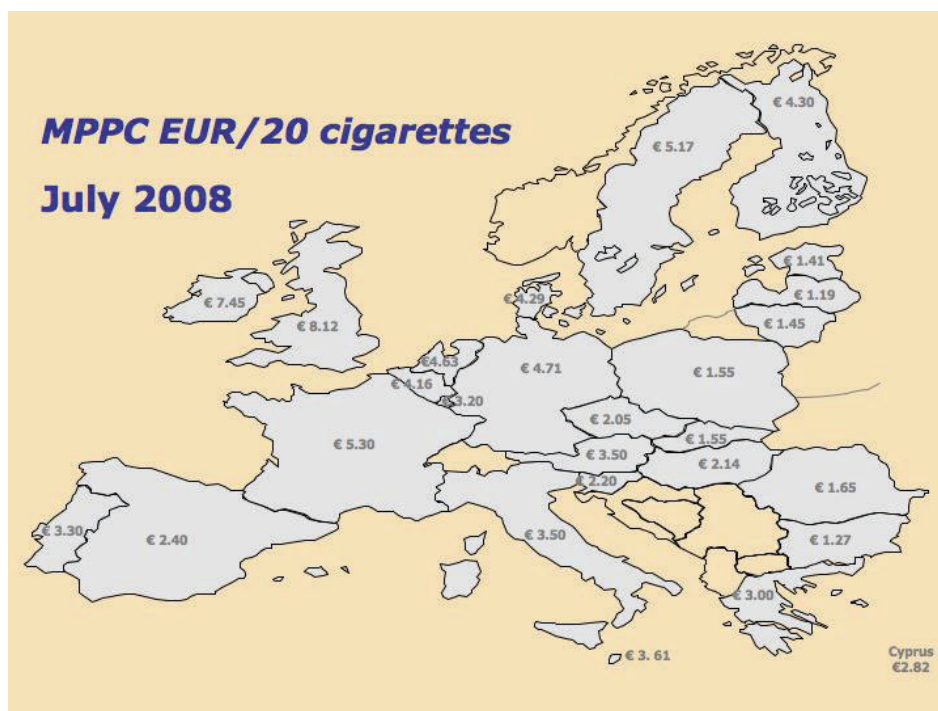
The Commission sought to ensure a balance through their proposal, understanding the impact on different EU countries of the changes. This is why a mix of specific and ad valorem tax changes have been proposed. The WHO and World Bank recommend the use of tobacco taxation as a highly effective tool of tobacco control. This is part of the FCTC to which 26 EU Member States have signed up and the Directive is supporting this aim so that the internal market is not an obstacle to Member States using taxation to achieve their health goals.

¹ Frank A Sloan et al, The price of smoking, MIT press, 2004

AN OVERVIEW OF WHAT IS INCLUDED IN THE PRICE OF A CIGARETTE



MOST POPULAR PRICE CATEGORY, JULY 2008



Source: European Commission, DG Taxation

http://ec.europa.eu/taxation_customs/taxation/excise_duties/tobacco_products/index_en.htm

GLOSSARY OF TERMS AND CONCEPTS

EXCISE TAXES CAN BE TWO TYPES:

Specific Taxes: excises based on quantity or weight (e.g. tax per pack of 20 cigarettes)

Ad Valorem taxes: excises based on value of tobacco products (e.g. a specific percentage of manufacturer's prices or retail prices)

Some countries use a mix of specific and *ad valorem* tobacco excises. Many countries apply different types of taxes and/or tax rates on different types of tobacco products (e.g. manufactured cigarettes vs. bidis). If reducing tobacco use is the primary goal, specific tax is more effective

PRICE ELASTICITY

It is a measure of how demand responds to a change in price. Elasticity varies among products. Products that are necessities (or addictive or lacking substitutes) tend to be less sensitive to price changes as consumers tend to continue buying these products despite price increases.

The elasticity can be estimated using econometric analysis, and is usually negative indicating that increasing price reduces demand. Changes in price can result in a change in the number of people using the product and in the quantity of the product bought.

People with lower incomes tend to have higher price elasticity.

MPPC

The concept of the "most popular price category" was designed more than thirty years ago, when national markets were dominated by one brand that was clearly the 'most popular'. Therefore the price of the most popular brand of cigarettes was a relatively stable phenomenon that could be monitored. Modern markets are more dynamic with several popular brands of cigarettes and regular price changes.

FINE-CUT TOBACCO

Fine-cut tobacco is a semi-finished product, sold by weight to the consumer. Smokers of fine-cut tobacco must therefore make separate purchases of fine-cut tobacco and rolling paper, or tubes and making devices, before preparing fine-cut smoking articles for use.

CPI – CONSUMER PRICE INDEX

The CPI or Consumer Price Index is a measure of the average cost of goods and services purchased by average household. It is one of several price indices calculated by national statistical agencies. The percent change in the CPI is a measure of inflation.

EXTERNAL COSTS

In economic terms, an externality is an impact on any person not directly involved in an economic decision. An externality occurs when an economic activity causes external costs or external benefits to third parties who cannot directly affect an economic transaction. In terms of smoking this includes, for example, the costs associated with second hand smoke and costs of providing health and welfare services to smokers that are covered by the state or by an insurance pool that also includes non-smokers.

SEMI-EXTERNAL COSTS

Costs are, for example, those borne by smoker's household members other than the smoker.

PRIVATE OR INTERNAL COSTS

Private costs are the costs that the buyer of a good or service pays the seller. In case of smoking, these private costs are for example costs of purchasing cigarettes.

RFID

Short for *radio frequency identification*, an automatic identification technology relying on storing and remotely retrieving data. An RFID system are made up of readers and "smart tags"—microchips attached to antennas. When the tag nears a reader, it broadcasts the information contained in its chip.

PACKAGING SIZES

- A pack generally contains 20 cigarettes although packs containing fewer or more cigarettes can also be found in some EU MS
- A carton generally contains 10 packs or 200 cigarettes
- A master case generally contains 50 cartons or 10,000 cigarettes
- A container contains 1000 master cases or 10 million cigarettes

ILLCIT MANUFACTURING

Illicit manufacturing refers to illegally manufactured products (the production of tobacco products contrary to law.) The laws in question may be taxation laws or other laws (such as licensing or monopoly related laws) that restrict the manufacture of tobacco products.

COUNTERFEIT TOBACCO

Counterfeit tobacco production is a form of illegal manufacturing, in which the manufactured products bear a trademark without the consent of the owner of the trademark.

SMUGGLING AND CONTRABAND

- Smuggling is the trade in illegally imported products.
- Contraband are the smuggled goods.

SMALL-SCALE SMUGGLING

Small-scale smuggling or 'bootlegging' involves the purchase, by individuals or small groups, of tobacco products in low tax countries in amounts for resale in high tax country.

LARGE-SCALE SMUGGLING

Large-scale organized smuggling of tobacco products involves the illegal transportation, distribution and sale of large consignments of cigarettes.

KEY MESSAGES ABOUT THE DIRECTIVE

FOR THE FIRST TIME, THE EUROPEAN COMMISSION'S DRAFT DIRECTIVE IDENTIFIES HEALTH AS AN OBJECTIVE OF TAX POLICY. THIS IS VERY WELCOME.

OTHER POSITIVE ELEMENTS IN THE PROPOSAL:

- Abolition of the MPPC
- Application of minimum taxation
- Allows larger specific tax
- Increase cigarette tax in value and %
- Increase tax for 'finecut' (roll your own) for value and %

ROOM FOR IMPROVEMENT IN THE DRAFT LEGISLATION

- Implementation by 2014 means that inflation may erode the health gains. Tax increases should be indexed to maintain the real value of tax increases.
- 'Finecut' (roll your own) tobacco remains cheaper than cigarettes and this could lead to smokers downgrading rather than quitting. Taxation levels for finecut tobacco need to be increased to the equivalent tax levels of cigarettes.

REASONS FOR NGOS TO SUPPORT THE COMMISSION'S PROPOSAL

- It is the first time that health objectives are explicit in EU tax legislation.
- It includes most of the elements we called for in 2006.
- It is a signal that taxation is an appropriate and effective measure for tobacco control.
- It allows more ambitious measures at national level.

WHAT NEXT

- Discussions began in the European Council among Finance Ministries in October 2008 and will continue for the next 6-12 months. The legal basis for the law requires unanimous agreement by all 27 Member States creating a need for all countries to accept the proposal.
- The European Parliament began to discuss the proposal in November 2008. The Rapporteur for the Economic and Monetary Affairs Committee is the Hungarian MEP Zsolt László Becsey, who has already presented his draft report. The Parliament's opinion is not binding but can have an impact.

FREQUENTLY ASKED QUESTIONS (FAQ)

WHY IS TOBACCO TAXED?

Taxation of tobacco was initially an efficient way of raising government revenue and this is still true in many cases. However, as the evidence has built on the health impact of smoking and the costs to society are evaluated, tax on tobacco is increasingly motivated by public health reasons. More specifically, the external costs of smoking such as economic losses and healthcare costs, are cited as a reason for increased taxes. It should be noted that tobacco use affects the health of non-smokers as well as smokers and that funds raised from tobacco represent only a fraction of the estimated health and economic costs of smoking.

WHY IS EXCISE DUTY AN EFFICIENT METHOD OF TAXATION ON TOBACCO?

Taxation is part of an overall strategy of prevention and dissuasion which also includes other reduction demand measures including protection from exposure to tobacco smoke, restrictions on advertising and regulation of the contents. However, according to the World Bank, price increases of tobacco products are the single most effective intervention to prevent smoking. A price increase of 10 % decreases consumption on average by about 4% in high income countries. Importantly, the impact of higher prices is likely to be greatest on young people, who are more responsive to price rises than are older people. The consumption of cigarettes in the EU decreased by slightly more than 10% between 2005-2006, mainly due to tax increases.

After taxes are increased, smoking prevalence goes down in two ways: more people quit and fewer people start smoking. In addition, some smokers will consume fewer cigarettes. Studies from the US show that a 10 % increase in price in US results in 10 % of smokers who try to quit and 2% are successful. There will be an impact on life expectancy and quality of life with lives saved among people who smoked, more days worked and savings in medical costs.

DO PRICE INCREASES RESULT IN MORE PEOPLE GIVING UP SMOKING FOR GOOD?

The overall goal is to help people stop smoking permanently. The Commission's proposal has a specific target of cutting smoking rates by 10 % over the next 5 years. The consumption of cigarettes in the EU decreased by slightly more than 10% between 2005-2006, mainly due to tax increases. More specifically, in the EU-15 an average tax

increase of 33 % between 2002 and 2006 led to a drop in smoking of 16 %. In the newer Member States, a similar tax increase of 34% from accession in 2004 until the end of 2006 smoking rates declined by just 1 %. This small drop can probably be explained by the relatively low starting level of tax. All studies show that higher cigarette taxes increase government revenues and are effective in reducing smoking levels and that the effect is immediate. The greatest impact is felt by young people and poorer communities. The increased government revenues from higher taxes can be channeled towards health promotion and cessation measures.

However, the quantities of fine-cut tobacco sold in the EU increased in the same period by around 10%. This is the reason that the Commission has proposed that there should be an increase in taxes on fine-cut tobacco as an incentive for people to give up smoking any tobacco products.

DO PRICE RISES LEAD TO MORE SMUGGLING?

The tobacco industry argues that illicit trade arises because of high taxation, but analyses by the World Bank have shown that high levels of illicit tobacco products are linked more closely to corruption and tolerance of contraband sales. The global trade in illicit tobacco products occurs in low tax as well as high tax jurisdictions, results from a lack of control on the international movement of cigarettes, and is run by criminal organizations with sophisticated systems for distributing smuggled cigarettes¹.

Organized criminal gangs are involved in large scale smuggling, often using the same network to transport drugs, weapons, tobacco, alcohol and even people. Essentially criminals seek to exploit any opportunity to make a profit and cigarettes represent a commodity for them. Law enforcement agencies across the EU are already cooperating and exchanging information in order to fight organized crime and manufacturers who make their products available in the illicit market. Lawsuits against tobacco companies have dramatically changed smuggling in the European Union. In November 2000, the European Community filed lawsuits against Philip Morris and RJ Reynolds for smuggling. The effect of the lawsuits was immediate: seizures of cigarettes in the EU-14 (the then EU countries without the UK) dropped from 4.3 billion in 2000 to 3.1 billion in 2001 and 2.3 billion in 2002. The investigations of US tobacco companies and the 2000 EC lawsuit they led to, resulted in the supply of American

¹ World Bank, *Curbing the Epidemic: Governments and the Economics of Tobacco Control*, Washington, DC, 1999, available at <http://www1.worldbank.org/tobacco/reports.htm>.

cigarettes into the illegal market in Spain and Italy being cut off. Over the last decade, cigarette smuggling in Spain and Italy fell from around 15% to 1–2%.²

IF PEOPLE QUIT SMOKING BECAUSE OF HIGHER PRICES, DO GOVERNMENTS LOSE REVENUE?

Cigarette smoking has huge costs for society through lost productivity, ill health and premature death of smokers and those exposed to cigarette smoke. The funds raised through tobacco taxes represent a small proportion of both the society costs of smoking and represent a small share of government's budgets. If price rises on tobacco lead to a reduction in smoking prevalence, this in most cases increases the government revenue due to low price elasticity of cigarette demand. Even if all current smokers stop smoking, the loss of cigarette tax revenue will be overshadowed by the healthcare savings due to reduced incidence of tobacco related illnesses. The net result for government budgets will therefore be positive.

IS THERE ANY POINT RAISING TAXES IF NEIGHBOURING COUNTRIES DON'T DO THE SAME?

26 countries in the EU region have signed the Framework Convention on Tobacco Control (FCTC) which recognises taxation as an effective tool for tobacco control. So European governments are committed to maintaining and increasing their taxation levels on tobacco as part of the effort to reduce smoking prevalence. Of course, each country starts off at a different level of taxation so there are still big differences in tobacco prices across Europe. The European Commission's proposed Directive is designed to help governments to understand the way that other countries are using taxation as a tool and to reduce the differences in tobacco tax across Europe. In addition, Member States have adopted a Commission proposal that national authorities could limit the number of cigarettes that travellers can bring with them when they travel across European borders. This is all designed to support national initiatives on pricing of cigarettes. All funds raised through tobacco taxes stay at national level.

AREN'T PRICE INCREASES UNFAIR BECAUSE THEY HIT POOR PEOPLE MOST?

Socio-economic inequalities do have a measurable impact on health and wellbeing, the WHO notes that poverty is the key social determinant of health. Smoking rates are higher among poorer communities and therefore they suffer the greatest health burden. However, they could be responsive to tax increases. Therefore tobacco consumption is already making health inequalities worse. Extra help and support to quit is needed for people living on tight budgets and

2 Joossens L, Raw M, Progress in Combating cigarette smuggling: controlling the supply Chain, Tobacco Control 2008;17:399-404

higher cigarette prices can help people make the decision to stop smoking. Therefore some of the funds raised by tax increase could be channelled towards specific support tools to quit smoking for deprived communities. Taxation is one of the most efficient ways of influencing smoking rates. Therefore it is an appropriate tool for governments to use both to tackle smoking rates and to re-balance health inequalities.

WON'T TAX RISES AFFECT POOR FARMERS IN DEVELOPING COUNTRIES?

Much of the tobacco smoked in Europe is grown in the developing world so any change in smoking levels might have an impact on the demand for raw tobacco. However, it is the multinational cigarette companies that set the price that a local farmer receives for his tobacco crop rather than the cost of cigarettes. Their approach has been to pay very little to farmers and to maximise their own profits. Several development NGOs have raised concerns about the abusive relationship between the tobacco industry and the farmers in developing countries. Farmers receive just a tiny fraction of the retail price of a cigarette. Therefore, cigarettes tax increases are unlikely to have any impact on the situation of farmers in the developing countries. Furthermore, land used to grow tobacco could alternatively be used for other agricultural products such as food crops or cash commodities that could generate revenue for farmers.

The FCTC includes provisions on support for economically viable alternative activities (art 17 of the Treaty). The third Conference of the Parties has decided to set up a working group to perform a range of tasks, including: elaboration of policy options and recommendations for art 17; promotion of relevant research and exchange of information and experiences; assessment of existing sources of information and identification and development of mechanisms and areas of cooperation with relevant intergovernmental and nongovernmental organisations. A progress report and initial recommendations should be ready for the fourth conference of the parties.

IS THERE A MAXIMUM PRICE FOR TOBACCO OR CAN IT KEEP GOING UP FOREVER?

Tax is an efficient tool for governments to use as part of a tobacco control policy. It has an immediate impact, within the first month 10 % of smokers make an attempt to quit smoking. A year later, one in five of these people, representing 2 % of all smokers have been successful in their attempts. The impact of the price/tax increase tails off due to inflation and income growth. The goal needs to be the reduction in affordability of cigarettes and therefore the cigarette taxes/prices need to increase faster than inflation and income.

WHAT TYPE OF TAX IS THE BEST ON TOBACCO?

There are a range of different types of taxes that are imposed on tobacco, many of which are designed as a disincentive for use: value of the crop, customs duties on leaf and product imports, sales, VAT and excise duties. Excise duties are divided between Specific taxes – on the number or weight of the product, Ad Valorem taxes on the value of the product e.g.; a proportion of manufacture, wholesale or retail price. Countries in EU use a mix of both types of excise taxes. Specific taxes are easy to administer and affect all products equally but they are not indexed for inflation. Ad Valorem taxes have the benefit of being indexed for inflation, but the impact of the tax can be mitigated by low quality, low cost production.

It is important that tax levels are maintained by at least as much as inflation otherwise the benefits from the new legislation can be eroded. The European Commission's proposal allows some flexibility for Member States to decide the right mix of specific and ad valorem taxes. To be effective, it is important to ensure specific taxes are indexed by inflation and that there is a consistency of tax rate between cigarettes and finecut.

WHAT DOES THE FCTC SAY ABOUT TAX?

Article 6.1 of the FCTC notes '*Parties recognize that price and tax measures are an effective and important means of reducing tobacco consumption by various segments of the population, in particular young persons*'. Furthermore, under Article 6.2 national authorities are encouraged to implement policies to restrict sales to and/or importations by international travelers of tax and duty-free tobacco products. The signatory governments have also committed to provide regular reports about their tobacco tax rates and consumption patterns.

HOW CAN I GET INVOLVED?

- Alert contacts in Ministry of Health to the proposal
- Make direct contacts with the Finance Ministry
- Encourage Health Ministry contacts to engage with their colleagues in Finance Ministries
- Contact MEPs for the vote in the ECON Committee and the Plenary

THE TIMEFRAME

In the European Council, it is expected that this will take some time to discuss. The French Presidency (July-December 2008) will begin the process, which will then be taken forward by the Czech Presidency (January-June 2009) and the discussions are likely to continue into the Swedish Presidency (July-December 2009).

The European Parliament only has the right to be consulted on taxation issues, but they will try to get their opinion finalised before the Parliament stops work in Spring 2009 so that the MEPs can campaign for the elections.

THE DIFFICULT ISSUES

Some new Member States which have low rates of tobacco excise duties are facing significant increases in tobacco tax, particularly as their derogations negotiated during EU accession expire. In addition, several countries are trying to meet the criteria to join the EURO zone and will be very sensitive about inflationary pressures of a tax increase.

Tax hikes for finecut tobacco will prove challenging to some EU countries, particularly those that produce tobacco.

USEFUL CONTACTS AND WEBSITES

EUROPEAN COMMISSION, DG TAXATION

http://ec.europa.eu/taxation_customs/taxation/index_en.htm

Legislation on taxes on tobacco products and legislative proposal

http://ec.europa.eu/taxation_customs/taxation/excise_duties/tobacco_products/legislation/index_en.htm

EUROPEAN PARLIAMENT

<http://www.europarl.europa.eu/>

Draft report

<http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&mode=XML&reference=A6-2009-0121&language=EN>

CONTACT DETAILS OF DESK OFFICERS DEALING WITH TAX ISSUES AT THE COUNTRY PERMANENT REPRESENTATION IN BRUSSELS. CONTACT DETAILS OF TAX MINISTERS AND DESK OFFICERS DEALING WITH TOBACCO TAX ISSUES AT NATIONAL LEVEL WILL BE ADDED AT A LATER STAGE.

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The fourth issue of the Spotlight features the European Commission proposals to amend EU Directives on the rates and structure of taxes on manufactured tobacco. The Spotlight is also available on the SFP website: <http://www.smokefreepartnership.eu/Spotlight-on-the-FCTC-issue-4>.

The **Smokefree Partnership (SFP)** is a strategic, independent and flexible partnership between Cancer Research UK, the European Heart Network, the European Respiratory Society and the Institut National duc Cancer. It aims to promote tobacco control advocacy and policy research at EU and national levels in collaboration with other EU health organisations and EU tobacco control networks.

The role of the **Association of European Cancer Leagues** is to facilitate the collaboration between cancer leagues throughout Europe and to influence EU and pan-European policies. The central purpose of ECL is to identify and promote common strategies in cancer control toward achieving health equity in cancer prevention, treatment and services.