

Press Conference  
*Modification of the Tobacco excise legislation*  
*Speech*  
16 July 2008

Ladies and gentlemen,

I want to inform you that today the Commission agreed to send to the Council and Parliament a proposal to amend the excise duty legislation applicable on tobacco products.

The proposal is presented together with a report in which the Commission examines the effect of the current Community legislation concerning tobacco taxation on the operation of the single market and the wider objectives of the Treaty, particularly on the health objectives.

Last year, we launched a public online consultation seeking views from stakeholders on the current EU tax legislation on tobacco and on the direction of possible changes. The consultation was of interest to all stakeholders, in particular, businesses involved in the manufacturing and distribution of tobacco products, health organisations, government administrations, non governmental organisations and other organisations representing consumers.

The broad consultation confirmed that the present system needs some changes.

The Commission's proposal has got therefore four main objectives:

**- First, to ensure the smooth operation of the single market**

Substantial differences in tax and price levels of tobacco products lead to considerable cross-border shopping and Intra-Community smuggling. These differences undermine the budgetary and health objectives of the Member States and result in a distortion of the functioning of the internal market. An analysis of the prices and excise rates for cigarettes in the EU shows that for example, in 2006 cigarettes belonging to the Most Popular Price Category were nearly seven times as expensive (all taxes included) in the United Kingdom compared to Latvia.

A study carried out for the Commission in 2005 estimated that approximately 13% of the tobacco consumed in the EU is not purchased in the State where it is used. From 4% to 5% comes from legitimate cross-border shopping and from 8% to 9% from illicit trade. However in some major markets in the EU this rises to more than 20%.

The Commission therefore proposes to increase gradually till 2014 the EU minimum taxation levels on cigarettes. The increase will reduce those tax differentials within the EU and therefore contribute to reducing cross border shopping and Intra-Community smuggling. In addition, the Commission will continue its efforts to cooperate with the tobacco industry and third countries to reinforce the fight against illicit trade from third countries.

**- Second, to pay particular attention to health policy objectives**

Taxation forms part of an overall strategy of reducing tobacco consumption. According to the World Bank, price increases in tobacco products are the most effective single intervention to prevent smoking.

The proposed increase in the EU minimum taxation levels should reduce consumption of cigarettes by 10% over the next 5 years. In order to avoid overburdening those Member States which still have derogations to reach the EU minima, the proposal foresees additional 1 or 2 year transitional periods.

In addition, taking into account health policy considerations the Commission proposes to bring the excise duties for fine-cut smoking tobacco used for hand-rolled cigarettes in line with excise duties for cigarettes.

In the period from 2002 to 2006 the quantities of cigarettes released in the EU-25 decreased by more than 10%. However, the quantities of fine-cut tobacco increased by around 10% in the same period. The reason is that there are member states today where the tax level on hand-rolled cigarettes is less than 30% of the tax level of cigarettes. This wide gap encourages product substitution. As from a health point of view, both products are harmful and, consequently, there is no justification for such

significant differences in the minimum rates for these products at the Community level.

**- Third, to modernise the current arrangements in order to create a level playing field for tobacco manufacturers.**

The current rules need to be simplified and made more transparent. The concept of the Most Popular Price Category was introduced 30 years ago. At that time, the national cigarette markets were typically dominated by one brand that was clearly the ‘most popular’. However, the current international market environment is very dynamic, with many different brands at different price levels. The concept of the ‘most popular’ cigarettes is no longer a suitable benchmark for tobacco taxation.

Therefore the Commission proposes to replace the concept of the most popular price category by a weighted average price of all cigarettes as benchmark. In order to underscore health objectives it will be combined with a monetary minimum tax applicable to all cigarettes (and not more exclusively to the cigarettes belonging to the most popular category).

In addition, the Commission proposes to modernise the definitions of different type of tobacco products in order to avoid that products are taxed at the lower rate applicable to cigars, cigarillos or pipe tobacco but their taste is presented as cigarettes or fine-cut tobacco.

**- Fourth, to give more flexibility to Member States to set minimum taxes.**

Currently, some Member States are impeded to fix high minimum tax levels on their territory. The Commission therefore proposes to abolish the existing rule which forbids Member States to levy a minimum excise tax higher than 100% of the total excise on the Most Popular Price Category. This would authorise Member States to fix minimum tax levels without any cap.

The proposal adopted by the Commission will be now sent to the Council (ECOFIN), to the European Parliament and to the European Economic and Social Committee.

I expect to have the opinion of the European Parliament and the European Economic and Social Committee by February/March 2009. This would help to finalise discussions in the Council by mid-2009 and the adoption towards the end of 2009.

I thank you for your attention.