

# Tobacco Tax for a Healthier Europe

SFP Position Paper on the revision of the TTD  
(Council Directive 2011/64/EU of 21 June 2011) on tobacco excise duties



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## Summary of SFP policy asks

Europe remains a hotbed of tobacco use among adolescents and adults. Tobacco consumption is responsible for nearly **700,000 deaths** every year in the EU alone. Around **half of long-term smokers die prematurely** (on average 14 years earlier), after many years of dealing with the pain and disability caused by various types of cancer, cardiovascular and respiratory diseases.

### EU has undertaken international obligations and political commitments on tobacco control:

- **World Health Organisation Framework Convention on Tobacco Control** (ratified in 2015), bringing an obligation to introduce tobacco control policies
- Implementing the **UN's 2030 Agenda for Sustainable Development Goals** (*Goal 3: Ensure healthy lives and promote wellbeing for all at all ages and its targets 3.4 and 3.A*)
- **Health in all policies (HiAP)** approach for cooperation amongst all health-related policy areas and decision-makers

SFP proposes four main policy changes to **ensure that tobacco taxation serves to protect and enhance public health:**

### 1 Set an objective of 30% reduction in current tobacco use in people above the age of 15 by 2025

- Without strong action to curb smoking, **at least 17 EU member states are set to miss this global target** based on 2018 projections
- **Taxation is the single most effective policy to curb tobacco consumption**, making tobacco products less affordable, especially for younger consumers
- Adequate tax measures to meet the 30% reduction objective could result in **18.5 million fewer smokers** in these 17 countries

### 3 Bridge the gap between the prices of RYO and MYO tobacco and cigarettes

- Roll-your-own and make-your-own tobacco poses **similar risks to human health and should be subjected to equivalent excise duties** as cigarettes
- The price gap between RYO/MYO products undermines the health impact of excise duties on manufactured cigarettes

### 2 Achieve upwards convergence of prices across Member States

- This measure would **help reduce the inequalities in the level of human health protection** afforded by fiscal policies within the Internal Market
- Lower price disparities **reduce the incentives for cross-border tax evasion**
- There is increasing political momentum for this measure since March 2016 when five EU Member States called for higher tobacco price convergence across the EU

### 4 Introduce a specific definition and tax category for raw tobacco

- The definition would help avoid classification uncertainties between customs and tax codes, and would reduce disparities of treatment across countries
- The inclusion of raw tobacco in the Tobacco Tax Directive would also support efforts to **curb illicit manufacturing of smoking products**
- A measure with similar effect could be the introduction of a **licensing regime along the entire supply chain**, as per the Illicit Trade Protocol

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# Why do we need a review on tobacco excise duties?

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While a number of political commitments and obligations are detailed below, the simple reason for which tobacco taxation is a key priority for SFP and indeed the entire tobacco control community is that tobacco taxes save lives. Tobacco taxation is one of the most effective policies to reduce tobacco consumption; it has a high impact on youth and low-income people by preventing uptake and reducing consumption, therefore helping to reduce health inequalities. In addition, tobacco taxes are an effective way for governments to increase revenues that can then be used to finance other policy priorities, such as measures to improve public health, or measures to sustain the fight against illicit tobacco trade.

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## Current status and policy environment

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### Tobacco consumption in the EU remains high

Despite overwhelming evidence that has emerged since 1950 that smoking is the leading cause of premature death and disability, the European region still has the highest levels of smoking among adults (28%) and some of the highest prevalence of tobacco use by adolescents compared to the rest of the world<sup>1</sup>. Indeed, WHO has estimated that tobacco use is currently responsible for 16% of all deaths in adults over 30 in the Region.

Tobacco consumption is responsible for nearly 700,000 deaths every year in the EU alone. Around half of long-term smokers die prematurely (on average 14 years earlier)<sup>2</sup>, after many years of dealing with the pain and disability caused by various types of cancer, cardiovascular and respiratory diseases.

### Young people are particularly impacted by tobacco price policies

The overwhelming majority of smokers start before they become adults; very few smokers start after the age of 21. It is crucial to put health at the centre of the revision of this Directive because making tobacco less affordable is the most effective measure in preventing young people from taking up smoking. Indeed, price policies are known to be the single most effective means for reducing the demand and consumption of tobacco products, as part of a comprehensive tobacco-control strategy.<sup>3</sup> Furthermore, research clearly demonstrates that the most price-sensitive demographic for tobacco use is young people because they tend to have less disposable income. Increasing excise taxes on tobacco is by far the most effective and cost-effective tobacco control instrument.<sup>4</sup> Raising the price of tobacco through taxation also raises revenue for governments, which can then be redistributed to fund other policies, including health or development.

### Tobacco Tax Directive review: background

Directive 2011/64/EU defines the product categories, structure, and minimum rates for excise duties on manufactured tobacco in the European Union. The Directive foresees a review of its implementation with the possibility for revision after 5 years of its entry into force. Since 2016, the European Commission has undertaken studies, economic analyses and consultations with Member States, stakeholders, and the public on the implementation of the Directive and on possible areas for revision.

In January 2018 the [European Commission published a report](#) justifying why it did not submit a proposal for a legislative revision of Directive 2011/64/EU at that time. In the report, it highlighted areas that needed further study and provided a summary of the results of the previous studies and consultations on the Directive. The Commission also stated that a new report along with a possible revision would be published in 2019.

In May 2018, the European Commission launched an open public consultation on the possible revision of Council Directive 2011/64/EU. The open consultation aims at gathering the views of EU citizens and stakeholders on a set of possible options for a potential revision of the Directive. It also looks at ensuring the proper functioning of the internal market while ensuring a high level of health protection and examines the need for the minimum excise tax rates increase.

This position paper presents the top priorities of the SFP Coalition on the revision of the Council Directive 2011/64/EU and includes detailed explanations for each of them, including the public health implications of the fiscal treatment of the two main categories of consumption, cigarettes and roll-your-own (RYO)/make-your-own (MYO) tobacco, although the recommendations may be generalised to the rest of tobacco products.

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1 "Data And Statistics". 2018. *World Health Organization*. <http://www.euro.who.int/en/health-topics/disease-prevention/tobacco/data-and-statistics>.

2 "Health at a Glance: Europe 2018, State of Health in the EU Cycle". 2018. *European Commission, OECD*. [https://ec.europa.eu/health/sites/health/files/state/docs/2018\\_healthatglance\\_rep\\_en.pdf](https://ec.europa.eu/health/sites/health/files/state/docs/2018_healthatglance_rep_en.pdf)

3 Ruger, Jennifer Prah. 2005. "Global Tobacco Control: An Integrated Approach To Global Health Policy". *Development* 48 (2): 65-69. doi:10.1057/palgrave.development.1100135.

4 Chaloupka, F. J., K. Straif, and M. E. Leon. 2010. "Effectiveness Of Tax And Price Policies In Tobacco Control". *Tobacco Control* 20 (3): 235-238. doi:10.1136/tc.2010.039982.

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## The politics of tobacco taxation

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### EU obligations and policy commitments relevant to the Tobacco Tax Directive

The [WHO Framework Convention on Tobacco Control](#) (FCTC): The EU and the 28 Member States have ratified the FCTC and are legally bound to implement the Convention. FCTC Article 6 requires Parties to adopt tax and price policies to reduce tobacco consumption. Article 6 of the FCTC encourages the use of price and tax measures as an effective method to reduce demand for tobacco. The [FCTC Art 6 Guidelines](#), which were adopted at the 6<sup>th</sup> session of the Conference of the Parties in 2014, can assist Parties in meeting their objectives and obligations. Yet, Art.6 lags behind other FCTC measures in terms of implementation<sup>5</sup>.

**The Protocol to Eliminate Illicit Trade in Tobacco Products (ITP) and Art 15 of the Tobacco Products Directive:** The ITP was developed in response to the growing concerns over illicit trade in tobacco products, which poses a serious threat to public health. Illicit trade increases the accessibility and affordability of tobacco products, thus fuelling the tobacco epidemic and undermining effective tobacco control policies, particularly taxation. It also causes substantial losses in government revenues, and at the same time contributes to the funding of transnational criminal activities. By combating illicit tobacco trade, governments act to protect the health of their citizens, while safeguarding their tobacco tax revenues.

The Protocol enters into force on 25 September 2018. The EU and 11 of its member States are among the 47 parties to the Protocol<sup>6</sup>. The EU member States are in the process of implementing the secondary legislations foreseen under Articles 15(11), 15(12) and 16(2) of the Tobacco Products Directive 2014/40/EU on an EU system for tobacco traceability and security features.

**The Sustainable development agenda:** The Addis Ababa Action Agenda on Financing for Development<sup>7</sup> states that “*as part of a comprehensive strategy of prevention and control, price and tax measures on tobacco can be an effective and important means to reduce tobacco consumption and health-care costs, and represent a revenue stream for financing for development in many countries*”. World Bank studies and report have made similar arguments in recent years, leaning on data and evidence from all regions of the world.<sup>8</sup>

**Health in all policies:** The EU has committed to a “*Health in all Policies*” (HIAP) approach. This approach requiring “*comprehensive multisectoral measures and coordinated responses*” is enshrined in the FCTC Article 5(2) and is at the core of the proposed Global Strategy to Accelerate Tobacco Control<sup>9</sup>, whose top strategic recommendations to Parties include “*comprehensive, costed national tobacco control strategies, focusing on multisectoral and cross-cutting policies and Articles most important in the national context.*” There is a need for greater awareness and increased cooperation amongst all health-related policy areas and decision-makers in order to ensure that health concerns are being addressed adequately, including in strategies for growth and jobs and sustainable development. This is why the revision of the Council Directive 2011/64/EU must [consider potential impacts on public health or health systems](#).

Health is the responsibility of everyone, not only the responsibility of health ministers. We trust that those in charge of the negotiations will be mindful regarding the health implications related to the revision of this Directive. Tobacco taxation and health should be a key priority because of the impact that higher tobacco taxation has on prices, and therefore on tobacco consumption, particularly among vulnerable groups such as young people. The health of our children is essential to our continued prosperity.

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5 “Global Progress Report On The Implementation Of The WHO FCTC”. 2016. *World Health Organization*. [http://www.who.int/fctc/reporting/2016\\_global\\_progress\\_report.pdf](http://www.who.int/fctc/reporting/2016_global_progress_report.pdf).

6 Austria, Cyprus, France, Germany, Latvia, Lithuania, Malta, Portugal, Slovakia, Spain, and the United Kingdom.

7 Addis Ababa Action Agenda of the Third International Conference on Financing for Development (The final text of the outcome document adopted at the Third International Conference on Financing for Development (Addis Ababa, Ethiopia, 13–16 July 2015) and endorsed by the General Assembly in its resolution 69/313 of 27 July 2015.) available at [http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA\\_Outcome.pdf](http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf)

8 Irwin, Alexander, Patricio V. Marquez, Prabhat K. Jha, Richard Peto, Blanca Moreno-Dodson, Mark Goodchild, and Anne-Marie Perucic et al. 2017. “Tobacco Tax Reform At The Crossroads Of Health And Development : Technical Report Of The World Bank Group Global Tobacco Control Program”. *Documents.Worldbank.Org*. <http://documents.worldbank.org/curated/en/491661505803109617/Main-report>.

9 “FCTC COP8”. 2018. *World Health Organization*. [http://www.who.int/fctc/cop/sessions/cop8/FCTC\\_COP\\_8\\_11\\_EN.pdf](http://www.who.int/fctc/cop/sessions/cop8/FCTC_COP_8_11_EN.pdf).

## What are the arguments against increasing tobacco taxes?

The tobacco industry has misused economic arguments in order to prevent the adoption and implementation of tobacco control measures<sup>10,11,12</sup>. The main argument against tobacco tax increases is that such measures will increase the illicit trade in tobacco products. Studies show that use of illicit tobacco among some EU smokers is related to price<sup>13</sup>, and differences in cigarette prices across Member States affect cigarette purchasing from abroad.<sup>14</sup> However, an upward convergence of cigarette prices across EU Member States, reducing differences in cigarette prices across Member States,<sup>15</sup> would also bring down the levels of cross-border cigarette purchasing. Also, strong evidence exists that there are other, more important, drivers of the illicit trade, such as weak governance and law enforcement, and public acceptance.<sup>16,17,18,19</sup>

Another argument of the tobacco industry is that high tobacco prices are regressive, i.e. that low income smokers pay a higher proportion of their income in tobacco duty. The same can be said of any tax on consumption. Indeed, the progressivity of a fiscal system depends on the whole set of tax and expenditure policies that it comprises, rather than the tax treatment of a handful of products. Furthermore, the evidence shows that low income smokers are most likely to respond to price increases by quitting. Overall, the public health benefits of high tobacco taxation are greater than the potential harms of the increased price among low-income smokers who do not quit. Using money raised from tobacco duty to pay for stop smoking services targeted at low income smokers is one way of addressing concerns that tobacco tax is unfair for poor smokers.

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- 10 Ross H, "Undermining Global Best Practice in Tobacco Taxation in the ASEAN Region Review of the ITIC's ASEAN Excise Tax Reform: A Resource Manual," ed. Kolandai MA and Dorotheo U (Bangkok: Southeast Asia Tobacco Control Alliance (SEATCA), 2015).
  - 11 Doward, J. 2015. "Former UK Tax Chief Under Fire For Joining Smoking Lobbyists". *The Guardian*.
  - 12 Hiscock, Rosemary, J Robert Branston, Ann McNeill, Sara C Hitchman, Timea R Partos, and Anna B Gilmore. 2017. "Tobacco Industry Strategies Undermine Government Tax Policy: Evidence From Commercial Data". *Tobacco Control* 27 (5): 488-497. doi:10.1136/tobaccocontrol-2017-053891.
  - 13 Moodie, C., G. Hastings, and L. Joossens. 2011. "Young Adult Smokers' Perceptions Of Illicit Tobacco And The Possible Impact Of Plain Packaging On Purchase Behaviour". *The European Journal Of Public Health* 22 (2): 251-253. doi:10.1093/eurpub/ckr038.
  - 14 Agaku, Israel T, Evan Blecher, Filippos T Filippidis, Uyoyo T Omaduvie, Athanassios Vozikis, and Constantine I Vardavas. 2015. "Impact Of Cigarette Price Differences Across The Entire European Union On Cross-Border Purchase Of Tobacco Products Among Adult Cigarette Smokers". *Tobacco Control* 25 (3): 333-340. doi:10.1136/tobaccocontrol-2014-052015.
  - 15 López-Nicolás, Ángel, and Michal Stoklosa. 2018. "Tax Harmonisation And Tobacco Product Prices In The European Union, 2004–2015". *Tobacco Control*, tobaccocontrol-2018-054342. doi:10.1136/tobaccocontrol-2018-054342.
  - 16 "Understanding The U.S. Illicit Tobacco Market: Characteristics, Policy Context, And Lessons From International Experiences". 2016. *Trends In Organized Crime* 19 (3-4): 351-386. doi:10.1007/s12117-016-9290-3. (2015)
  - 17 "Illicit Trade In Tobacco: A Summary Of The Evidence And Country Responses [Presentation]". 2015. *World Health Organization* <http://www.who.int/tobacco/economics/presentationtaxation/en/index11.html>. Smith KE, Gilmore Smith, Katherine E, Emily Savell, and Anna B Gilmore. 2012. "What Is Known About Tobacco Industry Efforts To Influence Tobacco Tax? A Systematic Review Of Empirical Studies". *Tobacco Control* 22 (2): e1-e1. doi:10.1136/tobaccocontrol-2011-050098. "International Tax And Investment Center - Tobaccotactics". 2016. *Tobaccotactics.Org*. [http://www.tobaccotactics.org/index.php/International\\_Tax\\_and\\_Investment\\_Center](http://www.tobaccotactics.org/index.php/International_Tax_and_Investment_Center).
  - 18 Ross H, "Undermining Global Best Practice in Tobacco Taxation in the ASEAN Region Review of the ITIC's ASEAN Excise Tax Reform: A Resource Manual," ed. Kolandai MA and Dorotheo U (Bangkok: Southeast Asia Tobacco Control Alliance (SEATCA), 2015).
  - 19 Gilmore, Anna B, Gary Fooks, Jeffrey Drope, Stella Aguinaga Bialous, and Rachel Rose Jackson. 2015. "Exposing And Addressing Tobacco Industry Conduct In Low-Income And Middle-Income Countries". *The Lancet* 385 (9972): 1029-1043. doi:10.1016/s0140-6736(15)60312-9.

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# Set an objective of 30% reduction in current tobacco use in people above the age of 15 by 2025

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This objective is already an EU commitment under the 9 global voluntary targets agreed as part of the WHO Global action plan for the prevention and control of NCDs<sup>20</sup>. This objective **was formally adopted in Decision 27** at the 7<sup>th</sup> Session of the Conference of the Parties to the FCTC in 2016.<sup>21</sup> Tax policy is an important lever to ensure that the target is met.

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<sup>20</sup> "About 9 Voluntary Global Targets". 2018. World Health Organization. <http://www.who.int/nmh/ncd-tools/definition-targets/en/>.

<sup>21</sup> "FCTC COP7". 2016. World Health Organization. [http://www.who.int/fctc/cop/cop7/FCTC\\_COP7\\_27\\_EN.pdf?ua=1](http://www.who.int/fctc/cop/cop7/FCTC_COP7_27_EN.pdf?ua=1).

## How could this be done?

The EU Tobacco Tax Directive is required to ensure the proper functioning of the internal market and, at the same time, a high level of health protection.<sup>22</sup> Including a 30% reduction target in the prevalence of current tobacco use in people aged 15 years and over by 2025 would establish a clear benchmark to assess the success of the revised Directive. While the 2016 consultation strategy for the Impact Assessment on the possible revision of the Directive did not mention the need for fiscal legislation on tobacco to ensure a high level of health protection, **we welcome that this concern is part of the 2018 consultation strategy.**<sup>23</sup> An objective of reducing smoking prevalence has already been endorsed and promoted by the European Commission in the past.<sup>24</sup>

According to the World Health Organization<sup>25</sup>, current trends in tobacco use show that the EURO region will miss the target of a 30% relative reduction in smoking prevalence by 2025, and at least 17 EU Member States will also fail to meet it: Belgium, Croatia, Czechia, Estonia, France, Germany, Greece, Italy, Latvia, Luxembourg, Malta, Netherlands, Portugal, Romania, Slovakia, Slovenia, and Spain. These countries could achieve the 30% reduction target by using tobacco tax-induced price increases. The tax increases that would be needed until 2025 would vary depending on the country and range between a 2-fold and a 4-fold tax increase compared to 2016 levels. Hitting this target would result in 18.5 million fewer smokers and an average 65% increase in tobacco tax revenue for these countries.<sup>26</sup> For example, for Germany to reach the target, cigarette prices need to be increased to 12.68 Euro (EUR) per pack by 2025, requiring a 3-fold tax increase compared to the 2016 levels. Hitting this target will result in 4,601,689 fewer smokers by 2025 due to increased cessation and reduced initiation. This will lead to 77,751 fewer cancer deaths by 2030. Tobacco tax revenue will increase by over 66% by 2025 to 19.7 billion EUR. Estimates for all 17 EU Member States are presented in [Appendix 1](#).

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22 Council Directive 2011/64/EU on the structure and rates applied to manufactured tobacco. 2011. OJ L 176/01 Art.2: "The Union's fiscal legislation on tobacco products needs to ensure the proper functioning of the internal market and, at the same time, a high level of health protection, as required by Article 168 of the Treaty on the Functioning of the European Union"

23 "Consultation Strategy For The Evaluation And Impact Assessment On The Tobacco Excise Duty Directive". 2018. *Ec.Europa.Eu*. [https://ec.europa.eu/taxation\\_customs/sites/taxation/files/consultation\\_strategy\\_tobacco\\_taxation\\_final\\_en.pdf](https://ec.europa.eu/taxation_customs/sites/taxation/files/consultation_strategy_tobacco_taxation_final_en.pdf).

24 [Directive 2010/12/EU, the pre-codification Directive] "also aimed to contribute to reducing tobacco consumption by 10% within the next 5 years." – In "Legislation - European Commission". 2018. *Web.Archive.Org*. [https://web.archive.org/web/20131225032047/http://ec.europa.eu/taxation\\_customs/taxation/excise\\_duties/tobacco\\_products/legislation/index\\_en.htm](https://web.archive.org/web/20131225032047/http://ec.europa.eu/taxation_customs/taxation/excise_duties/tobacco_products/legislation/index_en.htm).

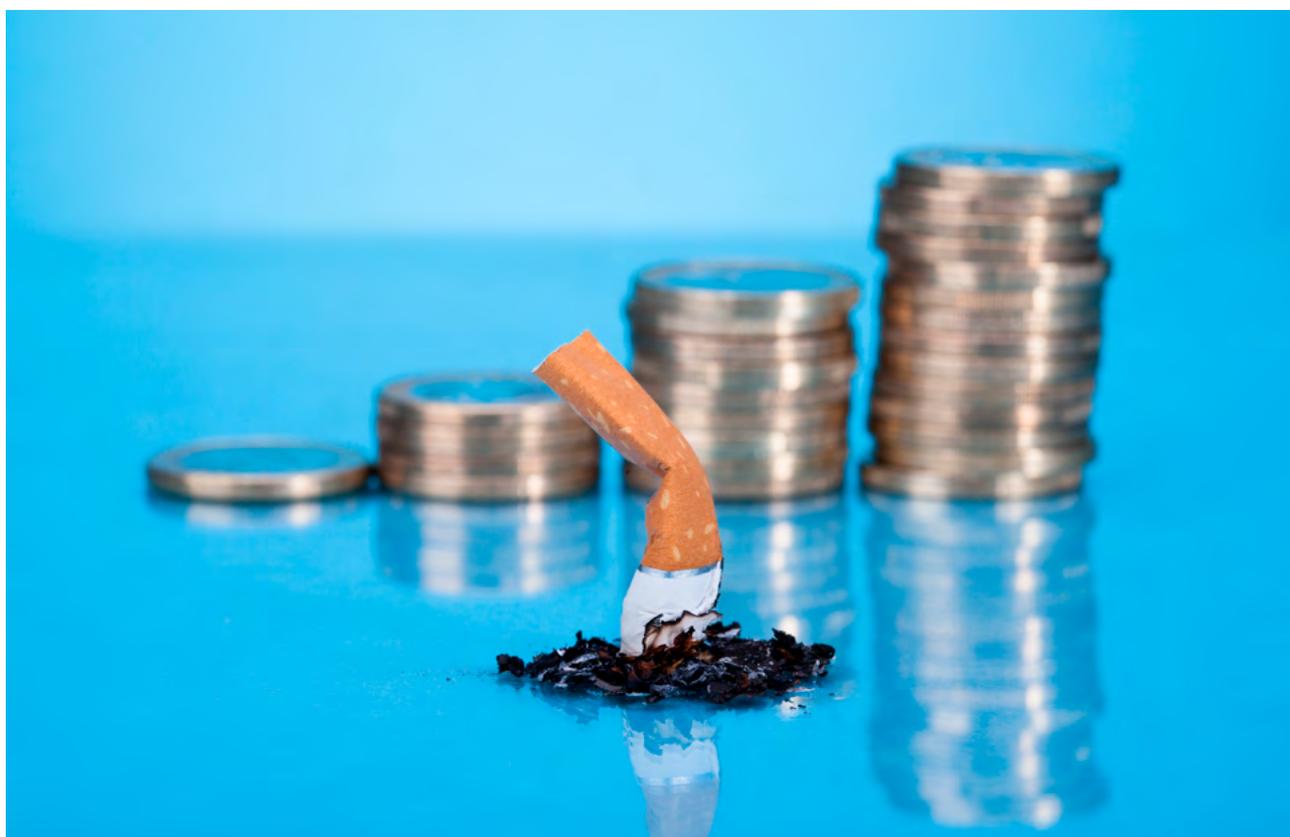
25 "WHO Global Report On Trends In Tobacco Smoking 2000-2025 - First Edition". 2015. *World Health Organization*. <http://www.who.int/tobacco/publications/surveillance/reportontrendstobaccosmoking/en/>. A new Global Report was published on 15 August 2018 during the writing of this position paper but time did not allow to develop the simulations for the new countries. The 2018 report also highlights 17 EU Member States projected to miss the target, although not all are the same as in 2015. "WHO Global Report On Trends In Tobacco Smoking 2000-2025 - Second Edition". 2018. *World Health Organization*, <http://apps.who.int/iris/bitstream/handle/10665/272694/9789241514170-eng.pdf?ua=1>.

26 These calculations were generated using a dynamic model developed by the Economic and Health Policy Research team at the American Cancer Society within a global coalition of cancer groups, called [Prevent20](#). Smoke Free Partnership has endorsed and promotes Prevent20 in Europe.

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# Achieve upwards convergence of prices across Member States

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The convergence of duties across Member States towards the highest common denominator is a desideratum expressed by several Member States that is aligned with public health objectives<sup>27</sup>. Indeed, **as stated in Annex II of the Council Conclusions on the Commission Report on the REFIT evaluation of Directive 2011/64/EU and on the structure and rates of excise duty applied to manufactured tobacco, five EU Member States** (Austria, Finland and France, later supported by Ireland and Sweden) want to achieve a closer convergence of excise duty applied to manufactured tobacco towards the highest common denominator as a way to achieve a high level of health protection and the proper functioning of the Internal Market. Sufficiently high minimum rates of excise duties on a per quantity basis are the key policy lever for this purpose. The SFP advocates for reforms that approximate the **levels of excise duties for tobacco products towards a common high denominator across the EU**.

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<sup>27</sup> Council of the European Union. 2016. *Council conclusions on the structure and rates of excise duty applied to manufactured tobacco*, ECOFIN. <http://www.consilium.europa.eu/en/press/press-releases/2016/03/08/ecofin-conclusions-structure-rates-manufactured-tobacco/>

## How could this be done?

As it is documented in [Appendix 2](#), the variability of prices in the EU has not changed over time either for cigarettes or RYO tobacco. **We believe that in order to achieve price convergence for tobacco products it is necessary to tie domestic excise tax policies to measures of the general tobacco product prices in the entire EU.**

**Our proposal is to establish a rule that links the minimum excise duty of domestic markets to an EU Level Weighted Average Price (EWAP), defined as the volume-weighted average of the domestic WAP over Member States.**

In 2017, while most Member States levied an overall excise duty on cigarettes that is at least 60% of the WAP in their domestic market, these domestic excises ranged from 34% to 132% of the EWAP, which amounted to 5.07 € per 20 cigarettes that year.

**For Cigarettes:** The revision of the Tobacco Tax Directive should establish that the domestic overall excise duty on cigarettes should not only reach 60% of the domestic WAP (as is currently the case) but also that the domestic overall excise duty on all cigarettes should reach at least 60% of the EWAP. The EWAP is intended to operate in addition to the WAP minimum rule rather than replacing it.

**For roll-your-own (RYO) and make-your-own (MY) tobacco as well as borderline products such as cigars and cigarillos:** We are aware that the current requirement as laid out in Art 14 (1) of the Directive specifies that Member States can choose to apply an excise duty which may be an ad valorem or a specific duty or a mixture of both. Our proposal is to remove this possibility and to establish a minimum nominal value for **the overall excise duty of RYO and MYO tobacco** in the same way as it is done for cigarettes (whose overall excise duty must reach at least 90 € per 1000 sticks). Also, in concordance with our proposal for cigarettes, the overall excise duty on RYO and MYO tobacco, as well as borderline products such as cigars and cigarillos, should be greater or equal than both 60% of the WAP and 60% of the EWAP for its product category.

**The calculation and updates of the EWAPs for the different tobacco products should be entrusted to the European Commission**, which already elicits information on tax, prices and sales from the Finance Ministries of Member States. The starting point for the calculation of the EWAP could be based on the 2017 figures for cigarette releases. According to our estimates, based partially on Euromonitor data, this would place the minimum tax requirement at 152.9 € per 1000 cigarettes in 2017. **The values of the official EWAPs used for the purposes of setting excise duties for tobacco products should be updated at least once every four years** (in accordance with the practice set in article 19 of Directive 2011/64/EU which requires the Commission to submit a report to the Council every four years and, where appropriate, a proposal for amending the Directive).

Setting the minimum excise duty on cigarettes at 60% of EWAP would increase the mean price of cigarettes in countries included in our analysis from 4.80 € per 20 cigarettes to 5.63 € per 20 cigarettes based on 2017 prices. The detailed analysis of the impact of this proposal on cigarette prices is included in [Appendix 3](#).

# Bridge the gap between the prices of RYO / MYO tobacco and cigarettes



Research evidence shows that there is no significant difference in risks associated with regular cigarettes and RYO smoking.<sup>28</sup> Therefore, another priority for the revision of the TTD is to **close the loophole that permits the overall excise duty burden of RYO tobacco and cigarettes to differ by a wide margin**. This requires the alignment of tax rules and rates on a standardised quantity basis.

## How could this be done?

Firstly, in similarity to the treatment of cigarettes, **the new Directive should establish a minimum nominal value for the overall excise duty of RYO tobacco**, to safeguard against situations where the WAP of RYO tobacco in domestic markets is low.

Secondly, this nominal floor should be equal, in sticks equivalents terms, to the floor set for cigarettes. Analysis based on a 2010 survey shows the median weight of a hand-rolled cigarette across 18 countries in Europe was approximately 0.75g<sup>29</sup>. However, there was significant variance across Member States. **We would, therefore, propose to use a conversion rate of 0.7 grams of RYO per stick, but this should be reviewed as part of the regular reviews of the Directive every four years required by Article 19**. At the current level of 90 € per 1000 cigarettes, the nominal floor for RYO tobacco should be 128.5 € per kilogram (1000 grams of

28 Benhamou, S, E Benhamou, M Tirmarche, and R Flamant. 1986. "Lung Cancer And Use Of Cigarettes: A French Case-Control Study". *Lung Cancer* 2 (3): 199. doi:10.1016/s0169-5002(86)80004-6; P N Lee and L Garfinkel. Mortality and type of cigarette smoked. *J Epidemiol Community Health*. 1981 Mar; 35(1): 16–22.

29 Gallus, Silvano, Alessandra Lugo, Simone Ghislandi, Carlo La Vecchia, and Anna B. Gilmore. 2014. "Roll-Your-Own Cigarettes In Europe". *European Journal Of Cancer Prevention* 23 (3): 186-192. doi:10.1097/cej.0000000000000010.

RYO tobacco can be used to roll 1428.5 sticks at 0.7 grams per stick). This is much higher than both the current minimum of 54 € per kilogram and the 60 € per kilogram that must be applied by 2020 according to the current Directive. More than half of the Member States levy less than 100 € per kilogram of RYO tobacco, and this would represent a significant increase, but need not be unduly disruptive if it is staged and transitional periods are granted where appropriate.

Thirdly, these two measures will not address the problem of the tax gap between RYO tobacco and cigarettes in Member States where the overall excise yield of RYO tobacco already reaches the level proposed above. Therefore, it would be necessary to establish measures that guarantee that the overall excise duty levied on the two products tends to converge over time within each of the Member States markets. **We propose a staged progression towards 100% for the ratio of the excise duty (in sticks equivalents terms)** on RYO tobacco over the excise duty on cigarettes.

The detailed analysis of the impact of this proposal is included in [Appendix 3](#). Although this paper focuses on the two main tobacco products, cigarettes and RYO, these recommendations can be extended to the cases of cigars and cigarillos, pipe tobacco, or any other borderline product that the tobacco industry promotes in order to circumvent tax rules. In this regard note that provisions for cigars and cigarillos in the current Directive generate loopholes that are similar in nature to the ones that we have discussed here in the case of RYO tobacco.

## What evidence supports our proposals?

Our position is informed by an analysis of prices and patterns of consumption in the EU over the last 14 years. This analysis shows that:

1. Between 2004 and 2015, the median price of cigarettes and RYO, measured by either the Most Popular Price Category or the Weighted Average Price, has increased by 45% and 58%, respectively, in real terms.
2. The variability of cigarette prices across Member States has not changed substantially over this period. The variability of RYO tobacco prices has increased.
3. There exists a substantive and persistent gap between the median prices of cigarettes and RYO tobacco. On a standardized 20 sticks per pack basis, this gap was narrowest (1.56 €) at the start of the period, reaches its peak in 2010 (2.22 €) and stands at 2.05 € in 2017.
4. The price of RYO tobacco remained mostly flat from 2004 to 2011, a period over which cigarette prices experienced the bulk of their increase. In contrast, when RYO prices experienced their greatest rise, 2012 to 2017, the pace of growth in cigarette prices diminished substantially. Consequently, as cigarettes were becoming pricier, a cheap alternative product, RYO tobacco, was progressively gaining a competitive advantage.
5. The combined total releases for consumption of cigarettes and RYO decreased by 28.5%, from 771.23 billion sticks to 551.23 billion sticks, between 2004 and 2017. However, while releases of cigarettes decreased by 35.5% (from 672.74 billion sticks to 433.84 billion sticks), releases of RYO increased by 19% (from 98.48 billion stick equivalents to 117.38 billion stick equivalents). Even though total releases experienced a marked decrease, the last decade has been a lost opportunity to achieve yet greater gains in public health. This was a period over which the tobacco industry marketed RYO tobacco at very competitive prices.

The cause for these shifts is related to the existing tobacco tax provisions. In particular, the gap in prices is attributable to the unequal overall excise duty levied on the two products. Similarly, the lack of convergence in prices results from widely differing tax burdens across Member States.

[Appendix 2](#) describes in detail the empirical evidence base. It is structured as follows: [Section 1](#) analyses the evolution of the prices of the two products and their gap over the period 2004-17. [Section 2](#) reviews the concomitant changes in the structure of consumption. [Section 3](#) shows the underlying tax norms that generate the patterns of prices seen in Section 1.

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# Introduce a specific definition and tax category for raw tobacco

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Directive 2011/64 does not apply to raw tobacco and to intermediate tobacco products, unless they are in a 'smoke-able' form. However, the definitions set out in the Directive (see below) contain some 'subjective' elements, which might cause classification uncertainties, disparities of treatment across countries, and result in disputes. A second problem is that raw tobacco and intermediate products can be diverted to the illicit manufacturing of smoking products or sold in small quantities to consumers for home processing. The magnitude of this problem is unknown and probably varies across countries. Since these products are not covered by the Directive, some of the key tools to prevent and fight tax fraud, including the Excise Movement and Control System (EMCS), cannot be currently used to monitor the movement of raw tobacco.

SFP has argued in the previous public consultation that **the TTD revision should introduce a tax category for raw tobacco and relevant intermediate products, so that they are included in the excise system and covered by the control system (EMCS)**. We deplore that the European Commission, in its January report, recognised that illicit trade in raw tobacco might account for over €1bn revenue losses for governments, yet was against its codification in the EMCS citing that *“This would lead to loss of competitiveness of EU-grown tobacco compared to imported tobacco.”*<sup>30</sup>

## Licensing as a measure against illicit trade?

The EU can support Member States in preventing the illicit diversion of raw tobacco and other intermediate products by designing a **European licensing regime along the entire supply chain**. Licensing is an official authorisation for engaging in any activity within the tobacco supply chain, from tobacco growing to product manufacturing to product transportation, wholesale, retail, and the import/export of tobacco products. It motivates the licensees to follow legal business practices under the threat of losing the license. Linking licensing systems with product markings/stamps, recordkeeping, and a tracking and tracing system makes it more effective.

The EU has ratified the Illicit Trade Protocol (ITP). Article 6 of the ITP sets out clear mandatory requirements on ITP Parties to license specific parts of the tobacco supply chain. Other activities, such as retailing tobacco products, growing tobacco, and transporting, wholesaling, brokering, warehousing, or distributing tobacco products or manufacturing equipment, should be licensed where possible, given national circumstances. Good practice features of a licensing scheme include expected elements of any licensing scheme, such as a sound and transparent application and decision-making process for licences, providing for fees for licences, and imposing recordkeeping and reporting requirements on licensees. Novel aspects of a licensing regime that may improve its effectiveness include, for example, restricting licensees to only trading with other licensees. There are examples of licensing tobacco growing in the EU. Ireland requires a licence to grow, cure or re-handle tobacco and sets limits for the total area which may be planted with tobacco in any one year.

Given the ITP envisages future work on controlling inputs into the tobacco supply chain, and that some jurisdictions are already taking action on this front, the European Commission should consider the design of a European licensing regime across the entire supply chain, including for raw tobacco, that meets the requirements and recommendations of the ITP.

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<sup>30</sup> ‘Report from the Commission to the Council on Directive 2011/64/EU on the structure and rates of excise duty applied to manufactured tobacco’. 2018. *European Commission*. [https://ec.europa.eu/taxation\\_customs/sites/taxation/files/report\\_excise\\_duty\\_manufactured\\_tobacco\\_12012018\\_en.pdf](https://ec.europa.eu/taxation_customs/sites/taxation/files/report_excise_duty_manufactured_tobacco_12012018_en.pdf)

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# **Countries can achieve the target of a 30% relative reduction in smoking prevalence by 2025 by relying on tobacco tax-induced price increases**

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**Table 1** Hitting the 30% prevalence reduction target through tobacco tax increases

Country	Target prevalence	Cigarette price per pack needed in 2025	X-Fold the tax needs to be increased, compared to 2016 levels	Number of fewer smokers by 2025	Percentage increase in tobacco tax revenue by 2025	Expected revenue in 2025
Belgium	16.7%	12.42 Euro (EUR)	3	377,762	66%	2.8 billion EUR
Croatia	22.5%	63.86 Croatian Kuna (HRK)	4	395,164	76%	5.5 billion HRK
Czech Republic	22.3%	209.62 Czech Koruna (CZK)	3	751,152	71%	65.3 billion CZK
Estonia	22.8%	8.42 Euro (EUR)	3	88,247	68%	no data
France	18.4%	15.56 Euro (EUR)	3	2,858,008	58%	13.6 billion EUR
Germany	19.5%	12.68 Euro (EUR)	3	4,601,689	66%	19.7 billion EUR
Greece	31.1%	8.5 Euro (EUR)	3	1,089,861	47%	2.7 billion EUR
Italy	16.3%	10.62 Euro (EUR)	3	2,980,096	57%	13.7 billion EUR
Latvia	24.2%	10.81 Euro (EUR)	3	195,432	60%	no data
Luxembourg	17.2%	11.14 Euro (EUR)	3	5,597	113%	no data
Malta	18.0%	11.19 Euro (EUR)	3	16,944	74%	93 million EUR
Netherlands	18.7%	13.79 Euro (EUR)	3	628,070	71%	3.1 billion EUR
Portugal	14.8%	10.33 Euro (EUR)	3	514,143	59%	1.4 billion EUR
Romania	21.8%	27.11 Romanian Leu (RON)	3	1,333,807	52%	no data
Slovakia	20.2%	6.89 Euro (EUR)	3	314,375	64%	1 billion EUR
Slovenia	14.2%	7.62 Euro (EUR)	2	66,619	54%	no data
Spain	20.4%	9.7 Euro (EUR)	2	2,347,311	48%	10.2 billion EUR

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# Tax, price and tobacco product use in the EU, 2004-2011

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## 1. Analysis of prices

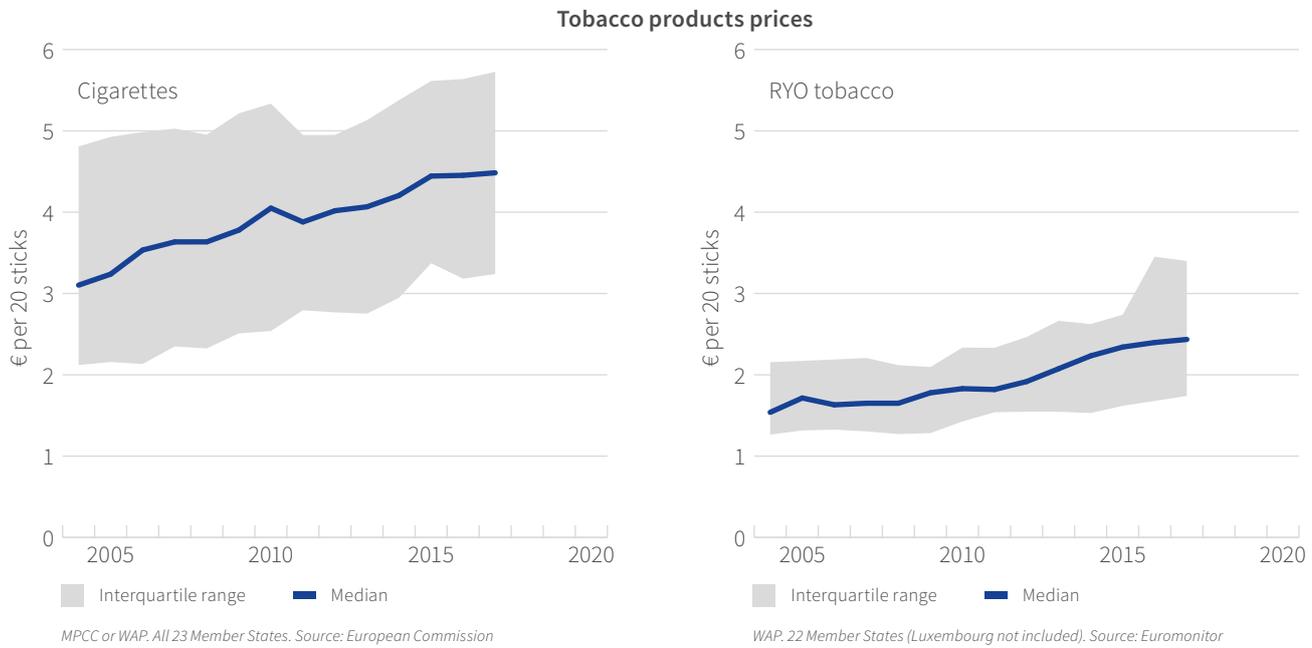
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This study focuses on 23 EU Member States, for which 2004-2017 comprehensive data on cigarette and RYO prices were available: Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and United Kingdom. The analysis of cigarette prices is based on data from the European Commission on the price for the Most Popular Price Category (MPPC) of each country or, when this statistic is not available, the Weighted Average Price (WAP). The data for RYO prices is based on the WAP of RYO cigarettes derived from the Euromonitor Passport Database. Luxembourg is not included in the analysis of RYO prices, due to the lack of data. All prices are expressed in constant (inflation-adjusted) euros, with 2017 as the base year.

## Cigarettes

The median real price for a pack of 20 cigarettes in the EU has increased by 45% from 3.10 € to 4.48 € over the 14-year period (2004-2017) shown in Figure 1 (left panel). As the left panel of Figure 1 suggests, the bulk of this increase, 32%, occurs during the first 8 years (2004 to 2011), while the last 6 years (2012 to 2017) witnessed the remaining increase (relative increase of 17% over that time).

**Figure 1** Evolution of cigarette and RYO prices in the EU 2004-2017



Another important feature of cigarette prices shown in Figure 1 is their variability across Member States. This is represented by means of the interquartile range, that is, the difference between the price just above three quarters of the price distribution (upper quartile) and the price just above one quarter of the distribution (lower quartile). In this regard, the data shows that this statistic has not changed substantially (2.69 € in 2004 vs. 2.49 € in 2017). The standard deviation of cigarette prices also did not change substantially (1.95 € in 2004 vs. 2.79 € in 2017).

## RYO tobacco

In the right panel, Figure 1 presents the evolution of prices for RYO tobacco. The price measure shown is the weighted average price (WAP) estimated as the ratio between total sales and total volume. This is then transformed to a pack of 20 “stick equivalents” using a 0.7 gram per stick conversion rate. The right panel, which shows the evolution in constant prices of 2017, reveals that the median real price increased from 1.54 € in 2004 to 2.43 € in 2017, which amounts to a 58% increase. Unlike the case of cigarettes, the bulk of this change occurs between 2012 and 2015. In fact, the median real price remained at around 1.65 € between 2004 and 2011.

As for the variation of prices across Member States, note that the interquartile range is greater at the end of the period (1.66 €) than at the start (0.89 €). However, the standard deviation in RYO prices slightly declined (1.71 € in 2004 vs. 1.47 € in 2017). This is because of fewer Member States being outliers in 2017 compared to 2004.

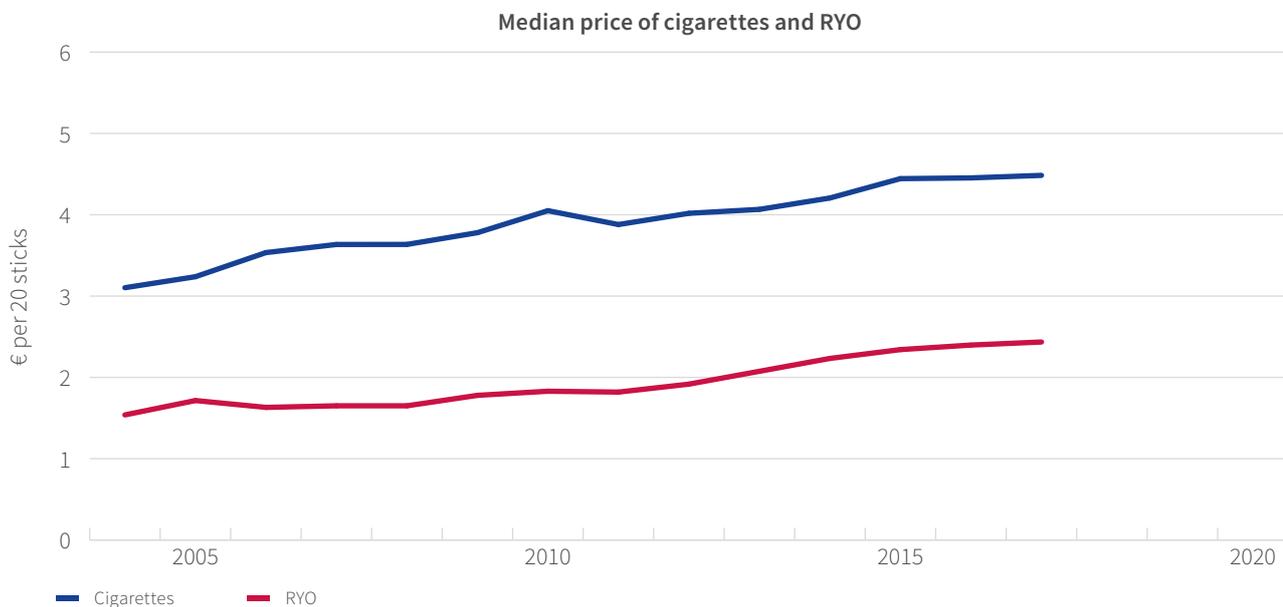
## The price gap between cigarettes and RYO tobacco

It is useful to consider the difference in real prices between cigarettes and RYO tobacco, as shown in Figure 2.

There are two clear features in the relationship between the median prices of cigarettes and RYO. The first and most obvious is that there exists a substantive and persistent price gap between the two products. This gap was narrowest (1.52 € in 2004) at the start of the period, reaches its peak in 2010 (2.22 €) and stands at 2.05 € in 2017.

The second feature is that the price of RYO remained mostly flat from 2004 to 2011, which is precisely the period over which cigarette prices experienced the bulk of their increase. In contrast, when RYO prices experienced their greatest rise, 2012 to 2017, the pace of growth in cigarette prices diminished substantially (an alternative summary measure for the distribution of prices in the EU, the mean, confirms this empirical pattern). Consequently, as cigarettes were becoming pricier, a cheap alternative product, RYO tobacco, was progressively gaining a competitive advantage. This feature is a key factor for the changing patterns of demand of tobacco products which we are about to present.

**Figure 2** Cigarette vs RYO prices in the EU 2004-2017

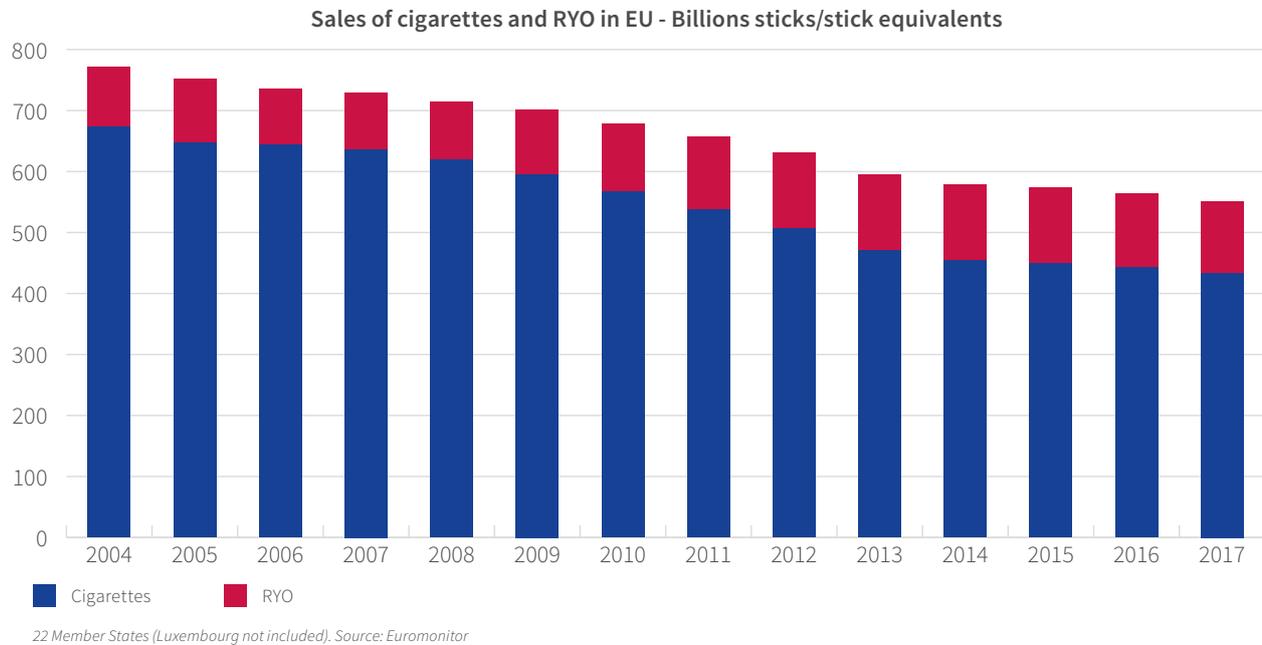


22 Member States (Luxembourg not included). Sources: European Commission and Euromonitor

## 2. Changes in patterns of demand: cigarettes and RYO tobacco

Figure 3 presents the evolution of the volumes of cigarettes and RYO tobacco released for consumption in the EU from 2004 to 2017 according to official European Commission figures in terms of sticks (cigarettes) or stick equivalents at 0.7 grams per stick (for RYO tobacco).

**Figure 3** Sales of cigarettes and RYO in the EU 2004-2017

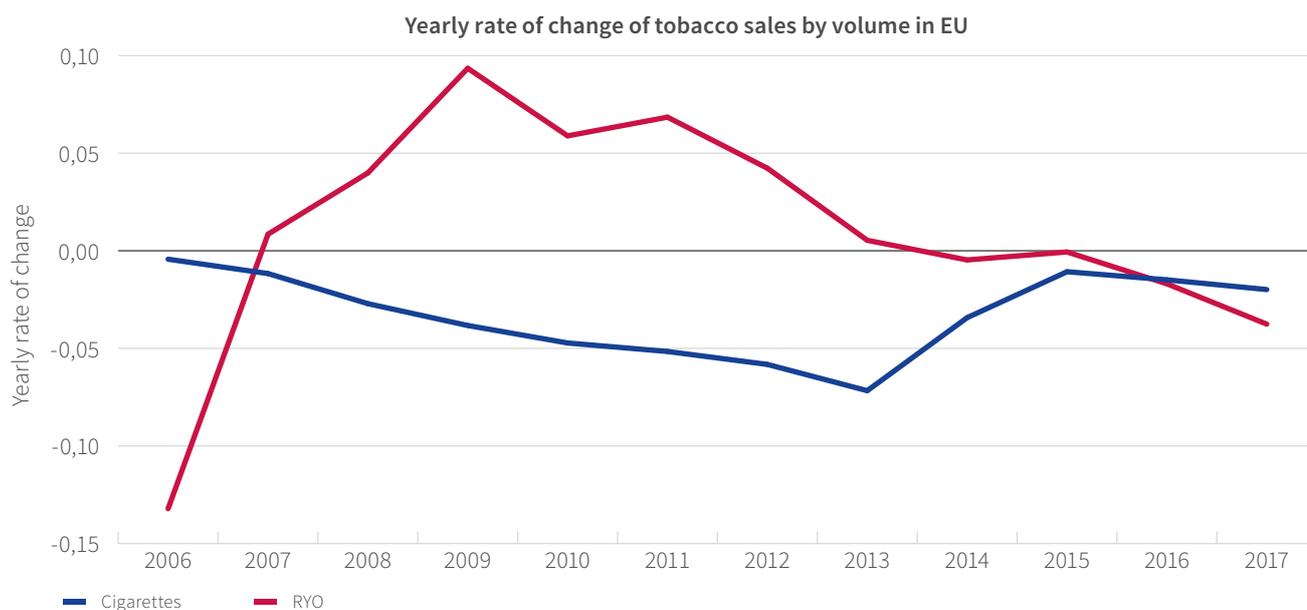


As Figure 3 shows, total releases decreased by 28.5%, from 771.23 billion sticks to 551.23 billion sticks, between 2004 and 2017. However, while releases of cigarettes decreased by 35.5% (from 672.74 billion sticks to 433.84 billion sticks), releases of RYO increased by 19% (from 98.48 billion stick equivalences to 117.38 billion stick equivalences).

Figure 4 shows that these cumulative changes are, for most of the period of analysis, the result of a sustained decrease of cigarettes sales and an equally sustained increase in sales of RYO tobacco. Indeed, the rate of change in cigarette releases with respect to the previous year was always negative. In contrast, the releases of RYO tobacco experienced quite substantial yearly increases (e.g. 9% in 2009) throughout most of the analysis. In the recent years the annual rate of change becomes negative or close to zero.

Thus it appears that over the period 2004-2011, as seen in the previous section, cigarette prices grew and RYO prices remained stagnant, cigarette consumption fell intensely to the benefit of RYO tobacco. The period 2012-2015, on the other hand, when RYO prices grew faster than those of cigarettes, saw a slowing down of the rates of decrease in the consumption of cigarettes and in the rates of decrease in the consumption of RYO tobacco.

**Figure 4** Yearly rate of change of tobacco sales by volume in the EU



*22 Member States (Luxembourg not included). Source: Euromonitor*

In retrospect, it is reasonable to conclude that while the last decade has witnessed a marked decrease in overall consumption, it has also been a lost opportunity to achieve yet greater gains in public health and tax revenue. This was a period over which the tobacco industry seized the opportunity to market RYO as an alternative to cigarettes at very competitive prices, as reflected by the evidence on the price gap between cigarettes and RYO tobacco.

Unfortunately, this gap persists, and, as we shall see in the next section, it reflects the underlying differences in the tax treatment of these two tobacco products, differences which are amenable to policy change.

### 3. The relationship between taxes and retail prices in the context of the EU Tobacco Tax Directive

EU Member States can set the rates of tobacco excise taxes for both ad valorem tax (tax based on the monetary value of the product) and specific tax (tax based on some measure of physical quantity of those products: number of sticks in the case of cigarettes and weight in the case of RYO tobacco) as long as those rates are within the limits established by the current Directive 2011/64/EU.

For the case of cigarettes, an important provision of this Directive is that it currently requires Member States to apply cigarette taxes so as to ensure that the **overall excise duty** (i.e. the sum of the ad valorem tax and the specific tax) must be at least 60% of the weighted average price of cigarettes (WAP) **and in no case less than 90 € per 1000 sticks** (except during transitional periods applying to some Member States). The latter restriction ensures that the overall excise tax does not fall below a safeguard nominal value of 90 € per 1000 sticks regardless of the average price level of cigarettes in each of the Member States. Some Member States introduced similar safeguards before the publication of Directive 2011/64/EU. While in 2005 only 14 of the current 28 Member States used them, the number grew to 19 by 2007, to 20 by 2009, to 23 by 2012 and to 25 at the time of writing this paper. The only Member States that have not applied them to date are Sweden, Denmark, and the UK (which is introducing an MED in its Budget in March 2017), but these are States where cigarette taxation has relied more on specific taxes set at levels that comply with the minimum 90 € per 1000 sticks rule by a wide margin. In fact, for Member States that obtain a yield of at least 115 € per 1000 sticks the 60% rule is waived.

**Figure 5** Price and excise yield, cigarettes in 2017

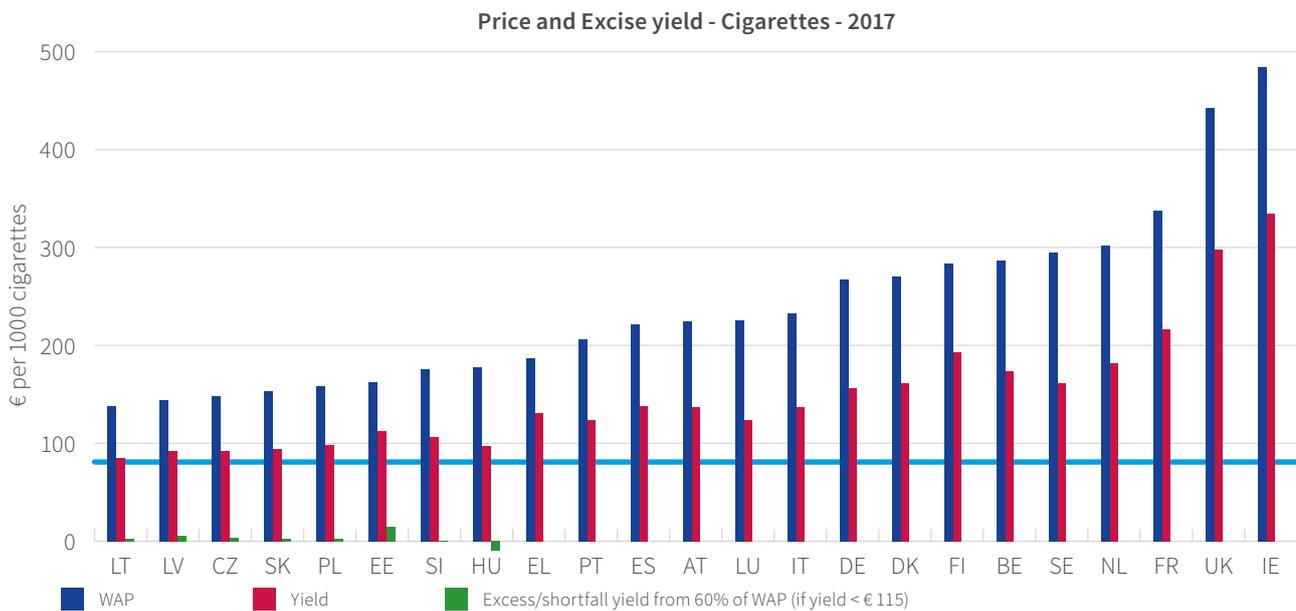


Figure 5 presents the weighted average price of cigarettes and their overall excise yield in the year 2017 for the Member States used in the analysis. It also shows the excess or shortfall of the yield with respect to 60% of the WAP, and a horizontal (blue) line for the 90 € per 1000 sticks minimum threshold.

Note the following from Figure 5:

First, all Member States (except for Hungary, which along with other member states had a temporary exemption granted until 31<sup>st</sup> December 2017) comply with the rule that, if not greater than 115 € per 1000 sticks, the overall excise duty yield must be at least 60% of the WAP. Moreover, the excess or shortfall of the

overall excise duty from the level set by 60% of the WAP is quite small. The excise tax yield varied from 55% in Luxembourg to 70% of WAP in Greece in 2017.

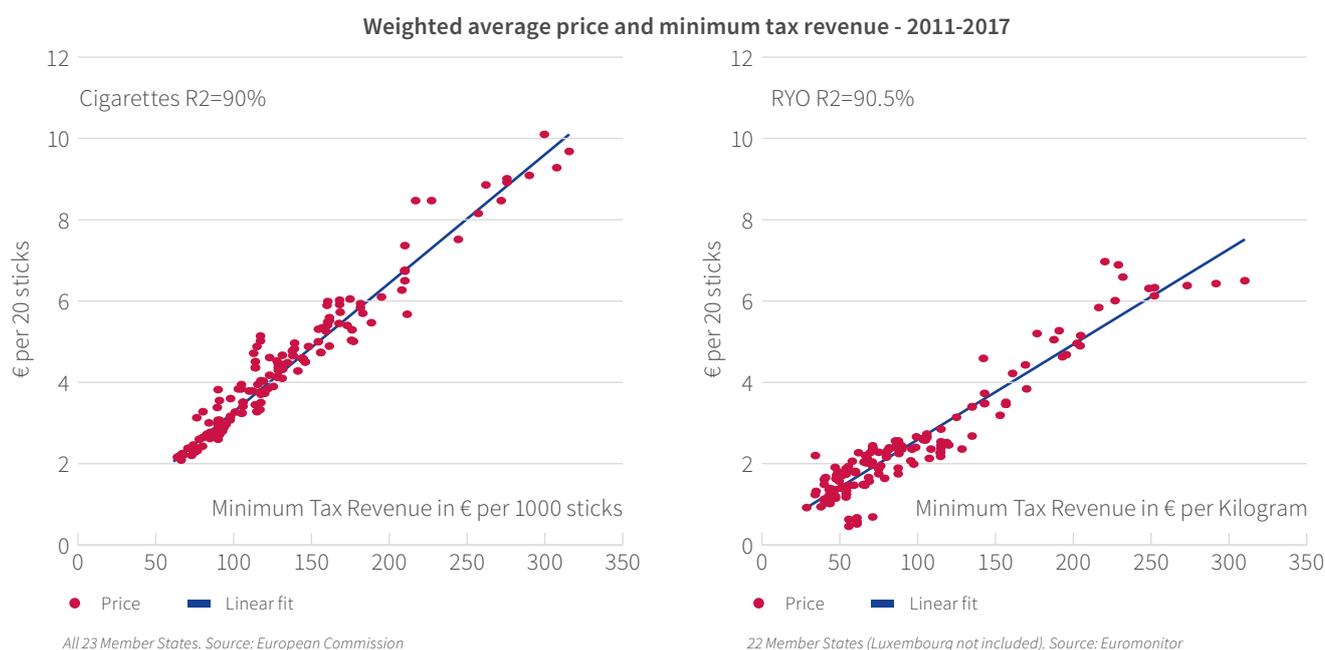
Second, the overall excise duty yield of a sizeable group of Member States (Lithuania, Latvia, Czechia, Slovakia, Poland, Estonia, Slovenia, and Hungary) is clustered around the 90 € per 1000 sticks threshold. Of these Member States only Lithuania actually falls short of the threshold, which can be justified by the exemption period mentioned above.

And third, the differences in the level of prices across Member States, as measured by the WAP, mirror the differences in overall excise duty. This identifies the levers available to policy makers interested in increasing the retail price of cigarettes at either the EU or Member State levels. In particular, note that a lower bound for the overall excise duty yield in any Member State is the maximum of the following three values:

- a) The combined effect of the domestic rates for the specific tax and the ad valorem tax. That is  $specific \cdot (1 + ad\ valorem\ tax)$
- b) The domestic (nominal) minimum for the overall excise duty, if applied
- c) The EU nominal minimum for the overall excise duty (64 € over 2011-13 and 90 € since 2014 with the applicable temporary exemptions to some Member States)

This lower bound explains nearly perfectly the variation in prices across the EU and over time (the R-squared measure of goodness of fit is 90%) as Figure 6 shows.

**Figure 6** Cigarette prices and Minimum Overall Excise Duty, 2011-2015



The implications of this relationship for the revision of the TTD will be discussed in the following section, but before that, let us consider the case of RYO tobacco.

For RYO, the corresponding provision requires Member States to apply taxes so as to generate an overall excise duty of at least 54 € per kilogram, **or at least** 46% of the weighted average (WAP) price of fine cut tobacco products. Note that in the current Directive, in contrast with the case of cigarettes, there is no lower bound for the level of overall excise tax that must be generated per unit of quantity (as long as it reaches 46% of the WAP of RYO products). Nonetheless, 10 Member States have introduced a nominal safeguard overall excise duty per unit of quantity of RYO until 2017.

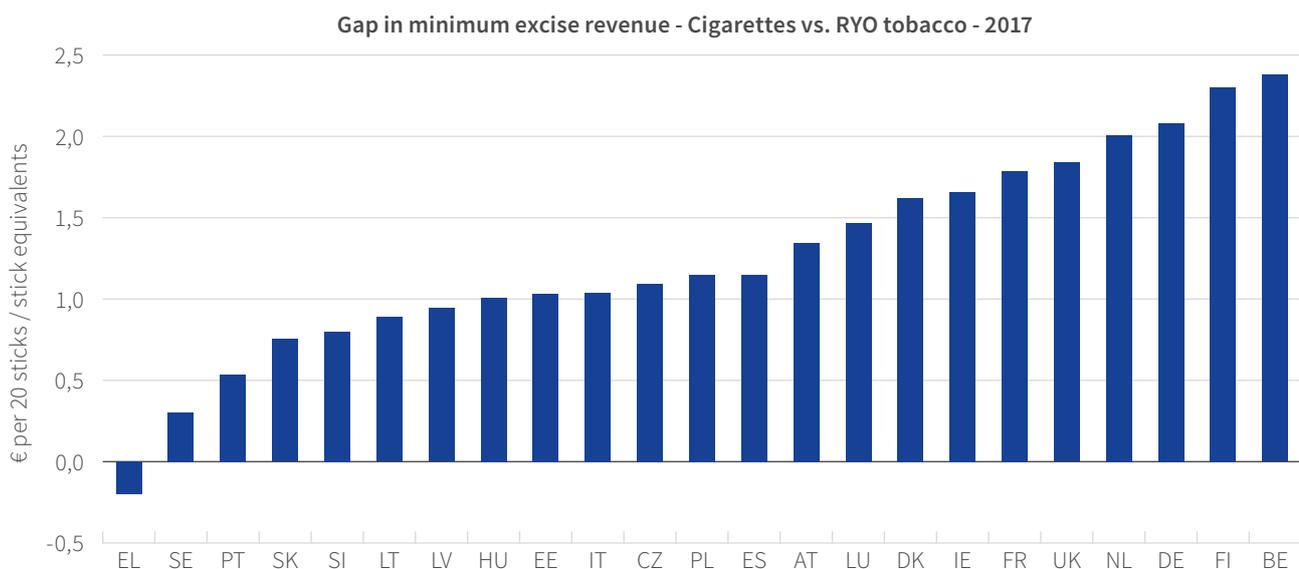
A lower bound for the overall excise yield for RYO tobacco in any Member State is the maximum of the following three values:

- a) The combined effect of the domestic rates for the specific tax and the ad valorem tax. That is  $specific * (1 + ad\ valorem\ tax)$
- b) The domestic (nominal) minimum for the overall excise duty, if applied
- c) The EU minimum for the overall excise duty. This, in turn is the minimum of the following two values
  - a. 46% of the WAP (40% for 2011-12, 43% for 2013-14)
  - b. 54 € (40 € for 2011-12, 47 € for 2013-14)

This lower bound also explains a high proportion of the variation in the prices of RYO (R-squared=90%), as shown in the right panel of Figure 6.

The explanatory power of the the two tax measures that we have considered suggests that the key to understand the gap between the retail prices of cigarettes and RYO tobacco is their differential tax treatment.

**Figure 7** Minimum Excise Duty gap, cigarettes vs. RYO, 2015



All 23 Member States. One RYO stick assumed to use 0.75 grams of tobacco. Source: European Commission

Figure 7 presents the gap in the measure of minimum excise duty between the two products on a standardised quantity basis of 20 sticks (at 0.7 grams per stick in the case of RYO tobacco) in 2007. Except for Greece, there is a significant gap in the minimum excise tax yield between cigarettes and RYO tobacco, in favour of the RYO tobacco.

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# Impact of the tax proposals on cigarette and RYO prices

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In order to illustrate the potential effects of the SFP proposals for the revision of the TTD, we simulate the effects of its main fiscal measures on the distribution of prices for cigarettes and RYO tobacco. We predict the effects of the tax changes contained in these measures by means a simple linear regression model that uses data on prices and taxes over the period 2011-2017.

The first measure is aimed at bridging the gap between the prices of RYO tobacco and cigarettes. It consists in establishing a nominal floor for the excise duty of RYO tobacco and setting its level at 90 € per 1000 sticks, which is the minimum rate that cigarettes must bear according to the TTD. Using the 0.7 grams of fine cut tobacco per stick conversion rate, this proposal implies setting the minimum rate at 128.5 € per kilogram of fine cut tobacco. Taking year 2017 as the base scenario, this would require an increase in the minimum rate on RYO tobacco for all EU Member States except France, Greece, Ireland, Portugal, Finland, Sweden and UK, as shown in [Table 2](#).

The effects of this proposal on the distribution of prices are summarised at the bottom of the table. Note that the median price of 20 sticks of RYO tobacco across EU Member States would increase from 2.43 € to 3.37 €. The mean price would increase from 2.77 € to 3.60 € per 20 sticks. Considering that the median price for 20 manufactured cigarettes in 2017 was 4.48 €, this proposal would bridge part of the RYO tobacco price differential with respect to cigarettes.

Furthermore, the variation in RYO tobacco prices would also be reduced with this proposal, thus ameliorating cross border price differentials. While in the base scenario of 2017 the interquartile range for the prices of 20 RYO sticks was 1.66 €, in the simulated scenario it shrinks to 0.74 €.

**Table 2** Effects of equalising the minimum excise duty (MED) applicable under the Directive on roll-your-own (RYO) tobacco with the minimum rates applicable on cigarettes

Country	Base scenario (2017)			Simulated scenario		
	MED in € per Kg	MED in € per 1000 stick equivalents	Price in € per 20 stick equivalents	MED in € per Kg	MED in € per 1000 stick equivalents	Price in € per 20 stick equivalents
Austria	90,00	67,50	2,43	128,57	90,00	3,34
Belgium	66,07	49,56	1,47	128,57	90,00	2,95
Czech Republic	54,00	40,50	1,74	128,57	90,00	3,50
Denmark	105,89	79,42	2,73	128,57	90,00	3,27
Estonia	71,15	53,36	0,69	128,57	90,00	2,05
Finland	128,50	96,38	2,36	128,57	90,00	2,36
France	161,00	120,75	4,22	161,00	112,70	4,22
Germany	70,85	53,14	2,04	128,57	90,00	3,40
Greece	170,00	127,50	3,84	170,00	119,00	3,84
Hungary	54,00	40,50	1,38	128,57	90,00	3,14
Ireland	310,19	232,64	6,5	310,19	217,13	6,50
Italy	115,00	86,25	2,54	128,57	90,00	2,86
Latvia	62,00	46,50	2,27	128,57	90,00	3,84
Lithuania	54,16	40,62	1,32	128,57	90,00	3,08
Luxemburg	54,00	40,50	n.a.	128,57	90,00	n.a.
Netherlands	99,25	74,44	2,66	128,57	90,00	3,35
Poland	54,00	40,50	1,42	128,57	90,00	3,18
Portugal	135,00	101,25	3,4	135,00	94,50	3,40
Slovakia	71,11	53,33	2,44	128,57	90,00	3,80
Slovenia	88,00	66,00	2,5	128,57	90,00	3,46
Spain	98,75	74,06	2,4	128,57	90,00	3,10
Sweden	193,06	144,79	4,63	193,06	135,14	4,63
United Kingdom	226,87	170,15	6,01	226,87	158,81	6,01
<b>Mean</b>			<b>2,77</b>			<b>3,60</b>
<b>Median</b>			<b>2,43</b>			<b>3,37</b>
<b>P25</b>			<b>1,74</b>			<b>3,10</b>
<b>P75</b>			<b>3,4</b>			<b>3,84</b>
<b>Inter Quartile Range</b>			<b>1,66</b>			<b>0,74</b>
<b>Standard Deviaton</b>			<b>1,47</b>			<b>1,02</b>

The second measure seeks to reduce the variation in cigarette prices by means of setting the value of the minimum excise rates on all cigarettes at 60% of the European-level weighted average of cigarette prices. For the year 2017, using Euromonitor data on sales and the European Commission CIRCAC database information on domestic WAP, the EWAP was 5.07 € per 20 cigarettes. Setting the minimum excise rates per 20 cigarettes at 60% of the latter value would imply a minimum rate of 3.04 € per 20 cigarettes (or 152.29 € per 1000 cigarettes).

This would require increasing the tax rates on cigarettes in all but 9 EU Member States, namely Belgium, Denmark, Finland, France, Germany, Ireland, Netherlands, Sweden and UK.

Table 3 presents the details for the base year (2017) and simulated scenarios, its bottom panel focusing on the summary of the effects on the distribution of prices. Note firstly that, similarly to the RYO tobacco simulation, this measure would lead to an increase in prices where these are lowest. In fact, while the first quartile (denoted as P25 in the table) and the median of prices are greater in the simulated scenario, the third quartile (denoted as P75 in the table) remains unchanged. This also means that the cross-border variation on cigarette prices is reduced with this measure. The interquartile range falls from 2.48 € to 0.84 € per 20 cigarettes.

**Table 3** Effects of setting the minimum excise duty (MED) applicable under the Directive on cigarettes at 60% of the EU-level weighted average price (EWAP)

Country	Base scenario (2017)		Simulated scenario	
	MED in € per 1000 cigarettes	Price in € per 20 cigarettes	MED in € per 1000 cigarettes	Price in € per 20 cigarettes
Austria	134,69	4,48	152,30	5,04
Belgium	168,46	5,73	168,46	5,73
Czech Republic	95,11	2,97	152,30	4,77
Denmark	160,39	5,41	160,39	5,41
Estonia	104,98	3,24	152,30	4,73
Finland	211,50	5,68	211,50	5,68
France	210,00	6,76	210,00	6,76
Germany	157,10	5,34	157,10	5,34
Greece	117,50	3,75	152,30	4,84
Hungary	90,86	3,55	152,30	5,49
Ireland	315,60	9,68	315,60	9,68
Italy	138,12	4,66	152,30	5,11
Latvia	93,70	2,89	152,30	4,73
Lithuania	85,00	2,77	152,30	4,89
Luxembourg	113,95	4,51	152,30	5,72
Netherlands	174,78	6,05	174,78	6,05
Poland	97,90	3,17	152,30	4,88
Portugal	127,97	4,13	152,30	4,90
Slovakia	91,00	3,06	152,30	4,99
Slovenia	106,00	3,51	152,30	4,97
Spain	131,50	4,44	152,30	5,09
Sweden	160,03	5,89	160,03	5,89
United Kingdom	262,06	8,86	262,06	8,86
<b>Mean</b>		<b>4,80</b>		<b>5,63</b>
<b>Median</b>		<b>4,48</b>		<b>5,10</b>
<b>P25</b>		<b>3,24</b>		<b>4,88</b>
<b>P75</b>		<b>5,72</b>		<b>5,72</b>
<b>Inter Quartile Range</b>		<b>2,48</b>		<b>0,84</b>
<b>Standard Deviaton</b>		<b>1,82</b>		<b>1,25</b>



**SFP's vision** is a world where **all children** can grow up **healthy**, and **free** from the **harm caused by tobacco**



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#### SFP MAIN PARTNERS:



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**About SFP and the SFP Coalition:** SFP is the only NGO working exclusively on EU policy analysis and advocacy for the implementation of the Framework Convention on Tobacco Control (FCTC). The Smoke Free Partnership Coalition was created in 2014 and consists of over 40 national and pan-European civil society organisations across nearly 30 countries, working to mobilise decision makers to make tobacco control a political priority.



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