

HELP –For a Life Without Tobacco The taxation of tobacco products in the EU

28/02/2006

Tax policy remains the most effective and sustainable way to reduce consumption, but its discouraging effect has been weakened as result of discount brands, low tax countries, intensified cross border shopping, lower taxed roll–your–own tobacco, smuggling and counterfeit trade.

The European Community has a history of more than 30 years of regulating the taxes on tobacco products. While progress has been made in harmonising tobacco taxation at EU level, the big concern remains that the price of and the taxes on tobacco products varies greatly in the European Union.

For instance,

- The price of a pack of cigarettes of a well known international cigarette brand in January 2006 varies from 1,07 euro in Latvia to around 7,50 euro in the United Kingdom.
- The percentage of taxes on cigarettes for the most popular price category in July 2005 varies from 60% in Latvia to 80% in France (1).

According to the World Bank, **price increases** are the most effective and cost effective deterrent –especially for young people and others with low incomes, who must, of necessity, be highly price responsive. **A price rise of 10% decreases consumption by about 4% in high–income countries** (2). Price affects both smoking initiation and smoking cessation. Particularly for current smokers, the effect of a permanent increase in price will be greater in the long run than in the short–run, because it takes longer for a person addicted to nicotine to change his/her behaviour.

The price of cigarettes has sharply increased in several European countries, such as in France, Germany and the Netherlands. **The impact of the price increase can be illustrated by the example of France. The number of smokers in France has decreased by 12% from 1999 to 2003.** More smokers wished to stop smoking and in 2003 the price became the top reason why smokers said they wished to stop smoking (compared to fourth place in 1999) (3).

While there is evidence that higher taxes result in less consumption, the effect of tax increases on smoking prevalence has been weakened by the following factors:

1. Hand rolling tobacco as a substitute for cigarettes.

In most countries of the EU, hand rolling tobacco is taxed at a lower rate than cigarettes. An increase of the price of cigarettes may result in a switch from cigarettes to hand rolling tobacco. Sales of roll–your–own tobacco, for instance, increased by 12% in 2004 in France (4). The tax rate on roll–your–own tobacco should be made equal to the tax rate on one cigarette to prevent substitution towards this form of tobacco products.

2. The increase of cross–border shopping in cheaper neighbouring countries.

The effect of price increases may be weakened by intensified cross border shopping in neighbouring cheaper countries. Cross–border shopping in Finland for instance takes mainly place with Estonia. It has been calculated that 2.5 million trips are made annually from Finland to Estonia for cross–border shopping. Cigarette sales in Luxembourg (population around 450,000 persons) increased as a result of tax increases in neighbouring countries (from 5.6 billion cigarettes in 2003 to 6.5 billion cigarettes sold in 2004).(5)

3. The launch of discount and low priced cigarette brands.

Discount brands gained a market share of around 10% in Belgium (6) and the UK in 2004 (7). Discount brands makes cigarettes more affordable and may lead to price competition. The competition of the discount brands in 2005 resulted in a decrease of the price of major international cigarette brands in Hungary and Belgium.

4. Inventive pricing by tobacco companies.

In order to avoid a third increase of the price of a pack of cigarettes in a period of 18 months in Germany, the mark leader in Germany decreased in September 2005 the number of cigarettes in a pack from 19 to 17 cigarettes (8). Despite the tax increase of 10%, the price for a pack decreased, which gave the false impression to smokers that price had hardly changed.

5. An increase of counterfeit cigarettes and the risk of smuggling.

A new phenomenon in Europe is the counterfeit cigarettes. In the UK, 25% to 30% of the illegal cigarette market in 2003 is counterfeit cigarettes (9). An estimate of counterfeit trade is difficult to make, but it is certain that the market share of counterfeit cigarettes is rising in some EU countries.

6. Loopholes such as the German “sticks” and “singles”.

In the third quarter of 2005, total industry cigarette sales in Germany declined 13% compared to the previous year. The recent price increases have been the main source of cigarette consumption decline and the growth of other tobacco products, such as singles and sticks (taxed as an extremely more favourable rate). Tobacco companies in Germany have been selling the low–taxed ready–made rolls of tobacco – known as singles and sticks – and matching paper tubes at half the price of regular cigarettes, taking advantage of the German tax loophole. The

European Court of Justice ruled on 10 November 2005 that this German tax loophole was illegal and that sticks should be classified along with other cigarettes, and as such should face the same taxes (10).

SOURCES

- (1) European Commission, Excise Duty Tables, Part III Manufactured tobacco, July 2005.
- (2) World Bank. Tobacco control at a glance , Washington DC, 2003, www.worldbank.org/tobacco
- (3) Inpes, Tabac, l'offensive: 1.8 million de fumeurs en moins. Press release, 1 February 2004, Paris. http://www.inpes.sante.fr/.../synthese_tabac.pdf
- (4) Sales of Roll your tobacco in France were 7861 tonnes in 2004 or 12, 4% more than in 2003. Source: Revue de tabacs, Le marché français du tabac en 2004, Février 2005, page 6.
- (5) Sales of cigarettes in Luxembourg were 4.777 million cigarettes in 2001, 5.788 million in 2002, 5.618 million in 2003, 6.475 million in 2004 and 5.204 million in 2005. source: UEBL.
- (6) Source: Retail 29 Januari 2005, page 29.
- (7) Source: Action on smoking and Health, London, UK.
- (8) A pack of the leading cigarette brand in Germany was 4 euro for 19 cigarettes in August 2005 and 3,80 euro for 17 cigarettes in September 2005. The price per cigarette increased, but not the price per pack.
- (9) Source: Customs and Excise, London, UK.
- (10) <http://curia.eu.int/>

CONTACT

Mr. Niall DOLOGHAN

Kestrel Worldcom
+44/20 85 43 22 99

COMMENTS

The HELP – For a life without tobacco – campaign of the European Commission aims at convincing people not to start or to quit smoking with a TV–campaign in the 25 member states and different promotional activities.

As part of the new anti–smoking campaign entitled ‘–For a life without tobacco’, launched by the European Commission, press releases are published on a regular basis to provide the media with relevant information about health with a view to supporting, extending and stepping up the initiatives of the ‘ campaign.

Press releases, press packs, the logo and pictures of the ‘ campaign can be downloaded from the Internet site www.help-eu.com.

“The views expressed may not in any circumstances be regarded as stating an official position of the European Commission”; More detailed information with references to scientific papers can be obtained upon simple request.

