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Tobacco Taxation – Stakeholder event

18 May 2022, online

Minutes

1. INTRODUCTION

The Chair (DG TAXUD) welcomed participants to the stakeholder event on the revision of the Tobacco Taxation Directive. The Chair explained that the objective of this event was to collect any additional input from all interested parties before the Impact Assessment is finalised. The European Commission plans to have a proposal for the revision of the Directive submitted for approval and adopted in the 4th quarter of 2022.

DG TAXUD stressed that an ambitious revision was primarily driven by Europe's Beating Cancer Plan goals. In addition, the existence of multiple, heterogeneous national tax regimes for certain products negatively affects the functioning of the internal market, causes uncertainty for economic operators and leads to administrative difficulties when controlling the movement of products between Member States. Finally, there is evidence of an increase in the illicit manufacturing of cigarettes and other tobacco products in clandestine factories within the EU.

DG TAXUD referred to the various consultations undertaken in the context of the Impact Assessment, both public consultation, and targeted consultations involving national tax authorities and health experts, industry (covering the entire supply chain) and NGOs.

The main findings of the consultation process can be summarised as follow:

- A majority of respondents expressed an opinion in favour of increasing minimum rates on tobacco products, except citizens to some extent;

- A majority of respondents favoured convergence of tax rates among different tobacco and related products, although there is no consensual support for full equalisation;
- Regarding new products, there is a broad consensus for introducing taxation, taking into account current practice at Member State level;
- Regarding illicit trade, the majority of respondents are in favour of including raw tobacco in the scope of the Directive, for its monitoring under the Excise Monitoring and Control System (EMCS), except for the industry.

2. EXCHANGE OF VIEWS

DG TAXUD opened the floor, clarifying that it would not answer participants' questions on the upcoming revision.

International Association on Smoking Control & Harm Reduction (SCOHRE) raised concerns over a possible precautionary approach to the taxation of e-cigarettes, and advocated for a risk control approach instead. In its view, non-combustion products should be considered as a tool for driving tobacco smoking down, and should be taxed in a second step once traditional tobacco product consumption has significantly decreased.

European Network for Smoking and Tobacco Prevention (ENSP) complained that inviting the tobacco industry to the event would be in breach of the rules of the Framework Convention on Tobacco Control (article 5.3).

Smoke Free Partnership supported the previous comment and requested that the list of participants be made public.

DG TAXUD clarified that this live event was only a replacement for consultation usually taking place through online questionnaires, for the sake of efficiency. It added that as this was not a policy debate but a collection of input, it was not in breach with the framework convention.

Spanish association of vaping companies (UPEV), representing around 400-500 SMEs thanked TAXUD for the transparency of the process. It underlined that an understanding of the different types of novel products was important. It added that the association is aware that the evolution of the market called for an update of taxation rules, and therefore measures for e-cigarettes. It called for a clear distinction between products that contain tobacco, nicotine and those products that do not contain tobacco and nicotine.

German Cancer Aid highlighted that the market in new products developed quickly and industry adapted to new regulations being prepared. It explained that new products containing nicotine develop consumers' addiction. It added that new products not containing nicotine still have a negative health impact (e.g. leading to cancer, pulmonary and cardiovascular diseases) because of the various chemicals (e.g. formaldehyde) they contain.

European Tobacco Wholesalers Association (ETV) agreed that minima are no longer meaningful and should be revised. It also supported the regulation and differentiated taxation of novel products in view of national developments. Regarding taxation levels, it suggested considering the concept of harm reduction and not taxing novel products at the same level than traditional tobacco products. It added that illicit trade within the EU is a growing problem that should be addressed.

German Cancer Aid added that the concept of harm reduction was not proven at all, therefore it was difficult to translate it into tax legislation. It insisted that new products could trigger smoking initiation and contain harmful products such as heavy metals.

Tobacco Europe indicated that the data from the Economisti Associati study, finalised at the end of 2021, would be outdated. It called for an update, in particular as the economic context had changed and new products had emerged on the market.

University of Verona referred to the broader macro-economic context of high inflation and stagflation. It anticipated Member States could resist increases in taxation rates. It suggested focusing on the inclusion of new product to create a level playing field in the single market. It also suggested considering the size of markets for new products and the relative harmfulness of the different products.

Smoke Free Partnership stressed the urgency to update minimum rates, which are obsolete, particularly so given the high levels of inflation in Europe. It also underlined the need to foster convergence between roll-your-own tobacco and cigarettes. Finally, it supported addressing illicit manufacturing. It suggested to monitor raw tobacco, not only under EMCS but also with track and trace, and to monitor other key inputs, including filters and cigarette paper.

European Smoking Tobacco Association recalled that the Directive provided for a gradual increase of rates for fine-cut tobacco until 2020. It added that reasons for taxing fine-cut tobacco less than cigarettes were still relevant, and could contribute to fighting illicit trade. Finally, it added that substitution is not tax induced but affordability driven.

3. CONCLUSIONS

DG TAXUD noted that participants appeared to support the increase of EU minima; the regulation of novel products, although opinions on taxation of nicotine free products diverged; and the control of raw tobacco to address illicit manufacturing.

DG TAXUD announced that minutes would be published with name of all organisations represented, and thanked participants for their contributions. DG TAXUD confirmed that all input would be taken into consideration for the finalisation of the impact assessment, to be published together with the proposal for revising the Directive.