



The EU Council Compromise Text under the Cypriot Presidency lowers both the real value and the binding force of the EU tax floor

Policy Brief

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1. Why this matters

The revision of the Tobacco Tax Directive is meant to address policy failure: the current EU minimum excise rates have lost traction and no longer exert enough influence on national tax levels. As a result, tobacco prices remain too low in many markets and the affordability of cigarettes has increased over time.

A key question is whether the amendments introduced during the legislative process preserve or weaken that purpose. This brief argues that the compromise text of the EU Council under the Cypriot Presidency¹ (referred to as “Compromise Text” hereafter) weakens it materially: it lowers the real value of the cigarette tax floor and sharply reduces the number of Member States for which the reform would be binding.

2. What the Compromise Text changes

Among numerous amendments, the Compromise Text changes the Commission proposal in two central ways. First, it replaces the Commission’s €215 per 1000 fixed minimum from 2028 with a lower and phased path for cigarettes: €140 in 2028–2029, €170 in 2030–2031, and €200 from 2032 onward. This means that the reform starts from a much lower floor and only reaches a now lower final level several years later.

Second, the Compromise Text weakens the way the fixed minimum is protected against inflation. Under the Commission proposal, the Union rate would be updated every three years

¹ Draft Council Directive on the Structure and Rates of Excise Duty Applied to Raw Tobacco, Manufactured Tobacco and Tobacco Related Products (Recast) - Presidency Compromise Text, ST 6110 2026 INIT (2026), <https://data.consilium.europa.eu/doc/document/ST-6110-2026-INIT/en/pdf>.

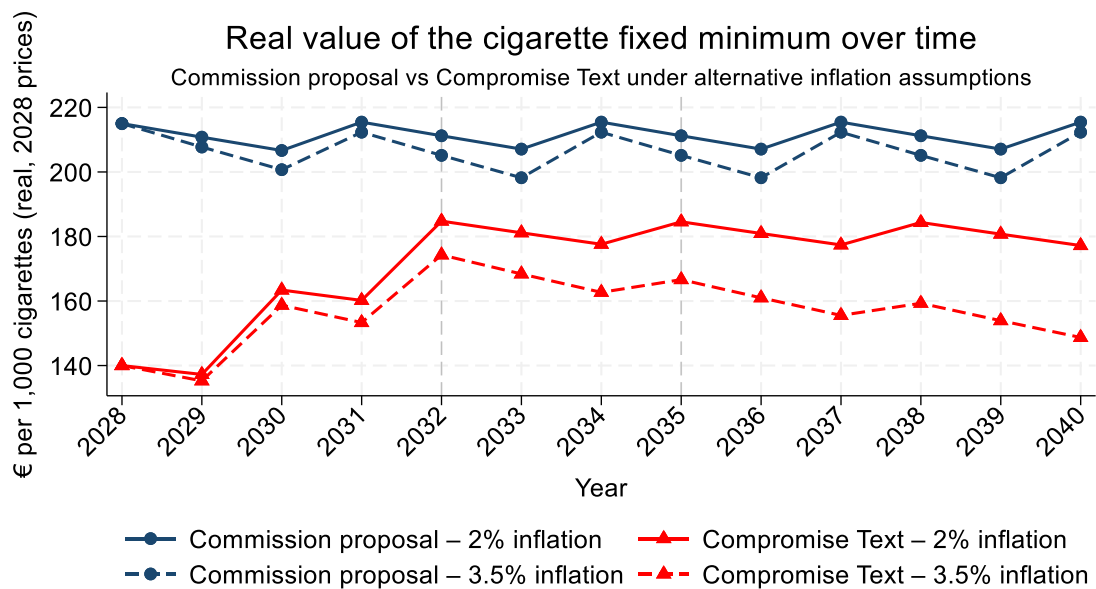
starting in 2031. Under the Compromise Text, Harmonised Index of Consumer Prices (HICP)-based updating only starts from 1 January 2035, and each three-year adjustment is capped at 6%. The result is a system in which the nominal tax floor rises more slowly and is less able to preserve its real value over time, especially under higher inflation.

3. Effect on the real value of the tax floor

Figure 1 shows the effect of these changes on the real value of the cigarette fixed minimum tax. Under the Commission proposal, the real value of the €215 is broadly preserved over time. The path is stable because the updating mechanism is designed to prevent inflation from eroding the tax floor. By contrast, the compromise text produces a much weaker path from the outset. The transition from €140 to €170 to €200 means that the real value of the minimum is already substantially below the Commission benchmark in the first years of implementation.

The figure also shows that this is not only a question of a lower starting point. Even under a relatively benign inflation assumption of 2% per year, the compromise text path remains materially below the Commission path once the full €200 minimum is reached. Under a higher inflation assumption of 3.5% per year, the gap widens further over time because the 6% cap on triennial HICP updates becomes binding, preventing the minimum from keeping pace with inflation.

Figure 1. A lower and weakly indexed fixed minimum excise



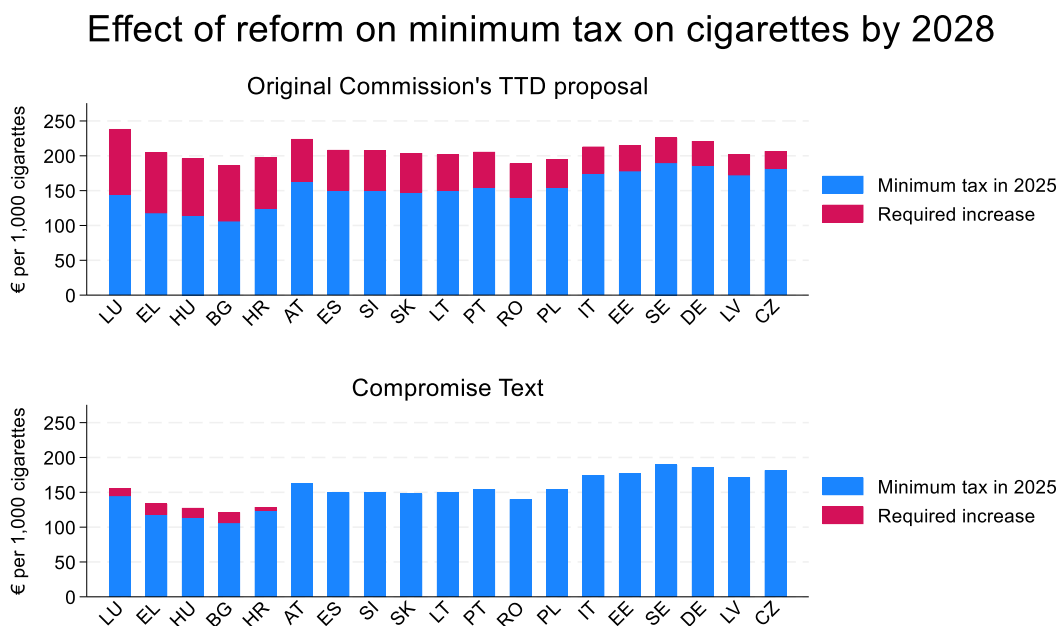
Commission's path: €215(2028-); HICP updating from 2031
 Compromise Text path: €140 (2028-29), €170 (2030-31), €200 from 2032; HICP updating from 2035 with a 6% cap

4. Effect on the binding force of the reform

Figure 2 illustrates a major consequence of the amendments to the fixed minimum excise on cigarettes in the Compromise Text: it sharply reduces the binding force of the reform at the country level. Under the Commission proposal, a substantial number of Member States would need to raise their cigarette minimum tax in 2028. Under the Compromise Text, by contrast, the number of countries required to adjust is much smaller.

This matters because the effectiveness of EU minimum taxation depends not only on the nominal level written in the Directive, but also on whether that level is operative in national markets. A minimum tax that is binding in many countries can raise retail prices and encourage price convergence. A minimum tax that is binding in very few countries does not. The Compromise Text therefore weakens the reform not only over time, through real-value erosion, but also immediately, by making the 2028 floor non-binding for most Member States from the outset.

Figure 2. A reduced binding force



In practical terms, this means that the Compromise Text would deliver a much smaller first-round effect on prices, consumption and revenues than the Commission proposal. It would also do less to reduce cross-border price differentials because many countries would continue to face no effective pressure to adjust their tax floors.

5. Why this defeats the purpose of the reform

The revision of the Tobacco Tax Directive was justified by the need to restore the traction of EU minimum excise rates. In its 2 June 2020 conclusions, the Council of the European Union stated that amendments to Directive 2011/64/EU² were needed because the existing provisions had become less effective, and that EU action was required so that minimum rates could “regain traction” in making an effective contribution to reducing tobacco consumption. The same conclusions also stressed the need for greater convergence in excise duty rates across the EU, given the large tax and price differences that continued to generate cross-border flows.

The Compromise Text moves in the opposite direction on both counts: it weakens the real value of the fixed minimum tax path from the outset and allows the gap with the Commission proposal to widen under higher inflation. Consequently, it makes the reform non-binding for most Member States in 2028, reducing its immediate effect on prices, consumption and revenues. The compromise therefore risks recreating the very problem the reform was supposed to solve: minimum rates that exist on paper, but do not have enough economic weight to raise prices, reduce affordability or promote EU-wide price convergence.

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² European Council, “Council Conclusions Concerning the Structure and Rates of Excise Duty Applied to Manufactured Tobacco,” June 2020, <https://www.consilium.europa.eu/media/44235/st08483-en20.pdf>.