

## POLICY BRIEF

# Enhancing Europe's Tobacco Tax Directive for a Healthier Future

November 2024

With a new European Parliament and a new college of Commissioners, the process of renewal of the European Union Tobacco Tax Directive should resume without further delay.

Research in the Economics for Health (formerly Tobacconomics) series evaluated the European Commission's likely lines of reform, as per an unofficial draft that has circulated since late 2022, identifying areas where reasonable enhancements could boost its public health impact.

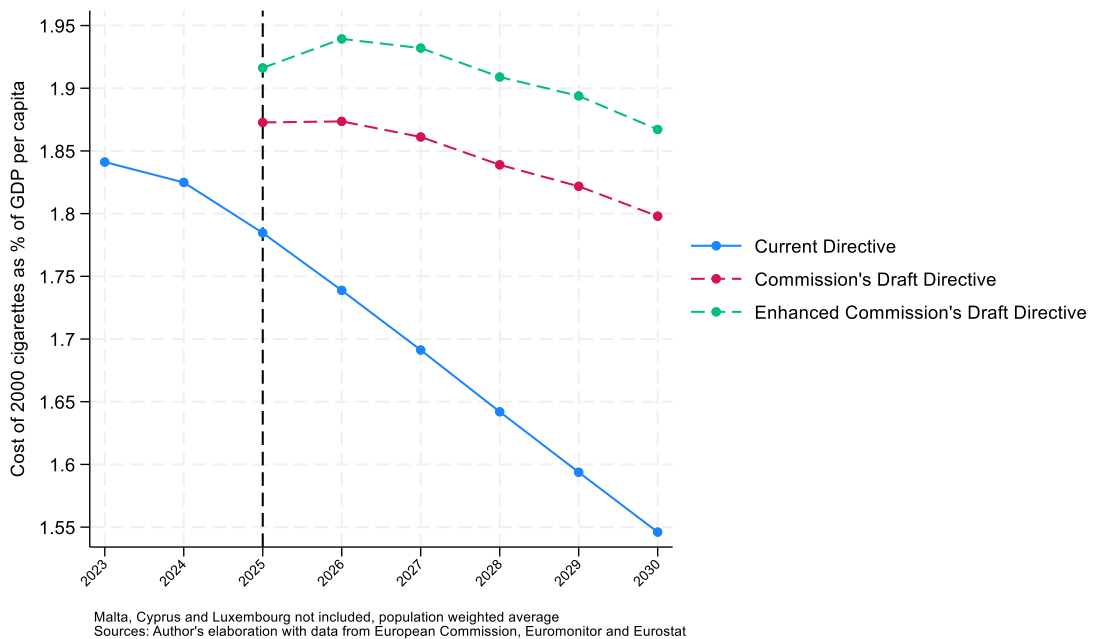
This brief discusses these enhancements and illustrates their effects vis-à-vis the Directive currently in force and the Commission's Draft.

While the delay in the policy process is unfortunate, there is a window of opportunity to push for the enhancements presented herein, so that the next Directive becomes a pillar of Europe's Beating Cancer plan.

**AFFORDABILITY OF CIGARETTES**

**Enhancement 1: Raise the fixed minimum tax rate on cigarettes from 180 € to 203 € per 1000 units.**

The reforms in the Commission’s Draft are expected to have a limited impact on cigarette affordability, which has been on the rise since 2015. This trend is largely attributed to recent inflation increases across Europe. The Commission’s proposal of a fixed minimum tax of 180 € per 1000 cigarettes should be updated to account for the surge in consumer prices experienced in the bloc since 2022. Thus, the fixed minimum on cigarettes should be set at 203 € per 1000 units. The Enhanced Directive would render cigarettes less affordable than in 2023 throughout the remainder of the decade (Figure 1). The Enhanced Directive would apply a similar inflation update to the Commission’s proposed fixed minimum rates of all products.

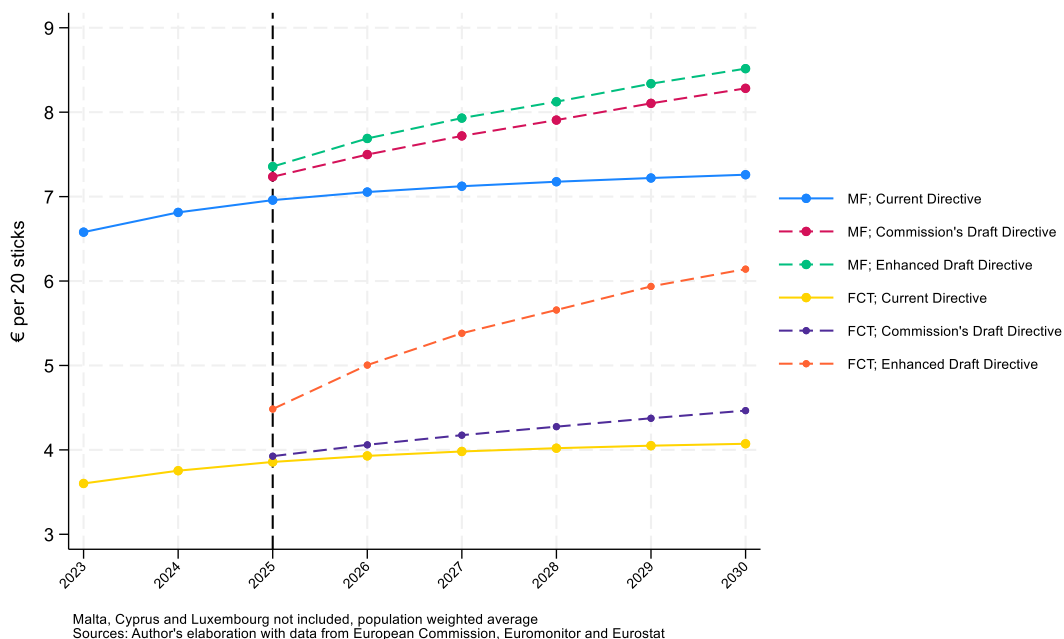


**Figure 1. Affordability of cigarettes in the European Union.**

**PRICE GAP BETWEEN CIGARETTES AND FINE CUT TOBACCO**

**Enhancement 2: Raise the fixed minimum tax from 180 € per kilogram to 290 € per kilogram and remove the relative minimum clause applicable to fine-cut tobacco**

Although the price gap between cigarettes and fine-cut tobacco has long been recognized as a major public health concern, the reforms in the Commission’s Draft would not contribute to its correction, as it preserves the existing tax advantages in favor of the latter. Considering that a rolled cigarette typically uses 0.7 grams of fine cut tobacco, and that the fixed minimum rate of cigarettes should be 203 € per 1000 units as discussed above, a fully equivalized fiscal treatments of the two products should apply a fixed minimum rate of 290 € per kilogram of fine-cut tobacco. Also, to make sure that this fixed minimum is binding regardless of the industry’s pricing strategies, the relative minimum clause applicable to fine cut tobacco, whereby the minimum tax is tied to the product’s average retail price, should be removed. Thus, the Enhanced Directive would contribute to bridging the price gap (Figure 2).



**Figure 2. Average retail prices of cigarettes and fine cut tobacco (FCT) in the European Union.**



## EFFECTIVENESS OF MINIMUM TAXES

### Enhancement 3: Remove the relative minimum clause for all products

Except for the cases of cigarettes and fine-cut tobacco, the fiscal rules applicable to all the products covered by the current Directive contain a relative minimum clause that ties their minimum tax to their retail price, thereby rendering the fixed minimum rate ineffective. This permits the industry to use undervaluation strategies, such as marketing cheap brands to minimize the tax burden. This loophole is behind phenomena such as the proliferation of 'borderline cigarillos' which are essentially cigarettes except for their much lower tax burden. Unfortunately, the Commission's Draft preserves this loophole and extends it to all the new products it would cover, including heated tobacco products and liquid for electronic cigarettes. In conjunction with the inflation update recommended for the fixed minimum rates, removing this loophole would raise the minimum tax floor applicable to all such products, as illustrated in Figure 3 for the case of heated tobacco products

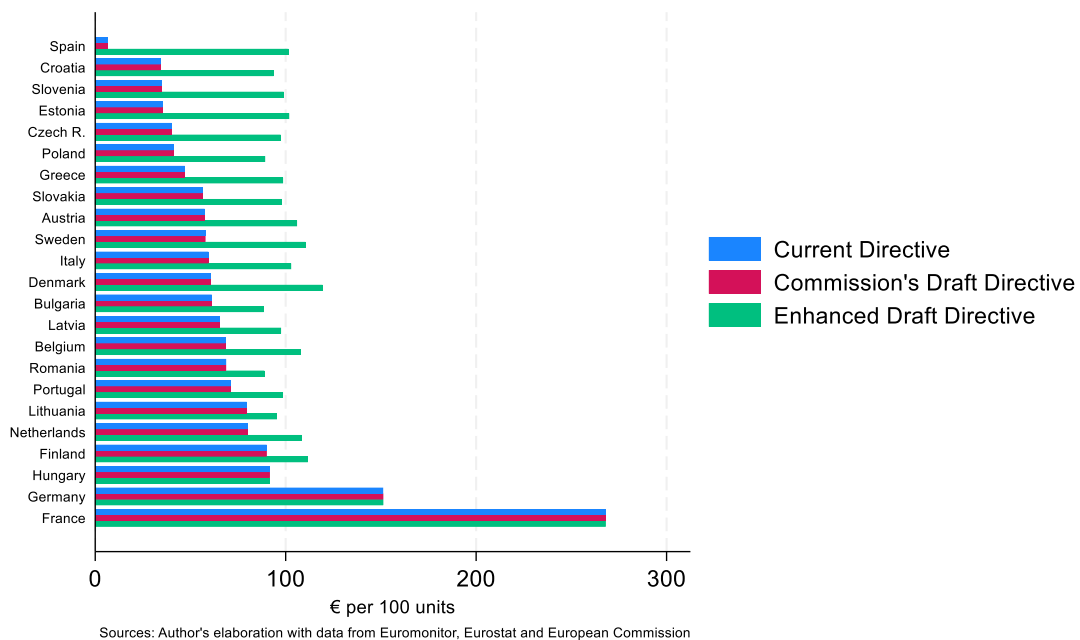


Figure 3. Minimum tax floor applicable to heated tobacco products.



### KEY POINTS

- The revision of the European Union's Tobacco Tax Directive provides an opportunity to reinforce its role in inducing high prices for tobacco products in its member countries, as well as in countries that opt for accession and are in the process of harmonizing their fiscal systems with those of the bloc.
- However, to achieve these objectives, it is necessary to base the architecture of the tax rules on guidelines well known among the tobacco-control community: that the real value of taxes should not be eroded by inflation, that differential treatments for substitutive products should be eliminated, and that industry tax-minimization strategies should be discouraged.
- The measures presented herein, based on such guidelines, would enhance the Commission's likely revision proposals by compensating for the loss of the real value of tax rates due to inflation, harmonizing the treatment of cigarettes and fine-cut tobacco, and eliminating what is effectively a price-tiered system for the minimum taxes currently applied to all tobacco products except cigarettes.



This Policy Brief is based on the Working Paper “Enhancing Europe’s Tax Directive for a Healthier Future,” available in the Economics for Health (formerly Tobacconomics) Series.

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