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COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the structure and rates of excise' duty applied on cigarettes and other manufactured tobacco products

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1. INTRODUCTION

Under Article 4 of Council Directive 92/79/EEC of 19 October 1992 on the approximation of taxes on cigarettes[1] and Article 4 of Council Directive 92/80/EEC of 19 October 1992 on the approximation of taxes on manufactured tobacco other than cigarettes[2]the European Commission is required to examine every four years the smooth operation of the single market, the real value of excise-duty rates and the wider objectives of the Treaty. This examination is supposed to extend to relevant provisions of Directive 95/59/EC of 27 November 1995 on taxes other than turnover taxes which affect the consumption of manufactured tobacco[3].

Given the nature of manufactured tobacco products, particular attention has to be paid to health aspects. Article 152 of the Treaty provides that a high level of human health protection shall be ensured in the definition and implementation of all Community policies and activities. In 2005, the European Community became party to the World Health Organization's Framework Convention on Tobacco Control (FCTC). Article 6 of the FCTC recommends tax policies so as to contribute to health objectives aimed at reducing tobacco consumption.

A broad consultation process preceded this report. Taking into account the outcome of this consultation process, the Commission services have carried out an impact assessment.

2. THE STRUCTURE OF EXCISE DUTIES ON CIGARETTES

This report examines a number of possible changes to the current structure of excise duties on cigarettes. More in particular it examines whether the concept of the most popular price category (MPPC) could be abolished as a benchmark for minimum requirements. In addition, it scrutinises whether more flexibility could be provided to Member States to determine the relation between ad valorem and specific duties, as well as to set the level of minimum excise duties on cigarettes.

2.1. The MPPC as a benchmark for the minimum requirements

Under the current arrangements, the MPPC is the benchmark for minimum requirements on cigarettes. Currently, excise duties levied on cigarettes must account for at least 57% of the retail selling price, inclusive of all taxes, and be at least €64 per 1000 cigarettes for the cigarettes belonging to the MPPC. If, at 1st January of any year, the category changes, Member States must check continuing compliance with the minimum requirements.

During the consultation process, the MPPC received a certain amount of criticism:

- The MPPC is a concept that was introduced 30 years ago. At that time, the national cigarette markets were typically dominated by one brand. However, currently the average market share of the MPPC is approximately 35%.

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1 OJ L316, 31.10.1992, p.8 last amended by Directive 200/10/EC (OJ L 046, 16.02.2002, p.26)
2 OJ L316, 31.10.1992, p10 last amended by Directive 200/10/EC (OJ L 046, 16.02.2002, p.26)
3 OJ L 291, 06.12.1995, p.40, last amended by Directive 2000/10/EC (OJ L 046, 16.02.2002, p.26)

- The MPPC tends to fluctuate due to changes in consumption patterns, which makes. government tax revenues volatile.

- It also distorts price competition between tobacco manufacturers. Dominant tobacco manufacturers can increase the tax burden of their competitors.

- In certain Member States the MPPC falls within a low price category while in other Member States it falls within a high price category. Consequently, the MPPC cannot ensure a uniform minimum level in all Member States.

- Finally, from a health perspective it is not justifiable to use the MPPC as the reference point for setting minimum tax requirements. All cigarettes without exception are harmful to health, not just those in the MPPC.

Consequently, the Commission takes the view that using the MPPC as a benchmark for minimum rates is not in line with Internal Market objectives. Moreover, abolishing the MPPC would significantly simplify the arrangements, improve transparency and underscore health objectives.

If the MPPC were abolished, two alternative approaches can be considered:

- The monetary minimum requirement could be applied to all cigarettes on the market.

- Taking account of the taxation principles regarding cigarettes for the last 35 years, the MPPC could also be replaced by a weighted average price (WAP).

2.2. An EU monetary minimum requirement for all cigarettes

Apart from resolving fiscal instability that is created by the MPPC concept, the monetary minimum requirement on all cigarettes would create a "tax floor" and it is the best means to approximate prices and taxes of cigarettes in the Internal Market. In addition, it is the only option that would ensure a minimum price and tax level for tobacco control and address health concerns for all categories of cigarettes.

2.3. An additional EU minimum requirement on weighted average prices

The Commission has also considered the consequences of applying the 57 % rule to all cigarettes. The impact assessment makes it clear that it would increase the excise duties on value-for-money and/or premium cigarettes. In case of rises of the 57%, it would stepwise transform into a pure ad-valorem duty. Consequently it would not be in line with the objective to provide flexibility to Member States as concerns the excise duty structure. In addition, applying the 57 % rule to all cigarettes would not contribute to narrowing the gap between prices and taxes of cigarettes in the Internal Market and therefore cannot be justified neither from an internal market nor from a health perspective.

An alternative would be to apply the 57% rule on the basis of weighted average prices. This has a number of advantages from an Internal Market and health perspective:

- It would be neutral towards the price categories and provides a level playing field for manufacturers.

- It would leave flexibility to Member States to determine the taxation structure (in particular the relation between ad valorem and specific duties) that best suits the requirements of their national market.

- It would provide a comparable benchmark for minimum requirements for excise duties on cigarettes between Member States in the EU.

- It would be easier to administer than a system on the basis of a MPPC.

Some cigarette manufacturers have advocated abolishing the 57% rule altogether. However the Commission takes the view that the 57% rule remains an essential part of the acquis in the field of tobacco taxation, since currently for a number of Member States only the proportional requirement prohibits a decrease of the taxation level.

In conclusion, in order to simplify the arrangements, create a level playing field for manufactures, to reduce the partitioning of the tobacco markets and underscore health objectives, the concept of the most popular price category should be replaced as a reference for minimum requirements by weighted average prices combined with a monetary minimum applicable to all cigarettes.

The reasons for which the MPPC should no longer be a benchmark for the Community minima also apply to the provisions concerning the importance of specific excise duty within the total tax burden (Article 16(2) of Directive 95/59/EC). Here again, the reference should be the WAP.

2.4. More flexibility in the structures of the excise duties on cigarettes

Under current Community rules, excise duties levied on cigarettes must include an ad valorem and a specific component. The emphasis Member States put either on the ad valorem or on the specific element, depends on the policy objective pursued. (see annex 1, graph 2). Currently, the specific component of excise duty must not represent less than 5% or more than 55% of the amount of the total tax burden on cigarettes falling in the MPPC (the proportional excise duty plus the specific excise duty and the VAT).

Ad valorem duties increase absolute price differences and consequently promote cheaper brands of cigarettes. In the past ad valorem duties were applied to favour cheaper local cigarettes above more expensive international brands. However, nowadays ad valorem duties are mainly attractive to those Member States where there is a greater risk of a monopolistic situation developing in the market.

Specific duties reduce relative price differences and minimise the variability of prices. Consequently specific duties have an advantage from a health point of view. Specific duties also have a number of other benefits. A scenario that sets all duties to specific duties would entail a narrowing of price differences at EU level by 50%. Therefore, greater reliance on specific duties can lead to further approximation of retail selling prices within the EU. Furthermore, as they are based on consumption volumes rather than on prices, specific duties are more stable, easier to forecast and to administer and increase the stability of tax revenues.

In conclusion from an internal market, budgetary as well as a health point of view, specific duties have clear advantages and more flexibility should therefore be provided to those Member States that place greater reliance on specific excise duties.

However, in order to avoid a situation of purely specific taxation in one Member State and purely ad valorem taxation in a neighbouring Member State, which would result in cross border flow for premium brands from the first to the second Member State with cheap brands flowing in the opposite direction, some consistency in excise tax structures remains desirable.

2.5. Flexibility to apply minimum excise duties on cigarettes

Most Member States also use a minimum excise tax, in addition to the ad valorem and specific excise duties. This means that each pack of cigarettes must bear a minimum amount of excise duty. Minimum taxes are intended to provide Member States with a certain level of revenue and ensure that cigarettes are not sold at prices far below normal market levels.

Member States may levy a minimum excise tax but this may not be more than 100% of the total excise on the MPPC. This means that in certain countries where the MPPC is a low priced cigarette, the tool of minimum excise duty has limitations. In recent years the market share of cheaper brands of cigarettes has soared in a majority of Member States resulting in either reduced revenue receipts or the impact of tax increases on the consumption of cigarettes being lessened. Consequently some Member States reported that they would welcome greater flexibility in tackling cheaper brands of cigarettes.

Therefore, greater flexibility could be provided in the current EU requirements by no longer restricting the level of the minimum tax to the excise due on the MPPC, as is currently the case for other manufactured tobacco.

3. MINIMUM RATES OF EXCISE DUTIES ON CIGARETTES

This report also examines whether changes to the current structure of excise duties on cigarettes could be combined with an increase in the minimum rates. Currently, excise duties levied on cigarettes must account for at least 57% of the retail selling price, inclusive of all taxes, and, since July 2006, be at least €64 per 1000 cigarettes for the cigarettes belonging to the MPPC. Under their Acts of Accession, the new Member States, except Malta and Cyprus, were granted derogations to postpone the application of the minimum excise duties for periods ranging from 31 December 2006 to 31 December 2009.

3.1. General remarks

An analysis of the prices and excise rates for cigarettes in the EU shows that there are still considerable differences between Member States. Indeed, with the recent enlargements of the EU, the tax and retail selling price differentials between Member States have actually widened. However, this is, to a certain extent, due to the existence of transitional periods provided under the Acts of Accession. When all new Member States comply with the minimum requirement of €64 per 1000 cigarettes, the price differentials will be reduced, but cigarettes will still be more than 4 times more expensive in certain Member States as compare to others.(see annex 1, graphs 1 and 3).

3.2. Impact of differences in TIRSP for Member States and the Internal Market

The significant differences in TIRSP (tax inclusive retail selling price) between Member States has created an environment for purely tax induced cross-border shopping and for smuggling and fraud. Indeed, the tobacco sector is particularly susceptible to these activities. Based on an in-depth analysis of the data collected, a study[4] prepared for the Commission estimated that the total market penetration of the non-domestically taxed consumption represented in 2004 approximately 13% of the EU-25 tobacco market whereby 4% to 5% consists of legitimate cross-border shopping and 8% to 9% of illicit trade. However some main markets, with relatively high excise duties often implemented in pursuit of health objectives, face an inflow of more than 20%. Conversely, a number of Member States maintain lower tax rates, thus imposing external costs on other Member States.

3.2.1. Cross border shopping

Cross-border shopping is entirely legitimate and, indeed, constitutes one of the benefits of the internal market provided the products are purchased by individuals for their own personal use. However, this can cause a problem for higher taxing Member States.

Cross-border shopping for cigarettes increased sharply in certain Member States once they had introduced large increases in their excise duty rates, which they had often implemented in pursuit of health objectives.

Moreover, there is a clear in-flow of cheap cigarettes from certain new Member States into, particularly, neighbouring EU-15 Member States.

3.2.2. Illicit trade

Illicit trade covers goods smuggled from third countries (often involving counterfeit cigarettes) as well as Intra-EU "*smuggling"* where individuals purchase tobacco in other Member States ostensibly for their use but instead sell it without paying excise duty in the Member State of consumption. Third country smuggling is circumvention of customs controls by fraudsters who smuggle products by various methods (concealment, false description and false declaration etc) from neighbouring third countries such as Belarus, Russia, and Ukraine where prices and taxes are low. Another upward trend concerns smuggled *counterfeit* cigarettes coming from overseas territories (e.g. China). An estimate of counterfeit is difficult to make but it is certain that the market share of counterfeit cigarettes is rising in some countries.

In order to restrict these negative effects there should be an EU-wide minimum floor for excise duty at an effective level to address Internal Market objectives. On the other hand third country smuggling and counterfeit requires reinforcing of external border controls.

3.3. Health objectives

Smoking is still the biggest single form of avoidable death in the Community and one of the leading causes of illness and mortality in the EU. Taxation forms part of an overall strategy of prevention and dissuasion which also includes other measures intended to reduce demand such as protection from exposure to tobacco smoke, regulation of the contents, etc. According to the World Bank, price increases of tobacco products are the most effective single measure to prevent smoking. A price increase of 10% will decrease consumption on average by about 4% in high-income Member States among adults. More importantly, the impact of higher

[4] Study on the collection and interpretation of data concerning the release for consumption of cigarettes and fine-cut tobacco for the rolling of cigarettes; KPMG December 2005.

prices is likely to be greatest on young people, who are more responsive to price rises than older people.

In 2005, the European Community became Party to the World Health Organization's Framework Convention on Tobacco Control (FCTC). Article 6 of the FCTC recommends tax policies so as to contribute to health objectives aimed at reducing tobacco consumption. Official releases for consumption of cigarettes in the EU decreased during the period 2002-2006 by ca. 13%. (See annex 3) This percentage takes into account intra EU cross-border flows, but needs to be adjusted for the illicit trade from third countries towards the EU. Consequently the real decline of cigarette consumption in the EU can be estimated at slightly more than 10%.[5]

This trend is mainly due to the **EU-15** where releases for consumption of cigarettes went down by 16%. Over the same period the excise duties on cigarettes increased on average by 33%.

On the other hand, in the **EU-12** (Excl. RO) releases for consumption decreased on average by only 1%. From the accession until the end of 2006, there has been on average an increase of 34% in the excise duties. The fact that, in spite of a significant increase in excise duties, the decrease in consumption has been small can probably be explained by the low level of taxation before accession.

In order to trigger a similar decline in consumption over the coming 5 years further increases in excise duties would be desirable. Taking into account a price elasticity of -0.43 as suggested by the World Bank, a 25% price increase is needed to achieve a 10% reduction in demand.

Minimum rates provide a "safety net" for Member States by ensuring that other Member States do actually apply excise duty and that the levels are meaningful. Thereby, they make it easier for other Member States to pursue their fiscal policies in the interest of health protection, without the threat of those policies being undermined by other Member States and, in particular, by cross-border shopping and smuggling. Indeed, in the field of tobacco taxation these minimum rates should be at a level to allow Member States to pursue tobacco control objectives. With a view to attaining this objective, the EU minimum requirements (which were agreed upon in 2002) should not only consolidate the current situation, but should be further increased over the following 5 years.

3.4. Closer approximation of rates – increasing the minimum rates

For these reasons, greater convergence between the taxation levels of the different Member States, would contribute to restricting distortions of the Internal Market and safeguarding health protection objectives.

3.4.1. The minimum duty of €64 per 1000 cigarettes

The current EU minimum duty of €64 per 1000 cigarettes is insufficient to achieve approximation of retail selling prices between high and low taxing Member States. The

[5] Industry sources estimate the total inflow from third countries around 3%. However only the increase of this kind of inflow between 2002 and 2006 should be taken into account, which is most probably less than 3%.

attraction for individuals in high taxing Member States to make their purchases in lower taxing Member States undermines the Internal Market as well as tobacco control objectives. Therefore, to counter this threat, the EU minimum monetary requirement would need to be increased substantially. However, any proposal for increases must take into account that a number of Member States still have transitional periods for the current minimum rates.

3.4.2. The 57% minimum requirement

The 57% minimum requirement has not been modified since it was introduced in 1992. However, to date, in countries with a health driven taxation policy excise duties account for more than 60% of the TIRSP. When all new Member States eventually comply with the minimum of €64, the excise yield will also be more than 60% in most of those Member States. Since the pre-tax price of cigarettes is, to a large extent, related to purchasing power, an increase in the minimum requirement would align the level of taxation in this respect. In other words, this would entail an increase in the excise duties in Member States where excise duties on cigarettes are relatively low as compared to purchasing power.

As aforementioned, the 57% rule is combined with an "escape clause" for high-taxing Member States[6]. The aim is to avoid an increase in the excise duties in those Member States where they are already high and consequently to avoid an increase in the gap between the highest and lowest taxing Member States. In order to keep the 57% rule meaningful, its level needs to be updated. In 2001 the "escape clause" was set at €101. Currently an increase to €122 would keep pace with the recent evolution of excise duties on cigarettes in the Internal Market and would have the same effect as in 2001, namely cover the five[7]highest taxing Member States.

In order to achieve Internal Market and health objectives both minimum rates could be increased over the following 5 years.

The average excise yield in the EU-27 will be slightly over €90 when all new member States have reached the current minima and the average excise burden around 63%.

The impact assessment concludes that, from a health perspective, an increase to €90 on all and 63% on WAP would trigger a probable decrease of demand of on average 10% in 22 Member States[8]. In addition it would pave the way for further increases of excise duties on cigarettes, also by those Member States which already have a high level of taxation.

In terms of local purchasing power, only in BG and RO, would an immediate increase render prices over-expensive as compared to the prices in the main markets of the EU. However it must also be taken into account that a number of Member States currently still have transitional periods until 2009 or 2010.

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6 Member States which levy an excise duty of at least € 101 per 1000 cigarettes for cigarettes of the MPPC need not comply with the 57 % rule.

7 UK, IE, FR, DE and SE.

8 Except in the high taxing Member States UK, IE, FR and DE. (and RO was not included in the simulation)

3.5. Compliance costs

There are two main causes that fuel non-domestic taxed consumption: the fact that cigarettes are less affordable due to sharp tax increases and the fact that certain Member States share porous land borders with low-tax third countries.

Further approximation of excise duties within the EU and better coordination of price increases on cigarettes for tobacco control will certainly contribute to tackling the problem of illegal trade within the EU. It will reduce compliance costs within the Internal Market, where there are no border controls anymore.

However a number of new Member States have land borders with neighbouring third countries were the level of taxation and the retail selling prices of tobacco products are low as compared to the EU level. This encourages a high level of third country smuggling which undermines the functioning of the internal market as well as the EU and its Member States' health policy.

Third country smuggling is in particular high in a number of the Member States having land borders with third countries. In order to reduce the third country smuggling the excise duties are often kept low. As a result these Member States attract cross-border shopping and illicit trade towards other Member States, thus imposing external costs on the Internal Market.

Therefore increases of excise duties on cigarettes should be combined with a reinforcement of the fight against illicit trade from third countries.

The fight against illicit trade is mainly a responsibility for Member States. However, the Commission, a signatory to the World Health Organization’s Framework Convention on Tobacco Control (FCTC), is playing an active role in the on-going negotiations to elaborate a Protocol on the Illicit Trade in Tobacco Products in accordance with Article 15 of the FCTC. The aim of the Protocol is to develop an internationally binding legal instrument to curb the illicit trade in tobacco products which all of the 152 countries which have ratified the FCTC will be invited to join.

4. THE STRUCTURE AND MINIMUM RATES OF EXCISE DUTIES ON FINE-CUT TOBACCO

4.1. General remarks

The market for fine-cut tobacco accounts for around 8% of the total EU market for tobacco products. Fine-cut tobacco and cigarettes have different characteristics. but remain ultimately in competition with each other as smoking products.

The substantial differences in tax levels among Member States on fine-cut tobacco encourage smuggling and cross border shopping between a number of neighbouring countries. In addition, the gap between the level of taxation of cigarettes and fine-cut tobacco gives rise to product substitution. In the period 2002 to 2006 the weighted average of quantities of cigarettes released in the EU-25[9] decreased by around 13%. However, the quantities of fine-cut tobacco increased in the same period by around 10%. (See annex 4)

[9] No data are available for RO and BU.

Also from a health point of view, there is little justification for significant differences in the taxation level for these products at Community level because both are equally harmful.

4.2. The structure of excise duties on fine-cut tobacco

Currently Member States are free to determine the excise structure for fine-cut smoking tobacco intended for the rolling of cigarettes (specific or ad valorem or mixed).

The public consultation made clear that the vast majority of stakeholders are opposed to any restriction of the current flexibility in the field of fine-cut tobacco. In addition, since the objective is to provide more flexibility to Member States for cigarette taxation, it would not be desirable to restrict simultaneously flexibility for fine-cut.

Given that EU minima for cigarettes are set by way of overall minimum requirements, the alignment of taxation on cigarettes and fine-cut tobacco should proceed on the basis of minimum rates, leaving Member States with the flexibility to determine the relationship between ad-valorem and specific taxes.

The minimum requirements for cigarettes consist of a compulsory ad-valorem minimum and a monetary minimum. Conversely, for fine-cut tobacco Member States have to comply with either the one or the other. Consequently, in those Member States that apply an ad-valorem taxation on fine cut, there is no monetary minimum requirement such as there is for cigarettes. As a result, there are wide gaps between taxes and prices of fine-cut in the EU. In addition, there are situations today where the tax level on hand-rolled cigarettes is less than 30% of the tax level on cigarettes. (see annex 2)

Therefore, the introduction of a combination of a proportional minimum and a monetary minimum for fine-cut would be an appropriate way to align taxation on cigarettes and fine-cut tobacco.

4.3. The minimum rates on fine-cut tobacco

Currently the minimum rates for fine-cut are set at 36% of the retail selling price inclusive of all taxes, or €32 per kilogram.

In order to maintain the ratio established when the rates were first set in 1992, the minimum specific amounts were adjusted in line with inflation following the 1998 and 2001 reviews. An adjustment for inflation for the period 2004 - 2007 would give €34. However, as stated in the previous report, the minimum rates for fine-cut tobacco should be fixed at about two thirds of the minimum rates for cigarettes. Such a ratio would allow Member States to take into account the difference between a semi-finished and a finished product, differences in cost price between the two products and the relatively labour-intensive process of manufacturing fine-cut tobacco.

In order to obtain at least two thirds of the minimum on cigarettes, the minimum on fine-cut tobacco would have to be increased above inflation. The specific amount should be fixed at €43 per kilogram as compared to €64 per 1000 cigarettes. A two thirds minimum proportional requirement would result in a minimum incidence for fine-cut tobacco of 38% as compared to 57% for cigarettes. Such an increase would most of all affect the new Member States which still have derogations to the current minimum rates for cigarettes. However as these Member States will have to increase the excise duties on cigarettes by the end of the transitional periods, it is likely that they will in any case increase in parallel the excise duties on fine-cut tobacco. Consequently a coordinated approach would avoid further distortions of the Internal market.

The impact assessment concludes that from a health perspective an increase in the minimum rates for cigarettes to €90 would be necessary over the coming years in order to trigger a probable decrease of demand of on average 10%. Consequently, applying the aforementioned 2/3 relationship, the minimum rates for fine cut would increase to €60 over the coming years.

This could trigger a reduction in demand of around 20%, taking into account the same price elasticity as for cigarettes. Taken into account that in the period 2002 to 2006 the quantities of cigarettes released in the EU decreased by approximately 13% as opposed to the quantities of fine-cut tobacco which increased by around 10% in the same period. Such a reduction would bring fine-cut into line with cigarettes.

5. THE STRUCTURE AND MINIMUM RATES OF EXCISE DUTIES ON OTHER MANUFACTURED TOBACCO THAN CIGARETTES AND FINE-CUT TOBACCO

Other manufactured tobacco under this heading covers cigars, cigarillos and other smoking tobacco (mainly pipe-tobacco). This market is less than 1% of the total market for manufactured tobacco and is declining. The internal market for other smoking tobacco is working relatively well and no considerable fraud or smuggling has been reported.

However, in a number of Member States, new products have appeared which are taxed as cigars or pipe tobacco, but are marketed as and in direct competition to cigarettes or fine-cut tobacco. In order to avoid tax induced distortions of competition, the definitions of the different categories of other manufactured tobacco products should be made more accurate.

In addition, an adjustment of the specific excise duty for cigars and cigarillos and for other smoking tobacco is needed to take account of inflation for the period 2003 to 2007. On the basis of Eurostat data on the annual rate of change of the HICP (Harmonised Index of Consumer Prices) between 2003 and 2007, the rate of inflation can be estimated at around 2% a year or at 8% over the period as a whole.

7. CONCLUSIONS

The review of the structure and rates of excise duty on manufactured tobacco products leads us to conclude that a number of important amendments to the existing legislation are necessary:

- With a view to more transparency of the arrangements and in order to create a level playing field across the tobacco sector, the MPPC (the most popular price category) should be replaced as a reference point for EU minimum requirements by weighted average prices (WAP). In order to underscore health objectives it should be combined with a monetary minimum applicable to all cigarettes. WAP should also be the reference for measuring the importance of specific excise duty within the total tax burden(Article 16(2) of Directive 95/59/EC).

- Member States should be allowed greater flexibility as concerns the structure of excise duties on cigarettes.

- The introduction of a combination of a proportional minimum and a monetary minimum for fine-cut would be an appropriate way to align taxation on cigarettes and fine-cut tobacco.

- As far as cigarettes are concerned, from a health perspective an increase in the minimum duties over the next five years to €90 on all and 63% on WAP would trigger a probable decrease of demand of 10%. Furthermore, it would reduce the gap in taxes and prices within the Internal market.

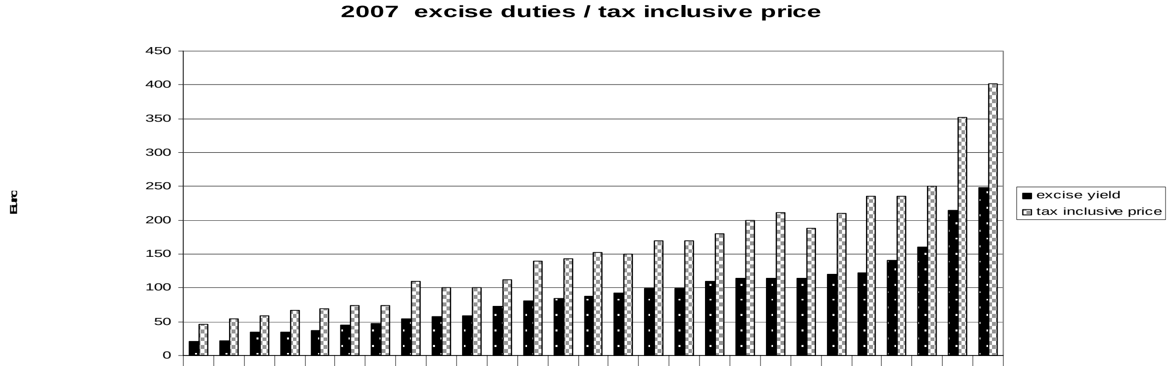
- The minimum rates on fine-cut tobacco should be adjusted to two thirds of the rate for cigarettes and should be increased in parallel with the excise duties on cigarettes.

- Measures to approximate the excise duties on cigarettes in the Internal Market should be combined with a reinforcement of the fight against illicit trade, in particular from thirds countries.

- Finally, the existing definitions of cigars and pipe tobacco should be amended in order to eliminate tax distortions and the minimum rates adjusted for inflation.

ANNEX 1: 2007 data on cigarettes (MPPC)

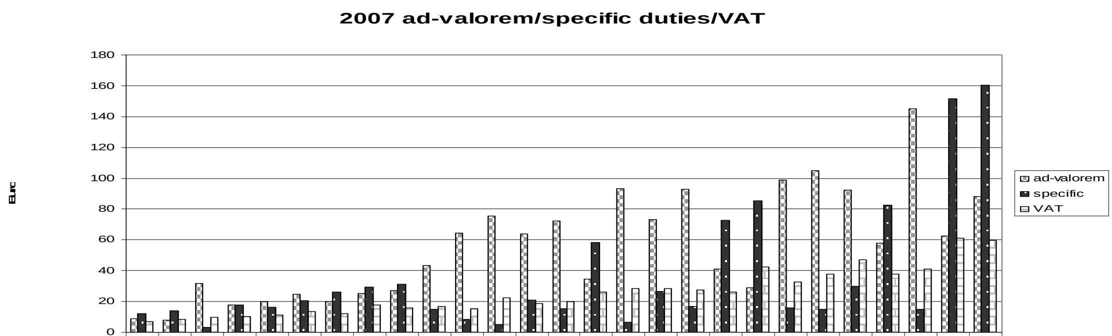
Graph 1



	LV	LT	BG	EE	RO	PL	HU	SK	CZ	SI	ES	EL	CY	LU	PT	IT	AT	MT	NL	DK	BE	FI	SE	DE	FR	IE	UK
excise yield	21	22	35	35	36	45	48	55	58	59	72	81	84	88	93	99	100	110	114	114	115	120	122	141	160	214	249
tax inclusive price	47	54	59	67	69	74	74	110	100	100	113	140	143	152	150	170	170	181	200	211	188	210	236	235	250	353	401

Member State

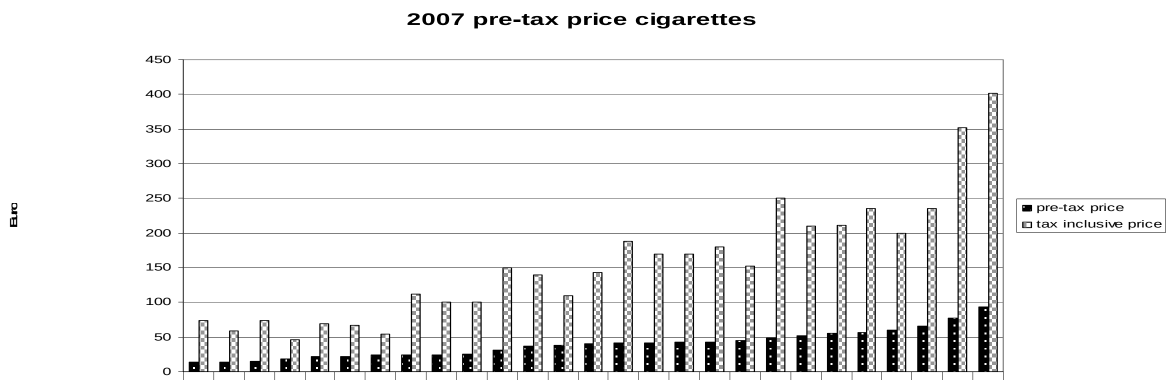
Graph 2



	LV	LT	BG	EE	RO	PL	HU	SK	CZ	SI	ES	EL	CY	LU	PT	IT	AT	MT	NL	DK	BE	FI	SE	DE	FR	IE	UK
ad-valorem	9	8	32	18	20	25	20	25	27	43	64	75	64	72	35	93	73	93	41	29	99	105	92	58	145	63	88
specific	12	14	3,3	18	16	20	26	29	31	15	8,2	5,1	21	15	58	6,4	27	17	73	85	16	15	30	83	15	151	160
VAT	7	8	10	10	11	13	12	18	16	17	16	22	19	20	26	28	28	28	26	42	33	38	47	38	41	61	60

Member State

Graph 3

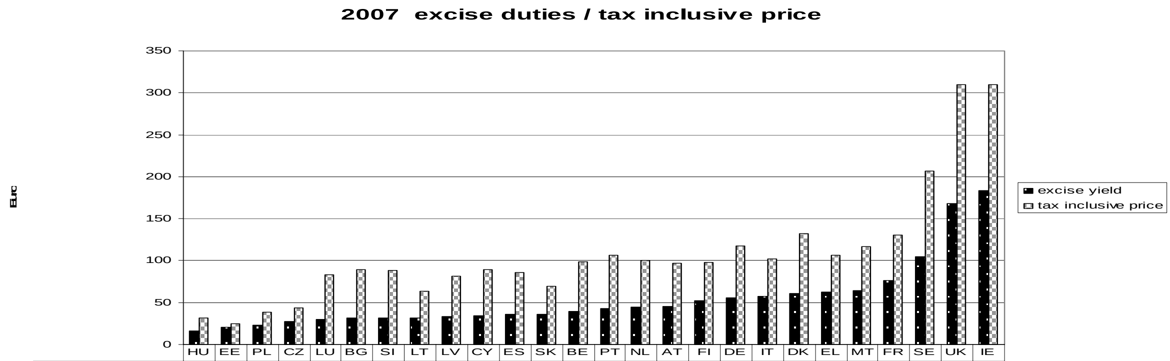


	HU	BG	PL	LV	RO	EE	LT	ES	SI	CZ	PT	EL	SK	CY	BE	AT	IT	MT	LU	FR	FI	DK	DE	NL	SE	IE	UK
pre-tax price	14	14	15	19	22	22	24	25	25	26	31	37	38	40	41	42	42	43	45	49	52	55	57	60	66	77	93
tax inclusive price	74	59	74	47	69	67	54	113	100	100	150	140	110	143	188	170	170	181	152	250	210	211	235	200	236	353	401

Member State

ANNEX 2: 2007 data on fine-cut tobacco (MPPC)

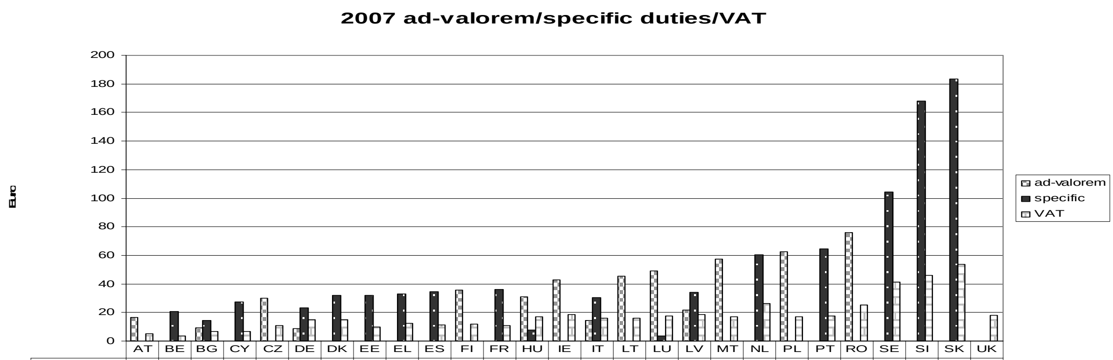
Graph 1



	HU	EE	PL	CZ	LU	BG	SI	LT	LV	CY	ES	SK	BE	PT	NL	AT	FI	DE	IT	DK	EL	MT	FR	SE	UK	IE
excise yield	17	20	23	27	30	32	32	32	33	35	36	36	39	43	45	46	53	56	57	61	63	65	76	104	168	183
tax inclusive price	32	25	38	44	83	89	89	64	81	89	86	70	99	106	100	97	98	118	103	132	106	116	130	207	310	310

Member State

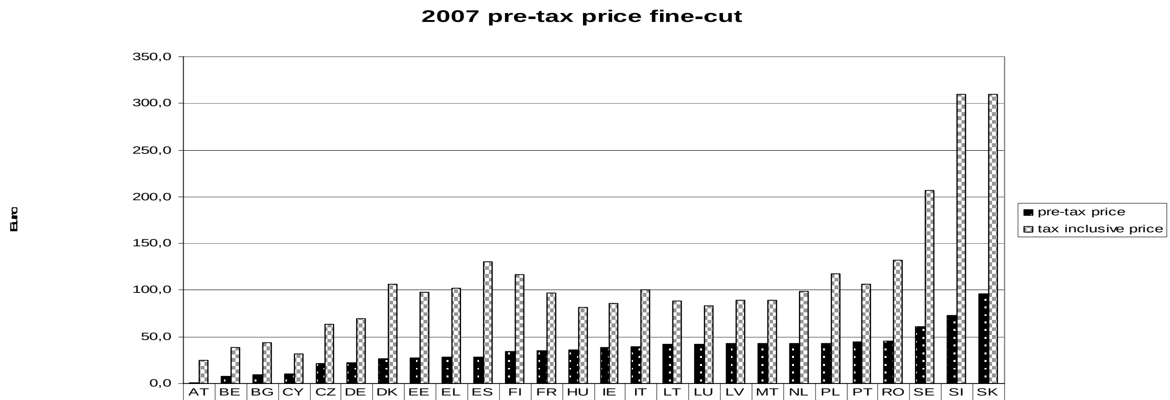
Graph 2



	AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES	FI	FR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK	UK
ad-valorem	17	0	9	0	30	9	0	0	0	0	36	0	31	43	15	46	49	22	57	0	63	0	76	0	0	0	
specific	0	20	14	27	0	23	32	32	33	35	0	36	8	0	30	0	4	34	0	61	0	65	0	104	168	183	
VAT	5	4	7	7	11	15	15	10	12	12	12	11	17	18	16	16	18	19	17	26	17	18	25	41	46	54	18,0

Member State

Graph 3



	AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES	FI	FR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK
pre-tax price	0,7	8,1	9,3	10,0	21,9	22,3	26,5	27,7	28,0	28,7	34,2	35,2	35,8	38,5	39,0	42,0	42,3	42,6	42,6	42,7	42,9	44,7	45,1	61,0	72,7	95,8
tax inclusive price	25	38	44	32	64	70	106	98	103	130	116	97	81	86	100	89	83	89	89	99	118	106	132	207	310	310

Member State

ANNEX 3: 2002-2006 releases for consumption of cigarettes

Releases for consumption of cigarettes - 2002-2006 (1000 pieces)

EU-27	2002	2003	2004	2005	2006	2002-06
AU	15.358.733	15.062.233	14.463.704	13.280.238	13.883.290	-10%
BE	14.314.440	14.286.561	13.634.112	13.384.484	13.705.663	-4%
CY	2.017.325	1.985.432	1.655.603	1.921.873	1.888.343	-6%
CZ	19.096.775	25.613.577	22.459.838	26.231.340	28.262.528	48%
DK	7.156.722	7.872.682	8.177.705	7.762.472	8.215.985	15%
EE	2.294.900	2.239.173	2.189.850	2.421.679	2.277.728	-1%
FI	4.923.954	4.798.725	4.929.521	5.078.000	4.986.000	1%
FR	80.529.400	69.647.800	54.924.400	54.810.412	55.772.177	-31%
DE	145.152.720	132.603.170	111.716.210	95.826.690	93.465.500	-36%
EL	31.987.518	32.369.492	35.185.190	34.408.444	33.383.128	4%
HU	18.319.609	19.435.456	13.853.849	14.184.287	15.810.596	-14%
IE	7.015.555	6.294.855	5.330.593	5.419.638	5.857.276	-17%
IT	105.215.836	101.581.626	98.846.737	92.822.302	93.807.356	-11%
LV	3.787.340	3.994.500	5.062.364	4.197.236	4.753.872	26%
LT	4.979.270	3.666.203	2.957.084	3.721.841	5.216.700	5%
LU	5.780.790	5.610.803	6.374.169	5.309.000	4.745.000	-18%
MT	596.247	576.900	565.376	589.151	578.686	-3%
NL	17.024.215	17.080.472	14.999.591	13.654.000	13.963.000	-18%
PL	82.047.368	80.244.262	75.283.084	87.553.826	79.769.525	-3%
PT	17.924.867	19.623.143	18.069.016	17.134.790	18.963.003	6%
SK	4.989.533	2.997.609	4.564.499	9.410.743	4.786.986	-4%
SI	4.794.979	4.611.836	4.487.482	4.556.764	4.947.442	3%
ES	90.615.611	92.333.287	93.261.002	92.699.536	91.834.325	1%
SE	7.656.792	7.482.187	7.281.953	6.859.511	7.674.016	0%
UK	56.088.000	53.952.287	52.620.073	50.503.000	49.011.000	-13%
BG	22.612.855	26.245.083	23.043.814	20.596.677	14.836.821	-34%
RO	na	na	na	36.490.906	32.452.729	-11%
Total EU 15	**606.745.153**	**580.599.323**	**539.813.976**	**508.952.517**	**509.266.719**	**-16%**
Total EU 12 (excl RO)	**165.536.201**	**171.610.031**	**156.122.843**	**175.385.417**	**163.129.227**	**-1%**
Total EU 27 (excl RO)	**772.281.353**	**752.209.353**	**695.936.819**	**684.337.934**	**672.395.947**	**-13%**

ANNEX 4: 2002-2006 releases for consumption of fine-cut

Releases for consumption of fine cut tobacco - 2002-2006 (kilogram)

EU-27	2002	2003	2004	2005	2006	2002-06
AU	259.000	272.000	298.000	396.000	422.900	63%
BE	8.417.000	8.327.000	8.429.000	8.180.707	9.425.583	12%
CY	62.000	97.000	152.000	170.518	192.799	211%
CZ*	629.400	650.400	190.300	423.300	481.957	-23%
DK	902.200	855.200	675.300	577.000	552.000	-39%
EE	8.000	8.000	10.000	12.680	10.680	34%
FI	949.000	931.000	880.000	883.000	796.000	-16%
FR	5.720.900	5.980.000	6.969.500	7.008.800	7.107.073	24%
DE**	14.441.300	14.834.100	15.400.000	14.700.900	18.747.400	30%
EL	800.700	819.000	964.000	1.038.884	1.247.809	56%
HU	757.701	1.159.668	1.027.501	895.180	739.374	-2%
IE	135.568	111.904	112.320	95.972	107.264	-21%
IT	285.520	324.510	463.255	593.460	677.589	137%
LV	6.700	7.500	8.200	14.000	18.500	176%
LT	na	57.151	14.306	11.500	12.718	na
LU	3.194.000	2.983.000	3.006.000	2.970.423	2.845.418	-11%
MT	19.060	19.850	27.170	30.850	27.290	43%
NL	13.130.839	12.943.061	12.087.666	10.970.000	10.811.000	-18%
PL	1.060.000	1.727.000	2.583.000	828.000	496.000	-53%
PT	302.830	287.370	326.450	391.470	358.480	18%
SK	33.527	19.837	24.000	13.000	26.000	-22%
SI	30.445	28.392	26.642	16.040	19.120	-37%
ES	1.275.416	1.785.347	2.254.601	2.684.910	2.612.660	105%
SE	886.000	825.000	909.000	966.000	800.000	-10%
UK	2.864.039	2.893.447	3.052.281	3.189.180	3.453.780	21%
BG	500	700	1.300	2.000	8.300	1560%
RO	na	na	na	na	na	na
Total EU 15	**53.564.312**	**54.171.938**	**55.827.374**	**54.646.706**	**59.964.956**	**12%**
Total EU 12 (excl LT, RO)	**2.607.333**	**3.718.347**	**4.050.113**	**2.405.568**	**2.020.020**	**-23%**
Total EU 27 (excl LT, RO)	**56.171.645**	**57.890.285**	**59.877.486**	**57.052.274**	**61.984.976**	**10%**

DE**:** excluding pre-portioned tobacco
BE, CY, FI, ET, EL, LV, LU, LT, BG, SE: including other smoking **CZ***: From July 2005 the figures indicate the total quantity of other smoking tobacco and fine-cut tobacco together.