

EN

EN

EN



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 16.7.2008
SEC(2008) 2266

COMMISSION STAFF WORKING DOCUMENT

Accompanying document to the

Proposal for a

COUNCIL DIRECTIVE

amending Council directive 95/59/EC, 92/79/EEC and 92/80/EEC on the structure and the rates of excise duty applied to manufactured tobacco

IMPACT ASSESSMENT

{ COM(2008) 459 final }
{ SEC(2008) 2267 }

THIS IMPACT ASSESSMENT WAS CONSIDERED BY THE IMPACT ASSESSMENT BOARD ON 7 MAY 2008. THE OPINION OF THE IMPACT ASSESSMENT BOARD DATES OF 8 MAY 2008. THE FOLLOWING CHANGES HAVE BEEN MADE BASED ON THIS OPINION:

- A description of the base line scenario has been added at the end of the problem definition section, describing the causal relationship between tobacco duties, public health, national budgets and the effects on the Industry
- The description of the current system of excise duties on tobacco has been clarified.
- The section on policy objectives has been made more specific as concerns the desired impact on the internal market and the reduction of tobacco consumption. In addition it has been clarified how the objectives are inter-related and what are the trade-offs.
- The available estimations on cross-border shopping and illicit trade have been added in the relevant parts on budgetary impacts. In the absence of fully reliable data a hypothetical example has been added to illustrate the possible negative effects on the budgets of some Member States. In addition a separate chapter on compliance costs (fight against illicit trade) has been added, paying particular attention to the impact of trade from third countries.
- As concerns the presentation, a non-technical summary has been added and a glossary explaining the technical terminology and the abbreviations. The table comparing the options has been simplified. Finally, a description of the data sources and data collection method has been added.

EXECUTIVE SUMMARY

The Commission services have made an impact assessment focusing on potential measures that could modernise or add more transparency to the structure of excise duties on tobacco products. In addition, particular attention has been paid to the relationship between public health and the final price of the products, taking stock of the WHO Framework Convention on Tobacco Control, as well as to the options to bring the structure and the rates of excise duties for fine-cut smoking tobacco ("roll-your-own"), into line with excise duties for cigarettes.

A broad consultation process preceded this impact assessment. Associations and other stakeholders (trade, health, etc.) were invited to submit position papers via a public web-consultation.

In order to examine how the different objectives for tobacco taxation could be addressed, the Commission assessed four basic approaches.

The first approach consists of **not intervening** further at Community level (the no policy change option). This approach will not solve the problem of distortions of cross-border shopping and smuggling currently existing on the tobacco market, which has consequences in terms of revenue and health protection.

In addition, it will not resolve the fiscal instability and distortions of competition which are currently created by the most popular price category (MPPC) concept. It will also not address the problem of substitution and tax induced distortions of competition between the different products of manufactured tobacco. It was therefore not an option that the Commission chose to pursue.

The second approach consists of **changing only the structure of excise duties on cigarettes**. In order to resolve the problems which are currently created by the MPPC concept, the Impact assessment examines abolishing the concept of the MPPC as benchmark for minimum requirements. Currently excise duties must be at least 57% of the tax inclusive retail price and at least €64 per 1000 cigarettes of the MPPC. Instead, the Impact assessment examines two alternatives: a) applying the EU minimum requirements of 57% and €64 to all cigarettes or b) applying the minimum requirements in accordance with weighted average prices (WAP). Simultaneously the impact is assessed of providing more flexibility to Member States as concerns the structure of the excise duties at national level.

Both alternatives would simplify the arrangements as compared to the current situation. Neither applying minimum requirements on all cigarettes or on WAP would entail an increase of administrative costs for any of the stakeholders. Both alternatives would also resolve the problem of the fiscal instability and distortions of competition which are currently created by the MPPC concept. However only applying the minimum of €64 on all cigarettes would create a tax floor for all cigarettes in the EU. It would also reduce the tax and price gap between Member States more than the other options and, to an appreciable extent, integrate public health concerns. Therefore this option gets priority from an internal market and a health point of view. However, applying the 57% rule on all cigarettes would for a number of Member States result in a compulsory ad valorem duty and not be in line with the objective to provide more flexibility to Member States as concerns the relation specific and ad-valorem duties. Therefore applying the 57% rule on WAP is the favoured option.

The second approach would, however, not take sufficient account of health considerations.

The third approach consists of **increasing the minimum rates of excise duties on cigarettes** (in addition to changes to the structure). The Impact assessment simulated a number of increases of the minimum rates of excise duties on cigarettes, either the 57% or the minimum of €64 per 1000 cigarettes. It concludes that an increase of the monetary minimum of €64 is the best instrument to achieve approximation of taxes and prices of cigarettes in the EU in the interest of the Internal market

and with a view to tobacco control. However an increase of the monetary minimum should be combined with an increase of the 57% minimum requirement, which would require an update of the escape clause, currently set at €101 (when the excise duty is at least €101 on the MPPC member States do not any longer have to comply with the 57% requirement). An update 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, i.e. it would have the effect of covering the five highest taxing Member States.

Over the last five years the consumption of cigarettes in the EU declined by more than 10%. In the same period the excise duties have increased by more than 30%. 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. A 10% reduction over a period of 5 years would also be inline with the European Strategy for Tobacco Control" (ECTC), adopted by the Regional Committee for WHO Europe which has as a principal target to bring smoking prevalence down by 2% per year.

In view of the above, the Commission has considered a number of possible increases.

An increase to €90 on all cigarettes and 63% on WAP would trigger a probable decrease of demand of on average 10% in 22 Member States¹. 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. Apart from BG and RO it would not render prices extremely expensive as compared to the local purchasing power in the Member States.

All in all, in the field of cigarettes, this approach appears best suited to ensure the proper functioning of the Internal Market and, at the same time, a high level of health protection.

The fourth approach consists of **changing the structures and minimum rates of excise duties on other products**, in particular fine-cut tobacco, in order to avoid substitution of cigarettes by less taxed tobacco 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 and give rise to distortions in the internal market. In addition, the gap between the level of taxation of cigarettes and fine-cut tobacco gives rise to substitution. Official releases for consumption of cigarettes in the EU 27 decreased during 2002-2006 by around 13%. Conversely, the releases for consumption of fine cut tobacco increased by around 10%. There is little justification for significant differences in the minimum rates for these products at Community level. This applies both from a perspective of fair competition and, given the harmful character of both products, from a health point of view. Therefore the minimum rates for fine-cut tobacco intended for the rolling of cigarettes should be brought into line with the rate for cigarettes.

For fine-cut Member States may choose between complying with a monetary or an ad valorem minimum rate. However since the monetary minimum requirement is the best approximating factor, there should be (in addition to the *ad valorem* minimum rate a compulsory monetary minimum rate for all Member States, as is the case for cigarettes.

Taking account of the specific characteristics of fine cut tobacco, the previous Commission report stated the minimum excise for fine-cut tobacco could be fixed at about two thirds of the minimum excise incidence for cigarettes. In order to respect a two thirds relationship between fine-cut and cigarettes, the monetary minimum requirement should be fixed at €43 per kilogram and the proportional minimum requirement at 38%.

¹ Not in DE, UK, IE, FR (and RO was not included in the simulation)

Applying the aforementioned 2:3 relationship on the suggested increases for cigarettes, would increase the minimum rates for fine cut to €60 and 42% over a period of five years. Assuming the same price-elasticity as for cigarettes, an increase of the minimum requirements to €60 and 42% would trigger a reduction in demand of around 20% in 19 Member States.

GLOSSARY

Specific excise duties: Duties which are levied on the quantity (e.g. per 1000 cigarettes).

Ad-valorem excise duties or proportional excise duties: Duties which are levied on the price.

Minimum excise tax: The minimum amount of tax which is always due per quantity, even if the sum of specific and ad-valorem duties is lower.

EU minimum requirements: The minimum level of taxation, above which Member States are free to set their national excise duties:

- **the monetary minimum requirement or the "minimum of €64":** The national excise duties should be at least €64 per 1000 cigarettes;
- **the proportional minimum requirement or the "57% rule":** The national excised duties should account for at least 57% of the retail selling price inclusive of all taxes (TIRSP);
- **"the escape clause":** Member States which levy an excise duty of at least €101 per 1000 cigarettes for cigarettes need not comply with the 57% rule;
- **the "5% to 55% rule":** The specific component of excise duty may not represent less than 5% or more than 55% of the amount of the total tax burden (proportional and specific excise duty plus VAT).

MPPC: the Most Popular Price Category: this is the current benchmark for the EU minimum requirements on cigarettes. Only this category of cigarettes has to comply with the minimum requirements.

TIRSP: the Tax Inclusive Retail Selling Price: the sum of the pre-tax price, the ad-valorem and specific excise duties and the VAT.

WAP: the Weighted Average Price: The total price of all quantities divided by the total quantity.

IMPACT ASSESSMENT

SECTION 1: PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

Lead Directorate-General: DG TAXUD

Other Involved Services: SG, LS, SANCO, COMP, ECFIN, ENTR, OLAF

Agenda Planning/Work Programme reference: 2006/TAXUD/011

- **Organisation and timing**

The impact assessment was launched in February 2007. The following services were invited to the inter-service group: the Secretariat general, the Directorates-General LS, SANCO, COMP, ECFIN, ENTR and OLAF. The group had three meetings. Its output was presented during the meeting on 31 March 2008.

- **Collection of data**

Data on the tobacco markets was collected from the Member States. 26 Member States have provided data. Only Romania had no data available on the 2005 and 2006 market. Consequently the Romanian tobacco market could not be taken into account in this impact assessment.

- **Consultation and expertise**

The assessment is based on the wide range of contributions produced by various stake holders through various means such as the Public Consultation, position papers, articles, and meetings.

Consultation methods, main sectors targeted and general profile of respondents

Written questionnaires have been sent to the ministries of finance of the Member States in order to give their views on a possible overall review of excise rates and structures for tobacco products on the basis of a questionnaire. The replies were used as a basis for subsequent bilateral discussions between the national administrations and the Commission departments concerned.

Associations and other stakeholders (trade, health, etc.) were also invited to submit preliminary position papers and were given the opportunity to discuss the issues in bilateral meetings.

In addition, a study² has been undertaken to assess the need to adapt the structure of excise duties.

On 30 March 2007, an online consultation was launched in order to gather the views of the public and stakeholders on reforming excise duty for manufactured tobacco. The consultation was based on a position paper which gave information on the current fiscal situation and on the possible options for change which could be considered.

A total of 87 external contributions were received in response to the consultation. Of these, 39 were from tobacco industry, 21 were from the national and international health organisations (including

² 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

public institutes), 10 from government or ministries of Member States, 7 were from European citizens and 10 others (not possible to specify).

How responses have been taken into account

All responses received were analysed and the main results were published on the Commission website. They can be summarized as follows.

The tobacco industry: the great majority of the industry supports a change in the current tax system for cigarettes. The preferred option is the abolition of the MPPC and the application of the minimum rate of €64 to all cigarettes. However, simultaneously the industry advocates an abolition of the minimum requirement of 57%. In the event that this option is not realistic, they could accept the implementation of a minimum requirement on the basis of a weighted average price as a second-best option. A clear majority calls for retention of the mixed structure of excise duties on cigarettes (consisting of a specific and an ad-valorem component). However a large number of the contributions favour increased flexibility in determining the structure of excise duties on cigarettes and, in this connection call for an easing of the restriction on the specific component (5% to 55% rule).

The vast majority of contributions from the tobacco sector are opposed to any increase in taxation. Only a few contributions call for an increase in the level of taxation for health or for an adjustment or indexation of tax rates in line with inflation.

As regards fine-cut and smoking tobacco the industry argues against any increase in taxation. The contributions also discuss the relatively small market share as compared to cigarettes and the so-called 'buffer function' given the expansion in illicit trade.

Finally, the great majority of the industry supports a change in the definition of other tobacco products.

All 21 contributions from **the national and international organisations in the health sector** take the same line

Generally speaking, the health sector takes the view that the different tobacco products should be taxed as far as possible at the same rate since, from a health perspective, as there is no justification for any differentiation, whether significant or not. The contributors point throughout to the enormous importance of the issue for society as a whole given the large number of deaths and serious illnesses that can be traced back to tobacco consumption and the huge costs this imposes on Member States' health systems. Taxes on tobacco products should, therefore, be raised in order to reduce the affordability and thus the availability of cigarettes. As regards the structure of tobacco taxation, there is a clear preference and a direct call for specific taxation as this guarantees equal treatment for all price categories of tobacco products.

A total of 10 contributions were received from **other stakeholders**, which included, for example, consumer associations and associations representing the parents at European or national level. The following points in particular were made: the importance not only of tax measures but also of comprehensive political measures, particularly in the form of awareness-raising and information measures aimed at protecting young people. The stakeholders also allied themselves with the demand made primarily in the health sector for tax increases, since taxes are an essential component of the price. Only seven **individuals** sent in contributions. As to substance, the individuals concerned mainly called for higher taxation, even at the expense of the internal market, or for harmonisation with the high-taxing Member States as a means of protecting public health.

A full report of the consultation results has been published under the following link:

http://ec.europa.eu/taxation_customs/common/consultations/tax/index_en.htm

The representatives of the ministries of finance

The Commission and the Member States discussed on 26 September 2007 the consultation paper. There is broad support for the abolition of the MPPC-concept, for more flexibility as concerns the ratio between specific and ad-valorem duties, for an increase of the taxation level of fine cut tobacco, for an adjustment for inflation of the minima for cigars and pipe tobacco, and for an amendment of the definitions.

Almost all new Member States are opposed to increase of the 64€ minimum requirement for cigarettes before the end of the transitional periods. There were also diverging opinions with regard to the alternatives for a benchmark for minimum duties on cigarettes (a single rate or a weighted average system). Finally a few Member States were not convinced of the need for change.

The Commission took the responses into account and as a consequence made some modifications to the options under scrutiny.

SECTION 2: PROBLEM DEFINITION

2.1 SUMMARY OF THE CURRENT COMMUNITY EXCISE DUTY ARRANGEMENTS

2.1.1 Excise duty on manufactured tobacco other than cigarettes

The total tax burden (excise and VAT) on cigarettes is often close to 80%. In order to ensure a certain level of price competition, excise duties on cigarettes consists of an ad-valorem duty (a percentage of the price) and a specific duty (a monetary amount per 1000 pieces). By putting more emphasis on the ad-valorem duty, the price gap between cheaper and more expensive cigarettes will increase. By putting more emphasis on the specific duty, one will obtain the opposite effect. Because of this ad-valorem duty the total tax burden will differ between cheaper and more expensive cigarettes.

The current Community legislation lays down rules both as regards the structure of the duty and the minimum level of the rates that must be respected by all Member States.

Under these rules, excise duties levied on cigarettes must fulfil the following conditions:

- They must include a *proportional* component, calculated on the basis of the maximum retail selling price, and a *specific* component, levied on each unit of the product.
- They must account for at least 57% of the retail selling price and be at least €64 per 1000 cigarettes for the cigarettes belonging to the most popular price category (MPPC). These minimum requirements refer to the MPPC, because the total tax burden differs between cheaper and more expensive cigarettes. On 1 January Member States must ensure that the sum of specific and ad-valorem excise duties on the MPPC, complies with these requirements. Subsequently the specific and ad-valorem excise duties on the MPPC will be applied to all cigarettes.
- 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).
- In addition, Member States may levy a minimum excise tax. This is a minimum amount of tax which will be due per 1000 cigarettes, when the sum of specific and ad-valorem duties is lower. This minimum excise tax may not be more than 100% of the total excise on the MPPC.

In this report, these concepts will be referred as the “57% rule”, the “*minimum of €64 per 1000 cigarettes*”, the “MPPC” and the “*minimum excise tax*”.

However there are also a number of derogations and transitional periods:

- 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. This “escape clause” is needed to ensure that the higher-taxing Member States do not have to constantly raise the excise duty in order to comply with the 57% rule.
- Under their Acts of Accession, a number of new Member States were granted derogations to postpone the application of the minimum excise duties for periods ranging from 31 December 2006 to 31 December 2009.

2.1.2. Excise duty on manufactured tobacco other than cigarettes

The Community rules currently in force relate to cigars and cigarillos, fine-cut tobacco intended for the rolling of cigarettes, and other smoking tobacco. As opposed to cigarettes, Member States can levy a wholly proportional excise duty calculated on the basis of maximum retail selling prices, a wholly specific excise duty or a combination of both. In addition, Member States may levy a minimum excise tax (without any restriction). Unlike cigarettes, Member States do not have to comply with an ad-valorem and a specific EU minimum requirement, but they may choose between the one and the other.

The *minimum rates* in force since 1 July 2004 are as follows:

- fine-cut smoking tobacco intended for the rolling of cigarettes: 36% of the retail selling price inclusive of all taxes or €32 per kilogram;
- other smoking tobacco: 20% of the retail selling price inclusive of all taxes or €20 per kilogram;
- cigars and cigarillos: 5% of the retail selling price inclusive of all taxes or €11 per 1000 items or per kilogram.

Under the Act of Accession Estonia was granted a transitional period up to 31 December 2009 to postpone the application of the minimum excise duties on smoking tobacco

2.2. PROBLEMS IDENTIFIED UNDER THE CURRENT COMMUNITY EXCISE DUTY ARRANGEMENTS

- **The differences in TIRSP pave the way for substantial cross border shopping and smuggling**

An analysis of the prices and excise rates for cigarettes in the EU shows that there are still considerable differences between the Member States. Moreover, with the recent enlargement of the EU, the tax and retail selling price differentials between Member States has actually widened. For example, in 2006 cigarettes belonging to the MPPC were nearly seven times as expensive (all taxes included) in the United Kingdom compared to Latvia.

The following graphs give an overview of excise duties and prices of cigarettes in the EU:

Table 1: Excise duties and TIRSP (MPPC) of cigarettes in Europe in 2006

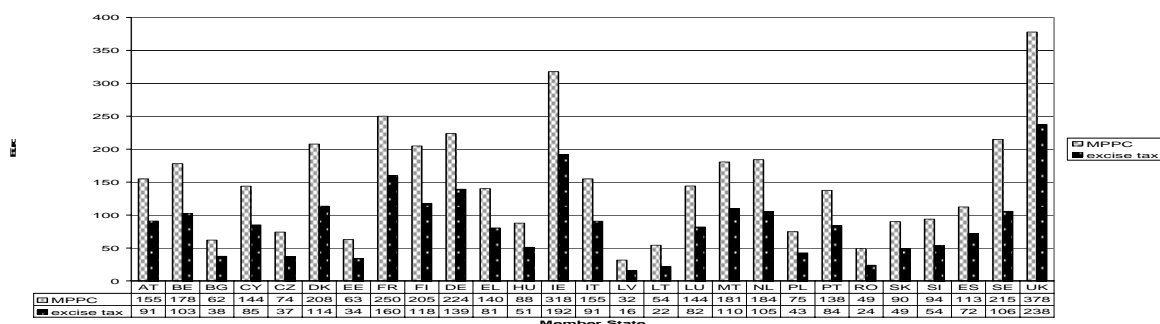
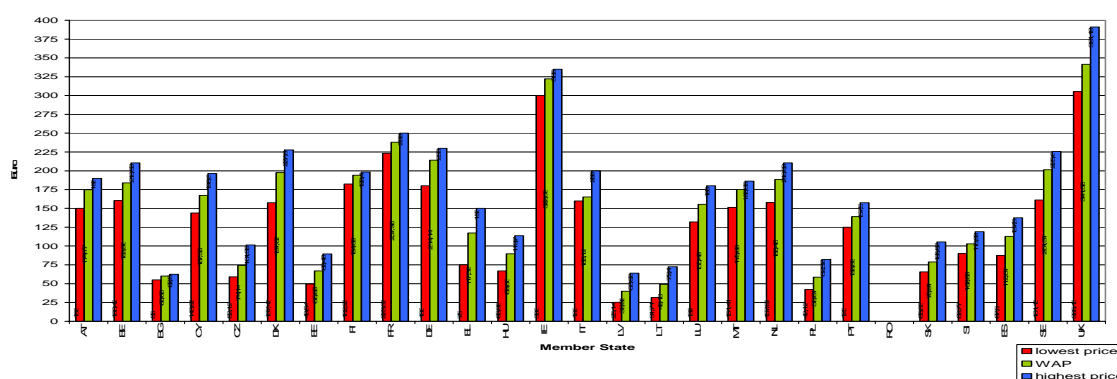


Table 2: Comparison of lowest, weighted average and highest price of cigarettes in Member States in 2006 (per 1000 sticks)



The differences in TIRSP pave the way for substantial cross border shopping and smuggling. These cross-border operations create distortions of competition in the tobacco market, lead to revenue losses and losses of business to retailers on the high-tax side of the border and undermine health policy objectives. Based on an in-depth analysis of the data collected, the aforementioned 2005 study on the collection and interpretation of tobacco data on tobacco estimated that total non-domestically taxed market penetration in 2004 represented approximately 13% of the EU-25 tobacco market whereas 4% to 5% consisted of legitimate cross-border shopping and 8% to 9% of illicit trade. However, the non-domestically taxed part of tobacco consumptions represents more than 20% in a number of Member States.

As part of the conditions governing the derogations granted to the new Member States, the other Member States were given the possibility to maintain limits on the quantity of tobacco products that individuals could bring into their territories from those new Member States. 11 Member States made use of this possibility. However, in an internal market without border controls, these quantitative restrictions are difficult to enforce.

- **Efforts made by Member States in order to improve tobacco control are undermined by substantial cross-border shopping and also by smuggling**

Smoking is still the biggest single form of avoidable death in the Community. Despite the considerable progress already made, the number of smokers is still high – around one third of the Community population – and the health effects are equally significant, with about 650,000 smoking-related deaths per year in the Community. Almost half of these deaths are of persons aged between 35 and 69 – well below the average life expectancy. Smoking also affects the health of non-smokers, particularly in vulnerable groups, who are increasingly demanding protection.

Taxation forms part of an overall strategy of prevention and dissuasion, which also includes other measures aimed at reducing demand such as non-price measures, protection from exposure to tobacco

smoke, regulation of the contents, etc. However, according to the World Bank price increases in tobacco products are the most effective single intervention to prevent smoking. A price increase of 10 % decreases among adults consumption on average by about 4% in high income countries. More importantly, the impact of higher prices is likely to be greatest on young people, who are more responsive to price rises than older people. In addition, price increases are an effective policy tool, which prevents people from taking up smoking, especially young people, encourages smoking cessation, reduces the number of ex-smokers who resume the habit, and reduces in the long run average cigarette consumption among continuing smokers.

For these reasons a steadily growing number of Member States has increased excise duties on tobacco products. However, as stated above, the efforts of Member States to increase the prices of cigarettes and control tobacco consumption are undermined by a lack of coordination. In this context it is important to note that there is asymmetry between the effects of relatively high and of relatively low tax rates. A Member State that raises its tax rate relative to taxes in neighbouring Member States increases cross-border shopping, but the costs are largely internal to the Member State concerned. On the other hand, a Member State that reduces the tax rate or maintains a low tax rate attracts cross-border shopping and revenues, thus imposing external costs on other Member States. In order to restrict the negative effects on other Member States of a (relatively) low tax-policy, there should be an EU-wide minimum floor for excise duty at an effective level to address Internal Market and Health objectives.

- **The current arrangements for cigarettes complex, not transparent and result in division of markets and distortions of competition**

Member States have to check their compliance with the 57% rule and the minimum of €4 per 1000 cigarettes regarding the MPPC on 1 January of each year and, in case of changes of the MPPC, adjust their national rates accordingly.

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

- The MPPC fluctuates due to changes in tax components, price structure, external components, etc. Consequently, government tax revenues are volatile as changes in the MPPC can trigger tax rate changes. As the MPPC is outside the control of governments, it makes tax planning difficult.
- The link between the excise duty rates and the MPPC also distorts price competition between tobacco manufacturers. Dominant tobacco manufacturers can increase the tax burden of their competitors by strategically shifting the prices of their brands so as to create a different MPPC.
- The MPPC concept was introduced more than 30 years ago. At that time, the national cigarette markets were typically dominated by one brand that was clearly 'the most popular'. However, currently the average market share of the MPPC is circa 35%. In addition, the current international market environment is very dynamic, with many different brands at different price points. Price changes are a regular feature.
- 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 of tax 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. The growing popularity of cheap and discount brands is a concern in many Member States. Therefore minimum tax rates should be applied to all cigarette price categories.

Consequently, the Commission takes the view that the MPPC as benchmark for minimum rates is no longer in line with Internal Market and health objectives.

- **Since different categories of manufactured tobacco are taxed differently, imbalances in taxation lead to substitution by other categories of tobacco products, which entails distortions of competition and undermines health objectives**

Fine-cut tobacco and cigarettes have different characteristics; nevertheless they are in a way competing with each other. 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 EU minimum requirement for fine-cut tobacco is set at 36% of the retail selling price inclusive of all taxes, or €32 per kilogram. As a result, there are situations today where the tax level on hand-rolled cigarettes is less than 30% of the tax level on cigarettes. 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 substitution. In the period 2002 to 2006 the weighted average of quantities of cigarettes released in the EU-25 decreased by 15%. However, the quantities of fine-cut tobacco increased by around 10% with a clear upward trend in a number of Member States. From a health point of view, both products are equally harmful and, consequently, there is little justification for significant differences in the minimum rates for these products at Community level.

2.3 Treaty base and subsidiarity principle.

A legislative proposal would be based on Article 93 of the EC Treaty. It would not fall under the exclusive competence of the Community: Article 93 of the Treaty lays down that the Council has to adopt provisions for the harmonisation of legislation concerning excise duties to the extent that such harmonisation is necessary to ensure the establishment and the functioning of the internal market. The subsidiarity principle therefore applies.

Although the existence of the current EU minimum rates limits the divergences in national excise duty rates on tobacco products, it has not been sufficient to prevent the persistence of significant divergences, despite the increasing attention paid by Member States to the achievement of health objectives in this field. These divergences entail substantial cross border shopping and smuggling, which creates distortions of competition in the tobacco market, lead to losses in budgetary resources for those Member States applying a relatively high excise duty and undermines the health policy objectives. No EU action would be detrimental since tax policy interaction among Member States has not led to a reduction in divergences.

2.4 SECTION 4: THE NO POLICY CHANGE OPTION

2.4.1 The base line scenario for cigarettes

During recent years, a number of Member States have significantly increased excise duties on cigarettes. Since this happened without any coordination at EU level, it gave rise to substantial cross-border shopping and smuggling. In addition, with the recent enlargement of the EU, the tax and retail selling price differentials between Member States have actually widened. This gap resulted again in significant cross border shopping and smuggling. When all new Member States eventually comply with the minimum requirement of €64 per 1000 cigarettes, the price differentials will be around to 1 to 4. Given these remaining tax differentials, it is unlikely that tax driven cross-border flows will decrease.

The 2005 study on the collection and interpretation of data on tobacco estimates that total non-domestically-taxed consumption in 2004 represented approximately 13% of the total EU tobacco

market. The markets share of legitimate circumvention represented 4% to 5% and of illegitimate circumvention 8% to 9% of the EU tobacco market. In the EU, more than 12% of the population lives near internal frontiers. These people have an incentive to buy cigarettes across the border when price differences are or become substantial due to tax hikes and/or enlargement of the EU. For example:

- France: substantial cross-border shopping in Belgium, Luxembourg and Spain;
- Germany: substantial cross-border shopping in the Czech Republic, Luxembourg and Poland.

Although the total non-domestically-taxed consumption in 2004 represented approximately 13%, it should be noted that in a number of Member States the non-domestically-taxed consumption represents more than 20% (in particular in the main markets such as FR, DE and UK). In addition, Industry sources indicate that since the latest accessions the tax driven cross-border flows from EU-12 towards EU-15 Member States are increasing significantly.

No EU action would maintain these divergences.

- **The effects on the national budgets.**

There is an asymmetrical relationship between the effects of relatively high and relatively low tax rates. Member States with a relative high tax rate face cross-border shopping and illicit trade, which leads to revenue losses. On the other hand, Member States that maintain a relative low tax rate attract cross-border shopping and illicit trade, thus imposing external costs on other Member States. The baseline scenario would maintain the negative effects on other Member States of low taxing policies. In 2006 the excise duties collected on cigarettes represented in the EU Member States (including Romania and Bulgaria) almost 70 billion Euro, which results in significant amounts of revenue being misallocated.

In addition, without coordination of tax increases, a number of Member States will refrain from further increases. This will result in a loss of potential tax receipts and undermine health objectives (see further).

However, it should be said that a part of the illicit trade consists of third country smuggling. According to the same study, also Member States sharing land borders with third countries (Estonia, Finland, Hungary, Latvia, Lithuania, Poland, Slovakia) suffer from third country smuggling as tax rates in the neighbouring third countries (e.g. Balkan countries, Belarus, Russia and Ukraine) are considerably lower. Although it is minor when compared to the EU non-domestically-taxed consumption, this problem is probably increasing. As a result some Member States are in a position where they face on the one hand illicit trade from third countries and on the other hand attract cross-border shopping and illicit trade from EU Member States. The budgetary loss resulting from third country smuggling is consequently compensated by imposing external costs on other Member States. The base-line scenario would maintain this situation.

- **The effects on health objectives**

Smoking is still the biggest single form of avoidable death in the Community and one of the leading causes of morbidity and mortality in the EU, with about 650,000 smoking-related deaths per year in the Community. A number of Member States have significantly increased excise duties on cigarettes for reasons of tobacco control. For example, the excise duties on cigarettes increased in the EU-15 on average by 33% over the period 2002-2006. Over the same period the consumption of cigarettes went down by more than 10%. Since this happened without coordination with neighbouring Member States, it has given rise to substantial cross border shopping and smuggling. This increase of non-domestically-taxed consumption undermines the health objectives and discourages further increases in taxes for reasons of health protection.

Without an increase of the minimum level of taxation in the Community, tax competition between Member States will prevent Member States wishing to further implement a policy that takes into account health policy objectives, from doing so. In addition, it will sustain the level of non-domestically-taxed consumption undermining directly the health objectives.

Consequently, unless all Member States start to coordinate their health policy, the base-line scenario will lead to a lower level of tobacco control at EU level and would hamper taxation as a means to reduce cigarette consumption.

- **The effects on the industry**

The current link between the excise duty rates and the MPPC distorts competition between tobacco manufacturers. Dominant tobacco manufacturers can increase the tax burden of their competitors by strategically shifting the prices of their brands. No policy change would confirm and maintain the market distortions.

2.4.2 The base line scenario for fine-cut tobacco intended for the rolling of cigarettes

The EU minimum requirement for fine-cut tobacco is set at 36% of the retail selling price, or €32 per kilogram. For cigarettes the minimum requirements are 57% of the retail selling price inclusive and €64 per 1000 pieces. As a result of this gap, there are situations where the price of fine-cut tobacco is less than 30% of the price of cigarettes (see annex). Moreover in 2007 the excise duties on fine-cut tobacco were 10 times higher in some Member States (e.g. UK and IRL) as compared to others (e.g. in HU) (see annex 14).

The substantial differences in tax levels among Member States on fine-cut tobacco give rise to smuggling and cross border shopping between certain neighbouring countries. A number of Member States with high taxes on cigarettes (in particular FR and UK) and which have aligned excise duties on cigarettes and fine-cut face a substantial inflow from cross-border shopping and smuggling.

In addition, in the period 2002 to 2006 the quantities of cigarettes released in the EU decreased by approximately 13%. However, the quantities of fine-cut tobacco increased by around 10% in the same period. The lower levels of excise duties in a number of Member States lead to tax-induced distortions of competition. From a health point of view, both products are harmful and, consequently, there is little justification for significant differences in the minimum rates for these products at Community level.

Unless Member States under their own volition adjust the taxation of fine-cut and cigarettes, the no policy change option will maintain a situation of tax-induced distortions of competition between the two products and further undermine health protection objectives. In addition, it will maintain significant cross-border shopping imposing external costs on a number of Member States.

SECTION 3: OBJECTIVES

Pursuant to Article 4 of Council Directive 92/79/EEC and of 92/80/EEC the Commission is required to examine the taxation of tobacco every four years, taking into account the smooth operation of the single market, the real value of excise duty rates and the wider objectives of the Treaty.

Although excise duty is primarily an instrument for generating revenue at national level, policy-making in this area has to take the wider objectives of the Treaty into account. Given the characteristics of manufactured tobacco products, policy in this field should pay particular attention to health considerations, taking stock of Council Recommendation of 2 December 2002 on the prevention of smoking and on initiatives to improve tobacco control and of the Framework

Convention on Tobacco Control, negotiated under the auspices of the World Health Organisation.

More in particular the policy objectives are the following:

- **Future policy should ensure the smooth operation of the single market and narrow the differences in TIRSP levels in order to protect Member States budgetary and health objectives.**

Substantial differences in TIRSP of tobacco products lead to considerable cross-border shopping and smuggling and both undermine the budgetary and health objectives of the Member States and distort the functioning of the internal market. Therefore future policy should aim to ensure the smooth operation of the single market and attempt to narrow the differences in TIRSP levels.

Member States' budgetary objectives: Tobacco excise duties represent between 0.7% and 7.3% of the total tax revenues of the Member States. Consequently for a number of Member States the budgetary impact is significant and future policy should seek to safeguard Member States' budgetary objectives.

Table 3: Tobacco excise duties as a % of total tax receipts in 2005

Sweden	0,7%	Germany	2,8%
Slovenia	0,8%	Spain	2,9%
Denmark	0,9%	Hungary	3,2%
Finland	1,2%	Estonia	3,4%
Netherlands	1,5%	Cyprus	3,6%
Belgium	1,8%	Portugal	3,7%
Lithuania	1,8%	Slovakia	4,0%
Austria	2,0%	CZ Republic	4,0%
France	2,1%	Poland	4,8%
United Kingdom	2,2%	Malta	4,9%
Italy	2,3%	Greece	5,6%
Latvia	2,3%	Romania	5,8%
Ireland	2,6%	Bulgaria	6,8%
		Luxembourg	7,3%

However, as stated above, there is an asymmetrical relationship between the effects of relatively high and relatively low tax rates. Member States with a tax rate that is high relative to taxes in neighbouring Member States faces cross-border shopping and illicit trade, resulting in revenue losses and the undermining of health objectives. On the other hand, Member States that maintain a low tax rate attracts cross-border shopping and revenues, thus imposing external costs on other Member States. Therefore, future policy should reduce the duty differentials between Member States that give rise to cross-border shopping and intra-EU-smuggling, in order to safeguard Member States budgetary objectives and to reduce fiscal externalities.

Member States' health objectives: The efforts of Member States to increase the prices of cigarettes and control tobacco consumption are undermined by cross-border shopping and illicit trade. Therefore, future policy should also reduce the duty differentials between Member States that give rise to cross-border shopping and intra-EU-smuggling, in order to safeguard Member States health objectives.

Increases of the minimum rates: Elimination of tax induced cross-border shopping and intra-EU-smuggling would require harmonisation of rates and structures. However the Council has rejected this approach and has adopted a system of minimum rates. 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. This makes it easier for Member States to pursue their fiscal policies, without the threat of those policies being undermined by other Member States and, in particular, by cross-border shopping and smuggling.

In order to reduce the cross border flows, the gap between the cheapest and most expensive cigarettes in the EU should be reduced. However taking account of the geographical spread of the enlarged EU, this would only solve a part of the problem. There are significant differences in the level of excise duties between the EU Member States that have or had derogations to the current minimum rates and the other Member States, but also in-between the EU-15 as well as in between the new Member States.

Consequently the impact on the Internal market should be examined from two angles:

- reducing the gap between the cheapest and most expensive cigarettes in the EU;
- reducing the gap at regional level, taking into account the geographical spread of the enlarged EU.

Finally those minimum rates should on the one hand reflect the recent evolution in the Internal Market, where the excise duties have been increased significantly, inter alia for reasons of health protection. On the other hand they should take account of the recent enlargements and the fact that most new Member States have excise duty levels which are low in relation to the average level in the EU-15. As a balanced approach they should be close to the average excise level in the EU-27, which was around €4 in 2006 (assuming that all Member States would have reached the minimum of €4) and around 61%.

- **Future policy should contribute to the Community objectives of creating a high level of health protection**

A number of Member States have in recent years increased taxation of tobacco as a key measure as part of a comprehensive tobacco control strategy.

At Community level, the Council recommendation of 2 December 2002 on the prevention of smoking and on initiatives to improve tobacco control (2003/54/EC) recommends in Article 7 that Member States should adopt and implement appropriate price measures on tobacco products so as to discourage tobacco consumption. Additionally, the Community has widely developed regulations on the manufacture, presentation and sale of tobacco products (directive 2001/37/EC) and to ban any tobacco cross-border advertising (directive 2003/33/EC). Regulatory measures are complemented with other initiatives such as prevention campaigns.

Moreover, these health policy considerations have become more important recently. 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. In this context, it should be noted that the "European Strategy for Tobacco Control" (ECTC), adopted by the Regional Committee for WHO Europe, has set as the principal target to at least double the average annual reduction of smoking prevalence in the WHO Euro Region. This was at the time of the adoption of the strategy standing at nearly 1%, consequently it means bringing smoking prevalence down by 2% per year.

Official releases for consumption of cigarettes in the EU decreased during the period 2002-2006 by ca. 13%. 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%.³.

In order to trigger a similar decline in consumption over the coming 5 years as well as to contribute to a decline of smoking prevalence of 2% per year, 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.

However, because of the current tax and price differentials, tax competition between Member States hinders Member States wishing to implement an autonomous policy that would take into account health policy objectives, from doing so. Therefore, future tax policy should reduce tobacco consumption by increasing the overall level of taxation and consequently the retail selling prices.

Finally, in order to optimise the reduction in demand, the tax increases should as far as possible involve price increases of cheaper cigarettes in the markets. They should be spread over as many Member States as possible. However they should not entail price levels which are disproportional when compared to the local purchasing power in the Member States.

- **Future policy should simplify and modernise the current arrangements and create a level playing field for producers, importers and retailers**

The current arrangements were introduced 30 years ago. At that time, national cigarette markets were typically dominated by one brand that was clearly 'the most popular'. However, currently, the average market share of the MPPC is circa 35%. In addition, the current international market environment is very dynamic, with many different brands for sale at different price points. Price changes have become a regular feature. The current arrangements are not designed for this new situation in most Member States. Therefore, future policy should modernise the arrangements and create a level playing field.

In particular, the link between the excise duty rates and the MPPC distorts competition between tobacco manufacturers. Dominant tobacco manufacturers can increase the tax burden of their competitors by strategically shifting the prices of their brands so as to create a different and higher price category which becomes the MPPC. In addition, the vast majority of Member States have recently introduced minimum taxes, which are a percentage of the excise duties due on MPPC. Consequently the manufacturers of cigarettes forming the MPPC can, by increasing the price of the MPPC, increase the minimum tax burden on its competitors' products.

In addition, minimum excise duties should be defined in a comparable and equal way for all Member States and should apply to all tobacco products of a particular category. This is currently the case for minimum duties for most tobacco products other than cigarettes. However for cigarettes minimum duties are determined only with reference to the MPPC. The MPPC as an average represents a minority share of the cigarette markets (around 35%). Moreover, 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, it should be noted that under current provisions government tax revenues are volatile as changes in the MPPC can trigger tax rate changes. As the MPPC is outside the control of governments, using this concept as a reference point makes tax planning difficult. The future policy should therefore pay attention to the need for budgetary stability.

- **Future policy should reduce tax-induced substitution of cigarettes by other categories of tobacco products**

³ Only the increase of inflow from third countries between 2002 and 2006 should be taken into account, which is most probably less than 3% of the total market.

Since the current Directives maintain the difference in excise duties on cigarettes and on fine-cut tobacco, the Commission, upon request of a number of Member States, entered the following statement in the Council minutes on Directive 2002/10/EC: *"The Commission states that, in its next review report provided for under Article 4 of Directive 92/79/EEC and Directive 92/80/EEC, it will present sufficient elements in order to proceed to an overall review of the possibility to bring the structure of excise duties for fine-cut smoking tobacco into line with the structure of excise duties for cigarettes."*

Given that EU minima for cigarettes are set by way of overall minimum requirements, the alignment of taxation between cigarettes and fine-cut tobacco should proceed on the basis of the structure and the rates of the EU minimum requirements.

As stated in the previous Commission report⁴, given the different characteristics of the two products, it seems reasonable that the minimum excise for fine-cut tobacco could be fixed at about two thirds of the minimum excise incidence for cigarettes. Such a ratio would allow Member States to take into account the difference between a semi-finished and a finished product.

SECTION 4: POLICY OPTIONS

The impact assessment considers four policy approaches:

The first approach (Option A) consists of not intervening further at Community level (the no policy change option).

The second approach consists of **changing only the structure of excise duties** on cigarettes.

It is proposed to abolish the concept of the MPPC as benchmark for minimum requirements. Instead of the MPPC, two basic approaches can be considered.

- The minimum requirement could be applied to all cigarettes on the market. This would follow the principle of excise duty rates for other excisable products (alcohol, energy products, other tobacco products).
- Taking account of the taxation principles regarding cigarettes for the last 35 years, the MPPC could also be replaced by a WAP. This could be seen as an alternative which on the one hand better represents the market realities in the EU in 2008 but keeps the reference to the price of cigarettes.

Due to the fact that the minimum requirement consists of two different elements (57%, €64), the above mentioned two basic approaches have to be assessed with view to each of these elements in order to verify the impact of any one of those changes on the various Member States.

This leads to the following options:

- either apply the 57% rule (**Option B**) and/or the minimum of €64 per 1000 cigarettes (**Option C**) to all cigarettes;
- or apply the 57% rule (**Option D**) and/or the minimum of €64 per 1000 cigarettes (**Option E**) in accordance with weighted average prices.

Simultaneously the impact is assessed of providing more flexibility as concerns, in particular, the relationship of specific versus ad-valorem duties (the "5% to 55% rule").

⁴ COM(2001) 133 final, 14.3.2001

The third approach consists of changing in addition to the structure also the minimum rates of excise duties on tobacco products. Therefore the minimum rates of excise duties on cigarettes are increased, either the 57% and/or the minimum of €64 per 1000 cigarettes. (**Options B+, C+, D+ and E+**)

The fourth approach (Option F) consists, in parallel to the other options, to change the structures and minimum rates of excise duties on other products, in particular fine-cut, in order to avoid substitution of cigarettes by less taxed tobacco products.

SECTION 5: THE OPTIONS CONCERNING CIGARETTES: ANALYSIS OF IMPACTS

5.1. THE ECONOMIC IMPACTS

Several aspects have to be examined: impact on taxes and prices, on the functioning of the internal market, on demand, consumption and health, on industries (distortions of competition, administrative costs...) and the budgetary impacts.

5.1.1. The impact on excise duties and the prices of cigarettes

5.1.1.1 DIRECT EFFECTS ON EXCISE DUTIES AND THE PRICE OF CIGARETTES OF THE DIFFERENT OPTIONS WITHOUT INCREASES OF THE CURRENT MINIMA.

Option B: the effect of applying the 57% rule to all cigarettes

Because excise duties on cigarettes consist of a specific and an ad-valorem duty, the % of total excise duties will be lower on more expensive cigarettes. Applying the 57% rule to all cigarettes would introduce a de-facto minimum ad-valorem rate for all cigarettes and would, in principle entail, an increase of taxation of upper and, in some cases, middle market segments. It would not affect the cheaper market segments.

In the vast majority of Member States this option would have no impact, since the general taxation level as compared to the pre-tax price relatively high, or because the MPPC is a premium brand (see annex table 1). However for eleven Member States (with a lower level of taxation compared to the pre-tax price or where the MPPC is a low priced cigarette) this would result in tax increases for upper and middle market segments. The impact would be significant in DK, NL and SE. However, these Member States currently qualify for the "escape clause". For other Member States it would have a minor impact on the level of the excise duties, although the market share affected is significant in a number of Member States (e.g. AT 63%; LU 75%).

Option C: The effect of applying the minimum of €64 per 1000 to all cigarettes

Again in the vast majority of Member States this option would have no impact, because the excise duties on all brands already exceed €64 per 1000 cigarettes. In the other Member States where this is not the case, increases in excise duties will be necessary for brands which are cheaper than the MPPC, only to the extent, however, that there is no minimum duty in force equal to the tax due on the MPPC. Applying 2006 excise rates, the following Member States will be affected:

Table 4: The effect of applying the minimum of €64 per 1000 on all cigarettes in 2006

Member State	Market share below the MPPC % in 2006	%- points increase in excise duty needed to reach excise level of the MPPC in 2006
Bulgaria	33,28%	3,04
Czech Republic	56,13%	0
Estonia	56,05%	3,04
Greece	41.21%	7,28

Hungary	37,92%	0,56
Latvia	27,24%	1,29
Lithuania	54,59%	5,6
Poland	88,15%	12,43
Romania	No data	No data
Slovakia	79,21%	6,21
Slovenia	11,32%	0,56
Spain	16,05%	1,37

Source: questionnaire to Member States

It should be noted that the position of the MPPC in the price-range of cigarettes changes from year to year. It is likely that the more the tax burden on cigarettes increases in the new Member States, the more the MPPC will be down-traded with the result that the market share of cigarettes below the MPPC will fall.

In order to achieve a minimum of €64 per 1000 on all cigarettes, Member States will have to apply a minimum excise tax of at least €64. Most Member States apply already a minimum tax which is close to the level applicable to the MPPC: CZ 100%; SK, RO and SI 90%; PL: 80% and EL 75%. Consequently, for these Member States, no (or only minor) tax increases are needed. From 2007 onwards ES applies a minimum duty of €70 and is therefore no longer affected. The impact will be more important for BG, EE, LV and LT where the market share below the MPPC is considerable, and no minimum duties are in force yet. This is also the case for Poland where an important part of the market is below the MPCC. Consequently much will depend on the market position of the MPPC at the end of the transitional periods in these Member States.

Option D: The effect of applying the 57% rule in accordance with weighted average prices (WAP)

If the current minimum incidence of 57% was maintained and applied on a weighted average basis, small tax increases could become necessary in a limited number of Member States. The most affected Member States currently qualify for the “escape clause” (see annex table 2).

In general, applying the 57% rule in accordance with weighted average prices would not lead to major changes. Apart from DK, NL and LUX, which are slightly under 57%, all Member States would comply with the 57% rule. In SE the impact would be significant, but SE (as well as DK and NL) would qualify for the escape clause.

Option E: The effect of applying the minimum of €64 per 1000 cigarettes rule in accordance with weighted average prices (WAP)

In the majority of Member States the excise duties on all brands already exceed €64 per 1000 cigarettes. Applying the minimum of €64 on the basis of weighted average prices will only have a minimal impact on a limited number of Member States (see annex table 3) .

It will have no impact on Member States that have already reached the €64 on MPPC in 2006. Consequently only the new Member States with transitional periods might be affected. However only BG, LT, PL and SK will probably have an excise yield on WAP under the €64, and therefore would have to increase their excise duties as compared to the current system.

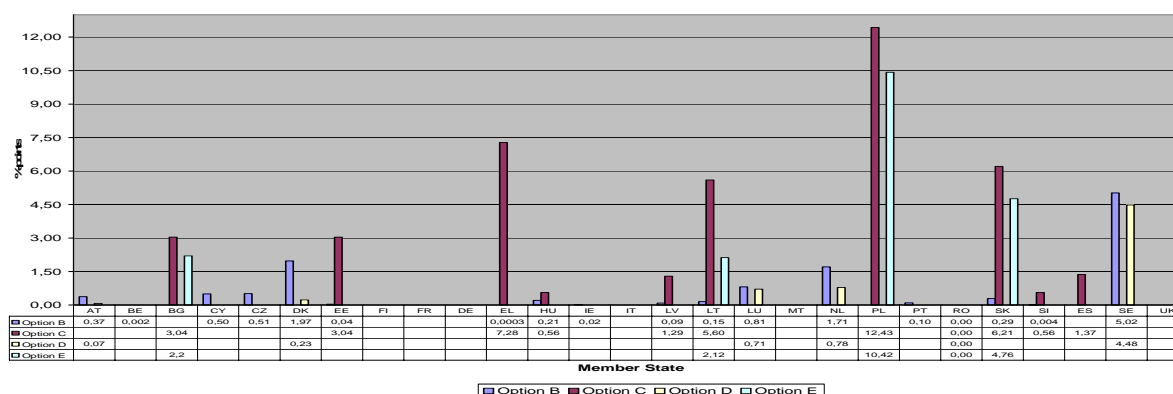
The impact of the options on the TIRSP of cigarettes

All things being equal, the impact on the prices of cigarettes will be in line with the impact on excise duties, multiplied by the VAT rate. The change of the benchmark for minimum requirements will only have a minor impact on the excise duties; therefore it will also have a minor impact on the prices of cigarettes.

Conclusion

In general, **all** the options would have no direct impact on the level of excise duties in the vast majority of Member States. Only a limited number of Member States would be affected.

Table 5.



Option B (57% on all) would increase the excise duties on value-for-money and/or premium cigarettes in eleven Member States. Although the market share affected is significant in a number of Member States (e.g. AT and LU, see table 3), it would only entail a small increase of excise duties. DK, NL and SE currently qualify for the escape clause. .

Option C (€64 on all) will increase the excise duties on the cheaper market segments in nine Member States. The impact will be more important for EE, LV and LT where the Market share below the MPPC was considerable in 2006, and no minimum duties are in force yet. This is also the case for Poland where an exceptionally large proportion fell below the MPCC in 2006. However, all will depend on the market position of the MPPC at the end of the transitional periods in these Member States.

In general **Option D** (57% on WAP) would not lead to major changes. NL, DK and LU are slightly under 57%. Only SE was in 2006 at 52.5%. However SE, DK and NL qualify for the escape clause. .

Option E (€64 on WAP) would probably affect four new Member States. BG, LT, PO and SK will probably have an excise yield on WAP slightly under the €64, and therefore would have to increase their excise duties as compared to the current system. However, again, all will depend on the market position of the MPPC at the end of the transitional periods in these Member States.

5.1.1.2 Impact of the different options on excise duties and the price of cigarettes in case of increases in the current minimum rates

Tables 4.a and 4.b in annex give an overview of the impact on the WAP under Option B, Tables 5.a and 5.b under Option C, Tables 6.a and 6.b under Option D and Tables 7.a and 7.b under Option C.

An increase in the 57 % rule (**Option B+ and D+**), combined with an updated escape clause, would have a significant impact on excise duties and prices of cigarettes in AT, LU, IT, PT, SI and EL and a moderated impact on BE, NL, HU, CZ, CY and (only under Option B+) SK. However, it would hardly have an impact on ES (because pre-tax prices are low).

Currently the 57% rule is combined with an "escape clause" for high-taxing Member States⁵. 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 high and low taxing Member States. From an Internal Market perspective this rule should be maintained, but could be increased to €122 (see further:

⁵ 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.

5.1.2). With a capping of €122, four high taxing Member States would not be affected by any increase of the 57% rule: UK, DE, FR and IE, and for SE the impact would be negligible.

All things staying equal, increases of the €64 rule (**Option C+ and E+**) would have a significant impact on the new Member States (except MT and CY) and on LU, PT, ES and EL.

Option B+ would first increase the tax burden on premium and value for money cigarettes (leaving the cheap market untouched). Subsequently it would gradually transform into a pure ad-valorem duty.

Option C+ would first increase the tax burden on cheap cigarettes (leaving the premium market untouched). Subsequently it would stepwise transform into a pure specific duty.

Consequently, for these two options, in order to maintain a mixed system (ad-valorem and specific) Member States would have to set their national rates at an appropriate level above the EU minimum, depending on the desired tax structure.

Increases of the minima under **Option D+ and E+** would as such not affect the relation between the different price categories. Member States would have full flexibility to determine the taxation structure (in particular the relation between ad-valorem and specific duties) that best suits the requirements of their national market.

5.1.2. The impact on the Internal Market

As said before, the impact on the Internal market should be examined from two angles:

- reducing the gap between the cheapest and most expensive cigarettes in the EU;
- reducing the gap at regional level, taking into account the geographical spread of the enlarged EU.

Option B and B+: the effect of applying the 57% rule to all cigarettes (and subsequent increases)

Applying the 57% rule to all cigarettes would in principle increase the price of premium cigarettes and consequently would affect cross-border flows of these cigarettes.

Reducing the gap between the cheapest and most expensive cigarettes in the EU.

Increases in the 57% rule will not have any impact on the gap between the cheapest and most expensive cigarettes in the EU since the excise duty on the cheapest cigarettes represents more than 65% of the TIRSP as a result of the current monetary minimum requirement of €64.

Moreover if not combined with an “escape clause“, it would even widen this gap. Currently, the 57% rule is combined with an "escape clause" for high-taxing Member States⁶. 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 high and low taxing Member States. From an Internal Market point of view this escape clause should be maintained. However, its level needs to be adapted to keep pace with the evolution of excise duties on cigarettes in the Internal Market. In 2001, when the €101 was adopted by the Council, the average excise duty on MPPC was €87. At 1 January 2007 it was €120 in the EU 15. Consequently in order to maintain status quo with the situation in 2001, the €101 should be increased. An increase to €122 would have the same effect as in 2001, namely exempt the five highest taxing Member States.

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.

Table 6: TIRSP of cigarettes in the EU-27:

EU	57%	59%	61%	63%	65%
lowest	€80,72	€80,72	€80,72	€80,72	€80,72
highest	€335	€335	€335	€335	€335

(Only brands with a national market share of more than 2.5% are taken into account)

The standard deviation between WAP of 1000 cigarettes in the EU would under this option only decrease from €66 (57%) to €63 (65%) (see annex table 4.a).

Reducing the gap at regional level, taking into account the geographical spread of the enlarged EU.

It should be noted that the 57% limit has not been increased since 1992. Although it reflected the average level of taxation in 1992, in the period since most Member States have increased their excise duties on tobacco, inter alia for reasons of health protection. It would also contribute to maintaining the current level of approximation between the EU-15 Member States and in case of increases would narrow the gap between the EU15, MT and CY.

On the other hand it would not entail any approximation between the EU15, except MT and CY

Option D and D+: The effect of applying the 57% rule in accordance with weighted average prices (and subsequent increases)

The impact of these options would be similar to Option B and B+. A 57% rule in accordance with weighted average prices should also be combined with an "escape clause" for high-taxing Member States in order not to increase the gap between high and low taxing Member States. It will not have any impact on the price gap between the cheapest and most expensive cigarettes in the Internal Market.

Option D and D+ would also contribute to maintaining the current level of approximation between the EU-15 Member States as long as the monetary requirement is too low to reflect average taxation levels in the Internal Market.

Option C and C+: The effect of applying the minimum of €64 per 1000 to all cigarettes (and subsequent increases)

Reducing the gap between the cheapest and most expensive cigarettes in the EU.

Applying the minimum of €64 per 1000 on all cigarettes would create a tax floor in the Internal Market. Increases (up to €100, see below) would significantly reduce the price gap between Member States and related cross-border shopping and smuggling.

Table 7: TIRSP of 1000 cigarettes in the EU-27

EU minimum duty	€64	€70	€75	€80	€90	€100
lowest	€80,72	€88,04	€94,14	€100,24	€112,44	€124,64
highest	€335	€335	€335	€335	€335	€335

(Only brands with a national market share of more than 2,5% are taken into account)

Theoretically, an increase in the monetary minimum requirement to €100 would result in an increase of 56% of the lowest TIRSP. In practice it would affect cigarettes in the new Member States and in AT, BE, IT, LU, EL and ES (see annex table 5.a). The standard deviation between WAP of 1000 cigarettes in the EU would decrease from €66 (€64) to €51 (€100). Consequently increases of the monetary minimum requirement are a better instrument to achieve approximation of tax inclusive prices of cigarettes in the EU and to improve the functioning of the internal market.

However, as previously mentioned, a number of new Member States have land borders with neighbouring third countries where cigarettes prices are significantly below the EU level (e.g. Ukraine, Moldova, and Russia). Consequently a sudden increase of the monetary minimum requirement would probably increase the incentive for smuggling from these neighbouring third countries, if not combined with an increase of the fight against illicit trade.

Reducing the gap at regional level, taking into account the geographical spread of the enlarged EU.

An increase of the monetary minimum would have little impact on the EU-15 plus Cyprus and Malta. An increase to €90 would only affect ES, EL and PT. An increase to €100 would also affect CY and IT.

On the other hand it would significantly approximate the prices of cigarettes in the new Member States (The standard deviation between WAP of 1000 cigarettes in the EU would decrease from €23 to €13 (€90) or even to €11 (€100).

Option E and E+: The effect of applying the minimum of €64 per 1000 cigarettes rule in accordance with weighted average prices (and subsequent increases)

The effect on patterns of demand in the internal market of applying the minimum of €64 per 1000 cigarettes rule in accordance with weighted average prices would be similar to Options C and C+.

Increases in the minimum requirements would significantly reduce the price gap between Member States and related cross-border shopping and smuggling. The standard deviation between WAP of 1000 cigarettes in the EU would decrease from €66,5 (€64) to €51 (€100). However there would be no EU-wide tax floor and depending on the implementation by the individual Member States the bottom-priced market segments might be cheaper than under a minimum applied to all cigarettes. Consequently from an Internal Market point of view preference should be given to Option C and C+.

Conclusion

The standard deviation between WAP of cigarettes in the EU would be the lowest (€51) under **Option C+ and E+**, as compared to €63 and €64 for Option B+ and D+. Consequently increases in the monetary minimum requirement are a better instrument to achieve approximation of TIRSP of cigarettes in the EU and to improve the functioning of the internal market.

Option **C and C+** (€64 on all) would create a tax floor in the Internal Market. Increases (up to €100 - see below) would reduce significantly the price gap between Member States and related cross-border shopping and smuggling. Increases in the minimum requirements under Option E+ (€64 on WAP) would reduce the price gap between Member States and related cross-border shopping and smuggling. However the bottom-priced market segments might be cheaper as compared to Option C+.

Option **B+ and D+** will not have any impact on the price gap between the cheapest and most expensive cigarettes in the Internal Market. Nevertheless they would also contribute to maintaining the current level of approximation between the EU-15 Member States as long as the monetary requirement is too low to reflect the average taxation level in the Internal Market.

Consequently as long as the monetary minimum requirement cannot be increased to a level, which corresponds at least to the average taxation in the Internal Market, one of **Option C, C+, E and E+** **should be combined with either Option B, B+, D or D+**.

5.1.3 The impact on industry

5.1.3.1 The impact on competition between different price categories of cigarettes

The link between excise duty rates and the MPPC distorts competition between tobacco manufacturers. Dominant tobacco manufacturers can increase the tax burden of their competitors by strategically shifting the prices of their brands so as to create a different and higher price category as MPPC. In addition, recently a vast majority of Member States have introduced minimum taxes, which are a percentage of the excise duties due on the MPPC. Consequently the manufacturer of the MPPC can, by increasing the price of the MPPC, increase the minimum tax burden on the products of its competitors.

Because excise duties on cigarettes consist of a specific and an ad-valorem duty, the % of total excise duties will be lower on more expensive cigarettes. Consequently the options will have an impact on the competitive relationship between cheap and premium cigarette and on the related industry.

Option B and B+: The effect of applying the 57% rule to all cigarette (and subsequent increases)

Option B and B+ would resolve the fiscal instability and distortions of competition which are currently created by the MPPC concept. Applying the 57% rule to all cigarettes would in principle result in increasing taxes for upper price segments in those Member States where the MPPC is not a premium brand.

Increases (especially over 60%) could significantly increase the price competition between the different price-categories of cigarettes.(see annex table 4.c). However, it should also be noted that the 57% is only a minimum requirement across the EU, and a lot would depend on how the Member States implement the 57% rule, taking into account the flexibility to determine the relation between ad-valorem and specific duties.

Option C and C+: The effect of applying the minimum of €64 per 1000 on all cigarettes (and subsequent increases)

Option C and C+ would also make the existing situation more transparent and resolve the fiscal instability and distortions of competition which are currently created by the MPPC concept. However, applying the minimum of €64 per 1000 on all cigarettes would increase the excise duties on the market share under the MPPC in a number of new Member States. Consequently it would result in a disadvantaged position for some cheaper brands in those Member States (see annex table 5.c).

Again, it should be noted that also the €64 is only a European minimum requirement across EU and a lot would depend on how the Member States implement it, taking into account that Member States have flexibility to apply a mixed structure.

Option D, D+, E and E+: The effect of applying the 57% rule or the minimum of €64 per 1000 cigarettes in accordance with weighted average prices (and subsequent increases)

These options would also resolve the fiscal instability and distortions of competition which are currently created by the MPPC concept.

Applying the 57% rule in accordance with weighted average prices would as such not affect the relation between the different price categories. It leaves full 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.

Conclusion

All options resolve the fiscal instability and distortions of competition which are currently created by the MPPC concept. **All** options would make the existing situation more transparent and would simplify the current arrangements. Option B, B+, C and C+ would simplify current arrangements more significantly as compared to Options D, D+, E and E+.

Option B and B+ (57% on all) would in principle increase the excise duties on value-for-money and/or premium cigarettes. Albeit that without increases the impact in most Member States would be minor. Further increases could nevertheless have a significant impact on premium cigarettes.

Option C and C+ (€64 on all) would in principle increase the excise duties on the cheaper market segments in nine Member States. The impact will be important for EE, LV, LT and PO. However, all will depend on the market position of the MPPC at the end of the transitional periods in these Member States.

In general **Option D, D+, E and E+** (57% and €64 on WAP) would not affect the relationship between the different price categories.

5.1.3.2 The impact on small and medium sized enterprises

In general small and medium sized enterprises only represent a very minor share in the manufacturing of cigarettes (less than 0.5%).

5.1.3.3 The impact on administrative and operating costs

None of the options will entail an increase of administrative costs for the industry. Operating costs (due to the adjustment of prices in response to changes in excise duties) will occur but are expected to be negligible.

5.1.4. The budgetary impact

Table 8 in annex sets out estimates of the impacts (at present values) that the tax rate changes in the different scenarios would have on government budgets. It takes into account reductions in consumption due to price increase (price elasticity -0.43).

The yearly total increases of revenue will be as follows:

Table 8

Option B+	59% 934.466	61% 2.135.643	63% 3.288.237	65% 4.070.068
Option D+	831.035	1.980.855	2.987.650	3.796.497
Option C+	€70 1.165.273	€80 2.429.977	€90 3.727.456	€100 5.209.014
Option E+	886.295	2.319.773	4.546.278	5.130.658

In principle, increases of the minimum rates under all Options would entail a significant increase of the total receipts from tobacco taxation, notwithstanding reductions in demand. However the increase

will be higher under **Options C+ and E+** as compared to **Options B+ and D+**. In addition Options C+ and E+ will mainly increase the receipts in the new Member States.

The actual impacts can be expected to be different for some Member States since a reduction in excise duty differentials could lead to a reduction in the present demand shifts between countries, which will offset part of the adjustments in excise rates. This might lead to a reduction of revenues for a number of Member States which currently attract significant revenues from sales of cigarettes consumed in other Member States.

For example: a Member State, with a significant lower level of excise duties on tobacco as compared to its neighbouring countries, has 30% of releases for consumption which are sold to inhabitants of other Member States. As a result of an increase of 40% of excise duties, this Member State attains a taxation level comparable to the neighbouring countries, which reduces the cross border sales to 10%. The theoretical increase in revenue should be adjusted for the reduction in national consumption as well as for the reduction in cross border sales. Assuming a price elasticity of -0.43, the real effect would be a reduction in revenue of around 5%.

5.1.5 Administrative and operating costs for tax administrations

None of the options will entail an increase in administrative costs for tax administrations. Although Options B, B+, C and C+ (all cigarettes) would be simpler to implement, also Options D, D+, E and E+ would be easier to administer and more transparent as compared to the current arrangements.

Under the current arrangements Member States have to determine on the 1 January of every year the MPPC. This requires data on all market segments in year n-1. In addition, the MPPC can change significantly from one year to another.

Options B, B+, C and C+ would remove the need to monitor the markets. In addition, the tax rate and structure will be stable and not subject to market fluctuations. Under Options D, D+, E and E+, the tax administration will have to determine the WAP on the 1 January of every year. The WAP can be calculated by dividing the total TIRSP by the total quantity (number of sticks) of year n-1. This data is available to tax administrations as a result of the releases for consumption. There would be no need for monitoring of the market segments anymore. In addition, the WAP are expected not to be subject to sudden significant changes.

5.1.6 The impact on inflation

Tables 9 in annex set out estimates of the impacts on inflation in the Member States of the different options. The estimation takes into account of reductions in consumption due to price increases (price elasticity -0.43). These estimates can be considered as the upper limits. The actual impacts can be expected to be lower since a reduction in excise duty differentials will lead to a reduction in the present demand shifts between countries, which will offset part of the adjustments in excise rates. It should also be noted that the impact on inflation will depend on the impact of other tax measures, which may be taken as a result of the increase in tax revenue. For instance, if the additional tax revenue is used recycled to finance a corresponding tax cut in other indirect taxes, the impact on inflation will be lower.

Without increases of the minimum rates **all** options would have no or only insignificant impact on inflation in Member States.

Increases in the minimum rates would have a more significant impact on inflation under **Options C+ and E+** as compared to **Options B+ and D+**.

Option B+ (57% on all) and **Option D+** (57% on WAP) would not affect or affect insignificantly the inflation in the following Member States: Bulgaria, France, Germany, Ireland, Latvia (Only Option D+), Poland, Spain and UK. All things being equal, Luxembourg would experience a significant rise

in the inflation rate under both Options. However the actual impacts can be expected to be lower since a reduction in excise duty differentials will lead to a reduction in the present demand shifts between Luxembourg and neighbouring countries. Increasing the minimum rate to the level of 63% and more would affect the following Member States by 0.3 percentage points or more: Austria, Cyprus, Greece, Italy, Slovakia, Czech Republic, Hungary, Malta and Portugal. On average the impact on inflation in the EU would be slightly lower under Option D+ as compared to Option B+.

Option C+ (€64 on all) and **Option E+** (€64 on WAP) would not affect or only affect insignificantly the inflation rate in the EU-15 (except Greece, Luxembourg, Portugal and Spain). Increasing the minimum rate to the level of €90 per 1000 cigarettes and more would affect the inflation rate with 0.6 percentage points or more in the countries of the EU-12 (except Cyprus and Malta) and in Greece It would affect the inflation rate with 0.3 percentage points or more in Luxembourg and Spain. However on average the impact on inflation in the EU would be slightly lower under Option E+ as compared to Option C+.

5.2 THE SOCIAL IMPACTS

5.2.1 The impact on health objectives

Taxation forms part of an overall strategy of prevention and dissuasion which also includes other measures aimed at reducing such as non-price measures, protection from exposure to tobacco smoke, regulation of the contents, etc. According to the World Bank price increases in tobacco products are the most effective single measure that can be taken 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 prices is likely to be greatest on young people, who are more responsive to price rises than older people. In addition, price increases are an effective policy tool to prevent people from taking up smoking especially among young people, encourage smoking cessation, reduce the number of ex-smokers who resume the habit, and reduce in the long run the average cigarette consumption among continuing smokers.

5.2.1.2 Options B, C, D and E: no increases of the minimum rates

Applying a monetary minimum per 1000 on all cigarettes (**Option C**) would allow for the setting of a tax "floor" for all cigarettes sold in the EU. It would increase the prices of cheap cigarettes in a number of low taxing Member States. However the current minimum of €64 per 1000 on all cigarettes would not be sufficient to address health concerns in the internal market as a whole. The average excise yield in the EU-15 is currently €120, nine Member States have an excise yield over €100 and two even over €200. The average excise yield in the EU-27 will be around €94, when all new member States have reached the current minima. Consequently the minimum rates are not in line with the increase average excise yield in the EU.

Options B and D (change of the benchmark for the 57% rule) would have no impact from a health perspective, as it would only have a minor impact on, in particular, cheap cigarettes.

On the other hand, **Option E** (€64 on WAP) raises some questions from a health perspective, as it would reduce the minimum requirements for some Member States which is not desirable from a health point of view.

5.2.1.3 Options B+, C+, D+ and E+: increases of the minimum rates

Official releases for consumption of cigarettes in the EU decreased during the period 2002-2006 by around 13% (see table below). This percentage takes into account intra EU cross-border flows, but needs to be adjusted for the increase of the illicit trade from third countries towards the EU. Industry sources estimate currently that illicit trade from third countries is around 3.5% of total EU consumption. Although no data is available on the evolution of the third country illicit trade over the

last 5 years, the real decline of cigarette consumption in the EU can be estimated at slightly more than 10%.

Table 9: Releases for consumption of cigarettes - 2002-2006 (1000 pieces)

EU-27	2002	2003	2004	2005	2006	2002/2006
Austria	15.358.733	15.062.233	14.463.704	13.280.238	13.883.290	-10%
Belgium	14.314.440	14.286.561	13.634.112	13.384.484	13.705.663	-4%
Cyprus	2.017.325	1.985.432	1.655.603	1.921.873	1.888.343	-6%
Czech Rep.	19.096.775	25.613.577	22.459.838	26.231.340	28.262.528	48%
Denmark	7.156.722	7.872.682	8.177.705	7.762.472	8.215.985	15%
Estonia	2.294.900	2.239.173	2.189.850	2.421.679	2.277.728	-1%
Finland	4.923.954	4.798.725	4.929.521	5.078.000	4.986.000	1%
France	80.529.400	69.647.800	54.924.400	54.810.412	55.772.177	-31%
Germany	145.152.720	132.603.170	111.716.210	95.826.690	93.465.500	-36%
Greece	31.987.518	32.369.492	35.185.190	34.408.444	33.383.128	4%
Hungary	18.319.609	19.435.456	13.853.849	14.184.287	15.810.596	-14%
Ireland	7.015.555	6.294.855	5.330.593	5.419.638	5.857.276	-17%
Italy	105.215.836	101.581.626	98.846.737	92.822.302	93.807.356	-11%
Latvia	3.787.340	3.994.500	5.062.364	4.197.236	4.753.872	26%
Lithuania	4.979.270	3.666.203	2.957.084	3.721.841	5.216.700	5%
Luxembourg	5.780.790	5.610.803	6.374.169	5.309.000	4.745.000	-18%
Malta	596.247	576.900	565.376	589.151	578.686	-3%
Netherlands	17.024.215	17.080.472	14.999.591	13.654.000	13.963.000	-18%
Poland	82.047.368	80.244.262	75.283.084	87.553.826	79.769.525	-3%
Portugal	17.924.867	19.623.143	18.069.016	17.134.790	18.963.003	6%
Slovak Rep.	4.989.533	2.997.609	4.564.499	9.410.743	4.786.986	-4%
Slovenia	4.794.979	4.611.836	4.487.482	4.556.764	4.947.442	3%
Spain	90.615.611	92.333.287	93.261.002	92.699.536	91.834.325	1%
Sweden	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%
Bulgaria	22.612.855	26.245.083	23.043.814	20.596.677	14.836.821	-34%
Romania	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%

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 of the most popular price category increased on average by 33%. This trend is mainly driven by FR and DE which have significantly increased the excise duties on cigarettes over the last five years. Some other Member States, such as UK and IE had already increased significantly the excise duties before 2002.

On the other hand, in the **EU-12 (excl. RO)** releases for consumption decreased on average by only 1%. There is no data available to compare the evolution of excise duties during 2002-2006. However from the accession until the end of 2006, there has been on average an increase of 34% in the excise duties on the most popular price category. This increase in excise duties has not entailed a similar decrease in releases for consumption compared to the EU-15. This is mainly because in the EU-12 historically cigarettes were cheap in relation to local purchasing power as well as because of cross-border sales to the EU-15 in a number of new Member States (e.g. CZ). However in the coming years,

further increases will be needed in most of the EU-12 Member States to reach the EU minima by the end of the transitional periods.

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. 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.

Taking into account that the average excise yield in the EU-27 will be around €4 when all new member States have reached the current minima, this impact assessment examines the impact of increases up of the monetary minimum to €90 and €100. As such an increase would entail an increase of the average excise burden to around 63%, it also examines the impact of an increase of the proportional minimum requirements.

5.2.1.3.1 Increasing the minimum of €64 per 1000 cigarettes (Option C+ and E+)

Theoretically, an increase of the monetary minimum requirement to €90 would result in an increase of around 40% of the lowest TIRSP and would entail a potential reduction in demand of 17%, taking into account a price elasticity of -0.43. An increase of the monetary minimum requirement to €100 would result in an increase of around 55% of the lowest TIRSP and would entail a potential reduction in demand of 22.5%. However, as most Member States are far above €64 in practice the effect would be less.

An increase to €90 would more or less consolidate the current situation in LU and PT. It would affect by more than 10 % the price of cigarettes in the new Member States and in ES. (SI 23%, SK 36%, PL 47%, LT 33%, LV 29%, HU 29%, EE 28%, CZ 30%, BG 36%, EL 22% and ES 7%, see table 10 in annex).

An increase to €100 would more or less consolidate the current situation in AT and IT. It would affect by more than 10 % the price of cigarettes in the new Member States and in LU, PT, EL and ES. (SI 33%, SK 48%, PL 61%, LT 45%, LV 41%, HU 40%, EE 40%, CZ 41%, BG 50%, EL 32%, ES 28%, PT 14% and LU 9%, see table 10 in annex).

It should be noted that as it concerns a minimum requirement above which Member States are free to increase their national rates, 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.

5.2.1.3.2 Increasing the "57% rule" (Option B+ and D+)

Another alternative consists in increasing the 57% rule in order to achieve health objectives.

Given that pre-tax-prices are mainly related to the purchasing power of the Member States, the 57% rule ensures a minimum tax incidence that takes account of the purchasing power in all Member States and, if increased, would be a tool to reduce cigarette consumption and demand.

Theoretically, an increase of the 57% rule to 65% would entail a price increase by more than 25% and consequently, taking into account a price elasticity of 0.4, would offer a potential reduction in consumption of 10%. However, on the one hand, it would not affect those Member States where cigarettes are currently low priced (certain new Member States, but also for example ES). On the other hand, it should be combined with an "escape clause" for the high taxing Member States in order to prevent high taxing Member States being forced to increase their excise duties further, which would entail a widening of the price differentials in the Internal Market. Consequently the impact in practice would be moderated (see table 10.c in annex).

An increase to 63% would not affect BG, EE, FR, DE, IE, LV, LT, PL, SK, ES and UK. It would more or less consolidate the current situation in BE, CZ, DK, FI and HU. It would affect by more than 10% the price of cigarettes in AU, CY, EL, IT, LU and SI (see table 10 in annex).

An increase to 65% would more or less consolidate the current situation in BE, DK, FI, HU and ES. It would affect by more than 10% the price of cigarettes in AU, CY, EL, IT, LU, SI, CZ, and PT. It would not affect BG, FR, DE, IE, LV, LT, PL, SK, and UK (see table 10 in annex).

5.2.1.3.3 Combining increases of the 57% (Option B+ and D+) and the €64 rule (Option C+ and E+)

Since most Member States have set their national rates above the monetary or proportional EU minimum requirements, the real impact on current demand would be moderated. Consequently, in order to trigger an decrease of 10% in consumption over a period of 5 years and to spread the efforts over a wide number of Member States, the increase in the 64 € requirement should be combined with an increase in the 57% rule. In order to ensure a minimum tax floor for health purposes, at least the monetary requirement should be applied to all cigarettes. As it concerns a minimum requirement above which Member States are free to increase their national rates, 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.

An increase in prices of approximately 25% could be obtained by combining €90 or €100 and 63% on all cigarettes or on WAP. (Increases above 63% would not have much impact anymore on the prices of cigarettes because of the capping at €22.)

The impact in practice would be as follows:

Table 11

	€90 on all/63% on WAP		€100 on all/63% on WAP		€90 and 63% on all		€100 and 63% on all	
	price	demand	price	demand	price	demand	price	demand
AT	15,5%	6,6	15,5%	6,6	15,5%	6,6	15,5%	6,6
BE	8,3%	3,6	8,3%	3,6	8,3%	3,6	8,3%	3,6
BG	36,0%	15,5	49,1%	21,1	36,0%	15,5	49,1%	21,1
CY	18,3%	7,9	18,3%	7,9	18,3%	7,9	18,3%	7,9
CZ	31,0%	13,3	42,6%	18,3	31,0%	13,3	42,6%	18,3
DK	6,2%	2,7	6,2%	2,7	6,2%	2,7	6,2%	2,7
EE	28,2%	12,1	39,7%	17,0	28,2%	12,1	39,7%	17,0
FI	6,2%	2,7	6,2%	2,7	6,2%	2,7	6,2%	2,7
FR	0,0%	0,0	0,0%	0,0	0,0%	0,0	0,0%	0,0
DE	0,0%	0,0	0,0%	0,0	0,0%	0,0	0,0%	0,0
EL	21,2%	9,1	31,3%	13,5	32,2%	13,8	32,2%	13,8
HU	30,1%	13,0	41,8%	18,0	30,1%	13,0	41,8%	18,0
IE	0,0%	0,0	0,0%	0,0	0,0%	0,0	0,0%	0,0
IT	18,8%	8,1	18,8%	8,1	18,8%	8,1	18,8%	8,1
LV	28,9%	12,4	41,0%	17,6	28,9%	12,4	41,0%	17,6
LT	32,9%	14,1	44,9%	19,3	32,9%	14,1	44,9%	19,3
LU	25,4%	10,9	25,4%	10,9	25,4%	10,9	25,4%	10,9
MT	8,1%	3,5	8,1%	3,5	10,0%	4,3	10,0%	4,3
NL	9,9%	4,3	9,9%	4,3	9,9%	4,3	9,9%	4,3
PL	46,8%	20,1	61,4%	26,4	46,8%	20,1	61,4%	26,4
PT	8,9%	3,8	13,0%	5,6	21,3%	9,2	21,3%	9,2
SK	35,8%	15,4	48,2%	20,7	35,8%	15,4	48,2%	20,7
SI	22,7%	9,8	33,1%	14,2	31,7%	13,6	33,1%	14,2
ES	17,9%	7,7	28,1%	12,1	17,9%	7,7	28,1%	12,1

SE	9,8%	4,2	9,8%	4,2	9,8%	4,2	9,8%	4,2
UK	0,0%	0,0	0,0%	0,0	0,0%	0,0	0,0%	0,0

A combination of a €90 on all cigarettes and a 63% on WAP would mean on average a probable reduction of around 10% in demand in the 22 affected Member States (RO is not included; DE, FR, UK and IE would not be affected since the national rates are above the monetary and proportional EU minimum requirements). A combination of a €100 on all cigarettes and a 63% on WAP would mean on average a probable reduction in demand of 12%. However, as it concerns only a minimum requirement above which Member States are free to increase their national rates, 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.

5.2.1.3.4 The relation between prices of cigarettes and the purchasing power in the EU

The minimum requirements should however also be evaluated in the light of the relation between cigarette prices and purchasing power in the Member States. From a health perspective cigarettes should be expensive. But the increase of the minimum rate should not result in cigarettes becoming extremely expensive in terms of local purchasing power in certain Member States as compared to the EU average. The following table indicates the number of 1000 cigarettes (based on WAP) that could be purchases taking into account the nominal local purchasing power in the Member States in 2006 and in 2008 (Eurostat forecast).

Under €90 on all/63% on WAP, immediate increases would render prices of cigarettes over expensive in BG (and probably also in RO for which no data are available). Cigarettes would also be relatively expensive in PL and in LT and LV, however still more affordable than in e.g. IE, MT and UK would be around the price level of FR. Under €100 on all/63% on WAP, cigarettes would also become very expensive in PL, LT, LV and HU (around 20% and more that the EU average). On the other hand under both scenarios cigarettes would stay relatively cheap in ES and EL.

Table12:

	€90 on all/63% on WAP		€100 on all/63% on WAP	
	2006	2008	2006	2008
Austria	157	169	157	169
Belgium	146	156	146	156
Bulgaria	76	89	70	81
Cyprus	115	122	115	122
Czech R	150	167	137	154
Denmark	147	154	147	154
Estonia	136	158	125	145
Finland	143	155	143	155
France	114	121	114	121
Germany	132	142	132	142
Greece	170	187	159	175
Hungary	120	131	110	120
Ireland	112	121	112	121
Italy	129	137	129	137
Latvia	115	136	105	125
Lithuania	114	133	104	122
Luxembourg	361	399	361	399
Malta	100	108	100	108
Netherlands	157	170	157	170
Poland	110	126	100	114
Portugal	118	125	117	124

Slovakia	128	149	117	137
Slovenia	158	177	146	163
Spain	195	207	180	190
Sweden	139	150	139	150
UK	86	92	86	92
Average	140	153	135	148

The simulation does not take into account inflation of the pre-tax prices, which might increase the WAP over the coming years. On the other hand further increases of the PPS, especially in the new Member States might balance the increase in WAP.

5.2.1.3.5 The impact on the gap between prices of cigarettes in the EU

Increases of the 57% rule will not have any impact on the gap between the cheapest (as the Member States with the cheapest cigarettes of the EU are not affected) and most expensive cigarettes.

On the other hand increasing the €4 minimum on all cigarettes would increase the price of the cheapest cigarettes from €80 to €112 (90) or €124 (100). In addition the average TIRSP of the cheapest cigarettes in the EU (currently €137) would in the event of an increase to €90 be €159, as compared to €165 in the case of €100 minimum (see table 11 in annex).

Therefore with a view on narrowing the gap between the prices of cigarettes in the EU the increase of the monetary minimum applied to all cigarettes is the best means, as it creates a European "tax floor" for cheaper market segments. This can not be achieved by applying the monetary minimum on WAP.

Conclusion:

From a health perspective an increase to €90 on all/63% on WAP would create a tax floor and narrow significantly the price gap between cigarettes in the EU. It would trigger a probable decrease of demand of on average 10% in 21 Member States. In addition, as it concerns only a minimum requirement above which Member States are free to increase their national rates, 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. Apart from BG and RO it would not render prices disproportionably expensive as compared to the local purchasing power in the Member States.

5.3 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 where the level of taxation and the retail selling prices of tobacco products are low as compared to the EU level. This encourages 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 a simple circumvention of customs controls by fraudsters who smuggle products by various methods (concealment, false description and false declaration etc.) from third countries where prices and taxes are low.

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.

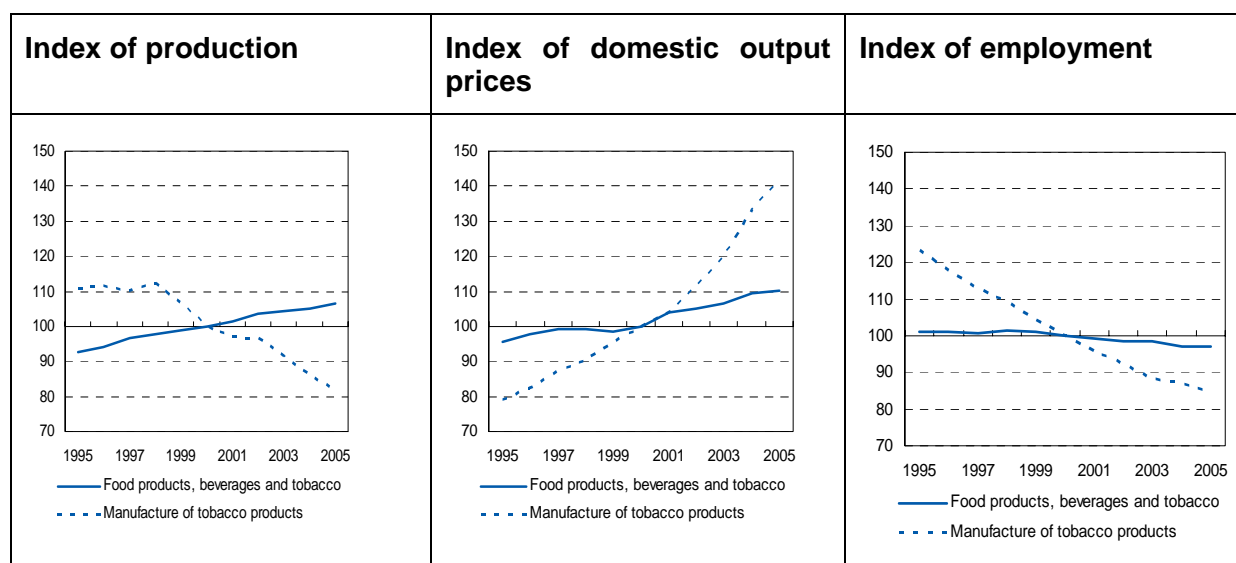
Furthermore, in 2004, the Commission and 10 Member States signed an Anti-Contraband and Anti-Counterfeit Agreement with Philip Morris International; 26 Member States have now signed this Agreement. In December 2007, a Cooperation Agreement between the Commission, 26 Member States and Japan Tobacco was signed. These agreements introduce tighter controls on the distribution of tobacco products and introduce tracking and tracing systems to help law enforcement agencies to identify the origin of smuggled products. The terms of cooperation with other tobacco companies (IT, BAT) are under negotiation.

In addition, the European Anti-Fraud Office (OLAF) is in the process of placing overseas liaison officers in "tobacco hotspots" to facilitate its work with the authorities in countries from which contraband and counterfeit is smuggled into the EU.

5.2.2 The impact on employment

The tobacco manufacturing sector is relatively small in terms of numbers of people employed (60.000 in the EU-25 in 2003). However approximately half of these are employed in Poland, the Netherlands, UK and Germany. Consumption has fallen sharply in recent years. Since 1998 there have been consecutive annual reductions in the production index of tobacco products, and, in parallel in the employment index.

Graph 2: Manufacture of tobacco products (NACE Division 16) Evolution of main indicators, EU-25 (2000=100) (Source EUROSTAT)



The reduction in employment in the tobacco manufacturing sector is a direct and unavoidable consequence of a policy aimed at controlling tobacco consumption. Consequently further increases in excise duties will lead to a further reduction in consumption and in employment in tobacco manufacturing, as well as in the related tobacco growing, processing and distribution sector.

5.3 The environmental impacts

None. Tax increases may entail reduction of tobacco consumption, but this does not necessarily contribute to resolving the problem of second hand smoke ('passive smoking'). In respect of this issue smoking bans are more relevant.

6. PROVIDING MORE FLEXIBILITY TO APPLY SPECIFIC OR AD-VALOREM DUTIES

Under current Community rules, excise duties levied on cigarettes must include an ad-valorem and a specific component. The specific component of the excise duty may not be less than 5% or more than 55% of the amount of the total tax burden resulting from the aggregation of the proportional excise duty, the specific excise duty and VAT levied on these cigarettes. Consequently the ad-valorem component (excise duty + VAT) may not be less than 45% or more than 95% of the amount of the total tax burden.

The emphasis Member States put either on the ad-valorem or on the specific element, depends on the policy objective pursued.

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 for those Member States where there is a greater risk of a monopolistic situation developing in the market.

Specific duties reduce the relative price differences and consequently favour the premium brands. While the specific component contributes to minimise the variability of prices, the ad-valorem component underscores those differences, which can undermine health driven price policy objectives. Consequently specific duties have an advantage from a health point of view.

It is questionable whether the limitation of the share of the specific component vis-à-vis the ad-valorem component, is still justified taking into account the compulsory mixed excise duty structure and the collection of VAT, which is an ad-valorem tax. In particular, if Member States choose to counter cheap cigarettes by further raising their specific duty beyond the 55% limit, and thus reducing the price bandwidth, the current rule does not allow them to do so.

Specific duties do have a number of other benefits. The simulations covered in the 2005 study on the collection and interpretation of tobacco data show how a rise in the specific duty component reduces the TIRSP bandwidth and opposes cheap prices.

A 10% increase in the specific excise duties and a scenario that makes all duties into specific duties would entail a narrowing of the price differences at EU level by an average of 2.5% and 50% respectively. In certain Member States (such as Greece, France and Malta for cigarettes and Finland, Greece and Italy for fine-cut tobacco) a 100% specific excise duty rate would narrow the price range by 65%. An opposite trend would occur if ad-valorem duties were favoured in place of specific duties. Setting the specific excise duty at 50% of the total excise duties would lead to a narrowing of the price gap by 45% in those Member States favouring an ad-valorem excise duty structure and a widening of the price gap by between 20% and 60% in Member States favouring a specific excise duty structure.

As a result, 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, they are more stable, easier to forecast and to administer, increase the stability of tax revenues and guarantee tax revenue independent of industry price strategies. Consequently from an internal market, budgetary

as well as a health point of view, specific and minimum duties have clear advantages and more flexibility should be provided to those Member States that place greater reliance on specific excise duties or on minimum 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 one Member State to a second Member State with cheap brands flowing in the opposite direction, some consistency in excise tax structures remains desirable. Therefore it seems reasonable to provide more flexibility however while maintaining the mixed structure and a compulsory minimum ad-valorem duty. Consequently the different options should be evaluated in the light of the objective to provide more flexibility to the Member States.

Option B and B+ (57% on all) would in principle increase the excise duties on value-for-money and/or premium cigarettes. Albeit that without increases the impact in most Member States would be minor. In case of subsequent increases of the 57%, it would stepwise transform into a pure ad-valorem duty. This effect will be higher in Member States with more specific duties as compared to Member States that rely more on ad-valorem duties. Consequently Option B would not be in line with the objective to provide more flexibility to Member States. This restriction 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.

Option C and C+ (€4 on all) would create a "tax floor" and in principle increase the excise duties on the cheaper market segments in a number Member States. In these Member States it would have the same effect as a national minimum excise duty. In case of subsequent increases it might stepwise transform into a pure specific duty. However this Option is the best means to approximate prices and taxes of cigarettes in the Internal Market as well as to ensure a minimum price and tax level for tobacco control. To a certain extent there is flexibility for the Member States to determine the structure of the excise duties, but only above the minimum requirement.

In general **Option D, D+, E and E+** (57% and €4 on WAP) would not affect the structure of the excise duties and therefore provide full flexibility to Member States.

SECTION 6: THE OPTIONS CONCERNING CIGARETTES: COMPARING THE IMPACTS IDENTIFIED

Option A will not solve the problem of distortions of cross-border shopping and smuggling currently existing on the tobacco market, which has consequences in terms of health protection, revenue and employment (increase in low-taxing Member States to the detriment of high-taxing Member States). Option A will also not address the problem of substitution and tax induced distortions of competition between the different products of manufactured tobacco. It was therefore not an option that the Commission chose to pursue.

6.1 Comparing the impacts on prices and demand

Impact on:	Option B	Option C	Option D	Option E
Direct effect on excise duties and prices <u>without increases</u> in minimum rates.	Increases slightly the excise duties and prices in upper market segments in 11 Member States.	Increase slightly the excise duties and prices in cheaper market segments in 9 Member States.	Does not lead to major changes. Neutral towards price categories.	It is likely to affect only 4 Member States. Neutral towards price categories.
	Option B+ and D+		Option C+ and E+	

Impact on excise duties and prices in cases of <u>increases in minimum rates</u> .	Significant impact on AT, LU, IT, PT, SI and EL, a moderate impact on BE, NL, HU, CZ, CY and SK, and a minor impact on ES.	Significant impact on the new Member States (except MT and CY) and on LU, PT, ES and EL.
---	--	--

6.2 Comparing the impacts on the differences in TIRSP in the Internal market

	Option B+ and D+	Option C+ and E+
Reducing the gap between the cheapest and most expensive cigarettes in the EU	Does not have any impact on the price gap.	Best instrument to achieve approximation in the EU. Reduces significantly the price gap and related cross-border shopping and smuggling.
Reducing the gap at regional level, taking into account the geographical spread of the enlarged EU.	Contributes to more approximation in the EU-15 plus CY and MT	Has little or no impact on the new Member States which had or have derogations to the minimum rates
Minimum level close to average EU	57%: NO 59%: YES 61%: YES 63%: YES 65%: NO	€70: NO €80: NO €90: YES €100: YES

6.4 Comparing the impacts on the industry and the objectives of creating more transparency and simplification.

	Option B+ and D+	Option C+ and E+
Creation of a level playing field	Yes	Yes
Simplification and transparency	Yes	Yes
No increase of administrative costs for the industry	Yes	Yes

6.5 Comparing the other economic impacts

Impact on:	Option B+	Option C+	Option D+	Option E+
Direct budgetary impact	59% €34.466.000 61% €2.135.643.000 63% €3.288.237.000 65% €4.070.068.000	€70 €1.165.273.000 €80 €2.429.977.000 €90 €3.727.456.000 €100 €5.209.014.000	59% €831.035.000 61% €1.980.855.000 63% €2.987.650.000 65% €3.796.497.000	€70 €886.295.000 €80 €2.319.773.000 €90 €4.546.278.000 €100 €5.130.658.000

	This estimation only covers the direct impact as a result of the increases of the minimum rates. It has to be increased by the indirect effects as a result of increase of excise duties by Member States above the EU minima. However, the actual impacts can be different as a result of demand shifts between Member States.			
No increase of costs for the tax administration.	Yes	Yes	Yes	Yes

6.6 Comparing the social impacts (Health objectives)

Impact on:	Option B+	Option C+	Option D+	Option E+
Increase of the price of the cheapest cigarettes	Affect mainly upper markets	Increase of the lowest TIRSP	Neutral towards price categories	Neutral towards price categories
A minimum tax floor (cheaper cigarettes)	No	Yes	No	No
Spread of the impact on demand in the EU	Almost no impact on (new) Member States where pre-tax prices are relatively low	Almost no impact on most of EU-15 Member States	Almost no impact on (new) Member States where pre-tax prices are relatively low	Almost no impact on most of EU-15 Member States
Reduction of demand of 10%	No	No	No	No
	In order to trigger a reduction in demand of 10% the Options must be combined. An increase to €90 on all and 63% on WAP (Option C+ and D+) would <u>trigger a probable decrease of demand of on average 10% in 21 Member States</u> (RO not included). 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.			
Relation with local purchasing power	Apart from BG and RO an increase to €90 on all and 63% on WAP would not render prices disproportional expensive as compared to the local purchasing power in the Member States.			
Impact on employment in the tobacco industry	Yes	Yes	Yes	Yes

6.7 Providing more flexibility

Impact on:	Option B and B+	Option C and C+	Option D and D+	Option E and E+
More flexibility	No	To a certain extent.	Yes	Yes

SECTION 7: THE IMPACTS ON TOBACCO PRODUCTS OTHER THAN CIGARETTES AND THE SHIFTS IN CONSUMPTION (SUBSTITUTION)

7.1 Fine-cut tobacco

Official releases for consumption of cigarettes in **the EU 27** decreased during 2002-2006 by around 13%. Conversely, the releases for consumption of fine cut tobacco increased by around 11% mainly as a result of the substitution of cigarettes by fine-cut tobacco. However it should be noted that the fine-cut market is only around 10% of the cigarette market.

Table X: Releases for consumption of fine cut tobacco 2002-2006

						(kg)
EU-27	2002	2003	2004	2005	2006	2002/2006
Austria	259.000	272.000	298.000	396.000	422.900	63%
Belgium	8.417.000	8.327.000	8.429.000	8.180.707	9.425.583	12%
Cyprus	62.000	97.000	152.000	170.518	192.799	211%
Czech Republic**	629.400	650.400	190.300	423.300	481.957	-23%
Denmark	902.200	855.200	675.300	577.000	552.000	-39%
Estonia	8.000	8.000	10.000	12.680	10.680	34%
Finland	949.000	931.000	880.000	883.000	796.000	-16%
France	5.720.900	5.980.000	6.969.500	7.008.800	7.107.073	24%
Germany*	14.441.300	14.834.100	15.400.000	14.700.900	18.747.400	30%
Greece	800.700	819.000	964.000	1.038.884	1.247.809	56%
Hungary	757.701	1.159.668	1.027.501	895.180	739.374	-2%
Ireland	135.568	111.904	112.320	95.972	107.264	-21%
Italy	285.520	324.510	463.255	593.460	677.589	137%
Latvia	6.700	7.500	8.200	14.000	18.500	176%
Lithuania	na	57.151	14.306	11.500	12.718	na
Luxembourg	3.194.000	2.983.000	3.006.000	2.970.423	2.845.418	-11%
Malta	19.060	19.850	27.170	30.850	27.290	43%
Netherlands	13.130.839	12.943.061	12.087.666	10.970.000	10.811.000	-18%
Poland	1.060.000	1.727.000	2.583.000	828.000	496.000	-53%
Portugal	302.830	287.370	326.450	391.470	358.480	18%
Slovak Republic	33.527	19.837	24.000	13.000	26.000	-22%
Slovenia	30.445	28.392	26.642	16.040	19.120	-37%
Spain	1.275.416	1.785.347	2.254.601	2.684.910	2.612.660	105%
Sweden	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%
Bulgaria	500	700	1.300	2.000	8.300	1560%
Romania	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.

The fine-cut market is of minor importance in the new Member States. There was a decline of 23% during 2002-2006. In most new Member States there is no significant tax differential as compared to cigarettes.

Data collection

Because the market for fine-cut tobacco is relatively small in a number of Member States and because there is no compulsory mixed structure for fine-cut tobacco, most Member States do not collect detailed data on the fine-cut tobacco market. In addition, as the current minimum requirements apply to all fine-cut products, there is no official MPPC available. Consequently for methodological reasons the comparison is based on WAP in those Member States where fine-cut tobacco has a reasonable market share (and where data was available)⁷. In order to give an overview of the possible impact in all Member States, the impact is also assessed in comparison to the MPPC⁸ as determined by the industry. As in the case for cigarettes, no data is available for Romania.

Option A: no policy change

The substantial differences in tax levels among Member States on fine-cut tobacco give rise to smuggling and cross border shopping between certain neighbouring countries. In particular a number of Member States with high taxes on cigarettes and which have aligned excise duties on cigarettes and fine-cut face a substantial inflow from cross-border shopping and smuggling.

In addition, in the period 2002 to 2006 the quantities of cigarettes released in the EU decreased by approximately 13%. However, the quantities of fine-cut tobacco increased by around 10% in the same period. The lower levels of excise duties in a number of Member States entail tax-induced distortions of competition. From a health point of view, both products are harmful and, consequently, there is little justification for significant differences in the minimum rates for these products at Community level.

Unless Member States under their own volition adjust the taxation of fine-cut and cigarettes, the no policy change option will maintain a situation of tax-induced distortions of competition between the two products and further undermine health protection purposes. In addition, it will maintain cross-border shopping which imposes external costs on a number of Member States.

Option F: Changing the minimum rates of excise duties on fine-cut tobacco in order to avoid substitution of cigarettes by less taxed tobacco products

Fine-cut tobacco and cigarettes have different characteristics. Nevertheless cigarettes and fine-cut remain ultimately in competition with each other as smoking products. There are no relevant studies available on the cross-price elasticity of cigarettes and fine-cut tobacco⁹. As stated in the previous report¹⁰, given the different characteristics of the two products, it seems reasonable that 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. This ratio is widely accepted by the stakeholders.

⁷ The most recent available WAP date from 2004 (the 2005 KPMG study).

⁸ Data on 2007 from ESTA (European Smoking Tobacco Association). As for cigarettes, no representative data is available for Romania.

⁹ The cross-price elasticity will depend inter alia on non-quantifiable factors such as traditions, culture, fashion, social environment which differ from Member State to Member State. An assessment would require tax and consumption data per Member State over a sufficient long period, which is not available.

¹⁰ COM(2001) 133 final, 14.03.2001

7.1.1 The excise structure for fine-cut tobacco

7.1.1.1 The structure of the minimum rates

Since the current Directives maintain the difference in excise duties on cigarettes and on fine-cut tobacco, the Commission, upon request of a number of Member States, entered the following statement in the Council minutes on Directive 2002/10/EC: *"The Commission states that, in its next review report provided for under Article 4 of Directive 92/79/EEC and Directive 92/80/EEC, it will present sufficient elements in order to proceed to an overall review of the possibility to bring the structure of excise duties for fine-cut smoking tobacco into line with the structure of excise duties for cigarettes."*

The minimum requirements for cigarettes consist of a compulsory ad valorem minimum (57%) and a monetary minimum (~~€~~64). Conversely, the EU minimum requirements for fine-cut tobacco are set at 36% of the retail selling price inclusive of all taxes, or €32 per kilogram. Member States may choose between complying with an ad valorem or with a monetary minimum requirement. 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 situations today where the tax level on hand-rolled cigarettes is less than 30% of the tax level on cigarettes.

In order to assess the possibility of aligning the structure of the minimum requirements for fine-cut tobacco with those for cigarettes, this impact assessment examines the introduction of a combination of a proportional minimum and a monetary minimum for fine-cut

Table 12.a in annex contains a simulation of the impact of these options on the level of taxation in those Member States where fine-cut tobacco has a reasonable market share. Scenario 2 and 4 gives the best approximation between average TIRSP for fine cut in the selected Member States as well as between cigarettes and fine cut. As in the case for cigarettes, a monetary minimum duty is the best approximating factor from an Internal Market perspective. Again, as for cigarettes, from a health perspective a high specific minimum duty is also the best means to ensure a minimum price and tax level of the cheaper market segments.

Consequently, the introduction of a compulsory monetary minimum for fine-cut would be in line with internal market and health objectives.

7.1.1.2 Flexibility to apply ad valorem or specific duties at national level

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). For cigarettes the national excise duties must include a proportional component and a specific component. In addition, the specific component should not represent less than 5% or more than 55% of the amount of the total tax burden on the MPPC.

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 for fine-cut.

Consequently, 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 structure of the taxes (in the case of fine cut this could be specific or proportional or mixed).

7.1.2 The monetary minimum requirement

7.1.2.1 The methodology to ensure a proper relationship between cigarettes and fine-cut

As stated, given the different characteristics of the two products, the minimum rates for fine-cut tobacco should be fixed at about two thirds of the minimum rates for cigarettes.

On the one hand, a two thirds relationship of the minimum proportional requirement would result in a minimum incidence for fine-cut tobacco of 38% as compared to 57% for cigarettes, as both minimum requirements refer to TIRSP.

On the other hand, the monetary minimum requirement for fine-cut refers to kilograms of tobacco, while for cigarettes it refers to 1000 sticks. Therefore a relationship should be determined between the weight of fine-cut and 1000 sticks of cigarettes.

The ISO norm on measuring tar and nicotine in hand-rolled cigarettes (ISO norm 15592-3) refers to 0.4 and 0.75 gram of tobacco per hand-rolled cigarette. Although it was not designed with the aim of establishing a relationship for taxation purposes, it gives an indication on the minimum and maximum weight. On the basis of 0.75 gram per cigarette (the maximum weight), the weight of 1kg smoking tobacco would correspond to at least 1333 factory made cigarettes.

However, as factory-made cigarettes predominantly include a filter while hand-made smoking articles predominantly do not, additional tobacco weight equivalent to the filter has to be considered. Consequently the weight of 1kg smoking tobacco would correspond to 1000 factory made cigarettes.

Under the first hypothesis, mathematically, in order to reach at least two thirds of the €64 minimum on 1000 cigarettes (which weigh about 750 gram) the minimum specific duty on fine-cut tobacco would have to be increased to €56 per kilogram. In the second hypothesis, where 1kg corresponds to 1000 cigarettes, in order to obtain at least two thirds of the €64 minimum on 1000 cigarettes (which are supposed to weigh about 1kg) the minimum specific duty on fine-cut tobacco would have to be increased to €43 per kilogram.

Although in most cases the packaging of fine-cut tobacco does not mention a comparison with the equivalent number of cigarettes, annex 13 gives an overview of a number of new fine-cut products which are marketed referring to the maximum equivalent numbers of cigarettes. It should be noted that in all cases listed in annex 13 the weight of 1kg smoking tobacco would correspond to more than 1333 factory made cigarettes. However, most of these products, often called "volume tobacco", contain expanded tobacco, have a relatively small market share and are not representative for the whole fine-cut market.

Consequently there are no clear-cut arguments in favour of a particular relationship between the weight of fine cut and the corresponding number of cigarettes. As an absolute minimum a 2:3 relationship between minimum rates for fine cut tobacco and for cigarettes should be fixed at 1kg corresponding to 1000 sticks, however it should be taken into account that consumers can get more cigarettes out of 1kg, even more than 1333. The following analysis will consider the impact of two hypotheses, namely 1000 and 1333 sticks.

7.1.2.2 The impact of increases of the monetary minimum requirement on the excise duties on fine cut

Graphs a and b in annex 14 show the impact on the excise duties in the Member States under both hypotheses compared to the excise duties on cigarettes at 1 January 2007 on MPPC basis.

Assuming 1kg smoking tobacco corresponding to 1000 factory made cigarettes (minimum €43), it would entail a rather small increase for BE, BG, ES, CY, LV, LT, PL, SI and SK and a more

significant for EE, HU, CZ and PL. The main markets for fine-cut tobacco as well as the increasing IT market, would experience hardly any or no impact at all. Within the main markets, only in LU would there be a noticeable impact. It would affect the excise duties on fine cut in almost all new Member States which still had derogations to the minimum rates for cigarettes on 1 January 2007. 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 the general impact of this increase in the minimum rates is expected to be minor.

Assuming 1kg smoking tobacco corresponding to 1333 factory made cigarettes (minimum €56), the impact would be more significant. In addition to the Member States quoted above, it would also affect AU and FI.

It should be noted that under both hypotheses a 2:3 relationship between EU minimum rates for fine cut tobacco and for cigarettes will not necessarily result in a 2:3 relationship at national level.

7.1.2.3 The monetary minimum requirement: the need to take account of increases in the monetary requirement for cigarettes

In parallel with the impact assessment on cigarettes, the impact of increases of minimum rates on fine cut in line with increases for cigarettes should be assessed as well. Section 6 concludes that from a health perspective an increase of the minimum rates for cigarettes to €90 would be necessary 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. Assuming that 1kg corresponds to 1333 sticks, a 2:3 relationship would entail an increase to €80.

Graphs c and d in annex 14 show the impact on the excise duties in the Member States on fine cut under both hypotheses (1000 and 1333 sticks) compared to cigarettes (assuming that a minimum of €90 and 63% were applied on cigarettes).

Assuming 1kg smoking tobacco corresponding to 1000 factory made cigarettes (minimum €60), the relation of excise duties on 1 kg fine cut would, on average, be around 2:3 of the excise rate on 1000 cigarettes. Almost all Member States would be affected except DK, UK, IE and SE. Those Member States which are above a 2:3 relationship (SE and IE), currently already have an excise yield above 2:3.

Assuming 1kg smoking tobacco corresponding to 1333 factory made cigarettes (minimum €80), the relation of excise duties on 1 kg fine cut would, on average, be around 3:4 of the excise rate on 1000 cigarettes.. A minimum of €80 would require significant increases in all Member States, except IE, SE, FR and UK.

Again, under both hypotheses it will not necessarily result in a 2:3 relationship at national level.

7.1.2.4 The impact of increases of the monetary minimum requirement on the TIRSP of fine-cut

As consumers' behaviour will depend primarily on the final TIRSP and not on the minimum tax as such, it is also important to consider the impact of the minimum rates on the TIRSP. Graphs e and f in annex 14 show the impact on the TIRSP in the Member States under both hypotheses compared to the excise duties on cigarettes at 1 January 2007 on MPPC.

Under both hypotheses (minimum €43 and €56) The impact on the TIRSP is similar to the impact on the excise duties. Consequently the impact on the TIRSP of an increase in the minimum rate to €43 is minor and will not have any noticeable impact on the fine-cut market. The impact would be more significant in case of an increase to €56.

Again, under both hypotheses a 2:3 relationship between EU minimum rates for fine cut tobacco and for cigarettes will not necessarily result in a 2:3 relationship at national level.

Also the impact on TIRSP in the Member States of an EU minimum of €60 and €80 is assessed. Graphs g and h in annex 14 show the impact on the TIRSP in the Member States of an EU minimum of €60 and €80 compared to the TIRSP on fine-cut at 1 January 2007 on MPPC basis and for cigarettes assuming that a minimum of €90 and 63% were applied.

Assuming 1kg smoking tobacco corresponding to 1000 factory made cigarettes (a minimum of €60), again, on average the relation between the TIRSP of 1kg fine cut and 1000 cigarettes would be around 2:3.

Assuming 1kg smoking tobacco corresponding to 1333 factory made cigarettes (a minimum of €80), on average the relation between the TIRSP of 1kg fine cut and 1000 cigarettes would be 4:5. The average TIRSP for fine-cut in the EU would increase from €108 to €149.

However, even with a minimum of €80, it will not necessarily result in a 2:3 relationship at national level.

7.1.2.5 The impact on demand of increases in the monetary minimum requirement

Section 6 concludes for cigarettes 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 21 Member States. 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 parallel with the impact assessment on cigarettes, the impact on demand of increases of minimum rates on fine cut should be assessed as well. In order to trigger a decrease in demand by 10% over the coming years the TIRSP should be increased by around 25%, taking into account a price-elasticity of -0.43 (as for cigarettes).

Assuming 1kg smoking tobacco corresponding to 1000 factory made cigarettes (a minimum of €60), it would increase the TIRSP of fine-cut tobacco in 19 Member States, on average by 50%. This could trigger a reduction in demand of around 20%, taking into account the same price elasticity as for cigarettes.

Assuming 1kg smoking tobacco corresponding to 1333 factory made cigarettes (a minimum of €80), it would increase the TIRSP of fine-cut tobacco in 23 Member States, on average by 75%. This could trigger a reduction in demand of around 30%.

Under both hypotheses it would pave the way for further increases of excise duties on cigarettes, including by those Member States which already have a high level of taxation.

The increase is higher than for cigarettes, but one should take into account that in the period 2002 to 2006 the quantities of cigarettes released in the EU decreased by approximately 13% while the quantities of fine-cut tobacco increased by around 10% in the same period. Consequently a reduction in demand of around 20% would bring the evolution of the fine-cut market into line with the cigarette market. However under the hypothesis of 1kg smoking tobacco corresponding to 1333 factory made cigarettes the reduction in demand (30%) might go beyond the health objective set for cigarettes.

7.1.3 The impact of any change on the proportional minimum requirement

Currently the proportional minimum requirement is 32% of the TIRSP. A two thirds relationship of the minimum proportional requirement would result in a minimum incidence for fine-cut tobacco of 38% as compared to 57% for cigarettes as both minimum requirements refer to TIRSP. An increase of

the proportional minimum requirement for cigarettes to 63% would result in an increase to 42% (2:3 of 63%) for fine cut tobacco.

Graph i in annex 14 compares the % of excise duties in the TIRSP under a monetary minimum of €32 (to date), €43, €60 and €80.

An increase of the proportional minimum requirement for fine-cut tobacco to 38% would have a small impact on SI, LU and BG. An increase to 42% would in addition, have a small impact on ES, LV, CY, BE and PT. However in combination with an increase of the monetary minimum requirement, the impact would become nil under all hypotheses. Nevertheless, in order to maintain a synergy with the minimum requirements for cigarettes, it should be maintained to ensure that the tax incidence on fine cut would not decrease below 2:3 of cigarettes. Moreover it still could have in the future a more significant impact depending on the evolution of the market segments.

7.1.4 The impact of increases in fine-cut prices on the industry and otherwise

Small and medium sized enterprises

According to industry sources around 10% of fine-cut tobacco is produced by small and medium sized enterprises. There is no indication that increases of excise duty on fine-cut tobacco would disproportionately affect small and medium sized enterprises as compared to other enterprises.

Employment

Employment is slightly higher in the manufacture of smoking tobacco as compared to cigarette manufacture. However, again, the reduction of employment in the tobacco sector is a direct and unavoidable consequence of a policy aimed at controlling tobacco consumption.

The other impacts

In most Member States the other impact will be minor taken into account the very small market share of fine-cut in the vast majority of Member States. For those Member States where fine-cut has a significant market share the impact will be similar to cigarettes, albeit that the quantitative estimations should be reduced in line with the national relationship between fine-cut and cigarettes.

7.2 Other smoking tobacco (pipe tobacco) and cigars

This is a small and declining market and even without any increase in the minimum rates at EU level will most probably continue to decline. There are no indications that this market gives rise to external costs entailed by cross-border shopping and smuggling. Therefore a change in the structure of excise duties on other tobacco products is not desirable. However if the monetary minimum rates are not adapted for inflation they will become meaningless over time.

7.3 Conclusion

Unless Member States under their own volition adjust the taxation of fine-cut and cigarettes, the "no policy change option" will maintain a situation of tax-induced distortions of competition between the two products and further undermine health protection objectives. In addition, it will maintain cross-border shopping, therefore imposing external costs on a number of Member States.

The best means to align the structure of minimum duties on fine-cut tobacco with the structure of cigarettes would be the introduction of a compulsory monetary and proportional minimum requirement.

In order to ensure a proper relationship between minimum rates for cigarettes and fine-cut, the minimum rates for fine cut should be set at 2:3. Consequently, the proportional minimum duty would increase to 38%. Depending on the hypothesis (1kg fine-cut equals 1000 or 1333 cigarettes), this would result in, respectively, an increase of the monetary minimum to €43 or to €56.

Increases of the minimum rates for cigarettes should entail parallel increases for fine-cut tobacco. Depending on the hypothesis, applying the aforementioned 2:3 relationship would result in, respectively, an increase of the minimum monetary rate to €60 or to €80. The proportional minimum duty would under both hypotheses increase to 42%. A minimum of €80 would require significant increases in all Member States, except IE, SE, FR and UK.

Assuming the same price-elasticity as for cigarettes an increase of the minimum requirements to €60 and 42% would trigger a reduction in demand of around 20% in 19 Member States. This is higher than for cigarettes, but one should take into account that in the period 2002 to 2006 the quantities of cigarettes released in the EU decreased by approximately 13% while the quantities of fine-cut tobacco increased by around 10% in the same period. An increase of the minimum requirements to €80 and 42% would trigger a reduction in demand of around 30% in 23 Member States, which might go beyond the health objective set for cigarettes.

The alignment of the minimum duties at EU level would not necessarily result in a 2:3 relationship at national level. Consequently in order to avoid tax-induced distortions of competition, Member States with excise rates for cigarettes far above the EU minima, should ensure a proper level of excise duties for fine cut tobacco at national level.

A change in the structure of excise duties on other tobacco products is not desirable.

SECTION 8: MONITORING AND EVALUATION

Monitoring of the special arrangements for tobacco taxation will be carried at least once a year through the collection of information from Member States on the occasion of meetings of the Excise committee.

In addition, Article 4 of both Council Directives 92/79/EEC and 92/80/EEC on the structure and rates of excise duty applied to manufactured tobacco stipulate that the Council, acting on a proposal from the Commission, must examine the structure and rates of excise duty not less frequently than every four years. Consequently monitoring and evaluation of these provisions will take place in the framework of this periodical review.

However in order to carry out an in-depth examination of the operation of the single market and of the rates and structure of excise duties on the different tobacco products, the Commission services need information on the quantities and prices of the tobacco products released for consumption in the Member States. Currently the collection of this information is a cumbersome process. In addition, the Commission services were not able to collate the data from all Member States. In order to ensure an efficient and effective collection of this information from all Member States it is essential to agree upon common provisions on pooling and sharing of information on tobacco taxation.

ANNEXES

Data on the tobacco markets was collected from the Member States. 26 Member States have provided data. Only Romania had no data available on the 2005 and 2006 market. Consequently the Romanian tobacco market could not be taken into account in this impact assessment. The following tables 1 to 11 are based on data collected from the Member States. The questionnaire and the assumptions used are added in Annex

DIRECT EFFECTS ON EXCISE DUTIES OF THE DIFFERENT OPTIONS WITHOUT INCREASES OF THE CURRENT MINIMUM RATES (TABLES 1 TO 3)

Table 1 - The effect of applying the 57% rule to all cigarettes in 2006.

(Source: questionnaire to Member States)

Member State	Percentage of Market share of cigarettes under 57% in 2006	% corrected assuming that all new Member States reach €64	Increase of excise duty in percentage points needed to reach 57% on all cigarettes (weighed average)
AT	62,81%	-	0,37
BE	0,68%	-	0,002
BG	0%	0%	0
CY	47,30%	-	0,5
CZ	60,69%	15,91%	0,51
DK	62,27%	-	1,97
EE	69,55%	1,45%	0,04
FI	0%	-	0
FR	0%	-	0
DE	0%	-	0
EL	0,21%	-	0,0003
HU	53,29%	9,18%	0,21
IE	2,07%	-	0,02
IT	0%	-	0
LV	85,04%	3,01%	0,09
LT	80,52%	6,98%	0,15
LU.	74,63%	-	0,81
MT	0%	-	0
NL.	63,58%	-	1,71
PL	11,84%	0%	0
PT	9,34%	-	0,1
SK	30,09%	16,82%	0,29
SI	70,15%	1,32%	0,004
ES	0%	-	0
SE	70,79%	-	5,02
UK	0%	0%	0

Table 2 - The effect of applying the 57% rule in accordance with weighted average prices in 2006.

(Source: questionnaire to Member States)

The table below compares the excise duties as a percentage of the TIRSP of the MPPC on 1 July 2006 with the excise duties as a percentage of the 2006 WAP. The WAP has been calculated as the total TIRSP of 2006 divided by total quantities.

Member State	% MPPC in 2006	% MPPC corrected for €64 (only new Member States)	% WAP in 2006	% WAP corrected for €64 (only new Member States)	Difference MPPC and WAP (percent points)
AT	58,7%	-	56,93%	-	-1,77
BE	57,63%	-	57,80%	-	0,17
BG	60,34%	68,13%	60,78%	68,52%	0,39
CY	59,05%	-	57,01%	-	-2,04
CZ	51,27%	60,87%	51,40%	61,69%	0,82
DK	54,68%	-	56,77%	-	2,09
EE	54,05%	65,16%	52,29%	63,65%	-1,51
FI	57,38%	-	57,79%	-	0,41
FR	64%	-	64,30%	-	0,30
DE	62,29%	-	64,86%	-	2,57
EL	57,5%	-	58,88%	-	1,38
HU	58,27%	62,02%	57,64%	61,98%	-0,04
IE	60,33%	-	59,73%	-	-0,60
IT	58,49%	-	58,27%	-	-0,22
LV	49,35%	72,14%	42,17%	67,4%	-4,74
LT	40,33%	61,56%	43,02%	63,87%	2,31
LU.	57,02%	-	56,43%	-	-0,59
MT	60,82%	-	61,24%	-	0,42
NL.	57,09%	-	56,39%	-	-0,70
PL	56,98%	63,46%	64,02%	69,38%	5,92
PT	61,04%	-	61,24%	-	0,20
SK	54,43%	59,31%	58,88%	63,49%	4,18
SI	57,55%	60,45%	56,27%	59,19%	-1,26
ES	64,29%	-	64,51%	-	0,22
SE	49,2%	-	52,80%	-	3,60
UK	62,89%	-	67,24%	-	4,54

Table 3 - The effect of applying the minimum of €64 per 1000 cigarettes rule in accordance with weighted average prices

(Source: questionnaire to Member States)

Member State	<i>The excise yield in Euro on MPPC in 2006</i>	The excise yield in Euro on MPPC corrected assuming that Member States have reached 64€ on MPPC	The excise yield in Euro on WAP in 2006	The excise yield in Euro on WAP corrected assuming that Member States have reached 64€ on MPPC	Difference MPPC- WAP in €
Bulgaria	37,5	64	36,47	62,62	1,38
CZ Republic	38,11	64	38,11	63,27	0,73
Estonia	33,87	64	34,96	65,45	-1,45
Greece	80,5	64	69,11	NA	11,39
Hungary	51,15	64	51,64	64,05	-0,05
Latvia	15,6	64	16,82	65,99	-1,99
Lithuania	21,9	64	21,12	62,67	1,33
Poland	42,54	64	37,52	57,96	6,04
Romania	-no data	64	-no data	-no data	no-data
Slovakia	49,03	64	46,46	61,05	2,95
Slovenia	54,07	64	57,86	68,21	-4,21
Spain	72,33	64	72,76	NA	-0,43

IMPACT OF THE DIFFERENT OPTIONS IN CASE OF INCREASES OF THE MINIMUM RATES - (TABLES 4 TO 7)

Table 4.a - Evolution of the WAP if an increased 57% rule were applied to all cigarettes (Option B)

MS	Current WAP(corrected for new MS)	WAP 57%			WAP 59%			WAP 61%			WAP 63%			WAP 65%		
		without capping	capping €101	capping €122	without capping	capping €101	capping €122	without capping	capping €101	capping €122	without capping	capping €101	capping €122	without capping	capping €101	capping €122
AT	174,76	177,39	174,89	177,37	189,86	176,84	189,20	206,63	177,64	197,80	226,96	178,03	200,75	251,72	178,07	201,59
BE	188,59	188,60	188,59	188,59	199,96	188,74	196,87	216,45	189,23	199,43	238,49	189,51	202,71	265,53	189,51	204,37
BG	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38
CY	167,35	170,89	167,63	170,78	179,33	168,81	177,22	193,05	172,67	185,64	209,17	175,34	191,33	228,22	175,34	196,73
CZ	102,55	105,14	105,09	105,13	107,37	107,03	107,35	110,94	109,34	110,83	116,83	112,76	116,07	124,75	117,35	121,34
DK	197,64	216,13	197,64	203,05	230,51	197,64	203,73	248,08	197,64	203,88	273,00	197,64	206,74	307,66	197,64	208,45
EE	102,83	103,02	103,02	103,02	104,41	104,38	104,41	107,10	106,92	107,10	111,70	111,25	111,60	117,77	114,50	117,42
FI	194,11	194,11	194,11	194,11	204,30	194,11	202,46	223,79	194,11	206,09	247,38	194,11	206,09	276,54	194,11	206,09
FR	238,01	238,01	238,01	238,01	238,01	238,01	238,01	238,01	238,01	238,01	238,01	238,01	238,01	246,93	238,01	238,01
DE	214,18	214,18	214,18	214,18	214,18	214,18	214,18	214,18	214,18	214,18	216,54	214,18	214,18	230,47	214,18	214,18
EL	117,37	117,38	117,37	117,37	122,07	122,04	122,06	131,15	129,99	131,14	142,38	134,82	142,21	156,19	139,32	151,41
HU	103,34	104,39	104,37	104,38	105,90	105,85	105,89	110,28	109,85	110,25	117,62	115,83	117,44	127,23	123,12	125,85
IE	322,11	322,34	322,11	322,11	324,02	322,11	322,11	343,14	322,11	322,11	375,73	322,11	322,11	418,33	322,11	322,11
IT	165,10	165,10	165,10	165,10	170,08	169,45	169,99	185,31	171,78	184,15	203,55	171,78	196,06	225,75	171,78	196,06
LV	97,91	98,35	98,35	98,35	98,98	98,97	98,98	100,36	100,06	100,36	102,64	101,86	102,49	106,34	104,48	105,70
LT	98,12	98,84	98,84	98,84	100,45	100,37	100,45	102,94	102,69	102,94	107,43	106,71	107,26	113,71	111,37	113,28
LU.	155,47	160,07	157,99	160,03	170,51	163,85	170,35	183,22	167,77	179,50	198,22	169,52	188,28	216,17	170,05	191,87
MT	175,05	175,05	175,05	175,05	175,05	175,05	175,05	176,83	175,05	176,83	190,07	175,10	185,14	208,78	175,10	191,64
NL.	188,46	201,25	188,46	197,60	213,89	188,46	200,22	229,34	188,46	201,61	249,26	188,46	203,50	274,19	188,46	205,15
PL	83,56	83,56	83,56	83,56	83,56	83,56	83,56	83,66	83,66	83,66	84,62	84,62	84,62	86,29	86,28	86,29
PT	138,84	139,47	139,39	139,47	141,24	140,67	141,22	147,08	144,69	146,90	159,71	151,83	158,10	175,57	154,60	169,40
SK	96,16	97,50	97,50	97,50	99,35	99,35	99,35	102,27	102,27	102,27	106,23	105,28	106,23	112,33	108,40	112,15
SI	115,25	115,27	115,26	115,27	117,43	117,42	117,42	124,87	124,84	124,86	136,86	135,78	136,84	151,80	145,77	151,63
ES	112,79	112,79	112,79	112,79	112,79	112,79	112,79	112,79	112,79	112,79	112,96	112,87	112,96	117,73	117,39	117,63
SE	201,29	248,45	201,29	214,56	267,61	201,29	215,26	293,00	201,29	217,52	325,81	201,29	219,11	367,83	201,29	219,53
UK	341,62	341,62	341,62	341,62	341,62	341,62	341,62	341,91	341,62	341,62	345,21	341,62	341,62	355,25	341,62	341,62
Average	160,92	164,63	161,29	162,66	169,38	162,46	165,43	177,61	164,23	168,96	189,53	166,22	173,19	205,94	168,12	176,96
STDEVP	66,02	68,21	65,79	66,45	70,02	65,32	66,50	74,07	64,42	65,93	80,63	63,23	64,80	90,26	61,88	63,03

Table 4.b - Evolution in % of the WAP if an increased 57% rule were applied to all cigarettes (Option B)

MS	Current WAP (corrected for new MS)	WAP 57%			WAP 59%			WAP 61%			WAP 63%			WAP 65%		
		without capping	capping €101	capping €122	without capping	capping €101	capping €122	without capping	capping €101	capping €122	without capping	capping €101	capping €122	without capping	capping €101	capping €122
AT	174,76	1,50%	0,08%	1,49%	8,64%	1,19%	8,27%	18,24%	1,65%	13,18%	29,87%	1,87%	14,87%	44,04%	1,89%	15,36%
BE	188,59	0,01%	0,00%	0,00%	6,03%	0,08%	4,39%	14,78%	0,34%	5,75%	26,46%	0,49%	7,49%	40,80%	0,49%	8,37%
BG	91,38	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
CY	167,35	2,12%	0,17%	2,05%	7,16%	0,88%	5,90%	15,36%	3,18%	10,93%	24,99%	4,78%	14,33%	36,38%	4,78%	17,56%
CZ	102,55	2,52%	2,48%	2,51%	4,70%	4,36%	4,67%	8,18%	6,62%	8,07%	13,93%	9,95%	13,18%	21,65%	14,43%	18,32%
DK	197,64	9,36%	0,00%	2,74%	16,63%	0,00%	3,08%	25,52%	0,00%	3,16%	38,13%	0,00%	4,61%	55,67%	0,00%	5,47%
EE	102,83	0,18%	0,18%	0,18%	1,54%	1,50%	1,54%	4,15%	3,98%	4,15%	8,62%	8,19%	8,53%	14,53%	11,35%	14,19%
FI	194,11	0,00%	0,00%	0,00%	5,25%	0,00%	4,30%	15,29%	0,00%	6,17%	27,44%	0,00%	6,17%	42,46%	0,00%	6,17%
FR	238,01	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	3,75%	0,00%	0,00%
DE	214,18	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	1,10%	0,00%	0,00%	7,60%	0,00%	0,00%
EL	117,37	0,00%	0,00%	0,00%	4,00%	3,98%	4,00%	11,73%	10,75%	11,73%	21,31%	14,86%	21,16%	33,07%	18,70%	29,00%
HU	103,34	1,02%	1,00%	1,01%	2,48%	2,43%	2,47%	6,72%	6,30%	6,70%	13,83%	12,09%	13,65%	23,13%	19,15%	21,79%
IE	322,11	0,07%	0,00%	0,00%	0,59%	0,00%	0,00%	6,53%	0,00%	0,00%	16,65%	0,00%	0,00%	29,87%	0,00%	0,00%
IT	165,10	0,00%	0,00%	0,00%	3,02%	2,64%	2,96%	12,25%	4,05%	11,54%	23,29%	4,05%	18,76%	36,74%	4,05%	18,76%
LV	97,91	0,45%	0,45%	0,45%	1,09%	1,08%	1,09%	2,50%	2,20%	2,50%	4,83%	4,03%	4,68%	8,60%	6,71%	7,95%
LT	98,12	0,73%	0,73%	0,73%	2,37%	2,29%	2,37%	4,91%	4,66%	4,91%	9,49%	8,75%	9,31%	15,88%	13,50%	15,45%
LU	155,47	2,96%	1,62%	2,94%	9,67%	5,39%	9,57%	17,85%	7,91%	15,46%	27,50%	9,04%	21,11%	39,04%	9,38%	23,42%
MT	175,05	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	1,01%	0,00%	1,01%	8,58%	0,03%	5,77%	19,27%	0,03%	9,48%
NL	188,46	6,78%	0,00%	4,85%	13,49%	0,00%	6,24%	21,69%	0,00%	6,98%	32,26%	0,00%	7,98%	45,49%	0,00%	8,85%
PL	83,56	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,12%	0,12%	0,12%	1,28%	1,28%	1,28%	3,27%	3,27%	3,27%
PT	138,84	0,45%	0,40%	0,45%	1,72%	1,32%	1,71%	5,93%	4,21%	5,80%	15,03%	9,35%	13,87%	26,45%	11,35%	22,01%
SK	96,16	1,39%	1,39%	1,39%	3,32%	3,31%	3,31%	6,35%	6,35%	6,35%	10,48%	9,48%	10,48%	16,81%	12,73%	16,63%
SI	115,25	0,02%	0,01%	0,02%	1,89%	1,88%	1,88%	8,35%	8,32%	8,34%	18,76%	17,82%	18,74%	31,71%	26,48%	31,57%
ES	112,79	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,14%	0,07%	0,14%	4,38%	4,07%	4,29%
SE	201,29	23,43%	0,00%	6,59%	32,95%	0,00%	6,94%	45,56%	0,00%	8,06%	61,86%	0,00%	8,85%	82,74%	0,00%	9,06%
UK	341,62	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,08%	0,00%	0,00%	1,05%	0,00%	0,00%	3,99%	0,00%	0,00%
Average	160,92	2,04%	0,33%	1,05%	4,87%	1,24%	2,87%	9,74%	2,72%	5,42%	16,80%	4,47%	8,65%	26,44%	6,24%	11,81%

Table 4.c - The market share affected by increasing the 57% rule applied to all cigarettes.

(2006 data, corrected assuming that all new Member States comply with the €64 rule)

MS	Market share under 59%	Market share under 61%	Market share under 63%	Market share under 65%
AT	94,74%	99,95%	100%	100%
BE	82,46%	100%	100%	100%
BG	0%	0%	0%	0%
CY	64,77%	100%	100%	100%
CZ	25,03%	43,87%	49,04%	61,56%
DK	62,59%	68,43%	90,60%	92,49%
EE	23,92%	24,17%	42,59%	43,95%
FI	100%	100%	100%	100%
FR	0%	0%	0%	100%
DE	0%	0%	13,55%	65,48%
EL	66,79%	81,69%	85,96%	85,96%
HU	20,28%	53,29%	62,30%	66,81%
IE	17,55%	87,05%	100%	100%
IT	100%	100%	100%	100%
LV	7,01%	14,35%	20,86%	34,93%
LT	22,87%	22,99%	45,41%	54,10%
LU.	94,40%	96,88%	99,04%	99,05%
MT	0%	47,40%	96,52%	96,52%
NL.	74,55%	80,41%	89,74%	95,23%
PL	0,10%	2,18%	11,53%	12,45%
PT	16,02%	46,46%	81,56%	87,37%
SK	18,24%	29,86%	32,64%	47,39%
SI	40,01%	90,80%	99,97%	100%
ES	0%	0%	18,75%	76,26%
SE	74,79%	88,50%	92,23%	93,19%
UK	0%	1,67	20,53%	34,26%

Table 5.a - Evolution of the WAP if an increased €4 rule were applied to all cigarettes (Option C)

MS	<i>Current WAP (corrected for new MS)</i>	€0	€5	€8	€9	€10
AT	174,76	174,76	174,76	174,76	174,94	177,36
BE	188,59	188,59	188,59	188,59	188,59	189,23
BG	91,38	100,24	106,24	112,24	124,24	136,24
CY	167,35	167,35	167,35	167,35	169,37	174,54
CZ	102,55	111,05	116,54	122,47	134,37	146,27
DK	197,64	197,64	197,64	197,64	197,64	197,64
EE	102,83	108,99	114,16	120,00	131,80	143,60
FI	194,11	194,11	194,11	194,11	194,11	194,11
FR	238,01	238,01	238,01	238,01	238,01	238,01
DE	214,18	214,18	214,18	214,18	214,18	214,18
EL	117,37	125,46	128,54	131,77	142,27	154,15
HU	103,34	110,74	116,48	122,48	134,48	146,48
IE	322,11	322,11	322,11	322,11	322,11	322,11
IT	165,10	165,10	165,10	165,10	165,10	170,65
LV	97,91	102,93	108,55	114,44	126,24	138,04
LT	98,12	106,80	112,67	118,57	130,37	142,17
LU	155,47	155,47	155,47	156,15	160,95	169,66
MT	175,05	175,05	175,05	175,05	175,05	175,05
NL	188,46	188,46	188,46	188,46	188,46	188,46
PL	83,56	98,24	104,33	110,43	122,63	134,83
PT	138,84	138,84	138,84	138,84	144,87	156,95
SK	96,16	106,81	112,76	118,71	130,62	142,52
SI	115,25	118,99	123,59	129,41	141,40	153,40
ES	112,79	115,30	118,58	122,94	133,02	144,47
SE	201,29	201,29	201,29	201,29	201,29	201,29
UK	341,62	341,62	341,62	341,62	341,62	341,62
Average	160,92	164,16	166,35	168,72	174,14	180,50
STDEVP	66,02	63,05	61,13	59,15	55,07	50,96

Table: 5.b Evolution in % of the WAP if an increased €4 rule were applied to all cigarettes (Option C)

Member State	Current WAP (corrected for new MS)	€0	€5	€8	€9	€100
AT	174,76	0,00%	0,00%	0,00%	0,10%	1,49%
BE	188,59	0,00%	0,00%	0,00%	0,00%	0,34%
BG	91,38	9,69%	16,26%	22,83%	35,96%	49,09%
CY	167,35	0,00%	0,00%	0,00%	1,21%	4,30%
CZ	102,55	8,29%	13,64%	19,42%	31,02%	42,63%
DK	197,64	0,00%	0,00%	0,00%	0,00%	0,00%
EE	102,83	5,99%	11,01%	16,70%	28,17%	39,65%
FI	194,11	0,00%	0,00%	0,00%	0,00%	0,00%
FR	238,01	0,00%	0,00%	0,00%	0,00%	0,00%
DE	214,18	0,00%	0,00%	0,00%	0,00%	0,00%
EL	117,37	6,89%	9,52%	12,26%	21,21%	31,33%
HU	103,34	7,16%	12,72%	18,53%	30,14%	41,75%
IE	322,11	0,00%	0,00%	0,00%	0,00%	0,00%
IT	165,10	0,00%	0,00%	0,00%	0,00%	3,37%
LV	97,91	5,12%	10,87%	16,89%	28,94%	40,99%
LT	98,12	8,85%	14,83%	20,84%	32,86%	44,89%
LU	155,47	0,00%	0,00%	0,44%	3,52%	9,13%
MT	175,05	0,00%	0,00%	0,00%	0,00%	0,00%
NL	188,46	0,00%	0,00%	0,00%	0,00%	0,00%
PL	83,56	17,57%	24,87%	32,17%	46,77%	61,37%
PT	138,84	0,00%	0,00%	0,00%	4,34%	13,04%
SK	96,16	11,08%	17,27%	23,45%	35,83%	48,21%
SI	115,25	3,25%	7,24%	12,28%	22,69%	33,10%
ES	112,79	2,22%	5,13%	8,99%	17,93%	28,08%
SE	201,29	0,00%	0,00%	0,00%	0,00%	0,00%
UK	341,62	0,00%	0,00%	0,00%	0,00%	0,00%
Average	160,92	3,31%	5,51%	7,88%	13,10%	18,95%

Table 5.c - The market share affected by increasing the minimum of €64 per 1000 on all cigarettes

MS	Market share under €70	Market share under €75	Market share under €80	Market share under €90	Market share under €100
AT	0	0	0	5,26%	59,27%
BE	0	0	0	0	22,78%
BG	100%	100%	100%	100%	100%
CY	0	0	0	35,30%	56,83
CZ	85,80%	98,35%	99,94%	99,99%	100%
DK	0	0	0	0	0
EE	76,08%	98,55%	99,94%	100%	100%
FI	0	0	0	0	0
FR	0	0	0	0	0
DE	0	0	0	0	0
EL	51,64%	51,92%	55,85%	99,06%	99,99%
HU	91,54%	99,29%	99,99%	99,99%	99,99%
IE	0	0	0	0	0
IT	0	0	0	0	94,11%
LV	85,75%	98,03%	100%	100%	100%
LT	98,93%	100%	100%	100%	100%
LU	0	0	17,31%	65,65%	98,73%
MT	0	0	0	0	0
NL	0	0	0	0	0
PL	99,90%	100%	100%	100%	100%
PT	0	0	0	98,79%	100%
SK	100%	100%	100%	100%	100%
SI	68,88%	86,70%	99,82%	99,98%	99,98%
ES	25,53%	63,92%	81,02%	98,06%	99,25%
SE	0	0	0	0	0
UK	0	0	0	0	0

Table 6.a – Evolution of the WAP if an increased 57% rule were applied on WAP (Option D)

MS	Current WAP corrected for new	57%			59%			61%			63%			65%		
		without capping	capping €101	capping €122	without capping	capping €101	capping €122	without capping	capping €101	capping €122	without capping	capping €101	capping €122	without capping	capping €101	capping €122
AT	174,76	175,24	175,24	175,24	189,64	176,58	189,64	206,63	176,58	201,78	226,96	176,58	201,78	251,72	176,58	201,78
BE	188,59	188,59	188,59	188,59	198,14	188,59	198,14	216,45	188,59	204,31	238,49	188,59	204,31	265,53	188,59	204,31
BG	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38	91,38
CY	167,35	167,35	167,35	167,35	179,24	173,78	179,24	193,05	173,78	193,05	209,17	173,78	197,93	228,22	173,78	197,93
CZ	102,55	102,55	102,55	102,55	102,55	102,55	102,55	102,55	102,55	102,55	108,93	108,93	108,93	120,38	120,38	120,38
DK	197,64	199,60	197,64	199,60	218,61	197,64	209,88	241,62	197,64	209,88	270,05	197,64	209,88	306,05	197,64	209,88
EE	102,83	102,83	102,83	102,83	102,83	102,83	102,83	102,83	102,83	102,83	102,83	102,83	102,83	109,89	109,89	109,89
FI	194,11	194,11	194,11	194,11	204,30	194,11	204,30	223,79	194,11	206,09	247,38	194,11	206,09	276,54	194,11	206,09
FR	238,01	238,01	238,01	238,01	238,01	238,01	238,01	238,01	238,01	238,01	238,01	238,01	238,01	246,93	238,01	238,01
DE	214,18	214,18	214,18	214,18	214,18	214,18	214,18	214,18	214,18	214,18	214,18	214,18	214,18	215,64	214,18	214,18
EL	117,37	117,37	117,37	117,37	117,95	117,95	117,95	128,19	128,19	128,19	140,38	140,38	140,38	155,14	155,14	155,14
HU	103,34	103,34	103,34	103,34	103,34	103,34	103,34	103,34	103,34	103,34	108,51	108,51	108,51	120,35	120,35	120,35
IE	322,11	322,11	322,11	322,11	322,11	322,11	322,11	341,01	322,11	322,11	375,73	322,11	322,11	418,33	322,11	322,11
IT	165,10	165,10	165,10	165,10	170,08	170,08	170,08	185,31	170,86	185,31	203,55	170,86	196,06	225,75	170,86	196,06
LV	97,91	97,91	97,91	97,91	97,91	97,91	97,91	97,91	97,91	97,91	97,91	97,91	97,91	97,91	97,91	97,91
LT	98,12	98,12	98,12	98,12	98,12	98,12	98,12	98,12	98,12	98,12	98,12	98,12	98,12	103,74	103,74	103,74
LU	155,47	158,43	158,43	158,43	169,76	169,76	169,76	182,84	170,73	182,84	198,10	170,73	194,88	216,14	170,73	194,88
MT	175,05	175,05	175,05	175,05	175,05	175,05	175,05	175,05	175,05	175,05	189,19	175,05	189,19	208,35	175,05	192,51
NL	188,46	192,74	188,46	192,74	208,14	188,46	207,19	226,22	188,46	207,19	247,73	188,46	207,19	273,77	188,46	207,19
PL	83,56	83,56	83,56	83,56	83,56	83,56	83,56	83,56	83,56	83,56	83,56	83,56	83,56	83,56	83,56	83,56
PT	138,84	138,84	138,84	138,84	138,84	138,84	138,84	138,84	138,84	138,84	151,26	151,26	151,26	168,41	158,16	168,41
SK	96,16	96,16	96,16	96,16	96,16	96,16	96,16	96,16	96,16	96,16	96,16	96,16	96,16	103,82	103,82	103,82
SI	115,25	115,25	115,25	115,25	115,25	115,25	115,25	124,61	124,61	124,61	136,86	136,86	136,86	151,80	151,80	151,80
ES	112,79	112,79	112,79	112,79	112,79	112,79	112,79	112,79	112,79	112,79	112,79	112,79	112,79	115,41	115,41	115,41
SE	201,29	238,02	201,29	220,93	260,68	201,29	220,93	288,12	201,29	220,93	322,02	201,29	220,93	364,96	201,29	220,93
UK	341,62	341,62	341,62	341,62	341,62	341,62	341,62	341,62	341,62	341,62	341,62	341,62	341,62	341,62	341,62	341,62
Av	160,92	162,70	161,05	162,04	167,32	162,00	165,42	175,16	162,82	168,56	186,57	164,68	172,03	202,36	167,87	175,74
STDEVP	66,02	67,35	66,01	66,69	69,73	66,08	67,82	74,73	65,62	67,98	82,09	64,63	67,27	91,17	62,63	64,94

Table 6.b - Evolution in % of the WAP if an increased 57% rule were applied on WAP (Option D)

MS	Current WAP (corrected)	57%			59%			61%			63%			65%		
		without capping	capping €101	capping €122	without capping	capping €101	capping €122	without capping	capping €101	capping €122	without capping	capping €101	capping €122	without capping	capping €101	capping €122
AT	174,76	0,27%	0,27%	0,27%	8,52%	1,04%	8,52%	18,24%	1,04%	15,46%	29,87%	1,04%	15,46%	44,04%	1,04%	15,46%
BE	188,59	0,00%	0,00%	0,00%	5,07%	0,00%	5,07%	14,78%	0,00%	8,34%	26,46%	0,00%	8,34%	40,80%	0,00%	8,34%
BG	91,38	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
CY	167,35	0,00%	0,00%	0,00%	7,11%	3,84%	7,11%	15,36%	3,84%	15,36%	24,99%	3,84%	18,27%	36,38%	3,84%	18,27%
CZ	102,55	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	6,22%	6,22%	6,22%	17,38%	17,38%	17,38%
DK	197,64	0,99%	0,00%	0,99%	10,61%	0,00%	6,20%	22,25%	0,00%	6,20%	36,64%	0,00%	6,20%	54,85%	0,00%	6,20%
EE	102,83	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	6,86%	6,86%	6,86%
FI	194,11	0,00%	0,00%	0,00%	5,25%	0,00%	5,25%	15,29%	0,00%	6,17%	27,44%	0,00%	6,17%	42,46%	0,00%	6,17%
FR	238,01	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	3,75%	0,00%	0,00%
DE	214,18	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,68%	0,00%	0,00%
EL	117,37	0,00%	0,00%	0,00%	0,49%	0,49%	0,49%	9,22%	9,22%	9,22%	19,61%	19,61%	19,61%	32,18%	32,18%	32,18%
HU	103,34	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	5,01%	5,01%	5,01%	16,47%	16,47%	16,47%
IE	322,11	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	5,87%	0,00%	0,00%	16,65%	0,00%	0,00%	29,87%	0,00%	0,00%
IT	165,10	0,00%	0,00%	0,00%	3,02%	3,02%	3,02%	12,25%	3,49%	12,25%	23,29%	3,49%	18,76%	36,74%	3,49%	18,76%
LV	97,91	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
LT	98,12	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	5,73%	5,73%	5,73%
LU	155,47	1,90%	1,90%	1,90%	9,19%	9,19%	9,19%	17,60%	9,82%	17,60%	27,42%	9,82%	25,35%	39,03%	9,82%	25,35%
MT	175,05	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	8,08%	0,00%	8,08%	19,02%	0,00%	9,97%
NL	188,46	2,27%	0,00%	2,27%	10,44%	0,00%	9,93%	20,03%	0,00%	9,93%	31,45%	0,00%	9,93%	45,26%	0,00%	9,93%
PL	83,56	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
PT	138,84	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	8,94%	8,94%	8,94%	21,29%	13,91%	21,29%
SK	96,16	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	7,96%	7,96%	7,96%
SI	115,25	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	8,12%	8,12%	8,12%	18,76%	18,76%	18,76%	31,71%	31,71%	31,71%
ES	112,79	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	2,32%	2,32%	2,32%
SE	201,29	18,25%	0,00%	9,76%	29,51%	0,00%	9,76%	43,14%	0,00%	9,76%	59,98%	0,00%	9,76%	81,31%	0,00%	9,76%
UK	341,62	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Av	160,92	0,91%	0,08%	0,58%	3,43%	0,68%	2,48%	7,77%	1,37%	4,55%	14,26%	2,95%	7,11%	23,70%	5,87%	10,39%

Table 7.a - Evolution of the WAP if an increased €64 rule were applied on WAP (Option E)

Member State	Current WAP (corrected for new MS)	€70	€75	€80	€90	100
AT	174,76	174,76	174,76	174,76	174,76	175,37
BE	188,59	188,59	188,59	188,59	188,59	188,59
BG	91,38	100,24	106,24	112,24	124,24	136,24
CY	167,35	167,35	167,35	167,35	167,35	172,63
CZ	102,55	110,57	116,52	122,47	134,37	146,27
DK	197,64	197,64	197,64	197,64	197,64	197,64
EE	102,83	108,20	114,10	120,00	131,80	143,60
FI	194,11	194,11	194,11	194,11	194,11	194,11
FR	238,01	238,01	238,01	238,01	238,01	238,01
DE	214,18	214,18	214,18	214,18	214,18	214,18
EL	117,37	118,44	124,39	130,34	142,24	154,14
HU	103,34	110,48	116,48	122,48	134,48	146,48
IE	322,11	322,11	322,11	322,11	322,11	322,11
IT	165,10	165,10	165,10	165,10	165,10	169,66
LV	97,91	102,64	108,54	114,44	126,24	138,04
LT	98,12	106,77	112,67	118,57	130,37	142,17
LU	155,47	155,47	155,47	155,47	158,08	169,58
MT	175,05	175,05	175,05	175,05	175,05	175,05
NL	188,46	188,46	188,46	188,46	188,46	188,46
PL	83,56	98,23	104,33	110,43	122,63	134,83
PT	138,84	138,84	138,84	138,84	144,85	156,95
SK	96,16	106,81	112,76	118,71	130,62	142,52
SI	115,25	117,39	123,39	129,39	141,39	153,40
ES	112,79	112,79	115,39	121,19	132,79	144,39
SE	201,29	201,29	201,29	201,29	201,29	201,29
UK	341,62	341,62	341,62	341,62	341,62	341,62
Average	160,92	163,66	166,05	168,57	173,94	180,28
STDEVP	66,02	63,41	61,34	59,24	55,11	50,99

Table 7.b - Evolution in % of the WAP if an increased €64 rule were applied on WAP (Option E)

Member State	<i>Current WAP (corrected for new MS)</i>	€70	€75	€80	€90	€100
AT	174,76	0,00%	0,00%	0,00%	0,00%	0,35%
BE	188,59	0,00%	0,00%	0,00%	0,00%	0,00%
BG	91,38	9,69%	16,26%	22,83%	26,45%	49,09%
CY	167,35	0,00%	0,00%	0,00%	0,00%	3,16%
CZ	102,55	7,81%	13,61%	19,42%	23,68%	42,62%
DK	197,64	0,00%	0,00%	0,00%	0,00%	0,00%
EE	102,83	5,22%	10,96%	16,70%	21,98%	39,65%
FI	194,11	0,00%	0,00%	0,00%	0,00%	0,00%
FR	238,01	0,00%	0,00%	0,00%	0,00%	0,00%
DE	214,18	0,00%	0,00%	0,00%	0,00%	0,00%
EL	117,37	0,91%	5,98%	11,05%	17,48%	31,32%
HU	103,34	6,91%	12,72%	18,52%	23,16%	41,75%
IE	322,11	0,00%	0,00%	0,00%	0,00%	0,00%
IT	165,10	0,00%	0,00%	0,00%	0,00%	2,77%
LV	97,91	4,84%	10,86%	16,89%	22,44%	40,99%
LT	98,12	8,81%	14,83%	20,84%	24,74%	44,89%
LU	155,47	0,00%	0,00%	0,00%	1,65%	9,08%
MT	175,05	0,00%	0,00%	0,00%	0,00%	0,00%
NL	188,46	0,00%	0,00%	0,00%	0,00%	0,00%
PL	83,56	17,57%	24,87%	32,17%	31,87%	61,37%
PT	138,84	0,00%	0,00%	0,00%	4,15%	13,04%
SK	96,16	11,08%	17,27%	23,45%	26,38%	48,21%
SI	115,25	1,86%	7,07%	12,27%	18,49%	33,10%
ES	112,79	0,00%	2,30%	7,44%	15,06%	28,01%
SE	201,29	0,00%	0,00%	0,00%	0,00%	0,00%
UK	341,62	0,00%	0,00%	0,00%	0,00%	0,00%
Average	160,92	2,87%	5,26%	7,75%	9,90%	18,82%

THE BUDGETARY IMPACT

Table 8.a - The impact on budget of excise duty changes per year Options B and C

MS	Option B (capping €122)					Option C (correct for new Member States)					
	57%	59%	61%	63%	65%	€64	€70	€75	€80	€90	€100
AT	21102,01	112081,05	173115,89	193156,32	198758,84	0	0	0	0	1494,67	21023,22
BE	0	63854,81	82831,46	106737,93	118561,21	0	0	0	0	0	5120,74
BG	0	0	0	0	0	14706,57	66226,7	105900,35	141384,89	199786,65	241431,98
CY	4003,46	11227,25	20162,77	25857,65	31006,82	0	0	0	0	2374,25	8269,53
CZ	41195,58	75613,75	127747,31	201514,51	270181,6	45208,69	130917,14	207820,34	284166,72	416240,18	520133,09
DK	24276,11	27278,63	27946,97	40404,98	47713,58	0	0	0	0	0	0
EE	242,97	2047,02	5432,81	10840,33	17349,33	2085,24	7743,03	13766,43	20063,23	31090,05	39869,87
FI	0	23142,14	32795,42	32795,42	32795,42	0	0	0	0	0	0
FR	0	0	0	0	0	0	0	0	0	0	0
DE	0	0	0	0	0	0	0	0	0	0	0
EL	22,89	89666,07	250294,67	423461,76	548043,34	88888,96	151788,29	206116,08	260813,34	424289,27	581797,97
HU	9262,69	22501,34	59384,26	115522,76	173964,78	19830,82	63332,07	108350,68	151472,46	225915,62	284572,05
IE	0	0	0	0	0	0	0	0	0	0	0
IT	0	262615,05	967944,03	1497733,3	1497733,4	0	0	0	0	0	297462,1
LV	1170,62	2813,72	6391,28	11767,15	19575,82	1010,04	12852,78	26211,01	38997,1	60912,88	77901,74
LT	2128,93	6851,77	13935	25683,85	40855,03	7293,59	24477,63	39375,93	53006,74	76222,2	94042,77
LU	13340,09	41746,01	64897,61	85325,36	93174,16	0	0	0	2035,7	15959,24	39917,89
MT	0	0	596,49	3288,96	5276,44	0	0	0	0	0	0
NL	73992,01	94428,93	105124,42	119468,34	131833,46	0	0	0	0	0	0
PL	0	24,05	4244,38	43953,06	111205,63	301996,92	538035,05	718921,08	874792,11	1111412	1247869,1
PT	6649,28	25096,17	82859,7	187643,5	280911,4	0	0	0	0	62543,87	177445,94
SK	3598,54	8473,53	15914,83	25530,43	38829,05	11254,61	26890,5	40132,36	52100,53	72215,84	87236,44
SI	54,68	6148,19	26107	54660,34	83818,84	1145,77	10496,36	22814,38	37459,35	64366,72	86856,62
ES	0	0	0	8709,25	252627,61	49013,47	132512,96	300461,71	513685,12	962632,56	1398062,9
SE	56030,46	58856,81	67916,33	74181,36	75852,24	0	0	0	0	0	0
UK	0	0	0	0	0	0	0	0	0	0	0
Total	257070,33	934466,27	2135642,6	3288236,6	4070068	542434,67	1165272,5	1789870,4	2429977,3	3727456	5209014

Table 8.b - The impact on budget of excise duty changes per year Options D and E

MS	Option D (capping €122)					Option E (correct for new Member States)					
	WAP 57%	WAP 59%	WAP 61%	WAP 63%	WAP 65%	€64	€70	€75	€80	€90	€100
AT	3901,89	115298,44	199964,59	199964,59	199964,59	0	0	0	0	0	5023,13
BE	0	73293,5	118133,27	118133,27	118133,27	0	0	0	0	0	0
BG	0	0	0	0	0	13088,71	66226,7	105900,35	141384,89	254392,95	241431,98
CY	0	13433,59	27525,88	32113,96	32113,96	0	0	0	0	0	6110,27
CZ	0	0	0	99572,91	258035,77	14087,42	123812,53	207493,76	284123,75	496561,69	520131,3
DK	8898,01	53785,45	53785,45	53785,45	53785,45	0	0	0	0	0	0
EE	0	0	0	0	8820,63	0	6787,48	13705,99	20062,59	36548,31	39869,87
FI	0	28076,39	32795,42	32795,42	32795,42	0	0	0	0	0	0
FR	0	0	0	0	0	0	0	0	0	0	0
DE	0	0	0	0	0	0	0	0	0	0	0
EL	0	11265,11	200036,02	396603,81	593633,13	0	20739,61	132425,82	236834,85	471666,04	581699,32
HU	0	0	0	44928,54	136620,42	0	61204,35	108300,64	151449,28	268608,83	284567,51
IE	0	0	0	0	0	0	0	0	0	0	0
IT	0	267503,38	1022098,4	1497733,4	1497733,4	0	0	0	0	0	245484,07
LV	0	0	0	0	0	0	12154,4	26191,61	38997,1	72860,95	77901,74
LT	0	0	0	0	16180,15	4640,65	24396,4	39375,93	53006,74	92633,42	94042,77
LU	8700,18	40181,7	72870,48	99511,91	99511,91	0	0	0	0	7737,97	39702,56
MT	0	0	0	4540,09	5534,14	0	0	0	0	0	0
NL	35216,46	146893,33	146893,33	146893,33	146893,33	0	0	0	0	0	0
PL	0	0	0	0	0	287861,52	538009,34	718921,08	874792,11	1571498,4	1247869,1
PT	0	0	0	125058,28	273227,16	0	0	0	0	63728,21	177445,94
SK	0	0	0	0	19734,17	9318,61	26890,24	40132,19	52100,44	89725,19	87236,44
SI	0	0	25448,72	54710,81	84112,44	0	6074,09	22306,22	37430,75	72389,72	86852,83
ES	0	0	0	0	138364,16	0	0	137403,26	429590,25	1047925,9	1395289,4
SE	81303,86	81303,86	81303,86	81303,86	81303,86	0	0	0	0	0	0
UK	0	0	0	0	0	0	0	0	0	0	0
Total	138020,39	831034,76	1980855,4	2987649,6	3796497,3	328996,91	886295,15	1552156,9	2319772,8	4546277,6	5130658,3

THE IMPACT ON INFLATION

Table 9.a - Impact on inflation if the 57% rule were applied to all cigarettes (Option B)

MS	HICP's weight 2006	new HICP's weight	Current WAP	WAP 57%			WAP 59%			WAP 61%			WAP 63%			WAP 65%		
				Capping €22	increase	impact on inflation	capping €22	increase	impact on inflation	capping €22	increase	impact on inflation	capping €22	increase	Impact on inflation	capping €22	increase	impact on inflation
AT	18,58	18,50	174,76	177,37	1,49%	0,03%	189,20	8,27%	0,15%	197,80	13,18%	0,24%	200,75	14,87%	0,28%	201,59	15,36%	0,28%
BE	11,04	10,99	188,59	188,59	0,00%	0,00%	196,87	4,39%	0,05%	199,43	5,75%	0,06%	202,71	7,49%	0,08%	204,37	8,37%	0,09%
BG	30,00	29,87	91,38	91,38	0,00%	0,00%	91,38	0,00%	0,00%	91,38	0,00%	0,00%	91,38	0,00%	0,00%	91,38	0,00%	0,00%
CY	21,31	21,22	167,35	170,78	2,05%	0,04%	177,22	5,90%	0,13%	185,64	10,93%	0,23%	191,33	14,33%	0,30%	196,73	17,56%	0,37%
CZ	51,38	51,16	102,55	105,13	2,51%	0,13%	107,35	4,67%	0,24%	110,83	8,07%	0,41%	116,07	13,18%	0,67%	121,34	18,32%	0,94%
DK	25,20	25,09	197,64	203,05	2,74%	0,07%	203,73	3,08%	0,08%	203,88	3,16%	0,08%	206,74	4,61%	0,12%	208,45	5,47%	0,14%
EE	31,12	30,99	102,83	103,02	0,18%	0,01%	104,41	1,54%	0,05%	107,10	4,15%	0,13%	111,60	8,53%	0,26%	117,42	14,19%	0,44%
FI	18,48	18,40	194,11	194,11	0,00%	0,00%	202,46	4,30%	0,08%	206,09	6,17%	0,11%	206,09	6,17%	0,11%	206,09	6,17%	0,11%
FR	19,95	19,86	238,01	238,01	0,00%	0,00%	238,01	0,00%	0,00%	238,01	0,00%	0,00%	238,01	0,00%	0,00%	238,01	0,00%	0,00%
DE	32,23	32,09	214,18	214,18	0,00%	0,00%	214,18	0,00%	0,00%	214,18	0,00%	0,00%	214,18	0,00%	0,00%	214,18	0,00%	0,00%
EL	41,77	41,59	117,37	117,37	0,00%	0,00%	122,06	4,00%	0,17%	131,14	11,73%	0,49%	142,21	21,16%	0,88%	151,41	29,00%	1,21%
HU	28,75	28,63	103,34	104,38	1,01%	0,03%	105,89	2,47%	0,07%	110,25	6,70%	0,19%	117,44	13,65%	0,39%	125,85	21,79%	0,62%
IE	53,96	53,73	322,11	322,11	0,00%	0,00%	322,11	0,00%	0,00%	322,11	0,00%	0,00%	322,11	0,00%	0,00%	322,11	0,00%	0,00%
IT	20,76	20,67	165,10	165,10	0,00%	0,00%	169,99	2,96%	0,06%	184,15	11,54%	0,24%	196,06	18,76%	0,39%	196,06	18,76%	0,39%
LV	27,68	27,56	97,91	98,35	0,45%	0,01%	98,98	1,09%	0,03%	100,36	2,50%	0,07%	102,49	4,68%	0,13%	105,70	7,95%	0,22%
LT	24,05	23,95	98,12	98,84	0,73%	0,02%	100,45	2,37%	0,06%	102,94	4,91%	0,12%	107,26	9,31%	0,22%	113,28	15,45%	0,37%
LU	105,70	105,25	155,47	160,03	2,94%	0,31%	170,35	9,57%	1,01%	179,50	15,46%	1,63%	188,28	21,11%	2,22%	191,87	23,42%	2,46%
MT	32,51	32,37	175,05	175,05	0,00%	0,00%	175,05	0,00%	0,00%	176,83	1,01%	0,03%	185,14	5,77%	0,19%	191,64	9,48%	0,31%
NL	24,42	24,31	188,46	197,60	4,85%	0,12%	200,22	6,24%	0,15%	201,61	6,98%	0,17%	203,50	7,98%	0,19%	205,15	8,85%	0,22%
PL	26,54	26,43	83,56	83,56	0,00%	0,00%	83,56	0,00%	0,00%	83,66	0,12%	0,00%	84,62	1,28%	0,03%	86,29	3,27%	0,09%
PT	20,05	19,96	138,84	139,47	0,45%	0,01%	141,22	1,71%	0,03%	146,90	5,80%	0,12%	158,10	13,87%	0,28%	169,40	22,01%	0,44%
SK	24,68	24,57	96,16	97,50	1,39%	0,03%	99,35	3,31%	0,08%	102,27	6,35%	0,16%	106,23	10,48%	0,26%	112,15	16,63%	0,41%
SI	31,15	31,02	115,25	115,27	0,02%	0,00%	117,42	1,88%	0,06%	124,86	8,34%	0,26%	136,84	18,74%	0,58%	151,63	31,57%	0,98%
ES	21,95	21,86	112,79	112,79	0,00%	0,00%	112,79	0,00%	0,00%	112,79	0,00%	0,00%	112,96	0,14%	0,00%	117,63	4,29%	0,09%
SE	20,58	20,49	201,29	214,56	6,59%	0,14%	215,26	6,94%	0,14%	217,52	8,06%	0,17%	219,11	8,85%	0,18%	219,53	9,06%	0,19%
UK	26,00	25,89	341,62	341,62	0,00%	0,00%	341,62	0,00%	0,00%	341,62	0,00%	0,00%	341,62	0,00%	0,00%	341,62	0,00%	0,00%
Av	30,38	30,25	160,92	162,66	1,05%	0,04%	165,43	2,87%	0,10%	168,96	5,42%	0,19%	173,19	8,65%	0,30%	176,96	11,81%	0,40%

Table 9.b - Impact on inflation if the €64 rule were applied to all cigarettes (Option C)

MS	HICP's weight 2006	new HICP's weight	Current WAP	WAP €64	Incr. (%)	impact on inflation	WAP €70	Incr. (%)	impact on inflation	WAP €75	Incr. (%)	impact on inflation	WAP €80	Incr. (%)	impact on inflation	WAP €90	Incr. (%)	impact on inflation	WAP €100	Incr. (%)	impact on inflation
AT	18,58	18,50	174,76	174,76	0,00%	0,00%	174,76	0,00	0,00%	174,76	0,00	0,00%	174,76	0,00	0,00%	174,94	0,10	0,00%	177,36	1,49	0,03%
BE	11,04	10,99	188,59	188,59	0,00%	0,00%	188,59	0,00	0,00%	188,59	0,00	0,00%	188,59	0,00	0,00%	188,59	0,00	0,00%	189,23	0,34	0,00%
BG	30,00	29,87	91,38	93,25	2,04%	0,06%	100,24	9,69	0,29%	106,24	16,26	0,49%	112,24	22,83	0,68%	124,24	35,96	1,07%	136,24	49,09	1,47%
CY	21,31	21,22	167,35	167,35	0,00%	0,00%	167,35	0,00	0,00%	167,35	0,00	0,00%	167,35	0,00	0,00%	169,37	1,21	0,03%	174,54	4,30	0,09%
CZ	51,38	51,16	102,55	105,38	2,76%	0,14%	111,05	8,29	0,42%	116,54	13,64	0,70%	122,47	19,42	0,99%	134,37	31,02	1,59%	146,27	42,63	2,18%
DK	25,20	25,09	197,64	197,64	0,00%	0,00%	197,64	0,00	0,00%	197,64	0,00	0,00%	197,64	0,00	0,00%	197,64	0,00	0,00%	197,64	0,00	0,00%
EE	31,12	30,99	102,83	104,44	1,57%	0,05%	108,99	5,99	0,19%	114,16	11,01	0,34%	120,00	16,70	0,52%	131,80	28,17	0,87%	143,60	39,65	1,23%
FI	18,48	18,40	194,11	194,11	0,00%	0,00%	194,11	0,00	0,00%	194,11	0,00	0,00%	194,11	0,00	0,00%	194,11	0,00	0,00%	194,11	0,00	0,00%
FR	19,95	19,86	238,01	238,01	0,00%	0,00%	238,01	0,00	0,00%	238,01	0,00	0,00%	238,01	0,00	0,00%	238,01	0,00	0,00%	238,01	0,00	0,00%
DE	32,23	32,09	214,18	214,18	0,00%	0,00%	214,18	0,00	0,00%	214,18	0,00	0,00%	214,18	0,00	0,00%	214,18	0,00	0,00%	214,18	0,00	0,00%
EL	41,77	41,59	117,37	122,02	3,96%	0,16%	125,46	6,89	0,29%	128,54	9,52	0,40%	131,77	12,26	0,51%	142,27	21,21	0,88%	154,15	31,33	1,30%
HU	28,75	28,63	103,34	105,58	2,17%	0,06%	110,74	7,16	0,21%	116,48	12,72	0,36%	122,48	18,53	0,53%	134,48	30,14	0,86%	146,48	41,75	1,20%
IE	53,96	53,73	322,11	322,11	0,00%	0,00%	322,11	0,00	0,00%	322,11	0,00	0,00%	322,11	0,00	0,00%	322,11	0,00	0,00%	322,11	0,00	0,00%
IT	20,76	20,67	165,10	165,10	0,00%	0,00%	165,10	0,00	0,00%	165,10	0,00	0,00%	165,10	0,00	0,00%	165,10	0,00	0,00%	170,65	3,37	0,07%
LV	27,68	27,56	97,91	98,29	0,39%	0,01%	102,93	5,12	0,14%	108,55	10,87	0,30%	114,44	16,89	0,47%	126,24	28,94	0,80%	138,04	40,99	1,13%
LT	24,05	23,95	98,12	100,60	2,53%	0,06%	106,80	8,85	0,21%	112,67	14,83	0,36%	118,57	20,84	0,50%	130,37	32,86	0,79%	142,17	44,89	1,07%
LU	105,70	105,25	155,47	155,47	0,00%	0,00%	155,47	0,00	0,00%	155,47	0,00	0,00%	156,15	0,44	0,05%	160,95	3,52	0,37%	169,66	9,13	0,96%
MT	32,51	32,37	175,05	175,05	0,00%	0,00%	175,05	0,00	0,00%	175,05	0,00	0,00%	175,05	0,00	0,00%	175,05	0,00	0,00%	175,05	0,00	0,00%
NL	24,42	24,31	188,46	188,46	0,00%	0,00%	188,46	0,00	0,00%	188,46	0,00	0,00%	188,46	0,00	0,00%	188,46	0,00	0,00%	188,46	0,00	0,00%
PL	26,54	26,43	83,56	91,30	9,27%	0,25%	98,24	17,57	0,46%	104,33	24,87	0,66%	110,43	32,17	0,85%	122,63	46,77	1,24%	134,83	61,37	1,62%
PT	20,05	19,96	138,84	138,84	0,00%	0,00%	138,84	0,00	0,00%	138,84	0,00	0,00%	138,84	0,00	0,00%	144,87	4,34	0,09%	156,95	13,04	0,26%
SK	24,68	24,57	96,16	100,43	4,43%	0,11%	106,81	11,08	0,27%	112,76	17,27	0,42%	118,71	23,45	0,58%	130,62	35,83	0,88%	142,52	48,21	1,18%
SI	31,15	31,02	115,25	115,65	0,35%	0,01%	118,99	3,25	0,10%	123,59	7,24	0,22%	129,41	12,28	0,38%	141,40	22,69	0,70%	153,40	33,10	1,03%
ES	21,95	21,86	112,79	113,71	0,81%	0,02%	115,30	2,22	0,05%	118,58	5,13	0,11%	122,94	8,99	0,20%	133,02	17,93	0,39%	144,47	28,08	0,61%
SE	20,58	20,49	201,29	201,29	0,00%	0,00%	201,29	0,00	0,00%	201,29	0,00	0,00%	201,29	0,00	0,00%	201,29	0,00	0,00%	201,29	0,00	0,00%
UK	26,00	25,89	341,62	341,62	0,00%	0,00%	341,62	0,00%	0,00%	341,62	0,00	0,00%	341,62	0,00	0,00%	341,62	0,00	0,00%	341,62	0,00	0,00%
Av	30,38	30,25	160,92	162,05	1,16%	0,04%	164,16	3,31	0,10%	166,35	5,51	0,17%	168,72	7,88	0,24%	174,14	13,1	0,4%	180,50	18,9	0,59%

Table 9.c - Impact on inflation if the 57% rule were applied to WAP (Option D)

MS	HICP's weight 2006	new HICP's weight	Current WAP (corr.)	57%			59%			61%			63%			65%		
				capping €122	Increase	impact on inflation	capping €122	Increase	impact on inflation	capping €122	Increase	Impact on inflation	capping €122	Increase	impact on inflation	capping €122	Increase	impact on inflation
AT	18,58	18,50	174,76	175,24	0,27%	0,01%	189,64	8,52%	0,16%	201,78	15,46%	0,29%	201,78	15,46%	0,29%	201,78	15,46%	0,29%
BE	11,04	10,99	188,59	188,59	0,00%	0,00%	198,14	5,07%	0,06%	204,31	8,34%	0,09%	204,31	8,34%	0,09%	204,31	8,34%	0,09%
BG	30,00	29,87	91,38	91,38	0,00%	0,00%	91,38	0,00%	0,00%	91,38	0,00%	0,00%	91,38	0,00%	0,00%	91,38	0,00%	0,00%
CY	21,31	21,22	167,35	167,35	0,00%	0,00%	179,24	7,11%	0,15%	193,05	15,36%	0,33%	197,93	18,27%	0,39%	197,93	18,27%	0,39%
CZ	51,38	51,16	102,55	102,55	0,00%	0,00%	102,55	0,00%	0,00%	102,55	0,00%	0,00%	108,93	6,22%	0,32%	120,38	17,38%	0,89%
DK	25,20	25,09	197,64	199,60	0,99%	0,02%	209,88	6,20%	0,16%	209,88	6,20%	0,16%	209,88	6,20%	0,16%	209,88	6,20%	0,16%
EE	31,12	30,99	102,83	102,83	0,00%	0,00%	102,83	0,00%	0,00%	102,83	0,00%	0,00%	102,83	0,00%	0,00%	109,89	6,86%	0,21%
FI	18,48	18,40	194,11	194,11	0,00%	0,00%	204,30	5,25%	0,10%	206,09	6,17%	0,11%	206,09	6,17%	0,11%	206,09	6,17%	0,11%
FR	19,95	19,86	238,01	238,01	0,00%	0,00%	238,01	0,00%	0,00%	238,01	0,00%	0,00%	238,01	0,00%	0,00%	238,01	0,00%	0,00%
DE	32,23	32,09	214,18	214,18	0,00%	0,00%	214,18	0,00%	0,00%	214,18	0,00%	0,00%	214,18	0,00%	0,00%	214,18	0,00%	0,00%
EL	41,77	41,59	117,37	117,37	0,00%	0,00%	117,95	0,49%	0,02%	128,19	9,22%	0,38%	140,38	19,61%	0,82%	155,14	32,18%	1,34%
HU	28,75	28,63	103,34	103,34	0,00%	0,00%	103,34	0,00%	0,00%	103,34	0,00%	0,00%	108,51	5,01%	0,14%	120,35	16,47%	0,47%
IE	53,96	53,73	322,11	322,11	0,00%	0,00%	322,11	0,00%	0,00%	322,11	0,00%	0,00%	322,11	0,00%	0,00%	322,11	0,00%	0,00%
IT	20,76	20,67	165,10	165,10	0,00%	0,00%	170,08	3,02%	0,06%	185,31	12,25%	0,25%	196,06	18,76%	0,39%	196,06	18,76%	0,39%
LV	27,68	27,56	97,91	97,91	0,00%	0,00%	97,91	0,00%	0,00%	97,91	0,00%	0,00%	97,91	0,00%	0,00%	97,91	0,00%	0,00%
LT	24,05	23,95	98,12	98,12	0,00%	0,00%	98,12	0,00%	0,00%	98,12	0,00%	0,00%	98,12	0,00%	0,00%	103,74	5,73%	0,14%
LU	105,70	105,25	155,47	158,43	1,90%	0,20%	169,76	9,19%	0,97%	182,84	17,60%	1,85%	194,88	25,35%	2,67%	194,88	25,35%	2,67%
MT	32,51	32,37	175,05	175,05	0,00%	0,00%	175,05	0,00%	0,00%	175,05	0,00%	0,00%	189,19	8,08%	0,26%	192,51	9,97%	0,32%
NL.	24,42	24,31	188,46	192,74	2,27%	0,06%	207,19	9,93%	0,24%	207,19	9,93%	0,24%	207,19	9,93%	0,24%	207,19	9,93%	0,24%
PL	26,54	26,43	83,56	83,56	0,00%	0,00%	83,56	0,00%	0,00%	83,56	0,00%	0,00%	83,56	0,00%	0,00%	83,56	0,00%	0,00%
PT	20,05	19,96	138,84	138,84	0,00%	0,00%	138,84	0,00%	0,00%	138,84	0,00%	0,00%	151,26	8,94%	0,18%	168,41	21,29%	0,43%
SK	24,68	24,57	96,16	96,16	0,00%	0,00%	96,16	0,00%	0,00%	96,16	0,00%	0,00%	96,16	0,00%	0,00%	103,82	7,96%	0,20%
SI	31,15	31,02	115,25	115,25	0,00%	0,00%	115,25	0,00%	0,00%	124,61	8,12%	0,25%	136,86	18,76%	0,58%	151,80	31,71%	0,98%
ES	21,95	21,86	112,79	112,79	0,00%	0,00%	112,79	0,00%	0,00%	112,79	0,00%	0,00%	112,79	0,00%	0,00%	115,41	2,32%	0,05%
SE	20,58	20,49	201,29	220,93	9,76%	0,20%	220,93	9,76%	0,20%	220,93	9,76%	0,20%	220,93	9,76%	0,20%	220,93	9,76%	0,20%
UK	26,00	25,89	341,62	341,62	0,00%	0,00%	341,62	0,00%	0,00%	341,62	0,00%	0,00%	341,62	0,00%	0,00%	341,62	0,00%	0,00%
Av	30,38	30,25	160,92	162,04	0,58%	0,02%	165,42	2,48%	0,08%	168,56	4,55%	0,16%	172,03	7,11%	0,26%	175,74	10,39%	0,37%

Table 9.d - Impact on inflation if the €4 rule were applied to WAP (Option E)

MS	HICP's weight 2006	new HICP's weight	Current WAP (corr.)	€4			€70			€75			€80			€90			€100		
				WAP	Incr.	impact on inflation	WAP	Incr.	impact on inflation	WAP	Incr.	impact on inflation	WAP	Incr.	impact on inflation	90 €	Incr.	impact on inflation	WAP	Incr.	impact on inflation
AT	18,58	18,50	174,76	174,76	0,00%	0,00%	174,76	0,00%	0,00%	174,76	0,00%	0,00%	174,76	0,00%	0,00%	174,76	0,00%	0,00%	175,37	0,35%	0,01%
BE	11,04	10,99	188,59	188,59	0,00%	0,00%	188,59	0,00%	0,00%	188,59	0,00%	0,00%	188,59	0,00%	0,00%	188,59	0,00%	0,00%	188,59	0,00%	0,00%
BG	30,00	29,87	91,38	93,04	1,81%	0,05%	100,24	9,69%	0,29%	106,24	16,26%	0,49%	112,24	22,83%	0,68%	124,24	26,45%	0,79%	136,24	49,09%	1,47%
CY	21,31	21,22	167,35	167,35	0,00%	0,00%	167,35	0,00%	0,00%	167,35	0,00%	0,00%	167,35	0,00%	0,00%	167,35	0,00%	0,00%	172,63	3,16%	0,07%
CZ	51,38	51,16	102,55	103,42	0,85%	0,04%	110,57	7,81%	0,40%	116,52	13,61%	0,70%	122,47	19,42%	0,99%	134,37	23,68%	1,21%	146,27	42,62%	2,18%
DK	25,20	25,09	197,64	197,64	0,00%	0,00%	197,64	0,00%	0,00%	197,64	0,00%	0,00%	197,64	0,00%	0,00%	197,64	0,00%	0,00%	197,64	0,00%	0,00%
EE	31,12	30,99	102,83	102,83	0,00%	0,00%	108,20	5,22%	0,16%	114,10	10,96%	0,34%	120,00	16,70%	0,52%	131,80	21,98%	0,68%	143,60	39,65%	1,23%
FI	18,48	18,40	194,11	194,11	0,00%	0,00%	194,11	0,00%	0,00%	194,11	0,00%	0,00%	194,11	0,00%	0,00%	194,11	0,00%	0,00%	194,11	0,00%	0,00%
FR	19,95	19,86	238,01	238,01	0,00%	0,00%	238,01	0,00%	0,00%	238,01	0,00%	0,00%	238,01	0,00%	0,00%	238,01	0,00%	0,00%	238,01	0,00%	0,00%
DE	32,23	32,09	214,18	214,18	0,00%	0,00%	214,18	0,00%	0,00%	214,18	0,00%	0,00%	214,18	0,00%	0,00%	214,18	0,00%	0,00%	214,18	0,00%	0,00%
EL	41,77	41,59	117,37	117,37	0,00%	0,00%	118,44	0,91%	0,04%	124,39	5,98%	0,25%	130,34	11,05%	0,46%	142,24	17,48%	0,73%	154,14	31,32%	1,30%
HU	28,75	28,63	103,34	103,34	0,00%	0,00%	110,48	6,91%	0,20%	116,48	12,72%	0,36%	122,48	18,52%	0,53%	134,48	23,16%	0,66%	146,48	41,75%	1,20%
IE	53,96	53,73	322,11	322,11	0,00%	0,00%	322,11	0,00%	0,00%	322,11	0,00%	0,00%	322,11	0,00%	0,00%	322,11	0,00%	0,00%	322,11	0,00%	0,00%
IT	20,76	20,67	165,10	165,10	0,00%	0,00%	165,10	0,00%	0,00%	165,10	0,00%	0,00%	165,10	0,00%	0,00%	165,10	0,00%	0,00%	169,66	2,77%	0,06%
LV	27,68	27,56	97,91	97,91	0,00%	0,00%	102,64	4,84%	0,13%	108,54	10,86%	0,30%	114,44	16,89%	0,47%	126,24	22,44%	0,62%	138,04	40,99%	1,13%
LT	24,05	23,95	98,12	99,69	1,60%	0,04%	106,77	8,81%	0,21%	112,67	14,83%	0,36%	118,57	20,84%	0,50%	130,37	24,74%	0,59%	142,17	44,89%	1,07%
LU	105,70	105,25	155,47	155,47	0,00%	0,00%	155,47	0,00%	0,00%	155,47	0,00%	0,00%	155,47	0,00%	0,00%	158,08	1,65%	0,17%	169,58	9,08%	0,96%
MT	32,51	32,37	175,05	175,05	0,00%	0,00%	175,05	0,00%	0,00%	175,05	0,00%	0,00%	175,05	0,00%	0,00%	175,05	0,00%	0,00%	175,05	0,00%	0,00%
NL	24,42	24,31	188,46	188,46	0,00%	0,00%	188,46	0,00%	0,00%	188,46	0,00%	0,00%	188,46	0,00%	0,00%	188,46	0,00%	0,00%	188,46	0,00%	0,00%
PL	26,54	26,43	83,56	90,91	8,81%	0,23%	98,23	17,57%	0,46%	104,33	24,87%	0,66%	110,43	32,17%	0,85%	122,63	31,87%	0,84%	134,83	61,37%	1,62%
PT	20,05	19,96	138,84	138,84	0,00%	0,00%	138,84	0,00%	0,00%	138,84	0,00%	0,00%	138,84	0,00%	0,00%	144,85	4,15%	0,08%	156,95	13,04%	0,26%
SK	24,68	24,57	96,16	99,67	3,65%	0,09%	106,81	11,08%	0,27%	112,76	17,27%	0,42%	118,71	23,45%	0,58%	130,62	26,38%	0,65%	142,52	48,21%	1,18%
SI	31,15	31,02	115,25	115,25	0,00%	0,00%	117,39	1,86%	0,06%	123,39	7,07%	0,22%	129,39	12,27%	0,38%	141,39	18,49%	0,57%	153,40	33,10%	1,03%
ES	21,95	21,86	112,79	112,79	0,00%	0,00%	112,79	0,00%	0,00%	115,39	2,30%	0,05%	121,19	7,44%	0,16%	132,79	15,06%	0,33%	144,39	28,01%	0,61%
SE	20,58	20,49	201,29	201,29	0,00%	0,00%	201,29	0,00%	0,00%	201,29	0,00%	0,00%	201,29	0,00%	0,00%	201,29	0,00%	0,00%	201,29	0,00%	0,00%
UK	26,00	25,89	341,62	341,62	0,00%	0,00%	341,62	0,00%	0,00%	341,62	0,00%	0,00%	341,62	0,00%	0,00%	341,62	0,00%	0,00%	341,62	0,00%	0,00%
Av	30,38	30,25	160,92	161,49	0,64%	0,02%	163,66	2,87%	0,09%	166,05	5,26%	0,16%	168,57	7,75%	0,24%	173,94	9,90%	0,31%	180,28	18,82%	0,59%

THE IMPACT ON HEALTH OBJECTIVES

Table 10.a - Impact on price and demand of an increase of the minimum requirement under Option B.

	increase 57%		increase 59%		increase 61%		increase 63%		increase 65%	
	price	demand	Price	demand	price	demand	price	demand	price	demand
AT	1,49%	-0,64%	8,27%	-3,55%	13,18%	-5,67%	14,87%	-6,40%	15,36%	-6,60%
BE	0,00%	0,00%	4,39%	-1,89%	5,75%	-2,47%	7,49%	-3,22%	8,37%	-3,60%
BG	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
CY	2,05%	-0,88%	5,90%	-2,54%	10,93%	-4,70%	14,33%	-6,16%	17,56%	-7,55%
CZ	2,51%	-1,08%	4,67%	-2,01%	8,07%	-3,47%	13,18%	-5,67%	18,32%	-7,88%
DK	2,74%	-1,18%	3,08%	-1,32%	3,16%	-1,36%	4,61%	-1,98%	5,47%	-2,35%
EE	0,18%	-0,08%	1,54%	-0,66%	4,15%	-1,79%	8,53%	-3,67%	14,19%	-6,10%
FI	0,00%	0,00%	4,30%	-1,85%	6,17%	-2,65%	6,17%	-2,65%	6,17%	-2,65%
FR	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
DE	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
EL	0,00%	0,00%	4,00%	-1,72%	11,73%	-5,04%	21,16%	-9,10%	29,00%	-12,47%
HU	1,01%	-0,43%	2,47%	-1,06%	6,70%	-2,88%	13,65%	-5,87%	21,79%	-9,37%
IE	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
IT	0,00%	0,00%	2,96%	-1,27%	11,54%	-4,96%	18,76%	-8,07%	18,76%	-8,07%
LV	0,45%	-0,19%	1,09%	-0,47%	2,50%	-1,08%	4,68%	-2,01%	7,95%	-3,42%
LT	0,73%	-0,31%	2,37%	-1,02%	4,91%	-2,11%	9,31%	-4,00%	15,45%	-6,64%
LU	2,94%	-1,26%	9,57%	-4,12%	15,46%	-6,65%	21,11%	-9,08%	23,42%	-10,07%
MT	0,00%	0,00%	0,00%	0,00%	1,01%	-0,44%	5,77%	-2,48%	9,48%	-4,08%
NL.	4,85%	-2,08%	6,24%	-2,68%	6,98%	-3,00%	7,98%	-3,43%	8,85%	-3,81%
PL	0,00%	0,00%	0,00%	0,00%	0,12%	-0,05%	1,28%	-0,55%	3,27%	-1,41%
PT	0,45%	-0,19%	1,71%	-0,74%	5,80%	-2,49%	13,87%	-5,97%	22,01%	-9,46%
SK	1,39%	-0,60%	3,31%	-1,43%	6,35%	-2,73%	10,48%	-4,50%	16,63%	-7,15%
SI	0,02%	-0,01%	1,88%	-0,81%	8,34%	-3,59%	18,74%	-8,06%	31,57%	-13,57%
ES	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,14%	-0,06%	4,29%	-1,84%
SE	6,59%	-2,83%	6,94%	-2,98%	8,06%	-3,47%	8,85%	-3,81%	9,06%	-3,90%
UK	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%

Table 10.b - Impact on price and demand of an increase of the minimum requirement under Option C.

	€64		€70		€75		€80		€90		€100	
	price increase (%)	demand	price increase (%)	demand	price increase (%)	demand	price increase (%)	demand	price increase (%)	demand	price increase (%)	demand
AT	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,10%	-0,05%	1,49%	-0,64%
BE	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,34%	-0,15%
BG	2,04%	-0,88%	9,69%	-4,17%	16,26%	-6,99%	22,83%	-9,82%	35,96%	-15,46%	49,09%	-21,11%
CY	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	1,21%	-0,52%	4,30%	-1,85%
CZ	2,76%	-1,19%	8,29%	-3,56%	13,64%	-5,86%	19,42%	-8,35%	31,02%	-13,34%	42,63%	-18,33%
DK	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
EE	1,57%	-0,67%	5,99%	-2,58%	11,01%	-4,74%	16,70%	-7,18%	28,17%	-12,11%	39,65%	-17,05%
FI	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
FR	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
DE	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
EL	3,96%	-1,70%	6,89%	-2,96%	9,52%	-4,09%	12,26%	-5,27%	21,21%	-9,12%	31,33%	-13,47%
HU	2,17%	-0,93%	7,16%	-3,08%	12,72%	-5,47%	18,53%	-7,97%	30,14%	-12,96%	41,75%	-17,95%
IE	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
IT	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	3,37%	-1,45%
LV	0,39%	-0,17%	5,12%	-2,20%	10,87%	-4,67%	16,89%	-7,26%	28,94%	-12,44%	40,99%	-17,63%
LT	2,53%	-1,09%	8,85%	-3,80%	14,83%	-6,38%	20,84%	-8,96%	32,86%	-14,13%	44,89%	-19,30%
LU	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,44%	-0,19%	3,52%	-1,52%	9,13%	-3,92%
MT	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
NL	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
PL	9,27%	-3,99%	17,57%	-7,55%	24,87%	-10,69%	32,17%	-13,83%	46,77%	-20,11%	61,37%	-26,39%
PT	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	4,34%	-1,87%	13,04%	-5,61%
SK	4,43%	-1,91%	11,08%	-4,76%	17,27%	-7,42%	23,45%	-10,09%	35,83%	-15,41%	48,21%	-20,73%
SI	0,35%	-0,15%	3,25%	-1,40%	7,24%	-3,11%	12,28%	-5,28%	22,69%	-9,76%	33,10%	-14,23%
ES	0,81%	-0,35%	2,22%	-0,95%	5,13%	-2,20%	8,99%	-3,87%	17,93%	-7,71%	28,08%	-12,08%
SE	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
UK	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%

Table 10.c - Impact on price and demand of an increase of the minimum requirement under Option D.

	increase 57%		increase 59%		increase 61%		increase 63%		increase 65%	
	Price	deman	price	deman	price	deman	price	deman	price	deman
AT	0,27%	-0,12%	8,52%	-3,66%	15,46%	-6,65%	15,46%	-6,65%	15,46%	-6,65%
BE	0,00%	0,00%	5,07%	-2,18%	8,34%	-3,58%	8,34%	-3,58%	8,34%	-3,58%
BG	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
CY	0,00%	0,00%	7,11%	-3,06%	15,36%	-6,61%	18,27%	-7,86%	18,27%	-7,86%
CZ	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	6,22%	-2,67%	17,38%	-7,47%
DK	0,99%	-0,43%	6,20%	-2,66%	6,20%	-2,66%	6,20%	-2,66%	6,20%	-2,66%
EE	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	6,86%	-2,95%
FI	0,00%	0,00%	5,25%	-2,26%	6,17%	-2,65%	6,17%	-2,65%	6,17%	-2,65%
FR	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
DE	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
EL	0,00%	0,00%	0,49%	-0,21%	9,22%	-3,96%	19,61%	-8,43%	32,18%	-13,84%
HU	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	5,01%	-2,15%	16,47%	-7,08%
IE	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
IT	0,00%	0,00%	3,02%	-1,30%	12,25%	-5,27%	18,76%	-8,07%	18,76%	-8,07%
LV	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
LT	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	5,73%	-2,46%
LU	1,90%	-0,82%	9,19%	-3,95%	17,60%	-7,57%	25,35%	-10,90%	25,35%	-10,90%
MT	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	8,08%	-3,47%	9,97%	-4,29%
NL.	2,27%	-0,98%	9,93%	-4,27%	9,93%	-4,27%	9,93%	-4,27%	9,93%	-4,27%
PL	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
PT	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	8,94%	-3,84%	21,29%	-9,16%
SK	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	7,96%	-3,42%
SI	0,00%	0,00%	0,00%	0,00%	8,12%	-3,49%	18,76%	-8,07%	31,71%	-13,64%
ES	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	2,32%	-1,00%
SE	9,76%	-4,20%	9,76%	-4,20%	9,76%	-4,20%	9,76%	-4,20%	9,76%	-4,20%
UK	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%

Table 10.d - Impact on price and demand of an increase of the minimum requirement under Option E.

	€64		€70		€75		€80		€90		€100	
	Price increase (%)	demand	price increase (%)	demand	price increase (%)	demand	price increase (%)	demand	price increase (%)	demand	price increase (%)	demand
AT	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,35%	-0,15%
BE	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
BG	1,81%	-0,78%	9,69%	-4,17%	16,26%	-6,99%	22,83%	-9,82%	26,45%	-11,4%	49,09%	-21,1%
CY	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	3,16%	-1,36%
CZ	0,85%	-0,37%	7,81%	-3,36%	13,61%	-5,85%	19,42%	-8,35%	23,68%	-10,2%	42,62%	-18,3%
DK	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
EE	0,00%	0,00%	5,22%	-2,25%	10,96%	-4,71%	16,70%	-7,18%	21,98%	-9,45%	39,65%	-17%
FI	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
FR	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
DE	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
EL	0,00%	0,00%	0,91%	-0,39%	5,98%	-2,57%	11,05%	-4,75%	17,48%	-7,52%	31,32%	-13,5%
HU	0,00%	0,00%	6,91%	-2,97%	12,72%	-5,47%	18,52%	-7,97%	23,16%	-9,96%	41,75%	-18%
IE	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
IT	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	2,77%	-1,19%
LV	0,00%	0,00%	4,84%	-2,08%	10,86%	-4,67%	16,89%	-7,26%	22,44%	-9,65%	40,99%	-17,6%
LT	1,60%	-0,69%	8,81%	-3,79%	14,83%	-6,38%	20,84%	-8,96%	24,74%	-10,6%	44,89%	-19,3%
LU	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	1,65%	-0,71%	9,08%	-3,90%
MT	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
NL.	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
PL	8,81%	-3,79%	17,57%	-7,55%	24,87%	-10,7%	32,17%	-13,8%	31,87%	-13,7%	61,37%	-26,4%
PT	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0	0,00%	4,15%	-1,78%	13,04%	-5,61%
SK	3,65%	-1,57%	11,08%	-4,76%	17,27%	-7,42%	23,45%	-10,1%	26,38%	-11,3%	48,21%	-20,7%
SI	0,00%	0,00%	1,86%	-0,80%	7,07%	-3,04%	12,27%	-5,28%	18,49%	-7,95%	33,10%	-14,2%
ES	0,00%	0,00%	0,00%	0,00%	2,30%	-0,99%	7,44%	-3,20%	15,06%	-6,48%	28,01%	-12,0%
SE	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
UK	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0	0,00%

Table 11.a - Impact on price and demand of an increase of both minimum requirements (Option C and D) .

MS	Current situation		€90		€100		63%		65%	
	(corrected for new MS)									
	cheapest	Most expensive	cheapest	most expensive	cheapest	most expensive	cheapest	most expensive	cheapest	most expensive
AT	150,0	190,0	151,4	190,0	163,4	190,0	177,8	209,2	189,8	209,2
BE	160,4	210,5	160,4	210,5	163,5	210,5	178,8	212,9	190,1	212,9
BG	85,3	94,4	122,1	125,3	134,1	137,3	85,3	94,4	85,3	94,4
CY	144,0	200,7	149,7	200,7	161,2	200,7	167,7	214,2	183,0	214,2
CZ	82,1	134,4	120,9	155,4	132,8	167,3	82,1	192,9	82,1	193,5
DK	157,5	227,8	157,5	227,8	157,5	227,8	157,5	234,9	157,5	234,9
EE	83,8	127,7	119,8	147,5	131,6	159,3	83,8	160,9	83,8	177,2
FI	182,3	198,4	182,3	198,4	182,3	198,4	201,5	207,8	201,5	207,8
FR	223,3	250,0	223,3	250,0	223,3	250,0	223,3	250,0	223,3	250,0
DE	180,0	230,0	180,0	230,0	180,0	230,0	180,0	230,0	180,0	230,0
EL	75,0	150,0	119,8	154,9	131,7	166,8	75,0	191,0	75,0	193,0
HU	72,9	130,0	114,5	151,9	126,5	163,9	72,9	180,0	72,9	190,3
IE	300,0	335,0	300,0	335,0	300,0	335,0	300,0	335,0	300,0	335,0
IT	160,0	200,0	160,0	200,0	167,9	200,0	194,3	208,0	194,3	208,0
LV	81,6	141,3	114,1	158,5	125,9	170,3	81,6	196,3	81,6	196,3
LT	78,5	124,4	116,1	149,6	127,9	161,4	78,5	168,9	78,5	186,0
LU	120,0	180,0	136,6	180,0	148,1	181,1	120,3	206,4	131,2	206,4
MT	151,4	186,4	151,4	186,4	151,4	186,4	151,4	197,2	151,4	197,2
NL.	155,3	210,5	155,3	210,5	155,3	210,5	155,3	224,2	155,3	224,2
PL	65,9	109,1	112,4	137,3	124,6	149,5	65,8	118,8	65,8	132,8
PT	125,0	157,5	132,3	159,3	144,4	171,4	125,0	198,0	125,0	198,0
SK	71,0	123,9	112,9	150,1	124,8	162,0	71,0	171,6	71,0	188,1
SI	92,6	132,3	131,0	149,3	143,0	161,3	94,1	169,2	104,3	187,6
ES	87,5	137,5	124,5	141,5	136,1	153,1	87,5	137,7	87,5	150,7
SE	161,2	225,6	161,2	225,6	161,2	225,6	161,2	240,7	161,2	240,7
UK	305,2	391,2	305,2	391,2	305,2	391,2	305,2	391,2	305,2	391,2
AV	136,6	184,6	154,4	192,9	161,7	198,5	141,4	205,4	143,7	209,6

Table 11.b - Impact on price and demand of an increase of both minimum requirements (Option C and D).

MS	Current situation		€100and 63%		€100and 65%		€90 and 63%		€90 and 65%	
	(corrected for new MS)									
	cheapest	Most expensive	cheapest	most expensive	cheapest	most expensive	cheapest	most expensive	cheapest	most expensive
AT	150,0	190,0	177,8	209,2	189,8	209,2	177,8	209,2	189,8	209,2
BE	160,4	210,5	178,8	212,9	190,1	212,9	178,8	212,9	190,1	212,9
BG	85,3	94,4	134,1	137,3	134,1	137,3	122,1	125,3	122,1	125,3
CY	144,0	200,7	167,7	214,2	183,0	214,2	167,7	214,2	183,0	214,2
CZ	82,1	134,4	132,8	192,9	132,8	193,5	120,9	192,9	120,9	193,5
DK	157,5	227,8	157,5	234,9	157,5	234,9	157,5	234,9	157,5	234,9
EE	83,8	127,7	131,6	160,9	131,6	177,2	119,8	160,9	119,8	177,2
FI	182,3	198,4	201,5	207,8	201,5	207,8	201,5	207,8	201,5	207,8
FR	223,3	250,0	223,3	250,0	223,3	250,0	223,3	250,0	223,3	250,0
DE	180,0	230,0	180,0	230,0	180,0	230,0	180,0	230,0	180,0	230,0
EL	75,0	150,0	131,7	191,0	131,7	193,0	119,8	191,0	119,8	193,0
HU	72,9	130,0	126,5	180,0	126,5	190,3	114,5	180,0	114,5	190,3
IE	300,0	335,0	300,0	335,0	300,0	335,0	300,0	335,0	300,0	335,0
IT	160,0	200,0	194,3	208,0	194,3	208,0	194,3	208,0	194,3	208,0
LV	81,6	141,3	125,9	196,3	125,9	196,3	114,1	196,3	114,1	196,3
LT	78,5	124,4	127,9	168,9	127,9	186,0	116,1	168,9	116,1	186,0
LU	120,0	180,0	148,1	206,4	148,1	206,4	136,6	206,4	136,6	206,4
MT	151,4	186,4	151,4	197,2	151,4	197,2	151,4	197,2	151,4	197,2
NL.	155,3	210,5	155,3	224,2	155,3	224,2	155,3	224,2	155,3	224,2
PL	65,9	109,1	124,6	149,5	124,6	149,5	112,4	137,3	112,4	137,3
PT	125,0	157,5	144,4	198,0	144,4	198,0	132,3	198,0	132,3	198,0
SK	71,0	123,9	124,8	171,6	124,8	188,1	112,9	171,6	112,9	188,1
SI	92,6	132,3	143,0	169,2	143,0	187,6	131,0	169,2	131,0	187,6
ES	87,5	137,5	136,1	153,1	136,1	153,1	124,5	141,5	124,5	150,7
SE	161,2	225,6	161,2	240,7	161,2	240,7	161,2	240,7	161,2	240,7
UK	305,2	391,2	305,2	391,2	305,2	391,2	305,2	391,2	305,2	391,2
AV	136,6	184,6	164,8	208,9	166,3	212,0	158,9	207,5	160,4	211,0

FINE CUT TOBACCO

Table 12 - Simulation fine cut tobacco on total average releases December 2004 for selected Member States¹¹

	Adjustment Excise							Adjustment TIRSP				TIRSP
	TIRSP	Excise	Excise%	Minimum duty		Minimum duty		Scenario 1	Scenario 2	Scenario 3	Scenario 4	Cigarettes
	per 1000	per 1000	per 1000	40%	57%	€43	€56	40%+€43	40%+€56	57%+€43	57%+€56	
Belgium	74	28	38%	2%	19%	15	28	90	103	90	103	181
Denmark	125	61	49%		8%			125	125	135	135	200
Greece	114	67	59%					114	114	114	114	96
Spain	64	24	38%	3%	20%	19	32	83	96	83	96	114
Finland	98	53	54%		3%			98	98	101	101	190
France	126	75	59%					126	126	126	126	238
Italy	89	48	54%		3%		8	89	97	92	97	159
Hungary	36	17	47%		10%	26	39	62	75	62	75	88
Netherlands	77	39	51%		6%	4	17	81	94	82	94	186
Luxembourg	64	23	36%	4%	21%	20	33	84	97	84	97	141
Germany	81	47	59%				9	81	89	81	89	141
Poland	26	14	54%		3%	29	42	55	68	55	68	53
Average TIRSP:	81							91	99	92	100	149
GAP between	4,8							2,3	1,9	2,5	1,9	4,512

Conclusion: Scenario 2 and 4 entail the best approximation between average TIRSP for fine cut in the selected Member States as well as between cigarettes and fine cut. The high specific minimum duty (53) is the best approximating factor. In both scenarios the TIRSP of fine cut would become at about 2:3 of the TIRSP for cigarettes.

¹¹ Member States where fine cut has a substantial market share.

¹² Note that Poland and Hungary did not comply with the EU minima for cigarettes.

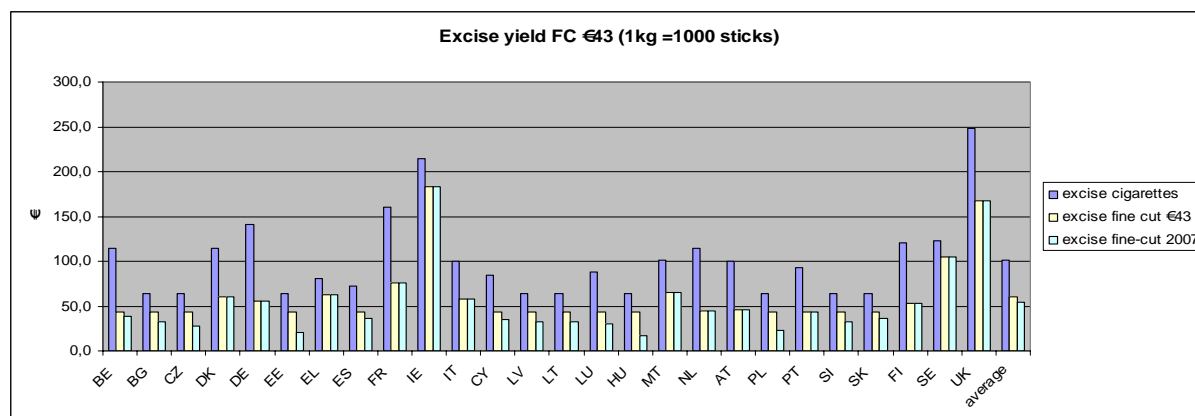
Table 13 - Examples of marketing of the fine-cut products.

Brand	Producer	Content gr	Equiv. max. num. of cigarettes	Ratio	<u>sticks per kilogram</u>
PALL MALL VOLUMEN TABAK FULL FLAVOUR	BAT	55	110	0,50	2000
PALL MALL VOLUMEN TABAK FULL FLAVOUR	BAT	80	160	0,50	2000
PALL MALL VOLUMEN TABAK SMOOTH TASTE	BAT	55	110	0,50	2000
PALL MALL VOLUMEN TABAK SMOOTH TASTE	BAT	80	160	0,50	2000
PL 88 EXPANDED TOBACCO	Planta	140	259	0,54	1850
RONSON SPECIAL RED TOBACCO	Japan Tobacco	60	111	0,54	1850
PL 88 EXPANDED TOBACCO	Planta	25	46	0,54	1840
GOLDFIELD VOLUMEN TABAK FULL FLAVOUR	TMCC	70	128	0,55	1829
JOHN PLAYER SPECIAL RED SINGLE TOBACCO	Imperial	55	100	0,55	1818
JOHN PLAYER SPECIAL SILVER SINGLE TOBACCO	Imperial	55	100	0,55	1818
NEXT FULL FLAVOR VOLUME TOBACCO	PMP	55	100	0,55	1818
YUKON VOLUMENTABAK	Pöschl	70	127	0,55	1814
JOHN PLAYER SPECIAL RED SINGLE TOBACCO	Imperial	80	145	0,55	1813
JOHN PLAYER SPECIAL SILVER SINGLE TOBACCO	Imperial	80	145	0,55	1813
WEST RED SINGLE TOBACCO	Imperial	70	121	0,58	1729
WEST SILVER SINGLE TOBACCO	Imperial	70	121	0,58	1729
BURTON ORIGINAL STICKS TOBACCO	Von Eicken	110	180	0,61	1636
BURTON SILVER STICKS TOBACCO	Von Eicken	110	180	0,61	1636
CONVENT FULL FLAVOR STICKS TOBACCO	Dingelstädt	110	180	0,61	1636
PL 88 BLAU EXPANDED TOBACCO	Planta	110	180	0,61	1636
BURTON ORIGINAL STICKS TOBACCO	Von Eicken	60	98	0,61	1633
BURTON SILVER STICKS TOBACCO	Von Eicken	60	98	0,61	1633
FARGO	Landewyck	25	40	0,63	1600
PL 88 BLAU EXPANDED TOBACCO	Planta	25	40	0,63	1600
MADISON VOLUME TOBACCO	Junk	100	150	0,67	1500
TRUMPET VOLUME TOBACCO	Domsky	60	86	0,70	1433
ROCCO STICKS TOBACCO	Domsky	135	193	0,70	1430
L&M PREMIER FINE CUT	PMP	140	200	0,70	1429

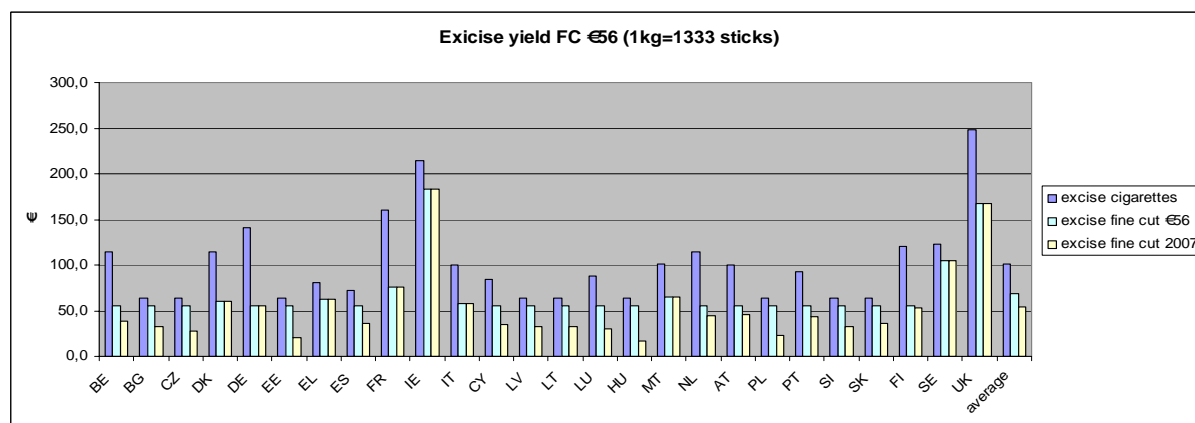
Annex 14 - Simulations on the basis of the MPPC for fine-cut tobacco on 1 January 2007

Data on the MPPC for fine-cut has been collected from ESTA (European Smoking Tobacco Association). Note that for the comparison with cigarettes the excise duty on cigarettes has been increased to €64 for the Member States with derogations to the minimum rates.

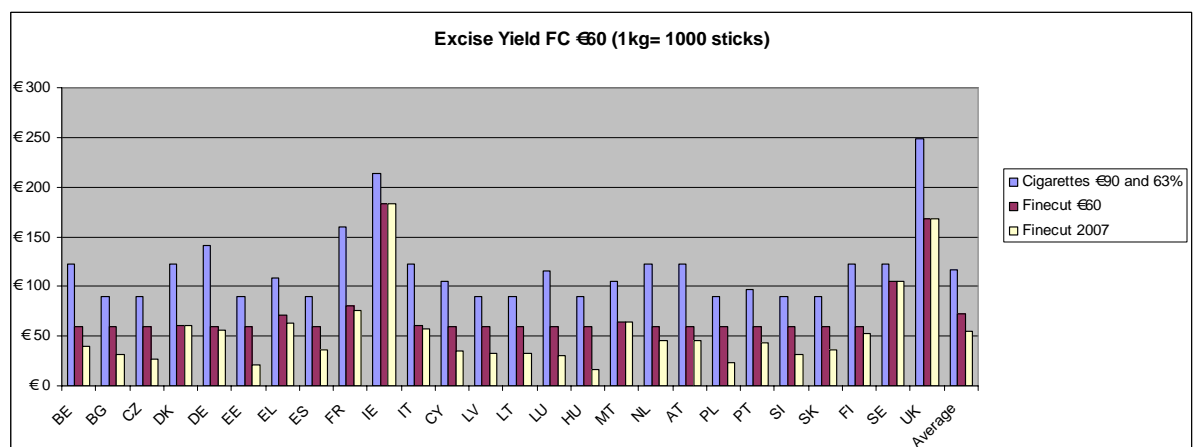
Graph a:



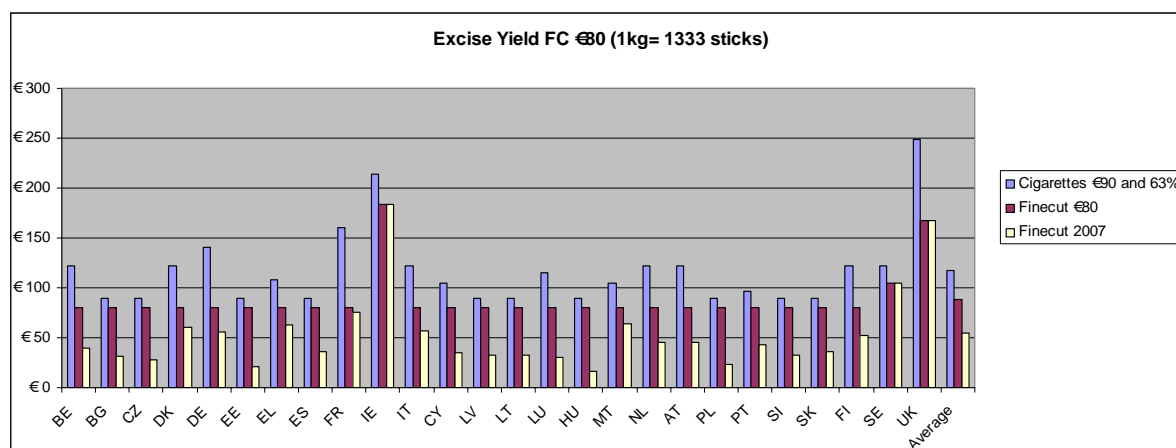
Graph b:



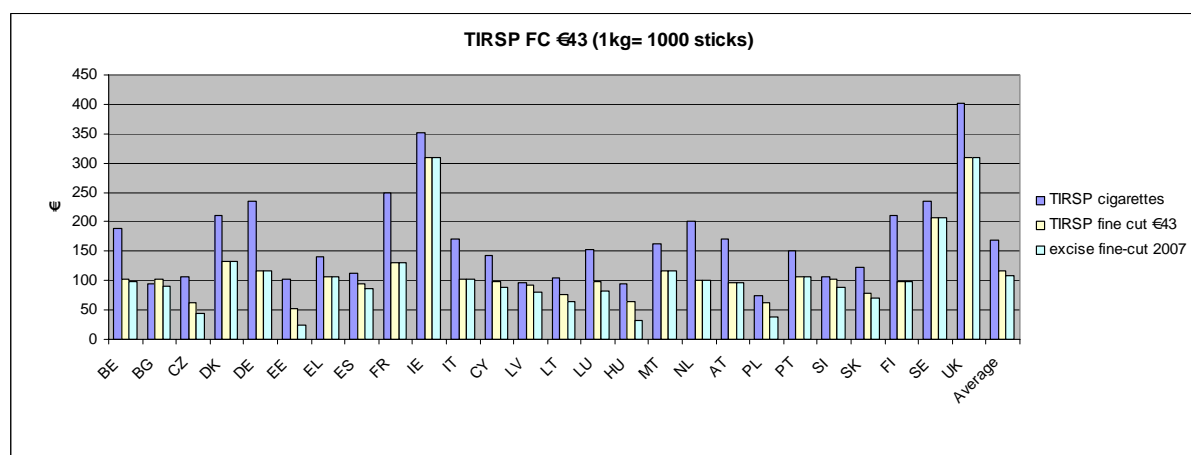
Graph c:



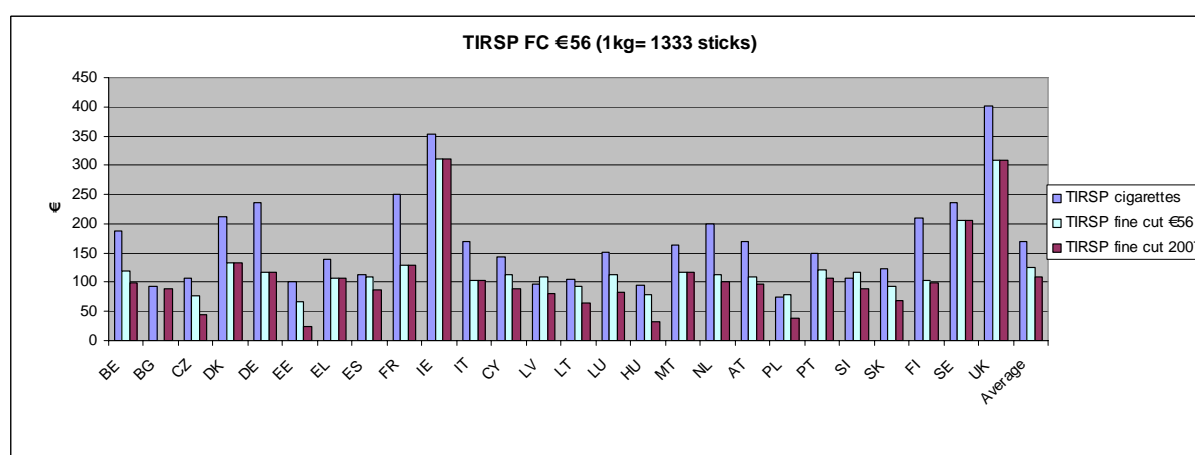
Graph d:



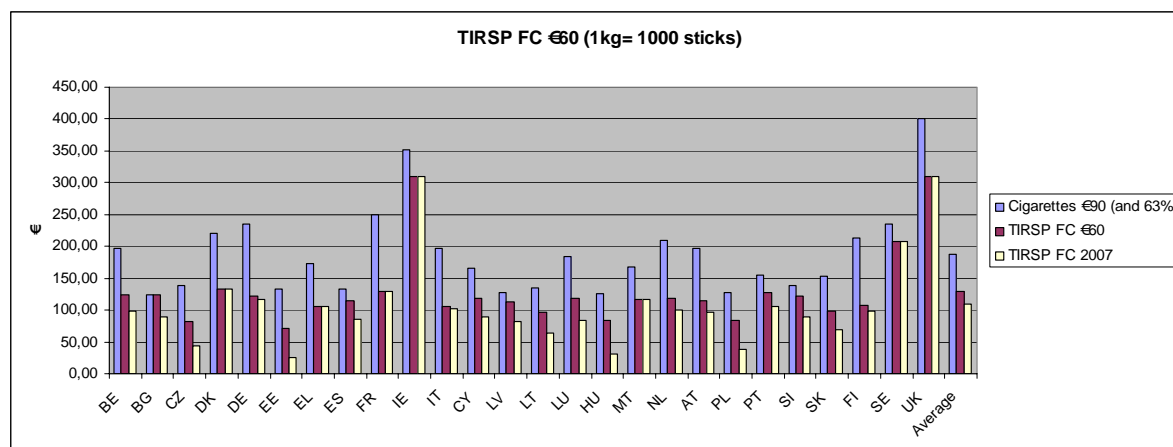
Graph e:



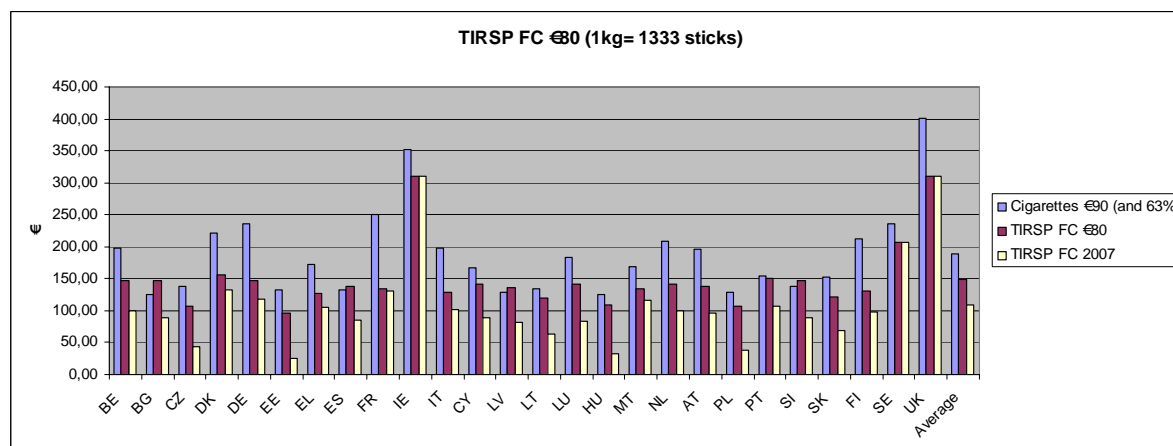
Graph f:



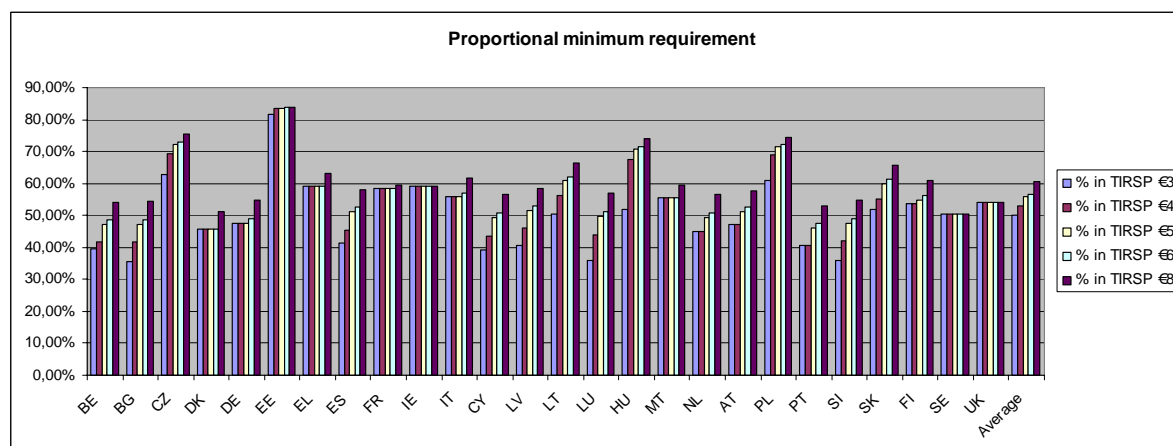
Graph g:



Graph h:



Graph i:



j. Impact on demand of fine cut: Increases in TIRSP

	TIRSP2007	TIRSP60	increase	TIRSP80	increase
BE	99,00	123,6	25%	147,8	49%
BG	89,48	123,1	38%	147,1	64%
CZ	43,58	82,4	89%	106,2	144%
DK	132,18	132,2	0%	156,3	18%
DE	117,50	122,4	4%	146,2	24%
EE	25,00	71,7	187%	95,3	281%
EL	106,00	106,0	0%	126,8	20%
ES	86,00	114,2	33%	137,4	60%
FR	130,00	130,0	0%	134,8	4%
IE	310,00	310,0	0%	310,0	0%
IT	102,50	105,6	3%	129,6	26%
CY	88,84	118,0	33%	141,0	59%
LV	81,21	113,0	39%	136,6	68%
LT	63,72	96,6	52%	120,2	89%
LU	83,00	117,6	42%	140,6	69%
HU	31,82	84,0	164%	108,0	239%
MT	116,47	116,5	0%	134,7	16%
NL	100,00	117,9	18%	141,7	42%
AT	97,00	114,3	18%	138,3	43%
PL	38,46	83,1	116%	107,5	179%
PT	106,25	126,7	19%	150,9	42%
SI	88,75	122,4	38%	146,4	65%
SK	69,57	98,0	41%	121,8	75%
FI	98,00	107,0	9%	131,4	34%
SE	206,80	206,8	0%	206,8	0%
UK	309,74	309,7	0%	309,7	0%

Annex 15 – Questionnaire for data collection on cigarettes -

DATA COLLECTION EXCISE DUTIES - QUESTIONNAIRE

MEMBER STATE:

Please fill out packing units.

Please fill out price categories per packing unit.

Packing unit	price category	Jan	Feb	Mar	Apr	Total
packing unit A	price category 1						
packing unit A	price category 2						0
packing unit A	add price categories						0
packing unit A	price category x						0
packing unit B	price category 1						
packing unit B	price category 2						0
packing unit B	add price categories						0
packing unit B	price category x						0
add packing units							
	price category 1						0
	price category 2						0
	add price categories						0
	price category x						0
packing unit X	price category 1						0
packing unit X	price category 2						0
packing unit X	add price categories						0
packing unit X	price category x						0

Adjusting of ad valorem and specific duties in order to reach 64 Euro on MPPC - Extrapolation 1 January 2006 excise rates

Member State	Original specific	Original ad valorem %	Original ad valorem in €	Total tax on MPPC (original)	% specific in total	% ad valorem in total	pre-tax	Adapted specific	Adapted ad valorem %	Adapted ad valorem in €	Total tax original	rel sp in
Bulgaria	7,67	0,48	29,83	37,5	20%	80%	14,29	13,09	0,54	50,91	64	2
Czech Republic	20,27	0,24	17,84	38,11	53%	47%	24,35	34,04	0,29	29,96	64	3
Estonia	17,58	0,26	16,29	33,87	52%	48%	19,24	33,22	0,31	30,78	64	3
Hungary	27,45	0,27	23,7	51,15	54%	46%	22,00	34,35	0,29	29,65	64	3
Latvia	10,92	0,148	4,68	15,6	70%	30%	11,19	44,80	0,22	19,20	64	1
Lithuania	13,76	0,15	8,14	21,9	63%	37%	24,11	40,21	0,23	23,79	64	6
Poland	19,17	0,313	23,37	42,54	45%	55%	18,66	28,84	0,35	35,16	64	4
Romania	9,1	0,3	14,78	23,88	38%	62%	16,02	24,39	Na	39,61	64	3
Slovakia	28,31	0,23	20,72	49,03	58%	42%	26,68	36,95	0,25	27,05	64	3
Slovenia	13,94	0,427101	40,13	54,07	26%	74%	24,22	16,50	0,45	47,50	64	2

