

To: [REDACTED] (TAXUD); [REDACTED] (TAXUD)
Cc: [REDACTED] (TAXUD); TAXUD UNIT C2
Subject: Meeting report with BAT, October 8 2019
Attachments: Taj-Deloitte TED analysis-FINAL 2019.pdf

Context:

The meeting was requested last June by BAT for Deloitte/ Taj consultants to present the findings of an analysis of the potential impacts of increasing the minimum rates in the tobacco tax directive.

Participants:

Taj: [REDACTED]

Deloitte: [REDACTED]

BAT: [REDACTED]

DG Taxud C2: [REDACTED]

Main points :

- **Presentation of the analysis by Taj**

[REDACTED] presented the main findings of the analysis (ppt attached).

He stressed the following points:

- No need to equalise excise incidence across the EU. There are no problems for the internal market. Current price differences are normal.
- Cross border trade remains negligible. An increase of minima rates is not the solution.
- An increase of rates would affect unduly eastern European Member States if comparing tax levels and purchasing power parity.
- The removal of the escape clause is not necessary as it will not solve cross border flows
- An increase of rates would increase illicit trade.
- Price elasticity of cigarettes would be now different and highly elastic, historically inelastic.

- **Review of the Directive**

BAT supported by Deloitte representative argued that there was no need to review the Directive:

- The internal market is working normally
- Subsidiarity is important, MS can decide tax levels
- the illicit trade is 'stable' and 'under control' at 10% (Project sun data)
- E-cigarettes and heated tobacco products markets are only in the early years of development. There is no sufficient data to support any tax regimes and MS can already do it at national level.

- **Market developments**

- BAT clarified the market strategy for new modern oral products or 'modern white'. It noted that this product category is targeting adult smokers to offer them a broader package of products. Modern white has been launched in Norway, Sweden, Denmark and Germany

- BAT explained that its own heated tobacco product has only been launched so far in a small number of Member States, notably IT, EL, RO, PL, CZ and plans for the UK
 - BAT noted that they 'believe' these new products present 'reduce risks' but that they 'cannot claim' it.
- **Raw tobacco:**
 - BAT expressed a concern with the definition of raw tobacco and smoking tobacco.
 - BAT mentioned a case where the [REDACTED] customs had seized a truck transporting processed tobacco coming from Italy as it was considered as smoke-able tobacco.
- **Directive 2011/64/EU on the structure and rates of excise duty applied to manufactured tobacco :**

We provided a clarification of the timing of the evaluation of the Directive.
We clarified that this was not a proposal for a review but an evaluation following better regulation principles.