From: Article 4(1)b @pmi.com>
Sent: Monday, December 11, 2023 12:31 PM
To: (TRADE) Article 4(1)b @ec.europa.eu>
Cc: Article 4(1)b @pmi.com>; Article 4(1)b @pmi.com>; Article 4(1)b (TRADE) Article 4(1)b @ec.europa.eu>; Article 4(1)b (TRADE) Article 4(1)b @ec.europa.eu>
Subject: FW: JAPAN - EU Heated Tobacco Products (HTPs)
Importance: High

CONFIDENTIAL

Dear Article 4(1)b

As a follow-up of the e-mail below please find attached for your information the proposal on tax equalization between cigarettes and HTPs in Japan (original in Japanese and translation in EN of the issues we consider the most important ones) which was made public on Friday.

The proposed approach is tax equalization of (mostly imported) HTP with cigarettes in 2025 and two step increase for cigarettes and HTP together in 2026 and 2027. To the best of our knowledge meetings to finalize the proposal were ongoing throughout the weekend and it is expected the final proposal to be presented tomorrow Tuesday. We remain available in case you need any additional information.
Thank you.
Best regards,

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From: Article 4(1)b @pmi.com>
Sent: 01 November 2023 11:58
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Subject: JAPAN - EU Heated Tobacco Products (HTPs)
Importance: High

CONFIDENTIAL

Dear Article 4(1)b

Please allow me to follow up on an urgent matter that can have negative impact on exports of HTPs from the EU to Japan Article 4(2) first indent

As mentioned during our last meeting Japan is planning to reform its excise tax regime on tobacco products, specifically with changes on taxation of HTPs. Despite Japan's Transparency obligations under the EU-Japan FTA (see attached EU EPA Note) the final form of the new excise tax regime is not yet public, and only limited information is available (see attached media articles).

In spite of the absence of an official tax proposal suggesting immediate HTP excise tax equalization, on Oct 24 the Liberal Democratic Party Parliamentary Tobacco Caucus (LDP Tobacco Caucus) met and issued a resolution (attached in Japanese and English) anticipating HTP tax equalization to cigarettes as the 1st step before any tax increase applies to cigarettes.

The resolution aims to postpone the tax increase on cigarettes after HTP tax reform as long as possible, and when the said tax increase is implemented, have it implemented it in small, phased increments. The attendee list of this meeting includes Members of Parliament (approx. 70 in person and 40 by proxy); National Federation of Tobacco Marketing Cooperative Associations; National Central Association of Tobacco Cultivation Associations; Japan Tobacco Inc.; Different Ministries including MoF and MoH.

It should be noted that Japan maintains a legal monopoly over domestic tobacco production through Japan Tobacco Inc. ("JT"), that is partially owned by the Japanese Government. In other words, JT is the sole entity that is authorised to manufacture tobacco products in Japan under the Tobacco Business Act.

More importantly, Japan is **the largest Heated Tobacco Products market globally by volume**, and Article 4(2) first indent

Also, a complete elimination of tariffs for HTPs was negotiated by the EU and ultimately included in the bilateral EU-Japan EPA, a decision that stimulated HTPs investments, production and exports from the EU.

HTPs are predominantly imported (90% approx.) from EU. On the contrary, **cigarettes are predominantly domestic**, and local production of HTPs by Japan Tobacco is very limited in Japan.

A sudden increase – **instead of a gradual, incremental change in the excise tax for HTPs as Japan did in the past for domestic products**- would have a Article 4(2) first indent would be in contradiction with Good Regulatory Practices obligations under the EU-Japan FTA (Chapter 18) and subject to its final form, it could be in contradiction with Japan's international trade commitments under the WTO (for instance if the method for calculating the tax liability (e.g., weight vs. price; weight vs. units; price vs. units; differences in tax base) results in a lower tax burden on domestic HTPs or CCs compared with imported HTPs).

We will keep you updated on any new development and would appreciate any information you might get from Japan on this topic. If possible, we would be glad to share more details over a call on the trade implications of this measure including how the propose excise tax for HTPs in Japan appears to have the objective of protecting domestic cigarette production.

We thank you in advance for your consideration to this important matter.

Best regards

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