

These components create different binding constraints for two groups of countries: the EU-15 states focus on the excise tax burden rule (or the higher excise tax floor), because they easily meet the tax floor due to higher cigarette prices. EU-12 states struggle to meet the excise tax floor, but have little difficulty meeting the excise tax burden due to lower prices. As of 2010, all EU-12 countries easily met the minimum tax burden requirement, with the actual excise tax burden ranging from 59% to 72% (mean 64%). In the same year, the excise tax burden ranged from 52% to 65% (mean 59%) in the EU-15 countries (figure 1). EU-15 states meet the excise tax floor easily with the value of excise tax per 1000 cigarettes ranging from €101.40 to €260.98 (mean 140.57). On the other hand, EU-12 states struggle with this requirement: their excise tax per 1000 cigarettes ranges from €64.00 to €122.00 (mean 76.18) (Figure 2).

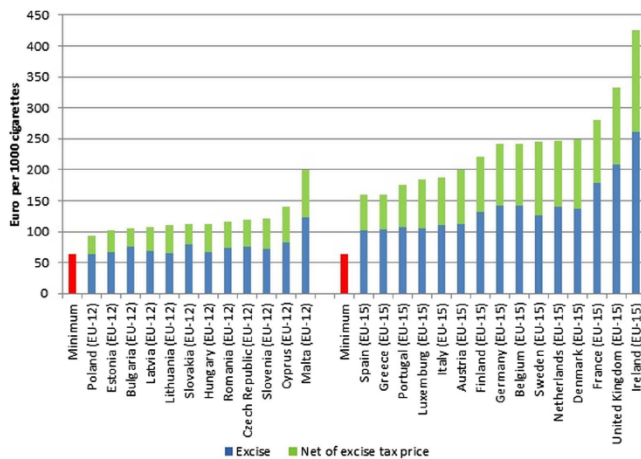


Figure 2 Excise tax and most popular price category price per 1000 cigarettes in European Union (EU) member states, 2010.

Policy lessons

- A nuanced tax policy is required for regional harmonization in diverse regions.
- The EU provides an important blueprint for tax harmonization

While a lot of positive attention as focused on the excise tax burden rule, it is only relevant for EU-15 countries. The most effective mechanism for reducing the price differential between EU-12 and EU-15 states is not the excise tax burden rule, but rather the excise tax floor. In 2010, the EU strengthened the tax requirements for member states, raising the excise tax burden to 60% and raising the excise tax floor by 41% to €90 per 1000 cigarettes. Both groups of countries will need to make adjustments to comply with the new directives. However, the impact will be more dramatic in EU-12 countries (due to the 41% increase in the excise tax floor). This will reduce price differentials within the EU thereby reducing incentives for tax avoidance and evasion, and reduce cigarette affordability, particularly in EU-12 member states where affordability has been sustained or increased by the economic growth and/or tobacco industry price strategy.

The EU provides an important blueprint for tax harmonization and integration in other regions. It shows that in diverse regions one may simply not be able to harmonise taxes on one measure (ie, tax burden) but may require a number of interconnected measures to reduce variation in cigarette prices. Additionally, recent steps taken by the EU will result in reduced variation in prices.

Blecher, E., Ross, H. and Stoklosa, M., 2013. Lessons learned from cigarette tax harmonisation in the European Union. Tobacco control, pp.tobaccocontrol-2012.

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