



# CHANGING tobacco taxation: A PUBLIC HEALTH TOOL

## ➤ Recommendations of the French Alliance Against Tobacco

The French Alliance Against Tobacco urges French public authorities to use tax leverage on tobacco products, following a specific implementation calendar for 2010-2015, by synchronously applying the following measures:

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**1] Introduce a specific excise duty indexed on inflation and identical for all tobacco products;**

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**2] Harmonize taxation of different tobacco products by introducing the same taxes applied per gram of tobacco sold;**

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**3] Increase taxes on all tobacco products, in particular by raising the specific excise duty;**

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**4] Replace the most popular price category (MPPC) with weighted average price (WAP) for tobacco for calculating the tax base;**

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**5] Progressively allocate a significant percentage of excise duties to tobacco control.**



## > Introduction

The current smoking rate and extent of health damage related to tobacco consumption in France justify the introduction of tobacco control measures aimed at limiting the production, sale, and consumption of this highly addictive product.

France signed then ratified on October 19, 2004 the WHO Framework Convention on Tobacco Control (FCTC). This first international public health treaty describes the group of measures aimed at countering the worldwide smoking epidemic. These recommendations, involving tobacco supply and demand, are based on firmly established observations and scientific knowledge.

Thanks to the first Cancer Plan, France implemented during 2003-2004, a daring and effective policy of increasing taxes on manufactured cigarettes, which resulted in an important drop in cigarette smoking and in the number of smokers. Aimed at dissuading smokers from buying tobacco products and reducing the social and economic costs of smoking (equivalent to 3% of the Gross Domestic Product - GDP - in 2005), this policy was abandoned by French public authorities.

The French Alliance Against Tobacco, an association under 1901 law aimed at bringing together tobacco control NGOs, believes that it is urgent to resume debate on this subject and to propose a comprehensive tobacco taxation strategy to public authorities that takes public health objectives into account.

## WHO Framework Convention On Tobacco Control

### “ PART III Measures relating to the reduction of demand for tobacco

*Article 6 - Price and tax measures to reduce the demand for tobacco*



1) The Parties recognize that price and tax measures are an effective and important means of reducing tobacco consumption by various segments of the population, in particular young persons.

2) Without prejudice to the sovereign right of the Parties to determine and establish their taxation policies, each Party should take account of its national health objectives concerning tobacco control and adopt or

maintain, as appropriate, measures which may include:

- implementing tax policies and, where appropriate, price policies, on tobacco products so as to contribute to the health objectives aimed at reducing tobacco consumption; and

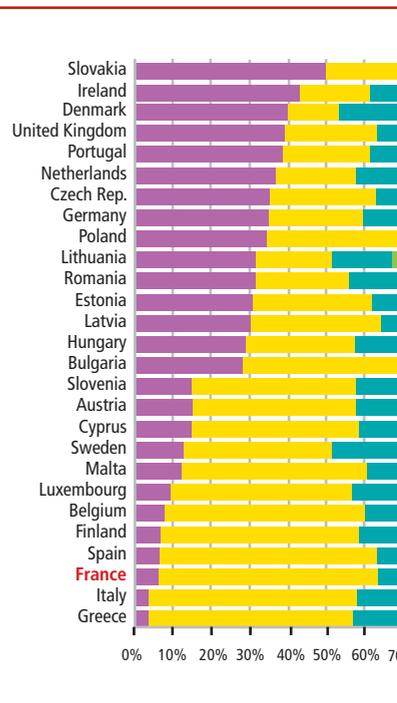
- prohibiting or restricting, as appropriate, sales to and/or importations by international travellers of tax- and duty-free tobacco products.

3) The Parties shall provide rates of taxation for tobacco products and trends in tobacco consumption in their periodic reports to the Conference of the Parties, in accordance with Article 21. ”

## TAX ON TOBACCO PRODUCTS IN EUROPE

Each EU Member State individually sets its taxes on tobacco products and keeps all revenues collected from this tax. The tax is made up of Value Added Tax (VAT) and indirect specific duties, or excise duties, which are applied to the consumption or use of certain products, including alcoholic beverages, tobacco, and energy products.

Excise duties are composed of two types of tax: fixed or specific excise duty and proportional or *ad valorem* excise duty. Specific excise duty is imposed as a fixed amount to a quantity or weight of tobacco, for example, a pack of 20 cigarettes. Proportional or *ad valorem* excise duty represents a percentage of the retail price of the tobacco product. The rates of these two taxes vary largely from country to country. Updated provisions for the control and harmonization of European taxes on tobacco are currently being evaluated by the European Commission.



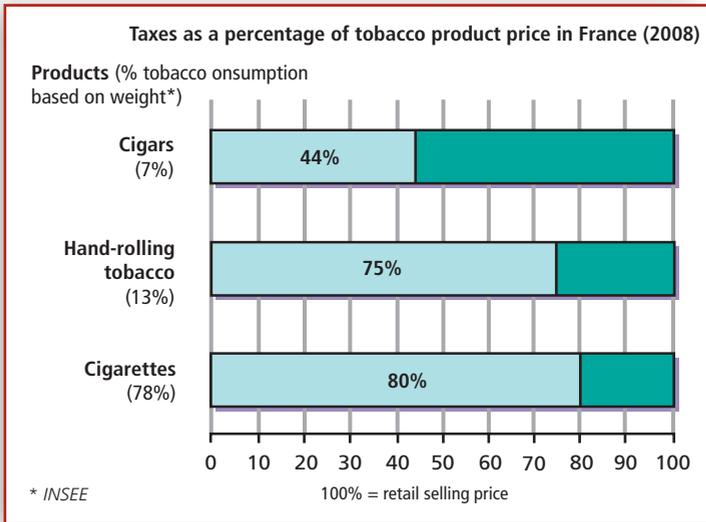
Given the wide disparity in retail prices across the EU for a pack of cigarettes, any comparison of taxes for each country must be based on the taxes applied to packs of cigarettes in the most popular price category (MPPC, category determined on the basis

# TAX ON TOBACCO PRODUCTS IN FRANCE

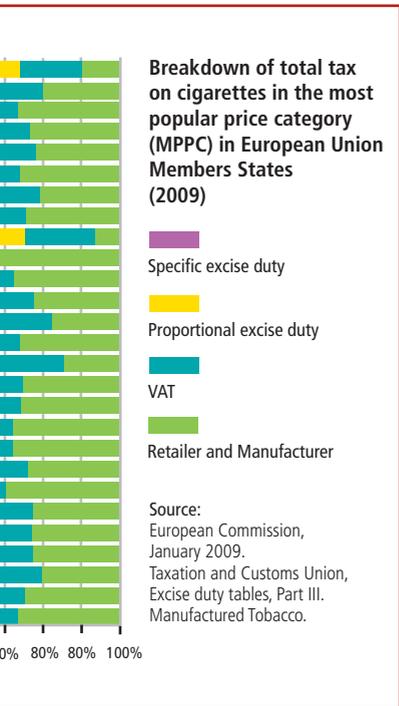
This tax varies between cigarettes and others tobacco products. The consumption of cigarettes being by far the most important (78% of the total weight of tobacco consumed in France in 2008), its mode of taxation is more detailed.

The specific excise duty rate on cigarettes is equal to 7.5% of the total tax burden of a pack of cigarettes in the most popular price category, a fixed value applied to all other packs of cigarettes. This rate is very low compared to rates practiced by the majority of EU Member States.

Taxes on other tobacco products are lower than for cigarettes, calculated as a percentage of retail price and by gram of tobacco, resulting in cheaper prices for these products. The retail price of a gram of hand-rolling tobacco is about half the price of a gram of tobacco of manufactured cigarettes.



In France, 9.2 billion € in excise duties were levied on tobacco products in 2008. Whereas the VAT charged on the sale of tobacco products is collected into the State budget (2.4 billion € in 2008), most of the French excise duties collected on tobacco are allocated to various national medico-social activities. ■



of volume of sales reported by distributors) in each Member State. The most popular price category was defined when national markets, previously dominated by a protected national brand, were opened to competition. ■

**Hand-rolling tobacco is significantly less expensive than cigarettes (January 2009)**

Product type	Weight (g)	Price (€)	Price of 16g* of tobacco (€)
Hookah tobacco	50	5	1.60
Hand-rolling tobacco	30	4.60	2.45
Pipe tobacco	50	6.10	1.95
Cigas and cigarillos**	25.71	5	3.11
Cigarettes, pack of 20	16	4.80	4.80

\* Weight equivalent of a pack of 20 manufactured cigarettes  
\*\* Estimate based on a sampling of cigarillos (packs of 20)

**Allocation of excise duties levied on tobacco in 2008, excluding VAT\***

> Social Security Fund for Agricultural non-wage earners .....	52.4%
> National Health Insurance Fund for Salaried Workers .....	30.0%
> National Budget .....	8.1%
> Universal Health Insurance .....	4.3%
> National Housing Assistance Fund .....	1.5%
> General revenue basket (global budget) .....	3.4%
> Asbestos Workers' Early Retirement Fund .....	0.3%
<b>Total .....</b>	<b>9.2 billion €</b>

Source: Social Security Accounts Commission, June 2008  
\* VAT = 2.4 billion €

# STRUCTURE OF THE PRICE OF A PACK OF CIGARETTES

## A] Establishing the price of a pack of cigarettes in the most popular price category:

For all cigarette packs, total retail price is equal to the price net of tax\* to which the various taxes are added. According to a European Commission report published in January 2009, Taxation and Customs Union, Excise duty tables, Share III - Manufactured Tobacco, in France, the price of a pack of cigarettes in the most popular price category is 5.30 €.

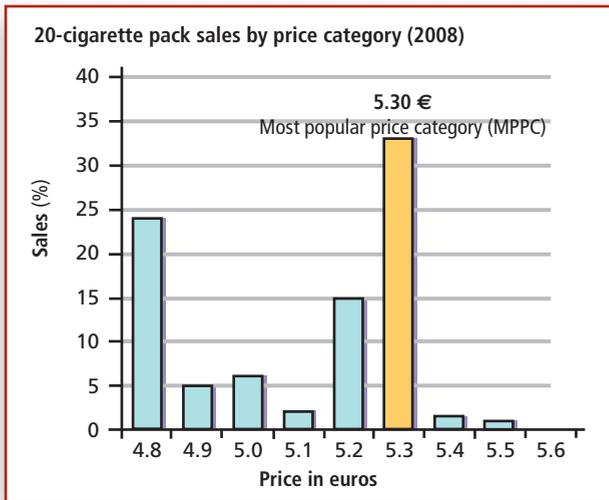
1] The manufacturer defines the total retail selling price per pack of cigarettes.  
Retail price per pack = 5.30 €

2] The retailer's share of the retail price is calculated by applying a rate of 8.19% to the total retail selling price.  
Retailers' share =  $5.30 \text{ €} \times 8.19\% = 0.43 \text{ €}$

3] Excise duty\*\* (composed of a specific excise duty and a proportional excise duty) is calculated by applying a rate of 64% to the total retail selling price.  
Excise duty =  $5.30 \text{ €} \times 64\% = 3.39 \text{ €}$

4] VAT is calculated by applying a rate of 16.39% to the total retail selling price.  
 $VAT = 5.30 \text{ €} \times 16.39\% = 0.87 \text{ €}$

5] The total tax burden is the sum of the VAT plus excise duties.  
Total tax burden =  $3.39 \text{ €} + 0.87 \text{ €} = 4.26 \text{ €}$



6] The specific excise duty is calculated by applying a rate of 7.50% to the total tax burden.  
Specific excise duty =  $4.26 \text{ €} \times 7.50\% = 0.32 \text{ €}$

7] The proportional excise duty is obtained by subtracting the specific excise duty from the total excise duty.  
Proportional excise duty =  $3.39 \text{ €} - 0.32 \text{ €} = 3.07 \text{ €}$

8] The proportional excise duty is expressed as a percentage and is based on the ratio between the proportional excise duty and the total retail selling price.  
Proportional excise duty percentage =  $3.07 \text{ €} / 5.30 \text{ €} = 57.9\%$

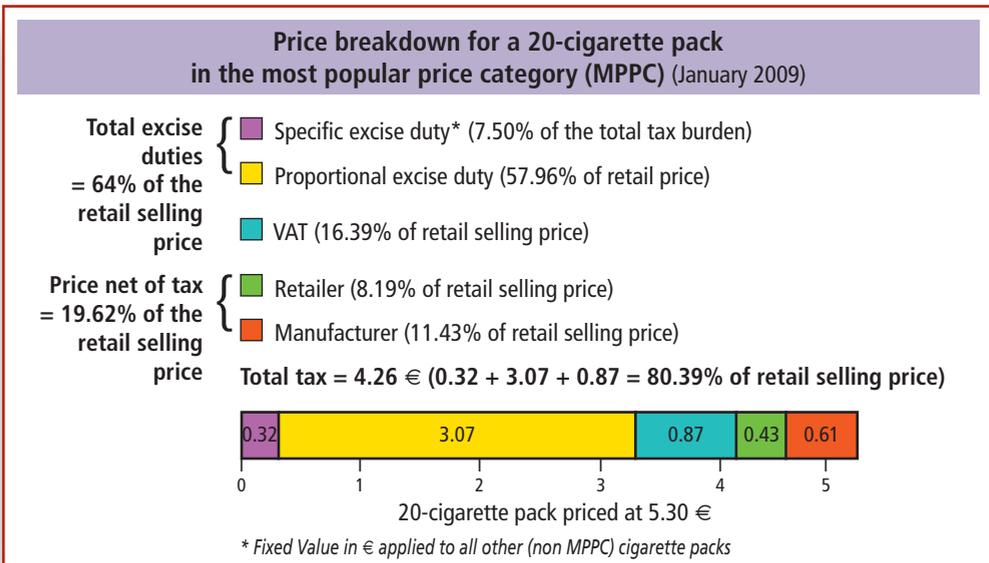
9] The manufacturer's share of the retail price is equal to the retail price per pack minus the retailer's share and the total tax burden.  
Manufacturer's share =  $5.30 \text{ €} - (0.43 \text{ €} + 4.26 \text{ €}) = 0.61 \text{ €}$

## B] Structure of the price of packs of cigarettes in other categories

The overall calculation method is identical to the one applied to packs in the most popular price category. It is important to note that the specific excise duty applied to packs in the most popular price category (0.32 €) is applied to all other cigarette packs as well.

\* The price net of tax for a pack of cigarettes corresponds to the price paid to the manufacturer (manufacturer's share) plus the price paid to the retailer (retailer's share). For the most popular price category (MPPC), the price net of tax is equal to 1.04 €.

\*\* Excise duty is defined in article 575 A of the French General Tax Code as 64% of the retail price.



# TAXATION OF TOBACCO PRODUCTS: A PUBLIC HEALTH TOOL

Studies have shown that financial and tax measures aimed at reducing the demand for tobacco are effective, provided however that they are applied in accordance with effectiveness criteria described in the international literature (WHO, the World Bank).



Price increases of tobacco products have an impact on smoking in youth

## > PRICE ELASTICITY

One of the best ways of measuring the effect of higher prices on tobacco consumption is to calculate **price elasticity**.

Price elasticity refers to the relationship between changes in price and tobacco demand.

According to the World Bank, for tobacco products, a 10% increase in price decreases consumption by about 4%. Elasticity varies depending on the products, and is highest among young people and the poorest socio-economic groups.

## > AN INCREASE IN TAX REDUCES OVERALL TOBACCO CONSUMPTION BY:

- 1) preventing smoking initiation among young non smokers
- 2) reducing the number of smokers resulting from smokers who quit
- 3) reducing average cigarette consumption per smoker

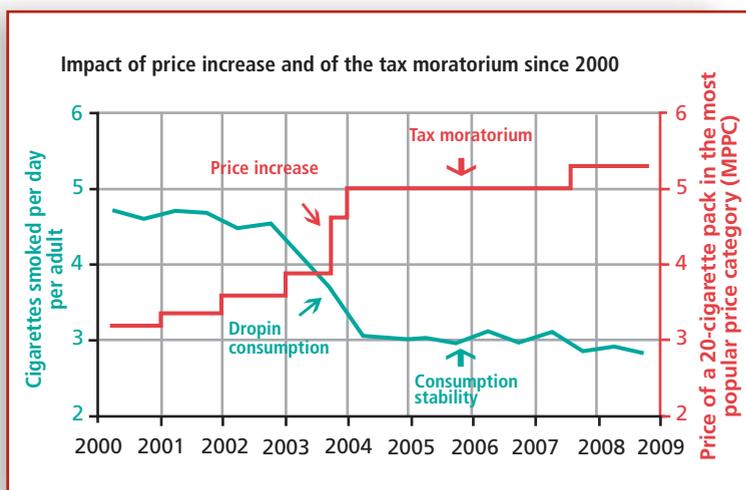
Overall, an increase in price results in a reduction in consumption, according to a ratio known as “**price elasticity**”. Thus in France, successive price increases of 8.33% in January 2003, 18% in October 2003 and 8.5% in January 2004 generated a 33% drop in sales of manufactured cigarettes between 2002 and 2004, with the percentage of smokers decreasing from 34.5% in 1999 to 30.4% in 2003, corresponding to 1.8 million people who quit smoking during this period (and a 6.7% increase in tobacco tax revenues). Thus, increased prices for tobacco products appear to be a crucial motivating factor in smoking cessation. The effectiveness of tobacco tax increases has been confirmed in the United Kingdom, Ireland, and Norway, where retail prices are significantly higher than current retail prices in France.

The use of each type of excise duty in the interest of public health has advantages and disadvantages. Thus, while increasing the specific excise duty has the advantage of impacting more heavily on the least expensive products, thereby increasing their price and limiting manufacturers' margin of action; it

has the disadvantage of not being indexed for inflation. On the other hand, the proportional excise duty keeps pace with inflation, but has the disadvantage of being based on the total retail selling price set by manufacturers. This could potentially reinforce competition among manufacturers and lead them to decrease prices in order to increase their market share or differentiate their price offers to protect “pull” products.

Following the successive increases in cigarette taxation, the price differential between cigarettes and other tobacco products, which are less affected by taxation, can result in a **possible transfer of cigarette consumption to other products (product substitution)**, for example: (a) low-priced small cigars, sold like cigarettes, but not subject to the same tax and (b) hand-rolling tobacco, illustrated by a 12.4% increase during 2003-2004, in the total weight of hand-rolling tobacco sold.

A direct relationship has been found between national funds allocated to tobacco control and the effectiveness of control measures on the number of smokers and their consumption in each country. In 2006, 0.29 € were allocated to tobacco control per capita in France, versus 2.20 € in Iceland and 1.79 € in the United Kingdom, two countries that are considered among the most effective. In addition, unlike Switzerland, the state of California or Thailand, France does not allocate any of the revenue raised through taxation of tobacco products to tobacco control. ■



# > About the French Alliance Against Tobacco

The French Alliance Against Tobacco, a coalition founded by six associations following the enactment of the Evin Law, today counts more than 30 NGOs playing a part in the tobacco control movement.

The Alliance's principal missions, jointly performed with its partners include:

- > Lead and coordinate joint anti-tobacco lobbying actions;
- > Represent its partners before public authorities and ensure implementation of the FCTC and European legislation on tobacco control in France and outside of France;
- > Actively contribute to tobacco control efforts by representing France in Europe and other parts of the world.

**14 rue Corvisart - 75013 Paris**  
Tél: + 33 1 43 37 91 51 - Fax: + 33 1 43 36 91 89  
[www.alliancecontreletabac.org](http://www.alliancecontreletabac.org)

#### CONTACTS

Clémence Cagnat-Lardeau  
*French Alliance's Coordinator*  
ccagnat.act@gmail.com

Professeur Yves Martinet  
*French Alliance's President*  
y.martinet@chu-nancy.fr

• Alliance contre le tabac en Ile-de-France • Association des Acteurs Lorrains en Tabacologie (AALT) • Association d'Aide aux Victimes du Tabagisme (AAVT) • Association Interdisciplinaire de Recherche sur le Tabagisme en Basse-Normandie (AIRIBN) • Association Nationale des Sages-femmes Tabacologues • Association Périnatalité Prévention Recherche Information (APPRi) • Association pour la Recherche sur le Cancer (ARC) • Camérisanté • Capitale Stop/Tabac • Comité d'Education Sanitaire et Sociale de la Pharmacie Française (CESPHARM) • Comité National contre les Maladies Respiratoires (CNMR) • Comité National Contre le Tabagisme (CNCI) • Coordination Bretonne de Tabacologie (CBT) • Coordination de Lutte Anti-Tabac Azur Méditerranée (CLATAM)



• Espace de Concertation et de Liaison Addictions Tabagisme (ECLAT) • Fédération Française de Cardiologie (FFC) • Fédération Française des Oncologues Médicaux (FFOM) • France Réseau des Acteurs en Tabacologie Ligérien (FRACTAL) • Institut Rhône-Alpes-Auvergne de Tabacologie (IRAAT) • Les Droits des Non-Fumeurs (DNF) • Ligue nationale contre le cancer (LNCC) • Ligue Vie & Santé • Mieux Vivre sans Tabac • Mutuelle Nationale des Hospitaliers (MNH) • Observatoire Sanitaire et Social des Activités Festives (OSSAF) • Office Français de prévention du Tabagisme (OFT) • Paris Sans Tabac (PST) • Réseau Hospital Sans Tabac (RHST-A) • Société Française de Santé Publique (SFSP) • Société Française de Tabacologie • Tabac & Liberté

**14, rue Corvisart - 75013 Paris**  
[www.alliancecontreletabac.org](http://www.alliancecontreletabac.org)