



THE TAXATION OF HEATED TOBACCO, VAPOUR AND NON- TOBACCO NICOTINE POUCHES IN THE EU

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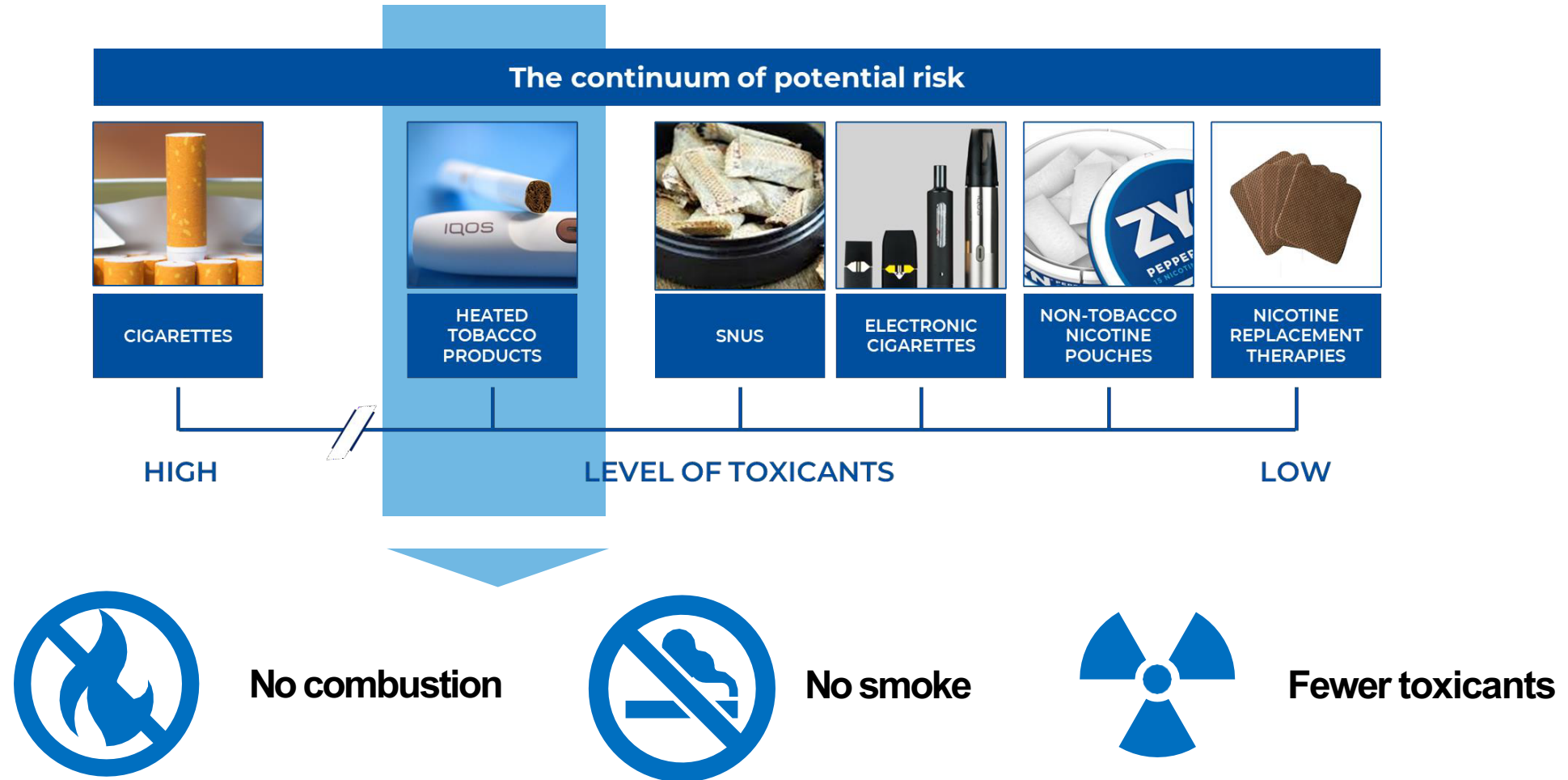
OCTOBER 2021 MOSCOW, IEP



HEATED TOBACCO PRODUCTS

THE EU EXPERIENCE

HEATED TOBACCO PRODUCTS (HTPS) ARE DIFFERENT FROM CIGARETTES AND OTHER COMBUSTIBLE TOBACCO PRODUCTS



THE WCO RECOGNISED HEATED TOBACCO PRODUCTS AS STAND-ALONE CATEGORY THAT WILL HAVE A SEPARATE SUBHEADING IN HS 2022

2022 HS

Chapter 24 Tobacco & manufactured tobacco substitutes;

PRODUCTS WHETHER OR NOT CONTAINING NICOTINE, INTENDED FOR INHALATION WITHOUT COMBUSTION;
OTHER NICOTINE CONTAINING PRODUCTS INTENDED FOR THE INTAKE OF NICOTINE INTO THE HUMAN BODY

Non-smoking tobacco / nicotine products



2404.11
PRODUCTS CONTAINING TOBACCO/RECON
FOR INHALATION WITHOUT COMBUSTION



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NICOTINE PRODUCTS INTENDED
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OTHER NICOTINE CONTAINING
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APPLICATION

Chapter 85 Electrical machinery and equipment and parts



8543.40
ELECTRONIC CIGARETTES AND SIMILAR
PERSONAL ELECTRIC VAPORISING DEVICES



→ Chapter 24 not only for tobacco products

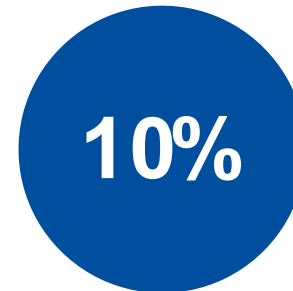
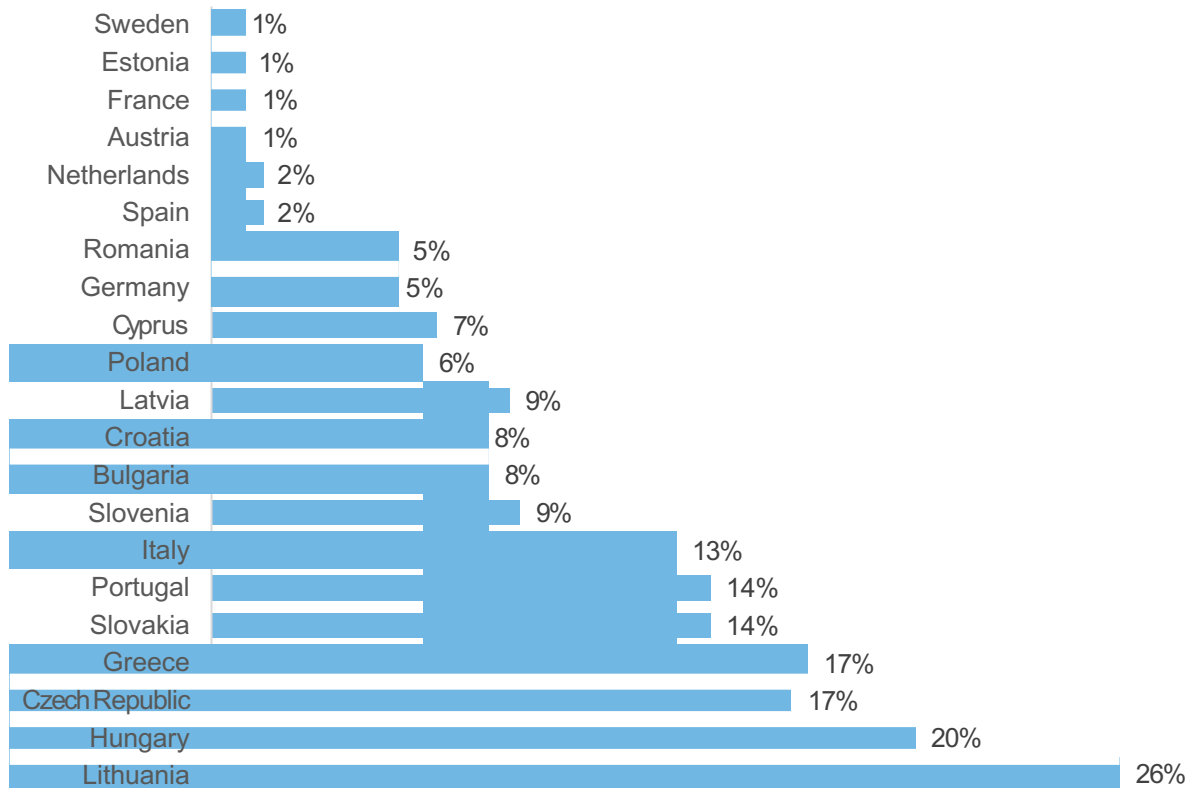
→ Heated tobacco and e-liquids have own subheadings

→ Open and closed systems e-liquids under same subheading

→ E-liquids under same subheading as NRTs

IN THE EU, HTPS WERE LAUNCHED IN 2017 BUT REMAIN A MUCH SMALLER CATEGORY THAN CIGARETTES

HTPS MARKET SHARE IN NATIONAL TOBACCO MARKET,
VOLUME - END-OF-YEAR 2021 ESTIMATE



Estimated HTPS market share in Russia this year

IN THE EU, HEATED TOBACCO PRODUCTS (HTPS) ARE TAXED LOWER THAN CIGARETTES

12

Member States with a dedicated excise definition and rate for HTPs

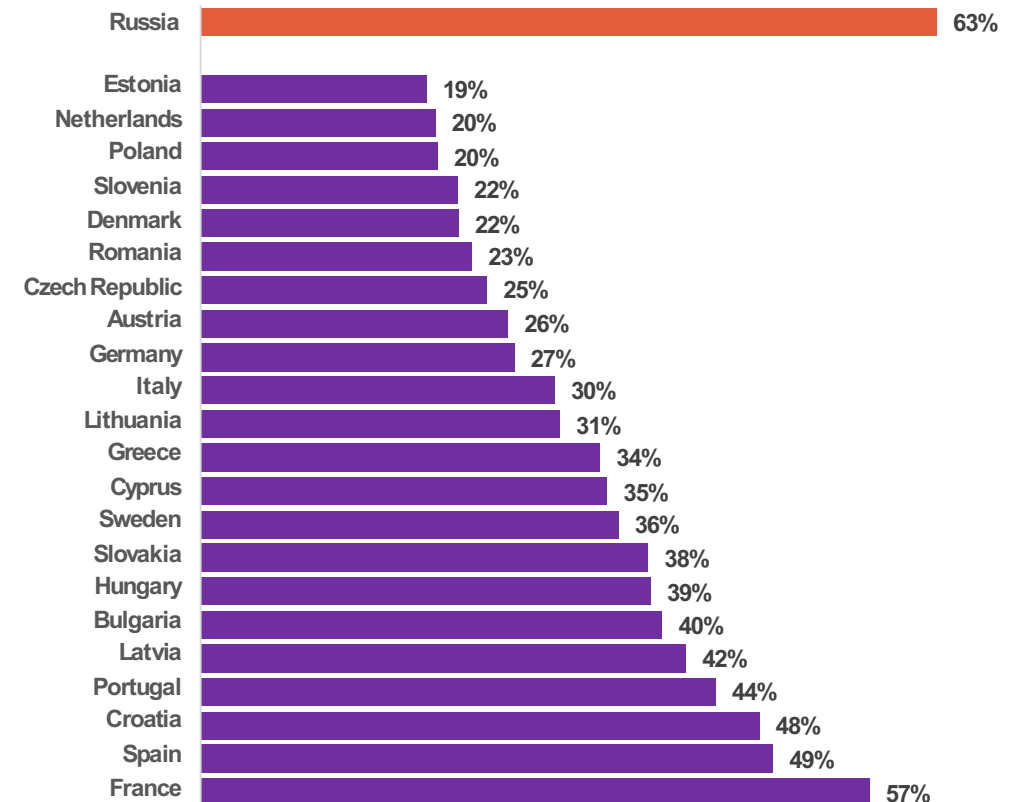
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Member States with a dedicated excise definition for HTPs but same rate as other smoking tobacco (e.g. pipe)

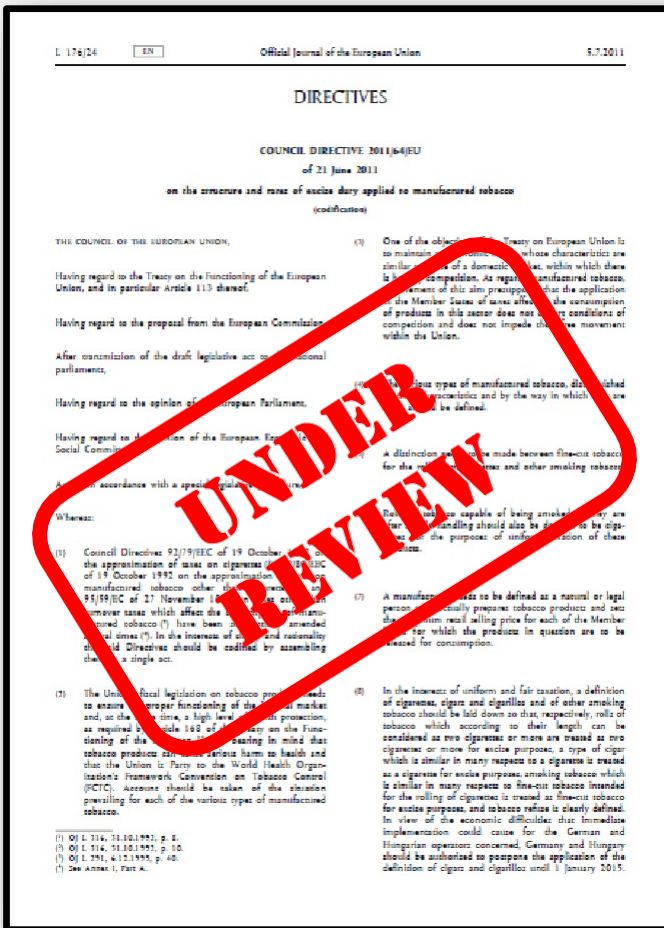
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Member States that apply the same excise to HTPs as for other types of tobacco (e.g. fine-cut, pipe, etc)

EXCISE PER PACK OF HTPS AS % OF THE EXCISE PER PACKET OF CIGARETTES



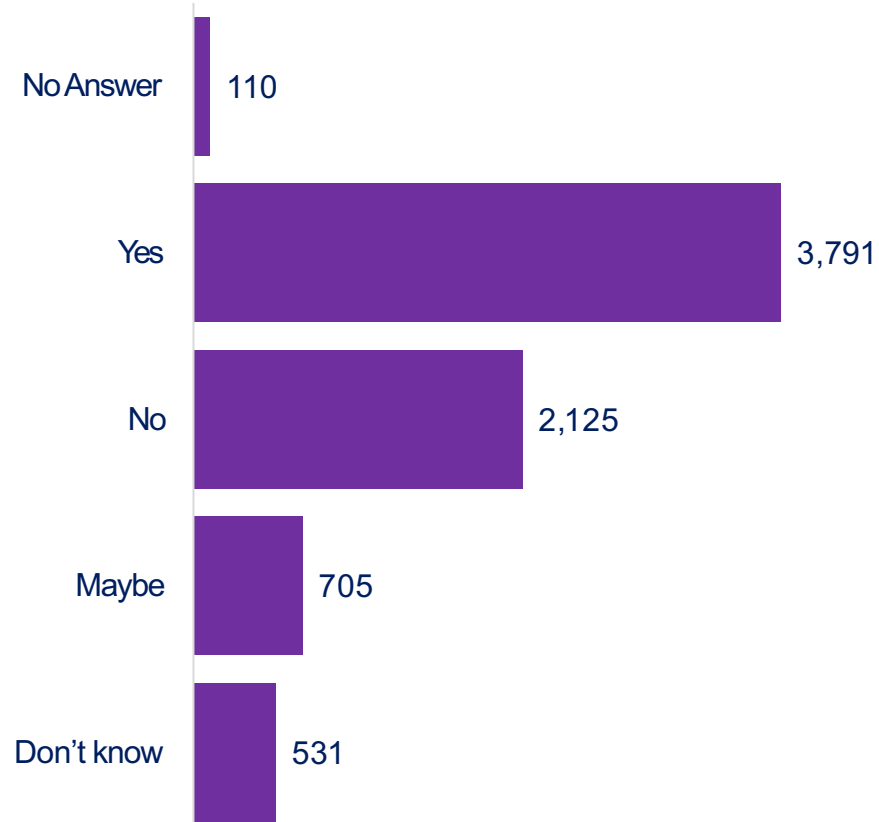
THE COUNCIL DIRECTIVE 2011/64/EU IS BEING REVIEWED TO ASSESS HOW HEATED TOBACCO PRODUCTS SHOULD BE INCLUDED



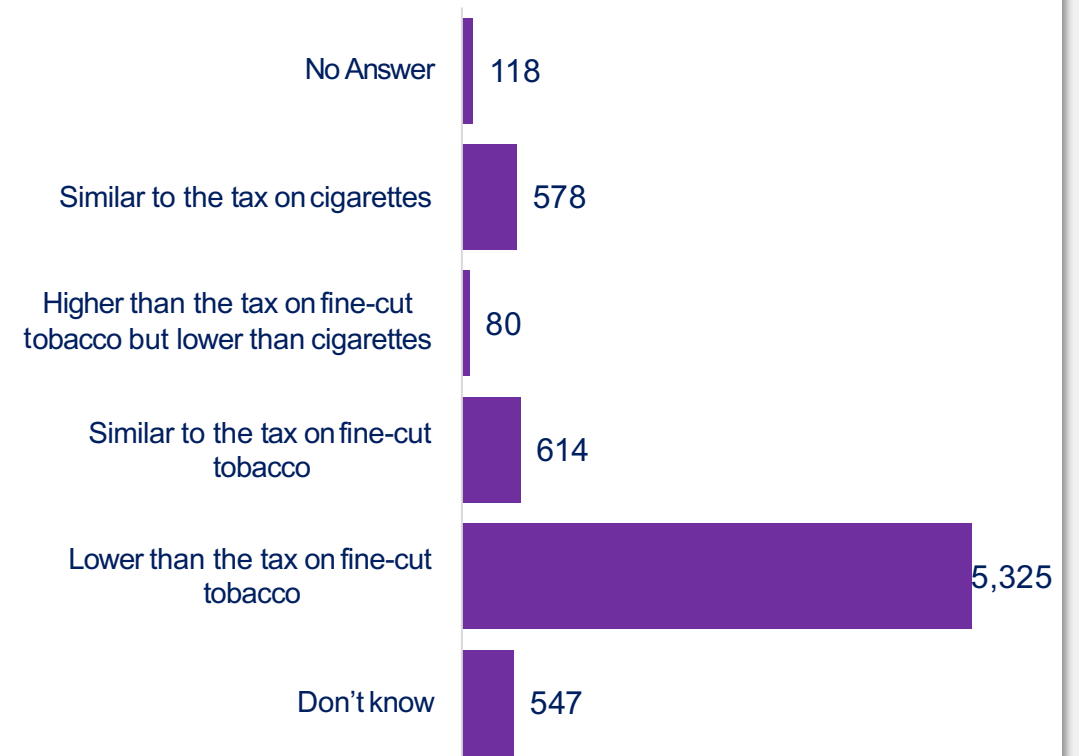
- Defines product categories, structure and minimum rates for excise duties on manufactured tobacco
- Rules differentiate cigarettes from other tobacco products
- Heated tobacco products (HTP) not currently captured in the Directive
- 2016/17 assessment found insufficient evidence to include HTPs in the Directive
- 2018 Public Consultation included an assessment of whether heated tobacco products should be included
- Revised impact assessment (and a draft legislative proposal) expected to be published in Q12022

2021 EC PUBLIC CONSULTATION: MOST RESPONDENTS BELIEVE HTPS SHOULD BE TAXED LESS THAN FINE-CUT TOBACCO AND CIGARETTES

Should the EU harmonise tax rules and minimum rates for heated tobacco products?



If the EU establishes a minimum tax on heated tobacco, the tax amount should be ...



SUMMARY

THE EXCISE ON HEATED TOBACCO PRODUCTS SHOULD BE DIFFERENT TO THE EXCISE ON COMBUSTIBLE TOBACCO PRODUCTS

THE WCO HAS CREATED A NEW DEDICATED SUBHEADING FOR HEATED TOBACCO PRODUCTS IN HS 2022, THAT IS DIFFERENT TO CIGARETTES AND NON-TOBACCO PRODUCTS

HTPS ARE TAXED LOWER THAN CIGARETTES ACROSS THE EU

THE MAJORITY OF RESPONDENTS TO THE EUROPEAN TOBACCO EXCISE DIRECTIVE CONSULTATION CONSIDER THAT THE EXCISE ON HTPS SHOULD BE LOWER THAN THE EXCISE ON FINE-CUT TOBACCO

EXCISE ON VAPOUR PRODUCTS

FAIR TREATMENT IRRESPECTIVE
OF THE PRODUCT FORMAT



THE TAX ON VAPOUR PRODUCTS MUST KEEP UP WITH A COMPLEX AND FAST-MOVING CATEGORY



Disposable e-cigarettes

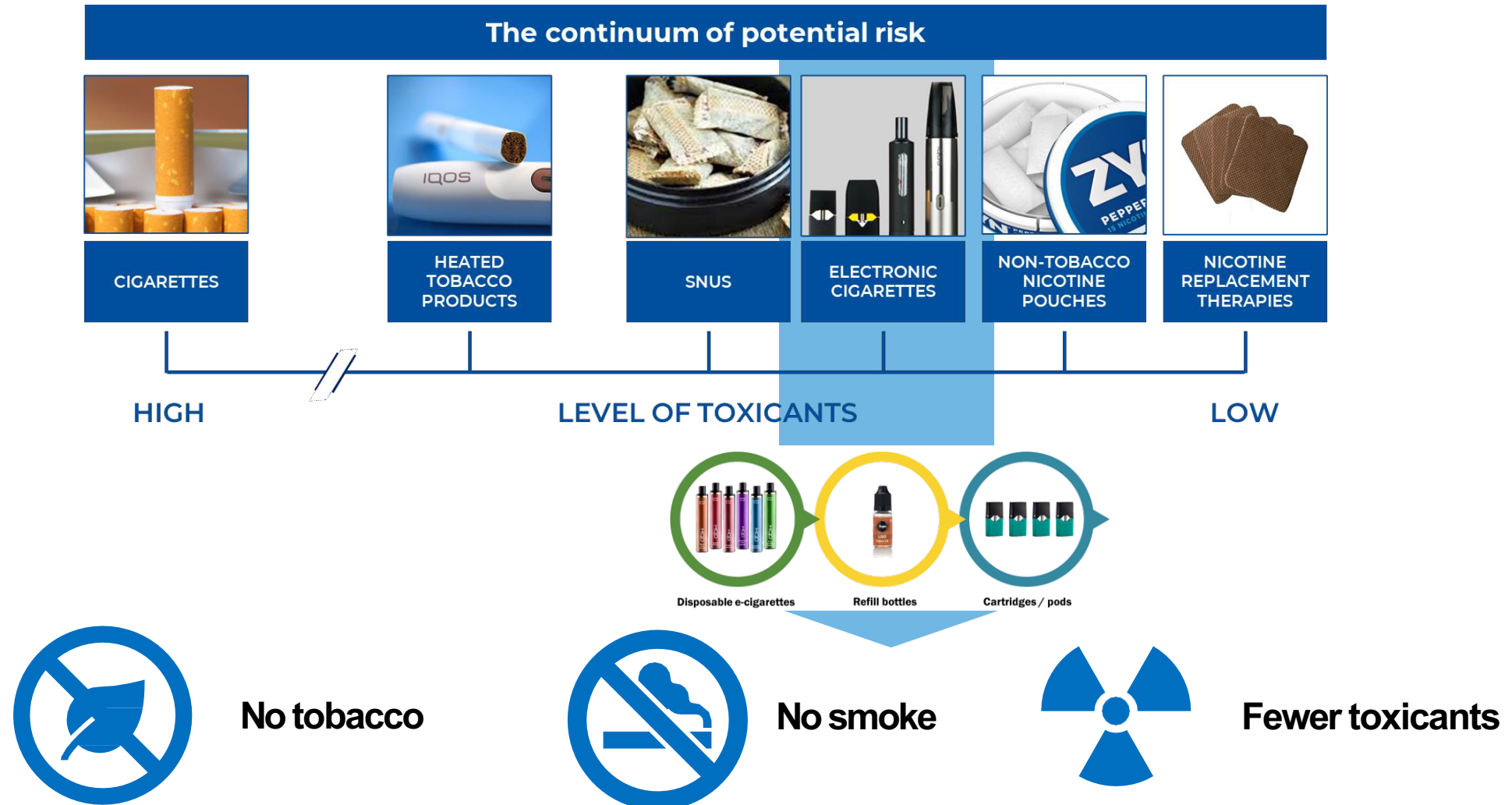


Refill bottles

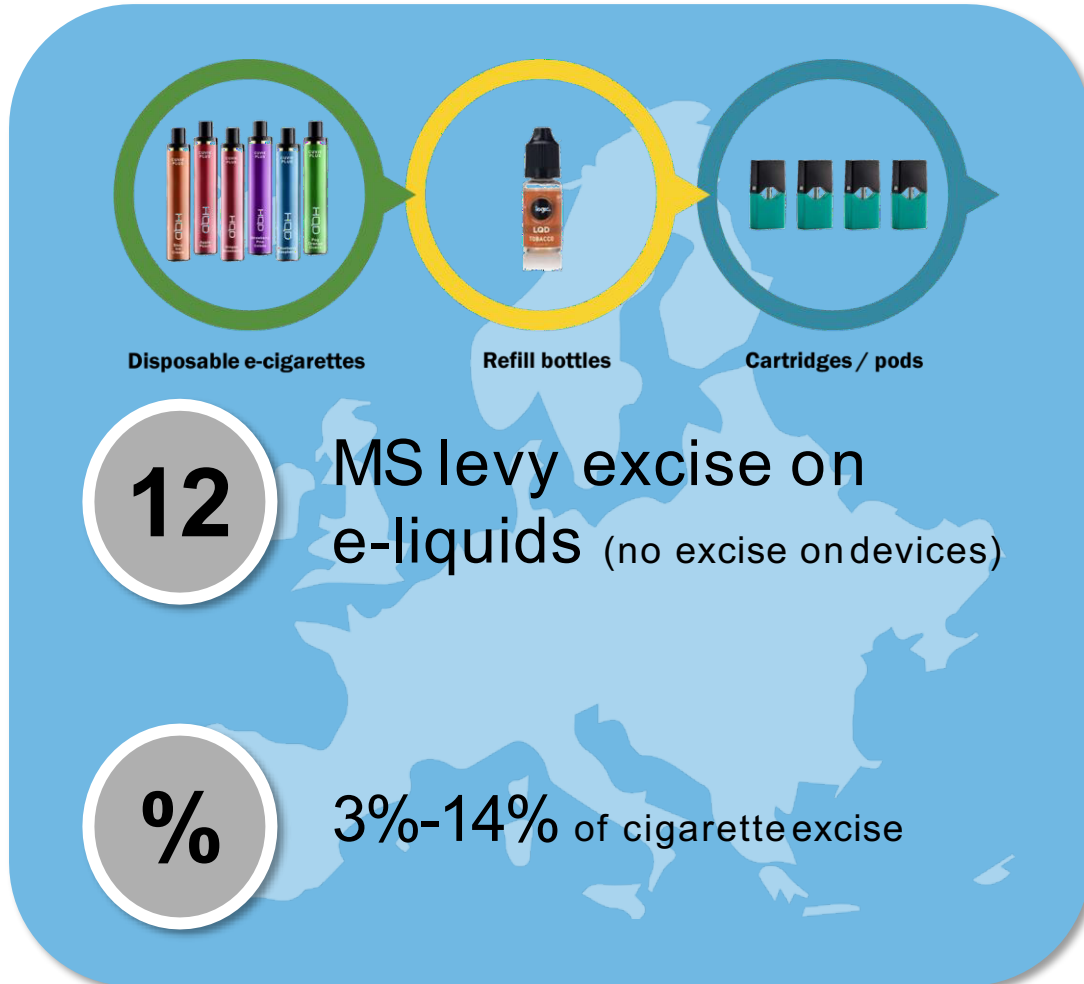


Cartridges / pods

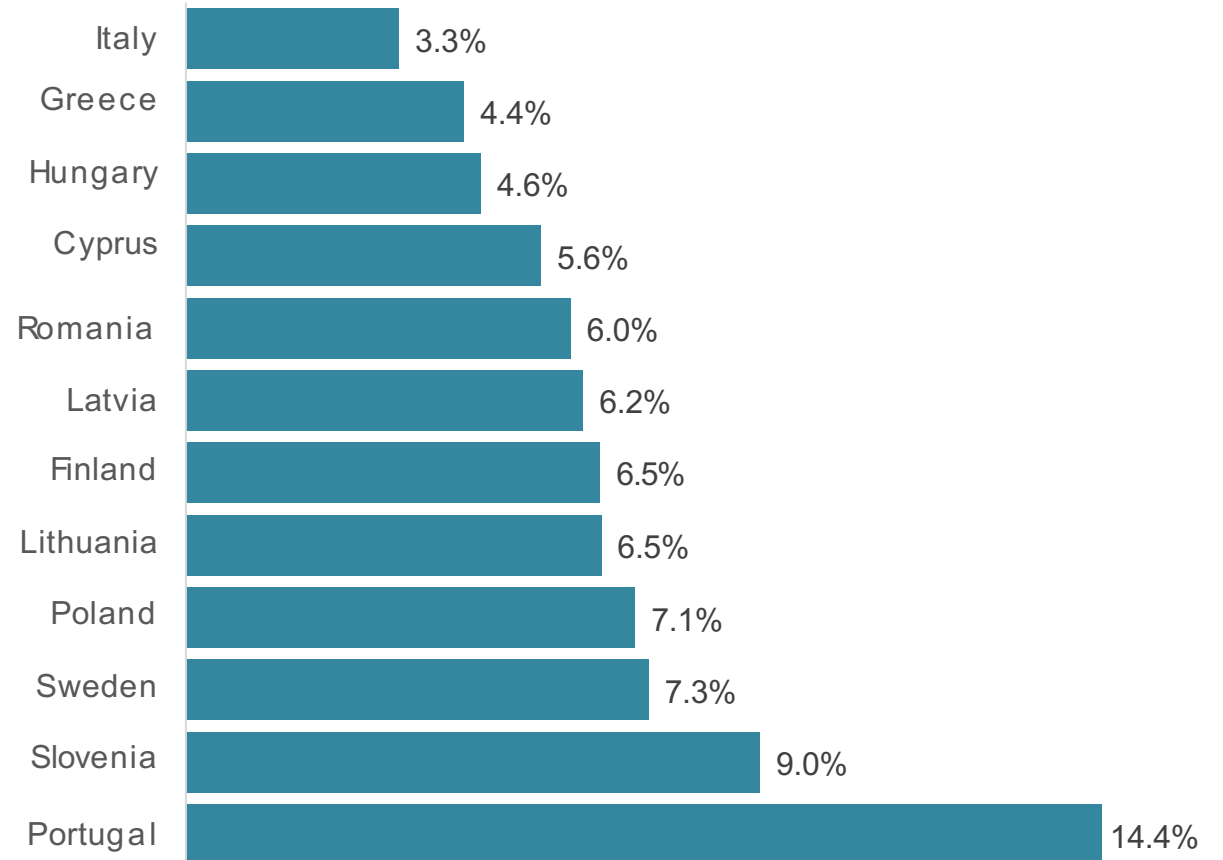
ALL VAPOUR PRODUCT FORMATS ARE CONSIDERED AS POTENTIALLY LESS HARMFUL THAN TOBACCO PRODUCTS



EU MEMBER STATES LEVY EXCISE ONLY ON E-LIQUIDS IRRESPECTIVE OF FORMAT: DISPOSABLE, CARTRIDGE, OR REFILL



Excise on e-liquids as % of the average excise on cigarettes



E-LIQUIDS, INCLUDING DISPOSABLE E-CIGARETTES, WILL BE CLASSIFIED IN SUBHEADING 2404 IN HS 2022

2022 HS

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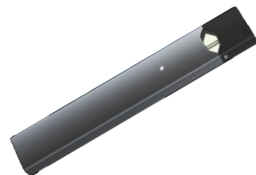
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Open and closed
systems e-liquids
under same
subheading



E-liquids under same
subheading as NRTs

THE DRAFT EXPLANATORY NOTES FOR HS2022 OUTLINE THAT HS2404 INCLUDE:

2022 HS



Disposable e-cigarettes

DISPOSABLE ELECTRONIC CIGARETTES (DISPOSABLE E-CIGARETTES) AND SIMILAR DISPOSABLE PERSONAL ELECTRIC VAPORISING DEVICES, THAT INCORPORATE BOTH THE PRODUCT INTENDED FOR INHALATION WITHOUT COMBUSTION (E.G., E-LIQUID, GELS) AND THE DELIVERY MECHANISM IN AN INTEGRATED HOUSING, THAT ARE DESIGNED FOR DISPOSAL AFTER THE INCORPORATED PRODUCT IS EXHAUSTED OR THE BATTERY RUNS OUT (NOT DESIGNED FOR REFILLING OR RECHARGING)



Refill bottles

NICOTINE CONTAINING SOLUTIONS INTENDED FOR USE IN ELECTRONIC CIGARETTES OR SIMILAR PERSONAL ELECTRIC VAPORISING DEVICES



Cartridges / pods

SIMILAR PRODUCTS INTENDED FOR USE IN DEVICES WHICH PRODUCE AN AEROSOL FOR INHALING OTHERWISE THAN BY HEATING, E.G., BY MEANS OF A CHEMICAL PROCESS OR BY ULTRASONIC EVAPORATION WHICH INCLUDE CARTRIDGES CONTAINING NICOTINE LIQUID USED WITH ELECTRONIC CIGARETTES OR ELECTRONIC NICOTINE DELIVERY SYSTEMS

POSSIBLE WAYS TO ENSURE DISPOSABLE E-CIGARETTES ARE PAYING EXCISE

Option 1

Expand the current definition of liquids for electronic nicotine delivery systems to include disposable e-cigarettes, in line with the HS 2022

Option 2

Create a dedicated excise category and rate for disposable e-cigarettes

EXCISE REVENUE POTENTIAL FROM NON-TOBACCO NICOTINE POUCHES

HOW SWEDEN'S APPROACH TO TAXING
NICOTINE CONTAINING PRODUCTS HAS
SUCCESSFULLY PROMOTED HEALTH AND
TAX REVENUE RAISING POLICY OBJECTIVES



NON-TOBACCO NICOTINE POUCHES HAS ONE OF THE LOWEST RISK PROFILES



“There is evidence, albeit still new, that the relatively new form of oral nicotine products which do not contain any tobacco are even less harmful to consumers than snus, which do contain tobacco”

THE WCO HAS DEDICATED A SEPARATE SUBHEADING FOR NON-TOBACCO NICOTINE POUCHES IN HS 2022

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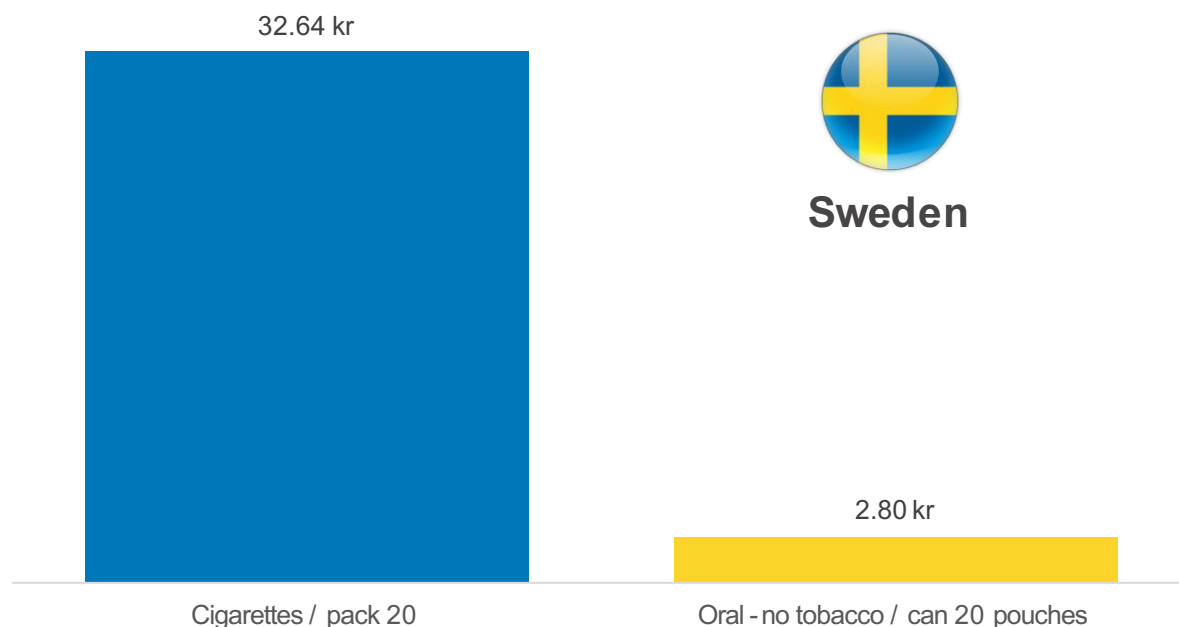
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→ E-liquids under same subheading as NRTs

NON-TOBACCO NICOTINE POUCHES ARE TAXED SIGNIFICANTLY LOWER THAN CIGARETTES IN SWEDEN

EXCISE ON NON-TOBACCO NICOTINE POUCHES VS CIGARETTES IN SWEDEN



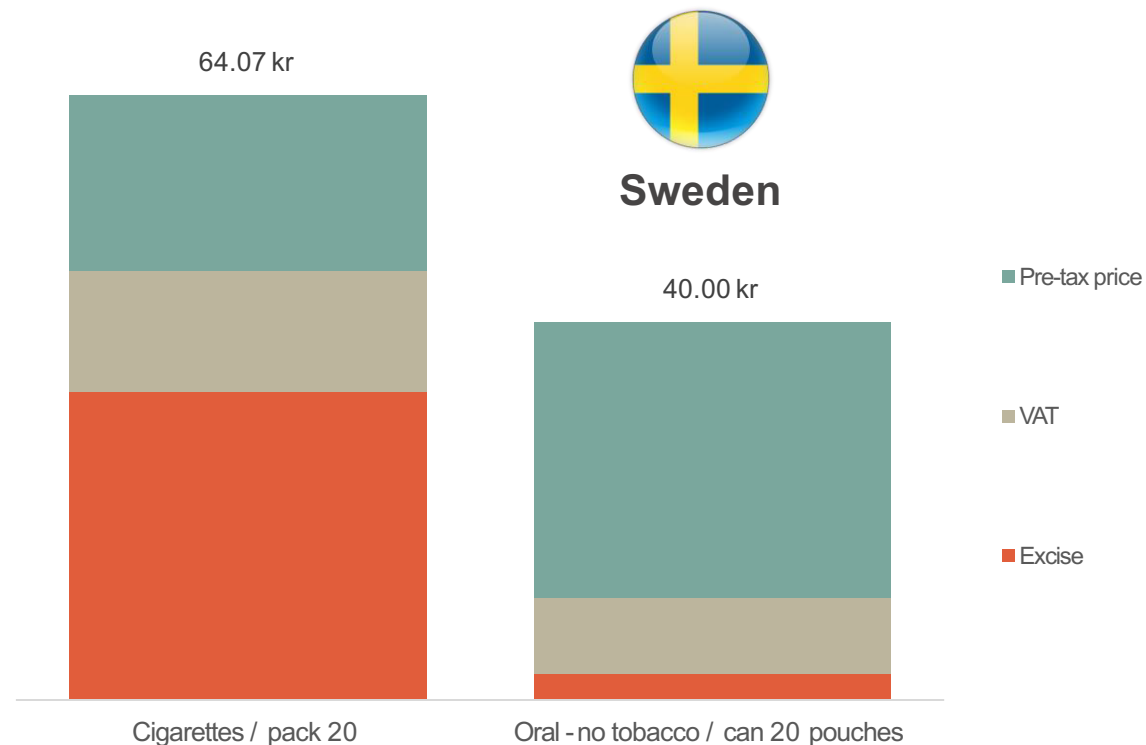
<90%

The tax on non-tobacco nicotine pouches is lower than the tax on cigarettes

THIS TAX TREATMENT IS IN LINE WITH THE RISK CONTINUUM CONCEPT DESCRIBED EARLIER

THE LOWER TAX IS PASSED ON TO CONSUMERS IN THE FORM OF LOWER RETAIL PRICES FOR NON-TOBACCO NICOTINE POUCHES

AVERAGE RETAIL PRICE OF NON-TOBACCO NICOTINE POUCHES VS. CIGARETTES IN SWEDEN



~38%

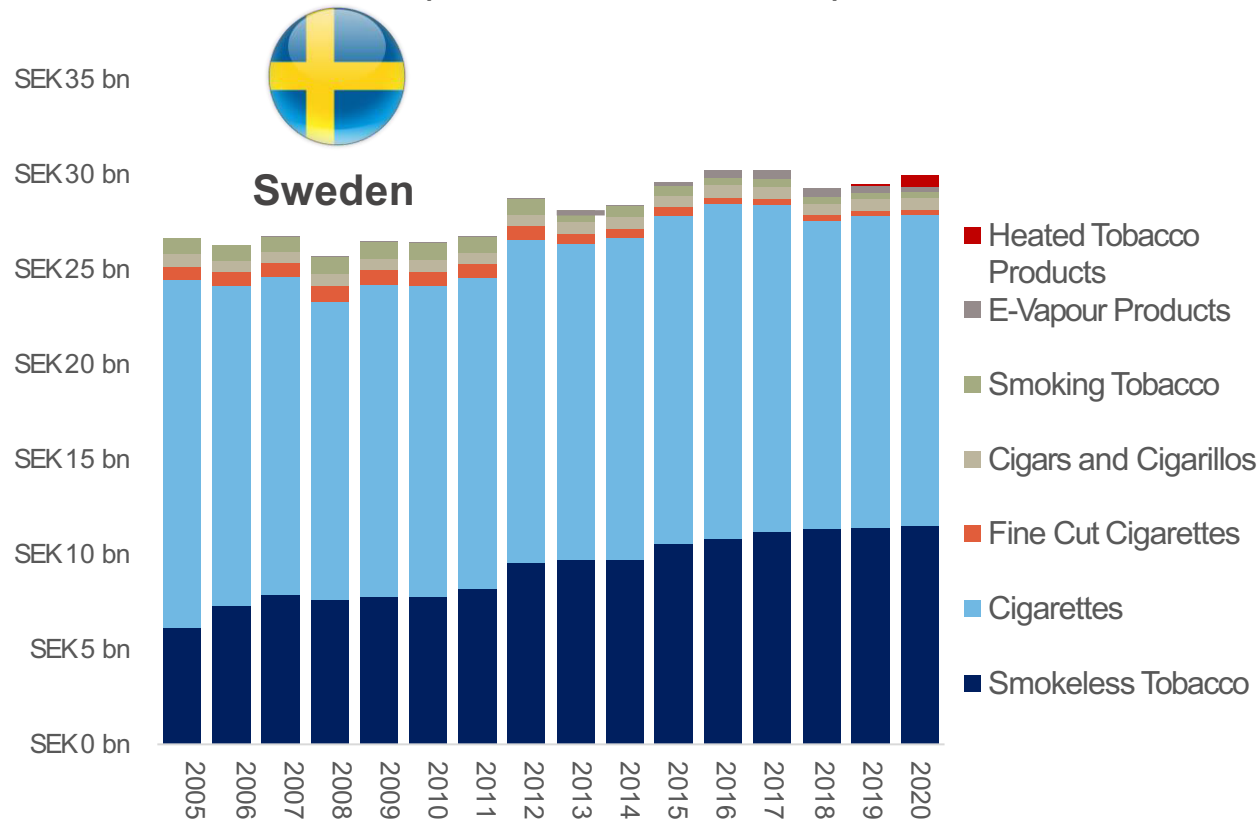
cheaper for the consumer to buy a can of non-tobacco nicotine pouches than a pack of cigarettes

~70%

of the lower taxes on non-tobacco nicotine pouches are passed on to the consumer

REASONABLE TAXATION HAS ENABLED CONSUMERS TO SWITCH TO LOWER RISK NON-TOBACCO NICOTINE POUCHES

SALES OF TOBACCO IN SWEDEN BY CATEGORY
(CONSTANT 2019 PRICES)



+87%

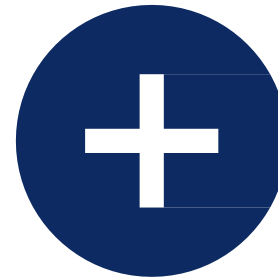
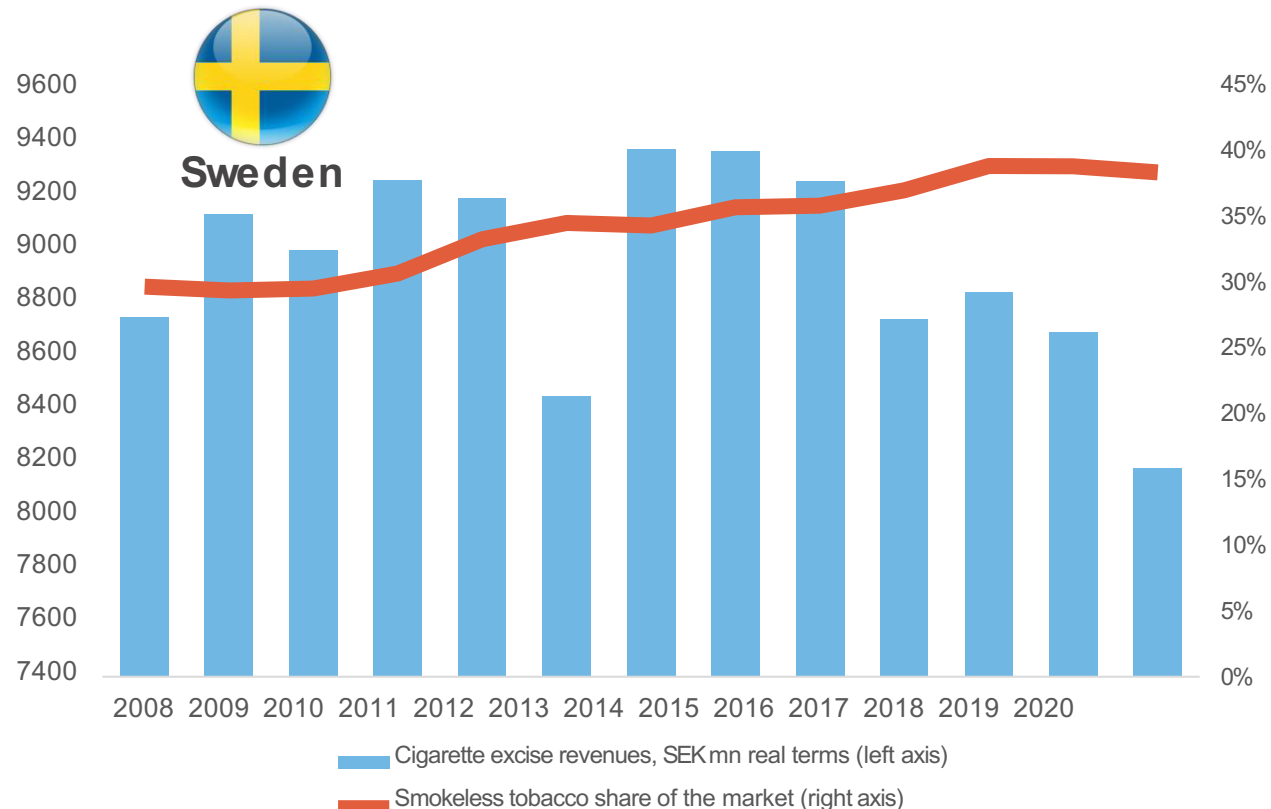
Increase in the smokeless tobacco (of which non-tobacco nicotine pouches is a part), sales since 2005

-11%

Decrease in cigarette sales since 2005

Source: KREAB Worldwide, "The taxation of tobacco and tobacco-free nicotine products in Sweden: A history of how the Swedish approach has successfully promoted the Government's health and tax revenue raising policy objectives", July 2021

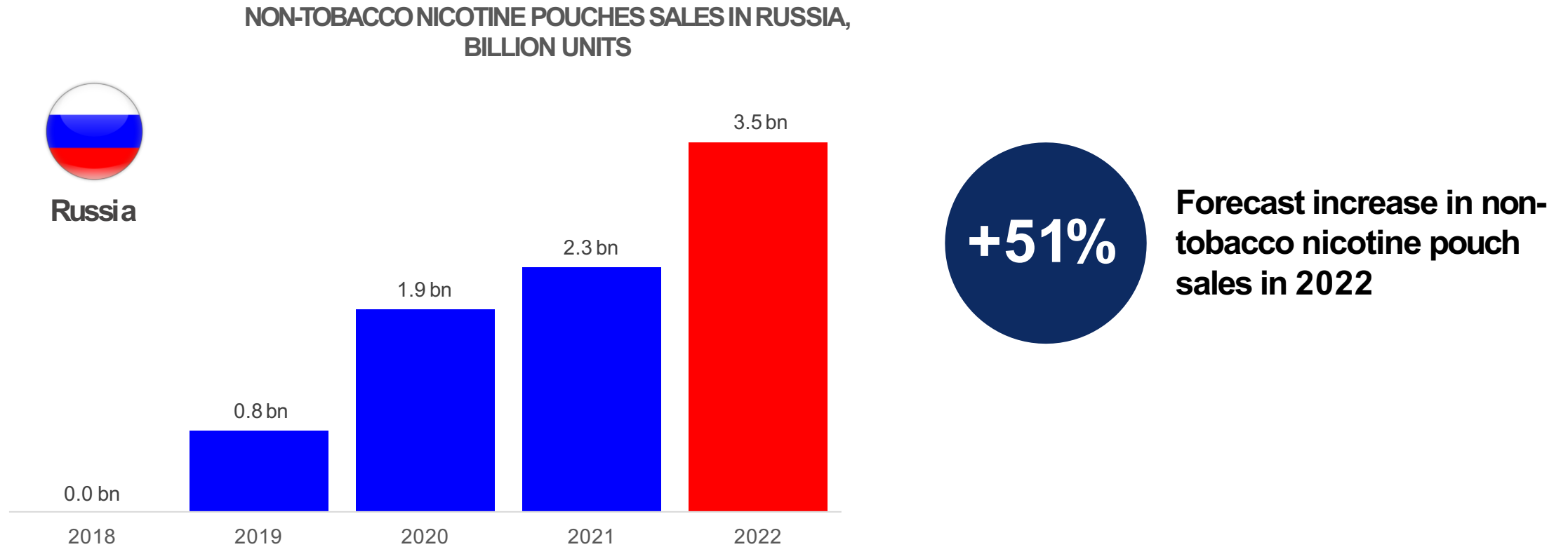
GROWTH OF SMOKELESS TOBACCO, OF WHICH NON-TOBACCO NICOTINE POUCHES IS A PART, HAS NOT ERODED SWEDEN'S CIGARETTE TAX REVENUES



Positive correlation between cigarette excise revenues and the growth of smokeless tobacco share of the market between 2008 and 2017 – no evidence that growth in smokeless consumption has eroded cigarette tax receipts

FROM 2017 ONWARDS, VERY LARGE TAXRATE INCREASES HAVE DAMAGED CIGARETTE TAX REVENUES

THE NUMBER OF NON-TOBACCO NICOTINE POUCHES SOLD IN RUSSIA HAS CONTINUED TO INCREASE DESPITE THE PRODUCT BAN IN 2020



TAXING NON-TOBACCO NICOTINE POUCHES WILL ALLOW BETTER CONTROL OF THE PRODUCT + PROVIDE NEW REVENUES



Russia

Excise rate
per kg ¹



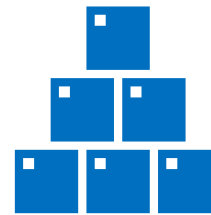
RUB 3,958

Equivalent
excise rate
per pouch ²



RUB 2.57

Non-tobacco
nicotine pouch
sales in 2022 ³



3.5B units

Potential excise
revenue in 2022



RUB ~9.0B

1 Excise rate for smoking, pipe, hookah and chewing tobacco in Russia for 2022.

2 The weight of 1 nicotine pouch is 0.65g.

3 Forecast of nicotine pouches sales volume in 2022 (Source: TobaccoIntelligence)