

■ OPINION

Revising the Tobacco Excise Directive: why harmonized tax rates in the EU are not realistic

It is inequitable for the Commission to look only at upward convergence in tobacco tax rates to achieve EU harmonization

Sixth in a series of six papers

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In this final article of my series on whether the minimum excise rates on tobacco products should be increased in the Tobacco Excise Directive, I reflect on how there are different ways to achieve convergence in the tax rates applied to tobacco products across EU Member States.

One would be to force lower taxed countries to substantially increase their tax rates.

The other – equally as effective in reducing cross-country tax differentials – would be to force the countries that set the highest tobacco taxes to put the brakes on any further tax hikes and let the other Member States catch up over time.

Or, indeed, a combination of the two.

Yet the Commission, apparently still wedded to the dream of tobacco tax rate convergence, appears to want to achieve it only via *upwards* harmonization, through the constant raising of minimum taxation levels.

But if this is the only driver of tax rate conversion, then it stands to reason that tobacco tax policy throughout the EU will be dictated by a small number of the larger and wealthier economies which can already stand to levy higher tax rates. It will force all the other Member States to run to keep up, giving up their ability to set tax rates appropriate for the particular conditions in their market.

That hardly seems fair.

And it is certainly not in line with the ethos underpinning the EU Treaty.

It stands to reason, then, that unless there is harmonization in both the upwards *and* downwards direction, there cannot be a real convergence in cigarette excise rates in the EU. A minimum excise rate without a corresponding maximum rate can ensure only a safety net below which taxes cannot fall, and nothing more.

Certainly, Economisti Associati, the European Commission's economic consultants in charge of the economic impact appraisal of revisions to the TED, recognise this.

A time for refocus and reappraisal

For all of the reasons I consider in my series of papers, it is, perhaps, time to stop pursuing the dream of harmonizing the excise duties on tobacco products at European level, something that I think will prove unachievable for both practical and political reasons.

As with the case of VAT before it, the pursuit of tobacco tax rate convergence is more likely than not to prove a Sisyphean task.

Instead, it is time to refocus the direction of any revision to the TED on the fundamental aims of all EU legislation – namely to intervene if, and only if, there is clear evidence that differences in tax rates or structures are significantly deleterious to the effective functioning of the Single Market and are distorting competition.

Looked at through this lens, in view of the available evidence on such distortions, it is far from clear that full tax harmonization – or anything approaching it – is, in fact, needed.

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