SCANDINAVIAN TOBACCO GROUP

Ministry of Finance
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**Comments on the draft amendments to Act on Tobacco Excise Duty**

Scandinavian Tobacco Group A/S is a Danish-based company. We produce and sell cigars, including cigarillos, pipe tobacco and fine-cut tobacco to most of the world, incl. Finland.

We would like to thank you for the opportunity to comment on the draft amendments to Act on Tobacco Excise Duty, which has been forwarded to us by our distributor in Finland, Phillip Morris.

It is a fundamental principle in the EU excise directive for manufactured tobacco that the various types of manufactured tobacco have different tax bearing capacities.

In MEMO/08/506, that accompanied the 2008 proposal, the European Commission wrote: "Cigars and cigarillos consumption has been declining over the last 30 years, representing less than 1% of the total EU consumption of tobacco products. The current excise regime on these products takes into consideration the nature of the production (labor-intensive, with small business units and a low speed of production). A lower excise duty rate is therefore applied on cigars and cigarillos compared to cigarettes."

We are pleased to see that this fundamental principle seems to be recognized in the proposed changes, and we can only emphasize the importance of taking due account of the different tax bearing capacities of the various types of manufactured tobacco, also looking forward.

With the excise duty structure for cigars that is being proposed in the present draft bill, we notice that the current EU excise directive accommodates changes of rate deemed necessary by Member States.

The draft bill includes a proposal for a new cigar and cigarillo definition for excise purposes. We are a little puzzled about this proposal.

The only reason given for the introduction of this new definition seems to be that it is "required as the annexed tax tariff will contain separate product categories for cigars and cigarillos." But no reason seems to be given for the split into two separate product categories in the tax tariff.

As stated on page 3 in the draft proposal, Member States may establish their own taxation levels and tax structures to reflect their domestic political priorities, provided that they comply with regulation, such as the definition, in the directive. The definition of cigars and cigarillos in the directive, article 4, does not distinguish between cigars and cigarillos.

"Article 4
1. For the purposes of this Directive the following shall be deemed to be cigars or cigarillos if they can be and, given their properties and normal consumer expectations, are exclusively intended to be smoked as they are:

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(a) rolls of tobacco with an outer wrapper of natural tobacco;
(b) rolls of tobacco with a threshed blend filler and with an outer wrapper of the normal colour of a cigar, of reconstituted tobacco, covering the product in full, including, where appropriate, the filter but not, in the case of tipped cigars, the tip, where the unit weight, not including filter or mouthpiece, is not less than 2,3 g and not more than 10 g, and the circumference over at least one third of the length is not less than 34 mm."

The directive defines cigars and cigarillos as one product category and does not allow a Member State to divide the product category into two or more sub-definitions for excise purposes. We are therefore surprised to see a new definition introduced in a tax context and strongly recommend that the definition in the EU excise directive that applies for excise purposes is duly respected.

It is not the intention to deviate from the directive, and we therefore strongly recommend not to cause unnecessary confusion by introducing a new definition in the Act on Tobacco Excise Duty.

We are of course available for any further clarification of the above comments.

Yours sincerely

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