

**MARCO SPALLONE
STEFANO MARZIONI
ALESSANDRO PANDIMIGLIO**

THE FISCAL REFORMS OF TOBACCO MARKET IN ITALY AND GREECE: TOWARDS AN EXCISE CALENDAR

**Foreword by
GIORGIO DI GIORGIO**



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SEPTEMBER 2017



Thanks to British American Tobacco Italia
for the contribution to the production of this Booklet.

BRITISH AMERICAN TOBACCO ITALIA

British American Tobacco Italia S.p.A. (BAT Italia) was officially established on 1st January 2002 and took its current set-up in June 2004, following the merger with ETI S.p.A.. BAT acquired ETI S.p.A. after winning the tender for privatisation on 16th July 2003. Such privatization represented the greatest investment ever done in Italy by an international Company (2.3 billion Euro).

Thanks to its Italian spirit mixed up with an international perspective, BAT Italia has been playing a relevant and strategic role in the national economic scenario. In Italy – the second largest market in Europe – BAT commercializes over 20 international brands such as Rothmans, Lucky Strike, Dunhill and some national brands, such as MS, to mention a few. BAT Italia also commercialises a wide range of vaping products with the brand *Vype* which includes ePen, Pebble, eBox and eTank.

Our Company provides a significant contribution to the growth of the Italian economy, ensuring about 2.5 billion Euro per year in terms of tax revenue.

In 2017, BAT Italy was awarded, for the sixth consecutive year, the “Top Employer Italy” certification as well as the “Top Employer Europe 2017” certification, only granted to those multinational companies which are certified in at least 5 European countries.

BAT Italia is part of British American Tobacco Group, one of the most international of the sector: operating in over 200 markets with a leading role in 60 Countries, BAT commercialises over 200 brands and employs over 50,000 people all over the world.

BAT Group has been active from several years in the Next Generation Products sector (the so-called “NGP”), at global level. The Company developed innovative nicotine delivery devices for adult smokers, produced according to the highest quality standards. The main areas of activity in this sector concern *vaping products* (namely e-cigarettes) under the *Vype* label and the Tobacco Heated Products (tobacco products including no combustion process) such as “*glo*”.

Over the last 5 years, BAT invested at global level over 1 billion Dollars in Next Generation Products and is today the biggest vaping company at European and at global level (USA and China excluded).



FOREWORD

In Italy, the retrospective assessment of legislative measures is typically an undervalued exercise. Nevertheless, the Italian Legislator have recognised the importance of this practice and have established, that it is in many cases compulsory by law (“Regulation on the implementation of the Regulatory Impact Assessment (RIA)”). To date, as observed by the Presidency of the Council of Minister, RIA has only been conducted 20 times in the three years between 2013 and 2015.

Given the importance, at least in theory, of a retrospective assessment of legislative interventions, the Law also establishes the procedure for conducting a reliable and informative RIA, following international best practices. These guidelines are very important, especially in cases where the assessment concerns technically complex and politically far-reaching legislative interventions.

The document drawn up by CASMEF with the support of British American Tobacco Italia is worthy of close attention because it is one of the rare examples of the meticulous carrying out of an RIA: it is as if CASMEF researchers voluntarily took on a responsibility that should be public and decided to carry out the role, so exalted in other international contexts, of public servants. Moreover, since the assessment relates to a legal measure that is crucial both for the public accounts and for public health, as it is the case of the 2015 tobacco fiscal reform, the document takes on even greater significance.

In the first instance, the document is striking in its total compliance to the principles set out by Italian legislators for the performance of the RIA: such compliance ensures that the results are valid and entirely objective. But even an excellent RIA cannot shake off an obvious criticism: as economies are complex systems, no RIA can compare the results of the measure assessed retrospectively with those of an alternative measure not yet implemented. To prevent such criticism, the document includes a Regulatory Impact Assessment on the tobacco reform adopted in Greece in 2012. It is true that the Greek context was and is different from the Italian context, but carrying out the two RIAs together allows us to make a comparison which, at least in the intentions of the CASMEF researchers, is similar to that performed in the laboratory between the final results of two different treatments.

The results are very interesting, indeed.

What emerges from the RIA on the Italian reform is the acknowledgement that the measures adopted performed well during the first two years of their implementation: volumes and revenue were stabilised, contraband was kept under control and competition dynamics were respected. However, significant critical points emerge from the Italian RIA, with regards to the vagueness of legal basis underlying the discretionary interventions on the taxation parameters. It is the typical “*rules versus discretion*” debate so dear to monetary economists which, in the tobacco context, takes on a new form: discretionary power which is not clearly defined risks generating decisions imposed by the urgency of a very short time frame (as in the case of the recent budget corrective action), which can destabilise the market in the medium-long term. Moreover, on an oligopolistic market as is the tobacco market, discretion opens the way to manufacturers applying pressure on institutions in a manner that is not always entirely correct. Unequivocal rules, especially in the case of a mature market with stable and easily predictable long-term trends, would appear to be desirable and according to CASMEF should feature in a new reform.

The other suggestion proposed by the document concerns the comparison between the Greek case and the Italian case: in particular, the need for gradual and non-drastring interventions is clear. In fact, even if it is acknowledged that tobacco taxation should be more specific-based rather than proportional in order to ensure the State’s revenue and to bring about higher margins for high-price products, such a transformation should take place gradually to avoid shocking the established equilibrium. If this happened, the dominant players would exploit their position at the expenses of consumers and, at the same time, would pave the way to contraband.

To sum up, the exercise conducted by the CASMEF researchers shows the path for future tobacco taxation: unequivocal rules and gradual implementation to ensure the mediumterm stability of the sector shall be carried out, until major transformations are introduced in the very near future. These major transformations are partly due to changes in demand, greater awareness of health risks, but, above all, it will be the result of innovation of supply, now ready to deliver returns on investments made on alternative products.

Prof. Giorgio Di Giorgio
CASMEF Director
Luiss Guido Carli University

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The Study describes the current situation of the tobacco Italian market two years after the 2015 Fiscal Reform has entered into force.

The effects of the reform are analysed through a structured Regulatory Impact Assessment (RIA): this tool - set by the Italian legislation but only rarely carried out – includes some formal steps aimed at identifying the strengths as well as the weaknesses of a recently applied regulatory set.

This rigorous methodology has been applied to analyse the effects of the above mentioned 2015 Italian Fiscal Reform as well as to the Greek Fiscal Reform which was introduced in 2012: the objective was to point out both positive and negative aspects of the Italian model through a comparison with the Greek case.

A set of guidelines for the next future is the main result of this Study: besides figures, such guidelines call for more transparency and predictability of fiscal policies in the tobacco sector as to ensure both sustainability of the market and future revenues.