

Estonian tax policy and key takeaways on e- cigarette regulation

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Topics

- Excise duty and sales volumes
- Outcome of Estonian e-liquids' tax break
- Key takeaways on e-cigarette regulation

Excise duty on tobacco and nicotine products

Product	Excise duty rate 2021	Excise duty rate 2022	Excise duty rate 2023
Cigarettes	86,50 euros/1000 pcs + 30% from retail price	91,30 euros/1000 pcs + 30% from retail price	96,30 euros/1000 pcs + 30% from retail price
	min. 145,60 euros/1000 pcs	min. 152,85 euros/1000 pcs	min. 160,50 euros/1000 pcs
Cigarillos and Cigars	151 euros/1000 pcs + 10% from retail price		
	min. 211 euros/1000 pcs		
Smoking tobacco	97,10 euros/kilogram	101,90 euros/kilogram	107,00 euros/kilogram
E-liquid	0,2 euros/millilitre (until March 31)	-	0,2 euros/millilitre
Solid tobacco substitute	97,10 euros/kilogram	101,90 euros/kilogram	107,00 euros/kilogram
Other alternative product	0,2 euros/gram		

Data from Estonian Tax and Custom Board

Sales volumes

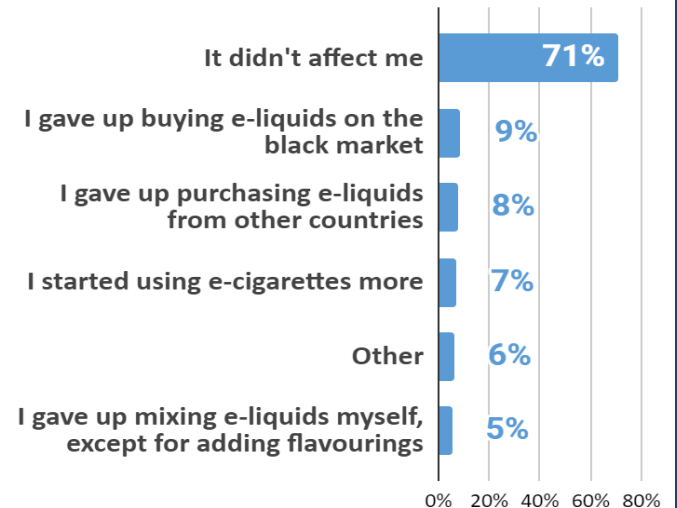
Product	2019	2020	2021	2022 (6 months)
Cigarettes (pacs, 20 pcs)	79,86 million	74,6 million	73,97 million	35,11 million
Cigarillos (pcs)	7,6 million	11,58 million	13 million	4,9 million
Cigars (pcs)	0,24 million	0,35 million	0,27 million	0,15 million
Smoking tobacco (t)	81,3	79,2	86,9	38,9
Solid tobacco substitute (t)	10,73	38,99	58,76	29
Heated tobacco (t)	-	-	11,5	8
E-liquid with nicotine (L)	4739	5365	1388* (3 months)	???
E-liquid without nicotine (L)	985	1392	211* (3 months)	???

Data from Estonian Ministry of Finance

What was the impact of the tax break?

- E-liquid prices fell somewhat
- The tax break affected 23% of users
- Prices for e-liquid components also fell
- The ban on the sale of flavored e-liquids is still in place

How did the excise duty break for e-liquids that started on April 1, 2021 affect you?

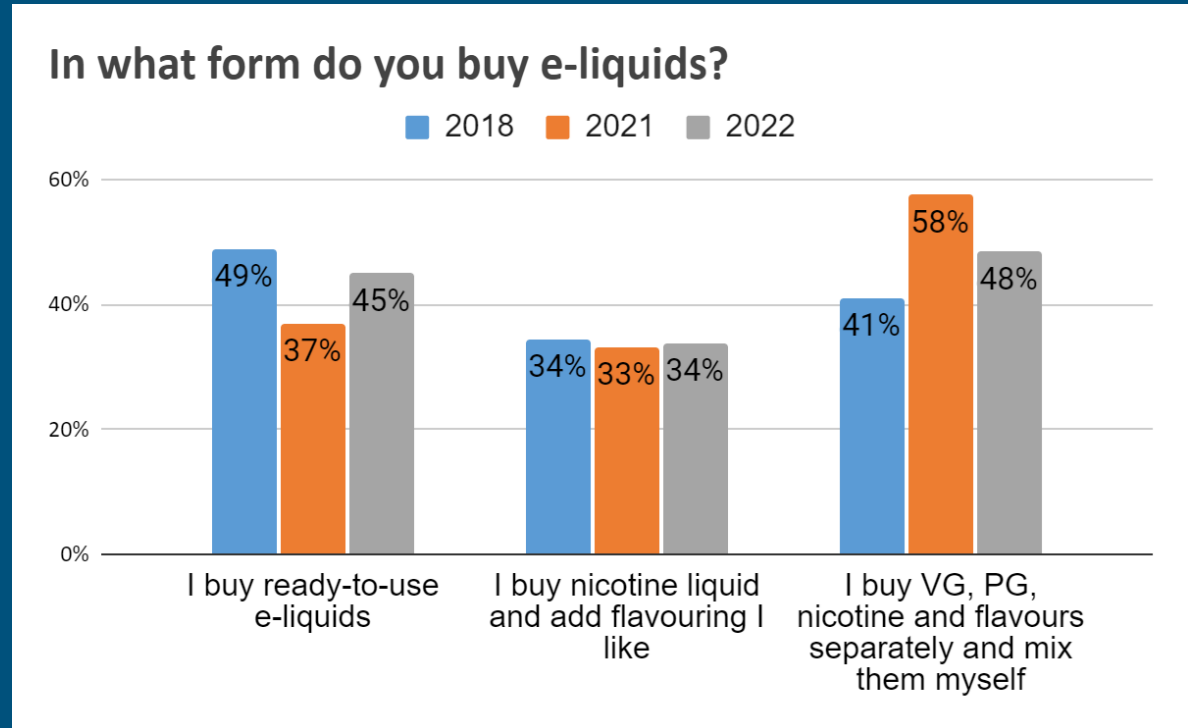


The black and grey market for e-cigarettes continues to thrive

- An extensive black and grey market for e-cigarettes (62-80% of the entire Estonian e-cigarette market)
 - E-cigarettes in schools - the press has pointed out how every school, and often every class, has its own e-cigarette dealer
 - Vacation trips are planned based on where flavored e-liquids can be brought
 - Southern Estonians buy suitable e-liquids from Latvia
- Disposable e-cigarettes - they are easy to handle anywhere and flavored versions are in high demand
- What about the safety of users?

E-liquid preferences of consumers

* Ready-to-use e-liquid users are also people who use disposable e-cigarettes



Failure of distance selling ban

Both domestic and cross-border distance selling are prohibited in Estonia since 1. July 2019.

This means that e-cigarettes and other less harmful products cannot be ordered from Estonian e-shops.

At the same time, Estonian does not have the ability to check all packages ordered from abroad. Products ordered from abroad can be conveniently picked up at the nearest parcel machine or the courier will bring the products home.

The ban on distance selling only harms Estonian companies. Consumers usually order a larger quantity from abroad.

A big surprise from the Ministry of Social Affairs

There were just over a million adults in Estonia in 2021.

Did half of them use one disposable e-cigarette every day?

Year / product	E-liquids (number of products sold)	Disposable e-cigarettes (number of products sold)
2016	38 236 838	5 096
2017	1 695 342	30 000
2018	376 537	70 000
2019	4 460 786	59 640
2020	420 359	11 993 672
2021	327 501	202 039 440

How the Estonian e-cigarette market might look like next year?

- With the return of the excise duty on e-liquids, purchases of e-cigarettes from domestic stores probably will decrease.
- The black and gray market would continue growing.
 - E-cigarettes would become even more easily accessible to minors
- However, there is probably a small number who:
 - give up the use of e-cigarettes
 - adopt to another less harmful product
 - return to smoking regular cigarettes

Is there hope for changes?

A group of members of the Estonian Parliament has once again submitted a draft law, which would:

- allow a selection of flavored e-liquids be extended, whilst flavours described as sweets, candies or soft drinks will remain prohibited,
- restore distance sales if the identification of buyers is ensured,
- would regulate tobacco-free snus in the same way as other less harmful alternatives.

What the excise tax policy for tobacco and nicotine products should look like?

We believe that excise duty rates on tobacco and nicotine products should be based on harm caused by the product.

- The most harmful product should be subject to the highest rate of excise duty.
- The rate of excise duty on other products should depend on their harm compared to the most harmful product.

This way we can create an economic incentive for users to switch to a less harmful products.

Thank you!

Questions?