

Tobacco taxation in Belgium – additional material

London Economics' analysis for ESTA

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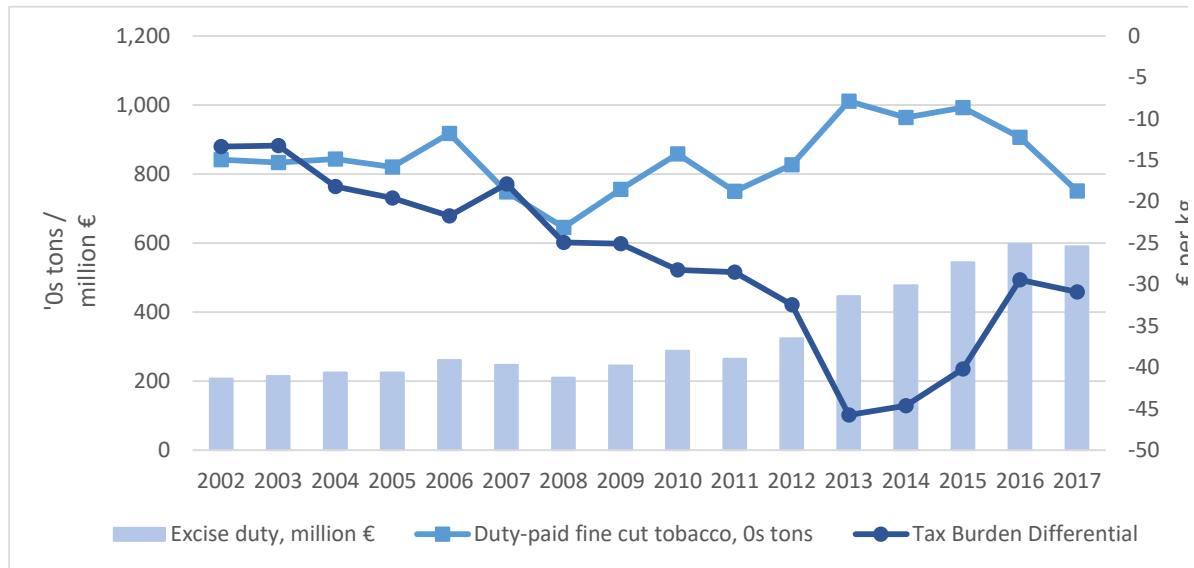
In Figure 20, we present information on the evolution of **duty paid consumption** of FCT in Belgium, as well as the **tax revenues** generated. Alongside this information, we also provide information on the tobacco tax differential that exists between Belgium and the Netherlands. Again, the rationale for the inclusion of this information is to reflect the interdependency of different jurisdictions, and to highlight the fact that the decisions in neighbouring Member States have a spillover or ripple effect on other Member States. Whilst in the previous section, we demonstrated the **negative effect** of sharp duty hikes on the fiscal position of the Dutch governments, the analysis here illustrates that the Belgian government was a beneficiary of Dutch tax policy decisions.

In particular, the analysis presented in Figure 20 highlights the fact that between 2002 and 2012, the total volume of FCT consumption was relatively stable between **8,000** and **9,000 tonnes** per annum. The average across this 10 year period was marginally in excess of **8,000** tonnes per annum, with the largest declines occurring in 2007 and 2008 (dipping to **7,500** and **6,500** tonnes in each year following a **16%** increase in excise duties between 2005 and 2006 (and an associated **20% decline** in excise taxation generated from FCT in the subsequent 2 years)). However, between 2006 and 2011, the levels of excise duties charged on FCT remained relatively stable (increasing at **1%** over the five year period). At the same time, the level of FCT consumption stabilised and recovered, increasing from a low of **6,500** tonnes in 2008 to reach **7,500** tonnes and **8,500** tonnes in 2009 and 2010 respectively. By 2012, the level of FCT consumption had remained in excess of **8,000** tonnes.

However, since 2008, in addition to the stabilisation of excise duties on FCT, a second factor has played a role in the increase in FCT duty-paid consumption (to more than **10,000** tonnes in 2013, and between **9,000** and **10,000** tonnes in each of the three years subsequently). In particular, as illustrated in Figure 20, the differential in the tax burden between Belgium and the Netherlands increased significantly (in absolute terms). A negative tax burden differential implies that FCT was more expensive in the Netherlands than in Belgium; the more negative it becomes, the cheaper Belgian FCT is in relative terms and the larger the tax burden differential. Between 2002 and 2008, the tax differential in FCT between the two Member states had reached approximately **€25 per kilo**; however after 2008, and in response the sharp increases in Dutch tobacco taxation, the gap widened to approximately **€32** per kg by 2012 and **€46** per kg by 2013. The very sharp increase in the excise differential between Belgium and the Netherlands between 2012 and 2013 was associated with a

22% increase in duty paid consumption in Belgium, although it is clear that a significant proportion of this was destined for the Netherlands. This is illustrated by the cross-border trade for FMC between the Netherlands and Belgium.

Figure 20: FCT consumption, government FCT revenue, and Netherlands-Belgium tax differential

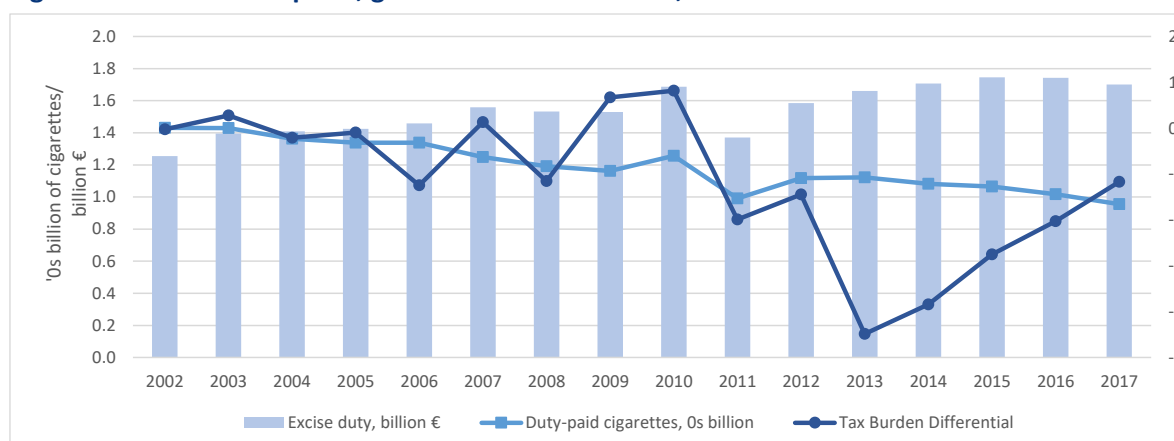


Source: London Economics analysis of EC DG Taxud data

Since 2013, there have been sharp increases in the levels of excise duties imposed in Belgium. These increases have amounted to between **8%** and **10%** per annum between 2013 and 2015, but reached approximately **17-19%** between 2016 and 2017. At the same time, the tax differential between the Netherlands and Belgium has narrowed, with the result that cross-border trade has become less attractive and the level of duty paid FCT released for consumption in Belgium has declined from **10,110** tonnes in 2013 to **9,060** tonnes in 2016. There was an even sharper decline in 2017, with FCT consumption declining to **7,507** tonnes – corresponding to a **17%** decline compared to 2016.

Note that in relation to FMC, as presented in Figure 21, although the tax differential between Belgium and the Netherlands has followed a relatively similar path in terms of widening between 2008 and 2013, with a subsequent narrowing since 2013, the level of consumption has declined relatively continuously over the period (by **20%** from 2008 to 2017).

Figure 21: FMC consumption, government FCT revenue, and tax differentials



Source: London Economics analysis of EC DG Taxud data

What has happened to Belgian FCT tax revenues over time?

In relation to government tobacco taxation receipts, the analysis presented in Figure 21 relating to FMC illustrates that over the entire period, the **100%** increase in excise duties per cigarette was associated with a **33%** reduction in consumption, but a **36%** increase in the taxation receipts associated with FMC (from **€1.25 billion** in 2002 to **€1.701 billion** in 2017).

The **190%** increase in duties on a kg of FCT since 2002, combined with domestic switching between FMC and FCT, as well as the significant increase in cross border shopping, has resulted in an **11%** decrease in consumption over the period. Despite this, there has been a **184%** increase in taxation receipts over the period. In monetary terms, the value of the taxation revenues accrued by the Belgian government on FCT have increased from **€207 million** in 2002 (**17%** of the taxation revenues associated with FMC) to **€590 million** in 2017 (**35%** of the taxation revenues associated with FMC).

However, despite the positive picture demonstrated by FCT over the entire period – in part because of the buffer function of FCT – it is important to note that **on those occasions where there have been sharp increases in FCT excise duties, there have been sharp declines in the level of taxation revenue received by the government.** In particular, the sharp increases in FCT duties per kg have been associated with substantial reductions in both consumption levels and government taxation receipts. This fact illustrates the sensitivity of the demand for FCT to change in excise duties (and price), but also the importance of the rapidity of changes in excise duties on consumer behaviour.