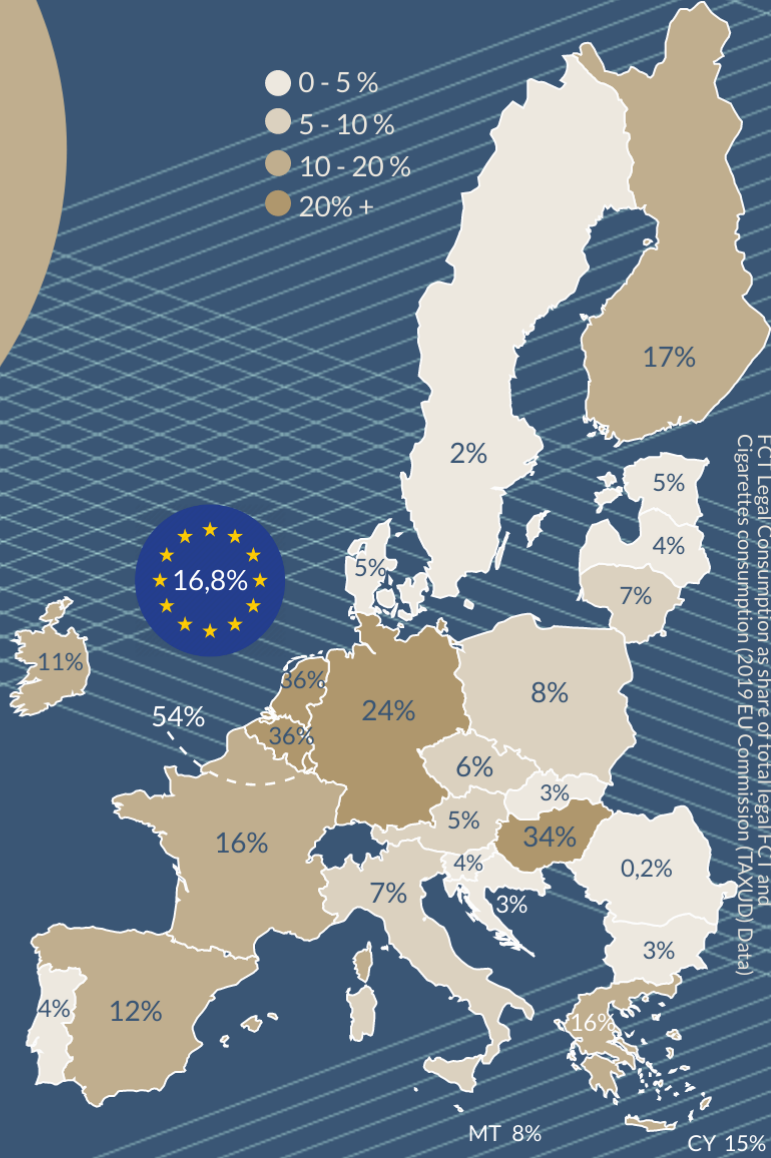


The Principles of Fine-Cut Tobacco Taxation

May 2021

- 0 - 5 %
- 5 - 10 %
- 10 - 20 %
- 20% +



2018 London Economics Study Key Findings

Not all smokers are similar

"Detailed analysis suggests that individuals who consume FCT have **higher income constraints** and are therefore **more sensitive to prices.**"



FCT fulfills a Buffer Function

"When consumers are priced out of the market, fine-cut tobacco can act as a **buffer against illicit trade or cross-border purchases**, thereby **protecting revenues**"



It is essential to establish a **differentiated tax treatment** of tobacco product categories.



THE BUFFER FUNCTION OF FINE-CUT TOBACCO IS CRUCIAL, ESPECIALLY IN TIMES OF ECONOMIC DOWNTURN

2021 London Economics Study
Key Findings



"A deterioration of economic conditions drives smokers to look for cheaper alternatives"



With their disposable income under pressure, smokers are more likely to switch from cigarettes to fine-cut tobacco

Substitution is affordability-driven, not tax-induced



During economic downturns, smokers are more likely to resort to illicit products. Less so when FCT is relatively more affordable (compared to cigarettes)



In 2020 and 2021, governments' FCT revenues could increase by 1.3 to 7% as a result of the economic downturn



To avoid priced-out consumers sourcing their tobacco outside the legal market, a differentiated FCT tax treatment is required. FCT then maintains tax revenues that might otherwise have been lost

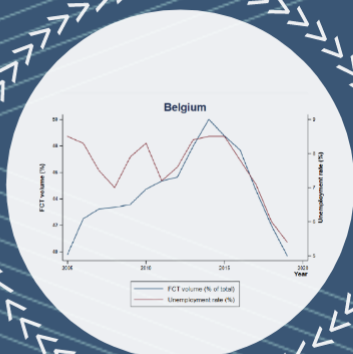
Because FCT consumers are typically more price-sensitive, a tax increase on FCT during economic downturns, is likely to drive more illicit consumption than an identical increase on FMC



BELGIUM

"FCT share of total legal consumption moves in line with the unemployment rate"

Potential additional FCT taxation receipts as a result of economic downturn, in 2021 in Belgium



+ 6,3%
(compared to 2019)