



Portugal - risks of proposed changes in FCT taxation for 2014

Lisbon, 12th of November 2013

Fine Cut Tax Rates 2014 – government proposal

FCT (Mainland)	2010	2011	2012	2013	2014 (Gov. Proposal)
VAT (%RSP)	17.36	18.70	18.70	18.70	18.70
VAT (%Effective)	21.00	23.00	23.00	23.00	23.00
Ad Valorem Tax (%RSP)	49.77	60.00	61.40	20.00	20.00
Specific				65.00	75.00
Minimum			75.00	90.00	120.00

- Drastic increase in Minimum taxation of **+ 33%** will equalize Fine Cut tobacco products with Cigarette products
- Price for consumers will increase up to **25%** from currently €2.40 to € 2.90
- Price gap between Portugal and Spain will be up to € 32,- per kilogram savings
- Comparing the new price of 20 cigarettes made of fine cut tobacco with a pack of cigarettes it will be **€ 3.87 versus € 3.90**
- Consequently volumes of fine cut will decline by **70%** and tobacco tax revenues will drop by **62%** which are **€ 73.9 million** compared to 2013

Minimum Taxation comparison

Fine Cut vs Cigarettes

Newest
Proposed Minimum:
€120.00 (per Kg)
Fumar prejudica sua saúde e a dos que o rodeiam

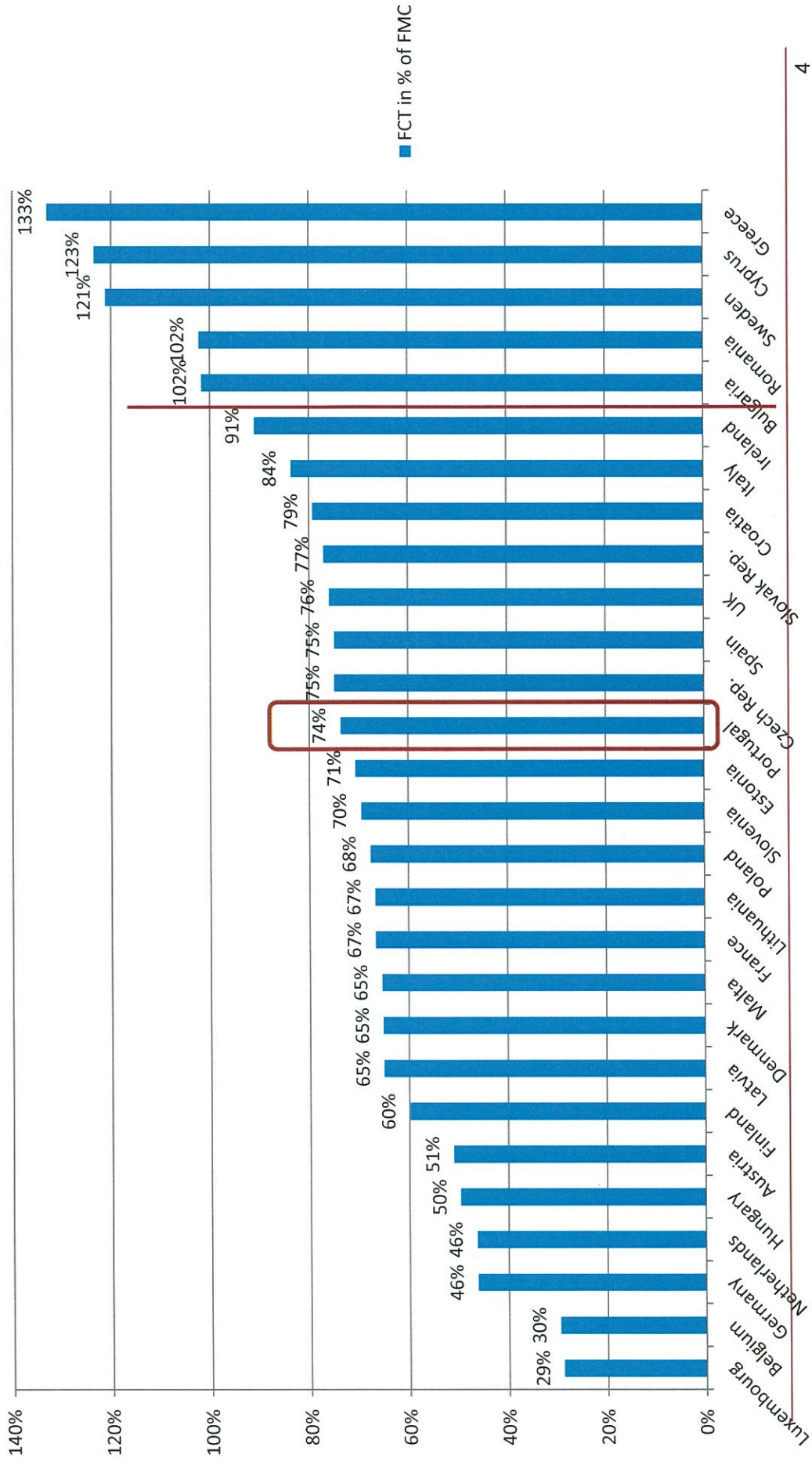
Fine Cut Minimum = 96% Cigarette Minimum

New Proposed Minimum:
€125.30 (per 1,000 Cigarettes)
Fumar gravemente a sua saúde e a dos que o rodeiam

Currently in 2013: fine cut tobacco tax is 74% of cigarette taxation

Fine cut tax in % of cigarette taxation

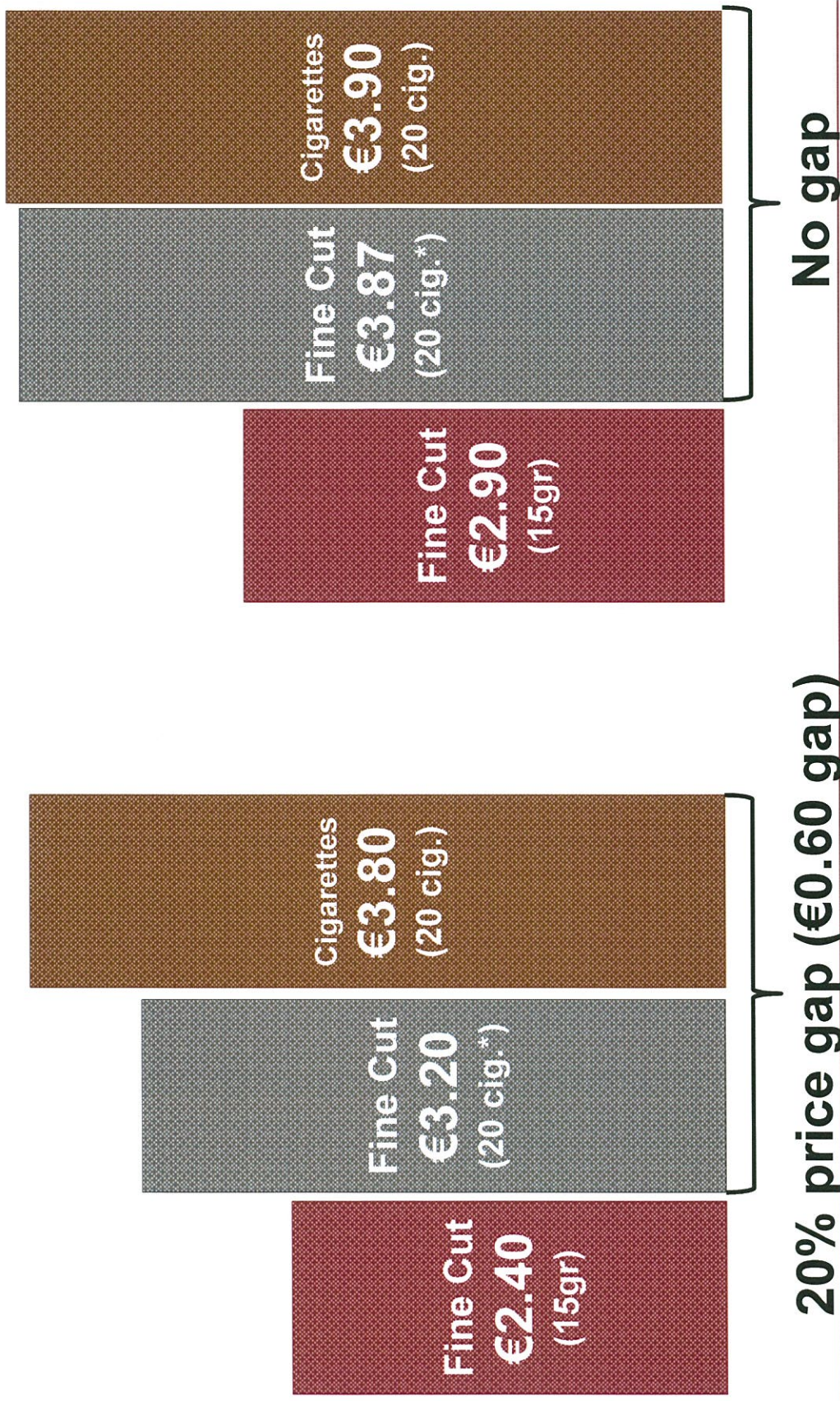
Excise Tax Yield on FCT in % of FMC (on cheapest brand, October 2013)



Price comparison between categories

TODAY 2013

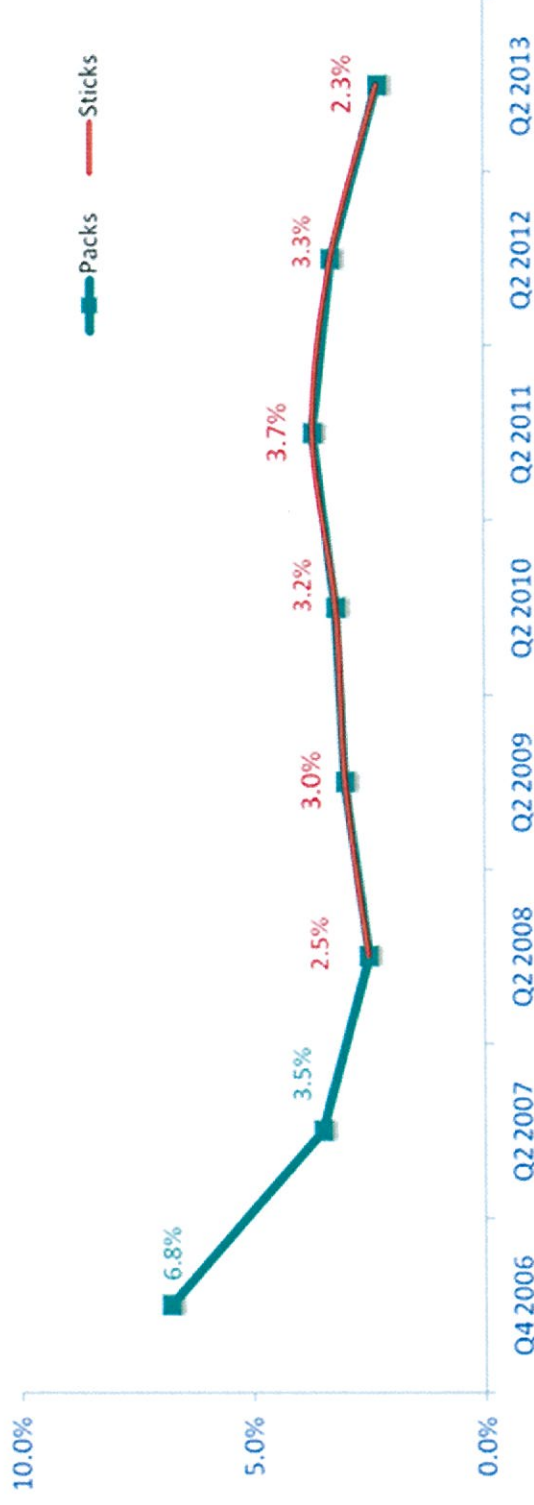
FUTURE 2014



* 1gr per cigarette

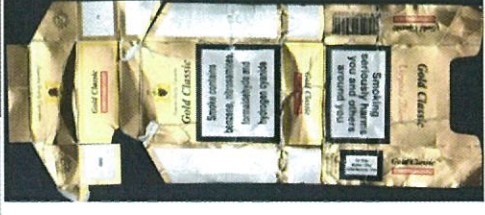
Proof of „Buffer“ Function

N=60,126 sticks
(N=3,000 packs)



- Non duty paid is increasing especially in the North of Portugal. Price advantages up to 72% with € 2.20 per pack of 20 cigarettes compared to a legal sold pack at € 3.80
- Tax revenue losses based on 2.3% which are 220 million sticks count for € 27 million

Examples Non Duty Paid Brands



• If cigarettes and fine cut tobacco are equalised, illicit trade will grow.

• Average retail price € 22,00 per bundle (42% price advantage in case of low price segment)