

The TTD at a Crossroads:



Revenue Grab or Risk-Proportionate Reform?

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22 April 2026

Summary

- The EU is considering a new Tobacco Taxation Directive that will greatly increase the minimum excise tax on tobacco products.
- The EU Regulatory Observatory's expert panel delivered a strongly critical verdict. Assessments clustered mainly in the 1–3 range on the regulation–deregulation scale (average of 3.58), indicating that the directive is seen as a clear regulatory expansion rather than a targeted, proportionate fiscal adjustment.
- Raising the minimum excise tax on tobacco will reduce price disparities between member states and may reduce incentives for cross-border shopping between lower and higher tax countries, but it will also create incentives for consumers to buy counterfeit and contraband cigarettes, particularly in Eastern Europe.
- The most damaging aspect of the proposals is the addition of low-risk nicotine products to the minimum tax structure. There is no obvious reason why the responsibility for taxing these products cannot be left in the hands of domestic governments and there are strong health arguments for keeping such taxes as low as possible. There is a fundamental conflict between the EU's objective of reducing the prevalence of smoking and smoking-related disease and its plans to tax safer nicotine products.
- However, the proposal's principle of differentiating tax rates between combustible tobacco and lower-risk alternatives, such as e-cigarettes and nicotine pouches, is a sound one. The EU should preserve and widen this differential, ensuring that taxation reflects the evidence on relative harm.

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Introduction

The European Union (EU) has set minimum excise tax rates on tobacco since 1992, but there has been no major legislative change since 2011. The current minimum tax rate is €90 per 1,000 cigarettes (€1.80 per pack) and tax must make up at least 60% of the weighted average retail selling price. Countries which tax cigarettes at a rate of at least €115 per 1,000 do not have to comply with the latter requirement. Every member state taxes cigarettes at a higher rate than this and has done so for some time.

In July 2025, the European Commission proposed a fully revised Tobacco Taxation Directive (TTD) which will sharply increase the minimum tax rate on tobacco products and set minimum tax rates on what it calls “tobacco related products”, specifically e-cigarettes and nicotine pouches (neither of which contain tobacco). Under the current proposal, the minimum rate on cigarettes will rise from €90 per 1,000 to €200 per 1,000 (€4 per pack) by 2032. A minimum tax on e-cigarette fluid will be introduced in January 2028 at a rate of €0.20 per millilitre (€2 per bottle) and at least 20% of the retail price before rising to €0.25 per millilitre (€2.50 per bottle) and at least 25% of the retail price in January 2030. From January 2032, the minimum tax rate of €0.30 per millilitre (€3 per bottle) and at least 30% of the retail price will apply.

For nicotine pouches, the EU envisages a similarly gradual increase in minimum tax rates until the introduction of the full rate of €107 per kilogram in January 2032. The weight of nicotine pouches varies, but this would mean that the contents of a typical can of *Zyn* weighing 14.7g would have a minimum tax rate of €1.57 and the contents of a typical can of *Nordic Spirit* weighing 13g would be taxed at €1.39. Since most EU countries do not have any excise tax on nicotine pouches, this would lead to a significant price increase. In practice, the price hike would be even greater because the TTD mandates that taxes must make up at least 50% of the retail price. Current prices vary but €5 a can is typical and inflation will doubtlessly increase average prices by the time the TED comes into full effect. The effective minimum tax rate will therefore be in the region of €2.50 by 2032.

Heated tobacco and waterpipe tobacco will also have a minimum excise tax for the first time at rates of €155 per kilogram and €107 per kilogram respectively from 2032.

The stated objectives of the TTD are to ensure “the proper functioning of the internal market” and “a high level of human health protection”. Its other objectives are maximising tax revenue and discouraging cross-border shopping for tobacco products by reducing price disparities between member states. The Council of the European Union’s justification for including e-cigarettes and nicotine pouches in the directive is that these products carry an “intrinsic public health risk” and have “the potential of opening the way towards conventional smoking.”

The EU Regulatory Observatory's Assessment of the new Tobacco Taxation Directive

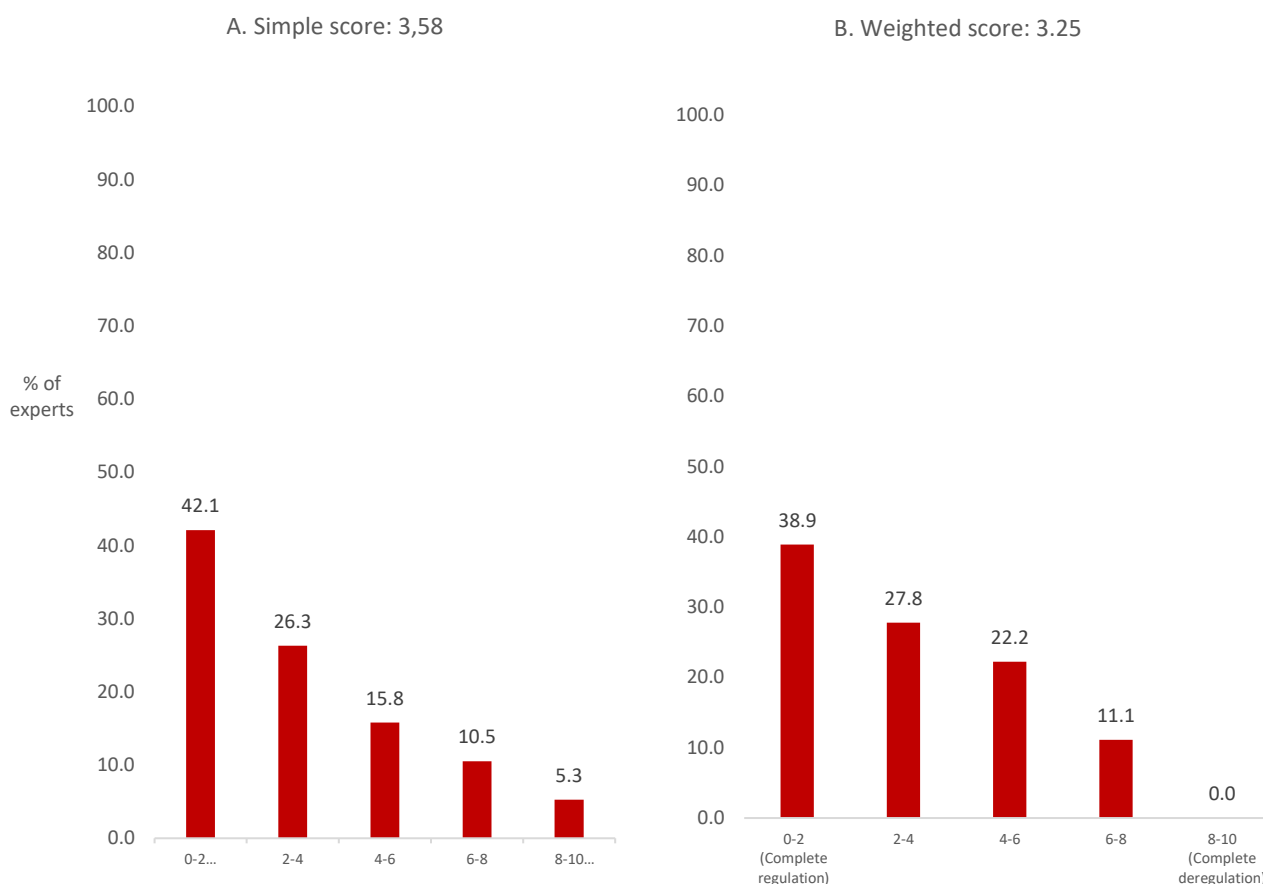
The EU Regulatory Observatory's assessment of the proposed revision of the Tobacco Taxation Directive reveals a broadly aligned view, with most experts perceiving the legislation to be moderately anti-liberal, with an average score of 3.58 out of 10 (where 0 = complete regulation and 10 = complete deregulation, Figure 1A). The weighted score is 3.25 (Figure 1B).

The distribution of scores is notably skewed toward the regulatory end of the scale. A large majority of experts placed the proposal in the 1–3 range, reflecting a strong consensus that the directive represents a meaningful shift toward centralised fiscal control and expanded regulatory scope. Only a small minority assigned scores above 5, suggesting that few experts regarded the proposal as deregulatory in any meaningful sense.

Most experts who engaged with the substance of the proposal identified the same core effects: a significant increase in EU minimum excise duty rates and the extension of harmonised taxation to previously unregulated products such as e-cigarettes and nicotine pouches. A smaller number also flagged the automatic indexation mechanism that locks in future rate increases. The central line of disagreement, however, concerned the normative and economic justification for these measures. Some experts accepted that tobacco taxation can be a legitimate instrument for internalising negative externalities within universal healthcare systems, particularly given the estimated €97.7 billion in annual direct and indirect costs imposed by tobacco-related diseases on EU and EFTA countries. Others argued that the directive goes beyond correcting market failures and instead constitutes a behavioural instrument that overrides member state fiscal subsidiarity and individual consumer choice, while risking the unintended consequence of stimulating illicit trade as legal products become increasingly unaffordable.

In summary, the proposed Tobacco Taxation Directive is assessed as a clearly anti-liberal piece of legislation. While a minority of experts acknowledged legitimate public health and fiscal rationales, the prevailing view is that the proposal extends EU regulatory control significantly, both in scope and intensity, without sufficient regard for market-based alternatives, harm-reduction considerations, or the distributional consequences for lower-income consumers.

Figure 1. Frequency Distribution of Average Scores in the EU Regulatory Observatory’s Assessment of the Tobacco Taxation Directive



Source: Authors’ calculation.

It was noted that the new TTD is illiberal insofar as it aims to “price certain lifestyles out of reach”. The economic argument for anti-smoking paternalism rests on claims about healthcare expenditure that are partial and misleading; they focus on the cost of smoking-related diseases while ignoring the healthcare costs that would be incurred if the individual did not smoke. The claim that the TTD will lead to greater market harmonisation was also questioned. Without a maximum tax rate, large differences in tobacco prices will remain and the directive explicitly allows member states to ban the sale of any of the products in question if they wish. The French government has already unilaterally banned nicotine pouches.

Several experts expressed concern about the issue of affordability. The countries which have the lowest rates of tobacco duty in the EU, such as Bulgaria and Romania, do not do so because their governments are pro-smoking, but because they have the lowest levels of per capita GDP. After adjusting for income, their tax rates are not low at all. The revised TTD takes no account of the very different levels of wealth between member states. A minimum excise rate of €4 per pack will have no impact whatsoever in wealthier countries such as Denmark and France where taxes already exceed that level, but it would cause prices to rise sharply in many of the poorer member states. Broadly speaking, taxes would be much more regressive in the East than in the West.

Pulling in opposite directions

Positive points of the proposal

Despite the predominantly critical assessments, several experts identified specific elements of the proposal that they regarded as constructive or, at minimum, directionally sound.

The most widely noted positive dimension concerns the directive's differentiated treatment of tobacco and alternative nicotine products. A number of experts acknowledged that the proposal does, to some extent, reflect the lower relative harm of alternatives to combustible tobacco — such as e-cigarettes and nicotine pouches — by subjecting them to lower minimum excise rates than conventional cigarettes. From a harm-reduction perspective, this differentiation is considered economically coherent: if the stated objective is to internalise the externalities of tobacco consumption, then products associated with significantly lower health risks warrant correspondingly lower tax burdens. Several experts emphasised that alternatives have demonstrated potential as substitutes that reduce exposure to combustible tobacco, and that preserving a meaningful price differential between the two categories is essential to sustaining that substitution pathway.

A second positive element raised by experts relates to the proposal's provisions on raw tobacco and illicit trade controls. Strengthening oversight of raw tobacco supply chains was seen as a measure with genuine public policy value, particularly given the scale of illegal cigarette markets in several member states — a problem with documented links to organised crime. To the extent that the directive introduces more effective traceability and control mechanisms, this was regarded as a legitimate and proportionate regulatory intervention.

Finally, a small number of experts conceded that the broader goal of fiscal harmonisation across member states, while potentially limiting tax competition, could reduce market fragmentation and provide a more predictable regulatory environment for operators active across multiple jurisdictions.

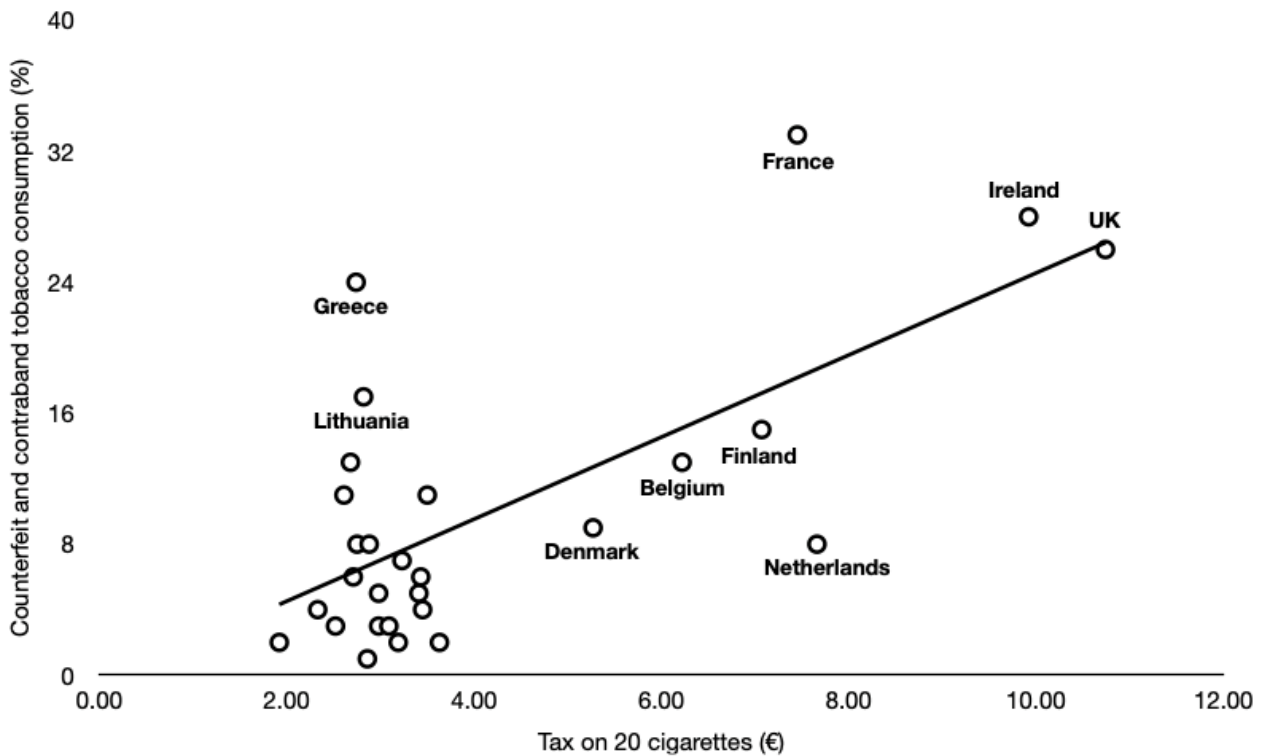
It appears that the TTD is driven more by the EU's public health objectives than by the desire for market harmonisation, but there is a fundamental conflict between its goal of having fewer smokers and its plans to tax safer nicotine products. Its fears about “the potential of opening the way towards conventional smoking” are misplaced. Far from acting as a gateway towards smoking, e-cigarettes (and other novel nicotine products) have been shown to be a highly effective off-ramp *from* smoking (Lindson et al. 2025). Since these products are a direct substitute for smoked tobacco, policies which discourage their consumption lead to more cigarette sales and more smokers. This has been shown repeatedly in the case of e-cigarette taxes (e.g. Pesko et al. 2020, Abouk et al. 2023, Yang et al. 2025). Increasing cigarette sales would meet the EU's objective of maximising tax revenue (since cigarettes are more highly taxed than other nicotine products), and the Council of the European Union has hinted that this is indeed the aim, portraying safer nicotine products as rivals to cigarettes “from a fiscal perspective”:

“In order to have neutral conditions of competition in the tobacco sector, it is also necessary to set the minimum tax levels for waterpipe tobacco, heated tobacco and other manufactured tobacco. For the same reason, minimum tax levels also should be set for tobacco related products which can be seen as substitutes for tobacco products from a fiscal perspective.”
(Council of the European Union 2026: 7)

Reducing demand for safer products to stimulate demand for cigarettes cannot be reconciled with its public health objectives. If the aim is to get people to stop smoking and to prevent nonsmokers from starting, the disparity between cigarette prices and the price of e-cigarettes, pouches, etc. should be as large as possible, implying a tax rate of zero on the latter.

The case for setting a minimum tax rate on cigarettes seems more straightforward. All else being equal, higher tobacco prices will lead to fewer tobacco sales. The issue is made more complicated, however, by cross-border trade and illicit sales. As discussed in a previous Epicenter briefing, there is a close relationship between tobacco taxes and illicit tobacco sales in the EU (Snowdon 2025). Figure 2 shows the strong and statistically significant association between cigarette taxes and the share of the cigarette market that consists of counterfeit and contraband ($r = 0.68$, $p = 0.000069$).

Figure 2. Association between Cigarette Excise Tax and the Share of Counterfeit and Contraband Cigarettes in European Countries



As can be seen from the figures in this graph, raising the minimum tax rate would have a substantial effect on prices in most member states, but they will have no impact in places such as Finland, Ireland and the Netherlands. This should lead to “a certain degree of convergence between the levels of taxation applied in Member States”, as the Council puts it, and it may discourage legal cross-border shopping of tobacco between higher and lower tax countries. Large price disparities will remain, however, and these may continue to provide sufficient economic incentive for cross-border shopping.

More importantly, raising tax rates in lower-tax countries will do nothing to discourage the sale of counterfeit cigarettes and “illicit whites” (brands such as *Manchester* and *Top Gun* which are widely consumed despite not being legally available in the EU). On the contrary, higher tax rates will likely create more demand for illegal products. These products are mostly smuggled into the EU, particularly from countries such as Belarus, Ukraine and Moldova. These countries border EU member states such as Romania and Lithuania which will see the largest price increases when the new TTD comes into effect, triggering a market shock in the very countries that neighbour the suppliers of illegal cigarettes. The Council has no answer to this other than to recommend that “Member States should step up their efforts to fight illicit tobacco trade”. This is easier said than done.

Conclusion and policy recommendations

The revised version of the Tobacco Taxation Directive cannot meet all of its objectives simultaneously. It can attempt to maximise member states' tax revenue by adding minimum duty rates to safer nicotine products such as e-cigarettes and pouches, but this will undermine its public health objective of reducing the prevalence of smoking and smoking-related disease. It can attempt to reduce intra-EU cross-border shopping for tobacco by forcing lower-tax countries to tax tobacco more heavily, but this is likely to fuel the market for illegal tobacco that has been smuggled into the EU.

The most damaging aspect of the proposals is the addition of e-cigarette fluid, nicotine pouches and heated tobacco to the minimum tax structure, all of which are known to be substantially less harmful than smoking and have enormous potential as long-term substitutes for smoked tobacco. Most member states have no excise tax on nicotine pouches and most of the member states that tax e-cigarette fluid do so at a lower level than the EU is proposing. There is no obvious reason why the responsibility for taxing these products cannot be left in the hands of domestic governments and there are strong health arguments for keeping such taxes as low as possible.

Nevertheless, the Directive's recognition that lower-risk products warrant lower tax rates is the right starting point. Any final agreement should deepen that differential, not narrow it. Evidence-based taxation means taxing products in proportion to their harm, and the science consistently shows that alternatives to combustible tobacco carry a fraction of the risk. Policymakers should build on this principle rather than abandon it in pursuit of revenue.

Methodological note

The results of the EU Regulatory Observatory's assessment are presented both as a simple and as a weighted average in order to (a) calibrate the different perceptions and biases of the experts on the regulation–deregulation scale, (b) take into account the experts' confidence in their area of expertise, and (c) take into account the extent to which the rating is informed by the expert's knowledge of the sector.

This process involved three key steps:

1. Harmonising perceptions and reducing biases: The experts were asked to rate 40 hypothetical scenarios (vignettes) in each policy area (King et al. 2004; Pemstein et al. 2020) to evaluate whether the policy is moving towards more regulation (anti-liberal) or more deregulation (pro-liberal). To ensure comparability across respondents, we used a standardised scale of 0–10 where:
 - 0 = complete regulation (anti-liberal stance)
 - 5 = no change/status quo
 - 10 = complete deregulation (pro-liberal stance)

To improve interpretive accuracy, vignettes were designed separately for eight distinct policy areas in which liberalisation may take different forms:

1. Digital platforms
2. Environment and emissions
3. Trade policy
4. Common fisheries policy
5. Common commercial policy
6. Agricultural policy
7. Energy markets

8. Consumer protection

Each vignette set consisted of five imaginary policy scenarios ranging from strongly regulatory to strongly liberalising¹. These served as scale anchors, allowing for the standardisation of experts' ratings across and within areas.

2. Experts' rating: The experts evaluated the EU regulations using the same scale.
3. Experts' confidence level: For each regulation, the experts reported their confidence regarding their topic-specific expertise and the extent to which their rating was informed by their expertise (both on the 0–10 scale).

¹ While the assignment of ideal scores is necessarily subjective to some extent, we aim to operate within the boundaries of mainstream policy consensus to ensure broad acceptability and analytical clarity. Ratings that deviate substantially from common interpretations are reviewed and revised accordingly, based on expert feedback.

The final weighted average score is computed as follows.

Rescaling procedure

Let X_i denote the raw rating given by expert i to the vignette set, and let Y denote the pre-specified 'true' rating of the vignettes. For each expert, we estimated a simple linear regression model:

$$Y = a_i + b_i \cdot X_i$$

The resulting coefficients a_i (intercept) and b_i (slope) capture the expert's idiosyncratic use of the response scale.

Subsequently, all real directive ratings provided by expert i were adjusted as follows:

$$Y_{ij} = a_i + b_i \cdot X_{ij}$$

where Y_{ij} is the standardized liberalisation score assigned by expert i to directive j , and X_{ij} is the original raw score for that directive.

Confidence and expertise weighting

To incorporate experts' self-assessments of their confidence, we applied a calibrated confidence-weighted adjustment to each expert's rating, ensuring that the evaluations are not excessively distorted. Traditional linear weighting methods tend to disproportionately suppress scores with moderate confidence, pulling down the mean rating significantly. We followed this weighting method to preserve the core evaluative signal of the base rating – especially for moderately confident assessments – while still rewarding higher confidence and down-weighting uncertain responses in a controlled and proportional manner.

Let the base score provided by expert i be defined as

$$S_i = \text{Intercept}_i + \text{Slope}_i \cdot \text{Expertise}_i$$

where Intercept and Slope are derived from the vignette results of each participant to harmonise the regulation–deregulation scale, while Expertise is the self-rated domain knowledge on a scale of 0–10. The adjusted (final) score is then computed as

$$\hat{S}_i = S_i \cdot 1 + \alpha \cdot \frac{C_i - \bar{C}}{C_{\max}}$$

where $C_i = C_i^{\text{policy}} + C_i^{\text{content}}$ is the sum of the expert's two confidence ratings (each on a 0–10 scale). $\bar{C} = 10$ is the neutral midpoint of the total confidence score (used as the baseline), $C_{\max} = 20$ is the maximum possible combined confidence, and α is a gain parameter controlling the sensitivity of the adjustment to confidence (e.g., $\alpha = 0.25$).

This adjustment ensures that if $C_i = 10$, then $\hat{S}_i = S_i$ (no change); if $C_i > 10$, then $\hat{S}_i > S_i$ (slight upward adjustment), and if $C_i < 10$, then $\hat{S}_i < S_i$ (mild discounting).

The choice of α determines the extent to which confidence modifies the score. In our case, we set $\alpha = 0.25$, such that a fully confident response ($C_i = 20$) is scaled up by 12.5%, while a minimally confident one ($C_i = 0$) is scaled down by 12.5%. This creates a bounded influence window, avoiding extremes while maintaining relative differences.

This method draws on soft-threshold weighting methods described in the expert assessment literature (e.g., Belton and Stewart 2002; Cooke 1991) and achieves the goal of respecting expertise without allowing a few confident respondents to disproportionately skew the aggregate outcomes.

Our panel of experts

The EU Regulatory Observatory panel comprises 34 experts, representing more than 25% of the current EU member countries. Most of them (62%) hold a PhD in their area of expertise. The majority (66.7%) work as researchers or policy advisors in think tanks, government bodies, or non-governmental organisations, while one out of five (20.8%) hold tenure track or tenured academic positions, as lecturers, associate professors, or professors; the rest of the experts (12.5%) are researchers in academic institutions (including PhD candidates and postdoctoral fellows). Two-thirds of the panel (66%) have more than eight years of professional experience.

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