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Croatia

Tobacco

Tobacco Excise Taxes Brought Into WTO Conformity 1999

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Report Highlights:

The Croatian government has brought its tobacco excise tax regime into WTO conformity. This move will increase tax revenues from tobacco sales and is also expected to improve market access for imported tobacco products.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Vienna [AU1], HR

The Croatian government has published its "Decision on the New Excise Tax on Tobacco" (Official Gazette 67/1999), which includes the changes deemed necessary for Croatia to fulfill WTO membership requirements in this field, and which went into effect July 1, 1999. The importance of this tax is underlined by the fact that it contributes about 2.2 billion HRK/year to the GOC budget, as well as that it significantly influences the tobacco subsector of the Croatian economy which involves 20,000 farmers and employees.

Unlike the previous taxation system, cigarettes are not grouped in categories based on the content of domestic tobacco, but in the following new tobacco taxation categories:

1. Cigarettes of group A ("Popular group" - domestic, soft packaging) - 3.90 HRK
2. Cigarettes of group B ("Standard group" - domestic, hard packaging) - 4.30 HRK
3. Cigarettes of Group C ("Extra group") - 7.00 HRK

Excise taxes on tobacco are also paid on such other tobacco products as:

1. Pipe tobacco, smoking tobacco, snuff, chewing tobacco and other tobacco products - 35.00 HRK
2. Cigars - 1.00 HRK
3. Cigarillos - 4.00 HRK

The taxation units are:

1. For cigarettes - pack of 20 cigarettes of standard length 120 mm (+ - 2 mm)
2. For tobacco - 1000 grams
3. For cigars - piece
4. For cigarillos - pack of 20 cigarillos

The tax per cigarette pack can be higher or lower depending on the number of cigarettes per pack (more or fewer than 20 cigarettes/pack), and their length (shorter or longer than 120 mm).

The tax on other tobacco products such as cigars, cigarillos and tobacco depends on the weight, number of cigars/pack, and whether there are more or fewer than 20 cigarillos in a pack.

The excise tax on tobacco is due from producers in 30 days, while importers pay the excise tax at customs entry point.

Due to these excise tax changes, it is expected that the price of domestically produced cigarettes will increase about 5%, while the price of license-produced and imported cigarettes will decrease about 10%. It is also expected that as a result of this excise tax change, there will be an gradual opening of the Croatian cigarette market, as well as a decrease in the black market of foreign cigarettes.

Probably based on these assumptions "British American Tobacco (BAT)" in mid-May 1999 concluded a take-over deal with the shareholders of the Zadar Tobacco Factory (ZTF), which had been till then out of operation for the last 3 years. BAT, which currently owns 80.5% of ZTF shares, has announced plans to invest roughly \$8 million in the facility, in order to re-start production by the end of the year.

This move had been strongly opposed by the Rovinj Tobacco Factory, which till then had an extremely strong position (owner of 3 out of 4 primary tobacco processing plants, and also the only other operating cigarette factory - Zagreb Tobacco Company). During Spring 1999 a protracted struggle between BAT and the Rovinj Cigarette Factory was waged for control of the Zadar plant. In order to strengthen its positions relative to BAT, the most recent move of the Rovinj Tobacco Factory has been the purchase of the only remaining primary tobacco processor company ("Duhan-Slatina"), since it is already the owner of the other three tobacco processors.

The new "Law on Tobacco", which regulates all aspects of tobacco production and processing, has been approved by the Croatian Parliament and is expected to be published soon.

1.00 HRK = 0.1342 US\$