

November 12, 2020

Open meeting of the Tax Committee with the tobacco industry

Opening Statement from JTI, delivered by George Metsis:

Mr chairman, members of the parliament,

I would like to thank you for the invitation to this meeting and look forward to an open and honest discussion.

My name is George Metsis and I am General Manager for JTI Denmark since February this year. Over the last 15 years I have worked with JTI in various positions, in 6 different countries in Europe and North America.

JTI, which stands for Japan Tobacco International, was formed in 1999 when the former Japanese tobacco monopoly started expanding internationally. Today, JTI has operations in over 70 countries and employs 50.000 people. Our major shareholder is still the Japanese Government. We have been operating in Denmark since 2005 and as a responsible, global company, our track record with the Danish authorities has been impeccable.

As the time I have available is short, I will only touch upon a few elements that I believe are important.

The Excise tax increase by 47% in April 2020, following 6 years with no excise increase, created a very exceptional situation. Most European markets increase excise tax annually by reasonable amounts. Large tax shocks are rare and discouraged since they disrupt the legitimate market and often lead to increases in non-domestic duty paid products as consumers look for low priced products elsewhere.

Prior to this year's excise hike, a "protection rule" was established, allowing manufacturers to increase their purchases of tobacco stamps only by 5% versus regular purchases. Obviously, JTI adhered to that rule. However, this also means the market will continue to have stock at the old prices after April 1st. Indeed, products from all manufacturers, that were released for consumption before April 1st, remained on sale after that date.

JTI did that transparently and continued selling its 'old' price inventory, that was ahead of April 1st "released for consumption", as the law required. Other industry players opted for the alternative and non-ordinary route of stocking up the trade with 'old' prices inventory ahead of April 1st. This is why, excluding JTI's sales, cigarettes sales in March 2020 from the manufacturers to the trade, were equivalent to 4 months of sales. JTI's brands were gradually sold out and by the end of July almost all our products were being sold at new prices. JTI was certainly not the last manufacturer having products in the market at 'old' prices.

Both practices were in JTI's view compliant with the regulations and had exactly the same commercial effect, namely products with 'old' prices to be gradually phased out over a period of 3 to 4 months, a timeframe, which is reasonable. And obviously, if we accept that at least one of the two practices is legal, given that both have exactly the same commercial outcome, we cannot reasonably argue that one or more manufacturers would have deliberately selected an illegal route to achieve that same commercial outcome.

JTI supports the 7 initiatives proposed by the Government including strengthened control efforts to prevent sales to minors, increased fines in case of non-compliant products and establishing a cut-off sales date for products with old tax stamps. The latter is a practice that exists in other EU countries and ensures level playing field and smooth transition. I would also like to highlight again that smaller, but more frequent excise increases give predictability to all parties and ensure smoothest transition and perhaps a bit longer, but much safer and effective path towards what the Government wants to achieve. This, together with a suggestion for certain very important inconsistencies of the excise tax law to be addressed, are my main supplementing ideas to the Government's list.

With that said, I'd once again like to thank the Chairman and the Committee for the invitation, and I hope we can have a frank and constructive discussion.