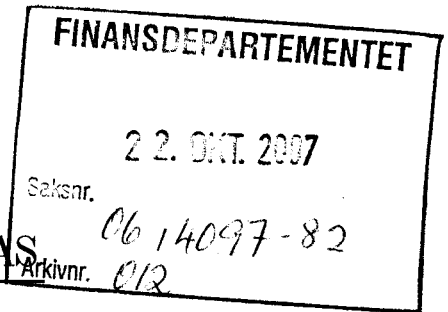




PHILIP MORRIS NORWAY AS



October 19, 2007

Hearing response – NOU 2007:8 – an evaluation of excise taxes

Philip Morris Norway AS respectfully submits the following comments in response to the hearing on the report entitled “An evaluation of excise taxes.”

The Committee does not propose any changes to the excise tax levied on cigarettes. In terms of cigarette excise tax structure, we support this approach given the fact that the current structure taxes all cigarettes equally by levying a fixed monetary amount per cigarette irrespective of the price and by doing so, fully recognizes that all cigarettes are harmful to health, irrespective of their price.

In terms of cigarette tax level, however, we wish to note that the current level of tobacco excise tax in Norway can be considered as high when compared with neighboring countries. While we support tax and price measures that benefit both government’s revenue and public health objectives, we would also like to express our concern at the levels of non-domestic cigarettes finding their way into Norway. According to a market survey executed in June 2007, the incidence of non-domestic cigarettes in Norway is as high as 32.6%¹, meaning that only two out of three packs found during the said survey were actually originally destined for, and taxed in, the country. For this reason any further increase, when going forward, should be evaluated in great detail and its potential consequences carefully assessed. This includes the current practice of increasing excise tax annually in line with inflation. Generally speaking, we support this approach in the markets where we operate, but since Norway already has a relatively high tax base, this practice could over time have an effect of widening excise and price level gaps compared to neighboring countries, which could lead to increasing cross-border sales and illegal import.

Given the significant incidence of non-domestic products, we would like to propose that Norway considers different options aimed at tackling this problem. These should include i) the introduction of a retail licensing system, whereby retailers would lose their right to

¹ The empty pack survey was executed in 7 main Norwegian cities where 2501 empty cigarette packs were collected from street and easy access bins. It should be noted that homes and working places were not included in the survey and that findings of the survey should not be used to extrapolate volumes. In addition, the survey was done by a market research agency based on PMI’s request and no competitors were involved.

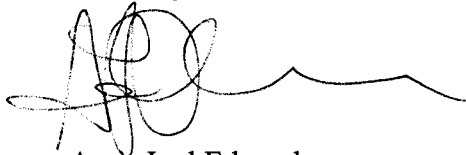
sell tobacco products if they engaged in illegal sales or if they sold tobacco to minors, and ii) the implementation of stricter border controls.

Finally, we believe that as regards roll-your-own tobacco, adjustments should be contemplated, which would more closely reflect the fact that both cigarettes and roll-your-own tobacco are harmful to health and are clear substitutes for each other. Thus, they should be taxed the same.

The tax structure as it stands today considers 1 gram of hand rolling tobacco to be equal to 1 manufactured cigarette and the same monetary tax amount is thus levied on both units. As per ISO 15592-3 norm, however, a conversion rate of 0.75 grams of hand-rolling tobacco per one hand-rolled cigarette can be seen as a standard in this respect. We believe this would be a more appropriate comparison than the current one used by Norway. In fact, the current Norwegian tax rates grant an excise tax discount of 8,75 NOK per 20 cigarettes for hand-rolled cigarettes vs. manufactured ones². Thus, we would like to suggest that, when going forward, the tax on fine-cut tobacco is adjusted accordingly.

We would be pleased to meet with you and further explain our views on tobacco taxation as well as licensing and provide examples from other markets that might prove to be useful to reduce the incidence of non-domestic tobacco products in the Norwegian market.

Sincerely,

A handwritten signature in black ink, appearing to read 'Anne Juul Edwards', with a long horizontal flourish extending to the right.

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² Assuming that tobacco used for hand-rolled cigarette indeed weighs 0.75 grams