

## **Regulations**

### **concerning the purchase, product selection, wholesale and delivery of tobacco products and trade terms with suppliers**

#### **Purpose**

The purpose of the Regulations is to define and explain the product choices of the State Alcohol and Tobacco Monopoly of Iceland in accordance with the clause of the relevant legislation and the demand of purchasers and ensuring producers and suppliers the possibility to have their goods offered for sale in the off-licence shops in accordance with regulations no. 833/2005 and in accordance with the overall policy of the State Alcohol and Tobacco Monopoly.

These Regulations are determined in accordance with Regulation no. 883/2005 on the State Alcohol and Tobacco Monopoly and the provisions of Act no. 63/1969 on the trading by the State in alcoholic beverages, tobacco and medicine, with later changes and the provisions of Act no. 6/2002 on tobacco products.

The Regulations are in conformity with the policy of the Monopoly concerning the social responsibility that aims at reducing the consumption of tobacco through responsible handling of the products and management of the products on the market.

#### **Explanation of terms**

*Sales category:* Assignment of product to a category according to its ranking in the sales supply of the State Alcohol and Tobacco Monopoly. Example: Basic range.

*Product category:* Assignment of a product in a category by main characteristics that are related to different production methods. Example: Cigarettes, snuff.

*Type of tobacco:* A product made of the same ingredients although specific units can vary by packaging. Example: Winston Red, Winston Blue.

*Brand:* A product so different from other products that it is given a special number and price in the State Alcohol and Monopoly price list. Example: Winston Red, Winston Red 100's.

### **1. Tobacco categories**

#### **1.1 Tobacco sales categories**

Tobacco products are divided into four sales categories:

- Basic range
- Trial range
- Specialities
- Special orders

## 1.2 Tobacco product categories

Tobacco products in the basic and trial ranges are divided into the following product categories:

- 90 Snuff
- 91 Smoking tobacco
  - 91.1 Pipe tobacco
  - 91.2 Other smoking tobacco
- 92 Cigarettes
  - 92.1 Cigarettes, tar content 0 to as much as 2 mg.
  - 92.2 Cigarettes, tar content 2 to as much as 4 mg.
  - 92.3 Cigarettes, tar content 4 to as much as 6 mg.
  - 92.4 Cigarettes, tar content 6 to as much as 8 mg.
  - 92.5 Cigarettes, tar content 8 to as much as 10 mg.
- 93 Cigars
  - 93.1 Cigars  $\leq 2.5$  gr./unit
  - 93.2 Cigars  $> 2.5 \leq 3.5$  gr./unit
  - 93.3 Cigars  $> 3.5$  gr./unit
- 94 Chewing tobacco

## 2. Sales categories of tobacco products

### 2.1 Basic range

The *basic range* covers those brands (product numbers) that have been transferred from the trial range. The basic range is re-assessed every four months, in January, May and September of each year and a new product selection shall be implemented on 1st February, 1st June and 1st October.

Should a brand in the basic range not reach 0.2% of the total sales of the relevant product category it will fall out of the basic range. The basis of calculations shall be sales for the preceding 12 months. The suppliers of brands that have dropped out of the basic range may sell them like a product in the basic range.

If two or more brands of the same type of tobacco are offered for sale and neither or none of them reach the obligatory sales proportion but the total sales of the type of tobacco does reach the required sales proportion, the brand that the suppliers choose shall continue to be listed in the basic range and other brands shall drop out.

### 2.2 Trial range

The *trial range* on average accounts for 40% of all the brands in the product categories that are in the basic range. A product is in the trial range for as long as 24 months. When a product in the trial range period has reached sales amounting to 0.2% of the total sales of the relevant product category it shall be transferred to the basic range.

A product that has been in the trial range period that does not reach sales amounting to 0.2% of the total sales of the relevant product category shall be discontinued in the trial range. The basis shall be calculations of sales for the 12 full months preceding the last month of the sales period. Sales shall be compared with the total sales of the product category during the same period.

A product that drops out of the trial range will not be tried again before at least 12 months have passed since sale of that product was stopped.

The State Alcohol and Tobacco Monopoly is authorized to limit the number of brands in each sales category sold in the trial range or listed on the trial range waiting list.

### *2.3 Specialities*

The *specialities* category includes products purchased to increase the variety of cigarettes, pipe tobacco and other smoking tobacco products. The Tobacco Product Council decides which tobacco brands are offered in the specialities category. Sales of specialities are not counted when sales results are assessed for the basic or trial range categories.

### *2.4 Special orders*

*Special orders.* Tobacco products that do not fall under the above categories may be specially ordered.

## **3. Tenders for sale of products in the trial range**

### *3.1 Applications*

An application shall be filed for each brand using the special “application for the trial sales of a tobacco product” form. The application shall show when the supplier requests that the sales should begin. If suppliers send two or more tenders at the same time, they shall indicate on the tender application sheets in what order they request that the products be registered.

The application shall show the name of the tenderer, the name of the product and the package size, the tar and nicotine content, in the case of cigarettes, the weight of cigars and the grain size of snuff.

### *3.2 Samples*

Samples, two sales units together with product information and product certification, shall be sent to the State Alcohol and Tobacco Monopoly, without charge, with the application for sales of the product. The State Alcohol and Tobacco Monopoly is authorized to accept samples with the proviso of the requirement of a warning label in Icelandic should the first sample not be in the final form. Proofs showing the final appearance of the product shall follow the application.

### *3.3 Processing of applications*

Applications for sale of a product in the trial range shall go to the Tobacco Products Council, which shall assess the product and supply a written report, should the Council be against the trial sale of the relevant product. The report shall be available to those who are offering the product.

### *3.4 Result of the processing of applications*

On receipt of the assessment of the Tobacco Products Council, the results shall be reported to the applicant. If the Council have not objected to trial sales of the product, the supplier shall be notified when the trial sale may begin and negotiations will be

carried out with the tenderer in accordance with the offer and the purchasing terms of the State Alcohol and Tobacco Monopoly. A contract for sale of the product in the trial range shall be entered into at least one month before sales in the trial range begin. The contract shall specify the date of the beginning of sales.

#### **4. Special orders**

##### *4.1 Special orders of tobacco products*

The State Alcohol and Tobacco Monopoly are authorized to place special orders for tobacco products from the duty-free area or from domestic suppliers for individuals for their own use. Specially ordered products may not be returned unless they are defective and therefore unusable.

##### *4.2 Warning labels*

Tobacco products may be offered for sale or distribution only if they are labelled on the packaging with a warning of the potential harmful effects. The State Alcohol and Tobacco Monopoly shall ensure that the labelling is present.

##### *4.3 Sales results*

The sales of specially ordered products are not counted in assessing the results of sales in the basic range or trial range categories.

#### **5. Off-licence product selection**

The State Alcohol and Tobacco Monopoly operate a total of 22 off-licence outlets and all active brands handled shall in each case be on the sales lists of the products available in these outlets. The off-licence outlets that carry tobacco products are: Heidrún, Akureyri, Hafnarfjord, Seltjarnarnes, Keflavík, Austurstraeti, Selfoss, Akranes, Borgarnes, Egilsstadir, Ísafjord, Saudárkrókur, Vestmannaeyjar, Blönduós, Dalvík, Húsavík, Höfn, Neskaupsstadur, Ólafsvík, Patreksfjord, Siglufjord and Stykkishólmur. The State Alcohol and Tobacco Monopoly are authorized to increase or reduce the number of its sales outlets.

#### **6. Trade terms with suppliers**

##### *6.1 Purchasing contracts*

Negotiation of a contract of sale for a product shall conform to the clauses of the regulations on purchasing. In signing a contract of purchase the supplier confirms that he/she is aware of the trade terms of the State Alcohol and Tobacco Monopoly and that he/she is ready to abide by the terms. The contract of purchase shall include the product cost and delivery terms.

##### *6.2 Pricing*

The price quoted by the suppliers to the State Alcohol and Tobacco Monopoly shall not include VAT or the tobacco tax. Pricing by the State Alcohol and Tobacco Monopoly includes the assessment of the tobacco tax. The trade markup assessed by the

State Alcohol and Tobacco Monopoly is decided by the Minister of Finance and on the enforcement of these Regulations shall be 18%. VAT is 24.5% and is imposed on the supplier's price, the tobacco tax and the State Alcohol and Tobacco Monopoly's wholesale markup.

### *6.3 Payment for products*

The State Alcohol and Tobacco Monopoly pay for products in the basic range on the 15th of each month and the payment is calculated on sales for the preceding month. Those who offer products for the trial range category obligate themselves to loan the State Alcohol and Tobacco Monopoly their product for the duration of the trial period. The State Alcohol and Tobacco Monopoly pay the supplier monthly, at the latest on the 10th day of the month, the receipts from sales during the preceding month. Suppliers also obligate themselves to take back those products that remain unsold at the end of the trial period. If the product is chosen to be transferred to the basic range the terms shall conform to the contract between the supplier and the State Alcohol and Tobacco Monopoly concerning how much of the unsold product the State Alcohol and Tobacco Monopoly will purchase.

### *6.4 Ordering and delivery*

The purchasing contract shall specify when sales of the product by the State Alcohol and Tobacco Monopoly shall commence. The order shall formally confirm this and the confirmation shall include information on the delivery time. Should the State Alcohol and Tobacco Monopoly not receive confirmation or the product is not ready for delivery from the duty-free area within 60 days from the date of the order, the contract for the product shall become voided. If a product that is to begin to be sold in the trial range is not ready for delivery from the duty-free area at least four days before the scheduled first date of sales as specified in the contract the contract shall become voided.

### *6.5 Labelling and packaging*

The labelling and packaging shall conform to Icelandic law and regulations, and regulations and standards set by the European Union. Each unit and each carton (outer packaging) shall be marked with a bar code, EAN or UPC.

### *6.6 Warning labels*

The State Alcohol and Tobacco Monopoly shall ensure that all tobacco products that are imported or produced here in Iceland, whether processed or unprocessed, are labelled. The warning labels on the packaging shall comply with the regulations in force at each time (Act no. 236/200). Suppliers shall pay the State Alcohol and Tobacco Monopoly a special labelling fee if the labelling is not satisfactory. A special labelling fee shall be added to the cost price of specially ordered tobacco products, as relevant.

### *6.7 Customs clearance and delivery*

The State Alcohol and Tobacco Monopoly are also authorized to sell tobacco products wholesale on the domestic market. All imported tobacco products which are intended for domestic processing or sales shall be held in custody by the carrier, in the customs bonded warehouse or in the duty-free area, until the State Alcohol and Tobacco

Monopoly request that they be delivered for wholesale distribution. Those holding the goods in custody are not authorized to deliver them to others than authorized staff of the State Alcohol and Tobacco Monopoly. Those holding the imported tobacco products are forbidden to deliver them to the State Alcohol and Tobacco Monopoly before obtaining a release order from the Director of Customs. The State Alcohol and Tobacco Monopoly shall send the carriers and managers of the bonded warehouses and the duty-free area a list of the names of their staff members who are authorized to receive tobacco products.

#### *6.8 Product change*

A product purchased by the State Alcohol and Tobacco Monopoly shall not be changed during the period of the contract of purchase unless the State Alcohol and Tobacco Monopoly shall agree to other terms. Any new ingredients, changed size and appearance of packaging and structure of the sales unit shall be considered a change. Suppliers shall present a formal report if they are requesting approval of a changed appearance, size or characteristics of the product.

#### *6.9 Grain size*

The State Alcohol and Tobacco Monopoly do not purchase fine-grained snuff or “mouth” tobacco (snuff put under the lip), with the exception of chewing tobacco (in accordance with Regulation no. 325/2007).

#### *6.10 Tar content*

Each cigarette may not emit more than 10 mg. of tar, 1 mg. of nicotine and 10 mg. of carbon dioxide, in conformity with Regulation no. 236/2003.

#### *6.11 Price change*

The State Alcohol and Tobacco Monopoly publish its price list on its home page at [www.vinbud.is](http://www.vinbud.is). The price list includes recommended minimum retail prices. The State Alcohol and Tobacco Monopoly may change its retail prices in general on the first day of each month. Any price changes shall be sent in writing to the State Alcohol and Tobacco Monopoly not later than the twentieth day of each month before the price change is to take effect. The State Alcohol and Tobacco Monopoly may, until 1<sup>st</sup> April, authorize suppliers to change their prices more often if there is a special reason to do so.

## **7. Product responsibility**

### *7.1 Responsibility for the products*

General regulations shall apply as to the responsibility of third parties.

### *9.2 Return of products*

Suppliers shall collect and repay on receipt for any products that are unsalable because of defective packaging or contents.

Should a supplier not collect his defective product or a product that has not sold sufficiently well in the trial range, the State Alcohol and Tobacco Monopoly reserve the right to charge a storage fee for the product.

Should a supplier not collect his product within two weeks from notification that the product should be retrieved, the State Alcohol and Tobacco Monopoly are authorized to destroy the product at the supplier's cost. Furthermore the State Alcohol and Tobacco Monopoly are authorized to deduct the charge from the total receipts from sales of the supplier's products.

### **8. Entry into force**

These Regulations shall replace Regulations no. 796/2002, with later changes, and shall go into effect at once.

Reykjavík, 3rd December 2008

The Icelandic State Alcohol and Tobacco Monopoly

Ívar J. Arndal, Managing Director

With reference to Art. 23, Regulations no. 883/2005, on the State Alcohol and Tobacco Monopoly these Regulations are herewith confirmed and are in force.

*Ministry of Finance, 5th December 2008*

Per pro.

Marianna Jónasdóttir

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