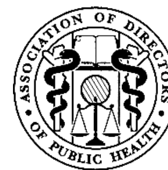

Association of Directors of Public Health (UK)

The Association of Directors of Public Health Submission to the HM Treasury Tobacco Levy Consultation

Overview

The Association of Directors of Public Health (ADPH) is the representative body for Directors of Public Health (DsPH) in the UK. It seeks to improve and protect the health of the population through DPH development, sharing good practice, and policy and advocacy programmes. Directors of Public Health (DsPH) are the frontline leaders of public health working across health improvement, health protection, and health care service planning and commissioning. ADPH has a strong track record of collaboration with other stakeholders in public health, including those working within the NHS, local authorities, government and other sectors.

Please note: Many of the sources provided within our response have been provided by Action on Smoking and Health (ASH). This document is also informed by a research report for ASH by Howard Reed, Landman Economics, *"A UK Tobacco Levy: The options for raising £500 million per year"* (February 2015).

General Observations

Summary

1. ADPH welcomed the Chancellor's announcement in the Autumn Statement that the Government is minded to introduce a levy on tobacco manufacturers and importers. We strongly agree with the Chancellor's observation that: *"Smoking imposes costs on society, and the Government believes it is therefore fair to ask the tobacco industry to make a greater contribution."* [1]

2. In our 2014 survey of UK Directors of Public Health, 92% of the Directors of Public Health who responded identified the reinstatement of the tax escalator on all tobacco products (at 5% and 2% pa ahead of inflation respectively) as part of their top ten priority issues.

3. ADPH has previously submitted detailed responses to a range of consultation exercises related to tobacco control measures – consistently calling for governments to implement evidence-based national action to:
   - reduce the harm and health inequalities caused by tobacco – particularly in the most deprived communities;
   - reduce the burden of premature death and disability caused by tobacco;
   - protect the future health of children in the UK (in light of the 200,000-plus children in the UK who take up smoking each year).

4. ADPH is a member of the Smokefree Action Coalition – a group of more than 190 organisations - committed to promoting public health and reducing the harm caused by tobacco. http://www.smokefreeaction.org.uk/

[1] HM Treasury Autumn Statement December 2014, paragraph 2.252

5. Tobacco Manufacturers and importers in the UK are immensely profitable, such that they could certainly afford to make a greater contribution. Recent research by Branston and Gilmore at the University of Bath suggests that the industry has made at least £1 billion in profits in each of the last 5 years, that this profitability has been increasing during the period of analysis, and that the profitability is likely to be in the region of £1.5bn in recent years. Tobacco manufacturers and importers are also found to enjoy consistently high profit margins of up to 68%, compared to only 15-20% in most consumer staple industries.

6. Preventing the industry from passing on the cost of any levy would require price controls. It is not clear that this would be technically feasible in the light of the current EU Tobacco Tax Directive.[2] However, even if the industry did pass on the full cost of any levy, the public would support such additional taxation if it were spent on measures to prevent youth uptake and encourage smokers to quit. Indeed there is overwhelming public support for a levy which would raise an additional £500 million and majority support from smokers if it were to be used for such purposes. If any money raised simply went into the Consolidated Fund this would be an unfair additional burden on smokers, who are predominantly amongst the poorest and most disadvantaged in society.

7. We strongly support a levy to raise this amount of money to be used for tobacco control. At the same time we recommend that the industry be required to provide data on sales down to local level which could be published at an aggregated level to inform public health policy. The industry should also be required to provide data on marketing spend, including corporate social responsibility and lobbying activity and on its profitability within the UK.

8. The EU Tobacco Tax Directive is due for review shortly. We recommend that the UK government advocate for revisions to which would enable the introduction of a price capping mechanism. Placing a cap on industry prices would enable the excess profit to be transferred from the manufacturer to government, and prevent it simply being passed on to the consumer, so fulfilling the objective of ensuring that the industry pays a greater contribution to the costs it imposes on society.[3] [4]

Background

9. Action on Smoking and Health have estimated that the total cost of smoking to society in England alone is approximately £12.9 billion a year. [5] This is likely to be an under-estimate as only costs where data is attributable have been included. For example it did not include the cost of collecting smoking-related litter. The following costs are included:
    - £2 billion cost to the NHS of treating diseases caused by smoking
    - £3 billion loss in productivity due to premature death
    - £5 billion cost to businesses of smoking breaks
    - £1 billion cost of smoking-related sick days
    - £1.1 billion of social care costs of older smokers
    - £391 million cost of fires caused by smokers' materials

[2] EU Tobacco Tax Directive Article 15.

[3] Gilmore A, Branston JR, and Sweanor D. The case for OFSMOKE: how tobacco price regulation is needed to promote the health of markets, government revenue and the public. Tobacco Control 2010 19: 423-430

[4] Branston R. Gilmore A. The case for OFSMOKE: the potential for price cap regulation of tobacco to raise £500 million per year in the UK. Tobacco Control January 2013.

[5] ASH Ready Reckoner. ASH and LeLan Solutions, Sept. 2014

10. The costs to society are expressed in financial terms but underlying this are the severe financial and personal costs, both to the smoker and their loved ones, due to the death and disease caused by tobacco.

11. Tobacco taxation already raises around £9.5 billion in excise tax for the Consolidated Fund, money which comes from the pockets of smokers, plus a further £2.5 billion in VAT. The Office for National Statistics estimates that the total UK household expenditure on tobacco in 2013 was £18.7 billion. For 2014, a 20-a-day smoker of a premium cigarette brand will spend about £2,900 over the year on cigarettes. [6]

12. The Tobacco industry enjoy massive profit margins in the UK and would be very well able to make more of a contribution[7]. And, of course they may well decide to pass on to consumers some or all of the cost. If any of the levy is passed on in the form of higher prices, this will have some public health benefits, since price increases are an effective policy lever in reducing smoking prevalence. Estimates of the price elasticity of cigarettes and tobacco products vary, but the World Bank estimates that in rich countries, such as the UK, a 10% increase in the price of cigarettes will reduce tobacco consumption by 4%.[8]

13. Fewer than one in five adults now smoke, but smoking prevalence rates are much higher among poorer people. In 2013, 14% of adults in managerial and professional occupations smoked compared with 29% in routine and manual occupations. Tobacco use is by far the greatest single factor in health inequality, accounting for about half the difference in life expectancy between social classes. [9]

14. Poorer smokers are more likely to quit as they are more sensitive to price increases, so increasing price through taxation is potentially a progressive rather than regressive measure which can help reduce health inequalities at population level.[10] However, poorer smokers who don't quit are disproportionately disadvantaged because of the negative impact of tobacco tax increases on their already small incomes.

15. Therefore the benefits to public health will only be fully realised if a proportionate amount of the proceeds of the levy are used to fund tobacco control action designed to increase the rate of quitting tobacco use, and prevent uptake among young people, over and above what might be expected as a result of any price rises. This is not only fair and equitable to smokers and popular both with smokers and the general public, but vital if the societal harm caused by tobacco is to be eliminated. Indeed comprehensive measures to reduce smoking prevalence are essential to reducing inequality and improving the nation's health.

16. It should be noted that the latest NHS Five Year Forward View for England, published in October 2014, includes a section called "Getting serious about prevention", which states that:
    "The future health of millions of children, the sustainability of the NHS, and the economic prosperity of Britain all now depend on a radical upgrade in prevention and public health…We do not have to accept this rising burden of ill health driven by our lifestyles, patterned by deprivation and other social and economic influences…

    While the health service certainly can't do everything that's needed by itself, it can and should now become a more activist agent of health-related social change. That's why we

[6] ibid
[7] Branston JR, and Gilmore A (2014). The case for Ofsmoke: the potential for price cap regulation of tobacco to raise £500m per year in the UK. Tob control 23(1):45-50
[8] Economics of Tobacco Toolkit World Bank 2002
[9] Smoking and Health Inequalities Action on Smoking and Health
[10] The World Bank. Curbing the epidemic: governments and the economics of tobacco control. May, 1999.

will lead where possible, or advocate when appropriate, a range of new approaches to improving health and wellbeing…

For all of these major health risks – including tobacco, alcohol, junk food and excess sugar – we will actively support comprehensive, hard-hitting and broad-based national action to include clear information and labelling, targeted personal support and wider changes to distribution, marketing, pricing, and product formulation…" [11]

17. Tobacco smoke is a legal pollutant. But this does not exempt the polluter from paying the costs of the pollution it causes. There is already a major industry in the UK that pays to reduce the legal pollution caused by its everyday business: the energy industry. The Energy Company Obligation (ECO) places a legal requirement on energy companies to invest in energy efficiency measures, especially for poor and vulnerable households. The principal component of the ECO, the Carbon Emissions Reduction Obligation, makes explicit the statutory obligation on the industry to reduce environmental pollution by reducing demand for its core product.

18. A Tobacco Company Obligation would follow the same logic. The pollution and harm caused by smoking cannot be eliminated overnight by prohibition or technological innovation, just as carbon-intensive energy sources cannot be banned or, in the short-term, entirely substituted by renewable technologies. So, just as the considerable profits of the energy companies allow for investment in interventions to reduce demand for energy, it is right and proper for government to draw on the excessive profits of the tobacco industry to reduce demand for tobacco products.

19. This is not a new idea in tobacco control. In the United States, the Family Smoking Prevention and Tobacco Control Act 2009 requires the tobacco industry to pay an annual 'user fee' to the Food and Drug Administration (FDA) to fund tobacco regulation and wider tobacco control activity. This levy is independent of the wider US fiscal regime and its proceeds are controlled directly by the FDA. The total value of the levy is based on a calculation of the costs of tobacco regulation, which is then apportioned to tobacco companies according to their market share in the US.

20. International evidence shows that public investment in policies designed to reduce smoking prevalence are likely to prove highly cost-effective in the long run. For example the 2014 US Surgeon General Report, "*The Health Consequences of Smoking – 50 Years of Progress"*, reports that *"States that have made larger investments in comprehensive tobacco control programs have seen larger declines in cigarettes sales than the nation as a whole, and the prevalence of smoking among adults and youth has declined faster, as spending for tobacco control programs has increased."* The Report also finds that long term investment is critical. It states, *"Experience also shows that the longer the states invest in comprehensive tobacco control programs, the greater and faster the impact."* [12]

21. In reducing smoking prevalence rates in the UK, an essential role is played by tobacco control measures carried out by local authorities, for example the stop smoking services. The Department of Health document "Local Stop Smoking Services: service delivery and monitoring guidelines 2011-12" stated that: *"Stop smoking services are a key part of tobacco control and health inequalities … Evidence-based stop smoking support is highly*

[11] NHS: Five Year Forward View NHS England, October 2014
[12] U.S. Department of Health and Human Services: The Health Consequences of Smoking: 50 Years of Progress: A Report of the Surgeon General, Atlanta, GA: U.S. Department of Health and Human Services

effective both in cost and clinical terms. It should therefore be seen in the same way as any other clinical service and offered to all smokers." [13]

22. Although there are grounds for concern about how many people are being reached by stop smoking services, good evidence regarding the cost effectiveness of tobacco control interventions, including stop smoking services, and a levy will ensure investment at a scale that could make a smoke-free generation a reality and will guarantee smoking prevalence continues to decrease.

23. Although the level of illicit trade has fallen sharply since 2000, it remains unacceptably high and the latest figures from HM Revenue and Customs suggest that it has risen slightly from a low point in 2012/13. In 2013/14 an estimated 10% of cigarettes consumed in the UK were illicit compared to 9% in 2012/13. The figures for hand-rolled tobacco (HRT) were 39% in 2013/14 compared to 36% in 2012/13 (all figures mid-range estimates). [14] Detailed recommendations on how to improve action against illicit trade have been made by both the National Audit Office [15] and the House of Commons Home Affairs Select Committee[16]. ADPH strongly supports these recommendations, which include specific recommendations on increasing local and regional action against illicit trade that would require financial contributions from local authorities to be implemented.

24. Mass media and social marketing campaigns can also be highly effective in stimulate quitting behaviour, but require significant investment in order to be most effective.[17] [18] [19]

25. **We therefore consider it essential that the imposition of the tobacco levy be accompanied by a specific spending announcement on how a proportion of the proceeds of the levy will be used to help fund a comprehensive strategy to reduce the harm caused by tobacco. Such a strategy, at a rough estimate, would cost no more than £500 million a year, and would include key measures such as:**

    - **supporting tobacco control measures at regional and local level, for example to fund action against the illicit tobacco trade outside of HMRC;**
    - **ensuring the provision of high quality Stop Smoking Services across the country; and**
    - **financing mass media and social marketing campaigns, which add value to other tobacco control initiatives.**

26. **ADPH would recommend that the levy also be used towards supporting interventions known to be effective in comprehensive tobacco control. By supporting effective interventions, this will lead to reduced prevalence of tobacco use and ultimately a smoke-free generation.**

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[13] Local Stop Smoking Services: service delivery and monitoring guidance 2011-2012: Executive Summary page 5 Department of Health 2011

[14] HMRC Tobacco Tax Gaps Estimates 2013/14

[15] National Audit Office: Progress in tackling tobacco smuggling. Report published 6 June 2013, and Public Accounts Committee - Twenty-Third Report HM Revenue and Customs: Progress in tackling tobacco smuggling Report published 4th September 2013.

[16] Home Affairs Select Committee: First Report, Tobacco Smuggling. 11th June 2014

[17] Wakefield M et al. Impact of Tobacco Control Policies and Mass Media Campaigns on Monthly Adult Smoking Prevalence. Am J Public Health. 2008 August; 98(8): 1443–1450.

[18] Langley, T., McNeill, A., Lewis, S., Szatkowski, L., Quinn, C., 2012. The impact of media campaigns on smoking cessation activity: a structural vector autoregression analysis. Addiction, 107(11), 2043-2050

[19] Sims, M., Salway, R., Langley, T., Lewis, S., McNeill, A., Szatkowski, L., Gilmore, A. Effectiveness of mass media campaigns to change tobacco use in England: a population-based cross-sectional study. Addiction 2014 Jun; 109(6):986-94.

27. **We also strongly suggest that this portion of the levy be established along similar lines to the US "user fee", so that it is effectively made independent of the wider fiscal regime and so that appropriate means can be found to ensure that disbursement of the proceeds on tobacco control can be informed by the best available evidence, completely independent from any influence by the tobacco industry.** We believe that such an arrangement would impose minimal bureaucratic costs and would also be consistent with the UK's obligation under Article 5.2 of the Framework Convention on Tobacco Control to *"establish or reinforce and finance a national coordinating mechanism or focal points for tobacco control".*

28. It should be noted that as of March 31, 2014, the US Food and Drug Administration had collected $1.88 billion in manufacturer user fees since 2009 and has spent $1.48 billion of that amount over the past five years. Of the $1.48 billion spent so far, $508 million, or just over half a billion dollars, has been spent on public education, $449 million has been spent on scientific research projects that will form the foundation for additional FDA regulations on tobacco products. [20]

Answers to Consultation Questions

Question 1: Is it appropriate to define the tobacco market as products on which tobacco excise duty is paid?

29. We support this definition of the tobacco market. It would be relatively simple to administer compared to any reasonable alternative, and it would maximise the benefits to public health, since smoking "herbal cigarettes" as opposed to tobacco products also carries major health risks.

Question 2: What would be the consequences of using volumes of tobacco cleared in the previous year in order to calculate total market size?
Question 3: Are there any other metrics that you would prefer were used to calculate total market size? If so, why?

Response to Questions 2 and 3 below

30. We would support the levy being introduced on the basis of a calculation based on previous year clearances. However, we would note that the level of clearances is routinely manipulated by the tobacco industry through the process known as forestalling.

31. *"Forestalling"* in this context means a temporary increase in the clearance of rate of cigarettes and other tobacco products, for example so that they can be released into the UK market immediately preceding the Budget, with the intention that duty paid on these products will be at the lower pre-Budget rate. This is of course generally followed by lower than average release of products in the month of so after the Budget. Forestalling can reduce the total tax revenue from tobacco raised in any given year, as well as potentially undermining the potential public health gain from increases in tobacco taxation, since it can delay the effective date of tax increases and therefore any consequential price rises. The recent extent of forestalling is well illustrated by HMRC's Tobacco Bulletin for November 2013, which shows a spike in tax receipts in April levied at the pre-budget rate, followed by a sharp drop in May, for the financial years 2011/12, 2012/13, and 2013/14. It

[20] General Accounting Office reports FDA tobacco user fee spending. Accessed 16 January 2015

should be noted that this pattern is present for tax receipts from home produced cigarettes, imported cigarettes, cigars, hand rolling tobacco, and other tobacco products. [21]

32. Use of previous year clearance data would help to minimise the effect of forestalling. However, we believe that the best possible basis on which to raise a tobacco levy would be sales volumes, disclosed at a local, regional and national level. This would make industry manipulation of the figures much more difficult, and, crucially, would also ensure the disbursement of proceeds of the levy to fund tobacco control work in a way that was sensitive to local consumption and prevalence levels and the consequent harm caused. We believe that the tobacco industry already has much more sales data than it currently discloses. In addition, the industry will be progressively required to collect, hold and disclose such data as part of the tougher supply chain controls envisaged in the revised EU Tobacco Products Directive and the Illicit Trade Protocol. [22] [23] For example, an effective tracing system for tobacco products, mandated under Article 15 of the Directive and Article 8 of the Protocol, would require that cigarette packs and other tobacco packaging carry a *"unique identifier"* that would allow enforcement authorities to access detailed information about the manufacturing process and intended market.

33. Assuming that the tobacco levy would be a reserved matter for the Westminster Parliament (at least in the first year), revenue should be distributed to the UK administrations in accordance with the proportion of the total number of UK smokers in each jurisdiction. If the levy were set at a level to raise £500 million, as we suggest, we estimate that the distribution would be as shown in the table below. We see this resource being distributed according to the evidence at national, regional and local level.

Table 1: Suggested allocation of revenue from tobacco levy across the countries of the UK

Country	**Proportion of smokers in the UK (%)**	**Funding allocation (£m)**
England	82.5	412.6
Wales	5.1	25.7
Scotland	9.6	47.9
Northern Ireland	2.8	13.8
TOTAL	100.0	500.0

Notes: Statistics for adult smoking prevalence in each country in the UK taken from ONS (2014a), Adult population totals in each country taken from ONS (2014b).

34. In summary, we recommend that:

- Previous year clearance data be used as the basis on which to raise the levy in year one.
- The Chancellor takes powers in primary legislation to change the basis on which the levy is raised in future years by Order, with a view to shifting towards sales data in parallel with the introduction of mandated supply chain controls under the EU Directive and WHO Protocol.
- That proceeds of the levy to be spent on tobacco control and enforcement are distributed in a way that reflects local prevalence rates, to ensure that money is focussed on areas of greatest need.

[21] HM Revenue and Customs: Tobacco Bulletin, August 2014
[22] EU Revised Tobacco Products Directive 3 April 2014
[23] Protocol to Eliminate Trade in Tobacco Products: World Health Organisation 2013

- That the proceeds of the levy be distributed to the devolved administrations in a ratio determined by the proportion of the total number of UK smokers in each jurisdiction.

Question 4: What are the practical difficulties in splitting the total market into two distinct parts: cigarettes; and human rolled tobacco and other products subject to tobacco duty?

35. As human rolled tobacco is sold by weight rather than number of cigarettes or equivalents, it would presumably be necessary to calculate the level at which the levy on human rolled tobacco would be set based on an assumption about the weight of tobacco in a typical hand rolled cigarette.

36. The HMRC Tobacco Bulletin for October 2014 reports that in the 2013/14 tax year:
    - 35.4 billion cigarettes were released for consumption
    - 7.1 million kilos of other tobacco products were release for consumption (more than 90% being human rolled tobacco)

37. A recent study of human rolled tobacco consumption in 18 European countries gives a tobacco content of a typical hand-rolled cigarette as 0.75 grams. [24] This is the basis on which we have calculated the levy on human rolled tobacco over five years in the table in paragraph 30 below.

Question 5: Which of option (i) and (ii) as set out in paragraph 2.14 is your preferred option?

38. For the reasons stated in paragraphs 16 to 19 above, we prefer the initial use of previous year clearance data, at the start of the levy, with evolution towards use of sales volume data.

Question 6: Do you agree that the corporation tax system provides the best mechanism for returning and paying the tobacco levy?
Question 7: What are the alternative approaches?

Response to Questions 6 and 7 below

39. We support the use of the corporation tax system to collect the levy, as the system that would impose the least administrative burden. We assume that the Treasury would construct levy rules so that levy payments *and any associated administrative or other costs to the tobacco industry* could not be used to reduce liability for corporation tax.

40. We are unaware of a plausible alternative means for collecting the levy.

Question 8: The government welcomes views on the expected impacts of the levy on consumer prices.

[24] Joossens, L., Lugo, A., La Vecchia, C., Gilmore, A. B., Clancy, L. and Gallus, S., 2012 Illicit cigarettes and hand-rolled tobacco in 18 European countries: a cross-sectional survey Tobacco Control, Online First.

Question 9: Would the levy have any other impacts on consumers that have not been considered in this document?
Question 10: Would the levy have any other market impacts?

Response to Questions 8, 9 and 10 below.

41. The impact of the levy on prices will depend on two related factors:

- The effect on brand value and differentiation of the (assumed) introduction of standardised packaging under the Children and Families Act 2014, and
- The proportion of the levy that manufacturers decide to pass on in the retail price of cigarettes and other tobacco products.

42. According to the Department of Health Impact Assessment on standardised packaging [25] (paragraph 90), *"On the assumption that all cigarette packets cost broadly the same to produce, the difference in profit between a pack of 20 in one of the top two price brands as opposed to the bottom two price brands is around £0.65."*

43. We consider it likely that the effect of standardised packaging over time will be to reduce the differential in retail prices between "luxury" and "economy" brands. We assume that the likely result will be retail prices converging on what is now the average price level.

44. The research paper, *"A UK Tobacco Levy: The options for raising £500 million per year*", written by Howard Reed, Landman Economics, provides a table which illustrates the impact of a tobacco levy intended to raise £500 million each year for five years, assuming that standardised packaging is introduced (see Table 2 below).

45. As Table 2 shows, there is only a marginal difference in the levy per stick required if either none of the levy or all of the levy is assumed to be passed on to the consumer in the retail price (1.24 pence per stick compared to 1.25 pence per stick in year one). These calculations suggest that over three quarters of annual revenue raised through the levy would come from cigarette sales, with the remainder coming from HRT and other tobacco sales.

[25] Impact assessment: standardised packaging of tobacco products: Department of Health June 2014

Table 2: Size of tobacco levy required to raise £500 million per year – results, including impact of introducing standardised packaging

All figures in pence

	2015-16	2016-17	2017-18	2018-19	2019-20
Scenario (a): No pass through					
Adult smoking prevalence (%)	17.6	16.7	15.9	15.3	14.7
Cigarette levy (pence per stick)	1.24	1.29	1.34	1.38	1.42
Cigarette levy (per packet of 20)	24.7	25.7	26.8	27.6	28.4
HRT levy (per gramme of tobacco)	1.65	1.72	1.79	1.84	1.89
HRT levy (per 25g packet)	41.2	42.9	44.7	46.0	47.3
Scenario (b): Full pass through					
Adult smoking prevalence (%)	17.4	16.5	15.6	15.1	14.5
Cigarette levy (pence per stick)	1.25	1.30	1.36	1.40	1.44
Cigarette levy (per packet of 20)	25.0	26.0	27.1	27.9	28.7
HRT levy (per gramme of tobacco)	1.67	1.74	1.81	1.86	1.92
HRT levy (per 25g packet)	41.7	43.4	45.2	46.5	47.9

46. The price of tobacco has increased by 80.2% over the last ten years from 2003 to 2013. Using mid-year tobacco prices and average annual earnings net of bonuses, Professor Joy Townsend of the Department of Social and Environmental Health Research at the London School of Hygiene and Tropical Medicine has produced the following “affordability index” for tobacco products (1965 as base year, higher figures indicate greater affordability): [26]

Affordability Index: Tobacco Products
Above 100 means more affordable, below means less affordable.

1965 100
1980 189
1989 196
1990 185
1995 164
2000 153
2005 157
2006 157
2007 155
2008 154
2009 150
2010 165
2011 130
2012 123
2013 115

47. This calculation suggests that while rises in tobacco taxation have reduced affordability substantially since the late 1980s, there remains considerable scope to reduce affordability further through any price rises that may occur if the industry passes levy costs through to

[26] Communication with Action on Smoking and Health, 14 January 2015

the consumer. Price increases are known to be an effective policy lever in reducing smoking prevalence but they need to be accompanied by a comprehensive strategy.

48. During the 1990s when affordability declined consistently year on year in the UK smoking prevalence did not, it remained stubbornly high with over one in four of the adult population smoking. It only began to fall after *Smoking Kills*, the first comprehensive government anti-smoking strategy was introduced from 1999 onwards. In the decade following the introduction of the government strategy smoking rates fell by a quarter from 28% to 21% among all adults[27] and smoking rates among young people 11-15 years old declined much faster, falling by nearly a half from 11% to 6%. [28] In subsequent years with new policy measures regularly being introduced and the government's tobacco control strategy having been updated and improved[29] [30], smoking rates have continued to decline so that fewer than one in five adults now smoke, and only 3% of 11-15 year olds.

49. The tobacco market is heavily concentrated with two companies accounting for nearly 80% of sales of tobacco in the UK, Imperial Tobacco and JTI. Both make large profits and have very large profit margins on their products.**Error! Bookmark not defined.** Imperial's UK profits in 2010 were £614m, with a profit margin of more than 67%. JTI's (Gallaher) UK profits or the same year were £345m, with a profit margin of over 38%. British American Tobacco, the world's second largest tobacco company is based in Britain although virtually all of its products are now manufactured outside the UK. In 2013, BAT produced 676 billion cigarettes worldwide and reported an operating profit of £5,526 million, an increase of 3% on 2012. [31] It is therefore clear that the tobacco industry could well afford to pay the proposed levy.

Question 11: The government welcomes views on an alternative to a levy that would enable tobacco manufacturers and importers to make a greater contribution.

50. We consider that a levy on tobacco products, with a revenue target per year fixed over five years, is the best policy option at the current time to raise funds for essential tobacco control and enforcement work.

51. However, market failure has given the existing tobacco manufacturers the ability to set prices untroubled by serious competitive threats. In addition, high taxes mean that tobacco industry profits are a small part of the total price. Consequently, significant increases in the pre-tax price make little difference to the price paid by consumers in shops, enabling the industry to increase the price of (and thus profits from) its addictive, price-inelastic product almost at will. Recent evidence from the UK, also suggests the industry is able to absorb taxes on its cheapest cigarette brands (sometimes selling these brands at a loss) by increasing prices and profits on its more expensive brands.[32]

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[27] Office for National Statistics. General Lifestyle Survey Overview: A report on the 2011 General Lifestyle Survey. 2013.

[28] Smoking drinking and drug use among young people in England in 2013. The Information Centre for Health and Social Care, 2014.

[29] DH. A smokefree future: a comprehensive tobacco control strategy for England. HM Government. February 2010.

[30] DH Healthy Lives, Healthy People: a tobacco control plan for England. HM Government. March 2011.

[31] BAT Annual Report 2013

[32] Gilmore A, Tavakoly B, Taylor G, Reed H. Understanding tobacco industry pricing strategy and whether it undermines tobacco tax policy: the example of the British cigarette market. Addiction

52. Placing a cap on industry profits would enable the excess profit to be transferred from the manufacturer to government, thus raising substantial resources *in addition* to the current tobacco excise revenues, without placing further burdens on consumers. It would also prevent the industry from absorbing increased taxes on the cheapest brands thereby undermining government tax policy. The means by which this could be achieved is set out in the attached paper by Gilmore et al.[3] It is our understanding that this would require revisions to the EU Tobacco Tax Directive, in particular Article 15, and we urge HM Treasury to advocate for the necessary changes when the Directive is next revised.

53. Tobacco is a unique consumer product, because it is highly addictive and because a half of lifetime smokers will die from smoking-related disease, including respiratory diseases, circulatory diseases and cancer. About half of all lifelong smokers will die prematurely, losing on average about 10 years of life. This tragic burden of illness and death justifies measures to raise additional funds from large and highly profitable tobacco manufacturers, assuming that sufficient of such funds are used to support evidence-based policy initiatives designed to reduce smoking prevalence by encouraging quitting and discouraging uptake.

The Association of Directors of Public Health
February 2015