



Budget submission 2010

List of signatories

Arrhythmia Alliance
ASH
ASH Northern Ireland
ASH Scotland
ASH Wales
Association of Directors of Public Health
Bolton Primary Care Trust
Bristol Primary Care Trust
British Dental Health Foundation
British Heart Foundation
British Society for Heart Failure
British Thoracic Society
Cancer Research UK
Diabetes UK
Dorset Smoke Free
East and North Hertfordshire Primary Care Trust
English Community Care Association
Families Need Fathers
Fresh Smoke Free North East
Heart Care Partnership (UK)
Heart of Mersey
Kingston NHS Primary Care Trust
Liverpool Primary Care Trust
Macmillan Cancer Support
Mental Health Foundation
National Heart Forum
NHS Alliance
NHS Richmond
No Smoking Day
Portsmouth City Teaching Primary Care Trust
QUIT
Royal College of General Practitioners
Royal College of Physicians
Royal College of Paediatrics and Child Health
Royal National Institute of Blind People
Sandwell Primary Care Trust
Sheffield Tobacco Control Programme Board, NHS Sheffield
Smoke Free Solihull Alliance
South Asian Health Foundation
The Faculty of Public Health
The Foundation for the Study of Infant Deaths
The Roy Castle Lung Cancer Foundation
The Royal Society for Public Health
Tobacco Control Collaborating Centre
UK Centre for Tobacco Control Studies
UK Public Health Association
Ulster Cancer Foundation
West Hertfordshire Primary Care Trust
Wolverhampton Coronary Aftercare Support Group

Summary and Recommendations

Summary

1. This paper sets out our recommendations on tobacco policy in tax and related areas in advance of the forthcoming Budget. Measures to reduce smoking prevalence, including through increasing tobacco taxes above inflation, are essential to improving the nation's health and reducing health inequalities.
2. Comprehensive tobacco control measures introduced following the white paper 'Smoking Kills' in 1998 have led to a reduction in smoking prevalence over the next decade of one quarter from 28% of the adult population to only 21% of the population. The reduction in smoking amongst children in England has been even more significant with the proportion of 11-15 year olds smoking falling by more than a half from 12% to 6% over the same period.¹
3. This reduction in smoking prevalence has significant health and welfare benefits, including reducing health service costs, costs due to absenteeism and increasing productive life years. The reduction in smoking prevalence over the last decade, for example, is estimated to have saved over £380 million to the NHS in England in 2007.² However, smoking remains the major cause of preventable, premature death and disease and more still needs to be done to continue driving down smoking prevalence.
4. The market share of illicit cigarettes has declined significantly and tobacco receipts have held up over the last year, when for the first time in many years taxation was increased above inflation last year. We recommend a further price increase through taxation of 5% in real terms this year. This would reduce smoking prevalence by 0.37 percentage points, a total of 190,000 fewer smokers, many of whom would be young people not taking up the habit, and bring substantial health, economic and revenue benefits. In particular there would be revenue benefits of over £500 million starting in year one amounting to £2.6 billion in the first five years and economic benefits of £10.2 billion, net present value over 50 years.³
5. Increasing price through taxation is the most effective lever in driving down prevalence. However, tobacco tax is strongly regressive and for those smokers who don't quit can increase health inequalities, particularly for less affluent smokers. On the other hand, real terms price increases do lead some smokers to quit and make very substantial health and welfare gains for those that do succeed in stopping smoking. This poses a dilemma which we believe can be resolved only by making the greatest possible efforts to motivate and assist smokers to quit in response to increases in taxation.
6. Taxation and smuggling are dealt with at UK level, while health is devolved. We are pleased to note that the Department of Health has just published the new national tobacco control strategy for England¹ with Treasury support not just for

¹ A Smokefree Future. A Comprehensive Tobacco Control Strategy for England. HM Government. 2010. http://www.dh.gov.uk/dr_consum_dh/groups/dh_digitalassets/@dh/@en/@ps/documents/digitalasset/dh_111789.pdf

² Beyond Smoking Kills: Protecting children, reducing inequalities. London, ASH, 2008. http://ash.org.uk/ash_3xe9h0zo.htm

³ Reed, H. The Effects of Increasing Tobacco Taxation. A Cost Benefit and Public Finances Analysis. London, ASH, 2010.

sustaining, but also increasing funding for tobacco control and for the NHS Stop Smoking Services which are the single most cost-effective life-saving intervention provided by the NHS.⁴ The new strategy is comprehensive and impressive and will ensure that smoking prevalence rates continue to fall in future if the strategy is fully implemented. We look forward to equally comprehensive and effective strategies being developed by Wales, Scotland and Northern Ireland.

7. We were pleased to note that in the strategy the *“Government commits itself to publishing the details of all policy-related meetings between the tobacco industry and any government official”*. This only excludes meetings to discuss operational matters to reduce the illicit trade and bilateral meetings between tobacco manufacturers and HMRC which relate to their tax affairs, so we look forward to published details of all other meetings between the tobacco industry and HM Treasury and/or HMRC. These details should include, as specified in the strategy, the titles of government officials and tobacco industry representatives who attended, the date and the issue discussed.

Recommendations

We welcome the Government’s commitment to reducing the affordability of tobacco and to considering tax rises above inflation on a year by year basis and urge the Government in addition to:

Taxation

- 1) Raise the price of tobacco through tax increases by 5% above inflation this year and to:
 - Commit to raising the price of tobacco through tax increases by a minimum of the rate of inflation every year from now on as a baseline;
 - Increase the tax rate on Hand-Rolled Tobacco (HRT) and other tobacco products in line with cigarettes; and
 - To apply the increases to the specific element of taxation as far as possible.
- 2) Levy excise taxes on tobacco accessories that are used exclusively or mostly as a means to smoke hand-rolled tobacco (HRT) in order to help reduce the affordability of this type of tobacco product.

Smuggling

- 3) Set joint targets for HM Revenue and Customs (HMRC) and the UK Border Agency (UKBA) to reduce the market share of illicit cigarettes to 8% by 2010 and 3% by 2015 and for HRT to 40% by 2010 and 33% by 2015;
- 4) Develop and publish annual estimates of the proportion of the smuggled market accounted for by cheap whites⁵ and counterfeit in order to ensure that resources and activity to tackle smuggling are appropriately directed; and
- 5) Support the adoption of a strong illicit trade protocol to the WHO FCTC, which has the potential to further reduce the illicit trade in tobacco by up to 80%⁶.

⁴ Godfrey C, Parrott S, Coleman T and Pound E (2005). The cost-effectiveness of the English smoking treatment services: evidence from practice. *Addiction*. 100(S2): 70–83.

⁵ ‘Cheap whites’ are brands produced by smaller, overseas manufacturers that make no legitimate supplies of any tobacco products to the UK.

⁶ Figures calculated for ASH by Paul Johnson, former Chief Micro-economist at HM Treasury and deputy head of the Government Economic Service.

Background

Tax

8. We were pleased to note that in the new national tobacco strategy for England⁷ the Government committed to considering *'the scope for real increases in duty on cigarettes, hand-rolled tobacco and other tobacco products'*, on a budget by budget basis. However, we believe that in addition, as a baseline, Government should commit to raising tobacco prices through taxation year on year by a minimum of the rate of inflation with taxes to be applied to the specific element of taxation as far as is possible.
9. We also believe that the Government should, in addition, increase tobacco prices this year by 5% above the projected rate of inflation through taxation. The attached report for ASH models the impact both in terms of the impact on public finances and economic benefit from such a tax increase and finds that government revenues will increase by over £500 million a year, amounting to £2.6 billion over five years. These benefits arise from the following revenue streams set out in the table below:
- Increased revenue from tobacco taxation;
 - Reductions in healthcare costs;
 - Increased tax receipts from additional years of working life;
 - Increased tax receipts from reduced absenteeism;
 - Reduced spending on benefits relating on benefits related to sickness and disability; taking into account
 - Increased spending on state benefits for retired people.

Table 1 Results from Public Finance Analysis of 5% increase in tobacco prices: central scenario³

All figures in £m, 2010 prices

Positive numbers = net revenue gain, negative numbers = net revenue loss

Cost/benefit	Individual years					Average
	2010-11	2011-12	2012-13	2013-14	2014-15	
Increased tobacco taxation	427.4	430.6	433.7	436.9	439.9	433.7
NHS cost savings	23.5	24.2	27.6	29.7	31.9	27.4
Income Tax/NICs/VAT - extra working life	14.2	14.6	14.9	15.3	15.7	14.9
Income Tax/NICs/VAT - reduced absenteeism	12.6	14.4	16.5	18.8	21.0	16.7
Reduced disability benefits	33.0	33.1	33.3	33.4	33.5	33.3
Increased pensioner benefits	-3.3	-3.4	-3.5	-3.7	-3.9	-3.6
TOTAL	504.9	511.7	518.8	526.2	533.5	519.0

IT=income tax NICs=national insurance contributions

⁷ A Smokefree Future. A Comprehensive Tobacco Control Strategy for England. HM Government. February 2009.

10. It should be noted that over the last year, when tobacco taxes went up above inflation, despite concerns raised by the tobacco industry that this would lead to increases in tobacco smuggling, tobacco receipts increased, although the full year results are not yet available.⁸ This shows that now that tobacco smuggling has been substantially brought under control, increasing taxes above inflation is an effective measure.
11. There are, in addition to revenue benefits, strong economic benefits from increasing tobacco prices by 5%. The cost-benefit analysis finds that the value of such an increase would be £10.2 billion in net present value over 50 years, with a strong positive economic benefit from year one onwards of over £250 million a year.
12. A cost-benefit analysis is a general approach to evaluating government interventions, for example whether it is value for money to build a new road, and includes only economic benefits, not revenue streams. For this reason it does not include revenue streams but only the following factors:
- Savings to the NHS;
 - Output gains due to reduced mortality;
 - Output gains due to reduction in absenteeism; and
 - Years of life gained.

Table 2 Results from Cost-Benefit Analysis of 5% increase in tobacco prices: central scenario³

All figures in £m, 2010 prices

Cost/benefit	Overall NPV	Individual years				
		Year 1	Year 2	Year 3	Year 4	Year 5
NHS cost savings	1,968	23.3	25.3	27.3	29.5	31.7
Output - reduced absenteeism	1,364	22.7	25.9	29.9	34.3	38.5
Output from extra working life	1,146	33.3	34.1	34.7	35.4	36.2
Value of extra life	5,746	178.6	179.9	180.3	181.0	182.1
TOTAL	10,225	257.9	265.2	272.3	280.1	288.5

Smuggling

13. The figures published at the time of the Pre-Budget Report show that the illicit trade in tobacco has continued to decline. The market share of smuggled and counterfeit cigarettes was only 10% in 2007/8, down from 14% in 2006/7 and 21% in 2000, a fall of more than a half in less than a decade. The market share of smuggled handrolled tobacco is 47% in 2007/8 down from 53% in 2006/7 and 63% in 2000. For the first time since recording began in 2000 the market share has dipped below 50%.⁹

⁸ HMRC Tobacco Bulletin. November 2009. <https://www.uktradeinfo.com/index.cfm?task=bulltobacco>

⁹ Measuring Tax Gaps 2009. HM Revenue & Customs. December 2009. <http://www.hmrc.gov.uk/stats/measuring-tax-gaps.pdf>

14. HMRC with, more recently, the support of the UKBA, is to be congratulated on the effectiveness of the tobacco smuggling strategy, which has been regularly reviewed and updated since it was first introduced in 2000. In particular, we welcome increased partnership working between HMRC and other agencies.
15. For example, a strategy for tackling cheap and illicit tobacco for the North of England has been developed by the Regional Tobacco Policy Offices working in collaboration with HMRC, and other key agencies such as trading standards and the police. An integrated social marketing campaign is under development to evaluate the effectiveness of a marketing strategy to counter the illicit trade in tobacco, in particular demand for illicit tobacco at community level. The North of England Tackling Illicit Tobacco for Better Health Programme is being extensively evaluated by the UK Centre for Tobacco Control Studies. DH and HMRC are piloting their recently published joint national marketing strategy in Liverpool and Portsmouth. All such initiatives need to be evaluated so that the lessons learned can be disseminated and taken on board throughout the UK.
16. We also welcome the announcement in the PBR that HMRC propose to consult on changes to the Postal Services Act 2000 to strengthen customs powers to tackle tobacco smuggling in the post.
17. However, more still needs to be done. The illicit market share is still substantial compared for example to alcohol, particularly for HRT. It is also a substantial contributor to health inequalities and to giving young smokers access to cheap tobacco, with poorer and younger smokers much more likely to buy tobacco from illicit sources.¹⁰ Further reducing smuggling will, therefore, help reduce health inequalities and the number of young people taking up smoking.
18. We are pleased that the government continues to publish annual estimates of the market share of illicit tobacco, broken down by cigarettes and hand-rolled tobacco. However, we are disappointed that targets for reducing the market share have been abolished.
19. We are particularly concerned as, although there is no explicit PSA target to reduce tobacco smuggling either for HMRC or UKBA, in their joint strategy there is reference to a partnership agreement which includes unambitious outcome targets. The agreement *“envisages that performance through the period from 2008 – 2012 will at least maintain the progress made during the period from 2004 – 2008. This means: (1) restricting the UK illicit cigarette market to no more than a 13% share; and (2) a reduction of around 20% in the size of the illicit HRT market.”*¹¹ This is exactly the same as the previous published targets for 2007-8 implying no further reduction is expected once the current targets have been met, which they have for cigarettes.¹²
20. Targets for illicit tobacco reduction have been an effective means of driving down the illicit market and must continue to be set to ensure consistency, transparency and to maintain the incentive for agencies to put resources into this area. This is particularly salient as responsibility is now divided between HMRC and the UK Border Agency.

¹⁰ Smoking Toolkit Study. West, R. 2008.

¹¹ Tackling Tobacco Smuggling Together. HMRC and UKBA. 2008

¹² HMRC Annual report 2005-6

21. We therefore urge the government to introduce joint targets for UKBA and HMRC to continue reduce the market share both of cigarettes and of hand-rolled tobacco, with a commitment to a continued reduction in the market share of illicit tobacco to 8% for cigarettes by 2010 and 3% by 2015; and for targets for HRT of 40% by 2010 and 33% by 2015.
22. We also recommend that market share of counterfeit and 'cheap whites' as a proportion of the total smuggled market should be monitored, measured and published. The measures required to effectively tackle smuggling of these forms of illicit tobacco are very different to those required to effectively prevent the smuggling of authentic UK brands, so it is crucial that HMRC have an assessment of their market share. At the moment the only measurement carried out is of seizures, however, seizures are known to not accurately reflect the overall share of the market. HMRC should be required to develop a methodology for this and to implement regular monitoring as they do for overall size of the smuggled market.
23. Lastly we urge HM Treasury to continue to support the development and adoption of a strong and effective illicit trade protocol to the WHO Framework Convention on Tobacco Control, currently under negotiation for adoption at the Conference of the Parties to the Framework Convention on Tobacco Control in November 2010.
24. This will exert further downwards pressure on smuggling at a global level. An economic analysis carried out for ASH by a former Chief Micro-economist to the Treasury demonstrates that if a strong protocol on tobacco smuggling were to be widely adopted, it could not only increase tax revenues by £1.3 billion but also:
 - reduce smuggling in the UK by up to 80%;
 - save 760 lives a year; and be
 - worth £5.7bn to the UK in present day values.¹³

¹³ Johnson, P. Cost Benefit Analysis of the FCTC Protocol on Illicit Trade in Tobacco Products. London: ASH 2009.