

The economics of tobacco

Introduction

Smoking is a health problem, the costs of which include sickness, pain, grief and misery. But tobacco use also imposes a significant economic burden on society. In addition to the direct medical costs of treating tobacco-induced illnesses there are other indirect costs including loss of productivity, fire damage and environmental harm from cigarette litter and destructive farming practices. The total burden caused by tobacco products more than outweighs any economic benefit from their manufacture and sale.¹

Cost to smokers

In 2017, a 20-a-day smoker of a premium cigarette brand will spend about £3,600 a year on cigarettes, while a smoker consuming the national average of 11 cigarettes a day will spend about £1800. In 2015 tobacco was 27% less affordable than in 2005² but is still more affordable than in the 1960s.³

The Office for National Statistics estimates that the total UK household expenditure on tobacco in 2015 was to £19.3 billion.² The proportion of household expenditure on tobacco has decreased from 3.3% in 1985 to 1.7% in 2015.²

Smokers also pay with their health. The results from a 50 year study shows that half to two thirds of all lifelong cigarette smokers will be eventually killed by their habit.⁴ Death is usually due to one of the three major diseases caused by smoking lung cancer, chronic obstructive lung disease and coronary heart disease. Many who suffer from these diseases experience years of ill health and subsequent loss of productivity. One study concluded that smokers face a significantly higher chance of early retirement due to chronic disease.⁵ In 2014/15 there were approximately 1.7m hospital admissions in England among adults over 35 due to illnesses caused by smoking.²

Cost to society

Research commissioned by ASH, and included in the HM Treasury consultation on the introduction of a tobacco industry levy, has shown that the total cost to society (in England) is approximately £12.9 billion a year.⁶ This includes the cost to the NHS of treating diseases caused by smoking and lost productivity due to premature deaths, smoking breaks and absenteeism.

Spending on tobacco control measures can help reduce these costs. The report of an inquiry by the All Party Parliamentary Group on Smoking and Health recommended that government expenditure on tobacco control be increased by an additional £100m a year, which could deliver a return on investment of almost 1100% over 5 years and nearly double the rate of decline of smoking.”⁷ Following a separate inquiry into tobacco control, the APPG called on the government to implement a new tobacco control plan and to ensure that tobacco control measures are adequately resourced at both national and local level.⁸

In 2015-16, 1.2 million items (such as nicotine replacement products) were prescribed to help people in England stop smoking.⁹ Expenditure on mass media health campaigns on smoking in England in 2015-16 was £5.3 million.¹⁰

Fires

Cigarettes and other smoking materials are the primary cause of fatal accidental fires in the home. In England in 2014-15, smokers' materials accounted for 59 deaths – more than a third of all accidental dwelling fire deaths.¹¹

Smokers' materials are also the third biggest cause of non-fatal casualties in dwelling fires (after cooking materials and other electrical appliances). In 2014-15, there were 456 casualties from smokers' materials and a further 111 non-fatal casualties from cigarette lighters and matches.¹¹

International studies

According to a World Health Organization report, smoking costs the world's economies more than US\$ 1 trillion annually in healthcare expenditure and lost productivity.¹² The report's major conclusions include:

- Effective interventions exist to reduce demand for tobacco products but these measures are underused.
- Demand reduction policies such as tax and price increases, bans on tobacco marketing, prominent pictorial health warnings, and smokefree policies are effective in helping people to stop smoking. In 2013-14 global tobacco excise taxes generated nearly US\$ 269 billion in government revenues. Of this, less than US\$ 1 billion was invested in tobacco control.
- Tobacco control does not harm economies.
- Tobacco control reduces the disproportionate health and economic burden that tobacco use imposes on the poor.

An earlier World Health Organization study found that 7.4 million lives are likely to be saved as a result of global tobacco control measures.¹³ The biggest impact was found to be increasing cigarette taxes to 75% of their price which should avert 3.5 million premature deaths while smoke-free air laws are expected to save 2.5 million lives. Another study estimated that, in low and middle-income countries in particular, tripling excise taxes on tobacco would reduce consumption by about a third while also increasing tobacco revenues by about a third.¹⁴

A study commissioned by the US tobacco company Philip Morris published in 2000 examined the economic impact of smoking on the Czech Republic. It concluded that tobacco smoking provided a net benefit to the economy, largely because of "reduced health care costs" and "savings on pensions and housing costs for the elderly" that would not have to be paid since smokers die earlier than non-smokers. In fact, the smoking costs were shown to be 13 times greater than the 'benefits'.¹⁵

Tobacco taxation

The Treasury received £9.5 billion in revenue from tobacco duties in the financial year 2015-2016 (excluding VAT).¹⁶ Including VAT, total tobacco revenue is around £12.3bn annually.¹⁷ This amounts to less than 2% of total Government revenue.

In 1993, Kenneth Clarke MP was the first Chancellor to explicitly state that he intended to raise the tax on tobacco for health reasons, noting that it was "the most effective way to reduce smoking".¹⁸ Since then, apart from the period 2001-2008, successive UK governments have increased tobacco duties above the rate of inflation. At the current time, there is a commitment in place for an escalator of 2% above inflation until the end of this Parliament in 2020. (For

more information on duty rises, year-by-year see the ASH briefing: [ASH analysis of tobacco tax increases in the United Kingdom](#))

VAT on stop smoking aids

In the 2007 Budget, the Chancellor reduced the VAT on nicotine replacement products to the minimum level of 5%, initially for one year.¹⁹ In 2008 this lower rate was extended indefinitely.²⁰

Tobacco smuggling

The price of tobacco is one of the most important factors affecting tobacco consumption. Increasing levels of tax on cigarettes reduces consumption because people respond to the price signal by giving up, cutting down or never starting. However, this policy can be undermined by the illegal importation of tobacco which is sold at reduced rates on the black market.

The illicit trade in tobacco reached a peak in 2000-2001 in the UK when the market share of illicit cigarettes was estimated to be 21%.²¹ However, since then, largely as a result of the Government's strategy to tackle tobacco smuggling, it has fallen to about 13% of the market (mid-point of range of estimates).²² The black market in hand-rolled tobacco has also dropped from an estimated 63% of the market in 2000-01 to about 32% in 2015-16. For further information on tobacco smuggling see [ASH Fact Sheet: Illicit Trade in Tobacco](#).

The tobacco industry

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 2015, BAT produced 663 billion cigarettes worldwide (down -0.5% from 667 billion in 2014) and reported an operating profit of £4,557 million.²³ The two principal UK tobacco companies - Imperial Tobacco and Gallaher (the latter owned by JTI) - control around 80% of the UK market. For further information see: [ASH Fact Sheet: The UK Tobacco Industry](#).

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