

2013 Budget submission to HM Treasury and HMRC

Index

• Introduction	1
• Summary and Recommendations	1
• Key Recommendations	2
• Tobacco Taxation	3
○ Tax escalator	4
▪ Tax structure	5
▪ Specific taxation on cigarettes	6
▪ Minimum Excise Tax (MET)	7
▪ Tax on Hand Rolled Tobacco (HRT)	7
○ Price capping	7
• Rebuttals of Tobacco Industry arguments	8
○ Rebuttals of arguments on tax and smuggling	8
○ Rebuttals of arguments on plain, standardised packaging	10
• Tobacco smuggling	11
• Annex – List of endorsing organisations	12

Introduction

1. ASH is a public health charity set up by the Royal College of Physicians in 1971 to advocate for policy measures to reduce the harm caused by tobacco, which receives funding from the British Heart Foundation and Cancer Research UK for this work. The UK Centre for Tobacco Control Studies (UKCTCS) was created in 2008 and includes research teams in nine UK universities. It is one of five Public Health Research Centres of Excellence, funded by the UK Clinical Research Collaboration.
2. This paper sets out our joint recommendations on tobacco policy in tax and related areas in advance of the forthcoming Budget. The ASH/UKCTCS joint submission is endorsed by 87 health organisations (see annex for full list).

Summary and Recommendations

3. Smoking remains the primary cause of preventable morbidity and premature death, killing more than the next six most common causes of preventable death put together.¹ Smoking rates are continuing to fall and are now at 20% for Great Britain for the year 2010.² We support the government's objective – consistent with its wider fiscal objectives - of reducing the affordability of tobacco through increasing taxation, widely

¹ Healthy Lives, Healthy People: A Tobacco Control Plan for England. DH March 2011.

² The 2010 General Lifestyle Survey. Office for National Statistics, March 2012.

acknowledged as the most effective means of reducing smoking prevalence while increasing government revenues.

4. Putting tobacco taxes up is potentially a progressive rather than regressive measure because poorer smokers are more likely to quit, and youth less likely to take up smoking, as they are more sensitive to price increases.³ As a result tax increases can help reduce health inequalities at population level. However, poorer smokers who don't quit are disproportionately disadvantaged because of the negative impact of tobacco tax increases on their already small incomes.
5. This poses a dilemma, which can be resolved by ensuring that all efforts are made to motivate and support smokers in quitting. The health organisations which endorse the ASH budget submission support increasing the tobacco tax escalator to 5% above inflation to continue to reduce the affordability of tobacco, as long as at the same time government continues to provide adequate funding for measures to reduce smoking prevalence and to introduce population level measures which help reduce smoking. We urge HM Treasury to support the introduction of legislation to require all tobacco packs to be standardised, which is currently under consideration by the government.
6. We congratulate the Chancellor on the decision to increase tobacco tax to 5% above inflation in the 2012 budget, a measure which has been effective in improving public health and the state of the public finances and we urge him to increase the escalator to 5% from 2013 onwards.
7. A one off increase of 5% above inflation in this budget would lead to the number of smokers falling by 334,000, a reduction of 0.7 percentage points. Furthermore, there are considerable benefits to the public finances accruing from the reduction in smoking. In total the public finances would benefit by £199 million in the first year and a total of over £1 billion over the next five years. If an escalator of 5% above inflation were introduced for subsequent years the benefits would be considerably greater than this.
8. We also believe that there are some additional measures which would strengthen government policy still further. Set out below are our key recommendations.

Key Recommendations:

Taxation

- 1) Increase tobacco taxes by 5% above inflation again this year and in subsequent years.
- 2) Reduce the growing price differential between the most expensive and cheapest cigarettes to discourage downtrading by:
 - Ensuring that the specific tax element for cigarettes is the maximum allowed under the revised EU tax directive.
 - Setting a minimum excise tax for cigarettes to ensure that tax on all below average price cigarettes is set at the same level as that of average price cigarettes.
 - Reducing the differential between tax levels on Handrolled Tobacco and that on cigarettes by increasing the tax on HRT by an additional 10%.
- 3) Improve the collection of data on the price of tobacco products, notably by collating data by price segment.
- 4) Investigate the feasibility of introducing a price cap on tobacco products.

³ The World Bank. Curbing the epidemic: governments and the economics of tobacco control. May, 1999.

Standard packaging of tobacco products

- 7) Support legislation to introduce plain, standardised packaging of tobacco packs.

Smuggling

- 8) Sustain funding in the next spending round for the Government's highly effective comprehensive anti-smuggling strategy.
- 9) Sign and ratify the Illicit Trade Protocol to the WHO FCTC.

Tobacco Taxation

9. Tobacco taxation is an effective means of improving public health, reducing costs to the public purse and is popular with the public. A poll for the Daily Mail in June 2010 in advance of the Chancellor's first Budget found that 81% of those sampled supported increasing tobacco taxes by 50% to help tackle the budget deficit.⁴ Surveys have also shown that the majority of smokers would support price increases above inflation if they were used to help stop young people take up smoking and help smokers quit.⁵ Indeed there is evidence to show that smokers value higher taxes as devices to increase their own commitment to give up.⁶
10. A number of other governments have used tobacco taxation to discourage smoking, including various US states and France. New Zealand is a topical comparator tax regime. The number of adult smokers flat-lined at around 20% of the population for several years in a row. The New Zealand Government saw clearly that tobacco tax was one tool to help reach their goal of making their country smoke-free by 2025. It contributed around 1.5% of revenues in 2011-12 (and in the UK the figure is only slightly higher at 1.76% according to the Autumn Statement). So it could be viewed primarily as a public health tool rather than a major revenue raiser.
11. In April 2010, the New Zealand Parliament legislated for three step-increases in tobacco excise which led to an increase in tobacco tax of well over 30% in three tax years.⁷ These were:
 - a 10% increase in excise on manufactured cigarettes, and a 25.4% increase in excise on loose tobacco (to equalise rates by weight with the new rate for manufactured cigarettes)
 - a 10% increase in addition to the annual inflation-based increase on 1 January 2011
 - a 10% increase in addition to the annual inflation-based increase on 1 January 2012.
12. Tobacco consumption volumes - the quantity of tobacco smoked - were forecast, in their Treasury's most recent paper on tobacco and health on their website, to fall 20% between the years ending June 2009 and June 2012.⁸ And as the paper says, the long

⁴ BPIX survey for The Mail on Sunday. Published 10th June 2010. <http://www.dailymail.co.uk/news/article-1286199/David-Cameron-told-Heres-37bn-cuts-started.html>

⁵ Gardner B, West R. (2010) Public support in England for raising the price of cigarettes to fund tobacco control activities. *Tobacco Control*, 19(4), 331-333.

⁶ Gruber, J and Mullainathan, S. (2005). Do Cigarette Taxes Make Smokers Happier? *Advances in Economic Analysis and Policy* Vol. 5: No. 1, Article 4 Available at

<http://www.bepress.com/bejeap/advances/vol5/iss1/art4>

⁷ See <http://www.treasury.govt.nz/publications/informationreleases/ris/pdfs/ris-tsy-iteed-may12.pdf> ; accessed 18 February 2013.

⁸ <http://www.treasury.govt.nz/publications/informationreleases/ris/pdfs/ris-tsy-iteed-may12.pdf> ; <http://www.treasury.govt.nz/budget/2012/speech/b12-spch.pdf> accessed 10 February 2013.

term impact will be greater, as higher prices discourage people – especially young people – from taking up smoking.

13. New Zealand has not finished its drive to cut smoking using tobacco tax. In his 2012 Budget speech the Finance Minister announced further 10 per cent increases in each of the next four years.⁹
14. This policy hit revenues. Drawing on their experience since 2010, the New Zealand Treasury is forecasting an additional \$NZ 532 million over the period 2013-2016 as a result of the tax increases.¹⁰

Tax escalator

15. We recommend increasing the tax escalator to **5% above inflation in the 2013 and subsequent Budgets**. Our calculations, based on HMRC's estimates of the elasticity of demand, find that a one off increase of 5% above inflation in this budget would lead to the number of smokers falling by 334,000, a reduction of 0.7 percentage points. Furthermore, there are considerable benefits to the public finances accruing from the reduction in smoking. In total the public finances would benefit by £199 million in the first year and a total of over £1 billion over the next five years. If an escalator of 5% above inflation were introduced for subsequent years the benefits would be considerably greater.
16. The calculations are based on HMRC's estimates of the elasticity of demand. These are relatively high by comparison with the generally accepted international estimates and range from -0.92 to -1.17, but still do not show that revenue maximisation has been reached.

Results from Public Finance Analysis of 5% increase in tobacco prices: central scenario, consumption elasticity = -1.05, prevalence elasticity = -0.66

All figures in £m, 2012 prices

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

Cost/benefit	Individual years					Average
	2013-14	2014-15	2015-16	2016-17	2017-18	
Increased tobacco taxation	8.6	8.6	8.7	8.7	8.8	8.7
NHS cost savings	55.2	59.3	63.7	68.2	72.9	63.9
Income Tax/NICs/VAT - extra working life	25.9	26.6	27.4	28.2	29.0	27.5
Income Tax/NICs/VAT - reduced absenteeism	36.2	40.6	44.4	47.5	50.0	43.7
Reduced disability benefits	81.1	81.4	81.6	81.8	81.9	81.5
Increase in pensioner's State benefits	-7.9	-8.3	-8.6	-9.0	-9.3	-8.6
TOTAL	199.0	208.2	217.1	225.5	233.4	216.6

NICs=national insurance contributions

⁹ See <http://www.treasury.govt.nz/budget/2012/speech/b12-spch.pdf> accessed 10 February 2013.

¹⁰ See <http://www.treasury.govt.nz/budget/forecasts/befu2012/befu12-whole.pdf> Additional Budget Information table 11. Accessed 10 February 2013.

17. These benefits arise from the following revenue streams set out in the table above:
- 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 related to sickness and disability;
- Increased spending on state benefits for retired people has been taken into account.
18. It should be noted that over the last year, when tobacco taxes went up 5% 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.¹¹ This shows that now that tobacco smuggling has been substantially brought under control, revenue maximisation has not been reached and increasing taxes by a significant margin above inflation is an effective measure.
19. There are, in addition to revenue benefits, strong economic benefits from increasing tobacco prices by 5%. The cost-benefit analysis finds that there is a strong positive economic benefit from year one onwards of over £500 million a year.
20. 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.

Results from Cost Benefit Analysis of 5% increase in tobacco prices: central scenario, consumption elasticity = -1.05, prevalence elasticity = -0.66

All figures in £m, 2012 prices

Positive numbers = net benefit, negative numbers = net cost

Cost/benefit	Individual years					Average
	2013-14	2014-15	2015-16	2016-17	2017-18	
NHS cost savings	55.2	59.3	63.7	68.2	72.9	63.9
Reduced absenteeism	62.3	70.0	76.8	82.4	86.8	75.6
Extra output from longer working life	61.1	62.5	63.9	65.5	67.0	64.0
Value of additional life years gained	338.7	340.7	343.2	346.3	349.2	343.6
TOTAL	517.3	532.5	547.6	562.4	575.9	547.1

Tax structure

21. While real average cigarette prices have been increasing across the market as a whole in recent years, the prices of the cheapest cigarettes have remained unchanged in real terms. This is because, at the point when taxes increase each year, the tobacco industry has been absorbing tax increases on the cheapest brands

¹¹ HMRC Tobacco Bulletin. December 2012.
<https://www.uktradeinfo.com/Statistics/Pages/TaxAndDutyBulletins.aspx>

rather than passing them on to consumers.¹² It can afford to do this by increasing prices and thus profits on its more expensive brands. The timing of industry initiated price changes appears timed to accentuate price differences between brand segments when tobacco duties increase in April each year.¹²

22. Cheaper brands are targeted at the young, the poor, women and those living in areas of the country with high smoking rates who are most in need of protection from tobacco industry marketing tactics. Evidence shows that the increase in the use of cheap cigarettes is most marked in the youngest (16-24 year old) smokers, 71.4% of whom now use cheap brands.¹³ This highlights the impact of the availability of cheap cigarettes on inequalities in smoking.^{12 13}
23. The consequence of the industry pricing its cigarettes in this way has been to undermine the effectiveness of the UK's tobacco tax strategy, by leaving the affordability of the cheapest cigarettes unchanged, so encouraging downtrading.
24. There has also been a significant increase in the use of HRT in recent years. This is due to the lower price of HRT particularly as a result of large imports of tax paid cheap HRT smuggled into the UK from Europe. This in turn discouraged the government from increasing taxation on HRT in line with cigarettes, so increasing the price differential between cigarettes and legal HRT. The proportion of smokers mainly using HRT has increased from 25% of men and 8% of women in 1998 to 39% of men and 23% of women in 2009.¹⁴
25. However, tax on HRT will be going up in other jurisdictions as a result of the revised directive. The minimum tax at EU level has risen from 36% of weighted average selling price previously to 40% on 1 Jan 2011, 43% in 2013 and will continue to rise to 46% in 2015, 48% in 2018 and 50% in 2020.¹⁵
26. We therefore recommend, in addition to increasing taxes above inflation, that the government take further action to reduce the tax differential between different market segments and between manufactured cigarettes and HRT. In particular by maximising specific taxation and introducing a minimum excise tax on manufactured cigarettes and by applying an additional tax increase on HRT.

Specific taxation on cigarettes

27. To minimise as far as possible the tax differential between different price categories and so help prevent the downtrading outlined above, we recommend that the UK ensure that specific tax is set at the maximum allowed under the new regulations.
28. The EU tax directive allows for specific tax to be up to 76.5% of the total tax burden on the weighted average retail selling price (WAP) from 1 Jan 2011 onwards.¹⁵ Currently specific tax is estimated to be only 61.2% of the total tax of a typical pack of cigarettes in the ultra low price category cigarettes allowing significant room for further rebalancing, as it will be an even lower proportion of the total tax burden of the weighted average price.¹⁶

¹² 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* (in press)

¹³ Tavakoly G, Taylor G, Hiscock R, Gilmore A. Smoking patterns in Great Britain: the rise of cheap cigarette brands and hand rolled tobacco. *Addiction* (under review).

¹⁴ Smoking and drinking among adults, 2010. General Lifestyle Survey 2010, Office for National Statistics, March 2012.

¹⁵ Council Directive 2010/12/EU of 16 February 2010 amending Directives 92/79/EEC, 92/80/EEC and 95/59/EC on the structure and rates of excise duty applied on manufactured tobacco and Directive 2008/118/EC

¹⁶ HMRC Tobacco Factsheet. Table 3.7 Taxation on Cigarettes. November 2012.

Minimum Excise Tax (MET)

29. The revised directive also allows for a minimum excise tax for all products.¹⁵ We urge the government to introduce the highest possible minimum excise tax in order to help reduce the tax differential between different price categories.
30. To maximize taxation on lower than average priced cigarettes and set an effective floor below which the total tax burden can't fall, the MET should be set equivalent to the maximum total tax burden allowable based on the Weighted Average Price (WAP).

Tax on Hand Rolled Tobacco (HRT)

31. The Chancellor is to be congratulated for increasing taxes on HRT by an additional 10% above cigarettes in the 2011 budget. The quantities of HRT released for consumption have continued to rise since then showing that this has not led to an increase in the market share of smuggled HRT.¹⁷ Increasing control of smuggled HRT and a reduction in smuggled market share from 61% in 2004-5¹⁸ to 38% in 2010-11 shows that the illicit market for HRT is in decline.¹⁹
32. Tax on HRT in the UK is still only 67.3%²⁰ of total price and there is room for further increases in taxation. In the past it has been as high as 74.3%. We recommend tax on HRT should be increased again this year by 10% above that of cigarettes to further reduce the differential.
33. Evidence from overseas indicates that the tobacco industry will try to exploit loopholes in tax legislation by selling HRT as pipe tobacco if lower taxes are applied to pipe tobacco.²¹ For this reason we suggest keeping taxes on pipe tobacco in line with those on HRT.

Price capping

34. The tobacco industry is the most profitable consumer business in the world. In the UK, just two companies dominate the market, each having approximately a 40% market share.²² Imperial Tobacco, the market leader, enjoys margins in the UK of some 67%.²³ These excess profits are, in turn, used in marketing and lobbying, thereby undermining government policies to reduce smoking prevalence.
35. This is because while tobacco regulation by government has been extremely effective in driving down smoking prevalence it has also had unintended consequences. The tobacco industry is heavily concentrated globally, with four companies accounting for the vast majority of tobacco sold worldwide. This concentration has been enhanced by the significant barriers to entry caused by regulatory measures in particular bans on advertising, promotion and sponsorship, leading to market failure.²²

¹⁷ HMRC Tobacco Duties Factsheet. Table 2.1 Tobacco clearances by type. November 2012.

¹⁸ HMRC Measuring Tax gaps 2010.

¹⁹ HMRC. Measuring tax gaps 2012.

²⁰ HMRC Tobacco Factsheet. Table 3.11 Taxation on HRT. November 2012.

²¹ Clifford, D. Ciecierski, C. Silver, K. Gilmore, A. PPACTE Work Package 5 - Milestone 5.2. Tobacco industry influence over tobacco taxation in Poland. Dublin: PPACTE, 2012.

²² 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

²³ 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.

36. 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 (outlined above), 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.¹²
37. Placing a cap on the prices that tobacco manufacturers are able to charge for their products would enable the excess profit to be transferred from the manufacturer to government, to the benefit of public finances and public health. Price regulation would likely result in a reduction in wholesale prices and so tobacco taxes would need to rise so that the final price faced by the consumer in the shops would not change, thus raising substantial resources *in addition* to the current tobacco excise revenues. It would also prevent the industry from absorbing increased taxes on the cheapest brands thereby undermining government tax policy.²² It is estimated that price capping could raise in the region of £500 million per year in additional government revenue in the UK without changing the price the consumer faces.²³

Rebuttals of Tobacco Industry arguments

38. Every year the tobacco industry argues that increasing taxes would increase the illegal trade in tobacco, that the UK's taxes are amongst the highest in the world and that government should not increase taxes in the forthcoming budget. The argument that tobacco control measures will increase smuggling is used to argue against any tobacco control measure as it allows the industry to both argue that the measure will be ineffective, while at the same time arguing that it will harm the economy by reducing legal sales. Most recently it is being used to argue against standard packaging of tobacco products.

Rebuttals of arguments on tax and smuggling

39. For example, JTI the owner of Gallaher which has a bigger than 40% market share in the UK headlined its press release following both the 2012 and 2011 budget, "JTI Response to the UK Budget...An open invitation to crooks, criminals and counterfeiters"^{24 25}.
40. Yet analysis of price changes over the period November 2006 to November 2009²⁶ found that across this 3-year period approximately half of the total price increase across all brands combined was due to the tobacco industry increasing prices. On premium brands the proportion was more than half the total price increase.
41. Industry claims about tax increases being responsible for massive price increases are therefore highly misleading as they fail to acknowledge that half of the price increase is directly attributable to industry pricing. Furthermore, even in the UK, where taxes are amongst the highest in Europe and globally, the industry is overshifting taxes, in direct contradiction to its lobbying stance. This suggests that the industry is not opposed to

²⁴ JTI. *JTI Response to UK Budget 2011: An Open Invitation to Crooks, Criminals and Counterfeiters*. 23 March 2011. <http://www.jti.com/our-company/where-we-operate/europe/united-kingdom/english/media/> accessed 10th February 2013

²⁵ JTI. *JTI Response to UK Budget 2012: An Open Invitation to Crooks, Criminals and Counterfeiters*. 21 March 2012. <http://www.jti.com/our-company/where-we-operate/europe/united-kingdom/english/media/> accessed 10th February 2013

²⁶ Gilmore, A. Reed, H. The truth about cigarette prices in the UK. (work in progress).

price increases per se, but wants these to occur via its own price increases and not via tax increases to ensure that its profits rather than government revenues increase.¹²
^{22 23} This is a missed opportunity for governments and highlights the extent to which the industry is mis-using the smuggling argument.

42. These findings are entirely consistent with evidence from Ireland which showed that between 2000 and 2010 over a third of the price increase in cigarettes was imposed by the industry despite its claims at every budget that tax (and thus price) increases would lead to smuggling.²⁷
43. The tobacco industry argument that tax increases and enhanced regulation inevitably lead to increases in smuggling are not borne out by UK evidence. In the UK smuggling has been significantly reduced over the last decade by strong enforcement measures, despite annual increases in tobacco taxation and the implementation of a strong tobacco control strategy.^{18 19}
44. Increasing taxation above the rate of inflation in recent years while sustaining a tough anti-smuggling strategy has been successful.¹⁹ It has not led to increasing levels of illicit tobacco, as predicted by the tobacco industry.
45. It is true that using tax to reduce affordability in the 1990s was undermined by the growth of smuggling which gave smokers access to cheap illicit tobacco. During that decade the illicit market in tobacco ballooned, making smoking more affordable and reducing the incentive to quit. The tobacco industry argued that this increase was due to tax increases and that taxes should be cut.²⁸
46. In fact, the increase in smuggling was strongly associated with a dramatic growth in UK manufacturers' exports of cigarettes.^{29 30} Products smoked in significant quantities only in Britain, such as Regals and Superkings, were being exported to jurisdictions where there was no end market and smuggled back to the UK. To quote the current Chancellor, then a member of the Public Accounts Committee questioning the Imperial Tobacco CEO, and members of his senior management team about this:
"One comes to the conclusion that you are either crooks or you are stupid, and you do not look very stupid. "
*"How can you possibly have sold cigarettes to Latvia, Kaliningrad, Afghanistan and Moldova in the expectation that those were just going to be used by the indigenous population ... and not in the expectation they would be smuggled? You must know - you only have to read a newspaper every day, a member of the public could tell you - these are places which are linked to organised crime."*³¹
47. From 2000 onwards an anti-smuggling strategy was introduced by the Government and regularly updated which included tough measures to force the tobacco manufacturers to control their supply chains. Subsequently the illicit market for tobacco has slowly but surely declined without taxes being cut.

²⁷ Howell F. The Irish tobacco industry position on price increases on tobacco products. *Tobacco Control*. 2012;21:514-6.

²⁸ See various TMA briefings and press releases for example. 'Cut and Freeze' tobacco tax policy could win war on smuggling. <http://www.prnewswire.co.uk/cgi/news/release?id=83061>
http://web1.wisetigerhosting.co.uk/~thetma/wp-content/uploads/2010/06/TMA_Briefing_02.pdf accessed 6th March 2011

²⁹ Public Accounts Committee. Third Report. Tobacco Smuggling. HC 143. 2002-3 Session.

³⁰ BBC Money Programme. <http://news.bbc.co.uk/1/hi/business/210260.stm> accessed 28 February 2011.

³¹ Public Accounts Committee minutes of evidence Wednesday 19th June, 2002.

<http://www.publications.parliament.uk/pa/cm200203/cmselect/cmpublic/143/2061915.htm> (accessed 21st January 2011).

48. Although the tobacco industry continues to assert that tax increases above inflation will lead to an increase in smuggling again this is not borne out by HMRC data. This shows that when tobacco taxes went up above inflation in 2009 and 2010, the market share of illicit market continued to decline.¹⁹
49. Smoking prevalence, which had declined significantly from 45% of the adult population in 1974 to 30% in 1990, stopped declining in the 1990s.³² It was only after smuggling began to be brought under control as part of a comprehensive tobacco control strategy that smoking rates started to fall again. By 2008, the illicit trade in cigarettes had reduced significantly as had smoking prevalence.³² This illustrates the importance of controlling the illicit trade as part of a comprehensive strategy to reduce smoking prevalence.

Rebuttals of arguments on standardised packaging

50. The tobacco industry argues strongly against plain, standard packs using a range of arguments. Those most relevant to HM Treasury and HMRC are that it will lead to increased smuggling and a reduction in price, thereby reducing tax revenue and increasing smoking prevalence. The argument on price is easily dealt with as if price did decline it could be compensated for by increasing taxation.
51. There is no evidence that standardised packaging will lead to an increase in the illicit trade in tobacco. Tobacco packs are already easily counterfeited which is why the industry is required to put covert markings on all tobacco packs to distinguish between authentic and counterfeit packs.³³ Standard packs may not have current colourful tobacco branding but they will have all the health warnings and other markings required on current packs.
52. According to Philip Morris International the world's major manufacturers have agreed to fight the introduction of plain packaging stating that they "*do not want to see plain packaging introduced anywhere regardless of the size and importance of the market.*"³⁴ The real reason behind this united front against plain, standardised packaging is because the packet remains their last key means of marketing and thus recruiting new smokers. The measure will therefore impact on uptake and, longer-term, on the profitability of the industry, by reducing its ability to charge premium prices for its product.
53. Standard packs have already been introduced by Australia from 1 December 2012 and there is a strong and growing evidence base that such packaging will be effective in reducing the attractiveness of smoking particularly to young people.^{35 36} It is now over six months since the consultation on standard packs finished and the government must make a decision. The public health community, including the royal medical colleges, health charities, Directors of Public Health and professional organisations representing public health regulators such as the Chartered Institute of Environmental Health and the Trading Standards Institute all urge the government to introduce legislation for standard packs in the 2013 Queen's speech.

³² Robinson S. & Bugler C. Smoking and drinking among adults, 2009. General Lifestyle Survey 2009, Office for National Statistics, Jan 2011.

³³ Tackling Tobacco Smuggling Together: An integrated strategy for HM Revenue & Customs and the UK Border Agency. HMRC November 2008.

³⁴ Dangoor D. PMI corporate affairs meeting, Rye Brook 950215 & 950216. In: Pim P. I. M., editor. Philip Morris; 1995: 2048207342/7346

³⁵ See evidence summarised in the Public Health Research Consortium report published alongside the consultation http://phrc.lshtm.ac.uk/project_2011-2016_006.html

³⁶ U.S. Department of Health and Human Services. Preventing Tobacco Use Among Youth and Young Adults: A Report of the Surgeon General. Atlanta, USDHHS, 2012.

Tobacco Smuggling

54. The UK Government's anti-tobacco smuggling strategy first launched in 2000 and regularly reviewed and updated since then, has been very successful. We welcomed the commitment to increased funding for the strategy between now and 2015 and would urge the government to continue to refresh the strategy in light of the evolving illicit market and to sustain funding for the strategy in the forthcoming spending review.
55. We are pleased also that the UK government supported the adoption of the Illicit Trade Protocol to the WHO FCTC at the Conference of the Parties in November 2012 and we look forward to the UK signing and ratifying the protocol in the near future.

Annex: List of endorsing organisations

Action on Smoking and Health (ASH)
Arrhythmia Alliance
ASH Northern Ireland
ASH Scotland
ASH Wales
Association of Directors of Public Health
Atrial Fibrillation Association
Bedfordshire Tobacco Control Alliance
Breast Cancer Care
British Association for Nursing in
Cardiovascular Care (BANCC)
British Cardiovascular Society
British Dental Association
British Dental Health Foundation
British Heart Foundation
British Lung Foundation
British Society for Heart Failure
British Thoracic Society
Cancer Focus Northern Ireland
Cancer Research UK
Central Lancashire Tobacco Alliance
Chartered Institute of Environmental
Health
Cheshire and Merseyside Public Health
Network (ChaMPS)
Cheshire and Merseyside Tobacco
Alliance
Coventry Smokefree Alliance
Director of Public Health for Hartlepool
Director of Public Health for Knowsley
Director of Public Health Sandwell
Faculty of Public Health
Foundation for the Study of Infant Deaths
(FSID)
FRESH Smoke Free North East
Greater Manchester Tobacco Alliance
Heart of Mersey
HEART UK
Hertfordshire Local Pharmaceutical
Committee
Kent County Council
Leicester City Tobacco Control
Coordination Group
Leicestershire Partnership Trust
Liverpool Public Health
Medical Women's Foundation
Mouth Cancer Foundation
National Centre for Smoking Cessation &
Training (NCSCT)
National Heart Forum
Newcastle City Council
NHS Alliance
NHS Bury CCG
NHS Count Durham and Darlington
NHS Harrow
NHS Leeds
NHS North Somerset
NHS Portsmouth
NHS Somerset
North Somerset Smokefree Alliance
Plymouth NHS Stop Smoking Service
QUIT
Royal College of General Practitioners
Royal College of Physicians
Royal College of Psychiatrists
Royal College of Radiologists
Royal Pharmaceutical Alliance
Smokefree Alliance Hartlepool
Smokefree Bristol Alliance
Smokefree Darlington
Smokefree Devon Alliance
Smokefree Durham
Smokefree Essex Tobacco Alliance
Smokefree Lincs Alliance
Smokefree Newcastle
Smokefree Shropshire
Smokefree Somerset Alliance
Smokefree South West
Smokefree Yorkshire and the Humber
Smokefree Surrey Alliance
Socialist Health Association
South Asian Health Foundation
Syncope Trust and Reflex Anoxic Seizures
(STARS)
Teenage Cancer Trust
The Deborah Hutton Campaign
The Roy Castle Lung Cancer Foundation
The UK Centre for Tobacco Control Studies
(UKCTCS)
Tobacco Control Collaborating Centre
Tobacco Free Futures
Tobacco Free Hertfordshire
Tobacco Free Leicestershire and Rutland
Trading Standards Institute
UCL Health Behaviour Research Centre
University Hospitals of Leicester NHS Trust
Worcestershire Tobacco Control Alliance