

ASH Budget representation 2025

Submission by 15th October

1. This Budget representation is submitted by Action on Smoking and Health (ASH), which 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. ASH receives funding for its full programme of work from the British Heart Foundation and Cancer Research UK.
2. This representation on behalf of ASH is co-produced with; Dr J Robert Branston, Associate Professor of Business Economics, University of Bath; Howard Reed, Landman Economics, consultant to ASH; Professor Jamie Brown, Professor Lion Shahab and Deborah Arnott from the Tobacco and Alcohol Research Group, UCL; Dr Tessa Langley, Associate Professor in Public Health Economics and Evaluation at the University of Nottingham; Catherine Taylor, Regulation Manager, Fresh and Balance; and Kate Pike, Lead Officer for the Chartered Trading Standards Institute. None of the authors have any direct or indirect links to, or receive funding from, the tobacco or nicotine industries, except for nominal shareholdings in Imperial Brands and British American Tobacco for advocacy and research purposes held by ASH and Dr Branston.

Summary

3. This submission calls for the following changes to tobacco taxes to maximise revenue and reduce the use of tobacco. In summary it calls for:
 - Continued up-rating of tobacco taxes above inflation
 - Accelerating the progress in closing the gap between hand-rolled tobacco and factory-made cigarettes
 - Taxing cigarillos at the same rate as cigarettes as they are just as harmful to health
 - Creating a tax category for nicotine pouches
 - Further restricting the duty-free limit for tobacco
 - Take powers to regulate the price of tobacco in order to limit industry pricing tactics and profits, and create a polluter pays levy
4. By implementing the range of measures laid out in this submission, we believe HMT could increase revenue from tobacco over the short term, while further decreasing rates of smoking. Alongside tax changes it is vital that support to quit smoking is maintained and extended. Cigarettes and hand rolled tobacco have become far less affordable over the last decade. While smoking rates have fallen, for those who continue to smoke the financial burden of doing so has grown. Alongside tax increases, the government must take seriously its obligation to help more smokers to stop, particularly in low-income and other disadvantaged groups. More detail on how this can be done was provided in ASH's extensive submission to the Spending Review¹ on the revenue needed to reduce smoking by around 2 million people in this parliament. Implementing this funding is necessary as taxes go up.
5. Two million fewer smokers by 2029 would have significant benefits for public finances and the wider economy. These reductions will support the government's mission to create growth by unlocking productivity through improved health and by reallocating people's purchasing away from tobacco and towards products with higher Gross Value Added (GVA), and thus providing greater benefits to the British economy. It will also support the goal of reducing health inequalities and address disadvantage in our poorest communities where smoking is most common.
6. Research for ASH by Landman Economics found that smoking has a major impact on productivity² with an estimated 290,000 people inactive due to smoking. New research

has further supported this showing that smoking is strongly associated with health-related economic inactivity, with absolute disparities widening over time.³ Reducing smoking prevalence would help to tackle rising inactivity and improve labour market participation.

7. Half the difference in healthy life expectancy (HLE) between the richest and poorest in society is due to smoking,⁴ so to deliver its commitment to halve the difference between the richest and poorest regions, the Government must address the differences in smoking prevalence. Reductions in smoking prevalence can deliver immediate benefits to the health and social care system as well as increasing the health and wealth of some of the poorest households^{5 6} and the economic productivity of the most deprived areas.⁷
8. The last Labour government's comprehensive anti-smoking strategy, combining legislation with funding for mass media anti-smoking campaigns and smoking cessation services, led to significant declines in smoking.⁸ However, in 2023 there were still 6 million smokers in the UK.⁹ Therefore the Labour government's commitment to a smokefree UK¹⁰ can only be delivered if current investment in measures to support smokers to quit is sustained, and the manifesto commitment to ensure all hospitals integrate 'opt out' smoking cessation interventions into routine care is realised.
9. Tax measures to reduce the affordability of smoking play a key role in reducing smoking prevalence, while also increasing tax revenues. The tobacco tax escalator must be maintained for the duration of this parliament. In addition, improvements must be made to the tax structures for several tobacco products, including the hand-rolled tobacco (HRT) escalator to reduce the difference in prices between HRT and manufactured cigarettes. Furthermore, the government must deliver on its commitment to ensure the vaping products duty, due to be implemented in 2026, discourages young people and non-smokers from vaping, while maintaining the current financial incentive to choose vaping over smoking.¹¹ Tax rates should also be reviewed across tobacco products and consideration given to a new tax for nicotine pouches.
10. In 2024 smoking in England cost the public finances £9.7 billion (bn), after tobacco excise tax income of around £10.1 bn and reduced pension payments of £0.2 bn are netted out. Reed's analysis shows that smokers quit are likely to spend their money on other goods or service which attract VAT. Most of the burden on public finances is due to the damage smoking does to the productivity of the nation. The total cost of smoking in England amounting to £43.7bn in 2024.⁷
11. On average each smoker in England cost the public finances £2,750 a year and the wider economy £7,283. On average they pay £1,133 a year in excise taxes. Therefore, as smoking rates fall, the economy and public finances benefit even when the loss of excise tax revenue is taken into account. However, very little of the money raised through excise tax is spent on helping smokers to stop. We estimate around £35 per smoker is being spent in local government, the NHS, and nationally, which is around 3% of the amount smokers are paying in excise taxes. Increasing this to 5% of the revenue income could make a dramatic difference to the rate at which smoking declines, particularly if new investment is targeted to address smoking in the most disadvantaged groups.

Table 1: Cost of smoking to society and expenditure on tobacco control

	Total	Per smoker
Cost to public finances from smoking	£16.5bn	£2,750
Cost to society from smoking	£43.7bn	£7,283
Annual excise tax raised	£6.8bn	£1,133

Current estimated spend on tobacco control	£210.5m	£35.00
Recommended spend on tobacco control	£310m	£51.70

12. Reducing the affordability of tobacco is also an important tool in itself to reduce smoking rates. By maintaining the tax escalator, closing gaps in the existing taxation regime, controlling the prices of tobacco products to limit market manipulation and raise further tax revenue, and investing in evidence-based tobacco control, this government can set the UK on a path to ending smoking. Forthcoming legislation will create a smokefree generation but it will do little to reduce current smoking. The UK approach to taxing tobacco and the expenditure on support to quit can accelerate the date at which the country becomes smokefree.

Recommendations

13. The paragraphs setting out the rationale and evidence for the recommendations are set out alongside each recommendation.

Need for a comprehensive prevalence reduction strategy (paras 14-23)

- **Reset of national targets to secure 2 million fewer smokers in this parliament:** The government needs a new ambitious goal on tobacco to set it on a path to create a smokefree UK
- **Publish a national strategy:** reducing smoking rates requires comprehensive action by many different parts of the local and national system. A new strategy is needed to ensure effort is co-ordinated and maximises the opportunity of legislation in the Tobacco and Vapes Bill.
- **Deliver funding needed for change:** Protect current spending on tobacco, including in the NHS and the budget for mass media campaigns, and increase the spend to around £310m per year - a fraction of the £10bn raised in excise tax from smokers.

Taxes on tobacco

- **Tobacco tax escalator:** increase the tobacco tax escalator from 2% to 5% above RPI. (paras 24-27))
- **Raise Minimum Excise Tax** at least in line with the tax escalator (paras 28-29)
- **Enhance the handrolled tobacco (HRT) tax escalator:** by an additional 10% above the tobacco tax escalator, until tax per average HRT cigarette is equivalent to that of factory made (FM) cigarettes. (paras 30-33).
- **Eliminate duty free allowances for tobacco** (paras 34-38)
- **Tax cigarillos at the same rate as cigarettes** and eliminate the significant differential in taxation with FM cigarettes. (paras 39-44)
- **Raise taxes on all tobacco products:** it would be timely for HMT to review taxes across tobacco products, in particular heated tobacco which has grown in popularity and on which other European countries are levying higher taxes. (45-49)

Fiscal opportunity from a levy on tobacco companies

- **To raise revenue from tobacco companies, and limit their pricing tactics and profits, by implementing a 'Polluter pays' levy scheme on tobacco manufacturers** (paras 50-64)

Taxes on vapes, nicotine pouches, and other nicotine products

- **Publish a vape strategy** jointly with DHSC and other relevant parts of government, setting out a clear approach to vaping products and the vape market. (paras 65-69)

- **Model impact of excise tax on vape devices:** there is scope to tax vape devices as well as liquid. This should be modelled to better understand the impact on public health. A tax on heated tobacco devices should also be considered. (paras 70-71)
- **Review tax rate for nicotine pouches:** With product regulations increasing on nicotine pouches and plans to ban or tax nicotine pouches in EU countries, it is timely to review their taxation in the UK, and we advocate for the implementation of a tax consummate with the forthcoming tax on vape liquids. (paras 72-75)

Supply chain controls to protect tax revenues

- **Better communicate the UK's track record on illicit tobacco** (paras 76-80)
- **Fund activity to reduce the demand for illicit products** (paras 81-84)
- **Revise Economic Operator ID (EOID) regulations:** to require publication of tobacco retailer EOIDs. (paras 85-87)
- **Maintain current levels of funding for local and national illicit tobacco enforcement activity until at least 2029** (paras 88)
- **Provide sufficient funding to local enforcement for implementation of the Tobacco and Vapes Bill** (paras 89-90)

Detailed submission

Need for a comprehensive prevalence reduction strategy

Recommendations

Reset of national targets to secure 2 million fewer smokers in this parliament: The government needs a new ambitious goal on tobacco to set it on a path to create a smokefree UK

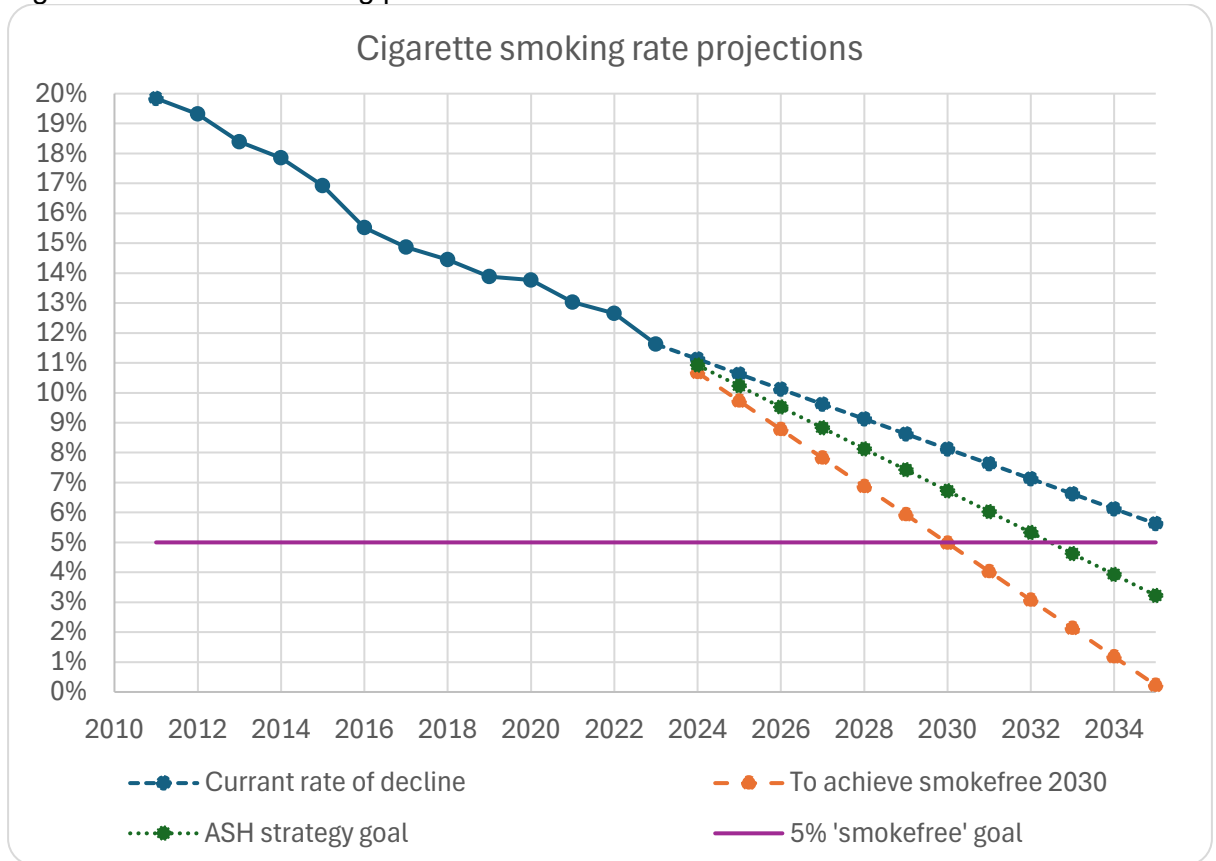
Publish a national strategy: reducing smoking rates requires comprehensive action by many different parts of the local and national system. A new strategy is needed to ensure effort is co-ordinated and maximises the opportunity of legislation in the Tobacco and Vapes Bill.

Deliver funding needed for change: Protect current spending on tobacco, including in the NHS and increase the spend to around £310m per year (a fraction of the £10bn raised in excise tax from smokers)

14. This government has committed to creating a smokefree future for the country but has not articulated what this will mean for smoking rates during this parliament nor how rapid reductions in current smoking rates will be achieved. Both these are urgently needed to ensure that the impact of the smokefree generation legislation in the Tobacco and Vapes Bill is maximised, and to minimise the economic and health burden of tobacco on the country at a time when we can ill afford it. The smokefree generation will gradually reduce rates of smoking but further action is needed to help current smokers to stop to speed reduction in smoking rates and make major gains in this parliament.
15. In 2019 the last Government set an ambition in their Prevention Green Paper for the country to be smokefree by 2030. By this they meant that smoking rates would be below 5%. However, little action was taken to deliver on this commitment until 2023, and the with the pandemic likely slowing progress, it now appears very unlikely that this goal will be reached.

16. ASH recently reset its strategy for the next five years to reflect the legislative changes before parliament and the lack of progress towards the smokefree 2030 goal. If the Government implements a comprehensive and evidence-based strategy the government could reach 5% smoking rates by 2032 – 3 years ahead of the current trajectory. Without action the current trajectory is likely to be optimistic.

Figure 1: Protected smoking prevalence rates to 2035



17. It is also not certain that the current rate of decline will be maintained. Measures of cigarette smoking prevalence other than the ONS's official figures have found a much slower rate of decline¹² in recent years, likely linked to the changes in behaviour following the pandemic and cost of living crisis. These figures also do not include non-cigarette tobacco smoking, which has increased since 2020.¹³ Experience also teaches us that a lack of comprehensive action on tobacco can lead to a plateau or even an increase in smoking. Reducing smoking rates requires sustained action in line with the WHO's recommendation for comprehensive strategy¹⁴ and requires action nationally, regionally, in the NHS and in local government. Currently there is no cohesive national document driving that shared action.
18. A strategy is urgently needed to ensure that the impact of smoking on the economy is minimised in this parliament. There is evidence that slowing progress may have been particularly pronounced in those in middle and older age.¹³ This has the biggest immediate impact on the economy as their health is most vulnerable and their contributions to workforce productivity most valuable.
19. Most of the burden on public finances is due to the damage smoking does to the productivity of the nation, due to sickness, absenteeism, and premature death. People who smoke need social care on average ten years earlier than non-smokers, and half all smokers who are killed by smoking die while still of working age.

20. The biggest single impact is on lost productivity (see para 6 above). This impact is not limited to health. Buying tobacco is not good for the British economy. Tobacco is not grown and almost no tobacco products are manufactured in the UK, so spending on tobacco generates fewer jobs than if that money were spent on other goods and services. Landman Economics estimates for ASH put the value of this loss to the economy at £9.6bn.²
21. Landman Economics estimates that the net impact of smoking on public finances in England was over £9.7 billion (bn) in 2024, once tobacco excise tax income of around £10.1 bn and reduced pension payments of £0.2 bn are netted out. (See Table 7.2 in the Cost Benefit and Public Finance Report, Jan 2025).⁷
22. The overall costs of smoking in England to the economy are far higher, amounting to £44 bn (See Table 7.1 in the Cost Benefit and Public Finance Report, May 2025).⁷ This includes:
- £27.6bn in lost productivity
 - £1.8bn in healthcare costs
 - £1.1bn in social care costs
 - £7.8 bn additional cost of informal social care
 - £5 bn additional cost of unmet need for social care
 - £0.3 bn cost of smoking-related fires
23. When the economic burden of smoking is grossed up to UK level, it amounts to £51.8 bn. We have not included the value of early deaths attributable to smoking in quality adjusted life years (£41.1 bn) as these are not tangible costs. We include them only for comparative purposes as other economic analyses of the cost of modifiable risk factors to the economy have included these costs.

Taxes on tobacco

Recommendation

Tobacco tax escalator: maintain for the whole of this parliament and increase from 2% to 5% above RPI.

24. We welcomed the commitment in the Autumn 2024 Budget to maintain the tobacco tax escalator above the rate of inflation for the duration of this parliament. Reducing the affordability of tobacco through tobacco taxation is an effective lever to motivate smokers to quit and discourage youth uptake, as well as generating significant tax revenues. That is why an annual tobacco tax escalator of at least RPI + 2% has been in place since 2010.^{15 16}
25. Tobacco manufacturers have always argued that increasing tobacco taxes drives illicit trade, but this is not justified by the evidence, particularly in the UK. A comprehensive anti-smuggling strategy, strongly enforced at the borders and at local and regional level, backed up by the implementation of tracking and tracing of tobacco products, has been highly effective in driving down the illicit trade.¹⁷ In 2000, when the anti-smuggling strategy was first launched, 15 billion illegal cigarettes were smoked in the UK, amounting to 20% of all cigarettes smoked. By 2023/24 it had fallen to an estimated 2 billion, amounting to only 10% of cigarettes smoked,¹⁸ with less than 10% of smokers reporting recently purchasing illicit between 2019 and 2022.¹⁹ That is not to say that

there isn't further action that could be taken to suppress the illicit market (see our recommendations below).

26. However, the UK tax system, which has historically applied amongst the highest tax rates in the world, currently lags behind comparable countries like New Zealand. New Zealand (NZ) applied a tax escalator of RPI+10% between 2010 and 2020 as well as equalising taxes for factory made and hand-rolling tobacco.²⁰ Since 2020, tax rates have been updated annually in line with inflation. In January 2024 the UK and New Zealand had similar purchasing power, as measured by the Big Mac index,²¹ yet a pack of Marlboro reds in New Zealand cost around \$34.50,²² equivalent to £17.25²³ at the then rate of exchange, 13% more than in the UK where they could be bought for £14.99.²⁴
27. Apart from tobacco taxation, in recent years NZ has had very similar tobacco control policies to the UK, but smoking rates have declined more rapidly than they have here. In New Zealand adult current smoking rates (15+) have declined by more than a half (55%) from 18.4% in 2011/12 to 8.4% in 2023/24.²⁵ In Great Britain over the same time period smoking rates (16+) have declined from 19.8% in 2011 to 11.2% in 2022.²⁶ Therefore we recommend that the tobacco tax escalator be increased for this parliament to a minimum of 5% above RPI at each annual Budget.

Recommendation

Increase the rate of Minimum Excise Tax to at least in line with the tax escalator

28. The minimum excise tax is designed to prevent tobacco companies from selling cigarettes at very low prices.²⁷ Without such a tax floor, manufacturers can offset higher duties on premium brands by keeping budget brands extremely cheap, which undermines the effectiveness of tax policy. By setting a minimum tax, the UK ensures that all cigarette packs are subject to a more consistent tax burden, making it harder for manufacturers to offer cheap brands and hence reducing the gap between the cheapest and most expensive products. This helps make smoking less affordable overall, especially for young people and price-sensitive consumers, who are more likely to be influenced by cheap tobacco.
29. Before the MET was introduced, the tobacco industry used price segmentation to maintain market share—keeping premium brands expensive but offering ultra-cheap products that undermined tax rises. The MET has helped to close this loophole to some extent.²⁸ However, there remain a significant spread of prices in the market and companies have shown willingness to 'under-shift' products below the price level where the MET applies in order to maintain market share and affordability for consumers.

Recommendation

Enhance the handrolled tobacco (HRT) tax escalator by 10% above the escalator for other tobacco products until tax per average HRT cigarette is equivalent to that of factory made (FM) cigarettes.

30. The most significant gap in the current taxation model is the difference in levels of tax between handrolled and factory-made cigarettes. Recent additional HRT tax uplifts began in 2023. There are early signs that the approach is working, with STS data showing that the proportion of cigarette smokers using hand-rolled steadily increased from 32.1% (28.9% to 35.4%) to a high of 57.5% (55.7% to 59.4%) in 2022 but has plateaued, or possibly declined to 54.5% (52.6% to 56.4%) in 2024.²⁹

31. The increase in the tax on handrolled tobacco at a higher rate than factory-made tobacco in the Autumn 2024 budget was welcome. This approach should be maintained for the duration of this parliament with a commitment to an additional HRT escalator. An enhanced escalator of 10% above the escalator for other tobacco products is needed because there is still a major disparity in excise tax rates between factory made (FM) and HRT tobacco, especially when measured per typical cigarette, which encourages smokers to trade down to cheaper products instead of quitting. Using the average weight of a hand-rolled cigarette, which is 0.51g,³⁰ the current tax rate on HRT is equivalent to around 24 pence per cigarette, while that on FM is 45 pence per cigarette.
32. In 1998 fewer than one in five smokers mainly used HRT; by 2017 it was four in ten. The trend in smokers switching to HRT is not the only concerning trend. The number of cigarettes which smokers consume has fallen by 47% for factory made products between 2008 and 2019 (from 9.5 cigarettes to 5 cigarettes a day) while over the same period the number of HRT cigarettes smoked a day has grown by 35% (from 4.2 to 5.6).³¹ The smokers most likely to switch to HRT are younger, low income smokers.³²
33. This switch to HRT has reduced the amount of excise tax the Government collects, while also reducing the cost incentive for quitting and doing nothing to improve smokers' health. Larger than average tax increases for HRT in recent years have helped, but there is still a long way to go. We estimate that if a HRT tax escalator of 10% above the FM rate is maintained, it will take until 2032 for the rate of tax per stick for HRT and FM to be the same. Furthermore, equalisation of the tax rates on FM and HRT per cigarettes would significantly facilitate the administration and collection of any 'Polluter pays' levy scheme.

Recommendation

Eliminate duty-free allowances for tobacco, or as a first step, reduce the HRT allowance from 250g to 100g to be consistent with the allowance for FM cigarettes.

34. While the UK has reduced the affordability of factory-made cigarettes significantly over the last decade, there are still gaps in the current approach to taxation that mean this tax rises have had less impact on smoking rates than they might otherwise have had. One such loophole is the level of duty-free allowances.
35. Following our exit from the EU the amount of tobacco travellers from the EU to the UK could bring back for personal use has fallen from 800 cigarettes and 1 kg of HRT per trip to 100 cigarettes or 250 grams of smoking tobacco.³³ Despite the change in rules, analysis from UCL³⁴ suggests that the proportion of smokers who are buying tobacco overseas has increased. From 8% in October 2020 to 32.8% in 2024 [unpublished UCL data]. Smokers from more advantaged backgrounds are most likely to buy tobacco in this way and therefore legally avoid paying the levels of domestic duty.
36. Prohibiting the importation of duty-paid tobacco for personal use from EU Member States was a positive step. However, importation of duty-free tobacco is still allowed³⁵ (200 cigarettes, or 100 cigarillos, or 50 cigars, or 250g of tobacco (including shisha tobacco) or 200 sticks of tobacco for heating. Despite a fall in cross-border tobacco purchasing during the first year of the pandemic reported by smokers in England, the proportion reporting cross-border tobacco purchases is now three times higher³⁴ than it was at the start of 2019. In line with the Government's smokefree ambition, HMT should go further and remove all duty-free allowances for tobacco products, which when the UK left the EU were extended to cover travel to GB from EU countries. Countries like Singapore

have already eliminated duty-free allowances, and several countries, such as Taiwan, effectively did so because of travel bans during the COVID pandemic.³⁶

37. Access to cheap tobacco, whether illicit or cross-border shopped, encourages smokers to continue to smoke, undermining the tax induced higher price of tobacco as an incentive to quit. Allowing duty free from any country costs government tax revenues and is not in alignment with the Government's policy objective of *"maintaining high tobacco duty rates as an established tool to reduce smoking prevalence and to ensure that tobacco duties continue to contribute to government revenues."*³⁷
38. However, if the Government decides not to remove duty-free allowances, it is still important, as with excise taxes, to ensure treatment of HRT is consistent with that of FM cigarettes. Currently smokers are allowed 200 cigarettes but 250g of HRT, which is the equivalent of approximately 500 cigarettes,³⁰ and therefore at a minimum the allowance for HRT should be reduced to 100g.

Recommendation

Tax cigarillos at the same rate as cigarettes and eliminate the significant differential in taxation with FM cigarettes.

39. Due to definitions imposed through the EU cigarillos have long been classified differently from cigarettes. This has allowed them to avoid regulations such as standardised packaging and pack sizes, and prohibition of characterising flavours³⁸ and also to attract lower rates of tax. These gaps in regulation and lower tax rates have seen cigarillos on the market that are near indistinguishable from cigarettes but are taxed around 27% less.
40. These products are also being used to bypass public health legislation prohibiting the sale of mentholated cigarettes from May 2020, both Japan Tobacco International (JTI) and Imperial Brands launched mint-flavoured cigarillos, aimed at cigarette smokers, in packs of 10 in the UK (the minimum pack size for cigarettes is 20).³⁹ Approximately a million adults reported still smoking menthol cigarettes in Great Britain in the first quarter of 2023 despite the prohibition in 2020⁴⁰ and the availability of menthol cigarillos may be playing an important role. 'Cigarillos' closely resemble cigarettes: the outer leaf wrapping, required for a cigarillo classification, covers a cigarette-like paper tube that contains the cigarette tobacco and appears to provide the main structure.³⁸ While not prohibited by the cigar/cigarillo definition, this does highlight their cigarette-like nature.³⁸
41. Minimum pack sizes of 20 cigarettes were made mandatory to discourage youth initiation by increasing the price at point of purchase.⁴¹ However, cigarillos are not subject to minimum pack sizes and a pack of 10 Sterling cigarillos, very similar to cigarettes, can be bought for £7.15,⁴² compared to the equivalent Sterling pack of 20 cigarettes of £15.00. The low pack purchase price enhances their youth appeal, as children and young people are more price sensitive.⁴³
42. Consumption of non-cigarette combustible tobacco prevalence has increased significantly in recent years. It is estimated that around 315,000 people aged 16+ smoked using cigarillos⁴⁴, a significant increase in use and reflecting a wider trend of non-cigarette tobacco use growing. As of September 2023, there were around 772,800 adult non-cigarette tobacco smokers in England; around five times more than a decade earlier. The rise in prevalence differed by age, with a more pronounced rise leading to higher prevalence among younger than older ages.¹³ In 2024 33% of 11-18 year olds who

had tried smoking had tried using cigarillos, and 43% of those who were regular smokers.⁴⁵

43. The classification of cigarillos as cigars and regulating them as such⁴⁶ derives from the EU Directives,⁴⁷ and it is likely that the passage of the Tobacco and Vapes Bill will see existing cigarette regulations more rigorously applied to this category. It is also worth noting that the proposed EU Tobacco Tax Directive revision will create a new category for cigarillos and significantly increase the minimum tax on them.⁴⁸
44. Using the JTI brand Sterling we have estimated the likely tax on a pack of 20⁴⁹ (see Table 2). The cigarillo version is sold for 80p less than the pack of 20 cigarettes, however, it seems likely that it is much more profitable for JTI. It appears that JTI make an additional £2.16 a pack in non-duty revenue when customers buy cigarillo version of their Sterling brand not because they sell them much more cheaply but because they attract less tax. Assuming manufacturing costs are similar, the majority of this additional revenue would almost certainly be profit, which suggests the lower rate of duty is effectively acting as a subsidy for cigarillo products.

Table 2: Comparison in tax and revenue for cigarettes and cigarillos*

	Duty per pack of 20	Non-duty revenue	Price for pack of 20
Sterling Dual Capsule cigarillos	£6.21	£7.99	£14.20
Sterling Dual cigarettes	£9.17	£5.83	£15.00

Recommendation

Raise taxes on all tobacco products: tobacco products other than cigarettes and hand rolled tobacco all have lower rates of excise tax that could be increased to reduce harms.

45. As noted above, levels of use on non-cigarette tobacco have grown as regulations have tightened on cigarettes and handrolled tobacco, and taxes have increased. The level of non-cigarette tobacco use has grown at a time when it is falling in other similar countries. Analysis under review from Brighton and Sussex Medical School and UCL using data from the International Tobacco Control Youth Survey found that between 2017 and 2024 use of non-cigarette tobacco saw a 56% increase among 16-19 year olds in England while over the same period use fell in Canada (by 14%) and the USA (by 30%). This has meant England went from having the lowest level of use among these three countries in 2017 (7.4% England, 9.2% Canada, 10.2% USA) to having the highest (11.6% England, 7.9% Canada, 7.2% USA).
46. This increase varies across product types. Use of cigarillos has doubled, cigar use has more than doubled, and use of smokeless tobacco has quadrupled among this age group over the last 7 years.
47. ASH surveys have found that use of heated tobacco products, while still uncommon, has grown and 1% of adults now report using heated tobacco products. Awareness of them has grown in all groups but notability in under 18s and among 18-24 year olds.
48. The generational ban on the sale of tobacco will cover all tobacco products to avoid loopholes and prevent people from using products with known harms. The introduction of

* Prices taken from www.Tesco.com 18/09/25

a vape liquid tax has come with a promise that taxes on 'tobacco' will increase at the same rate; however, the example provided in government documents so far has been the level at which taxes will increase on cigarettes and HRT. Clarification that this increase will be across all tobacco products would be welcome. Additionally, and in light of the evidence of growing use and the changing regulatory environment, it is time for the tax across these products to be reviewed and increased.

49. The Government could adopt a similar approach to Germany where policy-makers have acknowledged that heated tobacco is likely to be less harmful than combusted tobacco, while still posing health risks, and have levied a tax at 80% of the tax on cigarettes. A similar approach could be taken in the UK keeping a price difference with vapes and other non-tobacco nicotine products likely to be less harmful than heated tobacco. We would also like to see the taxation of heated tobacco products move to a system of taxation per 1000 sticks rather than based on weight.

Fiscal opportunity from a levy on tobacco companies

Recommendation

Implement a 'Polluter pays' levy scheme on tobacco manufacturers to control industry pricing tactics and excess profitability

50. Tobacco companies can make excessive profits because of their monopoly-like pricing power. Imperial Brands and Japan Tobacco International (JTI) together control 81% of the UK market for factory made cigarettes and together with Philip Morris International (PMI) and British American Tobacco (BAT) account for about 95% of the market.⁵⁰ These four companies are the largest of the tobacco transnationals known globally as 'Big Tobacco'.
51. In other UK markets where monopoly-like pricing power could be an issue, we tend to regulate the prices the relevant companies can charge, for example for water, gas, electricity. These are life enhancing products, yet we think it appropriate to limit their profits by regulating prices; why not also do so for tobacco, which is life destroying?
52. This should be carried out in two stages.
 - **Step 1** A corporation tax surcharge, as applied to banks, could be implemented immediately through the Finance Bill. It has been estimated that a corporation tax surcharge on profits could raise £74 million from tobacco transnationals.⁴³
 - **Step 2** Implement legislation to cap industry prices and hence profits, while maintaining the retail price through additional taxation, which has been estimated could raise up to £4.9bn over a five-year period.⁵¹
53. The government imposes a corporation tax surcharge on energy companies and banks to address their excess profitability. However, tobacco companies make proportionally far greater excess profits selling cigarettes which, unlike energy and banking, have only detrimental impacts on society. For example, Imperial Brands made a net operating profit margin of 66.5% in the UK in 2023,⁵² while BP's net operating profit in September 2023 was estimated to be 11.1%.⁵³ The average for UK manufacturing is under 10%.⁵⁴
54. Step 1 should be the imposition in the forthcoming Budget of a corporation tax surcharge on the profits of the Big Four tobacco transnationals. This could be implemented immediately through the Finance Act, but would be a temporary measure which would only be needed until the following recommendation for a 'polluter pays' levy scheme

comes into effect. As a temporary measure it would be unlikely the industry would try to restructure their operations to avoid it, given the time and costs involved to do so.

55. However, a corporation tax surcharge would not sufficiently address the industry's excess profitability. Detailed analysis has revealed that between 2009 and 2016 Imperial Brands, the British company which is the market leader in the UK, received £35 million more in corporation tax refunds/credits than it paid in tax.⁵⁵

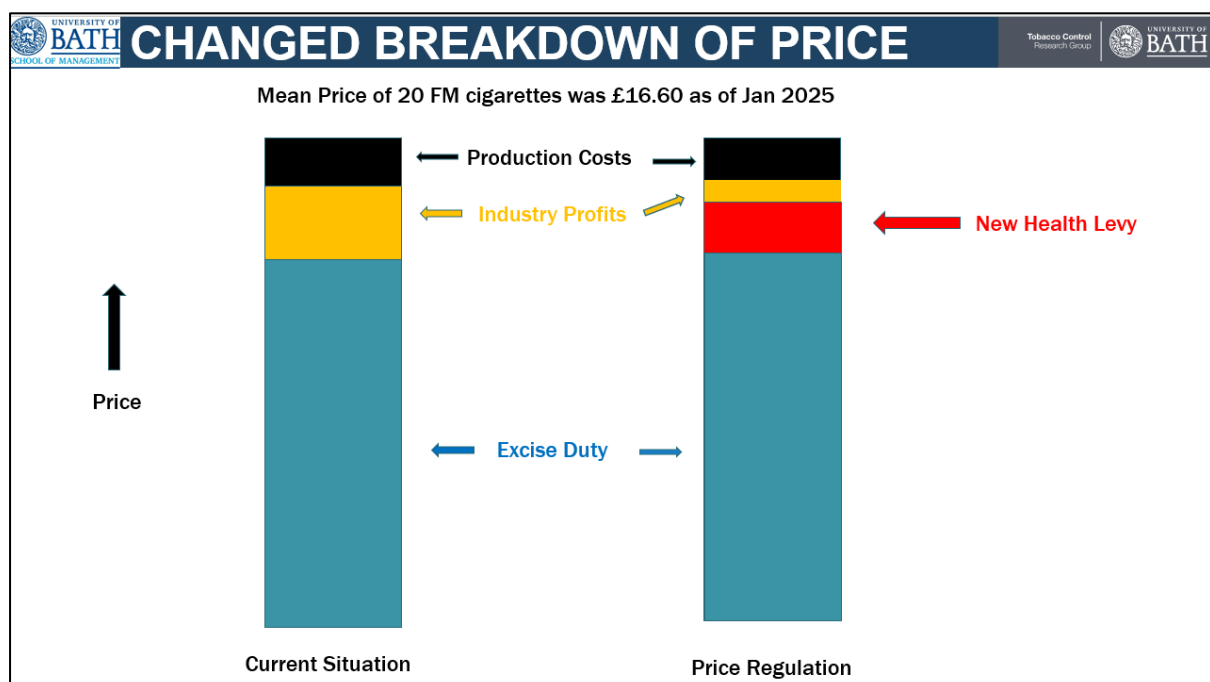
56. To address this for the longer-term we propose a 'polluter pays' levy scheme to cap producer prices and hence profits. Prior to leaving the EU such a scheme was prohibited by EU legislation, which meant that a levy could only be imposed as a form of excise tax which could be passed on to consumers. That is why after consulting on a levy on tobacco manufacturers in 2014^{56 57} HM Treasury decided not to proceed,⁵⁸ having concluded that manufacturers and importers would fully pass the levy on to consumers by raising retail prices.

57. We are no longer subject to EU legislation, and the polluter pays model we propose can now be implemented. The primary legislation necessary was tabled as amendments to the Health and Social Care Bill.

58. The straightforward 'polluter pays' model scheme, explained in the ASH policy paper 'Establishing a Smokefree Fund'⁵⁹ overcomes these problems by:

- Setting prices, thereby preventing the industry from passing the levy on to consumers (EU exit dividend – previously prevented by the EU Tobacco Tax Directive)
- Ensuring consumer prices don't fall, which could stimulate increased smoking - the difference between current wholesale prices and capped prices would be taken as a health promotion levy.

59. Modelling carried out by the University of Sheffield and the University of Bath suggested that up to £4.9bn could be raised over a five-year period.⁶⁰ The levy could apply throughout the UK and therefore the appropriate proportion should be allocated to the devolved nations. The diagram below demonstrates how this would work, with each bar representing the wholesale price.



60. A new health levy imposed by HMT would ensure that retail prices did not drop after wholesale prices were capped, with the difference accruing to government revenues.
61. Furthermore, it would provide a greater stimulus to tobacco manufacturers to move out of selling tobacco; the excess profit currently made from selling combustible tobacco products is a major incentive to continue to actively sell and promote these products.
62. A scheme for tobacco could limit the wholesale price that manufacturers can charge, thereby limiting profits, while also preventing price being used as a marketing tool, which unfortunately tax policy, despite the introduction of a minimum excise tax (MET), has been unable to do. A new health levy would be needed to make sure retail prices did not drop.
63. DHSC has the expertise to monitor company profits to set the price and close loopholes. There is a team in place which already does this for medicines, with many more manufacturers and a large and diverse product range. The tobacco market is much simpler, with two main commodity products - factory made cigarettes and handrolled tobacco - and four manufacturers responsible for 95% of the market. One Full Time Equivalent is all that would be needed to carry out the work required to monitor the tobacco market.
64. This scheme would be in line with Forward Looking Measures set out by the Expert Working Group on Article 2.1 of the FCTC to which the UK is a party. The report is likely to be adopted at the COP of the FCTC in November.⁶¹

Taxes on vapes, nicotine pouches, and other nicotine products

Recommendation

Publish a vape strategy jointly with DHSC and other relevant parts of government setting out a clear approach to vaping products and the vape market.

65. ASH supports the stated objective of the vaping products duty which is to make vaping less accessible to children, and to raise money for the NHS and smoking initiatives.⁶² It is crucial that this objective is fulfilled and sustained, as we note this has not been the case for the Sugary Drinks Industry Levy.⁶³
66. We also welcome the changes to the tiered tax structure, which HMT and HMRC have made following consultation, with a flat rate to now be applied. This is important for both the ease of implementation and removing the incentive for people to use nicotine strengths which are insufficiently high to address their dependency.
67. It is still unclear what impact on price the new excise taxes will have and what further impact that will have on youth uptake and use of vapes as a quitting aid. Manufacturers were able to redesign products following the introduction of the disposable vapes ban very rapidly and brought products to market that met new regulatory standards and were sold at the same price-point. This suggests that there are significant margins on existing products and the market is able to be very responsive to regulatory change.
68. UCL analysis has found that adult consumers have shifted their behaviour and are reusing products to some extent, with the average spend on vapes falling following the announcement of the ban. It appears likely that the effect of regulation has been to lower the cost of vaping where people reuse products. For example, expenditure in those who

vaped and were aged 16 increased by 143.5% from January 2021 to June 2023, as the use of disposables increased rapidly, followed by a 30.9% decline by April 2025.⁶⁴

69. It is uncertain what impact future regulatory changes might have on the price of products and HMRC and HMT will need keep this under review to assess whether the intended goal of the tax is being achieved. Given the level of uncertainty around the impact of planned regulations and tax changes on the vaping market a cross-government plan which sets out the government's goals for the vaping market would aid policy making and assessment of the impact and success of the vape excise tax.

Recommendation

Model impact of excise tax on vape devices: there is scope to additionally tax vape devices as well as liquid. This should be modelled to ensure no adverse impact on public health. Heated tobacco devices should also be considered.

70. There is scope for government to consider an additional tax that could support the goal of reducing appeal to youth and encouraging people to reuse products. A tax on devices, in addition to the vape liquid tax, should be modelled. This could increase the price of an initial purchase without making too much difference to the cost of ongoing use. This could serve to create a greater barrier to purchases among children and incentivise reuse of products for those who are still treating them as disposable. It may also help to ensure that non-compliant products do not enter the UK market at a time when government is intending to more strongly regulate the design of products. While products that contain vape liquid will be subject to the Excise Movement and Control Scheme products that do not will be outside this scheme. This creates a risk that non-compliant products can be more easily bought into the country.
71. Heated tobacco devices could also be subject to taxation, as switching from smoking to these products offers fewer public health benefits than switching to vaping. As a result, there are fewer unintended consequences to consider.

Recommendation

Review tax rate on nicotine pouches: With product regulations increasing on nicotine pouches and plans to ban or tax nicotine pouches in EU countries, it is timely to review the taxation of this product category. We suggest it is appropriate to apply a level of duty commensurate with that to be applied to vape liquid

72. Nicotine pouches have grown in popularity in the UK⁶⁵ following significant marketing and few restrictions on their promotion, sale or contents. Under the Tobacco and Vapes Bill this category will be more tightly regulated. In the first instance this will mean an age of sale and restrictions on advertising but could also include requirements on the products such as limits on nicotine strength and child proof packaging.
73. The EU is also looking to tax these products under the draft reform of the Tobacco Tax Directive and our near neighbours in France have recently passed a complete ban. As this becomes a more regulated market there could be opportunities for illicit products, and an excise tax will allow the products to be bought into the Excise Movement and Control System alongside vape liquids creating more protection for the legal market.
74. Additionally, while nicotine pouches are very likely to be substantially less harmful than smoking, and may be less harmful than vaping, they contain an addictive substance, and it is not desirable for those who are not already addicted to nicotine to start using this

product. These are currently cheap products to buy with a pack of 20 pouches typically retailing around £6.50. However, the cost of production is also low. We found a polish manufacturer who was selling in bulk for less than a Euro per tub of 20.⁶⁶ An excise tax will give the government some control over the retail price of pouches and ensure they are not sold at pocket money prices.

75. The Chancellor should apply a level of taxation for pouches which is in line with the vape liquid tax to maintain a price difference between these products and more harmful tobacco products. Further research may be needed to ascertain equivalence based on an understanding of how products are used.

Supply chain controls to protect tax revenues

Recommendation

Better communicate the UK's track record on illicit tobacco

76. The UK has one of the most comprehensive approaches to illicit tobacco in the world. We should rightly be proud of the extent to which illicit volumes have fallen during a period of high prices and growing regulation – both of which tobacco companies frequently claim will fuel the illicit trade.
77. Efforts by tobacco companies to exaggerate the size of the illicit market or claim the UK approach isn't working undermines UK tobacco control. The decline in volume of the illicit market has been supported by falls in smoking rates and levels of consumption. The surest way to reduce the illicit market is to reduce smoking and hence eliminate demand.
78. HMRC must do more to communicate accurate understanding of the illegal market for tobacco and develop good data on illicit market for vapes as they become excisable. Currently data is buried in the tax gap publications and is not communicated in ways the general public or journalists can easily understand. Searches using AI tools and more conventional search engines consistently pull up tobacco industry funded reports and research with official data buried.
79. The media does not always use official data on the illicit tobacco market and therefore tobacco industry claims are not always contradicted, leading to insufficient awareness of the extensive programme of work to address illicit products domestically and internationally.
80. We strongly urge HMRC to take action to make official data more easily available and digestible to aid public understanding and reduce the industry's ability to undermine UK regulations and taxation approaches.

Recommendation

Fund activity to reduce the demand for illicit tobacco products

81. While the level of illicit tobacco has remained stable there is further action needed to compliment the UK's world leading strategy, particularly in relation to reducing the demand for illicit tobacco and reducing the number of people willing and able to purchase illicit tobacco.
82. There is a good evidence from the North of England showing that media campaigns, such as [Keep It Out](#) which communicate the criminality associated with illicit tobacco can

increase people's discomfort in purchasing illicit products reducing the likelihood that they will purchase. Such campaigns also stimulate intelligence that helps to disrupt the trade at local level. There is scope to scale up these approaches in collaboration with regional organisations and local government. Currently around 2 in 10 smokers sometimes purchase illicit tobacco and around 10% of tobacco smoked is illegal.⁶⁷ Bringing these proportions down by even a small percentage can make a big impact on the profitability of selling illegal tobacco.

83. As the number of smokers falls there will be fewer customers for illicit products. Given the volume of illicit products has remained fairly stable this is likely to be keeping the price of illegal products low with greater supply chasing falling demand. There are risks that this will further undermine tax as a price lever, making it much cheaper to smoke for those prepared to buy illicit products. It may also increase the risk of criminality associated with the illicit tobacco trade with increased competition among the criminals importing and selling illegal products. Unlike legitimate retailers in a market with falling demand the criminals involved in the illegal trade are likely to be more prepared to use criminal means to attack their competition.
84. There is evidence of this in Australia where falling demand has been linked to higher levels of crime and disorder around the illegal trade. Enforcement agencies including the police must be aware of the risks in the UK context and factor this into their strategies to address the illegal trade. Increasing levels of criminal behaviour, particularly involving violence, may require police to provide more support to trading standards.

Recommendation

Revise Economic Operator ID (EOID) regulations to require publication of tobacco retailer EOIDs

85. The Government is intending to bring in a retail licensing scheme as part of the Tobacco and Vapes Bill. This will be developed through further consultation and regulations and may take some time to develop and implement. In the meantime, to support enforcement and the development of the scheme Government should update the regulation on Economic Operator ID (EOID) to allow a national list to be created.
86. All tobacco retailers must have an EOID before they can purchase tobacco. This list is the only comprehensive list of tobacco retailers in the UK, and would be invaluable for communicating with retailers about the forthcoming changes in age of sale and any other regulatory changes affecting retailers. The information would also be a useful enforcement tool for local authorities. However, as currently written the regulations do not allow publication of this information, even though it is not commercially sensitive.
87. Only a minor change to the regulations⁶⁸ would be needed to allow publication of the names and addresses of all tobacco retailers in searchable format. This would be an invaluable regulatory tool for public health and enforcement purposes. The sooner it comes into force the better, as this is very useful information for local authorities to have publicly available, but certainly well in advance of the planned annual increase in the age of sale from 1 January 2027.

Recommendation

Maintain current levels of funding for local and national illicit tobacco enforcement activity until at least 2029, in line with the UK illicit tobacco strategy.

88. The UK illicit tobacco strategy runs from 2024-2029 and is funded by £100 million over five years. This has been supplemented by an additional £10 million for illicit tobacco and vapes enforcement led by Trading Standards. This funding is vital for delivering continued declines in illicit sales and should be maintained until at least 2029, with future funding linked to a renewed illicit tobacco strategy in 2029.

Recommendation

Provide additional funding to local enforcement for implementation of the Tobacco and Vapes Bill

89. The new legislation will place new requirements on local government, particularly in relation to new products such as nicotine pouches, ensuring high compliance with new product standards and implementing licensing scheme. These burdens must be assessed and sufficient funding made available.
90. Resources to address the illicit market and enforce new products standards will be required across all UK nations. A joined-up approach to enforcement will reduce the risk of displacing illegal activity in one jurisdiction for it to move to another. We urge the government to take a strong four nations approach to implementation.

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