ASH Budget representation to Spring Budget 2024

Closing date: 24th January 2024
Budget: Wednesday 6th March 2024

Introduction

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. The authors are Deborah Arnott, Chief Executive, ASH; Howard Reed, Landman Economics, consultant to ASH; Dr J Robert Branston, Business Economist, University of Bath; Prof Jamie Brown, Director of the Tobacco and Alcohol Research Group, UCL; and Dr Tessa Langley health economist at the University of Nottingham. None of the authors have any direct or indirect links to, or receive funding from, the tobacco industry, except for nominal shareholdings in Imperial Brands and BAT for research purposes held by Deborah Arnott and Dr Branston.

3. The calculations in this submission are based on newly published figures for 2023 from the UCL Smoking Toolkit Study, which finds smoking prevalence among people aged 16+ of 14.6% for England and 14.5% for Great Britain.[1] That amounts to 6.7 million smokers aged 16+ in England in 2023, and 7.7 million in Great Britain.[2]

4. The cost of smoking to public finances in England at current rates of smoking is £15.7 billion, once excise tax revenues and reduced pensions due to premature death are netted out. (Full technical report available from ASH. See Appendix 1 for a detailed breakdown of the cost of smoking to public finances and 2 for detailed breakdowns of cost of smoking to public finances and Appendix 2 for the costs to the wider economy, for England and the UK).

Summary of impact of our recommendations

5. Our recommendations of the necessary policy interventions are set out in the APPG on Smoking and Health tobacco control manifesto, with the addition of the tobacco tax proposals set out below.

6. If these recommendations were fully implemented and sustained, modelling by Landman Economics and UCL estimate that **the additional reduction in number of smokers from these policies would be 118,000 in year one, and a total of 937,500 by 2030, amounting to a 39% reduction in prevalence.**

7. **The interventions recommended by the APPG recommendations would cost £230 mn a year while tax increases would be revenue generating. Taken together they could public finance costs by £140 mn in year one. Between 2024-30, the cumulative impact would be reductions in public finance costs of £5.9 bn, more than three times the £1.6 bn cost of the interventions.**

8. This would be associated with considerable improvements in productivity as non-smokers have significantly higher employment probability, amounting to an **additional 6,000 workers in year one and 52,000 by 2030.**

9. Furthermore when people stop smoking they switch to purchasing other goods and services, which generate more jobs than tobacco, which could deliver an additional **12,500 jobs in year one and 106,000 by the end of the next parliament.** This also helps the balance of payments as tobacco products are entirely imported, which is not the case for many other goods and services.

10. See Appendix 3 for more detail. The full technical report and methodology are available from ASH.

Summary of policy recommendations for the upcoming fiscal event

Smoked Tobacco

A. Increase tobacco taxation to raise revenues and reduce smoking prevalence
B. Implement a 'Polluter pays' levy on tobacco manufacturers to control industry pricing tactics and excess profitability
C. Fully implement and enhance DHSC and NHSE tobacco control commitments

Alternative products to smoked tobacco

D. Implement measures to curb youth vaping and help address the negative environmental impact of vapes, in particular so-called 'disposable' vapes
E. Review tax policy for Heated Tobacco Products and nicotine pouches

A. Increase tobacco taxation to raise revenues and reduce smoking prevalence

11. Tax increases are a highly effective tool in reducing smoking uptake and increasing cessation to the benefit of public finances, health, wellbeing and the wider economy. [3] [4] [5] However, tobacco manufacturers have proved to be expert at gaming the tax structure and continue to do so.[6] [7]

12. To make it easier to tackle the persistent problem of the tobacco industry keeping easily affordable tobacco products on the market for profit, tobacco taxation structures need to be reformed. This reform should be structured to raise the prices of inexpensive tobacco products, constrain tobacco industry profits, and could thereby generate additional tax revenue for the government.

13. A set of specific recommendations to improve the effectiveness of tobacco taxation are set out below.

Recommendation A1: Implement the tobacco tax escalator of 2% above RPI for both annual fiscal events as in 2023 and sustain this for the next parliament (annual impact RPI+4.04%).
Recommendation A2: Increase the hand rolling tobacco (HRT) tax escalator by 10 percentage points above RPI at both annual fiscal events until tax per average HRT cigarette is equivalent to that of factory made (annual impact RPI+21%).

Recommendation A3: Reclassify cigarillos as factory made cigarettes and regulate accordingly under excise tax and other regulations pertaining to FM cigarettes.
Recommendation A4: Increase Minimum Excise Tax (MET) for factory made (FM) cigarettes by 4% above RPI at both annual fiscal events and sustain this for the next parliament.
Recommendation A5: Eliminate duty-free allowances for tobacco, or at a minimum reduce the HRT allowance from 250g to 100g to be consistent with the allowance for FM cigarettes.
Recommendation A6: Update HMRC tobacco elasticity estimates which have not been revised since 2015 and do not take into account cross price elasticities between factory made and handrolled tobacco.[8]

Recommendation A1: Implement the tobacco tax escalator of 2% above RPI for both annual fiscal events as in 2023 and sustain this for the next parliament.

14. The Government recognises 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.[9] [10] That is why a tobacco tax escalator is in place for this parliament.[11]

15. 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 roll your own tobacco.[12] Since 2020 tax rates have been updated annually in line with inflation. The UK and New Zealand have similar purchasing power[13] yet a pack of Marlboro reds in New Zealand currently costs around $34.50,[14] equivalent to £16.98 at current rates of exchange, 13% more than in the UK where they can currently be bought for £14.99.[15]

16. Apart from tobacco taxation in recent years NZ has 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 8.3% in 2022/23.[16] The most recent smoking rates are provided by UCL's Smoking Toolkit Study which found that in 2023 smoking rates for those aged 16+ in Great Britain were 14.5%

Recommendation A2: Increase the hand rolling tobacco (HRT) tax escalator by 10 percentage points above RPI at both annual fiscal events until tax per average HRT cigarette is equivalent to that of factory made.

17. HMT recognises that tax paid on HRT has not kept pace with that paid on factory made cigarettes and has implemented an additional tax uplift on HRT in recent fiscal events, including an additional 10% in the Autumn Statement.[17] However, there is still a major disparity in excise tax rates (and hence prices) between factory made (FM) and HRT tobacco, which has encouraged smokers to trade down as an alternative to quitting smoking.

18. Between 2008 and 2023 the proportion of smokers mainly/exclusively smoking hand-rolled cigarettes increased from under a third (30.6%) to more than half (52.1%).[18] The current tax on HRT is £412.32 per kg, and the Minimum Excise Tax on FM cigarettes is £420.80 per 1,000 cigarettes.[19] Using the average weight of a hand-rolled cigarette, which is 0.5g,[20] the current tax on HRT is equivalent to around 21 pence per cigarette, half the Minimum Excise Tax on an FM cigarette of 42 pence per cigarette.[21]

19. We recommend that HMT close the gap between the taxation on factory made and HRT as typically used, by increasing the escalator for tobacco by an additional 10% at every Budget and Autumn Statement until the tax levels are equivalent. Equivalence should be assessed using the average weight of tobacco per HRT cigarette, which has been calculated at 0.5g for the UK.[22]

Recommendation A3: Reclassify cigarillos as factory made cigarettes and regulate accordingly under excise tax and other regulations pertaining to FM cigarettes.

20. Now that GB has left the EU we are able to classify cigarillos as factory made cigarettes, which will prevent tobacco manufacturers using these products to undermine tobacco policy. Although they look like cigarettes, they are taxed at a much lower rate and are not subject to regulations such as requiring standardised packaging and pack sizes, and prohibition of characterising flavours.[23]

21. To bypass 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).[24] Approximately a million adults reported still smoking menthol cigarettes in Great Britain in the first quarter of 2023 despite the prohibition in 2020[25] 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 tobacco and appears to provide the main structure. This is not prohibited by the cigar/cigarillo definition but does highlight their cigarette-like nature.

22. Consumption of non-cigarette combustible tobacco prevalence increased at the start of the Covid-19 pandemic and subsequently continued increasing steadily until May-2022. 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.[26]

23. Cigarillos are taxed at the same rate as cigars by weight, which results in significantly lower tax per stick than that for factory made cigarettes.[27] The resulting low pack purchase price enhances its consumer appeal, especially for socioeconomically disadvantaged smokers, who are more price sensitive.[28] The classification of cigarillos as cigars and regulating them as such[29] derive from the EU Directives,[30] and now that the UK has left the EU, the classification should be revised so they are taxed and regulated as stringently as factory-made cigarettes.

Recommendation A4: Increase Minimum Excise Tax (MET) for FM cigarettes by 2% above RPI at both annual fiscal events (Spring Budget and Autumn statement) and sustain this for the next parliament.

24. After evidence was provided to HMT by academics at the University of Bath that the industry was undermining the effectiveness of tax policy through price differentiation in 2017 a minimum excise tax (MET) was introduced for factory made (FM) cigarettes, indexed to the escalator.[31] If manufacturers sell at a price below the point where the MET applies they are penalised as they have to pay that higher rate of tax incurred. Although evidence indicates the MET has contributed to higher prices,[32] its impact has been undermined by the pricing behaviour of the tobacco manufacturers.

25. Tobacco manufacturers continue to provide cheap variants significantly below the point at which the MET applies, thereby being willing to incur the penalty of the additional tax, proof of their profitability. The tax increases in the Autumn Statement, set a floor price above which manufacturers have to pay additional tax of £12.86. Yet numerous brands had cheaper variants below £12.86 online in January 2024. For example on 1st January 2024 ASDA online were selling Chesterfield Red Super King(PMI), Lucky Strike Red King Size (BAT), Players Max (Imperial Brands) and Richmond Compact (Imperial Brands) all on sale for £10.50, 18% below the £12.86 floor price requiring the manufacturer to make up the difference of £2.50 per pack sold. Numerous other brand variants were available for under £12.86.

26. HMT has recognised that the MET will need to increase in order to further close the gap in price between the cheapest and most expensive products and has previously increased the MET above the tobacco tax escalator, but failed to do so in the 2023 Autumn Statement.[33] It is essential that the MET is increased above the tobacco tax escalator at every fiscal event to make it more expensive for the industry to game the system by pricing below the MET, as is currently the case.

27. Tobacco taxes invariably end up being paid by the consumer. That tobacco manufacturers are able and willing to significantly cut their profit margins to ensure ‘value brands’ remain available, demonstrates the extreme profitability of the tobacco industry in general. These pricing strategies can only be curtailed, not prohibited by the MET. In order to completely eliminate industry price gaming, wholesale price controls are needed as we have recommended through the ‘polluter pays’ model (see Recommendation B)

Recommendation A5: Eliminate duty-free allowances for tobacco, or at a minimum reduce the HRT allowance from 250g to 100g to be consistent with the allowance for FM cigarettes.

28. 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 allowed[34] (200 cigarettes, or 100 cigarillos, or 50 cigars, or 250g of tobacco (including shisha tobacco) or 200 sticks of tobacco for heating. 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.

29. Access to cheap tobacco, whether illicit or cross-border shopped, encourages smokers to continue to smoke as the price of tobacco is a major incentive to quit. Despite a fall in cross-border tobacco purchasing during the first year of the COVID-19 pandemic among adults in England who smoke, the proportion reporting cross-border tobacco purchases is now three times higher than it was at the start of 2019.[35] 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.”* [36]

30. 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 500 cigarettes,[22] and therefore at a minimum the allowance for HRT should be reduced to 100g.

Recommendation A6: Update HMRC tobacco elasticity estimates, to include cross elasticities between factory made and handrolled tobacco.

31. The OBR calculates the impact of changes in tobacco excise tax based on the elasticity of demand for duty paid consumption. However, the elasticities used at the last Budget did not include cross elasticities between factory made and handrolled tobacco, and have not been updated since 2015, despite significant changes in the market. The time is long overdue for the elasticities to be reviewed.

32. Current elasticities use quarterly time series data as the dependent variable. The original analysis in 2010 concluded that short-run elasticity was -0.57 and long-run elasticity was -1.05. [37] In 2015, at the time of the Osborne consultation on the tobacco levy, the long-run elasticity calculations were updated to include data up to 2014q3 and was estimated to be -1.19, while the short-run elasticity remained -0.57. [38]

33. In addition to a substantial increase in the proportion of smokers using handrolled as opposed to factory made cigarettes there have been other significant changes in the market since 2014 which require elasticities to be reviewed, including:
    - May 2016: introduction of standardised packaging and minimum pack sizes in May 2016, with differential affects on average price per pack between factory made and HRT.[39]
    - March 2017: Introduction of Minimum Excise Tax for cigarettes[40]
    - May 2019: all cigarettes and HRT packs required to have tracking and tracing markings as an aid to prevent diversion of product into the smuggled market.[41]
    - May 2020: Menthol flavoured cigarettes and HRT were banned. [39]
    - January 2021: on leaving the EU the right to bring significant quantities of duty paid tobacco into GB from EU Member States for personal use was removed. While we were in the EU the minimum indicative levels were 800 cigarettes, 200 cigars and 1 kg of smoking tobacco/HRT. On leaving the EU this was replaced it with a standard duty free allowance of 200 cigarettes or 250g smoking tobacco. [42]
    - Reductions in the tax differential between factory made and HRT during this period, while use of e-cigarettes as an alternative to smoking grew.[43]

B. Implement a ‘Polluter pays’ levy on tobacco manufacturers to control industry pricing tactics and excess profitability

34. Tobacco companies can make excessive profits because of their monopoly-like pricing power. Imperial and JTI together control 81% of the UK market for factory made cigarettes and together with Philip Morris and British American Tobacco account for about 95% of

the market.[44] These four companies are the largest of the tobacco transnationals known globally as ‘Big Tobacco’.

35. 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?

36. 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 which has been estimated could raise up to £700 m a year.

37. The government imposes a corporation tax surcharge on energy companies and banks to address their excess profitability. However, tobacco companies make 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 70.5% in the UK in 2021,[45] while BP’s net operating profit in 2021 was under 10%, and in September 2023 it was estimated to be 11.1%,[46] while the average for UK manufacturing is under 10%.[47]

38. Step 1 should be the imposition in the forthcoming Budget the Government of a corporation tax surcharge on the profits of the Big 4 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 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.

39. 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.[48]

40. 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 tax which could be passed on to consumers. That is why after consulting on a levy on tobacco manufacturers in 2014[49] [50] HM Treasury decided not to proceed,[51] having concluded that manufacturers and importers would fully pass the levy on to consumers by raising retail prices.

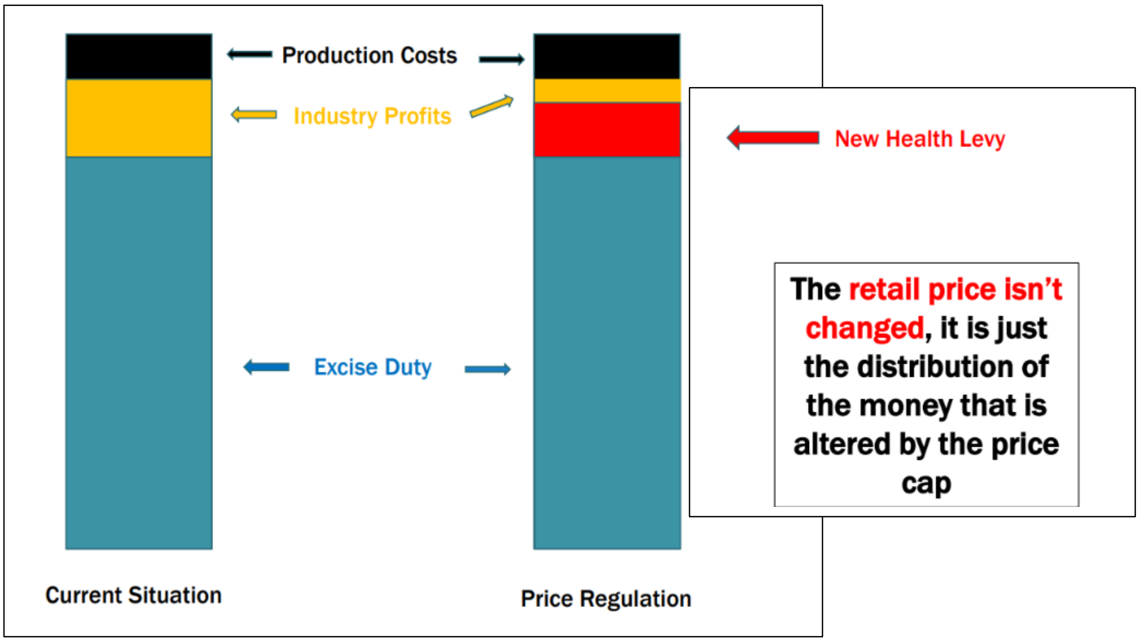
41. We are no longer subject to EU legislation, and the polluter pays model we propose can now be implemented. The primary legislation necessary was tabled as amendments to the Health and Social Care Bill.

42. The ‘polluter pays’ model, set out in detail in the ASH policy paper Establishing a Smokefree Fund[52] 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 stimulating increased smoking - the difference between current wholesale prices and capped prices would be taken out as a health promotion levy.

43. Analysis carried out for the APPG on Smoking and Health has estimated that a 'polluter pays' levy could raise £700m in year one, if tobacco industry profits were limited to a maximum of 10%, not unreasonable given the margins for UK manufacturing.[53] [54] This could be implemented through primary legislation, backed up by more detailed regulations. The levy would apply throughout Great Britain and therefore the appropriate proportion should be allocated to the devolved nations.

44. The diagram below demonstrates how this would work. The new health levy imposed by HMT would ensure that retail prices remained the same after wholesale prices were capped with the difference accruing to government revenues.



45. Furthermore it would incentivise tobacco manufacturers to 'make smoked tobacco obsolete'; the excess profit currently made from selling tobacco is a major disincentive.

46. A scheme for tobacco could limit the wholesale price that manufacturers can charge, thereby limiting profits, while 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.

47. 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 4 manufacturers responsible for 95% of the market.

C. Fully implement and enhance DHSC and NHSE tobacco control commitments

48. The evidence is clear that tobacco taxes are most effective in reducing smoking prevalence when underpinned by a comprehensive and funded strategy to reduce smoking prevalence.[55] [56] This is an approach the UK has implemented very effectively and cost-effectively to date,[57] but which needs to be sustained and enhanced through greater investment in tobacco control measures if we are to achieve the Smokefree 2030 ambition.

49. This is both necessary to deliver the government's smokefree 2030 ambition and appropriate given the billions in tobacco excise tax paid by the millions of people in the UK who smoke. On average smokers spend around £3,000 a year on tobacco, which is over a third more than the current energy price cap of £1,928 for a typical home. This places financial burdens on the poorest and most disadvantaged in society, particularly during a cost of living crisis, which the government has a responsibility to address by doing all it can to help smokers quit.

50. Raising the age of sale one year every year to create a 'smokefree generation' will help eliminate smoking in the longer-term. However, immediate reductions in the economic cost of smoking on health, wellbeing and productivity accrue mainly by helping existing smokers to quit. People who quit smoking before the age of 35 have a similar long-term mortality risk to people who have never smoked, and by quitting by 45 they can reduce their risks by up to 90%.[58]

51. There is substantial evidence demonstrating that tobacco control measures are effective in driving down smoking prevalence. Modelling by UCL for the All Party Parliamentary Group on Smoking and Health shows that if current DHSC and NHS commitments are implemented in full and sustained throughout the next parliament, with the addition of tobacco dependence treatment for all smokers participating in NHS Talking Therapies (previously known a IAPT), smoking prevalence could be reduced by a third by the end of the next parliament.[59] (UCL modelling available for scrutiny at https://osf.io/6hkpv/)

52. The order of magnitude of the annual funding required (including existing commitments) to deliver the measures recommended by the APPG is £230 mn. This could deliver £140 mn in reduced public finance costs in year one. The cumulative funding required between 2024 and 2030 would be £1.6 bn, which could deliver a cumulative reduction in public finance costs of £3.4 bn.

53. This includes funding already announced by the Government in October which committed funding for five years of £115 mn pa, substantially increasing funding for Stop Smoking Services, anti-smoking campaigns and enforcement (tobacco and e-cigarettes laws).

54. However, also needed is for the Tobacco Dependence Treatment components of the NHS Long Term Plan to be fully implemented and sustained in the long-term. Based on rough estimates of the numbers of smokers in each part of the system and cost of treatment, the annual cost would be a total of around £100 mn consisting of:
    - £40 mn pa for all inpatients;
    - £10 mn pa for pregnant smokers; and
    - £50 mn pa for long-term mental health patients.

55. The APPG recommendations which were modelled also included:

- Provision of support to quit for all those attending NHS Talking Therapies (IAPT) costing around £10 mn pa;
- Sustaining provision of financial incentives for pregnant smokers costing around £5 mn a year.

56. Further measures which could help achieve our Smokefree 2030 ambition of 5% or less, but which have not yet been fully modelled by UCL and therefore were not included in our recommendations include around:
    - £20 mn pa to sustain the Swap to Stop campaign until 2030 currently only committed until the end of the next financial year
    - £10 mn pa to fund specialist advice to quit for all smokers who are called to attend Targeted Lung Health Checks (recommended by guidance but not a funded part of the programme)
    - £70 mn pa to ensure all smokers attending outpatients get help to quit
    - Provision of support to quit for all smokers attending accident and emergency (pilot demonstrates this could be very effective but cost of full rollout has not yet been calculated)

57. Although reducing smoking prevalence is cost-saving to public finances, in the short-term investment is still needed. It is estimated that a levy on tobacco manufacturers could provide the additional funding required more than three times over.

58. The Department of Health (OHID), working in tandem with NHSE, have the knowledge and expertise to allocate funding to tobacco control measures which will deliver a Smokefree future.[60] This is a function they have carried out successfully for nearly a quarter of a century since the first tobacco control strategy, Smoking Kills, in 1999 right up to the present day with the Creating a Smokefree Generation command paper published in October 2023.

Alternative products to smoked tobacco

D. Implement measures to curb youth vaping and help address the negative environmental impact of vapes, in particular so-called 'disposable' vapes

Recommendation D1: Introduce a Minimum Unit Price (MUP) for e-cigarette devices, set at a level to significantly reduce underage consumption, while ensuring they remain significantly cheaper than tobacco products

59. There has been a rapid rise in the use of so-called 'disposable' vapes in recent years, particularly among children and young people, a growth which has driven the overall growth in underage and youth vaping.[61] 'Disposables' are attractive, cheap and very widely available and are now the most used product among children aged 11-17 who currently vape, up 10-fold from 7% in 2020, to 69% in 2023.[62] These products are not only attractive to children but also harmful to the environment, which is why DHSC has consulted on how to curb youth vaping, and DEFRA is consulting on how to deal with the environmental damage caused by these products.[63]

60. Measures under consideration include proposals to ban the sale of disposable vapes, something supported by a number of organisations including the Local Government Association and the Royal College of Paediatrics and Child Health. While we agree with the policy aims of these organisations, ASH, together with Material Focus, the environment charity which has carried out most work in this area, and the Chartered Trading Standards Institute representing enforcement officers, have concerns that a complete ban could be difficult to enforce effectively without significantly enhanced enforcement powers, particularly at the border, as there is already a well established illegal supply chain and demand for the product.[64] [65]

61. There is good evidence that making tobacco products less affordable is an effective method of reducing uptake and encouraging smoking cessation, and while the evidence is still emerging, the same appears to be true for e-cigarettes.[66] [67] [68] [69] [70] That is why our 2023 Budget Representation[71] proposed a specific tax on 'disposables' to raise the price, rather than a ban.

62. However, from discussions with the Chartered Trading Standards Institute, and DEFRA, it is clear that the definitional problems associated with distinguishing between so-called 'disposable' and re-usable vapes could also cause problems for a tax. In particular that manufacturers could evade the definition of 'disposable' by minor product design revisions which potentially could make products less safe, rather than in practice reusable.

63. Furthermore, the Government quite rightly recognises that e-cigarettes provide an effective aid to quitting for adult smokers, and that it is important that measures to curb youth vaping, and use of disposable vapes, do not have the unintended consequence of reducing the numbers of adult smokers using e-cigarettes to quit smoking.

64. A simpler, more direct way of increasing the price, and thereby reducing the attractiveness of the cheapest vapes, which are the 'disposable' models, would be to set a minimum unit price for all e-cigarette devices. There is already a definition of such devices in the Tobacco and Related Product Regulations 2016 section 2(a):
"electronic cigarette" means a product that—
(a)
can be used for the consumption of nicotine-containing vapour via a mouth piece, or any component of that product, including a cartridge, a tank and the device without cartridge or tank (regardless of whether the product is disposable or refillable by means of a refill container and a tank, or rechargeable with single use cartridges); and
(b)
is not a medicinal product or medical device;

65. Applying an MUP to all e-cigarette devices could prevent products being sold at prices so low as to increase their attraction to children whose incomes tend to be limited and are therefore more price sensitive. Currently disposable vapes are the cheapest e-cigarettes on the market and can be bought for under £2 online,[72] well below the hourly minimum wage for 16 and 17 year olds in 2023,[73] and well within the budget of most teenagers.[74]

66. Minimum Unit Price has already been successfully applied to alcohol in Scotland,[75] but its impact has been eroded by inflation.[76] Linking the MUP to the price at which the Minimum Excise Tax kicks in for factory made cigarettes, could ensure that the price will rise over time, while remaining cheaper than comparable tobacco prices.

67. For example, the MET currently applies to cigarettes priced at £12.86, so if the MUP for vapes was set at 50% of this, vapes could not be sold for less than £6.43. This explains the principle, but this is an evolving market[77] and further analysis of relative prices paid by adult and underage consumers of different nicotine products would be needed before deciding on the appropriate level.

68. On average about 50% of the nicotine contained in a vape is absorbed by the person vaping. That amounts to 20 mg of nicotine for a legal vape (20mg/ml maximum amount of liquid 2ml) which is at the lower end of the amount of nicotine the average smoker will take in from smoking a pack of 20 cigarettes.[78]

69. The cheapest pack of rolling tobacco currently available is £16.30 for a pack of 30g, [79] which is a higher upfront cost. However, at an average weight per rolled cigarette of 0.5g and including the small cost of papers and filters of under £1.50 [80] the cost per 20 handrolled cigarettes could be as little as £5.90 which is less than the MUP for e-cigarettes that we have used for illustrative purposes, demonstrating the need to increase tax on HRT.

Recommendation D2: Ensure the full cost of recycling e-cigarette devices is met by the manufacturers

70. The most recent estimates are that nearly 5 million vapes are now thrown away every week, the equivalent to eight per second and almost four times higher even than last year.[81] Industry estimates the potential yearly cost of collecting and recycling vapes, which have been incorrectly disposed of, at £200 million.[82]

71. While MUP will benefit the industry short term, in the form of higher retail prices, in the longer term the industry must be required to fully meet the costs of recycling e-cigarette devices, which is not currently the case. This is the subject of a current consultation by DEFRA and would be implemented under environment legislation. This could also force them to increase prices significantly, particularly for the cheapest 'disposable' vapes which are most frequently thrown away.

Recommendation D3: Ensure any excise tax applied to e-liquid is limited to maintain a significant differential between the cost of smoking and vaping, and that it is accompanied by enhanced anti-smuggling measures by Border Force and HMRC.

72. DHSC has provided an additional £30 million a year for enforcement to prevent sale of illicit tobacco and vapes. However, while this is in addition to the already substantial anti-smuggling strategy funding for illicit tobacco, it is not clear this is sufficient to deal with the growing problem of illicit vapes.

73. Media reports have suggested that the government is considering adding an excise tax to nicotine containing e-liquids rather than devices.[83] The benefit of this could be that it would bring nicotine containing e-liquids and devices containing nicotine e-liquid within the excise movement and control system making it simpler to track them and providing HMRC and Border Force with greater powers to prevent the growing illegal trade in e-cigarettes, in line with the powers they already have for illicit tobacco.

74. However, it is vital to ensure that any tax does not lead to significant erosion or elimination of the pricing advantage e-cigarettes have over tobacco cigarettes, which is a crucial element of their attractiveness to smokers as a quitting aid in the UK. [84] [85]

E. Review tax policy for Heated Tobacco Products and nicotine pouches

75. Tax structure should be reviewed to take into account other novel products, such as Heated Tobacco (HTP) and nicotine pouches, which while they do not yet have significant market shares, are being heavily promoted. Tax structure should take into account the relative risk of products, compared to smoked tobacco on the one hand, and medicinally licensed Nicotine Replacement Therapy on the other.

76. Heated Tobacco Products (HTPs) have not gained much traction in the UK market to date[86] and the upfront cost is more than cigarettes, although the sticks themselves are significantly cheaper.[87]

77. In the UK HTPs are currently taxed by weight rather than per stick, even though they are designed to be an alternative to factory made cigarettes. Taxation in the UK is lower than in other similar jurisdictions.[88] In other jurisdictions it is increasingly common to tax these on a per stick basis because that is how the products are designed to be used. For all these reasons HMT should consult on revision of taxation of HTPs.

78. While available data, including from a Cochrane review,[89] suggest that HTPs reduce exposure to harmful combustion products, indirect comparisons from published data and a direct comparison based on an unpublished lab study by academics from UCL suggest that HTPs have a more limited harm reduction role than e-cigarettes, providing lower reductions in biomarkers of harm such as nitrosamines.

79. There are also only limited data available on the impact of HTPs on successful smoking cessation,[90] with most published work finding an impact on cigarette sales rather than on quitting outcomes or smoking prevalence, and with some analysis (e.g., from the International Tobacco Control study Japan data) indicating that HTPs primarily lead users to dual use with cigarettes rather than complete cessation.

80. Nicotine pouches are a relatively recent entry to the market which are only subject to VAT and can be bought for as little as £6.50 for a tin of 20 pouches.[91] As they are not inhaled or heated they are likely to be between e-cigarettes and licensed medicinal nicotine on the continuum of harm. However, they are currently not subject to any marketing or product regulation other than general product safety regulations,[92] are widely available and are being heavily promoted to young people. [93] [94] Stricter regulation of the products and their marketing is required and in addition HMT should consult on whether any additional taxation is needed.

Sectoral, distributional, locational and environmental impacts of smoking

81. Smoking is heavily concentrated in poorer more disadvantaged groups and geographical areas, and has significant distributional, locational and employment impacts.

82. There is an inverse relationship between all indicators of disadvantage in society and smoking. For example 6.5% of people with a degree or equivalent are current smokers,

compared to 27.2% of those with no qualifications; 8.3% of those in management or the professions smoke, compared to 22.8% of those in routine and manual occupations.

83. More than one in four (25.8%) of adults in Hastings smoke, compared to fewer than one in 25 in Waverley, in Surrey. The average disposable household income per head in Hastings is £18,846 while in Waverley it is £33,400.

84. Much focus has been placed on the environmental impact of e-cigarettes in recent times. However, smoking also has significant environmental impact. Nearly 3 million cigarette butts are littered in the UK every day, accounting for two thirds of all littered items.[95] The cost to local authorities has been estimated to be £40 million a year.[96]

85. The damage to the environment is considerable, as cigarette butts are made of plastic and do not biodegrade. Over time, cigarette butts break apart into microplastics and seep toxins into the earth and our waterways. As set out in the Litter Strategy for England, the most effective way to tackle smoking related litter is by reducing the prevalence of smoking in the first place.[97]

Appendix 1 Costs of smoking to public finances in 2023

Total and net costs of smoking to public finances, England and UK: 2023

Public finance net costs of smoking	**£bn**	**£bn**
1: impact on tax receipts arising from productivity costs	**England**	**UK**
Reduced tax receipts due to early death	-0.546	-0.648
Reduced tax receipts due to lower employment levels for smokers	-3.264	-3.879
Reduced tax receipts due to lower earnings levels for smokers	-4.453	-5.293
Reduced tax receipts due to fewer jobs being generated by tobacco spending compared to other goods and services	-4.352	-5.172
Revenue from cigarette and HRT taxation (excise duties)	7.337	8.720
Total impact on tax receipts	**-5.278**	**-6.273**
2: impact on social security spending		
Increased spending due to lower employment rates for smokers	-2.225	-2.644
Increased in-work social security spending due to lower earnings for smokers	-0.587	-0.698
Increased spending due to reduction in jobs due to tobacco spending	-1.929	-2.293
Reduced pension payments due to early death	0.227	0.270
Total social security spending impact	**-4.514**	**-5.365**
3: public service costs		
Healthcare: cost of smoking to NHS	-1.959	-2.328
Social care: cost to local authorities	-1.412	-1.678
Fire service: cost to fire and rescue services for responding to smoking-related fires	-0.008	-0.010
Total public service costs:	**-3.380**	**-4.017**
Total impact of smoking on public finances (before adding revenue from cigarette and HRT excise taxes)	-20.508	-24.374
TOTAL IMPACT OF SMOKING ON PUBLIC FINANCES	**- 13.171**	**-15.654**

Appendix 2 Costs of smoking to the wider economy in 2023

Overall costs of smoking, England and UK: 2023

Costs of smoking	**£bn**	**£bn**
1: productivity costs	**England**	**UK**
Lost productivity due to early death	1.731	2.058
Reduced employment levels for smokers compared to non-smokers	8.524	10.131
Reduced earnings for smokers compared to non-smokers	10.868	13.917
Reduced GVA due to expenditure on tobacco products compared to other goods and services	10.839	12.882
Total productivity costs	**31.962**	**37.988**
2: service costs		
Healthcare: cost of smoking to NHS	1.959	2.328
Social care: cost to local authorities	1.412	1.678
Social care: cost of additional informal care	9.641	11.459
Social care: cost of additional unmet need	6.191	7.358
Fire service: cost to fire and rescue services for responding to smoking-related fires	0.332	0.395
Total service costs	**19.356**	**23.219**
3: Cost of early deaths due to smoking		
Cost of early deaths valued using QALYs	**32.232**	**38.309**
TOTAL COST OF SMOKING	**83.731**	**99.515**

Source: Landman Economics calculations using CBPF model version 2.2

Appendix 3 Impact of tobacco control measures

Table 1	Reduction in cost, Year 1	2024-30 cumulative reductions in cost due to:		
Public finance net costs of smoking	**2024**	**Tobacco control measures**	**Excise duty increases**	**Total**
1: tax impacts arising from productivity costs	**£bn**	**£bn**	**£bn**	**£bn**
Lost tax receipts due to early death	0.010	0.275	0.127	0.402
Lost taxes due to lower employment for smokers compared to non-smokers	0.060	1.606	0.748	2.354
Lost taxes due to lower earnings for smokers	0.081	2.179	1.016	3.195
Lost taxes due to fewer jobs generated by tobacco spending compared to other goods and services	0.158	5.608	0.761	6.369
Revenue from tobacco taxation	-0.306	-10.297	-1.451	-11.748
Total impacts on taxes due to smoking	**0.004**	**-0.630**	**1.202**	**0.572**
2. Impact on social security spending				
Increased benefits due to lower employment rates for smokers	0.040	1.006	0.472	1.478
Increased in-work benefits due to lower earnings for smokers	0.010	0.270	0.126	0.396
Increased benefits from reduction in jobs due to tobacco spending	0.063	1.976	0.267	2.244
reduced pension payments due to early death	-0.012	-0.125	-0.054	-0.180
Total impact on public finances due to benefit spend	**0.101**	**3.127**	**0.811**	**3.938**
3: public service costs				
Healthcare: cost of smoking to NHS	0.009	0.255	0.118	0.373
Social care: cost to local authorities	0.026	0.677	0.314	0.990
Fire service: cost of responding to smoking-related fires	0.000	0.004	0.002	0.006
Total public service costs:	**0.035**	**0.935**	**0.434**	**1.369**
Total reduction in cost of smoking to public finances (excluding revenue from cigarette and HRT taxes)	0.446	13.729	3.898	17.627
TOTAL REDUCTION IN COST OF SMOKING TO PUBLIC FINANCES	**0.140**	**3.432**	**2.447**	**5.879**

Table 2: Impact of tobacco control measures on adult smoking prevalence in England, 2030

Scenario	Prevalence (% of adult population)
Smoking prevalence 2023	14.6%
Forecast smoking prevalence in 2030:	
In the absence of additional measures	11.1%
With tobacco control measures only	9.5%
With tobacco control measures plus excise duty increases	8.9%

Table 3: Cumulative impact of measures on employment and number of smokers

Cumulative increase in employment 2024-30 due to:	Tobacco control measures	Excise duty increases	All measures
Increased employability for non-smokers vs smokers	39,000	14,000	52,000
Consumer expenditure on other products and services than tobacco supporting more jobs	93,000	13,000	106,000
Cumulative reduction in number of smokers	659,000	278,000	937,000

Sources:

Public finance impact calculations by Landman Economics, based on modelled reductions in prevalence by UCL Tobacco and Alcohol Research Group.
Prevalence forecasts calculations by Landman Economics, based on modelled reductions in prevalence by UCL Tobacco and Alcohol Research Group and the ASH Cost Benefit and Public Finance Model of Smoking

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