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Incredible profitability of the tobacco industry and potential of a profit cap

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- Manufacturing tobacco products is **tremendously profitable**
- In 2018 the world's **6 largest cigarette manufacturers** made a profit of more than **US\$55 billion**
- That is more than: Coca-Cola, Pepsico, Nestle, Mondelez, Fedex, General Mills, Starbucks, Heineken, and Carlsberg combined (**US\$51bn**) which each own many household brand names/products



- **Imperial Brands** made net operating profit margin of **70.5% in the UK** in 2021
 - For every £100 in net revenue, **£70.50 was operating profits!**
 - Total UK profits **at least £465m** but hard to know fully as they stopped reporting when we started investigating!
- With **tobacco** such margins are **so much bigger** than other industries!
 - The **comparator companies** had operating profit margins of **around 15–16%**, ranging from a low of 6.5% (Fedex) and a high of 26.7% (CocaCola)
- Tobacco companies can make such profits because of their monopoly-like **pricing-power**
 - Imperial and JTI together control **81% of the UK market** for factory made cigarettes

Such profits give these firms significant resources and a huge incentive to maintain the status quo

- In other UK markets where **monopoly-like pricing power** could be an issue we tend to **regulate the prices** the relevant companies can charge
 - E.g Water, gas, electricity.
 - Lower prices means the firms can make **less profits**
 - These are life enhancing products but **Tobacco kills!**
- A scheme for tobacco would **limit the wholesale price** that manufacturers can charge
 - Would **address the huge profits**
 - Have wider **health benefits** by stopping **the use of price** as a weapon
- But would need to be accompanied by **a new health levy** to make sure retail prices did not drop

CHANGED BREAKDOWN OF PRICE

