

ITPAC

THE IMPORTED TOBACCO PRODUCTS ADVISORY COUNCIL

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Dear Mr Khan,

Many congratulations on your appointment to lead an Independent Tobacco Review which, as we understand it, will inform the forthcoming Government Tobacco Control Plan.

I am writing to you in my capacity as [REDACTED] ITPAC: the Imported Tobacco Products Advisory Council. ITPAC is a trade association which represents the interests of 18 distributors of imported tobacco products in the UK. The Association's Core Members consist mainly of small and medium sized private companies, most of whom are family owned and employ less than 30 people. These suppliers focus on specialist tobacco product ranges such as cigars, pipe tobacco and snuff, many of which are primarily sold in family owned Specialist Tobacco retailers across the UK.

We understand that you are keen to receive views on what can be done to support current smokers to quit, and to stop people taking up smoking, as part of your independent review into tobacco control. We would therefore like to share certain points with you which we trust you will find of interest and which are very important to our Members:

1. INCIDENCE OF SMOKING IN ENGLAND

As a general comment we would highlight the fact that the long-term trend of smoking in England, among all age groups, has been declining consistently, year-on-year, over the last thirty years. Recent data from the Office of National Statistics (ONS) confirms that overall smoking rates in England have reduced from 20% in 2011 to 12% in 2020 (Source: ONS Adult Smoking Habits in England: December 2021)

Within the context of this overall trend we would highlight the case of young people and children, where the Government's data reinforces the fact that smoking rates continue to decline across these age groups. The ONS shows a major reduction in smoking rates among young people (16-24 years old) with 16% smoking in 2020, compared to 32% in 2000. NHS data also confirms the dramatic decline in the number of children (11-15 years old) in England who are regular smokers (classed as smoking at least one cigarette per week), from 10% in 2000 to 2% in 2018 (Source: NHS Digital report into Smoking, Drinking and Drug Use amongst Young People in England 2019).

2.

2. SPECIALIST/OTHER TOBACCO PRODUCTS (OTPs)

Given our focus on the niche specialist sectors of the trade, ITPAC will highlight a number of reasons why many tobacco control measures, which are targeted at the mainstream market products but also by default include OTPs, are unjustified, unnecessary, and have a thoroughly disproportionate impact on OTPs and their importers and distributors:

(i) Consumption Levels - OTPs

The consumption of cigars, pipe tobaccos and snuff is insignificant, and their share of the UK market is minuscule, accounting for between 1-2% of total market volume. For many years we used ONS data to support our position on the incidence of OTP smoking, but this is now so small that ONS does not even collect data on OTPs anymore, and only focuses on mainstream products.

(ii) Young people and OTPs

Usage of cigars and pipe tobaccos amongst young people is extremely limited. They are not widely smoked by young people and certainly not used as an 'alternative' to cigarettes for reasons of cost and availability in the market. To put this into context the average retail price of a single handmade cigar is c.£15. In no way therefore are OTPs associated with smoking initiation by young people.

(iii) Product Range

OTPs are niche, slow-moving products in the market, imported mainly by SMEs and micro-businesses, and consisting of very wide ranges. To this point, the Public Health England product registration database (as at 23/11/20) showed that OTPs account for 76% of all Brands and 85% of all SKUs on the market, whilst accounting for only the 1-2% of total market volume as indicated above.

This means that the management of changes such as labelling, pack marking, ingredients changes and product notifications across such a particularly wide and diverse range of products is especially burdensome for the SMEs that are responsible for importing and distributing OTPs.

3. TOBACCO LEVY

ITPAC is fundamentally opposed to the principle of a Levy on tobacco companies and considers it to be an unreasonable and discriminatory measure.

(i) Tobacco Sector Tax Contribution

It is relevant to emphasise the existing significant contribution made by the tobacco industry to HM Treasury through Excise and VAT (£12.5 billion in 2020) as well as additional contributions from Corporation Tax. The figure for Excise and VAT should be even higher given that HMRC's own Tax Gap data states that the illicit trade cost the Government £2.3 billion in 2019-20. Regardless of this, above inflation increases in tobacco taxes have been used for many years with the intention of discouraging consumption, but they have only led to high levels of illicit trade, readily acknowledged by the Government. If the Government believes that high taxes are effective in addressing smoking, it needs to tackle the illegal tobacco market properly.

3.

(ii) Small Tobacco Companies

As stated above ITPAC's Core Members consist mainly of small and medium sized private companies. The specialist nature and the extent of their product ranges involve slow and expensive production processes, very low market shares, and long sell through times, with a good percentage of sales made through the small secondary retail supply channel. A number of these companies are financially vulnerable businesses which have been significantly and disproportionately affected by the level of regulation in recent years, and are already under severe economic pressure. The imposition of a tobacco levy on these businesses would further add to the catalogue of challenges which they are increasingly confronting.

(iii) Diminishing Returns

There is a strong likelihood that a Levy would have a similar market effect as the relentless increases in excise. The industry could well pass the costs onto the consumer, resulting in a further decline in volumes and a corresponding diminished return in tobacco tax receipts to HM Treasury, thereby undermining any positive contribution resulting from the Levy.

(iv) Illicit Goods

As is stated above, if a Levy is imposed and the costs were to be passed onto consumers, the price of tobacco would rise. A rise in prices is likely to lead to an increase in the illicit trade.

(v) Minimum Market Share Threshold

A number of the companies ITPAC represents have an infinitesimal individual share of the total tobacco market in the UK. If the calculation of a Levy payment is based on % share, whilst it would be very limited in the context of the intended overall receipts, it could still represent an unacceptable financial commitment for many of these businesses. It is therefore recommended that, in the event of a Levy being imposed, a minimum threshold should be established below which no contribution would be expected.

(vi) Minimum Monetary Payment

Based on the logic outlined in the previous paragraph, any minimum Levy payment regardless of market share would represent a disproportionate imposition for these smaller companies and exacerbate their problems even further.

4. CONCLUSION

A significant level of tobacco regulation has been introduced over the past 20 years, in addition to the relentless annual excise increases referred to above.

ITPAC's Core Members have been significantly and disproportionately affected by this level of regulation because of their size and the specialist nature of their trade. ITPAC is therefore extremely concerned that, if a Levy were to be applied to these companies, it would have devastating consequences and a number of them would be finally forced to close down their businesses.

4.

Under these circumstances it is ITPAC's view that the introduction of a Levy is a step too far, and the Government should give serious consideration to resisting the ideological temptation to take forward a policy which is (i) unlikely to deliver its stated objectives, and (ii) likely to cause significant damage to a number of small and vulnerable UK businesses.

Currently ITPAC Members are gearing up towards the next phase of EU Tobacco Products Directive (TDP2), Article 15/16 - Traceability and Security - that will come into effect in 2024 for OTP's. This EU-wide initiative is being put in place to deter illicit trade across all tobacco products in spite of the fact that there is negligible illicit trade in OTPs. Post BREXIT, the UK Government is in the process of moving to a dedicated UK Traceability and Security system. ITPAC Members are currently heavily invested in this to become fully compliant, but it represents major financial and resource challenges for the majority of SME businesses.

Finally, and in the interests of communicating our views on what the Government can do to support current smokers to quit, and to stop people taking up smoking, we would make the following points: (a) adult smokers are *already* clearly aware of the risks associated with smoking given in particular that it is impossible to ignore the high impact visual photographic and written health warnings displayed on every tobacco product package (and that is once the customer has obtained them from behind the screen); (b) the Government should continue to focus more on raising awareness on the risks of smoking including investment in public information campaigns and education programmes which in our view are by far the most effective means of raising awareness of the impact of smoking; (c) the Government should also highlight the widespread availability of alternative smoke-free nicotine products (e.g. e-cigarettes, nicotine pouches and heated tobacco products) which are becoming increasingly popular alternative products.

We trust that you find these comments useful and would be very pleased to discuss any of the issues with you in more detail at your convenience.

Yours sincerely,

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