

# ***Tobacco industry response to taxes: “what do we know and what can we anticipate?”***

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**8<sup>th</sup> ECToH Conference, Plenary 6**

- **No funding** ever received from the Tobacco **Industry**, any related organisation, or other firms
- **Funding** received in the last five years from **health charities/organisations** including NIHR, CRUK, and Bloomberg Philanthropies
- Received the gift of **10 shares** in **Imperial Brands** for research purposes.
  - Any money received will be donated to tobacco/health related charities.

- Manufacturing tobacco products is **inordinately profitable**
  - In 2015 the world's **6 largest** cigarette manufacturers made a profit of more than **\$62 billion**
  - That is more than Coca-Cola, Walt Disney, FedEx, Google, Starbucks, and McDonalds combined (\$55bn)
- They earn **profit margins** like no other
  - In 2018: Imperial Brands made a net operating profit margin of 46%; BAT was 39.9%; PMI it was 39% (inc 43.1% in the EU).
  - Imperial made net operating profit margin of 63% in the UK in 2018
- Avoid paying **profit based taxation** on these huge profits
  - E.g. **BAT** is UK based but paid £11m in corporation tax in the 6 years up to 2016 while earning £10s billion in profit.
- Such profits give these firms significant **resources and the incentive** to try to maintain their positions

- Tobacco taxation is widely regarded as being one of the **most effective** ways to address tobacco use
  - ➔ Industry looks to **undermine** the impact of tax increases
- The industry suggests that **illicit** will rise if taxes increase
  - But their actions shows **they don't believe** this themselves!
  - **Over-state** the size of the black market
  - Evidence suggests **no direct link** so long as there are robust customs and excise systems

- **The industry** has been found to be **involved** in the Illicit market
  - Over-supplying some markets which **facilitates illicit**
  - Pushing their weak **track and trace** system.
    - Will it let us confirm they are **declaring all production** for duty?
- Illicit Tobacco is really an **enforcement issue**
  - Introduction of **robust Track and Trace systems** should help
  - Revenue from **higher taxes can pay** for more enforcement measures

- Lobby for **predictable tax** increases
  - Regular, limited, and predicted tax changes are easier for the industry to **anticipate and undermine**
- Price **Smoothing**
  - Avoid quit inducing jump in prices via smaller, **incremental** but more **frequent adjustments** to prices
  - Start to increase prices in **anticipation** of tax changes

- **Over-** and **under-shift** tax increases
  - Tax increase are not passed on uniformly to different **brand segments**
  - Mix **profit-seeking** with cushioning those **sensitive** to price.
- Increase **segmentation**
  - Increased **brand variants** to mix profit maximisation with retaining price sensitive smokers.
  - Widening of the **price gaps**
  - Factory Made (**FM**) and Roll-Your-Own (**RYO**)

- Create further routes for smokers to **downtrade** instead of quitting
  - Create Ultra-Cheap FM brands / brand variants
  - New RYO versions of FM brands
  - **RYO Combi-Packs** (& details of these)
- Look for **opportunities in the tax system**
- **Shrinkflation**
  - **Disguise price increases** by reducing the size of a standard pack
  - Minimum pack sizes of the EU TPD makes this **a lot harder**

- Tax is fundamentally **a price based public health measure** so the wider pricing strategies of the industry also matter
  - **Price marked packaging** to limit retailer profit margins and also advertise the ‘value’ of certain brands / brand variants
  - Increase tobacco prices in line with consumer incomes to ensure **affordability**
  - Sell **tobacco related products** not subject to the same taxation regime.
  - Emerging picture of **‘Next Generation Products’**

- Need **regular tax increases** to offset increasing consumer income that makes tobacco more **affordable**
  - **Duty escalators** a good thing as they commit to yearly increases, but...
- **Large and unexpected tax changes** help minimise industry attempts to undermine tobacco taxes
- Make sure **all tobacco products** are appropriately covered

- **Lump sum taxes** are better than ad-valorem taxes as they help to minimise the **price range** of tobacco products
  - A regularly increased **Minimum Excise Tax** helps address the availability cheapest products
- Taxes need to recognise **how tobacco products** are used
  - **RYO cigarettes** typically contain less tobacco than Factory Made cigarettes, but create the same harm.

- Limit the **number of price changes** per year
- **Limit** the number of brands / **brand variants**
- Cut FM/RYO/Other **brand cross-overs**
- Promote standardised **packaging** (or least ban price advertising)
- **Regulate tobacco prices** to reflect the lack of competition and the harm being created.
  - Take away the industry **weapon of price**
  - **Price caps** not minimum prices
  - Government would benefit from a **greater proportion** of the selling price