

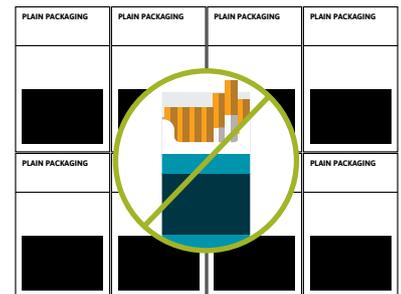
Changes in the Tobacco Market in 2017



The UK tobacco market will undergo major changes on the 20th May 2017 due to the simultaneous commencement of several legislative measures. This briefing note sets out these changes: minimum pack sizes, plain packaging, restrictions on e-cigarettes and a Minimum Excise Tax.

Many changes in May 2017

- In 2014, the European Council and Parliament approved the second Tobacco Products Directive (TPD) which contains a range of regulations, a number of which come into full force on 20th May 2017.
- These include minimum pack sizes (20 cigarettes and 30g of hand rolling tobacco), and restrictions on the volume of e-liquid that can be sold in individual bottles or held in the tank of an e-cigarette.
- The UK Government legislated to introduce standardised 'plain' packaging for cigarette and hand rolling tobacco products. The sale of branded packaging will be banned from 20th May 2017.
- The UK Government's Minimum Excise Tax (MET) will also be introduced on the 20th May 2017.
- The large impact of these changes to the UK market shows why the Government must resist introducing further draconian measures.

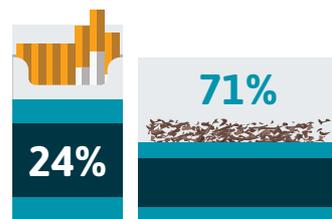


The impact of banning small packs

Smaller packs are popular amongst adult smokers so the ban will have a profound effect.

Research by Oxford Economics found that banning small packs will increase the illicit trade and cross border shopping and will hurt retailers doubly as larger packs mean consumers shop less frequently reducing incidental sales. In the first year this will cause¹:

The percentage of consumers who bought pack sizes in 2016 which will now be banned²:



Academic studies also suggest this measure will be counterproductive to reducing tobacco consumption.

- A **desire to quit smoking** and high self-control are associated with preference for a smaller pack³.
- Smokers measure their cigarette consumption in terms of packs rather than by counting the number of cigarettes and as such many smokers **regulate their consumption** through the use of small packs⁴.

The evidence is so clear that Martin Dockrell, Head of Tobacco Control at Public Health England said in 2008 when working for tobacco control group Action on Smoking and Health⁵:

“People buy smaller pack sizes such as 10s when they are attempting to reduce their tobacco consumption and quit.”

Abolishing small packs is bad for tax revenues, bad for retailers and counterproductive for those who want to give up smoking.



Further changes to the market

Plain packaging legislation

- All cigarette and hand-rolling packs will have to be a drab brown colour with graphic health warnings covering 65% of the front and back of the pack.
- This will make it easier to make and smuggle counterfeit products as packs lose distinguishing features.
- In Australia and France, the implementation of plain packaging was accompanied by an increase in tobacco consumption^{1,2}.
- A KPMG study in 2013 showed that the sale of illicit, branded cigarettes in Australia rose by 154% after plain packs were introduced.³ And there is no evidence of plain packs having any effect on underage smoking.⁴
- A member of the Scottish Parliament, Kate Forbes MSP, has also voiced concerns that the health warnings depicting babies, as prescribed by the Tobacco Products Directive, could inadvertently encourage young children to smoke⁵.



New e-cigarette restrictions are likely to dissuade consumers from quitting smoking in favour of e-cigarettes

- New e-cigarette liquids will require six months for approval (though written guidance suggests this could be greatly reduced) and the maximum tank size for liquids will be just 2ml – less than half the typical size found today of 5ml⁶.
- There are also restrictions on the nicotine concentration of these liquids with a maximum of 20mg/ml. This is lower than users typically look for as they begin to start vaping⁷.



MAXIMUM 20MG/ML

A Minimum Excise Tax (MET)

- An MET of £5.37 for 20 cigarettes was announced by the Chancellor of the Exchequer at the Spring Budget 2017.
- This affects packs with a recommended retail price of less than £7.35.



The Tobacco Duty escalator continues to raise prices

- In addition to announcing the MET rate at the Spring Budget, the Chancellor continued the policy of raising tobacco duty by RPI inflation plus 2%. This added 35 pence to the price of a pack of 20 cigarettes – an increase of over 5% in tobacco duty.
- It is well understood that high taxes are the primary driver of the large illicit tobacco market. This is exacerbated by the duty escalator⁸.
- Studies have shown that price increases have the smallest impact on the smoking habits of those that can least afford it⁹.



ADDED TO THE PRICE OF A PACK OF CIGARETTES



The impact of TPD on independent retailers



In February 2017, a Tobacco Retailers' Alliance (TRA) survey of convenience store retailers found that¹⁰:

- 60% of small retailers said that the introduction of plain packaging and the ban on small packs of tobacco were already having a detrimental impact on their business due to less frequent tobacco shopping and lower incidental spend;
- 62% of small retailers were aware that smuggled or counterfeit tobacco was being sold in their local area.

Discussing this survey, the national spokesman for the TRA, Suleman Khonat, said¹¹:

“These results confirm what we have long feared; that the banning of small packs and the introduction of plain packaging is having a detrimental impact on many small retailers. Even with two months to go before full implementation, it is clear that these measures are impacting on legitimate businesses.”



A rapidly changing market demonstrates the need for caution



- The changes to the tobacco market on the 20th May will be very significant and will put tax revenues at risk.
- The Department of Health is shortly to publish a new Smoking Strategy but to mitigate the damage already being done, the Government should resist further draconian restrictions on the tobacco industry.
- Once we have left the European Union there should be a complete review of the Tobacco Products Directive to establish whether it is achieving its aims.

