

CITIMA,
5, Bond Street,
St Helier,
Jersey.
JE2 3NP

5th November 2021.

Dear Senator Moore,

Corporate Services Scrutiny Panel: Government Plan Review 2022-25

Thank you for giving me the opportunity to make a submission on behalf of the Channel Islands Tobacco Importers and Manufacturers' Association (CITIMA).

CITIMA membership comprises Fox Trading, Liberation Group, BAT, Imperial Tobacco Ltd and Japan Tobacco International.

It is hoped that these comments will assist the Review Panel during its examination of the Government Plan.

Proposed Government Plan 2022-2025

CITIMA is deeply concerned about the planned significant increases in excise duty on cigarettes, and other tobacco products, that have been outlined in [P.90/2021](#).

Last year, the Government proposed an increase in impôt duty based on the June RPI figure, plus 5.5% on cigarettes and RPI plus 8.5% on other tobacco products. This was despite the way the pandemic was affecting personal incomes and the economy.

In contrast, Guernsey restricted the increase to RPIx (1.5%) with no additional percentage increase. Guernsey's Government took note of how the pandemic had affected islanders and stated that 2021 was not the time to impose significant tax increases.

Guernsey's consistent approach

The Association has noted that our neighbouring jurisdiction, while holding similar tobacco policy objectives to Jersey, now follows a very different approach when setting excise duty.

CITIMA would argue that Guernsey, which has for some time pinned restrained excise duty increases to a fixed amount for a set time period, based on the underlying cost of living (RPIx), has shown a fairer and more consistent approach than the one followed in Jersey.

If a predictable and moderate excise escalator mechanism is in place, tobacco duty can be a stable source of revenue for governments. However, consistently high increases - significantly above the Retail Price Index – actually risks a drop off in revenue.

The travel sector

As Jersey's government imposes another very steep tobacco duty increase, the price differential between the 'on-island' duty-paid market, and the duty-free market only increases which directly impacts the Jersey revenue intake.

Already, depending on the brand, around two-thirds of the price of packet of cigarettes is made up of government taxes, with the rest spread across the supply chain.

With restricted travel, 'on-island' duty-paid sales in both Bailiwicks increased in 2020 and 2021.

An extract from the [Guernsey Budget 2022](#) document reads – “In 2020 and 2021, income has been positively affected by the impact of the COVID-19 restrictions on travel, which has meant that the opportunity to access duty free tobacco products has significantly reduced for many consumers. It is estimated that income from Excise Duty on Tobacco will be £10.9million in 2021, which is £4.9million higher than the Budget of £6million (which was lower than the normal level due to additional stock-holdings held in 2020 diminishing).”

In Jersey, tobacco duty is forecast to bring in more than £21m in 2021 – but in 2022, when presumably the government is hoping for no restrictions on travel, it is forecast to fall back again to £15.9m.

As travel restrictions are eased over the next twelve months, many smokers may once again look to cheaper sources, where products cost on average 50-60% less.

Furthermore, if consumers are incentivised to purchase outside of the domestic duty-paid market because of higher local prices, there is a resource implication for the already-stretched Customs team in preventing abuse.

Economic Recovery

Returning to Jersey's Government Plan, the document states that the overall direction is to facilitate the island's economic recovery – yet an excessively high duty increase pushes local smokers out of the domestic market, which in turn damages the local businesses who distribute and sell tobacco.

Considering the current uncertainty surrounding Jersey's economy, particularly on future growth and consumer spending, it is also worth noting that the burden of tobacco excise duty falls disproportionately on those who can least afford it.

Evidence from neighbouring jurisdictions suggests that many smokers are from lower socio-economic groups and are likely to be impacted the most by increases in duty rates.

In Ireland, where the average price of a pack of cigarettes retails at €13 (around £11), a recent state survey found that those living in the most deprived quintile were more likely to

report current smoking, daily smoking, and smoking at least 20 cigarettes per day, with 28.3% reporting current smoking compared with 10.2% in the least deprived quintile. Many such smokers from lower socio-economic groups may be unlikely to be able to afford duty-paid cigarettes as the tax rates continue to steeply increase.

Tobacco duty can be a reliable source of revenue for Governments and is perhaps more important now in the context of the post-COVID economic environment and the extra Government support that is required.

But excessive increases in taxation will undermine the legitimate market and lead to a drop off in revenue returns.

While there is no 'one size fits all' solution that applies to tobacco taxation regimes, evidence from neighbouring countries, such as Germany, shows that smaller, predictable increases in line with economic growth may lead to higher tax revenues. As such, there is a convincing argument for a prudent and predictable approach to tax rate increases.

We believe that the point of diminishing returns has been reached in terms of tobacco product excise revenues in the island.

Duty increases significantly above inflation are now counter-productive, in that they do not achieve their stated public health objectives given that a large and growing number of adult smokers will simply switch to more affordable channels to purchase tobacco products.

As such, there is a convincing argument for tobacco duties to increase by a modest and predictable amount – say 2% - over RPIx every year, over the term of the Government Plan.

An increase of this nature will provide less of an incentive to consumers to purchase tobacco elsewhere, while also providing greater moderation and predictability for retailers and importers.

Based on international experience and the current price elasticity of demand for tobacco products on the Islands, such an approach has the potential to yield more sustainable duty revenues for Government, while still enabling public health objectives to be met.

Thank you for the opportunity to submit these comments. Please do let me know if you would welcome any further information or discussion – we would be more than happy to meet should you wish to discuss in further detail.

Your sincerely,

Chris

Chris Rayner,

On behalf of CITIMA.