

CITIMA,
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11 November 2022

Dear Deputy Mezec,

Re: Corporate Services Scrutiny Panel Government Plan Review 2023 - 2026

Thank you for inviting the Channel Islands Tobacco Importers and Manufacturers Association (CITIMA) to submit comments and views in relation to the Government Plan. The Association hopes that they will assist you in your consideration of the forthcoming Budget as far as it relates to the import and taxation of tobacco products.

The comments outlined here are made on behalf of my client CITIMA, whose members comprise Fox Trading, Liberation Group, BAT, Imperial Tobacco Ltd and Japan Tobacco International.

CITIMA has long understood that duty increases are an established measure that is at the disposal of the Treasury Minister. As the work on the Budget was underway before the current minister was appointed, we wrote to the Treasury Team urging them to consider restraining increases in impôt duty.

Since we wrote that letter, global economic conditions have significantly changed, and the cost of living has risen sharply. We were therefore concerned that the Government proposed duty increases linked to RPI with an additional 5%, hitting those who choose to smoke at a time when all households are making tough choices about their spending.

We were invited to meet the Minister, but by the time the original meeting had been scheduled, the Budget had already been published and included the planned increases in excise duty for cigarettes by RPI of 7.9% plus 5%, and for hand rolling tobacco and cigars by RPI of 7.9% plus 6.4% and 8% respectively.

We would therefore hope that the Panel will consider our concerns outlined below.

Fiscal Policy Panel Medium Term Report

A special report¹ produced by the Fiscal Policy Panel (FPP) in July 2022 aimed to provide the new Council of Ministers with advice and guidance as it considered its first Government Plan.

¹ Fiscal Policy Panel Medium Term Report - <https://www.gov.ie/SiteCollectionDocuments/Government%20and%20administration/ID%20FPP%20Medium-term%20Report%2015%20July%202022.pdf>

On page 15, the FPP noted that while inflation may not reach the levels expected in the UK, it is likely its impact will be more drawn out, 'with a longer period of above trend inflation.' The panel suggested that RPI would peak at 9.2% in Q4 in 2022, however the figure for September at 10.4% indicates that prices are rising more quickly than the FPP forecast.

If the Council of Ministers proposed increase in the tobacco duty on cigarettes by the Retail Price Index (RPI) of 7.9% plus 5%, then smokers will be hit with an above inflation increase of nearly 13%, while those who buy hand rolling tobacco or cigars will be paying even more.

As noted by the FPP, changing travel patterns, disruption to the visitor economy and the problems with flight capacity across Europe during the summer, would seem to point towards the increased level of duty-paid sales seen during the pandemic continuing as fewer islanders and visitors were able to take advantage of duty-free sales at the ports.

CITIMA notes on page 16 of the Proposed Government Plan 2023 –2026², that the estimates for income receipts from impôt duty on tobacco have been revised and the Treasury is expecting to receive significantly higher returns than previously forecast.

Current policy on tobacco excise duty

In our letter to the Treasury in May, we explained our concerns about the upward trajectory of excise duty on tobacco products. The previous Government Plan³ sought to "maintain and enhance published policy to increase tobacco duty on cigarettes by RPI (3.5%) + 6% on grounds of health, and higher on hand-rolling tobacco (HRT) and cigars to achieve greater alignment with cigarettes (RPI + 10.0%)." CITIMA notes that this policy has continued with increases of between RPI + 6% to 10% over the last five Budgets.

In our view, the continued arbitrary annual hikes in tobacco duty do not optimise the collection of impôt by the Treasury, and do not seem to be meeting the published health policy on reducing consumption. The number of people that smoke every day has remained similar to the number that did so in 2015.

It is CITIMA's contention that further attempts to increase the revenue from duty-paid sales will make no significant in-roads into the level of smoking and will drive more people towards duty free from which the Government receives no revenue.

CITIMA also noted the comments of the previous Economic Development Minister who said that more work was needed on understanding the effect that duty rises have on inflation. Looking at the latest RPI figures released by Jersey Statistics⁴, the annual increase for tobacco products was 5.4% in September. Tobacco alone accounted for a +0.1% annual

² The Proposed Government Plan P.97/2022 - <https://statesassembly.gov.je/assemblypropositions/2022/p.97-2022.pdf>

³ The Jersey Government Plan for 2022 – 2025 P.90/2021 - <https://statesassembly.gov.je/AssemblyPropositions/2021/P.90-2021.pdf>

⁴ Jersey Retail Prices Index September 2022

<https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20Latest%20RPI%2020180518%20SJ.pdf>

change to RPI, impôt duties overall contributed +0.2% pp to the overall annual change in RPI.

Conclusion

As we said in our letter to the Treasury, we believe that the point of diminishing returns has been reached and the revenue raised from tobacco sales will begin to fall as smokers return to duty-free sales now that travel restrictions have been lifted. Duty increases that continue to be significantly above inflation are not producing the desired health objectives of reducing the number of people who smoke, as a large and growing number of adult smokers are simply switching to more affordable channels to purchase tobacco products.

It is CITIMA's view is that a rating of 7.9% (June RPI) +1% should be considered for all tobacco products for 2023 while the economy rides out the effects of this downturn. After two years of disruption from the Covid-19 pandemic, plus the energy crisis caused by the war in Ukraine, ordinary islanders' incomes are being adversely hit.

Thank you for the opportunity to submit these comments. Please do let me know if you would welcome any further information or discussion.

Your sincerely,

Chris

**Chris Rayner,
On behalf of CITIMA.**