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Corporate Services Scrutiny Panel

Morier House,
St Helier,
Jersey,
JE1 1DD

25 October 2013

Dear Chairman,

Thank you for the opportunity to make this submission.

It will not surprise the panel to learn that we believe the proposed rise in tobacco duty of more than nine times the current inflation rate is far too high.

To remind Members of the experience over the last few years, 2012's Budget debate saw a 13.2% duty increase proposed by the Treasury Minister, and 2011 saw a 10% rise proposed.

As a consequence of these inflation-busting duty increases, we have reached the point where the vast majority of the retail price of a packet of cigarettes is actually paid to the Treasury in tax (for example, 72.97% of the retail price of a packet of 20 Royals Cigarettes is made up of impot duty) with the remainder shared between the retailer, the importer and the manufacturer.

The rationale for these increases is usually stated as being that they will reduce the consumption of tobacco. Yet this isn't borne out by the actual statistics. The Jersey Annual Social Survey shows that the percentage of people who have never smoked has remained static since 2007; in addition, our own survey of duty free consumption, undertaken in August 2013, shows that the 41% of cigarettes smoked in Jersey are purchased duty-free, with 48% of smokers were buying more than in previous years; 98% of smokers said the motivation was the price difference. If those duty-free sales were made in local shops, the Treasury would gain an extra £9.1m in duty revenue.

The conclusion we draw from that data is that as a result of the duty increases, people are simply transferring their purchasing of tobacco from local shops to duty-free outlets – the frequency of travel for Islanders means this is a viable purchasing channel.

On that basis, we are at a loss to understand how these significant duty rises can be justified.

By contrast, the experience in Guernsey is different. The authorities in Guernsey have adopted a policy-based approach to tobacco duty and propose an annual increase of inflation (RPI) plus 3%.

We would urge the States to consider a similar policy. The existing tobacco strategy runs from 2010 to 2015 and called for the Treasury department to set 'an appropriate tax escalator for the period of the strategy'. That does not appear to have happened, and we would urge the Treasury department and the panel to consider the establishment of a policy-based approach.

It is important to note that the Medium Term Financial Plan predicts a drop in tobacco duty revenue of slightly over 17% between 2012 and 2015. Successive tobacco duty rises have done nothing to arrest that trend; quite the contrary.

Finally, it is concerning to note the serious political allegations which have once again been made against our industry, on the subject of margins. Once again we need to point out that these allegations seem to be built on misleading data. The Budget document quotes the price of £6.80 for Jersey for 20 cigarettes and £7.77 for the UK to support further assertions on margins, but little effort appears to have been made to ensure a like-to-like comparison in terms of branding or vendor, or both.

The recommended retail price for a typical packet of 20 king-size cigarettes in the UK is £7.98 (according to the Tobacco Manufacturers' Association), with, for example, the price of a packet of Benson and Hedges at around £8.23. By comparison, a similar packet of Benson and Hedges would cost around £6.74 in Jersey.

Sticking with Benson and Hedges as an example, the prices without tax are £2.25 (UK) and £2.13 (Jersey) – hardly evidence of excessive margins, if you take into account that the 12 pence per packet difference has to include the costs of shipping and higher wage and land costs in Jersey (which are, ironically, supported by higher inflation).

We are very keen to come and give evidence to the panel on these points, or any further points that you wish to discuss.

This letter is sent on behalf of CITIMA (the Channel Island Tobacco Importers and Manufacturers' Association) which is made up of the main tobacco importers and manufacturers operating in the Channel Islands – JJ Fox Trading Ltd, Victor Hugo Ltd and Bucktrouts & Co Ltd, British American Tobacco, Imperial Tobacco Limited and Gallaher Ltd (a member of the JTI Group of companies). CITIMA exists to promote balanced and informed debate around smoking issues in the Channel Islands.

Yours sincerely,

James Filleul - CITIMA