

# What is the history of uk tobacco taxation policy, what are the outcomes from the...

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## Introduction

The tobacco epidemic is one of the biggest public health threats the world has ever faced (WHO). Research has shown that there are 1.1 billion smokers in the world today and if this current number continues to rise at the current rate, then that number is expected to rise to 1.6 billion by the year 2025 (WHO). Tobacco smoke is harmful to smokers and harms nearly every organ of the body, diminishing a person's overall health. Millions of people have health problems caused by smoking tobacco and it is a leading cause of cancer causing cancers of the lung, larynx, mouth, pancreas, stomach, as well as acute myeloid leukemia and cardiovascular diseases. Around the world smoking causes not only diseases and disability, it kills enormous numbers of people. As research has shown tobacco is responsible for approximately 443,000 deaths – one in every five deaths – each year in the United States (U. S DoH, 2010). In the United Kingdom, it is responsible for more than 120,000 deaths a year, more than all other drugs combined (Peto et al., 1994). Treating smoking related diseases costs the National Health Service in excess of £1.5 thousand million a year. Furthermore, a report by the Policy Exchange in 2010 estimated the total cost to society of the smoking to be £13.74 billion (bn); £2.7bn includes cost to the NHS but also the loss in productivity from smoking breaks (£2.9 bn) and increased absenteeism (£2.5bn). As the Policy Exchange estimated, costs also include: the cost of fires (£507m), the loss of economic output from the death of smokers (£4.1bn) and passive smokers (£713m)

In the 2011-12 financial year, the Government spent ? 88. 2 million on the stop smoking services in the United Kingdom alone plus additional ? 66. 4 million on medicinal aids.

## **The rise of tobacco taxation**

The United Kingdom Government already intervenes in many ways to prevent, minimize the consequences of the harms caused by smoking. In an effort to reduce the number of smoking-related deaths, the Department of Health has introduced a number of measures including media and education campaigns about the dangers and harms of tobacco smoke, stop-smoking and nicotine replacement therapies – available through the NHS service, a comprehensive ban on tobacco advertising and promotion and regulation of the contents and labeling of tobacco products. However, since evidence shows that price increases have a major effect on decreasing both smoking prevalence and consumption above all other tried and tested measure, increasing the price has therefore become the main tool in the policy of the United Kingdom to reduce smoking (BMA, 2010).

Cigarettes, which are the most popular of all tobacco products in England, are now sold at historically exorbitant prices. In order to understand how the prices of tobacco products have become so high, it is therefore necessary to first gain an overview of the history of the tobacco tax and its development. Somewhat surprisingly, the United Kingdom has a very long history of tobacco taxation policy. Excise tax on tobacco was first introduced only one century after tobacco first was introduced into the United Kingdom in 1660 – although the present framework of the specific and ad valorem excise duty

on cigarettes was introduced in 1976 in order to ease tax harmonization within the EEC. However, it was then not until the past two decades that tobacco taxation really became the main tool and policy in fighting the ills of smoking on society. From November 1993 to November 1999 there was a clear commitment made by the government to increase tobacco duties annually in real terms, initially by at least 3% on average per annum. This was carried out diligently for a while until in July 1997 the Labour Government announced it would raise cigarette taxes by at least 5% above the rate of inflation each year. This new commitment was carried through in both the 1998 and 1999 budgets, but in November 1999 the Chancellor abandoned this policy. Instead, it was announced that extra revenue raised from future tobacco tax rises would be spent on health care of Great Britain. Thus, from 2001 until 2008 tobacco taxes rose only in line with inflation. However, in 2009, tobacco duties were increased again by 2% on the basis of a deflationary forecast in the Retail Price Index of - 3%, therefore representing increase an on 5% in real terms (HM Treasury, 2009) The Chancellor then announced in 2010, that tobacco duty would rise by 1% above inflation for the current year. Furthermore, a commitment was made to rising tobacco duty by 2% above inflation from 2011 to 2014. This was implemented by the current new Conservative-led coalition Government in the 2011 Budget. Moreover, legislation was introduced in the Finance Act 2012 to increase the duty rates for all tobacco products by 5% above the rate of inflation (based on RPI) from the 21st March 2012. This added 37 pence to the price of 20 cigarettes, 12 pence to the price of pack of five small cigars, 37 pence to the price of a 25g pouch of hand-rolling tobacco, and 20 pence

to the price of a 25g pouch of a pipe tobacco (HM Treasury, 2012). Thus one can perceive that although it is not a consistent implementation of policy, there is a growing severity in the percentage of tax. Against the effects of increased taxation the tobacco industry, however, has been fighting back by keeping the price of its cheapest cigarettes almost static despite various increases in tobacco taxes. This therefore has had an effect in limiting the effectiveness of the United Kingdom's public health policy to reduce smoking through higher prices (Bath University Tobacco Control Research Group). As a result, the price of cheaper cigarettes has remained almost unchanged since 2006 and their market share has doubled compared to expensive premium cigarettes. This therefore suggests that as cigarette taxes are raised, many smokers will down trade to cheaper cigarettes and just carry on smoking.

## **Criticisms of the tobacco tax**

Since the Government started launching a full-scale attack on the tobacco industry, a lot has been written about the Tobacco taxation policy. A number of studies have shown that taxes can indeed be significant in reducing smoking. By way of example, John A. Bishop and Jang H. Yoo (1985) determined that the consumption of cigarettes is significantly affected by taxes that are levied on the tobacco products. The tax, they found, had more of an effect on consumption than did any other interventions previously implemented. Additionally, W. Kip Viscusi (1990) found that excise taxes discourage smoking by serving as a monetary cost for the risks associated with smoking.

From this it can be perceived that raising tobacco prices are therefore one of the most effective means of reducing tobacco use, especially among price-sensitive smokers such as younger member of society and people with low incomes. The specific question of whether the youth are more or less responsive to prices than adults, has been examined in a number of studies using individual-level data (Lewit, et al., 1981; Lewit and Coate, 1982; Grossman et al., 1983; Wasserman et al., 1991; Chaloupka and Grossman, 1996; Farrelly, et al., 1998, and Tauras and Chaloupka, 1998). However, findings from those studies are mixed. The earlier studies on this issue (Lewit, et al., 1981; Lewit and Coate, 1982; and Grossman et al., 1983) found that the youth are more sensitive to prices than are adults; however, they are far more likely to smoke. Interestingly, a recent study in the United Kingdom found that smoking cessation before middle age avoids more than 90% of the lung cancer mortality risk attributable to tobacco which may affect the younger members of society's views on the risks associated with it and may lessen the health warnings (Peto et al, 2000).

It can also be seen that studies from high-income countries are consistent with those from low and middle-income countries, in that they both find strong and consistent evidence that increases in the prices of tobacco products lead to the significant reductions in cigarette smoking regardless of location or the country's wealth. However, a number of other arguments have been raised for tobacco taxation policy and need to be considered. To elucidate, there are a number of political, economic, and social arguments

that have long been used as arguments against significant tax increases in tobacco taxes.

It has been argued by critics that higher tobacco taxes will lead to increased smuggling and other related criminal activity such as black market cigarettes sold without tax, or even encourage fake cigarettes than can be even worse for health. A second common objection to tobacco tax increases is that they will usually fall disproportionately on the poor who have less expendable income to indulge such habits compared to wealthy individuals who will not notice the increase so much. Growing amounts of literature suggest that tobacco tax increases might be progressive (Gabe, 2009). As discussed above, several studies have concluded that people who live on a lower income are more responsive to changes in cigarettes prices than higher income persons, implying that high taxes reduce smoking by more in lower income groups. A final major argument that is often employed in the debate over increased cigarettes taxes is that these tax increases would lead to reductions in employment. As HM Revenue and Customs has estimated, in the United Kingdom the tobacco industry employs around 17, 000 people in direct manufacture in the tobacco trade alone (HM Revenue & Customs, 2010).

As shown, the significant consideration on the current literature on tobacco has been the critical analysis of Tobacco taxation policy, but there has been shown to be little to answer the question about the actual stakeholders involved in the policy itself and what determines their actual positions and interest. Therefore, to shed some valuable light on this, the stakeholder

analysis will be used in this essay. Moreover, the value creation framework will also be used in order to understand the hypothesized causal chain of how political policy can exert influence on tobacco use behavior. Finally, available empirical data provided by HM Revenue and Customs will be used to base the judgments on both quantitative and qualities data.

### **Identifying the stakeholders of Tobacco taxation policy**

Tobacco control strategist's need finely honed analytical skills in order to identify all the stakeholders involved in tobacco taxation policy and to determine their positions through research and interviews of each stakeholder. In addition, they will also need to assess each stakeholder's relative power and influence over other stakeholders. On the basis of this analysis, strategists from tobacco control must therefore facilitate an alliance between the supportive and the neutral groups by accentuating common interests and goals, emphasizing the shared benefits of a tobacco tax increase. Chevalier identifies three key attributes to be examined in a stakeholder analysis. 1. Power (authoritative, command and control and legislative power) 2. Legitimacy (righteousness, impartiality or technical credibility) 3. Sense of urgency or interests with regard to the subject matter. This will therefore be utilized in the examination of the different types of stakeholders this essay will identify.

Figure 1. Stakeholder typology.

Source: Mitchell et. al. (1997)

The possible combination of the attributes in Figure 1 above explains the different types of stakeholders in their main groups. In sum, definitive stakeholders possess all three of the attributes mentioned by Chevalier. Dependent stakeholders, however, they have keen interests and legitimacy but no power. Contrastingly, dominant stakeholders have power and legitimacy but have no urgency or interest. Dangerous stakeholders on the other hand have power and a keen interest but not legitimacy. Moreover, dangerous stakeholders do not possess the technical expertise and wisdom and as such could do more harm than good in the attempt to increase tobacco taxes. Figure 1. helps us to understand which of the stakeholders are likely to support, and which are likely to oppose an increase in excise tax for tobacco products. I shall now explain and elucidate the major four groups that appear from these six types:

**Group 1: Bureaucrats**

1. Excise Department within the Treasury.
2. National Tobacco Control office and Ministry of Health.
3. Local governments.

The first of this group, the Excise Department, is within the Ministry of Finance and is usually interested in revenue generation and thus supports the tobacco tax increases. The Customs Department Officers and their policy, however, can also overvalue the effect of tobacco tax rise on smuggling. Unless they are brought on board through incentive schemes and advocacy, they may be against tax increases. However, if confiscation

incentives are attractive then they may also support tax rises on tobacco and tobacco related products. The Fiscal Policy Office and the Bureau of Budget might have a more conservative view about tax increases in general, but they would be likely to support an increase of taxes on tobacco products. The Ministry of Health and National Tobacco control office are usually strongly supportive of decreasing tobacco product consumption through economic and non-price measures. They are the most legitimate with keen interests but no power in law. They therefore have to form an alliance with the Excise Department and other stakeholders to ensure the adoption of a tax increase on tobacco products. Local Governments also generally supports an excise tax because it usually means more revenue for local government units.

**Group 2: Tobacco Industry.**

1. Local manufacturers.
2. Tobacco industry
3. Importers (the proxies of the transitional tobacco industry)
4. Tobacco growers group and association, local tobacco growing industry.

As evidence shows, as it is perhaps be expected, the Tobacco Industry resists any and all tobacco tax increases, because this results in a lower profit margin for its stakeholders. The Tobacco Industry`s own documents they disseminate prove that the industry can resort to dishonorable tactics to persuade governments to maintain the lowest possible retail price for tobacco products. For example, when ad valorem taxes are used,

manufacturers have been known to sell cigarettes to a related marketing company at an artificial low price, therefore reducing their tax liability. In the case of absence of good governance the tobacco industry may provide direct and indirect incentives to government official to block or even delay actions to raise tobacco excise taxes. In this situation the role of non-governmental organizations (NGOs) is critical as an NGO can bring unethical practices to the attention of the public; they are also able to apply pressure on government officials to remain accountable to the population.

### **Group 3: NGO and media**

1. Community-based organizations
2. Civic organizations
3. Media
4. Other special interests groups.

The NGO community can be characterized as a very demanding stakeholder, because they have a strong interest in protecting health against tobacco; therefore, NGOs will support tax increase measures. When, they are equipped with knowledge on the subject matter, they become legitimate dependent stakeholders. Thus, the crucial role of NGOs acting a society`s “watch dogs”. The media`s role is from a different angle and is to inform the public about the issues surrounding the debate on tobacco taxes, its increases and decreases. Accordingly, the media can have a huge influence on tobacco awareness and taxation as the media can shape and influence public opinion. Media that is accurately briefed on the benefits of tax

increases to reduce tobacco consumption can, however, be transformed into legitimate stakeholders who support increasing the tobacco taxes. Although it should not be forgotten that the tobacco industry also had the ability to apply pressure on the media, through direct bribes or the threat of withholding advertising revenue, in order to discredit the value of tobacco tax increases. So they therefore are a group that could go both ways.

#### **Group 4: Academia and professional associations.**

1. Economists.
2. Physician`s groups.
3. Health associations (Cancer society, heart associations etc.)
4. Other health professionals group.

The academic community and the professional community are to be considered as dependent stakeholders. They have both legitimacy and an interest in the subject matter but no decision making power. However, this category of stakeholders can play significant role as credible experts in validating the evidence provided to the media and the general public.

#### **Applying the value creation framework.**

The value creation framework was developed by International Tobacco Control (2006) in order to measure the impacts of tobacco control policy.

Figure 2.

This is a conceptual model illustrating a hypothesized casual chain of how policy exerts influence on tobacco use behavior. The conceptual model (figure 2) assumes that policy ultimately has an influence on behavior through a specific casual chain of psychological events as can be seen in the diagram. It is a general framework for thinking about policy and its effects on a broad array of important psychosocial and behavioral variables, and for testing how policy distinctions relate to their effectiveness. From the framework it can be seen that policy potentially affects individuals due to a variety of psychosocial and behavioral variables, of which there are two classes.

1. The most immediate effects are those on the policy-specific variables – that is, price which affects perceived costs of cigarettes. This is the price of tobacco products, which has increased since policy-makers started interventions to date.

2. Psychosocial mediators, which are conceptually distant from the policy and which theorized to be affected by multiple means, not just policies. These are variables such as self-efficacy and intentions, beliefs and attitudes, which come from well-known psychosocial models of health behavior.

Accordingly, tobacco taxation is effective in a two-fold way: Policy-specific variables such as the price of cigarettes affect smoking habits as psychological mediators that affect psychological smoking habits themselves. The evaluation of the control policies used for combating

tobacco at the population level is still in its fundamental stages of development, accordingly, studies conducted on the effectiveness of policies to control tobacco intake are hindered by the same limitations. Cross-sectional studies are lacking in validity as they are poor in their ability to contribute attributions – although longitudinal studies are naturally greater in internal validity. Sadly the limited number of such research into tobacco policy means there is a general lack of comparison available for analysis. Evaluation of tobacco smoking control policy data should come to fruition further once time has followed its natural course and there is more material to draw on from the new data that is currently emerging. Accordingly, it should indeed be not too long until a true evaluation analysis can be done so the theory can be analyzed properly. It is put forward that the positive accelerating trajectory of the use of tobacco and its effects in the 21st century signifies a foremost threat to global health, that requires a mobilisation and alignment of ‘ researchers, advocates, and governments toward meeting the threat’ (Fong, 2006). By way of demonstration the International Tobacco Control Policy Evaluation Project (the ITC Project) describes the challenges of evaluating the national-level policies of the tobacco taxation illustrating the application of the conceptual model in measuring policy effects on tobacco use behaviours and the psychosocial precursors of such behaviours. In so doing it was found that the tobacco taxation signifies an extraordinary landmark in global tobacco control over use and its terrors, however the path from the promise of effective tobacco control policies to the actual reality of strong implementation of tobacco taxation policies was not found to be easy. The ITC project found many

countries have not yet ratified tobacco taxation policies, and in many countries that have, there is still residual pressure either to delay the implementation or to implement policies in ways that will render them less effective than their potential. The mission of the ITC Project was to conduct evaluation of such policies to establish the evidence base that will give policymakers throughout the world the evidence that will allow adoption of tobacco taxation policies in countries that have not yet ratified such methods, and also to provide for and encourage a strong implementation in those countries that have ratified.

## Conclusion

It has been shown that tobacco has a long history of taxation in this country that has snowballed in severity over the last half decade. It has also been shown there are a number of different vital stakeholders that contribute to the molding of taxation policy. If the conceptual model is indeed correct, higher taxation will continue to reduce smoking substantially. However, as has been highlighted in the criticisms against the taxation policy, there are possible groups who will still continue to smoke regardless and it is indeed more likely that it is lower income groups who will be hit the hardest. Moreover, as smoking is an addiction, it is possible the dedicated and truly addicted lower income smokers will continue and merely resort to other means of paying for their tobacco fix. Regardless of the semantics of how this policy will finally play out, it is clear that the UK is committed to increasing tobacco taxes and as it continues to increase taxation numbers of smokers will continue to drop. This essay does, however, concede that the

policy may plateau at some point wherein smoking is enjoyed by a dedicated minority and the increase in taxes can no longer be justified any further.

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