Tobacco industry strategies to keep tobacco prices low: evidence from industry data (FO-344-3)

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The views expressed are those of the authors and not necessarily those of the NHS, the NIHR, or the Department of Health
Background/Aims

- **Tobacco taxes** are one of the **most effective** tobacco control policies
- The Industry undermines their effectiveness by **differential tax pass through**

**Aim To understand:**
1. TI pricing, profits, and sales
2. Impact of tobacco tax increases (& pricing) on switching, trading down, quitting
3. Trends in cheap tobacco use
INDUSTRY BEHAVIOUR IN THE UK

1. Extensive review of industry and retail literature from 2008-2014

2. Nielsen UK Scantrak data:
   - Collected through electronic point of sale (EPOS) software
   - Census big 4 supermarkets, others sampled or modelled
   - Time series of monthly data from Jan 2009 to Dec 2015
   - N=1,505 products (stock keeping units (SKU))

3. UK Tax rate changes
   - Generally 2% above inflation
   - But varies between 1% and 5% above
Weighted average real price

Key findings

• Narrowing in price gap between RYO and FM within each segment after 2011

• Price gap between most and least expensive product widens (£1.74 to £2.48 across study period), especially since 2012 with stagnation in price of cheapest products
Weighted average real price

Key findings:
- RYO considerably cheaper than FM
- Widening price gap within FM (7p to 13p) and RYO (10p to 16p)
- Widening gap between FM and RYO
- Real prices have increased in all segments but not always obvious to smokers
Net real revenue per pack by price segment for popular pack sizes
Change in net real revenue per pack post-budget (difference in revenue per pack in each post-budget month compared with budget month)
## Price rises from tax or industry revenue growth 2013-15

<table>
<thead>
<tr>
<th></th>
<th>Total price increase (£)</th>
<th>Government tax increase</th>
<th>Tobacco industry revenue increase (£)</th>
<th>% of price change that is government tax</th>
<th>% of price change that is tobacco industry revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Jan 2013 to Dec 2015</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>FM premium 20 stick</td>
<td>£1.29</td>
<td>£0.76</td>
<td>£0.53</td>
<td>59%</td>
<td>41%</td>
</tr>
<tr>
<td>FM mid price 20 stick</td>
<td>£1.08</td>
<td>£0.70</td>
<td>£0.38</td>
<td>65%</td>
<td>35%</td>
</tr>
<tr>
<td>FM <strong>value 19</strong> stick</td>
<td>£0.83</td>
<td>£0.62</td>
<td>£0.21</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>FM <strong>sub value 19</strong> stick</td>
<td>£0.37</td>
<td>£0.43</td>
<td><strong>-£0.06</strong></td>
<td><strong>116%</strong></td>
<td><strong>-16%</strong></td>
</tr>
<tr>
<td><strong>Total FM</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>67%</strong></td>
<td><strong>33%</strong></td>
</tr>
<tr>
<td><strong>Total RYO</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>52%</strong></td>
<td><strong>48%</strong></td>
</tr>
</tbody>
</table>

Note: The values highlighted in red indicate significant changes or highlighted for emphasis.
## Price rises from tax or industry revenue growth 2010-12

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<th>Total price increase (£)</th>
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<th>% of price change that is tobacco industry revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Jan 2010 to Dec 2012</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>FM premium 20 stick</td>
<td>£0.91</td>
<td>£0.75</td>
<td>£0.16</td>
<td>82%</td>
<td>18%</td>
</tr>
<tr>
<td>FM mid price 20 stick</td>
<td>£0.96</td>
<td>£0.81</td>
<td>£0.15</td>
<td>84%</td>
<td>16%</td>
</tr>
<tr>
<td>FM value 20 stick</td>
<td>£1.12</td>
<td>£0.93</td>
<td>£0.19</td>
<td>83%</td>
<td>17%</td>
</tr>
<tr>
<td>FM value 19 stick</td>
<td>£0.95</td>
<td>£0.82</td>
<td>£0.13</td>
<td>86%</td>
<td>14%</td>
</tr>
<tr>
<td>Total FM*</td>
<td></td>
<td></td>
<td></td>
<td><strong>84%</strong></td>
<td><strong>16%</strong></td>
</tr>
<tr>
<td><strong>Total FM</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>84%</strong></td>
<td><strong>16%</strong></td>
</tr>
<tr>
<td>RYO premium 12.5g</td>
<td>£0.58</td>
<td>£0.47</td>
<td>£0.11</td>
<td>81%</td>
<td>19%</td>
</tr>
<tr>
<td>RYO mid price 12.5g</td>
<td>£0.60</td>
<td>£0.47</td>
<td>£0.13</td>
<td>78%</td>
<td>22%</td>
</tr>
<tr>
<td>RYO value 12.5g</td>
<td>£0.55</td>
<td>£0.45</td>
<td>£0.10</td>
<td>82%</td>
<td>18%</td>
</tr>
<tr>
<td>Total RYO*</td>
<td></td>
<td></td>
<td></td>
<td><strong>80%</strong></td>
<td><strong>20%</strong></td>
</tr>
</tbody>
</table>
Conclusions

- TI doing a number of things to keep packs cheap & keep smokers smoking, while maximising profits:
  - introducing new even cheaper products & segments
  - cutting no. sticks per pack & using price marking
  - yet price per stick maintained/increasing
  - smoothing the impact of the tax increase throughout the year so smokers never face a sudden price increase
- Overall TI is overshifting & increasing revenue – on both RYO & FM, and in all periods (even when tax increases high): illicit not a sufficient threat to change industry behaviour
- Large, sudden tax increases appear to reduce industry’s ability to undershift & game the system