

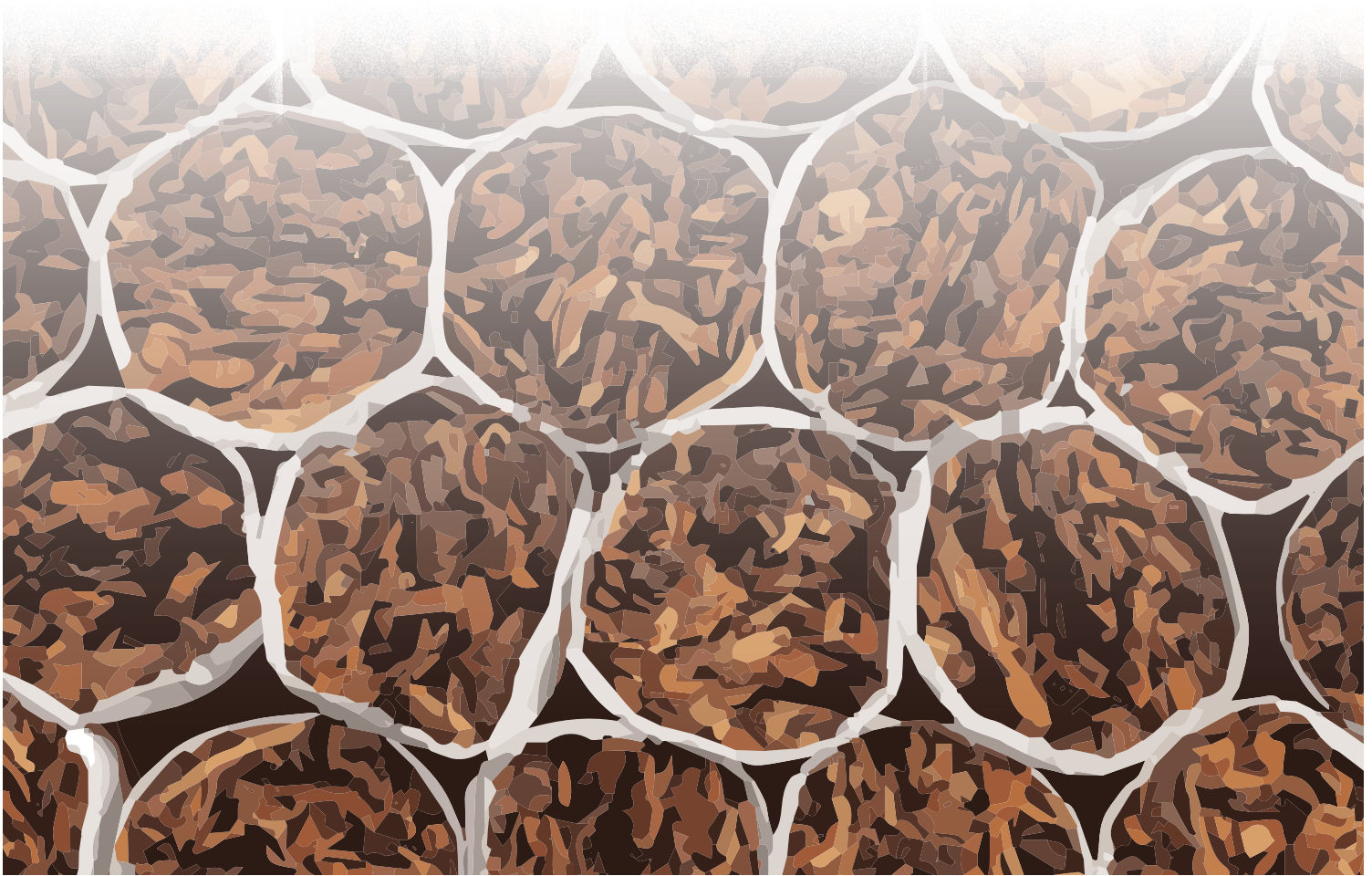


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HOW A MINIMUM FLOOR PRICE ON TOBACCO CAN ACHIEVE BETTER POLICY OBJECTIVES IN SCOTLAND

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EXECUTIVE SUMMARY

INTRODUCTION

Improving the overall health of the population is one of the strategic objectives of the Scottish Government whose stated ambition is to create a 'tobacco-free generation' by reducing smoking prevalence to 5% by 2034.¹ The Scottish Government's five-year strategy sets out a range of radical measures to eradicate smoking including the possible introduction of a minimum, inflation-adjusted retail price on all tobacco products below which sales are prohibited.² The purpose of this report is to examine whether a minimum floor price can achieve better policy objectives in Scotland, including public health outcomes, by inducing people to stop smoking tobacco.

BACKGROUND AND CONTEXT

Tobacco smoking represents a significant public health challenge for Scotland, with one in five of all deaths attributable to smoking. There is also a clear correlation between deprivation and higher smoking levels, contributing to health inequalities amongst the population.

There is evidence to support pricing strategies as an effective means to reduce smoking rates, particularly amongst price-sensitive smokers on low incomes, and taxation is the most commonly used intervention in raising prices.

Amongst European (EU) countries, the UK has the second highest total tax on cigarettes³ and some of the lowest rates of smoking prevalence.⁴ The correlation between smoking cessation and tax increases supports the findings that pricing is one of the most effective ways of reducing smoking as part of a comprehensive tobacco control strategy.⁵

However, it is recognised that this approach allows flexibility in the application of excise duties, with some tobacco companies choosing to absorb tax increases to keep their lowest priced brands affordable. Some studies show that in real terms the retail price of the cheapest tobacco products in the UK have changed little over the past 15 years.⁶

The research evidence suggests that a minimum 'floor price' is more effective than a minimum 'mark-up price'

policy, prevalent across the United States, as it would combat the use of promotions and discounts, which allow manufacturers to affect retail prices. It is also seen as more effective in tackling poor public health outcomes associated with smoking than existing tobacco taxation.

There are few international examples, where the minimum floor price policy has been introduced, including Malaysia (2011) and New York City (2014).

The emerging lessons for Scotland are that cross border trading and the illicit cigarette market must be controlled if a minimum floor price strategy is to succeed in reducing smoking rates.

THE POTENTIAL IMPACT OF A MINIMUM FLOOR PRICE

A choice-modelling exercise, with a representative sample of over 1,000 smokers in Scotland, has been conducted to test the extent to which the price of tobacco would influence consumers in their decision to either cease smoking or adapt their smoking behaviours.

The choice-based exercise was structured to represent a range of tobacco products and brands (premium, mid-price, value, ultra-value) with scenarios varied in random order by different floor price combinations - £8.70 and £9.35 for cigarettes; £12, £13 and £14 for a 30g pack of hand-rolling tobacco (HRT), also known as roll-your-own (RYO).

This research found that price is clearly an important factor in the purchase decisions of smokers in Scotland. Overall, smokers state price (51%) followed by taste (41%) and brand (37%) as the most important consideration when buying tobacco products.

There is evidence to suggest that even under current prices, there is a level of intention to quit or take up vaping among all smokers in Scotland,

although this is relatively low with 2.9% having thought about quitting and 3.5% having considered vaping. However, there is an increased propensity to switch away from smoking as a result of minimum floor pricing, although there are some significant differences between consumers of tobacco.

Across all smokers the most significant shifts occur at the higher minimum prices for both cigarettes and rolling tobacco with 3.7% choosing to quit and 5.6% choosing to vape. Among cigarette users the current propensity to either quit smoking or move to a vaping product increase by around half (48%) with most of the movement out of smoking coming from consumers of ultra-value products.

Significant shifts from smoking also occur amongst consumers of rolling tobacco at the higher minimum prices, similar in proportion to cigarette smokers. There is an increased outflow to illicit alternatives of up to 1.8%, although, a very slight pulling back (amongst all smokers) when the minimum floor price of rolling tobacco increases alongside the higher price for cigarettes. This suggests that higher prices for rolling tobacco may frame cigarette prices more positively. There is also some movement up from value to mid-price rolling products, more than is observed for cigarette buyers.

Heavy smokers (20+ cigarettes per day) are likely to double their propensity to quit or vape, while older smokers (aged over 55) and female smokers are among those who will increase their intent by more than half.

Less affluent smokers further downgrade the importance of other factors in favour of price and value for money. Those with an income under £25k per year and Social Grade DE are more likely to struggle to pay for tobacco products and more likely to perceive price as the most important factor in purchasing tobacco (64%). Consequently, it is those using ultra-value brands that are most likely to be

affected by the introduction of a minimum price. Instead of moving to another cigarette brand, they will more likely move to vaping or quit smoking.

The most significant shifts from smoking cigarettes amongst social grade DE consumers occurs at the higher minimum price of £9.35 (with the minimum RYO price set at the lower £12 per 30g). In this scenario the propensity to quit or vape increases by 51% on the base position, although the propensity to purchase illicit products also increases by 168%.

A minimum floor price has the potential to drive up illicit trading amongst all consumers with the propensity increasing by over half (65%) as well as increasing cross-border trade (rising from 6% to 29%). Smokers in the social grade AB, with higher incomes (+£60k p.a.) and fewer financial worries are more likely to be mobile (travelling for work) and relatively savvy when it comes to buying cigarettes. Cross border purchases among this group would rise from 17% to 46%.

The proportion of all tobacco products that would be purchased in England, if the product was significantly cheaper, broadly correlates to region and how far they are from the border.

TOBACCO CONSUMPTION AND TAX TRENDS

Evidence suggests that raising the price of tobacco through taxation is most effective as part of a comprehensive tobacco control strategy.⁷ In the UK, it has been estimated that an increase in tobacco tax of 5% above inflation would lead to a fall in the number of smokers by 334,000, a reduction of 0.7 percentage points.⁸

Despite falling rates in consumption, excise tax duty from tobacco had continued to rise, although remaining broadly flat since 2011/12 before falling off in 2016/17 and 2017/18. The total UK receipts from tobacco duties in 2017/18 was £8.8 billion. However,

the Office for Budget Responsibility estimates tobacco duties will raise to £9.1 billion in 2019-20.⁹

Receipts apportioned to Scotland have loosely followed the UK pattern, although exceeding the UK average between 2011 and 2016 before falling below the UK, and all other home nations. In 2017/18, Scotland accounted for 11.4% of all HMRC's tobacco duties, totalling £1.08bn. Down from 13% (£1.3bn) in 2012/13.¹⁰

Cigarettes have accounted for over 85% of UK total tobacco receipts in the last ten years. The Minimum Excise Tax (MET), introduced in 2017, has quickly become ineffective at protecting tax revenues. There are various conflicting estimates about the cost of tobacco to the UK which are subject to a great deal of variation in data as well as the assumptions used to calculate the impact, for example, whether wider taxes attributed to the tobacco industry (income and corporation taxes) are included or how the real costs to the NHS or productivity are calculated.

The cost of tobacco use to the UK is contested and advocates have used their estimates to best support their political or policy position. Based on the choice model exercise, our calculations estimate that a minimum floor price could deliver an overall reduction in tobacco consumption in Scotland by up to 4.5%. This would have budgetary implications for UK tax revenues, outflow to illicit alternatives, and potentially the funding of smoking cessation and public health campaigns in Scotland.

CONCLUSIONS AND RECOMMENDATIONS

The introduction of a minimum floor price for tobacco has the potential to increase the propensity of all smokers to quit or vape, doubling it in some cases. The highest uplift is among heavy smokers and those on lower incomes.

Fiscally, a floor price is undoubtedly regressive. It disproportionately taxes poorer people who choose to smoke, and who will therefore need to spend a greater proportion of their income on tobacco than those who are more affluent. Yet from a public health perspective the floor price is a progressive policy since it is clearly effective in targeting the socio-economic groups that tend to smoke more and who experience the greatest health inequalities.

However, as a stand-alone measure minimum pricing is unlikely to achieve a 'tobacco-free generation'. The minimum floor policy is possibly at the limit of what can now be effectively controlled for through price or taxation. According to the Office of National Statistics (ONS) the proportion of smokers in Scotland is currently 16.3%.¹¹ Based on the choice exercise, modelled at the higher minimum price, this policy has the potential to reduce smoking prevalence in Scotland by around 60,000 people, or 1.52 percentage points. The higher the minimum price, the more likely it is that people will either quit smoking, use illicit tobacco or purchase tobacco outside Scotland.

The findings of this report support a minimum floor price for tobacco as a strategy to reduce the affordability of tobacco products and increase smoking cessation rates. However, while increasing prices would appear to be the obvious solution, the Scottish Government will need to carefully balance minimum prices against tobacco duty policy in the rest of the UK, as well as the potential outflow to illicit sources, which increase substantially under all scenarios.

The introduction of a modest minimum floor price, set at the common entry level price (i.e. the lowest price product), would ensure the existing Minimum Excise Tax policy becomes effective again by preventing some tobacco companies from absorbing tax increases to keep their lowest priced brands affordable.

Should the Scottish Government decide to implement this policy it is recommended that adequate funding for other measures to reduce smoking prevalence are made available. These should include:

- Access to gold standard stop smoking services
- Mass media campaigns that promote smoking cessation and available support
- Increased investment in coordinated enforcement to tackle the illicit supply of tobacco.



1. INTRODUCTION

Successive tobacco control policies in the UK have led to a significant decline in adult smoking levels. In Scotland smoking has fallen, over decades, in line with the UK. According to the Office of National Statistics (ONS), the proportion of smokers in Scotland is currently 16.3% (around 677,000 people) compared with 15.1% of the UK population,¹² although other sources estimate higher rates of smoking prevalence.¹³

Scotland is seeking to go further. Improving the overall health of the population is one of the strategic objectives of the Scottish Government, whose stated ambition is to create a 'tobacco-free generation' by reducing smoking prevalence to 5% by 2034.¹⁴

The Scottish Government's five-year strategy sets out a range of radical measures to eradicate smoking.¹⁵ This includes the investigation of 'additional price interventions for tobacco products', and the possibility of fixing the lowest price at which cigarettes and tobacco can be sold, similar to the minimum unit price for alcohol that was introduced in Scotland in May 2018.

However, this approach is relatively untested. As such there is little evidence to determine the effectiveness of a minimum floor price for tobacco, or what the unintended consequences of such a policy might be.

The purpose of this report is to examine how a minimum floor price on tobacco can achieve better public health outcomes in Scotland. Specifically, we are looking at whether this policy will change consumer behaviour, encouraging people to cease smoking or switch to other products, for example, from cigarettes to roll-your-own, vaping, or illicit products. The analysis is drawn from a choice modelling exercise, based on a representative sample of smokers in Scotland.



2. BACKGROUND AND CONTEXT

There is evidence to support pricing strategies as an effective means to reduce smoking rates, particularly amongst price-sensitive smokers on low incomes. Taxation is the most commonly used intervention in raising prices. There is, however, less research literature or policy practice concerning the specific impacts of minimum floor pricing for tobacco, as opposed to other pricing mechanisms, with limited evidence from other places around the world that have attempted to implement this policy.

2.1 TOBACCO CONTROL POLICIES IN THE UK

The UK is the highest ranked European country for tobacco control measures (followed by Ireland and Iceland).¹⁶ Since the 1960's when the British Government banned the advertisements of cigarettes on television, there have been a succession of policies aimed at the tobacco industry with the intention of reducing smoking. This has culminated in the present regulatory environment where:

- Tobacco cannot be advertised or marketed in any mass media
- Cigarettes and hand rolling tobacco cannot be branded
- No tobacco product can be displayed for purchase
- Packaging must display prominent health warnings
- Smoking is banned in all indoor public places and workplaces.

Alongside these measures, pricing strategies, particularly taxation, have been used by the state to disincentivise tobacco use, recognising the cost of smoking to the nation's health and healthcare. Amongst European (EU) countries the UK is second only to Ireland in terms of the highest total tax on cigarettes,¹⁷ with smoking prevalence rates below all European countries except Denmark, Finland and Sweden.¹⁸ The correlation between smoking cessation and tax increases supports the findings that pricing is one of the most effective ways of reducing smoking as part of a comprehensive tobacco control strategy.¹⁹

However, it is recognised that this approach allows flexibility in the application of excise duties, with some tobacco companies choosing to absorb tax increases to keep their lowest priced brands affordable. Some studies show that the retail price of the cheapest tobacco products in the UK have changed little in real terms over the past 15 years.²⁰

In 2017, the UK introduced a Minimum Excise Tax (MET) to support public health objectives, tackle the very cheapest cigarettes and promote fiscal sustainability. The MET for cigarettes sets a minimum level of excise duty for any packet of cigarettes. This means that the total excise duty on a packet of cigarettes is the higher of either the MET, or the usual application of duties. Whilst at introduction it was set equal to the lowest priced product at £7.35, it is currently (since Budget 2018) only effective on any pack of 20 cigarettes with a recommended retail price (RRP) of less than £7.89²¹ compared to the most common lowest price point of £8.70. As such the policy has quickly become out of date and ineffective.

2.2 SMOKING IN SCOTLAND

Health policy is largely a devolved matter in the UK; although tobacco controls fall within the remit of a number of different government departments including Treasury, Business, HMRC as well as Health. Scotland has responsibility for its own smoking cessation and health education campaigns, while UK-wide policy and law applies to taxation, smuggling, advertising, and consumer protection issues such as the provision of health warnings on tobacco packaging. Some of these measures are determined by European Union legislation.

Nationally²² and globally,²³ tobacco use is the leading cause of premature mortality and preventable poor health. Smoking is the cause of around one in five of all deaths (around 10,000 deaths each year) and kills two in every three long-term smokers in Scotland.²⁴

The Scottish Government's Tobacco Control Action Plan states that taking up smoking is likely to be the single biggest risk to people's health and life expectancy. As such, it is essential that steps are taken to reduce smoking levels amongst the Scottish population to reduce both high mortality rates and its associated health costs for NHS Health Scotland.

2.2.1 HEALTH INEQUALITIES

The impetus to reduce smoking is particularly strong considering the clear correlation between higher smoking levels and deprivation. In 2016, 35% of people living in the most deprived areas of Scotland were smokers, compared to just 10% in the least deprived. Furthermore, 29.3% of pregnant women in the most deprived area were current smokers at their first antenatal appointment, compared to 4.5% in the least deprived areas.²⁵ The Tobacco Control Action Plan also states that in 2016 one third of all cigarette purchases were bought by people with mental health problems. Therefore, it is imperative that decisive steps are taken to help address these critical health inequalities.

2.2.2 THE MINIMUM 'FLOOR PRICE' FOR TOBACCO

One strategy, which the Scottish Government is currently considering, is the introduction of a minimum 'floor price' for tobacco. NHS Health Scotland, in a 2017 study, suggested implementing the policy, and this view will likely guide the Scottish Government until its next tobacco strategy report is published in 2023.²⁶

A 'floor price' could set a minimum retail price on tobacco products, below which sales are prohibited by law. This is known as a Minimum Pricing Law (MPL). Scotland has already set a legal precedent for this with the launch of the minimum alcohol unit pricing strategy in May 2018.²⁷ A minimum floor price would target the retail prices of the cheapest tobacco products, which could encourage low-income smokers to quit smoking specifically by tackling the availability of cheap cigarettes.

A minimum floor price is significantly different to the other main minimum pricing strategy, known as a minimum mark-up. These specify a minimum mark-up price (typically on a percentage basis) by which the price of tobacco products must be increased between manufacturers' base cost and the wholesale price.²⁸ Minimum mark-up laws, however, allow promotional offers such as multipack discounts, meaning manufacturers can reduce the retail price of cigarettes and protect the cheapest brands from price increases. A minimum floor price would prohibit price discounting tactics by raising the price of all cigarette brands,²⁹ and is therefore considered to be more effective than a minimum mark-up strategy for improving public health.³⁰

A minimum floor price should also be regarded as a more progressive form of public health improvement compared to existing excise taxes on cigarettes. NHS Health Scotland states that tax increases to tobacco are generally absorbed by manufacturers as taxes are unequally distributed across products with higher proportional taxes shifted onto more expensive premium brands. Those on lower incomes are more likely to be sensitive to price and therefore more likely to purchase cheaper products, which some sources show are relatively unaffected by tax increases.³¹ Thus, a minimum floor pricing strategy could be more effective than taxation for improving Scotland's public health outlook, particularly amongst lower income groups.

2.3 THE INTERNATIONAL EVIDENCE FOR TOBACCO PRICING STRATEGIES

Different nations have made various attempts to reduce smoking using pricing strategies.

2.3.1 UNITED STATES

Many states in the US have introduced tobacco pricing laws, most of which were implemented from the 1940s onwards. These are largely minimum mark-up laws intended to protect small retailers from larger competitors rather than for public health reasons.³² They allow for the use of promotional programmes and have had little impact on the retail prices of cigarettes.

Like Scotland, there is a clear correlation between deprivation and smoking levels in the US, with 26.3% of American adults in 2014 below the federal poverty level being smokers, compared to 15.2% of those at or above it.³³ However, pricing laws have enabled low-income smokers to deploy price minimisation strategies.

In 2008, US cigarette manufacturers spent \$7.17 billion on reducing the prices of cigarettes through discounts to consumers, wholesalers and retailers, which alludes to the importance that manufacturers place on making cigarettes cheaper for their consumers through reductions.³⁴

In 2012 approximately 55% of American adult smokers used at least one of five price-minimisation strategies, with an average 22% saving, or \$1.27 per pack. These strategies included: making a cigarette purchase by the carton rather than by the pack; taking advantage of a promotion such as a coupon or multi-pack offer; purchasing cigarettes over the internet; purchasing cigarettes on a Native American reservation; or smoking generic cigarettes.³⁵

A large study into the impact of a federal cigarette price policy on US cigarette use had resounding results. It found that a 'floor price' of \$5 per pack of 20 would lead to a 4% reduction in national sales, or 549 million packs, whilst a policy of \$10 a pack would result in a 41.1% reduction in current sales, or 5.7bn packs. The \$5 and \$10 figures would result in approximately 1 million and 10.7 million smokers less smokers respectively due to cessation. The researchers noted that the policy could encourage smugglers. However, they also asserted that with adolescents amongst the most price-sensitive consumers, a sufficiently high minimum price could substantially reduce initiation, leading to lower smoking rates in the long-term.³⁶

2.3.2 NEW YORK CITY

New York City (NYC) is the most prominent example of a jurisdiction establishing a minimum floor price for cigarettes aimed at improving public health. In 2014, New York City's Sensible Tobacco Enforcement Act (STE), or Local Law 97, came into force. This set a minimum floor price for cigarette packs at \$10.50 and prohibited certain price discounting tactics such as coupons and multipack offers.³⁷ New York State's pre-2014 laws, such as the 1985 Cigarette Marketing Standards Act, had proven insufficient in improving public health, as its minimum mark-up price was easily manipulated by manufacturers through price promotions and discounts.³⁸

Retailers were also required to display a tax stamp sign, stating that cigarettes sold in NYC had to be in packages bearing a valid NYC or New York State tax stamp. A research study found that after the passing of the law, compliance with tobacco sales across all stores at the legal price declined from 96.9% to 92.1%, and average prices fell from \$12.47 per pack to \$12.27 per pack. Failure to comply with minimum price laws was highly concentrated amongst independent retailers, with compliance with legal prices falling from 95.9% to 88.9%, whilst in chain stores it rose from 98.7% to 99.2%.³⁹

Further research, which purchased cigarette packs from randomly selected neighbourhoods, found that over 15.1% of the purchased packs were illicit, with 4.5% having out of state tax stamps, and 10.6% having counterfeit tax stamps. All the out-of-state tax stamps were found to be from the state of Virginia, which at the time did not have a minimum price for cigarettes and had the second lowest excise tax in the country.

The researchers found a significantly higher percentage of illicit packs from independent retailers compared with chain stores, with this difference emerging after the passage of the \$10.50 minimum price law. By autumn 2014 at least one illegal pack was purchased at 51.1% of neighbourhoods.⁴⁰

In August 2017, New York City officials passed further legislation, Local Law 145, requiring a minimum retail price of \$13 per pack of 20 cigarettes, which came into force on the 1st June 2018. The Wall Street Journal (WSJ) ran an article on the impact of the new \$13 price in NYC and found that people were easily sourcing cheap cigarettes from Pennsylvania, New Jersey and other neighbouring states as well as from Indian reservations within the State of New York.⁴¹ WSJ cited a report by the Tax Foundation, which found that 56.8% of cigarettes consumed in New York State in 2015 were smuggled into the state.⁴² Sonia Angell, a deputy commissioner within NYC's health department, claimed that half of NYC's cigarettes were illicit, but argued that the minimum price still deterred smoking, as illicit cigarette sources could command higher prices.

2.3.3 MALAYSIA

In April 2011, Malaysia introduced a number of controls including: a minimum inflation-adjusted price of MYR7.00 per pack; a minimum size pack of 20 cigarettes; and the prohibition of price promotions for tobacco products. This was intended to address affordability, especially amongst low-income groups, and the illicit sale of cigarettes. The International Tobacco Control Project found that following the minimum price establishment, the average cost of illicit cigarettes rose. However, the overall proportion of illicit cigarettes increased from 13.4% to 16.5%.

Researchers concluded that Malaysia's minimum floor price did not have a substantial impact on the prices of cigarettes because of a significant market for illicit cigarettes. Malaysia's long land and sea border with Indonesia means that smuggling is rife; half of smokers in a sample reported purchasing cigarette brands far below the minimum level, with half of these purchases originating from Indonesia. They also concluded that the minimum price in 2011 was set too low to noticeably affect the prices of illicit cigarette brands.⁴³

2.3.4 ATTEMPTED IMPLEMENTATION OF MINIMUM TOBACCO PRICES IN THE EU

In 2006, France and Belgium lost a legal battle with the EU Commission over an attempted minimum tobacco retail price policy, with the Commission arguing that the policy would distort competition and disproportionately benefit cigarette manufacturers. The Commission advocated increasing the excise duty on cheap cigarettes, despite the aforementioned evidence that tax increases are generally absorbed by manufacturers.⁴⁴

Similarly, in 2010, several EU countries including Ireland, France and Austria were found guilty of infringing EU law (Council Directive 95/59/EC)⁴⁵ by attempting to establish a minimum retail price for cigarettes. The European Court of Justice (ECJ) ruled that imposing a minimum cigarette price would undermine competition by preventing some manufacturers from offering more attractive retail selling prices.⁴⁶

Scotland's minimum alcohol pricing (MUP) policy, which came into force in May 2018 and established a minimum unit price of £0.50, faced similar opposition in 2015, when the Scotch Whisky Association took the Scottish Government to the ECJ, claiming the policy was in breach of European law. The court ruled that "Scottish legislation introducing a minimum price per unit of alcohol is contrary to EU law if less restrictive tax measures can be introduced", but ultimately left the decision on whether to implement it or not to British courts. The legal precedent, therefore, was that if a minimum pricing strategy was proven the most effective means of achieving a reduction in alcohol consumption, it would be left to national courts to decide on implementation.⁴⁷ The UK Supreme Court subsequently ruled in November 2017 that Scotland was allowed to set a minimum price for alcohol because of its public health benefits.

Scotland's current minimum alcohol price provides a comparator for any future attempt to implement a minimum floor price for tobacco, although the specifics of the Council Directive differ. If Scottish legislators can evidence that a minimum tobacco floor price is the most effective way of protecting public health, the ECJ could leave the matter to national courts. However, with the UK having now left the EU, Scotland will not be bound by EU competition law and would therefore be able to set a minimum tobacco floor price without involving the European courts.

2.3.5 GIBRALTAR'S MINIMUM PRICE POLICY

The UK has already set a precedent for the introduction of a minimum floor price for tobacco. In April 2019 the Government of Gibraltar implemented minimum prices for the retailing of tobacco products. The Government of Gibraltar has committed to ensure that, by 30th June 2020, the average retail price differential of tobacco products will be no more than 32% greater than the most recently published Spanish prices for the equivalent tobacco products in mainland Spain and the Balearics.

In a statement Gibraltar's Chief Minister, Fabian Picardo, said:

"The Government has voluntarily implemented these measures ... [because it is] ... an important area of policy development that we must pursue, in assisting the legitimate market in tobacco, and in assisting our law enforcement agencies, particularly HM Customs, in the control of this commodity. ... [and because] ... smoking causes health problems and controlling the retail price of cigarettes is an important part of how we dissuade people from taking up smoking and persuade others to stop smoking, to their personal benefit and to our collective benefit as providers of universal healthcare funded by the tax payer."

Gibraltar has entered into a Memorandum of Understanding with Spain which comes into effect now that the UK has left the EU.

It is too early for the Government of Gibraltar to assess the impact of this policy, although it is expected that the decision to extend the Memorandum beyond 2020 will be based on the available evidence.

2.4 LESSONS FROM MINIMUM ALCOHOL UNIT PRICING IN SCOTLAND AND CANADA

As discussed, Scotland's implementation of the minimum unit price for alcohol provides a useful reference for tobacco pricing. Evidence from Canada in 2012 strongly influenced Scotland's decision to implement its minimum alcohol price. Extensive research was conducted in the two Canadian provinces of Saskatchewan and British Columbia. In the former, the province set a per litre price rather than a precise per unit price from 2003 to 2010. The province saw an 8.4% reduction in total consumption for each 10% increase in minimum price. Meanwhile, total per capita consumption fell by 3.5%, whilst the value of alcohol sold increased by 4.3% per capita. The substantial increase in minimum prices and their adjustment to reflect the alcoholic content complemented in Saskatchewan in April 2010 significantly reduced alcohol consumption, whilst at the same time increasing government revenue.⁴⁸ In British Columbia, over a series of 8 years, a 10% increase in minimum alcohol prices was associated with an immediate 8.95% reduction in acute alcohol-attributable admissions.⁴⁹

In 2011-2012, a survey of 639 harmed Scottish drinkers – whose alcohol intake had necessitated attendance at an NHS Health Scotland setting – was conducted. This estimated that implementation of Scotland's £0.50 per unit price would lead to more than two-thirds of drinkers from all socioeconomic groups having to reduce their expenditure on alcohol. Overall, they calculated that there would be a consumption fall of between 23.8%-24.8% or 59.7-61.8 UK units per week for the whole sample of 639 people.⁵⁰

In April 2016, the Scottish Government commissioned a broad research project into the likely impact of a £0.50 Minimum Unit Price (MUP) policy in Scotland. They found that alcohol-related mortality and morbidity is particularly concentrated in hazardous and harmful drinkers with low incomes, and that it is only this group that would be affected to a large degree by the policy. The largest reduction in consumption was predicted amongst harmful drinkers at 7%, and hazardous drinkers at 2.5%, which would lead to significant reductions in alcohol-related mortality and hospitalisations.

To achieve the same health outcomes, a 28% increase in alcohol taxation would be required, and yet the MUP would still be more effective at targeting the alcohol consumed by drinkers on low incomes who are at greatest risk, especially harmful drinkers in poverty. This is strong evidence of the effectiveness of the MUP policy, especially compared to increased taxation.⁵¹

The policy has not been without criticism. Opponents have argued that heavy drinkers are much less responsive to price and rather than cease drinking they are more likely to cut back on other outgoings and switch products (e.g. trading-up from ales to spirits) as the early evidence from Scotland appears to indicate.⁵² Research from the Retail Data Partnership shows that the value sales of Frosty Jack's cider – a low-priced alcoholic drink – has fallen by 70% since the introduction of the policy.⁵³

The minimum alcohol price has been branded paternalistic and regressive. The then Chief Secretary to the Treasury, Liz Truss MP, claimed that the policy was part of a creeping 'neo-puritanism' that has infringed individual freedom of choice and failed in its objectives to reduce consumption.⁵⁴

"I observe that the minimum alcohol price in Scotland has resulted in an increase in the consumption of alcohol."
Liz Truss, MP.⁵⁵

A six-month review of alcohol sales by NHS Health Scotland, utilising data from Nielsen, did find a 14% increase in total value purchases across all alcohol in Scotland, due to a 10% average price increase, and a volume purchase increase of 4%. The combination of a long hot summer, the FIFA World Cup and a Royal Wedding have been cited as contributing factors. However, the rise in consumption in Scotland was less than England & Wales, where there was a 7% increase in volume purchases.

The introduction of the minimum unit price for alcohol set a legal precedent for Scotland, but it may yet prove effective in reducing consumption and alcohol-related admissions. The evaluation is ongoing and further evidence is required in judging the success of minimum pricing strategies in achieving better public health outcomes.



3. THE POTENTIAL IMPACT OF A MINIMUM FLOOR PRICE

As recommended by NHS Health Scotland, an important next step in assessing the effectiveness of a minimum pricing strategy in helping to reduce smoking levels will be to 'predict the effects of different levels of floor price' on consumers of tobacco in Scotland.⁵⁶ Market research with smokers in Scotland has therefore been undertaken to determine how consumer behaviour will change if a minimum floor price on tobacco were introduced. This research included a choice-modelling exercise conducted by Impact Research to test the extent to which price would influence consumers in their decision to either cease smoking or adapt their smoking behaviours.

3.1 METHODOLOGY

In March 2019, over 1,000 Scottish smokers took part in an online survey (286 of these were conducted face to face) lasting approximately 15 minutes. Respondents were presented with questions regarding their current smoking behaviour, including:

- Type of tobacco products smoked i.e. Ready-Made Cigarettes (RMC) or Roll Your Own (RYO)
- How long they have smoked
- How often they smoke
- How much they currently pay
- Awareness of brands and price
- Propensity to cease smoking.

Respondents were then asked to take part in a choice-based exercise to test different price and brand combinations. Each respondent saw 10 price scenarios and each scenario comprised 15 tobacco products alongside three alternatives (illicit purchases, vaping and cessation). The scenarios were drawn from a total of 35 products, representing more than 80% of the market, and respondents were directed to scenarios that largely contained their preferred products.

The choices were structured to represent a range of cigarette products (premium, mid-price, value, ultra-value) and rolling tobacco (premium, mid-price, value). In random order, the scenarios varied products by price:

- One scenario – with current prices (no minimum floor price)
- Six scenarios – 2 levels of RMC at the minimum floor price of £8.70 and £9.35 (for 20); and 3 levels of RYO at the minimum floor price of £12, £13 and £14 (for 30g)⁵⁷
- Three scenarios - with the minimum floor price but with the respondent's preferred product removed.

Each respondent was able to select one or more products or one of the three alternatives and from this exercise different purchasing intentions could be ascertained, including decisions to:

- Stick with or change brands
- Modify patterns of consumption
- Switch to a vaping product
- Purchase preferred products from an unofficial source
- Stop smoking.

The resulting data has been weighted to ensure the sample profile is nationally representative of smokers in Scotland in terms of age, gender and social-economic groups (SEG). Three-quarters of those surveyed mostly smoked cigarettes.

Table 1: Survey Sample

		READY-MADE CIGARETTES (RMC)				ROLL YOUR OWN (RYO)			
		UNWEIGHTED BASE		WEIGHTED BASE		UNWEIGHTED BASE		WEIGHTED BASE	
		NO.	%	NO.	%	NO.	%	NO.	%
GENDER	MALE	291	44	358	49	218	56	180	56
	FEMALE	374	56	374	51	170	44	141	44
AGE	18-24	57	9	46	6	29	7	24	7
	25-34	127	19	144	20	122	31	101	31
	35-44	150	23	169	23	85	22	70	22
	45-54	129	19	142	19	78	20	65	20
	55-64	142	21	158	22	65	17	54	17
	65+	60	9	73	10	12	3	10	3
SEG	AB	137	21	298	41	70	18	58	18
	C1	207	31	107	15	83	21	69	21
	C2	109	16	113	15	76	19	63	19
	DE	212	32	215	29	162	41	134	41

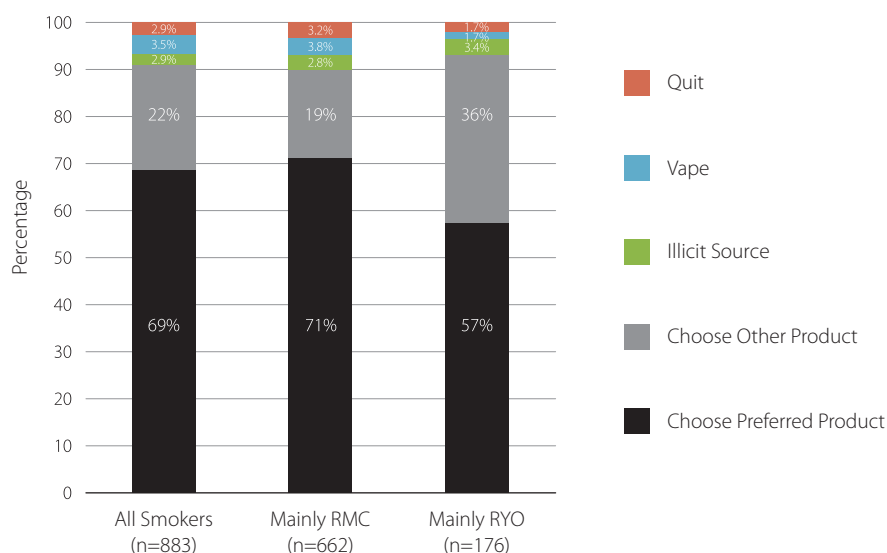
Source: Impact Research, 2019

3.2 RESEARCH FINDINGS

The first level of analysis establishes a base set of smokers' preference shares, i.e. the propensity of smokers to choose products and consider alternatives under current prices. This showed that even under current prices, there is a level of intention to quit or take up vaping, although this is relatively low. Amongst all smokers:

- 2.9% have thought about quitting (higher amongst RMC users at 3.2%)
- 3.5% would consider vaping (higher amongst RMC users at 3.8%), and
- 2.9% would consider/use illicit sources of tobacco (higher amongst RYO users at 3.4%).

Figure 1: Base Set of Smoker Preferences



Source: Impact Research, 2019

Those who mainly smoke cigarettes are most focussed on their preferred products (71%), while those who smoke rolling tobacco will consider a broader range of products but will give less thought to quitting (1.7%) and vaping (1.7%).

Price is an important factor in the purchase decisions of smokers in Scotland. Overall, smokers state price (51%) followed by taste (41%) and brand (37%) as the most important consideration when buying tobacco products.

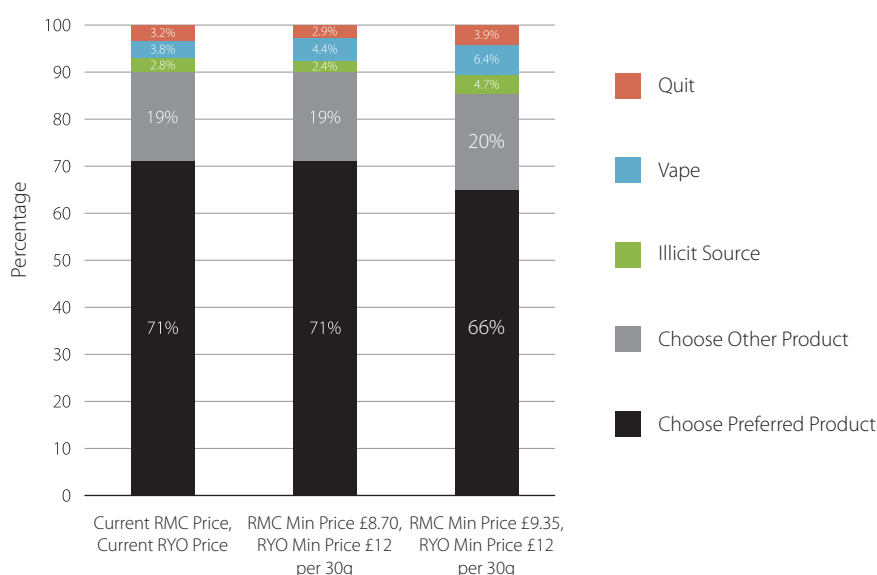
3.2.1 THE PROPENSITY TO CEASE SMOKING TOBACCO

There is evidence that all smokers show an increased propensity to switch away from smoking as a result of minimum floor pricing, although there are some significant differences between consumers of tobacco.

CIGARETTE USERS

Among cigarette users, significant shifts from smoking only occur at the higher minimum floor price of £9.35 and when the minimum RYO price is set at the lower price of £12 per 30g. At this point, the propensity to either quit smoking (3.9%) or move to a vaping product (6.4%) increase by around half (48%) on the base position, with most of the movement out of smoking coming from consumers of ultra-value products. There is also a 68% shift to illicit sources (from 2.8% to 4.7%).

Figure 2: Shifts Away From Smoking Amongst Cigarette Users



Source: Impact Research, 2019

ROLL YOUR OWN USERS

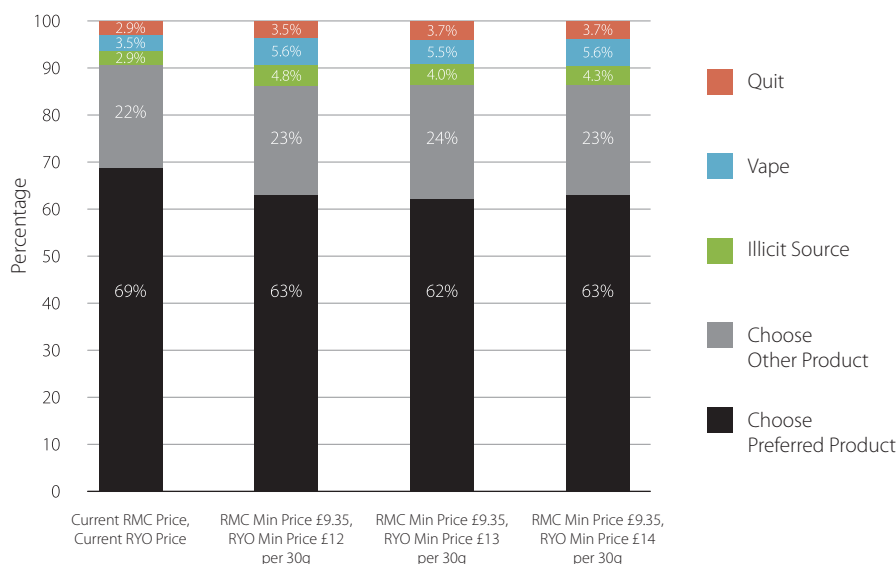
From the outset consumers of rolling tobacco, tend to be less loyal to brands and will move between products. Significant shifts from smoking occur at the higher minimum RYO prices of £13 and £14 per 30g (with the minimum RMC price set at the lower £8.70). In this scenario we find that at:

- £13 per 30g 2.3% are likely to quit smoking and 3.5% vape
- £14 per 30g 2.2% are likely to quit smoking and 3.2% vape.

This is less than cigarette smokers, starting from a lower base.

There is, however, a very slight pulling back from illicit alternatives (amongst all smokers) when the minimum floor price of rolling tobacco increases alongside the higher price for cigarettes. This suggests that higher prices for rolling tobacco may frame cigarette prices more positively. However, overall the outflow to illicit is significant where cigarette prices increase. We also see some movement up from value to mid-price rolling products, more than is observed for cigarette buyers.

Figure 3: Shifts Away From Smoking (all smokers) With Increasing RYO Minimum Prices



Source: Impact Research, 2019

ACROSS ALL SMOKERS

Amongst all smokers in Scotland it is heavy smokers (20+ cigarettes per day), older smokers (aged over 55) and female smokers that show the highest uplifts in their intention to quit or vape in response to a minimum floor price. Those least likely to switch away from smoking are male, younger smokers and higher spenders.

- Those that will **double** their intent to stop smoking or start vaping include those who have been smoking between 3-5 years and smoke more than 20 per day.
- Those that will increase their intent by **more than half** includes those:
 - » Smoke value products
 - » Aged over 55 years, and between 36-45 years
 - » Smoked more than 5 years
 - » Spend below £40 per week on tobacco
 - » Smoke 10 or under per day
 - » Never struggle to buy tobacco
 - » Females.
- Those that will increase their intent **by half** include:
 - » Smoke mainly ultra-value products
 - » Smoke mainly premium products
 - » Annual household income is less than £40K
 - » Social Group DE
 - » Always struggle to buy tobacco.

- Those that increase their intent by a **quarter or less** include:
 - » Males
 - » Spend over £40 per week on tobacco
 - » Aged 35 or less
 - » Smoked for less than 3 years.

The most significant shifts occur at the higher minimum prices for both cigarettes and rolling tobacco with 3.7% of all smokers choosing to quit and 5.6% choosing to vape. A minimum floor price therefore has the potential to reduce smoking prevalence in Scotland to 14.78%, an overall reduction of around 60,000 people or 1.52 percentage points on the current figure.

LOW INCOME / SOCIAL GROUPS

Buyers of ultra-value products tend to be a lot more price sensitive, with price very much dictating what they are going to buy. As consumers they tend to be social grade DE (semi-skilled and unskilled manual occupations, unemployed and lowest grade occupations) and will sometimes struggle to afford cigarettes. They are most likely to be affected by the minimum price. Instead of moving to another cigarette brand, they will more likely leave the category and move to vaping or quitting.

The most significant shifts from smoking cigarettes amongst social grade DE consumers occurs at the higher minimum price of £9.35 (with the minimum RYO price set at the lower £12 per 30g). In this scenario the propensity to quit or vape increases by 51% on the base position, although the propensity to purchase illicit products increases by 168%.

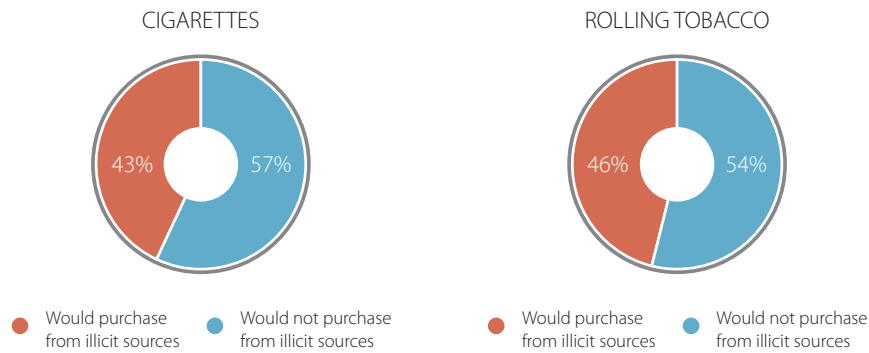
3.2.2 ILLICIT TRADING

A minimum floor price also has the potential to drive up illicit trading with the propensity increasing by over half (65%).

Over 40% (2 out of 5) of cigarette users say they would consider illicit sources. This prospect decreases as consumers get older.

- Among 19-35-year-olds, 54% are likely to purchase illicit cigarettes, and 56% are likely to purchase illicit rolling tobacco
- Among those aged over 65 years 20% are likely to purchase illicit cigarettes, and 25% are likely to purchase illicit rolling tobacco.

Figure 4: Percentage of Smokers Who Would Purchase from Illicit Sources



Source: Impact Research, 2019

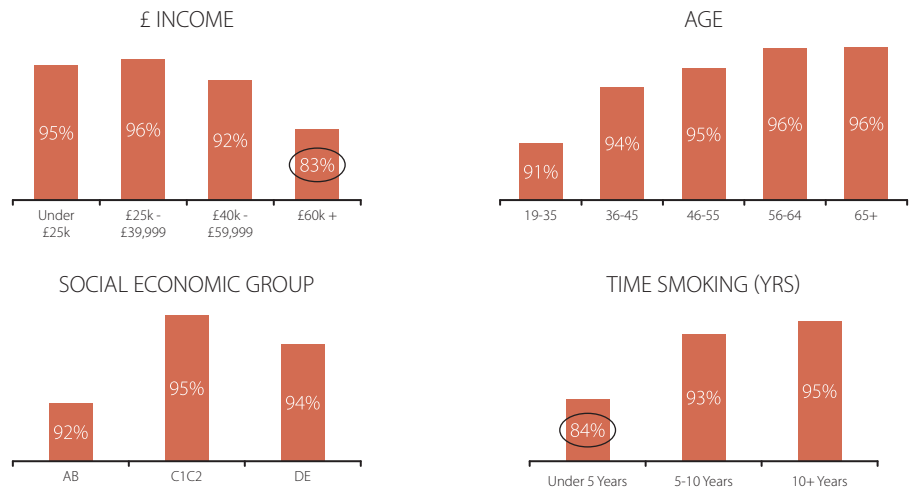
The average price for cigarettes, at which smokers would consider purchasing their main product from illicit sources, is £7.00 per pack compared to £9.16 for a 30g pack of rolling tobacco. However, there is a price point at which consumers would begin to doubt the quality of illicit products. For cigarettes this is £4.69, and £6.42 for a 30g pack of rolling tobacco.

3.2.3 CROSS-BORDER TRADE

At present most tobacco products are bought within Scotland, (94% in the last six months). However, a small proportion of products are bought outside of Scotland with certain groups more likely to purchase elsewhere.

There are several factors likely to influence purchases outside of Scotland but those with higher household incomes (over £60k per annum) and those who have been smoking for less time (under 5 years) are most likely to buy products outside of Scotland.

Figure 5: Proportion of Tobacco Products Purchased in Scotland (all smokers 94%)



Source: Impact Research, 2019

Those who have changed their purchase behaviours are also more likely to reduce the amount of purchases in Scotland, including those who have:

- Changed where they usually purchase cigarettes / tobacco (81%)
- Changed the type of tobacco product they purchase (85%)
- Reduced how much they spend on cigarettes / tobacco (87%)
- Purchase cigarettes / tobacco less frequently (89%)
- Changed their main brand of tobacco / cigarettes (89%).

Smokers who smoke rolling tobacco most often have a higher propensity to buy products outside of Scotland. Certain brands such as Lambert & Butler, Kensitas Club and John Player Special are more likely to be purchased in Scotland whilst those smoking Marlboro as their main brand are more likely to buy outside of Scotland.

If products were available at a significantly cheaper price in England it would likely cause a significant increase in the proportion of cross border purchases (rising from 6% to 29%). Those most likely to purchase more frequently from England includes the most affluent smokers, with household income over £60k year. Their cross-border purchases would rise from 17% to 46%. Those who smoke Marlboro as their main brand would also purchase more, 53% of all their products in England.

Cross-border trade is also driven by the region of Scotland where consumers live and how easy/far it is to get to England. The proportion of all tobacco products that would be purchased in England if the product was significantly cheaper broadly correlates to region and how far they are from the border.

- Live in the Borders, 62%
- Live in Central, 42%
- Live in the Highlands and Islands, 32%
- Live in Lothian, 29%
- Live in Dumfries & Galloway, 28%
- Live in Strathclyde, 25%
- Live in Grampian, 18%.



4. TOBACCO CONSUMPTION AND TAXATION

Tobacco consumption in the UK has decreased gradually since 1948, when smoking rates were extremely high, especially amongst men, with eight out of ten adult males smoking. The pace of smoking cessation quickened during the 1970s with the increase in tobacco control policies⁵⁸ and by 1982 the number of 'quitters' had overtaken the number of smokers.⁵⁹

4.1 THE RELATIONSHIP BETWEEN PRICE AND TOBACCO USE

Evidence suggests that raising the price of tobacco through taxation is most effective as part of a comprehensive tobacco control strategy.⁶⁰ However, as a standalone measure it is estimated that a 10% increase in the price of tobacco products reduces consumption by 4% in developed nations.⁶¹ In the UK, it has been estimated that an increase in tobacco tax of 5% above inflation would lead to a fall in the number of smokers by 334,000, a reduction of 0.7 percentage points.⁶²

The recent history of tobacco duty in the UK has seen taxes generally rising above inflation at different rates. In 1993 the UK introduced a tobacco duty escalator, fixing the rise in tobacco tax at 3% above inflation each year. This was increased to 5% between 1997 and 2000. This was removed in 2001 and reintroduced in 2011 at 2% above inflation and increased to 5% above inflation in the 2012 Budget. By the 2013 Budget the escalator had reverted back to 2%, with some higher increases for RYO.

In 2017, the UK introduced a MET to support public health objectives, tackle the very cheapest cigarettes and promote fiscal sustainability. The MET for cigarettes sets a minimum level of excise duty for any packet

of cigarettes. This means that the total excise duty on a packet of cigarettes is the higher of either the MET, or the usual application of duties. Whilst at introduction it was set equal to the lowest priced product at £7.35, it is currently (since Budget 2018) only effective on any pack of 20 cigarettes with an RRP of less than £7.89⁶³ compared to the most common lowest price point of £8.70. As such the policy has quickly become out of date and ineffective.

HOW DUTY IS CALCULATED

As of 2019 duty on cigarettes is calculated as a percentage (16.5%) of the retail price plus a specific amount of £228.29 per 1000 cigarettes, or a single amount of £293.95 per 1000 cigarettes, whichever figure is higher. Duty on all other tobacco products is charged by the kilogram:

- Hand rolling tobacco £234.65 per kg
- Cigars £284.76 per kg
- Other products (e.g. pipe tobacco and chewing tobacco) £125.20 per kg

The government takes in a total of about £8 billion in tobacco duties per year, but this does not include VAT (estimated at another £2 billion) or corporation and income tax received by Treasury in respect of the tobacco industry.

TAX ON CIGARETTES

Typical price components of pack of 20 cigarettes at 2019 average retail price

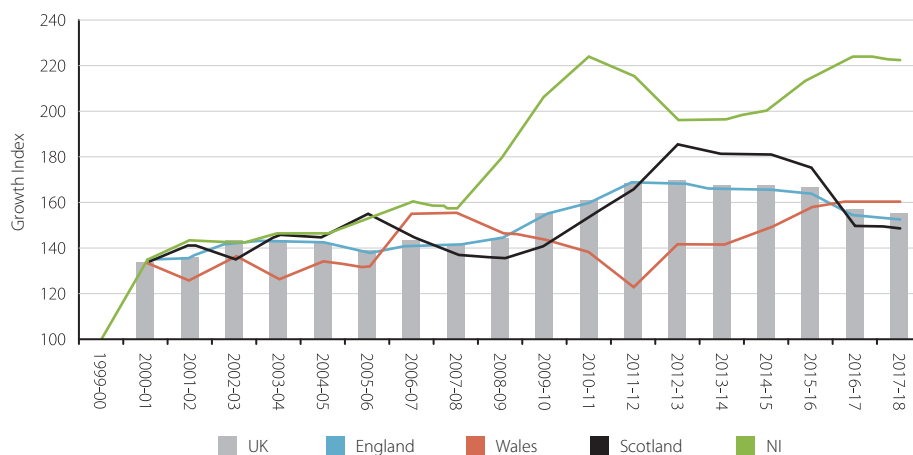
PRE-TAX	TOBACCO DUTIES (£4.75 per pack plus 16.5% of Retail Price)	VAT (20%)	RETAIL PRICE
£2.20	£6.47	£1.73	£10.40

Source: OBR

Yet, despite falling rates in consumption, tax revenues from tobacco have continued to rise. Total UK receipts from tobacco duties have generally increased since 1999/00, with a steady rise from 2008 to 2012. Revenues have remained broadly flat since 2011/12 before falling off in 2016/17 and 2017/18. The total UK receipts from tobacco duties in 2017-18 was £8.827 billion. The Office for Budget Responsibility estimates that tobacco duties will raise £9.1 billion in 2019-20.⁶⁴

Receipts apportioned to Scotland have loosely followed the UK pattern, although exceeding the UK between 2011 and 2016 before falling below the UK average, and all other home nations, in 2016/17.

Figure 6: Tobacco Duties Receipts 1999-00 to 2017-18

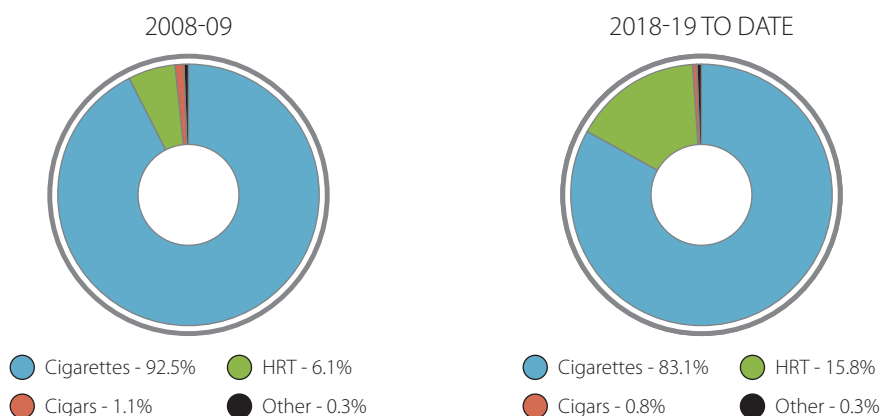


Source: HMRC 2018⁶⁵

In 2017/18, Scotland accounted for 11.4% of all HMRC's tobacco duties, totalling £1.08bn. This was down from 13% (£1.258bn) in 2012/13.

Cigarettes have accounted for over 85% of UK total tobacco receipts in the last ten years. But duty from cigarettes, cigars and other tobacco products are now declining. Rolling tobacco is less burdened by tax, yet receipts continue to increase as a share of total tobacco duty.

Figure 7: Share of Tobacco Products



Source: HMRC Tobacco Bulletin 2019

Receipts from hand rolling tobacco have seen the largest relative increase in recent years, from £150m in Q3 2009 to £380m by Q4 2017.

4.2 THE COST OF TOBACCO TO THE UK

There are various conflicting accounts about the cost of tobacco to the UK. A 2010 Policy Exchange report noted that the £10 billion annual revenue received by the Government through tobacco duty (2009 prices) is significantly outweighed by the direct and indirect costs to society caused by smoking. This report calculated that smoking costs the UK approximately £13.74 billion each year. This includes:

- Healthcare costs - £2.7 billion
- Lost productivity (smoking breaks) - £2.9 billion
- Lost productivity (absenteeism) - £2.5 billion
- Lost productivity (premature mortality) - £4.1 billion
- Passive smoking (premature mortality) - £0.7 billion
- Environmental costs - £0.34 billion
- Fire damage - £0.5 billion.⁶⁶

A more recent report by the Institute of Economic Affairs (2017) aims to challenge these assumptions to establish a socially optimal level of tobacco taxation that can account for the net externalities of tobacco consumption.⁶⁷ This imagines a counterfactual scenario in which there are no smokers.

Based on 2015 prices and consumption rates, the authors argue that the direct costs of treating smoking-attributable diseases (£3.6 billion), collecting cigarette butts and extinguishing smoking-related house fires (£1 billion) are covered more than four times over by savings to old-age expenditures (due to early deaths attributable to smoking) and tobacco duty revenue.

The report estimates that the gross financial benefit to the government from smoking amounts to £19.3 billion per annum. According to this assertion government would, in the absence of smoking, spend an extra £9.8 billion annually in pension, healthcare and other benefit payments (less taxes forgone). Duty paid on tobacco products is £9.5 billion a year. So, subtracting the £4.6 billion of costs attributable to smoking produces an overall net benefit of £14.7 billion per annum.

ASH Scotland has previously claimed (2010) that after taking into account NHS costs, productivity losses, premature death, costs of smoking-related fires, and clearing smoking-related litter, there is real cost of tobacco use to Scotland's economy. Based on pre 2010 prices this was valued at £1.1bn.⁶⁸ Since the Scottish Government received £940m in tobacco-specific duty, this left a deficit of at least £129m.

Estimating the economic costs of smoking is subject to a great deal of variation in data, as well as the assumptions used to calculate the impact, including:

- Direct tax revenues as well as other taxes attributed to the tobacco industry (e.g. income and corporation taxes)
- The real costs to the NHS of treating smokers, on top of what it would spend if they didn't smoke
- Lost productivity and economic output versus savings in terms of workers dying early from smoking-related conditions.

But none of this accounts for the substantial personal cost to individuals in terms of suffering years lived in ill-health or lost years of life. Nor does it account for the personal and potential economic impact on family dependents and loved ones.

The cost of tobacco to the UK is heavily contested and advocates have used their estimates to best support their particular political or policy position.

4.3 THE IMPACT OF A MINIMUM FLOOR PRICE ON TOBACCO DUTY

Based on the choice model exercise our calculations estimate that a minimum floor price would deliver an overall reduction in tobacco consumption in Scotland of 4.5%. This would, of course, have budgetary implications for UK tax revenues and potentially the funding of smoking cessation and public health campaigns in Scotland.

Another possible consequence is that the tobacco industry would benefit from a minimum floor price. If the price increases while the baseline excise duty remains the same this would increase the pre-tax component leaving a greater share of the total purchase price for profit.

An increase in the baseline duty, in conjunction with a minimum floor price set at the common entry level price (i.e. the lowest price product), would ensure the existing MET policy becomes effective again by preventing those tobacco companies who chose to, from absorbing tax increases to keep their lowest priced brands affordable.



5. CONCLUSIONS AND RECOMMENDATIONS

There is an intention to quit or take up vaping among all smokers in Scotland, even under current prices, although this is relatively low. The introduction of a minimum floor price for tobacco has the potential to increase the propensity of all smokers to quit or vape, doubling it in some cases.

The choice-exercise in Scotland suggests that a minimum price will have the highest uplift among heavy smokers in their intention to quit or vape. It also identifies that those on lower incomes are more price sensitive and therefore more likely to respond to price increases by quitting or reducing their consumption than those who can more easily afford to buy tobacco products.

Fiscally, a floor price is undoubtedly regressive. It disproportionately taxes poorer people who choose to smoke, and who will therefore need to spend a greater proportion of their income on tobacco than those who are more affluent. It could, however, be argued that by inducing greater quit rates the minimum price would ultimately reduce the overall tax burden on people with low incomes. On average, most people who quit smoking save around £250 each month, nearly £3,000 per year.⁶⁹

Yet from a public health perspective the floor price is a progressive policy since it is clearly effective in targeting the socio-economic groups that tend to smoke more and who experience the greatest health inequalities. A minimum price limits the ability of the tobacco industry to absorb tax increases as part of its pricing strategies and is more effective in narrowing the gap between the highest and lowest priced tobacco products. It therefore helps to tackle health inequalities by eliminating access to an expanding market of the cheapest tobacco products by those who might otherwise have quit smoking.

However, as a stand-alone measure minimum pricing is unlikely to achieve a 'tobacco-free generation' or reduce smoking prevalence in Scotland to 5% by 2034. Smoking rates have fallen in Scotland because of successive tobacco control policies and societal attitudes to smoking, but the policy of a minimum floor is possibly at the limit of what can now be effectively controlled for through price or taxation. Based on the choice exercise, modelled at the higher minimum price, this policy would reduce smoking prevalence in Scotland to 14.78%, an overall reduction of around 60,000 people, or 1.52 percentage points on the current figure.

It is most probable that smoking in Scotland will continue to fall as older generations age and fewer young people take up the habit. But this is likely to be a process of attrition. Significant price increases on tobacco will induce more people to cease smoking, but it will also result in the growth of illicit trade and cross-border purchases. Scotland will need to implement effective strategies to curb illicit trade through better enforcement by customs and borders staff, in addition to greater penalties for breaches of the law.

The findings of this report support a minimum floor price for tobacco as a strategy to reduce the affordability of tobacco products and increase smoking cessation rates. However, while increasing prices would appear to be the obvious solution, the Scottish Government will need to carefully balance minimum prices against tobacco duty policy in rest of the UK, as well as the potential outflow to illicit sources, which are likely to increase substantially. The introduction of a modest minimum floor price, set at the common entry level price (i.e. the lowest price product), would ensure the existing Minimum Excise Tax policy becomes effective again by preventing those tobacco companies, that choose to, from absorbing tax increases to keep their lowest priced brands affordable.

Should the Scottish Government decide to implement this policy it is recommended that adequate funding for other measures to reduce smoking prevalence are made available. These should include:

- Access to gold standard stop smoking services
- Mass media campaigns that promote smoking cessation and available support⁷⁰
- Increased investment in coordinated enforcement to tackle the illicit supply of tobacco.⁷¹

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RESPUBLICA
society · prosperity · virtue

Society

The UK has one of the most centralised states in the developed world and one of the most disaffected and politically passive populations in Europe. We hold our leaders in contempt, but despair of doing anything for ourselves or our community. The dysfunction at the highest level of society stems from the collapse of our social and personal foundation. There is little doubt that we are becoming an increasingly fragmented and individualist society and this has deep and damaging consequences for our families, our communities and our nation state.

Starting from the bottom up, the collapse of the extended family and the ongoing break-up of its nuclear foundation impacts on all, but disproportionately so on the poor and on their offspring. Too many children at the bottom of our society are effectively un-parented as too much is carried by lone parents who are trying to do more and more with less and less. We know that the poorer you are, the less connected with your wider society you tend to be. Lacking in both bridging and bonding capital and bereft of the institutions and structures that could help them, too many poorer families and communities are facing seemingly insurmountable problems alone, unadvised and without proper aid.

Based on the principle of subsidiarity, we believe that power should be devolved to the lowest appropriate level. Public services and neighbourhoods should be governed and shaped from the 'bottom up', by families and the communities. These neighbourhoods need to be served by a range of providers that incorporate and empower communities. Moving away from a top-down siloed approach to service delivery, such activity should be driven by a holistic vision, which integrates need in order to ascertain and address the most consequent factors that limit and prevent human flourishing. Local and social value must play a central role in meeting the growing, complex and unaddressed needs of communities across the UK.

The needs of the bottom should shape provision and decision at the top. To deliver on this, we need a renewal and reform of our major governing institutions. We need acknowledgement of the fact that the state is not an end in itself, but only one means by which to achieve a greater end: a flourishing society. Civil society and intermediary institutions, such as schools, faith groups and businesses, are also crucial means to achieving this outcome. We also need new purpose and new vision to create new institutions which restore the organic and shared society that has served Britain so well over the centuries.

Society

Society

Society

This report examines whether a minimum floor price for tobacco can achieve better policy objectives in Scotland, including public health outcomes. A choice-modelling exercise, with a representative sample of over 1,000 adult smokers in Scotland has been conducted to test the extent to which the price of tobacco influences smoking behaviours.

The findings of this report support a minimum floor price for tobacco as a strategy that could contribute to the aims of the Scottish Government's Tobacco Control Action Plan. However, the Scottish Government will need to carefully balance minimum prices against tobacco duty policy in the rest of the UK, as well as the potential outflow to illicit sources, which could increase substantially under all scenarios which we have modelled.



R E S P U B L I C A R E C O M M E N D S