

Tobacco industry has bumped up prices beyond that required by tax changes

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The tobacco industry has bumped up the prices for its products beyond that required by tax changes, even when tax rises were large and unexpected, reveal the findings of research published online in the

journal *Tobacco Control*.

'Roll your own' [tobacco](#) had the highest industry driven price rises, despite higher levels of illicit trade for these products.

This refutes industry's stated concerns that price rises fuel the illicit tobacco trade?an argument they have used to lobby against tax hikes, say the researchers.

Before 2010 the [tobacco industry](#) regularly bumped up cigarette prices over and above the level required by tax rises, accounting for almost 50% of the total price increase in the UK.

Since then manufactured cigarette sales have fallen by 17%, while sales of cheaper 'roll your own' have increased by 46%.

But the government has been reluctant to increase taxes further on 'roll your own' tobacco for fear of pushing smokers towards the illegal market, which is already larger than that for manufactured cigarettes.

To explore the extent to which price rises since 2010 have been due to tax increases or industry strategies to boost profits, the researchers analysed UK data on inflation, tax rates, and sales of 'roll your own' tobacco and manufactured cigarettes between 2010 and 2015.

Between 2010-2012 there were large and unexpected tax increases, and industry-driven price changes were small, accounting for 16% and 20%, respectively, of the price increase in manufactured and 'roll your own' tobacco. Changes were similar across pack sizes and quality.

But in 2013-2015, when tax increases were smaller and planned, almost a third (33%) of the price increase for manufactured cigarettes was industry-driven, rising to nearly half (48%) of the price hike for 'roll

your own' tobacco.

"This implies that the industry does not believe [its] own argument that higher taxes/prices encourage illicit tobacco purchasing. This is further supported by a higher proportion of the total price increase being attributable to industry revenue increases for 'roll your own', despite the illicit market share for 'roll your own' being substantially higher," they write.

Much larger absolute tax and price increases were applied to premium brands for both manufactured cigarettes and 'roll your own' tobacco.

But industry extended this price differential further by raising the consumer price considerably above the cost of the tax increase, known as 'overshifting,' on more expensive products, and by absorbing the tax hike, known as 'undershifting,' on cheaper products, resulting in a more than threefold difference in price increase.

"The ability of the industry to do this is bad for [public health](#) as it means smokers are not faced with a quit-inducing sudden jump in retail prices," note the researchers.

The findings also suggest that there is still scope to further increase taxes, even in a high tax and high price environment like the UK, they suggest.

"If the tobacco industry is still able to increase its revenue (and hence profits) per pack, then the government should be able to further increase taxes to deal with the harms from tobacco," the researchers write.

Such increases should be sudden and unexpected for maximum impact, they advise.

"Unexpected and large tax increases compromise the tobacco's industry ability to manipulate [prices](#), and hence should become a key feature of tobacco taxation."

More information: Rosemary Hiscock et al, UK tobacco price increases: driven by industry or public health?, *Tobacco Control* (2019). DOI: [10.1136/tobaccocontrol-2019-054969](https://doi.org/10.1136/tobaccocontrol-2019-054969)

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