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PART A

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PART A

1984 BUDGET
REPRESENTATIONS TOBACCO
ADVISORY COUNCIL

D'SS 25 years NAZIG 25/08/94

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PART A



**ROYAL COLLEGE OF
OBSTETRICIANS & GYNAECOLOGISTS**

Patron: H.M. Queen Elizabeth The Queen Mother

From the Office of the President: Sir Rustam Feroze MD FRCS FRCOG

RMF/EE

26 October 1983

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
The Treasury
Parliament Street
London SW1.

27 Sussex Place
Regent's Park
London NW1 4RG

Telephone:
01-262 5425
Telegraphic address:
"OBSTETGYN, LONDON NW1 4RG"

HM TREASURY - MCU	
RECD.	28 OCT 1983
ACTION	
SIGNATURE	
REF. No.	

Dear Mr Lawson

I write as Chairman of the Conference of Royal Colleges and Faculties to seek your assistance in our endeavours to reduce the consumption of tobacco and so to help prevent the diseases due to smoking.

I believe your distinguished predecessor in office was approached by representatives of the medical profession in the hope that he would increase the taxation on tobacco as a means of reducing its consumption. At the time he expressed sympathy with our case but stated that our approach had come too late for changes to be made in the forthcoming Budget.

The Conference of Colleges and Faculties would be most grateful if you would receive a small deputation to discuss the possibility of including enhanced taxation on tobacco in the provisions of your April Budget. In this regard we represent the views of an overwhelming majority of the medical profession which feels that more drastic steps are needed to curb smoking.

I hope you will be prepared to receive us.

Yours sincerely

Rustam Feroze.

Sir Rustam Feroze
President

EXCHEQUER	
28 OCT 1983	
ACTION	FST
COPIES TO	

Patron Her Majesty the Queen
President HRH The Duke of Kent

Chairman of Council The Rt Hon Lord Hill of Luton MD
Director General Air Marshal Sir Ernest Sidesy KBE CB MD FRCM DPHI RAF (RETD)
Appeal Director Commander M. H. Taylor RN (RETD)

PPS CST MSTEST
Mr Middleton
Mr Crossell
Mr Menger
Mr R. G. Allen
Mr Griffiths

The Chest, Heart and Stroke Association

Mr F. Martin
Mr Lord
PS/12 PS/C+E

The Rt. Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
London, SW1P 3AG

HM TREASURY MCH	
RECD.	14 DEC 1983
ACTION	<i>RET</i> <i>442</i>
SIGNATURE	
REF. No.	10003

Tavistock House North
Tavistock Square
London WC1H 9JE
Telephone: 01-387 3012

13th December, 1983

Dear Chancellor,

I am writing again on behalf of The Chest, Heart and Stroke Association to ask that you raise the tobacco duty in your next budget by at least above the current level of inflation - say 6p on a packet of cigarettes. Another suggestion would be to introduce a tax differential between higher and lower tar/nicotine/carbon monoxide cigarettes so as to encourage the tobacco manufacturers to reduce the maximum yields per cigarette below 15 mg for tar, 10 mg for carbon monoxide, and 1 mg for nicotine as soon as possible.

The recent report of the Royal College of Physicians has emphasised the annual death rate in the United Kingdom from cigarette smoking - namely not less than 100,000 per annum, all premature deaths, quite apart from the misery to the victims of prolonged ill health, loss of working time and cost to the nation. The drain on NHS resources due to repeated occupancy of hospital beds, sickness benefit and medical care, was estimated at £155 million in 1981.

As a senior Cabinet Minister I am sure you will agree that the Government has a responsibility to control smoking if it is sincerely concerned with the health of the people it serves and that this responsibility demands a co-ordinated, inter-departmental approach, in which the Department of Health should have a leading role.

Director General

TOBACCO ADVISORY COUNCIL

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From Sir James Wilson, K.B.E., M.C.
Chief Executive

EXCHEQUER
1 NOV 1983
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ADV.
C'AL
16/11

16 November, 1983

The Rt. Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
The Treasury,
Parliament Street,
London SW1P 3AH

✓
MP

17 NOV 1983
PPS CST
MST EST
Mr Middleton
Mr Cassell
Mr Monger

Mr R I G Allen
Mr Griffiths
Mr F Martin
Mr Portillo
PS/IR PS/C+E

Dear Chancellor,

As you may recall from your previous time in the Treasury, it is T.A.C.'s practice, each year, at about this time, to send the Chancellor a written submission and a set of more detailed papers dealing with tobacco taxation in its various aspect. Later, early in the New Year, T.A.C. is privileged to have an interview either with the Chancellor himself, as in 1982, or with one of the Treasury ministerial team. My Council attach great importance to these contacts, and are grateful to successive Chancellors, their supporting Ministers, and officials for allowing us this facility.

It is against this background that I now enclose our written submission in respect of the impending 1984 Budget. 1984, from a taxation standpoint, is a particularly vital year for T.A.C. You will recall that in 1981 our industry received fiscal treatment of unprecedented severity, as a result of which cigarette sales suffered an immediate dramatic decline. Though the 1982 and 1983 Budgets showed welcome signs of a more understanding approach to our industry, the substantial reduction in cigarette sales that took place after the 1981 Budget proved largely irrevocable and any stabilisation recently evident has been from a much reduced base.

In particular, the degree of stabilisation recently shown by the cigarette market remains fragile, as a glance at the consumption figure for the present fiscal year makes plain. Though the 1983 Budget wisely imposed a taxation increase no greater than that needed to match inflation, consumption continued to decline. In the short run, therefore, T.A.C. submits that the cigarette market is in no position to withstand anything but the most sensitive fiscal handling in the 1984 Budget. There is, in fact, a strong argument, set out in detail in the paper about cigarettes, for a nil increase in cigarette taxation in 1984. Plainly, if the present period of relative stability in the cigarette market is to continue, any increase in cigarette taxation must be kept to an absolute minimum.

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But it is the longer term to which T.A.C. would particularly wish to draw your attention (see para. 6 of the supporting paper on cigarette taxation). We have consistently indicated the narrow and shrinking base of revenue from cigarette taxation, and explained the dangers arising from any further erosion. A further special cause for concern is the area of exports/imports of cigarettes. Hitherto the U.K. has been very successful in resisting import penetration, and has also achieved a steadily increasing export production (see para.5 of cigarette paper). This satisfactory situation can only continue if the industry enjoys a strong domestic base; drastic fiscal handling, which, as in 1981, sharply reduced domestic consumption, would, in our submission, be particularly unwise, if only because of its effects in this area.

A Chancellor, with your previous experience, ministerial as well as professional, will need little explanation of the other main elements in the cigarette equation. Employment, relative costs of the product as compared to other items in the Retail Price Index, the need to maintain a viable tax base, - these factors are covered in detail in the supporting paper. The arguments speak for themselves; there is no need for me further to stress their significance.

I turn now to the pipe tobacco and cigar components of our industry. Here T.A.C. has made regular representations in recent years about the serious effects of chronic over taxation. Last year your predecessor recognised these problems in respect of pipe tobacco by holding pipe tobacco duty at its pre-Budget level, a decision which T.A.C. naturally welcomed. However, as you will see from the supporting paper, this concession in isolation was insufficient to reverse the trend of decline; special fiscal treatment is required over a long period if the pipe tobacco industry is significantly to benefit. The U.K. pipe tobacco sector currently has to operate at a considerable disadvantage compared with its European counterparts. There are two possible ways of correcting the imbalance:-

(a) To establish a lengthy moratorium on increases in pipe tobacco taxation

or

(b) Progressively to reduce the duty on pipe tobaccos until an equitable position is reached.

Clearly from T.A.C.'s standpoint (b) would be the best option, since it would work more quickly, and, in our submission, the concession is one which Government could afford since it would have a limited effect only on revenue.

/ cont.

There are equally strong parallel arguments for similar treatment to be given to the U.K. cigar industry. Contrary to popular belief, cigar smoking is not confined to the more affluent members of society. In order to maintain domestic production in face of import competition and to increase exports, manufacturers need positive fiscal help along the lines suggested in the supporting paper.

In conclusion, in view of the fact that 1984 provides a unique opportunity, at the start of the Government's new term of office, to take a proper long term view of tobacco taxation, my Council would ask you to give T.A.C. the chance of a personal interview to discuss some of the issues raised in this paper and its supporting papers. Given the special importance of our industry to H.M.G. in revenue and employment terms, we hope you will agree to receive us yourself and listen personally to T.A.C.'s representations. You will recognise that, in the circumstances presently facing our industry, T.A.C. attaches great importance to this request.

Yours sincerely,

David [unclear]

enc.

TOBACCO PRODUCTS TAXATION

Since the Conservative Government took office in May 1979, the All Items Index has risen by 57%. During the same period total taxation on tobacco products has risen as follows -

<u>Cigarettes</u>	<u>Handrolling Tobaccos</u>	<u>Pipe Tobaccos</u>	<u>Cigar</u>
+ 106%	+ 92%	+ 72%	+ 118%

The permanently harmful effects of these disproportionate increases on the Industry's trading and employment are amply demonstrated in the attached papers.

It is essential that the Industry is never again subjected to the scale of increase inflicted in 1981, the calamitous effect of which appeared subsequently to be acknowledged by the previous Chancellor. Indeed, the TAC contends that the major achievement of the Government has been to bring inflation back under control and that the maintenance of this achievement, let alone the Chancellor's expressed target of price stability, can only be effected by avoiding altogether taxation increases which themselves feed inflation.

For this reason and those outlined in the detailed papers, TAC would strongly recommend that -

1. Cigarette taxation should be left unchanged, or at the very most increased in line with inflation = 3p per 20.
2. Handrolling tobaccos should be treated in line with cigarettes.
3. Pipe tobaccos should be reduced by 16p per 25 gm., i.e. the 1981 increases should be removed (cost = £14m.). This reduction would bring the extremely high British pipe tobacco/cigarette price relationship about half-way towards the German relationship which is itself higher than the current E.E.C. average.
4. Cigars should be reduced by the 1981 increases to around 44% tax incidence as in 1979 (cost = £25m.). The longer-term objective must be to get back to 40% tax incidence.

.....

TAXATION OF CIGARETTES1. Cigarette Consumption

Cigarette consumption in the UK, on a calendar year basis, peaked in 1973 at a level of 137,400 million and then remained virtually static in 1974 at 137,000 million. The last Labour administration came to power in October 1974 and fell in May 1979. During their term of office, duty increases totalling 17½p per 20 were imposed as a result of which cigarette consumption, by 1979, had fallen to a level of just over 124,000 million. This market contraction of 13,000 million represented an annual rate of decline of some 2%.

Having taken office in May 1979, the previous Conservative Government's last Budget was in March 1983 by which time an additional 36p per 20 had been imposed by way of Budget duty increases. It is estimated that cigarette consumption in 1983 will total 101,000 million, i.e. a drop of over 23,000 million (19%) on the 1979 level and equivalent to an annual reduction of approximately 5%.

This sharp acceleration in the decline of cigarette sales is of the utmost concern to the UK tobacco industry and must also have very significant implications for the Exchequer in relation to the cigarette market as a long term revenue source.

Set out below are details of cigarette consumption since 1974 together with the duty increases that have been imposed over the same period. The relationship between taxation increases and consumption levels is evident.

<u>Calendar Year</u>	<u>UK Cigarette Consumption</u>		<u>Budget/Regulator increases in cigarette taxation</u>	
	mns.	cf. prev. year	p per 20	% increase in retail price
1974	137,000	- 0.3%	+ 4½p	+ 16.7%
1975	132,600	- 3.2%	+ 7p	+ 21.2%
1976	130,600	- 1.5%	+ 3½p	+ 8.1%
1977	125,900	- 3.6%	+ 7p	+ 15.2%
1978	125,200	- 0.6%
1979	124,300	- 0.7%	+ 6p	+ 10.5%
1980	121,500	- 2.3%	+ 5p	+ 7.4%
1981	110,300	- 9.2%	+ 17p	+ 22.1%
1982	102,000	- 7.5%	+ 5p	+ 5.1%
1983 est.	101,000	- 1.0%	+ 3p	+ 2.8%
<u>Fiscal Year</u>				
1979/80	123,700			
1980/81	120,000	- 3%		
1981/82	106,400	- 11.3%		
1982/83	101,500	- 4.6%		
1983/84	101,000	- 0.5%		

Following the 17p per 20 duty increases in 1981, the industry urged the Chancellor to forego any increase in 1982 in order to allow the cigarette market to recover, at least to some extent, from the rapid sales decline that had taken place. It was felt at that time, that the cigarette market had become so price sensitive that even a limited duty increase would provoke an abnormally adverse consumer reaction. Unfortunately, the Chancellor saw fit to increase the cigarette duty by 5p per 20 at his 1982 Budget with the result that consumption in the following fiscal year fell by some 4½%. Only 2 years prior to this, a 5p per 20 increase, which at that time was proportionately more severe, had led to a fall in consumption of only 3% in spite of the fact that manufacturers' price increases were greater than in the year ended March 1983.

Although in 1983 the industry was again unsuccessful in persuading the Chancellor to forego any further increase in cigarette duty, the increase imposed at least was no greater than that required to match inflation. As a result, the cigarette market has recently shown some signs of stability and consumption for the current fiscal year is estimated at 101,000 million - a reduction of only about 1% on the previous year.

This degree of stabilisation is still very fragile, though obviously welcomed by the industry, and it cannot be emphasised too strongly that this cannot be taken to imply that the cigarette market is now in a position to be able to withstand any discriminatory fiscal handling at the next Budget. The industry would argue that, in order to allow a continued period of relative stability in the market place, any increase in cigarette duty must be limited to the absolute minimum at the next Budget: indeed, there are strong arguments, outlined below, for a nil increase in cigarette taxation next year.

2. Movements in retail prices

Set out below are details of the movement in the retail price of cigarettes compared with the 'all items' index.

<u>Average for Year</u>	<u>Cigarette Index</u>	<u>All Items Index</u>	<u>Cigarette Index cf. All Items Index</u>
	Jan. '74 = 100		
1974	115.7	108.5	106.6
1975	147.0	134.8	109.1
1976	170.6	157.1	108.6
1977	209.0	182.0	114.8
1978	225.6	197.1	114.5
1979	247.4	223.5	110.7
1980	290.4	263.7	110.1
1981	362.9	295.0	123.0
1982	414.0	320.4	129.2
Sept. 1983	444.0	339.5	130.8

This comparison shows that, since January 1974, the price of cigarettes has risen in real terms by 31% - i.e. that cigarette prices have risen by 31% more than the rise in retail prices generally.

The following table shows the result of making similar comparisons for other items of consumer expenditure that are covered by the retail price index. Comparisons have been made -

- for the period since January 1974;
- for the period since May 1979 (when the present Government first took office), and
- for the period since January 1981 (to show the effect of the duty increases made since then).

As at September 1983

<u>All Items Index = 100</u>	<u>Jan. 1974 = 100</u>	<u>May 1979 = 100</u>	<u>Jan. 1981 = 100</u>
Cigarette index	131	122	122
Food	92	89	96
Alcoholic Drink	110	113	109
Housing	111	116	108
Fuel & Light	137	125	107
Durables	74	82	89
Clothing/Footwear	64	76	85
Transport/Vehicles	110	103	102
Miscellaneous Goods	103	98	97
Services	102	106	97
Dining out	109	103	98

It can be seen that -

- since January 1974, the price of cigarettes in real terms has risen much faster than the price of any other item in the index except "fuel and light";
- since May 1979, the situation is broadly the same, though the rise in cigarette prices is near to that for "fuel and light";
- since January 1981 the price of cigarettes in real terms has risen much faster than the price of any other item in the index.

As a result of the changing social attitude towards smoking, UK cigarette manufacturers are already faced with a gradually declining market which must now be safeguarded against further heavy tax increases if it is to continue to support a cost effective home industry and also to provide sustained revenue contributions.

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3. Social Aspects of Smoking

The table below shows the proportion of cigarette smokers by social groups -

	<u>Men</u>	<u>Women</u>	<u>Combined</u>
AB	12%	11%	11%
C1	20%	22%	21%
C2	37%	35%	36%
DE	<u>31%</u>	<u>32%</u>	<u>32%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

It will be seen that over two-thirds of cigarette smokers are in the lower income groups. Tobacco taxation is one of the most socially-regressive central Government taxes that we have in this country and the common sense view is that any increase in tobacco taxation will fall with greater severity on the lower income groups. Any increase in the cigarette duty can only therefore cause additional pressure for higher wage claims.

4. Employment

In a study published in 1982 by an independent economic body, PEIDA, it was established that, in 1980, the 35,000 jobs directly within the UK tobacco industry gave rise to indirect employment from associated industries and services totalling 229,000 jobs. From this model, it is possible to calculate the following employment figures -

1974	Direct	41,000
	Est. Indirect	<u>270,000</u>
	<u>Total</u>	<u>311,000</u>
1980 (PEIDA)	Direct	35,000
	Indirect	<u>229,000</u>
	<u>Total</u>	<u>264,000</u>
	(cf. 1974)	(- 15%)
1983	Direct	30,000
	Est. Indirect	<u>195,000</u>
	<u>Total</u>	<u>225,000</u>
	(cf. 1980)	(- 15%)
	(cf. 1974)	(- 28%)

Since 1974, numbers directly employed in the UK tobacco industry have fallen by some 11,000 or by nearly 30%, this reduction having accelerated since 1980. Allowing for indirect employment from associated industries and services, based on the PEIDA model, the reduction in economic activity

which has resulted from the decline in tobacco consumption since 1974 is equivalent to the loss of something approaching 100,000 jobs - a very substantial figure by any standards.

Any additional duty increases that will inevitably lead to further sales reductions will clearly result in further job losses in the UK tobacco and associated industries.

In the context of further job losses which might be required within the UK tobacco industry, the geographical aspects of cigarette manufacture in UK should be considered. Set out below are the locations currently engaged in cigarette manufacture together with the respective unemployment levels for each area.

<u>Cigarette factories</u>		<u>Unemployment level</u>
Swindon	} South West	10.6%
Bristol		
Basildon	} South East	9.2%
Southampton		
Nottingham	East Midlands	11.3%
Manchester	} North West	15.4%
Liverpool		
Newcastle	} North	16.6%
Spennymoor		
Darlington		
Belfast	} Northern Ireland	21.0%
Lisnafillan		
Seapark		
<u>Total UK</u>		<u>12.6%</u>

Source: Employment Gazette Sept. 1983

(In addition to the above, cigarette factories in Glasgow and Stirling have already been closed as a result of declining sales and it has recently been announced that one of the two cigarette factories in Manchester will shortly be closing).

The number of cigarette factories in areas of high unemployment is of great significance in view of the current pressure that the UK industry is under. Further, these factories tend to be less modern and less efficient than certain other UK manufacturing operations and as such must be particularly vulnerable should further rationalisation become essential.

While increasing exports, referred to in more detail in the section following, have helped some companies to mitigate the effect on employment caused by the substantial reduction in home trade sales, it has not been possible, for historical reasons, for two of the major companies, accounting together for over 75% of home trade sales, to exploit export opportunities to any great extent. For these companies, therefore, the declining home market has had a particularly adverse effect on direct employment levels.

5. Exports/Imports

Exports of cigarettes from the UK have doubled since 1974, while domestic consumption over the same period has fallen by more than a quarter.

	(a) <u>Exports</u>	(b) <u>UK Domestic Consumption</u>	(b) as Proportion of (a) + (b)
	- billions -		%
1974	21.8	137.0	86.3
1975	25.2	132.6	84.0
1976	25.8	130.6	83.5
1977	28.7	125.9	81.4
1978	28.7	125.2	81.4
1979	32.1	124.3	79.5
1980	36.9	121.5	76.7
1981	39.1	110.3	73.8
1982	41.4	102.0	71.1
1983 (est.)	42.0	101.0	70.6

Although the industry's export performance compares well with that of most of the UK manufacturing industries, this has not been the result of any automatic process. Exports have been achieved on the basis of strong brand images built up in the domestic market and would not have been possible without substantial improvements in productivity. The continued success of exports is therefore dependent to a large extent on a sound home base: in the absence of this, there is a danger that production for UK exports would increasingly be displaced by foreign competition or by local production.

Some period of relative stability in the market place is also important in relation to import penetration of the UK market. A declining home market, particularly when this occurs to the degree and suddenness experienced following the 1981 duty increases, makes it very much more difficult for UK manufacturers to remain cost competitive.

Any large increase in taxation, in particular, automatically leads to rapid contraction in the UK market and it is difficult, for social reasons, to respond quickly in order to rationalise the resulting over-capacity: at least for a period, therefore, unit costs are increased and competitiveness against imports is reduced. So far, the UK industry has been highly successful in keeping imports to a very low level.

Only last year, in a letter to one of the tobacco industry's constituency MPs, the Prime Minister wrote "I can certainly assure you that the Government will not adopt any policies which would give foreign cigarette manufacturers an advantage over our own industry". A fiscal policy which reduced UK domestic consumption to any significant extent could very easily do just that.

In sharp contrast to the UK, the cigarette markets of other EEC countries have shown greater stability than has been the case for the UK, and this has provided their industries with a greater ability to remain cost competitive. Trends in cigarette consumption in EEC countries are set out below -

	<u>1974</u>	<u>1982</u>	<u>Index 1982</u> <u>cf. 1974</u>
	- bn.	-	
Belgium/Luxembourg	20.3	21.8	108
Denmark	7.0	8.0	114
France	78.2	86.4	111
Germany	128.0	112.7 *	88 *
Greece	18.2	25.7	141
Italy	87.5	101.6	116
Netherlands	23.4	22.1	94
Rep. of Ireland	7.5	6.8	90
UK	137.0	102.0	74

* The fall in cigarette consumption in Germany in fact occurred in the one year 1982 as a result of very substantial tax increases in that year. Consumption in 1981 amounted to 130.4 bn., a slight increase on the 1974 level.

6. Longer Term Revenue Implications

As highlighted earlier, the Chancellor's severe duty increases in 1981 resulted in an irrecoverable fall in cigarette sales of around 13,000 million cigarettes a year. As a result, the longer term revenue base has already been reduced to a level substantially below what it might otherwise have been. Any further adverse duty treatment by the Chancellor would clearly reduce the revenue base still further.

Set out below are projected cigarette sales for 1988 under the three following scenarios -

- Scenario 1 - Budget increases from 1984 - 1988 based solely on indexation.
- Scenario 2 - Budget increase for 1984 double the inflation rate but 1985 - 1988 indexed.
- Scenario 3 - Budget increases from 1984 - 1988 indexed but on re-cast sales calculated on the hypothesis that the 1981 increase had been indexation only, i.e. 6p per 20 instead of 17p.

<u>Calendar Year</u>	<u>Scenario 1</u>	<u>Scenario 2</u>	<u>Scenario 3</u>
	- billion -		
1980	121.5	121.5	121.5
1981	110.3	110.3	118.3
1982	102.0	102.0	116.5
1983	101.0	101.0	114.5
1984	99.0	96.5	113.0
1988	92.0	87.0	105.0

The severely damaging effect of the 1981 increases is clearly evident, having caused an irrecoverable loss in the cigarette market of around 13,000 million cigarettes a year. The estimated effect of a hypothetical duty increase in 1984 alone of double that suggested by indexation is also clear - a further irrecoverable loss of possibly 5,000 million cigarettes a year.

The longer term implications of a much reduced revenue base must be of concern to the Treasury, particularly in the light of the likely pattern of receipts from North Sea oil.

Although revenue from North Sea oil, at current prices, is presently increasing, it is widely predicted that this situation will only prevail until about 1988 when a sharp reversal of the upward trend is expected to take place.

In view of the anticipated decline and the consequent greater dependence on other forms of revenue, the safeguarding of tobacco products as a long term revenue source must be of the utmost importance. In fact, with the UK cigarette market currently so price sensitive, it could be argued that, in order to establish a firmer tax base to help meet the expected Budgetary requirements at the end of the 1980's, it would be prudent to reduce the level of cigarette duty in the short term. Even if the Chancellor feels that this would be politically unacceptable, the industry would strongly urge that there should be no increase in cigarette taxation or, at the very most, only a minimum increase. The Chancellor would, of course, continue to receive the increased revenue contributions from the proportional element of the duty that would result automatically as manufacturers' price increases became necessary.

On the question of indexation, the industry does not accept that this should be applied to tobacco duties as a matter of course without taking account of other relevant factors. We would also point out that indexation of revenue duties can itself be inflationary.

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7. Summary

As illustrated in this submission, the cigarette market has, over recent years, been subjected to discriminatory fiscal treatment compared with other goods and services. This has led to an acceleration in the decline of cigarette sales with the result that employment, both direct and indirect, has been dramatically reduced - frequently in areas of high unemployment.

The tobacco industry's contribution to the UK balance of payments is impressive. Imported brands account for less than 2% of total cigarette consumption in UK, which is a remarkable achievement in the face of powerful European and international interest, while the UK has been extremely successful in developing export markets against fierce competition. The industry requires a sufficiently large and stable base to enable it to continue to manufacture high quality products at competitive prices and this can only be achieved if the UK cigarette market is safeguarded against the effects of further tax increases. Time is needed to consolidate the present fragile stabilisation of the market in order that we have a firmer base with which to support the UK tobacco industry and the Government's revenue requirements.

Bearing in mind also the implications of a weakened revenue base as a result of previous fiscal measures, the industry believes that the present Government, having secured a further term of office, now has the chance to consider tobacco taxation on the basis of a longer term perspective. We sincerely hope that the Government will not adopt policies which would give foreign cigarette manufacturers an advantage over the UK industry.

If, therefore, the Chancellor considered that a duty increase in 1984 was unavoidable, the industry would urge that it should be of minimum size and should certainly not be larger than would be required to match inflation. In fact, we believe that the long term interests of both the Chancellor and the industry would best be served by no increase at all.

TAXATION OF HANDROLLING TOBACCOS

1. The social profile of handrolling smokers shows a very definite weighting towards the C2, D and E social classes, as follows -

	<u>Division of Handrolling smokers</u>	<u>Division of UK adult pop.</u>
AB	7%	16%
C1	13%	22%
C2	42%	32%
DE	<u>38%</u>	<u>30%</u>
	<u>100%</u>	<u>100%</u>

Since 80% of handrolling smokers are in the C2, D and E social groups, increases in handrolling duty discriminate particularly against this less well off section of the population.

2. As for cigarettes, while the price of handrolling tobacco relative to other goods and services remained reasonably stable between 1975 and 1980, this relationship has changed very dramatically since the very high taxation increase made in 1981, as follows -

	<u>Handrolling Index</u>	<u>All Items Index</u>	<u>Index of Handrolling cf. All Items</u>
	<u>Jan. 1974 = 100</u>		
<u>Annual Average</u>			
1975	152.7	134.8	113.3
1980	301.4	263.7	114.3
1981	378.4	295.0	128.3
1982	432.2	320.4	134.9
Sept. 1983	471.9	339.5	139.0

Currently, the prices of handrolling tobaccos are nearly 40% higher than the prices of other goods and services (1974 = 100).

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3. Consumption of handrolling tobacco has moved as follows in recent years

	<u>Million kg.</u>	<u>% cf.</u> <u>Previous Year</u>
1974	6.1	...
1975	6.4	+ 5½%
1976	6.5	+ 1½%
1977	6.5	- ½%
1978	6.1	- 6½%
1979	5.7	- 7%
1980	5.6	- 2%
1981	6.2	+ 10½%
1982	6.2	...
1983 (est.)	6.0	- 2½%

After a period of steady decline, the handrolling market increased in 1981 as smokers of manufactured cigarettes reacted to the 17p per 20 duty increase. However, this sales increase for handrolling tobacco was tiny compared with the sales losses sustained by cigarettes as a result of the 1981 duty increases. Although consumption remained relatively stable in 1982, as it did in the mid-1970s following fairly large tax increases in 1975, sales in 1983 are estimated to have fallen again and the longer term trend in sales of handrolling tobaccos is likely to be one of continuing decline.

4. Smokers of handrolling tobaccos are not able to economise in the same way as cigarette smokers by moving to a relatively less expensive form of smoking (i.e. to handrolled cigarettes). As a result, any increase in the taxation of handrolling tobaccos would, as shown earlier, impinge particularly on smokers in the lower income groups.
5. In the majority of EEC countries, the duty burden on handrolling tobaccos is considerably lower than in the UK - most EEC countries applying a similar rate of duty to pipe and handrolling tobaccos, with both generally significantly lower than the duty burden on cigarettes. As a result of the substantial price advantage of handrolling tobaccos in most EEC countries compared with the UK, there is a small but growing problem concerning the smuggling of UK exported handrolling tobaccos back into the UK. Although at present on a relatively small scale, this is likely to increase if the duty burden on handrolling tobacco is subject to further excessive duty increases.
6. The fact that the prices of handrolling tobaccos have far exceeded the general level of inflation since 1981, coupled with the very high incidence of lower income smokers in this sector of the market, underlines the need to avoid any increase in tobacco taxation in 1984.

TAXATION OF PIPE TOBACCOS

1. Prior to the 1983 Budget, the UK tobacco industry urged the Chancellor to reduce the duty on pipe tobacco, our argument being based on -
- the dramatic decline in sales and its inherent employment problems;
 - the fact that the majority of the pipe smoking population is in the lower income groups with a quarter of all pipe smokers being of pensionable age.
 - the high tax burden on pipe tobaccos compared with other EEC countries.

The industry was pleased that, in the event, the Chancellor recognised these problems by at least holding pipe tobacco duty at its pre-Budget level. In isolation, however, such a move will be of only limited benefit to the industry and the special fiscal treatment accorded to pipe tobaccos needs to be extended as a matter of longer term policy if the pipe tobacco industry is to benefit to any significant extent.

2. The declining trend in pipe tobacco sales over a number of years is summarised below -

	<u>Pipe Tobacco Consumption</u>	
	<u>Million Kg.</u>	<u>Cf. prev. year</u>
1965	6.6	- 3½% *
1970	5.7	- 2½% *
1975	5.0	- 2½% *
1976	5.0	- 1½%
1977	5.0	...
1978	4.6	- 7%
1979	4.2	- 7½%
1980	4.0	- 5%
1981	3.8	- 6%
1982	3.5	- 8%
1983 (est.)	3.2	- 7½%

* Annual rates of decline over the preceding 5 years.

Note: Percentages are based on unrounded figures.

Over the ten year period 1965 to 1975, pipe tobacco consumption declined at an annual rate of some 2½%. Although consumption remained relatively stable in 1976 and 1977, as a direct result of the favourable tax treatment given to pipe tobaccos in those years, the decline since then has been very severe, averaging over 7% p.a.

Since 1977, pipe tobacco sales have fallen by over 35% - a reduction far greater than the 25% decline in consumption experienced over the previous twelve year period (1965 to 1977).

Although there is some evidence that, in the current year, the previous rate of decline in pipe tobacco sales has eased marginally, the decline nevertheless continues to be severe.

While the treatment for pipe tobaccos at the last Budget was welcomed by the industry, the need for a long term duty moratorium at the very least is therefore clear.

- 3. In spite of the nil increase in pipe tobacco taxation in March 1983, pipe tobacco taxation over the last three Budgets has still been in excess of the general rate of inflation as a result of the increases imposed on pipe tobaccos in 1981 and 1982.

	<u>Index of tax on pipe tobaccos</u>	<u>All items index (March 1980 = 100)</u>
Pre-1981 Budget	100	
Post-1981 Budget	126	112½ (March 1981)
Post-July 1981 supplementary increase	132	118 (July 1981)
Post-1982 Budget	143	124 (March 1982)
Post-1983 Budget	143	130 (March 1983)

Allowing for a 5% p.a. rate of inflation by the spring of next year, the index for all items in March 1984 would be about 137 (March 1980 = 100), which would still be below the 43% increase in the rate of tax on pipe tobaccos imposed in 1981 and 1982.

- 4. The continuing decline in pipe tobacco sales has obvious adverse implications for employment in an industry which is labour intensive and in which manufacture is concentrated in areas of high unemployment

	<u>Numbers employed in pipe tobacco manufacture</u>		<u>Regional level of unemployment</u>
	<u>1980</u>	<u>1983</u>	
Northern Ireland	900	650	21%
Liverpool	800	600	15½%
Glasgow	<u>200</u>	<u>75</u>	17%
Total UK	<u>1,900</u>	<u>1,325</u>	<u>12½%</u>

These substantial job losses, amounting to some 30% over the last three years, is of particular concern to the industry and can only be mitigated by favourable tax treatment for pipe tobaccos.

5. In addition to the obvious benefits for employment that would arise from a more stable pipe tobacco market, this would also be of great benefit to those pipe smokers in the 60+ age group (40% of pipe smokers) who, as a result of the dramatic taxation increases in 1981 and in spite of the nil increase in 1983, have been faced with duty increases that have significantly exceeded the increases in State pensions, viz -

	<u>Pipe Tobacco Duty</u>		<u>Single State Pension</u>	
	<u>per Kg.</u>	<u>Cf. early 1981</u>	<u>per week</u>	<u>Cf. early 1981</u>
Pre-Budget 1981	£17.40		£27.15	
Current	£24.95	+ 43%	£32.85	+ 21%
		(From 21st Nov. 1983)	(£34.05)	(+ 25%)

6. Continental EEC countries have recognised the need for lower levels of pipe tobacco taxation which has enabled the industries in these countries to develop a strong home base, together with a successful export trade. In comparison, the UK industry has been burdened with extremely high levels of taxation resulting in domestic market decline and making it very difficult for the UK industry to remain competitive.

In the face of a declining UK market, sales of imported pipe tobaccos have achieved real growth over recent years. As a result, their market share in UK has virtually trebled since 1978 and now stands at a level approaching 10% of all pipe tobacco sales.

Details of the tax burden on pipe tobaccos relative to cigarettes in EEC countries are set out in the attached Appendix. This shows that, with the exception of the UK and the Republic of Ireland, the retail price of 25 grams of pipe tobacco within each EEC country varies from 31% to 77% of the price of 20 cigarettes. In the UK, however, the price comparison is 109%.

As a result, in sharp contrast to the UK, the pipe tobacco markets in Continental EEC countries have remained relatively stable, with growth in certain markets -

	<u>Total pipe tobacco consumption</u>		
	<u>1978</u>	<u>1980</u>	<u>1982</u>
		million kg.	
Belgium/Luxembourg	1.4	1.5	1.5
Denmark	1.9	1.9	1.9
France	3.2	3.2	3.2
German Fed. Rep.	1.7	1.7	1.9
Italy	1.3	1.1	1.0
Netherlands	.6	.6	.5
Republic of Ireland	.5	.4	.4
U.K.	4.6	4.0	3.5

Until such time as the UK pipe tobacco market recovers some real degree of stability, which can only be achieved through favourable tax treatment, the UK industry will continue to be at a disadvantage compared with Continental EEC countries.

In order to bring the UK pipe/cigarette retail price relationship into line with that of, say, Germany (pipe tobacco price 75% of cigarette price), assuming inflation is as high as 8% p.a. and indexation of cigarette duty, a moratorium on the level of pipe tobacco taxation of some 9/10 years would be required. This objective could, of course, be reached more quickly if the duty on pipe tobaccos was actually reduced.

7. To summarise, while the treatment accorded to pipe tobaccos at the last Budget was welcomed by the industry, this action in isolation will have been of only limited benefit. The problems faced by the industry, as outlined both in last year's and in this year's submission, still remain. The industry would therefore urge the Chancellor again to accord pipe tobaccos special treatment at the 1984 Budget by reducing the tax incidence on this product category. Such a move is seen by the industry as not only essential but also as entirely feasible in view of the limited effect on Government revenue that would result.

RELATIVE PRICE LEVELS OF
PIPE TOBACCOS AND CIGARETTES IN E.E.C.

	(a)	(b)	(a) as a % of (b)
	<u>Pipe Tobaccos</u> (Most Popular Price Class)	<u>Cigarettes</u> (Most Popular Price Class)	
	equivalent per 25 g.	per 20	%
Denmark	47p	148p	31½
Belgium	23p	57½p	40
Netherlands	33½p	62½p	53½
France	23½p	35½p	65½
German Fed. Rep.	69p	92½p	74½
Italy	41½p	54p	77
Rep. of Ireland (H.P.)	99p	103½p	105
(Cut)	120p		
U.K.	118p	109p	108½

- Notes:
1. Greece and Luxembourg have negligible pipe tobacco markets.
 2. Exchange rates as at end-September 1983.

TAXATION OF CIGARS

1. During the period of the last Labour Government (Oct. '74 - May '79), duty increases on cigars totalled 9p per 5 at whiff level. As a result of this relatively moderate fiscal handling, UK cigar consumption over the same period increased slightly from 1600 million to 1650 million (+ 3%).

Conservative taxation policy on cigars since 1979 has been dramatically different with duty increases over the period totalling 24½p - more or less doubling the total duty burden on 5 Whiffs since the beginning of 1979. Not surprisingly, cigar consumption, having been historically a growth market, has declined steadily over the past 4 years and now stands at a level some 12% below that of 1979.

The trend in cigar consumption, together with the respective duty increases, are summarised below -

	<u>UK Cigar Consumption</u>	<u>Duty increase</u>	
	millions	per 5 whiffs	
1974	1600	Oct. '74 - May '79 + 9p	
1979	1650	+ 3½p	} + 24½p
1980	1610	+ 5p	
1981	1540	+ 11p	
1982	1465	+ 3p	
1983 (est.)	1455	+ 2p	
1983 cf. 1979	- 12%		

2. The excessive duty increases that have been imposed since 1979 have meant that the retail price of cigars has moved significantly out of line with the Retail Price Index, viz.

	<u>Whiffs</u>		<u>R.P.I.</u>
	<u>Retail price</u>	<u>Index</u>	<u>All items</u>
	per 5		
As at January			
1979	55p	100	100
1980	63p	115	118
1981	72p	131	134
1982	89p	162	149
1983	99p	180	157
Sept. 1983	103p	187	164

The current rate of inflation suggests that, by the time of the Spring 1984 Budget, the R.P.I. as shown above will have moved to about 170 - still substantially below the current index for cigars.

3. We have stressed in previous submissions that a significant proportion of cigar manufacture is located in areas of high unemployment. As an almost direct result of the effect of recent duty increases, employment within the cigar industry, which is particularly labour intensive, has fallen as follows -

<u>Numbers employed in UK cigar manufacture</u>		
	<u>1980</u>	<u>1983</u>
South Wales	1400	1130
Ipswich	850	800
Bristol	900	-
Northern Ireland	500	400
Glasgow	<u>600</u>	<u>550</u>
	<u>4250</u>	<u>2880</u>
		(- 32%)

In addition to the job losses resulting from the transfer by one manufacturer of cigar production from Bristol to Glasgow, it has recently been announced by another manufacturer that cigar production in Northern Ireland is shortly to cease with further job losses inevitable.

With only limited pipe tobacco manufacture located at Glasgow, future employment in the tobacco industry in Scotland will depend to a very large extent on the future level of cigar sales, while in Wales employment will be totally dependent on cigars.

4. Contrary to popular belief that cigar smoking is confined to the most affluent social classes, the following figures are relevant -

<u>Cigar smokers</u>	<u>Propn. of smokers</u>
AB	20%
C1	23%
C2	39%
DE	<u>18%</u>
<u>Total</u>	<u>100%</u>

Far from being concentrated in the higher income groups, the above table clearly illustrates that the proportion of cigar smokers by social classes is more evenly divided than popularly believed, with well over half of cigar smokers being in the lower social groups.

It is worth pointing out that the more expensive imported cigars (e.g. Havana and Jamaica) account for less than 1% of the total cigar market.

5. The UK cigar market continues to be the only sector of UK tobacco trade that has a negative balance of trade, cigar exports amounting to some £2½ mn. p.a. compared with imports of around £20/25 mn. p.a. As a result of movements in exchange rates, imported cigars have become more competitively priced over recent years and, as a consequence, sales of imported cigars have held up rather better than domestically produced cigars.

	<u>UK mfrd. Sales</u>	<u>Imported Sales</u>	<u>Total Sales</u>
	- mn. -		mn.
1979	1370	280	1650
1980	1350	260	1610
1981	1260	280	1540
1982	1190	275	1465
1983 (est.)	1190	265	1455
1983 cf. 1979	- 13%	- 5%	- 12%

Any further tax increase on cigars in the 1984 Budget, with a consequent reduction in the production base, would place UK manufacturers in a still weaker position to resist foreign competition and hamper their efforts to expand exports.

6. No other EEC country imposes a higher duty burden on cigars than UK, where, as a result of successive taxation increases, the previous historical tax incidence of about 40% of retail price has increased to 51%.

Historical details of changes in the tax incidence for UK manufactured whiff cigars, together with current comparable data in respect of other EEC countries, are shown in the attached Appendix.

Up to 1974, the tax proportion of the retail price of cigars remained constant at around 40% and, up to that time, there was substantial growth in sales of cigars in the UK. Between 1974 and 1980, the tax proportion moved to some 43%/44% of retail price and, during that period, cigar sales remained relatively stable. Since 1980, the tax incidence has increased to a post-1983 Budget level of 51%: over this period, cigar sales have fallen significantly. It may well be, therefore, that a tax incidence of around 40% is about as much as cigars can stand.

Assuming inflation as high as 8% p.a., a moratorium of some 5/6 years on the level of cigar taxation would be required in order to reduce the tax incidence to the historical level of 40% of retail price, i.e. within the scope of the present Government. This objective could, of course, be reached more quickly if the duty on cigars was actually reduced in 1984.

7. In the light of the foregoing, the industry believes there is a strong case for a reduction in cigar taxation in 1984 in order to -

- safeguard future employment levels in the industry which have been substantially reduced in recent years;

- redress the imbalance between taxation increases imposed on cigars over recent years compared with the general level of inflation;
- bring the current tax incidence on cigars more into line with its historical level of 40% which in turn would restore some degree of parity with our European competitors;
- allow the cigar market to recover some degree of stability which would enable manufacturers to achieve greater efficiency, thus placing the industry in a stronger position to resist import penetration;
- give a more assured base for future revenue receipts.

The industry would therefore urge the Chancellor to take the opportunity to reduce the incidence of taxation on cigars in 1984.

INCIDENCE OF CIGAR TAXATION

The following table illustrates the increase that has occurred in the incidence of taxation for UK cigars and also sets out the current position for other EEC countries.

	<u>Total taxation (incl. VAT)</u> <u>as % of retail price</u>
As at 1st January	
1967	40%
1968	41%
1969	41%
1970	41%
1971	40%
1972	41%
1973	39%
1974	41%
1975	42%
1976	44%
1977	46%
1978	44%
1979	43%
1980	44%
1981	46%
1982	51%
Post 1983 Budget	51%
cf.	
Luxembourg	23%
Belgium	23%
Holland	23%
Germany	27%
Greece	31%
Denmark	44%
* Italy	49%
* France	51%
Ireland	51%

* Although France and Italy have a taxation incidence similar to the UK, these State Monopolies operate on little or no profit, thus inflating the tax incidence figures.



FROM: Minister of State

DATE: 25 November 1983

CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Griffiths
Mr F Martin
Mr Lord

PS/Customs & Excise
Mr Freedman - C&E

BUDGET REPRESENTATIONS: TOBACCO ADVISORY COUNCIL

I had an agreeable lunch on Tuesday with the Tobacco Advisory Council and Bryce Knox and Charles Freedman of Customs came with me.

As you know the TAC have already submitted their Budget representations but as they have not previously met you they very much hope you will be able to see them. And of course they accept that a meeting this year would not in any way be a precedent for future years.

On this basis I think it would be quite a good idea for you to see them fairly soon - either a short meeting, 30-45 minutes, or a working lunch would I know be welcomed. But if you think the Royal College of Physicians report makes this an inopportune time perhaps you could indicate a general willingness to see them next year.

BARNEY HAYHOE



FROM: MISS J C SIMPSON

DATE: 25 November 1983



MR FREEDMAN
Customs & Excise

cc Mr Griffiths
Mr F Martin
Mr I Walton
PS/C&E

BUDGET REPRESENTATIONS: TOBACCO ADVISORY COUNCIL

You will have seen the Minister of State's minute to the Chancellor of the Exchequer, recommending that the Chancellor should meet the TAC to discuss their Budget representations. We should be grateful if you could give us the history of any previous attempts by the TAC to make their Budget representations to the Chancellor in person, and your advice on whether or not it would be advisable for him to see them this year.

B.

MISS J C SIMPSON
Private Secretary

5. However, the TAC has recently re-organised itself. Mr Cameron, Chairman of Gallahers, has been appointed Chairman of the Council for a two year period; his predecessor as Chairman is now the Chief Executive. The working lunch last Tuesday for the Minister of State was attended also by the Chairmen of Imperial Tobacco Ltd and British American Tobacco Co Ltd and by the Managing Director of Carreras Rothmans Ltd and the senior industrialists made the major contributions to the discussion.

6. The tobacco trade are very keen to meet the Chancellor personally and would accept that this would not be a precedent for future years. The Minister of State mentioned in his minute the new report of the Royal College of Physicians but I would not regard that as a factor serious enough to prevent the Chancellor from seeing the TAC - there are of course "health" arguments in the drinks field but these have never prevented meetings with the Brewers' Society and the Scotch Whisky Association.

7. I would recommend that the Chancellor agrees to meet the TAC this year. If desired, I could arrange for the Council to invite him to a working lunch to provide a more informal setting.

CF

C FREEDMAN



FROM: MISS J C SIMPSON

DATE: 5 December 1983

cc Mr Griffiths
Mr F Martin
Mr I Walton
Mr Freedman - C&E
PS/C&E

psf

PS/MINISTER OF STATE

BUDGET REPRESENTATIONS: TOBACCO ADVISORY COUNCIL.

The Chancellor has seen the Minister's minute of 25 November, and Mr Freedman's of 29 November advising him that it would be a good idea for the Chancellor to agree to see a delegation from the TAC before next year's Budget.

2. The Chancellor has commented that he would be prepared to see them on a clear understanding that this is simply a meeting with the new Chancellor, and is not to be taken as setting a president for future years.

3. Perhaps you would be good enough to convey this to the TAC, so that they can approach us about fixing a suitable time.

B

MISS J C SIMPSON



H.M. CUSTOMS AND EXCISE
KING'S BEAM HOUSE, MARK LANE
LONDON EC3R 7HE
01-626 1515

PS/CHANCELLOR

FROM: T M JENKINS

DATE: 9 December 1983

A type

cc PS/MST
Mr Griffiths
Mr F Martin
Mr I Walton

BUDGET REPRESENTATIONS: TOBACCO ADVISORY COUNCIL

Following your minute of 5 December, and Miss McCambridge's minute of 6 December, it has been agreed that the invitation to the Tobacco Advisory Council to see the Chancellor would best take the form of a response from the Chancellor's Office to Sir James Wilson's formal request for a meeting in the TAC's letter of 16 November to the Chancellor. The Minister of State is anxious that this should make it clear that the Chancellor's agreement was at his suggestion, in order to underline that it should not be taken as a precedent. The following draft suggests that the TAC contact you in due course in order to make the necessary arrangements. Alternatively, you may wish to suggest a convenient time and date.

*Sir James Wilson KBE MC
Chief Executive
Tobacco Advisory Council
Glen House
Stag Place
London SE1E 5AG.*

The Chancellor of the Exchequer has asked me to thank you for your letter of 16 November, enclosing the Tobacco Advisory Council's 1984 Budget representations and asking for an opportunity to discuss them with him.

As you will know from past experience, as a normal rule the Chancellor would expect the detail of the Council's representations to be discussed with the Treasury Minister immediately concerned with tobacco products duty, at present the Minister of State. Mr Hayhoe has suggested, however, that it might prove helpful for Mr Lawson,

1

Internal circulation: CPS Mr Freedman Mr Wilmott Mrs Boardman



H.M. CUSTOMS AND EXCISE
KING'S BEAM HOUSE, MARK LANE
LONDON EC3R 7HE
01-626 1515

as a new Chancellor, to meet the Council's representatives in person on this occasion. The Chancellor has agreed to do so exceptionally this year and has asked ~~me~~^{us} to make the necessary arrangements. Perhaps you would contact ~~me~~ to arrange a suitable date and time.

The Chancellor's diary secretary, Miss
Dona Yang, on 233 5487

J-5-

T M Jenkins

T M JENKINS

Miss D Young



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

13 December 1983

828 2041 Regine

Sir James Wilson KBE MC
Chief Executive
Tobacco Advisory Council
Glen House
Stag Place
LONDON SW1E 5AG

3 of 4.

Dear Sir James,

The Chancellor of the Exchequer has asked me to thank you for your letter of 16 November, enclosing the Tobacco Advisory Council's 1984 Budget representations and asking for an opportunity to discuss them with him.

As you will know from past experience, as a normal rule the Chancellor would expect the detail of the Council's representations to be discussed with the Treasury Minister immediately concerned with tobacco products duty, at present the Minister of State. Mr Hayhoe has suggested, however, that it might prove helpful for Mr Lawson, as a new Chancellor, to meet the Council's representatives in person on this occasion. The Chancellor has agreed to do so exceptionally this year and has asked us to make the necessary arrangements. Perhaps you would contact the Chancellor's diary secretary, Miss Donna Young, on 233 5487 to arrange a suitable date and time.

Yours sincerely,
Judith Simpson

MISS J C SIMPSON
Private Secretary

11/15 DEC 1983

TOBACCO ADVISORY COUNCIL

Redysyni h

Glen House, Stag Place, London, SW1E 5AG

Telephone: 01-828 2803/2041

Telegrams: TOBCOM LONDON SW1E 5AG

Telex: 8953754 TOBCOM

From Sir James Wilson, K.B.E., M.C.
Chief Executive

W

B.J. Hayhoe, Esq., M.P.
Minister of State,
The Treasury,
Parliament Street,
London SW1

14th December, 1983

Dear Minister of State,

When you were kind enough to lunch with the industry on the 22nd of last month you may remember that one of the topics we touched on was the social class of cigar smokers. We argued that nowadays cigar smoking was not the preserve of the rich drawing attention to the considerable proportion of U.K. manufactured cigars sold, for example, in pubs and working men's clubs. Since then, in view of your interest in the subject, we have been doing a little more research into the matter.

The attached chart is the outcome showing clearly what a high proportion of cigar smokers in all areas come from the less affluent social groups. Particularly interesting is the fact that smokers of small cigars which form 75% of those sold should be 80% or more from the C D and E social groups.

Best wishes - we all greatly enjoyed our lunch with you the other day and the opportunity of discussing some of the fiscal problems facing our industry in such a pleasant and relaxed atmosphere.

Yours sincerely

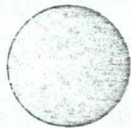
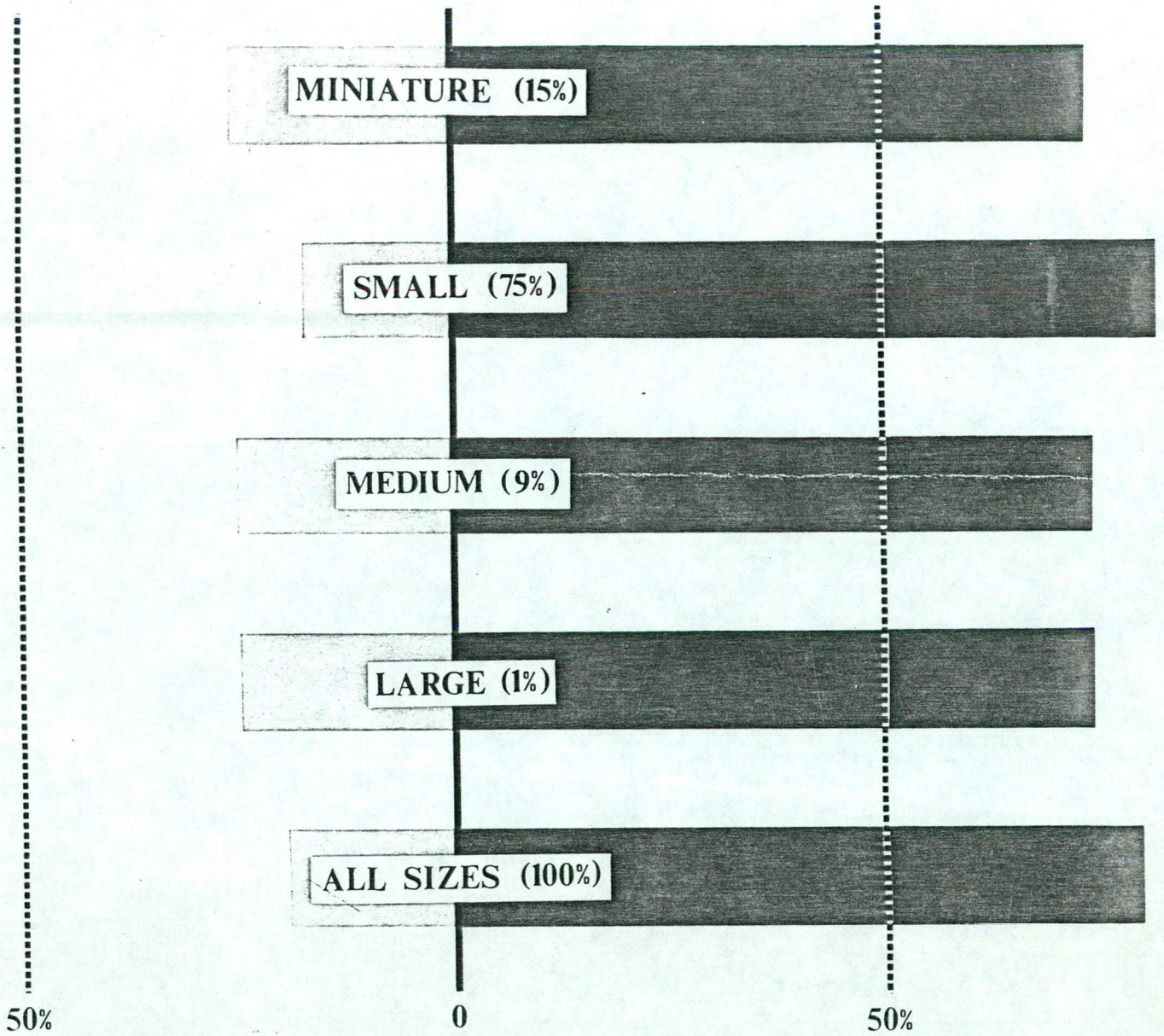
James Wilson

MINISTER OF STATE	
REC.	15 DEC 1983
ACTION	MR FREEDMAN
	PS/Chancellor ✓
	Mr Griffiths
	Mr F. Martin
	Mr I. Walker

PS/CS/E

MST

CIGAR SMOKERS BY SOCIAL GROUPS



AB



C1C2DE



From M E Corcoran

Date 19 December 1983

(Handwritten initials)

PS/CHANCELLOR

cc Mr Griffiths
Mr F Martin
Mr Walton
Mr T M Jenkins - C&E

BUDGET REPRESENTATIONS: TOBACCO ADVISORY COUNCIL

The Minister of State has seen Mr Jenkins' submission of 9 December and, while he thinks the letter seems okay, he has commented that to say he is anxious that it be made clear that the Chancellor's agreement to a meeting was at his suggestion, in order to underline that it should not be taken as a precedent, is nonsense.

(Handwritten signature)

M E CORCORAN

TOBACCO ADVISORY COUNCIL

Glen House, Stag Place, London, SW1E 5AG

Telephone: 01-828 2803/2041

Telegrams: TOBCOM LONDON SW1E 5AG

Telex: 8953754 TOBCOM

From Sir James Wilson, K.B.E., M.C.
Chief Executive

Handwritten notes in top right corner:
PWP (circled)
24 11.30 AMT (circled)
R. Freedman CoE
pl cc. PS/CoE
PS/MST, R. Manger
R. Walton.

22 December 1983

Handwritten note: - Thanks.

Miss J. C. Simpson,
Private Secretary,
The Treasury,
Treasury Chambers,
Parliament Street,
London, SW1P 3AG

Handwritten notes in the middle right area:
Judith
MTG arranged
24 11.30 am, HM
with MST
Manger
G. H. J. J. J.
Chancellor
You already have a note from me on this matter
+1

Dear Miss Simpson.

To confirm our telephone conversation of 15 December:-

My Council are most grateful to the Chancellor for agreeing to meet us this year. We discussed possible arrangements, and, having discussed the matter again with individual members of my Council, we all feel that, should the Chancellor think this a good idea, it would be a great pleasure to have our dialogue over lunch as we did recently with the Minister of State.

We do not think it will be necessary to discuss matters with the Chancellor in too great detail; our written submission covers the detailed points we wish to make fairly fully, but informally, over the luncheon table, there will be opportunity for the Chairmen of our industry's companies to make points of a general nature to the Chancellor which might be less easy in a more formal atmosphere. But clearly, it is for the Chancellor himself to determine what he would like to do, and we shall, of course, be only too delighted to fall in with whatever he may wish.

Yours sincerely,
James Wilson

delighted to

See Any one, Ministers or officials,

wh. the Chancellor may wish to bring with him.

TOBACCO WORKERS UNION

LIVERPOOL 2 BRANCH (B.A.T.)

Chairman:

STAN TIDMARSH
FINANCIAL SECY.

Vice Chairman:

PETER TOBIN

Branch Secretary:

CHRIS WILLIAMS

Treasurer / Ass. Sec:

JOHN ALLEN
51-71 Commercial Road
Liverpool L5 9XS

REC. 20 JAN 1984

PPS CST MST EST

COPIES TO Sir P Middleton

Mr Cassell

Mr Monger

Mr R. Allen

Mr Griffiths
Mr F Martin
Mr Lord
PS/IR
PS/C+E

The Chancellor of the Exchequer,
11 Downing Street,
London S.W.1.

12th January, 1984.

BKI

HM TREASURY - MCU	
REC'D.	19 JAN 1984
ACTION	EST 42/200.
SIGNATURE	
REF. No.	1 63

Dear Sir,

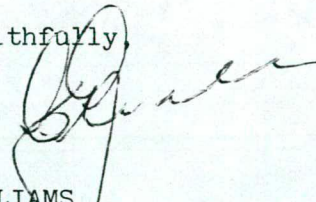
I write to you in respect of your forthcoming budget and once again the savage attacks that seem apparent on tobacco duty.

During the past few years 8,000 jobs have disappeared throughout our industry due mainly to taxation. Apart from the effect on our members, tobacco duty increases epitomise the totally regressive nature of the Government taxation policies, as the burden of tobacco tax increases are borne most heavily by the low paid, unemployed and the retired.

Whilst smoking is recognised in certain circles as an anti-social habit, I would ask you to consider the effects further taxation would have with the low paid, unemployed and the retired. Indced smoking a pipe or cigarette is possibly the only luxury, if one can class it as such, these people enjoy.

I would ask you to give serious consideration to any further increases in taxation because of the effects it would have on the unemployed, the low paid, the pensioners and the people working within the industry.

Yours faithfully,



C. WILLIAMS,
BRANCH SECRETARY,
T.W.U. (INDUSTRIAL).

TID.
WOKERS
LIVIPOL
REP.

ASH Action on Smoking and Health

Advice on meeting pl,
presumably for MST

SPARE

5-11 Mortimer Street
London W1N 7RH
Telephone 01-637 9843

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
The Treasury
Parliament Street
London SW1P 3AG

Mr Griffiths

PPS CST MST EST

Sir P Middleton

Mr Cassell

Mr. Monger

13 January 1984

~~MST~~
Mr R I G Allen
Mr F Martin
Mr Rayner
Mr Loyd

pm

PS/IK
PS/C+E

Dear Mr Lawson

In view of your forthcoming Budget speech, I am writing to ask you to receive a small delegation from ASH to discuss tobacco taxation.

We should like to ask you:

- (i) to make a substantial rise in tobacco taxation;
- (ii) to mention in your speech the overwhelming health reasons for doing so;
- (iii) to make a commitment to regular annual rises in the future to ensure that the cost of smoking in real terms is at least maintained if not increased.

In support of these requests, we should welcome the opportunity to discuss the following points:

- (i) Smoking takes an unparalleled toll of the nation's health, causing what the Royal College of Physicians described recently as a "hidden holocaust" of about 100,000 premature deaths per annum; and the illness and disability caused by smoking, especially in the form of respiratory diseases, results in a loss of some 50 million working days per annum.
- (ii) Cigarette prices, in real terms, are still lower than in the mid-1960s.
- (iii) Price is accepted by both the tobacco industry and those concerned with health to be the single most effective influence, at least in the short term, affecting consumption.
- (iv) Employment is not an issue which can justify refraining from raising tobacco taxes. Not only should human life

Patron: HRH The Duke of Gloucester
 President: Professor Charles Fletcher CBE MD FRCP Vice-Presidents: Dr. Keith Ball MD FRCP Professor Sir Richard Doll DM FRCP FRS
 Chairman: Professor Peter Sleight MD DM FRCP Vice-Chairman: Richard Sleight
 Hon. Secs: Dr. Noel Olsen MSc MB MRCP Dr. Muir Gray MD Hon. Treasurer: Malcolm Young
 Director: David Simpson

ASH
REP.
13/1

and health come first (as it does in the case of road accident prevention) but also tobacco manufacturing is so capital intensive that money no longer spent on cigarettes will almost certainly create a demand for goods or services which take more labour to produce.

- (v) Increasing tobacco taxation is not socially regressive because price increases are borne to a greater extent by upper socio-economic groups than they are by the lower paid.
- (vi) The relative price inelasticity of cigarettes means that Treasury revenue can be increased even when consumption is made to fall by a rise in taxation.

If you agree to a meeting, no doubt your office may find it helpful of telephone our Director at the ASH office.

Yours sincerely



Peter Sleight MD DM FRCP
Field-Marshal Alexander Professor
of Cardiovascular Medicine,
University of Oxford.
Chairman

TOBACCO ADVISORY COUNCIL

Glen House, Stag Place, London, SW1E 5AG

Telephone: 01-828 2803/2041

From Sir James Wilson, K.B.E., M.C.
Chief Executive

Telegrams: TOBCOM LONDON SW1E 5AG

Telex: 8953754 TOBCOM

Please copy both

(5)

16 January 1984

Miss J. C. Simpson
Private Secretary
The Treasury
Treasury Chambers
Parliament St.
London, SW1P 3AG

CH/EXCHEQUER	
REC.	17 JAN 1984/18/11
ACTION	Lrs Boardman - CaE
COPIES TO	PS/NST, N Manges N Griffiths, N Walker PS/CaE.

Dear Miss Simpson

Further to Sir James Wilson's letter of 13 January advising you of the TAC delegation who will be meeting the Chancellor on 24 January, I am writing to let you know that Mr. W. J. Dickson, Managing Director of B.A.T. (UK and Export) Ltd. will not now be included. Mr. A. M. Heath, Chairman of B.A.T. (UK and Export) will be coming instead.

Yours sincerely,

Regine Ellis

Regine Ellis
Personal Assistant to Sir James Wilson

(157)

TOBACCO ADVISORY COUNCIL

Glen House, Stag Place, London, SW1E 5AG

Telephone: 01-828 2803/2041

From Sir James Wilson, K.B.E., M.C.
Chief Executive

Telegrams: TOBCOM LONDON SW1E 5AG
Telex: 8953754 TOBCOM

13 January 1984

Miss J. C. Simpson,
Private Secretary,
The Treasury,
Treasury Chambers
Parliament Street,
London, SW1P 3AG

Dear Miss Simpson.

I am most grateful to the Chancellor for agreeing to meet a delegation from the Tobacco Advisory Council on Tuesday, 24 January at the Treasury at 4.00 pm.

TAC's party will be:-

S. G. Cameron, Esq.

Chairman, TAC
Chairman, Gallaher Ltd.

Sir James Wilson

Chief Executive, TAC

A. M. Reid, Esq.

Chairman, Imperial Tobacco Ltd.

~~A. M. Heath~~

~~Chairman~~

~~W. J. Dickson, Esq.~~

~~Managing Director, B.A.T. (UK and Export) Ltd.~~

J. W. Webb, Esq.

Managing Director, UK Region,
Carreras Rothmans Ltd.

J. Speakman, Esq.

Managing Director, Philip Morris Ltd.

Yours sincerely
James Wilson.



C

As well as the brief and the representations, we have also tracked in the health lobby reps. (incl. Mr Fowler's) and a mini-one from the Tobacco Workers' Union.

As with the SWA, you will not be expected to do much more than take note.

B.



Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

FROM: C FREEDMAN
19 January 1984

CHANCELLOR OF THE EXCHEQUER

cc Financial Secretary
Minister of State
Sir P Middleton
Mr Monger
Mr Griffiths
Mr Portillo

TOBACCO ADVISORY COUNCIL : BUDGET REPRESENTATIONS

1. I attach a brief for the meeting with the TAC on 24 January. This is primarily for background information, since the delegation will expect no more than a sympathetic hearing of its case.
2. The delegation will be led by the TAC's non-executive Chairman, Mr Stuart Cameron of Gallaher Limited, and will include a representative of each of the five major tobacco companies, which together account for almost all the UK market:

A M Reid, Chairman of Imperial Tobacco Limited

Now Nikath,
Chairman.

W J Dickson, Managing Director of British-American Tobacco Limited

J W Webb, Managing Director of Carreras-Rothmans Limited

J Speakman, General Manager of Philip Morris (UK)

Sir James Wilson, Chief Executive TAC

3. I propose to attend from Customs.

The TAC will be supplemented by

C R Chilton London Tobacco Co
H B Grace Executive Director, TAC.

CF

C FREEDMAN

Internal distribution: CPS Mr Jenkins Mrs Boardman
Mr Knox Mr Wilmott

BUDGET REPRESENTATIONS BY THE TOBACCO ADVISORY COUNCIL

TAC points

1. Sir James Wilson's letter of 16 November covers five papers:

- TE 1825 - Tobacco products taxation
- TE 1826 - Taxation of cigarettes
- TE 1827 - Taxation of hand-rolling tobaccos
- TE 1828 - Taxation of pipe tobaccos
- TE 1829 - Taxation of cigars.

Their main arguments are summarised in the covering letter, and the first paper. The remaining papers set out their supporting arguments in more detail for each product.

2. The TAC argue that the 1984 Budget will be critical for the industry's chances of consolidating the relative stabilisation of cigarette consumption over the last year, and of halting the continued decline in sales of pipe tobacco and cigars. They feel strongly that the significant acceleration since 1980 in the decline of consumption and employment is largely due to relatively harsh fiscal treatment. In their view this year's small improvement is partly due to the decision to limit increases in the 1983 Budget to slightly less than what was required for revalorisation, with a nil increase for pipe tobacco. But without continuing "sensitive" treatment, preferably over several Budgets, the industry argue that consumption will continue to decline, threatening the longer-term viability of the tax base, and the ability of the industry to withstand import penetration and to continue their expansion of exports.

In support of this, they argue that:

- (a) the current Administration's major achievement has been to bring inflation back under control, and the target of continuing price stability can only be achieved by avoiding tax increases which raise prices.

- (b) Pipe tobacco and cigars require particular help. Both have a majority of smokers in the lower social classes, and are taxed at a significantly higher level in the UK than elsewhere in the EC. Both show signs of increasing import penetration, and now bear significantly higher tax incidences than they did in 1979.
- (c) Any increases should be based on longer-term revenue and economic considerations rather than health factors. In this connection, the industry may refer to the recent report of the Royal College of Physicians which called for regular real increases in the burden of taxation. Representatives of the Royal Colleges and other health lobbies are due to meet the Minister of State before the Budget.
3. The TAC specifically call for:
- (a) Cigarette taxation to be left unchanged, or at most increased in line with inflation.
- (b) Hand-rolling tobaccos to be treated in line with cigarettes.
- (c) Pipe tobaccos to be reduced by 16p per 25 grammes in order to return to the pre-1981 position.
- (d) Cigars to be reduced immediately to their pre-1981 levels, as a first step towards restoring the tax incidence from its current level (51%) to pre-1974 levels (40%).

Consumption, price and employment trends

4. The industry's figures show that consumption of all tobacco products has declined steadily since 1974, and significantly faster since 1980. Overall, consumption of tobacco by pounds weight fell by a fifth between 1973 and 1982. Over the same period, tobacco retail prices rose significantly in real terms, and about 11,500 jobs were lost, of which the bulk have gone since 1980. Recently, Carreras Rothmans announced the closure of their Basildon factory, with a further 1,200 jobs.

5. There is no doubt that the industry has been hard hit, as the result of a number of factors, of which tax increases are only one. Consumption and price comparisons for cigarettes are complicated by the fact that the consumer trend over the period has been towards larger cigarettes containing more tobacco. Some increase in the price per cigarette, and some fall in the numbers consumed was therefore to be expected, regardless of other factors. More importantly, the trends reflect the continuing growth in public awareness of the health risks associated with smoking. The importance of this is supported by two recent surveys by the Office of Population Censuses and Surveys on attitudes to smoking and smoking amongst school children (which showed widespread apprehension of health risks amongst smokers); and by the switch from plain to filter, and from high to lower-tar cigarettes. Finally, because, as the TAC point out, smoking is concentrated amongst the less well off, the industry has been particularly vulnerable to the effects of the general economic situation. This factor is probably most important in the case of pipe tobacco, which is most heavily concentrated amongst the elderly and less well off, and where the fall in consumption has been the greatest.

Taxation trends

6. The TAC, however, argue that the decline has been due primarily to unfavourable tax treatment, particularly in the 1979-82 Budgets. The duty burden on a typical packet of 20 cigarettes was increased by 18p between 1974 and 1979. Since then, the tax burden has risen by 36p per 20, of which 17p was imposed in 1981. It seems likely that the 1981 increase (which was double that needed for strict revalorisation) contributed to the particularly sharp fall in consumption in that year. But it is doubtful whether tax increases have contributed significantly to consumption and price trends overall. The rises in prices and tax levels since 1979 quoted by the TAC are in part attributable to the 1979 VAT increase which also affected many other consumables. Exact comparisons are difficult due to changes in the market and duty structures, and depend critically on what year is taken as the base. If looked at over 20 years, cigarette prices are currently no higher than they were at the beginning of the 1970s in real terms, whilst duty levels remain comfortably below their most recent (1975) peak, and significantly below their real level in 1965 when the health risks were first made public. Such comparisons have been emphasised by the health lobbies in calling for real increases.

Revalorisation

7. Underlying the industry's representations is their view that tobacco duty levels should not be subject to automatic indexation. For pipe tobacco and cigars, at least, they appear to wish to go beyond this to argue that the Government's aim should be to deliberately reduce the tax incidence so as, for example, to restore it to pre-1981 levels. But the 1983 Budget increases (which fell slightly short of what would have been required for full revalorisation, and included a nil increase for pipe tobacco) indicated that the "sensible presumption" that excise duties should be regularly revalorised has not precluded some flexibility. Moreover, there is no particular reason why 1980 should be used as a base line. As indicated above, comparison of current duty levels with historic periods is difficult because of changes in both the structure of the duty, and of the United Kingdom cigarette market.

8. Alternatively, they may seek to argue in respect of cigarettes that revalorisation should not be calculated on the specific element of the duty alone - as has previously been the case - but rather on the total tax burden, including the ad valorem and VAT elements. As a result of recent manufacturers' price increases, the latter method would produce an increase between 2.5p and 3p on 20 King-size cigarettes, as compared with the 3.3p required by the conventional method. Its overall effect would be to maintain the real value of the tax take, whilst reducing the tax incidence, thus allowing manufacturers to keep a larger share of the retail price. Although the tobacco duty is unique in having a substantial ad valorem element in addition to VAT, theoretically, the position is no different from that for other excise goods which bear VAT in addition to a specific duty; and we see no justification for singling out cigarettes for special treatment.

Viability of tax base

9. The TAC argues that the Government's longer-term interests would best be served by favourable tax treatment, in order to avoid further erosion of the revenue base. This reflects some danger of confusion between the level of consumption and the size of the revenue yield. The TAC assume that a decline in consumption automatically poses a threat to the revenue. Although it would conceivably be possible to enter a spiral where rising taxes cut

consumption to the point of diminishing returns, there is no evidence to suggest that we are in danger of doing so now; at least in the case of cigarettes, which account for about 90% of the yield. Revenue yields in recent years have shown stable trends, and outturns have generally been close to estimates.

EC comparisons

10. The TAC point to the comparatively small decline in consumption which has occurred in most other EC countries, and the benefits for their competitors which have resulted from stabler home markets. They argue that the UK pipe tobacco industry would benefit significantly from fiscal action designed to reduce the retail price below that of cigarettes (as is already the case in most EC countries); and that the UK cigar industry suffers significantly as a result of having a higher tax incidence than any EC competitor.

11. UK tax levels are amongst the highest in the EC in absolute terms. But this reflects the fact that traditionally, both retail prices and duty levels have been higher in the UK than in many EC countries for all tobacco products. When looked at proportionally, UK levels are broadly in line with those in most Member States. For example, at about 81p, the total tax burden (including VAT) on a typical packet of 20 cigarettes in the UK is currently the second highest in the Community in cash terms, but is only about average as a percentage (72%) of the retail selling price. Equally, in the case of pipe tobacco, where Ireland and the UK are unique in having higher retail prices for pipe tobaccos than for cigarettes, the tax incidence in percentage terms is only slightly above average.

Imports/exports

12. The TAC argues that any sudden contraction of the UK market resulting from tax action would increase the unit costs of the UK industry, and thus provide an opportunity for import penetration; this in turn would weaken the base for continuing the recent expansion of UK exports (which have doubled since 1974). Whilst we would not dispute the growing importance of UK exports, and of cigar imports, the TAC fears would appear exaggerated. Even after the substantial contraction which has already occurred in the UK market, imports account for only about 2% of cigarette sales, and just over a fifth of cigar consumption.

Hand-rolling tobaccos

13. We do not dispute the TAC's analysis of consumption trends, and accept that hand-rolling tobaccos and cigarettes are fairly close economic substitutes. This interchangeability, together with health considerations, is a sufficient justification of continuing to link taxation of this product with that of cigarettes.

Pipe tobaccos and cigars

14. The TAC repeat their 1983 call for special treatment for these two sectors. Both, however are already favourably treated, in UK terms, in comparison with cigarettes. The total tax burden on cigars is about 50% of the retail selling price whilst that on pipe tobacco is about 64%, compared with 72% for cigarettes. Consumption of cigars has declined least. Pipe tobacco consumption has declined most, but there is evidence to suggest that not all this decline is directly attributable to tax increases. Pipe tobacco was treated more favourably than cigarettes in 1976, 1977, 1980, 1981 and 1983, despite which the decline has continued. Overall, we would not agree that cigars or pipe tobacco have any intrinsic quality that automatically justifies preferential treatment.

Other points

15. Other points that may possibly arise include EC harmonisation and technical changes in the duty structure.

16. Harmonisation - in the continued absence of agreement to the Commission's proposals for a third stage of harmonisation of the excise duty on cigarettes, the Commission has recently proposed a further extension of the existing second stage for two years. The Council is expected to agree to this, once a formal Opinion on it has been delivered by the European Parliament. The UK position is to support our industry's case that a further reduction in the maximum permitted specific portion of the duty (as the Commission propose for the third stage) would be harmful; and we therefore see no reason to object to a two-year extension.

17. Technical changes - we are currently discussing with the industry proposals for changes in the rules governing the point at which tobacco products duty becomes payable, and the tax treatment of surpluses and

deficits which arise during duty-free storage. The industry have pressed for implementation to be delayed until they have completed planned changes in their internal systems and company structures. We have some sympathy with this, and hope to agree a date with them shortly.

TOBACCO ADVISORY COUNCIL

1. Done
2. Incl. 11

Glen House, Stag Place, London, SW1E 5AG

Telephone: 01-828 2803/2041

From Sir James Wilson, K.B.E., M.C.
Chief Executive

Telegrams: TOBCOM LONDON SW1E 5AG

Telex: 8953754 TOBCOM

20 January 1984

Miss J. C. Simpson,
Private Secretary,
The Treasury,
Treasury Chambers,
Parliament Street,
London SW1P 3AG

CH/EXCHEQUER	
REC.	23 JAN 1984
ACTION	
COPIES TO	

Dear Miss Simpson,

Further to my letter of 16 January, Sir James Wilson has asked me to let you know that the following persons should be added to the list of those attending the meeting with the Chancellor on Tuesday 24 January at 4.00 pm: -

- Mr. C. R. Chilton - London Tobacco Co. Ltd.
(representing the Smaller
Businesses Committee)
- Mr. H. B. Grice - Executive Director, TAC

Our delegation will now consist of 8 persons.

Yours sincerely,

Regine Ellis
Regine Ellis
Personal Assistant to Sir James Wilson



NOTE OF A MEETING IN HM TREASURY AT 4PM ON TUESDAY 24 JANUARY TO HEAR
THE PRE-BUDGET REPRESENTATIONS OF THE TOBACCO ADVISORY COUNCIL

Present:

Chancellor of the Exchequer
Minister of State
Mr Griffiths
Mr Colman
Mr Freedman - Customs & Excise

TAC

Mr S Cameron
Mr C Chilton
Mr H Grice
Mr A Hames
Mr A Heath
Mr A Reid
Mr J Webb
Sir James Wilson

Mr Cameron (Gallaher Ltd) said that the TAC had already made its submission to the Chancellor, and he did not propose to rehearse it in detail now. He would only like to draw the Chancellor's attention to the close connection they had identified between tax increases and reduced cigarette consumption. This was particularly noticeable in respect of the 1981 tax increases. The main point he wanted to get across now was the danger to the whole industry of sudden and severe increases in taxation, which they feared could erode the revenue base irreparably. This could have a particularly severe effect on employment, and Mr Cameron reminded the Chancellor that cigarette factories were mostly located in areas of high unemployment. He also pointed out that most cigarette manufacturers were now in fact multi-purpose companies, which tended to use the profits from the cigarette operation to finance a large amount of other activity. Mr Reid (Imperial) reinforced this point. He pointed out that an experience like that of 1981 could have a fundamental effect on the long-term strategic planning of all parts of the organisation.

2. Mr Cameron said that he would like to emphasise some of the points the TAC had made in relation to pipe tobacco and cigars. He pointed out that both were labour intensive industries, situated in areas of



high unemployment. The TAC would argue that both suffered severely from the effects of chronic over-taxation. They appreciated the Chancellor's move last year in not increasing pipe tobacco taxation, and hoped this could be repeated this year. The revenue yield from pipe tobacco was not sufficient to make this a difficulty. They would also maintain that the same argument applied to the cigar industry; it was a fallacy to believe that most cigar smokers were in the higher income bracket.

3. Mr Webb (Carreras-Rothmans) added that it was no longer realistic to expect that the effects on the industry of increased taxation and reduced consumption at home could be mitigated by improved export performance. In the past 10 years, both BAT and Carreras-Rothmans had achieved dramatic results, but the changing prospects of the overseas markets meant that they had possibly now reached their peak.

4. Mr Cameron also pointed out to the Chancellor that the ad valorem element of the cigarettes duty meant that the Government increased its tax take every time the manufacturers put their prices up. On this basis, their calculation indicated that a 5 per cent tax increase should be translated into 2.9-3p per packet of 20.

5. The Chancellor thanked the TAC for explaining their case so clearly, and for providing him with the accompanying documents. He would take what they had said in to consideration when framing his Budget overall.

B.

MISS J C SIMPSON
25 January 1984

Circulation:

Those present
PS/Financial Secretary
PS/Sir P Middleton
Mr Monger
Mr Portillo
PS/Customs & Excise

FST

M/S - 2 NOV 1983 -6



THE ROYAL COLLEGE OF GENERAL PRACTITIONERS

14 Princes Gate, Hyde Park, London, SW7 1PU

Honorary Secretary of Council:
Dr. John C. Hasler MD FRCGP

Telephone 01-581 3232
Ext No.

(pwp)

FINANCIAL SECRETARY	
REC.	-2 NOV 1983
ACTION	MST

26th October, 1983

The Rt. Hon. Nigel Lawson,
Chancellor of the Exchequer,
House of Commons,
London SW1A 0AA

MINISTER OF STATE	
REC.	-2 NOV 1983
ACTION	PS/CHE
	PS/Chancellor
	PS/CST, PS/EST
	Mr Manger
	Mr Griffiths

Dear Chancellor,

The College wrote to your predecessor on the 21st February this year urging him to increase the duty on tobacco in his April Budget, and pointing out that the real cost of tobacco had not kept in line with inflation.

We appreciate that although our representations may have impressed the then Chancellor we were rather too late to be able to affect the Budget as much as we would have liked. We are therefore approaching you much sooner so that you may have more opportunity of considering how to restore prices in real terms to where they were two decades ago. You will know that it is the College's policy to endorse the World Health Organisation policy objectives on smoking which we sent to Sir Geoffrey Howe in February but which we enclose again for your information.

We would like to reiterate that smoking is now one of the biggest health hazards in this country and is clearly implicated in several forms of cancer, peripheral vascular disease and heart disease. Obviously therefore major health hazards can be given as the reason for increasing the cost of tobacco or significantly in your Budget speech.

We wonder whether you would receive the College and representatives of other medical bodies to put across the particular points that we would wish to emphasise.

We look forward to hearing from you and hopefully to arrange a date for you to see us.

Yours sincerely,

J.C. HASLER

HEALTH REFS.

WHO Policy Objectives on Smoking

1. Achievement of lower smoking rates in all age groups of the population. This implies the application of whatever downward pressures on smoking rates that are practical. These might include health warnings on packets, taxation manipulation, restrictions on smoking opportunities, encouragement of the rights of the non-smoker, as well as measures such as are involved in political, publicity and education programmes.
2. The encouragement of non-smokers to remain non-smokers. The emphasis of this programme is on youth.
3. The cessation of all forms of tobacco promotion.
4. Those who have not yet stopped smoking, and therefore remain at high risk, should be encouraged to reduce, as far as possible, their exposure to harmful components of tobacco smoke.
5. To maintain liaison with other health organisations and authorities to ensure maximum effectiveness and avoid conflict of activities.
6. To achieve public health control of relevant industrial and environmental factors which will contribute to lung cancer.

M/27 JAN 1984 -1

TOBACCO ADVISORY COUNCIL

Glen House, Stag Place, London, SW1E 5AG

Telephone: 01-828 2803/2041

Telegrams: TOBCOM LONDON SW1E 5AG

From Sir James Wilson, K.B.E., M.C.

Chief Executive

Telex: 8953754 TOBCOM

(P)

MINISTER OF STATE	
REG.	27 JAN 1984
ACTION	MR FREEDMAN
	Chancellor
	PS/ST
	Mr. Manager
	Mr. Griffiths

26 January 1984

Mr Portillo
PS/ST
MST

B. J. Hayhoe, Esq. INFO
Minister of State,
The Treasury,
Parliament Street,
London, SW1P 3AH

Dear Minister of State,

I enclose a copy of a letter I have written to the Chancellor which explains itself.

I realise that we are much in your debt for having suggested that the Chancellor, on this occasion at the start of his term, should receive T.A.C. personally. As I have indicated in my letter to the Chancellor, we recognise that this was a special privilege and are duly grateful.

This is perhaps a good moment to say how much T.A.C. appreciates the work of your officials in Kings Beam House. Though we are, theoretically, on different sides of the fence, there is an admirable degree of mutual trust between HM Customs and our companies. As a result one is able to discuss complex matters of tobacco taxation on the basis of mutually agreed statistics resulting in a properly informed dialogue and without important people's time being wasted in arguments over details.

Best wishes - thank you again so much for coming to lunch with us in the first place and for your part in getting us a personal interview with the Chancellor. I hope, perhaps, that after the Budget, we may be able to meet again informally to discuss topics of common interest especially should the tax harmonisation question take a new turn in Brussels. If I may, I will be in touch again with your Private Office later this year.

Yours sincerely

James Wilson

TOBACCO ADVISORY COUNCIL

Glen House, Stag Place, London, SW1E 5AG

Telephone: 01-828 2803/2041

Telegrams: TOBCOM LONDON SW1E 5AG

Telex: 8953754 TOBCOM

From Sir James Wilson, K.B.E., M.C.

Chief Executive

26 January 1984

The Rt. Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
The Treasury,
Parliament Street,
London, SW1P 3AH

This letter is merely to thank you for your courtesy in receiving T.A.C.'s party on Tuesday of this week and for giving up your time to listening to our presentation. I think we all appreciate how busy a Chancellor must be at any time, and particularly in the months preceding his Budget. Your agreement to receive us personally was, therefore, specially appreciated by my Council, as my Chairman made plain at the time.

Whatever the outcome from our point of view on 13 March, T.A.C. at least has the satisfaction of having been able to get its case listened to carefully beforehand. No industry can ask for more than this and we are, therefore, most grateful to you for your kindness in receiving us personally this week.

1502 FEB 1984

plp

TOBACCO ADVISORY COUNCIL

Glen House, Stag Place, London, SW1E 5AG

Telephone: 01-828 2803/2041

From Sir James Wilson, K.B.E., M.C.
Chief Executive

Telegrams: TOBCOM LONDON SW1E 5AG
Telex: 8953754 TOBCOM

1 February 1984

B. J. Hayhoe, Esq., MP,
Minister of State,
The Treasury,
Parliament Street,
London, SW1

Dear Minister of State,

I thought it would be only courteous to let you know that the industry is undertaking an advertising campaign in the media to support the arguments advanced to the Chancellor when we were privileged to have an interview with him last month. The campaign will be roughly similar in scope to previous years and will not be on anything like the scale of the "Tell the Taxman" affair which we mounted in 1982.

Please do not think of answering or even acknowledging this letter, but I felt it was only courteous to let you know about the campaign before the advertisements begin to appear in the Press.

Yours sincerely

James Wilson

MINISTER OF STATE	
REC.	- 3 FEB 1984
ACTION	PS/Chancellor
	M. Mager
	M. Guffe
	M. Portillo
	PS/CTE

INFO

M. Freedman
MST