PAC-R-161

Correspondence 4.5
Meeting – 24/11/2011

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Deputy John McGuinness
Chairman, Public Accounts Committee,
Leinster House,
Dublin 2.
15/11/2011

Dear Chairman,

I am writing on behalf of the Irish Heart Foundation to seek the assistance of the Public Accounts Committee on an important matter relating to the public finances.

We recently published major research into the relationship between tobacco tax and both smuggling and smoking rates in Ireland. This is a serious contribution to an issue that is costing huge amounts in lost tax revenue and preventing the State from reducing tobacco consumption. Yet in my opinion it is not being taken seriously by the Department of Finance, which continues to rely on research in setting Government tobacco tax policy that has been called into serious question.

Consequently, we are concerned that by default the Government will forego the opportunity to collect significant extra tax revenue in the forthcoming Budget through tobacco tax increases that will also reduce smoking rates and therefore save lives. We would like to formally request that the Public Accounts Committee looks into this matter and in particular takes account of the background and issues outlined below.

Background

At least 5,700 people die here from smoking annually. Our high smoking rate relative to other developed countries is being exacerbated by the widespread availability of cheap cigarettes due to high levels of smuggling, which is costing the Exchequer over €200 million a year in lost tax receipts.

In the December 2009 Budget, the then Government froze tobacco tax following successful lobbying by the tobacco industry, which claimed tax hikes were fuelling the smuggling epidemic. The tobacco companies then increased prices by an average of 14c per pack for the most popular brands – effectively transferring revenue from the Exchequer to their own bottom line.

Last year, the previous Government again refused to increase tobacco tax. It cited a report compiled by the Research and Analytics branch of the Revenue Commissioners which claimed that any further tax increase would result in a net revenue loss by encouraging more smokers to use untaxed products.

We understand that the lead author of the research was a student, who instigated the study during a 12 week work placement with the Revenue Commissioners. The key findings are at serious variance with all other known international studies into the impact of tobacco tax on smuggling. The World Bank and WHO have also concluded that tax is not a major driver of smuggling. And there are many examples in other countries of price increases having no impact on smuggling rates, the latest of which is from Australia, where the illicit trade did not grow after the Government imposed a 25% price increase in April 2010.

IHF Research

In an effort to establish the true relationship between taxation, smuggling and smoking rates, the Irish Heart Foundation commissioned Howard Reed of Landman Economics in the UK to carry out research incorporating all available Irish data. Mr Reed is a former Chief Economist with the Institute of Public Policy Research in the UK and Programme Director at the Institute for Fiscal Studies. His report, titled *Tobacco Taxation, Smuggling and Smoking in Ireland*, found methodological flaws in the Revenue research, as did the renowned US economist Frank Chaloupka in newly published research for the HSE titled *The Demand for Cigarettes in Ireland*. Indeed, the Landman research shows that between 1995-2005, the most recent period for which figures were available, tax increases totalling 64% in real terms had no effect on the size of the illicit market. And crucially, when tobacco prices rose by 11% in 2009, revenue went up by 9%. This deals a fatal blow to the credibility of the Revenue research.

The tobacco industry has made much of the relatively high price of cigarettes in Ireland. However, Reed details that Ireland came 9th in a survey of 22 EU countries on the affordability of cigarettes. And we were just 16th of the EU 27 in terms of percentage tax take on a pack of cigarettes. In Ireland tax accounts for 78% of the price of a pack, compared to 90% in the UK. Therefore tobacco company profits are considerably higher in Ireland than elsewhere.

The Landman research concluded that in fact a €1 increase in tobacco taxation would yield an extra €68 million in extra tax receipts and at least €28 million in indirect finance benefits. Based on data detailing the impact of previous tax increases on smoking rates, the study calculated that such a price hike would also reduce the number of smokers by 30,000. In other words increasing tobacco tax would significantly increase revenue and reduce the health costs of smoking, as well as impacting positively on the health of the nation.

Developing a National Tobacco Control Strategy

Whilst raising tobacco tax will have a positive impact, international experience shows that a three-pronged strategy combining tax increases above the rate of inflation, anti-smuggling measures and realistic smoking cessation programmes will result in even greater increases in tax receipts and reductions in both smuggling and smoking rates. For example, a decade ago the UK had similar rates to ours. But by introducing a policy of regular tax increases above inflation, with increased investment in tackling smuggling and smoking cessation services, they reduced the number of smokers by 2 million and achieved a 50% decrease in child smokers, as well as cutting the smuggling rate from 21% to 12%. In return for expenditure of £300 million a year the UK Government is receiving an additional £1.7 billion in net annual revenue benefits and an estimated £1.2 billion in extra tax from reduced smuggling activity.

The Landman report estimates that by spending an extra €8 million on anti-smuggling measures in Ireland, tax revenue could be increased by up to €130 million per annum.

Consideration of the Evidence

The Minister for Finance has turned down a request to discuss our research. We appreciate how busy his schedule is, but believe the prospect of generating an extra €68million in the Budget, on top of indirect public finance benefits and, most importantly for us, marked reductions in the death and disability caused by smoking is sufficiently beneficial to warrant deeper consideration. We are quite frankly flabbergasted that Department of Finance officials have shown no interest in discussing the findings with the author of the report – an economist of high standing in the UK – when people's lives and large sums of money are at stake. This is all the more extraordinary given their reliance on research instigated by a student.

This is also in marked contrast to the Department's willingness to meet with representatives of the tobacco industry to discuss tax and smuggling in advance of annual Budgets – against the terms of a WHO convention on tobacco control which Ireland has signed and the bad faith shown by tobacco companies in arguing for a tax freeze and then jacking up their prices.

In addition to that, the historical involvement of major tobacco companies in smuggling is well known. Indeed in 2004 Philip Morris Inc, the world's largest tobacco company, agreed to pay the EU €1.25 billion not to pursue a lawsuit against the company for tobacco smuggling.

And just this month a report by the East European based Organized Crime and Corruption Reporting Project (OCCRP), which is funded by the UN and USAID, stated that the tobacco industry was complicit in a major smuggling operation uncovered in the Middle East. This is the same tobacco industry that regularly meets senior officials and politicians here on the smuggling issue.

In the short-term we believe a second opinion is urgently required on the issue of tobacco tax, as Department of Finance officials are not demonstrating a willingness to fully address available evidence. This is not acceptable, especially when it is considered how many jobs and vital services an extra €68 million in tax receipts could save. In the longer term it is crucial that a rigorous examination takes place of the merits – both in terms of health and finance – of a national tobacco control strategy addressing the combined issues of tax, smuggling and stop smoking services.

On behalf of the Irish Heart Foundation and the many thousands of heart disease sufferers and stroke patients we represent around Ireland, I would be extremely grateful if you could pass this letter on to the members of the Public Accounts Committee and investigate this matter as quickly as is possible.

Yours Sincerely,

Michael P O'Shea

Michael O'Shea
CEO, Irish Heart Foundation