



Budgetary Oversight Committee
Leinster House
Kildare Street
Dublin 2

Page | 1

15 May 2019

Dear Committee Members,

Itmac represents the views of its members (Japan Tobacco International, British American Tobacco & Imperial Tobacco John Player) when communicating with the Government, the authorities and others on issues which affect the industry as a whole such as taxation & smuggling, responsible retailing and other issues as they arise. As such, we would like to share our views with regard to tobacco product excise taxation for Budget 2020.

Tobacco Excise & Illicit Trade

Excessive excise on cigarettes and RYO encourages cross border trade, smuggling of tobacco products, internet purchases and even domestic production of counterfeit products. As tobacco taxes have risen, so has tax evasion. Tax induced smuggling has become so widespread that it undermines both the revenue and health goals of higher cigarette taxes, whilst producing unintended consequences for Irish society as a whole, such as criminal activity and negative impacts on small businesses.

Following successive additional increases on excise duty on roll your own (RYO) tobacco, plus the introduction of a 30g minimum pouch size, the level of illegal RYO measured in Revenue's Tobacco Products Research Survey 2018 more than doubled to 21% of consumption in 2018, versus 9% in 2016. Non Irish Duty Paid also more than doubled to 7% versus 3% in 2016.

At the same time, illegal cigarette consumption in Ireland remained unchanged versus prior year at 13%. Revenue's 2018 survey quantifies this illegal consumption as a cost to the exchequer of €211 million an increased loss of €41 million euro from the 2016 survey.

The discovery of an illegal cigarette factory in Louth in 2018, the first on Irish soil, followed by a further discovery in 2019 clearly demonstrates that the illegal trade of tobacco is going from strength to strength, with the methodology used by organised crime groups clearly evolving. Up until now, illegal tobacco was assumed to have been sourced only through smugglers, both across the border and through Ireland's ports.

Use of Weighted Average Price (WAP) vs. Most Popular Price Category (MPPC) for Budget Excise Calculation

Itmac is an industry body and has no role in the manufacture, purchase, marketing or pricing of tobacco products.



Ireland is not aligned with the EU due to its continuing use of the MPPC instead of WAP as a calculation method for excise. The European Commission have recommended use of WAP¹, citing more transparency of the arrangements and in order to create a level playing field across the tobacco sector. Ireland's Tax Strategy Group have recognised the merits of using WAP as a point of reference.² It is a more accurate measure of the tobacco market in Ireland due to growth of larger pack formats (greater than 20 cigarettes) and economy brands.

Itmac and its member companies ask that you take into account the above points when considering Budget 2020 and specifically

1. No excise increase on tobacco products, particularly RYO, in light of the dramatic increase in illegal consumption in 2018.
2. The adoption of a WAP based methodology for tobacco market excise assessment, aligning to European Commission recommendations.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Morgan Lee', written in a cursive style.

Morgan Lee

Chairman
Itmac

¹ [http://europa.eu/rapid/press-release MEMO-08-506_en.htm?locale=en](http://europa.eu/rapid/press-release_MEMO-08-506_en.htm?locale=en)

² <https://assets.gov.ie/4447/131218111459-39f9e3ace54f4567a170c3571cf9997e.pdf>