

For immediate release

NEW RESEARCH: Illicit tobacco trade costs each small shop over £32,000 last year as retailers overwhelmingly reject second duty increase at forthcoming budget

The Tobacco Retailers' Alliance today publishes research that has found on average each small retailer lost £32,000 last year, an increase of nearly a thousand pounds, due to the high prevalence of the illicit trade whilst the results of a survey of 113 TRA members show that they believe a second tobacco duty increase at the Budget on 22nd November would simply make the problem worse.

The research also shows how jobs have been lost in the sector and the many billions criminals made from the sale of illicit tobacco.

Key findings

- The small retail sector lost **£1.7 billion of revenue** due to the illicit tobacco trade and cross border shopping in 2016-17;
 - This is equivalent to **£34,237 per small shop**;
 - This is a **£993 increase** on the previous year's findings;
- Over the past five years **£8 billion of revenue** has been lost by small shops due to the illicit trade and cross border shopping;
- This year, illicit and cross border tobacco shopping will have resulted in **12,710 fewer jobs** in the sector as small retailers can't afford to hire staff;
 - This is equivalent to **3.4%** of all sector employment;
- Criminals will have made **£1.5 billion in revenue** from the sale of illicit tobacco;
 - This is an increase of over **£70 million** from last year;
- Over the past four years, criminals will have made £5.6 billion in revenue from the sale of illicit tobacco;
 - Criminals who do not pay taxes will have much higher profit margins than legitimate retailers;
 - The links between illicit tobacco and organised crime and terrorist activity is well documented¹;

The results of the pre-budget survey of TRA members² found:

1. **86%** agree that if the Government raises tobacco taxes for the second time in 2017 it will make it harder for them to stay in business.
2. **91%** agree that if the Government raises tobacco taxes for the second time in 2017 their customers will become more likely to buy illegal (untaxed) tobacco from criminals rather than from their shop.
3. **79%** agree that the new tobacco packaging regulations (plain packs and minimum pack sizes) have made it harder for them to stay in business.
4. **95%** agree that the continued sale of tobacco products is important to ensure that their shop stays in business. 0% disagreed

¹ E.g. see <http://www.getwestlondon.co.uk/news/west-london-news/sales-counterfeit-illicit-tobacco-fund-8678049>

² N=113, survey undertaken in October 2017

TRA National Spokesperson, Suleman Khonat, said:

“Retailers up and down the country are suffering because the Government has repeatedly pushed tobacco taxes up and created a very lucrative market for criminals who sell illicit tobacco. The damage this causes to each small shop is enormous and is getting worse as these figures confirm and threatens to put them out of business.

“Tobacco is a vital part of small retailers businesses and if the Government continues to raise taxes it is criminals who will benefit and legitimate retailers who will suffer. Our members have been very clear and said that, when it comes to tax increases, “enough is enough” and the Government must listen.”

Methodology

All illicit trade figures are from HMRC’s estimate of the tobacco tax gap 2016-17.

The amount lost to each retailer is calculated in the following way:

- Total revenue lost from all retail shops is calculated by applying the typical tax component of both cigarettes and hand rolling tobacco to the tobacco tax gap
 - E.g. if £750 million tax were lost to the illicit cigarette market and tax typically comprises 75% of the retail price of tobacco then the total revenue loss is £1 billion.
- The tax component of tobacco is based the weighted average price of cigarettes as calculated by the European Commission. No such data is produced for hand rolling tobacco as such this is based on the tax component of 25 grams of Golden Virginia.
- This total revenue lost is apportioned to small retailers as per the mid-point of Oxford Economics’ estimate that 43%-46% of retail sales loss due to plain packaging falls on smaller retailers and convenience stores.
 - This gives the total revenue loss to small retailers.
- The total revenue lost to small retailers is divided by the number of convenience stores for the given year in the Association of Convenience Stores’ (ACS) annual Local Shop report.

The reduced employment caused by the illicit trade is calculated in the following way:

1. The impact on employment is calculated from Oxford Economics’ estimate that reduced retailer turnover of £896 million would result in reduced GVA of £154 million and 6,640 fewer jobs in retailing.
2. Dividing the jobs figure by the revenue or GVA gives the ratio at which reductions in retailer revenue reduce employment.
3. This ratio can then be applied to the revenue loss caused by the illicit trade showing how many fewer retail jobs there were in 2016-17.
4. Total convenience store employment is taken from the ACS’ Local Shop report.

The revenues made by criminals are calculated as follows:

1. The total volume of illicit cigarettes (sticks) and hand rolling tobacco (KG) is divided by 20 and 50 grammes respectively. This is because for the purpose of this calculation we assume all illicit products are sold in these formats.
2. This gives us the number of packs of illicit tobacco that were sold in the UK.
3. This is multiplied by the average price for illicit tobacco calculated by the Tobacco Manufacturers' Association which gives us a total revenues figure.

Table 1: The amount that the illicit trade costs each convenience store

	2012-13	2013-14	2014-15	2015-16	2016-17
FMC Illicit	1,300	1,400	900	1,600	1,800
HRT Illicit	900	1,100	900	800	700
FMC Cross Border	400	400	400	500	500
RYO Cross Border	200	100	100	100	100
Tax percentage per pack of FMC	89.0%	87.3%	85.7%	84.1%	86.4%
Tax percentage per pack of HRT	69%	68%	69%	67%	67%
Illicit FMC Retailer Loss (£)	1,461	1,604	1,050	1,902	2,083
Illicit HRT Retailer Loss (£)	1,313	1,618	1,311	1,202	1,044
Total Illicit Retailer Loss (£m)	2,774	3,222	2,361	3,104	3,127
Cross border FMC Retailer Loss	450	458	467	595	579
Cross Border HRT Retailer Loss	292	147	146	150	149
Total Cross border Retailer Loss	741	605	612	745	728
Total Illicit and Cross Border Retailer Loss	3,516	3,827	2,974	3,849	3,854
Small Retailer market loss (%)	44.5%	44.5%	44.5%	44.5%	44.5%
Small Retailer Illicit Revenue loss (£m)	1,235	1,434	1,051	1,381	1,391
Small Retailer Cross Border Revenue Loss	330	269	273	331	324
Total Small Retailer Revenue Loss	1,564	1,703	1,323	1,713	1,715
No. of convenience stores	49,840	49,888	50,747	51,524	50,096
Loss per small shop	31,390	34,138	26,078	33,244	34,237

Table 2: The number of lost jobs caused by the illicit trade

Jobs lost per £1m lost revenue	7.41	7.41	7.41	7.41	7.41
Employment effect	-11,594	-12,621	-9,807	-12,693	-12,710

Table 3: The revenues accrued by criminals from selling illicit tobacco

	2013-14	2014-15	2015-16	2016-17
Cigarettes (BNs)	4.5	3.0	5.0	5.5
HRT (1,000's KGs)	4,700	3,700	3,200	2,700
Price 20 Cigarettes £	3.87	3.84	4.11	4.18
Price 50g HRT £	6.67	6.83	6.88	7.22
Value Cigarettes £	870,750,000.00	576,000,000	1,027,500,000	1,149,500,000
Value HRT £	626,980,000.00	505,420,000	440,320,000	389,880,000
Total illicit revenue £	1,497,730,000	1,081,420,000	1,467,820,000	1,539,380,000
Grand total £	5,586,350,000			