Written evidence submitted by Japan Tobacco International (JTI) (BBP0003)

Who we are

Japan Tobacco International (JTI) is part of the Japan Tobacco group of companies, a leading international tobacco and vaping company with operations in more than 130 countries.

It is the global owner of both Winston, the number two cigarette brand in the world, and Camel, outside the USA and has the largest share in sales for both brands. Other global brands include Mevius and LD. In the UK, JTI's brands include Benson & Hedges, Silk Cut, Mayfair, Sovereign and Sterling, as well as a number of other tobacco products including hand-rolling tobacco (Amber Leaf), cigars (Hamlet), pipe tobacco (Condor). JTI is also a major player in the international vaping market with its brand, Logic and tobacco vapor brand, Ploom. Headquartered in Geneva, Switzerland, JTI employs over 44,000 people and in 2020 was certified Global Top Employer for a sixth consecutive year. JTI is a member of the Japan Tobacco Group of Companies. For more information, visit www.jti.com.

Summary

JTI wishes to draw the Committee's attention to the following concerns which are unique to the tobacco sector, but critical to address, to protect the flow of over £11bn[1] in tax revenues to the Exchequer generated annually by the sector.

1. Tariffs

Free Trade Agreement negotiations with the EU

Without a Free Trade Agreement (FTA) with the EU, tobacco products will incur disproportionately high tariffs from 1st January, with the UK Global Tariff (UKGT) setting the rates at 50% for cigarettes and 70% for hand-rolling tobacco.

As the Committee will be only too aware, tariffs are traditionally levied for one of two reasons, either to protect domestic manufacturing industries and/or raise revenue.

Neither of these factors are met for tobacco products:

1) there is no major domestic manufacturing to protect – 99% of tobacco products are imported into the UK, with over 95% from the EU, and;
2) revenues from the sale of tobacco products are secured through the tobacco excise duty regime - £9.5 billion (£11bn inc. VAT) in the 12 months to October 2020.

Imposition of these tariff rates will cause price shocks, and only serve to further incentivise the already ingrained illegal market for tobacco products - which has cost the Treasury £47.2 billion in lost tax revenues since 2000.

[1] Tobacco excise duty and VAT

Rules of Origin

The Committee should also be aware even if there is a FTA with the EU, this will not necessarily ensure that imports from the EU will enter the UK tariff free if Rules of Origin (RoO) are set at a level that cannot be met.

Neither the UK nor the EU are major producers of tobacco leaf and therefore it is not realistic for tobacco products to meet a RoO that requires more than 10% of the tobacco leaf to be originating.

If this is not addressed, the UK Global Trade Tariff rates will apply by default, of 50% for cigarettes and 70% for hand-rolling tobacco

Government approach

We have repeatedly raised our concerns on these issues with Ministers, Special Advisers, HM Treasury and HMRC officials, Opposition frontbench and parliamentary committees on both the level of tariffs and the impact of unworkable RoO.

The imposition of such high tariffs is illogical, and out of line with the Government's strategy to remove tariffs where the UK has zero or limited domestic production. The outcome of the Government consultation stated "*The majority of responses requested that tariffs [on tobacco products] be removed to ensure that prices are low for consumers and demand is met within the UK market*[2]".

This cannot be the correct interpretation, tobacco prices in the UK are one of the highest in the EU, driven by HM Treasury's strategy of increasing annual tobacco duty rises above inflation, reaffirmed again just last week with an increase in the duty rate on 16 November 2020. Prices would not be kept 'low' by not imposing tariffs.

Despite these concerns, it is unlikely that the Government will change the UKGT rates that have been set – as such it is absolutely critical that the lack of originating tobacco leaf is acknowledged when drafting the UK-EU FTA, and that workable RoO are secured.

Recommendation

Our recommendation would be to replicate the RoO requirements recently established in the UK-Japan CEPA, or set a maximum requirement of 10% originating tobacco leaf for both cigarettes and hand-rolling tobacco – either offers a simple but effective solution.

Alternatively, if the Government feels it cannot reverse the tariff rates set in the UKGTT or come to an agreement on RoO, then a simple system could be introduced to allow businesses to reclaim the tariffs paid against the TP7 excise duty declaration, in a similar manner to how import VAT is credited against VAT returns.

This would protect both the existing tobacco tax policy and the flow of billions of pounds in tax revenues to the Exchequer annually from the sector.

---

[2] Page 28, HS2 Chapter 24 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/885943/Public_consultation_on_the_UK_Global_Tariff_government_response.pdf

2. Northern Ireland Protocol

Track & Trace

The Committee should also be aware of problems faced by manufacturers, distributors and retailers of tobacco products with the requirements for tracking and tracing tobacco products.

Until the end of the year, the tracking and tracing of tobacco products in the UK that is required under the WHO's Framework Convention on Tobacco Control (FCTC) is met through an EU wide system. Regardless of any FTA with the EU, this system will be replaced by a UK only system, although in fact this is only a 'stop gap' and there will be a tender for a new track and trace system to be in place from the start of 2022.

Development of this new 'stop gap' system is ongoing by HMRC and while we are confident that it can be in place by the end of the year, there is still confusion about how and indeed if it can operate in Northern Ireland. The European Commission has made it clear that they expect the EU track and trace system to continue operating in Northern Ireland. However, it appears that they will not let businesses in a third country, which Great Britain will become, interact with the EU system in order to supply goods to Northern Ireland.

Without a resolution, it is possible that tobacco products cannot be supplied to Northern Ireland and we need urgent clarity from the authorities on the situation.

Conclusion

These are critical issues the tobacco industry is having to navigate, but ones which could have significant impacts, both in terms of disruption and cost, on the wider economy.

In addition, like every other business in the UK, our business planning is negatively impacted by the lack of clarity and timeliness in much of the information provided by Government as the deadline approaches.

November 2020