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	Opinion	
Impact Assessment (IA)	Standardised packaging of tobacco products	
Lead Department/Agency	Department of Health	
Stage	Final	
IA number	3080	
Origin	Domestic	
Expected date of implementation	SNR 10	
Date submitted to RPC	29 January 2015	
RPC Opinion date and reference	9 February 2015	RPC12-DH-1229(4)
Departmental Assessment		
One-in, Two-out status	IN	
Estimate of the Equivalent Annual Net Cost to Business (EANCB)	£36.78 million	
RPC Overall Assessment	GREEN	
<p>RPC comments</p> <p>The IA is fit for purpose. The Department, following a meeting with the Committee on 19 January, has addressed the issues raised in the Committee’s previous opinion of 19 December 2014. In particular, the Department now correctly classifies the loss of profit from the reduction in branding as a direct impact on business.</p> <p>The IA says that this is a regulatory proposal that would impose a net cost on business (an ‘IN’) with an estimated equivalent annual net cost to business of £36.78 million.</p> <p>The Committee is able to validate this figure.</p>		
<p>Background (extracts from IA)</p> <p>What is the problem under consideration? Why is government intervention necessary?</p> <p><i>“Tobacco use remains one of the most significant challenges to public health across the United Kingdom and is the leading cause of premature death in the UK. The Government remains concerned about the take up of smoking by young people, the difficulty that adult smokers can have in quitting smoking and the consequences for the health of others from exposure to second hand smoke (SHS). Research evidence suggests that standardised packaging of tobacco products can reduce the appeal of tobacco products, increase the effectiveness of health warnings on tobacco packages and reduce the ability of tobacco packages to mislead consumers about the harmful effects of smoking. It could also address the contribution smoking makes to the sustaining of socioeconomic health inequalities.”</i></p> <p>What are the policy objectives and the intended effects?</p>		

“The objectives of standardised tobacco packaging would be to improve public health by discouraging young people from taking up smoking, supporting quitting among smokers who want to quit and helping people who have quit to avoid relapse back to smoking. Achieving these aims will improve the health of those who never start to smoke and those who succeed in quitting smoking. There may also be wider benefits such as narrowing of health inequalities and a reduction in the levels of exposure to secondhand smoke which is particularly harmful to the health of children.”

The Department has provided the following options:

“Option 1: Change legislation to bring the UK in line with the European Tobacco Products Directive (TPD), to be implemented in 2016. (Although TPD is a policy, in IA language this is essentially a “do nothing” option).

Option 2 (the preferred): Go beyond the TPD in 2016 and require standardised tobacco packaging of cigarettes and hand rolling tobacco (HRT) in the UK. In line with the approach set out in the 2014 consultation document, this would involve the standardisation of pack colour and shape and the removal of all branding except brand name in a standardised typeface. Relevant legal markings such as health warnings and tax stamps would be retained as well as authentication markings to reduce trade in illegal tobacco products.

Option 3: Defer a decision pending further evidence on experience with plain packaging in Australia.”

Comments on the robustness of the OITO assessment

The IA says that this is a regulatory proposal that would impose a net cost on business (an ‘IN’) with an estimated equivalent annual net cost to business of £36.78 million. This is consistent with the current Better Regulation Framework Manual (paragraph 1.9.10) and, based on the evidence presented, appears to provide a reasonable assessment of the likely impacts.

Comments on the robustness of the Small & Micro Business Assessment (SaMBA)

The proposals increase the scope of regulation on business. A SaMBA is, therefore, required.

The IA provides detail of the impact on small and micro businesses such as convenience stores, tobacco specialists and newsagents. These account for approximately 46% of tobacco sales (paragraph 299). The IA explains that such businesses would not be exempt from the impact of the proposals as the benefits of the policy would likely be severely diminished if the selling of tobacco in standardised packaging was not mandated across all businesses.

Quality of the analysis and evidence presented in the IA

The Department proposes to standardise tobacco packaging as part of the aim of improving public health. The IA explains that this measure will impose a cost on business as the reduction in branding will reduce profits as a result of lower tobacco sales and down-trading. This will be partially offset by the benefits of lower production costs associated with standardised packaging.

The Department, following a meeting with the Committee on 19 January, has addressed the issues raised in the Committee's previous opinion of 19 December 2014. Specifically:

Loss of profit to business – The proposal will have a direct impact on industry's profits because:

- it bans or severely restricts a particular economic activity, in this case the use of branded tobacco packaging;
- it explicitly prohibits a form of promotional activity - banning tobacco companies from using branded packaging to promote their products; and
- the effect in question is the primary objective of the policy. In this case, reducing cigarette consumption (and therefore sales) would appear to be the sole objective.

The Department now correctly explains that the losses of profits to tobacco companies, and others in the supply chain, are a direct impact.

Gravure manufacturers: The IA explains that standardised packaging may encourage printing to switch from gravure printing to cheaper options. This may lead to some gravure machines becoming redundant. The Department estimates that between £10 and £15 million (present value) worth of machinery may therefore be made redundant and that this should constitute a lost profit stream to packaging manufacturers (paragraphs 30 and 129 to 138). The higher figure is used in the EANCB calculation. The Department has now correctly assessed this loss of profits to be a direct impact.

UK-based businesses: The IA now provides estimates of all costs and benefits falling on UK-based businesses regardless of the nationality of the owners (paragraphs 254 to 262). This is in line with the approach agreed for economic appraisal across Whitehall. The IA explains that, in calculating the profit loss falling on UK-based businesses, the Department has taken into account the recent and imminent closures of the remaining manufacturing factories in calculating the timeframe of the EANCB. While the assumptions the Department makes concerning the degree to which the standardised packaging proposals influenced the decisions to close these factories are somewhat speculative, the estimates appear to be reasonable given the lack of robust data.

Tobacco Products Directive: The IA explains that the transposition of the Directive forms the baseline (the do nothing option) for the Department against which to assess its preferred option. In line with the request from the Committee, the Department has now provided a full IA on the transposition of the Directive for scrutiny. The Committee accepts the Directive as the baseline for these proposals on standardised packaging.

General employment levels: The Department includes an analysis of the transition costs faced by employees in the tobacco and packaging industries, in particular in relation to recent closures of manufacturing facilities in the UK (paragraph 141). The Department acknowledges the existence of additional transition costs faced by employees within these industries (paragraphs 141 to 143).

Overall, the proposals impose a cost on UK-based businesses of £430 million (present value over ten years). This is partially offset by a saving of £28 million in packaging costs. This leads to an estimated equivalent annual net cost to business of £36.78 million. A full breakdown of the costs and benefits is shown below:

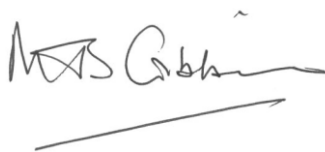
Stakeholder	Impact	Present value (£m)
Retailers of tobacco	Time taken to sell tobacco	-0.50
	Profits decreased due to reduced tobacco sales due to fewer smokers	-185
	Profits decreased due to down-trading	-90
Wholesalers of tobacco	Profits decreased due to reduced tobacco sales due to fewer smokers	-92
Tobacco manufacturers with UK-Based production	Profits decreased due to reduced tobacco sales due to fewer smokers – for UK.	-21
	Profits decreased due to down-trading – for UK.	-26
	Production costs reduced – for UK.	28
Tobacco packaging printing companies with UK-Based production	Printing may switch from gravure printing to cheaper offset lithography so some gravure machines may become redundant	-15

The Department estimates that the proposals will result in very large health benefits. The Department acknowledges that quantification of the likely scale of the impact on smoking take up and prevalence is difficult. Based on the consensus of a group of international experts, the central estimate is that the proposals will lead to:

- a decline in the proportion of 11-15 year olds who have ever smoked of 3 percentage points;
- and a decline in adult smoking prevalence of 1 percentage point.

The Department estimates that the expected health gain measured in life-years and monetised is £29 billion (present value). The RPC considers that DH has made a clear case for the benefits to public health. The RPC has not validated that work, but based on the evidence in the IA the estimate appears reasonable.

Signed



Michael Gibbons,
Chairman