



PRE-BUDGET 2013 SUBMISSION

Irish Cigarette Machine Operators Association (ICMOA)

September 2013

Introduction:

The ICMOA is the trade association representing operators of cigarette vending machines in Ireland. The association was founded in 1982 and currently has over 60 member businesses with over 150 people employed. **ICMOA members contributed approx. €200m to the exchequer from excise and VAT in 2012.**

Recommendations:

- The ICMOA strongly recommends that there is no increase in excise duty on tobacco in the forthcoming budget.
- The ICMOA strongly recommends that the proposed legislation regarding plain packaging for tobacco products **not** be introduced.

Background:

- In 2012, the Irish Exchequer generated €1.2 billion from the sale of tobacco products.
- The incidence of non-Irish duty paid (NIDP) tobacco has reached crisis levels in Ireland and appears set to continue to grow;
- Surveys consistently show that approx. 1 in 4 packets of cigarettes consumed in Ireland are NIDP resulting in a loss to the exchequer of approximately €250m;
- The policy of excessive excise increases over the past decade has seen the NIDP share of the market grow steadily.

Effect:

- The growth of the illicit trade is effectively transferring the tobacco market from legitimate, tax-compliant retailers such as our members into the hands of criminal gangs;
- Tobacco consumers who have difficulty affording a higher priced pack of cigarettes can and do simply switch to the freely available illicit product and therefore have no incentive to quit smoking;
- In the last five years approx. one third of our membership have gone out of business while profits for the suppliers of NIDP have boomed;
- NIDP tobacco is imported and sold by criminal gangs and paramilitary organisations who use the proceeds to fund other criminal activities such as drug-dealing and prostitution;
- Sellers of NIDP do not exercise any form of age-control over their customers and frequently use children to sell the tobacco;
- Contraband tobacco is not manufactured according to any standardised system of regulation and therefore frequently contains extremely hazardous materials which the consumer is unaware of;
- ICMOA members are fully compliant with the laws on tobacco control including preventing sales to minors, only siting vending machines in supervised areas in licensed premises and registering all locations at which they sell tobacco with the Office of Tobacco Control;
- The rapid growth in the incidence of NIDP tobacco means that its consumption is becoming normalised. In many areas of the country NIDP cigarettes are already the norm among smokers;

- The spectacular profitability of the illicit trade is allowing criminal gangs to develop a robust infrastructure for the importation and distribution of NIDP tobacco. The more this infrastructure and the associated international criminal links are entrenched and strengthened, the harder they will be to reverse in the future – the situation is therefore extremely urgent;
- The efficiency of the criminal sellers in this regard has meant that smokers can obtain 20 cigarettes for as little as €3.50. The availability of cigarettes at these prices flies in the face of health policy and is rendering the policy of using excise as a deterrent to smoking irrelevant.

Conclusion:

- i) As shown above, the tobacco market in Ireland is rapidly moving from legitimate, tax-compliant businesses into the hands of criminal gangs. Despite the excellent work being done by the various law-enforcement authorities, the enormous price differential between Ireland and other jurisdictions means that illicit tobacco will continue to flood into this country in ever-increasing quantities. While excise increases may have been an effective deterrent to tobacco consumption in the past, the ready availability of NIDP in all areas of the country at bargain prices means excise increases now simply encourage smokers to switch to NIDP rather than quit smoking. Therefore the ICMOA, on behalf of its members, asks this government in the strongest possible terms to avoid a further increase in excise duties in the forthcoming budget.
- ii) On the 28th May, the Department of Health and Children announced its intention to introduce 'plain packaging' for all tobacco product sold in Ireland. As far as the ICMOA are aware there is no definitive data to prove that this measure will either prevent minors from accessing tobacco products or reduce the amount of tobacco products consumed by Irish adults. However, in our opinion, the proposed introduction of plain packaging for tobacco products will further strengthen the hand of NIDP suppliers by:
 - a. Rendering it extremely cheap and convenient to counterfeit a pack of cigarettes and thereby lowering the price at which criminals can profitably supply NIDP to the market – lower prices can only lead to increased consumption by smokers and a larger market share for NIDP suppliers;
 - b. Dramatically increasing the costs on legitimate suppliers as it becomes impossible, from an operational point of view, to distinguish between different brands. As vending machine operators, our members (and other legitimate retailers) need to be extremely precise in segregating the different brands. Plain packaging would make this process infinitely more time-consuming and therefore far more expensive. As many of our members are already going out of business this would make it even more difficult to survive and tip the balance further into the hands of the NIDP suppliers.
 - c. Making it even more difficult for a responsible consumer to differentiate between legitimate vs. NIDP cigarettes;
 - d. In many cases NIDP suppliers will continue to supply branded product with colourful images and no health warnings thus enabling them to build brand loyalty to their illegal product. This is particularly sinister as NIDP suppliers sell to children and use children to distribute their product.

The ready availability of NIDP in Ireland means that measures such as excise increases and plain packaging no longer have any effectiveness in reducing tobacco consumption. Instead they simply shift consumption from the legitimate tobacco market to NIDP. As legitimate, tax compliant, law-abiding suppliers, the ICMOA strongly recommends that this government:

1. Does not increase excise on tobacco in this budget;
2. Does not introduce plain packaging for tobacco products.