

Price Policy

"Sugar, rum and tobacco are commodities which are nowhere necessities of life, which are become objects of almost universal consumption, and which are therefore extremely proper subjects of taxation."
 Adam Smith *An Inquiry into the Nature and Causes of the Wealth of Nations* 1776

The price of tobacco is the single largest factor influencing short term consumption patterns. More importantly, price plays a major role in determining how many young people will start smoking, and thus profoundly influences longterm consumption trends.

There is a clear inverse relationship between tobacco taxes and tobacco consumption. For every 10 percent increase in cigarette taxes, there is on average a four percent reduction in consumption. Youth, minorities, and low-income smokers are two to three times more likely to quit or smoke less than other smokers in response to price increases.

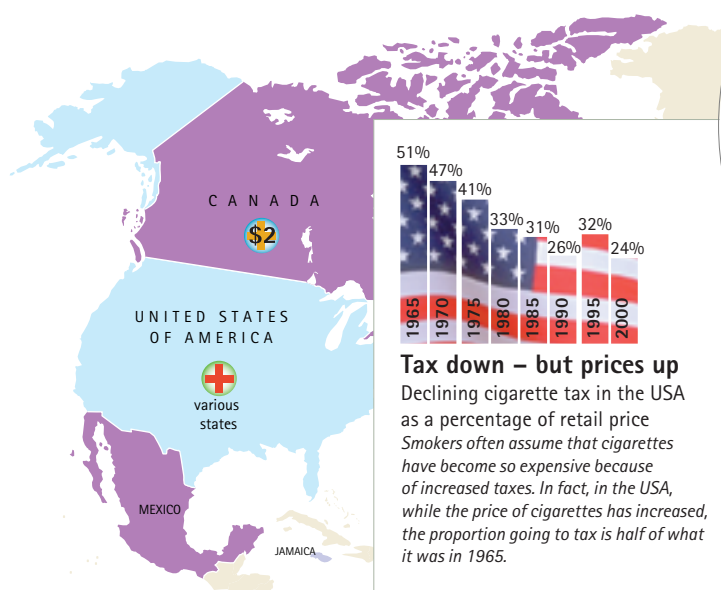
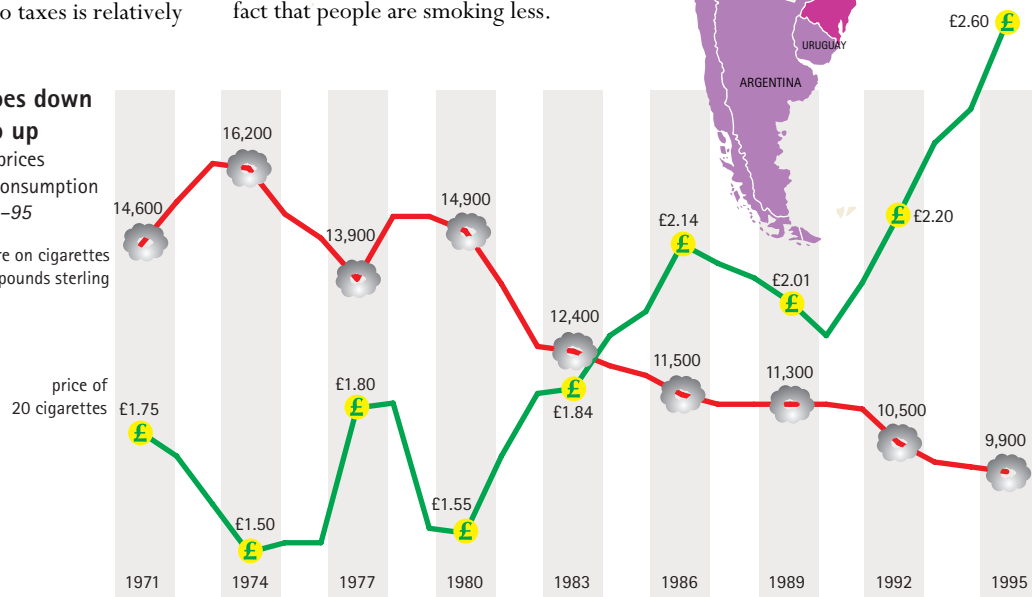
Tobacco taxes are an important source of revenue for countries, but the percentage of total government revenues accounted for by tobacco taxes is relatively

small, less than 10 percent in all countries, and less than 2 percent in most countries. Higher tobacco taxes are also easy to implement, and nearly always provide more government revenue, despite the fact that people are smoking less.

Smoking goes down as prices go up

Real cigarette prices and cigarette consumption in the UK 1971-95

expenditure on cigarettes in millions of pounds sterling



Tax down – but prices up
 Declining cigarette tax in the USA as a percentage of retail price
Smokers often assume that cigarettes have become so expensive because of increased taxes. In fact, in the USA, while the price of cigarettes has increased, the proportion going to tax is half of what it was in 1965.

