

Researchers call for a price cap on cigarette profits

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An independent regulatory agency is needed to cap the excessive profits made by cigarette manufacturers, say researchers from the University of Bath.

Cigarette manufacturers currently make roughly double the profits of most other companies. The creation of an 'Ofsmoke' agency to regulate the industry would increase tax revenue and protect public health, according to the article published in the journal [Tobacco Control](#).

Professor Anna Gilmore, from the University's Department for Health and the UK Centre for Tobacco Control Studies; Dr Robert Branston, from the School of Management; and Professor David Sweanor from the University of Ottawa's Faculty of Law, say that capping the pre-tax cigarette manufacturers' price would safeguard society from the market failure behind manufacturers' pricing power and profits.

[Regulation](#) would set a maximum price that cigarette companies could charge for their product, based on an assessment of genuine operational costs. Retail mark-up would not be affected, or the price that consumers pay, but the excess profit currently accrued by cigarette manufacturers would be transferred to the national treasury through increased tax.

The system would be set up at no cost to the consumer or taxpayer, funded instead through a levy or licence fee paid by tobacco companies.

Dr Robert Branston, Deputy Director of the University's Centre for

Governance & Regulation, said: “A handful of companies dominate the market and cream off massive profits. With such a deadly product, competition isn’t attractive, so we’ve identified regulation as an alternative that stands to benefit both government and public health.

“The market has failed to curb cigarette manufacturers in terms of pricing power and profit, and tobacco control policies have unintentionally exacerbated the problem.

“Clamping down on the extreme profitability of cigarettes would reduce the incentive for tobacco companies to fight public health measures and mean they have fewer funds at their disposal.

“A move to regulation would enable tobacco control policies to be expanded as companies would be partially insulated against impact on revenue and less able to argue against them.”

He went on to say that regulation would also be a way of preventing people from down-trading to cheaper products and restraining the behaviour of companies when it comes to cigarette smuggling and marketing to young people.

“The tobacco industry is likely to argue that this type of direct economic regulation is an extreme reaction, but it’s hard to argue that nothing should be done given the extent of market power that these firms are enjoying and the number of deaths the sector causes,” said Dr Branston.

The paper is based on the UK but researchers are confident that the system could be applied to most markets.

They are planning further research to quantify the tax benefits of regulation and its affect on tobacco manufacturers.

Provided by University of Bath

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