The Economic Impact on Jersey from Changes to the Inbound Duty Free Tobacco Allowance

for the UK Travel Retail Forum

Final Report

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York Economics

Contents

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Key Points

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The reduction of the duty free tobacco allowance will result in a net loss to the Jersey economy of between £6 million and £32 million each year, with a mid range estimate of £14 million.

The States of Jersey proposal to reduce the inbound tobacco duty free allowance from 200 to 40 cigarettes or 50 grammes of tobacco will do substantial damage to the Jersey economy.

Jersey is heavily reliant on its air and sea links to support its economy. In turn, transport operators generate significant revenues from duty free tobacco sales to support the viability of these routes.

Effectively removing this revenue stream will lead to rising fares with a consequent negative impact on passenger numbers. This will particularly affect the inbound leisure market, which links directly to Jersey's vital tourism economy.

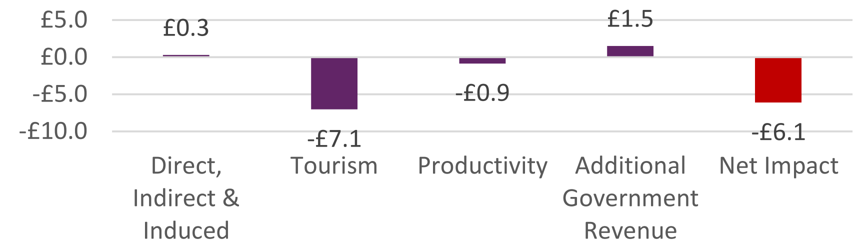
We estimate that air and sea routes could lose between 56,000 and 228,000 passengers depending on how transport operators react to the change in the market and whether other governments retaliate against the measure.

These losses could result in a net loss to the Jersey economy of between £6 million and £32 million each year, with a mid range estimate of £14 million, and affect up to 750 jobs, primarily in the tourism sector. It should be noted this does not include any tax revenue losses from 'quid pro quo' reductions in taxes for retailers in Jersey.

This proposal could also negatively affect:

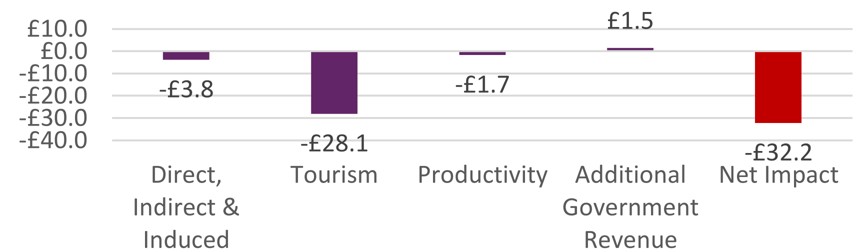
- Jersey Airport's ability to invest in growth in the longer term;
- Jersey Customs ability to focus on enforcement activities around drugs and firearms. Jersey Customs has already stated that it considers that the new limit would be largely unenforceable, would be a significant distraction and would require significant additional resources, reducing any excise revenue gains that might be made;
- the viability of low frequency and seasonal air routes, which could ultimately result in even greater impacts.

Cost Benefit Analysis – Basic Impact (GVA £m)



Cost Benefit Analysis – Mid Impact (GVA £m)

Cost Benefit Analysis – High Impact (GVA £m)



1

Introduction and Background

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In April 2018 the UK Travel Retail Forum commissioned York Economics to consider the economic damage that might be done to the Jersey economy by reducing the tobacco duty free allowance for imports into Jersey.

Currently, travellers entering Jersey are able to import 200 cigarettes or 100 cigarillos or 50 cigars or 250 grams of tobacco without paying excise duty or sales tax. This is the international norm for tobacco duty free allowances, as set out in the Kyoto convention[1]. This relatively small perk for passengers enables key transport providers and infrastructure operators to support the viability of the services they offer by selling tobacco products at prices lower than can be offered in retail outlets in Jersey and the departure market and hence capturing a degree of market share that they would not otherwise be able to do so.

In 2017, the government of the States of Jersey put forward the following proposed amendment:

"the inbound duty-free allowance for cigarettes is reduced to 40 (and, for tobacco products, to 50g) with effect 3rd April 2019, raising estimated additional income to £1,500,000"

This amendment would result in significant changes in the duty free tobacco market in Jersey. It will force retailers to change their offer to passengers; in most cases it is likely that it will simply no longer be economic for retailers to sell tobacco products. In other words a reduction to 40 cigarettes may as well be a complete removal of the duty free allowance for tobacco. This will result in significant lost retail income for airlines and ferry operators, undermining their ability to provide connectivity to the Jersey economy. This will ultimately ripple through to reduced economic activity and employment in Jersey.

At the same time, it should also be recognised that such a measure is highly unlikely to have any significant effect on tobacco consumption overall and would not realise any significant health benefits. Consumers currently purchasing cigarettes duty free coming into Jersey will, in the great majority of cases, continue to purchase cigarettes, albeit, given that the average length of stay is only 3.6 days[2], they are unlikely to purchase as many as 200 in Jersey. Any purchase of duty free cigarettes makes up a very small proportion of an individual's total annual consumption, and hence the price rise associated with the addition of excise duty on this very small proportion will have little impact on an individual's total expenditure on tobacco. All the measure would achieve is to move the point of sale from outlets associated with transport providers, which provide significant wider benefits to the economy and society, to ordinary retail outlets in Jersey and outside Jersey (e.g. duty paid outlets in the UK) that simply do not have the same wider economic and social benefits associated with them.

In this report, we examine how a reduction in the tobacco duty free allowance would impact on the economy, before moving on to provide quantitative estimates of the potential economic damage to the Jersey economy. In addition, we consider some of the wider issues and impacts that would come with a reduction in the tobacco duty free allowance.

1. Revised International Convention on the Simplification and Harmonization of Customs (Kyoto Convention) - World Customs Organisation 1999.
2. The economic contribution of tourism to jersey: the productivity opportunity – Oxford Economics for Visit Jersey (2017)

2

The Air and Sea Transport Market in Jersey

The Air and Sea Transport Market in Jersey

As an island economy, Jersey is exceptionally reliant on its air and sea transport networks, both for moving people and goods:

- Tourism makes up a substantial portion of the economy. Oxford Economics estimated that the sector supports around £340 million in Gross Value Added (GVA) or around 8.3% of the economy as a whole[1]. Tourism is reliant on being able to bring people to the island;

- Propensity to travel is very high. This reflects a significant need to travel to and from the island and strong social and economic linkages with the outside world, in particular the UK.

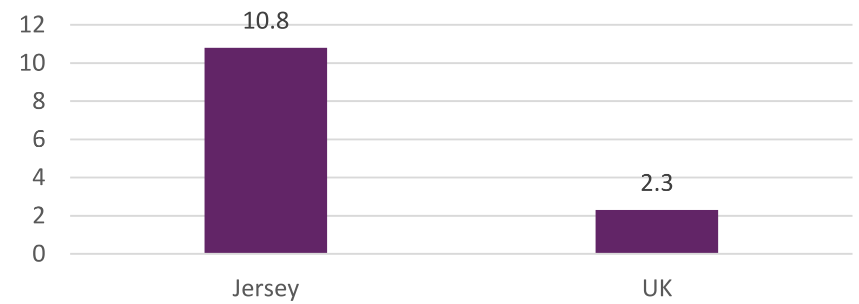
This need for travel is supported by a network of air and sea routes serving Jersey Airport and Jersey Harbour that carried around 2.3 million passengers in 2017.

Surveys work by the UK CAA suggest Visiting Friends and Relatives and Leisure are the main purposes for travel, though London-focused business travel routes are in strong demand also. This business travel is primarily related to the high value financial services industry.

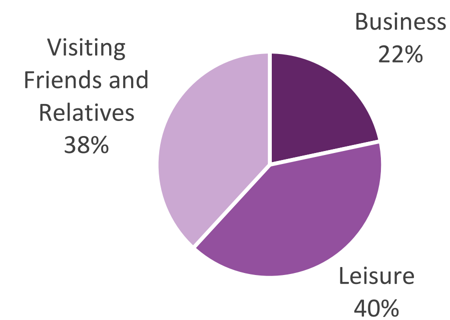
Our analysis of a range of sources and discussions with operators suggests that the market is heavily balanced towards people visiting the island (around 80% of air and sea passengers travel to Jersey for tourism). This is not surprising given the importance of the tourism sector in the economy.

1. The economic contribution of tourism to jersey: the productivity opportunity – Oxford Economics for Visit Jersey (2017)

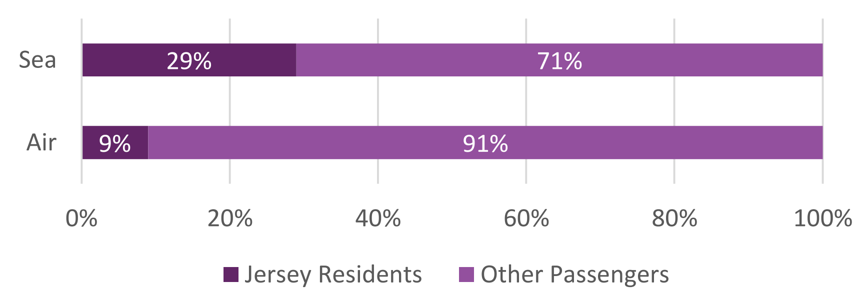
Propensity to Travel - Trips per Head of Population



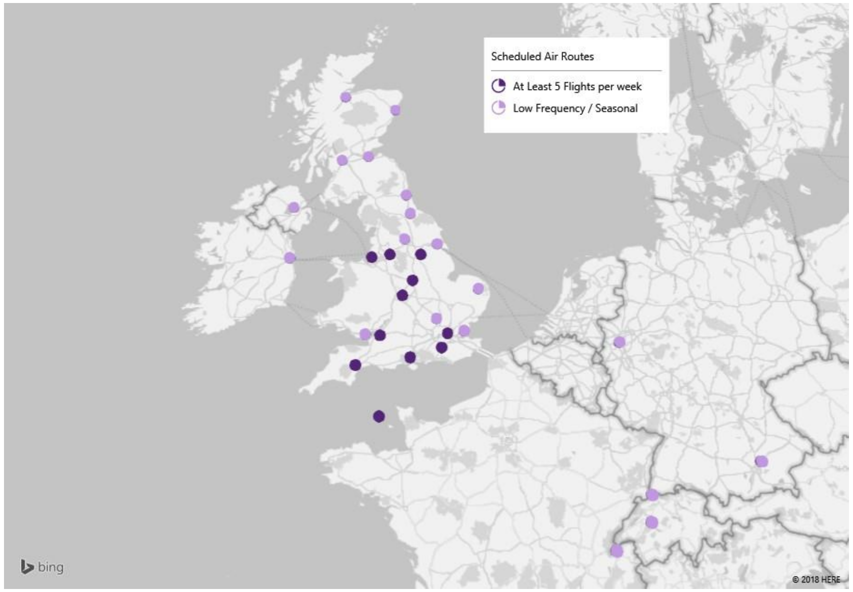
Purpose of Travel for Air Visitors 2017

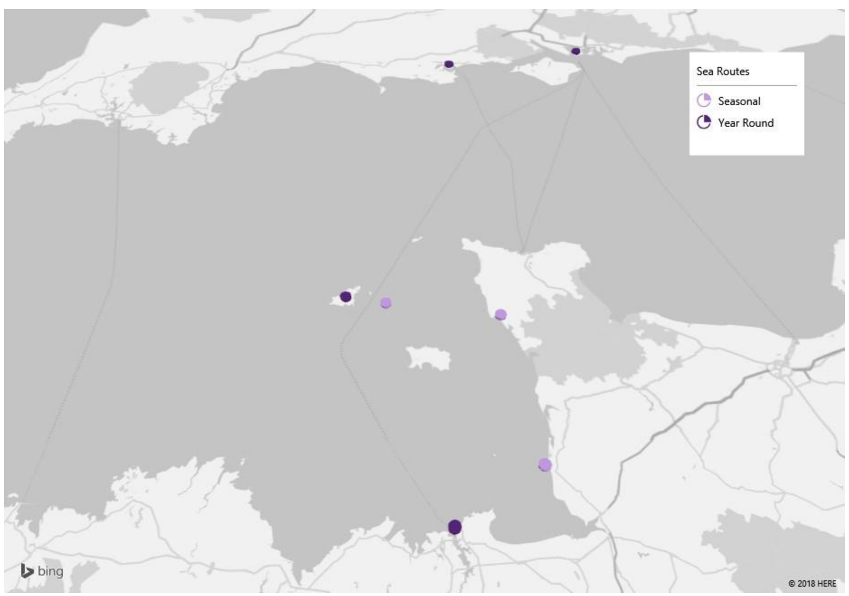


Estimated Passenger Residency on Air and Sea Services



The Air and Sea Network in Jersey





Air connections from Jersey are dominated by routes to the UK, although there are also connections to Ireland, France and Germany.

The UK services are a mixture of relatively high frequency connections to major cities, such as London, Manchester and Birmingham, and the gateway city of Southampton, lower frequency services to smaller UK cities, such as Glasgow, Cardiff and Doncaster Sheffield, and seasonal / charter services to range of UK airports. The latter are focussed particularly on bringing tourists into Jersey. The other notable service is the high frequency service between Jersey and Guernsey.

Services to other countries, such as Ireland, Germany and Switzerland, are all low frequency seasonal and charter services, again focussing on the inbound tourism market.

The financial performance and impact of individual air routes is not available, but it may be assumed that relatively low frequency, leisure focussed routes operating in small markets, such as those in Jersey, are relatively fragile. Small changes in revenues and costs on such routes can render them unattractive to airlines resulting in their withdrawal, as more profitable routes elsewhere are identified.

Ferry services connecting Jersey serve the French and UK markets, as well as providing connectivity between Jersey, Guernsey and Sark. Key markets include St Malo, Granville, Carteret, Poole and Portsmouth. A number of these services receive significant public sector subsidies, demonstrating the potential fragility of these routes to changes in the market. It should also be noted that a number of these services handle significant volumes of cargo, supporting the needs of the economy more broadly.

It is important to recognise the role that air and sea transport services play in supporting the Jersey economy and the nature and overall fragility of some of these services, particularly when considering the impact of reducing tobacco allowances on Jersey. This proposal will likely affect Jersey's air and sea transport markets. It will make travel more expensive and difficult, which will affect the wider economy.

3

How Will a Change Impact on the Market?

Who is Selling Duty Free Tobacco Coming into Jersey?

Currently, duty free tobacco is available through a number of channels when entering Jersey:

- airlines serving Jersey are able to sell duty free tobacco to passengers on their aircraft. Key airlines serving the Jersey market currently include Flybe, easyJet and British Airways. The UK is by some margin the largest air market from Jersey, with London the largest individual city market;
- there are a number of ferry operators providing services between the other Channel Islands, the UK and France and Jersey. These operators also sell duty free tobacco products on board their ships. Key operators include Condor Ferries and Manche Iles;
- airports providing connections to Jersey. The duty free retailers in these airports will no longer be able to sell duty free tobacco to passengers bound for Jersey as the minimum size of a carton for sale is 200 cigarettes. It is unclear to what extent lost revenue at airports would be passed on to passengers using Jersey routes, though it is assumed there would be some effect;
- it is also possible for Jersey resident passengers leaving Jersey Airport to purchase cigarettes in the duty free shop and then re-import them into Jersey on a return leg and there is anecdotal evidence to suggest that this is reasonably common. However, we do not have specific data in this area and we have not sought to estimate the effects from this group. This will make our estimates of the impact on Ports of Jersey's activities inherently conservative.

The reduction of the tobacco duty free allowance in these sales channels would result in a significant rise in the price that passengers would have to pay. The current excise duty in Jersey on 200 cigarettes is around £53, which would result in a price rise of around 120%.

Impact of Jersey Excise Duty on the Price of 200 Cigarettes

Irrespective of the rise in prices, it is important to consider how airlines and ferry operators will react to this change in terms of what they try to sell on their services. What has happened on intra-EU air and sea routes since the loss of duty free sales on these services provides a useful guide. In essence, airlines and ferry operators have largely stopped selling tobacco and alcohol as duty paid products because it is no longer economic to do so, as there is little or no incentive on passengers to buy on board. For ferries in particular, this has led to a reduction in levels of services and a number of company failures.

This is where the negative economic impacts associated with a reduction in the tobacco duty free allowance begin. The revenues from on board duty free sales, both tobacco and alcohol, are a fundamental part of the economics of the air and sea routes that connect Jersey to the outside world. They help keep fares lower, supporting demand, and in some cases may fundamentally affect the viability of routes. We consider how this lost revenue will affect the market further below.

How Will Airlines and Ferry Operators Deal with Lost Revenue?

Airlines and ferry operators serving Jersey operate in a competitive market in most cases. Those that do not are often subject to regulation ensuring they behave in a manner that is consistent with a competitive market. As such, each service is subject to scrutiny in terms of its financial performance and is considered in terms of whether it provides adequate returns and, importantly, whether there are better uses for the resources that are being employed to operate the service.

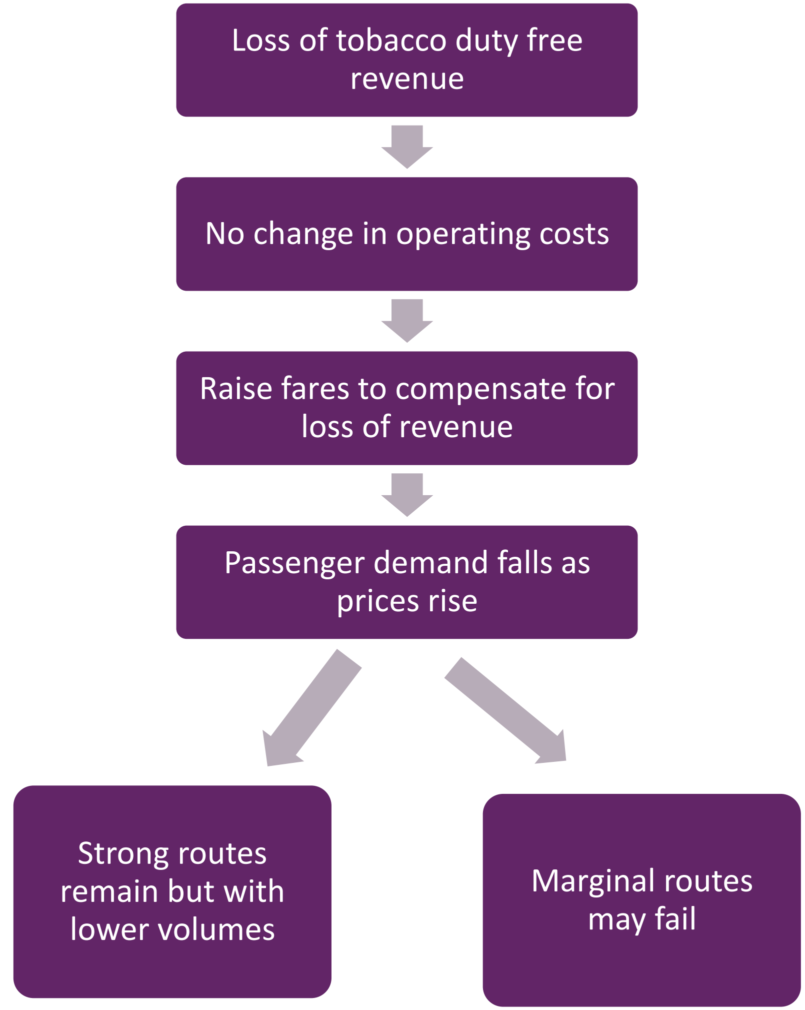
In these circumstances, airlines and ferry operators will be forced to pass on the lost revenue from duty free tobacco sales to passengers in the form of higher fares to seek to maintain the financial performance of the routes as far as possible. This will, likely, result in a reaction from passengers.

As fares rise, fewer passengers will choose to travel. This effect is likely to be accentuated in Jersey given the structure of the market. The overall balance of the market towards leisure travel and particularly inbound travel, combined with the limited number of travel options, means that it is more likely to be sensitive to changes in price than most. Sensitivity to price is measured via a price elasticity. In the absence of specific price elasticities for Jersey, we have used the following:

- for Jersey residents, we have assumed price elasticities will be similar to those observed in the UK by the Department for Transport in its 2017 Aviation Forecasts. These reflect a pure choice for passengers as to whether or not to travel;
- for those visiting Jersey, we have adjusted these elasticities using research undertaken by IATA to reflect the fact that this group has an additional choice over and above whether or not to travel to Jersey. They can choose to travel elsewhere. This makes this group more sensitive to rising fares.

The fall in passenger demand will result in two possible outcomes. Strong routes will remain but with lower passenger volumes and reduced profitability. Marginal routes may ultimately fail as there is no longer sufficient demand. This could in turn result in further losses in passenger volumes where individuals choose not to visit Jersey if a particular route is not available. We have not sought to measure this knock on effect here given the data available. Hence, it should be recognised that our assessment of impact is most likely inherently conservative.

The primary focus of this analysis is therefore to consider how these passenger volumes lost due to rising fares will damage the Jersey economy, which we consider in the next section.



The Potential for More Extreme Market Reactions

Before moving on to present our estimates of the economic damage to Jersey from a reduction in the tobacco duty free allowance, it is worth considering three further issues around how the market might react, as they highlight the potential for even greater impact:

- the potential for reciprocal action by other governments – at present, if the States of Jersey reduces its tobacco import allowance it will be acting unilaterally and the effect will only be felt by passengers coming into Jersey (and, as described above, any Jersey residents purchasing tobacco on the outbound leg of their journey for re-importation into Jersey on their return). However, the introduction of a lower allowance will put Jersey outside of international norms. There is the potential that governments at the other end of the routes will reciprocate and also reduce their allowances. This would mean that <u>all</u> passengers travelling outbound from Jersey would be affected as well. At this point, it would seem likely that airlines and sea operators will stop selling duty free tobacco in both directions, thereby essentially doubling the impact on fares and the impact on passenger volumes. It would also mean that duty free sales at Jersey Airport would be more greatly affected as a much larger proportion of outbound passengers would face reduced a duty free tobacco allowance. This would reduce revenues at the Airport with attendant impacts on the ability to invest and support route development and retention;

- airlines and ferry operators may choose to abandon sales of tobacco duty free in both directions of travel regardless of whether other governments reciprocate - the loss of the ability to sell tobacco duty free on the way into Jersey may mean that it becomes uneconomic to maintain stock or facilities to sell to passengers travelling from Jersey. This may be particularly true of ferry operators, where it may prove more profitable to reconfigure ships to focus on, for instance, alcohol sales or food and beverage sales, thereby removing the ability to sell tobacco in either direction;

- the multiplier effect of tobacco sales on other duty free sales – there is a commonly held view in the travel retail industry that tobacco sales act as a catalyst for other sales by increasing footfall in duty free shops. A commonly cited ‘rule of thumb’ is that for each £1 of tobacco sales made a further £1.50 in other sales will be made. This means that the losses in retail revenues from a reduction in the tobacco duty free allowance could extend substantially into other product lines. This is most likely to affect ferry operators, where passengers need to be attracted into duty free shops to make purchases, and also Jersey Airport in the event of reciprocal action by other governments whereby duty free allowances for passengers leaving Jersey would be reduced.

In the following section, we present our estimates of the economic damage to the Jersey economy based on the basic impact scenario described above. However, we have also presented a mid impact scenario that includes the multiplier effect of tobacco sales on other duty free sales and a high impact scenario that includes the potential additional damage that would be felt if all of these more extreme market reactions were to occur.

3

The Economic Impact in Jersey

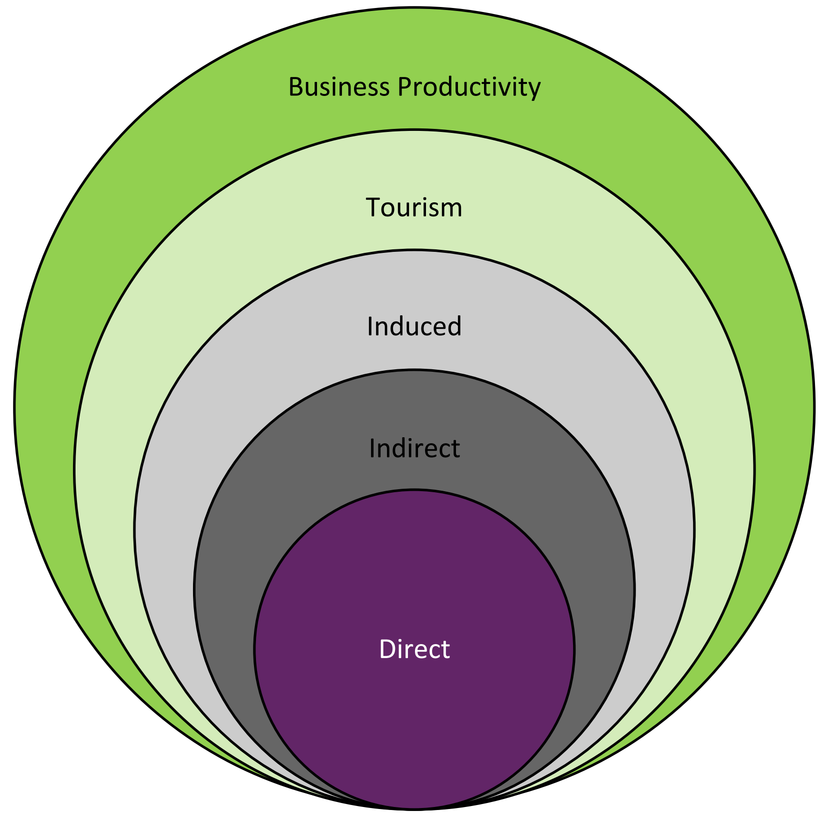
Measuring the Economic Impact of a Reduced Duty Free Allowance

Above, we have described how reducing the tobacco duty free allowance will lead to reduced passenger volumes and, potentially, connectivity to / from Jersey. In this section, we explain how these reductions in passenger volumes will feed through into economic damage in the Jersey economy.

Our analysis is based around a commonly used and well accepted framework for economic impact analysis, an overview of which is shown opposite. This framework divides the economic impact of changes in the market into four different effects:

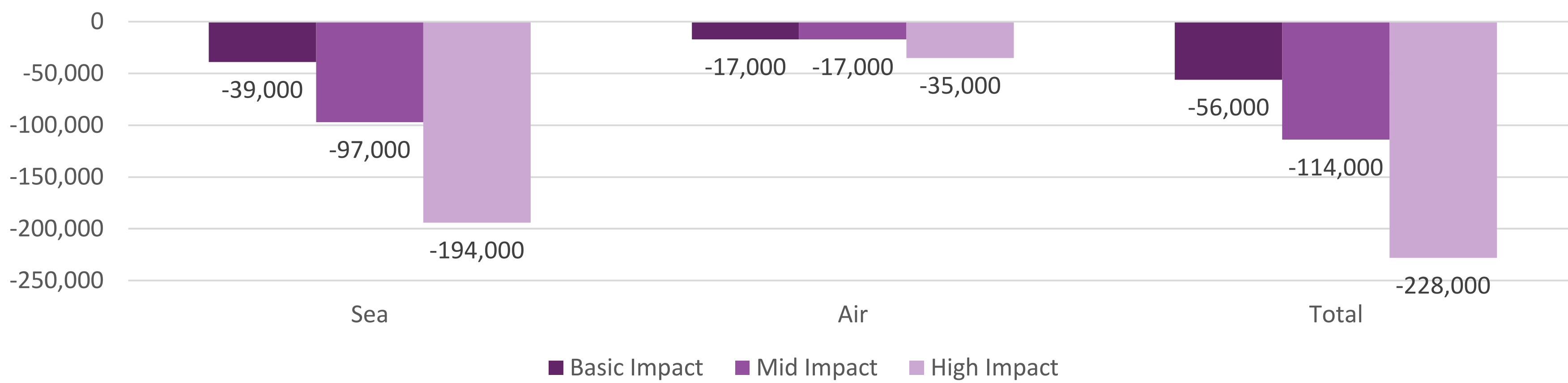
- Direct Impacts – changes in the Gross Value Added and employment supported by organisations directly involved in the provision of transport services. In this context, this will be Ports of Jersey primarily, through its ownership of the Jersey Airport and Jersey Harbour. In the basic scenario, it will support less GVA and employment simply due to the reduced numbers of passengers passing through each facility. In high impact scenarios, the Airport will no longer be able to sell tobacco to outbound passengers and as a consequence will support less GVA. The airlines and ferry operators involved are not Jersey companies and hence impacts on them will not be felt in Jersey. These effects will be offset by some gains in the retail sector in Jersey as more tobacco is sold on the island, albeit for visitors to Jersey these may be limited by the average length of stay, which is only around 3.6 days;
- Indirect Impacts – this refers to GVA and employment supported in the supply chain to the direct impacts. If direct GVA falls, fewer purchases will be made and this impact will be reduced. This effect is measured by a multiplier for Jersey based on research undertaken by Oxford Economics;
- Induced Impacts – this refers to GVA and employment supported by the expenditure of the wages and salaries earned in the direct and indirect impacts. Again, this will fall as the GVA supported via the other effects falls. It is again measured via a multiplier;
- Wider Impacts – this refers to GVA and employment supported by the ability of transport links to bring additional tourism expenditure to Jersey as they increase the island's popularity as a destination and by making doing business on the island of Jersey easier. With fewer tourists visiting the island and fewer business people travelling as fares rise, these impacts will fall. With fewer business travellers, trade is harder and the economy is less productive.

Economic Impact Analytical Framework



How Many Passengers Will Be Lost?

Numbers of Passengers Lost by Mode of Travel and Scenario



The impact of lost duty free tobacco revenues varies significantly across different routes based on the initial fare and the propensity to buy tobacco on that route. We have used data from operators and the UK CAA Passenger Survey 2017 to consider the impact on fares. In the basic impact scenario, where there is no reciprocation or impact on other product sales, fares rise between 1% and 13% on individual routes. In the high impact scenario, these increases in fares range between 2% and 66%.

In total, the basic impact scenario sees passenger numbers across all modes reduced by around 60,000 passengers, with the majority coming off sea routes. In the high impact scenario this increases to around 235,000 passengers, with ferry passengers again making up the majority of the impact.

These total passenger losses are what drive the economic impact of the change in terms of the direct, indirect and induced impacts within Jersey as described above. However, in relation to tourism impacts and indeed business productivity effects, the type of passengers lost is also important. Our analysis suggests that:

- of the 56,000 passengers lost in the basic impact scenario, around 48,000 are resident outside of Jersey. This equates to around 24,000 lost tourism visits;
- of the 114,000 passengers lost in the mid impact scenario, 91,000 are resident outside of Jersey. This equates to around 45,500 lost tourism visits;
- of the 235,000 passengers lost in the high impact scenario, around 184,000 are resident outside of Jersey. This equates to around 92,000 lost tourism visits;
- For business passengers, around 1,400 are lost from the basic impact scenario through to around 2,700 from the high impact scenario. The loss of business passengers can negatively affect productivity levels in the economy.

Economic Impact Modelling Assumptions

Our estimates of the direct impact on the Jersey economy have been based on published data from Jersey Statistics, the latest Ports of Jersey Annual Report and discussions with Ports of Jersey. The indirect and induced effects associated with these changes in the direct effects have been calculated based on a multiplier of 1.25. This is in line with what might be expected for an island economy and also with the work undertaken by Oxford Economics on the economic impact of the tourism sector in Jersey[1].

In relation to the tourism economy, we have used statistics from Visit Jersey to estimate the loss of tourism expenditure in the economy. This data suggests that:

- UK visitors spend around £200 per trip in Jersey;
- Other international visitors spend around £300 per trip in Jersey;
- Day trippers spend around £35 per visit.

When combined with our estimates of the number of trips lost in each scenario, this data provides an estimate of the total tourism expenditure lost as a result of a reduction in the tobacco duty free allowance:

- in the basic impact scenario, we estimate a loss of around £5.5 million in expenditure;
- in the mid impact scenario, we estimate a loss of expenditure of around £10.1 million;
- in the high impact scenario this number is considerably higher, with an estimated loss of around £22.1 million in tourism spend.

These negative impacts on expenditure have then been converted to impacts on GVA and employment, again based on the Oxford Economics research on the economic impact of the tourism sector in Jersey.

While the impact on business travel to / from Jersey is relatively more limited, a reduction in the tobacco duty free allowance is still expected to result in the loss of between 1,400 and 2,700 business air travellers each year. Jersey is an important 'offshore' financial services centre, with strong links to London in particular. Making it more costly and more difficult to travel between Jersey and business centres such as London~~,~~ will not help Jersey to compete with other similar financial centres or indeed to trade more generally and attract investment. This effect will ultimately be seen in reduced long term productivity on the island.

Oxford Economics have identified an econometric relationship between productivity and the level of business travel and air freight usage based on an analysis of the UK market[1]. This relationship suggests that a 10% decrease in business travel relative to overall GDP will result in a 0.5% decrease in productivity over the long term. Applying this relationship to the Jersey economy and the losses in business passenger numbers described above provides the basis for estimating a productivity effect from a reduction in the tobacco duty free allowance.

The results of this analysis for each of our three scenarios are set out on the following page.

1. The economic contribution of tourism to jersey: the productivity opportunity – Oxford Economics for Visit Jersey (2017)

The Economic Impacts on the Jersey Economy

All three scenarios result in significant losses in GVA and employment in Jersey each year. These range from £7.6 million and 170 jobs in the basic impact scenario through to £33.7 million and 750 jobs in the high impact scenario.

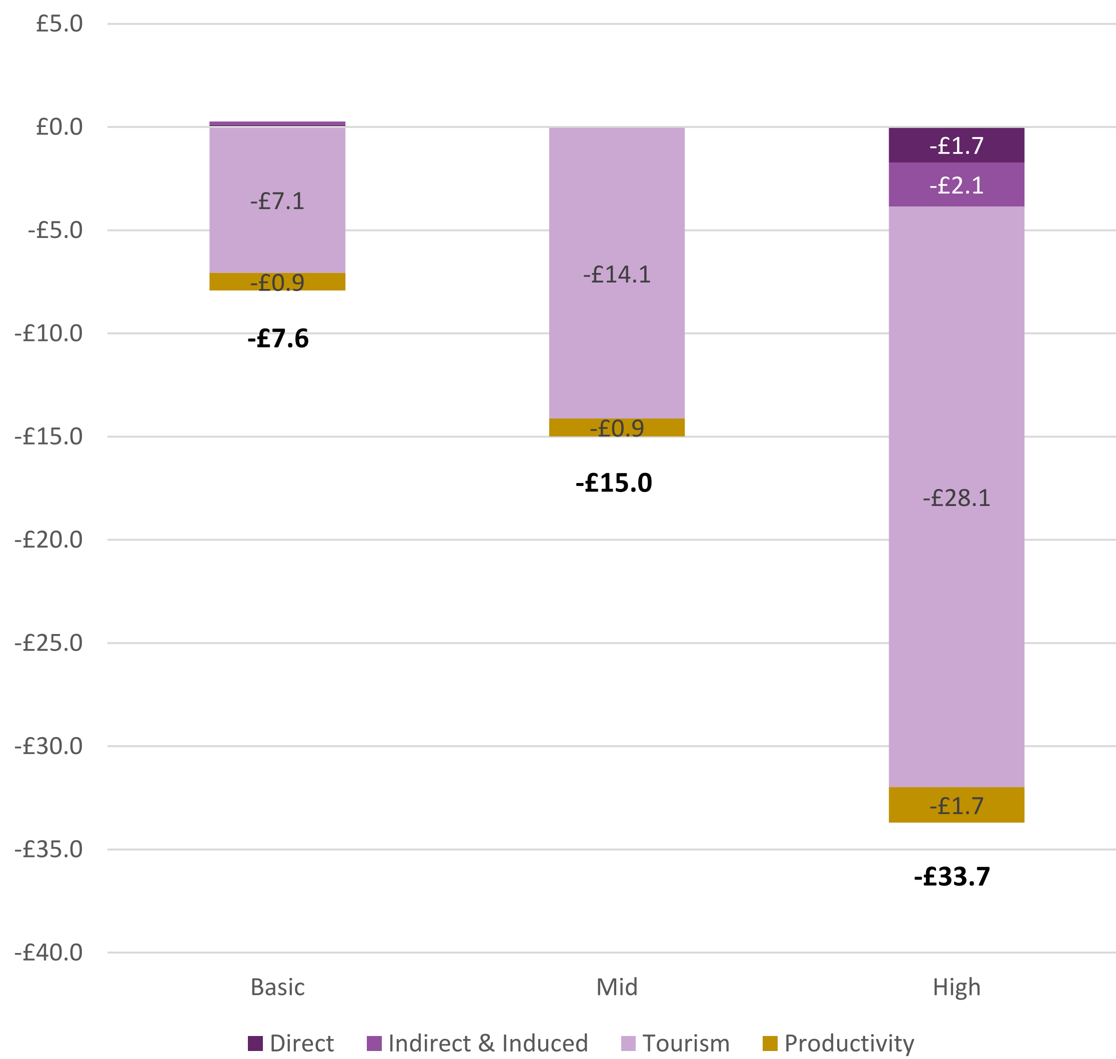
The impact on the tourism economy is by far the most significant effect in both scenarios and these impacts alone illustrate the significant dangers to the Jersey economy from reducing the tobacco duty free allowance. We have estimated that the loss of expenditure will result in a loss of tourism GVA in the basic impact scenario of around £7.1 million and around 160 jobs. In the mid impact scenario, lost tourism GVA is around £14 million and 310 jobs. In the high impact scenario, these estimates increase to around £28 million and around 630 jobs.

Effects on business productivity are smaller but should not be underestimated in their importance.

Direct, indirect and induced effects are more mixed, with limited increased retail sales in Jersey offsetting losses at the airport and harbour in some scenarios.

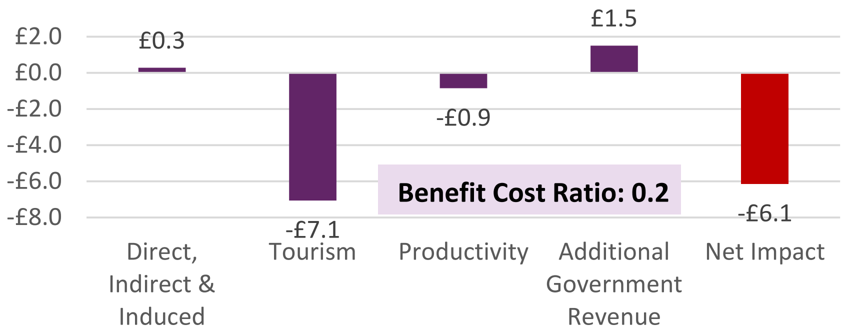
These significant losses in GVA do, of course, need to be set against any gains in excise duty revenues. This eventual net effect on the Jersey economy is considered below.

The Economic Effects of Reducing the Inbound Duty Free Tobacco Allowance in Jersey (£m)

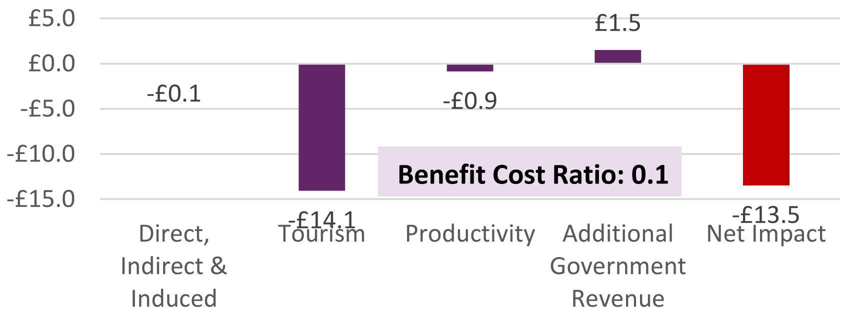


The Net Economic Damage to Jersey

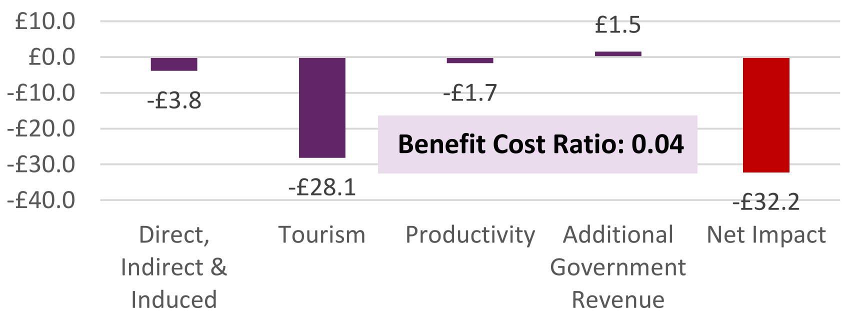
Cost Benefit Analysis – Basic Impact (GVA £m)



Cost Benefit Analysis – Mid Impact (GVA £m)



Cost Benefit Analysis – High Impact (GVA £m)



The charts opposite show the results of our assessment of the net economic damage that will be caused by reducing the tobacco duty free allowance in Jersey in both our scenarios compared to the States of Jersey's assessment of the additional revenue that it will gain from the change.

The States of Jersey have estimated that it will raise around £1.5 million in additional revenues each year by reducing the tobacco duty free allowance to 40 cigarettes. In both our scenarios, this relatively small figure is significantly outweighed by the loss of GVA that would occur:

- our basic impact scenario would result in a net loss of £6.1 million per annum;
- Our mid impact scenario would result in a net loss of £13.5 million per annum;
- our high impact scenario would result in a net loss of close to £32.2 million.

The benefit cost ratios (BCRs) associated with the proposals (a commonly used metric for assessing the value for money offered by government interventions) are substantially below 1. In most circumstances, moving forward with an intervention would require a BCR of at least 1.5.

We would also reinforce at this point that it is highly unlikely that the measure would have any noticeable impact on the overall demand for tobacco. The quantum of tobacco sales made in duty free is only a very small proportion of an individual's overall consumption in most cases. Hence, even a significant change in price is highly unlikely to impact on a person's overall tobacco budget. This means that any health benefits that might counteract the losses from reduced transport connectivity are highly unlikely to be realised.

Overall, the only possible conclusion is that the measure would be highly damaging to the Jersey economy.

4

Wider Impacts and Considerations

Wider Impacts and Considerations

In the previous section, we have set out our estimates of the potential economic damage to the Jersey economy from a reduction in the tobacco duty free allowance. However, there are a number of further impacts from this change that are not readily quantifiable in terms of an impact on GDP or employment but remain potentially important considerations in terms the overall effect on Jersey:

- Currently, Jersey Airport offers a relatively limited route network and struggles to maintain scheduled connections outside of the UK. The loss of tobacco duty free revenues on air services will act as an ongoing 'drag' on route development at the Airport, hampering growth moving forward. A loss of passengers will reduce aeronautical and commercial revenues and hinder the development of retail offerings at the airport. The ability of the Ports of Jersey to invest in infrastructure and route development will also be constrained, resulting in knock-on effects over time;

- Our approach above does not allow for the potential removal of marginal destinations from the network. Decisions about whether or not to operate any given service are highly complex and are dependent on factors about which we do not have sufficient information on which to make a judgement. However, it would seem reasonable to suggest that low frequency and seasonal air routes are potentially more fragile in terms of their economic viability. Jersey has a number of these within its network. For these routes, relatively small changes in revenues or passenger volumes could result in the route being withdrawn. This would result in much larger losses in passenger numbers than might be suggested via an elasticity effect. Essentially, there is a domino effect that cannot easily be modelled. There comes a point where the loss of one further passenger results in the service being withdrawn and all the remaining passengers being unable to travel regardless of their preference. This means that are estimates are always likely to be conservative;

- Enforceability and the Cost of Enforcement – Jersey Customs has already stated that it considers that the new limit would be largely unenforceable and would be a significant distraction from its focus on more important, illegal activities, such as the smuggling of drugs and firearms. It has also commented that any efforts to enforce the new limits would likely require a significant increase in resources, with as many as 10 additional FTEs being required. This would clearly significantly raise the cost of enforcement, which would ultimately cut into the £1.5 million in additional revenues that the States of Jersey expects to collect;

- The Effect of Re-Importing of Tobacco – we have already highlighted that there is anecdotal evidence of Jersey passengers purchasing tobacco in the Jersey Airport duty free shop, which is then re-imported to the island on their return. We do not have data on the numbers of these passengers and hence have not included this effect within our impact calculations. However, this effect should not be forgotten or discounted. These passengers do support commercial revenues at Jersey Airport, which ultimately effects airport charges and air fares, which will impact on the level of GVA and employment supported within Jersey.

5

Conclusions

Conclusions

The proposed reduction in the tobacco duty free allowance to 40 cigarettes or 50 grammes of tobacco products put forward by the States of Jersey has clearly not been fully considered in terms of its potential to damage the Jersey economy.

Jersey, as an island economy, is highly reliant on its air and sea transport links to the outside world and the operators of these links are in turn reliant on duty free revenues, including tobacco, to support the viability of their services. Reducing the tobacco allowance will essentially remove a revenue stream for these operators, resulting in upward pressure on fares, which will ultimately mean that fewer passengers choose to travel and, particularly, fewer people visit Jersey.

In many ways the precise size of the reduction is likely to be immaterial. Any reduction is likely to result in operators choosing not to sell tobacco products on services to Jersey as it will no longer be economic to do so. There is also significant potential that operators will also stop selling on services from Jersey as well as they seek to optimise the retail offer on board to do deal with the change and choose to focus on other product lines.

Our economic modelling suggests that the introduction of the proposed measure would result in an annual net loss to the Jersey economy of between £6 million and £32 million in GVA, with a mid range estimate of £13.5 million. This impact is driven particularly by damage to the tourism industry as fewer visitors come to the island.

We also believe that there are likely to be other wider, long term impacts that cannot be easily be quantified:

- the existence of low frequency and seasonal services within the air network, which tend to be relatively fragile and sensitive to changes in price, may mean that our estimates of passenger losses are in reality conservative, as some of these routes may simply cease to operate, thereby impacting a larger number of passengers;
- there is significant potential that Jersey Airport’s ability to invest in future development will be impaired;
- Jersey Customs have stated that the new allowance would be largely unenforceable and a distraction from more serious issues around drugs and firearms. It has also said that it would require around 10 additional staff to endeavour to enforce the measure. This additional cost would have a significant impact on the net revenue that might actually be realised by States of Jersey.

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