Supplementary paper
Submission on Customs and Excise (Tobacco Products – Budget Measures)
Amendment Bill

The New Zealand Government has a goal for the country to be Smokefree by 2025, with daily smoking prevalence below five per cent.

In the 2012 Budget, the Government proposed to raise tobacco excise by 10 per cent annually between 2013 and 2016 to reduce tobacco use by triggering quitting and preventing uptake, especially for smokers living in low-socioeconomic areas.

The Budget proposal of four successive 10 per cent increases will not be sufficient to achieve a smoking prevalence below 5 per cent until after 2050.

Substantial and immediate tax increases are necessary to achieve New Zealand’s 2025 Smokefree goal. These must include:

1. A health driven excise tobacco tax increase of 40 per cent in 2013 followed by three successive 20 per cent increases in 2014, 2015 and 2016.

2. Removal of all duty-free concessions for tobacco products.

A health-led tax is necessary to achieve New Zealand’s Smokefree 2025 goal

- The health proposal of a 40 per cent tax increase, followed by three 20 percent increases will see 100,000 smokers successfully quit smoking by 2016. It will reduce deaths, illness and hospital admissions due to smoking and exposure to second-hand smoke, in particular for Māori. It will decrease sales of cigarettes by 1 billion sticks from sale annually from 2016.

The impact of tobacco tax increases 2013-2016 and beyond to 2025

- The health led tax increases will result in an estimated smoking prevalence among adults falling from 16.5 per cent in 2012 to around 8.9 - 6.2 per cent in 2025, based on different price elasticity.

- In contrast the current budget proposal of 10 per cent increases every year until 2016 would only achieve a daily smoking prevalence of around 13.1 – 11.9 per cent in 2025, based on different price elasticity.
The impact of tobacco tax increases 2013-2016 and beyond to 2025

<table>
<thead>
<tr>
<th>Adult smoking prevalence (%)</th>
<th>2012</th>
<th>2013</th>
<th>2016</th>
<th>2020</th>
<th>2024</th>
<th>2025</th>
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<tbody>
<tr>
<td><strong>Budget Proposal</strong> (4 x 10 per cent tax increases between 2013-2016)</td>
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<tr>
<td>e = -0.5</td>
<td>16.5%</td>
<td>16.1%</td>
<td>15.3%</td>
<td>14.3%</td>
<td>13.3%</td>
<td>13.1%</td>
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<tr>
<td>e = -0.7</td>
<td>16.5%</td>
<td>16.0%</td>
<td>14.8%</td>
<td>13.5%</td>
<td>12.2%</td>
<td>11.9%</td>
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<tr>
<td><strong>Health Proposal</strong> (40 per cent tax increases in 2013, 3 x 10 per cent between 2014 and 2016)</td>
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<tr>
<td>e = -0.5</td>
<td>16.5%</td>
<td>14.9%</td>
<td>13.1%</td>
<td>11.0%</td>
<td>9.3%</td>
<td>8.9%</td>
</tr>
<tr>
<td>e = -0.7</td>
<td>16.5%</td>
<td>14.3%</td>
<td>11.9%</td>
<td>8.9%</td>
<td>6.7%</td>
<td>6.2%</td>
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</tbody>
</table>

- **Budget Proposal** = 4 x 10 per cent tax increases between 1 January 2013 and January 2016
- **Health Proposal** = 40 percent tax increase on 1 January 2013 followed by 3 x 10 per cent between 2014 and 2016
- e = price elasticity/sensitivity used here is based on the Treasury’s price elasticity of -0.5 and a higher or revised estimate of -0.7. Treasury’s price elasticity is based on the consumption price sensitivity in developed countries 3 4. The price elasticity is -0.7 is a more optimistic model as elasticity will increase over time -- tobacco use is expected to have a higher reduction along with price increases.

### Huge health benefits from a steeper tax increase

- From early 2013, 50,000 smokers will be expected to successfully quit. This will result in a noticeable decrease in heart attack-related hospitalisation from early 2013 onwards.
- The Māori population will see the greatest health gains. The gap in life expectancy between Māori and non-Māori will be significantly reduced if smoking prevalence falls below five per cent by 2025. This health goal can only be achieved by an immediate tax increase of 40 per cent in 2013 followed by three annual 10 percent increases.
- A higher excise tax increase will also generate greater health gains for low income smokers with low incomes. A recent New Zealand study showed that two-thirds of smokers living in low-socioeconomic areas attempted to quit smoking after the excise increases in 2010 and 2011. Relapses rates in this group were high despite their intentions to quit -- 40 per cent of smokers who did not quit successfully adapted by reducing their consumption per day and 22 per cent adapted by switching to cheaper brands.
- Steeper tax increases will result in more successfully quit smoking attempts among low income earners as the larger tax increase will reduce this ability of this group to switch to cheaper brands. It will also mitigate tobacco companies’ ability to maintain their sales by introducing ultra-low cost brands.

### References

1. Laugesen M. One billion fewer cigarettes, 100 000 fewer smokers. *New Zealand Medical Journal* 2012;125(1356).