Philip Morris (New Zealand) Limited (“PMNZ”) welcomes the opportunity to submit on the Customs and Excise (Tobacco Products—Budget Measures) Amendment Bill.

PMNZ opposes the Bill. PMNZ does not wish to make an oral submission to the committee.

Summary

PMNZ recognises the role of taxation in tobacco control and its contribution to public health outcomes.

The increases proposed in the Bill will:

1. accelerate the switch by consumers to cheaper brands but not necessarily decrease consumption of tobacco;
2. contribute to the small, but growing problem of illicit tobacco in New Zealand;
3. increase the security concerns felt by retailers of tobacco products;
4. have an inflationary effect by contributing to an increase in the Consumer Price Index; and
5. entrench New Zealand as having the most expensive cigarettes in the developed world.
1. The tax increases will accelerate the switch to cheaper brands

Many New Zealand consumers responded to the last round of three 10% excise increases by switching to cheaper brands. Immediately after the April 2010 excise hike, the cheap brand segment of the market spiked, and it has maintained its momentum following the rises in January 2011 and January 2012.

Figure One: Percentage of factory made cigarette industry sales

The shift to cheaper brands is also revealed by an analysis of tobacco industry returns conducted by Action on Smoking and Health. For example, the sales volume of JPS (a budget brand manufactured by Imperial Tobacco New Zealand) was four times more than in 2009, and Pall Mall has replaced Holiday as British American Tobacco New Zealand’s top brand (driven by the growth in Pall Mall Baseline, a cheaper brand).

The Treasury Regulatory Impact Statement on the Bill noted that they remain unclear on the impact of the recent tax increases:

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1 Nielsen TRACGPM- Total New Zealand retail estimate coverage including scanning retailers and non-scanning retailers. Current to 20th May 2012
3 Regulatory Impact Statement, Increase in Tobacco Excise and Equivalent Duties, New Zealand Treasury (prepared for Budget 2012), p 4. Available at:
Overall tobacco consumption appears to have fallen following the recent excise increases. However, consumption estimates rely mainly on overall tobacco supply measures, which are highly volatile. It may take another year to get a stable picture of the demand impact of recent excise increases.

There is no public health benefit in an excise policy which encourages adult consumers to merely choose cheaper brands. The government should consider the ongoing impacts of previous tobacco excise tax increases before implementing further new increases three years in advance.

2. The increases will contribute to the illicit tobacco trade

New Zealand has a small, but growing problem with illicit tobacco. Earlier this month, Customs announced that a Motueka man had been convicted and fined $6000 for being a party to the unlawful manufacturing of 4790 kilograms of tobacco in breach of the Customs and Excise Act 1996. The same person was also convicted in 2007 for the unlawful manufacture of tobacco.

PMNZ agrees with the Treasury’s own statement that raising the price of cigarettes encourages further organised criminal activity in the tobacco market. Cigarettes bought and sold on the black market are untaxed, unregulated and sold cheaply and indiscriminately to anyone, including youth.

3. Retailers are already noticing security concerns around tobacco products; the proposed increases will exacerbate these

Many retailers have told us that the previous round of three consecutive annual excise tax increases starting in April 2010 had the effect of heightening their concerns about security in their shops. Stores around New Zealand are regularly robbed for cigarettes, and then re-sold for profit. Increasing the price of tobacco only increases the incentive for criminals to steal from legitimate, law-abiding retailers – sometimes in a violent and dangerous way.

We note that the Treasury RIS also raises this as a potential outcome of the Bill.


Tobacco retailers and distributors may face increased security risks and costs to protect themselves, their property and staff, due to an increase in the attractiveness of tobacco to criminals.

Media reports already show that security concerns are an issue for tobacco retailers. As recently as April, a dairy was robbed at knifepoint. The New Zealand Herald reported that “The knifepoint robbery of a Huntly dairy last week highlights the fact that tobacco is increasingly becoming a target for criminals, say police.”

The detective involved in the case also noted that “tobacco has become a popular item for offenders to target.”

4. Tobacco excise tax increases will have an inflationary effect

The excise increases proposed in this Bill will contribute to an increase in the Consumer Price Index (CPI). The Treasury Regulatory Impact Statement notes that a 10% increase in excise in 2013 will change the CPI by 0.23 percentage points, rising to 0.25 percentage points by 2015 when another 10% increase is proposed.

In this context it is worth noting the Treasury’s comment that taxes on tobacco are regressive, and that:

Policy makers must therefore take into consideration the negative financial impact that excise increases are likely to have on the majority of low-income households with smokers – especially in the shorter term when quit attempts and other behavioural responses are difficult.

5. The increases will entrench New Zealand as having the most expensive cigarettes in the developed world.

A 2009 study on international cigarette affordability trends published in Tobacco Control showed that New Zealand was already the least affordable country among 28 high-income countries around the world in terms of relative income price (“RIP”).

Figure one below illustrates relative income prices of high-income countries; New Zealand is already the least affordable country among 28 high-income countries around the world in terms of relative income price (“RIP”).

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8 Ibid.
12 Relative Income Price: the percentage of per capita GDP required to buy 100 packs of cigarettes (“RIP”). The higher this percentage, the less affordable cigarettes are.
Zealand ranked as the least affordable country with a RIP of 2.51%, followed by the United Kingdom (2.30%) and Singapore (2.01%).

*Figure Two: Prices of Cigarettes Relative to Income in High-income Countries (2009)*

This study was conducted *before* the last round of excise increases beginning in April 2010 – which raised excise by 10% immediately for factory-made cigarettes, 10% plus a CPI adjustment on 1 January 2011 and 10% plus a CPI adjustment on 1 January 2012.

2012 data including the 2010, 2011 and 2012 excise increases show that New Zealand cigarettes are even less affordable than they were in 2009 – rising to a RIP of 3.0 as demonstrated below.

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As the graph above demonstrates, the tax increases proposed in the Bill (amounting to 40% plus CPI adjustments each year for four years) will make New Zealand cigarettes even more expensive and entrench New Zealand as having the most expensive cigarettes in the developed world.

Using a pack of *Longbeach* 20s as an example, the New Zealand government already collects $10.70 per pack in tax (excise and GST). This will significantly increase to $17.00 per pack following the proposed excise increases.

The breakdown of the Recommended Retail Price (RRP) on a pack of twenty *Longbeach* cigarettes is estimated to be as follows for the next four years:

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14 Measured by most sold brand in market. Compiled by Philip Morris International based on April 2012 public data and IHS Global Insight FY 2012 data. Canada weighted average; US omitted.
15 Based on the RRP of a pack of 20 *Longbeach* cigarettes in NZD
Conclusion

PMNZ acknowledges the role of taxation in tobacco regulation. However, New Zealand cigarettes are already the most expensive in the OECD (measured on a relative income basis). The tax increases proposed in the Bill will cement this status. The previous round of excise increases indicates that many consumers will respond by “down-trading” to cheaper products; for which there is no public health benefit.

The increases will also further incentivise the development of New Zealand’s small but growing problem with illicit tobacco, contribute to inflation, and amplify the security risks faced by retailers of tobacco products.

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