

In-Confidence

Office of the Associate Minister of Health
Chair, Cabinet Social Wellbeing Committee

1 JANUARY 2020 TOBACCO EXCISE TAX INCREASE

Proposal

1. This paper reports on the final 10 percent tobacco excise increase legislated for 1 January 2020.

Executive Summary

2. New Zealand's goal to be Smokefree by 2025 aims to improve well-being by reducing the significant economic, social and health-related harms caused by tobacco. Tobacco use is the single biggest cause of premature death and ill health in New Zealand. It is estimated that over 5,000 New Zealanders die from smoking related illnesses each year. The health impacts associated with tobacco use include lung cancer, respiratory disease, and cardiovascular disease. Smoking-related illnesses disproportionately affect Māori and Pacific and contribute to significant health inequities.
3. Tax increases are an important part of the Government's commitment to Smokefree 2025, and an opportunity to reduce uptake and prompt quit attempts, which a significant number of smokers say they intend to do. In 2010, 2012 and 2016 the Customs and Excise Act was amended to legislate annual increases in tobacco excise of 10 percent, on top of an inflation adjustment, with the last being scheduled for 1 January 2020.
4. The collective impact of the initiatives that make up New Zealand's tobacco control programme, including tobacco excise tax, is having the desired impact on smoking rates which are trending down. Among Māori, daily smoking prevalence fell from 39.2 percent to 37.7 percent (1.5 percent) between 2006/7 and 2011/12, but during the period of annual tobacco excise increases they fell from 37.7 percent to 31.2 percent in 2017/18 (6.5 percent) –a substantial acceleration in the decrease in prevalence.
5. Even with this ongoing decline, we are not on track to meet the Smokefree 2025 goal or to achieve equity. The Ministry of Health is preparing, with input from other agencies, a draft action plan to achieve Smokefree 2025. I will consult Ministers on this work as it progresses, ahead of reporting to Cabinet in October seeking agreement to consult publicly [SWC-19-MIN-0022 refers].
6. The Action Plan will include increased efforts to address equity gaps for Māori and Pacific, with better support for Māori and Pacific to quit and not start smoking. The draft action plan will form the basis for strategic investment and actions.

7. For many smokers, price rises are an important incentive to reduce smoking and try to quit. The efficacy of the tax increases is supported by public health research and experts, and by the World Health Organization. There is also emerging evidence that rising cigarette prices shift smokers to less harmful vaping products.
8. Tobacco is highly addictive and it can be very difficult for smokers to quit, even when the price is beyond what they can afford. To the extent that tax is passed on to price, it is probably causing substantial financial stress for many vulnerable families. In 2018, a pack of 20 cigarettes ranged in price from \$22.50 to \$33.00, a considerable sum even at the lower end for low-income households.
9. This Government is committed to offsetting this harm by providing the best possible support for low income, Māori and Pacific to quit. This is evident in the co-design programmes the Ministry of Health is running with young Māori Women, to provide holistic stop-smoking support services that work.
10. There is an illegal market for tobacco in New Zealand, with indications that the tax increases are contributing to increased attempts to illegally import tobacco. There is no clear evidence linking the tax rises to dairy robberies.

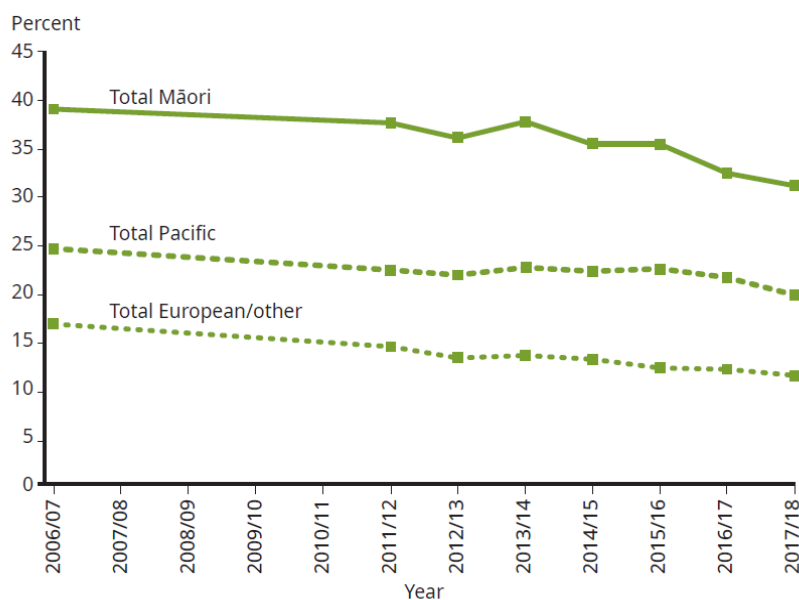
Background

11. At its meeting on 12 December 2018, Cabinet Social Wellbeing Committee considered the findings of the independent evaluation of the tobacco excise tax increases (undertaken by Ernst and Young) and invited the Associate Minister of Health to report back with recommendations for the 1 January 2020 increase, and proposals to improve data collection and monitoring [SWC-18-MIN-0189 refers].
12. New Zealand's goal to be Smokefree by 2025 aims to reduce the significant harm caused by tobacco for all New Zealanders and their whānau. New Zealand has a comprehensive tobacco control programme. Since 2011 a key part of this programme has been annual increases in tobacco excise of 10 percent each year, on top of the annual adjustment made to keep pace with inflation. The 10 percent increase is mandated in legislation, with one remaining increase scheduled for 1 January 2020.
13. There is strong evidence from New Zealand and internationally that increases in tobacco excise are effective in changing the behaviour of many people. However, tobacco is highly addictive so changes in price are not, on their own, sufficient to change the behaviour of an important minority. People who continue to smoke following tax-induced price rises may experience financial stress.
14. The Tax Working Group reflected these issues in its final report (published 21 February 2019), and recommended that "the Government prioritise other measures to help people stop smoking before considering further large increases in the tobacco excise rate beyond the increases currently scheduled".
15. For these reasons I have asked the Ministry of Health to develop a range of options for Cabinet consideration as part of developing a Smokefree 2025 Action Plan. These options will provide different pathways to achieving the 2025 goal.

Tobacco consumption and smoking rates are reducing for all New Zealanders

16. Tobacco consumption and smoking rates are continuing to reduce for all New Zealand population groups. In 2018, 13.1 percent of the total population (512,000 people), 31.2 percent of Māori (155,000) and 20 percent of Pacific (50,000) smoked daily.
17. Among Māori, daily smoking prevalence fell from 39.2 percent to 37.7 percent (1.5 percent) between 2006/7 and 2011/12, but during the period of annual tobacco excise increases they fell from 37.7 percent to 31.2 percent in 2017/18 (6.5 percent) –a substantial acceleration in the decrease in prevalence. Between 2015/16 and 2017/18, Māori smoking rates reduced by 4.3 percent, compared with 2.7 percent for Pacific and 1.3 percent for European/Other population groups. However, significant inequalities remain. (Figure 1)

Figure 1: Daily smoking prevalence trends by ethnicity, 2006/7-2017/18 (NZHS)

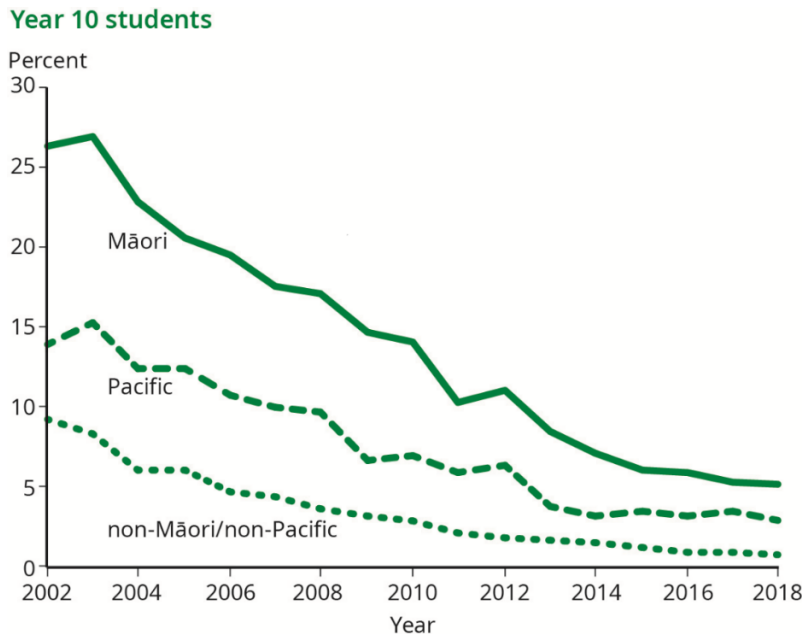


	2006/07	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Māori (%)	39.2	37.7	36.2	37.8	35.5	35.5	32.5	31.2
Pacific (%)	24.8	22.6	22.0	22.9	22.4	22.7	21.8	20.0
All (%)	18.3	16.3	15.6	15.7	15.0	14.2	13.8	13.1

18. The proportion of young people who have ever smoked, or who are daily smokers, has also fallen significantly over time. The decline in smoking rates for 15 to 17 year olds has been more pronounced than for adults, with daily smoking in this group down from 13.7 percent in 2006/07 to 3 percent in 2017/18.
19. Similarly, smoking rates among Year 10 students (14 to 15 year olds) have fallen from 8.2 percent in 2006 to under 2 percent in 2018 (Figure 2). Like the results in Figure 1, Year 10 Māori students have experienced the fastest decline in smoking rates from 26.3 percent in 2002 to 5.2 percent in 2018 (a drop of just over 20

percentage points), compared with Pacific students and non-Māori/non Pacific students (with reductions of just over 11 and 8.5 percentage points respectively).

Figure 2: Daily smoking by Year 10 students 2018 (ASH Year 10 survey)



	2002	2004	2006	2008	2010	2012	2014	2016	2018
Māori (%)	26.3	22.9	19.5	17.2	14.1	11.1	7.2	5.9	5.2
Pacific (%)	14.0	12.5	10.7	9.7	7.0	6.4	3.3	3.2	2.9
All (%)	12.4	9.8	8.2	6.8	5.5	4.1	2.8	2.2	1.9

20. In addition to reductions in smoking prevalence, the amount of tobacco consumed has dropped 39 percent since the current series of tobacco excise increases began in 2010, including a 6 percent decrease in 2018 alone.

Tobacco excise tax increases are contributing to this decline

21. There is strong evidence that rising taxes have in the past made a significant contribution to decreasing tobacco consumption. Rising prices mean fewer young people start smoking and smokers cut down consumption and increase quit attempts. In New Zealand, quit attempts spike each January, coinciding with tax increases, and possibly New Year resolutions.
22. Public health researchers and experts consider ongoing increases in tobacco tax, supported by good stop-smoking support services, are central to meeting the goal of Smokefree 2025. The World Health Organization says tax is the “most potent and cost effective option” to reduce the demand for tobacco. In its position statement on Smokefree 2025, the New Zealand Medical Association supports further tobacco excise tax increases beyond CPI, with revenue used for smoking cessation and other programmes to achieve Smokefree 2025.

Vaping has the potential to contribute significantly towards Smokefree 2025

23. There is emerging evidence that maintaining high and rising prices for cigarettes encourages smokers to switch to vaping. If this evidence is confirmed, it provides another route by which increasing taxes contributes to reducing the harms of smoking.
24. Vaping could make a positive contribution to achieving Smokefree 2025. It is much less harmful and cheaper than smoking. Evidence is growing that it supports people to quit smoking. I am progressing amendments to the Smoke-free Environments Act 1990 to give effect to Cabinet decisions to improve the regulation of vaping products and smokeless tobacco products. These regulations aim to protect children and young people from any risks associated with these products while ensuring that smokers have access to safer alternative products [CAB-18-MIN-0569 refers].
25. In addition, the Health Promotion Agency has developed a vaping facts website. Our priority audiences, and particularly young Māori women, have been closely engaged in the development of this campaign.

Taxes are necessary but not, on their own, sufficient

26. A substantial number of people continue to smoke, suggesting the current price of tobacco is not sufficient alone to achieve Smokefree 2025. This may be because:
 - 26.1. taxes are not being fully passed through to prices and/or people are finding ways to get cheaper cigarettes (e.g. the tobacco industry introduces new budget brands and increases the price of premium brands more than the price of budget brands to keep smoking affordable for low-income earners, and consumers may buy cheaper black market cigarettes)
 - 26.2. some smokers (and those starting smoking) are not responding to price increases, including because they are unable to access effective stop-smoking support services
 - 26.3. current taxes are not yet high enough to be a universal deterrent
 - 26.4. the overall package comprising our tobacco control programme is not optimal and we need to do more to support smokers to quit and encourage young people not to start smoking.

Increasing prices are impacting low-income earners who continue to smoke

27. Low-income earners who quit as a result of the tax increases will benefit financially. They will also directly benefit their health and the health of those around them, particularly young children.
28. However, low-income earners who continue to smoke (without compensating by smoking less and/or smoking cheaper products) will be disadvantaged financially. There are a disproportionate number of Māori, Pacific and low-income earners among current smokers.

29. In 2018, a pack of 20 cigarettes ranged in price from \$22.50 to \$33.00 (compared with \$21.00 to \$28 in 2017). Expenditure on tobacco is a higher proportion of household expenditure among low-income groups and there is evidence that those who continue to smoke may forgo spending on essential household items or services in order to buy tobacco. In a 2018 survey, 10 percent of smokers reported that they had gone without something they needed in the previous 12 months, while a greater number (27 percent) reported that they had ever gone without something essential. Going without was twice as likely to occur in Māori households as European households. Households going without tended to have a low income, regardless of ethnicity.
30. In January 2016, just over one-third of Māori and non-Māori smokers who had not recently made a quit attempt reported an intention to quit in the next three months. Among smokers who had made a recent quit attempt, just over 70 percent of Māori and 63 percent of non-Māori reported they intended to make another quit attempt.

A new service model is being implemented to support smokers with complex social needs

31. The adverse impacts on those who continue to smoke can be mitigated by improving stop-smoking services for low-income, Māori and Pacific populations. The Ministry of Health has worked with young Māori women and providers to co-design a new service model that works for those who face a range of complex problems in their lives.

Māori Women's Smoking Project

In the co-design workshops, officials heard that:

- smoking helps some women deal with the stresses in their lives: one woman said that 'I tried to quit but ... got really stressed and stressed and more stressed. And I went back to my smoking habit. I felt better towards myself and other people'; another said that 'It felt like smoking was my only friend back then'
- smoking cessation may or may not be a priority for someone dealing with complex problems and challenges in their daily life; forcing smoking cessation to the fore without addressing wider conditions and circumstances is likely to be counter-productive and alienating
- interventions need to be adaptive and draw on strengths, rather than being punitive
- there is an opportunity to think creatively about services that walk alongside those who smoke, taking a holistic approach
- for smoking cessation to be effective, there may be a need to collaborate with partners outside of the health sector
- there is a particular opportunity in early pregnancy when many young women are motivated to give up smoking.

In one of the groups, all of the women stopped smoking and switched to vaping. One woman subsequently stopped vaping. There has been a wide range of other outcomes including the enrolment of children in early childhood education, children

being immunised, some women finding better and safer places to live, one woman obtaining a learner driver license, and another buying her first car.

32. These services work because they take a whānau-centred and holistic wellbeing approach where quitting is framed in the context of living well. The Ministry of Health is now beginning to extend this service.

A comprehensive approach is needed to get to Smokefree 2025

33. Turning a fiscally regressive tax into a health-promoting progressive tax requires increasing access to the right support services to help people quit and increasing exposure to appropriate prevention initiatives and services, including mass and social media campaigns.
34. The Government has made a good start in prioritising action to get to Smokefree 2025. In addition to the new service models and vaping work programme mentioned above, I am progressing an amendment to the Smokefree Environments Act 1990 to prohibit smoking in vehicles carrying children under the age of 18 years.
35. These existing workstreams will be included in the Action Plan for Smokefree 2025, which I am developing. In addition, officials are preparing advice to me on a range of areas for possible inclusion in the Plan, including:
- 35.1. reducing the retail availability of tobacco products
 - 35.2. reducing the palatability, appeal and addictiveness of tobacco products
 - 35.3. increasing the purchase age for tobacco
 - 35.4. extending legislated smokefree areas
 - 35.5. using price as a mechanism for reducing tobacco consumption and smoking rates, within a comprehensive strategy to support smokers to quit and prevent initiation, including:
 - 35.5.1. addressing tobacco industry tactics to minimise the impact of the price increases on consumers
 - 35.5.2. setting minimum or standardised prices for tobacco products
 - 35.5.3. establishing an industry levy, analogous to the alcohol industry levy, to fund harm-reduction initiatives
 - 35.6. reconsideration of the 2010 recommendations of Parliament's Māori Affairs Committee that have not been implemented (there is a significant cross-over between these recommendations and the advice listed above).
36. I will engage with Ministers on these issues as this work progresses ahead of my October report back to Cabinet with a draft consultation document for a Smokefree 2025 Action Plan.

Other impacts: robberies are trending down while there are signs that illicit trade is increasing

37. Concerns have been expressed that the increasing price of tobacco has led to an increase in robberies and illicit trade. A 2018 evaluation found insufficient data to substantiate these concerns. Evidence about the impact of tobacco excise increases on robberies will strengthen over time, as the Police have only recently begun to collect information on the type of goods stolen from 2017.
38. To date, the Police's prevention approach is resulting in a declining trend in dairy robberies, whereas Customs is beginning to see trends that indicate an increase in illicit trade. Data on smokers' knowledge and use of the illicit market, which will complement Custom's intelligence, is now being collected.

Robberies

39. The Police report that there were 1,100 aggravated robberies of commercial premises across New Zealand between 1 April 2017 and 30 April 2019. This offending primarily targeted dairies, superettes, liquor stores, petrol stations and other small businesses. Money was taken in 66 percent, tobacco in 45 percent and alcohol in 11 percent of these robberies, respectively.
40. As at 10 May 2019, 414 fog cannons have been installed in small businesses across New Zealand as part of a Government-funded initiative to deter robberies (compared with 350 in December 2018). Compared with the twelve months to April 2018, the twelve months to April 2019 saw 31 percent fewer victims of commercial aggravated robbery, 32 percent fewer dairies/superettes being targeted, and 51 percent fewer injuries. The Police expect this prevention approach will lead to a continued downward trend.

Illicit trade

41. The cumulative effect of the 10 percent increases has been to increase the incentives to smuggle or illicitly manufacture tobacco and there are signs that the tobacco excise increases are resulting in an increase in illicit trade in tobacco, albeit off a low base.
42. As with any illicit market, it is impossible to obtain evidence that would enable the precise measurement of the size of the market. However, Customs considers that an increased frequency of commercial-sized interceptions of smuggled tobacco is an indicator that illicit trade is increasing.
43. Customs is seeing an increasing trend to smuggle cigarettes at the border. For example the total number of interceptions increased by 53 percent in 2018 over 2017. Customs has made some quite large interceptions. For example, two operations in the last two months have seen Customs seize approximately 1.6 million Chinese branded cigarettes.
44. Customs is also seeing an increase in the volume of imported commercial quantities of tobacco leaf (from 456 kg in 2017 to 1,356 kg in 2018) which is likely to be used in the unlicensed manufacture of 'roll your own' tobacco or cigarettes. Tobacco leaf is

able to be legally imported into New Zealand and no offence is committed until the leaf is manufactured into 'roll you own' tobacco or cigarettes. ^{s 9(2)(f)(iv)}

45. Of note is that the growth in the illicit market is coming off a low base and remains low by international standards. Customs considers another 10 percent increase will increase the profitability of illicit trade. For example, the current retail price of cigarettes ranges from \$22.50 to \$33.00 a packet, while a pack of cigarettes can be obtained for about \$5.00 in China.
46. Questions have recently been included in the New Zealand Smoking Monitor which provides data to combine with the border seizure data to estimate the trajectory of the illicit market¹.
47. Of all the smokers / smokers who have recently quit surveyed between February and May 2019 (560 participants), 10 percent reported knowing where to get illicit tobacco today and 15 percent reported ever having bought illicit tobacco.
48. Of those who had ever bought illicit tobacco (83 participants), 41 percent had bought it in the last year (or 6 percent of the total sample). The last time *ever-buyers* bought illicit tobacco, 12 percent bought tobacco with New Zealand branding, 34 percent with non-New Zealand branding and 43 percent with no branding. This indicates that sources of illicit tobacco are a mixture of imported (non-New Zealand branded) and stolen (New Zealand branded and possibly no brand) tobacco.
49. Further options to improve data collection and monitoring are being considered as part of the development of the Action Plan.

The final 10 percent increase

50. The final 10 percent increase in tobacco excise legislated for in the Customs and Excise Act 2018 (the Act) is scheduled for 1 January 2020.
51. The Act provides for an annual adjustment for inflation to rates of excise duty (domestically manufactured goods) and excise-equivalent duty (imported goods) on tobacco products. The Act provides for the duties on tobacco products to be automatically increased by 10 percent on 1 January even if they are not increased for inflation. For the inflation adjustment to be implemented, the Order in Council must include the 10 percent increase.
52. After the 1 January 2020 increase, and if no further policy decisions are taken, tobacco excise will only be adjusted annually to keep pace with inflation (subject to Cabinet's agreement).

More investment would help our progress towards Smokefree 2025

¹ The Smoking Monitor is not a representative sample, so the results are indicative only and not a reliable estimate of population prevalence.

53. In 2018, tobacco excise tax revenue amounted to around \$1.9 billion, while approximately \$45 million was invested in tobacco control initiatives. Investing more in effective service models and interventions to prevent people from starting to smoke, particularly for Māori and Pacific populations, would help accelerate progress towards Smokefree 2025. In particular, investment is needed for:

53.1. increased capacity for stop-smoking services to use a holistic wellbeing approach to better reach Māori and Pacific in particular

53.2. new mass and social marketing campaigns to encourage young people not to start smoking and smokers to quit smoking, particularly for Māori and Pacific

53.3. increased capacity and capability for compliance and enforcement of regulations for vaping products, with a particular focus on protecting young people for accessing products.

Consultation

54. The following departments have been consulted and their views are reflected as appropriate: The Treasury, New Zealand Customs Service, New Zealand Police, Department of Prime Minister and Cabinet, Te Puni Kōkiri, Oranga Tamariki–Ministry for Children, the Ministries of Justice, Social Development, Pacific Peoples and Women’s Affairs.

Financial Implications

55. There are no financial implications.

Legislative Implications

56. There are no legislative implications.

Impact Analysis

57. The impact analysis requirements do not apply.

Human Rights

58. There are no human rights issues associated with this paper.

Gender Implications

59. According to the New Zealand Health Survey 2017/18, the rate of daily smokers among men is higher (14.3 percent) than the rate of daily smokers among women (11.9 percent). More Māori women (34.9 percent) smoke than Māori men (27.2 percent).

Disability Perspective

60. Smoking is a significant cause of disability in New Zealand. Any impact the proposed action plan has on reducing smoking rates will improve New Zealanders health and independence.

Publicity

61. I do not propose to make any public announcements.

Proactive Release

62. Given the likely high level of public interest, I propose to proactively release this Cabinet paper (subject to redactions for those matters still under Cabinet's consideration and for maintenance of the law).

Recommendations

63. The Associate Minister of Health (Hon Jenny Salesa) recommends that the Committee:
1. **note** that an increase in tobacco excise has been previously legislated for and will take effect on 1 January 2020
 2. **note** that smoking rates and tobacco consumption are reducing across all population groups
 3. **note** that more needs to be done to accelerate reductions in smoking rates and tobacco consumption among low-income, Māori and Pacific populations for Smokefree 2025 to be achievable
 4. **note** that the Ministry of Health has work underway to improve the effectiveness of stop-smoking services, with a particular focus on young Māori women
 5. **note** that the Minister is considering a range of other tobacco control measures and will report to Cabinet in October 2019 seeking approval to consult publicly on a draft Action Plan for Smokefree 2025
 6. **note** that, as part of the development of options for the Action Plan, officials are providing advice on the use of price as a mechanism for reducing tobacco consumption and smoking rates, within a comprehensive strategy to support smokers to quit and prevent initiation, including:
 - i. addressing tobacco industry tactics to minimise the impact of the price increases on consumers
 - ii. setting minimum or standardised prices for tobacco products
 - iii. establishing an industry levy, analogous to the alcohol industry levy, to fund harm-reduction initiatives
 7. **note** the Minister's intention to proactively release this Cabinet paper.

Authorised for lodgement

Hon Jenny Salesa

Associate Minister of Health