

In-Confidence

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

FINDINGS OF THE EVALUATION OF TOBACCO EXCISE INCREASES

Proposal

1. This paper reports on the findings of the independent evaluation into the impact of the increases in tobacco excise duty.
2. I propose to report back to Cabinet in April 2019, ahead of the Budget, with advice on whether or not the final scheduled 10 percent increase in tobacco excise duty, due on 1 January 2020, should proceed. This timing is to ensure that the fiscal consequences can be considered in line with other tax and expenditure decisions and allow sufficient time for the legislation to be changed if required.

Executive Summary

3. Tobacco consumption and smoking rates continue to decline for all groups of New Zealanders, although significant disparities persist.
4. The Ernst & Young (EY) report concludes that “the weight of evidence shows that increasing the price of tobacco continues to be the single most effective tool for reducing tobacco use”. The report associates the overall fall in smoking rates with the increases in excise tax since 2011, within New Zealand’s tobacco control programme.
5. While the report finds that overall the benefits of taxation exceed the harms, it also finds that some groups, including Māori, Pacific peoples and low-income earners, are relatively less responsive to price increases and are experiencing hardship. The qualitative work finds that people on low incomes who continue to smoke respond to price increases by buying cheaper brands and doing without other household items, including petrol and groceries.
6. The report recommends a continuation of the tobacco excise increases, together with the implementation of a range of complementary tobacco control measures, including better services to support people who are struggling to quit smoking, reducing the number of tobacco retailers and regulating nicotine levels and additives in tobacco products.
7. EY notes that it did not have access to supply-side information, or evidence about the impact of excise on robberies. Its quantitative work was also constrained by a lack of the information that would allow precise estimates of price elasticity (ie, the responsiveness of consumption to changes in price).

8. The EY evaluation has been unable to answer all of Ministers' questions about the negative consequences of the tobacco excise increases, particularly on low-income earners who continue to smoke and the extent to which they are driving an increase in robberies and illicit trade. Officials are considering what further data collection and monitoring needs to be put in place by departments.
9. I will report back to Cabinet in April 2019 with advice on the final scheduled tobacco excise increase, which is due for implementation on 1 January 2020. This report-back will include proposals to improve data collection and monitoring of the impact of the excise increases.

Background

10. Reflecting the Government's concerns about the unintended consequences of tobacco excise increases, Cabinet agreed on 4 December 2017 to an "independent study into the effect on tobacco consumption of increasing prices and excise duties, with particular reference to the impacts on tobacco consumption amongst Māori women, Pasifika people and young people under the age of 18" [CAB-17-MIN-0525 refers].
11. The Tax Working Group included in its September 2018 interim report a chapter on "Corrective Taxes". The chapter notes that the tobacco excise tax is regressive in that "the heaviest burden of the excise increases will be borne by low income earners who continue to smoke". It also suggests that the effectiveness of the excise increases may be reducing, and recommends that "the Government prioritise other measures to help people stop smoking before considering further large increases in the tobacco excise rate".
12. The evaluation was undertaken by EY. The final report was due by the end of September 2018, so that it was available when Cabinet considered the annual indexation adjustment to tobacco excise duty. Officials have been working with EY to better understand the methods used, and to improve aspects of the analysis and presentation, before accepting the final report (which was received on 27 November).

New Zealand's tobacco control programme

13. New Zealand has a goal to be smokefree by 2025. This is generally agreed to mean that fewer than five percent of New Zealanders will smoke daily.
14. Smokefree 2025 is underpinned by New Zealand's tobacco control programme, which is consistent with international best-practice. It includes excise duties on tobacco, smokefree indoor workplaces and other public places, a prohibition on sales to under 18-year olds, prohibitions on advertising and retail display of products, and support for smokers to quit. The programme is evolving to keep up with technical and social changes, for example, the need to develop regulatory controls on vaping.
15. Since 2011, tobacco excise has increased by 10 percent each year, on top of the annual indexation adjustment made to keep pace with inflation. The 10 percent increase is mandated in legislation, and is set for the next two years (ie, there will be two further annual cumulative increases of 10 percent on 1 January 2019 and 1

January 2020). These increases reflect international consensus that raising price is a vital part of a comprehensive tobacco control programme.

16. Tobacco consumption and smoking rates are continuing to reduce for the New Zealand population, with more people quitting, fewer taking up smoking, and smokers on average smoking less. New Zealand Health Survey data released in November 2018 shows “current smoking” rates¹ for all New Zealanders have fallen to 14.9 percent in 2017/18, down from 15.7 percent in 2016/17.
17. The proportion of young people who have ever smoked, or who are daily smokers, has 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 3.2 percent in 2016/17. Similarly, smoking rates among Year 10 students (14 to 15 year olds) have fallen from 8.2 percent in 2006 to 2.1 percent in 2017.
18. However, disparities persist across all age groups, with Māori, Pacific peoples and low-income earners continuing to have higher smoking rates than others. These groups and their household budgets bear the brunt of the excise tax increases.
 - 18.1. current smoking rates among Māori have reduced to 33.5 percent in 2017/18 (from 35.3 percent in 2016/17), with Māori women’s rates falling to 36.8 percent (from 38.2 percent) and Māori men’s rates to 29.8 percent (from 32.2 percent)
 - 18.2. current smoking rates among Pacific peoples have fallen to 22.9 percent (from 24.5 percent). In 2016/17, those living in the most deprived areas were almost four times as likely to smoke daily as those living in the least deprived areas.

EY’s report: Evaluation of the Tobacco Excise Increases as a Contributor to Smokefree 2025

Impact on tobacco consumption and smoking

19. The EY report concludes that “the weight of evidence shows that increasing the price of tobacco continues to be the single most effective tool for reducing tobacco use”. The report associates the overall fall in smoking rates with the increases in excise tax since 2011, within the context of New Zealand’s overall tobacco control programme. It recommends that the tobacco excise increases should continue beyond their scheduled end date of 1 January 2020.
20. The report paints a complex picture of how choices are made about smoking and quitting. Many smokers responding to the community survey identified the tobacco excise increases as having changed their smoking behaviours. In the 12 months prior to the survey, 47 percent of people who had tried to reduce or quit smoking and 21 percent of those who had actually quit cited increased price as a reason for changing their behaviour.
21. In the community survey, 55 percent of smokers said they would be likely to quit in the future. 10 percent said they would probably not stop and 5 percent said they

¹ smokes at least once a month; daily smoking rates for 2017/18 will be available in March 2019

would definitely not stop. When considering the impact of the two scheduled future excise increases (1 January 2019 and 1 January 2020), 60 percent of smokers said they would probably buy less (including 64 percent of European/Other respondents and 45 percent of Pacific respondents).

22. The report finds that groups respond differently to price increases. Older people and people of Asian and European ethnicity are generally more responsive to price than Māori and Pacific peoples. In addition, Māori and Pacific peoples respond differently: over the two years prior to the community survey, Pacific households that smoke were twice as likely as Māori households to have stopped buying tobacco because of the price rises, whereas Māori households were more likely to have sought out cheaper brands of cigarettes, found alternative sources of supply, or switched to roll-your-own tobacco.

Negative financial impacts on those who continue to smoke

23. In the community survey, households that smoked reported spending on average 7 percent of their monthly income on tobacco products. Ten percent of respondents 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.
24. Many focus group members reported that there had been occasions when they needed to choose between tobacco and other essential expenses, such as food, rent, utilities and petrol. Most reported that they had dealt with these situations by limiting purchases of other items, such as buying cheaper food and filling their car half up with petrol so that they had enough money to buy tobacco.

Impact on robberies

25. Concerns have been expressed that the tobacco excise increases are incentivising crime, including burglaries of small retailers. However, due to data constraints, EY was unable to assess the impact of the tobacco excise increases on robberies. The New Zealand Police has only recently begun collecting data on the product targeted in robberies.
26. The Police report that there were 944 aggravated robberies across New Zealand between 1 April 2017 and 31 October 2018. This offending primarily targeted dairies, superettes, liquor stores, petrol stations and other small businesses. Money was taken in 67 percent, tobacco in 46 percent and alcohol in 12 percent of these robberies.
27. 350 fog cannons have been installed in small businesses across New Zealand, as part of a Government-funded initiative to deter robberies. Compared with the last nine months of 2017, in the first nine months of 2018 there were 16 percent fewer victims of robbery, 9 percent fewer dairy robberies and 40 percent fewer injuries. The Police expect their prevention-based approach to lead to a continued downward trend.

Impact on illicit trade

28. The EY report finds that there is no robust evidence that tobacco excise increases are resulting in an increase in illicit trade in tobacco. It proposes better data collection and monitoring, using existing health sector surveys to monitor smokers' knowledge, attitudes and behaviours, together with specific surveys of the illicit trade market based on earlier surveys undertaken by Action on Smoking in Health (ASH).
29. Customs considers that an increasing frequency of commercial-sized interceptions of smuggled tobacco is an indicator that illicit trade is increasing, albeit off a low base. There is, however, insufficient information to determine the scale of the increase in the illicit market.
30. Customs agrees with EY that better data would inform a prediction of the trajectory of the illicit market and that there is value in working with the Ministry of Health and the Health Promotion Agency to include questions on attitudes and exposure to illicit supply in regular tobacco surveys.

Overall conclusions

31. The report finds that a continued reduction in tobacco consumption and smoking rates would be expected to follow future price increases for both the total population and sub-populations (eg, Māori, Pacific and low-income earners), resulting in lower health system costs, improved health outcomes, improved productivity, and a reduced financial burden for those who are successful in their quit attempts.
32. However, it also finds that some groups, including Māori, Pacific peoples and low-income earners, are less responsive to price increases than others and are experiencing hardship, including going without or cutting back on essential items such as groceries, petrol and rent.
33. The report highlights the need to minimise the negative impacts of the price rises by providing better support services which meet the needs of those who continue to smoke, even though they want to stop. It also recommends more targeted public information.
34. In addition, the report recommends strengthening New Zealand's tobacco control programme, particularly through supply-side measures to counter activities designed to dilute the impact of the increases, such as:
 - 34.1. minimum pricing strategies for tobacco products
 - 34.2. reducing allowable nicotine levels in tobacco
 - 34.3. removing nicotine, additives (eg, flavours) and innovations that enhance the appeal and addictiveness of tobacco products
 - 34.4. licensing tobacco retailers
 - 34.5. restricting numbers of tobacco retailers, including near schools, churches and other community organisations

- 34.6. exploring an increase to the legal age of supply.
35. EY notes that it was unable to access supply-side information held in the private sector, or evidence about the impact of excise on robberies which the Police has only recently begun collecting. The report also notes that the absence of reliable estimates of illicit tobacco importation and use is a significant gap in available data. Lack of reliable data is a problem in estimating the size of any illicit market.
36. In addition, EY's quantitative work was constrained by a lack of information that would allow precise estimates of price elasticity (ie, the responsiveness of consumption to changes in price), particularly at a sub-population level (eg, for ethnic and socio-economic groups).
37. The evaluation report recommends that government agencies improve data collection to enable better monitoring of the impact of the excise taxes on different groups of New Zealanders (especially Māori and low socio-economic communities) and on crime, including:
- 37.1. collecting more comprehensive data in regular health surveys about the impact of the excise increases on behaviour, perceptions and quitting attempts
 - 37.2. collecting data in regular health surveys about smokers' knowledge, attitudes and behaviours with respect to the illicit tobacco market
 - 37.3. undertaking official surveys to determine the scale of the illicit market, based on the methodology used in surveys done by ASH in 2010 and 2013
 - 37.4. collecting area-level, real-price data rather than national-level recommended retail prices to better understand both industry practices to dilute the impact of the price increases and the relationship between area-level deprivation and tobacco pricing
 - 37.5. centralising the collection of information about tobacco retailing activities, potentially through a licensing scheme, to monitor availability of tobacco at a community level.
38. Officials will provide me with advice on the improvements that should be made to data collection and monitoring systems to ensure that the Government has better information in future. I will include these in the report-back to Cabinet in April 2019.

Next steps towards Smokefree 2025

New Zealand's tobacco control programme

39. New Zealand's tobacco control programme is consistent with international best-practice. It includes excise duties on tobacco, smokefree indoor workplaces and other public places, a prohibition on sales to under 18-year olds, prohibitions on advertising and retail display of products, and support for smokers to quit. The programme is evolving to include regulatory controls on vaping products.

Those who continue to smoke need better support to quit

40. As a next step in tobacco control, the Ministry of Health is working to improve services so that they are more responsive to Māori, Pacific peoples and low-income earners who have high rates of smoking, compared with other groups of New Zealanders.
41. There is evidence, based on recent research with Māori women, about what works to support smokers to deal with the many complex problems they face, including smoking. The Ministry of Health is using this evidence to develop a new approach to contracting stop-smoking services that provides holistic support to individuals and their families.

Other complementary measures are needed to get to Smokefree 2025

42. More needs to be done to reach New Zealand's Smokefree 2025 Goal. Cabinet has already made decisions on the regulation of vaping and smokeless tobacco products, which will be given effect via an amendment to the Smoke-free Environments Act 1990. These changes will ensure that vaping products cannot be sold to under 18-year-olds, advertised or displayed in retail stores, or used in legislated smokefree areas. Product safety requirements will also be set and better public information will be provided.
43. I will also be considering a range of other tobacco control measures, including supply-side interventions. I will consult Ministerial colleagues on these and bring recommendations to Cabinet in 2019 as appropriate.

The 1 January 2020 increase

44. The final legislated 10 percent increase in tobacco excise is scheduled for 1 January 2020. This will proceed automatically unless Parliament amends the Customs and Excise Act 2018. After the 1 January 2020 increase, and if no further policy decisions are taken in response to my April 2019 report-back to Cabinet, tobacco excise will only be adjusted annually to keep pace with inflation (subject to annual agreement by Cabinet).
45. I propose to report back to Cabinet in April 2019 on recommendations for the tobacco excise increase that is scheduled for 1 January 2020. If Cabinet decides at that time not to proceed with the 2020 increase, a legislative amendment would be needed before the end of 2019 and forecast Crown revenue would be impacted.
46. The fiscal implications associated with not implementing the 10 percent excise increase on 1 January 2020 are highlighted in the table below (these numbers assume that a CPI adjustment still occurs).

Crown revenue forgone if there is no tobacco excise rate increase on 1 January 2020

	2019/20	2020/21	2021/22	2022/23
Customs and excise duty	\$20m	\$91m	\$91m	\$91m

Consultation

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

Financial Implications

48. There are no financial implications associated with this paper.

Legislative Implications

49. There are no legislative implications associated with this paper.

Impact Analysis

50. The impact analysis requirements do not apply to this paper.

Human Rights

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

Gender Implications

52. There are no gender implications associated with this paper.

Disability Perspective

53. There are no disability issues associated with this paper.

Publicity

54. I do not propose to proactively make any announcements in relation to the EY report.

Proactive Release

55. Given the likely high level of public interest, it is important that the full evaluation process is transparent. I propose, therefore, to proactively release this Cabinet paper, together with the two draft and final versions of the EY evaluation report, as well as officials' feedback to EY on the drafts and EY's responses.

Recommendations

56. The Associate Minister of Health (Hon Jenny Salesa) recommends that the Committee:
1. **note** that the Ministry of Health commissioned EY to undertake an independent evaluation of the effects of tobacco excise on tobacco consumption and smoking rates, as well as the potential negative consequences associated with the tobacco excise increases
 2. **note** that the EY evaluation concludes that the weight of evidence shows that increasing the price of tobacco continues to be the single most effective tool for reducing tobacco use and recommends that the excise increases be continued beyond their scheduled end date of 1 January 2020
 3. **note** officials' view that the data is insufficient to support such a strong recommendation, particularly for Māori, Pacific peoples and low-income earners
 4. **note** that the EY evaluation finds that some groups, including Māori, Pacific peoples and low-income earners, are less responsive than others to tobacco price increases and are experiencing hardship as a consequence of the excise increases
 5. **note** that the EY evaluation supports the need for improved support services for those who are finding it hard to quit smoking, even though they may want to quit
 6. **note** that the EY evaluation was constrained by a lack of robust data to assess:
 - a. the responsiveness of sub-populations to the price increases
 - b. the impact of the excise increases on robberies and illicit trade
 - c. the impact of tobacco-industry tactics on price rises
 - d. the relationship between area-level deprivation and tobacco pricing.
 7. **agree** that officials consider and respond to the recommendations in the EY report for improving data collection and monitoring of the impact of the excise increases
 8. **note** that the final legislated 10 percent tobacco excise increase is scheduled for 1 January 2020
 9. **invite** the Minister to report to Cabinet in April 2019 with recommendations for the 1 January 2020 tobacco excise increase and proposals to improve data collection and monitoring

10. **note** that the Minister is considering a range of other tobacco control measures, including supply-side interventions, and will consult Ministers on these in the New Year with a view to bringing recommendations to Cabinet in 2019 as appropriate

Authorised for lodgement

Hon Jenny Salesa

Associate Minister of Health