

# **Smokefree Coalition submissions to the Finance and Expenditure Committee on the Budget Policy Statement 2006**

## **1. BACKGROUND**

The Smokefree Coalition (SFC) is a charitable trust, originally established in 1995. It exists to advocate for more effective tobacco control interventions from the government and other agencies.

Its vision is of a smokefree New Zealand but within a legal framework where smoking remains a legal activity.

There is strong scientific evidence that reducing the prevalence of smoking among the population will have beneficial effects for the health of individuals and the community as a whole.<sup>1</sup>

We are here today to submit that:

- 1 *there should be an immediate substantial increase in the taxation of tobacco, and,***
- 2 *there should be regular and predictable annual increases in tobacco taxation which are significantly greater than any rise in the prevailing consumer price index (CPI), and,***
- 3 *a significant proportion of the taxation revenue raised from this source should be used to fund improvements in tobacco control (so that the ethical basis for using tobacco taxation to prevent uptake and promote quitting is strengthened).***

## **2. SUBMISSIONS**

### ***The problem***

There is no doubt that smoking kills. It is one of the largest causes of preventable death (to say nothing of disease) in the world.

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<sup>1</sup> "Counting the costs of tobacco and the benefits of reducing smoking prevalence in NSW", Collins DJ (Department of Economics, McQuarrie University) and Lapsley HM, School of Medicine, University of Queensland. 2005.

Tobacco use is the leading cause of preventable death in New Zealand, accounting for around 4300 to 4600 deaths per year.<sup>2</sup> Half of the people who smoke today will eventually be killed by tobacco.<sup>3</sup> Half of them will die in middle age.<sup>4</sup> Second-hand smoke is estimated to cause around 350 deaths per year<sup>5</sup> (though this figure may start to decline with the recent legislation).

To put this death burden into context – it means that fourteen New Zealanders will die today, and every day, of smoking-related illness. In the time that it takes for this committee to hear evidence on the budget policy statement, at least one New Zealander will have died from a smoking-related illness.

It should be the role of policy makers when faced with this reality to actively discourage the use of tobacco and tobacco products. Indeed, all New Zealand governments in recent decades have had the position of wanting to lower smoking prevalence.

### ***The solution***

There is strong scientific evidence for price as a key economic tool to discourage smoking uptake by youth as well as acting as an incentive for people to quit smoking.<sup>6</sup> In this regard we see the use of taxation as a legitimate measure to increase the price of tobacco products and thereby reduce smoking rates.

The last increase in tax on tobacco products was in 2000. The tax increase raised the price of tobacco products by approximately 14 percent (one dollar per pack of 20 cigarettes). Tobacco companies added further price increases, resulting in an overall price increase of approximately 20 percent.<sup>7</sup> However, over time, this increase has devalued. Consequently the real price of cigarettes remains unchanged from its 2000 base and, with the increase in real wages in that time, cigarettes have gradually become relatively more affordable.

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<sup>2</sup> Peto, R., Lopez, A., et al. (2000). *Mortality from Smoking in Developed Countries 1950 – 2000: Indirect estimates from national vital statistics*. New York: Oxford University Press.

<sup>3</sup> World Health Organization. *Why is tobacco a public health priority?* Tobacco Free Initiative. Retrieved on 23 January 2006 from [http://www.who.int/tobacco/health\\_priority/en/print.html](http://www.who.int/tobacco/health_priority/en/print.html).

<sup>4</sup> Peto, R., Lopez, A., et al. (2000). *Mortality from Smoking in Developed Countries 1950 – 2000: Indirect estimates from national vital statistics*. New York: Oxford University Press.

<sup>5</sup> Woodward A, Laugesen M (2001) How many deaths are caused by second-hand cigarette smoke? *Tobacco Control*. 10, 383-8.

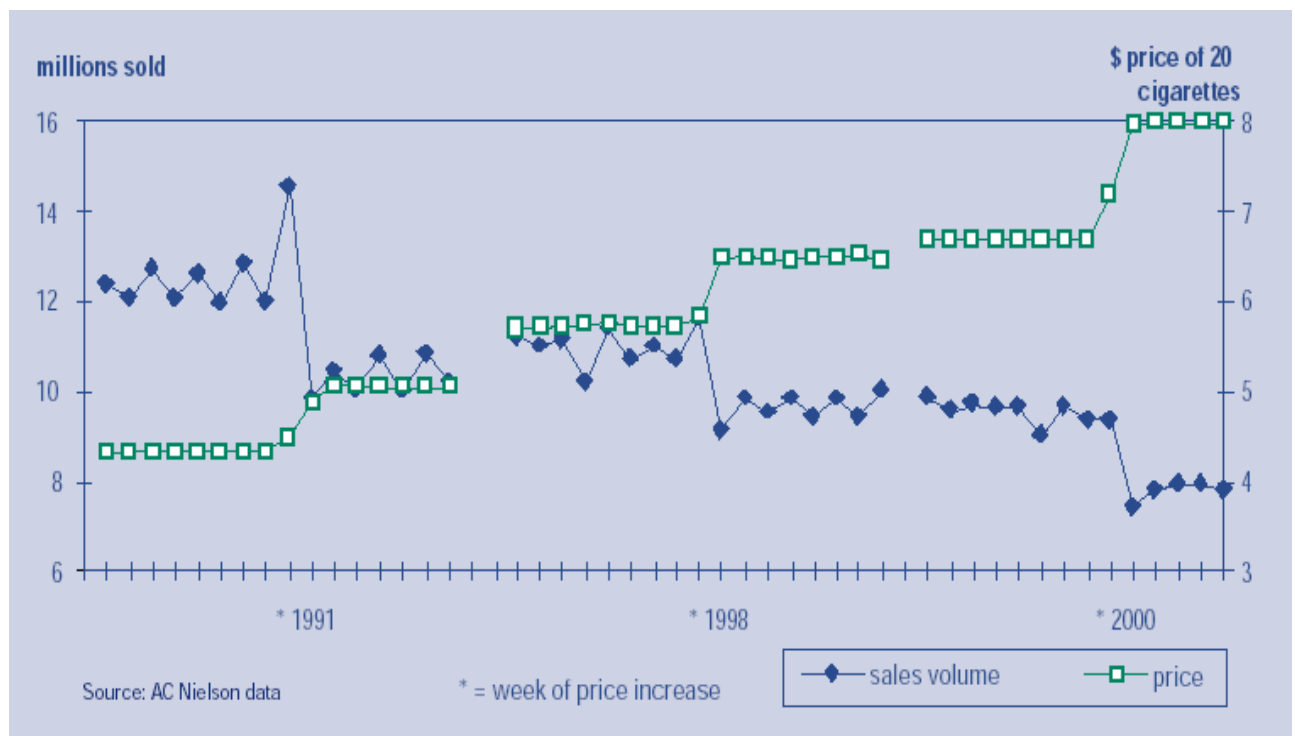
<sup>6</sup> "Higher Tobacco Prices and Taxes in South East Asia, An Effective Tool to Reduce Tobacco use, Save Lives and Generate Revenue – HNP Discussion Paper, Economics of Tobacco Control Paper no 11; Guindon E, Perucic A, Boisclair D, The World Bank, October 2003.

<sup>7</sup> Ministry of Health. Tobacco Tax – the New Zealand Experience. Ministry of Health: Wellington.

The World Bank concludes in a 1999 report that, on average, a price rise of 10 percent would be expected to reduce demand for tobacco products by about 4 percent in high income countries and about 8 percent in low and middle income countries. Also, that the impact would be significant among youth.<sup>8</sup>

New Zealand's experience is no different. A Ministry of Health document *Tobacco Tax – The New Zealand Experience* shows a clear relationship between price and consumption, where an increase in price shows a corresponding drop in sales.

**Manufactured cigarette sales before and after the Budgets of 1991, 1998 and 2000 (using data from supermarket checkouts). From *Tobacco Tax – The New Zealand Experience*.**



### ***The arguments around tobacco tax increases***

As a counter to increasing tax on tobacco, it is often argued that current taxation meets the immediate health-related costs for those who smoke. This argument ignores the full costs of tobacco and the benefits of reducing smoking prevalence. In 1997, economist Brian Easton estimated the annual

<sup>8</sup> "Trends and affordability of cigarette prices: ample room for tax increases and related health gains"; Guindon GE, Tobin S, Yach D; World Health Organisation, 30 November 2001

cost of tobacco use in New Zealand to be \$22.5 billion.<sup>9</sup> This is considerably more than the current annual tobacco tax-take, which is around 900 million.

A recent New South Wales study provides a useful insight to this issue<sup>10</sup>. New South Wales has a population of around 6.7 million people.

This report (among other things) concludes that:

- i. the total social costs of smoking in NSW in 1998/99 were about \$6.6 billion.
- ii. of these costs 27.1% were tangible and 72.9% intangible (loss of life).
- iii. 45% were avoidable with appropriate public policy
- iv. individuals bore 58% of total tangible costs, business bore about 29%, and governments 13%. Individuals bear 100% of the intangible costs.

### ***The economic gains from effective tobacco control interventions***

The report estimates the benefits from a five percent reduction in smoking prevalence over five years at a conservative figure of \$2.366 billion to a most plausible (not most favourable) figure of \$5.835 billion. (These figures are assumed as accruing over the whole of a twenty-year period).

Besides longer and better quality lives, tangible economic gains come from increased productivity, reduced absenteeism and an increased workforce with consequent increased tax revenue and incomes; and reduced health, fire, insurance and other costs.

The authors support the adoption of the conservative assumption for the purposes of policy discussion. This report is helpful to inform debate and can be used with confidence when making policy decisions.

### ***Conclusions***

It is clear that tobacco price increases reduce the incidence of smoking in the population.

It is therefore our position that this committee, to promote economic and health gains, should recommend to the Government that there be an immediate and substantial increase in taxation on tobacco products in this year's budget.

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<sup>9</sup> "The Social Costs of Tobacco Use and Alcohol Misuse." Easton B, Public Health Monograph, Wellington: Department of Public Health, Wellington School of Medicine, 1997.

<sup>10</sup> Counting the costs of tobacco and the benefits of reducing smoking prevalence in NSW", Collins DJ (Department of Economics, McQuarrie University) and Lapsley HM, School of Medicine, University of Queensland. 2005.

A significant proportion of the increased tax take should be directed to tobacco control initiatives such as health promotion, smoking cessation, enforcement and research.

In the case where the Committee feels unable to go that far (though we can see no good reason why that would be the case) this submission will serve as notice that this matter is a key issue for the tobacco control community. The price of tobacco products must become, and remain, relatively expensive thus discouraging new entrants and encouraging smokers to quit.

Thank you for your attention to this issue.