

Options Stage Regulation Impact Statement (RIS) – Increase excise and excise-equivalent customs duty on tobacco and tobacco products

Context

It is widely acknowledged that smoking is one of the leading preventable causes of death and disease in Australia. According to the World Health Organization (WHO), the International Agency for Research on Cancer (IARC) and the World Bank, increasing tobacco prices (through effective taxation) is one of the most effective measures that governments can take to reduce the prevalence of tobacco consumption and smoking related harm in the community.

A number of reforms in tobacco taxation have occurred in recent years. In response to the recommendations of the National Preventative Health Taskforce, a group of Australia's leading public health experts, on 30 April 2010 the Government increased the excise and excise-equivalent customs duty applying to cigarettes and tobacco products by 25 per cent. In the 2013-14 Budget, plans to index tobacco excise and excise-equivalent customs duty to Average Weekly Ordinary Time Earnings (AWOTE) instead of the consumer price index (CPI), were announced. Six-monthly AWOTE indexation will commence on 1 March 2014 instead of 1 February because of the later availability of AWOTE statistics.

All Australian Governments have agreed to work towards reducing daily adult smoking to 10 per cent by 2018, and to halving daily smoking among Aboriginal and Torres Strait Islander people within the same period.

The National Tobacco Strategy 2012-2018 includes priority area 6 "Continue to reduce the affordability of tobacco", under which priority action 6.3.2 is "Continue to implement regular staged increases in tobacco excise as appropriate, to reduce demand for tobacco".

Problem

Despite significant efforts made by Australian Governments in recent years to reduce tobacco consumption through a comprehensive suite of tobacco control measures, tobacco consumption continues to have serious health and economic impacts for individuals, their families and society. In 2010, about 15.1 per cent of Australians aged 14 years or older still smoked daily. Smoking among Aboriginal and Torres Strait Islander people is more than double that in the general population with about 45 per cent of Aboriginal and Torres Strait Islander people over the age of 15 years smoking daily. The social and economic costs of tobacco use in Australia are estimated at about \$31.5 billion each year and smoking is estimated to account for 8.3 per cent of the total burden of disease and injury in Australia. Annually, over 750,000 hospital bed days are attributable to tobacco-related diseases. An estimated 15,000 Australians die each year of smoking-related illnesses.

The benefits that smokers receive from smoking may include immediate pleasure, control of stress, improved self-image and the avoidance of withdrawal symptoms. The costs borne by smokers are economic and health related. Smoking is highly addictive and as such, expenditure on tobacco products can add considerably to the expenditure of the smoker and their household. Lower income households are particularly vulnerable to the opportunity cost of expenditure on tobacco products. Tobacco may replace food and other essential goods and

services for the family. The health impact of tobacco consumption also puts pressure on family budgets and reduces the income-generating potential of the household.

Tobacco use leads to serious illness and premature death. Tobacco is a major cause of heart disease (including heart attack), lung cancer, chronic obstructive pulmonary disease (including emphysema) and stroke. Giving up smoking considerably reduces the chances of serious disease and smoking cessation is beneficial at any age. When smokers quit, the risk for a heart attack drops sharply after just one year; stroke risk falls to approximately the same as a non-smoker's after two to five years; risks for cancer of the mouth, throat, oesophagus and bladder are halved after five years; and the risk of dying from lung cancer drops by half after 10 years.

The National Preventative Health Strategy Report *Australia: the healthiest country by 2020* released in September 2009 recommended a sequence of increases in tobacco excise on public health grounds. Specifically, it identified reducing the affordability of tobacco products as a key action area to reduce tobacco consumption and the prevalence of smoking by deterring young people from taking up smoking, encouraging smokers to quit, or at least reduce consumption. The Report recommended increases in tobacco excise, above normal indexation, of 7.5 cents per stick (29 per cent) in the first year followed by 2.5 cents (7.5 per cent) and then 7.5 cents (21 per cent) in subsequent years. These incremental increases would have resulted in a 68 per cent overall increase in the excise rate. The Government has already applied the first increase above normal indexation, increasing tobacco excise by 25 per cent from 30 April 2010.

Research shows that due to the addictive nature of tobacco use, small price increases, over time, have a limited effect on consumption and smoking prevalence. However, sharp increases in prices have been shown to be linked to sharper declines in tobacco consumption.

As a percentage of the retail price of tobacco products, taxes are still relatively low in Australia. The WHO recommends that tobacco excise taxes account for at least 70 per cent of the retail prices for tobacco products. According to the 2013 WHO report on the global tobacco epidemic, excise tax as a percentage of the average price of the most popular brand of 20 cigarettes in Australia is around 51 per cent.

As at April 2013, excise and customs duty on tobacco products in Australia was ten per cent lower than in New Zealand. By 2016, without further real increases in Australia, rates of excise/customs duty in Australia will be less than two thirds those of New Zealand.

Objective

To reduce the prevalence of tobacco smoking in Australia.

A Post Implementation Review of the impact of the 25 per cent excise increase in April 2010 compared consumption immediately prior to the increase with consumption two years later. It showed a decrease in consumption of tobacco by 11 per cent, as demonstrated through tobacco imports. Further increases are likely to result in additional reductions in tobacco consumption.

Option 1: Continue indexation of excise and excise-equivalent customs duty on tobacco and tobacco products without any increase beyond the AWOTE change

This option would maintain the status quo. The first AWOTE indexation applying to excise and excise-equivalent customs duty on tobacco and tobacco-related products, will be on 1 March 2014.

Based on the average historical difference between annual AWOTE and CPI movements, the cost of a typical packet of 25 cigarettes will increase by 15 cents with AWOTE indexation compared with 7 cents under the previous CPI indexation.

Gradual increases in tobacco indexation will encourage some smokers to quit. However, many smokers may not be deterred by small increases.

Option 2: Increase the excise and excise equivalent customs duty on tobacco and tobacco products with staged increases in duty over 4 years

This option would substantially increase the excise and customs equivalent excise duty on tobacco and tobacco-related products, but implement the substantial increase over 4 years with equal changes each year on 1 December beginning on 1 December 2013.

This option would increase excise each year for four years by between 10 per cent and 12.5 per cent. A staged increase of 10 per cent each year would immediately increase the cost of a packet of 20 cigarettes by \$0.79 while after 4 years the cost of the packet would rise by \$4.12. With a 12.5 per cent staged increase, the packet cost for 20 cigarettes would rise immediately by \$0.98 and eventually by \$5.25

Option 3: Increase excise and excise-equivalent customs duty on tobacco and tobacco products with a one-off increase in tobacco excise

Option 3 is the light handed option with a one-off increase in excise proposed. It would increase the excise and excise-equivalent customs duty on tobacco and tobacco-related products from 1 December 2013. A sub-option is to defer the start date to 1 July 2015.

This option would increase excise duty by between 10 per cent and 25 per cent. A 10 per cent increase would immediately increase the cost of a packet of 20 cigarettes by \$0.78 while a 25 per cent increase would add \$1.95 to the packet cost.

The first indexation increase using AWOTE will apply to this increase for tobacco and tobacco-related products and will be on 1 March 2014.