

May 2000: More funding for smoking cessation services

The New Zealand Government recently announced an approximate 40 percent increase in funding for tobacco control activities in New Zealand, focusing on boosting smoking cessation services. The total increase is \$11.18 million per annum.

This is allocated as follows:

- \$5 million per annum to boost current programmes, and provide new programmes, aimed at helping Māori to quit

smoking. The exact mix of smoking cessation services has not yet been decided but will include both population health and individual health initiatives.

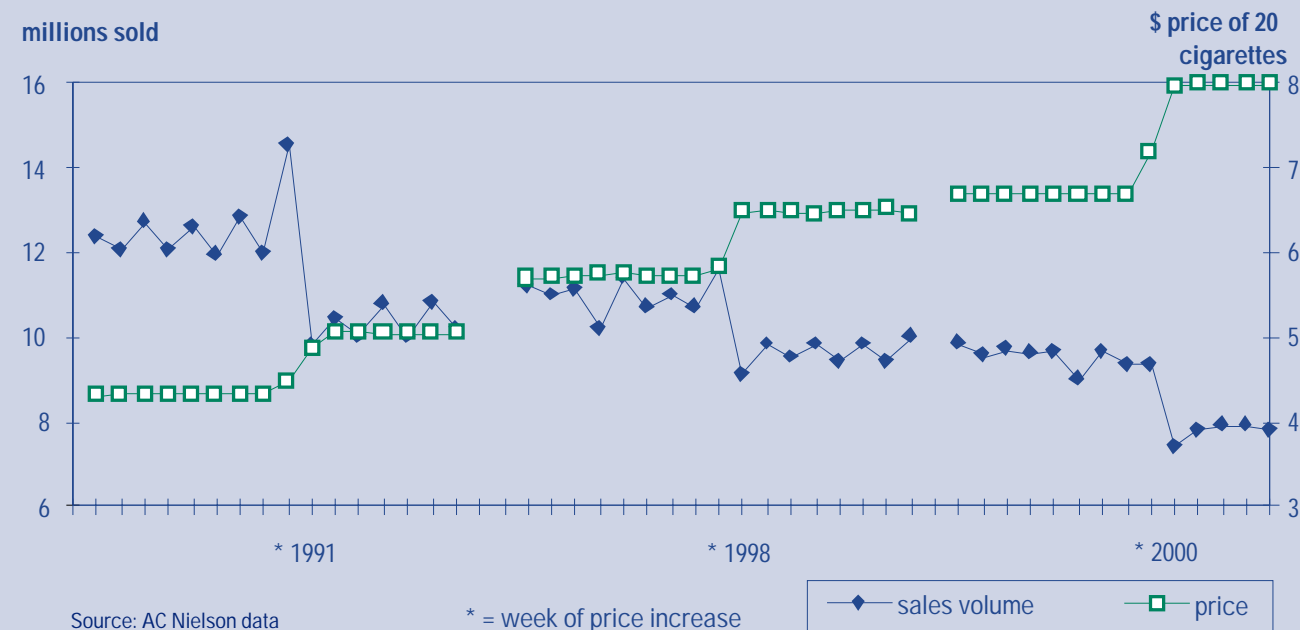
- \$6.18 million per annum for subsidising nicotine patches and gum for heavier smokers (people will pay only the approximate price of a packet of 20 cigarettes per month's supply of patches or gum). It is proposed that people obtain "exchange cards" from the national telephone Quitline and that these be redeemable at outlets that sell nicotine replacement therapy (NRT).

In addition, consideration is being given to allowing NRT to be sold by supermarkets and other retail outlets. Currently, NRT is only available in pharmacies.

Tax and tobacco consumption

The following figure shows that tobacco tax increases lead to immediate and permanent falls in cigarettes sold.

Figure 3: Manufactured cigarette sales before and after the Budgets of 1991, 1998 and 2000 (using weekly data from supermarket checkouts)



Taxation and the cost of smoking

- Excise tax is 24 cents per cigarette (11 US cents), and GST 4.7 cents per cigarette.
- A packet of 20 cigarettes costs around \$NZ8.50, meaning a 20-a-day habit costs over \$3,000 per year (double what it cost in 1990).
- Each cigarette costs around 42 cents (up from 21 cents in 1990).
- It takes 29 minutes at the average wage to earn enough to buy a packet of cigarettes (up from 17.5 minutes in 1990).
- For the price of a Big Mac a smoker can buy only 8.5 cigarettes (down from 12 cigarettes in 1995).

Tobacco Tax – The New Zealand Experience

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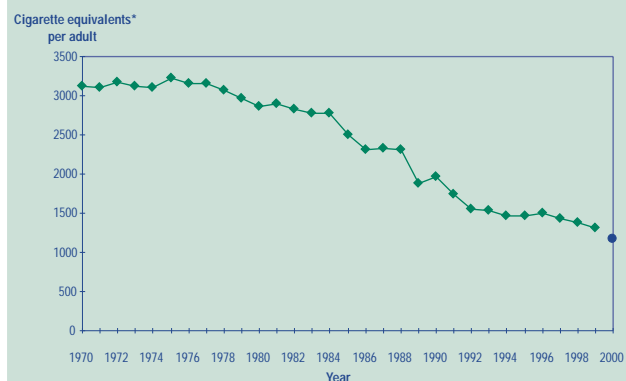
Tobacco control in New Zealand

New Zealand has implemented a comprehensive tobacco control programme in line with World Health Organization recommendations. Key facets of the programme are:

- tobacco legislation and enforcement
- smoking cessation services
- health promotion
- tobacco taxation.

Between 1970 and 1999, tobacco consumption per adult fell almost 60 percent. In 1999, the equivalent of 1312 cigarettes per adult were released for consumption – a one-third drop in consumption since 1990 (see figure 1). However, the prevalence of smoking has remained reasonably constant over the 1990s at around 26 percent of the adult population. Of particular concern is the fact that almost half of all Maori adults smoke.

Figure 1: Cigarette equivalents* per adult aged 15 years and over, released for consumption 1970–99



Source: Statistics New Zealand.

*One cigarette equivalent equals one manufactured cigarette or one gram of loose tobacco.

Year 2000 figure is projected, based on supermarket data (only) for April to June 2000.

December 1995: equalisation of tax

In December 1995, the excise on roll-your-own tobacco, cigars and pipe tobacco was equalised (on a weight for weight basis) with the excise on manufactured cigarettes.

Previously there had been an unintended price incentive for smoking tobacco products other than manufactured cigarettes. Equalising the tax meant a 37.5 percent increase in the excise on tobacco products other than manufactured cigarettes.

After the December 1995 tax increase, manufactured cigarette consumption increased 4 percent while loose tobacco consumption decreased 18 percent. Total consumption remained almost unchanged.

May 1998 tax increase

In May 1998, there was a tax increase equating to a 10 percent increase in the price of all tobacco products (56 cents per packet of 20 cigarettes). As a result, loose tobacco consumption increased 2 percent and manufactured cigarette consumption decreased 8 percent. Total consumption decreased by approximately 6 percent.

Figure 2 shows per capita consumption (annualised from 10 months of data) before and after the December 1995 and May 1998 tax changes.

May 2000 tax increase

In May 2000 the tax on tobacco products was again raised, increasing 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.

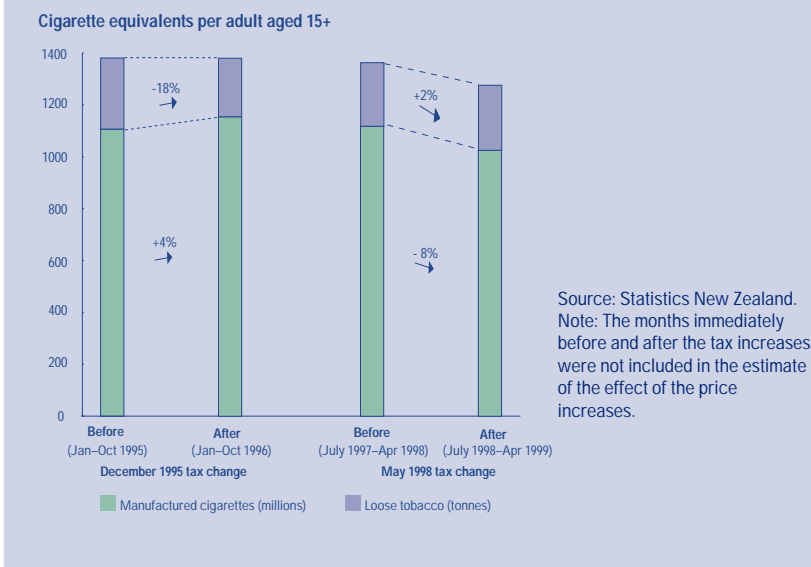
While it is too early to judge the long-term effect that this tax and price increase will have on

tobacco consumption, the following factors indicate that the effect on tobacco smoking has been marked and is likely to be sustained.

- There were 16,000 calls to the national telephone Quitline in May 2000, compared with around 6,000 in other months and an expected maximum of 10,000 in May.
- A comparison of supermarket sales data for the nine weeks before the May tax increase, compared with the five weeks afterwards, showed a 16 percent reduction in volume sales. This was divided up as follows:
 - manufactured cigarette volume sales fell 19 percent and dollar sales fell by 3 percent
 - loose tobacco sales fell by 5 percent and dollar sales rose 15 percent.

This equates to approximately 2 million fewer cigarettes a week sold in supermarkets, and if extrapolated to all other outlets, 12 million fewer sold per week.

Figure 2: Loose tobacco and manufactured cigarette consumption before and after tobacco tax changes in December 1995 and May 1998.



Source: Statistics New Zealand. Note: The months immediately before and after the tax increases were not included in the estimate of the effect of the price increases.

New Zealand in the world – Tax as a percentage of the price of 20 cigarettes (includes excise and VAT)

Tax generally makes up between 67 and 72 percent of the price of a packet of cigarettes in New Zealand, depending on the final price.

Denmark	85%
Portugal	81%
Norway	78%
UK	77%
Ireland	76%
France	75%
Belgium	75%
Finland	74%
Italy	73%
New Zealand	67–72%
Australia ¹	72%
Greece	72%
Netherlands	72%
Germany	72%
Argentina	70%
Sweden	69%
Luxembourg	69%
Canada	64%
Japan	60%
Republic of Korea	60%
Switzerland	50%
USA	30%

All data from WHO unless otherwise stated. *Tobacco or Health: A Global Status Report. 1997.* Geneva: World Health Organization.

¹ Advice from Australian officials (post introduction of GST)

Tobacco tax

New Zealand's excise on tobacco products is indexed to the consumer price index (CPI) and adjusted annually to keep the real price of tobacco relatively consistent over time. Goods and Services Tax (GST) of 12.5 percent also applies on top of the final price.

Since 1995 New Zealand has had three non-CPI-related tobacco excise increases.