

POSITION STATEMENT

Taxation of tobacco products in Australia



Summary Statement

Smoking is the number one preventable cause of death and disease in Australia. Tax increases on tobacco products are the single most effective means available to governments to reduce tobacco consumption and prevalence and therefore reduce death and disease due to smoking.¹ Importantly:

- Tax increases are one of the few policy measures that will reduce tobacco use more in low than in high-income groups.
- The Cancer Council recognises that some smokers will find it difficult to quit even with the encouragement of regular price increases. Therefore, the Cancer Council acknowledges that it will be essential for tax increases to be accompanied by comprehensive strategies to discourage smoking and support quitting, especially targeting low SES groups. In particular, it would be highly desirable to ensure that all smokers are able to afford clinically appropriate treatments to assist with managing withdrawal symptoms during smoking cessation.
- The World Health Organization recommends that when government revenue increases from increases in tobacco taxes, extra funding should be provided for services and treatment to help smokers to quit. This recommendation is based on considerations of health, economic efficiency, social justice and political acceptability and is supported by the Cancer Council.
- The excise and customs duty payable on cigarettes in Australia has not increased in real terms since 2001 and there is evidence that fewer people may be attempting to quit smoking in recent years than in the 1990s during which time prices increased frequently and substantially.
- The percentage that taxes comprise of the total price of cigarettes in Australia remains low relative to many other countries. Tobacco products in Australia are substantially cheaper than they are in most comparable English-speaking countries.

Recommendations

The Cancer Council supports an increase in tobacco excise and customs duty so that the prices of tobacco products in Australia move as quickly as feasible to international best practice. This might involve:

- an immediate increase in the excise and customs duty of 7.5 cents per cigarette stick, taking the price of tobacco products to the level they would have been had the government pursued a policy of increasing excise duty so that prices had increased by at least five per cent per annum since 1999; and then
- further increases over the following 3 years adding a further ten cents per stick in excise and customs duty, to ensure that the average price for a packet of 30 cigarettes is no lower than \$20 (in 2008 \$ terms) by June 2012.

It is essential that the increase in excise and customs duty be accompanied by:

- the stepping up of campaigns to discourage smoking;

- the funding and implementation of further programs to support smokers to quit (especially targeting low SES groups);
- measures to ensure all smokers for whom NRT is clinically appropriate are able to afford it; and
- development of measures to minimise growth in tax free and illicit sales of tobacco products in Australia.

Background and current pricing of cigarettes in Australia

In Australia, federal excise or customs duty and the Goods and Services Tax (GST) make up approximately two thirds of the price of a packet of cigarettes.

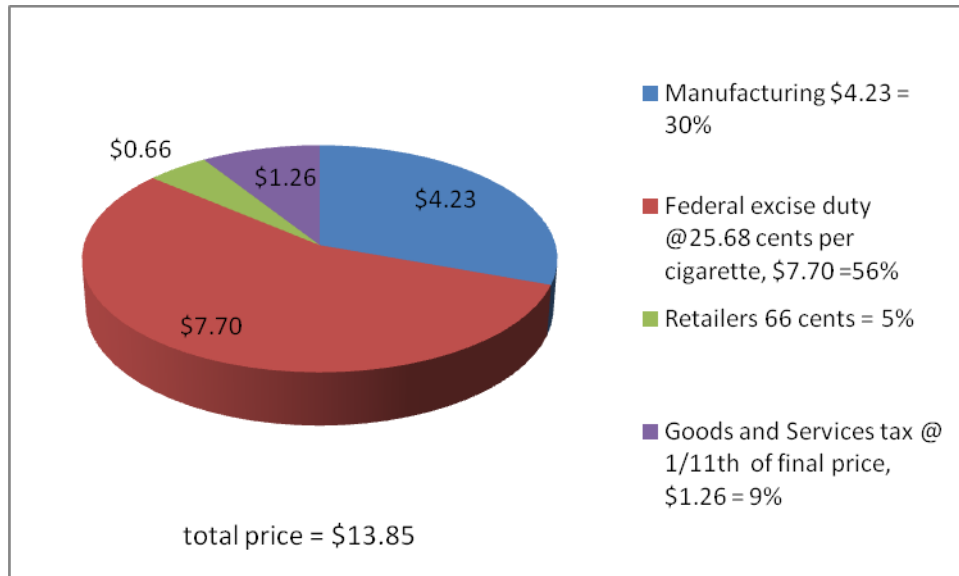


Figure 1. Estimated price breakdown for a pack of Peter Jackson 30s sold at recommended retail prices, May 2009

NSW Retail Tobacco Traders Association. Price Lists. Australian Retail Tobacconist. 2009,69; and Australian Tax Office. Excise duty on tobacco products. Canberra: Australian Tax Office, 2008. Available from: <http://law.ato.gov.au/atolaw/view.htm?docid=PAC/BL030002/1>

Since legislation introduced by the Keating government in 1983,² excise and customs duty on tobacco products have automatically increased twice each year in line with increases in the consumer price index. This has ensured maintenance of revenue from excise and customs duty on tobacco in real terms, and frequent but only very small increases in prices.

Over the 1980s and 1990s, taxes were increased on numerous occasions in addition to the CPI increases, and analysis of trends in smoking prevalence shows that many people quit smoking following each rise in price. Since November 1999, the rate of excise and customs duty applicable to tobacco products has not increased in Australia apart from six-monthly CPI increases.

The recommended retail price for a packet of 30 cigarettes in Australia was \$13.85AUD in May 2009, which is less than the cost of a ticket to the cinema.³ This is equivalent to just over one-third of the average pocket money that 15-year-olds reported receiving each week in a 2005 survey.⁴ Cigarettes in cartons purchased at supermarkets and tobacconists are sold at well below the recommended retail price.

Cigarettes in Australia are less costly than they are in many other countries including Ireland, the United Kingdom, Hong Kong, and most of Canada. Figure 2 shows the average cost of a packet of 30 cigarettes in retail outlets surveyed in Sydney in

September 2008 and the price of 30 cigarettes calculated from the same survey in the largest cities in other English-speaking countries and in Norway.

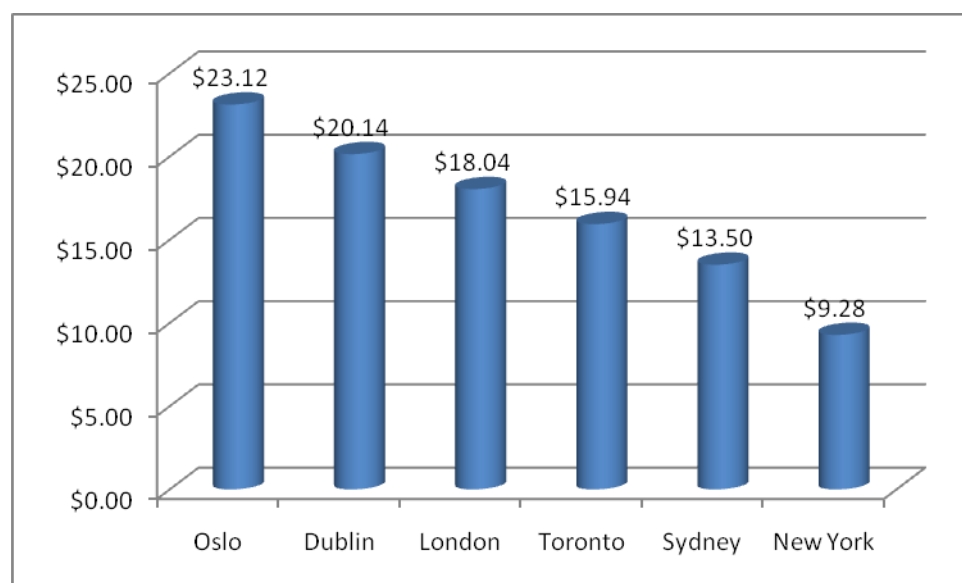


Figure 2. Price of 30 cigarettes, \$AUD, September 2008

Source: Economist Intelligence Unit, August 2008 Tobacco prices, cigarettes medium level stores EIU City data, Last modified January 2008. Available from: <http://store.eiu.com/product/130000213.html?ref=Products>. Popular brands from medium-priced stores

NB. Prices are at Sept 2008 here but for May 2009 for Australia in Figure 1. The biggest-ever increase in excise duty came into force in the United States in April 2009, adding around \$1.00 to the cost of 30 cigarettes.

Taxes on cigarettes in Australia are very low as a proportion of the retail price compared with other high and middle-income countries including both those in and those not in the Organisation for Economic Co-operation and Development (“OECD”).

Australia ranked 30th out of all of the 38 high and upper-middle income countries for which data is available. It ranks 16 among all OECD countries.⁵

At around \$20 for a packet of 30 cigarettes, prices in Australia would come into line with world’s best practice, close to prices in Ireland, England and Scandinavia.

The Evidence

1. Why increase taxes on tobacco products?

The World Bank has stated that tax increases on tobacco products are the single most effective means available to governments to reduce death and disease due to smoking.⁶

This is because the price increases will prompt many people to quit, and remaining smokers to smoke less,⁷ with greater effects on both smoking prevalence and consumption observed among young people and others on lower incomes.⁸

A detailed analysis of changes in smoking prevalence in Australia in the fifteen years since 1990 shows that price increases were by far the most important factor driving reductions in smoking across the whole population over that period.⁹

The government’s National Drug Strategy Household Survey indicates that a smaller percentage of smokers reported attempting to quit in the previous year in 2007 compared with 2001, and that the cost of smoking has declined significantly as a reason for taking action.

Table 1: Percentage of smokers and recent smokers who took action over the previous 12 months and major reasons for action -- 2001, 2004, 2007

Actions	2001	2004	2007
Tried to give up	55.6	51.3	49.5
Tried to reduce amount smoked	48.7	46.5	44.6
Reasons for actions	2001	2004	2007
Advice from doctor	16.8	16	13.9
Anti-smoking advertisements	26.4	20.5	15.5
Health warnings	18.8	16.4	19.4
Smoking restrictions in public places	10.7	9.6	13.7
Costing too much	54	43.9	35.8

Source: AIHW National Drug Strategy Household Surveys, 2001¹⁰, 2004¹¹ and 2007¹²

2. Public support for increases in taxation of tobacco products

Overall, taxes on tobacco products are strongly supported by the majority of the Australian population. People are much more likely to support increases if it is suggested that the extra revenue will be directed towards health programs.

A recent Newspoll survey conducted over the period 5-7 September 2008, showed that 73% of Australian adults were in favour of an increase in tax on cigarettes and other tobacco products and 22% were against. Overall, 88% of Australian adults approved, and 10% disapproved, of a tax increase on cigarettes if most of the extra tax was used to fund health programs to help prevent diseases such as heart disease and cancer.

3. The impact increases in tobacco taxes may have on smoking and tobacco-related disease

When asked in a recent study what they would do if cigarette prices increased by around 50%, almost three quarters of smokers stated that they would try to quit (74%, 75%, and 70% of low, mid and high-SES smokers respectively).¹³ Not all of these smokers would succeed in quitting on their first attempt. However, international experience shows that, on average, a 50% increase in the price of a packet of cigarettes would be likely to result in an immediate 20% reduction in consumption overall.¹⁴ Reduced consumption would be a result of a decline in the numbers of people who smoke and a decline in the number of cigarettes (or amount of other tobacco products) smoked by remaining smokers.

Reduced prevalence of smoking prompted by a tax increase would prevent many thousands of premature deaths and a great deal of disease and disability over the following decades. Modelling of the impact of quitting on deaths and disease shows that for every 1000 smokers who quit, over the following ten years, 40 will have been spared a heart attack, a stroke, or a diagnosis of lung cancer or chronic lung disease, with an estimated saving of 75 quality-adjusted life years.¹⁵ Even greater benefits accrue in the longer term.

Opposing views and why they are countered by the evidence

1. Tobacco tax increase and its effect on people on low incomes

Tax increases are one of the few policy measures that will reduce tobacco use more in low than in high-income groups.¹⁶ A 2008 review of population interventions aimed at reducing tobacco use found that a price increase is the only intervention for which there

is strong evidence of a greater effect on people on low incomes and in lower-status occupations¹⁷

Even among those smokers who do not quit, most will cut down the number of cigarettes they smoke to fit the amount of money they have available to spend on tobacco. The average smoker would need to cut out just two cigarettes each day in order to cope with a 20% increase in the price of cigarettes, and four cigarettes each day if the recommended retail price increased to around \$20. While cutting out a small number of cigarettes would do little if anything to reduce risks to the smoker's health, it may well increase their sense of control over their smoking and improve confidence to make quit attempts in the future.

Additionally, expenditure on tobacco products in low-SES households constitutes a much higher proportion of income and spending than in higher-SES households, thereby reducing the capacity to save and achieve financial security through mechanisms such as home ownership, superannuation and insurance¹⁸ Ill health caused by smoking may also reduce the capacity to maintain employment, particularly in older age. Smokers reporting financial stress are more likely to want to quit than other smokers, but may be less likely to succeed in their quit attempts¹⁹ Being a smoker thus reinforces a vicious cycle of financial stress, chronic illness, reduced accumulation of wealth and the inter-generational transfer of poverty.²⁰

While there is little evidence of this in Australia, it is likely that some heavy smokers already spend less than is optimal on food, clothing and other goods and services. Studies in the US have indicated increased rates of food insecurity for children in households where people smoke.²¹ It is therefore legitimate to ask whether increases in prices of tobacco products could exacerbate financial stress and poor nutrition among highly disadvantaged groups.

In fact World Bank economists have concluded that increasing the price of tobacco is most likely to improve overall welfare of smokers' families, even in places of extreme poverty such as Bangladesh,²² and among highly disadvantaged groups living in developed countries.²³

When prices rise, many smokers quit, with higher proportions quitting among low than high-SES groups.²⁴ In Australia, following tax increases in 1999 to 2001, smoking declined more significantly in blue compared to white collar groups²⁵ Recent Australian research²⁶ confirms that more people on low incomes are likely to quit than people on higher incomes as a result of increases in the price of cigarettes. Over the 15 years until 2006, on average a \$1 increase in the price of cigarettes resulted in a decline of 2.6%, 0.3%, and 0.2% in the prevalence of smoking among low, medium, and high-income groups, respectively.

It is not taxes that cause poverty; it is tobacco use

Costs caused by tobacco use are borne not only by the community as a whole but also by smokers themselves²⁷ and substantial poverty results from, and is perpetuated by, spending on tobacco products.²⁸

For people in highly disadvantaged circumstances, quitting smoking could free them from a lifetime's expenditure on tobacco, allowing them to consider many life-changing possibilities. Reducing smoking in low-SES areas is a very practical measure that could help to prevent the perpetuation of poverty across the generations and should be an integral part of the Government's broader social development strategies.

Taxes are only one part of a comprehensive tobacco control strategy

Because some smokers dependent on tobacco-delivered nicotine will find it very difficult to quit even with the encouragement of regular price increases, it is essential that tax increases be just one part of a comprehensive strategy to discourage smoking and

support quitting.²⁹ Before any significant increase in excise duty (to around \$20 for a packet of 30 cigarettes) it would be highly desirable to ensure that all smokers are able to afford clinically appropriate treatments to assist with managing withdrawal symptoms during smoking cessation. Adding NRT to the Pharmaceutical Benefits Schedule would be one option for making treatment for tobacco dependence affordable for those for whom bupropion and varenicline (the two anti-smoking medicines currently on the PBS) are contra-indicated.

The World Health Organization recommends that when government revenue increases from increases in tobacco taxes, extra funding should be provided for services and treatment to help smokers to quit.³⁰ This recommendation is based on considerations of health, economic efficiency, social justice and political acceptability.

2. The link between tobacco prices and increases in illicit and grey market trade

Before an increase to around \$20 for a packet of 30 cigarettes, further measures should be put in place to prevent an increase in tax-free sales (such as products purchased duty free or over the internet) or in illicit trade (such as counterfeit cigarettes smuggled into Australia or any other tobacco products on which customs or excise duty had not been paid) and to improve enforcement. These measures might include legislation to require “tax paid” markings and tracking of cigarettes in order to prevent an increase in evasion of customs and excise duty. These measures would involve some costs to tobacco companies which would be passed on to consumers, further reducing consumption. Compliance costs to government would be a very small fraction of revenue raised, and easily outweighed by the additional duty that would be collected compared to a situation where evasion was extensive

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