

Tax Working Group Public Submissions Information Release

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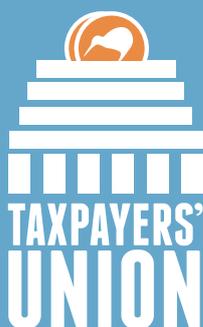
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PASSIVE INCOME

HOW THE GOVERNMENT USES SMOKERS AS CASH COWS



YOUR MONEY, YOUR VOICE

“ To compel a man to furnish funds for the propagation of ideas he disbelieves and abhors is sinful and tyrannical. ”

– Thomas Jefferson



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FOREWORD – JORDAN WILLIAMS

Smoking cigarettes is dangerous. It causes coronary heart disease and produces a carcinogenic chemical, benzo(a)pyrene, which messes around with DNA and causes lung cancer. Of regular smokers, around seven percent will end up with lung cancer.¹

But once people know the facts, have support services made available for them to quit, and, from a taxpayers' perspective, are covering the costs of their habit, what role is it for politicians to tell smokers that 'we know better'?

As uncovered in this report, New Zealand smokers are paying much more than their fair share in revenue for the government. According to the Ministry of Health, excise taxes on smoking far exceeds the additional costs imposed on the health system. As of 2014, tobacco excise and customs duty represented 1.4% of total government revenue.

Here at the *Taxpayers' Union* we are no defenders of 'Big Tobacco' or its lobbyists. But among our thousands of members and supporters there are people who smoke and pay considerable tax for the same. They resent politicians, officials and busy bodies treating them as cash cows and given the figures contained in this report, I don't blame them.

This is our first report on tobacco taxes. Our international equivalents have done a lot more work in this area. The *Australian Taxpayers' Alliance* cites high excise taxes and plain packaging as the primary cause of Australia's enormous illicit tobacco problem. According to KPMG around 14.5% of tobacco consumed across the Tasman is illicit – funding gangs and other criminal activity. Continued excise tax hikes risk replicating Australia's black market tobacco problem here.

As with sugar taxes, which we looked at in a report published last year, there is evidence that public health groups appear to have morphed into political campaign organisations.²

Despite being publicly funded the groups ignore the usual quality safeguards of the scientific method and public sector neutrality. At a minimum the Government should be requiring those groups to provide the public with unbiased information and stop using taxpayer money to fund 'sock puppetry' – a practice where the Government funds agencies to lobby itself.

- 1 American Cancer Society. *Lifetime Risk of Developing or Dying From Cancer*. Updated 10/01/14. <http://www.cancer.org/Cancer/CancerBasics/lifetime-probability-of-developing-or-dying-from-cancer>
- 2 See *Fizzed out: why a sugar tax won't curb obesity*, available at http://taxpayers.org.nz/fizzed_out

**MAKING PEOPLE AWARE
OF THE DAMAGE DONE
BY SMOKING, AND
LETTING PEOPLE MAKE AN
INFORMED CHOICE AS TO
WHETHER TO SMOKE, HAS
TURNED INTO EFFORTS TO
MAKE THE DECISION FOR
THEM.**

The report also tracks how the focus of ‘public health’ has morphed. Public health once meant vaccinations, sanitation and education. It was ‘public’ only in the sense that it protected people from contagious diseases carried by others. Increasingly this branch of medicine (and its funding) is used to promote the regulation of private behaviour and private property. When our health system needs every dollar it can get, money spent on television ads reminding Kiwis what we already know, we say, is money wasted.

We note with sadness the unwillingness of New Zealand’s political establishment to seriously discuss John Stuart Mill’s harm principle and the morality of the government legislating to save people from themselves. More and more our members are contacting us about the sensibility (and the cost to taxpayers) of a raft of increasingly intrusive paternalist laws introduced ‘for our own good’. Sugar is now ‘addictive’, ‘toxic’ and must be banned near schools and hospitals. ‘Big Food’ is the new ‘Big Tobacco’. The anti-smoking blueprint of advertising bans, tax rises and ‘denormalisation’ provides a roadmap for action.

When I was in Year Eight, my teacher, Miss Jenkins, showed our class two sets of model lungs. One, designed to demonstrate what a healthy lung looks like, the other blackened to show the effects of smoking. The graphic and disturbing models underlined a very memorable lesson drummed into all young New Zealanders: smoking is terrible for your health.

Yet somehow, our Government insists on spending many millions on groups to advertise, lobby and remind us adults what we already know. Is that really the best use of the taxpayer money allocated to health?

Who are these people getting the proceeds and what do they do? How much cash needs to be thrown at ‘teaching’ the effects of smoking before the government will get the message – just because you tell someone something is bad for them, doesn’t mean they’ll change their ways. 600,000 New Zealanders are choosing to smoke anyway.

It is time to re-evaluate our healthcare spending priorities and direct tax dollars to where they are most needed. Front line workers like doctors and nurses should be able to find better uses for these millions than public health bureaucrats, advertising executives and lobbyists.

Jordan Williams is the Executive Director of the New Zealand Taxpayers’ Union

INTRODUCTION

Between 1983 and 2015 the percentage of smokers has been steadily falling with rates of smoking prevalence reducing by a third between 1983 and 2009.³

Despite this trend, taxpayer funding of tobacco control continues to grow.

Initially tobacco control initiatives were education campaigns, commissioned to warn the public about the damaging effects to health caused by smoking. Unfortunately, these educative campaigns have morphed into sophisticated lobbying operations for higher taxes and measures to bring about effective prohibition.

Making people aware of the damage done by smoking, and letting people make an informed choice as to whether to smoke, has turned into efforts to make the decision for them.

Despite decades of government advertising, some 600,000 New Zealanders still choose to consume tobacco products to varying degrees, despite the knowledge of the damaging effects.⁴

In 2011 the National-led Government announced the goal of a “Smokefree New Zealand by 2025”.⁵ The decision followed a Parliamentary inquiry by the Maori Affairs Select Committee into tobacco.

The report of the Committee indicated that the term “smokefree” was to be regarded as achieving a rate of smoking prevalence and availability to minimal levels, but not to bring about an outright ban on the sale or consumption of tobacco products.

Prohibition would outlaw the sale of tobacco and its consumption. The Government’s goal is to see effective, but not explicit, prohibition through legislative changes to increase the price, reduce the availability and complicate the retail of otherwise legal tobacco products. These measures are intended to continue until smoking prevalence drops to a point where New Zealand can be regarded as “essentially smokefree”.⁶

**“THROUGHOUT NEW ZEALAND’S HISTORY, THERE HAS BEEN UNDERLYING PURITAN ETHOS WHICH HAS MANIFESTED ITSELF IN THE TAX SYSTEM. THE PLEASURES WITH THE SLIGHTEST SNIFF OF VICE ABOUT THEM, INCLUDING ALCOHOL, TOBACCO AND HORSE RACING, HAVE ALWAYS BEEN SOCIALLY, AND POLITICALLY, ACCEPTABLE SOURCES OF TAXATION REVENUE.”
– NEW ZEALAND OFFICIAL YEARBOOK, 1990.**

3 The Treasury, *Regulatory Impact Statement: Increase in Tobacco Excise and Equivalent Duties*, 24 May 2012, page 2. Available at <http://www.treasury.govt.nz/publications/informationreleases/ris/pdfs/ris-tsy-iteed-may12.pdf>

4 Statistics New Zealand, *Tobacco smoking*, http://www.stats.govt.nz/browse_for_stats/snapshots-of-nz/nz-social-indicators/Home/Health/tobacco-smoking.aspx

5 Smokefree 2025, <http://smokefree.org.nz/smokefree-2025>

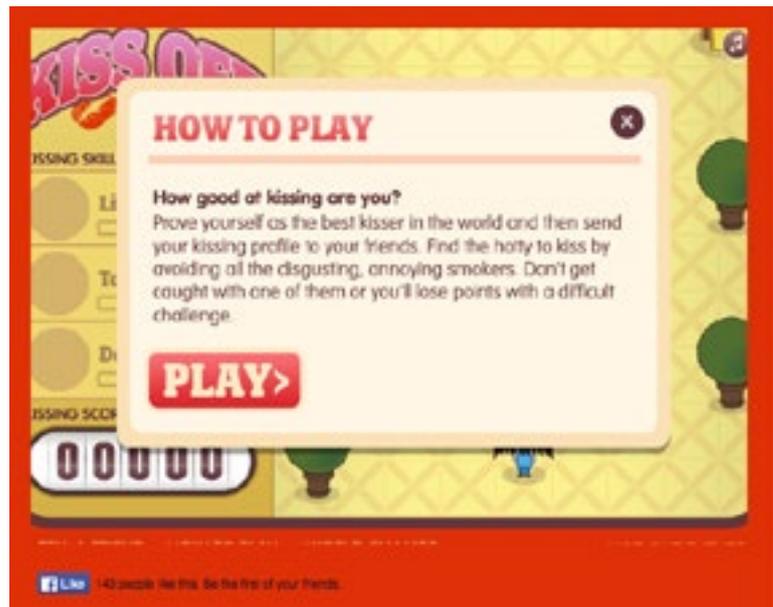
6 Ministry of Health, *Smokefree 2025*, <http://www.health.govt.nz/our-work/preventative-health-wellness/tobacco-control/smokefree-2025>



While initially the “Smokefree New Zealand by 2025” goal was “aspirational” it is now the formal objective. Official policy advice, proposals and taxes reference the urgency imposed by the 2025 deadline.

In addition to changes in public policy, government funded public health groups have used a strategy to demonise smokers. For example, in 2006 a Ministry of Health funded advertising campaign paid celebrities to state they would never date a smoker as smoking is unattractive.⁷

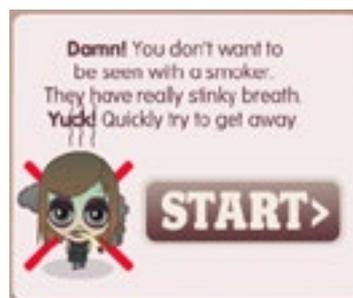
The “Smoking – Not Our Future” campaign created an online game, Kiss Off, where players control an avatar with the aim being to find another avatar to kiss while avoiding all of the “disgusting, annoying smokers”.⁸



Other campaigns have implied that smoking is inherently sinful, immoral and that smokers are of poor character and should be socially ostracised.

Campaigners (including officials within the Ministry of Health) label these types of efforts as “denormalisation” of tobacco.

It appears that under the guise of disseminating facts about the health trade-offs associated with tobacco consumption these groups are using public funds to promote views and a ‘cultural change’ which is entirely political in nature. These measures are nothing short



of taxpayer-funded propaganda with the acknowledged purpose to stigmatise tobacco users and have them ostracised by the general public.

While publicly funded groups operate “denormalisation” campaigns they also manage sophisticated, but largely closed-door, lobbying strategies to

7 Smoking Not Our Future, <http://www.notourfuture.co.nz/>

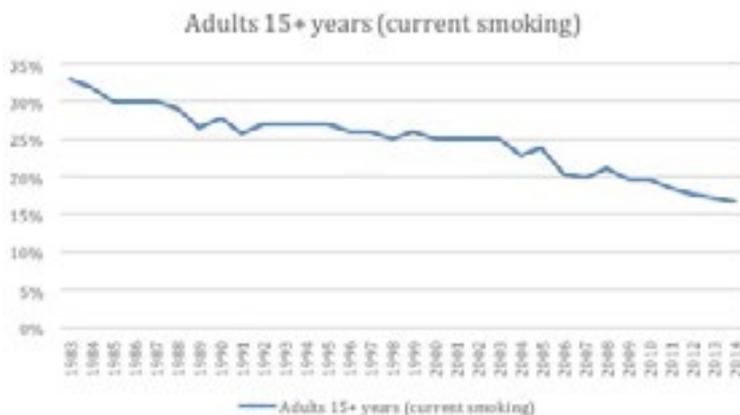
8 Kiss Off: How to play, <http://www.notourfuture.co.nz/kissoff>

pressure politicians to increase taxes on tobacco and increase public funding to grow the anti-tobacco campaign organisations. This may explain the increases in funding of tobacco control despite the dramatic decrease in the percentage of New Zealanders smoking.

This paper argues that New Zealand's strategy of 'denormalising' tobacco, and increases in excise tax in particular, risk normalising the illicit tobacco trade. It treats legal consumers as cash cows under a misleading guise of recovering costs by the public health system.

HOW MANY PEOPLE ARE SMOKERS?

As the body of evidence, and awareness, of the negative health impacts of smoking has grown people have responded rationally. Between 1983 and 2009 the percentage of people consuming tobacco products fell by a third, from 33 percent to 19.7 percent.



Smoking prevalence from 1983 to 2012⁹

Data cited by the Ministry of Health tells a similar story:

"In 1996/97, a quarter (25%) of the adult population reported being current smokers and by 2012/13 this rate had dropped to 18%, equating to around 600,000 people."¹⁰

Because the passage draws upon percentages, the implication is that the number of smokers has decreased. However, the increase in New Zealand's overall population has meant that while prevalence rate of smoking has decreased, the total number of smokers has been relatively constant. Nevertheless, the amount of tobacco consumed per person has decreased from its peak at 1953.¹¹

9 AC Nielsen & Census; Statistics New Zealand; Health Promotion Agency, *Tobacco Control Data Repository, Smoking prevalence from 1983 to 2012*. Available at http://www.tcddata.org.nz/Misc%20data/Misc_01.aspx

10 Ministry of Health, *Tobacco Use 2012/2013: New Zealand Health Survey*. Available at <http://www.health.govt.nz/publication/tobacco-use-2012-13-new-zealand-health-survey>

11 History of tobacco in New Zealand, <http://smokefree.org.nz/history-tobacco-new-zealand-0>

**TOBACCO WAS FIRST
INTRODUCED TO NEW
ZEALAND IN 1769 BY
CAPTAIN JAMES COOK.**

**PURITANICAL PROTECTION:
“THE MAIN OPPOSITION TO
SMOKING, AS EXPRESSED
BY THE ANTI-NICOTINE
SOCIETY, FOUNDED IN 1883
WAS A SOCIAL PURITAN
VIEW THAT SMOKING LED
TO OTHER VICES SUCH AS
DRUNKENNESS.” – TE ARA**

WHY DO WE HAVE EXCISE TAX ON TOBACCO?

A common misperception is that excise taxes on tobacco exist to offset the additional costs on the public health system for anticipated treatments costs imposed by smokers. Economists call these Pigouvian taxes: a term applied to a market activity that is generating negative externalities (costs for someone other than the person on whom the tax is imposed).

In reality, New Zealand has decoupled the level of excise tax cigarettes from the additional health costs. These taxes are either being used to change behaviour (as a punitive measure against smoking), or as a revenue gathering tool for general government consumption.

Smoking researchers in New Zealand and abroad find that smoking prevalence is correlated with socio-economic status, with the highest smoking prevalence seen amongst the lowest socio-economic quintiles.¹²

Increases in tobacco excise tax are often held up as interventions that are effective at reducing consumption amongst low socio-economic groups. However the significant tax increases have coincided with an increase in the socio-economic smoking gradient. It appears that increases in excise taxation did not prevent smoking inequalities and have probably made them worse.¹³ For reasons unknown smoking control measures, in particular the dramatic increase in tobacco taxes, have had the most effect on higher socio-economic groups.

Increases in tobacco excise taxes disproportionately impact low-income earners, a group in which Maori and Pacifica are highly represented. This impact is due to a larger percentage of their disposable income being spent on products to consume such as food, housing expenses, petrol (and tobacco).

It has been suggested that the counterintuitive correlation between lower socio-economic status and smoking prevalence is that financially stressed smokers are less likely to quit, while better educated people are less likely to begin smoking in the first place.¹⁴

Just because a consumer base is poor, it does not mean that the Government is any more justified in making consumer health choices for them. Worse, increasing taxes well in excess of the health costs of tobacco, knowing that they are being paid by those least able to afford it, is morally questionable.

The Government argues that increasing excise taxes is important as it is the most effective tool to reduce smoking rates. If that is really

12 Sarah Hill et al., *Smoking Inequalities – Policies and patterns of tobacco use in New Zealand, 1981-1996*, University of Otago, October 2003, 9.

13 *ibid.* 59.

14 Christopher Snowdon, *Aggressively Regressive – the ‘sin taxes’ that make the poor poorer*, IEA Current Controversies Paper No. 47, Christopher Snowdon, October 2013, 16.

the sole intention of the excises tax (and it is not also motivated by the Government's desire for revenue) why are 600,000 Kiwis still choosing to smoke?

Also, if the Government's motives were purely health related, why would it continue to ban the sale of e-cigarettes and other nicotine based technological alternatives to smoking? Many in the public health field argue that these new generation of tobacco products and substitutes offer the greatest opportunity in harm reduction ever seen in this product category?¹⁵

Public health studies in England have concluded that e-cigarettes have become the most popular aid to quit smoking and reduce the harm to consumers by around 95 percent when compared to traditional cigarettes.¹⁶



HOW MUCH IS THE TAX ON TOBACCO?

Between 2000 and 2010 tobacco excise taxes were indexed to inflation.¹⁷ Under the current National-led Government, the previous political consensus on tobacco was broken.

Beginning with the first 10% excise tax increase in April 2010, the National Party, supported by the Maori Party legislated significant increases in tobacco tax. These tax increases have occurred in addition to the annual adjustments for inflation.

The first increase in 2010 was followed by two subsequent 10% increases on 1 January of 2011 and on 1 January 2012. The increases resulted in prices for tobacco increasing by one third in just over two-years.¹⁸



15 A McNeill et al, *E-cigarettes: an evidence update*, Public Health England, 2015, 6.

16 *ibid.* 45

17 Des O'Dea et al, *Report on Tobacco Taxation in New Zealand*, Volume 1, November 2007, 76.

18 Government increases tobacco excise tax, Stuff.co.nz, 29 April 2010, <http://www.stuff.co.nz/national/politics/3634098/Government-increases-tobacco-excise-tax>

EXCISE TAXES FROM TOBACCO ARE MORE THAN THREE TIMES THE COSTS IMPOSED ON THE PUBLIC HEALTH SYSTEM.

As of 1 January 2016, excise tax accounts for around 66 cents per cigarette. For a 20-pack of cigarettes which may retail for \$20, excise tax accounts for \$13.33. After adding the 15 percent GST to the total, it means for every \$20 20-pack of cigarettes, the government takes \$15.94.

WHAT DOES TOBACCO USE COST THE GOVERNMENT?

When announcing a new round of tobacco excise increases on 24 May 2012, then-Associate Minister of Health, Tariana Turia, told media:

“These measures will help improve the health of New Zealanders, reduce the long-term burden on the health system, and contribute to the Government’s goal of making New Zealand smoke-free by 2025.”¹⁹

Ms Turia’s statement that the excise increases will “reduce the long-term burden on the health system” is curious given The Treasury’s Regulatory Impact Statement provided to the Minister to accompany the Bill. It stated:

“On the narrow fiscal grounds of covering the costs smokers impose on government, further increases in tobacco excise may not be justified. At over \$1.3 billion per year, tobacco excise revenues may already exceed the direct health system costs of smoking.”

The passing in 2012 of the Customs and Excise (Tobacco Products – Budget Measures) Amendment Bill locked in four cumulative 10% price increases to the rate of tobacco excise, with the final scheduled for 1 January 2016.

Just five days after Mrs Turia’s announcement the New Zealand Herald reported that, prior to the newly announced excise increases, smokers were already net contributors to the public purse.²⁰

Tobacco control lobbyists, seeking to impose higher taxes, point to figures showing that Government revenues fall as a result of the health effects of smoking. They often reference figures which factor in lost production due to smoking related health issues.

O’Dea’s report, commissioned by anti-smoking campaign group Action Against Smoking (“ASH”) in 2007, established that the costs associated with tobacco consumption amounted to almost \$1.7 billion.²¹ This figure has been widely reported as having been the cost attributable to the taxpaying public.

Dr Eric Crampton of the University of Canterbury contends that this

19 Tobacco excise rise part of wider programme, Budget 2012 Media Release, <http://www.beehive.govt.nz/release/tobacco-excise-rise-part-wider-programme>

20 Smokers save Govt cash, says report, The New Zealand Herald, 29 May 2012, http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10809145

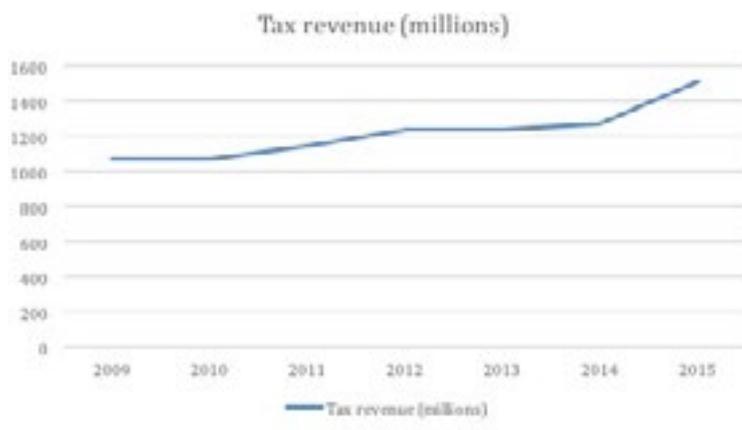
21 O’Dea, Report on Tobacco Taxation, 5.

figure is mostly comprised of costs associated with individuals or private businesses bearing the majority of associated costs.²² Even O'Dea acknowledges in his paper that excise taxes from tobacco are more than three times the costs imposed on the public health system as a result of tobacco consumption.

IF IT IS NOT ABOUT COVERING NEGATIVE EXTERNALITIES, WHY IS THE TAX INCREASING?

Given Treasury's 2012 advice, and the acknowledgement from tobacco control lobbyists that users are already more than covering the health costs associated with smoking, why is the Government increasing these taxes even further?

The likely explanation is that the tobacco consumers are being used as cash cows – targeted by politicians to maximise revenue and fund areas of government spending completely unrelated to smoking.



**SINFUL SMOKERS:
RODRIGO DE JEREZ WAS
INTRODUCED TO THE
SMOKING OF TOBACCO
BY NATIVE AMERICANS
WHEN HE ACCOMPANIED
COLUMBUS TO THE NEW
WORLD. ONCE BACK
IN SPAIN HE WAS
IMPRISONED BY THE
SPANISH INQUISITION
FOR SEVEN YEARS FOR
BEING AN UNREPENTANT
SMOKER.**

²² Can't kill a bad stat, Dr Eric Crampton, 30 April 2012, <http://offsettingbehaviour.blogspot.co.nz/2012/04/cant-kill-bad-stat.html>

PURITANS IN SHEEP'S CLOTHING: UPON LINKING SMOKING TO POOR HEALTH OUTCOMES IN THE 1940s, PURITANICAL OPPOSITION TO SMOKING CEASED AND MEDICAL OPPOSITION BEGAN. SURPRISINGLY THEIR MESSAGES WERE VERY SIMILAR.

ETHICS OF HEALTH INTERVENTION

Within the field of medical ethics, the principle of autonomy has established itself as the guiding value for any health intervention. This is why New Zealanders are able to enjoy a broad variety of legal activities that risk their health without being taxed or otherwise restricted by the state.

Writing in the *Journal of Medical Ethics*, Feiring expressed the core underpinnings of the field of medical ethics as it pertains to public health intervention as:

*"Given that respect for the autonomous choices of patients runs deep in modern healthcare, there are strong reasons to value the claim that competent and well-informed individuals are the best interpreters of their own interest and that they should be free to make choices others would regard as non-beneficial to them."*²³

In determining when public health outcomes may justify overriding the principle of autonomy, two criteria are commonly used by proponents of intervention:

1. that healthcare costs justify the intrusion; and
2. that individuals lack the capacity to choose.

Neither of these conditions are satisfied. Smokers are already well covering their costs and there is no question that smokers choose to become such.

Writing in the *American Journal of Bioethics*, Dr Michael Keane asked:

*What standard should be used when judging people's competence to autonomously choose to consume a product? Electing to do something that may lead to a harmful outcome does not define a lack of understanding of the consequences.*²⁴

Dr Keane further developed these thoughts in a submission to the Australian Government's Public Consultation on Plain Packaging of Tobacco Products:

In order to justify such proposals, it would need to be convincingly demonstrated that adult smokers do not have the capacity to understand the adverse effects of smoking. This is clearly not the case. Secondly, although some may believe the argument that smoking is due to a nicotine addiction and people, therefore, cannot make a voluntary decision, this is factually incorrect. While it may be difficult for persons to cease smoking, it is a decision that rests with the individual. All international psychiatric classifications come to the same agreement. If it was not ultimately a voluntary behaviour it would be classified as a psychotic condition. This is not the case.

23 Feiring, E. *Lifestyle, responsibility and justice*. *Journal of Medical Ethics*, 2008, 33-36.

24 Keane, M. *Public Health Interventions Need to Meet the Same Standards of Medical Ethics as Individual Health Interventions*. *American Journal of Bioethics*. Volume 10, 2012, 37.

WHAT ARE THE EFFECTS OF EXCISE TAX INCREASES?

In advising on the 2011 *Customs and Excise (Tobacco Products – Budget Measures) Amendment Bill* Treasury advised that excise taxes have a diminishing effect on the decrease in consumption.²⁵ This indicates that the price elasticity of tobacco was already very low.

The Treasury’s modelling suggested that every subsequent 10% tax increase yields a less significant decrease in consumption.

	Increase in tobacco excise	Decrease in consumption
2013Q1	10%	3.9%
2014Q1	10%	3.8%
2015Q1	10%	3.6%
2016Q1	10%	3.5%

Dr Crampton also notes that so-called sin taxes, such as the excise tax on tobacco, lead to a paradox: if excise taxes curb an addict’s consumption of tobacco, the tax is superfluous as the consumption of the product is likely to be rational in the first place. If the smoker is an irrational actor and requires help to reduce or stop their consumption, excise taxes won’t work to that end.²⁶

In this way excise taxes increase the financial burden on moderate, rational consumers, who will tend to reduce consumption rather than quit outright. As has previously been pointed out, tobacco consumption per person peaked over 50 years ago and has declined significantly since.



²⁵ Page 7.

²⁶ "Elasticity of sin," Dr Eric Crampton, 15 July 2009, <http://offsettingbehaviour.blogspot.co.nz/2009/07/elasticity-of-sin.html>

ILLICIT TOBACCO CONSUMPTION IN AUSTRALIA ACCOUNTED FOR 14.5 PERCENT OF THE COUNTRY'S TOTAL TOBACCO CONSUMPTION IN 2014.

ILLICIT TOBACCO

Excessive excise taxes create markets for illicit tobacco. In Australia, the Federal Government's Crime Commission stated that organised crime was "entrenched" within the illegal tobacco market in Australia, which criminals perceive to be a low risk, high profit industry.²⁷ Illicit tobacco is now the fourth largest source of product when measured against the market share of tobacco companies.

Here in New Zealand, we need to be aware that as the price of legal tobacco products increases, the potential price margins for criminal gangs dealing in illicit tobacco become attractive. The Treasury has already warned the Government that increasing tobacco excise creates a risk for shop owners, who may be more highly targeted for burglaries.²⁸

Illicit products are generally of a lower quality, are less safe and seldom conform to Government regulations. Illicit cigarettes are produced in illegal factories, often in squalid conditions. Experience from the UK indicates that illicit tobacco products can contain rat droppings, mould and even asbestos.²⁹

Illicit tobacco takes three forms:

- Unbranded – crude tobacco sold as loose leaves or in tubes;
- Counterfeit – copies of a legal tobacco product, using a registered trademark without permission and sold at a much lower price than the legal product upon which it is modelled; and
- Contraband – tobacco products that are legal or counterfeit, which have been imported illegally and sold without the payment of the required duties.³⁰

Illicit tobacco consumption in Australia accounted for 14.5 percent of the country's total tobacco consumption in 2014.³¹ This tobacco was a combination of counterfeit, contraband and unbranded tobacco, which is estimated to be about 2.6 million kilograms.

27 Australian Crime Commission, *Organised Crime in Australia 2015 Report*, 2015, 68.

28 The Treasury, *Regulatory Impact Statement: Customs and Excise (Tobacco Products – Budget Measures) Amendment Bill*.

29 New effort to stop fake cigarettes filled with excrement, mould and asbestos, The Guardian, 23 August 2014, <http://www.theguardian.com/society/2014/aug/23/councils-crack-down-fake-cigarettes-excrement-mould-asbestos>

30 *ibid.*

31 KPMG, *Illicit tobacco in Australia 2014 Full Year Report*, 30 March 2015, 6.

WHO IS BEHIND THE PUSH FOR TOBACCO TAX INCREASES?

Tobacco control lobbyists have been pushing for substantial excise increases for many years.

Many of these lobbyists are fully, or partially funded by the Government. In a bizarre spectacle, the Government provides money from taxpayers to fund lobbyists, who then lobby to guide the Government's hand towards increasing the tax burden.

Tobacco control lobbyists enable government to justify increasing taxes on New Zealanders. For their part, governments provide funding for the activists and the cycle continues anew.

In the 2013/14 financial year, ASH recorded revenue of over \$1 million, with almost \$980,000 of that coming from contracts with public sector institutions.

ASH has seen an increase in its government contract income by \$350,000 from 2012/13 into 2013/14. The lobby group notes that it gained a "significant contract" in June 2013 to run a stop-smoking campaign each October.³²

Despite being a pressure group that is overwhelmingly funded by taxpayer money, ASH is also regarded as a charity. Given this status, the group is not required to pay income tax, nor are its activities subject to public scrutiny through the Official Information Act.

In March ASH featured on the front page of the New Zealand Herald under the headline: Pressure to bring in tobacco plain-packaging.³³ The article began:

Beehive urged to hurry final vote by MPs following success of measure in Australia.

The Government is being lobbied to bring the tobacco plain-packaging bill back to Parliament for a final vote, now the policy has been found to work "almost like a vaccine against tobacco" in Australia.

The health select committee last year supported the bill but the Government has delayed bringing it back to the House pending the outcome of the challenges against the Australian law by the tobacco industry.

But National support partner the Maori Party and lobby group Action on Smoking on Health (Ash) now say the decline in smoking seen in Australia since its "standardised" packaging law came into force in 2013 means New Zealand can dally no longer.

32 ASH New Zealand Incorporated, 2014 Financial Statements, Charities Services, <https://www.register.charities.govt.nz/CharitiesRegister/ViewCharity?accountId=af8ebad6-462c-dd11-8f7f-0015c5f3da29&searchId=8ef063e5-7563-4bce-ab45-fe6618304411>

33 Pressure to bring in tobacco plain-packaging, New Zealand Herald, 2 March 2015, http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11410127

TOBACCO CONTROL LOBBYISTS ENABLE THE GOVERNMENT TO JUSTIFY INCREASING TAXES ON NEW ZEALANDERS. FOR THEIR PART, THE GOVERNMENT PROVIDES FUNDING FOR THE ACTIVISTS AND THE CYCLE CONTINUES ANEW.

**QUESTIONS NEED TO ASKED
ABOUT WHY A LOBBY
GROUP, WORKING WITH
THE MAORI PARTY ON A
POLITICAL CAMPAIGN
AROUND TOBACCO PLAIN
PACKAGING, IS LARGELY
TAXPAYER FUNDED.**

The statement attributed to ASH, show the problems with taxpayer money being directed to a group lacking the usual safeguards of political independence and transparency. Far from Plain Packaging of tobacco products “acting like a vaccine”, there is in fact compelling evidence that sales went up in the first year after the introduction of the measure in Australia.³⁴

Data released by the Australian Treasury suggests that 21,901,393,720 cigarettes were sold in Australian in the twelve months before plain packaging was introduced. In the next twelve months, 22,016,130,420 cigarettes were sold. This is a rise – a small rise but a remarkable one considering that sales had been consistently falling by around five percent per year for many years before the policy was introduced.

At the time, the *Taxpayers’ Union* reacted strongly, calling on the Government to “stamp out” this sort of taxpayer funded lobbying:

The Taxpayers’ Union believes that questions need to asked about why a lobby group, working with the Maori Party on a political campaign around tobacco plain packaging, is largely taxpayer funded.

We made the distinction between services for taxpayers, and services to ‘lobby’ them:

“We all support funding for front line and addiction services such as Quitline. What we don’t support is funding to political organisations to operate campaigns with taxpayer money.”

“Here a taxpayer funded group is working with a political party to promote one of its key policies. If the shoe was on the other foot and the Government was funding property groups to campaign for RMA reform, the Maori Party would be justifiably outraged. This is no different.”

“Taxpayer funded lobbying undermines democracy and should be stamped out.”

In a March 2015 editorial, the Waikato Times picked up on the Maori Party and ASH working together and quoted the *Taxpayers’ Union* argument. It concluded:

*A thorough Government review of the extent of political lobbying with public funding is long overdue.*³⁵

The Health Promotion Agency receives around \$30 million dollars per year in taxpayer money for health promotion, including for tobacco control.³⁶ Like ASH, it interprets “Smokefree New Zealand by 2025”, literally, rather as an aspirational goal as initially envisioned.³⁷

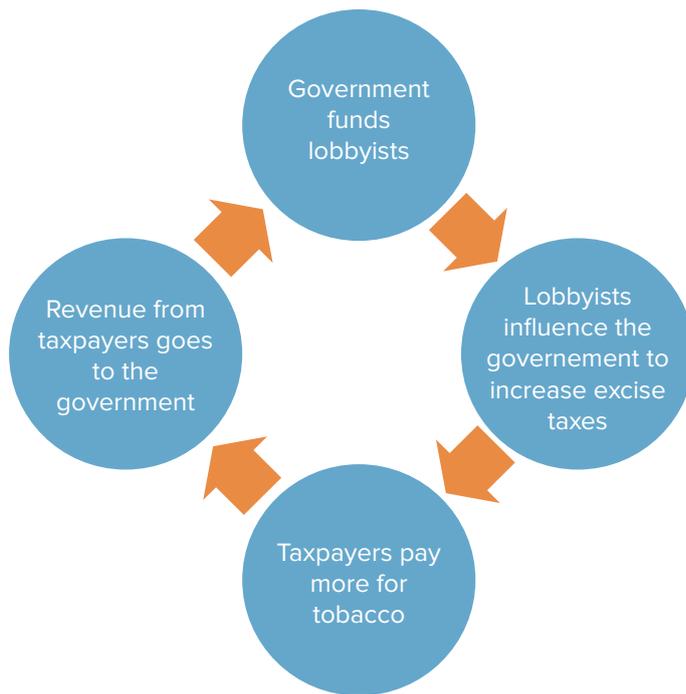
34 Christopher Snowdon, *New data confirm that tobacco sales rose after plain packaging*, <http://velvetgloveironfist.blogspot.co.uk/2015/08/new-data-confirm-that-tobacco-sales.html>

35 Should we pay lobbyists?, Waikato Times, 4 March, 2015, <http://www.stuff.co.nz/waikato-times/opinion/66910631/should-we-pay-lobbyists>

36 Health Promotion Agency, Annual Report for the year ended 30 June 2015, 49.

37 *ibid*, 18.

The taxpayer funded lobbying “Sock Puppet” process



RECOMMENDATIONS

Our recommendations are:

1. A moratorium on tobacco tax increases until reviews can be undertaken on:
 - the risks of an Australian style illicit tobacco problem developing in New Zealand; and
 - the potential harm reduction in lifting New Zealand's blanket ban on the sale of e-cigarettes and other new generation tobacco products.
2. An independent review of Ministry of Health funding of tobacco lobby groups to ensure that taxpayers are receiving value for money.
3. Extending the Official Information Act to cover those not for profit organisations which are majority taxpayer funded.



CONCLUSION

The Government should stop pretending that excise taxes on tobacco are anything other than a money grab. Smokers are more than covering their costs to the health system and pretending that consumers are not able to make their own decisions makes a mockery of the rights of citizens to make their own health choices. Few, if any, New Zealanders are not aware of the dangers of smoking.

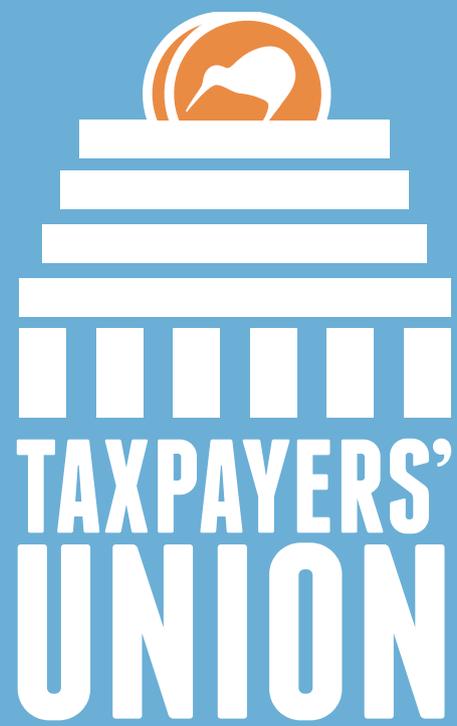
Every year millions of taxpayers' dollars are awarded to anti-smoking lobby groups for the apparent purpose of reminding us what we already know. In reality, this money isn't being used for education. It's being used to stigmatise those who choose to smoke, and mount political pressure on politicians to tax more and provide even more money to the groups.

New Zealand's approach to smoking cessation is out of step with leading tobacco researchers. With a blanket ban on the sale of e-cigarettes, New Zealand is missing an opportunity to provide a 95% safer alternative to traditional tobacco smoking that is now the number one cessation tool for smokers in England.

Those who smoke out of choice and enjoyment should not face further tax increases. As rational consumers of a legal product, taxes should be levied only to offset the negative externalities incurred as a result of their smoking.

Rather than simply covering additional health costs, smokers are being treated as cash cows by the government.





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