

LCQ7: Tobacco duty

Following is a question by the Hon Lau Kwok-fan and a written reply by the Secretary for Health, Professor Lo Chung-mau, in the Legislative Council today (April 10):

Question:

In the 2023-2024 Budget, the Government increased the tobacco duty rate by about 31.5 per cent and estimated that the revenue from tobacco duty for that financial year would increase accordingly by 19 per cent to about \$9.4 billion. However, according to the 2024-2025 Budget presented in February this year, the estimate of the revenue from tobacco duty for the 2023-2024 financial year has been revised to about \$8.6 billion. In this connection, will the Government inform this Council:

(1) of the reasons for the downward adjustment of the estimate of the revenue from tobacco duty for the 2023-2024 financial year in the latest Budget; given that according to the figures from the Customs and Excise Department, the revenue from tobacco duty for the first 10 months of the 2023-2024 financial year is only about \$5 billion, of the reasons why the authorities are confident that the revenue from tobacco duty for the 2023-2024 financial year will be up to the revised estimate of about \$8.6 billion;

(2) given that the Government increased the tobacco duty rate by about 31.5 per cent in the 2023-2024 Budget, and the revised estimate of the revenue from tobacco duty for that financial year represents only an increase of about 8 per cent over the actual revenue from tobacco duty for the 2022-2023 financial year, whether it has studied the reasons for that;

(3) given that according to the 2024-2025 Budget, the estimate of the revenue from tobacco duty for that financial year is about \$9 billion, of the basis on which the Government made the relevant estimate; and

(4) whether, before the Government decided to increase tobacco duty again in the 2024-2025 Budget, it had gained a full understanding of the impact of the increase in tobacco duty in the previous financial year on the various aspects of society, including whether there has been a situation in which smokers have switched to buying duty-not-paid cigarettes, resulting in the revenue from tobacco duty falling short of the estimate; if it had, of the details; if not, the reasons for that?

Reply:

President,

Having consulted the Financial Services and the Treasury Bureau and the Hong Kong Customs and Excise Department (C&ED), the reply to the various parts of the Hon Lau Kwok-fan's question is as follows:

Hong Kong is facing an ageing population and sees a continuously rising number of chronic disease patients, while smoking is the most important and preventable risk factor leading to chronic diseases and deaths. The smoking prevalence (Note 1) of Hong Kong has dropped continuously from 14.4 per cent in 2002 to 9.5 per cent in 2021. Yet there are still about 580 000 people in Hong Kong who are daily smokers of conventional cigarettes, and a considerable portion of them belong to the lower income group in the society, which is the group that can least afford tobacco-induced health problems and economic damage. Smoking will only continue to exacerbate the health and economic disparity between the rich and the poor, and the whole society and the healthcare system will have to pay a heavy price for smoking-induced diseases. Preliminary data from a local study conducted in 2021 revealed that the economic loss resulting from tobacco-induced health problems was estimated to be about \$8.2 billion per year. There is a genuine need for the Government to put in place more proactive measures to minimise the harmful effects of tobacco on the society.

As a result, the Government has announced in the 2024-25 Budget an increase of tobacco duty on cigarettes by 80 cents to \$3.306 per stick, following a raise of 60 cents in the previous year. It is the first time over the past 20 years for tobacco duty to increase in two consecutive years. This serves not only to ensure that cigarette prices maintain at a certain level which helps prevent a rebound in smoking prevalence, but also convey a clear message to the society on the Government's commitment and determination to safeguard the overall health of the public.

Increasing tobacco duty is recognised internationally as the most effective means of reducing tobacco use. The World Health Organization (WHO) pinpoints that every 10 per cent increase in cigarette price will reduce the overall tobacco consumption by 4 per cent in high-income countries. Tobacco duty is a public health policy of which the objective is to provide a greater incentive for smokers to quit smoking through raising the costs of smoking, while the high prices of tobacco will also dampen the eagerness of non-smokers, the youth in particular, to smoke. Therefore, the effectiveness of tobacco duty should be evaluated by whether it can effectively reduce the number of smokers, rather than the amount of additional revenue it brings to the Government.

The past experience in increasing duty indicated that the greater the tax hike, the larger the number of calls received by the Department of Health (DH)'s smoking cessation hotline as well as the drop in smoking prevalence. According to the latest statistics from the DH, after the increase of tobacco duty last year, the number of calls received by the DH's smoking cessation hotline increased over 30 per cent from about 7 400 in 2022 to about 9 700 in 2023. Subsequently, during the period from the announcement of the increase in tobacco duty in this year's Budget to April 7, the DH's smoking cessation hotline received 1 858 calls, meaning an average of 325 calls per week, which is nearly three times the average number of calls per week in the previous three months.

Preliminary findings of the Thematic Household Survey (THS) conducted by the Census and Statistics Department on smoking pattern show that there are indeed signs of a decline in smoking prevalence after the increase in tobacco duty in 2023, with preliminary data indicating that the smoking prevalence has further dropped to 9.1 per cent. The details of the relevant survey results will be officially released in mid-2024.

According to C&ED's figures, the revenue from tobacco duty for the first 11 months of 2023-24 was about \$7.2 billion. The Government's revenue estimates are based on the best available information at the time of preparing the Budget, and the actual figures of various revenue items are affected by a number of factors. For tobacco duty, the overall demand for tobacco products depends on a number of factors, including the level of tobacco duty and the rate of increase, the pricing strategies of tobacco companies, the price elasticity of tobacco products, and the overall economic situation. The Government expects that the increase in tobacco duty in 2024 will further reduce the demand for tobacco products. In preparing the revenue estimates for 2024-25, the Government has also made reference to the WHO's estimation regarding the impact of the increase in tobacco retail prices on the demand for cigarettes.

It should be noted that the number of duty-paid cigarettes increased significantly during the epidemic, with about 4 billion duty-paid cigarettes imported annually between 2020 and 2022, representing an increase of nearly 20 per cent as compared to 2019. However, the survey of 2021 shows that neither the number of smokers nor the amount of cigarettes consumed rebounded significantly. As such, it is believed that the increase in the quantity of duty-paid cigarettes during the epidemic was mainly attributable to the fact that cross-boundary travel was greatly affected during the epidemic and the public were unable to bring back duty-free cigarettes (Note 2) through boundary control points, resulting in a substantial increase in the local demand for duty-paid cigarettes.

Since the return to normalcy and full resumption of cross-boundary travel in early 2023, the number of cross-boundary passenger trips at various boundary control points, especially land control points, has rebounded significantly, while at the same time the number of duty-paid cigarettes has dropped back to roughly the pre-epidemic level. This is also a major reason why the tobacco duty revenue for 2023-24 was lower than the original estimate. The number of duty-paid cigarettes for 2023 (about 3.07 billion sticks) is lower than that of 2019 (about 3.37 billion sticks) by about 9 per cent, which is comparable with the decline in smoking prevalence over the same period. The relevant data clearly reflected that the notion of a significant reduction in duty-paid cigarettes as a result of illicit cigarettes is not substantiated, and that the increase in tobacco duty in 2023 did help reduce the demand for tobacco after excluding the factors of the epidemic and resumption of cross-boundary travel.

As regards the concerns in the community that the illicit cigarette market would become more rampant following the increase in the tobacco duty, both the WHO and the World Bank have pointed out that there is no direct

correlation between the increase in tobacco duty and illegal tobacco trade activities. Exaggerating illicit cigarette trading activities is the most common tactic used by the tobacco industry to counteract effective tobacco control measures, especially the increase of tobacco duty. Combatting illicit cigarette trading activities and raising tobacco duty should be regarded as complementary measures.

In combatting illicit cigarettes, the C&ED will continue to adopt a multi-pronged approach and take stringent enforcement actions at all levels to combat the hawking activities of illicit cigarettes. The increase in the number of seizures of illicit cigarettes reflects the effectiveness of the C&ED's stepped-up enforcement actions against illicit cigarettes and the success of its enforcement strategy does not denote an expanding scale of illicit cigarettes activities. As a matter of fact, according to C&ED's analysis, the situation of illicit cigarettes has been contained recently.

Targeting the distribution of leaflets about smoking products in public housing estates, the Tobacco and Alcohol Control Office (TACO) of the DH has established a co-operation mechanism with the Hong Kong Police Force and the Housing Department. Whenever any distribution of leaflets about smoking products is detected, the staff of the housing estate concerned will contact the Hong Kong Police Force for assistance and the case would be subsequently referred to TACO for further investigation.

The Health Bureau (HHB) is also considering implementing legislative measures with the C&ED to curb illegal hawking activities, including examining how to effectively implement measures relating to the labeling of duty-paid cigarettes so as to enhance the enforcement effectiveness in differentiating duty-paid cigarettes from duty-not-paid cigarettes.

The Government will continuously review the effect of tobacco control measures as a whole and the pace of future adjustments in tobacco duty, with a view to achieving the target of 75 per cent duty proportion as recommended by the WHO. The ultimate aim is to further lower the smoking prevalence so that the whole society and the healthcare system does not have to pay a heavy price for smoking-induced diseases.

To further reduce smoking prevalence, the Government conducted the Vibrant, Healthy and Tobacco-free Hong Kong public consultation on tobacco control strategies last year. The HHB is exploring to roll out different tobacco control measures in a phased approach, and plans to give an account of the next step of work in due course.

Note 1: Smoking prevalence refers to the proportion of population who are daily smokers of conventional cigarettes and aged 15 and above.

Note 2: Under the Dutiable Commodities Ordinance (Cap. 109), a person aged 18 or above may bring into Hong Kong 19 cigarettes duty-free for his own personal use.