

POLITICS / IN DEPTH

Govt set aside \$216m to pay for heated tobacco product tax cuts

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Associate Health Minister Casey Costello has said she wants to make alternatives to traditional cigarettes more accessible for smokers trying to quit. Photo: RNZ / Samuel Rillstone

The government has agreed to set aside \$216 million it may need to pay for tax cuts for heated tobacco products (HTPs).

RNZ **reported earlier this month** that Associate Health Minister Casey Costello - who is also Customs Minister - had implemented a 50 percent cut to the excise tax on HTPs, where the tobacco is heated to a vapour rather than burned.

Costello's office had not publicly disclosed how much that would cost the government but a Cabinet paper, **released without fanfare on the Health Ministry's website**, shows Cabinet agreed in May to set aside \$216 million as a contingency fund to cover the estimated lost revenue.

The excise tax cut is something tobacco giant Philip Morris **has lobbied for in the past**. Its IQOS product is a dominant player in the New Zealand HTP market.

The Cabinet paper, signed off by New Zealand First MP Costello, showed it was not even clear whether the tax break would be passed on to consumers.



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"Because this product currently has a monopoly market in New Zealand, the extent to which a reduction in excise duty on HTPs would be passed on to consumers via lower retail prices is unclear," the paper noted.

Costello declined an interview with RNZ and her office did not address questions about whether that monopoly position referred to Philip Morris.

In a statement the minister did say that she expected the industry to reduce the cost of its products.

"That means I'm expecting the excise reduction to pass to consumers, this is what we were advised would happen by officials and it is something we will also be monitoring," she said.

She also said she did not expect the cost to the government to be "anywhere close to what was modelled", as the tax collected on HTPs was only \$3.62 million in 2022 and \$5.97 million in 2023.

"Officials noted there is a lot of uncertainty around the modelling and fiscal impact because it was based on the very rapid increase in HTP use that happened in Japan, where vapes were unavailable."

Philip Morris did not respond to RNZ's questions.

Links between the company and New Zealand First have been highlighted by media and tobacco researchers since the party gained concessions in its coalition agreement with National to repeal recent changes to tobacco laws.

Two senior corporate communication positions at Philip Morris are held by people who previously held senior roles in the New Zealand First party.

David Broome, chief of staff for NZ First between 2014 and 2017, is external relations manager at Philip Morris.

Apirana Dawson - who was director of operations and research in the office of Winston Peters between 2013 and 2017 and led the election campaigns for the party in 2014 and 2017 - has been director of external affairs and communications at Philip Morris since January 2021.

Dawson was a guest of New Zealand First Cabinet Minister Shane Jones at the swearing-in ceremony for government ministers last year and Jones told Stuff he had taken "soundings" from Dawson on the party's tobacco policies.

Neither Broome nor Dawson has responded to numerous requests by RNZ for comment.

Costello has said she has no links to the industry and had not spoken to tobacco lobbyists about the formulation of policy.

Earlier this year Costello scrapped laws that would have slashed tobacco retailers from 6000 to 600, removed 95 percent of the nicotine from cigarettes and aimed to create a smoke-free generation by banning sales to those born after 2009.

The government has said it is still committed to achieving the Smokefree 2025 goal of fewer than five percent of New Zealanders smoking daily. Currently 6.8 percent smoke daily, down from 16.4 percent in 2012.

Paper noted 'limited' research around safety, efficacy

Costello has previously said she wanted to give people more options to transition away from cigarettes and believed lowering the price of HTPs could encourage more people to use them.

But Health Ministry officials warned the minister against liberalising the regulation of HTPs, prior to the excise tax cut.

"There is no evidence to support their use as a quit smoking tool," officials wrote to Costello. "We do not recommend liberalising the way HTPs are promoted. This would likely compound existing concerns about youth uptake and addiction to nicotine products."

Even Costello's Cabinet paper concedes there is no strong evidence to show HTPs are safe.

"Given their relative recency to the market, there is not yet clear evidence that HTPs are significantly less harmful than cigarettes," it said.

But in her statement to RNZ, Costello said that HTPs had a "similar risk profile" to vapes.

The Cabinet paper said Health Ministry modelling suggested 7200 smokers could switch to HTPs over the next two years if encouraged by a cheaper price.

"Reducing the excise duty on HTPs may increase their appeal to smokers who have not found switching to vaping successful, as removal of the excise duty will likely make these products cheaper than they are currently."

But it warned non-smokers could be attracted too.

"As we have seen with vaping, we will need to be vigilant about monitoring the potential uptake of HTPs by non-smokers, including youth, as a result of lower prices."

Existing evidence that HTPs helped people to quit was largely anecdotal, the paper said.

"The relative recency of HTPs to the market means that there is limited research around their use as a cessation or transitional tool," the paper says. "However, on balance, feedback from smokers and stop smoking services about providing smokers with more choice to transition away from smoked tobacco suggests that this action will support New Zealand to achieve its smokefree ambitions."

The excise tax cut would be trialled for a year to see if it helped people to stop smoking.


"The review will also provide us with an opportunity to identify whether HTPs are being taken up by non-smokers, particularly youth, so that we can respond quickly if needed," the Cabinet paper said.

The move to cut excise tax did not meet standard Cabinet requirements for such proposals because no regulatory impact statement was provided, the paper also noted.

Instead, the Ministry for Regulation and the Health Ministry would do a "post implementation review" on the excise tax cut after a year.



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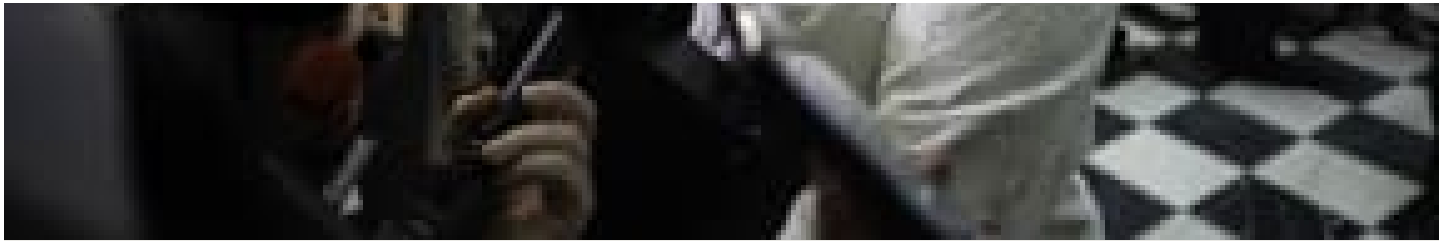
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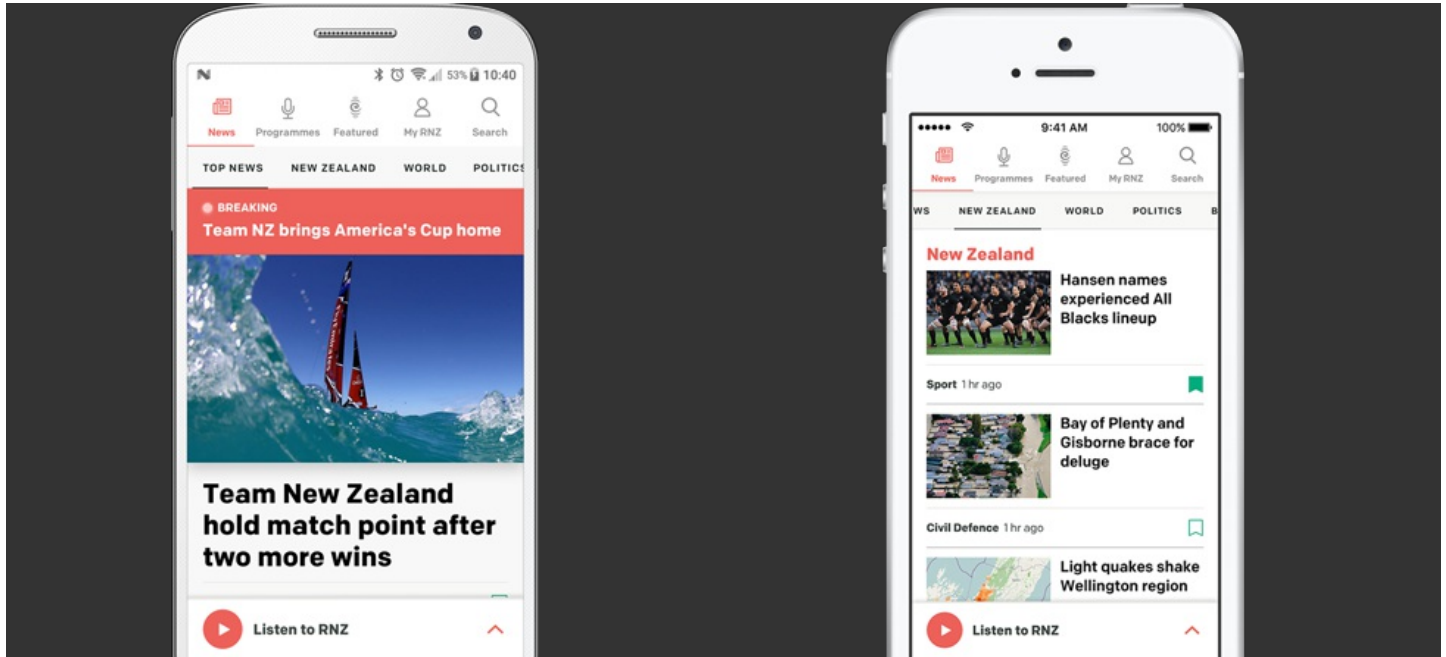


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