

LEGISLATIVE COUNCIL BRIEF

Dutiable Commodities Ordinance
(Chapter 109)

Dutiable Commodities (Amendment) Bill 2009

INTRODUCTION

A At the meeting of the Executive Council on 21 April 2009, the Council ADVISED and the Chief Executive ORDERED that the Dutiable Commodities (Amendment) Bill 2009 (the Bill), at **Annex A**, should be introduced into the Legislative Council (LegCo). The Bill implements the 2009-10 Budget proposal of increasing the duty rates on tobacco by 50%.

JUSTIFICATIONS

2. We last increased tobacco duty in 2001-02. While statistics show that the overall smoking prevalence has been declining over the past two decades, the number of young and female smokers has not been declining as much, and smokers are picking up the habit at an earlier age. Smokers, especially young smokers, are also smoking more cigarettes. This is reflected in the increase of duty-paid cigarettes from around 3.5 billion sticks in 2007 to approximately 3.8 billion sticks in 2008.

3. Cigarette price is a key factor influencing tobacco consumption and smoking prevalence. According to a World Bank report in 1999¹, on average, a price increase of 10% is expected to reduce demand for cigarettes by about 4% in high-income countries and by about 8% in low- and middle-income countries. In Hong Kong, government statistics also show that the smoking prevalence rate (the proportion of daily cigarette smokers among the population aged 15 and above) fell every time after a significant tax increase:

¹ The World Bank (1999) *Curbing the Epidemic: Governments and the Economics of Tobacco Control*.

- after a 300% increase in tobacco tax in 1983, the smoking prevalence rate dropped to 19.9% in 1983, down from 23.3% in 1982; and
- after a 100% increase in tobacco tax in 1991, the smoking prevalence rate dropped to 14.9% in 1993, as compared to 15.7% in 1990.

4. Therefore, in order to strengthen our tobacco control efforts to protect public health and in response to repeated calls from the community for further increase of tobacco duty to discourage smoking, the 2009-10 Budget proposes to increase the duty rates on tobacco by 50%. The duty on cigarettes will increase from \$0.804 per stick to \$1.206 per stick. The duty rates on other tobacco products (namely cigars, Chinese prepared tobacco, and all other manufactured tobacco except tobacco intended for the manufacture of cigarettes) will increase by the same extent.

5. The proposed increase in tobacco duty can further reduce the long-term disease burden for Hong Kong. According to a local study², the annual costs of diseases caused by tobacco, including direct medical costs, long-term care costs and productivity loss for both active smoking and passive smoking, amounted to about \$5.3 billion. This has yet to take into account the immeasurable cost of the loss of human lives due to smoking and passive smoking.

6. On 25 February 2009, the Chief Executive, after consulting this Council, made the Public Revenue Protection Order 2009 (the Order) to give immediate effect to the Bill to increase the duty rates on tobacco. The Order, with a four-month temporary effect, will lapse on 25 June 2009. We therefore need to have the relevant legislative amendments passed by then.

OTHER OPTIONS

7. We must amend the existing legislation in order to bring this Budget proposal into effect. There is no other option.

² McGhee et al (2005) *Cost of tobacco-related diseases, including passive smoking, in Hong Kong. Tob. Control* 2006;15;125-13

THE BILL

8. Provisions in the Bill mirror those in the Order. The main provisions of the Bill are as follows -

- (a) **Clause 2** provides that, when the Bill is enacted as an Ordinance, the Ordinance shall be deemed to have come into operation at 11 a.m. on 25 February 2009; and
- (b) **Clause 3** amends Schedule 1 to the Dutiable Commodities Ordinance (Cap. 109) to increase the duty rates on various types of tobacco to specified amounts, representing an increase by 50% in each case.

LEGISLATIVE TIMETABLE

9. The legislative timetable will be -

Publication in the Gazette	30 April 2009
First Reading and commencement of Second Reading debate	13 May 2009
Resumption of Second Reading Debate, committee stage and Third Reading	To be notified

IMPLICATIONS OF THE PROPOSAL

B 10. The proposal has financial, civil service and economic implications as set out in **Annex B**. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. The proposal will not affect the binding effect of the existing provisions of the Dutiable Commodities Ordinance (Cap. 109) and its subsidiary legislation. The proposal has no productivity, sustainability or environmental implications.

PUBLIC CONSULTATION

11. We have formulated the proposal after taking into account views received from legislators and other concerned parties during the

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Budget consultation process.

PUBLICITY

12. We will issue a press release on 30 April 2009. A spokesman will be available to answer media and public enquiries.

ENQUIRIES

13. In case of enquiries about this Brief, please contact Mr Kenneth Cheng, Principal Assistant Secretary for Financial Services and the Treasury (Treasury), at 2810 2370.

Financial Services and the Treasury Bureau
29 April 2009

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ANNEXES

Annex A Dutiable Commodities (Amendment) Bill 2009

Annex B Implications of the Proposal

A BILL

To

Amend the Dutiable Commodities Ordinance to give effect to the proposal in the Budget introduced by the Government for the 2009–2010 financial year to increase the rates of duty on various types of tobacco.

Enacted by the Legislative Council.

1. Short title

This Ordinance may be cited as the Dutiable Commodities (Amendment) Ordinance 2009.

2. Commencement

This Ordinance is deemed to have come into operation at 11 a.m. on 25 February 2009.

3. Schedule 1 amended

Schedule 1 to the Dutiable Commodities Ordinance (Cap. 109) is amended, in Part II –

- (a) in paragraph 1(a), by repealing “804” and substituting “1,206”;
- (b) in paragraph 1(b), by repealing “1,035/kg” and substituting “1,553/kg”;
- (c) in paragraph 1(c), by repealing “197/kg” and substituting “296/kg”;
- (d) in paragraph 1(d), by repealing “974/kg” and substituting “1,461/kg”.

Explanatory Memorandum

The purpose of this Bill is to amend the Dutiable Commodities Ordinance (Cap. 109) to give effect to the proposal in the Budget introduced by the Government for the 2009–2010 financial year to increase the rates of duty on various types of tobacco.

Financial and civil service implications

It is difficult to estimate the impact of the proposal on revenue. For budgetary purposes, we have assumed that the proposal might bring about an additional revenue of \$730 million to the Government in 2009-10. The Customs and Excise Department will meet the increased requirement on enforcement controls by redeployment of existing staff.

Economic implications

2. The proposal may lead to an increase in the retail prices of cigarettes and therefore a reduction in their consumption in Hong Kong. The resultant impact on the consumer price inflation will be minimal, due to the very small weighting of cigarettes in the basket of goods and services covered by the Composite Consumer Price Index (CCPI).