

LEGISLATIVE COUNCIL BRIEF

Dutiable Commodities Ordinance
(Chapter 109)

Dutiable Commodities (Amendment) Bill 2014

INTRODUCTION

At the meeting of the Executive Council on 26 February 2014, the Council ADVISED and the Chief Executive ORDERED that the duty rates on tobacco should be increased by 11.72%, and that the Dutiable Commodities (Amendment) Bill 2014 (the Bill), at Annex, should be introduced into the Legislative Council (LegCo).

JUSTIFICATIONS

2. The Government's tobacco control policy seeks to safeguard public health by discouraging smoking, containing the proliferation of tobacco use and minimising the impact of passive smoking on the public. Over the years, we have strengthened our tobacco control efforts progressively through a multi-pronged approach comprising legislation, enforcement, publicity, education, smoking cessation services and taxation. With the gradual strengthening of tobacco control measures (including increasing tobacco duty) since the early 1980s, both the volumes of duty-paid cigarettes and smoking prevalence have been on a general trend of decline, with the former reduced from over 7 billion sticks in 1989 to around 3.1 billion sticks in 2013 and the latter from over 23% in early 1982 to 10.7% in 2012.

3. Article 6 of the World Health Organization (WHO) Framework Convention on Tobacco Control states that **price and tax** are effective and important means of reducing tobacco consumption. WHO considers that when prices of tobacco products increase, fewer people use tobacco; those who continue to smoke consume less; those who have quit smoking are less likely to start again; and the young are less likely to start smoking. In this regard, WHO encourages its members to raise taxes on tobacco products periodically, and recommends raising tobacco taxes to accounting for **at least 70% of retail prices**.

4. We last increased the level of tobacco duty rates by 41.46% in 2011, or \$0.5 per cigarette stick. The overall smoking prevalence has subsequently dropped from 11.1% in 2010 to 10.7% in 2012. There has also been a decrease in the average daily consumption of cigarettes among daily smokers from 13.4 cigarettes per day in 2010 to 13.0 cigarettes in 2012. Among daily cigarette smokers, about one-third indicated that they had bought fewer cigarettes because of the tobacco tax increase in 2011. About one-fifth of ex-smokers quit because of the cigarette prices. Notwithstanding this, there was a slight increase in female smokers from 3.0% in 2010 to 3.1% in 2012. Smoking prevalence amongst primary 4 to 6 students also increased from 0.2% in the 2010/11 school year to 0.3% in the 2012/13 school year.

5. Smoking cessation is an integral and indispensable part of the Government's tobacco control policy to complement other tobacco control measures, including taxation. Following the increase in tobacco duty in February 2011, the integrated smoking cessation hotlines operated by the DH received an average of 189 calls per day during the first week immediately after the public announcement, which was a five-fold of the average number of calls per day in 2010. The number of enquiries received by the Hospital Authority (HA)'s smoking cessation centres has nearly doubled in three years, from 6 844 calls in 2010 to 11 031 calls in 2013; the number of counseling sessions conducted by HA's telephone counseling services has quadrupled in three years, from 11 240 sessions in 2010 to 56 500 sessions in 2013; and the number of new cases attending smoking cessation sessions in HA's clinics has more than quadrupled, from 4 156 in 2010 to 17 689 in 2013.

6. To strengthen the provision of smoking cessation service in the community, the Government has in recent years engaged local non-governmental organizations (NGOs) in providing free smoking cessation services which are community-based and adopt different approaches like Chinese medicine acupuncture, mobile clinics, outreach smoking cessation service to workplace, helping ethnic minorities and new immigrants, etc. The number of people using the smoking cessation services provided by these organizations has increased significantly. The Hong Kong Council on Smoking and Health (COSH) has also solicited support from district partners and organized "Quit-to-Win" Smoke-free Community Campaign in all 18 districts. We will continue to seek collaboration with NGOs and allocate more resources for both the public sector and NGOs to provide a comprehensive range of smoking cessation services, including enquiry, counselling, clinic services and campaigns.

7. In the past few years, the Customs and Excise Department (C&ED) has kept illicit cigarette activities under control through redeployment of manpower to strategically step up boundary control to stop the inflow of illicit cigarettes at source and strengthen urban sweeping operations against illicit cigarettes activities downtown,

with the result that the number of public complaints on illicit cigarette activities registered a year-on-year decrease by 37%.

8. To sustain the effectiveness of tobacco duty tax as a tobacco control measure, the 2014-15 Budget proposes an increase in the duty rates by **11.72%**, or an increase in the duty on cigarettes **from \$1.706 by \$0.2 to \$1.906 per stick** (i.e. an increase by **\$4 per pack**). 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, which account for less than 2% of the tobacco duty collected, will be increased by the same percentage.

Retail price of cigarettes
before and after increase in tobacco duty rates

	Before proposed increase in tobacco duty rate	After proposed increase in tobacco duty rate	Increase
Duty per stick	\$1.706	\$1.906	11.72%
Duty per pack	\$34.12	\$38.12	11.72%
Average retail price per pack	\$50 ¹	\$54	8.00%
Proportion of tobacco duty to retail price	68.2%	70.6%	N.A.

9. On 26 February 2014, the Chief Executive, after consulting the Executive Council, made the Public Revenue Protection (Dutiable Commodities) Order 2014 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 26 June 2014. The Administration aims to have the relevant legislative amendments passed by then.

OTHER OPTIONS

10. We must amend the Dutiable Commodities Ordinance in order to bring into force the proposed increase in duty rates on tobacco. There is no other option.

¹ Making reference to the retail price of the most popular brand consumed locally, which accounts for more than 50% of the market share.

THE BILL

11. The main provisions of the Bill are as follows –
- (a) **Clause 1** provides that the Bill, when enacted, is deemed to have come into operation at 11 a.m. on 26 February 2014; and
 - (b) **Clause 3** amends Schedule 1 to the Dutiable Commodities Ordinance to increase the duty rates on various types of tobacco to specified amounts.

LEGISLATIVE TIMETABLE

12. The legislative timetable will be –

Publication in the Gazette	7 March 2014
First Reading and commencement of Second Reading Debate	19 March 2014
Resumption of Second Reading Debate, Committee Stage and Third Reading	To be notified

IMPLICATIONS OF THE PROPOSAL

13. 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 respective ordinances and their subsidiary legislation.

Financial and Staffing Implications

14. The revenue implications of the proposed increase in duty rates on tobacco cannot be estimated as it hinges very much on smokers' response to the measure. For budgeting purpose, the Government has assumed that the proposal will be revenue-neutral in 2014-15. There are no staffing implications.

Economic Implications

15. 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 very small weighting of cigarettes in the basket of goods and services covered by the Composite Consumer Price Index.

PUBLIC CONSULTATION

16. We have formulated the proposal after taking into account views received from legislators and other concerned parties during the Budget consultation process.

ENQUIRIES

17. In case of enquires about this Brief, please contact Miss Wendy Au, Principal Assistant Secretary for Food and Health Bureau (Health), at 3509 8913.

Food and Health Bureau
5 March 2014

A BILL

To

Amend the Dutiable Commodities Ordinance to give effect to the proposal in the Budget introduced by the Government for the 2014–2015 financial year to increase the rates of duty on various types of tobacco.

Enacted by the Legislative Council.

1. Short title and commencement

- (1) This Ordinance may be cited as the Dutiable Commodities (Amendment) Ordinance 2014.
- (2) This Ordinance is deemed to have come into operation at 11 a.m. on 26 February 2014.

2. Dutiable Commodities Ordinance amended

The Dutiable Commodities Ordinance (Cap. 109) is amended as set out in section 3.

3. Schedule 1 amended

- (1) Schedule 1, Part II, paragraph 1(a)—
Repeal
 “1,706”
Substitute
 “1,906”.
- (2) Schedule 1, Part II, paragraph 1(b)—
Repeal

“2,197/kg”

Substitute

“2,455/kg”.

- (3) Schedule 1, Part II, paragraph 1(c)—

Repeal

“419/kg”

Substitute

“468/kg”.

- (4) Schedule 1, Part II, paragraph 1(d)—

Repeal

“2,067/kg”

Substitute

“2,309/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 2014–2015 Budget to increase the rates of duty on various types of tobacco.