

# Asia Illicit Tobacco Indicator 2017: New Zealand

Prepared by Oxford Economics  
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# Disclaimer

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# New Zealand: Legal Domestic Sales

- Legal Domestic Sales of cigarettes and loose tobacco declined by 5.3% in 2017 to 2.4 billion cigarettes (or cigarette equivalents).<sup>1</sup> Legal Domestic Sales have declined for two consecutive years since the Asia Illicit Tobacco Indicator research programme first included the New Zealand market.
- BAT accounted for two-thirds of Legal Domestic Sales in 2017 – a similar market share to the previous year – while Imperial Tobacco and PM were responsible for the majority of the rest of Legal Domestic Sales.
- Over the past five years, cigarette prices have steadily risen in line with an annual 10% increase in the Excise Tax rate (on top of an annual index-linked increase), implemented in January of each year. This trend is set to continue after provisions were made in the 2016 budget to extend this annual 10% Excise Tax hike up to and including January 2020.
- At NZD 22.0 (USD 16.0) per pack of 20 cigarettes of the Most Sold Brand, cigarette prices in New Zealand are amongst the highest in the Asia-Pacific region, comparable with other high-price markets such as Australia (USD 17.5).<sup>2</sup>
- The reoccurring annual increases in the Excise Tax rate, along with plain-packaging legislation, which was introduced to the market in March 2018, are part of an ongoing government drive to cut adult Smoking Prevalence to below 5% by 2025, with a mid-term target of 10% in 2018. In 2016/17 around 13.8% of adults were identified as smokers, down from over 16.3% in 2011/12.<sup>3</sup>
- There are also significant inequalities across demographics. For example, Smoking Prevalence among the Māori population was much higher at 32.5% in 2016/17. And for young people aged 15-24, based on 2015/16 data, while Māori males smoke at almost twice the rate of non-Māori males (27.0% vs. 15.0% respectively), Māori females smoke at over four times the rate of non-Māori females (34.0% vs. 8.0% respectively).<sup>4</sup>
- In November 2014 the passenger duty-free personal import allowance for adults entering New Zealand was cut to 50 cigarettes (previously 200 cigarettes), or 50 grams of tobacco product. And despite a significant rise in the volume of abandoned and seized tobacco at international airports,<sup>5</sup> consumer research undertaken in 2017 indicated that nearly three-quarters of all adult smokers were aware of the change in the duty-free personal import allowance, following an active New Zealand Customs public information campaign.<sup>6</sup>

## New Zealand

Legal Domestic Sales:

**2.4 bn**  
**cigarettes**

(including RYO equivalent)

Price:

NZD **22.0**  
USD **16.0**

<sup>1</sup>A conversion rate of 0.7 grams per cigarette was applied to turn loose tobacco weight into cigarette equivalent, based on rates applied by the New Zealand Ministry of Health in their analysis of annual tobacco returns.

<sup>2</sup>Price per pack of 20 of the Most Sold Brand of cigarettes in October 2017, based on PM data.

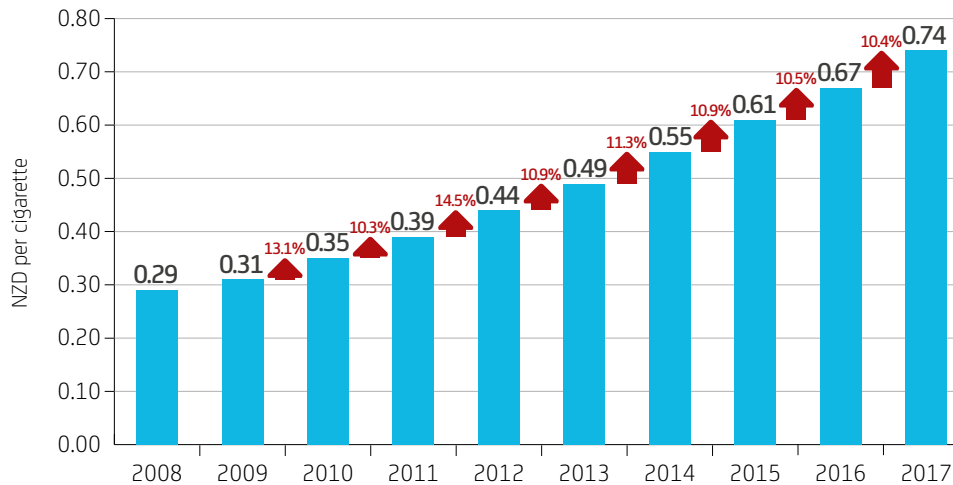
<sup>3</sup>See <https://www.health.govt.nz/publication/health-and-independence-report-2017>

<sup>4</sup>ibid.

<sup>5</sup>See <https://www.customs.govt.nz/about-us/news/media-releases/tobacco-seizures-prompts-customs-reminder-on-limits/>

<sup>6</sup>Illicit Tobacco Research Update 2017, Colmar Brunton (2017).

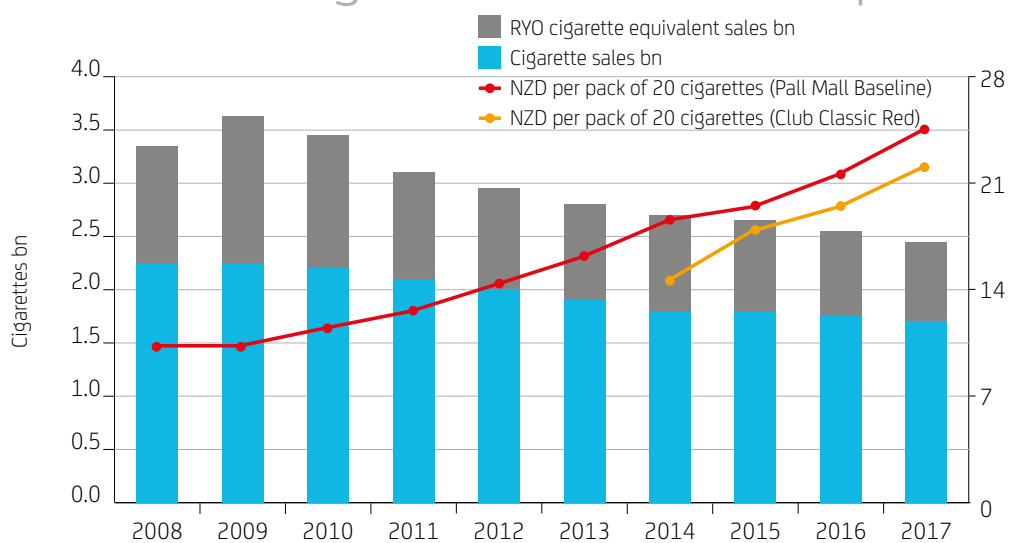
## New Zealand: Excise duty applied to cigarettes<sup>7</sup>



Source: New Zealand Customs

<sup>7</sup>Rate applied in October of each year. Includes Individual Excise Tax increases as well as annual index-linked rises.

## New Zealand: Legal Domestic Sales and prices<sup>8</sup>



Source: Oxford Economics based on PM data

<sup>8</sup>Price per pack in October of each year. In 2017, the Most Sold Brand changed from "Pall Mall Baseline" to "Club Classic Red", which was only launched in 2014. A conversion rate of 0.7 grams per cigarette was applied to turn loose tobacco weight into cigarette equivalent, based on rates applied by the New Zealand Ministry of Health in their analysis of annual tobacco returns.

# New Zealand: Tobacco Consumption

- The results from two Empty Pack Surveys (EPS), combined with annual tobacco returns and consumer survey data, were used to estimate Total Consumption of cigarettes in New Zealand.<sup>1</sup>
- Total Consumption (legal and illicit) was estimated at 2.8 billion cigarettes (or cigarette equivalents) in 2017, representing a 1.9% increase in comparison with the previous year. An estimated 86.1% of Total Consumption was Legal Domestic Consumption, 1.2% was Non-Domestic Legal Consumption, and the remaining 12.7% was Illicit Consumption.
- Illicit Consumption rose by 43.6% in 2017. This was underpinned by the increase in Non-Domestic Illicit Inflows which rose by 45.5%. By comparison, illicit Roll-Your-Own (RYO) consumption declined by 5.3%, but again represented a small share of total Illicit Consumption (less than 2.5%).
- Illicit Consumption has more than doubled in the three years since the Asia Illicit Tobacco Indicator first included the New Zealand market, to 349 million cigarettes (or cigarette equivalents) in 2017, from 137 million in 2015. The level of Illicit Incidence has risen by 7.5 percentage points to 12.7% over the same period. The rise in Illicit Consumption more than offset the 2.7% decline in Legal Domestic Consumption in 2017.
- A 2017 consumer survey on the habits of smokers in New Zealand found that 17% of respondents reported having purchased illicit tobacco in the past, and 9% have purchased illicit tobacco in the previous 12 months. The same survey conducted in 2015 found lower self-reported levels of purchasing illicit tobacco of 12% and 6% respectively.<sup>2</sup> The results of the consumer survey are therefore consistent with the higher level of Illicit Incidence identified in this Report compared with 2015.
- In addition to the increase in Illicit Consumption over the past few years, there has also been a rising trend of aggravated robberies of retail outlets in New Zealand, with some commentators attributing the trend to the increasing cost of tobacco. In response, New Zealand police announced in June 2017 a NZD 1.8 million package of support for owners to help fund the installation of equipment such as panic alarms and fog cannons.<sup>3</sup>

## New Zealand: Composition of cigarette consumption<sup>4</sup>

	2015		2016		2017		% change 2016-17
	Cigarettes mn	%	Cigarettes mn	%	Cigarettes mn	%	
<b>Legal Domestic Consumption (LDC)</b>	<b>2,439</b>	<b>93.6</b>	<b>2,432</b>	<b>90.1</b>	<b>2,367</b>	<b>86.1</b>	<b>-2.7</b>
Legal Domestic Sales (LDS)	2,593	—	2,523	—	2,388	—	-5.3
Outflows of domestic duty-paid cigarettes	-154	—	-91	—	-21	—	-77.1
<b>Total Non-Domestic Inflows (ND)</b>	<b>166</b>	<b>6.4</b>	<b>268</b>	<b>9.9</b>	<b>383</b>	<b>13.9</b>	<b>43.1</b>
Non-Domestic Legal (NDL)	30	1.1	25	0.9	34	1.2	37.8
Non-Domestic Illicit	128	4.9	234	8.7	340	12.4	45.5
Illicit RYO	8	0.3	9	0.3	8	0.3	-5.3
<b>Domestic Illicit</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>n/a</b>
<b>Total Consumption</b>	<b>2,605</b>	<b>100.0</b>	<b>2,700</b>	<b>100.0</b>	<b>2,750</b>	<b>100.0</b>	<b>1.9</b>
<b>Total Illicit Consumption</b>	<b>137</b>	<b>5.2</b>	<b>243</b>	<b>9.0</b>	<b>349</b>	<b>12.7</b>	<b>43.6</b>

Source: Oxford Economics

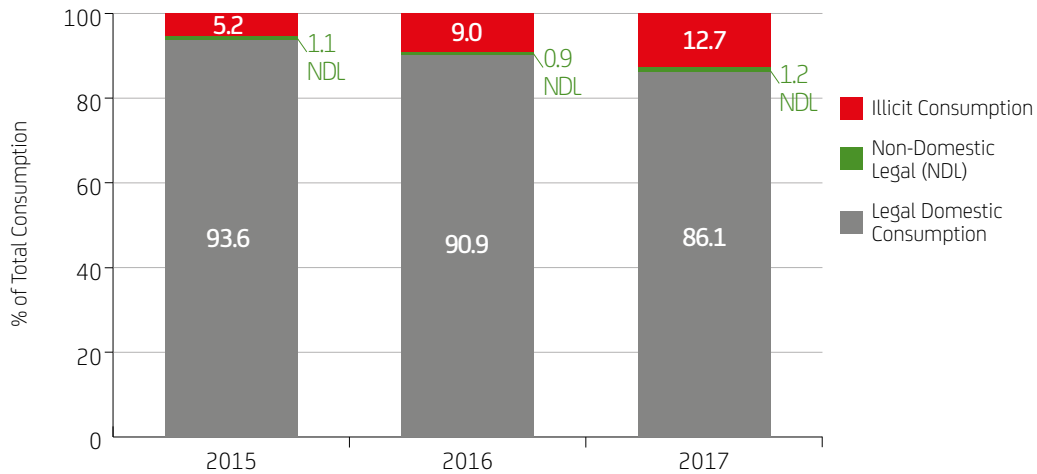
<sup>1</sup>EPS's were undertaken in 2017 Q2 and 2017 Q4. The Non-Domestic Incidence level reported by the 2017 Q2 EPS (25.3%) is inconsistent with the wider trend since the first EPS was conducted in 2014 (around 10-15 percentage points higher), and may be biased upwards by the surge in visitor arrivals in the same month. However, without evidence to suggest the 2017 Q2 EPS was erroneous, this Report assigns an equal weighting to both surveys for the purpose of estimating Illicit Consumption, while recognising that this approach may yield an over-estimate of the actual level of Illicit Incidence in New Zealand in 2017. Legal Domestic Sales sourced from New Zealand Ministry of Health annual tobacco returns 2017. A conversion rate of 0.7 grams per cigarette was applied to turn loose tobacco weight into cigarette equivalent, based on rates applied by the New Zealand Ministry of Health in their analysis of annual tobacco returns. Consumer survey data from Illicit Tobacco Research Update 2017, Colmar Brunton (2017).

<sup>2</sup>Illicit Tobacco Research Update 2017, Colmar Brunton (2017).

<sup>3</sup>See [https://www.nzherald.co.nz/nz/news/article.cfm?c\\_id=1&objectid=11928994](https://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11928994)

<sup>4</sup>2016 figures have been restated based on updated data on Legal Domestic Sales, sourced from the New Zealand Ministry of Health annual tobacco returns. All references to cigarette consumption includes RYO equivalent.

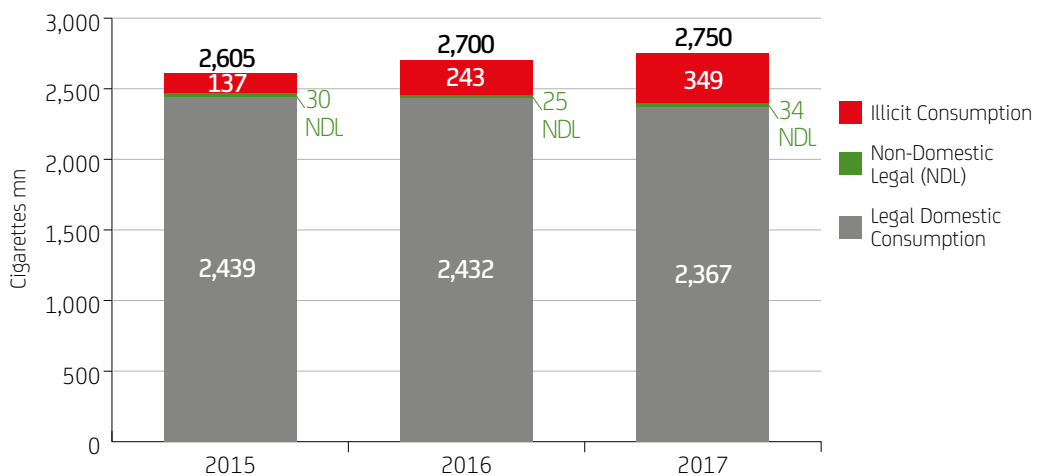
## New Zealand: Composition of cigarette consumption (% of Total Consumption)<sup>5</sup>



Source: Oxford Economics

<sup>5</sup>Cigarettes and RYO equivalent

## New Zealand: Composition of cigarette consumption (number of cigarettes)<sup>6</sup>



Source: Oxford Economics

<sup>6</sup>Cigarettes and RYO equivalent

# New Zealand: Government Finances

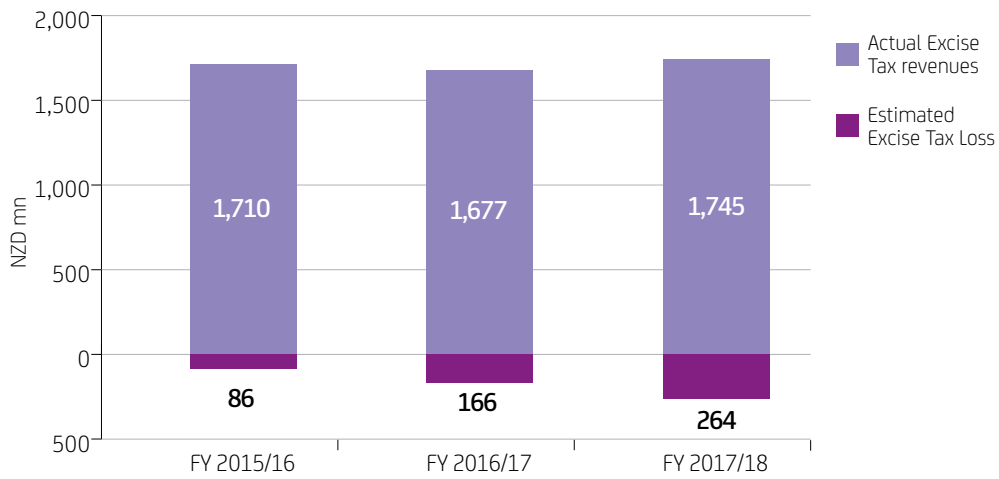
- New Zealand operates a weight-based-specific Excise Tax system. As of 1st January 2017, for manufactured cigarettes weighing less than or equal to 0.8 kg of actual tobacco content per thousand cigarettes, a rate of NZD 738.13 per thousand cigarettes was applied. For manufactured cigarettes containing more than 0.8 kg of actual tobacco content per thousand cigarettes, as well as smoking tobacco, homogenised or reconstituted tobacco, the duty rate was NZD 1,051.83 per kg of tobacco content. For all other tobacco products, including snuff, cigars, cheroots, and cigarillos, the duty rate was NZD 922.64 per kg of tobacco content.
- The Government announced in the 2016 budget a series of four annual 10% Excise Tax increases between 2017 and 2020. This followed similar legislation enacted in the 2012 budget covering the period 2013 to 2016.
- In addition to the 10% annual increase, Excise Tax rates are subject to an annual indexation increase, based on the Consumer Price Index (excluding credit services). Excise Tax increases are implemented on 1st January every year and are based on the 12-month period to September the previous year.
- In total, the Excise Tax rate rose by 10.4% on 1st January 2017.
- A 15% GST tax is also levied on all retail sales of cigarettes.
- Total revenues from Excise Tax duties were estimated to have increased by 4.1% to NZD 1,745 million (USD 1,247 million) in the fiscal year 2017/18. This was underpinned by an average Excise Tax increase of around 11% in comparison with the fiscal year 2016/17, offsetting the impact of an estimated 4.4% decline in Legal Domestic Sales over the same period.
- Our estimates indicate that the Tax Loss due to Illicit Consumption of cigarettes and RYO rose by 59.7% to NZD 319 million in the fiscal year 2017/18.

## New Zealand: Actual government revenues and estimated Tax Loss

	2015/16 fiscal year		2016/17 fiscal year		2017/18 fiscal year		% change in local currency 2016/17- 2017/18
	NZD mn	USD mn	NZD mn	USD mn	NZD mn	USD mn	
Actual revenue from excise duties on tobacco	1,710	1,142	1,677	1,195	1,745	1,247	4.1%
Estimated number of illicit cigarettes purchased (cigarettes mn)	128		229		341		48.8%
Estimated volume of illicit loose tobacco purchased (mn cigarettes equivalent)	8		8		8		-2.4%
<b>Estimated Tax Loss from Illicit Consumption</b>	<b>106</b>	<b>71</b>	<b>200</b>	<b>142</b>	<b>319</b>	<b>228</b>	<b>59.7%</b>
Lost excise revenue	86	58	166	118	264	189	59.3%
Lost GST revenue	19	13	34	24	55	35	61.5%
<b>Excise Tax Loss as % of potential total Excise Tax revenues</b>	<b>4.8%</b>		<b>9.0%</b>		<b>13.2%</b>		

Source: New Zealand Treasury Department and Oxford Economics based on PM data  
 Estimated number of illicit cigarettes purchased adjusted for fiscal year, which runs from July to June. Includes loose tobacco. A conversion rate of 0.7 grams per cigarette was applied to turn loose tobacco weight into cigarette equivalent, based on rates applied by the New Zealand Ministry of Health in their analysis of annual tobacco returns. Actual revenues for fiscal year 2017/18 based on Treasury forecasts, presented in the Budget Economic and Fiscal Update 2018, May 2018 (Retrieved via <https://treasury.govt.nz/sites/default/files/2018-05/befu18.pdf>).

## New Zealand: Actual government revenues and estimated Excise Tax Loss

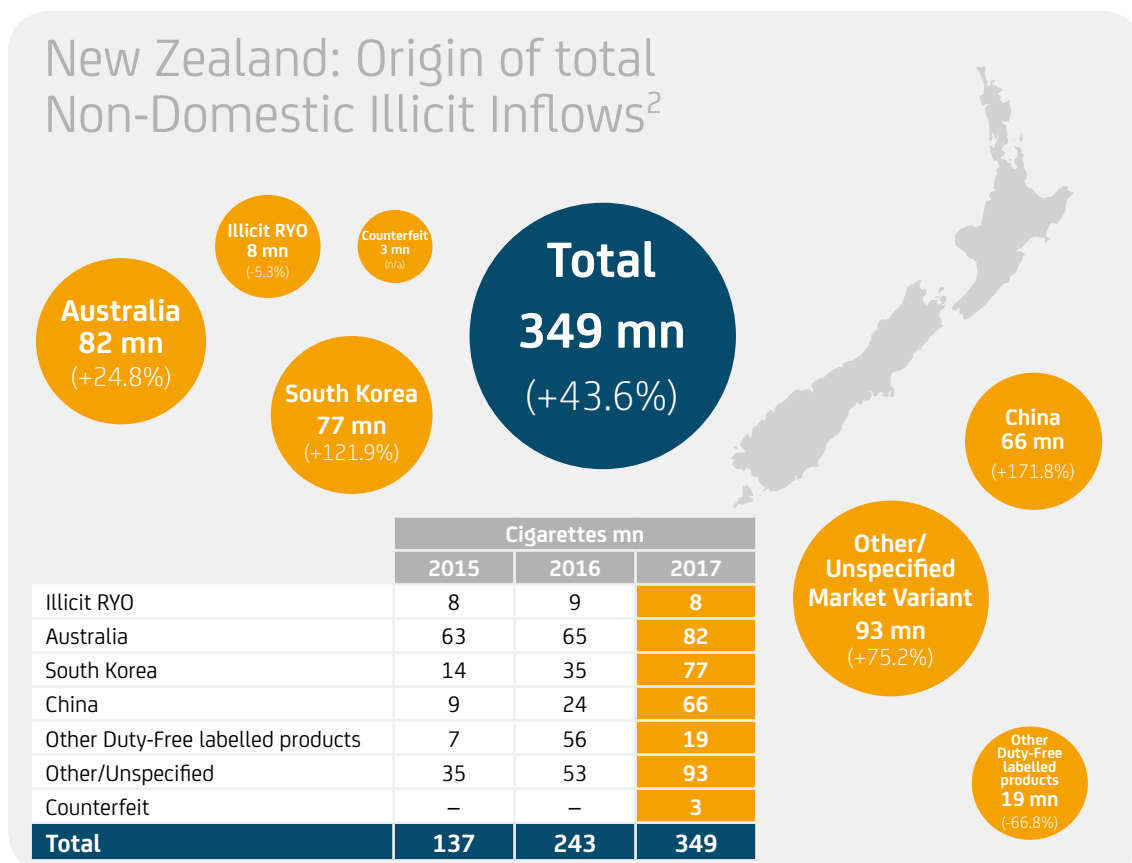


Source: New Zealand Treasury Department and Oxford Economics based on industry data.



# New Zealand: Trade Flows

- Non-Domestic Illicit Inflows, including illicit RYO,<sup>1</sup> rose by 43.6% in 2017. This was driven by the increase in consumption of illicit cigarettes. Illicit RYO remained relatively unchanged in comparison with 2016.
- The rise in Inflows of illicit cigarettes was underpinned by significant growth in brands intended for final retail sale in China and South Korea, rising by 172.1% and 122.1% respectively. Since 2015, the first year the Asia Illicit Tobacco Indicator research included New Zealand, illicit Inflows from China and South Korea have increased by around 630% and 450% respectively.
- Illicit Inflows from Australia also rose in 2017 after remaining relatively stable in the previous year, albeit by a more modest 24.9%.
- For the first time since the Asia Illicit Tobacco Indicator Report included the New Zealand market, a small volume of Counterfeit cigarette were identified in 2017, equivalent to 3 million cigarettes.
- According to consumer survey research of smokers in New Zealand, 61% of those respondents who undertook a trip abroad in 2017 brought back tobacco or cigarettes on returning to New Zealand as part of their duty-free personal import allowance (up from 39% in 2015). And of those carrying cigarettes or tobacco, nearly one-third of respondents admitted to exceeding the duty-free personal import allowance (both for cigarettes and RYO). This is consistent with the trend of increasing Non-Domestic Inflows and Non-Domestic Illicit since 2015).

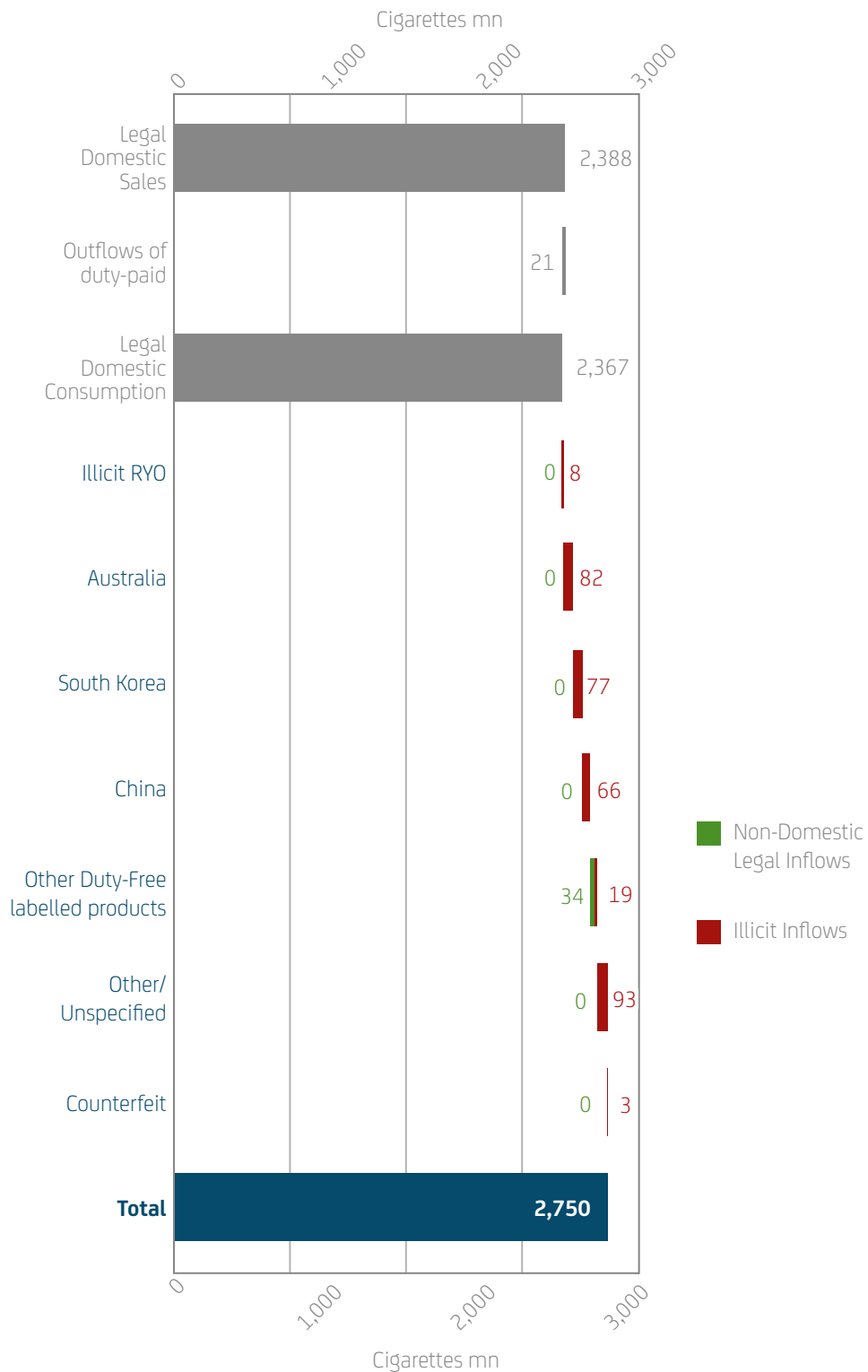


Source: IT Flows Model and Oxford Economics

<sup>1</sup>It is recognised that illicit RYO originate from both Non-Domestic and Domestic home-grown sources; however it is not possible to separate the two, and therefore for the purposes of this Report we consider all illicit RYO volumes to be of Non-Domestic origin.

<sup>2</sup>Including illicit RYO. Figures in brackets reflect % change from 2016.

# New Zealand: Consumption breakdown 2017

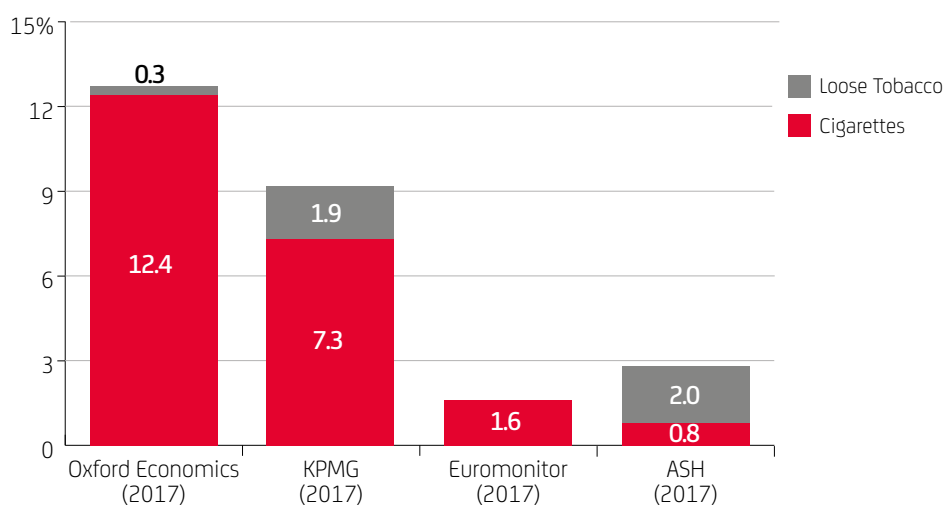


Source: IT Flows Model and Oxford Economics

# New Zealand: Other Estimates

Source	Comment
KPMG, Illicit tobacco in New Zealand, 2017 Full Year Report, May 2018. Retrieved via <a href="https://home.kpmg.com/uk/en/home/insights/2018/07/illicit-tobacco-in-new-zealand-2017.html">https://home.kpmg.com/uk/en/home/insights/2018/07/illicit-tobacco-in-new-zealand-2017.html</a>	KPMG estimate an Illicit Incidence of 9.2% in 2017. While using the same underlying data as this Report – EPS and the Colmar Brunton consumer survey – there are two key differences in methodology. Firstly, KPMG assign a 1/12 weighting to the Q2 EPS and a 11/12 weighting to the Q4 EPS, whereas this Report applies an equal weighting to both surveys. Secondly, when estimating the volume of illicit RYO, KPMG apply the mean of reported values from the consumer survey on “amount of home grown tobacco sold/given away” and “frequency of buying home grown tobacco” whereas this Report applies the median to reduce the impact of potential outliers (leading to a lower estimate of illicit RYO). KPMG also estimate a higher volume of Non-Domestic Legal Inflows of cigarettes, and, hence, a lower volume of Non-Domestic Illicit Inflows of cigarettes.
Euromonitor Passport, 2018	Euromonitor estimates an Illicit Incidence of 1.6% in 2017. The methodology, sampling, and coverage are unknown, so it is difficult to assess the robustness of this estimate.
Action on Smoking and Health (ASH) New Zealand, Update of Illicit Trade in Tobacco Products in New Zealand in 2013, 2013. Retrieved via <a href="http://www.ash.org.nz/the-evidence/we-produce/research-on-the-illicit-tobacco-market/">http://www.ash.org.nz/the-evidence/we-produce/research-on-the-illicit-tobacco-market/</a>	Analysis by ASH based on data on the import and seizure of legal and illegal tobacco in New Zealand from Customs, combined with previous literature which was used to calculate interception rates of illegal tobacco being smuggled and “home grown” in New Zealand, suggest an Illicit Incidence of between 1.8% and 3.9% in 2010-13 (including RYO).

## New Zealand: Alternative estimates of Illicit Consumption



# New Zealand: Data Sources

	Primary source	Calculation	Comments
<b>Legal Domestic Sales (LDS)</b>	Annual tobacco returns filed by manufacturers and importers with the New Zealand Ministry of Health.	—	—
<b>Outflows of domestic duty-paid cigarettes</b>	EPS data in other markets covered in this Report.	EPS data in other markets used to identify the presence of packs bearing New Zealand market-specific labelling (e.g., health warnings, tax stamps etc.).	Outflows of domestic duty-paid cigarettes to other markets are estimated at around 21 million cigarettes, nearly all of which is destined for Australia.
<b>Legal Domestic Consumption (LDC)</b>	—	Legal Domestic Sales minus Outflows of legal sales.	Outflows of duty-paid cigarettes refer only to Outflows to other markets.
<b>Total Non-Domestic Inflows (ND)</b>	—	Sum of Non-Domestic Legal and Non-Domestic Illicit.	—
<b>Non-Domestic Legal (NDL)</b>	—	Estimated using passenger data, smoking rates, and passenger duty-free personal import allowance.	Maximum theoretical amount an individual can carry across a border. Passenger data from Statistics New Zealand.
<b>Non-Domestic Illicit</b>	EPS's and Colmar Brunton Survey.	Based on EPS's, Colmar Brunton data, and OE estimates.	Estimates derived from the weighted average of EPS conducted in 2017 Q2 and 2017 Q4. An estimate for loose tobacco has been added based on analysis of the Colmar Brunton Consumer Survey (2017). See Report methodology for more details.
<b>Domestic Illicit</b>	—	Zero under-declaration of domestically produced cigarettes.	There is assumed to be no under-declaration of domestically produced cigarettes.
<b>Total Illicit Consumption</b>	—	Sum of Non-Domestic Illicit and Domestic Illicit.	—
<b>Total Consumption</b>	—	Legal Domestic Sales minus Outflows of domestic duty-paid cigarettes, plus estimated Non-Domestic Legal consumption, plus estimated Illicit Consumption.	The IT Flows Model estimate of consumption is 2.75 billion cigarettes for 2017.
<b>Total Tax Loss</b>	—	Total Illicit Consumption multiplied by the weighted average tax rates (Excise Tax and GST).	See Report methodology for more details.

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