

## **Press release**

### **LCQ1: Measures to tackle sales of illicit cigarettes**

Wednesday, June 27, 2012

Following is a question by the Hon Vincent Fang Kang and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (June 27):

Question:

The Customs and Excise Department (C&ED) has recently announced a number of operations which successfully intercepted duty-not-paid cigarettes (illicit cigarettes). However, some reports have reflected that the mode of operation, delivery and selling practices in respect of illicit cigarettes have gradually become more organised and systematic, and that students, elderly people and postal service are used for sending illicit cigarettes to buyers. My email account has also repeatedly received emails promoting the sale of illicit cigarettes. In this connection, will the Government inform this Council:

(a) how the government revenue generated from tobacco duty in the past two financial years and in the first two months of the current financial year compares with that of the corresponding periods in the previous years; of the quantity of duty-paid cigarettes involved; the changes in the mode of operation of the illicit cigarette trade as shown in the cases successfully cracked down by C&ED; the authorities' counter-measures, in addition to the "Telephone Order Task Unit" established by C&ED this year, to tackle organised operation and peddling of illicit cigarettes on the Internet; whether the authorities have publicity measures targeting at students seeking summer jobs to prevent them from being used by illicit cigarette syndicates to sell or deliver illicit cigarettes;

(b) as the Government offers rewards to persons reporting illicit cigarette activities, of the number of persons who had been rewarded and the quantity of illicit cigarettes seized as a result in the past three years; it has been learnt that the amount of reward is pegged to the quantity of illicit cigarettes seized, but as C&ED has stepped up efforts in combating illicit cigarette activities, traders of illicit cigarettes break down their "goods" into smaller quantities, rendering it impossible for persons making such reports to get any reward because of the small quantity of illicit cigarettes seized by C&ED, whether the authorities have any plan to revise the reward scheme, so as to encourage more people to report illicit cigarette activities; and

(c) following the series of tobacco control measures launched by the Government, of the number of smokers in Hong Kong in the past three years, the changes in their age distribution, as well as the number of those who sought cessation support through the Government's smoking cessation hotline or the public health system together with their age distribution; given that some tobacco control groups have recently suggested applying the concept of "dedicated-fund-for-dedicated-use" to tobacco duty in that the duty so collected would be used for the purposes of tobacco control and helping smokers give up smoking, whether the authorities will consider this suggestion; if they will, of their plan; if not, the reasons for that, and whether they will consider increasing the funding and support for tobacco control and combating illicit cigarettes?

Reply:

President,

After co-ordinating the information from the Financial Services and the Treasury Bureau, the Food and Health Bureau and the Customs and Excise Department (C&ED), my answers to the three parts of the question are set out below.

(a) Regarding the total government revenue generated from tobacco duty and the number of cigarettes involved, the amount of duty from cigarettes dropped slightly from some \$4.18 billion in 2010-11 to some \$4.15 billion in 2011-12, representing a drop of less than 1%, whereas the number of duty-paid cigarettes dropped from some 3.46 billion sticks in 2010-11 to some 2.43 billion sticks in 2011-12, representing a drop of around 30%. For the first two months of the current financial year, as compared with the same period in the previous year, the duty from cigarettes increased from about \$200 million to some \$730 million, and the number of duty-paid cigarettes rose from about 120 million sticks to some 420 million sticks, both representing an increase of close to 250%.

On anti-illicit cigarette operation, C&ED has been continuously making vigorous efforts in combating the smuggling, distribution and peddling of illicit cigarettes in town. In 2011-12, the number of illicit cigarette cases detected by C&ED increased by about 60% from 6,028 cases to 9,735 cases when compared with that in 2010-11; and the number of cigarettes seized from local cases dropped by about 10% from 64 million sticks to 57 million sticks. When comparing the first two months of the current financial year with the same period of the previous year, the number of illicit cigarette cases detected by C&ED rose by about 30% from 1,309 cases to 1,660 cases, and the number of cigarettes seized from local cases was more or less the same at 15 million sticks. On the whole, the situation of illicit cigarette activities has been kept under control without any sign of deterioration.

As regards peddling of illicit cigarettes, since C&ED has deployed a Special Task Force to step up sweeping operation at black spots in various districts, peddling activities on street have been largely suppressed. Ordering via telephone has become the major channel for illicit cigarette peddling. In order to step up efforts to combat these activities, C&ED established on April 1, 2012 a Telephone Order Task Unit comprising 15 officers to conduct in particular intelligence analysis and law enforcement against peddling via telephone orders and online sale of illicit cigarettes.

To raise public awareness of the fact that buying or selling illicit cigarettes is illegal, C&ED will continue rolling out its publicity campaign, which includes broadcasting anti-illicit cigarettes APIs on radio and TV channels as well as community halls, and putting up anti-illicit cigarette publicity posters in public housing estates and tertiary institutions, so as to encourage the public to report illicit cigarette activities.

(b) In order to combat various illegal activities, including illicit cigarette activities, C&ED has put in place a Reward Scheme to reward informers who provide information to assist the Administration in combating the relevant illegal activities. The Scheme is strictly administered in accordance with the established procedures. The Administration will review the Scheme from time to time, including adjusting the reward amount to meet actual needs.

While the amount of reward offered is linked with the quantity of illicit cigarettes seized, C&ED has detected many illicit cigarette cases based on the reporting by the general public. The general public provided information not merely for the sake of getting reward. Besides, C&ED will continue to intensify its actions against illicit cigarette activities at different levels, including importation, storage, distribution and street peddling, and will also enhance the publicity to remind the public that it is an offence to sell and buy illicit cigarettes. Hence, the amount of reward will not have profound impact on the enforcement against illicit cigarettes.

In the past three years, the number of reward payments made for providing information on illicit cigarette activities and the number of cigarettes involved in these cases are as follows –

Year	2009-10	2010-11	2011-12
No. of Reward payments	6	11	4
Cigarette seizures involved (million sticks)	7	21.3	2.6

(c) The Government has been adopting a multi-pronged approach comprising legislation, taxation, publicity, education, enforcement and promotion of smoking cessation services to reduce smoking and protect the public from exposure to second-hand smoke.

According to the last two surveys conducted by the Census and Statistics Department, the proportion of persons who had a daily smoking habit among all persons aged 15 and above dropped from 12.0% (698,700 persons) in 2009 to 11.1% (657,000 persons) in 2010. All age groups saw a significant drop in smoking prevalence except the age groups of age 60 or above and age 15 to 19. The smoking prevalence by age groups as found in the surveys is shown at Annex I.

A new round of survey on smoking prevalence has commenced in late 2011. The Government will continue to monitor the trend of smoking prevalence closely.

On smoking cessation services, the Department of Health (DH) and the Hospital Authority (HA) have been operating cessation counselling telephone hotline, and providing smoking cessation services in their respective clinics. Collaborative efforts have also been undertaken with non-governmental organisations, academic institutions and healthcare professions to promote smoking cessation and provide smoking cessation services to the public. Key statistics on the service throughputs of these counselling and smoking cessation services are at Annex II.

According to the Government's established principles of public finance management, the revenue from tobacco duty, similar to other tax revenue, will be credited to the General Revenue. Through the Resource Allocation Exercise, the Government will then allocate the resources to its different streams of work and services having regard to the priorities of the time so as to ensure that our work and services can cater for the various needs of the community. If it is rigidly laid down that a certain proportion of a particular item of revenue has to be designated for a particular use, this will undermine our well-established resources allocation mechanism and erode its flexibility.

As a matter of fact, the Government has been devoting more resources to tobacco control, particularly to smoking cessation services. DH's expenditure on tobacco control has increased from some \$110 million in 2011-12 to some \$150 million in the current financial year. The Government will continue to closely monitor the effectiveness of various tobacco control measures, and to provide additional resources for tobacco control where necessary.

Ends