

**Senate Economics Legislation Committee**  
ANSWERS TO QUESTIONS ON NOTICE

**Treasury Portfolio**

Budget Estimates

2016 - 2017

**Department/Agency:** Treasury

**Question:** BET1-48

**Topic:** Tobacco Excise & Leak of Treasury Information

**Reference:** Written - 6 May 2016

**Senators:** Penny Wong and Chris Ketter

**Question:**

The government has announced tobacco excise taxes identical to those announced by Labor (four increases of 12.5% over four years, on 1 September 2017, 2018, 2019, 2020)

On Monday 2 May, Laurie Oakes revealed leaked Treasury figures, which then appeared throughout the following day's newspapers.

1. Was the above document and its contents a Treasury document?
2. If it was not a Treasury document, what was the document leaked to Laurie Oakes?
3. Did the document contain costings modelled by Treasury?
4. Where did the document come from?
5. Has anyone taken responsibility for leaking the document?
6. Was it a Cabinet-In-Confidence document?
7. Is Treasury modelling considered Cabinet-In-Confidence?
8. What is the protocol for investigating leaks of Cabinet-In-Confidence document?
9. Will there be an investigation?
10. Has the AFP been asked to investigate?
11. Has an internal investigation been initiated?
12. On what date was Treasury asked to model Labor's policy on tobacco excise?
13. Was it before the 21 March announcement that the Budget would be on 3 May?
14. Did the Treasurer's office or PM&C specifically request that Treasury model a ten year Budget save profile of the government's tobacco excise policy?
15. On what date was the request made?
16. When was the modelling provided?
17. As reported on National Nine News on Monday 2 May, and then in newspapers on Tuesday 3 May, is it the Treasury position that the government's tobacco excise measures announced in the Budget will save \$28.2 billion over the decade?
18. What is the 'normal' rate at which cigarette consumption is declining? (due to plain packaging, health choices)
19. What impact does the excise have on the 'normal rate' of decline?
20. Please explain what the 'consensus' elasticity estimate is? Is it at about -0.4?
21. What is Treasury's elasticity estimate?
22. Has that changed since the 2015-16 Budget?
23. Has that changed since MYEFO?
24. What is the normal rate that cigarette consumption declines as the excise increases?
25. Can you express this in terms of revenue - what is the normal rate that cigarette consumption declines as revenue increases?
26. When the tobacco excise increases 12.5% (per year), what is the estimated rate that consumption declines (per year)?
27. How was this rate developed or modelled?

28. How long has this rate been used?
29. What assumptions underpin this rate?
30. Is it an elastic or inelastic rate of demand?
31. What international benchmark rate was used in MYEFO to estimate the rate of decline and the elasticity of the product?
32. Have any key assumptions changed in Treasury's costing of revenue gains from additional 12.5% tobacco excise increases since MYEFO?
33. Has the benchmark that Treasury uses (or the elasticity figure) changed since MYEFO?
34. If changes are made to assumptions regarding tobacco use, what is the process for advising the government and seeking acceptance for these changes?
35. Was advice provided to the Treasurer's office about these changed assumptions? When?
36. Did the advice to the Treasurer's office provide different options for assumptions that could be used? If yes, did these options include different revenue implications?
37. Were Treasury asked to use a different rate?
38. How much revenue will the governments tobacco excise raise over 10 years?
39. Did Treasury (or PMO) consult with PBO to check that they were using the same rate of consumption decline as excise increases?
40. If Treasury did not consult with PBO, why not? Does Treasury not take into account PBO costings and their assumptions when formulating their own estimates.
41. Is there an informal process for checking such modelling to ensure accurate comparisons of policy?
42. Is there a formal process for accurately comparing policy?
43. Is the Government's tobacco excise policy the same policy as that proposed by Labor?

Senator Ketter also asked the following additional questions:

44. Is the document and its contents familiar to Treasury Secretary?
45. Did you talk to the Treasurer about it? Why/Why not
46. On what date did Cabinet/ERC consider this measure?
47. On what date did Cabinet decide to adopt Labor's policy?
48. Secretary, what did you do, presumably on Monday night, when your attention was drawn to the fact that a 'Protected Sensitive: Cabinet' document with Treasury revenue figures was published in the media?

**Answer:**

- 1-4. Treasury has not seen the document cited by Mr Oakes, and is therefore unable to comment.
5. Not to our knowledge.
6. See response to question 1.
7. Treasury modelling is considered Cabinet-In-Confidence if it relates to material considered by Cabinet.
- 8-11. The Treasury places the utmost importance on the security of confidential information, especially Budget material. During the lead up to the Budget, Treasury put in place significant additional arrangements to safeguard confidential information such as restricting access to documents on a strict need-to-know basis and further limitations on the attendance of personnel at critical meetings. On being made aware that Mr Oakes was in possession of a document purported to contain confidential information, appropriate enquiries within the Treasury were made and it was judged that those safeguards continued to be appropriate.

- 12-13. Disclosing when these costing were provided to the Government would reveal deliberations of Cabinet.
14. Yes.
- 15-16. In accordance with previous and current Government conventions deliberations of Cabinet are confidential and are not released into the public domain.
17. Yes.
18. This analysis has not been undertaken by Treasury.
- 19-20. There are a range of elasticity estimates available and no definitive data are available. The World Health Organisation has a range of estimates that it has suggested for both developed and developing countries. Using these WHO estimates and our judgment, Treasury used a price elasticity for tobacco of -0.5.
21. The estimated price elasticity of tobacco used was -0.5.
22. There were no tobacco related measures in the 2015-16 Budget.
23. There were no tobacco related measures in the 2015-16 MYEFO.
- 24-25. See response to question 19.
26. Treasury modelling uses tobacco clearances as a proxy for the consumption of tobacco. Consumption of tobacco is estimated to decline by between 4-5 per cent each year that the tobacco excise is increased by 12.5 per cent.
27. The decline in the rate of consumption was estimated by multiplying the change in the average prices of tobacco by the elasticity of tobacco.
28. Treasury generally reviews all its assumptions each time it is asked to cost a revenue policy change.
29. The assumption underpinning this rate is the average price of tobacco and the price elasticity of tobacco.
30. This is an inelastic rate of demand in that the estimated change in demand of tobacco is less than the estimated change in price of tobacco.
- 31-33. See response to question 23.
- 34-36. See response to question 15.
37. No.
38. The four 12.5 per cent increase to tobacco excise and the reduction in the duty-free threshold are estimated to raise \$28.2 billion of revenue over 10 years, from 2016-17 to 2025-26.
- 39-41. Treasury has protocols and a memorandum of understanding with the PBO which encourages staff to work cooperatively on data, methodology and underlying assumptions.
42. No formal process exists; comparing policy options is part of the day-to-day work of Treasury.
43. No. The Government tobacco excise policy includes changes to the duty free threshold and complementary measures to combat illicit tobacco.
- 44-45. See response to question 8.

46. See response to question 15.
47. Cabinet did not make a decision to adopt Labor's policy.
48. See response to question 8.