



Illicit tobacco in Australia

2015 Full Year Report

15 April 2016





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Nothing in this Report constitutes legal advice. Information sources, the scope of our work, and scope and source limitations, are set out in the Appendices to this Report. The scope of our review of the contraband, counterfeit and unbranded segments of the tobacco market within Australia was fixed by agreement with the Beneficiaries and is set out in the Appendices.

We have satisfied ourselves, so far as possible, that the information presented in this Report is consistent with our information sources but we have not sought to establish the reliability of the information sources by reference to other evidence.

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In particular, and without limiting the general statement above, since we have prepared this Report for the Beneficiaries alone, this Report has not been prepared for the benefit of any other manufacturer of tobacco products nor for any other person or organisation who might have an interest in the matters discussed in this Report, including for example those who work in or monitor the tobacco or public health sectors or those who provide goods or services to those who operate in those sectors.

Glossary

ABF	Australian Border Force (the new front-line operational agency of the DIBP)
ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
AIHW	Australian Institute of Health and Welfare
AIT	Anti-Illicit Trade
ATO	Australian Taxation Office
AWOTE	Average Weekly Ordinary Time Earnings
AUSTRAC	Australian Transaction Reports and Analysis Centre
BATA	British American Tobacco Australia
bn	Billion
CAGR	Compound Annual Growth Rate
CATI	Computer Aided Telephone Interview
CAWI	Computer Aided Web Interview
Contraband	Genuine manufactured cigarettes that are sold without the payment of applicable excise taxes in the market of consumption. Contraband cigarettes tend to have been bought in a low-tax country and brought into the country of consumption illegally or acquired without taxes (for export purposes) and illegally re-sold in the market of consumption. This includes genuine products which are brought into a country in amounts exceeding the personal allowance; in Australia this limit is 50 sticks or 50 grams of RYO per person.
Counterfeit	Manufactured cigarettes which are illegally manufactured and carry the trademark and/or branding of a legally manufactured brand without the consent of the trademark owner. Counterfeit cigarettes are also known as fake cigarettes. For the purposes of this analysis, data relating to counterfeit is not included within the definition of contraband.
CPI	Consumer Price Index
DIBP	The Department of Immigration and Border Protection (the department into which the Australian Customs and Border Protection Service was integrated in 2015 at which time the ABF was created).
EOS	Shipment data is provided by each manufacturer to independent research agencies who process and combine it into a single set of data to reflect ex-factory shipments for all three manufacturers.
EPS	Empty Pack Survey
FCTC	Framework Convention on Tobacco Control
g	Gram
GDP	Gross Domestic Product
H1	First half of the year i.e. the period from January to June
H2	Second half of the year i.e. the period from July to December
Illicit whites	Manufactured cigarettes that are usually manufactured legally in one country/market but which the evidence suggests have been smuggled across borders during their transit to Australia, where they have limited or no legal distribution and are sold without the payment of tax.
Inflows	Total volume of cigarettes coming into Australia
ITA	Imperial Tobacco Australia

Glossary (cont.)

kg	Kilogram
KPI	Key Performance Indicator
LDC	Legal Domestic Consumption
LDS	Legal Domestic Sales
LTM	Last Twelve Months
LTM H1	Last Twelve Months to the end of June (e.g. 1 July 2014 to 30 June 2015)
LTM H2	Last Twelve Months to the end of December (e.g. 1 January 2014 to 31 December 2014)
m	Million
MSI	MSIntelligence
ND(L)	Non-Domestic Legal is the legitimate tobacco purchased in duty free or abroad within personal allowance limits.
Non-domestic cigarettes	Cigarettes which are not Australian (i.e. health warnings missing or not in English, brands not sold in Australia, packs with identifying marks from other markets such as tax stamps).
OECD	Organisation for Economic Cooperation and Development
PDI	Personal Disposable Income
PML	Philip Morris Limited
pp	Percentage point
Project SUN	A study of the illicit cigarette market in the European Union by KPMG
Outflows	Legitimate tobacco purchased in Australia and taken abroad
RMR	Roy Morgan Research
RSP	Retail Selling Price
RYO	Roll Your Own
TISG	Tobacco Industry Stakeholder Group. Formerly known as the Tobacco Industry Forum (TIF)
TRN	Tobacco Retailer Notification
Tonnes	Thousand kilograms
WHO	World Health Organisation
Unbranded tobacco	Illegal loose leaf tobacco upon which no duty has been paid and which carries no labelling or health warnings. It is sold and consumed either in RYO form (called Chop Chop) or inserted into empty cigarette tubes. Commonly sold in both bags or boxes.
Unspecified	Unspecified market variant refers to cigarette packs which do not bear specific market labelling or Duty Free labelling.
Y o Y	Year on Year

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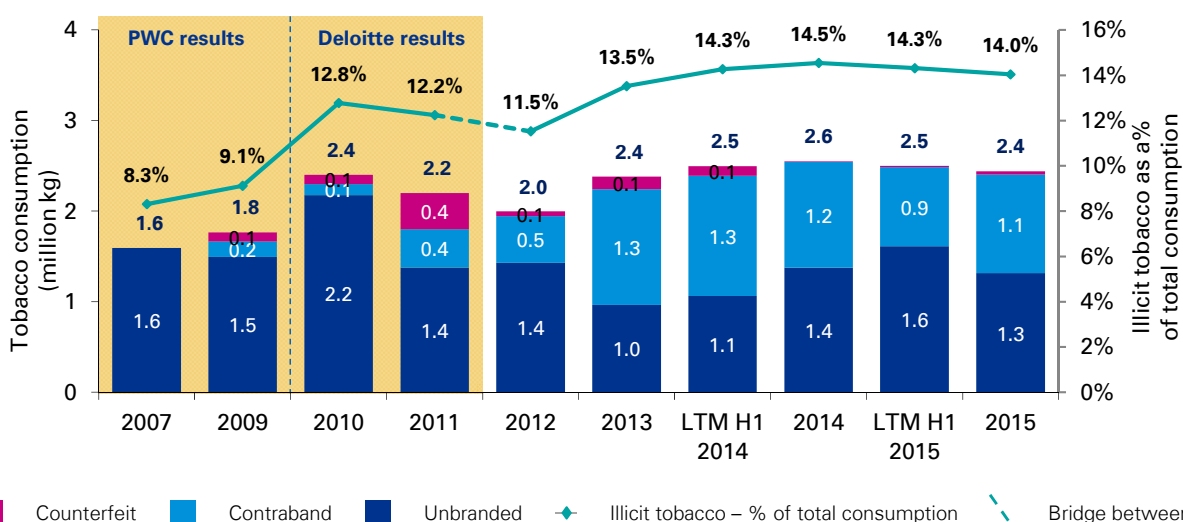
1. Executive summary and key findings

- 1.1 Key messages
- 1.2 The purpose of this report
- 1.3 KPMG UK's anti-illicit tobacco
measurement experience

Illicit tobacco declined from 14.3% to 14.0%, this was characterised by a change in mix towards contraband cigarettes

1.1 Key messages

Consumption of illicit tobacco products by category and as a percentage of overall consumption, 2007 – 2015^{(1)(2)(3)(4)(a)(b)}



■ Counterfeit
 ■ Contraband
 ■ Unbranded
 ◆ Illicit tobacco – % of total consumption
 - - - Bridge between studies

Illicit tobacco consumption continued to decline

- The total volume of tobacco consumption in Australia in the full year 2015 was approximately 17.4 million kg. This represents an annualised 0.9% decrease in the total volume compared to the twelve months to June 2015, as a rise in loose tobacco was offset by a fall in manufactured cigarettes.
- 14.0% of total consumption (or 2.4 million kg) of this was estimated to be illicit, representing a decline of 0.3 percentage points from the twelve months to June 2015. This decline is principally due to a decline in the consumption of unbranded tobacco.
- If this 2.4 million kg of tobacco had been consumed legally it would have represented an estimated excise value of AUD 1.49 billion.^(c)

Contraband volumes have increased over the past six months

- Whilst contraband volumes have increased over the past six months they remain lower than levels experienced in 2014.
 - Whilst we cannot evaluate the contraband volume at specific locations, growth in the non-domestic incidence was identified in fourteen of the sixteen populations centres sampled in the Empty Pack Survey (EPS).
 - Flows of China and South Korea (including Duty Free) labelled packs continue to account for the majority of non-domestic flows.
- Counterfeit remains a very small share of illicit tobacco consumption (0.03m kg or 1.4% of total illicit consumption).

Meanwhile, consumption of unbranded tobacco decreased

- Unbranded (or 'Chop Chop') consumption decreased 18.5% (from 1.6 million kg) in the six months to December 2015 although it still accounts for the majority (54%) of total illicit consumption.

Notes: (a) KPMG have not had the opportunity to validate results for 2007-2011.
 (b) Values below 0.1 have been removed for clarity purposes.
 (c) Calculated at the average excise rate for 2015.

Sources: (1) PWC, *Illegal Tobacco: counting the cost of Australia's black market*, 2007, 2009.
 (2) Deloitte, *Illicit Trade of Tobacco in Australia*, 2010, 2011, 2012.
 (3) Industry data; see specific report sections for further detail.
 (4) KPMG Analysis.

KPMG UK is a leading advisor in the field of illicit tobacco consumption measurement

1.2 The purpose of this report

British American Tobacco Australia, Imperial Tobacco Australia Limited and Philip Morris Limited have commissioned KPMG UK to estimate the size of the consumption of illicit tobacco in Australia. Reports are produced bi-annually. The purpose of this report is:

- 1. To provide an overview of the nature and dynamics of the legal and illicit tobacco markets in Australia, and**
- 2. To provide an independent estimate of the size of the illicit tobacco market in Australia.**

This full year 2015 report measuring the consumption of illicit tobacco in Australia is the second of two reports published focusing on 2015. It reports on events occurring during the twelve month period from January 2015 to December 2015. This 2015 report is produced using a methodology consistent with previous KPMG 'Illicit Tobacco in Australia' reports.

1.3 KPMG UK's anti-illicit tobacco measurement experience

KPMG UK has significant experience in the measurement of illicit tobacco consumption across a number of markets as well as Australia. Our work has covered markets in Europe, Latin and North America, Asia and the Middle East.

Our work was pioneered in Europe where we have published an annual report on illicit cigarette consumption since 2006. In 2013 it was conducted on a pan-industry basis for the first time, being jointly commissioned by British American Tobacco Plc, Imperial Tobacco Limited, JT International SA and Philip Morris International Management ('Project SUN'). The study included all 28 European Union Member States (with previous reports covering all member states at that point in time). Project SUN was conducted for the second time in 2014, the first occasion on which the study also included the non-EU markets of Norway and Switzerland.



2. Australian tobacco market

2.1 Tobacco consumption in Australia

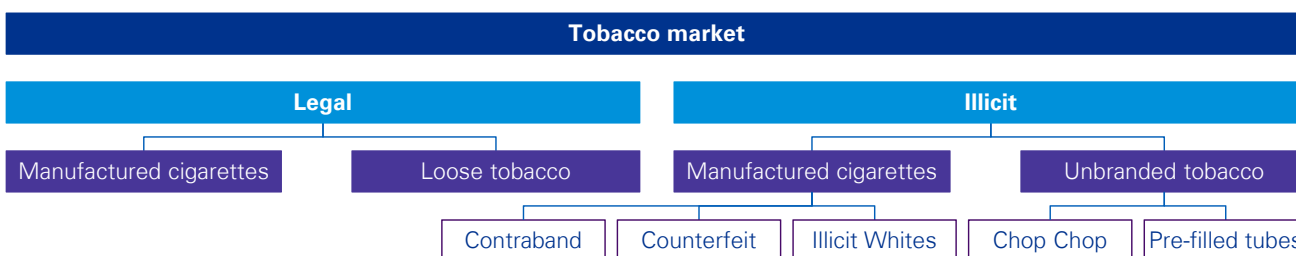
2.2 Legal tobacco market

The legal and illicit markets are made up of manufactured cigarettes and loose tobacco

2.1 Tobacco consumption in Australia

Tobacco consumption refers to total volume of consumption for all types of tobacco as mapped out in figure 2.1. This section deals with the tobacco market and related products:

Figure 2.1: Australia tobacco market map



Legal tobacco products

There are two main types of legal tobacco products considered in this report (cigars and pipe tobacco have been excluded for the purposes of this study):

Manufactured cigarettes – Made for the legal tobacco market and sold in packets.

Loose tobacco – Legal loose leaf tobacco sold in pouches and used in Roll-Your-Own (RYO) cigarettes, which are consumed using rolling papers or tubes.

As shown in Section 5.1, additional legal consumption is possible in the form of non-domestic legal product. This is tobacco purchased abroad by consumers and imported legally into Australia, either within personal allowance limits or by paying duty on the amount over this allowance.

Illicit tobacco consumption

Illicit tobacco is mainly brought into the country illegally from overseas markets without the payment of customs duties. This tobacco is sold to consumers at lower prices than Australian cigarettes, avoiding Australian customs obligations, or is brought into the country in amounts exceeding the allowable personal limit.

Contraband

These cigarettes are manufactured legally outside of Australia but are non-compliant with Australian regulations and are smuggled into the Australian market. This also includes cigarettes which are purchased legally outside Australia but exceed the personal import allowance and have no duty paid.

Contraband cigarettes are legitimately manufactured by the trademark owner but imported illegally (by third parties or consumers) to avoid Australian government regulations, quarantine inspections and local product controls⁽¹⁾.

Counterfeit

These are manufactured cigarettes that are illegally manufactured and sold by a party other than the trademark owner. Once manufactured, they are smuggled into Australia most commonly via ports in large freight containers and other channels including airmail.

According to the Tobacco Industry Stakeholder Group (TISG)^(a) they do not adhere to industry production standards and may pose additional serious health risks. They are also known as fake cigarettes⁽²⁾.

Illicit Whites

Illicit whites are manufactured cigarettes that are usually manufactured legally in one country/market but which the evidence suggests have been smuggled across borders during their transit to Australia, where they have limited or no legal distribution and are sold without the payment of tax.

Unbranded tobacco

Unbranded tobacco is sold as finely cut loose leaf tobacco in 250g or half kilogram amounts.

This product carries no labelling or health warnings and is consumed in RYO form or inserted into empty cigarette tubes which are available from legitimate tobacco retailers, often sold in the original cigarette tube boxes. The product is then sold in pre-filled tubes or loose in bags (called Chop Chop).⁽²⁾

The Australian Crime Commission and TISG believe that most unbranded tobacco is imported rather than grown in Australia but there have been seizures of locally grown tobacco, discussed on page 34. It is believed to be distributed by retailers in the same way as counterfeit and contraband products⁽¹⁾.

Notes: (a) Formerly known as Tobacco Industry Forum (TIF), recently changed as the result of changes by the Australian Taxation Office (ATO) forums.

(2) Tobacco Industry Stakeholder Group (TISG).

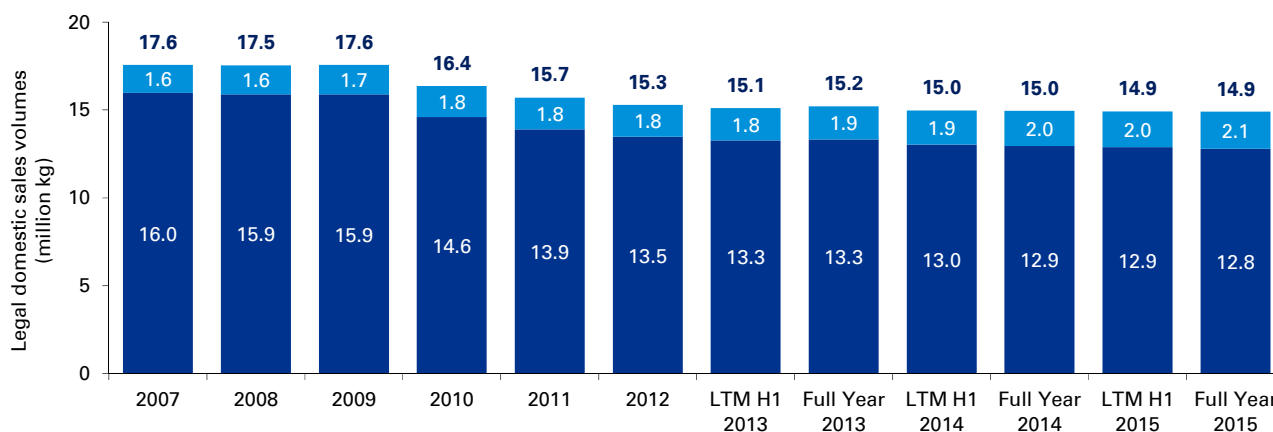
Sources: (1) Legal and Constitutional Affairs Legislation Committee, 23 February 2015.

Legal domestic sales continued to fall marginally over the past six months; with growth in loose tobacco offset by a decline in manufactured cigarettes

2.2 Legal tobacco market

2.2.1 Historic legal domestic sales

Figure 2.2.1: Legal domestic sales in Australia, 2007 – 2015^{(1)(2)(a)(b)}



CAGR (%)	2007 – 2015	LTM H1 2015 – 2015	2014 – 2015
■ Manufactured cigarettes	(2.7)%	(1.3)%	(1.1)%
■ Loose tobacco	3.5%	6.3%	4.3%
Total market	(2.0)%	(0.3)%	(0.4)%

Overall sales of legal domestic tobacco decreased by 0.4% between 2014 and 2015; a small decline compared to the 2.0% annual decline between 2007 and 2015.

The marginal decline in the overall legal tobacco market reflects a continuation of the different trends seen in the two key categories over the last few periods. Between 2014 and 2015 legal domestic sales of manufactured cigarettes declined whilst loose tobacco sales increased throughout the period. These results are supported by industry volume data reflecting a decrease in overall sales by manufacturers⁽³⁾.

Whilst manufactured cigarette sales volumes have declined at an annual rate of 2.7% since 2007, loose tobacco sales volumes have increased at an annual rate of 3.5% over the same period, representing a change in the mix of tobacco products consumed.

Legal domestic sales for 2013 were based on an analysis of Exchange of Sales data (EOS)^(c) and Euromonitor data⁽²⁾ as discussed in previous reports. For subsequent reports, KPMG has examined a range of data sources, including industry exchange of sales and off-take data, supplied by independent research agencies.

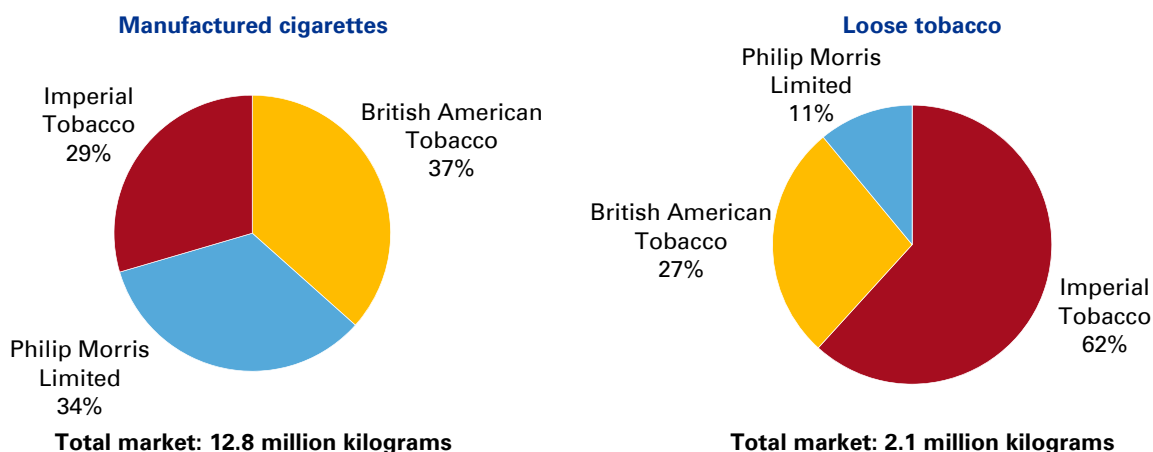
Notes: (a) Numbers in the above chart may not sum due to rounding.
 (b) Market estimates are adjusted to include sales not attributable to the three major tobacco manufacturers.
 (c) Refer to the glossary.
 Sources: (1) KPMG analysis of Aztec (scan) databases and data from Nielsen Australia.
 (2) Euromonitor, Legal domestic sales (from trade sources and national statistics), accessed 2013, 2014, 2015.
 (3) Infoview – Exchange of Sales.

Australian tobacco market

BATA has the largest market share in manufactured cigarettes whilst Imperial Tobacco has the biggest market share in loose tobacco

2.2.2 Australia legal tobacco competitive overview

Figure 2.2.2a: Market share by manufacturer, 2015^{(1)(a)}

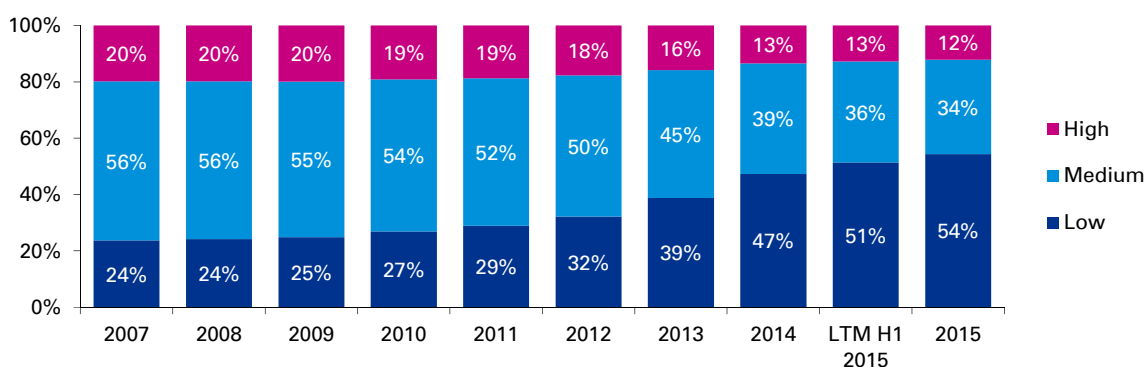


Market share

The three major tobacco manufacturers have large shares across both the manufactured cigarette and loose tobacco market in Australia. British American Tobacco has a market share of 37% in manufactured cigarettes which represents a 1 percentage point (pp) decline compared to 2014. Philip Morris Limited's market share has remained broadly constant, at 34% and Imperial Tobacco's market share increased from 28% to 29% between 2014 – 2015.

Imperial Tobacco has the largest market share in loose tobacco with three of the top six loose tobacco brands, whilst BATA and PML are the only other major competitors in this market. The market share for loose tobacco has remained stable when compared to the 2013 report.

Figure 2.2.2b: Market share of manufactured cigarettes by price category, 2007 – 2015^{(2)(3)(b)}



Price category

Cigarettes are subject to a specific excise duty which does not change with the retail price and is levied per cigarette. An increase in the specific excise duty would, all other things being equal, maintain the absolute price differential between low and high priced cigarettes. Since 2007 low priced cigarettes have more than doubled their market share with

increases every year at the expense of medium and high priced cigarettes as people are switching to cheaper cigarettes. This trend has developed further in 2015 as premium and medium priced cigarettes lost further market share (down one and two percentage points respectively).

Notes: (a) Data gathered indicates that the three major manufacturers account for approximately 98% of the domestic market of manufactured cigarettes.
 (b) Due to data availability, the source data was changed from Nielsen to Aztec in 2014.

Sources: (1) Infoview monthly shipment data, January 2015 to December 2015.
 (2) KPMG analysis of Aztec scan data.
 (3) Euromonitor, *Tobacco in Australia*, August 2015.

No tobacco is grown in Australia for legal commercial sale

2.2.3 Supply and distribution of legal manufactured tobacco in Australia

Figure 2.2.3 Supply chain for legal tobacco products in Australia



Tobacco supply chain and sales channels

All manufactured tobacco products are imported into Australia as tobacco leaf or finished products. Tobacco can only be grown in Australia (for personal or commercial use) with an excise license⁽¹⁾. There are no current licenses for tobacco growing in Australia and therefore no tobacco is legally grown in Australia for any purpose.

Previous differences in the supply chain of the three participating manufacturers no longer exist. Tobacco leaf is no longer imported and manufactured in Australia, and instead all legal tobacco is imported in as a finished product.

Non-domestic legal consumption channel

A small amount of tobacco is imported into Australia by consumers for their own personal consumption. Since 1 September 2012, consumers have a limit of 50 cigarettes or 50g of loose tobacco⁽²⁾ (down from 250 of each) which can be brought into Australia without paying excise duty. This volume can be brought in from the country of origin or through duty free sales channels. This category may also include purchases by some consumers who order tobacco products available in other countries through the internet and have it delivered in the mail. Given this low allowance, there is significant evidence to suggest that non-domestic legal is a small proportion of consumption. To correctly quantify non-domestic legal consumption, parties using internet and mail channels would need to declare all purchases / sales in excess of the allowed quantities to the ABF. Failure to declare all these purchases may result in a minor understatement of both non-domestic legal and contraband consumption. Non-domestic legal consumption is discussed further in Appendix A6 (p.71).

Sources: (1) Excise and excise equivalent goods – Growing tobacco, Australian Taxation Office.
(2) Department of Immigration and Border Protection.



3. Macroeconomic environment

- 3.1 Macroeconomic context
- 3.2 Gross domestic product growth
- 3.3 Unemployment
- 3.4 Personal Disposable Income
- 3.5 Consumer Price Index

Australia's economic growth has continued to outperform the OECD average. This outperformance is reflected in a relatively low rate of unemployment

3.1 Macroeconomic context

This section provides background on the Australian economy as a change in GDP growth, unemployment, personal disposable income or inflation could impact consumer behaviour and subsequently tobacco consumption.

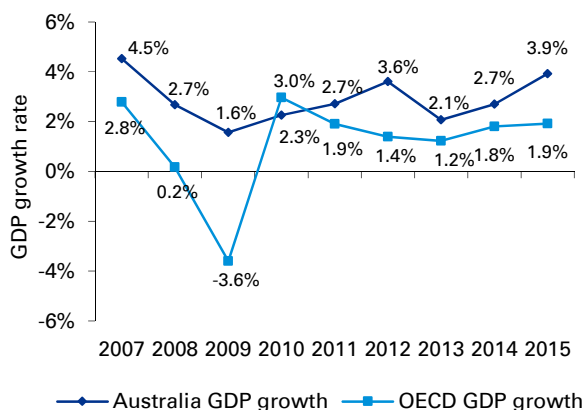
The decline in legal domestic sales since 2009 needs to be examined in the context of the affordability of tobacco products. Personal disposable income (PDI) and the consumer price index (CPI) are analysed in order to assess possible reasons for changes in consumer behaviour.

3.2 Gross Domestic Product

Australia has been one of the few members of the OECD to have experienced continuous economic growth over the past nine years. Between 2007 and 2015 the economy grew at a compound annual growth-rate (CAGR) of 2.7%. The growth-rate in 2015 of 3.9% was higher than the OECD average for eight of the past nine years.

Towards the end of 2015 Australia's business environment was seen as one of the best in the world due to improvements in the macroeconomic environment, market opportunities and foreign trade and exchange controls⁽⁵⁾ (e.g. growth forecast in the agriculture sector as Australia looks to further exploit free trade agreements with China and Japan)⁽⁶⁾. However, uncertain commodity prices and the potential slowdown of China's growth has resulted in declining mining investment which may act as a drag on future GDP growth⁽⁵⁾.

Figure 3.2: Year-on-year GDP Growth, 2007 – 2015^{(1)(2)(a)(b)}



The Oil and Gas sector contributed to the strong growth in 2015, rising by 10.4%, although the recent decline in oil prices may weigh on further growth and also slow investment within the sector⁽⁷⁾.

3.3 Unemployment

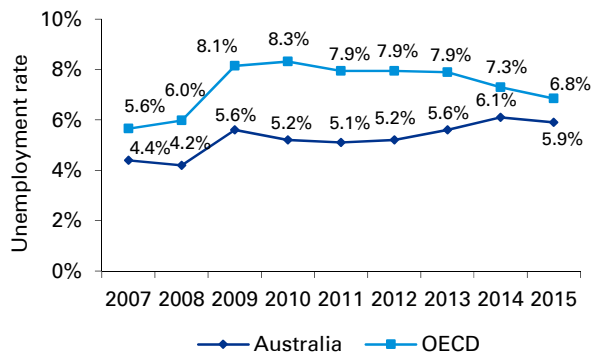
Unemployment in Australia is one of the lowest of all OECD countries although the gap between Australia and the OECD average has narrowed in recent years. Before 2015, unemployment in Australia had risen gradually every year since 2011, remaining between 5.1% and 6.1% in the process.

Unemployment in 2015 decreased slightly to 5.9% despite having looked set to increase throughout most of the year. A surge in job creation late in the year bucked forecasts resulting in a 19 month low. This was driven by an increase both in full time and part-time employment⁽⁸⁾.

Notably the fall in the unemployment rate was not uniform across the country with both Victoria and Tasmania experiencing increases in unemployment⁽⁹⁾.

Public sector cuts may cause unemployment to rise again as government departments look to reduce costs to meet funding levels. Western Australia's health system recently announced a plan for significant job cuts throughout most of 2016 with some other authorities likely to follow suit⁽¹⁰⁾.

Figure 3.3: Recorded unemployment, 2007 – 2015^{(3)(4)(b)}



Notes: (a) Historical numbers for GDP have been updated and have been based on data from the Economist Intelligence Unit.

(b) 2015 data is based on latest available estimates.

Sources: (1) The Economist Intelligence Unit, GDP at constant prices, accessed February 2016.

(2) OECD, GDP (expenditure approach), accessed February 2016.

(3) The Economist Intelligence Unit, recorded unemployment as a percentage of total labour force, accessed February 2016.

(4) OECD, harmonised unemployment rates, accessed February 2016.

(5) The Economist, *Economist Intelligence Unit, Australia* (accessed February 2016).

(6) Trade Minister, *Exporters quick to capitalise on Japan FTA*, January 2016.

(7) Australian Broadcasting Corporation, *GDP beats expectations*, December 2015.

(8) The Sydney Morning Herald, *Unemployment drops to 5.8 percent*, December 2015.

(9) ABC, *Unemployment rate drops as jobs created*, January 2016.

(10) ABC, *Jobs to be cut in WA health as national funding dries up*, November 2015.

Personal disposable incomes in Australia continue to grow at a steady rate

3.4 Personal Disposable Income

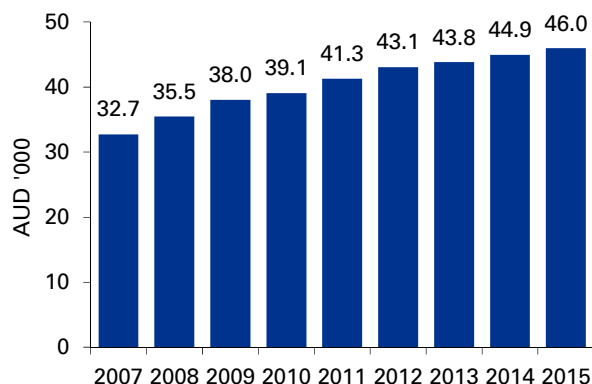
Australia has been through a period of consistently increasing Personal Disposable Income (PDI) over the past decade. PDI per capita increased by 4.3% p.a. between 2007 and 2015 although this figure masks geographic differentials across the country.

Historically, strong growth in personal disposable income has been supported by growth in compensation for those associated with Australia’s mining boom and export-driven industries as a whole.

Since 2012, income inequality has increased as wages between those on the highest and lowest incomes have diverged. Low wage growth has driven only a minor increase in the median income, a trend also matched amongst the lowest income households, despite increases in the minimum wage⁽⁴⁾.

Although PDI has grown over the period, this growth has been outstripped by the rise in average household debt to its highest recorded level (the average household now requires 22 months to pay off all debts with its after-tax income)⁽⁵⁾. More income is now spent repaying these debts than before, which has an adverse impact on real PDI available for the consumption of goods and services.

Figure 3.4: Personal Disposable Income per capita, 2007 – 2015^{(1)(a)}

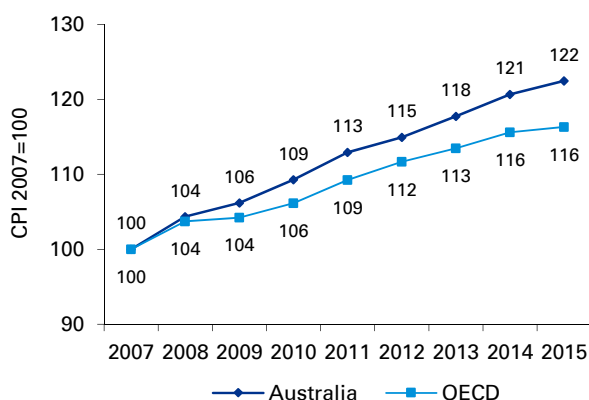


3.5 Consumer Price Index

Australia’s Consumer Price Index has developed at a similar pace as the OECD average, growing consistently since 2007. Recent inflation growth has been driven by increased prices within the Health, Insurance and Financial Services and the Alcohol and Tobacco sectors, all experiencing price growth above 5% since December 2014⁽⁶⁾.

The Australian Reserve Bank has an inflation target between 2% and 3%⁽⁷⁾. The OECD forecasts that consumer price inflation will be impacted by lower oil prices and will remain at moderate levels. Despite potential interest rate cuts (in February 2016 the Reserve Bank kept rates on hold at a record low of 2%) and the revival of the housing market, weak inflation has prevailed, potentially a result of the Australian Dollar stabilising⁽⁸⁾⁽⁹⁾.

Figure 3.5: Consumer Price Index, 2007 – 2015^{(2)(3)(a)}



Notes: (a) 2015 data is based on latest available estimates.
 Sources: (1) Euromonitor, Annual disposable income per capita, accessed February 2016.
 (2) Euromonitor, Index of consumer prices; accessed February 2016.
 (3) OECD Economics, Consumer prices, accessed February 2016, rebased to 2007.
 (4) The Guardian, *Australia’s rich are getting richer. Everyone else is stagnating*, September 2015.

(5) NATSEM, *Buy now, Pay later*, December 2015.
 (6) ABS, *6401.0 Consumer Price Index*, January 2016.
 (7) OECD, *Australia – Economic forecast summary*, June 2015.
 (8) ABC, *Reserve Bank keeps interest rate at 2 percent*, December 2015.
 (9) Real Estate, *Reserve Bank holds rates for 9th straight month*, February 2016.



4. Market landscape and developments

- 4.1 Tobacco regulation in Australia
- 4.2 Future proposed legislation
- 4.3 Enforcement landscape
- 4.4 Recent development of excise duty and tobacco affordability in Australia
- 4.5 Regional tobacco prices
- 4.6 Relative price of illicit tobacco

The tobacco market in Australia is one of the most tightly regulated in the world

4.1 Tobacco regulation in Australia

In this section we discuss key government legislation and activities undertaken to control tobacco consumption. State and territory legislation complements and supplements the federal legislation by prescribing and proscribing activity dealing directly with the retail sale and display of tobacco products. The combined effect of the federal, state and territory legislation is that all manner of tobacco product advertisement and promotion to the public is strictly and rigidly controlled. The Department of Health and Ageing's National Tobacco Strategy aims to reduce smoking prevalence nationally from over 15% in 2012 to 10% in 2018.⁽¹⁾ To reduce smoking prevalence, numerous tobacco control regulations have been developed over time as demonstrated in Figure 4.1. A more detailed overview of recent legislative changes both at the Australian Commonwealth level and the state level are detailed in Appendix A5.

National Tobacco Strategy

The National Tobacco Strategy 2012-18 was released in January 2013. The strategy highlights nine priority areas including:

1. Protect public health policy, including tobacco control policies, from tobacco industry interference.
2. Strengthen mass media campaigns to: motivate smokers to quit and recent quitters to remain non-smokers; discourage uptake of smoking; and reshape social norms about smoking.
3. Continue to reduce the affordability of tobacco products.
4. Bolster and build on existing programs and partnerships to reduce smoking rates among Aboriginal and Torres Strait Islander people.
5. Strengthen efforts to reduce smoking among people in populations with a high prevalence of smoking.
6. Eliminate remaining advertising, promotion and sponsorship of tobacco products.
7. Consider further regulation of the contents, product disclosure and supply of tobacco products and alternative nicotine delivery systems.
8. Reduce exceptions to smoke-free workplaces, public places and other settings.
9. Provide greater access to a range of evidence-based cessation services and support to help smokers to quit.

The strategy also proposes a number of actions to combat the illicit trade of tobacco.

Tobacco products regulation

Tobacco products are regulated through, amongst other things, bans on advertising and packaging restrictions. In 1992 the *Tobacco Advertising Prohibition Act 1992 (Cth)* banned the publication or broadcast of tobacco advertisements.

Subsequent amendments to the Act have resulted in online tobacco retailers having to display health warnings and comply with restrictions on advertisement wording. Brand and variant information is permitted to be displayed.

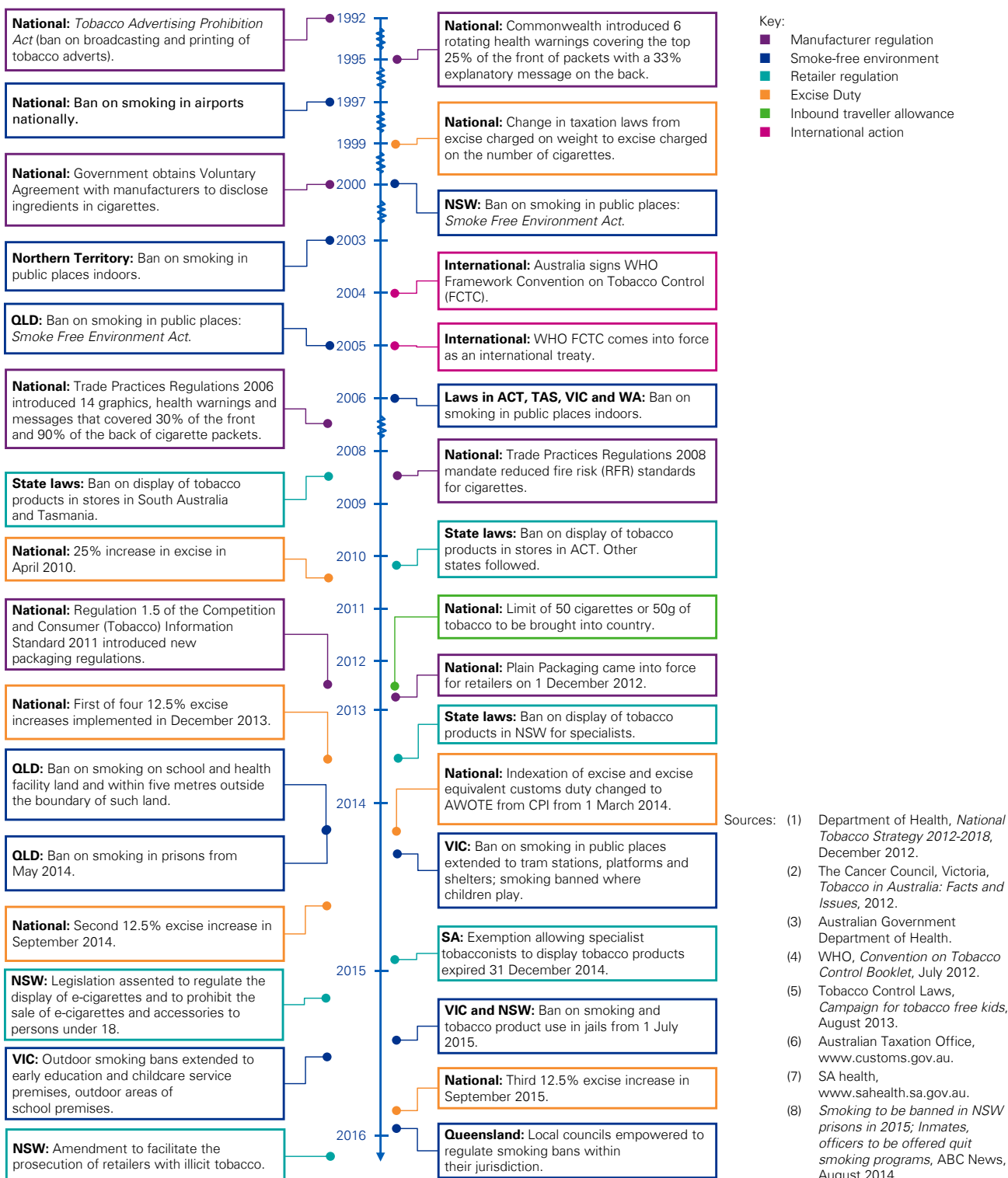
The *Tobacco Plain Packaging Act 2011 (Cth)* made Australia the first country in the world to implement plain packaging of tobacco products. This means that all tobacco products are required to be displayed in the same standard colour packaging with nearly all trademarks banned and the only differentiator being the name of the brand and variant, printed in Lucida Sans font.

More recently, a change to the '*Tobacco Products Control Amendment Regulation (no. 4) 2015 (W.A.)*' is designed to facilitate the use of disclosed information to assist investigations under Commonwealth Law or the enforcement of a Customs / Excise Act. The following pages highlight recent regulatory changes, many that also attempt to aid law enforcement agencies in the prosecution of illicit tobacco retailers.

Sources: (1) Department of Health, *National Tobacco Strategy 2012-2018*, December 2012.

A number of regulations have been imposed to reduce smoking prevalence in Australia

Figure 4.1: Tobacco regulation timeline in Australia, 1992 – 2015⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽⁸⁾



New legislation continues to focus on the expansion of smoke-free environments

4.1 Tobacco regulation in Australia

Smoke-free environment legislation

The majority of smoke-free environmental laws in Australia are determined by state parliaments and further fragmented by local council by-laws. The Australian Federal Government passed legislation to create smoke-free environments in areas within its own jurisdiction, such as airports, whilst state parliaments historically created their own laws banning smoking in some public places. From the late 1990s state parliaments followed the Commonwealth's lead and began passing legislation banning smoking in those places the states have jurisdiction over, such as indoor dining areas and bars.

The establishment of the WHO Framework Convention on Tobacco Control (FCTC) resulted in the creation of guidelines surrounding smoke-free environments some of the content of which has, broadly, been followed by some state parliaments. In 2005 and 2006 the states passed laws which created smoke-free environments in public places including licensed premises, partially covered outdoor spaces and al fresco dining areas and this trend of focussing on public spaces has continued.⁽¹⁾

In Victoria, the *Tobacco Amendment Act 2014* was passed in 2014 and came into effect on 30 June 2015, banning smoking in a range of areas where children are present⁽²⁾. In August 2014 Victoria also announced plans to ban smoking in outdoor dining areas, whilst in April 2015 a ban on smoking outside hospitals and other Government buildings in Victoria was implemented.⁽³⁾⁽⁴⁾

The *Tobacco Amendment Act 2014* was proclaimed on 13 April 2015 in Victoria to extend outdoor smoking bans to early education and children service premises and outdoor areas of school premises. It further requires the display of no smoking signs at pedestrian access points at schools, children's indoor play centres and Victorian public premises.⁽⁵⁾

In New South Wales the *Smoke-free Environment Act 2000*, provided that from 6 July 2015 smoking is banned in commercial outdoor dining areas and places within four metres of pedestrian access points to licensed premises or restaurants. Aligned with this, the *Smoke-free Environment Amendment (Signage Requirements) Regulation 2015* amends the *Smoke-free Environment Regulation 2007*, requiring signs displayed in areas designated as not being for the consumption of food.⁽⁶⁾⁽⁷⁾

New South Wales announced smoking bans (including e-cigarettes) in all jails effective 10 August 2015⁽⁸⁾⁽⁹⁾. Additionally, Corrections Regulations 2009 make smoking and use of tobacco products an offence in all Victorian jails⁽¹⁰⁾.

Further proposed amendments in Queensland in November 2015 will entrust greater powers to local authorities to regulate smoking within their local areas and to enforce bans prohibiting smoking near public buildings⁽¹¹⁾. A range of 'minor and technical' amendments were proposed in a bill to parliament in 2015. These appear to increase the law enforcement powers at major events to support previous regulatory changes regarding banning smoking at these events.

Sources: (1) Scollo, MM and Winstanley, MH. *Tobacco in Australia: Facts and Issues*. 4th edn. Melbourne: Cancer Council Victoria; 2012. Available from www.TobaccoInAustralia.org.au.

(2) *Tobacco Amendment Act 2014*.

(3) Premier of Victoria, *New Victorian smoking bans another step closer*, September 2014.

(4) Australian Broadcasting Corporation, *Victorian Government widens smoking bans to include schools, courts and hospitals from April 13*, March 2015.

(5) *Tobacco and Other Smoking Products Amendment Bill 2015*.

(6) *Smoke-free Environment Act 2000*.

(7) NSW Government, *Smoke Free project*, August 2015.

(8) *Smoke-free Environment Amendment Regulation 2015*.

(9) *Crimes Regulation 2014*.

(10) *Corrections Regulations 2009*.

(11) Queensland Government, *Next steps to smoke free Queensland*, October 2015.

There are further excise increases to be implemented whilst regulations governing retailers continue to be tightened

4.1 Tobacco regulation in Australia (cont.)

Retailer regulations

Australian states and territories ban the sale of tobacco products to anyone under the age of 18 years. During the 1990s, states introduced laws which imposed harsher penalties on vendors that sold cigarettes to individuals under 18 years. Some states have undertaken surveillance programmes to ensure compliance. With the exception of Victoria and Queensland, all other states and territories require tobacco retailers to hold a licence^(a) with fees up to AUD \$360.89 per annum⁽¹⁾.

States and territories have also banned retailers from point of sale advertising and the display of tobacco products within stores. New South Wales, South Australia, Australia Capital Territory (ACT), the Northern Territory, Queensland and Tasmania all have legislation in place banning point of sale displays. Victoria and Western Australia have similar legislation, however, there are exemptions in place for specialist outlets. Victorian specialist outlets that were granted exemption prior to 1 April 2014 are able to continue displaying products. However following this date no new specialist licenses will be issued.⁽²⁾ In Western Australia, display is restricted to specialist tobacco retailers only.⁽³⁾

In Queensland, the *Tobacco and Other Smoking Products (Smoke-free Places) Amendment Bill 2015* was introduced into the Parliament on 10 November 2015. The bill seeks to amend the *Tobacco and Other Smoking Products Act 1998* to prohibit the sale of smoking products from temporary retail stores and prohibit smoking at a number of facilities, including major sports and major event facilities, schools, childcare and aged care facilities, public transport waiting points, and outdoor pedestrian malls. The legislation was passed by the Queensland Parliament on 23 February 2016 and will come into effect on 1 September 2016⁽⁴⁾.

Retailing regulations were further tightened in New South Wales when the *Health Legislation Amendment Act 2015* provided for the issue of a 'tobacco retailer notification' (TRN) number, making it a criminal offence for wholesalers to sell tobacco to retailers without a registered number.

Duty free and customs allowances

The Treasurer announced as part of the 2012-13 Commonwealth Budget that the inbound traveller allowance from international travel would be reduced from 250g / 250 sticks of tobacco per person to 50g / 50 sticks^(b).

In 2012, the *Federal Government passed the Customs Amendment (Smuggled Tobacco) Act 2012* which conveyed new offences for smuggling or possessing illicit tobacco. It was the first time that custodial sentences were recommended for smuggling tobacco⁽⁵⁾. Victoria has legislation which criminalises the possession of illicit tobacco or tobacco on which the appropriate excise duties have not been paid⁽⁶⁾.

Excise duty increases

Australian excise duty has historically risen with inflation with the exception of a 25% increase in 2010 and a series of four 12.5% increases starting in December 2013, as discussed below. The 2013-14 federal budget included a change to indexation of excise duty for tobacco and tobacco products from the Consumer Price Index (CPI) to Average Weekly Ordinary Time Earnings (AWOTE)⁽⁷⁾. AWOTE has historically grown 1.4 percentage points faster than CPI, therefore the indexation is likely to increase excise duty faster than the old indexation legislation.

In August 2013, the Federal Government announced excise duty increases for tobacco products of an additional 12.5% annually for the next four years in addition to the switch to AWOTE.⁽⁸⁾ The first of these increases was implemented on 1 December 2013, the second applied on 1 September 2014 and third on 1 September 2015.⁽¹⁾ A further 12.5% increase is scheduled for 1 September 2016.⁽¹⁾ As a result of these tax increases the excise on a pack of cigarettes in Australia will increase by 60% (compounded over the last four years) above the increase of AWOTE.

Notes: (a) License terminology differs by State; for example it is referred to as a Tobacco Retail Notification (TRN) number in New South Wales.

(b) Customs duty is at the excise equivalent rate.

Sources: (1) Department of Health and Human Services, Tobacco Licence, February 2016.

(2) Tobacco Amendment Act 2013 (Vic) and Victoria, Victoria Government Gazette, No. S81, Tuesday 18 March 2014

(3) Tobacco in Australia, State and territory legislation

(4) Queensland Government, *Queensland passes tough new smoking laws to protect young and old*, February 2016.

(5) The Treasury, 'Government to increase tobacco excise' (Press Release, No.015, 1 August 2013).

(6) Tobacco Act 1987 (Vic) s 11A.

(7) Commonwealth, Budget Strategy and Outlook, Budget Paper No.1 (2013-2014), 1-19.

(8) Customs Tariff Amendment (Tobacco) Act 2014, Excise Tariff Amendment (Tobacco) Act 2014.

Australia continues to explore new legislation in order to reduce smoking prevalence

4.2 Future proposed legislation

Framework Convention on Tobacco Control (FCTC)⁽¹⁾

Australia became a Signatory to the World Health Organisation's (WHO) Framework Convention on Tobacco Control (FCTC) on 5 December 2003. The Conference of the Parties has adopted detailed guidelines for effective implementation of many of the broad range of legislative, executive, administrative and other measures required under the Convention. Together, the FCTC and its guidelines have the potential to help set the priorities of Australian governments, including commonwealth, state and territory, in relation to tobacco control policies and programmes.

The FCTC also provides a framework for international cooperation in a number of areas of tobacco control in which Australia and other Parties cannot effectively act alone. These include the regulation of cross-border tobacco advertising, promotion and sponsorship and the implementation of measures to address illicit trade in tobacco products. Australia has the responsibility to cooperate with other FCTC Parties to address trans-boundary tobacco control problems and to assist other Parties in meeting common challenges to effective tobacco control.

The Australian tobacco industry participated in a consultation around the Protocol to Eliminate Illicit Trade in Tobacco Products (AITP). The AITP was adopted on 12 November 2012 and opened for signature from 10 January 2013 to 9 January 2014. When the AITP was closed for signature, it had been signed by 61 countries and the European Union. However, Australia is not among the countries that have signed the AITP.⁽²⁾ The AITP will only be legally binding once it has been formally ratified by 40 countries.

Continuous pursuit of smoke-free environments

State governments have continued to focus on the banning of smoking in public outdoor areas. Where states have not banned smoking in outdoor public areas, many local councils have issued the relevant bans and often play a key role in expanding public smoking restrictions. States continue to ban smoking or implement buffer zones at public events and any areas where children may be present such as open air concerts, playgrounds, sporting events and skate parks.⁽³⁾

Queensland has introduced smoking bans in areas beyond prisons such as within 5 metres of State Government buildings and outdoor pedestrian malls.⁽⁴⁾ They also banned smoking in prisons in May 2014.⁽⁵⁾ Victoria introduced a smoking ban in prisons effective from 1 July 2015⁽⁶⁾, while New South Wales introduced a similar ban effective from 10 August 2015.⁽⁷⁾

In August 2015 the Victorian Government announced plans to introduce new regulations in 2017 that would ban smoking in outdoor dining areas. Later in the year the Australian Capital Territory Government released a discussion paper noting the Government's consideration to extend existing smoke-free protections to outdoor places where people tend to congregate in close proximity, or cannot move away from tobacco smoke without risking loss of access to a service or activity⁽⁸⁾.

As noted previously, legislation was passed by the Queensland Parliament on 23 February 2016 that will come into effect on 1 September 2016⁽⁹⁾ that effectively prohibits smoking in several public areas and its sale from temporary retail stores.

In early 2016 the government outlined plans to extend smoking bans Australian Capital Territory, allowing the minister to declare smoke-free zones. Smoking is already banned in enclosed public spaces and a number of other state owned properties⁽⁹⁾.

Sources: (1) The Treasury, 'Government to increase tobacco excise' (Press Release, No.015, 1 August 2013).
(2) United Nations Treaty Collection, Status as at: 29-03-2015, Protocol to Eliminate Illicit Trade in Tobacco Products (29 March 2015).
(3) Health Legislation Amendment Act 2014 (QLD), Tobacco Amendment Act 2014 (Vic).
(4) Tobacco and Other Smoking Products Amendment Bill 2015.

(5) Corrective Services Amendment Regulation (No.1) 2014, Health and Other Legislation Amendment Act 2014.
(6) Corrections Amendment (Smoke-Free Prisons) Bill 2014 (No.2).
(7) Crimes Regulation 2014.
(8) North Canberra Community Council, *Outdoors smoke-free areas consultation open*, December 2015.
(9) Canberra Times, *Smoking in city to get even tougher*, February 2016

The enforcement landscape has changed this year with greater focus on facilitating trade, travel and migration while protecting Australia's border

4.3 Enforcement landscape

Overview of key enforcement agencies

For years public authorities have targeted the reduction of illicit tobacco available within the Australian market place. This objective is driven in part by the belief that “organised crime remains entrenched within the illegal tobacco market in Australia. It continues to perceive involvement in this market as a low risk, high profit enterprise”⁽¹⁾.

At the beginning of 2015, a number of national and state organisations were involved in Australia's border protection. Their responsibilities included border control, the management of moving of people and goods across these borders and enforcement of relevant policies and laws. Some of the key enforcement agencies included:

- **The Australian Customs and Border Protection Service (ACBPS)** – Responsible for patrolling the country's coastline and ports, clearing both imports and exports, inspecting inbound cargo (including air cargo, sea cargo and mail items) and detecting and seizing prohibited items. The ACBPS's key roles include “preventing, deterring and detecting the unlawful movement of prohibited, restricted or regulated goods into Australia”⁽²⁾.
- **The Department of Immigration and Border Protection (DIBP)** – Responsible both for migration, citizenship and humanitarian protection and compliance and border control. One of the Department's strategic priorities is to “build our capability to facilitate a significant increase in border crossings and trade while maintaining the integrity of the border and our programmes”⁽³⁾.
- **The Australian Taxation Office (ATO)** – Responsible for detecting, investigating and prosecuting illicit domestically grown or manufactured tobacco product⁽⁴⁾.
- **Australian Federal Police (AFP) and state police** – Supports national and local illegal trade investigations, makes arrests and executes search warrants.
- **Australian Transaction Reports and Analysis Centre (AUSTRAC)** – Responsible for regulating and investigating money laundering and terrorism financing.
- **The Australian Crime Commission (ACC)** – Works across international borders to better understand the organised crime environment and discover new threats. This information is used for “disrupting, disabling and dismantling criminal enterprises through effective enforcement, regulation, policy and legislation”⁽¹⁾.

The ACC is also involved in three multi-agency task forces targeting organised crime on the waterfront⁽⁵⁾ e.g. Task Force Polaris (includes representatives from AFP, NSW Police and ABF) and the Trident Taskforce (AFP, ABF, Victorian Police and the ACC).

- Sources: (1) ACC Annual Report, *Organised Crime in Australia 2015*.
 (2) Australian Customs and Border Protection Service, Annual Report 2014-15.
 (3) Department of Immigration and Border Protection, Annual Report 2014-15.
 (4) Inquiry into Illicit Tobacco, ATO submission, 2016

The evolution of key enforcement agencies

From March 2015, the ACBPS and DIBP began operating under a single structure with the fully integrated department becoming effective from 1 July 2015. The new organisation combined the functions and capabilities of the old agencies but with a single mission: ‘to protect Australia's border and manage the movement of people and goods across it’⁽²⁾. Tackling the illicit tobacco trade falls within this broader remit.

A new frontline operational agency, the Australian Border Force (ABF), was created by DIBP to achieve the key objectives of the newly combined department and provide a more ‘integrated, effective and efficient border protection operation’⁽⁶⁾. The ABF has the authority to conduct investigations, compliance and enforcement in relation to both illicit goods and immigration malpractice⁽⁴⁾. The 2020 overarching strategic objectives for the organisation are wide ranging and include⁽⁷⁾:

Protect Australia (including identifying and managing migration and trade risks across the border)	Promote responsive migration
Advance trade and revenue	Lead border innovation (including preventing the movement of prohibited and restricted goods)

The ABF Commissioner said “we currently have an operational focus on the importation of illicit tobacco”⁽⁸⁾ with the organisation stating that the illicit tobacco trade deprives the Australian community of legitimate tax revenues and potentially funds serious crime organisations⁽⁹⁾. Therefore, in October 2015, the ABF signalled its intent to further target the illicit tobacco trade with the creation of a dedicated ‘Tobacco Strike Team’⁽¹⁰⁾. This team's remit is to tackle the organised crime syndicates responsible for attempting to smuggle large shipments of illicit tobacco, collecting intelligence on their operations throughout the process⁽¹¹⁾.

Australian authorities are also furthering existing relationships with foreign enforcement agencies to tackle the trade of illicit tobacco. A recent seizure in Sydney was made possible through the cooperation of the Directorate General of Customs & Excise (DGCE) in Indonesia⁽¹²⁾.

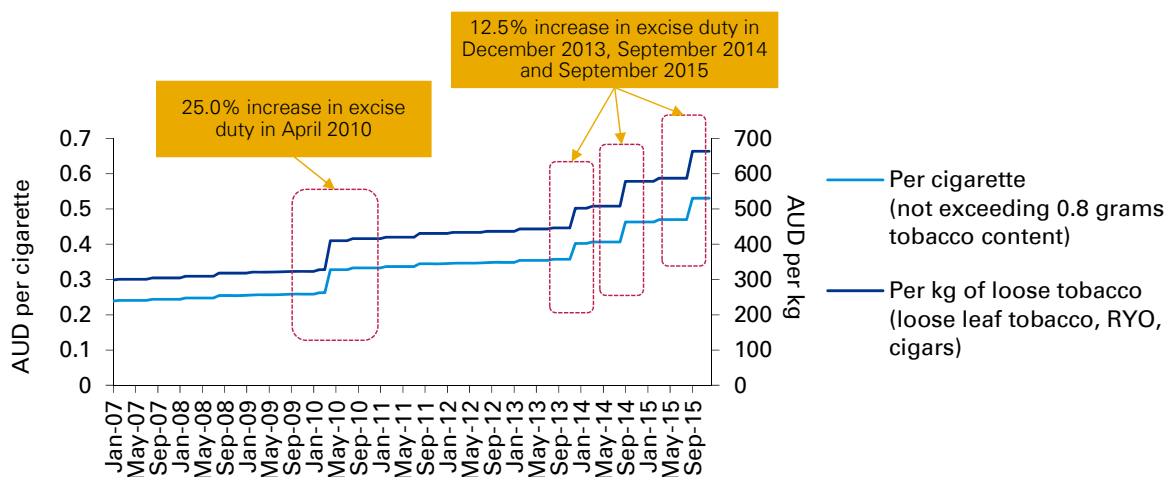
- (5) Crimecommission.gov.au, Waterfront task forces.
 (6) Australian Politics, Scott Morrison Announces Formation Of Australian Border Force, May 2014.
 (7) DIBP, *Strategy 2020*, July 2015.
 (8) ABF Commissioner, Opening Statement to the Legal and Constitutional Affairs Legislation Committee, October 2015.
 (9) Minister for Immigration and Border Control, *First ABF strike team tobacco seizure*, November 2015.
 (10) ABC ‘Record haul’ of illegal tobacco worth \$40 million seized by Australian Border Force, October 2015.
 (11) RetailWorld, *Taskforce to crack down on illicit tobacco*, October 2015.
 (12) border.gov.au.

Market landscape and developments

Excise rates have increased steadily in addition to large excise increases in 2010, 2013, 2014 and 2015. A further 12.5% increase is due to be implemented in September 2016

4.4 Recent development of excise duty and tobacco affordability in Australia

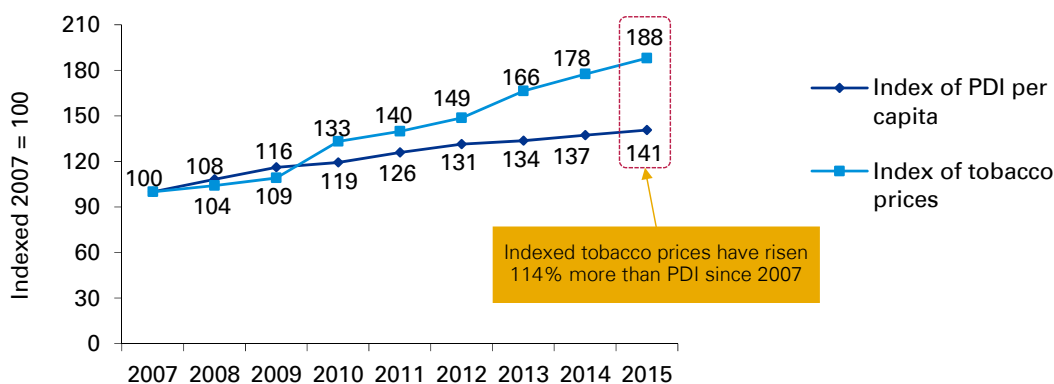
Figure 4.4a: Values of tobacco excise and customs duty, Australia, January 2007 – December 2015^{(1)(a)}



The largest excise increase was a 25% increase introduced on 30 April 2010. In November 2013, the Government confirmed four increases in excise of 12.5% to be levied in December 2013, then September 2014, 2015 and 2016. This increase is over and above the annual indexation linked to Average Weekly Ordinary Time Earnings (AWOTE)⁽²⁾.

This has resulted in the excise on tobacco products increasing by 14.8% between December 2014 and December 2015 (up to AUD \$0.53 per stick and AUD \$663.7 per kg of tobacco content for other forms)⁽⁵⁾. A recent release by the Australian Taxation Office has highlighted that excise rates will rise again on 1 March 2016 due to an increase in the AWOTE⁽⁵⁾ (see next page).

Figure 4.4b: Index of tobacco prices and per capita PDI, Australia, 2007 – 2015^{(3)(4)(a)(b)}



Although PDI per capita has continued to grow, the excise rate increase in 2010, combined with subsequent increases, saw tobacco prices increase at a higher rate than PDI per capita.

This has resulted in a decline in relative affordability when compared to previous years. This decline in relative affordability is likely to continue with the future planned excise rate increases.

Notes: (a) 2015 AWOTE is based on latest available estimates, accessed February 2016.

(b) Indexed with 2007 values taken as 100.

Sources: (1) Australian Taxation Office, www.customs.gov.au.

(2) Australian Government – Australian Taxation Office, New legislation: Excise and excise-equivalent customs duty – index tobacco excise to average weekly ordinary time earnings, 25 June 2013.

(3) Euromonitor, Index of tobacco prices, accessed January 2016.

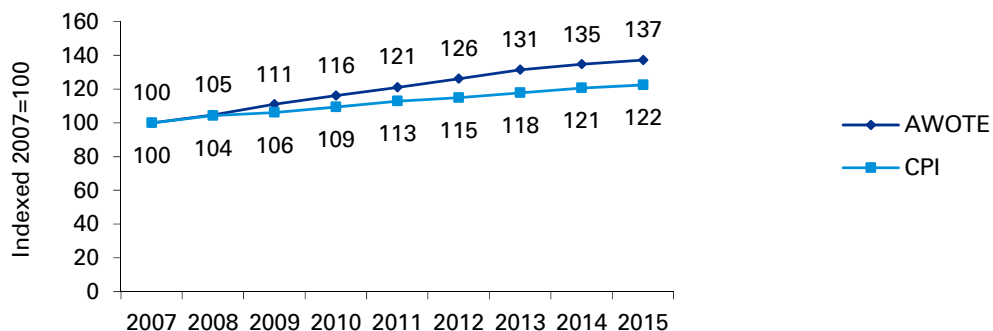
(4) Euromonitor, Annual disposable income, accessed January 2016.

(5) Australian Taxation Office, Excise rates for tobacco, February 2016.

Market landscape and developments

The AWOTE has continued to grow at 1.4 percentage points faster than the CPI

Figure 4.4c: Comparison between AWOTE and CPI, 2007-2015^{(1)(2)(a)(b)(c)}



The 2013-14 federal budget included a change to indexation of excise duty for tobacco and tobacco products from the Consumer Price Index (CPI) to Average Weekly Ordinary Time Earnings (AWOTE) commencing from 1 March 2014.

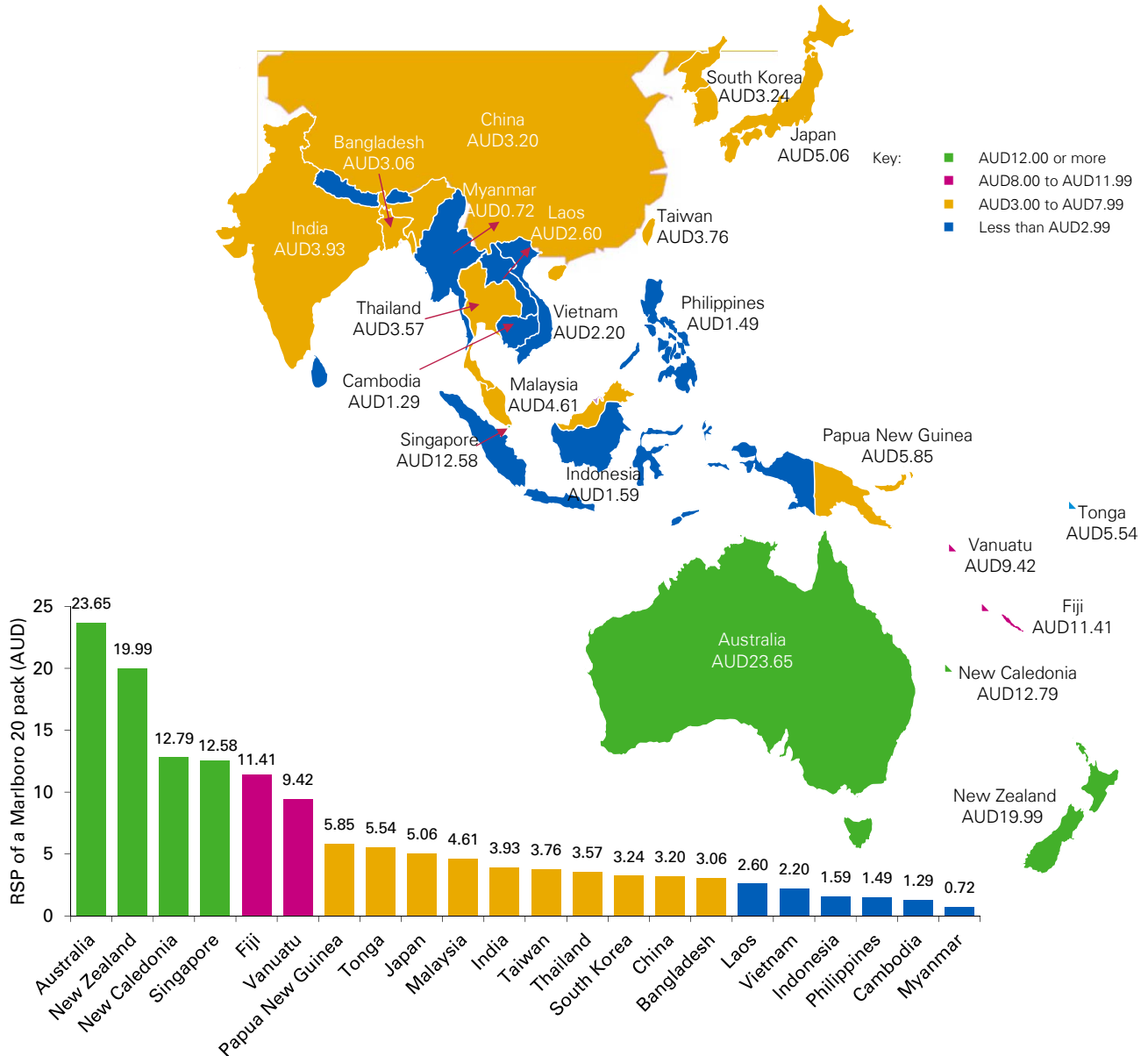
Although CPI has continued to increase, AWOTE had increased at a higher rate from 2007 through to 2015 and has now grown by 15 percentage points more than CPI since 2007. If the AWOTE continues to grow at the rate seen historically, the change in indexation is likely to lead to higher price increases than before.

- Notes: (a) 2015 AWOTE is based on latest available estimates, accessed February 2016.
(b) Indexed with 2007 values taken as 100.
(c) The historical numbers have been updated as Euromonitor has changed the Index of tobacco prices.
- Sources: (1) Euromonitor, Index of tobacco prices, accessed February 2016.
(2) Australian Bureau of Statistics.

Australia has the highest cigarette prices within the Asia Pacific region

4.5 Regional tobacco prices

Figure 4.5: Price of a pack of 20 Marlboro cigarettes – Australia and selected markets, 2015^{(1)(2)(a)(b)(c)}



Australia and New Zealand have much higher cigarette prices than surrounding markets in South East Asia. Australian prices are approximately 85% higher than the third most expensive market in the region, shown above, with this price differential rising in 2015 due to a combination of excise increases and the Australian dollar strengthening in the second half of the year.

This large price differential between Australia and other relatively nearby markets creates an economic incentive for those involved in the illicit market although tight border controls seek to limit this (see page 34 for more details).

Notes: (a) Prices for a 20 cigarette pack of Marlboro (taxes included); where Marlboro is not available, a comparable premium brand has been used.
 (b) As Marlboro is not legally sold in Myanmar, the price of a comparable premium local brand, Red Ruby, has been used for comparison.
 (c) Numbers for Papua New Guinea and Myanmar are based on latest available estimates.
 Sources: (1) Industry data.
 (2) www.oanda.com.

The price differential between legal products and illicit products widened further in the twelve months to December 2015

4.6 Relative price of illicit tobacco

Figure 4.6.1: Prices of illicit tobacco products and Winfield 25s, June 2013 – December 2015^{(1)(a)(b)(c)(d)}

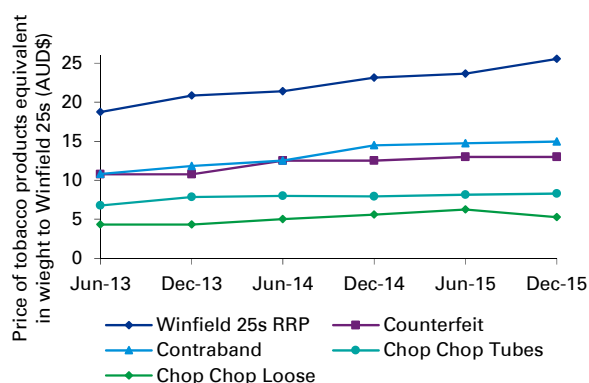
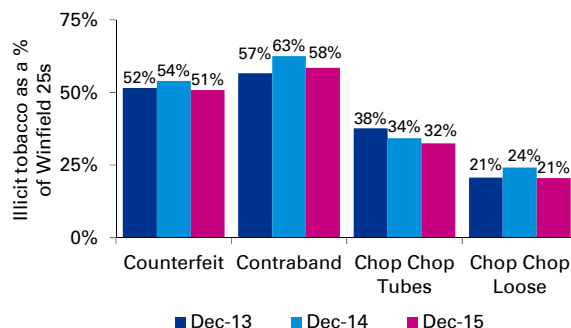


Figure 4.6.2: Illicit tobacco prices as a proportion of Winfield 25s, June 2013 – December 2015^{(1)(a)(b)(c)}



Data provided by BATA based upon covert purchases^(b) made across Australia highlights the price difference of illicit products compared to legitimate products. While this data will be impacted by the split of random versus intelligence led purchases^(c), the data will provide some insights into the size and change in the market.

The data illustrated above highlights how prices have evolved for a range of illicit tobacco and a legitimate pack of Winfield 25s. Over the period June 2013 to December 2015 the only illicit tobacco product to exhibit a price increase greater than a Winfield 25s pack (36%) was contraband cigarettes which rose by 38%. Counterfeit and Chop Chop product prices also rose over the period but were limited to an increase in the region of 20%.

Increased excise rates have driven the rise in legitimate tobacco prices. As illicit products fail to comply with Australian legislation the rise in illicit tobacco prices has likely fuelled larger margins for smugglers and illegal retailers.

The price differentials between illicit tobacco and legitimate products has not varied significantly year-on-year and typically remains within 5 percentage points between any two years. This may indicate that as excise rates changes increase the price of legitimate tobacco the illicit tobacco prices also increase in response.

Between December 2014 and December 2015, illicit tobacco prices as a proportion of Winfield 25s fell across contraband, counterfeit and Chop Chop tobacco resulting in an increased price differential between the products. This price differential may decrease as illicit tobacco prices rise in reaction to the excise rate increase imposed in the latter stages of 2015.

Notes: (a) Contraband and counterfeit prices are an average of price for products found in Sydney and Melbourne. Unbranded prices have been converted to a pack of 25 cigarette equivalents.
 (b) Covert purchases are 'mystery shopper' attempts to purchase illicit tobacco.
 (c) Intelligence led purchases involve gathering data and information on purchase outlets and using it to guide covert purchases. Random purchases are made without suspicion that illicit tobacco products can be purchased from that outlet.
 (d) A pack of Winfield 25s were chosen as the benchmark for changes in tobacco prices. It is an established brand with price changes likely to be representative of the broader legal tobacco market.

Source: (1) BATA intelligence data.



5. Size of the illicit tobacco market

5.1 Estimating the illicit tobacco market

5.2 Illicit tobacco consumption in Australia

Size of the illicit tobacco market

The approach used to estimate the size of the Australian illicit tobacco market is globally consistent, methodical and robust

5.1 Estimating the illicit tobacco market

Methodology and validation

As discussed in section 2.1, KPMG divides the illicit tobacco market into unbranded tobacco and illicit manufactured cigarettes (in the form of counterfeit and contraband). These categories taken together form total illicit consumption. It is therefore important to take account of all consumption flows when assessing the amount of illicit tobacco consumed.

The chart below illustrates how KPMG breaks consumption into a number of categories (defined in section 2.1) and how each category requires different data sources to estimate the size of the market and validate the findings.

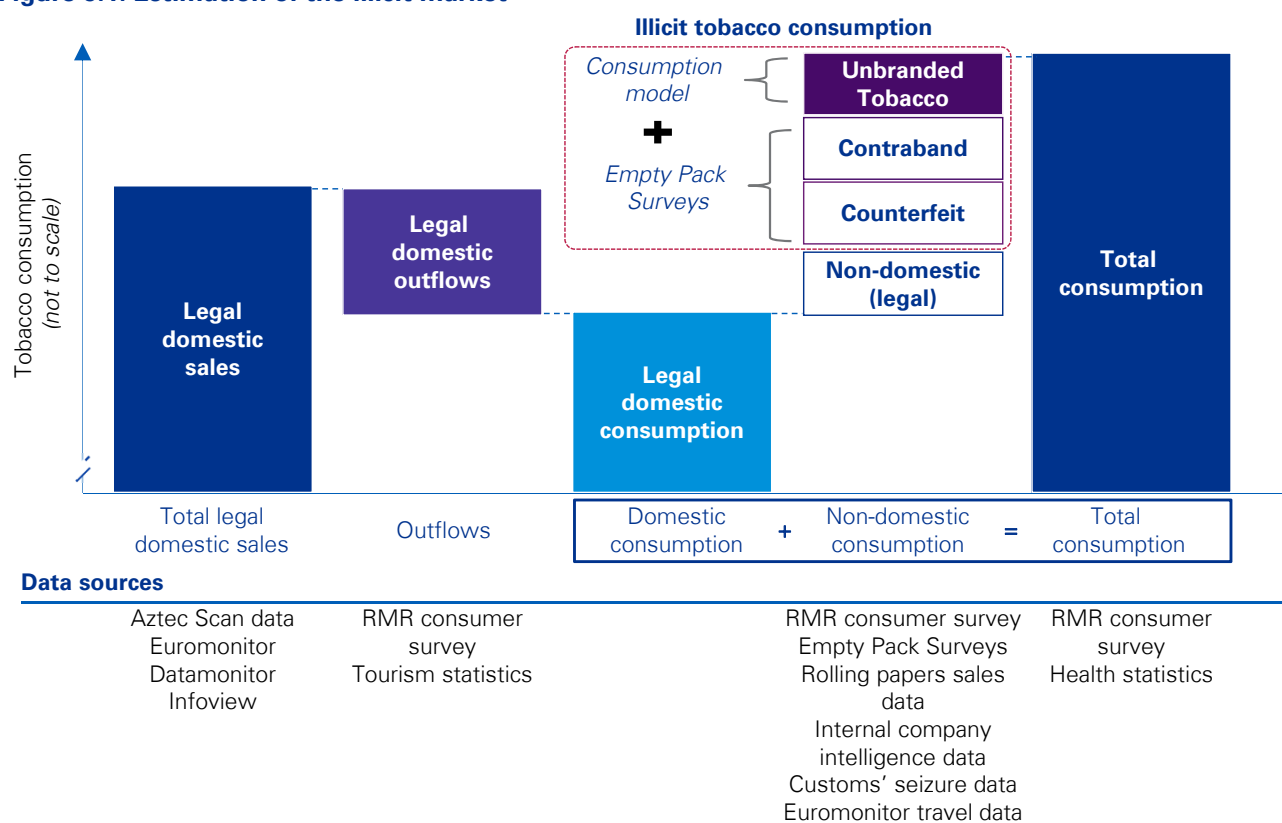
For each of these categories a separate primary approach is used in order to estimate the volume of illicit tobacco. For unbranded tobacco a consumption model approach is used, based on results from a consumer survey.

This includes Chop Chop (unbranded loose tobacco sold in bags) and unbranded tobacco sold in pre-filled tubes. For illicit manufactured cigarettes an Empty Pack Survey (EPS) analysis is used, based on the collection of discarded cigarette packs across Australia.

This approach has been used consistently in each report over the past three years. Therefore it provides good insights into market trends.

We believe this approach provides an estimate of the size of the illicit market in Australia which is as robust as possible within current research techniques. However, to further increase the level of confidence in this estimate, alternative approaches are used to validate the illicit tobacco volumes generated by the consumption model and the EPS analysis.

Figure 5.1: Estimation of the illicit market^(a)



Note: (a) Definitions for the above sales categories can be found in the glossary on page 2 and page 3.

We have used a broad range of approaches to produce an estimate for the size of the Australian illicit tobacco market

5.1 Estimating the illicit tobacco market (cont.)

The validations can be used as alternative estimations, or to support trends and changes noted in the market. In this section each of the approaches are described before the process of estimation and validation is explained. A detailed overview of these approaches can be found in Appendices A1, A2 and A3. A detailed list of all data and information used can be found in Appendix A12.

Primary approaches

Consumption model

This approach is based on the responses of consumers to the survey conducted by Roy Morgan Research (RMR) in H1 2015 and H2 2015. The survey is commissioned by BATA, ITA and PML.

Survey participants represent the demographic, geographic and social factors that characterise the Australian population. The survey asks consumers about their consumption of both legal and illicit tobacco. These survey responses are then combined with other data sources by KPMG to arrive at an estimate for total illicit tobacco consumption. Consumers are asked about both unbranded tobacco and illicit manufactured cigarettes.

For the purpose of this report, the consumption model number for unbranded volumes in 2015 is based on the average of the H1 2015 and H2 2015 consumer survey results. Since consumers are likely to give a more accurate estimate of their purchase behaviour over a shorter time period, using an average of both surveys provides a more robust number for 2015. Detailed results of the consumer survey are discussed in section 6.

Empty Pack Survey (EPS)

An EPS is a study undertaken independently by MSI Intelligence (MSI) who collect 12,000 discarded cigarette packs per survey across 16 different population centres in Australia. The EPS is conducted every six months. The brand and country of origin of each collected pack is assessed by MSI to determine whether it is a domestic or non-domestic product. Products from different countries of origin are labelled as non-domestic. The collected packs are then sent to the participating manufacturers for analysis to determine genuine and counterfeit packs. KPMG uses the EPS results to extrapolate overall consumption in the market. The percentages of non-domestic and counterfeit packs are applied to the volume of legal domestic sales in order to establish the total consumption of manufactured cigarettes in Australia.

The EPS approach provides an objective and statistically representative estimate of the size of the illicit manufactured cigarette market. The results are not subject to respondent behaviour and are therefore less prone to sampling errors than many other alternative methodologies. The 16 population centres covered by the sample plan covers the equivalent of over 75% of Australia's population.

A small proportion of non-domestic cigarettes are likely to have been brought into Australia legally by Australians travelling overseas or by tourists and permanent settlers arriving in Australia. Travel statistics from the Australian Bureau of Statistics are reviewed by KPMG in order to estimate the likely volume.

An analysis of the amount of non-domestic legal brought into Australia by these two groups can be found in Appendix A6. Areas that are typically frequented by tourists and international students (e.g. sports stadia, tourist attractions, railway stations) are excluded from the EPS to avoid over-estimating non-domestic legal consumption and provide a representative sample of the local population's consumption.

These non-domestic legal cigarettes are removed from the total non-domestic volume by KPMG, which leaves the total estimated illicit manufactured cigarette market, split into contraband and counterfeit cigarettes as described in section 2.

Since 2012, the empty pack surveys have been jointly commissioned by BATA, ITA and PML. Before H1 2013, the study was carried out by ACNielsen. Prior surveys were also run in 2009 and 2010 by ACNielsen (who also have experience of conducting EPS in Europe) on behalf of PML, and these have been made available to KPMG for use in this report. The methodology and sample walking routes used by MSI are consistent with those used previously by ACNielsen.

For the purpose of this update report a new EPS has been conducted by MSI in Q4 2015. The results from this survey have been used in conjunction with the EPS results from Q2 2015 to arrive at an estimate for the illicit manufactured cigarette consumption for 2015. This method is consistent with the approach used by KPMG in Project SUN to assess the level of counterfeit and contraband cigarettes across the EU Member States. It is a widely accepted method for measuring the illicit market.

Rolling papers and seizures are used to validate the results of the consumption model and EPS

5.1 Estimating the illicit tobacco market (cont.)

Means of validation

Rolling papers analysis

This analysis has been developed by KPMG and has been used with other clients to infer the volume of loose tobacco smoked from the quantum of papers sold. It compares sales of rolling papers provided by ITA⁽¹⁾ with the legal sales of loose tobacco to estimate a consumption gap between legal and illicit.

In order to use this approach several assumptions are made:

1. Grams per rolled cigarette⁽²⁾⁽³⁾.
2. Wastage rate of rolling papers⁽²⁾⁽³⁾.
3. Rolling papers used for consumption of illegal drugs⁽⁴⁾.

Data obtained in consumer surveys carried out by the industry and sales figures from rolling papers manufacturers are used in order to verify these assumptions, along with data from the National Drug and Alcohol Centre.

We have found from previous analyses that, given the number of assumptions in this approach, its main use is to provide a range of estimates for the market size to help validate other analysis.

Seizures data

Seizures data obtained from the ACBPS (renamed the ABF from 1 July 2015) shows the volume and type of tobacco intercepted as sea cargo⁽⁵⁾. Using seizure data to size the illicit market is often unreliable since it is difficult to ascertain the proportion of total illicit product that is seized. Detections depend as much on the performance of the customs or law enforcement agency as they do on the presence of illicit activity or the ingenuity of those involved. In addition, seizure data used to intercept tobacco products coming into Australia will not pick up loose tobacco which may have been illegally grown in Australia.

Whilst seizure data is unlikely to generate an accurate estimate for the illicit tobacco market, it can be used to indicate trends and validate any considerable changes to the illicit market. For example, an increase in manufactured cigarette flows from a country picked up in the EPS could be validated with a corresponding increase in seizures from that country or in manufactured cigarettes representing a growing percentage of seizures. We also use internal tobacco company intelligence data as a validation of trends, however, since this data is commercially sensitive we are not authorised to publish it.

Sources: (1) Aztec Scan data.

(2) Industry estimates.

(3) Roy Morgan Research, Consumer survey.

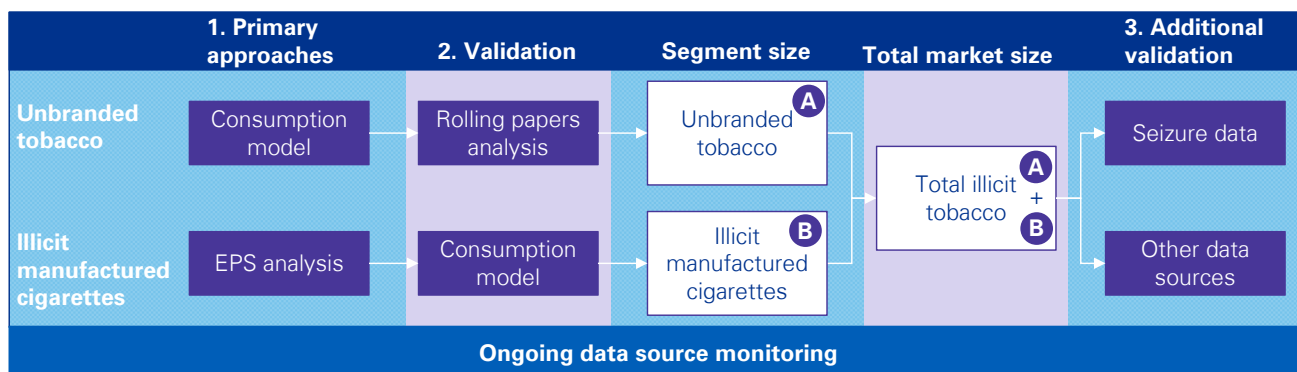
(4) Australian Institute of Health and Welfare, *The National Drug Strategy Household Survey*, 2013.

(5) Australian Customs and Border Protection Service, Annual Report 2015, October 2015.

The validation of our measurements with additional data sources provides confidence in the results

5.1 Estimating the illicit tobacco market (cont.)

Figure 5.1: Overview of approach to estimating illicit tobacco



The consumption model and EPS approaches are thought to be the most robust for estimating the illicit tobacco market in Australia. Figure 5.1 shows the process by which the consumption model and EPS analysis are validated through alternative analysis.

1. Primary approaches

A Unbranded tobacco: The consumption model uses data from the RMR consumer survey, external data sources such as the Australian Institute of Health and Welfare and the Australian Bureau of Statistics to estimate the results. We consider it to be the best way of sizing the unbranded tobacco market.

B Illicit manufactured cigarettes: The EPS, conducted in Australia by MSIntelligence, is the most reliable measure of contraband and counterfeit. It also forms the foundation for Project SUN^(a).

A + B Total illicit tobacco: The total illicit tobacco market size estimate is calculated by adding the results of the validated EPS analysis for manufactured cigarettes (i.e. contraband and counterfeit) with the output of the validated consumption model for unbranded tobacco. The results are presented in kilograms to show total consumption of both loose tobacco and manufactured cigarettes.

2. Validation

Rolling papers analysis is used in order to validate the unbranded tobacco market. Whilst assumptions relating to grams per rolled cigarette, rolling paper wastage rates and cannabis usage are hard to verify, rolling papers analysis is helpful to determine the likely ratio between consumption of loose tobacco and illicit loose (unbranded) tobacco.

The consumption model has historically been used in order to estimate the illicit volume of manufactured cigarettes. As such it provides a good approach by which to assess the EPS results.

3. Additional validation

Total illicit tobacco consumption (i.e. unbranded tobacco and manufactured cigarettes together) can be validated further by seizures data.

Seizures data can be used in order to validate the likely mix of illicit tobacco consumption. If the consumption model and EPS show a large change in the mix of illicit products, seizures data should support this change.

Using this validation process enables us to understand and corroborate any significant changes to illicit tobacco consumption.

Ongoing data source monitoring

We take a forward looking approach to ensuring the most appropriate data is used in the modelling process. For example, many surveys of smoking prevalence are conducted at irregular intervals whereas the actual decline is smooth over time between these periods. To avoid major future restatements that distort trends we continuously monitor the relevance of data sources and may rebase some data based on historic and forecast trends.

To ensure comparability with our ongoing methodology we have applied these changes retrospectively. See Appendix A1 for details.

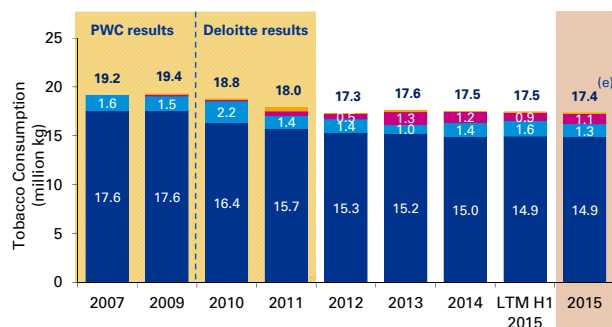
Note: (a) A study of the illicit cigarette market in the European Union by KPMG.

Size of the illicit tobacco market

Illicit tobacco accounted for 14.0% of total tobacco consumption in 2015, down from 14.5% in 2014

5.2 Illicit tobacco consumption in Australia

Figure 5.2a: Consumption of tobacco products by category, 2007 – 2015^{(1)(2)(a)(b)(c)(d)(e)}



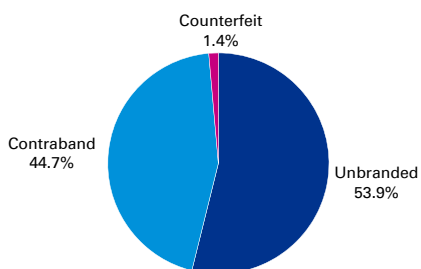
CAGR (%)	2014 – 2015	LTM H1 2015 – 2015
Counterfeit	302.3%	456.8%
Contraband	(6.4%)	56.6%
Unbranded	(4.5%)	(33.6%)
All illicit product	(4.3%)	(4.7%)
Non-domestic (legal)	31.5%	28.0%
Legal domestic sales	(0.4%)	(0.5%)
Total consumption	(0.9%)	(1.0%)

The total level of tobacco consumption in Australia was estimated at 17.4 million kg in 2015, of which 2.4 million kg was estimated to be illicit. Our estimate of total consumption represents a fall in volume of 0.9% from 2014 and a corresponding fall from 14.5% to 14.0% of illicit tobacco as a proportion of total consumption over the same period.

Consumption of unbranded (loose) illicit tobacco decreased in 2015 for the first time since 2013. Although large consumption volumes of illicit manufactured cigarettes were also identified, volumes were lower than in 2014.

Contraband consumption is the largest component of illicit manufactured cigarette consumption. Counterfeit remains a very small component of illicit tobacco consumption (1.4%) although this volume has increased from 0.01 million kg in H1 2015 to 0.03 million kg in full year 2015.

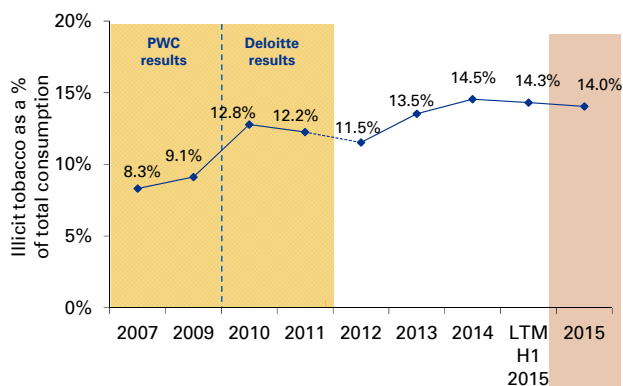
Figure 5.2b: Share of illicit tobacco consumption, 2015⁽³⁾



As a result, the decline in total consumption is due to a reduction in both legal and illicit consumption.

The volume of non-domestic (legal) product grew, primarily as a result of increased inter-country travel (increased travel from both China and New Zealand⁽⁵⁾), as well as an increase in the incidence of non-domestic packs from the latter.

Figure 5.2c: Illicit tobacco consumption as a proportion of total consumption, 2007 – 2015^{(1)(2)(3)(4)(d)}



- Notes:
- 2015 represented consumption for the twelve months to end December 2015.
 - Counterfeit and contraband estimations are unavailable for 2007.
 - Non-domestic legal volumes are smaller than 0.1 million kg and volume labels have not been included for this category.
 - KPMG have not had the opportunity to validate results for 2007-2011.
 - Numbers in the chart do not sum due to rounding.

- Sources:
- PriceWaterhouseCoopers, *Australia's Illegal Tobacco Market*, 2007, 2009.
 - Deloitte, *Illicit Trade of Tobacco in Australia*, 2010, 2011, 2012.
 - KPMG analysis.
 - Industry data; see specific report sections for further detail.
 - Euromonitor travel data, accessed February 2015.

The estimate of unbranded tobacco volumes is supported by the rolling papers analysis

5.2 Illicit tobacco consumption in Australia (cont.)

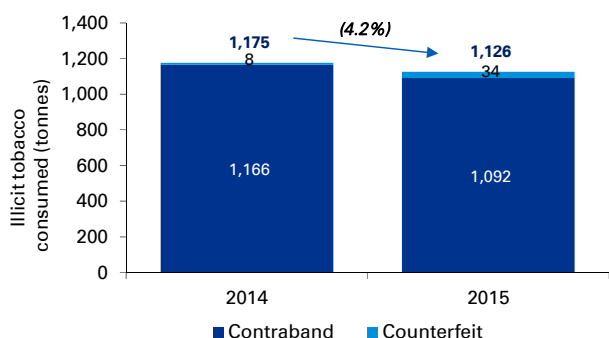
Table 5.2: Results of primary methodologies, 2014 – 2015

2014 and 2015 results (tonnes)		LTM H1 2015	2015	% Change (LTM H1 2015 – 2015)
1. Illicit manufactured cigarettes	<i>Contraband</i>	872	1,092	25.1%
	<i>Counterfeit</i>	14	34	136.0%
	<i>Total</i>	886	1,126	26.9%
2. Unbranded tobacco		1,613	1,314	(18.5%)
3. Total illicit tobacco		2,499	2,439	(2.4%)

1. Illicit manufactured cigarettes

Based on analysis of the EPS undertaken by MSIntelligence, the 2015 estimation of the illicit manufactured cigarettes market is 1,092 tonnes for contraband and 34 tonnes for counterfeit. This equates to an increase of 26.9% in illicit manufactured cigarettes since LTM H1 2015.

Figure 5.2.1: KPMG estimates of illicit manufactured cigarettes, 2014 – 2015⁽¹⁾

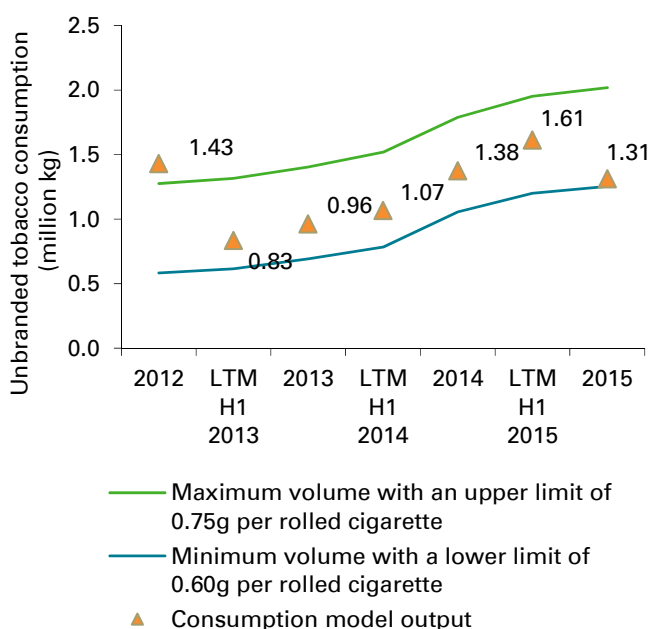


2. Unbranded tobacco

The consumption model indicates that the volume of unbranded tobacco consumed decreased by 4.5% between LTM H1 2015 and 2015, from 1.61 million kg to 1.31 million kg. This level of illicit unbranded volumes is still supported by the rolling papers analysis.

Our rolling papers analysis estimates that the unbranded tobacco market is likely to be between 1.25 million kg and 2.02 million kg. The 1.31 million kg sits within this range albeit at the lower end. This was mainly driven by a lower average quantity of Chop Chop purchased on each occasion than previous periods, specifically in Q3 2015 but also Q4 2015.

Figure 5.2.2: Volume of illicit unbranded tobacco generated by the rolling papers analysis, 2012 – 2015⁽¹⁾



Sources: (1) KPMG analysis.

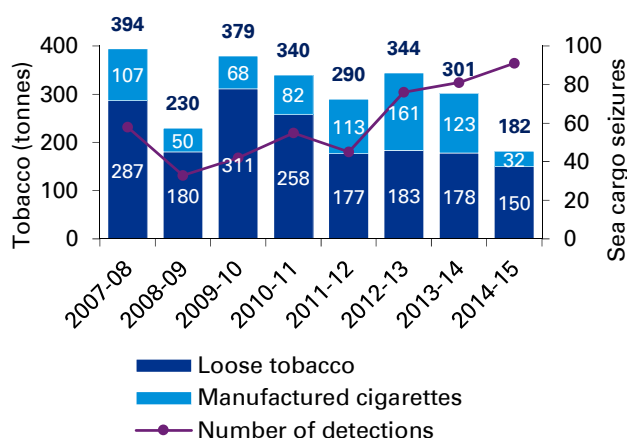
Sea cargoes have represented the majority of seizures made in recent years

5.3 Enforcement context

Reported border seizures

Since 2011-12 the number of detections in sea cargo by the ABF (formerly the ACBPS) has trended upwards⁽¹⁾. Conversely, the weight of tobacco seized has trended downwards over the period to an eight year low.

Figure 5.3.1: Sea cargo seizures split by type of illicit tobacco, 2008 – 2015^{(1)(a)(b)(c)}



The mix of illicit tobacco seized (and reported) from sea cargo has varied over the last eight years. Loose tobacco has consistently accounted for the majority of tobacco seized, with 82% of the total weight in 2015. This represents a shift away from manufactured cigarettes in comparison to the previous three years. The reported mix may differ from the actual consumed mix as a result of timing differences or the delayed declaration of some seizures.

Reported domestic seizures

Figure 5.3.2: Reported domestic seizures of illicit tobacco⁽²⁾

	2011-12	2012-13	2013-14	2014-15
Number of seizures	1	-	2	2
Estimated excise evaded	\$11.3m	-	\$13.4m	\$8.0m

In 2014 our report noted a number of seizures of domestically grown product (not included in Figure 5.3.1). This trend continued into 2015 with the discovery of some domestic tobacco crops (see Figure 5.3.3 on next page), although the majority of seizures in the latter stages of the year were of manufactured cigarettes (both contraband and counterfeit).

The two reported domestic seizures in 2014-15 (see above table) both occurred in Victoria and were the result of a collaborative partnership involving the ATO, AFP and local police forces.

The investigation, detection and seizure of this domestically grown illicit tobacco is the responsibility of the ATO⁽²⁾. These crops are identified through the use of both formal networks and community tip-offs gathered through a range of law enforcement agencies. In addition to these seizures the ATO successfully convicted a number of individuals for illicit tobacco related offences. These included the conviction of an individual in Western Sydney for growing 27,000kg of tobacco and another individual from Moorabool, Victoria for possessing 35,000kg of tobacco leaf⁽²⁾.

Notes: (a) Illicit tobacco detections were also made in air cargo. However, volumes are considerably smaller and are not published in the annual report.
 (b) Pre 2010-11 tobacco seizures have been converted from cigarette equivalents based on the conversion rates used for consumption modelling.
 (c) Numbers for 2012-13 have been updated and are based on data provided by the Australian Customs and Border Protection Service.

Sources: (1) Australian Customs and Border Protection Service, Annual Report 2014-15
 (2) Inquiry into Illicit Tobacco, ATO submission, 2016

A number of seizures were made by the ABF and other enforcement agencies towards the end of 2015

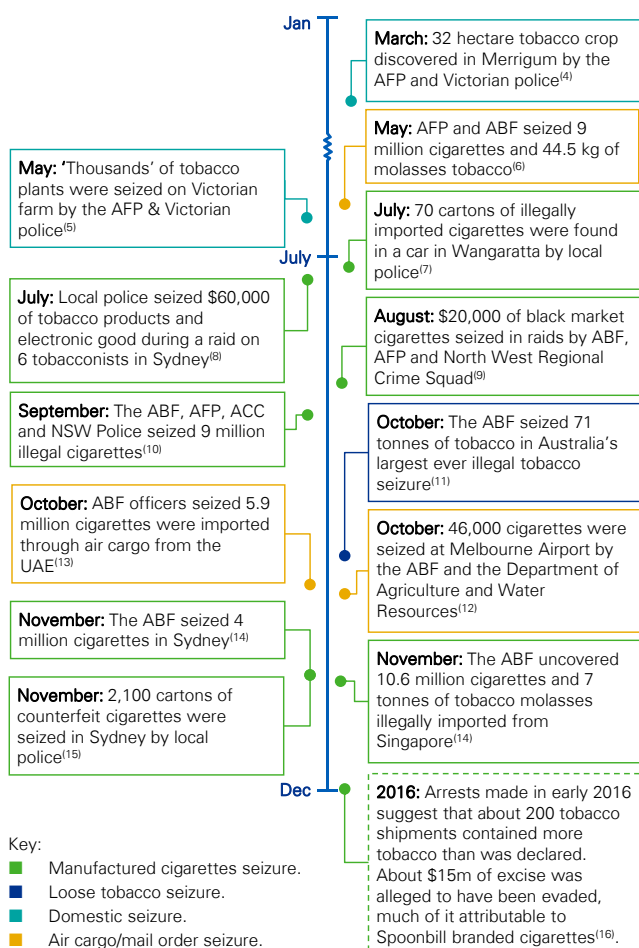
5.3 Enforcement context

Evolution of points of entry

The majority of tobacco and cigarette detections continue to occur within the sea cargo environment. However, the ABF are “now seeing increased activity in undeclared small consignments through the passenger, air cargo and mail streams which indicates a shift in smuggling methodology”⁽¹⁾. Seizures of illicit tobacco believed to be imported through either air cargo or mail order are currently not reported in Figure 5.3.1 although these methods of smuggling grow in popularity⁽¹⁾. The ACC also notes that groups involved in the illicit tobacco trade “are highly networked and that they have made significant effort to gain a knowledge of Customs procedures, priorities and detection limitations”⁽²⁾.

The ABF and other enforcement agencies have started using less traditional methods of detecting and seizing illicit tobacco. For example, in December 2015, 80 kg of illicit processed tobacco hidden in air cargo were uncovered by a trainee detector dog⁽³⁾. This seizure highlights the ABF’s rationale for undertaking a multi-pronged approach to stopping the movement of illicit goods into Australia⁽³⁾.

Figure 5.3.3: Key seizures in 2015



Sources: (1) Australian Customs and Border Protection Service, Annual Report 2014-15
 (2) ACC Annual Report, Organised Crime in Australia 2015
 (3) newstroom.border.gov.au, Pirate sniffs out 80kg of illicit tobacco, Dec 2015
 (4) Tobacco crop bust at Merrigum. Kyabram Free Press, March 2015
 (5) Another big tobacco crop seized in Goulburn Valley, Weekly Times, May 2015
 (6) Herald Sun, Police bust alleged illicit tobacco importation gang, December 2015
 (7) Korean man to be deported after being found with 70 cartons of cigarettes in Wangaratta, The Border Mail, July 2015
 (8) AAP Newswire, NSW: Police raids net \$60k of illegal goods, July 2015
 (9) The Age, AFP, crime squad raid milk bar in Melbourne’s north, August 2015

(10) Department of Immigration and Border Protection, Thirteen charged, illegal tobacco importation syndicate shut down – Polaris Joint Taskforce, Sept 2015
 (11) ‘Record haul’ of illegal tobacco worth \$40 million seized by Australian Border Force, ABC News, October 2015
 (12) ABF Joint Media Release, 46,000 cigarettes seized at Melbourne Airport, Nov 2015
 (13) http://www.minister.border.gov.au/peterdutton, Ten tonnes of tobacco seized in Melbourne, October 2015
 (14) Illegal cigarette seizures keep Border Force busy, The Huffington Post, Nov 2015
 (15) Woman charged over counterfeit ciggies, The Australian News, November 2015
 (16) newstroom.border.gov.au, major strike delivered to illegal cigarette smuggling, February 2016



6. Drivers of results

6.1 Consumer survey overview

6.2 EPS Results

Roy Morgan Research sampling overview

6.1 Consumer survey overview

6.1.1 Roy Morgan Research survey overview

The consumer survey is primary research carried out to establish the size of the illicit unbranded tobacco market in Australia. The survey, commissioned by BATA, ITA and PML, was again carried out by Roy Morgan Research (RMR) to ensure comparability with previous years.

The survey focuses on tobacco consumption behaviour by adult smokers who smoke on a regular basis^(a). Consumers are asked about their consumption and purchase of legal and illicit tobacco products including:

- Unbranded loose tobacco (both ‘Chop Chop’ sold loose in bags or in pre-filled tubes).
- Counterfeit and contraband manufactured cigarettes.

The consumer survey was conducted at least annually from 2009 and then biannually from 2013. There is a three week response period and the survey made use of Computer Assisted Web-based Interviewing (CAWI). The H2 2015 survey was carried out between 17 and 30 November 2015. The survey was only available in English and respondents took on average 6 minutes 48 seconds to complete^(b).

Respondents who complete the survey earn points which can be redeemed for gift vouchers for retail outlets. Typically, an RMR survey of the length used here awards respondents points equivalent to AUD\$1 of vouchers. Respondents have to complete a number of consumer surveys focusing on a range of issues in order to accumulate enough points to exchange for vouchers of a certain value. There are state by

state regulations which guide the implementation of rewards for such consumer surveys and this RMR survey complies with all such regulations nationally.

6.1.2 Consumer survey sampling methodology

RMR draws its sample from an Australia-wide database (urban and rural areas), collected through its ‘Establishment Survey’. This is conducted throughout the year and includes information on demographics and attitudes.

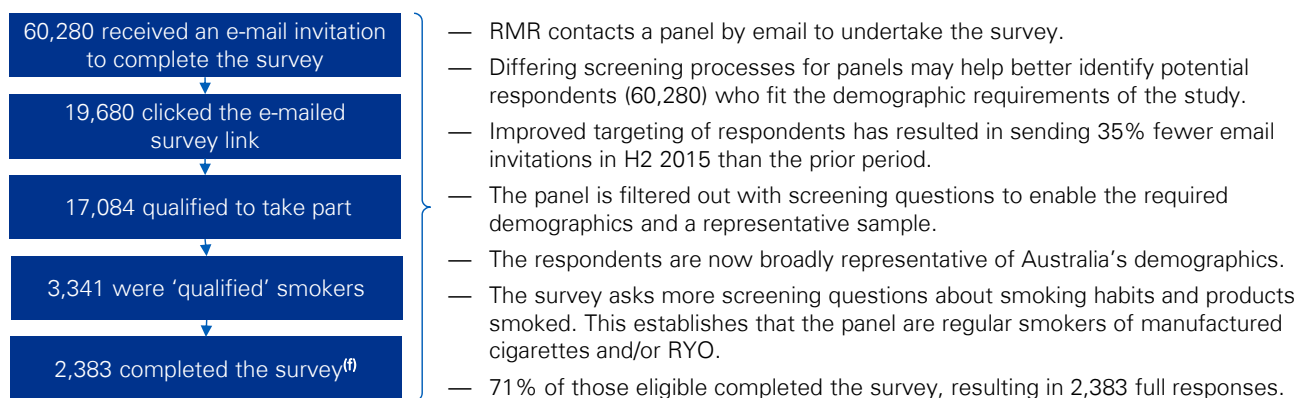
The sample for the tobacco questionnaire is weighted by location, age and gender using RMR Single Source data in order to be representative of the national population. The Single Source^(c) distribution of income, occupation and work status of smokers is then used to rim weight^(d) the data. The survey only samples people over 18 years old. Non-private dwellings and institutions, and occasional (<5 days per week) and non-smokers are excluded. RMR also uses a one quarter exclusion rule for respondents^(e).

To meet target responses, RMR supplements its sample with samples from a set of qualified third-party suppliers (large reputable international suppliers of online research samples).

The Australian Institute of Health and Welfare (AIHW) has indicated that this approach is probably the “most appropriate way to measure this type of information”⁽²⁾.

Founded in 1941, Roy Morgan Research (RMR) is an established Australian market research company. RMR has significant experience working with consumer surveys monitoring legal and illicit tobacco consumption and have provided the consumer research for all of the previous versions of this report.

Figure 6.1.1: Roy Morgan Research (RMR) survey attrition chart⁽¹⁾



Notes: (a) For the purposes of this report, a regular smoker is a person who smokes tobacco products on at least five days in a given week.
 (b) The Australian Market and Social Research Society’s ‘Guideline for Market and Social Research Interviews’ recommends a maximum survey length for incentivised online surveys of 20 minutes.
 (c) Single Source is RMR’s database collected through their Establishment Survey which focuses on demographic and behavioural factors and closely matches the ABS Census. It is used to establish quotas for other surveys.
 (d) Rim weighting uses mathematical algorithms to provide an even distribution of results across a dataset while balancing certain categories such as age to pre-determined totals. It weights specified characteristics simultaneously and disturbs each variable as little as possible.
 (e) The respondent cannot have done the study in the most recent prior quarter.
 (f) To meet project timelines, the field period closed on 30 November 2015, over the target of 2100 completed surveys. Data from the 1,383 completed was weighted to the quotas set for the target of 2,100 to reflect the distribution of smokers aged 19+ across Australia (excluding NT).

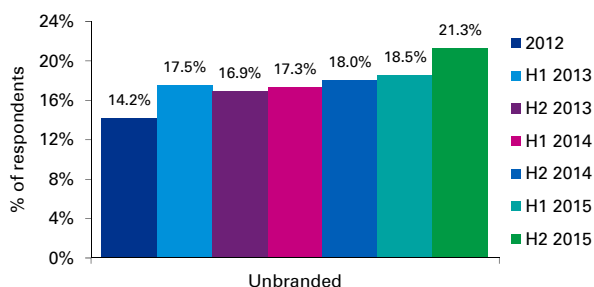
Source: (1) Roy Morgan Research, Consumer survey H2 2015.
 (2) Proof Committee Hansard, Parliamentary Joint Committee on Law Enforcement, March 2016

Drivers of results

A higher purchase prevalence H2 2015 was offset by lower average purchase volumes leading to an overall decline in illicit unbranded consumption compared to H2 2014

6.1.2 Purchasers of illicit unbranded tobacco

Figure 6.1.2a: Proportion of respondents who reported purchasing illicit unbranded tobacco, 2012 – H2 2015^{(1)(2)(a)}



The H2 2015 RMR consumer survey saw an increase in the proportion of respondents purchasing unbranded tobacco compared to H1 2015. However, the average frequency of purchase decreased from 14 to 12 occasions per annum (below). The decrease in the average amount purchased, coupled with a decrease in frequency (between H1 2015 and H2 2015), resulted in the average annual volume per consumer falling from 3.48 kg to 2.2 kg, a decrease of 36%.

However, the consumption model number for unbranded volumes is based on the average of the two consumer survey results in that twelve month period. Purchase incidence and average purchase volumes were lower in H2 2015 than in H2 2014, therefore overall unbranded volumes decreased from 1.61 million kg in LTM H1 2015 to 1.31 million kg in 2015.

Figure 6.1.2b: Average frequency of purchase per annum, 2012 – H2 2015^{(1)(2)(a)}

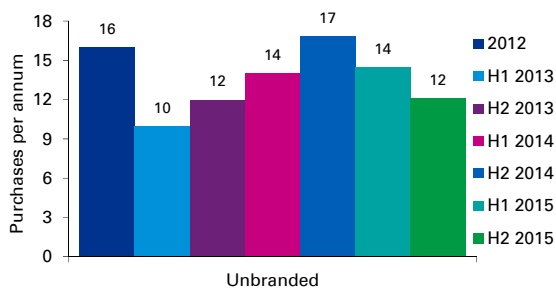
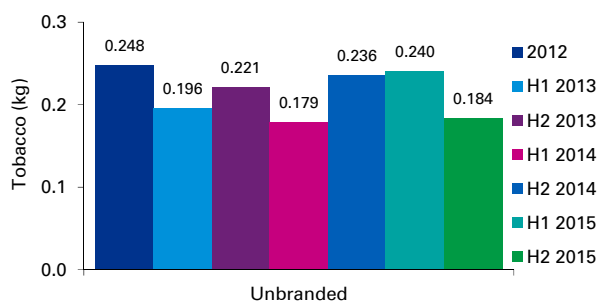


Figure 6.1.2c: Average volume purchased (kg) per occasion, 2012 – H2 2015^{(1)(2)(a)}



Note: (a) 2012, 2013, 2014 and 2015 analysis is based on CAWI consumer survey results.

Sources: (1) Deloitte, *Illicit Trade of Tobacco in Australia*, 2012.

(2) Roy Morgan Research (RMR), Consumer survey, H1 2013, H2 2013, H1 2014, H2 2014, H1 2015, H2 2015.

Drivers of results

The EPS sampling plan comprises of collecting 12,000 empty packs across 16 population centres in Australia twice a year

6.2 EPS results

6.2.1 Australian EPS sampling plan⁽¹⁾⁽²⁾

The EPS analyses discarded cigarette packets which have been collected from a set area. The aim is to collect a representative sample of discarded cigarette packets which can then be analysed to provide information about the nature of consumption of manufactured tobacco products.

Empty packs are collected on a proportionate basis from a number of neighbourhoods. Packs are collected from streets and easy access public bins in areas on the sampling plan.

For the purpose of this report, an EPS was carried out by an independent market research agency; MSIntelligence (MSI) across November – December 2015. This Q4 2015 EPS collection was based on a sampling plan consistent with the previous EPS sampling plan: 12,000 packs were collected, the same neighbourhoods were sampled and the same 16 population centres were covered. This covered approximately 75% of the total population as shown in Figure 6.2.1.

Packs are collected from pre-determined neighbourhoods, selected to be representative of the city being sampled. Similarly, the neighbourhoods selected are also consistent with the previous surveys. Packs are collected irrespective of their brand and country of origin. Collection routes specifically exclude sports stadia, shopping malls and stations, or any other locations where non-domestic incidence is likely to be higher as a result of a skewed population visiting these areas and may not be representative of local consumption

After the collection is completed, to ensure the sample is representative, packs are weighted based on the proportion of each city's population.

Founded in 2001, MSI is a private company with headquarters in Geneva, Switzerland specialising in market research. MSI has particular experience in the tobacco industry and has conducted over 950 EPS in more than 80 countries.

Table 6.2.1 Q4 2015 EPS sampling plan:

Population centres	Population (million) 2012 estimate ^{(2)(a)}	Number of sampled neighbourhoods	Sample packs	Weighted packs
Sydney	4.7	40	3,000	3,253
Melbourne	4.2	40	2,500	2,959
Brisbane	2.2	30	1,200	1,526
Perth	1.9	30	1,000	1,322
Adelaide	1.3	25	800	890
Gold Coast – Tweed Heads	0.6	13	400	412
Newcastle	0.4	13	400	292
Canberra - Queanbeyan	0.4	10	300	287
Wollongong	0.3	10	300	197
Sunshine Coast	0.3	10	300	199
Hobart	0.2	10	300	151
Geelong	0.2	10	300	125
Townsville	0.2	10	300	120
Cairns	0.1	10	300	99
Darwin	0.1	10	300	92
Toowoomba	0.1	10	300	77
Total sample	17.2	281	12,000	12,000
Total population of Australia	22.9			

Note: (a) Population numbers are based on the Australian Census, 2011.

Sources: (1) MSIntelligence Research, *Empty Pack Survey*, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015 and Q4 2015.

(2) Australian Bureau of Statistics.

Drivers of results

Between Q4 2014 and Q4 2015 non-domestic cigarette consumption increased in 14 of the 16 population centres sampled

6.2.2 Australian EPS results – Non-domestic incidence by population centre

Figure 6.2.2a: Total non-domestic incidence by population centre, Q4 2014 – Q4 2015⁽¹⁾

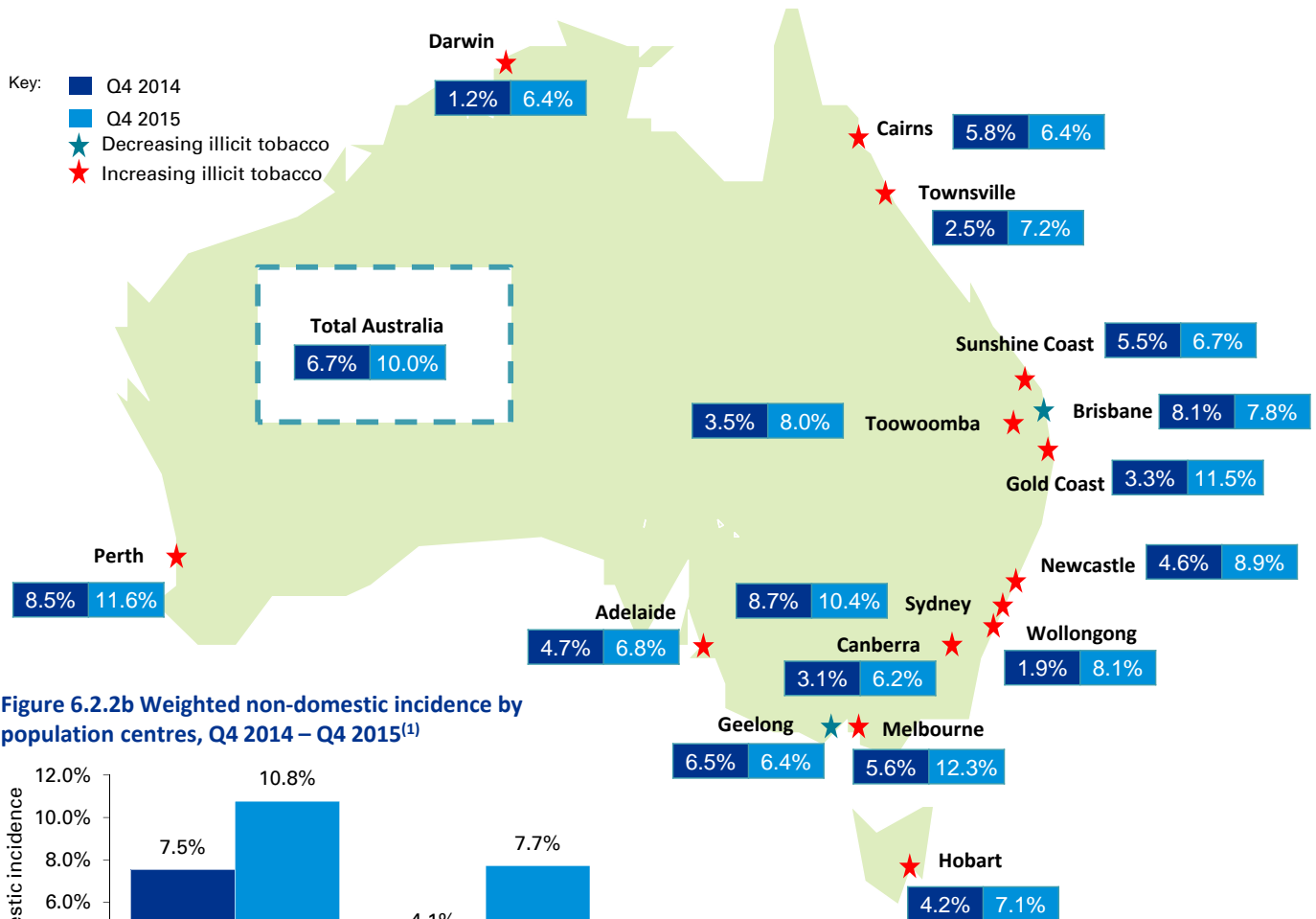
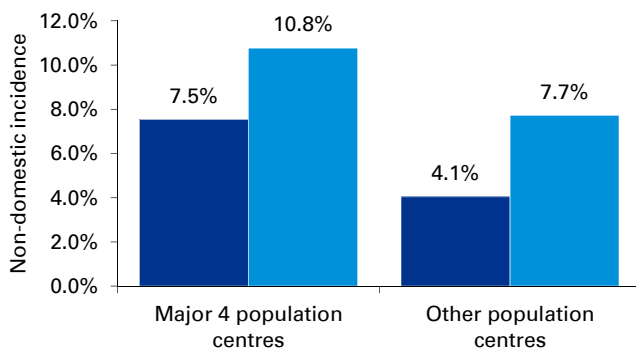


Figure 6.2.2b Weighted non-domestic incidence by population centres, Q4 2014 – Q4 2015⁽¹⁾



The Q4 2015 survey found non-domestic packs in all sampled population centres.

Despite the geographical differences the trend in incidence was relatively consistent between the largest population centres and the rest of the sample. In Q4 2015 weighted non-domestic incidence increased by 3.3 percentage points in the four major population centres, namely Sydney, Melbourne, Brisbane and Perth. Likewise, weighted non-domestic incidence increased by 3.6 percentage points in the other population centres over the same period.

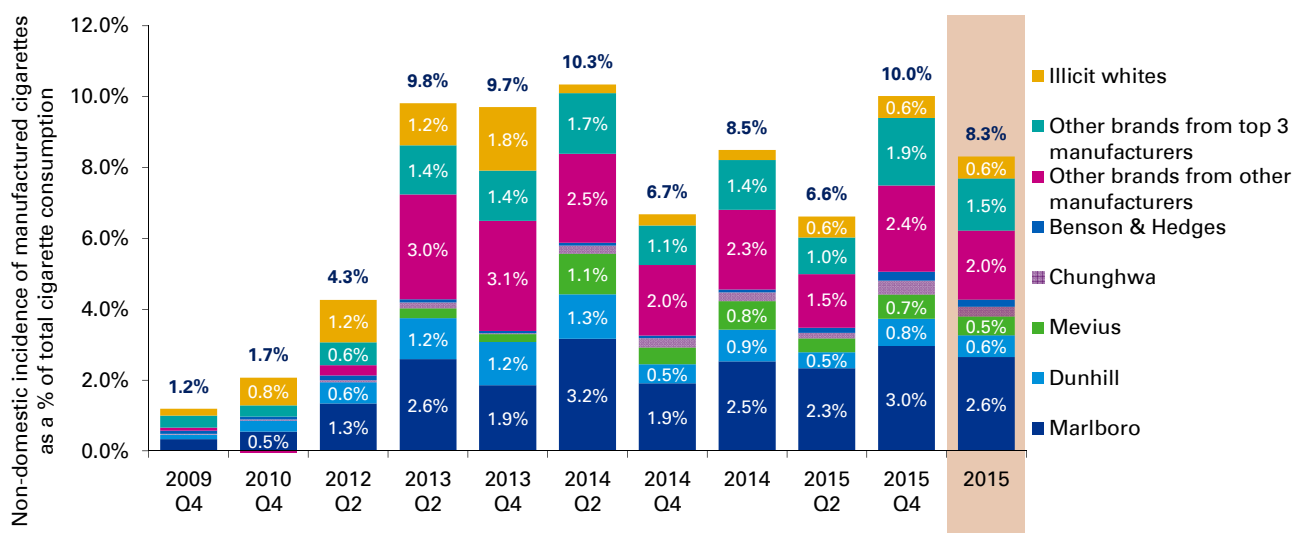
Only Brisbane and Geelong experienced a decline in non-domestic incidence over the period. In Q4 2015 Melbourne had the highest level of non-domestic incidence, whilst in the previous two quarters (Q4 2014 and Q2 2015) non-domestic incidence had been highest in Cairns and Sydney respectively. Despite this, Sydney still accounted for 27% of the total non-domestic cigarettes collected in Australia in Q4 2015.

Sources: (1) MSIIntelligence Research, Empty Pack Survey, Q4 2014 and Q4 2015.

Recent increases in non-domestic incidence has been due to growth in the flows of a wide range of brands

6.2.3 Australian EPS results – Non-domestic incidence by brand flow

Figure 6.2.3: Total non-domestic incidence by brand flow as a percentage of total manufactured cigarette consumption Q4 2009 – Q4 2015^{(1)(2)(a)(b)(c)(d)}



A blended approach, assigning equal weighting to the Q2 2015 and Q4 2015 EPS, has been used to size the illicit manufactured cigarette consumption volume for 2015. As highlighted earlier, using the blended method is consistent with the approach used by KPMG in Project SUN (and the recent Australian Reports undertaken by KPMG) to assess the level of counterfeit and contraband cigarettes across the EU Member States. A blended approach gives a more accurate view on the full year findings as each bi-annual EPS is reflective of market trends at that point in time only.

As per the EPS, non-domestic incidence has increased to 10.0% in Q4 2015 from 6.6% in Q2 2015. When both survey results are combined it gives a total non-domestic incidence of 8.3%, a decline of 0.2 percentage points from the figure reported in 2014.

The share of illicit whites brand flows remained stable at 0.6% of non-domestic manufactured cigarettes consumption in 2015, representing an increase of the 2014 figure by three percentage points. However, levels of illicit white brand flows remain below the peak of 1.8% experienced in Q4 2013. Notably, illicit white brand flows were the only category not to increase between Q2 2015 and Q4 2015 despite the rise in non-domestic incidence.

In comparison to the 2014 figures, the 2015 results are broadly similar with a similar mix between the flow of brands from the top three manufacturers and all others. However the non-domestic trends differ between the two years significantly with decreasing non-domestic incidence levels towards the latter part of 2014 then increasing over the course of 2015.

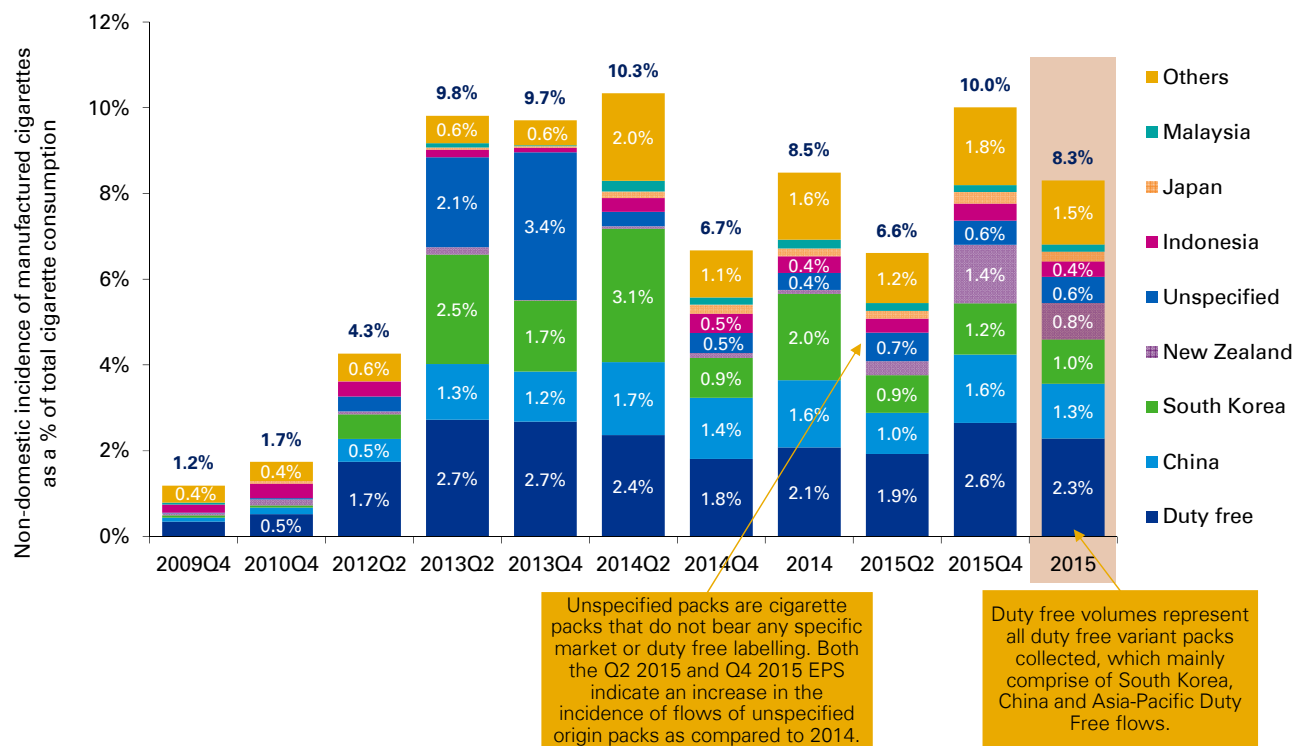
Between 2014 and 2015, the flows of non-domestic Marlboro has proportionally increased when compared to the Mevius and Dunhill brand flows.

Notes: (a) Our definition of illicit whites (see the glossary) was updated in 2014.
 (b) The full year 2015 figures are based on the blended result of the Q2 2015 and the Q4 2015 EPS using the weighted number of cigarettes.
 (c) Numbers in the above chart may not sum due to rounding.
 (d) Numbers less than 0.4% have been removed for clarity purposes.
 Sources: (1) MSIIntelligence Research, *Empty Pack Survey*, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015 and Q4 2015.
 (2) AC Nielsen, *Empty Pack Survey*, 2009, 2010, 2012.

Excluding Duty Free, Chinese origin flows remained the largest component of non-domestic incidence in 2015

6.2.4 Australian EPS results – Country of origin flows

Figure 6.2.4: Total non-domestic incidence by country of origin flows as a percentage of total manufactured cigarette consumption Q4 2009 – Q4 2015^{(1)(2)(a)(b)(c)}



Asian countries were the primary source for inflow of non-domestic manufactured products into Australia, with high levels of duty free products also present. China (including China duty free) was the largest individual source country for non-domestic manufactured cigarette flows in both the Q4 2015 EPS (accounting for approximately 20% of all non-domestic flows) and the full year 2015 (accounting for over 19% of all non-domestic flows). These Chinese non-domestic flows are predominantly China National brand of Chunghwa and JTI's Mevius.

The majority of Marlboro and Dunhill (the two largest non-domestic brand flows) which enter Australia originate from South Korea.

Flows of non-domestic manufactured cigarettes with unspecified labelling remained a noteworthy component of non-domestic inflows in both the Q2 and Q4 EPS with an annual share of 7.4% of the non-domestic incidence. This is down significantly from 2013 levels with a high proportion of the remaining flows accounted for within the illicit white brand flows category. The increase from 2014 to 2015 was largely accounted for by greater flows of the Manchester brand (especially in Q2 2015) which accounted for 56% of the Unspecified category.

The non-domestic incidence of flows from New Zealand increased over the period from 0.1% in 2014 to 0.8% in 2015. Over 67% of the New Zealand flows in Q4 2015 were retrieved from Melbourne and Sydney, likely destinations for business travel to and from New Zealand. Due to the high levels of overseas visitors from New Zealand, and Australian travel to the country, much of the non-domestic incidence is classed as Non-Domestic Legal and will therefore not contribute towards the total illicit tobacco consumption figure.

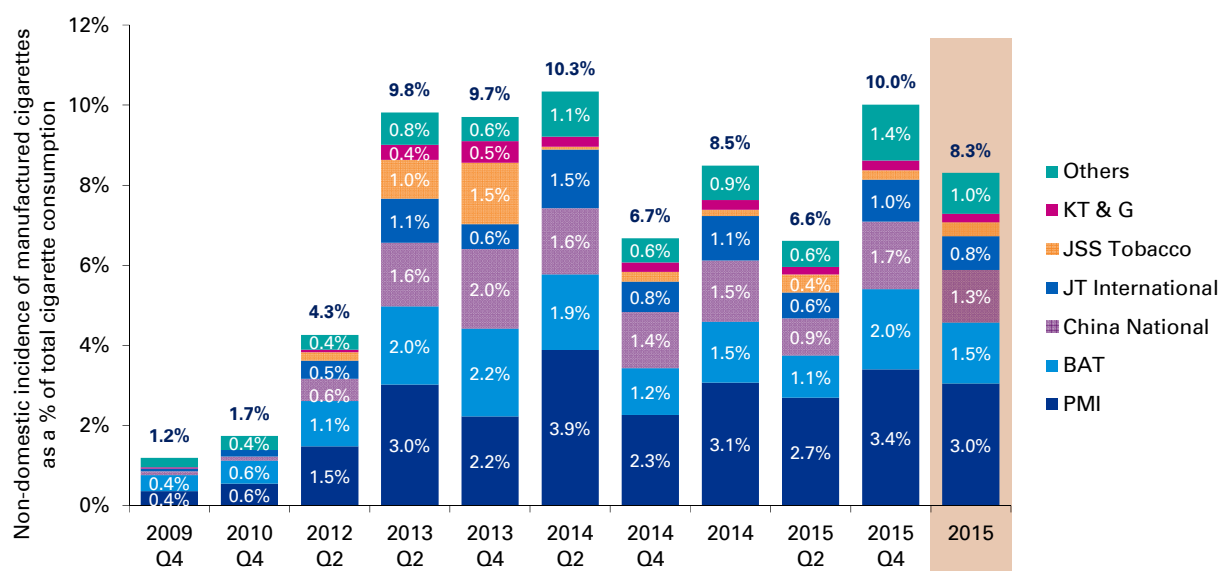
Notes: (a) The 2015 figures are based on the blended result of the Q2 2015 and the Q4 2015 EPS using the weighted number of cigarettes.
 (b) Numbers in the above chart may not sum due to rounding.
 (c) Labels with value less than 0.4% have been removed for clarity.
 Sources: (1) MIntelligence Research, *Empty Pack Survey*, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015 and Q4 2015.
 (2) AC Nielsen, *Empty Pack Survey*, 2009, 2010, 2012.

Drivers of results

In 2015 BAT brand flows replaced trademark owned by China National flows to become the second largest non-domestic inflow by trademark owner

6.2.5 Non-domestic flows by trademark owner

Figure 6.2.5: Non-domestic incidence by trademark owner flows Q4 2009 – Q4 2015^{(1)(2)(a)(b)(c)}



PMI and BAT flows accounted for over half the non-domestic flows found in Australia in the Q4 2015 EPS. China National trademark-owned brand flows were the third largest inflow, representing 17% of the total non-domestic products found in the Q4 2015 survey and growth of 0.8 percentage points since the Q2 2015 EPS.

Non-domestic flows of brands trademark owned by the largest manufacturers continue to represent around two thirds of non-domestic volumes. The 2015 PMI, BAT and JTI brand flows primarily originated from South Korea, New Zealand and Indonesia.

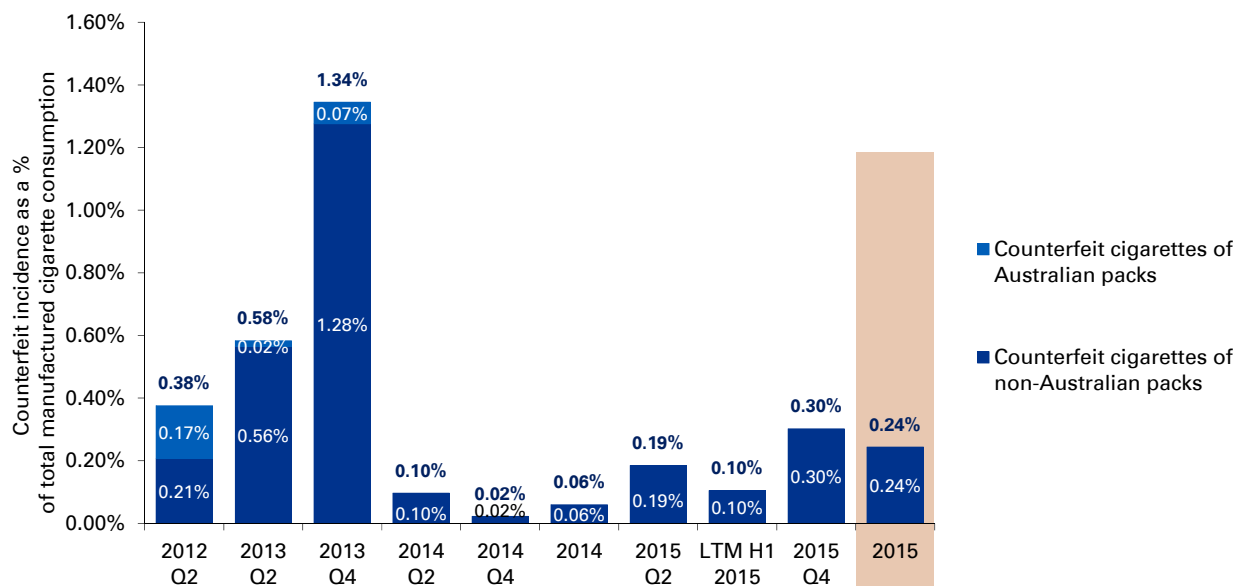
Notably non-domestic flows of the three main manufacturers from Japan grew by nearly 150% between Q2 and Q4 2015 and now represent similar volumes to those from Indonesia (the price of cigarettes from Japan is approximately 80% less than the equivalent pack from Australia). This occurred despite only a modest increase (7%) in the number of visitors from Japan over the same period.

Notes: (a) The full year 2015 figures are based on the blended result of the Q2 2015 and the Q4 2015 EPS using the weighted number of cigarettes.
 (b) Numbers in the above chart may not sum due to rounding.
 (c) Labels with value less than 0.4% have been removed for clarity.
 Sources: (1) MIntelligence Research, *Empty Pack Survey*, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015 and Q4 2015.
 (2) AC Nielsen, *Empty Pack Survey*, 2009, 2010, 2012.

Counterfeit incidence increased in the Q4 2015 empty pack survey but remains low

6.2.6 Australian EPS results – Counterfeit flows

Figure 6.2.6a: Counterfeit flows incidence as a percentage of total manufactured cigarette consumption Q2 2012 – 2015^{(1)(2)(a)(b)(c)(d)(e)}



The Q4 2015 EPS indicated that 0.30% of manufactured cigarettes consumed in Australia were counterfeit flows. Although the share of counterfeit of total consumption has been relatively small since Q2 2012, this latest estimate represents an increase from both the Q4 2014 and Q2 2015 EPS, following the large decline between Q4 2013 and Q2 2014.

Despite some media reports uncovering instances of counterfeit plain packaged cigarettes none of the counterfeit packs collected as part of the EPS were in plain packaging.

According to media reports, the first counterfeit plain packaged cigarettes were discovered in February 2015⁽³⁾. This represents the first instance of counterfeit plain packaged cigarettes since their introduction in 2012, when approximately 45% of counterfeit cigarettes consumed appeared to have been designed for the local market⁽²⁾.

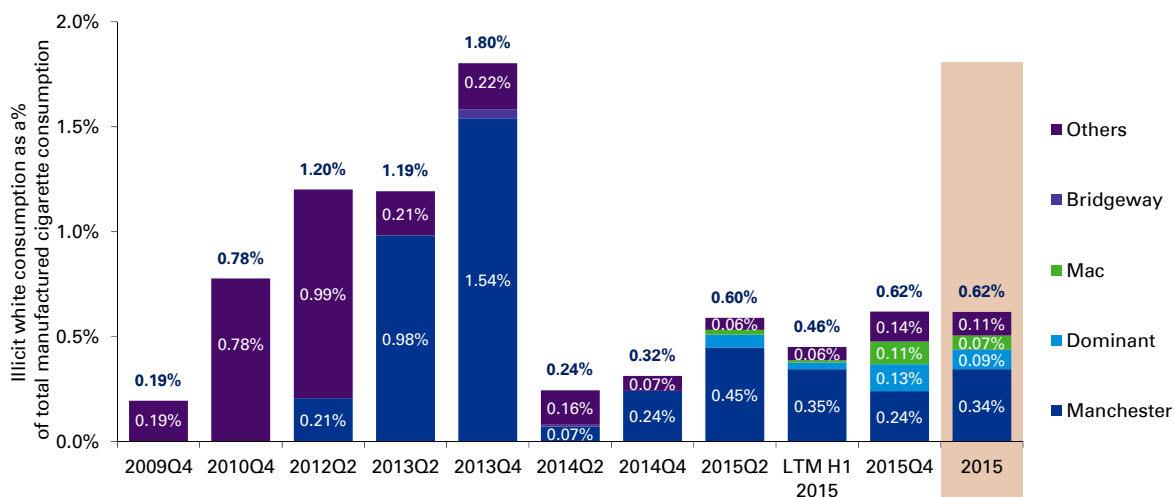
Notes: (a) Counterfeit incidence is not available for 2009, 2010 and 2011.
 (b) The counterfeit volume is reported from the participating manufacturers of BATA, ITA and PML. No other counterfeit is included in the volumes reported due to lack of information.
 (c) The full year 2015 figures are based on the blended result of the Q2 2015 and the Q4 2015 EPS.
 (d) Numbers in the above chart may not sum due to rounding.
 (e) Values less than 0.01% have been removed for clarity.

Sources: (1) MSIIntelligence Research, *Empty Pack Survey*, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015 and Q4 2015.
 (2) AC Nielsen, *Empty Pack Survey*, 2012.
 (3) 'Fake cigarettes spark counterfeit flood fear', *The Australian*, February 2015.

The consumption of illicit whites brand flows increased slightly in Q4 2015

6.2.7 Australian EPS results – Illicit whites brand flows

Figure 6.2.7: Consumption of illicit white brand flows as a percentage of total manufactured cigarette consumption Q4 2009 – Q4 2015^{(1)(2)(a)(b)(c)(d)(e)(f)(g)}



This analysis was undertaken by KPMG in conjunction with BATA, ITA and PML. According to the Q4 2015 EPS, 0.62% of all manufactured cigarettes consumed in Australia were illicit whites brand flows, an increase from the 0.32% of consumption identified in the Q4 2014 EPS. The high volumes of Manchester brand flows in 2015 Q2 accounted for the increase of illicit white brand flows in 2015 despite then decreasing in Q4 2015.

In Q4 2014 Manchester brand flows were identified in eight out of 16 population centres, while in Q4 2015 it was present in ten of the 16 population centres. The Manchester brand is not sold legally in any retail outlets in Australia but appeared to be available throughout the country given that it was collected across Australia during the EPS. The study found that Sydney remained the largest market of Manchester brand flows, with 27% of the cigarettes collected in the Q4 2015 EPS.

The number of different variants captured by the EPS under the Manchester brand family flow has grown from 2014 through to 2015. In Q2 2015 the 'Extra' variant was captured in the EPS for the first time, followed by additional variants captured in Q4 2015. These are in addition to the three variants captured in 2013 and 2014 which still account for the vast majority of Manchester brand flows.

Notes: (a) Our definition of illicit whites (see the glossary) was updated in 2014.
 (b) The selected illicit whites brand flows reported in the Q4 2015 EPS are different from the ones reported in the FY 2013 report due to the refinement of the illicit whites flows methodology and changes in the magnitude of brand flows over time.
 (c) Other illicit whites brand flows include Oscar, Otto, Business Royals, Deal, Diaoyutai, Dominant, Jet, M&J, Mac, Mond, Natural American Spirit, U2.
 (d) The share of illicit whites flows is calculated based on the number of sticks, however, in the H1 2013 report the share of illicit white brand flows was calculated based on weighted packs. The share of illicit whites flows when calculated based on weighted packs would have been: 0.3% in Q4 2009, 0.8% in Q4 2010, 1.4% in Q2 2012, 1.6% in Q2 2013, 2.3% in Q4 2013, 0.5% in Q2 2014, 0.6% in Q4 2014, 1.1% in Q2 2015 and 1.2% in Q4 2015.
 (e) The 2015 figures are based on the blended result of the Q2 2015 and the Q4 2015 EPS.
 (f) Numbers in the above chart may not sum due to rounding.
 (g) Values below 0.5% have been removed for clarity purposes.
 Sources: (1) MSIIntelligence Research, *Empty Pack Survey*, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015, and Q4 2015.
 (2) AC Nielsen, *Empty Pack Survey*, 2009, 2010, 2012.



7. Conclusion

Conclusion

Illicit tobacco consumption has continued to decline from the peak in 2014

2014 and 2015 results (kg '000)				
		2014	2015	% change (2014 – 2015)
Illicit manufactured cigarettes	<i>Contraband</i>	1,166	1,092	(6.4%)
	<i>Counterfeit</i>	8	34	302.3%
	<i>Total</i>	1,175	1,126	(4.2%)
Unbranded tobacco		1,375	1,314	(4.5%)
Total illicit tobacco		2,549	2,439	(0.9%)
Illicit tobacco consumption as % of total consumption		14.5%	14.0%	n/a
Equivalent excise value (AUDm)		AUD1,353	AUD1,492	10.2%

The illicit tobacco market in Australia

Our study indicates the consumption of illicit tobacco in Australia has declined marginally. **As a proportion of total consumption it has declined to 14.0% from 14.5% between full year 2014 and 2015.** This trend is broadly consistent with a range of secondary data sources.

Illicit manufactured cigarette consumption fell in 2015 whilst the origin of these flows also continues to evolve. China (including China Duty Free) has overtaken South Korea as the largest country of origin of non-domestic flows in 2015. However, flows originating from South Korea (including South Korea Duty Free) continue to account for a large share of non-domestic inflows (18% of total).

Over the last twelve months the consumption of both contraband and unbranded tobacco has declined. However, this decline masks a marked increase in contraband volumes between Q2 2015 and Q4 2015 as non-domestic incidence levels rose from 6.6% to 10.0%. The mix of illicit tobacco consumption remained in favour of unbranded tobacco but changed from 65% to 55% over the six month period.

If all of this tobacco had been consumed in the legitimate market, we estimate it would have represented an excise amount of AUD 1.49 billion at the average excise rate for 2015⁽¹⁾.

The Australian Crime Commission is of the view that 'organised crime remains entrenched within the illegal tobacco market in Australia' as tobacco smuggling and the sale of illegal tobacco is seen to be low risk and highly profitable⁽²⁾. As such, it has been designated as one of six operational priorities for the newly established Organised Crime Branch⁽³⁾.

The legal tobacco market in Australia

Whilst legal domestic sales of manufactured cigarette volumes have declined at an annual rate of 2.7% since 2007, loose tobacco volumes have increased at a CAGR of 3.5% over the same period, representing a shift in the mix of tobacco products consumed. Overall sales of legal domestic tobacco have declined at an annual rate of 2.0% since 2007.

The Australian market remains the most expensive market in the region. A packet of Marlboro 20s is 18.3% more expensive than in New Zealand; the second most expensive market. However, a packet in Australia is approximately 85% more expensive than the third most expensive market (New Caledonia).

Flows from China and South Korea represent the largest non-domestic inflows in 2015 and a packet of Australian Marlboro 20s is over seven times the domestic price of both countries. This wide price difference creates an economic incentive for smugglers and other individuals to import and sell tobacco outside of Australian legislation.

Sources: (1) Based upon the average excise rate over the past 12 months for both loose and manufactured cigarettes.
 (2) Australian Crime Commission, *Organised Crime in Australia 2015*, May 2015.
 (3) Legal and Constitutional Affairs Legislation Committee, 23 February 2015.



Appendices

- A1 Consumption model
- A2 EPS Analysis
- A3 Rolling papers analysis
- A4 Use of smoking prevalence data and updated results
- A5 Recent regulatory changes
- A6 Non-domestic legal calculation
- A7 Illicit Whites flows analysis
- A8 Notes to this report
- A9 Alternative illicit tobacco estimates
- A10 Scope of work
- A11 Roy Morgan Research questionnaire
- A12 Bibliography

KPMG has used a consumption based approach to estimate the unbranded tobacco market in Australia

A1 Consumption model

Introduction

The primary methodology we have used to estimate the unbranded tobacco market in Australia is the consumption model approach. The approach adopted by KPMG is similar to that used in previous reports on the illicit tobacco market in Australia.

The consumption model uses the results of the Roy Morgan Research (RMR) consumer survey to determine the core inputs to the model, combined with publicly available information on the legal tobacco market and smoking population.

For the purpose of this report, the consumption model number for unbranded volumes for 2015 is based on the average of the H1 2015 and H2 2015 consumer survey results. Since consumers are likely to give a more accurate estimate of their purchase behaviour over a shorter time period, using an average of the H1 2015 and H2 2015 consumer survey results should provide a more accurate number for 2015 consumption.

The consumer survey

The consumption model was based on the responses of 2,383 smokers in Australia to a CAWI web based consumer survey in H2 2015 (and a further 1,852 in H1 2015). Respondents are sampled from RMR existing consumer panel, from both metropolitan and non-metropolitan areas. The sample for the tobacco questionnaire is weighted by location, age and gender using RMR Single Source data in order to be representative of the national population. The Single Source^(a) distribution of income, occupation and work status of smokers is then used to rim weight^(b) the data. The sampling plan is consistent with the surveys carried out by RMR in 2013 and 2014.

The survey was conducted in December 2015 and took on average 6.48 minutes to complete^(c). Consumers were asked about their consumption and purchase of legal and illicit tobacco products; namely Chop Chop (unbranded loose tobacco sold in bags), pre-filled unbranded tobacco as well as counterfeit and contraband manufactured cigarette products.

The consumer survey is provided in Appendix A11. This lists the entire set of questions and is not a representation of how respondents view the online survey. Respondents are asked questions based on their answers in earlier filtering questions and their navigation through the survey is determined by programmed skip patterns.

The consumer survey is used as one tool to form an estimate of the illicit market

RMR collects and compiles the consumer survey responses and provides a consolidated data sheet for KPMG analysis. The data sheet lists question responses on an individual respondent basis and is accompanied by a question and answer reference mapping.

The consumer survey responses are used to obtain several core inputs for the consumption model process. These core inputs are based on consumer responses and include:

- How many smokers purchase the different types of illicit tobacco,
- How often these illicit purchasers purchase illicit tobacco, and
- How much illicit tobacco these illicit purchasers purchase on each purchase occasion.

These responses generate the core assumptions which are used in the consumption model and are illustrated on table A1 overleaf.

Additional assumptions

In addition to the results generated by the consumer survey, further assumptions and data-points are used:

- Total adult smoking population – we assumed that the total smoking population was 2.35 million. This is based on AIHW data⁽¹⁾ updated for the decline in smoking population numbers since the last official estimate^(d).
- Quantity of legal tobacco purchased – we have estimated the total legal sales volume to be 14.90 million kg, based on Aztec Scan data⁽²⁾.

- Notes:
- (a) Single Source is RMR's database collected through their Establishment Survey which focuses on demographic and behavioural factors and closely matches the ABS Census. It is used to establish quotas for other surveys.
 - (b) Rim weighting uses mathematical algorithms to provide an even distribution of results across a dataset while balancing certain categories such as age to pre-determined totals. It weights specified characteristics simultaneously and disturbs each variable as little as possible.
 - (c) The median survey completion time was 4.93 minutes.
 - (d) KPMG's estimate of the adult smoking population is based on applying a historical CAGR for AIHW prevalence estimates to the latest AIHW prevalence figure (2013) and multiplying this by the adult population per the Australian Bureau of Statistics.
- Sources:
- (1) Australian Institute of Health and Welfare, *National Drug Strategy Household Survey*, 2013.
 - (2) KPMG analysis of data from Aztec (scan) databases.

The consumption modelling calculation relies on the results of the Roy Morgan Research consumer survey and publicly available data

A1 Consumption model (cont.)

The core inputs from the consumer survey and publicly available information are used in the consumption model, illustrated in table A1. These core inputs are factored together to produce an estimate of the amount of illicit tobacco products consumed by the representative population sampled in the RMR consumer survey covering the steps outlined:

- Steps 1 and 2 are used to calculate the average annual volume of illicit consumption per consumer in step 3.
- The number of illicit tobacco users is calculated by multiplying the total adult smoking population in step 4 by the percentage of illicit tobacco users noted in the consumer survey in step 5.
- The total quantity of illicit tobacco consumption in Australia (step 8) is then estimated by multiplying the total number of illicit smokers in Australia in step 6 by the average annual quantity of illicit tobacco purchased in step 7.

As the consumption model uses consumer survey responses it is not possible to accurately break down illicit consumption into loose unbranded and illicit branded loose tobacco as consumers may be unable to tell the difference in the way the tobacco is sold.

The 2015 consumption model process and relevant data sources are shown in detail overleaf.

Table A1 Consumption model data sources and process

Consumption model inputs		
Quantity of illicit tobacco purchased per occasion (g)	①	RMR consumer survey
Frequency of illicit tobacco purchased per annum	②	RMR consumer survey
Quantity of illicit tobacco purchased per annum (g)	③	① × ② = ③
Total adult smoking population ('000)	④	Extrapolated Australian Institute of Health and Welfare smoking prevalence data and Australian Bureau of Statistics adult population data ^(a)
Illicit tobacco users as % of Australia tobacco users	⑤	RMR consumer survey
Number of illicit tobacco users, Australia ('000)	⑥	④ × ⑤ = ⑥
Quantity of illicit tobacco purchased in Australia (tonnes)	⑦	③ × ⑥ = ⑦
Quantity of illicit tobacco purchased in Australia in 2015 (tonnes)	⑧	Annualised volume based on average of H1 2015 and H2 2015 quantity of unbranded tobacco

Note: (a) Please see appendix A4 for details of the estimation of the smoking population.

The results of the H2 2015 consumption model indicate a decrease in unbranded consumption compared to H1 2015

A1 Consumption model (cont.)

Figure A1: Consumption model results, Full Year 2015^{(1)(2)(a)}

	Unbranded		Full Year 2015	
	H1 2015	H2 2015		
① Quantity of illicit tobacco purchased per occasion (g)	240	184	1,314	
② Frequency of illicit tobacco purchased per annum	14	12		
③ Quantity of illicit tobacco purchased per annum (g)	① x ②	3,481		2,225
④ Total adult smoking population ('000)	2,352	2,352		
⑤ Illicit tobacco users as % of Australian tobacco users	18.5%	21.3%		
⑥ Number of illicit tobacco users, Australia ('000)	④ x ⑤	435		501
⑦ Quantity of illicit tobacco purchased in Australia (tonnes)	③ x ⑥	1,513		1,114

The consumption model is used in order to size the unbranded tobacco market.

For the purpose of this report, the Full Year 2015 estimate of unbranded consumption volume is based on the average of the H1 2015 and H2 2015 consumer surveys. The net result of this approach is 1,314 tonnes.

We believe that consumers are likely to give a more accurate estimate of their recent purchase behaviour rather than that of the last twelve months. Therefore, using an average of the H1 2015 and H2 2015 consumption model results should provide a more robust number for the Full Year 2015.

Sources: (1) Roy Morgan Research, Consumer survey, H1 2015 and H2 2015.
(2) KPMG analysis.

Note: (a) Numbers in the above table may not sum due to rounding.

The Q4 2015 Empty Pack Survey found that 10.0% of manufactured cigarette flows consumed originated outside Australia

A2 EPS Analysis

Seven EPS have been carried out in Australia in the last four years.

AC Nielsen carried out surveys commissioned by PML in Q4 2009 and Q4 2010. The 2009 survey consisted of 9,343 collected packs and the 2010 survey 6,000 packs. These surveys are believed to be broadly comparable to the 2012 and 2013 Empty Pack Surveys.

AC Nielsen also carried out the 2012 Q2 survey which was commissioned by all three industry parties; BATA, PML and ITA. The 2012 survey was conducted in May, June and July and consisted of 12,000 packs collected across 16 population centres.

In 2013, the Empty Pack Survey provider changed from AC Nielsen to MSIIntelligence (MSI). MSI were selected after a tender process. MSI were commissioned to replicate the survey using an identical methodology to AC Nielsen. MSI have been commissioned by BATA, PML and ITA to undertake surveys every six months. These surveys collect 12,000 packs across the same 16 population centres in Australia.

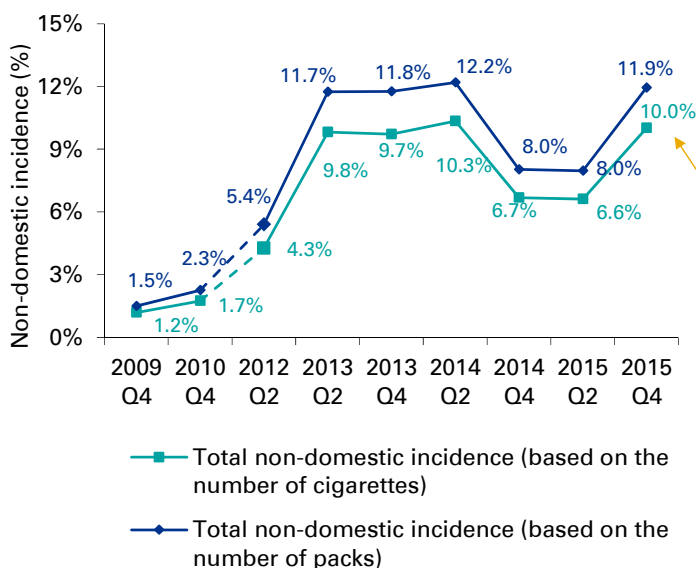
The Empty Pack Survey records the number of cigarettes in each pack collected. This enables us to report using the number of cigarettes rather than the number of packs. As there can be considerable variation in pack sizes, utilising a measurement based on the number of cigarettes provides a more accurate representation of consumption patterns.

KPMG used the Empty Pack Survey analysis in order to take the proportion of cigarettes which are not Australian (no health warnings or non-domestic health warning, brands not sold in Australia, packs with identifying marks from other markets such as tax stamps) and class these cigarettes as 'non-domestic'. The proportion of non-domestic cigarettes recorded by the Empty Pack Survey is called the non-domestic incidence. The non-domestic incidence of the EPS is shown in the chart, below left.

The total non-domestic incidence in Australia for Q4 2015 was 10.0% (on the basis of number of cigarettes) and 11.9% (on the basis of number of packs). These results are significantly higher than the non-domestic incidence recorded in the Q2 2015 survey. Overall the Q4 2015 non-domestic incidence is the second highest level recorded in an Empty Pack Survey since it began and indicates a recent increase in the consumption of illicit manufactured cigarettes.

Whilst a proportion of non-domestic cigarettes will be legally brought into Australia by both inbound (foreign nationals travelling to Australia) and outbound travellers (Australians returning from abroad), this legal proportion is relatively small, with the majority of non-domestic cigarettes being illicit. A calculation of the legal volume of non-domestic cigarettes is shown in Appendix A6. Nonetheless, this increase occurred at a time after the inbound traveller allowance was reduced in September 2012.

Figure A2.1 Total non-domestic incidence, Q4 2009 – Q4 2015^{(1)(2)(a)(b)}



The total non-domestic incidence in Australia for Q4 2015 was 10.0% (on the basis of number of cigarettes) and 11.9% (on the basis of number of packs).

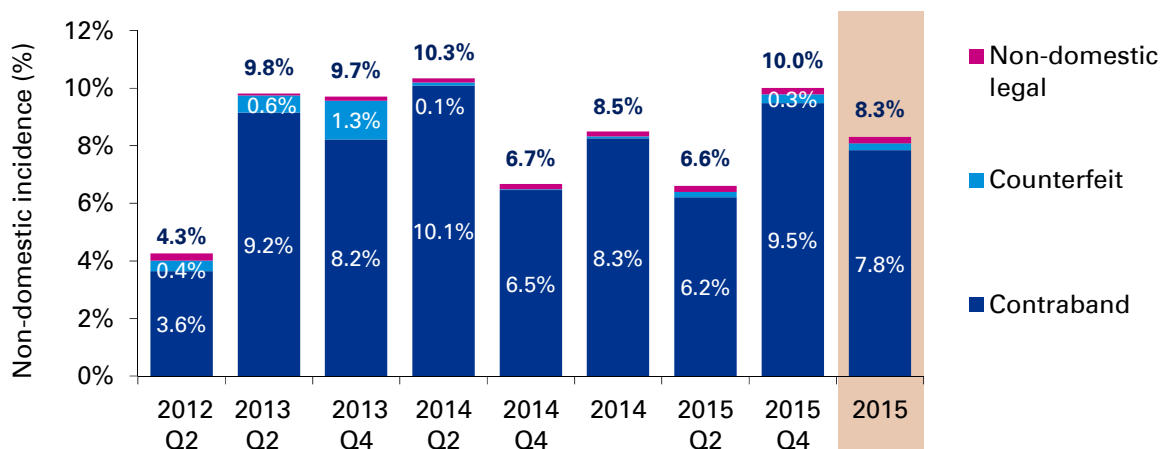
Notes: (a) No survey was conducted in 2011, trend line is for information only.
 (b) Non-domestic incidence based on the number of packs is higher than the non-domestic incidence based on the number of sticks due to the average Australian pack of cigarettes being larger than an international pack, i.e. the most commonly sold pack size in Australia is 25 cigarettes compared to the standard 20 cigarettes packs available internationally.

Sources: (1) MSIIntelligence Research, *Empty Pack Survey*, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015 and Q4 2015.
 (2) AC Nielsen, *Empty Pack Survey*, 2009, 2010, 2012.

The non-domestic incidence of manufactured cigarettes declined by two percentage points between 2014 and 2015

A2 EPS Analysis (cont.)

Figure A2.2: Break down of non-domestic incidence, Q2 2012 – 2015^{(1)(2)(3)(a)}



As discussed on the previous page, not all non-domestic tobacco is illicit tobacco. Non-domestic incidence can be broken down into three separate categories of flows:

- 1. Non-domestic legal** – These are cigarettes legally brought into Australia as part of travellers’ non-domestic allowance^(b).
- 2. Counterfeit** – The packs collected in the EPS are examined by the participating companies. They are able to identify packs which are counterfeit versions of their products.
- 3. Contraband** – The remainder, and majority, of non-domestic manufactured cigarettes are legitimate products (i.e. non-counterfeit) that have entered Australia illegally.

Of the total 10.0% non-domestic incidence reported in the Q4 2015 survey, 0.2% can be attributed to non-domestic legal volumes. The majority of non-domestic cigarettes are therefore illicit flows. The decline in non-domestic legal flows from 2012 is, in part, explained by the reduction in Australia’s duty free allowance from 250g to 50g/50 sticks per person per trip in September 2012^(a).

Note: (a) Values less than 0.4% have been removed for clarity.
 (b) Please refer to appendix A6 for detailed calculation of non-domestic legal volumes.
 Sources: (1) MSIintelligence Research, *Empty Pack Survey*, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015 and Q4 2015.
 (2) AC Nielsen, *Empty Pack Survey*, 2012.
 (3) KPMG analysis.

EPS Methodology

A2 EPS Analysis (cont.)

Figure A2.3: EPS Methodology



Empty Pack Survey methodology

The EPS is conducted in a consistent way in each time period to provide a clear comparison of results and follow trends. It follows a four step process:

1. Population centre selection

To achieve a sample of cigarette packs that is representative of the cigarette smoking population of Australia, 16 population centres are chosen based on parameters such as population, size and geographical location. The population centres chosen represent the 16 largest population centres in Australia and cover 75% of Australia's population. MSI inform us that this provides a margin of error of 0.89% with a confidence interval of 95%.

Each population centre is divided into five sectors (north, south, east, west and centre). Each sector is subdivided into neighborhoods of the same size (250 metre radius).

2. Pack collection

The neighbourhoods sampled include residential, commercial and industrial areas. The EPS collection routes specifically exclude tourist areas, sports stadia, shopping malls and stations, or any other locations where non-domestic incidence is likely to be higher as a result of a skewed population visiting these areas. The EPS is therefore representative of the Australian population. Each neighbourhood is assigned a number of discarded packs for collection based on the size of the overall population centre in comparison with the national population. For example, the centre of Sydney includes eight neighbourhoods representative of the population of Sydney, whilst the centre of Cairns only includes two representative neighbourhoods. In total, 281 neighbourhoods are sampled across Australia.

A minimum of 30 empty packs are collected from each neighbourhood (higher thresholds are applied in larger neighbourhoods) to fulfil statistical requirements and support reliable confidence level. These packs can be collected by any number of collectors, each of whom has no target number of packs to collect and no knowledge of the clients' names or purpose of the survey. Each neighbourhood has a specific starting point and a fixed route. The collectors accumulate as many empty packs as possible within each neighbourhood regardless of the quota requested in the sampling plan. Packs are collected from any manufacturer regardless of whether they participate in the survey, indeed

collectors are unaware of the final client. Collectors revisit the neighbourhood as many times as necessary in order to achieve the required quotas.

The training of MSI collectors includes an explanation of the methodology and running of pilots prior to the collection. Each team of collectors is supervised by a team leader.

An additional 5% extra packs ('the buffer') are collected across neighbourhoods in case there are issues with the existing sample, such as spoiled packs. Any such packs are firstly replaced by an identical 'buffer' pack collected from the same neighbourhood. If no identical pack is available the pack is replaced randomly from the 'buffer' collected in that neighbourhood.

3. Pack processing

The empty packs are placed into bags and stored at a safe collection point. Packs are discarded if they do not meet the survey quality requirements (e.g. torn, unreadable, rotten). Each survey qualified pack is cleaned and placed in a transparent nylon bag with a zipper that carries a unique barcode label indicating the serial number attributed to the pack (corresponding to the datasheet). MSI identifies whether the packs are domestic or non-domestic. The details are then entered into the survey 'Data Sheet' provided by MSI. The packs are delivered to the participating manufacturer(s) in a way that enables easy processing and identification.

Those brand names which are unknown are sent to the participating manufacturers to assess whether they are Illicit White flows.

4. Pack analysis

The participating manufacturers check their packs only to identify counterfeit and inform the agency which collates and updates the data-sheets. The collected packs are weighted according to the population of each settlement with results then calculated based on the number of cigarettes per pack. Reporting is done on the basis of cigarette sticks (as opposed to packs) to provide a more accurate estimation of total consumption).

These data-sheets are finally provided to KPMG and analysed to calculate the non-domestic incidence and contraband and counterfeit volumes.

EPS Methodology (cont.)

A2 EPS Analysis (cont.)

Validation of EPS Analysis

A criticism of the EPS is that it samples discarded cigarette packs rather than household waste and therefore significantly overstates non-domestic incidence. Sampling for household waste is impractical in most countries, however it is available in Germany. The household waste survey, known as a Yellow Bag Survey (YBS), is possible in Germany because household waste is sorted, mainly for the purposes of recycling, which makes it possible to separate cigarette packs from other waste.

The Yellow Bag Survey collects 500 packs a month from 24 waste disposal centres throughout Germany. This resulted in over 120,000 weighted packs collected throughout the year, typically a larger sample than an EPS. A comparison was undertaken by KPMG between different methodologies in 2008 and 2009.

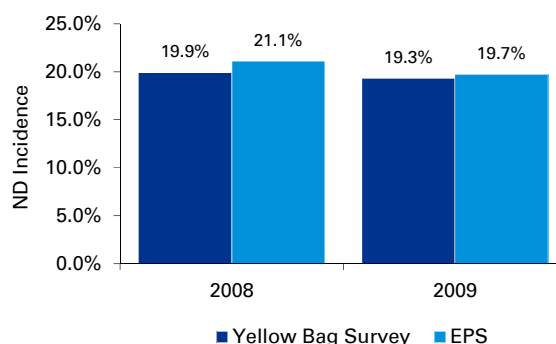
In addition to the benefits of the higher sample size, collections from waste disposal centres resulted in packs coming from both household waste and public bins, demonstrating that consumption of illicit tobacco in the home is unlikely to be significantly different to consumption in public place. This helps to address a common criticism of the EPS.

This enables us to compare the results of the Yellow Bag Survey with the EPS to understand differences in the amount of non-domestic product that is captured.

In 2008 and 2009, EPS were also undertaken in Germany. Four quarterly waves were undertaken in 2008 with waves undertaken in Q1 and Q3 in 2009. Each wave collected 10,000 packs. Each survey was conducted across 52 cities population centres in Germany, representing 27% of the total German population.

Figure A2.5: YBS and EPS results, Germany

2008-2009^{(1)(2)(a)}



The non-domestic incidence measured by the EPS was 1.2 percentage points higher in 2008 and 0.4 points higher in 2009. Whilst the EPS results are slightly higher, the overall non-domestic incidence is very close. These differences may be due to the following reasons:

- 1. Timings of EPS** – the EPS takes place at one point in time during the quarter whereas the yellow bag survey takes place monthly.
- 2. Urban/Rural differences** – the EPS covers a lower sample of the total population which excludes smaller population centres.
- 3. Number of packs** – given the number of packs collected by the yellow bag survey, it is likely to generate slightly more accurate results.

We recognise this is a single point of comparison in one market but it provides us with confidence that the results of EPS are a reliable measure of non-domestic incidence.

Notes: (a) The comparison between methodologies is made on a 'sticks basis' in 2008 and 2009 rather than on a packs basis reported in Project SUN.
Sources: (1) MSIntelligence Research, *Germany Empty Pack Survey report*, Q2 2009.
(2) Ipsos, *Yellow Bag Survey*, 2008-2009.

The results of the EPS analysis indicate an illicit volume of 1.1 million kilograms of manufactured cigarettes

A2 EPS Analysis (cont.)

We have used the non-domestic incidence obtained from the EPS as the basis of estimates for the volumes of counterfeit and contraband consumption in Australia.

The 8.3% non-domestic incidence is combined with estimates for legal domestic sales volumes from the industry to create a volume estimate for illicit manufactured cigarettes. This can then be broken down into volume estimates for non-domestic legal, counterfeit and contraband.

Figure: A2.5: Australian EPS non-domestic consumption and illicit estimate^{(1)(2)(3)(a)(b)}

	Report page		2009	2010	2011	2012	2013	2014	2015
Legal sales of manufactured cigarettes (kg'000s)	① 10		15,881	14,598	13,908	13,468	13,321	12,942	12,798
EPS non-domestic incidence	② 40		1.2%	1.7%	-	4.3%	9.8%	8.5%	8.3%
Total consumption of manufactured cigarettes (kg'000s)	③	= ① / (100% - ②)	16,071	14,857	-	14,068	14,762	14,142	13,957
Non-domestic consumption (kg'000s)	④	= ③ - ①	191	258	-	600	1,441	1,201	1,160
Non-domestic (legal) volume estimate (kg'000s)	⑤ 74		34.6	33.7	-	35.6	21.3	25.9	34
Illicit consumption (kg'000s)	⑥	= ④ - ⑤	156.4	224.3	-	564	1,419	1,175	1,126
EPS counterfeit incidence	⑦ 44		-	-	-	0.4%	1.0%	0.06%	0.2%
Counterfeit consumption (kg'000s)	⑧	= ④ * (⑦ / ②)	-	-	-	50	143	8	34
Contraband consumption (kg'000s)	⑨	= ⑥ - ⑧	-	-	-	515	1,276	1,166	1,092

Figure A2.5 shows the calculation used to estimate the total volume of illicit manufactured cigarettes consumed in Australia. The percentage of non-domestic cigarettes is added to legal domestic consumption in order to calculate total consumption in step 3. Total illicit consumption is calculated by removing the non-domestic legal volume estimate in step 6.

The EPS also records the counterfeit incidence as a percentage in step 7. This counterfeit incidence is taken as a percentage of total non-domestic consumption and multiplied by the illicit consumption estimate in step 8, with the remainder contraband in step 9. The counterfeit volumes are reported from the participating manufacturers of BATA, ITA and PML. No other counterfeit is included in the volumes reported due to a lack of information.

The results of the EPS analysis show non-domestic consumption has declined in 2015. As non-domestic legal volumes increased again, the combination of these factors translated into lower volumes of illicit consumption of manufactured cigarettes.

Volumes attributable to counterfeit manufactured remained small, whilst contraband flows account for 97% of the total illicit consumption of manufactured cigarettes, as indicated by the EPS analysis.

Notes: (a) Counterfeit incidence is not available for 2009, 2010 and 2011.
(b) Numbers in the above table may not sum due to rounding.

Sources: (1) MSIIntelligence Research, *Empty Pack Survey*, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015 and Q4 2015.
(2) AC Nielsen, *Empty Pack Survey*, 2009, 2010, 2012.
(3) KPMG analysis.

The illicit tobacco volumes generated by the consumption model fall within the range provided by the rolling papers analysis

A3 Rolling papers analysis

Figure A3.1: Rolling papers calculation for unbranded tobacco

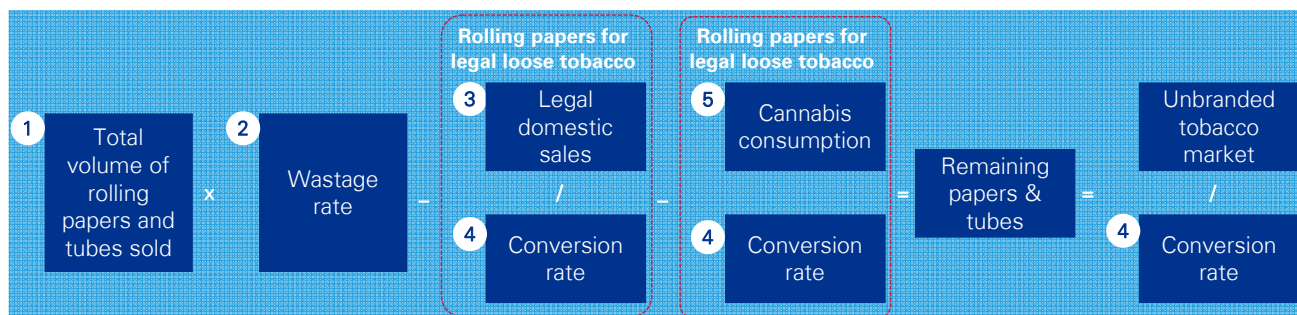
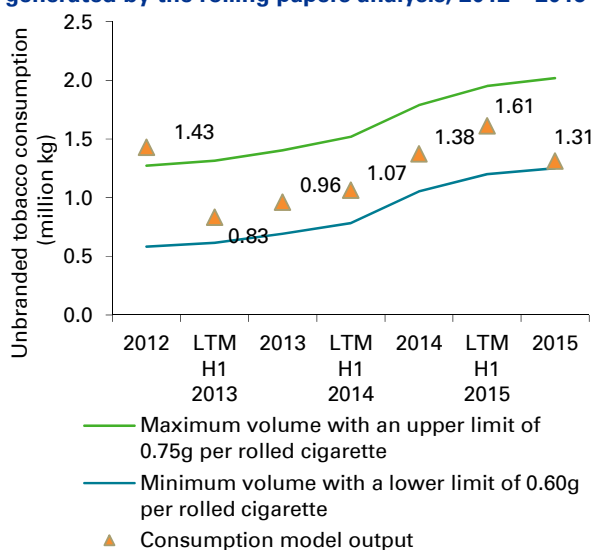


Figure A3.1 highlights our approach to the rolling papers analysis used to calculate the total volume of unbranded tobacco. Each step of the calculation involves the following assumptions and data-points:

- 1. Total volume of rolling papers and tubes** – The volume used comes from retail sales data provided by Aztec and cannot be published due to contractual obligations with the data provider.
- 2. Wastage rate** – The wastage rate is the percentage of rolling papers used and excludes any discarded or spoiled papers. This data has been sourced through consumer research undertaken by the industry and is commercially sensitive and cannot be published.
- 3. Legal domestic sales of loose tobacco** – Volumes equated to 2,103 tonnes in 2015.
- 4. Conversion rate** – The number of grams of tobacco used in a rolled cigarette. Consumer surveys and estimations by the industry have produced a range of values. As a sensitivity, we use an upper and lower limit of 0.75 and 0.60 respectively. We believe that a lower limit of 0.60g is reflective of the Australian market – this limit may be lower or higher than other markets.
- 5. Cannabis consumption** – Rolling papers are also used in the consumption of cannabis. The conversion rate for use of papers and tubes is assumed to be the same as the conversion rate for cigarettes. Total cannabis consumption is estimated on the basis of the Australian Department of Health and Ageing survey at a total volume of 22,500 kg⁽²⁾. We note from the recent AIHW data that the incidence of use of cannabis has decreased slightly (i.e. from 10.3% to 10.2%)⁽³⁾. However, since it is not possible to calculate consumption based on these figures we have not adjusted the results.

Figure A3.2 Volume of illicit unbranded tobacco generated by the rolling papers analysis, 2012 – 2015⁽¹⁾



The chart above illustrates a sensitised range for the rolling papers analysis. The sensitivity is based around the value for the conversion rate which is the most uncertain variable in the analysis. By flexing this value between a high value of 0.75g per rolled cigarette and a low value of 0.60g per rolled cigarette, we can determine a range of potential market sizes. We believe that this approach is appropriate to validate the unbranded tobacco market and we intend to keep tracking it similarly in subsequent reports.

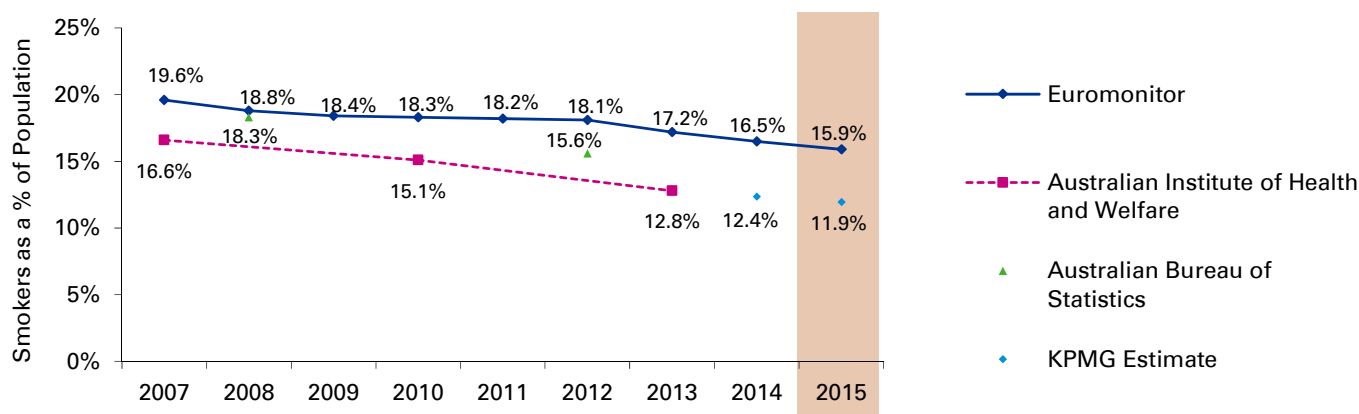
The volume of illicit unbranded tobacco generated by the consumption model output is within the range of the rolling papers analysis in 2015. As highlighted earlier, KPMG has used a prudent estimate of unbranded consumption in 2014 and 2015. The volumes indicated by the rolling papers analysis continues to support the level of unbranded reported in the consumption model.

Sources: (1) Size of rolling papers market obtained from the industry.
 (2) National Drug and Alcohol Centre NSW, *Cannabis in Australia*, June 2007.
 (3) AIHW, National Drug Strategy Household Survey, *Use of Illicit Drugs in Australia*, June 2014.

Several estimates of Australian smoking prevalence are publicly available, but annual data is not available from Australian government estimates

A4 Use of smoking prevalence data and updated results

Figure A4.1: Smokers as a percentage of population, 2007- 2015^{(1)(2)(3)(a)(b)(c)(d)(e)}



CAGR (%)	2007-13
Euromonitor	(2.2)%
Australian Institute of Health and Welfare	(4.2)%
Australian Bureau of Statistics	n/a

Official Australian Government estimates of smoking prevalence are available from both the AIHW and the Australian Bureau of Statistics (ABS). Euromonitor also provide estimates of smoking prevalence.

Each of the surveys reflects specific age groups. The AIHW and ABS estimates reflect prevalence for 14 year olds and above, whilst Euromonitor figures estimate prevalence among those aged over 18. This in part explains the higher Euromonitor estimate.

Timing of estimates also varies. The National Drug Strategy Household Survey is conducted by the AIHW every three years and includes questions on smoking prevalence. AIHW has produced smoking prevalence estimates since 1991. The last three surveys were conducted in 2007, 2010 and 2013. On the release of updated AIHW figures the trend line is recalculated and prior period’s unbranded consumption estimate restated.

ABS figures are taken from Australian Health Surveys carried out in 2008 and 2012, whilst Euromonitor compiles its estimates annually.

All smoking prevalence surveys encounter issues with respondents under reporting. The AIHW survey highlights the possibility of under-reporting as some respondents did not answer smoking related questions. Potential under-reporting was identified in the ABS report⁽³⁾, primarily due to social pressures, especially where other household members/parents were present at the interviews for respondents.

Where KPMG require prevalence data for our modelling process, we have used the AIHW results to ensure that our estimate for the number of Australian smokers is not overstated. Overstating the number of smokers would lead to an incorrectly inflated estimate of the size of the illicit trade.

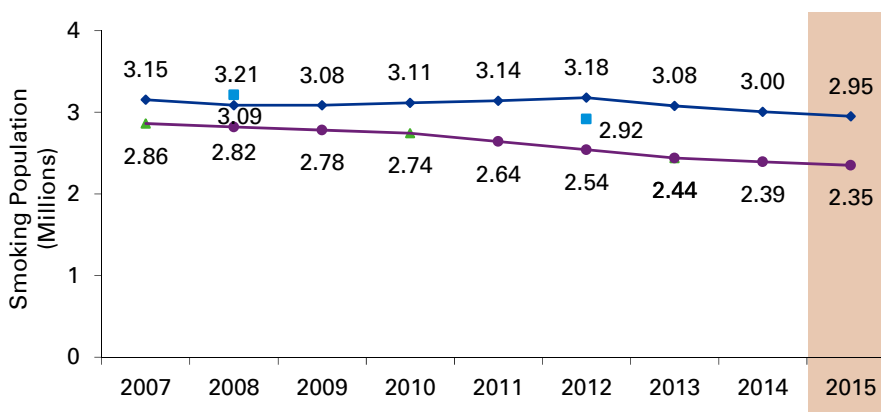
Notes: (a) Euromonitor, percentage of population that are smokers refers to daily smokers > 18 years.
 (b) Australian Institute of Health and Welfare and ABS percentage of population that are smokers refers to daily smokers >14 years.
 (c) Euromonitor figures for 2015 are based on full year estimates.
 (d) Historical Euromonitor estimates of smoking prevalence for 2013 and 2014 have been updated. Previous KPMG reports referenced 17.9% in 2013 and 17.8% in 2014.
 (e) KPMG’s estimate of smoking prevalence is based on applying a historical CAGR for AIHW prevalence estimates to the latest AIHW prevalence figure (2013).

Sources: (1) Euromonitor, smoking prevalence, accessed February 2016.
 (2) Australian Institute of Health and Welfare, *National Drug Strategy Household Survey, 2007, 2010, and 2013*.
 (3) Australian Bureau of Statistics, *Profiles of Health, Australia, 2011-13 – Tobacco Smoking*, June 2013.

As with prevalence, KPMG believes it is prudent to use the lowest estimates of smoking population to calculate illicit consumption

A4 Use of smoking prevalence data and updated results (cont.)

Figure A4.2: Total number of smokers, 2007- 2015^{(1)(2)(a)(b)(c)(d)}



CAGR (%)	2007-10	2008-12	2010-13	2007-15
◆ Euromonitor	(0.4)%	0.7%	(0.4)%	(0.8)%
▲ Australian Institute of Health and Welfare	(1.4)%		(3.9)%	
■ Australian Bureau of Statistics		(2.4)%		
● KPMG Estimate	(1.4)%	(2.6)%	(3.9)%	(2.4)%

The number of adult daily smokers in Australia is used to extrapolate the consumer survey results up to an illicit estimate for the entire population.

As mentioned in previous reports, KPMG restated the smoker population numbers for 2013 as the 2013 data for smokers from AIHW became available. We used the decline in smokers recorded in the AIHW data between 2010 and 2013 to estimate the number of smokers in 2014 and 2015.

Notes: (a) The Australian Institute of Health and Welfare considers population aged 14 years or older.
 (b) Figures for the Australian Institute of Health and Welfare they are taken from the National Drug Strategy Household Survey, 2007, 2010 and 2013.
 (c) Figures for 2015 are based on full year estimates.
 (d) Historical Euromonitor estimates of smoking prevalence for 2013 and 2014 have been updated and reflected in the above estimates for total number of smokers.

Sources: (1) Australian Institute of Health and Welfare, *National Drug Strategy Household Survey*, 2007, 2010 and 2013.
 (2) Australia Bureau of Statistics.

The Commonwealth government implemented the Plain Packaging Act and other tobacco control measures in 2012

A5 Recent regulatory changes

Table A5.1: Recent regulatory changes 2012/13/14/15⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
Australia	<i>Tobacco Advertising Prohibition Amendment Act 2012</i> Amendment of the <i>Principal Act (Tobacco Advertising Prohibition Act 1992)</i> and the <i>Regulation (Tobacco Advertising Prohibition Regulation 1993)</i>	Internet advertising	6 September 2012	It is made a criminal offence to publish tobacco advertising on the internet or other electronic media (including mobile phones). Amendments to the <i>Tobacco Advertising Prohibition Regulation 1993</i> made it mandatory for internet point-of-sale tobacco advertisements to be presented in plain text-only format with graphic health warnings and warnings about age restriction on tobacco sales. Online tobacco retailers will have to display health warnings and comply with restrictions on advertisement wording.
	<i>Tobacco Plain Packaging Act 2011</i> <i>Trade Marks Amendment (Tobacco Plain Packaging) Act 2011</i> <i>Tobacco Plain Packaging Regulations 2011</i>	Plain packaging of tobacco	Depending on the section, 1 December 2011, 1 October 2012 and 1 December 2012 Royal Assent on 1 December 2011 (Some sections commenced on 1 October 2012)	Law on plain packaging for all tobacco products sold enacted and fully implemented.
	<i>Customs Amendment (Smuggled Tobacco) Act 2012</i>	Illicit tobacco	7 November 2012	Amends <i>Customs Act 1901</i> . Smuggling tobacco or possessing illicit tobacco will attract tougher penalties including potential imprisonment.
	<i>Competition and Consumer (Tobacco) Information Standard 2011</i>	Health warnings	The standard commenced on 1 January 2012 Amendments were made on 3 November 2012 and 26 July 2013	Updated and expanded health warning requirements for tobacco products. Requires health warnings to cover at least 75 per cent of the front of most tobacco packaging, 90 per cent of the back of cigarette packaging and 75 per cent of the back of most other tobacco product packaging (came into full effect on 1 January 2012). Amendments in 2013 regarding rotation of health warnings for Australian tobacco product manufacturers and tobacco product importers.
	<i>Customs By-law No. 1228133</i> <i>Customs Act 1901</i> , <i>Customs Tariff Act 1995</i>	Duty free tobacco restrictions	1 September 2012	Inbound traveller allowance for tobacco products is reduced from 250g per person to 50g/ 50 sticks per person.

Sources: (1) Australian Government Department of Health.
 (2) Department of Health, Victoria, www.health.vic.gov.au/tobaccoreforms.
 (3) Department of Health, *Introduction of Plain Packaging*.
 (4) health.gov.au, Introduction of Tobacco Plain Packaging in Australia.

The Commonwealth government implemented the Plain Packaging Act and other tobacco control measures in 2012 (cont.)

A5 Recent regulatory changes (cont.)

Table A5.1: Recent regulatory changes 2012/13/14/15⁽¹⁾(2)

Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
Australia	<i>Excise Tariff Amendment (Tobacco) Act 2014</i> and <i>Customs Tariff Amendment (Tobacco) Act 2014</i> Amendment of the <i>Customs Tariff Act 1995</i> and <i>Excise Tariff Act 1921</i>	Excise	2013, 2014, 2015, 2016 for excise increases 1 March 2014 AWOTE change effective	Increase of excise duty for tobacco products of an additional 12.5% annually for the next four years in addition to the switch to AWOTE. The first of these increases was implemented on 1 December 2013, the second in September 2014 and the third increase in September 2015. The final agreed excise rise is due on 1 September 2016.

Sources: (1) Australian Government Department of Health.
(2) Department of Health, Victoria, www.health.vic.gov.au/tobaccoreforms.

States introduced additional regulations to further restrict consumption and meet tobacco control objectives

A5 Recent regulatory changes (cont.)

Table A5.1: Recent regulatory changes 2012/13/14/15 – State specific⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
New South Wales	<i>Public Health (Tobacco) Act 2008</i> <i>Public Health (Tobacco) Regulation 2009</i>	Retail Display Ban	1 July 2013	Exemption for specialist tobacconists under the ban on the display of tobacco products at point-of-sale ends.
	<i>Tobacco Legislation Amendment Act 2012</i>	Smoke free Local Areas	7 January 2013	Amends <i>Smoke-free Environment Act 2000</i> . Ban on smoking in enclosed public places extended to within 10 metres of children’s play equipment, swimming pool complexes, certain transport stops, spectator areas at sports grounds and venues, within 4 metres of pedestrian access to a building (with effect from 6 July 2015 for licensed premises and restaurants and commercial outdoor dining areas).
	<i>Public Health (Tobacco) Amendment Act 2015</i>	Retailer Regulation	Assented to on 30 June 2015, awaiting proclamation	Amends the <i>Public Health (Tobacco) Act 2008</i> to regulate the sale, packaging, advertising and display of e-cigarettes and to prohibit the sale of e-cigarettes and e-cigarette accessories to persons who are under 18 years of age. The Act achieves this by inserting new definitions so that the <i>Public Health (Tobacco) Act 2008</i> applies to e-cigarettes and their accessories as it already applies to tobacco products and smoking accessories.
	<i>Smoke-free Environment Act 2000</i>	Smoke-free Environment	6 July 2015	A ban on smoking in commercial outdoor dining areas and places within 4 metres of pedestrian access points to licensed premises or restaurants.
	<i>Smoke-free Environment Amendment (Signage Requirements) Regulation 2015</i>	Smoke-free Environment	27 February 2015	Amends the <i>Smoke-free Environment Regulation 2007</i> , and requires signs displayed in areas designated as not being for the consumption of food.

Sources: (1) Australian Government Department of Health.
 (2) Public Health (Tobacco) Act 2008.
 (3) The Tobacco Amendment Act 2013.
 (4) Smoke-free Environment Act 2000.

States introduced additional regulations to further restrict consumption and meet tobacco control objectives (cont.)

A5 Recent regulatory changes (cont.)

Table A5.1: Recent regulatory changes 2012/13/14/15 – State specific⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
New South Wales (cont.)	<i>Crimes Regulation 2015 (Administration of Sentences) Amendment (Smoke Free Prisons)</i>	Smoke-free Environment	10 August 2015	A ban on smoking and use of e-cigarettes in all New South Wales' correctional centres.
	<i>Health Legislation Amendment Act 2015 (NSW)</i>	Retailer (and wholesaler) regulation	1 February 2016	An amendment to the Public Health (Tobacco) Act 2008 (NSW) to address difficulties associated with prosecuting retailers found with illegal tobacco. The legislation creates rebuttable assumptions regarding the quantity of tobacco for sale and enables seizure of excess quantities of tobacco not in the correct packaging. The amendment also makes it a criminal offence to sell tobacco to retailers operating without a TRN.
	<i>Public Health (Tobacco) Amendment (Prescribed Quantities) Regulation 2016 (NSW)</i>	Retailer regulation	1 February 2016	Amends regulation to prescribe the quantities of tobacco product that are presumed to be for sale of tobacco products.
Victoria	<i>Tobacco Amendment (Smoking at Patrolled Beaches) Act 2012</i> Amendment to <i>Tobacco Act 1987</i>	Smoke free Local Areas	1 December 2012	A ban on smoking at all of Victoria's patrolled beaches in the area between the red-and-yellow lifesaving flags and within a 50 metre radius of a red-and-yellow flag.
	<i>Tobacco Amendment (Shopper Loyalty Schemes) Act 2012</i> Amendment to <i>Tobacco Act 1987</i>	Removal of tobacco from shopper loyalty programs	1 March 2013	Prohibits using tobacco products for earning points under shopper loyalty schemes.
	<i>Tobacco Amendment Act 2013</i>	Smoke free Local Areas, Cessation of new certification for specialist tobacconists	1 April 2014	Introduction of smoke-free children's playgrounds and related recreational areas. Smoking is banned outdoors within 10 meters of playgrounds and skate parks, sporting venues during under 18s events and within public swimming pool grounds from 1 April 2014.

Sources: (1) Australian Government Department of Health.
 (2) Department of Health, Victoria, www.health.vic.gov.au/tobaccoreforms.
 (3) AIHW Media Release, 22 October 2013.
 (4) Tobacco Amendment Act 2012.

States introduced additional regulations to further restrict consumption and meet tobacco control objectives (cont.)

A5 Recent regulatory changes (cont.)

Table A5.1: Recent regulatory changes 2012/13/14/15 – State specific⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽⁸⁾

Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
Victoria (cont.)	<i>Tobacco Amendment Act 2013 (cont.)</i>			Applications for specialist tobacconist certification received on or after 1 April 2014 will not be considered. This also prevents persons from being able to make an application for certification of tobacco retailing premises.
	<i>Tobacco Amendment Act 2014</i>	Smoke-free Environment	13 April 2015	Extend ban on outdoor smoking to early education and childcare service premises and outdoor areas of school premises. Display of no smoking signs at pedestrian access points at schools, children's indoor play centres and public premises.
	<i>Corrections Regulations 2009</i>	Smoke-free Environment	1 July 2015	Illegal for prisoners to smoke or use a tobacco product.
	<i>To be determined</i>	Smoke-free environment	1 August 2017	In August 2015 the Victorian Government announced plans to introduce new regulation in 2017 that bans smoking in outdoor dining areas.
	<i>Tobacco Amendment Act 2014</i> Amendment to <i>Tobacco Act 1987</i>	Additional fines for retailers and individuals selling certain illegal tobacco and expansion of smoke free outdoor areas	30 June 2015 at the latest	Smoking banned in outdoor areas and vicinity of education, school, care service, and Victorian public premises (e.g. hospitals, Courts and Government departments) as well as children's indoor play centres and from within four metres of pedestrian access points to such areas. Fines of as much as AUD35,000 for individuals and AUD177,000 for businesses caught selling smuggled or prohibited tobacco products and tobacco products where no excise has been paid.

- Sources: (1) Australian Government Department of Health.
 (2) Department of Health, Victoria, www.health.vic.gov.au/tobaccoreforms.
 (3) AIHW Media Release, 22 October 2013.
 (4) Victoria Ministry of Health, *New Victorian smoking bans another step closer*, September 2014.
 (5) Tobacco Products Regulation Amendment Act 2012.
 (6) Work Health and Safety Act 2012.
 (7) Corrections Act 1986.
 (8) 'New Smoking Bans for Outdoor Dining Areas from 2017' (Media Release), 23 August 2015.

States introduced additional regulations to further restrict consumption and meet tobacco control objectives (cont.)

A5 Recent regulatory changes (cont.)

Table A5.1: Recent regulatory changes 2012/13/14/15 – State specific⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
South Australia	<i>Tobacco Products Regulation (Further Restrictions) Amendment Act 2012</i> <i>Work Health and Safety Act 2012</i>	Smoke free Local Areas	1 January 2012 for restrictions on retail displays 1 July 2013 for restrictions on capsule cigarettes	Amendments to <i>Tobacco Products Regulation Act 1997</i> banned-smoking in certain public transport areas, near certain playground equipment and enclosed public places and workplaces, empowers ministers to enforce short term and long term bans in public areas.
	<i>Tobacco Products (Smoking Bans in Public Areas – Longer Term) Regulations 2012</i> <i>Tobacco Products (Smoking Bans in Public Areas – Longer Term) Variation Regulations 2014 (No. 202 of 2014)</i> <i>Tobacco Products (Smoking Bans in Public Areas – Longer Term) Variation Regulations 2014 (no. 238 of 2014)</i>	Smoke free Local Areas	30 August 2012	Ban on smoking at Adelaide show grounds when the Royal Adelaide Show is being held and compete ban on smoking in Moseley Square Glenelg.
	<i>Tobacco Products Variation Regulations 2011</i> <i>Tobacco Products Variation Regulations 2012</i> <i>Tobacco Products Regulations 2004</i>	Retail Display Ban	1 January 2012 1 July 2013 1 January 2015	Prohibition of all tobacco products advertisements at points of sale from 1 January 2012 and restrictions on retail displays for fruit or confectionary flavoured cigarettes, and ban on advertising such cigarettes in vending machines. Capsule cigarettes may not be displayed for sale, included in prescribed price board, price ticket or vending machines. This restriction also extends to price tickets. Specialist tobacconists are prohibited from advertising tobacco products otherwise than in accordance with the statutory provisions and regulations that are of general application.

- Sources: (1) Australian Government Department of Health.
 (2) AIHW Media Release, 22 October 2013.
 (3) Tobacco Products Regulation Amendment Act 2012.
 (4) Work Health and Safety Act 2012.

States introduced additional regulations to further restrict consumption and meet tobacco control objectives (cont.)

A5 Recent regulatory changes (cont.)

Table A5.1: Recent regulatory changes 2012/13/14/15 – State specific⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
Tasmania	<i>Public Health Amendment Act 2011</i> <i>Public Health Act 1997</i>	Smoke free Local Areas	1 March 2012	Extension of smoke free areas to include public swimming pools, between flags at beaches, pedestrian malls, within 3 metres of bus shelters, within 10 meters of children's playgrounds, outdoor dining areas and within three metres of outdoor dining areas not surrounded by a screen.
			12 February 2014	Certain public streets have been designated 'pedestrian malls' which have rendered them 'smoke-free' areas under the Public Health Act 1997. This regulation commenced 12 February 2014.
	<i>Public Health (Miscellaneous Amendments) Act 2015</i>	Smoke-free Environment	1 July 2015	Private premises designated as smoke-free by an occupier do not include premises used for domestic purposes. Public streets may be designated as 'smoke-free'.
			1 July 2015	Regulators can conditionally approve designated smoking areas at public events that have been previously declared as smoke-free.
		Retailer Regulations	1 July 2015	Permits tobacco advertising on packets or packaging if it is in accordance with relevant prescribed guidelines. There remains a ban on advertising on tobacco packets, however, the amendment provides the head of power for guidelines to be issued which permit the display of a price board in retail outlets at the point of sale.
Retailer Regulations		1 July 2015	A tobacco seller's license cannot be issued in connection with a public event.	

Sources: (1) Australian Government Department of Health.
 (2) AIHW Media Release, 22 October 2013.
 (3) Public Health Act 1997.
 (4) Public Health (Miscellaneous Amendments) Act 2015.

States introduced additional regulations to further restrict consumption and meet tobacco control objectives (cont.)

A5 Recent regulatory changes (cont.)

Table A5.1: Recent regulatory changes 2012/13/14/15 – State specific⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾

Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
Tasmania (cont.)	<i>Public Health Amendment Act 2011</i>	Retail Display Ban	1 March 2012	Specialist tobacconists included in retail display ban, removing earlier exemption.
	<i>Public Health Act 1997</i>	Removal of tobacco from shopper loyalty programs	1 March 2012	Tobacco products are prohibited from earning points under business loyalty initiatives.
	<i>Public Health (Smoke-Free Areas) Regulations 2014</i>	Licensing of tobacco retailers	1 March 2012	Licences must be obtained prior to selling tobacco products from additional venues. Licenses are not transferable to new business owners. Display of licenses is subject to the license conditions.
		Vending machine restrictions	1 March 2012	Tobacco vending machines now restricted to one machine per site within specified locations.
	<i>Corrections Act 1997</i>	Smoke-free Environment	Effective through prison service standing orders	Ban on smoking in Tasmanian jails.
	<i>Public Health Amendment (Tobacco Free Generation) Bill 2014</i>	Retailer regulation	20 November 2014	Private Member's Bill, with second reading moved on 24 March 2015. The Bill seeks to prevent the sale of tobacco products to any person born after the year 2000.
Queensland	<i>Health and Other Legislation Amendment Act 2014</i> Amendment of the <i>Tobacco and Other Smoking Products Act 1998</i>	Smoking and vaporised devices ban	Amendments commenced on 1 January 2015	Ban on smoking on school and health facility land and within five metres outside the boundary of such land. Operation of the Tobacco and Other Smoking Products Act 1998 extended to personal vaporisers including bans on supply to children, advertising and display restrictions and prohibition of use in enclosed and outdoor smoke-free places.

Sources: (1) Australian Government Department of Health.
 (2) Department of Health, Victoria, www.health.vic.gov.au/tobaccoreforms.
 (3) AIHW Media Release, 22 October 2013.
 (4) Tobacco Products Variation Regulations 2004.
 (5) Public Health Act 1997.

States introduced additional regulations to further restrict consumption and meet tobacco control objectives (cont.)

A5 Recent regulatory changes (cont.)

Table A5.1: Recent regulatory changes 2012/13/14/15 – State specific⁽¹⁾⁽²⁾⁽³⁾

Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
Queensland (cont.)	<i>Health Legislation Amendment Act 2011</i>	Tobacco type restriction	25 November 2012	Amendment of the <i>Tobacco and Other Smoking Products Act 1998</i> . Ban on the sale of fruit and confectionery flavoured cigarettes. From 25 November 2013 there is an additional ban on the sale of 'novelty items' (such as toys) that resemble smoking products.
	<i>Corrective Services Amendment Regulation (No.1) 2014</i> <i>Health and Other Legislation Amendment Act 2014</i>	Ban on smoking in prisons	5 May 2014	Total ban on tobacco and smoking products in corrective services facilities followed by consequential prohibition of smoking in such facilities through amendments to the <i>Corrective Services Regulations 2006</i> and <i>Tobacco and Other Smoking Products Act 1998</i> .
	<i>Health Legislation Amendment Regulation (No.3) 2014</i> Amendment to <i>Tobacco and Other Products Regulation 2010</i>	Mandatory signs	Amendment commenced 5 September 2014	Wording of mandatory signs attached to vending machines and displayed at points of sale changed from 'Maximum Penalty \$42,000' to 'Penalties apply'. A transitional provision provides that the old wording may be displayed until 20 June 2015.
	<i>Tobacco and Other Smoking Products (Extension of Smoking Bans) Amendment Bill 2015</i>	Smoke-free environment	Bill introduced in Parliament on 14 July 2015	Once enacted the legislation will ban the sale of cigarettes at pop-up stores and from motor vehicles. Extension of smoking bans to areas within 5 metres of State Government buildings, public swimming pools, outdoor pedestrian malls, public transport waiting points and skate parks. The Bill was a private member's Bill and was referred to the Health and Ambulance Services Committee. Some elements of the Bill are in common with the <i>Smoke-Free Places Bill</i> (below) which was recently introduced. Therefore this Extension of Smoking Bans Bill may not be passed into law.

Sources: (1) Australian Government Department of Health.
(2) AIHW Media Release, 22 October 2013.
(3) Corrections Act 1997.

States introduced additional regulations to further restrict consumption and meet tobacco control objectives (cont.)

A5 Recent regulatory changes (cont.)

Table A5.1: Recent regulatory changes 2012/13/14/15 – State specific⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
Queensland (cont.)	<i>Tobacco and Other Smoking Products (Smoke-Free Places) Amendment Bill 2015</i>	Smoke-free environment	1 September 2016	Amends the Tobacco and Other Smoking Products Act 1998 to create more smoke-free places by extending smoking bans to additional public areas, sport grounds and prescribed government precincts. The Bill prohibits the sale of smoking products from temporary retail outlets and provides various amendments deemed 'minor and technical' increasing law enforcement powers at major events.
	<i>Health Legislation Amendment Regulation (No. 3) 2015</i>	Smoke-free environment	6 November 2015	Amended the <i>Tobacco and Other Smoking Products Regulation 2010</i> so some local councils may regulate smoking in their local area and enable them to enforce bans prohibiting smoking near public buildings.
	<i>Health and Other Legislation Amendment Act 2014</i>	Tobacco Type Restriction	1 January 2015	Amends the Tobacco and Other Smoking Products Act 1998, to extend the definition of 'smoking product' to personal vaporisers and personal vaporizer related products. Effective 1 January 2015 personal vaporisers have the same restrictions on their sale, supply, promotion, use and enforcement as cigarettes and other tobacco products. Prohibits the use of vending machines to supply personal vaporisers and related products. Ban on smoking on outdoor health facilities and outdoor school land.
Northern Territory	<i>Correctional Services Act 2014 and Correctional Services Regulations 2014</i>	Ban on tobacco in prisons	9 September 2014	Bans prisoners (including immigration detainees) from consuming tobacco in custody, correctional facilities and immigration detention centres.

Sources: (1) Australian Government Department of Health.

(2) ABC News, *Butts out as smoking ban hits Queensland prisons*, 5 May 2014 (<http://www.abc.net.au/news/2014-05-05/butts-out-as-smoking-ban-hits-queensland-prisons/5430290>).

(3) Tobacco Control Amendment Regulations 2014.

(4) Canstar, *New places where you can't smoke in Queensland*, February 2016.

States introduced additional regulations to further restrict consumption and meet tobacco control objectives (cont.)

A5 Recent regulatory changes (cont.)

Table A5.1: Recent regulatory changes 2012/13/14/15 – State specific⁽¹⁾⁽²⁾⁽³⁾

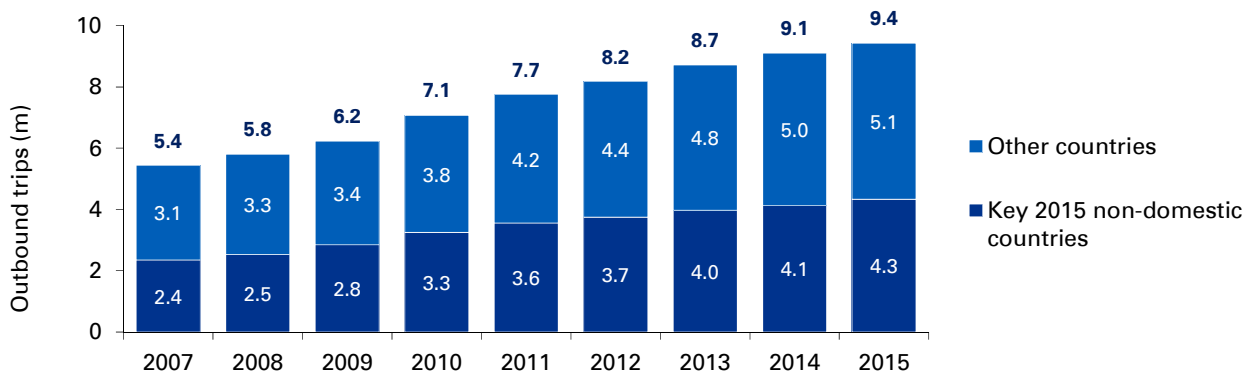
Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
Northern Territory (cont.)	<i>Tobacco Control Amendment Regulations 2014</i>		11 June 2014	Patrons allowed to consume meals in designated smoking areas however staff service is not available from staff in or to patrons in the outdoor smoking areas.
	<i>Tobacco Control Legislation Amendment Act 2014</i>		1 December 2014	Ban on smoking in motor vehicles where children under 16 are present. A tobacco wholesaler is required to comply with a request by the Chief Health Officer for information about the quantity of tobacco products sold to retailers.
Western Australia	<i>Tobacco Products Control Amendment Regulations (No.4) 2014</i>	Fees concerning licenses	13 December 2014	Amends the <i>Tobacco Products Control Regulations 2006</i> to adjust the quantum of various fees concerning licences.
	<i>Tobacco Products Control Amendment Regulations (No. 4) 2015</i>	Information sharing	26 August 2015	Persons may record, disclose or make use of any information obtained in the administration of the <i>Tobacco Products Control Act 2006 (WA)</i> to assist investigations under Commonwealth law or enforcement of a Customs Act, Excise Act or taxation law, relating to a tobacco product.
Australian Capital Territory	<i>Red Tape Reduction Legislation Amendment Act (2014)</i>	License details notice	7 November 2014	Amends the Tobacco Act 1927 by omitting s 64(4)(c), the effect of which is that a 'licence details notice' is no longer defined as including 'any conditions that apply to the licence'.
	<i>To be determined</i>	Smoke-free environments	November 2015	A discussion paper was released by the ACT Government in November 2015 noting the Government's consideration to extend existing smoke-free protections to outdoor places where people tend to congregate in close proximity, or cannot move away from tobacco smoke without risking loss of access to a service or activity.

Sources: (1) Australian Government Department of Health.
 (2) AIHW Media Release, 22 October 2013.
 (3) *Consultation open on new outdoor smoke-free areas*, November 2015.

Outbound trips to non-domestic source countries appear to have increased marginally

A6 Non-domestic legal calculation

Figure A6.1 Overseas travel of Australian residents, 2007 – 2015^{(1)(a)(b)}



CAGR (%)	2007- 2010	2010 - 2013	2013 – 2015	2014 – 2015
Key 2015 ND source countries	11.4%	6.9%	4.5%	5.1%
Total overseas trips	9.2%	7.2%	4.0%	3.6%

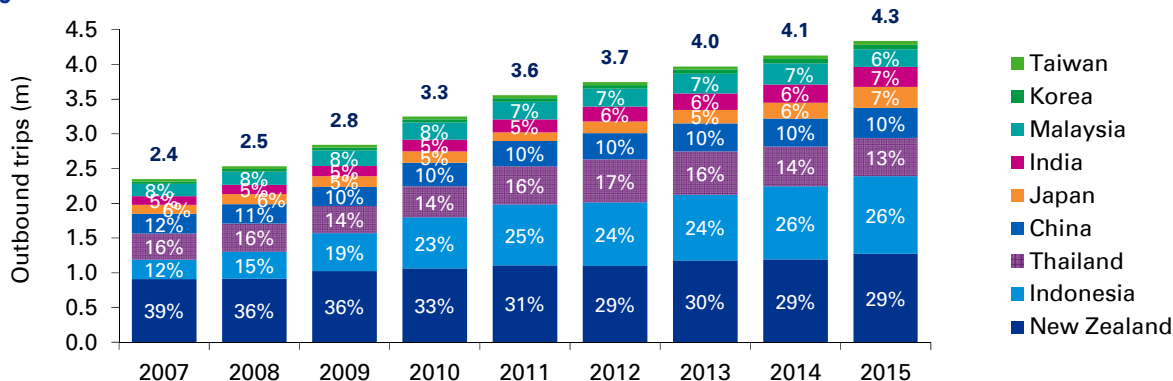
Travel trend data is used by KPMG to estimate non-domestic legal volumes, i.e. tobacco products that are brought into the country legally by consumers, such as during an overseas trip.

The Q4 2015 EPS inflows were consistent with those from the previous period. We have therefore continued to use the same key countries for the ND(L) calculation.

Trips made to key non-domestic source countries of manufactured cigarettes continued to increase at a faster rate than overall visits; 5.1% to 3.6% between 2014 and 2015.

Later in the report this data is used to estimate legal non-domestic sales which, it will be shown, is immaterial in size. For that calculation, travel volumes for New Zealand have been capped as a share of total travel to and from the main source countries. This is because total recorded travel to and from New Zealand is significantly greater than that which would account for New Zealand’s relatively small share of non-domestic cigarette inflows. This capping is based on New Zealand’s share of non-domestic packs per the blended Q2 2015 and Q4 2015 EPS.

Figure A6.2 Overseas travel of Australian residents to key 2015 non-domestic source countries, 2007 – 2015^{(1)(a)(b)}



Visits to key non-domestic source countries reached a total of 4.3 million in 2015 accounting for approximately 46% of all trips made overseas by Australian residents.

However, low inbound traveller allowances will likely have tempered a significant growth of legal non-domestic consumption. We examine this in more detail overleaf.

Notes: (a) Key non-domestic source countries have been selected from the EPS carried out in Q2 2015 and Q4 2015, the countries shown in the graph above accounted for over 70% of the non-domestic cigarette packs found in Australia (excluding packs that come from unspecified countries)
 (b) ND(L) volumes are estimated using actual travel data from January 2015 to December 2015

Sources: (1) Australian Bureau of Statistics, *Short-term movement, Resident Departures - Selected Destinations: Trend, 2014, 2015*

Non-domestic legal volumes due to outbound trips to key source countries remain low as a proportion of total consumption

A6 Non-domestic legal calculation (cont.)

Figure A6.3 Example non-domestic legal calculation (outbound)

	Overseas visits		ND uplift		% population smokers		Propensity to purchase		Amount per trip		Total (tonnes)
Full year 2015	3.4m ^(d)	x	10%	x	11.9%	x	60%	x	50g	=	13.4

KPMG non-domestic legal calculation ^{(1)(2)(3)(a)(b)(c)}								
	Source	2009	2010	2011	2012	2013	2014	2015
Overseas trips to non-domestic source countries in the year (m)	Australian Bureau of statistics	2.84	3.25	3.56	3.75	3.97	4.13	4.34
Overseas trips (with New Zealand capping) for ND(L) calculation (m) ^(d)	Australian Bureau of statistics	1.53	1.53	2.20	2.35	2.44	2.55	3.42
Non-domestic source uplift	EPS	10%	10%	10%	10%	10%	10%	10%
% of population that are smokers	AIHW (and extrapolated)	15.5%	15.1%	14.4%	13.6%	12.8%	12.4%	11.9%
% of smokers that buy tobacco	RMR consumer survey	53%	53%	53%	53%	59%	59%	60%
Number of smokers purchasing overseas (m)		0.14	0.14	0.18	0.19	0.20	0.21	0.27
Amount purchased	Inbound traveller allowance	250	250	250	183	50	50	50
Total (kg)		34,565	33,673	46,046	34,054	10,124	10,302	13,439
Non-domestic legal as % of total consumption		0.2%	0.2%	0.3%	0.2%	0.1%	0.1%	0.2%

Estimates of non-domestic legal flows show that total volumes account for a small proportion of total consumption.

The change to inbound traveller allowances made in September 2012 has a considerable impact on the amount of tobacco consumers can bring back into the country legally, reducing the estimate of legal non-domestic volumes further from 2013.

The H2 2015 survey suggested that 60% of smokers bought cigarettes overseas. This proportion has risen slightly in recent years, possibly a result of increasing price differentials between Australia and the rest of the region.

- Notes:
- (a) Respondents were asked 'Q51. Have you travelled outside of Australia in the last 6 months?'
 - (b) Respondents were then asked 'Q52. Did you buy any manufactured cigarettes or any other tobacco products to bring back to Australia on any of your trips to other countries in the past 6 months?'
 - (c) The inbound traveller allowance for 2012 has been calculated using the 250g limit for 8 months and the 50g limit for 4 months to reflect the change in inbound traveller allowances made in September 2012
 - (d) Travel volumes for New Zealand have been capped as a share of total travel to and from the main source countries. This capping is based on New Zealand's share of non-domestic packs per the blended Q2 2015 and Q4 2015 EPS

- Sources:
- (1) Roy Morgan Research, Consumer survey, H1 2013, H2 2013, H1 2014, H2 2014, H1 2015 and H2 2015
 - (2) Australian Institute of Health and Welfare, *National Drug Strategy Household Survey, 2007, 2010, 2013*
 - (3) Australian Bureau of Statistics, *Short-term movement, Resident Departures - Selected Destinations: Trend, 2013, 2014, 2015*

Visitors from countries indicated by the EPS also serve as contributors to non-domestic packs found in Australia

A6 Non-domestic legal calculation (cont.)

Overseas visitors arrivals from key non-domestic countries include both short term arrivals and permanent settlers.

As discussed on page 71, the key source countries have been kept consistent with Q2 2015 based on the inflows from each market in the EPS.

Visitors (short-term arrivals and settlers) from the key non-domestic source countries identified by the EPS have increased since 2007. Based on the 2012 to 2015 CAGR, overseas visitors from China will overtake New Zealand in 2017 and together may represent up to 70% of Australia's overseas visitors (from source countries).

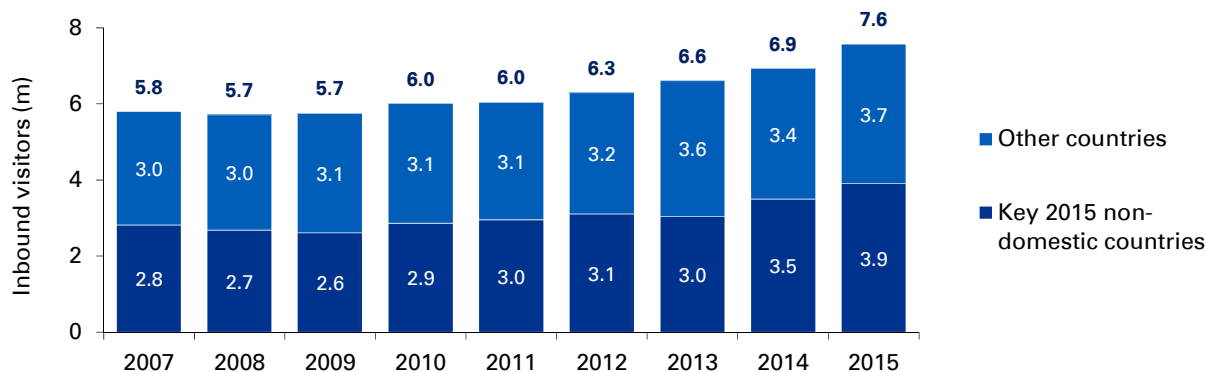
Later in the report this data together with the overseas travel of Australian residents data are used to estimate legal non-domestic sales which, it will be shown, the impact of the

change in domestic legal inflows calculation is immaterial in size.

For that calculation, travel volumes for New Zealand have been capped as a share of total travel to and from the main source countries. This is because total recorded travel to and from New Zealand is significantly greater than that which would account for New Zealand's relatively small share of non-domestic cigarette inflows. This capping is based on New Zealand's share of non-domestic packs per the blended Q2 2015 and Q4 2015 EPS results.

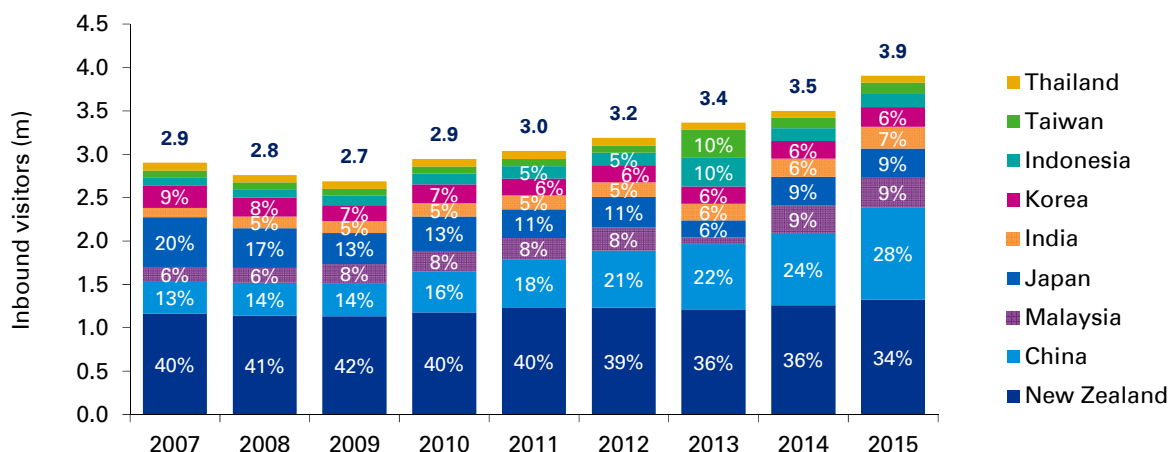
In the absence of data, KPMG has made a prudent assumption that all visitors who are calculated to be smokers bring their 50 cigarette duty free limit.

Figure A6.4 Overseas visitors (short term visitors and settlers) arrivals to Australia, 2007 – 2015^{(1)(2)(a)(b)}



CAGR (%)	2007-2010	2010-2013	2013-2015	2014-2015
Key 2015 ND source countries	0.5%	3.4%	13.3%	11.5%
Total overseas trips	1.2%	3.2%	7.0%	9.3%

Figure A6.5 Overseas visitors arrivals from key 2015 non-domestic source countries, 2007 – 2015^{(1)(2)(a)(b)}



Notes: (a) Key non-domestic source countries have been selected from the EPS carried out in Q2 2015 and Q4 2015, the countries shown in the graph above accounted for almost 70% of the non-domestic cigarette packs found in Australia excluding packs that come from unspecified countries
 (b) ND(L) volumes are estimated using actual travel data from January 2015 to December 2015

Sources: (1) Australian Bureau of Statistics, *Short-term Movement, Visitor Arrivals - Selected Countries of Residence: Trend, 2013, 2014, 2015*
 (2) Australian Bureau of Statistics, *Permanent Movement, Settlers - Country of Birth, Major Groups and Selected Source Countries: Original, 2013, 2014, 2015*

Non-domestic legal estimates calculated on the basis of inbound visitor arrivals indicate that non-domestic legal remains a small proportion of total consumption

A6 Non-domestic legal calculation (cont.)

Figure A6.3 Example non-domestic legal calculation (outbound)



Example of KPMG non-domestic legal calculation based on overseas visitor arrivals to Australia⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

2015	Inbound visitor arrivals (m) ^(a)	% population above 18 ^(b)	% population smokers	Number of visitors bringing tobacco (m) ^(c)	Amount purchased (kg)
Source	Australian Bureau of Statistics	Euromonitor	Euromonitor		
China	1.06	69%	25%	0.185	9,271
Korea	0.23	69%	23%	0.036	1,787
Indonesia	0.15	62%	36%	0.033	1,636
Thailand	0.08	68%	23%	0.012	597
India	0.25	60%	7%	0.010	493
Malaysia	0.34	64%	22%	0.047	2,361
Japan	0.34	58%	19%	0.037	1,834
Taiwan	0.13	83%	18%	0.020	977
New Zealand ^(d)	1.32 (0.29 ^(d))	62%	18%	0.033	1,656
Total	3.90 (2.87^(d))				20,612

Total amount brought into Australia by inbound tourists

Estimation of non-domestic legal volumes shows that total volumes account for a small proportion of total consumption.

This proportion remains insignificant even if arrivals data is included in the non-domestic legal calculation. This has been shown in detail on the next page.

Notes: (a) Inbound visitor arrivals to include arrivals of short term overseas visitors and permanent settlers
 (b) Population within the age group 18-64 years
 (c) KPMG has used a prudent approach and assumed that 100% of visitors arriving in Australia purchase the maximum inbound traveller allowance
 (d) Travel volumes for New Zealand have been capped as a share of total travel to and from the main source countries. This capping is based on New Zealand's share of non-domestic packs per the blended Q2 2015 and Q4 2015 EPS

Sources: (1) Australian Bureau of Statistics, *Short-term Movement, Visitor Arrivals - Selected Countries of Residence: Trend, 2013, 2014, 2015*
 (2) Australian Bureau of Statistics, *Permanent Movement, Settlers - Country of Birth, Major Groups and Selected Source Countries: Original, 2013, 2014, 2015*
 (3) Euromonitor, Population: National Estimates, accessed January 2016
 (4) Euromonitor, Smoking Prevalence Among Total Adult Population, accessed February 2016

The summation of non-domestic legal from both inbound and outbound tourism is shown below to determine the total non-domestic legal volume

A6 Non-domestic legal calculation (cont.)

KPMG Total non-domestic legal calculation ^(a)								
	2007	2009	2010	2011	2012	2013	2014	2015
Outbound trips ('000 kg)	28.6	34.6	33.7	46.0	34.1	10.1	10.3	13.4
Inbound trips ('000 kg)						11.2	15.6	20.6
Total ND(L) ('000 kg)	28.6	34.6	33.7	46.0	34.1	21.3	25.9	34.1
Non-domestic legal as % of total consumption	0.1%	0.2%	0.2%	0.3%	0.2%	0.1%	0.1%	0.2%

The estimate of ND(L) volumes above comprises the legitimate flows from the main source countries per the EPS and represents 0.2% of total consumption. If we were to assume that all travellers from the source markets indicated by the EPS purchased their allowance, we would derive an ND(L) volume of approximately 54.4 tonnes or 0.3% of total consumption.

One limitation of this methodology is that it does not include cigarettes purchased through mail order and imported legally into Australia. Given the limited financial gain associated with paying Australian excise duty on cigarettes purchased abroad, compared to those purchased in Australia, we feel that the volume consumed is unlikely to be significant.

We have tracked the trends of mail order purchase from abroad in terms of average quantity purchased per occasion and the average frequency of purchase per occasion and we are starting to see some consistency in results. The most recent consumer surveys indicate a rise in mail order as a channel used to purchase tobacco a trend consistent with observations by the ABF⁽¹⁾.

However, using the consumer survey outputs we estimate that mail order accounts for under 1% of total consumption whilst there is also a degree of uncertainty over the legality of purchase i.e. whether duty has been paid or not.

Anecdotally, we understand that there are volumes of tobacco which have arrived in Australia but have not been claimed. We await official publications from the Australian Border Force for any data related to excise paid on mail order purchases.

Internet retailing continued to grow as a proportion of total sales in 2015 but this level decreased marginally in the second half of the year. It was expected to play a larger role within the tobacco industry, as the full effect of retail display bans and plain packaging is felt⁽²⁾, although the traditional retailing channels continue to dominate tobacco sales. The RMR consumer survey results indicated that in 2013^(a), 1.8% of purchasers of unbranded tobacco did so via the internet, whilst this has increased to 3.4% in H2 2015^{(a)(b)(3)}.

Notes: (a) 2015 is the blended result of Q2 2015 and Q4 2015
 (b) These purchases are included in our measure of illicit consumption

Sources: (1) ABF 2014-15 Annual Report
 (2) Euromonitor, *Tobacco in Australia, August 2015*
 (3) Roy Morgan Research, Consumer survey, H1 2013, H2 2013, H1 2014, H2 2014, H1 2015 and H2 2015

Illicit Whites flows methodology

A7 Illicit Whites flows analysis

Illicit Whites brands flows have declined at a CAGR of 23.18% between Q2 2013 and Q4 2015 and now account for 7.7% of total Contraband & Counterfeit volumes in Australia.

Illicit Whites are defined as

- Manufactured cigarettes that are usually manufactured legally in one country/market but which the evidence suggests have been smuggled across borders during their transit to Australia, where they have limited or no legal distribution and are sold without the payment of tax.

KPMG undertook the following analysis to determine which brands made up Illicit Whites brand flows:

- Cigarettes packs which did not satisfy the plain packaging requirements were identified through the EPS data⁽¹⁾.
- This allowed us to form an initial list of brand flows.
- These brand flows were then compared with the Aztec scan data⁽²⁾ (which records brands being sold through most legitimate channels). Brands included in the Aztec data were then eliminated from the list.
- Remaining brand flows were then compared with the brand lists published in The Retail Tobacconist trade magazine⁽³⁾, which has a comprehensive list of legitimate brands. Brands included in this publication were then also eliminated.
- Further analysis was undertaken by looking at the country of origin and corroborating this with third party sources^(a).
- Remaining brand flows were identified as Illicit White flows.

Given our identification of counterfeit product is limited to the three industry participants, we cannot assess whether or not these flows are counterfeit product.

Table A7 Illicit Whites identification process, Illicit Tobacco in Australia – worked example

Illicit Tobacco in Australia – Illicit Whites identification process ⁽¹⁾⁽²⁾⁽³⁾						
	2015 Non-domestic volume (kg)	Plain packaging?	Aztec scan data?	Retail tobacconist?		Illicit White brand flow
Brand A	50	No	Yes	Yes		✗
Brand B	100	No	No	Yes		✗
Brand C	75	No	No	No		✓
Brand D	160	No	Yes	No		✗
Brand E	220	No	Yes	Yes		✗

Non-domestic origin packs will typically not be in plain packaging as Australia is the only market to have introduced plain packaging for manufactured cigarettes. However, recently illicit whites in plain-packaging have been discovered (see page 44)

Notes: (a) Third party sources include Euromonitor tobacco reports which were used for further verification
 Sources: (1) MSIntelligence Research, *Empty Pack Surveys*, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015 and Q4 2015
 (2) Aztec monthly scan data, July 2015 – December 2015
 (3) Australian Retail Tobacconist, Volume 94, April - June 2015

Notes to this report

A8 Notes to this report

The measurement of illicit consumption is inherently complex as those involved seek to conceal their activities.

We believe that the approach adopted for this report, both in terms of the consumption model methodology and the key data sources, generates an estimate of illicit consumption which is as robust as possible within current research techniques. We also use alternative validation tools, such as the rolling papers analysis, to further increase the level of confidence in this estimate.

Whilst we believe this is currently the most appropriate method, we also recognize that we have been required to make a number of data assumptions and scope exclusions.

Further detail on key approaches and methodology limitations is provided in the table below.

Illicit tobacco in Australia	
Source	Overview
EPS	<ul style="list-style-type: none"> — The EPS approach provides an objective and statistically representative estimate of the size of the illicit manufactured cigarette market. The results are not subject to respondent behaviour and are less prone to sampling errors than many other alternative methodologies. — Whilst the EPS is designed to be representative of the overall population, it is not possible to ensure the sample is fully representative because: <ul style="list-style-type: none"> - The sample is more heavily weighted towards populous, urban areas so in some markets the EPS may not be fully representative of consumption habits in rural areas. The impact in Australia is likely to be minimal as only 10% of the population live in rural areas⁽¹⁾. - Homes and workplaces are not covered, though analysis of the Yellow Bag Survey results in Germany as discussed on page 55 suggests consumption outside the home is not significantly different. - Collection routes also specifically exclude sports stadia, shopping malls and stations, or any other locations where non-domestic incidence is likely to be higher as a result of a skewed population visiting these areas. — Although EPS dates are selected to minimise seasonal factors, there may be specific events that impact the results such as major national events which result in large numbers of overseas visitors. We use a blended result of Q2 and Q4 EPS data to minimise this impact. — Brand and market variant share can only be extrapolated with a degree of statistical accuracy for brands where a sufficiently large number of packs have been collected.
Non-major manufacturer (non-participating) counterfeit	<ul style="list-style-type: none"> — EPS results do not identify counterfeit packs that have been made by manufacturers other than BATA, ITA and PML as only the manufacturer / trademark owner can confirm whether their brand pack is genuine. <ul style="list-style-type: none"> - As a result, for brands not trademark-owned by BATA, ITA or PML it is not possible to identify counterfeit (non-domestic variants) and contraband product, although this will not impact the overall volume of illicit. — The volume of legal domestic consumption may be overstated where domestic counterfeit variants exist, leading to corresponding understatements of illicit volumes for some brands (although the impact is likely to be minimal and would require any counterfeit pack barcodes to operate correctly and to be scanned by retailers). — Illicit White volumes may include counterfeit. However, the impact of this is likely to be minimal as counterfeit volumes in 2015 only represented a small proportion (1.4%)⁽²⁾ of the total sample of the three participating manufacturers brand flows and counterfeit is typically concentrated on the most popular brands only.

Sources: (1) *Australia in 2030: The Future Demographics*, Euromonitor, May 2015

(2) MSIIntelligence Research, *Empty Pack Surveys*, Q2 2015 and Q4 2015

Notes to this report (cont.)

A8 Notes to this report (cont.)

Illicit tobacco in Australia	
Source	Overview
Products with uncertain legal distribution	<ul style="list-style-type: none"> — The results of recent empty pack surveys indicate there has been a rise in the incidence of manufactured cigarettes in plain packaging that seem to have limited or no legal distribution. These packs have not been classified as illicit since, as yet, we have not been able to validate the legality of their availability. The incidence of these packs remains small (0.17% of the EPS sample). We shall continue to monitor these results and continue our attempts to validate their legality.
LDS	<ul style="list-style-type: none"> — There are minor variations in the LDS data provided by Aztec due to small differences in the way sales data is collected (for example, the way data is collected from tobacconists and timings of data release). For a single view of LDS, KPMG has taken data directly from Aztec, who provide retail sales data using a combination of inputs from manufacturers and retailers. — Slight timing variances may arise between the date the product was purchased and actual consumption. However, this is not considered significant and the 2015 LDS information we have from Aztec is considered to be a good representation of the market.
Consumer surveys	<ul style="list-style-type: none"> — For the purpose of our analysis, our unbranded volumes are based on the average of the last two consumer surveys as consumers are likely to give a more accurate estimate of their purchase behaviour over a short time period rather than the last twelve months. — The sample for the tobacco questionnaire is weighted by location, age and gender using RMR Single Source data in order to be representative of the national population. — There are state by state regulations which guide the implementation of consumer surveys in Australia and the RMR survey used in this report complies with all such regulations nationally. — Although the consumer survey is designed to be nationally representative of the population, there are certain limitations associated with consumer surveys such as: <ul style="list-style-type: none"> - Information obtained from a consumer survey is based on a sample rather than the entire population and therefore data is subject to sampling variability. — In addition, there are limitations of using a consumer survey to estimate tobacco consumption and more specifically illicit tobacco consumption: <ul style="list-style-type: none"> - Consumer surveys have historically under-reported tobacco consumption, especially in countries where it has become increasingly socially less acceptable. For example, AIHW highlights the possibility of under-reporting in smoking related questions as some respondents do not answer smoking related questions⁽¹⁾. As such, the RMR consumer survey used in this report asks respondents about purchase behaviour rather than actual consumption habits. - Illicit tobacco consumption is likely to be under-reported to an even greater degree⁽²⁾. — Rolling papers analysis is used in order to validate the unbranded volumes derived through the consumer survey results.

Sources: (1) *National Drug Strategy Household Survey*, Australian Institute of Health and Welfare, 2013

(2) Temporal changes of under-reporting of cigarette consumption in population-based studies, Gallus et al, 2011

Notes to this report (cont.)

A8 Notes to this report (cont.)

Illicit tobacco in Australia	
Source	Overview
ND(L)	<ul style="list-style-type: none"> — We have used inbound and outbound travel data and inbound settler data from the Australian Bureau of Statistics to calculate the number of trips made. — We have calculated the number of cigarettes purchased by assuming smokers purchase the legal allowance. This may overweight ND(L) volumes as a share of total non-domestic flows. — We have not been able to accurately estimate the number of cigarettes purchased through mail order and legally imported into Australia. However, as highlighted on page 75 we feel that the volume consumed is unlikely to be significant.
Outflows from Australia	<ul style="list-style-type: none"> — Outflows from Australia are not considered to be material due to the high prices relative to other parts of the world.
External data sources	<ul style="list-style-type: none"> — We have used a series of external data sources to estimate illicit tobacco consumption in Australia in 2015. There are a number of limitations associated with these sources such as their infrequent updates (the most recent AIHW National Drug Strategy Household survey was in 2013 whilst the last Australian census conducted by the ABS was in 2011). To update these numbers for the period of study, we make a series of assumptions as required which are detailed throughout the report. — There are also differences between our key data sources and other points of corroboration. For example, the RMR consumer survey focuses on those over 18 years old whilst the AIHW survey focuses on those over 14 years old.

The Roy Morgan Research survey and the AIHW survey differ in focus and methodology, whilst limitations of consumer surveys are recognised

A9 Alternative illicit tobacco estimates

The Australian Institute of Health and Welfare's (AIHW) National Drug Strategy Household Survey is the only other major consumer survey in Australia that provides an overview on the prevalence of the use of illicit tobacco.

There are a number of differences between the RMR and AIHW survey (also conducted by RMR) including the key purpose of each, the frequency of surveys carried out and the size of the sample. The RMR survey is used to estimate the size of the illicit market whereas the AIHW survey is focused more on attitudes and behaviours across a wider range of health and drug related issues. The RMR surveys are now carried out biannually whilst the AIHW survey is conducted every three years.

RMR draws its sample from an Australia-wide database, collected through its 'Establishment Survey'. This is conducted throughout the year and includes information on demographic and attitudes.

The sample for the tobacco questionnaire is weighted by location, age and gender in order to be representative of the national population. To meet target responses, RMR then

supplements its sample with samples from a set of qualified third-party suppliers.

AIHW also adopts a sampling plan stratified by region. Weightings are then applied to address any imbalances through sample execution and different response rates.

RMR has used a web based survey throughout, whilst AIHW moved from a combined CATI and drop-and-collect methodology to a pure drop-and-collect method from 2010.

In its data quality statement, AIHW also acknowledges that it "is known from past studies of alcohol and tobacco consumption that respondents tend to underestimate actual consumption levels"⁽³⁾. In addition, the Australian Bureau of Statistics suggested social pressures are likely to account for such under-reporting⁽⁴⁾. Illicit tobacco consumption is therefore likely to be under-reported to an even greater degree. These are issues we have previously highlighted.

During the Parliamentary Committee on Law Enforcement – Illicit Tobacco, representatives of the AIHW indicated that the NDSHS is not an appropriate vehicle for measuring the percentage of illicit tobacco consumption⁽⁵⁾.

Comparison of RMR and AIHW consumer surveys^{(1)(2)(a)(b)}

	RMR	AIHW (conducted by RMR)
Survey focus	— Size of the illicit tobacco market	— Knowledge of and attitudes towards drugs, drug consumption histories, related behaviours
Frequency	— At least annually from 2009 and biannually from 2013	— Every three years
Response period	— Three week period (twice annually)	— 3-4 months (31 July – 1 December 2013)
Key exclusions	— Non-private dwellings and institutions; non-smokers and occasional smokers	— Non-private dwellings and institutions
Contacted	— 3,341 qualified smokers	— 48,579 households
Response rates	— 71.3% (2,383 completed surveys)	— 49.1% (23,855 completed surveys)
Sample size	— 2011: 931 — 2012: 1,405 — 2013: 4,223 (H1: 2,107 + H2: 2,116) — 2014: 4,121 (H1: 2,104 + H2: 2,017) — 2015: 4,235 (H1: 1,852 + H2 2,383)	— Greater than 26,000 people aged 12 years or older participated in the 2010 survey — Approximately 24,000 people aged 14 years or older participated in the 2013 survey
Age groups	— Smokers aged 19+	— Smokers aged 14+
Methodology	— Web based surveys	— Self-completion drop and collect methodology
Language	— English only	— English only
Types of tobacco addressed	— Unbranded, counterfeit cigarettes, contraband cigarettes	— Unbranded, non-plain packaged tobacco

Notes: (a) Roy Morgan Research results for 2013, 2014 and 2015 are based on CAWI responses only

(b) Results from the 2010 AIHW survey asked questions only about unbranded loose tobacco, whereas the 2013 and 2007 surveys also asked about unbranded cigarettes

Sources: (1) Roy Morgan Research, Consumer survey, H1 2013, H2 2013, H1 2014, H2 2014, H1 2015 and H2 2015

(2) Australian Institute of Health and Welfare, *The National Drug Strategy Household Survey, 2010, 2013*

(3) National Drug Strategy Household Survey 2013 – Data Quality Statement

(4) 'Profiles of Health, Australia, 2011-13 – Tobacco Smoking', Australian Bureau of Statistics, June 2013

(5) Proof Committee Hansard, Parliamentary Joint Committee on Law Enforcement, March 2016

The description of the services set out below comprises the agreed scope of our work

A10 Scope of work

Scope

We will analyse and report on:

- The total level of legal domestic sales of tobacco products and consumption in the market.
- The estimated proportion of the Australian tobacco market accounted for by the illicit trade, across both manufactured products and the unbranded, encompassing contraband, counterfeit and unbranded products (including 'chop chop').
- An overview of the nature of the illicit trade in the country, including the sources of illicit product.
- Findings on the characteristics and consumption patterns of illicit tobacco users, and how these have changed from the results of surveys previously undertaken in 2013 and 2014, based on the consumer research outputs.
- Data on how taxation has evolved over time and comment on tobacco regulation in the Australian market.

Methodology

In order to size the illicit tobacco market, we will use two principal approaches:

Consumer research approach: utilising the full year 2013, full year 2014 and full year 2015 Roy Morgan Research reports, commissioned and provided to us by BATA, PML and ITAL; namely:

- Analyse consumer responses to seek to establish the proportion of illicit tobacco consumed.
- Extrapolate the proportion of illicit tobacco consumed on a national level.
- Express the findings as a proportion of total tobacco consumption.

Empty Pack Survey approach: utilising Empty Pack Survey data commissioned and provided to us by BATA, PML and ITAL; namely:

- Analyse the data output from MSI to seek to establish the proportion of market accounted for by non-domestic manufactured cigarettes.
- Extrapolate the non-domestic and counterfeit incidence estimates identified in the EPS against the level of legal domestic sales in Australia.
- Express findings on the estimates of both non-domestic consumption of manufactured cigarettes and consumption of counterfeit product as a proportion of consumption.

The overall results from the two approaches will then be compared and combined in order to build up our overall estimate of the size and composition of the illicit market as a proportion of total tobacco consumption.

These results will be compared to our analysis of rolling papers data, seizures data and historical consumption trends to help to validate findings.

Questions asked by the consumer survey

A11 Roy Morgan Research questionnaire

Do you, or does any member of your immediate family work in any of the following companies/industry sectors?

What is your post code?

What is your gender?

Are you currently employed?

Which of the following occupational categories best suits you? (Options provided)

What is your approximate annual personal income?

What is your current age?

Which products do you currently consume? (Options provided)

What type of tobacco product do you smoke or use, even if only occasionally?

How often do you normally smoke manufactured cigarettes?

How often do you normally smoke roll your own cigarettes?

How many manufactured cigarettes do you normally smoke each day (on average)?

How many roll your own cigarettes do you normally smoke each day (on average)?

What is your regular brand of manufactured cigarettes, that is, the one you smoke more than any other brand now-a-days?

What other brands of manufactured cigarettes do you currently smoke?

What is your regular brand of roll your own cigarettes, that is, the one you smoke more than any other brand now-a-days?

What other brands of roll your own cigarettes do you currently smoke?

Are you aware that unbranded tobacco can be purchased? Unbranded tobacco is also known as 'chop .' It is loose tobacco or cigarettes in cartons or packs that are sold without a brand name. This does not include branded tobacco products that are now sold in plain packaging that are green/brown in colour with graphic health warnings and information messages.

Since you turned 18 have you ever purchased unbranded tobacco?

Throughout the survey, we're just focusing on products you buy for your own use. Do you purchase unbranded tobacco for your own use currently?

Have you purchased unbranded tobacco in the last 12 months? (we are talking about purchases for your use)

In the past 12 months, how often did you purchase unbranded tobacco?

Well, can you give me an estimate of how often you purchased unbranded tobacco in the past 12 months?

Since you turned 18, how long had you been buying unbranded tobacco?

Well, can you give an estimate of how long you had been buying unbranded tobacco since you turned 18?

When you last purchased unbranded tobacco, from which outlet or outlets did you buy it?

When you last purchased unbranded tobacco, how many grams of unbranded tobacco did you purchase?

When you last purchased unbranded tobacco, what format or formats was the unbranded tobacco in?

When you last purchased loose unbranded tobacco, how many grams did you buy? (In grams)

When you last purchased loose unbranded tobacco, how much did it cost in total?

How long ago was your most recent purchase of loose unbranded tobacco?

Well, can you give me an estimate of when your most recent purchase of loose unbranded tobacco was?

When you last purchased cartons of unbranded tobacco, how many did you buy?

When you last purchased cartons of unbranded tobacco, how much did it cost in total?

How long ago was your most recent purchase of unbranded tobacco in cartons?

Well, can you give me an estimate of when your most recent purchase of unbranded tobacco in cartons was?

When you last purchased packs of unbranded tobacco, how many did you buy?

When you last purchased packs of unbranded tobacco, how much did it cost in total?

How long ago was your most recent purchase of unbranded tobacco in packs?

Well, can you provide an estimate of when your most recent purchase of unbranded tobacco in packs was?

When you were smoking unbranded tobacco, how much of it would you say that you smoked per day?

Well, can you provide an estimate of how much unbranded tobacco you were smoking per day?

How did you usually consume unbranded tobacco?

Questions asked by the consumer survey (cont.)

A11 Roy Morgan Research questionnaire (cont.)

How many suppliers did you ever purchase unbranded tobacco from, since you turned 18?

When you stopped buying unbranded tobacco did you not smoke or did you purchase duty paid tobacco products?

Why did you smoke unbranded tobacco?

Do you know the country of origin of the unbranded tobacco that you purchased?

Where does it usually come from?

Please select the reasons why you stopped purchasing unbranded tobacco? (Options provided)

How often do you purchase unbranded tobacco?

Well, can you provide an estimate of how often you purchase unbranded tobacco?

Since you turned 18, how long have you been buying unbranded tobacco?

Well, can you provide an estimate of how long you have been buying unbranded tobacco?

From which outlets do you usually buy your unbranded tobacco?

How many grams of unbranded tobacco do you purchase for the average purchase?

What format or formats do you usually purchase unbranded tobacco in?

What is the minimum price that you have paid for loose unbranded tobacco in bags?

What is the average price that you have paid for loose unbranded tobacco in bags?

What is the maximum price that you have paid for loose unbranded tobacco in bags?

What is the minimum price that you have paid for unbranded cigarettes in cartons?

What is the average price that you have paid for unbranded cigarettes in cartons?

What is the maximum price that you have paid for unbranded cigarettes in cartons?

What is the minimum price that you have paid for unbranded cigarettes in packs?

What is the average price that you have paid for unbranded cigarettes in packs?

What is the maximum price that you have paid for unbranded cigarettes in packs?

How much would you say that you smoke per day of unbranded tobacco?

per day of unbranded tobacco?

The most recent time you purchased unbranded tobacco what format or formats was it?

How much loose unbranded tobacco did you buy? (In grams)

How much did it cost in total?

How long ago was your most recent purchase of loose unbranded tobacco?

Well, can you provide an estimate of when your most recent purchase of loose unbranded tobacco was?

How many cartons of unbranded cigarettes did you buy?

How much did it cost in total?

How long ago was your most recent purchase of unbranded tobacco in cartons?

Well, can you provide an estimate of when your most recent purchase of unbranded tobacco in cartons was?

How many packs of unbranded cigarettes did you buy?

How much did it cost in total?

How long ago was your most recent purchase of unbranded tobacco in packs?

Well, can you provide an estimate of when your most recent purchase of unbranded tobacco in packs was?

How do you usually consume unbranded tobacco?

How many suppliers have you ever purchased unbranded tobacco from, since you turned 18?

Do you find unbranded tobacco easier or harder to obtain than a year ago or has there been no change?

If you cannot get unbranded tobacco do you not smoke or do you purchase duty paid tobacco products?

Why do you smoke unbranded tobacco?

Do you know the country of origin of the unbranded tobacco that you purchase?

Where does it usually come from?

Contraband cigarettes are legitimate brands of cigarettes purchased in shops without duty paid.

Are you aware that contraband cigarettes can be purchased?

How did you become aware of the availability of contraband cigarettes?

Since you turned 18, have you ever purchased contraband cigarettes?

Questions asked by the consumer survey (cont.)

A11 Roy Morgan Research questionnaire (cont.)

Do you purchase contraband cigarettes for your own use currently?

Have you purchased contraband cigarettes in the last 12 months?

If you think you might have purchased contraband cigarettes, which brand(s) was it? Any others?

What would you do if contraband product were not available where you usually purchase it from? (Options provided)

How would you rate the overall quality of the contraband product(s) you purchase compared to the non-contraband version(s)?

Counterfeit cigarettes are packs of cigarettes labelled with a brand name that are not really that particular brand. They have been smuggled into the country without duty paid.

Are you aware that counterfeit cigarettes can be purchased?

How did you become aware of the availability of counterfeit cigarettes?

Since you turned 18 have you ever purchased counterfeit cigarettes?

Do you purchase counterfeit cigarettes for your own use currently?

Have you purchased counterfeit cigarettes in the last 12 months?

If you think you might have purchased counterfeit cigarettes, which brand(s) was it? Any others?

What made you believe the cigarettes were counterfeit?

What would you do if counterfeit product were not available where you usually purchase it from?

How would you rate the overall quality of the counterfeit product(s) you purchase compared to the non-counterfeit version(s)?

You have indicated that you have bought counterfeit product. What does the availability of the brand(s) in counterfeit form make you feel? (Options provided)

You indicated that you would feel more negative towards the brand knowing that it is available in counterfeit, can you please explain why you feel this way?

What would you do if counterfeit product were not available where you usually purchase it from? (Options provided)

How would you rate the overall quality of the counterfeit product you purchase compared to the real legitimate brand?

The most recent time you purchased counterfeit cigarettes, did you buy them by weight, by packs, or by cartons?

When you bought the counterfeit cigarettes by weight, how much did you buy?

How much did it cost in total?

How long ago was your most recent purchase of counterfeit cigarettes by pack?

When you bought the counterfeit cigarettes/carton, how much did you buy?

How much did it cost in total?

How long ago was your most recent purchase of counterfeit cigarettes by carton?

Do you find counterfeit cigarettes easier or harder to obtain than a year ago or has there been no change?

Why do (or did) you smoke counterfeit cigarettes?

The most recent time you purchased contraband cigarettes, did you buy them by weight, by packs, or by cartons?

When you bought the contraband cigarettes by weight, how much did you buy?

How much did it cost in total?

How long ago was your most recent purchase of contraband cigarettes by weight?

When you bought the contraband cigarettes by pack, how much did you buy?

How much did it cost in total?

How long ago was your most recent purchase of contraband cigarettes by pack?

When you bought the contraband cigarettes by carton, how much did you buy?

How much did it cost in total?

How long ago was your most recent purchase of contraband cigarettes by carton?

Do you find contraband cigarettes easier or harder to obtain than a year ago or has there been no change?

Why do (or did) you smoke contraband cigarettes?

It is sometimes possible to purchase cigarettes for less than the normal retail price. The price of these 'cheap cigarettes' is several dollars or more below the normal retail price, (for example, a price of AUD10 or less for a pack of 25, or AUD8 or less for a pack of 20).

Questions asked by the consumer survey (cont.)

A11 Roy Morgan Research questionnaire (cont.)

Before today, were you aware of packs of cheap cigarettes that can be purchased for less than the normal retail price?

Since you turned 18 have you ever purchased cheap cigarettes for your own use?

Do you purchase cheap cigarettes for your own use currently?

Have you purchased cheap cigarettes for your own use in the last 12 months?

How did you become aware of the availability of cheap cigarettes?

If you think you might have purchased cheap cigarettes, what brand(s) were they?

What would you do if cheap cigarettes were not available where you usually purchase them from?

What did you do if cheap cigarettes were not available where you usually purchased them from?

How would you rate the overall quality of the cheap cigarettes that you have purchase(d) compared to the full price product(s)?

The most recent time you purchased cheap cigarettes, did you buy them by packs, or by cartons, or both?

When you bought the cheap cigarettes by pack, how many packs did you buy?

How much did it cost in total?

How long ago was your most recent purchase of cheap cigarettes by pack?

When you bought the cheap cigarettes by carton, how many cartons did you buy?

How much did it cost in total?

How long ago was your most recent purchase of cheap cigarettes by carton?

From what outlets do/did you usually buy cheap cigarettes?

Do you find cheap cigarettes easier or harder to obtain than a year ago or has there been no change?

Why do (or did) you smoke cheap cigarettes?

Why did you stop smoking cheap cigarettes?

You have indicated that you have purchased either contraband or counterfeit cigarettes in the past. Sometimes people refer to contraband or counterfeit cigarettes as 'cheap' cigarettes. These people may or may not know that the 'cheap' cigarettes are contraband or counterfeit.

Whilst you are familiar with the terms contraband and/or counterfeit, do you also know contraband or counterfeit cigarettes as 'cheap' cigarettes?

Do you purchase rolling papers, tubes, or both for the purpose of smoking loose tobacco?

When you purchase rolling papers for smoking loose tobacco, what is the once pack size of rolling papers you usually purchase?

What percentage of that pack of rolling papers do you use before the pack is damaged, lost or discarded? (Options provided)

When you purchase tubes for smoking loose tobacco, what is the one pack size of tubes you usually purchase?

What percentage of that pack of tubes do you use before the pack is damaged, lost or discarded? (Options provided)

Have you travelled outside of Australia in the last 6 months?

Did you bring back any manufactured cigarettes or any other tobacco products to bring back to Australia on any of your trips to other countries in the past 6 months?

How many trips in the last 6 months did you make where you purchased manufactured cigarettes or any other tobacco products to bring back to Australia?

For each type of product listed below, indicate how much you brought back into Australia on average per trip? (Options provided)

In which countries did you buy manufactured cigarettes/any other tobacco products?

Did you buy duty free manufactured cigarettes or any tobacco products at the airport or port on your return to Australia after any of your trips to other countries in the last 6 months?

How many trips did you make in the last 6 months where you purchased duty free manufactured cigarettes or any other tobacco products on your return to Australia?

For each type of product, indicate how much you purchased in duty free on average per trip.

In the last 12 months have you received or purchased any manufactured cigarettes or roll your own tobacco that was posted from abroad?

What one type of tobacco product did you receive most recently?

When did you last receive manufactured cigarettes or roll your own tobacco from abroad?

How much did you receive? (Please enter a 0 if you did not receive any of that type of product.)

From which countries were the manufactured cigarettes or roll your own tobacco posted from?

On your most recently received manufactured cigarettes or roll your own tobacco, did you declare it to customs or pay any additional taxes?

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