Important notice

This presentation of key findings (the 'Report') has been prepared by KPMG LLP in the UK ('KPMG UK') for Philip Morris Limited and Imperial Tobacco Australia Limited, described together in this Important Notice and in this Report as the 'Beneficiaries', on the basis set out in a private contract dated 15th July 2019 agreed separately with the Beneficiaries.

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.

This Report has not been designed to benefit anyone except the Beneficiaries. In preparing this Report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we have been aware that others might read this Report.

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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
ABS  Australian Bureau of Statistics
ACIC  Australian Criminal Intelligence Commission (formerly Australian Crime Commission)
ACT  Australian Capital Territory
AIHW  Australian Institute of Health and Welfare
AIT  Anti-I 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 category includes genuine products that are brought into a country in amounts exceeding the personal allowance; in Australia this limit is 25 cigarettes or 25 grams of RYO per person
Counterfeit  Manufactured cigarettes that 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
Domestic cigarettes  Cigarettes that are produced for consumption in Australia
Domestic Illicit Plains  Flows of Illicit White brands that have packaging designed for the domestic Australian market
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
g  Gram
GDP  Gross Domestic Product
GFIS  Global Fiscal Information Solutions
H1  First half of the year i.e. the period from January through June
H2  Second half of the year i.e. the period from July through December
## Glossary

**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. These flows include Domestic Illicit Plains and Illicit Whites (non–domestic)

**Illicit Whites (non-domestic)**  
Flows of Illicit White brands that do not have plain packaging designed for the domestic Australian market

**Inflows**  
Total volume of cigarettes coming into Australia

**ITA**  
Imperial Tobacco Australia

**ITTF**  
Illicit Tobacco Task Force

**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 2018 to 30 June 2019)

**LTM H2**  
Last Twelve Months to the end of December (e.g. 1 January 2019 to 31 December 2019)

**M**  
Million

**MSI**  
MSIntelligence

**ND(L)**  
Non-Domestic Legal is the legitimate tobacco purchased in duty free or abroad within personal allowance limits. Since 1 July 2017, consumers have a limit of 25 cigarettes or 25g of RYO

**Non-domestic cigarettes**  
Cigarettes that are not Australian (i.e. no Australian health warning 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 Stella**  
A study of the illicit cigarette market in the European Union, UK, Norway and Switzerland by KPMG. Formerly the project was called Project SUN

**Outflows**  
Legitimate tobacco purchased in Australia and taken abroad

**RMR**  
Roy Morgan Research

**RSP**  
Retail Selling Price

**RYO**  
Roll Your Own

**TSG**  
Tobacco Stakeholder Group. Formerly known as the Tobacco Industry Forum (TIF)

**TST**  
Tobacco Strike Team

**Tonnes**  
Thousand kilograms

**WHO**  
World Health Organization

**WSPM**  
WSPM Group

**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 that do not bear specific market labelling or duty free labelling

**Y o Y**  
Year on Year
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<th>Page</th>
</tr>
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</table>
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
Executive summary and key findings

Illicit tobacco consumption increased by 6.6 percentage points to 20.7% of total consumption in 2019

1.1 Key messages

Consumption of illicit tobacco products by category and as a percentage of overall consumption, 2007 – 2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Counterfeit</th>
<th>Contraband</th>
<th>Unbranded</th>
<th>Illicit tobacco – % of total consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>1.6</td>
<td>1.8</td>
<td>1.6</td>
<td>8.3%</td>
</tr>
<tr>
<td>2009</td>
<td>1.8</td>
<td>0.2</td>
<td>1.5</td>
<td>9.1%</td>
</tr>
<tr>
<td>2010</td>
<td>0.1</td>
<td>0.4</td>
<td>2.2</td>
<td>12.8%</td>
</tr>
<tr>
<td>2011</td>
<td>0.4</td>
<td>0.1</td>
<td>1.4</td>
<td>12.2%</td>
</tr>
<tr>
<td>2012</td>
<td>2.0</td>
<td>0.1</td>
<td>1.4</td>
<td>11.5%</td>
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<tr>
<td>2013</td>
<td>0.1</td>
<td>1.3</td>
<td>1.4</td>
<td>13.5%</td>
</tr>
<tr>
<td>2014</td>
<td>1.3</td>
<td>1.2</td>
<td>1.4</td>
<td>14.7%</td>
</tr>
<tr>
<td>2015</td>
<td>1.2</td>
<td>0.9</td>
<td>1.4</td>
<td>14.4%</td>
</tr>
<tr>
<td>2016</td>
<td>0.9</td>
<td>1.2</td>
<td>1.4</td>
<td>14.3%</td>
</tr>
<tr>
<td>2017</td>
<td>1.2</td>
<td>1.1</td>
<td>1.1</td>
<td>15.0%</td>
</tr>
<tr>
<td>2018</td>
<td>1.1</td>
<td>0.9</td>
<td>1.0</td>
<td>14.1%</td>
</tr>
<tr>
<td>2019</td>
<td>1.6</td>
<td>3.1</td>
<td>1.4</td>
<td>20.7%</td>
</tr>
</tbody>
</table>

Whilst legal tobacco consumption decreased, illicit tobacco consumption increased

— The total volume of tobacco consumption in Australia in the full year 2019 was 14.9 million kg. The data suggests that an increase in illicit consumption more than offset the decline in legal consumption resulting in a small total consumption increase of 0.8%.

— Consumption of illicit tobacco increased by 47.6%. This represents an increase in the proportion of illicit consumption from 14.1% in 2018 to 20.7% in 2019. This increase is driven by an increase in consumption of all components of illicit tobacco. We note that the Department of Home Affairs reported an increase of 46% in tobacco seized over a similar period.

— If this 3.1 million kg of tobacco had been consumed legally, it would have represented an estimated excise value of AUD3.41 billion.\(^{(c)}\)

Total Contraband volumes have increased over the past year

— Though declining from 53.7% in 2018 to 52.8% of total illicit consumption in 2019, contraband consumption continues to account for the majority of total illicit tobacco consumption. While the proportion of contraband consumption decreased, its absolute consumption has increased from 1.12 million in 2018 to 1.62 million in 2019. Contraband comprises of non-domestic contraband as well as Domestic Illicit Plains and Illicit Whites (non-domestic).

- 2019 saw an increase in both non-domestic contraband (from 7.01% to 10.04% of total consumption) and Domestic Illicit Plains (from 0.75% to 1.19% of total manufactured cigarettes consumed).

- Flows of Chinese, South Korean and Indonesian (including duty free volumes) labelled packs were the largest non-domestic inflows accounting for 25%, 24% and 7% of the total non-domestic flows in 2019 respectively.

— Whilst counterfeit remains a small share of illicit tobacco consumption (0.07m kg or 2.3% of total illicit consumption), it had the highest recorded rate since 2013.\(^{(2)}\)

Additionally, consumption of unbranded tobacco also increased

— Unbranded (or ‘Chop Chop’) consumption accounts for 44.9% of total illicit consumption.

— The volume of unbranded tobacco as a proportion of total consumption increased from 6.3% in 2018 to 9.3% in 2019, an increase of 3.0 percentage points.\(^{(d)}\)

— We note that a single period change in panel composition for the Q4 2018 consumer survey may have resulted in an under-recording of the amount of unbranded consumption for 2018. Therefore, the reported growth in unbranded consumption and total consumption should be considered with that in mind.

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 2019.
\(^{(d)}\) Numbers may not sum due to rounding.

Sources:
\(^{(3)}\) Industry data; see specific report sections for further detail.
\(^{(4)}\) KPMG Analysis.
\(^{(5)}\) IRI scan data, 2019.
1.2 The purpose of this report

Imperial Tobacco Australia Limited (ITA) and Philip Morris Limited (PML) have commissioned KPMG UK to estimate the size of the consumption of illicit tobacco in Australia. Reports are produced 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 2019 report measures the consumption of illicit tobacco in Australia. It reports on events occurring during the twelve month period from January 2019 through December 2019. This 2019 report is produced using a methodology in line 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. In 2018, the reports was funded by Philip Morris International Management. The project was called ‘Project Stella’ in 2019 (formerly known as Project SUN). The study included all 27 European Union Member States (with previous reports covering all member states at that point in time). The project was conducted for the seventh time in 2019, the study also includes the non-EU markets of UK, Norway and Switzerland.
2. Australian tobacco market

2.1 Tobacco consumption in Australia
2.2 Legal tobacco market
Australian 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

<table>
<thead>
<tr>
<th>Tobacco market</th>
<th>Legal</th>
<th>Illicit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufactured cigarettes</td>
<td>Loose tobacco</td>
<td>Manufactured cigarettes</td>
</tr>
<tr>
<td></td>
<td>Contraband</td>
<td>Unbranded tobacco</td>
</tr>
<tr>
<td></td>
<td>Counterfeit</td>
<td>Illicit Whites</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chop Chop</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pre-filled tubes</td>
</tr>
<tr>
<td>Domestic Illicit Plains</td>
<td></td>
<td>Illicit Whites (non-domestic)</td>
</tr>
</tbody>
</table>

Legal tobacco products

There are two main types of legal tobacco products considered in this report (shisha, 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 made using rolling papers or tubes.

As will be shown in Section 5.1, additional legal consumption is possible in the form of non-domestic legal product. The non-domestic legal product 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 products

Illicit tobacco is either grown or produced locally or procured illegally from overseas markets without the payment of customs duties. This tobacco is sold to consumers at lower prices than legal 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. Contraband also includes cigarettes that 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.\(^1\)

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. These flows include Domestic Illicit Plains and Illicit Whites (non-domestic). Domestic Illicit Plains are flows of Illicit White brands that have packaging designed for the domestic Australian market. Illicit White brand flows that do not have plain packaging designed for the domestic Australian market are Illicit Whites (non-domestic).

Illicit Whites cigarettes have been included in our analysis of contraband.

Following the report on the Black Economy Taskforce, in the 2018-19 budget the Australian Government announced a number of measures to combat illicit tobacco trade. We would expect these measures would eliminate the availability of domestic illicit plains. However, as we take a consumption based approach, some of these products could still be sold in channels. We have continued to monitor these flows.

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

The legal and illicit markets are made up of manufactured cigarettes and loose tobacco (cont.)

2.1 Tobacco consumption in Australia (cont.)

Counterfeit

These cigarettes 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) they do not adhere to industry production standards and may pose additional serious health risks. They are also known as fake cigarettes.(1)

Unbranded tobacco

Unbranded tobacco is often sold as finely cut loose leaf tobacco in a range of pack sizes from 30 grams to half kilogram amounts. Although, it has been reported by the industry that recently these products have been sold in quantities as low as 20g.

This product carries no labelling or health warnings and is made in RYO form or inserted into empty cigarette tubes that 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).(1)

The Australian Criminal Intelligence Commission and TSG believe that most unbranded tobacco is imported rather than grown in Australia but there have been increasing seizures of locally grown tobacco, discussed on page 38. It is believed to be sold by retailers and pop up tobacconists in the same way as counterfeit and contraband products.(2)

Sources: (1) Tobacco Industry Stakeholder Group (TISG). TISG is no longer operative.
(2) Legal and Constitutional Affairs Legislation Committee, 23 February 2015.
Australian tobacco market

This year legal domestic sales experienced an accelerated rate of decline.

2.2 Legal tobacco market

2.2.1 Historic legal domestic sales

Figure 2.2.1: Legal domestic sales in Australia, 2008 – 2019

Legal domestic sales volumes (million kg)

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</thead>
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<td>17.6</td>
<td>16.4</td>
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<td>16.0</td>
<td>15.9</td>
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<td>14.2</td>
<td>13.3</td>
<td>12.5</td>
</tr>
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<td>15.0</td>
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</table>

CAGR (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2008 – 2019</th>
<th>2018 – 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufactured cigarettes</td>
<td>(4.8)%</td>
<td>(9.1)%</td>
</tr>
<tr>
<td>Loose tobacco</td>
<td>3.9%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Total market</td>
<td>(3.5)%</td>
<td>(6.9)%</td>
</tr>
</tbody>
</table>

Overall sales of legal domestic tobacco experienced an increased rate of decline of 6.9% between 2018 and 2019; a larger decline compared to the CAGR decline of 3.5% between 2008 and 2019.

The market has been declining steadily since 2009 driven by declining manufactured cigarette sales. Between 2018 and 2019 legal domestic sales of manufactured cigarettes experienced a decline of 9.1%, whereas loose tobacco sales increased by 2.1%. These results are again supported by industry volume data reflecting a decrease in overall sales by manufacturers in the year.

Whilst manufactured cigarette sales volumes have declined at an annual rate of 4.8% since 2008, loose tobacco sales volumes have increased at an annual rate of 3.9%. Current year growth rates continue the ongoing mix shift towards loose tobacco.

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 for further definition.

Sources:
(1) KPMG analysis of IRI (scan) databases.
(3) IRI scan data, 2019

Legal domestic sales for 2013 were based on an analysis of Exchange of Sales data (EOS) and Euromonitor data 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 and industry stakeholders.
Australian tobacco market

British American Tobacco 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, 2019 *(a)(b)*

**Manufactured cigarettes**

- Imperial Tobacco: 28%
- British American Tobacco: 41%
- Philip Morris Limited: 13%
- Others: 2%

**Loose tobacco**

- Imperial Tobacco: 48%
- British American Tobacco: 39%
- Philip Morris Limited: 13%

**Total market: 9.3 million kilograms**

**Total market: 2.5 million kilograms**

**Market share**

The three major tobacco manufacturers have large market shares across both the manufactured cigarette and loose tobacco market in Australia. British American Tobacco has a market share of 41% in manufactured cigarettes, which is the same as 2018 levels.

From 2018 to 2019 the market share of Philip Morris Limited decreased from 29% to 28% while Imperial Tobacco maintained 28% share in 2019, with other manufacturers maintaining a 2% share in 2019. Imperial Tobacco has the largest market share in loose tobacco. British American Tobacco and Philip Morris Limited are the only other major competitors in this market.

Figure 2.2.2b: Market share of manufactured cigarettes by price category, 2007 – 2019 *(2)(3)*

**Price category**

Since 2007, the market share of low priced cigarettes has increased at the expense of medium and high priced cigarettes as people are switching to cheaper cigarettes. This trend has developed further in 2019 as high and medium priced cigarettes lost further market share.

In 2019, the growth in low priced category was primarily driven by an increase in the number of variants of existing brands in Australia rather than new brands entering the market.

Notes:

(a) Data gathered from Aztec – IRI indicates that the three major manufacturers account for approximately 98% of the domestic market of manufactured cigarettes. However, there may be legal imports which might not have been included in this data.

(b) Numbers in the chart may not add to 100% due to rounding.

Sources:

(1) IRI scan data, 2019
(2) KPMG analysis of IRI scan data.
(3) Euromonitor, Tobacco in Australia, July 2019.
2.2.3 Supply and distribution of legal manufactured tobacco in Australia

Figure 2.2.3 Supply chain for legal tobacco products in Australia

No tobacco is grown in Australia for legal commercial sale

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. There are no current licenses for tobacco growing in Australia and therefore no tobacco is legally grown in Australia for any purpose.

Non-domestic legal consumption channel

A small amount of tobacco is imported into Australia by consumers for their own personal consumption. From 1 July 2017, consumers have had a limit of 25 or fewer cigarettes or 25 grams of tobacco products (excluding cigarettes) that can be brought into Australia without paying customs 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 consumers who order tobacco products in other countries through the internet and have it delivered in the mail. Given this low allowance, there is evidence (see detail in Appendix A5) to suggest that non-domestic legal is a small proportion of consumption.

To precisely 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 A5 (p.82).

Sources:
(1) Excise Act 1901 (Cth) s 28.
(3) Customs By-law No. 1700053 (Cth) and Customs By-law No. 1700571 (Cth).
3. Macroeconomic environment

3.1 Macroeconomic context
3.2 Gross Domestic Product
3.3 Unemployment
3.4 Personal Disposable Income
3.5 Consumer Price Index
### Macroeconomic environment

**Australia’s economic growth and unemployment rate are in line with the OECD**

#### 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

Historically, Australia has outperformed the OECD average for GDP growth. Between 2008 and 2019, the economy grew at a compound annual growth-rate (CAGR) of 2.5%. In 2019, GDP growth in Australia was 1.6% in comparison to OECD at 1.7%, falling marginally below the OECD average for the first time since 2010.

In 2019, growth in the Australian economy was slow primarily due to soft consumption growth and reduced housing activity and business investment. Over this period, household consumption growth was weak and household disposable income growth remained subdued.\(^{(1)}\)

#### 3.3 Unemployment

Unemployment in Australia has historically been below the OECD average. From a 2.3% difference in 2013, the gap has disappeared, primarily due to a decline across the OECD. In contrast, Australia has seen marginal reductions over the same period.

The unemployment rate fell in 2019 primarily due to a fall in the underemployment and underutilisation rate. The Reserve Bank of Australia has cut interest rates three times since June 2019 to try to encourage investment and further accelerate hiring in an effort to lift economic growth and curb inflation. Of the net increase in employment during the period, part-time roles constituted the majority compared to full time roles.\(^{(4)(5)}\)

Unemployment rates differ across Australia, with the highest found in Queensland (6.3%). Unemployment is lowest in the Australian Capital Territory where it sits at just 3.2%.\(^{(6)}\)

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**Figure 3.2: Year-on-year GDP Growth, 2008 – 2019\(^{(2)(3)(a)(b)}\)**

**Figure 3.3: Recorded unemployment, 2008 – 2019\(^{(7)(8)}\) (b)(c)**

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**Notes:**

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

(b) 2019 data is based on latest available data estimates.

(c) Some numbers may be marginally different from the 2018 report as the same have been updated using the latest data.

**Sources:**


(2) The Economist Intelligence Unit, GDP at constant prices, accessed December 2019.

(3) OECD, GDP (expenditure approach), accessed December 2019.

(4) Bloomberg, Australian Unemployment Unexpectedly Falls; Currency Gains, December 2019.

(5) ABC, Unemployment rate falls ahead of Christmas as 40,000 jobs added, December 2019.


(7) The Economic Intelligence Unit, recorded unemployment as a percentage of total labour force, assessed December 2019.

(8) OECD, harmonised unemployment rates, assessed December 2019.
### 3.4 Personal Disposable Income (PDI)

Australia has experienced a period of consistently increasing PDI over the past eleven years. PDI per capita increased by a CAGR of 2.8% p.a. between 2008 and 2019.

PDI per capita grew 1.3% between 2018 and 2019. This growth is natural, given falling unemployment rates, where the majority of new roles are in part-time employment.(1) However, the gap between the richest and the poorest population remains quite large, with the top 20% earning six times more than the bottom 20%.(2)

### Figure 3.4: Personal Disposable Income per capita, 2008 – 2019(3)(a)(b)

#### Notes:
- (a) 2019 data is based on latest available estimates.
- (b) Some numbers may be marginally different from 2018 report as the same have been updated using the latest data.

#### Sources:
- (1) ABC, Unemployment rate falls ahead of Christmas as 40,000 jobs added, December 2019.
- (2) OECD Better Life Index, Australia, accessed in January 2020.

### 3.5 Consumer Price Index

Australia’s CPI has grown at a slightly faster pace than the OECD average, rising consistently since 2008. The Australian Bureau of Statistics suggest that inflation growth in the last quarter of 2019 has been driven by increased prices of tobacco (+8.4%), domestic holiday, travel and accommodation (+7.3%), automotive fuel (+4.4%), and fruit (+6.8%).(6)

### Figure 3.5: Consumer Price Index, 2008 – 2019(4)(5)(a)

#### Notes:
- (4) Euromonitor, Index of consumer prices; accessed December 2019.
4. Market landscape and developments

4.1 Tobacco regulation in Australia
4.2 Enforcement landscape
4.3 Recent development of excise duty and tobacco affordability in Australia
4.4 Regional tobacco prices
4.5 Relative price of illicit tobacco
Market landscape and developments

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 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 Intergovernmental Committee on Drugs, National Tobacco Strategy 2012-2018 aimed 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 enacted 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 is detailed in Appendix A5.

WHO Framework Convention on Tobacco Control (FCTC) Australia became a signatory to the FCTC(2) on 5 December 2003. The FCTC entered into force on 27 February 2005. The Conference of the Parties has adopted detailed guidelines for effective implementation of many of the legislative, executive, administrative and other measures required under the FCTC. 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 programs.

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 with effective tobacco control.

WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products

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 53 countries and the European Union. However, Australia is not among the countries that have signed or ratified the AITP. By 27 June 2018, 41 parties had ratified the AITP and it entered into force on 25 September 2018. The first meeting of the parties (MOP) took place in Geneva in October 2018. However, the AITP only binds those parties who have ratified the AITP. As at 5 December 2019, there are 57 parties to the AITP.(3) The Protocol aims at eliminating all forms of illicit trade in tobacco products. It provides tools for preventing illicit trade by securing the supply chain, including by establishing an international tracking and tracing system, by countering illicit trade through dissuasive law enforcement measures and a suite of measures to enable international cooperation.

National Tobacco Strategy

The National Tobacco Strategy 2012-18 was released in January 2013 and now sits as a sub-strategy under the National Drug Strategy 2017-2026. This sub-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 abstinent; 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.

Sources:
(1) Intergovernmental Committee on Drugs, National Tobacco Strategy 2012-2018 (2012).
(4) Tobacco Act 1987 (Vic) s 3B(1)(e) and 3B(3), as inserted by Health Legislation Amendment and Repeal Act 2019 (Vic) s 65.
Market landscape and developments

The tobacco market in Australia is one of the most tightly regulated in the world (cont.)

4.1 Tobacco regulation in Australia (cont.)

5. Strengthen efforts to reduce smoking among 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 supports smokers to quit.

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

Tobacco advertisement regulation

In 1992, the Tobacco Advertising Prohibition Act 1992 (Cth) banned the publication and broadcast of tobacco advertisements.

Subsequent amendments to that legislation have resulted in online tobacco retailers having to display health warnings and comply with restrictions on advertisement wording. All State and Territory laws also ban tobacco advertising and to date continue to expand their tobacco advertising bans. For example, new legislation in Victoria commenced on 23 October 2019 that prohibited indirect advertising by tobacco or e-cigarette manufacturers, specifically the promotion of words or designs that are closely associated with the manufacturer, even if those words or designs do not promote smoking or tobacco products.\(^4\)

Tobacco packaging regulation

The Tobacco Plain Packaging Act 2011 (Cth) made Australia the first country in the world to implement plain packaging of tobacco products. This Act requires that all tobacco products be packaged in the same standard colour packaging (Pantone 448C), bans all marks other than word trademarks on the packaging and only allows differentiation between packaging by the brand and variant names, all printed in Lucida Sans font.

National Tobacco Review\(^5\)

In 2019, the Department of Health undertook a review of its tobacco control legislations in accordance with the Legislation Act 2003 to reassess the purpose and effectiveness of these legislations. The review is applicable to the following legislations:

- Tobacco Advertising Prohibition Act 1992 (TAP Act)
- Tobacco Advertising Prohibition Regulation 1993 (TAP Regulation)
- Tobacco Plain Packaging Act 2011 (TPP Act)
- Tobacco Plain Packaging Regulations 2011 (TPP Regulations).

The department held consultations with various interested stakeholders to assess the pros and cons of the above mentioned legislations in 2019 to suggest amends, if any.

The intention is for the inputs from these consultations will be used to ensure that tobacco control legislations are sufficient to address current and future challenges and achieve the Government’s objectives for Australia in tobacco control.

Sources:
1. Intergovernmental Committee on Drugs, National Tobacco Strategy 2012-2018 (2012).
4. Tobacco Act 1987 (Vic) ss 3B(1)(e) and 3B(3), as inserted by Health Legislation Amendment and Repeal Act 2019 (Vic) s 65.
5. Review of Tobacco Control Legislation – Update, Feedback Updated 30 Jan 2020
A number of regulations have been imposed to reduce smoking in Australia.

**Figure 4.1: Tobacco regulation timeline in Australia, 1992 – 2019**

**National**: Tobacco Advertising Prohibition Act 1992 (Cth) (ban on broadcasting and printing of tobacco adverts).
- 1992

**National**: Ban on smoking in airports nationally.
- 1997

**National**: Government obtains Voluntary Agreement with manufacturers to disclose ingredients in cigarettes.
- 1999

**Northern Territory**: Ban on smoking in public places indoors.
- 2000

**QLD**: Ban on smoking in public places due to the Tobacco and Other Smoking Products Amendment Act 2004 (Qld).
- 2004

**National**: Provisions in the Trade Practices (Consumer Product Information Standards) (Tobacco) Regulations 2004 (Cth) commence requiring 14 graphics, health warnings and messages that cover 30% of the front and 90% of the back of cigarette packets.
- 2005

**State laws**: Laws phasing out tobacco product displays commence in Tasmania and ACT, with other jurisdictions following.
- 2006

**National**: 25% increase in excise in April 2010.
- 2010

**National**: Competition and Consumer (Tobacco) Information Standard 2011 (Cth) introduced requiring larger and more prominent health warnings on packaging.
- 2012

**National**: First of four 12.5% excise increases implemented in December 2013.
- 2013

**QLD**: Ban on smoking on school and health facility land and within five metres outside the boundary of such land.
- 2014

**National**: Second 12.5% excise increase in September 2014.
- 2015

**NSW**: Assent to legislation that regulate the display of e-cigarettes and prohibit the sale of e-cigarettes and accessories to persons under 18.
- 2016

**VIC**: Outdoor smoking bans extended to early education and childcare service premises, outdoor areas of school premises.
- 2017

**NSW**: Ban on smoking in public areas extended to footpaths, streets and public thoroughfares.
- 2018

**WA**: Introduces legislation to ban sales of tobacco extended to fruit and confectionary flavoured cigarettes, packaging and sales by under 18s.
- 2019

**State laws**: Further e-cigarette regulations introduced in VIC, SA and Tas.
- 2020

**National**: Third 12.5% excise increase in September 2015.

**Queensland**: Ban on smoking in public areas extended to facilities including sports, event, health, swimming and education.
- 2016

**National**: Fourth 12.5% excise increase in September 2016.

**ACT**: Ban on smoking in public areas extended to children play spaces managed by ACT Government.
- 2017

**National**: Annual excise increase of 12.5% from 2017 to 2020.
- 2018

**National**: Duty-free limit of 25 cigarettes or 25g of tobacco imposed.
- 2019

**National**: Duty-free limit of 50 cigarettes or 50g of tobacco imposed.
- 2020

**National**: Change in taxation laws from excise charged on weight to excise charged on the number of cigarettes.
- 2020

**NSW**: Smoke-Free Environment Act 2000 (NSW) commences banning smoking in certain public places.
- 2000

**International**: Australia signs FCTC.
- 2003

**International**: FCTC comes into force as an international treaty.
- 2005

**NSW**: Amendment to Tobacco Plain Packaging Act 2012.
- 2012

**State laws**: Ban on display of tobacco products in NSW for specialists.
- 2013

**VIC and NSW**: Ban on smoking and tobacco product use in jails.
- 2014

**National**: Indexation of excise and excise equivalent customs duty charged to AWOTE from CPI from 1 March 2014.
- 2015

**National**: Tobacco plain packaging came into force for retailers on 1 December 2012.
- 2016

**National**: Smoke-free Environment Act 2000 for cigarettes.
- 2017

**National**: Excise increases in excise and excise equivalent customs duty charged to AWOTE from CPI from 1 March 2014.
- 2018

**National**: Duty-free limit of 50 cigarettes or 50g of tobacco imposed.
- 2019

**National**: Tobacco plain packaging came into force for retailers on 1 December 2012.
- 2020

**National**: First increase in loose tobacco duty rates in move to harmonise the rate with the tobacco contained in factory-made cigarettes.
- 2020

**National**: First increase in loose tobacco duty rates in move to harmonise the rate with the tobacco contained in factory-made cigarettes.
- 2021

**National**: Customs (Collecting Tobacco Duties at the Border) Act 2018 enacted prohibiting the warehousing of tobacco products under the Customs Act 1901 (Cth) from 1 July 2019.
- 2019

**NSW**: Amendment to Smoke-Free Environment Act 2000 (NSW) to prohibit the use of e-cigarettes and heat-not-burn tobacco products in places where smoking of tobacco is currently prohibited.
- 2020

**National**: Customs Amendment (Immediate Destruction of Illicit Tobacco) Act 2019 empowering Customs to seize at the border and immediately destroy tobacco products imported without a valid permit.
- 2019

**Keys**: Manufacturer regulation, Smoke-free environment, Retailer regulation, Excise Duty, Inbound traveller allowance, International action.
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 environment laws in Australia are determined by State and Territory parliaments and further fragmented by local council by-laws. The Australian Federal Government enacted legislation to create smoke-free environments in areas within its own jurisdiction, such as airports. (1) From the late 1990s, State and Territory parliaments followed the Commonwealth’s lead and began enacting legislation banning smoking in those places where the States and Territories have jurisdiction over, such as indoor dining areas and bars. (2) This trend of regulating smoking in public spaces has continued. (2)

In South Australia, a ban on smoking in public outdoor dining areas when food is being provided came into effect on 1 July 2016. (3) New laws in the Australian Capital Territory also commenced during 2016 enabling the Australian Capital Territory Government to make declarations of smoke-free public places or events. That Government subsequently declared with effect from 7 September 2016 that all children’s play spaces managed by the Government and from 1 October 2017 certain public transport stops and stations are smoke-free public places. (4)

In New South Wales, the Smoke-free Environment Regulation 2016 (NSW) made footpaths, streets and public thoroughfares smoke-free areas if within 4 metres of certain courtyards or gardens from 1 September 2016.

For Queensland, a large number of new smoking bans commenced on 1 September 2016, extending to major sports facilities, major event facilities, health facilities, school facilities, public swimming facilities, early childhood education and care facilities, residential aged care facilities, government precincts, outdoor pedestrian malls, public transport waiting points, skate parks, and sporting grounds and spectator areas during organised under-age sporting events. The Queensland smoke-free environment amendments also banned smoking in certain parts at almost all national parks and empowered local governments to ban smoking at any outdoor public place not covered by the Queensland State laws. In 2019, Queensland extended its smoking ban at certain government precincts to Government buildings in Bundaberg, Cairns, Maroochydore, Pialba, Rockhampton and Townsville. (5)

New smoke-free laws also took effect from 1 August 2017 in Victoria. These laws ban smoking in outdoor dining areas, food fairs and certain food areas at community and street festivals. (6)

Smoke-free environment laws have traditionally targeted the smoking of tobacco products. By 2019 the laws in New South Wales, Queensland, the Australian Capital Territory, Victoria, Tasmania, the Northern Territory and South Australia extended the concept of ‘smoke’ to include the use of e-cigarettes. This has the consequence of also banning the vaping of e-cigarettes in smoke-free places. Further, while Western Australia has not banned public vaping, its legislation makes it difficult because it prohibits sales of e-cigarettes on the basis they resemble tobacco products. (6)
Market landscape and developments

Whilst regulations governing retailers continue to be tightened, attention has shifted to legislate on the sale of e-cigarettes.

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 that imposed harsher penalties on vendors for selling tobacco products to individuals under 18 years.\(^{(a)}\) South Australia continued this trend with stronger penalties in 2018 by increasing its fine for supplying tobacco products to children.\(^{(1)}\)

Elsewhere, attention has switched to banning persons under the age of 18 from selling tobacco products. The Northern Territory for example imposed such a ban on 1 July 2019 and Western Australia will follow suit from 18 September 2020.\(^{(2)}\) The Northern Territory also in 2018 introduced its Parliament legislation with a similar ban.\(^{(3)}\)

With the exception of Victoria and Queensland, all States and Territories require tobacco retailers to hold a licence.\(^{(b)}\) Licence fees vary between jurisdictions but at their highest are now up to AUD $1,161.54 per annum in Tasmania.\(^{(4)}\)

States and Territories ban retailers from point of sale advertising and the display of tobacco products within stores. New South Wales, South Australia, the Australian Capital Territory, the Northern Territory, Queensland and Tasmania all have legislation in place banning point of sale displays.

Victoria and Western Australia have similar bans, but grant limited exemptions for specialist outlets. However, both those jurisdictions are gradually removing these exemptions. Victoria has started this process by enacting legislation that no longer permits the issue of specialist licenses from 1 April 2014.\(^{(5)}\) In Western Australia, the only permitted displays from 18 March 2019 are tobacco product displays by specialist tobacconists who have been conducting their business since 1 July 2005 or displays of cigars and implements to cut cigars by specialist tobacconists.\(^{(6)}\)

New South Wales, Victoria and Queensland all now prohibit sales of tobacco products from temporary outlets and Western Australia has banned sales of tobacco products at sporting, cultural or other events from 18 March 2019.\(^{(7)(8)}\)

Since 2014, most States and Territories have introduced legislation that extends the regulation of tobacco product sales, advertisements and displays to e-cigarettes and their accessories. Queensland, the Australian Capital Territory, New South Wales, Victoria, Tasmania, South Australia and the Northern Territory have all enacted this type of e-cigarette legislation between 2014 and 2019.\(^{(9)}\)

Western Australia bans the sale of e-cigarettes on the basis they are designed to resemble a tobacco product.\(^{(10)}\) Whilst Queensland banned the display and promotion of e-cigarettes, the sale and supply of the product is allowed.\(^{(11)}\)

Notes: (a) See for example Tobacco Control Act 1990 (WA); Public Health Act 1991 (NSW) and Public Health Amendment (Tobacco) Act 1996 (NSW). (b) License terminology differs by State; for example it is referred to as a retailer identification number in New South Wales.
Sources: (1) Tobacco Products Regulation (E-Cigarettes and Review) Amendment Act 2018 (SA) s 18.
(2) Tobacco Control Act 2002 (NT) s 42A; Tobacco Products Control Amendment Act 2018 (WA) s 4.
(3) Tobacco Control Legislation Amendment Bill 2018 (NT) s 10.
(4) Public Health Act 1997 (Tas) ss 74B and 74F; Public Health (Smoking Product Licence) Regulations 2019 Reg 4 (Tas); Fee Units Act 1997 (Tas) s 5.
(6) Tobacco Products Control Act 2006 (WA) ss 22 and 23.
(7) Public Health (Tobacco) Act 2008 (NSW) s 11(4), Tobacco Act 1987 (Vic) s 15L, Tobacco and Other Smoking Products Act 1998 (Qld) s 13C.
(9) Health and Other Legislation Amendment Act 2014 (Qld); Public Health (Tobacco) Amendment (E-cigarettes)Act 2015 (NSW); Smoke-Free Legislation Amendment Act 2016 (ACT); Tobacco Amendment Act 2016 (Vic); Public Health Amendment (Health Tasmania) Act 2017 (Tas); Tobacco Products Regulation (E-Cigarettes and Review) Amendment Act 2018 (SA); Tobacco Control Legislation Amendment Act 2019 (NT).
(11) Vaping mad Australia, Each Australian State and Territory classes Electronic Cigarettes & Nicotine differently.
4.1 Tobacco regulation in Australia (cont.)

Customs and excise duty increases

Australian excise duty has historically risen with inflation with the exception of a 25% increase in 2010 and a series of eight 12.5% increases starting in December 2013. 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). 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 September 2019, an annual excise increase of 12.5% was implemented for the seventh time. This was in line with the announcement made by the Federal Government in 2013 of increasing excise and customs duty for tobacco products by an additional 12.5% annually for the next four years in addition to the switch to AWOTE. In September 2016, the Federal Parliament enacted legislation adding a further four annual 12.5% customs and excise duty increases for 2017, 2018, 2019 and 2020. As a result of these tax increases, the excise on a pack of cigarettes in Australia has increased by 115% (compounded over the last six years) above the increase of AWOTE.

During 2017, the Federal Parliament enacted legislation seeking to harmonise the duty rate between loose tobacco products and the tobacco contained in factory made cigarettes. The result of these laws is that the currently lower duty rates for loose tobacco will increase over four years so that by 1 September 2020 loose tobacco will have the same duty rate per kilogram as cigarettes containing the average tobacco content rate per stick. This will be achieved by calculating the per kilogram excise and excise-equivalent customs duty rates on the basis that the average tobacco content of a cigarette is 0.7 grams.

Duty free and custom allowances

While the Federal Government has been increasing customs and excise duty, it has also been decreasing duty free and customs allowances. From 1 September 2012, the inbound traveller allowance for tobacco products was reduced from 250g or 250 cigarettes per person to 50g or 50 cigarettes. This further decreased to 25g of loose tobacco (excluding cigarettes) or 25 cigarettes per person from 1 July 2017.

Sources:
(2) Chris Bowen, ‘Government to increase tobacco excise’ (Media Release, No. 015, 1 August 2013).
(3) Customs Tariff Amendment (Tobacco) Act 2016 (Cth) and Excise Tariff Amendment (Tobacco) Act 2016 (Cth).
(4) Customs Tariff Amendment (Tobacco Duty Harmonisation) Act 2017 (Cth) and Excise Tariff Amendment (Tobacco Duty Harmonisation) Act 2017 (Cth).
(6) Customs By-law No. 1228133 (Cth).
(7) Customs By-law No. 1700053 (Cth) and Customs By-Law No. 1700571 (Cth).
(8) Customs Act 1901 (Cth) s 233.
(9) Excise Act 1901 (Cth) s 117.
(10) Explanatory Memorandum to the Excise Amendment (Compliance Improvement) Bill 2000 (Cth) 1.
(13) Excise Amendment (Compliance Improvement) Act 2000 (Cth) s 52.
(14) Explanatory Memorandum, Customs Amendment (Smuggled Tobacco) Bill 2012, [2].
(15) Customs Act 1901 (Cth) s 233BABAD, as inserted by Customs Amendment (Smuggled Tobacco) Act 2012 (Cth) s 3 Schedule 1 item 2.
(16) Explanatory Memorandum to the Customs Amendment (Smuggled Tobacco) Bill 2012, [4].
4.1 Tobacco regulation in Australia (cont.)

Offences for evading customs and excise duty before 2018

From 1901, the smuggling of tobacco products was dealt with by a general smuggling offence.\(^{(8)}\)

Similarly, the *Excise Act 1901 (Cth)* has always prohibited the unlawful possession of excisable goods (including tobacco products) on which excise duty has not been paid.\(^{(9)}\)

On 7 September 2000, the *Excise Amendment (Compliance Improvement) Act 2000 (Cth)* commenced with amendments that were designed to combat the illicit trade in tobacco and that regulated the production, dealing, manufacturing and storage of tobacco and excisable goods.\(^{(10)}\) This amending legislation created offences for possession, moving or selling tobacco products for which excise duty had not been paid.\(^{(11)}\) The amendments also provided offences for possession, moving, buying or selling illicit tobacco seed, leaf or plant.\(^{(12)}\) The offences introduced by the 2000 Amendments generally adopted a 2-tier penalty structure, with a potential 2 year prison term applying where the requisite mental element was satisfied, and a monetary penalty only if the offence was one of strict liability.\(^{(13)}\)

By 2012, the ‘pecuniary penalties’ imposed by the general smuggling offence were no longer considered an ‘effective deterrent’ for illicit tobacco. This was because many of these penalties were not being paid when it came to tobacco smuggling.\(^{(14)}\) On 7 November 2012, a new fault-based criminal offence, specifically targeting tobacco smuggling, commenced.\(^{(15)}\) The new specific tobacco smuggling offence included a penalty of up to 10 years imprisonment, with the Federal Government taking the view that this will ‘provide a strong deterrent to criminals and will demonstrate the seriousness of smuggling acts’.\(^{(16)}\)

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**Sources:**

2. Chris Bowen, ‘Government to increase tobacco excise’ (Media Release, No. 015, 1 August 2013).
3. Customs Tariff Amendment (Tobacco) Act 2016 (Cth) and Excise Tariff Amendment (Tobacco) Act 2016 (Cth).
6. Customs By-law No. 1228133 (Cth).
7. Customs By-law No. 1700053 (Cth) and Customs By-Law No. 1700571 (Cth).
8. Customs Act 1901 (Cth) s 233.
9. Excise Act 1901 (Cth) s 117.
10. Explanatory Memorandum to the Excise Amendment (Compliance Improvement) Bill 2000 (Cth) 1.
14. Explanatory Memorandum, Customs Amendment (Smuggled Tobacco) Bill 2012, [2].
15. Customs Act 1901 (Cth) s 233BABAD, as inserted by Customs Amendment (Smuggled Tobacco) Act 2012 (Cth) s 3 Schedule 1 item 2.
16. Explanatory Memorandum to the Customs Amendment (Smuggled Tobacco) Bill 2012, [4].
Market landscape and developments

The Federal Government has introduced new offences for evading customs or excise duty

4.1 Tobacco regulation in Australia (cont.)

New offences were introduced in 2018 for evading customs or excise duty on tobacco products

On 3 May 2016, the Federal Government announced in the 2016-17 Budget that it would reform the Customs Act 1901 and Excise Act 1901 to provide tiered offences for illicit tobacco. In October 2017, the Black Economy Taskforce called on the Federal Government to enact the tobacco control measures it announced in 2016.(2)

In 2018, the Federal Government duly responded to this call from the Black Economy Taskforce by enacting the Treasury Laws Amendment (Illicit Tobacco Offences) Act 2018 (Cth) and the Customs Amendment (Illicit Tobacco Offences) Act 2018 (Cth).

The Treasury Laws Amendment (Illicit Tobacco Offences) Act 2018 (Cth) commenced on 25 August 2018. It provides tiered prison terms and penalties based on the amount of tobacco involved and on whether the offence is ‘fault-based’ or one of ‘reasonable suspicion’.

In providing these tiered punishments, the Treasury Laws Amendment (Illicit Tobacco Offences) Act 2018 (Cth) introduced new ‘reasonable suspicion’ offences. These apply if it is reasonable to suspect that the accused possesses or has bought or sold illicit tobacco.(3) Matters that satisfy this ‘reasonable suspicion’ requirement include the tobacco being in packaging that does not have health warnings or that is not plain packaging, and the price of the tobacco being less than the sum of duty and GST payable that would apply.(4) The intent with these ‘reasonable suspicion’ offences is to eliminate impediments to illicit tobacco prosecutions by removing the requirements that the prosecutor must prove the origin of the tobacco and prove that duty has not been paid.(5)

The Treasury Laws Amendment (Illicit Tobacco Offences) Act 2018 (Cth) also expanded the fault-based criminal offence regime by criminalising the intentional manufacture or production of illicit tobacco in Australia.(6) In addition, the legislation created new offences for possessing equipment for manufacturing or producing tobacco in Australia and a civil penalty for possessing 2kg of tobacco without documentation indicating how the tobacco was obtained.(7)

The Customs Amendment (Illicit Tobacco Offences) Act 2018 (Cth) commenced on 1 September 2018. It introduced new criminal offences for people who recklessly import, convey or possess illicit tobacco.(8)

The Treasury Laws Amendment (Black Economy Taskforce Measures No. 2) Act 2018 (Cth) with the Excise Tariff Amendment (Collecting Tobacco Duties at Manufacture) Act 2018 (Cth) move the collection of excise duty to the time tobacco products are manufactured in Australia instead of when the products enter home consumption.(9)

In the 2018-19 budget, the Australian Government announced a number of measures to combat the illicit tobacco trade in response to the Final Report by the Black Economy Taskforce

These measures were:(10)

1. Creation of a multi-agency Illicit Tobacco Task Force from 1 July 2018 to increase the dedicated resources for combating illicit tobacco smuggling.
2. Additional resources for the ATO from 1 July 2018 to detect and destroy domestically grown illicit tobacco crops.
3. Collection of tobacco duties and taxes at the border from 1 July 2019 by requiring tobacco importers to pay all duty and tax liabilities upon importation.
4. Introduction of a prohibited import control for tobacco from 1 July 2019 by requiring permits for all tobacco imports.
5. An upgrade of the ATO excise and excise equivalent goods payment systems beginning to replace the outdated paper lodgment system.

Sources:
3. Taxation Administration Act 1953 (Cth) s 3AA Schedule 1 Subdivision 308-A, as inserted by Treasury Laws Amendment (Illicit Tobacco Offences) Act 2018 (Cth) s 3 Schedule 1 item 6.
4. Taxation Administration Act 1953 (Cth) s 3AA Schedule 1 s 308-55, as inserted by Treasury Laws Amendment (Illicit Tobacco Offences) Act 2018 (Cth) s 3 Schedule 1 item 6.
5. Explanatory Memorandum, Treasury Laws Amendment (Illicit Tobacco Offences) Bill 2018, [1.46].
6. Taxation Administration Act 1953 (Cth) s 3AA Schedule 1 Subdivision 308-B, as inserted by Treasury Laws Amendment (Illicit Tobacco Offences) Act 2018 (Cth) s 3 Schedule 1 item 6.
7. Taxation Administration Act 1953 (Cth) s 3AA Schedule 1 Subdivisions 295-B and 308-C, as inserted by Treasury Laws Amendment (Illicit Tobacco Offences) Act 2018 (Cth) s 3 Schedule 1 items 4, 5 and 6.
8. Customs Amendment (Illicit Tobacco Offences) Act 2018 (Cth) s 3 Schedule 1 part 1.
Market landscape and developments

The Federal Government has also changed the point at which tobacco excise is paid

4.1 Tobacco regulation in Australia (cont.)

Moving the taxing point for tobacco product customs and excise duty

The Federal Government legislated the collection of tobacco duties and taxes at the border with the enactment of the Customs Amendment (Collecting Tobacco Duties at the Border) Act 2018 (Cth), the Excise Tariff Amendment (Collecting Tobacco Duties at Manufacture) Act 2018 (Cth) and the Treasury Laws Amendment (Black Economy Taskforce Measures No. 2) Act 2018 (Cth).

The Customs Amendment (Collecting Tobacco Duties at the Border) Act 2018 (Cth) prohibits the warehousing of tobacco products under the Customs Act 1901 (Cth) from 1 July 2019.\(^{(1)}\) Therefore, on and after that date, tobacco importers must pay all duties on the tobacco on its arrival into Australia. Consequently, these importers can no longer defer payment of customs duty by warehousing their tobacco products.

New permit system for importing tobacco products

The Federal Government effected the prohibited import control for tobacco from 1 July 2019 through the Customs (Prohibited Imports) Amendment (Collecting Tobacco Duties) Regulations 2019 (Cth). This Regulation prohibits the importation of tobacco products into Australia without permission.\(^{(2)}\)

That prohibition was strengthened further from 3 October 2019 with the Customs Amendment (Immediate Destruction of Illicit Tobacco) Act 2019 (Cth). This legislation empowers Customs to seize at the border and immediately destroy tobacco products which have been imported without a valid permit.\(^{(3)}\)

Sources: (1) Customs Amendment (Collecting Tobacco Duties at the Border) Act 2018 (Cth) ss 2 and 3 and schedule 1 items 2, 3 and 4.
(2) Customs (Prohibited Imports) Regulations 1956 (Cth), as inserted by Customs (Prohibited Imports) Amendment (Collecting Tobacco Duties) Regulations 2019 (Cth)s 4 sch 1.
(3) Customs Act 1901 (Cth) s 206(2A), as amended by Customs Amendment (Immediate Destruction of Illicit Tobacco) Act 2019 (Cth) 3 sch 1.
4.2 Enforcement landscape

Overview of key enforcement agencies

For years, public authorities have targeted the reduction of illicit tobacco available within the Australian market place. Illicit tobacco remains a highly attractive market for organized crime groups in Australia despite potential imprisonment and a fine of five times the amount of duty evaded. A study by the Australian Institute of Criminology suggests that the estimate of organised crime involvement in the illicit tobacco market is between a low end estimate of 57% and a high end estimate of 100%. Throughout 2019, 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. Some of the key enforcement agencies included:

— Department of Home Affairs – Established on 20th December 2017, the Department of Home Affairs is a central policy agency which provides coordinated strategy and policy leadership for Australia’s national and transport security, federal law enforcement, criminal justice, cyber security, border, immigration, multicultural affairs, emergency management and trade related functions. It includes the entirety of the Department of Immigration and Border Protection (DIBP).

— The Department of Immigration and Border Protection – Responsible both for migration, citizenship and humanitarian protection, and compliance and border security control. The Australian Border Force (ABF) was created to be the operational arm of DIBP and is responsible, amongst other things, for “investigations, compliance and enforcement in relation to illicit goods”. On 1 July 2018, the Illicit Tobacco Taskforce (ITTF) which replaced the Tobacco Strike Team was established to protect Commonwealth revenue by proactively targeting, disrupting and dismantling organised crime syndicates that deal in illicit tobacco.

— The Australian Taxation Office (ATO) – Continues to act in dealing with illegal tobacco in Australia, in particular illegal tobacco growing.

— 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 Criminal Intelligence Commission (ACIC) – Works across international borders to better understand the organised crime environment and discover new threats. This information is used “to stop criminals exploiting emerging opportunities and perceived gaps in law enforcement information”.

With the assistance of Department of Home Affairs, the ITTF and the government’s Illicit Trade and Black Economy Taskforce are pursuing joint efforts in combatting the trade of illicit tobacco, other illicit goods and the black economy in Australia.

The Trident Taskforce, of which ACIC had historically been an active part of, continues to monitor the waterfront for any illicit smuggling activity of all kinds including tobacco. Whilst the Trident Taskforce is active only in Victoria, ACIC is a part of various other taskforces.
Market landscape and developments

4.2 Enforcement landscape (cont.)

The evolution of key enforcement agencies

The DIBP (Department of Immigration and Border Protection) became a fully integrated department effective 1 July 2015. Since 20th December 2017, after the establishment of the Department of Home Affairs, DIBP, in its entirety has been made a part of the Department of Home Affairs.\(^{(1)(a)}\) A key purpose of DIBP is to ‘protect Australia’s border while facilitating trade, travel and migration’.\(^{(2)}\) Tackling the illicit tobacco trade falls within this broader remit. The DIBP engages with both partner countries and industry to collaborate and to assist in ‘managing a border continuum’, specifically before, at and after the border points.\(^{(2)(a)}\)

The 2020 overarching strategic objectives for DIBP are wide ranging and include\(^{(3)(a)}\):

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

The ABF has said that continued and sophisticated attempts are made through illicit tobacco to defraud Australian taxpayers of legitimate revenue, and illicit tobacco continues to be an attractive market for organised criminal syndicates due to lucrative profits attached.\(^{(4)}\) In early 2018 it launched a national awareness campaign to encourage the public to report any suspicious activity in order to support its 6,000 officers across Australia.\(^{(5)}\)

The Tobacco Strike Team (founded October 2015) solely focused on targeting, investigating and prosecuting the serious and organised elements of illicit tobacco trade.

The ABF Strike Team received an additional funding of AUD7.7 million for 2016-2018.\(^{(6)}\) The Department of Home Affairs suggested that the success of the Tobacco Strike Team was pivotal in paving the way for establishing the Illicit Tobacco Task Force, led by ABF, in July 2018.\(^{(7)}\)

Australian authorities are also furthering existing relationships with foreign enforcement agencies to tackle the trade of illicit tobacco, conducting joint border patrols, co-ordinated activities and providing aerial surveillance when requests are received from neighbours and partners.\(^{(2)}\) During 2018-2019, the ABF and ACIC were hosted by Her Majesty’s Revenue and Customs (United Kingdom) to discuss opposing the illicit tobacco trade. ABF officers visited United Kingdom to share operational strategies to promote different approaches to counter transnational illicit tobacco smuggling.\(^{(8)}\)

Note: \(^{(a)}\) DIBP as a department no longer exists. The duties of the department have been subsumed under Department of Home Affairs.

Sources:
1. homeaffairs.gov.au/
2. DIBP Annual Report, 2016-17.
5. psnews, Border Force launches awareness campaign, February 2018.
In addition to the 12.5% annual excise increases each year to 2020, taxation of roll your own tobacco increased to align with taxes on manufactured cigarettes.

### 4.3 Recent development of excise duty and tobacco affordability in Australia

#### Figure 4.3a: Values of tobacco excise and customs duty, Australia, January 2008 – September 2019

The largest excise increase was a 25% increase introduced on 30 April 2010. Annual ad hoc excise increases were applied in December 2013 and then in September each year from 2014 to 2019. Legislative amendments made in 2016 will result in further excise increases of 12.5% per annum in 2020. This increase is over and above the annual indexation linked to AWOTE.

Until 2017-18, the excise equivalence on manufactured cigarettes and loose leaf tobacco were based on the assumption that a cigarette contained 0.8 grams of tobacco, which is now changing to 0.7 grams per cigarette. To maintain the tax equivalence, the excise rate on loose leaf tobacco is being increased. As of September 2017 the increase on loose leaf tobacco rate beyond the regular indexation and previously announced excise increases continues to be implemented across a four year period between 2017 to 2020.

These factors have resulted in the excise on manufactured cigarettes and loose tobacco increasing by 16% and 20% respectively between December 2018 and December 2019.

#### Figure 4.3b: Index of tobacco prices and per capita PDI, Australia, 2008 – 2019

Although PDI per capita has continued to grow, the excise rate increase in 2010, combined with subsequent increases, contributed to tobacco prices increasing at a higher rate than PDI per capita. The increases have 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 2008 values taken as 100.
- (c) The Index of tobacco prices and per capita PDI numbers have been updated as per the latest data available on Euromonitor.

**Sources:**
- (2) Australian Government – Australian Taxation Office, New legislation:
- (3) Customs Tariff Amendment (Tobacco duty harmonisation) Bill 2017.
Market landscape and developments

The AWOTE has continued to grow faster than CPI

4.3 Recent development of excise duty and tobacco affordability in Australia

Figure 4.3c: Comparison between AWOTE and CPI, 2008 – 2019

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.

Between 2008 and 2019, AWOTE grew at a CAGR of 3.4%, whilst CPI grew at a CAGR of 2.1% during the same period. Whilst both CPI and AWOTE have been increasing, AWOTE has grown by 19 percentage points more than CPI since 2008.

Notes:
(a) 2019 AWOTE is based on latest available estimates from Australian Bureau of Statistics, accessed February 2020.
(b) Indexed with 2008 values taken as 100.
(c) The historical numbers have been updated as Euromonitor has changed the Index of tobacco prices.
(d) Numbers in the commentary may not show the same difference as the chart due to rounding.

Sources:
(2) Australian Bureau of Statistics.
Market landscape and developments

Australia has the highest cigarette prices within the Asia Pacific region

4.4 Regional tobacco prices

Figure 4.4: Price of a pack of 20 Marlboro cigarettes – Australia and selected markets, 2019(1)(2)(a)(b)

Australia and New Zealand have much higher cigarette prices than surrounding markets in South East Asia. With the exception of New Zealand and New Caledonia, Australian prices are over 121% higher than any other markets within the region as shown above.

This large price differential between Australia and other nearby markets creates an economic incentive for those involved in the illicit market, although tight border controls seek to limit this.

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) The prices are as of December 2019.
Sources:
(1) Industry data.
(2) GFIS Oct 2019.
Market landscape and developments

The price differential between legal and illicit products has widened in the twelve months to December 2019

4.5 Relative price of illicit tobacco

Figure 4.5.1: Prices of illicit tobacco products and Winfield 25s, June 2013 – December 2019

Data provided by the industry based upon covert enquiries 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, the data will provide some insights into the size and change in the market.

The above figure illustrates how prices have changed for a range of illicit tobacco and a legitimate pack of Winfield 25s. Over the period June 2013 to December 2019, only one illicit tobacco segment exhibited a price increase higher than that of a Winfield 25s pack (124%), which is Chop Chop Loose (157%). Contraband and Chop Chop Tubes (unbranded tobacco sold in pre-rolled tubes) prices also rose over the period, but this increase was relatively smaller at around 95% and 23% respectively.

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

Between December 2018 and December 2019, illicit tobacco prices as a proportion of Winfield 25s fell across contraband and Chop Chop Tubes resulting in an increased price differential between the products. However, the absolute price differential for Chop Chop Loose and Winfield 25s increased only marginally in 2019. This is driven by a higher percentage increase in price of Chop Chop Loose in 2019 as compared to the percentage increase in price of Winfield 25s during the same period.

Notes:
(a) Contraband 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) Illicit tobacco prices are obtained through market place pricing enquiries.
(c) Intelligence led enquiries involve gathering data and information on retail outlets suspected of dealing in illicit tobacco and using it to guide market enquiries. Random enquiries are made without suspicion that illicit tobacco products are available from the outlet.
(d) A pack of Winfield 25s was 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.
(e) Data for Chop Chop loose price for December 2016 is not available.
(f) For the purpose of this analysis Chop Chop loose price for December 2016 has been taken to be the same as that of June 2016, since the price for December 2016 was not available.

Source: (1) Industry intelligence data.
5. Size of the illicit tobacco market

5.1 Estimating the illicit tobacco market
5.2 Illicit tobacco consumption in Australia
5.3 Enforcement context
# 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. Therefore, it is 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, based on results from a consumer survey is used.

The consumption model 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 seven years, which provides more reliable insights into market trends.

We believe this approach provides an estimate of the size of the illicit market in Australia that 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.

### Data sources

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<th>Empty pack surveys</th>
<th>Unbranded Tobacco</th>
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<th>Counterfeit</th>
<th>Domestic consumption</th>
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Note: (a) Definitions for the above sales categories can be found in the glossary on page 3 and page 4.
Size of the illicit tobacco market

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 A10.

Primary approaches

Consumption model

This approach is based on the responses of consumers to the survey conducted by Roy Morgan Research (RMR) in H1 2019 and H2 2019. 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 2019 is based on the average of the H1 2019 and H2 2019 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 2019. Detailed results of the consumer survey are discussed in section 6.

Empty pack survey (EPS)

An EPS is a study undertaken independently by WSPM Group in 2019 who collect 12,000 discarded cigarette packs per survey across 16 different population centres in Australia. Before 2019, the EPS was conducted by MSIntelligence (MSI). The EPS is conducted every six months. The brand and country of origin of each collected pack is assessed by WSPM 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 approximately 74.8% 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 to 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.
Size of the illicit tobacco market

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

5.1 Estimating the illicit tobacco market (cont.)

Since 2012, the empty pack surveys have been jointly commissioned by the industry (BATA, ITA and PML). Before H1 2013, the study was carried out by ACNielsen. Prior to 2019 the empty pack surveys were conducted by MSI. In 2019 the EPS was conducted by WSPM. 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 WSPM are consistent with those used previously by MSI and ACNielsen.

For the purpose of this report, EPS surveys have been conducted by WSPM in Q2 and Q4 2019. The results from these surveys have been used to arrive at an estimate for the illicit manufactured cigarette consumption for 2019. This method is consistent with the approach used by KPMG in Project Stella to assess the level of counterfeit and contraband cigarettes across the EU Member States, UK, Norway and Switzerland. It is a widely accepted method for measuring the illicit market.
5.1 Estimating the illicit tobacco market (cont.)

Means of validation

Seizures data

Seizures data obtained from ABF 2018-19 report shows the total number of detections for illicit tobacco in the year.(1) 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 that 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.

Rolling paper

This analysis was developed to infer the volume of loose tobacco smoked from the quantum of papers sold in Australia. It compared the sales of rolling papers with the legal sales of loose tobacco to estimate a consumption gap between legal and illicit products.

Over the past few years, a continued divergence of results was observed between the output of consumption model and the rolling paper analysis. This suggested either an underestimation from the consumption model or some invalid assumptions in the rolling papers analysis.

Post assessment of the rolling paper analysis conducted last year it was concluded that the approach is no longer appropriate and thus would not be used as a means to validate the results of the consumption model. As a result we have not undertaken rolling papers analysis this year.

Size of the illicit tobacco market – Methodology

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

5.1 Estimating the illicit tobacco market (cont.)

Figure 5.1b: Overview of approach to estimating illicit tobacco

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<th>2. Validation(a)</th>
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</tbody>
</table>

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:** We regard the EPS, conducted in Australia by WSPM, as the most reliable measure of contraband and counterfeit. The methodology is consistent with Project Stella. (b)

   **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

   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.

   As discussed in last year’s report, we have not undertaken the rolling papers analysis as part of the validation process.

Ongoing data source monitoring

We take a forward looking approach to ensure 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 page 56 and 57 of Appendix A1 for details.

Notes:
(a) As discussed in the report last year, we no longer use rolling paper as a validation point.
(b) A study of the illicit cigarette market in the European Union, UK, Norway and Switzerland by KPMG.
Size of the illicit tobacco market

An increase in illicit consumption was partially offset by a fall in legal domestic sales, resulting in a small increase in overall consumption.

5.2 Illicit tobacco consumption in Australia

Figure 5.2a: Consumption of tobacco products by category, 2007 – 2019 (1)(2)(3)(a)(b)(c)(d)(e)

<table>
<thead>
<tr>
<th></th>
<th>2019 kg'000s (d)</th>
<th>% change (2018–2019)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counterfeit</td>
<td>71</td>
<td>80.6%</td>
</tr>
<tr>
<td>Contraband(3)</td>
<td>1,625</td>
<td>45.1%</td>
</tr>
<tr>
<td>Unbranded</td>
<td>1,384</td>
<td>49.3%</td>
</tr>
<tr>
<td>All illicit product</td>
<td>3,080</td>
<td>47.6%</td>
</tr>
<tr>
<td>Non-domestic (legal)</td>
<td>24</td>
<td>13.9%</td>
</tr>
<tr>
<td>Legal domestic sales</td>
<td>11,787</td>
<td>(6.9%)</td>
</tr>
<tr>
<td>Total consumption</td>
<td>14,890</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

The total level of tobacco consumption in Australia was estimated at 14.9 million kg in 2019, of which 3.1 million kg was estimated to be illicit. Our estimate of total consumption represents a rise in volume of 0.8% from 2018. The consumption of illicit tobacco as a proportion of total consumption increased from 14.1% in 2018 to 20.7% in 2019. The growth in consumption of illicit tobacco was driven by increases in both unbranded tobacco and contraband consumption.

Illicit consumption of both unbranded tobacco and manufactured cigarettes increased by 49.3% and 46.3% respectively.

We note that a single period change in panel composition for the Q4 2018 consumer survey may have resulted in an under-recording of the amount of unbranded consumption for 2018. Therefore, the reported growth in unbranded consumption and total consumption should be considered with that in mind.

With a 45.1% volume increase, contraband consumption continues to be the largest component of illicit manufactured cigarette consumption. This increase is driven by both domestic as well as non-domestic illicit consumption. In 2019, non-domestic contraband increased from 7.0% to 10.0% of total consumption whilst the Domestic Illicit Plains increased from 0.75% to 1.19% of all manufactured cigarettes consumed. The volume of non-domestic (legal) product remained small.

Whilst counterfeit volumes increased by 80.6% from 2018 to 2019, it continued to remain a very small component of illicit tobacco consumption (2.3%).

The large increase in illicit consumption is partially offset by a decline in legal domestic sales, resulting in a 0.8% increase in total consumption.

Figure 5.2b: Share of illicit tobacco consumption, 2019 (3)(e)
Size of the illicit tobacco market

Our findings of growth in illicit tobacco activity is supported by a large increase in seizures

5.3 Enforcement context

Evolution of points of entry

The Australian Border Force (ABF) saw a record numbers of international air and sea travellers processed in 2018-19, this included over 633 tonnes of illicit tobacco detected. This represents a 46% increase in the volume of tobacco products seized in 2018-19, as compared to 2017-18.\(^{(1)}\)

According to ACIC, the illegal tobacco trade is dominated by serious and organised criminal syndicates who are attracted by lucrative profits on offer through tax evasion.\(^{(2)}\)

The ABF and other enforcement agencies continue to use other methods of detecting and seizing illicit tobacco. For example, detector dogs are trained and deployed in order to detect tobacco being smuggled through the border.\(^{(3)}\)

ABF, supported by the Illicit Tobacco Taskforce, detected approximately $670 million in revenue evasion on tobacco products in 2018-19. There were also 286,663 detections of illicit tobacco. The Department of Home Affairs suggests that the success of the Tobacco Strike Team was pivotal in paving the way for establishing the Illicit Tobacco Task Force, led by ABF, in July 2018.\(^{(4)}\)

Figure 5.3.1: Overall seizures, 2016-2017 – 2018-2019\(^{(1)(b)(c)}\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Tobacco (tonnes)</th>
<th>2016-17</th>
<th>2017-18</th>
<th>2018-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>57 million illegal cigarettes</td>
<td>358</td>
<td>433</td>
<td>633</td>
</tr>
</tbody>
</table>

Notes: (a) On 1 July 2018, ITTF which replaces the strike team was established.
(b) Total weight of illicit tobacco reported has been reported as stated in Department of Home Affairs Annual Report, 2017-18.
(c) The difference in the total weight of seizures reported in 2015-16 by the Australian Taxation Office for its tobacco tax gap analysis (205 tonnes) and the numbers reported by Department of Home Affairs for 2015-16 in its Annual report 2017-18 could be attributed to difference in methodologies used.

Sources: (1) Department of Home Affairs Annual Report, 2018-19.
(2) Australian Criminal Intelligence Commission, 57 million illegal cigarettes seized in joint operation, July 2018.
(3) Detector Dog Program, Australian Border Forces.

Figure 5.3.2: Key seizures in 2019

Key: Manufactured cigarettes seizure
Loose tobacco seizure
Domestic seizure
Air cargo/mail order seizure

January: Eight acres of illegal tobacco crops valuing more than $9 million were seized and destroyed by the Illicit Tobacco Taskforce (ITTF) in New South Wales.\(^{(5)}\)

February: ABF seized around 1.9 million cigarettes and 12 tonnes of loose leaf tobacco from a container in Sydney and charged an organised criminal syndicate involved in importation and domestic distribution of illicit tobacco in Sydney.\(^{(6)}\)

March: ABF seized a container with 1.8 tonnes of molasses tobacco and 30kg of rough cut tobacco, arriving in Melbourne from Lebanon. Around 1,000kg of molasses tobacco was further recovered from two warehouses in Condell Park and Granville.\(^{(7)}\)

April: ATO seized and destroyed around 34 acres of illicit tobacco with a potential value of more than $18.5 million from raids in Victoria and New South Wales.\(^{(8)}\)

May: ABF charged an Australian man over illegal importation of illicit tobacco after finding more than 70 parcels containing 144,000 cigarettes sent from China to multiple post boxes in Adelaide.\(^{(9)}\)

July/August: ABF seized 123 tonnes of illicit tobacco consisting of 87 tonnes of loose leaf and 47.9 million cigarettes.\(^{(10)}\)

August: ABF arrested two passengers with 7kg of illicit molasses tobacco at Avalon Airport.\(^{(11)}\)

October: More than 1 million cigarettes declared as mini massagers were detected by ITTF in an air cargo shipment from Korea.\(^{(12)}\)

November: ABF seized over 5,000kg of illicit rough-cut tobacco worth over $5.7 million in evaded duty from a shipping container in Melbourne.\(^{(13)}\)

December: ABF seized over 600,000 cigarettes with an estimated evaded duty of more than $0.5 million from air cargo consignments from South Korea.\(^{(14)}\)

The ABF continues to monitor and seize illicit tobacco in Australia. For updates see the ABF and ATO websites

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6. Drivers of results

6.1 Consumer survey overview
6.2 EPS results
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 industry survey, commissioned by the industry (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. 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), previously Computer Assisted Telephone Interviewing (CATI) was used. The H1 2019 survey was carried out between 22 May and 10 June 2019 and the H2 2019 between 28 October and 18 November 2019. Respondents took on average 7 minutes to complete the survey. (1)(b)

Participants in the online research were compensated with points or credits based on the length of the questionnaire. These accumulate over many studies and can then be redeemed for prizes or gift 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 that guide the implementation of rewards for such consumer surveys, and this RMR survey complies with all such regulations nationally.

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)

Roy Morgan Research sampling overview

Consumer survey findings – Consumer survey overview

RMR contacts a panel by email to undertake the survey.
- Differing screening processes for panels may help better identify potential respondents who fit the demographic requirements of the study.
- 47% of those who clicked the survey emailed to them passed the screening and qualified to take part.
- The panel is filtered out with screening questions to enable the required demographics and a representative sample.
- The respondents are broadly representative of Australia’s demographics.
- The survey asks more screening questions about smoking habits and products smoked. This establishes that the panel are regular smokers of manufactured cigarettes and/or RYO.
- 88% of those eligible completed the survey, resulting in 2,121 full responses.

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

<table>
<thead>
<tr>
<th>5,433 started the survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,124 qualified to take part</td>
</tr>
<tr>
<td>2,423 were ‘qualified’ smokers</td>
</tr>
<tr>
<td>2,121 completed the survey(c)</td>
</tr>
</tbody>
</table>

Notes:
(a) Single Source is RMR’s database collected through their Establishment Survey that 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 respondent cannot have done the study in the most recent prior quarter.
(d) The Q4 2016-Q2 2018 figures are an average of Q4 2016, Q2 2017, Q4 2017 and Q2 2018 values.
(e) The Q2 2019-Q4 2019 figures are an average of Q2 2019 and Q4 2019 values.

Source: (1) Roy Morgan Research, Consumer survey, Q4 2016, Q2 2017, Q4 2017, Q2 2018, Q4 2018, Q2 2019 and Q4 2019.
6.1 Consumer survey overview

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 survey 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\(^{(a)}\) distribution of income, occupation and work status of smokers is then used to rim weight\(^{(b)}\) the data. The survey only samples people over 18 years old. Non-private dwellings and institutions, occasional (<5 days per week) and non-smokers are excluded. RMR also uses a one quarter exclusion rule for respondents.\(^{(c)}\)

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).

Consumption model output for 2018

In Q4 2018 RMR supplemented the consumer survey with an additional panel in order to meet the targeted number of respondents. The Q4 2018 sample had a higher percentage of manufactured tobacco users as compared to prior surveys (i.e. 84.1% in Q4 2018, as compared to an average of 79.2% in the period Q2 2019-Q4 2019 and an average of 83.3% in the period Q4 2016-Q2 2018).

As a result, the Q4 2018 survey also had a lower percentage of RYO users as compared to other surveys (i.e. 43.2% in Q4 2018, as compared to an average of 46.8% in the period Q2 2019-Q4 2019 and an average of 44.8% in the period Q4 2016 to Q2 2018)\(^{(d)}\).\(^{(e)}\)

The potential impact on the 2018 results is that it could lead to a relatively lower recorded rate of awareness, frequency of purchase per annum, penetration of use and average volume purchased of unbranded tobacco as may have been expected on a like for like basis.

As a result, our estimates for unbranded consumption in 2018 illicit unbranded consumption could be underreported on a like for like basis.

If this is correct then the growth rate in estimated unbranded consumption between 2019 and 2018 would be overstated and so should be treated with caution.

### Table 6.1.2 Factors impacting consumption of illicit unbranded tobacco, Q4 2016-Q2 2018, Q4 2018, Q2 2019-Q4 2019\(^{(1)}\)\(^{(d)}\)\(^{(e)}\)

<table>
<thead>
<tr>
<th></th>
<th>Q4 2016-Q2 2018</th>
<th>Q4 2018</th>
<th>Q2 2019-Q4 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness of unbranded tobacco</td>
<td>51.0%</td>
<td>44.1%</td>
<td>50.2%</td>
</tr>
<tr>
<td>Average frequency of purchase per annum</td>
<td>13</td>
<td>10</td>
<td>16</td>
</tr>
<tr>
<td>Average volume purchased (kg) per occasion</td>
<td>0.19</td>
<td>0.15</td>
<td>0.18</td>
</tr>
<tr>
<td>Proportion of respondents who reported purchasing illicit unbranded tobacco</td>
<td>20.3%</td>
<td>18.8%</td>
<td>20.2%</td>
</tr>
</tbody>
</table>

Notes:
- \(^{(a)}\) Single Source is RMR’s database collected through their Establishment Survey that 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 predetermined totals. It weights specified characteristics simultaneously and disturbs each variable as little as possible.
- \(^{(c)}\) The respondent cannot have done the study in the most recent prior quarter.
- \(^{(d)}\) The Q4 2016-Q2 2018 figures are an average of Q4 2016, Q2 2017, Q4 2017 and Q2 2018 values.
- \(^{(e)}\) The Q2 2019-Q4 2019 figures are an average of Q2 2019 and Q4 2019 values.

Source: \(^{(1)}\) Roy Morgan Research, Consumer survey, Q4 2016, Q2 2017, Q4 2017, Q2 2018, Q4 2018, Q2 2019 and Q4 2019.
Drivers of results

The increase in unbranded tobacco consumption was driven by the rise in quantity and frequency of purchase.

6.1.3 Purchasers of illicit unbranded tobacco

Figure 6.1.3a: Proportion of respondents who reported purchasing illicit unbranded tobacco, 2012 – H2 2019(1)(2)(a)(b)(c)

In H2 2019 the proportion of respondents purchasing unbranded tobacco, as per the RMR consumer survey, remained constant as compared to H1 2019. The average volume purchase per occasion showed a marginal decline but remained in the vicinity of 0.18 kg per occasion (below). Further, the average frequency of purchase increased from 15 to 17 (below). These trends resulted in the average annual volume per consumer increasing from 2.78 kg in H1 2019 to 2.95 kg in H2 2019, an increase of 6.2%.

The consumption model number for total unbranded volumes is based on the average of the two consumer survey results in that twelve month period. Both average frequency of purchase and average purchase volumes were higher in 2019 than in 2018. As a result, overall unbranded volumes increased from 0.93 million kg in 2018 to 1.38 million kg in 2019.

Figure 6.1.3b: Average frequency of purchase per annum, 2012 – H2 2019(1)(2)(a)(b)(c)

Figure 6.1.3c: Average volume purchased (kg) per occasion, 2012 – H2 2019(1)(2)(a)(b)(c)

(b) Due to a single period change in the Q4 2018 panel composition, we believe there may be some underreporting of unbranded consumption on a like for like basis.
(c) Length of bars which indicate the exact same values might not match due to rounding till two decimal points.

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

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

6.2 EPS results

6.2.1 Australian EPS sampling plan\(^{(1)(2)(3)}\)

The EPS analyses discarded cigarette packets that have been collected from a set area. The aim is to collect a representative sample of discarded cigarette packets that 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 in the sampling plan.\(^{(b)}\)

For the purpose of this report, an EPS was carried out by an independent market research agency, WSPM across October-November 2019. The Q2 and Q4 2019 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 74.8% of the total population as shown in Figure 6.2.1.

Table 6.2.1 Q4 2019 EPS sampling plan:

<table>
<thead>
<tr>
<th>Population centres</th>
<th>Population (million) 2018 estimate(^{(3)(4)})</th>
<th>Number of sampled neighbourhoods</th>
<th>Sample packs</th>
<th>Weighted packs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney</td>
<td>4.8</td>
<td>40</td>
<td>3,000</td>
<td>3,253</td>
</tr>
<tr>
<td>Melbourne</td>
<td>4.8</td>
<td>40</td>
<td>2,500</td>
<td>2,959</td>
</tr>
<tr>
<td>Brisbane</td>
<td>2.4</td>
<td>30</td>
<td>1,200</td>
<td>1,526</td>
</tr>
<tr>
<td>Perth</td>
<td>2.0</td>
<td>30</td>
<td>1,000</td>
<td>1,322</td>
</tr>
<tr>
<td>Adelaide</td>
<td>1.3</td>
<td>25</td>
<td>800</td>
<td>890</td>
</tr>
<tr>
<td>Gold Coast – Tweed Heads</td>
<td>0.7</td>
<td>13</td>
<td>400</td>
<td>412</td>
</tr>
<tr>
<td>Newcastle</td>
<td>0.5</td>
<td>13</td>
<td>400</td>
<td>292</td>
</tr>
<tr>
<td>Canberra – Queanbeyan</td>
<td>0.5</td>
<td>10</td>
<td>300</td>
<td>287</td>
</tr>
<tr>
<td>Sunshine Coast</td>
<td>0.3</td>
<td>10</td>
<td>300</td>
<td>199</td>
</tr>
<tr>
<td>Wollongong</td>
<td>0.3</td>
<td>10</td>
<td>300</td>
<td>197</td>
</tr>
<tr>
<td>Hobart</td>
<td>0.2</td>
<td>10</td>
<td>300</td>
<td>151</td>
</tr>
<tr>
<td>Geelong</td>
<td>0.3</td>
<td>10</td>
<td>300</td>
<td>125</td>
</tr>
<tr>
<td>Townsville</td>
<td>0.2</td>
<td>10</td>
<td>300</td>
<td>120</td>
</tr>
<tr>
<td>Cairns</td>
<td>0.2</td>
<td>10</td>
<td>300</td>
<td>99</td>
</tr>
<tr>
<td>Darwin</td>
<td>0.1</td>
<td>10</td>
<td>300</td>
<td>92</td>
</tr>
<tr>
<td>Toowoomba</td>
<td>0.1</td>
<td>10</td>
<td>300</td>
<td>77</td>
</tr>
<tr>
<td><strong>Total sample</strong></td>
<td><strong>18.7</strong></td>
<td><strong>281</strong></td>
<td><strong>12,000</strong></td>
<td><strong>12,000</strong></td>
</tr>
</tbody>
</table>

Notes:
\(^{(a)}\) The results are revised estimates for 2018 as on 27th March, 2019.
\(^{(b)}\) In 2019, there were changes in the type of bins in Australia in some of the major cities. The new ‘smart’ locked bins made it difficult for the provider to collect the discarded packs and a change in the sample for number of packs collected from bins and streets was observed. The provider has said that this has had no impact on the survey result and methodology is consistent with those of previous surveys.

Sources:
\(^{(1)}\) WSPM, empty pack survey, Q2 2019 and Q4 2019.
\(^{(2)}\) MS Intelligence Research, Empty Pack Survey, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015, Q4 2015, Q2 2016, Q4 2016, Q2 2017, Q4 2017, Q2 2018 and Q4 2018.
\(^{(3)}\) Australian Bureau of Statistics.
Drivers of results

The growth in non-domestic incidence was driven by increases in 13 out of 16 population centres.

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

Figure 6.2.2a: Total non-domestic incidence by population centre, Q4 2018 – Q4 2019

The Q4 2019 empty pack survey found non-domestic packs in all population centres sampled.

Non-domestic incidence stood 4.2 percentage points higher in the 4 major population centres at 16.7%, as compared to other population centres at 12.5%.

In Q4 2019, weighted non-domestic incidence increased by 6.2 percentage points in the four largest population centres of Sydney, Melbourne, Brisbane and Perth. However, weighted non-domestic incidence increased only by 1.4 percentage points in the other population centres over the same period.

More than 80% of the areas experienced an increase in non-domestic incidence over the period Q4 2018 – Q4 2019. The ND incidence rate observed peaked in Q4 2019 and is the highest since 2009. The overall increase in Australia’s total non-domestic incidence by 3.9 percentage points was driven by a rise in non-domestic incidence in all major population centres.

In Q4 2019 and Q2 2019, Sydney had the highest level of non-domestic incidence, whilst non-domestic incidence had been highest in Adelaide in Q4 2018. Sydney’s share of the total non-domestic cigarettes collected in Australia increased from 30.4% in Q4 2018 to 34.1% in Q4 2019.

Sources:
(1) WSPM, empty pack survey, Q4 2019.
(2) MS Intelligence Research, Empty Pack Survey, Q4 2018.
Drivers of results

Recent increases in non-domestic incidence have been due primarily to an increase in flows of the top six non-domestic brands.

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

Figure 6.2.3: Total non-domestic incidence by brand flows as a percentage of total manufactured cigarette consumption Q4 2009 – Q4 2019

A blended approach, assigning equal weighting to the Q2 2019 and Q4 2019 EPS, has been used to estimate the size of the illicit manufactured cigarette consumption volume for 2019. As highlighted earlier, using the blended method is consistent with the approach used by KPMG in Project Stella undertaken by KPMG to assess the level of counterfeit and contraband cigarettes across the EU Member States, UK, Norway and Switzerland. A blended approach gives a more accurate view of 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 15.6% in Q4 2019 from 13.6% in Q2 2019. When both survey results are combined, it gives a total non-domestic incidence of 14.6%, an increase of 4.9 percentage points from 2018 (9.7%).

The share of Illicit Whites (non-domestic) brands flows of non-domestic manufactured cigarettes consumption was 0.4% in 2019, representing an increase of 0.2 percentage points from the 2018 figure (0.2%). The levels of Illicit White (non-domestic) brand flows continue to remain below the peak of 1.8% experienced in Q4 2013.

All top six brands have shown an increase in non-domestic incidence between 2018 and 2019. The increase is driven primarily by flows of Esse, Dunhill and Double Happiness which have witnessed a growth of 1.3, 0.8 and 0.6 percentage points respectively from 2018.

In 2019, non-domestic flows from 39 new brands entered the Australian market.

Notes:
(a) Our definition of Illicit Whites (see the glossary) was updated in 2014.
(b) The 2019 figures are based on the blended result of the Q2 2019 and the Q4 2019 EPS using the weighted number of cigarettes.
(c) Numbers in the above chart may not sum due to rounding.
(d) Some of the labels with values less than 0.4% have been removed for clarity purposes.

Sources:
(1) WSPM, empty pack survey, Q2 2019 and Q4 2019.
(2) MSIntelligence Research, Empty Pack Survey, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015, Q4 2015, Q2 2016, Q4 2016, Q2 2017, Q4 2017, Q2 2018 and Q4 2018.
Drivers of results

Non-domestic incidence for all top five countries of origin increased by more than 0.5 percentage points in 2019

6.2.4 Australian EPS results – Non-domestic incidence by 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 2019

Asian countries were the primary source of inflows of non-domestic manufactured products into Australia, with high levels of duty free products also present. China (including China duty free) remains the largest individual source country for non-domestic manufactured cigarette flows in both the Q2 2019 EPS (accounting for over 30% of all non-domestic flows) and the Q4 2019 EPS (accounting for over 20% of all non-domestic flows). The share of Chinese inflows has increased by 1.2 percentage points from 2.1% of total incidence in 2018 to 3.3% in 2018. These Chinese non-domestic flows are predominantly flows of brands trademark owned by China National (59% of the total inflows from China).

South Korea comprises the second largest flow of products from any individual country (excluding Duty Free products), followed by flows from Indonesia. Marlboro, the largest non-domestic brand flow to enter Australia, originates from over 40 countries with the largest share of flows continuing to originate from Indonesia at 0.6%.

Flows of non-domestic manufactured cigarettes with unspecified labelling remained a noteworthy component of non-domestic inflows in both the Q2 and Q4 2019 EPS with an annual share of 2.4% of total incidence. This share has increased from around 0.6% in 2018 and has crossed the 2% mark for the first time since 2013, with 14% of the unspecified flows accounted for within the Illicit White brand flows category.

Notes:
(a) The 2019 figures are based on the blended result of the Q2 2019 and the Q4 2019 EPS using the weighted number of cigarettes.
(b) Numbers in the above chart may not sum due to rounding.
(c) Some of the labels with value less than 0.3% have been removed for clarity.
(d) The flows exclude the Duty Free products.

Sources:
(1) WSPM, empty pack survey, Q2 2019 and Q4 2019.
(2) MSIntelligence Research, Empty Pack Survey, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015 and Q4 2015, Q2 2016, Q4 2016, Q2 2017, Q4 2017, Q2 2018 and Q4 2018.

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Document Classification: KPMG Public
Drivers of results

The increase in non-domestic flows were driven by increased flows from a wider range of trademark owners

6.2.5 Australian EPS results – Non-domestic incidence by trademark owner flows

Figure 6.2.5: Total non-domestic incidence by trademark owner flows as a percentage of total manufactured cigarette consumption Q4 2009 – Q4 2019(1)(2)(3)(a)(b)(c)

The increase in non-domestic flows were driven by increased flows from a wider range of trademark owners.

Flows of brands that the EPS suggests are trademarks owned by either Philip Morris International (PMI) or Korea Tobacco (KT&G) accounted for around 40% of all non-domestic packs found in Australia in Q4 2019 EPS. Brands trademark owned by China National were the third largest inflow, representing 2.3% of total incidence in 2019 survey, with an increase of 0.7 percentage points from the 2018 survey (1.6%).

This growth in non-domestic incidence was primarily driven by flows of products trademark owned by KT & G (1.6pp increase between 2018 and 2019), China National (0.7pp) and BAT (0.5pp increase) and a proliferation of other newer trademark owners entering Australia in 2019.

Notes:
(a) The 2019 figures are based on the blended result of the Q2 2019 and the Q4 2019 EPS using the weighted number of cigarettes.
(b) Numbers in the above chart may not sum due to rounding.
(c) Some of the labels with value less than 0.3% have been removed for clarity.

Sources:
(1) WSPM, empty pack survey, Q2 2019 and Q4 2019.
(2) MSIntelligence Research, Empty Pack Survey, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015 and Q4 2015, Q2 2016, Q4 2016, Q2 2017, Q4 2017, Q2 2018 and Q4 2018.
Drivers of results

Counterfeit flows incidence increased by 0.3 percentage points from 2018 to reach 0.65%

6.2.6 Australian EPS results – Counterfeit flows

Figure 6.2.6: Counterfeit flows incidence as a percentage of total manufactured cigarette consumption Q2 2012 – Q4 2019(1)(2)(3)(a)(b)(c)(d)(e)

Whilst remaining a small proportion of the EPS findings, counterfeit incidence almost doubled as it increased by 0.31 percentage points from 0.35% in 2018 to 0.65% in 2019.(d) The counterfeit incidence in 2019 peaked since 2013 levels, where total counterfeit incidence was 0.97%.

The counterfeit brands in 2019 were Craven A, Lambert & Butler and Marlboro. Marlboro accounted for 90% of all counterfeit volumes.

Notes: (a) Counterfeit incidence is not available for 2009, 2010 and 2011.
(b) The counterfeit volume is reported from manufacturers participating in EPS: BATA, ITA and PML. No other counterfeit is included in the volumes reported due to lack of information.
(c) The full year 2019 figures are based on the blended result of the Q2 2019 and Q4 2019 EPS.
(d) Numbers may not sum due to rounding.
(e) Some of the labels with value less than 0.01% have been removed for clarity.

Sources: (1) WSPM, empty pack survey, Q2 2019 and Q4 2019.
(2) MSIntelligence Research, Empty Pack Survey, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015, Q4 2015, Q2 2016, Q4 2016, Q2 2017, Q4 2017, Q2 2018 and Q4 2018.
(3) AC Nielsen, empty pack survey, 2012.
Drivers of results

In 2019, there was an increase in the flows of both Domestic Illicit Plains and Illicit Whites (non-domestic)

6.2.7 Australian EPS results – Illicit Whites brand flows

Figure 6.2.7: Consumption of Illicit White flows as a percentage of total manufactured cigarette consumption 2012 – 2019(1)(2)(3)(a)(b)(c)(d)(e)(f)

In 2019, there was an increase in the flows of both Domestic Illicit Plains and Illicit Whites (non-domestic), an increase from the 0.22% of consumption identified in the 2018 EPS.

In the 2018 results, eight brands contributed to non-domestic Illicit White flows, in contrast to the 23 brands identified as Illicit Whites (non-domestic) in 2019. This increase in number of brands, flows for which are identified as non-domestic Illicit Whites, contributed to the increase in volumes.

Whilst the number of brands identified as Domestic Illicit Whites decreased in 2019, the overall flows increased during the same period.

The analysis showed that flows of Domestic Illicit Plains increased from 0.75% of all manufactured cigarettes consumed in 2018 to 1.19% of manufactured cigarette consumption in 2019. The increase in Domestic Illicit Plains is driven by large flows from one Domestic Illicit Plain brand, which makes up 85% of all Domestic Illicit Plain flows in 2019.

Following the report on the Black Economy Taskforce, in the 2018-19 budget the Australian Government announced a number of measures to combat illicit tobacco trade. We would expect these measures would eliminate the availability of domestic illicit plains. However, as we take a consumption based approach, some of these products could still be sold in channels. We have continued to monitor these 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 2017 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) The share of Illicit Whites flows is calculated based on the number of sticks, however, in the H1 2013 report the share of Illicit Whites brand flows was calculated based on weighted packs. The share of Illicit Whites flows when calculated based on weighted packs would have been: 0.5% 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, 1.4% in Q4 2015, 1.0% in Q2 2016, 2.2% in Q4 2016, 4.3% in Q2 2017, 1.5% in Q4 2017, 0.42% in Q2 2018, 0.85% in Q4 2018, 1.70% in Q2 2019 and 2.07% in Q4 2019.
(d) The overall year figures are based on the blended result of the Q2 and the Q4 EPS.
(e) Numbers in the above charts may not sum due to rounding.
(f) This analysis was undertaken by KPMG in conjunction with the main industry participants (ITA and PML as well as BATA). From 2016, KPMG started making a distinction between Domestic Illicit Plains and Illicit Whites (non-domestic) brand flows whilst only non-domestic flows were taken into account in previous reports. Retrospectively, Domestic Illicit Plain flows in 2015 were analysed as well.

Sources:
(1) WSPM, empty pack survey, Q2 2019 and Q4 2019.
(2) MSIntelligence Research, Empty Pack Survey, Q2 2013, Q4 2013, Q4 2014, Q2 2016, Q4 2016, Q2 2017, Q4 2017, Q2 2018 and Q4 2018.
(3) AC Nielsen, empty pack survey, 2012.
7. Conclusion
Conclusion

Whilst volume of overall tobacco consumption increased by a small margin, the proportion of illicit tobacco consumption increased sharply between 2018 and 2019

<table>
<thead>
<tr>
<th>2018 and 2019 results (kg ’000)</th>
<th>2018</th>
<th>2019</th>
<th>% change (2018 – 2019)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I illicit manufactured cigarettes</td>
<td>Contraband(a)</td>
<td>1,120</td>
<td>1,625</td>
</tr>
<tr>
<td></td>
<td>Counterfeit</td>
<td>39</td>
<td>71</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1,160</td>
<td>1,696</td>
</tr>
<tr>
<td>Unbranded tobacco</td>
<td>927(b)</td>
<td>1,384</td>
<td>49.3%</td>
</tr>
<tr>
<td>Total illicit tobacco</td>
<td>2,087</td>
<td>3,080</td>
<td>47.6%</td>
</tr>
<tr>
<td>Illicit tobacco consumption as % of total consumption</td>
<td>14.1%</td>
<td>20.7%</td>
<td>n/a</td>
</tr>
<tr>
<td>Equivalent excise value (AUDm)</td>
<td>AUD2,019</td>
<td>AUD3,413</td>
<td>69.0%</td>
</tr>
</tbody>
</table>

The illicit tobacco market in Australia

Our study indicates that the consumption of illicit tobacco in Australia has increased in 2019. As a proportion of total consumption, it has increased from 14.1% to 20.7% between full year 2018 and 2019. A study by the Australian Institute of Criminology suggests a large proportion of this will be due to organised crime. It suggests organised crime involvement in the illicit tobacco market in Australia is between a low estimate of 57% and a high end estimate of 100%.(1)

Illicit manufactured cigarette consumption increased in 2019. China (including China duty free) continues to be the largest country of origin of non-domestic flows in 2019, accounting for 25% of total non-domestic inflows.

Over the last twelve months, the consumption of unbranded, counterfeit and contraband tobacco have all increased. This increase in consumption of contraband tobacco follows from the increase in the flows of both non-domestic contraband and Domestic Illicit Plains, by 44.4% and 53.4% respectively between 2018 and 2019. The share of contraband cigarettes in total illicit tobacco consumption decreased from 54% to 53% over the twelve month period.

We note that a single period change in panel composition for the Q4 2018 consumer survey may have resulted in an under-recording of the amount of unbranded consumption for 2018. Therefore, the growth in unbranded consumption and total consumption should be treated with caution as it may be overstated.

If all of this tobacco had been consumed in the legitimate market, we estimate it would have represented an excise amount of AUD3.41 billion at the average excise rate for 2019.(2)

The legal tobacco market in Australia

Legal domestic sales in Australia declined substantially in 2019 (a 6.9% decline). The decline was driven by a 9.1% reduction in manufactured cigarette consumption. Whilst the manufactured cigarettes category experienced a decline, the consumption of loose tobacco increased by 2.1%. This decline in total legal domestic sales partially offset the increase in overall illicit tobacco consumption, resulting in an increase in total consumption of 0.8% in 2019.

The Australian market remains the most expensive market in the region. A packet of Marlboro 20s is 10.9% more expensive than in New Zealand; the second most expensive market.

Flows from China and South Korea represent the largest non-domestic inflows in 2019 and a packet of Australian Marlboro 20s is over six 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.

Note:
(a) Contraband includes non-domestic contraband as well as volumes of Illicit Whites (non-domestic) and Domestic Illicit Plains.
Sources:
(1) Estimating the cost of serious and organised crime in Australia 2016-17, Australian Institute of Criminology.
(2) Based upon the average excise rate over the past 12 months for both loose and manufactured cigarettes.
Appendices

A1  Consumption model
A2  Use of smoking prevalence data and updated results
A3  EPS Analysis
A4  Recent regulatory changes
A5  Non-domestic legal calculation
A6  Illicit Whites flows analysis
A7  Notes to this report
A10 Scope of work
A11 Roy Morgan Research questionnaire
A12 Bibliography
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 2019 is based on the average of the H1 2019 and H2 2019 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 2019 and H2 2019, consumer survey results will provide a more accurate number for 2019 consumption.

The consumer survey

The consumption model was based on the responses of 2,121 smokers in Australia to a CAWI web based consumer survey in H2 2019 and a further 2,128 in H1 2019. 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, 2014, 2015, 2016, 2017 and 2018.

The surveys were conducted in May-June and October-November 2019 and took on average of 7 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 used as one tool to form a view on the loose tobacco 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 2.38 million. This assumption is based on AIHW data(1) updated for the decline in smoking population numbers since the last official estimate.(d) Figures for the Australian Institute of Health and Welfare are taken from the National Drug Strategy Household Survey, 2007, 2010, 2013 and 2016. AIHW will publish updated smoking prevalence for 2019 next year. The 2020 study for ‘Illicit Tobacco in Australia’ would restate the prevalence data for 2019.
Appendix

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.

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 2019 consumption model process and relevant data sources are shown in detail overleaf.

Table A1.1 Consumption model data sources and process

<table>
<thead>
<tr>
<th>Consumption model inputs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity of illicit tobacco purchased per occasion (g)</td>
<td>1</td>
</tr>
<tr>
<td>Frequency of illicit tobacco purchased per annum</td>
<td>2</td>
</tr>
<tr>
<td>Quantity of illicit tobacco purchased per annum (g)</td>
<td>3</td>
</tr>
<tr>
<td>Total adult smoking population (‘000)</td>
<td>4</td>
</tr>
<tr>
<td>Illicit tobacco users as % of Australia tobacco users</td>
<td>5</td>
</tr>
<tr>
<td>Number of illicit tobacco users, Australia ('000)</td>
<td>6</td>
</tr>
<tr>
<td>Quantity of illicit tobacco purchased in Australia (tonnes)</td>
<td>7</td>
</tr>
</tbody>
</table>

Notes: (a) Numbers in the above table may not sum due to rounding.
Sources: (1) Roy Morgan Research, Consumer survey, H1 2019 and H2 2019.
(2) KPMG analysis.
Appendix

Total consumption of unbranded tobacco increased between 2018 and 2019

A1 Consumption model (cont.)

Figure A1.2: Consumption model results, Full Year 2019(1)(2)(a)

<table>
<thead>
<tr>
<th></th>
<th>Unbranded</th>
<th>Q2 2019</th>
<th>Q4 2019</th>
<th>Blended</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Quantity of illicit tobacco purchased per occasion (g)</td>
<td>185</td>
<td>176</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Frequency of illicit tobacco purchased per annum</td>
<td>15</td>
<td>17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Quantity of illicit tobacco purchased per annum (g)</td>
<td>(1 \times 2)</td>
<td>2,781</td>
<td>2,954</td>
<td></td>
</tr>
<tr>
<td>4 Total adult smoking population (’000)</td>
<td>2,388</td>
<td>2,388</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Illicit tobacco users as % of Australian tobacco users</td>
<td>20.2%</td>
<td>20.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Number of illicit tobacco users, Australia (’000)</td>
<td>(4 \times 5)</td>
<td>482</td>
<td>483</td>
<td></td>
</tr>
<tr>
<td>7 Quantity of illicit tobacco purchased in Australia (tonnes)</td>
<td>(3 \times 6)</td>
<td>1,341</td>
<td>1,426</td>
<td>1,384</td>
</tr>
</tbody>
</table>

The consumption model is used to estimate the size of the unbranded tobacco market.

For the purpose of this report, the Full Year 2019 estimate of unbranded consumption volume is based on the average of the H1 2019 and H2 2019 consumer surveys. The net result of this approach is 1,384 tonnes for the Full Year 2019.

We believe that consumers are likely to give a more accurate estimate of their recent purchase behaviour rather than that of the entire last twelve months. Therefore, using an average of the H1 2019 and H2 2019 consumption model results should provide a more robust number for the Full Year 2019.

The total consumption of unbranded tobacco increased by an estimated 49% in 2019, from approximately 927 tonnes in 2018 to 1,384 tonnes in 2019. This increase is driven by an increase in most major drivers, particularly quantity and frequency of purchase.

Notes: (a) Numbers in the above table may not sum due to rounding.
Sources: (1) Roy Morgan Research, Consumer survey, H1 2019 and H2 2019.
(2) KPMG analysis.
Appendix

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

Use of smoking prevalence data and updated results

Figure A2.1: Total number of smokers, 2008-2019\(^{(1)(2)(a)(b)(c)}\)

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.

For the 2014, 2015 and 2016 reports, KPMG extrapolated the prevalence figures based on the 2013 AIHW survey. However, as the 2016 data for smokers has since become available from AIHW, KPMG restated the smoker population numbers for 2016.

We have used the decline in smokers recorded in the AIHW data published in 2016 to estimate the number of smokers in 2019.

<table>
<thead>
<tr>
<th>CAGR (%)</th>
<th>2008-12</th>
<th>2010-13</th>
<th>2013-16</th>
<th>2008-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euromonitor</td>
<td>0.6%</td>
<td>(0.4)%</td>
<td>(3.5)%</td>
<td>(1.7)%</td>
</tr>
<tr>
<td>Australian Institute of Health and Welfare</td>
<td>(3.9)%</td>
<td>(0.1)%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australian Bureau of Statistics</td>
<td>(2.4)%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>KPMG Estimate</td>
<td>(2.6)%</td>
<td>(3.9)%</td>
<td>(0.1)%</td>
<td>(1.5)%</td>
</tr>
</tbody>
</table>

Notes: (a) The Australian Institute of Health and Welfare considers population aged 14 years or older.
(c) Figures for 2019 are based on full year estimates.

(2) Australia Bureau of Statistics.
Appendix

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

A2 Use of smoking prevalence data and updated results (cont.)

Figure A2.2: Smokers as a percentage of population, 2008 - 2019

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 age prevalence 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 2010, 2013 and 2016. On the release of updated AIHW figures the trend line is recalculated and prior period’s unbranded consumption and non-domestic legal estimates 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, 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 estimation 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 2019 are based on full year estimates.
(d) KPMG’s estimate of smoking prevalence is based on applying a historical CAGR for AIHW prevalence estimates to the latest AIHW prevalence figure (2016).

Sources:

CAGR (%) 2008-12 2010-13 2013-16 2008-19
Euromonitor (1.1)% (2.0)% (5.0)% (3.3)%
Australian Institute of Health and Welfare (5.4)% (1.6)%
Australian Bureau of Statistics (3.9)%

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, 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 estimation 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 2019 are based on full year estimates.
(d) KPMG’s estimate of smoking prevalence is based on applying a historical CAGR for AIHW prevalence estimates to the latest AIHW prevalence figure (2016).

Sources:

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Appendix

The Q4 2019 empty pack survey found that 15.6% of manufactured cigarette flows originated outside Australia

A3 EPS Analysis

Seventeen empty pack surveys (EPS) have been carried out in Australia in the last eleven 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 EPS.

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 EPS provider changed from AC Nielsen to MSIntelligence (MSI). MSI was selected after a tender process. MSI was commissioned to replicate the survey using an identical methodology to AC Nielsen. In 2019 the EPS provider was changed to WSPM post a competitive tender process. The empty pack survey methodology undertaken by the agency was same as that of MSI and AC Nielsen.

In 2019, WSPM was chosen to conduct the survey. WSPM has been commissioned by the industry (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 EPS records the pack size of each pack collected. This approach enables us to report using the number of cigarettes rather than the number of packs. As there can be considerable variation in pack sizes, using a measurement based on the number of cigarettes provides a more accurate representation of consumption patterns.

WSPM uses the EPS analysis in order to take the proportion of cigarettes that 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 EPS 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 2019 as 15.6% (on the basis of number of cigarettes) and 18.1% (on the basis of number of packs). The non-domestic incidence in Q4 2019 (both on the basis of number of cigarettes and packs) was the highest non-domestic incidence recorded in the past decade.

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 A5.

In 2019, there were changes in the type of bins in Australia in some of the major cities. The new ‘smart locked bins’ made it difficult for the provider to collect the discarded packs from bins and a change in the proportion of sample for number of packs collected from bins and streets was observed. The provider has said that this change in proportion has had no impact on the survey result and methodology is consistent with those of previous surveys.
Appendix

EPS Methodology

A3 EPS Analysis (cont.)

Figure A3.2: EPS Methodology

1. Population centre selection
2. Pack collection
3. Pack processing
4. Pack analysis

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 74.8% of Australia's population. WSPM informed 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 neighborhoods 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 neighborhood 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 neighborhoods representative of the population of Sydney, whilst the centre of Cairns only includes two representative neighborhoods. In total, 281 neighborhoods are sampled across Australia.

A minimum of 30 empty packs are collected from each neighborhood (higher thresholds are applied in larger neighborhoods) to fulfill 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 neighborhood has a specific starting point and a fixed route. The collectors accumulate as many empty packs as possible within each neighborhood regardless of the quota requested in the sampling plan. Packs collected may be from any manufacturer regardless of whether they participate in the survey. Indeed, collectors are unaware of the final client. Collectors revisit the neighborhood as many times as necessary in order to achieve the required quotas.

The training of WSPM 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 neighborhoods in case there are issues with the existing sample, such as spoiled packs. Any such packs are replaced by an identical 'buffer' pack collected from the same neighborhood. If no identical pack is available, the pack is replaced randomly from the 'buffer' collected in that neighborhood.

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). WSPM identifies whether the packs are domestic or non-domestic. The details are then entered into the survey 'Data Sheet' provided by WSPM. The packs are delivered to the participating manufacturer(s) in a way that enables easy processing and identification. Data discussed in this report refers to the information recorded on these packs. Those brand names that 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. We do not know whether packs from other manufacturers are counterfeit or not. 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.
Appendix

The results of the EPS analysis indicate an illicit volume of 1.56 million kilograms of non-domestic manufactured cigarettes

A3 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 non-domestic contraband consumption in Australia (excluding Domestic Illicit Plains).

The 14.6% 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 estimate can then be broken down into volume estimates for non-domestic legal, counterfeit, and contraband.

Figure: A3.2: Australian EPS non-domestic consumption and illicit estimate

<table>
<thead>
<tr>
<th>Year</th>
<th>Legal sales of manufactured cigarettes (kg/000s)</th>
<th>Non-domestic consumption (kg/000s)</th>
<th>EPS non-domestic incidence</th>
<th>Total consumption of manufactured cigarettes (kg/000s)</th>
<th>Illicit non-domestic consumption (kg/000s)</th>
<th>Counterfeit consumption (kg/000s)</th>
<th>Contraband consumption (kg/000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>14,598</td>
<td>258</td>
<td>1.7%</td>
<td>14,857</td>
<td>224.3</td>
<td>50</td>
<td>515</td>
</tr>
<tr>
<td>2011</td>
<td>13,908</td>
<td>-</td>
<td>-</td>
<td>14,668</td>
<td>1,419</td>
<td>104</td>
<td>1,276</td>
</tr>
<tr>
<td>2012</td>
<td>13,468</td>
<td>-</td>
<td>-</td>
<td>14,762</td>
<td>1,175</td>
<td>34</td>
<td>1,166</td>
</tr>
<tr>
<td>2013</td>
<td>12,942</td>
<td>-</td>
<td>-</td>
<td>14,142</td>
<td>1,092</td>
<td>25</td>
<td>1,092</td>
</tr>
<tr>
<td>2014</td>
<td>12,811</td>
<td>-</td>
<td>-</td>
<td>13,972</td>
<td>1,041</td>
<td>30</td>
<td>1,041</td>
</tr>
<tr>
<td>2015</td>
<td>12,033</td>
<td>-</td>
<td>-</td>
<td>12,962</td>
<td>1,013</td>
<td>47</td>
<td>1,013</td>
</tr>
<tr>
<td>2016</td>
<td>10,928</td>
<td>-</td>
<td>-</td>
<td>11,969</td>
<td>965</td>
<td>39</td>
<td>965</td>
</tr>
<tr>
<td>2017</td>
<td>10,214</td>
<td>-</td>
<td>-</td>
<td>11,309</td>
<td>965</td>
<td>39</td>
<td>965</td>
</tr>
<tr>
<td>2018</td>
<td>9,283</td>
<td>-</td>
<td>-</td>
<td>10,872</td>
<td>1,589</td>
<td>71</td>
<td>1,589</td>
</tr>
</tbody>
</table>

Notes: (a) Counterfeit incidence is not available for 2009, 2010 and 2011.
(b) Numbers in the above table may not sum due to rounding.
(c) Contraband consumption excludes Domestic Illicit Plains. However, the volume includes illicit Whites (non-domestic).

Sources: (1) WSPM, empty pack survey, Q2 2019 and Q4 2019.
(2) MSIntelligence Research, Empty Pack Survey, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015, Q4 2015, Q2 2016, Q4 2016, Q2 2017, Q4 2017, Q2 2018 and Q4 2018.
(4) KPMG analysis.
Appendix

The Commonwealth government has implemented numerous tobacco control measures

A4 Recent regulatory changes

Table A4.1: Recent regulatory changes 2012/13/14/15/16/17/18/19

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Legislation title</th>
<th>Regulation type</th>
<th>Effective date</th>
<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Tobacco Plain Packaging Act 2011 (Cth)</td>
<td>Plain packaging</td>
<td>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)</td>
<td>Required plain packaging for all tobacco products sold by retail.</td>
</tr>
<tr>
<td></td>
<td>Trade Marks Amendment (Tobacco Plain Packaging) Act 2011 (Cth)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tobacco Plain Packaging Regulations 2011 (Cth)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Competition and Consumer (Tobacco) Information Standard 2011 (Cth)</td>
<td>Health warnings</td>
<td>1 January 2012</td>
<td>Updated and expanded health warning requirements for tobacco products. Required health warnings to cover at least 75% of the front of most tobacco packaging, 90% of the back of cigarette packaging, and 75% of the back of most other tobacco product packaging.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Advertising Prohibition Amendment Act 2012 (Cth)</td>
<td>Internet advertising</td>
<td>6 September 2012</td>
<td>Required that online tobacco retailers display health warnings and comply with restrictions on advertisement wording.</td>
</tr>
<tr>
<td></td>
<td>Customs Amendment (Smuggled Tobacco) Act 2012 (Cth)</td>
<td>Illicit tobacco</td>
<td>7 November 2012</td>
<td>Amended the Customs Act 1901 (Cth) and imposed tougher penalties (including imprisonment) for smuggling tobacco or possessing illicit tobacco.</td>
</tr>
<tr>
<td></td>
<td>Customs by-law no. 1700053 (Cth), Customs By-law No. 1700571 (Cth), Customs Act 1901 (Cth), Customs Tariff Act 1995 (Cth)</td>
<td>Duty free tobacco restrictions</td>
<td>1 July 2017</td>
<td>Duty-free allowance limited to 25 or less cigarettes or 25 grams of tobacco products (excluding cigarettes) per person.</td>
</tr>
</tbody>
</table>
Appendix

The Commonwealth government has implemented numerous tobacco control measures (cont.)

### A4 Recent regulatory changes (cont.)

#### Table A4.1: Recent regulatory changes 2012/13/14/15/16/17/18/19

<table>
<thead>
<tr>
<th>Jurisdiction</th>
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<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia (cont.)</td>
<td>Excise Tariff Amendment (Tobacco) Act 2014 (Cth) and Customs Tariff Amendment (Tobacco) Act 2014 (Cth)</td>
<td>Customs and excise</td>
<td>2013, 2014, 2015, 2016, 2017, 2018, 2019 and 2020</td>
<td>Increased customs and excise duty for tobacco products by an additional 12.5% annually between 2013 and 2020 inclusive in addition to the switch to AWOTE. The first of these increases was implemented on 1 December 2013. The increases then occur on 1 September for each following year, with the final currently legislated increase to occur on 1 September 2020. The 2017 tobacco duty harmonisation amendments increase the currently lower duty rates for loose tobacco over four years so that by 1 September 2020 loose tobacco will have the same duty rate per kilogram as cigarettes containing the average tobacco content rate per stick.</td>
</tr>
<tr>
<td></td>
<td>Customs Tariff Amendment (Tobacco) Act 2016 (Cth) and Excise Tariff Amendment (Tobacco) Act 2016 (Cth)</td>
<td></td>
<td>March 2014</td>
<td>AWOTE change effective 31 August 2017 for harmonisation of tobacco duty amendments</td>
</tr>
<tr>
<td>Treasury Laws Amendment (Illicit Tobacco Offences) Act 2018 (Cth)</td>
<td>Illicit tobacco</td>
<td>25 August 2018</td>
<td>Amended the Taxation Administration Act 1953 (Cth), Excise Act 1901 (Cth), and the Income Tax Assessment Act 1997 (Cth). Introduced new ‘reasonable suspicion’ criminal offences for possessing, buying or selling illicit tobacco but also retained fault-based offences. These new offences eliminate impediments to illicit tobacco prosecutions by removing the requirements that the prosecutor must prove the origin of the tobacco and prove that duty has not been paid. Retained the fault-based criminal offence for intentionally possessing illicit tobacco. However, also expanded the fault-based offence regime to criminalise the intentional manufacture or production of illicit tobacco in Australia. These fault-based offences still require proving that the tobacco was possessed, manufactured or produced in Australia and that duty was not paid.</td>
<td></td>
</tr>
</tbody>
</table>
The Commonwealth government has implemented numerous tobacco control measures (cont.)

### A4 Recent regulatory changes (cont.)

#### Table A4.1: Recent regulatory changes 2012/13/14/15/16/17/18/19

<table>
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<tr>
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<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia (cont.)</td>
<td></td>
<td></td>
<td></td>
<td>Provided tiered prison terms and penalties based on the amount of tobacco involved and on whether the offence is fault-based or one of reasonable suspicion. Created new offences for possessing equipment for manufacturing or producing tobacco in Australia.Introduced a civil penalty for possessing 2kg or more of tobacco without documentation indicating how the person obtained the tobacco. This civil penalty may be dealt with by way of infringement notice. Extended the forfeiture of illicit tobacco provisions in the Excise Act 1901 (Cth) so that they apply to persons convicted of possessing, buying, selling producing or manufacturing illicit tobacco; or convicted of possessing tobacco production or manufacturing equipment; or are liable for a civil penalty for possessing 2kg or more of tobacco without documentation showing how the person obtained the tobacco. Extended the investigative powers under the Excise Act 1901 (Cth) so that they apply to tobacco where the origin of production or manufacturing is unknown.</td>
</tr>
<tr>
<td></td>
<td>Customs Amendment (Illicit Tobacco Offences) Act 2018 (Cth)</td>
<td>Illicit tobacco</td>
<td>1 September 2018</td>
<td>Introduced new criminal offences for people who recklessly import, convey or possess illicit tobacco. Enabled the investigation and enforcement of new illicit tobacco offences under the Treasury Laws Amendment (Illicit Tobacco Offences) Act 2018 (Cth).</td>
</tr>
<tr>
<td></td>
<td>Customs Tariff Amendment (Pacific Agreement on Closer Economic Relations Plus Implementation) Act 2018 (Cth)</td>
<td>Customs and excise</td>
<td>Royal Assent on 25 September 2018, but awaiting commencement</td>
<td>Implements the Pacific Agreement on Closer Economic Relations Plus and amends the Customs Tariff Act 1995 (Cth) so that the indexation provisions in that legislation for tobacco products apply when the products are Pacific Island originating goods.</td>
</tr>
</tbody>
</table>
Appendix

The Commonwealth government has implemented numerous tobacco control measures (cont.)

A4 Recent regulatory changes (cont.)

Table A4.1: Recent regulatory changes 2012/13/14/15/16/17/18/19

<table>
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<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia (cont.)</td>
<td>Tobacco Plain Packaging Amendment Act 2018 (Cth)</td>
<td>Plain packaging</td>
<td>4 October 2018</td>
<td>Widened the scope of persons who can enforce the Tobacco Plain Packaging Act 2011 (Cth) to include Commonwealth employees engaged other than under the Public Service Act 1999 (Cth), State and Territory police officers, and State, Territory and local government officials with responsibilities in relation to health matters or compliance and enforcement in tobacco control.</td>
</tr>
<tr>
<td></td>
<td>Customs Amendment (Collecting Tobacco Duties at the Border) Act 2018 (Cth)</td>
<td>Illicit tobacco</td>
<td>25 October 2018</td>
<td>Requires that from 1 July 2019, tobacco importers must pay all tobacco duties on arrival of the tobacco into Australia. Therefore from that date, tobacco importers may no longer enter the tobacco into a licensed warehouse to delay payment of the duties or taxes for the tobacco.</td>
</tr>
<tr>
<td></td>
<td>Treasury Laws Amendment (Black Economy Taskforce Measures No. 2) Act 2018 (Cth) and Excise Tariff Amendment (Collecting Tobacco Duties at Manufacture) Act 2018 (Cth)</td>
<td>Illicit tobacco</td>
<td>29 November 2018</td>
<td>Requires that from 1 July 2019, excise duty must be collected at the time the tobacco products are manufactured in Australia instead of when the products enter home consumption. Permits the Commissioner of Taxation to refuse manufacturing licences if security is not provided by the applicant.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Plain Packaging Amendment (Track and Trace Identifiers) Regulations 2018 (Cth)</td>
<td>Plain packaging</td>
<td>8 December 2018</td>
<td>Facilitates European Union requirements for track and trace unique identifiers on tobacco packaging.</td>
</tr>
</tbody>
</table>
The Commonwealth government has implemented numerous tobacco control measures (cont.)

A4 Recent regulatory changes (cont.)

Table A4.1: Recent regulatory changes 2012/13/14/15/16/17/18/19

<table>
<thead>
<tr>
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<th>Regulation type</th>
<th>Effective date</th>
<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia (cont.)</td>
<td>Customs Tariff Amendment (Comprehensive and Progressive Agreement for Trans-Pacific Partnership Implementation) Act 2018 (Cth)</td>
<td>Customs and excise</td>
<td>30 December 2018</td>
<td>Implements the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and amends the Customs Tariff Act 1995 (Cth) so that the indexation provisions in that legislation for tobacco products apply when the products are Trans-Pacific Partnership originating goods.</td>
</tr>
<tr>
<td></td>
<td>Customs Amendment (Collecting Tobacco Duties) Regulations 2019 (Cth)</td>
<td>Customs and excise</td>
<td>1 July 2019</td>
<td>Entitles importers of tobacco products to a refund of duty paid on tobacco products that are on-sold to duty-free operators.</td>
</tr>
<tr>
<td></td>
<td>Customs (Prohibited Imports) Amendment (Collecting Tobacco Duties) Regulations 2019 (Cth)</td>
<td>Illicit tobacco</td>
<td>1 July 2019</td>
<td>Requires that importers obtain a permit for the import of most tobacco products.</td>
</tr>
<tr>
<td></td>
<td>Customs Amendment (Immediate Destruction of Illicit Tobacco) Act 2019 (Cth)</td>
<td>Illicit tobacco</td>
<td>3 October 2019</td>
<td>Empowers Customs to seize at the border and immediately destroy tobacco products which have been imported without a valid permit.</td>
</tr>
</tbody>
</table>
Appendix

States introduced additional regulations to further restrict smoking

A4 Recent regulatory changes (cont.)

Table A4.1: Recent regulatory changes 2012/13/14/15/16/17/18/19 – State specific

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Legislation title</th>
<th>Regulation type</th>
<th>Effective date</th>
<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>New South Wales</td>
<td>Tobacco Legislation Amendment Act 2012 (NSW)</td>
<td>Smoke-free environment</td>
<td>7 January 2013</td>
<td>Ban on smoking in enclosed public places extended to within 10 metres of children’s play equipment, swimming pool complexes, certain public transport stops, spectator areas at sports grounds and venues, commercial outdoor dining areas (with effect from 6 July 2015) and within 4 metres of pedestrian access to a building (with effect from 6 July 2015 for licensed premises and restaurants).</td>
</tr>
<tr>
<td></td>
<td>Public Health (Tobacco) Act 2008 (NSW)</td>
<td>Retailer regulation</td>
<td>1 July 2013</td>
<td>Exemption for specialist tobacconists under the ban on the display of tobacco products at point- of-sale ends.</td>
</tr>
<tr>
<td></td>
<td>Smoke-free Environment Amendment (Signage Requirements) Regulation 2015 (NSW)</td>
<td>Smoke-free environment</td>
<td>27 February 2015</td>
<td>Required the display of signs in areas designated as not being for the consumption of food.</td>
</tr>
<tr>
<td></td>
<td>Crimes (Administration of Sentences) Amendment (Smoke-free Prisons) Regulation 2015 (NSW)</td>
<td>Smoke-free environment</td>
<td>10 August 2015</td>
<td>Banned smoking and use of e-cigarettes by inmates in all correctional centres in New South Wales.</td>
</tr>
<tr>
<td></td>
<td>Crimes (Administration of Sentences) Further Amendment (Smoke-free Prisons) Regulation 2015 (NSW)</td>
<td>Smoke-free environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Public Health (Tobacco) Amendment (E-cigarettes) Act 2015 (NSW)</td>
<td>Retailer Regulation</td>
<td>1 September 2015</td>
<td>Amendments 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 inserts new definitions so that the Public Health (Tobacco) Act 2008 (NSW) applies to e-cigarettes and their accessories as it already applies to tobacco products and smoking accessories.</td>
</tr>
</tbody>
</table>
Appendix

States introduced additional regulations to further restrict smoking (cont)

A4 Recent regulatory changes (cont.)

Table A4.1: Recent regulatory changes 2012/13/14/15/16/17/18/19 – State specific

<table>
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<th>Effective date</th>
<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>New South Wales (cont.)</td>
<td>Health Legislation Amendment Act 2015 (NSW)</td>
<td>Retailer (and wholesaler) regulation</td>
<td>1 February 2016</td>
<td>Addressed difficulties associated with prosecuting retailers found with illegal tobacco by creating rebuttable presumptions regarding the quantity of tobacco for sale and enabling seizure of excess quantities of tobacco not in the correct packaging. The amendments also made it a criminal offence to sell tobacco to retailers operating without a tobacco retailer notification number.</td>
</tr>
<tr>
<td></td>
<td>Public Health (Tobacco) Amendment (Prescribed Quantities) Regulation 2016 (NSW)</td>
<td>Retailer regulation</td>
<td>1 February 2016</td>
<td>Prescribed the quantities of tobacco product that are presumed to be for the purposes of sale.</td>
</tr>
<tr>
<td></td>
<td>Smoke-free Environment Regulation 2016 (NSW)</td>
<td>Smoke-free environment</td>
<td>1 September 2016</td>
<td>Made footpaths, streets and public thoroughfares smoke-free areas if within 4 metres of applicable courtyards or gardens. Prescribed signs required for display in smoke-free areas and their manner of display. Provided that smoking in a smoke-free area is a penalty notice offence carrying a $300 penalty.</td>
</tr>
<tr>
<td></td>
<td>Public Health (Tobacco) Regulation 2016 (NSW)</td>
<td>Retailer regulation</td>
<td>1 September 2016</td>
<td>Introduced regulations for e-cigarettes by banning e-cigarette-advertising, imposing on e-cigarettes and their accessories the same price display restrictions that apply to tobacco products and mandating a sale to minors sign on e-cigarette vending machines. Made changes to the prescribed health warning signs. Introduced penalty notice offences for tobacco product and smoking accessory displays, sales from more than one point of sale, breaches of product display requirements for tobacco and e-cigarette vending machines, failures to conspicuously display compliant health warnings and sales to minor notices at points of sale. Increased certain penalty notice offence amounts to $360 for individuals and $1,800 for corporations.</td>
</tr>
<tr>
<td></td>
<td>Public Health (Tobacco) Amendment (E-Cigarettes) Regulation 2017 (NSW)</td>
<td>Retailer regulation</td>
<td>1 May 2017</td>
<td>Required retailers to display a notice regarding sales of e-cigarettes or their accessories to minors at the point of sale. Also restricted price displays to using one font only.</td>
</tr>
</tbody>
</table>
Appendix

States introduced additional regulations to further restrict smoking (cont)

A4 Recent regulatory changes (cont.)

Table A4.1: Recent regulatory changes 2012/13/14/15/16/17/18/19 – State specific

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</tr>
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<tbody>
<tr>
<td>New South Wales (cont.)</td>
<td>Smoke-free Environment Amendment Act 2018 (NSW)</td>
<td>Retailer regulation and smoke-free environment</td>
<td>1 July 2018</td>
<td>Required that persons notify the Ministry of Health before engaging in e-cigarette retailing. Prohibited the use of e-cigarettes and heat-not-burn tobacco products in places where tobacco smoking is banned.</td>
</tr>
<tr>
<td>Victoria</td>
<td>Tobacco Amendment (Smoking at Patrolled Beaches) Act 2012 (Vic)</td>
<td>Smoke-free environment</td>
<td>1 December 2012</td>
<td>Banned 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.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Amendment Act 2013 (Vic)</td>
<td>Smoke-free environment and retailer regulation</td>
<td>1 April 2014</td>
<td>Introduced smoke-free children’s playgrounds and related recreational areas. Banned smoking outdoors within 10 meters of playgrounds and skate parks, sporting venues during under 18s events and within public swimming pool grounds. Applications for specialist tobacconist certification not permitted on and from 1 April 2014.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Amendment Act 2014 (Vic)</td>
<td>Smoke-free environment, retailer regulation and illicit tobacco</td>
<td>13 April 2015</td>
<td>Smoking banned in outdoor areas and in 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. Required display of no smoking signs at pedestrian access points at schools, children’s indoor play centres and public premises. 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.</td>
</tr>
</tbody>
</table>
### Appendix

States introduced additional regulations to further restrict smoking (cont.)

#### A4 Recent regulatory changes (cont.)

**Table A4.1: Recent regulatory changes 2012/13/14/15/16/17/18/19 – State specific**

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</tr>
</thead>
<tbody>
<tr>
<td>Victoria (cont.)</td>
<td>Corrections Amendment (Smoke-Free Prisons and Other Matters) Regulations 2014 (Vic)</td>
<td>Smoke-free Environment</td>
<td>1 July 2015</td>
<td>Banned prisoners from smoking or using a tobacco product.</td>
</tr>
<tr>
<td>Victoria (cont.)</td>
<td>Tobacco Amendment Act 2016 (Vic) Tobacco Regulations 2017 (Vic)</td>
<td>Smoke-free environment and e-cigarette regulation</td>
<td>1 August 2017</td>
<td>Banned smoking at outdoor dining areas, food fairs and within 10 metres of outdoor areas at which food is provided on a commercial basis at community and street festivals. Banned smoking in outdoor drinking areas if any part of the outdoor drinking area is within 4 metres of an outdoor dining area and the outdoor drinking area and the outdoor dining area are not separated by a wall that is at least 2.1 metres high. Extended to e-cigarette products laws similar to those applying to tobacco products including an advertising prohibition; a prohibition on displays at general retailers; restrictions on displays for wholesalers, specialist tobacconists, specialist e-cigarette retailing premises and on airport duty free shops; prescribed price display rules; a prescribed e-cigarette availability notice; a ban on competitions, rewards and shopper loyalty schemes connected with the sale or promotion of e-cigarette products a ban on free samples of e-cigarette products and products advertising e-cigarette products; a prohibition on sponsorships promoting e-cigarette products; a ban on the supply of e-cigarette products to persons under the age of 18 years; a full ban on the sale of e-cigarette products from vending machines; a prohibition on mobile sales of e-cigarette products; a ban on e-cigarette product supplies at underage music/dance events; and a requirement that specialist e-cigarette retailers obtain and display certification.</td>
</tr>
<tr>
<td>Victoria (cont.)</td>
<td>Health Legislation Amendment and Repeal Act 2019 (Vic)</td>
<td>Advertising</td>
<td>23 October 2019</td>
<td>Prohibited indirect advertising by tobacco or e-cigarette manufacturers, specifically the promotion of words or designs that are closely associated with the manufacturer, even if those words or designs do not promote smoking or tobacco products. Repealed the power of the Victorian Governor in Council to exempt sporting or art events from the tobacco advertising prohibition.</td>
</tr>
</tbody>
</table>
### A4 Recent regulatory changes (cont.)

#### Table A4.1: Recent regulatory changes 2012/13/14/15/16/17/18/19 – State specific

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</tr>
</thead>
<tbody>
<tr>
<td>South Australia</td>
<td>Tobacco Products Variation Regulations 2011 (SA)</td>
<td>Retailer regulation</td>
<td>1 January 2012</td>
<td>Regulated all tobacco product advertisements at points of sale, prohibited price displays and actual displays of fruit or confectionary flavoured cigarettes in retailers and vending machines.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Products Regulation (Further Restrictions) Amendment Act 2012 (SA)</td>
<td>Smoke-free environment</td>
<td>31 May 2012</td>
<td>Amendments to Tobacco Products Regulation Act 1997 (SA) banned smoking in certain public transport areas and near certain playground equipment, and empowered the Minister to enforce short term and long term smoking bans in public areas.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Products (Smoking Bans in Public Areas – Longer Term) Regulations 2012 (SA)</td>
<td>Smoke-free environment</td>
<td>30 August 2012</td>
<td>Banned smoking at Adelaide show grounds when the Royal Adelaide Show is being held.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Products (Smoking Bans in Public Areas – Longer Term) Regulation 2012 (SA)</td>
<td>Smoke-free environment</td>
<td>22 March 2013</td>
<td>Capsule cigarettes may not be displayed for retail sale (including in vending machines) and their prices must not appear on prescribed price boards, price tickets or vending machines.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Products (Smoking Bans in Public Areas – Longer Term) Variation Regulations 2013 (SA)</td>
<td>Smoke-free Environment</td>
<td>5 September 2013</td>
<td>Ban on smoking in Moseley Square Glenelg.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Products (Smoking Bans in Public Areas – Longer Term) Variation Regulations 2014 (No. 202 of 2014) (SA)</td>
<td>Smoke-free environment</td>
<td>1 July 2016</td>
<td>Smoking banned in public outdoor dining areas when food is being provided.</td>
</tr>
</tbody>
</table>
Appendix

States introduced additional regulations to further restrict smoking (cont)

A4 Recent regulatory changes (cont.)

Table A4.1: Recent regulatory changes 2012/13/14/15/16/17/18/19 – State specific

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Legislation title</th>
<th>Regulation type</th>
<th>Effective date</th>
<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Australia (cont.)</td>
<td>Tobacco Products (Smoking Bans in Public Areas – Longer Term) Variation Regulations 2016 (SA)</td>
<td>Smoke-free environment</td>
<td>12 September 2016</td>
<td>Banned all smoking in all public areas in Henley Square.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Products (Fees) Variation Regulations 2017 (SA)</td>
<td>Tobacco licensing</td>
<td>1 July 2017</td>
<td>Increase in tobacco licence fee.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Products (Smoking Bans in Public Areas – Longer Term) Variation Regulations 2018 (SA)</td>
<td>Smoke-free environment</td>
<td>5 February 2018</td>
<td>Banned smoking in Bowden Town Square.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Products (Fees) Variation Regulations 2018 (SA)</td>
<td>Tobacco licensing</td>
<td>1 July 2018</td>
<td>Increase in tobacco licence fee.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Products (Smoking Bans in Public Areas – Longer Term) (The Parade Norwood) Variation Regulations 2018 (SA)</td>
<td>Smoke-free environment</td>
<td>1 December 2018</td>
<td>Banned smoking in The Parade Norwood.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Products Regulation (E-Cigarettes and Review) Amendment Act 2018 (SA)</td>
<td>E-cigarette regulation and tobacco retailer regulation</td>
<td>31 March 2019</td>
<td>Amends the Tobacco Products Regulation Act 1997 (SA) (and changed that statute’s name to the Tobacco and E-Cigarette Products Act 1997 (SA)) so that e-cigarettes are treated in the same manner as tobacco products, shisha falls within the ‘tobacco product’ definition, the fine for selling or supplying tobacco products to children significantly increases, and otherwise adjusts penalties according to CPI.</td>
</tr>
<tr>
<td></td>
<td>Tobacco and E-Cigarette Products Regulations 2019 (SA)</td>
<td>E-cigarette regulation and tobacco retailer regulation</td>
<td>31 March 2019</td>
<td>Regulations accompanying the Tobacco and E-Cigarette Products Act 1997 (SA) providing for acceptable evidence of age documents, tobacco and e-cigarette advertising restrictions, and smoking bans in Bowden Town Square, Henley Square, Moseley Square Glenelg, Royal Adelaide Show, The Parade Norwood, and outdoor dining areas.</td>
</tr>
<tr>
<td></td>
<td>Tobacco and E-Cigarette Products (Fees) Regulations 2019 (SA)</td>
<td>Tobacco and e-cigarette licensing</td>
<td>31 March 2019</td>
<td>Set the licensing fee for tobacco or e-cigarette retailers to AUD297.</td>
</tr>
</tbody>
</table>
### A4 Recent regulatory changes (cont.)

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Legislation title</th>
<th>Regulation type</th>
<th>Effective date</th>
<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tasmania</td>
<td>Public Health Amendment Act 2011 (Tas) Public Health Act 1997 (Tas)</td>
<td>Smoke-free environment</td>
<td>1 March 2012</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Public Health Amendment Act 2011 (Tas) Public Health Act 1997 (Tas)</td>
<td>Retailer regulation</td>
<td>1 March 2012</td>
<td>Specialist tobacconists included in retail display ban, removing earlier exemption.</td>
</tr>
<tr>
<td></td>
<td>Public Health Amendment Act 2011 (Tas) Public Health Act 1997 (Tas)</td>
<td>Retailer regulation</td>
<td>1 March 2012</td>
<td>Tobacco products must not be offered as an inducement or reward in a business loyalty program.</td>
</tr>
<tr>
<td></td>
<td>Tobacco licensing</td>
<td>1 March 2012</td>
<td></td>
<td>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 licence conditions.</td>
</tr>
<tr>
<td></td>
<td>Retailer regulation</td>
<td>1 March 2012</td>
<td></td>
<td>Tobacco vending machines now restricted to one machine per site within licensed premises and not permitted at all in unlicensed premises.</td>
</tr>
<tr>
<td></td>
<td>Public Health (Smoke-free Areas) Regulations 2014 (Tas)</td>
<td>Smoke-free environment</td>
<td>12 February 2014</td>
<td>Certain public streets designated ‘pedestrian malls’ which renders them ‘smoke-free’ areas under the Public Health Act 1997 (Tas).</td>
</tr>
<tr>
<td></td>
<td>Corrections Act 1997 (Tas) (effective through prison service standing orders)</td>
<td>Smoke-free environment</td>
<td>30 January 2015</td>
<td>Ban on smoking in Tasmanian jails.</td>
</tr>
</tbody>
</table>
### A4 Recent regulatory changes (cont.)

#### Table A4.1: Recent regulatory changes 2012/13/14/15/16/17/18/19 – State specific

<table>
<thead>
<tr>
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<th>Effective date</th>
<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tasmania (cont.)</td>
<td>Public Health (Miscellaneous Amendments) Act 2015 (Tas)</td>
<td>Smoke-free Environment</td>
<td>1 July 2015</td>
<td>Any area within private premises can be designated as smoke-free by the occupier Public streets may be designated as ‘smoke-free’.</td>
</tr>
<tr>
<td></td>
<td>Smoke-free Environment</td>
<td>1 July 2015</td>
<td></td>
<td>Regulators can conditionally approve designated smoking areas at public events that have been previously declared as smoke-free.</td>
</tr>
<tr>
<td></td>
<td>Retailer Regulation</td>
<td>1 July 2015</td>
<td></td>
<td>Permits tobacco advertising on packaging if it is in accordance with relevant prescribed guidelines.</td>
</tr>
<tr>
<td></td>
<td>Retailer Regulation</td>
<td>1 July 2015</td>
<td></td>
<td>A tobacco seller’s licence cannot be issued in connection with a public event.</td>
</tr>
<tr>
<td></td>
<td>Public Health (Tobacco Seller’s Licence) Amendment Regulations 2016 (Tas)</td>
<td>Tobacco licensing</td>
<td>1 January 2017</td>
<td>Increased the licence fee to AUD $740.90 per annum for licence applications between 1 July 2017 and 31 December 2017 and to AUD $1,111.35 from 1 January 2018.</td>
</tr>
<tr>
<td></td>
<td>Public Health Amendment (Healthy Tasmania) Act 2017 (Tas)</td>
<td>Retailer regulation and smoke-free</td>
<td>29 November 2017</td>
<td>Imposed on e-cigarettes and their accessories substantially the same sale, supply, promotion, physical display and price display restrictions that apply to tobacco products. Banned the sale of e-cigarettes and their accessories in specialist tobacconist stores. Also prohibited the use of e-cigarettes in smoke-free areas.</td>
</tr>
<tr>
<td></td>
<td>Guidelines for the Sale of Smoking Products 2017 (Tas)</td>
<td>environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Public Health (Tobacco Seller’s Licence) Amendment Regulations 2017 (Tas)</td>
<td>Tobacco licensing</td>
<td>29 November 2017</td>
<td>Sets the licence fees for selling e-cigarettes and their accessories.</td>
</tr>
<tr>
<td></td>
<td>Public Health Amendment (Prevention of Sale of Smoking Products to Underage Persons) Bill 2018 (Tas)</td>
<td>Retailer regulation</td>
<td>TBA</td>
<td>If passed by the Parliament, then within 3 years people who are younger than 21 may no longer lawfully buy smoking products in Tasmania.</td>
</tr>
</tbody>
</table>
Appendix

States introduced additional regulations to further restrict smoking (cont)

A4 Recent regulatory changes (cont.)

Table A4.1: Recent regulatory changes 2012/13/14/15/16/17/18/19 – State specific

<table>
<thead>
<tr>
<th>Jurisdiction</th>
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<th>Regulation type</th>
<th>Effective date</th>
<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Queensland</td>
<td>Health Legislation Amendment Act 2011 (Qld)</td>
<td>Retailer regulation</td>
<td>25 November 2012</td>
<td>Banned the sale of fruit and confectionery flavoured cigarettes and from 25 November 2013, the sale of ‘novelty items’ (such as toys) that resemble smoking products.</td>
</tr>
<tr>
<td></td>
<td>Corrective Services Amendment Regulation (No.1) 2014 (Qld)</td>
<td>Smoke-free environment</td>
<td>5 May 2014</td>
<td>Banned possessing or consuming smoking products in corrective services facilities.</td>
</tr>
<tr>
<td></td>
<td>Health Legislation Amendment Regulation (No.3) 2014 (Qld)</td>
<td>Retailer regulation</td>
<td>5 September 2014</td>
<td>Wording of mandatory signs attached to vending machines and displayed at points of sale changed from ‘Maximum Penalty $42,000’ to ‘Penalties apply’.</td>
</tr>
<tr>
<td></td>
<td>Health and Other Legislation Amendment Act 2014 (Qld)</td>
<td>E-cigarette regulation, retailer regulation and smoke-free environment</td>
<td>1 January 2015</td>
<td>Extended the definition of ‘smoking product’ to personal vaporisers and personal vapourer related products resulting in personal vaporisers having the same restrictions on their sale, supply, promotion, use and enforcement as cigarettes and other tobacco products. Prohibited the use of vending machines to supply personal vaporisers and related products. Banned smoking at health facilities and school land.</td>
</tr>
<tr>
<td></td>
<td>Tobacco and Other Smoking Products (Smoke-free Places) Amendment Act 2016 (Qld)</td>
<td>Smoke-free environment and retail regulation</td>
<td>1 September 2016</td>
<td>Banned the sale of tobacco products at temporary retail outlets (such as pop up stores and from motor vehicles). Smoking bans extended to major sports facilities, major event facilities, health facilities, school facilities, public swimming facilities, early childhood education and care facilities, residential aged care facilities, government precincts, outdoor pedestrian malls, public transport waiting points, skate parks and sporting grounds and spectator areas during organised under-age sporting events. Enabled the Regulator to ban smoking at prescribed national parks. Empowered local governments to make laws banning smoking at any outdoor public places not covered by QLD’s smoking laws.</td>
</tr>
</tbody>
</table>
**Appendix**

States introduced additional regulations to further restrict smoking (cont)

### A4 Recent regulatory changes (cont.)

Table A4.1: Recent regulatory changes 2012/13/14/15/16/17/18/19 – State specific

<table>
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<th>Effective date</th>
<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Queensland (cont.)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tobacco and Other Smoking Products Amendment Regulation (No. 1) 2016 (Qld)</td>
<td>Smoke-free environment</td>
<td>Most provisions on 1 September 2016</td>
<td>From 1 September 2016, smoking banned at the QLD government precinct 1 William Street. Since 1 February 2017, banned smoking in most National Parks at camp sites and public facilities (such as barbeques, boat ramps, picnic tables, roofed shelters, toilets and visitor information centers).</td>
</tr>
<tr>
<td></td>
<td>Tobacco and Other Smoking Products (Government Precincts) Amendment Regulation 2017 (Qld)</td>
<td>Smoke-free environment</td>
<td>28 April 2017</td>
<td>Prescribed further land that is a ‘government precinct’ where smoking is banned.</td>
</tr>
<tr>
<td></td>
<td>Health Legislation Amendment Regulation (No. 1) 2019 (Qld)</td>
<td>Smoke-free environment</td>
<td>5 April 2019</td>
<td>Prescribed further government precincts where smoking is banned including Claude Wharton Building Bundaberg, William McCormack Place Cairns, Mike Ahern Building Maroochydore, Brendan Hansen Building Pialba, James Larcombe Place Rockhampton, and Government Office Building Townsville.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Control Amendment Regulations 2014 (NT)</td>
<td>Smoke-free environment</td>
<td>11 June 2014</td>
<td>Patrons allowed to consume meals in designated smoking areas. However, service from staff to patrons in the outdoor smoking areas is prohibited.</td>
</tr>
<tr>
<td><strong>Northern Territory</strong></td>
<td>Correctional Services Act 2014 (NT) and Correctional Services Regulations 2014 (NT)</td>
<td>Smoke-free environment</td>
<td>9 September 2014</td>
<td>Banned prisoners (including immigration detainees) from consuming tobacco in custody, correctional facilities and immigration detention centres.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Control Legislation Amendment Act 2014 (NT)</td>
<td>Smoke-free environment</td>
<td>1 December 2014</td>
<td>Banned smoking in motor vehicles where children under 16 are present. Required tobacco wholesalers to comply with requests by the Chief Health Officer for information about the quantity of tobacco products sold to retailers.</td>
</tr>
<tr>
<td></td>
<td>Red Tape Reduction (Miscellaneous Amendments) Act 2016 (NT)</td>
<td>Tobacco licensing</td>
<td>1 July 2016</td>
<td>Required applications for the grant of a tobacco retail licence to specify a licence period of 1 year, 3 years or 5 years. The licence ends at the ‘end of the licence period’ (instead of the expiry of 12 months). The licence period determines the licence fee payable.</td>
</tr>
</tbody>
</table>
## Appendix

States introduced additional regulations to further restrict smoking (cont)

### A4 Recent regulatory changes (cont.)

#### Table A4.1: Recent regulatory changes 2012/13/14/15/16/17/18/19 – State specific

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<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Territory (cont.)</td>
<td>Tobacco Control Legislation Amendment Act 2019 (NT)</td>
<td>E-cigarette regulation, smoke-free environment, and retailer regulation</td>
<td>1 July 2019</td>
<td>Amended the Tobacco Control Act 2002 (NT) and the Tobacco Control Regulations 2002 (NT) so that they regulate the sale, supply, promotion and use of e-cigarettes and their accessories by treating them as conventional tobacco products, prohibit persons who are under 18 from selling tobacco products or e-cigarettes, impose a 10-metre smoke-free (and vape-free) buffer zone from the boundaries and entry areas of community events and community facilities, and prohibit tobacco product and e-cigarette vending machines in licensed premises that allow persons under 18 on the premises.</td>
</tr>
<tr>
<td></td>
<td>Liquor Act 2019 (NT)</td>
<td>Smoke-free environment</td>
<td>1 October 2019</td>
<td>Amended the Tobacco Control Act 2002 (NT) and the Tobacco Control Regulations 2002 (NT), prohibiting liquor licensees from allowing the service or consumption of food or drink in outdoor smoking areas that are operated by catering, community club, community event, major event, special event, or special venture authorities under the Liquor Act 2019 (NT).</td>
</tr>
<tr>
<td>Western Australia</td>
<td>Tobacco Products Control Amendment Regulations (No. 4) 2015 (WA)</td>
<td>Illicit tobacco</td>
<td>26 August 2015</td>
<td>Persons may record, disclose, or make use of any information obtained in the administration of the Tobacco Products Control Act 2006 (WA) to assist investigations under Commonwealth law or enforcement of a Customs Act, Excise Act or taxation law, relating to a tobacco product.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Products Control Act 2006 (WA) s 106 Van Heerden v Hawkins [2016] WASCA 42 (10 March 2016)</td>
<td>E-cigarette regulation</td>
<td>10 March 2016</td>
<td>The Supreme Court of Western Australia Court of Appeal held that the sale of e-cigarettes is illegal in Western Australia because they are designed to resemble a tobacco product.</td>
</tr>
<tr>
<td></td>
<td>Health Regulations Amendment (Fees and Charges) Regulations 2017 (WA)</td>
<td>Tobacco licensing</td>
<td>1 July 2017</td>
<td>Increased tobacco licence fees.</td>
</tr>
</tbody>
</table>
### Appendix

States introduced additional regulations to further restrict smoking (cont.)

#### A4 Recent regulatory changes (cont.)

Table A4.1: Recent regulatory changes 2012/13/14/15/16/17/18/19 – State specific

<table>
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<tr>
<th>Jurisdiction</th>
<th>Legislation title</th>
<th>Regulation type</th>
<th>Effective date</th>
<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Australia (cont.)</td>
<td>Tobacco Products Control Amendment Act 2018 (WA)</td>
<td>Retailer regulation</td>
<td>18 September 2018</td>
<td>Most of the provisions in this legislation started on 18 March 2019. From that date, retailers must not sell fruit and confectionery flavoured cigarettes and packaging that enables cigarettes to be split into portions containing fewer than 20 sticks. Generally, specialist tobacconists will no longer be able to display tobacco products or packages. However, specialist tobacconists may continue to display cigars and implements to cut cigars if the display cannot be seen from a public place and a health warning is displayed immediately adjacent to the display. All retailers must ensure that health warning signs are displayed in close proximity to price displays of tobacco products. Tobacco licences that have the purpose of authorizing the supply of tobacco products at sporting, cultural or other events will also no longer be permitted. With the exception of credit card rewards schemes, tobacco products may no longer be included in loyalty programmes. The Regulations changed the size, location, and content requirements with the display of availability, price and health warning signs by retailers, and in particular reduced the permitted size for price signs from 1 m2 to A4. An additional provision starts on 18 September 2020 and bans persons who have not reached 18 years of age from selling tobacco products.</td>
</tr>
<tr>
<td></td>
<td>Tobacco Products Control Amendment Regulations 2019 (WA)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australian Capital Territory</td>
<td>Smoke-Free Public Places Amendment Act 2016 (ACT)</td>
<td>Smoke-free Environment</td>
<td>18 March 2016</td>
<td>Enabled the Government to declare smoke-free public places or events.</td>
</tr>
<tr>
<td></td>
<td>Smoke-Free Legislation Amendment Act 2016 (ACT)</td>
<td>Smoke-free environment and e-cigarette regulation</td>
<td>1 August 2016</td>
<td>Banned the vaping of e-cigarettes in smoke-free public places and cars with children travelling in them. Imposed on e-cigarettes the same sale, supply, promotion, display and price display restrictions that apply to tobacco products.</td>
</tr>
<tr>
<td></td>
<td>Smoke-Free Public Places (Play Spaces) Declaration 2016 (No 1) (ACT)</td>
<td>Smoke-free environment</td>
<td>7 September 2016</td>
<td>Children play spaces managed by ACT Government were declared smoke-free public places.</td>
</tr>
</tbody>
</table>
## Appendix

States introduced additional regulations to further restrict smoking (cont)

### A4 Recent regulatory changes (cont.)

Table A4.1: Recent regulatory changes 2012/13/14/15/16/17/18/19 – State specific

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<th>Effective date</th>
<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Capital Territory (cont.)</td>
<td>Smoke-Free Public Places (Public Transport Stops) Declaration 2017 (No 1) (ACT)</td>
<td>Smoke-free environment</td>
<td>1 October 2017</td>
<td>Banned smoking and vaping at and within five metres of public transport stops and public transport waiting areas.</td>
</tr>
<tr>
<td></td>
<td>Smoke-Free Public Places (Public Transport Stations) Declaration 2017 (No 1) (ACT)</td>
<td>Smoke-free environment</td>
<td>1 October 2017</td>
<td>Banned smoking and vaping at the bus stations in Cohen Street, Westfield (Belconnen), Belconnen Community, City (except between 11pm and 6am), Woden, Tuggeranong and Dickson. Smoking and vaping also not permitted at Jolimont Transit Centre and Canberra Railway Station, Kingston.</td>
</tr>
<tr>
<td></td>
<td>Smoke-Free Public Places (Public Transport Interchanges) Declaration 2019 (No 1)</td>
<td>Smoke-free environment</td>
<td>18 October 2019</td>
<td>Extended the smoking and vaping ban to Gungahlin Place Bus Interchange and Light Rail Stop, and also required the display of words at smoke-free public transport interchanges stating that the area is smoke-free.</td>
</tr>
</tbody>
</table>
Outbound trips to non-domestic source countries continued to increase in 2019

A5 Non-domestic legal calculation

Figure A5.1 Overseas travel of Australian residents, 2008 – 2019

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 2019 EPS results showed larger inflows from the UK and USA. We have therefore included these flows in the non-domestic legal calculation whilst removing Thailand and New Zealand as the inflows had declined in 2019. Trips made to key non-domestic source countries of manufactured cigarettes increased at 5.0% between 2018 and 2019. Whereas overall outbound trips increased at a lower rate at 2.7%.

Figure A5.2 Overseas travel of Australian residents to key 2019 non-domestic source countries, 2008 – 2019

Visits to key non-domestic source countries reached a total of 5.1 million in 2019, accounting for approximately 45% of all trips made overseas by Australian residents. However, low inbound traveller allowances will likely have tempered growth of legal non-domestic consumption and the same is examined in more detail overleaf.

Notes: (a) Key non-domestic source countries have been selected from the EPS carried out in 2019, the countries shown in the graph above accounted for over 65% of the non-domestic cigarette sticks found in Australia (excluding sticks that come from unspecified countries).
(b) Non-domestic legal (ND(L)) volumes are estimated using actual travel data from January 2019 to December 2019.
(c) Some of the labels with value less than 3% have been removed for clarity.
Appendix

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

A5 Non-domestic legal calculation (cont.)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Overseas trips to non-domestic source countries in the year (m)</td>
<td>ABS</td>
<td>2.61</td>
<td>2.99</td>
<td>3.22</td>
<td>3.34</td>
<td>3.57</td>
<td>3.84</td>
<td>4.03</td>
<td>4.33</td>
<td>4.64</td>
<td>5.14</td>
</tr>
<tr>
<td>Overseas trips (with New Zealand capping) for ND(L) calculation (m)(a)</td>
<td>ABS</td>
<td>1.53</td>
<td>1.53</td>
<td>2.20</td>
<td>2.35</td>
<td>2.44</td>
<td>2.55</td>
<td>3.42</td>
<td>3.55</td>
<td>3.26</td>
<td>3.83</td>
</tr>
<tr>
<td>Non-domestic source uplift</td>
<td>EPS</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>% of population that are smokers</td>
<td>AIHW (&amp; extrapolated)</td>
<td>15.5%</td>
<td>15.1%</td>
<td>14.4%</td>
<td>13.6%</td>
<td>12.8%</td>
<td>12.6%</td>
<td>12.4%</td>
<td>12.2%</td>
<td>11.8%</td>
<td>11.6%</td>
</tr>
<tr>
<td>% of smokers that buy tobacco</td>
<td>RMR consumer survey</td>
<td>53%</td>
<td>53%</td>
<td>53%</td>
<td>53%</td>
<td>59%</td>
<td>59%</td>
<td>60%</td>
<td>58%</td>
<td>57%</td>
<td>57%</td>
</tr>
<tr>
<td>Number of smokers purchasing overseas (m)</td>
<td>0.14</td>
<td>0.13</td>
<td>0.18</td>
<td>0.19</td>
<td>0.20</td>
<td>0.21</td>
<td>0.28</td>
<td>0.28</td>
<td>0.24</td>
<td>0.28</td>
<td>0.34</td>
</tr>
<tr>
<td>Amount purchased (g) Inbound traveller allowance</td>
<td>250</td>
<td>250</td>
<td>250</td>
<td>250</td>
<td>183</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>25/50(a)</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Total (kg)</td>
<td>34,565</td>
<td>33,673</td>
<td>46,046</td>
<td>34,054</td>
<td>10,124</td>
<td>10,497</td>
<td>13,953</td>
<td>13,831</td>
<td>9,079</td>
<td>7,027</td>
<td>8,520</td>
</tr>
<tr>
<td>Non-domestic legal as % of total consumption</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.3%</td>
<td>0.2%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.1%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

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. A further change in allowance was enforced in 2017 bringing the legal limit down to 25 grams. This has resulted in a further decline in the estimate of non-domestic legal volume. The 2019 consumer survey suggested that 53% of smokers bought cigarettes overseas. This proportion has reduced to 2012 levels in 2019.

Notes:
(a) The allowance limit was changed to 25g from 1st July 2017.
(b) The figures for overseas trips have been updated due to the change in key ND countries.
(c) Travel volumes for New Zealand have been capped for prior years 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 EPS for that year. However, any capping for New Zealand has not been done in 2019, as it is not a key ND source country in 2019.
(d) Respondents were asked Q51. Have you travelled outside of Australia in the last 6 months?
(e) 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?
(f) 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.
(g) ND(L) volumes are estimated using actual travel data from January 2019 to December 2019.
Sources:
Appendix

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

A5 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 82, the key source countries have been updated based on the key inflows from each market in the 2019 EPS.

Visitors (short-term arrivals and settlers) from the key non-domestic source countries identified by the EPS have increased since 2008.

Due to changes in ABS data, a five-year average uplift has been used to calculate permanent movement settlers’ numbers for January-December 2019 to ensure prudence and consistency.

In the absence of data, KPMG has made a prudent assumption that all visitors who are calculated to be smokers bring maximum cigarettes as per the duty free limit. As of July 1 2017, the maximum allowance for Australia has been reduced to 25 grams, as compared to the 50 gram limit earlier.

Figure A5.4 Overseas visitors (short term visitors and settlers) arrivals to Australia, 2008 – 2019(1)(2)(a)(b)(c)


| Key 2019 ND source countries | 0.7% | 7.0% | 8.5% | 1.4% |
| Total arrivals | 1.7% | 5.8% | 6.4% | 1.8% |

Figure A5.5 Overseas visitors arrivals from key 2018 non-domestic source countries, 2008 – 2019(1)(2)(a)(b)(c)(d)

Notes:
(a) Key non-domestic source countries have been selected from the EPS carried out in Q2 2018 and Q4 2018, the countries shown in the graph above accounted for over 65% of the non-domestic cigarette sticks found in Australia excluding sticks that come from unspecified countries.
(b) ND(L) volumes are estimated using actual travel data from January 2019 to December 2019.
(c) Australian Bureau of Statistics stopped publishing data for permanent settlers since 2017, to calculate the same a five-year average uplift has been used to calculate permanent movement settlers’ numbers for January-December 2019.
(d) Some of the labels with value less than 3% have been removed for clarity.

Sources:
Appendix

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

A5 Non-domestic legal calculation (cont.)

Figure A5.6 Example non-domestic legal calculation (inbound)

<table>
<thead>
<tr>
<th>Inbound visitor arrivals</th>
<th>% population above 18</th>
<th>% population smokers</th>
<th>Amount per trip (max. allowance of 25g)</th>
<th>Total (Kg)</th>
</tr>
</thead>
</table>

Notes: (a) The legal allowance limit was changed to 25 grams applicable from 1st July 2017.  
(b) KPMG has used a prudent approach and assumed that 100% of visitors arriving in Australia purchase the maximum inbound traveller allowance.  
(c) A five-year average uplift has been used to calculate permanent movement settlers' numbers for January-December 2019.  
(d) Inbound visitor arrivals to include arrivals of short term overseas visitors and permanent settlers.  
(e) Population within the age group 18-64 years.  
(f) The total amount purchased by travelers from individual source countries may slightly differ from the total amount brought into Australia by inbound tourists due to minor differences in the six year average uplift used to calculate permanent movement settlers' numbers.

Sources:  

Example of KPMG non-domestic legal calculation based on overseas visitor arrivals to Australia

<table>
<thead>
<tr>
<th>Source</th>
<th>Inbound visitor arrivals (m)</th>
<th>% population above 18</th>
<th>% population smokers</th>
<th>Number of visitors bringing tobacco (m)</th>
<th>Amount purchased (kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1.48</td>
<td>67%</td>
<td>28%</td>
<td>0.278</td>
<td>6,956</td>
</tr>
<tr>
<td>Korea</td>
<td>0.28</td>
<td>70%</td>
<td>19%</td>
<td>0.037</td>
<td>913</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.22</td>
<td>63%</td>
<td>37%</td>
<td>0.050</td>
<td>1,240</td>
</tr>
<tr>
<td>Japan</td>
<td>0.50</td>
<td>57%</td>
<td>17%</td>
<td>0.048</td>
<td>1,205</td>
</tr>
<tr>
<td>USA</td>
<td>0.83</td>
<td>61%</td>
<td>13%</td>
<td>0.066</td>
<td>1,643</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.17</td>
<td>58%</td>
<td>23%</td>
<td>0.024</td>
<td>589</td>
</tr>
<tr>
<td>India</td>
<td>0.44</td>
<td>61%</td>
<td>7%</td>
<td>0.018</td>
<td>444</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.73</td>
<td>60%</td>
<td>13%</td>
<td>0.058</td>
<td>1,444</td>
</tr>
<tr>
<td>Taiwan</td>
<td>0.20</td>
<td>69%</td>
<td>12%</td>
<td>0.016</td>
<td>404</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4.85</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>14,837</strong></td>
</tr>
</tbody>
</table>

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 (0.2%).

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

Total non-domestic legal consumption represents 0.2% of total consumption in Australia

A5 Non-domestic legal calculation (cont.)

The estimate of non-domestic legal volumes above comprises the legitimate flows from the main source countries as 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 full allowance, we would derive an ND(L) volume of approximately 35.5 tonnes or 0.24% 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.

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

Store based retailing continued to be a major distribution channel accounting for 96% of all sales for cigarettes and smoking tobacco. E-commerce remains a small channel, representing only 2% of sales.(1)

Although the traditional retailing channels continue to dominate tobacco sales, the RMR consumer survey results indicated that in 2013, 1.8% of purchasers of unbranded tobacco did so via the internet, whilst this has decreased to 3.5% in H2 2019 from 4.5% in H2 2018.(2)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Outbound trips ('000 kg)</td>
<td>28.6</td>
<td>34.6</td>
<td>33.7</td>
<td>46.0</td>
<td>34.1</td>
<td>10.1</td>
<td>10.5</td>
<td>14.0</td>
<td>13.8</td>
<td>9.1</td>
<td>7.0</td>
<td>8.5</td>
</tr>
<tr>
<td>Inbound trips ('000 kg)</td>
<td>11.2</td>
<td>15.6</td>
<td>20.6</td>
<td>24.2</td>
<td>19.1</td>
<td>13.5</td>
<td>14.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total ND(L) ('000 kg)</td>
<td>28.6</td>
<td>34.6</td>
<td>33.7</td>
<td>46.0</td>
<td>34.1</td>
<td>21.3</td>
<td>26.1</td>
<td>34.6</td>
<td>38.0</td>
<td>28.2</td>
<td>20.5</td>
<td>23.4</td>
</tr>
</tbody>
</table>

Notes:
(a) ND(L) volumes are estimated using actual travel data from January 2019 to December 2019.
(b) Figures for outbound trips have been restated for 2014, 2015, 2016 as we have updated the smoking prevalence numbers as per the new AIHW survey.
Sources:
(1) Euromonitor, Tobacco in Australia, 2018
(7) KPMG Analysis.
Appendix

Illicit Whites flows methodology

A6 Illicit Whites flows analysis

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.

Feedback on our approach to Illicit Whites definitions had suggested that we did not capture flows of Illicit White brands that have packaging designed for the domestic Australian market. In 2016, we adapted our approach in an attempt to assess these flows. Therefore, our analysis now includes both branded cigarette packs as well as the packs which are in plain packaging.

Domestic Illicit Plains

To identify which brands made up Domestic Illicit Plains brand flows, KPMG undertook the following analysis:

— All domestic cigarette brands in the EPS data were compiled for analysis. The list was corroborated through an analysis of Aztec - IRI scan sales data(a) (and pack labelling as per EPS). EPS determined volumes were compared to legally reported sales of these brands to determine an estimated share of total consumption.

— Brand flows were also compared with the brand lists published in The Retail Tobacconist trade magazine(1), which has a comprehensive list of legitimate brands. Brands included in this publication were then eliminated.

— Consistent with our approach in Project Stella, KPMG has conservatively assumed that, where consumption implied by the EPS volumes represented > 99% of total legal consumption, the brand is considered a Domestic Illicit Plain.

Table A6a Domestic Illicit Plains identification process, Illicit Tobacco in Australia – worked example

<table>
<thead>
<tr>
<th>Domestic volume (bn sticks)</th>
<th>LDS volume (bn sticks)</th>
<th>ND volumes as a share of total consumption</th>
<th>Illicit White volumes by brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand A</td>
<td>0.01</td>
<td>-</td>
<td>100%</td>
</tr>
<tr>
<td>Brand B</td>
<td>0.24</td>
<td>0.00</td>
<td>100%</td>
</tr>
<tr>
<td>Brand C</td>
<td>0.01</td>
<td>-</td>
<td>100%</td>
</tr>
<tr>
<td>Brand D</td>
<td>0.01</td>
<td>0.01</td>
<td>38%</td>
</tr>
</tbody>
</table>

Brands A, B and C are classified as a Domestic Illicit Plain since there is no evidence of legal distribution and all flows are unspecified origin. Brand D is not classified as a Domestic Illicit Plain where the domestic volumes are 38% of the consumption.

Notes: (a) The Aztec IRI scan sales data reflect the sales made to consumers only.

Sources: (1) Australian Retail Tobacconist, Q4 2019.
(2) WSPM, empty pack surveys, Q2 2019 and Q4 2019.
(3) MSIntelligence Research, Empty Pack Surveys, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015, Q4 2015, Q2 2016, Q4 2016, Q2 2017, Q4 2017, Q2 2018 and Q4 2018.
(3) Aztec - IRI monthly scan data, Jan 2019 – December 2019.
Appendix

Illicit Whites flows methodology (cont.)

A6 Illicit Whites flows analysis

Illicit Whites (non-domestic)

To identify which non-domestic brands made up Illicit Whites brand flows, KPMG undertook the following analysis:

— All non-domestic labelled cigarette brands were compiled to form an initial list of brands.
— These brands were then compared with the Aztec - IRI scan data\(^1\) (which records most brands being sold through most legitimate channels). Brands included in the Aztec - IRI data were then eliminated from the list.
— Remaining brands were then compared with the brand lists published in The Retail Tobacconist trade magazine.\(^2\) 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 Whites.

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 A6b Illicit Whites (non-domestic) identification process for, Illicit Tobacco in Australia – worked example

<table>
<thead>
<tr>
<th></th>
<th>2019 Non-domestic volume (bn sticks)</th>
<th>Aztec - IRI scan data?</th>
<th>Retail tobacconist?</th>
<th>Illicit White brand flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand A</td>
<td>0.02</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Brand B</td>
<td>0.15</td>
<td>No</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Brand C</td>
<td>0.06</td>
<td>No</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Brand D</td>
<td>0.01</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Brand E</td>
<td>0.01</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
</tbody>
</table>

Note: Only the brand flows which are not present in both the Aztec - IRI scan data and the retail tobacconist are categorised as Illicit White flows.

Notes:
\(a\) Third party sources include Euromonitor tobacco reports which were used for further verification.

Sources:
\(^1\) Aztec - IRI monthly scan data, Jan 2019 – December 2019.
\(^2\) Australian Retail Tobacconist, Q4 2019.
\(^3\) WSPM, empty pack surveys, Q2 2019 and Q4 2019.
\(^4\) MSIntelligence Research, Empty Pack Surveys, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015, Q4 2015, Q2 2016, Q4 2016, Q2 2017, Q4 2017, Q2 2018 and Q4 2018.
Appendix

Notes to this report

A7 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 that 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 approach 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

<table>
<thead>
<tr>
<th>Source</th>
<th>Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Whilst the EPS is designed to be representative of the overall population, it is not possible to ensure the sample is fully representative because:</td>
</tr>
<tr>
<td></td>
<td>- 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)</td>
</tr>
<tr>
<td></td>
<td>- 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.</td>
</tr>
<tr>
<td></td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>In 2019, there were changes in the type of bins in Australia in some of the major cities. The new ‘smart locked bins’ made it difficult for the provider to collect the discarded packs from bins and a change in the proportion of sample for number of packs collected from bins and streets was observed. The provider has said that this change in proportion has had no impact on the survey result and methodology is consistent with those of previous surveys.</td>
</tr>
<tr>
<td>Non-major manufacturer (non-participating) counterfeit</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>As a result, for brands which are not trademark-owned by BATA, ITA or PML, it is not possible to identify counterfeit (non-domestic variants) products.</td>
</tr>
<tr>
<td></td>
<td>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).</td>
</tr>
<tr>
<td></td>
<td>Illicit White volumes may include counterfeit. However, the presence of counterfeit is unlikely to have a major impact as counterfeit volumes in 2019 only represented a small proportion (0.66%) of the total sample of the three participating manufacturers brand flows and counterfeit is typically concentrated on the most popular brands only.</td>
</tr>
</tbody>
</table>
Appendix

Notes to this report (cont.)

A7 Notes to this report (cont.)

<table>
<thead>
<tr>
<th>Illicit tobacco in Australia</th>
<th>Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source</td>
<td>Overview</td>
</tr>
</tbody>
</table>
| LDS                         | There are minor variations in the LDS data provided by Aztec - IRI and industry stakeholders 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). KPMG has taken Aztec - IRI data directly from industry companies.  
  Slight timing variances may arise between the date the product was purchased and actual consumption. However, these variances are not considered significant and the 2019 LDS information we have from industry companies is considered to be a good representation of the market. |
| Consumer surveys            | 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 that guide the implementation of consumer surveys in Australia and the RMR survey used in this report complies with all such regulations nationally.  
  In Q4 2018 RMR supplemented the survey with an additional panel in order to meet the targeted number of respondents. The Q4 2018 sample had a higher percentage of manufactured tobacco users as compared to prior surveys (i.e. 84.1% in Q4 2018, as compared to an average of 79.2% in the period Q2 2019-Q4 2019 and an average of 83.3% in the period Q4 2016-Q2 2018).  
  As a result, the Q4 2018 survey also had a lower percentage of RYO users as compared to other surveys (i.e. 43.2% in Q4 2018, as compared to an average of 46.8% in the period Q2 2019-Q4 2019 and an average of 44.8% in the period Q4 2016 to Q2 2018).  
  The potential impact on the 2018 results is that it may have resulted in a relatively lower recorded rate of awareness, frequency of purchase per annum, penetration of use and average volume purchased of unbranded tobacco.  
  As a result, our estimates for unbranded consumption in 2018 illicit unbranded consumption could be underreported on a like for like basis. If this is the correct then the growth rate in estimated unbranded consumption between 2019 and 2018 would be overstated.  
  Although the consumer survey is designed to be nationally representative of the population, there are certain limitations associated with consumer surveys, such as:  
  - Information obtained from a consumer survey is based on a sample rather than the entire population and therefore data is subject to sampling variability.  
  - 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. 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. |

Sources:
(2) Temporal changes of under-reporting of cigarette consumption in population-based studies, Gallus et al, 2011.
### Illicit tobacco in Australia

<table>
<thead>
<tr>
<th>Source</th>
<th>Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>—</td>
<td>Rolling papers analysis was used in order to validate the unbranded volumes derived through the consumer survey results. However, there were limitations to the approach, specifically in estimating of cannabis usage and unclear size of each rolled cigarette (in terms of total grams).</td>
</tr>
<tr>
<td>—</td>
<td>Over the past few years, a continued divergence of results suggested either an underestimation from the consumption model or some invalid assumptions in the rolling papers analysis. Post assessment of the rolling paper analysis conducted last year it was concluded that the approach would no longer be used as a means to validate the results of the consumption model.</td>
</tr>
</tbody>
</table>

| ND(L) | 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. |
| — | Inbound settler data was available up to June 2017, after which the Australian Bureau of Statistics stopped publishing these figures. For the purpose of our analysis, we have uplifted the short term arrivals estimates by the last six years average to estimate the number of inbound settlers from January 2019 to December 2019. |
| — | We have calculated the number of cigarettes purchased by assuming smokers purchase the legal allowance. This approach 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 86, we feel that the volume consumed is unlikely to be material. |

| Outflows from Australia | — Illicit outflows from Australia are not considered to be material due to the high prices relative to other parts of the world. |

| External data sources | — We have used a series of external data sources to estimate illicit tobacco consumption in Australia in 2019. There are a number of limitations associated with these sources such as their infrequent updates (AIHW National Drug Strategy Household survey is updated every three years, with the latest survey conducted in 2016 whilst the Australian census is conducted by the ABS every five years, the most recent conducted in 2016). To update these numbers for the period of study, we make a series of assumptions as required that 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. |

Note: (a) AIHW will publish updated smoking prevalence for 2019 next year. The 2020 study for 'Illicit Tobacco in Australia' would restate the prevalence data for 2019.
Appendix

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

A8 Alternative illicit tobacco estimates

The Australian Institute of Health and Welfare’s (AIHW) National Drug Strategy Household Survey (NDSHS) 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 surveys (also conducted by RMR) including the key purpose of each, the frequency of surveys carried out, and both the size and age profile 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 survey 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 a hearing for 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)

<table>
<thead>
<tr>
<th>Comparison of RMR and AIHW consumer surveys(^{(1)(2)(4)(6)})</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RMR</strong></td>
</tr>
<tr>
<td><strong>Survey focus</strong></td>
</tr>
<tr>
<td><strong>Frequency</strong></td>
</tr>
<tr>
<td><strong>Response period</strong></td>
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<tr>
<td><strong>Response rates</strong></td>
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<tr>
<td><strong>Sample size</strong></td>
</tr>
<tr>
<td><strong>Age groups</strong></td>
</tr>
<tr>
<td><strong>Methodology</strong></td>
</tr>
<tr>
<td><strong>Language</strong></td>
</tr>
<tr>
<td><strong>Types of tobacco addressed</strong></td>
</tr>
</tbody>
</table>

Notes:
(a) Roy Morgan Research results for 2013, 2014, 2015, 2016 and 2017 are based on CAWI responses only.
(b) Results from the 2010 AIHW survey asked questions only about unbranded loose tobacco, whereas the 2016, 2013 and 2007 surveys also asked about unbranded cigarettes.

Sources:
(5) Proof Committee Hansard, Parliamentary Joint Committee on Law Enforcement, March 2016.
Appendix

The latest AIHW National Drug Strategy Household Survey results suggest reasonably similar movements in consumption.

AIHW Consumer Survey approach, 2013 and 2016(1)

The 2016 AIHW National Drug Strategy Household Survey was the first in which an online form was able to be used by participants completing the survey. For the 2013 and 2010 surveys, only a self-completion drop-and-collect method was offered. A total of 22% of questionnaires in 2016 were completed via the online method, and this may be a factor when comparisons are made over time.

Unbranded tobacco usage, AIHW and KPMG analysis comparison, 2013-2016(1)(2)

AIHW data estimates that approximately 16.5% of smokers have ever used unbranded tobacco. This figure remained constant for both the 2013 and 2016 surveys, indicating a relatively flat appeal of unbranded tobacco. Our survey suggested a 3.9% increase in the same metric from 2013 to 2016. Given the change in data collection methodology used by AIHW it is unclear whether this may have impacted the compatibility of its results over time.

Appendix

The ATO has recently produced its own calculation of illicit tobacco consumption

A9 Australian Taxation Office methodology for calculating tax gap(1)

Estimates of Illicit volume (kg ‘000) by ATO and KPMG in 2015-16(1)(2)(a)

In 2017, the Australian Taxation Office (ATO) estimated the amount of excise on illicit tobacco lost in 2015 – 16 was AUD594m, the KPMG estimate for the same period was AUD1,492m, a 151% difference.

Step 1: Estimating the size of illicit tobacco market through importation

Step 2: Estimating the size of domestic ’Chop Chop’ cultivation

Step 3: Analysing the licensed warehouse system

Below we assess the ATO methodology in order to try and understand the difference.

<table>
<thead>
<tr>
<th>Step 1: Estimating the size of illicit tobacco market through importation</th>
<th>KPMG comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>For estimating the size of the illicit tobacco market through importation, data from non-targeted tobacco detections and non-targeted inspections at the border is used to estimate the quantity of illicit tobacco arriving through sea, air cargo and international post channels.</td>
<td>ATO’s methodology which takes into account an uplift factor for leakage rate is unclear on how it will evolve over time to effectively calculate the illicit tobacco from total import volumes across these streams. The method of estimating an uplift factor is unclear.</td>
</tr>
<tr>
<td>This determines an implied uplift, or leakage rate, for illicit tobacco crossing the border, which is extrapolated across total import volumes for each channel to derive illicit tobacco from these streams.</td>
<td>ATO estimates total volume lost through international passenger channel as small, and thus has not accounted for this in its methodology.</td>
</tr>
<tr>
<td>Leakage through the international passenger channel is not accounted for in this approach.</td>
<td>There is a price incentive for people to smuggle cigarettes into Australia in large number of vast small consignments, this process is termed as ‘ant-smuggling’ in Europe.(3) This might add to the illicit volume of tobacco in the country which is not accounted for in ATO’s approach.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Step 2: Estimating the size of domestic ’Chop Chop’ cultivation</th>
<th>KPMG comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>This involves estimating the size of domestic ’Chop Chop’ cultivation. All tobacco grown in Australia for consumption is illicit.</td>
<td>ATO’s methodology which takes into account an uplift factor for undetected home grown tobacco for consumption is unclear on how it will evolve over time to effectively recalculate future levels of illicit tobacco.</td>
</tr>
<tr>
<td>To create an uplift factor for cultivated tobacco that has not been detected or reported to authorities, they analyse the value of seizures, risk, and intelligence referrals for domestically cultivated tobacco.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Step 3: Analysing the licensed warehouse system</th>
<th>KPMG comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>This is done to account for 'Leakages' which occur where tobacco that has entered the warehouse system exits without tobacco duty being paid as for the majority of tobacco imports the customs duty is deferred until it exits the licensed warehouse system.</td>
<td>This type of illicit is not captured by our approach</td>
</tr>
</tbody>
</table>

Note: (a) ATO volume estimates exclude seizures through compliance activity calculated during step 1 (illicit tobacco market through importation) and step 2 (market through domestic Chop Chop cultivation).

Sources: (1) Australian Taxation Office, Tobacco Tax Gap.
(2) KPMG Illicit Tobacco Report for 2015.
(3) ‘Cigarette smuggling in Europe: who really benefits?’, Luk Joossens, Tobacco Control.
Appendix

The ATO has recently produced its own calculation of illicit tobacco consumption (cont.)

A9 Australian Taxation Office methodology for calculating tax gap

<table>
<thead>
<tr>
<th>Step 4: Compare total illicit amounts to legal clearances</th>
<th>Australian Taxation Office</th>
<th>KPMG comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In this step the ATO sums the illicit tobacco estimates from steps 1, 2 and 3 to arrive at the gross gap of duty paid from all channels.</td>
<td>A mathematical calculation based on steps 1-3</td>
</tr>
<tr>
<td></td>
<td>Estimates of legal clearances (duty paid on the inflow of legal tobacco) are added to the gross gap.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>This amounts to an estimated value for the total theoretical clearances of tobacco (duty that should have been paid on the inflow of total tobacco if all products entered legally).</td>
<td></td>
</tr>
</tbody>
</table>

| Step 5: Deduct compliance and seizures to determine net gap | The last step involves deducting the total seizures estimated by ATO and Home Affairs compliance activities and seizures (across all channels) from the gross gap to arrive at the net gap. | A mathematical calculation based on internal ATO and Home Affairs data |

Sources: (1) Australian Taxation Office, Tobacco Tax Gap.
Appendix

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, 2014, 2015, 2016, 2017 and 2018 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, full year 2015, full year 2016, full year 2017 MSI reports and full year 2018 Roy Morgan Research report, commissioned and provided to us by BATA, PML and ITA; 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 (EPS) approach: using EPS data commissioned and provided to us by BATA, PML and ITA; namely:

— Analyse the data output from WSPM 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 seizures data and historical consumption trends to help to validate findings.
Appendix

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 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 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 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?
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?
Appendix

Questions asked by the consumer survey (cont.)

A11 Roy Morgan Research questionnaire (cont.)

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?
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?
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?
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)?
Appendix

Questions asked by the consumer survey (cont.)

A11 Roy Morgan Research questionnaire (cont.)

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 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). 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?
Appendix

Questions asked by the consumer survey (cont.)

A11 Roy Morgan Research questionnaire (cont.)
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 one 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)
In the past 12 months, how often did you purchase tubes for smoking loose tobacco?
What is your regular brand of tubes for smoking loose tobacco, that is, the one you use more than any other brand now-a-days?
When you last purchased tubes for smoking loose tobacco, from which outlet or outlets did you buy it?
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 other 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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139. MSIntelligence Research, Empty Pack Survey, Q2 2013, Q4 2013, Q2 2014, Q4 2014, Q2 2015, Q4 2015, Q2 2016, Q4 2016, Q2 2017, Q4 2017, Q2 2018 and Q4 2018.
151. Australian Retail Tobacconist, 2019.