

# Illicit trade of tobacco in Australia: Report for 2011

*A report prepared for British American Tobacco  
Australia Limited, Philip Morris Limited and Imperial  
Tobacco Australia Limited*





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# Key points

- The purpose of this report is to track changes in the nature and size of the illicit tobacco market in Australia relative to our previous report 'Illicit trade in tobacco in Australia' published in February 2011
- The content and conclusions in this report are based on two key sources of information: a telephone based survey of adult tobacco users in Australia conducted by Roy Morgan Research in November 2011 and a literature review conducted by Deloitte of reports and commentary on the issue of illicit tobacco published over the previous 12 months
- The illicit tobacco market in Australia for 2011 is estimated to total 2.264 million kilograms of tobacco which is equivalent to 13.4% of the estimated legal tobacco market
- While this represents a decrease on the estimated market size for 2010 (2.6 million kilograms), there appears to have been significant shift in composition of the illicit tobacco market
- In the last year there appears to have been a structural change in the illicit tobacco market with survey respondents reporting a marked change from purchasing unbranded tobacco to purchasing counterfeit and contraband tobacco:
  - Counterfeit tobacco consumed in 2011 is estimated to total 407,000 kilograms – more than triple the 116,000 kilograms estimated for 2010
  - Contraband tobacco consumed in 2011 is estimated to total 430,000 kilograms – more than triple the 134,000 kilograms estimated for 2010
  - Unbranded tobacco consumed in 2011 is estimated to be 1,427,000 kilograms which represents a decrease of nearly 40% from the 2,430,000 kilograms estimated for 2010.
- The reported change in composition of the illicit market is consistent with anecdotal evidence from the tobacco industry and also published data from the Australian Customs and Border Protection Service which reported a significant increase in the proportion of illicit tobacco sticks seized in the 2010–11 reporting period compared to previous years
- Based on the estimate of illicit tobacco consumed in 2011, the total equivalent tobacco excise revenue foregone was close to \$1 billion
- The proportion of survey respondents who reported purchasing illicit tobacco has increased since 2010
- There has also been a increase in the number of people reporting they bought illicit tobacco from family and friends.

# Illicit tobacco as defined by the Tobacco Industry Forum

Illicit tobacco	Definition
<b>Unbranded tobacco</b>	<ul style="list-style-type: none"><li>• Sold as finely cut loose leaf tobacco in half kilogram or one kilogram amounts</li><li>• May be grown illicitly without a licence in Australia but is most commonly imported</li><li>• Carries no labelling or health warnings</li><li>• Consumed in RYO form or inserted into empty cigarette tubes and sold in boxes which are available from tobacco retailers</li><li>• Commonly known as 'chop chop.'</li></ul>
<b>Counterfeit cigarettes</b>	<ul style="list-style-type: none"><li>• Made from tobacco leaf</li><li>• Specifically manufactured overseas in countries with large scale tobacco production and sophisticated tobacco manufacturing machinery</li><li>• Illicitly smuggled into Australia most commonly via ports on large container freight and other channels including airmail and online purchases</li><li>• Carry trademark or branding without the consent of the trademark owner to imitate popular legitimate tobacco product brands</li><li>• Do not adhere to industry production standards</li><li>• Pose additional serious health risks</li><li>• Also known as fake cigarettes.</li></ul>
<b>Contraband cigarettes</b>	<ul style="list-style-type: none"><li>• Any cigarettes, counterfeit or genuine, that are sold without the payment of applicable excise taxes</li><li>• Manufactured legally outside of Australia adhering to local regulations and smuggled into the Australian market</li><li>• Carry legitimate trademarks</li><li>• Avoid government regulations, quarantine inspections and ingredient controls.</li></ul>

Source: Tobacco Industry Forum

# Abbreviations

Organisation	Acronym
Australian Commission for Law Enforcement Integrity	ACLEIS
Australian Crime Commission	ACC
Australian Institute of Health and Welfare	AIHW
Australian Customs and Border Protection Service	ACBPS
Australian Taxation Office	ATO
British American Tobacco Australia	BATA
Intergovernmental Negotiating Body on a Protocol on Illicit Trade in Tobacco Products	INB
Imperial Tobacco Australia	ITA
Philip Morris Limited	PML
Roy Morgan Research	RMR
Tobacco Industry Forum	TIF
World Customs Organization	WCO
World Health Organization	WHO

# Tracking the illicit tobacco market

The tobacco industry has commissioned a number of reports that track the illicit tobacco market in Australia. The titles of these reports, reporting periods and relationship to the Roy Morgan Tobacco Usage Survey are highlighted below.

Report	Reporting period	RMR Survey	RMR Survey timing
February 2011 Report	January 2010 to December 2010	Roy Morgan Research, <i>October 2010 Tobacco Usage Study</i>	<i>September/ October 2010</i>
June 2011 Update	Highlights key market developments which have occurred since the February 2011 Report	Roy Morgan Research, <i>April 2011 Tobacco Usage Study</i>	<i>March/April 2011</i>
May 2012 Report	January 2011 to December 2011	Roy Morgan Research, <i>November 2011 Tobacco Usage Study</i>	<i>November/ December 2011</i>



# Executive summary

This report was commissioned by British American Tobacco Australia Limited (BATA), Philip Morris Limited (PML) and Imperial Tobacco Australia Limited (ITA).

The purpose of this report is to track changes in the nature and size of the illicit tobacco market in Australia relative to our previous report 'Illicit trade of tobacco in Australia' published in February 2011.

In November 2011, Roy Morgan Research (RMR) conducted a telephone-based survey of adult tobacco users in Australia (November 2011 RMR Tobacco Usage Study). The results of the survey were incorporated in a consumption model developed by Deloitte to estimate the size of the illicit tobacco market.

In addition, the results of the survey provide information on the supply side characteristics of the illicit tobacco market in Australia and an indicative profile of illicit tobacco users\*.

\* This report relates to illicit tobacco users 18 years and over

## Key findings

The key findings from the RMR survey and results of this report are:

- Market size – the illicit tobacco market in Australia for 2011 is estimated to total 2.264 million kilograms of tobacco which is equivalent to 13.4% of the estimated legal tobacco market
- Key emerging trend – while there is a decrease in the estimated market size compared to 2010

(2.6 million kilograms), there appears to have been significant shift in composition of the illicit tobacco market with survey respondents reporting a marked change from purchasing unbranded tobacco to purchasing counterfeit and contraband tobacco

- Counterfeit tobacco – counterfeit tobacco consumed in 2011 is estimated to total 407,000 kilograms, more than triple the 116,000 kilograms estimated for 2010
- Contraband tobacco – contraband tobacco consumed in 2011 is estimated to total 430,000 kilograms which is more than triple the 134,000 kilograms estimated for 2010
- Unbranded tobacco – unbranded tobacco consumed in 2011 is estimated to be 1,427,000 kilograms which represents a decrease of nearly 40% from the 2,430,000 kilograms estimated for 2010
- Excise – the total equivalent excise revenue foregone was close to \$1 billion.

## Illicit tobacco market size

As detailed in Table E-1 below, Deloitte estimates the amount of illicit tobacco purchased in Australia in 2011 to be approximately 2.264 million kilograms. The size of the illicit tobacco market, represented as a proportion of the legal tobacco market in Australia for 2011, is estimated to be 13.4 per cent of the legal tobacco market.

The estimated 2.264 million kilograms of illicit tobacco consumed represents foregone tobacco excise revenue of approximately \$1 billion based on current excise rates.

Table E-1: Headline results

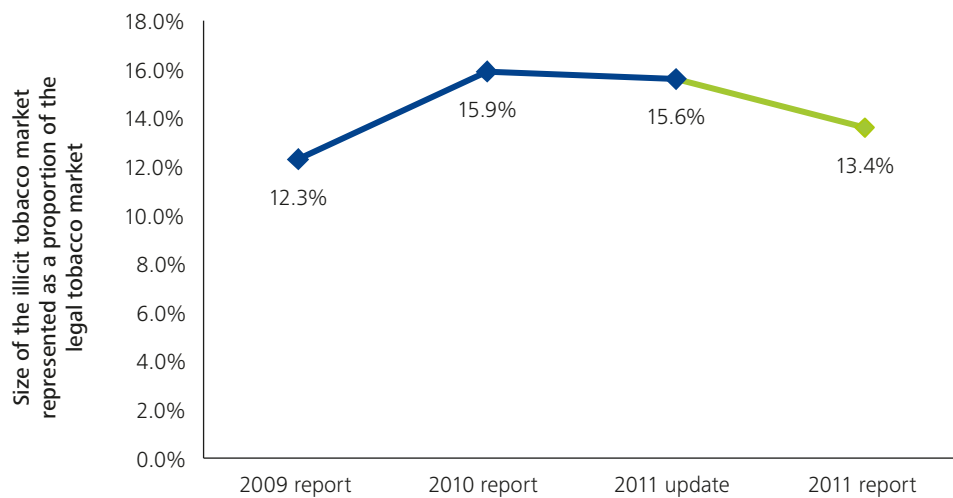
Market indicator	2009 estimate <sup>1</sup>	2010 estimate	2010 update estimate	2011 estimate
Amount of illicit tobacco purchased ('000 kg)	2,348	2,680	2,628	2,264
Size of the illicit tobacco market represented as a proportion of the legal tobacco market	12.3%	15.9%	15.6%	13.4%
Equivalent excise value (\$m)	\$624	\$1,126	\$1,105	\$982

Source: PricewaterhouseCoopers 2010<sup>1</sup>; Deloitte 2011, Deloitte analysis 2012.

1 PricewaterhouseCoopers, 2010.

In 2011 the illicit tobacco market continued to be significant, albeit smaller than the 2010 estimate. Figure E-1 below demonstrates that since 2009, the estimated illicit tobacco market size continues to be in a range of between approximately 12 per cent and 16 per cent of the equivalent size of the legal tobacco market.

**Figure E-1: Size of the illicit tobacco market**



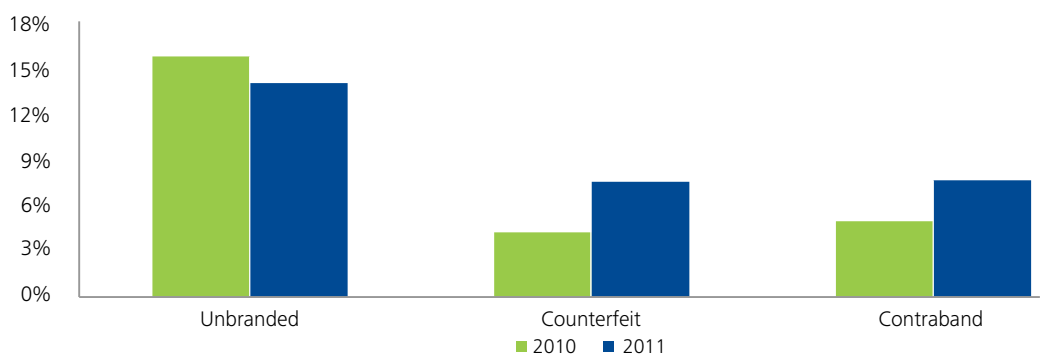
**Changes to surveyed consumer behaviour**

The results from the November 2011 RMR Tobacco Usage Study found a number of changes in the behaviour of consumers, including a significant increase over the previous year in the proportion of survey respondents indicating they purchased counterfeit and contraband products.

As outlined in Figure E-2 the proportion of respondents indicating they purchased contraband and counterfeit tobacco products has increased significantly when compared against the previous year.

The increase in the proportion of survey respondents indicating they purchased counterfeit and contraband tobacco products is supported by consultations with tobacco industry which has identified a trend toward contraband and counterfeit tobacco within the illicit tobacco market. This view is supported by data from the Australian Customs and Border Protection Service (ACBPS) which found a significant increase in the proportion of illicit tobacco sticks seized in 2010–11 when compared against recent years.

**Figure E-2: Proportion of survey respondents who reported purchasing illicit tobacco products**



The November 2011 RMR Tobacco Usage Survey also found a significant increase in the quantities of counterfeit and contraband tobacco products being purchased per occasion by survey respondents. The survey found a marginal increase in the quantity of unbranded tobacco products being purchased per occasion. This is outlined in Table E-2 below.

**Table E-2: Quantity of tobacco purchased per occasion**

Quantity of tobacco purchased per occasion (grams)	Unbranded tobacco	Counterfeit tobacco	Contraband tobacco
October 2010 RMR Tobacco Usage Study	334 g	258 g	224 g
November 2011 RMR Tobacco Usage Study	338 g	660 g	517 g

# 1. Introduction

## 1.1 Purpose of this study

This report was commissioned by BATA, PML and ITA.

The purpose of this report is to:

- Provide an overview of the nature and dynamics of the illicit tobacco market in Australia
- Provide an update to the estimated size of the illicit tobacco market in Australia (as a proportion of the legal tobacco market) from the 2011 Deloitte study into the size of the illicit tobacco market in 2010 (the February 2011 Report).

In November 2011, Roy Morgan Research (RMR) conducted a telephone-based survey of adult tobacco users in Australia (November 2011 RMR Tobacco Usage Study). The results of the survey were inputted into a consumption model developed by Deloitte to derive the estimate of the size of the illicit tobacco market. In addition, the survey results provide information regarding the supply side characteristics and indicative profile of illicit tobacco users.\*

\* This report relates to illicit tobacco users 18 years and over

## 1.2 Report structure

This report covers the key characteristics of the illicit market and provides an indicative estimate of its size in Australia. The report's structure is outlined below:

- Part A: Recent changes
  - Section 2: Regulation and taxation
  - Section 3: Seizures and enforcement
- Part B: Approach to estimating the illicit tobacco market
  - Section 4: Roy Morgan Tobacco Usage Study
  - Section 5: Comparison to other studies
- Part C: Results from the RMR Survey
  - Section 6: Supply of illicit tobacco
  - Section 7: Profile of illicit tobacco users
- Part D: Estimate of the illicit tobacco market size.

## 1.3 Legal tobacco market overview

The tobacco market consists of cigarettes, cigars and cigarillos, roll-your-own (RYO) and pipe tobacco. In 2011, the estimated value of the global tobacco market was US\$780.7 billion.<sup>2</sup> The Australian tobacco market was estimated to be worth AU\$10.8 billion for the same year (see Table 1-1)<sup>3</sup>. This represents a slight increase compared to the previous year.

Table 1-1: Tobacco market size, 2011

Year	Global market value (US\$ billion)	Australian market value (AU\$ billion)
2006	\$646.8	\$9.395
2007	\$669.9	\$9.669
2008	\$693.2	\$9.946
2009	\$720.5	\$10.223
2010*	\$749.5	\$10.502
2011*	\$780.7	\$10.782

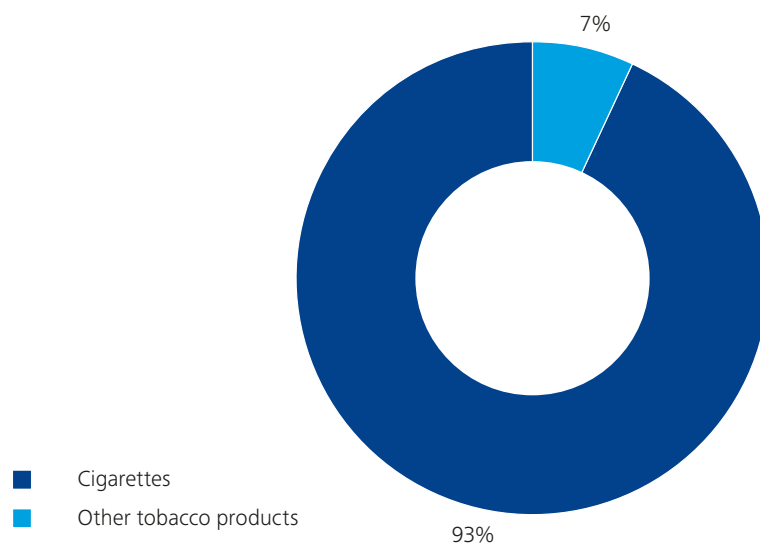
\*Note: Data is actual to 2009 and forecast beyond this. Source: Datamonitor 2011a; Datamonitor 2011b

Cigarettes are estimated to account for 93 per cent of the value of tobacco products sold in Australia with cigars, cigarillos, RYO and pipe tobacco comprising the remainder of the market. These proportions are unchanged from 2010.

2. Datamonitor, 2011a

3. Datamonitor, 2011b

Figure 1-1: Legal tobacco market segmentation by value, 2011



Source: Datamonitor 2011b

### 1.3.1 Tobacco cultivation and manufacturing

Commercial tobacco has not been grown in Australia since 2006. BATA and PML manufacture Australian-made cigarettes using imported tobacco leaf. Although ITA is a major company in the Australian tobacco industry, it does not have local manufacturing operations. BATA manufactures for ITA. All three companies also source product from overseas factories.

Tobacco products are sold throughout Australia through an estimated 35,000 retail businesses.<sup>4</sup> The majority of tobacco products are sold at supermarkets with the remainder of sales being made primarily at convenience stores, specialist retailers (i.e. tobacconists) and service stations.

### 1.3.2 Tobacco duties in Australia

As at February 2012, the Federal Government currently levies the following duty rates on tobacco (this does not include customs duties levied on imports):

- \$0.34681 per stick (stick form not exceeding 0.8 grams in weight per stick of actual tobacco content)
- \$433.53 per kilogram of tobacco content (for those tobacco products in loose form or those in stick forms which weigh more than 0.8 grams).<sup>5</sup>

These taxation rates are indexed twice a year in line with movements in the consumer price index (excluding any one-off increases).

In 2010–11 the Federal Government raised \$6.387 billion in excise revenues from tobacco products (this does not include customs duties levied on imports) which accounts for approximately 2.06 per cent of Australia's taxation revenue.<sup>6</sup>

4. Scollo & Winstanley, 2008

5. Australian Taxation Office, 2012

6. Commonwealth Treasury, 2011

### Box 1-1: Tobacco duties in Australia

Duty-paid clearances of Australian-made and imported tobacco products destined for sale in Australia are levied by the Federal Government. There are two forms of such duties:

- Excise duty: levied on tobacco products that are produced or manufactured in Australia but which are not destined for export
- Customs duty: levied on tobacco products imported for sale in Australia which are comparable to those subject to excise.

Imported tobacco products attract customs duty levied at the same rate as the excise rate to ensure that imported and locally-produced tobacco products are taxed in an equivalent manner.<sup>7</sup>



### 1.4 Illicit tobacco market overview

The Tobacco Industry Forum (TIF) was formed to enable discussion of key aspects related to the illicit tobacco market. The TIF is a consultative forum that provides key corporate representatives with interests in the tobacco industry, senior staff from the Australian Taxation Office (ATO) and the Australian Customs and Border Protection Service (ACBPS) with a forum for consultation and discussion on issues of mutual concern regarding the tobacco industry.

The TIF defines three types of illicit tobacco products available within Australia:

- Unbranded tobacco
- Counterfeit cigarettes
- Contraband cigarettes.

Illicit tobacco products can be available for purchase from both legitimate tobacco retailers and black market suppliers.

7. Commonwealth of Australia, 2010



## 2. Regulation and taxation

### 2.1 Introduction of new regulation

A number of new regulations were introduced or implemented in 2011 and early 2012.

These relate to the following areas:

- Plain packaging
- Retail display
- Product regulation.

These are illustrated in Table 2-1 below:

**Table 2-1: Recent anti-smoking regulation**

Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
Australia	<i>Tobacco Plain Packaging Act 2011;</i>	Plain packaging of tobacco	1 December 2012	All tobacco products must be sold in plain packaging (local manufacturers must be compliant by 1 October 2012).
	<i>Trade Marks Amendment (Tobacco Plain Packaging) Act 2011</i>		1 December 2012	
	<i>Tobacco Advertising Prohibition Amendment Act 2012</i>	Advertising restriction	6 March 2012	Online tobacco retailers will have to display health warnings and comply to restrictions on advertisement wording under the same legislation that other forms of advertising are covered.
New South Wales	–	–	–	–
Victoria	<i>Tobacco Act 1987</i>	Retail Display Ban	1 January 2011	A ban on the display of tobacco products at point-of-sale with an exemption for certified 'specialist tobacconists' and on airport duty free retailers.
		Product Ban	18 November 2011	A ban on the sale of fruity, sweet or confectionery-flavoured cigarette rolling papers, cigar wraps and cigarillos.
Queensland	<i>Tobacco and Other Smoking Products Act 1998</i>	Retail Display Ban	18 November 2011	A ban on the display of tobacco products at point-of-sale.
South Australia	<i>Tobacco Products Regulation Act 1997;</i> <i>Tobacco Products Regulations 2004.</i>	Retail Display Ban	1 January 2012	A ban on the display of tobacco products at point-of-sale, with an exemption sun-setting in 2014 for specialist tobacconists.



Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
Tasmania	<i>Public Health Act 1997</i>	Retail Display Ban	1 March 2012	Specialist tobacconists included in retail display ban, removing earlier exemption.
		Removal of tobacco from shopper loyalty programs	1 March 2012	Tobacco products are prohibited from earning points under shopper loyalty initiatives.
		Licensing of tobacco retailers	1 March 2012	<ul style="list-style-type: none"> <li>Licences must be obtained prior to selling products from additional venues</li> <li>Licenses are not transferable to new business owners</li> <li>Licences will not be displayed in premises.</li> </ul>
		Vending Machine restrictions	1 March 2012	Tobacco vending machines now restricted to one machine per site within specified locations.
Northern Territory	<i>Tobacco Control Act</i>	Retail Display Ban	2 January 2011	A ban on the display of tobacco products at point-of-sale.
		Licencing of tobacco retailers	2 January 2011	The introduction of an annual licence fee on licensed tobacco retailers, mandatory reporting of sales data and a ban on fruit and sweet flavoured cigarettes.
Australian Capital Territory	<i>Tobacco Act 1927</i>	Retail Display Ban	1 January 2011	Specialist tobacconists included in retail display ban, removing earlier exemption.

## 2.2 Global organisations and initiatives

The trade of illicit tobacco products continue to represent a significant global issue. The World Customs Organization (WCO) has reported unparalleled growth in the trade of illicit tobacco products and has called for greater cooperation between countries to tackle this trade.<sup>8,9</sup>

In 2011, the World Health Organizations' Intergovernmental Negotiating Body on a Protocol on Illicit Trade in Tobacco Products (INB) continued to develop a protocol on the illicit trade of tobacco. The final text of the protocol (see Box 2.1 for extract from the preamble to the current draft) is due to be considered in late 2012.

### Box 2.1: World Health Organizations' Intergovernmental Negotiating Body on a Protocol on Illicit Trade in Tobacco Products<sup>10</sup>

"The Parties to this Protocol,

Deeply concerned that the magnitude and pervasiveness of illicit trade in tobacco products is contributing to the spread of the tobacco epidemic, which is a global problem with serious consequences for public health that calls for effective, appropriate and comprehensive domestic and international responses...

Recognizing further that illicit trade in tobacco products undermines price and tax measures designed to strengthen tobacco control and thereby increases the accessibility and affordability of tobacco products...

Aware of the need to develop scientific, technical and institutional capacity to plan and implement appropriate national, regional and international measures to eliminate all forms of illicit trade in tobacco products...

Recognizing also that illicit trade in tobacco products undermines and adversely affects the economies of the Parties and threatens their stability, security and sovereignty...

Recalling Article 15 of the WHO Framework Convention on Tobacco Control, in which Parties recognize, inter alia, that the elimination of all forms of illicit trade in tobacco products, including smuggling, illicit manufacture and counterfeiting, is an essential component of tobacco control."

8. World Customs Organization, 2011a

9. World Customs Organization, 2011b

10. World Health Organization, 2011

Globally, counterfeiting is recognised as a growing social and economic problem by the WCO. The WCO reports that cigarettes are ideal commodities for illicit trade given their portability, relatively high cost and high rates of applied excise. It has also said that smuggling routes are continuing to diversify.<sup>11</sup>

*“Cigarettes are of high value, highly taxed, readily portable and ideal commodities to be traded illegally.” (World Customs Organization)*

The WCO has also expressed concern that transnational crime groups involved in the illegal smuggling of tobacco may be linked with international terrorism organisations.<sup>12</sup>

In addition to government action, tobacco companies can pursue convictions in a civil manner in response to infringements of their intellectual property (see Box 2.2). Over the recent past, at least one major tobacco company took legal action against six tobacco retailers for selling counterfeit cigarettes. Covert operations organised by BATA allegedly revealed that counterfeit Winfield cigarettes were being sold by the retailers. BATA issued proceedings against the businesses in the Federal Court. These matters were settled out of court.

### **Box 2.2: World Trade Organization agreement on Trade-Related Aspects of Intellectual Property**

Counterfeiting tobacco products infringes on the World Trade Organization (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement). Under this agreement, minimum levels of protection are established whereby governments must protect the intellectual property of other WTO member nations. This is particularly important for the registration of trademarks. If an infringement against the intellectual property within a member state occurs, governments are obligated to take enforcing steps against the infringements of these standards.<sup>13</sup>

11. World Customs Organization, 2011c

12. World Customs Organization, 2011c

13. World Trade Organization, 2011b

## 2.3 Taxation

### 2.3.1 Increases in the tobacco excise and customs duties

Since 1999, the Federal Government has followed a system that calculates duty rates based on the number of cigarettes (sticks) at 0.8 grams of tobacco weight. Rates are applied against the quantity of sticks imported or against the quantity of tobacco measured in kilograms. These rates are indexed against increases in the consumer price index in February and August each year. Table 2-2 sets out the recent excise duty rates.

Table 2-2: Federal excise duty rates, 2010–2012

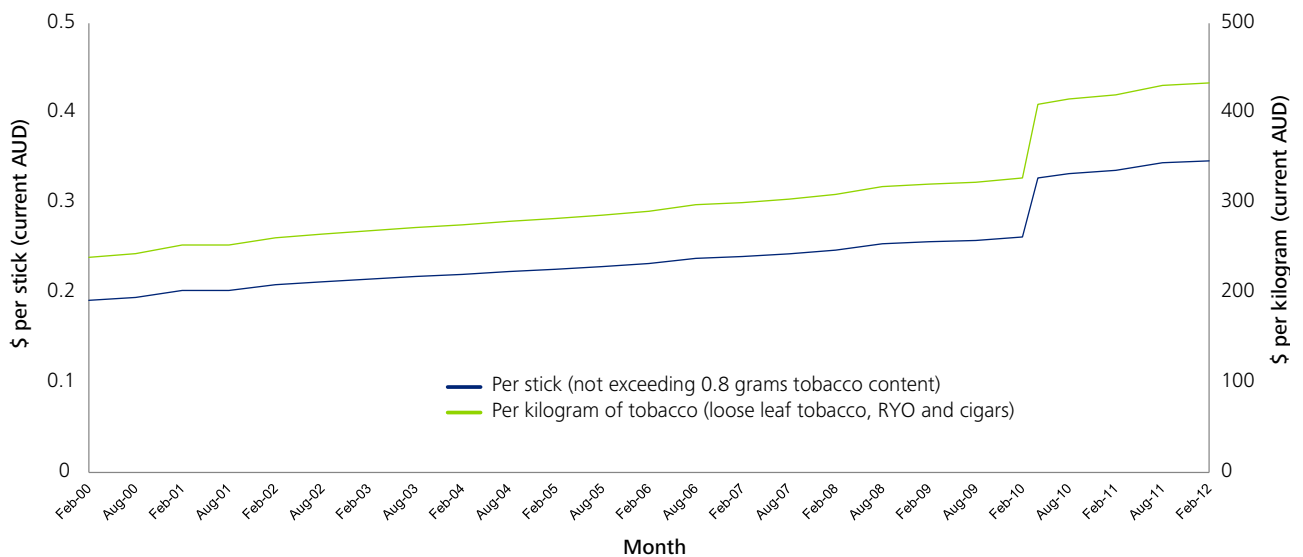
Tobacco product	Excise rate as at February 2010	Excise rate as at April 2010	Excise rate as at February 2011	Excise rate as at August 2011	Excise rate as at February 2012
Per stick (not exceeding 0.8 grams tobacco content)	\$0.2622	\$0.32775	\$0.33633	\$0.34474	\$0.34681
Per kilogram of tobacco (loose leaf tobacco, RYO and cigars)	\$327.77	\$409.71	\$420.43	\$430.94	\$433.53

Source: Australian Taxation Office

In 2010–11 the Federal Government raised \$6.387 billion in excise duties from tobacco products (not including customs duty levied on imports).<sup>14</sup>

Over the twelve months to the March quarter 2011, the excise on the alcohol and tobacco group rose 11.2% driven by increases in tobacco (+27.5%) which was mainly due to the effect of the 25% increase in federal excise on tobacco implemented on 30 April 2010 (see Figure 2-1) and automatic CPI adjustment.

Figure 2-1: Rates of federal excise and customs duty, 1999–2011



Source: Scollo & Winstanley; Australian Taxation Office.

14. Commonwealth Treasury, 2011

## 3. Seizures and enforcement

### 3.1 Australian Customs and Border Protection Service

The role of the ACBPS is to manage the security and integrity of Australia's borders. It detects and deters unlawful movement of goods including illicit tobacco across Australian borders.

In 2010–11 there were 55 detected attempts to import illicit tobacco representing an excise value of around \$135 million.<sup>15</sup>

Information collected and recorded by the ACBPS, however, typically underestimates the illicit market size because it doesn't capture unbranded tobacco grown in Australia. Moreover, the ACBPS only search (and subsequently seize) a proportion of containers that arrive in Australia.

As noted in a report by the National Preventative Health Task Force, "about 1 in 20 shipping containers are currently x-rayed. Although the Customs Service gives priority to containers it judges to be higher risk, some proportions of tobacco products must be being missed."<sup>16</sup>

Nevertheless, information on seizures can provide a useful insight into attempts to smuggle illicit tobacco into Australia. Table 3-1 highlights the recent seizure activities and the associated foregone excise revenue for 2010–11.

In terms of actual smuggled tobacco seizures, in 2010–11 there was a significant increase in the number of detections made and the excise value of the smuggled product detected by the ACBPS was the highest in recent years.

Table 3-1: Australian border seizures, 2009–2011

	2008–09	2009–10	2010–11
No. of detections (loose tobacco)	33	42	55
Quantity of illicit tobacco ('000 kg)	180	311	258
Quantity of sticks ('000 pieces)	50,000	68,000	82,000
Duty evaded	\$70,000,000	\$120,000,000	\$135,000,000

Source: Australian Customs and Border Protection Services 2011

15. Australian Customs and Border Protection Service, 2011

16. National Preventative Health Task Force, 2009

Key points in relation to ACBPS seizures in 2010–11 include:

- The second highest number of detections over the previous five years and the highest since 2007–08
- More sticks of cigarettes were detected than in the previous four years with the previous highest number being in 2007–08
- A reduction in the level of smuggled loose tobacco detected on the previous year.

The data above indicates ongoing activity in attempts to import illicit tobacco. Although the total excise value of detected illicit imports has fallen on the previous year, ACBPS data aligns with the results from the consumption model that the illicit tobacco market continued to be significant in 2010–11.

Internationally, the WCO reported in 2011 that 2010 had seen fewer large seizures of illicit tobacco than in previous years, although there had been a notable increase in small seizures. This was in part attributed to improved anti-smuggling techniques and more stringent measures in some jurisdictions around penalties, seizures and confiscations.<sup>17</sup>

### Box 3-1: Major seizures of illicit tobacco, 2011

#### Case one: March 2011

More than 2.5 million counterfeit cigarettes were intercepted at the Port of Brisbane in an alleged attempt at illegal importation. The contraband was found within bubble-wrap and lunchboxes being imported from Hong Kong. Australian Customs and Border Protection said the haul was worth as much as \$1.2 million in lost revenue.

#### Case two: July 2011

16.8 tonnes of loose tobacco was intercepted in cardboard boxes at the Port of Melbourne, allegedly destined for the Australian illicit market. The contraband was detected using an Australian Customs and Border Protection Service x-ray machine which detected the substances in cardboard boxes at the Melbourne dock. The loose leaf tobacco was imported from Indonesia. Australian Customs and Border Protection Service said that the seized product would have had an excise and GST value of around \$8 million.

#### Case three: July 2011

The ATO seized 20 tonnes of tobacco allegedly being illegally grown in a dozen greenhouses in western Sydney. The seized product would have had an excise value of around \$8 million.

#### Case four: September 2011

The high-profile arrest of two New South Wales men allegedly operating as part of a tobacco smuggling syndicate. The arrests were part of Operation Polaris, a joint operation involving Australian Federal Police, the Australian Crime Commission, New South Wales Police, the New South Wales Crime Commission and the Australian Customs and Border Protection Service. The men were charged with attempting to import 60 tonnes of illegal tobacco and 25 million sticks in addition to bribery offences. The excise value of the seized tobacco was in the order of \$35 million.

17. World Customs Organization, 2011a

In 2011, the ACBPS agreed to a revised Australia-China Memorandum of Understanding (MOU) on Customs Cooperation. The signing of the MOU is cited as a significant step forward for improving the framework for closer engagement with China on preventing border risks including the importation of illicit tobacco and counterfeit products.<sup>18</sup>

### 3.2 Australian Taxation Office

The ATO has the ability to impose fines and commence prosecution of persons that possess tobacco products that have been domestically grown or manufactured that evade taxation.

The *Excise Tariff Act 1921* imposes controls in three main areas:

- Growing, dealing and moving of tobacco seed, plant and leaf
- Manufacturing, storing and moving of excisable tobacco products
- Payment of duty for excisable tobacco products.

Licences to manufacture, store and move excisable tobacco products are granted under the *Excise Tariff Act 1921* which requires that tobacco not be manufactured outside the control of the ATO to ensure that the correct amount of tobacco duty is ultimately paid or the tobacco is appropriately dealt with. A conviction for an offence against the *Excise Tariff Act 1921* may lead to a penalty in the form of a fine or a term of imprisonment.

The ATO has identified the production and trade of illicit tobacco as one of the most common types of tax evasion.<sup>19</sup>

### 3.3 Australian Crime Commission

The Australian Crime Commission (ACC) is established under *the Australian Crime Commission Act 2002* and is responsible for combatting serious and organised crime in Australia. The ACC's responsibilities include combatting organised crime associated with the trade of illicit tobacco. The ACC has stated that organised crime networks have been associated with the importation of illicit tobacco products in both loose-leaf and counterfeit form. They also note that recent increases in excise

duty are likely to have played a role in attracting additional organised crime groups to the illicit tobacco market.

*"The successful interdiction of illicit tobacco products at the border, the high illicit profits and increases in the excise duty on tobacco products are likely to increasingly attract organised crime groups to the illicit tobacco market." (Australian Crime Commission, Annual Report 2010-11).*

The ACC notes that the majority of illicit tobacco in Australia is imported, however there continues to be local production of illicit tobacco. This production has been linked to formerly licensed growers who were active in the legal production of tobacco prior to the closure of the industry in 2006. This is in addition to the production of tobacco in non-traditional growing areas.<sup>20</sup>

### 3.4 Australian Commission for Law Enforcement Integrity

The Australian Commission for Law Enforcement Integrity (ACLEI) is responsible for preventing, detecting and investigating serious and systemic corruption issues in the ACC, the ACBPS and the Australian Federal Police. Recently, the head of the ACLEI, the Australian Integrity Commissioner has said that Australia is a profitable market for criminal networks trading in illicit tobacco.

*"[There] are profits to be made in Australia for criminal groups that trade in goods such as illicit tobacco and border controlled drugs. We are a lucrative target for organised criminal gangs from overseas." (Phillip Moss, Australian Integrity Commissioner)*

The Commissioner further suggested that the prospect of tighter global economic conditions may lead to circumstances in which criminal networks would have a greater ability to facilitate the movement of illicit products into Australia through the bribery of Australian law enforcement officials.<sup>21</sup>

18. Australian Customs and Border Protection Service, 2011

19. Australian Taxation Office, 2011

20. Australian Crime Commission, 2011

21. P. Moss, 2012





# 4. Roy Morgan Tobacco Usage Study

In November 2011, RMR was commissioned by the tobacco industry to conduct a survey of adult tobacco users in Australia. Respondents were asked about their awareness of the illicit tobacco market and their level of participation (if any). The survey results were provided to Deloitte for the purposes of this report.

## 4.1 Tobacco Usage Study methodology

The November 2011 RMR Tobacco Usage Study involved a Computer-Assisted Telephone Interviewing (CATI) survey of adult tobacco users across Australia. Before commencing the 2011 RMR Tobacco Usage Study, RMR drew a sample of tobacco users from its Establishment Survey.

### 4.1.1 RMR Establishment Survey

The Establishment Survey is a comprehensive household survey conducted across Australia. Random clustered sampling is utilised to select households across metropolitan and regional areas throughout Australia. Door-to-door interviewing is then conducted each weekend, with one person (aged 14 years or older) per household being interviewed on a variety of topics, including whether they consume tobacco. In total, a sample size of 50,000 is collected over the course of 12 months.

The survey questions for the November 2011 RMR Tobacco Usage Study are provided in Appendix B.

### 4.1.2 Tobacco Usage Study sample selection

The November 2011 RMR Tobacco Usage Study drew a sample of tobacco users from the past five years of data from RMR's Establishment Survey. This initial sample comprised of 15,592 identified people. However after allowing for natural sample attrition, 931 respondents in metropolitan areas completed the survey.

#### 4.1.2.1 Key requirements of sample

Adult participants who qualified for the survey satisfied the following criteria:

- Aged 18+
- Resided in Sydney, Melbourne, Brisbane, Perth or Adelaide
- Smoked manufactured cigarettes or RYO at least five days a week (on average).

Table 4-1 illustrates the distribution of the sample across capital cities.

**Table 4-1: Sample distribution across capital cities**

City	Percentage of total sample
Sydney	30%
Melbourne	31%
Brisbane	16%
Perth	12%
Adelaide	10%

Source: Roy Morgan Research 2011 Note: may not add up to 100% due to rounding.

In 2010, the RMR Tobacco Usage Study surveyed tobacco consumers aged between 18 and 64. In 2011, the RMR Tobacco Usage Study was broadened to survey tobacco consumers aged 18 years and over. This represents a key difference in the survey sample.

#### 4.1.2.2 Margin of error

Typically in statistical research, a census of the entire population is impractical. As a result, a random population sample is drawn from the total population which is underlined by an assumption that the sample's statistics reflect those of the total population.

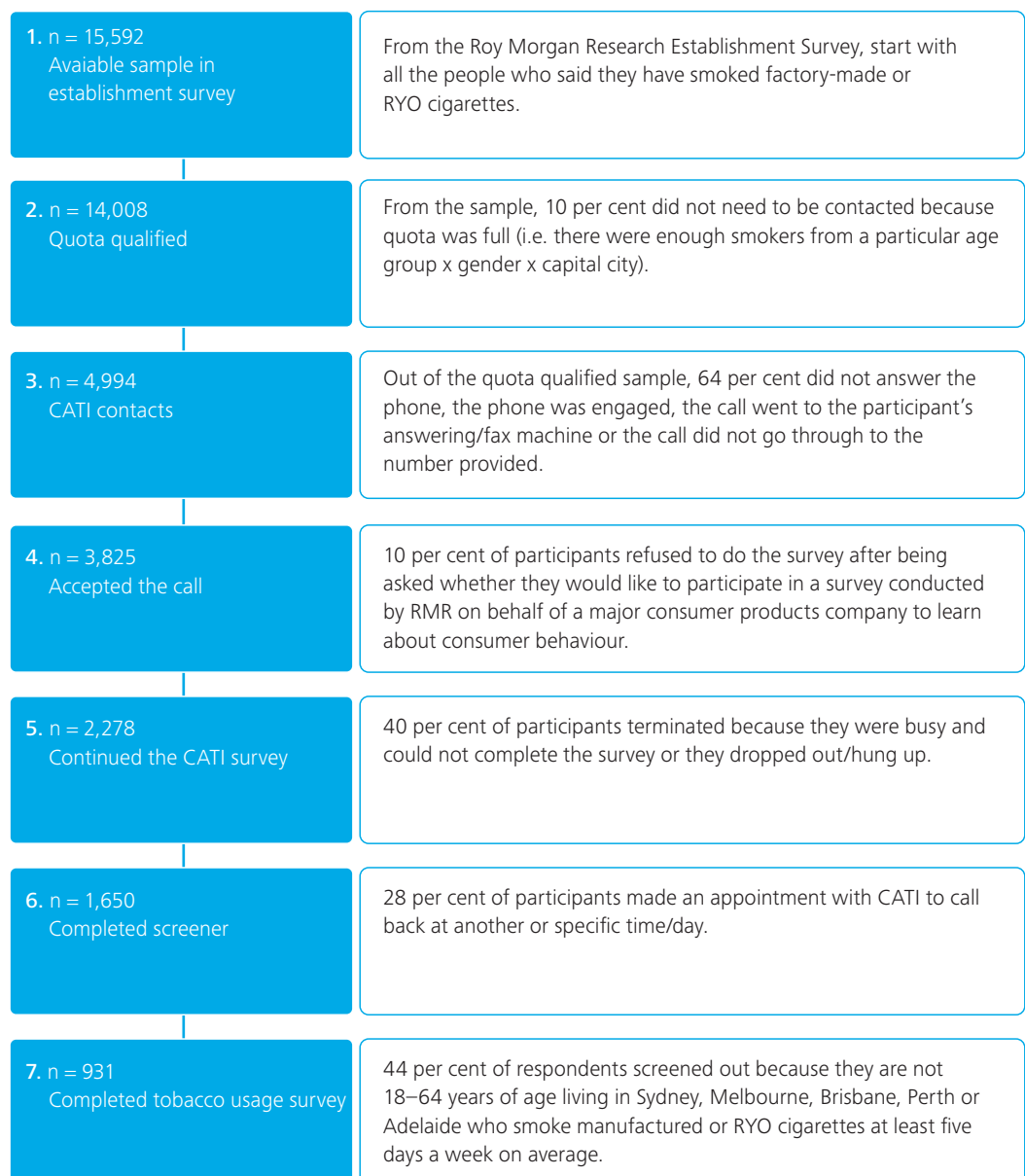
To quantify the degree to which the sample reflects the true population values, the sample's margin of error can be assessed by estimating a confidence interval. Analyses based on sample sub-groups have reduced reliability however data from sub-samples of 100 or more are commonly reported. The confidence interval for data derived from a sample of 100 is  $\pm$  ten per cent at the 95 per cent confidence level.

For this survey the standard 95 per cent confidence level was used. As a result, the total sample of 931 smokers is expected to be accurate to within  $\pm 3.2$  per cent of the population figures at the 95 per cent confidence level. Essentially, this margin of error infers that there is only a five per cent chance that the population value is more than 3.2 per cent away from the values observed with the sample of 931 smokers.

#### 4.1.2.3 Attrition flowchart

The attrition chart from the November 2011 RMR Tobacco Usage Study is illustrated in Figure 4.1.

**Figure 4-1: Sample Attrition Chart**



## 5. Comparison to other studies

Our approach to estimating the size of the illicit tobacco market is based on information sourced from consumers of illicit tobacco. Another study that provides information on the prevalence of the use of illicit tobacco is the 2010 National Drug Strategy Household Survey Report published by the Australian Institute of Health and Welfare (AIHW report).

The AIHW report is also based on a survey conducted by RMR which involved a 'drop-and-collect' self-completed questionnaire completed by 26,000 people aged 12 years or older across all states and territories in Australia. The AIHW report provides information on all smokers aged 14 years and over. With respect to the prevalence of the use of illicit tobacco, the AIHW report found that the proportion of smokers over the age of 14 years who smoke unbranded loose tobacco half the time or more was estimated to be 1.5% of all smokers. In addition, 4.6% of smokers believe they may have bought counterfeit cigarettes once a month.

Whilst not commenting on the approach adopted for the AIHW report, some observations we would make on comparisons between this report and the AIHW report are outlined below.

### 5.1 Survey objectives

The objective of this report is to provide an estimate of the size of the illicit tobacco market in Australia as a proportion of the legal tobacco market. We understand that the objective of AIHW report was to collect information on 'the knowledge of, and attitudes towards drugs, their drug consumption histories and related behaviours'.<sup>22</sup> As such, the purpose of the AIHW report was not to estimate of the size of the illicit tobacco market, but to provide an estimate of the number of smokers who use illicit tobacco.

### 5.2 Survey methodology

There are differences in the methodology, sample size and some differences in the questions asked by the AIHW report survey. With any consumer survey, an accumulation of small differences can lead to a significant difference in the overall results. Some examples of the differences between the approach adopted for this report and the AIHW report are illustrated in Table 5-1.

**Table 5-1: Survey methodology comparison examples**

	RMR Tobacco Usage Study	AIHW
<b>Sample size</b>	949 adult smokers aged 18-64 located in state capital cities	26,000 general population over the age of 12 years nationally
<b>Survey methodology</b>	Phone based CATI	'drop-and-collect' self completed questionnaire
<b>Tobacco format</b>	Unbranded (loose or cigarettes in packs or cartons), counterfeit and contraband	Unbranded in plastic bags and counterfeit
<b>Questions relating to illicit trade</b>	Unbranded tobacco purchased in either bags, packs or cartons	Unbranded tobacco sold in plastic bags only



# 6. Supply of illicit tobacco

## 6.1 Characteristics

### 6.1.1 Key suppliers

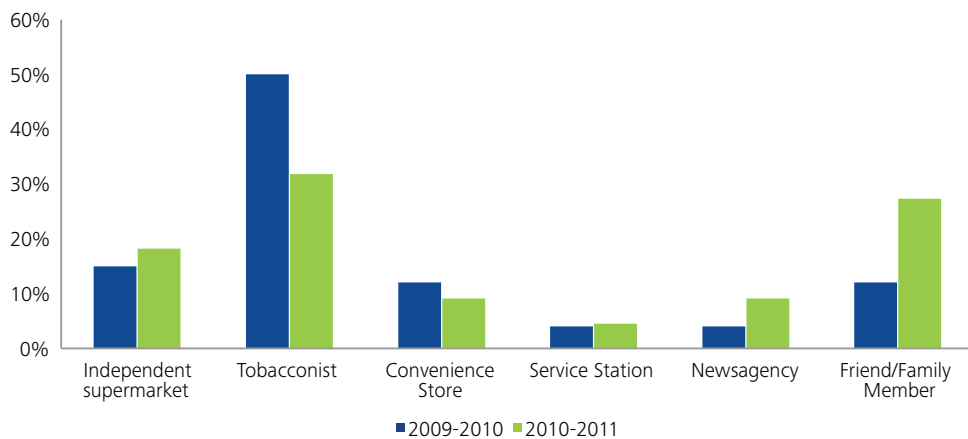
As in previous years respondents advised they purchased illicit tobacco from a variety of points of sale including:

- Convenience stores
- Family and friends
- Independent supermarkets
- Service stations

- Newsagencies
- Tobacconists.

Figure 6-1 illustrates the major points of sale for unbranded tobacco products. In recent years, the most identified point of sale for unbranded tobacco by respondents has been at specialist tobacconists and from friend/family member (approximately 59 per cent of those that identified their supply outlet).<sup>23</sup>

Figure 6-1: Identified major supply outlets for unbranded tobacco products, 2010-2011



Source: Roy Morgan Research 2011

23. Roy Morgan Research, 2011.

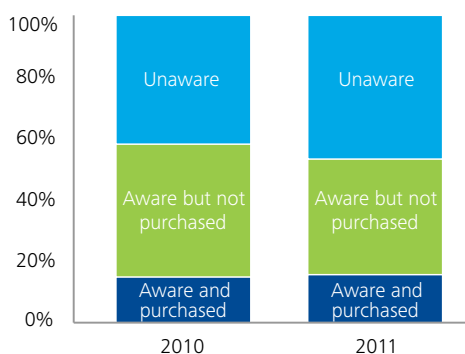
## 7. Profile of illicit tobacco users

The November 2011 RMR Tobacco Usage Study indicated that there continues to be a strong awareness of illicit tobacco among tobacco users. The survey found an increase in purchasing of illicit tobacco products, across all categories. Price continued to be a driver of the purchase of illicit tobacco products, although perceptions of unbranded tobacco being 'healthier' drove some consumers toward unbranded tobacco. Tobacco consumers reported unknowingly being sold counterfeit and contraband tobacco products.

### 7.1 Awareness of illicit tobacco

In 2011, more than half of adult tobacco consumers surveyed indicated that they were aware of illicit tobacco products. Although there was a slight reduction in the level of awareness, the result was not significantly different to the previous year. In 2011, 16 per cent of adult survey respondents stated that they were aware of and had purchased illicit tobacco products (in unbranded form). Figure 7-1 illustrates the awareness of illicit tobacco products.

**Figure 7-1: Awareness of illicit tobacco products**

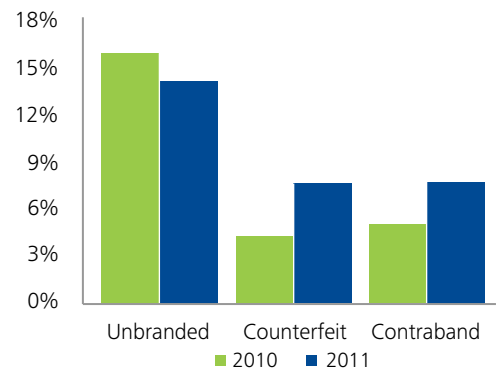


Source: Roy Morgan Research 2011

### 7.2 Usage of illicit tobacco

The November 2011 RMR Tobacco Usage Study indicates an increase in the number of respondents reporting purchasing illicit tobacco compared to 2010. As Figure 7-2 illustrates, the increase has been most significant among users of counterfeit and contraband tobacco.

**Figure 7-2: Proportion of survey respondents who reported purchasing illicit tobacco products**



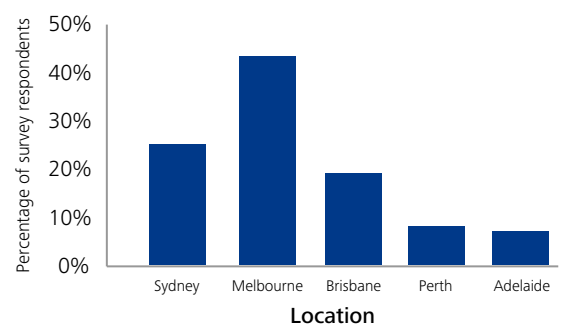
Source: Roy Morgan Research 2011

### 7.3 Unbranded tobacco consumers

Unbranded tobacco consumers include those survey respondents aged 18 years and over who have purchased unbranded tobacco at least once within the last 12 months. Of all adult unbranded tobacco consumers surveyed, 67 per cent were male compared to the near even gender split for legal tobacco users. One-fifth of adult unbranded tobacco consumers surveyed were employed on a full-time basis, with 66 per cent being either unemployed or retired. Consumers of unbranded tobacco were widely distributed across low and medium income brackets.

The majority of unbranded tobacco consumers were located in Melbourne with Sydney and Brisbane also recording a high proportion of respondents that had purchased unbranded tobacco (see Figure 7-3).

**Figure 7-3 Geographical spread of unbranded tobacco consumers 2011**

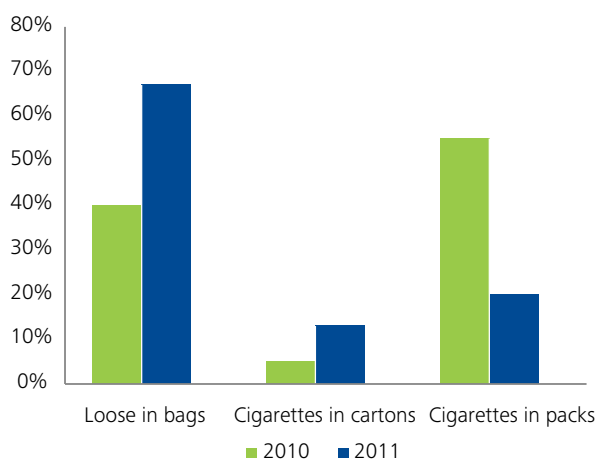


Source: Roy Morgan Research 2011

### 7.3.1 Size of purchase of unbranded tobacco

Unbranded tobacco is purchased loose in bags, as cigarette sticks in cartons or as cigarette sticks in packs. Results from the November 2011 RMR Tobacco Usage Study indicated that approximately 65 per cent of unbranded tobacco consumers purchased tobacco loose in bags – a significant increase on previous studies. There was a significant reduction in surveyed tobacco users purchasing unbranded product in packs – falling from over 50% in 2010 to around 20% in 2011. Figure 7-4 illustrates the format of purchase for unbranded tobacco.

**Figure 7-4: Format of purchase for unbranded tobacco**



Source: Roy Morgan Research 2011

### 7.3.2 Reasons for purchase of unbranded tobacco

The November 2011 RMR Tobacco Usage Study identified two key reasons for the purchasing decisions of unbranded tobacco consumers. These were:

- Price: Unbranded tobacco is typically cheaper than legal tobacco products
- Awareness: Consumers were aware of and wanted to try unbranded tobacco.

This is consistent with previous years.

In 2011, adult tobacco consumers who purchased unbranded tobacco continued to identify price as among the reasons for purchasing illicit product. Box 7-1 illustrates anecdotal evidence provided by surveyed unbranded tobacco users.

#### Box 7-1: Reasons for purchasing unbranded tobacco

“Because I could not afford to buy manufactured cigarettes.” (Female, 50–54 years old)

“Because it was cheap and it was good and under \$9. It was twenty packets, a kilogram would sell for \$9, compared in the shop where it would be about \$35. So there is a big difference.” (Male, 30–34 years old)

“The price. It’s chemical free too.” (Male, 60–64 years old)

“[Because it’s] cheaper and tasted okay at first.” (Male, 60–64 years old)

Source: Roy Morgan Research 2011

## 7.4 Counterfeit and contraband tobacco consumers

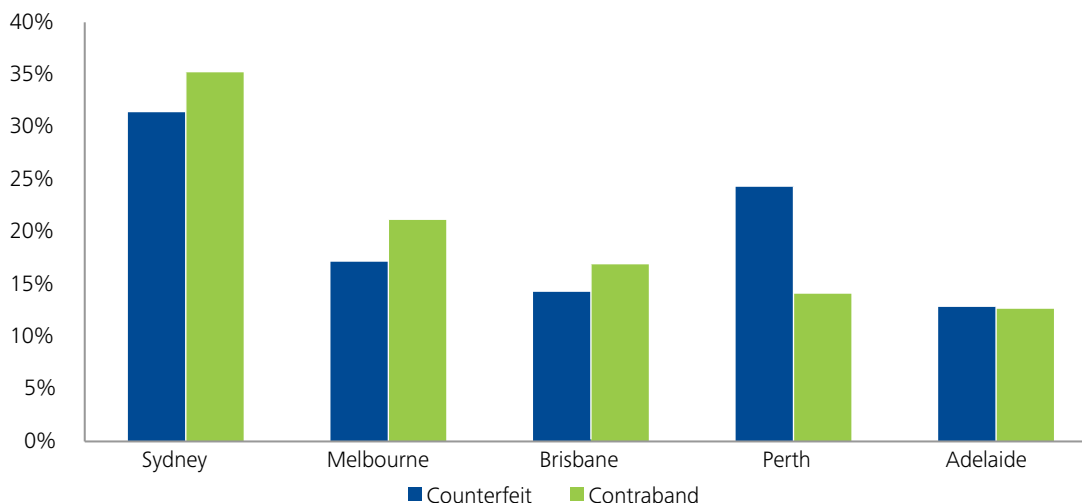
### 7.4.1 Demographic breakdown

Counterfeit and contraband tobacco consumers are those survey respondents aged 18 years and over that have purchased either contraband or counterfeit tobacco.

From the November 2011 RMR Tobacco Usage Study, there was an almost equal split between male and female consumers of counterfeit and contraband tobacco. The majority were employed (either full-time or part-time) and the majority of respondents were aged 45 years or over.

The majority of respondents identified as counterfeit tobacco users were located in Sydney. There was a more even spread of users of contraband tobacco between all capital cities. Figure 7-5 indicates their geographical spread.

Figure 7-5: Geographical spread of users of contraband and counterfeit tobacco

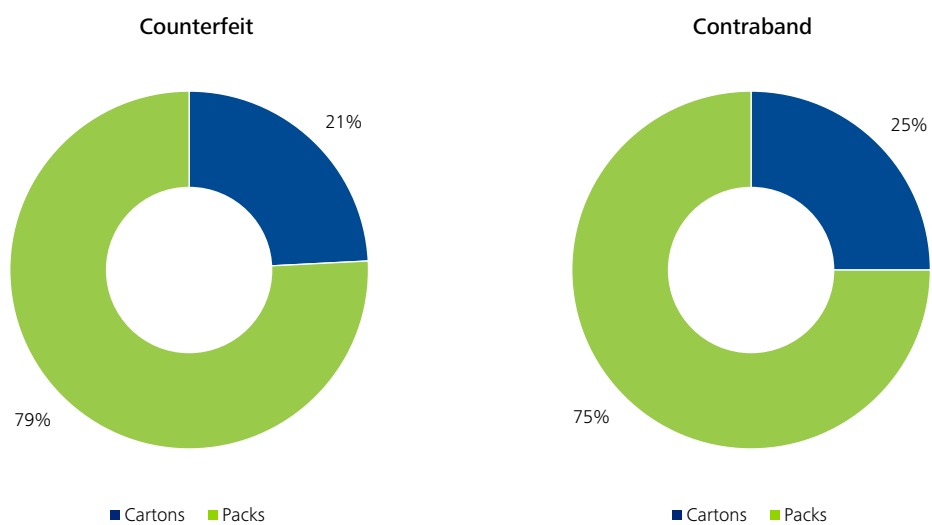


Source: Roy Morgan Research 2011

#### 7.4.2 Purchase format

Counterfeit tobacco products are purchased as cigarettes in packs or in cartons or by weight. Results from the 2011 RMR Tobacco Usage Study indicate that the majority of consumers of counterfeit and contraband tobacco purchased these products in pack form. Figure 7-6 illustrates the format of purchase for counterfeit and contraband tobacco.

Figure 7-6: Format of purchase for counterfeit and contraband tobacco products



Source: Roy Morgan Research 2011



### 7.4.3 Reasons for purchase

The RMR Tobacco Usage Study highlighted two key reasons as to why respondents who were consumers of counterfeit or contraband tobacco had made such purchases. These were:

- Price: respondents identified that counterfeit and contraband products were typically cheaper than licit tobacco products
- Lack of awareness: respondents reported that they had purchased counterfeit or contraband products and did not realise until afterwards. Respondents reported poor quality, cheaper prices, labelling in foreign languages and a different taste as indicators that they had been sold counterfeit and contraband tobacco products.

#### Box 7-2: Reasons for purchasing counterfeit and contraband tobacco

“Well, non-contraband, you’re looking at \$16.50 per pack, minimum. If I got two packs, that’d be \$33.00, wouldn’t it? Four packs [of contraband] are \$26.00. That is the major reason.” (Male, 60–64 years)

“Strictly because they were cheaper.” (Male, 40–44 years)

“It was recommended as a cheaper option by the retailer.” (Female, 30–35 years)

“I wasn’t aware that they were counterfeit at the time. It was only after the first drag that I realised they were counterfeit. I practically threw out that whole packet, they were useless.” (Male, 30–34 years)

“I asked for a cheap packet of cigarettes and they gave me a packet which had Chinese writing on the side.” (Female, 25–29 years).

Source: Roy Morgan Research 2011



# 8. The consumption model

## 8.1 Overview

Using a consumption based model approach, an indicative estimate of the size of the illicit tobacco market in Australia can be formed based on the November 2011 RMR Tobacco Usage Study.

Estimating the size of the illicit tobacco market is not a straightforward task due to a lack of available information and data. In particular, it is difficult to obtain a picture of the illicit tobacco market from a supply-side point of view. Deloitte has adopted a consumption model approach based on the purchasing patterns of illicit tobacco consumers. This approach captures the purchases and use across all types of illegal tobacco, irrespective of its form, type or country of origin. The data inputted into the consumption model was drawn from the November 2011 RMR Tobacco Usage Study which provides the most statistically robust and current measure of the purchasing behaviour of illicit tobacco consumers available.

## 8.2 Outline

The consumption model approach that Deloitte adopted to estimate the size of the illicit tobacco market is similar to that adopted for previous reports.

The consumption model estimates the size of the illicit market based on consumer purchasing decisions on unbranded, counterfeit and contraband tobacco products. The model is informed by the 2011 RMR Tobacco Usage Study combined with publicly available information on the legal tobacco market and smoking population.

In 2010, the RMR Tobacco Usage Study surveyed tobacco consumers aged between 18 and 64. In 2011, the RMR Tobacco Usage Study was broadened to survey tobacco consumers aged 18 years and over. In addition, in 2011 more recent data became available to identify the number of smokers in Australia.<sup>24</sup> This data was combined with Australian Bureau of Statistics' population data, and a new estimate of the size of the Australian smoking population was developed.<sup>25</sup>

Table 8-1 outlines the consumption model, including underlying formulae. Key variables in the consumption model are:

- Frequency of purchase
- Quantity of purchase.

The quantity of illicit tobacco consumed in Australia can then be estimated by applying the consumption model. This approach captures purchases and use of all types of illicit tobacco, irrespective of its form, type, or country of origin.

24. Australian Institute of Health and Welfare, 2011

25. Australian Bureau of Statistics, 2010

Table 8-1: Consumption model

Consumption model inputs(for each illicit tobacco product)	
Quantity of illicit tobacco purchased per occasion (g) [1]	[1] taken from <i>RMR Tobacco Usage Study 2011</i>
Frequency of illicit tobacco purchase per annum [2]	[2] taken from <i>RMR Tobacco Usage Study 2011</i>
Quantity of illicit tobacco purchased per annum (g) [3]	[3] = [1] x [2]
Number of illicit tobacco users, Australia ('000) [4]	[4] = [5] x [7]
Illicit tobacco users as % of Australian tobacco users [5]	[5] taken from <i>RMR Tobacco Usage Study 2011</i>
Quantity of illicit tobacco purchased in Australia ('000 kg) [6]	[6] = [3] x [4]
Total adult smoking population ('000) [7]	[7] taken from Australian Bureau of Statistics 2010, <i>AIHW National Drug Strategy Household Survey Report 2011</i>

The estimated total quantity of illicit tobacco used in Australia (item [8] in) is a sum of:

- Quantity of unbranded tobacco purchased
- Quantity of counterfeit tobacco purchased
- Quantity of contraband tobacco purchased.

Represented as a proportion of the total quantity of legal tobacco used in Australia (item [9]), an indication of the size of the illicit tobacco market is then estimated (item [10]).

Table 8-2: Size of the illicit tobacco market as a proportion of legal tobacco market

Inputs	
Total quantity of illicit tobacco used in Australia ('000 kg) [8]	[8] = [6] <sub>unbranded</sub> + [6] <sub>counterfeit</sub> + [6] <sub>contraband</sub>
Total quantity of legal tobacco used in Australia ('000 kg) [9]	[9] taken from Datamonitor 2011, <i>Tobacco in Australia to 2014</i> , (adjusted for quantity of tobacco per cigarette stick)
Size of the illicit tobacco market (as an equivalent proportion of the legal tobacco market) [10]	[10] = [8] / [9] x 100%

### 8.3 Key assumptions

Key assumptions that are used in the consumption model are as follows:

- Amount of tobacco per legal cigarette stick – The assumption regarding the amount of tobacco per legal cigarette stick is based on an average of weights provided on a confidential basis to Deloitte by BATA, PMI and ITA
- Amount of tobacco per illicit tobacco cigarette stick – Given the nature of the illicit tobacco market, there is no independently available information on the average weight of an illicit stick. The amount of tobacco per illicit stick has been estimated at 1.0 gram. This is consistent with the approach used in the consumption model for the 2010 report.

- Total adult smoking population – We assumed that the total adult smoking population in Australia is 2,742,000 persons. As outlined above, this is based on the most recently available published information
- Quantity of legal tobacco used in Australia – We assumed the Australian legal tobacco market in quantity terms totalled 16,861,000 kg. This is based on the most recently published available data.

### 8.4 Results

Applying the methodology outlined above, the following outlines the results from the consumption model approach, which estimates the size of the illicit market for tobacco.

Table 8-3: Consumption model

	Unbranded	Counterfeit	Contraband
Quantity of illicit tobacco purchased per occasion (g) [1]	338	660	517
Frequency of illicit tobacco purchase per annum [2]	11	3	4
Quantity of illicit tobacco purchased per annum (g) [3] = [1]x[2]	3,718	1,980	2,068
Number of illicit tobacco users in Australia ('000) [4] = [5]x[7]	384	206	208
Illicit tobacco users represented as % of Australian tobacco users [5]	14%	7.5%	7.6%
Quantity of illicit tobacco used in Australia ('000 kg) [6] = [3]x[4]	1,427	407	430
Total adult smoking population ('000) [7]	2,742	2,742	2,742

Based on the consumption model approach, the total quantity of illicit tobacco consumed in Australia is estimated to be 2.264 million kilograms. Using this estimate, the size of the illicit tobacco market is estimated to 13.4 per cent measured as a proportion of the total quantity of legal tobacco consumed in Australia (as shown below in Table 8-4).

**Table 8-4: Estimated size of the illicit tobacco market as a proportion of the legal tobacco market**

	Estimates
<b>Total quantity of illicit tobacco used in Australia ('000 kg)</b> [8]	2,264
<b>Total quantity of legal tobacco used in Australia ('000 kg)</b> [9]	16,861
<b>Indicative size of the illicit tobacco market (represented as an equivalent proportion of the legal tobacco market)</b> [10]	13.4%

Overall our key findings from the consumption model include:

- There has been a reduction in the overall size of the illicit tobacco market to 13.4 per cent from 15.6 per cent as measured in early 2011 and 15.9 per cent in 2010
- Despite a reduction in the overall size of the illicit tobacco market, there has been an increase in the proportion of counterfeit and contraband tobacco purchased. The quantity of counterfeit tobacco purchased per annum have almost tripled since the 2010 study with the quantity of contraband purchased has tripled. There has also been an increase in the number of smokers purchasing counterfeit and contraband products
- There has been a reduction in the quantity of unbranded tobacco purchased in 2011 and a commensurate drop in the number of smokers purchasing unbranded tobacco, falling from an average of 5,160 grams per user per annum in 2010 to 3,849 grams per user per annum in 2011. These results suggest it is likely that unbranded tobacco is being substituted for counterfeit and contraband products.

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## Appendix B: Survey questions

The questions below are an exhaustive list of all the possible questions survey respondents may be asked as part of the November 2011 RMR Tobacco Usage Survey. Introductory survey questions are asked to all potential respondents with those potential respondents meeting certain criteria moving on to the next stage of the survey. A range of questions are put to the survey respondents with responses to key questions triggering further series of questions of those respondents. The majority of questions seek a quantitative response from the respondent with a number of quantitative options being available. In a minority of cases, respondents are invited to provide a qualitative response which is noted by the telephone interviewer. Where the respondent is unsure of the meaning of the question or requires additional information before providing a response, the telephone interviewer is provided with additional factual information to assist the interviewee.

Q1S. Do you, or does any member of your immediate family work in any of the following [industry sectors]?

Q2S. What is your post code?

Q3S. What is your gender?

Q4S. Would you please tell me your current age?

Q7. Which products do you currently consume?  
Options provided]

Q8A. What type of tobacco product do you smoke or use, even if only occasionally?

Q8B. How often do you normally smoke manufactured cigarettes?

Q8C. How often do you normally smoke roll your own cigarettes?

Q9A. How many manufactured cigarettes do you normally smoke each day (on average)?

Q9B. How many roll your own cigarettes do you normally smoke each day (on average)?

Q12. Are you aware that unbranded tobacco can be purchased? Unbranded tobacco is also known as 'chop chop.' It is loose leaf tobacco on which no duty is paid. It could be unbranded loose tobacco or unbranded cigarettes in cartons or packs.

Q13. Since you turned 18 have you ever purchased unbranded tobacco?

Q13A. 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?

Q13B. Have you purchased unbranded tobacco in the last 12 months? (Remember, we are talking about purchases for your own use)

Q13C. In the past 12 months, how often did you purchase unbranded tobacco?

Q13D. Well, can you give me an estimate of how often you purchased unbranded tobacco in the past 12 months?

Q13E. Since after you turned 18, how long had you been buying unbranded tobacco?

Q13F. Well, can you give me an estimate of how long you had been buying unbranded tobacco since after you turned 18?

Q13G. When you last purchased unbranded tobacco, from which outlet or outlets did you buy it?

Q13H. When you last purchased unbranded tobacco, how many grams of unbranded tobacco did you purchase?

Q13I. When you last purchased unbranded tobacco, what format or formats was the unbranded tobacco in?

Q13J. When you last purchased loose unbranded tobacco, how much did you buy?

Q13K. When you last purchased loose unbranded tobacco, how much did it cost in total?

Q13L. How long ago was your most recent purchase of loose unbranded tobacco?

Q13M. Well, can you give me an estimate of when your most recent purchase of loose unbranded tobacco was?

Q13N. When you last purchased cartons of unbranded tobacco, how much did you buy?

- Q13O. When you last purchased cartons of unbranded tobacco, how much did it cost in total?
- Q13P. How long ago was your most recent purchase of unbranded tobacco in cartons?
- Q13Q. Well, can you give me an estimate of when your most recent purchase of unbranded tobacco in cartons was?
- Q13R. When you last purchased packs of unbranded tobacco, how much did you buy?
- Q13S. When you last purchased packs of unbranded tobacco, how much did it cost in total?
- Q13T. How long ago was your most recent purchase of unbranded tobacco in packs?
- Q13U. Well, can you give me an estimate of when your most recent purchase of unbranded tobacco in packs was?
- Q13V. When you were smoking unbranded tobacco, how much of it would you say that you smoked per day?
- Q13W. Well, can you give me an estimate of how much unbranded tobacco you were smoking per day?
- Q13X. How did you usually consume unbranded tobacco?
- Q13Y. How many suppliers did you ever purchase unbranded tobacco from, since you turned 18?
- Q13Z. When you stopped buying unbranded tobacco did you not smoke or did you purchase duty paid tobacco products?
- Q13AA. Why did you smoke unbranded tobacco?
- Q13BB. Do you know the country of origin of the unbranded tobacco that you purchased?
- Q13CC. Where does it usually come from?
- Q13DD. Please tell me the reasons why you stopped purchasing unbranded tobacco?
- Q14. How often do you purchase unbranded tobacco?
- Q14A. Well, can you give me an estimate of how often you purchase unbranded tobacco?
- Q15. Since after you turned 18, how long have you been buying unbranded tobacco?
- Q15A. Well, can you give me an estimate of how long you have been buying unbranded tobacco since after you turned 18?
- Q16. From which outlets do you usually buy your unbranded tobacco?
- Q17A. How many grams of unbranded tobacco do you purchase for the average purchase?
- Q17B. What format do you usually purchase unbranded tobacco in?
- Q17C1. What is the minimum price that you have paid for loose unbranded tobacco in bags?
- Q17C2. What is the average price that you have paid for loose unbranded tobacco in bags?
- Q17C3. What is the maximum price that you have paid for loose unbranded tobacco in bags?
- Q17D1. What is the minimum price that you have paid for unbranded cigarettes in cartons?
- Q17D2. What is the average price that you have paid for unbranded cigarettes in cartons?
- Q17D3. What is the maximum price that you have paid for unbranded cigarettes in cartons?
- Q17E1. What is the minimum price that you have paid for unbranded cigarettes in packs?
- Q17E2. What is the average price that you have paid for unbranded cigarettes in packs?
- Q17E3. What is the maximum price that you have paid for unbranded cigarettes in packs?
- Q18. How much would you say that you smoke per day of unbranded tobacco?
- Q18A. Well, can you give me an estimate of how much you smoke per day of unbranded tobacco?
- Q19A. The most recent time you purchased unbranded tobacco what format or formats was it?
- Q19A1. How much loose unbranded tobacco did you buy?
- Q19A4. How much did it cost in total?
- Q19B1. How long ago was your most recent purchase of loose unbranded tobacco?
- Q19C1. Well, can you give me an estimate of when your most recent purchase of loose unbranded tobacco was?
- Q19A2. How many cartons of unbranded cigarettes did you buy?
- Q19A5. How much did it cost in total?

- Q19B2. How long ago was your most recent purchase of unbranded tobacco in cartons?
- Q19C2. Well, can you give me an estimate of when your most recent purchase of unbranded tobacco in cartons was?
- Q19A3. How many packs of unbranded cigarettes did you buy?
- Q19A6. How much did it cost in total?
- Q19B3. How long ago was your most recent purchase of unbranded tobacco in packs?
- Q19C3. Well, can you give me an estimate of when your most recent purchase of unbranded tobacco in packs was?
- Q20. How do you usually consume unbranded tobacco?
- Q21. How many suppliers have you ever purchased unbranded tobacco from, since you turned 18?
- Q22A. Do you find unbranded tobacco easier or harder to obtain than a year ago or has there been no change?
- Q22B. If you cannot get unbranded tobacco do you not smoke or do you purchase duty paid tobacco products?
- Q22C. Why do you smoke unbranded tobacco?
- Q23. Do you know the country of origin of the unbranded tobacco that you purchase?
- Q23A. Where does it usually come from?
- Q24A. Since you turned 18 do you suspect you might have ever purchased contraband cigarettes?
- Q24B. Since you turned 18 do you suspect you might have ever purchased counterfeit cigarettes?
- Q24C. How did you become aware of the availability of contraband cigarettes?
- Q24E. What would you do if contraband product were not available where you usually purchase it from?
- Q24F. How would you rate the overall quality of the contraband product(s) you purchase compared to the non-contraband version(s)?
- Q24G. How did you become aware of the availability of counterfeit cigarettes?
- Q24I. What would you do if counterfeit product were not available where you usually purchase it from?
- Q24I. What would you do if counterfeit product were not available where you usually purchase it from?
- Q24J. How would you rate the overall quality of the counterfeit product you purchase compared to the real legitimate brand?
- Q27A. The most recent time you purchased counterfeit cigarettes, did you buy them by weight, by packs, or by cartons?
- Q27A1. When you bought the counterfeit cigarettes by weight, how much did you buy?
- Q27A4. How much did it cost in total?
- Q27B1. How long ago was your most recent purchase of counterfeit cigarettes by weight?
- Q27A2. When you bought the counterfeit cigarettes by pack, how much did you buy?
- Q27A5. How much did it cost in total?
- Q27B2. How long ago was your most recent purchase of counterfeit cigarettes by pack?
- Q27A3. When you bought the counterfeit cigarettes by carton, how much did you buy?
- Q27A6. How much did it cost in total?
- Q27B3. How long ago was your most recent purchase of counterfeit cigarettes by carton?
- Q27C. Do you find counterfeit cigarettes easier or harder to obtain than a year ago or has there been no change?
- Q27E. Why do (or did) you smoke counterfeit cigarettes?
- Q28A. The most recent time you purchased contraband cigarettes, did you buy them by weight, by packs, or by cartons?
- Q28A1. When you bought the contraband cigarettes by weight, how much did you buy?
- Q28A4. How much did it cost in total?
- Q28B1. How long ago was your most recent purchase of contraband cigarettes by weight?
- Q28A2. When you bought the contraband cigarettes by pack, how much did you buy?
- Q28A5. How much did it cost in total?
- Q28B2. How long ago was your most recent purchase of contraband cigarettes by pack?
- Q28A3. When you bought the contraband cigarettes by carton, how much did you buy?

Q28A6. How much did it cost in total?

Q28B3. How long ago was your most recent purchase of contraband cigarettes by carton?

Q28C. Do you find contraband cigarettes easier or harder to obtain than a year ago or has there been no change?

Q28E. Why do (or did) you smoke contraband cigarettes?

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