



cutting through complexity

Illicit tobacco in Australia

2014 Full Year Report

30 March 2015





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Glossary

ABS	Australian Bureau of Statistics
ACBPS	Australian Customs and Border Protection Service
ACT	Australia Capital Territory
AIHW	Australian Institute of Health and Welfare
AIT	Anti Illicit Trade
ATO	Australian Taxation Office
AWOTE	Average Weekly Ordinary Time Earnings
BATA	British American Tobacco Australia
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 made in a low-tax country and brought into the country of consumption illegally, or acquired without taxes (for export purposes) and illegally re-sold in the market of consumption. This includes genuine products which are brought into a country in amounts exceeding the personal allowance; in Australia this limit is 50 sticks or 50 grams of RYO per person
Counterfeit	Manufactured cigarettes which are illegally manufactured and carry the trademark and/or branding of a legally manufactured brand without the consent of the trademark owner. Counterfeit cigarettes are also known as fake cigarettes. For the purposes of this analysis, data relating to counterfeit is not included within the definition of contraband
CPI	Consumer Price Index
EOS	Shipment data is provided by each manufacturer to Infoview who process and combine it into a single set of data to reflect ex-factory shipments for all three manufacturers
EPS	Empty Pack Survey
FCTC	Framework Convention on Tobacco Control
GDP	Gross Domestic Product
H1	First half of the year i.e. the period from January to June
H2	Second half of the year i.e. the period from July to December
Illicit whites	Manufactured cigarettes which may be produced legally in one country/market but which the evidence suggests are smuggled across borders at some point during their transit to Australia, where they have limited or no legal distribution and are sold without the payment of tax
Inflows	Total volume of cigarettes coming into Australia
ITA	Imperial Tobacco Australia
kg	Kilogram
KPI	Key Performance Indicator
LDC	Legal Domestic Consumption
LDS	Legal Domestic Sales
LTM	Last Twelve Months

Glossary

LTM H1	Last Twelve Months to the end of June (e.g. 1 July 2013 to 30 June 2014)
LTM H2	Last Twelve Months to the end of December (e.g. 1 January 2014 to 31 December 2014)
MSI	MSIntelligence
ND(L)	Non-Domestic Legal is the legitimate tobacco purchased in duty free or abroad within personal allowance limits
Non-domestic cigarettes	Cigarettes which are not Australian (i.e. health warnings missing or not in English, brands not sold in Australia, packs with identifying marks from other markets such as tax stamps)
OECD	Organisation for Economic Cooperation & Development
PDI	Personal Disposable Income
PML	Philip Morris Limited
pp	Percentage point
Project SUN	A study of the illicit cigarette market in the European Union by KPMG
Outflows	Legitimate tobacco purchased in Australia and taken abroad
RMR	Roy Morgan Research
RSP	Retail Selling Price
RYO	Roll Your Own
TISG	Tobacco Industry Stakeholder Group. Formerly known as the Tobacco Industry Forum (TIF)
Tonnes	Thousand kilograms
WHO	World Health Organisation
Unbranded tobacco	Illegal loose leaf tobacco upon which no duty has been paid and which carries no labelling or health warnings. It is sold and consumed either in RYO form (called Chop Chop) or inserted into empty cigarette tubes. Commonly sold in both bags or boxes
Unspecified	Unspecified market variant refers to cigarette packs which do not bear specific market labelling or Duty Free labelling
Y o Y	Year on Year

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1. Executive summary and key findings

1.1 Key messages

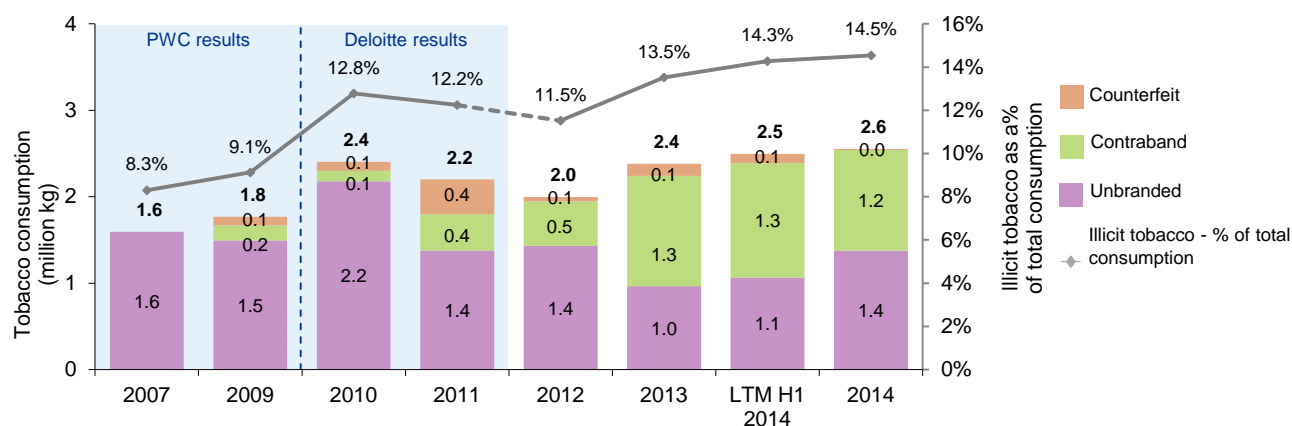
1.2 The purpose of this report

1.3 KPMG LLP's anti-illicit tobacco
experience

Illicit tobacco consumption increased from 13.5% in 2013 to 14.5% of overall consumption in 2014

1.1 Key messages

Figure 1.1 Consumption of illicit tobacco products by category and as a percentage of overall consumption, 2007 – 2014^{(1)(2)(3)(4)(a)}



Introduction

This is the fourth report published by KPMG LLP examining the size of the illicit tobacco market in Australia, which is covered in more detail in section 2.1. In this report we have used the same methodology as in previous reports. Unbranded tobacco consumption has been estimated using a consumer survey whilst the consumption of illicit manufactured cigarettes has been estimated based on Empty Pack Survey (EPS) results.

Tobacco consumption in Australia

The total volume of tobacco consumption in Australia in 2014 was approximately 17.5 million kilograms, of which 2.6 million kilograms are estimated to be illicit. The estimate of total consumption is marginally lower than that for 2013. Compared to LTM H1 2014, however, consumption grew slightly due to a small increase in overall illicit tobacco consumption.

Illicit tobacco consumption in Australia

Figure 1.1 shows that from full year 2013 to 2014, the level of illicit tobacco consumption is estimated to have grown from 13.5% to 14.5% of total consumption. However, this is a marginal increase of 0.2 percentage points compared to LTM H1 2014.

If this tobacco had been consumed in the legitimate market, we estimate it would have represented an excise amount payable to Government of AUD1.35bn at the average excise rate for 2014.

Unbranded consumption increased 43% in 2014 (to 1.38m kg, up from 0.96m kg in 2013) and now accounts for 54% of total illicit consumption. This growth, especially in H2 2014, reversed the declines seen in 2013.

Contraband volumes declined between H1 2014 and H2 2014, largely due to lower volumes from South Korea,

unspecified origins and illicit whites. Growth in packs originating from China partly offset this and were the largest individual inflow in the Q4 2014 EPS.

Historically, volumes of counterfeit manufactured cigarettes appear to have fluctuated considerably between each reporting period; volumes declined further in 2014 and the overall share remains small.

Alternative estimates of illicit tobacco consumption

In 2013, the AIHW⁽⁵⁾ found that almost a fifth of smokers had seen tobacco products without plain packaging in the last three months, and close to 10% of smokers had purchased at least one of these packs. This highlighted strong awareness and purchase of illicit non-plain pack cigarettes. This is covered in detail on page 32.

Legal tobacco market in Australia

Legal domestic sales declined marginally in full year 2014; growth in Roll Your Own (RYO) sales partly offset the decline in sales of manufactured cigarettes.

Regulatory changes

Between 2013 and 2014 both Federal and state governments implemented additional regulatory measures. These changes mainly focussed on increasing the number of smoke-free locations. The second of four 12.5% excise increases was implemented in September 2014.

Cigarette prices in Australia are much higher than other markets in Asia (excluding New Zealand). This price differential creates smuggling opportunities for those involved in the illicit tobacco market.

Note: (a) KPMG have not had the opportunity to validate results for 2007-2011

Sources: (1) PWC, *Illegal Tobacco: counting the cost of Australia's black market*, 2007, 2009

(2) Deloitte, *Illicit Trade of Tobacco in Australia*, 2010, 2011, 2012

(3) Industry data; see specific report sections for further detail

(4) KPMG analysis

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

1.2 The purpose of this report

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

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

This full year 2014 report measuring the consumption of illicit tobacco in Australia is the second of two reports that are published focusing on 2014. It covers the twelve month period from January to December 2014 and is an update to the H1 2014 report that was released in November 2014. The 2014 report is produced on a consistent basis with previous KPMG 'Illicit Tobacco in Australia' reports.

1.3 KPMG LLP's anti-illicit tobacco measurement experience

KPMG LLP 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 America, Asia and the Middle East.

Our work was pioneered in Europe where we have published an annual report on illicit cigarette consumption for Philip Morris International Management since 2006. In 2013 it was conducted on a pan-industry basis for the first time, being jointly commissioned by British American Tobacco plc, Imperial Tobacco Limited, JT International SA and Philip Morris International Management ("Project SUN"). The study included all 28 European Union member states (with previous reports covering all member states at that point in time). The project has also been endorsed by the OECD task force for charting illicit trade, who consider it to be the "most authoritative assessment of the level of counterfeited and contraband cigarettes across EU Member States".⁽¹⁾

2. Australian tobacco market

2.1 Tobacco consumption in Australia

2.2 Legal tobacco market

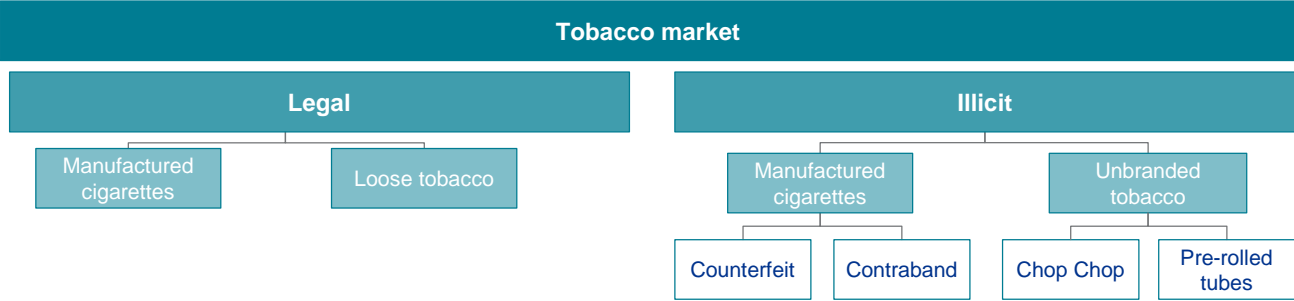
Australian tobacco market

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

2.1 Tobacco consumption in Australia

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

Figure 2.1: Australia tobacco market map



Legal tobacco products

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

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

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

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

Illicit tobacco consumption

Illicit tobacco is mainly brought into the country illegally from overseas markets without the payment of excise duties. This tobacco is sold to consumers at lower prices than Australian cigarettes, avoiding Australian excise obligations, or is brought into the country in amounts exceeding the allowable personal limit. According to the CEO of the Australian Customs and Border Protection Service (ACBPS), “illicit tobacco is increasingly becoming the playground of serious and organised crime”. As such, it has been designated as one of six operational priorities for the newly established Organised Crime Branch⁽¹⁾.

Counterfeit

These are manufactured cigarettes, often manufactured overseas on a large scale. Once manufactured, they are smuggled into Australia most commonly via ports in large freight containers and other channels including airmail. These products carry branding without the consent of the trademark owner to imitate popular legitimate tobacco product brands.

According to the Tobacco Industry Stakeholder Group

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

Contraband

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

Contraband cigarettes are legitimately manufactured by the trademark owner but imported illegally (by third parties or consumers) to avoid Australian government regulations, quarantine inspections and local product controls.⁽²⁾

Illicit whites, as discussed in section 6 and the glossary, are a constituent part of contraband.

Unbranded tobacco

Unbranded tobacco is sold as finely cut loose leaf tobacco in 250g or half kilogram amounts. TISG indicates that it may be grown illicitly without a licence in Australia but is most commonly smuggled from overseas countries.

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

The Australian Crime Commission believes that most unbranded tobacco is imported rather than grown in Australia but there have been seizures of locally grown tobacco, discussed on page 31. It is distributed by retailers in the same way as counterfeit and contraband products.⁽¹⁾

Note: (a) Formerly known as Tobacco Industry Forum (TIF), recently changed as the result of changes by the Australian Taxation Office (ATO) forums
Sources: (1) Legal and Constitutional Affairs Legislation Committee, 23 February 2015
(2) Tobacco Industry Stakeholder Group (TISG) formerly known as Tobacco Industry Forum (TIF)

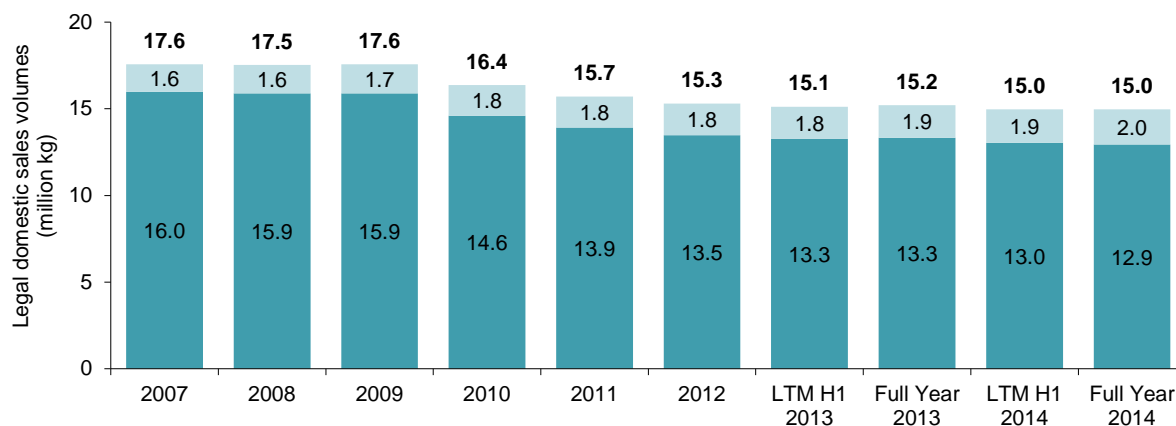
Legal domestic sales have been static over the past six months; a marginal fall in manufactured cigarettes was partly offset by growth in loose tobacco

2.2 Legal tobacco market

2.2.1 Historic legal domestic sales

Legal domestic sales in Australia,

2007 – 2014⁽¹⁾(2)(a)



CAGR (%)	2007-2014	2013 - 2014	LTM H1 2014 – 2014
Manufactured cigarettes	-3.0%	-2.8%	-1.4%
Loose tobacco	3.4%	6.5%	9.5%
Total market	-2.3%	-1.7%	0.0%

Overall sales of legal domestic tobacco declined by 1.7% between 2013 and 2014; a smaller decrease compared to the 2.3% annual decline between 2007 and 2014. However, the market has remained static over the past six months.

Manufactured cigarette sales declined more rapidly in the first half of 2014. However, sales of loose tobacco continued to experience steady growth. These results are supported by industry volume data reflecting a small decrease in sales by manufacturers.⁽³⁾

Whilst manufactured cigarette volumes have declined at an annual rate of 3.0% since 2007, loose tobacco volumes have increased at an annual rate of 3.4% over the same period, representing a shift in the mix of tobacco products consumed.

Legal domestic sales for 2013 were based on an analysis of exchange of sales data^(b) and Euromonitor data⁽⁵⁾ as discussed in previous reports. For subsequent reports, KPMG has examined a range of data sources, including exchange of sales and off-take data from each manufacturer, supplied by independent research agencies.

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

(b) Refer to the glossary

Sources: (1) Euromonitor, Legal domestic sales, accessed August 2014

(2) KPMG analysis of data from Nielsen Australia and Aztec (Scan) databases

(3) Infoview – Exchange of Sales

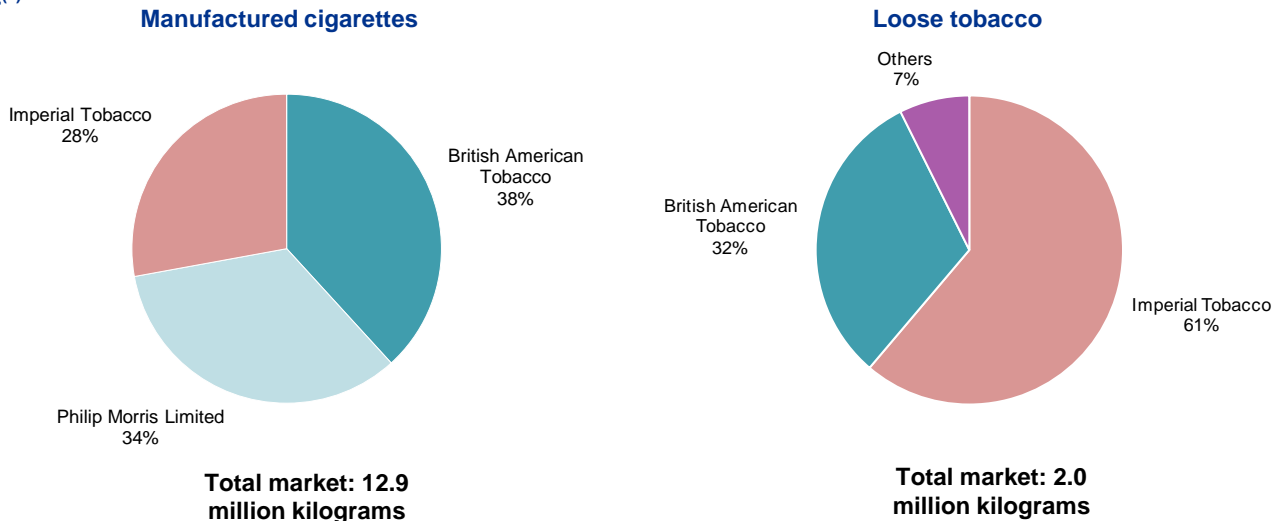
(4) Euromonitor, Legal domestic sales (from trade sources and national statistics), accessed 2013, 2014

Australian tobacco market

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

2.2.2 Australia legal tobacco competitive overview

Market share by manufacturer, 2014⁽¹⁾

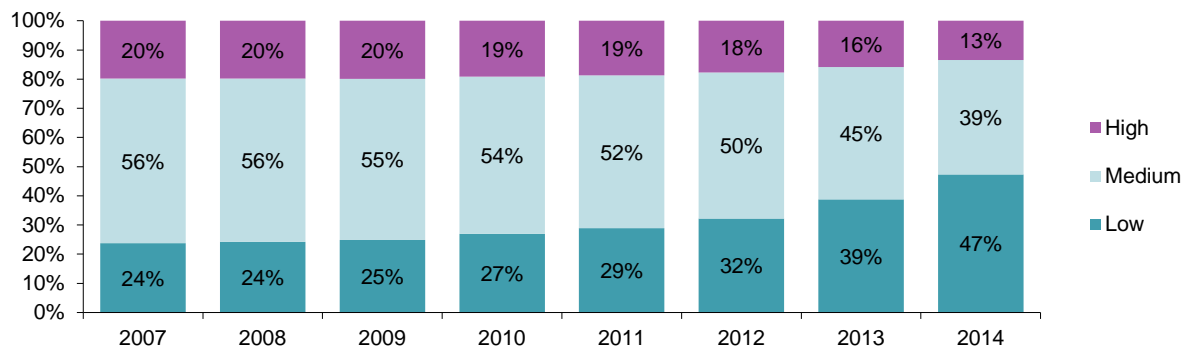


Market share

The three major tobacco manufacturers have large shares across both the manufactured cigarette and loose tobacco market. British American Tobacco has a market share of 38% in manufactured cigarettes. Philip Morris Limited's market share has remained broadly constant, at 35% in 2013 and declining only one percentage point in 2014. Imperial Tobacco's market share increased from 20% to 28% between 2013 and 2014.

Imperial Tobacco has the largest market share in loose tobacco with four of the top six loose tobacco brands, whilst BATA is the only other major competitor in this market.

Market share of manufactured cigarettes by price category, 2007 – 2014^{(2)(3)(a)}



Price category

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

Since 2007 there has been an increase in the market share of low priced categories at the expense of medium and high priced cigarettes as people are switching to cheaper cigarettes. This trend appears to have developed further in 2014 as the low price segment increased by eight percentage points.

Note: (a) Due to data availability, the source data has been changed from Nielsen to Aztec

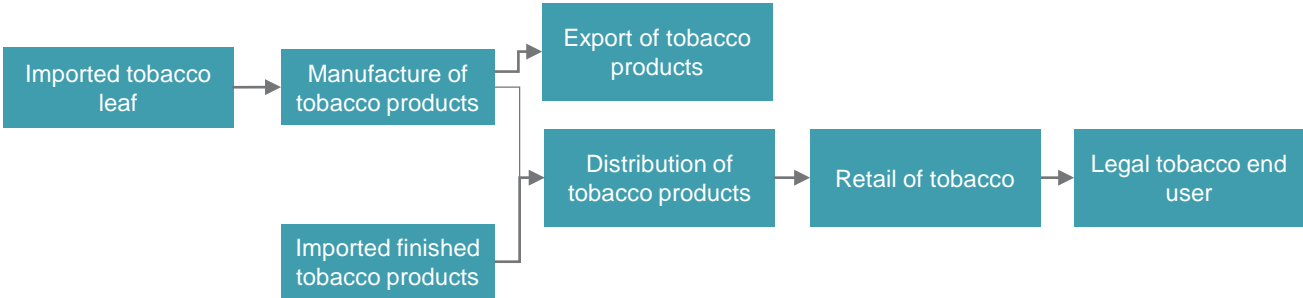
Sources: (1) Infoview monthly shipment data, January 2014 to December 2014

(2) KPMG analysis of Aztec scan data

(3) Euromonitor, Tobacco in Australia, August 2014

2.2.3 Supply and distribution of legal manufactured tobacco in Australia

Supply chain for legal tobacco products in Australia



Tobacco supply chain and sales channels

All manufactured tobacco products are imported into Australia as tobacco leaf or finished products. No tobacco is legally grown in Australia for any purpose. Some BATA products are currently manufactured in Australia, whilst all of ITA's products are imported. PML products were also manufactured in Australia, however, from November 2014 all PML products are now imported.

Non-domestic legal consumption channel

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

Source: (1) Industry data
(2) www.customs.gov.au/page4352.asp

3. Macroeconomic environment

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

The Australian economy has achieved steady growth over the last six years, with low unemployment rates compared with other OECD countries

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.

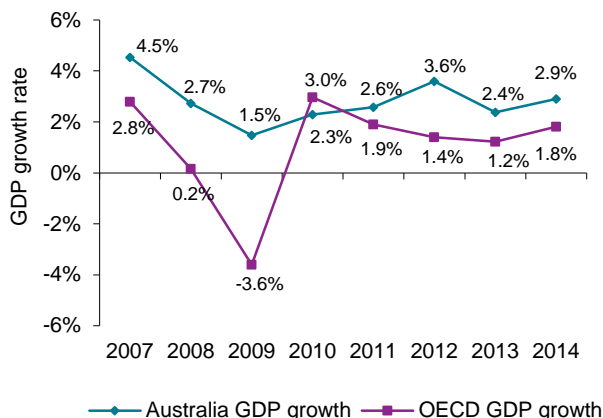
The decline in legal domestic sales since 2009 needs to be examined in the context of the affordability of tobacco products. Personal disposable income (PDI) and the consumer price index (CPI) are analysed in order to assess possible reasons for changes in consumer behaviour.

3.2 Gross domestic product growth

Australia has been one of the few members of the OECD to have experienced continuous economic growth. Between 2007 and 2014 the economy grew at a compound annual growth-rate (CAGR) of 2.6%. The growth-rate in 2014 of 2.9% was higher than the OECD average for the fourth year in a row.

In recent years, the Australian economy has benefitted from strong growth in key Asian markets such as China, mainly through exports of natural resources such as coal and iron ore. With some softening of the Chinese growth rate in 2014 as well as lower prices for key commodities, GDP growth undershot original forecasts by around 0.2%. By contrast, the Australian services sector is growing strongly, especially in tourism and real estate. In addition to strong performance in agriculture, this has led to some rebalancing of the Australian economy.⁽⁵⁾

Year-on-year GDP Growth, 2007 – 2014^{(1)(2)(a)(b)}



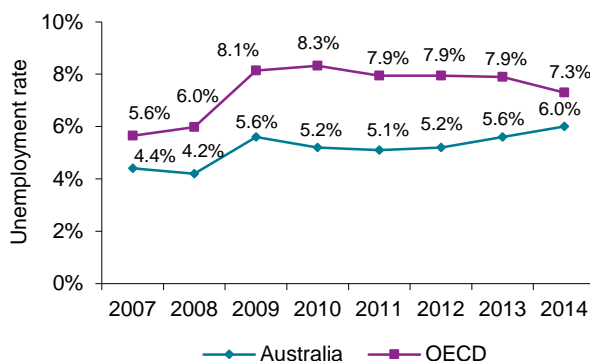
3.3 Unemployment

Unemployment in Australia is one of the lowest of all OECD countries. Unemployment increased in 2009 but remained broadly stable until 2012, when it started to increase.

Unemployment in 2014 was 6.0%, a slight increase from the 5.6% recorded the previous year. A series of job losses announced over the past year, especially in the car manufacture, steel, airline, telecommunications and mining industries, as well as insufficient jobs for young people leaving schools and universities appear to be the main drivers for this growth in unemployment.⁽⁶⁾

By contrast, the OECD average unemployment rate declined for the first time since 2011, which has resulted in some convergence between the Australian and OECD average rate this year.

Recorded unemployment, 2007 – 2014^{(3)(4)(b)}



Note: (a) Historical numbers for GDP have been updated and have been based on data from the Economist Intelligence Unit
(b) 2014 data is based on latest available estimates

Sources: (1) The Economist Intelligence Unit, GDP at constant prices, accessed February 2015

(2) OECD, GDP (expenditure approach), accessed February 2015

(3) The Economist Intelligence Unit, recorded unemployment as a percentage of total labour force, accessed February 2015

(4) OECD, harmonized unemployment rates, accessed February 2015

(5) Bloomberg, *Australian Economy Changes as Exports to China Slow*, September 2014

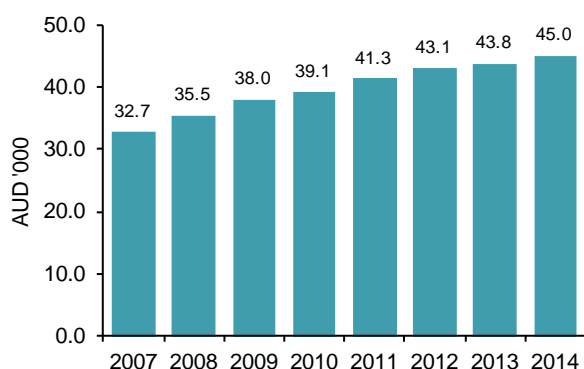
(6) World Socialist Web Site, *Australian unemployment rate rises to highest level in 12 years*, August 2014

3.4 Personal disposable income

Australia has been through a period of consistently increasing Personal Disposable Income (PDI) during the past decade. PDI per capita increased by 4.6% p.a. between 2007 and 2014.

Historically, strong growth in personal disposable income has been supported by growth in compensation for those associated with Australia's mining boom and export-driven natural resource sector as a whole. Recent reports suggest that growth in non-wage income, such as dividends, property rents and social assistance have supported slower overall growth in PDI per capita. In addition, low and stable interest rates since late 2011 have supported the steady growth in PDI of those with mortgage debt.⁽²⁾

**Personal disposable income per capita,
2007 – 2014^{(1)(a)}**

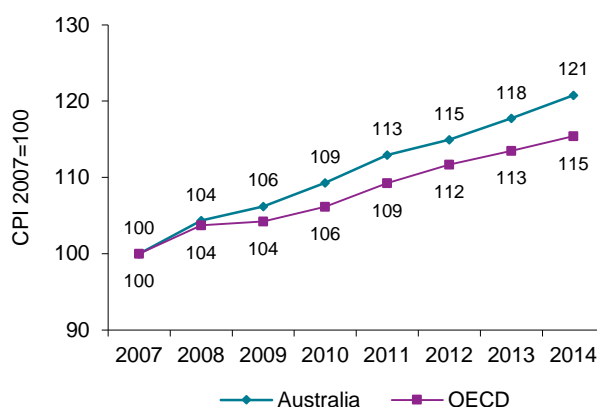


3.5 Consumer price index

Australia's Consumer Price Index has developed at the same pace as the OECD average, growing consistently since 2007. However, forecasts suggest that inflation will be higher than the OECD average in 2015⁽⁵⁾.

The Economist Intelligence Unit forecasts that annual inflation will fall to 2.3% in 2015, largely due to the pass-through of lower oil prices. It forecasts average inflation of 2.6% between 2015-19, which is subject to both upside and downside risk.⁽⁶⁾ Interest-rate rises may relieve some inflationary pressure, but a revival in the housing market and a weaker Australian dollar could cause inflation to accelerate.

**Consumer price index,
2007 – 2014^{(3)(4)(a)}**



Note: (a) 2014 data is based on latest available estimates

Sources: (1) Euromonitor, Annual disposable income per capita, accessed January 2015

(2) Property Observer, *Are household disposable incomes really increasing at 4.7%?*, September 2014

(3) Euromonitor, Index of consumer prices; accessed February 2015

(4) OECD Economics, Consumer prices, accessed February 2015, rebased to 2007

(5) OECD, Economic outlook, analysis and forecasts, accessed February 2015

(6) Australia: Country outlook, Economist Intelligence Unit, 8 December 2014

4. Regulation and taxation

- 4.1 Tobacco regulation in Australia
- 4.2 Future proposed legislation
- 4.3 Recent development of excise duty and tobacco affordability in Australia
- 4.4 Regional tobacco prices

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. The advertisement of tobacco products by broadcast and publication is prohibited by the Tobacco Advertising Prohibition Act 1992 (Cth). State and Territory legislation complements and supplements the Federal legislation by prescribing and proscribing activity dealing directly with the retail sale and display of tobacco products. The combined effect of the Federal, State and Territory legislation is that all manner of tobacco product advertisement and promotion to the public is strictly and rigidly controlled. The Department of Health and Ageing's National Tobacco Strategy aims to reduce smoking prevalence nationally from over 15% in 2012 to 10% in 2018.⁽¹⁾ To reduce smoking prevalence, numerous tobacco control regulations have been developed over time as demonstrated in Figure 4.1. A more detailed overview of recent legislative changes both at the Australian Commonwealth level and the state level are detailed in Appendix A5.

National Tobacco Strategy

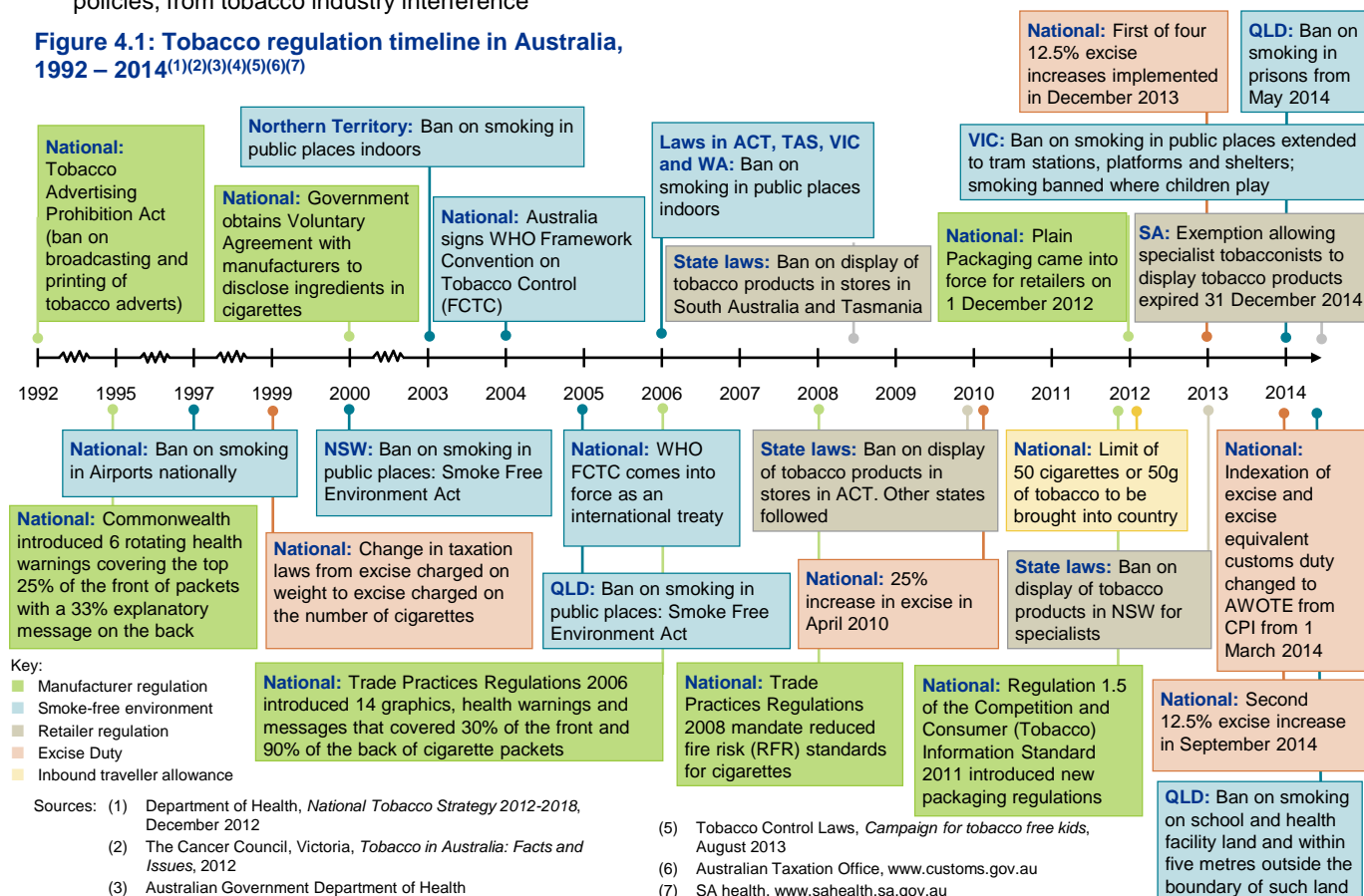
The National Tobacco Strategy 2012-18 was released in January 2013. The strategy highlights nine priority areas including;

1. Protect public health policy, including tobacco control policies, from tobacco industry interference

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

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

Figure 4.1: Tobacco regulation timeline in Australia, 1992 – 2014⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾



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

4.1 Tobacco regulation in Australia (continued)

Tobacco products regulation

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

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

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

Smoke-free environment legislation

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

The establishment of the WHO Framework Convention on Tobacco Control (FCTC) resulted in the creation of guidelines surrounding smoke-free environments some of the content of which has, broadly, been followed by some State Parliaments. In 2005 and 2006 the States passed laws which created smoke-free environments in public places including licensed premises, partially covered outdoor spaces and al fresco dining areas. States have continued to establish further smoke-free environments, including the banning of smoking on beaches, playgrounds and at stadia or other sporting events and concerts.⁽¹⁾

Individual States in Australia have also passed laws which restrict smoking in cars with children under the age of 17⁽¹⁾, whilst an amendment in the Northern Territories, effective 1 December 2014, reduced this to 16 years⁽²⁾. In Victoria, the Tobacco Amendment Act 2014 was passed in 2014 and will come into effect by 30 June 2015, banning

smoking in a range of areas where children are present.⁽³⁾ From 1 March 2014, train stations, tram shelters and platforms and bus shelters in Victoria have been made smoke-free.⁽⁴⁾ From 1 April 2014, smoking was banned where children play; including within 10 meters of playgrounds and skate parks, sporting venues during under 18s events and within public swimming pool grounds in Victoria.⁽⁵⁾ In August 2014, Victoria also announced plans to ban smoking in outdoor dining areas, whilst in September 2014 plans were announced to ban smoking outside hospitals and other Government buildings.⁽⁶⁾

Retailer regulations

Australian States and Territories ban the sale of tobacco products to anyone under the age of 18. During the 1990s, States introduced laws which imposed harsher penalties on vendors that sold cigarettes to individuals under 18 years. Some States have also undertaken surveillance programmes to ensure compliance. With the exception of Victoria and Queensland, all other States and Territories require tobacco retailers to hold a licence^(a) with fees ranging from AU\$200-AU\$306.36 per annum.

States and Territories have also banned retailers from point of sale advertising and the display of tobacco products within stores. New South Wales, South Australia, Australia Capital Territory (ACT), the Northern Territory, Queensland and Tasmania all have legislation in place banning point of sale displays. Victoria and Western Australia have similar legislation; however, there are exemptions in place for specialist outlets. Victorian specialist outlets who were granted exemption prior to 1 April 2014 will be able to continue displaying products, however following this date no new specialist licenses will be issued.⁽⁵⁾ In Western Australia display is restricted to specialist tobacco retailers only.⁽⁸⁾ South Australia had an exemption for specialist tobacconists which ended in December 2014.

Some States and Territories have also applied restrictions on the number and operation of vending machines in licensed premises and gambling establishments.⁽²⁾ In the ACT, cigarette vending machines have been banned entirely.

On 1 August 2014 the Victorian government introduced quadruple fines for retailers caught with illicit tobacco.⁽⁷⁾

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

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

(2) Tobacco Control Legislation Amendment Act 2014 (NT)

(3) Tobacco Amendment Act 2013

(4) Transport (Conduct) and (Infringements) Amendment (Extension of

Smoking Bans) Regulations 2014

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

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

(7) Tobacco Amendment Act 2014

(8) www.tobaccoinaustralia.org.au/11-4-state-and-territory-legislation

Australia continues to explore new legislation in order to reduce smoking prevalence with further new excise increases to be implemented

4.1 Tobacco regulation in Australia (continued)

Duty free and customs allowances

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

In 2012, the Federal Government passed the Customs Amendment (Smuggled Tobacco) Act 2012 which conveyed new offences for smuggling or possessing illicit tobacco. It was the first time that custodial sentences were recommended for smuggling tobacco.⁽¹⁾ Victoria has legislation which criminalises the possession of illicit tobacco or tobacco on which the appropriate excise duties have not been paid.⁽²⁾

Excise duty increases

Australian excise duty has historically risen with inflation with the exception of a one-off 25% increase in 2010. 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)⁽³⁾. AWOTE has historically grown 1.5 percentage points faster than CPI, therefore the indexation is likely to increase excise duty faster than the old indexation legislation.

In August 2013, the Federal Government announced excise duty increases for tobacco products of an additional 12.5% annually for the next four years in addition to the switch to AWOTE.⁽¹⁾ The first of these increases was implemented on 1 December 2013, with the second applied on 1 September 2014⁽⁴⁾. Further 12.5% increases are scheduled for 1 September 2015 and 1 September 2016.⁽⁴⁾ As a result of these tax increases the excise on a pack of cigarettes in Australia will increase by 60% (compounded over four years) above the increase of AWOTE.

Framework Convention on Tobacco Control (FCTC)⁽¹⁾

Australia became a Signatory to the World Health Organization's (WHO) Framework Convention on Tobacco Control (FCTC) on 5 December 2003. The Conference of the Parties (COP) has adopted detailed guidelines for effective implementation of many of the broad range of legislative, executive, administrative and other measures required under the Convention. Together, the FCTC and its guidelines have the potential to help set the priorities of

Australian governments, including Commonwealth, State and Territory, in relation to tobacco control policies and programmes.

4.2 Future proposed legislation

The FCTC also provides a framework for international cooperation in a number of areas of tobacco control in which Australia and other Parties cannot effectively act alone. These include the regulation of cross-border tobacco advertising, promotion and sponsorship and the implementation of measures to address illicit trade in tobacco products.

Australia has the responsibility to cooperate with other FCTC Parties to address trans-boundary tobacco control problems and to assist other Parties in meeting common challenges to effective tobacco control.

The Australian tobacco industry participated in a consultation around the Protocol to Eliminate Illicit Trade in Tobacco Products (AITP). The AITP was adopted on 12 November 2012 and opened for signature from 10 January 2013 to 9 January 2014. When the AITP was closed for signature, it had been signed by 53 countries and the European Union. However, Australia is not among the countries that have signed the AITP.⁽⁵⁾ The AITP will only be legally binding once it has been formally ratified by 40 countries.

Continuous pursuit of smoke-free environments

State governments have continued to focus on the banning of smoking in public outdoor areas. Where states have not banned smoking in outdoor public areas, many local councils have issued the relevant bans and often play a key role in expanding public smoking restrictions. States continue to ban smoking or implement buffer zones at public events and any areas where children may be present such as open air concerts, playgrounds, sporting events and skate parks.⁽⁶⁾ Additionally, a number of states are also considering to impose smoking bans in prisons, with Northern Territory being the first to implement a smoking ban in prisons from 1 July 2013.⁽⁷⁾ Queensland banned smoking on school and health facility land and within five metres outside the boundary of such land from 1 January 2015.⁽⁸⁾ They also banned smoking in prisons in May 2014⁽⁹⁾, while Victoria announced a similar ban starting in July 2015.⁽¹⁰⁾

Note: (a) Customs duty is at the excise equivalent rate

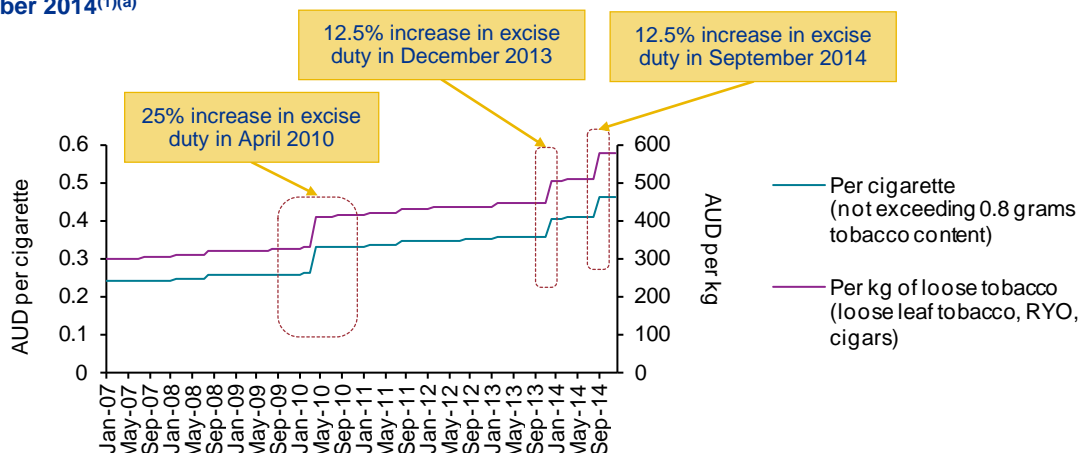
- Sources: (1) The Treasury, 'Government to increase tobacco excise' (Press Release, No.015, 1 August 2013)
 (2) Tobacco Act 1987 (Vic) s 11A
 (3) Commonwealth, Budget Strategy and Outlook, Budget Paper No.1 (2013-2014), 1-19
 (4) Customs Tariff Amendment (Tobacco) Act 2014, Excise Tariff Amendment (Tobacco) Act 2014
 (5) United Nations Treaty Collection, Status as at: 29-03-2015, Protocol to Eliminate Illicit Trade in Tobacco Products (29 March 2015) <https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtidsg_no=X-4-a&chapter=9&lang=en>

- (6) See for example Health Legislation Amendment Act 2014 (QLD), Tobacco Amendment Act 2014 (Vic)
 (7) Correctional Services Act 2014 (NT), Correctional Services Regulations 2014 (NT)
 (8) Health and Other Legislation Amendment Act 2014
 (9) Corrective Services Amendment Regulation (No.1) 2014, Health and Other Legislation Amendment Act 2014
 (10) Premier of Victoria, Media Release 14 November 2013, Victorian prisons to go smoke-free, <http://www.premier.vic.gov.au/media-centre/media-releases/8429-victorian-prisons-to-go-smoke-free.html>

Excise rates have increased steadily in addition to large excise increases in April 2010, December 2013 and September 2014. There are two further annual increases to be implemented through to September 2016

4.3 Recent development of excise duty and tobacco affordability in Australia

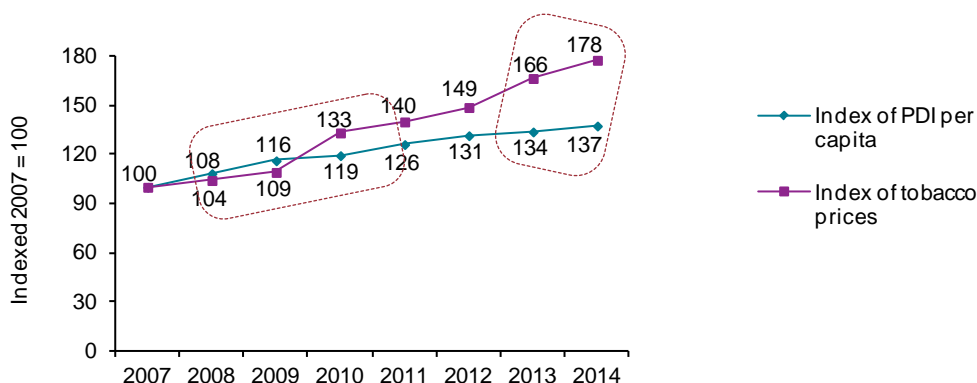
Values of tobacco excise and customs duty, Australia, January 2007 – December 2014^{(1)(a)}



The largest excise increase was a 25% increase introduced on 30 April 2010. In November 2013, the Government confirmed four increases in excise of 12.5% to be levied in December 2013, then September 2014, 2015 and 2016.

This increase is over and above the annual indexation linked to Average Weekly Ordinary Time Earnings (AWOTE). This has resulted in the excise on tobacco products increasing by 15.1% between December 2013 and December 2014.

Index of tobacco prices and per capita PDI, Australia, 2007 – 2014^{(3)(4)(a)(b)}



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

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

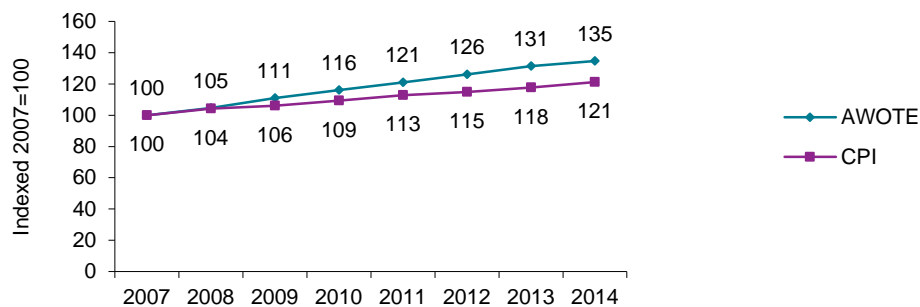
Note: (a) 2014 AWOTE is based on latest available estimates (November 2014)
(b) Indexed with 2007 values taken as 100

Sources: (1) Australian Taxation Office, www.customs.gov.au
(2) Australian Government – Australian Taxation Office, New legislation: Excise and excise-equivalent customs duty - index tobacco excise to average weekly ordinary time earnings, 25 June 2013
(3) Euromonitor, Index of tobacco prices, accessed January 2015
(4) Euromonitor, Annual disposable income, accessed January 2015

Regulation and taxation

The AWOTE has grown on average 1.5 percentage points faster than the CPI

Comparison between AWOTE and CPI,
2007- 2014^{(1)(2)(a)(b)}



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

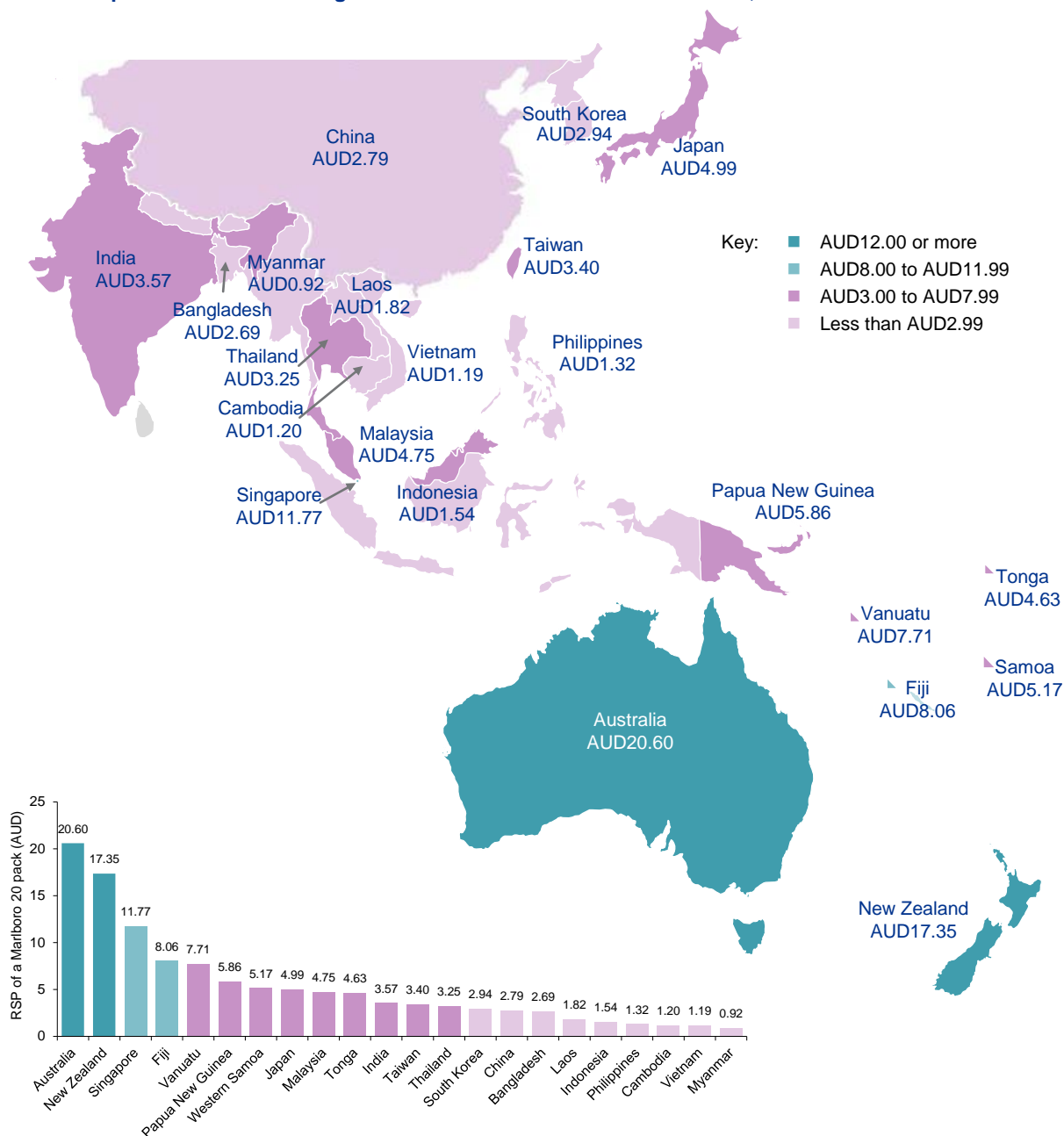
Although CPI has continued to grow, AWOTE has increased at a higher rate since 2009. If the AWOTE continues to grow at the same rate, the change in indexation is likely to lead to higher price increases.

Notes: (a) Indexed with 2007 values taken as 100
(b) The historical numbers have been updated as Euromonitor has changed the Index of tobacco prices
Sources: (1) Euromonitor, Index of tobacco prices, February 2015
(2) Australian Bureau of Statistics

Australia has the highest cigarette prices within the Asia Pacific region

4.4 Regional tobacco prices

Price of a pack of 20 Marlboro cigarettes – Australia and selected markets, 2014^{(1)(2)(a)(b)}



Australia and New Zealand have significantly higher cigarette prices than surrounding markets in South East Asia. Australian prices are more than 75% higher than the most expensive non-Australasian market, shown above.

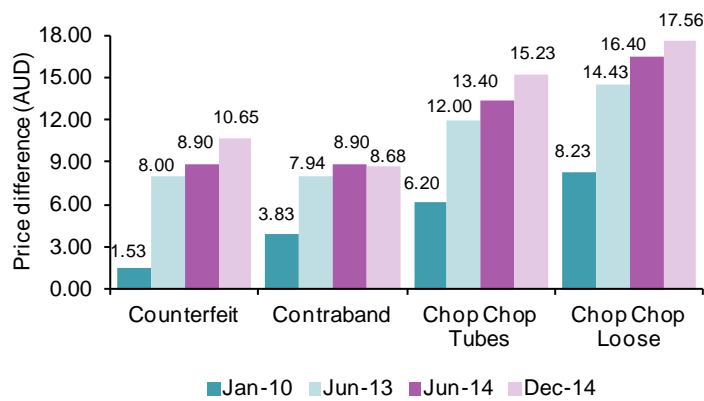
This large price differential between Australia and other relatively nearby markets creates smuggling opportunities for those involved in the illicit market.

Notes: (a) Prices for a 20 cigarette pack of Marlboro (taxes included); where Marlboro is not available, a comparable premium brand has been used
(b) As Marlboro is not legally sold in Myanmar, the price of a comparable premium local brand, Red Ruby, has been used for comparison

Sources: (1) Industry data
(2) www.oanda.com

4.5 Relative price of illicit tobacco

Price differential of illicit products to a packet of Winfield 25s, 2010 – 2014^{(1)(a)}



Data provided by BATA based upon covert purchases 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 data illustrated above highlights the difference in price between different types of illicit tobacco products and a packet of legitimate Winfield 25s. The chart also shows how this difference in price has increased since January 2010.

Between 2010 and 2014, the largest relative increases developed in counterfeit products where the price differential appears to have widened. For example, prices of counterfeit Winfield rose from AUD 10.92 to AUD 12.50, whilst prices of genuine Winfield rose from AUD 12.45 to AUD 23.15. This resulted in the price differential between counterfeit and genuine Winfield rising from AUD 1.53 to AUD 10.65.

The price differentials between contraband and legitimate product have actually fallen between June and December 2014. Price differentials between Chop Chop tubes and legitimate product however continued to widen in this period.

The industry has also highlighted that whilst prices of genuine Winfield increased by 86%, prices of contraband in particular have increased by 68% since January 2010, which has likely fuelled bigger margins for smugglers and illegal retailers.

5. Size of the illicit tobacco market

5.1 Estimating the illicit tobacco market

5.2 Illicit tobacco consumption in Australia

5.3 Alternative illicit tobacco estimates

Size of the illicit tobacco market

We have used a robust, methodical and globally consistent approach to produce an estimate for the size of the Australian illicit tobacco market

5.1 Estimating the illicit tobacco market

Methodology and validation

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

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

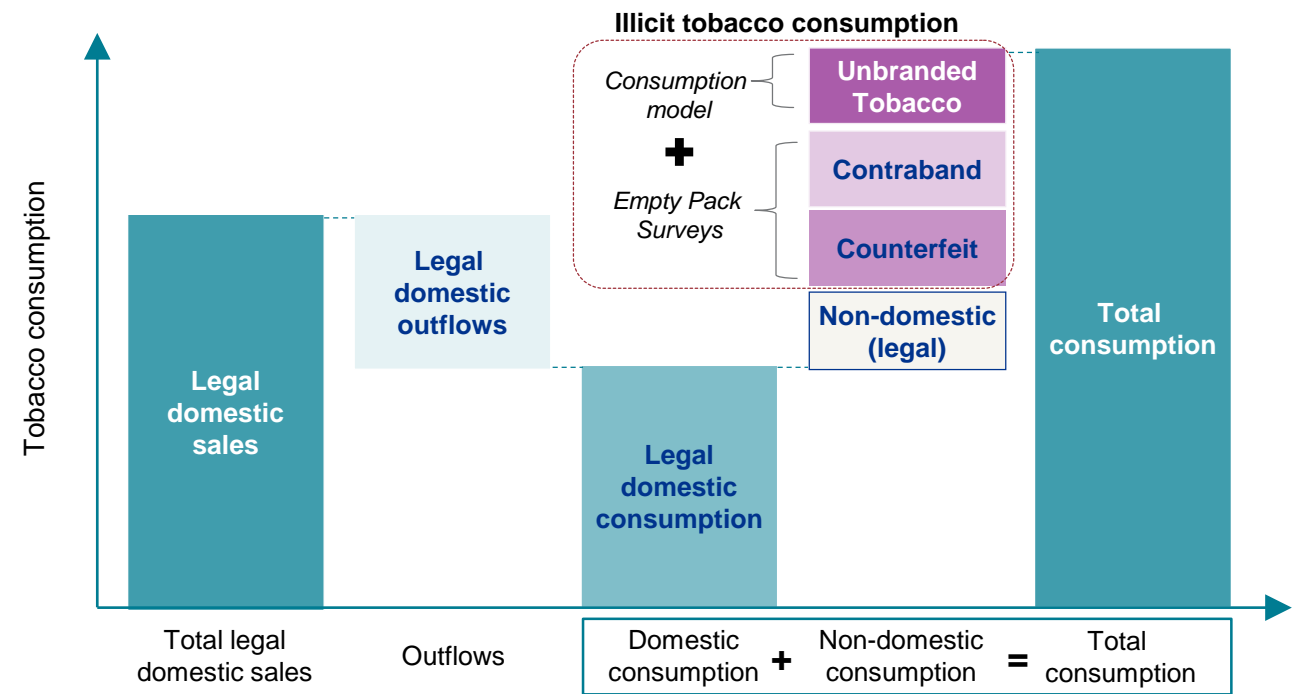
For each of these categories a separate primary approach is used in order to estimate the volume of illicit tobacco. For unbranded tobacco a consumption model approach is used, based on results from a consumer survey.

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.

We believe this approach provides a robust estimate of the size of the illicit market in Australia. 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.

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 Appendix A1.

Estimation of the illicit market^(a)



Data sources

Tobacco Industry database	RMR consumer survey	RMR consumer survey	RMR consumer survey
Aztec Scan data	Tourism statistics	Empty Pack Surveys	Health statistics
Euromonitor		Rolling papers sales data	
Datamonitor		Internal company intelligence data	
Nielsen		Customs' seizure data	
Infoview			

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

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 (continued)

Primary approaches

Consumption model

This approach is based on the responses of consumers to the survey conducted by Roy Morgan Research in H1 2014 and H2 2014. The survey is commissioned by BATA, ITA and PML. The survey asks consumers about their consumption of both legal and illicit tobacco. These survey responses are then combined with other data sources 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 the full year 2014 is based on the average of the H1 2014 and the H2 2014 consumer survey results. Since consumers are likely to give a more accurate estimate of their purchase behaviour over a shorter time period rather than the last twelve months, using an average of both surveys provides a more robust number for 2014. Detailed results of the consumer survey are discussed in section 6.

Empty Pack Survey (EPS)

An EPS is a study undertaken independently by MSIIntelligence who collect 12,000 discarded cigarette packs per survey across 16 different towns and cities in Australia. The EPS is conducted every six months. The brand and country of origin of each collected pack is assessed to determine whether it is a domestic or non-domestic product, and a genuine or counterfeit product. Products from different countries of origin are labelled as non-domestic. 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 a robust and statistically significant 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. The 16 cities covered by the sample plan covers the equivalent of over 75% of Australia's population.

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

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

Since 2012, the empty pack surveys have been jointly commissioned by BATA, ITA and PML. Before H1 2013, the study was carried out by ACNielsen. Prior surveys were also run in 2009 and 2010 by ACNielsen on behalf of PML, and these have been made available to KPMG for use in this report.

For the purpose of this update report a new EPS has been conducted in Q4 2014. The results from this survey have been used in conjunction with the EPS results from Q2 2014 to arrive at an estimate for the illicit manufactured cigarette consumption for the year 2014. This method is consistent with the approach used by KPMG in Project SUN to assess the level of counterfeit and contraband cigarettes across the EU Member States. It is a widely accepted method for measuring the illicit market.

5.1 Estimating the illicit tobacco market (continued)

Means of validation

Rolling papers analysis

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

In order to use this approach several assumptions are made:

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

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

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

Seizures data

Seizures data obtained from the ACBPS shows the volume and type of tobacco intercepted at ports and airports.⁽⁵⁾ Using seizure data to size the illicit market is often unreliable since it is difficult to ascertain the proportion of total illicit product that is seized. In addition, seizure data used to intercept tobacco products coming into Australia will not pick up loose tobacco which may have been illegally grown in Australia.

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

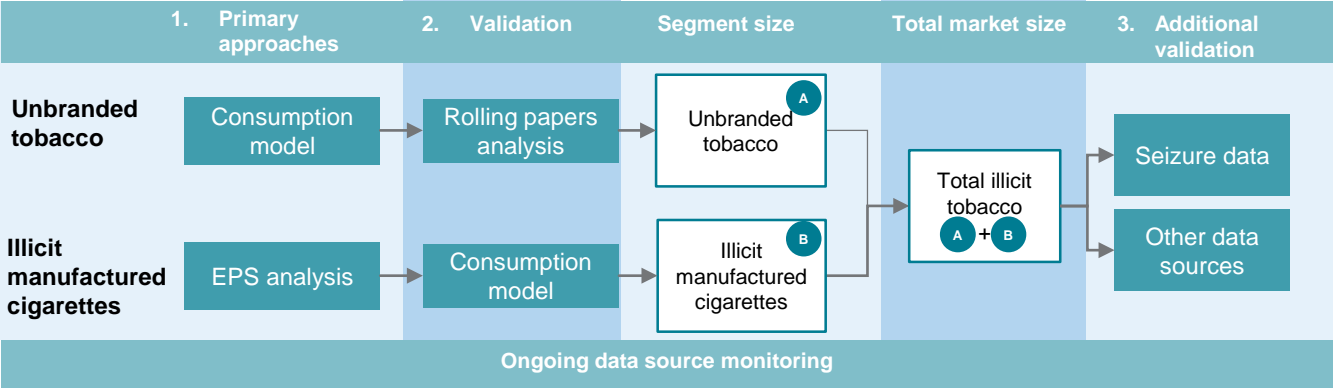
Sources: (1) Aztec Scan data
(2) Industry estimates
(3) Roy Morgan Research, Consumer survey
(4) Australian Institute of Health and Welfare, *The National Drug Strategy Household Survey, 2013*
(5) Australian Customs and Border Protection Service, Annual Report 2014, October 2014

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 (continued)

Figure 5.1 Overview of approach to estimating illicit tobacco



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

1. Primary approaches

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

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

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

2. Validation

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

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

3. Additional validation

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

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

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

Ongoing data source monitoring

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

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

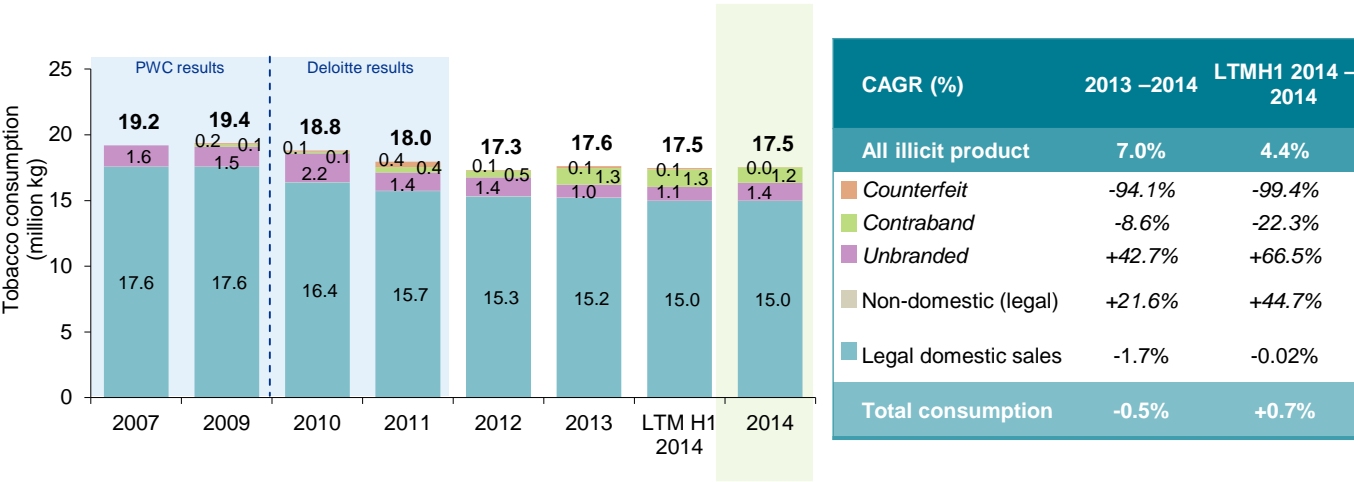
Note: (a) A study of the illicit cigarette market in the European Union by KPMG

Size of the illicit tobacco market

Illicit tobacco accounted for 14.5% of total tobacco consumption in 2014, an increase driven by the growth of unbranded tobacco

5.2 Illicit tobacco consumption in Australia

Consumption of tobacco products by category, 2007 – 2014^{(1)(2)(a)(b)(c)(d)(e)}



The total level of tobacco consumption in Australia was estimated at 17.5 million kilograms in 2014, of which 2.6 million kilograms were estimated to be illicit. The estimate of total consumption represents a decrease from 2013 of 0.5%.

Consumption of large volumes of illicit manufactured cigarettes continued in 2014, however there was a shift back towards the consumption of unbranded illicit tobacco.

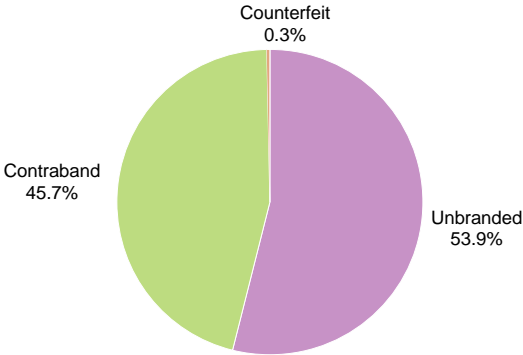
Counterfeit consumption declined in 2014 compared with 2013. However, its share of total illicit consumption has been relatively small since 2012. Contraband consumption remained the largest component of illicit manufactured cigarette consumption.

In the past six months, legal domestic sales have been static. The 4.4% growth in illicit consumption has resulted in a small increase in overall tobacco consumption.

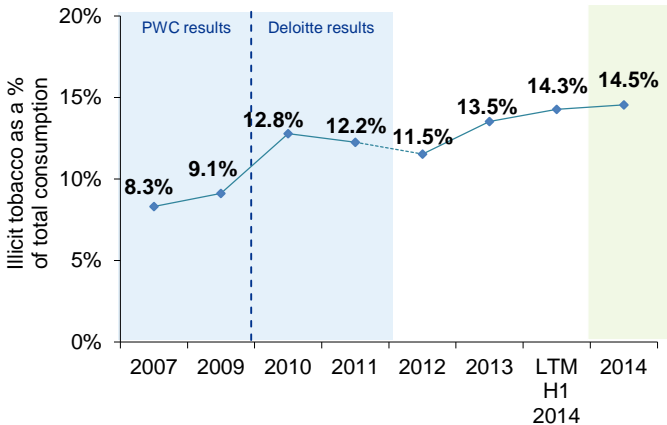
Non-domestic (legal) product grew, primarily as a result of a large change in the mix of non-domestic packs, with greater incidence especially of packs from Malaysia, Japan, India and New Zealand.

Consumption of illicit product was estimated to be 14.5% of total tobacco consumption in 2014, 1 percentage point higher than 2013 and 0.2 percentage points higher than LTM H1 2014. This is once again the highest level recorded.

Share of illicit tobacco consumption, 2014⁽³⁾



Illicit tobacco consumption as a proportion of total consumption, 2007 – 2014^{(1)(2)(3)(4)(d)}



Notes:

(a) 2014 represented consumption for the twelve months to end December 2014

(b) Counterfeit and contraband estimations are unavailable for 2007

(c) Non-domestic legal volumes are smaller than 0.1 million kg and volume labels have not been included for this category

(d) KPMG have not had the opportunity to validate results for 2007-2011

(e) Numbers in the above chart may not sum due to rounding

Sources:

(1) PriceWaterhouseCoopers, *Australia's Illegal Tobacco Market*, 2007, 2009

(2) Deloitte, *Illicit Trade of Tobacco in Australia*, 2010, 2011, 2012

(3) KPMG analysis

(4) Industry data; see specific report sections for further detail

The shift in mix towards unbranded tobacco is supported by the rolling paper analysis. The validation process provides a high degree of confidence around the results

5.2 Illicit tobacco consumption in Australia (continued)

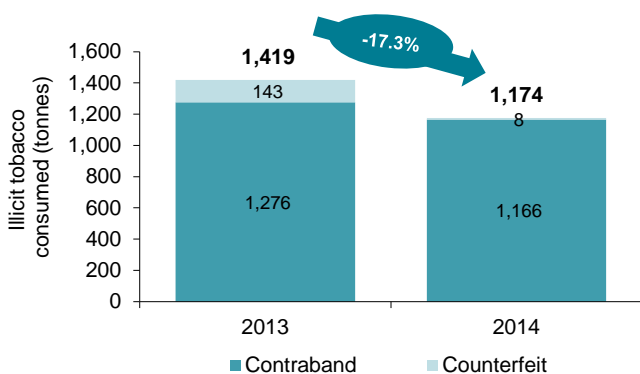
Table 5.2 Results of primary methodologies, 2013 – 2014

2013 and 2014 results (tonnes)				
		2013	2014	% change (2013 – 2014)
1. Illicit manufactured cigarettes	Contraband	1,276	1,166	(8.6%)
	Counterfeit	143	8	(94.1%)
	Total	1,419	1,174	(17.3%)
2. Unbranded tobacco		964	1,375	42.7%
3. Total illicit tobacco		2,382	2,549	7.0%

1. Illicit manufactured cigarettes

Based on our analysis of the EPS undertaken by MSIIntelligence, our full year 2014 estimation of the illicit manufactured cigarettes market is 1,166 tonnes for contraband and 8 tonnes for counterfeit. This represents a decline of 8.6% for contraband and 94.1% for counterfeit; a total decrease of 17.3%.

KPMG estimates of illicit manufactured cigarettes, 2013 – 2014⁽¹⁾

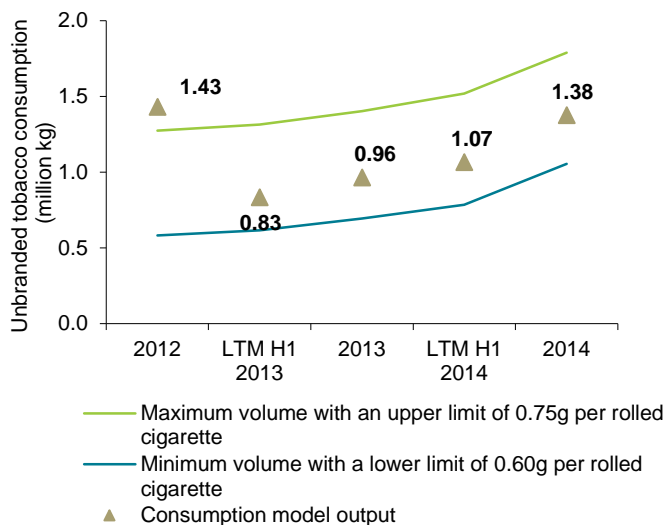


2. Unbranded tobacco

The consumption model indicates that the volume of unbranded tobacco consumed increased by 42.7% between 2013 and 2014, from 0.96 million kilograms to 1.38 million kilograms. This increase in illicit volume is supported by the rolling papers analysis.

Our rolling papers analysis estimates that the unbranded tobacco market is likely to be between 1.06 million kilograms and 1.79 million kilograms. The 1.38 million kilograms sits comfortably within this range. The growth of rolling paper sales also supports an increase in unbranded between 2013 and 2014. See Appendix A3 for more detail.

Volume of illicit unbranded tobacco generated by the rolling papers analysis, 2012- LTM H2 2014⁽¹⁾



3. Overall illicit tobacco consumption

The estimated movement in the unbranded tobacco and manufactured cigarette consumption between full years 2013 and 2014 is an overall increase of 7.0% with illicit tobacco consumption rising to 2,549 tonnes. This increase was characterised by a change in the mix of illicit tobacco consumed towards unbranded tobacco. The results are further validated by seizures data.

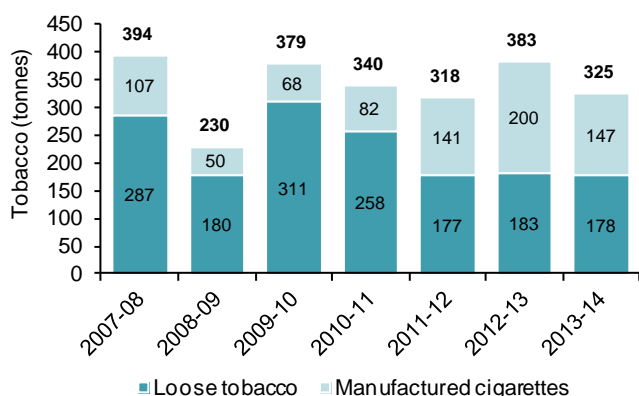
Seizures data demonstrates a rise in the proportion of manufactured cigarettes as a percentage of illicit tobacco intercepted between 2010 and 2013. However, in 2014 55% of the volume of seizures came from loose tobacco, whilst 45% of tobacco seizures were manufactured cigarettes. The ACBPS publishes its results in October, therefore the recent increase in unbranded consumption may not be fully reflected in seizures results at the time of publication.

The volume increase of manufactured cigarettes seized between 2009 and 2013 supported a significant increase in the size of the illicit manufactured cigarette market. Whilst it is hard to make direct correlations between seizures and the volume of illicit tobacco, it acts as collateral in support of the EPS which has shown significant increases in non-domestic incidence over the same time period.

The recent decline in seizures of manufactured cigarettes can be corroborated by the decline in non-domestic incidence in the Q4 EPS.

There are many variables which may impact the overall volume of tobacco seized. These include the amount of activity taking place at ports, the number of customs officials on duty and changes to tobacco smuggling

Sea cargo seizures split by type of illicit tobacco, 2008 – 2014^{(1)(a)(b)(c)}



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

Sources: (1) Australian Customs and Border Protection Service, Annual Report 2014, October 2014

activities which may alter the amount detected. As a result, the overall volume of seizures is not used in order to corroborate likely volumes of illicit tobacco, however the larger seizures described in 2013 and 2014 may indicate increased criminal activity. Therefore, seizures data does provide useful evidence on some of the trends identified in illicit tobacco within this report.

Domestic seizures activity

Over the past 12 months the Government had some success in uncovering and intercepting the distribution of large volumes of illicit tobacco across the various categories.

In March 2014, the Victoria Police seized 35,000 tobacco plants being grown illegally in Moorabool, approximately 40 kilometres from Melbourne. The seizure also uncovered other illegal substances and resulted in 27 arrests.⁽²⁾ In another raid, 300,000 illicit cigarettes and 1,866 kilograms of illicit molasses tobacco worth AUD1 million was seized in Melbourne.⁽³⁾

In April 2014, 19,000 cigarettes and 25 kilograms of tobacco were seized at Sydney airport on transit from Thailand.⁽³⁾

In May 2014 the Australian Taxation Office, assisted by the Australian Federal Police uncovered the largest ever seizure of illegal locally grown tobacco. The haul included approximately 350,000 mature tobacco plants worth an estimated excise value of AUD15 million.⁽⁴⁾

In August 2014, 500,000 cigarettes and 70 kilograms of loose tobacco were seized in multiple raids across Sydney by Australian Customs.⁽³⁾

In September 2014, Australian Customs seized approximately 2.2 tonnes of undeclared loose tobacco at Melbourne. The shipping container originated from Vietnam and was worth an estimated excise value of AUD1.5million.⁽⁵⁾

Seizures activity overseas

There have been a number of major overseas seizures of illicit tobacco products in 2014, which were reportedly destined for the Australian market. For example, Hong Kong customs intercepted a 12 tonne shipment of unmanufactured tobacco in December 2014⁽⁶⁾, the largest seizure of its kind in Hong Kong in the last ten years.

(2) The Age, *More than 500 police raid homes*, March 2014

(3) http://www.abc.net.au/reslib/201409/r1335238_18595363.pdf

(4) Australian Taxation Office, *ATO rolls illegal tobacco*, May 2014

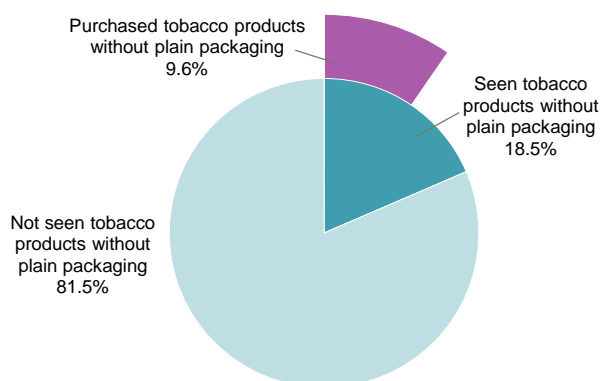
(5) ACBPS stops over two tonnes of illicit tobacco at the border, *Australian Customs and Border Protection Service*, September 2014

(6) South China Morning Post, *International syndicate behind 12-tonne haul of illicit tobacco*, says HK customs, December 2014

The AIHW survey indicates strong awareness and purchase of non-plain pack tobacco which supports our findings on illicit tobacco in Australia

5.3 Alternative illicit tobacco estimates – non-plain packaged manufactured cigarettes

Non-plain packaged tobacco awareness and purchase volumes in AIHW consumer survey (2013)⁽¹⁾



Number of non-plain packs purchased		
% of smokers	2013	% of purchasers
Seen but not purchased	-	-
1-2 packets	2.5%	25.6%
3-5 packets	1.7%	17.3%
6-9 packets	0.5%	5.6%
10-14 packets	0.7%	6.9%
15 or more packets	4.3%	44.5%
Total	9.6%	100.0%

Alternative estimates overview

The Australian Institute of Health and Welfare's (AIHW)^(a) National Drug Strategy Household Survey is the only other major consumer survey in Australia that provides an overview on the prevalence of the use of illicit tobacco. A comparison of the RMR and AIHW consumer surveys can be found in Appendix A7.

Awareness and purchase

The AIHW National Drug Strategy Household Survey included questions on non-plain packaged tobacco products for the first time in 2013. This comprised two questions, one about awareness of 'any tobacco products which do not have the new plain packaging with the graphic health warnings'⁽¹⁾ and the other about the number of these packs purchased.

As a proportion of smokers, almost a fifth (18.5%) had seen tobacco products without plain packaging in the last three months. In addition, 9.6% of smokers had purchased tobacco products without plain packaging^(b). Therefore over half of those who stated they had seen non-plain packaged product had purchased it at least once. The AIHW identifies the tendency for consumer survey respondents to understate tobacco consumption levels. As a result, actual consumption could be higher than the AIHW results.

There also appears to be moderate awareness of non-plain packaged tobacco products amongst the wider population (i.e. including non-smokers). 12.5% of all respondents had seen tobacco products without plain packaging in the last three months.

Approach and findings

We consider that there are a number of shortcomings associated with the AIHW questionnaire and data collected. For example, the question "How many of these packets have you purchased?"⁽¹⁾ may have resulted in a degree of respondent confusion. In the previous question, respondents were asked about whether they had seen non-plain packs in the past 3 months. It is not clear whether this question then references purchases in the last 3 months or on the last purchase occasion.

In addition, illicit consumption may also have been understated due to response options. In the AIHW survey, respondents are asked to select one of six shortlisted options for quantity purchased. The shortlist has a 15 pack cap (as shown above) and respondents are not provided with the option of specifying other, larger quantities. As almost half of respondents had purchased 15 packs or more, some respondents may have purchased significantly more than the limit provided. For example, illicit manufactured cigarette prevalence in the Q4 2013 EPS was 9.6% of total consumption^(c). As such, many of the 9.6% who had purchased non-plain packs per the AIHW data may have consumed mostly non-plain packs. Based on average daily consumption levels, this consumption would be significantly more than 15 packs per quarter.

As the AIHW questionnaire may not be effectively capturing the frequency of purchase of non-plain packs, we have not been able to undertake an alternative estimate of illicit manufactured cigarette consumption.

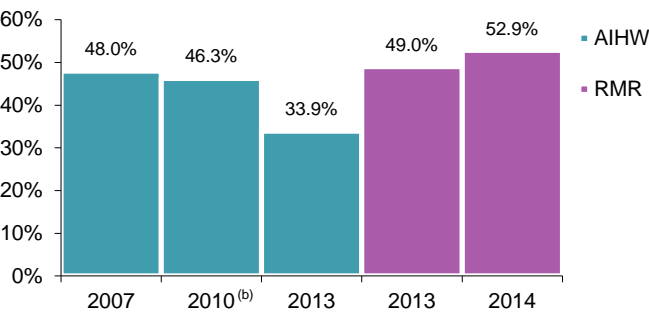
Notes: (a) Australian national agency for health and welfare statistics and information
 (b) The National Drug Strategy Household Survey 2013 was conducted between 31 July and 1 December 2013
 (c) Based on non-domestic incidence per the Q4 2013 EPS and deducting the non-domestic legal element
 Sources: (1) Australian Institute of Health and Welfare, *The National Drug Strategy Household Survey, 2013*

Size of the illicit tobacco market – Alternative estimates

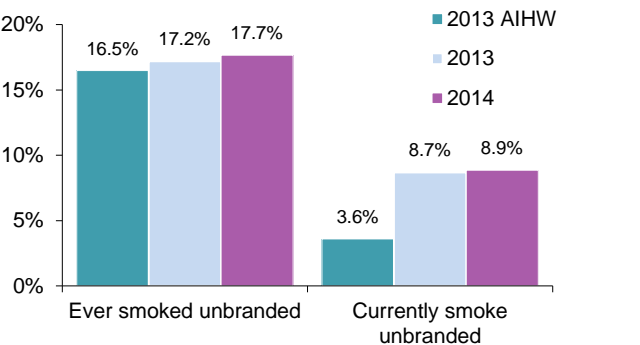
The outputs of the Roy Morgan Research survey are broadly consistent with the AIHW survey on major indicators for unbranded tobacco

5.3 Alternative illicit tobacco estimates – unbranded tobacco

Comparison of unbranded illicit tobacco awareness levels in consumer surveys^{(1)(2)(a)}



Comparison of unbranded illicit tobacco prevalence in consumer surveys^{(1)(2)(a)}



Awareness and purchase prevalence

Both the AIHW and the RMR surveys record awareness and prevalence indicators of unbranded illicit tobacco.

Awareness of unbranded illicit tobacco was 33.9% in the 2013 AIHW survey, lower than estimates in both the two previous reports. The RMR survey identified greater awareness of unbranded tobacco in 2014, increasing to 52.9% versus 49.0% the previous year. Direct comparisons between these two surveys are difficult to make given changes in the AIHW survey, discussed below.

Both surveys highlight the difference in responses when asking consumers about having ‘ever smoked’ compared to ‘currently smoking’. Respondents in both cases are more willing to admit to illicit behaviour when it’s not considered a ‘current’ activity. AIHW and RMR estimates of ‘ever smoked unbranded’ have typically been very similar, whilst the RMR survey estimates ‘currently smoke unbranded’ prevalence to be over twice that reported by AIHW.

Despite asking respondents about purchasing unbranded tobacco in the last 12 months, the AIHW did not publish this data due to low response rates.

The AIHW survey adopted different wording for questions about unbranded cigarettes in 2010. Respondents were only asked about unbranded loose tobacco whereas in 2007 and 2013, respondents were also asked about unbranded loose cigarettes. The results are therefore not directly comparable with the other years.^(b)

In 2013, the AIHW highlighted that the positioning of the unbranded awareness and smoking prevalence questions

within the survey may have impacted how people responded. This also indicates that results are not directly comparable with other years.

The KPMG results, however, highlight a similar trend to the AIHW survey. AIHW results show unbranded awareness fell by 26.8% between 2010 and 2013. Over the same period, unbranded consumption volumes fell 55.8%, from 2.18m kg⁽³⁾ to 0.96m kg.⁽⁴⁾

Purchase frequency and quantity

The AIHW survey asks respondents about the number of purchase occasions in the last 12 months and purchase quantity on the last occasion for both unbranded loose tobacco and unbranded loose cigarettes.

In the 2013 survey, the number of respondents to these questions was insufficient to derive statistically significant outputs and therefore the data derived was not published. We have therefore been unable to derive an alternative estimate for unbranded illicit consumption using the AIHW data.

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

Sources: (1) Roy Morgan Research, Consumer survey, H1 2013, H2 2013, H1 2014, and H2 2014
(2) Australian Institute of Health and Welfare, *The National Drug Strategy Household Survey, 2007, 2010, 2013*
(3) Deloitte, *Illicit Trade of Tobacco in Australia, 2010*
(4) KPMG results, 2013

6. Drivers of results

6.1 Consumer survey results

6.2 EPS results

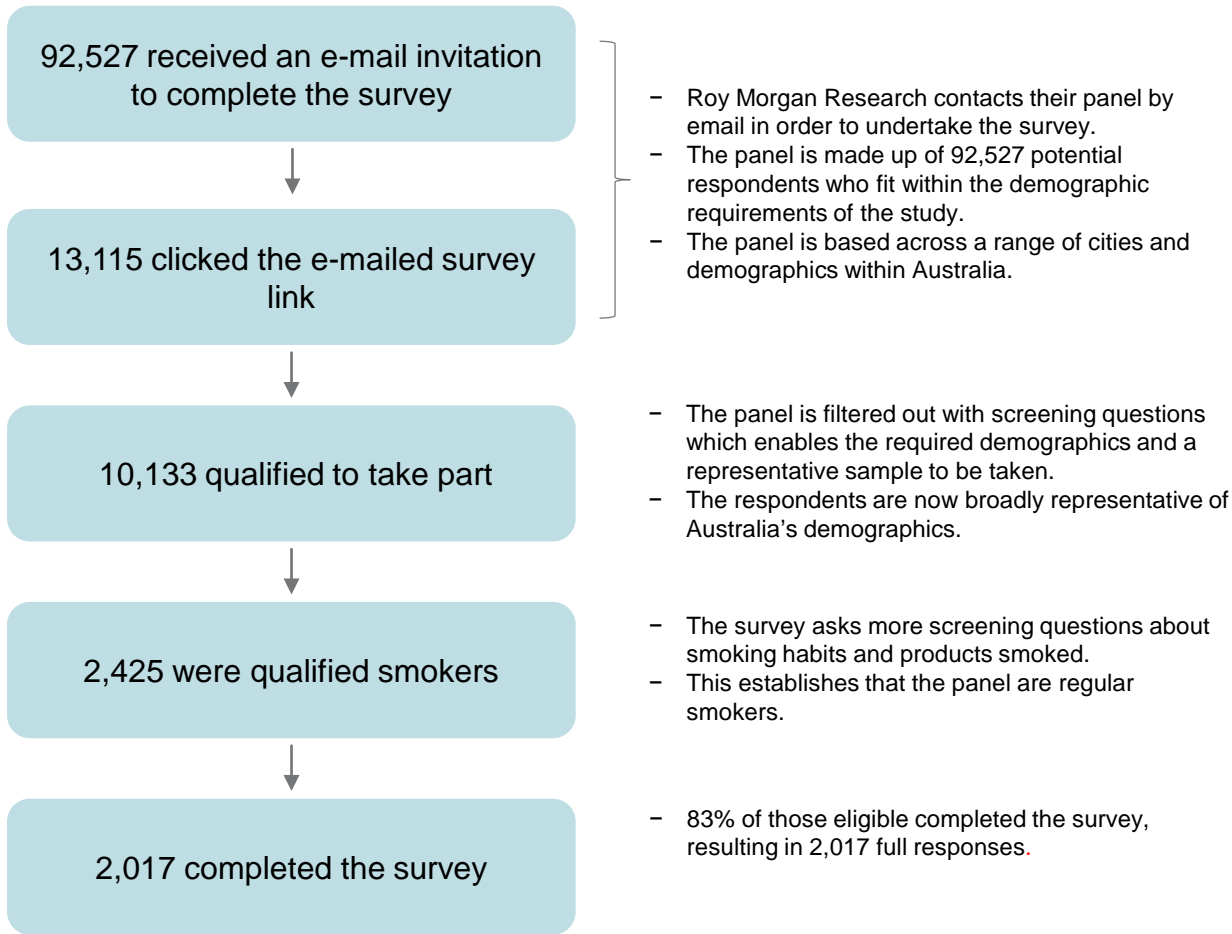
6.1 Consumer survey overview

6.1.1 Roy Morgan Research survey overview

- The consumer survey is primary research carried out to establish the size of the illicit tobacco market in Australia. The survey, commissioned by BATA, ITA and PML, was again carried out by Roy Morgan Research to ensure comparability with previous years.
- The survey made use of Computer Assisted Web-based Interviewing (CAWI). This enabled a sample of 2,017 adult respondents to be collected from 13,115 who responded to the email link sent out to Roy Morgan Research's panel of respondents between 21 November and 13 December 2014.
- If a respondent was a regular smoker and fell into the appropriate demographic to be surveyed, they were considered eligible for the survey.^(a)
- Of those who proved to be eligible for the survey, 83% completed the survey.

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

Figure 5.1.1 Roy Morgan Research survey attrition chart



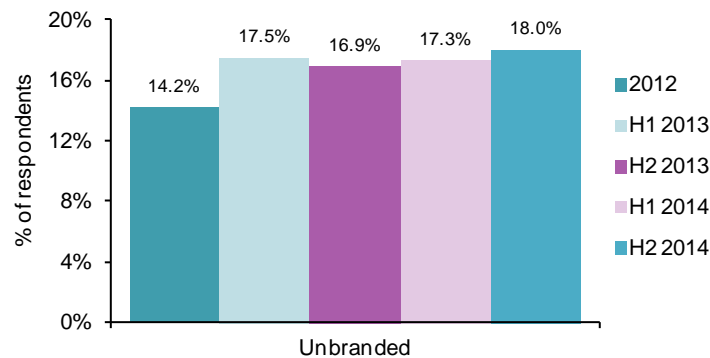
Note: (a) For the purposes of this report, a regular smoker is a person who smokes tobacco products on at least five days in a given week

Drivers of results

Growth in illicit unbranded consumption in H2 2014 was driven by a combination of higher purchase prevalence and both greater frequency and average volume of purchases

6.1.2 Purchasers of illicit unbranded tobacco

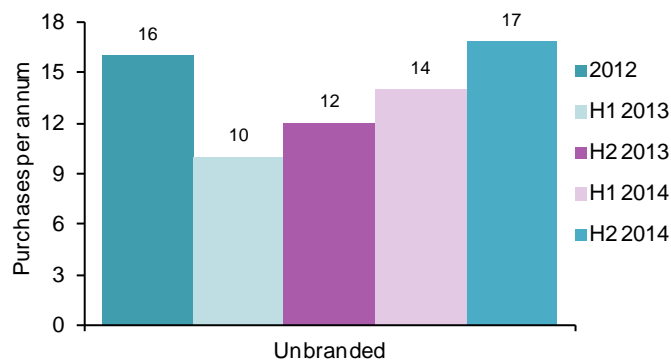
Proportion of respondents who reported purchasing illicit unbranded tobacco, 2012 – H2 2014^{(1)(2)(a)}



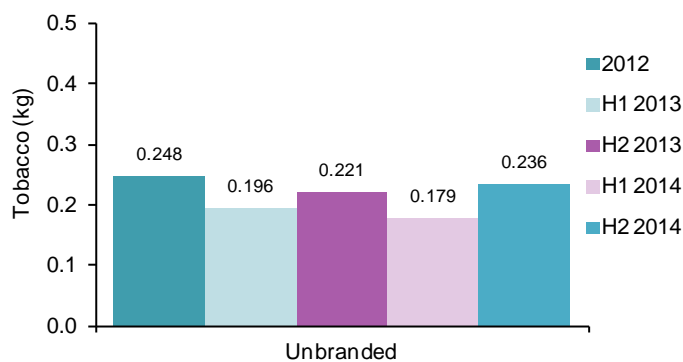
The H2 2014 Roy Morgan Research consumer survey saw an increase in the proportion of respondents purchasing unbranded tobacco compared to H1 2014. The average frequency of purchase also increased from 14 to 17 occasions per annum. With an increase of the average amount purchased, average annual volume per consumer grew from 2.51 kilograms to 3.97 kilograms, an increase of 58%.

The combination of these movements, along with a marginal increase in the proportion of respondents who purchased illicit tobacco, explains why the unbranded volume grew from 1.07m kilograms to 1.37m kilograms.

Average frequency of purchase per annum, 2012 – H2 2014^{(1)(2)(a)}



Average volume purchased (kg) per occasion, 2012 – H2 2014^{(1)(2)(a)}



Note: (a) 2012, 2013 and 2014 analysis is based on CAWI consumer survey results
Sources: (1) Deloitte, *Illicit Trade of Tobacco in Australia*, 2012
(2) Roy Morgan Research, Consumer survey, H1 2013, H2 2013, H1 2014 and H2 2014

The EPS sampling plan comprised collection of 12,000 empty packs across 16 cities in Australia twice per year

6.2 EPS results

6.2.1 Australian EPS sampling plan⁽¹⁾⁽²⁾

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

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

For the purpose of this report, an EPS was carried out by an independent market research agency; MSIIntelligence (MSI) across 1 October – 20 November 2014. This Q4 2014 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 cities were covered. This covered approximately 75% of the total population as shown in Figure 6.2.1.

Packs are collected from pre-determined neighbourhoods, selected to be representative of the city being sampled. Similarly, the neighbourhoods selected are also consistent with the previous surveys. Packs are collected irrespective of their brand and country of origin. Residences, offices and other locations such as stadiums have been excluded from the sampling plan.

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

Founded in 2001, MSI is a private company with headquarters in Geneva, Switzerland specialising in market research. MSI has particular experience in the tobacco industry and has conducted over 890 EPS in more than 70 countries.

Figure 6.2.1 Q4 2014 EPS sampling plan

City	Population (million) 2012 estimate ^{(2)(a)}	Sample packs	Weighted packs
Sydney	4.7	3,000	3,253
Melbourne	4.2	2,500	2,959
Brisbane	2.2	1,200	1,526
Perth	1.9	1,000	1,322
Adelaide	1.3	800	890
Gold Coast – Tweed Heads	0.6	400	412
Newcastle	0.4	400	292
Canberra - Queanbeyan	0.4	300	287
Wollongong	0.3	300	197
Sunshine Coast	0.3	300	199
Hobart	0.2	300	151
Geelong	0.2	300	125
Townsville	0.2	300	120
Cairns	0.1	300	98
Darwin	0.1	300	92
Toowoomba	0.1	300	77
Total sample	17.2	12,000	12,000
Total population of Australia	22.9		

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

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

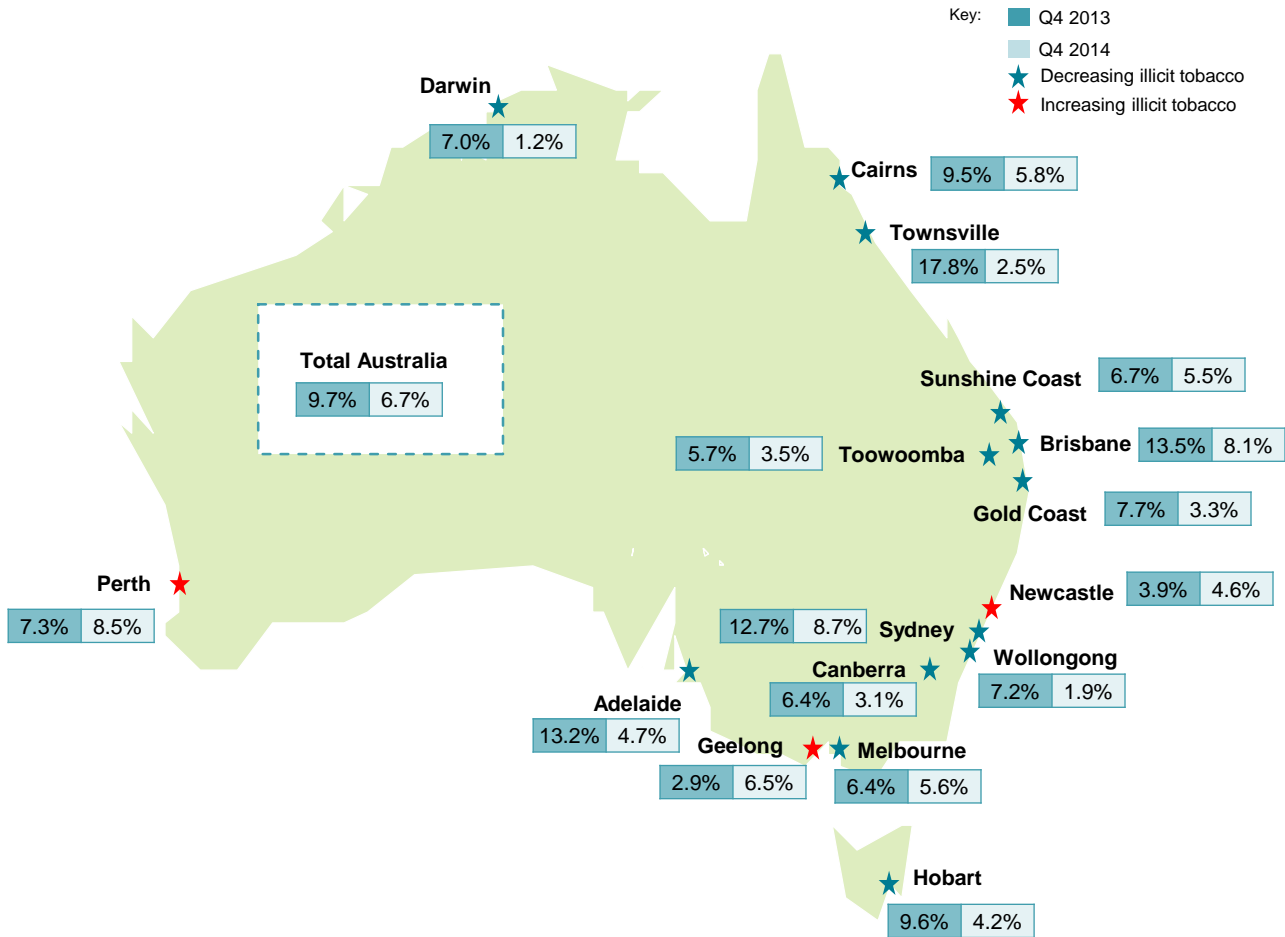
(2) Australian Bureau of Statistics

Drivers of results

The decline of non-domestic cigarette consumption was largely driven by lower incidence in four of the five major cities sampled

6.2.2 Australian EPS results – non-domestic incidence by city

Figure 6.2.2 Total non-domestic incidence by city, Q4 2013- Q4 2014⁽¹⁾



The Q4 2014 survey found non-domestic packs in all cities, whilst packs were present in 15 out of 16 cities in the Q2 2014 survey. The Q4 2014 survey found quite large declines in non-domestic incidence in three of the five largest urban centres (Sydney, Brisbane and Adelaide).

The largest decline in the percentage of non-domestic packs identified occurred in Townsville and Adelaide. Sydney had the highest level of non-domestic incidence and accounted for 35% of the total non-domestic sticks found in Australia.

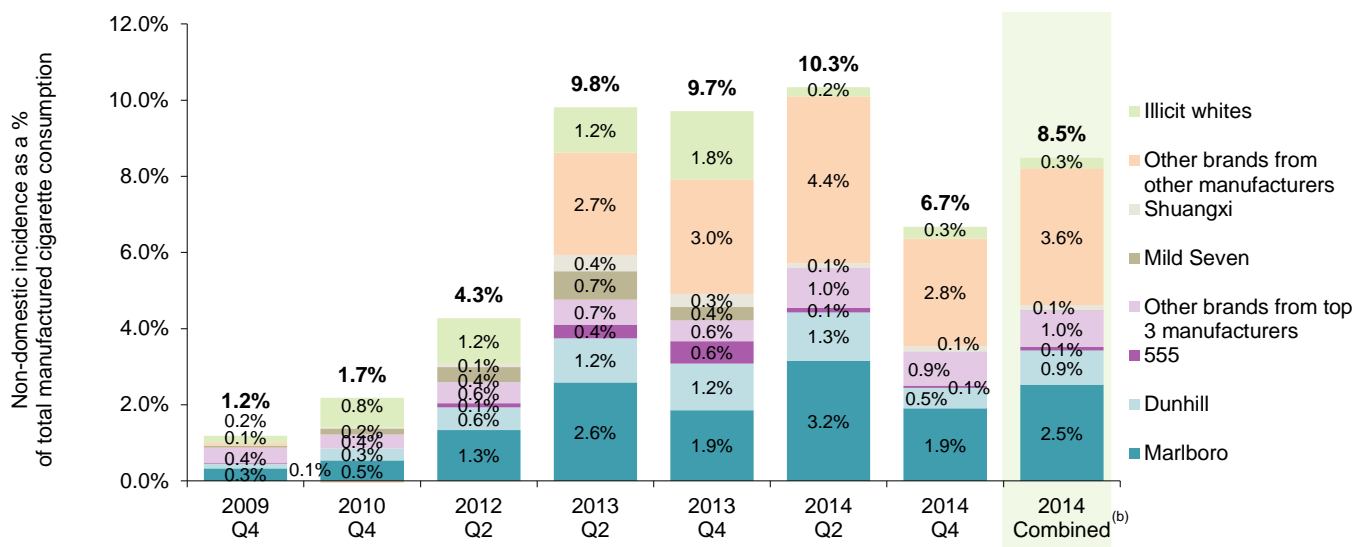
Whilst the overall non-domestic percentage decreased, greater incidence occurred in three sample locations, including large urban areas such as Perth and Newcastle.

Source: (1) MSIIntelligence Research, Empty Pack Survey, Q4 2013 and Q4 2014

Non-domestic incidence of manufactured cigarettes has declined, whilst volumes of illicit whites also fell compared to 2013

6.2.3 Australian EPS results – non-domestic incidence by brand

Figure 6.2.3 Total non-domestic incidence by brand as a percentage of total manufactured cigarette consumption Q4 2009 – Q4 2014^{(1)(2)(a)}



A blended EPS approach, assigning equal weighting to the Q2 2014 and Q4 2014 EPS, has been used to size the illicit manufactured cigarette consumption volume for the full year 2014. As highlighted earlier, using the blended method is consistent with the approach used by KPMG in Project SUN to assess the level of counterfeit and contraband cigarettes across the EU Member States. A blended approach gives a more accurate view on the full year findings as each quarterly EPS is reflective of market trends at that point in time only.

The EPS indicates that there was a large decline in non-domestic incidence from 10.3% in Q2 2014 to 6.7% in Q4 2014. When both survey results are combined it gives a total non-domestic incidence of 8.5%, a decline of 1.3 pp from the figures reported in full year 2013 of 9.8%.

Whilst the overall non-domestic incidence declined, a higher volume of legitimate brands were identified compared with illicit whites (please refer to section 6.2.7 for further details).

The share of illicit whites remained relatively stable in Q4 2014 at 0.3% of non-domestic manufactured cigarettes consumption, resulting in much lower volume in full year 2014 compared to 2013. As a result, the majority of contraband in 2014 comprised of Marlboro and Dunhill, along with a wide range of other legitimate brands with trademarks owned by BAT, Imperial, PML, China National, JT International and KT&G.

Notes: (a) Our definition of illicit whites (see the glossary) has been updated in 2014

(b) The full year 2014 figures are based on the blended result of the Q2 2014 and the Q4 2014 EPS using the weighted number of cigarettes

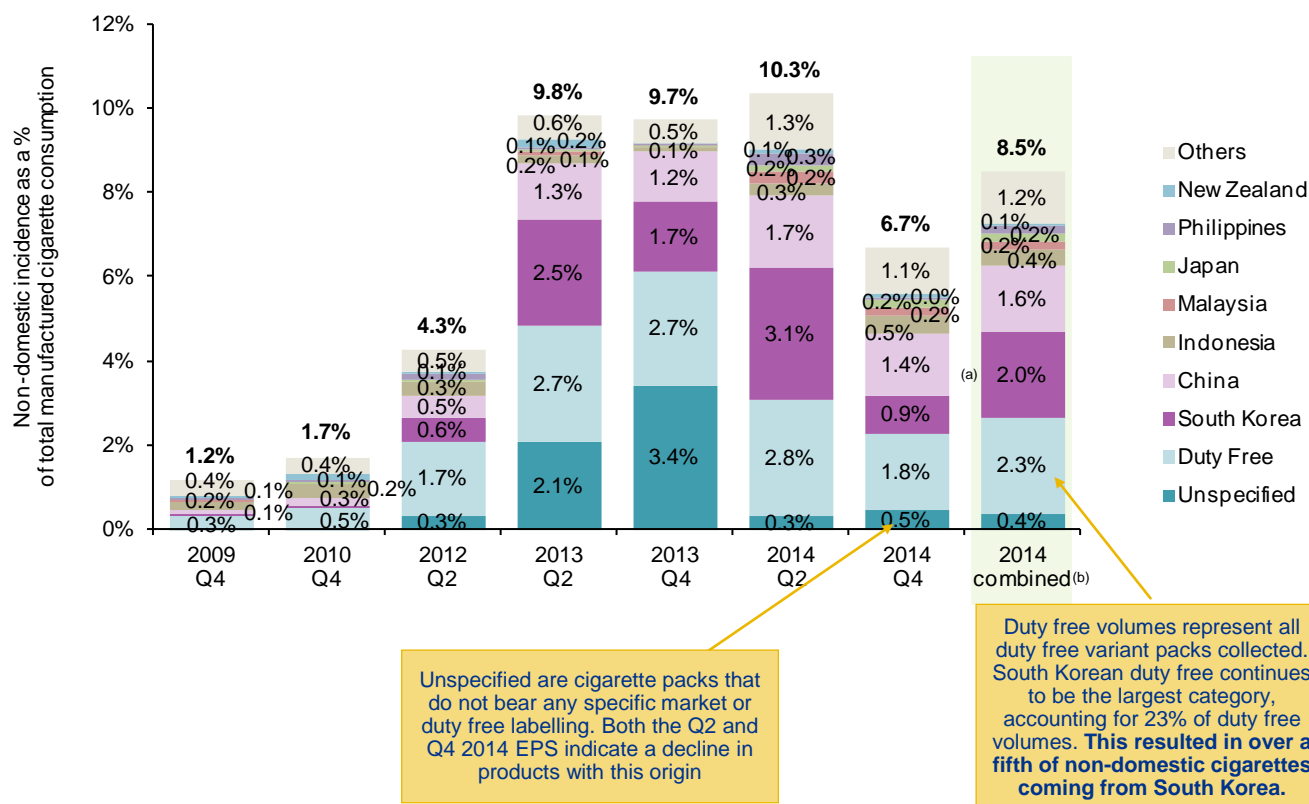
Sources: (1) MSI Intelligence Research, *Empty Pack Survey*, Q2 2013, Q4 2013, Q2 2014 and Q4 2014

(2) AC Nielsen, *Empty Pack Survey*, 2009, 2010, 2012

There was a sharp decline in the incidence of South Korean and unspecified packs between both surveys in 2014. Chinese product is now the second largest constituent

6.2.4 Australian EPS results – country of origin

Figure 6.2.4 Total non-domestic incidence by country of origin as a percentage of total manufactured cigarette consumption Q4 2009 – Q4 2014^{(1)(2)(a)(b)}



Asian countries were the primary source for inflow of non-domestic manufactured products into Australia, with high levels of duty free products also present. China (including China duty free) was the largest individual source country for non-domestic manufactured products in the Q4 2014 Empty Pack Survey, accounting for almost 25% of all non-domestic product identified in Australia in that wave. For full year 2014 however, South Korea (including South Korea duty free) still remains the largest individual source country, accounting for almost 30% of all non-domestic products identified in Australia. The majority of Marlboro and Dunhill (the largest non-domestic brands) that enter Australia came from South Korea. Increases in the growth of product from China are largely China National brands.

Inflows of non-domestic manufactured products with unspecified labelling declined significantly. Products with unspecified labelling were a large component of non-domestic inflows in both the Q2 and Q4 2013 Empty Pack Survey with a combined annual share of over 28%. Incidence fell to only 4.7% of non-domestic on an annual basis in 2014. Many products with unspecified labelling were illicit whites, which also declined in 2014.

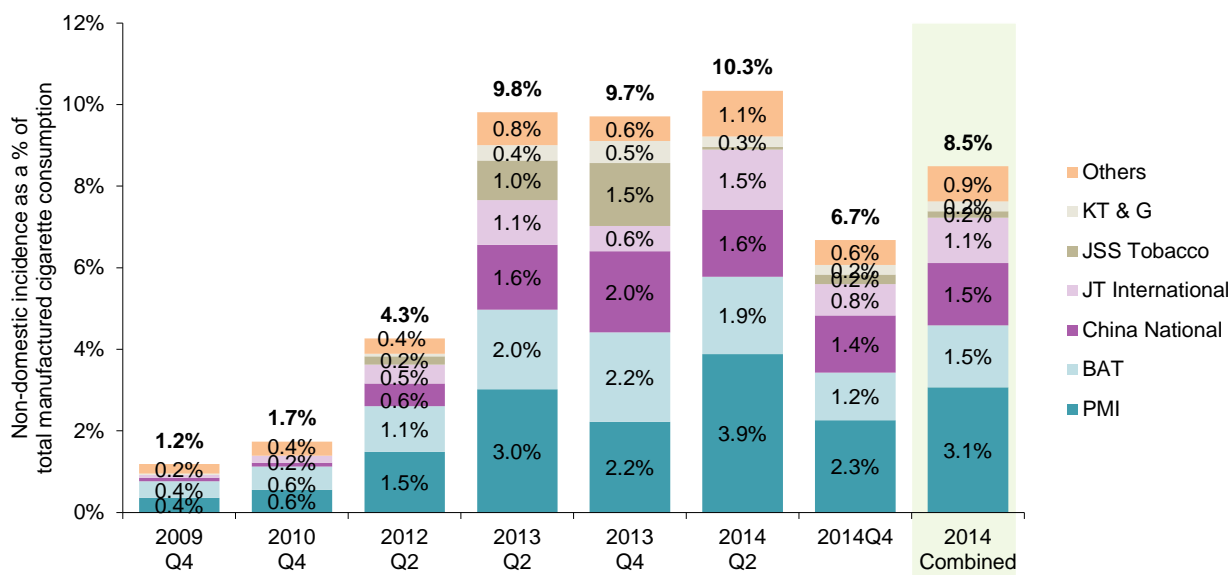
This change in mix of key inflow countries has an impact on the volume of non-domestic legal product, through recorded inbound and outbound travel and the associated legitimate non-domestic purchase volumes. This is discussed in Appendix 6.

Notes: (a) China has replaced South Korea as the largest constituent of non-domestic products in the Q4 2014 EPS
(b) The 2014 combined figures are based on the blended result of the Q2 2014 and the Q4 2014 EPS using the weighted number of cigarettes
Sources: (1) MSI Intelligence Research, Empty Pack Survey, Q2 2013, Q4 2013, Q2 2014 and Q4 2014
(2) AC Nielsen, Empty Pack Survey, 2009, 2010, 2012

After PMI and BAT, China National again had the third highest prevalence of non-domestic product, whilst JSS Tobacco's prevalence fell in 2014

6.2.5 Trademark owners/manufacturers of non-domestic products

Figure 6.2.5 Non-domestic incidence by trademark owner / manufacturer
Q4 2009 – Q4 2014^{(1)(a)}



PMI and BAT products registered the largest volume of non-domestic products found in Australia. China National trademark owned brand products had the third largest share accounting for 21% of the total non-domestic products found in the Q4 2014 survey. Significantly lower prevalence of products trademark owned by JSS Tobacco in 2014 was largely due to lower volumes of the Manchester brand.

Non-domestic packs of brands trademark owned by established manufacturers continue to represent a large share of non-domestic volumes. For PMI, BAT and JTI brands almost 40% of this product appears to have been intended for the South Korea market (domestic and Duty Free). Over 90% of non-domestic packs trademark owned by China National had Chinese labelling.

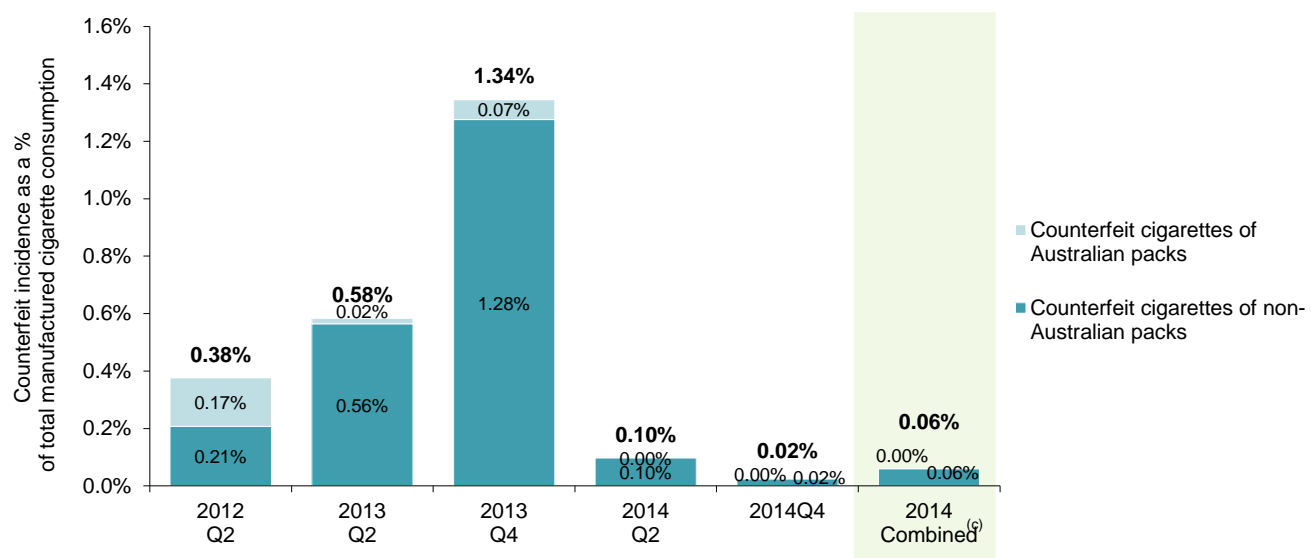
Note: (a) The LTM Q4 2014 figures are based on the blended result of the Q2 2014 and the Q4 2014 EPS using the weighted number of cigarettes

Sources: (1) MSI Intelligence Research, *Empty Pack Survey*, Q2 2013, Q4 2013, Q2 2014 and Q4 2014

(2) AC Nielsen, *Empty Pack Survey*, 2009, 2010, 2012

6.2.6 Australian EPS results – counterfeit

Figure 6.2.6 Counterfeit incidence as a percentage of total manufactured cigarette consumption
Q2 2012– Q4 2014^{(1)(2)(a)(b)(c)}



The Q4 2014 EPS indicated that 0.02% of manufactured cigarettes consumed in Australia were counterfeit. This represents a further decline from the Q2 2014 EPS, following the large decline between Q4 2013 and Q2 2014.

Although the share of counterfeit of total consumption has been relatively small since Q2 2012, it is worth noting that 2014 has seen the lowest level of counterfeit incidence recorded in an EPS over this period.

Through to the end of 2014, there has been no evidence of counterfeit plain packaging cigarettes. This represents a change from 2012 where approximately 45% of counterfeit cigarettes consumed appeared to have been designed for the local market.

Notes: (a) Counterfeit incidence is not available for 2009, 2010 and 2011
(b) The counterfeit volume reflects counterfeit data from BAT, ITL and PMI, but does not include data from other manufacturers.
(c) The LTM Q4 2014 figures are based on the blended result of the Q2 2014 and the Q4 2014 EPS
Sources: (1) MSIIntelligence Research, *Empty Pack Survey*, Q2 2013, Q4 2013, Q2 2014, and Q4 2014
(2) AC Nielsen, *Empty Pack Survey*, 2012

6.2.6 Australian EPS results – counterfeit

Figure 6.2.7 Consumption of counterfeit manufactured cigarettes by city
Q2 2014 – Q4 2014^{(1)(a)(b)}

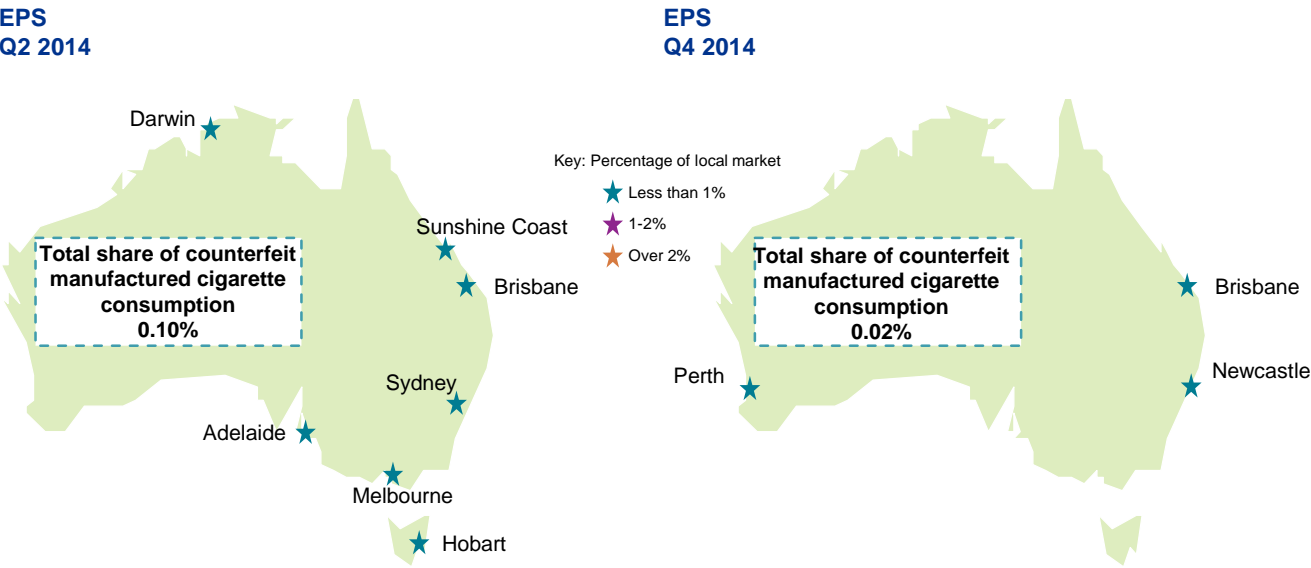


Figure 6.2.6 shows the decline of counterfeit cigarettes in Australia between Q2 2014 and Q4 2014. The EPS for Q4 2014 showed that total consumption of counterfeit cigarettes had declined from 0.10% to 0.02% of manufactured cigarettes. Counterfeit product was only located in 3 out of 16 cities in Australia, compared to 7 cities in Q2 2014.

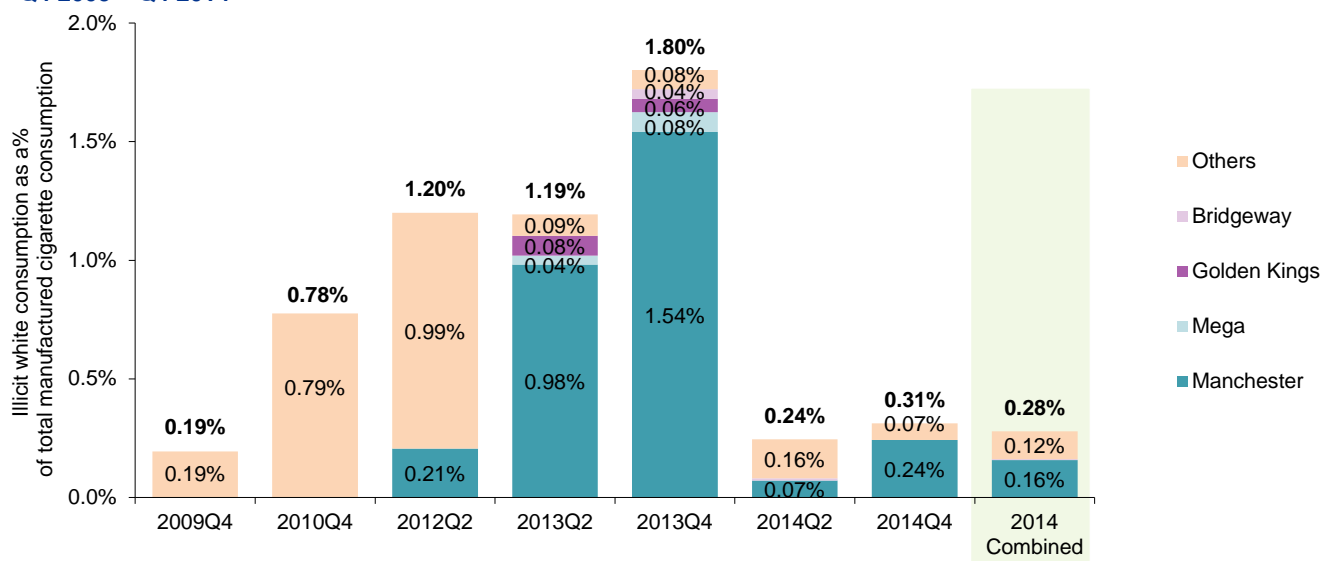
Counterfeit product was found in Perth and Newcastle in Q4 2014, whereas no counterfeit was found there in Q2 2014.

Notes: (a) Analysis is based on weighted number of sticks
(b) The counterfeit volume reflects counterfeit data from BAT, ITL and PMI, but does not include data from other manufacturers.
Source: (1) MSIntelligence Research, *Empty Pack Survey*, Q2 2014 and Q4 2014

The consumption of illicit whites remained low in Q4 2014, again driven by significantly lower volumes of Manchester

6.2.7 Australian EPS results – illicit whites

Figure 6.2.8 Consumption of selected illicit white brands as a percentage of total manufactured cigarette consumption Q4 2009 – Q4 2014^{(1)(2)(a)(b)(c)(d)(e)}



This analysis was undertaken by KPMG in conjunction with BATA, ITL and PML. According to the Q4 2014 EPS, 0.31% of all manufactured cigarettes consumed in Australia were illicit whites, a decline from the 1.80% consumption recorded in the Q4 2013 EPS. Most of the decline was driven by Manchester, which was widely available throughout Australia in 2013.

The Q4 2014 EPS did not show any illicit white brands of significant volume not identified in previous surveys.

The Q4 2014 EPS showed that the total consumption of Manchester declined from 1.5% of non-domestic volumes in Q4 2013 to 0.2% in Q4 2014. In Q4 2013 Manchester was present in 15 out of 16 cities, while in Q4 2014 it was present in 9 cities. Manchester is not sold legally in any retail outlets in Australia but appeared to be available throughout the country. Sydney remained the largest source of Manchester, with 47% of packs collected in Q4 2014.

- Notes:
- (a) Our definition of illicit whites (see the glossary) has been updated in 2014
 - (b) The selected illicit white brands reported in the Q4 2014 EPS are different from the ones reported in the FY 2013 report.
 - (c) Other illicit white brands include Oscar, Otto, Ashima, Business Royals, Jet, Ray, Doomok, A and Harmonization
 - (d) The share of illicit whites is calculated based on the number of sticks, however, in the H1 2013 report the share of illicit white brands was calculated based on weighted packs. The share of illicit whites when calculated based on weighted packs would have been: 0.3% in Q4 2009, 0.8% in Q4 2010, 1.4% in Q2 2012, 1.6% in Q2 2013, 2.3% in Q4 2013, 0.5% in Q2 2014 and 0.6% in Q4 2014
 - (e) The 2014 Combined figures are based on the blended result of the Q2 2014 and the Q4 2014 EPS
- Sources:
- (1) MSI Intelligence Research, *Empty Pack Survey*, Q2 2013, Q4 2013, Q2 2014 and Q4 2014
 - (2) AC Nielsen, *Empty Pack Survey*, 2009, 2010, 2012

7. Conclusion

Conclusion

Recent increases in illicit tobacco consumption are a result of greater volumes of unbranded tobacco. The volume of illicit manufactured cigarettes has declined.

LTM H2 2013 and LTM H2 2014 results (kg '000)

		2013	2014	% change (2013 – 2014)
Illicit manufactured cigarettes	<i>Contraband</i>	1,276	1,166	(8.6%)
	<i>Counterfeit</i>	143	8	(94.1%)
	<i>Total</i>	1,419	1,174	(17.3%)
Unbranded tobacco		964	1,375	42.7%
Total illicit tobacco		2,383	2,549	7.0%
Illicit tobacco consumption as % of total consumption		13.5%	14.5%	n/a
Equivalent excise value (AUDm)		AUD1,069	AUD1,353	26.6%

The illicit market in Australia

Our study indicates there has been a growth in the consumption of illicit tobacco in Australia. **As a proportion of total consumption this represents an increase from 13.5% in 2013 to 14.5% in 2014.** This trend is consistent with a range of secondary data sources.

The most pronounced change within the overall make-up of illicit tobacco consumption is the composition change from illicit manufactured cigarettes to illicit unbranded tobacco.

The origin of illicit manufactured cigarettes also continues to evolve. South Korea remains the key country of origin, however, its prevalence declined in 2014. Unspecified origin product also had lower prevalence in 2014, whilst product originating from China increased to become the second largest origin.

If all of this tobacco had been consumed in the legitimate market, we estimate it would have represented an excise amount of AUD1.35 billion at current excise rates.⁽¹⁾

The legal tobacco market in Australia

Whilst legal domestic sales of manufactured cigarette volumes have declined at an annual rate of 3.0% since 2007, loose tobacco volumes have increased at a CAGR of 3.4% over the same period, representing a shift in the mix of tobacco products consumed. Overall sales of legal domestic tobacco have declined at an annual rate of 2.3% since 2007.

The Australian market is the most expensive market in the region. A packet of Marlboro 20s is 19% more expensive than in New Zealand; the second most expensive market. However, a packet is 75% more than the third most expensive market (Singapore) and 601% more expensive than in South Korea (AUD20.60 in Australia to AUD2.61 in South Korea) from where the EPS indicates the majority of contraband continues to originate.

The Australian Crime Commission is of the view that organised crime groups perceive tobacco smuggling to be low-risk and highly profitable.⁽²⁾

Sources: (1) Based upon the average excise rate over the past 12 months for both loose and manufactured cigarettes.

(2) Australian Crime Commission, *Organised Crime in Australia*, July 2013

Appendices

A1 Consumption model

A2 EPS

A3 Rolling papers analysis

A4 Impact of changes in estimation of smoking
population on prior results

A5 Recent regulatory changes

A6 Non-domestic legal calculation

A7 Alternative illicit tobacco estimates

A8 Scope of work

A9 Roy Morgan Research questionnaire

A10 Bibliography

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

A1 Consumption model

Introduction

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

The consumption model utilises the results of the Roy Morgan 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 full year 2014 is based on the average of the H1 2014 and the H2 2014 consumer survey results. Since consumers are likely to give a more accurate estimate of their purchase behaviour over a shorter time period rather than the last twelve months, using an average of the H1 2014 and H2 2014 consumer survey results provide a more accurate number for full year 2014.

The consumer survey

The consumer survey was based on the responses of 2,017 smokers in Australia to a CAWI web based questionnaire. Respondents come from Roy Morgan Research's existing consumer panel, from both metropolitan and non-metropolitan areas. The respondents are weighted by Roy Morgan Research in order to ensure that the sample is representative of Australia's demographics. The sampling plan is consistent with the surveys carried out by Roy Morgan Research in 2013.

The survey was conducted in November and December 2014. Consumers were asked about their consumption and purchase of legal and illicit tobacco products; namely Chop Chop (unbranded loose tobacco sold in bags), pre-rolled unbranded tobacco as well as counterfeit and contraband manufactured cigarette products.

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

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 2.4 million. This is based on AIHW data updated for the decline in smoking population numbers since the last official estimate.
- Quantity of legal tobacco purchased – we have estimated the total legal sales volume to be 15.0 million kilograms, based on Aztec Scan data.

Appendix

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

A1 Consumption model (continued)

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 product consumed by the representative population sampled in the Roy Morgan Research consumer survey covering the steps outlined:

- Steps 1 and 2 are used to calculate the total annual volume of illicit consumption per consumer in step 3.
- The number of illicit tobacco users is calculated using the percentage of illicit tobacco users noted in the consumer survey in step 5.
- This is multiplied by the total number of smokers in Australia in Step 6 which is multiplied by the average quantity purchased to give the total quantity of illicit tobacco consumption in Australia in step 7.

The consumption model approach measures illicit tobacco consumption by utilising consumers' responses. It is not possible to accurately break down illicit consumption into its constituent parts of loose unbranded and branded tobacco as consumers may be unable to tell the difference in the way in which the tobacco is sold.

The H2 2014 consumption model process and relevant data sources are shown in detail overleaf.

Table A1 Consumption model data sources and process

Consumption model inputs		
Quantity of illicit tobacco purchased per occasion (g)	①	Roy Morgan consumer survey
Frequency of illicit tobacco purchased per annum	②	Roy Morgan consumer survey
Quantity of illicit tobacco purchased per annum (g)	③	① X ② = ③
Total adult smoking population ('000)	④	Extrapolated Australian Bureau of Statistics smoking prevalence data ^(a)
Illicit tobacco users as % of Australia tobacco users	⑤	Roy Morgan consumer survey
Number of illicit tobacco users, Australia ('000)	⑥	④ X ⑤ = ⑥
Quantity of illicit tobacco purchased in Australia (tonnes)	⑦	③ X ⑥ = ⑦
Quantity of illicit tobacco purchased in Australia in full year 2014 (tonnes)	⑧	Annualised volume based on average of H1 2014 and H2 2014 quantity of unbranded tobacco

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

The results of the H2 2014 consumption model indicate an increase in unbranded consumption compared to H1 2014

A1 Consumption model (continued)

Figure A1 Consumption model results,
H2 2014⁽¹⁾(2)(3)

	Unbranded			Counterfeit			Contraband		
	H1 2014	H2 2014	2014	H1 2014	H2 2014	2014	H1 2014	H2 2014	2014
① Quantity of illicit tobacco purchased per occasion (g)	179	236		230	91		182	160	
② Frequency of illicit tobacco purchased per annum	14	17		11	15		13	15	
③ Quantity of illicit Tobacco purchased per annum (g) ① x ②	2,510	3,966		2,526	1,367		2,447	2,374	
④ Total adult smoking population ('000)	2,392	2,392		2,392	2,392		2,392	2,392	
⑤ Illicit tobacco users as % of Australian tobacco users	17.3%	18.0%		3.9%	3.7%		8.3%	8.3%	
⑥ Number of illicit tobacco users, Australia ④ x ⑤ ('000)	414	432		94	89		199	198	
⑦ Quantity of illicit tobacco purchased in Australia (tonnes) ③ x ⑥	1,039	1,712	1,375	238	121	179	487	471	479

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

For the purpose of this report, the full year 2014 estimate of unbranded consumption volume is based on the average of the H1 2014 and H2 2014 consumer surveys. The net result of this approach is 1,375 tonnes.

We believe that consumers are likely to give a more accurate estimate of their recent purchase behaviour rather than that of the last twelve months. Therefore, using an average of the H1 2014 and H2 2014 consumption model results would provide a more robust number for full year 2014.

The consumption model also generates an estimate for both counterfeit and contraband manufactured cigarettes. This estimate can vary significantly; as a result the primary methodology used for estimating counterfeit and contraband is the EPS analysis. However, the results are used in order to validate trends, such as increased or decreased awareness of the product.

Sources: (1) Roy Morgan Research, Consumer survey, H1 2014 and H2 2014
 (2) KPMG analysis
 (3) Numbers in the above table may not sum due to rounding

The Q4 2014 Empty Pack Survey found that 6.7% of manufactured cigarettes consumed originated outside Australia

A2 EPS analysis

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

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

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

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

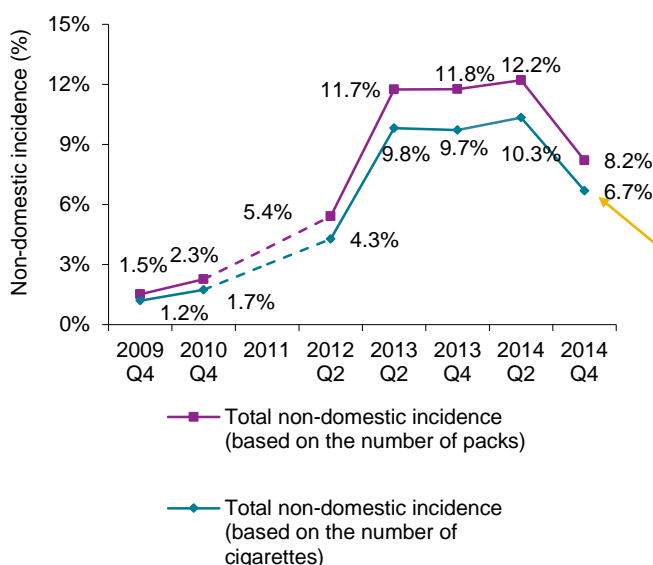
The Empty Pack Survey records the number of cigarettes in each pack collected. This enables us to report using the number of cigarettes rather than the number of packs. As there can be considerable variation in pack sizes, utilising a measurement based on the number of cigarettes provides a more accurate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

KPMG used the Empty Pack Survey analysis in order to take the proportion of cigarettes which are not Australian (health warnings missing or non-domestic health warning, brands not sold in Australia, packs with identifying marks from other markets such as tax stamps) and class these cigarettes as "non-domestic". The proportion of non-domestic cigarettes recorded by the Empty Pack Survey is called the non-domestic incidence. The non-domestic incidence of the EPS is shown in the chart, below left.

The total non-domestic incidence in Australia in the Q4 2014 survey was 6.7% (on the basis of number of cigarettes) and 8.2% (on the basis of number of packs). These results are lower than the non-domestic incidence recorded in the Q2 2014 survey. Overall the Q4 2014 non-domestic incidence is the lowest level recorded in an Empty Pack Survey since Q2 2012 and indicates a decline in the consumption of illicit manufactured cigarettes.

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

Total non-domestic incidence, Q4 2009 – Q4 2014^{(1)(2)(a)(b)}



The total non-domestic incidence in Australia for Q4 2014 was 6.7% (on the basis of number of cigarettes) and 8.2% (on the basis of number of packs).

Notes: (a) No survey was conducted in 2011, trend line is for information only

(b) Non-domestic incidence based on the number of packs is higher than the non-domestic incidence based on the number of sticks due to the average Australian pack of cigarettes being larger than an international pack, i.e. the most commonly sold pack size in Australia is 25 cigarettes compared to the standard 20 cigarettes packs available internationally

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

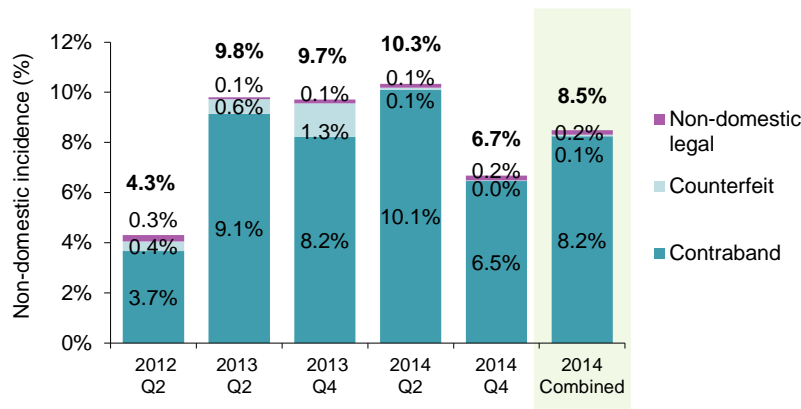
(2) AC Nielsen, *Empty Pack Survey*, 2009, 2010, 2012

Appendix

The decline in non-domestic incidence of manufactured cigarettes is largely due to a decrease in contraband product

A2 EPS analysis (continued)

Figure A2.1 Break down of non-domestic incidence, Q2 2012 – LTM Q4 2014⁽¹⁾⁽²⁾⁽³⁾



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

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

Of the total 6.7% non-domestic incidence reported in the Q4 2014 survey, 0.2% can be attributed to non-domestic legal volumes. The decline from 2012 is in part explained by the reduction in Australia’s duty free allowance from 250g to 50g/ 50 sticks per person per trip in September 2012.^(a)

The majority of non-domestic cigarettes are therefore illicit, with the illicit proportion of manufactured cigarettes consumed in Australia showing a marked increase.

The EPS findings showed that 0.02% of all packs collected in Q4 2014 were counterfeit products, with contraband cigarettes representing the remaining 6.5%. This indicates that the decline in illicit manufactured cigarette volumes between Q2 2014 and Q4 2014 was largely due to contraband product.

Note: (a) Please refer to appendix A6 for detailed for detail on the calculation of non-domestic legal volumes
Sources: (1) MSIintelligence Research, *Empty Pack Survey*, Q2 2013, Q4 2013, Q2 2014 and Q4 2014
(2) AC Nielsen, *Empty Pack Survey*, 2012
(3) KPMG analysis

A2 EPS analysis (continued)

Figure A2.2 EPS Methodology



Empty Pack Survey methodology

The EPS is conducted in a consistent way in each time period. It follows a four step process:

1. City selection

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

Each city 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

Each neighbourhood is assigned a number of discarded packs for collection. For example, the centre of Sydney includes eight neighbourhoods representative of the population of Sydney and includes residential, commercial and industrial areas. In total, 281 neighbourhoods are sampled across Australia. As a result, the EPS does not focus on tourist areas but is representative of the Australian population.

A minimum of 30 empty packs are collected from each neighbourhood. Each neighbourhood has a specific starting point and a fixed route. The collectors accumulate as many empty packs as possible within each neighbourhood regardless of the quota requested in the sampling plan. Packs are collected from any manufacturer regardless of whether they participate in the survey. Collectors revisit the neighbourhood as many times as necessary in order to achieve the requested quotas.

All MSI collectors are recruited, selected and trained including an explanation of the methodology and running of pilots prior to the collection. Each team of collectors is supervised by a supervisor.

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). The survey qualified packs (+5% extra) are cleaned and placed in a transparent nylon bag with a zipper that carries a unique barcode label indicating the serial number of the pack (corresponding to the datasheet). The details are then entered into the survey "Data Sheet" provided by MSI. The packs are delivered to the client(s) in a way that enables easy processing and identification.

4. Pack analysis

The client(s) check their packs to identify counterfeit and inform the agency who collates and updates the data-sheets.

The brands are analysed and any new brands are checked for legitimacy. The unknown brands are then sent back to the client(s) to assess whether they are illicit whites. These data-sheets are finally provided to KPMG and analysed to calculate the non-domestic incidence and contraband and counterfeit volumes.

Illicit whites

'Illicit whites'^(a) have been identified on the basis of not being sold in plain packaging, nor being recorded in Aztec scan data as being sold through most legitimate channels nor being included in the brand lists published in The Retail Tobacconist trade magazine which has a comprehensive list of legitimate brands.

Note: (a) See the glossary

A2 EPS analysis (continued)

Validation of EPS analysis

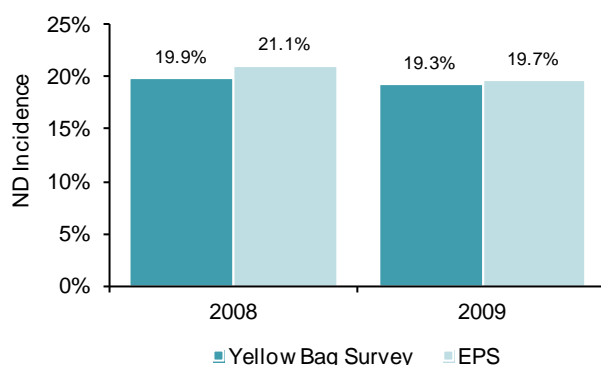
A common criticism of the EPS is that it samples discarded cigarette packs rather than household waste and therefore significantly overstated non-domestic incidence. Sampling for household waste is impractical in most countries. The only market we have come across where household waste has been sampled in conjunction with an EPS is Germany. The household waste survey, known as a Yellow Bag Survey (YBS), is possible in Germany because household waste is sorted, mainly for the purposes of recycling, which makes it possible to separate cigarette packs from other waste.

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

In addition to the benefits of the higher sample size, collections from waste disposal centres resulted in packs coming from both household waste and public bins. The 24 waste disposal centres are selected from around the country which removes any urban / rural bias the EPS may have. As such, the Yellow Bag Survey is likely to give a more representative result compared to the EPS.

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

Comparison of EPS and Yellow Bag Survey, Germany 2008-2009⁽¹⁾⁽²⁾



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

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

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

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

Appendix

The results of the EPS analysis indicate an illicit volume of 1.2 million kilograms for manufactured cigarettes

A2 EPS analysis (continued)

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

The 8.5% non-domestic incidence is combined with estimates for legal domestic sales volumes from the industry to create a volume estimate for illicit

manufactured cigarettes. This can then be broken down into volume estimates for non-domestic legal, counterfeit and contraband.

Figure A2.3

Australian EPS non-domestic consumption and illicit estimate ^{(1)(2)(3)(a)(b)}									
	Report page		2009	2010	2011	2012	2013	2014	
Legal sales of manufactured cigarettes (kg'000s)	① 10		15,881	14,598	13,908	13,468	13,321	12,942	
EPS non-domestic incidence	② 39		1.2%	1.7%	-	4.3%	9.8%	8.5%	
Total consumption of manufactured cigarettes (kg'000s)	③	= ① / (100% - ②)	16,071	14,857	-	14,068	14,762	14,142	
Non-domestic consumption (kg'000s)	④	= ③ - ①	191	258	-	600	1,441	1,201	
Non-domestic (legal) volume estimate (kg'000s)	⑤ 70		34.6	33.7	-	35.6	21.3	25.9	
Illicit consumption (kg'000s)	⑥	= ④ - ⑤	156.4	224.3	-	564	1,419	1,175	
EPS counterfeit incidence	⑦ 42		-	-	-	0.4%	1.0%	0.06%	
Counterfeit consumption (kg'000s)	⑧	= ④ * (⑦ / ②)	-	-	-	50	143	8	
Contraband consumption (kg'000s)	⑨	= ⑥ - ⑧	-	-	-	515	1,276	1,166	

Figure A1.2.3 shows the calculation used to estimate the total volume of illicit manufactured cigarettes consumed in Australia. The percentage of non-domestic cigarettes is added to legal domestic consumption in order to calculate total consumption in step 3. Total illicit consumption is calculated by removing the non-domestic legal volume estimate in step 6.

The EPS also records the counterfeit incidence as a percentage in step 7. This counterfeit incidence is taken as a percentage of total non-domestic consumption and multiplied by the illicit consumption estimate in step 8, with the remainder contraband in step 9. The counterfeit

volume reflects counterfeit data from BATA, ITL and PML, but does not include data from other manufacturers.

The results of the EPS analysis show non-domestic volumes have declined in 2014. As non- domestic legal volumes increased slightly, this translated into lower volumes of illicit counterfeit and contraband manufactured cigarettes.

Whilst volumes attributable to counterfeit manufactured cigarettes declined , the true volume decline was driven by contraband product, which accounts for 99% of the total illicit consumption indicated by the EPS analysis.

Note:

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

Sources:

- (1) MSIntelligence Research, *Empty Pack Survey*, Q2 2013, Q4 2013, Q2 2014 and Q4 2014
- (2) AC Nielsen, *Empty Pack Survey*, 2009, 2010, 2012
- (3) KPMG analysis

Appendix

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

A3 Rolling papers analysis

Figure A3.1 Rolling papers calculation for unbranded tobacco

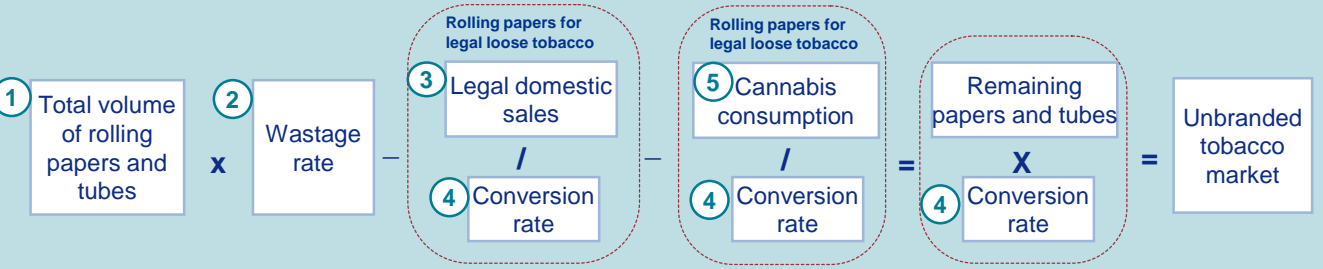
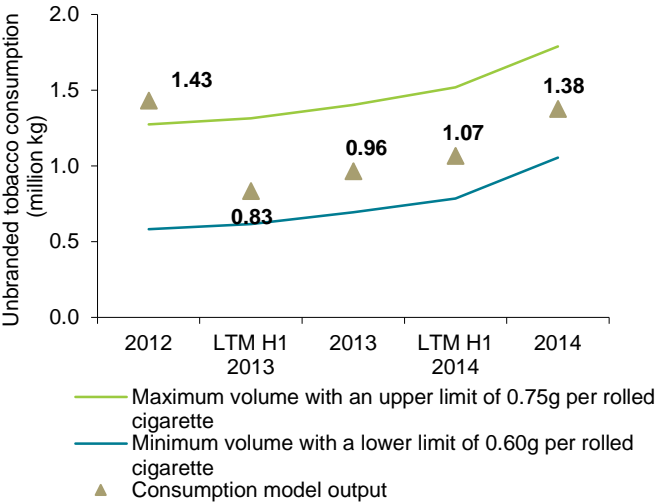


Figure A1.3.1 highlights our approach to the rolling papers analysis used to calculate the total volume of unbranded tobacco. Each step of the calculation involves the following assumptions and data-points:

- 1. Total volume of rolling papers and tubes** – The volume used comes from retail sales data provided by Aztec and cannot be published due to contractual obligations with the data provider.
- 2. Wastage rate** – The wastage rate is the percentage of rolling papers used and excludes any discarded or spoilt papers. This data has been sourced through consumer research undertaken by the industry and is commercially sensitive and cannot be published.
- 3. Legal domestic sales of loose tobacco** – Volumes equated to 1,933 tonnes in 2014.
- 4. Conversion rate** – The number of grams of tobacco used in a rolled cigarette. Consumer surveys and estimations by the industry have produced a range of values. As a sensitivity, we use an upper and lower limit of 0.75 and 0.6 respectively. We believe that a lower limit of 0.6g is reflective of the Australian market – this limit may be lower or higher than other markets.
- 5. Cannabis consumption** – Rolling papers are also used in the consumption of cannabis. The conversion rate for use of papers and tubes is assumed to be the same as the conversion rate for cigarettes. Total cannabis consumption is estimated on the basis of the Australian Department of Health and Ageing survey at a total volume of 22,500kg.⁽²⁾ We note from the recent AIHW data that the incidence of use of cannabis has decreased slightly (i.e. from 10.3% to 10.2%).⁽³⁾ However, since it is not possible to calculate consumption based on these figures we have not adjusted the results.

Volume of illicit unbranded tobacco generated by the rolling papers analysis, 2012- 2014



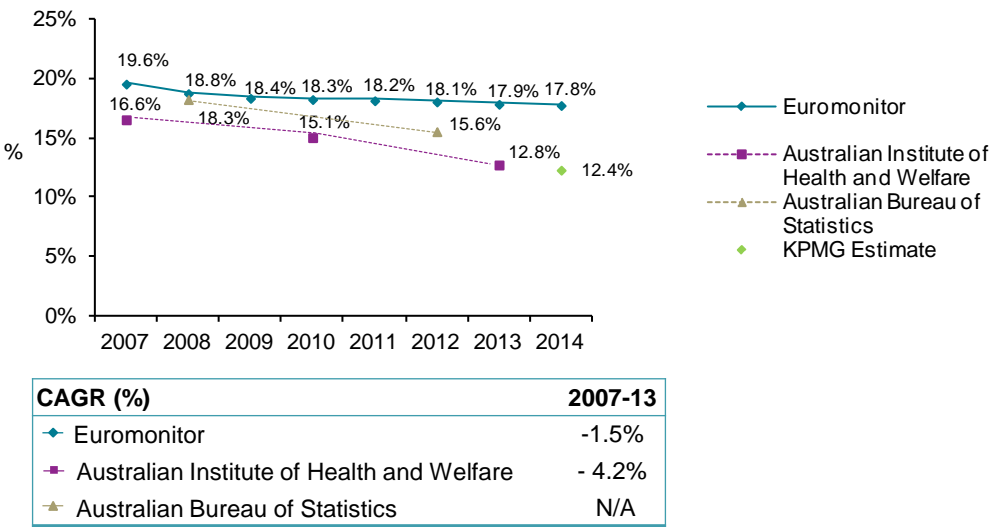
The chart above illustrates a sensitized range for the rolling papers analysis. The sensitivity is based around the value for the conversion rate which is the most uncertain variable in the analysis. By flexing this value between a high value of 0.75g per rolled cigarette and a low value of 0.6g per rolled cigarette, we can determine a range of potential market sizes. We believe that this approach is appropriate to validate the unbranded tobacco market and we intend to keep tracking it similarly in subsequent reports.

The volume of illicit unbranded tobacco generated by the consumption model output is within the range of the rolling papers analysis in both LTM H1 2014 and full year 2014. As highlighted earlier, KPMG has used a prudent estimate of unbranded consumption in 2014. We have utilised the same methodology and taken an average of the H1 2014 and H2 2014 results to derive a more accurate estimate for full year 2014. The increase in volumes indicated by the rolling papers analysis supports the increase of unbranded reported in the consumption model.

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

A4 Use of smoking prevalence data and updated results

A4.1 Smokers as a percentage of population, 2007- 2014 (1)(2)(3)(a)(b)(c)



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

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

Timing of estimates also varies. The National Drug Strategy Household Survey is conducted by the AIHW every three years and includes questions on smoking prevalence. AIHW has produced smoking prevalence estimates since 1991. The last three surveys were conducted in 2007, 2010 and 2013.

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⁽⁴⁾, primarily due to social pressures, especially where other household members / parents were present at the interviews for respondents.

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

Notes:

(a) Euromonitor, percentage of population that are smokers refers to daily smokers > 18 years

(b) Australian Institute of Health and Welfare and ABS percentage of population that are smokers refers to daily smokers >14 years

(c) Euromonitor figures for 2014 are based on full year estimates

Sources:

(1) Euromonitor, smoking prevalence, accessed January 2015

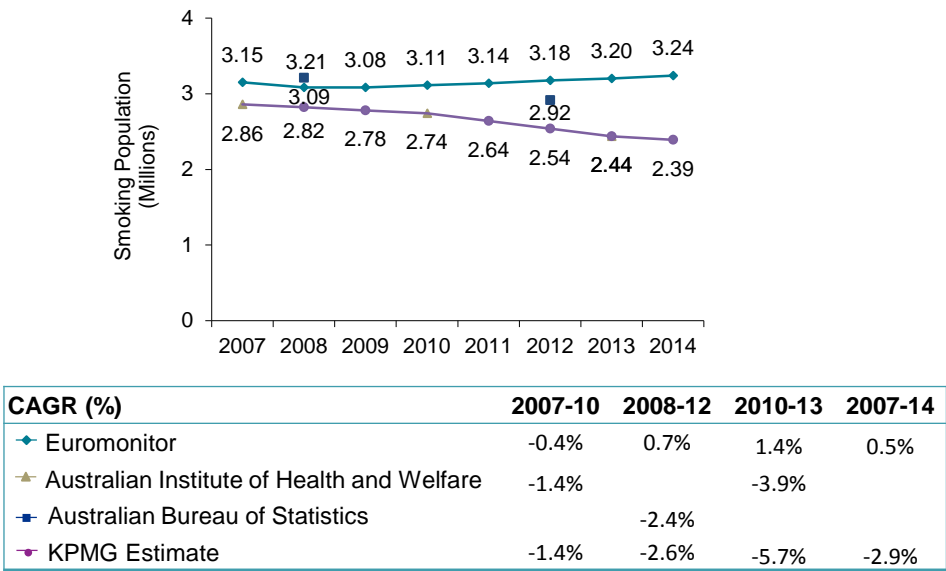
(2) Australian Institute of Health and Welfare, *National Drug Strategy Household Survey*, 2007, 2010, and 2013

(3) Australian Bureau of Statistics

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

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

Figure A4.2 Total number of smokers, 2007-2014 ^{(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 H1 2013 and FY 2013 reports, KPMG extrapolated the numbers based on the AIHW 2010 data. However, as

the 2013 data for smokers from AIHW became available, we have restated the smoker population numbers for 2013. We used the decline in smokers recorded between 2010 and 2013 to estimate the number of smokers in 2014.

Notes: (a) The Australian Institute of Health and Welfare considers population aged 14 years or older
(b) Figures for the Australian Institute of Health and Welfare they are taken from the National Drug Strategy Household Survey, 2007, 2010 and 2013
(c) Figures for 2014 are based on full year estimates

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

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

A5 Recent regulatory changes

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

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

Sources: (1) Australian Government Department of Health

(2) Department of Health, Victoria, www.health.vic.gov.au/tobaccoreforms

Appendix

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

A5 Recent regulatory changes (continued)

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

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

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

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

A5 Recent regulatory changes (continued)

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

Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
New South Wales	<i>Public Health (Tobacco) Act 2008</i> <i>Public Health (Tobacco) Regulation 2009</i>	Retail Display Ban	1 July 2013	Exemption for specialist tobacconists under the ban on the display of tobacco products at point-of-sale ends.
	<i>Tobacco Legislation Amendment Act 2012</i>	Smoke free Local Areas	7 January 2013	Amends <i>Smoke-free Environment Act 2000</i> . Ban on smoking in enclosed public places extended to within 10 metres of children's play equipment, swimming pool complexes, certain transport stops, spectator areas at sports grounds and venues, within 4 metres of pedestrian access to a building (with effect from 6 July 2015 for licensed premises and restaurants and commercial outdoor dining areas).
Victoria	<i>Tobacco Amendment (Smoking at Patrolled Beaches) Act 2012</i> <i>Amendment to Tobacco Act 1987</i>	Smoke free Local Areas	1 December 2012	A ban on smoking at all of Victoria's patrolled beaches in the area between the red-and-yellow lifesaving flags and within a 50 metre radius of a red-and-yellow flag.
	<i>Tobacco Amendment (Shopper Loyalty Schemes) Act 2012</i> <i>Amendment to Tobacco Act 1987</i>	Removal of tobacco from shopper loyalty programs	1 March 2013	Prohibits using tobacco products for earning points under shopper loyalty schemes.
	<i>Tobacco Amendment Act 2014</i> <i>Amendment to Tobacco Act 1987</i>	Additional fines for retailers and individuals selling certain illegal tobacco and expansion of smoke free outdoor areas	30 June 2015 at the latest	Smoking banned in education, school, care service, children's services, and Victorian public premises (e.g. hospitals, Courts and Government departments) as well as children's indoor play centres and from within 4 metres of pedestrian access points to such areas. Fines of as much as AUD35,000 for individuals and AUD177,000 for businesses caught selling smuggled or prohibited tobacco products and tobacco products where no excise has been paid.

Sources: (1) Australian Government Department of Health
(2) Department of Health, Victoria, www.health.vic.gov.au/tobaccoreforms
(3) The Tobacco Amendment Act 2013

(4) Victoria Ministry of Health, *New Victorian smoking bans another step closer*, September 2014

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

A5 Recent regulatory changes (continued)

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

Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
Victoria (continued)	<i>Tobacco Amendment Act 2013</i>	Smoke free Local Areas, Cessation of new certification for specialist tobacconists	1 April 2014	Introduction of smoke-free children's playgrounds and related recreational areas. Smoking is banned outdoors within 10 meters of playgrounds and skate parks, sporting venues during under 18s events and within public swimming pool grounds from 1 April 2014. Applications for specialist tobacconist certification received on or after 1 April 2014 will not be considered. This also prevents persons from being able to make an application for certification of tobacco retailing premises.
South Australia	<i>Tobacco Products Regulation (Further Restrictions) Amendment Act 2012</i> <i>Work Health and Safety Act 2012</i>	Smoke free Local Areas	1 January 2012 for restrictions on retail displays 1 July 2013 for restrictions on capsule cigarettes	Amendments to <i>Tobacco Products Regulation Act 1997</i> banned smoking in certain public transport areas, near certain playground equipment and enclosed public places and workplaces, empowers ministers to enforce short term and long term bans in public areas.
	<i>Tobacco Products (Smoking Bans in Public Areas – Longer Term) Regulations 2012</i> <i>Tobacco Products (Smoking Bans in Public Areas – Longer Term) Variation Regulations 2014 (No. 202 of 2014)</i> <i>Tobacco Products (Smoking Bans in Public Areas – Longer Term) Variation Regulations 2014 (no. 238 of 2014)</i>	Smoke free Local Areas	30 August 2012	Ban on smoking at Adelaide show grounds when the Royal Adelaide Show is being held and compete ban on smoking in Moseley Square Glenelg.

Sources: (1) Australian Government Department of Health

(2) Department of Health, Victoria, www.health.vic.gov.au/tobaccoreforms

(3) AIHW Media Release, 22 October 2013

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

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

A5 Recent regulatory changes (continued)

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

Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
South Australia (Continued)	<i>Tobacco Products Variation Regulations 2011</i>	Retail Display Ban	1 January 2012	Prohibition of all tobacco products advertisements at points of sale from 1 January 2012.
	<i>Tobacco Products Variation Regulations 2012</i>			From 1 January 2012, restrictions on retail displays for fruit or confectionary flavoured cigarettes, and ban on advertising such cigarettes in vending machines.
	<i>Tobacco Products Regulations 2004</i>			From 1 July 2013, capsule cigarettes may not be displayed for sale, included in prescribed price board, price ticket or vending machines. This restriction also extends to price tickets.
				From 1 January 2015, specialist tobacconists are prohibited from advertising tobacco products otherwise than in accordance with the statutory provisions and regulations that are of general application.
Tasmania	<i>Public Health Amendment Act 2011</i>	Retail Display Ban	1 March 2012	Specialist tobacconists included in retail display ban, removing earlier exemption.
	<i>Public Health Act 1997</i>	Removal of tobacco from shopper loyalty programs	1 March 2012	Tobacco products are prohibited from earning points under business loyalty initiatives.
	<i>Public Health (Smoke-Free Areas) Regulations 2014</i>	Licensing of tobacco retailers	1 March 2012	Licences must be obtained prior to selling tobacco products from additional venues. Licenses are not transferable to new business owners. Display of licenses is subject to the license conditions.
		Vending machine restrictions	1 March 2012	Tobacco vending machines now restricted to one machine per site within specified locations.

Sources: (1) Australian Government Department of Health

(2) Department of Health, Victoria, www.health.vic.gov.au/tobaccoreforms

(3) AIHW Media Release, 22 October 2013

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

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

A5 Recent regulatory changes (continued)

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

Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
Tasmania (continued)	<i>Public Health Amendment Act 2011</i> <i>Public Health Act 1997</i>	Smoke free Local Areas	1 March 2012	Extension of smoke free areas to include public swimming pools, between flags at beaches, pedestrian malls, within 3 metres of bus shelters, within 10 metres of children's playgrounds, outdoor dining areas and within 3 metres of outdoor dining areas not surrounded by a screen.
			12 February 2014	Certain public streets have been designated 'pedestrian malls' which have rendered them 'smoke-free' areas under the Public Health Act 1997. This regulation commenced 12 February 2014.
Queensland	<i>Health Legislation Amendment Act 2011</i>	Tobacco type restriction	25 November 2012	Amendment of the <i>Tobacco and Other Smoking Products Act 1998</i> . Ban on the sale of fruit & confectionery flavoured cigarettes. From 25 November 2013 there is an additional ban on the sale of 'novelty items' (such as toys) that resemble smoking products.
	<i>Corrective Services Amendment Regulation (No.1) 2014</i> <i>Health and Other Legislation Amendment Act 2014</i>	Ban on smoking in prisons	5 May 2014	Total ban on tobacco and smoking products in corrective services facilities followed by consequential prohibition of smoking in such facilities through amendments to the <i>Corrective Services Regulations 2006</i> and <i>Tobacco and Other Smoking Products Act 1998</i> .
	<i>Health Legislation Amendment Regulation (No.3) 2014</i> <i>Amendment to Tobacco and Other Products Regulation 2010</i>	Mandatory signs	Amendment commenced 5 September 2014	Wording of mandatory signs attached to vending machines and displayed at points of sale changed from 'Maximum Penalty \$42,000' to 'Penalties apply'. A transitional provision provides that the old wording may be displayed until 20 June 2015.

Sources: (1) Australian Government Department of Health

(2) Department of Health, Victoria, www.health.vic.gov.au/tobaccoreforms

(3) AIHW Media Release, 22 October 2013

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

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

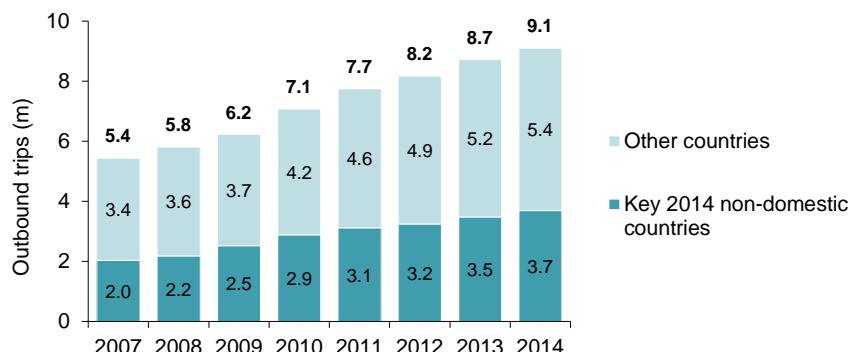
A5 Recent regulatory changes (continued)

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

Jurisdiction	Legislation title	Regulation type	Effective date	Brief description
Queensland (continued)	<i>Health and Other Legislation Amendment Act 2014</i>	Smoking and vaporised devices ban	Amendments commenced on 1 January 2015	Ban on smoking on school and health facility land and within five metres outside the boundary of such land.
	<i>Amendment of the Tobacco and Other Smoking Products Act 1998</i>			Operation of the Tobacco and Other Smoking Products Act 1998 extended to personal vaporisers including bans on supply to children, advertising and display restrictions and prohibition of use in enclosed and outdoor smoke-free places.
The Northern Territory	<i>Correctional Services Act 2014 and Correctional Services Regulations 2014</i>	Ban on tobacco in prisons	9 September 2014	Bans prisoners (including immigration detainees) from consuming tobacco in custody, correctional facilities and immigration detention centres.
	<i>Tobacco Control Amendment Regulations 2014</i>		11 June 2014	Patrons allowed to consume meals in designated smoking areas however staff service is not available from staff in or to patrons in the outdoor smoking areas.
	<i>Tobacco Control Legislation Amendment Act 2014</i>		1 December 2014	Ban on smoking in motor vehicles where children under 16 are present. A tobacco wholesaler is required to comply with a request by the Chief Health Officer for information about the quantity of tobacco products sold to retailers.
Western Australia	<i>Tobacco Products Control Amendment Regulations (No.4) 2014</i>	Fees concerning licenses	13 December 2014	Amends the <i>Tobacco Products Control Regulations 2006</i> to adjust the quantum of various fees concerning licences.
Australia Capital Territory	<i>Red Tape Reduction Legislation Amendment Act (2014)</i>	License details notice	7 November 2014	Amends the Tobacco Act 1927 by omitting s 64(4)(c), the effect of which is that a 'licence details notice' is no longer defined as including 'any conditions that apply to the licence'.

Sources: (1) Australian Government Department of Health
 (2) Department of Health, Victoria, www.health.vic.gov.au/tobaccoreforms
 (3) AIHW Media Release, 22 October 2013
 (4) ABC News, *Butts out as smoking ban hits Queensland prisons*, 5 May 2014 <http://www.abc.net.au/news/2014-05-05/butts-out-as-smoking-ban-hits-queensland-prisons/5430290>

A6 Non-domestic legal calculation

Overseas travel of Australian residents,
2007–2014^{(1)(a)(b)}

CAGR (%)	2007- 09	2009 - 11	2011 – 14	2013 - 14
Key 2014 ND source countries	11.6%	11.0%	5.9%	6.4%
Total overseas trips	7.0%	11.6%	5.5%	4.3%

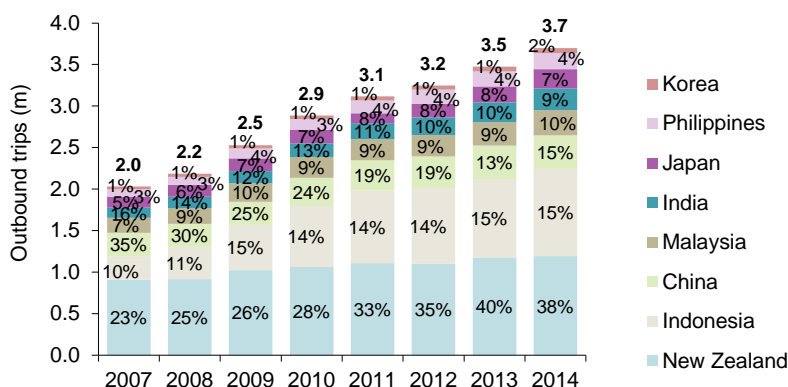
Travel trend data is used by KPMG to estimate non-domestic legal volumes, i.e. tobacco products that are brought into the country legally by consumers, such as during an overseas trip.

The EPS for Q4 2014 showed larger inflows from India, Japan, New Zealand, and Malaysia. We have therefore included these countries in our ND(L) calculation whilst removing Thailand and Vietnam as inflows from these two markets had declined to very low levels.

Trips made to key non-domestic source countries of manufactured cigarettes increased at a faster rate than

overall visits, 6.4% compared to 4.3% between 2013 and 2014.

Later in the report this data is used to estimate legal non-domestic sales which, it will be shown, is immaterial in size. For that calculation, travel volumes for New Zealand have been capped as a share of total travel to and from the main source countries. This is because total recorded travel to and from New Zealand is significantly greater than that which would account for New Zealand's relatively small share of non-domestic cigarette inflows. This capping is based on New Zealand's share of non-domestic packs per the 2014 EPS.

Overseas travel of Australian residents to key 2014 non-domestic source countries,
2007 – 2014^{(1)(a)(b)}

Visits to key non-domestic source countries reached a total of 3.70 million in 2014 accounting for approximately 41% of all trips made overseas by Australian residents.

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

Note: (a) Key non-domestic source countries have been selected from the EPS carried out in 2013, the countries shown in the graph above accounted for over 75% of the non-domestic cigarette packs found in Australia and excludes packs that come from unspecified countries

(b) ND(L) volumes are estimated using actual travel data for 12 months to September 2014 in the absence of actual travel data for October-December 2014

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

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

A6 Non-domestic legal calculation (continued)

Example non-domestic legal calculation (outbound)													
	Overseas visits			ND uplift		% population smokers		Propensity to purchase		Amount per trip		Total (tonnes)	
Year 2014	2.5m	x	10%	12.4%	x	59%	x	50g	=	10.3			
KPMG non-domestic legal calculation ^{(1)(2)(3)(a)(b)(c)}													
		Source	2009	2010	2011	2012	2013	2014					
Overseas trips to non-domestic source countries in the year (m)		Australian Bureau of statistics	2.52	2.89	3.12	3.25	3.48	3.70					
Overseas trips (with New Zealand capping) for ND(L) calculation (m) ^(d)		Australian Bureau of statistics	1.53	1.53	2.20	2.35	2.44	2.55					
Non-domestic source uplift		EPS	10%	10%	10%	10%	10%	10%					
% of population that are smokers		AIHW (and extrapolated)	15.5%	15.1%	14.4%	13.6%	12.8%	12.4%					
% of smokers that buy tobacco		RMR consumer survey	53%	53%	53%	53%	59%	59%					
Number of smokers purchasing overseas (m)			0.14	0.14	0.18	0.19	0.20	0.21					
Amount purchased		Inbound traveller allowance	250	250	250	183	50	50					
Total (kg)			34,565	33,673	46,046	34,054	10,124	10,302					
Non-domestic legal as % of total consumption			0.2%	0.2%	0.3%	0.2%	0.1%	0.1%					

Estimates of non-domestic legal 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 in 2013.

A consumer survey undertaken in February 2013 was the first time respondents were asked about overseas travel and tobacco purchase. The H2 2014 survey suggested that 59% of smokers bought cigarettes overseas.

- Notes:
- (a) Respondents were asked "Q51. Have you travelled outside of Australia in the last 6 months?"
 - (b) Respondents were then asked "Q52. Did you buy any manufactured cigarettes or any other tobacco products to bring back to Australia on any of your trips to other countries in the past 6 months?"
 - (c) The inbound traveller allowance for 2012 has been calculated using the 250g limit for 8 months and the 50g limit for 4 months to reflect the change in inbound traveller allowances made in September 2012
 - (d) Travel volumes for New Zealand have been capped as a share of total travel to and from the main source countries. This capping is based on New Zealand's share of non-domestic packs per the 2014 EPS
- Sources:
- (1) Roy Morgan Research, Consumer survey, H1 2013, H2 2013 and H1 2014
 - (2) Australian Institute of Health and Welfare, *National Drug Strategy Household Survey*, 2007, 2010, 2013
 - (3) Australian Bureau of Statistics, *Short-term movement, Resident Departures - Selected Destinations: Trend*, 2013, 2014

Appendix

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

A6 Non-domestic legal calculation (continued)

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

As discussed on page 66, the key source countries were updated based on inflows from each market in the Q2 and Q4 2014 EPS.

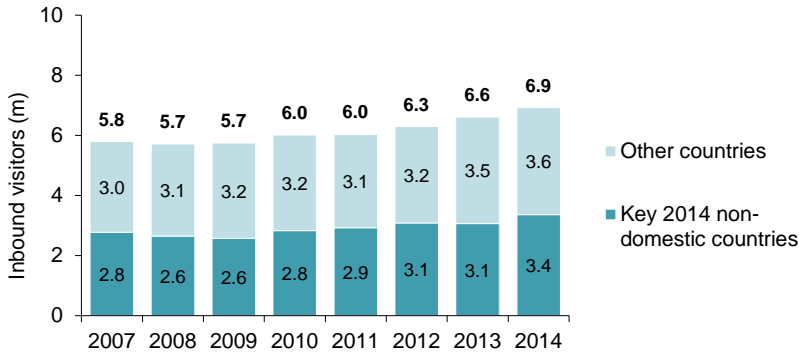
Visitors (short-term arrivals and settlers) from the key non-domestic source countries identified by the EPS have increased since 2007. Visitors from China have increased at 12% CAGR between 2007 and 2014.

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

impact of the change in domestic legal inflows calculation is immaterial in size. For that calculation, travel volumes for New Zealand have been capped as a share of total travel to and from the main source countries. This is because total recorded travel to and from New Zealand is significantly greater than that which would account for New Zealand's relatively small share of non-domestic cigarette inflows. This capping is based on New Zealand's share of non-domestic packs per the 2014 EPS.

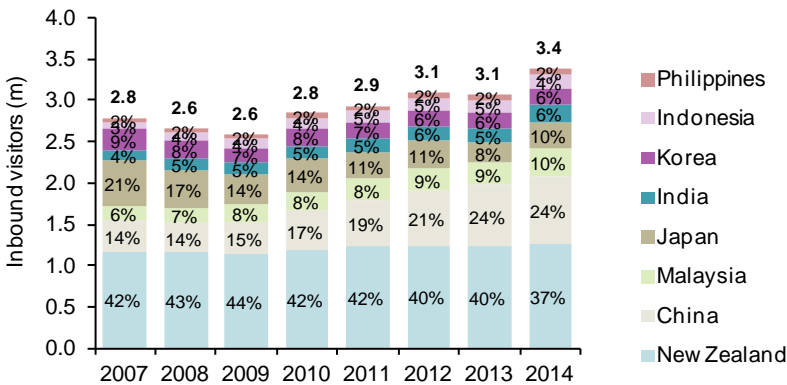
In the absence of data, KPMG has made a prudent assumption that all visitors who are calculated to be smokers bring their 50 cigarette duty free limit.

Overseas visitors (short term visitors and settlers) arrivals to Australia, 2007 – 2014^{(1)(2)(a)(b)}



CAGR (%)	2007- 09	2009 - 11	2011- 14	2007- 14
Key 2014 ND source countries	-3.7%	6.6%	4.8%	2.8%
Total overseas trips	-0.4%	2.5%	4.7%	2.6%

Overseas visitors arrivals from key 2014 non-domestic source countries, 2007 – 2014^{(1)(2)(a)(b)}

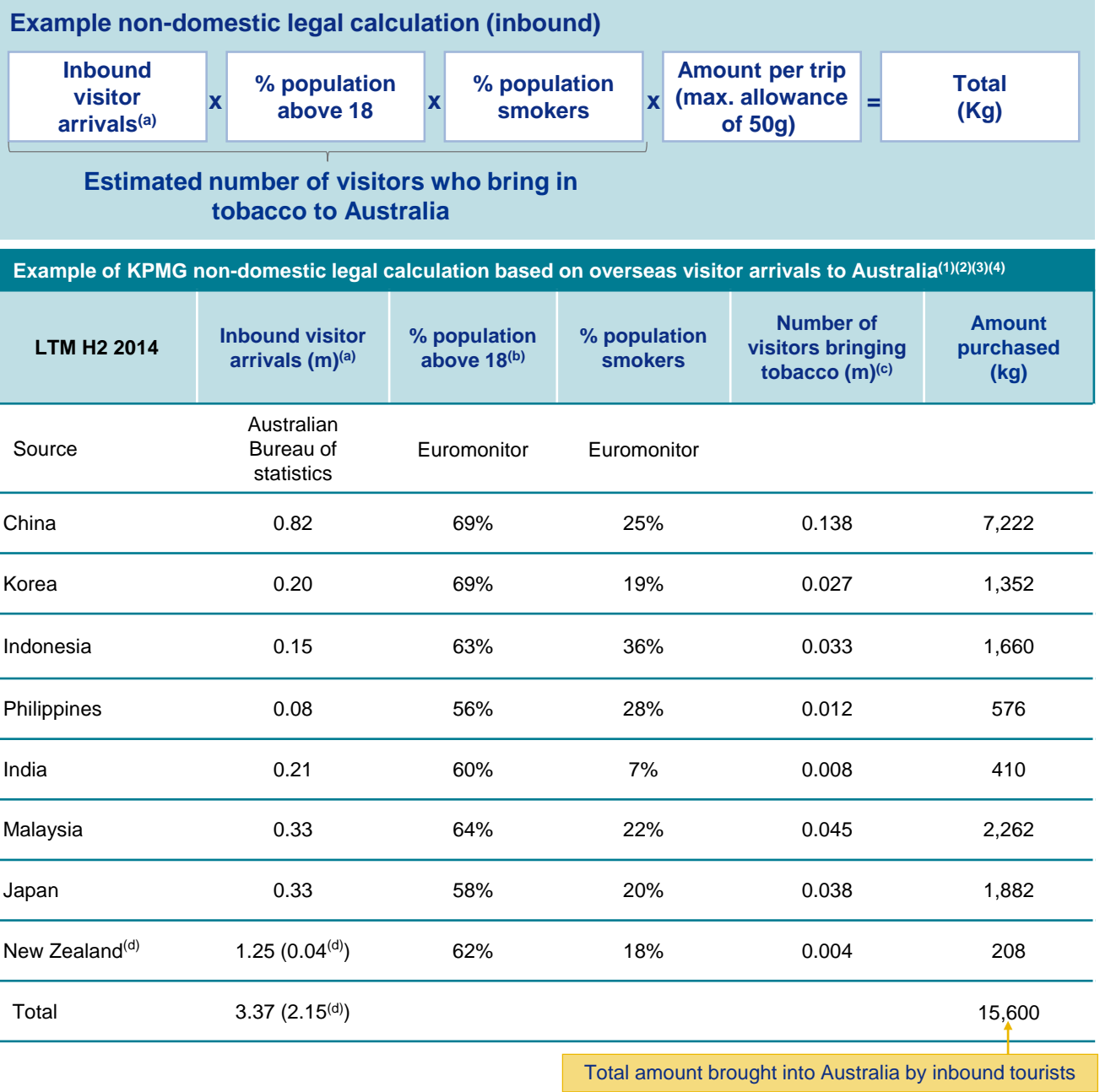


Note: (a) Key non-domestic source countries have been selected from the EPS carried out in 2013, the countries shown in the graph above accounted for over 75% of the non-domestic cigarette packs found in Australia. Packs that come from unspecified countries are excluded
(b) ND(L) volumes are estimated using actual travel data for 12 months to September 2014 in the absence of actual travel data for October-December 2014.
Sources: (1) Australian Bureau of Statistics, *Short-term Movement, Visitor Arrivals - Selected Countries of Residence: Trend, 2013, 2014*
(2) Australian Bureau of Statistics, *Permanent Movement, Settlers - Country of Birth, Major Groups and Selected Source Countries: Original, 2013, 2014*

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

A6 Non-domestic legal calculation (continued)



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

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

Notes:

(a) Inbound visitor arrivals to include arrivals of short term overseas visitors and permanent settlers

(b) Population within the age group 18-64 years

(c) KPMG has used a prudent approach and assumed that 100% of visitors arriving in Australia purchase the maximum inbound traveller allowance

(d) Travel volumes for New Zealand have been capped as a share of total travel to and from the main source countries. This capping is based on New Zealand's share of non-domestic packs per the 2014 EPS

Sources:

(1) Australian Bureau of Statistics, *Short-term Movement, Visitor Arrivals - Selected Countries of Residence: Trend, 2013, 2014*

(2) Australian Bureau of Statistics, *Permanent Movement, Settlers - Country of Birth, Major Groups and Selected Source Countries: Original, 2013, 2014*

(3) Euromonitor, Population: National Estimates, accessed February 2015

(4) Euromonitor, Smoking Prevalence Among Total Adult Population, accessed February 2015

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

A6 Non-domestic legal calculation (continued)

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

The estimate of ND(L) volumes above comprises the legitimate flows from the main source countries per the EPS and represents 0.1% of total consumption. If we were to assume that all travellers from the source markets indicated by the EPS purchased their allowance, we would derive an ND(L) volume of 46.7 tonnes or 0.3% of total consumption.

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

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

Internet retailing, by contrast, experienced marginal growth in share of total volume of tobacco sales in 2013. It is expected to play a larger role within the tobacco industry, as the full effect of retail display bans and plain packaging is felt.⁽²⁾ Indeed, the RMR consumer survey⁽³⁾ has also highlighted that consumers increasingly use e-retailers as a channel for purchasing unbranded tobacco. In 2013^(a) 2.0% of purchasers of unbranded tobacco did so via the internet, whilst this had increased to 3.2% in 2014^{(a)(b)}.

Note: (a) The full year 2013 figure is based on the blended result of the H1 2013 and H2 2013 consumer survey; 2014 is the blended result of H1 2014 and H2 2014

(b) These purchases are included in our measure of illicit consumption

Source: (1) Travel volumes for the USA, Fiji, UK, Ireland and Vanuatu have been capped on the same basis as for New Zealand, based on each country's share of non-domestic packs per the 2014 EPS

(2) Euromonitor, *Tobacco in Australia*, August 2014

(3) Roy Morgan Research, Consumer survey, H1 2013, H2 2013, H1 2014, and H2 2014

Appendix

The Roy Morgan Research survey and the AIHW survey differ by both methodology and focus

A7 Alternative illicit tobacco estimates

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

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

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

demographics 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⁾. This is an issue we have previously highlighted.

Comparison of RMR and AIHW consumer surveys ⁽¹⁾⁽²⁾		
	RMR	AIHW (conducted by RMR)
Survey focus	■ Size of the illicit tobacco market	■ Knowledge of and attitudes towards drugs, drug consumption histories and related behaviours
Frequency	■ At least annually from 2009 and biannually from 2013	■ Every three years
Response period	■ Three week period (twice annually)	■ 3-4 months (31 July – 1 December 2013)
Key exclusions	■ Non-private dwellings and institutions; non-smokers and occasional smokers	■ Non-private dwellings and institutions
Contacted	■ 5,642 qualified smokers	■ 48,579 households
Response rates	■ 73.0% (4,121 completed surveys)	■ 49.1% (23,855 completed surveys)
Sample size	■ 2010: 949 ■ 2011: 931 ■ 2012: 1,405 ■ 2013: 4,223 (H1: 2,107 + H2: 2,116) ■ 2014: 4,121 (H1: 2,104 + H2: 2,017)	■ >26,000 people aged 12 years or older participated in the 2010 survey ■ ~24,000 people aged 14 years or older participated in the 2013 survey
Age groups	■ Smokers aged 18 +	■ Smokers aged 14+
Methodology	■ Web based surveys	■ Self-completion drop and collect methodology
Language	■ English only	■ English only
Types of tobacco addressed	■ Unbranded, counterfeit cigarettes, contraband cigarettes	■ Unbranded, non-plain packaged tobacco

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

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

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

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

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

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

A8 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, based on the consumer research outputs.
- Data on how taxation has evolved over time and report 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 2014 and full year 2013 Roy Morgan Research reports, commissioned and provided to us by BATA, PML and ITAL; namely:

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

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

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

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

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

A9 Roy Morgan Research questionnaire

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

What is your post code?

What is your gender?

Are you currently employed?

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

What is your approximate annual personal income?

What is your current age?

Which products do you currently consume? (Options provided)

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

How often do you normally smoke manufactured cigarettes?

How often do you normally smoke roll your own cigarettes?

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

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

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

What other brands of manufactured cigarettes do you currently smoke?

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

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

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

Since you turned 18 have you ever purchased unbranded tobacco?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

How did you usually consume unbranded tobacco?

A9 Roy Morgan Research questionnaire (continued)

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

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

Why did you smoke unbranded tobacco?

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

Where does it usually come from?

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

How often do you purchase unbranded tobacco?

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

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

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

From which outlets do you usually buy your unbranded tobacco?

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

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

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

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

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

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

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

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

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

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

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

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

per day of unbranded tobacco?

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

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

How much did it cost in total?

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

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

How many cartons of unbranded cigarettes did you buy?

How much did it cost in total?

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

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

How many packs of unbranded cigarettes did you buy?

How much did it cost in total?

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

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

How do you usually consume unbranded tobacco?

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

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

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

Why do you smoke unbranded tobacco?

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

Where does it usually come from?

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

Are you aware that contraband cigarettes can be purchased?

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

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

A9 Roy Morgan Research questionnaire (continued)

Do you purchase contraband cigarettes for your own use currently?

Have you purchased contraband cigarettes in the last 12 months?

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

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

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

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

Are you aware that counterfeit cigarettes can be purchased?

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

Since you turned 18 have you ever purchased counterfeit cigarettes?

Do you purchase counterfeit cigarettes for your own use currently?

Have you purchased counterfeit cigarettes in the last 12 months?

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

What made you believe the cigarettes were counterfeit?

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

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

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

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

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

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

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

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

How much did it cost in total?

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

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

How much did it cost in total?

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

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

Why do (or did) you smoke counterfeit cigarettes?

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

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

How much did it cost in total?

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

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

How much did it cost in total?

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

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

How much did it cost in total?

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

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

Why do (or did) you smoke contraband cigarettes?

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

A9 Roy Morgan Research questionnaire (continued)

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

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

Do you purchase cheap cigarettes for your own use currently?

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

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

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

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

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

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

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

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

How much did it cost in total?

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

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

How much did it cost in total?

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

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

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

Why do (or did) you smoke cheap cigarettes?

Why did you stop smoking cheap cigarettes?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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cutting through complexity