

Illicit trade of tobacco in Australia: Update for 2012

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



December 2012

1. Introduction

In May 2012, Deloitte issued a report titled *Illicit Trade of Tobacco in Australia: Report for 2011*. That report, which was also commissioned by British American Tobacco Australia Limited (BATA), Philip Morris Limited (PML) and Imperial Tobacco Australia Limited (ITA), provided an estimate of the size of the illicit tobacco market for the 2011 calendar year.

The purpose of this report is to provide an updated estimate of the illicit tobacco market compared to that reported for the 2011 calendar year.

Roy Morgan Research Tobacco Usage Survey

As with previous reports, the estimated market size is based on a survey of tobacco consumers which was separately commissioned by BATA, PML and ITA and undertaken by Roy Morgan Research. The timing of the Roy Morgan Research surveys referred to in this report is detailed in Table 1.

Roy Morgan Research advised they adopted the following refinements compared to the previous survey:

- *Survey technique* – the survey was conducted by Computer-Assisted Web Interviewing (CAWI) compared to previous surveys which were conducted using Computer-Assisted Telephone Interviewing (CATI)
- *Geographic coverage* – survey participants were drawn nationally compared to previous surveys which sourced participants from the five main metro areas only
- *Sample size* – as a result of the change in geographic coverage, the total sample size was 1,405 people (1,005 metro and 400 non-metro) compared to 931 (metro only) for the previous study.

The inclusion of the non-metro survey data increases the overall sample size and provides an indication of illicit tobacco use nationally. The inclusion of the non-metro results does not appear to have led to any material change in the consumption model outputs. Rather, it has increased the total amount of data available from reported behaviour of survey respondents.

Appendix 1 provides further detail from Roy Morgan Research on the refinements to the survey.

Table 1: Roy Morgan Research surveys

Short title	Long title	Roy Morgan Research Survey	Roy Morgan Research Survey timing
2011 Annual Report	Illicit trade of tobacco in Australia: Report for 2011	Roy Morgan Research, November 2011 Tobacco Usage Study	November/December 2011
Update for 2012	Illicit trade of tobacco in Australia – Update for 2012	Roy Morgan Research, September 2012 Tobacco Usage Study	August/September 2012

Definitions of illicit tobacco

The illicit tobacco market includes unbranded tobacco, contraband tobacco and counterfeit tobacco. Consistent with our previous reports, the definitions of these tobacco products are those applied by the Tobacco Industry Forum as detailed in Table 2.

Table 2: Illicit tobacco as defined by the Tobacco Industry Forum

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

Source: Tobacco Industry Forum

Key findings

To update the estimated size of the illicit tobacco market, a consumption model using primary research from Roy Morgan Research has been used. This approach is consistent with that applied in our previous published estimates of the size of the illicit tobacco market in Australia.

A summary of the methodology for the Roy Morgan Research September 2012 Tobacco Usage Study and the consumption model applied in this report is detailed in Appendix 1 and 2 of this report.

Headline results

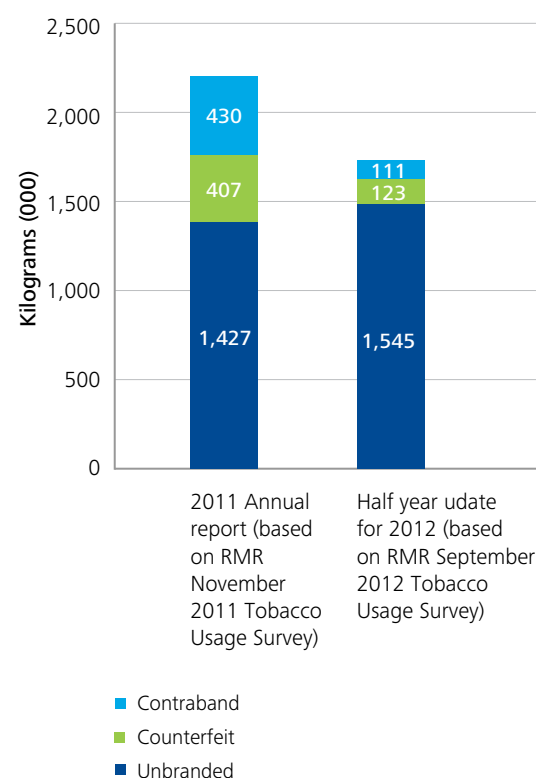
As set out in Table 3, based on the results of the Roy Morgan Research survey and application of the consumption model, the size of the illicit tobacco market is estimated in September 2012 to be equivalent to 10.5% of the legal tobacco market in Australia.

Table 3: Headline results

Market indicator	2011 annual report	Update for 2012
Size of the illicit tobacco market represented as a proportion of the legal tobacco market	13.4%	10.5%
Estimated volume of illicit tobacco purchased	2.264 million kg	1.779 million kg
Equivalent excise value (\$m)	\$982	\$776

Based on the reported format of illicit tobacco purchased, there has been a change in the composition of the market with an increase in the volume of unbranded tobacco and a decrease in the estimated volume of contraband and counterfeit tobacco relative to the 2011 Annual Report as illustrated in Figure 1.

Figure 1: Illicit tobacco market composition by format



Key drivers for the change in the estimated size of the illicit tobacco market

The three key variables in the consumption model are:

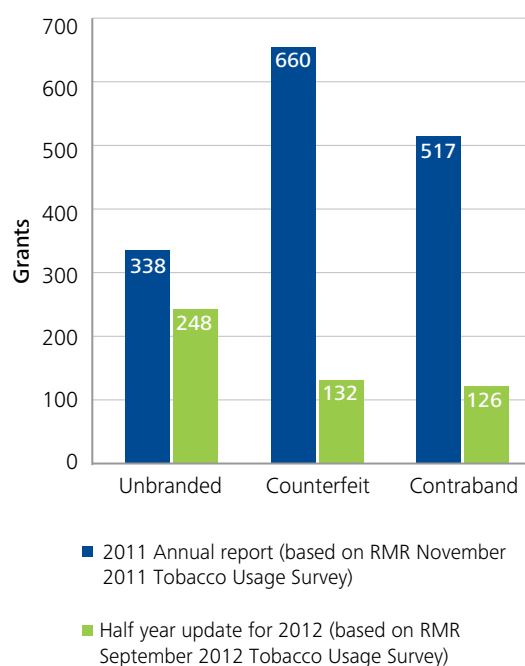
- Quantity of purchase per occasion
- Frequency of purchase of illicit tobacco
- Illicit tobacco users as a percentage of all tobacco users.

The changes in these key variables have driven the decrease in the estimated size of the illicit tobacco market detailed in Table 3. The relative changes are set out below.

Quantity of illicit tobacco purchased per occasion

Across each of the three illicit tobacco product categories, the estimated average quantity of illicit tobacco purchased per occasion has decreased as detailed in Figure 2.

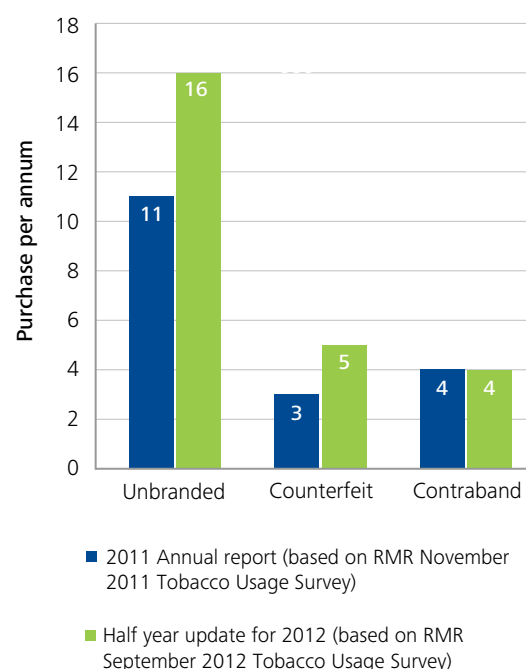
Figure 2: Quantity of illicit tobacco purchased per occasion



Frequency of purchase of illicit tobacco

The estimated average frequency of illicit tobacco purchase has increased for unbranded and counterfeit tobacco products as detailed in Figure 3.

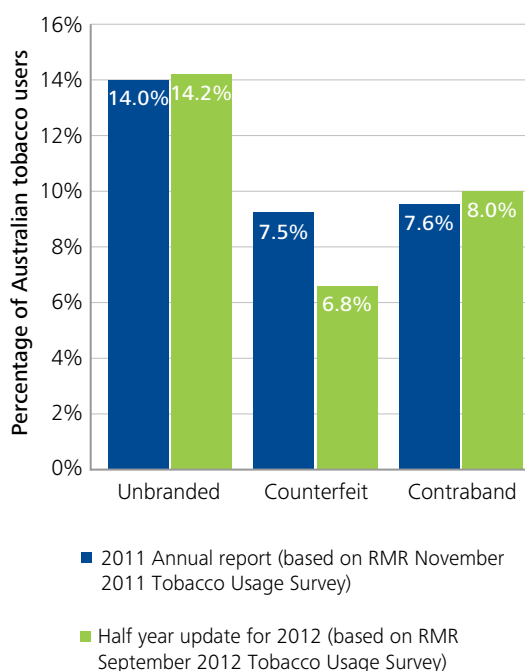
Figure 3: Frequency of illicit tobacco purchase per annum



Illicit tobacco users as a percentage of all tobacco users

As outlined in Figure 4, the estimated percentage of illicit tobacco users across all three formats has remained broadly consistent with the previous estimate.

Figure 4: Illicit tobacco users represented as a percentage of all tobacco users



Recent developments

Regulation and taxation environment Customs Amendment (Smuggled Tobacco) Act 2012

The *Customs Amendment (Smuggled Tobacco) Act 2012* combines a penalty of up to five times the duty evaded for a smuggling offence with the penalty of up to 10 years imprisonment for a fraud offence, making both available as penalties for a tobacco smuggling offence.¹ In the second reading speech, the Minister noted that the legislative amendment was required because:

- *“The penalties must provide a strong deterrent to criminals involved in this activity – as well as demonstrate the seriousness with which the Government views such frauds against the Commonwealth, and harm against the community.”*
- *“The new penalties will send a clear message to smugglers that they risk spending significant time in jail by bringing illegal tobacco into this country.”*²

The Legal and Constitutional Affairs Legislation Committee Report on the Smuggled Tobacco Bill recognised that:

*“The illicit trade of tobacco undermines the government’s attempts to curb the prevalence of smoking in Australia and prevent its harmful effects. Since smuggled tobacco products evade government regulation, inspection and duty, these products present a significant risk to people’s health, the environment and the economy”.*³

Tobacco duties

As at 1 August 2012, the Australian government currently levies the following duties on imported tobacco:

- \$0.34889 per stick (stick form not exceeding 0.8 grams in weight per stick of actual tobacco content)
- \$436.13 per kilogram of tobacco content (for those tobacco products in loose form or those in stick forms which weigh more than 0.8 grams).⁴

These rates are indexed twice a year in line with movements in the Consumer Price Index.

Limit on duty-free tobacco products

As of 1 September 2012, the duty-free limit on tobacco products was reduced to 50 cigarettes or 50 grams of cigars or tobacco products – down from 250 cigarettes or 250 grams of cigars and/or tobacco products. Travellers who declare tobacco products will have the option of discarding or paying duty and GST on tobacco products that exceed this limit.⁵

Tobacco Plain Packaging Act (2011)

Subsequent to the survey undertaken for this report, the full implementation of the requirement for the plain packaging of all tobacco products came into effect from 1 December 2012.

Australian Customs and Border Protection Service

The ACBPS has the role of managing the security and integrity of Australia’s borders including detecting and deterring unlawful movement of goods across Australian borders including illicit tobacco.

The ACBPS has released its 2011–12 Annual Report which includes detail on both its strategic priorities with respect to tobacco smuggling and their reported detection figures which are detailed in Table 4.

1. Parliament of Australia, 2012, *Explanatory memorandum (Customs Amendment (Smuggled Tobacco) Bill) 2012*, page 2
2. Parliament of Australia, 2012, Second reading speech, http://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r4858 accessed November 2012
3. Legal and Constitutional Affairs Legislation Committee, 2012, *Committee Report on the Smuggled Tobacco Bill*, page 9
4. Australian Taxation Office, 2012, *Excise Tariff Working Papers*, <http://law.ato.gov.au/atolaw/view.htm?Docid=PAC/BL030002/1&PiT=99991231235958>, accessed September 2012
5. Customs and Border Protection Service, 2011, Tobacco duty-free limits reduce 1 September 2012 media release, <http://www.customs.gov.au/site/mediarelease/20120831.asp>, accessed September 2012

Table 4: Tobacco detections in sea cargo and amount of duty evaded

Year	Number of detections	Tobacco (tonnes)	Cigarettes (millions of sticks)	Duty evaded (\$ million)
2011–12	46	175	122	128
2010–11	55	258	82	135
2009–10	42	311	68	120
2008–09	33	180	50	70
2007–08	58	287	107	114

Source: Australian Customs and Border Protection Service 2012

On the issue of tobacco smuggling, the ACBPS states that “...it is now evident that it is being used by organised criminal networks due to its significant profit potential”⁶

In addition, the ACBPS highlights the following trends with respect to tobacco smuggling:

- That the key risk focus remains smuggling through sea cargo
- While there has been a gradual increase in cigarette detections and decrease in loose tobacco detections, it is too early to draw firm conclusions on this trend.

The ACBPS Annual Report 2011–2012 also identifies the following strategies for the effective control of tobacco smuggling:

- *gathering intelligence on tobacco smuggling*
- *conducting intelligence-led, risk-based targeting for the inspection and examination of high risk cargo, mail and passengers*
- *seizing illicit tobacco detected at the border*
- *investigating and prosecuting parties involved in tobacco smuggling*
- *working with the Australian Tax Office and the tobacco industry to identify areas requiring particular attention*
- *working with law enforcement agencies to identify opportunities to prosecute and disrupt parties involved in tobacco smuggling.”⁷*

International environment

World Health Organisation Protocol on Illicit Trade in Tobacco Products

On 4 April 2012 the World Health Organisation (WHO) announced that the Intergovernmental Negotiating Body reached an agreement on a Protocol on Illicit Trade in Tobacco Products (the Protocol). The Protocol establishes rules for combatting illicit trade in tobacco through controlling the supply chain, as well as providing a framework for international cooperation in enforcement.

The Protocol was adopted on 13 November 2012 at the Conference of the Parties to the WHO Framework Convention on Tobacco Control (FCTC) in Seoul, Republic of Korea.⁸

“The new Protocol establishes what actions constitute unlawful conduct and sets out related enforcement and international cooperation measures, such as licensing, information-sharing and mutual legal assistance that will help counteract and eventually eliminate illicit trade.”⁹

Financial Action Task Force – Guidance on Illicit Tobacco Trade

In June 2012, the Financial Action Task Force (FATF) published its guidance on Illicit Tobacco Trade. The FATF (of which Australia is a member) is an inter-governmental body established in 1989 by the Ministers of its member jurisdictions. The objective of the FATF is to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF Secretariat is provided by the OECD in Paris.

6. Australian Customs and Border Protection Service (2012), Annual Report 2011–12, page 110

7. Australian Customs and Border Protection Service (2012), Annual Report 2011–12, page 110

8. World Health Organisation, 2012 http://www.who.int/mediacentre/news/releases/2013/fctc_20130110/en/index.html, accessed January 2013

9. World Health Organisation, 2012, New protocol proposed to address illicit trade in tobacco products, http://www.who.int/mediacentre/news/releases/2012/illicit_tobacco_20121112/en/index.html, accessed November 2012

The FATF Guidance on Illicit Tobacco Trade notes a number of risks posed by illicit trade in tobacco and the need for a typology for evaluating the risks posed, especially in understanding where criminal proceeds from illicit tobacco trade are laundered. It identifies the key areas of concern for FATF members as including:

- a. The percentage of lost government revenues due to evaded taxes and customs duties*
- b. Identifying the nature and extent of the risks posed by illicit tobacco trade in comparison to enforcement actions taken to curb the phenomenon*
- c. The final destination and purpose of aggregated illicit funds*
- d. The methodologies used to launder these illicit funds and the potential to uncover new mechanisms specific to illicit tobacco trade, and*
- e. A need to better understand the totality of illicit tobacco trade criminal finances, including opportunities for disruptive activity targeting perceived or identified financial pinch points (such as during the laundering of street cash following sales of illicit tobacco products).¹⁰*

Of particular relevance to this report, the FATF Guidance includes discussion and recommendations on the development of a measurement tool to test the prevalence of the illicit trade in tobacco.

“Estimating the true nature of smuggling is challenging because it is an illegal and hidden activity. A number of useful and reliable methods to measure smuggling are available, but each method has limitations. When time and resources permit, it is best to use several different methods in order to cross-validate estimates minimizing any methodological objections.

This tool offers five methods to measure tobacco smuggling. The methods are ranked, with the first requiring the least technical and statistical sophistication and the last requiring the greatest level of technical complexity and statistical inference:

- a) Observe the producers and ask the experts for smuggling data*
- b) Observe smokers directly and ask them about their methods of obtaining tobacco*
- c) Monitor and analyze data on the export and import of tobacco*
- d) Compare the sale of tobacco with estimated consumption of tobacco by using household surveys*
- e) Compare the sale of tobacco with estimated consumption of tobacco by using a mathematical formula and economic inference.*

Following the development of indicative figures quantifying the illicit trade in tobacco, domestic and international agencies can work together to determine the volume and value of associated money laundering. This type of complementary statistical analysis can support a step change in investigative response, moving agencies away for a solely commodity seizure based response to a more holistic position of targeting both the commodity and the associated business model, including efforts at laundering criminal cash.”¹¹

10. OECD/FATF June 2012, FATF Guidance, Illicit Tobacco Trade, page 5

11. OECD/FATF June 2012, FATF Guidance, Illicit Tobacco Trade, page 17

Estimate of the illicit tobacco market

Using a consumption model, an indicative estimate of the size of the illicit tobacco market in Australia can be developed. The inputs into the consumption model are drawn from the answers given by survey respondents captured in the Roy Morgan Research September 2012 Tobacco Usage Study.

The key challenge for estimating the size of the illicit tobacco market is the availability of information and data. In particular, it is difficult to obtain an understanding of the illicit tobacco market from a supply-side point of view. Accordingly, the consumption model approach is based on the purchasing patterns of consumers of illicit tobacco and seeks to estimate the size of the illicit tobacco market from estimated consumption.

This approach captures the purchases and use across all types of illicit tobacco, irrespective of its form, type or country of origin. The data inputted into the consumption model was drawn from the Roy Morgan Research September 2012 Tobacco Usage Study.

A detailed discussion of the consumption model methodology is provided in Appendix 2 of this report. Appendix 1 provides details of the survey methodology undertaken by Roy Morgan Research.

Table 5 details the outputs of the consumption model based on the responses to the Roy Morgan Research September 2012 Tobacco Usage Study (compared to the Roy Morgan Research November 2011 Tobacco Usage Study).

Table 5: Consumption model outputs

	Unbranded		Counterfeit		Contraband	
	Nov 2011	Sep 2012	Nov 2011	Sep 2012	Nov 2011	Sep 2012
Quantity of illicit tobacco purchased per occasion (g) [1]	338	248	660	132	517	126
Frequency of illicit tobacco purchases per annum [2]	11	16	3	5	4	4
Quantity of illicit tobacco purchased per annum (g) [3] = [1]x[2]	3,718	3,968	1,980	660	2,068	504
Number of illicit tobacco users in Australia ('000) [4] = [5]x[7]	384	389	206	186	208	219
Illicit tobacco users represented as % of Australian tobacco users [5]	14.0%	14.2%	7.5%	6.8%	7.6%	8.0%
Quantity of illicit tobacco used in Australia ('000 kg) [6] = [3]x[4]	1,427	1,545	407	123	430	111
Total adult smoking population ('000) [7]	2,742					

Note: The consumption model results are based on the inputs of the Roy Morgan Research September 2012 Tobacco Usage Study and Roy Morgan Research November 2011 Tobacco Usage Study.

Based on the consumption model, the total quantity of illicit tobacco consumed in Australia is estimated to be approximately 1.779 million kilograms. As detailed in Table 6, illicit tobacco trade is estimated to be equivalent to 10.5% of the legal tobacco market in Australia.

Table 6: Estimated size of the illicit tobacco market as a proportion of the legal tobacco market

Roy Morgan Research Tobacco Usage Study		
	Nov 2011	Sep 2012
Total quantity of illicit tobacco used in Australia ('000 kg) [8]	2,264	1,779
Total quantity of legal tobacco used in Australia ('000 kg) [9]	16,861	
Indicative size of the illicit tobacco market (represented as a proportion of the legal tobacco market) [10] = [8]/[9]	13.4%	10.5%

Note: The consumption model results are based on the inputs of the Roy Morgan Research September 2012 Tobacco Usage Study and Roy Morgan Research November 2011 Tobacco Usage Study.

Using this estimate of the overall quantity of illicit tobacco consumed in Australia, the equivalent excise value is approximately \$776 million (see Table 7).

Table 7: Estimated size of the illicit tobacco market

Roy Morgan Research Tobacco Usage Study		
	Nov 2011	Sep 2012
Quantity of illicit tobacco ('000 kg)	2,264	1,779
Equivalent excise value (\$m)	\$982	\$776

Note: The consumption model results are based on the inputs of the Roy Morgan Research September 2012 Tobacco Usage Study and Roy Morgan Research November 2011 Tobacco Usage Study. Comparable excise value is calculated as quantity of illicit tobacco in kilograms multiplied by current excise charge as at 1 August 2012 of \$436.13 per kilogram of tobacco.

Appendix 1: Roy Morgan Research September 2012 Tobacco Usage Study

This appendix provides an explanation of the methodology for the Roy Morgan Research Tobacco Usage Study and has been prepared by Roy Morgan Research.

In July 2012, Roy Morgan Research was commissioned by BATA, PML and ITA to conduct a survey of adult tobacco users in Australia. Roy Morgan Research has undertaken this survey since 2009. Respondents answered questions about their awareness and usage of illicit tobacco products since they turned 18 years of age, among other questions. The survey results were provided to Deloitte for the purpose of estimating the size of the illicit tobacco market in Australia. In no case could the identity of participants be discerned or inferred from the data.

Survey technique

The study was conducted by computer-assisted web interviewing (CAWI). The questionnaire was programmed, quality checked, and hosted by Roy Morgan Research.¹²

Tobacco Usage Study sample selection

The sample was drawn from an independent online survey panel provider.

Key requirements of sample

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

- Aged 18 and older
- Resided in one of five metro/capital regions (Sydney, Melbourne, Brisbane, Perth, Adelaide) or any non-metro region of Australia excluding Northern Territory
- Smoked manufactured cigarettes or roll your own tobacco at least five days per week on average
- Not employed in market research, advertising, public relations, marketing, media, journalism, medical services, or in the tobacco industry.

In addition, participants had to confirm that:

- They were the intended recipient of the e-mail invitation to complete the survey
- They were completing the survey without assistance
- No one under the age of 18 was viewing the contents of the survey at any point in the session.

Quotas

Quota targets were established for the sample as follows:

- 200 qualified participants from each of the five capital cities
 - For each city, the proportions of male and female smokers aged 18 to 29 and 30 or older in the population of that area were used to create individual sub-quotas for that 200
- 400 qualified participants from non-metro regions of the country (excluding the Northern Territory). The addition of non-metro participants was done at the request of the clients to increase sample size and achieve a more nationally representative sample of smokers.
 - Six non-metro regions were established (NSW other than Sydney, VIC other than Melbourne, QLD other than Brisbane, SA other than Adelaide, WA other than Perth, and TAS). The 400 people were assigned to the six non-metro regions proportionately to the percentage of smokers in those regions.¹³ Age and sex quotas were then established as with the metro sample.

In terms of the impact of including the non-metro participants (compared to just metro previously), it is relevant to note that the reported behaviour of non-metro survey respondents was comparable to metro respondents.

12. Previous research waves have been completed by computer assisted telephone interviewing (CATI). This study is part of a possible transition to CAWI which may offer a more reliable sample source of qualified smokers and a more efficient way of data collection.

13. The cell size targets were: NSW other than Sydney n=134, VIC other than Melbourne n=70, QLD other than Brisbane n=122, SA other than Adelaide n=21, WA other than Perth n=29, and TAS n=24.

Data collection

The field period for the survey was 27 August 2012 through 3 September 2012.

A total of 1405 people completed the survey (1005 metro, 400 non-metro).

The average (median) length of the survey for the 1405 people was less than six minutes.

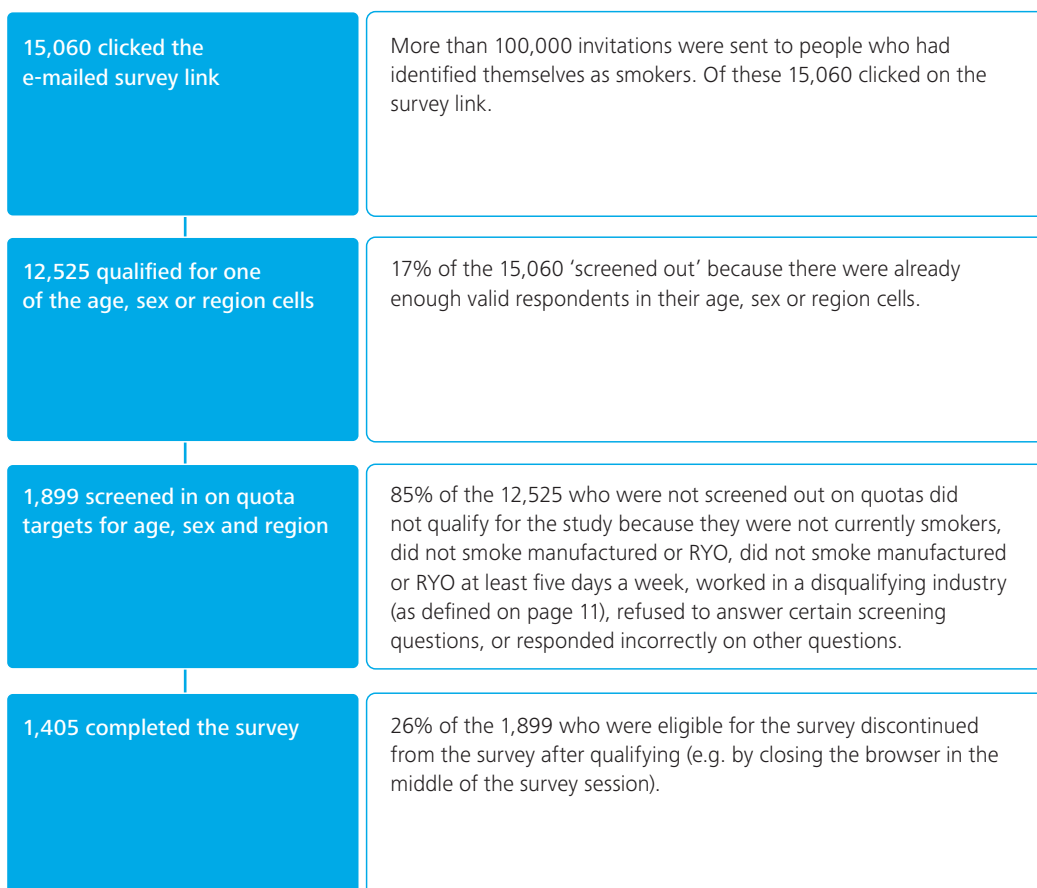
Margin of error

By increasing the sample size and geographical coverage from 1000 metro to 1405 metro and non-metro, the maximum margin of error improved from plus or minus 3.1 per cent to plus or minus 2.6 per cent at the 95% confidence level. In other words, there is only a five per cent chance that the sample data diverges from the population figures of smokers by more than 2.6 per cent. This is an enhancement of the study's statistical reliability.

Weighting

As is common in survey research the fulfilment of the quota cell targets by the completed sample diverged from the targets in some cases. Data were weighted to rebalance the cells to the intended target sizes for the 44 quota cells formed by combinations of two age groups (18–29 years and 30 years and over), two sexes and 11 regions (five metro and six non-metro). In addition, the data was weighted to reflect annual personal income distribution of all adult Australian smokers as measured by Roy Morgan Research Single Source.

Attrition chart



Appendix 2: Consumption model

This appendix provides an explanation of the methodology for the consumption model.

The consumption model provides an indicative estimate of the size of the illicit tobacco market in Australia. The inputs into the consumption model are drawn from the answers given by survey responses captured in the Roy Morgan Research September 2012 Tobacco Usage Study.

Estimating the size of the illicit tobacco market is difficult due to a lack of available information and data. In particular, it is difficult to obtain an understanding of the illicit tobacco market from a supply-side point of view.

Accordingly, the consumption model is based on the purchasing patterns of illicit tobacco consumers and seeks to estimate the size of the illicit tobacco market from estimated consumption.

Stepping through the consumption model

The following table outlines the way in which the consumption model estimates the quantity of illicit tobacco used in Australia.

Table 2: Consumption model

	Consumption model inputs (for each illicit tobacco product)
Quantity of illicit tobacco purchased per occasion (g) [1]	[1] taken from Roy Morgan Research September 2012 Tobacco Usage Study
Frequency of illicit tobacco purchases per annum [2]	[2] taken from Roy Morgan Research September 2012 Tobacco Usage Study
Quantity of illicit tobacco purchased per annum (g) [3]	[3] = [1] x [2]
Number of illicit tobacco users, Australia ('000) [4]	[4] = [5] x [7]
Illicit tobacco users as % of Australian tobacco users [5]	[5] taken from Roy Morgan Research September 2012 Tobacco Usage Study
Quantity of illicit tobacco purchased in Australia ('000 kg) [6]	[6] = [3] x [4]
Total adult smoking population ('000) [7]	[7] taken from <i>AIHW National Drug Strategy Household Survey Report 2010</i>

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

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

In Table 3, item 10 details the calculations behind the estimated size of the illicit tobacco market.

Table 3: Size of the illicit tobacco market as a proportion of legal tobacco market

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

Assumptions

The key assumptions in the consumption model are:

- **Amount of tobacco per legal cigarette stick** – The assumption regarding the amount of tobacco per legal cigarette stick is based on an average of weights provided on a confidential basis to Deloitte by BATA, PML and ITA
- **Amount of tobacco per illicit cigarette stick** – Given the illicit nature of the market, there is no independently available information on the average weight of an illicit stick. The amount of tobacco per illicit cigarette stick is assumed to be 1.0 gram
- **Total adult smoking population** – We assumed that the total adult smoking population in Australia is 2,742 million, based on the most recent publicly available information (AIHW 2011)
- **Quantity of legal tobacco used in Australia** – We assume the Australian legal tobacco market totalled 16,861 million kilograms (Datamonitor, 2011). This is based on the most recent publicly available information and our assumption on the number of tobacco grams per legal cigarette stick (taken to be an average of weights provided to Deloitte by BATA, PML and ITA) to convert total sticks consumed into a quantity amount in kilograms.

These assumptions are consistent with our previous reports.

Appendix 3: Survey questions

The questions below are an exhaustive list of all the possible questions survey respondents may be asked as part of the September 2012 Roy Morgan Research Tobacco Usage Survey. They are the same as those asked for the November 2011 survey. Introductory survey questions are asked to all potential respondents with those potential respondents meeting certain criteria moving on to the next stage of the survey. A range of questions are put to the survey respondents with responses to key questions triggering further series of questions of those respondents.

The majority of questions seek a quantitative response from the respondent with a number of quantitative options being available. In a minority of cases, respondents are invited to provide a qualitative response which is noted by the telephone interviewer. Where the respondent is unsure of the meaning of the question or requires additional information before providing a response, the telephone interviewer is provided with additional factual information to assist the interviewee.

Q15. Do you, or does any member of your immediate family work in any of the following (industry sectors)?

Q25. What is your post code?

Q35. What is your gender?

Q45. Would you please tell me your current age?

Q7. Which products do you currently consume? (Options provided)

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

Q8B. How often do you normally smoke manufactured cigarettes?

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

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

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

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

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

Q13A. Throughout the survey, we're just focusing on products you buy for your own use. Do you purchase unbranded tobacco for your own use currently?

Q13B. Have you purchased unbranded tobacco in the last 12 months?

(Remember, we are talking about purchases for your own use)

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

Q13T. How long ago was your most recent purchase of unbranded tobacco in packs?

Q13U. Well, can you give me an estimate of when your most recent purchase of unbranded tobacco in packs was?

Q13V. When you were smoking unbranded tobacco, how much of it would you say that you smoked per day?

Q13W. Well, can you give me an estimate of how much unbranded tobacco you were smoking per day?

Q13X. How did you usually consume unbranded tobacco?

Q13Y. How many suppliers did you ever purchase unbranded tobacco from, since you turned 18?

Q13Z. When you stopped buying unbranded tobacco did you not smoke or did you purchase duty paid tobacco products?

Q13AA. Why did you smoke unbranded tobacco?

Q13BB. Do you know the country of origin of the unbranded tobacco that you purchased?

Q13CC. Where does it usually come from?

Q13DD. Please tell me the reasons why you stopped purchasing unbranded tobacco?

Q14. How often do you purchase unbranded tobacco?

Q14A. Well, can you give me an estimate of how often you purchase unbranded tobacco?

Q15. Since after you turned 18, how long have you been buying unbranded tobacco?

Q15A. Well, can you give me an estimate of how long you have been buying unbranded tobacco since after you turned 18?

Q16. From which outlets do you usually buy your unbranded tobacco?

Q17A. How many grams of unbranded tobacco do you purchase for the average purchase?

Q17B. What format do you usually purchase unbranded tobacco in?

Q17C1. What is the minimum price that you have paid for loose unbranded tobacco in bags?

Q17C2. What is the average price that you have paid for loose unbranded tobacco in bags?

Q17C3. What is the maximum price that you have paid for loose unbranded tobacco in bags?

Q17D1. What is the minimum price that you have paid for unbranded cigarettes in cartons?

Q17D2. What is the average price that you have paid for unbranded cigarettes in cartons?

Q17D3. What is the maximum price that you have paid for unbranded cigarettes in cartons?

Q17E1. What is the minimum price that you have paid for unbranded cigarettes in packs?

Q17E2. What is the average price that you have paid for unbranded cigarettes in packs?

Q24F. How would you rate the overall quality of the contraband product(s) you purchase compared to the non-contraband version(s)?

Q24G. How did you become aware of the availability of counterfeit cigarettes?

Q24I. What would you do if counterfeit product were not available where you usually purchase it from?

Q24I. What would you do if counterfeit product were not available where you usually purchase it from?

Q24J. How would you rate the overall quality of the counterfeit product you purchase compared to the real legitimate brand?

Q27A. The most recent time you purchased counterfeit cigarettes, did you buy them by weight, by packs, or by cartons?

Q27A1. When you bought the counterfeit cigarettes by weight, how much did you buy?

Q27A4. How much did it cost in total?

Q27B1. How long ago was your most recent purchase of counterfeit cigarettes by weight?

Q27A2. When you bought the counterfeit cigarettes by pack, how much did you buy?

Q27A5. How much did it cost in total?

Q27B2. How long ago was your most recent purchase of counterfeit cigarettes by pack?

Q27A3. When you bought the counterfeit cigarettes by carton, how much did you buy?

Q27A6. How much did it cost in total?

Q27B3. How long ago was your most recent purchase of counterfeit cigarettes by carton?

Q27C. Do you find counterfeit cigarettes easier or harder to obtain than a year ago or has there been no change?

Q27E. Why do (or did) you smoke counterfeit cigarettes?

Q28A. The most recent time you purchased contraband cigarettes, did you buy them by weight, by packs, or by cartons ?

Q28A1. When you bought the contraband cigarettes by weight, how much did you buy?

Q28A4. How much did it cost in total?

Q28B1. How long ago was your most recent purchase of contraband cigarettes by weight?

Q28A2. When you bought the contraband cigarettes by pack, how much did you buy?

Q28A5. How much did it cost in total?

Q28B2. How long ago was your most recent purchase of contraband cigarettes by pack?

Q28A3. When you bought the contraband cigarettes by carton, how much did you buy?

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

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

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

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

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

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

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

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

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

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

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

Q13O. When you last purchased cartons of unbranded tobacco, how much did it cost in total?

Q13P. How long ago was your most recent purchase of unbranded tobacco in cartons?

Q13Q. Well, can you give me an estimate of when your most recent purchase of unbranded tobacco in cartons was?

Q13R. When you last purchased packs of unbranded tobacco, how much did you buy?

Q13S. When you last purchased packs of unbranded tobacco, how much did it cost in total?

Q17E3. What is the maximum price that you have paid for unbranded cigarettes in packs?

Q18. How much would you say that you smoke per day of unbranded tobacco?

Q18A. Well, can you give me an estimate of how much you smoke per day of unbranded tobacco?

Q19A. The most recent time you purchased unbranded tobacco what format or formats was it?

Q19A1. How much loose unbranded tobacco did you buy?

Q19A4. How much did it cost in total?

Q19B1. How long ago was your most recent purchase of loose unbranded tobacco?

Q19C1. Well, can you give me an estimate of when your most recent purchase of loose unbranded tobacco was?

Q19A2. How many cartons of unbranded cigarettes did you buy?

Q19A5. How much did it cost in total?

Q19B2. How long ago was your most recent purchase of unbranded tobacco in cartons?

Q19C2. Well, can you give me an estimate of when your most recent purchase of unbranded tobacco in cartons was?

Q19A3. How many packs of unbranded cigarettes did you buy?

Q19A6. How much did it cost in total?

Q19B3. How long ago was your most recent purchase of unbranded tobacco in packs?

Q19C3. Well, can you give me an estimate of when your most recent purchase of unbranded tobacco in packs was?

Q20. How do you usually consume unbranded tobacco?

Q21. How many suppliers have you ever purchased unbranded tobacco from, since you turned 18?

Q22A. Do you find unbranded tobacco easier or harder to obtain than a year ago or has there been no change?

Q22B. If you cannot get unbranded tobacco do you not smoke or do you purchase duty paid tobacco products?

Q22C. Why do you smoke unbranded tobacco?

Q23. Do you know the country of origin of the unbranded tobacco that you purchase?

Q23A. Where does it usually come from?

Q24A. Since you turned 18 do you suspect you might have ever purchased contraband cigarettes?

Q24B. Since you turned 18 do you suspect you might have ever purchased counterfeit cigarettes?

Q24C. How did you become aware of the availability of contraband cigarettes?

Q24E. What would you do if contraband product were not available where you usually purchase it from?

Q28A6. How much did it cost in total?

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

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

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

Appendix 4: References

-
- Australian Institute of Health and Welfare 2011, *AIHW National Drug Strategy Household Survey Report 2010*
-
- Australian Customs and Border Protection Service 2012, *Annual Report 2011–12*
-
- Australian Taxation Office, 2012, *Excise Tariff Working Papers*, <http://law.ato.gov.au/atolaw/view.htm?Docid=PAC/BL030002/1&PiT=99991231235958>, accessed September 2012
-
- Australia Customs and Border Protection Service, 2011, Tobacco duty-free limits reduce 1 September 2012 media release, <http://www.customs.gov.au/site/mediarelease20120831.asp>, accessed September 2012
-
- Datamonitor, 2011, *Tobacco Market in Australia to 2014*
-
- OECD/FATF, 2012, *FATF Guidance – Illicit Tobacco Trade*
-
- Parliament of Australia, 2011, *Explanatory memorandum (Customs Amendment (Smuggled Tobacco) Bill) 2012*, page 2
-
- Roy Morgan Research, November 2011, Tobacco Usage Study
-
- Roy Morgan Research, September 2012, Tobacco Usage Study
-
- Senate Committee, 2012, *Committee Report on the Smuggled Tobacco Bill*
-
- World Health Organisation, 2012, *New protocol proposed to address illicit trade in tobacco products*, http://www.who.int/mediacentre/news/releases/2012/illicit_tobacco_20121112/en/index.html, accessed November 2012
-
- World Health Organisation, 2012, http://www.who.int/mediacentre/news/releases/2013/fctc_20130110/en/index.html accessed January 2013
-

Statement of responsibility

This report was prepared for BATA, PML and ITA solely for the purpose of assisting them to identify any changes in the nature and size of the illicit tobacco market. We do not accept or assume any responsibility to anyone else in respect of our work or this Report should it be used by any party or for any other purpose

In preparing this report we have relied on the accuracy and completeness of the information provided to us by Roy Morgan Research, publicly available sources and information from BATA, PML and ITA. We have not audited or otherwise verified the accuracy or completeness of this information.

Contact us

Deloitte

550 Bourke Street
Melbourne Victoria
Australia

Tel: +61 3 9671 7000

Fax: +61 3 9671 7001

www.deloitte.com.au

Confidential – this document and the information contained in it are confidential and should not be used or disclosed in any way without our prior consent.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the “Deloitte Network”) is, by means of this publication, rendering professional advice or services.

Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/ about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

About Deloitte Australia

In Australia, the member firm is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia’s leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 6,000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit Deloitte’s web site at www.deloitte.com.au.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

© 2012 Deloitte Touche Tohmatsu.

MCBD_Mel_12/12_046809