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Booming illegal tobacco costs government billions

The first report on illegal tobacco released since the introduction of plain packaging last year shows the problem has worsened with the tobacco black market now booming with illicit cigarettes imported mainly from Asia and the Middle East.

The report released today has been developed by KPMG LLP in the UK, and commissioned by British American Tobacco Australia (BATA), Philip Morris Limited and Imperial Tobacco Australia. It shows that the overall size of the market has grown from 11.8 per cent to 13.3 per cent and more than \$1 billion a year in excise revenue is being lost. The growth of the illegal market is consistent with evidence from covert purchases.

In BATA's view, plain packaging, combined with our already high tobacco tax rates, and the previous government's plan to increase tobacco excise by another 60 per cent over the next four years, could see the illegal tobacco problem skyrocket.

British American Tobacco Australia (BATA) spokesperson Scott McIntyre said the future was bright for crime bosses but scary for the government and taxpayers.

"Nearly 70 per cent of every dollar sold from a legal pack of cigarettes goes to the government in taxes, which is why tobacco smuggling is such a lucrative venture for gangs as they obviously don't pay any tax and pocket the profits instead," Mr McIntyre said.

"You don't need to be a crime expert to see that increasing the excise rate by 60 per cent over the next few years will see gangsters profiting more than ever while smokers buying legal products are hit in the hip pocket.

"Instead of steep excise hikes, more resources for agencies and greater enforcement of plain packaging laws by the Health Department will see a reduction in illegal tobacco sales, particularly at a local level.

"Dishonest retailers are selling illegal branded cigarette packs imported from Asia and the Middle East, most without health warnings, freely and openly across Australia. They appear to have no fear of getting caught because the plain packaging laws are not being enforced at a retailer level.

"Fines for selling non-compliant product can be over \$340,000 per pack, but to date we're not aware of one retailer who has been fined for selling illegal branded packs.

"A fine that size would shut down most businesses overnight, it wouldn't take many of them to be fined before most pulled the pin on their illegal activities due to the financial risk.

"The excise system needs to be reviewed. But enforcement needs to be ramped up immediately."

Mr McIntyre said that while police and other enforcement agencies did a great job, the illegal tobacco problem is so big it needs greater focus and more action on compliance.

“The Australian Crime Commission believe that organised crime groups view tobacco smuggling as low-risk and highly profitable, and that they also use the proceeds to fund other illegal activities. Obviously this needs to stop,” he said.

By undertaking the report, and its own covert operations, BATA is hopeful it can help the government to better identify the illegal tobacco problem.

This will benefit the government, taxpayers, the community, honest retailers and the legal tobacco business which contributes over \$10 billion a year to the government in taxes.

Key facts and figures from the October 2013 KPMG LLP report:

- The illegal market is now at its highest ever point and is equal to 13.3 per cent of total tobacco consumption.
- The Australian Government and taxpayers are losing \$1 billion to tobacco smugglers a year.
- The illegal tobacco rate has trended upward since it was first measured in 2007.
- KPMG has compiled over 200 reports across 27 countries in the EU.
- They will produce two Australian reports a year for the industry.
- They use the most robust methodology available for compiling illegal tobacco reports.
- For the first time an empty pack survey is part of the report which includes the collection and analysis of empty cigarette packs from 16 cities around the country.
- While chop chop is still a big issue, illegally imported branded cigarettes now make up nearly 60 per cent of the tobacco black market.
- In fact, the use of illegal cigarettes grew 154 per cent in the last year alone.

To download the *2013 Half Year Report, Illicit tobacco In Australia*, by KPMG LLP please visit the BATA website: www.bata.com.au

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