

National strategy needed to tackle illicit tobacco

Illegal tobacco consumption in Australia is now estimated to be worth up to \$1.61 billion in foregone excise revenue, highlighting the need for a coordinated national approach to combat black market smuggling and production.

KPMG LLP's Illicit Tobacco in Australia 2016 Full Year Report calculated that illegal tobacco represented 13.9% of total national consumption, with 2.3 million kilograms of illicit tobacco consumed last year.

KPMG LLP estimates that if this illicit tobacco had been sold legally, it would have generated \$1.61 billion in tobacco excise for the Federal Government.

Philip Morris Managing Director Nikitas Theophilopoulos said the industry is urging Federal and State authorities to continue their efforts to combat organised crime in tobacco.

Mr Theophilopoulos said the ongoing efforts of the Australian Border Force (ABF) and its Tobacco Strike Team was paying dividends with seizure volumes of illicit tobacco nearly doubling to 142 tonnes in the last six months of 2016, compared to 82 tonnes in the 12 months prior.

Overall, the KPMG LLP report found that as a percentage of total consumption, the illicit tobacco market declined by 0.2 percentage points in 2016. This fall followed record seizures of illicit tobacco by the ABF and other law enforcement authorities.

"A national anti-illicit tobacco strategy is needed to help coordinate industry and law enforcement efforts to ensure ongoing support for dealing with this serious criminal issue," Mr Theophilopoulos said.

"The UK introduced a National Anti-Illicit Tobacco Strategy in 2000 and has since reduced the illicit cigarette market from 22% in 2000-01 to 10% in 2013-14, resulting in a reduction in lost revenue from £3.4bn to £2.1bn."

According to the KPMG LLP report, unbranded loose leaf tobacco (commonly known as 'chop chop') continues to account for the majority (58%) of total illicit consumption in Australia. The volume of unbranded tobacco increased 1.3% on the previous year to 1.33 million kilograms.

Chop chop is most often sold in 250g or half kilogram bags with no labelling or health warnings and consumed in roll your own form. It can also be inserted in empty cigarette tubes and then sold in boxes.

Mr Theophilopoulos said in addition to the growth in chop chop, another worrying trend highlighted in the report was the increase in illicit plain packaged products entering the country.

"Criminals are now smuggling cigarettes in plain packaging into the country to deceive authorities, and once they're through the border, these illegal products are being sold to unsuspecting consumers," Mr Theophilopoulos said.

"With a further four 12.5% tobacco tax increases on the way, there has never been a more important time to stop these illegal products from entering the country," Mr Theophilopoulos said.

The KPMG LLP report was commissioned by Philip Morris and Imperial Tobacco and is available in full [here](#).

KPMG LLP Illicit Tobacco in Australia Full Year 2016 report highlights:

- 13.9% of total consumption (or 2.3 million kg) was estimated to be illicit, which declined from 14.1% in 2015.
- If this 2.3 million kg of tobacco had been consumed legally, it would have represented an estimated excise value of AUD 1.61 billion.
- Flows of China and South Korea (including duty free) labelled packs continue to account for the majority of non-domestic flows.
- Unbranded (or 'chop chop') consumption continues to account for a majority (58%) of total illicit consumption.
- The volume of unbranded tobacco increased 1.3% over the year.
- Counterfeit tobacco was measured at .05 million kilograms or 2.2% of total illicit consumption.
- Domestic illicit plains (illicit cigarettes appearing in plain packaging) increased from 0.11 per cent of all manufactured cigarettes consumed in Australia in 2015 to 0.56 per cent in 2016.

Note to editors:

KPMG undertakes economic analysis, commissioned by the tobacco industry, in a variety of jurisdictions. The OECD considers the methodology of KPMG the "most authoritative assessment of the level of counterfeit and contraband cigarettes" in the EU. The 'Illicit Tobacco in Australia' report was prepared by KPMG LLP in the UK and is an independent piece of work which gives a reliable insight into the level of illegal tobacco consumption. It was commissioned by Phillip Morris Limited and Imperial Tobacco Australia. KPMG recognises the wider public policy context within which governments decide regulatory and fiscal changes for the tobacco industry, and that the analysis in this report only considers one aspect. KPMG expresses herein no view, nor makes any recommendation, in relation to future policy for the industry in this regard.*

**Following British American Tobacco's (BAT) successful bid for the R. J. Reynolds Tobacco Company, KPMG, as BAT's auditor, must now comply with the US Security and Exchange Commission on auditor independence rules and regulations. Consequently, BATA has agreed to withdraw from the study.*