

## Low price cigarettes at an all-time high

Federal Government policy resulting in large tobacco excise increases is driving demand for low price cigarettes which is having the opposite effect that it was intended to have.

British American Tobacco Australia (BATA) was this week forced to launch the cheapest legal pack of 25 cigarettes on the market in an effort to remain competitive in the growing low price segment.

The low price segment has grown more than 66 per cent in the last five years as large excise increases have pushed price sensitive smokers to down trade to cheaper brands.

Over 42 per cent of the total legal cigarette market is priced under \$15 per pack making it the largest of all brand categories. When combined with the illegal market, over 60 per cent of all cigarettes sold are priced between \$8 and \$15.

BATA spokesperson Scott McIntyre said governments had shocked the excise system with large increases in recent years which in turn had seen smokers look for cheaper brands rather than quitting.

"Since the last 12.5 per cent excise increase on 1 December 2013 the low price segment has grown almost five per cent. That's more smokers, smoking cheaper cigarettes in the last six months," Mr McIntyre said.

"Although high excise rates have pushed the most expensive pack of 25 cigarettes to around \$25 the cheapest legal pack is only \$13. We have been forced by the government's excise policy to price our brand accordingly.

"This works against the government's policy of encouraging smokers to quit. With a \$12 price gap smokers are looking for the cheapest brand rather than giving up and they're actually saving money at the same time.

"It would be concerning for the government that in the last three years the number of 18 to 30 year olds purchasing low price legal cigarettes has doubled due to excise.

"BATA highlighted three years ago that price would become the main point of competition following the introduction of plain packaging. At the time we suggested that prices could halve in the future.

"With the premium end of market now around \$25 and the lower end dropping to \$13, it appears that ongoing tobacco excise increases have accelerated the race to the bottom.

"We'd prefer not to sell cigarettes at \$13 a pack but we are a legal business and we need to compete with other tobacco companies and their cheaper products. The second highest selling brand on the market falls into this category.

"Smokers are driving the market down by seeking cheaper brands and the industry has catered for them.

"While we understand the government is trying reduce smoking rates by raising excise, combined with plain packaging it's actually increased the number of smokers buying cheap cigarettes.

"It's also seen an increase in the black market which is now almost 14 per cent of all tobacco consumed. The industry has been going head to head with organised criminals selling branded packs smuggled from Asia.

"The government's current plan of four 12.5 per cent excise increases over three years will continue to push the top end of the market up, but the lower end down.

"The industry is extremely competitive and if smokers continue to ask their local retailer for cheaper smokes then that's where the industry will battle for market share which could potentially see prices drop further."

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