

Critique of tobacco industry claims about trends in sales of tobacco products

Australian tobacco companies have released figures based on data from InfoView Technologies suggesting that sales of tobacco products were 0.26% (just over one quarter of one percent) higher in the calendar year 2013 compared to the 12 months to 31st December 2012.[1] *The Australian* newspaper has run several articles reporting and commenting on these claims.[2],[3] [4-8]

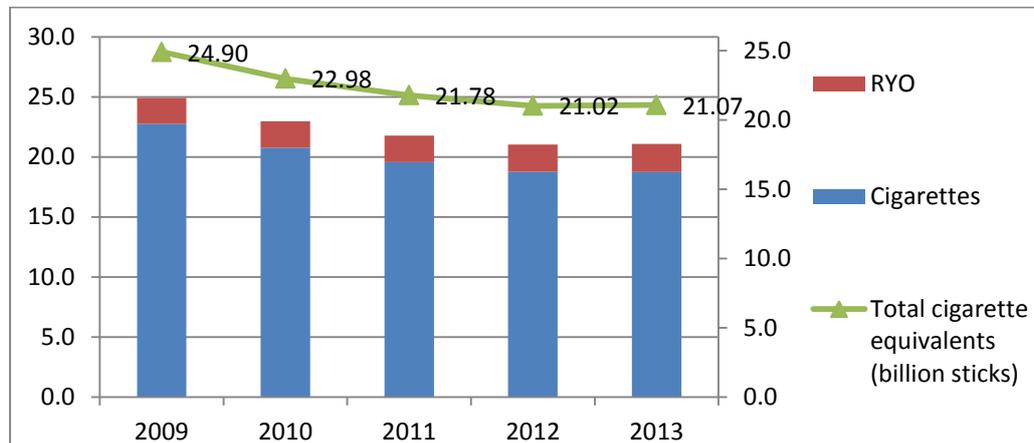


Figure 1. Volume of sales by Australian tobacco manufacturers, annual totals, calendar years

Source: Data provided to Australian tobacco manufacturers from Infoview Technologies Pty Ltd

This paper describes the data on which these claims are based, and some important factors to be borne in mind when interpreting them.

1. Sales can be measured in many different ways.

Sales of tobacco products can be measured in many different ways—as sales by manufacturers to wholesalers; as sales by wholesalers to retailers; or as sales by retailers to consumers. Cigarettes and other tobacco products have relatively long shelf-life (up to one year), so it is possible for the stock sold by companies to wholesalers to be purchased by consumers only many months later. Some stock sold by wholesalers to retailers will pass its 'best before' date and be returned to companies for destruction and replacement without ever being sold to consumers.

As confirmed by industry executives in interviews with British paediatrician Sir Cyril Chantler, who undertook a review of the evidence on plain packaging for the British Government early in 2014, the InfoView figures are based not on sales of packs from retail outlets to customers, but rather on sales by manufacturers to wholesalers in each calendar year—see bottom of page 7 of the transcript at <http://www.kcl.ac.uk/health/Packaging-review/packaging-review-docs/meetingsandbriefings/British-American-Tobacco-Australian-and-Imperial-Tobacco-Australia-12-March-2014.pdf>

Different pictures of sales emerge depending on the sources of data and the reporting timeframe. In its annual report to shareholders, British American Tobacco (of the three major companies operating in Australia, the one with the largest market share) stated that volumes were lower for the 2013 calendar year—see page 32 of the annual report.[9] An industry-funded report concerning estimates of use of illicit tobacco[10] included an

estimate of consumption of tax-paid tobacco (based on estimated weight of tobacco sold) at 0.5% *lower* in 2013 than in 2012—see Figure 2 below.

In April 2013, the CEO of major tobacco company Imperial Tobacco Company noted a decline in tobacco product sales during the first half of the company's 1 October to 30 September reporting cycle (from 1st October 2012 to 31st March 2013): "As I'm looking at Asia Pacific, I should also mention Australia, we've had the first six months of the plain pack environment in Australia. We've seen the market decline roughly 2% to 3%, so maybe not as bad as we might have anticipated." [Transcript of Imperial Tobacco half-year 2013 results - Interview with Alison Cooper, CEO, and Bob Dyrbus, FD](#)

A different picture again is provided by data produced by the international independent business data company, Euromonitor, which show sales declining between 2012 and 2013. (The reports cost approximately \$1900 US to purchase or can be viewed by people whose employing institutions have subscriptions with the company.)

It should be remembered that sales are only one estimate of population consumption. It is also possible to quantify consumption by examining spending patterns and consumer reports of how much they smoke each day, week or month. The international standard for reporting on population consumption of tobacco products over time is the number/amount of cigarettes/tobacco cleared for payment of excise/customs duty, expressed as a figure per person 15 years and over. The Australian Government on 18th June 2014 released advice from the Commonwealth Treasury indicating that excise and customs clearances on tobacco products declined by **3.4% in the 2013 calendar year relative to 2012**—see <http://www.health.gov.au/internet/main/publishing.nsf/Content/tobacco-kff>

2. Total sales would be expected to increase over time in line with increasing population.

The population of Australia [increased by 1.8% to the September 13 quarter](#), more than six times the 0.3% purported growth in sales of tobacco products. This suggests that per capita sales of tobacco products are continuing to decline, even using the InfoView data, the least optimistic of all the sales data available.

3. Comparisons to the five year trend are unjustified given the very large tax increase in the middle of that period.

Generally in Australia over the past 15 years, sales have declined sharply only after major increases in excise and customs duty such as those that occurred in Nov 1999–Jun 2000 and in April 2010, the largest single increase in tobacco taxes in Australia's history.[11] The 25% increase in excise/customs duty that occurred in April 2010 would have contributed to reduced sales in 2010 (during which time prices were very high for 8 months) compared to 2009 (with 12 months at the lower prices) and in 2011 (with 12 months of higher prices) compared to 2010 (when cigarette prices were substantially lower for the first four months of the year). One would not have expected a decline in sales any greater than 0.5% between 2011 and 2012 going on historical trends—see Figure 2. However, sales *did* decline in 2012, a year which included three months in which a high percentage of packs sold were plain.^a The decline between 2012 and 2013 in estimated amounts of tobacco sold as depicted in the KPMG LLP figures mentioned above[10] are in line with those detected in the years prior to the April 2010 tax increase.

^a [The legislation](#) required manufacturers to produce only compliant packs from the 1st October 2012. While the date after which only plain packs could be sold was the 1st December, many packs sold during the months of October and November 2012 were also plain.

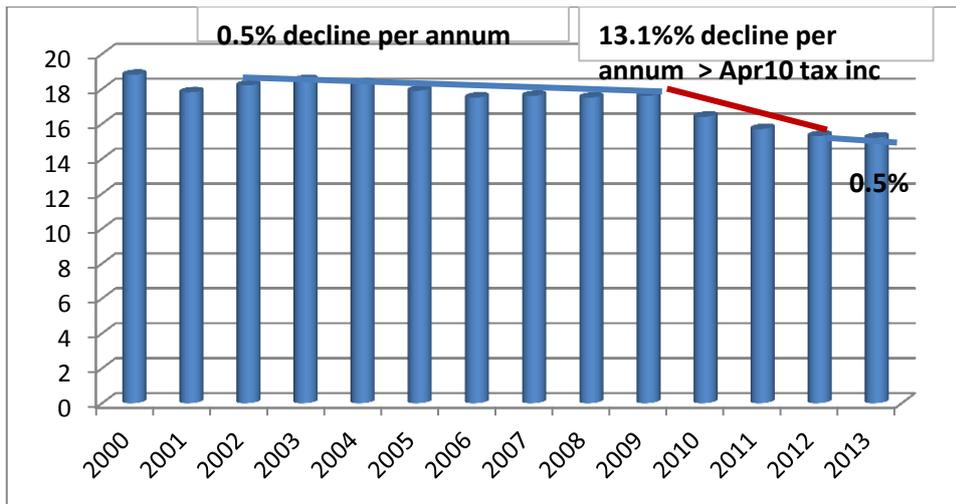


Figure 2. Estimated tobacco (cigarettes and rolling tobacco) millions of kilograms

Source: In a report released in April 2014, KPMG LLP cited Euromonitor estimates of 'legal sales of cigarettes and other tobacco products' to December 2013'. At 15.2 tonnes, the total for 2013 was down just over 0.5% on sales in 2012 (KPMG LLP 2014[10], p 10)

4. The policy may have exerted effects on consumption in 2012.

The tobacco industry is pointing to the fact that InfoView figures for the 2013 calendar year are higher than those for the 2012 year. However the legislation came into effect well before the end of the 2012 calendar year. While retailers were prohibited from selling non-compliant stock after the 1 December 2012, the legislation in fact required manufacturers to produce only compliant packs from the 1st October 2012, and many packs sold during the months of October and November 2012 were also plain. A study conducted in Victoria in November 2012[12] indicated that the percentage of smokers using plain packs increased from 57% in the first week of November to 66% in the second week, 80% in the third week and over 85% by the end of November. Thus sales in 2012 were already subject to any effects of the policy.

There are at least three further factors that would work to artificially reduce the 2012 and increase the 2013 out-of-factory sales figures relative to a year where no changes were occurring.

5. Under-production in 2012 would have helped to prevent accumulation of stock non-compliant from Dec 1.

Retailers would have been liable for substantial fines had they sold non-compliant stock after the 1st December implementation date. Wholesalers and retailers would not have wanted to have been caught out with non-compliant stock remaining in December 2012, so manufacturers/importers may have under-produced or under-sold some stocklines in the months leading up to implementation. An audit of retailers throughout Australia conducted between June 2012 and February 2013 found evidence of considerable stock shortages in December 2012—see row b, December column compared to other columns.[13] The undersupply that resulted in these shortages would have artificially lowered the 2012 figure and additional volumes early in 2013 (to replace the shortages) would have artificially inflated 2013 figures.

Table 1. Extract from research paper showing stock shortages in December 2012

Outcome of store visits by month					
	June 2012, n (%) n=300	September 2012, n (%) n=300	December 2012, n (%) n=297	February 2013, n (%) n=295	p Value*
Total stores visited†					0.301
a. Data collection error‡	32 (10.7)	3 (1.0)	2 (0.7)	16 (5.4)	<0.001
b. Requested brand, variant or pack size not in stock	33 (11.0)	25 (8.3)	104 (35.0)	66 (22.4)	<0.001
<i>Total stores visited where retrieval time unable to be recorded (a+b)</i>	<i>65 (21.7)</i>	<i>28 (9.3)</i>	<i>106 (35.7)</i>	<i>82 (27.8)</i>	<0.001
c. Automatic dispenser	2 (0.7)	5 (1.7)	6 (2.0)	3 (1.0)	0.468
d. Retailer interrupted or did not immediately look for pack§	10 (3.3)	12 (4.0)	1 (0.3)	12 (4.1)	0.021
e. Fieldworker was asked for age identification	4 (1.3)	0	0	0	0.008
f. Store equipment malfunction¶	1 (0.3)	2 (0.7)	2 (0.7)	0	0.533
<i>Total stores visited, where retrieval time affected by extraneous factors (c+d+e+f)</i>	<i>17 (5.7)</i>	<i>19 (6.3)</i>	<i>9 (3.0)</i>	<i>15 (5.1)</i>	0.283
Total stores visited where retrieval time measured without extraneous factors present	218 (72.7)	253 (84.3)	182 (61.3)	198 (67.1)	<0.001

Source: Wakefield, Bayly and Scollo, 2013[13]

6. Inventory recovery in 2013 would have artificially inflated sales.

Pre-Sept 1 stock that was not sold before the 1st December 2012 could be returned to the Australian Taxation Office or the Australian Customs and Border Protection Agency for destruction and return of the excise or customs duty that had already been paid on this stock. As indicated in their annual reports, \$366m in excise duty was refunded by the Australian Taxation Office and almost \$100m was refunded to importers by the Australian Customs and Border Protection Services—see extracts from annual reports below. Total excise and customs revenue on tobacco in 2012-13 was \$7.7b.[14] So this \$466m could represent well over 5% of total clearances. Additional stock produced early in 2013—stock to replace the shortages (referred to in point 4 above) and the residual non-compliant stock that was destroyed— would have artificially inflated sales figures in 2013.

The introduction of plain-packaging legislation for tobacco products required us to undertake our largest ever assurance process around the refund of excise duty and remission claims for excisable and customable tobacco. As a result, tobacco products not complying with the legislative requirements had to be withdrawn from the Australian market by 1 December 2012. Ultimately, product equating to around \$366 million in duty was destroyed. Feedback from the tobacco industry about our management of this assurance process was positive.

Source: Extract from Australian Taxation Office Annual report 2012–13[15]

The temporary refund provision allowed importers of non-compliant tobacco products to apply for a refund of customs duty following the supervised destruction of these products until 30 April 2013.

These provisions effectively enabled more than 25,000 small businesses to return branded tobacco in exchange for plain packaged product rather than exporting them to neighbouring countries. In total, \$96.5 million of customs duty was refunded with an additional \$1.1 million repaid in duty drawbacks.

Source: Extract from Australian Customs and Border Protection Service, Annual report 2012-13[16]

7. Stockpiling prior to 1 December 2013 increase in excise duty

In August 2013, the former Government announced a series of four 12.5% increases in excise/customs duty to occur on 1 December 2013 and 1 September of 2014, 2015 and 2016.[17, 18] These increases are approximately half the magnitude of the 25% increase in duty/customs that occurred on 29th April 2010. Excise or customs duty must be paid before tobacco products are released for home consumption, but may be paid while stock is [still in the warehouse](#). While the Tax Office does impose quotas on companies to discourage anticipatory selling/buying and stockpiling ahead of increases in excise/customs duty,[17] it was evident from the ‘bump’ in industry monthly sales figures that some pre-stocking did occur prior to the large tax increase in December 2013—see last section of Figure 3. This would also have tended to increase sales figures in 2013, with retailers likely to have purchased sufficient stock to cover not just December but some weeks after 1st January 2014 as well.

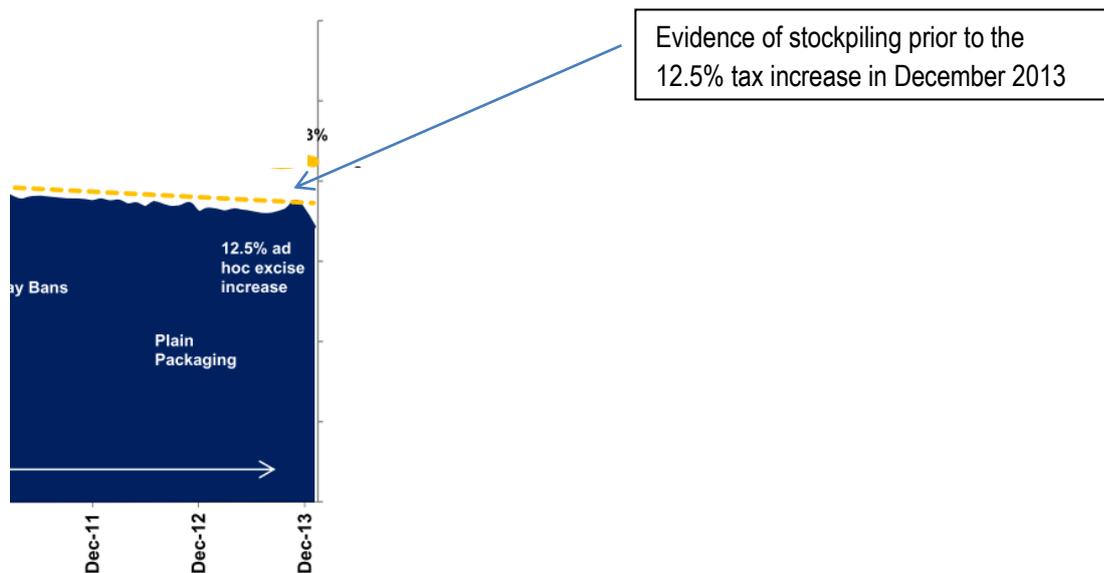


Figure 3. Extract from BATA materials

Source: InfoView Technologies data provided to Australian tobacco manufacturers

8. Government data from Treasury and the Australian Bureau of Statistics suggest declines in consumption in 2013.

As mentioned on page 1 above, the Australian Government on 18th June 2014 released advice from the Commonwealth Treasury indicating that excise and customs clearances on tobacco products declined by 3.4% between the 2012 and 2013 calendar years—

<http://www.health.gov.au/internet/main/publishing.nsf/Content/tobacco-kff> Customs and excise clearances are generally regarded as the most reliable indicator of population consumption, however taxpayer confidentiality provisions prevent the government from releasing detailed data on product type and clearances over particular periods.

Another indicator of population consumption of tobacco products is that provided in Australia's National Accounts. The ABS [National Accounts data](#) include estimates of household spending on various consumer products. These estimates of 'Private Final Consumption' are derived in part from clearance data, adjusted upward to allow for estimated company and retail margins.[19] Private final consumption data are expressed in several ways in the material produced by the Australian Bureau of Statistics[20]: as an unadjusted set of figures; as a set of figures adjusted for seasonal variation (such as people tending to buy more before half-yearly price

increases); and as a set of figures adjusted for seasonal variation and for changing prices over time.[19] The figures fluctuate quite markedly between quarters so it is safer to look at longer term trends and more aggregated data. Using the so-called chain volume seasonally adjusted figures, spending on tobacco products appears to have declined from \$14,368m in the 12 months to the end of September 2012 (prior to packs appearing in the market) to \$14,038m in the 12 months from the beginning of October 2012 to the end of September 2013 (coinciding with the introduction of plain packs on the market but excluding the period in which excise and customs duty [increased by 12.5% \(1 December 2013\)](#). Taking into account increases in population over the last four years (estimated consumption divided by the number of Australians fifteen and over) price-adjusted spending appears to have declined by approximately 4% —see Figure 5.

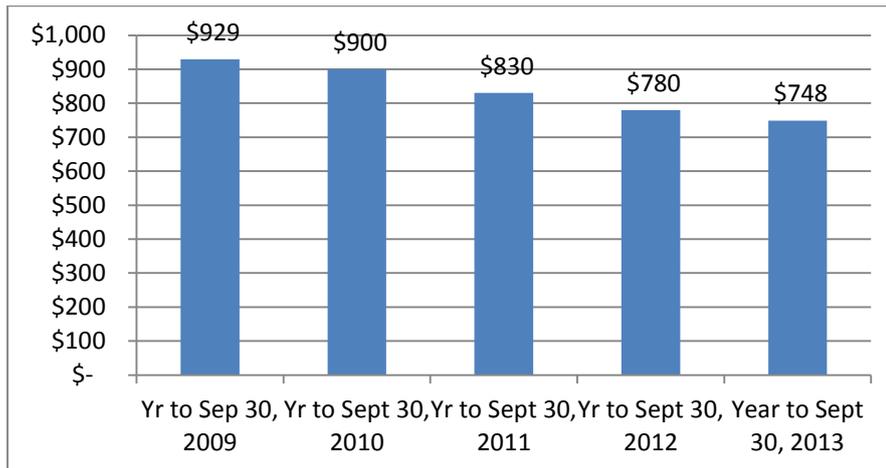


Figure 5. Estimated amount spent per Australian 15 years and over, 12 months to Sept 30 for 2009 to 2013

Source: ABS National Accounts, [Private Final Consumption, Chain volume measure, seasonally adjusted](#)

8.1 What about *the Australian's* interpretations of Government figures?

Accompanying an opinion piece by economist Judith Sloane, on the 16th June 2014, the Australian newspaper depicted three further sets of Government figures purporting to support the notion that sales had increased—see graphic below, Figure 5. This figure comprises three smaller graphs:

- one that shows Australian Bureau of Statistics (ABS) estimates of quarterly household spending on tobacco products between 2011 and 2013 (from [National Accounts data](#));
- one that shows [ABS data on imports of tobacco products](#); and
- a representation of forecast and actual revenue from tobacco products from the [Australian Budget papers](#) between 2007–08 and 2012–13, with projections to 2014–15.

a. Spending on tobacco

Sloane makes much of an apparent increase between the March and December 2013 quarters, however, there is always significant variation between quarters in the national accounts data. As discussed above, it is the 1st October to 30th September 12-month figures that should be of most interest—before the introduction of plain packaging compared to the 12 months after (prior to the excise increase on 1st December 2013). Figure 5 above shows a continuing decline in seasonally adjusted (price adjusted) estimated *per capita* spending between these periods.

b. Tobacco imports

The ABS figures on imports are of little consequence in isolation given that companies are moving production of more and more brands offshore: increases in imports would be offset by reductions in excise clearances. While several years ago most products were manufactured in Australia, increasingly brands which were once locally produced are now being imported. Imperial brands are now all produced offshore as are an increasing number of BATA brands other than Winfield. On the 4th April 2014, Philip Morris announced that it would close its Melbourne manufacturing plant within a matter of months.[21]

c. Tobacco excise estimate

The graph opposite prepared by Sinclair Davidson purports to demonstrate that final revenue from tobacco was much higher than expected in 2012-13. However the \$7660 'actual' figure for tobacco is not for just for 'excise' but also for customs duty—, an increasingly large component of the total with the growth in imports as described above. (Until 2012–13, only projected excise revenue was included as a line item in the Budget papers. Revenue from customs duty on cigarettes and other tobacco products was combined with estimates for revenue from other goods attracting customs duty. From 2012-13 onwards the Government is reporting on tobacco excise and customs duty combined.)

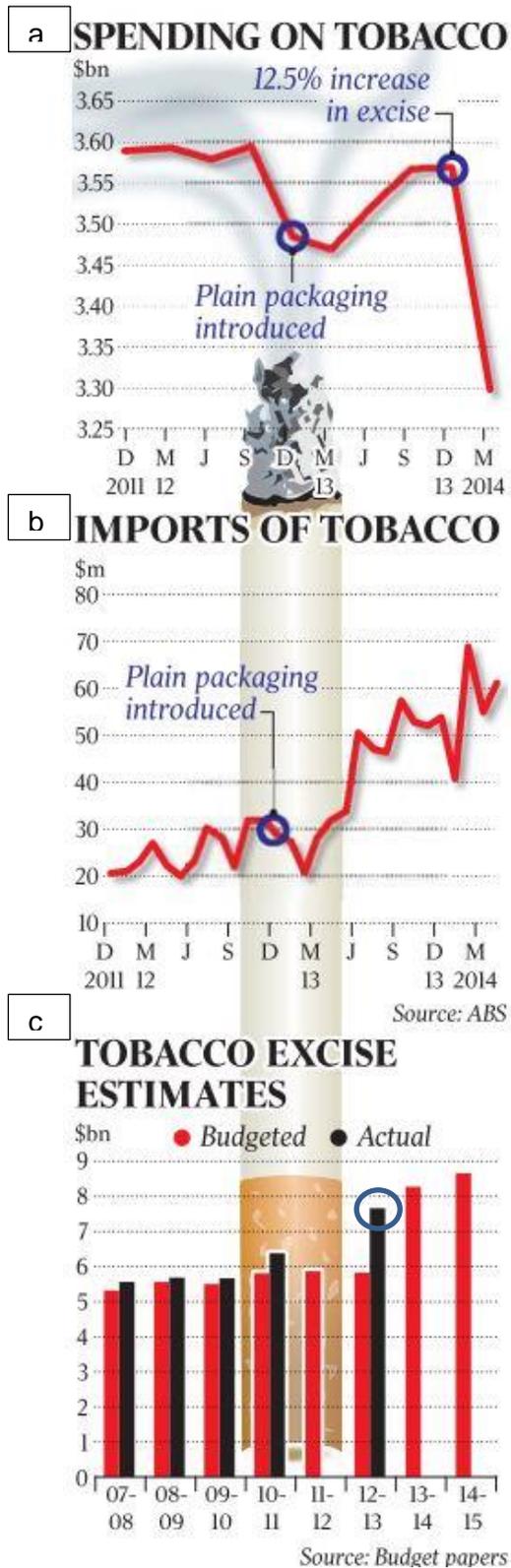


Figure 5. Graphics from the Australian newspaper, 16 June 2014

9. What can be concluded from all these different figures?

The introduction of plain packaging would have caused major disruptions to inventory production, distribution and stock levels, so that comparison of wholesale sales figures between the years before, during and immediately after implementation provide little guidance as to changes in retail sales. Data from independent market intelligence companies and reports by tobacco companies to their shareholders suggest at least an immediate decline in sales and certainly continuing declines in sales per capita. Official government data also suggest a continuing decline in *per capita* consumption of tobacco products in Australia.

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