

How big a problem is illicit tobacco and has it increased since the introduction of plain packaging in Australia—a critique of the KPMP October 2014 half-year report on illicit tobacco in Australia

and compilation of data from ACBPS seizures and data from surveys of smokers and retail audits

Cancer Council Victoria

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Comments on the latest report on illicit tobacco released by British American Tobacco Australia

In November 2014, Australian tobacco companies released the latest [1, 2] of 12 commissioned reports to date [3, 4] [5-8] [9-11] [12, 13] estimating very high levels of use of illicit tobacco in Australia. As with the previous two reports prepared by international consulting group KPMG LLP [3, 4], the 2014 mid-year report includes an estimate of use of illicit unbranded tobacco derived from an internet survey of smokers and an estimate of use of contraband cigarettes based on a survey of discarded cigarettes packs, adjusted to take into account an estimate of the number of packs discarded by international visitors. The validity of the 14.3% estimate of the size of the illicit market in Australia depends crucially on the representativeness of those two surveys and the adequacy of adjustments for legitimate non-domestic purchases.

Validity of KPMG estimates of illicit tobacco

Internet surveys of use of illicit unbranded tobacco

Health groups have been highly critical of the internet surveys relied on in industry studies. These rely on smokers opting in to the survey raising the possibility of a higher percentage of respondents being interested in illicit tobacco than would occur across the total population. [14-18] Results from large randomly selected surveys yield much smaller estimates of the extent of use—see below.

Discarded pack surveys

Discarded pack surveys are also problematic. No packs are collected in rural areas (in which approximately 25% of the Australian population resides.) The estimates of use of illicit tobacco are based on the application of results of surveys in towns and major cities to the tobacco consumption patterns of the entire population. However it is quite plausible that rates of use of illicit tobacco would be substantially lower in rural areas many hundreds of miles away from likely illicit distribution channels. No information is provided on the exact locations of collections within the listed towns/cities. No detail is provided on the exact methodology of collection, however it seems likely that discarded pack surveys would collect more packs from areas where publicly accessible bins are more visible and where litter is more common.... for instance areas near public transport stations/stops and restaurants and take-away food outlets. It could be that people—people such as tourists, overseas students and people from immigrant communities with links to home countries where cigarettes are much cheaper—using such non-domestic packs (both legal and illegal) would be more likely to be congregate in those sort of areas than in the rest of the country. Those who dispose of packs outdoors—leaving them on tables at outdoor venues or on street furniture, in bins or dropping on the pavement—are unlikely to be representative of

the total population of Australian smokers who would dispose of the majority of packs at home, work or elsewhere indoors.

Adjustments for legal domestic use

Estimates of the amount of non-domestic purchases included in the report are based solely on the duty-free allowances for overseas visitors. These are calculated based on smoking rates in the countries of origin of each visitor as well as applicable duty-free allowances. This calculation ignores the fact that non-smokers may bring in cigarettes for gifts for family members. It also ignores the fact that people visiting or returning to Australia can bring in cigarettes beyond the duty free allowance and simply declare these and pay customs duty.

In its annual report released in October 2014, the Australian Customs and Border Protection Service included data on interceptions of cigarettes through the mail service in Australia. In passing, the report mentions that 44% of tobacco noted in monitoring of the international mail stream was legal duty-paid. No allowance is made for duty-paid cigarettes received through the mail in the estimate of 'legal non-domestic' product in the KPMG or ITIC/OE studies.

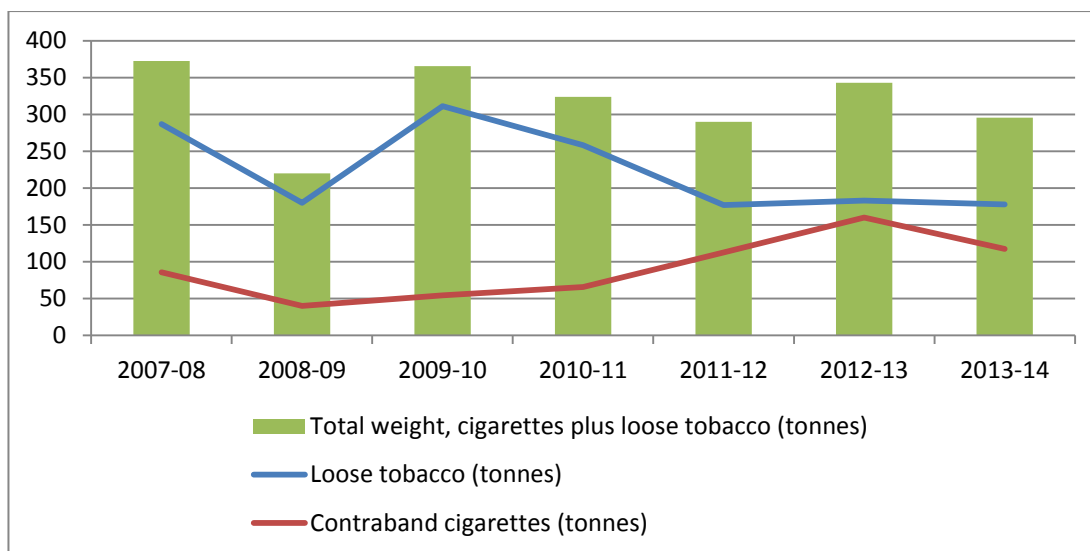
For these reasons and given the likely unrepresentativeness of the discarded pack surveys, estimates of the prevalence of contraband tobacco are likely to be inflated.

Alternative estimates of the extent of illicit tobacco in Australia

Given concerns about the validity of industry estimates, it is useful to contrast data from these reports with data from official government sources, government surveys and surveys conducted by public health researchers.

Interceptions of sea cargo and international mail

Data on sea cargo interceptions by the Australian Customs and Border Protection Service over the past five years indicate an increase in seizures of contraband cigarettes commencing in 2010-11 when excise and customs duty in Australia increased by an unprecedented 25%.[19] Contraband cigarettes were being smuggled into Australia well before the introduction of plain packaging, and the total amount of tobacco seized over each of the past seven years—the number of tonnes of contraband cigarettes plus loose tobacco combined—has remained surprisingly constant despite the increased number of detections and the substantial increase in prices of tobacco products in Australia over that time.[20-24] The overall amount of tobacco intercepted in sea cargo in 2013-14 was no higher in 2012-13—see **Figure 1**.



Year	No. of detections	Tobacco (tonnes)	Cigarettes (millions of sticks)	Duty evaded (\$ million)	Equivalent tobacco weight (tonnes)
2007-08	58	287	107	114	373
2008-09	33	180	50	70	220
2009-10	42	311	68	120	365
2010-11	55	258	82	135	324
2011-12	45	177	141	125	289
2012-13	76	183	200	151	343
2013-14	81	178	147	139	296

Figure 1 Amounts of loose tobacco and contraband cigarettes intercepted in sea cargo bound for Australia, and total weight of tobacco intercepted—Australia 2007-08 to 2013-14

Note an additional 42 million sticks of undeclared cigarettes were intercepted in mail in 2013-14. Figures for previous years not reported

Source: Australian Customs and Border Protection Services annual reports. Available from: <http://www.customs.gov.au/site/page4283.asp>

Indeed, even including the cigarettes seized from international mail, data for which were included in the 2013-14 report but not in previous reports, the total amount of tobacco reported seized was lower in 2013-14 than in three of the previous six years—see **Figure 2**.

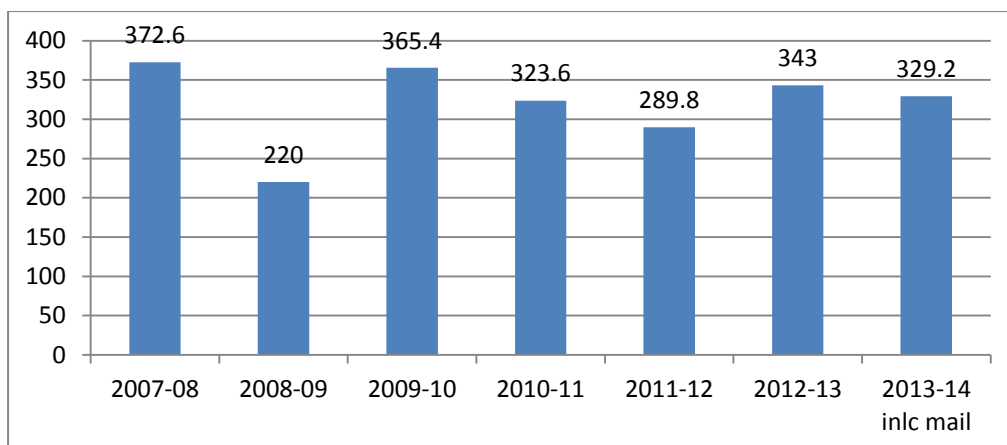


Figure 2 Total weight of tobacco—cigarettes plus loose tobacco—reported seized, including mail interceptions in 2013-14 only

Source: AC&BP annual reports, 2007-08 to 2013-14 Australian Customs and Border Protection Service. Annual Report 2013-14. Canberra: ACBPS, 2014. Available from: <http://www.customs.gov.au/site/page4283.asp>

Surveys of smokers

Use of unbranded illicit tobacco

Results from the National Drug Strategy Household Survey in 2013[25-27] suggest a significant decline since 2007 in the percentage of smokers who are aware of unbranded tobacco, who have ever smoked it and who currently use it.

Table 1 Use of unbranded tobacco, among smokers aged 14 years or older, 2007 to 2013

	Persons		
	2007	2010	2013
As a proportion of smokers			
Aware of unbranded tobacco	48.0	46.3	33.9#
Smoked unbranded tobacco in their lifetime	27.0	24.0	16.5#
<i>Currently smoke it</i>	6.1	4.9	3.6#
<i>Use it half the time or more</i>	1.1	1.5	0.8
<i>No longer use it</i>	20.8	19.0	12.9#

Note: Survey questions relating to unbranded loose tobacco were modified in 2010 and only asked respondents about awareness and use of unbranded loose tobacco whereas in 2007 and 2013 respondents were asked about awareness and use of unbranded loose tobacco and unbranded cigarettes. This should be taken into account when comparing the 2010 results with the 2007 and 2013 results. The placement of the questions in the 2013 survey may have also impacted how people responded to these questions and results should be interpreted with caution.

indicates a statistically significant decline from 2007 to 2013. Significance testing has only been performed between 2007 and 2013 (not 2010).

Source: Table 3.12, Australian Institute of Health and Welfare. National Drug Strategy Household Survey detailed report: 2013 - Supplementary tables. Canberra: AIHW, 2014. Available from: <http://www.aihw.gov.au/publication-detail/?id=60129549469&tab=3>.

A study published in August 2014 in BMJ Open[28] analysed cross-sectional data from smokers interviewed before, during and one year after the introduction of plain packaging. The proportion of smokers reporting current use of unbranded illicit tobacco was 2.3% in 2011, 2.2% in 2012 and 1.9% in 2013 (p=.46).

Table 2 Use of unbranded illicit tobacco by year – unadjusted percentages and 95% Confidence Intervals (95% CI)

Unbranded illicit tobacco ^a	2011		2012		2013	
	%	95% CI	%	95% CI	%	95% CI
Past 12-month use	4.4	2.4 – 6.3	4.9	2.4 – 7.4	4.0	2.0 – 6.0
Current use ^b	2.3	0.8 – 3.8	2.2	0.3 – 4.1	1.9	0.6 – 3.1

^a Includes all current smokers, i.e. smokers who smoke daily, weekly or less than weekly (2011: n=754; 2012: n=590; 2013: n=601)

^b Use daily, weekly, or less than weekly.

Source: Scollo M, Zacher M, Durkin S, and Wakefield M. Early evidence about the predicted unintended consequences of standardised packaging of tobacco products in Australia: a cross-sectional study of the place of purchase, regular brands and use of illicit tobacco. BMJ Open, 2014; 4(8). Available from: <http://bmjopen.bmj.com/content/4/8/e005873.abstract>

Use of cigarettes with indicators of illicit status

It is difficult to ascertain from telephone surveys whether particular cigarettes purchased by smokers are contraband or not. Two criteria strongly suggestive of illicit status are i. cigarettes being purchased from informal sources such as market stalls or people selling from the back of vans and ii. cigarettes being purchased that do not comply with Australia’s packaging requirements.

In 2013, about 1.7% of Victorian smokers had purchased one or more packets of cigarettes from an informal seller in the past year. Most people reporting any such purchases indicated that only a very small number of such packs had been purchased over the previous quarter/year. About 2.6% of cigarette smokers reported having purchased one or more packets of cigarettes in the past three months that did not bear required Australian health warnings.[28]

Data from the National Drug Strategy Household suggest that approximately 18.5% of smokers had seen packs over the previous three months which did not have plain packaging with graphic health warnings. Approximately half of these—9.6% of smokers—

reported having purchased such packs.^{1, 2} The majority of these indicated that they had purchased fewer than 15 such packs—see Table 3 below, reproduced from supplementary table 3.13 of that report.[26, 27]

Table 3 Proportion of smokers^(a) and total population, aged 14 or older, that have seen tobacco products without graphic health warnings^(b) and number of packets purchased⁽²⁾, 2013 (per cent)

Behaviour	Smokers ^(a)			All persons		
	Males	Females	Persons	Males	Females	Persons
Have seen tobacco products without plain packaging	18.7	18.3	18.5	13.3	11.7	12.5
Have not purchased tobacco products without plain packaging	91.3	89.1	90.4	98.0	98.2	98.1
Have purchased tobacco products without plain packaging	8.7	10.9	9.6	2.0	1.8	1.9
Amount purchased						
Purchased 1 – 2 packets	2.2	2.8	2.5	0.6	0.6	0.6
Purchased 3 – 5 packets	1.7	1.6	1.7	0.4	0.2	0.3
Purchased 6 – 9 packets	*0.5	*0.6	0.5	*0.1	*<0.1	0.1
Purchased 10 – 14 packets	*0.6	*0.7	0.7	*0.1	*0.1	0.1
Purchased 15 or more packets	3.6	5.1	4.3	0.8	0.8	0.8

(a) Includes people who reported smoking daily, weekly or less than weekly.

(b) This question asked about seeing tobacco products without plain packaging in the previous 3 months. The survey period was 31 July to 1 December 2013, more than six months after 1 December 2012, when all tobacco products sold in Australia were required to comply with plain packaging legislation.

Source, Table 3.13 Australian Institute of Health and Welfare. National Drug Strategy Household Survey detailed report: 2013 - Supplementary tables. Canberra: AIHW, 2014. Available from: <http://www.aihw.gov.au/publication-detail/?id=60129549469&tab=3>.

Audits of retail outlets

A study published in 2014 in the BMJ’s journal, *Tobacco Control* [29] found no evidence of increases in the willingness of small retailers to sell illicit unbranded tobacco to trained fieldworkers following introduction of plain packaging legislation and very low levels of positive responses overall—see **Table 4**.

¹ Note that a previous version of this paper incorrectly stated in the text the figure for the percentage of ‘persons’ rather than the figure for the percentage of ‘smokers’ who had purchased such packs. (Figures in the table were correct.) The Cancer Council Victoria regrets this error and any confusion or inconvenience it may have caused.

² Note that the time-frame for purchase was not specified in the question (Q D28, p12).

Table 4 Responses to inquiry about illicit unbranded tobacco in small mixed-businesses in Melbourne, Sydney, Adelaide, and Perth—before during and after the implementation of plain packaging

	Pre-PP implementation		PP implementation	Post-PP implementation		
	Jun-12 n (%)	Sep-12 n (%)	Dec-12 n (%)	Feb-13 n (%)	Apr-13 n (%)	Jul-13 n (%)
Total eligible stores (n)	164	174	170	173	171	170
a) No or don't know	115 (70.1%)	133 (76.4%)	132 (77.7%)	147 (85.0%)	130 (76.0%)	131 (77.1%)
b) Confused with RYO tobacco	29 (17.7%)	20 (11.5%)	9 (5.3%)	12 (6.9%)	27 (15.8%)	19 (11.2%)
Total Negative Responses (a+b)	144 (87.8%)	153 (87.9%)	141 (82.9%)	159 (91.9%)	157 (91.8%)	150 (88.2%)
c) Gave vague information	13 (7.9%)	7 (4.0%)	8 (4.7%)	3 (1.7%)	7 (4.1%)	8 (4.7%)
d) Gave specific information	0	3 (1.7%)	3 (1.8%)	2 (1.2%)	1 (0.6%)	4 (2.4%)
e) Offered to sell chop-chop	2 (1.2%)	0	1 (0.6%)	1 (0.6%)	1 (0.6%)	1 (0.6%)
Total Positive Responses (c+d+e)	15 (9.2%)	10 (5.8%)	12 (7.1%)	6 (3.5%)	9 (5.3%)	13 (7.7%)
Suspicious of fieldworker	5 (3.1%)	11 (6.3%)	17 (10.0%)	8 (4.6%)	5 (2.9%)	7 (4.1%)

Source: Scollo M, Bayly M, and Wakefield M. Availability of illicit tobacco in small retail outlets before and after the implementation of Australian plain packaging legislation. *Tobacco Control*, 2014;doi:10.1136/tobaccocontrol-2013-051353. Available from: <http://tobaccocontrol.bmj.com/content/early/2014/04/10/tobaccocontrol-2013-051353.abstract>

In the same study,[29] fieldworkers went on to purchase the cheapest pack of cigarettes available for sale in the store. Only 1.2% of packs were cheaper than 20% below recommended retail prices or failed to carry required Australian health warnings. Taking into account these criteria (as well as a number of contextual factors including usual pricing in each store) researchers judged that fewer than 0.2% of the 878 packs purchased after the introduction of plain packaging were likely to have been illicit. This compared to 1% of the 598 packs purchased prior to introduction.

In February 2015, British American Tobacco reported its first observation of counterfeit plain packs being sold in a retail outlet.[30] This was more than 27 months after plain packs started appearing on the market in Australia.

Conclusion

Illicit tobacco is an important issue with potential to reduce the efficiency of tax policy in reducing consumption of tobacco products. Data derived from sources independent of the tobacco industry suggest lower and more stable estimates of levels of illicit tobacco in Australia than those published in industry-funded reports.

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