

Virginia Park
Westfield Drive
Eastgardens 2036
NSW Australia
Private Bag 1
Maroubra 2035
NSW Australia
Tel +61 (0)2 9370 1500
Fax +61 (0)2 9370 1188
www.bata.com.au

1 May 2009

AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir or Madam,

Herewith, please find British American Tobacco Australia's second round submission to the Australia's Future Tax System review.

Please do not hesitate to contact me should you wish to discuss any of its content further.

Yours sincerely,



ANDREAS VECCHIET
Australasia Area Head,
Corporate and Regulatory Affairs



**BRITISH AMERICAN
TOBACCO
AUSTRALIA**

**(Second round) Submission by
British American Tobacco Australia (BATA)
to the “Australia’s Future Tax System” review
(Response to 2008 Consultation Paper)**

1 May 2009

Contents

Executive summary

Introduction

Illegal tobacco, and current management of the black market.

Health costs of tobacco

Economic and social benefits of tobacco

Response to third party round one submissions

Response to specific Consultation Paper questions
 "sin" taxes
 goals of tobacco taxation
 duty free

Conclusion

Annexures

Executive Summary

In this second round submission to the Henry Review, BATA notes the general acceptance by the anti-tobacco lobby and tobacco manufacturers alike that tobacco excise increases risk boosting the trade in illegal tobacco, which currently stands at \$450m.

BATA supports the view of the tobacco control community that Australia should ratify the Anti Illicit Trade protocol of the Framework Convention on Tobacco Control, and in fact we are assisting the Australian delegation in this effort. However, BATA believes this action alone would not be an adequate response to the huge spike in demand that would occur should the government adopt the anti-tobacco lobby policy of increasing tobacco excise by a further 7.5c per cigarette stick.

We believe the AFTS panel should hold discussions with Australian Customs and Border Protection ("Customs") and the Australian Taxation Office ("ATO") compliance officers to form a view on the size of the current problem, and what sort of extra resources would be required to deal with a demand spike that would occur as a result of a large excise hike.

BATA agrees with the anti-tobacco lobby's view that the health costs associated with smoking amount to around \$310m per annum. Before any change is affected, we urge the AFTS panel to consider how change could impact the current benefits provided by tobacco, including for example the black market undermining the total \$7.6 billion in tax revenue, or loss of some of the 135,510 jobs generated by tobacco manufacturing and retailing.

In response to the Cancer Council and Heart Foundation's joint round one submission, BATA shows that:

- Australia's current 70% tax as a percentage of retail price is recommended by the WHO and World Bank; and
- Australia compares more favourably when one considers cigarette pack prices as a proportion of daily per capita income (ie a real cross country price comparison).

In response to a submission by Professor Moodie of the National Preventative Health Taskforce, BATA invites analysis of:

- the importance of considering total cigarette price increases, not simply government tax increases which paint only part of the picture; and
- the tobacco control community's own research which highlights that price is not a strong influencer of a smoker's decision to quit, unlike other key factors such as health education.

In response to the specific consultation paper question on tax as a tool to influence consumption, BATA recommends that

- policy makers consider the political and policy failure of "alcopops" legislation in terms of lack of social and parliamentary support, and the risk of goods substitution in place of cessation; and

- the current Australian tobacco excise rate remain as it is already at a level promoted by the World Bank as appropriate.

In response to the specific consultation paper question on the goal of tobacco taxation and the necessity for change, BATA's view is that, from a whole of government point of view, the goal of tobacco taxation is to cover health costs associated with a product, potentially maximize consolidated revenue beyond recouping health budget costs, whilst avoiding unintended consequences.

Increased taxation could invite a raft of negative consequences including:

- increased consumption of illegal tobacco and worse public health outcomes;
- maximized black market trade which already robs the community of \$450m p/a;
- creation of an extra burden on the Customs Service and other compliance agencies;
- a boost in profits of criminal syndicates that run the black market
- electoral unpopularity with the 24% of Australians who are at least weekly smokers; and
- a disproportionate impact on lower socioeconomic groups.

With respect to the AFTS further question on duty free sales, BATA's view is that such a ban would:

- put Australia at a competitive disadvantage globally;
- impact the Australian tourism industry which is already under significant pressure; and
- offer little public health benefit considering this channel is only 1.6% of total sales.

Introduction

Further to a first round submission made on 17 October 2008, British American Tobacco Australia (BATA) makes further comment herein in response to the Australia's Future Tax System¹ (AFTS) Consultation Paper of 10 December 2008.

In our first round submission², BATA promoted our belief that the Australian tax system should demonstrate competitiveness, simplicity, certainty and equity. As summarized by the AFTS panel in the Consultation Paper³;

"the tobacco industry argues the current regime of tobacco taxation provides certainty for industry, consumers and government, while helping to control tobacco use and providing government with a significant and stable revenue stream.

As a summary of the first round of submissions, the Consultation Paper highlighted a general acceptance that illicit tobacco trade would grow with increased tax on legal tobacco sources:

"Both the health sector and the industry acknowledge higher taxes on tobacco would increase incentives for illicit trade in untaxed tobacco, by way of smuggled cigarettes and tobacco leaf, or 'counterfeit' cigarettes purporting to be legally produced and taxed. The health sector believes tighter regulation and enforcement would be necessary to control the illicit trade. The industry believes the risk of more illicit trade is an argument against increasing tobacco taxes.

Last, in terms of the costs of tobacco, the consultation paper cites a Collins and Lapsley (2008) estimate that the net health-care cost from tobacco to be around \$320 million.

In this submission, BATA will not repeat much of the specific taxation recommendations we made in our initial submission. We make this submission to provide further evidence or clarification where necessary on the above points, and to respond to certain claims made by others in the first round. In addition, we seek to address the following specific Consultation Paper questions:

Q11.1 Is it appropriate to use taxes on specific goods or services to influence individual consumption choices, and if so, what principles can be applied in designing the structure and rates of such taxes?

Q11.3 What is the appropriate specific goal of taxing tobacco? Is it necessary to change the structure or rate of tobacco taxes?

¹ <http://taxreview.treasury.gov.au/Content/Content.aspx?doc=html/home.htm>

² http://taxreview.treasury.gov.au/content/submissions/British_American_Tobacco.pdf

³ http://taxreview.treasury.gov.au/content/downloads/consultation_paper/Consultation_Paper.pdf

Q11.4 If health and other social costs represent the principal rationale for specific taxes on alcohol and tobacco, is any purpose served in retaining duty free concessions for passenger importation of these items?

Illegal tobacco and current management of the black market

The term "illegal tobacco" relates to the sale of tobacco outside the government's revenue collection system, and includes 'chop chop' (domestically grown or imported loose leaf tobacco), counterfeit, contraband, duty not paid internet sales, and duty-free diversion. A report by PricewaterhouseCoopers (PwC) in March 2005 estimates that 1 in every 17 cigarettes smoked in Australia is illegal, costing the Commonwealth Government and the community between \$300m and \$450m in lost tax revenue each year⁴.

Therefore despite the National Preventative Health Taskforce (NPHT) claim, in its first round submission to the AFTS review, that "it is essential that we do not let illicit trade become a problem in Australia"⁵, it is clear that it *already* poses quite a serious problem.

Demand for illegal tobacco can be driven by the high price of legal product (and in the case of chop-chop to a lesser extent consumers' incorrect belief that non-processed tobacco is a less harmful alternative to commercially manufactured product). BATA agrees with the AFTS assessment that both the health sector and the industry acknowledge higher taxes on tobacco would increase incentives for illicit trade in untaxed tobacco.

In our first round submission, BATA did not call for a reduction in tobacco excise because;

*"the current regime of tobacco taxation provides certainty for industry, consumers and government, while helping to control tobacco use and providing government with a significant and stable revenue stream."*⁶

In other words, the government has struck the right balance between competing objectives of treasury and health portfolios with respect to tobacco excise.

The lion's share of illegal tobacco is now imported forms of illegal tobacco, since the domestic tobacco growing market was wound up. Customs, therefore, is now the lead agency in the management of illegal tobacco. Recognizing this change, the government is now implementing recommendations of the Productivity Commission in 2008 which aim to simplify the dual responsibilities held by Customs and the ATO with respect to tobacco taxation.

The Australian Government Department of Health, ATO, Customs and Federal Police meet regularly with British American Tobacco Australia, Imperial Tobacco Australia and Phillip Morris Limited as members of the Tobacco Industry Forum (TIF). We regularly share intelligence on the illegal market and discuss anti-illicit trade policy development to manage the black market.

⁴ Pricewaterhouse Coopers: Research report on the illegal tobacco market (March 2005)

⁵ National Preventative Health Taskforce round 1 submission.

http://taxreview.treasury.gov.au/content/submissions/Moodie_Rob.pdf

⁶ http://taxreview.treasury.gov.au/content/downloads/consultation_paper/Consultation_Paper.pdf

It would appear that the NPHT answer to the Illicit Trade challenge is simply to gain international approval for various clauses of the World Health Organization's Framework Convention on Tobacco Control (FCTC).

BATA agrees this protocol could improve the Australian Government's ability to control illicit trade in tobacco. For this reason BATA has long called for international action on illegal tobacco which robs the government of revenue and robs legitimate business of profit.

We are working with Australian Customs and Health delegates in relation to the Framework Convention on Tobacco Control (FCTC) Protocol on Illicit Trade. Annexed to this submission is advice we have provided to delegates to the Intergovernmental Negotiating Body (INB), in advance of the next meeting to be held in Geneva from 28 June to 5 July 2009.

Yet, even if these measures are adopted, the supply of illegal tobacco will continue, for as long as consumer demand is present. If this problem is to be adequately addressed the government must invest in consumer and retailer education.

Even without an ad hoc excise increase beyond current levels, the approaching retail display ban environment will mean all product will be stocked below the counter whereas currently only illegal tobacco is stored there. This new environment will make it easier for sellers of illegal tobacco, and BATA encourages consideration of ways to resolve this unintended consequence.

Beyond advocating Australia sign up to a WHO protocol on illicit trade, the anti-tobacco lobby offers no constructive view in their submissions to the Henry Review on what resources should be applied to Customs and ATO compliance agencies should their position on excise be adopted by the government. BATA's view is that if tobacco excise is increased, a huge concomitant increase in funding for cargo screening and Customs staffing will be required.

Extra resources to manage illegal tobacco.

Some tobacco control advocates, such as members of the National Preventative Health Taskforce⁷ argue in favour of a 7.5 per stick excise increase above the current 25.68c cents per stick.⁸ The Cancer Council call for a further 10c per stick in a "second wave" excise increase (in total up 50% on current excise levels).

Outside the Henry Review process, recognizing the link between price increases and demand for illegal tobacco, some anti-tobacco advocates argue that this can be resolved by extra resources being given to the ATO and Customs. This claim is made without any reference to current enforcement challenges or funding to meet those challenges, or view on the amount of extra funding that would be required.

⁷ See: NPHT round 1 submission to AFTS at http://taxreview.treasury.gov.au/content/submissions/Moodie_Rob.pdf

⁸ As at 1st February 2009, the excise paid per stick on a cigarette containing up to 0.8 grams of tobacco is 25.68c cents per stick. Tobacco products containing more than 0.8 grams of tobacco are charged excise at the weight based rate of 32.10c per kilogram. These rates are subject to an increase in line with the Consumer Price Index, occurring in February and August each year.

It would appear that tobacco control advocates like the NPHT have little understanding of the black market as it stands, and what impact further tax hikes would have. Indeed the NPHT offers no view on what level of extra funding would be required to deal with the huge spike in demand for illegal tobacco that would be created by a significant excise increase on legal product.

In our view, the AFTS panel should be extremely cautious about recommending any increase in tobacco taxes without first exploring the impact this would have on management of the black market. As a first step, the AFTS panel should hold discussions with fellow ATO officers who act as delegates to the Tobacco Industry Forum. The AFTS should seek Customs information on such things as:

- Current resourcing levels (eg cargo screening infrastructure and human intelligence);
- Current illegal tobacco interception rate success;
- Projected demand and supply change resulting from any proposed excise increase; and
- What extra resources would be required to manage this increase.

We note the AFTS panel intends to hold roundtable discussions with industry and other experts until July. BATA strongly recommends that the panel invite the views of Customs and the ATO and preferably hold discussions with these agencies, with or without the involvement of tobacco manufacturers.

Health costs of tobacco

BATA supports the view put by anti-tobacco advocates in their round one submissions to the Henry Review on the health costs associated with smoking. Their key source, a 2005 estimate (published in 2008) by Collins and Lapsley of \$310 million appears to be a reasonable health cost estimate, and is down from \$1.1billion which these authors estimated in 2002.

Economic and social benefits of tobacco

In BATA's first round submission, we provided a summary of the taxation benefits provided by BATA as market leader. Given our business is around 46 percent of the market⁹, a whole of industry figure may be more useful.

This includes¹⁰:

- \$7,636 million in tax revenue collected from the tobacco industry in 2007/08.
- \$5,631 million in excise revenue collected in 2007/08.
- \$850 million in GST revenue collected in 2007/08
- \$666 million collected in company income taxes in 2007/08
- \$322 million collected in personal income tax
- \$137 million collected in payroll taxes in 2007/08

⁹ Exchange of sales data, January 2009

¹⁰ Pricewaterhouse Coopers data 2009

The taxation benefits of tobacco manufacturer taxation provide only part of the picture of benefits. Tobacco wholesalers generate another \$960 million in tax revenue. Around 40,000 retailers rely on tobacco for sales and profitability including flow on effects. The Australian tobacco industry could generate as many as 135,510 jobs and \$11,405 million in income.

Like many businesses, we called for a reduction in the corporate tax rate and for the abolition of state payroll tax in our first round submission. BATA is of the opinion that it is in the interest of the Australian community to maintain domestic production as this provides employment and tax benefits to the Australian community, and simplification of the tax system will assist in that aim.

We note it is important to understand the difference between corporate tax and payroll tax and tobacco excise, which should not all be described in general terms as "tobacco taxes".

Response to round one submissions by third parties

Cancer Council and Heart Foundation round 1 joint submission

In their joint submission¹¹, the Cancer Council and Heart Foundation presented a table that included just 38 of the world's 200 countries and compared the government tobacco tax as a proportion of total price of cigarettes. This table shows, for example, that 67.9% of the price of a pack of cigarettes in Australia is tax, which compares poorly to countries like France which tops the list on 80.4%. This shows Australia ranks in the lowest quarter of those 38 countries selected, beating countries like Uruguay where 59% of the price of cigarettes is tax.

The table fails to show manufacturers' recommended retail prices for an international brand, or GDP per capita per day. Inclusion of this data is vital to form a complete and informed view on how expensive Australian cigarettes are compared to those sold abroad. BATA refers the Henry Review panel to Phillip Morris' round one submission which included a table showing overall price increases.

When one considers the *real cost of cigarettes* (the cost of cigarettes as a proportion of GDP per capita per day), tobacco prices in Australia and France are almost identical. That is, a pack of cigarettes cost roughly 3.49% of a Frenchman's daily income, versus around 3.15% of an Australian's daily income¹² Australia is in no way lagging behind world best practice in this regard.

Of those countries selected by the Cancer Council and Heart Foundation for comparison, Uruguayans in fact pay the highest price for their tobacco in real terms. A pack of cigarettes in Uruguay costs the average local around 9.39% of their daily wage.

¹¹ Cancer Council and National Heart Foundation round 1 joint submission:

http://taxreview.treasury.gov.au/content/submissions/Cancer_Council_and_National_Heart_Foundation.pdf

¹² data from Tobacco Atlas, CIA world factbook

The Cancer Council and Heart Foundation cites the World Bank as a source¹³ that recommends the price of all tobacco products should rise by at least 5% per year in real terms. Increasing excise duty by 7.5 cents per stick, or a 21% increase in overall price, would restore cigarettes to the price they would have been had Australia followed this policy since 1999.

It is worth quoting the World Bank¹⁴ directly;

"Rather than attempt to suggest an optimal tax level, this report proposes a more pragmatic approach: to observe the tax levels adopted by countries with comprehensive and effective tobacco control policies. In such countries, the tax component of the price of a pack of cigarettes is between two-thirds and four-fifths of the total retail cost. These levels can be used as a yardstick for proportionate increases in prices elsewhere."

Momentarily setting aside the fact that Australian cigarettes are not cheap in real terms (see above), Australia's tax as a proportion of total cigarette cost is already around 70% including GST (or around two thirds the total cost). Australia is therefore within the range recommended by the World Bank as the yardstick for other countries. Clearly, the World Bank recommends other countries catch up to Australian levels of taxation.

Moreover, the World Bank advises the adoption of non-price measures to reduce demand: consumer information, bans on advertising and promotion, and smoking restrictions, all of which are in place in Australia.

National Preventative Health Taskforce (NPHT) round 1 submission¹⁵

Professor Moodie claims that "Cigarettes in Australia are less costly than they are in many other countries, and their price has not kept pace with the price of many other products and services. In Australia, taxes on cigarettes are very low as a proportion of total price; low tax rates contribute to the overall low price of the product."

Australian cigarette prices are high, and our taxes are within the band recommended by the World Bank and are indexed to CPI.

As mentioned above, in real terms, Australian cigarette prices compare favourably to overseas nations.

¹³ World Bank. Curbing the Epidemic: Governments and the Economics of Tobacco Control. Washington: World Bank, 1999. Available from: <http://www1.worldbank.org/tobacco/>

¹⁴ <http://www1.worldbank.org/tobacco/chapter4.asp>

¹⁵ http://taxreview.treasury.gov.au/content/submissions/Moodie_Rob.pdf

Considering the addition of manufacturer price increases *in addition to* CPI adjusted tax increases, over the past 20 years tobacco prices have increased each year by approximately 4.3% more than average prices. Australia has had twice yearly increase in tobacco taxes for over a decade and it is shown that when cigarette prices rise in the legal market, sales fall partly because smokers substitute smuggled cigarettes for legal ones.

Professor Moodie and the NPHT also claim that *"Analysis of the impact of different interventions on monthly smoking prevalence in Australia's largest states has found that the costliness of cigarettes has the most powerful affect on behaviour patterns."*

According to the Cancer Institute NSW's report¹⁶ on independent polling commissioned in 2007, only 7% of respondents claim that the cost of cigarettes is the main reason to quit smoking. By contrast 57% of respondents cite health reasons. Therefore, in BATA's view, the government is correct to focus on educating smokers about the risks of consumption so they can continue to make informed choices about smoking.

Professor Moodie and the NPHT propose the following actions to raise the cost of cigarettes:

- *restore Australian cigarette prices to levels in line with World Health Organization recommendations by increasing excise and customs duty by 7.5 cents per stick;*
- *increase excise and customs duty to ensure that the price of an average packet of 30 cigarettes is no lower than \$20.*

The FCTC is the world's first public health treaty, and requires parties to adopt a comprehensive range of tobacco control measures.

Australia leads the world in tobacco control, and represents the yardstick for other nations.

With respect specifically to taxation, the FCTC requires signatories to "implement tax policies, and where appropriate, price policies so as to contribute to the health objectives aimed at reducing tobacco consumption, and prohibit or restrict duty-free sales to international travellers."¹⁷ There is no requirement for each nation to increase taxation by any specific amount, and we have already restricted duty free sales. The WHO has never advised Australia to "increase tobacco tax by 7.5c per stick".

¹⁶ See extracted table annexed to this submission

¹⁷

<http://www.heartfoundation.org.au/SiteCollectionDocuments/Tobacco%20Control%20Treaty%20Cancer%20Forum%20article.pdf>

Tobacco control advocates have not referenced WHO advice that Australia should increase tax by 5%. BATA agrees some sources advocate that price (including both tax and manufacturers' price increases) should rise by that amount. In light of this, the *overall price* of the product should be the focus of regulation. Given the different prices that apply in different countries, a focus on the percentage of price that is tax is somewhat meaningless.

The Tobacco Atlas referenced by tobacco control groups in round one submissions is a 2006 document and has been superseded. Likewise the WHO Policy Recommendations predates FCTC and the MPOWER report which contains the WHO policy recommendations. Most note that increasing tax will be most effective in low to middle income countries. The MPOWER document recommends (at page 27): 'increase tax rates for tobacco products and ensure that they are adjusted periodically to keep pace with inflation and rise faster than consumer purchasing power.' The Henry Review should note this already occurs in Australia.

In November 2008, the third Conference of the Parties to the FCTC (COP 3) agreed, with respect to Article 6 on pricing, to develop a technical report. The report on price and tax policies will be debated at COP 4. If the NPHT advises Australia to follow the advice of the WHO with respect to tobacco taxation, it should await the outcome of the COP 4.

Response to specific Consultation Paper questions

Q. Is it appropriate to use taxes on specific goods or services to influence individual consumption choices, and if so, what principles can be applied in designing the structure and rates of such taxes?

As Australia indicated in our round one submission, BATA does not support taxation to engineer social change for a range of reasons, not least because there are more effective means. Further, according to recent community attitude polling, regulation of this sort is seen by the public as a revenue grab, and a "quick fix" rather than addressing the real issues.

Australia's experience with an ad hoc excise increase for pre-mixed drinks holds lessons for government considering similar excise change for tobacco or other excisable products.

The increase in the "alcopop tax" was implemented, in a rushed manner, such that its effectiveness is now in question. For example this excise increase was implemented without a rigorous policy approach that included a suite of other binge-drinking measures or comprehensive Treasury modelling, particularly of substitution for Ready To Drink (RTD) beverages, to avert unintended consequences such as an increase in consumption of unmixed full-strength spirits;

The reactionary nature of this excise increase denied the Government the opportunity to attract bi-partisan support to and secure its passage through the Senate, and instead the episode has undermined the new Government's economic

management credentials; and it pre-empted the deliberations and findings of the Henry Review of the tax system.

The RTD excise change should have been deferred until after the Henry Review made its recommendations, as it pre-empts broader policy considerations. Any attempt by the Government to raise further taxes to influence consumer behaviour, ahead of the findings of the Henry Review are also likely to damage the Government, fail to garner sufficient support in the Senate and undermine its societal change agenda.

As far as principles to rely on fixing an appropriate tobacco tax rate is concerned, the government should have regard to World Bank advice. Australia's 70% tobacco tax falls squarely in the 60% to 80% range advocated by the World Bank as appropriate.

Q What is the appropriate specific goal of taxing tobacco? Is it necessary to change the structure or rate of tobacco taxes?

From a whole of government point of view, the goal of tobacco taxation is to cover health costs associated with a product, potentially maximize consolidated revenue beyond recouping health budget costs, whilst avoiding unintended consequences.

It is not necessary to change the structure or rate of tobacco taxes. The current system is optimal since it provides certainty for industry, consumers and government, while helping to control tobacco use and providing government with a significant and stable revenue stream.

The current system recoups tobacco-related health costs and delivers extra revenue to government. It ensures tobacco products are not too cheap (meeting World Bank recommendations for taxation).

The aim of reducing tobacco smoking incidence through taxation represents bad policy given only 7% of quitters are influenced by 'price' factors.

Increased taxation could invite a raft of negative consequences including:

- increased consumption of illegal tobacco and worse public health outcomes;
- maximized black market trade which already robs the community of \$450m p/a;
- creation of an extra burden on Customs and other compliance agencies;
- a boost in profits of criminal syndicates that run the black market;
- electoral unpopularity with the 24% of Australians who are at least weekly smokers; and
- a disproportionate impact on lower socioeconomic groups.

In BATA's view, a change to the structure or rate of excise would represent a departure from the current optimal system, and should not be pursued.

Q. If health and other social costs represent the principal rationale for specific taxes on alcohol and tobacco, is any purpose served in retaining duty free concessions for passenger importation of these items?

Abolishing duty free concessions for tobacco products will put Australia at an international competitive disadvantage.

Through duty free concessions, international visitors spend money in Australia.

For Australia to remain internationally competitive our duty free tourist shopping arrangements must be comparable to other international schemes.

Removing duty free tobacco concessions will therefore place Australia at an international competitive disadvantage.

Tourist shopping is a significant component of the economic impact of tourism.¹⁹ Shopping is rated the third favourite activity for tourists visiting Australia, while duty free sales account for over 45 per cent of tourist shopping (in Australia).

Duty free shopping is also critical to Australia's international airports. Over 65 per cent of total airport revenues derive from non-aeronautical revenues, with duty free concessions typically being the largest source of non-aeronautical revenue at Australian international airports. In 2006-07, Sydney Airport alone generated over \$169 million in retail revenue, representing 23 per cent of its total revenue.

Duty free tobacco sales are therefore critical to Australian tourism exports and non-aeronautical revenues of Australia's major privatised airports.

The public health benefit of abolishing the duty free tobacco concession is negligible, but the costs imposed on Australian industry are significant.

Duty free tobacco sales equate to approximately 1% of Australia's total industry volume. It is therefore inefficient to target such a tiny proportion of overall tobacco consumption via duty free concessions – the impact on public health will be negligible.

However, removing duty free tobacco concessions will cause international travellers to purchase tobacco products (and ancillary sales) in another jurisdiction (rather than in Australia). This will have a material impact on Australian businesses (with no commensurate impact on smoking rates).

Both the Australian Duty Free Association and the Nuance Group Australia have raised concerns about the impact of removing duty free tobacco concessions.

¹⁹ Tourism is a significant industry and a major contributor to the Australian economy, generating 3.7 per cent of national GDP, 4.7 per cent of total employment and 10.4 per cent of Australia's exports. The value of tourism exports (\$22,350M) is close to the entire value of rural goods (\$25,135M), greater than coke, coal and briquettes (\$22,021M) and only trails metal ores and minerals (\$35,219M) on export value. In 2006-07, the retail industry (visitors consuming retail goods) accounted for 19 per cent of tourism's gross value added (ABS).

Given the health impacts will be negligible but the costs imposed on the international travelling public, Australian businesses and jobs will be significant, there is no net benefit associated with removing duty free tobacco concessions.

Conclusion

The recommendations of the AFTS review are crucial to the development of sound policy that considers whole of government impacts of tobacco-specific regulation.

BATA is pleased that the December 2008 consultation paper has recorded agreement amongst all stakeholders about the threat of the black market increasing in response to a potential change to the rate or structure of excise.

We support the view of the tobacco control community that Australia should ratify the Anti Illicit Trade protocol of the Framework Convention on Tobacco Control, but warn that this alone is not an adequate response to the potential growth of the black market should excise be increased.

We suggest the AFTS panel holds discussions with Customs and Tax Office compliance officers to form a view on the size of the current problem, and what sort of extra resources would be required to deal with a demand spike that would occur as a result of a large excise hike.

We refer the panel to the fact that our excise levels are considered world "best practice", and point to evidence that price increases would not influence smoking cessation, as proved by Health NGO research.

BATA warns that some evidence provided in first round submissions on Australian tobacco taxation may be misleading, and urge the AFTS panel to consider current prices (including both tax and other price factors). Analysis shows that Australian tobacco prices are amongst the highest in the world.

BATA contends that the current tobacco taxation system is optimal because it covers the health costs associated with a product, and maximizes consolidated revenue without providing incentives to black marketers. In our view, increased taxation could invite a raft of unintended consequences.

With respect to the AFTS further question on duty free sales, BATA's view is that such a ban could:

- put Australia at a competitive disadvantage globally;
- impact the Australian tourism industry which is already under significant pressure; and
- offer little public health benefit considering this channel is only 1.6% of total sales.

BATA would be happy to discuss any of these issues with the AFTS panel further.

* * *

Annexures

- FCTC protocol advocacy: tax, duty free, free trade zones, track and trace.
- Cancer Institute NSW Monograph: NSW smokers' attitudes and beliefs, changes over three years, February 2008 (p35)

BALANCING TAX & HEALTH POLICY IN THE FIGHT AGAINST ILLICIT TRADE

Illicit trade exists because of the economic opportunity it offers to the smuggler and illicit vendor to make money, and for the consumer to save money. Put simply, motivation for illicit trade occurs where there are economic benefits to be obtained and these are perceived to outweigh the risks involved.

The benefits arise when a product can be supplied at a lower price by avoidance of applicable taxes than the price at which it can be supplied legitimately. For the illicit trader, profit comes from smuggling product that has not had tax paid, or when product purchased in a 'low' tax country is smuggled into a 'high' tax country. Such tax differentials arise because governments have different economic, health and fiscal policy objectives.

WHY IS ILLICIT TOBACCO SUCH A PROBLEM?

There are drivers of smuggler and consumer behaviour for many product categories, including pharmaceuticals, oil, electrical goods, cars, wine and spirits, mobile phones, perfumes, toothpaste, soaps, detergents and even nappies. Tobacco products, however, are particularly attractive to illicit traders for three main reasons: they have a high value to volume ratio, they are relatively easy to transport, and they offer a higher profit opportunity than most other fast moving consumer goods because tax represents a significant proportion of the retail price.

For example, just one shipping container of cigarettes (holding 8.5 million cigarettes) smuggled into the UK can net the smuggler around £1 million in profits even if they are duty paid elsewhere and the cigarettes are sold at a discount of 50% to the normal retail price.

WHAT HAPPENS WHEN PUBLIC POLICY IS NOT BALANCED EFFECTIVELY?

It is accepted practice for governments to use fiscal measures to meet their various policy objectives including bringing about changes in consumer behaviour. It is natural therefore for governments seeking to reduce tobacco consumption to increase tax on tobacco products, and this is one of the provisions in the WHO FCTC treaty to which most of the world's governments are party.

British American Tobacco believes that to address the growing global illicit tobacco trade, governments must seek more alignment between their tax and health policies to avoid unintentionally providing incentives for criminals. We also believe that raising tax rates to reduce tobacco consumption without committing extra funds for increased enforcement will see government policy intentions undermined.

There is an increasing body of global evidence to demonstrate the unintended consequences of tax and health policy imbalances. Many consumers, instead of quitting smoking, are looking for cheaper sources. The illicit trade in tobacco products is now estimated to be between 5 -10% of the global tobacco market or approximately 300 to 600 billion cigarettes representing \$20-30 billion in lost revenue per annum to governments. This undermines government health policy but also greatly distorts a country's economic and social balances.

The biggest problems occur when governments 'shock' the economy with huge unexpected increases in taxation and consumers switch to cheaper illicit products. Gradual year on year increases in taxation in tune with inflation tend to avoid the problem.

Some examples of tax and health policy imbalances that have led to an increase in illicit trade:

In **Hungary**, when joining the EU, a significant increase in tobacco taxation was foreseen to comply with the EU requirements until January 2009, and an increase scheme was scheduled in 2002. However, between August 2002 and January 2004, the government increased excise by 94.5%. As a result, the legal market decreased by 20% in 2004 and another 8% in 2005, and was replaced by smuggled cigarettes mostly from the Ukraine. Due to a change to a moderate tax policy in 2005 of gradual increases since then, the illicit inflow dropped to 7-8% of the consumption.

In **Canada**, there were significant tax increases in 1989, and particularly in 1991, as part of a 'National Strategy to Reduce Tobacco Use in Canada'. Over the period 1989 to 1991, the retail price of a carton of 200 cigarettes rose from C\$26 to C\$48. As a direct consequence of the tax increases, by 1992 contraband tobacco accounted for an estimated 50% of the market in Quebec and about 20% of the total Canadian market. By early 1994, those percentages had risen to 60% and 40% respectively. An extensive range of anti-smuggling measures was implemented in 1992 and 1993. In February 1994, the federal government introduced a *Government Action Plan on Smuggling* in co-operation with certain provinces that, among other things, rolled back federal taxes. After the tax cuts, the price of a carton dropped to C\$25-26.50.

In 1991, the **Hong Kong** Financial Secretary proposed that, for health reasons, the duty on cigarettes should be increased by 200% "with a particular view to reducing the attractiveness of smoking to young people". Following widespread protests the increase was limited to 100%. Subsequent tax increases during the 1990s were between 6% and 10%, although in 1994 there was no increase. Sales of Hong Kong duty paid cigarettes were more than halved and fell from 7.34 billion in 1989 to 3.43 billion in 1998. However, the fall in sales of legal duty paid cigarettes did not mean overall consumption was falling at the same rate. In fact, the Hong Kong Government figures showed an increase in the number of smokers, with consumption per smoker unchanged. On 3 March 1999, the Financial Secretary to the Treasury announced that the duty would not be increased. He said: "*For many years the government has been pursuing an anti-smoking policy in the interests of public health. However, statistics reveal that the sale of duty-paid cigarettes has been on a falling trend since 1992 without a corresponding decline in the number of smokers. The smuggling and illegal sale of cigarettes accounts for this gap.*"

In the EU, *Council Directive 92/79/EEC* requires a 57% minimum excise on cigarettes in the most popular price class in each Member State. Although the tax on cigarettes in **Sweden** was amongst the highest in the EU, excise duty was raised by 25% in January 1997 and by a further 29% in August 1997 in order to meet the minimum. The result was an overall excise tax increase of 62.5%. Contraband sales increased rapidly after the tax increases. By the end of 1997, a major loss in tax revenues was apparent, with actual revenue of SEK7.69 billion (€ 0.9 billion), or SEK2.30 billion (€ 0.3 billion) below budget. The Swedish Trade Federation held public excise tax hearings on 5 March 1998. It was acknowledged that the tax increases had triggered an upsurge in contraband and facilitated the operations of organised crime. The April 1998 Budget proposed to reduce the tax on cigarettes, and the cuts were implemented on 1 August 1998. The tax cut was successful in its aim of stabilising the revenue base.

Throughout the 1990s successive Governments in the **UK** implemented a health based tax policy, focused on increasing the rate of tobacco taxation way above the general rate of inflation. The aim of the UK Government policy was to reduce tobacco consumption. The non-UK duty paid cigarette market grew rapidly from an estimated 8% in 1997, to an estimated 16% in 1998 and reached an estimated 25% in 1999, without significant decrease in the last ten years. An estimated 80% of hand rolling tobacco consumption in 1999 did not bear UK tax, although most of this tobacco was legally purchased within the EU Single Market, where all applicable taxes were paid. Rather than going up, the excise tax revenue (excluding VAT) from tobacco goods in the UK fell from £8.2 billion (€ 13.5 billion) in the year ended March 1999 to £5.7 billion (€ 9.5 billion) in the year ended March 2000, and has not changed significantly since then.

In the **EU**, the highest taxed region of the world, dramatic tax increases took place in 2000 in **France, Ireland, and Germany**. As a consequence, cross border trade, both legal and illicit, went up to 25 - 28% in UK, 20 - 25% in Ireland, 21 - 26% in France, and 21 % in Germany. In the EU, according to the Commission, 12-13% of the total cigarette consumption does not have duty paid in the country of final destination, out of which 8-9% is illicit. The amount of smuggled cigarettes is around 100 billion sticks. The revenue loss to governments is estimated to be € 10 billion. In **Norway** – which is not a member of the EU and has the highest taxes and prices – illicit trade is currently reaching 40%.

WHAT CAN BE DONE?

We believe that government tobacco taxation policy needs to ensure that the following elements are taken into consideration:

- The need for reliable revenue flows for the government;
- The propensity and opportunity for consumers to purchase from alternative sources;
- The health concerns of the society;
- The need to avoid excise driven price shocks that push consumers to seek alternatives;
- The tax bearing capability of different product categories;
- The cross border price gaps with neighbouring countries and areas;
- Levels of illicit trade in a market and in its immediate neighbours;
- The profitability of all business participants.

For further information please contact: Bede Fennell, Head of Public Affairs, 02 9370 2566

March 2009

BRITISH AMERICAN TOBACCO'S VIEWS ON DUTY FREE IN THE FCTC PROTOCOL

The majority of the world's governments are currently involved in developing an international treaty – a Protocol – to combat the illicit trade in tobacco products. This is a good thing and is strongly supported by British American Tobacco.

When completed, the *WHO FCTC Protocol on the Illicit Trade in Tobacco Products* will create an international legal framework for supply chain security, international co-operation and enforcement relating to movements of tobacco products, and it will most likely act as a precedent for other products that are smuggled and counterfeited.

CONTEXT

The WHO Framework Convention on Tobacco Control (FCTC) entered into force as international law in February 2005. Article 6.2(b) says that “...each Party should...adopt measures which may include: (b) prohibiting or restricting, as appropriate, sales to and/or importation by international travellers of tax and duty free tobacco products.”

Each FCTC Party therefore has an obligation to implement the above provision in terms of its own national choice and policy agenda. However, as part of the current development of an FCTC Protocol on the Illicit Trade in Tobacco Products, duty free emerged onto the agenda at the second Protocol negotiations (INB2 October 2008) with views ranging from Protocol text to include a complete ban on duty free, to a simple reminder of the provisions of FCTC Article 6.2. It is expected therefore that duty free will feature in the new draft of the Chairperson's text to be negotiated at INB3 (June 29 – July 5, 2009).

DUTY FREE IN THE PROTOCOL PROVISIONS

In our view, the issue of duty free is best included along with provisions applicable to all tobacco products in the supply chain rather than being separately treated.

Therefore in the *Supply Chain Security* part of the draft Protocol we recommend that:

- The Protocol's Licensing provisions include that all **retail duty free outlets should be licensed**; and
- The Protocol's track and trace controls should be applicable to **duty free products** in the same way that they to other domestic tobacco production.

SIZE OF THE GLOBAL TOBACCO DUTY FREE MARKET

It is clear from INB2 that there is confusion among negotiators as to what is actually meant by duty free and this has led to often disproportionate statements.

The total global duty free and travel retail market for tobacco is estimated at 55 billion cigarettes, representing approximately 1% of total world volume - a tiny proportion of overall consumption.

Of the above, it is estimated that approximately 45% is sold through airport and airline retailers, 25% through border shops, 20% through ships' cargo stores and ship chandlers, 5% through ferries and 5% through military, diplomatic, railways and downtown outlets.

OUR ACTIONS TO REDUCE ILLICIT TRADE IN THE DUTY FREE AREA

British American Tobacco applies rigorous controls on the supply of duty free product. We maintain robust processes and procedures which are frequently audited.

Appropriate controls and procedures directed toward ensuring compliance with our policy are implemented in all Group companies. These include effective 'know your customer' controls; guidelines aimed at achieving supplies consistent with legitimate demand to markets and regions; and procedures for investigating and, where appropriate, suspending or terminating sales to customers suspected of knowing or reckless involvement in illicit trade activities.

In addition, an internal whistle blowing procedure is in place to encourage employees, contractors, agency staff, temps and trainees to report confidentially any wrongdoing at work with regard to this issue. Reprisals to the whistle blower are forbidden and the procedure is operated on behalf of the Audit Committee of the Board of British American Tobacco, and is independent of management.

POSSIBLE ACTION FOR INB DELEGATES

In the pre INB3 working groups and at INB3 in June, ensure that duty free is included along with provisions applicable to all tobacco products in the supply chain, rather than it being separately treated.

For further information please contact: Bede Fennell, Head of Public Affairs, 02 9370 2566

March 2009

THE IMPORTANCE OF INCLUDING OVERSIGHT OF FREE TRADE ZONES IN THE WHO FCTC PROTOCOL ON ILLICIT TRADE

The majority of the world's governments are currently involved in developing an international treaty – a protocol – to combat the illicit trade in tobacco products. This is a good thing and is strongly supported by British American Tobacco.

When completed the *WHO FCTC Protocol on the Illicit Trade in Tobacco Products* will create an international legal framework for supply chain security, international co-operation and enforcement relating to tobacco product movements, and it will most likely act as a precedent for other smuggled and counterfeited products.

Free Trade Zones (FTZs) are special areas of a country where goods may be landed, handled, manufactured or reconfigured and then re-exported without the intervention of the customs authorities. They provide a free trading environment, whereby a minimum level of regulation is demanded of those companies approved to operate within them. The benefits include exemptions from duty and taxes, simplified administrative procedures and duty free imports of raw materials, machinery, parts and equipment. Permitted activities include the storing, assembling, packaging and manufacturing of goods, principally for export. Disclosure requirements are generally minimal. The areas range in size from single warehouses to massive complexes comprising hundreds of businesses, as well as whole harbours.

FTZs are set up to facilitate free trade and British American Tobacco recognises the important role they play in delivering that global aim. The unfortunate fact, however, is that criminals are using FTZs for illegal purposes - to smuggle genuine goods and to process a wide range of illicit products, including tobacco products. Enforcement of customs procedures and laws within FTZs is problematic and although an unintended consequence FTZs have become safe havens for criminal activity.

At the second international negotiation of the FCTC Protocol text (INB2) in October 2008, special mention of the oversight of FTZs was introduced into the draft Protocol text by negotiating governments, requiring that all regulatory provisions of the Protocol are also applicable to FTZs. British American Tobacco calls on all governments to support and strengthen these provisions at INB3 taking place 29 June to 3 July in Geneva.

THE OECD & WCO SUPPORT INCREASED OVERSIGHT OF FTZs

In its 2007 report *The Economic Impact of Counterfeiting & Piracy*, the OECD (Organisation for Economic Development and Co-Operation) specifically states that the lack of controls in FTZs has made them attractive locations for criminals engaging the production of counterfeit products and the transit of both smuggled genuine and counterfeit products. It says that the illicit traders use the areas in three different ways:

- “ Parties import counterfeit goods into the areas and store them in warehouses, from which the items are subsequently re-exported. Passing the merchandise through the areas allows the parties concerned to "sanitise" shipments and documents in ways that disguise their original point of manufacture or departure; they also allow the parties to essentially establish distribution centres for counterfeit goods, with little or no risk of IPR-related enforcement actions being taken.
- Parties import unfinished goods and further process them in the free trade areas, often adding counterfeit trademarks and/or repackaging or re-labelling goods, prior to the items being exported as finished counterfeit goods to other countries.
- Finally, free trade zones have been used to manufacture counterfeit goods.”

The WCO *Guidelines on Controlling Free Zones in relation to Intellectual Property Rights Infringements 2005* includes various recommendations for governments with respect to FTZs. Recommendation no 3 states: "...Customs should be empowered to carry out controls in Free Zones and this should be laid down in the national legislation... Customs should be equally empowered and have the right to control at any time the goods stored in the free zone and also the businesses operating within the zone and the activities that take place there. It is important for Customs Administrations not only to have the right to control, but also to exercise that right... in order to ensure that legitimate trade is facilitated and to root out and frustrate illegal trade that is in violation of national prohibitions and restrictions, such as those breaking IPR legislation."

TRANS-SHIPMENTS and GOODS IN TRANSIT

Both the OECD and the WCO raise concerns as to the lack of controls and enforcement of goods in transit. The OECD says very often "goods in transit are specifically excluded from the prohibitions relating to counterfeit goods, which mean that they cannot be intercepted." It advises that illicit traders are constantly altering shipping routes to avoid detection and that transshipment remains a serious problem. Goods are shipped to one location where they are stored in large warehouses for breaking down and onward movement in smaller orders and criminals break down shipments so that products come in one consignment and labels and packaging materials in another enabling them to be assembled and re-shipped with different documents. Where laws are in place empowering customs officials to intercept illicit products, the volumes of containers passing through the country complicate enforcement efforts. For example the Port of Colon in Panama handles 1.9 million containers per year, 80% of which represent transshipments.

POSSIBLE ACTIONS FOR INB DELEGATES

In the pre-INB3 working groups and at the June meeting itself negotiating governments can ensure that reference to the problem of FTZs and goods in transit are included in the text and enforcement measures are strengthened accordingly. There is also the opportunity to support those governments that spoke up on this issue at INB2 (Rwanda, Comoros, the EU and others including NGOs).

The illicit trade in tobacco products is estimated to be between 5 and 10% of the global tobacco market or approximately 300 to 600 billion cigarettes – and is equal to \$20-30 billion in lost revenue per annum to government. Lack of enforcement in FTZs is a big part of the problem. If the Protocol specifically includes oversight of FTZs it will go a long way to ensuring that governments have the necessary legal provisions to provide for enhanced enforcement capacity to address this large and growing global problem.

For further information please contact: Bede Fennell, Head of Public Affairs, 02 9370 2566

March 2009

Glossary of Terms often used with this issue

Bonded warehouse is a [warehouse](#) in which goods (on which the duties are unpaid) are stored under bond and in the joint custody of the importer, or his agent, and the customs officers.

Customs union (CU) is a [free trade area](#) with a [common external tariff](#).

Economic production zone (EPZ) or Export processing zone (EPZ) – same as a free trade zone

Free trade area (FTA) is a designated group of countries that have agreed to eliminate [tariffs](#), [quotas](#) and preferences on most (if not all) [goods](#) between them.

Free trade zone (FTZ) is one or more areas of a country where [tariffs](#) and [quotas](#) are eliminated and bureaucratic requirements such as customs inspection are lowered in the hope of attracting new business and foreign investment. FTZs are labour intensive manufacturing centres that involve the import of [raw materials](#) or components and the export of finished products.

Trans-shipment or goods in transit is the [shipment](#) of [goods](#) to an intermediate destination, and then from there to yet another destination. A major reason is to change the [means of transport](#) during the journey for example from [ship transport](#) to [road transport](#). Much international trans-shipment also takes place in designated [customs areas](#), thus avoiding the need for customs checks or duties.

TRACK & TRACE – SUPPLY CHAIN SECURITY KEY POINTS IN DEVELOPMENT OF THE FCTC PROTOCOL

Tracking and tracing is a key part of the Supply Chain Security section of the developing draft *FCTC Protocol on the Illicit Trade in Tobacco Products*. British American Tobacco supports the track and trace provisions in the Protocol and seeks to work with implementing governments to ensure provisions are as workable and effective as possible.

However, there is much confusion around what is specifically meant and understood by tracking and tracing. It often appears to be confused with two very different but related security elements - product authentication and fiscal verification. Part of the problem is in understanding the differentiation between what requires international coordination and what is purely domestic in nature. Tracking and tracing is included as an element of an international treaty because it requires cross border co-operation to ensure that products can be tracked and traced successfully and efficiently **across international frontiers** through global supply chains. Fiscal verification and product authentication do not have the same requirements.

The scope of the tracking and tracing requirements in the draft Protocol is another indicator of the international dimension as distinct from the domestic focus of fiscal verification and product authentication. The provisions relate not only to the tracking and tracing of finished tobacco products, but also to their "key inputs" (materials) and the manufacturing equipment used to make them.

We believe that the Protocol **negotiators must provide clarity between the three issues** so as to avoid confusion and unintended regulatory consequences. For example, if a government implements a fiscal verification system, or a product authentication system labelled as a tracking and tracing system it will not provide for the tracking and tracing of tobacco products through the supply chain and therefore will not meet the objectives of Protocol in terms of supply chain security.

THREE SEPARATE BUT RELATED ISSUES

Track and Trace is the ability to track the forward movement of tobacco products through the supply chain and trace backwards to the point of departure from the legitimate supply chain should illicit products be found.

Fiscal Verification is the ability by government authorities to ensure that all taxes and duties are paid on tobacco products. This is an issue of domestic concern. National authorities need to ensure that they receive the correct duties and taxes for tobacco products within their jurisdictions so as to maximise revenue. In the context of illicit trade this is about ensuring those outside the tax net – the criminal illicit traders – are required to pay the taxes and duties in the same way that legitimate manufacturers already do.

Product Authentication is the ability to determine what is counterfeit and what is genuine when illicit product is seized. This relates to the protection of trademarks by their owners.

MEETING THE PROTOCOL OBJECTIVES ON TRACKING & TRACING

In order to meet the evolving track and trace standards required by the Protocol and to meet the needs of any early adopter governments, British American Tobacco is currently working actively to enhance its tracking and tracing capability. We have established a global Track and Trace Project Team which is seeking to put in place all the operational and technical requirements through a pilot project. We expect to trial our enhanced track and trace methodology by mid 2009, and we are happy to discuss details of the project should it be of interest.

Our solution:

- Will enable relevant authorities to access **data via a common entry point** allowing the tracking of tobacco products from British American Tobacco's distribution warehouses to the point where they are sold to the first external customer, and to similarly trace back to any point of departure from the legitimate supply chain.
- Will use a **common approach** with other major tobacco manufacturers based on open data standards, to facilitate easy use for the relevant authorities, regardless of whether or not they know who the brand owner is. In practice, this means that while each manufacturer may use different IT platforms and have different manufacturing footprints, in some areas, such as database access and coding standards, the approach will be a common one. This also enables all manufacturers, large and small, to participate.

At present products made by British American Tobacco carry codes for unique identification at pack level for product recall purposes. These codes carry information including the origin of the product, date of manufacture, production shift, manufacturing site, machine of manufacture and intended retail market for sale.

FISCAL VERIFICATION AND PRODUCT AUTHENTICATION

Fiscal Verification

Depending on local government tax collection requirements, tobacco products either: 1) carry distinctive **visible overt markings** that carry the value of the tax due (such as tax stamps); or 2) provide **excise guarantees** to the government to cover the amount of the tax due on manufactured tobacco products held in a tax warehouse and which are then audited and inspected by customs. In both tax collection methods, British American Tobacco abides by the law and pays the required taxation to governments commensurate with volumes manufactured.

Because **physical tax stamps can be counterfeited, lost or stolen**, there is a greater need to ensure the security of tax stamp methodologies. Along with other major tobacco manufacturers, we are evaluating the potential for using a secure digital tax stamp (DTS) as an alternative to paper based stamps where national governments deem that additional or alternative security may be necessary.

The major issue with respect to fiscal verification is to **bring criminals and tax evaders inside the tax net** to maximise revenue flows to governments.

Product Authentication

Since May 2005 all British American Tobacco's international brands have been marked covertly, enabling us and enforcement authorities **to distinguish whether any seized product is smuggled genuine product or counterfeit**, by scanning it at time of seizure. We are investigating the possibility of extending the use of covert devices to local brands where it is believed that this will assist in the detection of counterfeit. We continuously look at innovations in the market that may enhance this capability.

We believe that **any successful product authentication devices need to be covert**, and as product authentication is a brand protection issue, we believe that the brand owner should determine the choice of what is appropriate and the specific technology to be used.

POSSIBLE ACTIONS FOR DELEGATES

In the pre-INB3 working groups and at INB3 in June, we ask delegates to ensure:

- That the Protocol text makes very clear what international standards on tracking and tracking are, so as to differentiate clearly from the other the separate goals of fiscal verification and product authentication; and
- That key inputs and manufacturing equipment are included in the Protocol text.

Illicit trade is an issue that manifests itself differently in each country, and addressing it requires different approaches depending on the specific issue in each country - whether the country is one where illicit product is smoked or one where it is produced, or one where it passes through en route to its destination. We believe we can assist governments by first helping them identify the specific nature of the problem they actually face, and then identifying what could be the most effective solution, or combination of solutions. This may relate to track and trace technologies and standards, to product authentication or to the methods of tax collection. Should governments require additional information on any of these activities, we are happy to provide it.

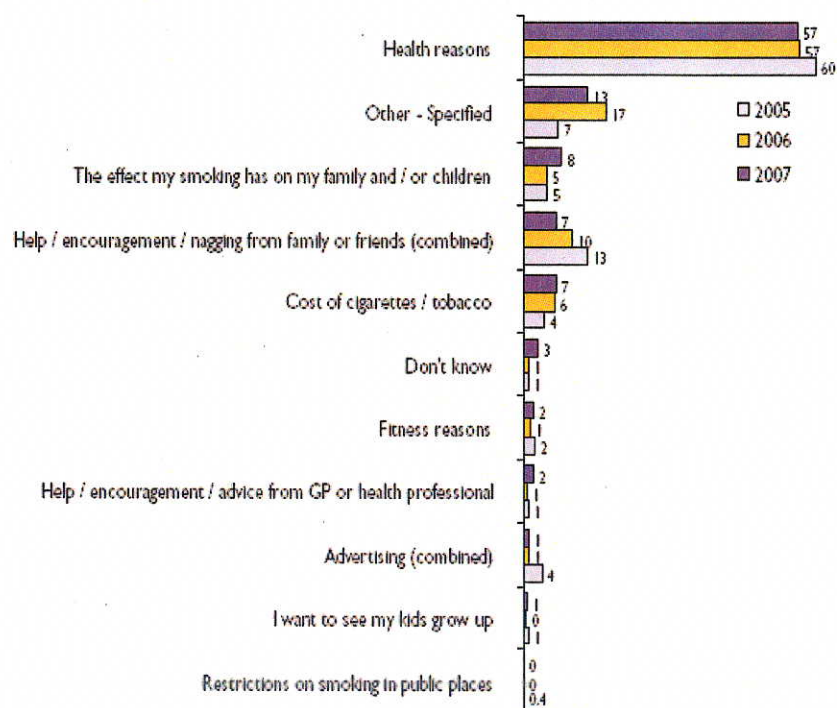
For further information please contact: Bede Fennell, Head of Public Affairs, 02 9370 2566

March 2009

Cancer Institute NSW Monograph: NSW smokers' attitudes and beliefs, changes over three years, February 2008 (p35)

Among those who no longer smoke, the single main influence on their decision to quit continues to be health, as indicated in Figure 27.

Figure 27 Main influence for last quit attempt – ex-smokers. (unprompted, %, 2005: single response, 2006: main reason)



Base: 2005: n=281, 2006: n=277, 2007: n=256; used to smoke at least once/week, currently not at all. Due to fieldwork error, Q3.7b recorded as single response in 2005.