



Illicit Tobacco in Australia 2023

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EXPERTS WITH IMPACT™

Table of Contents

Contents

Disclaimer.....	4
Acronyms and Abbreviations.....	5
Glossary.....	7
Executive Summary.....	9
1 About this study.....	14
1.1 The impact of illicit tobacco in Australia.....	14
1.2 Purpose of this study.....	14
1.3 Context for the 2023 study.....	15
1.4 Structure of this report.....	21
2 Australian Tobacco Market Estimation.....	23
2.1 Components of the tobacco market measured in this study.....	23
2.2 Methodology for estimating legal tobacco.....	24
2.3 Methodology for estimating illicit tobacco.....	25
3 Legal Tobacco Consumption.....	28
3.1 Total legal tobacco.....	28
3.2 Legal domestic consumption.....	28
3.3 Legal non-domestic consumption.....	30
3.4 Key drivers.....	31
4 Illicit Tobacco Consumption.....	38
4.1 Summary of total illicit tobacco consumption in Australia.....	38
4.2 Components of illicit tobacco consumption.....	39
4.3 Unbranded tobacco.....	40
4.4 Contraband.....	43
4.5 Counterfeit.....	46
4.6 Domestic illicit plains.....	46
4.7 Seizures.....	47
5 Conclusion.....	49

5.1 Rising consumption of illicit tobacco..... 49

5.2 Access to illicit tobacco 49

5.3 Profitability of illicit tobacco 49

5.4 Further regulation and enforcement required 50

Appendix A: Estimating Unbranded Tobacco Consumption..... 52

Appendix B: Empty Discarded Packs Survey and Estimating Other Illicit Components 55

Appendix C: Non-Domestic Illicit Whites 58

Appendix D: Key Seizures in 2023 59

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Acronyms and Abbreviations

Term	Definition
ABF	Australian Border Force
ABS	Australian Bureau of Statistics
ACIC	Australian Criminal Intelligence Commission
AFP	Australian Federal Police
AIHW	Australian Institute of Health and Welfare
AUD	Australian dollar
ATO	Australian Taxation Office
AWOTE	Average Weekly Ordinary Time Earnings
BATA	BAT Australia Ltd
CAGR	Compounding Annual Growth Rate
CCC	Crime and Corruption Commission
CPI	Consumer Price Index
EDPS	Empty Discarded Pack Survey
FTI Consulting	FTI Consulting (Australia) Pty Ltd
ITA	Imperial Tobacco Australia Limited
ITTF	Illicit Tobacco Taskforce
g	Grams
kg	Kilograms
KPMG LLP	KPMG Limited Liability Partnership
LCI	Living Cost Index
NSW	New South Wales
NVWG	National Vaping Working Group
%	Percentage / per cent
PML	Phillip Morris Limited
QPS	Queensland Police Service
Q1	Calendar year quarter one (January 1 to March 31)

Q2	Calendar year quarter two (April 1 to June 30)
Q3	Calendar year quarter three (July 1 to September 30)
Q4	Calendar year quarter four (October 1 to December 31)
RBA	Reserve Bank of Australia
RMR	Roy Morgan Research
RYO	Roll-your-own
t	Tonnes (metric, 1000kg)
TGA	Therapeutic Goods Administration
UK	United Kingdom
USA	United States of America
WPI	Wage Price Index

Glossary

Term	Definition
Consumer survey	A survey of adult smokers (those over 18 years old) who smoke daily (at least five times per week) conducted by Roy Morgan Research. The survey sample is designed to be representative of the population by using Single Source data to weight respondents based on location, age, gender, income, occupation and work status of smokers.
Empty discarded pack survey	A survey conducted every six months by WPSM (and formerly AC Nielsen and MSIIntelligence) comprising a sample of 12,000 empty cigarette packs collected across 16 cities, covering circa 75% of the population. The survey records pack size, based on the number of cigarettes, and identifies cigarette packs that are 'non-domestic' to enable estimation of the proportion of cigarettes that are non-domestic.
Euromonitor	Global market research on consumer products, commercial industries, demographics trends and consumer lifestyles that is used as a primary source of data for tobacco consumption rates across key source countries to estimate the extent of non-domestic legal sales from tourists visiting Australia.
Circana scan data	Circana scan data reflects the sales made to consumers and are reflective of the market size to the extent that each sale is scanned (and therefore included in the aggregate sales data collected and provided to FTI Consulting). To estimate legal domestic sales, a range of data sources is examined including Circana scan data and industry estimates based on exchange of sales and off-take data.
Contraband	Cigarettes brought into Australia illegally or acquired without excise taxes being paid and illegally re-sold in the market. This category includes genuine products (sold legally in overseas markets) brought into a country in amounts exceeding the personal allowance; in Australia, this limit is 25 cigarettes or 25 grams of RYO per person.
Counterfeit	Illegally manufactured cigarettes that carry the trademark/branding of a legally manufactured brand without the consent of the trademark owner. Counterfeit cigarettes are also known as fake cigarettes.
Domestic illicit plains	Flows of Illicit Whites brands that have packaging designed for the domestic (Australian) market.

Illicit whites	Cigarettes that are usually manufactured in one country or market but have been smuggled across borders during their transit to Australia, where they have limited or no legal distribution and are sold without the payment of tax.
Legal domestic sales	The estimated volume or value of sales of manufactured (cigarette) and roll-your-own products.
Non-domestic cigarettes	Cigarette packs that either do not carry health warnings or packaging compliant with Australian regulations, relate to brands not typically sold in Australia, and/or include identifying marks from other markets such as tax stamps. Non-domestic cigarettes include both legal (referred to as 'non-domestic legal') and illicit products (known as 'contraband' which incorporates 'non-domestic illicit whites' excluding 'domestic illicit plains').
Non-domestic illicit whites	Brands that do not have plain packaging designed for the Australian domestic market. In previous years, this has been referred to as 'Illicit Whites (non-domestic)'. In the report, non-domestic illicit whites are included in the contraband measurement.
Non-domestic legal	Legitimate tobacco purchased duty free or abroad within personal allowance limits (in Australia, this limit is currently 25 cigarettes or 25g of roll-your-own).
Non-domestic incidence	The proportion of non-domestic cigarettes recorded in the empty discarded pack survey which generally have coloured or branded packaging.
Total manufactured cigarettes consumption	The sum of legal domestic sales of manufactured cigarettes and total non-domestic manufactured cigarettes.
Unbranded tobacco	Illegal loose-leaf tobacco which does not require duty to be paid and does not typically carry labelling or health warnings. It is sold and consumed either in roll-your-own (RYO) form (called 'chop chop') or inserted into empty cigarette tubes. It is commonly sold in both bags and boxes. Blended estimates for unbranded tobacco consumption adopt an average of the consumer survey results for the calendar year, or most recent quarters, where an equal weighting is applied to results from each quarter.

Executive Summary

About this study

FTI Consulting Australia has been commissioned to estimate the size of the tobacco market in Australia for the 2023 calendar year, including the proportion of illicit tobacco consumption. This follows an earlier study completed by FTI Consulting in 2022, and previous studies undertaken annually since 2007.

Monitoring the extent of illicit tobacco consumption is important to inform potential governmental responses, since the illicit tobacco trade impacts consumers, government revenue from excise and customs duties, and has broader community and economy-wide impacts.

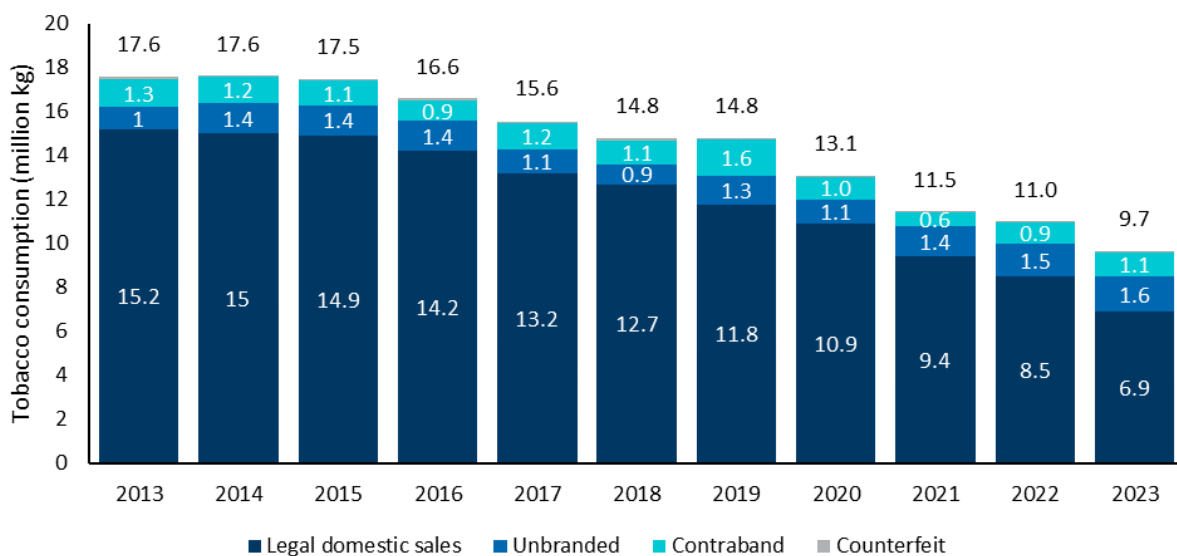
This study seeks to:

- Estimate the volume of tobacco consumption in Australia, including the extent to which tobacco consumed is legal or illicit
- Highlight trends in estimated tobacco consumption including legal and illicit tobacco over time
- Estimate the loss of government revenues associated with the current rate of illicit tobacco
- Identify the extent to which further government action may be required to tackle the illicit tobacco trade.

Total tobacco consumption in Australia declined in 2023

The total volume of tobacco consumed in Australia continued to drop over the last year. In 2023, total tobacco consumption declined by 12.3%, from 11 million kg in 2022 to 9.7 million kg in 2023 (refer Figure 1).

Figure 1: Tobacco consumption by category, 2013-2023



Note: In the presentation of results, 'Contraband' also includes domestic illicit plains. Consistent with previous studies, non-domestic legal sales (a small component) are not shown.

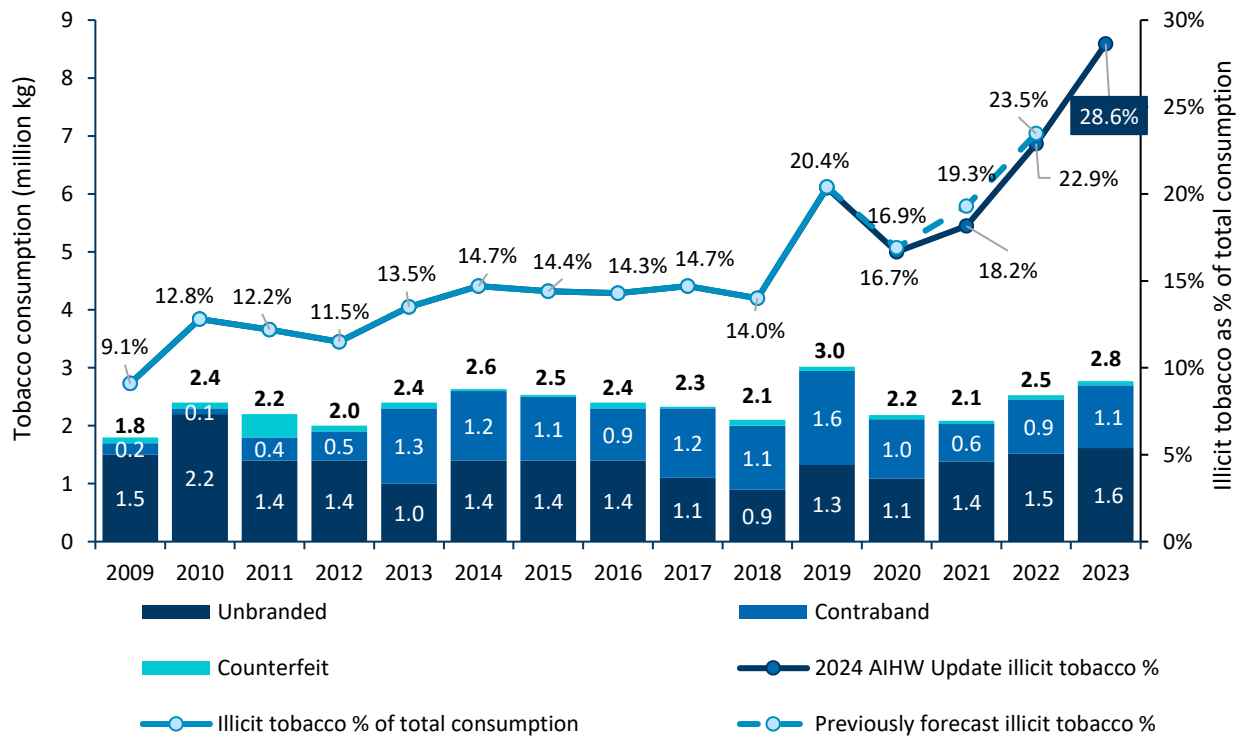
Source: Previous studies of Illicit tobacco in Australia, 2013-2022, and FTI Consulting analysis for 2022 and 2023.

This decline was predominantly due to the fall in the consumption of legal tobacco by 18.8% to 6.9 million kg. The volume of illicit tobacco in the past 10 years has moved between 2.0 to 3.0 million kg per year. Illicit tobacco volumes have not been impacted by the overall market decline, having increased in volume in 2023.

Consumption of illicit tobacco is approaching 29% of the tobacco market

In 2023, illicit tobacco accounted for 28.6% of total tobacco consumption. The proportion of total tobacco consumption in Australia made up of illicit tobacco increased 5.7 percentage points since 2022 and exceeds pre-pandemic levels of circa 14% (Figure 2). The decline in total tobacco consumption in 2023 was partly offset by an increase in illicit tobacco consumption of 9.5%, from 2.5 million kg to 2.8 million kg.

Figure 2: Illicit tobacco consumption, 2009-2023



Source: Previous illicit tobacco studies in Australia for historical data, FTI Consulting analysis (2022-2023) using various data sources; and FTI Consulting re-estimation of unbranded tobacco consumption (2020-2022).

Consumption of legal tobacco is declining in the face of readily available and cheaper illicit alternatives

Legal tobacco sales have decreased by 18.8% from 8.5 million kg to 6.9 million kg. This reflects both a decline in the Australian Institute of Health and Welfare's (AIHW) estimated daily smoking incidence¹ and a rise in the accessibility, affordability and consumption of illicit alternatives.

In 2023, nearly half of consumer survey respondents reported that it was easier to purchase illicit unbranded tobacco products. Similarly, 71.0% of survey respondents were aware of unbranded tobacco in Q4 2023, compared to 59.4% in Q4 2022 – an increase of 11.6 percentage points. This reflects a longer-term trend of consumers reporting in every survey since Q4 2020 that it is easier to purchase illicit tobacco.

In 2023, legal tobacco prices rose by over 11% compared to December 2022, a rate well in excess of the Wage Price Index (WPI). The relative price of illicit tobacco declined across all illicit tobacco categories to between 15.4%-37.3% of the price of legal cigarettes.

Also, the rising incidence of vaping illustrated deficiencies in the regulatory framework around vapes (also referred to as e-cigarettes) throughout 2023². Vaping incidence increased from 6.1% to 7.9% (+400,000) over the year to September 2023,³ and it is estimated that less than 8% of vapes were purchased legally.⁴ In 2023, it was far cheaper (at least 18 times) to consume illicit vape products than legal cigarettes.⁵

Total consumption of illicit tobacco increased by nearly one tenth in 2023, with more smokers turning to illicit tobacco

Consumption of illicit tobacco increased by 9.5% to 2.8 million kg in 2023. Consumption of both unbranded tobacco and contraband (including domestic illicit plains and non-domestic illicit whites) increased in 2023 (by 6.5% and 15.7%, respectively). Counterfeit remained stable, decreasing by 1.6%, to 0.1 million kg – representing a small component of illicit tobacco.

Unbranded tobacco consumption accounted for the largest portion of illicit consumption in 2023 (58.3% of total illicit consumption). The increase in the volume of unbranded tobacco consumption was driven by increases in consumer participation; more consumers reported that

¹ The Australian Institute of Health and Welfare's 2022-23 Household Drug Survey estimate that the daily smoking incidence in Australia decreased from 11.0% in 2019 to to 8.3% in 2022-23.

² Office of Impact Analysis, "Proposed reforms to the regulation of vapes: Impact Analysis," Department of Health and Aged Care – Therapeutic Goods Administration (October 2023), <https://oia.pmc.gov.au/sites/default/files/posts/2024/01/Impact%20Analysis%20-%20Proposed%20reforms%20to%20the%20regulation%20of%20vapes.PDF>.

³ Incidence data, Roy Morgan Single Source, Moving Annual Total September 2023; FTI Calculations using ABS resident population (3101.0; TABLE 59. Estimated Resident Population By Single Year Of Age, Australia).

⁴ Office of Impact Analysis, "Proposed reforms to the regulation of vapes: Impact Analysis," Department of Health and Aged Care – Therapeutic Goods Administration (October 2023), <https://oia.pmc.gov.au/sites/default/files/posts/2024/01/Impact%20Analysis%20-%20Proposed%20reforms%20to%20the%20regulation%20of%20vapes.PDF>.

⁵ FTI Consulting calculations based on industry data of illicit vape and legal cigarette prices.

they had purchased illicit unbranded tobacco in 2023, increasing by 4.6 percentage points since Q4 2022, to 37.3%.⁶ The blended quantity of unbranded tobacco purchased per person (across Q2 and Q4) has stayed relatively constant between 2022 and 2023.

Increases in contraband were due to the 2.5 percentage point increase in the non-domestic inflow of manufactured cigarettes to 14.8% in 2023, predominantly from 'Unspecified' countries (typically, the Middle East). Non-domestic incidence increased across all 16 sampled population centres in Q4 2023 compared to Q4 2022, particularly for non-major population centres, where non-domestic incidence rose from 8.6% to 12.6%. Though, it remains highest in major population centres, at 16.6%.

Increased enforcement required to tackle illicit tobacco

The rise in illicit tobacco consumption coincides with evidence of increasing seizures of illicit tobacco by law enforcement agencies. Between 2021-22 and 2022-23, the Illicit Tobacco Taskforce (ITTF) reported an increase in total tobacco seizures of 21.7% to 2,178 tonnes. Based on the estimated consumption of 2,766 tonnes of illicit tobacco identified in this study, it is estimated that the Taskforce manages to detect and seize less than half of the amount of illicit tobacco supplied.

Appropriate resourcing of law enforcement agencies is essential to continue to detect and seize illicit tobacco from the Australian tobacco market. However, given tobacco consumers pay amongst the highest prices for tobacco in the world, this alone will not be sufficient to reduce the attractiveness to organised criminal entities and individuals in the supply of illicit tobacco to Australian consumers. Further legislative amendments have been introduced that may further impact on legal tobacco consumption, however governments need to take targeted action to reduce the ease of access, attractiveness and participation in illicit tobacco in Australia.

If excise was collected on illicit tobacco consumed in 2023, it would generate \$4.85 billion in additional government revenue based on 2023 excise rates. This is set to increase over time, with the excise rate on legal tobacco to increase annually by 5.0% (in addition to standard average weekly ordinary time earnings or 'AWOTE' indexation) for three years, starting from 1 September 2023 until 1 September 2025.⁷

Recognising the foregone excise revenue from the current consumption of illicit tobacco and broader community and economy-wide impacts, there is a need to consider further targeted measures to address the illicit tobacco trade in Australia.

⁶ Using the approach to estimating the share of regular smokers that use unbranded tobacco adopted in previous studies, to maintain the consistency between studies.

⁷ Australian Taxation Office, "Excise duty rates for tobacco," Australian Taxation Office (22 February 2024), <https://www.ato.gov.au/businesses-and-organisations/gst-excise-and-indirect-taxes/tobacco-and-excise/excise-duty-rates-for-tobacco>.



1. About this Study

1 About this study

1.1 The impact of illicit tobacco in Australia

Increases in the illicit tobacco trade undermine the objectives of legal measures such as tobacco products' taxation and regulation, and cost both the government and community. The tobacco supply chain impacts a range of sectors in the economy including government, firms (including retailers), and households. Any shrinkage in the legal tobacco sector, due to the presence of illicit tobacco or other illicit substitutes will have repercussions across the entire economy, as well as impacts on consumers from consuming products outside of the regulated market. As such, it is important to monitor the illicit tobacco trade.

Moreover, illicit tobacco impacts the community through its links to organised criminal activity. In recent years, the operations of the Illicit Tobacco Taskforce (ITTF) have shown that the illicit tobacco trade has generated significant profits for serious and organised crime groups, providing the platform for further illicit activities such as drug importation and terrorism.⁸ The social impacts of illicit tobacco have included violent crime and arson.

1.2 Purpose of this study

FTI Consulting Australia (FTI Consulting) has previously undertaken expert studies examining illicit tobacco in Australia and other neighbouring countries. These studies aimed to measure the scale and impact of illicit tobacco, which has direct and indirect flow on effects throughout the economy including encouraging consumption of cheap tobacco, reducing government revenue, and disadvantaging industries, businesses and employees operating in the formal (legal) economy.

The purpose of this study is to:

- Estimate the volume of tobacco consumption in Australia, including the legal and illicit components of the market
- Highlight trends in estimated tobacco consumption including legal and illicit tobacco over time
- Estimate the loss of government revenues associated with the current rate of illicit tobacco
- Identify the extent to which further government action may be required to tackle the illicit tobacco trade.

Changes in the Australian tobacco market, including the extent to which there is evidence of illicit tobacco, have been monitored and reported on annually for over a decade. This is the second study that FTI Consulting has undertaken to quantify tobacco consumption and the

⁸ Michael Phelan, "Media Statement: Illicit tobacco," Australian Criminal Intelligence Commission (26 April 2022), <https://www.acic.gov.au/media-centre/media-releases-and-statements/media-statement-illicit-tobacco>.

proportion of illicit tobacco consumption in Australia. To ensure comparability between studies⁹, FTI Consulting has been asked to maintain a consistent approach with that pursued previously.

1.3 Context for the 2023 study

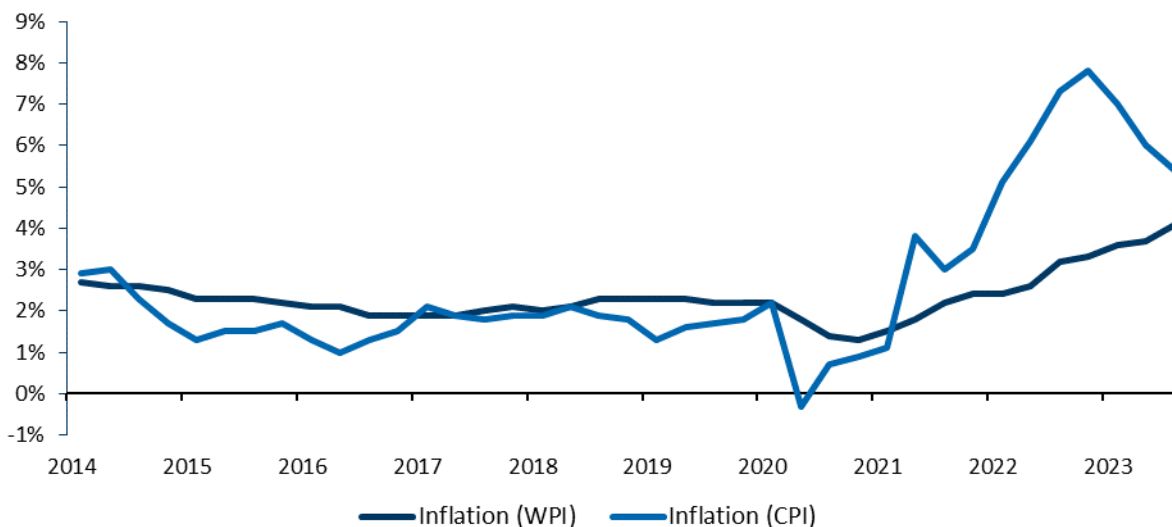
The findings of the *Illicit Tobacco in Australia 2023* study are set against the backdrop of several important social and economic factors. These include:

- Inflationary pressures reducing real household incomes
- An estimated decline in adult smoking incidence
- Increasing availability of illicit tobacco products
- Changes in domestic tobacco regulation, albeit many of these changes are yet to be fully implemented
- Significant social impacts of illicit tobacco.

Inflationary pressures reducing real household incomes

Throughout 2023, the Consumer Price Index (CPI) remained significantly higher than WPI in each quarter (refer Figure 3)¹⁰ and remains elevated compared to the pre-COVID-19 average (from December 2013 – December 2019). Even the underlying inflation rate, which excludes volatile price changes, exceeded WPI at a rate of 5.2% during 2023 (trimmed mean, September 2023 quarter).¹¹

Figure 3: CPI and WPI trends, 2014-2023



Source: Australian Bureau of Statistics, Consumer Price Index and Wage Price Index, Australia, October 2023.

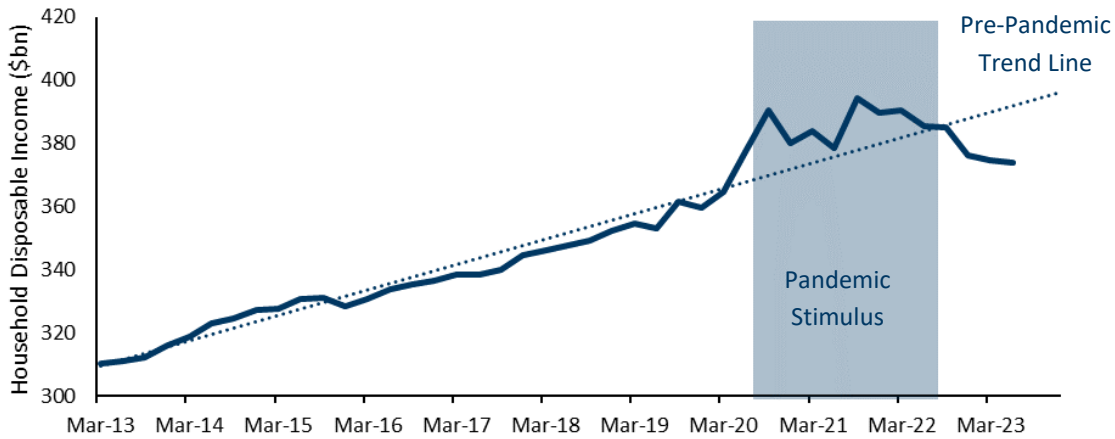
⁹ FTI Consulting (2022), KPMG LLP (during 2012 – 21), Deloitte in 2010 and 2011, and PWC in 2007 and 2009.

¹⁰ Australian Bureau of Statistics, "Consumer Price Index, Australia," Australian Bureau of Statistics (25 October 2023), <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/sep-quarter-2023>.

¹¹ Ibid.

As shown in Figure 4, since pandemic payments have ended, Australian household disposable income has continuously decreased over each quarter, declining by 6.8% over the 12 months to Q2 2023.

Figure 4: Real household disposable income, 2013-2023



Source: Greg Jericho¹²; using ABS 5206.0 (Australian National Accounts: National Income, Expenditure and Product), Reserve Bank of Australia Statement on Monetary Policy November 2023.

As a result, households are continuing to experience financial stress as their purchasing power has decreased. The rising cost of legal tobacco products due to regular excise increases alongside decreasing household income is expected to further drive demand for cheaper, illicit alternatives.

Declining smoking incidence

Numerous reliable sources including Euromonitor, the Australian Bureau of Statistics (ABS) and the AIHW show that the prevalence of regular smoking in Australia has decreased significantly over the last 15 years.

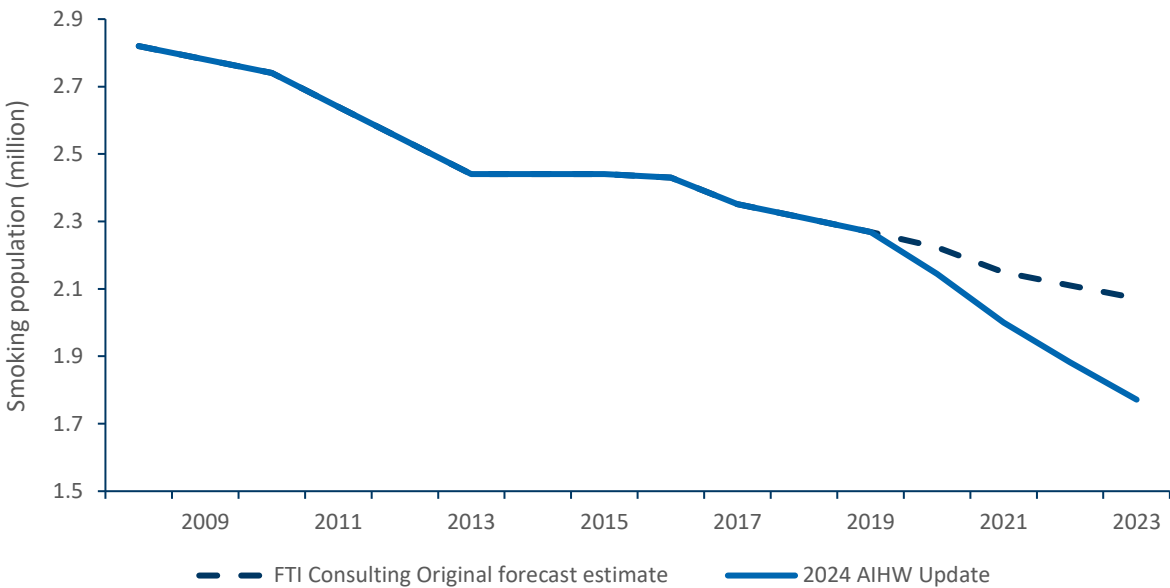
The National Drug Strategy Household Survey, conducted by AIHW every three years, provides the national daily smoking incidence estimate used to calculate (re-calculate) unbranded tobacco consumption in Australia (a major component of illicit tobacco consumption).

The AIWH survey indicated that the national (daily) tobacco smoking rate for people aged 14 and over dropped from 11.0% in 2019 to 8.3% in 2022-23 (refer Figure 5). The smoking population (daily) in 2022-23 is estimated to be approximately 1.8 million, compared to 2.3 million in 2019.

¹² Greg Jericho, "The past financial year was brutal for household incomes – and it seems the recovery isn't coming anytime soon," The Guardian (23 November 2023), <https://www.theguardian.com/business/grogonomics/2023/nov/23/the-past-financial-year-was-brutal-for-household-incomes-and-it-seems-the-recovery-isnt-coming-anytime-soon>.

This study has drawn on the most recent AIHW survey results to reflect the revised estimate of the smoking population. This has led to a modest revision of the 2020 to 2022 unbranded tobacco and total tobacco consumption estimates.¹³

Figure 5: Total estimated smoking population in Australia, 2008-2023



Source: AIHW, National Drug Strategy Household Survey, 2007, 2010, 2013, 2016, 2019 and 2022-23.

Increasing availability of illicit tobacco and illicit alternatives

An important driver of the decline in legal tobacco consumption is the widespread availability and use of illicit vape products. While our approach to estimating total tobacco consumption does not include vaping, in 2023, it is estimated that more than 1.6 million Australians have consumed e-cigarette products.¹⁴ This represents an increase of over 30% over the previous 12 months, equivalent to an increase of over 400,000 consumers.

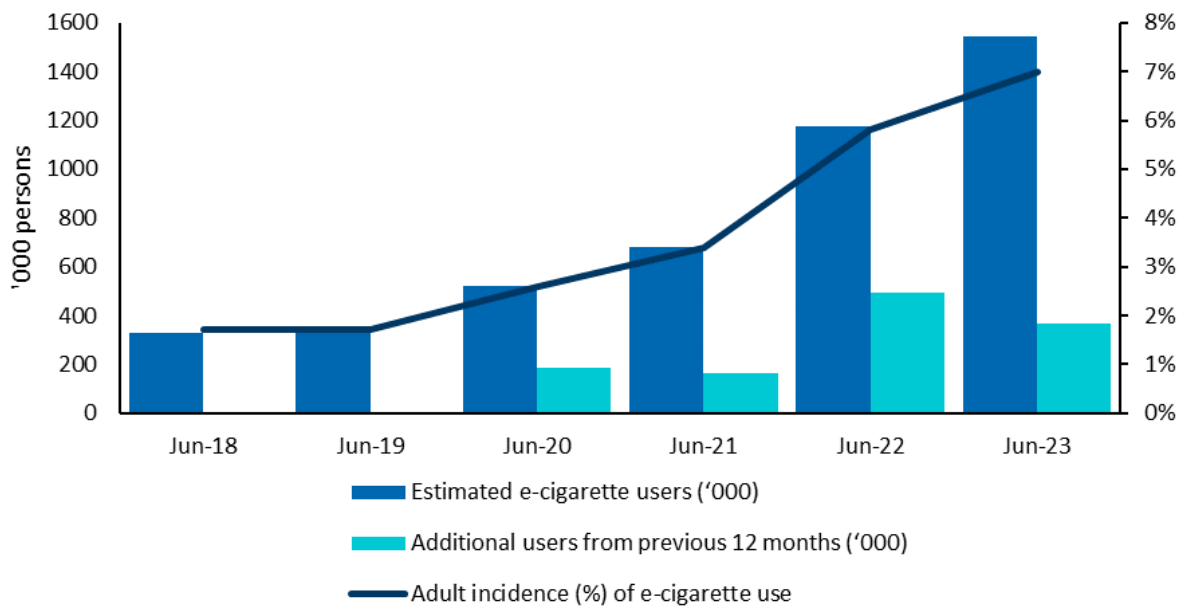
¹³ Compared to previous estimates, the impact of the AIHW revision on total tobacco consumption is -0.3% in 2020, -1.3% in 2021, -0.7% in 2022 and -2.8% in 2023. The impact on the total illicit tobacco consumption in volume terms is -1.7% in 2020, -7.0% in 2021, -7.0% in 2021, -3.2% in 2022, and -9.0% in 2023. Differences between years reflect the share of unbranded tobacco consumption in total illicit tobacco consumption. Without updates to AIHW smoking incidence, the proportion of the tobacco market comprised by illicit tobacco would be higher.

¹⁴ Australian Association of Convenience Stores, "New data exposes Australia's rampant vape black market," Australian Association of Convenience Stores (1 November 2023), <https://aacs.org.au/new-data-exposes-australias-rampant-vape-black-market/>. The national incidence of vaping in September 2023 was 7.9%, compared to 6.1% in September 2022.

Taking in to account a recent survey by Roy Morgan (2023)¹⁵, a survey by the National Illicit Drug Reporting System in 2022¹⁶ and other evidence¹⁷, a report produced by the Department of Health and Aged Care estimates that less than 8% of vapers have used a prescription to purchase vapes.

Figure 6 presents evidence about the increasing incidence of predominantly illicit vapes across Australia, which is consistent with the finding of significant deficiencies in the regulatory framework applicable to e-cigarettes in 2023.¹⁸ There is wide recognition that the enforcement of laws related to vaping has been insufficient throughout 2023, and that any reforms need to be appropriately enforced to be effective (refer Box 1).

Figure 6: Annual incidence and adult population of e-cigarette users, 2018-2023



Source: FTI Consulting using Roy Morgan Research Single Source, Moving Annual Total June 2018-2023 and ABS resident population (3101.0; TABLE 59. Estimated Resident Population By Single Year Of Age, Australia).

¹⁵ The survey by Roy Morgan in 2023 found that only 8% of all Australian vapers have a prescription (refer Wakefield, M. et al, cited in the Department of Health and Aged Care, 2023).

¹⁶ The survey by the National Illicit Drug Reporting System in 2022 reported that only 3% of vapers have a nicotine prescription (refer Sutherland, R et al, cited in the Department of Health and Aged Care, 2023).

¹⁷ Office of Impact Analysis, "Proposed reforms to the regulation of vapes: Impact Analysis," Department of Health and Aged Care – Therapeutic Goods Administration (October 2023),

<https://oia.pmc.gov.au/sites/default/files/posts/2024/01/Impact%20Analysis%20-%20Proposed%20reforms%20to%20the%20regulation%20of%20vapes.PDF>.

¹⁸ Ibid.

Box 1: Vaping regulatory context, 2023

Throughout 2023, nicotine and non-nicotine e-cigarettes were treated separately in legislation. Since 2021, sales of vapes containing nicotine in any other market, including retail stores have been banned. National regulation stipulates that e-cigarette products containing nicotine must only be supplied through a pharmacy or TGA process, to patients with a prescription.

Yet, e-cigarette packaging is often mislabeled, with a study by the University of Wollongong finding that most e-cigarettes in Australia have been found to contain nicotine, even if the packaging says that it doesn't.

A report published by the Therapeutic Goods Administration (under the Department of Health and Aged Care) in October 2023 stated that 'recent compliance and enforcement efforts, and discussions between Commonwealth, state and territory officials, illustrated deficiencies in the (then) current TG Act compliance framework for nicotine vapes and vaping devices, most notably the general need to test for the presence of nicotine before compliance and enforcement action may be confidently undertaken'.

Source: Therapeutic Goods (Standard for Nicotine Vaping Products) (TGO 110) Order 2021; Australian Government Department of Health and Aged Care, 'About vaping and e-cigarettes', December 2023; and Department of Health and Aged Care (TGA), 2023. Proposed reforms to the regulation of vapes, October 2023.

In 2024, the Commonwealth Government introduced a new regulatory framework to address vaping. This included a ban on the importation of disposable vapes from 1 January 2024, and a ban on the importation, manufacture, supply, commercial possession and advertisement of disposable single-use and non-therapeutic vapes, due to become effective from 1 July 2024. As of May 2024, a comprehensive framework has not been implemented to enforce the new regulations, and the new regulatory model will only be effective if changes are enforced.¹⁹

Changes in domestic tobacco regulation

Commonwealth and jurisdictional governments have recently introduced or announced legislative and policy changes that are aimed at strengthening controls on the tobacco trade and combatting illicit tobacco. However, the impact of most of these changes is yet to be reflected in the market and the results of this study.

¹⁹Wisbey, M, "Recreational vaping ban one step closer", Royal Australian College of General Practitioners (21 March 2024), <https://www1.racgp.org.au/newsgp/professional/recreational-vaping-ban-one-step-closer>

In late 2023, a series of new tobacco regulations were introduced (and passed) under two Commonwealth bills:

- Public Health (Tobacco and Other Products) Bill 2023
- Public Health (Tobacco and Other Products) (Consequential Amendments and Transitional Provisions) Bill 2023.

These regulations included changes to standardise product packaging, restrict the use of additives in tobacco products and strengthen health warnings on packaging and health promotion inserts. The requirements of the new legislation will come into full effect at a retail level on 1 July 2025.²⁰

Various states have also introduced a range of changes to their tobacco legislation over 2023. For example:

- Queensland – in June 2023, the retail supply or possession of illicit tobacco became a criminal offence and penalties applied to suppliers of illicit tobacco.²¹ From 1 September 2024, retailers and wholesalers of smoking products in Queensland must also have an approved licence.²²
- New South Wales – the *Health Legislation Amendment (Miscellaneous) Act 2023* came into effect on 30 October 2023 and has clarified the powers of inspectors to search premises, and provided health officers powers to seize and dispose of tobacco and smokeless tobacco products.²³
- Victoria – while there have not been any regulatory or legislative changes in 2023, in March 2024, the Victorian Government announced its commitment to introducing a licensing scheme for wholesale and retail tobacco sales.²⁴

Increasing social impacts

The scale and severity of organised crime linked to illicit tobacco and the threat it represents to communities has been observed by law and enforcement agencies. Box 2 sets out the social impacts of illicit tobacco in 2023.

²⁰ Dr Matthew Thomas, Leah Ferris, “Public Health (Tobacco and Other Products) Bill 2023 [and] Public Health (Tobacco and Other Products) (Consequential Amendments and Transitional Provisions) Bill 2023,” Department of Parliamentary Services, Parliament of Australia (16 October 2023),

https://parlinfo.aph.gov.au/parlInfo/download/legislation/billsdgs/9422796/upload_binary/9422796.pdf.

²¹ Queensland Government, “New smoking reforms,” Queensland Government (28 November 2023),

<https://www.qld.gov.au/health/staying-healthy/atods/smoking/new-smoking-reforms>.

²² Ibid.

²³ Parliament of New South Wales, “Health Legislation Amendment (Miscellaneous) Bill 2023”, Parliament NSW (30 October 2023) <https://www.parliament.nsw.gov.au/bills/Pages/bill-details.aspx?pk=18487>

²⁴ VicHealth, “Victorian tobacco retail licensing scheme commitment,” VicHealth (28 March 2024),

<https://www.vichealth.vic.gov.au/news-publications/media-releases/victorian-tobacco-retail-licensing-scheme-commitment>

Box 2: Social impacts of illicit tobacco in 2023

In 2023, an increase in organised crime has been connected to the illicit tobacco trade. Since March 2023, 71 incidences of arson were linked to the Victorian illicit tobacco and vape trade. Fifty of the 71 incidences were on tobacco stores or vape stores, while the remaining 21 targeted gyms, cafes, and reception centres. Arson and violent crime connected to illicit tobacco is believed to have arisen due to competition between criminals for profit from illicit tobacco.

In response, Taskforce Lunar was formed in Victoria to combat the increased incidence of arson and other violent crime associated with illicit tobacco. Taskforce Lunar has worked closely with many other agencies and departments including the ABF, ACIC, AFP, ATO, Arson and Explosive Squad, Gang Crime Squad, Echo Taskforce, Viper Taskforce, Financial Crime Squad and Criminal Proceeds Squad. This level of multi-agency involvement highlights the scale and severity of organised crime and the threat it represents to communities.

The problem exists in other states. In August 2023, a multi-agency response to organised crime syndicates in Queensland resulted in the seizure of over 8 million cigarettes, 3.74 tonnes of loose-leaf tobacco, and 60,000 vapes.

The Queensland Crime and Corruption Commission stated that the community may have no idea that their purchase of cheap, under the counter tobacco products is an engagement in the illicit tobacco industry and funding the criminal enterprises of these organised crime syndicates in Australia and beyond. Victoria Police also stated that the heightened criminal activity is putting people's lives at risk.

Source: Various media reports/other sources including Australian Border Force, "Warrants executed across Melbourne targeting illicit tobacco," October 2023; Crime and Corruption Commission Queensland, "Multi-million-dollar money laundering investigation smashes illicit tobacco and vape supply," August 2023; Herald Sun, "Eye-watering amounts fuelling Melbourne's fiery tobacco wars," April 2024; and Jason Kelly, "Inquiry into Vaping and Tobacco Controls," Victoria Public Accounts and Estimates Committee (15 April 2024).

1.4 Structure of this report

The remaining structure of the report is as follows:

- Chapter 2 - Australian tobacco market estimation, provides an overview of key terminology, components of the tobacco market, and our approach to estimation
- Chapter 3 - Legal tobacco consumption, provides estimates of legal tobacco consumed in 2023, market components and key drivers of the results and observations
- Chapter 4 - Illicit tobacco consumption, provides estimates of illicit tobacco consumed in 2023, including key drivers of the results and observations
- Chapter 5 – Conclusion, which provides a summary of the Australian tobacco market in 2023 and the need for further action by government.

Further information on the approach and results for estimating illicit tobacco consumption can be found at Appendices A-C. Appendix D provides a summary of the key seizures in 2023.



2. Australian Tobacco Market Estimation

2 Australian Tobacco Market Estimation

2.1 Components of the tobacco market measured in this study

To estimate total tobacco consumption, we have used a consumption model that has commonly been used by various studies to estimate tobacco consumption including illicit tobacco, and is consistent with previous studies in Australia. Adopting as consistent an approach as possible to previous studies is important to enable a reliable comparison of tobacco market trends between periods.

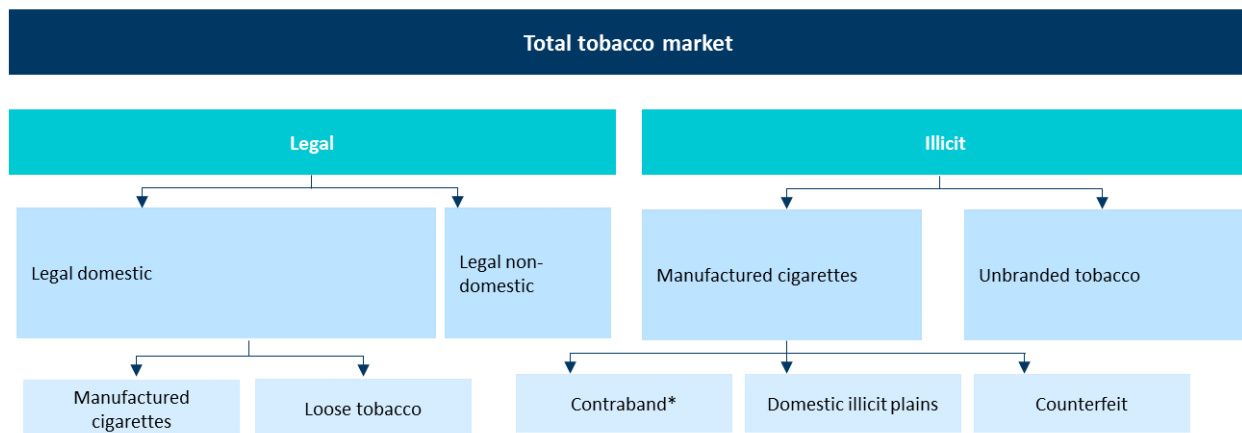
Total tobacco consumption includes the total volume of both legal and illicit consumption for all types of tobacco.

All legal products are imported as finished products as it is illegal to domestically produce tobacco products in Australia.

All tobacco products sold in Australia are required to comply with Australian regulations including plain packaging. Excise applies to all tobacco products including loose tobacco, cigarettes, cigars and snuff (smokeless tobacco). Customs duties also apply to all tobacco products as no tobacco products are currently manufactured in Australia.

The model takes a combination of data from various sources including smoking incidence data and consumption patterns across the population to estimate illicit consumption. The components of the tobacco market included in the consumption model are shown in Figure 7.

Figure 7: Components of the tobacco market included in the consumption model



* Contraband includes non-domestic illicit whites.

Source: FTI Consulting.

This study does not estimate the consumption of cigars, shisha/waterpipe tobacco, snuff and bidis,²⁵ and excludes emerging categories of illicit such as counterfeit pouches. It also excludes

²⁵ Bidis are a type of hand-rolled cigarette commonly made in India and other parts of South Asia.

nicotine and non-nicotine vapes: a rapidly growing (predominantly illicit) substitute for traditional tobacco products.

Legal tobacco

Legal tobacco is made up of two components:

- **Legal domestic tobacco** are cigarettes or roll-your-own (RYO) products that are legally manufactured overseas then sold in Australia, with relevant excise paid by the importing company.
- **Legal non-domestic tobacco** are legitimate tobacco purchases made overseas (or duty-free) and brought into Australia by travellers carrying tobacco within their personal allowance limit.²⁶

Illicit tobacco

Illicit tobacco comprises several components including ‘unbranded tobacco’ including ‘chop chop’ (loose-leaf tobacco) and ‘pre-filled tubes’, and ‘manufactured cigarettes’ – covering ‘contraband’, ‘illicit whites’ and ‘counterfeit’ cigarettes:

- **Unbranded tobacco**, the largest component of illicit tobacco, is illegal loose-leaf tobacco upon which no duty has been paid and which typically carries no labelling or health warnings. It is sold and consumed either in RYO form (also called ‘chop chop’) or inserted into empty cigarette tubes (‘pre-filled tubes’). It is commonly sold in both bags and boxes.
- **Contraband tobacco** is legally manufactured cigarettes that are sold without applicable excise taxes being paid. Contraband cigarettes can be brought into the country illegally or acquired without taxes and illegally re-sold in the domestic market. This category can also include products brought into the country in amounts exceeding the personal (duty-free) allowance.
- **Illicit whites** include **domestic illicit plains** which are illicit white brands that have packaging designed for the domestic Australian market. Alternatively, those brands that do not have packaging for the Australian market are referred to as non-domestic illicit whites and are included in the contraband calculation.
- **Counterfeit cigarettes** are illegally manufactured cigarettes that carry the trademark/branding of a legally manufactured brand without the consent of the trademark owner. Counterfeit cigarettes are also known as fake cigarettes.

2.2 Methodology for estimating legal tobacco

To report on the size of the share of illicit tobacco in total tobacco consumption, we first need to estimate legal consumption, including both domestic and non-domestic sales. We have used a range of data sources to estimate legal domestic sales, including Circana scan data and sales data provided by various industry participants. Circana scan data reflects the sales made to consumers and to the extent that each sale is scanned.

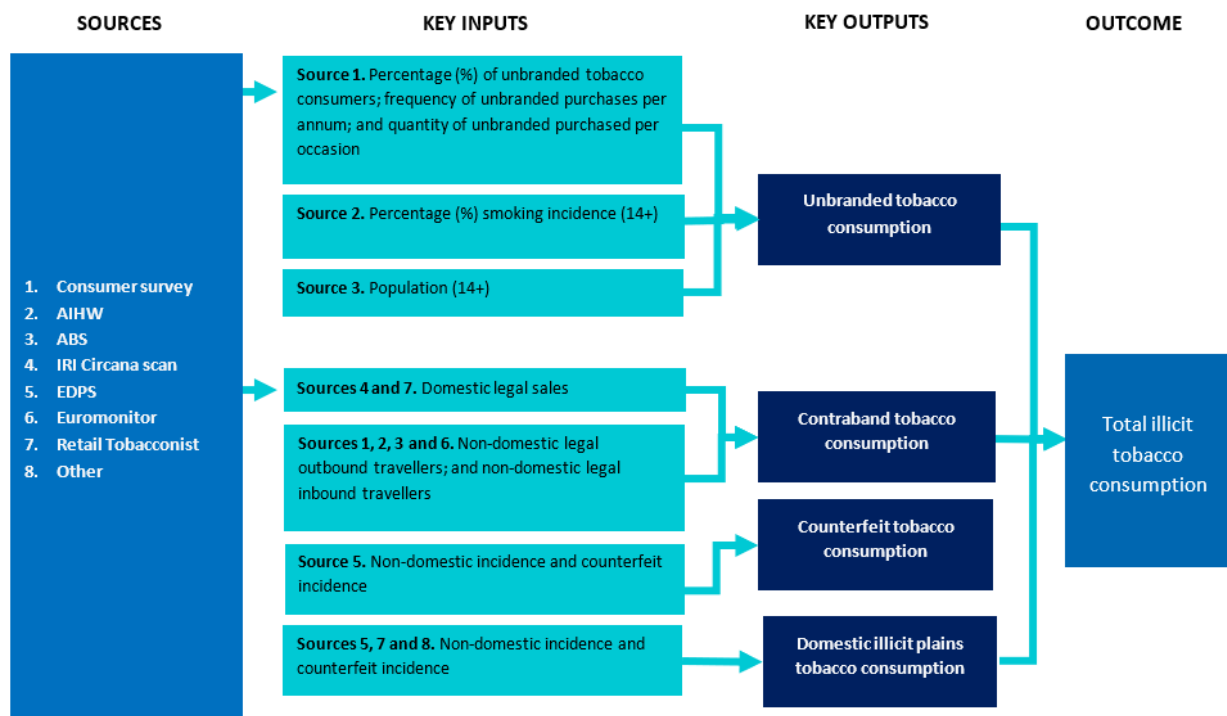
²⁶ In Australia, this limit is currently 25 cigarettes or 25g of RYO tobacco.

Non-domestic legal sales are calculated using ABS data on arrivals from key source countries²⁷, combined with Euromonitor data on the prevalence of smoking among adults from other key source countries to estimate the propensity of those adults (in key source countries) to bring in legal tobacco through allowable limits.

2.3 Methodology for estimating illicit tobacco

As Figure 8 shows, the unbranded tobacco analysis is primarily based on the Roy Morgan Research consumer survey, together with AIHW smoking incidence and ABS adult population data. The estimation of illicit manufactured cigarettes draws primarily on the WSPM empty discarded pack survey (EDPS).

Figure 8: Overview of approach to estimating illicit tobacco



Source: FTI Consulting.

Consumer survey

The consumer survey focuses on the tobacco consumption behaviour of Australian adult smokers who smoke on a regular basis. Since 2016, Roy Morgan Research has conducted consumer surveys bi-annually. Consumers are asked about their consumption and purchase of legal and

²⁷ Key source countries refer to countries with the highest inflow of non-domestic tobacco to Australia, which are determined using the EDPS.

illicit products, and specifically their consumption of unbranded tobacco products (which are all illicit).²⁸ Considerations are given to the reliability of responses provided by survey participants.

Key metrics drawn from the consumer survey and used in the consumption model include:

- percentage of unbranded tobacco consumers (as a share of the smoking population)
- frequency of purchase of unbranded tobacco
- quantity of unbranded tobacco purchased on each occasion.

Other informative parameters that are collected for comparative purposes include the awareness of unbranded tobacco, ease of purchase of unbranded tobacco and supply outlets for unbranded tobacco. Please refer to Appendix A for further information.

Empty Discarded Pack Survey (EDPS)

The EDPS is used to estimate the components of illicit tobacco other than unbranded including contraband, counterfeit and domestic illicit plains. WSPM Group conducts the EDPS on a six-monthly basis (Q2 and Q4 of each calendar year).

The survey collects 12,000 discarded cigarette packs per survey across 16 different population centres in Australia. Each discarded pack is identified according to brand and country of origin and classified as domestic or non-domestic. WSPM then sends the information to participating manufacturers to identify genuine and counterfeit products.

Key metrics drawn from the EDPS include:

- non-domestic incidence²⁹ – the percentage of cigarettes with non-domestic branding (non-plain packaging, no Australian health warnings)
- counterfeit incidence – the percentage of cigarettes branded or trademarked without the consent of the trademark owner
- domestic illicit plains – the percentage of cigarettes comprising illicit brands that have packaging designed for the Australian market.

Non-domestic incidence and counterfeit incidence are applied to the estimates of total legal tobacco consumption (domestic and non-domestic) to generate estimates of contraband and counterfeit consumption.

This methodology is consistent with the approach adopted by FTI Consulting in the 2022 study and the approach used by KPMG LLP in previous studies. Appendix B provides further information in relation to the EDPS and approach to estimating illicit components of the market.

²⁸ These estimations are then ‘blended’ (averaged) to reduce the fluctuation of illicit tobacco purchases throughout the quarters.

²⁹ Non-domestic incidence refers to the amount of non-domestic cigarettes consumed as a proportion of total cigarettes, as recorded in WSPM’s empty discarded pack survey (EDPS).

3. Legal Tobacco Consumption

3 Legal Tobacco Consumption

Key points

- In 2023, the consumption of legal domestic tobacco decreased by **18.8%** to **6.9 million kg**.
- While consumption of legal non-domestic tobacco increased by **67.0%**, the total volume of legal non-domestic tobacco consumed (**0.1 million kg**) is not considered significant.
- The price of legal tobacco products in Australia increased by over **11%** in 2023, driven in part by ongoing increases in excise rates. The increase in legal tobacco prices paired with increasing costs of living has made cheaper illicit tobacco products (including vapes) more attractive to consumers.
- Illicit tobacco was easier to access and more affordable in 2023, reducing participation in the legal market.
- Illicit vape products are at least **18 times cheaper** than legal cigarettes, and unbranded tobacco (in tubes) and unbranded tobacco (loose) is **5-6 times cheaper** than legal cigarettes.

3.1 Total legal tobacco

Total legal consumption (domestic cigarettes, domestic RYO products and non-domestic products) have consistently decreased since 2018 (see Table 1).

Table 1: Total legal tobacco consumption by component, 2018-2023

Product (million kg)	2018	2019	2020	2021	2022	2023
Domestic Cigarettes	10.2	9.3	8.5	7.3	6.7	5.4
Domestic RYO	2.5	2.5	2.4	2.1	1.8	1.5
Non-domestic	0.02	0.02	0.01	0.00	0.01	0.01
Total legal tobacco	12.7	11.8	10.9	9.4	8.5	6.9

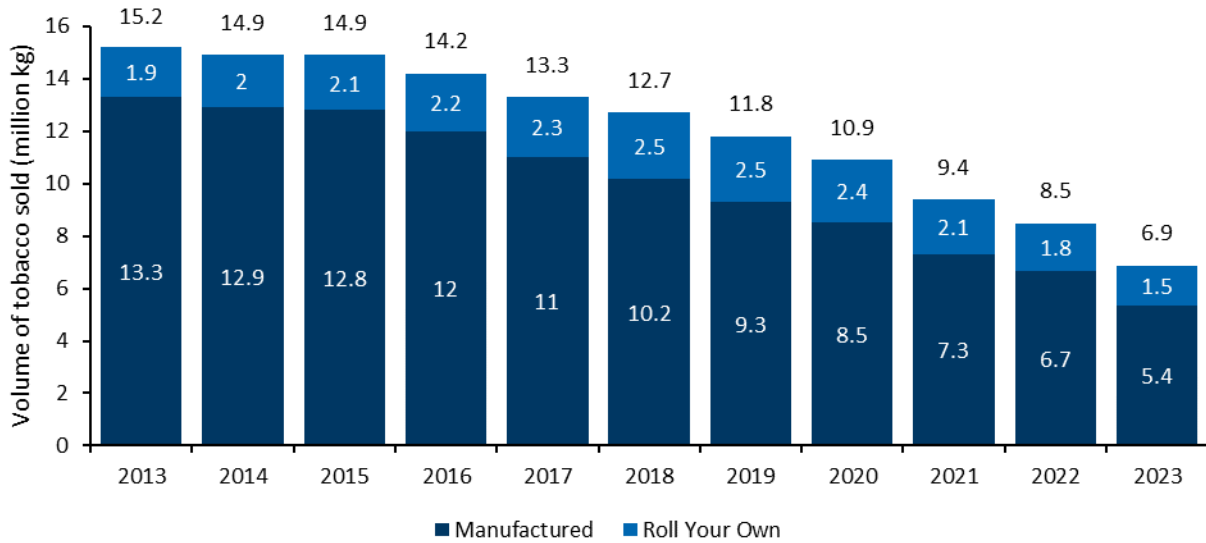
Source: Sales data provided by industry participants, FTI Consulting analysis of Euromonitor traveller data.

3.2 Legal domestic consumption

Legal domestic sales

Consumers continue to turn away from legal tobacco products (refer Figure 9). In 2023, total legal domestic sales decreased by 18.8%, representing a 19.4% decrease in manufactured cigarettes and an 18.3% decrease in roll-your-own products, as shown in Table 2. This is the largest year-on-year reduction in a decade, both in percentage and volume.

Figure 9: Legal domestic tobacco sales in Australia, 2013-2023



Source: Data provided by industry participants, Circana scan data.

Table 2: Annual growth of legal domestic tobacco sales, 2013-2023

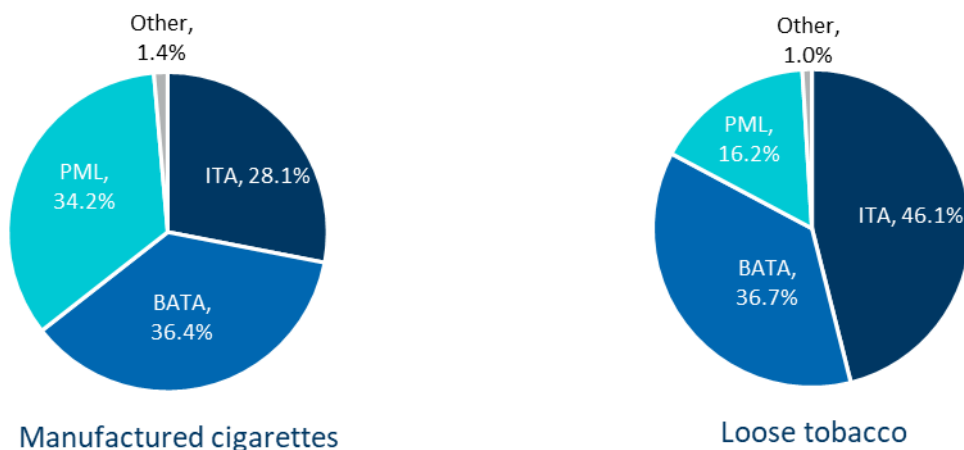
Annual growth	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Manufactured	-2.8%	-1.0%	-6.1%	-8.9%	-6.8%	-9.1%	-8.5%	-14.1%	-8.8%	-19.4%
Roll-your-own	6.5%	4.4%	4.0%	5.6%	6.2%	2.1%	-3.3%	-13.2%	-12.6%	-18.3%
Total	-1.7%	-0.3%	-4.7%	-6.7%	-4.6%	-6.9%	-7.4%	-13.9%	-9.6%	-18.8%

Source: Data provided by industry participants, Circana scan data.

Market share by manufacturer

Figure 10 shows the market share of manufactured cigarettes and loose tobacco by manufacturer across legal tobacco sales in 2023. BAT Australia Ltd (BATA) maintains the largest share of manufactured cigarettes with 36.4%, followed by Philip Morris Limited (PML) with 34.2% and Imperial Tobacco Australia (ITA) with 28.1%. Other smaller manufacturers make up 1.4% of the market for manufactured cigarettes. ITA has the largest share of loose tobacco sales (46.1%), followed by BATA (36.7%) and PML (16.2%). Smaller manufacturers make up 1.0% of the loose tobacco market.

Figure 10: Market share of manufactured cigarettes and loose tobacco by manufacturer, 2023

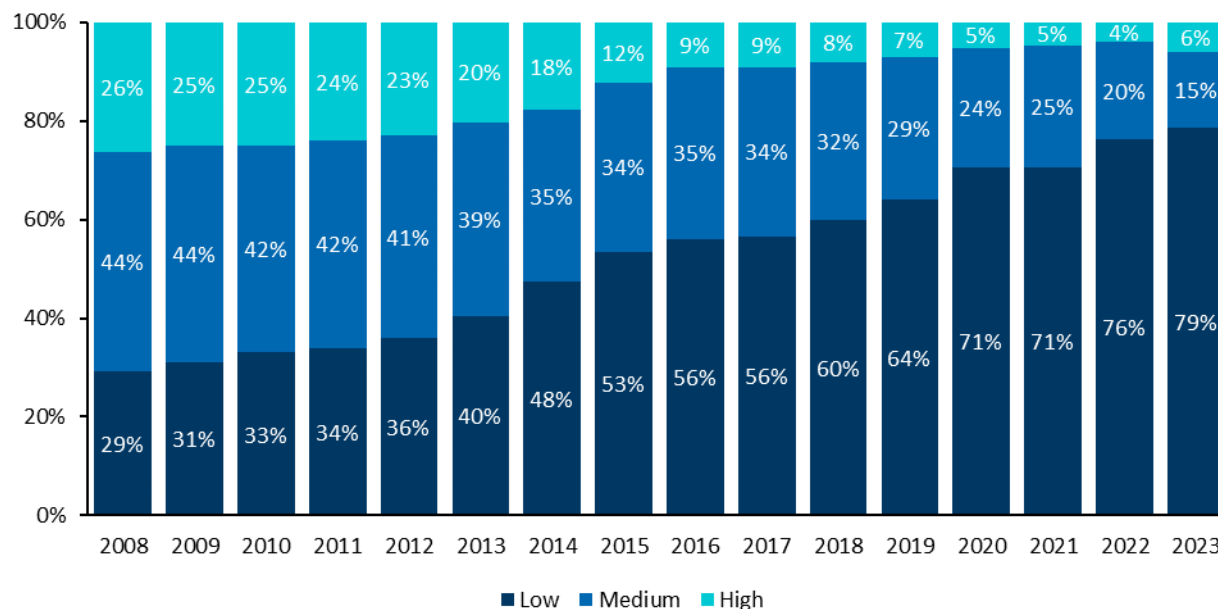


Source: Data provided by industry participants.

Sales of legally manufactured cigarettes by price category

Since 2013, low-priced cigarettes have continued to become more popular among consumers. This trend has continued in 2023, with low-priced cigarettes now making up 79% of the market – an increase of 3 percentage points from 2022 (see Figure 11). Consumption of medium-priced cigarettes decreased by 5 percentage points to 15%, while consumption of high-price cigarettes increased by 2 percentage points to make up 6% of the market.

Figure 11: Market share of manufactured cigarettes (legal) by price category, 2008-2023



Source: Circana scan data, supplied by industry participants.

3.3 Legal non-domestic consumption

Legal non-domestic tobacco refers to tobacco that is purchased legally, either overseas or duty-free, and brought into Australia by travellers within their legal limit (25g or 25 sticks in Australia).

This is estimated using two key parameters: ‘inbound’ travellers and ‘outbound’ travellers. Our estimates include only travellers from the 2023 key source countries.³⁰

Inbound travellers are non-Australian residents entering Australia for a short-term visit. In 2023, ABS data estimated that 2.9 million inbound travellers entered Australia. We have used Euromonitor data to estimate, for each country, the adult (or ‘of smoking age’) population and the proportion of those who smoke. We have then multiplied these figures by the legal traveller allowance (25g) to generate an estimate for the total legal tobacco consumed by inbound travellers – 7.3 tonnes in 2023.

Outbound travellers are Australian residents returning from overseas visits. ABS data estimated that in 2023 around 2.7 million outbound travellers entered Australia. Using the Australian smoking participation rate, an estimated 3.4 tonnes of legal tobacco was brought into the country by Australian residents.

In total, Australian inbound and outbound travellers consumed an estimated 10.7 tonnes of legal non-domestic tobacco in 2023. This reflects an increase of 67.0% since 2022 following the recovery of travel post the COVID-19 pandemic.

Despite this large increase, this component is very small compared to domestic legal consumption.

3.4 Key drivers

Increasing domestic excise on legal tobacco products

Since 2010, the Commonwealth Government has regularly increased the rate of excise on tobacco as a key tobacco control strategy (Figure 12).³¹ In 2014, Australia changed its approach to indexing tobacco excise rates by linking increases to average weekly ordinary time earnings (AWOTE), rather than the Consumer Price Index (CPI).³² Indexation occurs in March and September each year.

Legislative amendments in 2016 resulted in a further four annual increases of 12.5% in excise to be applied in September each year from 2017 to 2020, in addition to the AWOTE adjustment. Tobacco excise is charged on a per stick basis for manufactured cigarettes, whereas all other tobacco products including loose tobacco is taxed on a per kilogram basis. To better align the excise on manufactured cigarettes and loose-leaf tobacco, from 2017, adjustments were also made to the (assumed) grams of tobacco content per manufactured cigarette.³³ This resulted in

³⁰ Key source countries are those with the highest non-domestic incidence, as determined by EDPS results. In 2023, the key source countries were China, Malaysia, South Korea, UK, Japan, Taiwan, USA and Philippines.

³¹ Department of Health and Aged Care, “Tobacco control timeline,” Department of Health and Aged Care (10 May 2018), <https://www1.health.gov.au/internet/publications/publishing.nsf/Content/tobacco-control-toc~timeline>.

³² Ibid.

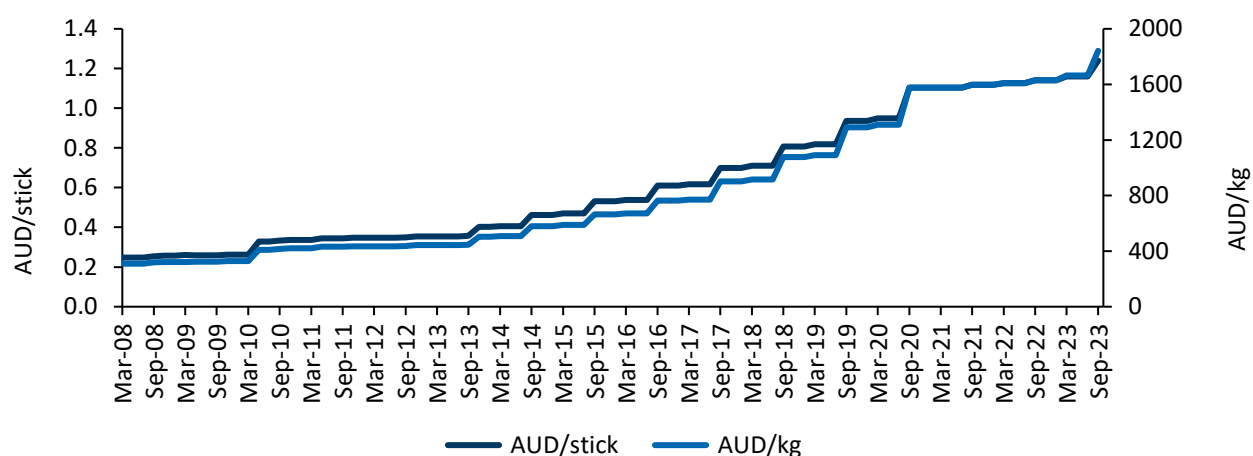
³³ In 2016, excise was calculated for loose-leaf tobacco on the basis that each manufactured cigarette contained 0.8 g of tobacco. The rate was adjusted gradually over four years from 0.8 g per stick in 2016 to 0.775 g per stick in 2017, 0.75 g per stick in 2018, 0.725 g per stick in 2019, and 0.7 g per stick in 2020, which was closer to the weight of a manufactured cigarette.

an increase in the excise rate for loose-leaf tobacco beyond the regular indexation applied on 1 September each year (Figure 12).

From September 2023, the Commonwealth Government further increased tobacco excise by 5% per year for three years (refer Figure 12).

Excise rates have continued to increase between January 2023 and January 2024, from \$1.14 per stick to \$1.24 per stick. Following an excise increase in September 2023, the excise per 20-pack of cigarettes was \$36.80. This has led to an increase in the retail price of tobacco at a rate that exceeds the WPI. For example, between January to December 2023, the price of a pack of 20 Marlboro cigarettes purchased in Australia increased by 18.5%, while the price of a 25-pack of Winfield cigarettes increased by 11.0%.

Figure 12: Tobacco excise and customs duty, Mar 2008 - Sep 2023



Note: This figure shows key increases in excise rates over time including a 25% increase in excise rates in April 2010, 12.5% increase in excise duty in December 2013 and increases every March and September from 2014 – 2020. A 3.3% increase in excise duty applied from March 2021 to September 2022 based on AWOTE, and increases to excise duty in March 2023 and September 2023 based on AWOTE, in addition to the first of three 5% increases from 1 September 2023.

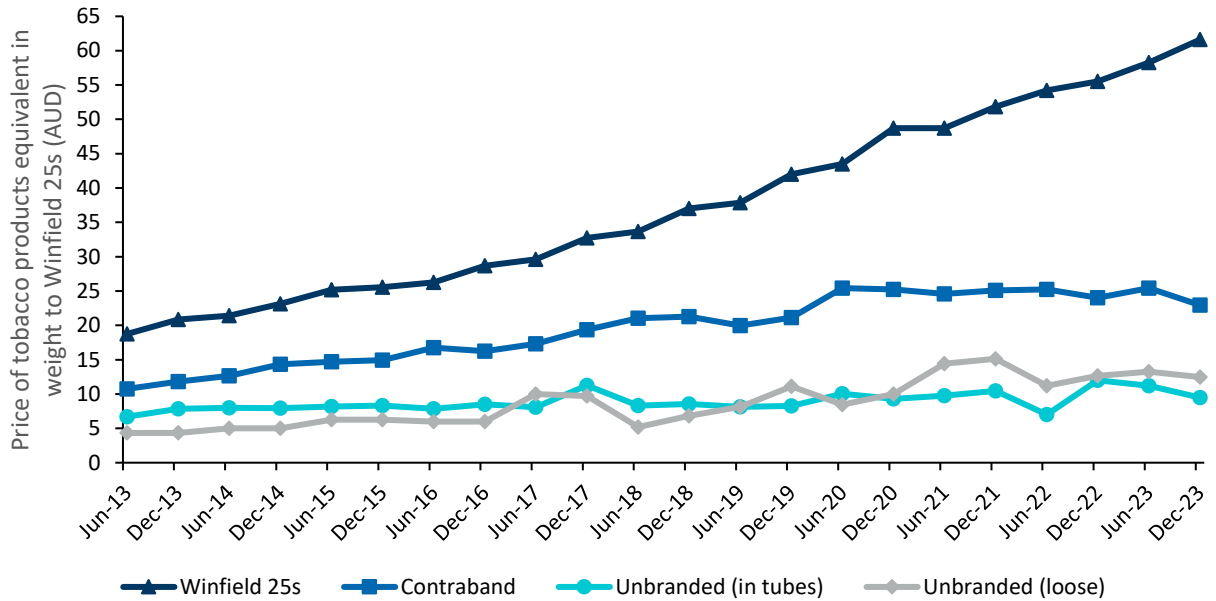
Source: Tobacco in Australia, www.tobaccoinaustralia.org.au.

Declining relative cost of illicit tobacco

While the price of legal tobacco increased in 2023, by comparison the price of ‘contraband’ cigarettes, ‘unbranded (loose)’ and ‘unbranded (in tubes)’ decreased (refer Figure 13). The price of ‘unbranded (in tubes)’ fell in 2023 by 20.9%, while contraband prices fell by 4.3% and ‘unbranded (loose)’ fell by 1.6%. As a result, the price of illicit products relative to legal cigarettes decreased in 2023.

Unbranded tubes fell to 15.4% of the Winfield 25-pack price in December 2023. This has increased the motivations for adult consumers to seek out and switch from legal tobacco to illicit tobacco sources.

Figure 13: Price of tobacco products equivalent in weight to Winfield 25s (AUD), 2013-2023



Source: Industry data supplied to FTI Consulting.

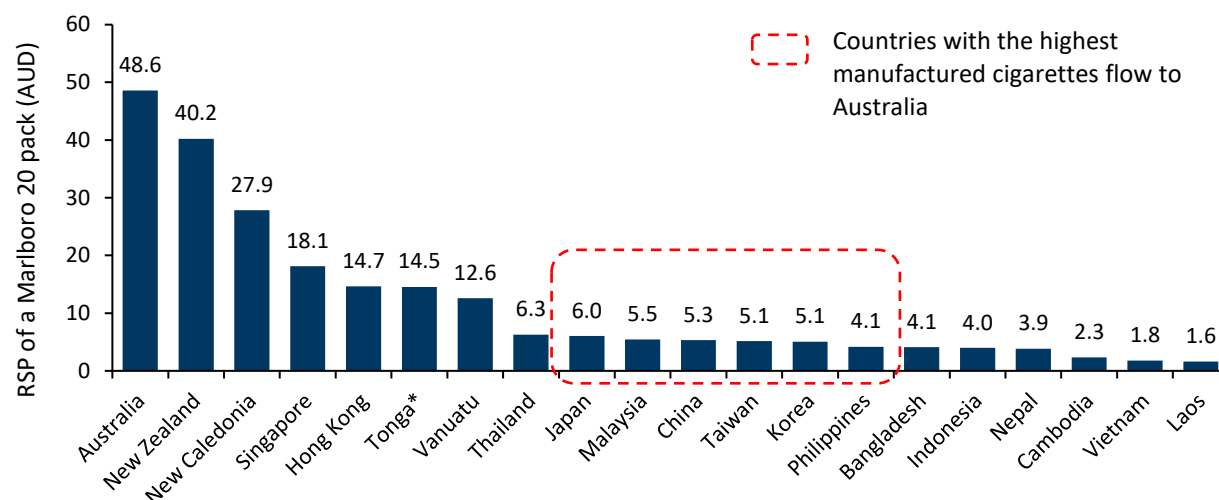
Lower tobacco prices in neighboring countries

The price of legal cigarettes in Australia is very high compared to a range of other neighbouring countries. The significant difference in prices (including high excise rates) for legal tobacco provides an incentive for illicit traders to supply their product in Australia at the expense of legitimate importers and traders of tobacco products. This price differential enables traders in the illicit market to be extremely competitive, whilst also making large profits.

Figure 14 shows the vast difference in pricing between Australia and selected markets in the Asia-Pacific region. For example, in January 2024, a 20-pack of Marlboro cigarettes bought in Australia for AU\$48.59 could be bought in China for the equivalent of AU\$5.30.

There are at least 13 countries in the region where the same pack of cigarettes costs less than AU\$10.00, including across countries with the highest manufactured cigarette inflows to Australia (as shown in Figure 14).

Figure 14: Retail sales price (RSP) of a pack of 20 Marlboro cigarettes in Australia and selected markets in the Asia-Pacific region, January 2024



Source: FTI Consulting analysis using industry partners' data, exchange rate as on 15 January 2024.

Alternatives to legal tobacco with lower prices

A contributing factor to the decline in legal tobacco consumption is the large difference in price between legal and illicit products.

Table 3 shows that illicit vape products are at least 18 times cheaper to consume than legal cigarettes:

- a smoker who smokes a 25-pack of Winfield cigarettes each day is likely to spend \$22,488 on cigarettes per year, while a 'low' price brand would cost \$16,380 per year³⁴
- a vaper's yearly expenditure to consume the equivalent of a 'pack-a-day' is estimated at around \$650-\$912.³⁵

Similarly, it is approximately 5-6 times cheaper to consume unbranded tobacco (loose), with an expected yearly spend of \$4,550 for a 'pack-a-day' equivalent smoker.³⁶ This was estimated by taking market prices for legal manufactured cigarettes (Winfield 25s, specifically), unbranded loose tobacco and illicit vape products, and determining the cost to consumers on a 'per puff' basis. This allows for clearer comparison of the true cost to consume smoking/vaping products.

³⁴ \$1.80 per cigarette, or \$45 per pack.

³⁵ Vape pricing data provided by industry participants.

³⁶ FTI Consulting, using data provided by industry participants.

Table 3: Price comparison of legal manufactured cigarettes versus illicit tobacco products, 2023

Product	Price per puff	Price per pack of equivalent puffs	Price per year for a 'pack-a-day' smoker/vaper ²
Legal manufactured cigarettes ¹	\$0.25 ³⁷	\$61.61	\$22,488
Unbranded loose	\$0.05	\$12.50	\$4,550
Illicit vapes	\$0.01-\$0.010	\$1.79-\$2.50	\$650-\$912

¹ Estimated using the price of Winfield 25s.

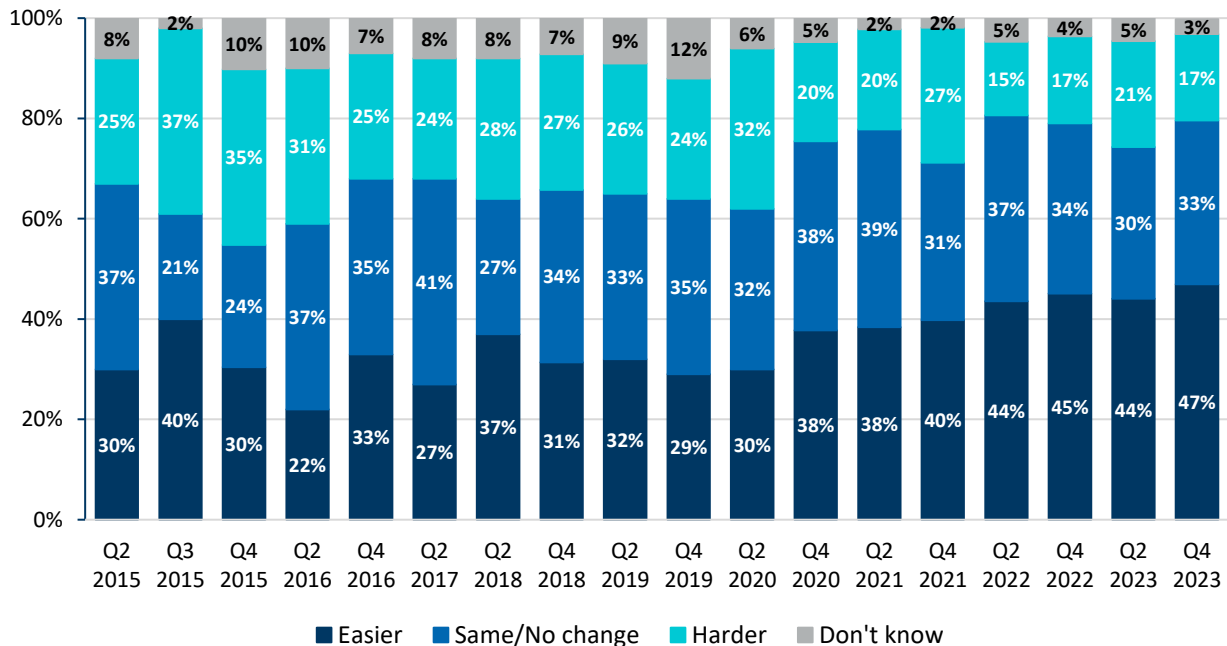
² By assessing relative retail cost to the consumer for each product across a year, based on the same number of puffs consumed across each product.

Source: FTI Consulting analysis of data provided by industry participants.

Rising ease of access to and awareness of illicit products

In 2023, consumers reported increasing awareness and ease of purchase of illicit tobacco products. In fact, since Q4 2020, survey respondents have, in every consecutive quarter, said that it was easier to purchase unbranded tobacco than in the previous quarter (see Figure 15). This means, year-on-year, access to unbranded tobacco has increased considerably, contributing to increased consumption of this illicit substitute.

Figure 15: Ease of purchasing unbranded tobacco, 2015-2023



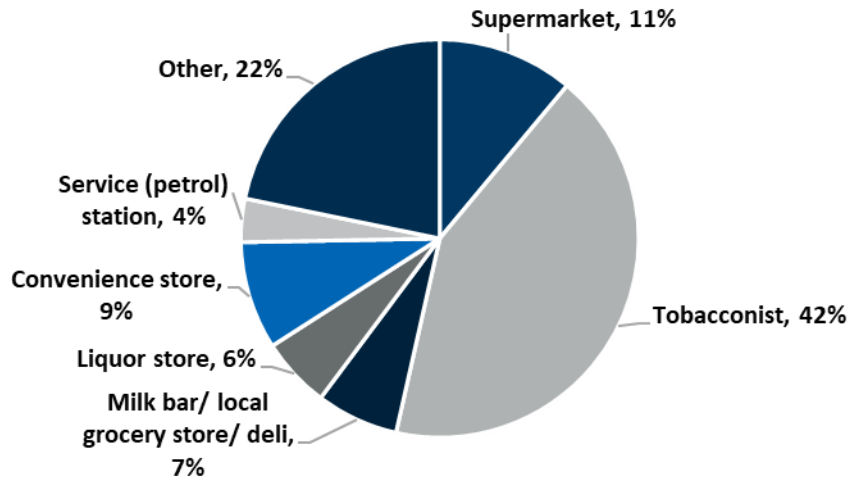
Source: Previous studies of Illicit tobacco in Australia, 2013-2022, and Roy Morgan Research consumer survey, 2022 and 2023.

³⁷ Based on an average of 10 puffs per cigarette: Benowitz NL, Jacob P, Herrera B, "Nicotine intake and dose response when smoking reduced nicotine content cigarettes," American Therapeutic Society (2006).

This growing awareness and ease of purchase of illicit tobacco is further evidence of the increasing availability of illicit tobacco, as estimated in this study.

Tobacconists remain the largest sellers of unbranded tobacco, with 42.5% of unbranded tobacco purchased at tobacconists (see Figure 16). Supermarkets and convenience stores are the next largest, with 11.1% and 8.8% of unbranded sales, respectively.

Figure 16: Main purchase outlets of unbranded tobacco, 2023

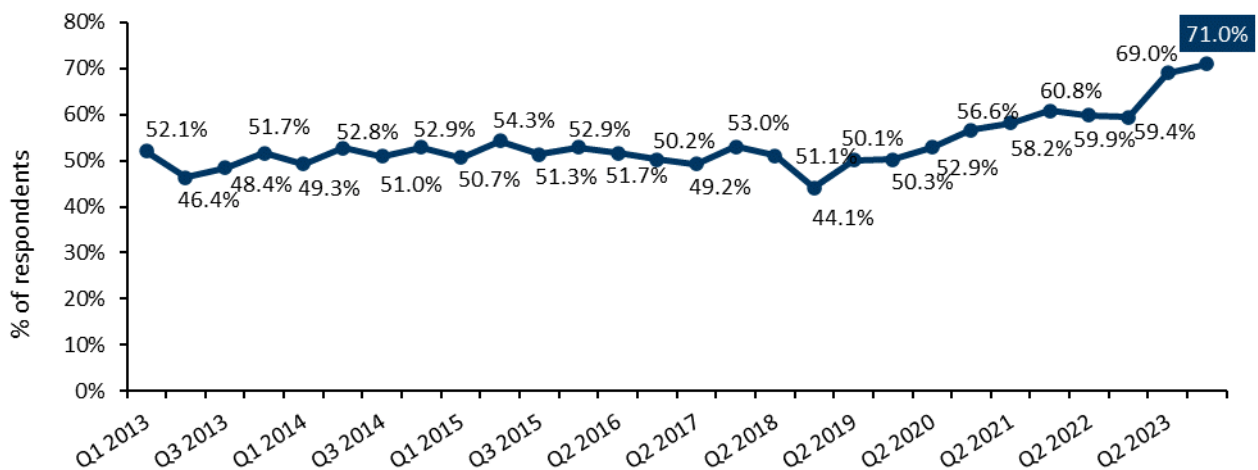


Source: Roy Morgan Research consumer survey data, 2023.

‘Other’ sources include hotels and motels, fast food and takeaway businesses, newsagents, and e-stores or online shopping (which made up 3.0% of unbranded sales).

In Q4 2023, 71.0% of survey respondents said they were aware that unbranded tobacco was available to purchase – an increase of 11.6 percentage points since Q4 2022 (see Figure 17).

Figure 17: Proportion of respondents aware of unbranded tobacco, 2013-2023



Source: Previous studies of Illicit tobacco in Australia, 2013-2022, and Roy Morgan Research consumer survey data for 2022-2023.

4. Illicit Tobacco Consumption

4 Illicit Tobacco Consumption

Key points

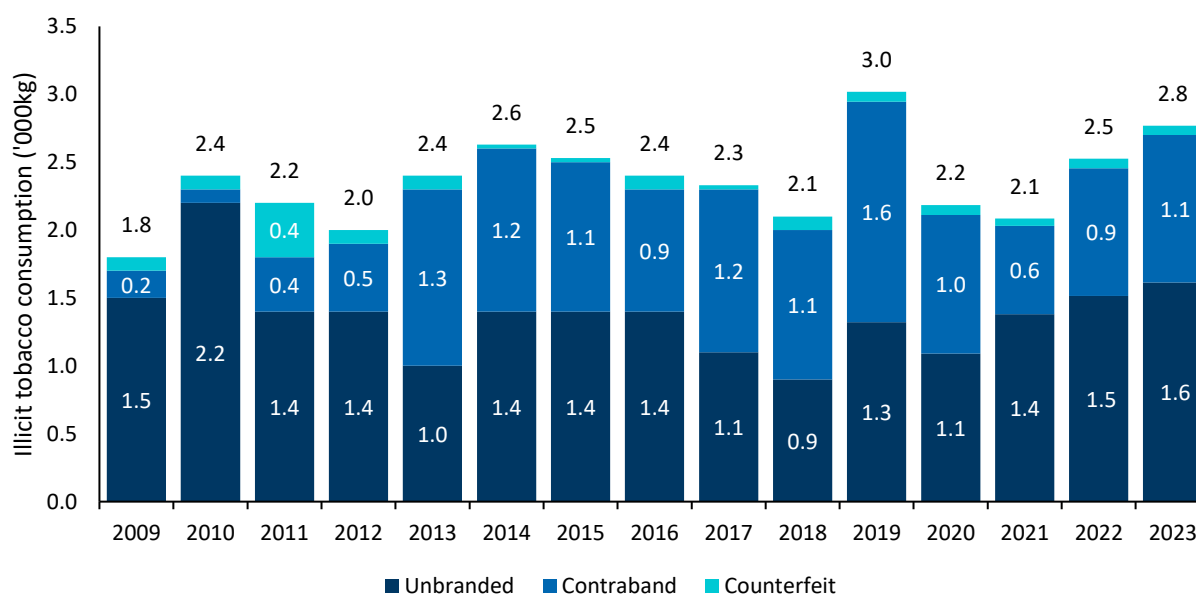
- In 2023, consumption of illicit tobacco in Australia increased by **9.5%**.
- Illicit tobacco now makes up **28.6%** of Australia's total tobacco consumption.
- If excise was collected on this volume of illicit tobacco, it would generate **\$4.85 billion** in additional government revenue based on 2023 excise rates.
- Although counterfeit tobacco reduced by **1.6%**, consumption of unbranded tobacco and contraband increased by **6.5%** and **15.7%**, respectively.

4.1 Summary of total illicit tobacco consumption in Australia

The estimated volume of total illicit tobacco consumption in 2023 (2.8 million kg) is at its highest level since 2019 (refer Figure 18). This is driven by:

- consumption of unbranded tobacco at volumes not observed since 2010
- a return to pre-COVID-19 levels of 'normal' passenger and freight movements following the re-opening of borders and supply chains, contributing to a rebound in the consumption of contraband cigarettes.

Figure 18: Total illicit tobacco consumption in Australia, 2009-2023



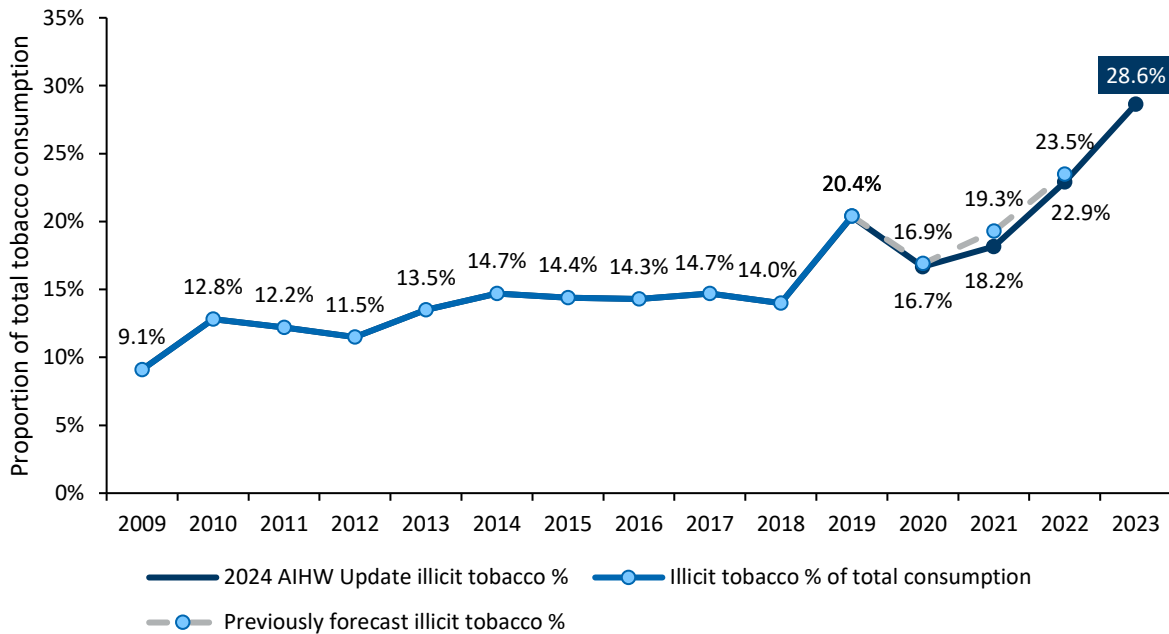
Source: Previous studies of Illicit tobacco in Australia, 2013-2022, and FTI Consulting analysis of 2022 and 2023 data from various sources.

The consumption of counterfeit tobacco remains a small component of illicit tobacco.

If excise was collected on this volume of illicit tobacco, it would generate \$4.85 billion in additional government revenue based on 2023 excise rates.

After remaining steady between 2013 and 2018, the proportion of total tobacco consumption made up of illicit products has increased dramatically year-on-year, except for 2019 where contraband consumption was reported to be abnormally high. Since 2021, illicit tobacco as a proportion of total tobacco consumption has steadily increased from 22.9% to 28.6% (see Figure 19).

Figure 19: Illicit tobacco as a proportion of total tobacco consumption in Australia, 2009-2023



Source: Previous studies of Illicit tobacco in Australia, 2013-2022, and FTI Consulting analysis of 2022 and 2023 data from various sources.

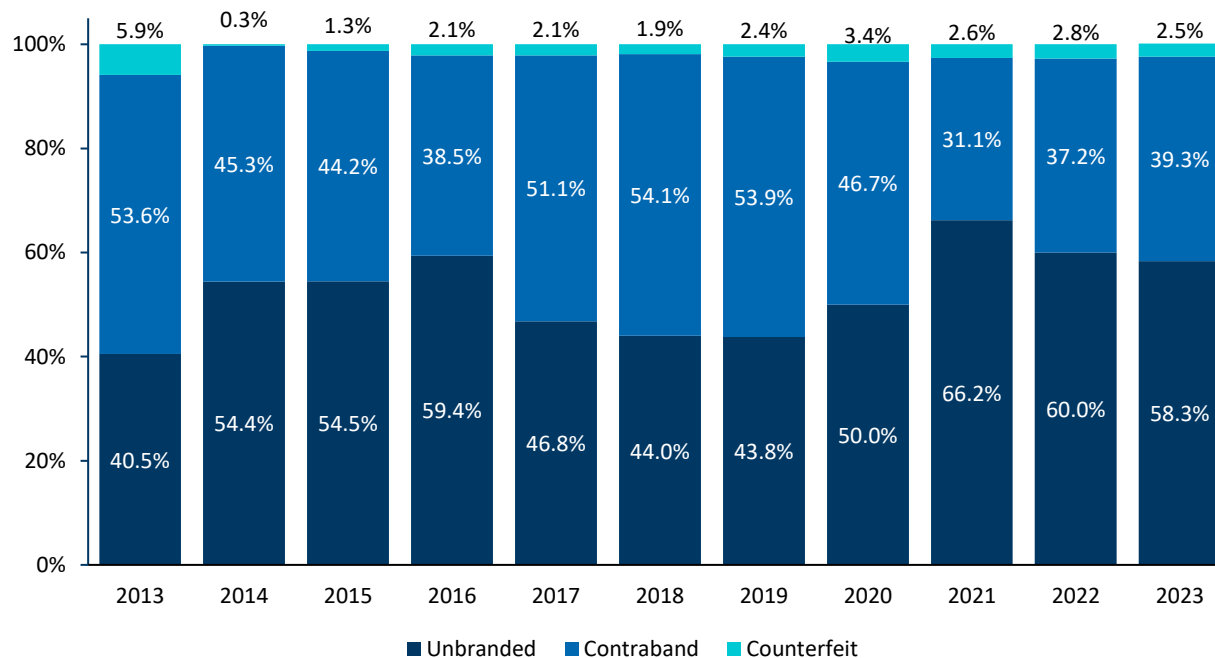
This was driven by the continued decline in legal tobacco consumption and an increase in the volume of illicit tobacco consumed.

4.2 Components of illicit tobacco consumption

In 2023, the proportions of illicit tobacco comprised of both unbranded and counterfeit have decreased slightly (by 1.7 and 0.3 percentage points, respectively), while the share of contraband has increased by 2.1 percentage points (refer Figure 20). The proportional increase in contraband is expected as international travel continues to increase after the re-opening of borders post COVID-19 closures.

Figure 20 refers to the *proportions* of illicit tobacco components – whereas estimated *volumes* have increased for both unbranded and contraband, and decreased slightly for counterfeit, as shown in Figure 18. These will be discussed further in subsequent sections.

Figure 20: Share of illicit tobacco consumption by category, 2013-2023



Notes: Percentages may not sum to 100 due to rounding. Market share of manufactured cigarettes is established using the yearly averaged price per cigarette. The low, medium, and high price categories are adjusted yearly to reflect the average growth in prices across cigarettes in that category between years. For example, the average growth in low cigarette prices from 2022 to 2023 was 7% and, as such, the low category cutoff price was adjusted accordingly, from \$1.68 to \$1.80 per cigarette.

Source: Previous studies of Illicit tobacco in Australia, 2013-2018, FTI Consulting analysis for 2022 and 2023 (and re-estimation of 2020-2022) using updated AIHW smoking incidence.

4.3 Unbranded tobacco

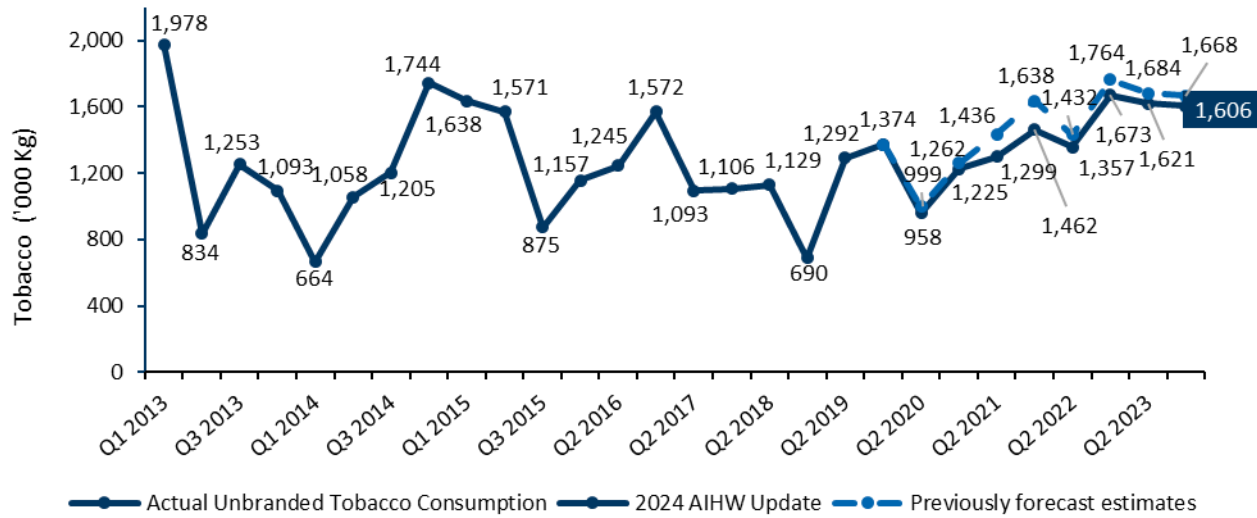
Figure 21 shows that in 2023, consumption of unbranded tobacco decreased slightly from 1,673 tonnes in Q4 2022 to 1,606 tonnes in Q4 2023. However, the consumption of unbranded tobacco remains significantly higher than pre-COVID-19 levels.

Unbranded tobacco consumption has consistently grown since 2020. Figure 22 shows a 6.5% increase in blended unbranded tobacco consumption from 1,515 tonnes in Q4 2022 to 1,613 tonnes in Q4 2023).³⁸

As described in Chapter 1, the AIHW National Drug Strategy Household Survey indicates that the daily smoking population has fallen faster than expected. As a result, the corresponding figures during 2020-2022 referenced in this study may not align with previously released figures. The charts below present updated estimates alongside previous estimates.

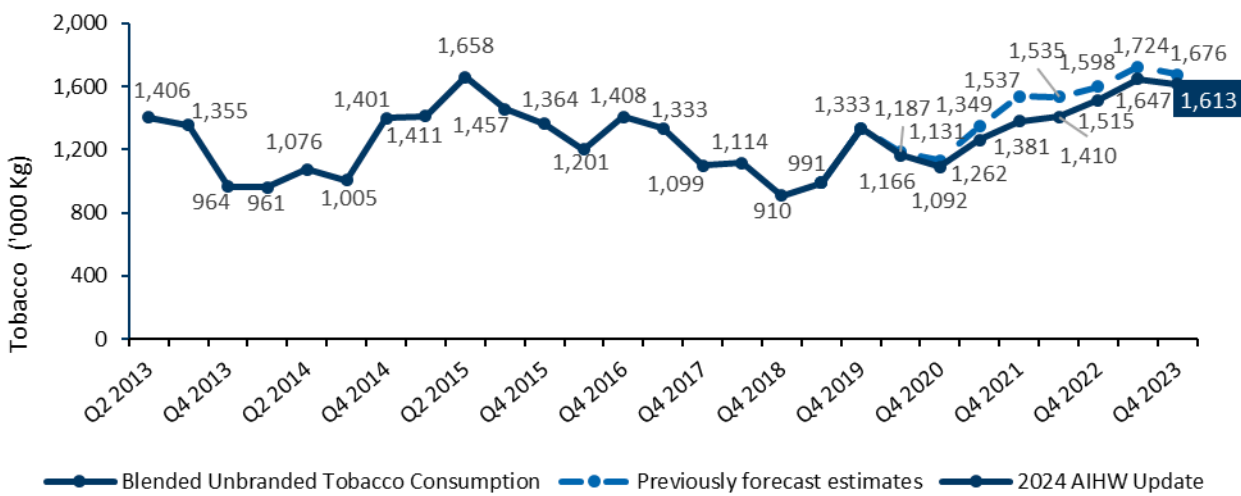
³⁸ Blended consumption refers to the average consumption across the current and previous period (i.e., for Q4 2023, the blended consumption is an average of the actual consumption for Q2 2023 and Q4 2023).

Figure 21: Actual consumption of unbranded tobacco, 2013-2023



Source: Previous studies of Illicit tobacco in Australia, 2013-2018, FTI Consulting analysis for 2022 and 2023 (and re-estimation of 2020-2022) using updated AIHW smoking incidence.

Figure 22: Blended consumption of unbranded tobacco, 2013-2023



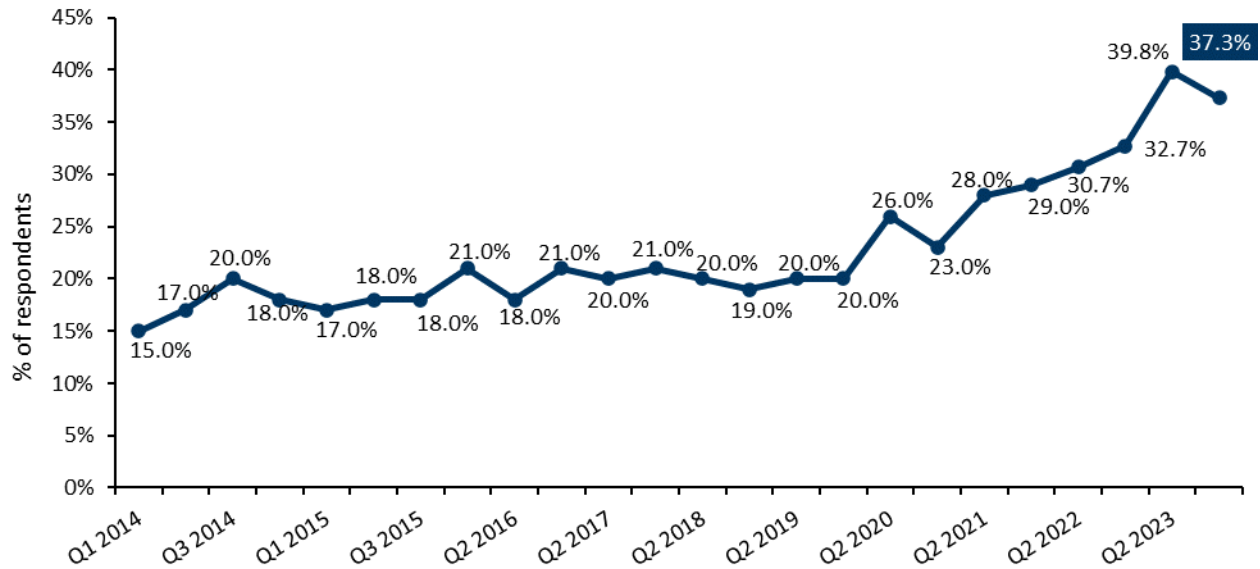
Source: Previous illicit tobacco studies in Australia (2013-2018), FTI Consulting analysis for 2022 and 2023 (and re-estimation of 2020-2022) using updated AIHW smoking incidence.

Purchase of unbranded tobacco

The proportion of consumers surveyed by Roy Morgan Research who reported purchasing unbranded tobacco increased from 32.7% in Q4 2022 to 37.3% in Q4 2023.³⁹

³⁹ A key element of the approach to estimating unbranded tobacco consumption is the parameter for the proportion of respondents who reported purchasing unbranded tobacco. FTI Consulting has adopted the approach used in previous years which draws on survey responses in the Roy Morgan Research Consumer Survey. Responses are collected on the consumption behaviour of daily smokers and applied to the daily smoking population, and therefore exclude consumption of unbranded tobacco by non-daily smokers.

Figure 23: Proportion of respondents who reported purchasing unbranded tobacco, 2013-2023



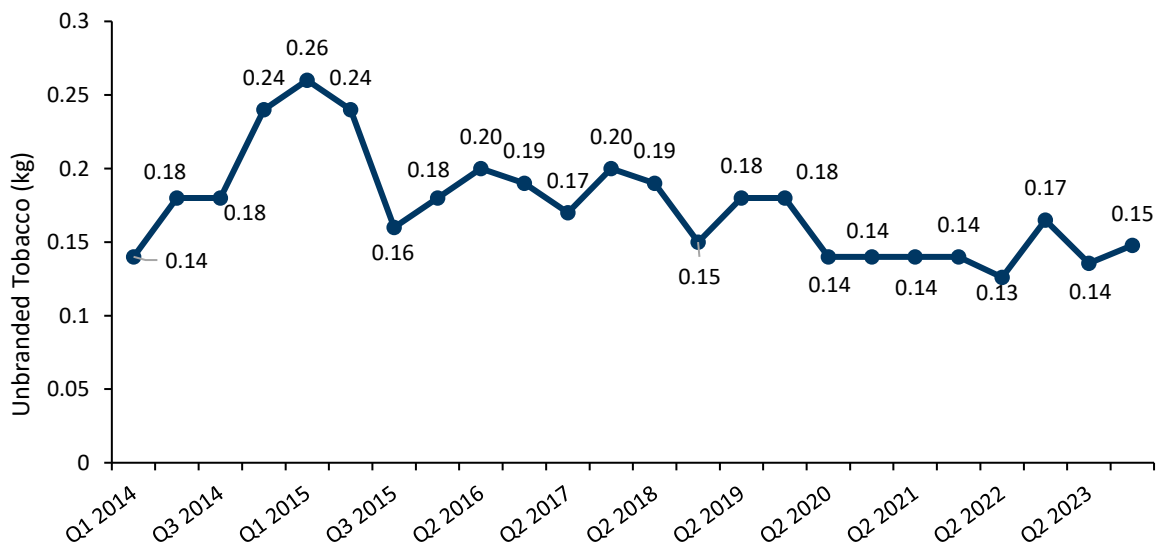
Source: Roy Morgan Research consumer survey data.

Average purchase volume and frequency

Consumers are buying smaller amounts of unbranded tobacco, although more frequently. This corresponds to the increasing ease of purchase reported by unbranded tobacco consumers, shown in Chapter 3.

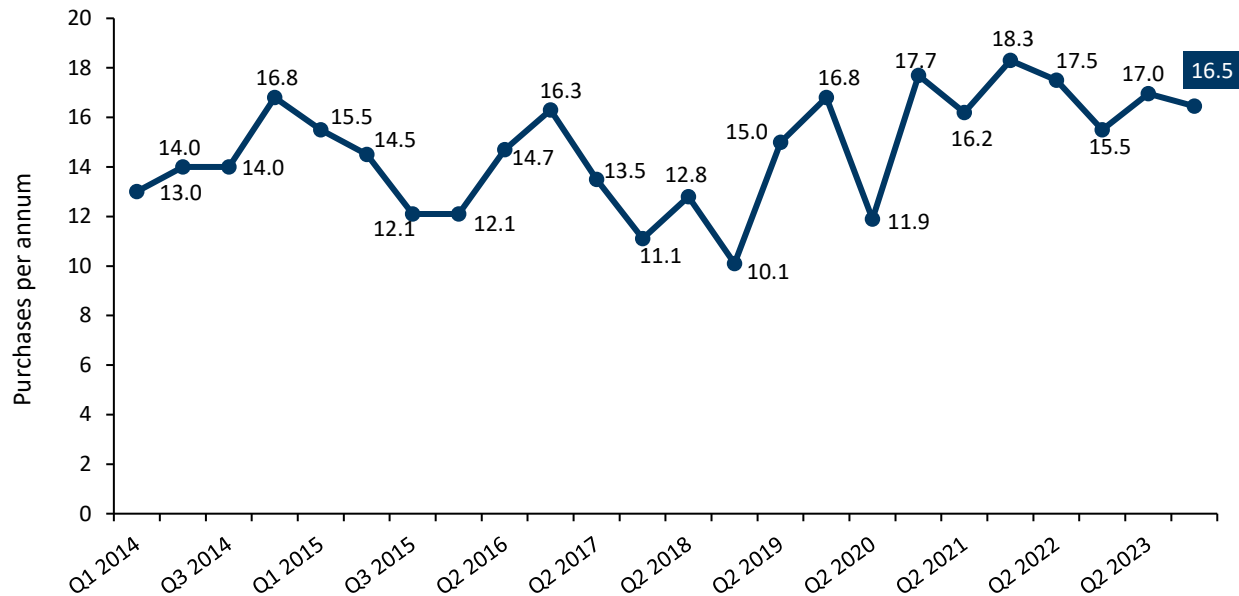
In Q4 2023, the average volume of unbranded tobacco purchased per occasion decreased by 10.5% compared to Q4 2022 (see Figure 24), while the average frequency of purchase increased by 6.1% over the same period (Figure 25). The blended quantity of unbranded tobacco purchased per person (across Q2 and Q4) has remained relatively constant between 2022 and 2023. This might suggest consumers are more confident that they can access unbranded tobacco.

Figure 24: Average volume of unbranded tobacco purchased per occasion (kg), 2014-2023



Source: Roy Morgan Research consumer survey data.

Figure 25: Average frequency of unbranded tobacco purchase per annum, 2013-2023



Source: Roy Morgan Research consumer survey data.

4.4 Contraband

Contraband was the second largest component of illicit tobacco consumption in 2023, making up 39.3% of total illicit consumption. Prior to the COVID-19 pandemic, contraband comprised of more than half of the total illicit tobacco consumption (circa 52%-54%), however its share was disrupted in 2020-2022 and it is yet to fully return in the consumption profile.

The estimated total of contraband tobacco consumed (1.1 million kg) has increased by 15.7% since 2022, comprising:

- 852 tonnes of contraband (including non-domestic illicit whites) – which has decreased by 1.1% since 2022 and
- 235 tonnes of domestic illicit plains – which has increased by 202.1%.⁴⁰

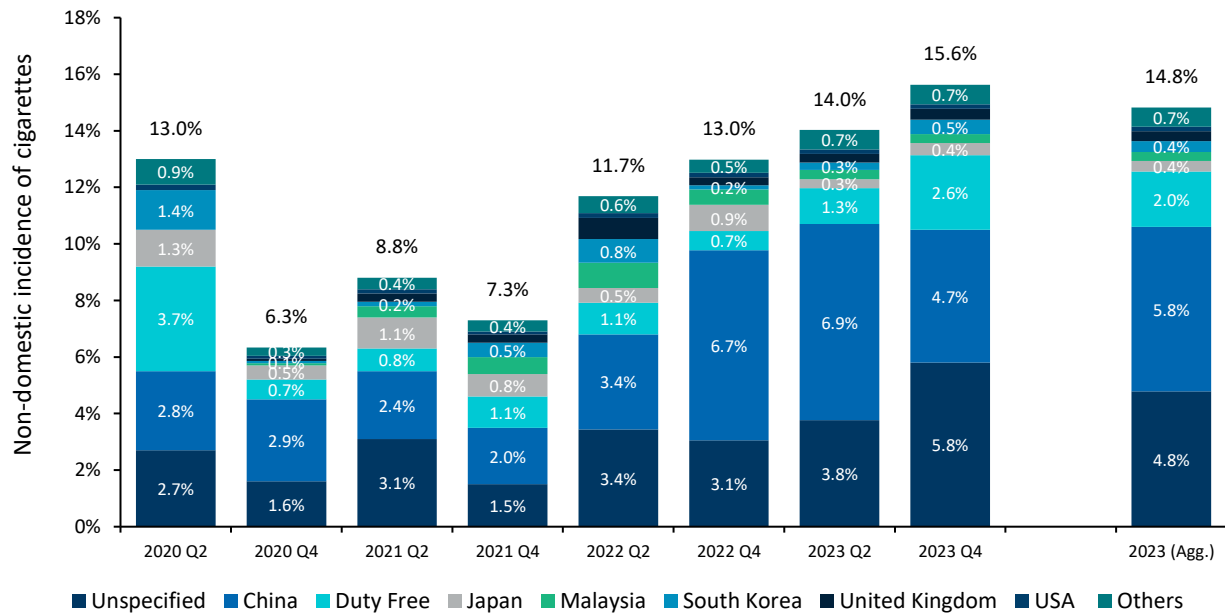
Non-domestic incidence of manufactured cigarettes

Non-domestic incidence data indicates the prevalence of manufactured cigarettes that do not comply with domestic packaging regulations. A portion of non-domestic incidence comprises non-domestic legal (reflecting travellers entering Australia carrying the allowable tobacco limit), but non-domestic incidence predominantly comprises contraband.

In 2023, the inflow of non-domestic manufactured cigarettes increased from 12.3% in 2022 to 14.8% in 2023 (Figure 26). In 2023, China accounted for 39.2% of all non-domestic inflows, while the proportion of inflows from 'Unspecified' countries increased to 32.3%. This increase is driven primarily by a significant rise in inflows from 'Unspecified' countries, which represent the second largest contributor to total inflows in 2023.

⁴⁰ Presenting contraband as a combination of illicit white products is consistent with previous illicit tobacco studies.

Figure 26: Total non-domestic incidence as a percentage of total manufactured cigarette consumption by country of origin, 2020-2023

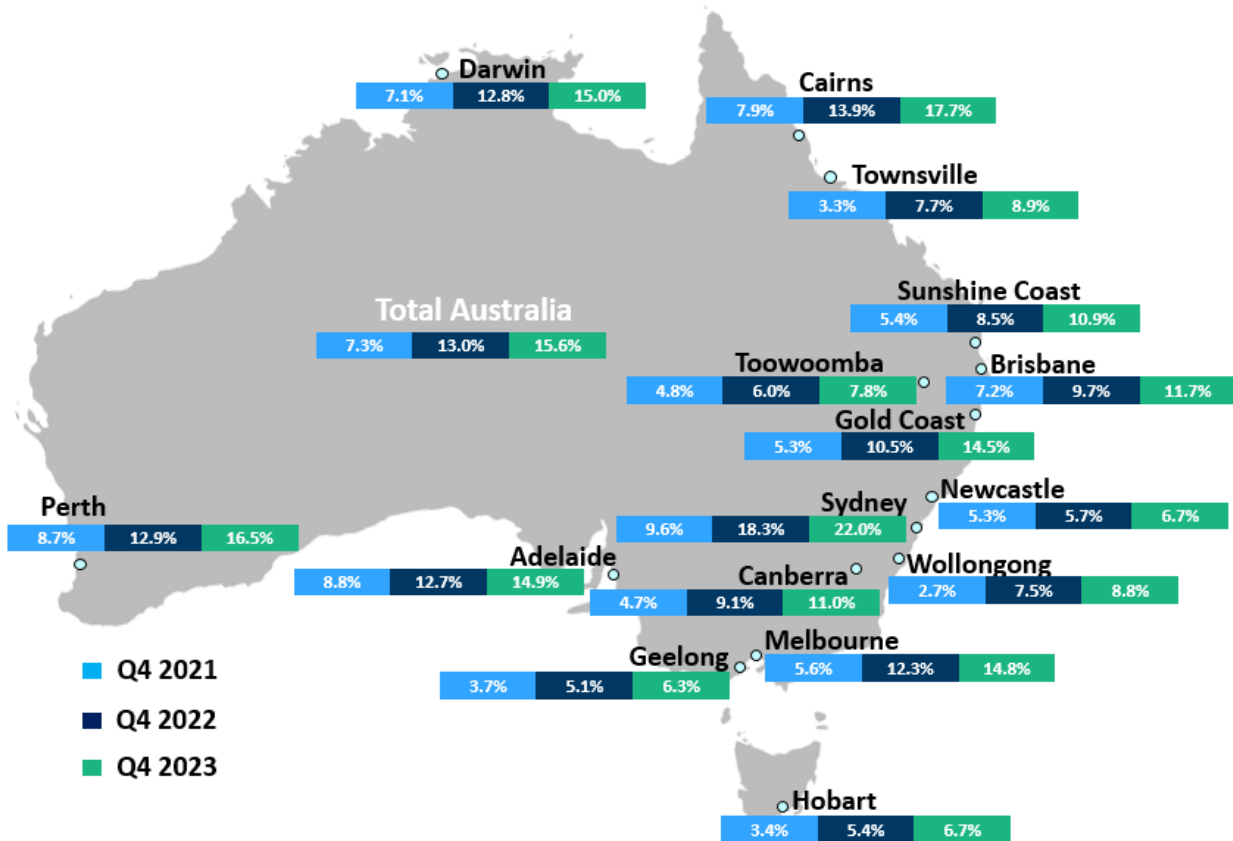


Source: WSPM empty discarded pack survey data.

The incidence of non-domestic brands increased across Australian population centres between Q4 2022 and Q4 2023 (Figure 27). The non-domestic incidence in non-major population centres⁴¹ saw the largest increase, rising from 8.6% to 12.6%. Non-domestic incidence is still larger in the major population centres, rising to 16.6% in Q4 2023, with Sydney being the population centre with the highest non-domestic incidence of 22.0%.

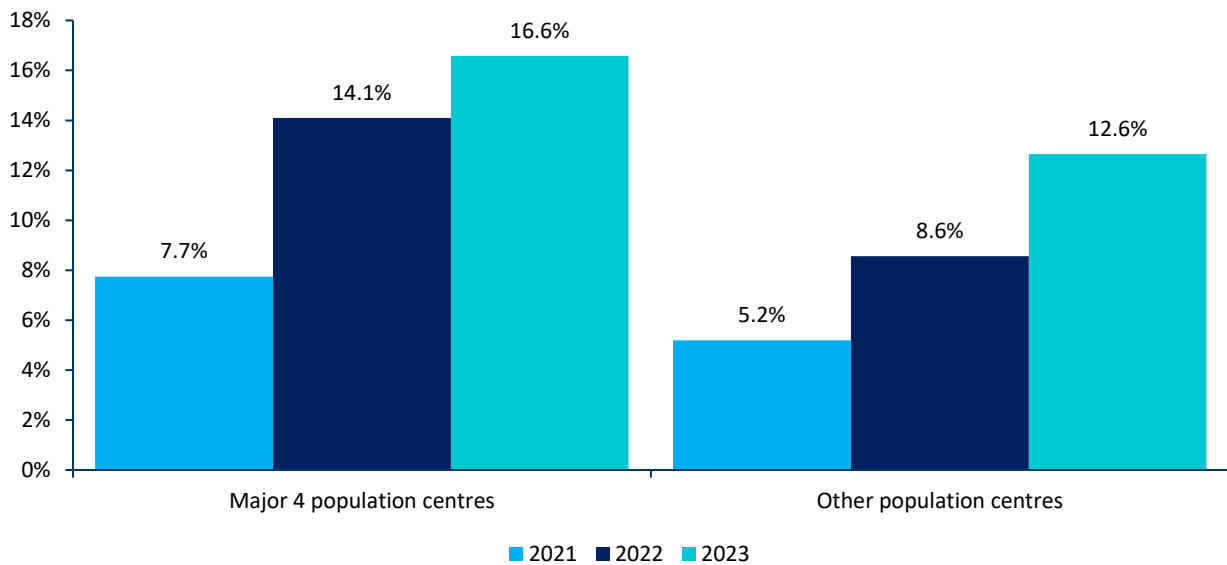
⁴¹ Major population centres are Brisbane, Sydney, Melbourne and Perth.

Figure 27: Total non-domestic incidence of manufactured cigarettes by population centre



Source: WSPM EDPS data.

Figure 28: Weighted non-domestic incidence by population centre, Q4 2021, Q4 2022, Q4 2023

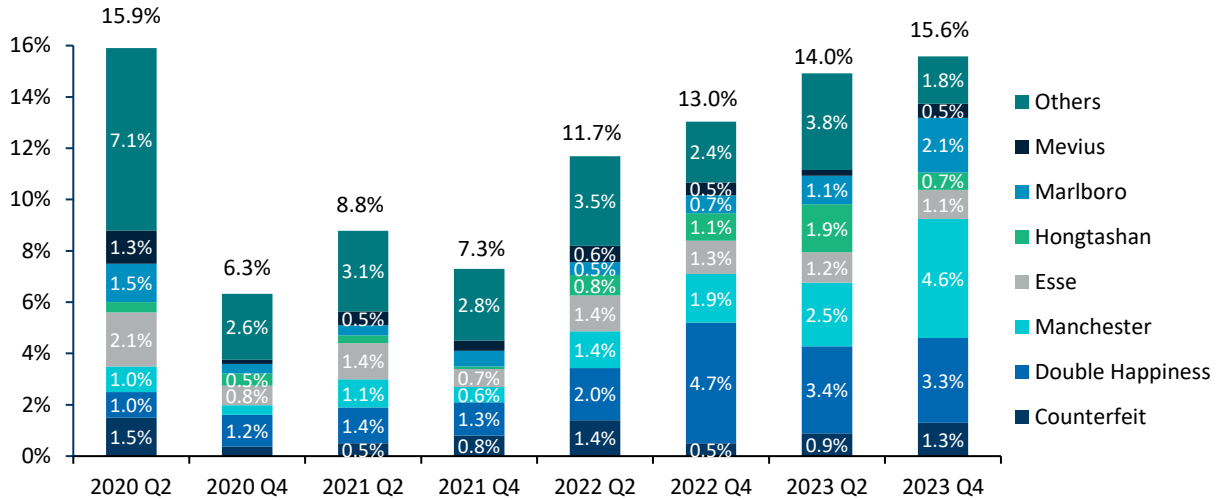


Source: WSPM EDPS data.

Among all non-domestic brands, the inflow of the Manchester brand of cigarettes has grown substantially from 1.9% in Q4 2022 to 4.6% in Q4 2023 (refer Figure 29). Conversely, Double

Happiness has seen a decrease over the same period, from 4.7% to 3.3%. Most Double Happiness imports originate in China and a smaller portion from the Middle East, while Manchester primarily comes from the Middle East and sometimes Southeast Asia.

Figure 29: Total non-domestic incidence by brand flows as a percentage of total manufactured cigarette consumption, 2020-2023



Note: In years where non-domestic incidence is lower than 0.5% in any period, labels have been removed.

Source: WSPM EDPS data.

4.5 Counterfeit

Consumption of counterfeit cigarettes decreased slightly in 2023, from 70 tonnes in 2022 to 69 tonnes in 2023 (equivalent to a reduction of 1.6%). As counterfeit cigarettes account for only 2.5% of total illicit tobacco consumption in 2023, its reduction has a marginal impact on the growth of total illicit tobacco.

4.6 Domestic illicit plains

Illicit whites are manufactured cigarettes produced legally in one country and exported to Australia illegally. These cigarettes do not have a legal distributor in Australia, and more importantly, they are sold without paying applicable excise and customs duties to the Australian Government.

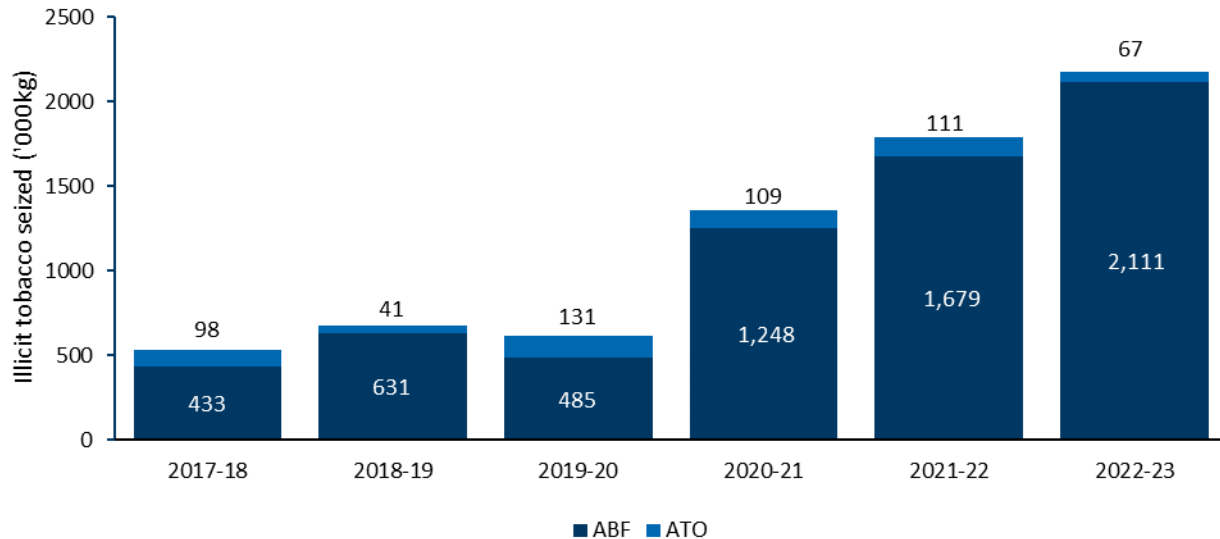
Domestic illicit plains are one of the two components of illicit white cigarettes which contributes to the total illicit consumption. It refers to the flows of illicit whites brands that usually have packaging designed for the domestic Australian market. Domestic illicit plains are a separate contributor to the illicit tobacco consumption model and should be added to the other illicit tobacco consumption components to estimate the total illicit tobacco consumption in Australia.

Domestic illicit plains make up 8.5% of total illicit tobacco consumption in 2023, equivalent to around 235 tonnes. This represents an increase of 202.1% from 2022. Domestic illicit plains are included in the total contraband estimation (in section 4.4 above on contraband estimation).

4.7 Seizures

The trend of increased consumption of illicit products is consistent with data on tobacco seizures from both the Australian Border Force (ABF) and the Australian Taxation Office (ATO). Total seizures increased by 21.7% from 2021-22 to 2022-23, to 2,178 tonnes. Almost all seizures of illicit tobacco (96.9% of total seizures in 2023) were made by the ABF (see Figure 30).

Figure 30: Total illicit tobacco seizures, 2017-18 - 2022-23

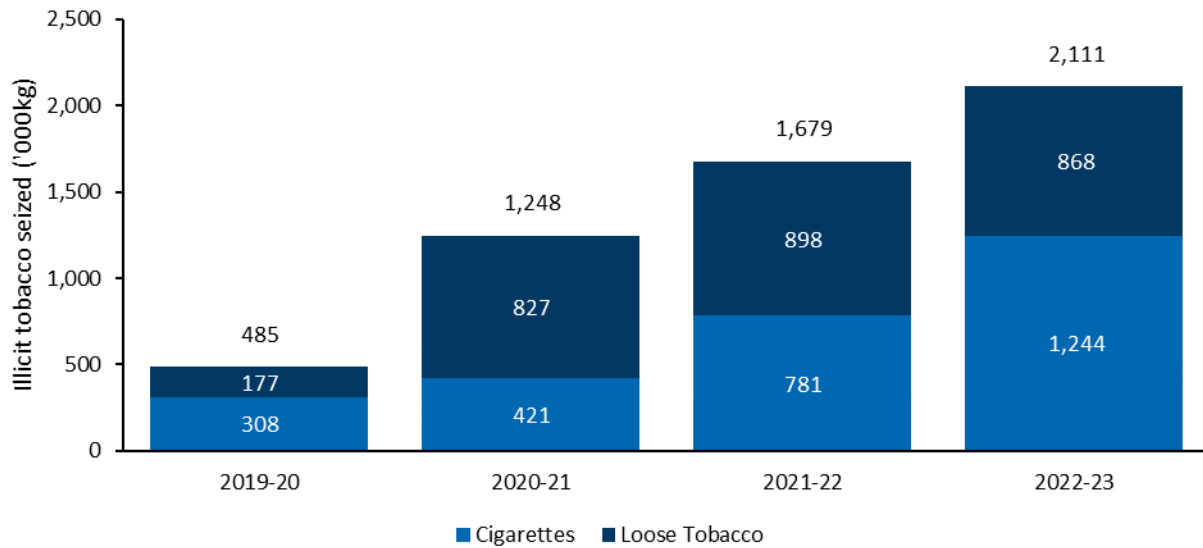


Note: ABF refers to the Australian Border Force; ATO refers to the Australian Taxation Office.

Source: Previous illicit tobacco studies in Australia for historical data, and Illicit Tobacco Task Force for 2022-23.

Of the 2,111 tonnes of illicit tobacco seized by the ABF, 1,244 tonnes were made up of cigarettes, while the remaining 868 tonnes was loose tobacco (refer Figure 31). The detection of loose-leaf tobacco was not proportionate to the increase in unbranded tobacco consumption; the ABF seized 3.3% less loose-leaf tobacco in 2022-23 than in 2021-22, contrary to the 6.5% increase in unbranded consumption.

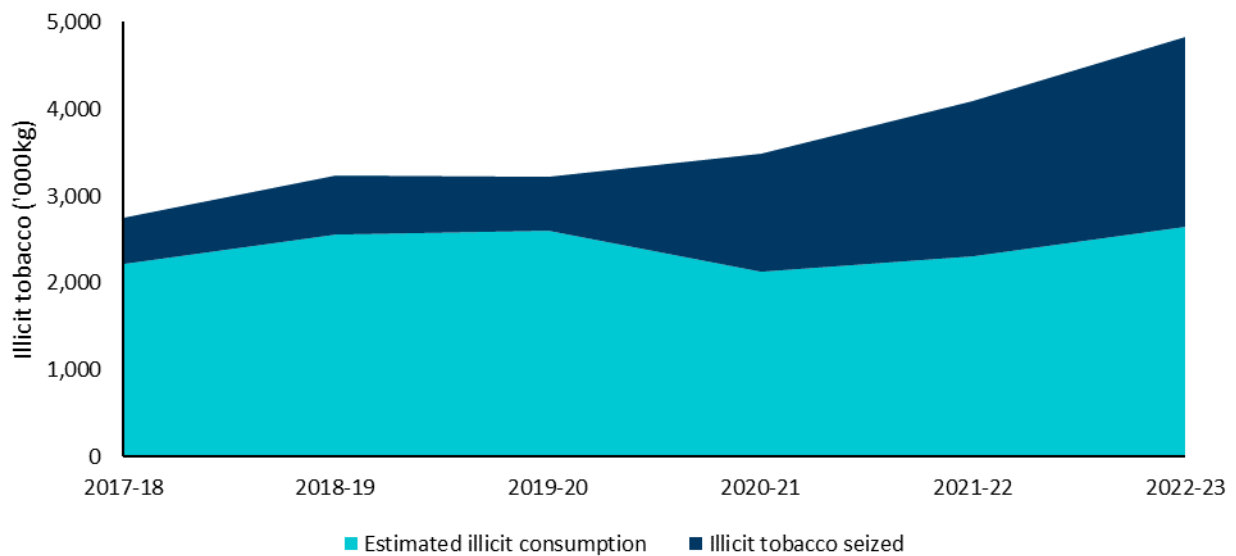
Figure 31: Composition of ABF seizures, 2019-20 - 2022-23



Source: Previous illicit tobacco studies in Australia for historical data, and Illicit Tobacco Task Force for 2022-23.

In 2018, the Commonwealth Government established the Illicit Tobacco Taskforce (ITTF) to combat imports of illicit tobacco products. As Figure 32 shows, border seizures of illicit tobacco have increased since the ITTF was established. However, this is driven by an increase in the total amount of tobacco being brought into the country; despite rising seizures, illicit tobacco consumption has continued to increase since 2020. A summary of key seizures in 2023 is provided in Appendix D.

Figure 32: Estimated total illicit tobacco consumed and seized, 2017-18 to 2022-23



Source: Previous illicit tobacco studies in Australia for historical data, and Illicit Tobacco Task Force for 2022-23.

5 Conclusion

5.1 Rising consumption of illicit tobacco

Total tobacco consumption in Australia reduced from 2022 to 2023, driven by the decline in the consumption of legal tobacco products. The proportion of total tobacco consumption that is illicit has increased significantly and now stands at 28.6% of total tobacco consumption. This represents an increase of 5.7 percentage points from 2022 and exceeds pre-pandemic levels of around 14%.

These trends are a product of both a decline in the AIHW's estimated daily smoking incidence and an increase in the volume and proportion of illicit tobacco products in total tobacco consumption. The decline in legal tobacco consumption is only partly reflective of the decline in the daily smoking population. Between 2019 and 2023, the decline in the daily smoking population was 24.5% compared to the decline in legal tobacco sales of 41.6%.

Consumption of illicit tobacco has continued to grow significantly relative to the legal market across this period (2019-2023), in addition to rising vape use which is not estimated in this study.

5.2 Access to illicit tobacco

The increasing trend towards consumption of illicit tobacco corresponds to rising ease of access to and uptake of unbranded tobacco. These observations around illicit markets access and uptake in the consumer surveys were also made in the empty disposable pack surveys, showing an increase in the prevalence of manufactured cigarettes not designed for the legal tobacco market in Australia.

- Almost half of consumer survey respondents (46.9%) said it was easier to purchase unbranded tobacco in Q4 2023. This reflects a trend towards increasing ease of purchase in each survey period.
- In addition, the popularity of substitute products (e-cigarettes) rose significantly.

5.3 Profitability of illicit tobacco

Australian law enforcement agencies have continued to seize increasing quantities of illicit tobacco. Despite rising seizures, illicit tobacco consumption has continued to increase since 2019, indicating more illicit product is entering Australian borders.

In 2023, it was highly profitable to engage in illicit tobacco trade. Industry analysis suggests the illicit market value of a 40-foot container of illicit tobacco products lies between \$7 million and

\$13 million.⁴² Prices of legal cigarettes in Australia are now amongst the highest in the region and are now almost 10 times the prices paid in other countries.

These market dynamics create strong incentives for traders to import significant volumes of tobacco to Australia without paying the necessary excise and duties. This underscores why the illicit tobacco trade is often associated with organised crime. The social costs of illicit tobacco can be observed in this year, in particular arson and violent crime.

5.4 Further regulation and enforcement required

For as long as illicit tobacco products remain easily available, high prices for legal tobacco are expected to continue to encourage consumers to turn to these much cheaper alternatives. As a result, there is a need for much more targeted regulatory and enforcement action to stay ahead of the illicit tobacco trade.

The consumption profile within the tobacco market is impacted by appropriate licensing requirements, monitoring activity around licence compliance and enforcement activity. At present, strategies related to illicit tobacco remain insufficient to deter participation.

In the first half of 2024, it remains difficult for states to limit the supply of illicit tobacco into the tobacco market while not all states have implemented a licensing scheme. Both the Victorian and Queensland Governments have committed to rolling out licensing scheme in 2024.

In 2024, new regulations related to vaping are being implemented to address the shortcomings of the previous regulatory model on e-cigarettes. The effectiveness of these reforms will depend on the implementation of an effective monitoring, compliance and enforcement framework across both tobacco and e-cigarettes.⁴³

Recognising that the excise value of illicit tobacco (calculated on 2023 excise rates) is substantive, estimated at \$4.85 billion, and broader community and economy-wide impacts, it would be appropriate to consider further targeted measures to address the illicit tobacco trade in Australia.

⁴² Mark Buttler, "Smoking out the jackpot," Herald Sun (3 April 2024).

⁴³ The National Vaping Working Group (NVWG) will oversee the development and implementation of a National Vaping Enforcement Framework in 2024.

Appendices

Appendix A: Estimating Unbranded Tobacco Consumption

Total illicit tobacco consumption consists of four major elements, including unbranded, contraband, counterfeit, and domestic illicit plains. Unbranded tobacco currently represents over half (58.3%) of illicit tobacco consumption.

The approach used to estimate unbranded tobacco consumption is consistent with the method undertaken by FTI Consulting in 2022, and by KPMG LLP (2013-2021), Deloitte (2010-2011), and PricewaterhouseCoopers (2007 and 2009). The explanations provided on our approach to estimating unbranded tobacco consumption can be read along with previous guidance included on the methodology in the FTI Consulting report, *Illicit tobacco in Australia 2022*.

We acknowledge that due to the nature of the qualitative analysis required for some components of the unbranded tobacco consumption, there might be minor discrepancies between FTI Consulting results and KPMG LLP results, which do not meaningfully affect the final estimates.

Key data sources and approach

To estimate unbranded tobacco, the key data sources are the Roy Morgan Research consumer survey, the AIHW National Drug Strategy Household Survey, and the ABS Census and population estimates.

The consumer survey

The consumer survey is primary market research used to estimate the size of the unbranded tobacco market in Australia. The consumer survey was conducted by Roy Morgan Research. Over 21,000 people took part in the latest AIHW household survey, held in 2022 and 2023, and released in 2024.

In 2022, there were 2,250 eligible participants in Q2 and 2,261 eligible participants in Q4 that completed the survey. The number of participants in 2023 were 2,117 in Q2 and 2,145 in Q4. Hence, fewer participants have completed the survey in 2023.

Key elements of our methodology consistent with previous years include:

- Validation of the survey respondents' overall smoking and unbranded smoking behaviour. For instance, a participant's unbranded smoking volume in a year could not exceed their overall smoking volume per year. This results in some responses being eliminated to achieve more genuine outcomes.
- Implementation of the weighted sample data⁴⁴ which are best representatives of the whole population of Australia.

⁴⁴ Application of Roy Morgan Research rim weights to the participants' responses using criteria it collects from respondents, such as location, age, gender, income, occupation and work status.

- Application of previous methods for estimating participation of the daily smoker population in unbranded tobacco consumption.

To ensure the comparability of the results between years, FTI Consulting maintained as consistent an approach as possible in this study compared with 2022, and with the approach adopted by KPMG LLP in previous years. This raises two important considerations in relation to the methodology for estimating unbranded tobacco consumption:

- the participation rate in unbranded tobacco consumption (the proportion of unbranded tobacco users as a share of the total smoking population) is a key driver of estimates of unbranded tobacco consumption.
- unbranded tobacco consumption is estimated based on the daily smoking population, and therefore the consumption of unbranded tobacco by non-daily smokers is not reflected in the estimates. This is noteworthy in this study given the increase in “dual use” (of illicit vaping and smoking).

AIHW

The AIHW’s National Drug Strategy Household Survey is undertaken every three years and provides smoking incidence that is used in the estimation of unbranded tobacco consumption. The survey focuses on attitudes and behaviours across a wide range of health and drug related issues and includes questions on smoking prevalence for 14 years of age and older smoking population in Australia.

The latest survey results released by AIHW cover the 2022-23 calendar year. Whereas, at the time of the previous report we continued using a compound annual growth rate (CAGR) approach to forecast the 2020-2022 smoking population using previous AIHW survey results, this study adopts the smoking incidence for 2023 as 8.3%. We have therefore rebased the smoking population for all estimations conducted between 2019 – 2022 using the updated AIHW survey results.

ABS

Estimates of Australia’s adult population are extracted from the ABS and adult smoking population in Australia (in percentage terms) from the AIHW household survey. ABS updates its data every five years through the Census. In census years, we have used actual adult population data released by ABS in the consumption model. The last ABS population data was collected in 2021. For other years, such as 2023, we have used the CAGR method to forecast the adult population.

Components of unbranded tobacco consumption estimates

As explained above, Roy Morgan Research conducts its consumer survey on a six-monthly basis (in Q2 and Q4). The unbranded tobacco consumption for the corresponding year (named blended unbranded tobacco consumption) equals the simple average of the estimated volume of unbranded tobacco consumptions in each survey ‘quarter’.

We applied the percentage of the adult smoking population for 2023 using the latest AIHW survey to the ABS population estimates.

Table 4 sets out the parameters and estimates related to unbranded tobacco consumption for 2023.

Table 4: Unbranded tobacco consumption estimation approach

Step	Parameter	Reference	Q2 2023	Q4 2023	2023
1	Quantity of unbranded tobacco purchased per occasion per consumer (g)	RMR consumer survey, Bi-annual (Q2 and Q4)	136	148	
2	Frequency of unbranded tobacco purchased per annum per consumer (#)	RMR consumer survey, Bi-annual (Q2 and Q4)	17.0	16.5	
3	Quantity of unbranded tobacco purchased per annum per consumer (g)	(1) x (2)	2,300	2,430	
4	Adult population in Australia ('000) (see note)	ABS – Annual forecast	21,344	21,344	
5	% adult smoking population in Australia (%)	AIHW – Actual	8.3%	8.3%	
6	Number of adult smoking population in Australia ('000)	(4) x (5)	1,772	1,772	
7	% Australian adult smoking population who consume unbranded tobacco (%)	RMR consumer survey – Bi-annual (Q2 and Q4)	39.8%	37.3%	
8	Number of unbranded tobacco consumers in Australia ('000)	(6) x (7)	705	661	
9	Quantity of unbranded tobacco consumption in Australia ('000 kg)	(3) x (8)	1,621	1,606	1,613

Notes: The adult definition in the AIHW survey is different from that in the Roy Morgan Research consumer survey. While the consumer survey considers Australians 18 years of age and older as adults, AIHW applies a definition of 14 years of age and above. We use the 14+ population from the ABS for consistency with AIHW.

Source: FTI Consulting.

Appendix B: Empty Discarded Packs Survey and Estimating Other Illicit Components

As discussed in chapter 2, the total illicit tobacco consumption consists of four major elements, including unbranded, contraband, counterfeit, and domestic illicit plains. In 2023, consumption of contraband, counterfeit and domestic illicit plains made up almost 42% of the total illicit tobacco consumption together. The empty discarded packs survey is the major data source for these illicit components, however, other primary and secondary data sources such as the Roy Morgan Research consumer survey, AIHW, ABS and Circana scan contribute to the final figures of these parameters.

The methodology used is consistent with the approach undertaken by the 2022 FTI Consulting report and KPMG LLP in previous years. This appendix briefly covers key elements of our estimation methodology. FTI Consulting's *Illicit tobacco in Australia 2022* report provided further detail about the methodology adopted.

The empty discarded packs survey

The empty discarded packs survey (EDPS) is an independent bi-annual study undertaken by WSPM. The survey collects 16,000 empty discarded cigarette packs across 16 population centres in Australia. As the survey is not subject to respondents' behaviour, it is considered as a survey with considerably less sampling error. The survey covers locations comprising of over 75% of Australia's population.

For each pack collected, WSPM identifies its brand and country of origin, and domestic or non-domestic packaging. Also, after consultation with the participating manufacturers in Australia (ITA, BATA and PML), it identifies whether a collected sample is genuine or counterfeit. Among all, the most important outputs of the survey for our modelling purposes include the number of collected packs and the number of weighted sticks per pack.

EDPS results provide key inputs to our estimations of non-domestic manufactured cigarettes, counterfeit consumption, domestic illicit plains, non-domestic illicit whites, contraband and several other inputs to the analyses. EDPS results are available for Q2 and Q4 in each year. In many cases, we use the simple average of the parameters calculated based on Q2 and Q4 data sets.

Counterfeit consumption

The method implemented to estimate the volume of counterfeit consumption in Australia includes extracting the counterfeit incidence from the EDPS results for each survey (Q2 and Q4)

in percentage terms and applying it to the volume of total manufactured cigarettes consumption in kg terms.⁴⁵

Following the formula provided in Table 5, we use legal sales of domestic manufactured cigarettes and total non-domestic manufactured cigarettes to arrive at the total manufactured cigarettes. The volume of counterfeit cigarettes is then estimated by applying the average counterfeit incidence to the total manufactured cigarettes.

Table 5: Counterfeit consumption estimation process

Step	Parameter	Reference	2023
1	Legal sales of manufactured cigarettes ('000 kg)	Circana scan, Main manufacturers data - Annual	5,364
2	Average non-domestic incidence (%)	EDPS - Bi-annual (Q2, Q4)	14.8%
3	Total manufactured cigarettes consumption ('000) kg	(1) / (100% - (2))	6,296
4	Average counterfeit incidence (%)	EDPS - Bi-annual (Q2, Q4)	1.09%
6	Counterfeit consumption ('000 kg)	(3) x (4)	68.9

Source: FTI Consulting.

Domestic illicit plains consumption

Domestic illicit plains are one of the two components of illicit white cigarettes which contribute to the total illicit consumption. It refers to the flows of illicit whites brands that usually have packaging designed for the domestic Australian market.

The primary data source used to estimate domestic illicit plains is EDPS results. The methodology involves:

- extracting a list of brands primarily identified as domestic illicit plains from the EDPS results
- using secondary data sources to validate the list of domestic illicit plains brands
- after identifying the volume of domestic illicit plains, we calculate the proportion of these brands from the volume of total EDPS packs using the weighted number of sticks for these brands, to arrive at the domestic illicit plains (in percentage terms).

⁴⁵ This parameter includes the volume of legal domestic manufactured cigarettes and total (legal and illicit) non-domestic manufactured cigarettes.

This percentage is then applied to the consumption of total manufactured cigarettes to arrive at the volume of domestic illicit plains in tonnes. Table 6 presents our estimates of the consumption of domestic illicit plains.

Table 6: Domestic illicit plains consumption, 2023

Step	Parameter	2023
1	% Volume of domestic illicit plains from EDPS (%)	3.7%
2	Consumption of total manufactured cigarettes ('000 kg)	6,296
3	Domestic illicit plains consumption ('000 kg) ((1) x (2))	235

Source: FTI Consulting.

Contraband consumption

The method to calculate contraband consumption is to deduct counterfeit consumption from total non-domestic illicit consumption (refer Table 7). Several components are estimated in this process, as explained in our 2022 Report.

Table 7: Contraband consumption estimation process

Step	Parameter	Reference	2023
1	Counterfeit consumption ('000 kg)	See counterfeit consumption section	68.9
2	Legal sales of manufactured cigarettes ('000 kg)	Circana scan data, main manufacturers' data	5,364
3	Consumption of total manufactured cigarettes ('000 kg)	See counterfeit consumption section	6,296
4	Non-domestic legal inbound consumption ('000 kg)	EDPS, ABS, Previous years' estimates	7.3
5	Non-domestic legal outbound consumption ('000 kg)	Consumer survey results, EDPS, AIHW, ABS	3.4
6	Non-domestic legal consumption ('000 kg)	(4) + (5)	10.7
7	Total non-domestic consumption ('000 kg)	(3) – (2)	931.8
8	Non-domestic illicit consumption ('000 kg)	(7) – (6)	921.2
9	Contraband consumption ('000 kg)	(8) – (1)	852.3

Notes: Consistent with the estimation approach adopted in previous years, we have applied a 10% uplift to the estimated non-domestic legal outbound. For the estimation of legal inbound and outbound consumption, we updated the list of key source countries. Consistent with 2022 estimates, we excluded Indonesia which as a key source country. 2023 key source countries were China, Japan, Malaysia, Korea, UK, USA, and Taiwan, and 2020 estimates for Indonesia and Philippines.

Appendix C: Non-Domestic Illicit Whites

Illicit whites include domestic illicit plains and non-domestic illicit whites. Unlike domestic illicit plains, non-domestic illicit whites do not have plain packaging designed for the Australian domestic market.

Non-domestic illicit whites are a component of non-domestic illicit consumption. While it has historically been estimated separately, it is included in estimate of contraband consumption.

Like domestic illicit plains, EDPS is the main data source for its estimation. Our methodology is to identify a primary list of non-domestic tobacco manufacturers and their corresponding manufactured brands using EDPS data in Q2 and Q4. We then identify whether the distributor of these products is registered legally in Australia and use secondary data sources to further refine the primary list and arrive at a final list of non-domestic illicit tobacco manufacturers.

Table 8 presents estimated non-domestic illicit whites consumption. In 2023, non-domestic illicit whites accounted for 63.0% (or 537 tonnes out of 852 tonnes) of contraband consumption.

Table 8: Non-domestic illicit whites, 2023

Step	Parameter	2023
1	% Volume of non-domestic illicit whites from EDPS (%)	8.5%
2	Total manufactured cigarettes consumption ('000 kg)	6,296
3	Non-domestic illicit whites consumption ('000 kg) ((1) x (2))	537

Source: FTI Consulting.

Appendix D: Key Seizures in 2023

February: The ATO with support from Victoria Police seized and destroyed 42 acres of illicit tobacco crops in regional Victoria with an estimated excise value exceeding \$31 million⁴⁶

March: ATO and Victoria Police seized and destroyed approximately 11,458 kilograms of illicit tobacco plants in Bunbartha, Victoria with estimated excise value of more than \$19 million⁴⁷

April: ATO and NSW police seized and destroyed approximately 16,000 kilograms of illicit tobacco in central west NSW with an estimated excise value of \$28 million⁴⁸

May: Led by ATO officers and supported by the NSW Police, the Illicit Tobacco Taskforce (ITTF) seized and destroyed 77,000kg of illicit tobacco in Binnaway NSW, with an estimated excise of \$11.9 million⁴⁹

May: In a joint operation with the ATO and NSW Police (Operation Junglevine2), the ITTF destroyed more than 26,670 kg of illicit tobacco in Braidwood, NSW with an estimated excise value of \$4.4 million⁵⁰

August: Officers from the CCC, QPS, ATO, Queensland Health, the Therapeutic Goods Administration (TGA) and Australian Border Force (ABF) executed a coordinated day of operational activity and seized 8 million cigarettes, approximately 3.74 tonnes of loose-leaf tobacco with a total estimated excise value of \$14 million from a man in Queensland⁵¹

August: The ABF supported by members of the Gold Coast Joint Organised Crime Team executed warrants at 11 properties across South East Queensland, Tweed Heads, and Coffs Harbour regions seizing 2.8 million cigarette stick approx. 380 kilograms of loose-leaf tobacco with estimated excise value of more than \$3.8 million and suspected counterfeit empty plain packaging⁵²

October: 16 warrants were executed by the VIPER taskforce in regional Victoria, in conjunction with police from the Shepparton, Seymour, Yarrawonga and Ballarat Crime Investigation Units, and officers from the ATO and the ITTF resulting in the seizure of 1,324,268 cigarettes with an estimated excise value of \$1.6 million and approximately 901 kg loose-leaf tobacco (\$1.6 million)⁵³

October: Police from the VIPER Taskforce, Crime Command and North West Metro Region, and representatives from ABF, ATO, Australian Federal Police, TGA and Sherriff's Office seized 524,851 cigarettes representing a \$400,000 profit and 30kg of loose tobacco⁵⁴

⁴⁶ Australian Taxation Office, "Tip-off pays off as illicit tobacco uprooted in joint raids," Australian Taxation Office (23 February 2023), <https://www.ato.gov.au/media-centre/tip-off-pays-off-as-illicit-tobacco-uprooted-in-joint-raids#ato-FactsforJournalists>.

⁴⁷ Australian Taxation Office, "Illicit tobacco case studies," Australian Taxation Office (27 February 2024), <https://www.ato.gov.au/about-ato/tax-avoidance/the-fight-against-tax-crime/news-and-results/case-studies/illicit-tobacco-case-studies>.

⁴⁸ Australian Taxation Office, "Investigation into illicit tobacco syndicate – Central West NSW," Australian Taxation Office (11 April 2023), <https://www.ato.gov.au/media-centre/investigation-into-illicit-tobacco-syndicate-central-west-nsw>.

⁴⁹ Australian Taxation Office, "Operation Junglevine2 slashes second tobacco crop," Australian Taxation Office (2 May 2023), <https://www.ato.gov.au/media-centre/operation-junglevine2-slashes-second-tobacco-crop>.

⁵⁰ Australian Taxation Office, "Third major illicit tobacco bust for Operation Junglevine2," Australian Taxation Office (2 May 2023), <https://www.ato.gov.au/media-centre/operation-junglevine2-slashes-second-tobacco-crop>.

⁵¹ Australian Taxation Office, "Multi-million-dollar money laundering investigation smashes illicit tobacco and vape supply," Australian Taxation Office (31 August 2023), <https://www.ato.gov.au/media-centre/multi-million-dollar-money-laundering-investigation-smashes-illicit-tobacco-and-vape-supply>.

⁵² Australian Border Force "Cash, vapes and illegal tobacco seized in huge multi-agency tobacco raids," Australian Border Force (10 August 2023), <https://www.abf.gov.au/newsroom-subsite/Pages/Cash,-vapes-and-illegal-tobacco-seized-in-huge-multi-agency-tobacco-raids.aspx>.

⁵³ Australian Taxation Office, "Lunar and VIPER seize over \$2 million of illicit tobacco products," Australian Taxation Office (27 October 2023), <https://www.ato.gov.au/media-centre/lunar-and-viper-seize-over-2-million-dollars-of-illicit-tobacco-products>.

⁵⁴ Australian Border Force, "Warrants executed across Melbourne targeting illicit tobacco," Australian Border Force (19 October 2023), <https://www.abf.gov.au/newsroom-subsite/Pages/Warrants-executed-across-Melbourne-targeting-illicit-tobacco.aspx>.

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