



## Illicit tobacco in Australia

Summary of findings for 2022

# Glossary

## Components of illicit tobacco consumption

Contraband	Legally manufactured cigarettes that are sold without the payment of applicable excise taxes in the applicable country (Australia). Contraband cigarettes tend to be brought into the applicable country illegally or acquired without taxes and illegally re-sold in the market. This category includes genuine products that are 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.
Unbranded tobacco	Illegal loose leaf tobacco upon which no duty has been paid and which carries no 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 or 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.
Domestic illicit plains	Flows of Illicit Whites brands that have packaging designed for the domestic Australian market.

## Other key terms

Legal domestic sales	Legal domestic sales refers to the estimated volume or value of sales of manufactured (cigarette) and roll your own products.
Non-domestic cigarettes	Cigarettes that are not Australian (carry no Australian health warning, comprise of brands not sold in Australia and/or packs with identifying marks from other markets such as tax stamps). Non-domestic cigarettes include both legal (referred to as ‘non-domestic legal’) and illicit (referred to as ‘non-domestic illicit whites’) products.
Non-domestic illicit whites	Flows of Illicit Whites brands that do not have plain packaging designed for the Australian domestic market. In previous years, it has been referred to as ‘Illicit Whites (non-domestic)’.
Non-domestic legal	Non-domestic legal is the legitimate tobacco purchased duty free or abroad within personal allowance limits (in Australia, this limit is currently 25 cigarettes or 25g of RYO).
Non-domestic incidence	The proportion of non-domestic cigarettes recorded in the empty discarded pack survey is referred to as the non-domestic incidence. The cigarettes generally have coloured or branded packaging.
RYO	Roll your own

# Glossary

Data sources	
ABF	Australian Border Force
ABS	Australian Bureau of Statistics
ATO	Australian Taxation Office
AIHW	Australian Institute of Health and Welfare
Consumer Survey	Roy Morgan Research (RMR) conducts a survey of daily (at least 5 times per week) adult smokers (those over 18 years old). 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	WSPM has, since 2019, conducted a survey every six months (and formerly AC Nielsen and MSIintelligence) which has since 2012 comprised of a sample of 12,000 empty cigarette packs collected across 16 cities covering 75.2% of the population. The empty discarded pack survey (EDPS) records the pack size of each pack to allow for measurement, based on the number of cigarettes, of the proportion of cigarettes that are not Australian (non-domestic or with no health warnings and brands not sold in Australia) and classes these cigarettes as 'non-domestic'.
Euromonitor	Euromonitor is a global market research on consumer products, commercial industries, demographics trends and consumer lifestyles. We use it as a primary source of data for tobacco consumption rates across key source countries which are used to estimate the extent of non-domestic legal sales from tourists visiting Australia.
IRI scan data	To estimate legal domestic sales, a range of data sources are examined, including IRI scan data and industry estimates based on exchange of sales and off-take data, supplied by independent research agencies and industry stakeholders. IRI scan data reflects the sales made to consumers only 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).
Project partners	
BAT	British American Tobacco
ITA	Imperial Tobacco Australia
PML	Phillip Morris Limited

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## Context for this report

Imperial Tobacco Australia Limited (ITA), Philip Morris Limited (PML) and British American Tobacco Australia (BAT) have commissioned FTI Consulting Australia to estimate the illicit tobacco market in Australia. It is important to monitor the size of the illegal tobacco market as the tobacco industry has links to other sectors in the economy including government and households. Any shrinkage in the tobacco sector due to the presence of illicit tobacco will have repercussions across the entire economy, as well as consumers, from consuming products outside of the regulated market.

Illicit tobacco markets incorporate 'manufactured cigarettes' – covering "contraband", "illicit whites" and "counterfeit" – and unbranded tobacco including "chop chop" (loose leaf tobacco) and "pre-filled tubes". It is important to note that there are emerging categories that are not included in the methodology and illicit tobacco consumption estimates such as counterfeit pouches. The study also does not cover the consumption of nicotine vapes which is a rapidly growing and substitute market for traditional tobacco products which are predominantly consumed illegally.

The annual estimation of illicit tobacco consumption in Australia has been undertaken by KPMG UK in recent years (during 2013 – 21). FTI Consulting Australia adopted a consumption model consistent with the model previously used by KPMG UK to arrive at illicit tobacco consumption in Australia. FTI Consulting has been asked to maintain a consistent approach with that pursued by KPMG UK to ensure the comparability of the results between years. We have satisfied ourselves, where possible, the information presented in this report employs the same principles and methodology adopted by the previous service provider. There are some minor exceptions to this however these are not considered to have a material impact on the consistency of the estimates of illicit tobacco consumption in Australia in 2022.

There are two key components to these estimates which include the unbranded tobacco analysis which is primarily based on the Roy Morgan Research (RMR) consumer survey (and AIHW and ABS data), and the estimation of illicit manufactured cigarettes which draws primarily on the empty discarded pack survey (EDPS). The consumption model also relies on a range of external data sources including IRI scan data on legal sales of tobacco in Australia, the Australian Institute of Health and Welfare (AIHW) and the Australian Bureau of Statistics (ABS) for 2022.

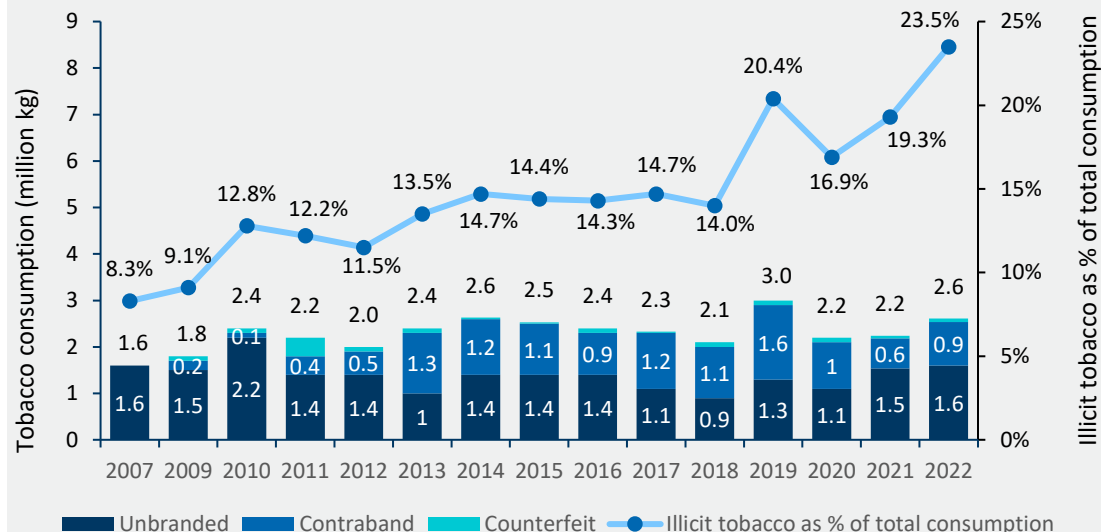
Since 2016, RMR has conducted consumer surveys bi-annually. The consumer survey focuses on the tobacco consumption behaviour of adult smokers who smoke on a regular basis. Consumers are asked about their consumption and purchase of legal and illicit tobacco products. The findings include supply outlets for unbranded tobacco, ease of purchasing unbranded tobacco, and the proportion of smokers who are aware of unbranded tobacco or are currently purchasing unbranded tobacco. In relation to the estimation of unbranded tobacco, as a part of the methodology previously adopted, consideration is given as to the reliability of respondents regarding their unbranded purchase frequency and average purchase amount. Information sources and the scope and source limitations are carried over from previous years.



## Key messages

In 2022, almost 1 in 4 tobacco products consumed were identified as illicit.

Higher illicit consumption and lower total consumption resulted in a jump in illicit consumption in % terms.



**TOTAL CONSUMPTION** **11.1**  
million kg  
4.6% decline since 2021

**TOTAL ILLICIT** **2.6**  
million kg  
16.3% increase since 2021

**UNBRANDED** **1.6**  
million kg  
4.0% increase since 2021

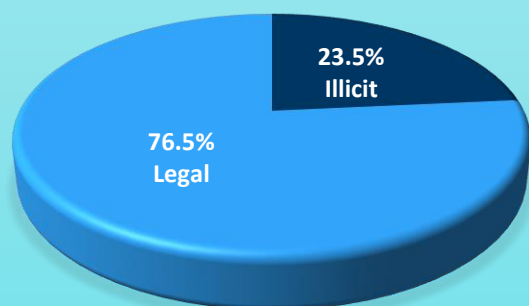
**CONTRABAND** **0.9**  
million kg  
44.8% increase since 2021

**COUNTERFEIT** **0.01**  
million kg  
27.3% increase since 2021

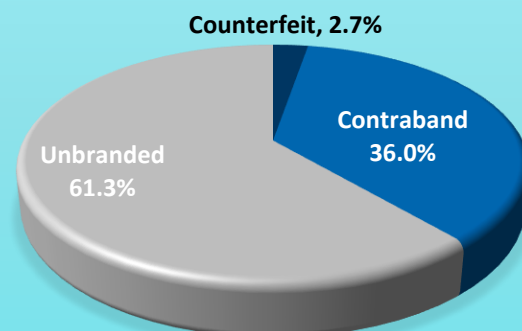
**NON-DOMESTIC LEGAL** **6.4**  
'000 kg  
14.9 times higher than in 2021

**POTENTIAL VALUE  
LOST EXCISE** **AUD 4.2 bn<sup>1</sup>**

In 2022, the consumption of illicit tobacco has increased by 4 percentage points compared to 2021.



Share of illicit tobacco consumption in 2022



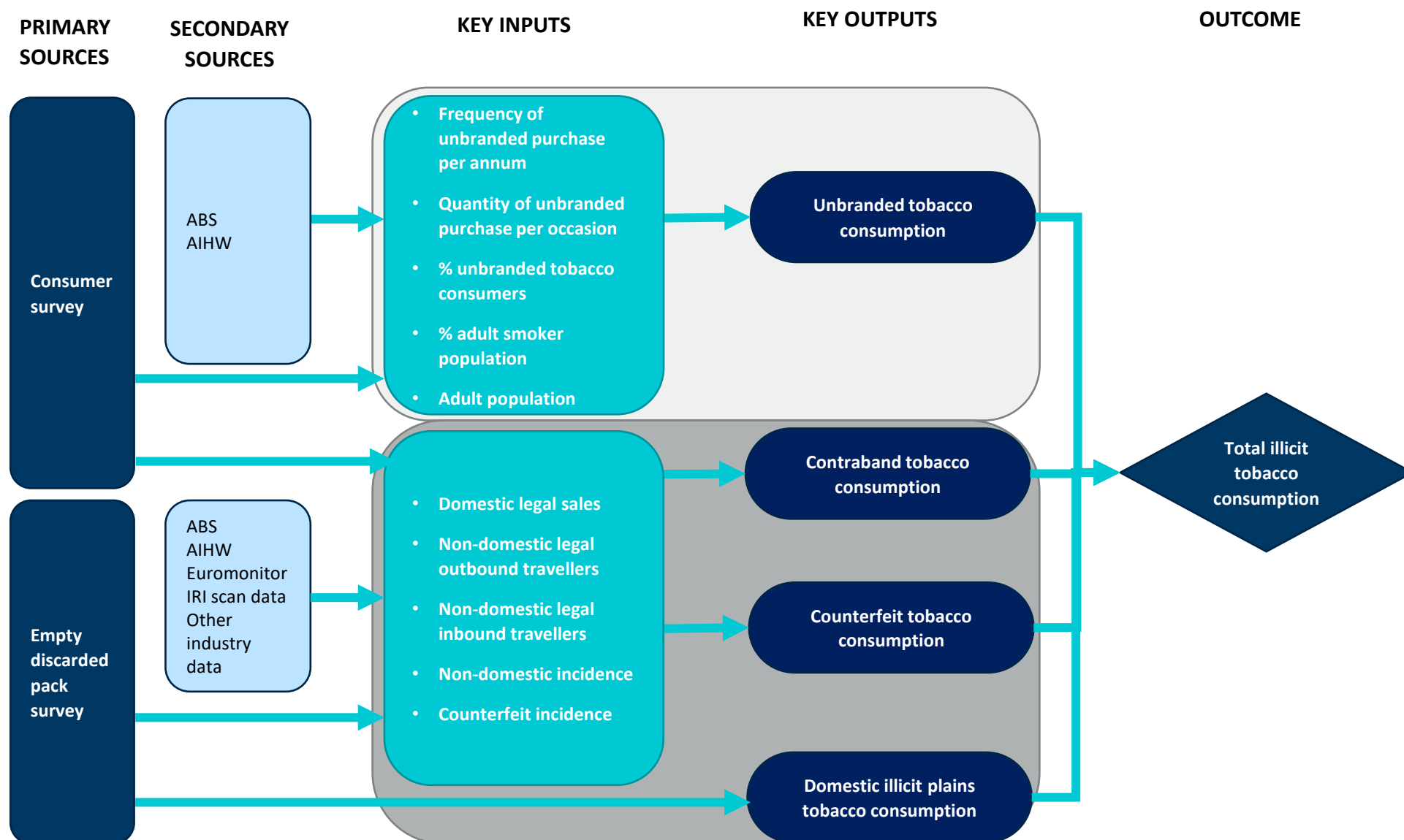
<sup>1</sup> If the 2.6 million kg of tobacco had been consumed legally, it would have represented an estimated excise value of AU\$4.2 billion.



# The methodology



Our approach is consistent with previous studies on the illicit tobacco market in Australia.



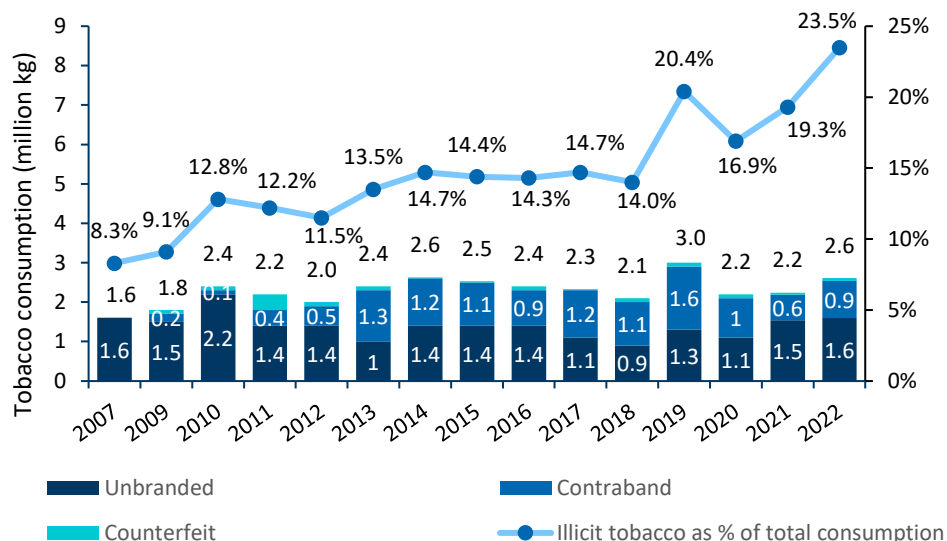
Our approach uses private data sources (RMR consumer survey, WSPM EDPS survey, IRI Scan, Euromonitor and industry partners) and publicly available data sources (AIHW survey and ABS).



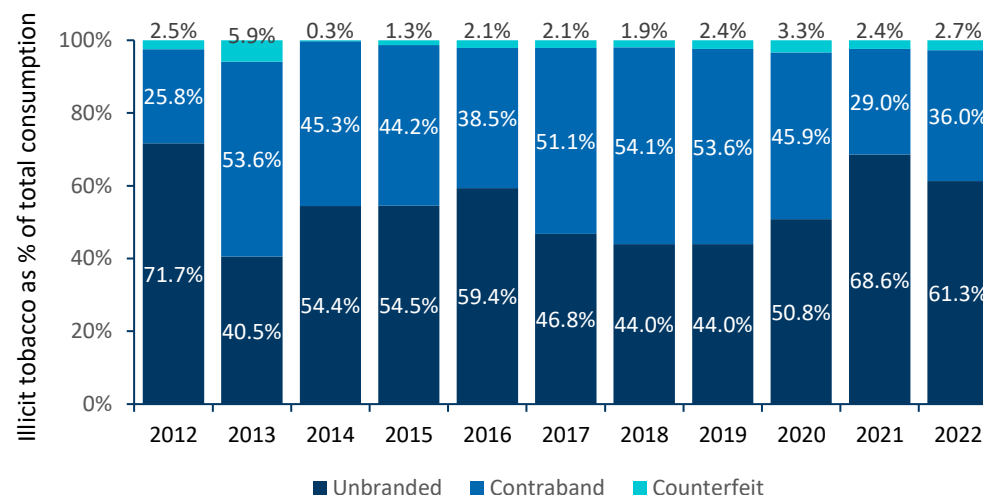
# Illicit tobacco consumption

In 2022, illicit tobacco consumption as a share of total tobacco consumption recorded its highest level.

Consumption of illicit tobacco products by category <sup>1</sup>



Share of illicit tobacco consumption <sup>2</sup>



It is estimated that the volume of total illicit tobacco consumed in 2022 rose by 16.3% compared to the previous year. The proportion of illicit consumption in total consumption increased from 19.3% in 2021 to 23.5% in 2022. The potential excise value of illicit tobacco consumed in 2022 (2.6 million kg) is \$4.2 billion.

Unbranded tobacco is the largest component of total illicit tobacco consumption with a 4% increase in the volume consumed in 2022. Contraband, the second largest component, grew by 44.8% in 2022. Counterfeit consumption makes up the smallest part of illicit tobacco consumption, although it increased by 27.3% in 2022.

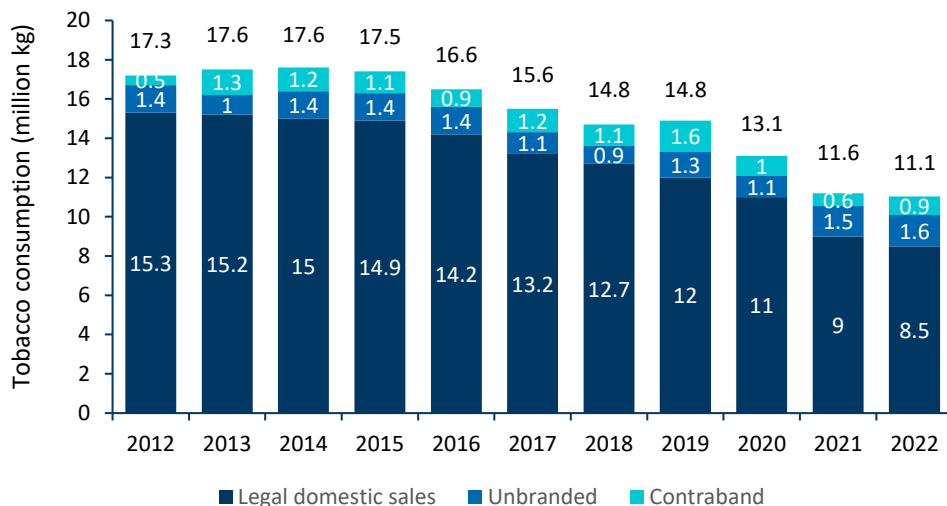
Where the share of counterfeit from total tobacco consumption remained almost stable, the share of contraband consumption has increased dramatically, from 29.0% in 2021 to 36.0% in 2022. Instead, the share of unbranded tobacco consumption decreased, from 68.6% in 2021 to 61.3% in 2022.

<sup>1</sup> Previous illicit tobacco studies in Australia for historical data, and FTI Consulting analysis for 2022 using various data sources listed in the Methodology Section of this document.

<sup>2</sup> Ibid.

## While the legal sales volume is historically low, illicit tobacco consumption continues to rise strongly.

Total consumption of illicit tobacco products by category, 2012-2022 <sup>1</sup>



Component ('000 kg)	2021	2022	% change
Counterfeit	55	70	27.3%
Contraband	649	940	44.8%
Unbranded	1,537	1,598	4.0%
<b>Total illicit consumption</b>	<b>2,242</b>	<b>2,608</b>	<b>16.3%</b>
Non-domestic (legal)	0.4	6.4	1,495%
Legal domestic sales	9,397	8,495	(9.6%)
<b>Total consumption</b>	<b>11,639</b>	<b>11,109</b>	<b>(4.6%)</b>

Our analysis shows that the total volume of tobacco consumption continued its historical decline during 2022. The total volume of tobacco consumption dropped by 4.6% (from 11.6 million kg to 11.1 million kg). A key driver of this decline is a historical reduction in legal domestic sales (including both manufactured and roll-your-own products) since 2018 (-9.6% in 2022).

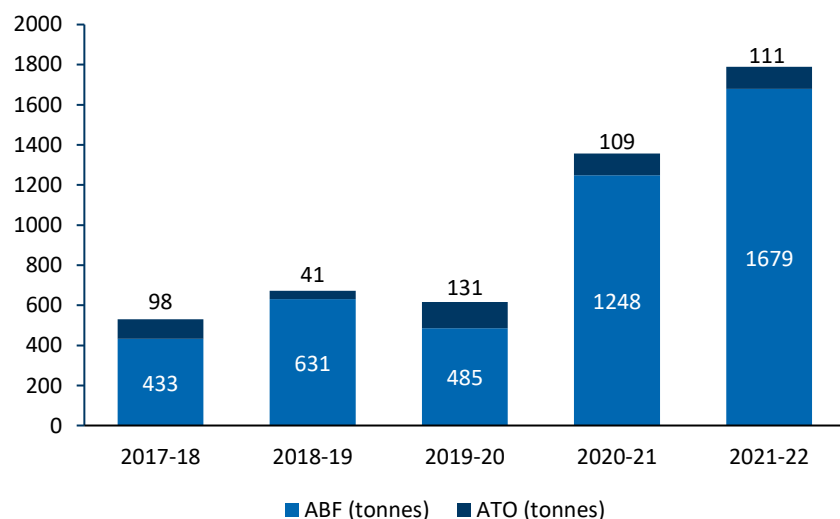
As shown in the table above, non-domestic legal consumption has increased in 2022 by almost 15 times since 2021. In volume terms, however, this increase is comparatively low (from 0.4 to 6.4 tonnes). The main reason for the increase in non-domestic legal sales is the opening of Australian borders for international travellers following the COVID-19 pandemic which led to a significant rise in the number of travellers to Australia during 2022.

Despite the decrease in overall legal sales, illicit tobacco consumption has increased meaningfully. As described before, all components of illicit tobacco consumption have increased during 2022. This is compared to 2021 where only unbranded tobacco consumption showed an increase while both counterfeit and contraband consumption fell.

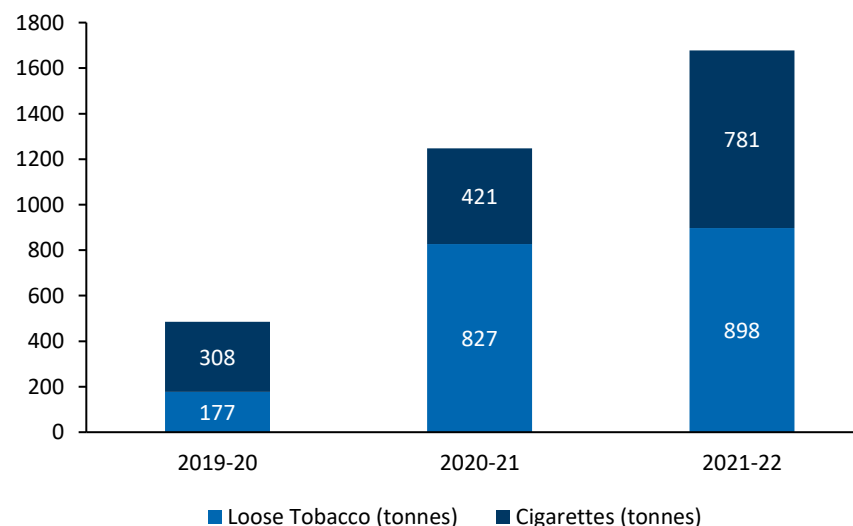
<sup>1</sup> Previous illicit tobacco studies in Australia for historical data, and FTI Consulting analysis for 2022 using various data sources listed in the Methodology Section of this document

## Overall seizures by ABF and ATO increased by 34% in 2021-22, driven by 85% growth in cigarette seizures.

ABF and ATO seizures, 2017-18 to 2021-22



ABF breakup by tobacco product type 2019-20 to 2021-22



There are tight border controls in place by the Australian Government to limit illegal tobacco trade in Australia that require ongoing resourcing.

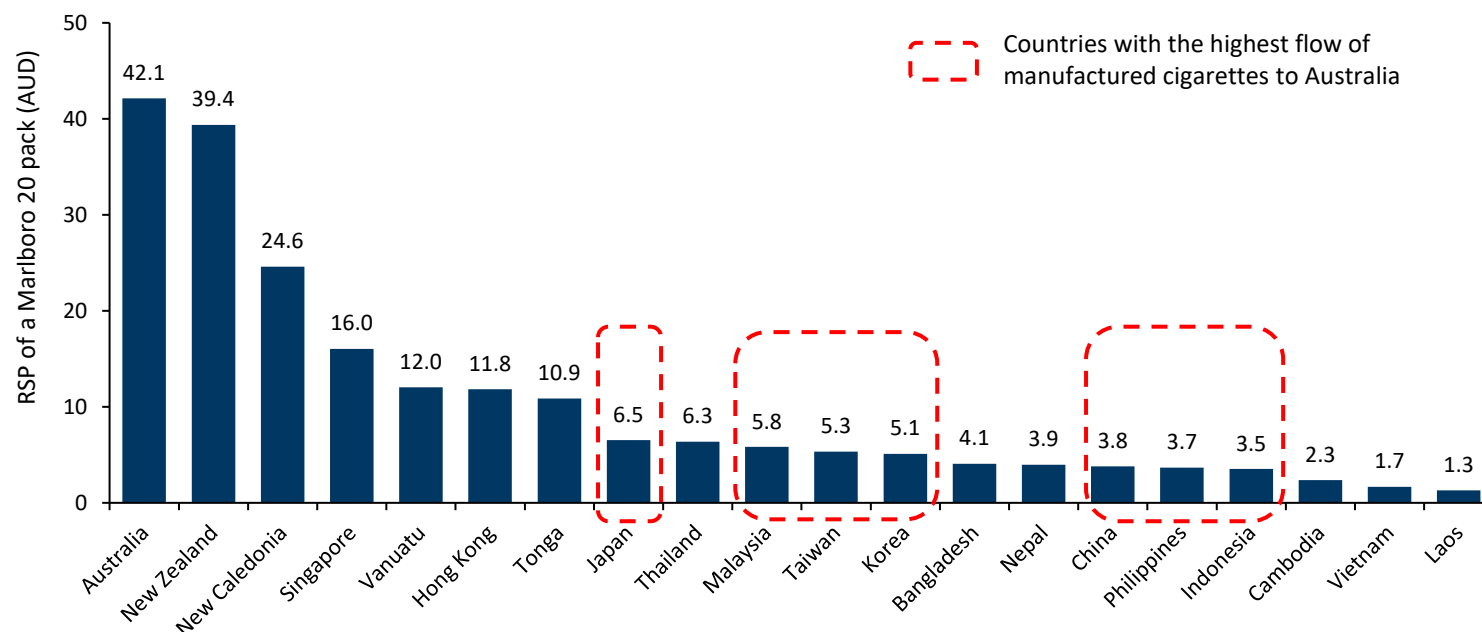
- For the 2021-22 financial year, ABF seized more than 1,679 tonnes of illicit tobacco with an estimated excise value of \$2.68 billion. This represents an increase in the volume of seizures by 34% and an increase in the value of duty avoided by 40% since the previous year.
- This increase was led by an 85% increase in the detection of illegal cigarettes to over 1.12 billion (weighing circa 781 tonnes), in addition to 898 tonnes of loose-leaf tobacco detected (an increase of 8% compared to the previous year).
- In addition, the ATO seized an estimated 111 tonnes of illicit tobacco, a small increase of 2% compared to the previous year.
- For 2021-22, the total estimated duty evaded of 1,790 tonnes of illicit tobacco seizures is \$2.86 billion.



# Tobacco prices

## Australia and New Zealand have the highest cigarette prices in the Asia-Pacific region.

Price of a pack of 20 Marlboro cigarettes in Australia and selected markets in the region, January 2023 <sup>1</sup>



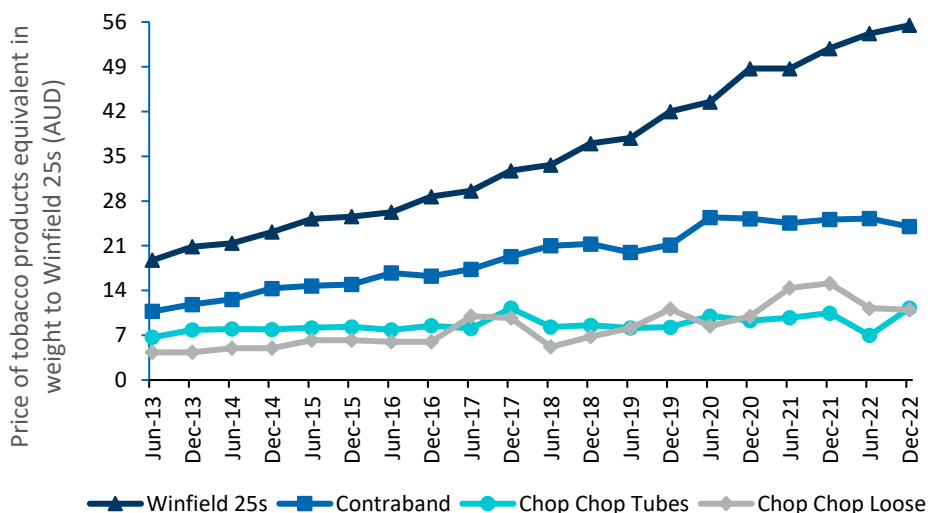
In January 2023, the price of a pack of 20 Marlboro cigarettes in Australia was A\$42.1. The chart above shows the vast difference in pricing between Australia and selected markets in the region. Comparing China to Australia, for example, the per pack price gap was A\$38.3, with Australian prices more than 8 times the equivalent per pack price in China.

As the above figure shows, most of the countries listed are similar to China in terms of cigarette price differentiation. This incentivises customers to be involved in the illicit market, provides reasonable profit for illegal traders and costs Australian legal manufacturers and importers.

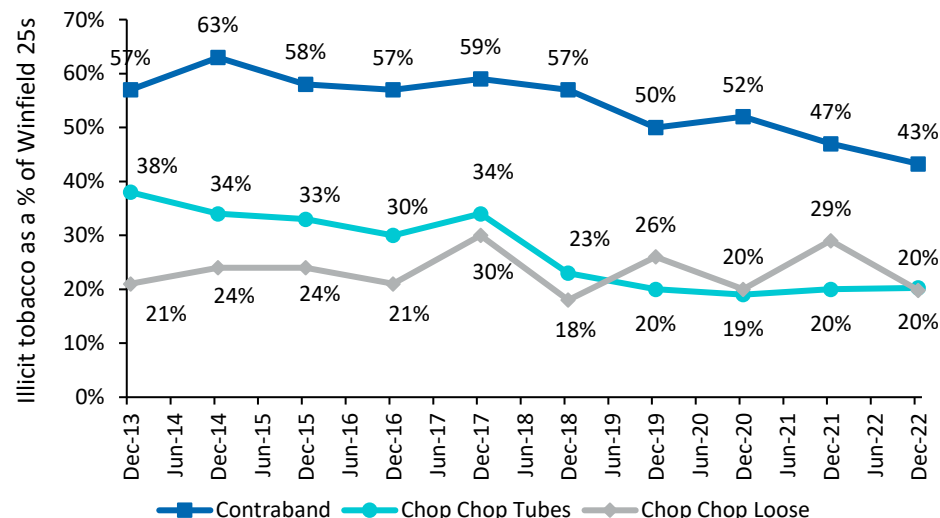
<sup>1</sup> FTI Consulting analysis using industry partners' data, and the exchange rate as on 15 Jan 2023.

## In 2022, the price of illicit tobacco products remained considerably lower than the price of a Winfield 25s pack.

Price of illicit tobacco products and Winfield 25s, Jun-13 to Dec-22 <sup>1</sup>



Illicit tobacco prices as a proportion of Winfield 25s, Dec-13 to Dec-22 <sup>2</sup>



The price gap between a 25-pack of Winfield cigarettes and illicit tobacco products in 2022 is higher than in 2021. In December 2022, the price of a Winfield 25-pack rose by 7.0% compared to December 2021, whereas during this period, the price of contraband and chop chop loose tobacco decreased by 4.4% and 17.4%, respectively. As opposed to this, the price of chop chop tubes increased by 7.4% (for December 2022, compared to December 2021), similar to the percentage increase in the 25-pack Winfield price.

In 2022, the decrease in the relative price of illicit tobacco products was considerable. The figures show that the relative price of contraband and chop chop loose tobacco has considerably decreased in 2022, where the relative price of chop chop tubes has remained stable during this time.

The continuation of drops in the relative price of illicit tobacco products during recent years explains how customers are potentially motivated to switch from the legal tobacco market to the illicit tobacco market.

<sup>1</sup> Previous illicit tobacco studies in Australia for historical data, and FTI Consulting analysis for 2022 using industry partners' data.

<sup>2</sup> Ibid.

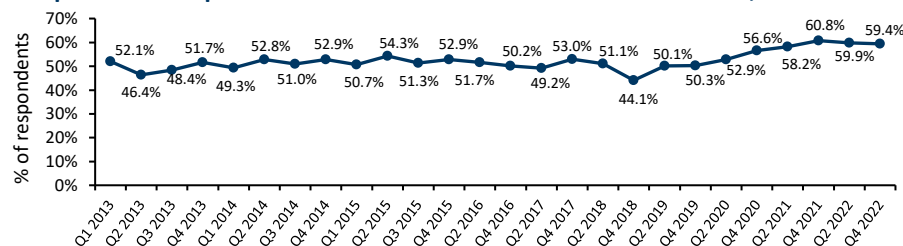




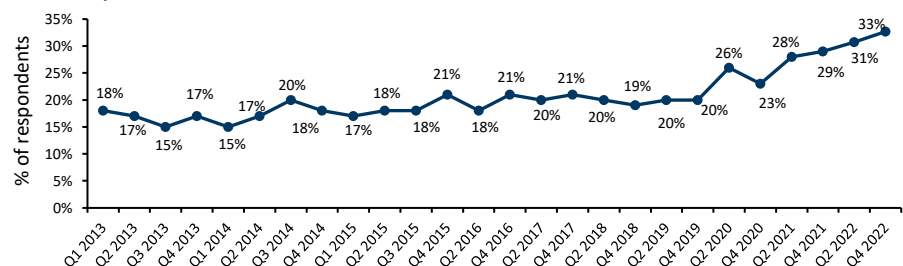
# Consumer survey results

In Q4 2022, the average purchase of unbranded tobacco per person increased by more than 15%.

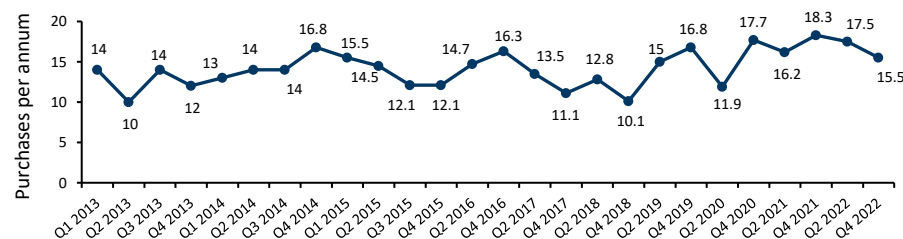
Proportion of respondents who were aware of unbranded tobacco, 2013 - 22



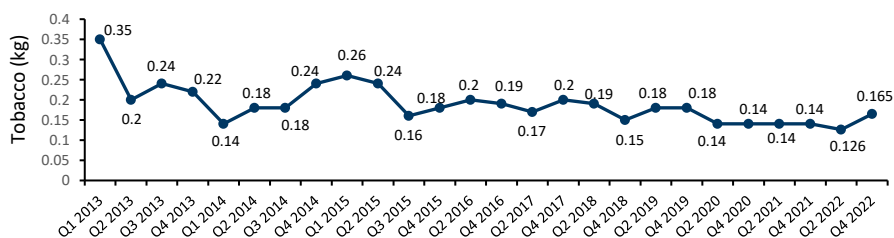
Proportion of respondents who reported purchasing illicit unbranded tobacco, 2013 - 22



Average frequency of purchase per annum, 2013 - 22



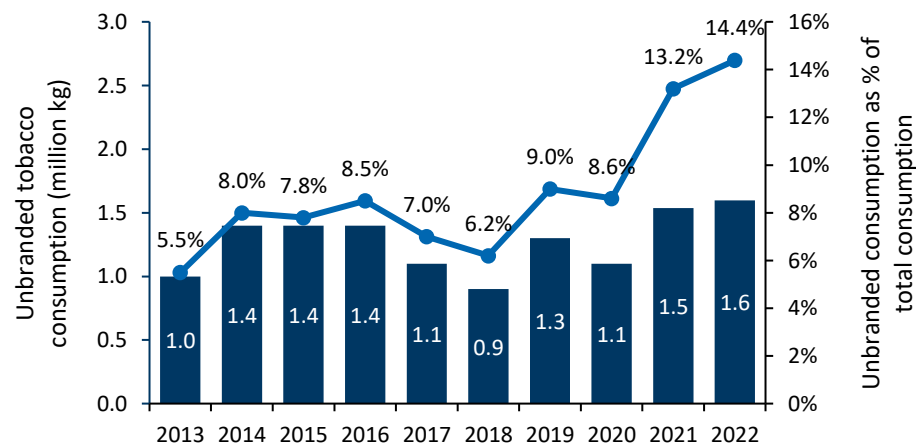
Average volume purchased per occasion, 2013 - 22



In 2022, the proportion of unbranded tobacco consumption from total tobacco consumption reached its historical peak at 14.4% and consumers say it was easier to purchase chop chop tobacco.

- The number of consumers who were aware of unbranded tobacco remained almost stable, while more consumers reported they were purchasing unbranded (chop chop) tobacco.
- Purchase incidence has increased by over 12 percentage points since the pre-COVID period.
- In Q4 2022, the average purchase per occasion increased by 31% compared to Q2 2022, but average frequency of purchase decreased by 12%, resulting in a net increase in total purchase per person.
- Blended consumption of unbranded tobacco has increased by 4.0% in 2022, underpinned by the increasing number of unbranded tobacco consumers.

Blended unbranded (chop chop) consumption and its proportion in overall tobacco consumption, 2013 - 22

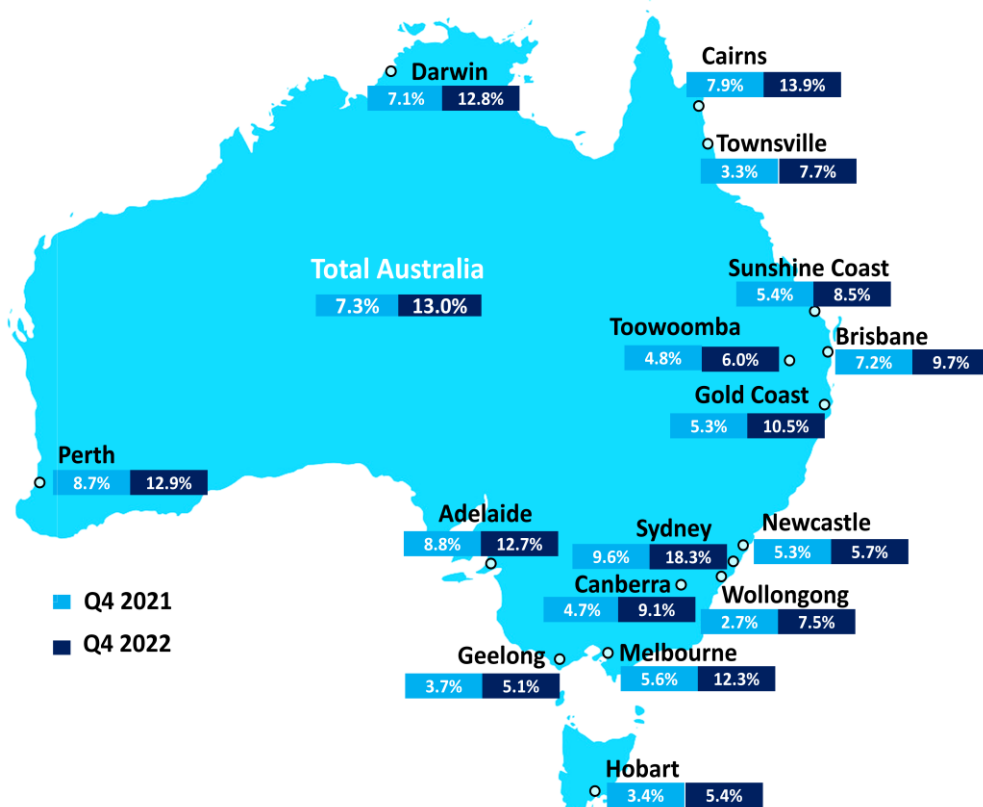




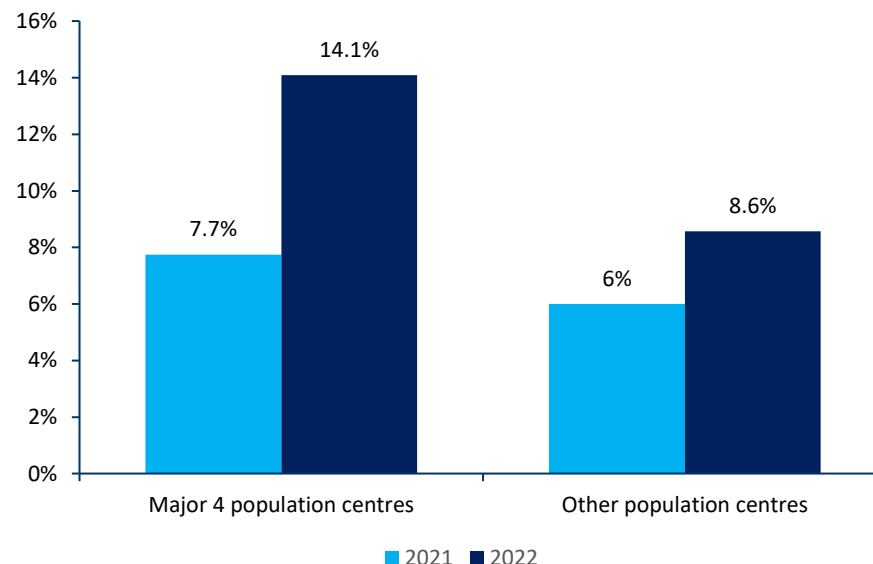
## Empty discarded pack survey results

## In Q4 2022, the non-domestic incidence rose dramatically across all 16 sampled population centres.

Total non-domestic incidence by population centres, Q4 2021 and Q4 2022 <sup>1</sup>



Weighted non-domestic incidence by population centres, Q4 2021 and Q4 2022 <sup>2</sup>



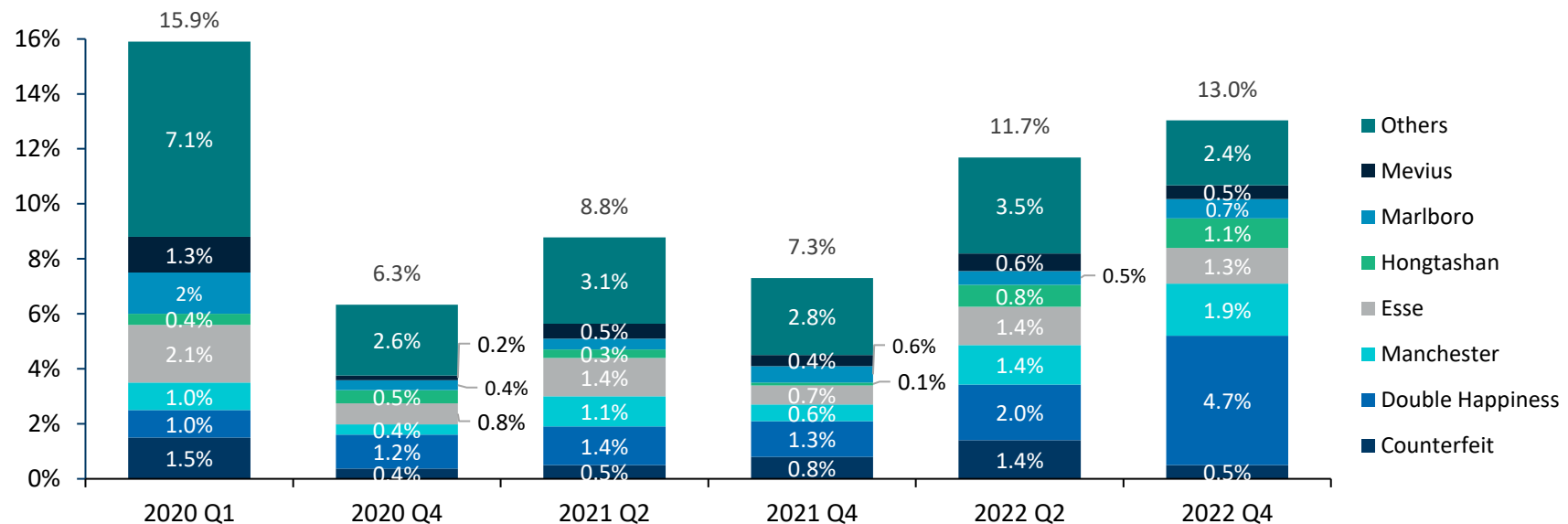
Non-domestic incidence increased quite significantly across all 16 sampled population centres in Q4 2022 compared to Q4 2021, particularly for the four major cities together (Sydney, Perth, Melbourne and Brisbane) where non-domestic incidence almost doubled from 7.7% to 14.1%.

<sup>1</sup> Previous illicit tobacco studies in Australia for 2021 data, and FTI Consulting analysis for 2022 using WSPM EDPS results.

<sup>2</sup> Ibid.

## The flow of non-domestic brands is recovering to the pre-COVID-19 pandemic period.

Total non-domestic incidence by brand flow as a percentage of total manufactured cigarette consumption, Q2 2012 – Q4 2022 <sup>1</sup>

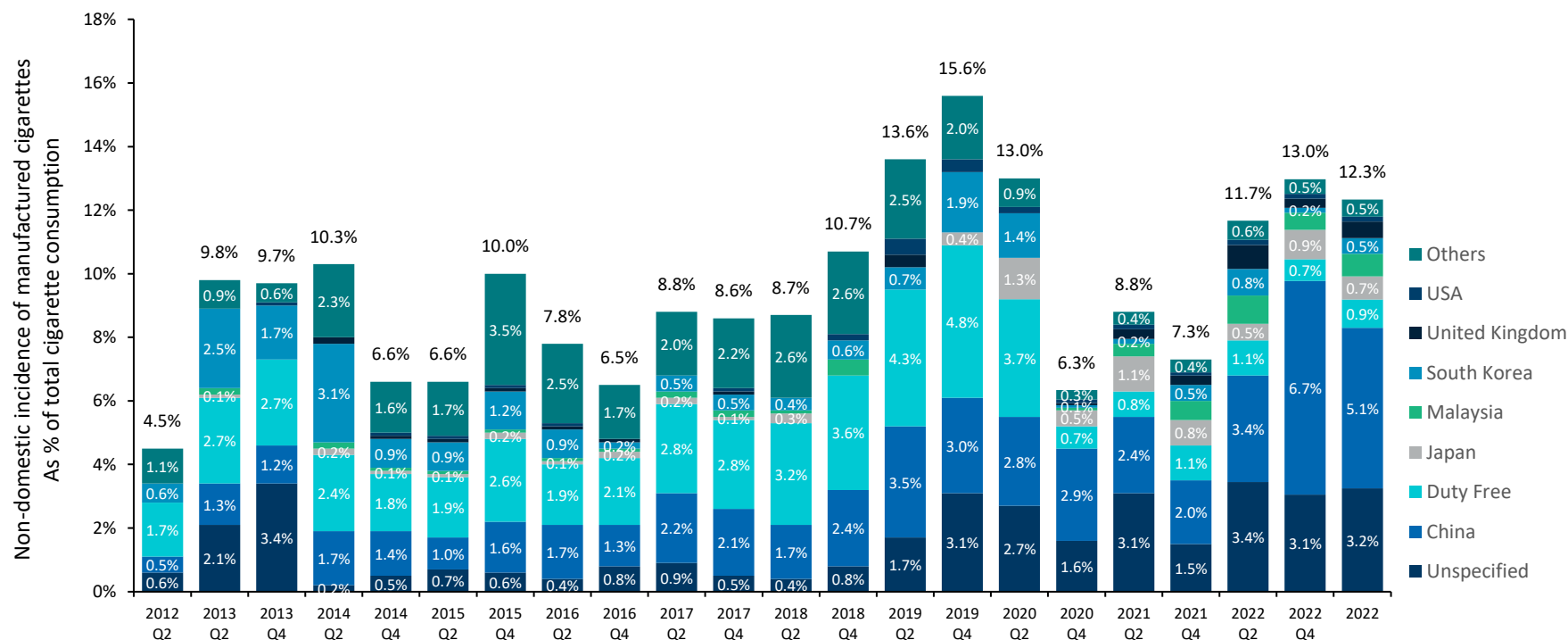


The latest results of WSPM empty discarded pack survey show that in 2022, the overall inflow of non-domestic brands increased dramatically compared to 2020 Q4 and 2021. Among all non-domestic brands, it seems that the inflow of Double Happiness has grown quite significantly, from 1.3% in 2021 to 3.3% in 2022 (based on the simple average inflow). After Double Happiness, the inflow of Manchester shows the largest increase (from 0.6% in 2021 to 1.9% in 2022 Q4). Double Happiness and Manchester make up more than 40% of the volume of total non-domestic brands' inflow in 2022.

<sup>1</sup> WSPM empty discarded pack survey results for 2022 Q4.

With duty free volume remaining stable since last year, non-domestic flows increased in 2022, driven primarily by a significant rise in inflows from China.

Total non-domestic incidence by country of origin flow as a percentage of total manufactured cigarette consumption, Q2 2012 – Q4 2022 <sup>1</sup>



In 2022, the non-domestic inflow of manufactured cigarettes has increased by 4.3 percentage points (from 8% in 2021 to 12.3% in 2022). Similar to previous years, Asian countries – led by China - remained the main source of inflows for non-domestic manufactured products. The non-domestic manufactured cigarette flows from China have dramatically increased, representing 41% of all non-domestic inflows in 2022, compared to 27% in the previous year.

<sup>1</sup> Previous illicit tobacco studies in Australia for 2021 data, and FTI Consulting analysis for 2022 using WSPM EDPS results.



# Conclusion

## Key conclusions

Analysis area	Summary findings
<b>Total tobacco consumption</b>	<ul style="list-style-type: none"> <li>In 2022, total tobacco consumption declined by 4.6%.</li> <li>The increases in total illicit consumption (16.3%) and non-domestic legal sales (1,495%) were more than offset by the decline in legal domestic sales (9.6%).</li> </ul>
<b>Illicit tobacco consumption</b>	<ul style="list-style-type: none"> <li>In 2022, the consumption of illicit tobacco jumped by 16.3%.</li> <li>This change is driven by the increases in the consumption of all illicit tobacco components, including unbranded (4% increase), contraband (44.8% increase) and counterfeit (27.3% increase).</li> <li>In 2022, the consumption of domestic illicit plains has increased by 16%.</li> <li>Due to an increase in total illicit tobacco consumption and a decrease in total tobacco consumption, the proportion of illicit tobacco consumption in total consumption increased by 4.2 percentage points to 23.5%.</li> </ul>
<b>Non-domestic legal sales</b>	<ul style="list-style-type: none"> <li>In 2022, total non-domestic legal sales, which represents 0.1% of total tobacco consumption in Australia, increased by almost 15 times.</li> <li>This was driven by a massive increase in the number of both inbound and outbound international travellers to Australia after the Australian Government lifted the strict border closures applied during the COVID-19 pandemic.</li> </ul>
<b>Unbranded (chop chop) consumption</b>	<ul style="list-style-type: none"> <li>Unbranded tobacco consumption is the largest component of total illicit tobacco consumption with a 4% increase in the volume since 2021.</li> <li>The increase in unbranded tobacco consumption is driven by an increase in the number of consumers who reported purchasing unbranded (chop chop) tobacco.</li> <li>The purchase incidence has progressively increased by over 12 percentage points since the pre-COVID period.</li> </ul>
<b>Potential excise lost</b>	<ul style="list-style-type: none"> <li>For the 2021-22 financial year, seizures by the ABF and ATO increased by 32% to 1,790 tonnes due to record ABF seizures of more than 1,679 tonnes of illicit tobacco. The total estimated duty evaded of ABF and ATO seizures (1,790 tonnes) in 2021-22 is \$2.86 billion.</li> <li>In 2022, the estimated consumption of illicit tobacco in Australia is 2.6 million kg. If this volume of illicit tobacco were instead consumed legally in Australia, we estimate it could generate \$4.2 billion in excise.</li> </ul>

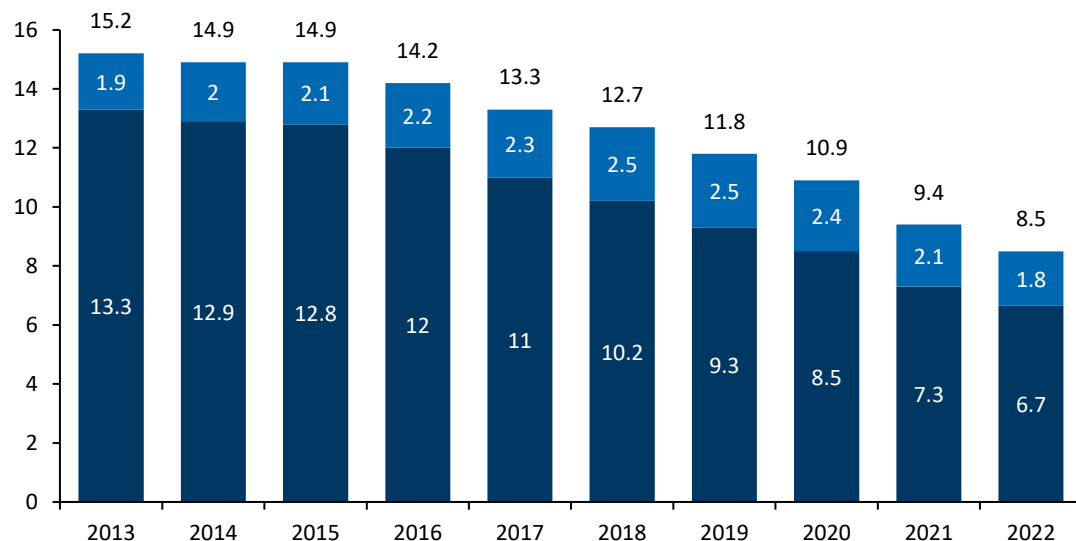




# Appendix

## In 2022, legal domestic sales has recorded a historically low level in a decade.

Legal domestic sales in Australia (million kg), 2013-2022 <sup>1</sup>



Total legal domestic sales of tobacco in Australia has experienced a sustained decline since 2013-14. In 2022, total legal domestic sales dropped by 9.6%, representing a decrease in sales of both manufactured cigarettes and roll your own tobacco (by 8.7% and 12.6%, respectively).

Where manufactured cigarette sales continued its steady decline, the roll your own tobacco sales represents a massive reduction, which seems to be part of a decline that has been observed since 2019 and coincides with an increase in unbranded tobacco sales.

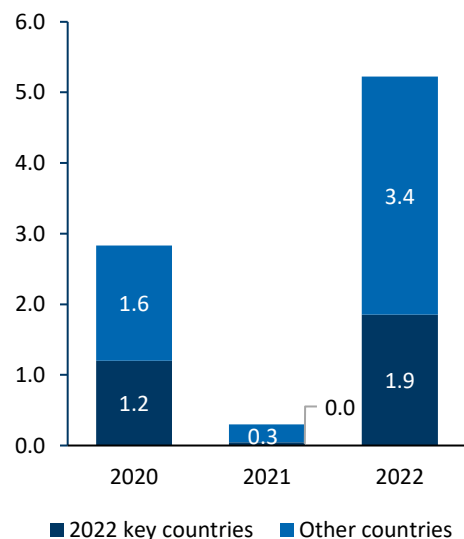
Annual growth <sup>2</sup>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Manufactured	(2.8)%	(1.0)%	(6.1)%	(8.9)%	(6.8)%	(9.1)%	(8.5)%	(14.1)%	(8.7)%
RYO	6.5%	4.4%	4.0%	5.6%	6.2%	2.1%	(3.3)%	(13.2)%	(12.6)%
<b>Total</b>	<b>(1.7)%</b>	<b>(0.3)%</b>	<b>(4.7)%</b>	<b>(6.7)%</b>	<b>(4.6)%</b>	<b>(6.9)%</b>	<b>(7.4)%</b>	<b>(13.9)%</b>	<b>(9.6)%</b>

<sup>1</sup> Previous illicit tobacco studies in Australia for historical data, and FTI Consulting analysis for 2022 using IRI Scan data.

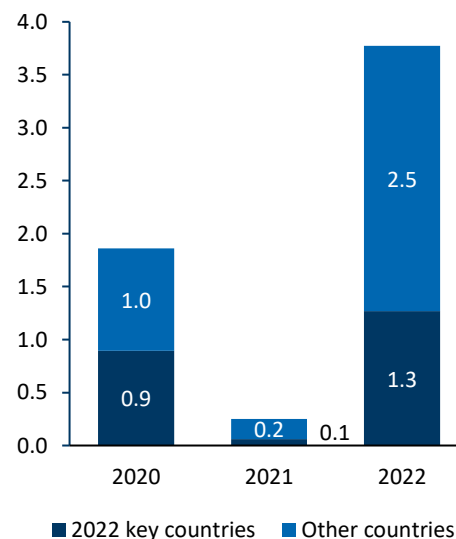
<sup>2</sup> Ibid.

## Non-domestic legal sales is recovering to its pre-COVID-19 levels due to the rebound in the number of arrivals from other countries.

Outbound visitors 2020-22 (million)<sup>1</sup>



Inbound visitors 2020-22 (million)<sup>2</sup>



In 2022, the number of international travellers to Australia jumped dramatically, representing over a 16 times increase in the number of outbound travellers and an almost 14 times increase in the number of inbound travellers.

The increase in the number of international travellers in 2022 resulted in a massive increase of almost 15 times in total non-domestic legal sales.

These increases happened after the Australian Government opened the borders for international travellers after a strict border closure policy during the COVID-19 pandemic period in 2020 and 2021.

### Total non-domestic legal sales <sup>3</sup>

('000 kg)	2020	2021	2022	% change
Non-domestic legal driven by outbound trips	1.4	0.1	2.9	2,812%
Non-domestic legal driven by inbound trips	5.2	0.3	3.5	1,056%
Total non-domestic legal sales	6.6	0.4	6.4	1,495%
Non-domestic legal as % of total consumption	0.05%	0.004%	0.1%	

1 FTI Consulting analysis using international travel statistics from the Australian Bureau of Statistics (ABS).

2 Ibid.

3 Previous illicit tobacco studies in Australia for historical data, and FTI Consulting analysis for 2022 using Australian Bureau of Statistics, IRI Scan, Euromonitor, and RMR.



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