

Legal & Regulatory Affairs
Regulatory Affairs
Global Regulatory Strategy

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
By e-mail: economics.sen@aph.gov.au

August 21, 2015

Re: Submission to the Senate inquiry into personal choice and community impacts

Dear Members of the Senate Economic References Committee,

Japan Tobacco International (JTI) is part of the Japan Tobacco group of companies, a leading international tobacco product manufacturer.

Tobacco products carry risks to health, and JTI believes that appropriate and proportionate regulation of the industry is both necessary and right. In this regard, JTI supports regulatory measures which contribute to achieving legitimate public policy objectives and meet the Better Regulation principles of the Organization for Economic Co-operation and Development (OECD).

JTI supports the continued provision of information to consumers about the health risks of smoking to ensure that adult smokers continue to be reminded of those risks. That said, attempting to increase the prominence of health warning messages and images on tobacco packaging is not, in itself, capable of justifying the plain packaging of legal tobacco products, especially as it does not lead to a change in smoking rates.

Plain packaging legislation was implemented in Australia in December 2012. Since then, branding on tobacco packaging is banned. Trademarks, logos, non-prescribed colors and graphics have been removed from packs and only the use of a brand name in a prescribed font and size is allowed.



As for any consumer good, packaging is used by tobacco manufacturers to differentiate between products, to stimulate fair competition between brands and act as a signal of quality for the consumers.

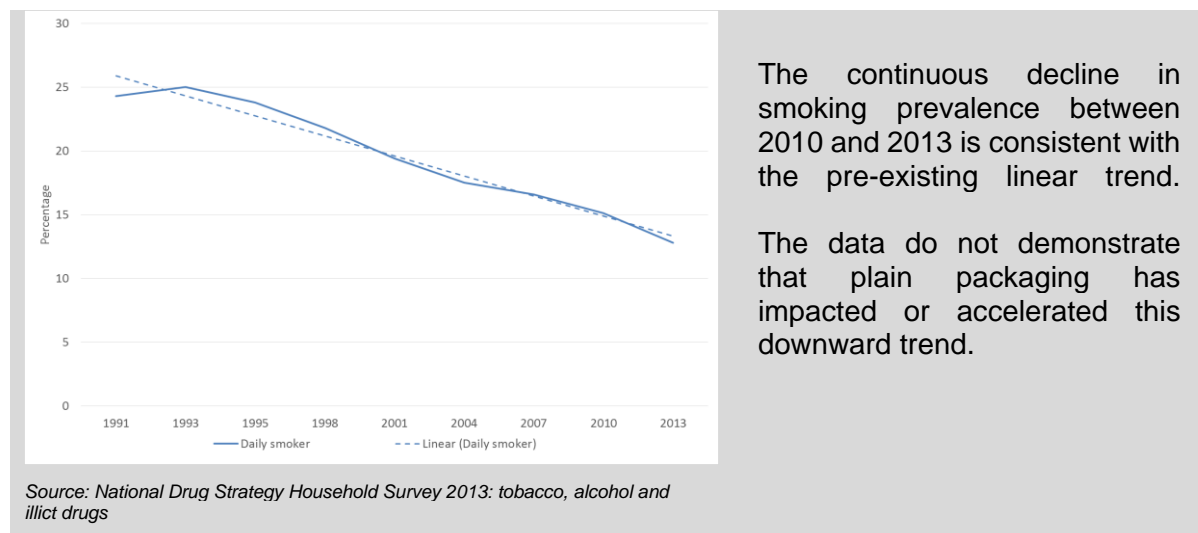
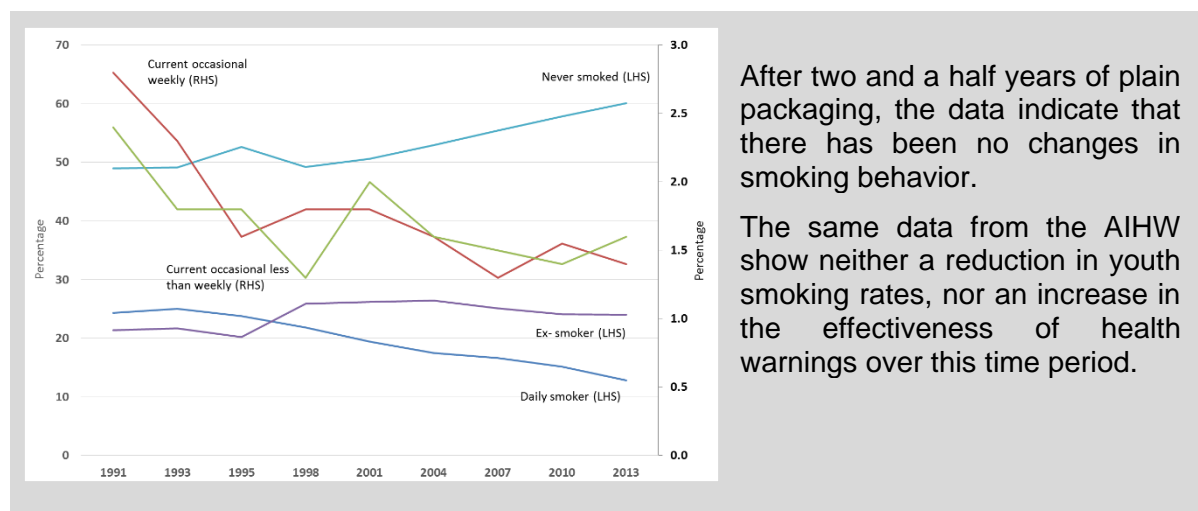
Plain packaging has failed to achieve the Government's stated objective, whilst depriving legitimate manufacturers from using their intellectual property and limiting the ability of adult consumers to make informed choices; all without leading to a reduction in smoking.

Adults who choose to smoke are entitled to be treated fairly, equally and have the right to choose and buy the products they prefer. The removal of branding on tobacco product

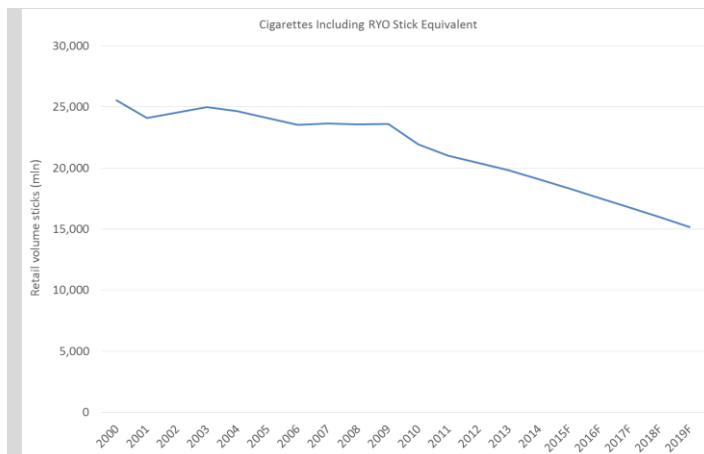
packaging is hindering existing consumers and retailers in Australia from understanding the differences between available products and distinguishing them easily.

Since plain packaging has been introduced, the rate of decline in smoking prevalence has not changed. Instead, the market dynamics in Australia in terms of competition and price have changed and significant down trading has taken place. This has resulted in the erosion of margins across the entire supply chain. At the same time, the sale of illegal products has continued to rise, depriving retailers of revenue, legitimate manufacturers of profit and Government of excise and leaving consumers exposed to unregulated products and the criminals that supply them.

The charts below, based on the data published by the Australian Government,¹ are self-explanatory.



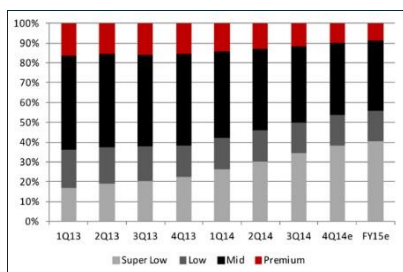
¹ See results from the 2013 National Drug Strategy Household Survey, provided by the Australian Institute of Health and Welfare (AIHW), available via: <http://www.aihw.gov.au/alcohol-and-other-drugs/ndshs/2013/data-and-references/>



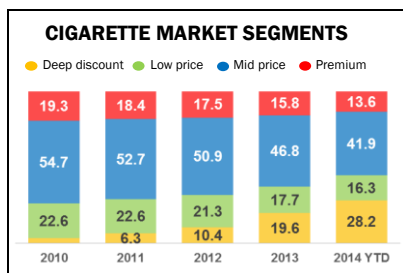
Source: Euromonitor²

In addition to the non-discernable effect on smoking prevalence, the number of sticks legally sold continues to decline at the same rate since 2010, according to the data provided by Euromonitor.

The trend foreseen for the next few years is expected to remain broadly similar.



Source: Nomura Equity research



Source: Infoview the cigarette market segment share as reported in Kerr & Creighton

The implementation of plain packaging has not changed smoking behavior but instead has created distortions in the Australian tobacco market.

There have been a number of publications in the last two years showing that the competition landscape and the market dynamics in Australia have changed significantly since 2012.

The evidence so far shows that premium brands are rapidly losing market share to the value end of the category. The charts on the left illustrate that the market share of value brands has increased over the last two years, from less than 20% to more than 40%.

The data suggest that down trading has been most significant in the Premium and Mid price segments during the period 2013 and H2 2014, dramatically reducing the margins for all in the supply chain.

In this plain packaging environment, the down trading trend suggests that the price of cigarettes has become an increasingly important factor for consumers when selecting a product.

In parallel, the level of illicit tobacco consumption has increased during the last three years, reaching 14.5% of total consumption in 2014, as estimated by KPMG in their last report.³ This is another indication that consumers are increasingly looking for cheaper alternatives.

² This dataset is provided by Euromonitor and covers retail volume (cigarettes including roll-your-own stick equivalent). The period 2015F-2019F is a forecast based on the extrapolation of the historical trend.

³ KPMG, illicit tobacco in Australia, 2014 full year report (30 March 2015)



Source: KPMG

The introduction of plain packaging in the Australian market has also led to some brands becoming obsolete, creating a concentration in the market and reducing consumer choice. For example, already two of the twenty one premiums brands have been discontinued.⁴

It is our firm belief that the plain packaging of tobacco products in Australia has delivered no benefit to society and, whilst unnecessarily restricting individual freedoms and choice, has brought with it a host of negative and costly consequences. The Government continues to expend tax payers' money to defend and justify a measure that has clearly failed.

We hope that this submission will contribute to this Senate inquiry on personal choice and remain at your disposal to provide further information as necessary.

Yours faithfully,

Michiel Reerink
Vice President
Global Regulatory Strategy

⁴ Factory made cigarette (FMC) and roll-your own (RYO) tobacco brands by market segment and manufacturer-current and recently discontinued, June 2014: http://tobaccocontrol.bmj.com/content/suppl/2015/02/09/tobaccocontrol-2014-052071.DC1/tobaccocontrol-2014-052071supp_table1.pdf