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Submission No. 6
(Plain Packaging Bill)
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House of Representatives Standing Committee on Health and Ageing the Tobacco Plain Packaging Bill 2011 and the Trade Marks Amendment (Tobacco Plain Packaging) Bill 2011 for Inquiry.

Submission relating to Tobacco Plain Packaging Bill 2011 and the Trade Marks Amendment (Tobacco Plain Packaging) Bill 2011.

Thank you for the opportunity to submit APCO Service Stations Pty. Ltd. view on the Plain Tobacco Packaging Bill 2011. This is a crucial issue and one that threatens the core of APCO's convenience store business.

APCO Service Stations Pty. Ltd. operates a network of 21 franchised convenience stores throughout regional Victoria so I also represent the interest of our Franchise business owners and their 300 employees. APCO and all our Franchise members understand there are public health issues surrounding the sale of tobacco products and welcome a balance approach to achieve public health objectives, however all APCO members are concerned about the Plain Tobacco Packaging Bill 2011 particularly when we're already currently dealing with a number of tobacco regulatory issues adversely impacting on our future profitability and growth.

Tobacco sales represent in excess of 30% of all sales in small convenience format stores and between 22-35% of retailer profits and this is being placed at significant risk. Any impact on these sales and profits will result in my members re-evaluating their operations with a likely scenario of reducing their employee numbers.

The regulations not only threaten APCO's business but hundreds of other small format retail store business owners across Australia. All business owners will accept a sensible and practical approach to decrease the rate of smokers in Australia and even understand measures such as Retail Display Bans to effectively reduce smoker rates. However of particular concern are the recently announced plans to mandate Plain Packaging.

ILL-CONSIDERED POLICY

These regulations threaten the core benefit of the Convenience Store business. For years the small retail format stores have differentiated themselves from the Supermarkets by being able to serve our customers in a fast and efficient manner. These regulations will dramatically increase transaction times; queuing at the point of sale, frustrate the majority of

our customers (not just smokers) and potentially increase security risk to customers and employees.

Plain Packaging will turn the sale of tobacco products into an inconvenient and costly process for retailers. A typical Tobacco display has some 300 lines, so imagine amongst serving an average of 1,300 petrol & convenience store customers per day, our sales attendants scrambling to find a pack of cigarettes from a wall display that all look the same. Additionally training of sales attendants will be a more arduous task for business owners because tobacco brands will be difficult to identify and locate.

Security to our staff will be threatened whilst their backs are turned from the customer attempting to identify the correct product. Customers' safety risk will also increase due to higher operator distraction and less time to watch the fuel forecourt. Plain packaging will be disastrous for petroleum & convenience store retailers posing serious OH&S problems as staff will be unable to maintain the levels of vigilance and safety expected of them.

NO CREDIBLE EVIDENCE

Evidence from Canada where there's been aggressive tobacco regulations in place for some years show that rather than reducing smoking rates, smokers simply changed their purchasing habits to larger Supermarkets. There has been no demonstrated accelerated decline in smoking rates in Canada. The larger Supermarket chains in Australia are already capitalising on the 'Display Ban' regulations as they are more organised, resourced and prepared for the regulatory changes.

SHIFT EVEN MORE MARKET SHARE ACROSS TO LARGER GROCERY CHAINS

It is predicted (as with overseas experience) substantial tobacco sales will migrate from smaller retailers across to the larger chains as customers shop exclusively based on price and find it less convenient to shop in convenience stores.

Plain packaging would force legal manufacturers into price wars which will ultimately lead to reduced retailer margins. A combination of manufacture 'price wars' and shopper's basing their purchasing decision on 'price alone' will ultimately lower retailer margins as is already our recent experience and growing trend in Australia as a consequence of display bans.

The larger supermarket discount chains can tolerate tobacco price wars and absorb margin losses within the mix of their business far more easily than smaller retailers. Smaller retailers have a different sales mix to large Supermarket chains with a bias in small retailers to single pack sales as opposed to cartons. Smaller retailers tend to charge higher retail prices as they don't purchase as well (less buying power) and require larger margins to operate, so any price hike across the board will have a disproportionate impact on smaller retailers.

The Supermarket chains already dominate the Grocery and Fuel retail sector's where there is arguably less competition as a result, so tobacco regulations threaten long term survival of many small retailers and long term sustainable competition. These regulations play perfectly into the hands of the major discount chains so we request the Government consider this likely impact.

Recent research highlights that while tobacco sales have dropped by 10% in convenience stores, tobacco sales have increased by 8.5% in major grocery stores, so this market shift is already occurring at an accelerated rate.

ERODING SMALL BUSINESS

Every time a small retailer loses a tobacco customer to a competitor it represents an average of \$2,000 a year of lost sales across all categories. A serious decline in tobacco sales caused by ill-considered policy will be a financial disaster for thousands of convenience stores across Australia.

There is no point taking business away from legitimate small business owners if you're just simply handing business over to the major grocery chains.

ILLCIT TOBACCO MARKET FLOURISHING

Plain packaging will also lead to unintended consequences such as an increase use of illegal tobacco because counterfeiting and smuggling would be made easier. Incentive for Smokers to switch to cheaper, illegal, unbranded chop chop or illegal smuggled, branded cigarettes would increase. Combined with potential price hikes illicit sales will dramatically increase as they have in Canada (to around 22%); Australia is already experiencing a dramatic lift in illicit tobacco sales in recent years (up to 15.9% according to recent Deloitte study). The growth in illicit tobacco will likely cause increased availability and easier access to cheaper illicit tobacco on the market potentially exposing more youth to smoking and lead to increased consumption.

LOSS OF RETAILER PROFITS & TAX REVENUE

Illicit trade already results in retailers losing an estimated \$35 million in profits and is estimated to cost the Government \$1.126 Billion in lost revenue annually.

There is no credible evidence to support plain packaging will discourage smoking and we are greatly concerned given the impact that plain packaging would have on small business that the Federal Government is considering implementing such regulation without convincing evidence that it will discourage smoking and provide substantial public health benefits.

The Government has not conducted a proper analysis of the outcomes or the financial impact of the proposed new regulations. What compensation is there likely to be from Government for this likely impact to small business? All my Franchisee's have purchased their business in good faith and tobacco represents a significant proportion of their profitability and livelihood. Some of my franchisees could potentially lose their personal wealth if tobacco sales are dramatically affected.

We strongly urge a practical and evidence based approach to tobacco regulation that will not threaten the core of our long term business livelihood.

Thank you for the opportunity to provide this submission.

Yours Sincerely,



Robert Anderson
Director