



TSG Franchise Management Pty. Ltd.

**Standing Committee on Health and
Ageing**

PLAIN TOBACCO PACKAGING

Presented by: Kerry Browne

22nd July 2011

Introduction

TSG (Tobacco Station Group) is Australia's largest retail tobacco franchise with over 300 independently owned stores nationally and we believe the future of the tobacco industry lies in the outlet store. We strive to improve our high quality product offerings and service, and continually develop innovative programs for our franchises to improve their business and remain competitive in challenging market conditions.

All Franchisees are effectively Small Businesses that rely on support from, not only our group, but the Tobacco companies to compete in a competitive industry.

Current Tobacco regulations in Australia are among the most extensive in the world. All tobacco advertising has been prohibited since 1992.

Tobacco packets carry health warnings that cover more of the pack face than the manufacturer's trademark and brand logos and these warnings are the largest in the world.

The use of tobacco products in Australia has been declining for decades and they cannot be used in numerous public places. Cigarettes are sold in packets dominated by health warnings. Cigarettes cannot be advertised; they are subject to significant public health campaigns and are subject to higher taxes than any other consumer good.

The recommended changes towards generic packaging would threaten the existence of individual Small Businesses on a number of levels.

Internal Store Factors

- There are approximately 300 different brand variants of cigarettes currently available in the Australian market. Adult smokers and our retailers use brand images to select and find the brand they prefer. Our Franchised groups of Tobacconists are high volume, low margin retailers that provide expert customer service in the Tobacco category. The average volume of cigarettes across our 300 outlets is 400,000 “sticks” (or cigarettes) per month. This equates to about 650 packets per day. The reality of selling 650 packets of cigarettes that are generic in appearance is very impractical for the retailer. Imagine the time and inconvenience retailers will spend trying to find a pack in amongst 300 variants when all the packs look the same. More time with their back turned away from the counter is potentially a security risk.
- TSG stores are set up in a planogram manner that allows the storage of Tobacco products in a visible manor for both the consumers to view the products available, as well as allowing the retailer easy access to the most popular products. To have all products generic would severely disadvantage our Franchisees in stock replenishment and ease of transaction. Not only would this potentially increase labour hours to manage a store, but could implicate Occupational Health and Safety issues in store depending on the restrictions and configurations required at a store level.
- Plain packaging will confuse adult smokers looking for their products, and limit consumer choice. Despite the name, the similarity of the packs will certainly lead to consumer confusion. Introducing new versions of existing brands will be extraordinarily difficult, if not impossible, as consumers

will have no way of easily identifying new brand extensions other than reading the typeface on the pack (assuming they can read the product name from the other side of the retail counter). In fact, distinguishing existing versions of the same brand will be difficult. Generic packaging would invite consumer confusion by destroying unique brands through its mandated mix of visual elements (standardised design, colours, and font). Consumers will no longer be able to easily distinguish between brands on sale.

- Restricted to displaying packs that are basically indistinguishable from one another, manufacturers will find it difficult – if not impossible – to launch new products or line extensions of existing brands, which is an essential element of fair, effective competition in a free marketplace.
- Current legislation throughout Australia has a large number of TSG outlets with covered displays – doors. Western Australia, Tasmania and many outlets in Queensland are currently covered with New South Wales to be fully covered by June 2013. Victoria has just commenced new legislation with the expectation that 50% of TSG stores will now be covered. Outlets in Victoria that have not been accepted as specialist tobacconists are now totally covered. Product is currently not visible, nationally, in approximately 120 TSG outlets with that number increasing. If the aim is to not have product “appealing” to consumers current legislation to displays has already achieved that.

Stores display examples – next page



Typical display size of a tobacconist



Covered display tobacconist

External Store Factors

- New companies, without the ability to distinguish their products through trademarks, will face enormous difficulties in entering the market. Indeed, manufacturers will be limited to pricing to attract consumers to new products.
- Manufacturers competing on price alone will ultimately lower retail margins in what is a critical category for our retailers' business.
- Plain packaging encourages competition based on price alone, and fosters low-priced brands. Plain packaging would force legal manufacturers to compete by lowering prices, and would give smokers a strong incentive to switch to cheaper brands or illegal, unbranded chop chop or illegal, smuggled, branded cigarettes. In fact "counterfeiters (and chop chop sellers) are likely the only group that would benefit from a switch to plain packaging.
- Counterfeiting and smuggling are organised criminal activities. Having generic packaging pushes consumers in the direction of the cheapest product available - which invariably are those which evade taxes. Rather than quitting in the face of generic packaging, smokers will seek an alternative route. The illicit trade unfairly competes with legitimate retailers and would cost jobs. Illicit tobacco has been a problem here in Australia. This will only exacerbate the problem. Generic packaging will make it easier and less costly for counterfeiters to produce a cigarette packet which also removes a way of verifying that tobacco products are genuine. This would do nothing to improve Australian health but will have a major impact on criminal justice officers, legitimate retailers and manufacturers, and Australia consumers. Press reports in the United States

and Canada are also pointing to a link between illegal tobacco and organised crime where it is believed that some organised crime syndicates are using the trafficking of illegal cigarettes as a way to fund their organisations because the potential profit margin is so large*. Senator Gary Humphries has also added that illegal tobacco trading with prosper with the 25% tax increase in late April 2010.**

*www.ticklethewire.com

**Senator Gary Humphries Media Release attached

- The illegal tobacco market continues to represent a large problem for government, retailers and the tobacco industry with the volume of illegal tobacco consumed equivalent to 12.3% of tobacco consumption in Australia, based on modeling results. Following the cessation of legal domestic tobacco production there has been decreased availability and access to unbranded tobacco in Australia, which has seen the number of consumers who regularly purchase unbranded tobacco dip from 6% in 2007 to 2% of smokers today (based on the results of a survey of tobacco users). However, there has also been a partial shift away from unbranded tobacco to counterfeit and contraband tobacco products, and the volume of illegal tobacco purchased per occasion and the frequency of purchase also appears to have risen.
- From a fiscal perspective, the impact on excise tax revenue would be great as the potential for consumers to source illicit tobacco would increase therefore this would see a decline in GST revenues. As mentioned above the total illegal tobacco market has grown, with an estimated 2.3 million kilograms of illegal tobacco consumed annually. This is up from 1.8 million kilograms, which was the estimated market size in 2007*. With the recent increase in taxation rates, this represents a taxation revenue loss for

the Commonwealth Government of \$624 million (excluding GST)

*(PricewaterhouseCoopers 2007, Illegal Tobacco Trade: Costing Australia Millions)

- The illegal tobacco market is a problem for Australia and internationally in many respects. In terms of adverse health impacts, the Department of Health and Ageing (DoHA) identifies that illegal tobacco presents serious health risks in addition to those of smoking legal tobacco*. This is due to the fact that illegal tobacco typically contains a number of contaminants and is not subject to quality control standards that legal tobacco production adheres to.

*(Department of Health and Ageing website 2007, Fact Sheet: The facts about 'chop-chop' tobacco, www.health.gov.au)

Summary

There is no evidentiary basis to conclude that plain packaging will deter young people from taking up smoking or prevent adult smokers from quitting (or relapsing once they have quit). Education is the key. If the government is serious about reducing smoking rates it would dedicate significantly more revenue collected from excise tax into smoking prevention campaigns. The Federal Government will now collect around \$7.5 billion in excise tax in 2010-2011 and as a result only an extra \$27.8 million will be placed towards anti-smoking campaigns.*

*Kevin Rudd – Transcript of joint doorstep Commonwealth Parliamentary Offices, Sydney 29th April 2010

Pack design – or “brand appeal” - does not play a role in uptake of smoking or continued smoking.

Our retailers need to ensure that their main source of income is protected and our customers can purchase the products they want in a normal retail environment, after making an informed decision to smoke. Plain packaging will hurt retailers' business.

In short, TSG believes that plain or “generic” packaging would be an extreme and disproportionate measure. While TSG supports regulation based on principles of harm reduction, particularly regulation intended to prevent youth smoking, we do not believe that proposed generic packaging should be pursued as there is no basis to believe it will reduce smoking.