

SENATE STANDING COMMITTEE ON LEGAL AND CONSTITUTIONAL AFFAIRS
AUSTRALIAN CUSTOMS AND BORDER PROTECTION SERVICE

Question No. 51

Senator Brandis asked the following question at the hearing on 16 October 2012:

Referring to an article in the Sunday Telegraph on 30.9.12 by Renee Viellaris "*Tobacco gangs cash in*".

The article says:

"Viewed as high-return, low-risk alternative to hard drugs, bootleggers are using shipping containers and airline crews to smuggle packaged and loose tobacco. Customs documents released under Freedom of Information have labelled it "an issue of growing significance."

1. Could you please explain what exactly '*an issue of growing significance*' means to Customs?
2. What is the estimated value of the illicit tobacco market according to Customs?

The answer to the honourable senator's question is as follows:

1. In several internal briefing documents that were subsequently released under Freedom of Information provisions, Customs and Border Protection referred to tobacco smuggling as 'an issue of growing significance'.

These comments reflect Customs and Border Protection's consideration of the risk in relation to the increase in illicit tobacco crossing the border following the closure of the tobacco growing industry in Australia in late 2006.

The comments also take into consideration that tobacco smuggling is not only a revenue risk. Smuggled tobacco poses quarantine risks as illicit tobacco can contain dangerous contaminants such as insects, fungus and pathogens.

2. Customs and Border Protection has not estimated the value of the illicit tobacco market in Australia. Customs and Border Protection is also not aware of efforts by any other Commonwealth agencies to formally estimate the size or value of the illicit tobacco market.

However, the Department of Health and Ageing has previously advised the Senate Legal and Constitutional Affairs Committee (in a submission considered as part of the Committee's inquiry into the *Customs Amendment (Smuggled Tobacco) Bill 2012*) that 'the 2010 National Drug Household Survey found that 4.9 per cent of smokers used loose unbranded tobacco (commonly known as 'chop-chop'), and that 1.5 per cent of smokers used loose unbranded tobacco more than half the time.'

In addition to this, Customs and Border Protection is aware of two recent non-government estimates of the size of the illicit tobacco market.

The first estimate, commissioned by the tobacco industry and published by Deloitte in May 2012, estimated the size of the illicit market in Australia as 13.4 per cent of the legal tobacco market, which Deloitte estimated represented 2.3 million kilograms of illicit tobacco per year worth \$1 billion in Government revenue forgone. The Department of Health and Ageing has previously advised the Senate Legal and Constitutional Affairs Committee (also in its

submission considered as part of the Committee's inquiry into the *Customs Amendment (Smuggled Tobacco) Bill 2012*) that it 'considers the Deloitte report contains a range of methodological flaws that lead it to substantially exaggerate the size of the illicit trade in tobacco in Australia'.

The second non-government estimate, published by Quit Victoria in May 2012, estimated the size of the Australian illicit tobacco market at 2-3 per cent of the legal tobacco market, which Quit Victoria estimated represented 350 million cigarettes, or 250,000 kilograms of illicit tobacco per year, worth approximately \$165 million in Government revenue forgone. The Quit Victoria estimate is based on the National Drug Household Survey data noted above and on relative seizures of illicit loose-leaf tobacco and cigarettes by Customs and Border Protection. Quit Victoria has previously provided its estimate of the size of the illicit tobacco market to the Senate Legal and Constitutional Affairs Committee as part of the Committee's inquiry into the *Customs Amendment (Smuggled Tobacco) Bill 2012*.