The tobacco industry in Australia

Prepared by:
Sandra Younie
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VicHealth Centre for
TOBACCO CONTROL

The Cancer Council Victoria
1 Rathdowne Street
Carlton South Vic 3053
http://www.vctc.org.au

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Australia's long-term, multi-level government commitment to competition policy in combination with broad-reaching reforms in the taxation system have, over the past decade, dramatically transformed the tobacco industry in this country.

Key factors affecting the industry in recent times have included: the phasing out of quotas on local crop production from the late 1980s; the August 1997 abolition of State licence fees on tobacco; the September 1999 merger of Rothmans and W.D & H.O. Wills and the subsequent entry of Imperial Tobacco Australia (resulting from a 16 per cent divestment of market share by sale of trademarks required of BATA by the Australian Competition and Consumer Commission to facilitate the merger); and, finally, the November 1999 changes to the tobacco excise regime[1].

This paper describes recent developments in tobacco growing, manufacturing and retailing, and some of the major effects associated with changes in cigarette packaging and pricing.

Tobacco growing

Australia is a relatively minor producer of tobacco leaf (and getting smaller)[3]. All Australian leaf is sold locally and, historically, Australian production is about one half of the tobacco leaf required for manufacturers located in Australia, and proportionally trending smaller. Australian manufacturers have the option of sourcing tobacco leaf from a wide range of countries, but mainly source from the USA with some leaf also being imported from the Netherlands, China, Zimbabwe and the United Kingdom[4].

Tobacco growing was largely concentrated into two major growing regions, the Ovens/Murray region of northern Victoria and the Mareeba district of Northern Queensland, with a small producing region in south-east Queensland. Around four per cent of tobacco leaf cultivation occurred in New South Wales but this has fallen to zero since the introduction of a NSW government scheme to buy out growers.

The number of growers in northern Queensland has also declined significantly. The Queensland government funded structural adjustment scheme has accelerated the rate of exits from tobacco farming. At the end of May 2002 there were 115 commercial growers in northern Queensland, at Mareeba, and six in southern Queensland, near Maroochydore.

Table 1: Australian leaf output during the 1990s

Financial Year	Ex Farm Tobacco production (green weight) ('000 tonnes)	Area planted ('000 hectares)
1993/94	10	4
1994/95	12	4
1995/96	10	4
1996/97	9	3
1997/98	9	3
1998/99	9	3
1999/00	8	3
2000/01	<8	<3
2001/02	<6	<3
2002/03	<6	<3

Source: Tobacco Research and Development Corporation

The downward trend in Australian leaf output during the 1990s, see **Table 1**, follows on from declines in previous decades. Australian tobacco leaf production peaked in 1969-70 at a level of 17.2 million kilograms. Throughout the 1970s annual production was 15 million kilograms but had declined to around 13 million kilograms by the mid 1980s. This decline has been attributed to various factors

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[1] British American Tobacco Australasia web-site www.bata.com.au, accessed 20 May 2003
[2] British American Tobacco Australasia website op cit
[3] The world's largest producer of tobacco is China, followed by United States of America, India and Brazil. China is the world's largest tobacco consuming country.
[4] ABS. *International Trade Statistics-Imports of Tobacco Australia 2001-2002*

including the downward trend in consumption of tobacco products, the effects of regulation (in particular, the removal of the high levels of assistance for tobacco growing as a result of the 1987 Industry Assistance Commission Review finding that tobacco was the most assisted agricultural crop in Australia) and the illegal growing and trading in tobacco leaf. An Australian National Audit Office analysis estimates that if illegal tobacco had been legally grown it would increase commercial output of Australian leaf by between 10-20 per cent a year[5].

The Tobacco Research & Development Corporation lists the following major factors as affecting trends:

1. A continuing decline in Australian tobacco consumption coupled with manufacturing companies' reductions in local sourcing. The effects have been to consolidate tobacco leaf production in northern Victoria, and to bring about a substantial reduction in north Queensland production.
2. The deregulated tobacco leaf market place allows manufacturers to source leaf globally with the consequence that domestic leaf prices are strongly influenced by world global price trends, subject to grade differentials. The extent to which full exposure to international competition impacts on short term purchasing decisions is influenced by such variables as global prices, exchange rate movements, leaf quality and stock holdings in Australia. The level of the Australian dollar and the improvement in leaf quality has assisted the competitive position of Australian growers in recent years. However, recent increases in the value of the Australian dollar may partly reverse these gains.
3. Rationalisation is occurring at an accelerated rate in the growing industry, and has occurred among manufacturers. There are now only two Australian manufacturers operating in Australia, Philip Morris and British American Tobacco Australasia.
4. Ongoing need to provide manufacturers with high quality tobacco. Manufacturers continue to require growers to ensure tobacco leaf meets exacting quality requirements to avoid any problems with potential contaminants[6].

At the commencement of last year, BAT announced plans to substantially scale back domestic leaf purchases, withdrawing from the Mareeba district. Philip Morris had committed to longer-term contract purchases from northern Queensland but in the previous fortnight, it has been announced, via local ABC media, that the current harvest at Mareeba will be the last from this region. Discussion with the Commonwealth Department of Agriculture, Fisheries & Forestry confirmed that this harvest from Mareeba, estimated at one million kilos, would be the last brought by the manufacturers[7]. Local industry representatives attribute the demise of their industry to international free trade arrangements. Tobacco production is expected to continue at normal levels in southern Queensland.

This leaves northern Victoria as the major production region for tobacco in Australia. Victorian growers continue to have a medium term contract, with both manufacturers, to grow around four million kilos a year.

Tobacco is considered to be an important crop in Victoria with 130 growers producing an average of four million kilograms each season equating to a farm gate value of $27 million. This tobacco is produced on approximately 1400 hectares. As this tobacco is manufactured domestically there is a consequent multiplier effect on employment and manufacturing investment[8].

In Victoria, tobacco is grown along the river valleys of the Ovens, King and Kiewa Rivers and their tributaries in North East Victoria. Very specific conditions are needed to grow the high quality tobacco which is now required by manufacturers. The soil type, mild climate with hot summers and ample access to water make production of high quality tobacco possible in these areas.

The price of tobacco is based on a grade and price schedule which is negotiated with manufacturers at the start of each season. Each grade is defined according to the plant position, colour and quality. In

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[5] Tobacco Research & Development Corporation *Annual Report 2001/02*
[6] Ibid
[7] Personal communication Des Naughton from the Department of Agriculture, Fisheries and Forestry
[8] The Tobacco Co-operative of Victoria Ltd. Access date: 21 May 2003 URL:http://www.alpinelink.com.au/tobaccoproduction/index.shtml

2001 there were 62 different prices and approximately 85 grades ranging from $7.35 to $1.80 per kilogram of tobacco[9].

Research and development (R&D) on behalf of the tobacco industry has been undertaken by the Tobacco Research & Development Corporation (TRDC), established under the Primary Industries and Energy Research and Development Act 1989. Industry and the Commonwealth Government jointly funded it. This body is currently being wound up and its tobacco research program, and assets, transferred to Horticulture Australian Ltd (HAL). Ongoing R&D is also sourced from the Ovens Research Station an arm of the Victorian Government. One of the last research projects funded by TRDC, and which has received ongoing funding for the 2002/03 financial year, is a study evaluating the potential non-smoking uses of tobacco leaf grown in Northern Queensland. This project has the potential to deliver long-term markets for these growers.

Tobacco product manufacturing and marketing

There are currently 11 manufacturers or importers of cigarettes or tobacco registered in Australia and considerably more importers of cigars[10].

The three largest tobacco companies are the two manufacturers, British American Tobacco Australasia and Philip Morris, and Imperial Tobacco which does not have a manufacturing plant. Aside from importing tobacco products, Imperial contracts BATA to produce its cigarettes in Australia.

British American Tobacco Australasia

British American Tobacco Limited was formed as part of a merger in 1999 between Rothmans Holdings Limited and W.D. & H.O. Wills Holdings Limited. It is part of British American Tobacco (BAT) and now trades in Australia as British American Tobacco Australasia (BATA), combining its operations in Australia, New Zealand and the Pacific Islands. BATA is Australia's leading tobacco company, accounting for approximately 43.5 per cent of the cigarette market and employing 1,200 people in Australia[11]. It also employs a further 1,200 people across the Pacific region, the largest numbers in New Zealand and Papua New Guinea. Factories producing cigarettes, and managed by operating companies within the BAT group, are located in Australia, New Zealand, Papua New Guinea, Fiji, the Solomon Islands and Western Samoa. Estimated market share of BATA for New Zealand is 78 per cent and for the Pacific Islands 80 per cent placing it clearly as the dominant market leader for the Pacific region.

On May 1, 2001 BATA ceased to be listed on the Australian Stock Exchange following the acquisition of all minority shares by subsidiary companies of BAT plc. Therefore it has no obligation to produce an Annual Report in Australia. It remains registered with Australian Securities and Investments Commission (ASIC) as an Australian Public Company, Limited by Shares. BAT is listed on the London Stock Exchange. The company manufacturers and distributes cigarettes and roll-your-own tobaccos and distributes pipe tobaccos and cigars. Its brands include *Winfield, Benson & Hedges, Dunhill, Lucky Strike* and *Holiday*. It reported that it produced a total of 18.0 billion cigarettes across the Pacific region of which 11.209 billion cigarettes were produced in Australia in 2001-2002[12].

Philip Morris

Philip Morris Limited (Australia) was a publicly listed Australian company until 1986, but it de-listed on becoming a wholly owned subsidiary of its parent Philip Morris Inc. Philip Morris Inc was listed on the Australian Stock Exchange in 1992 but has also since de-listed. Similar to BATA, it remains an Australian Public Company registered with ASIC. Effective January 17, 2003, the name of the parent company, Philip Morris Companies Inc, changed to Altria Group Inc. Altria Group Inc is registered on the New York Stock Exchange and also includes Kraft Foods within the consumer packing group. (In addition Altria owns Nabisco, making it the largest food group in the world.) Altria is also the largest shareholder in SAB Miller plc, the second largest brewing company in the world. Philip Morris

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[9] ibid
[10] source: The Australian Retail Tobacconist: Vol 63 April/May 2003
[11] British American Tobacco Australasia *Social Report 2001*/2002. http://www.bata.com.au. Page last updated 30/04/2003. Access date 30 May 2003 (PriceWaterhouse Coopers, Industry Exchange of sales for 2002 as at 31 December 2002)
[12] ibid

International is an operating company of Altria Group Inc responsible for the manufacturer and distribution of tobacco products.

Philip Morris International in Australia has its head office at Moorabbin and employs 950 people. Recently it has established e-Orders Pty Limited, an industry portal for business-to-business transactions and communication between convenience retailers (including petrol stations and independent grocery outlets) and suppliers (manufacturers and wholesalers) of fast moving consumer goods. In addition, it owns State-wide Tobacco Services which distributes its products to more than 35,000 retail outlets country-wide.

Australia is the base for the Asia Pacific Region of Philip Morris Information Services (PMIS): a shared services company with over 120 permanent staff and 60 independent contractors providing systems development, data processing and communications network facilities for Philip Morris operations throughout Japan, Australia and Asia

In Australia, the manufacturing arm of the company produces cigarettes and roll-your-own tobacco and pipe tobacco. Its major brands are *Alpine, Longbeach, Marlboro, Peter Jackson* and *Superlights*.

Imperial Tobacco

Imperial Tobacco Australia (ITA) was established in September 1999, following the merger of W.D. & H.O. Wills and Rothmans. Its parent company is the UK-based Imperial Tobacco Group (ITG). Today ITA's market share is 17.85 per cent (MAT Jan 2003, AC Nielsen Exchange of Sales). Its portfolio consists of brands including *Horizon, Escort, Peter Stuyvesant, Drum and Tally-Ho*. As of Aug 2001, ITA has been the distributor for Japan Tobacco brands *Camel*, *Mild Seven* and *More*. The Imperial Group recently acquired Reemstma, a major global tobacco company. Noteworthy brands acquired are West cigarettes and Davidoff, considered to be a super premium product. Similar to the other tobacco companies, ITA is registered with ASIC as an Australian public company, limited by shares[13].

Market share

The tobacco industry in Australia was estimated to be worth $6.2 billion in 2002[17], with 52 brands of cigarettes available for sale in June 2003 [18].

In 1995, Philip Morris had the largest market share[20] but is now at number two based on sales volumes. This is despite it still having in its portfolio two of the most popular brands in both the adult and adolescent markets. *Peter Jackson* and *Longbeach* have 20 and 17 per cent respectively of the adult market[21] while in 1999 37 per cent of adolescents reported smoking *Peter Jackson* with a further ten per cent smoking *Longbeach*[22].

Figure 1 shows how the market is divided between the major tobacco companies and **Table 2** the top 10 brands in Australia by market share[23].

[13] source: The Australian Retail Tobacconist: Vol 63 April/May 2003

[14] Winstanley M, Woodward S, Walker N. *Tobacco in Australia: Facts and Issues* 1995. Second Edition Quit Victoria, 1995

[15] source CBRC. Unpublished data from the 1999 evaluation of the National Tobacco Campaign

[16] Source: White, Hill & Effendi, Changes in the use of tobacco among Australian secondary students: results of the 1999 prevalence study and comparisons with earlier years *ANZJPH* 2002 26:2, 156-163

[17] *Business Review Weekly*. December 12-18, 2002

[18] source: The Australian Retail Tobacconist: Vol 63 April/May 2003

[19] *Business Review Weekly*. December 12-18, 2002

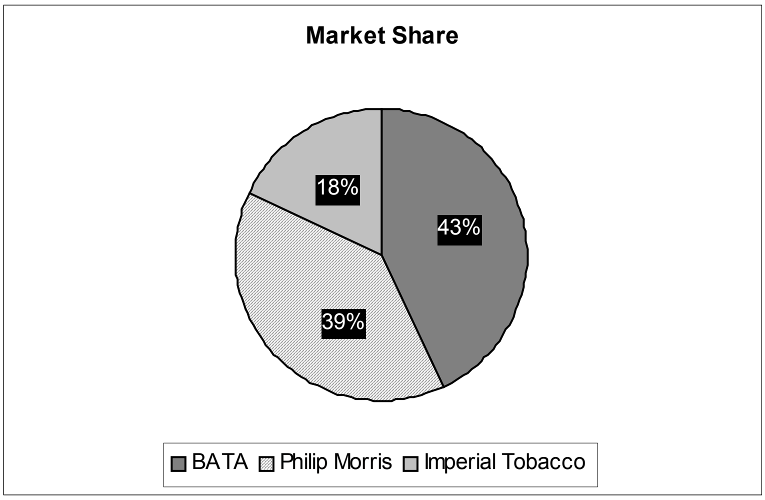
[20] Winstanley M, Woodward S, Walker N. *Tobacco in Australia: Facts and Issues* 1995. Second Edition Quit Victoria, 1995

[21] source CBRC. Unpublished data from the 1999 evaluation of the National Tobacco Campaign

[22] Source: White, Hill & Effendi, Changes in the use of tobacco among Australian secondary students: results of the 1999 prevalence study and comparisons with earlier years *ANZJPH* 2002 26:2, 156-163

[23] *Business Review Weekly*. December 12-18, 2002

Figure 1: Market Share of the major tobacco companies



source: BRW

Table 2. The top 10 cigarette brands in Australia

		Market Share (%)	
Rank	**Brand (owner)**	**2002**	**1999**
1	Winfield (BATA)	21.0	17.0
2	Peter Jackson (Philip Morris)	17.2	16.0
3	Longbeach (Philip Morris)	17.0	17.0
4	Horizon (Imperial)	13.1	13.1
5	Benson & Hedges (BATA)	10.0	9.0
6	Dunhill (BATA)	3.3	2.9
7	Alpine (Philip Morris)	2.8	2.8
8	Marlboro (Philip Morris)	2.5	2.5
9	Escort (Imperial)	1.9	1.8
10	Peter Stuyvesant (Imperial)	1.8	1.3

Source: BRW

Profitability

Out of *Business Review Australia's*[24] 1000 top enterprises, ranked by revenue, British Australian Tobacco Australasia was placed 62 in 2002, down from 44 in the previous year. Philip Morris was placed at number 365 up two places from 367. The following tables summarise the two companies' financial performance.

[24] *Business Review Weekly (BRW)* November 14-27, November 2002

Table 3: Revenue and Net Profit after Tax

Company (balance date)	Revenue		Net profit after tax (NPAT)		
	Amount ($m)	Change (%)	Amount ($M)	Change (%)	Rank
BAT Australasia (12/01)	2,777.3	N/C	43.6*	N/C	208
Philip Morris (12/01)	540.9	7.8	71.8	66.1	130
Imperial Tobacco			18.3#	34.5#	

N/C = not calculable

*This is for the nine months to 31 Dec 31

#BRW Dec 12-18, 2002

Comparing the companies' revenue and after tax profit, Philip Morris is ranked higher — 130 compared to 208 for BATA out of the top 1000. This higher placing for Philip Morris also translates into rankings for the companies in the *Beverages and tobacco* sector of the Australian economy where Philip Morris is at 9 compared to BATA at 14. This higher level of profit for Philip Morris from a considerably lower revenue base is probably a reflection of a much more efficient cigarette manufacturing and distribution process. Profit figures for BATA were $93 million in the 12 months prior and company representatives report the profit decline to be associated with ongoing restructuring costs associated with the merger of WD &HO Wills and Rothmans[25]. Imperial Tobacco doesn't feature in the top 1000 companies for 2001-02 therefore its revenue must be less than the $160.3 million cut off.

Table 4: Shareholder Funds and Total Assets

Company (balance date)	Shareholders Funds			Total Assets		
	Amount ($M)	Change (%)	Rank	Amount ($m)	Change (%)	Rank
BAT Australasia (12/01)	1,614.7	N/C	99	3410.2	N/C	120
Philip Morris (12/01)	278.3	-4.4	335	598.1	3.0	379

Table 5: Return on Funds and Nos of Employees

Company (balance date)	Return on Funds	Return On Revenue	Gearing (%)	Interest Cover	Employees	
	(%)	(%)	(%)	(times)	Number	Change (%)
Philip Morris (12/01)	25.8	19.0	53.5	68.2	792	-14.7

25 *BRW* Dec 12-18, 2002

BAT Australasia (12/01)	N/C	N/C	N/C	N/C	2,486	N/C

Acronyms: Gearing-Total liabilities as a percentage of total assets
Interest Cover: Profit before interest expense and tax divided by interest expense
Net profit after tax: Operating profit or loss after income tax
Return on Funds: Net profit after tax as a percentage of shareholders' funds
Revenue: Total revenue equals sales plus other revenue.
Return on Revenue: Net profit before tax as a percentage of total revenue

Industry sources have stated that in the five years to June 30, 2001, the tobacco industry's revenue fell, on average, 1.9 per cent a year[27].

Excise and Taxation

Tobacco manufacturers in Australia are required to pay excise duty on all locally manufactured cigarette and tobacco products.

Under the indexation provisions of the *Excise Tariff Act 1921*, the rates of excise duty on spirits, beer (except 'home brew') and tobacco may be increased in February and August each year, in line with movements in the Consumer Price Index.

Since the 1 November 1999, excise duty on cigars and cigarettes (in stick form not exceeding in weight 0.8 grams per stick actual tobacco content) has been calculated on a 'per stick' rate. The excise duty that applies to other tobacco, and cigars or cigarettes that exceed in weight 0.8 grams per stick actual tobacco content, is calculated on a 'per kilogram tobacco content' rate. **Table 6** below sets out excise rates for the last four years .

Table 6: Federal excise levied since tax changed to per stick

Year ending June	Cigarettes		Loose Tobacco (per kg)	
	Aug	Feb	Aug	Feb
2000	0.18872	0.19155	235.9	239.44
2001	0.19481	0.2026	243.5	253.3
2002	0.2026	0.20893	253.25	261.16
2003	0.21227	0.21524	265.34	269.05

Source: Australian Taxation Office

Imported tobacco, cigars and cigarettes are subject to customs duty. The customs duty rates are identical to the excise duty rates.

Since the 1 July 2000, a ten per cent goods and services tax has been applied to tobacco and all other consumer services and goods excluding food grocery items.

27 BRW Dec 12-18, 2002

Table 7 shows the excise component of recommended retail prices of three popular cigarette brands. The recommended retail price is goods & services tax (GST) inclusive.

Table 7: Recommended Retail Price of Popular Brands, May 2003

Cigarettes	Per Pack* rrp	Per Stick $AU	Excise (1 Feb 2003)	Tax as % of rrp incl GST
Longbeach 40s	$13.70	$0.343	0.21524 per stick	72%
Peter Jackson 30s	$10.85	$0.362		68%
Winfield 25s	$9.50	$0.380		65%
Roll Your Own				
Drum 50g	$20.60	N/C	$269.05 per kilogram	74%

Source: Australian Tax Office website, Australian Retail Tobacconist Apr/May 2003
GST calculated at 1/11th of final retail price.

Excise and customs revenue collected on tobacco products in 2001-02 totalled $5.75 billion[28].

The majority of revenue derives from domestically manufactured cigarettes, excise duty, that totalled $4.85b in 2001-02. Around 801 million cigarettes were imported during 2001-02, customs duty paid totalled a further $170.3 million

Figure 2. Excise levied and cigarettes produced in Australia Apr 99-Apr 03

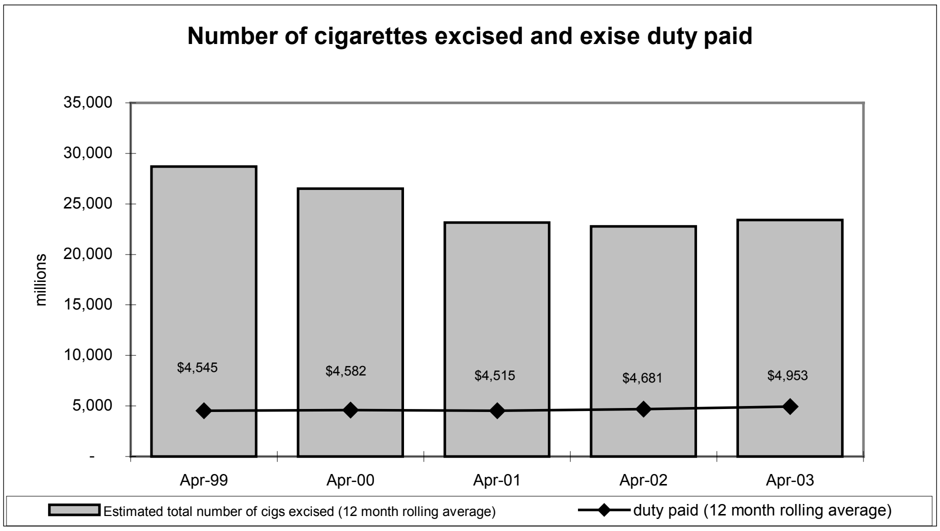


Figure 2 above, commences from April-99 just before the tax changes which saw a move to a per stick excise. The excise changes resulted in most cigarette varieties increasing in price, however the 'value' brands, especially packs of 40s and 50s, were most significantly affected. The price of value brands, at that stage making up more than 30 per cent of the total market, increased between 30 and 40 per cent as a result of excise changes [29]. As shown in Figure 2, production for the two years immediately after the tax change, fell sharply. This decline has now levelled off with production steady since 2002. Figure 2 also shows that even with a fall in production, the tax changes delivered increasing amounts of revenue to the Federal Government.

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28 Source: Costello, P. 2003-04 Budget Paper No. 1, Statement No. 5, Revenue

29 British American Tobacco Australasia website op cit

The amount of excise paid up to the year ending April 2003 totalled $4,953 million on 23.4 billion domestically manufactured cigarettes.

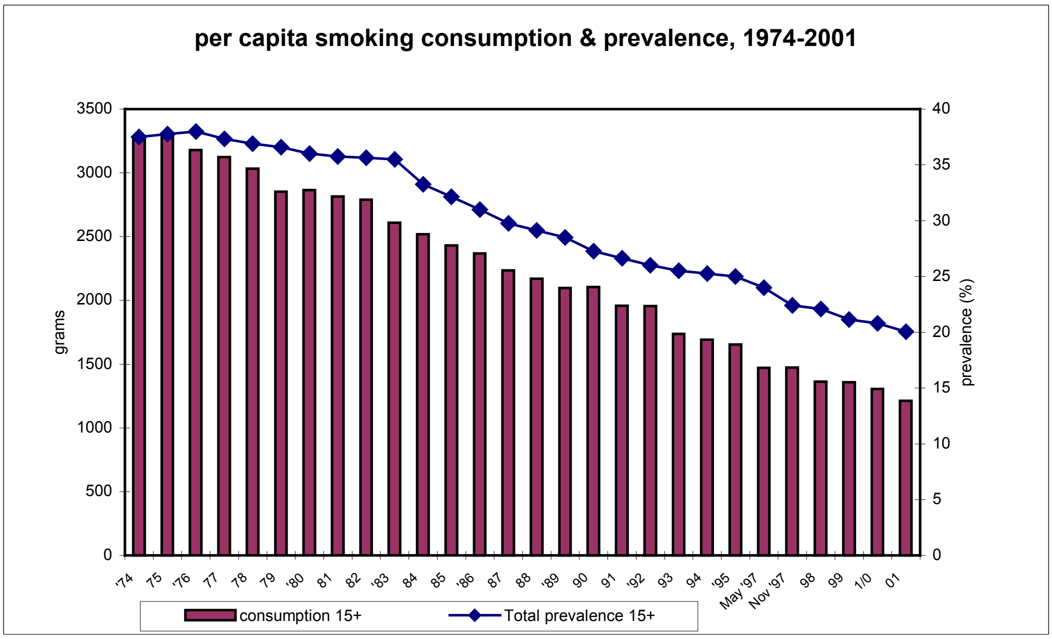
Tobacco and tobacco products represent only a fraction of Australian Merchandise exports (0.1%), in value $111million for the 10 months to April 2003, a significant increase over the same period the previous years when tobacco exports were valued at $60 million.

Tobacco product consumption

The prevalence of tobacco smoking for 2001 is around 23 per cent of the Australian population, 18 or over[30] (and around 20.05 per cent[31] if the population aged between 15-18 is also included). That is, at least three million Australians continue to smoke at least weekly.

Annual per capita consumption of tobacco continues to decline, mirroring the fall in smoking prevalence – refer Figure 3.

Figure 3: Per head tobacco consumption versus smoking prevalence

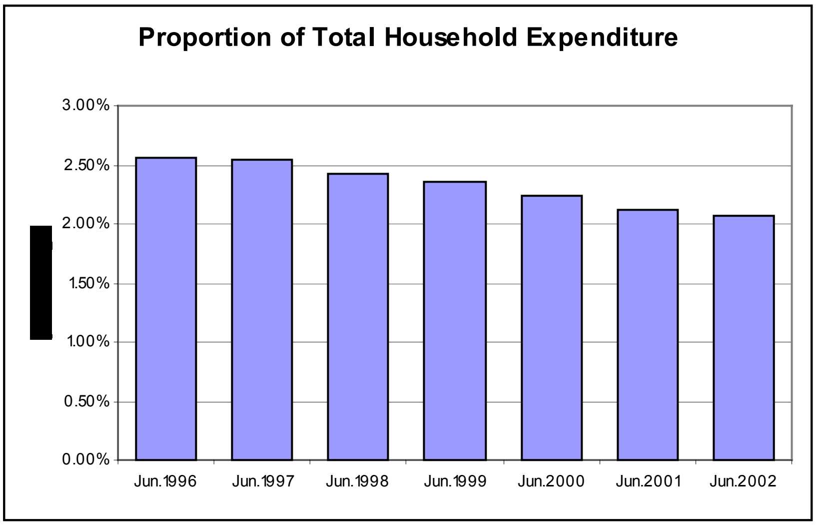


source ABS Excise receipts & Hill et al adult prevalence surveys

Total household spending on tobacco has increased by one per cent in the period between June 1996-June 2002 (not adjusted for rises in prices or expenditure during this time). During the same period household numbers have increased by 10 per cent. Spending on tobacco products per household, then, has decreased by 9.5 per cent, from $317 in June 1996 to $289 in June 2002. To take account of changes in overall prices and disposable incomes as well as the distorting effect of increasing household numbers, during this period, Figure 4 presents the tobacco spend as a ratio of total household expenditure. Consistent with the overall decline in tobacco consumption, the proportional amount that households are spending each year on tobacco is also falling.

[30] Data for the year 2001 was taken from the National Drug Strategy Household Survey conducted on behalf of the Commonwealth Department of Health and Aging.
[31] Anti-Cancer Council of Victoria's three yearly surveys of adult Australians 1974 to 2001.

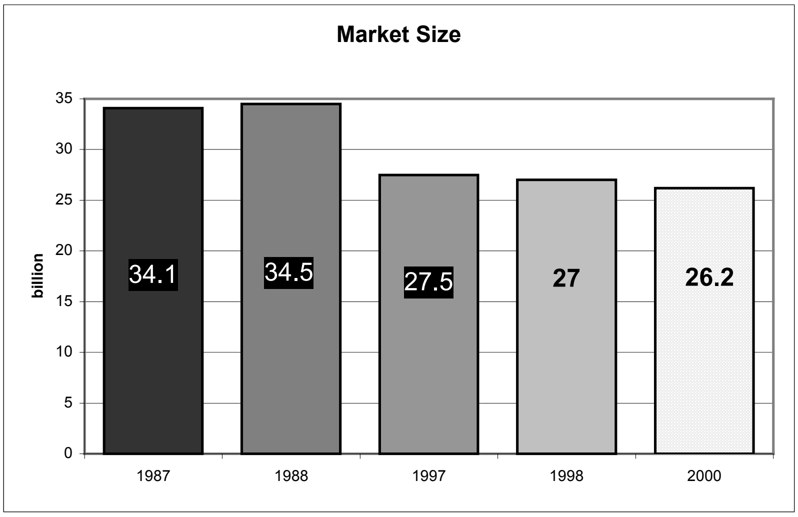
Figure 4: Household Tobacco consumption as a proportion of Total Household Expenditure



Source: Table 62: ABS, Household Final Consumption Expenditure, current $s

BATA reports that on average a cigarette consumer spends $1923.09 annually, and has an average transaction value of $12.50[32].

Table 5. Australian cigarette consumption



source BATA (www.bata.com.au)

Table 5, above, presents BATA estimates of the Australian market. It estimates that in 2000, smokers consumed 24.77 billion tailor-made cigarettes (not including roll-your-own tobacco)

Tobacco Retailing

According to industry sources, domestic cigarettes sales have declined an average 0.7 per cent a year between 1997-98 and 2000-01. BATA has estimated that demand fell nine per cent in the 12 months following the double hit of the 1999 excise changes and the introduction of the GST in 2000.

[32] Retail World 15-26 April, 2002 (source: Industry Exchange of Sales, BATA data and Roy Morgan data)

According to BATA, retailers receive approximately 14 per cent from the sale of a cigarette, manufacturers approximately 19 per cent and Government the rest[33]. In the current cigarette market, over 50 per cent of sales are purchased from grocery outlets, over 38 per cent of all cigarettes sales are for packs of 25s and Premium brands account for 21 per cent of all cigarette sales. The average cigarette consumer will purchase their product at a frequency of 156.4 times per year – or 3 retail store visits per week[34]

Since the changes to the excise regime, grocery has risen as the segment of increasing importance for cigarette consumers, with almost 50 per cent of smokers choosing to buy their cigarettes from grocery outlets. Cigarette sales represent approximately ten per cent of all supermarket sales. The number of convenience stores in Australia appears to be growing strongly, especially those stores also selling petrol, and there has been a commensurate increase in the value of cigarettes sales from these stores. These gains have been at the expense of the smaller retailers. The much lower turn-over in milk bars, delicatessens and the like limit the ability of such stores to compete with specialist tobacconists and supermarkets.

Table 8: Tobacco sales volume by type of retail outlet

	Percentage of total cigarette sales		
Retail Segment Portion	**2001**	**1999**	**1992-93~**
Grocery (mainly supermarkets)	48#	35	34.3
Milk Bars		15	20.8
Service Stations		16	15.5
Tobacconists		20	13.1
Newsagents		5	6.4
Hotel/liquor stores		3	5.7
Other (includes late-trading convenience stores)*	34.66	5	4.2

* Not directly comparable because includes convenience/petrol stations combined (RW Aug 20-Aug 31 2001)
# Retail world 25 Nov-6 Dec 2002
~ Retail World 1993 May 24:21

Grocery market

About half of all tobacco products purchases are made from grocery channel outlets (supermarkets and food markets). Total tobacco sales worth more than $3.4 billion, 7.2 per cent up on the previous year, were reported in the 12 months to October 2002. Roll-your-own and cigars were reported to be the most rapidly growing segment, with RYO sales increasing 20.6 per cent to $265 million and cigars up 17.5 per cent to $15 million, though both are coming off low bases. Premium cigarettes accounted for 18.8 per cent of the grocery market, mainstream 35.9 per cent and super-value 45.4 per cent. Consumers were also reported to be showing a preference for smaller pack sizes, sales of packs of 20s increased by 13.1 per cent, 25s by 38.27 per cent while sales of packs of 40s and 50s declined by 14.48 per cent and 11.56 per cent respectively.

Table 9: Pack size and share of the market

Pack Size	Value	Vol
20	8.3	9.1
25	33.0	32.5
30	20.8	21.8
35	2.0	1.7
40	19.5	19.1
50	16.5	15.9

Source: RW 25 Nov-Dec 6 2002

Consumers were reported to be showing a preference for lower tar cigarettes, 5-8mg tar content cigarettes have increased their share from 34.2 to 38.1 per cent, while the highest tar content classifications data, 13-16mg had dropped two percentage points in 'stick' share since 1998, from 11 to nine per cent (in the 12 months to October 2002)

[33] Retail World 25 Nov-Dec 6 2002
[34] Retail World 15-26 April, 2002 (source: Industry Exchange of Sales, BATA data and Roy Morgan data)

Roll Your Own

Industry reported consumers shifting towards RYO tobacco and small cigars[35]. Nearly 1500 tonnes of RYO were sold in Australia in the 12 months to October 2002, up ten per cent on the previous 12 months. The biggest growth was in Queensland, 18.4 per cent, but five to eight per cent growth was reported in other States. RYO consumers are reported to prefer the 30g pack, in preference to the traditional 50g pack. Champion Ruby was the fastest growing 30g brand with a 29 per cent increase in volume, followed by White Ox, and Winfield Super Mild, both 21 per cent. Drum maintained its dominant share of the RYO market at almost 30 per cent. This growth in the RYO markets follows on for an increase of 8.2 per cent in 1999-00 and then 21.1 per cent in 2000-01. Imperial Tobacco holds a 54.5 per cent market share in the grocery segment and 61.2 per cent in the total RYO market[37]. Based on sales of tobacco products from the grocery segment, RYO represents 7.2 per cent of the tobacco market.

Table 10: Roll-your-own market

Rank	Brand (owner)	Market Share (%) 2002
1	Drum (Imperial)	29.2
2	Winfield (BATA)	26.6
3	White Ox (Imperial)	13.0
4	Champion (Imperial)	12.2
5	Marlboro (Philip Morris)	7.0
6	Port Royal (BATA)	4.0
7	Dr Pat (Imperial)	2.6
8	Log Cabin (Imperial)	2.5
9	Stockmans (Imperial)	1.6
10	Bank (Imperial)	1.5

Source: *Retail World*

Cigars

Small cigars now account for 81.5 per cent of the total cigar market and drove the 7.3 per cent growth in total retail cigar sales in 2002 [38]. Cigar sales are seen to be more profitable for the retailers than cigarette sales with gross margin of around 28 per cent. Stuart Alexander, distributor of Henri Winterman's brands in Australia (*Henri Winterman's, Old Port, Café Crème, Carlos Torano, Santa Damiana, Havatampa, King Edward, White Owl and Bering*) commands over 37 per cent of the Australian cigar market

Illegal Tobacco

According to BATA (*Retail World* 15-26 April, 2002), the illegal tobacco trade costs law-abiding retailers more than $70 million a year in lost sales. BATA has been lobbying Government, the Australian Taxation Office and Australian customers since 1997 to end illegal tobacco trade. In that time there has been an increase in fines and penalties, and illegal tobacco operators can now face up to two years in prison, a maximum fine of $5,000 or a penalty five time the excise value of the seized product. In the 18 months prior to July 2002, the excise division of the ATO seized 130 tonnes of cut tobacco and tobacco leaf, worth $33 million in excise. The tobacco industry has estimated that $400 million a year in excise is lost because of illegal tobacco sales. [39]

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[35] Retail World Nov 25-Dec 6 2002
[36] Retail World Nov 25-Dec 6 2002
[37] Retail World 26 Nov-7 Dec 2001
[38] *Retail World* Nov 25-Dec 6 2002 (source PriceWaterhouse Coopers, MAT September 2002).
[39] *Australian Financial Review* Friday 5/7/2002

Public image of the tobacco industry in Australia

> "If a business is manufacturing products which pose real risks of serious disease, we believe it all the more important that it does it responsibly" (John Galligan, Director of Corporate & Regulatory Affairs, BATA)[40].

In line with strategies internationally, tobacco companies in Australia strive to portray themselves as responsible corporate citizens. Predominantly this involves the pursuit of 'causes' that promote their community spirit/involvement. A recent example has been Philip Morris's 'elevation' of domestic violence as a cause, providing funding for a government-organised conference early in 2003.

[40] www.bata.com.au (click on corporate social responsibility)
[41] www.bata.com.au (click on corporate social responsibility)