

FREECHOICE

TOBACCONIST STORES

Technical Report No2 Tobacco Control Australia: Making smoking history

To the Secretariat

This submission is a follow on from the summary on-line submission lodged on 9th December 2008.

Please note that we do not have access to the type of impact statements and financial information that the government does and this submission is presented to you with the intention of bringing to light key areas as we see them that need to be considered prior to making any decisions and to shed some light on what we see the effect these recommended decisions will have on the financial livelihood of thousands of Australians. We understand and appreciated the health objectives of the government, but we need to ensure that everything that can be done will be done to reduce the financial burden on small business in the process.

In the summary we indicated that we would be providing you with a copy of all the submissions we have provided each state in relation to their legislation blueprints and proposed changes. The reason for providing you all of these submissions is that it outlines a pattern on FREECHOICE Stores-Tobacconists direction and the areas in which we support change and the areas we have major concerns over as Tobacconist retailers.

Small business concerns, Licensing introduction, reduction outlets selling tobacco products.

We have read through the Technical Report No 2 Tobacco Control in Australia: making smoking history in its entirety and one thing that blatantly stood out to myself was the fact that only once in this Report was the financial effect on small retailers raised (Minimum price laws in the US on page 13). We understand why this was the case as it was a Taskforce put together by the Health Department and the business ramifications are the concern of the treasury and small business departments, but whenever something of this magnitude is being recommended a well rounded discussion embracing involvement from everyone effected should be encouraged. We would appreciate being involved in this process and to be given the opportunity to put our case forward from a Tobacconist view point, particularly since we have been vocal advocates of a Licensing scheme within all state legislations as we believe it would greatly increase the controls and accountability in regards to tobacco sales to minors and greatly assist in the stamping out of the illicit trade.

It is a known fact that Tobacco products are one of the most regulated/legislated products in Australia, yet they are accessible in thousands more retail outlets than any other 18+ commodity. This is a generational problem as it has been a lack of direction from Federal Governments over decades that has enabled this situation to continue.

Over the years many small businesses have used the sale of tobacco products as part of their core product range in order to survive. This issue needs to be addressed by government prior to making any long term decisions on Tobacco products. Under our current economic climate the return being made by small retailers on the sale of Tobacco products is the difference between their business surviving or closing down, does the government have a compensation program in place to assist these outlets should you choose to place these immense restrictions on Tobacco products, or will they just be classified as a casualty of the situation. This compensation would be used to assist small businesses in diversifying into other saleable items or enable the owner of the business to walk away with out being financially ruined. The amount of revenue through Excise duties & GST on the sale of tobacco products (Estimate over \$6.3 billion per annum) would make any compensation payment a drop in the ocean, should the decision be made to dramatically reduce the number of retailers permitted to sell tobacco products. The government would be able to sell this compensation payment as an essential tool to ensure the health of all Australian citizens moving forward.

We unfortunately do not have the resources to run the impact statements that the government do, but through a basic overview of the excise and tax return to the government of around \$6.3 billion and using the table in your report that taxes represent 68% of the sale price in Australia this means that Tobacco product revenue to business within this country is \$2.96 billion. Roughly \$1 billion of this would be manufactures and \$1.96 billion would be to the retailers. What would the effect on loosing ½ of this revenue be on small business and how many would go to the wall as a result?

The government will not loose any revenue because they will compensate this by drastically increasing the excise taxes on the reduced amount of cigarettes sold, it will again be left to small business to bear the brunt of the burden. Should cigarettes not decrease as anticipated the government will in fact increase their return, the same can not be said about small business

It comes across that the number 1 tool to reduce the smoking rate would be the reduction in the amount of outlets selling Tobacco products, as convenience is a key aspect to sales, but in the report even though licenses are detailed, no indication is given in the recommendation that would result in these licenses reducing the amount of outlets eligible to sell the product. We can see no reason why Tobacco products should not be treated in the same light as a bottle shop or licensed premises once an impact statement is completed and compensation arrangements are considered for all small business.

FREECHOICE Stores – Tobacconist and FREECHOICE Stores - Vending have set up our business with a predominantly 18+ concept in mind, we have campaigned in all states of Australia when legislation was introduced to incorporate a Tobacconist

definition into the legislation with the intention of introducing 18+ stores. This is a store in which you need to be 18 years old or accompanied by a parent or guardian before you can enter the premises. In return for setting this up we were requesting slight display exemptions within these outlets. In line with your 2020 vision we would see the above direction as a natural progression in the separation of Tobacco products from minors and thus decreasing the take up of minors smoking.

Pricing

You outline as one of the key indicators in this report that the cost of a packet of 30's should increase to a minimum of \$20.00 packet. You use as one of your key examples the pro rata cost of a packet of 30's in Australia compared to other cities in the world (graph on page 13). It is indicated that this price comparison report was done in several hundred cities in the world. To get a true reflection on the cost of the product you should have indicated where Australia ranked out of the several hundred cities. From our understanding of world prices, Australia would be near the top in cost of product, should the recommended cost go to \$20.00 we would be the highest in the world, which is currently Dublin at \$19.30.

You indicate that cigarettes have not kept pace with the price of other products (page 13), I fail to see how this can be possible when Cigarette excise is indexed to the CPI, which is based on inflation figures twice yearly. On top of this automatic increase there is the manufactures increase that is placed on top to cover their increased cost of business. Over the past 6 years cigarettes have gone up in excess of the inflation rate every year, to draw a alternative comparison the same can not be said about Soft drinks, all electronic goods, chocolate chips etc. A large number of these items are significantly cheaper than they were 6 years ago.

You indicate on page 15 that a problem with increasing the pricing could be an increase in the amount of illicit trade you highlight that over 233 million cigarettes and 472 tonnes of tobacco have been seized since 2002.

From our understanding the government is confiscating less than 3% of the illicit cigarette trade coming into the country and that it is costing the government \$100's millions of dollars in lost excise duties, should the price of the product be increased to the level you are indicating this amount can only increase significantly as the counterfeit products continue to come in from China. The increase return available to these counterfeiters will justify an increase in production and introduce an even more profitable income stream from this illegal trade. This type of activity will only increase the black market of cigarettes and again the honest small business retailer will suffer.

Price promotion

One thing that was mention on page 13 was that some states in the US have minimum price laws to protect small business, under the current market place environment where the supermarkets control close to 80% of the retail market place this type of strategy would need to be mandatory to ensure the survival of small business should bans on price promotions be introduced and supermarkets still be eligible to sell

tobacco products. It has been shown in so many other fields what the supermarkets will do with price to eliminate competition.

POS Visibility

The introduction of a total ban on the display of cigarettes is another key area set forward by the government and a few countries in the world are used as examples along with Tasmania, ACT and NSW, in all of these states an exemption has been provided to tobacconist, we feel that this exemption should continue and that a license should be introduced for Specialist Tobacconist, this proposal was put forward by us during the NSW submission process, all the details are included in the attached information.

You indicate in the report that it will not cost the government anything to introduce a display ban, which I am sure is correct, but again the government forgets the burden this type of activity will place on small business and the cost small business will need to incur to comply. Again I raised the notion of compensation to small business during this process.

It is important at this point in time to draw your attention to Tasmania. Tasmania introduced the toughest display restrictions into the Australian market place in 2001, in which they restricted all retail outlets outside of Tobacconists to 150 product facings; although they had the strongest display restrictions in Australia they showed an increase in the smoking % during this time. In the same time period they spent the least per capita on anti smoking campaigns. If we use this state as an example education works far better than display restrictions without placing the additional burden on small retailers to comply. (You will find attached to this submission the discussion paper I presented to the Tasmanian government outlining in detail the above).

Graphic health Warnings

The government indicates that one of the key points is to ban the display of Tobacco products from POS, but in another section you indicate the need to increase the size of Health Warnings and change cigarettes to generic packaging. No matter how we look at these 2 points they come across as a major contradiction on one hand you want to deface trade marks and plaster tobacco products with Health warnings the size of the packet but on the other hand you want to cover the product from being viewed at POS. I would assume you would choose to do one or the other and as it currently stands the option of hiding display in retail outlets outside of Tobacconists is the direction states like Tasmania, ACT and NSW have chosen to take. We can not see any reason why the government would consider an alternative until this one has been tested for a period of time to determine its success.

You indicate on page 22 that Australia is well behind in the potency of warnings, in this section you indicate % of packets that need to be covered and 50% is the highest in other countries of the world, yet in Australia with the 90% of the back and 30% of the front we are in actual fact covering 60% of the pack facing with graphic health warnings, which is leading the world.

Generic Packaging

You indicate Generic packaging, in the current climate generic packaging indicates value, this is why all of the major supermarkets are introducing generic packaging with their goods, Also known as plain labels, by introducing this to tobacco products could you be sending the message that they are now better value than before.

Generic packaging will be a far easier to counterfeit than the current packaging, thus potentially increasing the illicit trade even further.

With the package being out of sight it is not until the consumer has asked to purchase the packet that they would even see the generic packaging and if they find it offensive they will just transfer the contents into another container that does not highlight all the Graphic Health Warnings

Protecting Minors from second hand smoke

The smoking in cars policy should be introduced on a National basis immediately, and the age of this should be 18 to coincide with the legal age of purchasing tobacco products, as part of our submission NSW which is attached we questioned why they introduced the ban for children under 16 instead of 18, it did not make any sense.

Education

We will never be against educating people of the health risks of smoking, just as we would not be against educating people on the Health risks of Alcohol and obesity. When people are fully informed of these things then it needs to be their decision as to what they want to do with this information. The Government should certainly continue to finance education programs on the health risks of smoking, but what we will say is we do not believe you will find many children in our school system these days that are not fully aware of the health risks associated with smoking, that message is certainly out there. What needs to be resolved is how do you take it from them knowing to actually stopping them from taking up smoking. This area is not an area for educated government officials, but rather an area for all parents from different walks of life to throw around and open forum. I myself am a parent of 5 and every single one of my children are aware of the health risks of smoking, does that mean they will not take up the habit, I do not know?

Making a brand more Taboo and off limits to does not appear to be the answer this type of activity only makes minors want to experiment with them more, particularly in the areas that the government is keen to target.

Summary

We could go through all points in report and address each one either positively or negatively, but we feel that this submission needs to address the key areas of concern with the understanding that we will be given the opportunity to discuss in a forum atmosphere or with particular government departments all areas of the report prior to any decision being made.

Everyone has to make decisions in life and all anyone can do is provide people with sufficient information in the hope that they make the right decision. One thing we can not do is take away peoples right to choose a direction. Introducing all of these restrictions and bans in relation to smoking is going extremely close to doing this. When this type of Government intervention begins, we need to ask ourselves what will be next and to what degree will the government go. People need to take responsibility for their own actions once they become adults. As parents we need to ensure we do our best to make sure that our children are given enough information to make informed decisions.

We again would like to reiterate our keen interest to be involved in any workshops or Federal Government discussions in relation to this topic as we believe that our years of dealing with different state legislations means we have a lot to offer when it comes to the effect these proposed changes will have on Tobacconists and small business in general.

Regards,



Simon Beynon
General Manager

FREECHOICE Stores

Cigarette & Gift Warehouse (Franchising) Pty. Ltd.

ACN 055 030 567

ABN 52 055 030 567

Office – 1 Kohl Street Upper Coomera QLD 4209

Postal – PO Box 87 Oxenford QLD 4210

Email – mail@freechoice.com.au
