



**Australian
Retailers
Association**

Ministry of Health
16 College Road
College of Medicine Building
Singapore 169854
Attention: Director, Epidemiology and Disease Control Division

Email: Tobacco_Control@moh.gov.sg

The Australian Retailers Association (**ARA**) is the retail industry's peak representative body representing Australia's \$310 billion sector, which employs more than 1.2 million people. The ARA works to ensure retail success by informing, protecting, advocating, educating and saving money for its 7,500 independent and national retail members, which represent in excess of 50,000 shop fronts throughout Australia.

Our membership consists of some of Australia's largest retailers from 7 Eleven, major supermarkets, buying groups and to mum and dad convenience stores. The ARA could be seen as a cousin to the Singapore Retailers Association.

As an outline of plain packaging and the experience from Australia the ARA is well placed to pass on Australian retailer views.

For those of you who are unfamiliar with the concept of plain packaging. In 2012 the Australian Government instituted a series of changes on the way cigarette packaging could be used and dictated an increase to health warning size as well as regulating the colour, font and size of text to convey the product's name while stripping all logos and trademarks from packs. The result of these regulations is what we know as plain packaging and this is what it looks like.

Australian plain packaging

In Australia this policy has had several unintended consequences all the while on the evidence that has been produced so far it has not actually reduced smoking rates. The consequences, however, have been far greater and have ultimately caused retailers to lose money as a result of the policy.

The slippery slope is real

Brand destruction is not going to be simply limited to tobacco products. Starting with tobacco there is a 'slippery slope' into other categories with health lobbyists already arguing for plain packaging on all the major categories sold in retail stores.

Companies supplying other products fear a similar situation, alcohol, food, beverages and confectionary are all targets for plain packaging and stripping valuable brands. Indeed soft drink products are clearly in line of sight with both manufacturers and retailers raising concerns with us as their peak industry body that they will be forced to stock a large percentage of unbranded products. These categories make up an enormous proportion of a retail business's income in Australia and



currently the focus of public health is on taking away brands not just in tobacco but in these categories as well.

The 'slippery slope is real'

While in Australia plain packaging currently applies only to tobacco, governments of many countries have indicated that they are considering plain packaging on other products deemed to be 'un-desirable' by public health activists.. Other organisations around the world have openly called for plain packaging on confectionary and energy drinks.

The World Obesity Federation is calling for plain packaging on food saying that obesity is a bigger risk than tobacco – BBC story.

Indonesian Government officials have stated they intend to place Australian wines in plain packaging

An obesity report published in medical journal 'The Lancet' calls for government intervention on soft drinks and for them to have health labels. – One News NZ story.

Plain packaging on tobacco is the thin edge of the wedge for a whole host of products and the cost is paid for by retailers who lose money.

The unintended consequences of plain packaging

The ARA has concerns over any draconian position to introduce plain packaging and remove branding from products for a number of reasons. Some of these are specific to tobacco but many can be universally applied to other products that are in the sights of public health. These are a sample of the unintended consequences of plain packaging that retailers in Australia have been left to manage.

Lost jobs and income

1. Significant negative consequences in terms of lost jobs, lost tax revenues and lost retailer incomes.

Stock keeping and service issues for retailers

2. Transaction times, time spent on stock replenishment and inventory management are all taking longer. Returns and refunds when customers are sold the wrong item.
A Roy Morgan research paper produced in 2013 looking at the effects of plain packaging on retailers after it was implemented found that:
 - 9 out of 10 retailers were finding it took longer to serve customers.
 - 75% reported that customers were more frustrated with stores.
 - 3 in 5 reported that staff were selling incorrect product to customers
 - 50% said that plain packaging was negatively affecting their service to customers
- Two thirds reported that managing inventory was more difficult and taking longer to receive.



- 50% of retailers reported ordering stock incorrectly
- 9 in 10 reported that it was taking longer to process stock once it had been delivered.
- Two in five retailers were reporting increased training expenses to teach on new plain packaging procedures.
- Compliance costs associated with plain packaging have imposed significant costs on retailers
- reducing retailer incomes and ultimately costing retailer jobs.

Downtrading to cheaper products

3. The measures have had a significant negative impact throughout the entire tobacco supply chain particularly on retailers who have seen a push to low cost products as brand loyalty is lost. Here you can see the dramatic growth of the deep discount segment as brands were removed and consumers started to focus on price and purchasing in bulk or buying loose tobacco and rolling their own tobacco.

Increases in the illicit trade for tobacco

4. There has been a significant increase in the illegal or illicit tobacco trade which has grown from 11.5% of the industry in Australia before plain packaging in 2012 to 14.5% by the end of 2014. The illicit trade is lost sales to legitimate retailers.

Reduced profitability

5. Cumulatively these issues put retailers in a position where their stores are less profitable as a result.

A policy that the evidence shows is not working

These costs are being paid for by retailers for a policy that has produced no evidence that it reduces smoking. The evidence demonstrates that, to date:

Australia's downward smoking trend

- Australian smoking rates have continued the same downward trend since 1991 which hasn't changed since plain packaging.

Youth smoking rates remain unchanged

- Youth smoking rates have remained unchanged. Since 2007 the number of children experimenting with tobacco is about 5% or greater

Health warning labels motivate less people to quit

- Health warning labels are less effective since plain packaging. Since 2007 they are down by over 40% as a motivator for people to quit. The efficacy of health warnings is diminishing.



Brand destruction makes retailers lose money.

Put simply, the ARA believes that based on evidence in Australia since the implementation of plain packaging the policy does not work and has been at the detriment of legitimate sales and the erosion of retailer businesses.

Brand destruction through plain packaging has also had a very tangible cost to small business and for retailers of all sizes. Currently, some mixed retailers will see over 50 percent of their turnover in tobacco products, and these are not even the dedicated tobacconists.

Our members have seen a dramatic shift in their business as consumers are employing an increasingly price-sensitive approach to choosing their cigarettes with brand loyalty removed from the calculation.

As part of the ARA being asked to attend today I spoke to a well-known international retail convenience store brand who operates in Australia and overseas jurisdictions. They stated their biggest single impact to the business outside initial costs was that consumers had lost brand loyalty and had clearly moved to less expensive product.

This is not only an anecdotal piece of evidence but is backed by sales research.

Time and again we are told by retailers how customers are seeking the low cost option and have dropped brands they had previously been purchasing.

The net effect of course is an impact to revenue and margins while sales in volume remain the same.

The question has to be asked again what net benefit was gained by the loss of branding.

The ARA's research partner Roy Morgan¹ has shown the declining trend in youth consumption has not further decreased away from the normal rate since plain packaging was introduced.

While plain packaging is being shown as not working in Australia the policy is having many unintended consequences as shown earlier.

Given that smoking rates were falling in Australia anyway and rates of decline have not changed since plain packaging the only conclusion is this was a disproportionate response to a non-issue.

The change since plain packaging was introduced has boosted current levels of illegal trade to 14.5 percent as indicated by a comprehensive industry report by KPMG on the Australian market this year in the illicit tobacco trade, directly moving away from legitimate merchants and placing it in the illegal untaxed, unregulated crime sector.

The illegal sector imports loose tobacco, branded and counterfeit tobacco product from overseas, as witnessed by recent growing customs seizures in Australia. The low retail price in many overseas

¹ It should be noted that Roy Morgan Research undertakes significant research for the Australian Government.



jurisdictions of around \$1 AUD per packet sees even a half Australian retail priced illegal product delivering percentage profits well into the hundreds of percent.

The crime element is not limited to imports of branded, loose and illicit product but stolen product too. The very elements of organised crime involved in the illegal imported product are also involved in the theft and violent crime which now surrounds tobacco sales for many retail merchants.

Our retail brands want to protect themselves and their businesses, they want to protect themselves from direct crime and from having to compete against illegal product.

On more than one occasion retailers have reported knowing of sales of both imported and stolen illegal product by, and you will have to me this is a somewhat Australian and British phrase, “dodgy backyard operators”. I am sure there is an equivalent term our friends and close trading partners use which is like this.

Because of the loss of brand loyalty from the destruction of brands and the desire for product at the lowest price normally reasonable people will buy a stolen, branded or illicit product from the lowest sellers. This has driven crime, brands that you would recognise such as 7 Eleven and BP face this issue every day, they have stores held up for the product.

Indeed I can speak from personal experience of having a credit card skimmed by a crime gang working with taxi drivers to only have my bank call me asking me if I had just bought five cartons of cigarettes from a store in Strathfield Sydney. I was actually meeting in the Sydney CBD with a colleague at the time to discuss the issue of credit card fraud.

I give you these instances as examples of what occurs when product no longer has brand value and becomes a simple commodity.

For those legitimate retailers who pay their taxes, licences and wages who contribute to the economy there is no net benefit and these policies cost retailers money.

The plain packaging experiment has failed in Australia and retailers have been left to pay the price. These are the costs paid by all who are forced to retail brandless products, if they were beverages, alcohol, confectionary or tobacco.

Plain packaging has been a waste of retailers’ time and Government resources with unintended policy consequences. Any Government looking at these laws should take into account the Australian experience and consider the impacts these decisions have on small businesses.

On February 15 this year Australian Government had to commit to fight against illicit tobacco – introducing into Parliament legislation to create a comprehensive set of offences targeting illicit tobacco.

This is the first of two bills to close down the illicit tobacco market following the impacts of illicit tobacco.

Maximum penalties for excise offences will increase to 10 years imprisonment. Courts may impose heavy fines for convictions in relation to offences involving commercial quantities of illicit tobacco, for



example up to \$2.25 million Australian where the tobacco weighs at least 500 kilograms. The penalties will apply from the day after the Bill receives Royal Assent.

These changes are supported by the Minister for Home Affairs, who will later introduce legislation to amend the Customs Act to strengthen illicit tobacco offences, which will complement the amendments introduced in Parliament.

The Minister for Revenue and Financial Services, the Hon Kelly O'Dwyer MP, said the Government is delivering on the 2016-17 Budget commitment to stop the illegal tobacco trade which the Australian Taxation Office has identified as a major revenue source for organised crime.

Minister O'Dwyer said "As the origin of tobacco cannot be readily determined, this obviously limits the ability to impose penalties even where substantial quantities are involved."

The very reasons why taking away a product's brand are also the reasons for not doing it in the first place, with the only outcome being economic cost to the community and retail sector.

In conclusion there is very little public evidence this measure has achieved its reported goal of achieving better public health outcomes.

- Long-term smoking rate decline has not changed
- Youth experimentation with smoking has not changed
- Legal volumes of tobacco appear not to have changed however the price point has as consumers demand cheaper product leading to the growth of the small margin 'deep discount' segment.
- Implementation was rushed with little time for retailers to turn stock or prepare leaving many with dead stock some suppliers would not take back.
- This history of plain packaging in Australia was a political action by a minority government and Minister trying to make a name without proper regulatory or policy due diligence
- There has been a 20% increase in illegal tobacco since the introduction of plain packaging.

Regulators and legislators need to learn from this experience and consider the true costs of brand destruction and retailers need to understand the significant impacts a brand less store this will have on their business. Government must not rush through policy outcomes which do not benefit consumers, retail businesses or the broader economy if their purpose is only to be seen to be doing something for public health for the sake of being seen to be doing something.

There was no evidence that plain packaging would work and it should be a precautionary tale on bad public policy.

Brand destruction and plain packaging will lose you money, and it will not stop with tobacco. After tobacco it will be beverages and food and confectionary and retailers will pay the price for it through smaller margins and more risk.

Kind regards,



Australian
Retailers
Association

Russell Zimmerman
Executive Director
Australian Retailers Association

Heath Michael
Director of Policy, Government & Corporate Relations
Australian Retailers Association