

**T21: Raising the minimum age for
tobacco sales in Tasmania to 21
years**

Economic Analysis



**A Report to the Minderoo Foundation and
Smoke Free Tasmania**

September 2020

Wells Economic Analysis

This report is commissioned by the Minderoo Foundation in conjunction with SmokeFreeTasmania. It undertakes an analysis of the economic impact on small and medium business in Tasmania of raising the age at which tobacco products can be legally sold to 21 years.

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Wells Economic Analysis

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Executive Summary

Smoking rates in Tasmania have declined in the last decade. A number of factors, including plain packaging, education campaigns, the rising relative price of tobacco, and restrictions on display of tobacco products, have all played a role in this decline.

However, smoking by young people in Tasmania is significantly more prevalent than nationally. In 2017-18, 21.2% of Tasmanian women between the ages of 18 and 24 were current smokers. This is almost twice the national rate – for Australia as a whole, only 11.5% of this age group smoked. 23.7% of Tasmanian men in the 18-24 age group were current smokers; nationally, the rate was 20.9%.

Tasmanian smoking rates are also higher than smoking rates for the national population, especially for women over 18 years of age. The Tasmanian rate, at 15.7% is 2.5 percentage points higher than the national rate. For men, the difference is one percentage point.

Smoking imposes costs on society. For Tasmania, recent estimates of tangible costs (compared to a situation where no-one smokes) amount to approximately \$600 million per annum.

The proposal to raise the minimum smoking age for tobacco sales to 21 years (T21) is intended to cut smoking rates for young adults, with long-lasting health benefits and reductions in tangible costs. Intangible costs, such as occasioned by premature death, are also important.

Beginning in the year after legislation is passed, it is proposed to raise the minimum purchasing age for tobacco products in three annual steps from 18 to 21 years.

Since 2016, the number of licensed tobacco outlets has fallen from 769, to 648 in February 2020. Of the remaining outlets, 47 were large supermarkets. It is estimated that these outlets – which enjoy volume discounts, lower prices, and offer online sales – account for 60% of tobacco sales in Tasmania.

The focus of this report is on the remaining 601 small and medium businesses which account for 40% of tobacco sales. Impact is assessed in terms of the effect of the T21 proposal on gross profit per store.

In each of the first of three phase-in years, T21 legislation will exclude 18-year-old smokers who would otherwise have had access to tobacco. This leads to a reduction of 2% in constant-price tobacco sales by small and medium business. In the fifth year, a fall of 7% is forecast.

Cuts in gross profits are unevenly distributed across different small and medium business activities. For example, in the first year, the effect of falling tobacco sales on gross profits for the average Tasmanian service station is \$830, rising to \$2650 per annum in the fifth year. For the four remaining specialist tobacconists, on the other hand, the average effect is larger: - \$8488 per store, rising to \$27,105 per store in the fifth year.

An indicative long-run effect for the small and medium business sector is a cut in constant-price gross profit of \$3 -\$4m per annum. This is much less than a conservative estimate of the long-run effect of T21 on tangible costs to Tasmania, of \$72m per annum.

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1. Objective

Smoking rates in Tasmania have declined in the last decade. It is widely accepted that a number of tobacco control measures, including plain packaging, education campaigns, the rising relative price of tobacco, and restrictions on display of tobacco products, have all played a role in this decline.

However, smoking by young people in Tasmania is still significantly more prevalent than nationally. In 2017-18, 21.2% of Tasmanian women between the ages of 18 and 24 were current smokers. This is almost twice the national rate – for Australia as a whole, only 11.5% of this age group smoked. 23.7% of Tasmanian men in the 18-24 age group were current smokers; nationally, the rate was 20.9%.

This report is set against the background of these longer-run trends in smoking behaviour. As detailed in Section 2 and Appendix 1, there have been a large number of regulatory changes impacting tobacco sales and tobacco consumption. These longer-run trends are analysed in Section 3, together with projections which use expected demographic trends on smoking behaviour.

Changes in excise taxes, the real price of tobacco, and per capita consumption are discussed in Section 4. This section, focusing on the demand for tobacco, also develops a measure of Tasmanian spending on tobacco, in 2018 prices, categorised by age-groups. For this report, the main focus is on the 18-24 age-group.

Section 5 addresses the supply side, and the role played by sellers' licensing provisions in driving change. The conclusion of this section is that large supermarkets and service stations have substantially increased market share at the expense of small and medium businesses. It is shown that for small and medium businesses, the markup on tobacco is lower than for other product lines.

These strands of analysis are drawn together in Section 6. From 2021 to 2025, the effect of T21 legislation on gross profits is simulated. Results are provided as an average per Tasmanian store, for five store types – tobacconists, mixed businesses, small supermarkets, petrol stations, and others. Aggregated over all five store types, the estimated T21 effect is a cut in gross profit of \$0.45m in the first year, rising to \$1.45m after five years.

As detailed in Section 6, this estimate is subject to two types of error. Six factors are advanced which make it likely that the T21 effect is over-estimated – gross profits would be cut by less than shown in the simulations. In contrast, there are no reliable data on the 'joint purchase' effect. That is, the extent to which T21 exclusion of tobacco purchases by 18-20 year-olds leads to a fall in other purchases while in the store. This omission would imply an underestimation of the cut in gross profits.

2. Legislation

2.1 Current Legislation

In Tasmania the sale and use of smoking products is regulated by both Commonwealth and State legislation.

Commonwealth provisions apply uniformly across all States and Territories. The Commonwealth *Tobacco Plain Packaging Act 2011* and associated regulations govern the form in which tobacco products can be packaged for sale. In 2006, graphic health warnings were required on tobacco packaging, and in 2011 this was extended to plain packaging all prepared tobacco products, with expanded graphic health warnings.¹

In Australia, it is illegal to sell or buy nicotine for use in e-cigarettes. Under Commonwealth legislation (*Therapeutic Goods Act 1989*), nicotine is defined as a poison and its sale is prohibited under the Tasmanian *Poisons Act 1971*. However, under the Therapeutic Goods Administration's Personal Importation Scheme, a three-month supply can be imported under certain conditions, including medical prescription.

Two forms of taxation apply to tobacco. The first is an excise levied by the Commonwealth as a rate per gram of tobacco (or its equivalent in cigarette sticks). This excise is legislated in the *Customs Tariff Act 2011* and proceeds accrue to the Commonwealth. The excise per stick of cigarettes has increased from 19 cents at the beginning of 2000, to 95 cents from March 2020; a five-fold increase. In real terms, after adjusting for the Hobart Consumer Price Index, the price has risen by 313%.

It is illegal to grow tobacco in Australia without an excise licence, and no licences are currently on issue.²

The second tax is the Goods and Services Tax which is administered by the Commonwealth, with the proceeds redistributed to States and Territories using formulas developed by the Commonwealth Grants Commission. GST is levied at a rate of 10% of the retail sale price.

The Commonwealth has also introduced tobacco packaging legislation.

State and Territory legislators have developed a comprehensive suite of provisions regarding the sale and use of tobacco products, and across jurisdictions they are broadly similar. Common elements include the 'sale age', which is currently set at 18 years in all jurisdictions. 'Sale age' refers to the age at which a customer can legally be sold cigarettes and other tobacco products. In Tasmania, this provision and many other regulations regarding sale and use are included in the *Public Health Act 1997*.

Provisions of the Act relate to the following areas, with associated penalties for infringements:

- (i) Selling to a minor (18 years),
- (ii) Licensing of tobacco vendors,

¹ Chipty (2016) provides an econometric analysis of the effect of the 2011 legislation.

² In 2017-18, the Australian Tax Office estimated that the cost of illicit tobacco equated to 5% of the amount of collectable tobacco excise.

- (iii) Restrictions on advertising and display by vendors,
- (iv) Enforcement of smoke-free areas in a variety of public spaces, hotels, restaurants and the like,
- (v) Display of health warnings.³

Enforcement of these provisions is undertaken by compliance officers in the Department of Health and Human Services.

2.2 Proposed Legislation

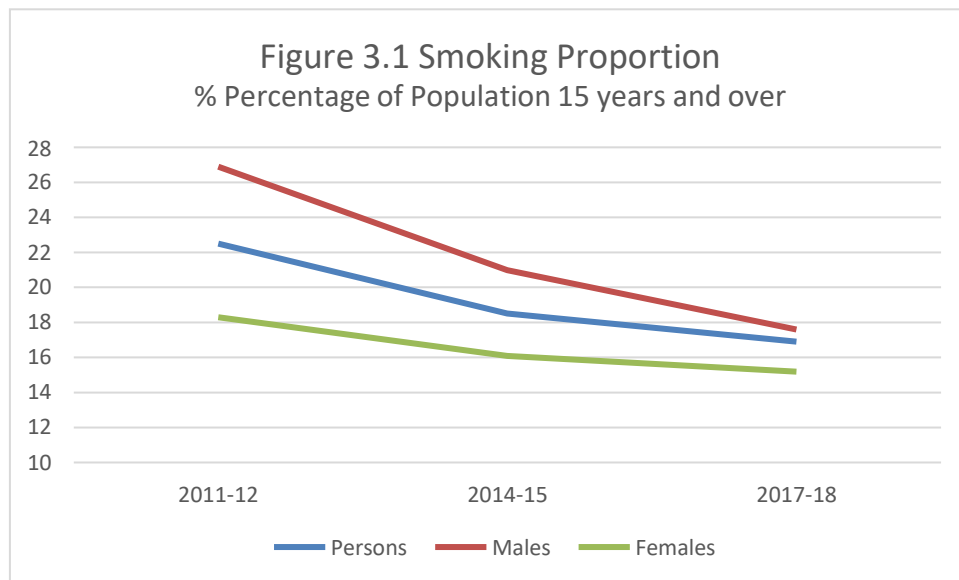
The intention of the *Public Health Amendment (Prevention of Sale of Smoking Products to Underage Persons Bill) 2018* is to increase the 'sale age' from 18 to 21 years while leaving other regulations unchanged. Starting six months after the commencement of the Act, the increase would be introduced in a phased way. In the first year of operation, the sale age would be raised by one year, in the second by two years, and in the third by three years. For the purposes of this report, it is assumed that the legislation comes into force for 2021.

³ A detailed chronology of Tasmanian tobacco control measures is provided as Appendix 1.

3. Prevalence

3.1 Historical Trends

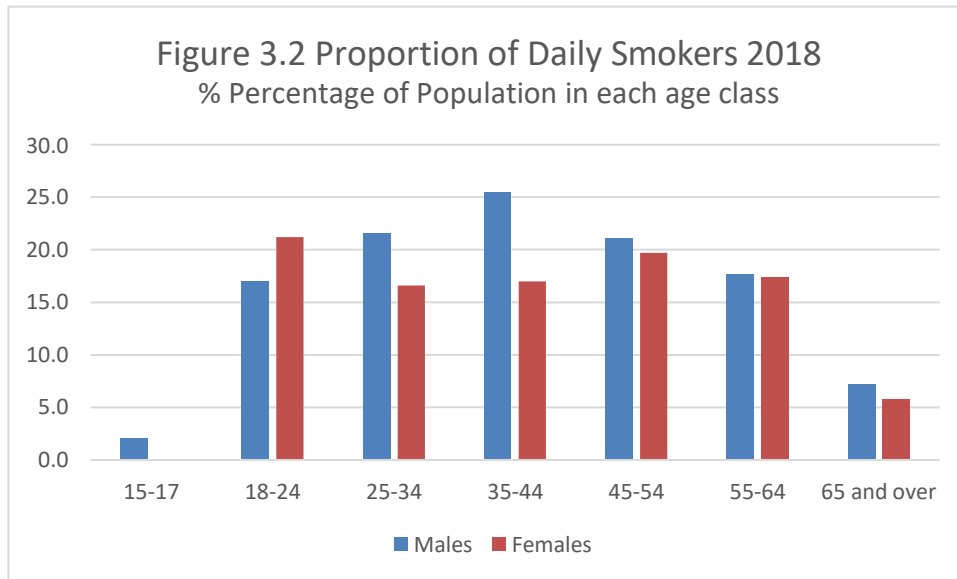
Recent years have seen a decline in the overall proportion of Tasmanians who are ‘current smokers’—those who smoke on a daily, weekly or other frequency.⁴ For males, the percentage falls from 26.9% in 2011-12 to 16.9% in 2017-18. The rate of decline for females has been slower – from 18.3% to 15.2%.



Although a higher proportion of males smoke, this is not true of all age classes. Male smoking rates rise steadily to a peak of 25.5% for the 35-44 year age class, and then decline.⁵ A different pattern applies to females – in the 18-24 age class, they have a higher daily smoking proportion than men, but significantly lower than men in what might be considered to be the age at which many women have children (25 to 44 years), after which gendered rates are similar.

⁴ *Source of data:* Data are for ‘current smokers’ which includes daily smokers and others. Daily smokers are not enumerated separately in the 2011-12 survey. Australian Bureau of Statistics (2013, 2016, 2019a).

⁵ *Source of data,* Figure 3.2. ABS (2019a) Table 9.1.



3.2 Projections

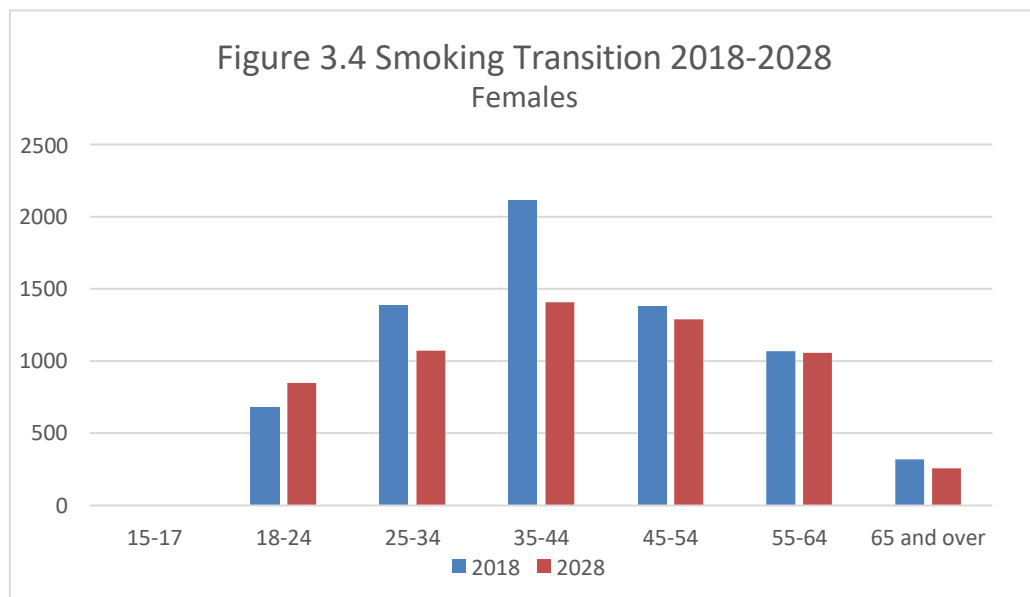
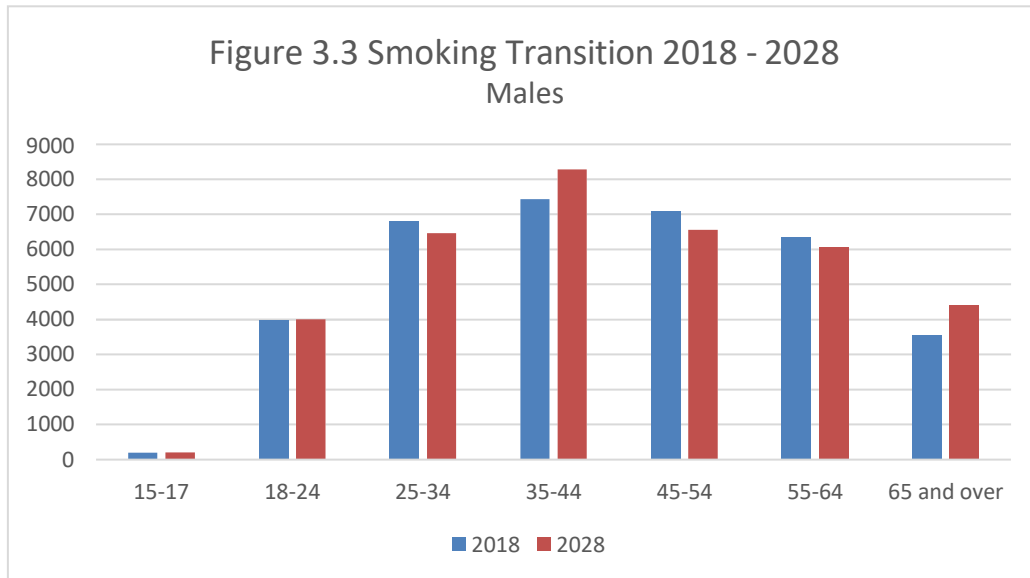
It is of some interest to investigate the effects of population transition on the number of persons who will be impacted by the introduction of the T21 legislation as it is phased in. Table 3.1 shows the number of persons impacted by T21 legislation in the first five years of operation, starting from 2021.⁶ Numbers accumulate as the cohort of persons affected grows larger over a three-year interval. These data are used in Section 6 below to derive the economic effect of this fall in numbers of potential smokers. They show that the numbers affected rise to less than 5% of the adult population. Were these groups to have the same proportion of daily smokers as the 18-24 age class shown in Figure 2.2, impacted male smokers, as a proportion of the adult male population, would rise from 0.26% to 0.82%. The corresponding increase for females would be from 0.29% to 0.90%.

Table 3.1 Persons Impacted by T21 legislation
Proportion of 18+ population

	Male		Female	
	18-20	PPN	18-20	PPN
2021	3128	1.52	3000	1.39
2022	6323	3.06	5927	2.73
2023	9629	4.63	8957	4.10
2024	9919	4.75	9073	4.13
2025	10173	4.84	9373	4.24

⁶ Derived from Treasury (2019). The 'medium' projection is used, which mainly assumes current trends in fertility, life expectancy at birth and migration.

It is also possible to use Treasury demographic projections, together with the smoking rates shown in Figure 3.2, to illustrate a 10-year trend. If current smoking proportions remain unchanged over the decade 2018 to 2028, the total number of male and female smokers both increase, although the proportion of the smoking-age population falls slightly for both males and females. For this exercise, the transition of the whole of the Australian Health Survey age classes are used rather than a year-by-year analysis provided in Table 3.1. These trends are shown in Figures 3.3 and 3.4.



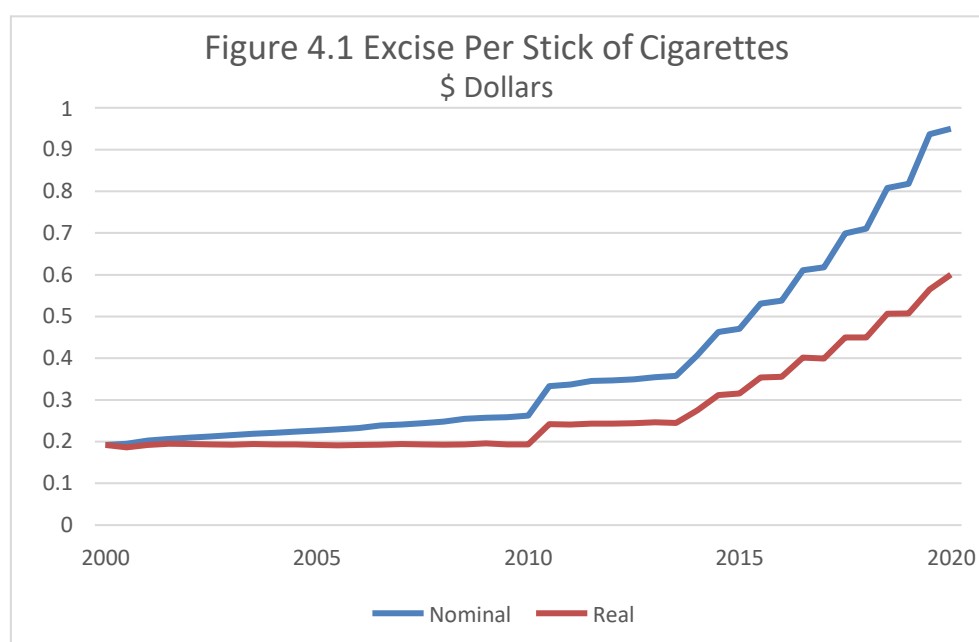
4. Expenditure on Tobacco

4.1 Price Trends and Real Aggregate Consumption Expenditure

Changes in both taxes and the import price of tobacco have resulted in a substantial increase in the real price of tobacco. The import price of tobacco reflects changes in the world price and the value of Australian dollar.

The excise per stick of cigarettes has increased from 19 cents at the beginning of 2000, to 95 cents from March 2020; a five-fold increase.⁷ Before 2017, there was an effective difference in the rate of excise on manufactured cigarettes and roll-your-own (RYO) tobacco; these rates were brought into alignment, beginning in 2017. As reported in Scollo and Bayly (2019a), until 2016, the excise on 0.7 grams of RYO tobacco was 14% lower than a manufactured cigarette. This difference declined over time, to 4% in 2019.

In real terms, after adjusting for the Hobart Consumer Price Index, the excise has risen by 313%. These developments are illustrated in Figure 4.1.⁸



The data illustrated in Figure 4.2 show the real price of tobacco, defined as the price index for tobacco divided by the consumer price index as a whole.⁹ As such, it shows how the price of tobacco has risen relative to Tasmanian prices generally. On this measure the relative price of tobacco has risen by 813% from June 1986 to June 2019.

The second series, real spending, shows the trend in real per capita consumption of tobacco in Tasmania, using the Australian Bureau of Statistics (ABS) measure of consumption.¹⁰ As with the relative price, the relevant price deflator is the general consumer price index for Hobart. The

⁷ Scollo and Bayly (2019a), Table 13.2.3.

⁸ Source of data, Figure 4.1. Excise rates for cigarettes, Scollo and Bayly (2019), ch.13.2., and the Australian Tax Office (2020). For the Consumer Price Index, ABS (2020b), Table 9 (Hobart).

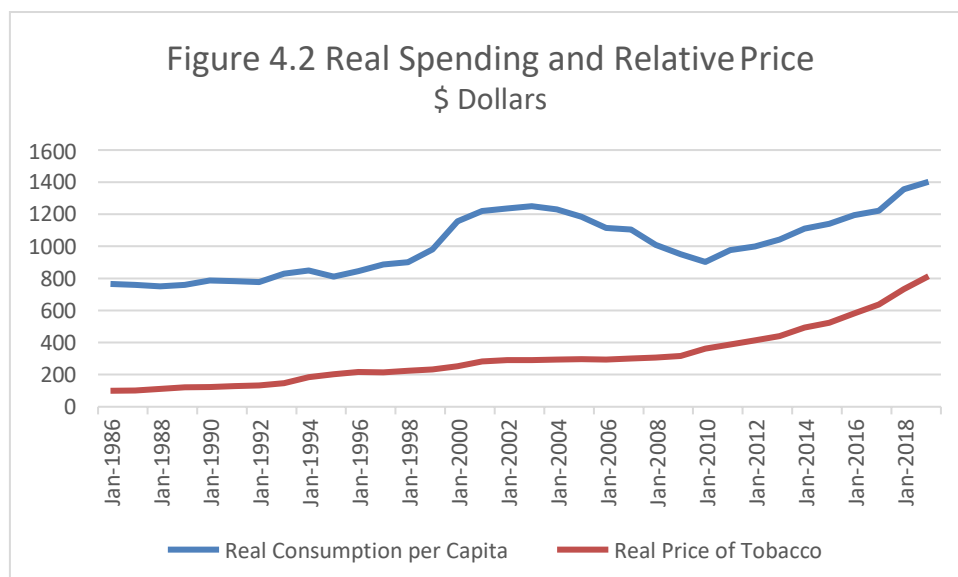
⁹ Sources of relative price data for Figure 4.2: ABS (2020b), Table 9 (Hobart).

¹⁰ Australian Bureau of Statistics (2020d).

population base is persons 15 years and over.¹¹ Although it is difficult to disentangle the effects of the many policy interventions on trends in real spending, the data appear to support two broad conclusions:

- (i) The raft of federal and state measures, which were introduced in the late 1990's and early 2000's, together with a relatively stable trend for the real price of tobacco, induced a fall in real per capita spending which was sustained over a number of years. There are no data available which would indicate the relative importance of a decline in the proportion of smokers, or a decline in real spending by smokers, on this result.
- (ii) From 2010 onwards, however, real per capita spending has resumed its upward trend. On one hand, as was discussed in relation to Figure 4.1, the proportion of smokers in the Tasmanian over-15 population has fallen significantly. Further control measures such as plain packaging and others as listed in Appendix 1 have no doubt played a significant role in driving this fall. But also important has been the rapid increase in the real price of tobacco, which rose by 270% in the decade from 2009. The net result is that, in spite of the fall in participation, real per capita spending rose. This is consistent with the studies of aggregate tobacco consumption, which find that demand for tobacco is inelastic – as the real price rises, the quantity demanded falls, while expenditure rises.

As with control measures, real price rises affect behaviour in two ways – it can cut the number of smokers, and cut consumption by those who smoke. Results from the National Drug Strategy Survey shed light on the latter.¹² For smokers who had changed their behaviour, respondents were asked to identify, from a list of 18 options, factors which had influenced the change. In 2016, the majority of respondents (52.9% for males and 50.4% for females) said 'it was costing too much'.¹³ In 2007 when, as shown in Figure 4.2, the real price was much lower, these proportions were just 34.5% and 37.2%, respectively.



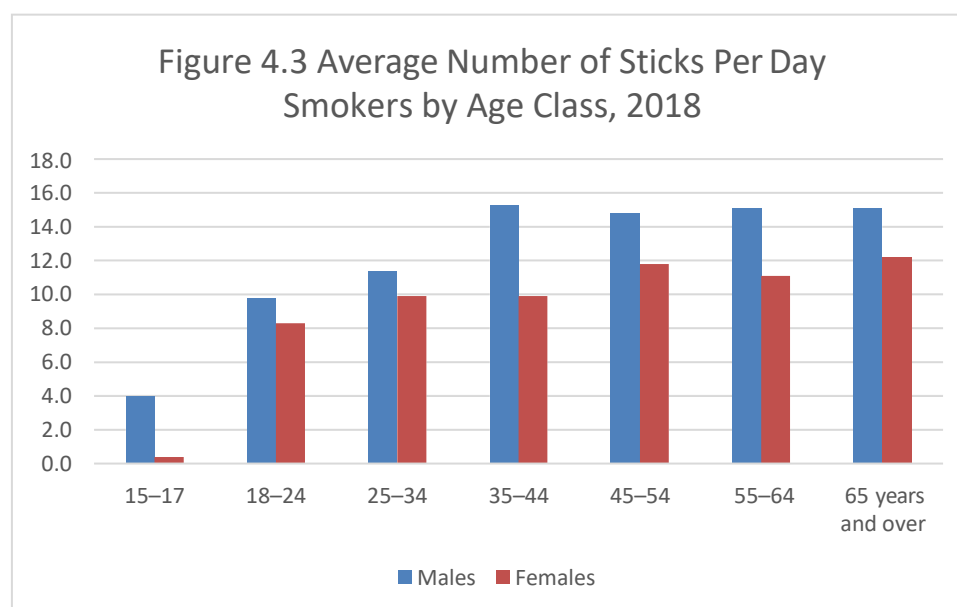
¹¹ Sources of real spending data for Figure 4.2: Demography ABS (2020c) Table 56, Nominal Expenditure ABS (2020d), Table 31.

¹² Australian Institute of Health and Welfare (2017).

¹³ In 2016 the next most often-cited category (30%) was 'I wanted to get fit', for both males and females.

4.2 Nominal Consumption Expenditure

To assess the impact of T21 legislation on tobacco sales by small business, we first examine the smoking behaviour by age-class. Tasmanian data from the National Health Survey for 2017-18 (the most recent available) provides estimates of the 7-day average number of cigarette sticks by age-class of smokers. These data are illustrated in Figure 4.3. Consistent with the addictive property of nicotine, there is a steady increase in daily consumption. For example, men in the 35-44 age class smoke 57% more cigarettes per day than those in the 18-24 age class, and nearly four times as much as smokers in the 15-17 age class. These data are broadly consistent with earlier data provided by Australian Institute of Health and Welfare (2017).¹⁴



Not all tobacco is consumed in the form of cigarettes. Prior to the equalisation of the excise rate on cigarettes and RYO in 2017, Table 4.1 shows that an increasing proportion of smokers used RYO exclusively, or both cigarettes and RYO.¹⁵ Survey data also shows that, while the proportion of cigarette-only users is almost constant across age groups (approximately 85%), in 2016 the proportion of smokers who used RYO only, or both cigarettes and RYO, declined markedly beyond the 18-19 age group.¹⁶

Table 4.1 Use of Cigarettes and RYO
Australia, smokers over 14 years, % Percentage

	2001	2004	2007	2010	2013	2016
Cigarettes	72.4	74.1	73.7	66.9	67.3	62.9
RYO	5.7	5.3	5.6	6.4	9.0	10.7
Both	21.9	20.6	20.7	26.6	23.7	26.3

¹⁴ Australian Institute of Health and Welfare (2017), Table 3.10.

¹⁵ Australian Institute of Health and Welfare (2017), Table 3.15. See also Guerin and White (2017).

¹⁶ Australian Institute of Health and Welfare (2017), Table 3.14.

Two factors may support this trend – the tendency of young first-time smokers to share tobacco, and the price differential between cigarettes and RYO. With the phased equalisation of excise rates from 2017 onwards, it might be expected that this trend has been reversed to some degree. For estimation in this report, it will be assumed that all age-groups use RYO tobacco to the same degree. Accordingly, ‘sticks per day’ as a proportion of total ‘sticks per day’ can be used to estimate tobacco expenditure by age-class, as is reported in Figure 4.2.

A further simplifying assumption underlies the estimation of expenditure, later in this report, for the most recent calendar year for which data are available, 2018. It is that smoking rates for 18-20 year-olds in 2018 was the same as for 18-24 year-olds, for both males and females. There is some evidence that within the 18-24 age group, younger smokers (those in the 18-20 age group, who are the primary focus of this report) have lower smoking rates than those in the 21-24 age group.¹⁷ As shown in Figure 3.2, the proportion of daily smokers in the 15-17 age-class is very significantly lower than in the 18-24 age-class. Persons transition gradually to higher smoking rates with increasing age and greater purchasing power. For clarity, Table 4.2 does not allow for this effect, although it is revisited in Section 6.

Now turn to the allocation of nominal expenditure to published age classes. The ABS measure of nominal annual consumption expenditure on cigarettes and tobacco is taken as a starting point. This measure is an estimate based on customs clearances, scaled up to reflect wholesale and retail margins.

At the national level, this estimate can be checked against aggregate tobacco sales data provided by Euromonitor – this comparison (for 2016 and 2017) suggests the ABS measure is an overestimate of the order of 5%.¹⁸ It will be assumed that this overestimate also applies to Tasmanian ABS expenditure data. The resulting allocation of annual 2018 expenditure of \$662m, representing 10% of total retail spending for Tasmania, is shown in Table 4.2 below.¹⁹

	15-17	18-24	25-34	35-44	45-54	55-64	65 years and over	Total
Males	0.48	40.76	66.08	86.73	81.88	70.48	48.31	394.72
Females	0.00	29.68	42.95	42.52	64.64	56.87	30.52	267.18

Given 2018 per-pack prices, these data imply that the average current male smoker consumed the equivalent of approximately one 20-pack per day, while for females the corresponding equivalent is 0.8 of a 20-pack per day. This conclusion compares to the 2017-18 National Health Survey, which

¹⁷ Australian Institute of Health and Welfare (2017), Table 3.10.

¹⁸ Euromonitor International. *Tobacco in Australia*. London: Euromonitor International, 2019, cited by Scollo and Bayly (2019) ch.10.5.

¹⁹ Australian Bureau of Statistics (2020d), Table 11.

reports that for males over 18, average consumption was 14.5 sticks per day, while for females it was 11 sticks per day. Two possible reasons for the discrepancy between results are that

- (i) It is recognised that survey respondents tend to underestimate smoking rates,²⁰
- (ii) The relevant questions in the National Health Survey ask

*On average, on how many days [do you/does [first name]] smoke per week?
[On the days that [you smoke/he smokes/she smokes], on/On] average, how many cigarettes [do you/does [first name]] smoke per day?*

The emphasis on cigarettes, with no reference to RYO is likely to have led some respondents to understate cigarette-equivalent consumption.

Both the ABS data and the National Health Survey data are *estimates*, and involve sampling error and respondent error. In order to adopt a conservative position, the data reported in Table 4.2 will be adopted, while recognising that they may involve an over-estimation of tobacco expenditure.

²⁰ Scollo, personal communication.

5. Supply of Tobacco Products

5.1 Sellers' Licences

In Tasmania, sellers of tobacco and tobacco products are required to hold a licence, issued annually by the Department of Health. As is detailed in Appendix 1, seller's licence conditions have become more stringent over time, increasing costs for retailers. The annual licence fee has also increased, rising from \$365.67 in 2016 to \$1161.54 in 2020. Ancillary costs, such as insurance for retail premises from which tobacco products are sold, have also increased. Together, these fixed regulatory costs have a larger impact on smaller, low volume, stores.

Display of tobacco products is prohibited, and there are restrictions on allowable advertising and storage of tobacco products in licensed stores. The most important of these are;

- (i) The size of a 'Product Availability Notice, with the wording 'Smoking Products Sold Here' is limited to one square metre,
- (ii) Tobacco products must be stored in a plain grey cabinet, and
- (iii) Prices for tobacco products must only be displayed on a plain 'price board' attached to the front of the storage cabinet.

These restrictions have less force with regard to advertising the establishment itself. Franchises such as FreeChoice, SmokeMart and Tobacco Station operate as mixed businesses, often located in areas with a high volume of foot traffic in shopping malls and similar locations. Cignall franchisees appear to operate as specialist tobacconists.²¹ Some establishments also operate as wholesalers for other members of the franchise. While complying with relevant within-store restrictions, the status of franchisees as a tobacco seller is prominently displayed on the shopfront. Location and shopfront displays are often designed to attract younger customers – examples are provided in Appendix 2. Although no statistics are available, it is likely that sellers of this kind are attracting market share away from the more traditional 'mixed business' sellers, especially in urban areas.

Tobacco products are also available online. Major supermarket chains such as Coles and Woolworths and, to lesser extent, smaller supermarkets such as IGA offer online services for tobacco. With the growth of online sales generally, it is likely sales of tobacco products have shared in this trend.²²

5.2 Retail Store Types

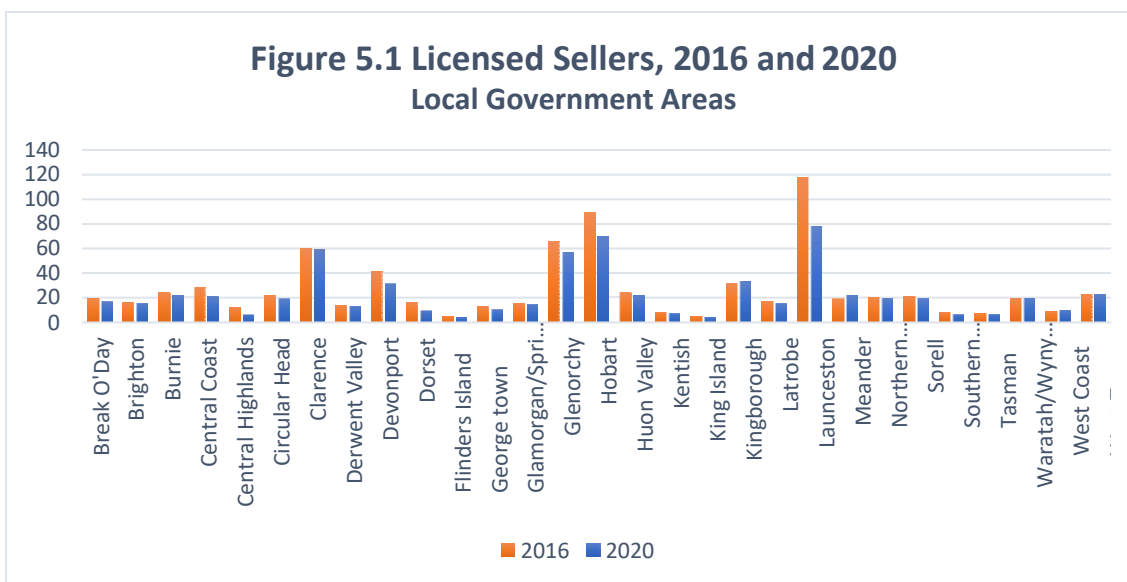
In February 2020, there were 648 licensed sellers in Tasmania, down from 769 in 2016.²³ The largest decline occurred in Launceston, from 118 to 78. Even so, Launceston retains the largest number of licensees, followed by Hobart and Glenorchy (Figure 5.1). Only three local government areas (LGAs) recorded an increase in licensees – Kingborough (three), Meander (two) and West Coast (one). All other areas recorded a fall, with the most pronounced falls recorded in urban LGAs.

²¹ In Tasmania, specialist tobacconists are permitted to display 'ancillary smoking products' – pipes, lighters and so on – while other store-types are not.

²² The ABS estimates that online sales by 'multi-channel' stores (i.e. those that also have a physical retail presence) has doubled, to 4 % of retail sales since 2016. Australian Bureau of Statistics (2020a).

²³ Source of data for Figures 5.1 and 5.2: DHHS (2020) and Melody (2017).

An earlier analysis of licence cancellations concluded that “*It appears that regions that have higher indices of relative socioeconomic disadvantage, greater smoking prevalence and greater retailer density per capita may support ongoing tobacco sales*”,²⁴ and hence a lower rate of decline in licences. It is outside the scope of this report to conduct an econometric analysis to see whether the same conclusion could be suggested by more recent licence cancellations.



Turning to the store-types from which tobacco products are sold, Figure 5.2 shows a clear trend in store-types. The number of supermarkets and service stations selling tobacco products has increased, while all other categories have fallen, some by significant amounts. Very few specialist tobacconists still hold licences. Further research would be required to establish the causes of these declines. For example, have a significant number of mixed businesses closed, reflecting broader trends in retailing, or have owners simply decided to relinquish licences. Anecdotal evidence suggests broader trends may be at work. For example, as a vendor in the Cignall franchise which closed in October 2019 stated,

*It's been a long road leading up to this, but with the cigarette companies giving more support to the grocery chains we just couldn't compete. It was time to get out . . . we were cutting our margins to compete, our turnover was the same but the profit was getting less.*²⁵

In any event, it is of interest to note that the two store-types that have expanded have two advantages:

- (i) Supermarkets with large volumes have relatively low prices and also offer online sales,
- (ii) Service stations sell a product (fuel) for which there is no ready substitute – more than 75% of service stations in Tasmania hold a tobacco seller's licence.

²⁴ Melody (2017), p.14.

²⁵ *Circular Head Chronicle*, 17 October 2019.

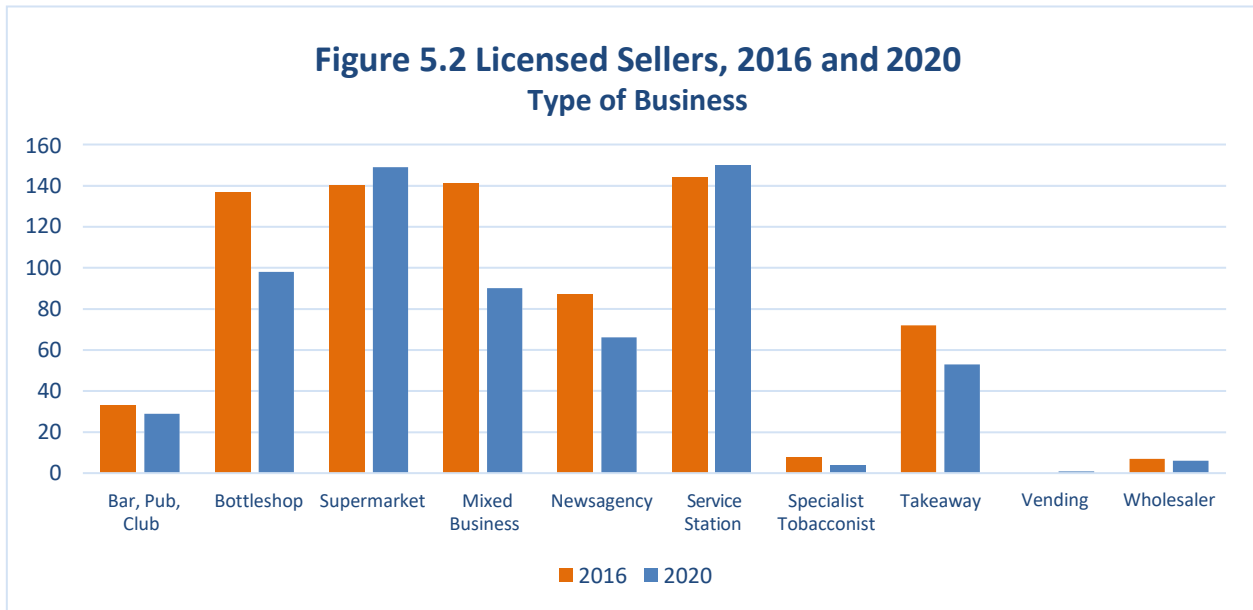


Table 5.1 offers two perspectives on the relative importance of different retail-types, based on Australia-wide data for 2016.²⁶ The left-hand column shows the proportions of sales (by value) in different retail types. The right-hand column provides the reported purchase location by smokers over 14 years of age. Although not shown in the table, female respondents purchase a higher-than average proportion from supermarkets, while males favour service stations and convenience stores.²⁷

Retail Sales by Value		Reported Purchase Location	
Supermarkets	54.7	Major supermarket	46.2
Tobacco specialists	17.6	Tobacconist	24
Convenience stores	11.3	Local convenience or grocery store/milk bar/deli	9.5
Petrol stations	6.2	Petrol station	6.6
Independent small grocers	6	Newsagent or newsstand	2.1
Newsagent-tobacconist kiosks	1	Bottle shop or liquor store	1.2
Others	2.5	Other	1.6
		Did not purchase them myself	9
	100		100

²⁶ Sources: *Sales by Value*, Euromonitor International. *Tobacco in Australia*. London: Euromonitor International, 2019, cited by Scollo and Bayly (2019) ch.10.5. *Purchase Location*: Australian Institute of Health and Welfare (2017) Table 3.42.

²⁷ Source: *Purchase Location*: Australian Institute of Health and Welfare (2017) Table 3.42.

5.3 Estimation of 2020 Retail Store Types

After allowance for respondents whose purchases were made by others (so that other categories are understated to an unknown degree), the two datasets are reasonably congruent. Applying these proportions to more recent data is complicated by the fact that, as data in Figure 5.2 shows, there has been a significant change in the relative importance of store types. The number of licensed supermarkets has risen, while there has been a significant fall in the number of mixed businesses, takeaways, newsagents and bottleshops.

A further complication is that, under Tasmanian law, the term ‘tobacconist’ has a narrower definition than may apply in other states, and most likely in the perceptions of respondents to surveys. In 2011 Tasmania’s Public Health Act was amended so that, while specialist tobacconists were permitted to display ‘ancillary smoking products’ such as pipes, cigarette lighters and so on, they were not permitted to sell other non-smoking products. Given this restriction on diversification, there has been little incentive for retailers to maintain a licence as a specialist tobacconist. Instead, mixed businesses have adopted names such as ‘Tobacco Station’ or ‘SmokeMart’ which advertise their status as tobacco sellers, while also selling gifts, games, and other items which attract young adults into the store. Photographs of recent examples are included in Appendix 2.

Given the number of tobacconist licences currently held in Tasmania, the ‘tobacconist’ sales proportions cited in Table 5.1 are unrealistic. In order to establish a benchmark for sales by tobacconists, the starting point is the minimum monthly sales requirement for Cignall franchisees which operate as specialist tobacconists.²⁸ In what follows, it will be assumed that these stores sell twice the minimum monthly amount. The proportions shown in Table 5.2 reflect further adjustments to reflect the changes in relative importance of store types between 2016 and 2020. Consistent with classifications in Table 5.1, the categories ‘mixed business’ and ‘takeaway’ recorded in the licensee database have been aggregated to ‘mixed business’ in Table 5.2.

	2016 Australian ppn. Retail sales by value	Assumed Tasmanian 2020 ppn. Retail sales by value
Supermarkets	54.7	60
Tobacconists	17.6	3
Mixed businesses	11.3	10
Small supermarkets	6.0	11
Petrol stations	6.2	11
Others	3.5	5
Total	100	100

²⁸ Cignall franchisees are required to achieve minimum sales of 125,000 sticks per month, Cignall (2020). In order to derive the proportion shown in Table 5.2, it is assumed that specialist tobacconists sell 250,000 sticks per month. Using an average price per stick, this is converted to an annual sales value per store (\$4.2m), and then as a proportion of total Tasmanian sales of cigarettes and tobacco. This, together with the effect of T21 legislation on gross profit per specialist tobacconist, is likely to be an overstatement.

5.4 Profit Margins of Tobacco Sales

The retail price per stick of tobacco varies by brand, by quantity purchased and by retail store type. Several trends are evident:²⁹

- (i) To illustrate the quantity effect, the Coles online catalogue on 24 February listed JPS Red, the most popular brand among secondary school students,³⁰ in a number of different packages. The price per stick fell from \$1.36 (25 pack), \$1.32 (40 pack) to \$1.18 (carton of four 40 packs).
- (ii) The price per stick also varies by store type. For example, sampling in the same week indicated that, for a 30 pack of Winfield Red the price per stick varied from \$1.53 (Coles online), \$1.59 (IGA online) to \$1.63 (Hobart metropolitan mixed business).
- (iii) Perusal of online catalogues and price boards on 24 February indicated that the major supermarkets (Coles and Woolworths) had a comprehensive range of cigarettes and RYO available, IGA online a somewhat smaller range, while metropolitan mixed businesses displayed prices for a limited number of popular brands, with the majority being available in smaller pack sizes.

Turning to retail markups, price lists for a number of wholesalers indicate that the markup from wholesale price (WSP) to recommended retail price (RRP) varies slightly ranging from 12.5% to 14%. Additionally, Scollo and Bayly (2019b) report a number of trends relevant to the present report:

- (i) Mixed businesses and service stations do not generally offer discounts below RRP,
- (ii) Supermarkets offer discounts on comparable packet-sizes, while also offering a wider range of larger packets, including cartons, with a lower price per stick,
- (iii) For smokers in the 15-17-year age group, approximately two thirds of their purchases are of smaller pack sizes, in 'super value' brands.

As Scollo and Bayly also indicate, the large number of brands, pack sizes, and discounting practices make it extremely difficult to derive a completely accurate representative markup. In what follows, it will be assumed that all the stores which are the focus of this report (stores other than large supermarkets) do not offer discounts and sell at RRP, which implies an average markup of 13%. As with the earlier discussion of data in Table 4.2, this is a conservative assumption which may overstate the impact of T21 legislation on small business.

Relative to other small-business activity, tobacco retailing has relatively low markups. Table 5.3 uses Australian Tax Office small business benchmarks to illustrate this point.³¹ The data give the average ratio of cost of sales to turnover for the mid-range of small businesses in each category.³² Data for tobacco retailers, with a markup of 11%, are slightly lower than the assumed markup of 13% discussed earlier.

²⁹ Trends cited below are consistent with the more comprehensive analysis provided by Scollo and Bayly (2019b).

³⁰ Guerin and White (2018, p.17).

³¹ Australian Tax Office (2020).

³² For each business category, the ATO provides benchmark data for three turnover ranges (low, medium and high), with the ranges appropriate to each category. These data illustrate cost ratios, rather than overall profitability as they do not take into account labour or fixed costs.

Table 5.3 Illustrative ATO Benchmarks
Average Cost of Sales/Turnover, Mid-range

Tobacco retailers	0.89
Takeaway stores	0.38
Groceries, convenience stores	0.72
Service stations	0.75
Newsagents	0.72

6. Economic Impacts of T21 Legislation

6.1 Small and Medium Business

This section derives the direct-expenditure effect of T21 legislation. This simulation draws together the population transition data derived earlier, the allocation of aggregate annual expenditure to age-classes, smoking rates by 18-24 year-olds, and the proportion of purchases by store types.

It is likely that, for the five simulated years, there will be a substantial rise in tobacco prices following the rise in excise rate in March 2020, and the depreciation in the Australian dollar in the first half of 2020. With a significant rise in the real price of tobacco, consumption will fall, most markedly by younger smokers with lower incomes and less serious addiction. It is also likely that the downward trend in smoking rates illustrated in Figure 3.1 will continue. It is beyond the scope of this report to attempt to disentangle these and T21 effects.

As has been the practice throughout this report a conservative assumption, likely to overstate the direct expenditure impact of T21 legislation, will be adopted. It will be assumed that aggregate expenditure by age-class does not fall, but remains constant throughout the T21 simulations. This also implies that the expenditure effects are to be interpreted in 2018 prices.³³

	Fall in annual gross profit per store					
	2021	2022	2023	2024	2025	Stores
Tobacconist	\$8,488	\$17,105	\$25,983	\$26,526	\$27,105	4
Mixed Business	\$791	\$1,595	\$2,423	\$2,473	\$2,527	143
Small Supermarket	\$1,220	\$2,459	\$3,736	\$3,814	\$3,897	102
Petrol Station	\$830	\$1,672	\$2,541	\$2,594	\$2,650	150
Other	\$292	\$588	\$893	\$912	\$931	194
Total (\$m)	\$0.45m	\$0.91m	\$1.39m	\$1.41m	\$1.45m	593

As expected, graduated introduction of T21 age limits leads to effects on gross profits that increase for the first three years, while being driven by demographic trends subsequently. Total costs for small and medium business in 2021 are estimated to be \$0.45m, growing to \$1.45m at the end of the five-year simulation. As a proportion of tobacco sales (with 2018 as the baseline), the data imply a fall by 2% in the first year, and 7% in the final year of the simulation.

³³ The calculations involved are illustrated with respect to males and mixed businesses impacted by T21 in 2021: $\$1257 = (\text{proportion of 18 year-olds in 18-24 cohort}) \times (\text{annual tobacco expenditure of 18-24 year-old cohort}) \times (\text{mixed-business share of tobacco sales}) \times (\text{gross profit margin}) / (\text{number of licensed mixed businesses})$. In this calculation 'mixed businesses' are an amalgamation of 'mixed businesses' and 'takeaways' in the licensee database.

Costs shown in the simulation are averaged over the number of licensed store-types in each category. It might be expected that small mixed businesses, for example, with lower tobacco sales, would bear lower costs than their larger counterparts. Available data do not permit exploration of this variation.

6.2 Sensitivity Analysis

As has been indicated at various points in the report, these costs are likely to be an over-estimate. Although not all can be quantified, the various points at which conservative assumptions have been made, and which are likely to overstate the effects of T21 legislation on gross profits include:

- (i) A rise in the relative price of tobacco over the simulation period is likely to cut consumption by all age-classes, including the 18-24 age group (Section 4.1).
- (ii) It is assumed that small and medium businesses charge recommended retail prices, and do not engage in significant discounting (Section 5.4).
- (iii) The 18-20 age group has the same smoking rate as the 21-24 age group. Australia-wide data, however, indicates that the T21 age group smoking rate is 10% less than the 21-24 age group.³⁴ If this result were applied to Tasmanian data, it would cut the simulated cost to gross profit by 10%.
- (iv) Younger people smoke the 'same-cost' brands of cigarettes as older age groups. However, younger smokers tend to favour 'super-value' brands which generate lower gross profit per pack than other brands (Section 5.4).
- (v) Reliance on the Australian Bureau of Statistics measure may over-estimate Tasmanian tobacco expenditure (Section 4.2).
- (vi) There is complete compliance; for example, it is assumed that 18 year-olds do not ask older-age peers or family members to purchase on their behalf.

Now turn to longer-run impacts of which two can be readily identified. The first is a reduction in the number of 'pack years' for smokers who defer starting smoking until 21 years. The number of 'pack-years' quantifies a person's lifetime exposure to tobacco, and is used by clinicians to assess risk of medical conditions related to tobacco use. This effect has no effect on five-year simulated costs in this report, but it would be an important determinant in assessing the reduction of costs to society occasioned by tobacco use.

The second, more important, longer-run effect relates to a crucial motivation for T21 legislation. It is well-documented that restricting access to tobacco by younger people significantly reduces the likelihood of ever taking up smoking.³⁵

In order to evaluate the long-term effect of T21 legislation on smoking rates, it is necessary to predict smoking behaviour by successive cohorts of 18-20 year-olds as they age. If the legislation were completely effective, and none of those individuals subsequently started smoking, the smoking proportion would fall to zero after approximately six decades. This extreme case can be ruled out. It is implausible that (unlike the situation assumed in the earlier simulations) legislation will be completely effective. As with 15-17 year-olds currently, some 18-20 year-olds will access tobacco, and for those who do not, some will start smoking subsequently.

³⁴ Australian Institute of Health and Welfare (2017), Table 3.10.

³⁵ Wood et al. (2019).

In the absence of a longitudinal study which maps the behaviour of individuals over time, a guide to take-up rates can be inferred from successive waves of the Australian Health Survey, which provides data on the proportion of current smokers in each age-class, and also the proportion of people who have never smoked. Relevant data are shown in Table 6.2.

	18-24 years	25-34 years
Never smoked 2014-15	55.5	54.3
Never smoked 2017-18	68.9	58.2
Current smoker 2014-15	24.5	23.8
Current smoker 2017-18	22.6	20.0

Between the two surveys, the proportion of people who had never smoked rises from 55.5% for 18-24 year-olds, to 58.2% for 25-34 year-olds three years later. Conversely, the proportion of younger smokers in the first survey, 24.5%, falls, for the older age group in the second survey, to 20.0%. This suggests that some people who did not smoke when they were in the 18-24 group did not start smoking when in the 25-34 age group. While suggestive, these results are not a longitudinal survey of individuals, and in any case the six-year age groups are longer than the three-year interval between surveys.

An alternative estimate of the long-term T21 effect is provided by a report to the U.S. Surgeon General, which had a significant impact on the passage of US federal laws banning the sale of tobacco to persons under 21.³⁶ The report estimates that T21 legislation is likely to reduce long-term national smoking rates by 12%.³⁷ One route by which this result could be achieved is if 12% of 18-20 year-old smokers stop smoking and never start subsequently. Other time profiles are possible. But were this result to be applied to Tasmanian data, and applying the same assumptions as in Table 6.1, a long-run annual cut in gross profits for small and medium business of \$3.66m per annum could be expected.³⁸

Although there is some uncertainty as to the effect, T21 legislation is likely to cut smoking rates with significant long-term health benefits. Annual costs to small and medium business (\$0.45m in 2021, or a long-run fall of \$3.66m) should be set against the benefits of reducing smoking rates in Tasmania. These benefits are significant. Bennett (2015), drawing on the approach by Collins and Lapsley (2008), estimates the tangible cost of smoking to the Tasmanian economy, compared to a situation where there are no smokers. Tangible costs include health and related medical costs, reduced labour productivity, other household sickness and premature death, and absenteeism. Updating to 2018 prices, Bennett's estimate of annual tangible costs is \$497m. More recently, Tait and Allsop (2019) have estimated

³⁶ Federal T21 legislation, covering all US states, came into law on 20 December 2019. Until then, T21 had been legislated in many States and local jurisdictions.

³⁷ This result is summarised in Morain et al. (2016).

³⁸ Note that when measuring potential costs to the economy, the relevant measure is value added rather than sales. Gross profit as reported in Table 6.1 is analogous to value added.

tangible smoking costs for Australia as a whole to be \$19.2b for 2015-16. Allocating this cost as a proportion of Australian tobacco consumption, this gives annual tangible costs of \$691m for Tasmania, somewhat higher than the Bennett estimate. Taking the average of the two estimates (\$600m), if annual costs were reduced by 12%, to \$72m, this benefit would exceed the T21 loss in profits to small and medium business (\$3.66m) by a wide margin.

6.3 Broader Impacts

Analysts often assess economy-wide effects of policy change using input-output models. With this approach T21 legislation is modelled as a cut in tobacco expenditure leading to an economy-wide contraction in activity. This amounts to the assumption that a cut in tobacco spending is offset by an increase in saving. More likely reduced spending on tobacco would, for the most part, be replaced by spending on other items. For example, an individual might increase spending on entertainment in response to a cut in spending on tobacco – while T21 might impose costs on small business, it does not necessarily impose the same costs on the economy as a whole. Detailed assumptions as to the re-allocation of spending by persons impacted by T21, beyond the scope of this report, would be required to assess impacts on different store types. Similarly, any re-allocation of spending towards items not subject to GST would impact tax revenue.

It is difficult to assess the degree to which tobacco sales drive other in-store purchases. Clearly, purchasers of tobacco products often buy other items at the same time. For example, a stop at a service station may involve buying fuel, cigarettes, or other items. But in order to extend the analysis of this report to examples such as this, it would be necessary to establish:

- (i) The extent to which service-station stops are primarily motivated by cigarettes, fuel, or other items – If cigarettes were unavailable to them, would 18-20 year-olds still stop for fuel?
- (ii) The contribution to gross profit made by non-tobacco purchases.

Analogous considerations apply to other store types, and ‘joint purchase’ considerations may have more impact on gross profits for some types, and for some locations, than others.

In summary, there are a number of factors which lead to over-estimation of the T21 effect on gross profits, while lack of evidence on the ‘joint purchase’ effect is likely to lead to under-estimation. Estimates provided in this report should be taken as a central estimate, subject to some uncertainty in both directions.

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8. Appendices

8.1 Timeline tobacco control legislation, Tasmania

Pre-1997	Ban on the sale of cigarettes to children under 16 years of age under the <i>Police Offences Act 1934</i> .
1997	Smoke free areas in Tasmania are established under the Public Health Act 1997 .
1998	<i>Public Health Act 1997</i> commenced including bans on tobacco advertising, the sale of cigarettes to children under 18 years of age self-service vending machines and display restrictions in retail shops. Manufacturers and suppliers were also banned from providing false information to any person about tobacco control legislation or the health effects of tobacco products.
1999	Further sale and display restrictions in retail shops introduced.
2000	Tobacco licensing system introduced to ensure retailer compliance with the <i>Public Health Act 1997</i> and funding for enforcement activity.
September 2001	Workplaces and enclosed public places become smoke-free. This includes areas such as shopping centres, restaurants, factories, hospitals, corridors and toilets. Further smoke-free areas are introduced: <ul style="list-style-type: none"> ▪ within three metres outside entrances and exits ▪ within 10 metres from ventilation equipment ▪ work vehicles where another person is present ▪ in reserved seating at cultural and sporting venues.
November 2003	Graphic health warning notices become mandatory in shops that displayed tobacco products.
January 2005	Gaming areas, nightclubs and 50 % of outdoor dining areas become smoke-free.
January 2006	Liquor venues, such as pubs and hotels, become smoke-free inside.
2007	The sale of split packet cigarettes is banned.
January 2008	Smoking is banned in cars where children (under the age of 18) are present.
2008	Sale of fruit and confectionery tobacco products is banned.
June 2008	Tobacco displays in retail shops are reduced to one square metre.
February 2011	Tobacco displays are banned in general retail shops.

March 2012	<p>New smoke-free areas are introduced:</p> <ul style="list-style-type: none"> ▪ playgrounds ▪ patrolled beaches ▪ pedestrian and bus malls ▪ bus shelters ▪ 100 % of outdoor dining areas ▪ competition and seating areas at sporting events ▪ other large public events. <p>Tobacco displays are banned in specialist tobacconists.</p>
November 2012	Carols by Candlelight events required to be smoke free.
January 2013	Selected markets, food and wine, and music festivals are required to be smoke-free or have designated areas for smoking.
May 2013	Agricultural shows organised by the Affiliated Societies of the Agricultural Show Council of Tasmania are required to be smoke-free or have designated smoking areas.
2016	The Director may approve, on conditions, designated smoking areas at public events that must otherwise be smoke-free.
November 2018	Significantly increases to the penalty for those who sell or supply smoking products to a child. A first offence can attract a fine of around \$19,000, a second \$38,000, and a subsequent offence \$57,000.
2018	<p>Personal vaporiser products or e-cigarettes are regulated the same way as tobacco. New laws related to the use, licensing, display and advertising apply.</p> <p>Fit and proper tests apply to people doing a licence to sell tobacco products or personal vaporiser products.</p> <p>A requirement to report the volume of smoking products sold are attached to licences.</p>
<p>Source: Department of Health, https://www.dhhs.tas.gov.au/publichealth/tobacco_control/tobacco_control_laws/history (accessed 12 March 2020)</p>	

8.2 Advertising of store types

NewFREECHOICE FranchiseEOI

Thank you for your interest in joining FREECHOICE Stores. Since you do not have a current tobacconist store we would like to give you a little bit of information about the industry you are looking to become a part of.

The industry is controlled greatly by legislation, the tobacco industry as a whole is in decline, however the Tobacconist section of the industry is in growth as consumers chase better value for money, which tobacconists are able to offer. FREECHOICE Stores – Tobacconists has shown steady retail volume growth over the past 3 years.

As legislation gets tougher we believe there will be a greater emphasis on tobacconists, as it becomes the last domain in which to display tobacco products. FREECHOICE Stores are so confident in the future of the tobacconist industry that we are currently expanding the number of company owned stores.

Your franchise will retail tobacco products and accessories concentrating on Adult consumers. You can also wholesale tobacco products and accessories to smaller retail outlets within your area. The business principles are based on large turnover and small margins.

FREECHOICE Stores strengths are service, professionalism, training and communication. The business will succeed as we continue to work on the FREECHOICE Stores brand and become synonymous as the place to purchase your tobacco products from.

We have the largest average volume turnover per franchised outlet in the Australian Market Place. This has been achieved by providing our franchisees with the best training and support of any group in the Australian market place.

To setup a brand new franchise you would be looking at:-

In a Shopping Centre	Approximately \$70,000 for your shop fit
In a Strip or Street Front	Approximately \$50,000 for your shop fit
The initial stock purchase	Approximately \$50,000

Source: <http://www.freechoicestores.com.au/franchisnew.aspx> (accessed 16 March 2020)

Appendix 8.2 (continued)

Smokemart Store, Shoreline Shopping Centre, Hobart.



Source: K. Barnsley, 18 February 2020.

Appendix 8.2 (continued)

Tobacco Station, Cat and Fiddle Arcade, Hobart.



“Find our shop on the lower level of Cat & Fiddle Arcade. We are right next door to the McDonalds and opposite EB games”

Source:

https://www.bing.com/search?q=Tobacco+Station+Group+Hobart&filters=Reltype%3a%22RelatedEntities%22+parent_yxid%3a%22YN3724x11566641376352177063%22+cq%3a%22Tobacco+Station+Group%22+ufn%3a%22Tobacco+Station+Group+Hobart%22+segment%3a%22Retail%22+local_yxid%3a%223724x8706718760690533306%22&FORM=SNAPST (accessed 16 March 2016)