

MASTER GROCERS AUSTRALIA LTD

Discussion Paper
on recommendations from
an independent review of
tobacco control legislation
in South Australia.

MAY, 2019

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Introduction

In 2016 SA Health commissioned an independent review of SA Tobacco Control Laws which was completed in 2017 by Dr. Chris Reynolds. As a result of this review a number of Dr Reynold's recommendations were implemented, including the regulation of electronic cigarettes in SA. SA Health has released further key recommendations made by Dr. Reynolds and has invited interested parties to make submissions on them, noting that further recommendations made by Dr Reynolds might have policy implications and may require amendments to SA tobacco control legislation.

There are four areas of recommendations on which comment is sought by SA Health and although Master Grocers Australia (MGA) welcomes the opportunity to make comment on each of these areas in the interests of public health, it is our intention in this submission to focus on one area only namely,

“Enhancing the licensing scheme” with focus on- ‘The oversight of where retailers operate.’

MGA is pleased to make this submission and hopes that this will be of value to SA Health in its consideration of the tobacco licensing arrangements in South Australia.

About Master Grocers Australia

MGA is a national employer industry association representing independent grocery and liquor supermarkets in Victoria, New South Wales, South Australia, the Australian Capital Territory, Western Australia, Tasmania, Queensland and the Northern Territory.

In South Australia, there are 244 independent supermarkets that trade under brand names, such as Foodland, Foodworks and IGA. MGA members include such groups such as Drakes Supermarket Group, Romeo's Foodland Group, Chapleys Foodland Group and Eudunda Foodland Group. While many of MGA's members are small, family-operated businesses that employ 25 or fewer employees, these businesses account for the employment of more than 21,000 full time, part time and casual employees, who are \$to work across a seven-day working week. This represents retail sales in excess of \$2.5 billion, which is 61 million customer transactions per annum or 1.1 million customer transactions per week. MGA recognises that smoking is one of the leading causes of preventable death and diseases in Australia. Therefore, MGA fully supports SA Health's actions in discouraging smoking within the general community, the uptake of smoking particularly amongst youth, and the protection of young children from second-hand smoke.

Accordingly, MGA is committed to sharing SA Health's goal to reduce smoking in the community and to promote international cooperation in the protection of present and future generations from the devastating health, social, environmental and economic consequences of tobacco consumption and exposure to tobacco smoke.

However, MGA opposes any regulatory licensing that would be costly for small businesses and that could arguably result in certain unintended consequences.

In addition, the role of independent supermarkets in Australia has traditionally always been community-focused, with many supermarkets making and returning substantial contributions to the communities in which they trade. This is not only demonstrated in the forged relationships between independent supermarkets and their local communities but also in the strong commitment of independent supermarkets to support their local communities, through local fundraising initiatives that support schools, kindergartens, hospitals, clubs and so on. Independent supermarkets also support the businesses of local suppliers and service providers as well as providing employees with employment. Many of these employees include working mothers, tertiary students, trainees, and apprentices. Independent supermarkets are a vital part of the S.A economy and MGA submits that the sustainability of these businesses is of great importance to the State of South Australia.

Oversight of where licensees may operate

Dr Reynolds states that limiting the grant of tobacco licences for the sale of tobacco products in areas which are considered “high disadvantage” will have the likely effect of reducing the ability to purchase cigarettes, and therefore reduce smoking.

Although it is suggested that the implementation of this proposal should only initially be imposed on new licence applicants the consequences of such a proposal cannot be understated.

Like any product that is taken out of easy reach there will always be other means of obtaining it. Once an item is taken out of easy circulation it often has the unfortunate effect of forcing opportunities to obtain the product from other areas and simply obtaining the product covertly.

There is ample evidence of the importation of cheap tobacco products being brought into Australia illegally and cheaply due to the huge impost that has been placed on them through heavy taxation. The consequent black-market industry is rife. If tobacco products are not available in locations that are easily accessible, then there will always be those who are willing to provide the required items without a licence. It is very easy for anyone who is not within easy reach of a cigarette vendor to find one either by travelling to the area that sells them or obtaining the product by any other means, which could include illegally purchasing the goods. Added to this is the increased violence associated with break-ins to shops. This is particularly evident in Victoria, where theft of tobacco products exists on a vast scale. Therefore, deprivation or restriction of the legal sale of tobacco products could result in a detrimental effect overall rather than a positive one.

Additionally, hardships such as depriving retailers the opportunity to sell tobacco products, particularly smaller retailers may result in unintended consequences such as the elimination of smaller retailers from the retail industry, the elimination of competition in the marketplace, the fostered growth of larger retailers., There is also the additional cost of bearing the cost of license fees and the onerous administrative requirements of the licensing process.

If the objective of a licensing scheme is to reduce the SA daily smoking rate, this could very arguably be undermined by the probable and unintended consequence of a concentration of sales of tobacco in the hands of larger retailers. This is because a concentration of sales of tobacco by large retailers means that they have the consequential market power to lower tobacco prices within the retail industry. This would be significantly detrimental to long-standing efforts of tobacco control as the ability to lower tobacco prices would effectively allow smokers to stockpile and make large purchases of tobacco.

There is evidence to suggest that the availability of tobacco products being sold near schools may influence the smoking habits of youth but there is little evidence to suggest that restricting licences, whether it be in low socio- economic areas or not, that suggests proximity of outlets influences tobacco sales. "... there is some evidence suggesting that living close to a tobacco retailer affects cessation efforts."¹.

The consequences for the Small Retailer in Tobacco Control

From a public health perspective, very little in terms of research evidence has been published that proves the causal link between the proximity, density and location of retail outlets and patterns of smoking behaviours, rates of smoking, and smoking cessation efforts.²

However, it is significant to bear in mind the role of the retailer in tobacco control. The report, 'Evidence of the impact of tobacco retail policy initiatives', prepared by Dr Becky Freeman proposed that tobacco retailers may play a key role in assisting smokers to cease smoking by providing cessation materials to smokers and selling nicotine replacement therapies.

In respect of the impact on small business of strict tobacco control smaller retailers currently face significant financial challenges due to such factors as:

- The low profit margins from the sale of tobacco products;
- Australia has one of the most concentrated supermarket industries globally, with Coles and Woolworths in control of more than 75% of the national supermarket share;

1 Freeman, Becky, *Evidence of the impact of tobacco retail policy initiatives*, January 2014, p. 6.

2 Ibid p. 6.

- The accelerated growth of larger retailers;
- The price war between larger retailers which has led to the lowering of product prices and, in turn, resulting in tighter profit margins for smaller retailers;
- Rising daily operational store costs;
- The growth in private label products; and
- The growth of online shopping which has reached into what was traditionally the domain of smaller retailers.

Considering the above factors, any limitation in licensing retailers would add to the heavy financial pressures already faced by smaller retailers. As such, any further financial pressure may force these small retailers out of the retail industry. Arguably, this would be an unintended consequence that would foster the growth of larger retailers. In turn, the growth of larger retailers would mean that the sales of tobacco would be concentrated in the hands of fewer and larger retailers. In doing so, larger retailers would have the market power to lower tobacco prices, and this may very arguably allow smokers to stockpile and make large purchases of tobacco.

These highly probable rollover effects would undermine the very objectives of the licensing objectives and would not only fail to support South Australia's broader health objectives but, importantly, these market consequences would also serve to be detrimental to South Australia's past and existing efforts in tobacco control.

Conclusion

MGA concludes with the position that any proposed limitation on the grant of tobacco licenses in South Australia should be opposed based on the following legitimate justifications: elimination of competition in the retail industry, the concentration of sales of tobacco in the hands of large retailers, the increase in illicit sales and the driving out of small retailers from the grocery industry.

MGA thanks SA Health for the opportunity to contribute to its inquiry into the tobacco licensing arrangements in South Australia.



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