

Illegal tobacco inquiry – Questions on Notice

- As per page 4 of the Transcript, *“Can you provide a copy of that report to the Committee”*.
- *PML response: Please find attached a copy of the ‘Oxford Economics Report - ADDRESSING AUSTRALIA’S ILLICIT TOBACCO MARKET – February 2026’ in the response email dated 23 March 2026.*

-
- As per page 8 of the Transcript, *“Can I ask you to take on notice, then, that with respect to those other Philip Morris entities that I've referred to, you will check and confirm that none of them were involved—or if they were involved to please confirm that they were involved—in the commissioning of that report that you've relied on earlier and paid at least in part for that report, either in conjunction with the likes of BAT or some other tobacco company in the world?”*
 - *PML response: Philip Morris or any of its entities were not involved in the commissioning of the ‘Oxford Economics - ADDRESSING AUSTRALIA’S ILLICIT TOBACCO MARKET, February 2026 Report’.*

ADDRESSING AUSTRALIA'S ILLICIT TOBACCO MARKET

FEBRUARY 2026

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FEBRUARY 2026

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This report was commissioned by Ritchies IGA. We also acknowledge the contribution of BAT Australia Ltd (BATA) in providing data requested by Oxford Economics Australia and Ritchies IGA to gain a deeper level of understanding on the legal tobacco supply chain and market volume in Australia.

The modelling and results presented here are based on information provided by third parties, upon which Oxford Economics Australia has relied in producing its report and forecasts in good faith. Any subsequent revision or update of those data will affect the assessments and projections shown.

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EXECUTIVE SUMMARY

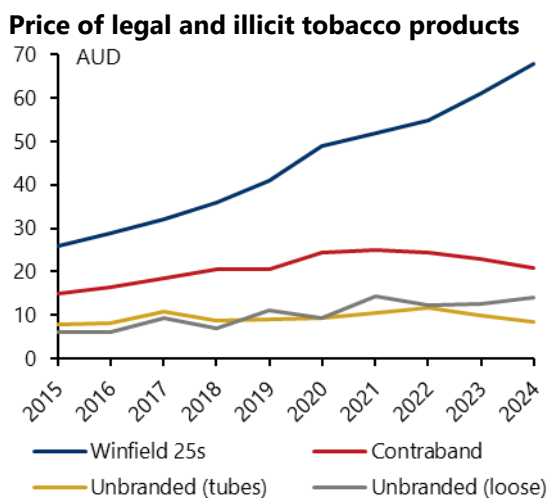
OXFORD ECONOMICS WAS COMMISSIONED TO ASSESS THE OUTLOOK OF ILLICIT TOBACCO IN AUSTRALIA AND MODEL POLICY RESPONSE SCENARIOS

Oxford Economics has been commissioned by Ritchies IGA to assess the outlook of the illicit tobacco market for Australia. This report presents evidence on how the excise system has evolved, examines the impacts of the illicit market on public policy objectives and the legal retail sector, reviews relevant international experience, and models the impact of excise reform combined with strengthened enforcement to estimate how different policy approaches may affect legal consumption, illicit consumption, and government revenue.

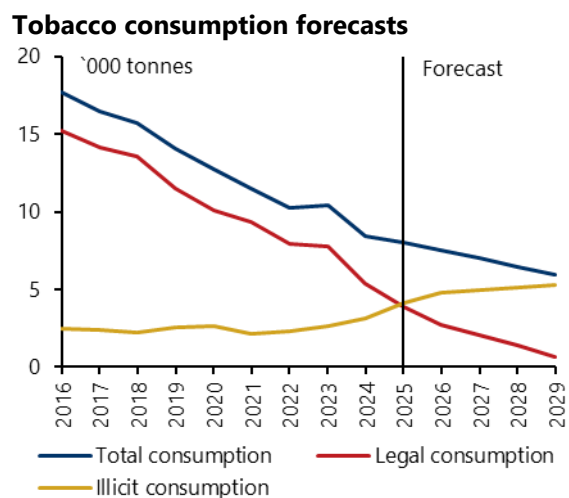
The report draws on five complementary evidence streams, anchored by a national volumetric conjoint survey that directly captures consumers' attitudes toward the illicit tobacco market and their likely switching behaviour in response to changes in the price of legal cigarettes, providing the behavioural foundation for modelling the impact on illicit market consumption. This is complemented by novel, real-world datasets from retailers and a large manufacturer, including Ritchies sales evidence of the impacts of a growing illicit market on compliant legal retailers, and data from a large chain retailer capturing enforcement and store-closure effects in New South Wales, South Australia, and Queensland, which are essential for grounding the analysis in observed market outcomes and helping shape nationally relevant policy options. These Australia-specific inputs are supported by Treasury/FTI/ATO market sizing and forecasting, alongside international benchmarking and case studies to place findings in a global policy context.

AUSTRALIA IS RUNNING OUT OF TIME TO ADDRESS A RAPIDLY EXPANDING ILLICIT MARKET, WHICH IS IMPACTING THE HEALTH AND WELFARE OF AUSTRALIANS.

The legal-illicit tobacco price gap has widened sharply and is a primary driver of substitution away from the legal tobacco market. Over the past decade, illicit cigarette prices have risen far slower than comparable legal products (3.8% p.a. vs 11.3% p.a.), with the estimated gap growing from \$11 to \$47. This has made Australian cigarettes among the least affordable globally.



Source: FTI Consulting



Source: Oxford Economics, Treasury

This has resulted in the illicit market rising rapidly, with a range estimate for the illicit tobacco share of the market at 50-60% in 2024–25, putting its total market size at between \$4.1 billion and \$6.9 billion¹. Based on trends over the last decade, the forecast for the illicit market share by 2028–29 is 89% of the total market. Although the total tobacco market is declining, the illicit market is capturing a larger share every year. As this illicit market becomes more entrenched, it becomes increasingly difficult to eradicate, leaving Australia with a narrowing window for effective policy intervention.

Illicit markets undermine public health and consumer protections, erode government revenue, distort competition for legitimate businesses, increase enforcement and compliance costs, and fund organised crime and money laundering. Meanwhile, excise revenue has fallen steeply in recent years, from a peak of \$16.3b in 2019-20, with the latest Treasury estimates at \$5.5b for 2025-26. The gap between what the Commonwealth was expecting to collect in tobacco excise back in 2018-19 and what it is forecasting to receive by 2028-29 is now \$67 billion. Based on the historical growth of the illicit market, Oxford Economics expects the excise revenue outcome for 2028-29 to be \$1.5b. The average taxpayer is now losing almost \$500 per year in excise revenue and GST as a result of the illicit tobacco market.

THE CURRENT ENFORCEMENT-FOCUSSED APPROACH IS FRAGMENTED AND SHORT-TERM.

The enforcement-focussed approach to policing the tobacco market has occurred in tandem with the significant and rapid proliferation of the illicit market. Currently, responsibility for enforcement is shared across governments, contributing to uneven responses. Federally, border controls have weakened in relative terms, with container inspections through Container Examination Facilities falling to around one-third of levels a decade ago while import volumes have risen rapidly. This is despite record-breaking seizures every year, reflecting the size of the illicit market, as opposed to the effectiveness of border control.

At the same time recent enforcement outcomes suggest the application of penalties may be limiting their deterrent effect. The *Illicit Tobacco and E-cigarette Commissioner's Report* estimates that in 2024–25, authorities seized 2.66 billion cigarettes and 509 tonnes of loose tobacco, representing approximately \$4.6 billion in excise attempted to be evaded. Despite this, total infringement, civil and criminal fines imposed across all enforcement agencies amounted to \$27.6 million. In response to this, the Commonwealth committed \$188.5 million over four years from 2024 and then a further \$156.7 million over two years to strengthen illicit tobacco enforcement through an ABF-led, intelligence-driven compliance model, expanded AFP and state/territory enforcement support, and tighter compliance under the Public Health (Tobacco and Other Products) Act 2023.

While state responses vary, East Coast jurisdictions and South Australia have strengthened licensing, penalties, and enforcement powers, leading to a string of major store closure operations in 2025. However, without sufficient enforcement, these reforms may be ineffective. Queensland currently leads the way in enforcement, with additional funding set to bring the number of public health officers to approximately 200 at an estimated cost of \$30 million and will cover 20% of Australia's population; in contrast, the larger states of New South Wales and Victoria have committed 48 and 14 inspectors.

¹ Illicit Tobacco and E-cigarette Commissioner (2025) *Illicit Tobacco and E-cigarette Commissioner Report 2024-25*. Available [here](#)

Novel evidence from a reputable large chain retailer highlights the short-term impact of enforcement. Following the closure of almost 300 stores selling illicit tobacco in NSW, South Australia, and Queensland, year-on-year declines across 6 weeks reportedly narrowed from an average of -55% pre-closure to -34% post-closure. It is likely, however, that as consumers and sellers adapt to the short-term effect of illicit store closures, legal sales will tend to revert to their long-term trend, and the illicit market will continue to grow while the price gap between the legal and illicit markets remains at its current level.

ADDRESSING THE LEGAL-ILLICIT PRICE GAP COMBINED WITH ENFORCEMENT LEADS TO STRONG ILLICIT REDUCTION AND REVENUE UPLIFT.

Oxford Economics conducted a national volumetric conjoint study ($n \approx 1,505$) to quantify smokers' attitudes toward the illicit market and their likely responses to changes in legal cigarette prices and enforcement intensity. The survey demonstrated both strong illicit market engagement and high price-sensitivity, with 76.9% reporting that cigarette prices influence how much they spend on tobacco, and 71.1% of respondents reporting purchasing illicit tobacco. For illicit consumers specifically, lower prices were the dominant reason for illicit purchasing (around 69.4%), followed by product/brand preference (around 32.7%), ease of finding and buying illicit products (around 25.1%), and lack of availability of usual products (around 11.6%). RYO smokers (who comprise 68.5% of the illicit market) appear particularly price sensitive, with a mean maximum willingness to pay for legal RYO at around \$36, compared to the cheapest legal products available at around \$90, suggesting consumers have become accustomed to very low illicit prices.

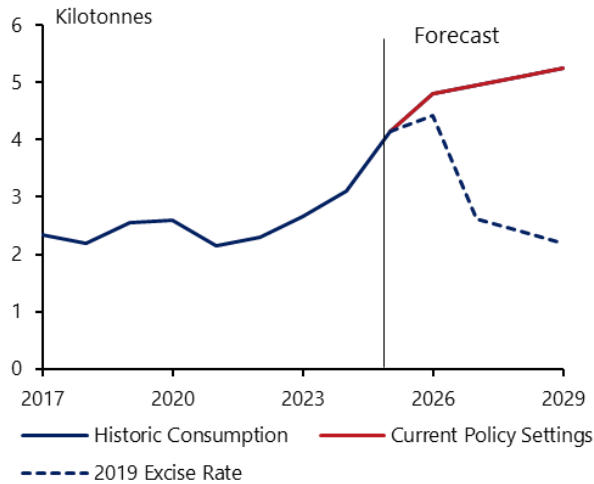
To understand the effect of changes to the excise rate, the conjoint survey simulated legal price scenarios to quantify substitution away from illicit products when legal prices fall. Two scenarios were assessed:

- **Existing policy settings:** Oxford Economics' forecast of 2025-26 tobacco consumption and excise revenue. This assumes the current pace of excise increases continues and does not factor in discretionary increases which have occurred several times over the last decade.
- **A cut in excise to 2019 levels:** A reversion to the effective excise rate in the pre-COVID period, when excise revenue was close to its peak. This is approximate to a 30% reduction in the cheapest available legal retail price of tobacco and is equivalent to a return to 2019 settings (around a 42% reduction in the excise rate).

These insights, combined with retailer evidence, were used to model excise and enforcement impacts. The modelling indicated that excise reductions paired with stronger enforcement led to a strong shift of consumption back to legal channels. The following effects were observed from a reversion to 2019 excise levels and stronger enforcement by 2029:

- A fall in consumption of illicit tobacco of -46.8% compared to 2026 levels.
- A reduction in illicit market share from 64.0% to 37.1% compared to 2026 levels.
- A \$3.1 billion boost to excise revenues.

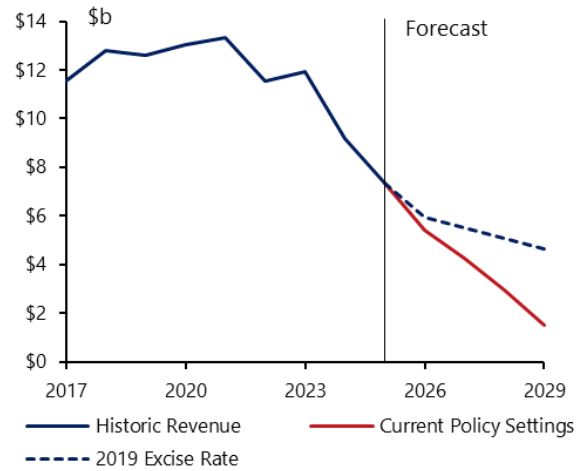
Simulated effect on illicit tobacco consumption with enforcement uplift



Note: 2025-26 assumes no excise change, only a legal uplift from enforcement. The 2019 excise rate is factored in from 2026-27 onwards.

Source: Oxford Economics

Simulated effect on excise revenue with enforcement uplift



Note: 2025-26 assumes no excise change, only a legal uplift from enforcement. The 2019 excise rate is factored in from 2026-27 onwards.

Source: Oxford Economics

Internationally, the Canadian province of Quebec is a case study in how a market that is overwhelmingly dominated by illicit tobacco consumption can be returned to a majority legal market through reforms to excise alongside a well-funded and resourced enforcement approach. From 1994, the government effectively halved the retail price of cigarettes, combined with strong, well-funded enforcement from 2001-02, leading to both a reduction in the illicit share of the market from over 60% to 15% and a revenue uplift from \$654m to \$1.0b, with enforcement estimated to have returned between \$11 and \$14 for every dollar invested.

The analysis suggests that enforcement can shift consumption away from the illicit market in the short term, while lower excise rates can reduce the price incentive that has driven many tobacco consumers toward illicit products over the longer term. The most effective approach is therefore likely to combine demand reduction measures, with sustained supply-side enforcement pressure. Addressing the illicit tobacco market in Australia requires a coordinated policy response that tackles both demand-side incentives (which drive consumers toward illicit products) and supply-side controls (which disrupt illicit production, importation and retail distribution). These include:

1. **Incorporate illicit market reduction as a way to achieve core national tobacco policy objectives**, with excise and enforcement assessed against impacts on illicit substitution (including the legal-illicit price gap).
2. **Increase border deterrence** by increasing screening/inspection capacity in high-risk pathways (especially sea freight).
3. **Strengthen retailer enforcement nationally**, including nationally harmonised consistent licensing, stronger inspection/closure powers, tougher penalties for repeat offenders, landlord liability, and planning reform.
4. **Consider excise revenue sharing models** between Commonwealth and States and Territories to fund and incentivise enforcement.

5. **Reduce excise to recapture legal consumption.** The results of a volumetric conjoint analysis show that reducing excise can reduce the illicit market share without increasing overall consumption and stabilise revenue in the long-term.
6. **Pause excise indexation temporarily** to prevent further widening of the legal-illicit price gap while the legal market is being re-established.
7. **Strengthen “port-to-shop” governance and coordination**, including state/territory retail regulators in national arrangements to improve intelligence sharing and joint operations.
8. **Improve monitoring, metrics and accountability**, standardising national data and performance indicators to make policy adaptive and link resourcing to outcomes.

Taken together, these measures underscore that reversing the growth of illicit tobacco will require a coordinated, evidence-based policy reset that restores the viability of the legal market while strengthening enforcement, aligning incentives across governments, and safeguarding public health and fiscal outcomes over the long term.

1. BACKGROUND

Following decades of tobacco excise increases, legal tobacco prices in Australia are now among the highest in the world. These increases have contributed to declining smoking prevalence while also generating substantial Commonwealth revenue. However, more recently the sustained rise in legal prices has coincided with a rapid expansion of the illicit tobacco market, as many consumers have shifted away from legal products in response to affordability pressures.

The illicit tobacco market undermines the objectives of Australia's tobacco control framework by supplying products outside the regulated system. Illicit products can bypass packaging, labelling and product standards, weaken the deterrent effect of price-based policy, and reduce government revenue by avoiding excise and other taxes. Illicit supply can also distort competition in the retail market by enabling prices substantially below legal products, and it is associated with broader criminal activity, including organised crime and money laundering.

Evidence from international experience and Oxford Economics Australia's research indicates that policy settings can influence the extent of substitution between illicit and legal tobacco. In particular, changes to excise settings that narrow the price gap between legal and illicit products can shift consumption back toward legal channels. In parallel, stronger and more coordinated enforcement can increase the cost and difficulty of accessing illicit tobacco, further supporting that shift.

This report was commissioned by Ritchies IGA to assess the current scale and drivers of illicit tobacco consumption in Australia and to identify policy options that could reduce illicit market activity. The report presents evidence on how the excise system has evolved, examines the impacts of the illicit market on public policy objectives and the legal retail sector, and reviews relevant international experience. In addition, potential excise and enforcement scenarios are modelled to estimate how different policy approaches may affect legal consumption, illicit consumption, and government revenue.

The report draws on five complementary evidence streams, anchored by a national volumetric conjoint survey that is critical because it directly captures consumers' attitudes toward the illicit tobacco market and their likely switching behaviour in response to changes in the price of legal cigarettes, providing the behavioural foundation for modelling the impact on illicit market consumption. This is complemented by novel, real-world datasets from retailers and a large manufacturer, including Ritchies IGA sales evidence of the impacts of a growing illicit market on compliant legal retailers, and large chain retailer data capturing enforcement and store-closure effects in New South Wales, South Australia, and Queensland, which are essential for grounding the analysis in observed market outcomes and helping shape nationally relevant policy options. These Australia-specific inputs are supported by Treasury/FTI/ATO market sizing and forecasting, alongside international benchmarking and case studies to place findings in a global policy context.

Fig. 1. Data used throughout this report

Data approach	Data source(s)	Purpose
Volumetric, conjoint-based consumer survey	OE-commissioned national survey (incl. volumetric conjoint)	Estimates legal–illicit substitution and attitudes; feeds excise scenario modelling; outputs shifts in volumes/shares and excise revenue (see Chapter 5).
Retailer impact analysis	Ritchies IGA tobacco sales/revenue data	Shows observed legal sales losses for 71 stores linked to illicit trade, demonstrating retailer impact evidence and geographic considerations (see Chapter 3).
Manufacturer impact analysis	British American Tobacco Australia	BATA, the largest tobacco manufacturer in Australia, provided Oxford Economics with data on the volume of tobacco sold to support forecasts of legal volumes of tobacco consumption.
Enforcement scenario calibration (QLD)	Reputable large chain retailer sales data after enforcement/store closures	Quantify the impact of enhanced enforcement through analysis of impacts of illicit retailer closures in NSW and QLD by analysing the legal uplift on a postcode-by-postcode basis.
Market sizing and forecasts	Treasury modelling; FTI estimates; ATO legal volumes	Sizes baseline illicit share and outlook; translates scenarios into legal/illicit forecasts and excise revenue impacts (see Chapter 3).
International benchmarking and case studies	International datasets and selected case studies	Benchmarks Australia and draws lessons from overseas; supports comparative analysis and policy options (see Chapters 2, 3 and 5).

2. AUSTRALIA'S TOBACCO EXCISE POLICY

Key findings

- (1) Australia's tobacco excise now represents over 75% of the retail price of tobacco².
- (2) Tobacco excise has increased significantly over the last decade and a half through a combination of annual indexation linked to wages and additional discretionary increases that have made these products relatively less affordable and significantly increased the price gap between legal and illicit products.
- (3) Tobacco excise as a share of the retail price of tobacco in Australia is higher than the average across high-income countries. This in part contributes to Australia having among the least affordable cigarettes in the world.

2.1 THE PURPOSE OF AUSTRALIA'S TOBACCO EXCISE POLICY

Tobacco policy in Australia is fundamentally aimed at improving public health and wellbeing. By focusing on reducing and ultimately eliminating tobacco use, the policy framework seeks to lower rates of preventable illness and lessen the health, social, and economic burdens associated with smoking. Strengthening tobacco policy offers a clear pathway to supporting healthier individuals, more resilient communities, and greater equity across the population.

The Commonwealth government's key policy to address the health outcomes of smoking is the National Tobacco Strategy, which aims to improve the health of all Australians by reducing the prevalence of tobacco use and the costs and inequalities it causes³. The 2023-2030 Strategy benchmarks success by targeting a reduction in adult daily smoking prevalence to 10% by 2025 and 5% by 2030.

The National Tobacco Strategy operates under a dual mandate, where the Commonwealth government's key mechanism for reducing smoking prevalence, the tobacco excise, both helps to improve health outcomes and raise revenue. Historically, regular increases in the excise have corresponded with a steady and prolonged decline in daily smoking rates. As of 2022-23, the prevalence of adults who smoke daily was 8.3%⁴, below the 2025 target outlined in the National Strategy. It should be noted, this target was achieved in 2022-23 after the target year for a 10% adult daily smoking rate was shifted from 2018 to 2025⁵.

² Our World in Data (2024) *Taxes as a share of cigarette prices*. Available [here](#)

³ Department of Health, Disability and Ageing (2023) *National Tobacco Strategy*. Available [here](#)

⁴ Australian Institute of Health and Welfare (2025) *National Drug Strategy Household Survey 2022–2023: Tobacco and e-cigarettes/vapes*. Available [here](#)

⁵ Department of Health and Ageing (2012) *National Tobacco Strategy 2012-2018*. Available [here](#)

2.2 THE EVOLUTION OF THE EXCISE RATE

In 1999, the tobacco excise system was restructured, shifting from a weight-based method to the current per-stick approach. Loose tobacco and products containing more than 0.8 grams of tobacco per stick remained taxed by weight. At the time of the reform, excise indexation followed the Consumer Price Index (CPI); however, in 2014, the mechanism was changed so that adjustments instead tracked movements in Average Weekly Ordinary Time Earnings (AWOTE), to align excise growth with broader wage trends. Successive governments have also applied a series of discretionary increases on top of scheduled indexation. These have included adjustments linked to the introduction of the GST in 2000, and a one-off 25% rise in 2010. From 2013-2020, two consecutive four-year phases of annual 12.5% increases occurred. Most recently, an additional 5% annual increase has been applied between 2023 and 2025.

In addition to broader increases in price, the government has reformed pricing for roll-your-own (RYO) tobacco due to its perceived affordability relative to the cigarette sticks. The affordability gap stemmed from assumptions around tobacco use per RYO stick. Before 2017, the excise system assumed a RYO stick contained the same amount of tobacco as a factory-made stick (0.8 grams); however, users of RYO tobacco were observed to use less tobacco per stick. As a result, RYO attracted a lower effective tax per cigarette, reinforcing its price advantage. To address this, and ensure the excise applied per RYO and manufactured stick is equivalent, the equivalisation weight has been revised twice in the past decade, from 0.8 to 0.7 grams (2017-20) and is currently being adjusted from 0.7 to 0.6 grams (2023-26)⁶.

In parallel with this, Australia also strengthened its non-price tobacco controls. Most notably, the Tobacco Plain Packaging Act 2011 and associated regulations took effect from 2012, requiring all tobacco products to be sold in standardised plain packs with a prescribed font and layout, no logos or promotional imagery, alongside enlarged graphic health warnings^{7,8}. Finally, a new wave of reforms was legislated in 2024 to include standardising cigarette packs to 20 sticks and roll-your-own pouches to 30 grams, banning characterising flavours and novel features such as capsule filtered cigarettes, and expanding health warning requirements, including messages printed directly on cigarette sticks⁹.

International guidance has influenced Australia's approach to the level of its excise tax. The World Health Organisation (WHO) recommends that at least 75% of the retail price of tobacco products should comprise taxes, with a minimum of 70% specifically attributed to excise¹⁰. In 2022, the leading cigarette brand in Australia had a total tax burden of approximately 77% once both excise and GST were accounted for, indicating broad alignment with these benchmarks¹¹.

⁶ Tobacco in Australia (2025) *13.6 What tobacco taxes apply in Australia?* Available [here](#)

⁷ Tobacco in Australia (2024) *WHO FCTC in an Australian context: Case study example of Australia's tobacco plain packaging measures.* Available [here](#)

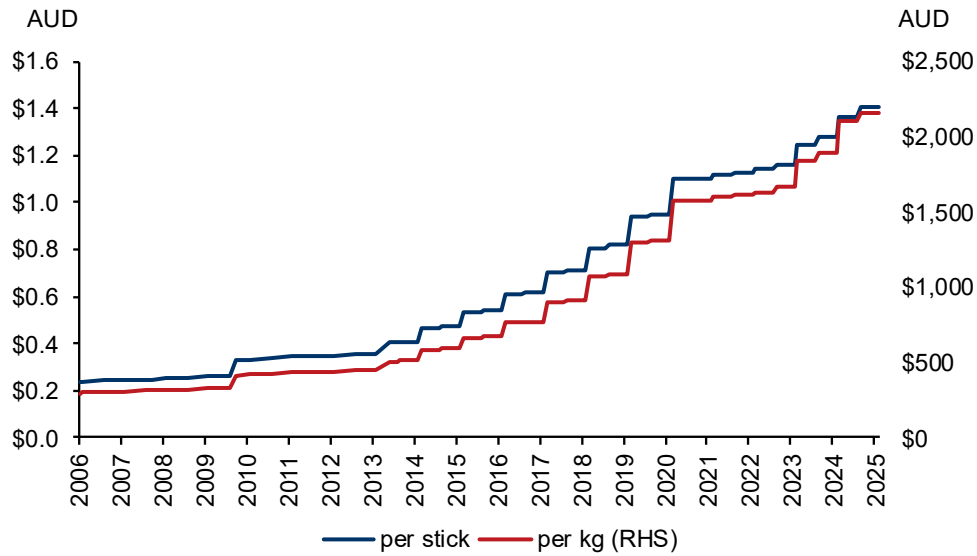
⁸ Department of Health (2015) *Tobacco Plain Packaging Frequently Asked Questions.* Available [here](#)

⁹ Department of Health, Disability and Ageing (2025) *New legislation for tobacco and other products.* Available [here](#)

¹⁰ Tobacco in Australia (2025) *How do tobacco prices, affordability, taxes, and tax revenue in Australia compare to overseas?* Available [here](#)

¹¹ Tobacco in Australia (2025) *How do tobacco prices, affordability, taxes, and tax revenue in Australia compare to overseas?* Available [here](#)

Fig. 2. Historic tobacco excise rates



Source: ATO, Excise duty rates for tobacco

2.3 HOW DOES AUSTRALIA COMPARE INTERNATIONALLY?

Australia has increased the tax share on tobacco products more rapidly than most high-income countries. While this has helped drive smoking rates down more quickly than in peer nations, it has also intensified affordability pressures that have contributed to an outsized growth in its illicit tobacco market relative to peer nations.

Fig. 3. Primary tobacco taxes

Tax	Definition
Specific excise tax	A tax applied to a specific good produced for sale domestically or imported for sale within a country. Excise taxes are typically levied as a fixed amount per stick, per pack, per 1,000 sticks, or per kilogram. <i>For example: \$1.50 per stick.</i>
Ad valorem excise tax	Unlike a specific excise, an ad valorem tax is levied as a percentage of the value of a transaction between independent entities in the production or distribution chain, typically the transaction between the manufacturer and the wholesaler or retailer. <i>For example: 60% of the manufacturer's price.</i>
Value added and sales tax	Value-added tax (VAT) is a tax applied proportionally to the price a consumer pays for a product, covering all consumer goods and services. <i>Example: GST representing 10% of the retail price.</i>

Source: World Health Organisation

The WHO recommends that taxes should make up at least 75% of the cost of tobacco products¹². Nations that tax tobacco primarily use a mix of excise, value-added, and ad valorem taxation. Australia predominantly relies on an excise tax, supplemented by a value-added tax (GST).

Fig. 4. Taxation's share of the retail price of cigarettes, high-income countries¹³



Source: Oxford Economics, World Bank, World Health Organisation, Our World in Data

According to the WHO, Australia has achieved a retail price that is over 75% tax since 2018. At the time, Australia was six years into an eight-year program that saw a discretionary tobacco excise tax increase of 12.5% p.a., on top of the automatic indexation. Australia's policy of discretionary tax increases, coupled with automatic indexation, has seen the tax share of the retail price of tobacco products increase from 62% in 2008 to 77% in 2022, outpacing the rise in other high-income countries, where the average tax share rose from 63% to 69% over the same period.

Increased taxation of tobacco products in Australia has flowed into affordability. In 2012, the affordability of tobacco products in Australia was comparable to the average of other high-income nations. Over the last decade, however, Australia has leapt ahead in reducing the affordability of these products. The cost of 100 packs of cigarettes relative to per capita gross national income grew rapidly from 2.1% to 3.5% in the 10 years to 2022, whilst the high-income nation average only grew from 1.9% to 2.1% over the same period.

Other affordability measures, such as the Big Mac Index of cigarette affordability, which measures the number of cigarettes that can be purchased for the price of a common international commodity, show that cigarettes in Australia are ranked as the most expensive in 2022 under this measure, with the cost of a Big Mac equalling 3.98 cigarettes. Furthermore, countries such as New Zealand and the United Kingdom, both of which have adopted similar tobacco taxation policies that apply automatic indexation, are likewise ranked as some of the least affordable countries in the world to purchase cigarettes relative to the price of a Big Mac¹⁴.

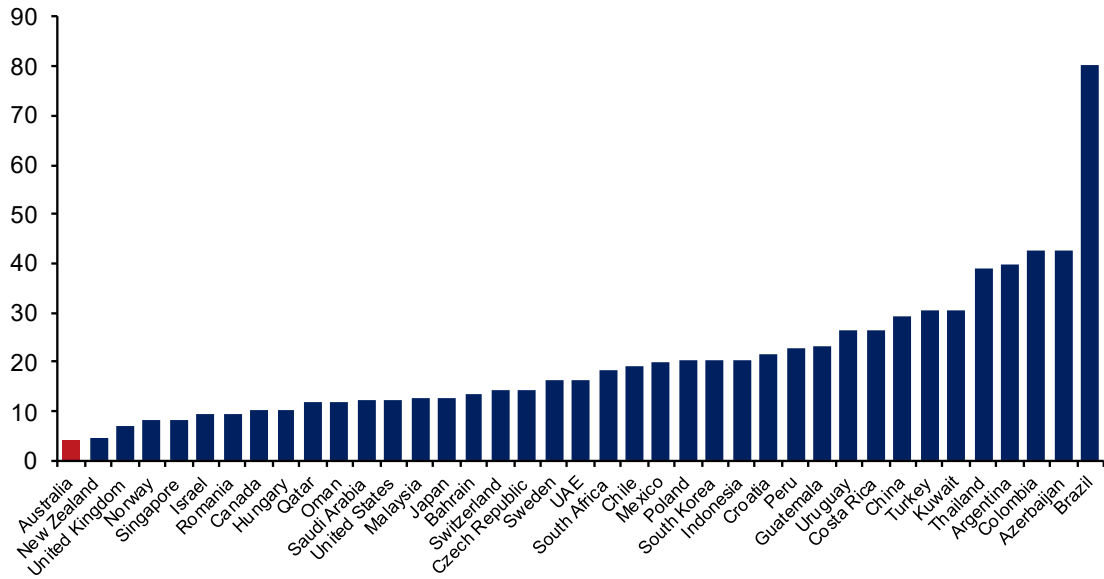
¹² Tobacco in Australia (2025) *How do tobacco prices, affordability, taxes, and tax revenue in Australia compare to overseas?* Available [here](#)

¹³ Classification of high-income countries was based on the World Bank's FY24 income classifications.

¹⁴ Tobacco in Australia (2025) *How do tobacco prices, affordability, taxes, and tax revenue in Australia compare to overseas?* Available [here](#)

Fig. 5. The Big Mac Index of cigarette affordability, 2022

Cigarettes purchased for price of Big Mac



Source: Tobacco in Australia

Countries that rely on indexation rather than discretionary changes to increase tobacco taxes tend to have some of the least affordable cigarettes among high-income, high-taxing peers^{15, 16}. Furthermore, Australia's approach is a relative outlier among countries that use indexation, as tobacco excise is indexed to wages rather than to changes in consumer prices.

¹⁵ Our World in Data (2025) *Affordability of cigarettes, 2022*. Available [here](#)

¹⁶ A list of comparable high income countries and how they approach changes to tobacco taxation can be found in the appendix.

3. THE ILLICIT TOBACCO MARKET IN AUSTRALIA

Key findings

(1) A parallel “port-to-shop” illicit supply chain has become entrenched, bypassing duty and product controls and involving organised crime, while the legal supply chain remains tightly regulated and concentrated among a few major manufacturers and wholesalers.

(2) Rapid excise-driven price increases have widened the legal–illicit price gap, accelerating a shift away from legal tobacco: legal consumption has fallen sharply while illicit consumption has grown. The illicit market was estimated at 19% of total consumption in 2020–21, 50–60% in 2024–25, and is forecast to reach almost 90% by 2028–29.

(3) Commonwealth revenue forecasts have consistently underestimated the rapid rise of the illicit market, with the gap between expected excise receipts back in 2018–19 and forecasted receipts by 2028–29 reaching \$67 billion. Forecasted excise revenue by 2028–29 is \$1.5 billion.

(4) The illicit market is a highly lucrative revenue stream for organised crime, estimated at \$4b to \$7b per year. Violent turf wars vying for market control are harming the community and legal retailers. Additionally, a lack of product controls combined with dangerous additives in illicit tobacco has led to worse health outcomes for illicit consumers compared to their legal counterparts.

(5) Among comparable countries, more frequent and large excise increases have grown the illicit market faster. This has resulted in Australia having the highest illicit market prevalence as of 2024.

Australia’s tobacco market is overwhelmingly import-driven, with virtually all products, legal and illicit, entering the country from overseas and consumption falling into two distinct streams: legal excise duty rate-compliant tobacco and untaxed illicit tobacco.

Domestic tobacco growing and manufacturing in Australia have effectively ceased. The ATO, which is responsible for licensing both activities, reports that there are currently no licences on issue for either the cultivation or manufacture of tobacco, meaning there is no legitimate domestic production feeding the legal market¹⁷. The only meaningful domestic production that remains is illicit: unlicensed cultivation and curing of tobacco crops, commonly sold as loose-leaf “chop-chop” through retail businesses. The ATO estimates this is likely only a small share of excise evasion taking place, with 2023–24 estimates putting it at only 10% of total excise evasion^{18,19}.

¹⁷ Australian Taxation Office (2023) *How excise applies to tobacco*. Available [here](#)

¹⁸ Australian Taxation Office (2024) *From crop to shop: Illegal tobacco. Unfair for honest business. Unfair for the community*. Available [here](#)

¹⁹ Australian Taxation Office (2025) *Tobacco tax gap*. Available [here](#)

The vast majority of tobacco consumed in Australia, both legal and illicit, is imported, and the primary supply chain can be characterised as 'port to shop'²⁰, with one highly regulated and taxed, the other operated by organised criminals engaging in tax avoidance.

Fig. 6. Components of the Australian tobacco market

Legal	Manufactured cigarettes		Factory-produced cigarettes that are excise-paid, regulated, and sold by licensed retailers
	Loose leaf		Regulated tobacco sold in loose form by licensed retailers
Illegal	Manufactured cigarettes	Contraband	Legally manufactured tobacco brought into Australia illegally.
		Counterfeit	Illegally manufactured tobacco that uses the branding of legally manufactured tobacco products.
		Illicit whites	Cigarettes legally produced overseas with the sole intention of being smuggled into Australia.
	Loose leaf	Chop-chop	Illegally grown, manufactured or distributed loose-leaf tobacco.
		Tubes	Loose-leaf tobacco is inserted into empty cigarette tubes.

Source: Oxford Economics analysis, FTI Consulting

Legally imported tobacco enters Australia through a tightly regulated supply chain, with importers/wholesalers required to obtain an import permit, pay the applicable duty and taxes before stock can be released into the domestic market and stored in duty-paid warehouses^{21,22}. Tobacco manufacturing in Australia is relatively concentrated: in 2024, over 99% of manufacturing was accounted for by British American Tobacco Australia, Imperial Brands Australia and Philip Morris Australia²³, with the remaining share held by smaller independent manufacturers/wholesalers that tend to specialise in niche products such as cigarillos and pipe tobacco²⁴. These manufacturers distribute duty-paid tobacco to retailers and wholesalers, with approximately half of reported income derived from supermarkets and grocery stores and a further 30% from tobacconists that form the final leg of the legal supply chain²⁵.

Overseas-sourced illicit tobacco follows a parallel but unregulated and untaxed pathway. Illicit imports include both loose-leaf and manufactured products. These products are typically sourced by organised crime groups and shipped in bulk by sea or air, with cargo misdeclared and concealed

²⁰ Oxford Economics (2021) *Economic Impact of Illicit Tobacco in Australia*. Available [here](#)

²¹ Australian Border Force (2024) *Application for permission to import tobacco*. Available [here](#)

²² Australian Border Force (2025) *Prohibited goods*

²³ FTI Consulting (2025) *Illicit Tobacco in Australia 2024*. Available [here](#)

²⁴ Tobacco in Australia (2025) *Tobacco companies operating in Australia*. Available [here](#)

²⁵ Tobacco in Australia (2025) *Tobacco companies operating in Australia*. Available [here](#)

among legitimate goods to evade excise-equivalent duty²⁶. Once illicit tobacco has passed through the border undetected, it is moved into storage facilities, commercial premises or “stash” houses, broken down into smaller consignments, and then supplied to the retail market²⁷. From there, stock is channelled to consumers through a mix of syndicate-owned tobacconists and co-opted independent retailers, with tobacconists reported to be approached by organised crime groups to sell illicit tobacco and, in some cases, threatened with violence if they refuse^{28,29}.

3.1 GROWTH OF THE ILLICIT MARKET SO FAR

Historically high excise rates have driven measurable falls in total tobacco consumption (legal and illicit), estimated to have declined at 8.8% p.a. from 2015-16 to 2023-24. Declines in tobacco consumption have occurred as the number of smokers declines and per capita consumption amongst the remaining smoking cohort continues to fall. Lower prevalence and consumption in the community over the last decade have also been driven by the introduction of plain packaging, increasing bans on where smoking can take place, and the ability for consumers of tobacco to substitute to vaping³⁰. The rise of vaping is particularly noticeable with daily smoking rates falling markedly in the 2022-2023 *Alcohol, tobacco & other drugs in Australia* survey after a decade of slower declines in daily smoking^{31,32}.

Higher excise rates specifically are causing a growing price gap between legal tobacco products and equivalent illicit products, driving consumers (especially those that are price-sensitive) to illicit tobacco products. The price of contraband cigarettes (legitimately manufactured cigarettes imported without paying excise tax) has fallen over the past decade as illicit products have made further inroads into the tobacco market with prices declining at 3.8% p.a. over the past decade, compared to an 11.3% p.a. increase for a packet of Winfield 25s, with the estimated price gap having grown from \$11 to \$47.

²⁶ ABC (2024) *Fake cigarettes, firebombs and a flourishing black market*. Available [here](#)

²⁷ Therapeutic Goods Administration (2024) *ABF-led joint agency operation seizes \$13.5 million worth of vapes, tobacco, firearms, and cash*. Available [here](#)

²⁸ Australian Criminal Intelligence Commission (2025) *Criminal syndicate left reeling after massive illicit tobacco bust*. Available [here](#)

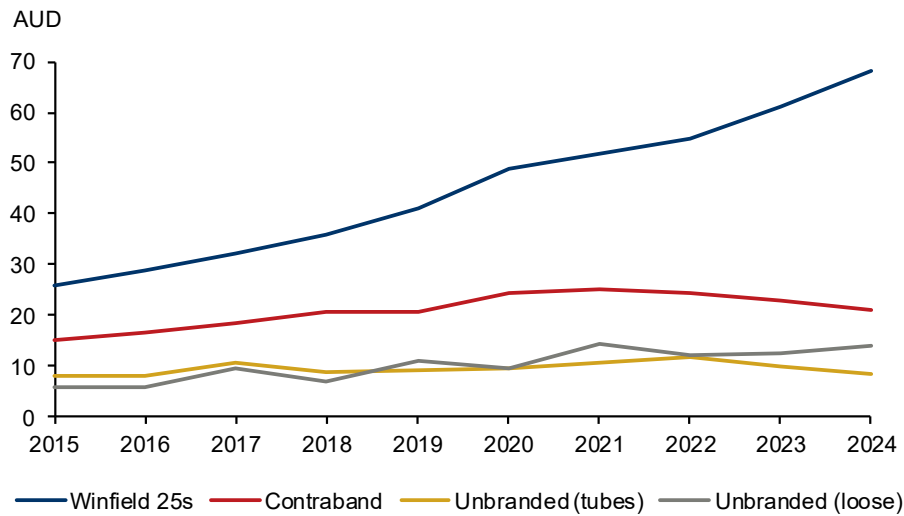
²⁹ Mendelsohn. C, Woodak. A, Martin. J, Ritcher. R, & Pike. R (2024) *Briefing on the Prohibition of Vaping and Organised Crime*. Available [here](#)

³⁰ Tobacco in Australia (2024) *1.3 Prevalence of smoking – adults*. Available [here](#)

³¹ Australian Institute of Health and Welfare (2025) *Alcohol, tobacco & other drugs in Australia*. Available [here](#)

³² The National Drug Strategy Survey was held over 2022 and 2023 in this iteration due to impacts from the pandemic. Previous surveys were conducted in a single calendar year.

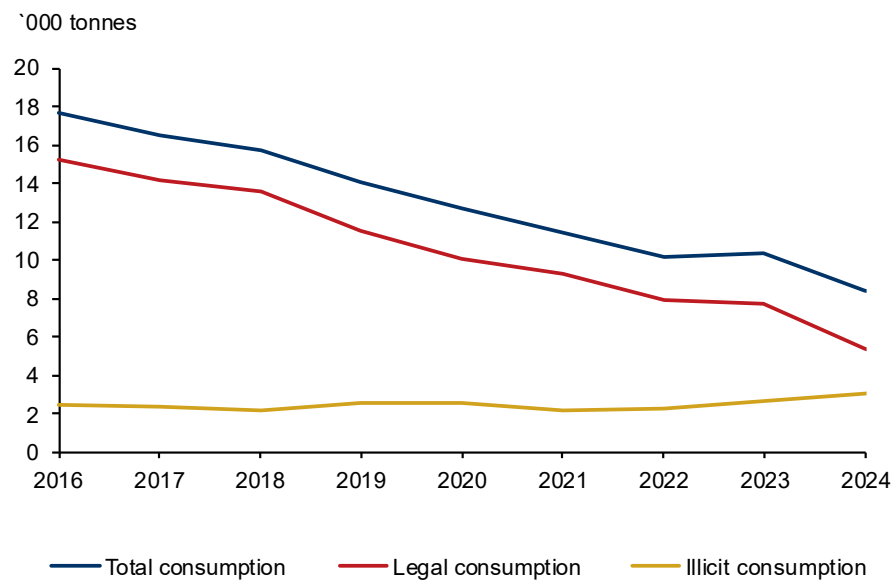
Fig. 7. Price of legal and illicit tobacco products



Source: FTI Consulting

The price gap has resulted in legal tobacco consumption declining faster than the rate at which total tobacco consumption has declined over the past decade, falling around 12.2% p.a. from 2015-16 to 2023-24. In contrast, illicit tobacco consumption has grown at 3.0% p.a. Growth has accelerated in recent years, with illicit consumption estimated to have increased by 11.5% p.a. since 2020-21.

Fig. 8. Tobacco consumption, by market type



Source: Oxford Economics, FTI Consulting, ATO, Treasury

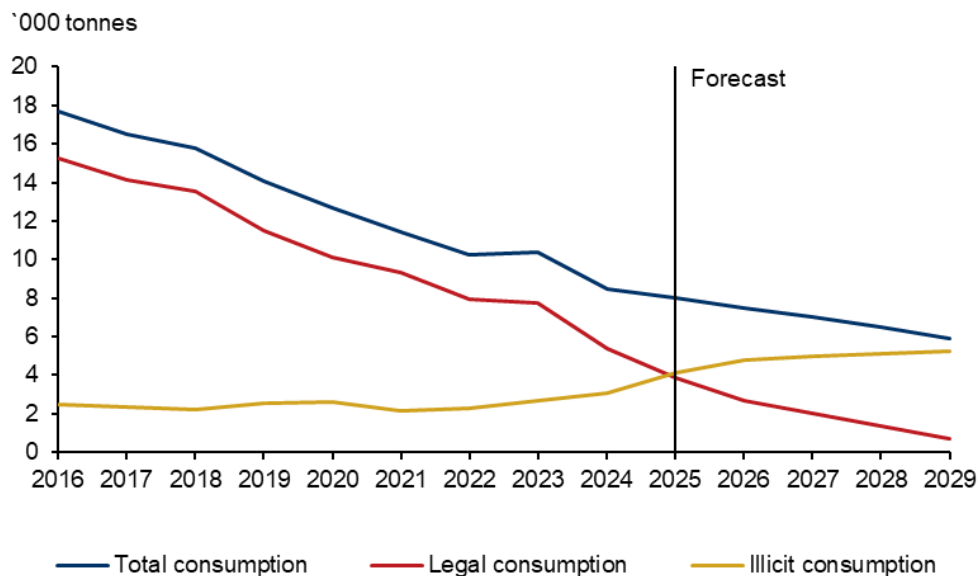
To estimate the size of the illicit tobacco market, Oxford Economics relied on FTI Consulting's *Illicit Tobacco in Australia 2024*³³. The report estimates that in calendar year 2024, illicit products accounted for 39.4% of tobacco consumption, an increase of 10.7 percentage points in a single year. Since its publication, the Illicit Tobacco and E-cigarette Commissioner has released their first assessment of the illicit tobacco and e-cigarette market, estimating a low range for the illicit tobacco share of the market at 50% and a high range estimate of 60% in 2024–25³⁴. These findings are supported by a survey conducted by Oxford Economics for this report, in which more than 70% of smokers reported having used the illicit market. The scale of illicit activity is such that the Australian Bureau of Statistics has raised concerns that illicit tobacco is distorting official measures of household consumption³⁵, with recorded spending on alcohol and tobacco products declining by 8.6% p.a. from 2022 to the present³⁶.

3.2 THE CONTINUED DECLINE OF LEGAL CONSUMPTION

Legal tobacco consumption is continuing to decline at an alarming rate, with current data indicating that the pace of decline is accelerating despite the shrinking base of legal consumption remaining available for substitution.

Treasury's tobacco excise revenue for 2024–25 implies a sharp decline in legal consumption, falling from 5.4 kt in 2023–24 to 3.9kt, a 28% decline in a single year. Over the same period that total legal volumes declined by 28%, BATA volumes declined 33%. In Q1 2025-26, the volume of tobacco sold by BATA declined by 50% compared to Q1 2024-25, suggesting the decline is accelerating.

Fig. 9. Tobacco consumption forecasts, by market type



Source: Oxford Economics, FTI Consulting, ATO, Treasury, BATA

³³ Oxford Economics relied on FTI Consulting's *Illicit Tobacco in Australia 2024* to size the illicit market. A comparison between FTI's estimate and the ATO's estimate of the illicit market and why FTI's was preferred is provided in the technical appendix.

³⁴ Illicit Tobacco and E-cigarette Commissioner (2025) *Illicit Tobacco and E-cigarette Commissioner Report 2024-25*. Available [here](#)

³⁵ Australian Bureau of Statistics (2025) *Monthly Household Spending Indicator*. Available [here](#)

³⁶ Declines in annual consumption are measured from October 2025.

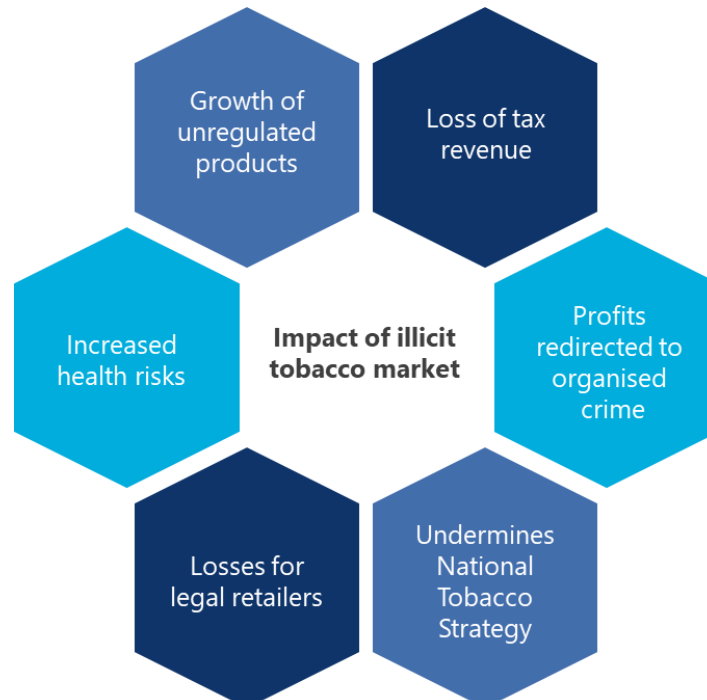
Based on data provided by BATA for the current financial year, Oxford Economics forecasts legal consumption will conservatively decline by 30% to 2.7 kt in 2025-26 under current policy settings, with risks skewed to the downside. Legal consumption of 2.7 kt, when combined with our estimate of total consumption, implies an illicit market of 4.8 kt, representing 64% of tobacco consumption.

Without intervention, the legal market is expected to progressively deteriorate. Under this scenario, the market would be overwhelmingly dominated by illicit sales, with approximately 89% of transactions occurring in the illicit market by the end of the forward estimates in 2029. This is supported by data from Ritchies IGA, where tobacco revenue in some stores has already declined by over 90% since 2020-21. Such an outcome would significantly reduce the level of tobacco excise revenue collected.

3.3 IMPACTS OF THE ILLICIT TOBACCO MARKET

The illicit tobacco market imposes wide-ranging economic and social costs. It reduces government tax revenue by avoiding excise, while increasing pressure on public resources through greater spending on compliance and law enforcement (see Chapter 4). By allowing products to be sold far below legal prices, it distorts competition and undermines legitimate businesses and supply chains. Illicit products also bypass regulated product controls, weakening public health safeguards and consumer protections. The existence of a large illicit market undermines the policy objectives of the National Tobacco Strategy, threatening the long-term health and welfare of Australians.

Fig. 10. Potential impacts of the illicit tobacco market



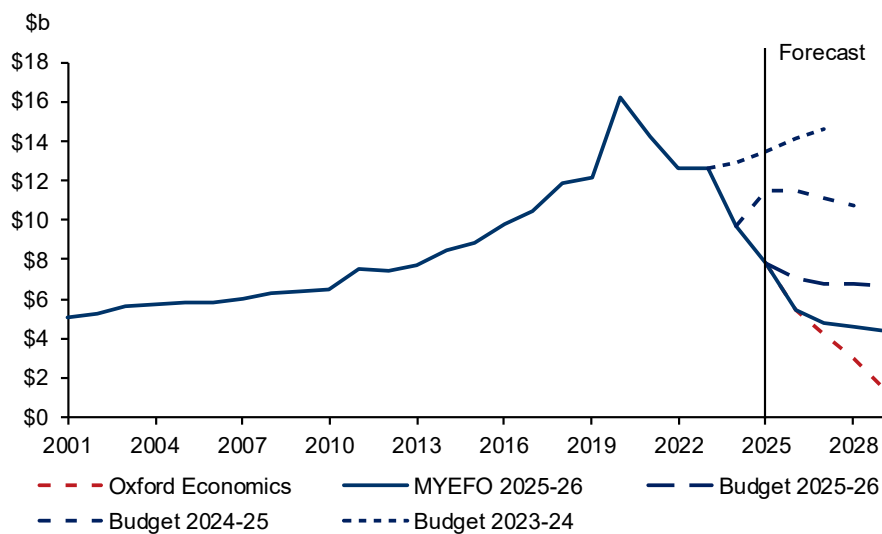
Source: Oxford Economics

Loss of tax revenue

Tobacco excise revenue has historically been a strong fiscal receipt for the Commonwealth government, rising steadily through the 2000s from \$5.0 billion in 2000-01 to \$6.5 billion by the end of the decade. A more pronounced lift occurred from 2010-11 onward, coinciding with a number of significant discretionary excise increases. These included a one-off 25% rise in 2010-11 and 8 years of 12.5% annual increases across the 2010s. As a result, revenue jumped from \$7.5 billion in 2010-11 to over \$12.1 billion by 2018-19, reflecting the cumulative impact of these adjustments alongside routine indexation.

Revenue peaked at \$16.3 billion in 2019-20, primarily due to a change in payment timing that required excise liabilities to be settled when tobacco arrived in Australia rather than when it left bonded warehouses. Adjusting for this one-off effect, annual revenue remained broadly stable at or above \$12 billion to 2022-23. Coinciding with sharp increases in illicit tobacco consumption, revenue has fallen steeply over the past two years, declining to \$9.7 billion in 2023-24 and again to \$7.8 billion in 2024-25, with Treasury estimates pointing to further declines over the forward estimates. This primarily reflects the unexpected reaction of criminals and law-abiding smokers in the face of rapid excise escalations.

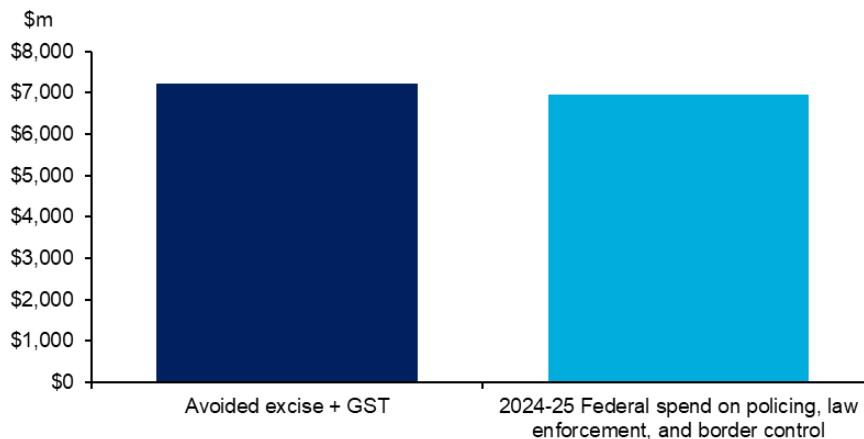
Fig. 11. Tobacco excise over the forward estimate



Source: Oxford Economics, Treasury

The growth in the illicit market has already had a material effect on the tax base. In 2024, FTI Consulting estimated that illicit loose-leaf, contraband and counterfeit tobacco totalled 3.4 kt. If this volume had been purchased through the legal market, it would have generated an additional \$6.4 billion in excise and \$0.8 billion in GST. While differences in price between legal and illicit products mean it is unlikely that all this tobacco would have been purchased legally, these estimates provide a useful upper bound on the potential tax revenue foregone due to illicit consumption of tobacco in 2024 alone. To understand scale, the foregone \$7.2 billion is greater than the entire Federal spend on Policing and law enforcement, and Border Protection in 2024-25, the primary expenditure category for enforcement against illicit tobacco, as well as being approximately equivalent to a loss of \$493 per taxpayer in 2024.

Fig. 12. Illicit market upper bound of forgone tax revenue, 2024



Source: Oxford Economics

Comparing current outcomes with earlier forecasts over a longer horizon highlights an even more significant loss of expected revenue. The gap between what the Commonwealth was expecting to collect in tobacco excise back in 2018-19 and what it is forecasting to receive by 2028-29 is now \$67 billion³⁷. To help stem the forecast rapid deterioration of federal excise revenues and stabilise tax receipts, measures must be taken to shift consumption back to legal channels and address the factors that are driving consumers to the illicit market.

Crime, violence, and money laundering

Profits from illicit trade can support organised crime and be channelled through money laundering, further entrenching criminal activity. In addition, the growth of illicit supply can drive a misallocation of production and distribution of resources away from regulated activity and into the shadow economy. Serious and organised crime is pervasive and destructive, costing Australia approximately \$82.3 billion per year³⁸, more than \$30 billion higher than the entire Federal spend on Defence of \$49.3 billion in 2024-25. The impact of organised crime jumped \$13.6 billion in 12 months, primarily fuelled by soaring illicit tobacco sales and increasingly brazen violence linked to turf wars³⁹.

The illicit tobacco market is highly lucrative for serious and organised groups estimated at between \$4.1 billion and \$6.9 billion in 2024-25⁴⁰, often triggering violent crime that endangers the Australian community as these groups vie for market control. Illicit tobacco is often used by organised crime syndicates as a stable revenue base to support broader multi-commodity (drug) operations⁴¹. Similar

³⁷ Wright (2026) *Up in smoke: How one budget burnt a \$115 billion hole in the nation's finances*. Available [here](#)

³⁸ ACIC (2025) *Opening the books: The impact of serious and organised crime on Australia in 2025*. Available [here](#)

³⁹ ABC (2025) *Australia's \$4 billion illicit tobacco trade has become one of the nation's most violent criminal markets*. Available [here](#)

⁴⁰ Illicit Tobacco and E-cigarette Commissioner (2025) *Illicit Tobacco and E-cigarette Commissioner Report 2024-25*. Available [here](#)

⁴¹ Illicit Tobacco and E-cigarette Commissioner (2025) *Illicit Tobacco and E-cigarette Commissioner Report 2024-25*. Available [here](#)

supply chains and evasion techniques used in the illegal drug trade are applied to tobacco, helping to circumvent border controls and smuggle in product without paying required taxes and excise.

The modern serious and organised crime group is sophisticated and transnational. One prolific outlaw motorcycle gang with a strong presence in Australia is heavily involved in illicit tobacco, the illegal drug trade, firearms trafficking, extreme violence, and money laundering. These activities are enabled by a 10-country network connected to Mexican cartels, ethnic criminal groups, street 'feeder' gangs, and outlaw motorcycle gangs with strong access across supply chains and criminal markets. These global networks leverage their decentralised structures and strategic alliances to enhance their reach and resilience, whilst shared resources, expertise and access to illicit markets amplify their capability⁴².

This makes the policing and enforcement of the providers of illicit tobacco substantially more difficult, introducing complex geopolitical challenges for Australia. Crime syndicate structures are intentionally amorphous, with key figures residing offshore and coordinating activities remotely⁴³. This makes current enforcement measures such as shop closures and border seizures short-term remedies to a complex international problem that remains highly profit motivated.

Since 2023, aligning with the rapid surge in the illicit market, efforts by organised crime to seize and maintain control of the tobacco and vape market has escalated and resulted in more than 200 fire-bombings, at least 3 homicides (including an innocent civilian) and multiple other non-fatal violent attacks. Coercion and the threat of violence against legitimate retailers by organised crime have led to them stocking illicit products or shutting down out of fear for their lives and livelihoods. Small businesses in close proximity to fire-bombings are also impacted by loss of foot-traffic and revenue alongside driving up other costs such as insurance, repairs, and security⁴⁴.

Growth of unregulated products and increased health risks

Illicit tobacco ignores product standards, warning requirements and allowable product features^{45,46,47}. As recent regulatory settings have strengthened, including the restriction of ingredient additives and further updates to product packaging, the consumption of contraband cigarettes has risen sharply, with the share of non-domestic packs doubling over three years to 25.9% in 2024-25⁴⁸. Although legally manufactured for other markets, these products bypass Australia's regulatory framework and enter the market without meeting domestic packaging and ingredient standards. Counterfeit products

⁴² ACIC (2025) *Opening the books: The impact of serious and organised crime on Australia in 2025*. Available [here](#)

⁴³ ACIC (2025) *Opening the books: The impact of serious and organised crime on Australia in 2025*. Available [here](#)

⁴⁴ ACIC (2025) *Opening the books: The impact of serious and organised crime on Australia in 2025*. Available [here](#)

⁴⁵ Tobacco in Australia (2024) *WHO FCTC in an Australian context: Case study example of Australia's tobacco plain packaging measures*. Available [here](#)

⁴⁶ Department of Health (2015) *Tobacco Plain Packaging Frequently Asked Questions*. Available [here](#)

⁴⁷ Department of Health, Disability and Ageing (2025) *New legislation for tobacco and other products*. Available [here](#)

⁴⁸ WSPM Group (2025) *Empty packs survey Australia Q2 2025*

present an even greater concern, with studies in the UK and North America finding elevated levels of heavy metals, tar and carbon monoxide when compared with legal cigarettes^{49,50,51}.

This is especially true for unbranded loose tobacco ("chop-chop") which made up an estimated 68.5% of total illicit tobacco consumption in 2024⁵². Chop-chop often contains bulking agents such as twigs, raw cotton and grass clippings that contain fungal (mould) spores, leading to adverse responses in the liver, kidneys and skin, and cause illnesses such as chronic bronchitis, asthma and lung diseases. As a result, Australian chop-chop users report significantly worse health outcomes than their legal counterparts across domains such as social functioning, disability, mental health, and bodily pain.

The motivation to smoke chop-chop is strong however, with consumers often reporting misconceptions about the health effects of the product, stating that it is less harmful due to its more 'natural' and 'unadulterated' state, alongside not having been processed in the usual way⁵³. Additionally, chop-chop consumers face legal prices that are up to 9-10x higher than the illicit market, further incentivising consumption. Counterfeit products and chop-chop comprise a majority of the illicit market and evade both product controls and excise taxes, elevating the health risks of smoking beyond their legal counterparts.

Losses for legal retailers

There is a clear strong price and product advantage for illicit tobacco that has driven the shift of consumers from legitimate retail channels to the illicit tobacco market, leading to sharp declines in the revenue of lawful retailers operating within the market. Data from Ritchies IGA shows that tobacco sales revenue has fallen by 54% over the past five financial years, with sales revenue from the first half of 2025-26 projecting that revenue could decline by 79% from 2020-21. Ritchies operates primarily in Victoria, with additional stores in New South Wales and Queensland. All three states experienced substantial revenue declines, ranging from 51% in Victoria to 63% in New South Wales. At the store level, cumulative losses have ranged as high as 92%⁵⁴.

Furthermore, declines in revenue have accelerated in recent years as the illicit market has become further entrenched, and product controls have meant some tobacco products are only available in the illicit market. Both Ritchies and BATA reported a noticeable decline in sales when flavouring and flavoured tobacco products could no longer be sold by legitimate retailers on 1 July 2025.

⁴⁹ Edryd Stephens. W, Calder. A, & Newton. J (2004) *Source and Health Implications of High Toxic Metals Concentrations in Illicit Tobacco Products*. Available [here](#)

⁵⁰ He. Y, von Lampe. K, Wood. L, & Kurti. M (2015) *Investigation of lead and cadmium in counterfeit cigarettes seized in the United States*. Available [here](#)

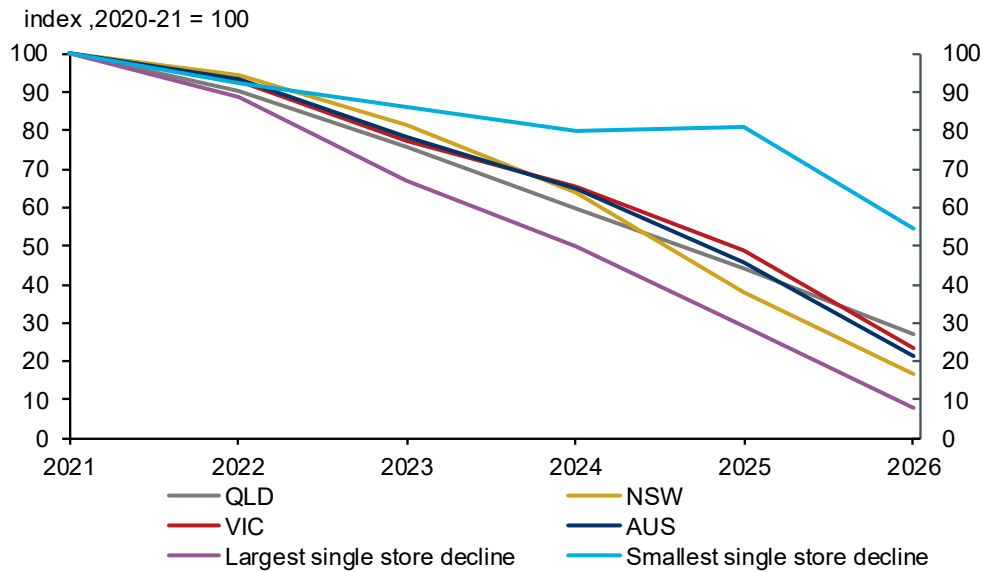
⁵¹ ICC Counterfeit Intelligence Bureau (2025) *Counterfeit cigarettes contain disturbing toxic substances*. Available [here](#)

⁵² FTI Consulting (2025) *Illicit Tobacco in Australia 2024*. Available [here](#)

⁵³ Tobacco in Australia (2023) *Health effects of smoking tobacco in other forms*. Available [here](#)

⁵⁴ A more detailed examination of impacts within states and changes in the volume and value of tobacco sales can be found in the appendix.

Fig. 13. Ritchies IGA tobacco revenue



Source: Ritchies IGA, Oxford Economics

Note: Available sales data for the financial year 2026 has been annualised.

Current policy settings provide too large a price differential for enforcement to be effective against illicit tobacco, especially when the efforts of organised crime are motivated by massive profit margins⁵⁵. This is materially driving down Commonwealth excise revenue and substantially harming lawful retailers who are facing heightened costs, plummeting revenue, and threats of violence. In addition, the subversion of product controls presents a significant health risk for illicit consumers, especially those smoking counterfeit and chop-chop. If Australia wants to remain on track and at the forefront of international tobacco control, amendments to the national tobacco policy framework must be made.

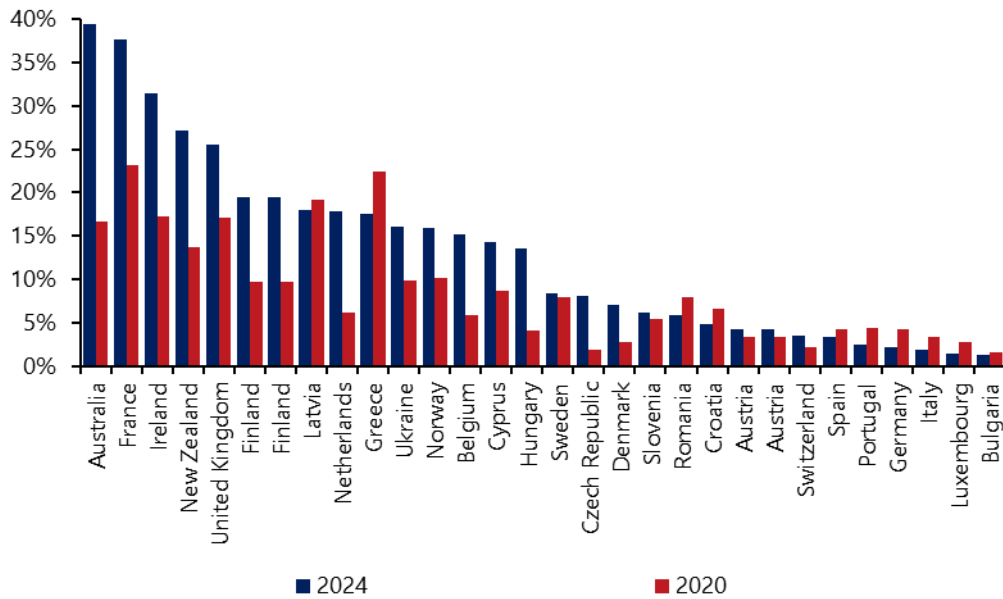
3.4 THE GROWTH OF ILLICIT TOBACCO MARKETS INTERNATIONALLY

Illicit tobacco market share growth is not unique to Australia, with New Zealand and many Western European countries also reporting persistent challenges in suppressing illicit supply and maintaining legal market share, in part because widening price differentials make substitution into illicit products increasingly attractive. As excise has become the dominant component of the legal retail price, the gap between illicit and legal tobacco, where the primary difference is foregone tax, has amplified incentives for consumers to shift away from the regulated market, and this dynamic is evident across multiple jurisdictions, including Australia. Australia already recorded a relatively high illicit share as far back as 2020, at 16.7%, but it has increased rapidly to 39.4% by 2024, a rise of 22.7 percentage points, or around 2.4 times the 2020 level⁵⁶. On current evidence, including early sales signals reported by legitimate manufacturers and retailers, we expect 2025 to show further rapid deterioration in legal sales and a corresponding expansion in illicit penetration.

⁵⁵ Jegasothy (2025) *Is it time to rethink Australia's tobacco tax?* Available [here](#)

⁵⁶ FTI Consulting (2025) *Illicit Tobacco in Australia 2024*. Available [here](#)

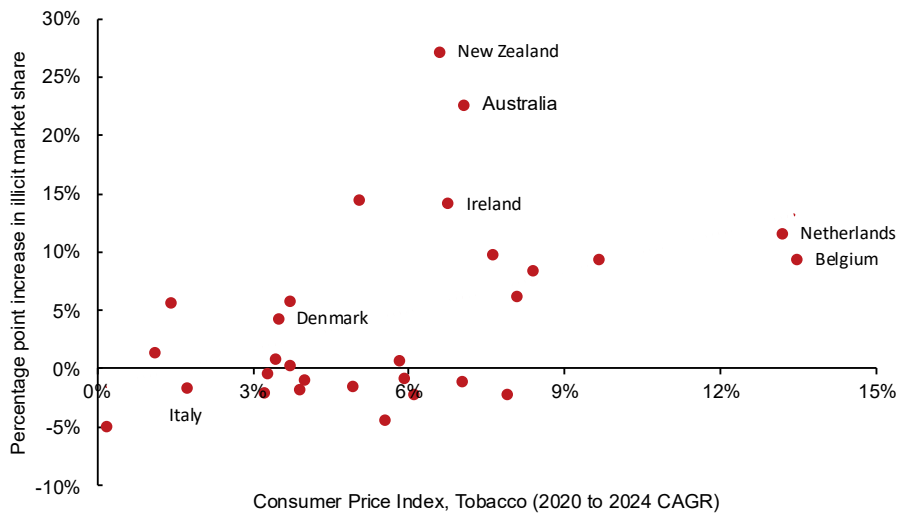
Fig. 14. Illicit market share, 2020 to 2024



Source: FTI Consulting, KPMG, Oxford Economics

An analysis of the rate at which consumer prices for tobacco have increased, and changes in the estimated share of the market supplied illicitly over the past five years, suggests that the rapid increases in tobacco prices have had a spillover effect of stimulating regional illicit markets.

Fig. 15. Change in the illicit market share and annual tobacco CPI, 2020 to 2024⁵⁷



Source: Oxford Economics, Haver Analytics, FTI Consulting, KPMG

⁵⁷ Imperial Tobacco New Zealand and British American Tobacco New Zealand did not commission a report into the illicit tobacco market in 2020 and 2021 due to the pandemic. The change in the illicit market share for New Zealand is from 2019 to 2024.

Fig. 15 presents an analysis of how illicit tobacco markets internationally have grown compared to changes in the legal tobacco price. In general, higher growth in legal tobacco prices is associated with a larger illicit market. Belgium and the Netherlands have experienced the fastest increases in tobacco CPI over the past five years, with prices climbing at 13.5% and 13.2% p.a., respectively. In response, both countries have seen substantial rises in their illicit market shares, with Belgium's increasing by around 9 percentage points and the Netherlands' by 12 percentage points⁵⁸.

In response to these price increases between 2020 and 2024, the share of tobacco consumed by the Dutch population that came from abroad rose from 30% to 60%, with the share jumping 22 percentage points from 2023 to 2024 alone⁵⁹. Both illicit purchases and cross-border shopping drive purchases of tobacco from abroad in the Netherlands. Germany, Luxembourg, Spain and Poland are identified as major inflow countries, which can be easily accessed due to freedom of movement within the Schengen area.

Substitution toward the illicit market appears to be more pronounced in countries where consumers have limited access to cheaper legal tobacco from neighbouring jurisdictions. This explains an 'island effect' that has caused more rapid growth in relatively isolated countries, such as Australia, New Zealand, and Ireland, despite slower price increases compared to Belgium and the Netherlands.

In these settings, the absence of a legal alternative can intensify the shift toward illicit products as domestic prices rise. Ireland illustrates this dynamic within Europe. It is outside the Schengen area and shares a land border only with the United Kingdom, where cigarettes are among the least affordable in Europe. Over the past five years, tobacco prices have risen at 6.7% p.a., and the illicit market share has increased by around 14 percentage points. Australia and New Zealand show similar patterns. Both have limited opportunities for cross-border substitution of legal tobacco, which may be contributing to the growth of their illicit markets. With no accessible legal alternative to offset domestic price increases, consumers may be more likely to seek illicit sources as prices continue to rise.

⁵⁸ KPMG (2025) *Illicit cigarette consumption in Europe*. Available [here](#)

⁵⁹ National Institute for Public Health and the Environment (2025) *Behavioural effects of the 2024 tobacco excise duty increase. Intended versus actual behavioural change*. Available [here](#)

4. THE IMPACT OF ENFORCEMENT ON ILLICIT MARKETS

Key findings

(1) Responsibility for enforcing illicit tobacco laws is shared across levels of government. The Commonwealth oversees border enforcement and product regulation, while state and territory governments are responsible for licensing and enforcing retail tobacco sales within their jurisdictions.

(2) Container inspections conducted through Container Examination Facilities have fallen to around one-third of their levels a decade ago, despite a significant increase in import volumes. This decline appears to coincide with the lowering of inspection targets in 2009–10 and their subsequent removal from departmental reporting after 2016–17. Current inspection levels are insufficient to materially disrupt illicit tobacco supply at the border.

(3) State and territory responses have varied; however, the east coast states and South Australia have strengthened licensing regimes, increased penalties, and expanded enforcement powers, including the ability to temporarily close shops found to be selling illicit tobacco, with a new offence introduced for landlords in New South Wales and Queensland who knowingly allow the illicit tobacco trade to take place on their premises.

(4) Legislative reform and its effective implementation can have immediate and tangible impacts in diverting consumers back to legitimate retailers, however these effects are likely to be short-term and temporary. For example, a large, reputable retailer with stores across Australia reported that after NSW, South Australia, and Queensland closed stores selling illicit tobacco in late 2025, there was an average increase of 47% in tobacco sales.

Effective enforcement is critical to ensuring that tobacco taxation achieves its intended public health and revenue objectives. While indexation of Australia's tobacco excise has historically been effective in reducing smoking prevalence through price-based incentives, the proliferation of the illicit tobacco market is undermining this framework. Where enforcement responses are insufficient, substitution toward illicit products weakens both public health outcomes and the integrity of the tax base.

Responsibility for enforcing illicit tobacco laws is shared across levels of government. The Commonwealth is responsible for border enforcement, large-scale domestic cultivation and manufacturing, and oversight of tobacco-related product regulation, while state and territory governments are responsible for licensing and enforcing retail tobacco sales within their jurisdictions⁶⁰.

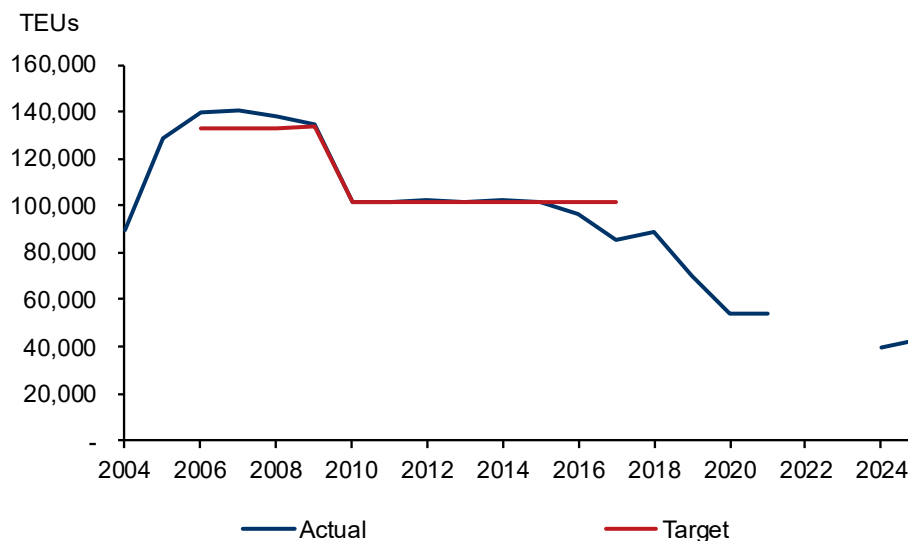
⁶⁰ Australian Government (2021) *Australian Government response to the Parliamentary Joint Committee on Law Enforcement Report: Inquiry into Illicit Tobacco*. Available [here](#)

4.1 THE FEDERAL GOVERNMENT RESPONSE TO THE RISE IN ILLICIT TOBACCO

The scale of potential profit in the illicit tobacco trade means that criminal networks require very few successful importations for their operations to remain viable, with estimates suggesting that as few as one in every 16 to 30 illicit shipments needs to evade border detection to offset losses from all others^{61,62}. This profit dynamic, characterised by high returns from occasional successes combined with comparatively low penalties, increases the commercial attractiveness of illicit tobacco trafficking.

At the federal level, Australia has periodically reviewed its enforcement response to illicit tobacco, sometimes as part of broader shadow economy strategies and at other times with a specific focus on illicit tobacco. While additional Commonwealth funding has been allocated over the past decade, this coincided with a marked decline in container inspection activity, even as investment has increased in other enforcement areas.

Fig. 16. Sea cargo containers inspected



Source: Oxford Economics, Department of Home Affairs

*Sea cargo containers inspected in TEUs were not provided in the 2021-22 and 2022-23 Department of Home Affairs Annual Reports.

Australia significantly expanded container inspections at major ports in the early 2000s through the *Protecting Our Borders* and *Tough on Drugs* initiatives⁶³. The establishment of Container Examination Facilities increased inspections from around 11,000 containers per year to more than 100,000 by 2004–05, equivalent to around 7% of incoming containers. A formal inspection target of 133,000 twenty-foot equivalent units (TEUs)⁶⁴ was set and later revised downward to 101,500 in 2009–10 as

⁶¹ Australian Criminal Intelligence Commission (2022) *Illicit tobacco*. Available [here](#)

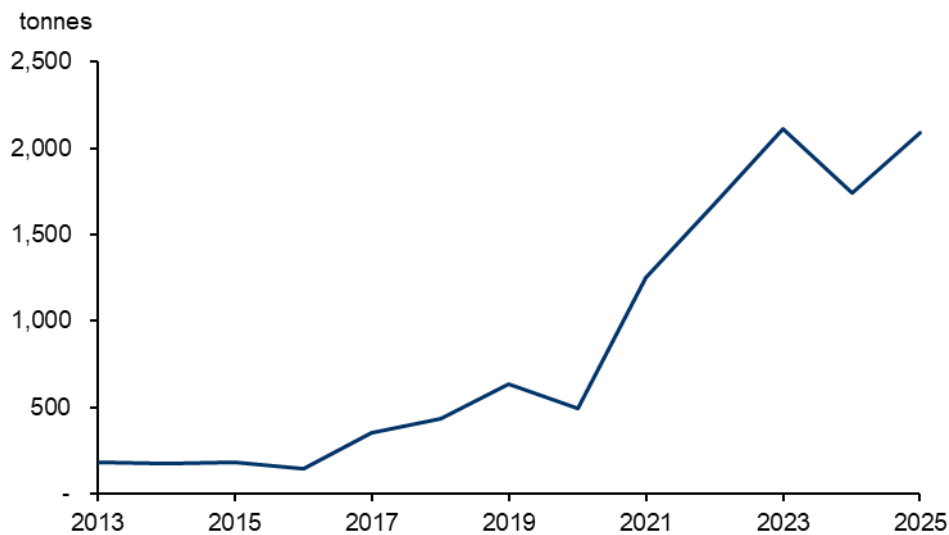
⁶² Preece, R. (2024) *Just How Profitable is Illicit Tobacco in Australia*

⁶³ Australian Customs Service (2004) *Australian Custom Notice No. 2004/33*. Available [here](#)

⁶⁴ TEUs is a unit of measurement to convert containers into a standard metric. For example, a 40-foot container is equivalent to 2 TEUs.

part of a shift toward an “intelligence-led, risk-based approach”⁶⁵. Beyond 2016–17, inspection targets were not presented next to departmental reporting on actual inspection volumes, which subsequently declined, reaching approximately 40,000 TEUs in 2024–25, less than one-third of early target levels. The scale of this decline suggests that there may be additional inspection capacity that could be reactivated to expand container screening, particularly given the existing CEF infrastructure.

Fig. 17. Tobacco seizures, Department of Home Affairs



Source: Department of Home Affairs, Oxford Economics

At the same time that inspections have been declining, aggregate sea freight volumes have increased by around 75%, meaning reduced inspection activity has occurred alongside a substantial growth in containerised imports. Oxford Economics’ estimates of 2024 container imports suggest that the effective screening rate has fallen to around 2% of total TEUs, down from approximately 7% in 2004–05⁶⁶. Despite falling inspections, the volume of illicit tobacco seized has grown substantially since 2019–20, with seizure success peaking in 2022–23 at approximately 45%⁶⁷. However, the continued growth of the illicit market indicates that a significant quantity of illicit tobacco is still entering the country, suggesting that current inspection levels and seizures are insufficient to materially disrupt supply⁶⁸. This is backed up by estimates of success rates organised criminals need for importing illicit tobacco to be financially viable, between one in every 16 to 30 containers^{69,70}.

⁶⁵ Department of Home Affairs (2010) *Department of Home Affairs Annual Report 2009–10*. Available [here](#)

⁶⁶ Oxford Economics estimates of TEU imports are based on Oxford Economics’ proprietary [TradePrism model](#).

⁶⁷ Seizure success was estimated as the weight of seizures over the summed weight of seizures and FTI’s estimate of illicit market consumption.

⁶⁸ Tobacco seizure volumes are based on Department of Home Affairs Annual Reports from 2011–12 to 2023–24. Available [here](#)

⁶⁹

Australian Criminal Intelligence Commission (2022) *Illicit tobacco*. Available [here](#)

⁷⁰ Preece, R. (2024) *Just How Profitable is Illicit Tobacco in Australia*

Despite a sustained decline in sea cargo inspections over the past decade, successive governments have introduced a range of policy initiatives aimed at combating illicit tobacco and the broader shadow economy. In 2016, Treasury established the Black Economy Taskforce to develop a whole-of-government response, followed by the allocation of \$153 million in the 2018–19 Budget to establish the Illicit Tobacco Taskforce within the Department of Home Affairs and a further \$313.2 million to the ATO to address the shadow economy more broadly⁷¹.

More recently, the Albanese Government has announced two additional funding packages in response to the growing presence of illicit tobacco. In 2024, \$188.5 million was allocated to the Australian Border Force over four years to support a new compliance model focused on upstream disruption, intelligence-led targeting of criminal syndicates, and improved coordination with states and territories⁷². This was followed in 2025 by a further \$156.7 million over two years, including funding for the Australian Federal Police, state and territory enforcement, and strengthened compliance with the *Public Health (Tobacco and Other Products) Act 2023*⁷³.

While these measures reflect an increased emphasis on intelligence, coordination and upstream disruption, a notable countervailing trend has been the continued decline in physical border inspections. Container inspections conducted through Container Examination Facilities have fallen to around one-third of their levels a decade ago, despite a significant increase in import volumes. This decline appears to coincide with the lowering of inspection targets in 2009–10 when inspection policy moved towards a more “intelligence-led, risk-based approach”⁷⁴, however, from 2016–17, inspection targets no longer appear in departmental annual reports. The removal of a numeric target from the annual report appears to coincide with a steady decline in inspections, potentially reducing the capacity to detect illicit tobacco at the border, even as enforcement investment has increased elsewhere.

4.2 PENALTIES FOR THE IMPORTATION AND SALE OF ILLICIT PRODUCTS

Effective enforcement of penalties for the importation, manufacture and sale of illicit tobacco is critical to achieving the public health objectives set out in Australia's National Tobacco Strategy. Where consumers have access to illicit products, core tobacco control measures such as excise increases, plain packaging and health warnings are undermined^{75,76}. The Australian Border Force has similarly acknowledged that combating illicit tobacco importation is necessary to preserve public health outcomes⁷⁷.

⁷¹ Australian National Audit Office (2023) *Implementation of the Government Response to the Black Economy Taskforce Report*. Available [here](#)

⁷² Australian Government (2024) *Albanese Government cracks down on illegal tobacco imports*. Available [here](#)

⁷³ Australian Government, Department of Health, Disability and Ageing (2025) *Action to combat the trade of illicit tobacco*. Available [here](#)

⁷⁴ Department of Home Affairs (2010) *Department of Home Affairs Annual Report 2009-10*. Available [here](#)

⁷⁵ Commonwealth of Australia (2020) *Parliamentary Joint Committee on Law Enforcement*. Available [here](#)

⁷⁶ Illicit Tobacco and E-cigarette Commissioner (2025) *Illicit Tobacco and E-cigarette Commissioner Report*. Available [here](#)

⁷⁷ Commonwealth of Australia (2020) *Parliamentary Joint Committee on Law Enforcement*. Available [here](#)

Among comparable high-income, high-tobacco-taxing countries, Australia's legislative framework for wholesale illicit tobacco offences is relatively robust, particularly in relation to custodial penalties. The Australian Government sets penalties in relation to the importation, possession and sale of illicit tobacco under the *Treasury Laws Amendment (Illicit Tobacco Offences) Bill*⁷⁸ and the *Customs Act 1901*⁷⁹, applying a combination of imprisonment and fines to deter illicit activity. Maximum imprisonment terms of five to ten years align with peer jurisdictions such as Ireland, Finland, Canada, Italy, and the Netherlands. Financial penalties are also designed to scale with the level of excise evaded, consistent with approaches used in Denmark and Ireland⁸⁰.

However, recent enforcement outcomes suggest the application of these penalties may be limiting their deterrent effect. The *Illicit Tobacco and E-cigarette Commissioner's Report* estimates that in 2024–25, authorities seized 2.66 billion cigarettes and 509 tonnes of loose tobacco, representing approximately \$4.6 billion in excise attempted to be evaded. Despite this, total infringement, civil and criminal fines imposed across all enforcement agencies amounted to \$27.6 million, of which only around \$600,000 was imposed through civil and criminal penalties, with the remainder issued via infringement notices⁸¹.

Responsibility for enforcing retail-level illicit tobacco offences rests largely with the states, although the *Treasury Laws Amendment (Illicit Tobacco Offences) Bill* also applies to the sale and possession of illicit tobacco. In recent years, Victoria, New South Wales, Queensland and South Australia have amended their legislation to significantly increase imprisonment terms or financial penalties for selling illicit tobacco^{82,83,84,85}. As a result, retail-level sanctions in several jurisdictions are comparatively strong by international standards.

⁷⁸ Parliament of Australia (2018) *Treasury Laws Amendment (Illicit Tobacco Offences) Bill 2018*. Available [here](#)

⁷⁹ Australasian Legal Information Institute (2025) *Customs Act 1901 - Sect 233BABAD*. Available [here](#)

⁸⁰ International examples of penalties for importing and retailing of illicit tobacco products can be found in the appendix.

⁸¹ Illicit Tobacco and E-cigarette Commissioner (2025) *Illicit Tobacco and E-cigarette Commissioner Report*. Available [here](#)

⁸² Victorian Government (2025) *Tobacco licensing compliance and enforcement*. Available [here](#)

⁸³ New South Wales Health (2025) *Penalties and enforcement*. Available [here](#)

⁸⁴ Queensland Government (2025) *Tough new fines to extinguish illegal tobacco and vapes*. Available [here](#)

⁸⁵ Government of South Australia (2024) *SA's new penalties tackling illicit tobacco and vapes set to take effect*. Available [here](#)

4.3 STATE/TERRITORY GOVERNMENT RESPONSES TO THE RISE IN ILLICIT TOBACCO

State governments are primarily responsible once illicit tobacco has moved beyond the border and entered their jurisdiction. The response by states and territories on the issue of illicit tobacco has varied; however, four of the six state governments enacted reforms in the past two years in response to the increase in illicit tobacco in their states. The reforms have focused on three elements:

Licensing

All states and territories now require a retailer to have a tobacco license, with the introduction of these licensing schemes in Victoria and New South Wales from 1 July 2025^{86,87,88}. On the wholesale side, all states now likewise have a licensing scheme, bar the Northern Territory, which has not recently reformed its tobacco legislation.

Increasing penalties

States that have reformed their tobacco laws have substantially increased penalties for possessing and selling illicit tobacco, and in three of the four jurisdictions, authorities can temporarily close stores found to be selling these products, with a new offence introduced for landlords in New South Wales and Queensland who knowingly allow the illicit tobacco trade to take place on their premises. This has created a two-tiered domestic penalty regime, with the East Coast and South Australia adopting markedly stronger settings in response to the growth of the illicit market. As a result, individuals engaging in similar conduct face significantly different penalties depending on the jurisdiction.

The contrast between New South Wales and Western Australia illustrates the scale of this divergence. In New South Wales, selling or possessing illicit tobacco can attract imprisonment of up to seven years, fines of up to \$1.54 million, and the potential closure of a store for up to 12 months⁸⁹. By comparison, Western Australia's *Tobacco Products Control Act 2006* imposes maximum fines of only \$40,000 for a first offence and \$80,000 for subsequent offences, with no provisions for store closure⁹⁰. While Western Australia can suspend or revoke tobacco licences, this may provide a weaker deterrent for individuals or businesses engaged in illicit tobacco sales.

⁸⁶ Tobacco in Australia (2025) *Measures to further strengthen the current regulatory settings to address illicit tobacco trade in Australia*. Available [here](#)

⁸⁷ Victorian Department of Health (2025) *Tobacco retailers*. Available [here](#)

⁸⁸ NSW Health (2025) *NSW tobacco licensing scheme*. Available [here](#)

⁸⁹ NSW Health (2025) *Penalties and enforcement*. Available [here](#)

⁹⁰ Western Australian Government (2025) *Tobacco Products Control Act 2006*. Available [here](#)

Fig. 18. Penalty types, by state and territory

	NSW	VIC	QLD	SA	WA	TAS	ACT	NT
High penalties for commercial supply of ‘illicit tobacco’	✓	✓	✓	✓	X	X	X	X
High penalties for commercial possession of ‘illicit tobacco’	✓	✓	✓	✓	X	X	X	X
Power to close premises	✓	X	✓	✓	X	X	X	X

Source: Tobacco In Australia

Enforcing regulations

Legislative reform and its effective implementation can have immediate and tangible impacts in diverting consumers back to legitimate retailers. Without addressing structural problems causing the substitution to the illicit market however, effects from increased enforcement are likely to wear off over time⁹¹. Recent efforts by Queensland, South Australian, and NSW governments that resulted in large seizures and shop closures indicate market scale, as opposed to effective suppression of illicit tobacco.

Queensland public health officers, supported by the police, targeted retailers selling illegal tobacco and non-compliant vaping products. Over 10 days in November 2025, Operation Major saw authorities issue three-month closure orders to 148 stores and seize more than 11.8 million cigarettes, 1.7 tonnes of loose tobacco, 87,000 vapes, 4.2 litres of vaping liquid and 270,000 nicotine pouches. In November 2025 NSW Health ordered the shutdown of 50+ retailers selling illegal tobacco, vapes and nicotine products. During the raids, health inspectors supported by NSW Police seized more than 1.6 million cigarettes, 173kg of loose tobacco, about 10,000 vapes and 1,200 nicotine pouches⁹². Since 5 June 2025, the South Australian government issued 100 28-day closure orders to stores caught selling illicit tobacco and vapes, with a surge in closure orders in November 2025. Product valued at approximately \$50 million have been seized including more than 41 million cigarettes, 140,000 vapes, and 13.5 tonnes of loose tobacco.⁹³

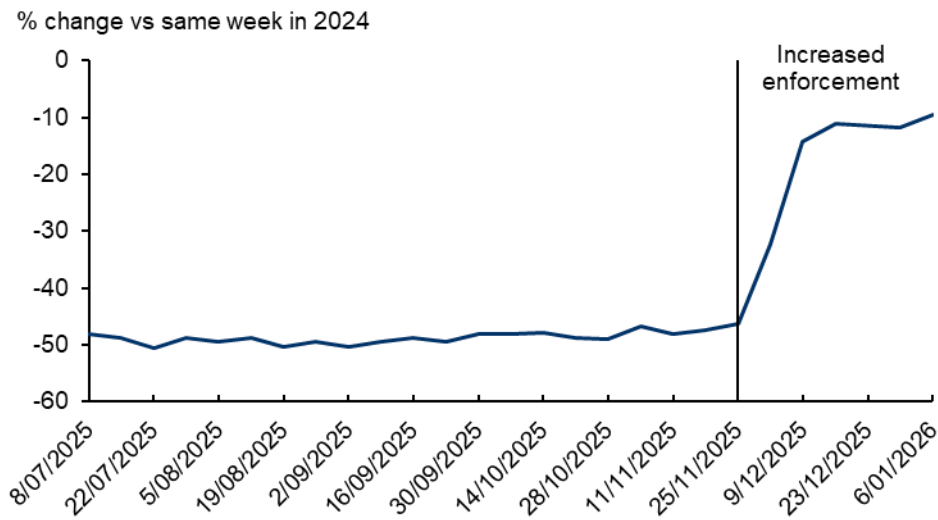
Data provided by a large chain retailer with stores across Australia reported that after these operations, there was a sharp increase in legitimate tobacco sales across all three states. Individual stores in postcodes with tobacco store closures had their sales compared pre and post closure orders. The change in legal sales were weighted by store volume to arrive at an overall increase in legal sales as a result enforcement.

⁹¹ The Edge Malaysia (2022) *Illicit tobacco trade seen rising again in 1H22 after falling in 2021*. Available [here](#)

⁹² Daily Telegraph (2025) *\$2m in illicit tobacco and vapes seized as more than 50 stores shutdown*. Available [here](#)

⁹³ Government of South Australia (2025) *100 stores hit with tobacco closure orders*. Available [here](#)

Fig. 19. Change in legal tobacco sales for a reputable large national retailer



Source: Oxford Economics, Reputable Retailer data

This signals a strong response to heightened enforcement for legal retailers located near mass shop closures. By removing immediate access to illicit tobacco, illicit consumers face higher search costs, travel costs, and temporarily supplement their previous levels of illicit consumption through legal channels. As illicit consumers and sellers adapt however, these effects are expected to moderate as consumers find alternate illicit sales channels and sellers offer products in different environments.

This includes illicit retailers standing outside recently closed stores in Queensland either exchanging cash or redirecting consumers to other stores where packets of cigarettes were available for \$10⁹⁴. Shuttered retailers in Queensland and NSW have also rebranded as candle shops, confectionery shops, Indian grocers, and convenience stores to continue trading under a new identity until they are caught again⁹⁵. In NSW this is partially due to a planning loophole that allows tobacco businesses to operate via a simple change-of-use application under broad categories such as “retail premises” or “shop”⁹⁶.

This is because the structural driver behind substitution to the illicit market still remains. Price-sensitive tobacco consumers will still enjoy a large price differential between legal and illicit consumers even in the face of sudden and strong enforcement. Sellers are also highly motivated, with billions of dollars of profit available in a comparatively weak prosecutorial environment. Enforcement of illicit channels will always lag marketplace adaptation as supply will always find a way to enter the market if the demand exists⁹⁷. An effective response requires both adjustments to the supply-side through continued shop closures, product seizures, and stricter regulation alongside demand-side reforms that reduce the price gap as a primary motivating factor.

⁹⁴ ABC (2025) *Queensland Health imposes three month closures on illegal tobacco stores after statewide raids*. Available [here](#)

⁹⁵ Courier Mail (2025) *Shut down Queensland tobacconists rebranding as candy stores to stay open*. Available [here](#)

⁹⁶ Sydney Morning Herald (2026) *Mapped: The 52 suburban tobacco shops shut down in NSW retail raids*. Available [here](#)

⁹⁷ HM Revenue & Customs (2024) *Stubbing out the problem: A new strategy to tackle illicit tobacco*. Available [here](#)

Tobacco enforcement costs do not need to be prohibitive and, when paired with a complementary excise reduction, can be modest relative to the excise and GST revenue shortfalls that have emerged against Treasury expectations in recent years. For example, Queensland has committed \$12.7 million over two years to hire 43 additional public health officers to combat illicit tobacco, claiming this will lift enforcement capacity by 25% and implying a total workforce of around 200 officers⁹⁸, broadly consistent with a 2023 information request that reported 138 officers⁹⁹. This funding equates to roughly \$150,000 per new role, and scaling to an estimated 200-officer workforce implies annual resourcing of about \$30 million for Queensland. If a similar model could be implemented across all states and territories, on a population-weighted basis, the implied funding envelope would be roughly \$150 million per annum.

So far across states, New South Wales has doubled the number of authorised retail inspectors from 14 to 28¹⁰⁰. Victoria has established a dedicated tobacco regulator with powers to search premises, suspend licences, seize illicit nicotine products and share intelligence with Victoria Police¹⁰¹. South Australia has transferred enforcement responsibility from SA Health to Consumer and Business Services, due to the agency's existing compliance and investigative functions making it better suited to prosecuting offenders¹⁰².

Beyond the states, the Commonwealth has committed \$188.5 million over four years (from 2024) for border force activity and a further \$156.7 million over two years for onshore enforcement, against a 2025–26 projected policing and law enforcement budget of \$5.1 billion and border protection of \$2.0 billion^{103,104}. These enforcement allocations are small relative to the deterioration in tobacco excise forecasts, with the 2023–24 Budget projecting \$14.2 billion in excise revenue for 2025–26 compared with \$5.5 billion in the most recent MYEFO, a \$8.7 billion reduction over two years. The scale of these revenue losses, and international experience such as Quebec, suggests that a sufficiently effective enforcement strategy has the potential to more than offset its fiscal cost.

⁹⁸ Queensland Government (2025) *Big Budget boost for illicit tobacco and vape enforcement*. Available [here](#)

⁹⁹ Health and Environment Committee (2023) *Information on Queensland Health authorised officers*. Available [here](#)

¹⁰⁰ NSW Health (2025) *New tobacco licensing scheme comes into force across NSW*. Available [here](#)

¹⁰¹ Premier of Victoria (2024) *Tough New Laws to Smoke Out Tobacco Crime Lords*. Available [here](#)

¹⁰² Hansard (2025) *Illegal Tobacco Sales*. Available [here](#)

¹⁰³ Australian Government (2024) *Albanese Government cracks down on illegal tobacco imports*. Available [here](#)

¹⁰⁴ Australian Government, Department of Health, Disability and Ageing (2025) *Action to combat the trade of illicit tobacco*. Available [here](#)

5. THE IMPACT OF EXCISE REFORM SCENARIOS ON ILLICIT MARKETS

Key findings

- (1) Based on the results of a consumer survey, as of December 2025 approximately 71% of consumers buy illicit tobacco on at least a 'rare' occasion. About one third of current illicit consumers first started buying illicit tobacco in the last 3 years.
- (2) Reductions in the excise rate combined with enforcement are expected to materially improve both the legal share of the market and stabilise excise revenue in the medium-term compared to the current policy trajectory.
- (3) Under an excise rate reduction scenario, total and illicit tobacco consumption is expected to fall as consumers pay more on average for legal tobacco and the price advantage of illicit tobacco narrows.
- (4) The Canadian province of Quebec provides a useful case study in reducing illicit tobacco consumption. In response to a severe illicit market, the province halved the retail price of cigarettes and implemented a well-funded enforcement regime that generated revenue well in excess of its cost. At its peak, the illicit market accounted for more than 60% of total tobacco consumption; recent estimates place it below 15%.

A large and widening price gap between legal and illicit tobacco continues to strengthen incentives for illegal supply and consumer switching, which can blunt the long-run impact of enforcement on its own. While crackdowns and store closures may temporarily disrupt access and lift the "effective price" or availability of illicit products, the underlying profitability and consumer demand remain if the legal-illicit price differential stays substantial. A more durable approach therefore needs to combine supply-side enforcement that raises the costs and risks of illicit trade with excise settings that narrow the price gap, reducing the likelihood that consumers return to illicit products once disrupted sales channels re-emerge.

Estimating how changes to tobacco excise will affect government revenue is increasingly difficult because the market has shifted. Higher excise is now interacting with a large, entrenched illicit sector that provides consumers with a readily available lower-priced alternative. As illicit supply networks mature and consumers become more accustomed to purchasing illegal products, behaviour observed when illicit trade was smaller (including pre-COVID periods) is less informative for predicting today's responses¹⁰⁵. For that reason, relying on historical excise rates to infer the revenue effects of further tax changes is challenging. To address this, we have undertaken a national conjoint survey to directly quantify how consumers would adjust their purchasing, between legal and illicit channels, in response to different excise and price settings.

¹⁰⁵ e61 Institute (2025) *Chop, chop: Time to cut tobacco excise rates?* Available [here](#)

5.1 MEASURING THE IMPACT OF A REDUCTION IN EXCISE

To quantify behavioural responses of illicit consumers to alternative excise settings, Oxford Economics commissioned a volumetric choice-based conjoint analysis of tobacco consumers. The survey presented respondents with legal and illicit purchasing options and asked them to allocate weekly quantities under different legal price points whilst holding the illicit price broadly consistent. Under this setting, the survey could simulate how consumers would respond if the price of legal cigarettes were cut under a range of prices from small price increases through to significant reductions in the price of legal cigarettes¹⁰⁶. The survey also included demographic and behavioural questions to better understand illicit consumer attitudes and behaviour. A range of excise reduction scenarios were assessed in terms of their impact on consumption and excise revenues based on a volumetric choice-based conjoint survey approach. The excise scenarios assessed include:

- **Existing policy settings:** Oxford Economics' forecast of 2025-26 tobacco consumption and excise revenue. This assumes the current pace of excise increases continues and does not factor in discretionary increases which have occurred several times over the last decade.
- **A cut in excise to 2019 levels:** A reversion to the effective excise rate prevailing in the pre-COVID period, when excise revenue was close to its peak. This is approximate to a 30% reduction in the cheapest available legal retail price of tobacco and is equivalent to a return to 2019 settings (around a 42% reduction in the excise rate). The 30% cut was selected because 2019 represents a period in which the illicit market share was relatively stable and broadly aligned with its long-run average, while excise revenues were near their peak, providing a robust and neutral baseline for assessing how narrowing the legal-illicit price gap may affect consumption, revenue, and market structure.

The following modelling results combine both the modelled demand-side effect of a reduction in the excise rate and the subsequent effect on illicit consumption alongside the simulated effect of widespread enforcement at the scale undertaken recently in NSW, South Australia, and Queensland where ~300 illicit stores were temporarily closed by state governments over 2025. This helps to capture other non-price factors such as a wider unregulated product range, and convenience, identified as motivators for illicit consumption in the consumer survey. A highly conservative estimate compared to the observed empirical effect was applied as the effects from sudden enforcement are expected to moderate, as outlined in Chapter 4.

Context from illicit consumers

The survey achieved 1,505 completes from regular, Australian tobacco consumers with results weighted to be representative of age, gender, and state. The overwhelming majority of consumers indicated they are price sensitive, with 76.9% noting cigarette prices influence how much they spend on tobacco. Additionally, 65.0% noted they would consider illicit tobacco because of price and 52.2% actively manage their spend by buying illicit tobacco. This trend was confirmed by additional survey questions, with 71.1% of respondents noting they have previously purchased tobacco outside of

¹⁰⁶ See Appendix 2 for a detailed explanation of the survey methodology and sample questionnaire.

regular licensed stores (e.g., illicit, markets, friends, online), with 56.9% purchasing 'Frequently' or 'Occasionally'.

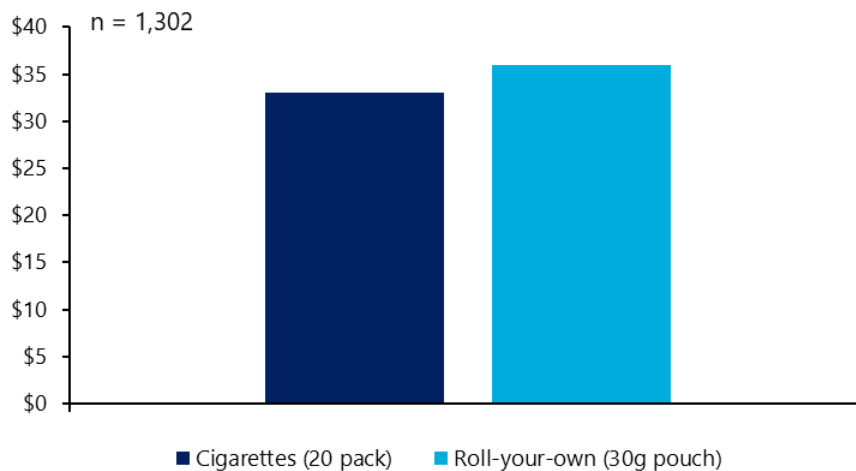
Fig. 20. How much do you agree with the following statements? (Slightly agree and above)



Source: Oxford Economics

Analysis of consumers' willingness to pay highlights the extent to which price expectations have diverged from current legal market prices, particularly for roll-your-own (RYO) tobacco. Survey respondents report an average maximum willingness to pay of around \$33 for a pack of 20 cigarettes and around \$36 for a 30-gram pouch of RYO, well below prevailing legal prices. For RYO in particular, this gap is stark: cheapest available legal prices are close to \$90 per pouch, while illicit RYO products are widely available in the \$10–\$20 range. This suggests that many consumers have become anchored to illicit price points, and that even large excise reductions would be insufficient on their own to bring legal RYO prices within consumers' acceptable range.

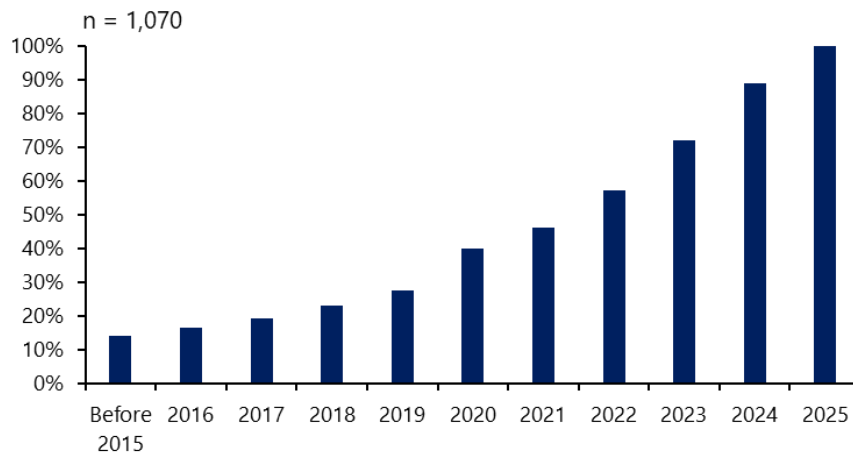
Fig. 21. Maximum willingness to pay for legal tobacco



Source: Oxford Economics

Additionally, the rate of substitution into the illicit market has accelerated over the last few years, with more than half (53.8%) of illicit consumers starting to buy illicit tobacco in 2022. The highest growth occurred in 2023 and 2024, where the percentage of respondents who first bought illicit tobacco grew by 15.2 and 16.6 percentage points respectively. This coincides with discretionary increases on-top of the already planned regular excise increases as well as stronger cost-of-living pressures.

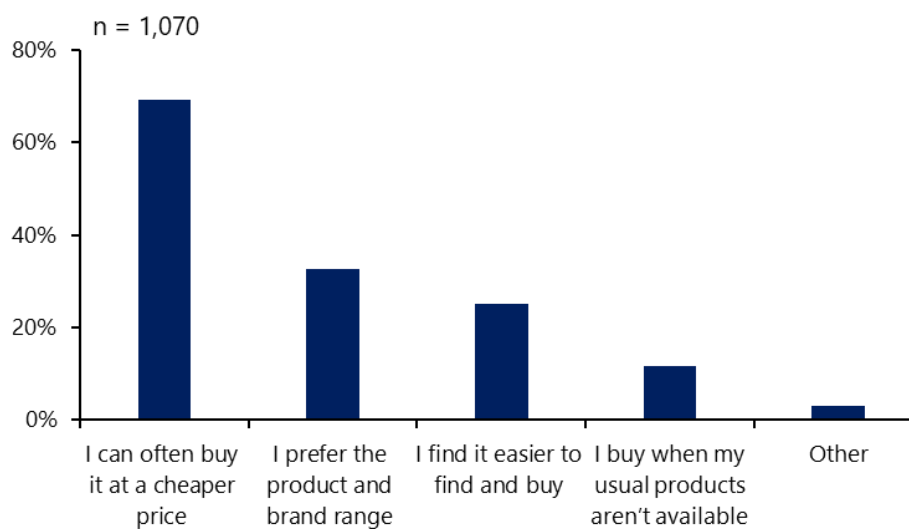
Fig. 22. When did you first purchase illicit tobacco? (Cumulative %)



Source: Oxford Economics

Out of consumers who already buy illicit tobacco, they note there are factors additional to price that influence their decision to shop. Price does dominate as the primary reason, with 69.4% of consumers listing it as a factor. A wider product and brand range was selected by 32.7% of respondents, which suggests there is a strong motivator to buy products impacted by non-price controls, such as the banning of flavouring agents like menthol or capsule filtered cigarettes.

Fig. 23. What are some factors that make you more likely to buy illicit tobacco?



Source: Oxford Economics

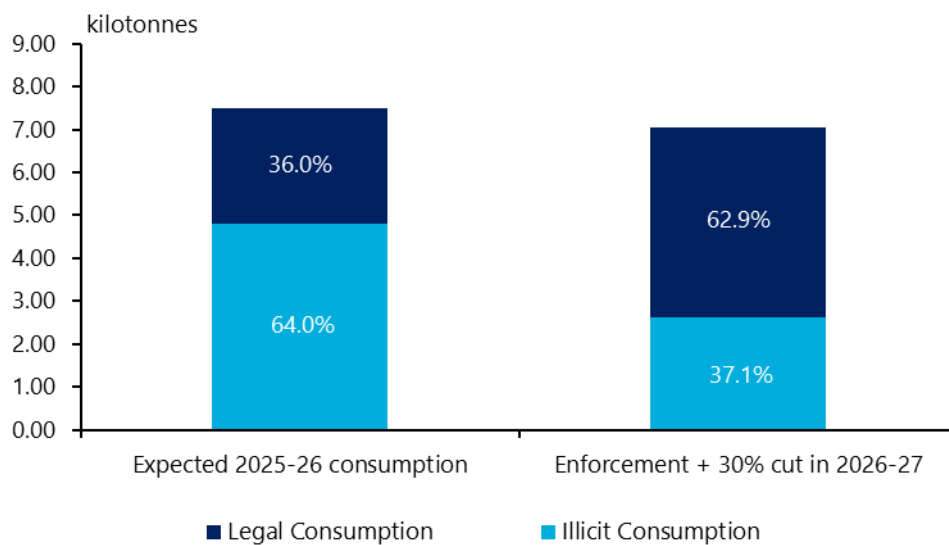
Modelled impact on consumption

The analysis demonstrates a material shift from illicit to legal consumption when an excise cut is introduced alongside enforcement. Key impacts include:

- The illicit market share drops from 64% to 37.1%
- Legal consumption increases from 2.70kt to 4.43kt in 2026-27
- Total consumption is expected to decrease from 7.51kt to 7.05kt in 2026-27

Total consumption declines modestly due to higher average prices paid by former illicit consumers and enforcement effects, despite the increase in legal volumes.

Fig. 24. Simulated effect on tobacco consumption under the 2019 excise rate

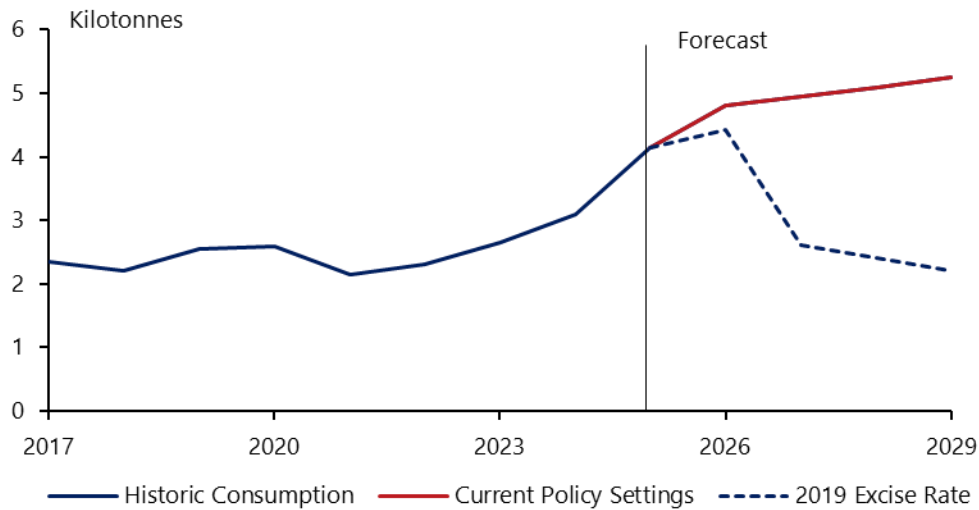


Note: 2025-26 assumes no excise change, only a legal uplift from enforcement. The 2019 excise rate is factored in from 2026-27 onwards

Source: Oxford Economics

The reduction in the excise rate is expected to decrease illicit consumption out to 2028-29 as shown by the figure below. Illicit market consumption is -46.8% lower by 2029 under a retail price cut of 30%. The policy's effectiveness depends on maintaining a narrower price gap between legal and illicit tobacco products. Reinstating excise increases after an initial reduction could potentially reverse the shift back to the legal market, as the price differential between legal and illicit tobacco would widen again, re-establishing the incentive for consumers to substitute toward illicit supply.

Fig. 25. Simulated forecast effect on illicit consumption under the 2019 excise rate



Note: 2025-26 assumes no excise change, only a legal uplift from enforcement. The 2019 excise rate is factored in from 2026-27 onwards

Source: Oxford Economics

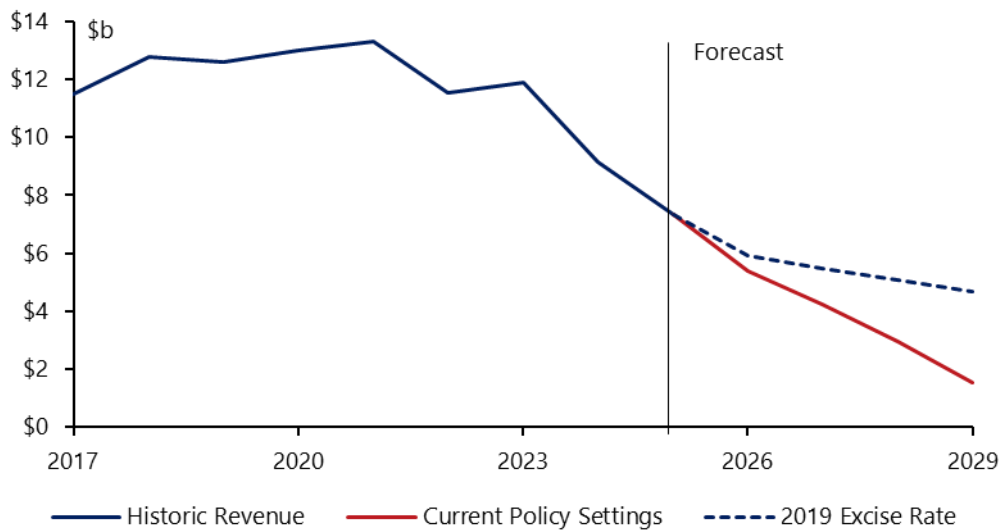
Modelled impact on excise revenue

Excise reform can act as a lever to stabilise the taxable base by reducing the main motivating factor driving consumers to the illicit market. Based on resulting consumption figures from the model, estimates can be made about the expected impact on federal excise revenue.

Given both declining overall consumption and a lower overall effective excise rate under each scenario, there is an average expected decline in excise revenue under existing policy settings. The forecast of federal excise revenue in 2028-29 is \$1.5b, under current policy settings. This assumes the current pace of excise increases continues and does not factor in discretionary increases which have occurred several times over the last decade. The largest fiscal driver under the current policy settings is that the illicit share continues its current trajectory to rise towards near-total market dominance.

The modelled excise reduction improves revenue outcomes over the forward estimates to 2028-29. Under the 2019 excise scenario, expected revenue for 2028-29 is \$4.65b, resulting in a \$3.15b improvement. It is likely in practice that substitution back to legal channels and shifts in market structure would occur progressively over several years, implying that the modelled results may understate the longer-term impact, with further declines in illicit market share over time as the combined effects of excise reductions and enforcement influence consumer behaviour and supply-side dynamics, as observed in Quebec.

Fig. 26. Simulated forecast effect on excise revenue under the 2019 excise rate



Note: 2025-26 assumes no excise change, only a legal uplift from enforcement. The 2019 excise rate is factored in from 2026-27 onwards

Source: Oxford Economics

The analysis suggests that enforcement can shift consumption away from the illicit market in the short term, while lower excise rates can reduce the price incentive that has driven many tobacco consumers toward illicit products over the longer term. Historically, record seizures and sustained enforcement have coincided with continued growth in the illicit market, indicating that enforcement without narrowing the price gap between legal and illicit tobacco tends to prompt adaptation and displacement rather than a durable reduction. The most effective approach is therefore likely to combine demand reduction measures¹⁰⁷, with sustained supply-side enforcement pressure.

5.2 SUCCESSFUL POLICY INTERVENTIONS: QUEBEC, A CASE STUDY

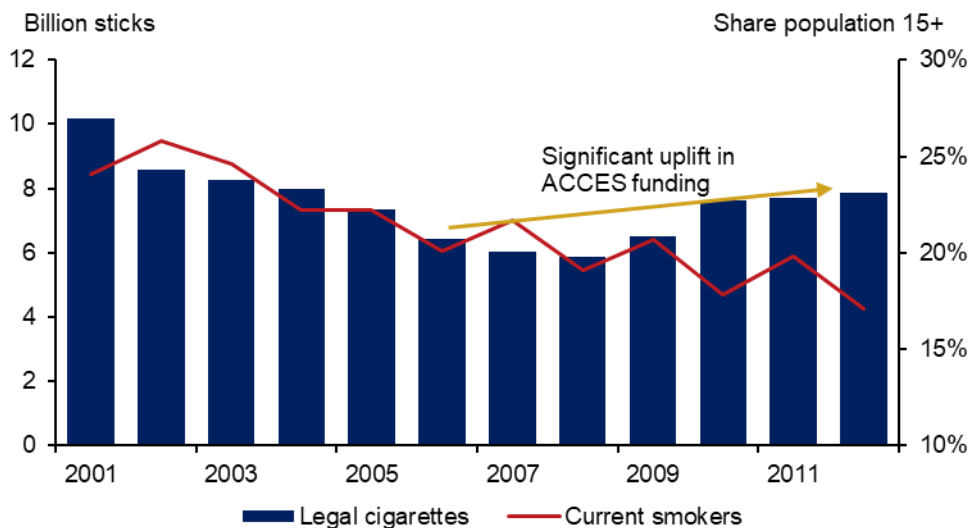
Canada, like Australia, is a Westminster-style federation with power shared between central and regional governments. A key difference is that Canadian provinces can impose a tobacco tax at the point of sale, equivalent to Australia's GST. This gives provincial governments a direct fiscal incentive to ensure that tobacco sales occur through the legal market, as illicit sales directly reduce their tax base. In Australia, GST revenue is distributed by the Commonwealth Grants Commission in line with the objective of horizontal fiscal equalisation, meaning increases in legal sales and GST collections do not necessarily accrue directly to the state.

¹⁰⁷ HMRC (2024) *Stubbing out the problem: A new strategy to tackle illicit tobacco*. Available [here](#)

In 1994, the share of the tobacco market that was illicit was estimated to be as high as 60%¹⁰⁸. In response, the Canadian government and five provinces, including Quebec, implemented significant reductions in cigarette taxes, effectively halving the retail price^{109,110}.

The Quebec Government established the Concerted Actions to Counter Underground Economies program (ACCES) in 2001–02, led by the Ministry of Public Safety, to target the underground economy, including illicit tobacco¹¹¹. ACCES delivers a coordinated intervention model that integrates fiscal enforcement by Revenu Québec with police intelligence and operational activity to disrupt illicit supply networks, supported by prosecutions under the Criminal Code. Although the ACCES tobacco program commenced in 2001-02, it received only \$3 million per annum in its first five years. Funding increased substantially in 2006-07 to \$8.7 million and grew thereafter at 12% p.a. for the next five years¹¹². This increase in funding began to have a measurable impact over the following years, with legal sales rising from their nadir of 5.9 billion in 2008 to 7.9 billion¹¹³ at the same time, the share of the population who identified as current smokers continued to decline¹¹⁴.

Fig. 27. Legal cigarette sales and share of 15+ population who currently smoke, Quebec



Source: Canadian Government Health Infobase

Over the past two decades, these interventions have contributed to a substantial reduction in Quebec’s illicit tobacco market, with the estimated illicit share falling from around 60% in the mid-

¹⁰⁸ Breton, E, Richard, L, Gagnon, F, Jacques, M & Berferon, P (2006) *Fighting a Tobacco-Tax Rollback: A Political Analysis of the 1994 Cigarette Contraband Crisis in Canada*. Available [here](#)

¹⁰⁹Physicians for a Smoke-Free Canada (1999) *The 1994 Tobacco Tax Cut: A Five-Year Review*. Available [here](#)

¹¹⁰ Breton, E, Richard, L, Gagnon, F, Jacques, M & Berferon, P (2006) *Fighting a Tobacco-Tax Rollback: A Political Analysis of 1994 Cigarette Contraband Crisis in Canada*. Available [here](#)

¹¹¹ Ministry of Public Safety (2011) *Mandate to initiate a study on measures to counter the consumption of contraband tobacco*. Available [here](#)

¹¹² Ministry of Public Safety (2011) *Mandate to initiate a study on measures to counter the consumption of contraband tobacco*. Available [here](#)

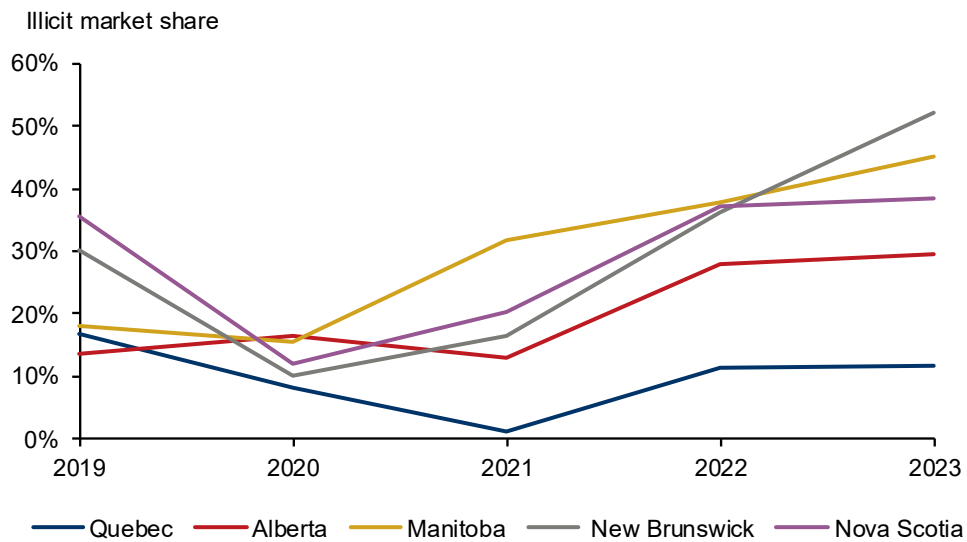
¹¹³ Government of Canada (2025) *Tobacco sales*. Available [here](#)

¹¹⁴ Government of Canada (2025) *Canadian Tobacco Use Monitoring Survey: overview of historical data, 1999 to 2012*. Available [here](#)

1990s to below 15%. An earlier reduction in tobacco taxes, undertaken jointly with the Canadian Government, appears to have moderated illicit activity, with the illicit share estimated at around 30% by 2009¹¹⁵. Following the scaling of ACCES, illicit activity declined further, falling to 13% by 2016 and remaining low at around 12% in 2023¹¹⁶.

These outcomes have delivered material fiscal benefits, with tobacco tax revenue increasing from \$654 million in 2007–08 to \$1.03 billion in 2013–14, and the ACCES tobacco program estimated to return between \$11 and \$14 for every dollar invested¹¹⁷. Relative to peer provinces, Quebec continues to record one of the lowest levels of illicit tobacco activity in the country.

Fig. 28. Illicit tobacco, by Canadian province



Source: EY

¹¹⁵ La Presse (2025) *Tobacco: The war on smuggling is profitable*. Available [here](#)

¹¹⁶ EY (2024) *Contraband Tobacco in Alberta, Manitoba, Quebec, New Brunswick and Nova Scotia: Impact on Legal Sales and Provincial Tobacco Tax Revenues*. Available [here](#)

¹¹⁷ Ministry of Finance (2021) *National Coalition Against Contraband Tobacco*. Available [here](#)

6. BARRIERS AND POTENTIAL POLICY ACTIONS TO REDUCE ILLICIT TOBACCO CONSUMPTION

Key findings

- (1) Several barriers can be addressed to improve the curtailment of illicit tobacco. The price gap between legal and illicit still acts as a primary incentive for price-sensitive consumers. The cost of enforcement by states drives revenue to the Commonwealth, reducing financial incentives, whilst fragmented enforcement makes coordination complex.
- (2) Policy levers require stronger enforcement efforts in tandem with changes to the excise rate. Although excise reductions in the 1990s moderated illicit activity, sustained enforcement investment was required to materially reduce the illicit share over time.
- (3) Better coordination and information sharing create clearer pathways for prosecution, as seen in Quebec. National coordination could be supported by standardising data collection and reporting requirements across jurisdictions alongside innovative revenue-sharing models that reduce the cost burden of enforcement on states.

As identified throughout this report, several barriers to reducing the illicit tobacco trade and improving the dual mandate of the National Tobacco Policy Framework currently persist. Addressing these challenges requires a multi-faceted approach that targets both demand-side factors driving consumers to illicit tobacco and supply-side efforts to reduce ease of access and availability.

6.1 BARRIERS

The widening price gap between legal and illicit tobacco

The price gap between legal and illicit tobacco products is estimated to have increased by around 300% over the past decade. Since 2010, the Commonwealth has implemented multiple discretionary increases in tobacco excise in addition to annual indexation linked to AWOTE. While these measures have enabled Australia to meet the WHO benchmark that taxes account for more than 75% of the retail price of tobacco, they have also caused the tax burden to rise more rapidly than on average across high-income countries. Analysis of illicit tobacco markets in Australia, New Zealand and numerous European countries suggests that it is not only the level of taxation, but the pace of price increases since the pandemic, that is associated with greater substitution toward illicit products.

Revenue and cost imbalances

Current enforcement funding arrangements place costs on states and territories without certainty that increased enforcement will translate into additional revenue. Tobacco revenue is collected through excise at the border and GST at the point of sale, with GST distributed by the Commonwealth Grants Commission in line with the objective of horizontal fiscal equalisation. As a result, additional

enforcement efforts by states and territories primarily increase Commonwealth revenue, with limited certainty for the enforcing jurisdiction that it will lead to a fiscal return.

Fragmented enforcement

Responsibility for enforcing illicit tobacco laws is shared across levels of government. The Commonwealth is responsible for border enforcement, large-scale domestic cultivation and manufacturing, and oversight of tobacco-related product regulation, while state and territory governments are responsible for licensing and enforcing retail tobacco sales within their jurisdictions¹¹⁸.

Regulation and enforcement of tobacco laws in Australia are shared across multiple entities, including the Australian Border Force, the Australian Taxation Office, the Therapeutic Goods Administration, the Australian Federal Police and state and territory regulatory agencies and police forces. This division of responsibilities, with overlapping roles across different levels of government and different entities, can hinder effective cooperation, intelligence sharing and enforcement across the illicit tobacco supply chain from ‘port to shop’. The recently established (October 2025) Illicit Tobacco National Disruption Group is intended to improve coordination across Commonwealth agencies; however, state and territory regulatory bodies that play a central role in retail enforcement are not members and instead will collaborate in an external capacity with the newly formed group¹¹⁹.

¹¹⁸ Australian Government (2021) *Australian Government response to the Parliamentary Joint Committee on Law Enforcement Report: Inquiry into Illicit Tobacco*. Available [here](#)

¹¹⁹ Australian Government (2025) *Illicit Tobacco National Disruption Group*. Available [here](#)

6.2 POLICY RECOMMENDATIONS

Addressing the illicit tobacco market in Australia requires a coordinated policy response that tackles both demand-side incentives (which drive consumers toward illicit products) and supply-side controls (which disrupt illicit production, importation and retail distribution). Key recommendations are outlined in the table below.

Recommendation	Context
1. Incorporate illicit market reduction to achieve core national tobacco policy objectives	The scale of illicit consumption identified in this report indicates that policies focused solely on legal demand can unintentionally shift consumption into unregulated channels, undermining health, fiscal and regulatory outcomes. Embedding illicit market reduction as a key measure to achieve policy objectives would require policy settings, including excise, enforcement and regulatory design, to be assessed against their impact on illicit substitution, not just legal consumption. In this context, excise settings should explicitly consider the legal–illicit price gap, as a widening gap increases incentives for substitution into illicit supply and weakens the effectiveness of excise as a policy lever.
2. Reassess border screening capacity and approaches	Increase border screening and inspection capacity for illicit tobacco, particularly in high-risk sea freight pathways, to raise the probability of detection and materially disrupt supply before it reaches domestic distribution networks. This can combine intelligence-led targeting with a higher baseline level of physical examinations (including container inspections).
3. Strengthened national enforcement and penalties of retailers who sell illicit tobacco	Strengthen national enforcement and penalties targeting the retail sale of illicit tobacco, with a particular focus on creating consistent and credible deterrence at the point of sale. This should include nationally aligned retailer licensing regimes, enhanced inspection and closure powers, tougher penalties for repeat or serious breaches, and an enforcement workforce sufficient to effectively enforce legislative reforms. Consider extending and harmonising landlord liability provisions, such as those introduced in Queensland and proposed in New South Wales, to enable action against property owners who knowingly facilitate illicit tobacco sales, thereby disrupting retail networks and reducing opportunities for displacement across jurisdictions. Additionally, consider reforms to planning proposals that allow illicit vendors to make a simple change-of-use applications and to evade detection and continue trading.
4. Explore innovative excise revenue-sharing models to reduce fiscal imbalance between the states/territories and the Commonwealth	Exploring innovative excise revenue-sharing arrangements and linking performance metrics to funding outcomes can substantially improve enforcement outcomes. State and territories currently carry major retail enforcement costs, while additional excise/GST benefits largely accrue to the Commonwealth, weakening incentives for sustained enforcement investment. This could include mechanisms whereby the Commonwealth retains a minimum “floor” level of excise revenue, while states share in any additional revenue recaptured above this level through strengthened enforcement.

<p>5. Reduce the excise rate to incentivise legal consumption and reduce profits for illicit sellers</p>	<p>Reduce the tobacco excise rate to incentivise a shift back toward legal consumption and reduce profits for illicit sellers as a core component of stabilising and re-establishing the legal market. The survey and case study evidence in this report indicates that narrowing the legal–illicit price gap is critical to reversing and preventing substitution into illicit supply, recapturing consumption into regulated channels. Under a simulated excise scenario, this will immediately improve excise revenue, restore the integrity of the legal market, strengthen long-term revenue sustainability, and improve the effectiveness of enforcement and public health regulation. It will additionally reduce the flow of revenue and incentives to capture the illicit market for illicit sellers such as serious and organised crime groups. This approach mirrors Quebec, where prior to the province stepping up enforcement, after halving the retail price of cigarettes, the illicit market appeared to contract from 60% to 30% of the market.</p>
<p>6. Pause AWOTE excise indexation across the current Budget forward estimates until the legal market is re-established</p>	<p>Pausing AWOTE excise indexation across the current Budget forward estimates until the legal market is re-established would prevent further widening of the legal–illicit price gap at a time when illicit substitution is already high. A temporary pause would stabilise legal prices, reduce incentives to shift into illicit supply, and allow enforcement and other policy measures to take effect before further price increases are considered.</p>
<p>7. Strengthen port-to-shop governance and coordination</p>	<p>Fragmented Commonwealth and state/territory responsibilities hinder cooperation and intelligence sharing across the supply chain. The Illicit Tobacco National Disruption Group namely does not include state/territory retail regulators as members, despite their central role. The experience of Quebec provides a relevant comparator, where enforcement efforts were supported by strong integration between police, compliance agencies and the judiciary.</p>
<p>8. Strengthen monitoring, metrics, and accountability to make policy adaptive</p>	<p>A set of performance indicators that aligns excise decisions, enforcement resourcing, and accountability (including funding linkages) to measured changes in illicit prevalence supports better coordination and outcomes. As set out in the <i>Illicit Tobacco and E-cigarette Commissioner’s Report</i>, improved national coordination could be supported by standardising data collection and reporting requirements across jurisdictions, enabling a unified and transparent view of the scale and distribution of the illicit tobacco market.</p>

7. APPENDIX 1

FORECASTING TOTAL TOBACCO CONSUMPTION

Methodology

Historical total tobacco consumption is estimated by combining the Australian Taxation Office¹²⁰ data on legal tobacco volumes with FTI Consulting estimates of illicit tobacco consumption¹²¹. This combined series is used to establish a long-run consumption profile.

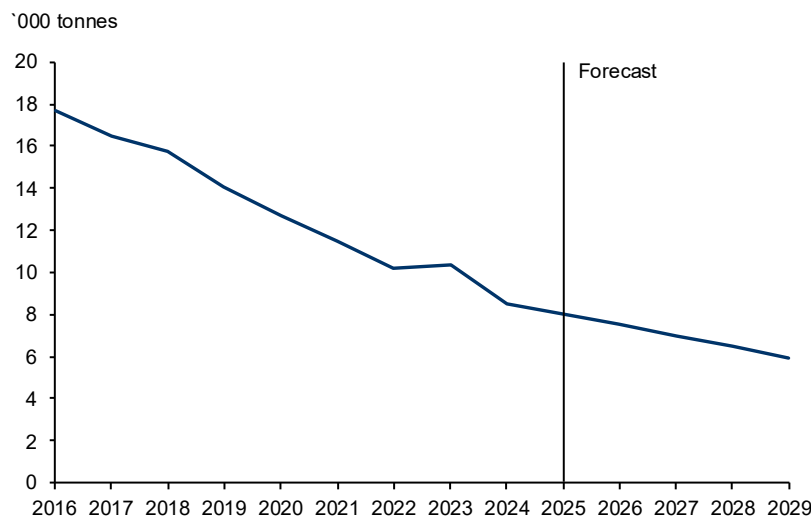
Historical consumption volumes are then assessed alongside trends in the share of the population aged 14 and over who identify as daily smokers¹²², together with population data, to estimate the number of smokers in each year. This approach allows us to identify long-term trends in how much tobacco is consumed per person and the proportion of the population aged 14 and over who smoke daily.

$$\text{per capita consumption} = \text{Total consumption} / (14 + \text{daily smoking prevalence} * 14 + \text{population})$$

For forward estimates, Oxford Economics applies its internal forecasts of the population aged 14 and over and extrapolates long-run trends in daily smoking rates and per capita consumption. Total tobacco consumption over the forecast period is then calculated by multiplying the projected 14+ population by the estimated daily smoking rate and current per capita consumption.

$$\text{Total consumption} = 14 + \text{population} * 14 + \text{daily smoking prevalence} * \text{per capita consumption}$$

Fig. 29. Total tobacco consumption, Australia



Source: Oxford Economics, FTI Consulting, ATO, Treasury, BATA

¹²⁰ Australian Taxation Office (2025) *Methodology for estimating the tobacco tax gap*. Available [here](#)

¹²¹ FTI Consulting (2025) *Illicit Tobacco in Australia 2024*. Available [here](#)

¹²² Australian Institute of Health and Welfare (2025) *National Drug Strategy Household Survey 2022–2023: Tobacco and e-cigarettes/vapes*. Available [here](#)

IMPACT OF THE ILLICIT TOBACCO MARKET:

Ritchie's IGA case study

In Victoria, where the majority of Ritchies stores are located, there is a clear disparity in the impact of the illicit tobacco market between Greater Melbourne and the rest of the state. Cumulative tobacco revenue to 2024-25 has fallen by 59% in Greater Melbourne compared with 46% in regional Victoria, suggesting that the illicit market has expanded more rapidly in metropolitan areas than in smaller population centres. In New South Wales, where Ritchies has a smaller presence, with six stores in Greater Sydney and fourteen in regional areas, we do not see the same divide with revenue declines equivalent across both areas, at 60% in Greater Sydney and 64% in the rest of NSW.

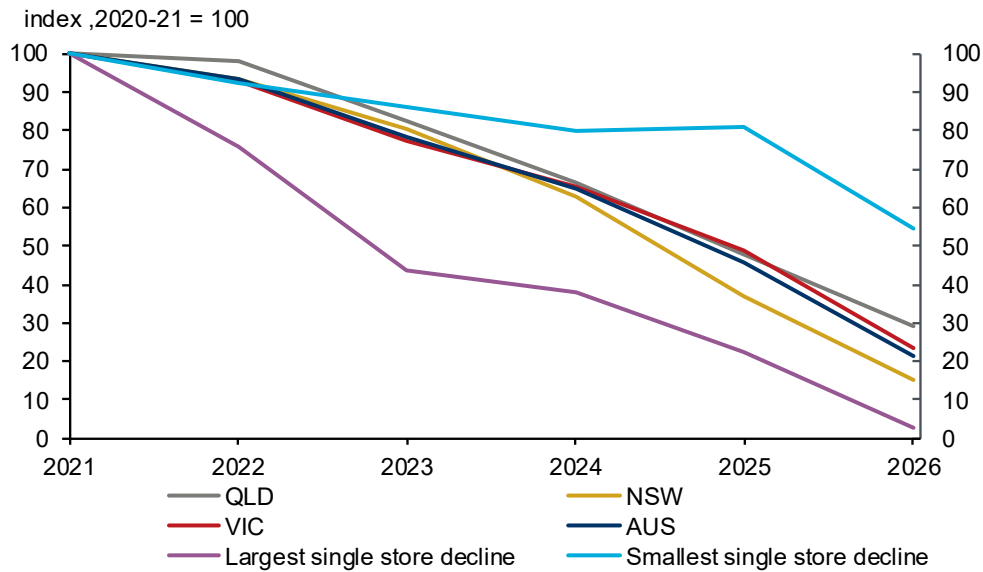
Of particular concern is the accelerating pace of revenue decline for Ritchies across national, state and regional levels. Over the five years of data provided, year-over-year revenue losses have become progressively steeper, rather than moderating. Ritchies has experienced these steep revenue losses during a period in which the tobacco price index has risen by 36%. When prices are held constant, the underlying decline in tobacco volume becomes even more pronounced, with an estimated two-thirds reduction in the amount of tobacco sold¹²³.

These declines in both revenue and volume are far greater than what would be expected based on recent trends in smoking prevalence and per-capita consumption. Long-run trends in daily smoking indicate that the share of the population who smoke daily has fallen by an estimated 16% over this period. Over the same time, per-capita consumption among daily smokers is estimated to have declined by 17%. Taken together, these trends imply an expected reduction in the volume of tobacco consumption of around 31% and a corresponding revenue decline of 6% if all consumers were purchasing legal tobacco.

Instead, Ritchies has recorded volume declines of nearly two-thirds and revenue losses of 54% to 2024-25, strongly suggesting that declines in revenue are not only the result of reduced consumption of tobacco products within the population but can also be explained by revenue being diverted into the illicit market. This pattern suggests the flow of revenue from the legal to the illicit market may still have some way to run.

¹²³ Nominal tobacco revenue is converted to real revenue by adjusting for changes in tobacco prices over time. This is done by dividing the average tobacco CPI for each financial year by the average tobacco CPI for 2020–21, and then dividing nominal revenue by this price index. The resulting series provides an estimate of the change in Ritchies tobacco sales volume over time.

Fig. 30. Ritchies IGA tobacco revenue, by state



Source: Ritchies IGA, Oxford Economics

Note: Available sales data for financial year 2026 has been annualised.

INTERNATIONAL EVIDENCE ON TOBACCO EXCISE DESIGN AND PENALTIES

How do Australian federal and state laws compare internationally

Among comparable countries, only New Zealand, the United Kingdom and France use automatic indexation, and in each case the index is tied to variants of the consumer price index rather than wages^{124,125,126}. The United Kingdom is the closest comparator, applying the retail price index plus an additional two percentage points to reflect growth in purchasing power. All countries in this group also use periodic discretionary tax increases, which provide greater flexibility over the timing and scale of tax changes than automatic indexation alone.

¹²⁴ New Zealand Customs Service (2025) *New excise duty rates for tobacco products, cigarettes and heated tobacco products from 1 January 2025*. Available [here](#)

¹²⁵ HM Revenue and Customs (2024) *Changes to tobacco duty rates from 30 October 2024*. Available [here](#)

¹²⁶ Assemblée Nationale (2023) *Written Question No. 13682: Tobacco Taxation*. Available [here](#)

Fig. 31. Approach to altering tobacco taxation, comparable countries

Country	Indexation	Discretionary
Australia	Yes	Yes
Belgium ¹²⁷	No	Yes
Denmark ¹²⁸	No	Yes
Finland ¹²⁹	No	Yes
France ^{130, 131}	Yes	Yes
Ireland ¹³²	No	Yes
Israel ¹³³	No	Yes
Italy ¹³⁴	No	Yes
Netherlands ¹³⁵	No	Yes
New Zealand ¹³⁶	Yes	Yes
United Kingdom ¹³⁷	Yes	Yes

Source: Oxford Economics

¹²⁷ The Brussels Times (2023) *Cost of smoking and vaping to rise sharply in Belgium*. Available [here](#)

¹²⁸ Tobacco Control (2020) *Denmark: a new era for tobacco control*. Available [here](#)

¹²⁹ 2 Firsts (2024) *Finland tobacco tax to rise nearly 30% over three years, e-cigarettes unaffected*. Available [here](#)

¹³⁰ Assemblée nationale (2023) *Written Question No. 13682: Tobacco Taxation*. Available [here](#)

¹³¹ The Connexion (2025) *Cigarette prices to rise this February in France*. Available [here](#)

¹³² RTE (2025) *50c increase on a pack of cigarettes. Alcohol duty unchanged*. Available [here](#)

¹³³ Nicotomie Science and Policy (2024) *Tobacco tax hikes enacted in Israel*. Available [here](#)

¹³⁴ 2 Firsts (2024) *Italian PM approves 2024 budget proposal, raising cigarette taxes*. Available [here](#)

¹³⁵ Customs Knowledge (2023) *Significant increase in excise and consumption tax rates*. Available [here](#)

¹³⁶ New Zealand Customs Service (2025) *New excise duty rates for tobacco products, cigarettes and heated tobacco products from 1 January 2025*. Available [here](#)

¹³⁷ HM Revenue and Customs (2024) *Changes to tobacco duty rates from 30 October 2024*. Available [here](#)

Fig. 32. Penalties for the importation and retailing of illicit products, comparable countries

Country	Importing	Retailing
Australia	Up to ten years imprisonment and fines of up to five times the duty evaded ¹³⁸	Up to five years imprisonment and fines of up to five times the duty evaded ¹³⁹
Belgium	Up to two years in prison and fines of up to €4 million ¹⁴⁰	Up to one year in prison and fines of up to €800,000 ¹⁴¹
Denmark	Imprisonment of up to eighteen months, and fines equivalent to the excise avoided ¹⁴²	
Finland	Fines and up to four years in prison ¹⁴³	Fines and up to two years in prison ¹⁴⁴
France	Prison sentence of up to three years for individuals and 10 years for organised groups ¹⁴⁵ .	
Ireland	Up to five years imprisonment and a fine of up to triple the amount to excise ¹⁴⁶	Imprisonment of up to twelve months and fines ¹⁴⁷ .
Canada	Imprisonment of up to five years for repeat offenders ¹⁴⁸ .	
Italy	Up to five years imprisonment, and fines of approximately €5 per gram of tobacco ¹⁴⁹ .	
Netherlands	Up to four years imprisonment and a fine of up to the amount of excise evaded ¹⁵⁰	Fines of up to €4,500 for multiple offences ¹⁵¹
New Zealand	Imprisonment of up to six months, and fines of up to \$20,000 ¹⁵²	
United Kingdom	Fines set at a multiple of the value of the good and up to seven years in prison ¹⁵³ .	Fines of up to £10,000 and temporary or permanent exclusion from legal trade ¹⁵⁴

Source: Oxford Economics

¹³⁸AustLII Foundation Limited (2025) *Customs Act 1901 – SECT 233BABAD*. Available [here](#)

¹³⁹Parliament of Australia (2018) *Treasury Laws Amendment (Illicit Tobacco Offences) Bill 2018*. Available [here](#)

¹⁴⁰Baker Mackenzi (2023) *Global Guide to Criminalization of Tax Offenses, Belgium*. Available [here](#)

¹⁴¹The Bulletin (2025) *New tobacco sale regulations come into force in Belgium on 1 April 2025*. Available [here](#)

¹⁴²Tax Denmark (2025) *Circumstances punishable as smuggling*. Available [here](#)

¹⁴³Ministry of Justice, Finland (2012) *The Criminal Code of Finland*. Available [here](#)

¹⁴⁴Ibid

¹⁴⁵Assemblée Nationale (2024) *Illegal sale of tobacco in France*. Available [here](#)

¹⁴⁶Government of Ireland (2009) *Public Health (Tobacco) (Amendment) Act 2009*. Available [here](#)

¹⁴⁷Government of Ireland (2016) *Chapter 4: Customs & Excise Offences*. Available [here](#)

¹⁴⁸Government of Canada (2015) *Tackling Contraband Tobacco Act*. Available [here](#)

¹⁴⁹Avvocato Flavio Falchi (2025) *What are the risks for those who sell contraband tobacco?* Available [here](#)

¹⁵⁰De Vries, A. (2022) *Enforcement Policies against illicit trade in tobacco products in the Netherlands*. Available [here](#)

¹⁵¹Tobacco Control Laws (2025) *Legislation by Country/Jurisdiction: Netherlands*. Available [here](#)

¹⁵²New Zealand Customs Service (2023) *Offences and penalties*. Available [here](#)

¹⁵³International Solicitors (2025) *Cigarette and smuggling: UK Law and consequences for offenders*. Available [here](#)

¹⁵⁴HM Revenue and Customs (2023) *New sanctions to tackle illicit tobacco duty evasion*. Available [here](#)

Fig. 33. Recent tobacco law reforms, by state

Jurisdiction	Reforms	Enforcement date	Size of penalties	Level of enforcement
New South Wales	Increased penalties Licensing for retailers/wholesalers Greater enforcement powers for NSW health enforcement officers	1/10/2025	Up to \$220,000 – Corporations Up to \$44,000 – Individuals	Number of officers set to double
Victoria	Licensing for retailers/wholesalers Fit and proper person test required for licensing Penalties established	1/2/2026	Up to \$829,878 – Corporations Up to \$165,975 – Individuals	Key enforcement powers—including expanded entry, seizure, information demands, licence suspension, and new offences
Queensland	Increased penalties Interim closure of premises powers expanded (in parliament) Landlord termination subject to closure orders Licensing requirements for smoking product suppliers	1/9/2025	Up to \$161,300 – Individuals Up to \$806,500 – Corporations On-the-spot fines of \$3226.00	Interim closure of premises powers – up to 3 months by administrative orders or 12 months by court order (in parliament)
South Australia	Increased penalties/fines Ban of tobacco sale through vending machines Mandates licensing for retailers/wholesalers Landlord termination subject to closure order	13/12/2024 – 1/2/2025	Up to \$700,000 – Individuals Up to \$1.1M- Corporations	Interim closure of premises powers – up to 6 months

Source: FTI Consulting

ENFORCEMENT OF THE ILLICIT MARKET

Administrative structure of Quebec's Concerted Actions to Counter Underground Economies program

The Quebec Government created the Concerted Actions to Counter Underground Economies program (ACCES), led by the Ministry of Public Safety, in 2001–02. ACCES was established to target several sectors of the underground economy, including illicit tobacco. The program has three core mandates:¹⁵⁵

- Monitor the illegal tobacco trade in Quebec
- Identify the strategies used by smugglers
- Analyse measures that may limit smuggling activities and propose legislative changes.

The ACCES program was mandated not only to contribute to reducing illicit tobacco in the community but also to play a proactive role in recommending legislative changes that could strengthen the province's response to illicit trade. These mandates were supported through a three-tier governance structure¹⁵⁶:

- A strategic committee composed of junior ministers that defined the main programs to be pursued and developed potential solutions and recommendations for government.
- A tactical committee responsible for monitoring operations, ensuring accountability, and advising the strategic committee on specialist issues and potential program options.
- An operational structure that coordinated activity across the various law enforcement bodies involved in enforcement.

The strategic committee, supported by the tactical committee and coordinated through the operational structure, directed ACCES funding toward a three-component intervention model¹⁵⁷:

- Fiscal component, administered by Revenue Quebec, inspected businesses, undertook investigations supported by police intelligence, and pursued remedies under tax law.
- Police component was empowered to dismantle illegal networks involved in the production, manufacture, distribution and sale of illicit tobacco.
- Legal component: pursued cases that could be prosecuted under the Criminal Code.

¹⁵⁵ Finances Quebec (2011) *Actions to Reduce Tobacco Smuggling*. Available [here](#)

¹⁵⁶ Ministry of Public Safety (2011) *Mandate to initiate a study on measures to counter the consumption of contraband tobacco*. Available [here](#)

¹⁵⁷ Ministry of Public Safety (2011) *Mandate to initiate a study on measures to counter the consumption of contraband tobacco*. Available [here](#)

8. APPENDIX 2

TOBACCO CONSUMER SURVEY METHODOLOGY

Survey design

Oxford Economics commissioned a survey provider to run a representative, national tobacco consumer survey for regular tobacco smokers. The survey included screener questions to ensure soft quotas were met, behavioural questions about tobacco, a volumetric conjoint, and a post-conjoint section on habits for respondents who self-identified as illicit consumers.

The volumetric conjoint can be described as a discrete-choice style experiment, designed to quantify how tobacco consumers trade off the price of legal and illicit tobacco products. Baseline prices for the legal products were based on market prices, whilst prices for the illicit products were set based on publicly reported prices. The design and pricing of products in the survey was tested with a small focus group of illicit tobacco consumers prior to full release.

The survey achieved 1,505 completes, with 1,070 respondents indicating they had purchased illicit tobacco on at least a rare occasion.

Conjoint analysis

Each respondent to the survey completed multiple conjoint tasks where they were shown a set of hypothetical questions and reported intended purchase quantities for each in a typical week. The analysis was run in a panel format with one row per respondent per task, enabling within-person estimation of price responsiveness.

Purchase quantities are transformed using a log-plus-one transform to handle zeros and reduce skew. Prices entered the model in log form so coefficients could be interpreted as elasticities.

$$y^L = \log(1 + Q^L) \text{ for legal quantity}$$

$$y^I = \log(1 + Q^I) \text{ for illicit quantity}$$

Two regressions are estimated, the legal purchase quantity model, and the illicit quantity model. Each model uses respondent fixed effects, so the analysis relies on within-respondent variation across tasks, rather than differences between individuals. This helps mitigate bias from unobserved respondent traits such as socioeconomic status. The main estimation equations were:

Legal quantity equation:

$$\log(1 + Q_{it}^L) = \alpha_i + \beta_L^L \log(P_{it}^{legal}) + \beta_I^L \log(P_{it}^{illicit}) + \gamma_t + \epsilon_{it}$$

Illicit quantity equation:

$$\log(1 + Q_{it}^I) = \alpha_i + \beta_L^I \log(P_{it}^{legal}) + \beta_I^I \log(P_{it}^{illicit}) + \gamma_t + v_{it}$$

Where:

i indexes respondent and t indexes conjoint tasks.

α_i are respondent fixed effects.

γ_t are task fixed effects (controls for task-specific framing/order effects).

Coefficients on $\log(P)$ measure responsiveness of intended purchases to price changes.

Standard errors are clustered at the respondent level to account for repeated tasks per respondent.

The achieved sample is aligned to pre-specified population quotas at the age, sex, and state level using raking. Raked weights adjust the sample so that, after weighting, the marginal distributions match the quota targets. Reported results use post-stratified weights to preserve simulation stability.

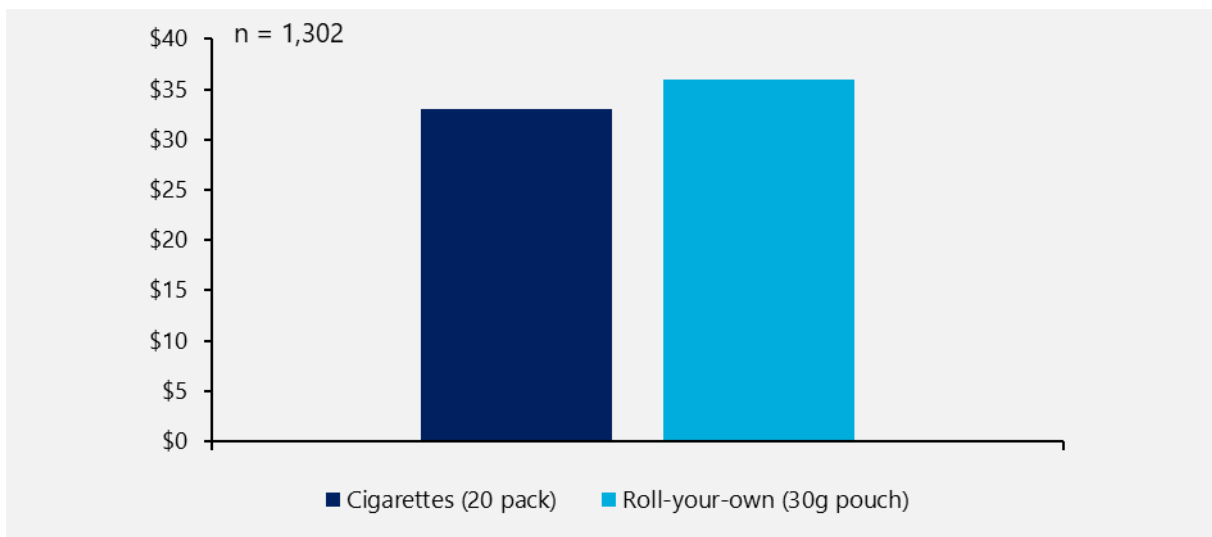
Policy scenarios are expressed as multiplicative changes in prices (m). For each scenario, predicted quantity changes according to:

$$\Delta y^L = \beta_L^L \log(m_L) + \beta_I^L \log(m_I)$$

$$\Delta y^I = \beta_L^I \log(m_L) + \beta_I^I \log(m_I)$$

Analysis is anchored to baseline legal and illicit consumption, and baseline excise revenue based on the forecast methodology outlined in Appendix 1. Consumer weekly budgets are also held constant to isolate the effect of the product substitution.

Fig. 34. Maximum willingness to pay for legal tobacco products



Source: Oxford Economics

Enforcement uplift adjustment

Enforcement is represented as an increase in the effective cost of illicit supply, where cost factors can include scarcity, travel time, search costs etc., associated with enforcement measures such as border seizures and shop closures.

A target legal sales ratio (R) based on the observed uplift in legal sales for a large, reputable retailer resulting from shop closures in Queensland, New South Wales, and South Australia is used to calculate an illicit multiplier (m_i) that produces the same legal uplift in the model.

$$R = \frac{Q^L(m_i)}{Q^L(1.0)}$$

With the estimated cross-price effect of illicit price on legal purchases being:

$$\log(1 + Q_L(m_i)) = \log(1 + Q_L(1)) + \beta_i^L \log(m_i)$$

RITCHIES IGA STORE-BY-STORE REVENUE METHODOLOGY

Data source

Ritchies provided Oxford Economics with de-identified, store-level data covering the past five and a half financial years, from 2020-21 to the first half of 2025-26. The dataset included 109 stores that traded at some point during this period. All data were de-identified and analysed at an aggregate level only.

Sample selection

To analyse changes in revenue over time, we constructed a consistent like-for-like sample of stores. Stores that opened after 2020-21 or closed before H1 2025-26 were excluded from this component of the analysis to ensure state changes and national aggregates reflect the performance of ongoing stores, not the size of the network at a given time.

Of the 109 stores that traded during this period 71 had data available across the full five and a half year period.

Treatment of 2025-26 data

Ritchies provided data to H1 of 2025-26, which was annualised to produce a full-year estimate for the current financial year.

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