

**Submission
No 33**

INQUIRY INTO ILLEGAL TOBACCO TRADE

Organisation: TSG Franchise Management

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Inquiry into the Illegal Tobacco Trade 2025

Submission by TSG Franchise Management

Tobacco Station Group (TSG) represents over 540 franchises nationally, with more than 180 operating in New South Wales. Our network sold over 485 million stick equivalents of legal tobacco products to Australian consumers in the 2024/25 financial year and employs over 1,500 people across casual, part-time and full-time roles nationally.

The illicit tobacco and nicotine products market in New South Wales is now at a crisis point. Illicit tobacco accounts for approximately 40% of all tobacco consumption in Australia, costing the community \$6.7 billion annually in excise tax evasion (FTI Consulting, 2024). Other nicotine products, such as vapes and pouches, are almost exclusively sold in the illicit market. This is unprecedented in any other product category.

Excessive taxation on tobacco and the complete product bans introduced under the Public Health (Tobacco and Other Products) Act 2023 (effective 1 July 2025) have created a multi-billion-dollar illicit market run by serious and organised criminal syndicates. This has placed unmanageable enforcement burdens on the state, diverted already overstretched resources from other public services, and emboldened criminal networks.

Legitimate retailers cannot compete against cheaper illegal tobacco or illicit products they are prohibited from selling. Organised crime groups are exploiting the situation, engaging in extortion, arson and violent turf wars to maintain control of the market. Over the past 18 months, there have been more than 200 arson attacks nationally targeting mostly illegal tobacco shops. Rival gangs are now extorting legitimate retailers or threatening to destroy their businesses if they do not cooperate.

This is no longer a series of isolated incidents; it is a national community safety issue. The NSW Government has an opportunity through this Inquiry to holistically consider

whether the current regulatory framework is effective, or whether it is driving consumers underground, destroying legitimate businesses, and fuelling serious crime.

Responses to Key Issues in the Terms of Reference

(a) Links between organised crime and tobaccoists

Organised crime syndicates dominate the illegal tobacco and nicotine products market. Many illicit operators are entirely unlicensed, with no oversight. Criminal syndicates openly use violence, arson and extortion to maintain control over the market. Legal tobaccoists, many of whom have run legitimate retail businesses for many years, are now facing uncertainty and closure due to the lack of enforcement to curtail the exponential growth of independent illegal tobacco operators.

(b) Money laundering schemes

Illicit tobacco operators often utilise cash-heavy business models and ATMs for money laundering. These activities exploit weak oversight mechanisms. Stronger powers to monitor and disrupt such operations are essential.

(c) Legal protections for landlords

TSG support allowing landlords to terminate a lease after a closure order for illicit activity. However, we do **not** support penalising landlords who unknowingly lease to illicit operators. Most landlords lack the resources or expertise to identify illicit activity. This would create an unintended consequence of landlords refusing to lease premises to legal tobacco retailers.

(d) Adequacy of legislation and departmental responsibility

TSG supports NSW Health's proposed closure powers and allowing magistrates to impose closures. We urge the government to ensure penalties are not only legislated but actively enforced. Providing police with authorised powers similar to drug enforcement measures may serve as a crucial and swift remedy to illicit tobacco operatives. NSW Health are not trained to deal with criminal syndicates and therefore has no desire, or mandate, to confront illicit tobacco operators. Their purview is largely confined to predominantly legal small business entities.

(e) Enforcement resourcing

TSG supports additional enforcement resourcing but notes that enforcement must target the unlicensed, illicit market. Legitimate retailers are already heavily regulated and compliant, yet illicit operators face little disruption. Appropriate tobacco licensing fees may serve to provide resources to authorities.

(f) Impact on small businesses and regional communities

Illicit tobacco devastates small businesses that abide by the law. Legal operators cannot compete with the lower prices of illegal tobacco, and many have faced threats, violence or extortion for refusing to participate in illicit supply chains. We have many long-serving retail franchisees that are now facing the complete demise of their businesses due to the unregulated proliferation of illicit tobacco. The unregulated supply of cheaper, illicit tobacco products impacts the health outcomes of vulnerable regional communities where economic realities provide an incentive to seek out cheaper alternatives. Where products are substantially cheaper (as is the case with illicit tobacco) they are consumed more regularly.

(g) Impact of prohibition

Complete product bans (vapes, nicotine pouches) and extremely high tobacco taxes are creating a scenario where these products are almost exclusively available in the illicit market. This strengthens organised crime networks and worsens community safety risks. The purported reduction of smoking incidences, as reported by the Federal Health Minister, only contains selective measures of legal tobacco consumption. When illicit tobacco is taken into consideration, health outcomes for the NSW community is severely diminished with increased smoking incidences. The price of illicit tobacco products has been reported as low as \$3.50, available anywhere from the Sydney CBD and extending to every part of the state. This is not a win by any measure. Illicit tobacco operators can be seen from the doors of the NSW state parliament and every state and federal MP's local offices.

(h) Communities disproportionately impacted

Franchisees and small business owners face intimidation and economic harm. Vulnerable communities may be further exposed to illegal products of unknown quality.

Greatly needed employment opportunities within legally compliant retailers of tobacco, from legal tobacconists, newsagents, petrol stations and grocery stores, are impacted by illicit tobacco operators who have no background or interest in these communities.

(i) Other related matters

TSG supports covert operations, warrantless entry for enforcement officers, and expanded powers to request information. Police should be authorised to disrupt illicit activity. Enforcement should focus on clearly illicit products, such as chop-chop tobacco, coloured packaging, or non-compliant vaping products.

Legislation must permit the destruction of seized goods within 30 days of evidence being captured. The burden on the taxpayer to store seized goods impacts the ability for enforcement to be carried out effectively.

Key Recommendations

1. **Ensure penalties are enforced, not just legislated:** Paper penalties without enforcement do not deter organised crime. Ensure magistrates have the legislative tools to provide meaningful penalties. There should be mandatory minimum penalties, not just a potential maximum penalty, where magistrates historically choose to exercise minimum penalties for many criminal outcomes.
2. **Focus enforcement on unlicensed, illicit operators:** Licensed retailers are already heavily scrutinised.
3. **Provide landlords with rights, not penalties:** Landlords should be able to terminate leases after closure orders, but should not be criminally liable.
4. **Enable covert and warrantless inspections:** Entry and inspection powers must be strengthened to allow immediate disruption of illicit operators. Police must have the mandate to impose penalties.
5. **Review regulatory policy:** The current framework is incentivising the illicit market. There is no fit and proper persons test nor any powers for authorities to inflict meaningful penalties.

Conclusion

TSG commends the NSW Government for finally recognising the issue. However, tougher penalties alone will not solve the problem unless enforcement is significantly increased and focused on the true source of illicit activity. Without a shift in the current tax and product policy, the illicit market will continue to grow, further undermining public safety, legitimate small businesses, and government revenue. While the Federal government chooses to thoroughly ignore the impact it has had on incentivising illicit tobacco operatives, the NSW Government must provide enforcement to curb illicit tobacco sales at the retail level.

We thank the NSW Parliament for the opportunity to make this submission and urge the Committee to carefully consider the current impacts on legally compliant small business owners and members of the community.

TSG Franchise Management

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