

INQUIRY INTO ILLEGAL TOBACCO TRADE

Organisation: Master Grocers Australia

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Inquiry into the illegal tobacco trade
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Submission of Master Grocers Australia

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Introduction

Master Grocers Australia (**MGA**) represents the nation's independent grocery and liquor retailers. Our members operate thousands of stores, employing tens of thousands of Australians. These businesses are critical to local communities, particularly in regional areas, and play a vital role in maintaining competition and consumer choice in the retail market.

MGA welcomes the opportunity to contribute to the Inquiry into the Illegal Tobacco Trade in New South Wales. Our members sell tobacco products legally in accordance with state and federal law.

Our members have a direct stake in combating illicit tobacco: the booming black-market trade not only undermines public health objectives but also inflicts economic harm on legitimate retailers and deprives governments of tax revenue. We are deeply concerned that high tobacco excise and insufficient enforcement have created conditions for organised criminal networks to flourish in the illicit tobacco market. In this submission, we advocate for the NSW Government to adopt at least the robust measures implemented in Queensland and South Australia to combat illegal tobacco, and to go further – including increasing enforcement resources and addressing the root cause of the illicit trade by urging a review of federal tobacco excise policy. We support recent statements by the NSW Premier highlighting that excessive excise is fuelling the black market and we urge the NSW Government and Parliament to press the Commonwealth to recalibrate tobacco taxation accordingly.

The Illicit Tobacco Problem in NSW

Illicit tobacco has reached alarming levels in NSW and nationwide. With Australia's cigarette prices among the highest in the world due to heavy taxation, a large price gap has incentivised consumers to seek out black-market sources. It was recently revealed that the Commonwealth is expected to collect just over \$7 billion in tobacco excise this financial year, down from \$16.3 billion in the 2019-2020 financial year. MGA submits that this reduction is almost entirely attributable to Australian smokers turning to cheaper illegal tobacco (on which excise is not collected), rather than any significant reduction in smoking prevalence. Although estimates vary and are difficult to empirically quantify due to the nature of black markets, various sources approximate that at least 40% of tobacco consumed in Australia is illicit.

This flourishing black market harms the community in multiple ways. It undermines public health efforts (by providing cheap tobacco that negates the price deterrent intended by high taxes), robs state and federal treasuries of tax revenue, and undercuts law-abiding retailers. MGA members report that illicit tobacco dealers are able to sell cigarettes at a fraction of the legal price by evading excise, drawing customers away from legitimate shops. This unfair competition threatens the viability of small businesses that do the right thing, while consumers purchasing unregulated products face unknown health risks. Additionally, the supply of illicit tobacco by organised criminal syndicates is inherently dangerous for the community; over the past several years arson attacks, murders and acts of torture have been attributed to the illicit tobacco trade, including against innocent citizens. Whilst such criminal acts are reported to be most significant in other jurisdictions (especially Victoria), the NSW Government must act urgently to ensure it does not become entrenched in this state.

Lessons from Queensland and South Australia: Tough New Measures

Both Queensland (QLD) and South Australia (SA) have recently implemented sweeping policy changes to crack down on illicit tobacco. The NSW Government should look to these jurisdictions as benchmarks. MGA's position is that the NSW Government should at minimum adopt the suite of measures taken by QLD and SA – which include extensive illicit premise closure powers, harsh penalties, criminal liability (and where appropriate, sanctuary) for landlords leasing premises to illicit tobacco dealers and greater enforcement powers – and then go further.

Queensland and South Australia have developed a formidable toolkit against illicit tobacco: stringent penalties (including multimillion-dollar fines and jail time), extensive and long-term powers to close rogue retailers, robust disincentives for leasing premises to illicit retailers and enhanced enforcement squads. NSW must not lag behind these jurisdictions. The safety of our communities and the viability of honest small businesses, including those in regional communities, depend on the NSW Government implementing equally strong or stronger measures.

The Case for NSW to Go Further

MGA urges the Inquiry to recommend a comprehensive strategy for NSW that not only matches the actions of QLD and SA, but also addresses specific gaps and root causes. In particular, we recommend three key areas of focus: (1) boosting enforcement resources in NSW, (2) addressing the underlying economic driver of the illicit market (excessive tobacco excise), and (3) continued collaboration with other jurisdictions and agencies.

1. Increase Enforcement Resources and Presence

Stronger laws will have limited effect unless they are vigorously enforced. One consistent theme from other states – and from stakeholders in NSW – is the need for more “boots on the ground” to investigate and shut down illicit tobacco operations. We believe the NSW Government should significantly increase enforcement resources devoted to this issue, including specialised units and funding, to ensure the new regulatory tools are used effectively.

Firstly, the NSW Government should provision for additional compliance resources. We applaud the NSW Government's commitment to increasing the number of inspectors with the introduction of the new licensing scheme. This is a good start; however, given the scale of the problem, further expansion of inspection teams –backed by a specific illicit tobacco taskforce – is warranted. This should be supported by adequate police and legal resourcing.

In short, MGA recommends substantially bolstering enforcement manpower and funding in NSW, so that the new laws are proactively enforced. The state government should treat the illicit tobacco trade as a priority on par with other organised crime issues – because it is fuelling organised crime. By dedicating sufficient officers, inspectors, and resources, the NSW Government can disrupt the illicit market at scale, protecting legitimate retailers and the public. We note that enforcement must be ongoing: criminal syndicates will probe for weaknesses, so

consistent pressure is needed to prevent the resurgence of illegal operations once one is shut. With sustained effort, the risk of getting caught and shut down in NSW will become too high for illicit dealers to bear.

2. Address the Underlying Cause: Excessive Tobacco Excise

While tough enforcement is essential, MGA submits that the NSW Government must also acknowledge and assist in the discussion to address the root cause that has supercharged the illicit tobacco market: the extraordinarily high level of tobacco excise (tax) in Australia. We concur with Premier Chris Minns' recent assessment that the current tobacco excise settings are contributing to the rise of the black market. At present, Australia's tobacco tax policy – though well-intentioned as a public health measure – has reached a point of diminishing returns and unintended consequences. Continuous tax hikes have driven the retail price of cigarettes to among the highest in the world, far beyond what many addicted smokers can afford, thereby driving consumers into the arms of illegal sellers. The NSW Parliament should echo the Premier's call and urge the federal government to review and lower the tobacco excise as a strategy to combat illicit trade.

We emphasise that this is not about abandoning tobacco control – it is about striking a realistic balance that continues to discourage smoking while not inadvertently fostering a sprawling criminal market. A modest reduction or freeze in excise could shrink the price differential that illegal suppliers exploit, thereby cutting the profit motive out from under the black market. If taxes were reduced back to more moderate levels, some of that revenue could be recaptured through legal sales, while illegal operators would find it harder to compete on price.

MGA therefore recommends that the Committee explicitly recognise federal excise policy as a key factor in the illicit trade and include in its report a recommendation that the NSW Government lobby the Commonwealth for excise relief.

3. Ongoing Collaboration and Continuous Proactive Scan of Successful Measures

Finally, we encourage the NSW Government to view illicit tobacco control as a long-term, collaborative effort. It will be important to continue learning from other jurisdictions and to adapt as criminals change tactics. Queensland and South Australia have shown strong leadership with their recent reforms; NSW should not only match their policies now but remain ready to go further if needed.

Conclusion

Master Grocers Australia urges the Inquiry to recommend bold and decisive action to protect NSW communities and businesses from the scourge of illicit tobacco. The NSW Government should implement the strongest possible regulatory and enforcement measures – at least on par with Queensland and South Australia's recent reforms, and preferably even stronger. This means full and determined enforcement, enacting and using tough penalties (multi-million dollar fines, prison terms) and closure powers to shut down illegal tobacco vendors and making landlords criminally liable for knowingly leasing premises to those vendors. At the same time, the NSW Government should not ignore the economic reality underpinning the black market: we must tackle the cause as well as the symptom. We urge the Committee to support Premier Minns' call for a review of tobacco excise and to advocate that the NSW Government and Parliament presses

the federal government for a reduction in tobacco tax levels to undercut the illicit trade's profitability.

By adopting a comprehensive approach, the NSW Government can stem the flow of illegal tobacco. This will help to dry up a revenue source for organised crime, restore fair competition for law-abiding retailers, and reinforce public health efforts (by ensuring tobacco is not sold to children and that smokers are at least purchasing regulated, standard-compliant products and can be reached by quit programs, rather than remaining in the shadows of an unregulated market). Crucially, by attacking and destroying the illicit market, a core and fundamental objective of any democratically elected government will be realised – the protection of citizens which elect their government and expect nothing less than that all necessary measures are taken to ensure their safety and security. We believe the measures we propose are in the best interest of the community and consistent with the Premier's and Parliament's desire to get on top of this issue. We thank the Committee for considering our submission and would welcome any further engagement.

MASTER GROCERS AUSTRALIA

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