

INQUIRY INTO ILLEGAL TOBACCO TRADE

Organisation: Ritchies Stores Pty Ltd

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Submission to the New South Wales Parliament Portfolio Committee No. 5 - Justice and Communities Inquiry into the Illegal Tobacco Trade

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Introduction

Ritchies Stores Pty Ltd, an independent licensed supermarket chain operating over 80 stores across Australia, including 26 in New South Wales, welcomes the opportunity to contribute to the Portfolio Committee No. 5 - Justice and Communities Inquiry into the Illegal Tobacco Trade. As an independent retailer serving local communities, we are deeply concerned about the growing black market in illicit tobacco and its devastating impact on the communities in which we operate. This submission outlines the significant financial, operational, and public safety-related pressures we face due to this escalating issue and provides recommendations to address the illegal tobacco trade effectively.

The Financial Impact of the Illegal Tobacco Trade

The illicit tobacco market has surged in Australia, driven by high tobacco excise taxes and regulatory gaps that enable criminal networks to thrive. Analysis undertaken by FTI Consulting has found that illicit tobacco accounted for 39.4% of the total tobacco market in 2024, with an estimated revenue loss to the government of \$6.7 billion. For independent supermarkets like Ritchies, tobacco sales have historically been a high-margin category, contributing significantly to revenue. However, the proliferation of black-market tobacco, sold at significantly lower prices through unregulated channels, has substantially eroded this revenue stream.

For Ritchies, this translates to millions of dollars in lost revenue annually across our NSW stores, threatening our ability to maintain competitive pricing on other goods and invest in store upgrades or staff retention.

Operational Challenges and Compliance Costs

Independent supermarkets face significant operational burdens due to the illegal tobacco trade. As legitimate retailers, we are subject to stringent regulations, including licensing requirements, tax compliance, and regular audits by state and federal authorities. These compliance measures, while necessary, are costly and time-consuming. In contrast, illicit

tobacco vendors operate outside these frameworks, selling products without adhering to health warnings, plain packaging laws, or tax obligations.

The disparity creates an uneven playing field. For example, Ritchies invests heavily in staff training to ensure compliance with age verification and tobacco sales regulations, yet illicit vendors bypass these requirements, often selling to minors and undermining public health initiatives. The cost of compliance, coupled with tobacco sales shifting from the legal to the illegal market, places legal, compliant independent retailers at a significant competitive disadvantage, forcing us to absorb losses where possible and lose jobs where it is not.

Community and Safety Impacts

The illegal tobacco trade not only affects our bottom line but also harms the communities we serve. High tobacco excise and patchy enforcement fuels illegal tobacco sales and creates opportunities for organised crime. In NSW, the rise of illicit tobacco has been linked to increased criminal activity, including violent turf wars between criminal syndicates.

This creates safety concerns for our staff and customers. Our stores, often located in regional and suburban areas, are community hubs where safety and trust are paramount. The presence of illegal tobacco vendors in nearby areas increases the risk of crime, including theft and vandalism, as these operators seek to protect their illicit trade. Furthermore, the availability of cheap, unregulated tobacco undermines public health objectives, increasing or slowing the decrease in smoking rates in vulnerable communities and placing additional strain on local health services.

Market Distortion and Unfair Competition

The illegal tobacco trade distorts the retail market, particularly for independent supermarkets that lack the economies of scale enjoyed by larger chains. Independent retailers are disproportionately affected by black-market competition, as they rely heavily on tobacco sales to contribute to the overall revenue pool. Illicit tobacco, often sold at 50-70% below legal retail prices, lures customers away from legitimate retailers, reducing foot traffic and overall sales.

This loss of foot traffic has a compounding effect, as customers who purchase illicit tobacco elsewhere are less likely to buy other goods from our stores. This erosion of customer loyalty threatens the viability of our retail operations, particularly in regional areas where economic challenges are already acute.

Recommendations

To address the illegal tobacco trade, Ritchies urges the Committee to consider the following recommendations, informed by recent legislative and enforcement changes in other Australian states that demonstrate effective strategies to combat illicit tobacco while supporting legitimate retailers like Ritchies.

1. Strengthen Enforcement and Penalties

Increase funding and resources for the NSW Illicit Tobacco Taskforce to target illicit tobacco supply chains and impose stricter penalties for those caught distributing or selling illegal tobacco. Recent initiatives in other states highlight the effectiveness of robust enforcement and severe penalties in disrupting the black market, which could serve as a model for NSW to alleviate the pressure on independent retailers. South Australia provides arguably the best current approach in Australia.

The South Australia Model: In March 2025, South Australia introduced the nation's harshest penalties for illicit tobacco and vape trade under amendments to the Tobacco and E-Cigarette Products Act 1997. These include fines of up to \$6.6 million for supplying or possessing commercial quantities of illicit tobacco, alongside enhanced police powers such as the use of detection dogs and metal detectors to identify illicit operations. These measures aim to disrupt organised crime networks, which control a substantial proportion of illicit tobacco activities in Australia. Additionally, South Australia's legislation allows landlords to terminate leases of tenants involved in illicit sales, deterring property owners from enabling black-market operations. NSW could adopt similar high penalties and landlord accountability measures to deter illicit retailers, who undercut Ritchies' stores by selling tobacco at 50-70% below legal prices.

By aligning with states that have strong regulatory frameworks and effective enforcement, NSW can enhance its enforcement framework, ensuring that illicit tobacco vendors face significant financial and legal consequences. This would level the playing field for Ritchies, reducing the loss of customers to black-market retailers who sell unregulated products without compliance costs.

2. Address the Root Cause

Review the impact of high tobacco excise taxes on the growth of the black market. While taxes aim to reduce smoking rates, Australia's very high excise rate has inadvertently driven demand for cheaper illicit products, as evidenced by the exploding demand for black market

tobacco products. A balanced approach, combining tax policy with robust enforcement, could mitigate this issue.

Impact of High Taxes: Australia's tobacco excise, one of the highest globally, with a 20-pack costing at least \$40 compared to around \$10 on the black market. This has led to a \$10 billion revenue shortfall in the federal budget, as smokers switch to tax-free illicit products. NSW Premier Chris Minns has called for a reduction in tobacco excise, arguing that its high rate drives illegal sales, a sentiment echoed by Deakin University criminologist James Martin, who labels the policy "prohibition-by-creep". Ritchies has experienced a direct impact, with reduced tobacco sales and foot traffic in our stores, as customers opt for cheaper illicit alternatives, undermining our revenue and community presence.

Proposed Approach: The Committee should recommend that the federal government reduce tobacco excise. Reducing the tobacco excise to around the rate that was in place when the federal government was maximising the revenue from tobacco could significantly alleviate the pressure on independent retailers like Ritchies by narrowing the price gap that fuels the illicit tobacco market.

Conclusion

The illegal tobacco trade places an immense strain on independent supermarkets like Ritchies Stores Pty Ltd, threatening our financial viability, increasing operational costs, and undermining community safety. The black market's growth, fueled by high taxes and inadequate enforcement, creates an unfair competitive environment that disadvantages legitimate retailers. We urge the Committee to adopt our recommendations to strengthen enforcement, support retailers, and protect communities. Ritchies is committed to working with the NSW Government to address this critical issue and ensure a fair, safe, and sustainable retail environment. Thank you for considering this submission. I am available to provide further information or appear before the Committee to discuss these matters.

Yours sincerely,

RITCHIES STORES PTY. LTD.

Chief Executive Officer