A REPORT OF THE COALITION TASKFORCE
INTO ILLEGAL TOBACCO

THE ILLICIT TOBACCO CRISIS IN AUSTRALIA

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Executive Summary

Australia is in the grip of an illicit tobacco crisis. The problem of illicit tobacco has moved well beyond a revenue leakage issue and is now being described by Commonwealth agencies as a public health, community safety and organised crime problem. The Illicit Tobacco and E-cigarette Commissioner (**ITEC**) says illicit tobacco and vapes are a serious and growing threat to public health, community safety and the economy, while the Australian Criminal Intelligence Commission (**ACIC**) and Australian Institute of Criminology (**AIC**) have reported that illicit tobacco alone cost Australia $4 billion in 2023–24, a fourfold increase over three years.[1]

Official measures of the size and scale of the illicit market show rapid deterioration, and appear to have significantly underestimated the problem. The Australian Taxation Office (**ATO**) estimated that in 2023–24 about 25% of tobacco consumed was illicit on its current method, with $3.2 billion in customs and excise duty evaded, while also warning that its methodology is under review because recent data suggests it may underestimate the true size of the market.[2]

The ITEC's broader 2024–25 national picture estimated the illicit market at 50–60% of all tobacco consumption, worth $4.1 billion to $6.9 billion, with $7.7 billion to $11.8 billion in evaded excise.[3] However, recent data analysis by the Australian Bureau of Statistics (**ABS**), which was peer-reviewed by ITEC, the ATO and the Department of Home Affairs and will inform the next ITEC report, estimates the illicit market at an extraordinary 69% on a comparable scope and period.[4]

At the same time, enforcement activity has reached record levels without yet reversing the trend. The Australian Border Force (**ABF**) reported 23,097 illicit tobacco detections in 2024–25, seizing 2.53 billion cigarette sticks and 435.46 tonnes of loose-leaf tobacco, but also stated plainly that it "can't seize this problem away" and that border enforcement must be complemented by education, health, domestic enforcement and compliance.[5]

The policy debate has shifted from whether illicit tobacco is a problem to what combination of excise, retail regulation, intelligence, law enforcement and public health measures can realistically shrink the illegal market. Government and private sector stakeholders are increasingly converging on the same point: that a broad range of policy levers will be critical to tackling this ongoing and broadening crisis.

[1] Illicit Tobacco and E-cigarette Commissioner, "Illicit Tobacco and E-cigarette Commissioner Report 2024–25: A national picture of the illicit market", Annual Report, 10 December 2025 https://www.itec.gov.au/sites/default/files/2025-12/ITEC_Commissioner-Report_2024-25.pdf.

Australian Criminal Intelligence Commission and Australian Institute of Criminology, "Serious and organised crime is affecting you – even if you don't realise it", Media Release, 7 November 2025 https://www.aic.gov.au/media-centre/news/serious-and-organised-crime-affecting-you-even-if-you-dont-realise-it.

[2] Australian Taxation Office, "Latest estimates and findings for the tobacco tax gap", 31 October 2025 https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/tax-gap/q-z-tax-gaps/tobacco-tax-gap/latest-estimates-and-findings.

[3] Illicit Tobacco and E-cigarette Commissioner, "Illicit Tobacco and E-cigarette Commissioner Report 2024–25: A national picture of the illicit market", Annual Report, 10 December 2025 https://www.itec.gov.au/sites/default/files/2025-12/ITEC_Commissioner-Report_2024-25.pdf.

[4] Australian Bureau of Statistics, "Household consumption of illicit tobacco and nicotine products", Article, 3 June 2026 https://www.abs.gov.au/articles/household-consumption-illicit-tobacco-and-nicotine-products.

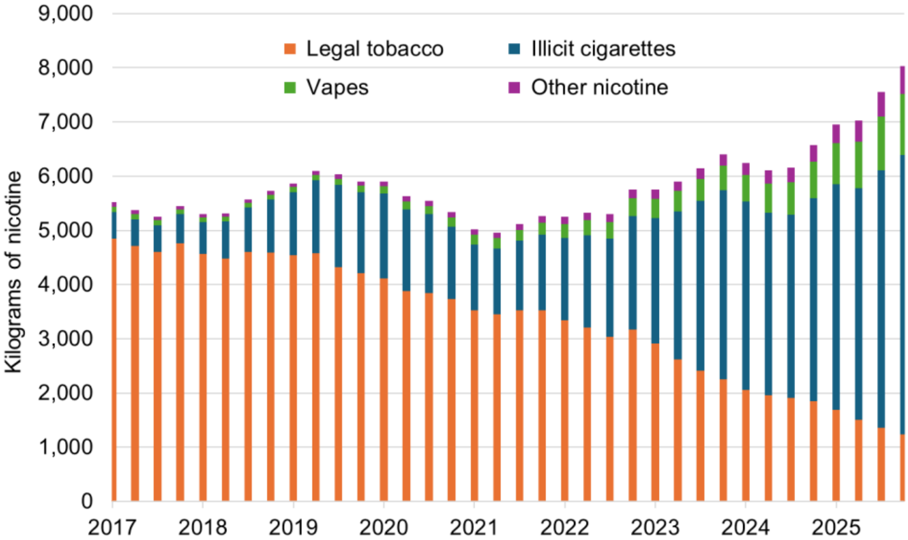
[5] Australian Border Force, "Tobacco takedown: New data reveals a historic high in illicit hauls", Media Release, 29 July 2025 https://www.abf.gov.au/newsroom-subsite/Pages/Tobacco-takedown-New-data-reveals-a-historic-high-in-illicit-hauls.aspx.

The bottom line, which we must all recognise, is that the current approach is not working and will never work. Maintaining the current approach will see the legal market dissolve, organised crime further expand, overall smoking rates continue to rise, and public health further deteriorate, and what little revenue collections remain eventually disappear altogether. The only way to avoid these outcomes is to take a radically different approach.

1. The Problem

The current illicit tobacco crisis has three interlocking dimensions. First, that the market is large and growing. Recently released ABS data (see Figure 1) show this most starkly. In 2016, the illicit market made up a negligible share of overall nicotine consumption at less than 10 per cent. Since that time, however, its share has risen to more than 64 per cent, with the share of legal tobacco falling to just 15 per cent in the face of growth in illicit cigarettes, vapes and other nicotine.

Figure 1: Collapse of the legal tobacco market



Source: Australian Bureau of Statistics, 2026, "Household consumption of illicit tobacco and nicotine products"

Second, that the market is increasingly violent and criminalised. The ACIC/AIC reported illicit tobacco cost Australia $4 billion in 2023–24 and linked the trade to a sharp rise in violence and broader organised-crime harms. Public reporting based on ACIC evidence has linked criminal syndicates to more than 200 firebombings since 2023, alongside extortion, intimidation and homicide.[6]

Third, that the market is undermining both fiscal and public health policy. The ATO notes that illicit tobacco deprives the community of funding for public services, while the ITEC and the Commonwealth Department of Health, Disability, and Ageing (**DoH**) warn that illicit products are unregulated, may avoid mandated packaging and health warning requirements, and weaken the impact of tobacco control laws.[7] In short, Australia is now

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[6] Australian Criminal Intelligence Commission and Australian Institute of Criminology, "Serious and organised crime is affecting you – even if you don't realise it", Media Release, 7 November 2025 https://www.aic.gov.au/media-centre/news/serious-and-organised-crime-affecting-you-even-if-you-dont-realise-it.

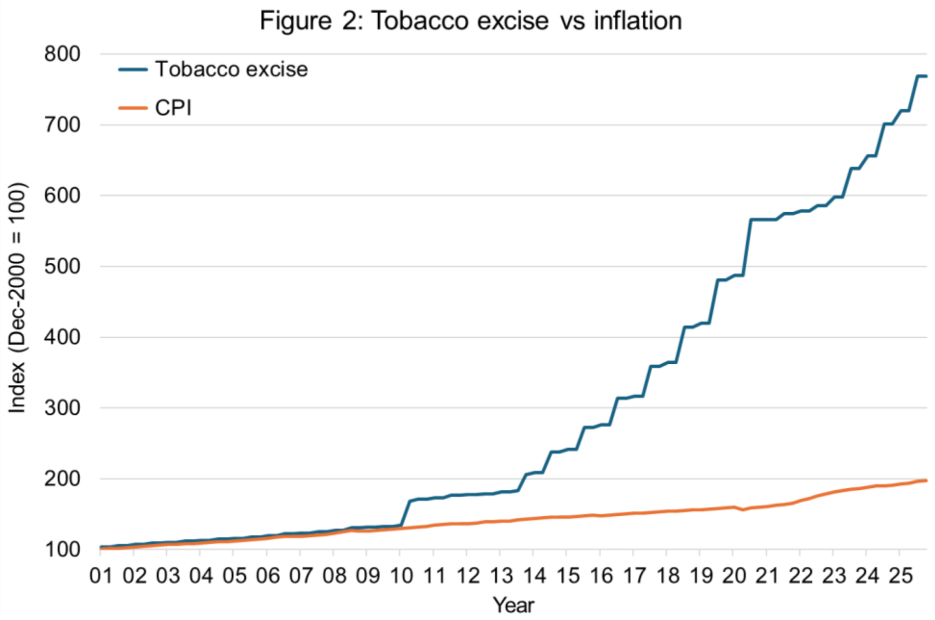
ABC News, "Australia's $4 billion illicit tobacco trade has become one of the nation's most violent criminal markets", 6 November 2025 https://www.abc.net.au/news/2025-11-06/black-market-cigarettes-cost-australia-4bn-in-one-year/105981786.

[7] Australian Taxation Office, "Illicit tobacco", 12 May 2026 https://www.ato.gov.au/about-ato/tax-avoidance/the-fight-against-tax-crime/our-focus/illicit-tobacco.

facing a dual failure: a large criminal market is eroding revenue while also blunting the health effect of a well-regulated legal tobacco market and other controls.

2. Tobacco Excise and Customs Duty

Traditionally, tobacco excise was levied at a modest level and indexed twice-yearly in line with inflation (see Figure 2).



In the 2010-11 Budget, the Rudd Labor Government announced a one-off 25 per cent increase in tobacco excise, which took effect from 30 April 2010. The objective was to reduce smoking by making cigarettes less affordable over time.

In the 2013-14 Budget, the second Rudd Labor Government followed up by switching to indexation by average weekly ordinary time earnings, which would see tobacco excise increase over time more rapidly than inflation. And then, in mid-2013, it legislated a staged increase in tobacco excise by 12.5 per cent per year for four years. These five increases together would double the rate of tobacco excise.

In the 2016-17 Budget, the Turnbull Coalition Government announced a further four 12.5 per cent annual increases in tobacco excise, but no further increases beyond indexation were undertaken while the Coalition was in government.

On coming to government, the Albanese Labor Government then increased tobacco excise by 5 per cent per year beyond indexation over three years.

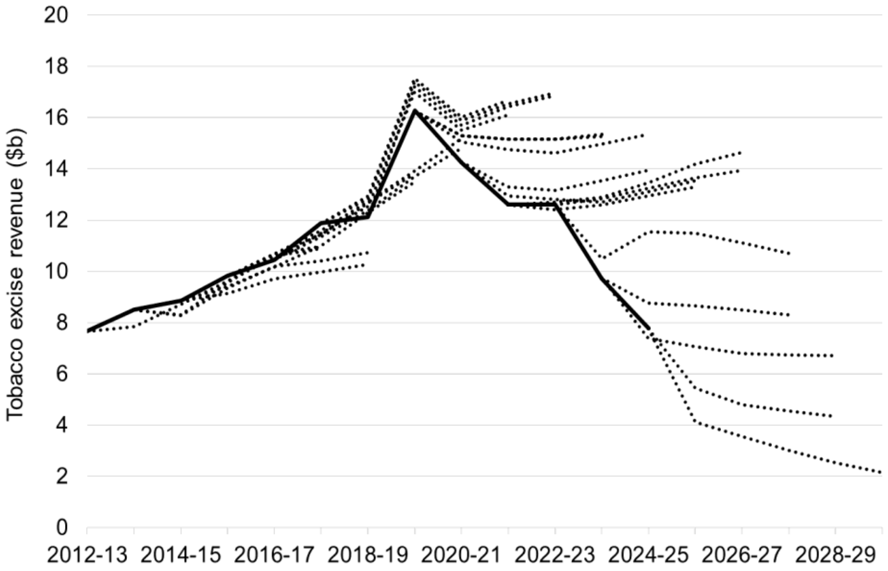
However, the current debate is not about whether excise once worked, but whether the present settings are now producing sharply diminishing returns (and increased smoking rates) because legal prices have widened the gap to illicit products.

Illicit Tobacco and E-cigarette Commissioner, "Illicit Tobacco and E-cigarette Commissioner Report 2024–25: A national picture of the illicit market", Annual Report, 10 December 2025 https://www.itec.gov.au/sites/default/files/2025-12/ITEC_Commissioner-Report_2024-25.pdf.

Commonwealth Department of Health, Disability and Ageing, "Smoking and tobacco laws in Australia", 14 March 2025 https://www.health.gov.au/topics/smoking-vaping-and-tobacco/about-smoking/laws-in-australia.

While increases in tobacco excise prior to 2019-20 resulted in raising revenue on net, since that time tobacco excise revenues have fallen significantly (see Figure 3). While budgets consistently forecasted rising revenues on the back of excise increases, the actual tobacco excise revenue received consistently underperformed those forecasts.

Figure 3: Tobacco excise revenue vs forecasts



From its peak in 2019-20 of around $16 billion, tobacco excise revenue had halved to around $8 billion by 2024-25, is expected to have halved again to around $4 billion in 2025-26, and again to $2 billion by 2029-30. But if recent forecasting performance is any guide, this could occur far sooner, and it would not be unreasonable to expect tobacco excise revenue to disappear completely in the near future.

If these reductions in excise were driven by reductions in tobacco consumption, then the fall in revenue might be seen as a success, and, indeed, the government has consistently pointed to the reduction in legal tobacco consumption as a sign its policies are working. However, as the ABS data show, increases in tobacco excise have merely driven substitution from legal to illicit tobacco consumption, while overall smoking rates have risen significantly.

The Parliamentary Budget Office (**PBO**) itself acknowledged in November 2024 that large rate increases may have contributed to more illicit tobacco use, illustrating the trade-off between behavioural change taxation and non-compliance.[8] In this context it is worth referencing the 2010 report, *Contraband Tobacco in Canada*, which concluded that while increased excise taxes reduced legal tobacco sales, they acted as the primary catalyst for an explosion in the contraband market.[9]

The most important methodological point is that the PBO's April 2026 Costing Concept on nicotine prices is designed for budget costing, not for modelling the full, dynamic restructuring of the tobacco market.[10] The PBO says its model focuses mainly on how consumers switch products and consumption when prices change,

[8]Parliamentary Budget Office, "Shrinking revenue bases in excise taxes", 14 November 2024 https://www.pbo.gov.au/about-budgets/budget-insights/budget-explainers/tax-mix/future-scenarios/shrinking-revenue-bases.

[9]Contraband Tobacco in Canada, Gambler and Katz, 2010 https://portal-uat.who.int/fctcapps/sites/default/files/kh-media/e-library-doc/2019/11/2010-contraband-tobacco-in-canada.pdf.

[10]Parliamentary Budget Office, Costing Concepts: Nicotine prices, 28 April 2026 https://www.pbo.gov.au/sites/default/files/2026-04/Costing%20Concepts%20-%20Nicotine%20prices.pdf.

and explicitly states that impacts on manufacturers, retailers or illegal market operators are generally assumed to be minimal beyond price pass-through.

It also states that "second round effects", including changes to illegal channels or manufacturers exiting the market, are not considered.

That is why a PBO costing will typically not capture the full range of offsetting effects that advocates of excise recalibration argue may occur if the legal–illicit price gap narrows. Those omitted or only partially captured offsets can include greater migration from illicit to legal sales, improved community safety and reduced enforcement, storage, destruction and investigation costs, reduced proceeds available to organised crime, and avoided market-exit effects if major legal suppliers judge the Australian market no longer commercially viable.

3. International Experience

International evidence shows that excise settings are highly relevant to illicit trade. In some circumstances, especially where the legal–illicit price gap has become extreme, material tax reductions can contribute to a significant contraction in the illicit market. Canada provides the clearest example:

> *The effects of tax policy on the contraband tobacco trade became particularly apparent in Canada in the late 1980s and early 1990s, when tobacco excise taxes were increased and subsequently rolled back. At the time, organized criminal outfits, along with some within the tobacco industry, recognized the substantial profits that could be made by sidestepping tax and regulatory requirements and selling tobacco products at a discount, i.e., tax-free.*
>
> *Trade in contraband cigarettes became prevalent, displacing lawful cigarette sales. In 1994, the federal government, unable to obstruct the black market trade, resolved to reduce tobacco excise taxes in order to weaken incentives to smuggle and distribute contraband. The provinces followed suit shortly thereafter. By the late 1990s, the contraband market had receded substantially.*[11]

There are few more recent and appropriate direct comparators for Australia's current illicit trade settings because illicit tobacco markets in other jurisdictions remain far smaller and tax rates are much lower. Australia is now dealing with a much larger illicit segment, meaning excise changes are likely to have a materially different effect on total consumption and shifts between the legal and illicit markets.

4. Key Themes from the Senate Inquiry

The Senate Legal and Constitutional Affairs References Committee inquiry into the illicit tobacco crisis in Australia remains underway and is due to report by 30 June 2026.[12] Its terms of reference cover the scale of the market, transnational serious and organised crime, revenue impacts, public health implications, law enforcement adequacy and options for reform, including possible changes to tax, customs and criminal laws. Based on the submissions and public hearings, there are five key themes that stand out:

[11] Fraser Institute, Nachum Gabler and Diane Katz, "Contraband Tobacco in Canada: Tax Policies and Black Market Incentives", July 2010 https://www.fraserinstitute.org/sites/default/files/contraband-tobacco-in-canada.pdf.

[12] Parliament of Australia, Senate Legal and Constitutional Affairs References Committee, "Illegal tobacco crisis in Australia," 27 November 2025 https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Legal_and_Constitutional_Affairs/Tobacco2025.

1. **The crisis is no longer viewed as marginal**. A range of stakeholders describe illicit tobacco as a rapidly expanding, highly organised market that undermines tobacco control, driving community harm and violence, and eroding the revenue base.[13]

2. **Organised crime and violence are central, not incidental**. Evidence presented to the committee has linked the illicit trade to fire bombings, violent robberies, extortion and turf wars.

3. **Excise is the key driver of the black market**. A broad cross-section of stakeholders agree that tobacco taxes are driving the illicit trade. While the public health lobby strongly opposes excise reduction, they are outnumbered by retailers, tobacco manufacturers, crime and law enforcement experts, and even a growing number of health academics and medical practitioners, who argue for a freeze or reduction in the tobacco excise rate.

4. **The enforcement and compliance framework needs further strengthening**. There is broad agreement amongst stakeholders that federal and state governments both have a role to play in bringing about an uplift to fragmented enforcement and compliance efforts, though the states have played a significant role in implementing a range of measures, such as increased penalties, closure orders, and landlord accountability mechanisms to address the core structural problems.

5. **The system response must be broader than border seizures**. Commonwealth and state agencies, and many submitters, are converging on a multi-pronged response spanning health, border, police, taxation, financial intelligence, licensing and community reporting.

5. Law and Order

There is strong official evidence that illicit tobacco in Australia is linked to serious organised crime, money laundering, violence, drug trafficking and weapons trafficking. The ABF says illicit tobacco profits fund other serious criminal activities including drug and weapons trafficking, while the Australian Transaction Reports and Analysis Centre (**AUSTRAC**) has described illicit tobacco profits as funding broader organised crime and highlighted money laundering linked to the trade.[14] Multi-agency operations are now targeting illicit tobacco as an organised-crime financing stream.[15]

Beyond the connection between illicit tobacco and money laundering, extortion, drugs and weapons, Australia's illicit tobacco trade is also now part of a broader crime–terror nexus in which highly profitable criminal markets can create funding streams, logistics networks and proxy relationships that may be exploited by extremist or terrorist actors.

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[13] See, for example, Australian Medical Association, "Submission: Inquiry into the illegal tobacco crisis in Australia", 27 March 2026 https://www.ama.com.au/articles/submission-inquiry-illegal-tobacco-crisis-australia.

[14] Australian Border Force, "Tobacco takedown: New data reveals a historic high in illicit hauls", Media Release, 29 July 2025 https://www.abf.gov.au/newsroom-subsite/Pages/Tobacco-takedown-New-data-reveals-a-historic-high-in-illicit-hauls.aspx.

Australian Transaction Reports and Analysis Centre, "Money laundering update 2026," 15 May 2026 https://www.austrac.gov.au/industry-and-business/education-and-resources/publications-and-resources/money-laundering-update-2026.

[15] Australian Taxation Office, "Criminal syndicate left reeling after massive illicit tobacco bust", 25 August 2025 https://www.ato.gov.au/media-centre/criminal-syndicate-left-reeling-after-massive-illicit-tobacco-bust.

Australian Federal Police, "MAST detectives seize 46 million illicit cigarettes; additional charges laid", 22 July 2025 https://www.afp.gov.au/news-centre/media-release/mast-detectives-seize-46-million-illicit-cigarettes-additional-charges.

Alleged Islamic Revolutionary Guard Corps (**IRGC**) links to several Australian firebombing incidents in 2024–25 raise urgent questions about whether overseas terrorist-linked entities are leveraging domestic organised crime networks, with illicit tobacco singled out as a particularly attractive revenue source because Australia's high excise settings have helped make the black market exceptionally lucrative.[16] It suggests that, as a staple commodity in the criminal underworld, illicit tobacco generates large amounts of cash and embeds relationships among smugglers, bikie-linked figures, distributors and violent enforcers: conditions that can facilitate terrorist financing indirectly, even where the connection is mediated through proxies rather than formal operational control. On that view, the significance of illicit tobacco lies not just in lost revenue or retail crime, but in its capacity to help sustain the criminal ecosystems that can be mobilised for politically motivated violence, meaning it should be treated as a national security issue as well as a law enforcement and regulatory one.

6. The Role of the States and Territories

State governments have become central to the fight against illicit tobacco because, while the Commonwealth controls excise, customs and border settings, states and territories control much of the retail environment where illicit tobacco is sold.

To one degree or another, the states have implemented licensing schemes, supported by search and seizure powers, closure orders, landlord accountability mechanisms, and increased penalties for the sale of illicit tobacco.[17]

Recent examples show states moving aggressively. In Victoria, the Allan Government introduced a new retailer and wholesaler licensing scheme, created a dedicated regulator and inspectors, expanded police search powers, and increased penalties.[18] In New South Wales, the Minns Government has introduced a tobacco licensing scheme, tougher penalties for sale and commercial possession of illicit tobacco, closure powers for offending premises, lease termination mechanisms and a cross-agency state illicit tobacco taskforce.[19] In South Australia, the Malinauskas Government has tightened retail and wholesale licensing, imposed stronger "fit and proper person" checks, introduced 28-day and 12-month closure orders, enabled lease termination, created new offences for owners who allow premises to be used for illicit trade, expanded police search powers, and lifted penalties.[20]

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[16] Rohan Gunaratna and Loren Kwok, "Where crime and terror meet: Australia's illicit tobacco market," The Cipher Brief, 25 February 2026 https://www.thecipherbrief.com/australias-illicit-tobacco-market.

[17] NSW Parliamentary Research Service, Daniel Montoya and Lenny Roth, "Research Paper 10, 2024: Tobacco licensing schemes," November 2024 https://www.parliament.nsw.gov.au/researchpapers/Pages/tobacco-licensing-schemes.aspx.

[18] Premier of Victoria, "Tough New Laws To Smoke Out Tobacco Crime Lords", 12 November 2024 https://www.premier.vic.gov.au/tough-new-laws-smoke-out-tobacco-crime-lords.

Premier of Victoria, "More Resources For Police To Keep Victorians Safe," 22 April 2026 https://www.premier.vic.gov.au/more-resources-police-keep-victorians-safe.

[19] NSW Government, Ryan Park, "Suite of tough new illegal tobacco measures unveiled," 27 July 2025 https://www.nsw.gov.au/ministerial-releases/suite-of-tough-new-illegal-tobacco-measures-unveiled.

NSW Government, Ryan Park, "More boots on the ground to tackle illegal tobacco," 10 February 2026 https://www.nsw.gov.au/ministerial-releases/more-boots-on-ground-to-tackle-illegal-tobacco.

NSW Government, Ryan Park, "New penalty for landlords of premises selling illicit tobacco and illegal vapes," 7 May 2026 https://www.nsw.gov.au/ministerial-releases/penalty-landlords-selling-illicit-tobacco.

[20] Government of South Australia, Consumer and Business Services, "Tobacco licensing changes" https://cbs.sa.gov.au/sections/Licences/tobacco-licensing-and-enforcement-in-sa/tobacco-licensing-changes.

In Queensland, the Crisafulli Government has established a smoking product supplier licensing scheme and closure order powers, while also moving to go further through reforms that would extend interim closure orders from 72 hours to three months, strengthen landlord liability and lease termination rights, authorise undercover operations and broaden seizure powers.[21]

In Western Australia, the Cook Government has operated a tobacco seller licensing regime for some time and, in 2026, enacted stronger illicit tobacco laws introducing 90-day closure orders, substantial penalties, while committing to a second tranche of reforms to further tighten licensing and introduce longer closures.[22] Tasmania has likewise committed to a stronger enforcement model, releasing and then tabling legislation to create new offences, increase penalties for the sale and supply of illicit tobacco and vapes, introduce powers to close businesses trading illegally or outside the licensing framework, ban vending machine sales, and further strengthen its coordinated enforcement arrangements with Tasmania Police.[23]

The states are leading the shopfront and inland control response, as distinct from the Commonwealth, which predominantly has responsibility for excise, customs, and the pre-border and border environment. But while the states have done a considerable amount, they cannot solve the problem on their own.

NSW Health Minister Ryan Park has consistently argued that the states are doing their best "from an enforcement perspective and a legislative perspective, as well as a licensing perspective", but that it is "very

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Government of South Australia, Consumer and Business Services, "Tobacco law changes" https://www.cbs.sa.gov.au/campaigns/tobacco-law-changes.

Government of South Australia, Consumer and Business Services, "Tobacco licensing and enforcement in SA," 5 June 2025 https://cbs.sa.gov.au/sections/Licences/tobacco-licensing-and-enforcement-in-sa.

[21] Queensland Government, Department of Health, "Tobacco and vaping" https://www.health.qld.gov.au/public-health/topics/smoking-laws.

Queensland Government, Tim Nicholls, "Illegal tobacco and vape traders and their landlords face jail under proposed laws," 22 May 2025 https://statements.qld.gov.au/statements/102596.

Queensland Government, Tim Nicholls, "Illegal tobacco and vape crackdown continues with new nation-leading laws," 16 September 2025 https://statements.qld.gov.au/statements/103538.

[22] Government of Western Australia, Department of Health, "Tobacco sellers licensing" https://www.health.wa.gov.au/Articles/S_T/Tobacco-sellers-licensing.

Government of Western Australia, Roger Cook, Meredith Hammat, Reece Whitby, "Tough new tobacco laws introduced to Parliament," 16 February 2026 https://www.wa.gov.au/government/media-statements/Cook%20Labor%20Government/Tough-new-tobacco-laws-introduced-to-Parliament-20260216.

Government of Western Australia, Roger Cook, Meredith Hammat, Reece Whitby, "New tobacco laws pass Parliament," 12 March 2026 https://www.wa.gov.au/government/media-statements/Cook%20Labor%20Government/New-tobacco-laws-pass-Parliament-20260312.

Government of Western Australia, Department of Health, "New tobacco and vaping laws in Western Australia," 18 May 2026 https://www.health.wa.gov.au/Health-for/Licensing-and-industry/Tobacco/New-tobacco-and-vaping-laws-in-Western-Australia.

[23] Tasmanian Government, Premier of Tasmania, Bridget Archer, Felix Ellis, "Cracking down on illegal smokes and vapes," 11 November 2025 https://www.premier.tas.gov.au/latest-news/2025/november/cracking-down-on-illegal-smokes-and-vapes.

Tasmanian Government, Bridget Archer, Felix Ellis, "Tasmania continues crack down on illegal tobacco," 8 February 2026 https://www.premier.tas.gov.au/latest-news/2026/february/tasmania-continues-crack-down-on-illegal-tobacco.

Tasmanian Government, Premier of Tasmania, Bridget Archer, Felix Ellis, "Cracking down on illegal smokes and vapes" https://www.premier.tas.gov.au/latest-news/2026/march/cracking-down-on-illegal-smokes-and-vapes.

Tasmanian Government, Department of Health, "Fact sheet: Public Health Amendment (Prohibited Tobacco and Other Products) Bill 2026," March 2026 https://www.parliament.tas.gov.au/__data/assets/pdf_file/0019/103537/Att-4-Fact-Sheet-Public-Health-Amendment-Illicit-Tobacco-and-Other-Products-Bill-2026.pdf.

difficult" when illegal tobacco can be bought for "three or four times less" than the legal product, and warning that the Commonwealth's tobacco excise settings are fuelling the black market.[24]

7. Why Law Enforcement Alone Cannot Fix the Problem

Federal and state agencies themselves have admitted that enforcement alone cannot solve the illicit tobacco crisis. The ITEC says there is "no single solution" and calls for a multi-pronged approach across the whole ecosystem, from supply to demand.[25] The ABF has stated that enforcement at the border is only one part of the response, "we can't seize this problem away", and "while enforcement action remains essential, the scale, resilience and adaptability of the market demonstrate that enforcement alone will not deliver sustained reductions in illicit tobacco activity".[26]

Law enforcement alone is insufficient for one key reason: the incentives remain too strong while the legal–illicit price gap is so wide.

8. The Legal Tobacco Industry

The explosion of the illicit tobacco market has caused a corresponding contraction for the legal tobacco manufacturers. Two of the three major tobacco manufacturers have indicated a possibility of withdrawal from the market. In March 2026, the Chief Corporate Officer of British American Tobacco (**BAT**) suggested the company may have no choice but to withdraw from the Australian market due to the growth of the illicit tobacco market.[27] In May 2026, Philip Morris also warned that illegal tobacco could wipe out legal trade in Australia by 2030 and that the multinational manufacturers could exit the Australian market because of declining legal sales.[28]

These claims matter partly because it aligns with the PBO's explicit methodological caveat: its published nicotine-pricing model does not include second-round effects such as manufacturers exiting the market. In other words, even if the risk of supplier exit is material, it is not a factor the PBO currently builds into standard policy costings.[29]

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[24]ABC News, Sean Tarek Goodwin, "Four EzyMart Sydney stores among 17 retailers shut over illegal tobacco, vape sale claims," 28 May 2026 https://www.abc.net.au/news/2026-05-28/ezymart-sydney-shops-closed-by-nsw-health-illegal-tobacco/106731260.

[25]Illicit Tobacco and E-cigarette Commissioner, "Illicit Tobacco and E-cigarette Commissioner Report 2024–25: A national picture of the illicit market", Annual Report, 10 December 2025 https://www.itec.gov.au/sites/default/files/2025-12/ITEC_Commissioner-Report_2024-25.pdf.

[26]Australian Border Force, "Tobacco takedown: New data reveals a historic high in illicit hauls", Media Release, 29 July 2025 https://www.abf.gov.au/newsroom-subsite/Pages/Tobacco-takedown-New-data-reveals-a-historic-high-in-illicit-hauls.aspx.

Herald Sun, Regan Hodge and Sarah Booth, "Australian Border Force submission into the inquiry of the illegal tobacco crisis attributes blame on federal government" https://www.heraldsun.com.au/news/victoria/australian-border-force-submission-into-the-inquiry-of-the-illegal-tobacco-crisis-attributes-blame-on-federal-government/news-story/5ff00ba04b18e95b8462f1afeb94e96a.

[27]Herald Sun, Jon Kaila, "Cigarette giant British American Tobacco will 'quit Australia' over raging illegal tobacco wars" https://www.heraldsun.com.au/news/victoria/cigarette-giant-british-american-tobacco-will-quit-australia-over-raging-illegal-tobacco-wars/news-story/02aa294a83471d04ee1e09e66482bf84.

[28]Hansard, Legal and Constitutional Affairs References Committee, Inquiry into the illegal tobacco crisis in Australia, 4 May 2026 https://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/29635/toc_pdf/Legal%20and%20Constitutional%20Affairs%20References%20Committee_2026_05_04.pdf;fileType=application%2Fpdf.

[29]Parliamentary Budget Office, Costing Concepts: Nicotine prices, 28 April 2026 https://www.pbo.gov.au/sites/default/files/2026-04/Costing%20Concepts%20-%20Nicotine%20prices.pdf.

9. Online Sales

Legal tobacco retailers have provided to authorities for a considerable period of time, the details of dozens of online sites which continue to operate, and yet to our knowledge not one has been closed down by authorities.

The sites are clearly active in avoiding authorities, openly changing banking details and providing detailed instructions not to mention tobacco on payments or the order will be declined. Legal retailers, who have licensing and sales requirements to comply with, justifiably express their frustration when the distribution network for these sites is owned by the Australian Government in the form of Australia Post.

While the focus of most in considering the distribution of illicit tobacco and vapes is on convenience stores and illegal pop-up shops, it is evident that a significant proportion of distribution is through Australia Post.

Web sites advertising illicit tobacco commonly and prominently advertise "get your Australia Post tracking number here". Small outlets reporting major loss of sales also report corresponding increases in traffic through local post offices.

Once a package is lodged with Australia Post, it goes dark. Unlike private parcel distribution providers, Australia Post does not question what is contained in a package. Nor are they permitted by law to open a package. Private operators are required by law to demand a declaration of the contents of a package and to satisfy themselves that the contents are as stated.

When questioned at Senate estimates, the Australia Post CEO acknowledged the flow of illicit tobacco, but dismissed it as an Australian Border Force responsibility, which it is at the border but gives no consideration to product posted within and throughout Australia.

When questioned in hearings of the Senate inquiry, most witnesses gave little acknowledgement of Australia Post as a supply chain, including the Illicit Tobacco and E-Cigarette Commissioner. Almost all of the government's focus to date has been on bricks and mortar shopfronts, rather than online sales, and this needs to change.

10. Stakeholder Consultations

The Taskforce held a number of stakeholder consultations across several months. This included sector discussions with retailers and small business, law enforcement and police representatives, economists including former Treasury officials, researchers, medical doctors including respiratory specialists and GPs with decades of experience supporting patients to stop smoking, and public health advocates. There was a remarkably consistent view that emerged regarding the scale and nature of Australia's illicit tobacco problem.

Stakeholders consistently described a market that has shifted significantly from lawful retail channels into illicit supply chains. Organised crime groups are increasingly profiting from tobacco and nicotine sales, lawful retailers are losing customers and revenue, governments are experiencing declining excise receipts, and enforcement agencies are struggling to contain a market that has become deeply entrenched.

While participants came from very different professional and policy backgrounds, there was broad agreement that the current approach is not achieving its intended outcomes. Stakeholders repeatedly argued that illicit tobacco is no longer solely a public health issue. It is now also a serious organised crime, community safety, economic and regulatory challenge.

Perhaps most notably, some public health and harm-reduction stakeholders acknowledged that current settings may be producing outcomes that undermine traditional public health objectives, including the growth of illicit supply chains, reduced regulatory oversight and increased organised crime involvement in the nicotine market.

The strongest theme to emerge was that no single policy lever will resolve the issue. Participants consistently advocated for a coordinated response addressing both supply and demand, supported by stronger enforcement, improved national coordination and a reassessment of current policy settings.

ORGANISED CRIME HAS BECOME THE PRIMARY BENEFICIARY

One of the strongest areas of consensus was the role of organised crime in the illicit tobacco market.

Stakeholders described organised crime groups as major beneficiaries of current market conditions. Concerns were raised about firebombings, intimidation, criminal profits, money laundering, illegal importation networks and the broader impacts on community safety.

Several participants noted that the discussion can no longer be limited to tobacco control. The issue is increasingly being viewed through the lens of organised crime and public safety.

Many stakeholders expressed concern that organised crime groups have become deeply embedded within tobacco and nicotine supply chains and are adapting more quickly than regulatory and enforcement responses.

A recurring theme was that Australia has inadvertently created one of the most profitable black markets in the country, with criminal groups increasingly controlling the distribution of tobacco and nicotine products.

AUSTRALIA HAS LOST CONTROL OF A SIGNIFICANT PORTION OF THE MARKET

Across consultations, stakeholders repeatedly described a market that has moved beyond the reach of traditional regulatory approaches.

Many participants estimated illicit tobacco now represents approximately 60 per cent of total consumption, with some suggesting the figure may be even higher in particular regions or product categories. It should be noted that the Australian Bureau of Statistics has just released figures showing a 40% increase in nicotine consumption across 8 years, with an estimated 80% illegal tobacco market driving this.

Participants described consumers increasingly accessing products through:

- Illegal tobacconists;
- Online suppliers;
- Social media channels;
- Courier and postal networks; and
- Informal community distribution networks.

The concern raised repeatedly was not simply that illicit tobacco exists, but that it has become normalised. Consumers who would otherwise never engage with organised crime are increasingly purchasing illicit products because they are cheaper, easier to obtain and widely available. Major concern was expressed about young people and children taking up smoking for the first time because of cheap, illegal cigarettes.

THE PRICE GAP IS DRIVING CONSUMER BEHAVIOUR

The most consistent finding across all consultations was the role of price.

Legal tobacco products commonly retail between $40 and $90, while illicit products can often be purchased for between $10 and $20.

Retailers, economists, researchers and law enforcement representatives all argued that consumers are responding to these price differences in predictable ways.

Many participants suggested consumers have not necessarily stopped smoking. Rather, they have shifted from regulated products to illicit alternatives.

A recurring observation was that tobacco excise may have reached an inflection point. While higher prices historically contributed to reducing smoking rates, stakeholders questioned whether the excise is now primarily driving consumers into unregulated markets.

Several participants argued that the size of the tax gap is now the single most important driver of illicit market growth.

ENFORCEMENT ALONE CANNOT SOLVE THE PROBLEM

One of the few points on which every stakeholder group agreed was that enforcement alone will not solve the issue.

Law enforcement representatives acknowledged the significant challenges involved in policing a market of this scale. Researchers, economists, retailers and public health advocates reached similar conclusions. Anecdotal evidence from one law enforcement official noted that across Australia at a state and federal level, there is probably a shortfall of 7,000 to 8,000 police. Every law enforcement and police representative noted that while additional enforcement funding is welcome, enforcement and detection alone will not fix this problem.

Participants noted that illicit operators adapt quickly to enforcement activity, moving between physical stores, online sales channels, social media platforms, QR-code ordering systems and courier networks. Concern has also been expressed that people buying illegal cigarettes online are effectively handing over their home address and credit card details to organised crime.

Overall, there was broad agreement that stronger enforcement remains necessary. However, stakeholders repeatedly argued that enforcement must form part of a broader package of reforms addressing both supply and demand and this includes a drop in tobacco excise.

The phrase most commonly used throughout consultations was that Australia cannot "police its way out" of the illicit tobacco problem.

IMPACT ON LAWFUL BUSINESSES

Retailers and small business operators reported significant impacts from the growth of illicit tobacco.

Participants described declining sales, reduced customer traffic, lower margins and increasing pressure on business viability.

Many lawful retailers expressed frustration that they are required to comply with strict licensing, taxation and age-verification requirements while illicit competitors operate outside the law with limited consequences.

Stakeholders also raised concerns regarding:

- Rising insurance premiums;
- Staff safety risks;
- Reduced foot traffic;

- Loss of associated purchases; and
- Declining profitability.

Several businesses warned that if current trends continue, lawful tobacco retailing may become commercially unviable within the coming years. One small business owner said that her yearly tobacco sales would not reach the $800 tobacco licensing fee in Victoria.

AN EMERGING PUBLIC HEALTH TENSION

One of the more notable findings from the consultations was the willingness of some public health and harm-reduction stakeholders to acknowledge that current policy settings may be producing unintended consequences.

Participants remained committed to reducing smoking rates and improving health outcomes. However, several questioned whether existing approaches are continuing to achieve those objectives in practice.

A recurring concern was that increasingly restrictive settings may be contributing to outcomes that run counter to traditional public health goals. These concerns included the growth of illicit supply chains, increased organised crime involvement, reduced regulatory oversight and easier access to unregulated products.

Several stakeholders questioned whether Australia has reached a point where policy is reducing legal consumption without necessarily reducing overall nicotine consumption. The concern raised was that consumers may not be quitting, but instead shifting from regulated products to illicit alternatives.

Participants also highlighted a potential tension between restricting nicotine use and reducing smoking-related harm.

Some argued that policy settings have become increasingly focused on eliminating nicotine consumption, while insufficient attention has been given to the relative harms of different nicotine products and the role lower-risk alternatives may play in reducing smoking rates.

International examples, particularly Sweden and New Zealand, were discussed as jurisdictions where harm-reduction approaches have been incorporated into broader tobacco control strategies.

Importantly, this discussion did not represent opposition to tobacco control. Rather, it reflected growing concern that policy settings should be assessed against outcomes rather than intentions.

Several stakeholders repeatedly returned to a number of difficult but important questions:

If legal tobacco consumption falls but illicit consumption rises, is the policy achieving its objective?

If organised crime profits increase while government revenue declines, has control of the market been weakened?

If young people can access illicit products more easily than regulated products, are public health protections being strengthened or undermined?

If smoking-related harm remains the primary health concern, should policy place greater emphasis on harm reduction and lower-risk alternatives?

This theme was particularly significant because concerns about the effectiveness of current settings were not only being raised by retailers, economists and law enforcement representatives. Elements of the public health and harm-reduction community were also questioning whether current approaches are continuing to deliver the outcomes they were originally intended to achieve.

There was a distinction in views between public health advocacy peak bodies and individual medical doctors consulted on tobacco excise, with medical doctors being far more open, and in many cases supportive of a drop in the tobacco excise, as opposed to a status quo position by most public health peak body representatives.

VAPING

The Taskforce received consistent feedback on vaping, with the exception of the public health peak advocacy bodies who seemed to favour the status quo pharmacy only model. More broadly, consistent feedback was that there was around a 97% illegal vape market in Australia, and that this was closely tied to the illegal tobacco market. Feedback from medical doctors was that there is a big difference between legal, pharmacy dispensed vapes that have specific manufacturing standards, and the dangerous products contained in illegal vapes. Stakeholders stated that it would be far preferable to have a highly regulated legal vaping market in Australia that specifies manufacturing and product standards. The Taskforce also heard that most pharmacies across Australia are reluctant to stock vapes for fear of organised crime attacks. Because most of the vape market in Australia is illegal, there is widespread concern about the proliferation of sales to children under the age of 18. It has also been widely suggested by medical doctors that regulated nicotine products have a significant role to play in assisting people to reduce or stop smoking.

ONLINE SALES AND DISTRIBUTION NETWORKS

A major concern across multiple consultations was the growth of online illicit tobacco sales.

There was a strong view that enforcement efforts targeting physical stores will have limited success unless accompanied by action against online distribution channels.

Stakeholders also discussed the potential role of banks, payment providers and merchant services in disrupting illicit trade by restricting access to payment infrastructure.

Many participants viewed online distribution as one of the most significant weaknesses in the current regulatory framework.

NATIONAL COORDINATION IS LACKING

Stakeholders consistently highlighted the fragmented nature of current arrangements.

Responsibility for enforcement, regulation and compliance is spread across multiple Commonwealth, state and local government agencies.

Participants argued this creates gaps that can be exploited by organised crime groups.

A recurring concern was the mismatch between responsibility and incentives. The Commonwealth receives tobacco excise revenue, while states and territories often carry much of the enforcement burden.

There was strong support for:

- Greater national coordination;
- Improved intelligence sharing;
- Consistent licensing arrangements;
- Consistent penalties;
- Stronger closure powers and state leasing laws; and
- Better alignment between Commonwealth and state responsibilities.

Several participants suggested that existing successful state-based approaches should be examined as part of any future national response. Tasmania and Queensland were singled out for having success with strong lease termination, illegal shop closure and penalty regimes. However it was also noted that while these states had achieved success, without federal government action there was not much more that could be achieved from state government alone.

AREAS OF BROAD AGREEMENT

Despite representing very different sectors and perspectives, stakeholders demonstrated significant agreement on several key issues.

- The illicit tobacco market is growing and increasingly entrenched.
- Organised crime is a major beneficiary of current market conditions.
- The price gap between legal and illicit products is a significant driver of demand.
- Enforcement remains important but will not solve the problem on its own.
- Lawful retailers and small businesses are bearing substantial costs.
- Online sales and distribution channels require greater attention.
- National coordination needs to be strengthened.
- Current policy settings warrant review.
- Public health outcomes should be measured by real-world results rather than policy intent alone.
- Any successful response will require a combination of enforcement, regulatory reform and demand-side measures.

CONCLUSION ON STAKEHOLDER CONSULTATIONS

The consultations revealed a striking level of consistency across stakeholder groups.

Participants may differ on the precise policy solutions required, but there was broad agreement that Australia's illicit tobacco market has evolved into a complex challenge involving organised crime, public health, taxation, community safety and small business viability.

The dominant message was that the current policy approach is no longer delivering the outcomes originally intended.

Many stakeholders argued that Australia now faces the worst of both worlds: a growing black market, increasing organised crime involvement, declining government revenue, attacks on lawful businesses, a clear threat to community safety and reduced oversight of consumer behaviour which includes an increase in smoking.

The consultations suggest the challenge is no longer simply reducing smoking. It is restoring control of the market itself.

Stakeholders consistently called for a coordinated national response that recognises both the supply-side and demand-side drivers of the illicit market, reduces the influence of organised crime, restores confidence in lawful retail channels and ensures public health policy is achieving the outcomes it was designed to deliver.

It should be noted that while the Taskforce's terms of reference did not cover the illegal alcohol market in Australia, it was raised during different parts of the consultation process. There are specific and unique elements to the illegal alcohol market, and while this report does not make recommendations in this area, the strong feedback from stakeholders was that properly quashing the illegal tobacco market would help extinguish the illegal alcohol market before it gets a strong foothold, because many of the criminal connections involved in the illegal alcohol market are also involved in illegal tobacco.

10. Conclusion

Australia's illicit tobacco crisis is now best understood as a system failure, not merely a smuggling issue. The evidence supports three core conclusions:

1. The market is too large, too violent and too normalised to be treated as a narrow customs problem;
2. The current tobacco tax rate is the main driver of the illicit market and is now putting the whole tobacco control regime at risk; and
3. A credible solution will need to be genuinely national and multi-pronged, combining substantial excise reduction, stronger state licensing and closure powers, tougher criminal disruption and proceeds action, more coordinated financial intelligence and consumer education.

11. Recommendations

1. Drastically reduce the tobacco excise rate, resetting it to at least 80% below its existing level to regain control of the tobacco market in Australia, so that the proceeds are not funding organised crime and terrorist activities, so that there is greater government control over the regulation of tobacco and to eventually reset the excise framework to divert revenue back to government.
2. Establish a target for Australia to achieve an "Effective Zero" smoking rate, reduced from the current objective of 10%.
3. Convene a National Cabinet specifically on illegal tobacco to reset Commonwealth and state cooperation across law enforcement, licensing and leasing/closure powers.
4. Review the existing state and federal law enforcement and investigation settings to ensure policy and enforcement agencies have the funding, support and regulatory regimes they need and are working in the most coordinated and effective manner possible.
5. Establish a highly regulated and licensed framework for businesses to legally sell vapes in Australia, which includes standards on manufacturing and age limitations. Align licensing and penalty regimes for supply of product that does not comply with quality and nicotine delivery specifications, unlawful selling to under 18 years of age and other infringements.
6. Launch properly resourced and refreshed education campaign on the health impacts of illegal vaping, smoking, and the health impacts of illegal tobacco, which includes how the proceeds are used to support terrorist activities, bikie gangs, sex trafficking and arms dealing internationally.
7. Australia Post should be given the legislative obligation to require content declaration and law enforcement corresponding powers of inspection and seizure.
8. Require Australia Post to mandate content declarations for parcel deliveries in the same manner that private delivery operations already operate. Properly resource Australia Post to install necessary detection equipment and technology to verify content.

9. Actively investigate, pursue and prosecute unlawful online tobacco and vape sales with properly resourced and coordinated law enforcement group.

ENDS