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Illegal tobacco crisis Submission

Legal and Constitutional Affairs References Committee

March 2026

Introduction:

The Victorian Chamber of Commerce and Industry (Victorian Chamber) is the largest and most influential not-for-profit business organisation in Victoria, informing and supporting members, clients and reach of more than 100,000 businesses and individuals across our great state. The Committee for Melbourne (CfM) represents some of the largest businesses in metropolitan Melbourne. Together, we provide programs, information and support to members and non-members to ensure a diverse and robust business community in Victoria.

The Victorian Chamber together with CfM appreciate the opportunity to make a submission to this Inquiry.

Our concerns are two fold: first the penetration of organised crime into the illegal tobacco market. It appears that much of this market is headquartered in Victoria according to various media reports. This has a direct impact on business and on the reputation of Victoria as a safe place in which to operate a business. Law enforcement agencies and local government have been required to divert resources to address criminal activity creating a diminished return for the community. The second and related aspect are the costs on the Federal budget due to the loss of excise revenue.

Criminal syndicates and impacts of crime on business

Victoria is believed to be “ground zero” for tobacco crime in Australia.¹ Media reports suggest there have been in the order of 175 fire bombings of tobacco shops in Australia – 150 of these have occurred in Victoria.²

The frequent media reports of fire bombings, aggravated burglary at retail premises, intimidation, verbal and physical abuse of retail staff are having direct impacts on business.

For small to medium business there are direct revenue costs for those involved in the sale of legal tobacco products. By way of example, Ritchies IGA has reported losses of millions of dollars in revenue affecting their ability to remain price competitive, invest in buildings upgrades and staff retention.

While not specifically related to illicit tobacco crime, a statewide survey conducted by the Victorian Chamber of Commerce and Industry and Committee for Melbourne survey in November 2025 revealed the scale and severity of crime and antisocial behaviour now impacting businesses across Victoria, with 92 percent of employers revealing that concern for staff safety has increased.

The survey completed by more than 1400 businesses across Victoria found that seventy-four per cent of respondents said safety and crime issues have directly influenced major business decisions - including investment in additional security, altering staff rosters, reducing trading hours, hesitating on expansion plans, considering relocation, or managing staff resignations driven by safety fears.

¹ <https://www.heraldsun.com.au/news/victoria/victoria-only-major-state-without-illegal-smoke-shop-closure-laws/news-story/080e2616ce23675bc2f4935ee2fb821e>

² <https://www.abc.net.au/news/2025-08-04/illegal-tobacco-is-a-deadly-10-billion-industry/105607186>

According to the survey, the economic impact of crime across Victoria is profound and rising:

- 30 per cent of businesses estimated direct costs of up to \$10,000
- 22 per cent have reported losses between \$10,000–\$50,000
- Ten per cent put the financial hit between \$50,000–\$100,000
- Eight per cent said costs now exceed \$100,000

Illegal tobacco operations are causing serious insurance and property risks including some insurers who are withdrawing coverage from buildings that house tobacconists, forcing property owners to obtain costly international policies or deal with significant price hikes.³

Powers to close retailers for up to 12 months who are found to sell illegal tobacco are believed to be an effective tool. These powers do not exist in Victoria. However, the Victorian Chamber cautions that a better approach would be to amend relevant legislation such that a closure of illegal operations means that the tenancy is immediately terminated allowing the landowner to take back control of the premises and enter into a new lease. We note that the Queensland Government has recently introduced amendments to relevant legislation along these lines.

Rising enforcement and regulatory costs

Governments are facing rising expenditure demands associated with enforcement, compliance, and regulation of illicit tobacco. We are concerned that recent Commonwealth funding commitments, including \$156 million over four years, may be insufficient to make a meaningful impact on an illicit market of this scale. As part of its 2025-26 Budget, the Victorian Government announced a new licensing scheme and regulator at a cost of \$46 million. However, given the apparent stranglehold of this industry in Victoria, a range of experts have identified that substantially higher levels of investment would be required to address the extensive penetration of organised crime into this market. Concern has also been expressed around the very real likelihood of other goods being targeted such as alcohol.

A range of state-based inquiries into illegal tobacco operations have noted the need for a multi-pronged approach to enforcement. This must include intelligence led enforcement activities and strong interagency cooperation across jurisdictions.

Illegal tobacco and impact on excise revenue

We note the direct budgetary impacts associated with the collapse in tobacco excise revenue. In summary these are as follows:

- Tobacco excise revenue has fallen to approximately one third- of its level six years ago.⁴

³ <https://www.insurancebusinessmag.com/au/news/property/insurers-pull-back-as-tobacco-shops-face-rising-arson-attacks-538431.aspx>

⁴ Rohan Pike Consulting, Submission to the legal and Constitutional Affairs Reference Committee Inquiry, The Illicit Tobacco Crisis, Pg 8

- Tobacco excise this year is forecast to raise \$5.5 billion compared to the original estimate of \$13.6 billion in the 2025-2026 year (as identified in the 2022-23 Budget forward estimates).⁵
- Oxford Economics commissioned by Ritchies estimate that the cost to the budget by 2028-29 will be in the order of \$67 billion over a ten year period.⁶

The evidence suggests that these costs will continue to grow, placing increasing pressure on the Federal budget while delivering diminishing public returns. We are concerned that Government could turn to business and industry to fund the lost revenue through increased taxation or delays in providing tax relief or other incentives for business.

Recommendations:

01

A multi-pronged approach, cross jurisdictional approach is needed for enforcement. This must include intelligence led enforcement activities and strong interagency cooperation that is focused on serious organised crime disruption, asset confiscation, targeting of key individuals and entrenched retail networks.

02

There is a clear need to review the calibration of the tobacco excise and give due consideration to taxation impacts on alcohol as the potential next frontier for criminal activity.

⁵ “The radical plan to stop illegal tobacco: cut the price of cigarettes, The Age, 16 February 2026 website: <https://www.smh.com.au/politics/federal/the-radical-plan-to-stop-illegal-tobacco-cut-the-price-of-cigarettes-20260216-p5o2pk.html>

⁶ Ibid