

## Submission to Senate Tobacco Inquiry

The Centre for Independent Studies (CIS) welcomes the opportunity to provide a submission to the Senate Tobacco Inquiry.

The CIS is a leading independent public policy think tank in Australasia. Founded in 1976, its work is driven by a commitment to the principles of a free and open society. The CIS is independent and non-partisan in both its funding and research, does no commissioned research nor takes any government money to support its public policy work.

CIS published research by Professor Sinclair Davidson on the issues being addressed by the inquiry late in 2025, and that research is attached to this submission.

The key research finding was that the federal government should pause increases in tobacco excise to weaken the profit of the black market. Australia's aggressive policy of continuously hiking tobacco excise has created a multi-billion-dollar illicit market, inadvertently turning a public health initiative into a significant funding stream for criminal organisations.

The current tax trajectory has passed the point of diminishing returns, resulting in widespread social disorder and massive untaxed revenue leakage. In just the past 10 years, we've seen the excise on a pack of 20 cigarettes go up from \$9.40 to \$29.96. A packet of cigarettes in 2015 would have cost about \$22. And while official government sources suggest smoking rates are falling, the wastewater analysis suggests otherwise.

It is telling that the ATO have now admitted that their estimates of the illicit tobacco market are under-estimated and that it may be far larger than they had previously thought. If the objective of the supersized excise increases was to significantly cut smoking rates, and that had happened, this would be a policy success.

In that case, reduced excise revenue would be a consequence of reduced smoking rates, but rather, it looks like smoking rates have not fallen as much as official estimates suggest. Ironically, smokers may have access to cheaper cigarettes than before, excise revenue has fallen and criminal profits have risen. There is simply no way that combination of events can be described as anything other than a public policy disaster.

The paper calls for an immediate end to the tax escalator and urgent institutional reform to address this structural failure. It outlines that the government's pursuit of maximum tax revenue has directly undermined its public health objectives. In essence, we have pushed the tobacco tax burden so high that we have created a perfect environment for black marketeers.

The Commonwealth enjoys the huge revenue from legal sales, but it is state and local communities that bear the heavy costs of crime, violence, and the sale of unregulated, cheap product to minors. This institutional conflict must end; governments cannot pursue both prohibition and revenue maximisation simultaneously.

The paper also notes that until 2013, measured excise increases, combined with advertising bans, successfully reduced smoking rates. However, the subsequent acceleration of the tax escalator —

mandating annual 12.5% increases — made the legitimate product so expensive that the economic incentive for criminal syndicates became overwhelming.

The research estimates that the volume of tobacco escaping taxation is so substantial that the government is missing hundreds of millions of dollars in potential annual revenue. This lost revenue not only weakens the budget bottom line but confirms the policy is failing its revenue objective as the illicit market becomes deeply entrenched.

To stabilise the market, starve organised crime, and bring control back to the legitimate sector, CIS makes four key recommendations:

1. **Stabilisation of Excise:** The Commonwealth must immediately stabilise tobacco excise within an economically defensible range, halting the current tax escalator to prevent the illicit trade becoming even more profitable.
2. **Institutional Reform:** The Commonwealth must be made fully responsible for the costs of disorder created by the excise it sets, thereby ending the public choice conflict that encourages over-taxation.
3. **Strengthened Enforcement:** Resources for inland enforcement must be substantially increased to target the sophisticated distribution and sales networks currently operating within Australian communities, rather than solely focusing on border seizures.
4. **The Commonwealth must commission and publish an independent study into changes in the actual incidence of smoking and smoking-related activities such as vaping in the context of the sharp increases in excise and growth of the illicit market.**

Yours sincerely,

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Professor Sinclair Davidson