

AN ECONOMIC ASSESSMENT OF THE DRIVERS OF THE ILLICIT CIGARETTE TRADE IN THE EU

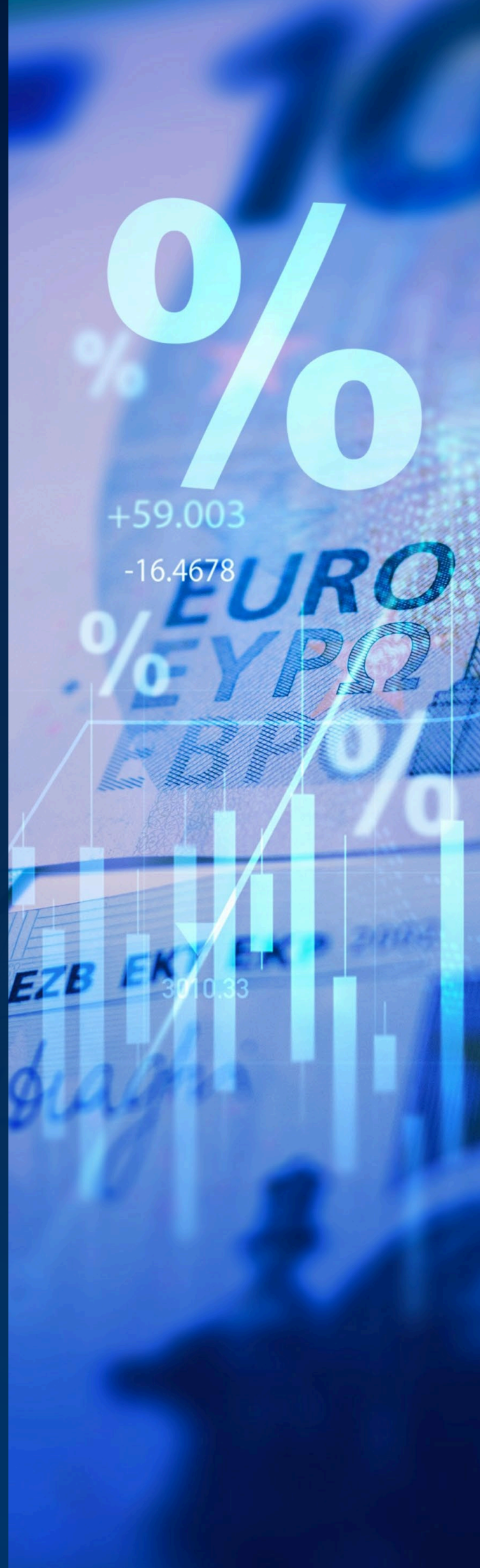


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EXECUTIVE SUMMARY

The level of excise duty and VAT levied on duty paid cigarettes is one of the main drivers of the illicit trade in cigarettes in the EU and elsewhere. Criminals can sell illegal cigarettes at lower prices because they avoid paying taxes, making them attractive to price-sensitive consumers. While higher taxes may risk expanding the illicit cigarette trade, effective administrative measures and enforcement can help contain it. Nevertheless, once illicit trade becomes entrenched in a market, it can be extremely difficult to eradicate.

The European Commission's latest Tobacco Excise Directive (TED) proposal aims to raise the minimum excise rate levied on 1,000 cigarettes from its current level of €90 to €215 per 1,000 units. This is an increase of 139%. It also proposes to increase the minimum excise incidence on cigarettes from 60% to 63%. Both these measures may cause excise rates between EU member states to narrow, which may dampen incentives behind intra-EU contraband and legal non-domestic flows. However, by widening the price differential between duty paid cigarettes in the EU and illicit cigarettes—already identified in abundance in the EU—the reform will increase incentives for criminals to expand smuggling operations and establish new supply chains targeting the EU market. There are already significant risks from neighbouring lower-priced countries on the Eastern EU borders, but also an internal counterfeit manufacturing presence within the EU, both of which pose a significant risk of exacerbating the EU's illicit cigarette consumption. This risks negatively impacting public health goals, excise and VAT receipts, and increasing other illicit activity.

This report investigates the illicit trade in cigarettes in the EU, including the relationship between excise rates and illicit trade. It does this by drawing on the latest academic literature and case studies from four European countries. These countries have been selected as case studies because they provide a wide range of distinctive and differentiated markets that show various aspects of the key drivers of the trade in illicit cigarettes.



51%

In 2024, the average price of illicit cigarettes was half that of duty paid ones in the four case study countries.

THE MAIN FINDINGS

In 2024, 39.2 billion illicit cigarettes were consumed in the EU, which equated to 9.2% of the total market. These sales are estimated to have cost €14.9 billion in lost excise and VAT receipts, which could have been used to fund vital public services.

The criminals that supply illicit cigarettes are very agile, continually changing the source of cigarettes they supply and the routes they use to transport them into the EU and across the bloc. Over the past five years, the number of counterfeit cigarettes has trebled, so they now comprise 39% of illicit consumption. The supply of Illicit whites (generally produced outside of the EU) declined by 38% in 2024 representing a 21% share of total illicit consumption. Other contraband volumes (mainly from neighbouring eastern EU countries) have been broadly stable, making up 40% of all illicit cigarettes consumed with the EU.

Enforcement agencies actions and seizures suggest that there has been an increase in the number of illicit cigarettes produced within the EU, rather than manufactured elsewhere and transported into the bloc. This may reflect the impact of Covid-19 on transport or the Russian invasion of Ukraine, which disrupted some of previous entry routes into the EU.

There is a strong positive correlation in the EU between the market share of illicit cigarettes in a member state and the rate of excise it levied on duty paid cigarettes. Member states which levied the highest excise rates (France, Ireland, and the Netherlands) in 2024 had among the highest illicit market shares. However, the relationship is not linear. There are several instances (Lithuania, Greece, and Latvia) where countries with lower excise rates have illicit market shares similar to higher-excise rate jurisdictions. This may in part reflect those three countries locations, as they lie along the EU's eastern border, close to where many of the illicit cigarettes are thought to be manufactured, jurisdictions in which legal cigarette prices are much cheaper, and the land and sea routes that are used to smuggle both into the EU.

In July 2024, excise duty and VAT made up an average of 82% of the weighted average price of duty paid cigarettes in member states. As illicit cigarettes do not include taxes, this creates an opportunity for criminals to undercut duty paid prices and still make a significant profit. The extent of the excise duty and VAT levied is the maximum amount of profit criminals can make. Any increase in excise duty or VAT increases the profit margin criminals can make by supplying illicit cigarettes.



€90 to €215

The Tobacco Executive Directive proposes a 139% increase in excise duty on 1,000 cigarettes.



39.2 billion

illicit cigarettes were consumed in the EU in 2024, which was 9.2% of total.

The price differential between duty paid and illicit cigarettes incentivises consumers to buy them. In the four case studies we focus on, the price of illicit cigarettes ranged between 40% and 66% of the price of their duty paid counterparts in 2024.

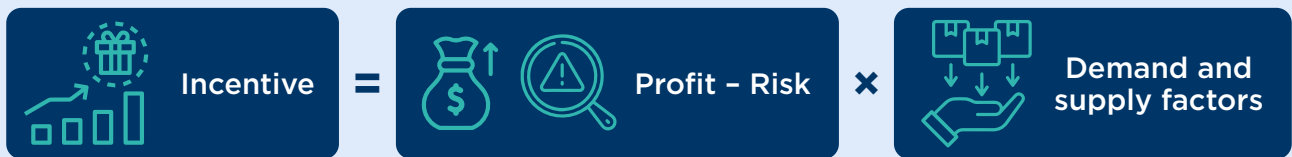
The EU is proposing increasing the minimum excise rate on cigarettes from €90 to €215 per 1,000 units. This will require 21 member states to increase their excise rates from their current levels. For some the required increase is very large. One country (Bulgaria) will have to increase its excise rate by over €100 per 1,000 cigarettes, six more will need to increase them by over €75, and nine by over €50 per 1,000 units.


The rate of increase in excise rates required to meet the proposed €215 minimum exceeds projections for wage growth in 20 out of the 21 member states which currently levy excise duty below that level. This implies there will be a decline in the affordability of duty paid cigarettes. In the past, sharp declines in the affordability of duty paid cigarettes have been associated with marked increases in the illicit market share in various countries. The impetus the decline in affordability of duty paid cigarettes will give to the illicit market is expected to be largest in the EU's eastern member states. This partly reflects the current level of excise duty they levy, but also the presence of illicit cigarette manufacturing plants in neighbouring countries.


The four case studies show that as the affordability of duty-paid cigarettes has changed over the past 10 years, households' incentives to source cigarettes from the illicit market has altered. The French and Netherlands case studies show that sharp increases in excise duty between 2014 and 2024, have led to a marked increase in the illicit market share. In contrast, the Hungarian and Romanian case studies show that a more moderate approach to excise increases has led to a fall in the illicit market share.

France serves as an example of how excise rises drive the growth of the illicit market. Relative to two of the other case study countries (Hungary and Romania), France benefits from being geographically distant from non-EU sources of illicit cigarettes. Despite this, its market share of illicit cigarettes has more than doubled since 2014 and the country now has the highest illicit market share (38%) in the EU. This growth has been fuelled by excise rises, which have contributed to 43 percentage points of the 60% growth in real duty paid cigarette prices in the last decade. Similar excise increases in other EU countries, as mooted by the TED, may yield similar problems.

THE DRIVERS OF THE ILLICIT CIGARETTE TRADE IN THE EU




 **39.2 billion** illicit cigarettes were consumed in the EU in 2024. This equated to **9.2%** of the total market.


 **€14.9 billion**
The estimated cost of these sales in lost excise and VAT receipts.

 **82%** of price of EU duty paid cigarettes in member states made up of excise duty.





 **€90 to €215** per 1,000 units — proposed EU minimum excise rate.

 **39%** of illicit consumption in 2024 was counterfeit cigarettes — 3x five years ago.

 Any increase in excise duty or VAT increases the profit margin criminals can make by supplying illicit cigarettes.

 There is a strong correlation in the EU between the market share of illicit cigarettes in a member state and the rate of excise it levied on duty paid cigarettes.

In the four case studies we focus on, the price of illicit cigarettes ranged between **40% and 66%** of the price of their duty paid counterparts in 2024.

Country	Illicit share, 2014	Illicit share, 2024	Duty-paid/ illicit price gap	Lost tax revenue (% of actual)
 France	15%	38%	2.0x	68%
 Netherlands	7%	18%	2.5x	29%
 Hungary	9%	13%	2.4x	16%
 Romania	16%	6%	2.5x	29%

SECTION 1: SCALE OF ILLICIT TRADE IN THE EU

1.1 ILLICIT CIGARETTE CONSUMPTION VOLUMES IN THE EU: CURRENT AND HISTORICAL TRENDS

1.1.1 Total EU bloc

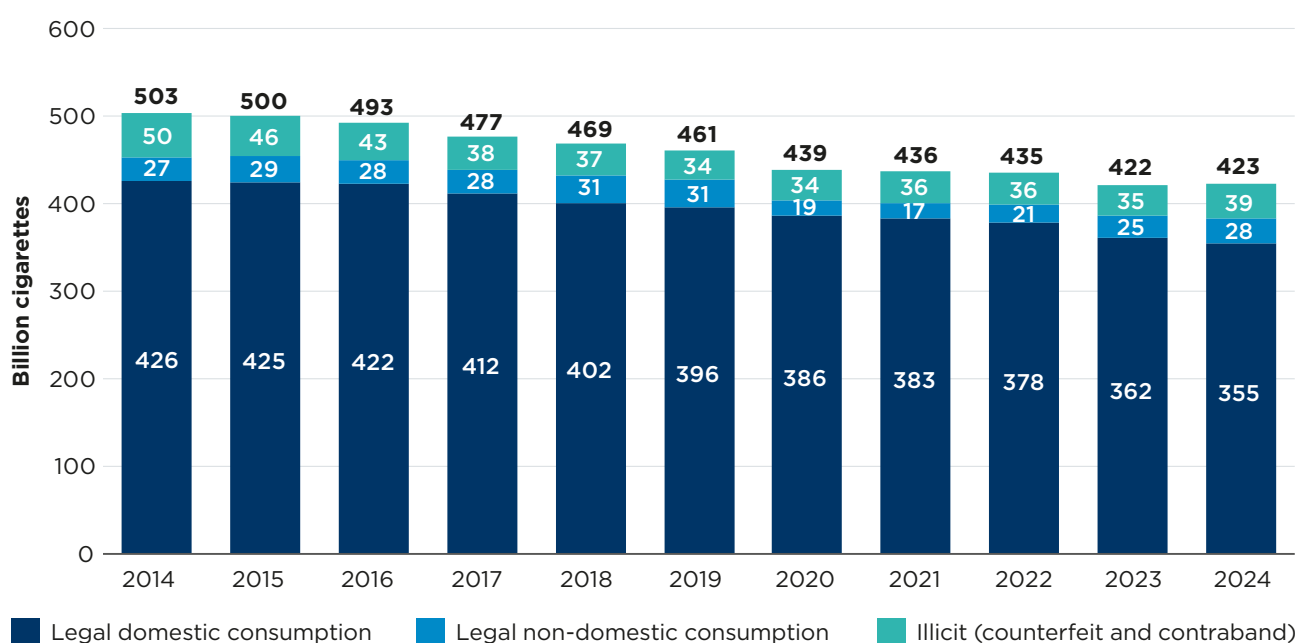
Total cigarette consumption has declined steadily in the EU, falling by 16% over the past 10 years (2014 to 2024 (Fig. 1)). Most of this decline (88%) is a result of a fall in legal domestic consumption, as tighter regulations, public health campaigns, and shifting social attitudes continue to curb smoking. Yet, even as overall consumption falls, a sizeable share of the market remains outside the legal domestic supply chain.

Around 9.2% of cigarettes consumed in the EU are illicit while an additional 5.9% represent legal non-domestic purchases, such as duty-paid products bought abroad and brought back for personal use. These parallel markets highlight the persistent demand for cheaper tobacco products.

The share of illicit cigarettes in total consumption has risen over the past five years, climbing from a trough of 7% in 2019 to over 9% in 2024, approaching the 10% market share observed in 2014 (Fig. 2). Over the past year alone, illicit consumption increased by approximately 4 billion cigarettes, an 11% rise, highlighting the persistent appeal of cheaper alternatives.

Illicit cigarette consumption has significant financial implications. In 2024, EU governments are estimated to have foregone €14.9 billion in excise and VAT revenues, up from €11.6 billion in 2023, representing a substantial economic cost.¹

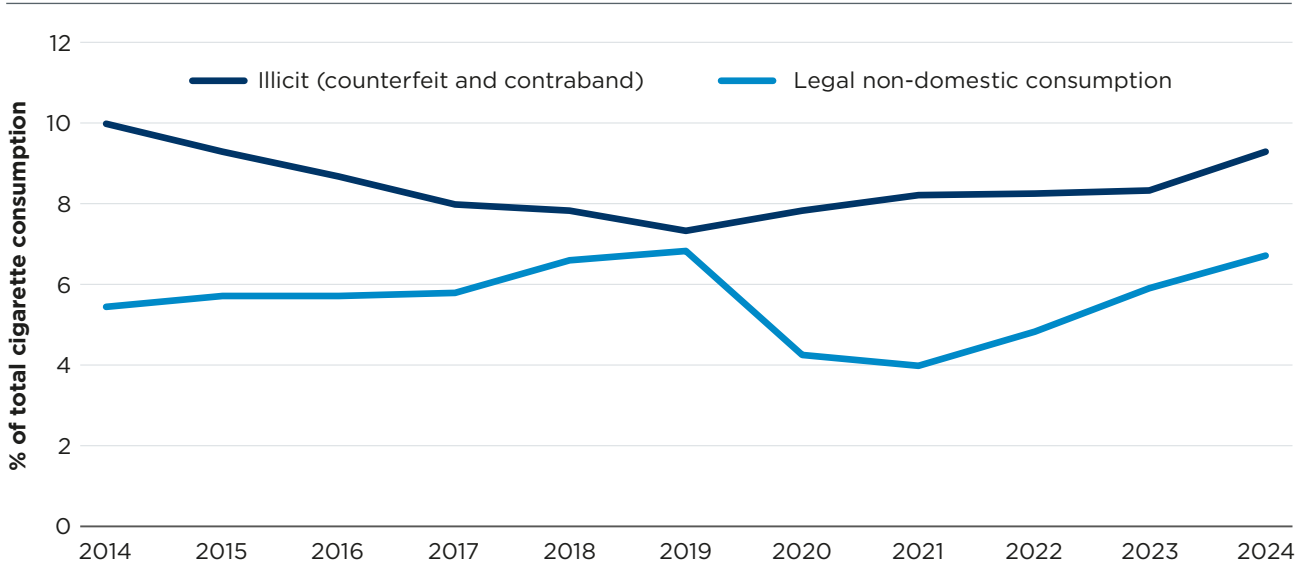
Fig. 1: EU27 cigarette consumption by type, 2014–2024



Source: Oxford Economics; KPMG

Note: totals may not sum due to rounding.

Fig. 2: Illicit and legal non-domestic cigarette market share

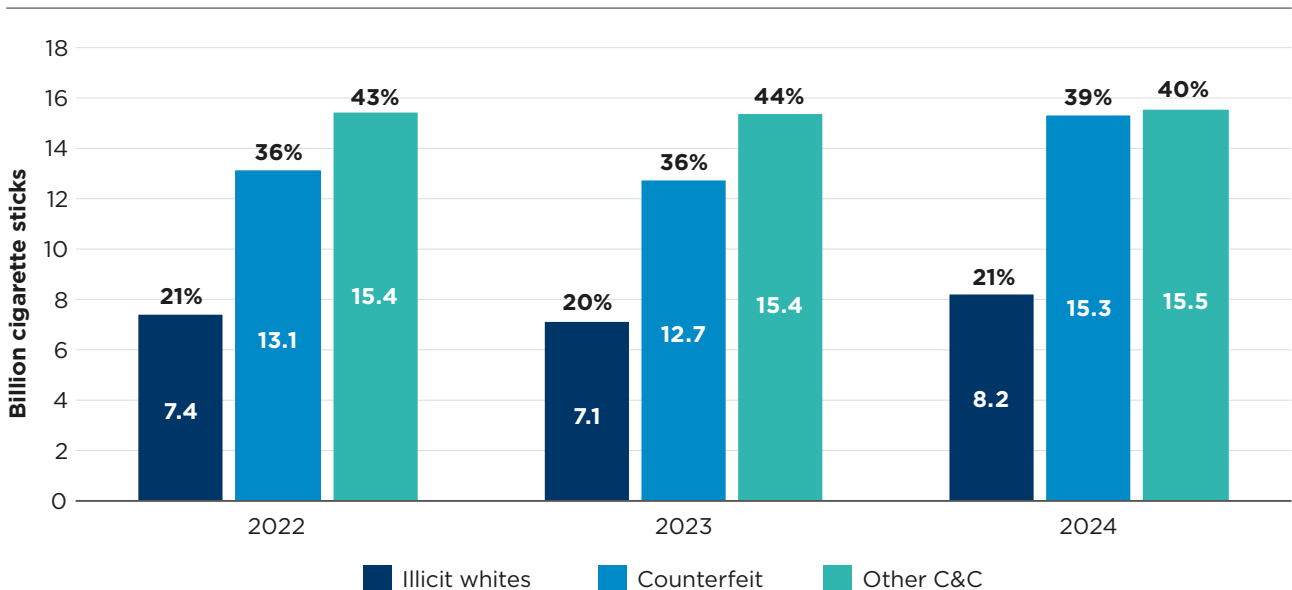


Source: Oxford Economics; KPMG

Of the 39 billion illicit cigarettes consumed in the EU in 2024, Illicit whites account for 21%, counterfeits 39%, and other C&C products 40% (Fig. 3). The composition is shifting: counterfeit consumption increased by 20% in 2024, continuing a trend witnessed since 2019 (which is discussed further in Box 1). In 2024, the volume of illicit whites consumed also increased by 15%, while other C&C rose marginally.

Meanwhile, legal non-domestic cigarette consumption increased as a share of the overall EU market in 2024, recovering its pre-pandemic level in 2019. This trend is likely linked to intra- and extra-EU travel and tourism, where consumers take advantage of price (and excise) differentials by bringing cigarettes from lower-priced jurisdictions. Together, these dynamics illustrate that while total cigarette consumption is falling, the structure of the cigarette market is evolving, and cross-border legal flows are expanding.

Fig. 3: Counterfeit and contraband cigarettes in the EU27 by type and percentage share of total



Source: Oxford Economics; KPMG

BOX 1: THE RECENT GROWTH OF COUNTERFEIT CIGARETTES

The most significant trend in the consumption of illicit cigarettes within the EU over the past five years has been the growth in counterfeit. Between 2019 and 2024, consumption volumes have nearly trebled from 5.5 billion to 15.3 billion. Counterfeits now account for a much larger share of total illicit consumption, rising from 16.5% in 2019 to 39% in 2024 (Fig. 4).

The marked growth in 2020 may hint at one of the causes. The Covid-19 pandemic disrupted and halted many forms of transport. It is likely to have lowered the availability of non-domestic legal, and smuggled contraband cigarettes as people travelled less. Criminal networks are thought to have evolved their supply, setting up counterfeiting factories

within the EU. Further impetus may have come from the Russian invasion of Ukraine in 2022 which disrupted some of the traditional smuggling routes overland through Belarus and Ukraine's seaports.

In line with this inward shift, authorities are increasingly uncovering full-scale factories inside the EU. KPMG reports the quantity of cigarettes seized in factory raids in member states more than doubled from 203.2 million in 2023 to 462.9 million in 2024.^{2,3} Member states where the raids recovered the greatest number of illicit cigarettes in 2024 are: Latvia (114.1 million), Belgium (112.3 million), and France (95.6 million).

Fig. 4: Volume of counterfeit cigarettes consumed in the EU27 and their percentage share of total illicit consumption



Source: Oxford Economics; KPMG

2 KPMG, 'Illicit cigarette consumption in Europe: Results for the calendar year 2023', 09 September 2024.

3 KPMG, 'Illicit cigarette consumption in Europe: Results for the calendar year 2024', 11 June 2025.

1.1.2 Variations across the bloc

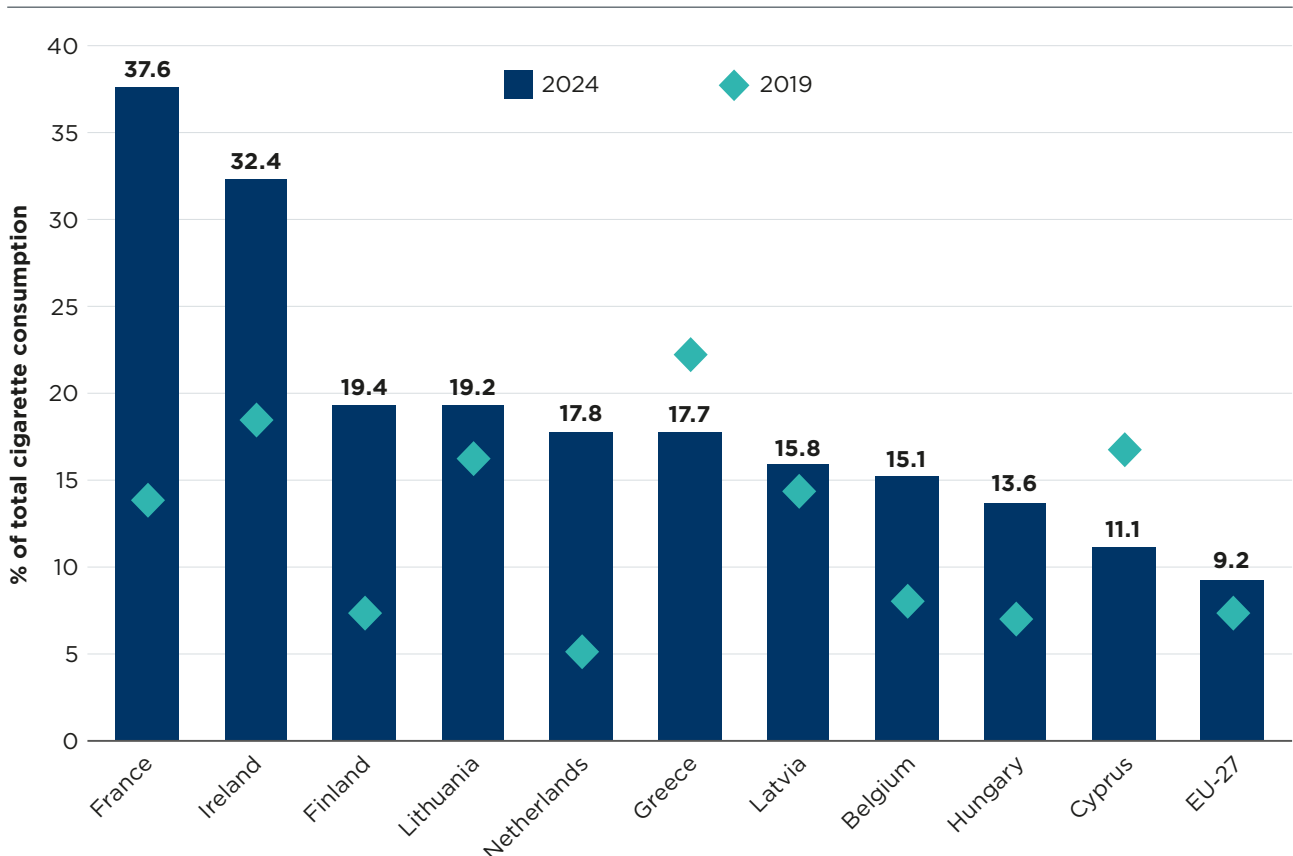
The trends in illicit cigarette consumption are not uniform across the EU27, with considerable variation between member states. The top 10 countries by illicit market share in 2024 report rates ranging from 11.1% to 37.6%, well above the EU average of 9.2% (Fig. 5). By contrast, the remaining member states maintain illicit market shares below 10%, highlighting how local factors shape the scale and composition of illicit tobacco activity across the bloc.

In 2024, the member states with the highest share of their cigarette consumption supplied from illicit sources were France, Ireland, Finland, Lithuania, and the Netherlands (Fig. 5). In contrast, illicit sources of supply had the lowest market share in Luxembourg, Bulgaria, Italy, and Germany.

Several EU countries have seen particularly sharp increases in illicit cigarette consumption since the Covid-19 pandemic. France, Ireland,

and Finland stand out as the markets with the largest growth. In France, the share of illicit cigarettes rose sharply from 13.8% in 2019 (the year prior to the pandemic) to 37.6% in 2024. The growth in France is the main driver behind the reversal of the decline of illicit volumes since 2019, accounting for nearly half (48.0%) of total illicit consumption in the EU in 2024. Ireland saw an increase from 18.4% to 32.4% over the same period. Finland also experienced a notable rise, with illicit consumption climbing from 7.3% in 2019 to 19.4% in 2024. These shifts underscore that, despite overall EU-level progress in reducing illicit trade, certain markets have experienced significant growth in recent years, driven by local country-specific factors (such as excise increases, enforcement, geography, and other demand and supply drivers).

Fig. 5: Top 10 European countries by illicit cigarette market share in 2024 and its level in 2019



Source: Oxford Economics; KPMG

SECTION 2: THE DRIVERS OF ILLICIT TRADE IN THE EU

2.1 LARGE PROFITS CREATE SIGNIFICANT INCENTIVES FOR CRIMINALS TO TRADE IN ILLICIT CIGARETTES

Illicit cigarettes are available in virtually every country in the world. Publicly available estimates of the scale of illicit trade in the EU suggest it is worth billions of euros.

The European Commission estimated the annual revenues derived from the illicit cigarette market in the EU ranged between €8 billion and €10 billion in 2019. The proceeds of this crime are then often used to fund other illegal activities such as bribing enforcement agencies and the judiciary, human trafficking, and the smuggling of arms and drugs.⁴

Criminals are attracted to the production and distribution of illicit cigarettes by the prospect of making profits. The levying of high duties and sales and other taxes on duty paid cigarettes enables criminals to sell cigarettes at lower prices than legitimate enterprises, either smuggled across borders or manufactured locally and sold without the correct payment of taxes. The scale of the taxes levied influences the price criminals can charge and the potential profit margin they can make on each cigarette.

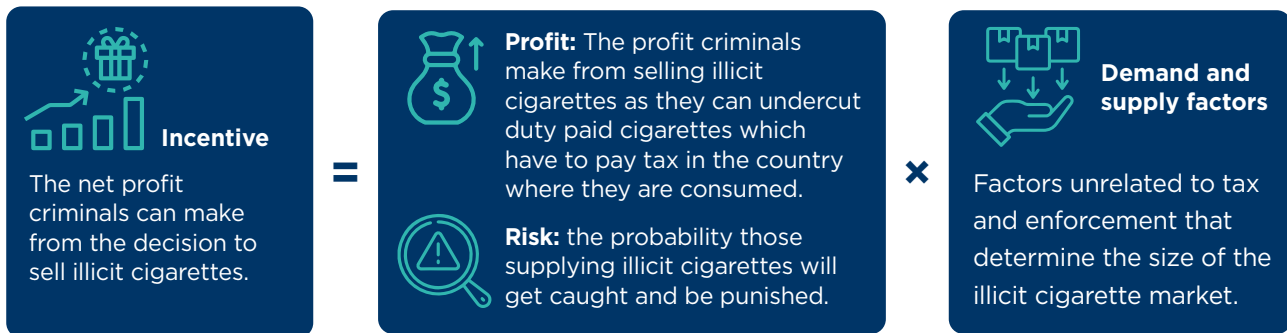
In this report, Oxford Economics delves into the illicit trade problem in four case study countries. It finds that taxes (excise and VAT) comprise between 70% and 92% of the average price of a duty paid cigarettes in these countries. This dynamic provides fertile ground for organised crime groups seeking to generate substantial financial gains through illicit activity.

In deciding whether to supply illicit cigarettes, criminals also need to factor in a variety of different risks. These include the likelihood of detection by the enforcement authorities and any subsequent punishment. The sanctions imposed on anyone found guilty of supplying illicit cigarettes may include the loss of the seized goods and a financial penalty or imprisonment, depending on the jurisdiction and scale of the crime.

A wide range of other demand and supply factors also determine the size of the illicit market in cigarettes in each country (Fig. 6). Demand for illicit cigarettes is driven largely by the price differential between duty paid and illicit cigarettes, but also by changes in consumers' income that impact the affordability of cigarettes, and by cultural factors such as the acceptability of purchasing illegal goods. Supply is influenced by a country's location and geography, the extent to which criminal networks exist, the attitude of politicians, integrity of the enforcement agencies and judiciary, and the ease of distribution.

⁴ European Commission, '[Mapping the risk serious and organised crime infiltrating legitimate businesses](#)', 2021.

Fig. 6: Schematic explaining the drivers behind the illicit trade in cigarettes



2.2 THE ROLE OF TAX IN INCENTIVISING ILLICIT TRADE

In many countries around the world, governments levy excise duty and other taxes on cigarettes and other forms of tobacco. This is typically to achieve several policy objectives: to raise tax revenues to pay for the provision of public services; to pay for the “externalities” associated with tobacco consumption; and to discourage tobacco consumption.

Unfortunately, taxes also create an incentive for criminals to supply illicit cigarettes which evade domestic taxation and thus for consumers to buy a cheaper product. Whether they manufacture counterfeit cigarettes locally or smuggle cigarettes from lower tax jurisdictions, criminals can potentially sell illicit cigarettes at a lower price than duty paid ones. The higher the tax levied, the greater the profit opportunity for criminals.

The price differential between illicit and duty paid cigarettes created by taxation also creates the incentive for consumers to switch to illegal sources of supply. They can obtain more cigarettes for the same expenditure, or the same amount for a smaller outlay.

2.2.1 Excise taxation on cigarettes in the EU and illicit trade

Tobacco excise policy is a strong driver behind the pattern of illicit cigarette trade observed in the EU, which we illustrated in Chapter 1. Specifically, the

Tobacco Excise Directive (2011/64/EU) provides an EU-wide framework that governs how tobacco excise policy operates across the EU:

1. Tax structure: The excise duty structure for cigarettes must be a mix of a specific, and ad valorem excise, (a specific component is fixed amount per 1,000 cigarettes, and an ad valorem component represents a percentage of the retail price). The specific component of the excise duty as a percentage of the total duty must lie between 7.5% and 76.5% of the tax burden.⁵
2. Minimum excise rate: the total excise duty levied must not be less than €90 per 1,000 cigarettes.
3. Minimum excise incidence: the total excise duty levied must be at least 60% of the weighted average retail selling price. There is an exception however if a member state applies an excise duty of €115 per 1,000 cigarettes or more, in which case it is not required to comply with the 60% incidence criterion.

Member states are free to set their excise duty policies in accordance with the requirements outlined above, with many choosing to set excise duties significantly above the current EU-wide minimum requirements.

Both differences in excise rates between EU countries and higher EU-wide minimums shape incentives for illicit trade in the EU.

⁵ The Council of the European Union, ‘Council Directive 2011/64/EU of 21 June 2011 on the structure and rates of excise duty applied to manufactured tobacco (codification)’, 21 June 2011.

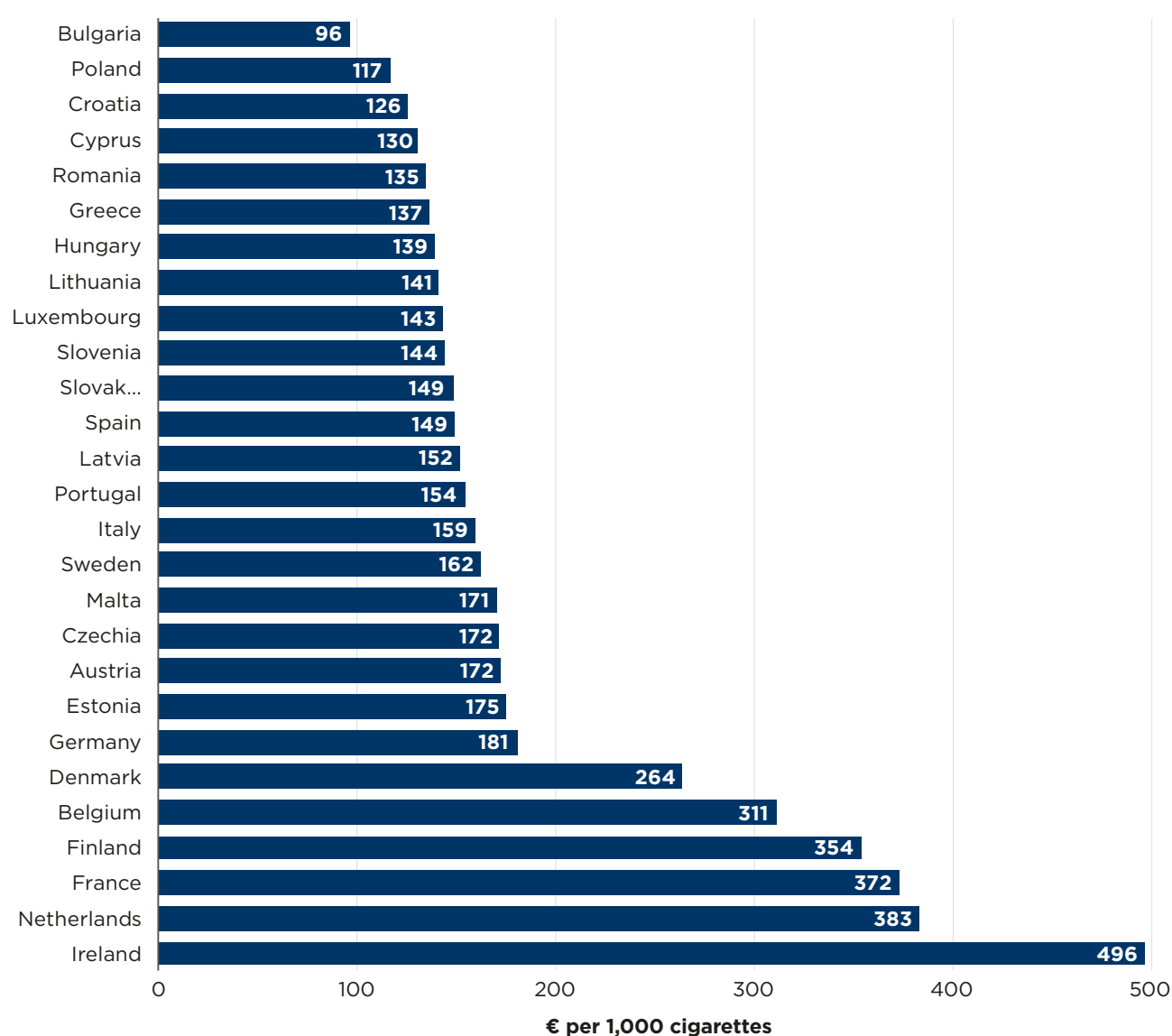
Intra-EU cross border illicit cigarette flows are incentivised by differences in tobacco excise policies between EU countries. Differences in excise rates foster the flow of contraband cigarettes, which are genuine and legally manufactured products that are brought into higher-tax markets illegally from lower-tax markets, as well as Illicit whites, which are legal manufactured cigarettes smuggled across borders to countries where they have limited or no distribution.⁶

As of 2024, contraband and Illicit whites comprised more than 60% of all illicit cigarettes consumed in

the EU. Non-domestic legal consumption is also partly a result of difference in excise rates between countries, as travellers bring cigarettes legally from a lower- to a higher-excise jurisdiction.

There is significant variation in excise rates across EU countries: varying from the lowest end with Bulgaria at €96 per 1,000 cigarettes, to the higher end with €496 per 1,000 cigarettes in Ireland (Fig. 7). This disparity generates substantial price differentials that incentivises criminal organisations to smuggle cigarettes from low-excise to high-excise jurisdictions within the EU.⁷

Fig. 7: Excise rates on cigarettes in EU Member States on 1 July 2024

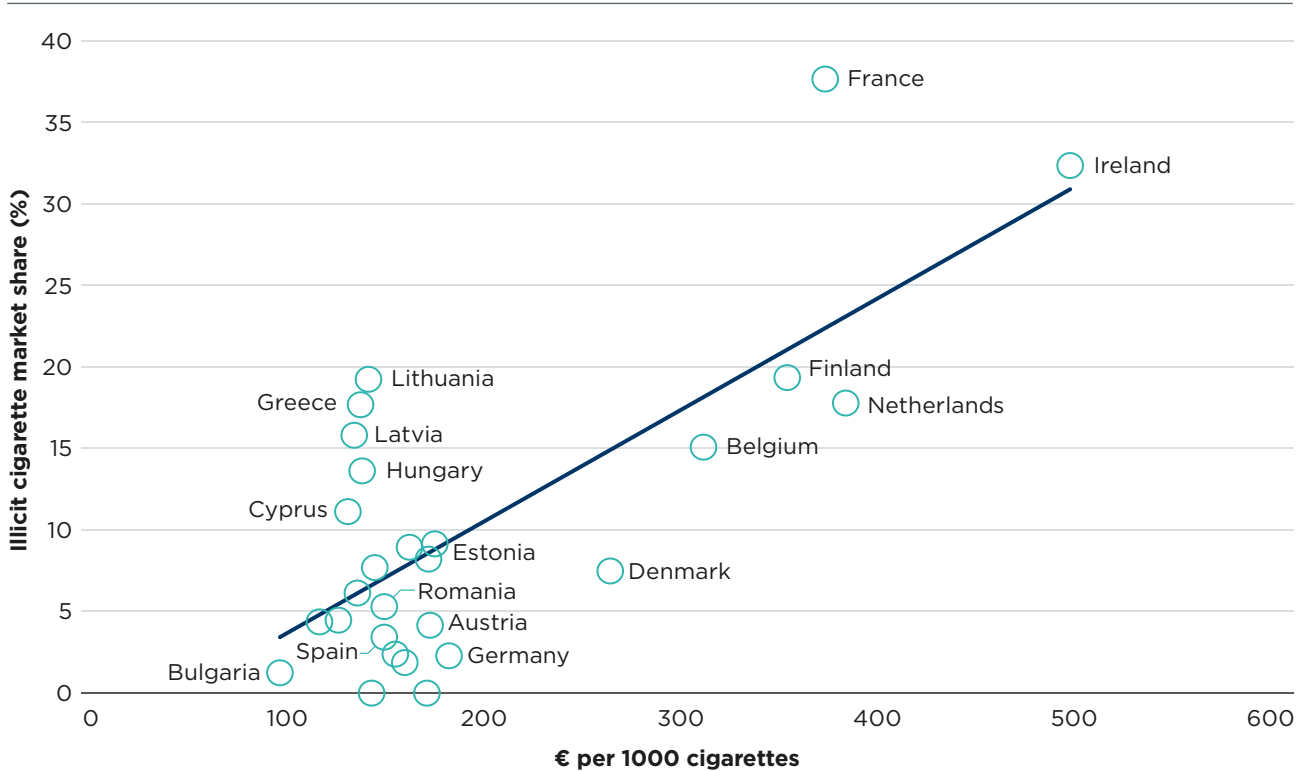


Source: Oxford Economics; European Commission

6 Securing Industry, 'What's behind a spike in illicit tobacco use in Europe?', 23 June 2025.

7 Ángel López-Nicolás, 'Tobacco taxes in the European Union', Tobacconomics Working Paper Series No. 24/2/1, February 2024.

Fig. 8: Relationship between illicit cigarette market share and excise rates on duty paid cigarettes in 2024



Source: Oxford Economics; European Commission; KPMG

There is a strong positive correlation in the EU27 between the share of illicit cigarettes in total cigarette consumption and the rate of excise on duty paid cigarettes (Fig. 8). The correlation looks stronger among countries where the average excise duty exceeds €200 per 1,000 cigarettes in the top right quadrant of the figure. This pattern underscores the delicate balance policymakers must strike between raising revenues and discouraging smoking on the one hand and avoiding the expansion of illicit trade on the other.

But as is evident from the figure, the relationship is not linear. For example, in some countries with lower excise rates, such as Lithuania, Greece, and Latvia, the illicit market share is similar to higher-excise rate jurisdictions. In part, this may reflect those three countries' locations, as they experience significant illegal inflows due to their proximity to sources of illicit cigarettes produced outside of the EU.⁸ Other factors at play also include the length of borders, numbers

of entry points, expenditure and effectiveness of enforcement, levels of corruption, and the presence of organised crime networks.

While intra-EU flows are shaped by tax disparities within the bloc, **inflows of illicit cigarettes into the EU from outside** are driven by the EU's minimum excise duty on cigarettes, which creates large price gaps with neighbouring non-EU countries. Major sources of contraband cigarettes include nations along the EU's eastern border—such as the Balkans, Belarus, Russia, and Ukraine—where excise and other taxes are substantially lower. These inflows consist of both contraband cigarettes and Illicit whites. Large inflows of illicit cigarettes also enter from the south, including from Algeria and Turkey.

8 Alberto Aziani and Marco Dugato, 'Cigarette Trafficking - Introducing the transnational dimension of cigarette trafficking in Europe and beyond', 2019. Rogier Alexander Rutgers and Federica Daphne Ierace, 'Extended Balkan route - Mapping cigarette trafficking along the extended Balkan route', 2019.

2.2.2 Upcoming reforms to the TED and the impact on the cigarette market

The European Commission proposed a reform of the Tobacco Excise Directive (TED) in July 2025, aiming to raise minimum excise rates from €90 per 1,000 cigarettes to €215 per 1,000 cigarettes—an increase of 139%. It also suggests that the overall excise duty should be at least 63% of the weighted average retail price of cigarettes, up from the previous minimum of 60%. Other objectives include expanding the scope to cover new nicotine products and strengthening controls on raw tobacco. These changes are expected to take effect from 2028.⁹

The most direct consequence of increasing the minimum rate is that the 21 member states currently below it will need to increase their excise duty once the current proposal is officially accepted and is transposed into local law (which is likely to be in 2028, at the earliest). The scale of the increase required to make the new €215 minimum will vary by country (Fig. 9). The member states that have to increase their excise rates the most are primarily located in the east of the EU, such as Bulgaria, Poland, Croatia, Cyprus, and Romania.

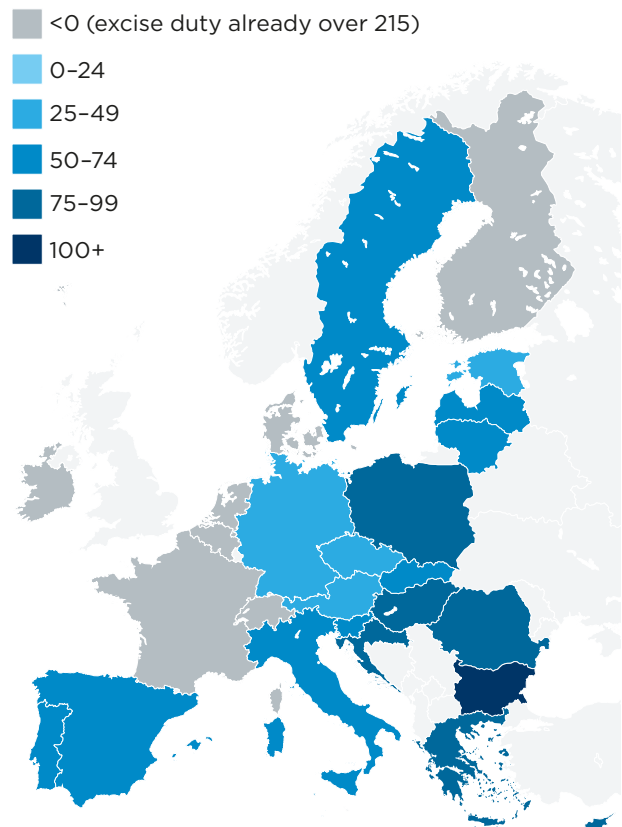
The Directive should achieve its objective of narrowing the gap between the amount of excise duty levied on duty paid cigarettes among member states. This assumes the countries with excise rates above €215 do not raise their rates more rapidly than those below the threshold which are forced to converge upward. The narrower intra-EU excise gap may dampen intra-EU contraband flows, which accounts for less than 20% of illicit cigarette consumption.

Unfortunately, the increase in the EU-wide minimum excise rate will widen the price differential between duty paid cigarettes in the EU and its neighbours. This widening gap will increase the profit margins available to illicit traders from transporting contraband and counterfeit cigarettes into the EU, as their resale value within the EU will rise relative to their cost of acquisition abroad.

For organised crime networks, this translates into stronger financial incentives to expand smuggling operations and establish new supply chains targeting the EU market.

This change is likely to be particularly problematic for the countries along the EU’s eastern border many of which will be subject to the most significant excise rate increases. They are nearer to some of the countries believed to be home to the producers of illicit cigarettes. The proposed increase in the minimum excise rate risks increasing the illicit market share in these countries.

Fig. 9: Increase in duty required to meet the €215 per 1,000 cigarettes from rate at December 2024



Source: Oxford Economics; European Commission

⁹ European Commission, ‘Revision of the Tobacco Taxation Directive (proposal)’, July 2025.

2.3 CIGARETTE PRICES, INCOMES, AND AFFORDABILITY

The affordability of duty paid cigarettes (the price of legal cigarettes relative to people's earnings) also influences the demand for illicit cigarettes. Recent world events are likely to have adversely impacted the affordability of duty paid cigarettes. Around the world, households' real disposable income (after allowing for inflation) has been hit by the Covid-19 pandemic and associated lockdowns, which limited people's ability to work. The bout of inflation sparked by the supply chain shortages and the Russian invasion of Ukraine also hit households hard. Real household disposable income fell in a third or more of the EU member states in 2020 and 2022, and over a fifth of them in 2023.

Falling real income in both periods adversely impacted the affordability of duty paid cigarettes, making smokers more inclined to switch to cheaper cigarettes, including those sourced from the illicit market.

The consumers of illicit cigarettes are likely to have been hit particularly hard by the pandemic and the recent bout of inflationary pressure. The literature on illicit tobacco trends suggests that smokers who buy illicit cigarettes tend to come from lower socioeconomic groups.¹⁰ Studies suggest the loss of employment and income was particularly severe among these groups during the pandemic and associated lockdowns, not least because they were less able to work remotely.¹¹ Similarly, they were hardest hit by the bout of inflation as a higher proportion of their spending went on food, electricity, gas, and heating, which were the household bills that increased in price the most.¹²

In this report, Oxford Economics delved into the illicit trade problem in four case study countries. We found that when duty-paid cigarettes had become less affordable, or illicit cigarettes had become more affordable than their duty-paid counterparts, this resulted in an increase in the illicit cigarette market share of consumption (see Chapter 3).

Looking forward, the rate at which the countries which currently levy excise rates below €215 per 1,000 cigarettes will need to increase their duty to meet the proposed minimum by 2028 range from an annual average of 4% in the case of Germany to 22% in the case of Bulgaria (Fig. 10). In all but one case (Estonia) this rate of growth significantly exceeds forecasts of wage growth in the country.¹³ This suggests there will be a marked decline in affordability of duty paid cigarettes in these countries over the next few years. This may have a significant impact on the size of the illicit market share, if not accompanied by the appropriate enforcement and regulatory actions.

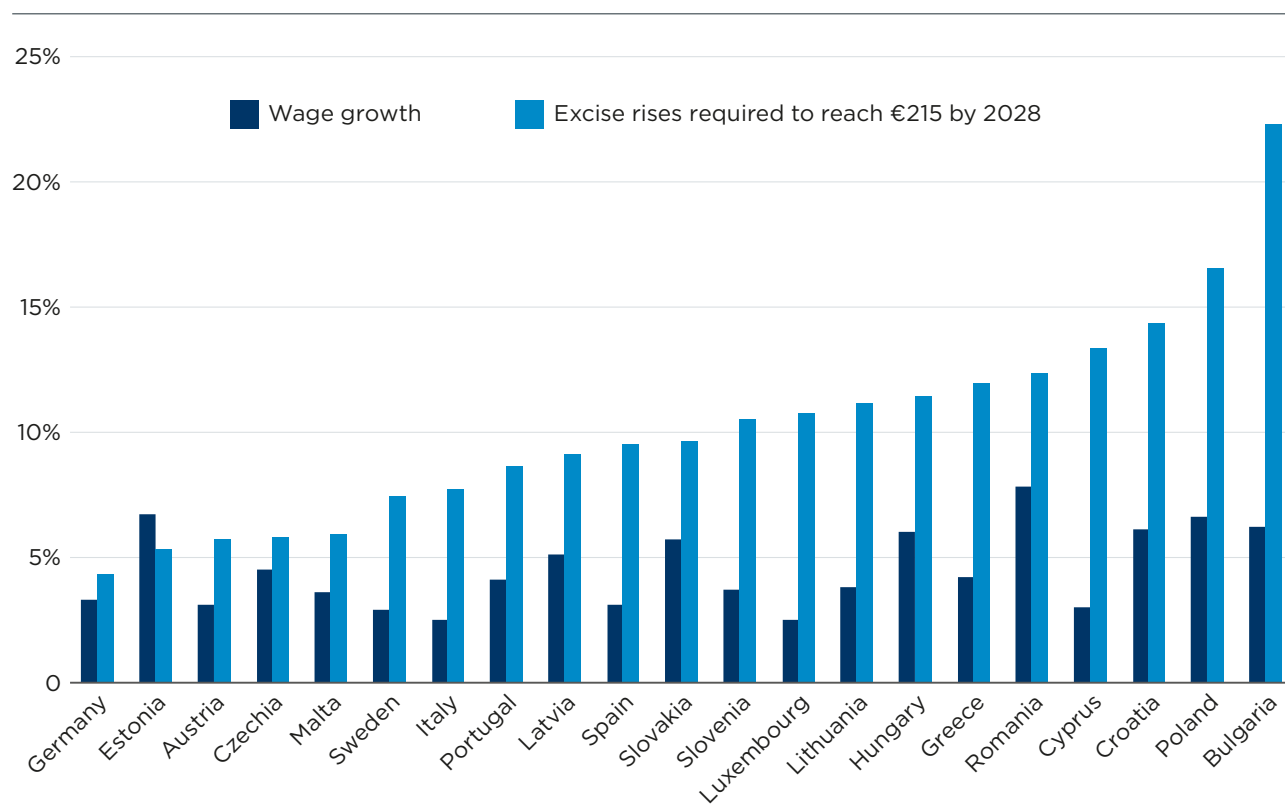
10 Luk Joossens, Alessandra Lugo, Carlo La Vecchia, Anna B Gilmore, Luke Clancy, and Silvano Gallus, '[Illicit cigarettes and hand-rolled tobacco in 18 European countries: a cross-sectional survey](#)', *Tobacco Control*, May, 23(e1), 2014.

11 Karina Geranios, Robert Kagabo, and Jaewhan Kim, '[Impact of COVID-19 and socioeconomic status on delayed care and Unemployment](#)', *Health Equity*, Volume 6.1, 2022.

12 Evangelos Charalampakis, Bruno Fagandini, Lukas Henkel and Chiara Osbatl, '[The impact of the recent rise in inflation on low-income households](#)', *ECB Economic Bulletin*, Issue 7/2022.

13 The wage growth forecasts are sourced from [Oxford Economics' country economic forecasts](#).

Fig. 10: Forecasts for annual average wage growth and excise duty rises required to reach €215 per 1,000 cigarettes 2024-2028



Source: Oxford Economics

2.4 EFFECTIVE ENFORCEMENT

The effectiveness of enforcement measures in tackling the illicit cigarette trade across the EU depends on how well supply chains are monitored, how consistently national regulations are implemented, and how effectively member states cooperate across borders. While high taxation can create incentives for participation in the illicit market, these incentives do not necessarily result in illegal activity if the cigarette supply chain is effectively controlled. This includes the actions by suppliers of raw materials and the manufacturers, distributors, wholesalers, and retailers of illicit cigarettes. For the regulations to have a deterrent effect, they must be supported by credible enforcement and meaningful penalties.

Effective enforcement comes at a considerable cost. Governments must fund the personnel, equipment, and technology needed to detect, investigate, and prosecute illicit activity. This includes the ability to trace product origins, preserve the

evidence, and coordinate with customs and police authorities across jurisdiction. Many EU member states—particularly those with smaller enforcement budgets—face constraints that limit their capacity to devote sufficient resources to combating illicit trade. The result is an uneven enforcement landscape across the EU that struggles to deal with the constantly evolving challenges of the market.

For example, pack survey data during the Covid-19 pandemic show that enforcement authorities in France were initially slow to respond to the surge in counterfeit cigarette production that filled the gap left by the disruption of traditional contraband supply routes. Lockdowns and border closures curtailed cross-border smuggling, while illicit suppliers shifted to domestic counterfeiting and digital distribution. This highlights the need for enforcement systems that are not only well-resourced but also flexible and able to anticipate changes in illicit supply chains.

The pandemic also accelerated the digitalisation of illicit trade by increasing the number of online marketplaces, purpose-built websites, and social media platforms used to market and distribute illicit cigarettes.¹⁴ Purchased products are distributed in small parcels via postal and express freight services, complicating detection by customs authorities. This shift has lowered the barriers for consumers to access illicit goods and increased their perceived safety. Effective enforcement strategies against emerging online channels require solutions that go beyond traditional inspections and include better data analytics and information sharing.

Russia's invasion of Ukraine in 2022 also disrupted the supply of illicit cigarettes into the EU. Prior to the invasion, Ukraine had been a significant producer and transport hub for the entry of illicit cigarettes into the EU. With land and sea routes being blocked, traffickers have redirected flows through alternative routes. Criminal networks also shifted manufacturing to other European

countries. This has led to an increase in illicit cigarette production in the EU, with displaced Ukrainians being exploited as low-cost labour.¹⁵

All of these developments highlight the unique value of EU-level cooperation. In these cases, illicit cigarette trade does not stop at national borders and can exploit the freedom of movement of goods and people within the EU's single market. National approaches are therefore insufficient. What is needed is pooling intelligence, sharing enforcement best practices, and coordinating actions through established mechanisms.

While national enforcement remains the foundation of efforts to combat the illicit cigarette trade, the transnational nature of the problem demands an equally transnational solution. EU cooperation will deliver clear benefits: economies of scale in enforcement; improved intelligence sharing; greater consistency in regulation; and a unified response to criminal networks operating across multiple jurisdictions.

2.5 THE ROLE OF CRIMINAL NETWORKS

The structure and intensity of illicit cigarette flows across Europe are shaped not only by price differentials and tax policy but also by the presence and organisation of criminal networks. Some lower-tax EU member states (see Fig. 8) display similar levels of illicit cigarette consumption to higher-tax jurisdictions. This often reflects geographic factors, as well as differences in enforcement capacity, corruption, and the entrenchment of organised crime groups (OCGs).

Large-scale operations to smuggle contrabands or produce counterfeits require coordinated logistics, distribution, and bribery of officials, which are typical of OCGs. In the EU, some of

the OCGs involved in contraband operations include Balkan factions, Italian mafias, and criminal gangs from eastern Europe and Asia. Meanwhile, smaller-scale smuggling, or "bootlegging", can be carried out by individuals or loosely organised groups.¹⁶ As for counterfeiting activities within the EU, there is substantial evidence that human-trafficking, modern slavery victims, and displaced Ukraine refugees are forced to live and work in illegal factories under dangerous, exploitative conditions.¹⁷ For instance, in August 2025, in the two illicit tobacco production factories seized and dismantled in the provinces of Malaga and Cordoba in Spain, 18 people of different nationalities were found to be working in subhuman conditions.¹⁸

14 Alexander Babuta, Cathy Haenlein, and Alexandria Reid, 'E-Commerce, delivery services and the illicit tobacco trade', Royal United Services Institute for Defence and Security Studies, 2018.

15 Yulia Krylova, 'The impact of Russia's full-scale invasion on illicit cigarette trafficking from Ukraine to the European Union', *Journal of Illicit Economies and Development*, 6(2), pp. 1-18, 2024.

16 Alberto Aziani and Marco Dugato, 'Cigarette Trafficking - Introducing the transnational dimension of cigarette trafficking in Europe and beyond', 2019.

17 European Anti-Fraud Office (OLAF) 'Fighting tobacco smuggling', accessed November 2025.

18 SUR in English, 'Eighteen people freed from working in slave labour conditions during raids on illegal tobacco factories in Malaga and Cordoba', 8 August 2025.

In both instances, OCGs used profits from illicit tobacco and other trafficking activities to finance additional criminal activities and corruption, including drug and arms trafficking, money laundering, and even terrorism. Prominent terrorist groups identified by France's Centre for the Analysis of Terrorism (CAT) have profited from tobacco smuggling and counterfeiting include ISIS, Al-Qaeda, and the Irish Republican Army.¹⁹

Hence, the broader negative spillovers and criminal implications of illicit tobacco need to be considered in the design of policies targeting tobacco in the EU.

2.6 GEOGRAPHY AND OTHER SUPPLY FACTORS

Geography plays a crucial role in shaping the dynamics of the illicit cigarette trade across the EU. Countries along the Union's eastern borders are particularly exposed to illegal inflows from neighbouring non-EU states—most notably Algeria, the Balkans, Belarus, Russia, Turkey, and Ukraine—where cigarette prices and tax levels are substantially lower. Proximity to these supply sources facilitates contraband and smuggling flows, often offsetting the intended impact of domestic taxation and enforcement measures. Consequently, some low-tax EU countries record levels of illicit cigarette consumption comparable to those in high-tax jurisdictions, underscoring how geographical factors can undermine national policy efforts and reinforcing the need for coordinated EU-level border management and enforcement.

As enforcement at the EU's external borders has tightened and transportation costs from non-EU origins have risen, criminal networks have adapted by relocating parts of their operations within the EU. Establishing illicit manufacturing sites inside the Union allows these groups to circumvent customs checks, reduce logistical risks, and respond more quickly to demand in high-tax markets. The European Anti-Fraud Office (OLAF) report a growth in seizures from the illicit production of cigarettes inside the EU.²⁰

This evolution marks a shift from traditional cross-border smuggling toward domestically embedded counterfeit production, driven by the enduring profitability of untaxed cigarettes in a high-excise environment. The trend accelerated during the Covid-19 pandemic, as border restrictions disrupted established smuggling routes and criminal organisations moved production closer to end markets. The war in Ukraine further reinforced this shift by constraining supplies from traditional source countries.

Recent enforcement data illustrate the scale of this transformation. In 2021 and 2023, major counterfeit cigarette production lines were dismantled in Slovenia and France.²¹ By 2024, the total quantity of cigarettes seized in factory raids within the EU had nearly doubled—from 203.2 million in 2023 to 462.9 million in 2024—despite a decline in the number of raids conducted.^{22,23} This indicates a consolidation of production capacity within fewer but more sophisticated facilities, highlighting the ongoing adaptation of organised crime networks to Europe's evolving enforcement landscape.

19 HMRC, 'Stubbing out the problem', 1 March 2024; Intersec, 'How illegal tobacco funds terror', 22 July 2016; Vision of Humanity, 'Counterfeiting: An ABC of Terrorist Financing', September 19, 2023.

20 European Anti-Fraud Office (OLAF), 'Tobacco smuggling: over 600 million illicit cigarettes seized thanks to OLAF in 2023', Press Release No 05/2024, 11 April 2024.

21 Europol, 'Counterfeit tobacco products worth EUR 17 million seized in France' 16 January 2023; Europol, 'Production line of counterfeit cigarettes flooding the French market dismantled in Slovenia', 28 January 2022.

22 KPMG, 'Illicit cigarette consumption in Europe: Results for the calendar year 2023', 09 September 2024.

23 KPMG, 'Illicit cigarette consumption in Europe: Results for the calendar year 2024', 11 June 2025.

2.7 CONCLUSION

The illicit trade in cigarettes is dynamic. The criminal networks involved in the trade are agile and evolve their production and distribution strategies. The interruption to transport and travel brought about by the Covid-19 pandemic, the recent bout of inflation which hit households' income, and closure of smuggling routes by the Russian invasion of Ukraine have all shaped the illicit trade in multiple ways.

KPMG's data suggest that consumption of counterfeit cigarettes has increased markedly within the EU. In the five years to 2024, the volume of counterfeit cigarettes consumed nearly trebled from 5.5 billion to 15.3 billion. Seizure and other enforcement data suggest that an increasing proportion of the counterfeit cigarettes are being manufactured within the EU. Consumption of Illicit whites increased in 2024, despite being on a downward trend. Consumption of Other C&C remains broadly constant, comprising the largest share at 40% of the market. Overall, 39 billion illicit cigarettes were consumed in the EU in 2024. This was a 9.2% of all cigarettes consumed in the year.

The illicit trade causes many problems within the EU. It is a risk to public health as there is no control of the inputs used to make the cigarettes, it denies government's finances they need to fund vital public services, and it funds other illicit activity. Governments therefore need to think clearly about how they seek to control it. One reason this is particularly important as once it becomes established, it takes time and expense on enforcement agencies to reduce it.

One lever Europe's policymakers do have to influence the size of the illicit market is the rate of excise duty they levy on duty paid cigarettes. The excise duty and VAT charged on duty paid cigarettes impact the profit margin criminals can make on the sale of illicit cigarettes. Similarly, the price differential both taxes create shapes customers' decision to purchase illicit cigarettes in preference to duty paid ones.

It is for this reason EU policymakers face a difficult balancing act in wanting to achieve public health goals and raise tax receipts by levying excise duty on duty paid cigarettes, versus stimulating the illicit market. The TED proposal to increase the minimum excise duty member states are required to charge from €90 to €215 per 1,000 cigarettes by 2028 may reduce the incentive for consumers to purchase legal cigarettes from lower-priced jurisdictions. But it will increase the incentives for criminal outside to target the EU market, and for customers to purchase from these illicit sources. The negative shock to the affordability of duty paid cigarettes from the increase in the minimum excise levels is expected to stimulate the growth of the illicit market particularly strongly in the countries with the lower current excise rates. These tend to be located in the east of the EU, next to some of the countries where illicit cigarettes have historically been and still are produced, and many of the land routes and sea routes from which illicit cigarettes enter the EU. Some thought should be given to a derogation period for those member states to more gradually increase their rates to align with the proposed directive's requirements, in order to safeguard legal sales, tax receipts, and to prevent the expansion of illicit trade.

The four case studies in the next chapter highlight the importance of the appropriate excise duty policy. Particularly instructive is the case of France, which has seen its illicit market grow from 11.3 billion illicit cigarettes in 2019 to 18.8 billion in 2024. This growth is responsible for the French share of all illicit cigarettes consumed in the EU to increase from 21.4% in 2019 to 48.2% in 2024. This was over a period when the country's government raised excise duty by 87% in nominal terms.

SECTION 3: CASE STUDIES

3.1 SUMMARY OF THE CASE STUDIES

We have carried out case studies for four EU countries using data sourced from KPMG’s Project Sun, the European Commission, and BAT, as well as complemented by the literature. We have selected these countries because they provide a wide range of distinctive and differentiated markets that show various aspects of the key drivers of the trade in illicit cigarettes.

Fig. 11: Summary statistics on the four case studies cigarette markets between 2014 and 2024

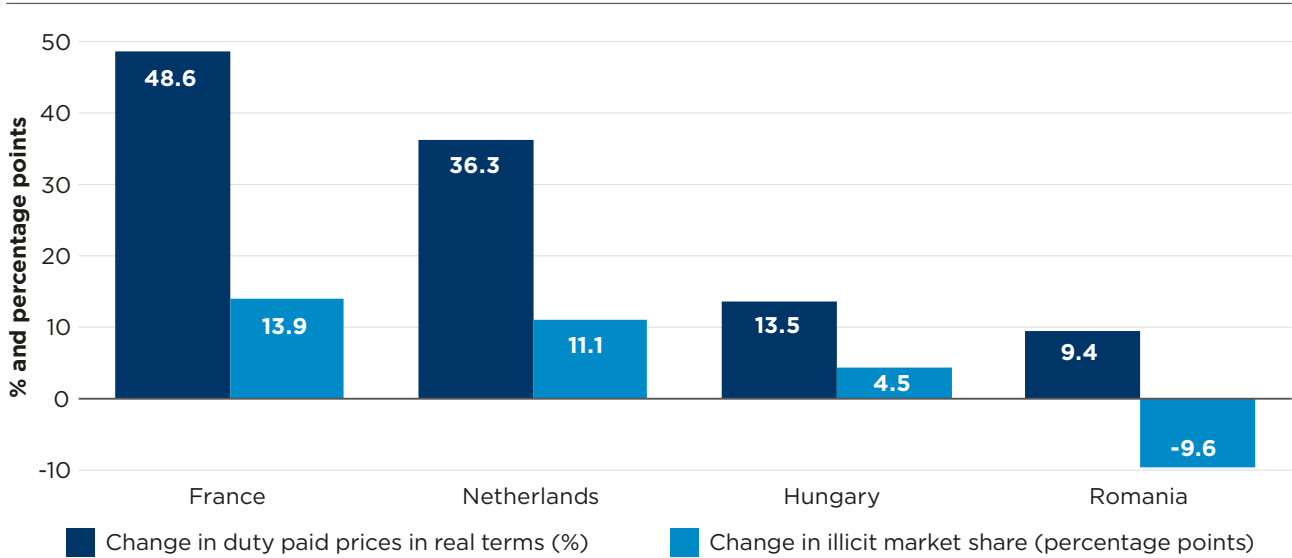
	France	Hungary	Netherlands	Romania
Market share of illicit cigarettes - 2014	15%	9%	7%	16%
Market share of illicit cigarettes - 2024	38%	13%	18%	6%
Share of illicit cigarettes that are counterfeit - 2014	1%	6%	1%	22%
Share of illicit cigarettes that are counterfeit - 2024	42%	86%	24%	41%
Price gap between duty-paid and illicit cigarettes - 2024	2.0 ×	2.4 ×	2.5 ×	1.5 ×
Average annual change in duty-paid cigarette price (real terms) 2014-2024	+5%pa	+1%pa	+3%pa	+1%pa
Percentage of cigarette price change attributable to taxes 2014- 2024	87%	64%	107%	60%
Lost tax revenue as a percentage of actual tax receipts - 2024	74%	16%	29%	6%

Source: Oxford Economics; BAT; KPMG

The evidence points to a positive relationship between the price of duty paid cigarettes and the market share of illicit cigarettes in a country. Exemplifying this is the increase in real duty paid prices in the four countries over the decade, which is positively correlated with the change in the size of the illicit trade market share (Fig. 12). The French

government increased excise duty significantly, contributing to a 48.6% increase in the real price of duty paid cigarettes. Over the same period, the illicit market share rose by 13.9 percentage points. At the other extreme, in Romania the price of duty paid prices increased by 9.4%, while the illicit market share declined by 9.6 percentage points.

Fig. 12: Correlation between duty-paid cigarette prices and the illicit cigarette market share (2014–2024)



Source: Oxford Economics; BAT; KPMG

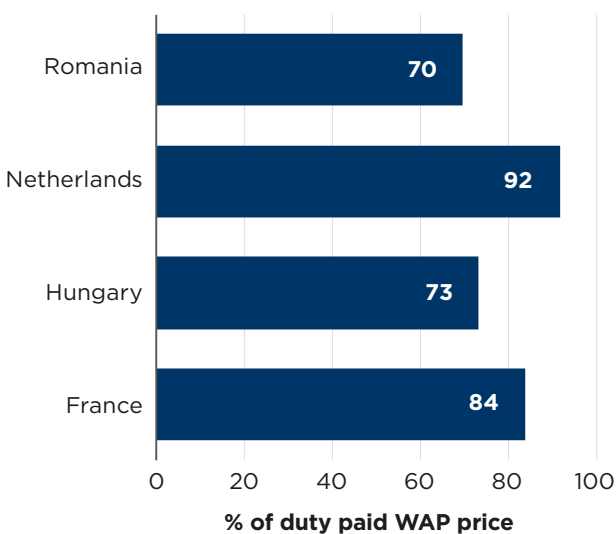
3.1.1 Large tax burdens create significant incentives for the creation of an illicit market

Across the four countries, excise duty and VAT together accounted for between 70% and 92% of the average price of duty paid cigarettes in 2024 (Fig. 13). Assuming criminals have broadly the same costs of production as legitimate manufacturers, this represents the maximum possible profit on the sale of illicit cigarettes they can make. As governments increase excise duty the potential profit criminals can make per pack increases, boosting their incentive to supply. So,

in 2024 the maximum profit margin criminals can make as a percentage of the duty paid prices was largest in the Netherlands at 92% and lowest in Romania at 70%.

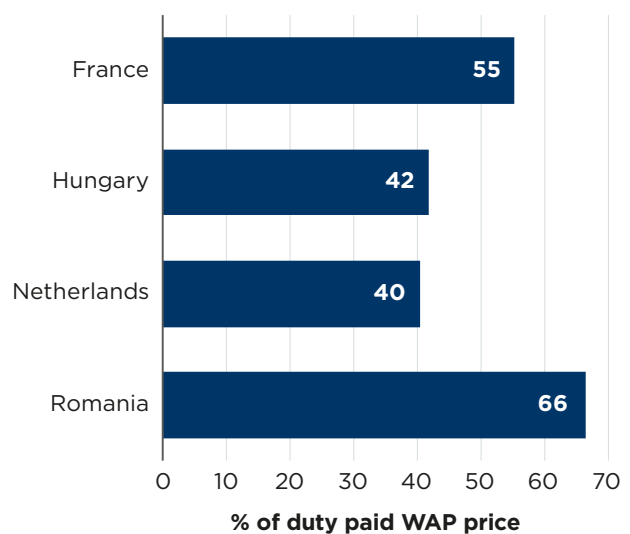
For consumers, the price of illicit cigarettes in 2024 was typically between 40% and 66% of the price of duty paid cigarettes in these four countries (Fig. 14). This has incentivised hard-pressed households to switch to illicit sources of supply.

Fig. 13: Taxes as a percentage of the average retail price of a duty paid cigarette in 2024



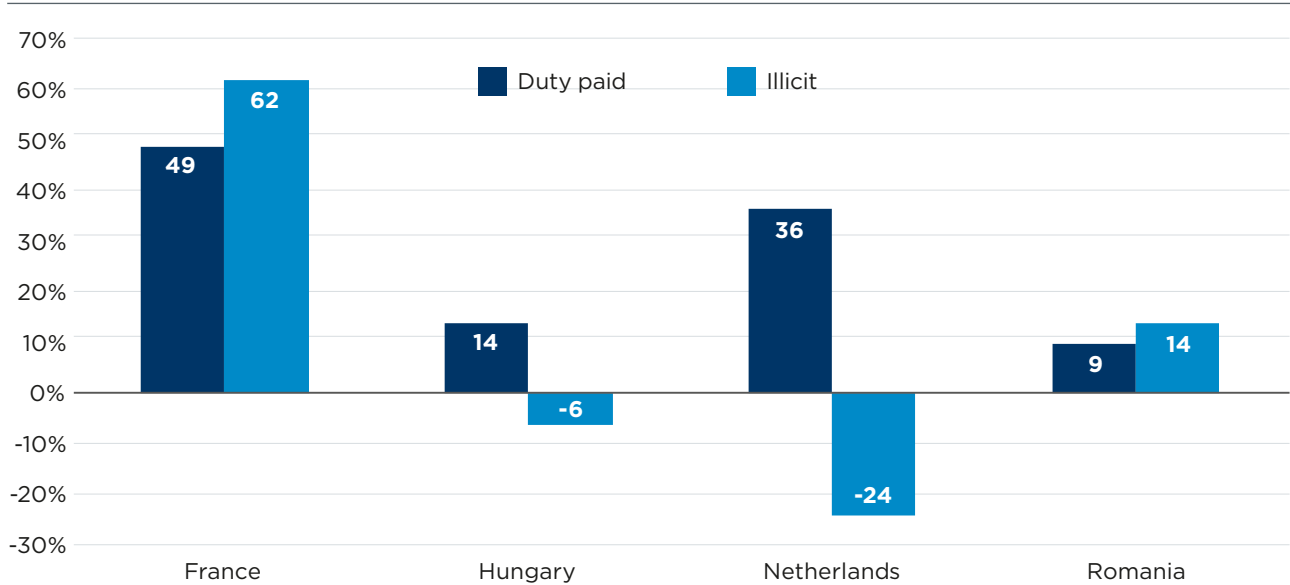
Source: Oxford Economics; BAT

Fig. 14: Price of illicit cigarettes as a percentage of the price of duty paid in 2024



Source: Oxford Economics; BAT

Fig. 15: Percentage change in duty paid and illicit cigarette prices between 2014 and 2024 (in real terms)



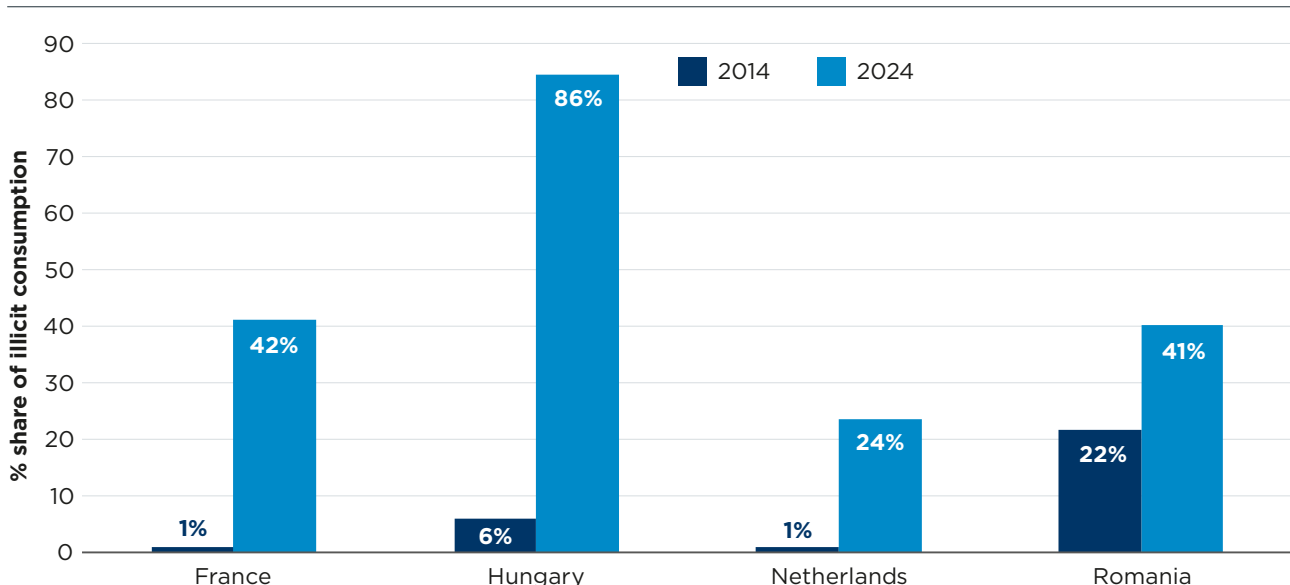
Source: Oxford Economics; BAT

In all four countries the price gap between duty paid and illicit cigarettes widened between 2014 and 2024. But where there is some disparity is in the reasons behind the widening. In France and Romania, duty paid and illicit prices both increased over the decade in real terms (Fig. 15). In both cases the illicit prices increased by more than the duty paid, but because duty paid prices were higher initially this still led to a widening in the price gap. In Hungary and the Netherlands, while duty paid prices increased, illicit prices actually fell

in real terms over the decade, possibly reflecting the larger size of the illicit market, leading to greater price competition from illicit traders.

One factor common across all four case studies (and most of the rest of the EU27) is the rapid growth in counterfeit cigarettes. Their share of illicit consumption has increased by between 19 (Romania) and 80 (Hungary) percentage points over the decade (Fig. 16). As illustrated in the Fig. 4, the rapid growth in supplies of counterfeit

Fig. 16: Counterfeits' share of illicit cigarettes in the four case study countries in 2014 and 2024



Source: Oxford Economics; KPMG

cigarettes has exerted downward pressure on the price of illicit cigarettes across the EU. There are other factors influencing the supply of illicit that are also impacting its price and therefore the price gap, for example, the growth of illicit factories within the EU and the disruption of land and sea smuggling routes into the EU due to the Russian invasion of Ukraine, etc.

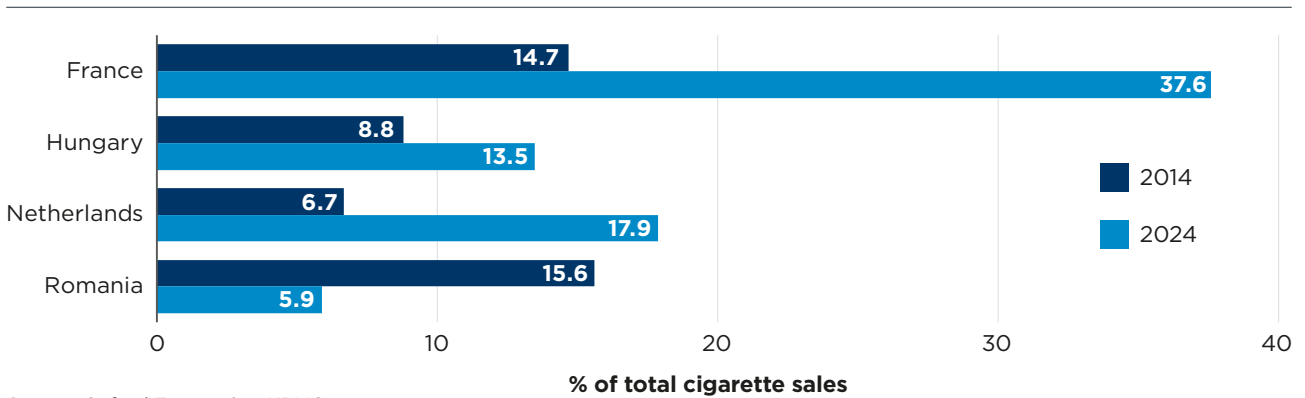
3.1.2 Foregone tax revenues are increasing in three of the four member states

In three of the four countries, the illicit market share increased between 2014 and 2024. This is most notably the case in France and the Netherlands where it has increased by 13 and 11 percentage points, respectively (Fig. 17). These are the

countries that increased excise rates the most rapidly. In contrast, in Romania the illicit market share has declined over the decade, reflecting smaller excise increases and effective enforcement.

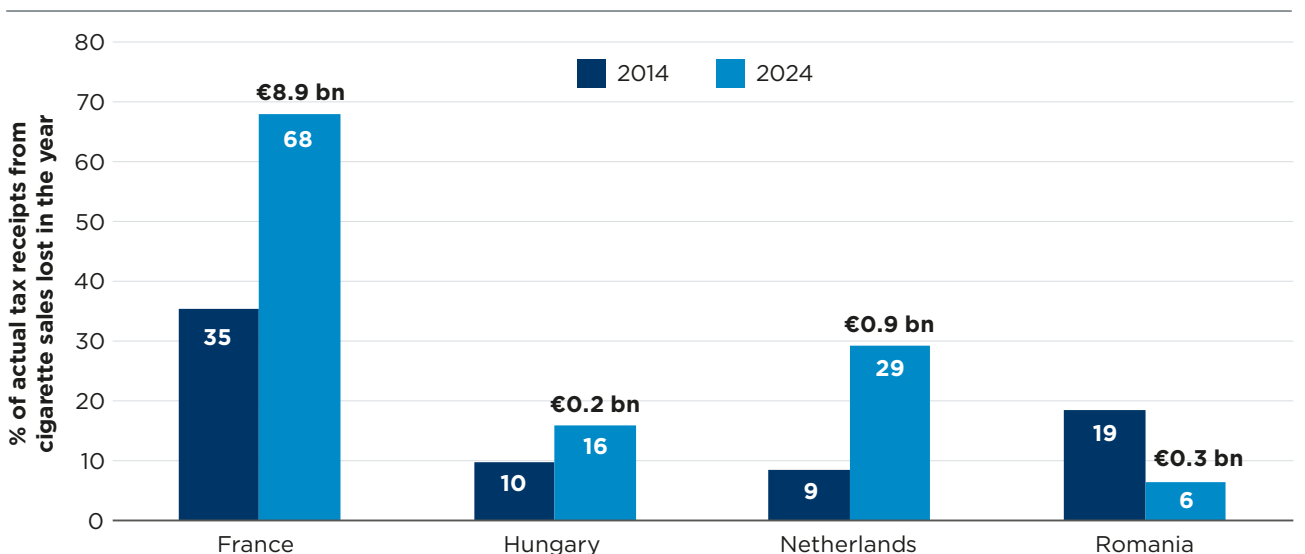
The growing share of illicit cigarettes has substantial fiscal consequences. In countries experiencing both high cigarette taxes and increasing illicit market shares, lost tax revenue has risen sharply. In France, for example, tax revenue foregone due to illicit consumption amounted to an enormous €8.9 billion, or 68% of total cigarette tax receipts in 2024 (Fig. 18). Romania’s success at reducing the illicit market share through excise policy and effective enforcement reduced the tax receipts foregone to a third of their level a decade ago.

Fig. 17: Illicit market share in 2014 and 2024



Source: Oxford Economics; KPMG

Fig. 18: Lost excise and VAT revenue as a percentage of actual tax receipts from cigarettes in 2014 and 2024, and lost revenue in 2024



Source: Oxford Economics; BAT



FRANCE



In 2024, **37.6%** of all cigarettes consumed in France were illicit.



In France, **8.8 billion** counterfeit cigarettes were consumed in 2024. This was 40% of the total consumed across the whole EU.



Illicit cigarettes prices were **55%** of the average price of duty paid cigarettes in 2024.



In 2024, excise and VAT made up **83.7%** of the price of duty paid cigarettes.



Between 2014 and 2024, cigarette price increases have outpaced wage growth (**60% to 15%**), acting as an incentive for people to switch to alternative sources of consumption, such as illicit cigarettes.



Illicit cigarette sales led to **€8.9 billion** in lost tax revenues in 2024.

SHORT MARKET SUMMARY

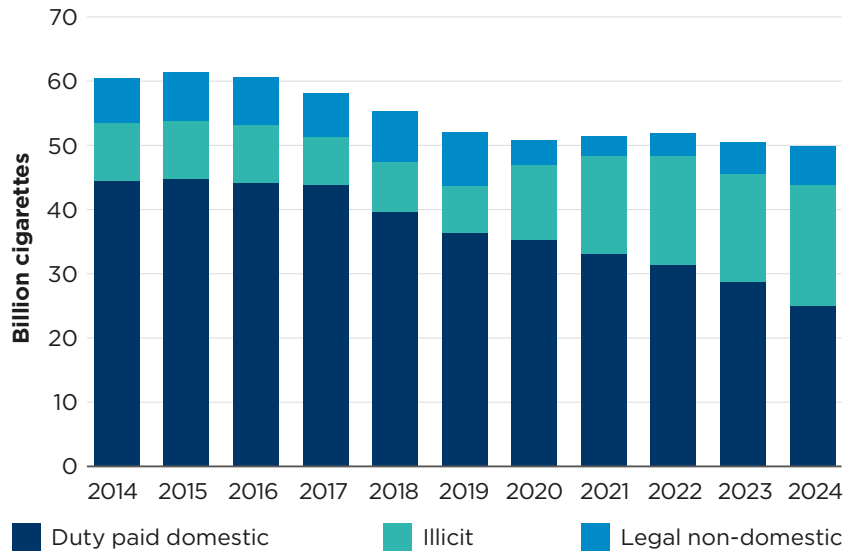
For the first four years of the past decade (2014 to 2017), the French authorities kept excise duty on cigarettes constant. In the most recent six years, they increased excise duty by 68% in real terms. This has driven a 60% increase in the real price of duty paid cigarettes over the 10 years. The increase in the price of duty paid cigarettes has incentivised the growth of the illicit market. In 2024, 18.7 billion illicit cigarettes were consumed in France, a market share of 37.6%. This total was 35.8% of all the illicit cigarettes purchased in the EU27, making the country criminals largest market in the bloc. As is common across other member states, an increasing proportion of these illicit cigarettes are counterfeit, with a sizeable share produced with the EU.

CIGARETTE CUSTOMERS HAVE BEEN SWITCHING TO ILLICIT SOURCES OF SUPPLY

Between 2014 and 2024, total cigarette consumption has declined by 17 billion sticks, or 29%. The decrease in duty paid cigarettes has been sharper still, falling by 19 billion.

The one segment of the cigarette market that has grown over the decade is illicit. **This more than doubled between 2014 and 2024, an increase of 10 billion sticks.** Illicit cigarettes made up 37.6% of all cigarettes consumed in 2024, the highest market share across the 27 EU member states.

Cigarette consumption in France by type



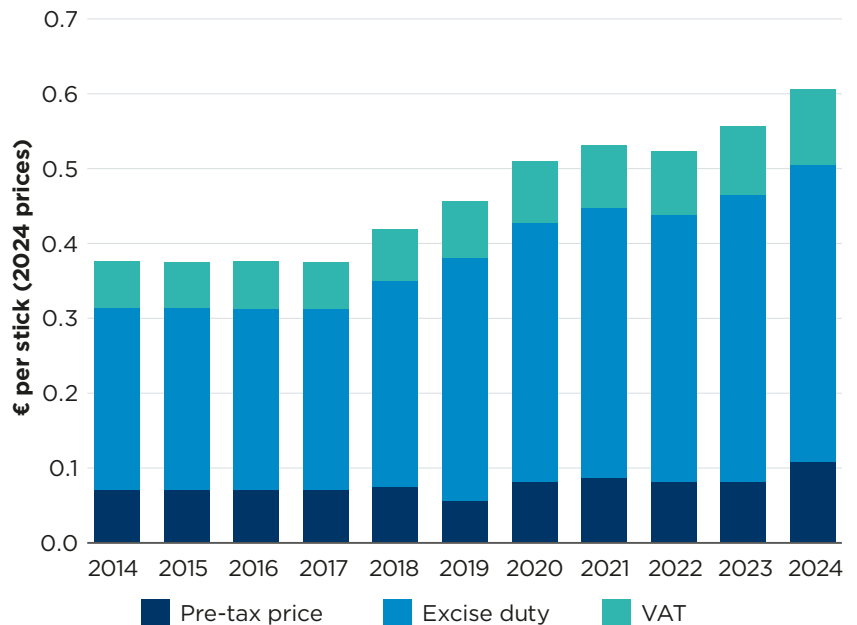
Source: Oxford Economics; KPMG

EXCISE DUTY INCREASES HAVE DRIVEN THE INCREASE IN THE PRICE OF DUTY PAID CIGARETTES

Between 2014 and 2024, the price of duty paid cigarettes increased by 60% in real terms. Most of the increase was driven by hikes in excise duty, which were responsible for 43 percentage points of the rise. VAT and pre-tax prices were responsible for the remaining 10 and 7 percentage points, respectively.

For the first four years of the decade, the French government left the rate of excise duty unchanged. It has subsequently increased it every year. It now stands 68% above its 2014 level in real terms.

Decomposition of the real price of duty paid cigarettes



Source: Oxford Economics; EC

DRIVERS OF ILLICIT CIGARETTE CONSUMPTION

Profitability

- In 2024, taxes made up 83.7% of the price of duty paid cigarettes.
- In 2024, taxes meant that the price difference between a pack of 20 duty paid cigarettes and non-duty paid cigarettes was €10.10. This represents the maximum profit margin available to criminals from selling a pack of illicit cigarettes.
- Criminals have increased the price of illicit cigarettes broadly in line with the excise duty driven increases in duty paid prices, increasing the profits they make.

Other supply factors

- As elsewhere in the EU, counterfeit cigarettes have surged. 7.8 billion were consumed in 2024, a ninefold increase on the 0.8 billion consumed five years before.²⁴ Organised crime groups have shifted the production closer to end markets during the pandemic.
- Lower duty paid cigarette prices in neighbouring European countries create incentives for cross-border bootlegging, where legally purchased cigarettes are resold in the French market, resulting in tax revenue losses for the French government.²⁵

Enforcement

- In 2024, French customs recorded 18,407 tobacco smuggling offences and the seizure of 489 tonnes of tobacco and products of all types.²⁶
- Between 2023 and 2024, online advertisements promoting illicit cigarette sales surged by 115% in France. The shift to online platforms allows sellers to bypass geographical restrictions, making enforcement significantly harder and greatly expanding smugglers' ability to supply.²⁷

Demand side factors

- Illicit cigarettes are cheaper than their duty paid counterparts in France. The price gap was 2.0× in 2024.
- The affordability of duty-paid cigarettes has declined by 28% between 2014 and 2024. The increasing tax on duty paid cigarettes and their worsening affordability has prompted cigarette consumers to switch to the illicit market.
- France has the second highest price for cigarettes in the EU, showcasing the incentive for people to switch to other forms of consumption such as illicit cigarettes.²⁸

24 KPMG, 'Illicit cigarette consumption in Europe: Results for the calendar year 2024', 11 June 2025.

25 Tobacco Reporter, 'Luxembourg sees 17% surge in cigarette sales as buyers cross border', June 2025.

26 Douanes et droits indirects, 'Annual customs progress report', July 2025.

27 Revue de tabacs, 'Webdrone study: a doubling of illegal tobacco sales in 2024', February 2025.

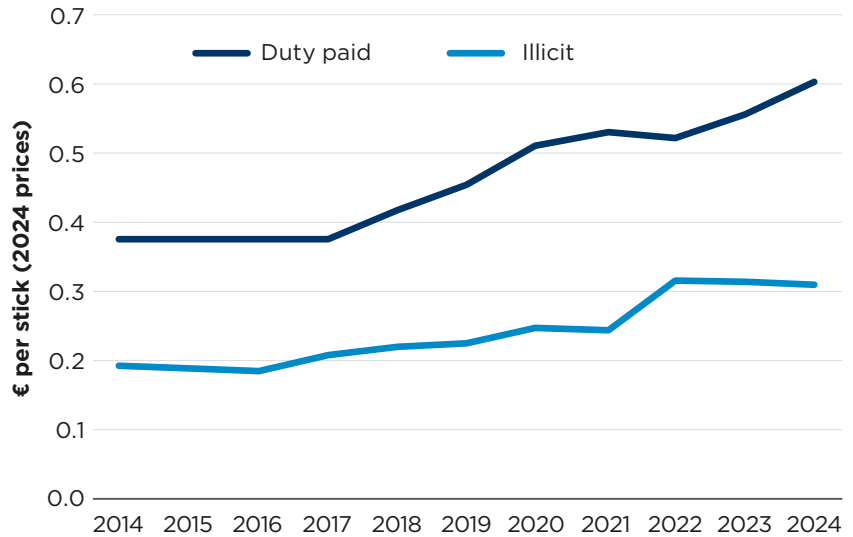
28 Statista, 'Retail price of a pack of 20 cigarettes in European Union countries in 2024', April 2025.

THE PRICE OF DUTY PAID CIGARETTES EXCEEDS ILLEGAL CIGARETTES

The increases in excise duty every year since 2018, have driven the price of duty paid cigarettes higher. In 2024, they stood 60% above their level in 2014 in real terms.

In 2024, the price of illicit cigarettes was 55% of their duty paid counterparts. Criminals have been fairly consistent in maintaining the price differential over the decade; it has remained within a fairly tight range of 46% to 61%. This suggests criminals' profits on sales have likely increased with the excise rises, assuming their costs of production have not increased much. This seems likely given pre-tax prices on duty paid cigarettes only increased by 7% over the decade in real terms.

The real price of duty paid and illicit cigarettes



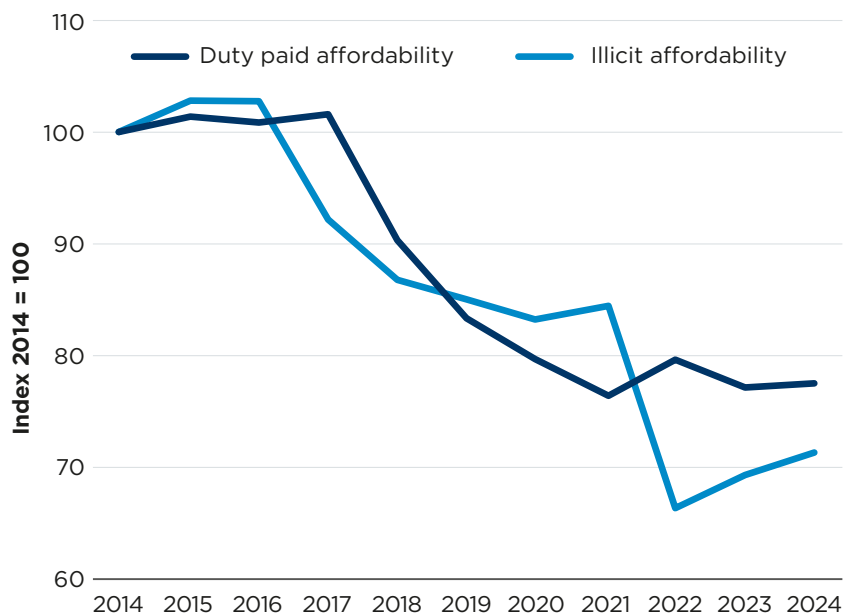
Source: Oxford Economics; BAT

BOTH DUTY PAID AND ILLICIT CIGARETTES HAVE BECOME LESS AFFORDABLE

Between 2014 and 2024, the average hourly wage in France increased by 15% in real terms, at the same time the real price of duty paid cigarettes increased by 60%, four times as fast. **This has resulted in duty paid cigarettes becoming less affordable.** It used to take 0.88 minutes to earn the amount required to buy a duty paid cigarette 10 years ago, in 2024 it took 1.13 minutes. This reflects a 22% reduction in affordability over the last decade.

As illicit cigarette prices have largely tracked duty paid, they too have declined in affordability. It takes 0.62 minutes work on average wages to pay for an illicit cigarette.

Affordability of cigarettes by type



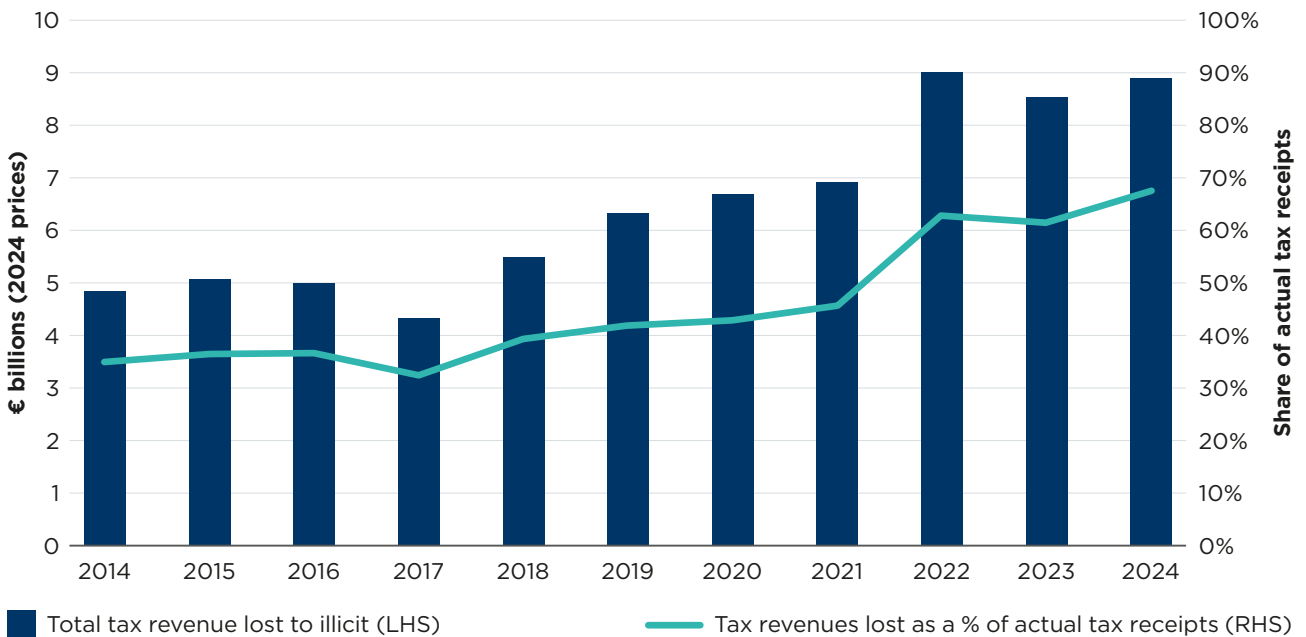
Source: Oxford Economics; BAT; Haver Analytics

THE GROWTH IN ILLICIT MARKET HAS LED TO A LOSS IN TAX RECEIPTS

In 2024, illicit cigarette consumption resulted in €8.9 billion in lost excise and VAT revenues, equivalent to 68% of actual tax receipts collected on cigarette sales.

Over the past decade, the scale of tax lost to illicit trade has almost doubled. This reflects the growth in duty paid prices through the ad valorem taxes, and the scale of the illicit trade.

Excise and VAT receipts lost due to illicit sales



Source: Oxford Economics; BAT

CONCLUSION

- Between 2014 and 2024, excise duty on cigarettes has increased by 68% in real terms.
- Duty paid cigarette prices increased by 60% in the decade to 2024, in real terms. Increases in excise duty comprised 43 percentage points of the increase.
- France is the largest market for illicit cigarettes in the EU. In 2024, illicit cigarettes had a 37.6% market share.
- In 2024, the French government lost €8.9 billion in tax revenues due to illicit cigarettes consumption.



HUNGARY



In 2024, **13.5%** of all cigarettes consumed in Hungary were illicit.



Counterfeit cigarettes made up **86%** of illicit consumption in 2024.



The price of illicit cigarettes in 2024 was **42%** the price of duty paid cigarettes.



The price of duty paid cigarettes increased **14%** in real terms between 2014 and 2024.



In 2024, excise and VAT made up **73%** of the price of duty paid cigarettes.



Illicit cigarette sales led to approximately **€175 million** in lost tax revenues in 2024.

SHORT MARKET SUMMARY

In the decade to 2024, total cigarette consumption declined by 11%. One segment of the market which has increased over the period is illicit cigarettes. Their market share has increased to 13.5% in 2024 from 7.9% just a year earlier. Growth in illicit cigarette consumption in recent years has been driven by counterfeit cigarettes, which have increased eight-fold in the past two years. In 2024, counterfeits comprised 86% of all illicit cigarettes consumed.

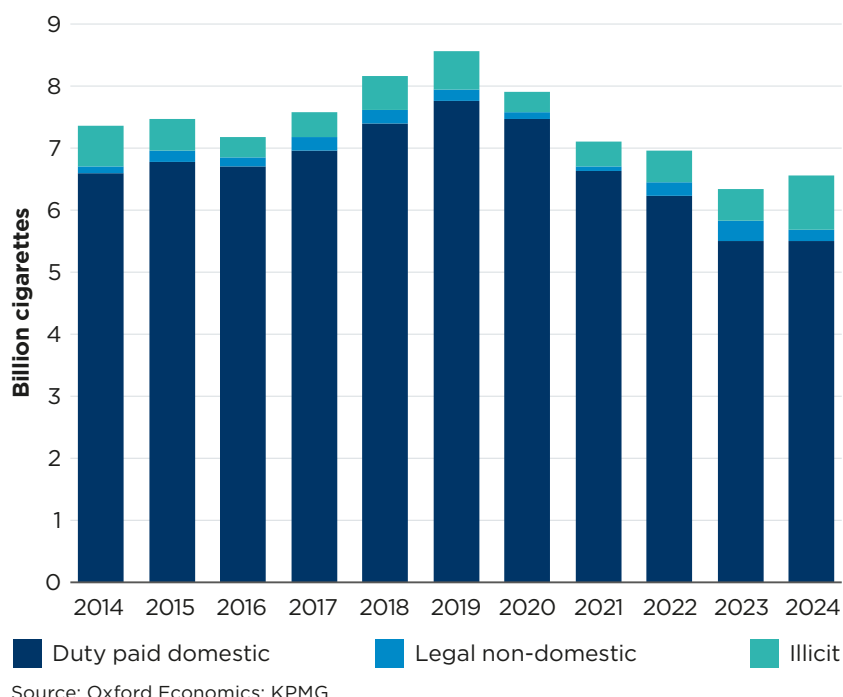
CUSTOMERS HAVE SWITCHED TO ILLICIT SOURCES OF SUPPLY

Between 2014 and 2024, total cigarette consumption in Hungary decreased by 1 billion sticks, or 11%. The main impetus for this was a 1.2 billion decline in duty paid cigarettes.

In contrast, the number of illicit cigarettes consumed increased by 0.2 billion over the decade, with particularly sharp growth in 2024. As a result, the illicit market share was 13.5% of the total market in 2024, up from 7.9% in 2023.

Counterfeits made up 86% of the illicit cigarettes consumed in 2024. Illicit whites comprised most of the remainder at 11%.

Consumption of cigarettes by type

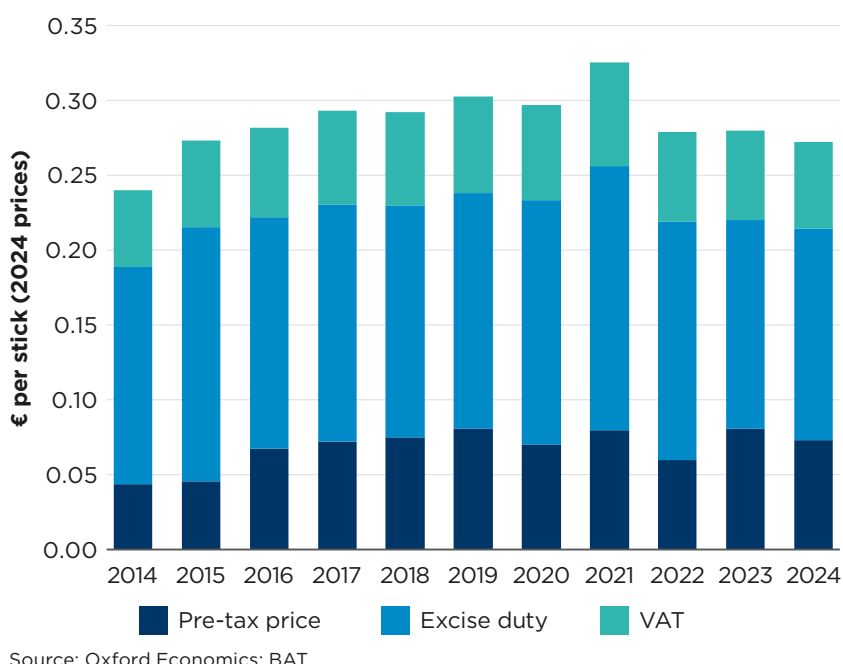


EXCISE RISES HAVE DRIVEN THE INCREASE IN THE PRICE OF DUTY PAID CIGARETTES

Over the past decade, the price of duty paid cigarettes increased by 14% in real terms. It reached a peak in 2021, but subsequent increases in pack prices have been eroded in real terms by more rapid growth in consumer price inflation which peaked at over 25% in early 2023.

In 2024, excise duty and VAT comprised 52% and 21% of duty paid cigarette prices. The remaining 27% was the pre-tax price.

Decomposition of the real price of duty paid cigarettes



DRIVERS OF ILLICIT CIGARETTE CONSUMPTION

Profitability

- Excise duties and VAT accounted for 73% of the price of duty paid cigarettes in 2024.
- This represents the potential profit margin (€3.99 on each packet of 20) criminals can make by smuggling and selling illicit cigarettes.
- The TED proposal risks boosting criminals' profitability by raising excise duty from €139 per 1,000 cigarettes in 2024 to €215 from 2028.

Other supply factors

- Counterfeits share of illicit cigarettes consumed increased from 66% in 2023 to 86% in 2024.²⁹
- Tobacco is grown in Szabolcs-Szatmár-Bereg and Hajdú-Bihar. Stolen tobacco leaves from these counties are used to produce counterfeit illicit cigarettes.
- The illicit market share is highest in these two counties plus Borsod-Abaúj Zemplén. They grow tobacco and share borders with Romania, Slovakia, and Ukraine.

Enforcement

- In 2024, the National Tax and Customs Administration (NAV) uncovered three illegal tobacco factories, along with over 75 million cigarettes and 90 tonnes of tobacco.³⁰
- In May 2025, NAV dismantled the country's largest known illicit cigarette operation seizing 156 tonnes of tobacco and one million counterfeit cigarette packs.³¹

Demand side factors

- In 2024, the price of illicit cigarettes was 42% of their duty paid counterparts.
- Both duty paid and illicit cigarettes have become more affordable in Hungary over the past decade, but affordability of duty paid cigarettes has increased by 10% whilst the affordability of illicit cigarettes has increased faster by 34%. In part this reflects the increased supply of counterfeit cigarettes, which has decreased prices.

29 KPMG, 'Illicit cigarette consumption in Europe', 11 June 2025.

30 Budapest Times, 'NAV reports success against illegal tobacco market', 9 April 2025.

31 Tobacco Reporter, 'Hungary Dismantles €67M Illegal Cigarette Network,' May 2025.

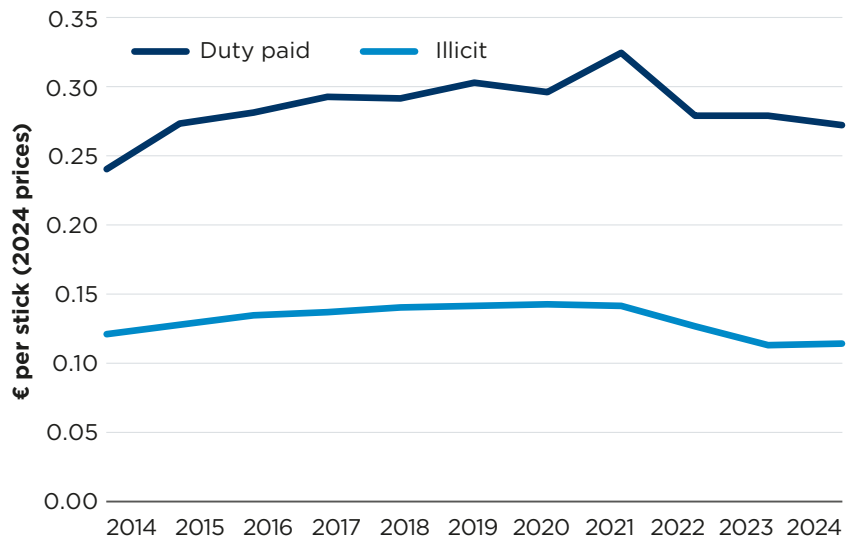
THE PRICE OF DUTY PAID CIGARETTES EXCEEDS ILLEGAL CIGARETTES

Over the past decade, the price gap between duty paid and illicit cigarettes increased by 34% in Hungary.

In 2014, the average price of duty paid cigarettes was twice the price of an illicit cigarette. Between 2014 and 2024, the price of duty paid cigarettes grew faster than their illicit counterparts, causing the gap to widen to 2.4 times.

Hungary suffered particularly badly from the recent bout of inflationary pressure.³² This explains the decline in the real price of both types of cigarettes from 2021 onward.

The real price of duty paid and illicit cigarettes



Source: Oxford Economics; BAT

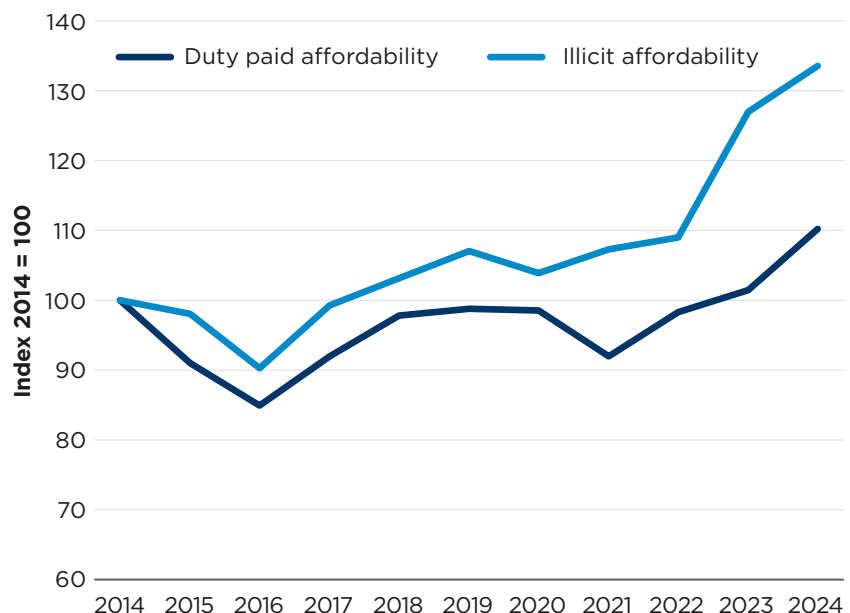
ILLICIT CIGARETTES HAVE BECOME MORE AFFORDABLE SINCE 2014

The average hourly wage in Hungary increased by 25% in real terms between 2014 and 2024 whilst the price of duty paid cigarettes increased by 14%. This has meant that duty paid cigarettes have become more affordable in Hungary over the past decade. **Illicit cigarettes have also become more affordable over time but at a quicker rate than duty paid.**

Over the past decade, duty paid cigarettes became 10% more affordable whilst illicit cigarettes became 34% affordable.

The changes in affordability have mostly occurred from 2022 onwards. Wages have kept better pace with inflation, than the price of both types of cigarettes.

The affordability of cigarettes by type



Source: Oxford Economics; Haver Analytics

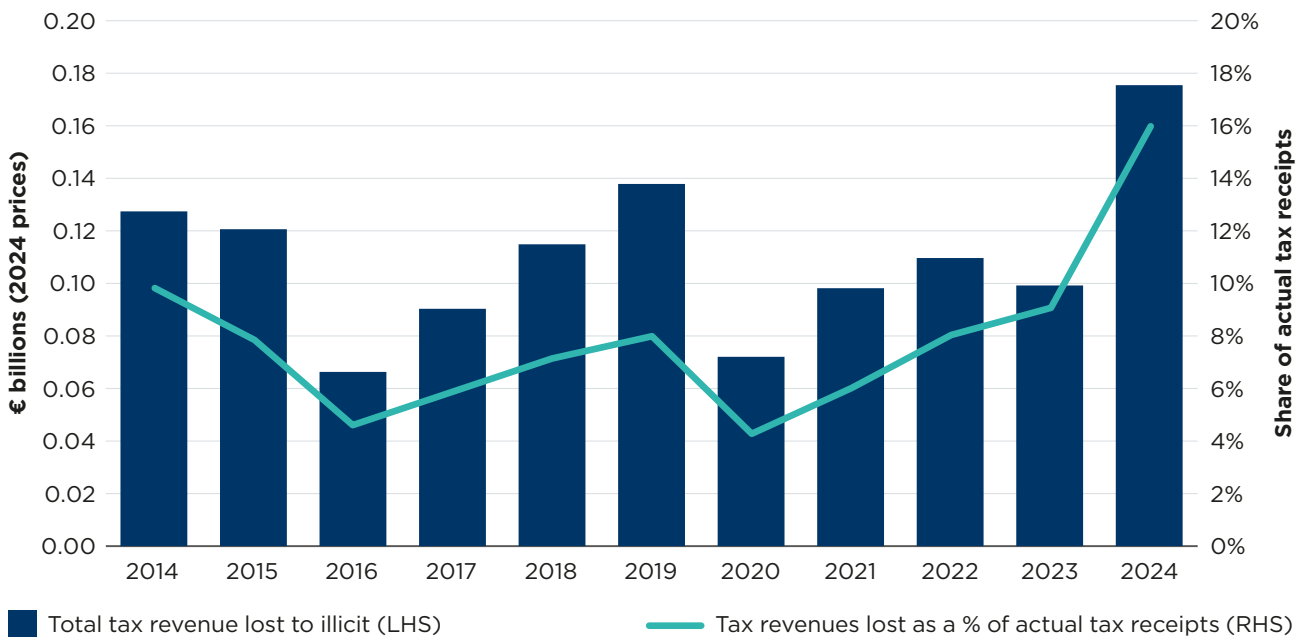
³² Consumer price inflation peaked at 25.7% in January 2023.

THE GROWTH IN THE ILLICIT CIGARETTE MARKET HAS LED TO A LOSS IN TAX RECEIPTS

In 2024, illicit cigarette consumption resulted in €175 million in lost excise and VAT revenue, equivalent to 16% of actual cigarette tax receipts.

Between 2014 and 2024, the scale of tax lost to the illicit trade has increased by 38% in real terms, underscoring the growing fiscal impact of this criminal activity.

Excise and VAT receipts lost due to illicit sales



Source: Oxford Economics; BAT

CONCLUSION

- The market share of illicit cigarettes increased from 7.9% in 2023 to 13.5% in 2024.
- Counterfeit cigarettes comprised 86% of the illicit cigarettes consumed in 2024.
- Illicit cigarettes have become 34% more affordable between 2014 and 2024.
- In 2024, approximately €175 million of tax revenue was forgone due to the consumption of illicit cigarettes.



NETHERLANDS



In 2024, **17.9%** of all cigarettes consumed in the Netherlands were illicit, up from 7.6% in 2023.



Counterfeit cigarettes made up **24%** of all illicit cigarettes consumed in the Netherlands in 2024.



In 2024, the price of an illicit cigarette was **40%** of the price of a duty paid one.



In 2024, excise duty and VAT made up **91.6%** of the price of duty paid cigarettes.



In 2024, illicit cigarette consumption resulted in the loss of around **€920 million** in excise and VAT receipts, equivalent to 29% of actual tax receipts on cigarettes.



The Dutch government has raised excise duty on cigarettes three times in the past five years. As a result, excise duty on cigarettes in 2024 was **36%** above its level of a decade ago in real terms.

SHORT MARKET SUMMARY

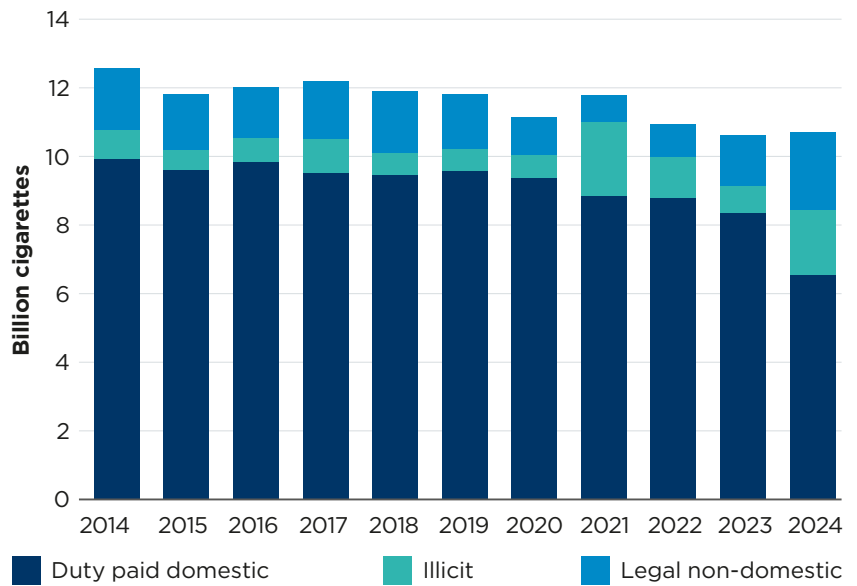
The Dutch government has raised excise duty on cigarettes three times in the past few years (in 2020, 2023, and 2024). As a result, the excise charged on a duty paid cigarette more than doubled between 2019 and 2024. These excise hikes have driven a 39% increase in duty paid cigarette prices (in real terms) over past five years. Each of the three sharp excise duty rises has led to a marked increase in the illicit market share as consumers switched to cheaper sources of supply. The latest increase in excise duty in April 2024 led to an increase in the illicit market share of 10 percentage points, up from 7.6% in 2023 to 17.9% in 2024. There was also a marked increase in legal non-domestic, as more people started buying their cigarettes from abroad.

THE ILLICIT MARKET SHARE OF CIGARETTE CONSUMPTION HAS RISEN

Over the last decade (2014 to 2024) total cigarette consumption in the Netherlands has experienced a modest decline, down 15%.

The illicit market share has been volatile, reacting to the excise hikes in 2020, 2023 and 2024. **The latest hike in April 2024 led to a 10 percentage point increase in the illicit market share, up from 7.6% in 2023 to 17.9% in 2024.** It also led to a marked increase in non-domestic legal, as people increasingly bought cigarettes from abroad.

The evolution of the illicit market share



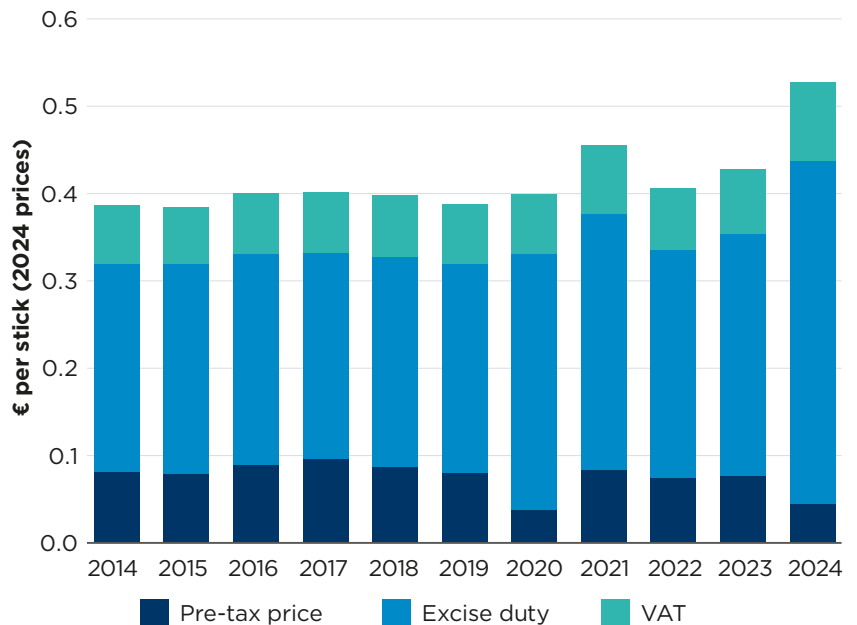
Source: Oxford Economics; KPMG

TAX INCREASES HAVE DRIVEN RISES IN THE PRICE OF DUTY PAID CIGARETTES

Between 2014 and 2024, the price of a duty paid cigarette increased by 36.3% in real terms. Virtually all of the increase has occurred in the last five years, driven by the excise hikes in 2020, 2023, and 2024.

In 2024, the real price of a single duty paid cigarette increased by 10 cents (in real terms). It was driven higher by 11 cents increase in excise duty, which increased VAT by a further 2 cents. The pre-tax price fell by 3 cents.

Decomposition of the real price of duty paid cigarettes



Source: Oxford Economics; EC

DRIVERS OF ILLICIT CIGARETTE CONSUMPTION

Profitability

- In 2024, excise duty and VAT made up 91.6% of the price of duty paid cigarettes.
- After the three recent excise hikes, the total tax on a packet of 20 duty paid cigarettes in 2024 was €9.63. Assuming their costs are the same as legitimate manufacturers, this reflects the maximum profit margin criminals could make selling a packet of illicit cigarettes.
- The price of illicit cigarettes remained constant in nominal terms over the decade, resulting in a 125% growth in sales volumes.

Other supply factors

- As much as 70% of the total illicit consumption in the Netherlands originates from within the European Union.³³
- In 2024, 24% of all illicit cigarettes consumed in the Netherlands were counterfeit. This is up from 20% in 2023.³⁴
- Just under 20% of the illicit cigarettes consumed in 2024 came from Luxembourg and Poland.

Enforcement

- The Ministry of Finance's customs report reveals 217 million cigarettes were seized by the Dutch authorities worth €84 million in 2024.³⁵
- The authorities also discovered two illegal cigarette factories operating in the Netherlands and one factory under construction in 2024. Machinery for manufacturing cigarettes was also seized in collaboration with Belgium authorities.

Demand side factors

- The recent bout of inflation has hit lower-income households in the Netherlands hardest.³⁶ Survey data suggest lower income households have the greatest tendency to buy illicit cigarettes.
- The three excise hikes have increased the price gap between duty-paid and illicit cigarettes over the decade. In 2024, illicit cigarettes were 40% of the price of duty paid, considerably below the 73% price differential in 2014.

33 Alberto Aziani and Marco Dugato, 'Cigarette trafficking - Introducing the transnational dimension of cigarette trafficking in Europe and beyond', 2019.

34 KPMG, 'Illicit cigarette consumption in Europe: Results for the calendar year 2024', 11 June 2025.

35 Ministerie van Financiën, 'Jaarrapportage Douane 2024', 2 June 2025.

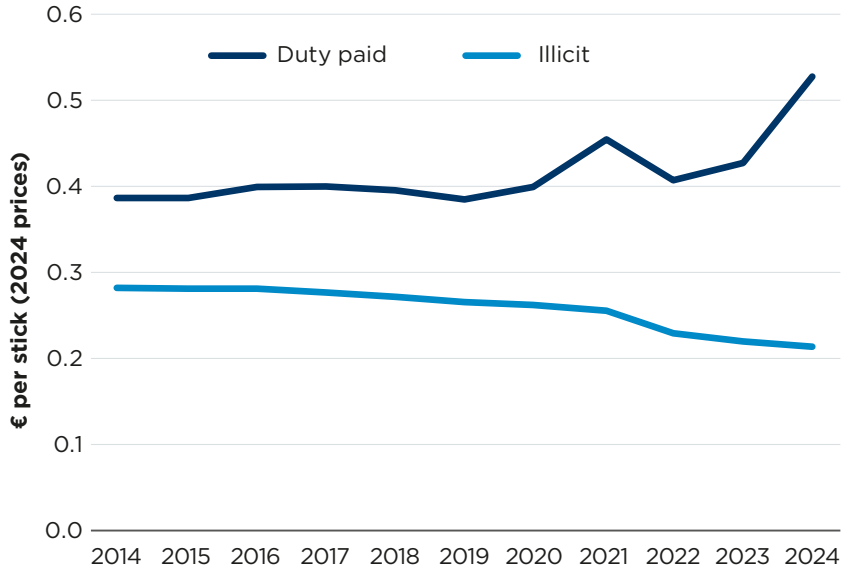
36 De Nederlandsche Bank, 'How inflation affects households differently', 25 August 2025.

THE PRICE OF DUTY PAID CIGARETTES EXCEEDS ILLEGAL CIGARETTES

In 2024, the average price of a single duty paid cigarette was €0.53 in the Netherlands. **This was about 2.5 times the price an illicit cigarette.**

Between 2014 and 2024, the price gap between duty paid and illicit cigarettes widened significantly. The price of duty paid cigarettes has risen by an annual average of 3% in real terms, driven upward by the three sharp excise hikes since 2020. In contrast, the price of illicit cigarettes has declined by an annual average of 3% in real terms, due to the proliferation of counterfeit cigarettes and inflation on other goods and services. The growth in the price differential incentivises hard pressed consumers to switch to the cheaper source of supply.

The real price of duty paid and illicit cigarettes



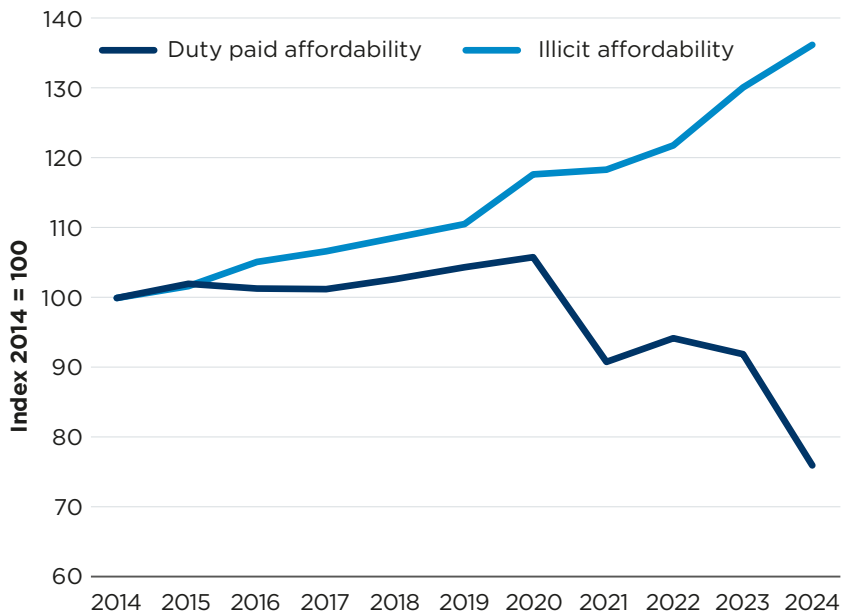
Source: Oxford Economics; BAT

EXCISE HIKES HAVE MADE DUTY PAID CIGARETTES LESS AFFORDABLE, WHILE INFLATION HAS ERODED THE REAL PRICE OF ILLICIT CIGARETTES

Between 2014 and 2024, the average hourly wage in the Netherlands increased by 3% in real terms, at the same time the price of duty paid cigarettes increased by 36%, a tenfold difference.

Since the three excise hikes which began in 2020, **the affordability of duty paid cigarettes has declined sharply.** While it used to take 0.7 minutes to earn a cigarette in 2014, it took 0.92 minutes in 2024, reflecting a fall in affordability of 14%. During this period, the affordability of illicit cigarettes has risen by 37%, as wages have grown while prices remained constant.

The affordability of cigarettes by type



Source: Oxford Economics; BAT; Haver Analytics

THE GROWTH IN ILLICIT MARKET HAS LED TO A LOSS IN TAX RECEIPTS

In 2024, illicit cigarette consumption resulted in approximately €920 million in lost tax (excise and VAT) revenues, equivalent to 29.3% of actual cigarette tax receipts.

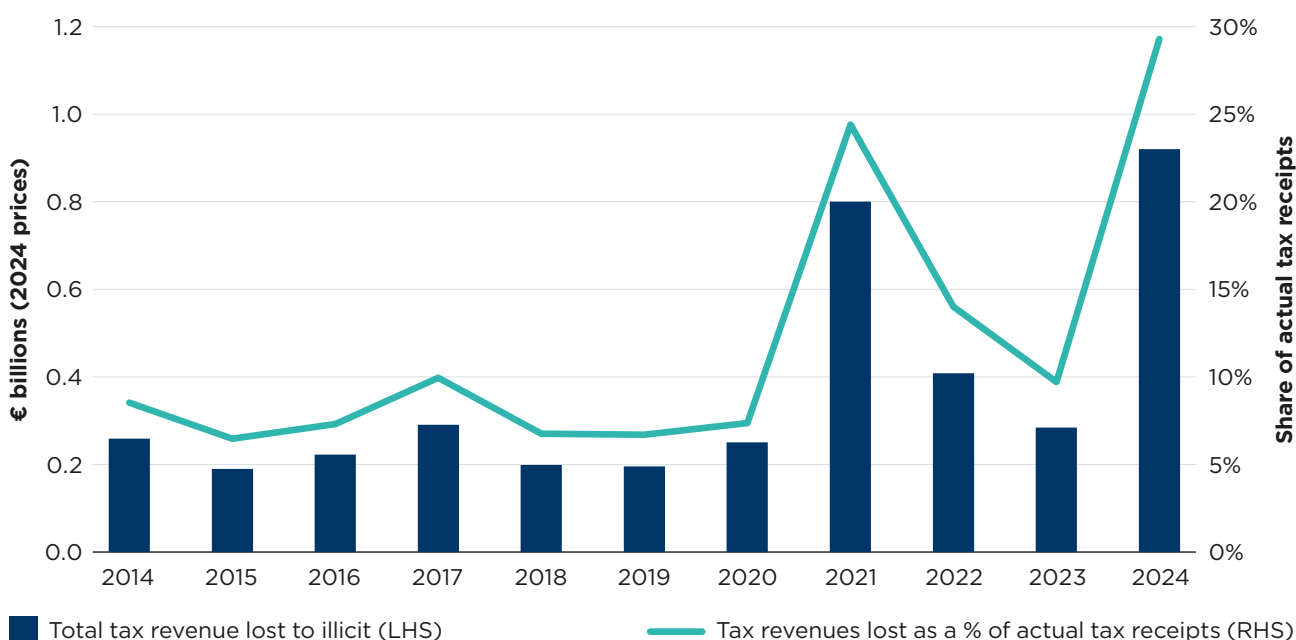
The spike in lost tax receipts from cigarettes in 2024 reflects

the excise tax hike and the resulting increase in the illicit market share.

The actual tax receipts foregone as a result of the excise hikes are likely to be larger. A recent report shows many more people have started

buying legal non-domestic tobacco products from abroad since this increase, for instance in Germany and Luxembourg.³⁷

Excise and VAT receipts lost due to the sale of illicit cigarettes



Source: Oxford Economics; BAT

CONCLUSION

- The Netherlands government has raised excise duty on cigarettes three times in the past few years, a cumulative rise of 104%.
- In 2024, the price of an illicit cigarette was 40% of a duty paid one. This compares to 73% a decade earlier.
- The illicit market share increased to 17.9%, up from 7.6% in 2023, and 6.7% in 2014.
- In 2024, illicit cigarettes cost the Dutch government over €900 million in lost excise and VAT receipts.

37 AH Rotteveel, I Meulman, MS Lambooi, GA de Wit, 'Gedragseffecten van accijnsverhoging op tabak in 2024', 17 June 2025.



ROMANIA



In 2024, **5.9%** of all cigarettes consumed in Romania were illicit.



Counterfeits made up **41%** of all illicit cigarettes consumed in 2024, four times their share in 2023.



Excise duty and VAT accounted for **70%** of the price of duty paid cigarettes in 2024.



The average price of an illicit cigarette was **66%** of a duty paid one in 2024.



Criminals who manufacture and distribute illicit cigarettes in Romania have kept the price differential between illicit and duty paid cigarettes broadly constant over the decade.



Sales of illicit cigarettes cost **€275 million** in lost excise and VAT receipts in 2024.

SHORT MARKET SUMMARY

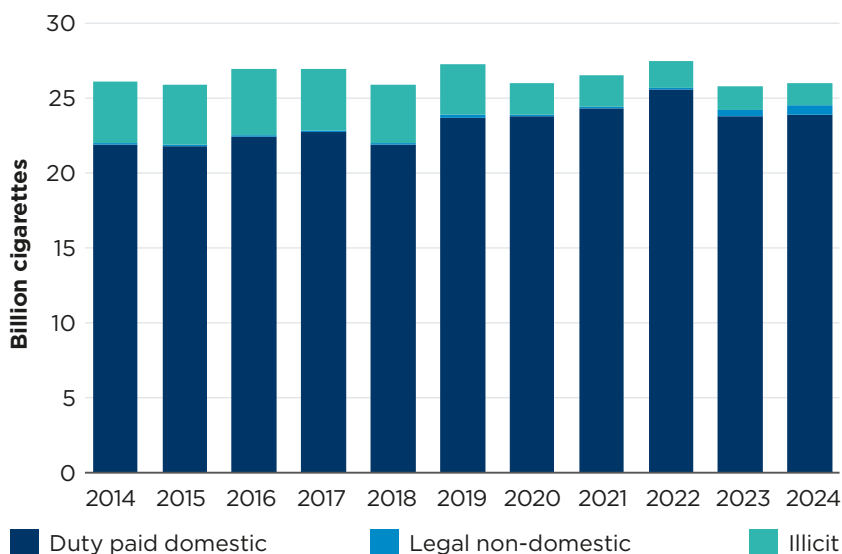
Over the last decade (2014 to 2024), consumption of illicit cigarettes has fallen by 61%. As a result, their market share has declined from 15.7% at the start of the decade to 5.9% in 2024. The explanations behind this trend are many, but it coincides with an increase in the affordability of duty paid cigarettes—as wage growth in Romania has outstripped the increase in the price of duty paid cigarettes, in particular during the recent bout of inflationary pressure. Effective enforcement is also likely to have played a role.

ILLICIT CIGARETTES MARKET SHARE HAS BEEN FALLING

Between 2014 and 2024, total cigarette consumption in Romania has remained unchanged at 26.1 billion. Consumption of duty paid cigarettes has increased by 9.1% over the decade. **In contrast, the consumption of illicit cigarettes has declined by 61.0%.**

In 2024, duty paid, illicit, and legal non-domestic had a 91.8%, 5.9%, and 2.3% market share, respectively.

Consumption of cigarettes by type



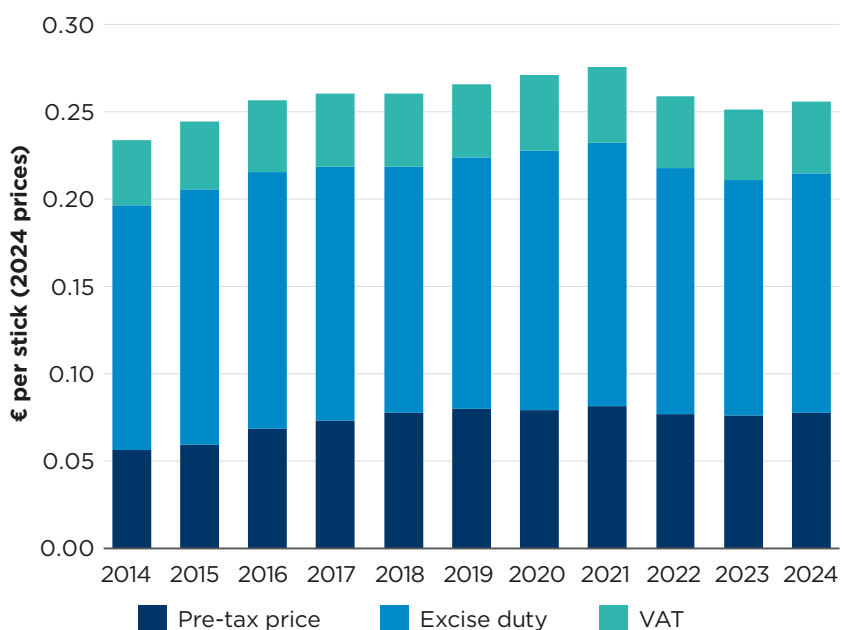
Source: Oxford Economics; KPMG

TAX CUTS HAVE DRIVEN THE REDUCTION IN THE PRICE OF DUTY PAID CIGARETTES

Between 2014 and 2024, the real price of duty paid cigarettes in Romania increased by 9.4%. The growth has been driven by pre-tax prices, which have contributed 9.0 percentage points of the increase.

Over the decade the government increased excise duty by 46.5% in nominal terms and maintained VAT at 16%. The increase in excise duty has been eroded in real terms by the 49.3% growth in consumer prices. Inflation began to increase in 2021, peaking at 16.4% in December 2022. The increase in the general price level is responsible for the real decline in duty paid cigarette prices after 2021.

Decomposition of the real price of duty paid cigarettes



Source: Oxford Economics; BAT

DRIVERS OF ILLICIT CIGARETTE CONSUMPTION

Profitability

- Excise duty and VAT accounted for 70% of the price of duty paid cigarettes in 2024.
- In 2024, taxes accounted for €3.55 per pack of 20 duty-paid cigarettes. This is the maximum potential profit criminals can currently make from manufacturing and selling a pack of illicit cigarettes in Romania.
- The TED proposal risks boosting criminals' profitability by raising excise duty from €135 per 1,000 cigarettes in 2024 to €215 from 2028.

Other supply factors

- In 2024, counterfeit cigarettes comprised 41.3% of all illicit consumption. This is almost quadruple their share 10.6% the year before.³⁸
- Romania's recent accession to the Schengen area, which removed checks at internal land borders, has eased the transport of illicit cigarettes across Schengen countries.³⁹

Enforcement

- Romania's coordinated efforts between customs, border police, and anti-fraud agencies have led to record seizures in the first 10 months of 2025 and one of the lowest illicit cigarette market shares in Europe, showing that consistent enforcement can significantly deter smuggling.⁴⁰
- In August 2025, Romanian authorities discovered an illegal cigarette factory, where over 61 tons of tobacco were found and 23.3 million cigarettes.

Demand side factors

- Illicit cigarettes were 66% of the price of average duty paid cigarettes in 2024.
- The affordability of duty paid cigarettes has doubled between 2014 and 2024 in Romania. The time needed to work to afford a legal cigarette halved throughout the decade. The greater affordability of duty paid cigarettes has reduced the incentive for consumers to purchase from the illicit market.

38 KPMG, 'Illicit cigarette consumption in Europe: Results for the calendar year 2024', 11 June 2025.

39 Ana-Maria Anghe, 'Tobacco Industry Progress Report', Illicit Monitoring, June 2025.

40 Romania Journal, "Highest volume of illegal cigarettes seized in the last 5 years in Romania," 2023; Romanian Border Police, 2025 activity report.

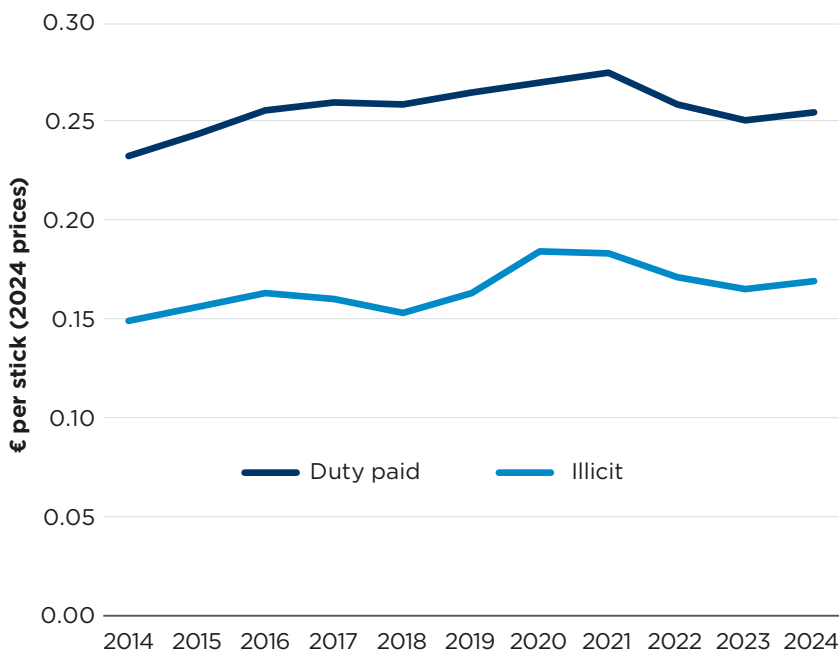
PRICE OF DUTY PAID CIGARETTES EXCEEDS ILLEGAL CIGARETTES

In 2024, the price of a duty paid cigarette in Romania was €0.26, which was 1.5 times the price of an illicit cigarette.

The average real price of duty paid cigarettes increased by 9% between 2014 and 2024. The price differential between illicit and duty paid cigarettes remained broadly constant over the decade. This means illicit trade profit margins have potentially increased in real terms.

The increase in inflationary pressure since 2021 has eroded the real price of both types of cigarettes.

Real price of duty paid and illicit cigarettes



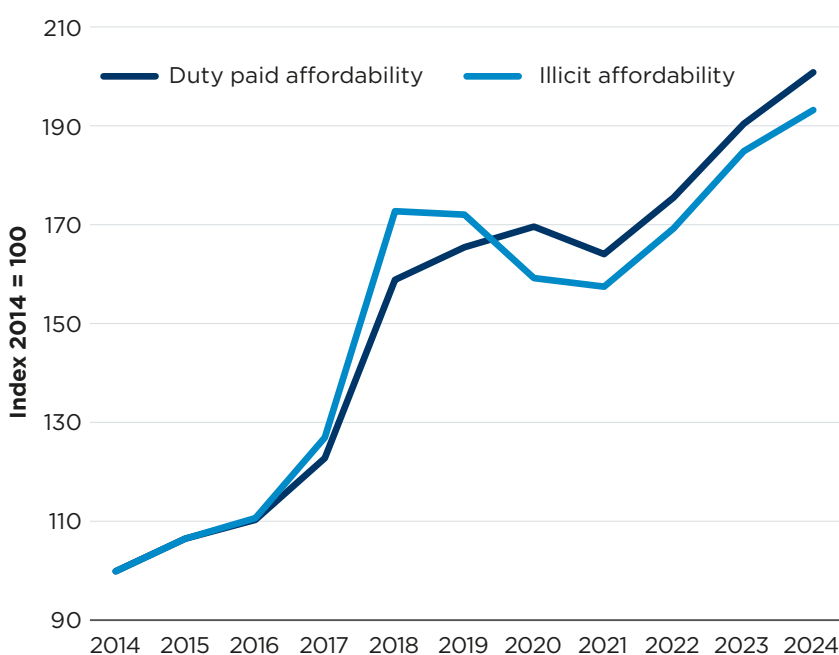
Source: BAT; Oxford Economics

DUTY PAID CIGARETTES HAVE BECOME MORE AFFORDABLE SINCE 2014

Over the last decade, the affordability of duty-paid cigarettes in Romania has doubled, as wage growth has outstripped the increase in nominal pack prices. The recent bout of inflationary pressure since 2021 has stimulated the growth in the affordability of all types of cigarettes.

In 2014, it took 2.61 minutes of work to earn sufficient income to pay for a duty paid cigarette, this fell to 1.30 minutes in 2024. The increase in cigarette affordability reflects has reduced incentive for consumers to switch to illicit sources of tobacco.

The affordability of cigarettes, by type



Source: Oxford Economics; Haver Analytics

DECLINE IN SALES OF ILLICIT CIGARETTES HAS REDUCED ASSOCIATED LOSS IN TAX RECEIPTS

In 2024, illicit cigarette consumption resulted in €275 million in lost excise and VAT revenue, equivalent to 6% of actual tax receipts.

The loss in tax receipts due to the illicit sale of cigarettes declined by 62% in real terms between 2014 and 2024. This mirrors the decline in illicit cigarettes market share over the past decade.

Excise and VAT losses due to the sale of illicit cigarettes



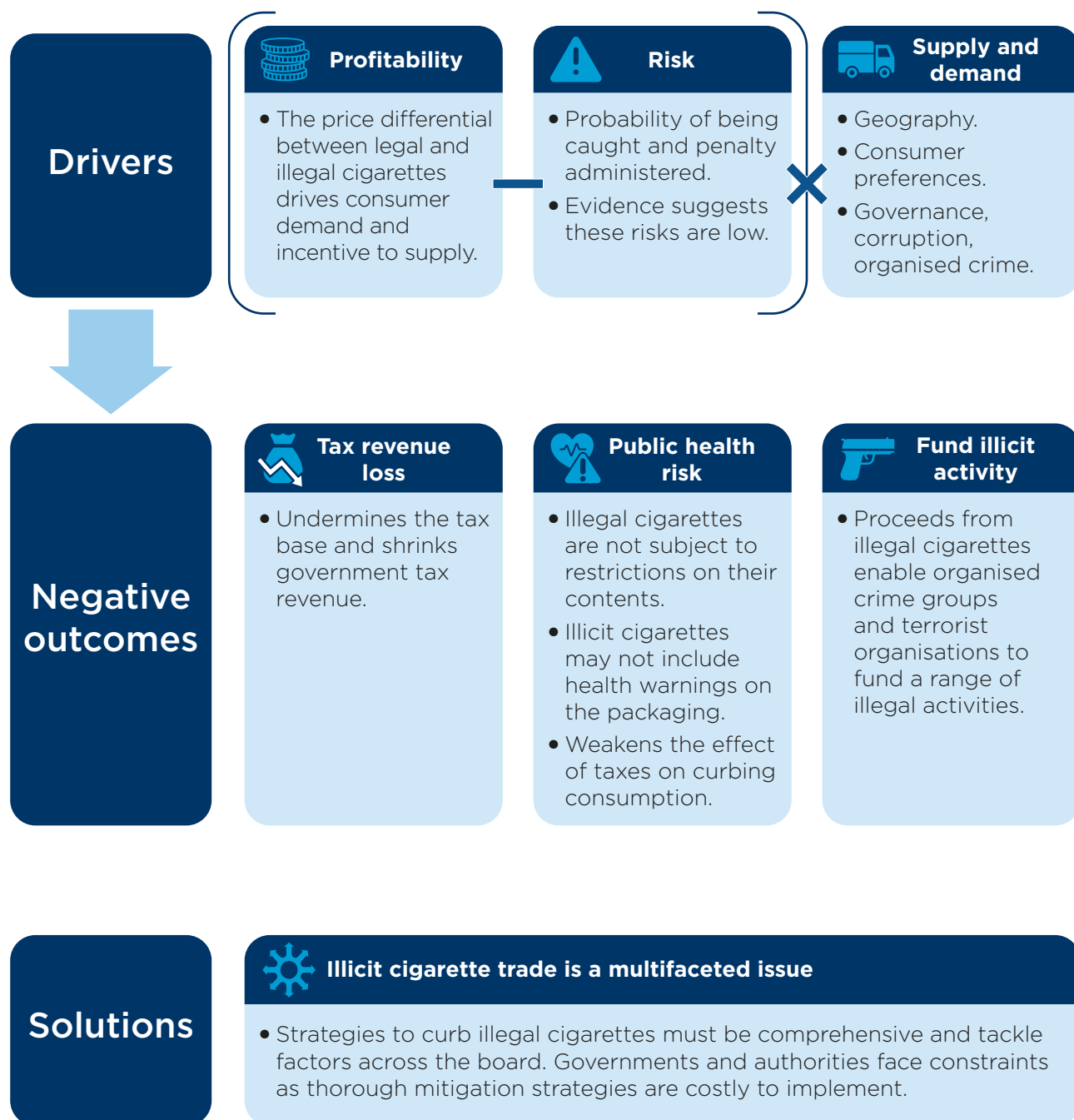
Source: Oxford Economics; BAT

CONCLUSION

- Growth in the average hourly wage has outpaced the price of duty paid cigarettes, almost doubling cigarette affordability since 2014.
- Successful domestic and international enforcement has also limited the criminal supply of illicit cigarettes.
- The market share of illicit cigarettes decreased from 15.7% in 2014 to 5.9% in 2024.
- Consumption of illicit cigarettes cost the Romanian government almost €275 million in lost tax revenue in 2024, but this represents a 62% decline since 2014.

SECTION 4: LITERATURE REVIEW

Fig. 19: Drivers, outcomes, and solutions to tackle the illicit cigarette trade



4.1 SUMMARY

A broad range of entities, including academics, researchers, governments, and non-government organisations have commented on the illicit cigarette trade issue. We have reviewed evidence from academic papers, as well as non-academic resources, including policy papers, news articles, and press releases. No papers produced or funded by the tobacco industry have been included in the review. Focusing on recent, reliable, and independent sources, our review covers a range of countries as well as a variety of factors: underlying driving forces; impacts on society; and solutions.

The literature shows that the **price** discrepancy between duty paid and illegal cigarettes drives the illicit cigarette trade. As evidenced by our case studies, illicit cigarettes often come at a considerable discount. Higher taxes on cigarettes exacerbate this price gap: increased duties contribute to rising prices in the duty paid market, prompting some consumers to seek cheaper alternatives and in turn driving demand for illicit cigarettes. Ultimately, high **profit** margins and consumer demand incentivise individuals and organised crime groups to supply tax evading products to the market.

The decision to supply illegal cigarettes also hinges on the **costs and risks** associated, including the likelihood of detection, the severity of penalties, and the availability of smuggling routes. According to the literature, the low risk of detection and lenient penalties make supplying illicit cigarettes a financially lucrative endeavour.

The literature suggests several **non-price determinants** that also influence **supply and demand** in the illicit cigarette trade, such as geographical proximity to lower-priced areas, consumer preferences for foreign brands, as well as governance issues including corruption, weak regulatory frameworks, and presence of organised crime groups.

The literature highlights that the illicit cigarette trade poses several **negative societal outcomes**. By undermining the tax base, illegal cigarettes reduce government tax revenue, and in turn the availability of funding for policy programmes. Illicit cigarettes weaken public health efforts by diminishing the impact of tobacco control measures and providing unregulated products. The proceeds from the illegal cigarette trade fund other criminal activities, including human trafficking and support for terrorist groups, ultimately contributing to further societal and security risks.

Given the multifaceted nature of the issue, addressing the illicit cigarette trade necessitates **comprehensive solutions**. This includes investing in law enforcement mechanisms and anti-smuggling measures such as unique identifiers and track-and-trace systems. Yet, government and non-government bodies highlight the high costs associated with investing in these solutions.

4.2 DRIVERS

The literature finds a significant driver of illicit trade is the price differential between duty paid and illegal cigarettes. This is partly created by excise duties, VAT/GST, and other taxes levied on cigarettes. Increasing taxes on cigarettes leads to a higher price of duty paid products relative

to illicit, incentivising consumers to switch to cheaper, illegal alternatives. This amplifies the incentive to supply illegal cigarettes, driven by higher consumer demand and the potential greater profits.

PROFITABILITY

- “Smokers’ use of illicit tobacco is related to price and availability. The demand for illicit tobacco products is strongly influenced by reduced price, often 30% to 50% cheaper than legal products.”

Joossens and Raw (2012)

- “Potential suppliers of low-tax tobacco, motivated both by the expected profit margin and the expected total amount of profit, choose the quantity supplied... the greater the supplier’s estimated profit, the greater the probability that an individual or a company will engage in tax avoidance and tax evasion. The size of the profit determines the way low-tax products are supplied to the market”.

Ross (2015)

- “As key findings, the low price is by far considered as the main reason for smoking black market cigarettes, and most of those

who have been offered black market cigarettes say that they were at least 30% cheaper than legal cigarettes, with more than a third saying they were at least 50% cheaper.”

European Commission (2023)

- “...high prices are a reason for the existence of illicit trade, because these cigarettes are often sold for a lower price.”

Valek (2019)

- “A further price increase, mainly caused by an increase in excise duties, additionally reduces cigarette consumption. Thus, an increase in the consumption of lower-priced product substitutes, such as fine-cut tobacco, was observed (the substitution effect).”

Papageorgiou et al. (2021)

The cost of supplying illicit cigarettes influences the incentive to supply illicit tobacco. This cost is characterised by the probability of being caught and the penalty administered. Evidence suggests that the risks associated with supplying illegal cigarettes are low.

RISK

- “The decision to supply a market with illegal cigarettes seems largely determined by costs associated with overcoming legal and regulatory hurdles, as well as delivery costs. These costs are related to the probability of detection, the certainty of sanction, the size of penalties, the presence of smuggling routes and black markets, and licensing requirements for distributors. Delivery costs seem to play a large role as a factor influencing the supply of illegal products, since illicit trade in tobacco frequently is viewed as a low risk operation.”

Dutta et al. (2019), World Bank Group

- “The level of (illicit trade) detection and possible fines are quite low... The illicit trading with tobacco products is low-risk, highly convenient activity, which enable to earn significant financial means with a very low possibility of revelation or strict punishment.”

Valek (2019)

The illegal cigarette trade is a multifaceted problem. Non-price factors are also important determinants of the supply and demand dynamics of illicit cigarettes, encompassing geographical factors, consumer behaviours, governance structures, organised crime activities, and broader societal influences.

GEOGRAPHY

- “Any increase in the price of tobacco products in countries bordering lower-priced areas can create substantial price differentiation and therefore neutralise any potential benefits owing to the subsequent development of illicit trade.”

Papageorgiou, et al. (2021)

- “Cross-border cigarette purchasing is more common in European regions bordering countries with lower cigarette prices.”

Nagelhout et al. (2013)

- “This indicates a significant difference in the nominal prices of cigarettes between the Czech Republic and its close neighbours, Austria and Germany. This difference may be a possible cause of tobacco trafficking between these countries and the Czech Republic”.

Kolářová and Homola (2012)

CONSUMER PREFERENCE

- “Smaller, but nonetheless, important proportions also consider better taste (2.1%; 95% CI: 1.7-2.5) and availability (10.0%; 95% CI: 9.2-10.8) as main reasons for smoking such products.”

Ktenidis et al. (2025)

- “It (illicit trade in tobacco) increases the choice of brands, which can increase overall demand.”

Dutta et al. (2019), World Bank Group

- “Taste and brand preference by consumers as likely contributory factors in countries where the price of illicit cigarettes is higher.”

Goodchild et al. (2020)

GOVERNANCE, CORRUPTION, AND ORGANISED CRIME

- “The illicit trade has several triggers. They include the differences in the price of cigarettes, which are a consequence of various tax rates, but also other factors, such as the level of corruption or the presence of criminal groups in the country.”

Valek (2019)

- “Non-price factors such as governance status, weak regulatory framework, social acceptance of illicit trade, and the availability of informal distribution networks appear to be far more important determinants of the size of the illicit tobacco market.”

Dutta et al. (2019), World Bank Group

- “During the Covid-19 pandemic, additional volumes of illegal food, tobacco, and alcohol have been entering the markets through vulnerable supply chains, weak enforcement, and porous borders. Closures of some businesses and disruptions in transport methods have led to significant distortions in supply chains. These distortions have been generating both: excess supplies of goods and unsatisfied demand. In all these cases, criminals exploited these opportunities for illicit profits.”

OECD (2020)

- “Corruption is often discussed as a facilitator for various forms of illicit trade, including the illicit trade in tobacco products. Several studies in the early 2000s examined corruption in regard to cigarette smuggling. They found that corruption to be a significant factor, as well as the presence of organised crime, public acceptance, informal distribution networks and widespread street selling (of cigarettes and other goods) helped large scale smuggling organisations.”

OECD (2016)

- “Instead, non-price factors, such as strength of governance, extent of corruption, and the availability of informal distribution networks appear to be more important determinants of the size of the illicit tobacco market;”

Chaloupka et al. (2015), National Center for Chronic Disease Prevention and Health Promotion

- “The global trade in illicit tobacco products occurs in low tax as well as high tax jurisdictions, results from a lack of control on cigarette manufacturing and the movement of cigarettes across international borders, and is run by criminal organisations with sophisticated systems for distributing smuggled cigarettes.”

Joossens and Raw (2011)

4.3 NEGATIVE OUTCOMES

One of the negative outcomes of the illicit cigarette trade is that it undermines the tax base and shrinks government tax revenue. Ultimately reducing government's spending capacity that

could be invested in policy programmes that will benefit the population, including illicit tobacco control and public health.

TAX REVENUE LOSS

- “Tobacco smuggling causes heavy yearly losses to the budgets of EU countries and the EU institutions in lost customs duties and taxes.”

European Anti-Fraud Office (2025)

- “During 2023, international operations involving the European Anti-Fraud Office (OLAF) led to the seizure of 616 million illicit cigarettes, 140 tonnes of raw tobacco and 6 tonnes of water pipe tobacco. OLAF investigators took part in multiple operations with customs and law enforcement authorities worldwide to counter tobacco smuggling, preventing losses of over 150 million euro to the EU and national budgets.”

European Anti-Fraud Office (2024)

- “Tobacco illicit trade, by definition, reduces revenues that would otherwise be paid to government that could be invested in tobacco control and other priority programs that benefit the population.”

Dutta et al. (2019), World Bank Group

- “The consensus among experts puts the annual revenue loss in tobacco taxation within the European Union at roughly €10 billion, and worldwide at US\$40–50 billion—that is, about 600 billion sticks, or 10 percent of global consumption (ITIC, 2013; Merriman, 2001; Joossens, 2011; European Commission, 2013; Euromonitor, 2015).”

Petit and Nagy (2016), IMF

- “IARC and the World Bank have concluded that illicit tobacco trade limits the effectiveness of increased tobacco product taxes in reducing tobacco use and its consequences, and costs governments millions of dollars in lost revenue (IARC, 2011; World Bank, 1999)”

Chaloupka et al. (2015), National Center for Chronic Disease Prevention and Health Promotion

- “The 4.6% percentage of illicitly traded tobacco products represents a loss of CZK 2.69 billion for the state budget and also significant amounts lost to tobacco producers in the Czech Republic.”

Kolářová and Homola (2012)

Additionally, illicit cigarettes are associated with a higher health risk. Illicit cigarettes are not subject to health-related regulations on their contents. It also weakens the effect of taxes on curbing cigarette consumption, as smokers can maintain their consumption levels by switching to cheaper illicit sources of supply.

PUBLIC HEALTH RISK

- “Illicit trade is a concern for public health. Not only does it reduce government revenue, it also weakens the impact of other tobacco control measures including taxation, warning labels on tobacco packaging, and restrictions of sales to minors (IARC 2011).”

Marquez, Moreno-Dodson et al. (2018), World Bank Group

- “Smuggled products do not meet various health regulations and violate many laws”

Valek (2019)

- “However, illicit tobacco harms individual and population health in additional ways. From a public health perspective, illicit trade weakens the effect of tobacco excise taxes on tobacco consumption - and consequently on preventable morbidity and mortality - by increasing the affordability, attractiveness, and/or availability of tobacco products ...It undermines health warning and ingredients disclosure policies, since the illegal products often do not comply with the local laws.”

Dutta et al. (2019), World Bank Group

Organised crime groups that oversee the supply of illicit cigarettes are motivated by financial gains. The literature shows that proceeds from illegal cigarettes enable organised crime groups and terrorist organisations to fund a range of illegal activities. This results in additional negative effects on public wellbeing.

FUNDING ILLICIT ACTIVITY

- “It is also important to point out the link to other illegal activities, such as human trafficking and support for terrorist groups.”

Valek (2019)

- “According to estimates produced in this study, the annual revenues derived from the illicit cigarette market in the EU range between €8 billion and €10 billion... It is widely assumed that OCGs play a dominant role in the illicit tobacco market.”

European Commission (2021)

- “Illegal tobacco [...] undermines anti-smoking and public health campaigns and is a significant source of organised crime.”

European Anti-Fraud Office (2025)

- “Organized groups active in these trades are often also active in other illegal activities—such as illegal migration or smuggling of arms, drugs, and illegal medicines—and can be very dangerous, hence the need for an appropriate security apparatus.”

Petit and Nagy (2016), IMF

- “The global trade in illicit cigarettes remains one of the world’s foremost criminal enterprises and constitutes a substantial source of income for organized crime groups in the Czech Republic.”

Kolářová and Homola (2012)

4.4 SOLUTIONS TO TACKLE ILLICIT TRADE

Literature addressing the supply and demand dynamics of the illicit cigarette trade underscores the multifaceted nature of the issue, as such strategies to curb this illicit activity must be

comprehensive and tackle factors across the board. Nonetheless, governments and authorities face constraints as thorough mitigation strategies are costly to implement.

SOLUTIONS

- “OLAF carries out investigations into allegations of tobacco smuggling. We can also bring significant added-value in complex cross-border cases, by helping coordinate anti-smuggling operations carried out by law-enforcement agencies across Europe.”

European Anti-Fraud Office (2025)

- “Implementation of taxes needs to be accompanied by revenue protection and anti-smuggling measures, including tax stamps, unique identifiers, and law enforcement...Additional measures could include the use of camera surveillance, production control tools or on-site tax inspectors at manufacturing plants and warehouses. Increased law enforcement would be an important complementary measure.”

Bredenkamp et al. (2015), World Bank Group

- “Governments that have adopted and implemented some combination of enhanced coordination, enforcement, and penalties; track-and-trace systems; licensing; high-tech tax stamps; tribal tobacco sales policies; public education efforts; and tax harmonization have been successful in curbing illicit tobacco trade. The more comprehensive and coordinated approaches have been more effective in addressing this problem.”

Chaloupka et al. (2015), National Center for Chronic Disease Prevention and Health Promotion

- “Tackling illicit tobacco trade comes with its costs. Some low- and middle-income countries facing significant illicit trade problems are concerned about the costs of tackling it...”

Marquez, Moreno-Dodson et al. (2018), World Bank Group

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GLOSSARY

TERM	DEFINITION
C&C	Counterfeit and contraband cigarettes, including illicit whites
Cigarette	Any factory-made product that contains tobacco and is intended to be burned under ordinary conditions of use
Consumption	Actual total consumption of cigarettes in a market, including legal domestic consumption and illicit products as well as those legally purchased overseas
Contraband	Cigarettes that have either been bought in a lower-tax country and which exceed legal border limits or acquired without taxes for export purposes to be illegally re-sold (for financial profit) in a higher priced market
Counterfeit	Cigarettes that are illegally manufactured and sold by a party other than the original trademark owner
Country of origin	Country from which the packs collected are deemed to have originated. This is determined by either the tax stamp on the pack or, in cases where the tax stamp is not shown, on the health warning and packaging characteristics
Duty Free	Cigarettes bought without payment of customs or excise duties. Consumers may buy Duty Free Cigarettes when travelling into or out of the EU27 (including Switzerland and Norway) by land, air, or sea at legal duty free shops
EC	European Commission
EU / EU27	European Union
Illicit cigarettes	Refers to cigarettes that are consumed outside the legal domestic market, including contraband and counterfeit cigarettes as well as illicit whites. The use of the term illicit encompasses all such products regardless of origin, manufacturing method, or legality in the country of production
Illicit whites	Cigarettes that are usually manufactured legally in one country/market but which the evidence suggests have been smuggled across-borders during their transit to the destination market under review where they have limited or no legal distribution and are sold without payment of tax
Non-domestic legal	Duty paid cigarettes that are brought into the market legally by consumers, such as during a cross-border trip
OCG	Organised Crime Group
Smoking prevalence	The percentage of smokers in the total population of the legal smoking age
Tobacco taxes	The sum of all types of taxes levied on tobacco products, typically includes excise duty and VAT
Tobacco Excise Directive (2011/64/EU)	The Tobacco Excise Directive (2011/64/EU) is the EU-level legislation that governs tobacco excise policy in the EU. It defines, sets minimum rates and structural requirements for combustible tobacco products
WAP	Weighted Average Retail Selling Price—calculated by reference to the total value of all cigarettes released for consumption, based on the retail selling price, including all taxes, divided by the total quantity of cigarettes released for consumption. The WAP for cigarettes is published on the European Commission DG TAXUD website.

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