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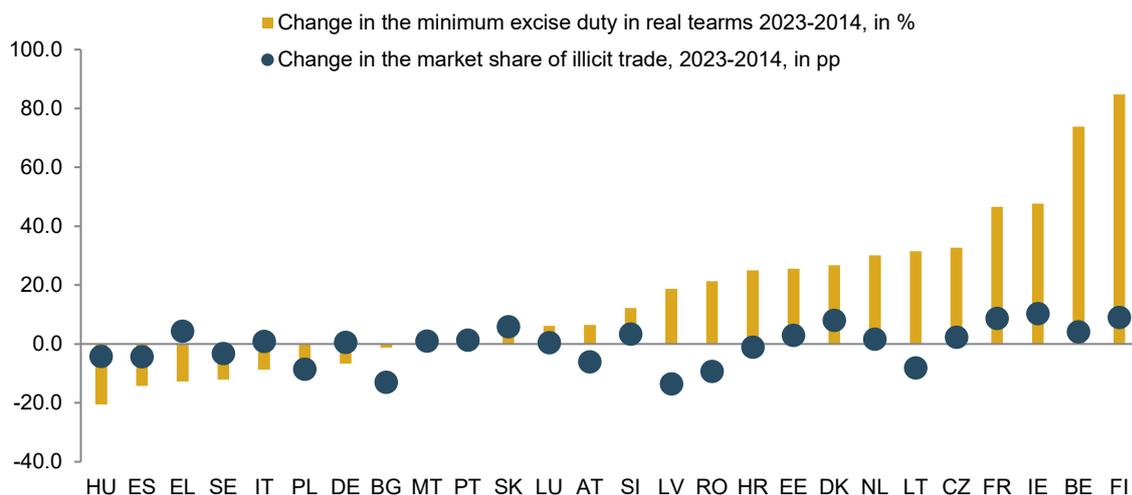
Tobacco Taxes and Illicit Trade in the EU

1. NO CLEAR RELATIONSHIP BETWEEN HIGHER TAXES AND INCREASE IN ILLICIT TRADE

Research studies confirm that there is **NO** consistent relationship between higher taxes and illicit trade. Many empirical studies find no change – and, in some cases, a decline – in illicit markets after tax hikes (Little et al. 2020; Little et al. 2023; Ross et al. 2020; Nguyen and Nguyen 2020; Paraje et al. 2022; Gallagher et al. 2020). Reviews also flag that industry-funded estimates typically exaggerate illicit trade (Stoklosa and Ross 2014; Gallagher et al. 2020).

Figure 1 demonstrates the lack of association between the change in excise tax and the change in illicit cigarette market share in the European Union (EU). There are several countries where the illicit market share declined over time while the cigarette excise tax increased (e.g. Romania, Croatia, Latvia, Lithuania). There are also countries that had a significant tax increase and almost no change in the illicit cigarette market share (e.g. Estonia, Netherlands, Czechia). Illicit market share increases are relatively minor in countries with the largest tax increases (e.g. Finland, Belgium), but illicit trade also increases in Greece, where the excise tax on cigarette declined in real terms. Overall, there is no clear pattern.

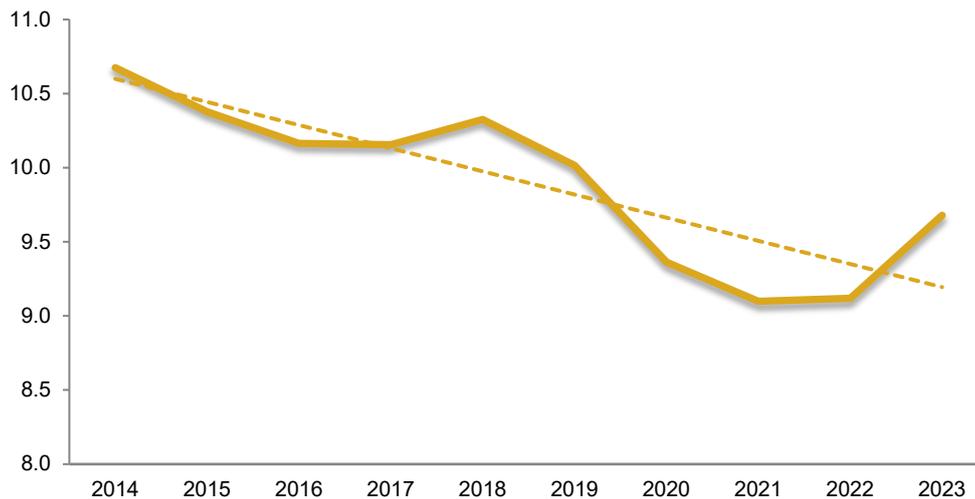
Figure 1 / Changes in minimum excise duty for cigarettes in real terms (in %) and in the market share of illicit trade (in pp)



Sources: Euromonitor, Taxes for Europe Database (TEDB), and Eurostat; authors' calculations. The illicit trade is calculated as the difference between total cigarettes sales (illicit+legal) and legal cigarette sales. The data for the EU is the sum of the calculated illicit trade of all EU countries except Cyprus, for which there is no data. For the minimum excise duty: data for 2014 refers to the situation on 1 January 2014; data for 2023 refers to the situation on 1 January 2023.

Figure 2 shows that the market share of illicit trade in the EU is relatively low and declining – from 10.7% in 2014 to 9.7% in 2023 (Euromonitor International (EM) data¹) despite tobacco taxes increases that occurred during the same period (see Figure 1).

Figure 2 / Illicit trade market share in EU, %



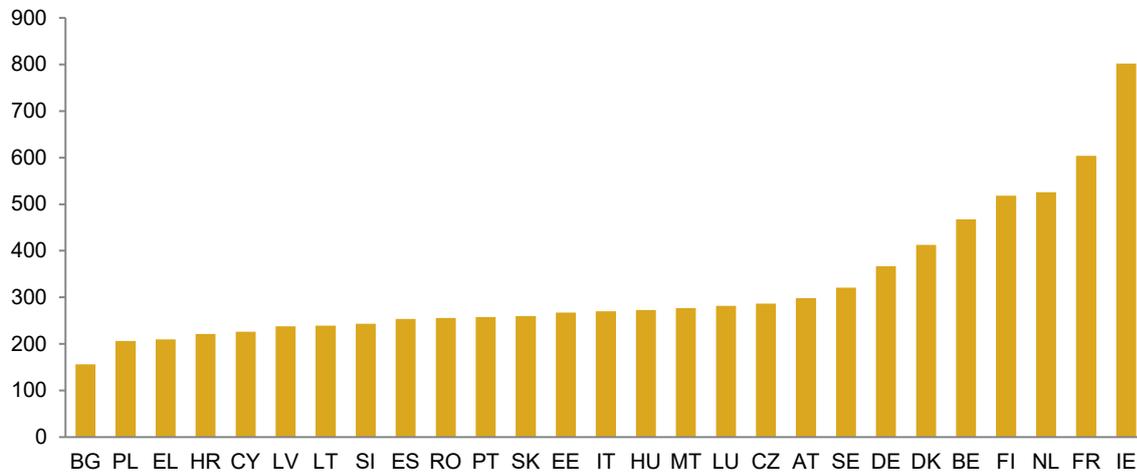
Source: Euromonitor International Ltd 2025 (EM). The illicit trade is calculated as the difference between total cigarettes sales (illicit+legal) and legal cigarette sales. The data for EU is a sum of the calculated illicit trade of all EU countries except Cyprus, for which there is no data.

2. THE IMPORTANCE OF GREATER TAX HARMONISATION ACROSS THE EU

Harmonising tobacco excise rates across member states would curb cross-border purchases and enhance the fiscal and health impact of taxation. This is one of the key objectives of the new Tobacco Taxation Directive (TTD) proposal.

Evidence across EU member states consistently shows that higher excise taxes are the most powerful and cost-effective tool to reduce tobacco consumption and improve public health. However, the impact of taxation might be weakened when significant tax/price gaps persist between neighbouring countries. Figure 3 shows significant price gaps exist between EU member states. Closing these gaps will result in significant fiscal and health benefits (Stoklosa 2020).

¹ Euromonitor International data is one of the few sources that offers consistent panel data on illicit trade. To produce these estimates, Euromonitor relies on several sources, including trade press, customs offices, interviews with manufacturers and retailers, and local knowledge of the market. As stated by Kohler et al. (2023) “different parties have different interests to overstate or understate the extent of illicit trade”. Therefore, Euromonitor data should be interpreted with caution and, whenever possible, they should be validated using the results of independent studies (Blecher et al. 2015).

Figure 3 / Weighted average price in 2024, per 1,000 cigarettes, in EUR

Sources: TEDB, Eurostat; authors' calculations.

3. MEASURES TO CONTROL ILLICIT TOBACCO TRADE

In addition to tax harmonisation, there are other measures to control illicit tobacco trade to secure optimal fiscal and health impacts of tobacco taxation increases. Examples include:

- › control of raw tobacco, as proposed in the new TTD;
- › improved border controls;
- › securing the independence of the EU's tobacco track-and-trace system from the tobacco industry;
- › employment of artificial intelligence (AI) to utilise the track-and-trace data for enforcement and risk management;
- › stronger cooperation with non-EU neighbours (i.e. third countries)

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