

Abstract WP 55

Taxes on tobacco provide a significant income for the Australian government – \$5.1 billion in 2001. At the same time, health officials are making strenuous efforts to reduce smoking, particularly among teenagers. Some economists suggest that raising taxes on tobacco will produce more revenue while at the same time lowering smoking rates, particularly among youths who have less discretionary spending power than adults. But a by-product of excise tax in Australia has been the emerging market in ‘chop-chop,’ tobacco diverted from legal channels by growers who receive considerably higher prices for a part of their yield than they can obtain from legal manufacturers. The article details this situation and suggests that only bold solutions may be able to reduce tensions in tax policies, smoking rates and the ‘chop-chop’ black market.