

The Hon. Bezalel Smotrich  
Minister of Finance  
Ministry of Finance, State of Israel

Adv. Shay Aharonovich  
Director, Israel Tax Authority  
Ministry of Finance, State of Israel

**Re: Comments on the Draft Customs Tariff and Exemptions and Purchase Tax on Goods Order, 5786-2026, concerning electronic cigarettes and smoking substitutes**

Dear Minister Smotrich and Director Aharonovich,

On behalf of Prohibition Does Not Work (PDNW), an international platform of experts and organizations committed to exposing the failures of prohibitionist policies and advancing evidence-based harm reduction, I thank you for the opportunity to submit comments on Proposed Order on the Draft Customs Tariff and Exemptions and Purchase Tax on Goods Order, 5786-2026, concerning electronic cigarettes and smoking substitutes,

PDNW strongly welcomes the proposed reduction in excise on vapour products, which recognises the clear failure of Israel's previous high-tax approach. As the government's own review has found, the existing tax regime pushed the vapour product market almost entirely into the black market, generated almost no tax revenue, and failed to impact underage consumption. Reducing the tax on vaping liquids and creating a more realistic tax mix for vapour products is a sensible and necessary step toward restoring lawful commerce, improving compliance, and bringing consumers back into regulated channels.

Excessive taxation of nicotine products can become a form of de facto prohibition, even when a product remains nominally legal. When legal products are taxed so heavily that lawful sellers cannot compete, the state does not eliminate demand. It simply transfers that demand to illicit suppliers. Australia provides a stark warning. A combination of very high tobacco excise and severe restrictions on reduced-risk alternatives has helped create a large illicit tobacco and e-cigarette market, with Australia's illicit market estimated at AUD 5.6 billion in 2024/2025 and estimates suggesting that between 50% and 60% of the tobacco market and over 95% of the vapour market may now be illicit. This market has attracted organized criminal syndicates, with lawful operators forced to compete against untaxed and unregulated products sold far below legal prices.

The International Monetary Fund has recently made the same basic point: excise taxes should be aligned with relative harm, not imposed bluntly across all nicotine products, noting that simply raising rates will not work indefinitely because consumers may shift to untaxed or illicit alternatives instead. The IMF specifically notes that newer nicotine products create new tax-policy challenges, and that products which reduce exposure to toxicants should be taxed at lower rates. Israel should heed that warning. Taxing reduced-risk alternatives at punitive levels does not protect public health; it protects the cigarette market, punishes smokers who are trying to switch, and drives consumers toward illicit supply chains.

We also add that illicit tobacco and nicotine markets are not harmless grey-market activity. They create cash-rich supply chains that can be exploited by organized crime and, in some cases, terrorist-linked networks. In the Middle East, illicit trade has long been associated with organized criminal and terrorist groups that use smuggling networks to generate revenue, move goods, and evade state control. By creating a major price gap between legal and illicit nicotine products, policymakers risk strengthening precisely the kind of illegal supply chains that Israel has a clear national interest in suppressing.

Despite the positives contained in the proposed order with relation to vapour products, we strongly urge you to reconsider the proposed tax hikes on nicotine pouches. By imposing a purchase tax of NIS 349.18 per kg on nicotine pouches, this proposal would subject reduced-risk alternatives to an excessive tax burden despite the clear lesson from Israel's own experience with vapour products. If enacted in its current form, this measure would raise costs for consumers, fuel illicit markets, undermine legal businesses, and weaken public health.

Nicotine pouches are tobacco-free, non-combustible products that eliminate exposure to smoke, tar, and the toxic byproducts of burning tobacco, the primary drivers of smoking-related disease. Because they are not inhaled, they sit at the lowest end of the nicotine risk continuum, with a risk profile similar to nicotine gums and lozenges. For adult smokers who are unable or unwilling to quit nicotine entirely, they offer one of the least harmful available alternatives to cigarettes.

Germany provides a clear warning of what happens when governments suppress legal access to nicotine pouches. Although Germany's policy failure has taken the form of a de facto ban rather than a tax, the practical lesson is the same: when lawful access is made impossible or commercially unworkable, demand does not disappear. It moves underground. PDNW's Germany report found that the ban pushed consumers into the black market, where product quality, nicotine levels, and age-of-sale rules cannot be controlled. Germany has effectively given up control over a market of as many as 1.4 million consumers, with illegal products found to contain up to twelve times the nicotine limit of pouches available in regulated markets such as Sweden or Czechia. Germany's smoking rate has also remained stubbornly high, barely declining from 25% in 2017 to 24% in 2023, while the country continues to suffer approximately 140,000 smoking-related deaths annually.

This proposal would have serious consequences not only for consumers, but for legitimate retailers and importers seeking to operate within the law. Legal retailers rely on a workable and proportionate tax structure that allows them to compete against informal sellers, online channels, and unregulated illicit products. Imposing an excessive tax on nicotine pouches would squeeze lawful operators and push consumers toward untaxed sources. As Israel's experience with vapour products has already shown, when tax levels become disconnected from market realities, the result is not lower consumption or higher revenue, but widespread non-compliance and a growing black market.

In addition to the economic impact, the public health consequences of an excessive nicotine pouch tax would be deeply damaging. Non-combustible alternatives such as nicotine pouches expose users to far fewer toxic byproducts than combustible cigarettes, which are responsible for the overwhelming majority of smoking-related disease and death. Increasing taxes on them therefore undermines harm-reduction principles and makes it harder for adult smokers to switch. International experience supports importance of pouches to harm reduction. Sweden—where low-risk oral nicotine products are widely available—has the lowest smoking rates and smoking-related mortality in Europe, demonstrating the long-term public-health and economic benefits of allowing safer alternatives to compete with cigarettes.

Tax policy should reflect relative risk, not penalize it. By imposing an excessive tax on nicotine pouches, this proposal risks making safer options less affordable and less accessible, discouraging switching and prolonging cigarette use. From both an economic and public-policy perspective, it is counterproductive to tax lower-risk products at levels approaching those applied to cigarettes.

Rather than repeating the mistakes of Israel's previous approach to vapour products, we urge you to support evidence-based policies that encourage, not penalize, smokers to quit through reduced-risk products.

Sincerely,

Tim Andrews  
Global Spokesman  
Prohibition Does Not Work