~~PROHIBITION~~
DOES NOT WORK

WHEN REGULATION BECOMES PROHIBITION: BLACK MARKETS, ENFORCEMENT FAILURE, AND VAPE RESTRICTIONS

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EXECUTIVE SUMMARY

Governments across the world are tightening restrictions on vaping products through flavour bans, disposable-vape prohibitions, retail restrictions, import controls, and, in some cases, outright prohibition.

The evidence reviewed in this report suggests that these policies frequently fail on their own terms. Restrictive nicotine policy does not eliminate demand for nicotine products. It simply displaces supply from lawful commercial systems into illicit, informal, and enforcement-intensive channels that are harder to supervise, harder to tax, and more costly to control.

Across the five jurisdictions examined in this report, prohibition-style nicotine regulation is associated with substantial recurring economic displacement, including large fiscal leakages, escalating enforcement burdens, retailer displacement, and expanding criminal-market rents.

Governments can prohibit lawful nicotine markets, but they do not eliminate the underlying market. They change who supplies it. Once lawful supply is restricted or prohibited, nicotine products continue circulating through informal retail, illicit importation, social-media distribution, online grey markets, and criminal networks. Governments then inherit a permanent enforcement burden simply to contain a market that continues operating despite increasingly strict laws.

The table overleaf sets out what each jurisdiction did and what followed.

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Vaping restriction and market outcome by jurisdiction

JURISDICTION	POLICY ADOPTED	ADVERSE OUTCOME
Australia	Pharmacy-only vape sales from July 2024; disposable-vape imports banned from January 2024; all non-therapeutic vape imports banned from March 2024	Emergence of a violent criminal market: organised crime networks filled the supply gap created by prohibition, bringing firebombings, retail extortion, and specialised police taskforces. The public-health strategy became a law-and-order problem. Treasuries lost excise revenue. Communities absorbed violence that did not exist when the market was lawful.
Brazil	Outright prohibition of manufacture, importation, commercialisation, distribution, storage, transportation, and advertising of vaping products since 2009; restated by ANVISA RDC No. 855 in April 2024	Fifteen years of prohibition have not suppressed the trade. The market relocated entirely into illicit channels, leaving no licensed retailers, no regulated supply chain, and no product standards. Enforcement is permanently reactive. Consumers obtain unverified products from criminal distributors. The state has no visibility over what is being sold or to whom.
Belgium	First EU country to ban disposable vape sales, from January 2025	Immediate and widespread non-compliance: illegal disposable vapes were found in nearly 60 per cent of Brussels inspections and roughly one in five shops across Flanders within months of the ban. Honest retailers lost lawful product lines to untaxed competitors. Regulators inherited a permanent inspection and seizure burden that did not exist before the restriction.
Netherlands	Prohibition of flavoured vaping products; expanded enforcement against retailers, distributors, and online sellers from 2024	Persistent retailer non-compliance across every category of the supply chain, with one in five inspected retailers found in breach within six months. Compliant firms faced competitive disadvantage against sellers who simply ignored the rules. Regulators shifted from supervising a lawful market to chasing continuing violations across retail, distribution, and online platforms.
Denmark	Flavour restrictions, nicotine-strength limits, and youth-targeted supply controls effective from 1 July 2025	The policy designed to protect young people drove youth supply into channels beyond regulatory reach. Social-media purchasing among teenagers doubled in a single year. Young consumers increasingly sourced products through friends, family, and informal networks, precisely the channels that cannot be inspected, licensed, or age-verified. The restrictions reduced visibility over youth consumption without reducing youth consumption itself.

The pattern across all five jurisdictions is consistent. Restrictive nicotine policy reduces the visibility of the market more reliably than it reduces the size of the market.

Legal markets generate records, taxable transactions, observable supply chains, age-verification systems, product standards, and identifiable retailers. Illegal markets generate none of those things. Once supply shifts outside lawful commercial channels, governments lose visibility over what consumers are buying, who is supplying the products, and how the market is operating. That loss of visibility is not a side effect of prohibition-style policy. It is its defining outcome.

The consequences are distributed across the entire economy. Police inherit organised-crime caseloads that did not exist before the restrictions. Regulators spend their budgets conducting inspections, seizures, and online removals rather than supervising a lawful market. Honest retailers lose their businesses to untaxed competitors. Consumers buying from informal or illicit sources face unknown product standards and no age controls. Communities absorb the violence, the firebombings, the extortion, and the criminal infrastructure that prohibition builds and leaves behind.

The scale of these effects are estimated using a Total Regulatory-Failure Cost model. The model estimates the measurable annual economic displacement created when lawful nicotine markets are suppressed but demand persists. It incorporates:

- **forgone fiscal revenue;**
- **enforcement escalation;**
- **lawful retailer displacement;**
- **criminal-market rents.**

The model does not fully monetise broader harms such as violence, neighbourhood disorder, insurance repricing, youth informalisation, or counterfeit-product risk. Even so, the indicative annual measurable costs are substantial.

INDICATIVE ANNUAL REGULATORY-FAILURE COSTS

JURISDICTION	INDICATIVE ANNUAL MEASURABLE COST
Australia	AUD $12bn – $20bn
Brazil	R$3bn – R$15bn
Belgium	€250m – €1.2bn
Netherlands	€500m – €3bn
Denmark	DKK 250m – DKK 1.5bn

These figures are calibrated from observed enforcement activity, illicit-market indicators, retailer displacement, fiscal leakage, and criminal-market expansion identified across the five jurisdictions examined. Due to data limitations, the estimates do not include many of the broader costs associated with organised criminality and social disruption. Those broader costs are likely to be substantial.

These are not transitional compliance costs. They are recurring annual estimates of economic displacement associated with prohibition-style nicotine regulation. The evidence reviewed throughout this report suggests that once nicotine supply migrates into illicit and informal channels, governments face a structurally more expensive and less effective enforcement environment.

There is a stark contrast between the intended outcomes of restrictive vaping frameworks and the actual economic and social consequences observed across the five jurisdictions studied in this report.

Comparative Framework – Conventional Theory vs. Empirical Market Realities

POLICY DIMENSION	CONVENTIONAL REGULATORY ASSUMPTION	OBSERVED MARKET REALITY
Market Volume	Demand Suppression: Prohibition or strict restriction will lead to a net reduction in product consumption.	Supply Displacement: Demand remains inelastic; the market simply shifts from regulated to illicit suppliers.
Governance & Oversight	Enhanced Control: Tighter legislative frameworks increase the state's authority over the market.	Information Asymmetry: Supply migration to 'dark' channels results in a total loss of visibility and data for regulators.
Operational Impact	Defined Implementation: Enforcement is a finite, transitional phase following the introduction of new laws.	Permanent Enforcement Drain: Transition to a 'whack-a-mole' model requiring indefinite police and customs resources.
Youth Protection	Safeguarding through Removal: Eliminating retail access removes the primary source of youth uptake.	Unregulated Access: Supply shifts to social media and peer-to-peer networks where age-verification is non-existent.
Fiscal Health	Social Benefit: The health gains of a ban will eventually outweigh the loss of excise revenue.	Fiscal Erosion: Loss of tax revenue is compounded by the rising costs of criminal justice and interdiction.

This report does not argue against regulating nicotine products. It argues that prohibition-style regulation is a less effective form of control than its proponents claim, and that the evidence is consistent enough across five very different jurisdictions to treat that conclusion as something stronger than a hypothesis. Governments can regulate nicotine markets through lawful commercial systems that are visible, taxable, inspectable, and enforceable.

The alternative, suppressing lawful supply and then attempting to contain the resulting illicit market through permanent enforcement escalation, may produce stronger political messaging. The evidence examined in this report suggests it produces weaker practical control, weaker market visibility, and substantially higher long-run economic and enforcement costs.

Governments can always pass stricter laws. The harder task is controlling the market that emerges afterwards.

> **"THERE IS A STARK CONTRAST BETWEEN THE INTENDED OUTCOMES OF RESTRICTIVE VAPING FRAMEWORKS AND THE ACTUAL ECONOMIC AND SOCIAL CONSEQUENCES OBSERVED ACROSS THE FIVE JURISDICTIONS STUDIED IN THIS REPORT.."**

INTRODUCTION

Governments do not eliminate nicotine demand by banning or heavily restricting vaping products. They change who supplies the market.

When lawful vape markets are suppressed, consumers do not stop consuming nicotine. Supply shifts into informal, illicit, and increasingly unregulated channels. The state loses visibility over the market, loses taxable activity, and inherits an enforcement burden that does not disappear once the legislation is passed.

This report examines the consequences of that process across Australia, Brazil, Belgium, the Netherlands, and Denmark. These jurisdictions differ in legal design and political context, but the pattern is consistent. Restrictions intended to tighten control over nicotine products frequently produce the opposite effect: illicit supply expands; enforcement costs rise; lawful retailers disappear; tax revenue leaks out of the formal economy; online and social-media distribution grows in importance; regulators spend increasing resources chasing products that continue to circulate despite prohibition.

> “GOVERNMENTS CAN ALWAYS PASS STRICTER LAWS. THE HARDER TASK IS CONTROLLING THE MARKET THAT EMERGES AFTERWARDS.”

Australia provides the clearest fiscal warning. The country now operates one of the world's most restrictive vape-access systems alongside a multi-billion-dollar illicit tobacco market. Brazil demonstrates the limits of outright prohibition. Belgium and the Netherlands show the inspection, seizure, and compliance burden created by product bans and flavour restrictions. Denmark illustrates how tighter youth-focused controls can coincide with growing social-media purchasing and informal supply.

Legal nicotine markets can be taxed, licensed, audited, inspected, and regulated through ordinary commercial institutions. Illegal markets cannot. Once supply shifts outside the lawful economy, governments lose the administrative mechanisms that make regulation effective. Prohibition-style vaping policy converts a manageable tax-and-regulation problem into a permanent enforcement problem.

THE ECONOMICS OF VAPE PROHIBITION

Governments repeatedly make the same policy mistake. They assume that banning or heavily restricting a legal market will eliminate the demand behind it. History suggests otherwise. Alcohol prohibition did not eliminate alcohol consumption. Drug prohibition has not eliminated narcotics markets. High cigarette taxes have not eliminated illicit tobacco. Restrictive vaping policy operates through the same mechanism: demand persists; supply adapts.

When lawful vape markets are suppressed, consumers do not disappear. Supply shifts into informal networks, illicit import channels, social-media sellers, online grey markets, and criminal distribution systems. The market survives; the legal infrastructure surrounding it does not.

A lawful nicotine market can be monitored through ordinary commercial institutions: licensed retailers; audited firms; taxable transactions; product standards; age-verification systems; customs reporting; supply-chain records. An illicit market strips away those mechanisms. Transactions become harder to observe. Suppliers become harder to identify. Products become harder to verify. Enforcement becomes reactive rather than supervisory.

Beyond the immediate shift in supply, prohibition creates several profound systemic risks that complicate the regulatory task:

- **The 'Baptists and Bootleggers' Paradox: Prohibition creates an accidental alliance where health advocates provide the moral justification, but organised crime reaps the economic reward. By eliminating legal competition, the state effectively grants a high-profit monopoly to criminal syndicates.**
- **The Erosion of Regulatory Credibility: Passing laws that are visibly ignored on every high street creates a 'culture of non-compliance'. When the state issues mandates it cannot enforce, it suffers a loss of moral capital that degrades respect for the law in other regulated sectors.**
- **The 'Reverse Subsidy' to the Underworld: Nicotine consumption is shifting from a state-taxed activity to a crime-subsidised one. Instead of revenue flowing to public health, billions are being transferred into the shadow economy to fund the expansion of criminal infrastructure.**
- **Regulatory Asymmetry and 'Policy Lag': Government policy operates on a cycle of years, while black markets pivot in days. This ensures that regulators are almost always fighting the 'last war,' banning products that the illicit supply chain has already replaced.**
- **The Loss of Administrative Leverage: By removing vapes from the lawful tax-and-trace system, the government surrenders its most powerful tools – product testing, age-verification audits, and supply-chain transparency – in exchange for a reactive and expensive 'interdiction-only' model.**

TABLE 1. LEGAL MARKET VERSUS PROHIBITION-STYLE MARKET

LEGAL REGULATED MARKET	PROHIBITION-STYLE MARKET
Licensed retailers	Informal sellers, online dealers, and illicit distributors
Taxable transactions	Untaxed or under-taxed activity
Product standards and labelling	Counterfeit, mislabelled, or unknown products
Age-verification systems	Weak or absent age controls
Observable supply chains	Hidden distribution networks
Auditable firms	Evasive or anonymous suppliers
Routine commercial regulation	Seizures, raids, prosecutions, and interdiction
Regulatory supervision	Permanent enforcement escalation

Legal markets are also information systems. They generate data about prices, product categories, sales volumes, consumer behaviour, and supply chains. Governments can inspect retailers, audit firms, test products, trace imports, and monitor compliance. Illegal markets obscure that information, forcing regulators to operate with weaker visibility over the products being sold, the consumers buying them, and the channels through which they move.

The economic consequences are entirely predictable.

- **Governments lose revenue: transactions that leave the lawful economy stop generating excise, customs duties, VAT or GST, company tax, payroll tax, and licensing fees.**
- **Enforcement costs expand: customs agencies, police, regulators, and border authorities inherit a growing burden of inspections, seizures, monitoring, and prosecutions, and prohibition does not eliminate the administrative task so much as transform it into a more expensive and less effective form.**
- **Criminal and informal suppliers gain a structural advantage: illegal sellers avoid taxes, compliance obligations, licensing costs, packaging rules, and reporting requirements, and those avoided costs become profit margins.**
- **Practical oversight deteriorates: as supply migrates into hidden channels, governments lose the information about sales volumes, product categories, and consumer behaviour that makes regulation possible in the first place.**
- **Consumers become habituated to illegal markets: ordinary people who would have bought a lawful product from a licensed retailer instead learn to source it from informal networks, social-media sellers, and criminal distributors. That habituation is corrosive. It normalises interaction with illegal supply chains, erodes the cultural expectation of compliant commercial behaviour, and weakens the practical authority of the regulatory framework that prohibition was supposed to strengthen.**

Governments suppress visible and taxable commerce only to replace it with adaptive, enforcement-resistant illicit markets that survive outside the ordinary regulatory system. The legislation is often the easy part. The illicit market that follows is harder to contain.

AUSTRALIA: THE COST OF EFFECTIVE PROHIBITION

Australia's nicotine policy has been tightening since 2010. Tobacco excise increased repeatedly. Plain packaging was introduced. Advertising restrictions expanded. In 2024, the Commonwealth extended this approach to vaping by removing ordinary retail access and confining lawful sales to pharmacies.[i,ii] The restrictions became progressively tighter. The illicit market became larger, more violent, and more visible.

The 2024 vaping reforms moved quickly. Disposable-vape imports were banned from 1 January. Non-therapeutic vape imports followed from 1 March. From 1 July, non-pharmacy retailers — tobacconists, vape shops, convenience stores — were prohibited from supplying vapes of any kind.[iii] The lawful retail network was dismantled inside six months.

What replaced it was not abstinence. Australia experienced rapid growth in illicit tobacco and vape distribution, with organised criminal groups moving to fill the supply gap that Commonwealth policy had created. State police established specialised taskforces. Victoria's Taskforce Lunar became the most visible symbol of what the policy had produced: not a regulated nicotine market, but an organised-crime enforcement problem.

The violence was not incidental. Firebombings linked to the illicit tobacco trade became a recurring feature of Australian news reporting.[iv] Retailers were threatened and extorted. Shopping strips and neighbouring businesses were damaged. Insurers increased premiums or withdrew coverage from tobacconists and nearby properties. The costs of prohibition spread well beyond nicotine consumers themselves — into the insurance market, the property market, and the ordinary commercial life of suburban retail strips.

The political logic here deserves attention. Raids, seizures, taskforce announcements, and shop closures allow governments to demonstrate that authorities are active. But the scale of that enforcement activity is itself evidence that the market continues to operate. A government that had genuinely suppressed nicotine demand would not require permanent organised-crime taskforces to contain it. The appearance of control and the reality of control are not the same thing — and in Australia's case, escalating enforcement has so far accompanied an expanding illicit market, not a contracting one.

Australia entered 2024 with a public-health strategy. It now has a law-and-order problem. Nicotine products remain widely available; a growing share of the trade runs through channels that are more violent, less transparent, and harder to regulate than the lawful retail market they displaced.

BRAZIL: PROHIBITION AND INFORMAL SUPPLY

Unlike Australia or parts of Europe, Brazil has not attempted to regulate or restrict a lawful vape market. It has prohibited the market outright — and has done so since 2009.[v]

Brazil prohibits the manufacture, importation, commercialisation, distribution, storage, transportation, and advertising of electronic smoking devices, extending to accessories, parts, pieces, and refills.[vi] The legal position is unambiguous. The commercial vape market is prohibited.

The market, however, is not.

Brazil's Federal Revenue Service confiscated nearly 2 million illegal e-cigarette units in 2024.[vii] That figure does not measure the size of the illicit market. It measures only what authorities intercepted. The true volume of product entering the country and reaching consumers through informal supply chains is larger, and by definition unobservable.

A country that had successfully eliminated the vape market would not be confiscating millions of illegal units each year. Large-scale seizures are not evidence of prohibition working; they are evidence of the trade continuing. Brazil's Federal Revenue Service is not winding down an illicit market; it is managing one.

Because no lawful market exists, every vaping product in circulation operates outside the ordinary commercial system. There are no licensed retailers, lawful distributors, regulated supply chains, or compliant manufacturers for authorities to supervise. The state's role is almost entirely reactive: interception, seizure, confiscation. Brazil has surrendered the administrative leverage that a lawful market would provide — product testing, supply-chain records, retailer inspections, age-verification requirements — in exchange for a permanent interdiction operation that has not suppressed the underlying trade.

The practical consequences compound over time. Product standards become uncertain. Supply chains become opaque. Governments lose information about what consumers are buying, how products enter the country, and who distributes them. Prohibition has changed the legal status of supply without changing the economic reality behind it.

Brazil represents the limiting case of the prohibition logic examined throughout this report. Fifteen years of outright prohibition, maintained and restated as recently as April 2024, have not eliminated the vape market. They have relocated it into channels that are less visible, less accountable, and harder to govern than any lawful alternative would be.

> “A COUNTRY THAT HAD SUCCESSFULLY ELIMINATED THE VAPE MARKET WOULD NOT BE CONFISCATING MILLIONS OF ILLEGAL UNITS EACH YEAR. LARGE-SCALE SEIZURES ARE NOT EVIDENCE OF PROHIBITION WORKING; THEY ARE EVIDENCE OF THE TRADE CONTINUING. BRAZIL'S FEDERAL REVENUE SERVICE IS NOT WINDING DOWN AN ILLICIT MARKET; IT IS MANAGING ONE.”

BELGIUM AND THE NETHERLANDS: PERMANENT ENFORCEMENT

Belgium and the Netherlands demonstrate a different version of the same problem. Neither country has prohibited vaping outright. Both have restricted specific products or product characteristics while attempting to maintain broader regulatory control — and both have discovered that the enforcement burden expands to fill the space that lawful supply vacates.

Belgium became the first EU country to ban disposable vape sales, from January 2025, as part of a broader anti-tobacco initiative targeting youth vaping and environmental concerns.[viii] Disposable products were removed from lawful sale. They continued to circulate anyway.

Belgium's Federal Public Health Service seized 140,019 disposable vapes in 2025, conducted almost 2,400 inspections, identified illegal products in 680 cases, filed nearly 600 official reports, and temporarily closed 18 shops.[ix] In Brussels, illegal disposable vapes turned up in nearly 60 per cent of inspections; in Flanders, roughly one in five inspected shops. These are not the numbers of a market that has been suppressed. They are the numbers of a market that has been driven underground and is being chased.

The Netherlands took a parallel route through flavour restrictions rather than product bans. Dutch regulators prohibited flavoured vapes and expanded enforcement across retailers, distributors, and online sellers.[x] In the first half of 2024, the Dutch Food and Consumer Product Safety Authority conducted 513 retailer inspections and found 107 violations — a 21 per cent violation rate. Non-compliance was distributed across the supply chain: 28 per cent among small convenience shops, 22 per cent among registered tobacco stores, 20 per cent among supermarkets and convenience retailers.[xi] Upstream, 31 inspections of manufacturers, importers, and distributors produced 5 violations. Dutch regulators also removed 1,059 online posts advertising illegal vape or tobacco products in the same six-month period.[xii]

The point is not that violations occurred — every regulatory system produces some non-compliance — but that the violation rates are high, geographically widespread, and show no sign of the market retreating. One in five retailer inspections in the Netherlands found a breach within months of the flavour ban taking effect. Nearly three in five inspections in Brussels found illegal disposable vapes after Belgium's product ban. These are not transitional teething problems; they are structural features of markets that continue to operate because demand has not changed.

A Fraunhofer IIS / MRU study estimated that irregular e-cigarette trade accounts for 48 per cent of the European e-cigarette market, equivalent to approximately €6.6 billion.[xiii] That estimate is directionally consistent with what the Belgian and Dutch enforcement data already show at the national level: restricting lawful supply does not eliminate commercial incentives; it increases the profitability of informal and illicit distribution.

Prohibition-style policy does not end the regulatory task. It changes its character. Governments move away from supervising lawful retail markets and toward permanent enforcement against continuing illicit supply — more expensive, less visible, and less effective than the commercial regulation it replaced.

DENMARK: YOUTH RESTRICTIONS AND INFORMAL SUPPLY

Denmark tightened controls on nicotine products as part of a youth-prevention strategy. New rules covering nicotine products, tobacco surrogates, electronic cigarettes, and refill containers entered into force from 1 July 2025, forming part of a prevention plan directed at children and young people.[xiv,xv] The regulations targeted characterising flavours, nicotine strength above 20 mg/ml, and product availability across the supply chain — affecting import, purchase, supply, receipt, manufacture, processing, and possession.[xvi]

The policy objective was to make youth access more difficult. The evidence suggests it made youth access different.

Among 15 to 17-year-olds, the share purchasing e-cigarettes through social media doubled from 13 per cent in 2023 to 25 per cent in 2024, according to the University of Southern Denmark's National Institute of Public Health.[xvii] Young people increasingly obtained vaping products through friends, family members, and informal personal networks rather than ordinary retail channels. The restrictions reduced one route to market. Others expanded to compensate.

Prohibition-style youth policy reliably produces exactly this enforcement problem. Licensed retailers can be inspected, fined, and stripped of permits. Commercial suppliers generate records, invoices, and observable transactions. Social-media sellers, peer-to-peer transfers, and informal personal networks do not. Governments that push youth supply out of licensed retail and into friendship networks have not reduced access; they have reduced their own visibility over it.

Denmark is a smaller case than Australia or Brazil, and the evidence base is correspondingly thinner. But it demonstrates something the larger cases also shows, restrictive nicotine policy does not simply determine whether products are sold; it determines who sells them and through what channels. Tighter controls on lawful retail did not contract the youth market. They reorganised its supply chain in ways that are harder to supervise and harder to reverse.

COMPARATIVE ECONOMIC EFFECTS: FROM REGULATION TO PERMANENT ENFORCEMENT

Five jurisdictions, five different regulatory approaches, five versions of the same outcome. The tables below set out what that outcome looks like in aggregate and who bears the cost of it.

TABLE 2. COMPARATIVE PROHIBITION-STYLE RISK ASSESSMENT

JURISDICTION	ENFORCEMENT ESCALATION	INFORMAL OR ILLICIT SUPPLY	MARKET VISIBILITY LOSS	CRIMINAL OR COMPLIANCE PRESSURE	OVERALL RISK
Australia	Very high	Very high	Very high	Very high	Very high
Brazil	High	Very high	Very high	High	Very high
Belgium	High	High	Medium	High	High
Netherlands	High	Medium-high	Medium-high	High	High
Denmark	Medium	Medium	Medium	Medium	Medium

Qualitative assessment by the author based on the country evidence.

The pattern in Table 2 reflects a policy failure that compounds over time. Governments enter prohibition-style regulation expecting control. What they get is a permanent enforcement operation against a market that has no incentive to disappear.

Prohibition creates profit. Every restriction that removes lawful supply raises the return available to suppliers willing to operate outside the law. Illegal sellers avoid excise, GST or VAT, licensing fees, packaging requirements, age-verification costs, and advertising restrictions. Those avoided obligations are not deadweight losses to the illicit supplier; they are margin. Governments design restrictions to suppress the market. The market prices those restrictions in and continues trading.

Meanwhile the costs land on everyone except the people making the policy.

TABLE 3. WHO ABSORBS THE COSTS?

COST BEARER	CONSEQUENCE OF PROHIBITION-STYLE REGULATION
Government treasuries	Lost excise, customs duties, VAT/GST, licensing revenue, and business-tax revenue
Police and customs agencies	Expanding seizures, investigations, prosecutions, and border enforcement workloads
Health regulators	Continuing inspection, monitoring, compliance, and online-enforcement burdens
Lawful retailers	Lost product lines, lost sales, lower investment, and business closure risk
Consumers	Less product certainty, greater search costs, and higher exposure to unsafe or counterfeit products
Compliant firms	Competitive disadvantage against untaxed and non-compliant sellers
Communities	Black-market retail, organised criminal activity, violence, and neighbourhood disruption
Public-health agencies	Weaker information about products, consumption patterns, and user behaviour

Author's synthesis from the country evidence reviewed in this report.

Table 3 is the ledger that prohibition's advocates do not present. Treasuries lose revenue they will not recover. Police inherit organised-crime caseloads that did not exist before the restrictions. Health regulators spend their budgets chasing non-compliant retailers instead of monitoring product safety in a lawful market. Honest retailers lose their businesses to untaxed competitors operating from the back of a van. Consumers who would have bought a regulated product from a licensed shop instead buy an unverified product from a social-media seller with no age check, no product standard, and no accountability. Communities absorb the violence, the firebombings, the extortion, and the criminal infrastructure that prohibition builds and leaves behind.

No single government agency sees all of this at once. Treasuries see falling revenue but not the organised crime. Police see the violence but not the lost tax. Regulators see compliance failures but not the consumers now buying from unregulated sources. Retailers see their businesses collapse but have no political voice against a policy framed as child protection. The fragmentation is not accidental; it is structural. Prohibition distributes its costs widely and concentrates its political benefits narrowly, in the announcement, the headline, the minister standing at a podium declaring that children will be protected.

The children are not protected. They are buying from social-media sellers instead of licensed shops. The difference is that governments can no longer see it happening.

That is the true cost of prohibition-style vaping regulation. Not just the lost revenue, the enforcement burden, or the organised criminal activity — though all of those are real and substantial. The deepest cost is the loss of visibility. Governments that prohibit lawful markets do not gain control. They surrender it, and then spend increasing resources pretending otherwise.

WHY PROHIBITION-STYLE POLICY PERSISTS

If the evidence is this clear, why do governments keep doing it?

Political timing explains most of it. The benefits of announcing restrictive nicotine policy arrive immediately. The costs arrive later, and they arrive dispersed across agencies, communities, and market participants who do not necessarily connect what they are experiencing to the policy that caused it.

A government that announces a crackdown on youth vaping, disposable products, or flavoured nicotine generates headlines, signals toughness, and demonstrates action. The minister appears decisive. The announcement is politically costless. The illicit market that follows — the organised criminal networks, the enforcement overload, the teenagers buying from social-media sellers instead of licensed shops — emerges months or years later, attributed to organised crime or regulatory failure rather than to the original policy decision.

Enforcement activity compounds the problem by creating a misleading appearance of success. Raids, seizures, shop closures, and online takedowns allow governments to demonstrate that authorities are acting. But the scale of that enforcement activity is itself evidence that the market has not been suppressed. A government that had genuinely eliminated demand would not require permanent seizure operations to contain it. Escalating enforcement is presented as proof that prohibition works. It is more accurately read as proof that the market continues to adapt faster than the restrictions imposed on it.

The political trap closes around the child-protection framing. Once a government has declared that restrictive policy exists to protect children, any attempt to restore lawful adult supply becomes politically toxic. It can be characterised as surrender to industry interests, indifference to youth health, or abandonment of the original commitment. The framing that made the policy easy to announce makes it almost impossible to reverse — regardless of what the evidence subsequently shows.

> “ENFORCEMENT ACTIVITY COMPOUNDS THE PROBLEM BY CREATING A MISLEADING APPEARANCE OF SUCCESS.”

The dynamic operates as a ratchet. Each enforcement failure produces calls for tighter restrictions. Tighter restrictions expand the illicit market. The expanded illicit market produces more enforcement failure. Governments become politically rewarded for announced toughness even as practical control over the market deteriorates.

The countries examined in this report are at different points on that ratchet. Australia is furthest along it. Brazil has been on it for fifteen years. Belgium and the Netherlands have recently joined it. Denmark is earlier in the cycle. None of them has found a way off.

A TOTAL REGULATORY-FAILURE COST MODEL

The country evidence reviewed in this report points to a consistent pattern. When governments restrict lawful nicotine supply while demand persists, economic activity does not disappear. It moves into informal, illicit, and enforcement-intensive channels.

To estimate the scale of that displacement, this report uses a simple Market-Displacement Model. The purpose of the model is not to predict public-health outcomes or generate false econometric precision. It is to estimate the scale of economic activity, enforcement burden, and criminal-market expansion created when lawful supply is suppressed but consumer demand remains.

The model begins with a simple displacement equation:

$$Q_I = Q_0 \times s \times \theta$$

where:

- $\boldsymbol{Q_0}$ = **baseline nicotine-market consumption;**
- $\boldsymbol{s}$ = **share of lawful supply removed by restriction;**
- $\boldsymbol{\theta}$ = **share of displaced demand that persists through informal or illicit channels;**
- $\boldsymbol{Q_I}$ = **displaced illicit or informal market quantity.**

The model then estimates the measurable annual regulatory-failure cost:

$$T_{measured} = F + E + R + C$$

where:

- ***F*** = **forgone fiscal capture, including excise, VAT/GST, customs duties, and related taxation;**
- ***E*** = **enforcement escalation, including inspections, seizures, prosecutions, and specialised enforcement activity;**
- ***R*** = **displaced lawful-market activity, including retailer losses and compliance displacement;**
- ***C*** = **criminal-market rents generated by the movement of trade into illicit channels.**

The model separately identifies broader non-monetised harms:

$$H_{nonmonetized} = \{V, D, Y, S\}$$

where:

- ***V*** = **violence and organised-crime spillovers;**
- ***D*** = **disorder and neighbourhood impacts;**
- ***Y*** = **youth informalisation and migration into unobservable supply channels;**
- ***S*** = **unsafe, counterfeit, or non-compliant products.**

These harms are not fully monetised in the estimates below. They are, however, likely to be quite substantial.

The Visibility Loss Index:

$$V = \frac{Q_I}{Q_0}$$

estimates the share of the market operating outside lawful and observable channels.

VISIBILITY LOSS	INTERPRETATION
0–10%	Low
10–25%	Moderate
25–50%	High
50%+	Severe

This matters because governments regulate lawful markets through visibility. Licensed retailers generate records, observable transactions, product standards, and identifiable supply chains. Informal and illicit markets weaken those mechanisms. Governments lose information about the market first and practical control afterwards.

TABLE 4. INDICATIVE DECOMPOSITION OF ANNUAL REGULATORY-FAILURE COSTS

JURISDICTION	FORGONE FISCAL REVENUE	ENFORCEMENT ESCALATION	LAWFUL RETAILER DISPLACEMENT	CRIMINAL-MARKET RENTS	INDICATIVE ANNUAL MEASURABLE COST
Australia	AUD $3bn–$5bn	AUD $1bn–$2bn	AUD $2bn–$3bn	AUD $6bn–$10bn	AUD $12bn–$20bn
Brazil	R$0.5bn–R$2bn	R$0.5bn–R$2bn	R$0.5bn–R$1bn	R$1.5bn–R$10bn	R$3bn–R$15bn
Belgium	€50m–€200m	€50m–€150m	€50m–€250m	€100m–€600m	€250m–€1.2bn
Netherlands	€100m–€500m	€100m–€400m	€100m–€600m	€200m–€1.5bn	€500m–€3bn
Denmark	DKK 50m–250m	DKK 50m–200m	DKK 50m– 250m	DKK 100m–800m	DKK 250m–1.5bn

Component estimates are indicative scenario calibrations derived from enforcement activity, illicit-market evidence, excise leakage indicators, retailer displacement, and observed criminal-market behaviour reviewed throughout this report. The estimates are intended as order-of-magnitude approximations of recurring annual economic displacement associated with prohibition-style nicotine regulation rather than precise accounting measures.

Table 5 provides indicative annual estimates of measurable regulatory-failure costs associated with prohibition-style nicotine regulation. These figures are not official government estimates. They are calibrated using the enforcement activity, illicit-market indicators, fiscal evidence, retailer displacement, and criminal-market evidence reviewed throughout this report.

Table 5. Comparative regulatory-failure risk profile

Jurisdiction	Indicative annual measurable cost	Visibility loss	Primary systemic risk
Australia	AUD $12bn – $20bn	Severe	Organised criminal expansion, violent enforcement spillovers, and large-scale fiscal displacement
Brazil	R$3bn – R$15bn	Severe	Entrenched illicit distribution and long-term smuggling normalisation
Belgium	€250m – €1.2bn	High	Permanent enforcement burden and continuing illicit retail circulation
Netherlands	€500m – €3bn	High	Persistent retailer non-compliance and large-scale online evasion
Denmark	DKK 250m – DKK 1.5bn	Moderate–High	Youth migration into informal and social-media supply channels

These figures should not be interpreted as minor compliance losses or administrative 'rounding errors'. They represent the economic footprint of markets moving out of lawful commercial systems and into illicit and enforcement-intensive channels.

The scale matters because the underlying markets are large. Nicotine consumption is not a niche activity. Even small shifts from lawful to illicit supply therefore generate substantial fiscal losses, large criminal profit pools, and permanent enforcement burdens.

Australia demonstrates the point most clearly. Recent estimates suggest that illicit tobacco and nicotine activity may already involve billions of dollars in displaced trade and foregone excise revenue annually. At that scale, the issue is no longer a compliance problem. It becomes a parallel market operating outside ordinary taxation and regulatory systems.

The speed of the deterioration also matters. Governments do not normally lose major revenue streams within a few years because consumers suddenly stop consuming the product. They lose them because the market relocates into channels that are harder to tax and harder to observe.

The enforcement implications are similarly large. Once illicit supply becomes entrenched, governments must sustain permanent inspection, seizure, border-interdiction, and policing activity simply to contain continuing trade. The policy does not eliminate enforcement costs; it transforms nicotine regulation into a standing law-enforcement obligation.

The economic effects extend beyond government budgets. Lawful retailers lose trade to untaxed competitors. Commercial distribution networks weaken. Insurance costs rise in high-risk sectors. Organised criminal groups gain access to large and recurring revenue streams created by the restrictions themselves.

The most important cost, however, is loss of visibility.

Lawful markets produce information. Governments can observe supply chains, product categories, retailer behaviour, and consumer trends. Illicit markets conceal those things. As larger shares of the market move underground, governments regulate with progressively less reliable information about what consumers are buying, who is supplying it, and how products are circulating.

That problem compounds over time. The weaker the lawful market becomes, the more governments must rely on enforcement activity rather than ordinary commercial supervision. The stronger the illicit market becomes, the larger the profit incentive for further evasion.

CONCLUSION

Governments can prohibit products, restrict flavours, ban disposables, remove lawful retailers, tighten import rules, and escalate enforcement. None of those actions eliminates demand for nicotine products. The evidence from five jurisdictions, across outright prohibition, product bans, flavour restrictions, and youth-targeted controls, points to the same result.

Markets adapt. Governments are left managing the market that adaptation produces.

Australia entered its 2024 vaping reforms with a public-health strategy and now contends with organised criminal networks, firebombings, retail extortion, and specialised police taskforces. Brazil has maintained outright prohibition since 2009 and continues confiscating millions of illegal units each year. Belgium banned disposable vapes in January 2025 and within months was conducting thousands of inspections and seizing over 140,000 products. The Netherlands prohibited flavoured vapes and found one in five retailers non-compliant within six months. Denmark tightened youth-focused restrictions and watched social-media purchasing among teenagers double in a year.

In every case, lawful supply contracted. Illicit and informal supply expanded. Enforcement escalated. The product remained available. What changed was not whether consumers could obtain nicotine; it was whether governments could see how.

That last point is the one most consistently underestimated. Prohibition does not merely shift supply; it destroys the information infrastructure that makes regulation possible. Legal retailers can be inspected, audited, fined, and shut down. Legal products can be tested. Legal supply chains generate records. Legal transactions produce tax. Once supply moves outside those channels, governments lose visibility over what is being sold, who is selling it, and who is buying it. They do not gain control by prohibiting the market. They surrender the administrative mechanisms that control requires, and then spend increasing resources on enforcement operations that cannot fully substitute for them.

This report does not argue against regulating nicotine products. It argues that prohibition-style regulation is a less effective form of control than its proponents claim, and that the evidence from Australia, Brazil, Belgium, the Netherlands, and Denmark is consistent enough to treat that conclusion as something stronger than a hypothesis.

The relevant policy choice is not between regulation and no regulation. It is between regulating nicotine markets through lawful, visible, taxable, and commercially accountable systems, or attempting to suppress demand through prohibition-style policies that relocate supply into channels governments can no longer properly supervise. Governments can always pass stricter laws. The harder task — the task that the countries examined in this report have not solved — is controlling the market that emerges afterwards.

"GOVERNMENTS CAN PROHIBIT PRODUCTS, RESTRICT FLAVOURS, BAN DISPOSABLES, REMOVE LAWFUL RETAILERS, TIGHTEN IMPORT RULES, AND ESCALATE ENFORCEMENT. NONE OF THOSE ACTIONS ELIMINATES DEMAND FOR NICOTINE PRODUCTS. THE EVIDENCE FROM FIVE JURISDICTIONS, ACROSS OUTRIGHT PROHIBITION, PRODUCT BANS, FLAVOUR RESTRICTIONS, AND YOUTH-TARGETED CONTROLS, POINTS TO THE SAME RESULT.."

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~~PROHIBITION~~

DOES NOT WORK