

31 August 2022

To: National Treasury, South Africa

**Re: Comments on tobacco excise taxes and the illicit cigarette trade**

The evidence that increases in the excise tax on tobacco products reduces tobacco use is largely undisputed. Since its inception, REEP has called on the government to increase the excise tax on tobacco products because of the positive fiscal and public health consequences. We have not changed our minds on this. However, there have been some disturbing changes in the tobacco landscape in the past decade.

As an independent research unit with a public health focus, we would like to comment on the tobacco landscape in South Africa, and ask for an opportunity to address the National Treasury at the public workshops on 8 September 2022, where we will elaborate on the letter below.

While the aim of the tobacco sales ban in 2020 was to substantially reduce cigarette consumption, this has unfortunately not happened. According to the Global Adult Tobacco Survey, which was conducted in 2021, the prevalence of daily cigarette use has increased to more than 20%. This is a reversal of a trend where smoking prevalence has been decreasing slowly for the better part of three decades.

Using a gap analysis, colleagues in REEP estimated that the illicit market comprised between 30% and 35% in 2017. We have updated the gap analysis to 2021. We found that the illicit market shrunk slightly in 2018, but that it has increased to at least 54% in 2020, and has remained at that extremely high level in 2021. The illicit market has become more entrenched following the sales ban.

BAT South Africa recently reported that the illicit market currently comprises at least 70% of the market. This is based on a BAT-commissioned survey conducted by Ipsos, where they found that at least 70% of retail outlets sell cigarettes at prices where it is impossible that the taxes have been fully paid. While this statistic sounds broadly believable, we want to indicate that this does not imply that 70% of cigarettes sold are illicit. It is possible (and even likely) that retail outlets that sell illicit cigarettes also sell legal cigarettes. Where we do agree with the tobacco industry is that the size of the illicit market is unacceptably large.

We were delighted to hear of the SARS's investigation of Gold Leaf Tobacco Corporation (GLTC). From our understanding, this concerns activities that took place in 2016-2018. Our research during the sales ban period in 2020 indicates that GLTC was at the forefront of selling cigarettes. We would like to encourage SARS to expand its investigation to include this period as well (if SARS isn't already doing this).

While GLTC was the main beneficiary of the tobacco sales ban, our research has shown that *all* tobacco companies were selling cigarettes during the sales ban. We hope that the actions taken against GLTC are only the start and that actions against other tobacco companies will follow.

In the past REEP has urged SARS to implement a Track and Trace system to curb illicit trade. We were disappointed to hear that SARS had withdrawn the call for tenders in 2021. We would like to urge the National Treasury to pressurise SARS to reconsider their position.

A Track and Trace system should be independent of the tobacco industry. Should a system, designed and controlled by the industry, be implemented, it would suffer from an inherent conflict of interest, which is likely to undermine the effectiveness of the system.

Lastly, we want to urge the government to ratify the Protocol to Eliminate Illicit Trade in Tobacco Products. This protocol has been ratified by more than 65 countries to date. It commits the government to implement effective steps to reduce the illicit trade in tobacco products, and provides access to international expertise and support. It makes no sense for South Africa to address an international issue like illicit cigarettes in isolation, especially in the context where the illicit market comprises more than half of all cigarettes sold.

Please contact me if you have any questions. For more information on our research unit, please visit: [www.reep.uct.ac.za](http://www.reep.uct.ac.za).

A handwritten signature in black ink, appearing to read 'C. van Walbeek', with a stylized flourish underneath.

Professor Corné van Walbeek

Director: Research Unit on the Economics of Excisable Products (REEP)

University of Cape Town