



REEP: Research Unit on the Economics of Excisable Products

with the WHO FCTC Knowledge Hub on Tobacco Taxation

Newsletter #27, September 2023

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Director's Message

Dear friends,



We recently heard from the Economic Society of South Africa that Michal Stoklosa won the Founders' Medal for the best Economics PhD written at a South African university. This was awarded for his thesis titled "Effects of the evolving global tobacco product landscape on smokers' switching behaviors". Michal graduated from UCT in 2020. We are extremely proud of his momentous achievement. See [here](#) for a virtual interview with Michal.

In the past two months, REEP researchers published four papers. Two papers consider the 2020 tobacco sales ban. One paper, led by Chengatai Dare, looks at [media reporting of the sales ban](#). The other, led by me, [reports on smokers' quitting behaviour](#) during and after the sales ban.

Kirsten van der Zee co-authored a paper that used price data collected by UCT students. The study looks at [excise tax pass-through in a number of African countries](#). For many years, Kirsten administered the African Cigarette Price Project data collection process, and it is good to see that these data are put to good use.

Vanessa Darsamo published a paper on the [price, cross-price and income elasticities of a number of sugar-sweetened beverage \(SSB\) categories](#) in Nigeria. She found that the price elasticities fell in the inelastic range. Other than bringing in some government revenue, the 10 naira excise tax on SSBs presumably would have decreased the demand for SSBs in Nigeria.

In the past two months, members of the REEP team travelled to Suriname and the Maldives, where we engaged with government officials on tobacco taxation issues. Both countries want to implement higher excise taxes. Both face quite different obstacles to do so. In the case of Suriname, it is the illicit market. In the case of the Maldives, it is mostly technical issues.

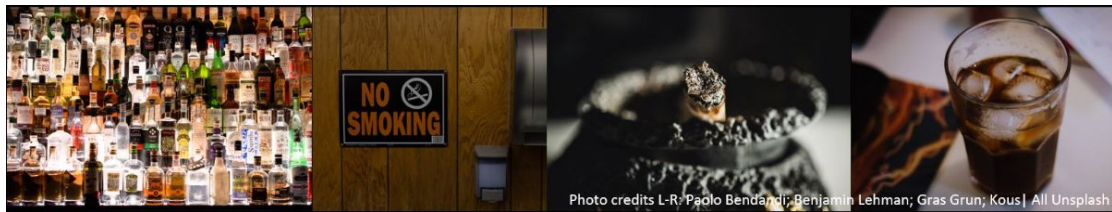
In the third week of September, Nicole and I made a **written** and verbal submission to South Africa's Parliamentary Finance Standing Committee, where we commented on the 2023 Draft Rates Bill. We argued for higher excise taxes on tobacco and alcohol, noting that the excise tax increases for tobacco and alcohol have been very modest over the past decade. Excise tax increases in the past two years have not even kept up with inflation. For tobacco, the increase in illicit trade has been very problematic. This is fortunately not the case for alcohol. Curbing illicit trade in tobacco products should be the government's top priority. It is unclear what is happening behind the scenes, but to date there has been limited evidence that the fight against the illicit tobacco trade is getting the attention that it deserves.

As always, feel free to contact us if you have any comments or suggestions.

Best regards

Corné van Walbeek

Director: Research Unit on the Economics of Excisable Products



Save the date! Upcoming online research dissemination workshop



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REEP
Research Unit on the Economics
of Excisable Products

The Research Unit on Economics of Excisable Products at the University of Cape Town is pleased to present:

The Role of Excise Taxation in Reducing Tobacco Use in Sub-Saharan Africa:

An online research dissemination workshop

2 Nov 2023 | 12.00- 2.30pm GMT/UTC



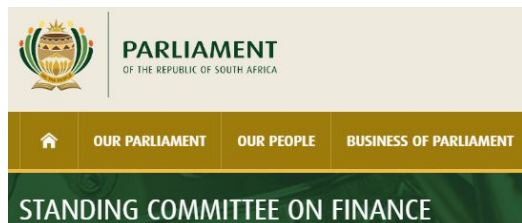
On 2 November 2023, between 12.00-2.30pm GMT/UTC, members of REEP and the CDC will be presenting the results of studies conducted under REEP's partnership with the CDC Foundation. The workshop will be conducted in English, with simultaneous translation in French.

This workshop is targeted at members of government, civil society and researchers interested in economic issues in the field of tobacco control. Attendees will obtain a detailed breakdown of new research that supports implementation of WHO FCTC-compliant tobacco tax systems and raising excise taxes on tobacco products in sub-Saharan Africa. Participants will also obtain early-access to policy briefs summarizing the research findings (in English and in French). Full details of the event can be found in English and in French.

Attendance is free of charge and registration for the workshop can be done at this [link](#). RSVP to attend by Friday 27th October 2023. We look forward to seeing you there!

For any queries about the event, please contact Sarah Marriott: Tel +27 (0)21 650 5701 or sarah.marriott@uct.ac.za

REEP makes submission to Finance Standing Committee



On 18 September 2023, Corné and Nicole submitted a 10-page [letter to the Finance Standing Committee](#). This is in response to the committee [calling for public comment](#) on the 2023 Draft Revenue Bills, Rates Bill & Tax Bills. In the submission, we presented recent research on (1) cigarette taxation, (2) e-cigarette taxation, and (3) alcohol taxation.

Other than providing the Committee with an update of relevant statistics, we made the following recommendations:

1. National Treasury should substantially increase the excise tax on tobacco products in the 2024/2025 budget cycle;
2. National Treasury should introduce a multi-year taxation approach, where taxes on tobacco products, e-cigarettes and alcohol increase annually by a pre-announced amount (or percentage) above the inflation rate;
3. The South African government should ratify the Protocol to Eliminate Illicit Trade in Tobacco Products and implement its provisions;
4. National Treasury should introduce a minimum excise tax amount on e-liquid;
5. The taxation on wine should be reviewed, such that the benchmarks between the three categories (wine, beer, and spirits) is narrowed.

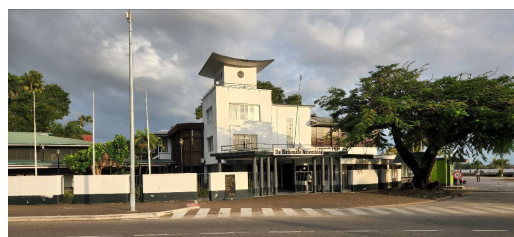
The full letter is available [here](#).

On 20 September 2023, Corné also made an oral presentation to the Finance Standing Committee.

Knowledge Hub teams up with the Secretariat of the WHO FCTC to strengthen tobacco control in Suriname

In early August 2023, Corné joined forces with the Secretariat of the WHO FCTC and WHO headquarters in a mission to Suriname to support the government advance its priority tobacco control policies.

During the mission, the team encouraged the Surinamese government to strengthen mechanisms to enforce its current tobacco control measures and advised on the best approaches to strengthen its laws, including through an increase in excise taxes, the introduction of plain packaging, and the implementation Article 5.3 of the WHO FCTC to protect against tobacco industry interference.



In view of the widely recognized problem of illicit trade in the country, the mission team also encouraged Suriname to accede to the Protocol to Eliminate Illicit Trade in Tobacco Products.

Suriname is a former Dutch colony in the North of South America, and has a population of about 600 000 people. The country imposes a uniform specific tax on cigarettes (and other tobacco products). What makes the country unique is that it sets the tax in US dollars, rather than in the Surinamese dollar. The country has experienced bouts of high inflation in the past, and is currently experiencing inflation of more than 50%. The depreciation of the Surinamese dollar means that the real value of the excise tax in local currency remains roughly the same over time.

A highlight of the mission was a briefing of MPs in the National Assembly. This briefing covered a lot of aspects related to tobacco control and lasted more than two hours. Of the 56 MPs, 23 attended the briefing session. This indicates real commitment to tobacco control.

Unfortunately, the country battles with a significant illicit trade problem, but the magnitude of the illicit tobacco market is subject to speculation and conjecture. The industry uses the illicit trade threat to not only argue against an increase in the excise tax on tobacco products, but to attempt to dilute and weaken the current tax system. For example, in the past two years the industry has proposed that the government should introduce a lower tax tier, ostensibly to attract illicit cigarettes into the legal sector of the economy. This would in all likelihood cause many of the currently-taxed cigarettes to shift to the lower tax tier. The industry also wants the government to set the excise tax in the local currency, rather than the US dollar. Should this happen, inflation will erode the real value of the tax in no time.

The message was that the current excise tax structure is good and serves the country well. However, the excise tax rate of 66 USD per 1000 cigarettes has remained unchanged since 2011, and should be increased. Further, because illicit trade in tobacco is recognized to be so prevalent in Suriname, there is much hesitancy to focus on increasing the excise tax. There is an urgent need to conduct an independent study on illicit trade in tobacco products in Suriname. This study would support the development of forthcoming measures to address the problem of illicit tobacco trade in the country, including Suriname's movement towards accession to the Protocol. The Knowledge Hub indicated that they would be willing to supply technical support for such a study.

The Secretariat of the WHO FCTC has been providing intensive support to Suriname since 2020 as part of its official development assistance initiative, the FCTC 2030 project. The mission was made up of staff from WHO headquarters, the Secretariat of the WHO FCTC, and the WHO FCTC Knowledge Hub on Tobacco Taxation.

Knowledge Hub holds excise tax workshop in the Maldives



In August 2023, three members of the Knowledge Hub - Corné, Zunda and Vanessa - presented a three-day tobacco taxation workshop to Maldivian government officials and some members of civil society. The Knowledge Hub was invited by Dr Hassan Mohamed, the Tobacco Control Focal Point at the Health Protection Agency. This in-person mission follows an online tax training workshop, attended by Maldivian officials, held in September 2022, and a number of online discussions. The main focus of the workshop, made possible with CRUK funding, was on tobacco taxation.

Currently, the Maldives imposes a tax of 60 rufiyaa (about 3.50 USD) per pack, plus a small ad valorem tax, as an import duty, rather than as an excise tax. Domestic production of cigarettes is not allowed. Despite the fact that the import duty has increased substantially over the past ten years, smoking prevalence is still quite high at 23%. The country has experienced rapid economic growth over the past decades. This growth in average income levels stimulates the demand for cigarettes and counteracts the impact of the tax increases.

The Knowledge Hub team presented the results of their modelling exercises. It was clear that unless the government increases the tax on cigarettes regularly and substantially, the increase in average income levels is likely to push up cigarette use. The team emphasised that doing nothing (i.e. not changing the tax) will push the country backwards in terms of tobacco control.

The Knowledge Hub team presented a number of tax scenarios. Unsurprisingly, the more aggressive tax scenarios have better public health and fiscal consequences than less aggressive tax scenarios. Among delegates there was much support for a more aggressive tax approach.

A number of technical issues were discussed: among others, the need to tax tobacco products (and possibly other products as well) by means of an excise tax, rather than through an import duty. Currently the country does not have an excise tax law. Some officials were concerned that the country might attract disapproval of the World Trade Organisation by taxing tobacco products through an import duty, that might be deemed too high. To allay these concerns, the government should pass an excise tax law, which will enable regularising the tobacco tax system in the Maldives.

REEP team publishes paper on media reporting of the 2020 tobacco sales ban in South Africa

Between 27 March and 17 August 2020 the South African government banned the sale of tobacco products as part of the country's COVID-19 response. Recently, three REEP members, together with two international colleagues, published a paper titled: **A Media Analysis of the COVID-19 Tobacco Sales Ban in South Africa**.

In the paper, the authors identified and categorised the main arguments made by proponents and opponents of the 5-month long tobacco sales ban, as published in the media.

Three main themes were identified from the 441 media articles that were considered: medical, legal, and economic/financial. Legal aspects were covered in 48% of articles, followed by economic (34%), and medical aspects (18%).



Policy framing in the media plays an important role in how the public receives the policy. The media was generally ambivalent about the tobacco sales ban during the first five weeks of lockdown. Sentiment subsequently turned against the ban because the medical rationale was not well communicated by the government, and because the sales ban was widely flouted. The sales ban was ineffective since most smokers still purchased cigarettes. Two court cases that were instituted by two different tobacco industry groupings, received much attention in the media.

We concluded that any future tobacco control policy intervention should be better considered, especially within the context that cigarettes are easily accessed on the illicit market in South Africa.

The REEP team consisted of Chengetai Dare, Nicole Vellios and Corné van Walbeek. The paper can be accessed [here](#).

Paper by REEP colleagues finds that few smokers quit during the Covid sales ban

In another paper on the 2020 sales ban, REEP researchers addressed an issue that has divided the tobacco control community, namely, to what extent the ban has encouraged people to quit using tobacco products.



The ban was controversial, even among tobacco control advocates, with some people applauding the move, while others felt that the sales ban was counterproductive.

During the sales ban a number of surveys were conducted, that considered various aspects: Those that looked at the impact of the sales ban on smoking and quitting behaviour yielded very different results, primarily because they were not nationally representative.

In August 2023, *Tobacco Induced Diseases* published a paper, entitled "**Quitting behavior during the tobacco sales ban in South Africa: Results from a broadly nationally representative survey**". Written by Corné van Walbeek, Robert Hill and Sam Filby, this paper is based on the third wave of the

National Income Dynamics Study-Coronavirus Rapid Mobile Survey (NIDS-CRAM) survey. The NIDS-CRAM surveys are generally regarded as the most reliable surveys related to the Covid-19 epidemic. The third wave was conducted in November and December 2020, about three months after the sales ban was lifted. The results are sobering. Less than one in ten (7.8%) cigarette smokers quit during the sales ban. Of those that quit during the sales ban, 55% relapsed after the ban was lifted. That means that, of the pre-ban smokers, 3.5% quit during the sales ban and remained abstinent after the ban was lifted. Rather surprisingly, 3.7% of smokers quit after the ban was lifted.

The authors concluded that the sales ban did not have the intended objective of encouraging large-scale smoking cessation. This reflects policy failures to provide smokers with appropriate cessation support and to effectively control the illicit market both prior to and during the sales ban.

This paper concludes REEP's series of reports and articles on the 2020 sales ban.

The paper is available [here](#).

Paper in Tobacco Control uses data from African Cigarette Prices Project

REEP researcher, Kirsten van der Zee, recently collaborated with a team of researchers of the University of Bath on a journal article titled "[How has the tobacco industry passed tax changes through to consumers in 12 sub-Saharan African countries?](#)". The paper was published in *Tobacco Control* in August 2023.

The authors used data from REEP's African Cigarette Prices (ACP) project to conduct the analysis. The ACP project employs UCT students from African countries to collect tobacco prices in their home countries. The project was piloted in 2015 and continues to date, with data collected biannually (December/January and June/July each year).

The paper used the ACP data to investigate to what extent the tobacco industry passes tobacco tax increases over to consumers by increasing the retail price of cigarettes. They analysed 12 sub-Saharan African (SSA) countries.



The authors, Zaineb Sheikh, Robert Branston, Kirsten van der Zee and Anna Gilmore, decomposed the retail price of cigarettes into tax and net-of-tax components, between 2016 and 2020. The change in the net-of-tax price was used to identify industry pricing behaviour, specifically within the context of a change in the excise tax. When the excise tax increases, and the net-of-tax price increases as well, this corresponds to overshifting. On the other hand, when the excise tax increases, and the net-of-tax price decreases, this corresponds with undershifting. Pass-through strategies were examined by country, producers, and brand.

The analysis found a variety of tobacco industry tax pass-through strategies. In some cases taxes were overshifted (Botswana, Madagascar, Tanzania, Zimbabwe), in others they were undershifted (Ethiopia, Lesotho, Mozambique, Namibia, South Africa, Zambia), and in other cases there was a mix of both (Malawi, Nigeria). The study also found that there was variation in shifting within countries, over time, and for different brands/segments. Shifting behaviour for single-stick sales was found to be broadly similar to that of packs. Pricing strategies for transnational tobacco companies and domestic producers were similar, but the changes in net-of-tax price for domestic producers were larger. The type of excise tax, the tax level and the size of the tax change did not seem to be correlated with the degree of over- or undershifting of the excise tax.

The paper is available [here](#).

REEP members publish paper on the effect of price and income on sugar-sweetened beverages demand in Nigeria



In August 2023 Vanessa Darsamo and Corné van Walbeek published a paper in the BMJ Open entitled “**Effect of price and income on the demand for sugar-sweetened beverages in Nigeria: an analysis of household consumption data using an almost ideal demand system (AIDS)**”. The authors found that the price elasticity of demand was -0.99 for sachet water, -0.76 for carbonated soft drinks (CSDs), -0.72 for chocolate drinks, and -0.19 for malt drinks. The analysis was based on the Nigerian Living Standards Survey of 2018/19, and the elasticities were estimated using an almost ideal demand system (AIDS).

Most of the cross-price elasticities are positive, indicating that these commodities are substitutes. Looking at the income elasticities of demand, the authors found that all the commodities are normal goods. Sachet water had the highest income elasticity at 0.62, followed by chocolate drinks at 0.54, CSDs at 0.47, and malt drinks at 0.43.

Nigeria currently imposes a sugar-sweetened beverage excise tax of 10 naira (0.013 USD) per litre. The main aim of the tax is to raise revenue. This paper shows that the current tax has likely reduced the demand for these products. An increase in the excise tax, possibly with a stronger focus on the sugar content of these products, rather than simply the volume of the beverage, may further reduce the demand for these products and, in turn, reduce the incidence and prevalence of sugar-attributable diseases.

The paper is available [here](#).

REEP colleagues write report for the Conference of the Parties (COP) on Article 6 of the WHO FCTC

Recently, members of REEP wrote a chapter on tobacco taxation for the 2023 global progress report of the WHO FCTC. This chapter assessed the global progress of the Parties regarding taxation. It also presented a case study from a Party to the WHO FCTC with, according to some observers, the best experience in utilizing Article 6 measures to reduce tobacco demand.



The report was written by Retselisitsoe Pokothoane, a PhD student in the School of Economics, with oversight by Sam Filby and Corné van Walbeek. The full report will be released in November 2023, but a **summary report** has been released by the WHO FCTC Secretariat:

Under Article 6 (Price and tax measures to reduce demand for tobacco), the proportion of Parties reporting data related to cigarette price improved by 20% in the new reporting cycle. However, the reporting of prices of other tobacco products remains a challenge. Parties in five WHO regions reported an increase in the minimum price of cigarettes compared to data from 2020. Over three quarters of Parties provided tax information, and it was observed that a mixed excise tax system (a combination of specific and ad valorem taxes) continues to be the most common excise tax structure implemented globally. Parties in four WHO regions reported an increase in the average tobacco tax burden. However, as in the previous reporting cycle, only the European Region has an average tobacco tax burden that meets the 75% tax benchmark. The proportion of Parties earmarking tobacco taxes for public health increased by 6%. The number of Parties that prohibit imports and purchases of cigarettes by international travellers decreased by 2%. Despite some progress under this article, among the few Parties reporting on consideration of the effect of inflation and economic growth on taxes, less than one of every three Parties reported having a mechanism in place to regularly update taxes to maintain the decrease in affordability.

Michal Stoklosa wins ESSA Founders' Medal for best PhD in Economics



Recently we heard that Michal Stoklosa, who received his PhD from UCT in 2020, was awarded the Economic Society of South Africa's (ESSA) Founders' Medal for the best PhD thesis written at a South African university. Michal's thesis was entitled "Effects of the evolving global tobacco product landscape on smokers' switching behaviors". From all of us at REEP, we want to congratulate Michal on this amazing achievement.

Corné had the good fortune to be his supervisor, with Jeff Drope of the University of Illinois in Chicago, as his co-supervisor. Michal hails from Poland. Michal currently works as an Economist at the Fiscal Policies for Health Unit at the World Health Organization*.

Read the [interview with Michal](#), and [access his full PhD paper](#).

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In the news

- On 10 July 2023, Nicole Vellios and Corné van Walbeek published an article in Econ3x3 about the new vaping tax in South Africa: "[New vaping tax misses the mark](#)". The piece was picked up by several media houses including: [The Conversation](#) (3 August), [Daily Maverick](#) (8 August), [Moneyweb](#) (4 August), [News24](#) (4 August), [eNCA](#). (6 August), [TimesLive](#) (6 August), and [CapeTalk](#) (8 August 2023).

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Why South Africa's new vaping tax won't deter young smokers

Nicole Vellios and Corné van Walbeek

THE CONVERSATION



- On 22 August 2023, Sam Filby talked on Radio 786 about research on quitting behaviour during the tobacco sales ban in South Africa.

Regards,
The REEP team

If you have any comments or feedback on this e-newsletter, or suggestions for possible story ideas for our next issue, please get in touch with the REEP team, by emailing us at:

tobaccoecon@gmail.com



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