

REEP: Research Unit on the Economics of Excisable Products

Newsletter #2, July 2019

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Message from the Director



Welcome to the second newsletter of the Research Unit on the Economics of Excisable Products. In this edition we report on some of the Unit's highlights from June and July 2019.

On 11 July, we received official confirmation from the Deputy Vice-Chancellor for Research and Internationalisation that the unit's accreditation had been approved by the University of Cape Town's Research Committee. Our challenge now is to deliver on the commitments that we have made to the university and our partners. This is something that we take very seriously.

This newsletter features some of the activities and events that members of REEP have been involved in over the past two months:

- In mid-July, members of REEP hosted a week-long **workshop on excise tax modelling**. Representatives from six countries attended the event, offered under the banner of the WHO FCTC Knowledge Hub on Tobacco Taxation and Illicit Trade.
- Members of the REEP team recently gave a presentation on the role of excise taxes in reducing tobacco, alcohol and sugar use, at a **winter school on public economics** in Pretoria.
- We are currently wrapping up the eighth round of **cigarette price collection** in which nearly 40 UCT students have been involved.
- Unfortunately, we have not been able to finalise the branding for REEP yet. However, we are confident that the next newsletter will be published with our new logo.

If you want to contact us, please visit our websites:

www.tobaccoecon.uct.ac.za or <https://untobaccocontrol.org/kh/taxation/>.

Or email us at sharon.debruyns@uct.ac.za.

We would very much like to hear from you. With best regards,

Corné van Walbeek

Director: REEP

REEP does not receive funding from the Foundation for a Smoke-Free World

The Foundation for a Smoke-Free World (FSFW) was established in 2017 by Philip Morris International, who committed US\$80 million annually for 12 years, starting from 2018. The FSFW is trying to position itself as a harms-reduction unit, and is funding research across the globe. The sincerity of Philip Morris's commitment to a smoke-free world is undermined by the fact that they continue to sell cigarettes.

According to FSFW's recent tax return – and confirmed by UCT's Research Office – a department in the Faculty of Health Sciences at the University of Cape Town is a recipient of their funding. This taints the UCT brand, and by association puts REEP's reputation at risk. Although REEP, and previously ETCP, is known in South Africa and globally as a well-established research group dedicated to the advancement of public health, we have had to make it clear to funders and partners that we have not accepted funds from FSFW. Over the past months we have engaged with our partners, informing them of these developments and urging them to put pressure on the UCT executive to adopt a policy that prohibits funding from the tobacco industry, and/or any of its front groups.

We, along with the global tobacco control community globally, have distanced ourselves from the FSFW, since the interests of the tobacco industry and those of the public health community are irreconcilably opposed.

REEP has never accepted money from the tobacco industry, nor will we do so in future. As one of our colleagues from UCT's Lung Clinical Research Unit rightly said: "money that has been generated by causing the very illnesses our patients suffer and die from, is money we should live without".



For more information on the FSFW, please visit *Tobacco Tactics's* **Foundation for a Smoke-Free World Centres of Excellence** and **Foundation for a Smoke-Free World**.

Knowledge Hub Presents Tobacco Tax Modelling Workshop

15-19 July, Cape Town: The Knowledge Hub on Tobacco Taxation and Illicit Trade hosted a successful week-long workshop on tobacco taxation, with fourteen participants from the Ministries of Finance and Health of six different countries (Ethiopia, Georgia, Myanmar, Samoa, Sierra Leone and South Africa) attending.



A substantial amount of time was spent on developing country-specific models that will allow countries to estimate the likely fiscal impact of a change in either the excise tax structure (e.g. moving from an ad valorem tax system to a specific tax system) or the level of the excise tax. Each country was allocated REEP member who helped them to develop and calibrate the models in Excel. The fact that an increase in the excise tax is a win for both the fiscus and for public health was clearly borne out in the modelling exercise. At the end of the workshop,

each country delegation wrote a communiqué in which the importance of tax increases and some of the results of the modelling exercises were made clear. We hope that these communiqués will make their way to officials that are able to effect change.

In addition to the tax modelling exercise, delegates were introduced to the important concepts in the economics of tobacco control, tax structures, illicit trade, and tax earmarking.

Both participants and researchers brought a lot of energy to the workshop, and eagerly learned from each other's experiences. We will be following up with participants to see if we can provide additional assistance on tobacco taxation, and to learn if they have been able to advocate for stronger tobacco taxation systems in their respective countries.



African Cigarette Prices Data Project

During the June/July 2019 university holidays, about 40 UCT students from ten African countries collected tobacco prices in their hometowns as part of the **African Cigarette Prices (ACP) Project**. To date there have been seven rounds of data collection, and we are currently finalising the data of round 8.

The aim of the ACP project is to collect cigarette prices across a number of African countries. The data enables researchers to estimate price differences across various brands, urban/rural divides and types of packaging, and to examine price trends over time. Before each major holiday, we recruit fieldworkers from registered UCT students – specifically African students who spend their vacations in African countries (outside of South Africa), or in South African townships or rural areas. We provide them with the necessary documentation and thorough training on how to collect and record the data.

The number of prices collected, and fieldworkers contracted per round, has increased significantly since the first round in 2016. Countries that are typically included in the data collection are Zimbabwe, Namibia, Botswana, Lesotho, Uganda, Malawi, Zambia, Kenya, Tanzania and South Africa.

Table: Prices Collected and Fieldworkers by Round

Round	Number of observations	Number of fieldworkers	Number of countries
1 (Jan. 2016)	1025	6	5
2 (July 2016)	9 299	28	7
3 (Jan. 2017)	7 772	8	5
4 (July 2017)	10 935	23	7
5 (Jan. 2018)	22 187	38	8
6 (July 2018)	23 147	34	8
7 (Jan. 2019)	18 795	36	10

While the prices are not nationally representative, it is an easy and affordable way to get an understanding of the range of prices and the distribution of brands in a number of African countries. Also, for the fieldworkers, it is a handy source of extra income. Through this project, students are made aware of REEP and the economics of tobacco control, which has attracted some to continue their research work in this area.

Recently, we were approached by the World Bank to do a comparative analysis of prices of tobacco and alcohol between Gaborone (in Botswana) and South African towns across the border. The results of this research have been included in a chapter in the World Bank report: **“Confronting Illicit Tobacco Trade: A Global Review of Country Experiences”**.

Read more about this project [here](#).



Mongolia study: Impact of tax increases on illicit cigarette trade

Three members of REEP, Hana Ross, Nicole Vellios and Laura Rossouw, together with two Mongolian colleagues, recently published a paper titled: **Impact of tax increases on illicit cigarette trade in Mongolia**. This is one of a number of papers that aim to measure the size of the illicit cigarette market in four countries, Georgia, the Gambia, Mongolia and South Africa. These studies, funded by Cancer Research UK, specifically,



focus on the changes in the illicit market after a tax increase.

The Mongolian government increased the duty on imported cigarettes in May 2017, and the excise tobacco tax in January 2018. We estimated the size of the illicit market in three rounds of data collection before and after the tax increases, by collecting discarded cigarette packs in the capital (Ulaanbaatar) and in two cities close to the border with China, the Russian Federation, and Kazakhstan.

Packs were identified as illicit if the tax was not paid. This is deduced from the absence of the Mongolian excise tax stamp, or the absence of traces of a tax stamp (glue residue). Data were weighted to represent the areas sampled.

The share of illicit cigarettes declined between rounds 1 and 2 despite the import tax increase, and this trend continued in round 3 despite the excise tax increase. Mongolia can therefore proceed with strengthening tobacco-tax policy without fear of the influx of illicit cigarettes, contradicting the arguments of the tobacco industry. Nevertheless, the government needs to monitor illicit trade and take decisive action against manufacturers of illicit cigarettes in order to prevent the illicit supply of cigarettes to the market.

Read the full paper [here](#).

Back to Basics #1: Tax admin

TOBACCO TAXES AND TAX ADMINISTRATION

From our engagement with government officials and other important stakeholders, we have noticed that there is growing interest in the topic of tobacco taxation. The challenge however, is that many policy makers aren't necessarily experts in tobacco control, and do not have the time to read extensively on the subject.

TAX ADMINISTRATIONS NEED TO BE BOTH EFFICIENT AND EFFECTIVE
An efficient tax administration minimizes the cost per unit of tax revenue. An effective administration attains a high level of compliance. In some ways this is a *trade off*—using more resources can increase compliance, but will also increase the costs.

What are the main functions of tax administration?

- Registration of taxpayers
- Assessment of returns and payment processing
- Verification: audit, data matching, investigation
- Collection: from non-filers and delinquent payers
- Disputes: dealing with tax disputes, resolution internally or via the court system

How do tax administrations perform these functions?

- They facilitate compliance: They make it easier for taxpayers to pay by increasing voluntary compliance and ensuring that taxpayers who should pay do pay. Voluntary compliance can be increased with self assessment of tax obligations and a well-designed compliance strategy based on risk assessment. Making assessment easier includes simpler procedures for collection, simpler forms and e-filing. Good tax payer services make it easier for taxpayers to comply, including availability of forms and information.
- They use modern risk assessment tools like data analytics and multiple sources of data (from other types of taxes, for example household surveys or banking information) to concentrate resources on those most likely to be non-compliant, while lightening the obligations of compliant taxpayers.
- Penalties need to be high enough to act as a disincentive, so that it is not cheaper to break the law and pay the penalty than to comply.
- Finally, they should strive to improve internal governance and keep officials honest. This reinforces the legitimacy of tax administrations and governments.

Why a protocol?

- Cigarettes are expensive, light, and easy to transport. Illicit trade—both that done by the major tobacco companies and criminal groups—is lucrative and relatively easy.

The main pillars of the Protocol are directly related to tax administration.

- Securing the supply chain—by using licensing of all those involved with tobacco growing and product manufacture or sales, and track and trace systems to be able to know where a tobacco product is at any time from production or import to retail sale and to be able to withdraw every step in the process.
- Law enforcement—establishing unlawful conduct with sanctions that will be effective as disincentives.
- International cooperation—on technical, administrative, law enforcement and legal matters.

There are now two international treaties that deal with tobacco taxation:

- The Framework Convention on Tobacco Control (FCTC) came into force in 2005. There are currently 113 countries that have ratified the treaty. Article 6 of the FCTC deals with price and tax measures to reduce demand for tobacco products. The Guidelines to Article 6 were adopted in 2014.
- The FCTC Protocol to Eliminate Illicit Trade in Tobacco Products (Protocol) came into force in September 2018.

Source: The main content of the guidelines are based on the paper published in the research report #2017-02 of the Research Unit on the Economics of Excisable Products (REEP).

From our engagement with government officials and other important stakeholders, we have noticed that there is growing interest in the topic of tobacco taxation. The challenge however, is that many policy makers aren't necessarily experts in tobacco control, and do not have the time to read extensively on the subject.

We thought we'd do some of the heavy lifting for them, by creating a series of "Back to Basics" policy briefs covering key themes. Published under the banner of the WHO FCTC Knowledge Hub on Tobacco Taxation and Illicit Trade, the one-page briefs are accessible and easy to read, yet still contain the most important information regarding various tobacco-taxation topics.

Our first B2B in the range looks at **Tobacco Administration**.

Be sure to look out for the next brief in the series: *The rationale for tobacco tax and price measures*.

Recently published papers:

- Hana Ross, Nicole Vellios, Tsetsegsaikhan Batmunkh, Myadagmaa Enkhtsoyt and Laura Rossouw: **"Impact of tax increases on illicit cigarette trade in Mongolia"**, published in *Tobacco Control*. Published Online First: 19 June 2019.
- Minh T. Nguyen, Son The Dao, Nga Que Nguyen, Mike Bowling, Hana Ross, Anthony D. So. **Illicit Cigarette Consumption and Government Revenue Loss in Vietnam: Evidence from a Primary Data Approach**. *International Journal of Environmental Research and Public Health*, June 2019, 16, 1960.

In the news:

- 9 June, *Daily Maverick*: **Shameless and blameless: how big tobacco is trying to dupe everyone — and what SARS should do about it**. An opinion piece by Hana Ross, collaborating with colleagues Michael Eads and Savera Kalideen, discussing the ongoing misinformation from the tobacco industry on the illicit trade in South Africa.



Fiscal Measures to Improve Public Health Get Attention at Public Economics Workshop



Corné van Walbeek, Sam Filby, and Laura Rossouw attended and taught at this year's Government Technical Advisory Centre (GTAC – an agency of National Treasury) **Public Economics Capacity Building Programme Winter School**. The event hosted approximately 150 attendees: mostly public economics students and young economists working at National Treasury, the South African Reserve Bank, and the South African Revenue Service (SARS).

The event draws upon experts in the field to provide attendees with an academic and applied overview of specific topics. In addition to meeting with students from across the country, we were also able to strengthen our relationships with officials from the National Treasury and SARS.

Corné, Sam and Laura contributed to the “Taxes, user charges and behavioural change” stream, giving presentations on sugar, tobacco, and alcohol tax policies in South Africa and globally. Their presentations are available here:

- **Sugar Tax: Lessons from International Experience for Developing Countries** by Prof Corné van Walbeek
- **Designing tobacco and alcohol taxes: International experience** by Ms Samantha Filby

Watch a brief **interview** with Sam, where she shares more about her experience at the workshop.



GTAC Winter School - Invaluable skills learned #WinterSchool2019

Media Training for REEP Researchers



The Knowledge Hub recently organised media training for REEP team members with Kim Cloete, a seasoned journalist who led them through various interview techniques. Most of the day was focused on experiential learning, with Kim interviewing everyone on camera. She asked challenging questions that the team might expect to be asked in interviews with the press.

The tobacco-control policy environment is likely to heat up in the next year, as the Control of Tobacco Products and Electronic Delivery Systems Bill will be discussed in Parliament. This training will hopefully enable members of REEP to engage the media with confidence, should they be approached.

Events: recent

- 18 June: Hana Ross and other members of the ETCP met with Binta Jalloh and Nafi Traore from Niyel, a Senegalese campaign consulting firm hired by the Gates Foundation to design a tobacco-tax campaign in Sub-Saharan Africa.
- 22-27 June: Hana then travelled to Accra to secure data for an evaluation of the track-and-trace system in Ghana. She met with a representative of Authentix, the company which designed and implemented the tax stamp system in Ghana. She also met with our postdoctoral researcher stationed in Accra, and assisted our partner organization, the Institute of Statistical, Social and Economic Research (ISSER), with a research proposal being made to ICTD. This is part of the IDRC/CRUK Tobacco Tax Reform in West Africa Project.
- 9-11 July: Jean Tesche gave a presentation in Washington D.C. at a workshop hosted by the Pan American Health Organization and the World Health Organization, that focused on simulating tobacco-tax increases and measuring illicit trade of tobacco products. Representing the Knowledge Hub, Jean gave an introduction to tax modelling.
- 22-26 July: Hana Ross travelled to the Philippines in her role as an Advisory Board Member for an IDRC funded project. In addition to mentoring the new grantees on the project, she gave a presentation on the global impact of illicit trade in tobacco products to the key stakeholders in the Philippines.

Events: upcoming

Members of REEP have had two papers accepted for the **Economic Society of South Africa (ESSA) biennial conference** in September:

- Micheal Boachie and Hana Ross with their paper: "Costs of smoking in South Africa".
- Kirsten van der Zee will present a paper on the size of the illicit cigarette market in South Africa, based on NIDS data.



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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