REEP: Research Unit on the Economics of Excisable Products

Newsletter #4, November 2019

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Photo credit: UCT News *2018-12-10 December Graduation Season*

Message from the Director

Dear Friends

Welcome to our last newsletter for 2019.

This newsletter is dedicated to our Masters and PhD students who are graduating on 13 December 2019. In this newsletter we profile three Masters and three PhD students associated with REEP. Postgraduate study is challenging and often lonely, and requires guts and determination. Supervisors support and encourage, but at the end of the day the students have to do the reading, the analysis, the write-up and the hard work. Each one of them have written their theses/dissertations on aspects related to tobacco control policy, across a variety of different countries and regions. Four of the six students have been funded by the African Capacity Building Foundation. We want to acknowledge ACBF, as well as our other funders, whose generous financial support make it possible for REEP to exist.

REEP has had a productive two months, the highlight being the Knowledge Hub workshop held earlier in November, which brought government officials from six countries to Cape Town. A number of our colleagues have travelled abroad to conferences and consultation meetings, where they have met with government officials and international partners. Policy change is the result of hard work, usually from a variety of sources, and through these engagements with policy makers we want to make a difference.

In the past two months a number of papers written by REEP members have been published. In this newsletter we present the top-line message of these papers.

I would like to wish you a very pleasant Christmas break, and all the best for the New Year. Thank you to all our partners that enabled us to have a productive year in 2019. We hope to be able to celebrate new triumphs for public health in 2020.

Best regards

Corné van Walbeek

Director: REEP

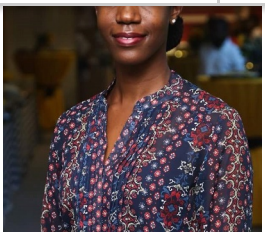
2019 Graduates

Catherine Namome is graduating with a PhD in Economics - her thesis is titled "*The Economics of Tobacco Production and Feasible Alternatives in Uganda*". Her research illuminates the economic behaviour of tobacco producing households in Uganda, establishing that tobacco producers are at the mercy of the powerful tobacco industry, and adding to the empirical evidence base to support Article 17 of the WHO Framework Convention on Tobacco Control.
Catherine holds a BSc in Forestry from Makerere University and MSc (Agric) degree in Agricultural Economics from the University of Pretoria. She has also worked as an Agricultural Economist at the Agricultural Research Council. **Read more**.

Michal Stoklosa's PhD thesis: "*Effects of the Evolving Global Tobacco Product Landscape on Smokers' Switching Behaviours"* considers how governments have increasingly used excise tax to reduce tobacco use. Smokers respond to the tax-driven price increases by quitting, reducing consumption, or by switching to alternatives. One finding is that reducing between-product price differences would reduce substitution from cigarettes to roll-your-own tobacco.
Michal is Principal Scientist (Taxation and Health) in the Economic and Health Policy Research Programme at the American Cancer Society. Before joining UCT for his PhD studies, he received an MA in Managerial Economics from the University of Warsaw and an MA in Economics from Georgia State University. **Read more**.

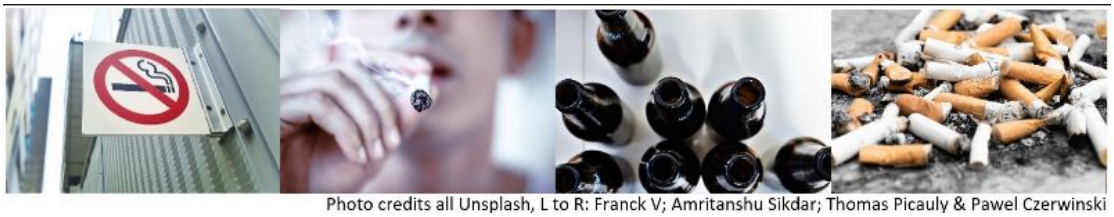
Abel Nyagwachi's PhD thesis: "*Essays on the economics of tobacco and alcohol control policies in Kenya*", uses data from two household and budget surveys (2005/6 and 2015/16), to examine some effects of the tobacco- and alcohol-control policies that were implemented in Kenya between 2005 and 2015. He finds that such policies contributed to a reduction in tobacco and alcohol budget shares in the poorest households. He also finds that the policies contributed to a decline in the prevalence of child malnutrition in tobacco- and alcohol-consuming households.
Abel holds a BA and Master of Economics from Kenyatta University, Kenya. Before joining UCT he worked as an Economist at the National Treasury and also the Parliamentary Budget Office, in Kenya. **Read more**.

Chipo Rusere joined UCT in 2017 for a Master's degree in Economic Development. Before this, she was based in Zimbabwe and managed projects in financial inclusion for small-scale farmers. In her Masters degree she investigated the challenges that Zimbabwe, a country largely dependent on tobacco production, faces in meeting its FCTC obligations. On the one hand, it has a public health obligation to reduce tobacco use



Zeenat Ebrahim will be receiving her Master's degree in Economic Development in December 2019. Her thesis is titled: "*The Recent Spike in Illicit Tobacco Trade in South Africa*", and explores the upward spike in the illicit tobacco trade observed in South Africa since 2015. She uses data from semi-structured key informant interviews in order to assess whether or not a relationship exists between tobacco companies' actions and the spike in illicit activity. She finds that the recent increase in the illicit tobacco trade is the result of an increase in under-declared cigarette production by the tobacco industry, which exploits a weak enforcement of South Africa's excise tax laws.
Zeenat holds a BCom Honours in Economics from the University of South Africa. Before she joined UCT, she worked as a Senior Research Analyst at Euromonitor International. **Read more**.

Abdul Gafar Abubakar Masa-ud is graduating with a Masters in Economic Development. His thesis, "*Crowding-Out of Household Expenditure by Tobacco in Ghana"* investigates whether households change their expenditure on non-tobacco household goods, taking into consideration the introduction of a major tobacco control law in Ghana in July, 2012. The results showed that if a household spends money on tobacco, it tends to crowd out expenditure of food, alcohol, clothing and transport.
Abdul holds a Bachelors degree from the University of Ghana in Economics and Psychology. Before joining UCT, he worked as a Research Assistant at the Parliament of Ghana. **Read more**.



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UCT Senate approves policy to not accept tobacco money

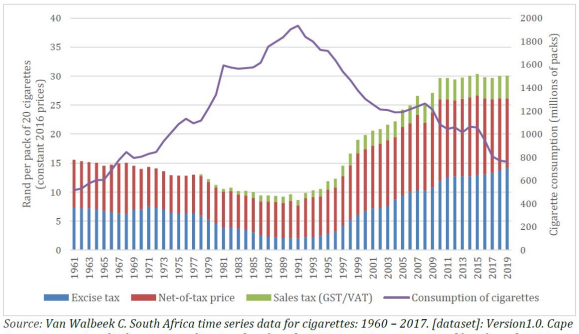
On Friday 22 November 2019, the University of Cape Town's Senate unanimously supported a policy to not allow any UCT staff and affiliates to accept any research funding from the tobacco industry. This decision was the result of a long process that had its genesis in the Department of Psychiatry and Mental Health accepting a grant from the PMI-sponsored Foundation for a Smoke-free World last year. A large number of people inside and outside the university, including a number of REEP's funders and other stakeholders, put pressure on the university to reject any financial links to the tobacco industry.

The policy and the decision by Senate will be placed before UCT Council on 7 December 2019. Once it is passed by Council, it will be official UCT policy. The wording of the policy is as follows:

"UCT staff and affiliates may not accept research funding from any organisation or foundation with known links to entities whose income is directly derived from the production of tobacco products for use in any form of smoking or other activity that can result in nicotine addiction, or in the promotion of any such products. Funding from companies that own shares in tobacco companies as part of their standard investment portfolio is acceptable. UCT researchers are not prevented from (a) conducting research that involves the repurposing of tobacco plants and products in novel ways, excluding activities potentially detrimental to health; (b) receiving funding from philanthropic foundations whose funding has historically

REEP supports increases in the excise tax as a health promotion tool in South Africa

Figure 1: Cigarette consumption and cigarette prices: 1961-2016



Source: Van Walbeek C. South Africa time series data for cigarettes: 1960 – 2017. [dataset]: Version1.0. Cape Town: Economics of Tobacco Control Project [producer], 2018. Cape Town: DataFirst [distributor], 2018, 2018.

On 14 November 2019 REEP made a submission to the Standing Committee on Finance regarding tobacco excise taxes and illicit trade in South Africa. See the letter **here**.

The background to this submission was that the tobacco industry has been lobbying government to freeze the nominal excise tax on tobacco products, in light of the very high prevalence of illicit cigarettes. We argued that the illicit trade problem is the result of poor enforcement, rather than by increases in the excise tax.

For more information, click **here**.

Recent papers published by REEP members:

The Effects of Price and Non-price Policies on Cigarette Consumption in South Africa

In October, Ernest Tingum, Alfred Mukong and Noreen Mdege published a working paper in the ERSA Working Paper Series on the effects of price and non-price policies on cigarette consumption in South Africa. They found that the long-run own-price elasticities lie between -0.55 and -0.72, while the income elasticities lie between 0.39 and 0.49. They also note that the changes in South Africa's tobacco policies were associated with a modest reduction in cigarette consumption.

Compared to many low- and middle-income countries (LMICs), South Africa was one of the first to use excise taxes and other tobacco control interventions to reduce cigarette consumption. The impact of non-price tobacco policies on tobacco consumption was combined in a single policy index, using a new tobacco-control scale (TCS) approach. This index uses most of the interventions that are proposed by the Framework Convention on Tobacco control. The non-price interventions decrease cigarette consumption, but the impact of changes in the price of cigarettes are much larger. This paper supports the very large international literature that indicates that an increase in the excise tax is the single most effective tobacco control intervention.

The study was supported by the Tobacco Control Capacity Project, funded by Global Challenges Research Fund in the UK. To read the full paper, click **here**.

Smoking Initiation: Do Cigarette Prices Impact the Decision to Start or to Stop Smoking?

Many studies have evaluated the impact of cigarette prices on the demand for cigarettes, but less research has been done on the impact of these prices on the decision to initiate smoking or to quit the habit. Such studies are particularly rare in low- and middle-income countries due the scarcity and/or quality of data.

the history of smoking behavior among 2,079 men in Kenya using the 2014 Global Adult Tobacco Survey (GATS). Relyingon self-reported smoking behavior among these individuals over time, they constructed a panel following individuals from 1960 to the time they decided to start smoking, quit, or continue to smoke past 2014. The study was limited to men since they represent the majority of cigarette users in Kenya.

A key conclusion of this research, published in the recent journal article in Addiction: **The Effect of Price and Tax Policies on the Decision to Smoke in Kenya**, found that higher prices of tobacco products can significantly reduce initiation and increase cessation, thus improving health, especially among the most vulnerable population subgroups.

Read this article in full **here**.

Cheap/Illicit cigarettes in South Africa

In November 2019, Kirsten van der Zee, Corné van Walbeek and Sibahle Magadla published a paper titled **Illicit/cheap cigarettes in South Africa**, in the journal *Trends in Organized Crime*. They found that approximately 30% of cigarettes bought in 2017 were purchased at a price of R20 per pack or less. Given that the sum of excise tax and VAT at the time was R16.30 per pack, these cigarettes are likely to be illicit.

The paper also comes at a time when the South African Revenue Service has been in the spotlight. In 2018, retired judge Robert Nugent led a commission of enquiry into tax administration and governance at SARS, and the tobacco industry and the illicit trade in cigarettes featured prominently in the reports from the commission. As illicit cigarettes undermine both the fiscal and health agendas of tobacco taxation policy, our results highlight the need for the South African government to implement effective measures in order to curb illicit trade.

For more information, read **here**.

Knowledge Hub Workshop: Nov 2019

The **Knowledge Hub on Tobacco Taxation and Illicit Trade** hosted our bi-annual workshop on the economics of tobacco control in Cape Town, South Africa from **11 to 15 November 2019**.

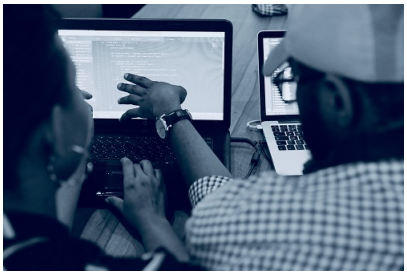
The second workshop for the year involved Ministry of Health and Finance officials from Jamaica, Indonesia, Nigeria, Philippines, Sri Lanka and Togo. Also attending were Bekki Field (Programme Lead for International Cancer Prevention at Cancer Research UK), and representatives from three think tanks - Institute of Policy Studies of Sri Lanka, Institute of Statistical, Social and Economic Research in Ghana, and KIVU International. The workshop aimed to provide the government officials and policy makers with the essential tools to understand and “sell” the benefits of tobacco taxation.

Country-specific models, developed by REEP members, allowed countries to estimate the likely fiscal impact of changes in the structure or level of the excise tax developed. The modelling exercise clearly showed that an increase in the excise tax benefits both the fiscus and public health.

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

We look forward to following up with participants in the near future, and watching their journeys of implementing better tobacco taxation policies in their respective countries.

REEP: Personnel Movements



In the past few months there have been a number of personnel movements at REEP, as people have been offered new positions in other places and seasons have come to an end.

Dr Laura Rossouw will be leaving REEP at the end of 2019 to take up a Senior Lecturer position at the School of Economics and Management Sciences at Wits University, where she will help develop a unit in health economics. During the two years she has been with us, she has made a huge contribution to REEP, supporting junior staff, writing research proposals, doing her own research, and managing various projects. She will be sorely missed.

In her place we have appointed Simphiwe Khoza, who will be joining us in January 2020. Simphiwe has a Master's degree in Economics from Stellenbosch. She has previous research experience in health economics and has, among other things, worked with large datasets using Python.

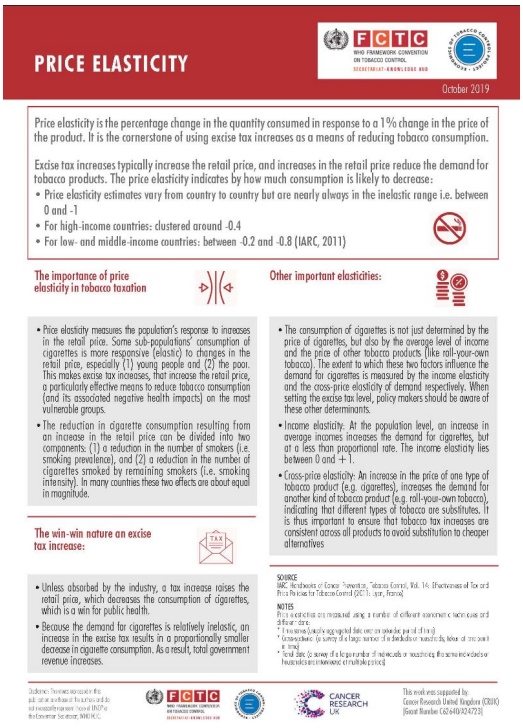
In August, Dr Ernest Tingum left REEP to take up a permanent position at the National University of Lesotho. He had been a postdoctoral fellow in the Tobacco Control Capacity Project, funded by the Global Challenges Research Fund in the UK.

On 1 November, Dr Chengetai Dare, a PhD graduate from Stellenbosch University, but originally from Zimbabwe, joined REEP to replace Ernest.

Dr Abel Nyagwachi, who recently completed his PhD thesis, and who joined REEP during the course of 2019 on a fellowship from the Global Alliance for Chronic Diseases (GACD), will be returning to Kenya at the end the year to work at his previous employer, the National Treasury.

In his place, we have appointed Dr Zachary Gitonga, also from Kenya, who will join the project in January 2020.

We wish our colleagues that are leaving REEP all the best in their future endeavours, and we welcome our new colleagues most heartily. We trust that your experience at REEP will be productive and fulfilling.



Our readers may be aware that the Knowledge Hub produces a "Back to Basics" (B2B) range of policy briefs, covering various topics on tobacco taxation, so that information on tobacco taxation and illicit trade is more accessible to policymakers.

In addition to the first covering **Tobacco Taxes and Tax Administration**, the Knowledge Hub published two briefs in August: **The Rationale for Tobacco Tax and Price Measures**, and **A Call for Open Access Data on Tobacco Taxation**.

The October B2Bs included: #4: **Price elasticity** and #5: **The Solution to Illicit Trade**. The newest brief, #6: **Calculating the Economic Cost of Smoking**, was published in early November.

Published under the banner of the WHO FCTC Knowledge Hub on Tobacco Taxation and Illicit Trade, these one-page briefs are accessible and easy to read, yet still contain the most important information regarding various tobacco-taxation topics. The one-pager briefs are available both on our **website**, and in printed form which we distribute at our workshops and on country technical assistance missions.

Recently Published:

- Estelle Dauchy and Hana Ross. **The Effect of Price and Tax Policies on the Decision to Smoke in Kenya**. 2019. *Addiction*, 114, 1249–1263; doi: 10.1111/add.14623.
- van der Zee, K., van Walbeek, C. & Magadla, S. **Illicit/cheap cigarettes in South Africa**. 2019. *Trends in Organised Crime,* 22(78), 1–21; doi.org/10.1007/s12117-019-09372-9.

In the News:

- Corné van Walbeek cited in recent Moneyweb article: **British American Tobacco asked to come**

Events: Recent

TID Conference - Japan

Laura Rossouw attended and presented at the 15th **International Society for the Prevention of Tobacco Induced Diseases Annual Conference**, which took place from the **12th to the 15th of October in Tokyo, Japan**. She presented on the CRUK-funded study involving various REEP members, which aimed to measure the impact of a change in tobacco taxation on illicit cigarette trade in selected low- and middle-income countries (Mongolia, the Gambia, Georgia and South Africa).

The objective of the illicit trade study was to measure the impact of tobacco tax increases on the level of illicit trade by measuring the level of illicit trade before and after an increase in the excise tax.Initial results have been published, but more are forthcoming. **Read more**.

SEIA Workshop - Pretoria

23-24 October, Pretoria: Sam Filby and Zunda Chisha attended a training workshop on quantification methods for socio-economic impact assessments (SEIAs). The workshop was hosted by **Trade & Industrial Policy Strategies**, an independent, non-profit, economic research institution. SEIAs are an important part of the South African policy-making process. Since 2015, all Cabinet Memoranda seeking approval for draft policies, bills or regulations have to be accompanied by such an impact evaluation.

Sam and Zunda first gained exposure to SEIAs when they assisted Corné van Walbeek in developing SEIAs analysis for the draft Control of Tobacco Products and Electronic Delivery Systems Bill.Their report formed the basis of the SEIA which was subsequently compiled by the National Department of Health and the Department for Planning, Monitoring and Evaluation, and which is available **here**.

With public hearings on the Bill scheduled to take place in the coming months, the TIPS workshop presented an exciting opportunity for the researchers to share their SEIA experience and to learn from the experiences of others. The workshop also explored challenges and debates around quantification in impact assessment and presented basic analytical tools that can be used when quantification is appropriate. The workshop was a great opportunity for REEP researchers to interact with researchers working in different policy domains, learn from each other, and draw on support from experts at TIPS.

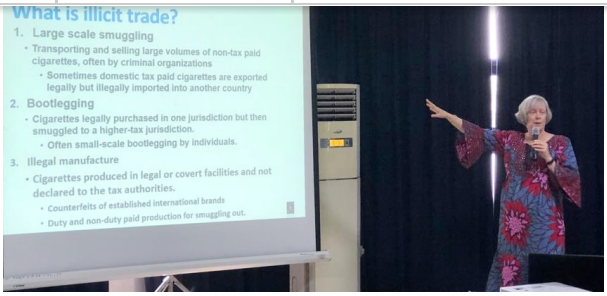
2019 GACD Annual Scientific Meeting - Thailand

Hana Ross from REEP and Cuong Nguyen Viet from the Mekong Development Research Institute in Vietnam represented REEP at the 2019 Annual Scientific Meeting of the Global Alliance for Chronic Diseases (**GACD**), in Bangkok, Thailand, from **11-15 November**.The main focus and the underlying theme of the meeting were implementation science and scaling-up, i.e. studying methods to promote the systematic uptake of research findings and other evidence-based practices into routine practice, and hence to improve the quality and effectiveness of health services.

Most participants were medical doctors assessing randomized control trials and their prospects for a scale up. In that sense, REEP's projects are a bit of an outlier because it studies population-based interventions. However, many participants were interested in the REEP work and the value economists can add to many ongoing and future GACD projects. For example, Hana Ross was invited to join a group that will organize a workshop on food-based solutions to chronic diseases during the 2020 GACD annual scientific meeting.

The most valuable feature of the meeting was the possibility to network and to talk directly to representatives of various funding agencies.

View the GACD meeting program **here**.



The Knowledge Hub, represented by Jean Tesche and Laura Rossouw, participated in a series of meetings in Freetown from **19-22 November**, organised by the tobacco control focal point in Sierra Leone, and supported by the WHO FCTC Secretariat. Sierra Leone currently has the highest smoking prevalence, and the lowest tax rates and cigarette retail prices, in the Economic Community of West African States. The Ministry of Health is currently in the process of drafting a tobacco control bill which includes regulations on advertising, sales and bans on public smoking, to address these high prevalence rates. In addition, the Ministry of Finance is planning to increase the excise tax on cigarettes, including adding a specific component to the existing ad valorem component.

The meetings with various stakeholders were centred around getting feedback on the draft tobacco control bill, and sensitizing stakeholders on various topics regarding tobacco control (including tobacco taxation, possible earmarking and illicit trade). Stakeholders included parliamentarians, civil society organisations, religious organisations, community elders and local councillors.

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:
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