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Research Unit on the Economics  
of Excisable Products

## REEP: Research Unit on the Economics of Excisable Products

Newsletter #6, March 2020

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## Director's Message

I am writing this newsletter from home as South Africa is currently in a 21-day lockdown period. South Africa, like many countries, has taken decisive action aimed at reducing the spread of the COVID-19 virus. Fortunately, with access to the internet, and communication tools like Skype and Zoom, REEP employees are continuing to work from home. Sadly, millions of people living in impoverished areas do not have the opportunity to continue working. Many are sitting at home with nothing to do, and without income. Our thoughts and prayers are with everyone affected by the pandemic.

In such an unprecedented environment, where our attention is so distracted, business as normal seems quite distant. Workshops, student support, and normal collegial interactions have been postponed, or have taken on a completely different



character. I want to thank our funders for their understanding and for being flexible in their expectations in these unprecedented times. We have tried to keep a sense of normalcy, as far as is possible.

In this letter we discuss some of REEP's activities from the past two months. On 26 February 2020 the Minister of Finance presented the much-anticipated budget speech. Our interest was primarily on the tobacco and alcohol excise tax announcements, and the estimated cigarette excise tax revenue for 2019/20, as this gives us an indication of the trend in the illicit cigarette market. The budget had both positive and negative aspects, as we discuss [below](#).

Related to this, a [paper](#) that considers the illicit market in cigarettes in six South African townships was recently published in BMJ Tobacco Control. The paper is the third published by REEP staff that considers the growth and size of the illicit market in South Africa.

In the summer holidays, more than 60 students collected nearly 40 000 prices of a variety of tobacco products, mostly cigarettes, in 13 countries. This is the ninth round of data collection, and by far our biggest round to date. The lengthy process of checking and cleaning the data is nearly complete and the data will be available within a few weeks. Read more about it [here](#).

As well, REEP members have been involved in a study on illicit cigarettes in **Ethiopia**, and a communication and research dissemination **workshop**. The **DATA** project, which has been running for four years, is coming to an end. We are also pleased to announce that we have received funding to do a **study** on the economic aspects of reducing the consumption of sugar-sweetened beverages in Kenya.

We trust that you will find this newsletter interesting and informative. Please feel free to contact us with any queries or issues of clarification.

Best regards

Corné van Walbeek



## REEP's response to the 2020 Budget

On 26 February 2020 the Minister of Finance delivered the Budget speech. While the cuts in the government wage bill and the fragility of South Africa's fiscal situation captured the headlines, a rather pleasing statistic was that estimated excise tax revenue had increased by nearly 20% in the 2019/20 financial year. This represents an increase of about 11% in the number of tax-declared cigarettes. Since smoking prevalence and total cigarette consumption do not change much from year to year, the large increase in legal cigarettes implies that the illicit market has decreased.

Corné, Kirsten and Nicole, who have recently written a number of papers on the growth, size and characteristics of the illicit market in South Africa, published an op-ed piece in the Daily Maverick, in which they highlighted this positive development: "[Trade in illicit cigarettes on the way to being stubbed out](#)", 5 March 2020.

The Minister of Finance also announced that heated tobacco products would be taxed at 75% of the tax rate levied on normal cigarettes, with immediate effect, and that electronic cigarettes would be taxed as from next year. While these are both positive developments, taxing heated tobacco products at a lower rate than normal cigarettes creates the false impression that they are less harmful than their combustible counterparts. It also contravenes the recommendations of the WHO on the best way to tax heated tobacco products. The mechanics of taxing electronic cigarettes were not discussed by the Minister, and currently there is no consensus on the best way to do this. Sam Filby published an op-ed in the Business Day ("**Taxes on e-cigarettes and heated tobacco products are not nearly high enough**", 5 March 2020) in which she explained pertinent issues regarding taxation of these "novel" tobacco products and outlined the implications of different tax rates and structures for public health.

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A disappointing aspect of the 2020/2021 Budget was that the Minister proposed to increase the nominal excise tax on tobacco products by 4%, the lowest increase in more than 30 years. The tobacco industry had lobbied strongly for a tax freeze, so the fact the tax was increased at all is a minor victory. REEP had strongly opposed the tobacco industry's request for a tax freeze and our submission that argued against this request was taken seriously by the Parliamentary Select Committee on Finance (see report here: <https://pmg.org.za/tables-committee-report/4036/>).

As part of a delegation organised by the National Council Against Smoking, Kirsten attended a post-budget discussion with members of the Joint and Standing Committees on Finance. The meeting provided an opportunity for the public to comment on the budget. In their presentation, Saveria Kalideen and Kirsten highlighted the cost of smoking to society and the need for large tobacco tax increases and the regulation and taxation of e-cigarettes. Kirsten presented REEP's recent estimates of illicit trade in SA and highlighted the evidence that SARS is making headway in combating illicit trade. The committee was receptive of our input. In a response to these submissions a few days later, representatives from National Treasury indicated that there may be scope to review the 40% excise tax burden target that currently guides the setting of the tax level.

## The DATA Project

Data is the lifeblood of research. While some researchers collect their own data through surveys, the past few decades have seen a dramatic increase in household surveys that have been conducted by countries' statistical authorities, or by international organisations like the World Bank. Some of these surveys are easily accessible to researchers, but some surveys are not easily accessible, yet contain valuable information.



Within the context of REEP's work, identifying data sources and opening access to data promotes research that can support governments implementing evidence-based policies that can enhance public health. In sub-Saharan Africa, data on alcohol, tobacco, food, environment and health exist but these are not often available on open access. In some instances, these datasets are focused on health issues. In other instances, health issues and responses related to tobacco, alcohol and food are tangential, but are nevertheless important in the bigger context of the dataset.

Since 2016, the **International Development Research Centre (IDRC)**, has funded the Data on Aliments, Tobacco and Alcohol (DATA) in Africa project. The primary aim of the DATA Project has been to provide open access to data that has typically been "hidden" from the research community. This entails negotiating with data owners in government departments and academic research units to open access to their data. The DATA Project also provides a platform to students who collected data for their academic research to make this data available to the wider research community. Moreover, the project collates data across various channels and prepares these in research-ready formats. The data are shared as open-access data via **DataFirst**. The project also promotes the discovery of alcohol, tobacco and food data available on other data repositories by sharing the links to these repositories on the DATA portal.

To date, we have 140 datasets from 20 countries listed under the **DATA project** on DataFirst. We have had over 10 000 views and over 2 000 downloads of datasets we have opened access to. We have recorded 14 published research papers from DATA project datasets. The DATA project is officially closing in a few months' time, but the platform will remain in place and it will continue to collate data and to open access to data.

## Round 9 of the African Cigarette Prices Project nearly complete

During the December 2019/January 2020 university holidays, more than 60 UCT students from 13 African countries collected tobacco prices in their hometowns as part of REEP's African Cigarette Prices (ACP) project. The objective of the ACP project is to collect tobacco price data across Africa, where data are often scarce, using UCT students. These data enable researchers to estimate price differences across brands, urban/rural divides and types of packaging, and to analyse price trends. Fieldworkers visit both formal and informal retailers of tobacco products (including street vendors) in their hometowns.



Photo credit: ACP Project

The project was started in 2016 and to date there have been eight rounds of data collection, with the ninth round currently being finalized. The number of prices collected, and of fieldworkers contracted per round, has increased significantly since the first round in 2016. Countries where data are typically collected include South Africa, Zimbabwe, Namibia, Botswana, Lesotho, Uganda, Ethiopia, Malawi, Mozambique, and Zambia. The data are available on [DataFirst](#).

Fieldworkers receive rigorous training in how to approach retailers and how to collect the data. Each datapoint is backed up with a photograph of the pack and the retail outlet. Prices are collected at formal retailers, informal retailers (like spaza shops), and street vendors. After fieldworkers submit their data, the data and the back-up photographs are checked both electronically and manually to ensure that there is no fraud in the data collecting process and that the data are sound.

**Table 1: 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)	9 301	28	7
3 (Jan. 2017)	7 701	8	5
4 (July 2017)	10 901	23	7
5 (Jan. 2018)	22 184	38	8
6 (July 2018)	23 125	34	8
7 (Jan. 2019)	18 770	36	10
8 (July. 2019)	24 002	36	10
9* (Jan. 2020)	~38 000	~65	13

\* Round 9 is not completely finalised yet

Although the price data collected through ACP are not nationally representative, the ACP is a very affordable and simple way to get an understanding of the range and distribution of prices and brands in various African countries. The project also creates a useful source of extra income for the students who participate as fieldworkers and provides exposure to REEP and research in the area of tobacco control. The project has led some fieldworkers to continue their research work in this area.

Fortunately, the ninth round of data collection was unaffected by the COVID-19 pandemic, but it is likely that the tenth round, which was scheduled for the July 2020 holidays, will have to be postponed to the December 2020 holidays.

## Assessing the Illicit Cigarette Market in Ethiopia

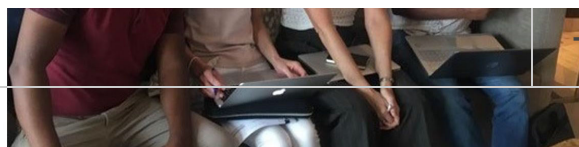
In 2018, the Campaign for Tobacco Free Kids engaged Hana Ross to help quantify the illicit cigarette market in Ethiopia. This was done by collecting empty packs from both retailers and off the streets of 10 cities in Ethiopia, including the capital Addis Ababa. The preliminary results show that the illicit market share is about 19%,





substantially less than claimed by the tobacco industry. The majority of illicit cigarettes were found in the Eastern region close to the border with Somalia and Djibouti, where about 60% of the collected cigarette packs were classified as illegal. Addis Ababa, the capital of Ethiopia, reported only a 5% illicit-cigarette market share.

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Hana Ross from REEP (third from left) and colleagues from CTFK and CoRDe Consulting

These results were presented by CoRDe Consulting, the local research group, to policymakers as they were debating the tobacco tax increase. The independent research evidence played a critical role in the decision to raise the tobacco tax in Ethiopia. For more information on the situation in Ethiopia, click [here](#).



Photo credit: CoRDe Consulting

## Research Communication and Impact Training Workshop – February 2020

In the last week of February 2020, the Tobacco Control Capacity Programme (TCCP) ran a four-day workshop on Research Communication and Impact Training in Addis Ababa, Ethiopia. The workshop was attended by Chengetai Dare and other research fellows from various countries within the programme. Representatives from the University of Addis Ababa's School of Public Health also attended the event.

The TCCP is a collaborative research project between the University of Edinburgh (as the lead university), a number of UK universities, and five African and three Asian research institutions. The aim of the project is to develop research capacity (typically at the postdoctoral level) in tobacco control, with three focus areas: tobacco taxation, illicit trade, and industry interference (Article 5.3 of the Framework Convention on Tobacco Control).



The purpose of the workshop was to train research fellows to develop research communication plans and a policy-driven approach to integrate key stakeholders in research studies. Often researchers struggle to disseminate their work to the key stakeholders (particularly policymakers), which means that their research efforts are wasted. The training therefore sought to equip delegates with the communication skills needed to increase the reception of their research studies.

Apart from acquiring communications skills and developing communication plans, delegates used the platform to share research experiences. As a result of this workshop, we can expect an increase in the number of collaborative studies and an improvement in the communication and dissemination of the research results.

In 2019, REEP members teamed up with the International Institute of Legislative Affairs and Agri-Foods Economics Africa, both based in Kenya, and submitted a proposal titled “Promoting healthy diets and preventing Non-Communicable Diseases (NCDs) in Kenya through effective fiscal policy”. The two-year project was approved by the IDRC early this year and has officially kicked off.

Corne is the Principal Investigator of the Project and Senzo Mthembu, who joined REEP in February 2019, is the Research Officer and Project Manager. The aim of the research project is to promote healthy diets and prevent NCDs caused by obesity, by providing evidence-based recommendations to policy makers in Kenya.

The project has two focus areas. Firstly, evidence about obesity-related foods consumed in Kenya, and their association with NCDs, will be collected and mapped by Agri-Foods Economics Africa. Secondly, REEP will model the impacts of fiscal measures (i.e. tax increases) on the consumption patterns of sugar-sweetened beverages, their fiscal effects, and their health impact. To do this, we will borrow from existing global research, and use the Tobacco Excise Tax Simulation (TETSIM) model, adapted to sugar-sweetened beverages. The results of this research, which will be disseminated and publicized by the International Institute of Legislative Affairs, will empower stakeholders, such as the Kenyan Ministries of Health and Finance, to develop relevant fiscal policies to reduce obesity in Kenya.



We were meant to have had the inception workshop in April 2020 in Kenya, where we would have launched the project, presented our initial model, and received input from policymakers. Because of COVID-19, the launch has been postponed. However, despite this setback and delay, some research activities are already underway. Through this project, REEP is sponsoring a UCT Masters student, Fentone Omwony, to do his thesis on the demand for various sugar-sweetened beverages in Kenya. The results from his thesis will provide important inputs to the subsequent modelling exercise.

## REEP team publishes paper on illicit trade in South African townships

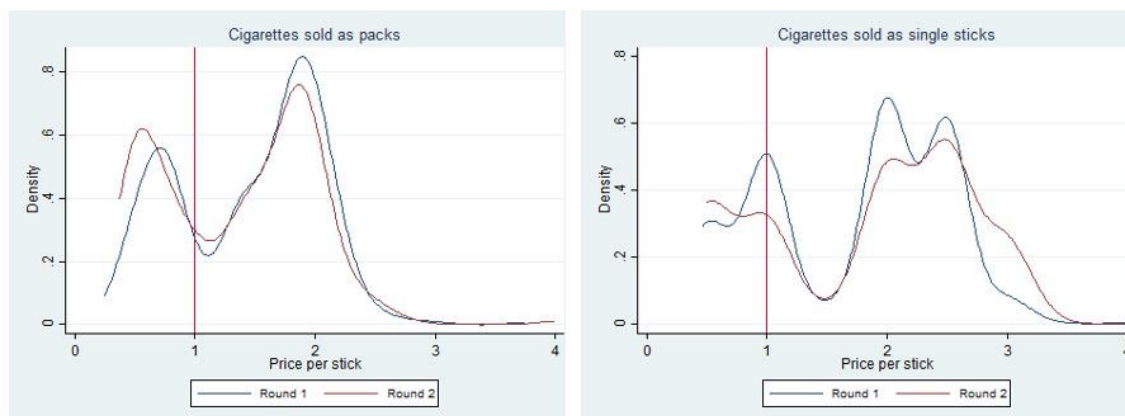
In March 2020, REEP researchers Kirsten van der Zee, Nicole Vellios, Corne van Walbeek, and Hana Ross published a paper titled “**The illicit cigarette market in six South African townships**” in BMJ’s Tobacco Control journal. This paper presents a profile of the illicit cigarette market in six townships across SA, using survey data collected by iKapidata. The data were collected in Eldorado Park and Ivory Park in Gauteng, Khayelitsha and Mitchell’s Plain in the Western Cape, Thabong in the Free State, and Umlazi in KwaZulu-Natal.

The data were based on two household surveys of smokers (1200 per round), conducted in 2017 and 2018. The main survey questions related to the smoker’s most recent purchase of cigarettes, specifically what products were purchased and the price paid, as well as various socio-economic questions. Based on the excise tax and VAT at the time (R16.30 in 2017 and R17.85 in 2018) we hypothesised that any cigarettes sold at R20 per pack of 20, or less, were illicit.

We found that between 34% and 37% of the cigarettes purchased in the sample were illicit and that there was no significant change over the period. This estimate of the illicit market lines up closely with other recent nationally-representative estimates of illicit trade conducted by REEP, one using **NIDS** and another using a **gap analysis** approach.

In both rounds, Thabong and Mitchell’s Plain had the cheapest cigarettes and the highest proportion of illicit purchases. Spaza shops sold the largest proportion of illicit cigarettes. The kernel density plots of price show a spike in the prices below and at R1 per stick, indicating that this is an important price point for the illicit market. From our regression analysis, we found that smokers with low socio-economic status, those who had the lowest

## Kernel density plots of cigarette prices



Notes: Vertical lines represent R1 per stick, our chosen the legal price threshold.

This survey was conducted again in 2019 and is scheduled to be repeated in 2020.

## New B2B Policy Brief: Court Cases and Litigation

The seventh Back2Basics policy brief, prepared in partnership with the McCabe Centre for Law & Cancer, the WHO FCTC Knowledge Hub on Legal Challenges, has just been published, and discusses: [Court Cases and Litigation](#).

Published under the banner of the WHO FCTC Knowledge Hub on Tobacco Taxation and Illicit Trade, the one-page B2B briefs are accessible and easy to read, yet still contain the most important information regarding various tobacco-taxation topics.

### COURT CASES AND LITIGATION

McCabe Centre FOR LAW & CANCER

WHO FCTC KNOWLEDGE HUB ON LEGAL CHALLENGES

REEP

March 2020

Prepared in partnership with the McCabe Centre for Law & Cancer, the WHO FCTC Knowledge Hub on Legal Challenges

**Litigation as a tobacco industry 'score tactic'**

The tobacco industry often threatens litigation to impede new tobacco control measures. They do so as part of a strategy to:

- and inhibit governments into not acting
- do so to cause the legal system to be less
- shape public debate
- to use resources that could be used elsewhere
- Dissuade other governments from adopting similar measures

Courts have consistently rejected these legal challenges and reaffirmed countries' right to regulate to protect public health.

**Common tobacco industry arguments**

The tobacco industry may argue one or more of the following:

- **Procedure**  
E.g. arguments about participation in the legislative process, arguing that the law does not have the power to do so, or arguing that a required step in the process (such as a regulatory impact assessment) was not completed
- **Constitutional or statutory legal rights**  
E.g. arguments about a right to protection for property, commerce or speech, or the freedom to run a business
- **Trade and/or investment law**  
E.g. arguing that tobacco control laws and sticks to World Trade Organisation law, or a bilateral investment treaty, or a regional trade agreement

Tobacco industry arguments can largely fall into a common playbook, and similar arguments will be made across different courts in the world. Analysis of tobacco industry internal documents has found that the arguments made in these cases often contradict internal legal advice received by tobacco companies.

**How have these challenges been resolved in other countries?**

Courts have consistently rejected tobacco industry legal challenges to tobacco control measures, and affirmed that countries have the right to implement non-discriminatory measures to protect and promote public health.

**These WHO FCTC parties, and many others, have successfully defended their tobacco control laws from legal challenges:**

Australia	Canada	Thailand
Brazil	France	Uganda
Colombia	Peru	United Kingdom
European Union	South Africa	Uruguay
Malawi	Switzerland	

Further information is available from the Knowledge Hub on Legal Challenges at <https://tobaccocontrol.org/legal-challenges/>, and from the [global tobacco litigation database](#) maintained by the Campaign for Tobacco Free Kids.

**What should countries do in response to legal challenges, or threats of legal challenges?**

- Be sceptical of tobacco industry legal arguments – recognise that threats are part of a strategy to intimidate and delay implementation
- Coordinate early across government departments to ensure good support for requests, control measures and capacity to respond to a potential legal challenge
- Ensure that tobacco control measures are designed to be as robust as possible to legal challenge – have documentation of the evidence and government rationale prepared and ready to go, ensure that the measures are evidence-based and non-discriminatory, and follow necessary procedural steps
- Make use of the normative and technical support provided through the WHO FCTC and its governing bodies, Secretariat, and Jurists

**What support is available to countries?**

Technical assistance to parties is available from both the Convention Secretariat and WHO.

\* The McCabe Centre for Law & Cancer, the original WHO FCTC Knowledge Hub on Legal Challenges, provides support to parties facing legal challenges primarily through capacity-building to government agencies. Requests for support should be coordinated through the Convention Secretariat at [secretariat@tobaccocontrol.org](mailto:secretariat@tobaccocontrol.org).

\* The International Legal Consortium of the Campaign for Tobacco Free Kids provides resources to parties, including the database <https://tobaccocontrol.org/legal-challenges/>, and funding for parties facing legal challenges under adverse conditions and resources.

## In the News

### Philip Morris's "Unsmoke South Africa" is disingenuous

**BusinessDay**

On 5 February 2020, Nicole Vellios, together with Leslie London (UCT School of Public Health), Savera Kalideen and Sharon Nyatsanza (both from the National Council against Smoking), published an opinion piece in *Business Day*, titled "**Philip Morris's reinvention as crusader for public health is disingenuous**".

They respond to an opinion piece paid for by Philip Morris South Africa, which was published in the same newspaper the preceding week: "**Unsmoke SA: it's time for a new conversation to reduce smoking rates**," January 28, 2020. In the original article, Philip Morris heavily promoted its "smoke-free" products and stated that they want to "replace cigarettes as soon as possible". In the response they discredit many of the claims by Philip Morris.

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](mailto:tobaccoecon@gmail.com)



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