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**Research Unit on the Economics  
of Excisable Products**

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

Newsletter #9, September 2020

### **In This Issue**

- [Director's Message](#)
- [Tobacco Industry Interference Index 2019](#)
- [Recent Research Papers](#)
- [REEP in the News](#)

### **Knowledge Hub News**

- [ECON-WTS](#)
- [B2B #12](#)
- [Webinar #3](#)
- [Award for St Helena](#)

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## **Director's Message**

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Dear Friends

On 18 August 2020, South Africa moved to lockdown level 2 and the tobacco products sales ban was lifted. The tobacco sales ban, even more so than the alcohol sales ban, was probably the most controversial aspect of the lockdown regulations. The ban altered the tobacco landscape, not only during the lockdown, but probably for the foreseeable future. The effect of the sales ban was a once-in-a-lifetime research opportunity, which we eagerly pursued. The lessons learned from the COVID-19-imposed sales ban can inform the international tobacco control community. For example, one of the end-game strategies, considered for some countries and/or

communities, is a ban on the sales of tobacco products. South Africa provides an interesting case study.

Two online surveys were conducted during the lockdown, detailed in the two previous newsletters. REEP is currently running a third online survey to determine how people's smoking patterns have altered now that the ban is lifted. Topics covered include quitting attempts, brand switching, and cigarette prices.

In addition to the online survey, we have included a number of tobacco-related questions into the third wave of the [National Income Dynamics Study – Coronavirus Rapid Mobile Survey \(NIDS-CRAM\)](#), which will go in-field in October 2020. Kirsten van der Zee, one of REEP's researchers has been partially seconded to the NIDS-CRAM project during this period. The major advantage of NIDS-CRAM is that it is nationally representative, which was a significant limitation of our online surveys. We hope to report preliminarily results of NIDS-CRAM before the end of the year.

In the past two months, REEP members have published five papers, ranging from [tax modelling in 15 West African countries](#), to [estimating the cost of tobacco in South Africa](#), [farmer indebtedness in Zimbabwe](#), [the political economy of raising the excise tax in St Helena](#) and the [dissemination of data collected in South African townships](#).

We have made increasingly better use of the technology as working remotely has become our new normal. We presented the [third webinar](#) in our series on tobacco taxation and illicit trade, re-instated our brown-bag series, and were involved in the [South African Tax Professionals' virtual conference](#).

If you have any questions, comments, or suggestions, we would love to hear from you.

Best regards

**Corné van Walbeek**

Director: Research Unit on the Economics of Excisable Products



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## Tobacco Industry Interference Index report for 2019 launched



On 13 August 2020 the [Tobacco Industry Interference Index Report for South Africa \(2019\)](#) was launched. The report concluded that the degree of industry interference in South Africa had decreased between 2018 and 2019, primarily because of positive development at the SA

# TOBACCO INDUSTRY INTERFERENCE INDEX

Revenue Services.

The report is part of a global set of publications organised by the **Global Centre for Good Governance in Tobacco Control (GGTC)** in Thailand, and funded by the Bloomberg Philanthropies' Stopping Tobacco Organizations and Products (STOP). The report considers various aspect of industry interference in, among other things, the policy process, unnecessary interactions with policy makers,

social corporate responsibility, and conflicts of interest. In 2019 South Africa's interference index was 58, down from 72 the **previous year**. This is a positive development and moved South Africa from the 8<sup>th</sup> highest interference index value (from 33 countries), to roughly the middle of the distribution.

Although REEP was not involved in the research for the report, members of REEP were involved in the review of the report and Corné wrote the foreword. The report is available [here](#).

## Knowledge Hub supports Eastern Mediterranean countries on modelling the impact of increased taxes on waterpipe smoking

The Knowledge Hub is collaborating with the "Eastern Mediterranean Consortium on the Economics of Waterpipe Tobacco Smoking (ECON-WTS)" to develop Excel-based models to understand the likely public health and fiscal impact of an excise tax on waterpipes. Waterpipe smoking in the Middle East is very common. The ECON-WTS is a joint effort between the American University of Beirut in Lebanon and its regional partners in Jordan, Palestine and Egypt.



Using data from cross-sectional household surveys conducted in three of the four countries the members of the consortium aim to estimate the price elasticities of demand for waterpipe tobacco. The Knowledge Hub on Tobacco Taxation and Illicit Trade was approached by the consortium to adapt the Tobacco Excise Tax Simulation Model (TETSIM) to waterpipe tobacco smoking in these four Eastern Mediterranean countries. The project is ongoing.

## New B2B Policy Brief: #12

**Tobacco Industry Interference and Tobacco Taxation**

Prepared in partnership with the Global Centre for Good Governance in Tobacco Control (GGTC), the WHO FCTC Knowledge Hub on Article 5.3

The tobacco industry's business undermines development and should not be given benefits. Major tobacco transnationals have been complicit in tax evasion, smuggling and bribery, and should be held to account. There is a fundamental conflict of interest between tobacco industry and public health, and the tobacco industry must be strictly regulated.

**I. The Tobacco Industry**

The "tobacco industry" includes those that further the interests of the tobacco industry such as, but not limited to:

- entities and subsidiaries engaged in the manufacturing, distribution and/or sale of tobacco or tobacco-related products;
- entities working to specifically further the interests of the tobacco industry through lobbying, advertising, legal advice or similar activities;
- entities being funded, supported or influenced in their governance by tobacco-related entities; and
- entities leaving tobacco industry or their representatives among their members.

In fiscal and trade matters, the tobacco industry's voice is carried through "forums": groups, business associations, smokers' associations, taxpayers groups, and tax advice groups.

**Complicity in smuggling:**

Major transnationals (UN, WHO, WHO) have been found to be complicit in the operation of smuggling networks all over the world (Middle East, EU, Eastern EU, North America, Asia, Latin America).

The tobacco industry leaves public attention on counterfeit tobacco products. However, a significant portion of large-scale tobacco smuggling involves genuine products that are likely to come from legitimate tobacco companies that channel their revenues to illegal channels (see boxwork in Canada, Colombia, Ecuador, and the EU, some of which resulted in the major transnationals making substantial payments).

**II. Common INDICATORS of Tobacco Industry Interference and Influence:**

**A. The Tobacco Industry is:**

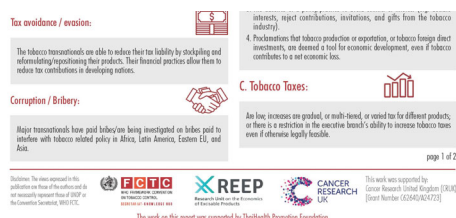
1. Participating in policy development (such as officials accepting policy drafts and then, if necessary, tobacco industry is invited to sit in advisory groups);
2. given a role in setting or implementing public health policies concerning tobacco control;
3. allowed to resist in anti-smuggling activities, and there are no safeguards to ensure that tobacco industry-backed track and trace systems are avoided;
4. Not required to periodically submit information on a wide range of activities;
5. Partnering with government in so-called corporate social responsibility (CSR) activities (including technical expertise, training, and counter-smuggling);
6. Having related senior government officials and current government officials or their relatives in key positions in its business;
7. Having health and professional treatment such as privileges, incentives, tax exemptions or accommodations for a longer time to implement

**B. Government allows:**

1. Unnecessary interactions with the tobacco industry such as social assets or events sponsored by the tobacco industry or those that further its interests;
2. Meetings with the tobacco industry that are not transparent (lack of rules for disclosure of the registration and records of such interactions);
3. The absence of a self-interest to avoid conflict of interest in a decision

In collaboration with the Global Center for Good Governance in Tobacco Control (GGTC), the WHO FCTC Knowledge Hub on Article 5.3, the UCT Knowledge Hub has published its latest Back-to-Basics document focused on **Tobacco Industry Interference**.

The B2B discusses how tobacco industry's business undermines development, and suggests that major tobacco transnationals who have been complicit in tax evasion, smuggling and bribery, should be held to account. There is a fundamental conflict of interest between the tobacco industry and public health, and the tobacco industry must be strictly regulated.



This is the 12<sup>th</sup> B2B in the series, and the second collaborative brief that we have produced thus far. To access the full series of Back-to-Basics in both English and French, please visit:  
<https://untobaccocontrol.org/kh/taxation/public-resources>.

## The WHO FCTC Knowledge Hub webinar #3 on the Illicit Trade Protocol

The Knowledge Hub hosted the final webinar in the three-part series in collaboration with Dr Patrick Musavuli of the WHO FCTC Secretariat on 26 August 2020. The title of the webinar was “Overview of the Protocol to Eliminate Illicit Trade in Tobacco Products”.

The Protocol, also known as the Illicit Trade Protocol (ITP), aims to eliminate all forms of illicit trade in tobacco products through a package of measures to be implemented by countries individually and in collaboration with other countries. Illicit trade undermines public health, reduces government revenues, and is associated with international organised criminal activities.

The links to the recordings of the webinar as well as the PowerPoint presentation are available on the members only section on the Knowledge Hub [website](#). Please register [here](#) for access to the webinars if you are not already a member.

We are planning to host another series of webinars which will launch in mid-October 2020. If you are interested in learning more about the series, please email [Toughedah](#), the Programme Director of the Knowledge Hub.

### WEBINAR #3

The Knowledge Hub on tobacco taxation and illicit trade is pleased to present a webinar series on:

- Global trends in tobacco taxation
- Methods for measuring illicit trade, and
- Overview of the Protocol to Eliminate Illicit Trade in Tobacco Products

The single most cost-effective way to save lives in developing countries is by raising tobacco taxes. It not only increases government revenues and saves households money when their members quit smoking, but also prevents premature deaths. Illicit trade undermines the effectiveness of tobacco control policies and reduce the health and economic benefits that result from these policies.

The Protocol to Eliminate Illicit Trade in Tobacco Products is an international treaty with the objective of eliminating all forms of illicit trade in tobacco products through a package of measures to be taken by countries acting in cooperation with each other. The Protocol was developed in response to the growing illicit trade in tobacco products, often across borders. Illicit trade poses a serious threat to public health because it increases access to – often cheaper – tobacco products, thus fuelling the tobacco epidemic and undermining tobacco control policies. It also causes substantial losses in government revenues, and at the same time contributes to the funding of international criminal activities.

This presentation will reiterate the importance of the Protocol and provide an overview of its provisions. It will also provide a brief update on the implementation of the main decisions taken by the first session of the meeting of the Parties to the Protocol (MOP1).

Presenter: Dr Patrick Musavuli, a technical officer at the Convention Secretariat.

**DATE:** 26th August 2020

**TIME:** 15h00-16h00 SA std time (GMT + 2)

Please register by *Mon 24th August*, and the Zoom link will be emailed to you before the event:

Click [HERE](#) to register

For any queries, please contact [toughedah.jacobs@uct.ac.za](mailto:toughedah.jacobs@uct.ac.za).

**FCTC**

UNITED NATIONS CONVENTION  
ON TOBACCO CONTROL

SECRETARIAT OF THE CONVENTION

**REEP**

RESEARCH AND EVALUATION  
OF EXPOSURE PROTOCOLS

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## KH News: A small island, but a big award for its work on reducing NCDs



In our [September 2019 Newsletter](#) we reported on the Knowledge Hub's support to St Helena in their strategy to substantially increase tobacco taxes in 2019, as part of their Health Promotion Strategic Framework. St Helena is a small island in the middle of the Atlantic. Recently we learned that the Health Directorate of St Helena was among only seven Ministries of Health selected from all UN members to receive the **2020 award for “Outstanding Ministry of Health”** from the United Nations Inter-Agency Task Force on the Prevention and Control of Non-Communicable Disease (UNIATF). WHO Director-General Dr Tedros Adhanom Ghebreyesus announced the winners at a “Friends of the



Task Force" side event at the UN General Assembly on 24 September 2020.

We congratulate St Helena for the award and are delighted that our support contributed to their success.

A case study detailing the process and context of the Knowledge Hub's assistance to the St Helena Government was published in *Tobacco Prevention and Cessation* in June 2020. **Key factors in achieving increased tobacco taxation: Experience from the island of Saint Helena** shows that previous experience with sugar-sweetened beverage taxation, encouraged policymakers to use increased tobacco taxation to curb cigarette consumption. These factors created readiness; the tailored technical assistance from the Knowledge Hub provided the quantitative analysis to show that the tax increase would have desirable public health and economic consequences. The paper was authored by Angela Jackson-Morris of the Ministry of Health in St Helena, and Laura Rossouw and Micheal Boachie of REEP. The paper can be accessed [here](#).

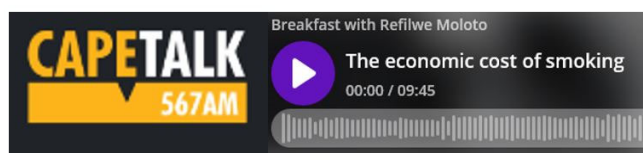
## Recent Research Papers

### Quantifying the economic cost of smoking in South Africa

In the recently published paper, **The Economic Cost of Smoking in South Africa, 2016**, in *Nicotine and Tobacco Research*, authors Micheal Boachie, Laura Rossouw and Hana Ross found that in 2016 close to 26,000 deaths among people aged 35–74 were attributed to smoking. The associated economic cost reached R42 billion (US\$2.88 billion), of which about one-third was for healthcare (hospitalization and outpatient visits), and the remainder comprised indirect costs (such as lost income). The overall economic cost represented 0.97% of the South African GDP in 2016 while the healthcare cost of smoking amounted to about 4.1% of total South African health expenditure in that year.

The study fills an important gap in tobacco control policy in South Africa. It is the first comprehensive analysis of the cost of smoking since the late 1980s. The study shows that the cost of smoking greatly exceeds the revenue (about R14 billion) that is collected from tobacco excise taxes. The authors point out that the costs can be averted by implementing evidence-based tobacco control policies.

The study enjoyed good media exposure on **CapeTalk radio** and Radio 786. To read the full paper please click [here](#).



### The Tobacco Tax Directives in West Africa

In December 2017 the Economic Community of West African States (ECOWAS), which comprises 15 West African countries, and the West African Economic and Monetary Union (WAEMU), which comprises a subset of eight ECOWAS countries, published new tobacco tax Directives for their respective members. Whereas the ECOWAS countries previously relied solely on an ad valorem

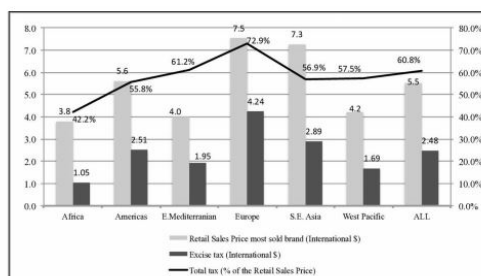


Figure 2 Retail sales price, excise tax and total tax share of the most sold brand of cigarettes, by WHO Regional Group, 2018 Source: WHO GTCR, 2019. GTCR, Global Tobacco Control Report.

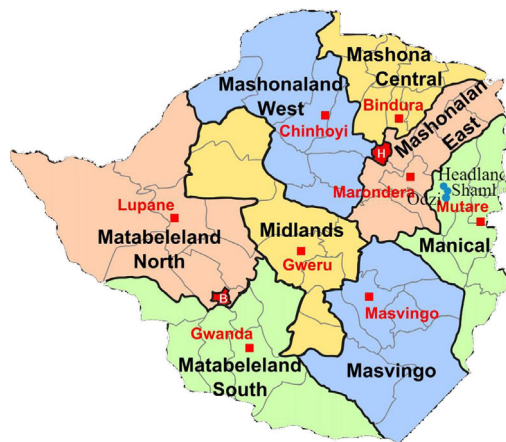
excise tax, the new Directive obliges its members to add a specific component (to the value of 0.40 USD per pack of 20 cigarettes) to the existing ad valorem tax. Also, where the ad valorem rate was lower

than 50%, the Directive stipulated that it be increased to 50%. The WAEMU directive increased the ad valorem rate (and kept a maximum rate), but did not mandate a specific tax. The eight WAEMU members can choose to follow either the ECOWAS or WAEMU directives, but in practice they typically follow the WAEMU directive.

Recently Jean Tesche and Corné van Walbeek published a paper in *Tobacco Control* entitled **“Measuring the effects of the new ECOWAS and WAEMU tobacco excise tax directives”**. They found that the ECOWAS tax directive would substantially increase the retail price of cigarettes (unweighted average 51%; range 12% to 108%), decrease sales volumes (22%; range -8% to -39%) and increase tax revenue (373%; range 10% to more than 1000%). The impact of the WAEMU Directive on cigarette prices, volumes and tax revenue is minimal. This study emphasises the importance of a large specific component in the excise tax structure.

To read the paper, please click [here](#). (Note: A *Tobacco Control* subscription may be required for the full paper).

## Tobacco farming and current debt status among smallholder farmers in Manicaland, Zimbabwe



Rutendo Chingosho, Chengetai Dare and Corné van Walbeek investigated the **prevalence of tobacco-related indebtedness among smallholder farmers, and the most important correlates of such indebtedness in Manicaland Province in Zimbabwe**. They used descriptive and regression analyses from a face-to-face survey of smallholder farmers in three major tobacco-farming areas (Odzi, Headlands and Shamhu) in Manicaland Province. The survey, which formed the basis of Rutendo's Honours long paper, was conducted in June and July 2019. The paper was published online in *Tobacco Control* in August 2020.

They found that 74% of respondents are contract farmers and 26% are independent farmers. 57% of respondents indicated that they were in tobacco-related debt. The likelihood of being in tobacco-related debt is significantly more than average for farmers with the following characteristics (holding other characteristics constant): being a contract farmer, having a larger farm, employing only family labour, and not recording expenses (a proxy for financial sophistication). 91% of contract farmers would prefer to be independent farmers, while 63% of independent farmers would prefer to be contract farmers.

A key conclusion of this study is that there is no evidence to suggest that tobacco growing, in its current state, has benefited the tobacco farmers in Manicaland Province. Tobacco farmers are largely victims, rather than beneficiaries, of the sector. There is a strong case for government intervention to improve the conditions of tobacco farmers, either through direct intervention in the tobacco-growing sector, or by encouraging and promoting crop substitution. However, given the parlous state of the Zimbabwean economy, such interventions seem unlikely.

Read the paper [here](#).

## Dataset on cigarette smokers in six South African townships

Nicole Vellios and Kirsten van der Zee published a paper in *Data in Brief*, **Dataset on cigarette smokers in six South African townships**, describing a dataset of township smokers. A total of 2453 smokers were interviewed over two rounds of data collection in 2017 and 2018.

Data were collected from six townships in four of South Africa's nine provinces, namely Gauteng (Eldorado Park and Ivory Park), Western Cape (Khayelitsha and Mitchell's Plain), Free State (Thabong) and KwaZulu-Natal (Umlazi). Respondents were asked about their most recent cigarette purchase, specifically packaging



type (single stick, pack, or carton), number of items purchased, brand, type of outlet where the cigarettes were bought, and the total amount paid for cigarettes. Respondents were also asked about other tobacco use in the household, and about their perceptions regarding illegal cigarettes. Socioeconomic and demographic information was collected at the individual and household level. The data has been used to **estimate the size of the illicit market in these six townships**, and to **analyse the determinants of smoking intensity**.

The article is available [here](#), and the dataset is available here:  
<https://www.datafirst.uct.ac.za/dataportal/index.php/catalog/821>

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## REEP in the News

REEP members were in the media spotlight a number of times during the past two months. Hana Ross was interviewed on radio after the publication of the **cost of smoking study**, on **CapeTalk** and on Radio 786.

Corné van Walbeek, together with Telita Snyckers, the author of the recently published **Dirty Tobacco**, were panellists at the Tax Indaba 2020, organised by the South African Institute of Tax Professionals (SAIT). They discussed various aspects related to tobacco excise taxation, illicit trade and industry behaviour during the sales ban.

Corné was subsequently interviewed on television (see **eNCA**), and quoted in the **Business Day** and on **MoneyWeb**. His main message is that there is ample room to increase the excise tax on cigarettes, but that a crucial proviso is that the illicit market needs to be contained. In the post-sales ban environment, where the illicit market has become more entrenched, this will be difficult and will require an extraordinary effort by the South African tax authorities.



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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