

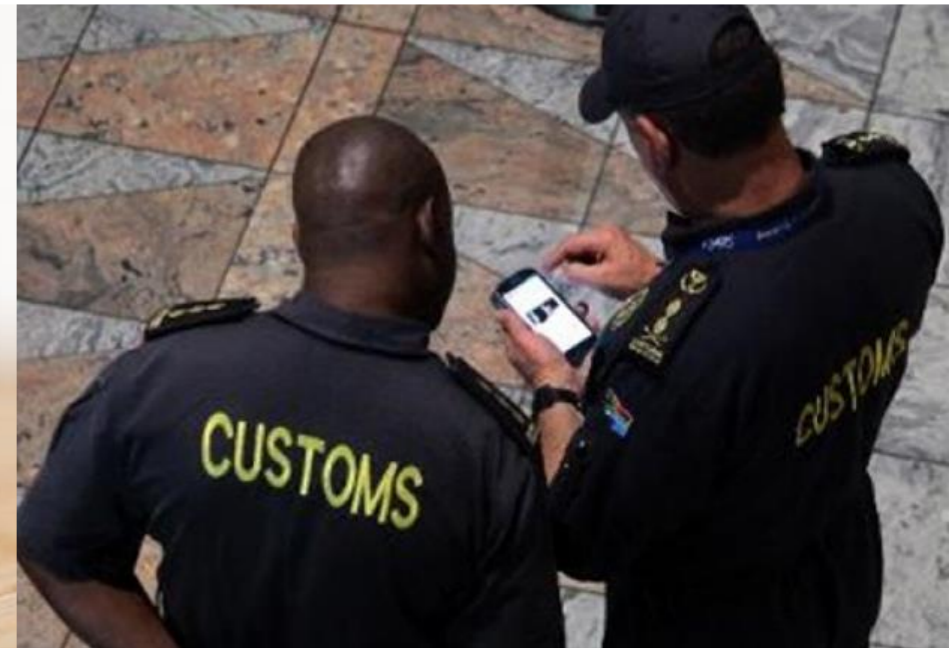


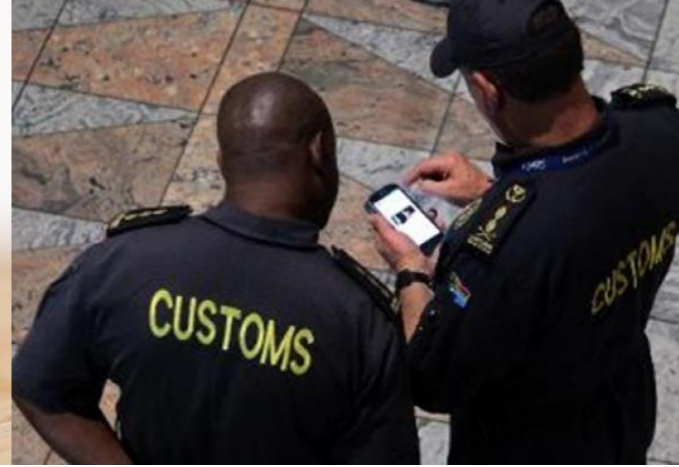
THE TOBACCO INSTITUTE OF SOUTHERN AFRICA

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# NATIONAL TOBACCO STUDY

November 2018



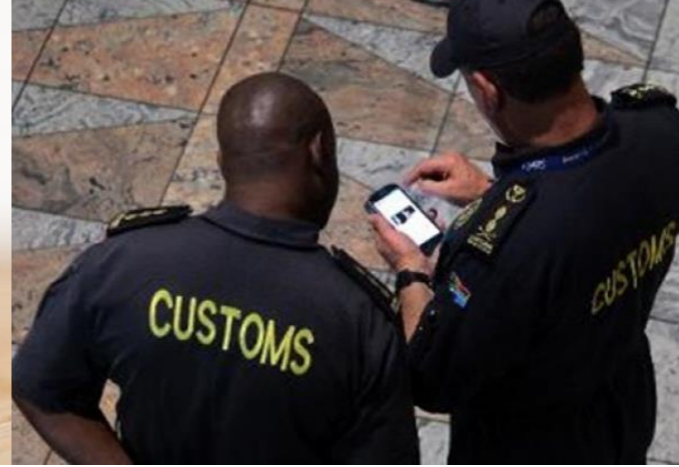


## Disclaimer

Figures and statistics referred to in this presentation, represent an industry view based on external research and publicly available market information. The definition of “illicit trade” for purposes of this document includes any product sold to consumers below R17.85. The various brands referred to herein are assumed to be manufactured and/or distributed by the corporate entities who publicly claim to do so. TISA accepts no responsibility or liability whatsoever with regard to the information or statistics quoted incorrectly or out of context from this presentation by any person.





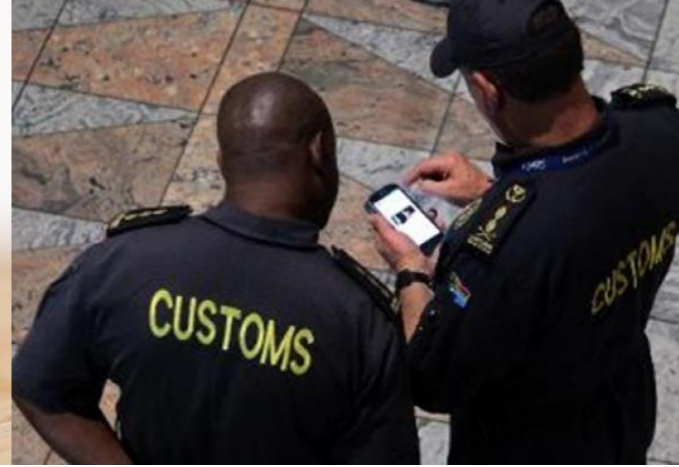


## The Ipsos findings: key take-outs

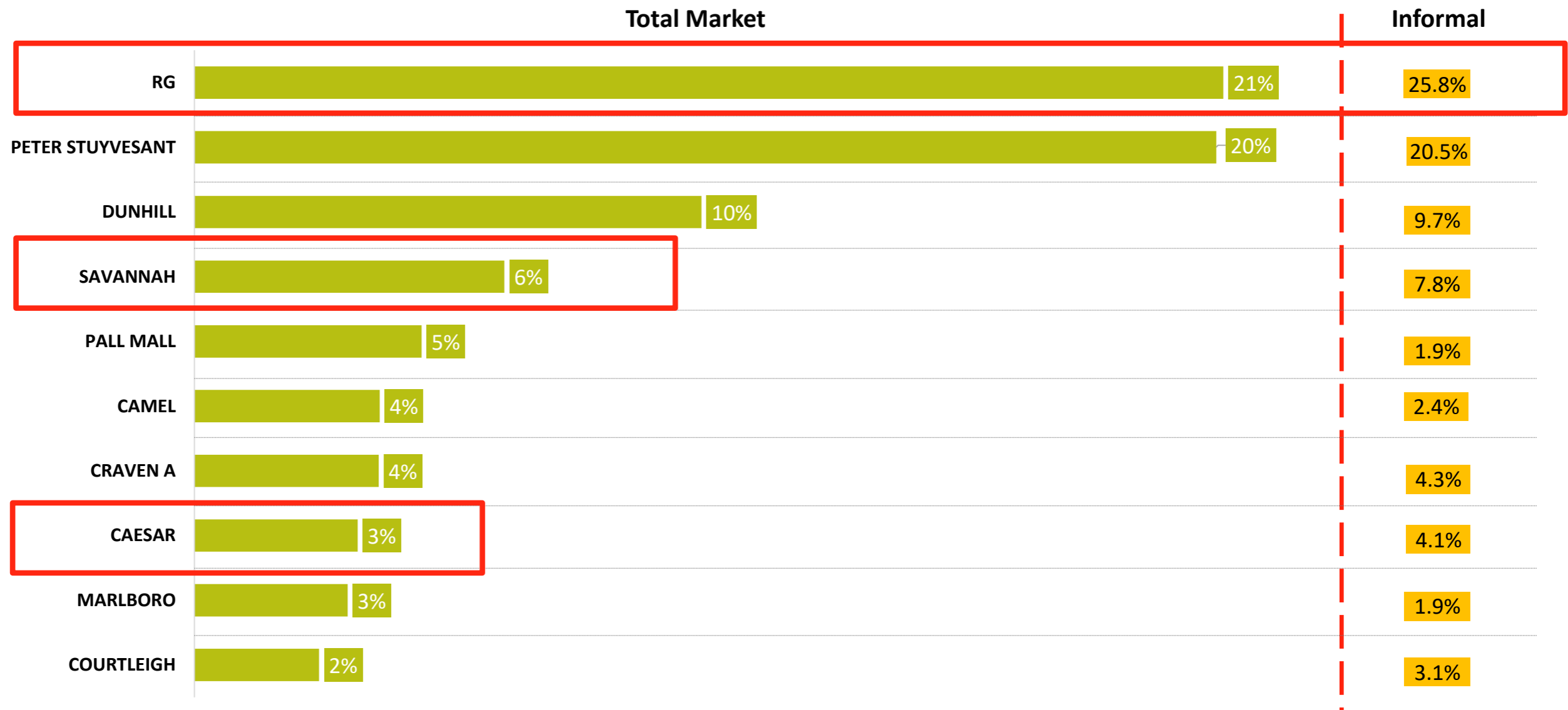
**South Africa is the first country in the world to allow an illicit cigarette brand to become the biggest in the market**

- RG, an illicit brand from Gold Leaf Tobacco, is now the biggest cigarette brand in SA
  - GLTC is aggressively expanding distribution and cutting prices, average price R10 a pack
- Caesar from Best Tobacco is now the second fastest growing brand in the market
  - It retails for R10 per pack
- Market share of the illicit industry is now at 42% in the informal market, up from 33% only three months ago
- Illicit brands remain freely available in over 100,000 shops in the country
- This growth coincides with undertakings from SARS that they were committed to act against illicit operators



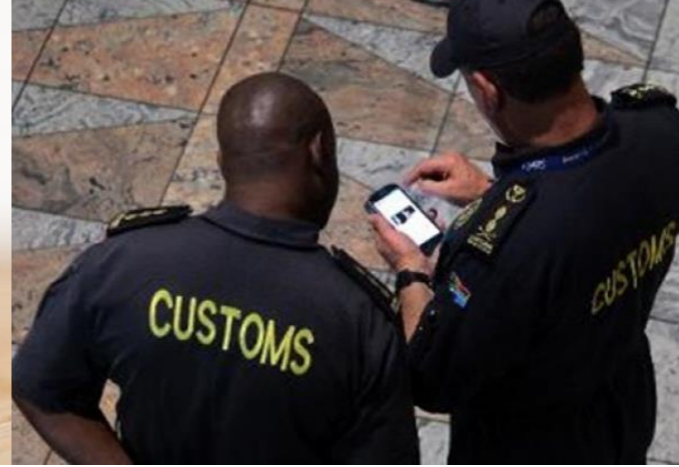


# Illicit brand the biggest brand in the market



= Illicit brands





## Counting the cost of the illegal tobacco trade

- **Revenue loss:** Based on annualised Ipsos Wave 2 data, SARS will lose at least R8 billion in lost taxes in the next twelve months...
- **...And if illegal cigarettes continue the current growth trajectory, it will be much more.**
- **Employment risk:** TISA members buy > 95% of the tobacco leaf produced in South Africa.
  - **12,000 direct jobs at imminent risk, with more than 35,000 dependents**
- **Investment reputation risk:** Local illicit manufacturers operate with impunity while legal tax paying industry cannot compete and viability under serious threat – **this scares international and local investors.**







# Illegal cigarettes have now become a South African export

## Statement from the Lesotho Revenue Authority

- Confiscation of 380,000 illicit cigarettes, all RG from Gold Leaf Tobacco, at Maseru Bridge
- Single biggest bust in the last five years
- RG classified as an illicit brand because it was sold below the legal R20 threshold, having avoided excise due in SA and VAT due in Lesotho
- **LRA pleads with all traders to cease from importing illicit goods into Lesotho**



**The confiscation of 380,000 RG cigarettes marks the biggest bust on illicit cigarettes in Lesotho in the past five years.**

Lesotho Revenue Authority (LRA) has released a statement confirming the confiscation of 380,000 illicit cigarettes at the Maseru Bridge on Sunday night.

The cigarettes were worth just over a million Loti, which is a similar amount in rands.

"This is the biggest single bust on illicit cigarettes in Lesotho in the past five years," the statement said.

The statement said the cigarettes were the RG brand, which they say was classed as an illicit cigarette brand as it was sold below the legal M20 (or R20,02) threshold.

RG is manufactured by Gold Leaf Tobacco, a company often accused of failing to pay taxes on their products.

It's great to see [@LesothoRevenue](#) clamping down on South African illicit cigarettes. [@sarstax](#) [@eNCA](#) [@SABCNewsOnline](#) [@IOL](#) [@TheStar\\_news](#) [@TimesLIVE](#) [@TheCitizen\\_News](#) [@News24](#) [@TeamNews24](#) [@pretorianews](#) [@OUTASA](#) [@BedfordEdenvale](#) [@crimestoppers1](#) [pic.twitter.com/PdURhRgib1](#)

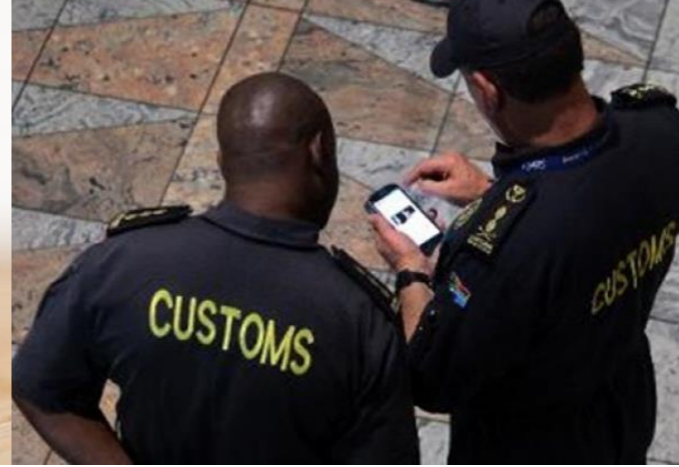
— Yusuf Abramjee (@Abramjee) November 19, 2018

Much appreciated, we are working hard to control the illicit substances from entering the country.

— LRA (@LesothoRevenue) November 19, 2018



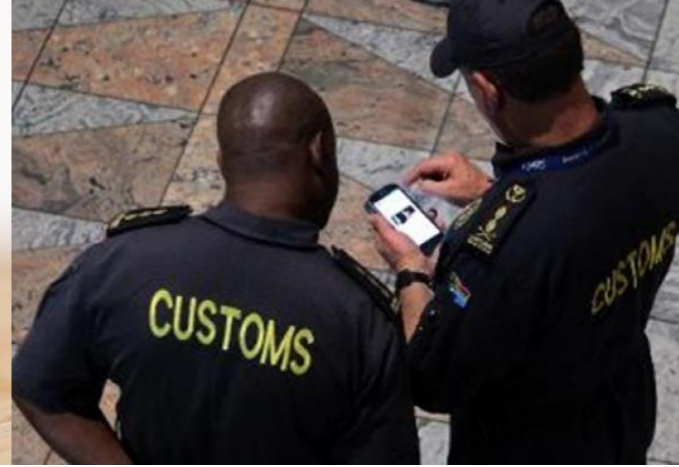




## What's to be done?

- **Illegal cigarettes sold in SA are manufactured locally in factories licensed by SARS.**
- **Let's be clear: this is not about smuggling and it's not about counterfeiting. It's illegal local activity, operating in close proximity of SARS.**
- **SARS commitments made need to translate into urgent and decisive actions. It can be done.**
- **Immediate audits required at factories to expose non-declaration of volumes.**
- **Urgently introduce ban on sales below minimum collectable tax.**
- **Large wholesalers/retailers dealing in illicit should be raided and the market cleaned up.**
- **Urge all retailers to follow Spar's lead and stop selling illegal cigarettes.**
- **Until serious enforcement is done, excise should not be increased on legal products.**





## It's not difficult to understand what is going on

*“The huge excise tax has, as the industry warned it would, inadvertently created a new market. Those unintended consequences that economists are always telling us about... well, they're here.*

*“A pack of SA cigarettes sells “ for anything between R5, if you are an illicit player, and around R40 if you are stupid enough to pay the government excise tax”*

– Tim Cohen, Business Day & Financial Mail, 22 November 2018







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*Thank you!*