



New study finds that trade in illegal cigarettes flourished during 2014 – 2017 SARS Crisis

Johannesburg, July 5, 2018 – ILLEGAL cigarettes costing as little as R5 per pack are now available for sale in more than 100,000 shops all across South Africa, according to a major new study released today.

And more than one third of cigarettes in ‘non-organised’ shops – which account for almost 80% of all tobacco sales – are being sold for well below the government’s R17.85 minimum in tax payable.

The Ipsos Study is the most robust scientific analysis of the multi-billion-rand illegal cigarette market ever carried out in South Africa. It has been peer-reviewed and independently validated.

It shows that the illegal market exploded since SARS ordered that investigations and the inspection of cigarette factories be stopped, under suspended Commissioner Tom Moyane.

The report also found that just one manufacturer’s products, Gold Leaf Tobacco Company (GLTC), account for 75% of the illegal trade in the country.

This is despite GLTC’s cigarettes being made in a local factory officially licensed by SARS.

Incredibly, one of GLTC’s brands, RG, is now the second largest in South Africa overall, selling for an average of just R10.50 per pack.

In the illegal tobacco trade, RG is followed by Savannah, also from GLTC, Caesar from Best Tobacco Company and Sharp, also from GLTC. The brand portfolio of ATM (Amalgamated Tobacco Manufacturers) makes this company the third-largest player after GLTC and Best Tobacco Company. The research attributed brands to manufacturers via the packaging itself and/or manufacturers’ public websites.

The study into the illegal cigarette trade is being released just one week after the former Head of Enforcement at SARS, Gene Ravele, told the Nugent Inquiry that the decision to allow the illegal trade in cigarettes to flourish was “planned”.

“After I left [in 2015], there was no inspections at cigarette factories. Until today. When the Minister of Finance complains of the lack of compliance, it was planned,” said Ravele.

“If you are going to stop inspections, people are going to do as they wish.”

Those behind the illegal trade are now collecting more than R5 billion a year in cash. The loss to South African taxpayers is even higher at almost R600 million every month, or more than R7 billion this year.

The result is that South Africa now has the cheapest first smoke in the world, at 50c for an illicit loose cigarette, easily affordable and widely available even to children, compromising government’s efforts to reduce the incidence of smoking.



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As the trade in illegal cigarettes has mushroomed in recent years with sophisticated distribution networks across all the provinces of South Africa, the sales of legal, regulated and taxed cigarettes have dropped by 15% in just two years.

The legal tobacco value chain supports more than 108,000 jobs, including those of 8,000–10,000 farm workers, all of which will be destroyed unless the government takes decisive steps to eradicate illicit tobacco.

“The shortfall of government’s income this year is estimated at R50 billion. The Ipsos research shows that almost 8 billion cigarettes this year will be sold illegally, which translates to a more than R7 billion loss to the fiscus, or 14% of the shortfall. This is an outrage considering the country’s public finances and the fragile economic recovery,” said TISA Chairman Francois van der Merwe.

“These are known manufacturers, licensed by SARS, and refusing to pay their taxes. The SARS could put an end to this within a month. As TISA, we are encouraged by the commitments made recently to Parliament by the SARS Acting Commissioner to take immediate steps to stop the illicit trade. As a short-term solution, SARS agents should be placed in all factories immediately to ensure all production is declared and duties paid, as was done before. We stand ready to assist and cooperate with SARS to rid the country of illicit operators,” he concluded.

ENDS

NOTES TO EDITORS

1. The IPSOS study investigated brands retailing below the minimum tax due of R17.85. It is possible that some brands selling at or above this level have also not paid taxes, but this is not discoverable by way of research.
2. TISA believes that brands selling below the minimum taxes due have almost certainly not paid their taxes due and are therefore deemed to be illicit. These brands require immediate and urgent investigation by the authorities.
3. That these products are illegal has already been established in a 2015 judgment in the Eastern Cape High Court. In that matter, relating to sales of GLTC’s Savannah brand for R8 per pack, at a time when the tax owed was R12.45, the judge found that “The logical inference to be drawn is that no excise duty was paid in respect of the cigarettes in question.”
4. It is sometimes claimed that cigarette sales below the taxes due are counterfeit. This is simply impossible. Taking RG as an example, 89% of its sales are below the minimum tax owed. It is not credible that almost all sales in a particular brand are from counterfeiters and not the brand owner. Furthermore, the Hawks stated in Parliament in May that no case for counterfeiting has been laid with them.



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5. TISA is the industry body for the legal tobacco sector in SA; its mandate extends into the South African Customs Union (SACU) region. TISA represents farmers, leaf processors, leaf merchants, manufacturers, importers and exporters of all tobacco products; in the legally compliant industry.

TISA strategic objectives

- Regulation (secure a reasonable regulatory framework for the sector)
- Illicit Trade (strategy to bring down illicit rates in cooperation with Govt)
- To ensure the sustainability of tobacco sector, including farmers.

TISA believes in public/private partnerships to achieve objectives for the Govt (NDP), the sector and SA pty ltd, *on the basis of trust, mutual respect and good relationships.*

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