



THE TOBACCO INSTITUTE OF SOUTHERN AFRICA

PRESS RELEASE

TISA WELCOMES STRONG ACTION AGAINST ILLICIT ECONOMY

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The Tobacco Institute of Southern Africa (TISA) welcomes the Minister of Finance's endorsement of SARS' new Illicit Economy Unit, delivered during his Budget Speech. The Unit is charged with the critical task of tackling the illegal cigarette industry.

However, TISA is disappointed by the announcement in the Budget that the excise tax on cigarettes will increase from R15.52 to **R 16.66**. This 7.4% increase is above inflation and until SARS' Illicit Economy Unit is achieving real results, any tax increase is counterproductive, risking both state revenues and thousands of jobs.

Francois van der Merwe, Chairman of TISA, says, "While we were encouraged to hear that cracking down on the illicit economy is a top priority for the Minister, we remain deeply concerned about the above-inflation increase to tobacco excise before seeing any real results in the clamp-down on illegal cigarettes. Tax increases, if not backed by serious and effective law enforcement, will lead to the unintended consequences of exacerbating the illegal economy and destroying jobs – as they have done in each of the past three years."

Globally, it is widely accepted there is a direct correlation between increases in tobacco taxes and increases in the levels of illicit tobacco trade. An increase in taxes, and therefore an increase in the price to consumers of legal tobacco products, drives consumers to cheaper, illegal products. This is especially true when consumers are under extreme financial pressure, as they are in the current South African economy.

The scale of the illicit tobacco problem in South Africa is staggering. The most recent study (November 2018) by global research house Ipsos shows that South Africa is now losing at least R8 billion annually, in unpaid taxes. The minimum tax due on a 20-pack of cigarettes before the increase this week was R17.85. Any 20-pack of cigarettes sold below this minimum tax amount must be considered illegal. Ipsos also found that in the informal sector alone, sales of tobacco products below the minimum tax increased to 41.8% from 33%, in just three months last year.

In addition to the fiscal losses, the crisis of a growing illegal trade also has a negative impact on the legal sector, and consequently, on the many contributions it makes to the economy. Any action or monetary policy which directly or indirectly impacts the illegal trade will have a devastating impact on the total legal tobacco value chain, including commercial and emerging farmers.

“In spite of pleas from the sector, its value chain and leading economists for government to hold excise, we now face the real prospect of significant job losses and a further rise in illegal cigarettes, as financially strained consumers switch to cheaper options,” says Van der Merwe.

The legal cigarette volumes in SA have declined by 22% in the past three years, which has, according to National Treasury, already resulted in lower duties collected by SARS. Tobacco farmers have already experienced a 15% decrease in the demand for leaf for over the past two years, as a direct result of the illegal trade.

Tobacco growing plays an important role in the economies of various provinces in South Africa. Approximately 10,000 farm workers are employed by close to 200 commercial farmers and 155 emerging farmers across Limpopo, Mpumalanga, North-West, and the Eastern and Western Cape. It is estimated that these farm workers sustain the livelihoods of some 30,000 – 35,000 dependants; many of these families rely solely on wage income from working on tobacco farms.

“These jobs and livelihoods are now at imminent risk, and urgently require intervention by SARS. SARS has been valiantly attempting to rebuild itself following the catastrophe of the Moyane era and to take action against illegal cigarette makers. But with illegal cigarettes more available than most legal brands, this is not an easy task. It is unfortunate that Treasury has decided to make this task harder at a time when it should be supporting SARS to get back on its feet,” says Van der Merwe.

TISA urges President Ramaphosa and his government to act decisively with the illicit trade in tobacco and other products to bolster the fiscus, ensure the sustainability of businesses and jobs, as well as to encourage growth in the South African economy.

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