THE TOBACCO INSTITUTE OF SOUTHERN AFRICA

MEDIA RELEASE

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SARS CIGARETTE TRACKING TENDER WILL AWARD MULTI BILLION RAND MONOPOLY AFTER RUSHED, UNTRANSPARENT PROCESS

- **New tracking system won't address main problem of illegal tobacco trade which is cigarette volume verification at point of manufacture**

Johannesburg, May 21 – A RUSHED new system for tracking cigarettes in South Africa will award a multi-billion rand tender to a monopoly, yet may fail to curb the R8 billion illegal cigarette trade, was the warning today from the Tobacco Institute of Southern Africa (TISA).

Originally conceptualised under the watch of Tom Moyane while he was Commissioner, SARS issued a Request for Proposals on April 26 2019, with a deadline of 20 June 2019 for bidders to submit proposals for the appointment of a single service provider, and is then attempting to implement in 12 months a system that has taken the EU and Ghana more than four years of consultation and trials to achieve.

SARS intends to appoint a single service provider for an unprecedented 8 years to implement a system which will impact on wholesalers, retailers, distributors and manufacturers, at significant cost and without consulting the value chain stakeholders. The contract will be worth billions of Rand to the winning bidder.

SARS lost more than R8 billion last year due to volumes not declared. Therefore, any new system should primarily focus on addressing the main problem, which is volume verification through digital technology at the point of manufacture. This will address the core of the problem.

TISA says it supports Track and Trace systems which address the most profitable aspect of the illicit trade and ensures the legal tobacco sector makes inroads into one of the world's worst illegal markets.

"These are complex, hi-tech systems that must be able to plug into the existing, as well as future technology used by SARS, retailers, wholesalers and manufacturers so data can be shared in real time," said Francois van der Merwe of TISA.

“Rolling out such a sophisticated, IT-intensive system requires enough time for preparation, consultation and testing and TISA is concerned that the rushed process being followed by SARS has skipped these critical steps. It will impose excessive and impractical regulatory burdens on small retailers when the real problem lies with local manufacturers who are evading taxes. This will only encourage retailers to sell illegal products because they won’t be able to cover the compliance costs of receiving legal cigarettes”.

The Chairman of TISA said the error in the tender request sent out by SARS, is that it does not reflect the realities of the cigarette market in SA. 80% of cigarettes are retailed by small informal retail shops who are not equipped for the new rules and will be forced out of the legal trade as a result.

“The system specified in the tender will capture only the legal market and could drive illicit trade up further.

“TISA is acutely aware of the urgency of reversing the phenomenal growth of the illicit tobacco trade since the disastrous Tom Moyane era at SARS and we applaud the revenue service’s determination to do so. We have already seen some positive results from new SARS crackdowns and tax revenue seems to be stabilising for the first time in many years.

“It would be disastrous if this rushed process resulted in the adoption of a system that would not only fail to achieve its stated goals but actually lead to increased illegal trade.

“It seems if an unsuitable proposal is on the cards and the appointed service provider stands to make billions of Rands out of it. For SARS to have come out with a detailed proposal in a frantic hurry without any consultation with the sector is deeply worrying.

"We call on SARS to invite retailers, wholesalers and manufacturers to a round-table discussion to ensure that the chosen process will be effective and efficient.”

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