

67 Molen Street P O Box 69 RUSTENBURG 0300 North West South Africa
Tel: +27 14 5965090/91/92/93 Fax: + 27 14 596 6419 E-mail: anske@ltp.co.za Web: www.ltp.co.za

**SUBMISSION ON THE MEDIUM-TERM BUDGET POLICY STATEMENT (MTBPS)
/REVISED FISCAL FRAMEWORK AND REVENUE PROPOSALS
05 NOVEMBER 2019**

Presented by: Christo van Staden (Managing Director LTP)

Limpopo Tobacco Processors (LTP) appreciate the opportunity granted by the Standing and Select Committees on Finance to comment on the Medium-Term Budget Policy Statement (MTBPS) / Revised Fiscal Framework and Revenue Proposals.

Although we are disappointed in the minimum reference made to the importance of agriculture in South Africa by the Honourable Minister in his speech last week, we appreciated the fact that he acknowledged that this is not the final budget and invited stakeholders to make submissions.

LTP represent the primary flue-cured tobacco industry in South Africa consisting of 100 commercial and 140 black emerging farmers and LTP owns the only primary processing facility in South Africa. We produce cigarette tobacco in the North West, Limpopo and Mpumalanga provinces. Producers employ nearly 6,500 labourers in these mostly arid, rural areas of our country, with more than 20 000 dependants.

Since 2013 the South African tobacco crop dropped from 12,3 million kilograms to 9,8 million kilograms in 2019 (-20,3%). Hectares plummeted from 4,041 to 3,250 over the same period. The high cost of production in South Africa limits viable off-shore markets and therefore the crop is sold primarily to legal domestic manufacturers and generates a revenue of R600 million.

In 2018, the Ipsos study found that 42% of the informal market is illicit, costing the fiscus more than R8bn in one year alone. LTP experienced this first hand, as orders from domestic manufacturers dropped accordingly over the same period. This meant we had to implement quotas to farmers resulting in immediate job losses and drop in revenues. The smaller crops produced by farmers made it very costly and ultimately unsustainable for some farmers to continue.

Apart from this evil, any further increase in taxes, and therefore an increase in the price to consumers of legal tobacco products, pushes consumers to cheaper, illegal products. Not only will this result in further job losses, but the inability of the industry to expand and assist the number of black emerging farmers.

The appointment of Mr. Edward Kieswetter as Commissioner of SARS is a feather in the cap of the President. However, it will take several years to crack down on the crime syndicates that control a well-established and organized illicit cigarette trade.

As long as enforcement is not at the levels where it should be, and it will take time to get there, any further excise increases will only be honoured by the legal industry, while the illicit operators will simply make more money at the expense of the SARS and the legal sector, and could see the demise of tobacco growing in this country.

Therefore, LTP kindly request the Honourable Minister of Finance to bring the excise tax rates on cigarettes back in line with the 40% targeted incidence, where currently it has crept up to over 43%. We also believe that a freeze on excise duties over a period of at least three years will allow SARS and the prosecuting authorities enough time to implement strategies and controls to clamp down on all the illicit manufacturers and dealers in South Africa.
