**3 March 2020**

**Honourable Chairperson**

**Submission on Budget 2020**

Thank you for the opportunity to comment on this Bill. I am the Executive Director of the National Council against Smoking, a health promotion and advocacy NGO which focuses on reducing smoking in South Africa. I have outlined our views on the current proposals in the Bill below.

The National Council of Smoking (NCAS) and the Tobacco Control Advocacy Alliance welcomes the urgently needed tax on e-cigarettes.

The bold move announcing taxation will reduce youth use of e-cigarettes and prevent them from becoming addicted to smoking and later switching to cigarettes. This will reduce disease and save lives.

For more than a decade, e-cigarette usage has been unregulated and untaxed in the country.

An estimated one million South Africans now use e-cigarettes, a worrying number that continues to grow.

The health harm is clear: e-cigarettes are linked to severe health conditions including cardiovascular and respiratory diseases, chest pains, ulcers in the mouth, asthma and a high risk of [strokes](https://www.ahajournals.org/doi/abs/10.1161/str.50.suppl_1.9). Taxing these products will offset the cost of this harm which is incurred by the health system and paid for by the taxpayer.

This tax brings South Africa in line with countries such as Kenya which already have a tax on e-cigarettes. It is also in line with recommendations from the World Health Organisation as an effective way to reduce health harm. It is also in line with the World Bank’s recommendations to use tax on tobacco to reduce the health burden and bring in revenue to the fiscus”.

But while we laud the move to introduce tax, the council is disappointed with Minister Tito Mboweni’s insignificant increase of R0.74 per packet of 20 cigarettes. The increase brings the excise tax to R17.40 per packet and people who smoke nine cigarettes on average a day will only spend an additional R121.545 or the year. This is simply not enough to get people to think twice about their smoking behavior and the risk to themselves and others through harmful second hand smoke. The 2020 tax increase is even lower than the 2019 increase of R1.14 per packet and the 2018 increase of R1.22 per packet.

**Cigarettes are unfortunately, still far too affordable in South Africa**

More than 8 million South Africans smoke - and if this number is not reduced by higher taxes - then the burden on the health system and the future NHI, as well as public finances will not be sustainable. Tobacco-related harm currently costs the country R59 billion per annum while we earn less than R12 billion in excise taxes.

There was plenty of room for Minister Tito Mboweni to increase the taxes and fund the short-fall in the health burden that the product causes. It is unfortunate that until the Tobacco Bill is passed, bringing plain packaging and introducing 100% smoke-free public places, among other interventions, the vacuum in public health protection from harmful tobacco products remains.

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**Tobacco tax does not cover the harm from tobacco – estimated to be R59 billion per annum**

The tax on tobacco-related harm in South Africa is estimated to be R59 billion per annum (Tobacco Atlas, 2018). The income earned from excise taxes on tobacco has averaged R13 – R15 billion for the last 3 – 5 years. It would be appropriate to increase the taxation on tobacco to ensure that the cost of the product covers this gap to a larger extent.

Tobacco taxation is a proven method to improve public health, and is supported by both the World Health Organisation, and the World Bank (2018). Taxation makes tobacco less affordable, and therefore reduces consumption.

**Tobacco consumption contributes to inequality in South Africa, but taxes will reduce demand for health care, therefore reducing cost to the health care system (and NHI in future)**

There is evidence that tobacco consumption contributes to inequality in South Africa (2005). Poor smokers tend to spend a higher proportion of their income on tobacco products than the rich (2014, 2005), implying a greater opportunity cost.

While the short-term costs of buying tobacco will increase for the poorer smoker with tax increases, the long-term costs are reduced as the individual and family do not have to pay for health costs as a result of tobacco consumption. There are also opportunity costs as a result of being ill for the individual, family and society: taking time off work reduces income, and money spent on health care, medicines or transport to health care facilities could be spent on more productive purchases like education, nutrition or books.

Tax increases on tobacco reduce consumption and increase direct revenue for the state, and indirectly through a reduction in health costs. This is a win for public health and a win for public finances.

**Tobacco consumption causes many illnesses and worsens others like HIV and TB, reducing the impact of state provision of health care**

Tobacco is linked to diseases like HIV, TB, non-communicable diseases (NCDS) like cancers, strokes and heart disease. Tobacco consumption reduces the efficacy of medication that is provided for HIV, TB, and NCDS like diabetes. The estimated economic cost as a result of loss in productivity from absenteeism, and early retirement due to ill health in South Africa, largely from NCDs, is equated to a total of 6.7% of GDP in 2015 and is expected to increase to 7.0% of GDP by 2030[[1]](#endnote-1). It is estimated that for diabetes alone, in 2018, public sector costs of diagnosed patients amounted to approximately R2·7 billion and would be R21·8 billion if both diagnosed and undiagnosed patients are considered.

**The business case for prevention such as tax increases**

The World Health Organization’s global business case for NCDs shows that if low and low-middle income countries put in place the most cost-effective interventions for NCDs (including for both prevention and management), by 2030 they will see a return of $7 per person for $1 invested. Investing in prevention and control of NCDs is essential for growth and development and, when carefully planned and implemented, is highly cost effective (WHO).

**Increases in taxes do not lead to increases in the illicit trade**

Evidence shows that the illicit cigarette market is larger in countries with low taxes and prices while smaller in countries with higher cigarette taxes and prices. None-price factors are more important determinants of the size of the illicit tobacco market. They relate to enforcement, quality of tax administration, strength of the regulatory framework, government commitment or willingness to control illicit activities, as well as social acceptance of the illicit trade.

**Even in the presence of the illicit trade, increases in tobacco taxes reduce tobacco use and raise revenues**

Turkey substantially increased tobacco tax in January 2013 and the size of the illicit cigarette market remained stable for five months after the increase. Higher tobacco taxes in SA in the 1990s resulted in a relatively small increase in the illicit cigarette market but also in a lower smoking prevalence and a doubling of excise tax revenue.

In Brazil, since 2007, tobacco excise tax increased faster than inflation. This was accompanied by the implementation of a track and trace system as well as other administrative and enforcement measures. As a result, smoking prevalence and consumption of illegal cigarettes has declined.

A track and trace system has been estimated to cost US0.02 cents per pack / mark, which is a low unit cost to implement track and trace. The Protocol to Eliminate Illicit Trade of Tobacco Products which South Africa has signed, but not ratified, provides clear guidelines on how to control the tobacco supply chain, address criminal conduct and increase enforcement as part of a global network. This is not an issue unique to South Africa.

**Link with other government policies and statements**

According to a recent Lancet report, progress on Sustainable Development Goal (SDGS)target 3·4 will have a central role in determining the success of at least nine other SDGs**.** On the other hand, the likelihood of reaching the health goals, including the specific NCD Goal (3.4), will require intensive and wide ranging interventions that fall not only within various targets within the Health parent Goal (Goal 3), but also in a number of the other SDGs.

This is also supported by the South African National Development Plan 2030 (NDP) which asserts that health is not just a medical issue and that greater inter-sectoral and inter-ministerial collaboration is central to good health. The Plan states that the social determinants of health need to be addressed as a matter of urgency, including promoting healthy behaviours and lifestyles.

**Make tobacco less affordable**

Increasing taxation on tobacco to make tobacco products less affordable, is key to addressing this critical social determinant of health. While South Africa has had consistent annual tax increases, these increases have been too small, and have therefore not impacted on the affordability of cigarettes. We strongly urge the committee to recommend a significantly higher increase in tobacco taxation, to bring us closer in line with the WHO recommendation of a tax equal to 70% of the price of tobacco products.

References

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3. <https://www.worldbank.org/en/topic/tobacco/brief/taxing-tobacco-a-win-win-for-public-health-outcomes-mobilizing-domestic-resources>
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6. Rasmussen B, Sweeney K, Sheehan P. Economic Costs of Absenteeism, Presenteeism and Early Retirement Due to Ill Health: A Focus on South Africa Report to the US Chamber of Commerce
7. National Development Plan 2030

1. [↑](#endnote-ref-1)