

Response to the Minister of Finance Budget Speech

Introduction

Twisp welcomes the decision of the Minister and National Treasury is allowing for 12 months before looking into excising vapour products in South Africa. We strongly believe that there is a clear need for the mechanics of this novel industry be fully researched and understood before deciding how and when to apply excise on vapour products.

Vapour products are electronic devices that heat a liquid into an aerosol for inhalation. They do not involve the burning or heating of tobacco. The heated liquid may or may not contain nicotine and generally does not contain tobacco.

The Nature of the category

Globally, the vapour market is highly fragmented. There is a proliferation of producers and products, with the latter continuing to increase. Many producers are small and new with limited, or no, experience of tax collection. Locally in South Africa, the market is similarly made of mainly small and medium enterprises. These are mostly ex-smokers who have themselves seen the benefits of moving to a potentially less harmful product and have decided to share this technology with the rest of the smoking population. The industry currently employs thousands of South Africans.

"The diversity and continuous development of ecigarette products (of different origins and designs) and the varied ways in which consumers use these products, make the development of taxation policy for e-cigarettes challenging. There is currently no guidance for e-cigarette taxation." World Bank Group E-cigarettes: use and taxation (April 2019)

Aligned to the World Bank position, the EU carried out a public consultation in 2018 on the future tax treatment of tobacco heating and vapour products. However, this has not yet led to any decisions on vapour taxation.

Furthermore, the UK, one of the most researched and consequently regulated market for vapour products also considered taxing vapour products but decided against it to date.

Scientific and Empirical Evidence based Taxation

Twisp, strongly believes that should Vapour products be taxed in South Africa, as announced by the Honourable Minister, it is imperative that we ensure the following steps are clearly understood through research and assessment of the market and scientific evidence.

1. Understanding the Vapour Product Market in South Africa

A thorough study and research on the various relevant parties of the market; consumers, retailers, distributors, importers and manufacturers should be conducted. We are certain that such type study will provide the insights on the industry which will facilitate the application of a tax, should that be the route taken by Treasury.

2. Classification and Definition of Vapour products

As mentioned above, vapour products are potentially less harmful products which have been used by millions around the world to move away from tobacco products. In this regard, it is imperative that the Ministry is guided by the fact that Vapour products uses pharmaceutical grade nicotine and non-nicotine chemical formulation instead of tobacco leaf. This is a fundamental difference that needs to be accounted for when deciding on taxing vapour products. It is a must that the prevailing science of less harm is taken into consideration.

3. Approach to Vapour products Taxation

There is currently no harmonized approach on vapour excise at EU level, as mentioned above. However some member states have decided to tax vaping after thorough study and the principle used has been based on milliliter, i.e.; ZAR X per milliliter of e-liquid in the product. Should South Africa, move towards a tax on vapour products after a solid and thorough assessment of the vapour market, we would propose that the rate is fixed based on milliliter.

4. Understanding taxation collection

As taxation revenue from the vapour products is bound to come from small and medium enterprises, it is critical that the appropriate measures are put in place to facilitate the understanding and collection. It is imperative that there is no double taxation as these will inevitably lead to further burdening the small businesses.

5. Enforcement

Taxation is often known to be one the main causes of illicit trade. A well thought enforcement plan should be put in place with the industry to ensure that every party abides by the new set of legislation. It is essential that clear steps are part and parcel of the new taxation framework to ensure a level playing field in the country as well as prevent any unintended consequences from an illicit trading.

Twisp remains available for any discussion on the above matters and highly anticipate the start of the legislative process in better understanding the market prior to determining whether a taxation on vapour products is recommended.