



NATIONAL COUNCIL AGAINST SMOKING

Submissions to the Select Committee on Finance on the 2020 Rates and Monetary Amounts and Amendment of Revenue Laws Bill (Rates Bill)

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Submitted by:

The National Council Against Smoking

Submission endorsed by:

1. Catherine O. Egbe (Specialist Scientist – Tobacco Control), on behalf of the Alcohol, Tobacco and Other Drug Research Unit, South African Medical Research Council

For further information contact:

Savera Kalideen (Executive Director NCAS) saverak@iafrica.com

Sharon Nyatsanza (Project and Communications manager NCAS)
ncasmedia@mweb.co.za

Introduction

In light of the current deficit between revenues collected and the economic cost of tobacco in South Africa, we submit that the proposed tax increases on tobacco products, are still too small.

We are concerned about the small negligible increases in tobacco excise taxes over the years and how these fail to achieve the intended objectives of bringing down tobacco consumption and the related health care and economic burden.

We acknowledge and appreciate the detailed process of engagement, by the Select Committee on Finance ('the Committee') and are pleased by the opportunity to make this submission.

Our Submissions

1. The Rates and Monetary Amounts and Amendment of Revenue Laws Bill (Rates Bill) proposes a cigarettes tax of 8.70 per pack of 10 cigarettes, reflecting the figure shown in the 2020 National Budget Speech of only 74 cents per pack of 20 cigarettes.
2. The increase which amounts to R8.70 per pack of 10 or R17.40 per pack of 20 cigarettes is negligible, it does not make cigarettes less affordable and will not have the intended impact on tobacco prevalence.
3. This is even lower than the 2019 increase of 1.14 per pack and 2018 increase of 1.22 per pack of 20 cigarettes, a concerning trend in the past 2 years is the year on year reduction in annual increases on tobacco taxes.
4. The World Bank recognises that "raising tobacco taxes to make these deadly products unaffordable is the most cost-effective measure to reduce tobacco use and improve health outcomes for individuals and communities".ⁱ Tax increases are only effective if 'large tax increases' that make cigarettes less affordable are imposed. This will also increase government revenue that can be used to cover the costs of tobacco harm and to fund other priority areas.

5. The World Health Organisation recommends that countries impose taxes equal to at least 75% of the retail price of tobacco. In South Africa tobacco products are only taxed an excise tax of 41.4%, and when the 15% VAT is added to it, the tax sits at 56% and this is substantially below the WHO recommendation. The country should take steps to bring South Africa closer in line with the WHO recommendation.ⁱⁱ
6. Tobacco-related diseases kill 115 people in South Africa daily and the economic costs of tobacco to the country is R42-billion per annum. This includes healthcare expenses, and lost productivity.ⁱⁱⁱ
7. In the 2019/2020 tax year only R12.5 billion was collected from tobacco taxes, leaving a deficit of R29.5 billion to be added to the public finances.
8. In the face of the devastating economic effects of the Covid-19 pandemic tobacco taxes are one under-utilised means to improve both the health of the people and reduce the pressure on public finances.
9. Tobacco use has negative health impacts, within the Covid-19 context, studies have reported an association between tobacco use and worse Covid-19 outcomes.^{iv} Reiterating the urgent need to turn the tide on the tobacco epidemic.
10. Tobacco use also has negative impacts on all the major non-communicable diseases (NCDs), including lung and other cancers, chronic obstructive pulmonary diseases (COPD), heart disease and diabetes. People living with NCDs are at increased risk of worse Covid-19 outcomes. According to the WHO, in South Africa 61% of the Covid-19 patients in hospitals had hypertension and 52% had diabetes.^v
11. Tobacco taxes have a direct impact on NCDs. The WHO'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), they will see a return of \$7 per person for every \$1 invested by 2030.^{vi} Investing in prevention and control of NCDs is essential for growth and development and, when carefully planned and implemented, is highly cost-effective, according to the WHO.
12. Tobacco use also has an impact on communicable diseases, worsening TB and HIV and AIDS and most recently, COVID-19. Smoking and exposure to second-hand

smoke account for one in five cases of TB, triggering inactive TB and making treatment for TB less effective. In people living with HIV-AIDS (PLWH), tobacco use increases the risk of getting TB and makes antiretroviral therapies less effective.^{vii} Tobacco users have been found to have worse COVID-19 outcomes than non-users.

13. In South Africa the estimated economic cost as a result of loss in productivity from absenteeism, and early retirement due to ill health was estimated at 6.7% of GDP in 2015 and is expected to increase to 7.0% of GDP by 2030.^{viii} *Prevention will reduce costs – tobacco taxation is a low-cost intervention with big improvements in health and in saving public funds.*
14. Global evidence shows that poor households are more sensitive to price increases and change their behaviour as a result.^{ix} In [South Africa](#), it has been shown that tax increases on cigarettes are more beneficial to the poor as they are more likely to stop smoking than those who are more affluent.^x They also benefit in the short and long term from reduced health costs and spend more on food and other essential household items as a result of reduced or no tobacco consumption. This is a critical benefit for the poor who are often catapulted into poverty as a result of healthcare costs.
15. The more important factors driving the illicit trade in cigarettes are non-price factors, such as weak regulation and poor enforcement. A 2019 World Bank report on taxation has refuted claims by the tobacco industry that increases in the price of cigarettes increases the illicit trade. It found instead that taxes and high prices have a very limited impact on the illicit market share at country level, and that the size of the illicit cigarette market is larger in countries with low taxes and low tobacco prices, and smaller in countries with higher cigarette taxes and prices.^{xi}

ⁱ World Bank Taxing Tobacco: A win-win for public health outcomes and mobilizing domestic resources available at <https://www.worldbank.org/en/topic/tobacco/brief/taxing-tobacco-a-win-win-for-public-health-outcomes-mobilizing-domestic-resources>

ⁱⁱ World Health Organisation Taxation available at <https://www.euro.who.int/en/health-topics/disease-prevention/tobacco/publications/key-policy-documents/who-framework-convention-on-tobacco-control-who-ftp/key-areas-of-tobacco-control-policy/taxation>

ⁱⁱⁱ Micheal Kofi Boachie, PhD, Laura Rossouw, PhD, Hana Ross, PhD, The Economic Cost of Smoking in South Africa, 2016, *Nicotine & Tobacco Research*, , ntaa162, <https://doi.org/10.1093/ntr/ntaa162>

^{iv} Patanavanich, Roengrudee, and Stanton A. Glantz. "Smoking is associated with COVID-19 progression: a meta-analysis." *Nicotine & Tobacco Research* (2020).

^v WHO Noncommunicable diseases increase risk of dying from COVID-19 in Africa available at <https://www.afro.who.int/news/noncommunicable-diseases-increase-risk-dying-covid-19-africa>

^{vi} WHO Saving lives, spending less A strategic response to noncommunicable diseases available at <https://apps.who.int/iris/bitstream/handle/10665/272534/WHO-NMH-NVI-18.8-eng.pdf>

^{vii} Jackson-Morris, A et al. "Clearing the smoke around the TB-HIV syndemic: smoking as a critical issue for TB and HIV treatment and care." *The international journal of tuberculosis and lung disease : the official journal of the International Union against Tuberculosis and Lung Disease* vol. 19,9 (2015): 1003-6. doi:10.5588/ijtld.14.0813

^{viii} Bruce Rasmussen Kim Sweeny Peter Sheehan Economic Costs of Absenteeism, Presenteeism and Early Retirement Due to Ill Health: A Focus on South Africa available at https://www.uschamber.com/sites/default/files/south_africa_summary_feb_final_draft_with_catherine_mellor_note.pdf

^{ix} Campaign for Tobacco free Kids Tobacco tax increases benefit Lower-income smokers and families available at <https://www.tobaccofreekids.org/assets/factsheets/0147.pdf>; Chelwa G, van Walbeek C. Assessing the Causal Impact of Tobacco Expenditure on Household Spending Patterns in Zambia. ERSA working paper 453 2014.

^x van Walbeek C. The Economics of Tobacco Control in South Africa. Department of Economics: University of Cape Town 2005.

^{xi} World Bank Confronting Illicit Tobacco Trade: A Global Review of Country Experiences available at <https://www.worldbank.org/en/topic/tobacco/publication/confronting-illicit-tobacco-trade-a-global-review-of-country-experiences>