1 March 2021

The Standing and the Select Committees of Finance

Parliament

Republic of South Africa

Dear Members of the Standing and Select Committees of Finance

**Tobacco excise taxes and the fiscal framework and revenue proposals**

1. The National Council Against Smoking (“the Council”) welcomes the call for public comments on the fiscal framework and revenue proposals and submit its views on tobacco excise taxes.

2.The Council is a not for profit organization established in 1976. Its mission is to promote public health through encouraging the creation of a tobacco-free society.

3. The apartheid government protected the tobacco industry and consequently cigarette smoking in South Africa increased throughout the period 1960-1990.

4. With the advent of democracy, the prevalence of cigarette smoking declined steadily in the 1990s and early 2000s, due in large part to increases in tobacco excise tax and the implementation of evidence-based tobacco control laws. Progress though had stalled, prior to the sales ban on tobacco and vaping products during the lockdown.

4. This submission focuses on two aspects: what is the right level of tobacco excise taxes and measures to combat the illicit trade in tobacco.

5. What is the right level of excise taxes?

This depends on the motive for the tax: is it to raise revenue, cover externalities, promote health, or a combination of factors?

a) If to raise revenues, it will be affected by several factors, including:

- Demand elasticity

- Potential for tax avoidance and illicit trade

b) If to cover externalities, depends upon:

- Increased health care costs due to tobacco-related diseases

- Lost productivity from diseases/death caused by tobacco

c) If to improve public health, tobacco consumption will be affected by:

- Price sensitivity. Younger and poorer people are more price sensitive.

- Health consciousness.

- Addiction. Those less addicted are more able to quit.

6. The evidence shows that large increases in excise tax will significantly reduce premature deaths from tobacco. The impact of the tax can be Increased if some of the tax revenues are used to support tobacco control or health promotion programmes.

7. The World Health Organization recommends that taxes should comprise 75% of the retail price. The World Bank suggests that tax account for 2/3 to 4/5 of price.

8. South Africa is at the lower end of this scale which implies there is much room for increases in excise tax to promote health.

9. The impact of a R1 increase in tax rates on revenue collection, smoking prevalence, and deaths in the population can be modelled. A model will be presented to the committees.

10. How can the illicit trade in tobacco be reduced?

11. The illicit trade is driven by numerous factors, including:

* Profits
* Consumer demand
* Supply
* Limited deterrence
* Corruption
* Weak tax administration.

12. Lower taxes will: reduce revenues, increase consumption, and not reduce illicit sales. The appropriate response is to crack down on the illicit market rather than foregoing tax increases.

13. How to reduce the illicit trade:

a) Strong tax administration

* + Prominent, high-tech tax stamps and other pack markings
  + Unique identification codes on packages
  + Export bonds
  + Tracking and tracing

b) Better enforcement

* + Increased resources with a focus on large scale smuggling
  + Stronger penalties

1. In summary, from a health perspective the goal of tobacco taxes is

- Increase cessation among current users

- Prevent relapse among former users

- Prevent initiation of regular tobacco use (especially by children)

- Reduce consumption among those who continue to use

1. The arguments about negative economic impact of tobacco tax increases are either false or overstated.
2. The success of the National Health Insurance is dependent upon reducing the disease burden in South Africa.

Thank you

Dr Yussuf Saloojee &   
Dr Sharon Nyatsanza

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