SOUTH AFRICA TOBACCO TRANSFORMATION ALLIANCE

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26 August 2021

Hon. J Maswanganyi, MP
Chairperson: Standing Committee on Finance (National Assembly)
PO Box 15
CAPE TOWN
8000

TRANSMITTED ELECTRONICALLY

Dear Sir

COMMENTS BY THE SOUTH AFRICA TOBACCO TRANSFORMATION ALLIANCE ON THE DRAFT RATES, MONETARY AMOUNTS & AMENDMENT OF REVENUES BILL, 2021 AND RELATED MATTERS

The South Africa Tobacco Transformation Alliance (SATTA) appreciates the opportunity to comment on the Draft Rates, Monetary Amounts & Amendment Bill 2021 and other matters outlined in the 2021/22 National Budget.

We would like to state upfront that we welcome the comments by the new Finance Minister, as quoted in News24 on 16 August 2021, that there will be no additional tax measures in the medium-term expenditure framework. We fully support this view.

When it comes to the specifics of the Draft Rates, Monetary Amounts & Amendment Bill 2021, therefore, our view is straightforward:

- What is proposed in the Draft Rates Bill – an 8% excise increase on cigarettes – is unjustifiable in the context of a projected inflation rate of only 4.9%.
- Furthermore, the hike proposed in the Bill will put the excise incidence on the cigarette's Most Popular Price Category (MPPC) at 45%, which is 12.5% or 5 percentage points higher than what National Treasury's own excise policy stipulates.

Let us explain why.

Our industry is already on its knees as a result of the high existing tax incidence coupled with the impact of the COVID-19 national lockdown ban on cigarette sales, both of which have benefited only the illicit

sector to the detriment of SARS tax collection and law-abiding and tax-paying farmers, processors, and manufacturers.

For example: an independent study by the Research Unit on the Economics of Excisable Products at the University of Cape Town showed that the duty not paid cigarettes market – aka the illicit sector -- grew by 104% during the lockdown period.

The same study concludes that sales of Peter Stuyvesant, the most popular brand in the legal duty paid segment, plummeted by over 54%.

It's public knowledge that National Treasury collected around 50%less than its budgeted figure for cigarette tax during the 2020/21 financial year (R7.58-billion compared to R14.6-billion). This speaks volumes and reinforces our argument, and our evidence, that the legal market has been massively disrupted by the illicit sector.

In light of this, we believe a more sensible approach is for Government to use excise policy to suppress the growth of the illicit market, **by closing the gap between DNP and DP cigarette prices, through gradual excise increases typically in line with inflation**.

However, the five-month ban on cigarette sales does not seem to have been taken into account at all in developing new excise proposals, which is highly unfortunate and quite frankly not acceptable. The ban destabilised the entire value chain and effectively handed over the industry to the illicit sector.

We therefore urgently request that the proposed increases be reconsidered, as they are not only in violation of National Treasury's own policy but will also make the cost of legal cigarettes prohibitive to the average consumer. This has the potential to hand the country's entire cigarette market over to the illicit sector, once and for all.

Lower sales of legal products, as you are well aware, means less excise revenue rather than more -- which is short-sighted to say the very least.

As SATTA, we believe the priority for Government right now should be to ensure an effective customs and excise administration and enforcement system for the tobacco industry – which, as SARS itself has admitted, will take several years. Only when this is in place – and when SARS is effectively collecting full excise from all manufactures and importers – should the existing excise policy be relooked.

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We have made it clear what we believe an "effective system" should include:
immediate enforcement of the SARS Productions Counter Rules by all local manufacturers.

- End to end frequent and comprehensive audits of all manufacturers.
- Stricter border control and enforcement;
- Ratification of the WHO Protocol and implementation of an independent track and trace system
- Implementation and full enforcement of a Minimum Retail Sales Price of R28 for 20 sticks.

Until this is done, we believe Government must **apply the existing cigarette excise policy** – in other words, set future excise increases at the higher of the excise incidence of 40% on the MPPC or forecast inflation.

This is in keeping with the rule of law, promotes regulatory certainty -- and allows the legal industry to recover volumes lost to the illicit sector.

We trust that our views have been clearly explained. However, if you would like more detail, please let us know and we will make ourselves available for a discussion.

Yours sincerely

Shadrack Sibisi
Chairperson