

Increase of Excise Duties on Tobacco

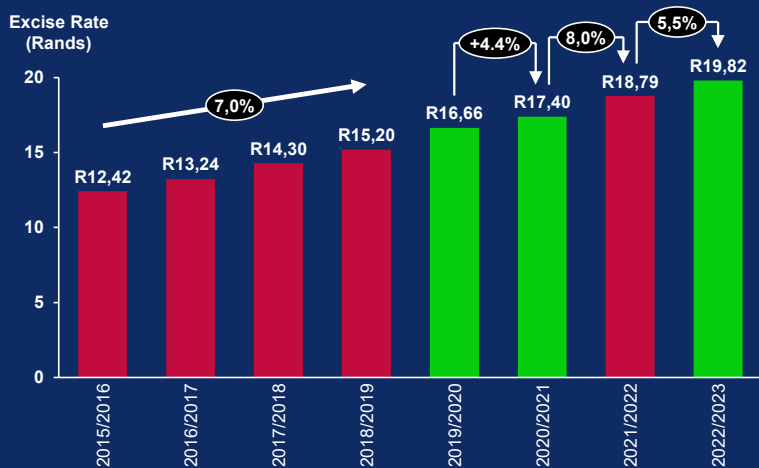
2022 Draft Rates Bill

PRESENTATION TO THE STANDING COMMITTEE ON FINANCE (NATIONAL ASSEMBLY)

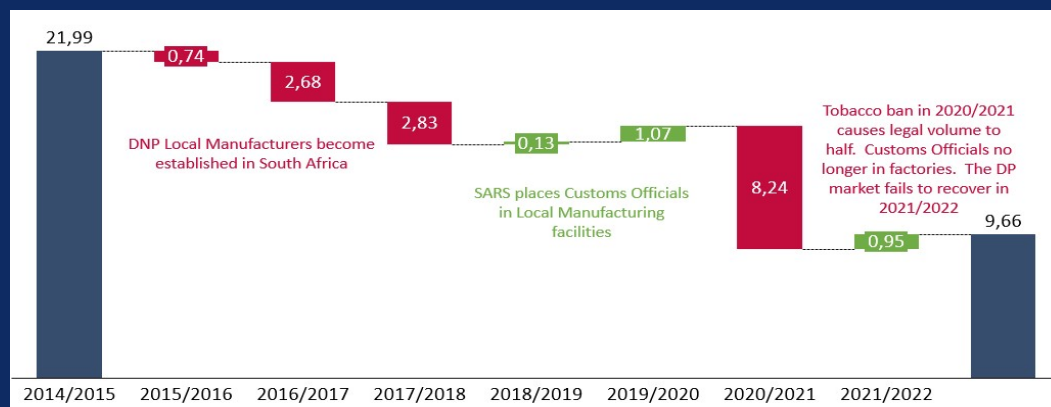
The 2022/2023, 5.5% excise increase has offered measured relief for deteriorating excise duty revenue receipts

- Forecast volumes for 2022/2023 illustrate a small recovery of volumes
- However, it is still anticipated that only 1/3 of duties will become excise revenue receipts
- Continued SARS actions may yield higher collections from prosecuting non-compliance

Multi-year Excise Rate Increases 2019 - 2022



**Local and Regional Manufactures sales is 30bn- 31bn sticks
Excise collection represents 10bn sticks only**

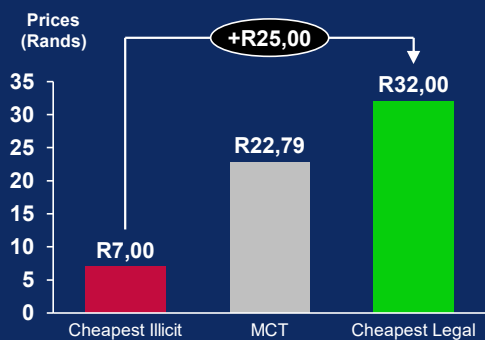


* Calculated by dividing the Revenue collected (as reported by National Treasury) by the applicable excise rate
 ** Calculated using Kantar Research data and Statistics South Africa Data

The legacy of rapid illicit trade growth and aggressive pricing continues to undermine policy

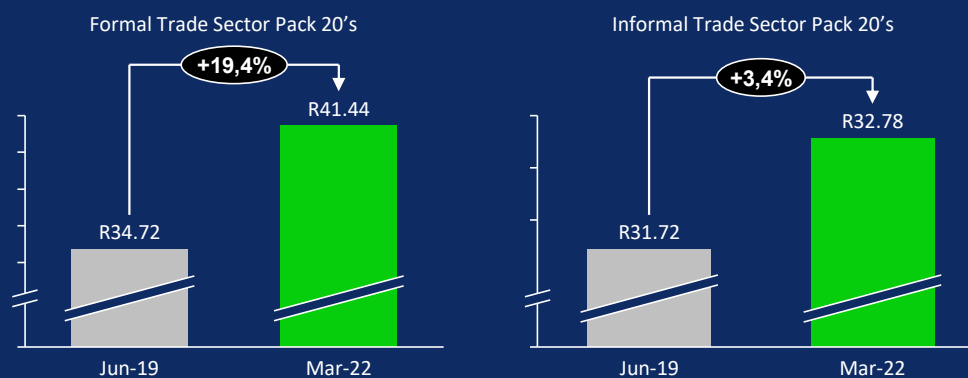
- Price war effect has destabilized pricing structures in the market at the expense of policy ambitions
- Market has undergone a market restructure as stretched consumers look for product at the cheapest stick level.
- Pack is no longer a relevant product class.
- Formal Market transferred policy decisions through pricing (19,4% vs 18.9pp) are become less competitive.

Cheapest Prices March 2022



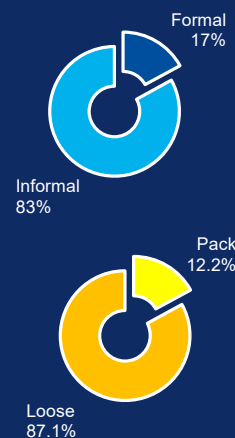
* Potential "loss leader" from legal manufacturers observed at R29, but only represents 0.28% of the legal market per Nielsen. Next price point is R32 representing 13.4% of the legal market per Nielsen

Weighted Average Prices per Sector- June 2019 vs March 2022



Excise increases	February 2019	February 2021	Increase
Excise Rate (Rands)	16.66	19.82	18.9pp

Market Structure 2022

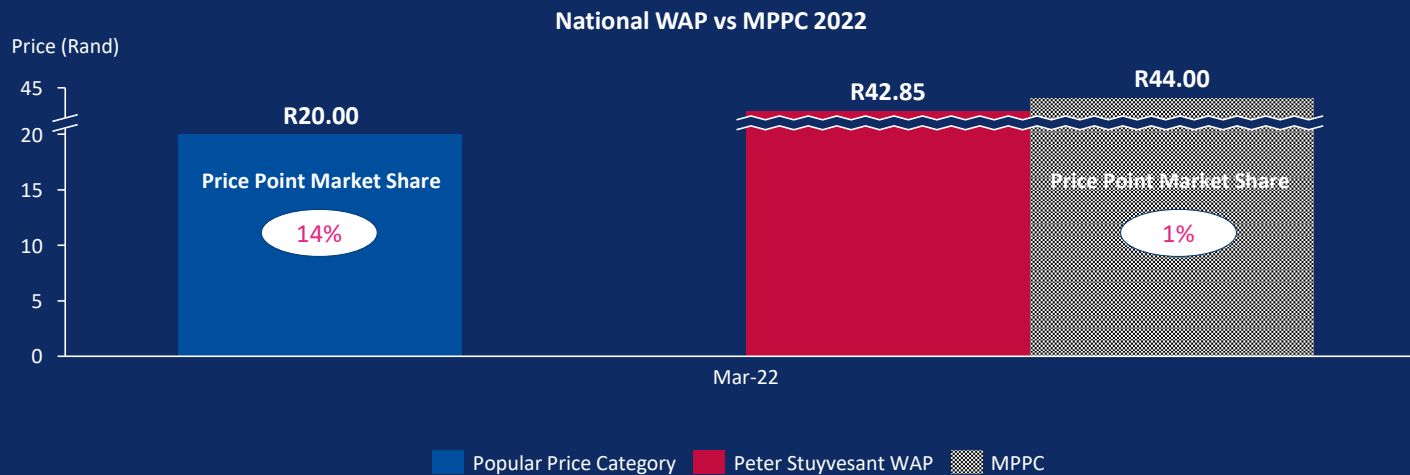


Anchor point for excise policy is out dated

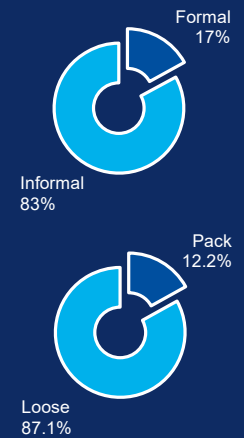


- Current MPPC price anchor point of R44 doesn't represent the "Most Popular Price Class"
- R20.00 is the Most Popular Price Class with 14% share
- 87% of cigarette sales is in loose sticks, with price points as of 50 Cent per stick
- Current Excise Policy is redundant by focusing on leading brands; because of illicit the market and policy transfer has fundamentally changed.

Category National Weighted Average Prices vs MPPC June 2019 - March 2022



Market Structure 2022



Our policy recommendations



1

New Excise anchor point: Weighed Average Price (WAP)

Align to global standards

2

Minimum Retail Price

Support enforcement and provide consumer visibility and clarity

3

Monitor Production and Distribution

Implementation of a SACU and FCTC aligned Track & Trace System

4

Balanced Excise rate approach

To support excise revenue collection and increase duty paid tax base

Thank you

