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## REEP: Research Unit on the Economics of Excisable Products

with the

### WHO FCTC Knowledge Hub on Tobacco Taxation & Illicit Trade

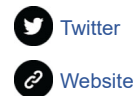
Newsletter #12, March 2021

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## Director's Message

Dear Friends

On 24 February 2021 the Minister of Finance, Tito Mboweni, presented the Budget for the 2021/22 financial year to Parliament. He announced an 8% increase in the excise tax on all tobacco and alcohol products. While this is less than many pro-health groups had advocated for, it is probably the highest rate than one can expect in the current economic climate. Importantly, instead of being apologetic about the increase in the "sin taxes" on these products, as has often been the case in the past, the Minister emphasised the public health rationale for the excise tax increases, and made it very clear that people change their consumption in response to a change in the prices of these products. This is a message that REEP has been advocating for many years, and it is encouraging that the Minister has included this message in his Budget Speech.

In a [written submission](#), and a subsequent oral submission to the Standing and Select Portfolio Committees of Finance, we indicated our appreciation of the Minister's stance and encouraged him to increase the excise tax further. We also indicated our concern with the high levels of illicit trade in South Africa, and asked why the government had not yet ratified the Protocol to Eliminate the Illicit Trade in Tobacco Products. The chair of the Committee, Mr Yunus Carrim, was very sympathetic to REEP's views, and indicated that South Africa should ratify the Protocol.

On 17 February 2021 the results of the third wave of the [NIDS-CRAM survey](#) were released. NIDS-CRAM is a broadly nationally representative survey and focuses on the impact of COVID-19 and the associated lockdown on important economic and social issues. REEP was fortunate to include a number of cigarette-related questions in the third wave of the survey. The NIDS-CRAM survey confirmed most of the findings of the three REEP surveys that we conducted in 2020, even though the REEP surveys were not nationally representative.

In the past two months we have had a number of interactions with groups in Africa. Recently REEP members presented on various issues on the economics of tobacco control at a [training workshop in Ghana](#). REEP members were also involved in providing feedback and support to [ACBF-sponsored think tanks](#) in developing research proposals to support tobacco control implementations in their respective countries. Together with partners in Kenya, REEP was part of an [inaugural meeting](#) on using fiscal measures (i.e. a health tax) to reduce the consumption of ultra-processed foods, including sugar-sweetened beverages, in Kenya.

Behind the scenes REEP members are involved in various research projects. Some of these projects are linked to formal studies (e.g. PhDs), but they all aim to address policy-relevant issues. In the past two months two papers, co-authored by REEP members, have appeared in *Tobacco Control*. The one paper considers trends in [illicit trade in the Philippines](#), and the other considers the different approaches that have been used to [measure the size of the illicit market in South Africa](#).



There is an upcoming event that we would like to bring to your attention. On 31 May 2021 the Development Gateway, in partnership with REEP, will launch the [Tobacco Control Data Initiative Dashboard for South Africa](#). We hope that both events will support tobacco control efforts, not only in South Africa, but across the continent and the world.

I hope you enjoy reading this newsletter. If you have any comments or suggestions, please contact us.

With best regards

**Corné van Walbeek**

Director: Research Unit on the Economics of Excisable Products



## REEP releases report on broadly nationally representative survey of smoking behaviour during the sales ban

During 2020 REEP conducted three surveys on the behaviour of smokers in response to the tobacco sales ban, that was imposed between 25 March and 17 August 2020. The resulting reports were reported on in detail in previous newsletters. A drawback of these surveys was that they were not nationally representative.

Toward the end of 2020, members of REEP were provided the opportunity to add tobacco questions to Wave 3 of the National Income Dynamics Study – Coronavirus Rapid Mobile Survey (NIDS-CRAM). NIDS-CRAM is a broadly nationally representative survey of the impacts of the COVID-19 pandemic on South Africa. Results of NIDS-CRAM Wave 3 were released on 17 February 2021

Amongst these well-publicised results was a report entitled [The market impact of the COVID-19 national cigarette sales ban in South Africa](#), authored by Corné van Walbeek, Robert Hill Sam Filby and Kirsten van der Zee. The authors also published an [op-ed](#) on the report in the Financial Mail.

Results of this study based on broadly nationally representative data largely confirmed the findings of the three previous REEP studies: while some smokers quit (between 7.9% and 15.3% of the sample) during the tobacco sales ban, the majority of smokers were able to buy cigarettes on the illicit market at highly inflated prices. The sales ban greatly altered the structure of the market, with the non-multinationals gaining market share at the expense of the multinationals.

As a result of these high prices, the authors estimate that that total expenditure on cigarettes increased from an annualised R32 billion before the sales ban to an annualised R72 billion at the peak of the ban, before falling to R31 billion after the ban. The authors estimate that National Treasury lost nearly R6 billion in revenues as a result of the sales ban.

The authors argue that rather than banning the sale of tobacco products, the government could have achieved a similar decrease in smoking prevalence by imposing a sharp increase in the excise tax on tobacco products. Whereas the sales ban has further entrenched the illicit market, a rapid increase in the excise tax would have provided the government with much-needed revenue.

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FEATURES / COVER STORY  
NIDS-CRAM SURVEY

### Tobacco sales: smoked out

SA's tobacco sales ban has reduced smoking prevalence in the country – but it has also probably fired up the illicit market

17 FEBRUARY 2021 - 10:00 by CORNÉ VAN WALBEEK, ROBERT HILL AND SAMANTHA FILBY & KIRSTEN VAN DER ZEE



## ACBF Think Tank Initiative gets further impetus



Consortium pour la Recherche Economique et Sociale

Une recherche de qualité au service du Développement



THE AFRICAN CAPACITY BUILDING FOUNDATION

FONDATION POUR LE RENFORCEMENT DES CAPACITES EN AFRIQUE

The Think Tank Initiative, initiated by the African Capacity Building Foundation (ACBF), and supported strongly by REEP, has progressed well in the past two months. Following an online webinar held in November 2020, six think tanks were assigned to REEP for additional technical support. Another five think tanks, based in Francophone Africa, are supported by the Consortium pour la Recherche Economique et Sociale (CRES) in Senegal.

A set of concept notes were received and reviewed in December 2020. Early in the new year, revised concept notes were received for further comment. REEP then engaged directly with each research team via zoom meetings to clarify the comments and provide additional guidance. The final set of studies to be conducted are as follows:

- [Botswana Institute for Policy Development and Analysis](#) (Botswana) – The effect of taxation on tobacco consumption and government revenue in Botswana
- [Youth Enterprise Services](#) (Malawi) – Cost of smoking in Malawi: A case study

- **Zambia Institute of Policy Analysis and Research** (Zambia): Consumption and pricing of new and emerging tobacco products in Zambia:
- **Institute for Policy Analysis and Research** (Rwanda) – Determinants of tobacco use among adult males in Rwanda.
- **Zimbabwe Economic Policy Analysis and Research Unit** (Zimbabwe) – The impact of tobacco control measures on livelihoods: A grower-based perspective
- **Centre for the Study of the Economies of Africa** (Nigeria) - Examining the effectiveness of a robust cigarette pack labelling policy in Nigeria

REEP will continue to play an oversight role in the research process. We wish the thinks tanks all the best with their research, and trust that the outputs will be useful to affect positive change in the respective countries.

## Knowledge Hub collaborates with the Institute of Policy Studies of Sri Lanka on an excise tax formula



Members of the Knowledge Hub are supporting the Institute of Policy Studies (IPS) of Sri Lanka to develop a formula to simplify the tax structure and to regularly update the excise tax on tobacco products in Sri Lanka. Sri Lanka currently has four tiers of taxation.

One of the researchers from the IPS attended a Knowledge Hub workshop in November 2019. The IPS has been working with the Ministry of Finance and the National Authority on Tobacco and Alcohol (NATA) in Sri Lanka. They have used the TETSIM model, together with their own estimates of the price elasticity of demand for cigarettes, to propose a four-year plan (2020-2023) which aims to increase the excise tax in such a way that it will effectively lead to the collapse of the tiers into a uniform tax rate. There is sufficient political will to make substantial changes to the excise tax structure.

NATA has put together a subcommittee of experts, including IPS, to further develop these proposals. Members of the Knowledge Hub provided technical guidance to IPS on developing a cigarette tax formula. NATA included IPS' proposal in their overarching policy proposal document, which has been sent out to the Minister of Finance and other key officials in the Ministry.

The Knowledge Hub will be watching the outcome of the proposal and will support the IPS and NATA where possible.

## REEP staff present at Tax Justice Network Africa Workshop in Accra, Ghana

Zunda Chisha and Hana Ross, together with Micheal Boachie, a former postdoc fellow at REEP, were recently invited by the Tax Justice Network Africa (TJNA) to present at a workshop on tobacco taxation in Ghana. The TJNA is a pan-African research and advocacy organisation established in 2007. It aims to disseminate targeted data and analyses of the tobacco sector at the national level to ensure that policymakers and advocates have a shared understanding of the potential role that tobacco taxes can play in reducing tobacco use, improving health outcomes, and mobilising domestic resources within the broader lens of tax justice across the continent.



The workshop on tobacco control was held between 22 and 26 March 2021. Zunda and Micheal travelled to Ghana, while Hana made a virtual presentation. The REEP team presented on various topics including tax systems in Africa, tax modelling, illicit trade and tobacco taxes. The meeting was attended by members of the Catholic Justice and Peace Commission (CENCO) and the Initiative Locale pour le Développement Intégré (ILDI) in the Democratic Republic of Congo, the Civil Society Legislative Advocacy Centre (CISLAC) in Nigeria, the Centre for Trade Policy and Development (CTPD) in Zambia, the National Taxpayers Association (NTA) in Kenya and Vision for Alternative Development (VALD) in Ghana. The workshop presentations were received well, and participants are eager for further collaborations with REEP.

## Inception meeting to promote healthy diets and prevent NCDs held in Kenya



In 2019, REEP, the International Institute for Legislative Affairs (IILA) and Kula Vyema Centre of Food Economics (previously known as Agri-Foods Kenya), received a grant from the IDRC to promote healthy diets and prevent NCDs in Kenya.

The project seeks to generate evidence to support the uptake of policy recommendations on fiscal measures that facilitate reduced consumption of ultra-processed foods, including sugar-sweetened beverages in Kenya. Like most countries, Kenya is experiencing rapid growth in NCDs. Unhealthy diets are associated with obesity, diabetes, and cardiovascular diseases, and as such are among the major risk factors for NCDs.

For this project, REEP will estimate the price and cross-price elasticities of demand for a variety of sugar-sweetened beverages, and use these elasticities to develop a model that aims to determine the fiscal and health implications of a tax on sugar-sweetened beverages. The model is based on the same principles of the TETSIM model (which was developed to simulate the impact of tobacco taxes), but will be adapted to sugar-sweetened beverages.

The official inception meeting was hosted by IILA on 9 March 2021, in Nairobi. Many of the delegates were from the Ministry of Health. Other delegates included members of the main funding agency (the IDRC), the WHO, Kenya Revenue Authority and NGOs. The REEP team was represented virtually by Corné van Walbeek and Senzo Mthembu. Corne argued that a well-crafted tax on sugar-sweetened beverages can play a particularly effective role in reducing the consumption of liquid sugars in such beverages. By

increasing the retail price, the tax will reduce the demand for these products, and the imposition of such a tax will encourage manufacturers to reformulate their products so that they contain less sugar.

In South Africa, the implementation of the Health Promotion Levy on sugar-sweetened beverages has been very successful in encouraging manufacturers to reduce the sugar content of their products. A similar tax structure on alcohol, where the alcohol content, rather than the volume of beer or spirits is taxed, has had a similar effect. Low-alcohol beers and spirits have been increasing their share of the market since this tax structure has been introduced.

The project is ongoing.

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## Launch of the South Africa Tobacco Control Data Initiative Dashboard on 31 May 2021

In January 2020 Development Gateway (DG), a global non-profit organization that specializes in data for development, started a three-and-a-half year partnership with REEP. The programme is funded by the Bill & Melinda Gates Foundation, and is called the Tobacco Control Data Initiative (TCDI).



TCDI aims to create user-friendly tobacco control online dashboards that respond to the needs of the tobacco control community, including government stakeholders, civil society organisations and academia, in up to eight African countries. Four countries have been identified for the first phase: South Africa, Kenya, Nigeria and Ethiopia.

The stakeholders' needs are central to the dashboard design process. The TCDI team engage regularly with stakeholders through meetings, workshops and online feedback review sessions. The dashboard draws on both primary and secondary data and presents the tobacco control information in user-friendly formats such as graphs, infographics, "myths and facts" and success stories. The dashboard will periodically be updated with new information as this becomes available over the course of the programme.

For South Africa the following aspects will be included in the dashboard:

1. Tobacco prevalence,
2. Health burden of tobacco,
3. Illicit tobacco,
4. Impact of existing and future tobacco policies,
5. Novel products (electronic cigarettes and heated tobacco products), and
6. Tobacco agriculture

In South Africa stakeholders include the National Department of Health, National Treasury, Statistics South Africa, World Health Organisation, Human Sciences Research Council, Medical Research Council, Campaign for Tobacco Free Kids, National Council Against Smoking, the Tobacco, Alcohol and Gambling Advisory, Advocacy and Action Group, Sefako Makgatho Health Sciences University, and many others.

The South African dashboard launches on World No-Tobacco Day, 31 May 2021.

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## Analysing the trend of illicit tobacco in the Philippines from 1998 to 2018



In February 2021 the *Tobacco Control* journal published a [paper](#) on the trend in the size of the illicit market in the Philippines between 1998 and 2018. Hana Ross of REEP was one of the co-authors.

The authors estimate the size of the illicit tobacco market in the Philippines using a gap analysis. The "gap" is the difference between total cigarette consumption, based on surveys, and legally sold cigarettes. The results show that the illicit cigarette market share declined steadily and substantially from 2003 to 2013. In spite of the large tax increases by the Philippine government through the Sin Tax Law that was initiated in 2013, the illicit share in 2018 was similar to its 1998 level of 16% of the total cigarette market. The authors conclude that there is no evidence of a positive relationship between tobacco taxes and size of illicit cigarette market in the Philippines. This conclusion is similar to REEP's findings from other countries such as Gambia, Georgia, Mongolia, and South Africa.

The paper was coauthored by Monica Paula Lavares and Ariza Francisco from the Ateneo de Manila University, Nadia Doytch from the Brooklyn College and Hana Ross from REEP. It was a result of a 2-year collaboration on a project Advancing Tobacco Taxation in Southeast Asia, funded by Canada's International Development Research Centre. Both Hana and Nadia are members of the advisory committee for the project.

Read the paper [here](#).

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## REEP colleagues publish special communication on measuring illicit trade in *Tobacco Control*

In February 2021, Nicole Vellios, Corné van Walbeek and Hana Ross published a special communication in *Tobacco Control* titled: [Measuring the illicit cigarette market in the absence of pack security features: a case study of South Africa](#). This paper consolidates a number of REEP studies that estimate the size of the illicit market in South Africa. In contrast to many other countries, where smuggling is a significant problem, illicit trade in South Africa is dominated by manufacturers not paying excise taxes (currently R18.79 (about 1.25 USD) per pack of 20 cigarettes).

Examining cigarette packs for an excise stamp is not an option as South Africa uses a meaningless antiquated diamond-shaped excise stamp impression that is barely visible and easy to counterfeit. Most packs, including illicit packs, bear the diamond stamp. In the absence of such a tax stamp, the retail price of the product is the most useful feature to determine whether a product is legal or not.

We analysed the methods and results from three of our published articles that used various approaches that do not require pack security features to measure cigarette illicit trade: (1) gap analysis, (2) price threshold method using secondary data from a national survey, and (3) price threshold method using primary data collected in low socioeconomic areas. Gap analysis compares self-reported consumption estimates (from national survey data) with legal sales (as declared to the excise tax authority). The price threshold method identifies a price point that separates legal cigarettes from illegal cigarettes.

The aim of the paper is to encourage researchers living in countries that also lack reliable pack security features, to conduct similar studies. We provide methodological insights and background information. We discuss the advantages and disadvantages of each method. Researchers can use more than one method of estimating the size of the illicit market to increase confidence in the obtained results.

Read the paper [here](#).

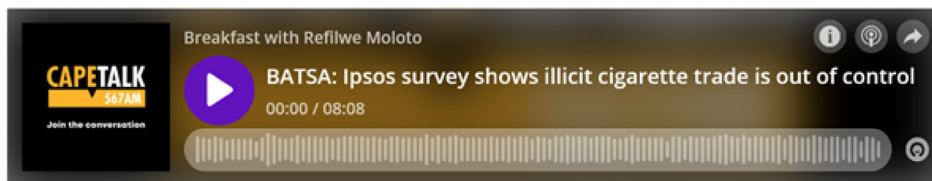
#### What this paper adds

- ▶ The paper provides practitioners with a guide on how to measure illicit trade in countries that do not have tax security features, using South Africa as a case study.
- ▶ South Africa provides a good example of how researchers were creative in applying different methods to measure illicit trade.
- ▶ The advantages and disadvantages of the gap analysis and price threshold method are discussed.

## REEP in the News

Selected media coverage includes:

- 25 February, Corné and Sam wrote an op-ed in the Daily Maverick: [Close, but no cigar: Excise tax on cigarettes should have been increased by 50%](#).
- 11 March, Corné was quoted in an article by Fin24: [Where there's smoke... Questions raised about latest illicit cigarette report](#).
- 11 March, Corné was interviewed on [CapeTalk](#) discussing a recently released BATSA commissioned report on illicit trade in South Africa.



For the full media clippings list for February and March 2021, please click [here](#).



Regards,  
The REEP team

If you have any comments or feedback on this e-newsletter, or suggestions for possible story ideas for our next issue, please get in touch with the REEP team, by emailing us at:

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