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REEP: Research Unit on the Economics of Excisable Products

Newsletter #3, September 2019

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Message from the Director

Dear friends and colleagues

It seems likely that, in the next few months, the Control of Tobacco Products and Electronic Delivery Systems Bill will be discussed at public hearings in South Africa. This bill, which is intended to replace the Tobacco Products Control Act of 1993 and its various amendments, aims to do five things:

1. Introduce plain packaging on all cigarette packs
2. Make all public places 100% smoke-free
3. Ban cigarette vending machines
4. Greatly reduce all point-of-sale advertising, and
5. Regulate electronic nicotine delivery systems as tobacco products.



From precedent in other countries, we know that the tobacco industry will strongly oppose the proposed legislation. They will try to swing public opinion against the bill. Their single most important argument will probably be that the proposed legislation will increase illicit trade.

Illicit trade in South Africa is a major problem. Recently published research by members of REEP indicates that the illicit market comprises more than 30% of the total cigarette market. The recently published book, *Tobacco Wars*, by Johann van Loggerenberg, previously the head of one of the special investigative units at the South

In this newsletter we report on a number of published papers and projects which focus specifically on the illicit market in South Africa and beyond. While the tobacco industry typically points to high and rising excise taxes as the main cause of illicit trade, our research indicates that the matter is not as simple. While high and increasing taxes may create an incentive to trade in illicit cigarettes, institutional factors, like the problems at SARS and the pervasiveness of corruption, is much more linked to the growth in the illicit market. The solution to illicit cigarettes is not lower taxes, but better enforcement.

We hope that you will enjoy reading this newsletter. We value your feedback. If you want to comment on the newsletter, please write to us at sharon.debruyns@uct.ac.za, or visit our websites: www.tobaccoecon.uct.ac.za or <https://untobaccocontrol.org/kh/taxation/>.

We would very much like to hear from you.

With best regards,

Corné van Walbeek

Director: REEP

The Illicit Trade Project - LMICs

The tobacco industry lobbies extensively against tax increases, arguing that these drive up illicit trade in tobacco. This makes providing empirical evidence on actual market responses to higher taxes imperative. If tax increases do not substantially change the magnitude and the nature of illicit tobacco trade, such taxes are an effective tool to lower smoking prevalence by lowering demand through higher prices leading to a major improvement in public health.

This project funded by the Cancer Research UK (CRUK) began in November 2016 and investigated the relationship between tobacco tax increases and the illicit trade in cigarettes in four low- and middle-income countries (LMICs). In addition, the project was building in-country research capacity. The REEP project's team include Hana Ross, Nicole Vellios, Zunda Chisha, Laura Rossouw, Kirsten van der Zee, and Megan Little.

We identified four countries in which a tax increase was anticipated between 2017 and 2018 and work closely with the local teams to capture data on the size of illicit cigarette market pre and post a tax increase. The methodology varied by country due to local circumstances, but in all cases it involved examining cigarette packs (discarded or presented by smokers). We have organized multiple household surveys in 3 out of 4 countries.

The analysis of the pre and post tax increase data revealed that tax increases have not affected illicit trade. Evidence from this project is important for guiding the tax decisions of government in LMICs.

The results of this project have been disseminated through research papers, workshops, policy briefs and conference presentations, as well as in a special supplement of Tobacco Control journal focusing on illicit trade in tobacco products:

- Zunda Chisha, Mohammed L. Janneh, Hana Ross. **Consumption of legal and illegal cigarettes in The Gambia**. April 2019. Tobacco Control. doi:10.1136/tobaccocontrol-2019-055055
- Hana Ross, Nicole Vellios, Tsetsegsaikhan Batmunkh, Myadagmaa Enkhstogt, Laura Rossouw. **The Impact of Tax Increases on Illicit Cigarette Trade in Mongolia**. Tobacco Control. 2019. doi:10.1136/tobaccocontrol-2018-054904
- Megan Little, Hana Ross, George Bakhturidze, Iago Kachkachishvili. **Illicit Tobacco Trade in Georgia: Prevalence and Perceptions**. Tobacco Control 2019; doi:10.1136/tobaccocontrol-2018-054839.

The last paper covering the situation in six South African townships has been submitted to Tobacco Control journal and is currently under review.

The country level dissemination workshops took place in Mongolia on November 28, 2018, in The Gambia on May 14, 2019, and in Georgia on September 19, 2019.



The results of this project were presented at the 4th ENSP-SP International Tobacco Conference in Bucharest in March 2019, the SRNT Meeting in Oslo in September 2019, and will be presented at a conference in Tokyo in October 2019.

The project facilitates the REEP's engagement with policy makers and researchers in LMICs, and in this way contributes to the KH activities.

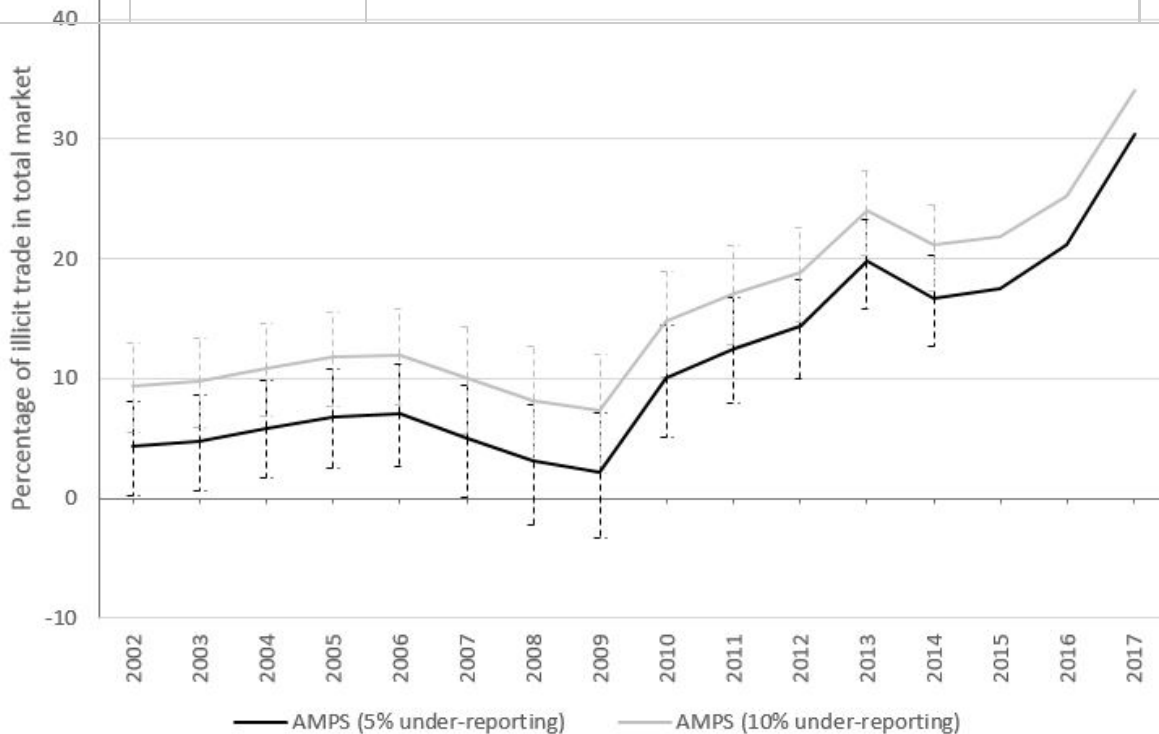
Illicit cigarette trade in South Africa: 2002–2017



In August 2019, Nicole Vellios, Corné van Walbeek and Hana Ross published a [paper](#) on trends in illicit trade in South Africa. They found that about 30% – 35% of the total cigarette market in 2017 was illicit, and that the illicit cigarette market had been increasing rapidly after 2010, and especially since 2015. The presence of illicit trade undermines the effectiveness of tax increases as both a public health and a fiscal measure, because it introduces cheaper alternatives to legal, full-priced cigarettes.

Trends in the size of the illicit cigarette market in South Africa between 2002 and 2017 were assessed using gap analysis. Tax-paid cigarette sales are compared with consumption estimates from two nationally representative surveys: the All Media and Products Survey and the National Income Dynamics Study. Since 2010, illicit trade has increased sharply. The acceleration in the growth of the illicit market since 2015 corresponds with a turbulent time at the South African Revenue Service, when many of the enforcement functions were greatly reduced. The current levels of illicit trade are extremely high and need to be addressed urgently by implementing effective control mechanisms such as a track and trace system to monitor the production, taxation, and sale of cigarettes.

Click [here](#) to read the full paper.



Notes: Since smokers under-report the amount of cigarettes they consume, we inflate self-reported consumption estimates to account for this. The calculation for 5% under-reporting is $x/0.95$, where x is self-reported consumption. A similar principle applies for 10% under-reporting.

Knowledge Hub Supports St Helena to Raise Excise Taxes



Over the last year, the Knowledge Hub has been providing technical assistance to the island nation of St Helena, assisting with providing tax modelling and revenue predictions of a potential increase in the excise tax levels of tobacco. The assistance was provided in collaboration with the Health Promotion and Social Marketing Lead based within the St Helena government.

Although it is classified as a United Kingdom Overseas Territory, an aging population and low levels of average income hold various macroeconomic challenges for the nation. The rising non-communicable disease burden necessitates an appropriate intervention. This has resulted in political support for developing NCD prevention policies and the development of a Health Promotion strategic framework.

Increased taxes on tobacco products were considered within a framework of strategies to decrease smoking prevalence (including smoke-free policies and smoking cessation programmes). The Knowledge Hub supported the Health Promotion and Social Marketing Lead of St Helena by modelling the likely impact of an increase in the excise tax, on smoking prevalence and government revenue. The collaboration between the Knowledge Hub and the government finally resulted in a 14% increase in tobacco excise taxation rates in September, 2019.

Dataset on Discarded Cigarette Packs in Mongolia

Laura Rossouw and Nicole Vellios recently published an [article](#) in *Data in Brief*, which documents a recently-collected dataset on discarded cigarettes packs in Mongolia. Discarded packs were collected from the ground or from waste bins in the capital city (Ulaanbaatar) and two provinces (Dornod and Bayan Ulgii). Both of these provinces border China and the Russian Federation.





Packs were collected over three rounds of data collection (round 1: April 2017, round 2: August/September 2017 and round 3: May/June 2018). In total, 7494 packs were collected in round 1, 5852 packs in round 2 and 6258 packs in round 3. The dataset consists of 25 variables which describe each pack in detail, including information on excise tax stamps, health warnings, tar and nicotine levels, brand name, and the names of the manufacturer and/or importer.

The data also contains detailed information on graphic health warnings, including their size (in proportion to the total package size) and specific images. This dataset can be used to see if the required health warning, nicotine and tar content on cigarette packages are being implemented according to Mongolian laws on cigarette packaging. Any additional promotional content displayed on cigarette packs is recorded. This can be used to identify pack design features and marketing strategies. They can also be used to see what strategies the tobacco industry is now using to market cigarettes. The dataset contributes to

existing global databases on cigarette packs, such as the John Hopkins School of Public Health's **Tobacco Packs Surveillance System**.

This data is freely available on the DataFirst [data repository](#). This data was used for a research article titled **"The impact of tax increases on illicit cigarette trade in Mongolia"** which was published by Tobacco Control in 2019.

Back to Basics: B2B#2 & B2B#3

THE RATIONALE FOR TOBACCO TAX & PRICE MEASURES

August 2019

Tobacco control is a development issue, and tobacco tax reform is a tool for economic development.

Tobacco consumption holds serious consequences for public health

- It directly affects morbidity and mortality, with approximately 7 million people dying annually from tobacco-related diseases.
- It also affects hunger and nutrition: households that spend more on tobacco products spend less money on food than households that do not spend on tobacco.

Tobacco consumption also has an impact on users' economic well-being

- The health consequences that result from tobacco consumption perpetuate a poverty cycle by increasing out-of-pocket health expenditures.
- In low- and middle-income countries, where household budgets are smaller, households are spending a large portion of their household budget on tobacco products.
- Spending on tobacco crowds out spending on education and food.

Tobacco consumption also holds country-level economic consequences

- Tobacco costs the global economy more than USD 1852 billion per year (+1.3% of global GDP).
- There is also a loss of productive labour due to tobacco-related deaths.
- There is evidence that other crops yield higher returns.

Tobacco consumption and farming has consequences for the environment

- Cigarette butts are bad for the ocean – it is one of the most common types of beach debris. This in turn kills aquatic life.
- Tobacco farming leads to substantial deforestation.

Tobacco taxation improves public health outcomes

- An increase in tobacco taxation typically increases the retail price of tobacco.
- Global evidence shows that an increase in retail price will decrease the demand for tobacco. In low- and middle-income countries, a 10% increase in tobacco will roughly result in between four and eight percent decrease in consumption, although the results differ across countries.
- The decrease in tobacco consumption will have positive health consequences for smokers (both active and passive) and decrease mortalities and morbidities from tobacco-related diseases.

It is an effective source of government revenue

- Tobacco is an addictive substance – as a result, the demand for tobacco is inelastic. When we increase the tax on tobacco, the decrease in consumption will be proportionally less than the increase in tax.
- Evidence from South Africa: The graph shows the increase in the net excise tax revenue from tobacco taxation in SA since the increase in the net excise tax rate in the 1990s.

Source: Statistics South Africa, 2018

THE RATIONALE FOR TOBACCO TAX & PRICE MEASURES

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A CALL FOR OPEN ACCESS DATA ON TOBACCO TAXATION

August 2019

The Impact of Tobacco Consumption

- Tobacco consumption accounts for more than 8 million deaths annually, of which 1.2 million are attributable to second-hand smoking.
- It also affects household expenditure by shifting expenditure from necessities like food and education to tobacco expenditure.
- Cigarette butts are the leading plastic polluters, with an estimated two-thirds of the billions of filters used each year tossed into the environments, which inhibit plant growth and affect marine life.

Reliable Tobacco Tax Data Sources

- There is a misconception that tobacco tax data is non-existent but such data are routinely collected by governments.
- The Ministries of Finance and Customs Units are reliable data sources for excise tax revenue, tobacco import duties, general sales tax (GST) and value added tax (VAT) data.
- Policymakers should consider opening access to their data to ensure evidence-based research on tobacco taxation takes place.

Data Access and Data Quality

- Tobacco data are sometimes available through commercial "data brokers".
- It is difficult to confirm the quality of commercially produced datasets, as access restrictions hinder data scrutiny by the wider academic community.
- Open access data allows for data quality assessments.
- In order to promote sound research in tobacco taxation, we need to promote open access data.

Open Access Data Promotes Research

- The Data on Alcohol, Tobacco and Alcohol (DATA) in Africa Project provides open access to economic data on alcohol, food, and tobacco for African countries.
- Researchers can either access data on the DATA portal or learn about where they can access data shared on other sites.
- Opening access to data on the DATA Project does, is a primary tool for promoting evidence-based research on tobacco taxes.
- Facilitating evidence-based research on the benefits of tobacco taxation creates the gateway necessary for tobacco tax policy changes.
- Data owners should open access to their data to promote country-specific tobacco tax research.

Why is Tobacco Taxation Data Important?

- Effective tobacco taxes significantly reduce tobacco consumption while simultaneously generating government revenue and curbing the public health effects of tobacco use.
- However, some governments are still reluctant to raise tobacco excise taxes as a result of the tobacco industry's misleading claims that tobacco tax hikes lead to increased illicit cigarette trade.
- This creates a demand for evidence-based research on the advantages of tobacco taxation and its effects on illicit trade.
- Such evidence will motivate governments to implement tobacco tax increases.
- Sound research requires reliable data, which in turn drives a demand for tobacco taxation data.

Tobacco Tax Data for Research

- Researchers are often interested in tobacco tax data disaggregated by brands, time period (e.g. monthly or annually) and tobacco product (e.g. cigarettes, cigars).
- Such data should be available as open access to promote research.

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In the past two months the Knowledge Hub has published two new Back to Basics (B2B) policy briefs in the series covering various topics on tobacco taxation. In addition to the first covering **Tobacco Taxes and Tax Administration**, the Knowledge Hub published a second brief in early August on **The Rationale for Tobacco Tax and Price Measures**, and a third in late August titled **A Call for Open Access Data on Tobacco Taxation**. The latter brief explains the importance of reliable data on tobacco taxation, and its impact on research.

Our next two B2B briefs will cover the topics of elasticity and illicit trade.

Published under the banner of the WHO FCTC Knowledge Hub on Tobacco Taxation and Illicit Trade, these one-

Recently Published:

- Data Article: [Dataset on discarded cigarette packs in Mongolia](#), by Laura Rossouw and Nicole Vellios in *Data in Brief*. (September 2019).
- [Illicit cigarette trade in South Africa: 2002–2017](#), by Nicole Vellios, Corné van Walbeek and Hana Ross in *Tobacco Control*. (5 August 2019).

In the News:

- Op-ed by Nicole Vellios and Sam Filby: [Sifting out facts in the tactics used by the tobacco industry against plain packaging](#), Daily Maverick, 4 August 2019.
- Nicole Vellios quoted in: [The Smoking Gun: SARS goes after illicit cigarette trade](#), Daily Maverick, 20 August 2019.
- Corné van Walbeek quoted in: [Sars comes under fire for plan to smoke out illicit cigarettes](#), The Times, 2 September 2019.
- Laura Rossouw quoted in: [Weet SA wat rook die ekonomie kos?](#) Die Rapport, 8 September 2019.

Weet SA wat kos rook die ekonomie?
Riana de Lange

Dis tyd dat ons bereken wat siektes die ekonomie kos, sê dr. Laura Rossouw, senior navorsers oor

tabak-beheer aan die Universiteit van Kaapstad. Die Wêreldgesondheidsorganisasie (WGO) sê rookverwante siektes en die gepaardgaande verlies aan produktiwiteit beloop 1,8% van wêreldwye BIP. Rossouw sê wetmakers moet weet wat die koste vir Suid-Afrika is ten einde beleid te formuleer. Na raming veroorsaak rookverwante siektes tussen 7% en 13% van sterftes van volwassenes in Suid-Afrika en die persentasie

van die BIP is waarskynlik soortgelyk aan die WGO-syfer. Rossouw en haar medenavorsers, drs. Micheal Kofi Boachie en Hana Ross, aan die Navorsingsentrum vir die Ekonomie van Aksynbare Produkte (Reep), is besig met 'n omvattende studie om die regstreekse en onregstreekse koste van rookverwante gesondheidsprobleme in die land te kwantifiseer. Volgens die WGO gaan 5,7% van die wêreldwye besteding aan

gesondheidsorg aan die behandeling van rookverwante siektes. Maar die werklike koste is nóg hoër as die gepaardgaande verlies aan produktiwiteit bygereken word. Daarby kom ook die voor-

tydige sterftes van mense wat nog kon werk en hul toekomstige verlies aan inkomste.

Volgens Mark Goodchild van die WGO was rookverwante siektes in 2012 verantwoordelik vir 12% van alle sterftes onder mense van werkende ouderdom.

Rossouw sê vorige studies oor die koste van rook in Suid-Afrika het gefokus op siektes soos kanker, hart- en longsiektes. Die nuwe studie is omvattender en sluit agt siektetoestande in soos tuber-

kulose, griep en longontsteking, serebrovasculêre toestande (te doen met die bloedsate van die brein) en chroniese respiratoriese siektes.

Sy sê al het minder mense in Suid-Afrika gerook, kan die kosteimpak steeds toeneem omdat dit dekades kan neem voordat iemand siek word van 'n rookverwante toestand.

Hoewel Suid-Afrika die afgelope 20 jaar baie gedoen het om rook en die negatiewe gevolge daarvan deur wetgewing te bekamp, moet daar nog beëwag gemaak word om die koste vir die land te verminder.

'n Konsepwet oor die beheer van tabakprodukte (ook e-sigarette) is onlangs gepubliseer wat alreë rook binnenshuis wil verbied asook in motors waarin kinders jonger as 18 jaar ry.

Rossouw sê wêreldwyd hou sowat 14% van sterftes wat aan rook toegeskryf word verband met sekondêre rook.

Events: Recent

ESSA Conference

REEP organised a special session at the [Economic Society of South Africa \(ESSA\) biennial conference](#) which took place during September 2019 in Johannesburg. The session was titled "*The use of excise taxes to improve public health: a future research avenue*".



Over the past 25 years, South Africa has used health taxes as a tool to address rising rates of non-communicable diseases. In 1994, at the dawn of democracy, the government announced that it would use excise tax increases to reduce tobacco consumption. This strategy has proven to be extremely successful, with adult smoking prevalence decreasing from about 33% to 20% during these 25 years.

There was a major revamp of the alcohol tax system in 2002 to make it more incentive-compatible, both on the supply and demand sides. By taxing the alcohol content, rather than the volume of the beverage, the alcohol tax system has successfully encouraged some producers to reduce the alcohol content of their products. More recently (1 April, 2018), a health levy has been imposed on sugar-sweetened beverages.

The purpose of this session was to bring together researchers working in the economics of excisable products and to discuss the research done in South Africa. Laura Rossouw from REEP chaired the session, and Micheal Boachie (REEP), Grieve Chelwa (UCT Business School) and Nick Stacey (Wits PRICELESS) each presented a recent paper. Each presenter also touched upon the setting of a research agenda for South Africa in this particular field. Micheal presented the first round of results of the economic costs of smoking study in South Africa, a discussion of which was subsequently published in the well-read Afrikaans newspaper Rapport.

Two members of REEP, Hana Ross and Samantha Filby, collaborated with the WHO Office in Georgia to host a workshop on illicit trade in tobacco products in the country's capital, Tbilisi, in September 2019. The workshop was targeted at senior members of the civil service who deal with the monitoring, investigation and seizures of illicit product at the border and in Georgia's free trade zones.



Although the illicit market in Georgia is relatively small, Georgia is a transit country for illicit tobacco products destined for its neighbouring countries (mainly Turkey, Azerbaijan and Kazakhstan), and Singapore. Tax avoidance is also major problem in the country because of large differentials in tax rates between filtered and unfiltered cigarettes. This creates an administrative loophole that the tobacco industry exploits to avoid paying the correct taxes. Another tax avoidance tactic practiced by the industry in Georgia is that of forestalling, i.e. where the industry orders an excessive number of tax stamps just before a tax increase with the intent to use these dated, less-expensive stamps after the tax increase comes into effect. These tactics undermine the public health impact of tobacco taxation and decrease government revenues.

The purpose of the workshop was to disseminate knowledge on existing measures to combat illicit trade (including new technologies, IT services, risk profiling, etc); to highlight the dangers of obtaining assistance from tobacco industry in this respect (e.g. training custom officers), and to showcase the successes of other countries around the world in their responses to tackling illicit trade in tobacco products.

Participants engaged eagerly with the workshop content and showed interest in implementing the measures that been successful in combatting illicit tobacco trade in countries such as the UK and Turkey. With a new appreciation of the importance of ratifying the Protocol to Eliminate Illicit Trade in Tobacco Products as a means to tackling illicit trade, participants showed great interest in understanding the factors that are currently delaying Georgia's ratification of the Protocol. Information sharing in this regard is an important step towards the country's ratification of the Protocol.



Events: Upcoming

The [Knowledge Hub on Tobacco Taxation and Illicit Trade](#) will be hosting our bi-annual workshop on the economics of tobacco control to be hosted in Cape Town, South Africa from 11 to 15 November 2019.

Tobacco taxation is widely recognized among tobacco control advocates as a very effective and cost-effective policy tool, both from a public health and a fiscal perspective. This workshop is aimed at providing policy makers with the essential tools to illustrate these benefits of tobacco taxation using taxation modelling. These simplified, mathematical models will allow attendees to calculate the forecasted impact of various tax structures and levels on future government revenue and health outcomes. Other topics that will be covered at the workshop include earmarking of tax revenues, illicit trade and advocacy for policy change.

We have invited seven countries to participate in the workshop: Ghana, Jamaica, Indonesia, Nigeria, the Philippines, Sri Lanka and Togo.

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Past Issues

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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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