



Research Unit on the Economics
of Excisable Products



Illicit Cigarette Trade and Lockdowns:

The Case of South Africa

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and the REEP team



South African Banned Cigarette Sales in Response to Covid-19

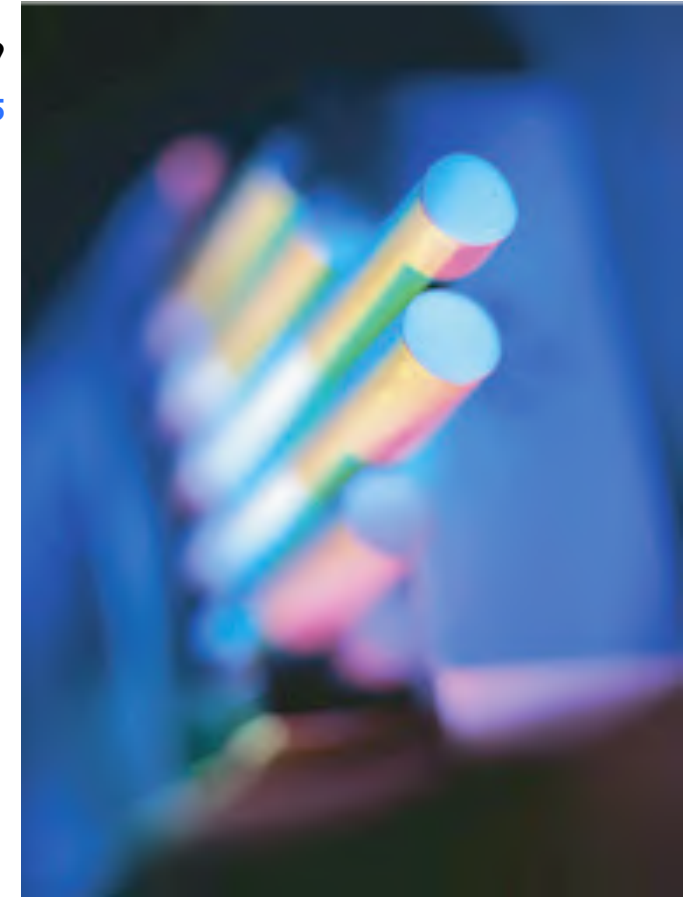
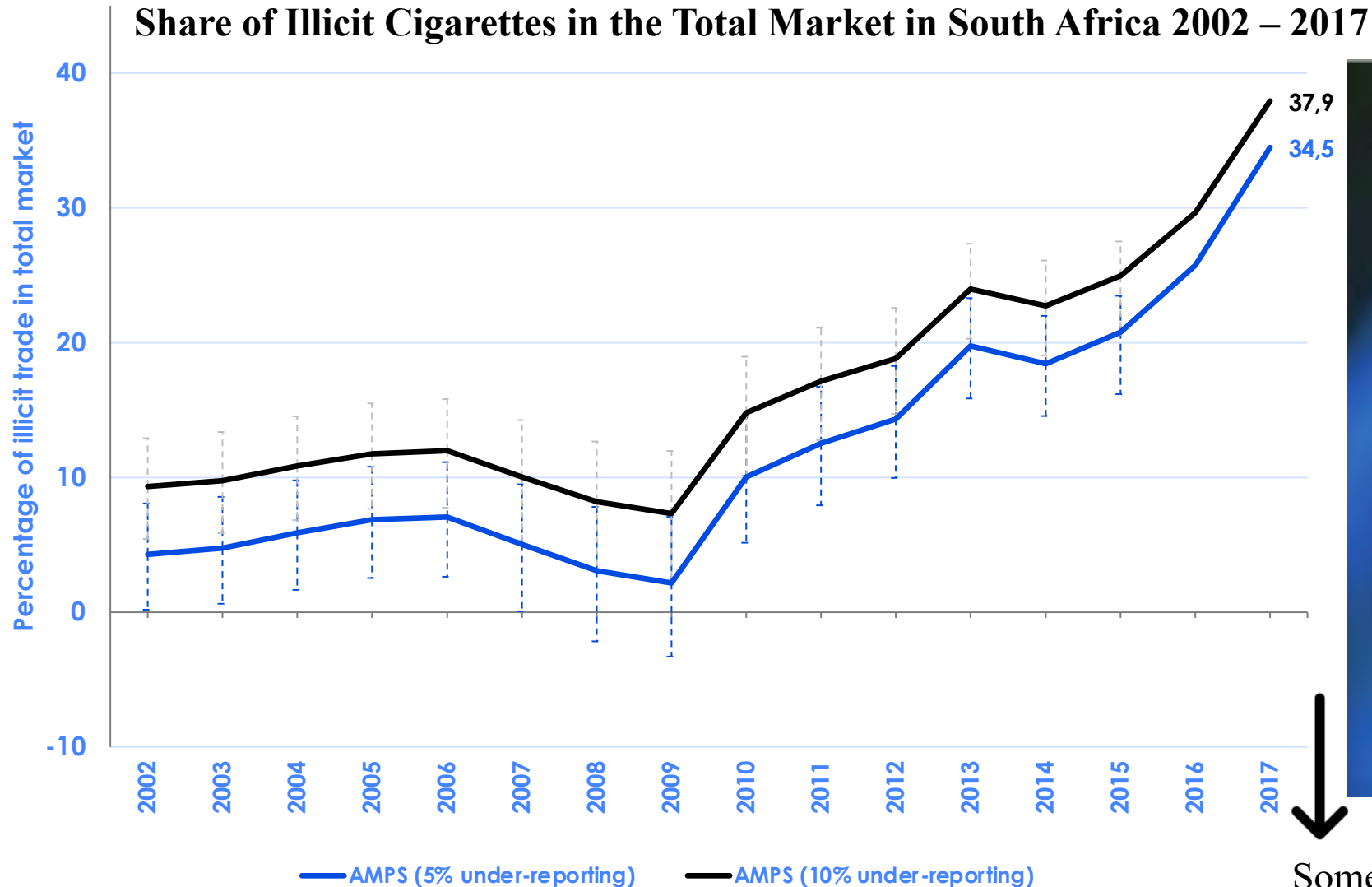
Sale ban 27 March - 17 August 2020, as part of the COVID-19 lockdown (almost 5 months).

Rationale:

1. Prevent more serious illnesses among smokers infected with COVID-19, thereby ease the pressure of the health sector;
2. Prevent smokers from sharing a cigarette (added in April);

The only other countries with sales ban during lockdowns were Botswana (12 weeks) and India (6 weeks).

An already large and lucrative market for illegal cigarettes prior to the lockdown became even more profitable, attracting an array of new actors.



Some signs of improvement in 2019

Tobacco Products Sales Ban Working?



REEP Survey of Smokers

~20% smoking prevalence before the ban

~ 9% of pre-lockdown smokers reported quitting during the sales ban (mostly early on)

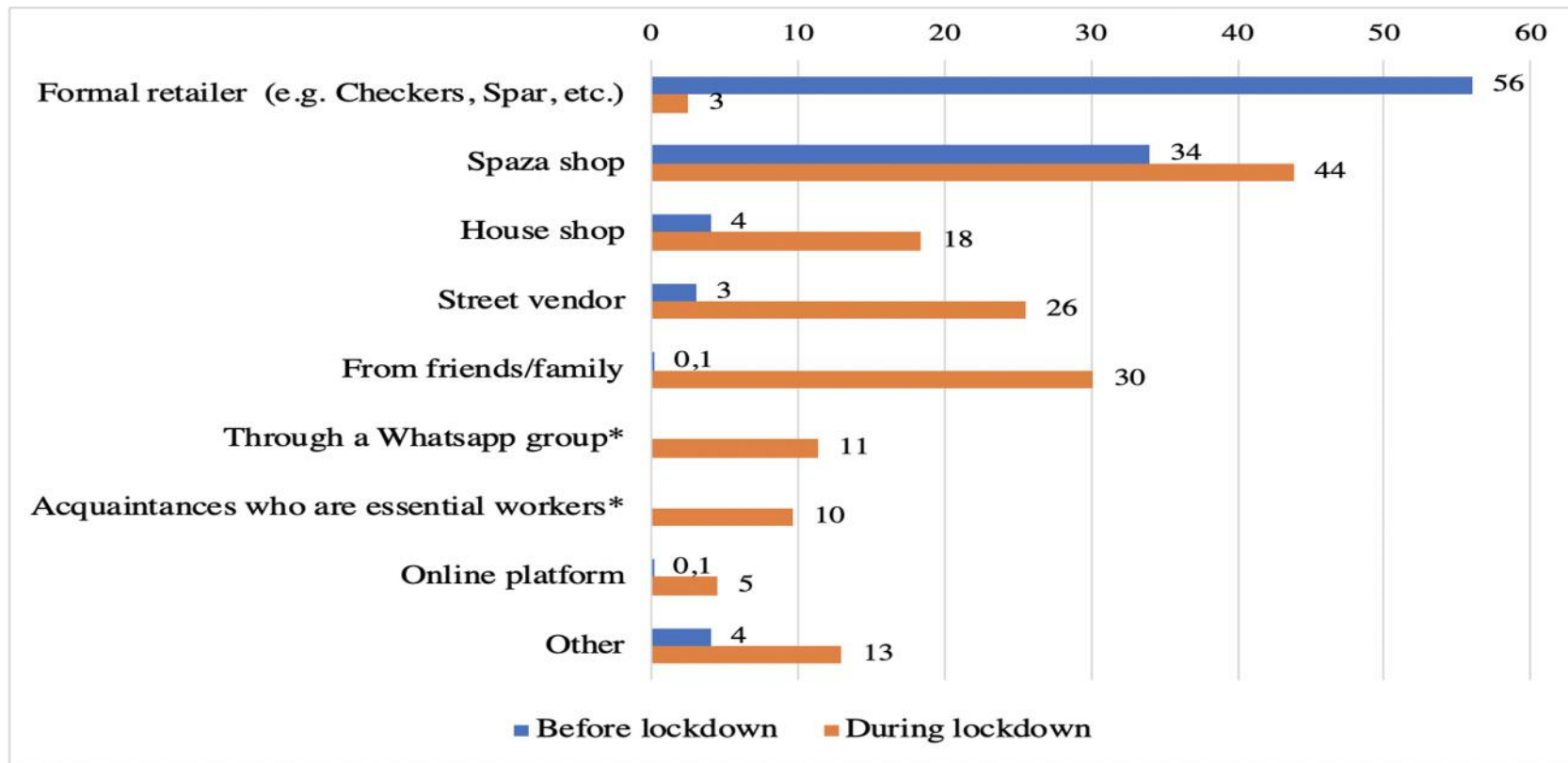
~ 6% of pre-lockdown smokers plan to stay quit.

~ 93% of smokers could purchase cigarettes despite the sales ban

~ average price of cigarettes increased by 250% relative to pre-lockdown prices.



Supply of Illegal Cigarettes

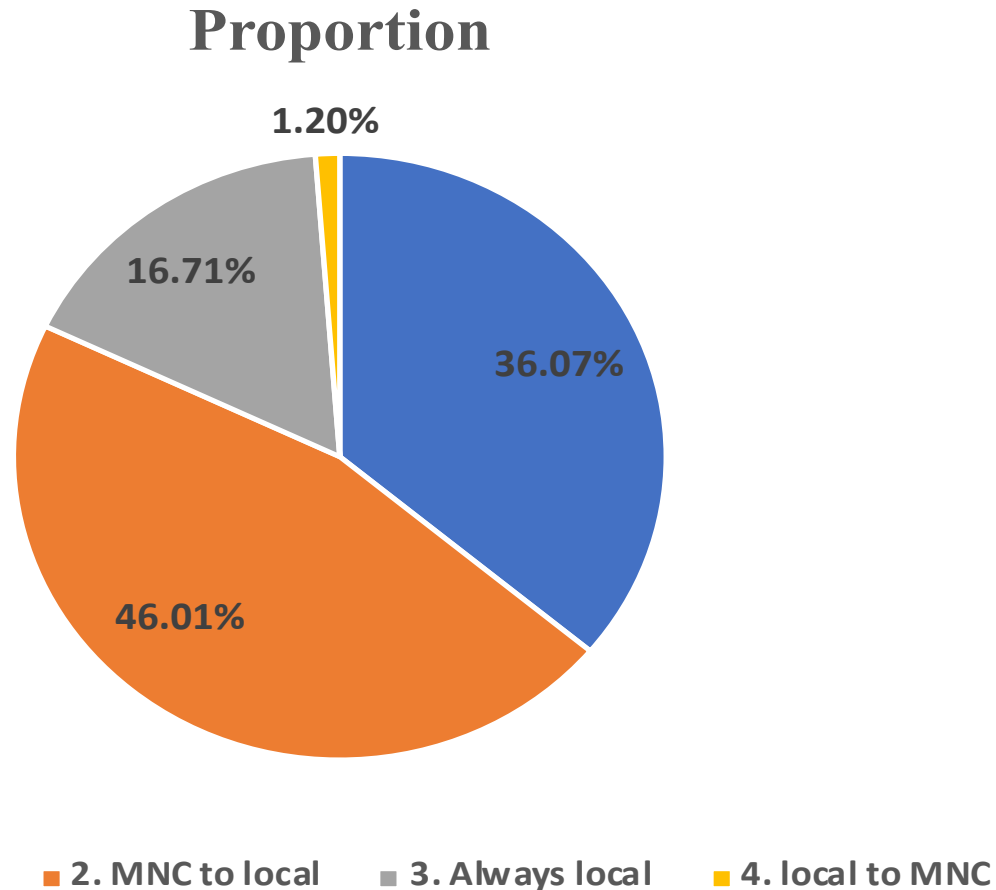


Manufacturers allowed to produce for export; export increased dramatically, but might have not left the country or came back from abroad.

Cross-border runners from neighboring countries.

Many ordinary civilians involved seeking to make a living amid a worsening economic crisis exacerbated by the pandemic.

Brand Switching to Lower the Costs



Prior to the sales ban - 75% of respondents smoked brands produced by MNCs; the share declined to 17% during the ban.

Growing number of foreign brands previously not seen in the country.

Smoking intensity dropped a bit: from 10 cig/day to 9 cigs/day.

Consequences of the Sales Ban



More, not less cigarette sharing.

Smokers more likely to be exposed to Covid-19 as searching for cigarettes during sales ban.

The trust in the government undermined (why are water pipes not banned now?); the court found the ban to be unconstitutional and unnecessary.

New illicit distribution networks established that will be hard to control.

New criminal syndicates realized the potential for profit.

A revenue loss of about R5.8 billion (USD 400 mill).

Huge profits made during the ban can be invested in circumventing the tax administration.

Previously dominant BAT lost market share: Is a price war on the horizon? Will the tax authority realize that they can tax more?

Post-ban prices higher - MNCs by 5%; others by 30%. This renders one of the method to estimate the size of illicit trade void.

Recommendations



- ✓ Ratify the Protocol to Eliminate Illicit Trade in Tobacco Products
- ✓ Introduce a track-and-trace system independent from the tobacco industry.
- ✓ Impose export taxes on tobacco products.
- ✓ Increase sanctions for tobacco tax evasion.
- ✓ Substantially increase tobacco taxes to boost public health, and to make up for the revenue loss.

Thank you!

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