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Media Statement

Research proves the ban on tobacco has simply benefited illicit traders

British American Tobacco South Africa (BATSA) fully supports the unequivocal recommendation from the Research Unit on the Economics of Excisable Products (REEP) report's authors for an immediate lifting of the tobacco products ban.

The company was responding to a new independent study by REEP study that shows 93% of South Africa's approximately 11 million smokers are still able to purchase cigarettes, meaning that millions of illegal transactions are taking place across the country every day.

The market has been completely taken over by illicit cigarette suppliers at the expense of law-abiding and tax compliant manufacturers, like BATSA, and the fiscus continues to lose R35m every single day in taxes. After 118 days of lockdown, the ban on tobacco products sales has now cost over R4 billion in excise taxes alone and substantial job losses

The research also proves that there has been a huge increase of 430% in the number of people sharing cigarettes, and potentially exposing themselves to Covid-19, as a result of the now almost four-month prohibition on the legal sale of tobacco and vaping products. This is largely due to the high price of the illicit products which on average are 250% higher than the pre-lockdown price.

BATSA also warned that replacing the prohibition with excise increases would compound the devastating damage of the last four months. A post-ban hike in excise tax will "permanently" hand the majority of the cigarette market to criminals who do not contribute to this country's fiscus.

"At the moment the tobacco market in South Africa is being run and dominated by illicit suppliers who, quite obviously, are breaking the law and making billions of rand in illicit profits," said BATSA's Head of External Affairs Johnny Moloto.

The company, which prior to lockdown, contributed and collected R13 billion in total taxes every year called for significant new resources to be allocated to the South African Revenue Service (SARS) to ensure that the market can be taken back from criminals in the aftermath of the ban.

“These illicit suppliers are not, suddenly, going to become compliant and start obeying the law and paying taxes when the ban is, eventually, lifted. They evaded taxes prior to the lockdown, they’ve made billions tax-free during the ban and they will evade taxes after the ban.”

“A dramatic increase in excise taxes, as suggested by the UCT report’s authors as a substitute for the prohibition on sales, would be second only to the ban itself as an absolute gift to the criminal suppliers. It would prevent the legal and tax-compliant industry from taking some of the market back from the illegal suppliers and make South Africa the largest illicit tobacco market in the world.”

Mr Moloto said that SARS faces “a massive battle” to return meaningful tax collection to the country’s tobacco market after the ban and BATSA believes that the revenue service requires significant extra resources to impose a ‘zero tolerance’ approach to evasion when the ban is lifted.

“If the country is to capture any of the taxes it so desperately needs then SARS needs to be allocated the required resources to establish a nationwide task force. It is uneconomic to retail a pack of cigarettes at less than R25, if taxes are being paid. Anything selling below that number should be considered ‘suspicious’ and investigated,” said Mr Moloto.

“The UCT report suggests that there is significant round-tripping of cigarettes supposedly destined for the export market making their way back into South Africa at the moment.

“BATSA exports to BAT entities in 12 other countries and the volumes we are producing are consistent with export volumes before the lockdown. BATSA is working closely with SARS and have implemented SARS new processes and protocols for production and export.”

“We have SARS officials at our factory who are controlling production volumes, auditing the export declarations, verifying the container loading and sealing the containers. This process also includes the checking of containers at the ports of exit by customs officials. Furthermore, we are obliged to send production and forecast reports on a weekly basis to SARS. Although some of these new processes have affected our production efficiency, we recognise the importance of these steps and are complying 100% with them.”

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