

24 February 2021

Waterway House South
No 3 Dock Road
Waterfront
Cape Town, 8000
P O Box 631
Cape Town, 8000

Tel: +27 (0) 21 003 6500
www.batsa.co.za

TOBACCO TAX HIKE IS A DANGEROUS MISTAKE, WARNS BATSA

British American Tobacco SA (BATSA) is shocked by the double inflation increase in tobacco excise at a time when the South African fiscus is still reeling from the lockdown sales ban and the illicit tax-evading sector is spiralling out of control.

The 8% increase is far in excess of the government's planned excise policy and is another windfall for the illegal market that flourished during the 20-week prohibition last year and now is over 50% of the South African market. One of the highest in the world.

The impact will be disastrous for the government's attempts to recover tax billions of lost revenue at a time when the country needs the money the most.

The legal tax-compliant industry has failed to regain billions of sales lost to national and international criminal enterprises during the sales ban and the threat of significant job losses is greatly exacerbated by this dangerous excise hike.

BATSA general manager Johnny Moloto says: "Taxes are only paid by lawful people. This huge increase will further stoke the illicit market and will undoubtedly result in falling tax revenues for government, while illegal players increase their profits and become even more deeply entrenched.

"By radically departing from its planned excise policy, government is only compounding the losses incurred as a result of its previous mistakes.

"Such a big excise increase is like pouring fuel on the fire they lit under the illicit market with the lockdown ban. It is a gift to the syndicates in the illegal market whilst destroying the legal tobacco market. If the illegal cigarette barons were given the opportunity to write government policy, this is exactly what they would do."

Although the lockdown ban halted the sale of legal, tax-paid cigarettes, all evidence shows it fortified suppliers and distributors in the illicit trade.

More important to tax authorities, it has possibly permanently changed consumer behaviour.

Many consumers – even those who would otherwise not contemplate purchasing illegal goods – bought illicit cigarettes during the ban. As a result, illicit brands have become ‘normalised’, even to higher-income consumers.

Furthermore, the ban enabled the establishment and strengthening of new distribution networks for tax-evading brands, providing these brands with better penetration into the consumer market.

“Today’s excise increase only exacerbates the problem,” says Mr Moloto. “The more expensive legal cigarettes are, the more attractive cheaper illicit brands become, and we are perplexed that Government is not taking serious action against the illicit trade in tobacco.

“More money will be diverted away from legitimate, tax-paying businesses, further reducing the government’s own revenue. Meanwhile, more money will go to organised crime syndicates to fund all sorts of other anti-social activity, from drug-trafficking to gang warfare. In a year marked by costly mistakes, this could be the costliest of them all.”

-ends-

