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BATSA CALLS GOLD LEAF TO ACCOUNT ON SUSPICIOUS PRICING

- **Gold Leaf’s ‘ludicrous’ minimum price proposal is a cloak for tax evasion**
- **Research shows cigarettes lowest economically sustainable price is R26.55**
- **Brands belonging to Gold Leaf dominate South Africa’s rampant illicit cigarette trade**

TUESDAY, 27 July - BRITISH American Tobacco SA (BATSA) welcomes Gold Leaf Tobacco Corporation’s (GLTC) recognition of the need for minimum pricing to combat rampant illicit trade, but believes its ludicrously low minimum price proposal is another clear indication that GLTC intends to continue ripping off South Africans by evading taxes.

“GLTC’s proposed minimum price of R22 is a laughable attempt to portray themselves as tax compliant and exposes how they seem to treat the tax laws with utter contempt,” said Johnny Moloto, general manager of BATSA.

“As the collectible tax on a R22.00 pack is at least R21.65, GLTC are effectively saying they are able to cover the costs of raw materials, production, distribution and retail margins for just 35 cents – and still make a profit for themselves. That is not a business strategy, it’s just a flimsy cloak for tax evasion.”

A recent study commissioned by The South Africa Tobacco Transformation Alliance (SATTA) and performed by an independent global consulting firm estimated that cigarettes priced below R26.55 per pack is not indicative of an economically viable commercial operation.

SATTA commissioned this study following investigations exposing the massive scale of South Africa’s black market, where illegal cigarettes are being sold for as little as R6 per pack and the vast majority of shops nationwide sell packs for below R25.

The report uses detailed analysis to establish an economically viable price for a pack of 20 cigarettes in South Africa and defines an economically viable price as the price for which a pack of duty paid cigarettes can be manufactured and distributed in the local market by a manufacturer applying an economically sustainable business model.

Tobacco excise duties for a pack of 20 cigarettes is R18.78. When all relevant costs are added, an indicative manufacturing price which includes the costs of raw materials,

production costs, manufacturing margin, distribution costs as well as retail margin would be R30.95, this includes VAT of R4.04 or 15% from R30.95, the report says.

As the retail price is exposed to many volatile factors, adjusting the impact of some of these factors, such as significantly reduced retail margins in the informal sector and currency fluctuations affecting imported materials, could result in the reduction of the economically viable price to R26.55 per pack, the report concludes.

The research indicates that cigarettes continuously sold below R26.55, is not indicative of an economically viable commercial operation.

Moloto said: "This analysis shows that there's no way cigarettes can be sold to Consumers below R26.55 as part of a sustainable business strategy, anything cheaper indicates that due taxes are not being paid."

"All the research shows that criminal manufacturers have taken control of our tobacco trade and are robbing the nation and destroying honest livelihoods by selling cheap, illegal cigarettes to hard-up South Africans."

"The evidence demands that authorities take immediate action to halt this industrial-scale looting. An official inquiry is needed to investigate how this has been allowed to happen, and we need realistic minimum pricing for cigarettes to properly police the market."

GLTC's proposal, made through its representative the South African Tobacco Association (SATO), comes in the wake of [retail investigations by market researchers IPSOS](#) that shows cigarettes bearing brands owned or licensed to GLTC dominate the illicit market. In more than a third of shops visited as part of the study, brands owned by or belonging to GLTC were the cheapest available and sold below R21.60 MCT.

Moloto further noted: "For GLTC to call for a minimum price of R22 shows just which side of this debate they're on."

"All businesses are created for profitability. The prices we are seeing in shops across the country over prolonged periods cannot just be special offers or loss leaders - they're simply another form of tax evasion."

"BATSA is calling on SARS to urgently enforce production counter regulations, which have been mandatory for manufacturers for almost a year. We also need a minimum retail sales price of R28 that will allow police to seize illegal cigarettes and shut down offending factories."

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