New government must crack down on rampant illicit tobacco trade to plug R24bn revenue leak, says BATSA

- Latest Ipsos research shows that 59% of stores sampled sell illicit cigarettes, with the cheapest price point at R5 per pack of 20
- New market entrants seize opportunity to enter lucrative illicit tobacco market
- Research shows a core group of illicit manufacturers have consistently sold below Minimum Collectable Tax over a three-year period
- BATSA calls on the new government to prioritise the fight against illicit tobacco and step-up visible enforcement

CAPE TOWN, 12 JULY 2024 — New Ipsos research released today reveals that 59% of sampled stores in South Africa are selling illicit tobacco products, with prices as low as R5 for a pack of 20 cigarettes, intensifying the ongoing price war among illicit manufacturers.

The study also revealed there are new manufacturers in the market, fuelling intense competition at the bottom end of the market.

“The entrance of new players raises some serious concerns about Government’s commitment to address illicit trade. Nothing justifies licensing new manufacturers in a sector already ravaged by high levels of non-compliance without conducting proper due diligence” said Johnny Moloto, Area Head of Corporate & Regulatory Affairs for BAT Sub-Saharan Africa.

“The Ipsos study highlights the challenge facing the new government in getting to grips with illicit trade and cross-border illicit financial flows, which are wreaking havoc with our economy and tax revenues. To right the ship, authorities urgently need to prioritise the fight against illicit tobacco and secure convictions against the ring leaders,” Moloto said.

In the past few years, the availability of cigarette packs selling below the Minimum Collectable Tax (MCT)* has fluctuated in retail outlets: from 44% in March 2021, it dropped to 27% in October 2022, before surging to 59% in 2024. The recent Ipsos research showed a concerningly high level of cigarette packs available below R25.05 in the wholesale and informal trade, at 83% and 72% respectively.

“These findings show the futility of punitive regulation aimed at the legal industry, while illicit cigarettes are widely available at rock-bottom prices, concentrated in channels used by low-income earners such as corner shops, spazas and tabletop hawkers. The result is a market descending into freefall, as law enforcement struggles to contain the escalating illicit economy,” Moloto said.

“Given the magnitude of the problem, a multi-agency effort is required to achieve meaningful enforcement. We call on the Treasury to capacitate SARS with additional funding for forensic tax investigations and on SARS to step up visible enforcement efforts against tax evaders like those in the illicit tobacco trade.

“Further, we believe the Hawks should prioritise investigating and prosecuting complex crimes such as these, and that the NPA must do everything in its power to secure convictions to signal the new government’s clear intent to step up the fight against crime and corruption.”

Aggressive pricing strategy at the bottom end of the market

The Ipsos research was commissioned by BAT South Africa (BATSA) and is the latest iteration in a series of mystery shopper surveys started in 2021, in which Ipsos researchers visited a sample of more than
4,500 stores representative of the total retail universe in South Africa to purchase the cheapest available pack or carton of cigarettes.

The aim of the research was to establish the cheapest available purchase prices in the cigarette market.

Ipsos’s findings indicate that Gold Leaf Tobacco Company (GLTC), which operates out of Johannesburg and Harare, has doubled down on an aggressive pricing strategy, with 79% of its brands available for less than MCT in May 2024, compared to 28% in March 2021.

Companies like Carnilinx, Afroberg and Best Tobacco are all competing with GLTC at the lower end of the market, as new manufacturers like Bozza add to the pressure. A GLTC brand named ‘Chief’ – a recent addition to its portfolio – is the most widely available cigarette brand selling below R25.05, according to Ipsos’s findings.

“Notably, a core group of manufacturers have consistently supplied large quantities of cigarettes at prices well below MCT over the entire three-year period since 2021,” said Moloto.

“This makes it patently clear that these manufacturers are not using a loss-leader discount strategy, as it would be commercially impossible to stay in business if all taxes were paid. Their bargain-basement prices for such a sustained period, in our view, point to the possibility that they likely do not pay all taxes due.”

**Feasible solutions available to the Government of National Unity**

“BATSA estimates that the government will continue to lose an estimated R24 billion in excise tax revenue to the illegal cigarette trade every year,” explained Moloto.

“An urgent task for the new Government of National Unity is to stabilise the fiscus and bring rising debt under control, and take decisive steps to reverse the exponential growth of the illicit tobacco trade that has taken place since the 2020 Tobacco Sales Ban.

“One of the most effective solutions to the illicit tobacco trade is for the Minister of Finance to introduce a Minimum Retail Price, which would make it illegal to sell cigarettes for less than a stated amount. This would provide a valuable tool for law enforcement agencies as they seek to enforce and prosecute, and would empower them to tackle illicit trade head on.

“BATSA also calls for an immediate forensic audit of all tobacco factories in the country, including our own,” he said.

**ENDS**

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**Editors’ notes**

**Downloads:**
- Full report: [click here](#)
- BATSA research summary: [click here](#)

**Note:** The research referenced in this press release was commissioned by BATSA. However, the study is free of interference from the commissioning company. BATSA had no role either of oversight or influence in the selection of the sample stores, researchers employed for the study, any part of the quality control process, nor in the capturing of the data. All data, and associated research intellectual property remain the sole property of Ipsos South Africa (Pty) Ltd.

*Calculating Minimum Collectable Tax (MCT) (effective 21 February 2024):*
- Excise = R21.78 for 20 cigarettes (1 pack)
- VAT on excise = R3.27 for 20 cigarettes (1 pack)
- MCT (excise + VAT) = R25.05