



REEP: Research Unit on the Economics of Excisable Products

with the WHO FCTC Knowledge Hub on Tobacco Taxation

Newsletter #23, January 2023

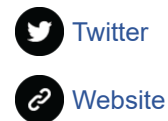
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Director's Message

Dear Friends

The new year is well underway. I hope that it will a prosperous and good year for you all.

We trust that 2023 will also be a good year for tobacco control. We recently **learned** that, from 1 June 2023, the Treasury will introduce an excise tax on e-cigarettes. This tax will be implemented at a rate of **R2.90 per milliliter**, irrespective of nicotine content. REEP and other public health groups made several presentations about this tax to government during 2022. As expected, the vaping and tobacco industries strongly opposed the excise tax. It is encouraging that, despite this opposition, the government will implement this excise tax, at a rate which is one of the highest in the world.

With positive developments on the taxation of e-cigarettes, we hope that there will be progress on the Control of Tobacco Products and Electronic Delivery Systems Bill during 2023. This bill was published in 2018 but has been in limbo ever since. During the course of 2022 there were indications that the bill would be resuscitated.

The biggest challenge in South Africa's tobacco control policy today is the illicit market. More than 50% of cigarettes currently sold in South Africa are untaxed (see here). This greatly



undermines any tobacco control intervention. Recently British American Tobacco South Africa (BATSA) announced that they plan to lay off about 200 workers. BATSA claims that the layoffs are the result of the illicit market. [Previous research](#) by REEP indicates that the multinationals have lost market share during and after the 2020 sales ban.

Last year, the South African Revenue Services put Gold Leaf Tobacco Corporation under curatorship, on the grounds that they were involved in illicit activities for an extended period of time. We trust that 2023 will be the year that SARS and the authorities truly clamp down on the illicit market. The evidence (see [here](#) and [here](#)) indicates that most, if not all, cigarette manufacturing companies have been involved in illicit activities. There are many companies to prosecute.

In this newsletter we report on REEP's activities of the past two months. REEP members have published a number of papers in the academic literature (see the papers co-authored by [Hana Ross](#), [Nicole Vellios](#), and [Alfred Mukong](#)) and in the popular literature (see paper by [Vanessa Darsamo](#)).

In December 2022, REEP members provided support to government officials of [Mongolia](#), specifically regarding the taxation of e-cigarettes, and to government officials of the [United Republic of Tanzania](#), about cigarette taxation.

Two of our colleagues' time with REEP is coming to an end on 28 February 2023. Hana Ross has been a Principal Research Officer for eight years and Senzo Mthembu has been a Research Officer for four years. Both have made very important contributions to REEP in the period that they were with us, and we will miss them. Hana will remain an honorary research associate with REEP. We wish them all the best as they navigate new life and career opportunities. Click [here](#) for more information about their contributions to REEP.

Kind regards

Corné van Walbeek

Director: Research Unit on the Economics of Excisable Products



Virtual Meeting on Taxing Novel and Emerging Tobacco and Nicotine Products in Mongolia

The WHO FCTC Knowledge Hub on Tobacco Taxation, in collaboration with the Mongolian WHO country office and the FCTC Secretariat, organized a two-hour long meeting on the taxation of novel nicotine products on 28 November 2022.



The objective of the meeting was to discuss various methods for calculating excise tax for novel tobacco products including electronic nicotine delivery systems (ENDS), electronic non-nicotine delivery systems (ENNDs) and heated tobacco products (HTPs). Corné van Walbeek's presentation focused on various options for the taxation of these products, drawing on the principles presented in the [2021 WHO Tobacco Tax Manual](#) and recent experiences from South Africa.

The slides are available from [Corné](#).

Technical support to The United Republic of Tanzania

On the 13th and 14th of December, REEP researcher Kirsten van der Zee attended a technical meeting on tobacco control instruments, in Dodoma, Tanzania. The meeting was hosted by the Ministry of Health and attended by officials from various other ministries, including the Ministry of Finance and Planning. On the 14th, Kirsten attended a side meeting with officials of the Ministry of Finance and Planning (MOFP). Kirsten presented on the state of tobacco excise taxation in Tanzania, the FCTC guidelines on tobacco taxation, and the potential benefits of conducting TETSIM capacity building and modelling with the country.



Tanzania has a complex excise tax structure, with multiple tax tiers. The tiers are based on cigarette length, whether cigarettes are filtered or unfiltered, and the source of the tobacco in the cigarette (local vs imported). A major consideration in the Tanzanian context is that the country has a large tobacco growing sector—tobacco is one of Tanzania's largest exports.

The Knowledge Hub will continue to provide support in the coming months to advise on options for tobacco tax reform in the country.

South African Medical Journal papers: considering the burden of disease in South Africa

On 4 October 2022, two papers were published in SAMJ. Nicole Vellios was one of a long list of co-authors on the two studies that form part of a larger suite of research that considers the burden of disease in South Africa.



Estimating the changing burden of disease attributable to alcohol use in South Africa for 2000, 2006 and 2012

In this paper, the authors estimated the burden of disease attributable to alcohol use by sex and age group in SA in 2000, 2006 and 2012. The authors found that the alcohol-attributable disease burden decreased from 2000 to 2012 after peaking in 2006, owing to shifts in the disease burden, particularly infectious disease and injuries, and changes in drinking patterns. In 2012, alcohol-attributable harm accounted for an estimated 7.1% of all deaths and 5.6% of all disability-adjusted life years (DALYs). Attributable deaths were split three ways fairly evenly across major disease categories: infectious diseases (36.4%), non-communicable diseases (32.4%) and injuries (31.2%). Top rankings for alcohol-attributable DALYs for specific causes were TB (22.6%), HIV/AIDS (16.0%), and road traffic injuries (15.9%).

The results indicate that alcohol remains an important contributor to the overall disease burden, ranking fifth in terms of deaths and DALYs. Binge drinking accounts for the unusually large share of injuries and infectious diseases in the alcohol-attributable burden of disease profile. Interventions should focus on the distal causes of heavy drinking by focusing on strategies recommended by the [WHO's SAFER initiative](#).



The paper is available [here](#).

Estimating the changing disease burden attributable to smoking in South Africa for 2000, 2006 and 2012

In this paper the authors estimated attributable burden due to smoking for selected causes of death among South African adults aged 35 years and older for 2000, 2006 and 2012. The results indicate that smoking prevalence declined from 25.0% in 1998 (40.5% in males, 10.9% in females) to 19.4% in 2012 (31.9% in males, 7.9% in females), but plateaued subsequently. In 2012, tobacco smoking caused an estimated 31 078 deaths (23 444 in males and 7 634 in females).

Age-standardised mortality rates (and DALYs) similarly declined in all population groups, but remained high in the coloured population. Chronic obstructive pulmonary disease (COPD) accounted for most tobacco-attributed deaths (6 373), followed by lung cancer (4 923), ischaemic heart disease (4 216), tuberculosis (2 326) and lower respiratory infections (1 950). The authors concluded that the gains achieved in reducing smoking prevalence in South Africa have been eroded since 2010.



The paper is available [here](#).

Opinion piece calling for higher tobacco taxes and stronger law enforcement published in The Conversation

In an opinion piece published in [The Conversation](#) in December 2022, Sam Filby and Corné van Walbeek reflect on recent trends in smoking prevalence in South Africa and discuss two potential solutions to the address the problem: increases in tobacco excise taxes and stronger law enforcement.

Based on the results of the [Global Adult Tobacco Survey](#), conducted in 2021, 25.8% of the South African population (11.1 million adults) currently smoke tobacco. This is substantially higher than the **19.9%** estimated in the 2017 wave of the National Income Dynamics Study.

In the opinion piece, Sam and Corné argue that one way to [reduce tobacco use](#) is through consistent, year-on-year increases in tobacco excise taxes. The excise tax must be adjusted regularly to reduce the affordability of tobacco products. Excise tax increases of this magnitude have not been implemented consistently in South Africa in the most recent decade.

A major challenge to implementing large increases in tobacco excise taxes is the proliferation of the illicit tobacco trade in the country. Independent [research](#) suggests that illicit cigarette sales constituted 54% of the total market in 2021. Illicit cigarettes are relatively cheap because they bypass taxes. This makes cigarettes more affordable, which increases smoking rates.

The tobacco industry has [worked](#) tirelessly to convince policy makers that increases in the tobacco taxes cause increases in illicit trade. In their article, Sam and Corné demonstrate that South Africa's own tobacco taxation record shows that excise taxes can be increased aggressively, without exacerbating the illicit market. In fact, between 1994 and 2009 the excise tax was increased by an average of 10 percentage points above the inflation rate each year, without any substantial increase in illicit trade.

When it comes to tobacco use, South Africa has dual but unrelated problems. The first is the government's inadequate excise tax increases on tobacco. The second is the thriving illicit tobacco market. They argue that government must increase tobacco taxes faster, and reduce the presence of illicit tobacco products in the market through better enforcement. Illicit trade concerns criminals and money; it can only be addressed through effective enforcement mechanisms. Measures to secure the supply chain are documented in the [Protocol to Eliminate Illicit Trade in Tobacco Products](#). It is of the utmost importance that government ratifies the Protocol and implements its provisions.

The piece is available [here](#). The article generated some media attention, which can be accessed [here](#).

Time to make cigarette taxes more effective in Mozambique



On 14 December 2022, Vanessa Darsamo, with REEP colleagues Zunda Chisha and Corné van Walbeek, and Mozambican WHO official Georgina Bonet Arroyo, published a working paper on cigarette taxes in Mozambique in [Econ3X3](#).

Mozambique currently has the second lowest cigarette tax share (29%) in the Southern African Development Community (SADC) region (average of 52%). While cigarettes in Mozambique are currently relatively less affordable than in neighbouring countries, they will become more affordable if

excise taxes don't keep pace with inflation and the GDP growth rate. The authors simulated the impacts of more aggressive increases in the excise tax on cigarettes.

The authors compare the outcomes of two cigarette tax scenarios. In scenario 1 the study assumes that the government will continue increasing the excise tax by 4% each year, as it has been doing in the past number of years. In scenario 2, the authors assume that the government increases the excise tax each year by the sum of the GDP growth rate, the inflation rate and 30%.

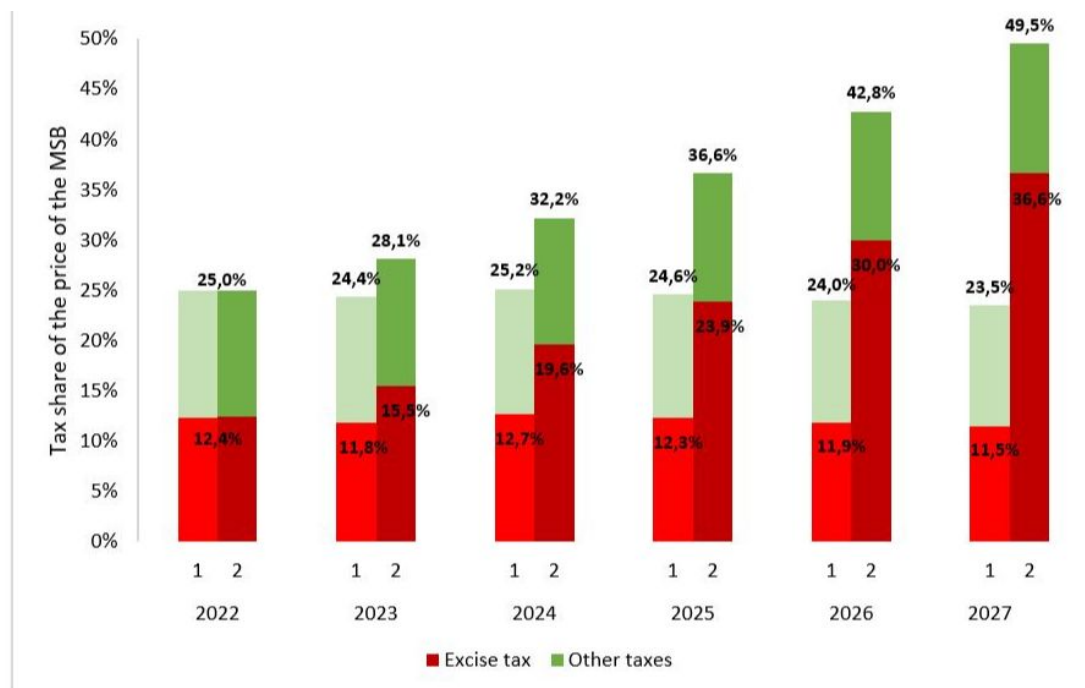
The results show that, for scenario 1, the inflation-adjusted retail selling price will rise marginally, but cigarettes are likely to become more affordable, as per capita GDP is expected grow faster than cigarette prices. The tax share is likely to decrease (see graph) and smoking prevalence is expected to increase from the current level of 9.8% to 11%. Cigarette tax revenue is likely to increase by about 28% between 2022 and 2027.

In a scenario where the excise tax increases sharply each year (i.e. scenario 2), the model predicts that the inflation-adjusted retail selling price will increase sharply (by 60% between 2022 and 2027) and that cigarettes will become less affordable. The tax share is expected to increase from the current level of 25% to 50%. Smoking prevalence is expected to decrease from 9.8% to 9.2%, with positive public health consequences. Cigarette tax revenue is expected to increase nearly threefold. This is a clear win-win situation for both public health and the fiscus.

This exercise, like all modelling exercises, provides government officials credible estimates of the likely impact of an increase in the excise tax. It also supports public health organisations to advocate for higher excise taxes, and allows them to quantify the likely impact.

The results of this study can be found [here](#).

Figure: Tax share of the most sold brand (MSB)



Note: 1 refers to Scenario 1; 2 refers to Scenario 2.

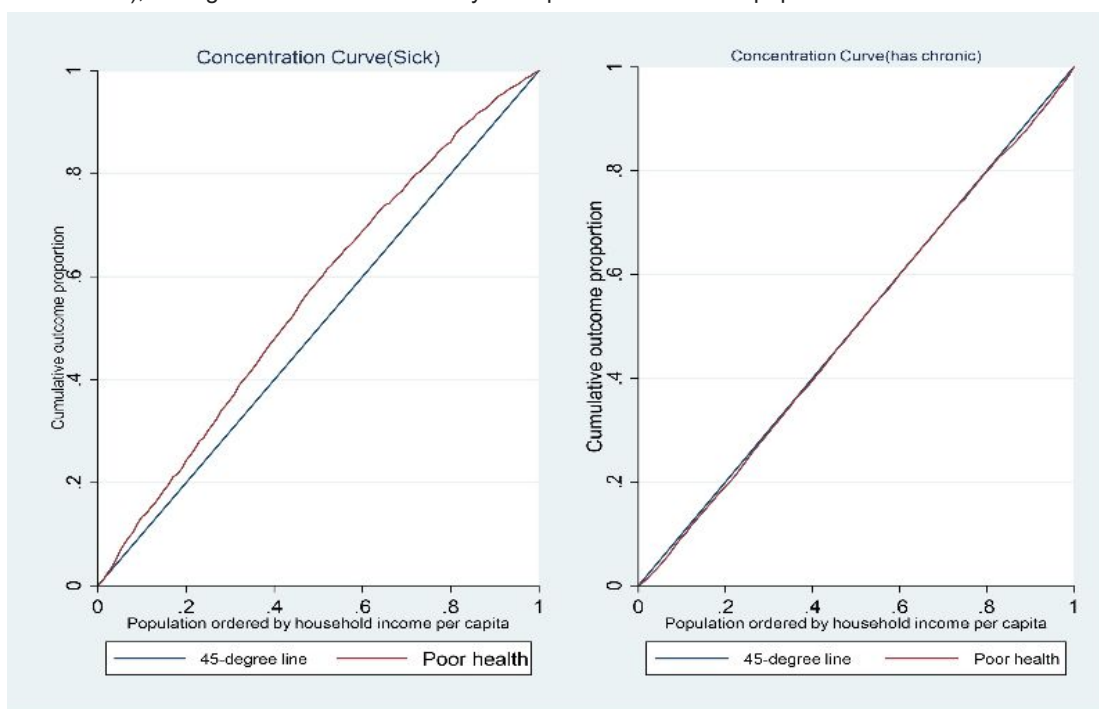
Estimating Income-related Health Inequalities Associated with Tobacco and Alcohol Consumption in Namibia

In January 2023, Martha Nghipandulwa, a REEP associate graduate, and Alfred Mukong, a REEP affiliate and Senior Lecturer at the University of Namibia, published a paper in the *International Journal of Environmental Research and Public Health* in which they estimated **income-related health inequalities associated with tobacco and alcohol consumption in Namibia**. They used the 2015/16 Namibia Household Income and Expenditure Survey and a decomposition technique to estimate the separate and joint contribution of tobacco and alcohol on income-related health

inequalities.

The authors find that the gradient of the inequality in health between the poor and the rich is likely to depend on differences in lifestyle practices including tobacco and alcohol use. Specifically, they find that tobacco use widens the health inequality gap between the poor and the rich, while joint consumption of the two goods has a stronger multiplicative effect on income-related health inequality. Surprisingly, alcohol consumption reduces the health disparities between the poor and the rich. Their study focuses on alcohol prevalence: they suggest the need to explore the effect of alcohol consumption intensity since the health effects of alcohol use vary depending on the volume and pattern of consumption rather just the prevalence. Using different health measures, they find that the inequalities were generally concentrated on the poor when being sick is the considered health measure, and the dominance cannot be determined when related chronic disease is the health outcome (see figure below). While policy options for each of these goods could be essential in reducing inequalities in health, there is a need to advocate additional measures that could simultaneously control the consumption of both goods.

The paper is funded by the African Capacity Building Foundation (funded by the Bill & Melinda Gates Foundation), through REEP at the University of Cape Town. Read the paper in full [here](#).



REEP colleagues publish paper on illicit cigarette market trends in Georgia

In December 2022 a paper authored by Megan Little, Hana Ross and others, entitled “[An Analysis of the Illicit Tobacco Market in Georgia in Response to Fiscal and Non-fiscal Tobacco Control Measures](#)”, was published in *Tobacco Control*. The paper analyses the impact of tax and non-tax measures on illicit tobacco trade in five regions in Georgia. The analysis was based on three household surveys. The baseline was conducted in 2017, the midline survey was conducted in 2018 (after the tobacco control law took effect) and the endline survey was conducted in 2019 (after tobacco taxes increased). Survey respondents reported their tobacco use and were asked to present a cigarette pack in their possession. These packs were examined for tax stamps and health warnings to establish legality.

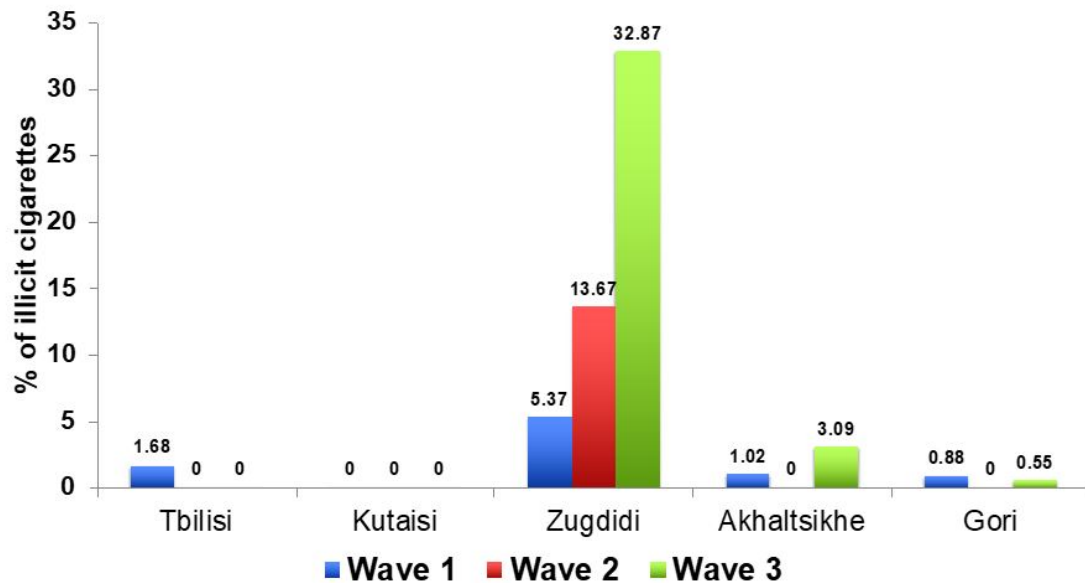
The authors found no evidence of a country wide increase in illicit trade in Georgia after the tobacco control law took effect (2018) and cigarette taxes increased (2019). There was no increase in illicit cigarette consumption in four of the five regions, namely Tbilisi (the capital), Kutaisi, Akhaltsikhe and Gori. However, in Zugdidi (near the Russian occupied territory of Abkhazia), illicit trade increased to 30% by 2019. Illicit trade had been increasing in this area even before the taxes were increased, indicating the role that regional conflicts, disputed territories and border administration play in illicit cigarette supply.

In addition, after the tax was increased in 2018, the authors identified a country wide shift towards roll-your-own tobacco (whose tax remained unchanged) from manufactured cigarettes. This demonstrates the importance of equalising taxes on tobacco products in order to improve public health.



The paper by Megan Little, Hana Ross, George Bakhturidze and Iago Kachkachishvili is available [here](#).

Figure: Percentage of illicit cigarette packs, by region.



REEP greets two colleagues

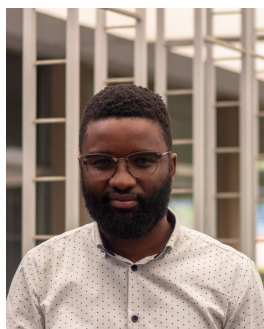
On 28 February 2023 REEP will say goodbye to two researchers: Hana Ross and Senzo Mthembu.



Hana joined the Economics of Tobacco Control Project (ETCP) in January 2015 as a Principal Research Officer (research equivalent of Professor). When she came, the ETCP consisted of no more than four people. Under Hana's enthusiastic guidance, the ETCP was able to attract substantial funding, which allowed the group to appoint no less than ten researchers and postdoctoral fellows in the subsequent three years. In 2015 the ETCP was approached by the Secretariat of the FCTC to become a Knowledge Hub on Tobacco Taxation and Illicit Trade. Since its official launch in 2018 the Knowledge Hub has supported dozens of countries with their tobacco tax strategies.

Hana has been actively involved in many workshops, and in providing in-country technical assistance to a large number of countries.

Hana is a specialist in the quantification of the illicit tobacco and during her eight years at ETCP/REEP, was involved in illicit trade studies in many countries, including Ethiopia, the Gambia, Georgia, Mongolia, South Africa and Zambia. During the eight years with the ETCP/REEP, she was a co-author of over 30 papers, and many of those considered aspects of illicit tobacco trade. At the policy level, she sat on 10 different panels that considered different tobacco control policy options, including a track and trace solution for the European Union and for the South African National Treasury and Revenue Service.



Senzo joined the ETCP in 2019 as Research Officer. During his 4 years with the group, Senzo took over the African Cigarette Pricing Project. This project employs UCT students to collect tobacco prices in their home towns in rural South Africa and other African countries.

Senzo did a lot of research for the Tobacco Control Data Initiative, a joint project between REEP and Development Gateway.

His research interests are focused primarily on sugar-sweetened beverages (SSBs), where he was involved in an IDRC-funded study that considered the demand for SSBs in Kenya.

We thank Hana and Senzo for the very substantial contribution that they have made to REEP over the years, and we wish them all the best in their future endeavours.

In the news

On 15 Dec 2022, UCT issued a [press release](#) titled '*Plain cigarette packaging likely to deter smoking*', that provided details on findings from Nicole Vellios's PhD thesis – specifically the plain packaging study. Following the press release, articles on plain packaging were published by:

- [Independent Online](#) on 15 Dec 2022: *Plain cigarette packaging likely to deter smoking – study*.
- [Sunday times](#) on 21 Dec 2022: *Ditch the smoke and mirrors, use boring cigarette packaging: UCT study*.

On 10 Dec 2022, Sam Filby was interviewed on [eNCA](#) discussing tobacco taxes and illicit trade. This interview, titled "Cracking down on lighting up" was in response to a piece she co-authored with Corné van Walbeek, that was published in [The Conversation](#) on 5 Dec 2022.



On 10 Jan 2023, an opinion piece by Sam on the need for higher excise taxes in sub-Saharan Africa titled: "[Higher tobacco prices leads to declining use](#)", was published in print and online in the Cape Times.

On the basis of a paper that Sam had published in [Tobacco Control](#) (on 25 Nov 2022), the following was written in the media about the study:

- IOL: [How Sub-Saharan Africa can significantly reduce its cigarette consumption](#).
- Sunday Times: [Middle-aged Saffers' health under scrutiny](#).
- IT-Online: [Tobacco taxes could reduce cigarette use](#).

Corné was interviewed on [SAfm](#) by Sechaba Gqeba on 16 Jan 2023. The interview focused on higher tobacco taxes and enforcement in South Africa.

On 16 Jan 2023, Corné was interviewed by John Maytham on [CapeTalk](#). The interview focused on BATSA's recent decision to retrench its workers citing a decline in sales due to illicit trade in South Africa.



Regards,
The REEP team

If you have any comments or feedback on this e-newsletter, or suggestions for possible story ideas for our next issue, please get in touch with the REEP team, by emailing us at:

tobaccoecon@gmail.com

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For further information please contact Sharon at sharon.debruyns@uct.ac.za Tel: +27 (0)21 650 3608

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