



## REEP: Research Unit on the Economics of Excisable Products

### with the WHO FCTC Knowledge Hub on Tobacco Taxation

Newsletter #24, March 2023

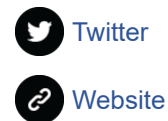
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## Director's Message

Dear friends,

February is always an interesting month for REEP, because the Minister of Finance presents and publishes the annual [Budget Review](#). Among many other announcements, the Minister announces the excise tax increases on tobacco and alcohol products. Furthermore, the Budget Review allows us to calculate the size of the legal cigarette and alcohol markets.

Unfortunately, the February 2023 budget was disappointing. The Minister increased the excise tax on tobacco and alcohol products by a mere 4.9%, in line with the Treasury's predicted inflation rate for the 2023/24 fiscal year. That means that the excise tax, for the second year in a row, is likely to decrease in inflation-adjusted terms, because the actual inflation rate is typically higher than the inflation rate that the National Treasury uses in its budgeting process.



The expected excise tax revenue from tobacco products for the 2022/23 financial year was well below budget, and only marginally above the revenue collected in the previous year. There is no reason to suspect that the *total* cigarette market has decreased in the past year. The illicit market is the difference between total consumption and legal consumption. The "good" news is that the illicit market has not increased in the past year, but the bad news is that the illicit market is still at unacceptably high levels. In fact, based on an [analysis by Nicole Vellios](#), it is probably still around 54-58% of the total market.

In an environment where illicit cigarettes are so prevalent, the effectiveness of tax increases is greatly undermined. People can simply evade the tax increase by buying illicit cigarettes. The very large illicit cigarette market is currently the biggest challenge facing South Africa's tobacco control strategy.

In his budget speech, the Minister of Finance spoke briefly about some breakthroughs that the South African Revenue Services (SARS) has made in the fight against illicit cigarettes. That is commendable, but the fact of the matter is that less than 5% of (likely) illicit cigarettes were confiscated in 2022/23. The Minister acknowledged that the illicit market in tobacco is a big problem. We hope that, in the coming year, the government will finally implement effective policies to reduce this scourge.

We are currently drafting a paper that quantifies how much revenue the government has lost since the illicit market in cigarettes started becoming a problem in 2010. It is a very large number. We hope to submit that paper in coming months.

In this newsletter we report on three in-country missions that were conducted under the banner of the Knowledge Hub: in [Panama](#), [Mongolia](#) and [Tanzania](#). Our partners at the Development Gateway recently launched a dashboard supporting tobacco control efforts in [Ethiopia](#).

We are pleased to announce that we received a grant from Vital Strategies and partners to investigate the [excise tax structure](#) on alcohol products in South Africa. We also report on a [study](#), conducted largely by Sam Filby, on the likely economic and public health impact of a shortening the trading times of [retailers selling alcohol for onsite consumption in the Western Cape](#). Trading time restrictions are being considered by the Western Cape Government as a mechanism to reduce alcohol-related harms in the province.

Best regards

**Corné van Walbeek**

Director: Research Unit on the Economics of Excisable Products



## Knowledge Hub provides technical support to Mongolia

The WHO FCTC Secretariat, through the FCTC 2030 Project, is supporting Mongolia to pass tobacco control law amendments and other related tobacco control policies. These policies include substantial increases in the excise tax.



Zunda Chisha represented the Knowledge Hub and developed a Tobacco Excise Tax Simulation Model (TETSIM) to simulate the impact of various tax proposals for Mongolia. The mission consisted of a workshop, individual ministry engagements, meetings with members of parliament, and media engagements. During the workshop, Zunda presented the results of the TETSIM modelling exercise and proposed that the excise taxes should be increased, on a regular basis, by substantially more than the inflation rate and the per capita GDP growth rate. Such rapid increases are necessary to avoid cigarettes becoming more affordable over time. The Knowledge Hub wrote a report on the TETSIM results, which was subsequently shared with government officials from Mongolia.

In addition, the taxation of e-cigarettes was discussed and the report provides some recommendations for the Government of Mongolia to consider. The Knowledge Hub will remain in touch with all stakeholders and will be available to provide any further technical assistance in the coming months.



Workshop presentation on tobacco taxation proposal results from the TETSIM model.

## Knowledge hub provides tax modelling support to Panama

In the last week of January 2023, the Pan-American Health Organization and the Panamanian Ministry of Health organized a workshop on tobacco taxation in Panama City. Corné, representing the WHO FCTC Knowledge Hub on Tobacco Taxation, met with officials from numerous government departments.



He presented the results of the Tobacco Excise Tax Simulation Model (TETSIM), specifically modelled for Panama. This in-person meeting followed up on an online tax workshop of March 2022, where Panama was one of the countries that received individualized support from the Knowledge Hub team.

Panama will be hosting the tenth Conference of the Parties of the WHO FCTC and the third Meeting of the Parties of the Protocol to Eliminate Illicit Trade in Tobacco Products in November 2023. The country has made impressive strides in tobacco control, having reduced smoking prevalence from well above 30% in the 1980s to current levels of about 5%. Surprisingly, this large decrease has happened without large increases in the excise tax. In fact, the last tax increase happened in 2009. The country has implemented all non-price tobacco control interventions recommended by the FCTC, and these interventions are strictly monitored and enforced.

Panama imposes a 100% *ad valorem* excise tax, and a substantially higher than average VAT rate on tobacco products. Other than this, the country imposes a minimum specific tax of 1.50 USD per pack of cigarettes. The total tax burden, i.e., total taxes expressed as a percentage of the retail price, is slightly more than 60%. Half of tobacco excise tax revenue is earmarked for tobacco control purposes.

Corné demonstrated that if Panama increased the excise tax, it would be able to reduce smoking prevalence further and raise additional revenue. In line with international evidence and the WHO tax guidelines, Corné suggested that the government should increase the minimum specific tax, rather than increasing the *ad valorem* component of the tax. It seems that there is much political will to increase the excise tax in Panama.

The Knowledge Hub congratulates Panama on the success it has already achieved in reducing smoking prevalence and wishes it all the best in substantially increasing the excise tax.

This in-country support was provided with funding from the FCTC2030 project.

## Knowledge Hub Programme Director presents at workshop on tobacco tax modelling in Dar es Salaam

At the end of February 2023, the Knowledge Hub Programme Director, Zunda Chisha, travelled to Dar es Salaam, Tanzania, to conduct a training workshop on tobacco tax modelling. The workshop was part of an ongoing programme of technical support to the country under the FCTC 2030 Project. Officials from the Ministry of Health and Finance from both mainland Tanzania and Zanzibar participated at the workshop. In addition, some representatives from the offices of the Prime Minister and the Vice president of Zanzibar attended the workshop.



The first two days of the workshop covered an introduction to the economics of tobacco control, introducing attendees to important concepts such as the price elasticity of demand, affordability, and tax pass-through. On the third day Zunda discussed the TETSIM model, that had been calibrated to Tanzania. The model was used to simulate the impact of possible tax reform options in Tanzania.

Tanzania currently imposes a specific excise tax on three tiers of cigarette products based on (1) whether the cigarettes have a filter tip or not, and (2) whether they are produced using locally-manufactured tobacco or imported tobacco. The tax rates vary from 12 447 shillings per 1000 cigarettes for unfiltered locally-produced cigarettes to 55 897 shillings per 1000 cigarettes for imported cigarettes.

Our main proposal was to collapse the tiers, in two stages. First, merge the two lower tiers immediately (2023/2024), and, second, merge the two remaining tiers after the second year (2025/2026) at a higher rate. The model indicated that this strategy would decrease cigarette consumption, and substantially increase government revenue. The proposal was presented to officials of the Ministry of Finance in Dodoma (the capital of Tanzania), and was well received.



Most participants understood the rationale for collapsing the tiers. While there were no overt objections, some typical arguments about illicit trade, product substitution, and the impact of these tax changes on tobacco leaf growers were raised. These were addressed during the question and answer session.

Most tobacco produced in Tanzania is exported, which means that an increase in the excise tax in Tanzania will have a limited impact on local tobacco producers.



## New alcohol grant: An analysis of gaps in South Africa's alcohol taxation policy



Recently REEP received a grant to identify and analyse gaps in South Africa's alcohol taxation policy. The funding agency, RESET Alcohol, is led by Vital Strategies, in collaboration with Movendi International, the Tobacconomics team based at the University of Illinois Chicago, the Global Alcohol Policy Alliance, the NCD Alliance, and the World Health Organization. Nicole and Come will be working on this grant from April to December 2023.

There are several anomalies in South Africa's approach to alcohol taxation. Officials at the National Treasury identified these problems years ago, but to date these have not been addressed in detail. In our proposal we identified three gaps:

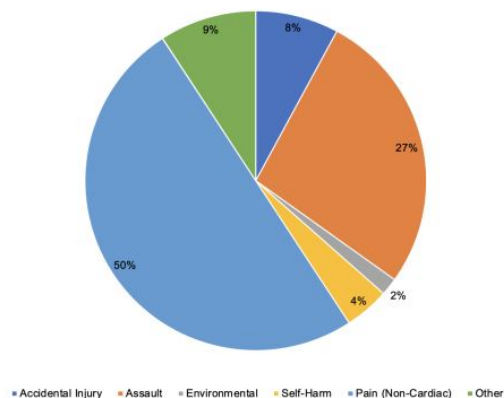
1. Anomalies in the alcoholic fruit beverages (AFBs) and ready-to-drink beverages (RTDs) tax structures. Spirits-based RTDs are taxed at the higher spirits excise duty rate, while AFBs (including ciders) with a fermented base are taxed at a substantially lower rate. Taxing RTDs, ciders, and AFBs by their alcohol content at a unified tax rate should be considered. The appropriate taxation of RTDs, ciders and AFBs is important because of their appeal to young people.
2. **Taxing wine by volume, not by alcohol content.** Wine is taxed at the same rate per litre of beverage, irrespective of alcohol content. For example, wine with 14.5% alcohol content is taxed at the same rate as wine with 5% alcohol content. Wine producers, especially those producing low-alcohol wine, are finding this discriminatory and increasingly untenable. Wine is taxed at a much lower rate than beer and spirits. The rationale for this special dispensation was that the industry would create employment, support tourism, and enable a successful export industry. This thinking is flawed because tourists generally purchase higher-priced wine, and can afford higher prices. Also, exported wine is not subject to local excise taxes.
3. **Beer powder taxed at a minimal rate.** Beer powder became popular during the Covid-19 alcohol sales ban. It is sold at supermarkets in packets of 500g or 750g. Each packet produces an average of five litres of beer within 24 hours from when water is added. It is very cheap and was untaxed until 1 October 2022, and since then is only taxed at a minimal rate.

We believe that a rigorous study can inform changes in South Africa’s alcohol tax policy, with positive health and fiscal consequences for the country. These health and fiscal benefits will also be experienced by the other four members of the Southern African Customs Union (Namibia, Botswana, Lesotho and Eswatini) because these countries are subject to the same excise tax regime as that applied in South Africa.

## REEP members conduct alcohol modelling study for the DG Murray Trust

Between December 2022 and March 2023, Sam Filby conducted a [study](#) that sought to estimate the health and economic impact of a policy that restricts the legally-permissible trading times of retailers selling alcohol for onsite consumption in the Western Cape. This policy is being considered by Western Cape Government as a mechanism to reduce alcohol-related harms in the province. Sam was supported in this work by Corné van Walbeek from REEP and Rob Hill from the Development Policy Research Unit at UCT.

FIGURE 1. EMS DATA: INCIDENT TYPE CATEGORIES AND PROPORTION OF CASES IN EACH CATEGORY, 2021



Currently, 25 different laws determine the permissible trading hours of retail liquor outlets in the Western Cape, because each of the 24 local municipalities and the one metropolitan municipality in the province have their own by-laws pertaining to liquor trading hours. The modelling study assessed the potential impact if on-sale outlets like bars and shebeens were required to close earlier. Three different closing time scenarios were considered: midnight, 1am and 2am.

Results of the research showed that earlier closing times will decrease alcohol consumption, the number of alcohol-related deaths, the number of cases of specific alcohol-related conditions, alcohol-related hospital costs, the cost of combatting alcohol-related crime, and revenue accruing from alcohol sales and alcohol taxation.

The choice of which closing time to implement is a political decision that balances reductions in alcohol retailers’ revenues and the government’s tax revenues with increased public health benefits and the associated hospital cost savings, and reductions in the costs of combatting alcohol-related crime in the Western Cape. The research clearly shows that a midnight closing time is the most pro-health policy option, but carries the largest economic cost. A 2 am closing time will have a modest economic impact, and a modest impact on alcohol-related harms.



The full report can be accessed via the DG Murray Trust's Alcohol Harms Reduction [page](#) or can be downloaded directly [here](#).

## Introducing the Tobacco Control Data Initiative Dashboard for Ethiopia

In 2021, Development Gateway started creating the [Tobacco Control Data Initiative \(TCDI\) Ethiopia website](#) in partnership with Ethiopian Food and Drug Authority (EFDA). The dashboard was launched on 28 February 2023 in Addis Ababa, Ethiopia. The website is a “one-stop shop” for researchers and policymakers, hosting data and resources that can be used to advance the tobacco control agenda in the country. The website is one of several country-specific platforms that Development Gateway designed in collaboration with REEP.

Specifically, the dashboard considers smoking prevalence, tobacco taxation, tobacco industry interference and illicit trade. Information about enforcement, tobacco harm, and smoking cessation will be published in coming months.

In addition to Ethiopia’s dashboard, TCDI country dashboards exist for [South Africa](#), [Zambia](#), and [Nigeria](#). Websites for Kenya and the Democratic Republic of the Congo will soon be launched. These websites were developed as part of the [TCDI Program](#), implemented by Development Gateway and financially supported by the Bill & Melinda Gates Foundation.



## In the news

- On 26 January 2023, Nicole Vellios's research on illicit trade was cited extensively in an article published by Bhekisia titled ['What's behind the Big Tobacco job cuts? A guide to SA's illegal tobacco trade after COVID'](#).



The article was written by journalists Christina Pitt and Joan van Dyk, and quotes the research from Nicole's Econ3x3 article published on 7 September 2022: [How big is the illicit cigarette market in South Africa?](#)

- On 2 March 2023 Business Day referenced some work on the effect of minimum unit pricing on alcohol in South Africa done by Corné van Walbeek and Grieve Chelwa, in an opinion piece titled: ["Sin taxes alone won't prevent alcohol-related harm"](#).
- On 17 March, Sam Filby and Corné van Walbeek were featured prominently in an article on smoking cessation in South Africa. The full article appeared in Bhekisia and was reproduced by News24: [Bad habits: How the government can help you quit smoking — but isn't](#).

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](mailto:tobaccoecon@gmail.com)



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

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