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## **BATSA's 70% illicit cigarette trade estimate is wrong - UCT study**

In August 2022, British American Tobacco South Africa (BATSA) announced that the illicit cigarette trade in the past year comprised 70% of the total market in South Africa. But according to a new study by University of Cape Town's (UCT) PhD candidate Nicole Vellios, BATSA's estimate is wrong. These results were published in an article in [Econ3x3](#), the online economic policy publication housed at UCT's Southern Africa Labour and Development Research Unit (SALDRU).

To test whether BATSA's claim is true, Vellios updated [previous research](#) that provided estimates of illicit trade from 2002–2017 to include estimates for 2018–2021. Using gap analysis, she estimated that between 2002 and 2009 the illicit cigarette market accounted for around 5% of the total market.

"Since 2009, the illicit cigarette market has increased sharply, and by 2017 illicit trade accounted for 30%–35% of the total market. By 2020, illicit trade was around 54%. The illicit market was greatly stimulated by the 20-week sales ban in 2020, when no cigarettes were sold legally and when the government received no excise revenue for cigarettes. In 2021, the illicit market remained at around 54%," said Vellios.

Vellios explained: "These estimates are lower than BATSA's estimate of 70%, but are still cause for much concern. BATSA's estimate is wrong for two reasons: the estimate is for Gauteng (one of the nine provinces in their sample), not South Africa as a whole, and, secondly, its estimate relates to the proportion of stores it claims sold illicit cigarettes, as opposed to the overall proportion of illicit cigarettes consumed."

The number of stores that sell illicit cigarettes is not the same as the number of illicit cigarettes consumed, said Vellios. Ipsos, the company hired by BAT to conduct research on illicit trade, found that 70% of retail outlets in Gauteng were selling cigarettes at or below the minimum collectable tax (excise and VAT).

"A shop that sells illicit cigarettes is likely to also sell legal cigarettes. It is misleading to say that 70% of the market in Gauteng is illicit. BATSA should rather be saying that 70% of stores that it sampled in Gauteng sold illicit cigarettes. This is much more accurate," she wrote.

Vellios said illicit trade can take several forms, such as smuggling, counterfeiting, and tax evasion. In South Africa, illicit trade in cigarettes is predominantly about tax evasion. "In 2021/2022, the excise tax on a pack of 20 cigarettes was R18.79. The tax burden increases to R21.61 when the 15% VAT on excise is included. Since around 2014, local manufacturers have been evading excise taxes by under-declaring the number of cigarettes produced.

The tobacco industry in South Africa, and globally, often argues that high excise taxes cause smokers to turn to the illicit market, and that excise taxes should therefore not be increased. In South Africa, said Vellios, there is no evidence that excise tax increases are linked to an increase in illicit trade.

"From 2002–2009, when illicit trade was stable, excise taxes were increasing at an average rate of 6% per year. From 2010–2021 when illicit trade was increasing rapidly, excise taxes were increasing at an average rate of 2% per year. Illicit trade is high because of weak supply chain controls, not because excise taxes are too high."

Vellios shared that illicit trade is extremely high in South Africa, but not as high as the tobacco industry claims.

The South African Revenue Service (SARS) should secure the cigarette supply chain to monitor cigarettes from the point of production to the point of sale, she said. "The World Health Organization's Framework Convention on Tobacco Control provides guidance on how to do this. These guidelines are detailed in the Protocol to Eliminate Illicit Trade in Tobacco Products, which South Africa has not yet ratified. The protocol commits governments to taking effective steps to reduce the illicit trade in tobacco products, such as allowing only licensed manufacturers to produce cigarettes and implementing a track and trace system."

If SARS does not secure the supply chain, said Vellios, South Africa will continue to lose valuable revenue.

***ENDS***

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