

# Webinar: Don't blame SA's booming illegal cigarette trade on lockdown alone

A subject of furious debate during the lockdown is the [ban on tobacco products](#). In a webinar held by PSG today, Jacques Pauw, author of the gripping *The President's Keepers*, told viewers the lockdown is only part of the reason the illegal cigarette trade in South Africa is thriving.



Image credit: Irina Iriser from Pexels

Pauw was in conversation with financial journalist Bruce Whitfield during the first webinar in PSG's *Think Big* series, hosted by PSG's head of public policy and regulatory affairs Ronald King.

"The story heats up in 1997, when government increased the tax on cigarettes from 20% of the sale price to 50%," Pauw said. "This suddenly made it very expensive to smoke and boosted the underground world of illegal cigarettes."

After all, without the excise, you can sell your product below market price and still make a huge profit. Under normal circumstances, a pack of 20s costs R36 in a large retail outlet, of which the government gets R18, while it costs under R2 to manufacture a pack of smokes.



R140 for a packet of cigarettes in Soweto

Mosa Damane 18 May 2020



The lockdown, however, has made it even more profitable to trade in illegal tobacco products. Supply and demand have allowed purveyors of these products to charge premium prices, well beyond what a legal pack of 20s would cost, if you could buy one.

At the same time, government could by now have lost up to R4.5bn in revenue as a result of the tobacco ban, even as it has announced it will have to borrow from the IMF, the World Bank and the New Bank to fund the country's Covid expenses and help keep the economy barely afloat.

## **Criminal tobacco networks flourishing**

Pauw said the criminal tobacco networks are flourishing because they haven't been brought to book, and not just during lockdown. The last time SARS tried was 2012, when it launched operation Honeybadger to investigate and prosecute illegal tobacco. Driven by Johann van Loggerenberg, then head of the SARS Investigate Unit, the operation raided tobacco companies, withdrew licenses, and closed down manufacturers.

"By 2014, fifteen companies were facing criminal prosecution and tobacco smuggling had dropped off significantly. In 2012 tax evasion of tobacco products was worth R3bn a year. Thanks to Honeybadger, contraband tobacco products dropped from 26% of the total market for tobacco products in 2013 to only 17% in 2014," Pauw said. Sadly, the figure is back up to 35-40% today.

What happened?

"SARS was ready to pounce on the smugglers, had prepared the criminal cases, and then everything just stopped when Tom Moyane became Commissioner," Pauw said. "He disbanded the Investigative Unit and embroiled SARS in years of dysfunction with the sole purpose of protecting former president Zuma, his friends and family, and the Guptas from the many investigations underway into their nefarious exploits."

## **Why govt can't afford the conflict**

Pauw surprised viewers when he said not only smaller tobacco companies are involved in the illegal tobacco trade, though they get most of the blame. "The big companies are involved as well," he said.

“In the 2017/2018 tax year, the 3 big tobacco companies – BAT, Japan Tobacco and Philip Morris – produced 19 billion cigarettes for the SA market, but tax was only paid on 15.3 billion cigarettes.” What happened to the other 3.7 billion?

“You can do the sums,” said Pauw. “It’s enough for 185 million packs of 20s with tax on that worth R4.6bn. As such, government can’t afford to bring the big companies down.”



### Covid-19 knocks tax revenue performance

7 May 2020



Looking at BAT alone, Pauw said the state can’t afford to be in conflict with the massive company as the state pension fund holds about 43 million shares of BAT at a value of R27bn. In addition, the GEPIF holds 23 million shares in Reinet, whose biggest investment is in BAT. If BAT closes down South Africa’s state pensioners will lose way over R30 billion so the state can’t afford to be in conflict with BAT. Essentially, BAT is too important to fail.”

The lockdown has brought the criminal network of illegal tobacco traders into leafy, middle-class suburbs, giving them a new foothold they didn’t have before. “Buying cigarettes during lockdown is against the law, but smokers justify it on the basis that their civil liberties have been infringed on.”

[A recent study](#) by the University of Cape Town found that the vast majority of smokers – over 90% – still have access to cigarettes. And some peculiar brands are being smoked.

“People are smoking whatever they can, and many of them are being smuggled in over our borders, mostly from Zimbabwe and Malawi,” Pauw said. “The problem is what’s in them, and what chemicals have they been treated with,” he asked.



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19 May 2020



## A safer commodity to smuggle

Pauw said the profits on smuggling illegal tobacco products are similar to the profits on smuggling cocaine. The difference, however, is that smuggling cocaine could lead to a prison sentence, while smuggling tobacco could get you a fine. “This makes it a relatively ‘safe’ commodity to smuggle and is part of the reason that the illegal tobacco trade continues to flourish.”

In concluding the webinar, Ronald King of PSG said the discussion with Pauw showed beyond a doubt that South Africa cannot live up to its promise until the rule of law is firmly established and entrenched in this country.

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