The Tobacco Institute of Southern Africa

Presentation to
The Portfolio Committee on Trade and Industry
24 April 2015
Parliament – Cape Town
AGENDA

• TISA snapshot, views on working with Government.

• Importance of the tobacco sector

• TISA Strategic Priorities
  ➢ Illicit Trade – SACU/SADC
  ➢ Tobacco Control Legislation – local, regional, international
  ➢ Sustainability of the sector/transformation efforts and challenges

• In all efforts - Strengthening relationships and cooperation with Government as a whole.
Who is TISA and our approach to tobacco

• TISA is the industry body for the legal tobacco sector in SA; our mandate extends into the SACU/SADC region.

• TISA represents farmers, leaf processors, leaf merchants, manufacturers, importers and exporters of tobacco products; in the legally compliant industry – non-negotiable. *Clear distinction between legal and illegal industry.*

• TISA acknowledges the health risks associated with the use of tobacco products, we believe in sensible regulation and better education about tobacco use.

• Tobacco is a legal product, produced by a legal full value chain, adding value, making substantial economic and other contributions to our country and the region.
TISA approach to working with Government

- TISA supports the sensible regulation and taxation of the tobacco industry and tobacco products.

- TISA believes public / private partnerships between governments and tobacco sector is the only sustainable solution to address all matters related to the tobacco sector.

- TISA believes all partnerships should be built on basic principles of mutual respect, trust, transparency, consistency, cooperation and good relationships.

- TISA believes that consultation/engagement will result in level playing field where compliance, self regulation and enforcement form the corner stones of the tobacco environment.
## The Tobacco Institute of Southern Africa

### Tobacco Value Chain Regional Summary (2011)

#### The Importance of Tobacco to the Region

<table>
<thead>
<tr>
<th></th>
<th>COMESA</th>
<th>SADC</th>
<th>SACU</th>
<th>15-Country Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of Farmers</strong></td>
<td>951,600</td>
<td>1,066,287</td>
<td>177</td>
<td>1,179,787</td>
</tr>
<tr>
<td><strong>Employment</strong></td>
<td>3,209,100</td>
<td>3,661,914</td>
<td>9,904</td>
<td>3,885,414</td>
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<tr>
<td><strong>Number of Dependents</strong></td>
<td>13,898,203</td>
<td>16,959,332</td>
<td>40,000</td>
<td>17,840,375</td>
</tr>
<tr>
<td><strong>Hectares planted</strong></td>
<td>338,490</td>
<td>447,641</td>
<td>5,353</td>
<td>485,531</td>
</tr>
<tr>
<td><strong>Tonnes tobacco produced</strong></td>
<td>575,466</td>
<td>616,494</td>
<td>15,000</td>
<td>665,566</td>
</tr>
<tr>
<td><strong>Value of Production ($m)</strong></td>
<td>875</td>
<td>1,195</td>
<td>60</td>
<td>1,290</td>
</tr>
<tr>
<td><strong>Processing (Manufacturing &amp; GLTs)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Number of Enterprises</strong></td>
<td>51</td>
<td>30</td>
<td>8</td>
<td>66</td>
</tr>
<tr>
<td><strong>Employment</strong></td>
<td>37,109</td>
<td>32,491</td>
<td>3,831</td>
<td>53,067</td>
</tr>
<tr>
<td><strong>Number of Dependents</strong></td>
<td>158,520</td>
<td>142,582</td>
<td>3,800</td>
<td>232,570</td>
</tr>
<tr>
<td><strong>Selling (Wholesale &amp; Retail)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Number of Enterprises</strong></td>
<td>143,572</td>
<td>194,095</td>
<td>122,316</td>
<td>296,890</td>
</tr>
<tr>
<td><strong>Employment</strong></td>
<td>202,971</td>
<td>331,321</td>
<td>181,780</td>
<td>428,065</td>
</tr>
<tr>
<td><strong>Number of Dependents</strong></td>
<td>1,011,338</td>
<td>1,052,222</td>
<td>629,044</td>
<td>1,664,686</td>
</tr>
<tr>
<td><strong>International Trade</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Imports ($m)</strong></td>
<td>622</td>
<td>419</td>
<td>317</td>
<td>959</td>
</tr>
<tr>
<td><strong>Total Exports ($m)</strong></td>
<td>1,493</td>
<td>1,789</td>
<td>200</td>
<td>2,157</td>
</tr>
<tr>
<td><strong>Total Taxes Paid ($m)</strong></td>
<td>3,788</td>
<td>2,313</td>
<td>1,570</td>
<td>5,614</td>
</tr>
<tr>
<td><strong>TOTAL FORMAL &amp; INFORMAL EMPLOYMENT</strong></td>
<td>3,449,180</td>
<td>4,025,726</td>
<td>195,515</td>
<td>4,366,546</td>
</tr>
<tr>
<td><strong>TOTAL POPULATION RELIANT ON TOBACCO</strong></td>
<td>18,517,241</td>
<td>22,179,862</td>
<td>868,359</td>
<td>24,104,176</td>
</tr>
<tr>
<td><strong>TOBACCO VALUE CHAIN TOTAL VALUE ($m)</strong></td>
<td>6,777</td>
<td>5,716</td>
<td>2,146</td>
<td>10,020</td>
</tr>
</tbody>
</table>

*Note: The numbers in this table may refer to minimum values, where the absence of some countries' data inhibits the calculation of more comprehensive data.*

* Total formal & informal employment; dependants
** Value of tobacco production; total exports; total imports; taxes paid
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The Importance of Tobacco to South Africa

Highlights:
- The tobacco sector contributed more than $1.4bn to fiscal revenues during the 2010/11 fiscal year.
- The tobacco value chain employs 184,404 workers with 633,580 dependants.
- Tobacco and related product exports were valued at $180m during 2011.

<table>
<thead>
<tr>
<th>South Africa Tobacco Value Chain Summary</th>
<th>Number of Enterprises</th>
<th>Full-Time &amp; Seasonal Employment*</th>
<th>Number of Dependents#</th>
<th>Hectares planted</th>
<th>Tonnes produced</th>
<th>Value (Sm)</th>
<th>% of GDP</th>
<th>% of Agri GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farming</td>
<td>Farmers</td>
<td>177</td>
<td>9,904</td>
<td>40,000</td>
<td>5,353</td>
<td>15,000</td>
<td>60.0</td>
<td>x</td>
</tr>
<tr>
<td>Processing</td>
<td>Manufacturers &amp; GLTs</td>
<td>6</td>
<td>3,800</td>
<td>13,200</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>Wholesalers</td>
<td>350</td>
<td>700</td>
<td>2,380</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Selling</td>
<td>Formal Retailers</td>
<td>55,000</td>
<td>110,000</td>
<td>374,000</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>Informal Retailers</td>
<td>60,000</td>
<td>60,000</td>
<td>204,000</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>International Trade</td>
<td>Total Imports</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>209.5</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>Total Exports</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>180.0</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Total Taxes Paid</td>
<td></td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>&gt;1,400.0</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>115,533</td>
<td>184,404</td>
<td>633,580</td>
<td>5,353</td>
<td>15,000</td>
<td>&gt;1,849.5</td>
<td>x</td>
</tr>
</tbody>
</table>

* Where data is absent, the following is assumed: wholesale employment = 2 people per employment unit (store or shop); formal retail employment = 2 people per employment unit (store or shop); informal retail employment = 1 person per employment unit (e.g. stall)

# Where available data is lacking, calculations have been made on an average household size of 4.4 people.

Note: "n/a" = not applicable; "x" = not available; ">" = minimum value
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The Primary Industry - Development of Black Farmers

Tobacco Project

- TISA supports industry initiatives related to current and new farmer development.
- TISA project members include Universal Leaf SA; BATSA and LTP
- MASDT current funders:
  - British American Tobacco (BAT SA)
    - Mixed Farming Incubation; Seda – Incubation; Eskom Foundation – Incubation Assets; DTI – Incubation Support Program; National Development Agency (NDA) – Incubation; AgriSETA – FET Virtual College; Simbambili Lodge – Women’s Garden Project (Utah); Monsanto SA – Maize Seed

Approximately 100 Farming Units

Mpumalanga: Buffelspruit, Badplaas, Steynsdorp,
Limpopo: Groblersdal, Elandskraal, Venda
North West Province: Skuinsdrift,
Western Cape Province: Oudtshoorn
Development of Black Farmers

Tobacco Project Success

- Industry is committed to developing successful new black farmers, which will include tobacco and food crops ensuring food security. This can only be successful in partnership with Government.

- MASDT has provided accredited training to a total of 193 people in tobacco and food crop production. (NQF framework)

From a zero base in 2011, the 2015 production plan includes:

- 126.15 ha of tobacco
- 81.75 ha of maize
- 3 ha of beans
- 9.8 ha of vegetables
Illicit Trade: Understanding the Problem
Counterfeit Goods versus Duty not Paid

Is the product compliant with National Health Regulations?

**HOW TO SPOT ILLEGAL CIGARETTES**

1. **PRICE**
   - A wholesale price to the consumer of less than R25.00 per pack could indicate that excise and VAT has not been paid (Contravenes the Customs and Excise ACT).

2. **TAR / NICOTINE READING**
   - Relevancy of the TAR level to the nicotine content (Contravenes the Tobacco Products Control Act).

3. **HEALTH WARNING**
   - Absence of explicit health warnings (Contravenes the Tobacco Products Control Act).

4. **SA DIAMOND STAMP**
   - Absence of contact number or incorrect product number (Contravenes the Tobacco Products Control Act).

5. **QUIT LINE NUMBER**
   - Absence of contact number or incorrect product number (Contravenes the Tobacco Products Control Act).

6. **REDUCED IGNITION PROPENSITY MARKING**
   - Absence of the Reduced Ignition Propensity marking on the pack (Contravenes the Tobacco Products Control Act).

**Is the product sold below the industry determined minimum commercially viable price? (Suspect Price)**

- Yes
  - R 18-00/20

**ILLEGAL TRADE**
Illicit Trade: Operating Methods

Manufacturing Outside of our countries

- Exploitation of Customs Processes
  - Transit Declaration Exploitation
  - Mis-Declaration of product
  - Non-Declaration of product
  - Concealed Consignments
  - Outright Smuggling

Manufacturing Inside our countries

- Excise Account Manipulation
- Fraudulent invoicing

**SOURCE COUNTRIES**

**Full Year 2014**
- South Africa: 61%
- Zimbabwe: 34%
- Botswana: 3.0%
- Other: 2.0%

**SOURCE COUNTRIES**

**YTD Feb 2015**
- South Africa: 45%
- Zimbabwe: 42%
- Botswana: 12%
- Other: 1.0%
The size and impact of illicit cigarettes
Economic and Social

Illicit trade approx. 3rd of total industry

Est. Govt losses since 2010 – R22Bn +

Erodes Investor Confidence
TISA AIT Actions

1. Invest in independent 3rd party research to understand the illicit landscape.

2. Continue to emphasise relationship between excessive excise increases and illicit trade
   Treasury very sensible over last 7 years, maintaining 52% tax incidence. Canada example of increased taxes which was reduced again due to growth in illicit.

3. Global Protocol on Illicit Trade in Tobacco Products (FCTC)
   TISA offers assistance and is willing to work with Governments to implement relevant measures in protocol.
TISA AIT Actions

4. Cross-Border Liaison

Sharing information across borders

- TISA/Swaziland/Mozambique
- TISA/Namibia/ Angola
- TISA/Botswana
- TISA/Lesotho
- TISA/Zambia
- TISA/Zimbabwe
TISA AIT Actions

4. Cross-Border Liaison continued...

MoUs

MoU’s signed between TISA and
- Mozambique Revenue Authority
- Lesotho Revenue Authority
- Botswana Revenue Service
- Swaziland Revenue Authority
- Namibia Ministry of Finance

Still work in progress:-
- Mozambique Police - finalised
- Botswana Police
- Zambia Customs – work in progress
- Zimbabwe Revenue Authority
TISA AIT Actions

4. Cross-Border Liaison continued…/

SACU, SADC, Comesa Engagement

Build relations and raise awareness with SACU, SADC, COMESA Secretariats to ensure their understanding, support and cooperation in TISA AIT cross-border efforts.

5. Information/Training Sessions

(+9000 govt officials attended training sessions since 2010.)

6. Engagement with all other relevant Government Departments.

TISA believes a “whole of Government” approach is required.

7. Public Awareness – campaigns, press releases etc.
8. Destruction of illicit tobacco products

- Mobile hammer mill – more environmentally friendly
- Currently 8 TISA hammer mills deployed across SA.
- Destructions done at no cost to Govt.
- Objective to destroy as much as legally possible, reducing risks of pilferage from State Warehouses
- Also assists other SACU countries
A few Possible Solutions

• Establish the fight against illicit trade as a national government priority.

• Establish better Government to Government dialogue to address illicit trade from source and transit countries.

• Support/enhance government / industry collaborative forums to address illicit trade activities. (national and provincial).
A few Possible Solutions

Enforcement
- Increased cross-discipline resourcing and / or dedicated tobacco task force.
- Increased product seizure, asset forfeiture and investigations leading to kingpins.
- Establishment of provincial, multi-disciplinary forums, supported by industry.

Prosecutions
- Bringing greater urgency and resourcing to registration and completion of investigations and prosecution of major role players.
- Greater alignment from interdependent functions to drive prosecutions to effective completion.

Administrative Controls - SARS
- Excise controls – Digital Product Marking/Verification and Vendor Audits.
- Provincial, National and Regional co-operation.
What is Plain Packaging?
The Tobacco Institute of Southern Africa

Industry Challenges – Plain Packaging

Today

Extreme
Plain Packaging Relevance to DTI

- Disputes were brought to the WTO by Ukraine, Honduras, the Dominican Republic, Cuba and Indonesia against Australia for the Plain Packaging Act. These countries believe Australia has contravened the WTO TRIPS & TBT.

- PP could further harm investor sentiment towards SA – who would invest if no brands can be use or even excessive GHW are in place.

- PP in SA could deeply damage legitimate Tobacco sector and incentivize illicit trade (influx of packs without PP /GHW or counterfeiting of products)

- Industry view towards regulation – supportive, cooperative, non-combative, find a reasonable dispensation.
Unintended consequences of plain packaging

• Plain packaging legislation will destroy the trademark and make it impossible for consumers to differentiate between brands – a counterfeiters paradise.

• Illicit trade in cigarettes already high at 23% of the SA market in 2014.

• Plain packaging will impact negatively on the legal tobacco sector value chain, constrain the sector’s ability to play its full part in developing the economy, transformation efforts, erode investor confidence with no assurance of achieving health objectives.
1. Legal tobacco sector is committed to the development of SA and the region.
2. The sector supports reasonable regulation, but not extreme measures.
3. Tobacco is more than health, therefore a “whole of Govt” approach is required for tobacco, including health, agriculture, trade and industry, finance, law enforcement etc.
4. The sector’s reasonable expectation is proper engagement and consultation with all relevant stakeholders when tobacco regulation is developed.
We thank Honourable Members for this opportunity and wish you well with your very important work in the interest of our country and its people.