THE TOBACCO EPIDEMIC CAN BE REVERSED:
TOBACCO CONTROL IN SOUTH AFRICA DURING THE 1990s

Abridged version of an investigation into the Economics of Tobacco Control in South Africa,
undertaken by the Applied Fiscal Research Centre of the University of Cape Town’s School of
Economics

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PREFACE

During the past decade South Africa has achieved considerable success in tobacco control, and this is reflected in data pertaining to cigarette consumption, smoking prevalence, and government tax revenue. The benefits of this reduction in smoking, in the form of reduced mortality and morbidity, will be reaped in decades to come. The aim of this report is to outline some of the salient features of South Africa’s tobacco control strategy of the past decade.

Internationally, tobacco control has become an important issue, not only in the industrialised world, but increasingly also in the developing world. Through initiatives like the Framework Convention on Tobacco Control (FCTC), the World Health Organisation is raising awareness and trying to set a standard for tobacco control throughout the world. As is to be expected, the tobacco and related industries are not applauding the WHO’s efforts. If their previous actions is anything to go by, the tobacco industry will do anything in its power to subvert, water-down, and delay any policy that would harm their profitability. Despite attempts to put on a veil of “social responsibility”, illustrated by their very politically correct websites and the recent publication of British American Tobacco’s Social Report, the fact of the matter is that the tobacco industry has an obligation to its shareholders to sell as many cigarettes as possible. Given the harmful nature of the product it sells, both to active and passive smokers, the public image and business activities of the tobacco industry will always contradict each other.

In South Africa, the tobacco industry was vehemently opposed to policies aimed at reducing smoking. Any country thinking about tobacco control strategies are likely to be faced by a similar barrage of arguments as to why the status quo should be maintained, and why the proposed measures are a bad idea. Despite the forcefulness with which the industry’s claims are made, they are in fact usually not difficult to counter. A strong tobacco control policy should have at least the following ingredients: (1) strong and effective lobbying power by medical and other associations; (2) thorough and unbiased research that can effectively counter the (usually exaggerated) claims of the industry; (3) public support for the intended tobacco control measures; and (4) the political will by the ruling government to stand against the vested interests of a powerful industry.

This report is a shortened version of a longer report that aims to analyse South Africa’s experience in tobacco control during the 1990s. It is hoped that this abridged report will be useful to policy-makers and other interested people in tobacco control, especially in developing countries. The main lesson of South Africa’s experience with tobacco control is that tobacco control measures can be implemented, and the results can be seen very rapidly.
In order to increase the readability of this report, references in the text have been kept to a minimum. The complete report is more fully referenced. The bibliography in this report is only a selection of the most important sources used. The complete report has a complete bibliography.

A number of people and organisations have played an indispensable role in this research. Research for International Tobacco Control (RITC), a secretariat housed at the International Development Research Centre in Ottawa, Canada, provided most of the funding for the project, complemented, to a lesser extent by funding from the World Bank. The work was carried out in the Applied Fiscal Research Centre (AFReC), a research institute attached to the School of Economics at the University of Cape Town. I am especially grateful to Montasser Kamal and Linda Waverley-Brigden (RITC) and Joy de Beyer (World Bank) for excellent support, good ideas and lots of encouragement throughout. Thanks to Iraj Abedian, the project leader, and Tania Ajam, the AFReC director, for placing their trust in me at the outset and giving me the opportunity to work on this very interesting project. Rosemary Leaver did an excellent job of going through about 4000 different newspaper articles and writing most of Chapter 2. Kalie Pauw was responsible for the data manipulations underlying the analysis of Chapter 6. Many of my colleagues at the Universities of Cape Town and Stellenbosch read chapters of the final report: Iraj Abedian, Tania Ajam, Conrad Barberton, Stan du Plessis, Murray Leibbrandt and Kalie Pauw. Finally, Nick Wilkins, Adele Baleta and Fiona Adams were responsible for the editing and final printing of this report. To all of you: thank you!

Corné van Walbeek

Cape Town, November 2002
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CHAPTER 1

INTRODUCTION

Tobacco was first used by the Mayans and Aztecs in Central America. Christopher Columbus introduced it to the Western world in the late fifteenth century, after his pioneering voyage to the West Indies. During the next three centuries tobacco use waxed and waned, depending on the habits of the ruling elites. It was only in the late nineteenth century, after cigarette manufacturing equipment was invented, that cigarette smoking became popular and affordable among the masses. Many of the large international cigarette manufacturing companies were founded around the start of the twentieth century.

Throughout its long history, tobacco has experienced periods of controversy. In Europe, many monarchs found tobacco to be a handy source of revenue, but the Church sporadically banned its use, declaring smoking a sin. The opposition to tobacco use was based on religious, not health grounds.

Before the twentieth century the detrimental impact of tobacco on health was not well understood. Indeed, the UK Royal College of Physicians’ report of 1962 and the US Surgeon-General’s report of 1964 were the first comprehensive medical survey reports on the dangers of smoking to public health. In reaction to these reports many developed countries introduced a range of tobacco control measures. As a result, tobacco use in many developed countries has been decreasing since the 1970s, and especially since the 1980s.

Unfortunately, the same cannot be said for the developing world, which is experiencing a dramatic increase in tobacco use. Per capita consumption in developing countries has increased from 900 cigarettes per year in the early 1970s to about 1420 cigarettes per year in the early 1990s. The medical impact of the increased use of tobacco products is substantial. According to the World Bank, tobacco-related diseases in developing countries are likely to claim seven million lives annually by 2030, compared to two million lives in 2000.

Until a decade ago, few developing countries had imposed tobacco control policies of any sort. However, countries like Thailand, Singapore and South Africa have subsequently put in place effective tobacco control measures, and have been able to markedly reduce smoking prevalence.

During the past decade South Africa has made significant progress in tobacco control. This is in part due to the decision of the government that took power after the democratic transition in 1994 to challenge the vested interests of the tobacco industry. In addition, the government, which focused
on primary health care, was strongly supported and encouraged by a well-organised tobacco control lobby, led primarily by relevant medical associations and the National Council Against Smoking.

These tobacco control measures were implemented despite vehement opposition from the tobacco industry, advertising agencies, and some sections of the media and the general public. Nevertheless, the results have been encouraging: aggregate cigarette consumption has decreased by a third within a decade; smoking prevalence has decreased; and government revenue from cigarette excise tax has increased.

This report aims to highlight some of the important economic aspects of South Africa’s tobacco control policy. Since South Africa displays many characteristics of a developing country, and has achieved considerable success in tobacco control, it could possibly serve as a model for other developing countries to follow.

1.1 ABOUT THIS STUDY

This study is the second phase of the Economics of Tobacco Control in South Africa (ETCSA) Project, which was launched in 1996 at the University of Cape Town. Its aim was to investigate the economic impact of certain tobacco control interventions. The Project had a major impact on policy development, as the Ministry of Health used many of its insights and recommendations to counter the tobacco industry’s claims that tougher tobacco control legislation would have damaging economic consequences. Some of the important findings of the ETCSA Project include the following:

??Despite the fact that cigarettes are addictive, cigarette consumption decreases as the price increases. The price elasticity of demand for cigarettes was estimated at about -0.6. This means that, on average, a 10 per cent increase in the real\(^1\) price of cigarettes causes a 6 per cent reduction in aggregate consumption. By increasing the level of excise tax on cigarettes, the government can effectively cause the retail price to increase.

??An increase in the level of cigarette excise tax boosts government revenue. Even though an increase in cigarette taxes reduces cigarette consumption, the decrease in consumption is much smaller than the increase in the tax per cigarette, with the result that government revenue increases.

\(^1\) The term “real” has a specific economic interpretation and is used regularly in this book. If the inflation rate is, say, 10 per cent, and the price of cigarettes increases by 10 per cent, then the price of cigarettes has not changed relative to the average basket of goods and services from which the inflation rate is calculated. Thus, in a case like this, even though the nominal price of cigarettes has increased by 10 per cent, the real price has remained constant. If the nominal increase in cigarette prices is greater than the inflation rate, the real rate has increased. This would mean that cigarettes are becoming relatively more expensive than other goods and services. Alternatively, if the nominal increase in cigarette prices is less than the inflation rate, the real price of cigarettes decreases, implying that cigarettes are becoming relatively cheaper than other goods and services.
In South Africa, as in many countries, the excise tax on cigarettes is expressed as a certain amount per 10 cigarettes. In times of inflation, the level of tax has to be adjusted regularly to prevent it from being eroded by inflation. During the 1970s and 1980s the rate of increase in the level of cigarette excise was consistently less than the inflation rate. Between 1970 and 1980 the real level of excise tax dropped by about 70 per cent, resulting in a decrease in real government revenue, despite a rapid increase in cigarette sales over this period. The amount of government revenue foregone was substantial.

Advertising expenditure has a small but positive impact on cigarette consumption. On the basis of this result, it was argued that an advertising ban would reduce cigarette consumption.

A decrease in the demand for cigarettes would result in job losses in tobacco-related sectors. However, this decrease would be more than compensated for by the creation of jobs in other sectors, because consumers would divert their spending on cigarettes to other goods and services.

In comparison to some Mediterranean and Eastern European countries, South Africa does not have a significant cigarette smuggling problem. Based on a court case between Philip Morris and Rembrandt in 1998, there is some evidence of industry involvement in cigarette smuggling in South Africa.

The first phase of the ETCSA Project was completed in 1998. In 2000 a second phase was initiated. While the first phase made a significant impact on national policy, specifically on the new tobacco control legislation being debated at that time, the second phase has a much stronger international focus, focusing on South Africa’s potential to become a role model in tobacco control for other developing countries.

This book is a summary of a more comprehensive research report, available on request. The aim of the current research is to extend the original study’s analysis of trends in cigarette taxes and prices, consumption, smoking prevalence, and policy consistency.

An innovative contribution in the current study is an analysis of the cigarette industry’s reaction to the recent rapid increases in the real level of cigarette excise tax. It will be shown that the cigarette industry, in a paradoxical way, has lately been an ally in the fight to constrain tobacco use. Another novel contribution concerns the regressivity of cigarette taxes. A regressive tax is one that weighs disproportionately heavily on the poor, as opposed to the rich. Some development economists are concerned that cigarette excise taxes, while effective in reducing cigarette consumption, hurt the poor unnecessarily. This study aims to address these concerns.

1.2 STRUCTURE OF THE BOOK

Chapter 2 provides an overview of tobacco control in South Africa, as viewed by the print media. It discusses the most important events of the past decade, focusing specifically on the legislation of
The chapter is based primarily on newspaper articles that appeared during the past decade.

The aim of Chapter 3 is to analyse some recent trends in smoking prevalence in South Africa. It reveals that there has been a significant decrease in smoking prevalence for most demographic groups during the 1990s.

Chapter 4 focuses on the relationship between the price of cigarettes and consumption. International research has shown that cigarette price increases are extremely effective in reducing cigarette demand. The government can influence the retail price of cigarettes by increasing the level of cigarette excise tax. The results of some simulations, in which the likely impact of further tax increases on cigarette consumption and government excise revenue is investigated, are shown.

The tobacco industry has had to face mounting hostility from outside its ranks in the past decade. Rapid increases in the level of the excise tax during the second half of the 1990s were meant to reduce cigarette consumption, and succeeded in doing so. This external threat significantly altered the marketing strategy of the cigarette manufacturing industry. In Chapter 5 the pricing strategy of the cigarette industry is analysed. It is pointed out that the industry followed an opportunistic short-term strategy, but that a continuation of this strategy could harm it in the long run.

Chapter 6 focuses on the regressivity of cigarette taxes. Using data collected from two large household surveys, the relative share of cigarettes in households’ expenditure patterns and the regressivity of cigarette excise taxes are investigated. Also, the impact of cigarette price changes on the regressivity of the tax is investigated.

Chapter 7 is the final chapter. Important lessons and policy implications that can be learnt from South Africa’s experience in tobacco control are presented.
CHAPTER 2

AN OVERVIEW OF TOBACCO CONTROL IN SOUTH AFRICA

2.1 INTRODUCTION

Tobacco control has been an important policy issue in South Africa in the past decade. The first tentative moves toward policy change were made in the early 1990s, but the trickle became a torrent after 1994. The Tobacco Products Control Act of 1993 introduced some tobacco restrictions for the first time. The Act was supported by rapid rises in the tobacco excise tax throughout the 1990s, but especially in the second half of the decade. The tobacco control measures culminated in the passing of the Tobacco Products Control Amendment Act in 1999, which is widely regarded as among the most progressive tobacco control legislation in the world.

The aim of this chapter is to provide an insight into the political, social and economic forces that have shaped South Africa’s tobacco control strategy. Four key players are identified: (1) the tobacco industry, (2) the tobacco control lobby, (3) the government, and (4) the media. Other interested parties include the hospitality industry, the advertising industry, and the scientific community. The story of tobacco control in South Africa is presented in chronological order, with the main focus on the legislation of 1993 and 1999.

2.2 PRE-1993 TOBACCO CONTROL POLICY

Before 1993 tobacco control was not a priority in South Africa. No health warnings were required on either tobacco products or advertisements, and there were no legal restrictions on tobacco advertising. Smoking in South Africa, as in most other countries, was generally socially acceptable. Cigarette sales had been increasing at a rate well in excess of the population growth rate.

In order to place tobacco control on the public agenda, several medical associations fervently lobbied the government. The South African Medical Research Council (SAMRC) and the National Council Against Smoking (NCAS) were particularly vocal in their appeals. Some success was achieved in 1990 when the then Minister of Health, Dr Rina Venter, embarked on a nationwide anti-smoking campaign, aimed at educating the public, and especially the youth, about the dangers of smoking. The campaign was initiated after the SAMRC published a report in 1988 on the health and economic impact of smoking in South Africa, in which it was shown that the costs of smoking far outweighed the benefits. The report also noted the rapid increase in smoking prevalence.
amongst Africans, coloureds, Indians, and those of lower socio-economic status. This was disconcerting, as it implied that the healthcare costs of treating smokers would rise sharply in the coming years.

According to the 1988 SAMRC research report, price was the most important determinant of tobacco product consumption. The implication was that an increase in cigarette excise taxes would act as an effective smoking deterrent. The report concluded that, in order to curb smoking, a multifaceted anti-smoking campaign would be required, comprising, *inter alia*, a ban on cigarette advertising, restrictions on smoking in public places, health warnings and tax increases. It was argued that an effective anti-smoking campaign would have to be anchored by a doubling of the level of excise tax on cigarettes.

As a result of the 1988 SAMRC report, the Minister of Health introduced the Control of Smoking and Advertising of Tobacco Products Draft Bill in July 1991. The draft legislation recommended that the advertising code be strengthened, but stopped short of an outright ban on tobacco advertising. Instead, all cigarette packs and commercials would have to carry health warnings. The draft legislation would enable the Department of Health to regulate smoking in public places. To prevent youth smoking, cigarette sales to those under the age of 16 would be prohibited.

The South African tobacco industry declined to comment on the draft legislation. The tobacco industry – specifically cigarette manufacturing – was, and to some extent still is, powerful and influential. Rembrandt, with an 85 per cent market share, dominated the South African cigarette manufacturing industry when the draft Bill was introduced. The company had close ties with the then National Party government, and for many years the industry had used these cordial relations to advance its interests. By emphasising its economic importance, the industry had persuaded the government not to impose tobacco control measures. Now the tide was turning.

Rather than commenting publicly about the draft legislation, the industry called for talks with the Minister of Health behind closed doors. This seems to have been successful from the industry’s point of view, because a day after the talks, the government announced a delay in its plans to

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2. Under the policy of apartheid, South Africans were divided into four racial groups: whites (previously also termed Europeans), Africans (also termed blacks), coloureds and Indians. *Whites* are from European origin, have by far the highest standard of living, speak either English or Afrikaans and live predominantly in urban areas. *Africans*, the original inhabitants of South Africa, comprise about three quarters of the population. A large proportion of Africans live in extreme poverty in rural areas. However, since the 1970s there has been rapid urbanisation. There are nine official traditional African languages; given the similarities between many of these, they are categorised into either Nguni or Sotho groups. *Generally coloureds* are from mixed descent. Their ancestors comprise original inhabitants of South Africa (specifically San and Khoikhoi people), slaves from the Far East, and white settlers. Most coloureds live in the Western Cape, but small numbers also live in the Northern Cape and the Eastern Cape. Afrikaans is the predominant language, but English seems to be gaining ground. *Indians* were brought to South Africa at the end of the nineteenth century and the start of the twentieth century to work on the sugar plantations in what was then known as the colony of Natal. The vast majority of Indians are currently still living in Kwazulu-Natal. They are nearly completely urbanised and enjoy relatively high standards of living. Most Indians speak English.
publish the draft legislation. After an eight-month delay, the draft legislation resurfaced in March 1992, when it was published in the Government Gazette as the Tobacco Products Control Bill.

In June 1992 it was announced that the draft Bill would not come before Parliament during the next year. The Department of Health said that the Minister was still discussing the Bill with interested parties, but denied rumours that the delay was the result of pressure from tobacco organisations. It later emerged that the tobacco industry had been delaying the process, after the Tobacco Institute of Southern Africa (TISA) had been given the opportunity to make further representations to the Minister of Health.

2.3 THE 1993 LEGISLATION

After a delay of more than a year, the Tobacco Products Control Bill was tabled in Parliament in March 1993. The Bill was praised by the tobacco control lobby as a good start, but was criticised for falling short of international recommendations of a complete ban on cigarette advertising. The NCAS claimed that total restrictions had dramatically reduced smoking in countries in which they had been implemented. However, lobbyists were generally satisfied with the government’s apparent support for the new Bill.

The Tobacco Manufacturers Association and TISA were particularly worried about the tobacco control lobbyists’ calls for an outright ban on tobacco advertising. TISA argued that cigarette advertising should not be banned, contending that international research had shown that advertising did not increase smoking prevalence, but encouraged current smokers to either switch brands or to remain brand-loyal. In addition, the organisation said that a specific code for tobacco advertising had been in place for years, and was administered by the Advertising Standards Authority. However, the independence and objectivity of the advertising code was questioned, given that it had been developed by the tobacco industry.

The Tobacco Products Control Act was approved by Parliament on 17 June 1993 and was promulgated on 1 February 1994. In June 1994, draft regulations for mandatory and explicit health warnings on tobacco products and advertisements were published in the Government Gazette. The regulations specified the size of the health warnings required to be carried on written and visual advertisements and on cigarette packets. The directives would not affect sporting events sponsored by the tobacco industry, because these were examples of “indirect advertising”. This was a loophole in the proposed legislation, and one that was subsequently exploited by the industry.  

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3. Rather than advertising a cigarette brand, and having to include a health warning on the advertisement, the industry would advertise a sponsored event (e.g. the Peter Stuyvesant Music Extravaganza, the Benson & Hedges cricket series, or the Dunhill Symphony of Fire fireworks displays), for which health warnings were not required.
The tobacco, advertising, hospitality, and media industries objected strongly to the draft regulations. Even though the draft regulations did not ban tobacco advertising, some sections of the press argued that the proposed stipulations were regarded by the tobacco industry as so draconian as to constitute an effective ban on tobacco advertising. As such, they were regarded as a form of censorship which deprived manufacturers of property rights in respect of registered trademarks. It was argued that they violated the right to freedom of expression by compelling manufacturers to include propagandist messages and warnings without stating the source thereof.

The print media estimated that they would lose advertising revenue of R59-million (about US$ 16-million) each year if the regulations were implemented.\(^4\) The tobacco growing sector claimed that implementation of the draft regulations would destroy many jobs in the agricultural sector.

The draft regulations were gazetted in December 1994 in spite of fierce opposition. They were enforced only after 31 May 1995, World No-Tobacco Day, to give the tobacco industry time to exhaust stocks of existing packaging material.

### 2.4 MID-1990s TOBACCO CONTROL POLICY

South Africa’s tobacco control policy gathered new momentum following the African National Congress’s (ANC) victory in the country’s historic 1994 elections. The ANC’s policy towards tobacco was revealed in November 1993 when Dr Nkosazana Zuma committed the party to a comprehensive tobacco control programme if it were elected to government the following year. President-elect, Nelson Mandela, gave his full backing to the programme.

On taking office as the new Minister of Health in 1994, Dr Zuma announced that her aim was to have smoke-free offices, shops, and places of entertainment as soon as possible. She threatened companies with legislation if they did not voluntarily introduce anti-smoking policies. The Minister also wanted to implement a substantial increase in the level of excise tax on cigarettes in order to reduce tobacco consumption and its associated health risks.

This news pleased tobacco control lobby groups, who had long been calling for an increase in the excise tax on tobacco products. They pointed out that excise taxes on tobacco products had generally failed to keep up with inflation, resulting in a 70 per cent decrease in the real level of cigarette excise tax between 1970 and 1990. They argued that international evidence had shown that price was the single most important determinant of tobacco demand, and therefore an increase in the cigarette excise tax rate would act as a deterrent to smoking. This was especially true for the youth, who were shown to be more sensitive to price increases than adults. In addition, a cigarette excise tax increase would create additional revenue for the government, part of which could be used to fund general health promotion strategies.

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\(^4\) This was approximately 5 per cent of total advertising revenue received by the print media.
Tobacco companies strongly opposed these developments, and claimed that the proposed cigarette excise tax hikes would result in an increase in cigarette smuggling and other illegal activities.

The Department of Health largely supported a rapid increase in the level of excise tax on tobacco products. The Department and the tobacco control lobby groups lobbied the Ministry of Finance to double the level of tobacco excise tax. In the 1994 Budget speech the Minister of Finance announced that the government would increase the rate of cigarette excise tax from 20 to 50 per cent of the retail price of cigarettes, but that the increases would be phased-in over time. The level of cigarette excise tax was raised by only 25 per cent, much less than the hoped-for doubling. Both the tobacco control lobby and the tobacco industry were displeased, for opposite reasons – the lobby groups because the increase was so “puny” and the industry because the increase was “unfair and discriminatory”. The tax increases in 1995 and 1996 were of a similar magnitude as those in 1994.

In 1997 the Minister of Finance increased the level of excise tax on cigarettes by 52 per cent. The Minister boasted that this increase would bring tobacco excise taxes to the much-promised target rate of 50 per cent of the cigarette retail price. The tobacco control lobby applauded this announcement. Subsequent increases in the level of cigarette excise tax were aimed at maintaining the target 50 per cent rate.

Tobacco control groups began actively lobbying government to ban tobacco advertising and sponsorship. In a tobacco control conference held in August 1996, the World Health Organisation recommended that South Africa institute a complete, as opposed to a partial, ban on tobacco advertising and sponsorship. The conference was informed that a survey conducted by the Human Sciences Research Council and the SAMRC had shown that 68 per cent of South Africans supported a ban on tobacco advertising.

In January 1997, the SAMRC’s Tobacco Control Research Programme launched a project entitled The Economics of Tobacco Control. The research was conducted in collaboration with the University of Cape Town’s School of Economics. The study highlighted the sharp decrease in the real price and the real level of excise tax on cigarettes since 1970, as well as the decrease in real government excise revenues. The researchers showed that actual government revenue from cigarette excise tax was significantly less than potential revenue. The most publicised, but also most criticised, result found by the study was that advertising played a significant role in prompting people to smoke, contrary to claims made by the tobacco industry.

2.5 THE 1999 LEGISLATION

In January 1998 the Minister of Health announced that a Tobacco Products Control Amendment Bill would be tabled in Parliament that year. She said the main thrust of the proposed legislation
would be to protect children and to prevent them from being bombarded with pro-smoking messages.

The announcement evoked an angry outcry from the tobacco industry, whilst the tobacco control lobby lauded it. Dr Zuma quoted research from the Economics of Tobacco Control Project, which indicated that the demand for cigarettes would decrease by between 0.18 and 0.24 per cent for every one per cent decrease in cigarette advertising expenditure.

Outraged by the Minister’s campaign, the cigarette manufacturing industry said that it “would vigorously defend the industry’s right to advertise”. Furthermore, they strongly rejected the notion that public smoking bans were necessary to protect the rights of non-smokers. They were upset that, despite Dr Zuma’s promise to meet with the industry, this had not happened. The Minister’s reluctance to meet the industry was to become a frequently-cited complaint.

The Freedom of Commercial Speech Trust was one of the most vocal organisations in its condemnation of the proposed legislation. The Trust’s founding principle was that if it was legal to manufacture and sell a product, then it must also be permissible to promote that product in a responsible manner. The Trust cited the familiar “slippery-slope” or “domino-effect” argument: if the government successfully banned tobacco advertising, there was nothing to stop it from banning the advertising of other products like milk substitutes, red meat, dairy products, alcohol, motor racing and cellular phones. They argued that the proposed legislation was contrary to the principle of freedom of expression and violated consumers’ right to receive information. They had little hope that the legislation would be modified, but vowed that they would test the validity of the laws in the Constitutional Court.

Opponents to the proposed legislation complained that the tobacco control lobby had had many months of access to the Bill’s drafting process, whereas the tobacco and related industries had been totally excluded from the process. They slated the process as “undemocratic”. The Ministry of Health denied this claim, maintaining that the Bill was still a proposal and that the Minister’s door was still open for discussions.

Farmers, trade unions and cigarette manufacturers were concerned that the “irresponsible” Bill would destroy thousands of jobs, and that it would adversely affect the tobacco industries of neighbouring countries. A number of sporting organisations were vehemently opposed to the Bill, because they stood to lose sponsorship by tobacco companies.

Despite the tobacco industry’s protestations, the Tobacco Products Control Amendment Bill was tabled in Parliament and unanimously approved by Cabinet on 29 July 1998. 5 The Tobacco

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5. The Bill banned smoking in all public and workplaces, including factories, offices, restaurants, banking halls, post offices, shopping malls, airports, corridors, atriums, stairwells, toilets, and undercover parking garages, as well as all public transport. Other provisions of the Bill included the following: (1) it would be illegal to send a child under the age of 16 to buy cigarettes from a shopkeeper; (2) cigarette vending machines would only be allowed in bars or places
The Economics of Tobacco Control in South Africa

Summary report

Products Control Amendment Bill was published in the Government Gazette on 14 August 1998 for public comment. Twelve days later the tobacco industry applied for an urgent interdict to stall the legislation, citing a lack of consultation in the Bill’s drafting process. The applicants also asked the High Court to rule that the Department of Health make available all information that it used to draft the Bill. In a serious setback to the tobacco industry, the case was dismissed eight days later.

After the National Council of Provinces approved the Bill on 7 October 1998, it was subjected to Parliamentary public hearings later that month. Opponents to the proposed legislation argued that the government was too heavy-handed in its approach, and that other measures – like broadening education about the harmful effects of smoking, and fostering greater consideration between smokers and non-smokers – would be equally effective in achieving the goals of the legislation. It was argued that the economic cost of the advertising ban, in the form of foregone earnings, would place a heavy strain on the advertising agencies. It was suggested that a partial ban would also achieve the goals of the legislation, but without the detrimental economic consequences of a complete ban. Tobacco control lobbyists countered this, arguing that international evidence had shown clearly that partial bans on advertising were not nearly as effective in reducing cigarette consumption as complete bans.

Another important issue that arose at the public hearings was the constitutionality of prohibiting smoking in public places. Opponents to the Bill were concerned that the definition of “public place” could be interpreted to include private homes. This provoked many emotive responses, and questions over whether government had the right to determine what one does in the privacy of one’s own home. The tobacco control lobby highlighted medical reasons for implementing the ban, and an expected decrease in state expenditure associated with these illnesses.

Parliament’s Portfolio Committee on Health approved the Bill on 23 October 1998. The Freedom of Commercial Speech Trust immediately announced that it would launch a court challenge, but this threat did not materialise. After the Bill was subjected to a day of heated debate in Parliament’s National Assembly, it was passed, with the ANC and the African Christian Democratic Party voting in favour thereof.

Where access was restricted to those over the age of 16; (3) all tobacco advertising and sponsorship would be banned; (4) no person would be allowed to sell tobacco products unless the package carried a health warning concerning the potential hazards of smoking; and (5) the legislation empowered the Minister of Health to declare permissible levels of tar, nicotine and other constituents that tobacco products may contain.

Since 1996, when the current Constitution was adopted, the South African Parliament consists of two houses: the National Assembly and the National Council of Provinces (NCOP). The National Assembly consists of 400 members, elected on the basis of proportional representation. The NCOP consists of 90 members (ten for each province) and represents the interests of the provinces.
The Bill was sent to President Mandela for his signature. However, as it appeared certain that the Bill would be challenged in the Constitutional Court, it was sent to the President’s legal advisors for their perusal and advice.

This caution appeared warranted when, on 21 January 1999, President Mandela refused to sign the Bill, sending it back to Parliament out of fear that two sections might be considered unconstitutional. Specifically, the President’s legal advisors were concerned that certain definitions were too vague, and thus open to unintended interpretation. The Bill needed to be refined in order to remove ambiguous terms.

The tobacco industry was pleased by the delay, and continued to challenge the Bill. The Freedom of Commercial Speech Trust said that the proposed amendments still did not address its concerns regarding freedom of speech, and appealed to the Minister of Health to reconsider this aspect to avoid litigation. The Minister ignored the Trust’s appeals.

By 22 February 1999 the Department of Health had drafted amendments to the sections at issue, which were subsequently approved by the National Assembly. The controversy surrounding the Bill is highlighted by the fact that this was already the seventh amended version of the legislation. Opposition parties labelled the Bill as “close to being unconstitutional” while the tobacco industry, yet again, threatened the Minister of Health with a Constitutional Court challenge. The Bill was again sent to President Mandela, who signed it into law on 14 April 1999.

The tobacco control lobby was satisfied with the new legislation, with the SAMRC remarking that the gazetting of the Act was “a fitting finale to Presidents Mandela’s term of office as it would entrench laws that will protect children for generations to come”.

After the general elections of May 1999, Dr Mantombazana Tshabalala-Msimang became the new Minister of Health. A number of personnel changes also took place in the Department of Health. The result was that it took much longer than expected to publish the regulations enforcing the Tobacco Products Control Amendment Act.

Given the contentious nature of the legislation and the industry’s many threats that the legislation would be tested in the Constitutional Court, the drafters of the regulations were particularly careful in ensuring that the latter would stand up to judicial scrutiny. After a delay of more than a year, the regulations were eventually published on 29 September 2000. The Act would come into effect on 1 January 2001. By this date employers were obliged to have implemented written policies on smoking in the workplace. Hospitality establishments were given an additional six months to make the necessary structural changes to comply with the law. Similarly, tobacco advertising and sponsorship had a phasing-out period of four months, but in December 2000 the industry announced that it would curb all tobacco advertising at the end of that year.
The degree of compliance with the legislation is reported to be high. According to a national survey, approximately 90 per cent of businesses and hospitality establishments are complying with the law. The biggest challenge is to ensure compliance in restaurants and bars.

2.6 CONCLUSION

The aim of this chapter was to provide some insight into the development of South Africa’s tobacco control strategy over the past decade. It was a long and tough battle. This chapter has highlighted the intense wrangling that occurred between different interest groups.

A number of important lessons can be learnt from South Africa’s experience with the 1993 and 1999 legislation.

Firstly, the powerful and consistent lobbying headed by the medical community attracted the media’s attention and generated publicity for tobacco control measures. Various medical organisations warned the public about the health risks of smoking. This served to educate the government and public alike, and provided the rationale for tobacco control legislation. These lobby groups, and especially the NCAS and the SAMRC, consistently and effectively countered industry claims where these were invalid. In the 1990s, professional economists, such as those from the Economics of Tobacco Control Project at the University of Cape Town, joined the anti-tobacco lobby.

Secondly, the election of the ANC to government in 1994 accelerated the tobacco control measures that had been introduced by the National Party (NP) government in the early 1990s. The close relationship between the tobacco industry and the then ruling NP since the late 1940s had hitherto undermined tobacco control lobbyists’ efforts in bringing about legislative changes to South Africa’s tobacco policy. Even though the Minister of Health, Dr Rina Venter, wanted sterner tobacco control measures, she received only weak support from her colleagues in Cabinet. The new ruling party, the ANC, had no ties to the tobacco industry. In addition, the new Minister of Health, Dr Nkosazana Zuma, made it clear from the outset that she wanted to implement stringent tobacco control legislation in South Africa. Tobacco control issues were addressed with far more vigour and speed than previously.

The tobacco industry tried to use a variety of tactics to delay the impending legislation. Dr Zuma avoided these stalling techniques by keeping her interactions with the tobacco industry to a minimum. In contrast Dr Venter, Dr Zuma’s predecessor, wanted to make the legislative process more “inclusive” and “democratic”. The tobacco industry used this opportunity to delay and water-down the tobacco control legislation of 1993.

Thirdly, the media played an important role in South Africa’s tobacco control legislation. Prior to the 1990s, smoking was generally regarded as socially acceptable. The media, in conjunction with the
tobacco control lobby groups, gradually helped to change this perception by highlighting the detrimental effects of smoking on smokers and non-smokers alike.

Fourthly, the industry revealed its weakness by not carrying out the threats it made to government. This is best illustrated by the tobacco industry’s repeated threats to test the 1999 legislation in the Constitutional Court, yet failure to do so. Eventually, the government and the public no longer regarded the threats as serious.

This chapter has highlighted the fact that, despite significant and vocal opposition, it is possible for a developing country to implement effective tobacco control legislation. In South Africa’s case this was achieved in a relatively short time. In fact, South Africa’s tobacco control strategy is currently among the world’s most progressive. In following chapters the results of this strategy are discussed in more detail.
CHAPTER 3

RECENT TRENDS IN SMOKING PREVALENCE IN SOUTH AFRICA

3.1 INTRODUCTION

The previous chapter highlighted some of the legislative and institutional changes that have been brought about during the 1990s in South Africa. The result was a dramatic decrease in cigarette consumption. In fact, between 1991 and 2001 recorded cigarette consumption decreased by approximately one-third.\footnote{Smuggled cigarettes are not reflected in the consumption figures. Thus, if cigarette smuggling has increased, the consumption figures would be under-reported.} The public health benefits of this large decrease will be experienced for decades to come.

In this chapter some important trends in cigarette smoking prevalence are analysed. Rather than generating data through a survey, the data are obtained from a commercially generated database, known as the All Media and Products Survey (AMPS), which is compiled by the South African Advertising Research Foundation.

3.2 METHODOLOGY

The AMPS database is based on six-monthly surveys of between 14 000 and 30 000 respondents and covers the period 1993 to 2000. The primary aim of the data is to provide management information regarding consumer trends in advertising and the mass media, as well as usage of a large variety of products.

The AMPS database allows one to investigate smoking prevalence for the whole population or for certain demographic groups. The smoking prevalence percentage is defined as the number of respondents who admit to smoking, expressed as a percentage of the (appropriate) population.

3.3 OVERALL SMOKING PREVALENCE

Annual data for some of the most important aggregate measures of cigarette smoking prevalence and intensity are shown in Table 3.1.
Table 3.1  Trends in cigarette consumption, prevalence and prices

<table>
<thead>
<tr>
<th>Year</th>
<th>Aggregate cigarette cons. (Mill. packs)</th>
<th>Population aged 15+ (Millions)</th>
<th>Per capita cons. (p. aged 15+) (Packs p.a.)</th>
<th>Estimated smoking prevalence (Perc.)</th>
<th>Estimated number of smokers (M)</th>
<th>Average cons. of smokers (Packs p.a.)</th>
<th>Nominal retail price of cigarettes (R/pack)</th>
<th>Real retail price of cigarettes (R/pack in 1995 prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>1802</td>
<td>24.83</td>
<td>72.6</td>
<td>32.6</td>
<td>8.09</td>
<td>223</td>
<td>2.55</td>
<td>3.02</td>
</tr>
<tr>
<td>1994</td>
<td>1769</td>
<td>25.42</td>
<td>69.6</td>
<td>28.8</td>
<td>7.32</td>
<td>242</td>
<td>2.84</td>
<td>3.09</td>
</tr>
<tr>
<td>1995</td>
<td>1708</td>
<td>26.03</td>
<td>65.6</td>
<td>30.2</td>
<td>7.86</td>
<td>217</td>
<td>3.48</td>
<td>3.48</td>
</tr>
<tr>
<td>1996</td>
<td>1690</td>
<td>26.66</td>
<td>63.4</td>
<td>30.3</td>
<td>8.08</td>
<td>209</td>
<td>3.87</td>
<td>3.60</td>
</tr>
<tr>
<td>1997</td>
<td>1577</td>
<td>27.30</td>
<td>57.8</td>
<td>28.4</td>
<td>7.75</td>
<td>203</td>
<td>4.97</td>
<td>4.26</td>
</tr>
<tr>
<td>1998</td>
<td>1495</td>
<td>27.95</td>
<td>53.5</td>
<td>28.5</td>
<td>7.97</td>
<td>188</td>
<td>6.08</td>
<td>4.87</td>
</tr>
<tr>
<td>1999</td>
<td>1422</td>
<td>28.63</td>
<td>49.7</td>
<td>27.9</td>
<td>7.99</td>
<td>178</td>
<td>7.30</td>
<td>5.58</td>
</tr>
<tr>
<td>2000</td>
<td>1333</td>
<td>29.20</td>
<td>45.7</td>
<td>27.1</td>
<td>7.91</td>
<td>169</td>
<td>8.03</td>
<td>5.82</td>
</tr>
</tbody>
</table>

| Percentage change 1993-2000 | -26.0 | 17.6 | -37.1 | -16.9 | -2.2 | -24.2 | 214.9 | 92.7 |

Assumed population growth rate of 2 per cent between 1999 and 2000

Sources: Auditor-General, Statistics South Africa, AMPS.

Table 3.1 shows that cigarette smoking prevalence – the percentage of adults who smoke – has decreased from 32.6 per cent in 1993 to 27 per cent in 2000. However, the growth in the adult population means that the number of smokers has remained approximately constant at around eight million. The average number of cigarettes smoked by smokers has decreased by approximately 24 per cent between 1993 and 2000.

The data underlying this table can also be used to investigate the relationship between smoking prevalence (the percentage of people who smoke) and smoking intensity (the average number of cigarettes smoked by smokers). In South Africa, 60 per cent of the decrease in per capita cigarette consumption is explained by a reduction in smoking intensity, whereas a reduction in smoking prevalence accounts for the other 40 per cent.

3.4 CHANGES IN SMOKING PREVALENCE BY DEMOGRAPHIC CHARACTERISTICS

In Table 3.2 cigarette smoking prevalence percentages and trends for different gender, race and age groups are shown for both 1993 and 2000. Considering the results for males, it is evident that 51.4 per cent were smokers in 1993, but the smoking prevalence percentage has decreased to 43.8 per cent in 2000. This implies that smoking prevalence decreased by more than one percentage point each year over that period. On the other hand, smoking prevalence among females was only 12.9 per cent in 1993 but, unlike male smoking prevalence, did not experience a significant downward trend. Between 1993 and 2000 the “prevalence gap” between males and females decreased from
about 39 per cent to 32 per cent. The narrowing of the “prevalence gap” is consistent with international experience.

Table 3.2 clearly indicates that smoking prevalence varies significantly with race. Coloured people have the highest smoking prevalence percentages, followed by whites and Indians. Despite high prevalence levels in 1993, smoking prevalence among coloureds and whites has not decreased in recent years.

Africans have had the lowest cigarette smoking prevalence percentage of about 28.1 per cent in 1993, decreasing to 22.7 per cent in 2000. Given that Africans comprise nearly three quarters of the South African population, this is encouraging. It also suggests that the tobacco industry has been unable to successfully penetrate the African market, despite a strong advertising campaign during the 1990s, which was focused specifically on the emerging African middle class.

An issue of considerable importance in the tobacco control literature is smoking prevalence among the youth. The rationale for numerous tobacco control measures is to prevent the youth from smoking. According to Table 3.2 cigarette smoking prevalence among the youth has decreased from 24 per cent in 1993 to less than 19 per cent in 2000.

The most plausible explanation for the rapid decrease in youth smoking is the rapid increase in cigarette prices since 1993. The international empirical literature has consistently shown that young people are more responsive to changes in cigarette prices than older people. The reasons include: (1) young people are often not as addicted as older people and can quit more easily; (2) the fraction of disposable income that a young smoker spends on cigarettes is likely to be greater than that of an adult smoker; and (3) rapidly rising prices reduce peer pressure because the peers are likely to find that smoking becomes unaffordable.

The good news is that in addition to the youth, all age groups, other than people above 50 years, have experienced significant decreases in smoking prevalence in the past eight years.

Table 3.2: Smoking prevalence percentages by demographic characteristics

<table>
<thead>
<tr>
<th>Description</th>
<th>Proportion of population</th>
<th>Prevalence in 1993</th>
<th>Annual trend</th>
<th>Prevalence in 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sex</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>48.0</td>
<td>51.4</td>
<td>-1.09</td>
<td>43.8</td>
</tr>
<tr>
<td>Female</td>
<td>52.0</td>
<td>12.9</td>
<td>-0.17</td>
<td>11.7</td>
</tr>
<tr>
<td><strong>Race</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>White</td>
<td>15.7</td>
<td>35.6</td>
<td>0.14</td>
<td>36.6</td>
</tr>
<tr>
<td>African</td>
<td>73.2</td>
<td>28.1</td>
<td>-0.78</td>
<td>22.7</td>
</tr>
<tr>
<td>Coloured</td>
<td>8.5</td>
<td>49.3</td>
<td>-0.09</td>
<td>48.7</td>
</tr>
<tr>
<td>Indian</td>
<td>2.6</td>
<td>32.3</td>
<td>-0.59</td>
<td>28.2</td>
</tr>
<tr>
<td><strong>Age group</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16-24</td>
<td>28.0</td>
<td>24.0</td>
<td>-0.76</td>
<td>18.7</td>
</tr>
<tr>
<td>25-34</td>
<td>25.7</td>
<td>38.7</td>
<td>-0.97</td>
<td>31.9</td>
</tr>
</tbody>
</table>
3.5 CHANGES IN SMOKING PREVALENCE BY SOCIAL CHARACTERISTICS

Trends and levels in cigarette smoking prevalence were investigated for four social characteristics: education, language group, type of community and marital status. The salient features of Table 3.3 are as follows:

- Cigarette smoking prevalence is highest among people with primary and secondary education, followed by people with tertiary education. People with no education have the lowest smoking prevalence.
- With the exception of people with no education, all groups have experienced significant decreases in smoking prevalence of about 0.6 per cent per year.
- Smoking prevalence among English and Afrikaans speakers has remained constant at 35 and 42 per cent respectively.
- Smoking prevalence among speakers of Nguni and Sotho (indigenous languages) is significantly lower than that of English- and Afrikaans-speakers. Furthermore, it has decreased significantly (at between 0.7 and 0.9 per cent per year) between 1993 and 2000.
- Smoking prevalence is significantly higher in urban areas (metropolitan areas, cities and large towns) than in small settlements and rural areas.
- Smoking prevalence among single women (at 8.3 per cent in 2000) is lower than among married women (at 14.8 per cent in 2000) and divorced and widowed women (at 12.6 per cent in 2000). Irrespective of marital status, smoking prevalence among women has not changed significantly between 1993 and 2000.
- In 1993 smoking prevalence among men was around 50 per cent, irrespective of marital status. While smoking prevalence among divorced and widowed men did not change much between 1993 and 2000, significant decreases were achieved for married and single men.

Table 3.3 Smoking prevalence percentages by social characteristics

<table>
<thead>
<tr>
<th>Description</th>
<th>Proportion of population</th>
<th>Prevalence in 1993</th>
<th>Trend</th>
<th>Prevalence in 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No education</td>
<td>11.4</td>
<td>27.2</td>
<td>-0.46</td>
<td>24.0</td>
</tr>
<tr>
<td>Primary education</td>
<td>26.8</td>
<td>34.1</td>
<td>-0.59</td>
<td>30.0</td>
</tr>
<tr>
<td>Secondary education</td>
<td>52.8</td>
<td>32.1</td>
<td>-0.63</td>
<td>27.7</td>
</tr>
<tr>
<td>Tertiary education</td>
<td>9.0</td>
<td>30.4</td>
<td>-0.58</td>
<td>26.3</td>
</tr>
<tr>
<td><strong>Language group</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>English</td>
<td>10.7</td>
<td>35.2</td>
<td>-0.06</td>
<td>34.8</td>
</tr>
<tr>
<td>Afrikaans</td>
<td>16.2</td>
<td>42.5</td>
<td>0.04</td>
<td>42.8</td>
</tr>
<tr>
<td>Nguni</td>
<td>42.0</td>
<td>27.6</td>
<td>-0.70</td>
<td>22.7</td>
</tr>
<tr>
<td>Sotho</td>
<td>31.1</td>
<td>30.6</td>
<td>-0.87</td>
<td>24.6</td>
</tr>
</tbody>
</table>
Given the highly stratified nature of South African society, many of the smoking prevalence levels and trends presented in this section can be traced back to demographic characteristics. For example, the relatively low smoking prevalence percentage among people with no education, Nguni and Sotho speakers and people living in settlements and rural areas, is directly correlated with the fact that Africans have a relatively low smoking prevalence percentage. Similarly, trends in smoking prevalence among English- and Afrikaans-speakers are highly correlated with smoking prevalence trends among whites and coloureds, given that these groups speak (nearly exclusively) English and Afrikaans.

### 3.6 CHANGES IN SMOKING PREVALENCE BY INCOME LEVEL

In many developed countries, smoking prevalence among the more affluent groups has been decreasing since the 1960s. The decrease in smoking prevalence among the rich is ascribed mainly to greater awareness about the harmful medical impact of cigarettes. On the other hand, smoking prevalence among the poor in the developed countries has not decreased to the same extent. It is believed that the rich take the health warnings more seriously than the poor, and change their consumption accordingly.

Even though an eight-year period is not long enough to investigate trends that typically take some decades to manifest themselves properly, the data suggests that South Africa does not fit into this category. From Table 3.4 it is evident that the poor have reduced their smoking prevalence by a much greater percentage than the rich.

**Table 3.4   Smoking prevalence percentages by income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Proportion of population</th>
<th>Prevalence in 1993</th>
<th>Trend</th>
<th>Prevalence in 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Household income groups</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R1 - R499</td>
<td>21.0</td>
<td>30.3</td>
<td>-0.84</td>
<td>24.4</td>
</tr>
<tr>
<td>R500 – R899</td>
<td>20.0</td>
<td>31.7</td>
<td>-1.06</td>
<td>24.2</td>
</tr>
<tr>
<td>R900 – R1399</td>
<td>17.6</td>
<td>32.7</td>
<td>-0.87</td>
<td>26.6</td>
</tr>
<tr>
<td>R1400 - R2499</td>
<td>14.5</td>
<td>31.9</td>
<td>-0.26</td>
<td>30.1</td>
</tr>
</tbody>
</table>
While the decrease in smoking prevalence among the rich in the developed countries was caused mainly by increased health awareness, different factors are responsible for the rapid decrease in smoking prevalence among the poor in South Africa. The single most important explanation for this result is the rapid increase in cigarette prices in South Africa over the past decade. The impact of cigarette price increases on cigarette consumption is discussed in detail in Chapters 4 and 6.

### 3.7 CONCLUSION

Despite the fact that overall smoking prevalence in South Africa has been decreasing rapidly, the decline has not been the same for various demographic, social and income groups. In fact, some groups have experienced a marginal increase in smoking prevalence over the past decade. Two groups that have experienced significant decreases in smoking prevalence are the poor and the young. The international literature suggests that these two groups are particularly sensitive to changes in the price of cigarettes. South Africa’s recent experience with rapid increases in the price of cigarettes supports this view.

How should a tobacco control strategy target those population segments that have not experienced a decrease in smoking prevalence, and for whom changes in the price of cigarettes apparently do not matter? These groups are generally more affluent than the average population, are educated, and generally live in urban areas. Evidence from developed countries, and the United Kingdom in particular, suggests that an information campaign would probably be better suited in these circumstances than price increases. The recent legislation banning smoking in public places and workplaces may also help to reduce smoking among these groups. However, one would have to wait several years before the likely impact of this legislation could be properly evaluated.
CHAPTER 4

CIGARETTE TAXES, PRICES AND CONSUMPTION

4.1 INTRODUCTION

The focus of this chapter is on the minstay of South Africa’s tobacco control policy: increased excise taxes. Evidence from a variety of countries indicates that increases in the level of excise tax have been successful in reducing tobacco consumption and in increasing government revenue. Despite the fact that tobacco is an addictive product, consumption decreases as the price increases. The price elasticity concept is used to measure the sensitivity of consumption to price changes. The price elasticity of demand for cigarettes in most developed countries is around -0.4. This means that for every one per cent increase in the price of cigarettes, consumption decreases by 0.4 per cent. In less developed countries the absolute value of the price elasticity is generally somewhat higher, i.e. cigarette consumption in these countries is more sensitive to price changes than in industrialised countries. Price elasticity of demand for cigarettes in South Africa has previously been estimated at between -0.5 and -0.9.

The structure of the chapter is as follows. Section 4.2 briefly reviews the main trends in some cigarette consumption variables in South Africa. In Section 4.3 estimates of the price and income elasticities of demand for cigarettes are presented. This is followed in Section 4.4 with the results of an exercise aimed at determining the relationships between further increases in the real level of cigarette excise tax, cigarette consumption and government revenue.

4.2 TRENDS IN CIGARETTE CONSUMPTION, PRICES, EXCISE TAX AND EXCISE REVENUE

The ultimate aim of a tobacco control policy is to decrease mortality and morbidity associated with smoking. In the short term the aim is to reduce tobacco consumption and smoking prevalence. A successful tobacco control strategy should prevent the onset of smoking, and reduce smoking prevalence among existing smokers. In Chapter 3 it was shown that there has been a decrease in

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both smoking prevalence and smoking intensity in South Africa between 1993 and 2000. Furthermore, smoking prevalence among the youth has decreased, suggesting that smoking initiation is decreasing. Trends in some other important variables are shown in Table 4.1.

### Table 4.1 Trends in cigarette consumption, prices and excise taxes

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>517</td>
<td>19.1</td>
<td>449</td>
<td>9.1</td>
<td>214</td>
<td>47.6%</td>
<td>235</td>
<td>1106</td>
</tr>
<tr>
<td>1965</td>
<td>608</td>
<td>19.4</td>
<td>417</td>
<td>9.1</td>
<td>196</td>
<td>46.9%</td>
<td>222</td>
<td>1189</td>
</tr>
<tr>
<td>1970</td>
<td>783</td>
<td>22.1</td>
<td>405</td>
<td>11.1</td>
<td>203</td>
<td>50.2%</td>
<td>202</td>
<td>1593</td>
</tr>
<tr>
<td>1975</td>
<td>1048</td>
<td>31.8</td>
<td>373</td>
<td>14.6</td>
<td>171</td>
<td>45.9%</td>
<td>202</td>
<td>1795</td>
</tr>
<tr>
<td>1980</td>
<td>1283</td>
<td>49</td>
<td>328</td>
<td>20.1</td>
<td>134</td>
<td>41.0%</td>
<td>181</td>
<td>1725</td>
</tr>
<tr>
<td>1981</td>
<td>1443</td>
<td>53</td>
<td>308</td>
<td>20.1</td>
<td>117</td>
<td>37.9%</td>
<td>179</td>
<td>1684</td>
</tr>
<tr>
<td>1982</td>
<td>1632</td>
<td>62</td>
<td>314</td>
<td>21.1</td>
<td>107</td>
<td>34.0%</td>
<td>191</td>
<td>1745</td>
</tr>
<tr>
<td>1983</td>
<td>1551</td>
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<td>109</td>
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<td>299</td>
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<td>99</td>
<td>33.2%</td>
<td>176</td>
<td>1560</td>
</tr>
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<td>1985</td>
<td>1571</td>
<td>84</td>
<td>292</td>
<td>26.1</td>
<td>91</td>
<td>31.1%</td>
<td>171</td>
<td>1425</td>
</tr>
<tr>
<td>1986</td>
<td>1591</td>
<td>94</td>
<td>276</td>
<td>26.1</td>
<td>77</td>
<td>27.8%</td>
<td>170</td>
<td>1217</td>
</tr>
<tr>
<td>1987</td>
<td>1671</td>
<td>109</td>
<td>275</td>
<td>26.1</td>
<td>66</td>
<td>23.9%</td>
<td>180</td>
<td>1101</td>
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<td>1988</td>
<td>1795</td>
<td>122</td>
<td>273</td>
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<td>61</td>
<td>22.2%</td>
<td>183</td>
<td>1089</td>
</tr>
<tr>
<td>1989</td>
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<td>30.6</td>
<td>60</td>
<td>22.2%</td>
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<td>1990</td>
<td>1868</td>
<td>165</td>
<td>281</td>
<td>33.1</td>
<td>56</td>
<td>20.1%</td>
<td>193</td>
<td>1055</td>
</tr>
<tr>
<td>1991</td>
<td>1927</td>
<td>171</td>
<td>253</td>
<td>37.6</td>
<td>56</td>
<td>22.0%</td>
<td>170</td>
<td>1072</td>
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<td>1992</td>
<td>1900</td>
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<td>44.6</td>
<td>58</td>
<td>20.1%</td>
<td>204</td>
<td>1100</td>
</tr>
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<td>1993</td>
<td>1802</td>
<td>255</td>
<td>302</td>
<td>53.2</td>
<td>63</td>
<td>20.9%</td>
<td>204</td>
<td>1135</td>
</tr>
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<td>608</td>
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<td>608</td>
<td>291.5</td>
<td>199</td>
<td>32.8%</td>
<td>334</td>
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* Preliminary figures

### 4.2.1 Consumption

Between 1961 and 1991 recorded consumption of cigarettes grew at an average annual growth rate of 4.1 per cent. During this period annual per capita consumption increased from 50 packs to more than 80 packs.

Total cigarette consumption peaked in 1991 at nearly 2 billion packs, after which it decreased to 1.3 billion packs in 2001, a decrease of 34 per cent. The rate at which cigarette consumption is decreasing.

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9. Unless otherwise stated, per capita figures are calculated using a population aged 15 and older.
decreasing is accelerating; in fact, between 1995 and 2001 cigarette consumption decreased at an average annual rate of 5.7 per cent, compared to a relatively modest average annual decrease of 2.6 per cent in the preceding five years.

4.2.2 Excise tax

As in many countries, cigarette excise taxes in South Africa are levied as a specific tax, i.e. an amount per fixed number of cigarettes, rather than a percentage of the retail price. While a specific excise tax is easy to administer, it can be rapidly eroded by inflation. This happened in South Africa during the 1970s and 1980s. Buckling under the pressure exercised by the cigarette manufacturing industry and the Tobacco Board, the government allowed inflation to reduce the real level of excise tax by more than 70 per cent. Although the government never decreased the nominal level of cigarette excise tax during this period, the increases in the nominal excise tax were generally much lower than the inflation rate. As a result, excise tax as a percentage of the retail price of cigarettes decreased from 50 per cent in 1970 to 20 per cent in 1990.

As mentioned in Chapter 3, the Minister of Finance announced in 1994 that the government would increase the excise tax on cigarettes to a target rate of 50 per cent of the retail price, as part of its tobacco control strategy. The increase was phased-in over a number of years. As a result, the nominal level of cigarette excise tax more than quadrupled between 1993 and 2001. In real terms, the level of cigarette excise tax increased by 215 per cent between 1993 and 2001.

4.2.3 Excise revenue

Before the rapid excise increases after 1994, total real excise revenue decreased rapidly, despite the fact that cigarette consumption was increasing. The large increases in the real level of excise tax since 1994 have resulted in large increases in real excise revenue; in fact, real cigarette excise revenues have more than doubled since 1994, even though consumption decreased by more than a quarter. Cigarette excise revenues currently comprise about 1.6 per cent of total government revenue, compared to 1 per cent in the early 1990s.

4.2.4 Cigarette prices

The real retail price of cigarettes closely follows the real excise tax since excise taxes comprise a sizeable share of the retail price. The real retail price decreased considerably (by 43 per cent) between 1961 and 1991.

The real price of cigarettes started to increase very rapidly since 1992. In nominal terms the price of cigarettes increased at an average rate of 16.7 per cent between 1992 and 2001, compared to an average inflation rate of about 8 per cent. Over the same period, the real price of cigarettes rose by 111 per cent, an average annual increase of more than 8 per cent. The implication of these rapid and consistent price increases is that cigarettes have become extremely expensive between 1992 and 2001. In fact, of all product categories for which price data are recorded by the South African
statistical authorities, none have experienced more rapid price rises than cigarettes during this period.

4.3 PRICE AND INCOME ELASTICITIES OF DEMAND

Although economic theory identifies a large number of determinants of demand, the price of cigarettes and personal disposable income proved to be the most important in the empirical estimation of the demand equation. The results presented here were based upon annual data between 1970 and 2000. In Figure 4.1 point estimates of price and income elasticities are shown for each year in that period.

Figure 4.1  Estimated price and income elasticities of demand for cigarettes, South Africa: 1970-2000

The price elasticity of demand for cigarettes decreased (in absolute value) from about -1.5 in 1970 to -0.4 in the late 1980s and early 1990s. This decline corresponds with the decreasing real cigarette price during this period. However, since 1991 the price elasticity of demand for cigarettes has increased noticeably.

The price elasticity of demand for cigarettes has a significant impact on the efficacy of increased excise taxes as a tobacco control measure. If the price elasticity of demand is very low, even large excise-induced price increases are unlikely to change consumption dramatically. An increase in the price elasticity of demand implies that a given percentage change in the price will result in a proportionally larger percentage change in consumption. The increase in the price elasticity of
demand for cigarettes over the past decade implies that cigarette excise tax increases have become an even more potent tool to reduce tobacco consumption than in the past.

However, from a government excise tax revenue perspective, a high price elasticity of demand reduces the government’s ability to raise revenues by increasing the excise tax per unit. An increase in the level of excise tax increases government excise tax revenue by a comparatively small amount (and in extreme circumstances may even cause government excise tax revenue to decrease), because the increase in the level of excise tax per unit is largely offset by the decrease in consumption. From a government excise tax revenue perspective, the increase in the price elasticity of demand for cigarettes over the past decade is problematic. Presumably, further increases in the real level of cigarette excise tax are likely to have a larger impact on cigarette consumption than on government excise tax revenue.

4.4 TAX REVENUE POTENTIAL OF CIGARETTES

Using the estimated demand equation and actual real personal disposable income figures for each year between 1970 and 2000, the real cigarette tax revenue potential was estimated. The results are shown in Figure 4.2. The actual real cigarette tax revenue collected in each year (excise and sales tax combined) is plotted against the real potential cigarette tax revenue.

It is evident that during the 1970s cigarette tax was very close to the tax revenue-maximising level. However, between 1979 and 1991 the gap between potential revenue and actual revenue increased. During this period the real level of cigarette excise tax was decreasing rapidly. The reluctance of the government to anger the industry is well illustrated by the Minister of Finance’s 1986 Budget Speech. In that year the excises on cigarettes were not increased on the grounds that “any increases in excise duties at present could be counter-productive, since it could in fact – on account of the potentially adverse effect on consumption – lead to a reduction of revenue from this source” (Budget Speech, 1986, p.12). Considering that at the time cigarette excise taxes comprised less than 30 per cent of the retail price of cigarettes, and that the real level of excise tax on tobacco products had been decreasing steadily for the previous 15 years, the tobacco industry must have marshalled very strong arguments to persuade the Minister to believe this.

Since 1991, and especially since 1994, there has been a significant increase in actual cigarette tax revenues, with the result that the gap between actual and potential tax revenues has decreased dramatically. In 1999 and 2000 actual cigarette tax revenues were more than 80 per cent of estimated potential revenues; the comparative percentages in 1991 and 1994 were 39 and 50 per cent respectively. Figure 4.2 clearly indicates that the government has been able to successfully exploit cigarettes as a source of tax revenue since the mid-1990s. Further increases in the real level of cigarette excise tax are likely to continue to increase real tax revenues further, but the growth is likely to be less rapid.
Figure 4.2  Potential vs actual cigarette tax revenues (excise and sales taxes combined)

Another way of comparing actual cigarette tax revenues to potential cigarette tax revenues is by plotting the relationship between the level of cigarette tax and total cigarette tax revenues for individual years. Total cigarette tax revenue is obtained as the product of the cigarette tax per pack and the associated quantity. Figure 4.3 shows this relationship for three years, 1998, 1999 and 2000.

Points A, B and C indicate the estimated tax revenue, given the applicable cigarette excise tax levels in 1998, 1999 and 2000 respectively. By way of comparison, point D indicates the tax-revenue combination in 1993. The rapid increase in both cigarette tax levels and cigarette tax revenues over the past decade is clearly indicated. Despite these increases, the government is certainly not maximising its revenue from this source. In fact, to do that, it would have to increase the level of tax on cigarettes by approximately 30 per cent. The revenue-maximising level of cigarette tax occurs at around 55 per cent of the retail price of cigarettes, not very different from the target excise tax rate of 50 per cent of retail price suggested by the government in the mid-1990s. Had it set the cigarette tax at the revenue-maximising level, the government would have increased its revenue from this source by between 10 and 15 per cent.
Nevertheless, it is clear that the government has gone a long way in increasing its tax revenues from cigarettes. Increasingly large increments in the level of cigarette excise tax are required to raise tax revenues further. Also, future increases in the level of cigarette excise tax will have a greater impact on consumption than on government revenue. Should cigarette excise tax be increased to the revenue-maximising level, tobacco consumption is expected to decrease from the current level of 1.3 billion packs to between 1.0 and 1.1 billion packs.

4.5 CONCLUSION

Tobacco control legislation is important because it helps to define public opinion and social attitudes towards smoking. It creates a social environment in which smoking is no longer perceived as glamorous. Even though an anti-tobacco environment certainly discourages tobacco use, econometric evidence has clearly shown that the most effective tobacco control instrument is excise tax increases.

Although it is ideal to have a coherent and comprehensive tobacco control strategy, South Africa’s experience indicates that a strong tobacco excise tax regime should be the mainstay of any such strategy. Legislation aimed at changing social norms and attitudes, if not accompanied by large increases in cigarette excise tax, is unlikely to reduce smoking significantly. However, a rapid increase in excise taxes, even though not supported by other tobacco control measures, would still result in a sizeable decrease in smoking.

In contrast to tobacco legislation, it is relatively easy to change excise taxes on cigarettes. In South Africa’s case, as in most countries, the excise tax is a specific tax and can be easily changed at the tabling in Parliament of the annual government Budget. All that is required is the political will to
stand up to the vested interests of the tobacco industry. In South Africa the African National Congress demonstrated the necessary political will after becoming the dominant party in government in 1994.

Increasing the level of excise tax on cigarettes does not only have good tobacco control consequences, but also increases government revenue. Since 1994 total real cigarette excise tax revenues have doubled, despite cigarette consumption having decreased by one-quarter.

An interesting development over the past decade has been the reaction of the tobacco industry to changes in the excise tax on cigarettes. Through its pricing strategy, it has become an unlikely partner with tobacco control advocates in the struggle against smoking. The following chapter investigates the tobacco industry’s pricing strategy in some detail.
CHAPTER 5

INDUSTRY RESPONSES TO THE RECENT TOBACCO EXCISE TAX INCREASES IN SOUTH AFRICA

5.1. INTRODUCTION

The concerted policy efforts of the South African government to reduce tobacco use have resulted in a rapid decrease in cigarette consumption over the past decade. This environment has forced the tobacco industry to reconsider its business strategies.

The focus of this chapter is on the tobacco industry’s reaction to changes in the level of cigarette excise tax, particularly in terms of its pricing strategy. This analysis is relevant firstly, to understand the industry’s past pricing strategy, and secondly, to evaluate the impact of future pricing strategies on tobacco consumption and the efficacy of the government’s tobacco control policy.

This chapter consists of two main sections. In section 5.2 trends in the composition of the retail price of cigarettes are investigated. The relationship between increases in the level of cigarette excise tax and increases in the retail price of cigarettes gets special attention. In section 5.3 a number of scenarios concerning the tobacco industry’s pricing strategies are presented. Previous pricing strategies and their implications for tobacco control are evaluated. The chapter is concluded with some simulations about future pricing strategies.

5.2 THE COMPOSITION OF THE RETAIL PRICE

The retail price of cigarettes can be divided into two components: (1) taxes and (2) the remainder received by the industry. Taxes consist primarily of excise taxes and value-added tax (VAT), the latter having replaced General Sales Tax in 1991. Import taxes are negligibly small. The retail price of cigarettes less excise tax and VAT (which, for lack of a better word, will be termed the industry price) is shared by a number of businesses along the value chain: tobacco farmers, suppliers of inputs, cigarette manufacturers, suppliers of logistical services, wholesalers and retailers.

It is easy to determine the tax component of the retail price from official sources. However, unless one has specific industry information, it is impossible to ascribe proportions of the industry price to
the various suppliers. Because of this, the industry price is handled in its entirety. Nevertheless, given the large and important role that the cigarette manufacturing industry plays in the supply chain, it probably has the biggest influence over the industry price. Also, the cigarette manufacturing industry, in contrast to their suppliers and service providers, has significant economic power, because the industry is so concentrated. This monopoly power allows them to exert much influence over the price of the product.

In Figure 5.1 the composition of the real retail price of cigarettes is shown for the past 40 years. During the 1970s, and especially during the 1980s, the decrease in the real retail price was caused mainly by the sharp decreases in the real level of cigarette excise tax. The tax burden decreased despite the imposition of sales tax in 1978. The decrease in the real retail price is also partially ascribed to the moderate drop in the real industry price of cigarettes during the 1970 and 1980s.

Since the early 1990s the real retail price of cigarettes has risen very rapidly, as was highlighted in Chapter 4. This is generally ascribed to the increase in the real level of cigarette excise tax, and to a large extent this is true. However, an aspect the media has virtually ignored, and something that the tobacco industry would like to downplay, is the very rapid increase in the industry price of cigarettes. Since the early 1990s the tobacco industry’s component of the retail price of cigarettes (in absolute terms) has increased by 60 per cent. In fact, more than 40 per cent of the increase in the retail price of cigarettes can be attributed directly to an increase in the industry price. On average, for every 10 cents’ increase in the real level of cigarette excise tax, the tobacco industry increased the real retail price of cigarettes by approximately 18 cents. It is important to note that these figures refer to real increases; the effect of inflation has been removed. This suggests that the industry used the media publicity about the excise tax increases to disguise retail price increases that were disproportionately large in comparison to the increase in the level of cigarette excise tax.

Figure 5.1  Composition of the real retail price of cigarettes in South Africa
Of course, one could ask whether these sharp increases in the industry price were justified in terms of cost increases. If the tobacco industry’s costs had been increasing by significantly more than the average inflation rate, this would explain the rapid increase in the industry price. An analysis of some of the main inputs into cigarette manufacture – raw tobacco, paper products and labour\textsuperscript{10} – reveals that their real costs have not been subject to significant changes during the 1990s.

A plausible explanation for the rapid increase in the real industry price of cigarettes is that cigarette manufacturers (and possibly downstream distributors and service providers as well) have used the increases in the excise tax as a smokescreen to increase their profitability, despite lower sales quantities. Cigarette manufacturers have significant market power and would be in a position to raise the profit margin per cigarette by increasing the real retail price in excess of cost increases.

A perusal of the Rembrandt Group’s Annual Reports confirms the increased focus on prices during the past four years. Even before the merger of Rothmans (a Rembrandt subsidiary) and British American Tobacco (BAT) in 1999, Rembrandt was the dominant cigarette manufacturer in South Africa, with a market share of 85 per cent and interests in more than 160 countries.

In Rembrandt’s Annual Reports before 1997, increases in net sales revenue were generally attributed to increases in sales quantities, rather than price changes. Throughout the world, the focus was firstly on quantity and secondly on cutting costs. In contrast, in the 1998 and 1999 Annual Reports the group repeatedly states that it increased the price of cigarettes to increase or maintain net sales revenue.

The change in the pricing strategy of the South African cigarette industry between 1997 and 1999 could be explained in the context of long-term profit-maximisation. During the 1970s and 1980s the

\textsuperscript{10}. These are investigated more fully in the unabridged report.
government did not have a tobacco control policy. Presumably, the tobacco industry’s main aim was to increase the size of the market. An effective way to achieve this aim was to reduce the price of cigarettes. Furthermore, by allowing the real excise rate to decline, the government unwittingly played into the hands of the tobacco industry. By keeping the profit margin constant the industry was able to reduce the real price of cigarettes during this period. As a result, cigarette consumption increased rapidly.

During the 1980s and 1990s the tobacco industry faced increasing hostility in the developed world and, since the early 1990s, also in South Africa. The industry’s strategy to increase consumption by reducing real prices was counteracted by sizeable increases in the real level of cigarette excise tax. Cigarette consumption in South Africa was declining. The industry faced a choice: either it could keep its profit margin at previous levels and allow its profits to decline, or it could increase its profit margin and make larger profits, despite the decrease in consumption. The second approach required that the real retail price had to increase by more than the increase in the excise rate. Even though this approach yields short-term profits, the industry would damage its own market in the medium- to longer-term, since the increased retail price of cigarettes would reduce consumption.

Statistical trends and Rembrandt’s Annual Reports indicate that the South African cigarette manufacturing industry increased its profit margin in order to increase its (short-term) profits. Under a tight tobacco control policy the market would shrink in any case. This being the case, the industry presumably took the decision to enjoy the higher profits, even at the expense of reduced consumption.

A somewhat different, although not unrelated, explanation is that the industry may have used its pricing strategy to try to force the government to change its tobacco excise tax policy.

In an open letter to the Minister of Health in October 1996, the Rembrandt Group claimed that substantial increases in tobacco excise duty would result in increased cigarette smuggling. According to the group, cigarette smuggling was out of control. The group cited the Canadian example, where the government lost revenue when it increased the excise rate on cigarettes because of increased cigarette smuggling into the country. The group claimed that, once the Canadian government decreased the cigarette excise rate, the incidence of smuggling dropped from 40 per cent of total consumption to almost zero.

The tobacco industry’s pricing behaviour could possibly be explained in terms of its desire to prove to the government that the government’s revenue would decline if cigarette excise taxes were raised. The tobacco industry increased its industry price of cigarettes for two possible reasons: (1) to increase its revenues, and (2) to reduce government revenue by reducing cigarette consumption. Had government revenue decreased, the government may have retreated and lowered the excise rate. Since this did not happen, both the government and the industry benefited from increases in the real level of cigarette excise tax and real industry price of cigarettes respectively. The
government increased its excise tax revenue, and the tobacco industry increased its turnover and profitability.

5.3 PRICING STRATEGIES AND INDUSTRY PROFITABILITY

During the 1970s and 1980s the tobacco industry’s profitability was driven mainly by increases in sales volumes. However, during the 1990s sales quantities were decreasing, which implies that, if the profit margin per cigarette remained unchanged, overall profits of the industry would decrease. In order to counteract this, the industry decided to increase the real industry price of cigarettes. The implication of this strategy for the real retail price of cigarettes was shown in Figure 5.1; real retail cigarette prices increased by significantly more than the increase in the real level of cigarette excise tax. This strategy also reduced cigarette consumption by significantly more than if only the real level of cigarette excise tax had increased.

Using the econometric demand equation that underlies the results presented in Chapter 4, one can investigate whether or not the tobacco industry’s pricing strategy enhanced its total revenues (and therefore profitability). Two different scenarios are presented: (1) the industry kept the real industry price of cigarettes constant at the 1993 level; and (2) the industry increased the real industry price of cigarettes as it did (see Table 4.1). The simulation covers the period 1994 to 2000. The results are presented graphically in Figure 5.2.11

In Scenario 1, the real retail price of cigarettes increases only because of the rise in the real level of excise tax; the real industry price of cigarettes would, by assumption, stay constant. Given the inverse price/quantity relationship, it is obvious that the increased real retail price would decrease cigarette consumption. However, since real personal disposable income increased by about 20 per cent over this period, the income effect offsets much of the price impact. The combined effect is that cigarette consumption would not have decreased significantly, despite the sizeable increases in the excise rate.

In this scenario, the tobacco industry’s real revenue would be directly proportional to the sales quantity. Industry revenue would have increased marginally in 1995, 1996 and 1997, but would have decreased somewhat in subsequent years.

In Scenario 2 the combined effect of rapid increases in both the real level of cigarette excise tax and real industry price of cigarettes has resulted in a significant decrease in cigarette consumption. It is evident that this pricing strategy has reduced cigarette consumption by about 20 per cent, compared to a pricing strategy that kept the real industry price of cigarettes constant. Despite the decrease in sales quantity, the tobacco industry has been able to consistently increase its revenue over this period. In fact, in 2000, total tobacco industry revenue is estimated to have been 26 per cent more

11. The actual consumption figures presented here differ slightly from the figures presented in Table 4.1, because these values are derived from the model. However, the differences are not large.
than total industry revenue in the benchmark scenario. This would have enhanced the tobacco industry’s profitability, because the industry was able to increase its total revenue by charging higher prices, and at the same time cut its total costs because it had to produce a much smaller quantity of cigarettes.

Figure 5.2 Simulated cigarette consumption and tobacco industry revenues given different assumptions about the industry’s pricing strategy

While such a strategy would certainly be unpopular with smokers, who may feel that the tobacco industry is taking advantage of their customers, the strategy has positive tobacco control consequences. An increase in the price of cigarettes, irrespective of whether this is due to an increase in the level of excise tax or greater profits by cigarette manufacturers, is likely to decrease cigarette consumption. Cigarette manufacturers are in the fortunate position that they can blame the government for a large proportion of the price increase. The evidence presented here suggests that the cigarette manufacturing industry, by using the increase in the real level of cigarette excise tax to conceal the increase in the real industry price of cigarettes, was able to turn a threat into a major opportunity.

Taking a short-term perspective, it seems that the industry’s pricing policy was rational. However, the industry’s approach of “cannibalising” the market by dramatically increasing the industry price of cigarettes may weaken its position in the longer term, as will be shown below.

Future pricing strategies are investigated, under different scenarios. In each of the scenarios the key assumption is that the government will increase the level of cigarette excise tax to at least 50 per cent of the retail price. This is current government policy. It is assumed that the government
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increases the real level of cigarette excise tax by 20 cents per pack per year, until the 50 per cent target has been reached, after which the level of cigarette excise tax will be adjusted to maintain the 50 per cent tax burden. It is assumed that personal disposable income increases by 2 per cent each year. The year 2000 is chosen as the base year.

The following scenarios are investigated:

a. The tobacco industry increases the real industry price of cigarettes by 20 cents per pack each year, and the government increases the real level of cigarette excise tax by 20 cents per pack each year.

b. The tobacco industry keeps the real industry price of cigarettes constant at 2000 levels, but the government continues to increase the real level of cigarette excise tax by 20 cents per pack each year.

c. The tobacco industry keeps the real industry price of cigarettes constant at 2000 levels, and the government increases the real level of cigarette excise tax by 20 cents per pack each year until 50 per cent of the retail price consists of excise tax and VAT.

In Figure 5.3 the results of the simulations in terms of their impact on tobacco industry revenue and cigarette consumption are shown. It is clear that the different pricing strategies have significantly different impacts on tobacco industry revenue and cigarette consumption.

**Figure 5.3  Projected cigarette consumption and industry revenue given different industry pricing strategies**

![](image)

However, this assumption does not hold for scenario (b).
Scenarios (a), and (b) yield similar results in terms of total tobacco industry revenue, but the impact on cigarette consumption is significantly different. Ever-increasing industry prices of cigarettes and levels of cigarette excise tax (Scenario (a)) dramatically reduce consumption but yield the highest industry revenue, especially in the first four years of the analysis. Scenario (a) is essentially an extension of the strategy followed during 1994-2001. However, the rapid erosion of the cigarette market may make this an unsustainable option for the cigarette industry. From the industry’s perspective, the long-term cost in the form of reduced consumption is likely to outweigh the medium-term benefits of increased revenue.

From an industry perspective, a policy to keep the industry price of cigarettes constant (Scenarios (b) and (c)) is likely to be more beneficial in the longer term. Consumption and industry revenue is expected to decline only marginally, and may even increase slightly due to the positive income effect if the government decides not to increase the excise rate further once the “50 per cent rule” has been achieved (Scenario (c)). From a tobacco control perspective, the government would undo most of the gains of the 1994-2001 period, should it decide not to increase the level of cigarette excise tax further.

5.4 CONCLUSION

Even though the government’s policy of increasing the real level of cigarette excise tax has certainly increased the real retail price of cigarettes, the industry has used the increases in the real level of excise tax to disguise large increases in the real industry price of cigarettes. As a result, the tobacco industry’s profitability has been enhanced, despite the fact that the external environment has become significantly more complex.

The pricing strategy of the industry has cut smoking by more than what excise tax increases alone would have achieved. From a tobacco control perspective this is most encouraging. However, smokers that became addicted to tobacco when it was relatively cheap may feel resentment against an industry that is taking advantage of their addiction by marking up the real retail price above “reasonable” levels.

The industry’s pricing strategies has caused the cigarette market to shrink, even though the profitability per cigarette has increased. A continuation of this trend will reduce cigarette consumption considerably, and may reduce total industry revenue in the longer term.

The more likely scenario is that the cigarette manufacturing industry will keep the real industry price more or less constant. Data for the last two years certainly indicate this. In the short term the government may increase the real level of cigarette excise tax to achieve a total consumption tax burden of 50 per cent of the retail price of cigarettes. The simulation suggests that this pricing strategy will result in only minor reductions in cigarette consumption and tobacco industry revenue. Should the government not increase the real level of cigarette excise tax further, cigarette
consumption may subsequently increase, given an increase in real personal disposable income. Should this happen, the gains of the tobacco control policy of the 1994-2001 period would gradually be lost.
CHAPTER 6

THE DISTRIBUTIONAL IMPACT OF CHANGES IN TOBACCO PRICES

6.1 INTRODUCTION

Despite the addictiveness of nicotine, cigarette consumption decreases as cigarette prices increase. It was pointed out in Chapter 4 that rapidly rising excise taxes are effective in reducing cigarette consumption. Furthermore, as was shown in the previous chapter, the South African cigarette industry’s pricing strategy has amplified the impact of tax increases on cigarette retail prices. Through this pricing strategy the tobacco control potency of rapidly rising excise taxes has been increased.

Despite this, there is some concern that tax increases may have a disproportionately harmful impact on low-income groups of society. The argument is twofold: (1) in most countries, smoking prevalence is higher among poorer groups, and (2) poorer smokers tend to spend a greater proportion of their income on tobacco than richer smokers. If these hypotheses were true, it would follow that the poor, on average, carry a relatively larger (cigarette) tax burden than the rich, implying that the tax is regressive. Because regressive taxes are undesirable from a social equity perspective, such a finding might be used as an economic argument against increasing these taxes further.

While agreeing that tobacco taxes are regressive, tobacco control economists maintain that the government should not reduce the excise tax in order to decrease the tax burden on the poor. In fact, they argue that increases in the excise tax are likely to reduce the tax’s regressivity, i.e. the tax’s disproportionate burden on the poor. They contend that the poor, compared to the rich, are generally more price-sensitive, and would reduce their cigarette consumption by a greater percentage in response to a rise in tobacco prices. It is argued that excise tax increases are likely to decrease the relative tax burden on the poor, vis-à-vis the rich.

This chapter aims to investigate how the burden of cigarette taxation is distributed between various income groups in South Africa. This is generally referred to as the distributional impact of cigarette taxation. In particular, three interrelated aspects will be explored: (1) the relative importance of

13. "Tax burden" is always defined as a percentage of income, not in absolute amounts. Thus even though a poor person or household may spend a smaller absolute amount on cigarette taxes than a richer person or household, the tax as a percentage of his/her income is likely to be significantly greater.
cigarettes in households’ expenditure patterns, (2) changes in the regressivity of cigarette taxes between 1990 and 1995, and (3) the likely impact of changes in the real retail price of cigarettes on the regressivity of the tax.

6.2 SMOKING HOUSEHOLDS AND CIGARETTE EXPENDITURE PATTERNS IN 1990 AND 1995

The analysis presented in this chapter is based on two large household surveys, performed in 1990 and 1995 respectively. The first step in analysing cigarette expenditure patterns by income level is to subdivide the data into four income quartiles, for the two years. Each income quartile includes approximately 25 per cent of households.

A household is defined as a “smoking household” if it spends money on cigarettes. This does not imply that all members of the household smoke; in many cases only one member smokes. In Table 6.1 the percentage of households that buy cigarettes are shown for each of the four income quartiles. In South Africa, in contrast to many developed countries, smoking is not more prevalent among the lower income groups. This is borne out by the fact that 38 per cent of the poorest households spent money on cigarettes in 1990, compared to approximately 50 per cent of households in the other three income quartiles.

Between 1990 and 1995 there has been a decrease in the percentage of households that smoke. The percentage of smoking households in the poorest income quartile (Q1) decreased by 5 percentage points from 38 to 33 per cent. For the second poorest income quartile (Q2) the percentage decreased from 51 to 46 per cent, also a change of 5 percentage points. The percentage of smoking households among the more affluent income quartiles (Q3 and Q4) decreased by a more modest 4 and 2 percentage points respectively.

Qualitatively the trends in Table 6.1 correspond to those presented in Chapter 3, i.e. that smoking prevalence is lower among the lower income groups, and that smoking prevalence has been decreasing at a more rapid rate among the poorer groups.

Table 6.1 Percentage of households spending money on cigarettes, 1990 and 1995

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<tr>
<td>Q2</td>
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<td>46</td>
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</tr>
<tr>
<td>Q3</td>
<td>52</td>
<td>48</td>
<td>-4</td>
</tr>
<tr>
<td>Q4</td>
<td>48</td>
<td>46</td>
<td>-2</td>
</tr>
<tr>
<td>Total</td>
<td>47</td>
<td>43</td>
<td>-4</td>
</tr>
</tbody>
</table>

14. The percentages shown here are not comparable to the smoking prevalence percentages calculated in Chapter 3. Generally the “prevalence” percentages calculated in Chapter 6 are much higher than those of Chapter 3.
Even though the percentage of households that smoke is lowest in the poorest income quartile, expenditure on tobacco often comprises a significant percentage of this group’s total household income. Table 6.2 shows the percentage of households that spend more than an arbitrarily chosen percentage of their income on cigarettes. Thus, in 1990, 18 per cent of all households in the poorest income quartile spent more than 5 per cent of their total income on cigarettes, and 8 per cent of households spent more than 10 per cent. For people with such low incomes, the opportunity cost of these cigarette expenditures is especially stark.

The percentage of households that exceed the threshold percentage decreases rapidly as income levels increase. In fact, the percentage of households spending more than 5 per cent of their income on cigarettes becomes negligibly small for the highest income quartile.

Between 1990 and 1995 there was a rapid decrease in the percentage of households that spend a significant proportion of their income on cigarettes. This is a positive development from a tobacco control perspective. For example, the percentage of poorest households spending more than 5 per cent of their income on cigarettes decreased from 18 per cent in 1990 to 13 per cent in 1995. While the effect is most pronounced for the lowest income group, the trend applies to the other income quartiles as well.

Table 6.2 Percentage of households spending more than a certain percentage of their total income on cigarettes, by income quartile

<table>
<thead>
<tr>
<th>Income quartile</th>
<th>1990</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&gt; 5%</td>
<td>&gt; 10%</td>
</tr>
<tr>
<td>Q1</td>
<td>18</td>
<td>8</td>
</tr>
<tr>
<td>Q2</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>Q3</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Q4</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

6.3 THE REGRESSIVITY OF THE EXCISE TAX

Tables 6.1 and 6.2 indicate that, although poorer households generally smoke less, they spend a larger proportion of their incomes on cigarettes. Since the excise tax is approximately proportional to the price of cigarettes, and thus expenditure on cigarettes, it follows that poorer households carry a heavier cigarette excise tax burden than richer households. This means that the excise tax is regressive.

One can investigate the incidence of the excise tax directly by calculating the average excise tax amount, as a percentage of household income, for each income quartile. This percentage was

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15. The denominator of this percentage includes non-smoking households as well. The percentage of smoking households that spend more than the threshold percentage of their income on cigarettes is much higher. In fact, in 1990, 47 per cent of the poorest smoking households spent more than 5 per cent of their income on cigarettes, while 21 per cent of the poorest smoking households spent more than 10 per cent. These results are obtained by dividing the appropriate percentages in Table 6.2 by the corresponding percentages in Table 6.1.
calculated for smoking households only. The results shown in Table 6.3 indicate that as household income increases, the excise tax amount, as percentage of household income, decreases.

The relative regressivity of cigarette excise taxes is shown in the last two columns of Table 6.3. These values are index values, derived by dividing the tax burden of a specific income quartile by the average tax burden of all smoking households. An index value of more than 100 implies that the income quartile in question is subject to an above average excise burden, and vice versa. Not surprisingly, the poorer income quartiles are subject to a relatively heavier tax burden than the richer income quartiles.

### Table 6.3 Cigarette excise taxes as a percentage of average household income, for smoking households only

<table>
<thead>
<tr>
<th>Income quartile</th>
<th>As percentage of household income 1990</th>
<th>As percentage of household income 1995</th>
<th>As percentage of average tax burden 1990</th>
<th>As percentage of average tax burden 1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>1.55</td>
<td>1.39</td>
<td>201</td>
<td>190</td>
</tr>
<tr>
<td>Q2</td>
<td>0.84</td>
<td>0.84</td>
<td>109</td>
<td>115</td>
</tr>
<tr>
<td>Q3</td>
<td>0.56</td>
<td>0.56</td>
<td>73</td>
<td>76</td>
</tr>
<tr>
<td>Q4</td>
<td>0.29</td>
<td>0.33</td>
<td>38</td>
<td>45</td>
</tr>
<tr>
<td>Total</td>
<td>0.77</td>
<td>0.73</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Between 1990 and 1995 the relative excise tax burden between the various income quartiles has shifted. The relative tax burden of the poorest smoking households decreased from 201 to 190, while the relative tax burden of the richest smoking households increased from 38 to 45. While the differences in the relative tax burdens remain large, implying that the excise tax is very regressive, the gap is closing. The reduction in the tax burden gap implies that the cigarette excise tax is becoming relatively less regressive, which is generally regarded as a positive development.

According to tobacco control economists an increase in the real retail price should reduce the regressivity of the tax, because low-income households are generally more sensitive to price changes. In South Africa the real retail price went up by 29 per cent between October 1990 and October 1995. The real level of cigarette excise tax increased by 34 per cent. The evidence presented here supports the hypothesis that cigarette tax and price increases reduce the relative regressivity of the excise tax.

### 6.4 CONCLUSION

The aim of this chapter was to investigate the distributional impact of cigarette excise taxes. It was found that, in contrast to developed countries, a smaller percentage of low-income households, vis-à-vis more affluent households, buy cigarettes. Nevertheless, a greater percentage of low-income households spend a significant proportion of their household income on cigarettes. The implication is that cigarette excise taxes are regressive. In fact, in 1990 the average cigarette excise tax burden
among smoking households in the poorest income quartile was more than five times that of the richest quartile.

Between 1990 and 1995 the real price of cigarettes increased by nearly 30 per cent. This resulted in a decrease in the number of smoking households, especially in the lower income quartiles. Furthermore, there is evidence that many smoking households, especially those in the poorest quartile, reduced their overall expenditure on cigarettes between 1990 and 1995. As a result, even though the excise tax is still very regressive, the regressivity has decreased. This is illustrated by the fact that the poorest income quartile’s cigarette excise tax burden was reduced from 5.3 times the richest quartile’s burden in 1990 to 4.2 times in 1995.

This study focused only on the tax and household income impact of increased excise taxation. A complete analysis would also have to consider how the increased revenues were spent. For example, if they were spent primarily on the poorer sections of society (as one would expect), this would counteract the regressivity of the tax substantially. However, it was felt that this aspect falls beyond the scope of the study.

The results of this paper clearly indicate that rapidly increasing excise taxes reduces consumption, and does not have a detrimental distributional impact. The implication of these results is that the government’s policy of rapidly increasing excise taxes has had beneficial tobacco control consequences, and did not result in socially undesirable side effects.
CHAPTER 7

CONCLUSION AND POLICY IMPLICATIONS

Tobacco control has come a long way in South Africa in the past decade, because of a comprehensive policy that included both tough legislation and significant tobacco tax increases. As a result of this, as well as changing societal values and perceptions, smoking in South Africa has been de-glamorised and large sections of the population no longer regard smoking as socially acceptable.

The short-term outcomes suggest that South Africa’s tobacco control policy has been successful. Total cigarette consumption has decreased by one-third since 1991; per capita consumption has decreased by more than 40 per cent; and smoking prevalence has been reduced, especially among young people.

South Africa was able to implement effective tobacco control measures despite significant opposition, primarily from the tobacco industry itself, but also from industries that stood to lose from these measures. Surveys revealed that the public was generally supportive of the tobacco control initiatives. The media was split on the issue: while some segments of the media supported measures to curb smoking (specifically for medical reasons), others were vehemently opposed to the new measures, mainly because the interventions were seen as unnecessary, authoritarian and paternalistic. However, the policy was implemented despite the opposition. The degree of compliance with the new tobacco control legislation seems to be high.

7.1 POLICY IMPLICATIONS

From the perspective of a developing country interested in implementing a tobacco control strategy, this study reveals a number of important policy implications, as follows.

(1) The importance of strong and consistent lobbying by civil society

South Africa’s effective tobacco control policy can be attributed largely to strong and consistent lobbying by civil society, including professional associations. Over a period of more than 25 years medical societies, such as the Medical Research Council, Cancer Society of South Africa, the South African Heart Foundation, the South African Medical Association and the National Council Against Smoking have lobbied the government to impose a tobacco control policy. These lobbyists
generated much media attention. They used public fora and the media to warn the public against the dangers of tobacco, to call on the government to introduce effective counter-measures, and to discredit the industry’s claims about their product and the importance of their industry. Finally, in the early 1990s, lobbying persuaded the Minister of Health to implement tobacco control legislation. Once the political door was opened, the lobbyists’ role changed somewhat: rather than lobbying the policy-makers, they worked with them in publicising the positive aspects of the proposed tobacco control measures.

(2) Tobacco control policies require contributions from a variety of disciplines

In South Africa the relevant medical associations were the driving force in the fight against tobacco. They argued the need for effective tobacco control measures primarily on medical and epidemiological grounds. On various occasions they publicised the results of prevalence surveys that generally indicated the following: (1) an increase in smoking prevalence, especially among the youth; (2) a desire but inability to quit; and (3) that the public were generally in favour of tobacco control measures. In 1988 the medical fraternity were the first to perform an economic cost-benefit study on tobacco use, in which they showed that the costs associated with consumption of tobacco products outweighed the benefits.

The tobacco industry responded, claiming that the study was flawed and misleading. This response drew a number of professional economists into the debate, specifically in the form of the Economics of Tobacco Control in South Africa (ETCSA) Project. Some of the Project’s main findings were discussed in Chapter 1. The research conducted by the Project was well publicised in the popular press and amongst policy-makers, and dispelled many of the industry’s claims about the economic importance of tobacco.

The tobacco control lobby used legal and marketing experts to justify the need for and legality of an advertising ban, when this was debated in the late 1990s. Some people regarded an advertising ban as an infringement on the right of free speech, using South Africa’s liberal constitution to back their argument. The experts, however, demonstrated that an advertising ban was legal and would be effective in reducing tobacco consumption.

The lesson is that, even though the relevant medical associations formed the backbone of the tobacco control lobby, experts from other disciplines have enhanced its influence and credibility. Had it not been for its multidisciplinary approach, the South African tobacco control lobby would certainly not have achieved as much as it did.

(3) Political changes could be used to good effect in accelerating tobacco control measures

In South Africa the tobacco control cause was helped immensely after the country’s first democratic elections in 1994, when the African National Congress became the dominant party in the Government of National Unity. The new party owed no allegiance to the tobacco industry, and was able to accelerate the tentative tobacco control measures that had been implemented by the
previous government in the last years of its rule. The new government had a strong primary health
care focus and regarded tobacco control as a priority. Dr Nkosazana Zuma, the new Minister of
Health, was a tough and astute politician. She made it clear at the outset that she would do all in her
power to reduce smoking. The 1999 legislation, which was passed despite ferocious opposition
from the tobacco industry, is testimony to her tenacity.

While a change in government is not a prerequisite for the successful implementation of a
comprehensive tobacco control strategy, it certainly played an important role in South Africa. The
new government was not bound by informal agreements and relationships, and could implement an
effective tobacco control strategy from the start.

(4) **Tax increases are an extremely effective tobacco control measure**

Numerous studies in developed and developing countries have shown that price changes have a
significant effect on tobacco consumption. Because of the inverse price-consumption relationship,
tobacco control lobbyists in South Africa have lobbied for large increases in cigarette excise taxes
in order to reduce cigarette consumption. Furthermore, they argued that an increase in the cigarette
excise tax would increase government revenue. Based on econometric results, they showed that the
South African government had lost substantial amounts of revenue by allowing the real tax on
cigarettes to decrease between 1970 and 1990.

When the government started increasing the real excise tax in the early 1990s the predictions of the
tobacco control lobby proved true: real cigarette prices increased, cigarette consumption decreased,
and real government revenue was boosted.

It is the firm conclusion of this study that large increases in the real level of tobacco excise tax are
the single most effective, and definitely the most cost-effective, tobacco control measure. Given
that cigarettes are already subject to excise duties in most countries, it is usually a simple matter to
implement a cigarette excise tax increase. This conclusion is subject to the caveat that the tax
increases do not result in a major increase in the smuggling of tax-free cigarettes into the country
concerned.

(5) **The industry has an interest in exaggerating the threat of cigarette smuggling**

The tobacco industry’s explanation of cigarette smuggling is that it is a rational response to price
and excise tax differentials between countries. For example, large-scale cigarette smuggling
between the US and Canada in the early 1990s was ascribed to informal and spontaneous
bootlegging from the “low-price” US to “high-price” Canada. The tobacco industry claimed victory
when the Canadian government decided to reduce the level of cigarette excise tax in order to curb
cigarette smuggling.
In South Africa the industry has overplayed the threat of cigarette smuggling. Cigarette smuggling has not attracted much media attention in the past decade. While it is unreasonable to expect that customs authorities intercept all smuggled cigarettes, the comparative lack of media publicity about the confiscation of illegal and smuggled cigarettes suggests that cigarette smuggling is not rampant. Despite the apparent lack of evidence, the industry has consistently and forcefully argued that cigarette smuggling is increasing. Their motive is clear: they want the government to reduce the excise tax on cigarettes.

Even though the South African tobacco industry has exaggerated the threat of cigarette smuggling, other countries may find that the threat is real. As in South Africa, the industry would argue that smuggling would undermine any attempt to increase the excise tax. This argument is not credible. Nevertheless, to effectively falsify it one would have to objectively investigate the possible effect of smuggling, probably by increasing the level of cigarette excise tax by smaller increments initially, and monitoring consumption and smuggling effects closely.

(6) The industry’s pricing strategy has aided the tobacco control cause

The rationale for increasing the level of cigarette excise tax was to increase the retail price of cigarettes. This, in turn, would have reduced cigarette consumption. It was expected that the increase in the real level of cigarette excise tax would increase the real retail price by an equivalent amount.

In South Africa the real retail price of cigarettes increased by much more than the real increase in the level of cigarette excise tax. In fact, excise tax increases accounted for only about half of the increase in the real retail price of cigarettes between 1990 and 2000; the other half is attributed to increases in the industry price. Real production costs did not change significantly over this period. The cigarette industry was apparently using the tax increases as a convenient justification to increase their profitability at the expense of their custom.

The fact that the South African cigarette industry is virtually a monopoly – British American Tobacco has a 95 per cent market share – makes this pricing behaviour possible. While smokers may perceive this pricing strategy as exploitative, it certainly has had positive tobacco control consequences. A simulation analysis shows that cigarette consumption would have decreased only marginally, had the industry not increased the retail price so dramatically.

These results are not unique. Studies performed in the US indicate that tax increases have also led to a more than proportionate increase in the retail price, but not as explicitly as in South Africa. The important lesson is that cigarette companies, in looking after their short-term self-interest and profitability, can be unlikely partners in the fight against tobacco.

16. In contrast, the press regularly reports on the confiscation of hard drugs and the arrest of syndicate members dealing in these drugs.
(7) **The tobacco industry will always try to water-down tobacco control measures**

In South Africa the typical tobacco industry response to proposed tobacco control legislation has been that it supports “reasonable” measures, but that proposed restrictions on tobacco product advertising and use were “draconian” and “excessive”.

The role that the tobacco industry should play in the formulation of tobacco control policy needs to be clarified at the outset. In many countries the constitution may oblige the legislators to be even-handed to all parties in the legislative process. The downside is that, should the tobacco industry play a significant role in the formulation of tobacco control legislation, they will try to weaken and delay the process as much as possible. For example, in South Africa, the 1993 legislation was watered-down significantly after the industry successfully lobbied the Minister of Health. In contrast, during the late 1990s the (new) Minister of Health largely ignored the tobacco industry’s pleas for “reasonable” legislation when formulating far-reaching amendments to the 1993 legislation. Although the Minister was criticised as being “undemocratic” and “authoritarian”, the final product was more comprehensive and effective than the 1993 legislation.

(8) **Non-smokers’ rights need formal recognition**

When the clean indoor air legislation was debated in the late 1990s, opponents to the legislation argued that it would be impossible to enforce, given that the South African Police Services were already over-stretched. The Ministry of Health made it clear that the legislation would be largely self-enforcing. The legislation has given the right to smoke-free air to the non-smokers. Previously the right to clean air was disputed, dependent on the “courtesy” of smokers not to smoke in the presence of non-smokers. Now that property rights have been transferred, non-smokers have the right to demand clean air.

A clean indoor air policy is admittedly difficult to enforce in some settings (especially bars and nightclubs). However, the measure of compliance is high in most workplaces and restaurants. This has been achieved without police crackdowns, but mainly through public pressure.

(9) **Cigarette excise taxes are regressive, but become less so as the tax increases**

In South Africa, as in most countries, it was found that the poor generally spend a greater percentage of their income on cigarettes than richer people. The burden of tobacco excise taxes falls more heavily on the poor, and thus the tax is regressive. This is regarded as socially undesirable and could, in principle, be used as an argument against further increases in the excise tax on cigarettes.

It was shown in this study that the poor are generally more sensitive to price changes, and an increase in the tax on cigarettes will reduce consumption by a greater percentage, than among the rich. Thus, even though cigarette excise taxes are regressive, increases in the tax (and the price) reduces the degree of regressivity.
7.2 FINAL WORD

It is hoped that this study will assist researchers, lobbyists and policy makers in other developing countries, by showing them an example of a country that has achieved significant success in tobacco control in a short period of time. In retrospect the costs were comparatively small; the benefits, mainly in the form of reduced cigarette consumption, will be immense. It is our firm conviction that South Africa’s success in tobacco control can be replicated in other countries, as long as politicians have the will to stand against the vested interests of the tobacco industry.
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