CHAPTER 8

CONCLUSION

The aim of this thesis was to investigate some economic aspects related to South Africa’s tobacco control strategy, which has seen dramatic changes in the past decade. The policy was comprehensive and included both legislated restrictions on smoking and advertising, and significant tobacco excise 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 perceive it as socially acceptable.

While the health impact of the change in smoking patterns will only be felt in years to come, the short-term measurable outcomes suggest that, to date, the South African government’s tobacco control policy has achieved what it aimed to achieve. Total cigarette consumption has decreased by more than a third since its peak in 1991; per capita cigarette consumption has decreased by about 50 per cent; smoking prevalence has been reduced; and the number of young people who smoke has decreased significantly.

Effective tobacco control measures in South Africa were realised despite significant opposition, primarily from the tobacco industry itself, but also from other industries which stood to lose from these measures. Surveys revealed that the public was generally supportive of the tobacco control initiatives (Reddy, et al., 1996). The press seems to have been split on the issue: while some segments of the press were against tobacco consumption (specifically for medical reasons) and supported measures to curb smoking, other segments of the press were vehemently opposed to the new measures, mainly because the interventions were seen as unnecessary, authoritarian and paternalistic. However, despite the opposition, the relevant legislation was passed. The degree of compliance with the new tobacco control legislation seems to be high.

In 1999 South Africa passed comprehensive tobacco control legislation that many tobacco control advocates perceived as among the most progressive in the developing (and even the developed) world. From a policy perspective, the challenge for the country is not to pass more tobacco control laws, but rather to implement and enforce the existing legislation. The current study aimed to evaluate the existing policy. In South Africa’s case significant results have been achieved within a short period.
8.1 Policy implications

From the perspective of a developing country interested in implementing a tobacco control strategy, this study has a number of important policy implications. The most important are the following:

8.1.1 The importance of strong and consistent lobbying

South Africa’s strong tobacco control policy can be attributed largely to strong and consistent lobbying. Over a period of more than 25 years, medical societies, such as the South African Medical Research Council, the Cancer Association of South Africa, the Heart Foundation South Africa, the South African Medical Association and the National Council Against Smoking have lobbied the government to impose an effective tobacco control policy. Even though the tobacco control lobbyists were few in number, they were highly effective and generated substantial media attention. They used public fora and the media to warn the public about the dangers of tobacco, to call on the government to introduce effective countermeasures, and to discredit the tobacco industry’s claims about the economic importance of their industry. During the 1980s, the press was generally sympathetic to the tobacco control cause, but tobacco control lobbyists had little success in bringing about change through the parliamentary system. The lack of success was primarily due to the unhealthily close relationship between the tobacco industry and the then governing political party. However, during the early 1990s, tobacco control lobbyists eventually prised the politicians’ doors open, and persuaded the Minister of Health to implement legislation restricting tobacco use.

Once the “political door” was opened and the Ministry of Health placed tobacco control on the political and legislative agenda, the lobbyists’ role changed somewhat. Rather than lobbying the policy-makers, tobacco control advocates worked with them in publicising the positive aspects of the proposed tobacco control measures (Yussuf Saloojee, personal communication, 2004).

8.1.2 Lobbyists should derive their information from a variety of disciplines

While medical evidence is vital in the fight against tobacco, economic, marketing and legal expertise should be used to counter claims of a non-medical nature. In South Africa’s case, as in most countries, relevant medical associations led the fight against tobacco. They campaigned for effective tobacco control measures, based primarily on medical and epidemiological grounds, and the results of prevalence surveys. They argued the well-known facts that tobacco increases the risk of getting certain diseases, and that it often leads to premature death and disability.

In South Africa’s case, medical associations were also the first to perform an economic cost-benefit study on tobacco (Yach, 1982 and SAMRC, 1988 and 1992). Using mortality and morbidity data in a fairly unsophisticated cost-benefit model, they showed that the costs...
associated with tobacco outweigh the benefits. While these analyses were crude and imperfect, they certainly grabbed the attention of the public and the government. In the mid-1990s the ranks of the tobacco control lobby were swelled when a number of professional economists entered the debate, specifically in the form of the Economics of Tobacco Control Project. The research performed by the Project was well publicised in the popular press and amongst policy-makers. Specifically, the project aimed to dispel the tobacco industry’s claims that it played an important role in the economy. Amongst others, it used input-output tables to show that a reduction in cigarette consumption would not lead to a net loss of jobs because people would switch their consumption to industries that were more labour intensive than the cigarette industry (Van der Merwe and Abedian, 1999). Also, it demonstrated that an increase in the level of the excise tax would not only result in a decrease in cigarette consumption, but also an increase in government revenue.

Legal and marketing expertise was required when the legality of a ban on tobacco product advertising was debated in the late 1990s. Opponents to the advertising ban argued that this would be an infringement on the right of free speech, a right entrenched in the South African Constitution. Marketing and legal experts were required to persuade policy-makers and the public that a restriction on the right of free speech in the interests of public health was legal, and would be effective in reducing tobacco consumption.

8.1.3 Political changes could be used to good effect in accelerating tobacco control measures

In South Africa’s case the tobacco control cause was helped immensely by the first democratic elections in 1994, when the African National Congress became the dominant party in the Government of National Unity. The new party had no allegiance to the tobacco industry and had a much stronger primary health care focus than the previous government. While a change in government is not a prerequisite for the successful implementation of a comprehensive tobacco control strategy, in South Africa’s case it certainly played an important part. The first Minister of Health of the new government made it clear from the outset that she would do all in her power to reduce tobacco consumption. She has been described as headstrong, autocratic and arrogant by some; she certainly did not bend under the pressure exerted on her by the tobacco industry.

8.1.4 Tax increases are an extremely effective tobacco control measure

Despite the fact that tobacco is addictive, studies in South Africa and a large number of developed and developing countries have shown that price changes have a significant effect on tobacco consumption. This finding is uncontroversial, and is acknowledged by the tobacco industry as well. In this study, the price elasticity of demand of cigarettes sold in South Africa was estimated at around -0.99 (at the mean price and quantity) using a systems approach and
around -0.8 using a single-equation approach. These estimates are similar to those of many developing countries.

It comes as no surprise that tobacco control lobbyists used information about the magnitude of the price elasticity of demand to campaign for large increases in the excise tax on cigarettes in South Africa. They furthermore argued that an increase in the cigarette excise tax would increase government revenue. They showed that the government had lost substantial amounts of revenue by allowing the real level of excise tax on cigarettes to decrease by 70 per cent between 1970 and 1990.

As a result of this consistent lobbying, and also because of the change in the ruling party earlier that year, the South African government announced in 1994 that it would raise the level of excise tax on cigarettes from 20 per cent to 50 per cent of the retail price, to be phased-in over a number of years. The result was a dramatic increase in the real price of cigarettes, and a rapid decrease in cigarette consumption since 1994. Despite the lower levels of cigarette consumption, real government revenue has more than doubled over this period.

It is the firm conclusion of this thesis that large excise tax increases are the single most effective, and definitely the most cost-effective, tobacco control measure. Given that cigarettes are subject to excise duties in most countries already, it is a simple matter to implement a tax increase, and the results in the form of reduced consumption and increased government revenue are easy to monitor. However, this conclusion is subject to the precaution that the excise tax increases do not result in a major increase in cigarette smuggling.

### 8.1.5 The industry has an interest in exaggerating the threat of cigarette smuggling

The possibility of cigarette smuggling is often used by the tobacco industry as a rationale not to increase cigarette excise taxes. The industry’s argument is that cigarette smuggling is a rational reaction to price and tax differentials, and that cigarettes will be smuggled from low-tax countries to high-tax countries (International Tax and Investment Centre, 2003). The large-scale smuggling between the US and Canada in the early 1990s was initially ascribed to informal and spontaneous bootlegging between the “low-price” US and “high-price” Canada. Eventually the Canadian government decided to reduce the tax in order to curb the smuggling.

Some people argue that the current wave of cigarette smuggling into the UK is a spontaneous response to the large tax differentials between the UK and continental Europe.

Tobacco control lobbyists argue that the main culprits in cigarette smuggling are sophisticated criminal syndicates, who smuggle cigarettes in 20-foot and 40-foot shipping containers, rather than members of the public who bootleg small quantities (Joossens and Raw, 1998). Rather than smuggling cigarettes from low-tax to high-tax jurisdictions, it is argued that these syndicates avoid the excise tax completely by legally exporting the product (tax-free), but
illegally smuggling it into the target country through a complex and obscure logistical chain. In some cases the cigarettes are re-imported into, and sold tax-free in, the country of origin. They further argue that the smuggling takes place with the overt or covert knowledge of the tobacco industry itself. These claims seem credible after evidence has emerged that Brown & Williamson, British American Tobacco’s US subsidiary, was actively involved in the US-Canadian smuggling of the early 1990s. Furthermore, the European Union is currently investigating some tobacco companies in connection with alleged cigarette smuggling into the EU. The London-based Action on Smoking and Health presents a comprehensive review of smuggling and racketeering cases that have been brought against the tobacco industry in the past ten years.\footnote{See \url{http://www.ash.org.uk/}.}

In South Africa the cigarette manufacturing industry has repeatedly warned the government that increased cigarette excise taxes would result in increased cigarette smuggling into the country, and that the government would lose excise tax revenue as a result. While it is impossible to say whether cigarette smuggling has increased or not, smuggling is certainly not out of control, as the industry claims. Given the large increases in the real price of cigarettes, one would expect cigarette consumption to decrease by a substantial percentage. The official consumption figures do not suggest that illegal consumption has increased to the extent that it undermines the excise tax revenues collected from legal cigarettes.

While it would be naïve to suggest that no cigarette smuggling takes place at all, or that the customs authorities intercept all smuggled cigarettes, there have been very few press reports over the past decade involving smuggled cigarettes.\footnote{In contrast, there have been regular reports on the arrests of people involved in the smuggling of drugs. Presumably the South African Police Services have the resources to deal with smuggling issues. Whereas the apprehension of drug syndicates does not have an impact on government revenue since these products are illegal and thus not subject to tax, the government (and the Treasury in particular) has an interest in apprehending cigarette smugglers, because they are reducing government revenue. The fact that so few cigarette smuggling arrests have been made, suggests that it has not been worthwhile to target this crime.} Despite the apparent lack of evidence, however, the industry has been arguing consistently and forcefully that cigarette smuggling is increasing (e.g. Simon Millson, Director: Corporate and Regulatory Affairs, BAT South Africa, personal communication, 2004). The industry’s motive is clear: if they can persuade the government that cigarette smuggling is increasing as a result of the high taxes, the solution would be to reduce the tax.

This is not meant to imply that the problem or threat of cigarette smuggling in other countries is necessarily exaggerated. For other countries, the threat may be more real, but this would have to be determined in an objective way, not simply on the basis of the tobacco industry’s assertions.
8.1.6 The industry’s pricing strategy has aided the tobacco control cause

The increases in the level of excise tax on cigarettes were aimed at increasing the real retail price of cigarettes. As a general rule, one would not expect the real retail price of cigarettes to increase by more than the increase in the real level of cigarette excise tax. In fact, while average-cost pricing theory suggests that the entire increase in the level of excise tax will be passed on to consumers, conventional microeconomic theory suggests that producers would carry a proportion of the tax themselves, which would imply that the retail price increase would be less than the excise tax increase.

However, in South Africa’s case the real retail price of cigarettes increased by much more than the real increase in the level of cigarette excise tax. In fact, the increases in the excise tax accounted for less than 60 per cent of the increase in the real retail price between 1990 and 2004. The other 40 per cent of the increase in the real retail price is ascribed to increases in the producer price. The real costs of production did not change significantly over this period, which means that the profit per cigarette increased substantially. Cigarette manufacturers were apparently using the tax increases as a convenient justification for increasing their profitability.

The fact that the South African cigarette industry is virtually a monopoly – British American Tobacco has a 93 per cent market share – makes this pricing behaviour possible. While smokers may perceive this pricing strategy as exploitative, the fact of the matter is that the industry’s pricing behaviour has had positive consequences for tobacco control. Had the tobacco industry not followed this pricing strategy, cigarette consumption would currently have been much higher than what it is. In fact, were it not for the industry’s pricing strategy, the government would have had to increase the level of cigarette excise tax by nearly double the amount than it actually did to achieve the same decrease in consumption.

These results are not unique. Studies in the US indicate that cigarette excise tax increases have also led to a more than proportionate increase in the retail price of cigarettes (Chaloupka and Warner, 1999), but the effect is not as pronounced as in South Africa. The lesson is that cigarette companies, in looking after their short-term self-interest and profitability, can further the goals of the tobacco control community.

8.1.7 Industry involvement in the formulation of tobacco control policy?

In South Africa, the typical industry response to proposed tobacco control legislation is that they support “reasonable” restrictions, but that the proposed restrictions are “draconian” and “excessive”. In most countries interested and affected parties often play an important role in the formulation of policy. How much influence the tobacco industry should have in the formulation of tobacco control legislation would have to be decided by individual countries. As was indicated in chapter 1, the tobacco industry successfully lobbied the Minister of
Health and was able to water down the 1993 tobacco control legislation. In contrast, during the mid- to late-1990s the new Minister of Health largely ignored the industry’s pleas for “reasonable” legislation when far-reaching amendments to the 1993 law were being considered. Although the Minister was criticised as being “undemocratic” and “authoritarian”, the Amendment Act of 1999 was more comprehensive and much more effective than the 1993 legislation.

The 1999 legislation envisaged a complete ban on tobacco advertising and promotion. The tobacco industry and the advertising agencies decried this measure as excessive and an infringement of the right to free commercial speech. They would have preferred a compromise situation, such as restrictions on certain types of advertising, restrictions on certain media, etc. However, international evidence has shown that partial advertising bans generally do not decrease cigarette consumption, while comprehensive bans do (Saffer, 2000). Rather than succumbing to the tobacco industry’s pressure for “reasonable” restrictions, the Ministry of Health decided to get rid of tobacco advertising completely.

In contrast to restrictions on indoor smoking, an advertising ban is relatively easy to enforce. Traditional advertising in the media has disappeared. However, in what most tobacco control lobbyists regard as an exploitation of a loophole in the 1999 legislation, the industry has continued to promote its products through one-on-one marketing events, such as “private parties” and industry-organised events. The government is currently considering legislation that will outlaw such marketing strategies.

As in most countries, the tobacco industry formerly sponsored some major sports events in South Africa. The advertising ban also prohibited sponsorships by tobacco companies. While the anticipated demise of some sporting events was lamented, nearly all events found new sponsors. The South African experience suggests that the disruption associated with the banning of tobacco sponsorship is short-lived, and that alternative sponsors can be found relatively easily.

8.1.8 Tobacco control legislation changes property rights, and is usually self-enforcing

When the 1999 tobacco control legislation aimed at clean indoor air was debated, opponents to the legislation argued that it would be impossible to enforce, given that the South African Police Services were already overstretched. The Ministry of Health made it clear from the outset that the legislation would be largely self-enforcing. The legislation gives the right to smoke-free air to non-smokers. Whereas previously the right to clean air was disputed, and smokers exercised their right by polluting the air with their smoke, non-smokers now have the right to clean air. This is a significant transfer of property rights, and these are now more clearly defined.
While it is true that the clean indoor air policy is difficult to enforce in some settings (especially bars and nightclubs) the degree of compliance seems to be quite high in most workplaces and restaurants. This has been achieved without police crackdowns, but rather through public pressure. Furthermore, it seems plausible that the change in property rights will accelerate the change in societal values against public tobacco use.

8.1.9 Cigarette excise taxes are regressive, but increases in the tax level reduce the regressivity of the excise tax

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 be used as an argument against further increases in the excise tax on cigarettes.

However, it was pointed out in this study that the poor are generally more sensitive to price changes, and an increase in the cigarette excise tax will reduce cigarette consumption among the poor by a greater percentage than among the rich. Thus, even though cigarette excise taxes are regressive, increases in the level of tax (and hence the retail price of cigarettes) reduce the degree of regressivity.

8.2 Avenues for future research

Compared to many other developing countries, a significant amount of research has been conducted into the economics of tobacco control in South Africa. Since the passing of the Tobacco Products Control Amendment Act in 1999 the research focus has shifted. Previous research was aimed at creating a change in policy; subsequent research has focused on monitoring the results of the policy and noting the lessons that have been learnt. There are a number of research issues not addressed in this study that could be investigated in future, including:

1. The degree of compliance with the clean indoor air policies. For example, what proportion of restaurants, taverns and bars have separate sections for smokers and non-smokers? Do those restaurants that do not have separate sections impose a non-smoking policy throughout the establishment or do they simply flout the legislation?

2. Are the “smoking sections” of restaurants frequented more regularly than the “non-smoking sections”; i.e. was it in restaurants’ interests to incur the cost of putting up partitions, or should they have rather gone smoke-free completely?

3. What has been the financial impact of the clean indoor air policies on the hospitality industry? Has the possible reduction in smoking customers been offset by an increase in
the number of non-smoking customers, or have the clean indoor air policies not had a material impact on the hospitality industry’s custom?

4. By how much did the advertising ban decrease cigarette consumption? Was the complete advertising ban more effective than a partial ban, as was the case in other countries, or is the effect quite small? Can one disentangle the impact of the advertising ban on consumption from the impact of other tobacco control interventions?

5. Although traditional advertising has disappeared, there has been a sharp increase in personalised marketing. How effective and cost-effective is this marketing strategy? How should the legislation be worded to prevent such personalised marketing?

6. Has employment in the tobacco and cigarette manufacturing sectors changed significantly in recent years? What proportion of these changes can be attributed to legislative and tax changes, and what proportion is attributable to changes in production processes?

7. What is the impact of the tobacco industry on South Africa’s balance of payments? Given the facts that the industry uses much imported capital in the manufacturing process, and a sizeable proportion of the tobacco for domestically produced cigarettes is imported (while local tobacco producers export a substantial proportion of their crop), is the industry a net contributor to or a net user of South Africa’s foreign exchange reserves?

8. If the government were to set cigarette prices at “socially optimum” levels, what would this level be? This would entail estimating the social cost associated with smoking.

9. Should the South African Government subsidise nicotine replacement therapies (NRT), as is the case in several developed countries? Would the expected benefits of such subsidies justify the costs? In a country faced with many other public health challenges, would such a scheme be justified?

The negative health and socio-economic impact of smoking have persuaded many countries, especially in the developed world, to implement some form of tobacco control policy. The increased awareness about tobacco has led a number of countries to consider more stringent tobacco control measures. This awareness has been raised in recent years during the negotiations on the Framework Convention on Tobacco Control in Geneva.

South Africa was able to implement an effective tobacco control policy over a short period of time. In retrospect the costs were comparatively small; the benefits, mainly in the form of reduced cigarette consumption and reduced tobacco-related mortality and morbidity, were substantial. The main ingredient in South Africa’s strategy was political will. South Africa’s success can be replicated in other countries, as long as the political will and conviction is present.