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Barriers to implementation in South Africa

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SA-TIED Working Paper 12 | Month 2018

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The SA-TIED programme is funded by the National Treasury of South Africa, the Department of Trade and Industry of South Africa, and the Delegation of the European Union to South Africa as well as by IFPRI and UNU-WIDER through the Institute’s contributions from Finland, Sweden, and the United Kingdom to its research programme.

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SA-TIED | Working Paper 12 | May 2018

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ABSTRACT

This paper describes South Africa's implementation of Article 6 of the World Health Organization's Framework Convention on Tobacco Control, price and tax measures to reduce the demand for tobacco. The current status of implementation was measured using indicators derived from the FCTC reporting instrument, with South Africa showing 68% compliance. Interviews were held with officials from the Ministries of Health and Finance, members of anti-tobacco organisations, and an academic to ascertain barriers to FCTC-compliant policy change. Interview data was analysed using *Nvivo* software. The research suggested that barriers to policy change stem from capacity constraints within the Department of Finance, Treasury's adherence to 'rules' incompatible with Article 6 recommendations, and concerns around illicit trade. It is argued that the pivotal barrier in the future will be tobacco industry interference.

JEL classifications: D78, I18

Keywords: Framework Convention on Tobacco Control, implementation, tax policy, inductive thematic analysis, South Africa

1 INTRODUCTION

Tobacco use imposes an unparalleled health, economic and social burden worldwide (World Health Organization [WHO] 2015). In 2015, smoking was responsible for more than one in ten deaths globally, killing approximately six million people and inflicting a corresponding loss of nearly 150 million disability-adjusted life-years (Global Burden of Disease 2015 Tobacco Collaborators 2017). Accompanying this burden of death and disease are sizeable economic costs. These accrue directly through medical treatment for tobacco-related diseases, and indirectly through productivity losses from premature mortality and morbidity (US National Cancer Institute [NCI] and WHO 2016). Globally, the total economic cost of smoking, after including productivity losses from death and disability, amounts to more than USD1.4 trillion per year—equivalent in magnitude to 1.8% of the world's annual GDP (US NCI and WHO 2016).

Tobacco control is the area of public health which focuses on controlling and reducing tobacco use, thereby limiting and reducing its associated mortality and morbidity. Global best practice in tobacco control policy is anchored by the World Health Organization's Framework Convention on Tobacco Control (FCTC) (Mitchell & Voon 2014). The FCTC is the world's first global public health treaty, developed with the objective of 'protect[ing] present and future generations from the devastating health, social, environmental and economic consequences of tobacco consumption and exposure to tobacco smoke' (WHO 2003).

After four years of negotiation by WHO member states, the treaty was adopted by the World Health Assembly on 21 May 2003 and entered into force on 27 February 2005 (Lariviere *et al*. 2005). To date, 181 countries have ratified the FCTC (Framework Convention Alliance 2017). Through the treaty text itself and guidelines approved by the Conference of the Parties, which is the decision-making body of the treaty, the FCTC requires ratifying countries to implement a broad range of evidence-based measures to reduce both the demand for (Articles 6-14) and supply of (Articles 15-17) tobacco products.

As is the case with any international treaty, the crucial ingredient in the success of the FCTC is effective implementation of its provisions by ratifying countries (David & Da Costa e Silva 2004). The evidence base documenting the effectiveness of fully implementing the FCTC's provisions in reducing tobacco use informed their initial inclusion in the treaty (WHO 2003). Since then—driven by the scholarly literature on tobacco control—the validity of implementing the FCTC's provisions as a means to reduce tobacco use is increasingly evident (Blecher 2008; Chung-Hall *et al*. 2016; Chaloupka *et al*. 2017).

Despite this, progress in implementing the Convention has been uneven across countries (WHO FCTC Convention Secretariat 2016b). This highlights the importance of understanding local contexts for ensuring full and effective FCTC implementation (Drope 2011; Crosbie *et al*. 2011; Cairney *et al*. 2012). Several scholars have, consequently, undertaken country-level case studies of FCTC implementation, in order to identify barriers to implementation, so that a more effective implementation can be achieved (Bai *et al.* 2015; Hoek *et al.* 2012; and Tumwine 2011). This research is now more relevant than ever, as strengthening progress in FCTC implementation has been listed as a Sustainable Development Goal (Framework Convention Alliance 2015).

This paper will conduct an analysis of FCTC implementation in South Africa, so that barriers to a full and effective FCTC implementation can be identified. Like many other studies of FCTC implementation, this paper limits its focus to the implementation of one of the FCTC's articles. Specifically, it focuses on implementation of Article 6 ('price and tax measures to reduce the demand for tobacco'). This Article was selected because it represents an area in which South Africa had enacted policy measures, reflecting the spirit of the FCTC, prior to the its entry into force at the international level, but in which policy progress has stagnated in recent years.

2 TOBACCO TAXATION IN SOUTH AFRICA

Until the early 1990s, tobacco control policy was practically non-existent in South Africa (Leaver & Malan 2003). The only tobacco control measures in place were a voluntary agreement by the industry to abstain from advertising tobacco on television (1975), a small health warning on cigarette packages (1987), and a smoking ban on domestic flights (1989) (van Walbeek 2005). Moreover, the tobacco industry served as the Ministry of Finance's prime adviser on cigarette excise matters (Leaver & Malan 2003). This was in spite of a long history of anti-tobacco advocacy in the country, beginning in the early 1960s, which sporadically warned of the dangers of tobacco use and called on the government to introduce measures to deter its consumption (Leaver & Malan 2003). With the South African government's inaction on tobacco control, the average annual adult cigarette consumption increased from 1340 in 1970–72 to 1720 in 1990–92 (*Bah et al.* 2004). By 1992, one-third of South African adults were smokers (Meyer-Weitz, Reddy & Yach 1996).

Following South Africa's first democratic election in 1994, which brought the African National Congress (ANC) to power, the landscape of tobacco control policy in the country changed. Unlike the apartheid government, the ANC had no long-standing relationship with the tobacco industry, and was thus not limited in its policy response to tobacco use by any 'moral indebtedness' or informal agreements of the past (Asare 2009). Once in power, the ANC was quick to start implementing its tobacco control policy.

In June 1994, less than two months after assuming office, the Minister of Finance announced that government would place a tax burden on tobacco products (excise plus Value Added Tax (VAT)) of 50% of the average retail price, to be phased in over a number of years (Department of Finance 1994).[1] Importantly, the Minister indicated that the core aim of the increase was the promotion of public health, rather than additional revenue (Department of Finance 1994). As noted by Linegar and van Walbeek (2017), this announcement made South Africa one of the first developing countries to tax tobacco for health purposes and marked it as a leader in tobacco taxation. The Minister of Finance's announcement of a phased-in approach to the realization of a 50% total tax target saw nominal excise tax increments on cigarettes of 25%, 24% and 18% in 1994, 1995, and 1996, respectively (Department of Finance 1994; 1995; 1996). In 1997, the Minister of Finance then announced a substantial increase of 52% in the excise tax on cigarettes, a move that was expected to bring the total tax burden to 50% of the average retail selling price (Department of Finance 1997).

The tobacco industry objected to the tax increases, arguing that they were a valid industry and that the excise levy was an unjust persecution of them (Leaver & Malan 2003). Moreover, they complained that the excise tax increases would lead to a surge in the incidence of cigarette smuggling which, in their view, was already out of control (van Walbeek 2005). Nevertheless, throughout the entire period between 1997 and 2003, the government continued to adjust the excise tax in line with the average retail price of the relevant tobacco products so as to maintain the 50% tax incidence target. In 2004, the targeted tax incidence was revised upwards to 52% of the retail price (van Walbeek 2010), where it has remained.

By the time South Africa ratified the FCTC on 19 April 2005, it already had an established tobacco taxation strategy in place. To date, the observed policy stasis in relation to tobacco taxation has not been treated in the scholarly literature on the topic. In fact, reference to South Africa in regional-level analyses of FCTC implementation on the African continent tends to emphasize the country's early successes in the area of tobacco taxation as a tobacco control strategy, as opposed to documenting and accounting for its more recent shortfalls (Tumwine 2011; Drope 2011). This tendency may partly reflect the timing of these analyses and the desire to share success stories so as to facilitate the exchange of information between Parties to the Convention. Yet there is a clear need to take stock of the current status of FCTC implementation, and to

1 According to the Minister's classification, tobacco products included manufactured cigarettes, cigarette tobacco, pipe tobacco and cigars (Department of Finance, 1994: 5.6).

account for the barriers to FCTC-compliant policy change. This is especially the case given that the observed policy inertia has been borne out in the country's smoking statistics. Indeed, while aggressive increases in the excise tax during the 1990s and the early 2000s saw a sharp decrease in adult daily smoking rates—from 32.6% in 1993 to 23.4% in 2008—South Africa's smoking rates appear to have plateaued at slightly below 20% of the adult population in recent years (Southern Africa Labour and Development Research Unit 2016). Moreover, James *et al.* (2013), using estimates from the South African Global Youth Tobacco Survey, document an increase in smoking rates among girls, from 10.5% in 2008 to 12.1% in 2011.

3 FRAMEWORK CONVENTION TREATY TEXT, GUIDELINES AND REPORTING

Table 1 the key evidence-based tobacco control measures that countries are required to implement after they have ratified the FCTC (WHO 2003). Underpinning the implementation of these provisions at the domestic level is the obligation bestowed on Parties—as per FCTC Article 5.3—to protect these policies from tobacco industry interference (WHO 2003: 7). Because it is a *framework* treaty, the FCTC text itself does not provide detailed recommendations on how to implement each of these policies. As a result, the Parties have negotiated Guidelines for Implementation of certain articles, which are documents that set out Parties' consensus on what constitutes effective implementation of a particular Article (Framework Convention Alliance 2014: 2). Generally, the guidelines contain principles and central legislative elements that the Parties have established, based on scientific evidence and best practices, to be necessary for the successful implementation of the Convention (WHO FCTC COP 2013: v). The implementation guidelines developed for Article 6 are central to the analysis undertaken in section 5 of this study as the criteria against which South Africa's current status of FCTC implementation is measured.

Table 1. Overview of the treaty text

Section titles of the FCTC	Broad description of article contents
Part III: Measures relating to the reduction of demand for tobacco	Article 6: Price and tax measures Article 7: Calls for compliance of countries to implement non-price measures to reduce demand for tobacco (as detailed in Articles 8-14) Article 8: Protection from exposure to tobacco smoke Article 9: Regulating the contents of tobacco products Article 10: Regulating tobacco product disclosures Article 11: Packaging and labelling of tobacco products Article 12: Education, communication, training and public awareness Article 13: Tobacco advertising, promotion and sponsorship Article 14: Demand-based measures pertaining to tobacco dependence and cessation
Part IV: Measures relating to the reduction of the supply of tobacco	Article 15: Illicit trade in tobacco products Article 16: Sales to and by minors Article 17: Economically viable alternatives for those involved in growing, manufacturing or selling tobacco

Source: World Health Organization (2003).

In accordance with Article 21 of the FCTC, each party is required to submit periodically a report detailing its progress in implementing the Convention (WHO, 2003: 19). At the fourth session of the COP, it was agreed that Parties would submit their implementation reports on a biennial basis (WHO FCTC COP 2014: 68). At present, the reporting instrument consists of two questionnaires: a mandatory core questionnaire and an optional questionnaire on the use of implementation guidelines (WHO FCTC Convention Secretariat 2018b). Both questionnaires take the form of online surveys to be completed by the FCTC technical focal points in each country.2 In the context of this dissertation, the reporting instrument provides the criterion for measuring South Africa's compliance with the FCTC's recommendations on price and tax measures to reduce the demand for tobacco.

4 METHODOLOGY

4.1 Data collection

Data collection for this project occurred in two phases. The first looked at the current status of implementation in South Africa in relation to each of the FCTC Articles under study. The second was centred on obtaining insights as to the barriers experienced in enacting FCTC-compliant tobacco taxation policy. Phase one of the data collection process involved creating a questionnaire that amalgamates the two questionnaires used by the FCTC reporting instrument. The questionnaire was then sent to, and completed by, a representative from the South African National Treasury who has worked extensively on the issue of tobacco taxation in South Africa since it ratified the FCTC. As a robustness check on the responses received by the expert, data triangulation on the responses received in these questionnaires was undertaken by the author, following extensive study of South Africa's tobacco control laws.

Consistent with the approach adopted by Britton *et al*. (2010), Drope (2011), de Leeuw and Martin (2013), and Tam and van Walbeek (2014), purposive sampling was used to identify relevant stake-holders who could provide insight on recent developments in relation to Article 6 as well as the challenges experienced in enacting FCTC-compliant policy change in this policy domain. In an attempt to ensure that no important actors had been left unconsidered, a snowball sampling technique was incorporated into the interview invitation process. This involved asking each of the identified individuals whether they would recommend any additional people to speak to regarding the current research inquiry. Ultimately, the second stage of data collection consisted of twelve semi-structured interviews with four officials from the South African Ministry of Health, three officials from the Ministry of Finance, four members of anti-tobacco civil society organisations, and one academic. Interviews took place during December 2017. Nine of the interviews were conducted face-to-face, and three were conducted via Skype.

4.2 Data analysis

Data obtained through the interviews underwent thematic analysis in *Nvivo* (version 11.2), a qualitative data analysis software programme. Thematic analysis is a method of identifying, analysing, organizing and describing themes found in a dataset (Braun & Clarke 2006). It may be employed inductively (to generate themes from the data itself) through a process of 'data-driven coding', or deductively (to classify the data according to themes based on theory) through a process of 'deductive coding' (Moules *et al*. 2017).

In studies of barriers to FCTC implementation, an inductive thematic analysis has been employed to analyse interview transcripts by Britton *et al*. (2010), Tam and van Walbeek (2014), and Adebiyi and Popoola (2017), and deductive thematic analysis has been employed by de Leeuw and Martin (2013). An inductive coding paradigm was selected as most appropriate to analyse the interview results in the current study given the exploratory nature of the research inquiry.

While it is readily acknowledged that thematic analysis can produce trustworthy and insightful findings (Crabtree & Miller 1999; King 2004; Braun & Clarke 2006), Moules *et al*. (2017: 2) observe that there is no overarching consensus on how researchers should apply the method to achieve the most robust results.

2 Under Article 5.2.a of the FCTC, Parties are required to 'establish or reinforce and finance a national coordinating mechanism or focal point for tobacco control' (WHO 2003: 7). The focal point is tasked with overseeing the tobacco control programme in its country (Blanke & da Costa e Silva 2004: 96).

Moreover, they note that existing guides on how to undertake thematic analysis primarily focus on conducting research with an applied focus, or describe the distinction between inductive and deductive coding. To this end, Moules *et al*. propose a step-by-step approach for conducting a 'trustworthy' thematic analysis in any context. This process involves acquainting oneself with the data, searching for initial themes, reviewing the initial themes, naming and defining themes and, lastly, producing the report.

Using this approach, the interview transcripts were transcribed verbatim by the researcher. This allowed intense familiarization with the data. The transcripts were then imported as 'internal sources' into *Nvivo*. A word frequency query was run on the responses given in the interviews. This enabled identification of the most common words or phrases used in the discussions, a process which informed the coding of initial 'theme nodes'. Subsequently, each interview transcript was read line-by-line and responses coded so that the views expressed either refined the initial nodes, led to the development of sub-categories within these nodes, or led to the creation of new theme nodes. This process ensured that the themes identified in relation to each of the Articles under study were not substitutable or redundant. Each interview respondent was then assigned a 'case node', which allowed the attribution of a particular comment to an individual according to whether they were a member of the Ministry of Health, Finance, or civil society. Consistencies and inconsistencies about the perceived barriers to policy change could then be identified based on an individual's institutional ties. Through this process of identifying, analysing, and organizing the themes emerging from the views of interview respondents, it was possible to derive a robust description of the barriers to FCTC Article 6-compliant policy change in South Africa.

5 RESULTS

Twenty-eight indicators that reflect the extent of Article 6 implementation were derived. Of these, South Africa complies with nineteen (68%). The indicators, as well as South Africa's current compliance status with each of them, are listed in Table 2 below. The sub-sections following table 1 are based on the headings given in the table, which are themselves derived from the Article 6 guideline text.

Table 2. Summary of compliance with Article 6 guidelines, 2017

Guideline recommendation	Current status
Tobacco taxation systems	
Specific excise tax or mixed excise system with a minimum specific tax floor	Yes
Regular adjustment processes or procedures for periodic revaluation of tobacco tax levels	Yes
When establishing or increasing national level of taxation, consideration is given to: the price elasticity of demand for tobacco products the income elasticity of demand for tobacco products inflation changes in household income	No No No Yes No
Taxes applied on all tobacco products	No
Other tobacco products taxed in a way comparable to manufactured cigarettes	Yes (for those taxed)
Tax burden on all tobacco products reviewed regularly and increased to be similar to the tax burden on manufactured cigarettes	Yes (for those taxed)

Guideline recommendation	Current status
Tax administration	
Transparent license system for the control of tobacco supply chain	Yes
Excise taxes imposed at the point of manufacture, importation or release for consumption from the storage or production warehouses	Yes
Systems of storage and production warehouses to facilitate excise controls on tobacco products enacted by law	Yes
Require by law:	
that tax payments are remitted at fixed intervals or on a fixed date	Yes
the reporting of production and/or sales volumes	No
the reporting of price	Yes
the reporting of taxes due and paid	Yes
the reporting of volumes of raw material inputs	No
the public disclosure of the information contained within industry reports on prices, volumes, and taxes	No
Imposing effective anti-forestalling measures in anticipation of a tax increase	No
Application of fiscal markings to increase compliance with tax laws	Yes (diamond stamp)
Designated and granted appropriate powers to tax enforcement authorities	Yes
Information sharing among enforcement agencies	Yes
Provide for an appropriate range of penalties for noncompliance with tax laws	Yes
Use of revenues	
Dedicating revenue to tobacco-control programmes	No
Tax-free/duty-free sales	
Prohibiting or restricting the sale to international travellers of tax-free or duty-free tobacco products	No
Prohibiting or restricting the importation by international travellers of tax-free or duty-free tobacco products	Yes
International cooperation	
Use data and experiences of other Parties with respect to tax and price policies	Yes
Cooperate with relevant bilateral and multilateral mechanisms and organizations to promote the implementation of relevant tax and price policies	Yes

Source: Constructed based on indicators derived from both optional and core questionnaires of the WHO FCTC reporting instrument and questionnaire responses

5.1 Tobacco taxation systems

The Article 6 guidelines on tobacco taxation systems include recommendations on the 'structure of tobacco taxes', the 'level of tax rates to apply', and the 'tax burden for other tobacco products relative to manufactured cigarettes' (WHO FCTC COP, 2014). With reference to the 'structure of tobacco taxes', the guidelines recommend that Parties consider implementing specific or mixed excise systems with a minimum specific tax floor, as opposed to a purely *ad valorem* system (WHO FCTC COP 2014). South Africa levies a uniform specific excise tax on tobacco products (Linegar & van Walbeek 2017). Officials from the Department of Finance calculate the excise tax increase each year such that the total tax burden (excise tax plus VAT, as a percentage of the retail price) is at a pre-agreed level. Since 2004, the target has been 52% of the recommended retail price of the most popular brand (Linegar & van Walbeek 2017). Since 1993, VAT has been levied at 14% of the (ex-VAT) retail price (Linegar & van Walbeek 2017). With a targeted total tax burden of 52%, the targeted *excise* tax burden is 40% of the retail price.3

Since approximately 2011, another aspect of tobacco taxation has to be considered, particularly in relation to cigarettes. The industry controls the retail price of cigarettes through its control of the net-of-tax price (van Walbeek 2014). Based on the Treasury's 'formula', the absolute amount of the tax increases in response to retail price increases in the previous year. Between 1994 and 2010, the excise tax was increased at a rate above the inflation rate because the tobacco industry increased the retail price at an above-inflation rate (Linegar & van Walbeek 2017). Because it sets the retail price, the tobacco industry was effectively setting the quantum of the excise tax. The government was passively applying the 'rule' that it set in 1994 (i.e., to set the total tax burden at 50% (52% after 2004) of the retail price), and annually increased the excise tax to maintain the targeted tax burden. As such, during this period, tax increases were endogenously driven by retail prices, which were, in fact, set by the industry (Linegar & van Walbeek 2017).

After 2010, the cigarette market in South Africa became more competitive as low-cost (and often illicit) operators, attracted by profit margins earned by incumbents, entered the South African market and started capturing the bottom end (Linegar & van Walbeek 2017). As a result of the changed competitive environment, cigarette prices across the price spectrum have been increasing subtly, below the rate of inflation, since 2010. Had the Treasury followed the same tax formula it had followed before 2010 during post-2010 period, the tax increases would have lagged behind the inflation rate.

To prevent a decrease in total excise tax revenue, the Treasury invoked a second 'rule', namely that, from one year to the next, the excise tax should increase by *at least* the rate of inflation. The result is that the effective excise tax burden on the most popular price category brand has gradually crept past the 40% target since 2011, and is now around 44% of the retail price (with a total tax burden of 57% of the retail price) (Department of Finance 2011, 2012, 2013, 2014, 2015, 2016, 2017).

On the matter of the 'level of tax rates to apply', it is recommended that countries establish long-term tax policies and adjust tax rates on a regular basis—potentially annually—to account for changes in inflation and income growth (WHO FCTC COP 2014). Section 2.2 of the guideline text also suggests that, in addition to inflation, tax adjustments should account specifically for the price elasticity of demand, income elasticity of demand, and changes in household income (WHO FCTC COP 2014).

In South Africa, excise duties are adjusted annually to account for inflation, so as to ensure that the real (inflation-adjusted) value of excise taxes is maintained over time (Department of Finance 2017). As mentioned, the change in the excise tax is calculated as the maximum of either the inflation rate or of the increase in the excise tax required to keep the excise tax incidence at 40% (and the total tax incidence at 52%) of the retail price (Linegar & van Walbeek 2017). However, no consideration of the price elasticity of demand, income elasticity of demand, or changes in household income is factored into the Treasury's calculation. The official who completed the questionnaire indicated that the Department of Finance was currently undertaking a review of the tobacco taxation structure in South Africa (the first since 2004), and that these elements would be considered in the review and potentially in the setting of a new excise tax incidence target.

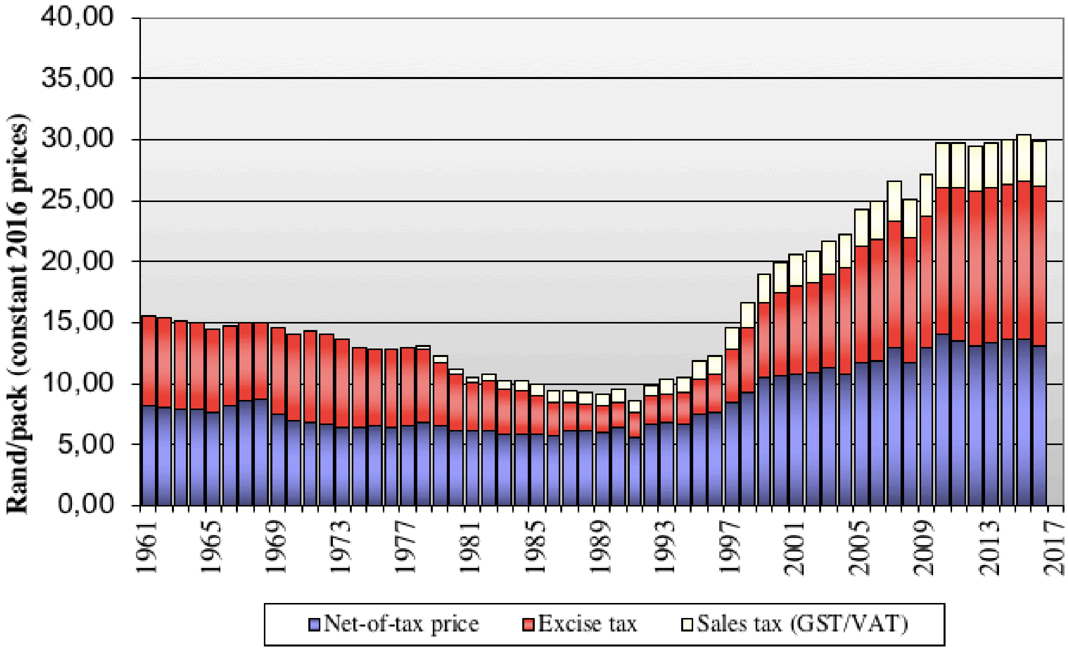
Figure 1 shows how the composition of the inflation-adjusted retail price of cigarettes changed in South Africa for the period 1961–2016, by excise tax, by VAT, and by net-of-tax price (which is the retail price minus VAT and the excise tax, or simply, the price set by the tobacco industry). It shows that, whereas the real net-of-tax price of cigarettes was largely constant from the early 1960s until the early 1990s, it more than doubled between 1994 and 2010 in real terms (from ZAR6.74 in 1994, to ZAR14.07 in 2010). During this

3 At a nominal rate of 14%, VAT comprises 12.3% (= 0.14/1.14) of the VAT-inclusive retail price. Thus, with a VAT rate of 14%, a 52% total tax burden would imply that the excise tax must equal 40% of the VAT-inclusive retail price.

period, together with a fivefold increase in the real excise tax, real cigarette retail prices almost tripled (Figure 1). The increase in cigarette prices, in the context of modest economic growth, rendered cigarettes less affordable, and reduced per capita cigarette consumption between 1994 and 2010 (Figure 2).

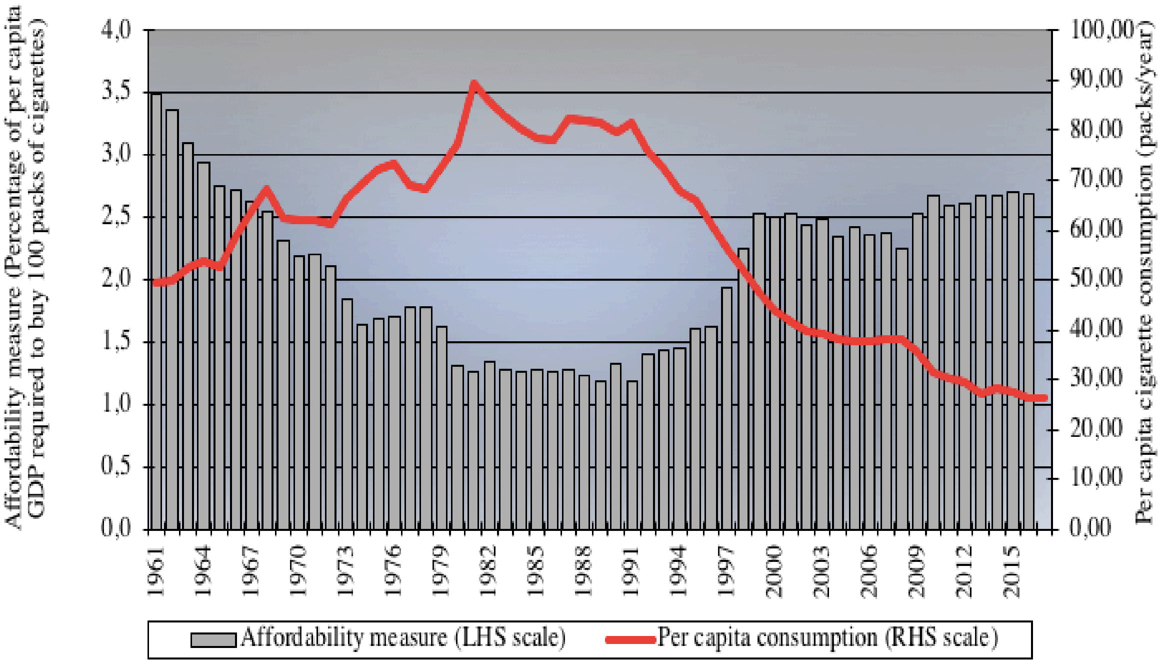
However, changes in the real retail price were largely the result of the tobacco industry shifting the tax burden onto the consumers to avoid the tax increase, thereby increasing its profitability (Linegar & van Walbeek 2017). This can be seen in that, since 2010, the real net-of-tax price has remained almost constant, as has the real retail price of cigarettes (Figure 1). While the industry (with British American Tobacco South Africa (BATSA) as a near-monopoly player) was able to pass the tax burden on to the consumer between 1994 and 2010, the entry of new tobacco manufacturers and distributors in the country in 2010 reduced BATSA's pricing power (Linegar & van Walbeek 2017). The presence of low-price cigarettes radically changed the cigarette market and made it progressively more difficult to pass excise tax increases onto the consumer (Linegar and van Walbeek 2017). From Figure 2, one can deduce that the consequence of this has been a slowdown since 2010 in what had been a decade-long trend of decreasing per capita cigarette consumption.

Figure 1. The retail price, and its components, of cigarettes sold in South Africa, adjusted for inflation, 1961–2016



Source: Based on a dataset compiled by the Economics of Tobacco Control Project at the University of Cape Town, 2017.

Figure 2. Affordability and per capita cigarette consumption in South Africa, 1961–2015



Source: Based on a dataset compiled by the Economics of Tobacco Control Project at the University of Cape Town, 2017.

Ultimately, the current taxation strategy is based on a formula that gives the tobacco industry significant power in determining the quantum of the excise tax change (Linegar & van Walbeek 2017). If the industry decides not to increase the net-of-tax price, then the government adopts its 'inflation rule' to ensure that at least the minimum targeted excise tax incidence of 40% of the retail price is achieved. Although it worked well between 1994 and 2010, the tax incidence model is not conducive to consistent increases in the real retail price of cigarettes, and gives the tobacco industry influence over public health outcomes (Linegar & van Walbeek 2017).

There is a need for a new tobacco taxation structure that does not rely on the net-of-tax price increase being higher than inflation to achieve positive public health outcomes. Van Walbeek (2010) produced evidence that warned of this danger, and it is important to ascertain why this was not heeded, and whether the aforementioned review by the National Treasury will consider the introduction of a different taxation model, one where the price set by the tobacco industry does not influence the size of the tax.

Given the wide variation in types of tobacco products, the guidelines on tobacco taxation systems also recommend that countries 'tax all tobacco products in a comparable way'. This is intended to minimize the incentive for tobacco users to switch to less expensive products within a product category, or to cheaper tobacco product categories altogether, in response to a tax increase (WHO FCTC COP 2014). South Africa has not implemented this recommendation in the strictest sense, as excise taxes are only applied to smoking tobacco products (which include cigarettes, cigarette tobacco, pipe tobacco, and cigars) and water pipe tobacco (Department of Finance 2017). This excludes smokeless tobacco products as well as electronic nicotine delivery systems and electronic non-nicotine delivery systems (Department of Finance 2017). However, the targeted excise tax burden of 40% applies across all smoking tobacco products, as well as to water-pipe tobacco (Department of Finance 2017).

5.2 Tax administration

The Article 6 guidelines also provide recommendations on 'effective tax administration'. These address issues such as licensing, the system governing tax payments, and measures to prevent tax avoidance (WHO

FCTC COP 2014). These duties are the responsibility of the South African Revenue Service (SARS), which is the country's tax collecting authority (SARS 2018).

Through its *Customs and Excise Act*, *Customs and Excise Rules* and *Tax Administration Act*, South Africa complies with virtually all the recommendations on effective tax administration. The only shortcomings are that the law does not require the reporting of net-of-tax prices by the tobacco industry, nor does it require the public disclosure of information given to SARS by the industry on its production and sales volumes, volumes of raw materials, and taxes due and paid (Customs and Excise Rules 1964, as amended). No restrictions are placed on the volumes that may be released just before a tax increase, and 'new' excise taxes are not levied on tobacco products that have already been produced, or kept in stock. This does not conform to the guideline requirement of 'imposing effective anti-forestalling measures' (WHO FCTC COP 2014). The fiscal marking applied is a 'diamond stamp' and the questionnaire respondent noted that while this allows for the identification of counterfeit packs, it does not enable one to identify whether the tax has been partially paid, fully paid, or not paid at all.

5.3 Use of tax revenues

The Article 6 guidelines also offer recommendations on the 'use of tax revenues', advising that countries earmark a portion of tobacco taxes for tobacco control programmes (WHO FCTC COP 2014). Tobacco tax revenues are not earmarked in South Africa. Like all other government revenue, tobacco taxes go to the National Revenue Fund whence they are allocated to various departments, based on the budgeting requirements of each (Department of Finance 2017).

5.4 Tax and duty-free sales of tobacco products

On 'tax and duty-free sales of tobacco products', the Article 6 guidelines recommend that Parties 'prohibit or restrict the sale to and/or importation by international travellers, of tax-free or duty-free tobacco products' (WHO FCTC COP 2014). South Africa does not prohibit or restrict sales to international travellers of tax- and duty-free tobacco products, but it does restrict imports by international travellers. Specifically, travellers are prohibited from bringing cigarettes with a mass of more than 2kg per 1000 into the country (SARS 2017a). A maximum of 200 cigarettes and 20 cigars per person may be brought into the country as accompanied baggage, without the payment of customs duty and VAT; and a maximum of 250g of cigarette or pipe tobacco (SARS 2017a).

5.5 International cooperation

The final section of the Article 6 guidelines recommends that Parties consider the information and experience of other Parties in implementing their tax and price policies (WHO FCTC COP 2014). It further recommends that Parties cooperate with other relevant organizations and institutions to promote the implementation of price and tax policies in order to reduce the demand for tobacco. The questionnaire respondent provided concrete evidence of this occurring in South Africa, indicating that several officials of the Department of Finance had attended the (2017) World Bank Group—International Monetary Fund Tobacco Taxation Win-Win for Public Health and Domestic Resources Mobilization Conference, hosted in Washington. It was also indicated that the Department of Finance would be meeting in mid-December of 2017 with a representative from the World Bank to discuss its tobacco taxation review.

South Africa is a member of the Southern African Customs Union (SACU) (Gibb 2006). SACU is unique among customs unions in that the member countries have identical excise tax regimes. With South Africa the dominant country in SACU, all excise tax revenues collected in the five SACU countries are reflected in South Africa's budget review as revenue (Department of Finance 2017). The allocations to the other four countries are reflected as negative income (Department of Finance 2017). In the 2015/16 financial year, a total amount of R84.2 billion was collected in the Common Revenue Pool. This is distributed on the basis of three components (customs, excise and development) (Department of Finance 2017). Approximately ZAR13.6 billion (16.2%) of the revenue in the Common Revenue Pool was from tobacco excise taxation. Nearly half of the revenue (45.2%) in the Common Revenue Pool came from excise taxes; the remainder was from customs duties (Department of Finance 2017). Because excise tax regimes are identical in all SACU countries and excise tax revenues form part of the Common Revenue Pool, South Africa works very closely with its SACU neighbours on excise taxation generally, and tobacco taxation specifically.

5.6 Barriers to FCTC Article 6-compliant policy change

The dominant themes that emerged in discussions on barriers to FCTC-compliant policy change in relation to Article 6 include staffing capacity constraints within the Department of Finance, Treasury's strict adherence to 'rules' not compatible with Article 6 recommendations, and concerns around increases in illicit trade. Two of these have sub-themes which arose during the discussions on the main themes. They are listed as sub-themes because they were not raised as self-standing barriers during the interviews, and were discussed within the context of the 'main themes'.

5.6.1 Main theme: Staffing capacity constraints within the Department of Finance

The tobacco taxation review, mentioned in the questionnaire issued during the first round of data collection, had been shelved by the time interviews with the various representatives from the Department of Finance took place—just two months later. This was because the individual responsible for the review had left the Treasury and, as was indicated, there is currently a government-level 'hiring freeze', meaning that no vacant positions in government offices can be advertised (South African Government News Agency 2016). The position filled by the official responsible for the tobacco taxation review now remains empty. Treasury officials were uniform in their response that the Department of Finance does not possess the staffing capacity to undertake the tobacco taxation review. There is no certainty as to when government will begin filling vacant positions. All representatives from the Treasury conceded that the review will not be published for public comment during 2018, as was intended. One respondent described this as a 'severe disappointment'.

Sub-theme: Tobacco taxation is not a priority in the context of staffing capacity constraints

When questioned as to why it took over a decade to conduct a review in the first place (the last review was conducted in 2003/2004, and resulted in an increase in the targeted total tax burden from 50% to 52% in 2004), the issue of staffing capacity was raised again. The broader aim of the Treasury's Tax Policy Unit (which deals with all excise taxes and VAT) has, since 2006, been increasing the tax base. This directed efforts to introducing new excise taxes and tax instruments, including carbon taxes and taxes within the financial sector. In Treasury's quest to broaden the tax base, tobacco taxation was overlooked because of the perception that it had 'been done'. This perception was bolstered by the fact that South Africa's excise tax incidence was typically higher than that of other African countries at the start of the 21st century (Linegar & van Walbeek 2017). Treasury officials also indicated that, while they would meet with the Department of Health regularly when tobacco control legislation was first introduced in South Africa (between the mid-1990s and the mid-2000s), meetings have become sporadic in the past few years because, as one respondent summarised, 'things have settled down, and there is no need'.

5.6.2 Main theme: Treasury's strict adherence to 'rules' not compatible with Article 6 recommendations

The Department of Finance employs an integrated fiscal framework which allots funding where it is needed (Department of Finance 2017). The use of earmarked taxes is not supported by this framework, in order to allow for greater flexibility if spending priorities change. All officials from the Treasury indicated that this is non-negotiable. It is, therefore, a barrier to the Article 6 guideline recommendation that countries earmark a proportion of tobacco taxes for public health for the foreseeable future.

Another area where a strict adherence to rules will continue to be a barrier to FCTC-compliant policy change is the use of a tax incidence model to determine annual increases in the excise tax. While Treasury officials indicated that the tobacco taxation review intended to use elements such as income elasticity and the price elasticity of demand in a bench-marking exercise to determine the appropriate target for the excise tax incidence, the Treasury insists that its current tax incidence model will still be used. This is instead of invoking a rule that would aim for consistent and continuous increases in the retail price of tobacco products. Asked why this was the case, one respondent remarked that 'we are not price-setters'. This attitude would make Treasury's policy decisions subject to the pricing decisions of the tobacco industry (i.e., whether to use the set excise target, or the 'inflation rule', to adjust the excise tax) for the foreseeable future. As has been discussed, in the context of the South African cigarette market, this does not necessarily translate into increases in the real retail price of tobacco products, and therefore reduces the ability of increases in the excise tax to reduce the demand for tobacco products.

5.6.3 Main theme: Concerns around increases in illicit trade

All informants from the Treasury agreed that, if the benchmarking exercise undertaken in the tobacco taxation review resulted in the need for a dramatic increase in the targeted excise tax burden, there would be no objection from the Treasury to enact it, in principle. However, there is uncertainty about the size of the illicit cigarette market in South Africa, which underlies what one informant described as Treasury's 'cautious' approach to increases in the targeted tax burden within its existing framework:

> The numbers [on the size of the illicit market in South Africa] are very diverse and the research we get is very biased. Because of these diverse interests, Treasury needs to take a cautious approach in what it does. We can't go to the extreme because it can have significant unintended consequences. There are countries, like Sweden, who have had to back-track on their tax rates.

Treasury officials do not give more credence to the evidence from South African economists which has shown that the industry exaggerates the size of the illicit market (Blecher 2010; van Walbeek 2013; Shai and van Walbeek 2014), than they do to the industry's statistics painting illicit trade as a severe and growing problem (TISA 2018b). Treasury officials consider both sources of evidence to be biased because of the funding sources of the respective studies, and seek a greater understanding of the size of the illicit cigarette market before increasing the targeted excise tax burden.[4]

Questioned as to what would constitute such evidence, all three Treasury officials suggested that a study produced by members of the Treasury's Tax Policy Unit would be considered most credible, but, again, staffing capacity constraints within the Treasury have prevented this undertaking.

Sub-theme: Enforcement capacity

Related to the issue of illicit trade as a key impediment to increasing tobacco taxation in South Africa is concern about the ability of SARS, as the implementing agency of tobacco taxation, to manage the perceived threat of an increase in illicit trade following any significant increase in the targeted excise tax burden. All Treasury officials and the academic indicated that the administrative capacity of SARS to enforce customs and excise duties has been weak due to the fact that, historically, SARS focussed its efforts and capacity on VAT and income taxes, because these constitute the largest sources of tax revenue in South Africa (SARS 2017b). Customs and Excise, on the other hand, is a relatively small part of total revenue, and has been decreasing in significance since tariff revenues have decreased in the context of reduced barriers to trade

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4 The local economists who produce research on the issue of illicit trade and tobacco taxation more generally are employed or associated with the Economics of Tobacco Control Project, based at the University of Cape Town. This Project is financed by the Bill and Melinda Gates Foundation (under the African Capacity Building Foundation) and Cancer Research UK, and has strong partnerships with a host of other anti-tobacco organisations.

(SARS 2017b). This has rendered the ability of the SARS to audit the tobacco supply chain negligible. The need for greater commitment and resources to be allocated to the enforcement of tobacco taxation was expressed by all Treasury officials, and may be summarised in the statement made by one of them:

> We need commitment around the issue of improving enforcement capacity because right now we don't know much about the size of the illicit market and SARS is having a tough time controlling what is going on… there is a lot of uncertainty … so we need improved enforcement capacity, and resources to support that enforcement before we can make the changes [to the targeted excise tax burden].

Asked what could be done to give the Treasury greater confidence in the capacity of SARS, the same official responded:

> If that thing [the Protocol to Eliminate Illicit Trade in Tobacco Products] is ratified, then there will be commitment and resources allocated to implementation. This will give us scope from the tax point of view to increase the excise [tax]. I think it will help us [the Treasury] quite a big deal actually, because if you look at the issue of implementing tracking and tracing, it means from an enforcement point of view, there will have to be increased capacity around that, which gives us scope to move because then we have commitment around enforcement.

The Protocol to Eliminate Illicit Trade in Tobacco Products aims to eliminate all forms of illicit trade in tobacco products by facilitating international cooperation on the issue through, amongst other things, establishing an international tracking and tracing system (WHO FCTC COP 2013). The South African Minister of Health signed the Protocol in 2013 (Saloojee & Ucko 2013), but it has yet to be ratified. It is clear that ratification of the Protocol will give the Treasury greater confidence and scope to increase excise taxes.

Sub-theme: Tobacco industry interference

Representatives from the Department of Health, as well as civil society activists, claim that the tobacco industry has a substantial, and problematic, influence on the Treasury's taxation policy, particularly through the influence that it exerts on SARS as the implementing agency of the price and tax policies issued by the Treasury. Almost all respondents made reference to the fact that SARS officials are trained how to detect illicit cigarettes by the Tobacco Institute of Southern Africa (TISA) (Matroos 2015).[5] Several interview respondents referred to the fact that the tobacco industry has used the 'illicit trade argument' to prevent the Treasury from increasing the excise tax burden, and that the industry's argument that illicit trade is a severe threat to South African economy became particularly prominent from the mid-2000s, when the industry was incredibly profitable (van Walbeek 2014), giving them a massive incentive to instil fear within government that they should not change the status quo on tobacco taxation. As one respondent remarked:

> The tobacco industry has a vested interest in exaggerating the extent of the illicit trade, so its solution is either: decrease the excise tax, or don't increase the excise tax. No one denies that illicit trade exists, but they [the Treasury] give far too much weight to the industry's self-serving claims. It's like the industry frightened them into a corner.

The extent to which the respondents from the Department of Health and civil society believe that industry's influence has affected the views of SARS and the Treasury was demonstrated through reference to several examples. Seven interview respondents referred to a workshop facilitated by the National Treasury in 2013, the purpose of which was to deliberate the extent of illicit trade in South Africa. Attendees included representatives from the Department of Health, SARS, academics, and invited members of civil society. During the workshop several presentations were made by those in attendance on the topic of estimates of the size of the illicit cigarette market in South Africa. The seven interviewees who had attended this meeting

5 TISA is the body representing the legal tobacco sector in South Africa.

all commented that the views held by SARS were 'tobacco industry views' and they were unanimous in their opinions that the presentation given by SARS included the same information and illicit trade estimates as those used by TISA. It was further noted that dissenting voices were simply not allowed at the meeting.

Two high-ranking officials within the Department of Health believe that a change in leadership at SARS has also allowed the industry to have more influence on the organisation. One of these officials noted that:

> Most of what we were able to achieve [in the area of tobacco taxation], we achieved because the [SARS] Commissioner who left was behind us. If we were going to meetings that would discuss taxation, he always provided one of his experts to accompany us [the Department of Health], which was brilliant because it really moved debates on the international forum forward. We have had no access to SARS in the last four to five years. Before then, we were more in-sync.

From the above, it is clear that public health advocates believe that a conflict of interest exists within SARS in particular, which may undermine the Treasury's decision to introduce more aggressive tobacco taxation, given the close relationship between these two authorities. Importantly, representatives from the Treasury did not make mention of any tobacco industry interference as an underlying barrier, but simply stated that there needs to be a greater commitment to aiding SARS in its capacity to enforce price and tax policies. Whether the lack of enforcement capacity within SARS is genuine or, as members of the public health community imply, as a result of corruption within SARS, it is clear that the dubious capacity of SARS to enforce customs and excise duties, as well as a concern for growth in illicit trade within this context, is underpinning the Treasury's cautious approach to more aggressive tobacco excise taxation.

6 DISCUSSION

There are limitations to the findings of this study. Interviewees necessarily comprised only those who were accessible to the investigation and willing to be interviewed. Because several interviewees spoke in their professional capacities, it is possible that they had self-serving or protective motives. Still, some important insights on the barriers to FCTC-compliant policy change have been obtained. These can be used to form recommendations on how South Africa can progress toward fulfilling its obligations as a ratifying country of the FCTC.

In relation to Article 6, ratification of the *Protocol to Eliminate Illicit Trade in Tobacco Products* is crucial in order to provide the Treasury with the scope and confidence to increase the excise tax burden more aggressively, so as to achieve public health gains. International evidence has shown that the tobacco industry will vehemently oppose this on the grounds that the tracking and tracing system to be adopted under the Protocol will not take the form of Codentify, the tracking and tracing system proposed by the industry (Gilmore & Joossens 2014). In the South African context, the close ties between SARS and the tobacco industry may also be a barrier in this regard.

However, government ought to consider how genuine the tobacco industry is in its efforts to counter illicit trade in light of the discussion surrounding its pricing strategy offered in section 5.1.1 of this paper. This showed that—for most of the period from 2000 to 2010—tax price increases were endogenously driven by the retail price, which was itself set by the tobacco industry. These industry-driven price increases coincided with the time that, according to interview respondents and external evidence (Shai & van Walbeek 2014), the tobacco industry, led by TISA and BATSA, were starting to construct the narrative that illicit trade was a severe and growing problem in South Africa.

The central tenet of the tobacco industry's claims is that higher taxes lead to an increase in illicit trade, which was a major barrier to more aggressive tobacco taxation, identified by all Treasury officials interviewed in this study. Within the context of the Treasury's tobacco taxation policy, which required them to adjust the excise tax annually to maintain the targeted 52% tax burden between 2000 and 2010, the industry's argument does not make sense. If there was a growing concern about increases in illicit trade due to higher taxes, why was the industry raising the net-of-tax price, resulting in higher retail prices which, based on the Treasury's formula, led to higher taxes? There is a logical inconsistency here and it should be considered carefully when the industry inevitably protests against ratification of the Protocol.

Some of the barriers to FCTC-compliant policy change in relation to Article 6 are structural, stemming from the Treasury's strict adherence to rules that are not compatible with the recommendations of the Article 6 guidelines, particularly regarding the earmarking of tobacco tax revenues and adequately accounting for the affordability of tobacco products. However, while the Treasury's insistence on using a tax incidence model to set the excise tax is not ideal, there is still scope for more frequent reviews of the targeted excise tax burden. This may require specialization on health issues within the Treasury's Tax Policy Unit, creating smaller units that deal with specific issues. One such unit could deal explicitly with health issues such as taxes on tobacco, sugar, sweets, beverages and alcohol. Subdivision of the Tax Policy Unit to specialize on particular issues, rather than on indirect taxes more broadly, would mean that tobacco control could receive more attention, and more regular review. While this may not be possible in the context of the current hiring freeze, plans should be drafted for a restructuring of the unit into areas of specialization once the freeze is lifted, so that it can be implemented immediately. The benefits that accrue through specialization will ensure that tobacco taxation is not ignored by Treasury. Particularly, it will guard against the next tobacco taxation review taking place only 13 years from now, the gap that occurred between the review that is currently on hold and the last tobacco taxation review in 2004.

7 CONCLUSION

This paper examined the current status of implementation in South Africa of Article 6 of the Framework Convention on Tobacco Control. South Africa complies with 19 out of the 28 indicators (68%) used to measure the extent of FCTC implementation in relation to Article 6. Barriers to policy change in relation to Article 6 stem from staffing capacity constraints in the Department of Finance, the Treasury's strict adherence to 'rules' not compatible with Article 6 recommendations, and concerns around increases in illicit trade. The latter was raised specifically in the context of increasing the targeted excise tax burden. The rules adhered to by the Treasury and the staffing capacity constraints it experiences notwithstanding, ratification of the *Protocol to Eliminate Illicit Trade in Tobacco Products* will prove crucial for more aggressive excise taxation in the country.

The research suggested that the most serious barrier to ensuring FCTC-compliant policy change in relation to price and tax measures to reduce the demand for tobacco will be interference from tobacco industry. As implementation of Article 5.3 is crucial to the long-term viability of a successful tobacco control strategy in the country, this paper proposes that immediate action be taken by government. Government must consider the history of the tobacco industry's pricing strategy within the context of South Africa's tobacco taxation structure during the early-mid 2000s as discrediting the industry as a legitimate stakeholder in dealing with issues of illicit trade. They must not allow the industry to influence—or delay—ratification of the *Protocol to Eliminate Illicit Trade in Tobacco Products*.

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Acknowledgments

This paper was produced within the framework of SA-TIED's Young Scholars Program. The program is designed to encourage promising university students to pursue careers in research.

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