Report

Strategic Intelligence Analysis: Illicit Tobacco Trade in South Africa

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# Executive Summary

The use of tobacco causes unparalleled economic, health and social to South African. It is estimated that 21% of South Africans smoke tobacco. Tobacco kills many people have been addict and it is also related to certain health conditions. It accounts for more deaths in year than even HIV/IADS and malaria and tuberculosis combine. However, tobacco trade has been illegally practiced in several streets in major cities in South Africa. It is described as a gangster trade fair since gangsters continues to fight for the lucrative business. It is estimated that tobacco industry makes over $11 billion from the illicit trade and therefore, it is a thriving business venture for tobacco traders. This report therefore, analyzed the tobacco trade tin South Africa especially how it affects the economy, health and social aspect of life. It is established that illicit tobacco trade as resulted to collapse of businesses and losses of billions of dollars in terms of revenue to the government. It established that strict regulations are required to curb the widespread of illicit tobacco trade in South Africa.

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# Introduction

The illicit tobacco trade is booming in South African due to the disintegration of South African Revenue Service (SARS) (Smillie, 2019). A report on Illicit Cigarette Trade in South Africa released in 2017 indicates that one out of three cigarettes smoked in South Africa is illicit. It is pointed out that the market has expanded rapidly over the last decade and it continues to attract several stakeholders. The illicit tobacco has become contraband for most criminals in South African. According to Smillie (2019, p. 9), South Africa is in a tag of war as players try to muscle their ways in to get a piece of the pie. Some business leaders such as Simon Rudland, the co-owner of Gold Leaf Tobacco Company have been injured and shot to eliminate the market competition. A report from the national treasury indicates that the illicit tobacco trade in South Africa has grown 30% - 35% (Smillie, 2019, p. 12). The illicit tobacco trade in South Africa has affected several businesses, health, and social life of people and the economy of the country due to losses of revenue. Though tobacco companies and other legal traders have warmed that the illicit tobacco trade is huge, many people failed to believe them including the government. The recent reports on illicit tobacco trade and its effect to small tobacco businesses and the general economy have made the stakeholders including the government to craft a better way to address the issue.

# Data collection

The data was conducted using quantitative research method where survey and questionnaires were used to gather the relevant data on illicit tobacco trade in South Africa. The survey was conducted among the government officials, tobacco trades and illicit tobacco vendors on the street. In order to obtain accurate data, the data collection was conducted from government, SARS, TISA, SAPS, Home affair, tobacco industry, banks and the transport industry.

# Analysis

The study indicates that there are several legitimate tobacco companies such as Gold Leaf Tobacco Company and others in SA. Some of these companies are involved in smuggling of tobacco to avoid paying required revenue to the SARS. This denies the government billions of dollars in terms of revenue. The data also indicates that there is a steady increase of illicit tobacco trade in South Africa. The finding indicates that there is an increase of 15% of illicit tobacco trade and therefore, it makes it difficult for companies to have a fair business trade in tobacco. However, the booming of illicit tobacco trade is made easy and lasting due to involvement of other sectors. The finding of data indicates that transport and the distribution industry play a critical role in the increase of the illicit trade. Besides transport and distribution industry, there are other organizations such as criminal gangs and politicians who are involved in the facilitation of the booming business. The analysis of various data indicates that illicit tobacco trade is promoted by corrupt SARS and transport officials who collude with cartels in allow illegal tobacco in the country.

## Business effect of illicit tobacco trade

The study shows that illicit tobacco trade has caused the collapse of several companies and other small businesses trading in tobacco. The data shows that 65% of small businesses trading on tobacco have collapsed (Elihay, Neuman, Goldberg, & Adler, 2016). The collapse of small businesses is due to the sale of tobacco on the street at a cheaper rate and therefore, making competition unfavorable. Lack of regulations has made the small business to be vulnerable to extortion and unfair trade competition and these led to collapse of businesses in South Africa. The data from the government, TISA and SARS indicates that tobacco trade in South Africa is profitable. It is difficult for companies and other legal traders to release the profit due to illicit trade. The data also shows that companies have started to regaining businesses and profit margin is increasing due to measures, which have been established.

## Strategic steps to reduce illicit trade in tobacco products

The illicit trade of tobacco can be addressed through establishment of policies to address the gaps in the system. It would be essential for the government and key stakeholders to establish measures to track or trace tobacco product through the supply chain. The tracking should starts right from the harvesting, production to the market to eliminate chances of getting into the hands of illegal business dealers. Stakeholders should establish effective enforcement teams equipped with automated reporting devices to ensure that identify people who are involved in illicit trade. It would also essential for the custom department to use detective devices to detect tobacco on transit. These are strategic measures, which could help the stakeholders including the government to reduce illicit trade of tobacco in South Africa to enhance legitimate tobacco business in the country.

# Conclusion

Illicit trade of tobacco impacts the businesses, economy and health of South Africa. The analysis of data indicates that the tobacco business is booming in South Africa and therefore, illicit trade of tobacco makes it difficult for small business and other legitimate companies to perform well in the market. It is also evident that illicit tobacco trade is growing faster and this might kill every legitimate tobacco business in South Africa is serious measures are not taken to solve the problem. Therefore, the research shows that strict laws and policies would be some of the best measures, which can help the country to address the problem of illicit tobacco trade.

# Recommendations

Illicit tobacco trade is huge business which is killing legitimate tobacco business in South Africa hence denying the government a lot of revenue. It is recommended for the government to take drastic actions including enacting legislation to increase sentences for illicit tobacco trade. It is also recommended for the government of South Africa to increase measures to scrutinize companies and individuals seeking license before issuing the trading license to anyone to minimize chances of issuing license to illicit traders. The government and the SARS should apply the export tax to tobacco to reduce the vigor for illicit trade. The government and other stakeholders should establish coordination between agencies across the border to reduce the entry of illicit tobacco in South Africa. A further study is also recommended to be conducted to establish the measures which should be taken to reduce the smoke of tobacco in South Africa in order to reduce illicit trade of tobacco. However, it would be recommended for the company to derived its market segment in the market and nurture it to prevent interferences form illicit trade and other competition in the market.

# References

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