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The 20-week tobacco sales ban of 2020 greatly disrupted the cigarette market - UCT study

A recently published paper in *Nicotine and Tobacco Research* found that the 20-week ban on the sale of cigarettes in 2020 greatly disrupted the cigarette market in South Africa. Despite the fact that the sale of cigarettes was illegal, most smokers were able to access them, but at a hugely inflated price.

The sales ban distorted the brand composition of the market, primarily in favour of local companies that had been previously accused of feeding the illicit market.

The authors of the paper are Kirsten van der Zee, Samantha Filby, and Professor Corné van Walbeek, researchers at the Research Unit on the Economics of Excisable Products (REEP) at the University of Cape Town (UCT). During 2020 they conducted three online surveys of smokers to understand the impact of the sales ban on the cigarette market.

In March of 2020, the South African government imposed a ban on the sale of tobacco products as part of its COVID-19 lockdown response. The ban was only lifted on 17 August 2020, nearly five months later. The study revealed that most cigarette smokers continued smoking during the period; the sale of cigarettes was widespread despite the comprehensive sales ban. Cigarette prices skyrocketed, with reported prices increasing by an average of 240%. Before March 2020, cigarettes sold for R33.40 per pack of 20 cigarettes, on average, but by June of 2020, the average price of a pack had increased to R113.80.

The sales ban also upended South Africa's previously well-established brand profile. Prior to the ban, brands produced by multinational companies like British American Tobacco, Philip Morris, and Japan Tobacco International made up more than three-quarters of the survey market. However, by June of 2020 many consumers had shifted to brands made by local or regional producers, for example RG and Caesar. By this time, the local brands made up 75% of the market in the sample.

While most of these market effects were reversed after the ban was lifted, the ban did have some lasting effects. From a survey conducted a month after the sales ban was lifted, the authors found that prices were still 3.6% higher than before the start of the lockdown. The multinational companies reclaimed their position as market leaders, but with a substantially lower market share than before the start of the sales ban. Based on the surveys, the market share of the multinationals decreased from 77% before the sales ban to 64% after the ban was lifted.

Before the sales ban, average cigarette prices were roughly similar across all nine provinces. However, during the ban very large price differences between the different provinces arose. Provinces closer to Gauteng, the economic heartland of the country and home to many of the cigarette manufacturing plants, experienced substantially lower price increases than the more remote provinces, especially the Western, Eastern and Northern Cape.

For most of the sales ban period, the government allowed cigarette companies to produce cigarettes for the export market. It seems likely that a proportion of these cigarettes were diverted into the local market, where the prices were extremely attractive. Provinces closer to the production source had an advantage over more remote provinces.

Before the lockdown, illicit cigarettes were estimated to comprise between 25% and 30% of the total cigarette market in South Africa. The widespread sale of cigarettes during the ban, the development of new supply chains, and the lasting brand shake-up are likely to have further entrenched the already large illicit market.

The government faces many challenges. Curbing the illicit cigarette market should be a priority. Unfortunately, the sales ban of 2020, well-intentioned as it may have been, has probably made the challenge even greater than it was.

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