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Illicit cigarettes starve South Africa's fiscus of billions, UCT academics argue

South Africa was once hailed as a leader in tobacco control. From 1994 to 2009, sharp increases in excise taxes, combined with measures such as advertising bans and smoke-free legislation reduced smoking rates, improved public health and delivered strong revenue growth.

However, according to a new special communication published in *Tobacco Control*, much of this success has been reversed. Authored by Professor Corné van Walbeek and Samantha Filby of the [Research Unit on the Economics of Excisable Products \(REEP\)](#) at the University of Cape Town (UCT), the article argues that illicit trade now dominates the cigarette market and is depriving the state of vast sums of revenue.

In South Africa, the illicit cigarette trade is primarily driven by tax evasion by companies that intentionally flout the law. Many companies manufacturing cigarettes under-declare their production, enabling them to sell their cigarettes at prices far below the tax-inclusive minimum. The authors trace the rise of the illicit cigarette market to the early 2010s, when smaller tobacco companies, attracted by the large profits earned by British American Tobacco, began selling cigarettes at prices so low that excise taxes could not plausibly have been paid in full. This was compounded by the weakening of the South African Revenue Service (SARS) during the years of state capture, when enforcement units were dismantled.

The COVID-19 sales ban in 2020 worsened the problem. Surveys conducted by REEP during the ban found that most smokers did not quit. Instead, they purchased cigarettes through informal channels. The ban destroyed brand loyalties, as people were willing to buy whatever was available. When the sales ban was lifted, many consumers stayed with their new brands, most of which are illicit.

The special communication notes: "The sales ban entrenched the illicit market, creating distribution networks that had not previously existed and broadening the consumer base for non-tax-paid cigarettes."

The authors reject the claim, often made by the tobacco industry, that high excise taxes are to blame for illicit trade. They write: "The rise in illicit trade in South Africa is not the inevitable result of excessive taxation, but rather of inadequate enforcement and the complicity of some manufacturers who exploit regulatory weaknesses."

While isolated enforcement actions have occurred, such as the 2022 curatorship of Gold Leaf Tobacco Corporation, systemic action against illicit cigarette trade has lagged. South Africa has not ratified the World Health Organization's Protocol to Eliminate Illicit Trade in Tobacco Products or implemented its provisions. Amongst other things, the protocol requires licensing all participants in the supply chain and a secure track-and-trace system, but neither has yet been implemented.

The paper concludes: "South Africa's early success in tobacco tax policy has been squandered. Unless decisive action is taken to strengthen enforcement and regulate the supply chain, the country will continue to suffer large revenue losses and diminished public health gains."

The article, "[Tobacco tax policy in South Africa: what went wrong and lessons for other countries](#)", is published as a special communication in *Tobacco Control*.

Note: The paper is behind a paywall, but the final version of the paper can be obtained from the authors, [Corné van Walbeek](#) and [Samantha Filby](#).

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