



Food and Allied Workers Union (FAWU)

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Office of the General Secretary

INPUT PAPER TO THE SEMINAR ON ILLICIT ECONOMY HOSTED BY CGCSA (By Katishi Masemola obo FAWU on 7th September 2018)

1. INTRODUCTION

The Food and Allied Workers Union (FAWU) has championed a two-pronged campaign program against inappropriate policies/laws and against illicit trade (call it economy), which it anchored on a three-principles based clarion call: "For the sake of our jobs, health for our nation, and revenue to the fiscus".

For today's purpose, our focus will be on the topical issue of illicit economy and will raise few issues to this effect. We will then later raises in passing the issue of illicit financial outflows in addition to the ones of trade in goods yet related as they all affect the economy or jobs, health and revenue.

2. CONCEPTUAL ISSUES

This topical issue of illicit economy needs to be unpacked a bit and here below are some of the conceptual issues that warrants some brief elaborations

2.1 What is what?

The recent events of violence in the townships and the weighing in my Minister of health, Dr Motsoaledi has necessitated Fawu to throw in its understanding on what, hopefully is not an academic exercise but conceptual clarity.

- Expired goods: The goods as found to have passed expiry dates are supposed to be taken off the shelves and destroyed as they will pose health risk to South Africans. Retailers and wholesalers must play their roles in this regard
- Sell-by and best-before dates: The sell-by dates do not suppose that the products are a health risk necessarily but may not have quality any consumer would wish for and the best-before dates directly talks to this taste and quality issue
- Fake yet legitimate-appearing goods: Those will then be products produced without the adherence to standards expected from manufacturers or would even not be fit for human consumption

- Smuggled and/or Counterfeit products: These goods will be those that are smuggled from abroad and/or produced locally yet not by original manufacturers but those who copy them even if they do not pose danger necessarily
- Illicitly traded products: These are products produced under circumstances where mainly tax compliance is not adhere to
- Illegitimate imports: these will be products that some middle-entities, serving as conduits, will get these products into local retail platforms

There could be relations between the above and there may be neat-fit for each category. So some products could be counterfeit and illicitly traded at the same time, like cigarettes, or they could be illegitimate imports and be illicitly traded in that there is no import tax or customs paid on them.

2.2 Our Understanding!

Given the above we wish to point out that our understanding is that there is a huge proliferation of the above and that both manufacturers and retailers are unduly quiet on these and, at a risk of stepping at the toes of others, some retailers may be conduit to the sales of these products and complicit to such illicit trade.

2.2.1 Formal and Informal

- Informal Traders' platform: Clearly, most of these illicitly traded products will find their way to informal trading platforms in the townships and villages than they will in formal retail platforms in wealthy suburban areas of the country.
- Formal Retails' platform: It goes without saying that formal retailers, especially in wealthy areas, will try and comply with licences and conditions to trade and will not engage in illicit trade except on imports side of things.

2.2.2 Local Citizens and Foreign Nationals

In the informal trade, there is dynamics in that local citizens will trade differently to foreign nationals due to some realities as enunciated below

- The local citizens have lost participation in the substantial part of the informal trade due to realities of being unable to compete with foreign nationals, either because of the latter leveraging on economies of scale in procuring goods or some other factors like engaged in fake, counterfeit or illicitly traded products
- Foreign nationals, exploiting the above, are resilient and are not going any inspection or some other requirement for adherence to compliance to standards on health, hygienic and other standards due to reduced institutional capacity of the state, from all spheres of government.

3. SUBSTANTIVE MATTERS

Substantively those affected in the illicit economy are both the physical goods and the financial outflows

3.1 Goods and Which Ones?

The goods traded illicitly are wide-range and some of the below are thought to be examples. They stretch from food and beverages to pharmaceuticals and white goods and covers what could be found in any traded platforms.

It is our contention that, due to their proliferation in informal trade and due to brand-sensitivities manufacturers are generally quiet in sharply raising the problem yet the problem is wide-spread and must be confronted.

The examples we have picked up are as the below

- White spirits of alcohol
- Soft drinks beverages
- Tobacco and cigarettes
- Sugary and sweetened candies
- Fishing species of lobster and abalone
- Poultry products

3.2 Financial Outflows

The illicit economy is also in the financial flows but we, as FAWU, are learning of this immoral economic activity. In fact, we are beginning to delve our interest into this area because of its impact on the macro-economy and overall economic development objectives.

What we can say today is that a definition of illicit economy cannot be limited to trading in goods but must be extended to the illicit financial outflows that leave the continent dire as expressed by African leaders, including our own Thabo Mbeki.

If some of you in this room are involved in this practice of illicit financial outflows then expect our wrath as we cannot rest until there is investment of the same onto our continent and her countries having spoken about triple-crises of joblessness, poverty and inequality and the ticking time-bomb waiting to blast, especially noting that 53% of young people are roaming the streets on an empty stomach.

4. SUBMISSION ON WAY FORWARD

4.1 Multi-disciplinary Task Force

The State must build capacity and ignite the political will to deal with this scourge of outright tax evasion and this is worse than tax morality trend and deal with dealing with sweat-shops in which these products are manufactured and the lack of adherence to health, hygienic and other quality standards.

- Institutional capacity

The Ministry of Health does not enjoy as many and as much competencies on enforcing existing current health policies, especially the ones relating to the manufacturing if the recent listeria outbreak is anything to go by, yet those with competencies in local municipalities may not have such capacity or their pre-occupations may be with service delivery on areas of housing, roads and other delivery priorities for residences than on health and hygiene.

- Capabilities of officers

Whether at the ministry or at other spheres of government individual officers, at SA Revenue Services or Police Services or at Consumer and Competition Commissions or even at Bureau of Standards or local authorities, ought to have the necessary expertise and requisite skills in order to professionally execute their functions.

- Combining into multi-disciplinary task force

More critical, the above institutions must be coalesced into a specialized multi-disciplinary task force that will be able to get programs unfolding into preventive activities, investigations into current contraventions, detective of wrong-doing, intelligence-gathering into planned transgressions and enforcement of the laws as they exist.

Operating in silos with no benefit of those specialized in other areas may not result in increased efficiencies and there is a need for singular approach to be abandoned in favour of multi-disciplinary approach mobilized in a specialized task force.

4.2 Jobs, Health and Revenue

We live in a country faced with triple-challenges of scandalous unemployment rate (38% joblessness in the 2nd or 3rd biggest yet most sophisticated economy in Africa), widening inequality (world's most unequal in terms of income distribution) and stubborn poverty (50%-plus poverty rate in a country with most endowed mineral resources in the world).

With 53% of the unemployed being young people, there is ticking time-bomb waiting to explode and one job loss is one too many. In fact the unemployed people are part of those 81% South Africans not covered by medical schemes in a country that has a public health system essentially in collapse.

If anything, lack of adequate revenue suggest, in addition to despicable regressive tax regime that we have in this country such as VAT and the low tax rates for the wealthy, well-paid and corporates, there will be a hole in the fiscus if some don't pay tax at all for the under-declared volumes or smuggled and counterfeited products.

- Local jobs and decent jobs

As a union, we are interested in local jobs being saved and in those jobs being decent as opposed to joblessness or in sweat-shops type jobs. We will campaign against production in sweat-shops and against slave-jobs and a campaign against illicit economy speaks to that.

- Health and healthy food, drinks and other products

The other objectives is that goods produced must meet the health, hygienic and other standards as the price of those should not be predatorily-priced as they may not be of desired standards.

- Revenue flows to the fiscus for social and other spending

Whatever is produced in South Africa, certainly in areas of food and drinks, must elicit tax compliance or must be produced in conditions of full declaration on volumes and complete tax compliance.

5. CONCLUSION AND FOOD FOR THOUGHTS

The campaign we have conceptualized and championed is patriotic and beyond narrow confines of a "labour-aristocratic" considerations but part of a national effort to ensure that we challenges facing our Republic

I therefore challenge this seminar to make illicit financial outflows an important part of your self-reflection or you would know what we are capable of as FAWU and, certainly, as SAFTU with NUMSA and others as part

The prevalence of triple-crises of 38% joblessness, world's widest inequality and high poverty rate means the R1.6 trillion of hoarded cash by private sector cannot be further justified, especially if unemployment of some scarce-skilled/qualified graduates in actuarial, engineering, and other critical fields remains or rises. No longer skills-shortage or skills-mismatch argument.

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