



Illicit trade flows: The broader impact on supply chains

Reporting on illicit trade flows often focus on the fiscal losses that results from the illicit trade flows, such as the amount of excise revenue lost through the smuggling of cigarettes or alcohol products. Other topics that are considered include the proliferation of organised crime and health risks such as counterfeit medicines.

An important result from illicit trade flows that is often neglected is the impact on the supply chain and related costs to legitimate business.

In an attempt to curb the illicit trade flows, the South African Revenue Service (SARS) introduced more and stringent compliance requirements on the import, export and manufacture of “exposed” industries, such as petroleum, liquor and tobacco.

Certain of these compliance requirements, such as the “track and trace” initiative in the tobacco industry are, with good reason, welcomed by the industry members. Other legislative amendments, or SARS policy changes, results in an enormous administrative burden on legitimate business and may become so complex that compliance becomes extremely difficult and costly.

In certain industries, particularly petroleum, these ever changing, complex compliance requirements may have disastrous financial implications. Certain members of this industry, in particular the industrial bunkering industry and the non-refining fuel export industry, that are subject to refund claims from SARS, can have their working capital depleted while waiting for the refunds to be effected.

In reaction, some major international bunkering suppliers stopped selling “duty free” bunkering supplies to foreign going vessels resulting in international shipping lines bypassing South Africa as a refuelling point. This in turn has a negative effect on related industries such as ship chandlers.

Our recommendation is for SARS to engage with legitimate industry to design a strict, but fair, transparent and predictable compliance framework that balance the priorities of legitimate traders while curbing illegitimate trade flows. We would also recommend that SARS investigate and implement systems to not only control and verify the import and export of certain products, but also facilitate the submission and payment of refund claims.

Another proposed solution is the controlled but aggressive roll out of internationally recognised programs like Approved Economic Operator (AEO) that will allow SARS to focus its efforts where it is most needed and allow legitimate business to control its compliance cost and working capital.



Article written by
Riaan Smit, Associate Director:
Global Business Tax Services,
Deloitte Africa Tax & Legal

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