THE TAXATION OF ALCOHOLIC BEVERAGES

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National Treasury
REPUBLIC OF SOUTH AFRICA

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1. EXECUTIVE SUMMARY

The harmful use of alcohol is one of the leading risk factors for population health worldwide and has a direct impact on many health-related targets of the Sustainable Development Goals. Overall, 5.1 per cent of the global burden of disease and injury is attributable to alcohol, as measured in disability-adjusted life years. The World Health Organisation (WHO) reports that worldwide, harmful use of alcohol results in over 3.3 million deaths (representing 5.3 per cent of all deaths) every year and is a causal factor in more than 200 diseases and injuries (WHO, 2018)[1]. There is therefore renewed focus on accelerating the implementation of the WHO Global Strategy through the development of an Action Plan (2022 – 2030) to effectively implement the Global Strategy to reduce the harmful use of alcohol as a public health priority. South Africa, as a Member State, is committed to working on and implementing the WHO guidelines and recommendations, to address the harmful use of alcohol in the country.

The 2018 WHO report indicated that about 59 per cent of South African alcohol consumers over 15 years of age were reported to have engaged in heavy episodic drinking. Considering that the daily average consumption is reported at 64.6 grams of pure alcohol, it means the problem of heavy episodic drinking is significant.

Affordability of alcoholic beverages, determined by relative prices of alcoholic beverages, rates of inflation, and consumer income, is considered to be one of the most important factors affecting alcohol consumption. Alcohol taxes and pricing policies are an effective tool to target the affordability of alcohol, and internalise the external costs of alcohol abuse, by adjusting alcoholic beverage prices. Excise tax increases should aim to reduce the affordability of alcoholic beverages (WHO, 2023)[2].

Since 2004, South Africa has been applying an excise tax framework which provides a guideline for the tax incidence as a percentage of the weighted average retail selling price of alcoholic beverages. The current guideline for the tax incidence for wine, beer, and spirits is set at 11, 23 and 36 per cent, respectively. Over the years, annual excise duty rate adjustments have been higher than inflation and price increases have not kept pace with the excise duty adjustments; resulting in the excise incidence that is above the policy guidelines for each alcohol category. This has raised a number of concerns from the alcohol industry and other stakeholders, whereas others have called on government to do more to reduce excessive consumption of alcohol and related harms. These factors contributed to the announcement of this review process.

The current excise structure and annual excise adjustment has also resulted in a situation where the differential in the excise duty per litre of absolute alcohol content has widened over time. For example, the beer and spirits excise duty differential has widened by 148 per cent, whilst for wine and spirits, it has widened by 136 per cent. The differential between malt beer and wine has widened at a lower rate of 118 per cent over the 2012/13 to 2023/24 period. There is some concern that the widening tax differentials may be distorting competition in the alcohol industry and has raised questions for those that argue for all alcoholic beverages to be taxed at the same rate based on alcohol content.

The domestic consumption of alcoholic beverages, just before the onset of the COVID-19 pandemic in early 2020, was still mainly dominated by beer at 74.5 per cent of total consumption by volume, ready-

[1] World Health Organisation. Accessed at https://www.who.int/news-room/fact-sheets/detail/alcohol on 26 July 2021
[2] WHO technical manual on alcohol tax policy and administration. Geneva: World Health Organization; 2023. Licence: CC BY-NC-SA 3.0 IGO.

to-drink at 13.1 per cent, whilst wine and spirits were at 9.3 and 3.1 per cent, respectively. According to South African Wine Industry Information & Systems (SAWIS), based on alcohol content, beer represented 55.5 per cent of the market, with ready-to-drink at 9.7 per cent, wine at 15.8 per cent and spirits at 18.9 per cent. There have also been new technological and regulatory developments in the alcohol sector involving the production of low alcohol content products, which have excise policy implications.

Illicit Trade in Alcoholic Beverages

The illicit trade of alcoholic beverages is a serious challenge requiring greater and concerted attention to curb both its supply and demand. Illicit trade in alcoholic beverages can take the form of counterfeits (illicit branded or unbranded alcohol), smuggled products (i.e. either as finished or raw materials), surrogates (e.g. industrial spirits), duties-not-paid products and illicit home-brewing. A number of studies have been conducted in South Africa to quantify the problem, with estimates of the illicit proportion of the market ranging anywhere between 14 to 22 per cent. More attention should be dedicated to addressing the challenge of illicit trade as it undermines government health and revenue objectives. All the role-players, such as revenue administration, law enforcement, regulators, business, and communities at large, need to coordinate efforts and resources to effectively address this challenge.

Minimum Unit Price

The minimum unit price is not a tax instrument but a pricing mechanism that sets the price floor below which no unit of alcohol should be sold. It prevents producers and retailers from absorbing some of the tax increases and reducing prices or offering large, discounted prices on alcoholic products. Setting a minimum price per unit of alcohol reduces consumption of cheap alcohol and alcohol-related harm, and the WHO recommends its establishment and implementation, where applicable. There have been discussions and consideration of this policy instrument to complement the already existing policy interventions. Given the experiences of countries that have implemented it, National Treasury supports, in principle, the implementation of minimum unit pricing. Therefore, government collectively should consider how such a mechanism, given our context and alcohol related problems, could form part of the package of interventions.

International Observations

There are varied excise tax frameworks that countries apply in terms of tax bases, rate structures and rate adjustments, amongst others to deal with related harm and raise revenue, and South Africa could benefit from some of the models implemented elsewhere. It is evident though that spirits continue to be taxed relatively higher than beer and wines, however, there are variations on how this is implemented around the world. For the purposes of the proposed alcohol taxation reform, features of successful reforms in jurisdictions such as the European Union, Canada, Kenya, Australia, and the Philippines, are explored for possible adoption in South Africa.

Adjustment to the Guideline / Benchmarks Framework

Over recent years, excise duties on alcoholic beverages have been increasing above inflation whilst the weighted average retail prices of specific categories of alcoholic beverages have been below inflation. This has resulted in the excise incidence exceeding the percentage guidelines. The current framework may no longer be fit for purpose. Therefore, an option for consideration is to either increase the guideline tax incidence for all the alcohol categories or to have a completely new and different framework.

The first option will be to adjust the guideline excise incidence by 5 percentage points for wine and beer, and 6 percentage points for spirits (i.e. the incidence for wine, beer and spirits should be 16, 28 and 42 per cent, respectively). This option, however, does not resolve the policy issue of excise increases moving above the guideline framework as some of the categories would already be close to the adjusted incidence. Unless the adjustments to the guideline incidence are significantly higher, this option will run into similar issues in a few years' time. As an alternative, a targeted band adjustment on the excise duties framework is preferred and should be considered.

Targeted Band Framework

The current system of using the weighted average retail price has always been criticised as it has the potential to confine the level of excise adjustments. Other countries have legislated for an excise duty adjustment based on inflation, such as Australia and Kenya, but Kenya also provide for an adjustment on excisable goods by an amount not exceeding 10 per cent. Since the 2010/11 fiscal year, South Africa's annual excise duty adjustments have not been more than 10 per cent; except for spirits excise duty increases for the 3 years following the adjustment to the guideline incidence benchmark in 2012.

Government proposes for consideration the establishment of a policy framework where excise duty rate adjustments are made within the bounds of the expected inflation, as a minimum, with an upper limit of 10 per cent. This option could serve for a long time to come considering also that inflation rates in South Africa have been below 10 per cent since 1993, except in 2008 where it registered about 10.06 per cent. A variation of this option could consider a minimum inflationary adjustment plus a maximum of up to 4 percentage points above inflation. These options overcome the reliance on industry's price changes and pass-through of excise duty adjustment, as is currently the case. This option also confines the discretionary powers on the amount of excise adjustment.

Other considerations: Wine

The recent amendments to the Liquor Products Act, 1989 (Act No. 60 of 1989) expanded the definition of wines to include a new category of low alcohol wines with alcohol content ranging from 0.5 to 4.5 per cent, which poses equity concerns in the context of harm reduction through the tax system. If the shortcoming in the current system is not addressed, it would imply that a litre of wine with alcohol content of 0.5 per cent, for example, will levy the same excise duty rate as another with 16.5 per cent of alcohol. Canada has addressed some of these equity challenges by having a 3-band system of wine categories with differentiated excise duty rates. For South Africa to start addressing equity issues in

the current system and introduce progressivity in the wine excise duty rate structure, it is proposed that excise duty bands option be considered as follows:

- wine of alcohol volume of 0.5 per cent but not exceeding 4.5 per cent;
- wine of alcohol volume of 4.5 per cent but not exceeding 9 per cent; and
- wine of alcohol volume greater than 9 per cent but not exceeding 16.5 per cent by volume.

Coupled with this option is a consideration to peg the relative excise duty rate per litre. Using the current rate, as an example, the low alcohol wine would be assigned the current excise duty rate (i.e. R4.96 per litre) whilst wine with alcohol content ranging from 4.5 to 9 per litre is taxed at 1.4 times the current excise duty rate (i.e. R6.94 per litre) and the wine with alcohol content ranging from 9 to 16.5 per litre is taxed at 1.8 times the current excise duty rate (i.e. R8.93 per litre). This limited number of bands balances the need to target cheap high alcohol content wine. Also, such changes would mean that the excise duty rate for fortified wine (i.e. R8.36 per litre) will need to be adjusted accordingly. It should be noted, however, that such a design could be extremely complex and would impose an excessive administrative burden on the South African Revenue Service (SARS) and increase the compliance burden on the alcohol industry.

As an alternative option, the taxation of wine products could be moved from the current volumetric basis to taxation based on absolute alcohol content. This system will simplify excise administration and enforcement for SARS compared to the current practice. This will provide positive incentives for both producers and/or consumers to reduce ethanol supply and/or demand, respectively. More importantly, it will address the concern of cheap high alcohol content beverages, which the current volumetric system fails to address.

Taxation based on absolute alcohol content does not necessarily imply equalisation of excise duty rates across all the alcoholic beverage categories. As a start, consideration should be given to converting the current volumetric excise duty rates to absolute alcohol content, calculated by applying the average absolute alcohol content of the wines within each wine product category. The structural changes to the taxation of wine on absolute alcohol content would require a phased in approach to allow all the role-players time to develop and implement the necessary system enhancements for administration and enforcement of such a system.

Other considerations: Beer and other fermented beverages

The excise duties on beer and other fermented beverages were equalised on a per litre of absolute alcohol content bases from the 2016/17 fiscal year. Further, the current tariff structure provides for different categories of unfortified fermented beverages with alcohol content ranging from 0.5 to 15 per cent by volume, however the excise duty rate is the same at R121.41 per litre of absolute alcohol. To consider the request for government to introduce a more progressive excise duty structure to further incentivise low alcohol content beer and other fermented beverages, an option for consideration could include that the current structure be subdivided in the following manner:

- beverages with an alcoholic strength of at least 0.5 per cent but not exceeding 2.5 per cent by volume;
- beverages with an alcoholic strength of at least 2.5 per cent but not exceeding 9 per cent by volume; and
- beverages with an alcoholic strength of at least 9 per cent but not exceeding 15 per cent by volume.

Coupled with this option is a consideration to peg the relative excise duty rate per litre of absolute alcohol. Using the current rate, as an example, the low alcohol beer and other fermented beverages with an alcoholic strength of at least 0.5 per cent but not exceeding 2.5 per cent would be assigned the current excise duty rate (i.e. R121.41/li aa), whilst the next category with alcohol content ranging from 2.5 to 9 per cent by volume are taxed at 1.2 times the current duty rate (i.e. R145.69/li aa), and the last category with alcohol content ranging from 9 to 15 per cent by volume are taxed at 1.4 times current duty rate (i.e. R169.97/li aa). This limited number of bands balances the need for a more progressive system. It should be noted however, that such a design could be extremely complex and would impose an excessive administrative burden on SARS and compliance burden on industry.

Other considerations

Currently, spirits are taxed much higher than other alcohol categories due to the practise to tax "hard liquor" (spirits) at higher rates, and the excise duty rate divergence from others has increased over the years. Hence, the consideration for adjustment on other alcohol categories will also narrow the divergence of excise duty rates. For now, no further adjustments are proposed for consideration for the spirit category. However, any new regulatory development as discussed above will be considered in the future in the same manner.

Finally, several taxpayers raised an issue of the timing of excise duty rate adjustments and the administrative burden and compliance complexities it creates. To address this difficulty, an option for consideration is to implement the excise duty rates adjustments either on 1 March, or 1 April following the announcement in the Budget Review to coincide with the tax year or government fiscal year, respectively. SARS has anti-forestalling Rules to deal with any stocking up behaviour that might result.

Further, it is proposed for consideration that government collectively, look into the minimum unit price mechanism, as part of the package of interventions, given South Africa's context of alcohol related problems. This mechanism is not a tax instrument but a pricing mechanism that sets the price floor below which no unit of alcohol should be sold.

Submission of written comments

National Treasury requests stakeholders to submit detailed written comments and proposals to assist government to further develop a sensible excise policy framework to reduce the harmful use of alcohol as a public health priority. Written comments can be emailed to: 2024Alcoholreview@treasury.gov.za by close of business on **13 December 2024**. After the public consultation process is concluded, the draft proposals will be revised to consider public comments and announcements will be made in the 2025 Budget.

2. BACKGROUND

2.1. As reported by the WHO (2023)[3], alcohol use is associated with more than 200 diseases, injuries and conditions that have detrimental consequences for the health, and social and economic development of countries. Even more so, "*harmful use of alcohol is one of the leading risk factors for population health worldwide and has a direct impact on many health-related targets of the Sustainable Development Goals (SDGs), including those for maternal and child health, infectious diseases (HIV, viral hepatitis, tuberculosis), noncommunicable diseases and mental health, injuries and poisonings.*" (WHO, 2018)[4]. Overall, 5.1 per cent of the global burden of disease and injury is attributable to alcohol, as measured in disability-adjusted life years (DALYs). The WHO further reports that worldwide, harmful use of alcohol results in over 3.3 million deaths (representing 5.3 per cent of all deaths) every year and is a causal factor in more than 200 disease and injury conditions.[5]

2.2. According to the WHO, the current trends and projections points to an increase in total per capita consumption worldwide in the next 10 years. This will put the target of a 10 per cent relative reduction by 2025 out of reach, unless implementation of effective alcohol control measures reverses the situation in countries with high and increasing levels of alcohol consumption. There is thus renewed focus on accelerating the implementation of the WHO Global Strategy through the development of an Action Plan (2022 – 2030) to effectively implement the Global Strategy to reduce the harmful use of alcohol as a public health priority.[6] South Africa, as a Member State, is committed to working on and implementing the WHO guidelines and recommendations, to address the harmful use of alcohol in the country.

2.3. In the context of reducing harmful use or consumption of alcohol, it is important to focus on the behaviour of binge drinkers or prevalence of heavy episodic drinking. The WHO defines heavy episodic drinkers as the proportion of adult drinkers who have had at least 60 grams or more of pure alcohol on at least one occasion in the past 30 days.[7] In this regard, about 59 per cent of South African alcohol consumers over the age of 15 years were reported to have engaged in heavy episodic drinking.[8] Considering that the daily average consumption is reported at 64.6 grams of pure alcohol, it means the problem of heavy episodic drinking is significant.

2.4. With regards to mortality and morbidity consequences, alcohol was found[9] to have contributed to deaths due to liver cirrhosis, road traffic injuries and cancer totalling 3 466, 3 614 and 2 673 in 2016, respectively. However, using the age-standardised death rates, cancer appears to be the leading cause of death per 100 000 population of 15 years and older with 223 and 143.8 for male and female, respectively. Furthermore, about 7 per cent were found to have alcohol use disorders which

[3] WHO technical manual on alcohol tax policy and administration. Geneva: World Health Organization; 2023. Licence: CC BY-NC-SA 3.0 IGO.
[4] Global status report on alcohol and health 2018. Geneva: World Health Organization; 2018. Licence: CC BY-NC-SA 3.0 IGO.
[5] World Health Organisation. Accessed at https://www.who.int/news-room/fact-sheets/detail/alcohol on 26 July 2021
[6] World Health Organisation. Accessed at https://www.who.int/news/item/28-03-2020-who-to-accelerate-action-to-reduce-the-harmful-use-of-alcohol on 26 July 2021
[7] Global status report on alcohol and health 2018. Geneva: World Health Organization; 2018. Licence: CC BY-NC-SA 3.0 IGO.
[8] Global status report on alcohol and health 2018. Geneva: World Health Organization; 2018. Licence: CC BY-NC-SA 3.0 IGO.
[9] Global status report on alcohol and health 2018. Geneva: World Health Organization; 2018. Licence: CC BY-NC-SA 3.0 IGO.

includes alcohol dependence and harmful use of alcohol. Another study[10] conducted on South Africa's socioeconomic profile of alcohol-attributable mortality, estimated that 62,300 (95 per cent confidence interval of 27,000–103,000) adults died from alcohol-attributable causes in 2015.

3. INTRODUCTION

3.1. The affordability of alcoholic beverages, determined by relative prices of alcoholic beverages, rates of inflation, and consumers' incomes, is considered to be one of the most important factors affecting alcohol consumption. Therefore, a decrease in alcohol affordability from increases in alcohol prices leads to decreases in alcohol consumption, and the most cost-effective way of reducing alcohol related harm is to increase alcohol prices through excise taxation (PAHO, 2019)[11].

3.2. Alcohol taxes have been applied on alcoholic products for many years, globally. Even though the introduction of excise taxes might have been mainly for revenue raising purposes, in the latter years the economic rationale for additional taxes was to internalise the socio-economic costs (i.e. negative externalities) associated with the consumption of these products, which are not adequately incorporated in product pricing. The excise duties structure therefore aims to internalise the external costs of over-consumption of alcohol, by adjusting alcoholic beverage prices, and to re-assign these costs to the relevant alcohol producers and consumers. This is in line with some of the elements of the WHO approach of framing alcohol tax and pricing policies in the context of a health promotion approach to reducing alcohol consumption. This approach focuses on targeting and modifying acceptability, availability, and affordability of alcohol.

3.3. South Africa[12] applies an excise tax framework or guideline which was announced in 2002 and implemented in 2004. This framework focused on the total consumption tax burden (i.e. excise duties plus VAT) as a percentage of the weighted average retail selling price for wine, beer and spirits which was set at 23, 33 and 43 per cent, respectively. These rates were last updated in the 2012 Budget where the total consumption tax burden for beer and spirits was increased to 35 and 48 per cent, respectively. With the total consumption tax burden guidelines, the implicit excise duty tax burdens were 10.7, 22.7 and 35.7 per cent, respectively, with the balance being value-added tax. The 2015 Budget amendments were largely to account for the excise duty component explicitly as a benchmark guideline (rather than total tax burden) and round up the rates to the current levels of 11, 23 and 36 per cent, respectively.

[10] Probst, C., Parry, C.D.H., Wittchen, HU. et al. The socioeconomic profile of alcohol-attributable mortality in South Africa: a modelling study. BMC Med 16, 97 (2018). https://doi.org/10.1186/s12916-018-1080-0

[11] Pan American Health Organization. Policy Brief: Alcohol Taxation and Pricing Policies in the Region of the Americas. Washington, D.C.: PAHO; 2019.

[12] National Treasury (2014). A Review of the Taxation of Alcoholic Beverages in South Africa. *A Discussion Document*. Accessible at http://www.treasury.gov.za/public%20comments/Alc/Alcohol%20Tax%20Review%20-%20May%202014%20Discussion%20Paper.pdf

3.4. Over the years, annual excise duty adjustments have been increasing at rates higher than inflation, resulting in an excise incidence above the policy guidelines for each product category. This has raised a number of concerns from the alcohol industry and other stakeholders, whereas others have called on government to do even more to reduce excessive consumption of alcohol and related harms. Although raising alcohol excise taxes may reduce general alcohol consumption levels, provided general prices increase, it also requires to be complemented with other non-tax measures to adequately address excessive consumption or abuse of alcohol.

3.5. Given these concerns, the Minister of Finance announced in the 2021 Budget that the policy framework for alcoholic beverages will be reviewed. This Policy review document aims to highlight experiences with the current policy framework since 2014, and how that could influence the alcohol excise tax framework going forward. This review process builds on the previous policy review[13] in 2014; therefore, some of the theoretical tax policy analysis of alcohol taxes and cost benefit considerations of alcohol production and consumption will not be repeated in this document, unless necessary.

4. OVERVIEW OF ALCOHOLIC BEVERAGES SECTOR

4.1. The South African alcohol market can broadly be grouped into the following broad categories: (i) beer – clear malt, craft, lager, ales, traditional; (ii) wine – natural or unfortified, fortified, sparkling; (iii) spirits – brown, white, and (iv) mixed beverages – alcoholic fruit beverages, flavoured alcoholic beverages (FABs), ready-to-drink (spirit coolers, hard seltzers, pre-mixed cocktails, etc.). The malt beer, traditional African beer, and spirits market is highly concentrated with a few big industry players.

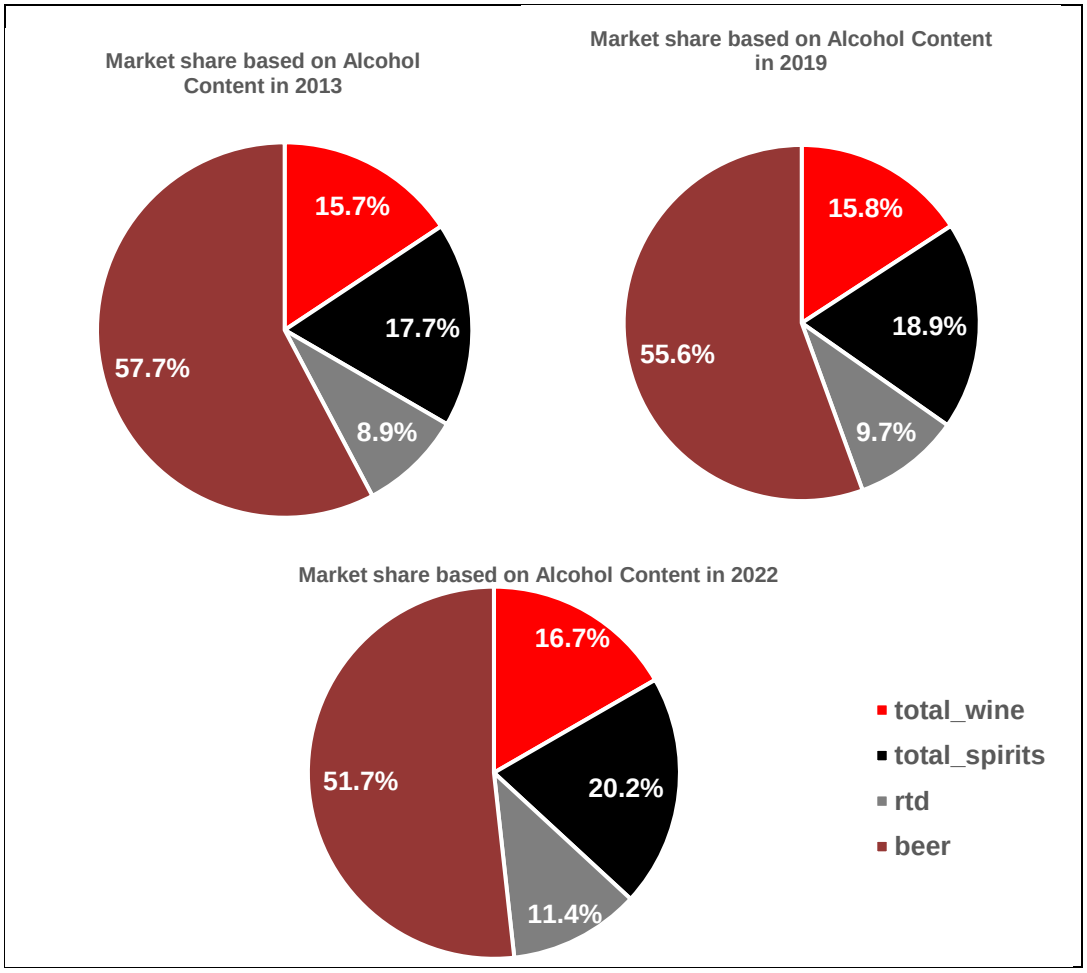
4.2. In 2013, the total liquor consumption was estimated at 3 987 million litres with beer consumption estimated at 3 042 million litres, representing 76.3 per cent of total consumption by volume, followed by ready-to-drink (i.e. both alcoholic fruit beverages and spirit coolers, including cider) at 468.5 million litres (i.e. 11.8 per cent), wine at 363.5 million litres (i.e. 9.1 per cent) and spirits at 113.3 million litres (i.e. 2.8 per cent).[14] Compared to 2019, just before the onset of the COVID-19 pandemic in early 2020, other alcoholic beverages categories had seen significant growth such that beer consumption as a percentage of total consumption had declined slightly to 74.5 per cent, and ready-to-drink increased to 13.1 per cent, whilst wine and spirits remained steady around 9.3 and 3.1 per cent, respectively.[15]

[13] National Treasury (2014). A Review of the Taxation of Alcoholic Beverages in South Africa. A Discussion Document. Accessible at http://www.treasury.gov.za/public%20comments/Alc/Alcohol%20Tax%20Review%20-%20May%202014%20Discussion%20Paper.pdf

[14] SAWIS (2022). SA Wine Industry 2022 Statistics NR 47

[15] SAWIS (2022). SA Wine Industry 2022 Statistics NR 47

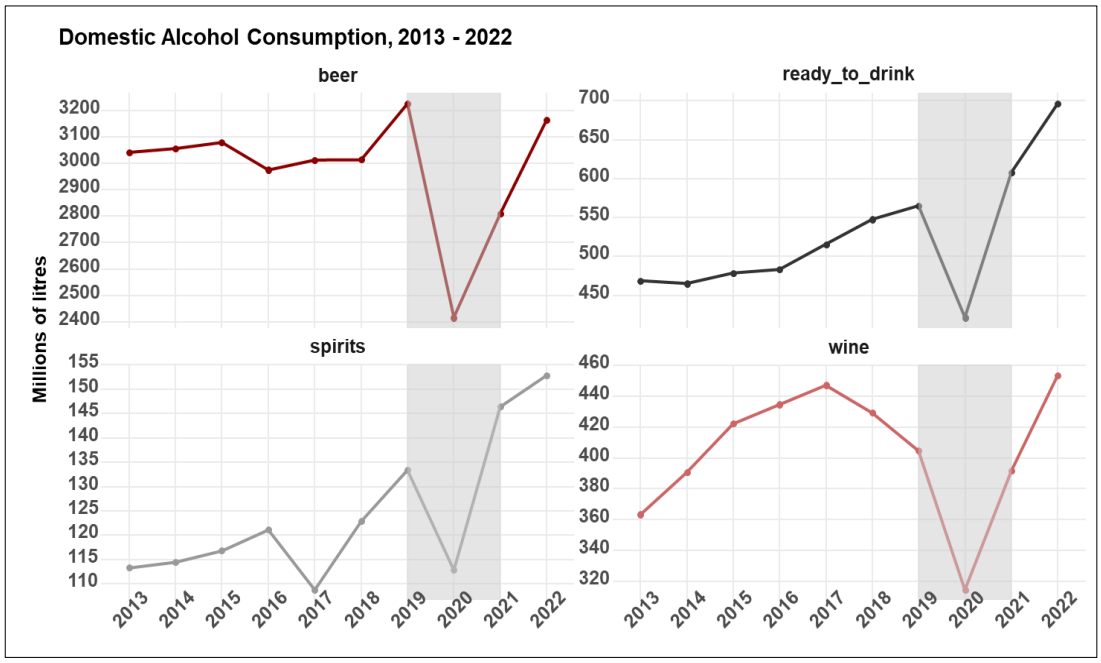
Figure 1: Proportional alcohol consumption in 2013, 2019 & 2022



Source: NT calculations based on SAWIS 2022 data

4.3. Since the COVID-19 pandemic and the disaster management legislation was enacted in the 2019/20 period, there were a number of alcohol sales restrictions including periods of outright bans. So, for that period, the data is not as useful for trend analysis except to indicate that all categories of alcoholic beverages experienced sharp decline. As the restrictions started to be eased, the data indicates that there has been a recovery for all the categories, especially with an over-recovery in the ready-to-drink, spirits, and wines consumption. However, the beer market seems to have not yet recovered to the pre-pandemic levels, as shown below:

Figure 2: Domestic consumption of alcoholic beverages (2013 – 2022)



Source: NT calculations based on SAWIS 2022 data

4.4. In 2022, total liquor consumption was estimated at 4.5 billion litres with beer consumption estimated at 3 165 million litres, representing 70.8 per cent of total consumption by volume, followed by ready-to-drink at 697 million litres (i.e. 15.6 per cent), wine at 453 million litres (i.e. 10.1 per cent) and spirits at 153 million litres (i.e. 3.4 per cent). Over the period 2013 to 2022, total alcohol consumption grew by 12.1 per cent from 3 987 million to 4 468 million litres, with significant growth in ready-to-drink by 48.7 per cent, spirits by 34.9 per cent, and wine by 24.8 per cent, and the beer category growing by only 4 per cent.

Beer market

4.5. Beer dominates the South African alcoholic beverage market with an estimated total consumption at 3 227 million litres in 2019, which accounted for 74.5 per cent of all alcohol consumed by volume and 55.5 per cent based on absolute alcohol content. These numbers represented consumption of 77.3 litres per adult over 15 years or 55.1 litres per capita consumption. Compared to the 2013 estimates of 3 042 million litres, beer consumption increased by 6.1 per cent over that period. However, indications are that beer consumption has not recovered to pre-COVID19 levels, and it is lower by 1.9 per cent to 3 165 million litres in 2022, representing about 70.8 per cent of total alcohol consumption.[16]

[16] SAWIS (2022). SA Wine Industry 2021 Statistics NR 47

4.6. Most of the beer consumed in South Africa is locally produced and a small portion is imported since only 240 million litres were imported in 2019 compared to 149.5 million litres in 2013, and 127.2 million litres in 2022.[17] Imports seem to represent much less than 10 per cent of local consumption. Based on trade data[18], just over 35 million litres were exported in 2013 compared to 111.8 and 133 million litres in 2019 and 2022, respectively.

4.7. For many years, beer was defined and regulated under the Liquor Act, 2003 instead of the Liquor Products Act (LPA), 1989, and included ale, cider and stout and any other fermented drink other than traditional African beer. However, the long-awaited amendment[19] to the LPA in 2021 brought beer, traditional African beer, and other fermented beverages under the definition of liquor products and regulations of the LPA with the respective requirements set out in section 6A, section 6B and section 6C of the Act.

4.8. Over the years, the excise base and changes in consumer taste and preferences have incentivised innovation in the beer sector with a marked increase in low to 'free' alcohol content beer in the market. This seems to be a trend not only in South Africa, but globally, where the industry is introducing newer variants of established brands or new products. It was reported[20] that during 2020, the low and no alcohol product category grew its share of the total beverage alcohol market to about 3 per cent and is expected to grow by over 31 per cent by 2024. This study, which included South Africa as part of the 10 markets studied, concluded that the country was expected to experience the highest compound annual growth rate (CAGR) volume rate of over 16 per cent (albeit from a low base) for the period 2020 to 2024.

4.9. This low and no alcohol category is dominated by beer and cider representing about 92 per cent of this new market segment.[21] Some in the industry have called on government to explore a more differentiated excise duty framework within the beer category in recognition of these new developments, such as a tier system with 2 or more bands, for example. This is even though beer excise is currently based on absolute alcohol content. There was a time before 1998 when the excise duty structure for malt beer had eight duty bands but has since been consolidated into a simplified structure with a single excise duty based on the alcohol strength.

4.10. Other developments over the recent years include the introduction of craft beer in the beer market. Craft beer is brewed mainly by a number of small and independent breweries. It is reported that craft beer market grew 30 to 40 per cent between 2015 and 2018 and it is anticipated to continue to grow into the future.[22] By 2020, it was estimated that there were around 220 craft beer breweries accounting for a market share of approximately 1 per cent.[23] The craft beer market is still at its infancy in South

[17] SAWIS (2022). SA Wine Industry 2022 Statistics NR 47
[18] https://tools.sars.gov.za/tradestatsportal/data_download.aspx
[19] Liquor Products Amendment Act No 8 of 2021
[20] IWSR (2021). Drinks Market Analysis: No- and Low-Alcohol Products Gain Share Within Total Beverage Alcohol. February 2021 Press Release accessed at https://www.theiwsr.com/wp-content/uploads/IWSR_No-and-Low-Alcohol-Gains-Share-Within-Total-Beverage-Alcohol-2021.pdf on 28 Jan 2022
[21] IWSR (2021). Drinks Market Analysis: No- and Low-Alcohol Products Gain Share Within Total Beverage Alcohol. February 2021 Press Release accessed at https://www.theiwsr.com/wp-content/uploads/IWSR_No-and-Low-Alcohol-Gains-Share-Within-Total-Beverage-Alcohol-2021.pdf on 28 Jan 2022
[22] Birguid (2019). Executive Summary. South Africa Craft Beer Market Analysis
[23] Enterprise Africa. Beer Industry in South Africa – Overview. Accessed at https://enter-africa.com/blogs/news/beer-industry-in-south-africa-overview on 21 Dec 2024

Africa compared to other markets, and faces strong competition from industrial or mainstream beer manufacturing. Further, production costs for craft beer are much higher than conventional beer, and hence craft beer is generally more expensive.

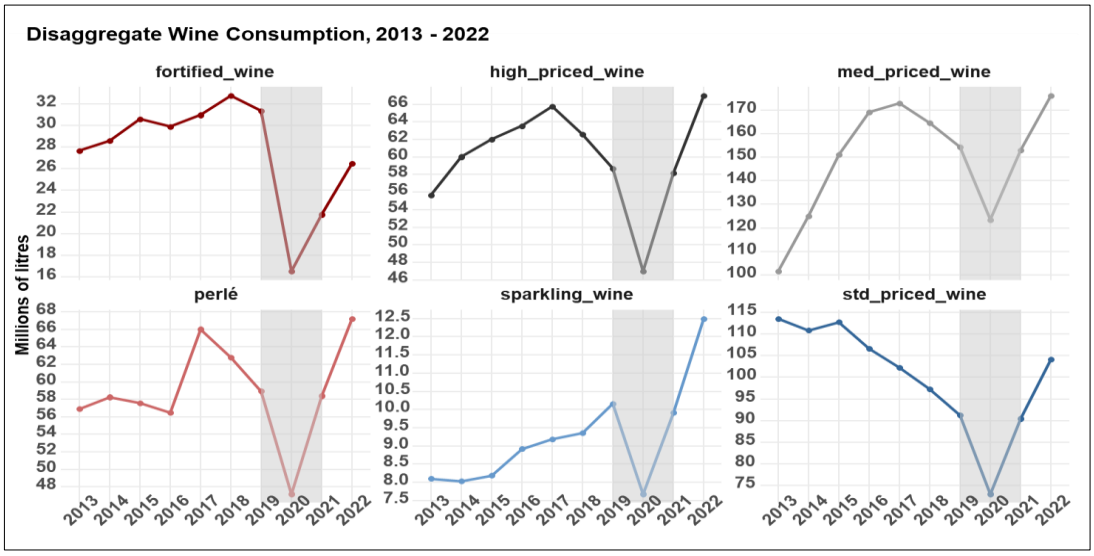
Wines market

4.11. The South African Wine Industry Information and System (SAWIS)[24] considers the wine industry as consisting of wine (still, fortified and sparkling), wine for brandy, distilling wine, brandy and other spirits distilled from distilling wine, and grape juice and grape juice concentrate for use in wine and non-alcoholic products.

4.12. Wine consumption was estimated at 404.7 million litres for 2019 with still wine the dominant subcategory representing 89.7 per cent. This was an increase from 2013 estimated volume of 363.5 million litres (i.e. 11.3 per cent) where still wine accounted for 90.2 per cent of consumption. The 2019 consumption volume represent 9.16 litres per adult consumption or 6.91 litres per capita consumption.[25]

4.13. In 2019, wine accounted for 9.3 per cent of all alcohol consumed by volume and 15.8 per cent based on absolute alcohol content. By 2022, wine consumption has increased by 12 per cent to 453.4 million and represented 10.1 per cent of alcohol consumption. Within the dominant still wine category, low priced[26] wines are the predominately consumed products (i.e. 85.8 per cent). Even though this subcategory was in decline since 2015, this high volume of relatively cheap wines in the market have raised concerns of alcohol harm and hence the call for government to explore minimum unit pricing and changing the bases of taxation to alcohol content. The graph below shows wine consumption for the subcategories.

Figure 3: Disaggregated consumption of wine (2013 – 2022)



Source: NT calculations based on SAWIS 2022 data[27]

[24] SAWIS (2022). SA Wine Industry 2022 Statistics NR 47
[25] SAWIS (2022). SA Wine Industry 2022 Statistics NR 47
[26] These are products priced below R60 per litre.
[27] Notes to table in para 10.3 in SAWIS (2022). High priced wine is classified as all wine selling at prices above R35 (per 750ml). Medium priced wine is classified as wines selling in the R22 to R35 (per 750ml) price range and most of the boxes. 5L boxes selling for less than R125 are classified as standard price.

4.14. During the period 2013 to 2019, wine exports also decreased as a percentage of local production from 57.4 per cent to 38.2 per cent and this represents a decrease from 525.6 million litres to 319.8 million litres (i.e. 39.2 percent). The estimates for 2022 however indicate that exports increased to 368.7 million litres representing 40.4 per cent of production. South African's wine industry was ranked 8th largest wine producer in the world, with Italy, France, and Spain the leading producers, respectively.[28]

4.15. Globally[29], the wine industry receives a more favourable treatment in respect of alcohol taxation due to its macro-economic importance, rural economic linkages, employment creation, export, and tourism potential. The local wine industry has similarly received beneficial alcohol tax treatment over the years. In the current excise duty framework, wine is taxed lower than beer and spirits. Further, in 2016, government implemented a differential excise duty rate on pot-stilled and vintage brandy which was 10 per cent lower than the spirit excise duty rate and was phased in over a two-year period. The rationale was that brandy was at a cost disadvantage compared with other forms of alcoholic spirits, due to the regulatory requirements and that it takes about 4-5 litres of wine to produce a litre of brandy. Furthermore, the excise duty rate for sparkling wine was pegged at 3.2 times that of natural unfortified wine due to the rising difference in the excise duties driven by high-priced imports of sparkling wines.

4.16. The wine industry is tightly regulated to local and global certification (i.e. Wine and Spirit Board) and product standards (i.e. certification of the origin, vintage year, and variety of wines). There have been new regulatory developments in the wine space recently. In August 2021, the Department of Agriculture, Land Reform and Rural Development, which is responsible for the Liquor Products Act, 1989 (LPA) issued regulations amending certain elements of the alcohol regulation.[30] The amendments relevant for the wine sector relate to the changes to the definition of natural wine that expand the scope by adjusting the lower alcohol content band from 4.5 to 0.5 percent with the upper band remaining at 16.5 percent. Now the alcohol content for natural wine ranges from 0.5 to 16.5 percent, and a new class designation of low alcohol wine with alcohol content of more than 0.5 per cent but not exceeding 4.5 per cent by volume was introduced for natural wine.

4.17. Other industry developments include de-alcoholised wines with alcohol content from 0.05 to 0.5 per cent by volume; and alcohol-free wine with alcohol content less than 0.05 per cent by volume. It is reported[31] that low and no alcohol wine volumes increased by over 4.9 per cent in 2020 globally and are expected to grow through to 2024 by around 7 to 8 per cent CAGR during the period 2020 to 2024. However, the current regulations only consider wines above the 0.5 per cent alcohol content.

[28] SAWIS (2022). SA Wine Industry 2022 Statistics NR 47

[29] FTI Consulting (2021). Macro-economic Impact of the Wine Industry on the South African Economy. South African Wine Industry Information and Systems (SAWIS)

[30] SAWIS (2019). https://www.sawis.co.za/winelaw/download/3Proposed_amendments_to_Regulations_and_WO_Scheme.pdf accessed on 23 November 2021

[31] IWSR (2021). Drinks Market Analysis: No- and Low-Alcohol Products Gain Share Within Total Beverage Alcohol. February 2021 Press Release accessed at https://www.theiwsr.com/wp-content/uploads/IWSR_No-and-Low-Alcohol-Gains-Share-Within-Total-Beverage-Alcohol-2021.pdf on 28 Jan 2022

4.18. From a policy perspective, do these new developments require an amendment to the approach to how wine is currently taxed? Should government consider taxing wine based on absolute alcohol content or a tier system where lower alcohol wines are taxed less than higher alcohol content wines, even if it is still on a per litre basis? Would this also not assist in addressing the challenges of availability of cheap, high alcohol content wines in the market? What are the administrative considerations for a change in the current framework? What is emerging in the context of the changes to the regulatory landscape of the wine industry,, should the differentiated excise policy rates related to very high and low alcohol content wines be considered to maintain an equitable, efficient and effective framework overall? These policy considerations will be addressed later in the paper.

Spirits market

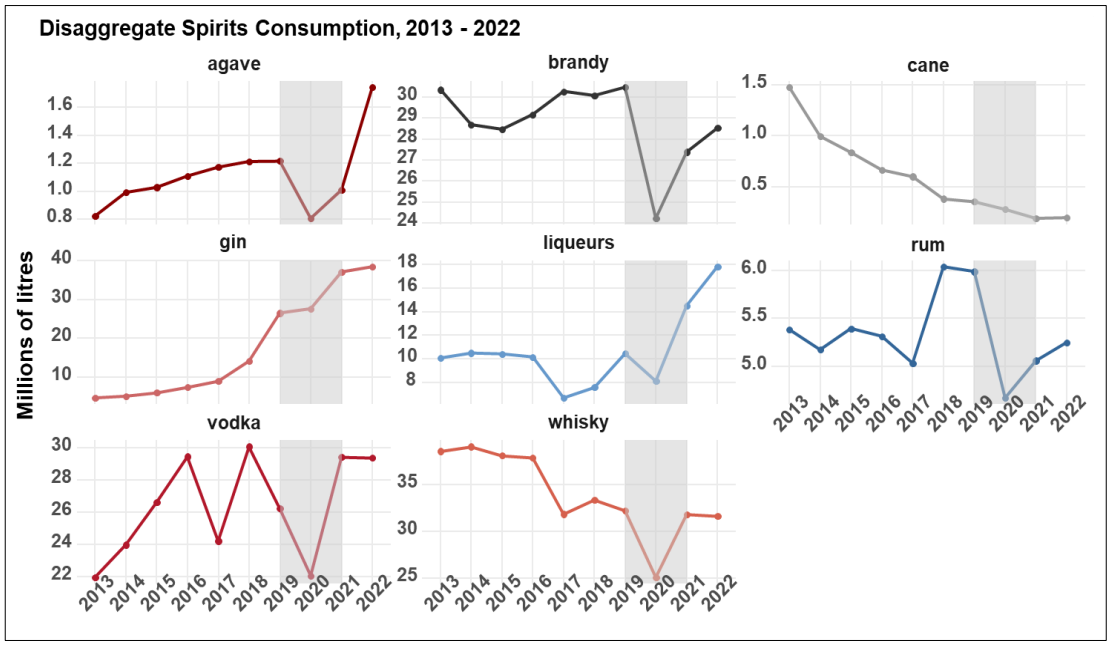
4.19. Spirits consumption was estimated[32] to have increased to 133.4 million litres in 2019 compared to 113.3 million litres in 2013. This registered a 17.7 per cent growth and in terms of absolute alcohol content, represented about 18.9 per cent of the market. In 2013, whisky dominated the spirits market at a level of 34.1 per cent of domestic sales, followed by brandy and vodka at 26.8 per cent and 19.4 per cent, respectively. By 2019, whisky and brandy's market share had declined to 24.2 and 22.8 per cent, respectively whereas gin, which only had about 4.1 per cent market share in 2013, had grown substantially to 19.8 per cent. On the other hand, vodka's market share had remained relatively the same over the period.

4.20. Consumption of cane spirits, and whisky decreased significantly by 76 and 16.5 per cent, respectively; whereas gin experienced a significant increase in consumption of 467.6 per cent, followed by agave, vodka, and rum with 47.5; 19.5, and 11.2 per cent, respectively.

4.21. By 2022, overall spirits consumption increased to 152.9 million litres representing 34.9 per cent growth compared to 2013. This was driven by increases in the consumption of gin by 722.3 per cent, liqueurs by 76.0 per cent, vodka by 33.9 per cent and agave by 111.5 per cent. Gin continued to increase its market share of the spirits category. Cane spirits experienced substantial decline of 86.5 per cent over the same period, with whisky declining by 18 per cent. The graph below shows consumption trends of the spirits subcategories for the period between 2013 and 2022.

[32] SAWIS (2022). SA Wine Industry 2022 Statistics NR 47

Figure 4: Disaggregated consumption of spirits (2013 – 2022)



Source: NT calculations based on SAWIS 2022 data

Ready-to-drink market

4.22. The ready-to-drink (RTD) (i.e. both alcoholic fruit beverages and spirit coolers) was estimated[33] at 468.5 million litres in 2013 representing 11.8 per cent of total alcohol consumption by volume and a 12.37 litres consumption per adult over 15 years. Consumption grew by 20.6 per cent to 565.2 million litres by 2019 (i.e. 13.54 litres consumption per adult) representing 13.1 per cent of alcohol consumption by volume. In terms of alcohol content, ready-to-drink represented about 9.7 per cent of the market in 2019.

4.23. By 2022, the consumption of RTDs had increased by 48.7 per cent to 696.8 million litres from 2013, representing 15.6 per cent of total alcohol consumption by volume, and 15.98 litres consumption per adult and 11.4 per cent market share based on alcohol content. The RTDs are potential substitutes for beer with similar range of alcohol content.

4.24. Since the last review, an additional excise duty category for grain-based fermented beverages (flavoured alcoholic beverages using 100 per cent unconverted grains) was added and linked to the excise duty for beer.

[33] SAWIS (2022). SA Wine Industry 2022 Statistics NR 47

4.25. In line with the growing trend on low and no alcohol products, spirit category is also in this sub-category, and it is reported to account for only 0.6 per cent share of the subcategory globally. This category is reported[34] to have grown by over 32.7 per cent in 2020 and is expected to grow its volumes by over 14 per cent CAGR for the period 2020 to 2024. Also, the low and no alcohol RTD volumes grew by over 10.2 per cent 2020 globally and is expected to grow through to 2024 by around 7 to 8 per cent CAGR during the period 2020 to 2024.

4.26. There are currently regulatory developments and consideration underway for lower alcohol spirits and the creation of an aperitif spirit class which will have an alcohol content ranging from 24 to 30 per cent, and no minimum residual sugar content[35]. Any regulatory amendments from this process will be considered in future.

4.27. In summary, there appears to be a growth in alcohol consumption in South Africa generally across the categories, with variances in subcategories. There was a significant growth in RTDs of 20.6 per cent, followed by spirits at 17.7 per cent; wine at 11.3 per cent and beer at 6.1 per cent over the period between 2013 and 2019. Similarly, over the period 2013 to 2022, almost all the main alcohol categories experienced growth, with wine showing a 24.8 per cent increase, the RTDs at 48.7 per cent; spirits at 34.9 per cent, and beer at 4 per cent. At the subcategory level:

- The growth in the wine category was driven mainly by increases in still wine of 26.5 per cent and sparkling wines at 54.3 per cent.
- The spirits category growth was mainly driven by significant increases in gin (i.e. 722.3%), agave (i.e. 111.5%), liqueurs (i.e. 76.0%), and vodka (i.e. 33.9%).
- Some of the sub-categories experienced declines over the period, i.e., fortified wine (i.e. -4.3%); cane spirit (i.e. -86.5%); whisky (i.e. -18.0%); brandy (i.e. -6.0%).

5. PREVALENCE OF ALCOHOL CONSUMPTION

5.1. The 2018 WHO Global status report[36] on alcohol and health, which is the most recent data on levels of alcohol consumption in 2016, indicates that the majority, i.e. about 69 per cent of South Africans over the age of 15 years abstained from drinking alcohol for at least 12 months, whereas 31 per cent consumed alcohol. The abstention rate is an increase from 59.4 per cent recorded in the 2014 report.[37] The 2018 report further estimates that South Africans consumed on average about 9.3 litres of pure alcohol per capita for persons older than 15 years compared to the African region and global average of 6.3 and 6.4 litres, respectively. The 9.3 litres of pure alcohol per capita is made up of 7.1 litres of recorded and 2.2 litres of unrecorded pure alcohol consumption per capita.

[34] IWSR (2021). Drinks Market Analysis: No- and Low-Alcohol Products Gain Share Within Total Beverage Alcohol. February 2021 Press Release accessed at https://www.theiwsr.com/wp-content/uploads/IWSR_No-and-Low-Alcohol-Gains-Share-Within-Total-Beverage-Alcohol-2021.pdf on 28 Jan 2022

[35] SAWIS (2021). Call For Comments. accessed at https://www.sawis.co.za/winelaw/download/Proposed_amendments_to_Regulations_and_WO_Scheme_final.pdf on 10July 2022

[36] Global status report on alcohol and health 2018. Geneva: World Health Organization; 2018. Licence: CC BY-NC-SA 3.0 IGO.

[37] Global status report on alcohol and health – 2014 ed. Geneva: World Health Organisation

5.2. Unrecorded pure alcohol consumption represents about 23.7 per cent of all per capita alcohol consumed. The average alcohol consumption represented a reduction from the 11 litres of pure alcohol per capita recorded in the 2014 report.[38] The recorded pure alcohol consumption per capita is much higher than the 6.83 reported by SAWIS (2022)[39] for 2016. However, other reports[40] indicate that in 2019 the average consumption among all adults over 15 years had increased to 9.45 litres of pure alcohol per year.

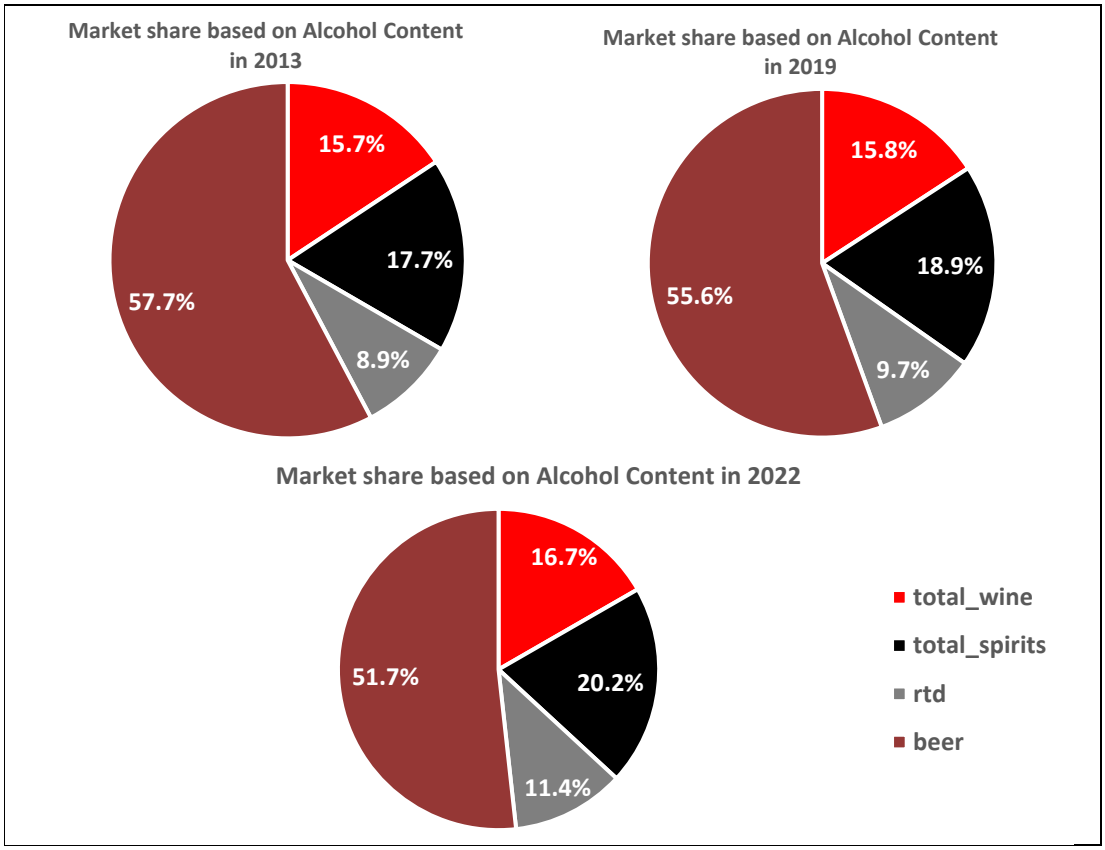
5.3. To put the above per capita consumption data into perspective, using a litre of beer or RTDs at 5 per cent alcohol by volume as an example, it equals to 186 litres of beer or RTDs per person older than 15 years (i.e. 9.3 divided by 5%)[41] per year. Considering that South Africa has a small drinking population (i.e. 31 per cent of population over the age of 15 years), it was estimated that they consume about 29.9 litres of pure alcohol per capita, which is higher than the African Region and global average of 18.4 and 15.1 litres, respectively. It is concerning that there has been a 10.33 per cent increase in the per capita consumption for drinkers only from the 27.1 litres of pure alcohol estimated in the 2014 report. The numbers above are significant at 598 litres of beer or RTDs per drinking person over the age of 15 years per year (i.e. 29.9 divided by 5 per cent). This equates to a daily average consumption of 64.6 grams of pure alcohol, which is higher than in the previous report at 58.5 grams of pure alcohol, and substantially higher than the global average of 32.8 grams and 40.0 grams average for countries in the WHO African Region.[42,43] These numbers are very concerning and require a concerted effort from all the role-players to address.

5.4. South Africa was also estimated to have increased the prevalence of heavy episodic drinking equalling to 18.3 per cent amongst the population over the age of 15 years, up from10.4 per cent in the 2014 report and compared to 17.4 and 18.2 per cent for the African Region and global, respectively. Of concern also is that a majority, i.e. 59 per cent of the drinking population over the age of 15 years, exhibited prevalence of heavy episodic drinking. This is in contrast to 25.6 per cent estimated in the 2014 report and higher compared to 50.2 and 39.5 per cent of the African Region and global estimates. Among drinkers, the group aged between 15 to 19 years exhibit a higher risk, representing 65.4 per cent of drinkers that often engage in heavy drinking sessions. Alcohol drinkers consumed more than 60 grams or more of pure alcohol on at least one occasion over the last 30-day period.[44]

[38] Global status report on alcohol and health – 2014 ed. Geneva: World Health Organisation
[39] SAWIS (2022). SA Wine Industry 2022 Statistics NR 47
[40] World Population Review (2022). Alcohol Consumption by Country 2022. Access at https://worldpopulationreview.com/country-rankings/alcohol-consumption-by-country on 13 June 2022
[41] Hannah Ritchie and Max Roser (2018) - "Alcohol Consumption". Published online at OurWorldInData.org. Retrieved from: 'https://ourworldindata.org/alcohol-consumption' [Online Resource]
[42] Global status report on alcohol and health – 2014 ed. Geneva: World Health Organisation
[43] Global status report on alcohol and health 2018. Geneva: World Health Organization; 2018. Licence: CC BY-NC-SA 3.0 IGO.
[44] Global status report on alcohol and health 2018. Geneva: World Health Organization; 2018. Licence: CC BY-NC-SA 3.0 IGO.

5.5. Considering that beer dominates the alcohol market, it represented about 56 per cent of the total recorded pure alcohol consumption per capita for persons over 15 years, whilst wine, spirits and others alcoholic products accounted about 18.5, 17.8 and 7.6 per cent, respectively.[45] The dominance of beer seems to have increased from 48 per cent estimated in the 2014 report. The 2018 report further forecasted a reduction in total (recorded and unrecorded) alcohol per capita consumption to 9.2 and 9.0 litres of pure alcohol by 2020 and 2025, respectively. The graph below shows the evolution of market share based on alcohol content.

Figure 5: Market share based on alcohol content in 2013, 2019 & 2022



Source: NT calculations based on SAWIS 2022 data

5.6. It is evident that the beer has lost its market share over the review period even though it is still dominant. As already indicated in section 3 above, there was a significant growth in ready-to-drink and spirits categories as confirmed in the growth in contribution based on alcohol content. Generally, this data confirms the 2018 WHO report on the country's alcohol prevalence in terms of the contribution of the different alcohol categories.

5.7. The challenges of binge drinking behaviour or harmful use of alcohol cannot be addressed through excise tax policy measures alone, but require increased efforts on complementary, targeted non-tax measures that affect the price of alcoholic beverages, such as pricing regulation in the form of minimum pricing. Minimum pricing may become important in instances where binge drinkers substitute with

[45] Global status report on alcohol and health 2018. Geneva: World Health Organization; 2018. Licence: CC BY-NC-SA 3.0 IGO.

cheaper alcoholic beverages (WHO, 2023)[46]. Other measures include regulations prohibiting marketing strategies such as volume discounts promotions. Considering that an excise tax alone is not sufficient for targeting heavy / binge drinking, there is a suggestion that a more holistic understanding of the factors, which are mainly socio-economic, associated with harmful use of alcohol is important in informing targeted alcohol interventions (Rashied, 2021)[47].

6. ESTIMATES OF THE ELASTICITIES OF DEMAND

6.1. The changes and level of demand for alcoholic beverages is determined by several factors including alcohol prices, consumers' income levels, consumption patterns (and intensity of use), consumer preferences within and across different alcohol product categories and sub-categories (i.e. substitutes or competing products). Due to greater product heterogeneity of alcoholic beverages, the elasticities may vary substantially (Blecher, 2019).[48] The combination of real consumer income and the real price of liquor explained between 70 and 90 per cent of variation in total alcohol sales.[49] Estimating price, cross-price and income elasticities is therefore important in understanding the response of demand for alcoholic beverages to changes in alcohol prices and consumer income levels. Economic literature has already established that there is an overall negative relationship between quantity demanded for alcoholic beverages and prices, whereas there is generally a positive relationship with income for normal goods. Therefore, excise duties and pricing policies are important determining factors for alcohol affordability and consumption.

6.2. In the previous alcohol taxation review conducted by the National Treasury in 2014, the Bureau for Economic Research (BER) estimated long-run price elasticities (and income elasticities) for various alcoholic beverages – these were estimated for malt beer at -0.70 (and 0.45), for natural wine at -1.00 (and 0.50), for spirits at -0.90 (and 0.65), for standard priced wine at -1.00 (and -0.80), for flavoured alcoholic drinks (FADs / AFBs) at -1.25 (and 2.00), and for ready to drink beverages (RTD/ Spirit Coolers) at -2.50 (and 2.20), respectively. These estimates suggest that malt beer is the least price sensitive, which may explain in part, why beer is dominant in the market. Industry analysis[50] suggests that for the period 2009 to 2016, the price and income elasticities of total beer demand was -0.63 and 0.57, respectively. It further suggested that the lower-income segment of the market had price elasticities of between -1.03 and -1.16, and income elasticity of between 0.26 to 0.32 for the same period. Even though the AFBs and RTDs are shown to be more price sensitive, they have seen quite

[46] WHO technical manual on alcohol tax policy and administration. Geneva: World Health Organization; 2023. Licence: CC BY-NC-SA 3.0 IGO.
[47] Rashied, N. (2021). Socio-economic determinants of alcohol consumption for South Africa. *International Journal of Alcohol and Drug Research.* IJADR, 2021, 9(2), 59–68
[48] Blecher E, Bertram M. The economics and control of tobacco, alcohol, food products, and sugar-sweetened beverages. In: Vaccarella S, Lortet-Tieulent J, Saracci R, et al., editors. Reducing social inequalities in cancer: evidence and priorities for research. Lyon (FR): International Agency for Research on Cancer; 2019. (IARC Scientific Publications, No. 168.) Chapter 11. Available from: https://www.ncbi.nlm.nih.gov/books/NBK566208/
[49] National Treasury (2014). A Review of the Taxation of Alcoholic Beverages in South Africa. A Discussion Document
[50] Estimating the price and income elasticity of beer in South Africa. Accessed on 3 October 22 at https://www.novaeconomics.co.za/our-work/estimating-the-price-and-income-elasticity-of-beer-in-south-africa

a significant growth in consumption over the review period as noted in chapter 4 above.

6.3. Other recent studies that investigated the price elasticity of demand for alcoholic beverages by the type of drinkers or representative households reveal that moderate drinkers' elasticity was –0.45, for intermediate-drinking households as –0.35, for occasional heavy-drinking households as –0.22 and for regular heavy-drinking households as –0.18 (Walbeek and Chelwa, 2021).[51] Similarly, other studies (Pryce at al., 2018)[52], show that there is a different price elasticity of quantity demanded for heavier drinkers as they also respond to price increase by either switching to lower quality alcohol, switching from on-premises alcohol consumption to off-premises alcohol consumption or by switching from one brand of drink to a cheaper alternative. Another study (Griffin et al, 2021)[53] using data on the UK alcohol market, found that the heaviest drinkers are more than three times as likely to switch to another alcohol product, rather than not buying alcohol at all, compared to the lightest drinking households. The study shows that a 1 per cent increase in the price of all alcohol products leads to a demand reduction of 2 per cent for light drinkers and by only 0.7 per cent for heaviest drinkers.

6.4. It should be noted that consumers face a different marginal externality of consumption, and the price increase due to the tax may be too high for some and not for others (Griffith et al 2021)[54]. The literature suggests that price measures are important and effective at a population level, however, to address the problems of heavy or harmful drinking, complementary and targeted non-price policy measures would need to be implemented.

7. EXPERIENCE WITH CURRENT POLICY FRAMEWORK

Benchmark and duty rates

7.1. The alcohol excise framework of guideline tax incidence was announced in 2002 and implemented in 2004 where the total consumption tax burden (i.e. excise duties plus VAT) as a percentage of the weighted average retail selling price for wine, beer and spirit were set at 23, 33 and 43 per cent, respectively. The guideline tax incidence for spirits and malt beer were increased in 2012/13 with two percentage and five-percentage points, to 35 and 48 per cent respectively, and the increases in excise duty rates were to be phased in over a two-year period. With this total consumption tax burden structure, the implicit excise tax burdens were 10.7, 22.7 and 35.7 per cent, respectively, with the balance being value-added tax. The 2015 Budget amendments

[51] Walbeek, C. & Chelwa, G. (2021). The case for minimum unit prices on alcohol in South Africa. *The South African Medical Journal (SAMJ)*, Vol. 111, No. 7 https://doi.org/10.7196/SAMJ.2021.v111i7.15430

[52] Pryce, R., et al. (2019). Alcohol quantity and quality price elasticities: Quantile regression estimates. The European Journal of Health Economics, 20(3), 439–454. https://doi.org/10.1007/s10198-018-1009-8

[53] Griffith, R. et al (2021). Designing alcohol taxes: Evidence from the UK market. Designing alcohol taxes | VOX, CEPR Policy Portal. Accessed at https://voxeu.org/article/designing-alcohol-taxes on 28 Jan 2022

[54] Ibid.

accounted for the excise duty component explicitly as a guideline benchmark and were rounded up to the current rates of 11, 23 and 36 per cent, for wine, beer, and spirits, respectively.

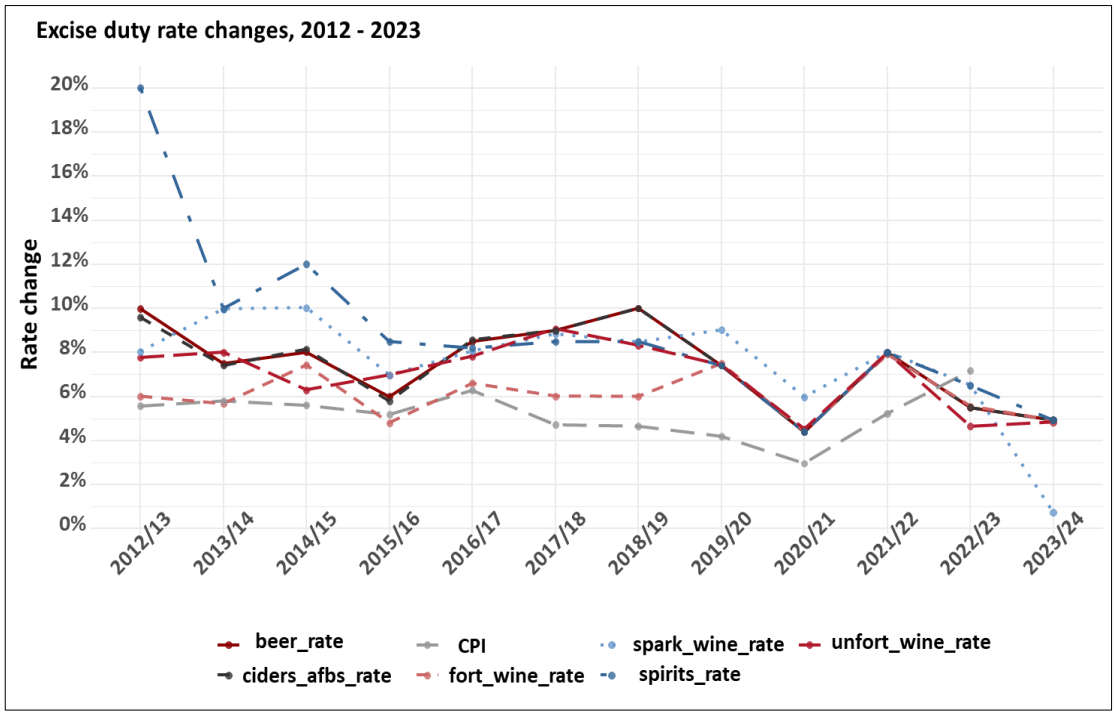
7.2. Since the implementation of the guideline tax incidence, excise duties have consistently risen above inflation, initially intended to reach the guideline incidence, and later due to fiscal framework considerations. This has sometimes resulted in instances where the guideline incidence has been exceeded, which has caused concern from the affected industries. It is important to note that whether the guideline incidence is exceeded or not is dependent on both the changes in the annual excise duty rates and also the level of pass-through the industry effects in the retail prices of alcoholic beverages. In instances where the pass-through is smaller than the adjustment in excise duty rates, the incidence would be surpassed.

7.3. The guideline excise tax framework has, however, been criticised by various stakeholders indicating that if it were to be strictly implemented (i.e. without a minimum inflationary adjustment), it means the industry would be setting the value of the excise duty adjustment by manipulating how it sets the retail prices of alcoholic products. This has led to calls for National Treasury to adopt a policy framework that delinks excise tax adjustments from the industry's retail pricing decisions. From a policy perspective, it is important that excise duty rates are adjusted by at least inflation on an annual basis to preserve the real or effective rates of excise duties and/or above inflation to reduce affordability and achieve a continuous general decline in consumption and consequential harms (PAHO, 2019). As the WHO (2023)[55] has stated, excise tax increases should aim to reduce the affordability of alcoholic beverages.

7.4. The guideline tax incidence increases in 2012/13 meant excise duty rates needed to be increased sharply to (at least) reach the guideline incidence. During this period, spirits experienced the highest nominal increases of 20, 10 and 12 per cent in the three financial years, respectively. Similarly, malt beer experienced higher nominal increases of 10, 7.5 and 8 per cent, respectively. The spirits excise duty rate however stabilised around an average of 8.4 per cent for a period of four years thereafter. However, malt beer excise duties rates further saw increases ranging from 6 to 10 per cent during the subsequent period. The graph below shows the annual excise duty rates changes for the period 2012-2023.

[55] WHO technical manual on alcohol tax policy and administration. Geneva: World Health Organization; 2023. Licence: CC BY-NC-SA 3.0 IGO.

Figure 6: Year-on-year change in excise duty rates (2012-2023)



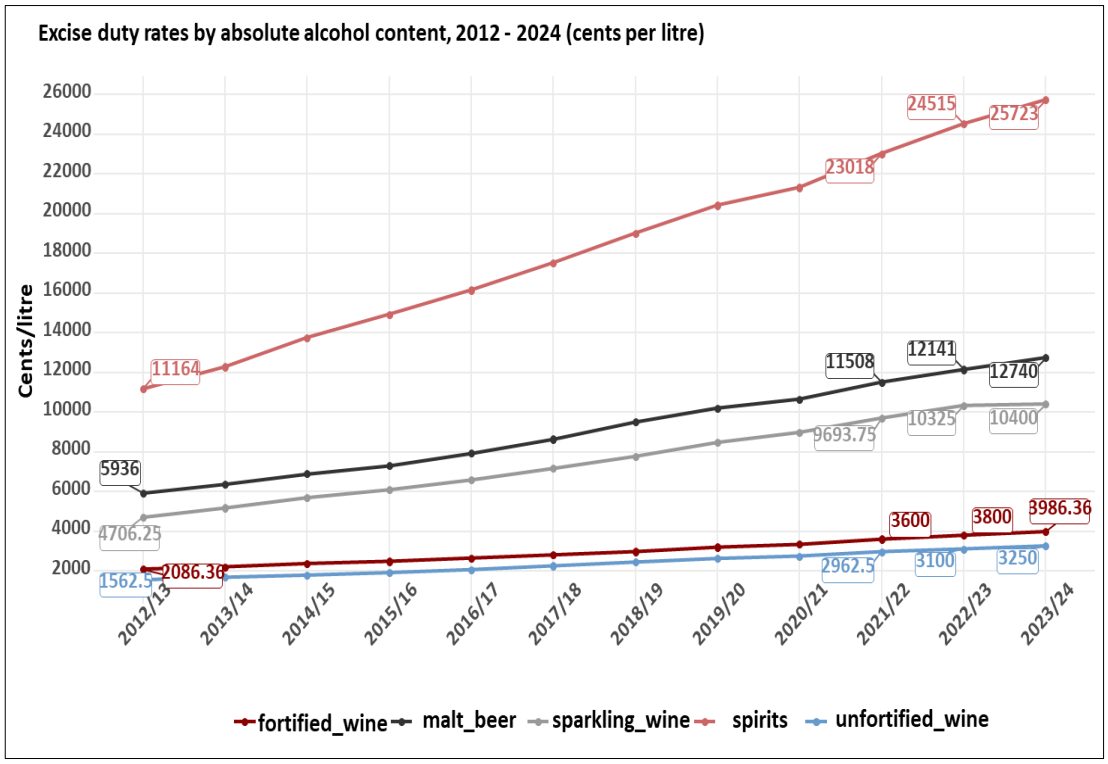
Source: National Treasury

7.5. For the period 2012/13 to 2023/24, the nominal excise duty rate increases for malt beer, unfortified wine and spirits were 115, 108 and 130 per cent, respectively whereas the cumulative consumer price index increased by about 62 per cent over the same period. This has led to excise tax incidences that are slightly higher than the guideline for beer and more so for spirits.

7.6. From 2019/20, the excise rate increases were not that significantly different between alcohol categories with the last three financial years experiencing the same rate changes, except for sparkling wine. The excise duty on sparkling wine has risen well above inflation in recent years, mainly due to the influence of high-priced imports.

7.7. Considering the current excise structure for alcoholic beverages, it is important to have a comparative analysis of the differential changes in excise duty rates based on alcohol content of different categories of alcoholic beverages. The comparative analysis is based on an average alcohol content by volume of 5, 16 and 43 per cent for malt beer, wine, and spirits, respectively. For the review period, the differential in the excise rate per litre of absolute alcohol content for beer and spirits has widened by 148 per cent from R52.28 in 2012/13 to R129.83 in 2023/24, while the differential between wine and spirits has widened by 136 per cent from R90.81 to R213.90 over the same period. The differential between malt beer and wine has widened at a much lower rate of 118 per cent from R38.53 in 2012/13 to R84.07 in 2023/24. The graph below shows the excise duty rates by absolute alcohol content per litre over the period 2012-2024, and the widening gap is clear.

Figure 7: Excise duty rates by absolute alcohol content (2012-2024)



Source: National Treasury

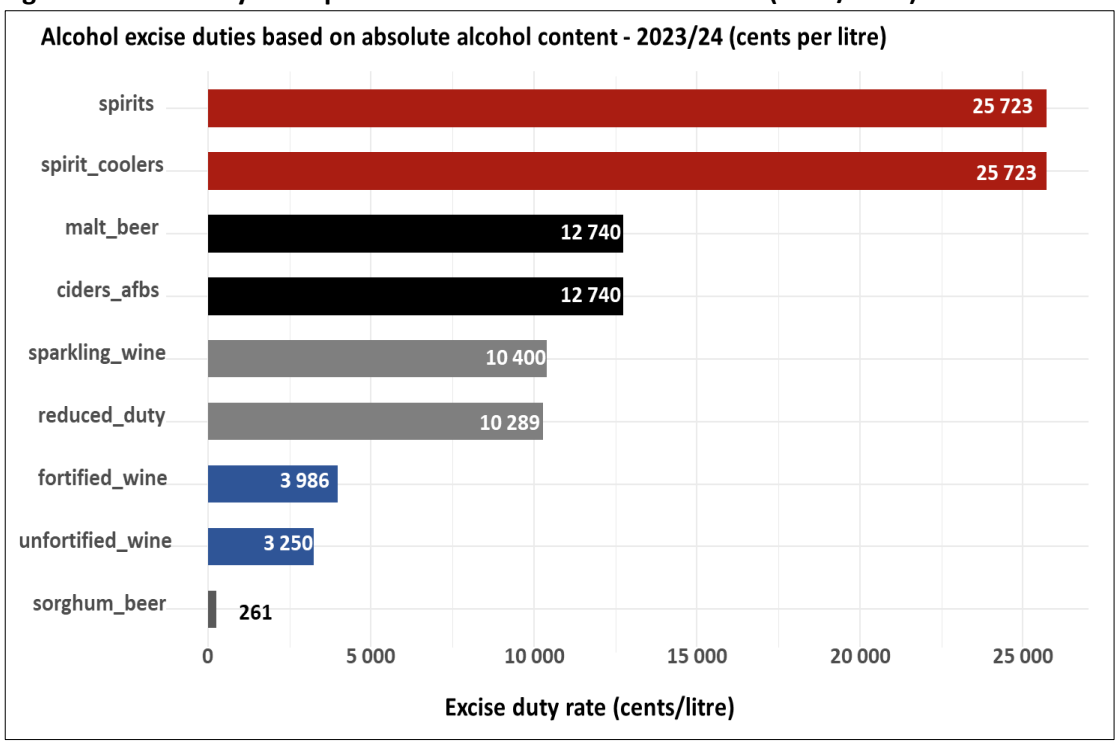
7.8. These differentials have reduced since the last review period where they were higher due to the low base and the duty structure from which the new excise framework was being implemented for the different categories of alcoholic beverages. There is some concern that the widening tax differentials between the different types of alcoholic beverages may be distorting competition between the alcohol beverage industry players, particularly for the spirits industry. As can be observed over the review period, excise duty rates for spirits increased much higher than for beer and wine (i.e. 130; 115 and 108 per cent, respectively).

7.9. When the excise duty rates were increased by 8 per cent across all alcohol categories in 2020/21, some within the industry proposed a differentiated approach in adjustments of excise considering the peculiar circumstances of every alcoholic beverage category. However, when differentiation was applied in the 2021/22 excise duty rate adjustments, other stakeholders raised concerns that certain sectors had unfairly favoured over others. This is especially so for those that argue for all alcoholic beverages to be taxed on alcohol content basis (i.e. given that the externality is due to alcohol) and at the same rate. However, the occasions and patterns of consumption of these alcoholic products may need to be nuanced to understand the differences in outcomes.

7.10. Policy questions that arise from this situation is whether there is an acceptable differential level that should be maintained between the different alcohol categories and what would be the basis? To date, it has been generally accepted that spirits are taxed higher than other alcoholic beverage categories due to their high alcohol content. However, if there are changes to taxation based on alcohol content for all the

alcoholic beverages, then beer and wine rates will have to increase substantially to match the spirits rate, albeit phased in over a period. The graph below shows the excise duty rates based on alcohol content of the different product categories as at 2023/24. Spirits and spirits coolers have the same and higher rate than other beverages, similarly beer and ciders have the same rate. Sparkling wine, due to it being pegged at 3.2 times that of natural wine, is not that far off from the excise duty for beer, however, the other wines are significantly lower.

Figure 8: Excise duty rates per litre of absolute alcohol content (2023/2024)



Source: National Treasury

7.11. In recent years, the above inflation excise duty rate adjustments have resulted in higher incidences for all alcohol categories, but more so for the spirits category. Also, there is a widening gap in excise duties of spirits and beer as shown in figure 7 above. Even though there has always been higher than inflationary increases in excise duties, the upward revision to the guideline incidence ensured that annual excise duty increases are still within the range. However, since the retail prices have not kept pace with excise increases, the guideline incidence has been exceeded.

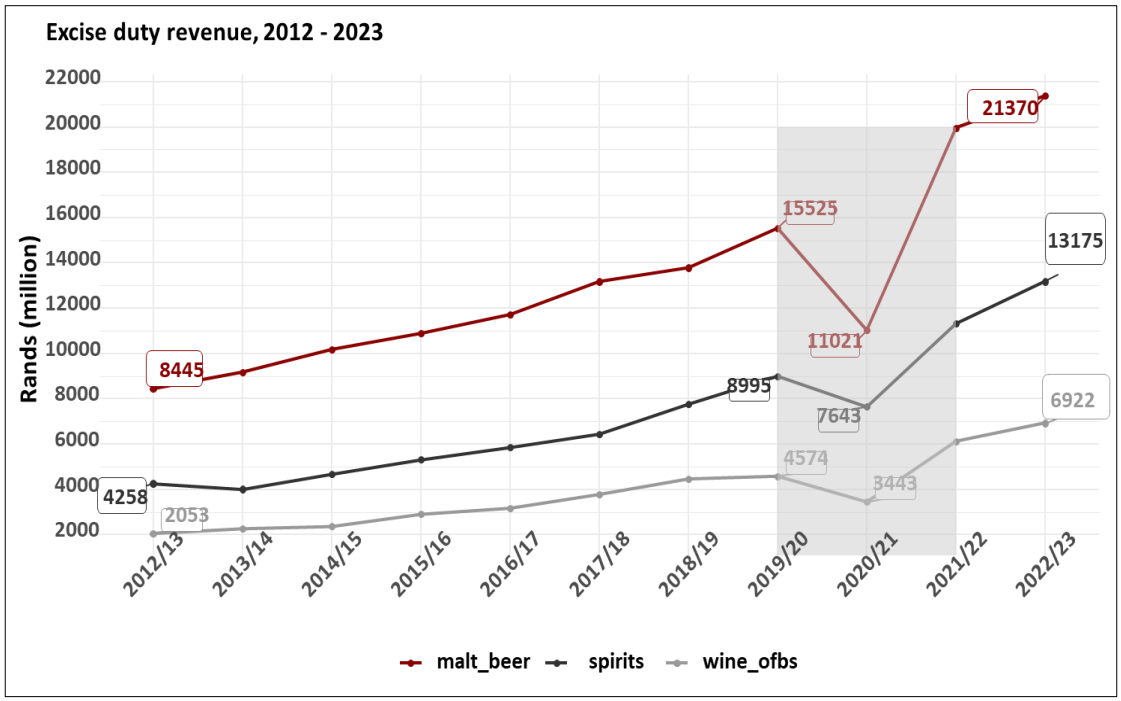
Excise Revenue

7.12. The implementation of excise duties on alcoholic beverages seeks to internalise the socio-economic costs of alcohol consumption and reduce general alcohol consumption levels while simultaneously raising revenue. However, it should be noted that revenue collection is a function of overall price and income elasticities of demand, which differs between the various types of alcoholic beverages, and compliance levels and/or administrative efficiency. Even within a specific category, there are differences

between drinkers, with moderate drinkers more sensitive to price changes than heavy drinkers.

7.13. The literature shows that the level of excise revenue generated from the alcohol industry does not fully reflect the external costs (such as health care costs, lost productivity costs, criminal justice costs, and other direct costs) of alcohol consumption and harm on society (PAHO, 2019). An earlier study[56] showed that the tangible financial cost (i.e. healthcare, crime response, road traffic accidents, etc) of harmful alcohol use alone was estimated at R37.9 billion, or 1.6 per cent of gross domestic product in 2009, whereas the combined total tangible and intangible costs (i.e. reduction in earnings and value of a statistical life (VSL) due to premature mortality & morbidity, non-financial welfare costs, etc.) to the economy were estimated to be between R245 billion and R280 billion, representing 10 – 12 per cent of GDP. Other industry cited studies indicate that the beer industry had a R71 billion gross value added (GVA) or 1.3 per cent contribution to GDP in 2019.[57] The wine industry also indicates that it contributed about R55 billion or 1.1 per cent of the total South African economy in 2019.[58] The graph below shows the excise duty revenue over the period 2012 to 2023.

Figure 9: Excise duty revenue (2012-2023)



Source: National Treasury

[56] Matzopoulos RG, Truen S, Bowman B, Corrigall J. The cost of harmful alcohol use in South Africa. S Afr Med J. 2014 Feb;104(2):127-32. doi: 10.7196/samj.7644. PMID: 24893544.

[57] Accessed at https://businesstech.co.za/news/business/625412/warning-over-south-africas-beer-economy-and-tax-hikes/#:~:text=According%20to%20the%20Oxford%20Economics,GDP%20through%20local%20procurement%20alone on 24 January 2023

[58] FTI Consulting (2021). Macro-Economic Impact of the Wine Industry on the South African Economy. Accessed at https://www.sawis.co.za/info/download/Macro-economic_Impact_of_the_Wine_Industry_2019_Final_(2).pdf on 24 January 2023

7.14. At the end of 2019/20, the excise duties revenues from the alcoholic beverages amounted to R29.1 billion. The malt beer excise duties accounted for R15.5 billion (i.e. 53 per cent) of the liquor industry's total excise duty revenue, with spirits accounting for R9.0 billion (i.e. 31 per cent), wine and other fermented beverages accounting for R4.6 billion (i.e. 16 per cent) and sorghum beer and sorghum flour raising just over R4 million. The volumes data from SAWIS[59] suggests that wine raised about R1.88 billion in excise revenue in 2019. Using the wine disaggregated data suggests that still wine might have contributed R1 525 million, fortified wine - R220 million & sparkling wine – R137million, and the other fermented beverages are approximately R2.7 billion.

7.15. In comparison to 2012/13, the share of excise duty revenue for malt beer, spirits, and wine and other fermented beverages were R8.4 billion (i.e. 59 per cent), R4 billion (i.e. 26 per cent), and R2.1 billion (i.e. 15 per cent), respectively. The share of spirits has increased over the period whilst the malt beer category has declined, and wine and fermented beverages has remained relatively flat. On average, spirits had an annual revenue increase of 11.6 per cent and wine and other fermented beverages at 12.4 per cent, whereas malt beer revenue increased by only 9.1 per cent over the period.

7.16. In 2020/21, after the onset of the COVID-19 pandemic, excise duty revenue declined substantially due to various levels of lockdown and sales restrictions on alcoholic beverages, and general economic activity restrictions. During this period, government provided excise duties payment deferrals for compliant businesses in the alcohol industry. The relief was intended to assist businesses experiencing cashflow pressures and their payment obligations to SARS. It was expected that revenues will start to recover with the opening of the economy and lifting of restrictions, albeit not to the same levels as before in the short term.

7.17. The revenue for 2022/23 amounted to R41.5 billion. Beer accounted for R21.2 billion (i.e. 51.5%), spirits accounted for R13.2 billion (i.e. 31.8%), and wine and other fermented beverages were at R6.9 billion (i.e. 16.7%) of the revenue. The relative changes in the share of revenue between these categories of alcoholic beverages indicates that there was a nominal increase of revenue of 37.7 per cent for beer, compared to 46.5 per cent and 51.3 per cent for spirits, and wine and other fermented beverages, respectively, pre-COVID-19 and post COVID-19. The figure below shows the changes in both excise duty rates and the resultant changes in revenues for the different alcohol categories over the review period.

[59] SAWIS (2022). SA Wine Industry 2022 Statistics NR 47

Figure 10: Percentage Change in Excise Rates and Revenue (2012 – 2023)

Source: National Treasury

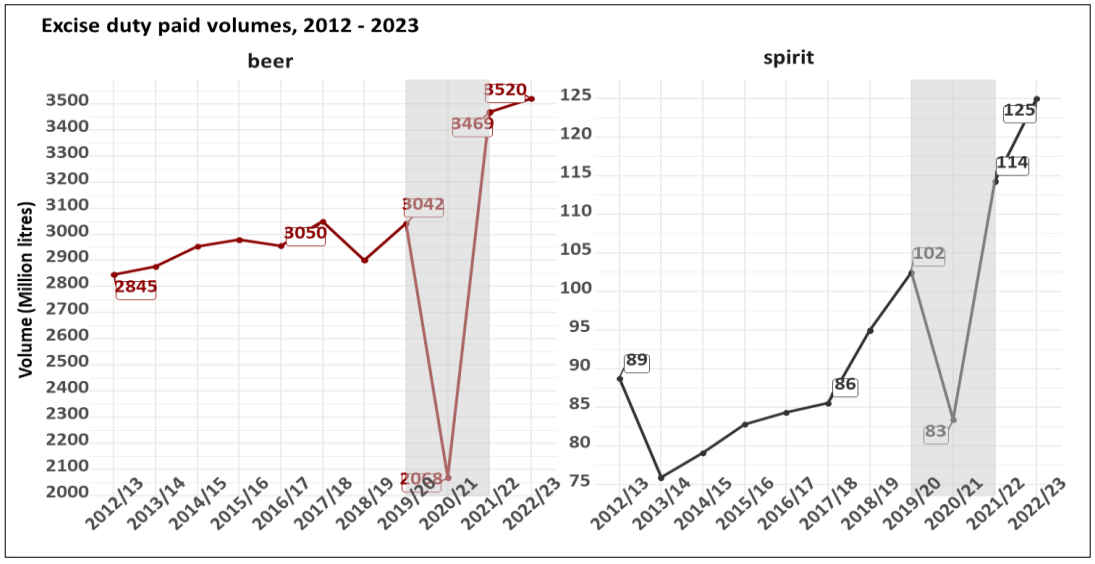
7.18. On average, the excise duty rate increases seem to have resulted in more than proportional positive impact on revenue collected over the period, except in a few instances. The impact of COVID-19 in the fiscal years beginning in 2020 and ending 2022 on revenue are not included in the graph. For beer, the excise rate increases in 2016/17 and 2019/20 resulted in less than proportional revenue collected. For spirits, excise duty rates changes resulted in more than proportional increase in revenue except in 2013/14, where revenue actually decreased from the previous year. Furthermore, excise duty rate increases yielded proportionally more from spirits than from beer.

7.19. With the combined average excise duties rates changes for wine and other fermented beverages, revenue yield is proportionally more, even than spirits and beer, except in 2014/15 and 2019/20. Over the years, there has been a growth in some of the subcategories of these alcoholic beverages. This might be an indication that there is still more scope to increase excise duties to both reduce consumption and increase revenue.

Estimates of volume of duty paid alcoholic beverages

7.20. Using the excise duty rates applicable in any particular year and the standard alcohol volumes in beverages (i.e. 5 per cent for beer and 43% for spirits), one can roughly estimate the volumes of duty paid alcoholic beverages. This method was also used in the 2014 review and only works for beer and spirits due to the relative uniformity of the alcohol content and rates applicable to each category. In the case of wine and other fermented beverages where there are different rates per litre for specific subcategories and the revenue is not disaggregated yet, it is more difficult to make such estimations. However, reference is made to the SAWIS volume data in this regard. The graph below shows the estimated duty paid volumes of beer and spirits over the period 2012 - 2023.

Figure 11: Estimated volumes of beer and Spirit (2012-2023)



Source: National Treasury calculations

7.21. The graph above shows a general growth of malt beer volumes from just over 2 845 million litres in 2012/13 to around 3 050 million litres in 2017/18 representing a 7.2 per cent increase before reducing to 2 900 million litres in 2018/19 and rebounding to 3 042 million litres in 2019/20. The SAWIS data, on the other hand, suggests that beer consumption was about 3 042 million litres in 2013 and 3 227 million litres in 2019, which is a 6.1 per cent increase, before declining to 2 416 million litres in 2020. Another report estimated[60] that South Africans consumed a total of 3 440 million litres of beer in 2018 which was an increase from 3 322 million litres in the previous year, which is slightly higher than our own estimates.

7.22. The volume of spirits was estimated at 88.7 million litres in 2012/13, before declining to 75.9 million litres in 2013/14 and increasing to about 85.5 million litres in 2017/18, representing a 12.7 per cent increase. Compared to the beer volumes, the spirit volumes increased considerably over the same period, even though beer still represents the majority of alcohol consumed in the country also in terms of volumes of pure alcohol.[61] Spirits experienced further increases to 94.9 million litres in 2018/19 and then again to 102.5 million litres in the 2019/20 period, which is in contrast to the experience in the beer sector where there was a decline in 2018/19 before a rebound in the following year. This may be partly explained by higher beer excise duty rate increase of 10 per cent in 2018/19 which was higher than other categories of alcoholic beverages. As already indicated in the sector overview, the spirits category growth was mainly driven by significant increases in gin, agave, liqueurs, and vodka.

7.23. There was a recovery in the beer volumes in 2019 with a slightly lower increase in excise than the previous year (i.e. 7.1% vs 10%). It was estimated[62] that the beer market represents 56 per cent of the alcohol market whereas spirits and wine account for 18 per cent each and the rest is accounted for by other alcoholic beverages. This is more or less in line with the market share SAWIS reported, especially for beer and spirits. In 2020/21, the alcohol market experienced a significant decline in volumes due to the COVID-19 pandemic and subsequent alcohol sales restrictions, and also resulted in a significant decline in revenue collections.

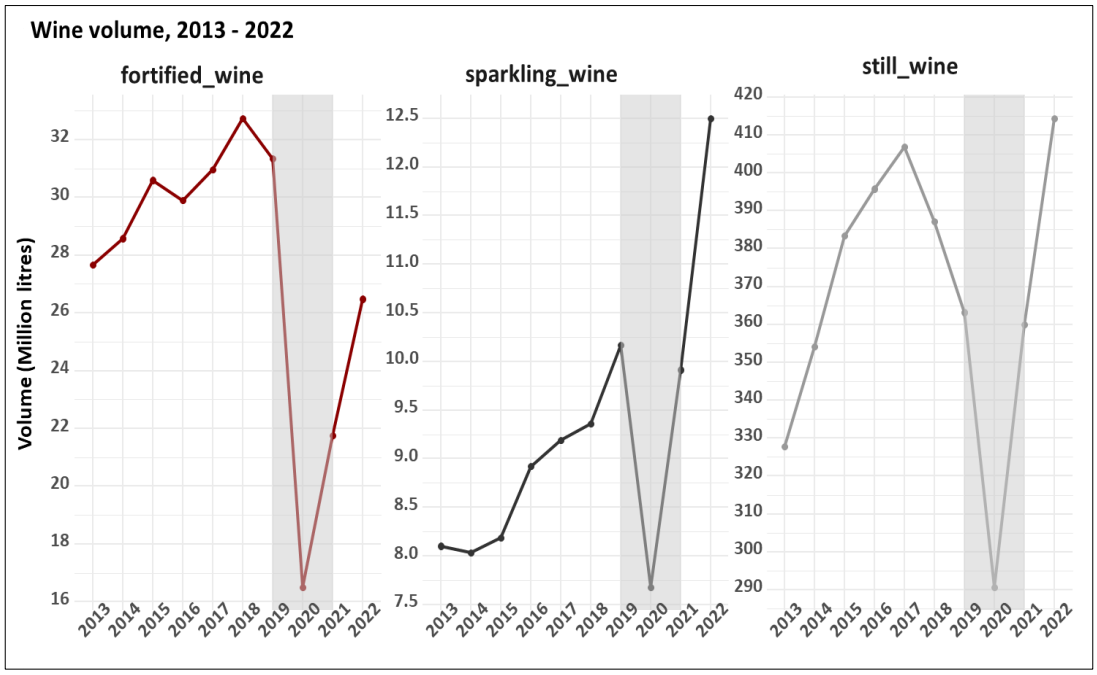
7.24. Regarding wine volumes based on the SAWIS report, still wine increased from 327.7 million litres in 2013 to 406.9 million litres in 2017, before it started declining to 290.9 million in 2020. Similarly, fortified wine and sparkling wine increased from 27.7 million litres and 8.1 million litres to about 31 million litres and 9.2 million litres respectively, before both declining to 16.5 million litres and 7.8 million litres, respectively. Similarly, the growth in the wine category above pre-COVID-19 levels was driven mainly by increases in still wine and sparkling wines. The graph below shows the changes in wine volume since 2013.

[60] Sachon V.W (2020). A portrait of the South African beer industry. Accessed at https://blog.drinktec.com/beer/south-african-beer-industry/ on 18 Aug 2021

[61] SAWIS (2022). SA Wine Industry 2022 Statistics NR 47

[62] Sachon V.W (2020). A portrait of the South African beer industry. Accessed at https://blog.drinktec.com/beer/south-african-beer-industry/ on 18 Aug 2021

Figure 12: Estimated volumes of wine (2013-2022)



Source: NT calculations based on SAWIS 2022 data

8. ILLICIT TRADE IN ALCOHOLIC BEVERAGES

8.1. The problem of the illicit economy or trade is a serious global issue requiring greater and concerted attention to curb both its supply and demand. It affects many legitimate industries, sectors and economies, and it is not only limited to excisable products or alcoholic beverages, but every other regulated tradable commodity is susceptible. For alcoholic beverages, illicit trade can be broadly defined as the illegal supply, distribution and sale of counterfeit and genuine products. Such goods are sold domestically without being declared appropriately and without the payment of relevant duties such as excise duties.[63]

8.2. The WHO[64] refers to this as unrecorded alcohol and it includes consumption of homemade or informally produced alcohol (legal or illegal), smuggled alcohol, alcohol intended for industrial or medical uses, and alcohol obtained through cross-border shopping. Other similar definitions exist for this purpose which include:

"*Illicit alcoholic beverages are defined as those not complying with the regulations and taxes in the countries where they are consumed, resulting in serious health risks to consumers, revenue loss, and brand degradation for legitimate manufacturers, as well as reduced tax revenue for governments*." – 2018 Euromonitor International[65]

8.3. These illicit alcoholic beverages can be in the form of counterfeits (illicit branded or unbranded alcohol), smuggled products (i.e. either as finished or raw materials),

[63] National Treasury (2014). A Review of the Taxation of Alcoholic Beverages in South Africa. A Discussion Document
[64] Global status report on alcohol and health 2018. Geneva: World Health Organization; 2018. Licence: CC BY-NC-SA 3.0 IGO
[65] Euromonitor International (2018). Size and Shape of the Global Illicit Alcohol Market

surrogates (e.g. industrial spirits), duties-not-paid products and illicit home-brewing. Due to the illicit nature of these products, it would mostly be unrecorded or without necessary documentation. A number of factors are considered to have an influence on the existence of illicit economy or trade in general, and particularly in the alcoholic beverages market. General factors that commonly facilitate illicit trade include that the perceived economic benefit outweighs the risks involved for illicit trade to be considered a viable alternative to legitimate trading, insufficient enforcement, inadequate controls and regulation of supply chains, inadequate sanctions and consequences for offenders, and consumer demand for lower-priced illicit products.[66] In terms of the price differences between illicit and licit alcohol, it was estimated that in South Africa the average retail prices per litre were 51 per cent higher across on and off trade channels.[67] This may have relevance for the debate on minimum unit pricing discussed elsewhere in this document.

8.4. A number of studies have been conducted to estimate the scale of illicit trade in alcoholic products globally and in South Africa. The WHO's 2018 report estimated that the global level of unrecorded alcohol consumption amounted to approximately 25.5 per cent of total per capita alcohol consumption, with country specific variations. Similarly, from the representative sampled countries researched by Euromonitor[68], it was found that about 25.8 per cent of the alcohol consumed were from the illicit market. Further, South Africa's illicit alcohol consumption was estimated[69] at 14.8 per cent for 2017 which represented a volume growth of 4.3 per cent from 2014. Also, South Africa had the smallest size of the illicit market of the African countries reviewed in the report, with Mozambique having the highest illicit market at 73 per cent. The report[70] also confirms that distilled spirits (i.e. commercially- and illicitly produced distilled homebrew) is the most common type of illicit alcohol traded in the country, mainly due to its higher alcohol content and tends to be more expensive, with beer the least likely to be illicit. In terms of the composition of the illicit trade volumes, smuggling is the largest category of illicit alcohol, representing 28 per cent of the illicit alcohol, followed by duties-not-paid (i.e. 25 per cent), counterfeits (i.e. 24 per cent) and home-brewing (i.e. artisanal beverages (i.e. 23 per cent).

8.5. Since the start of the COVID-19 pandemic in 2020, the government has imposed various restrictions on the sale, dispensing and distribution (or transportation) of alcohol in South Africa, except for industrial purposes. Like other jurisdictions that imposed various alcohol related measures, the policy rationale for restrictions was "*to encourage social distancing, limit social gatherings, prevent any negative impacts of alcohol on the immune system, decrease instances of alcohol-related domestic violence during lockdown, and reduce pressure on hospitals and health care systems from potential alcohol-related injuries*." - (OECD, 2021).[71] However, there are concerns that these measures might have exposed consumers to health risks and had the

66 National Treasury (2014). A Review of the Taxation of Alcoholic Beverages in South Africa. A Discussion Document
67 Transnational Alliance to Combat Illicit Trade (2019). Illicit Trade in South Africa: Challenges and Solutions
68 Euromonitor International (2018). Size and Shape of the Global Illicit Alcohol Market
69 Euromonitor Consulting. (2018). Market analysis for illicit alcohol in Sub-Saharan Africa. n.p.: Euromonitor International Consulting. Available at: https://www.tracit.org/uploads/1/0/2/2/102238034/illicit_alcohol_trade__africa_sub_saharan_africa_pan__regional_report_final_14_sep_2018.pdf
70 Ibid.
71 OECD (2021). A Chair's Summary of the Webinar "*Crisis Policy, Illicit Alcohol and Lessons Learned from Lockdown*" Organised by the OECD Task Force on Countering Illicit Trade on 12 January 2021.

unintended consequence of incentivising and entrenching the illicit alcohol market, which might be difficult to reverse post the pandemic or after lifting the restrictions.[72]

8.6. The latest available information[73] indicates that the illicit alcohol market grew to 22 per cent during the period 2017 - 2020, representing about 66.5 million litres in total illicit alcohol consumption. Compared to the 2017 figures, it appears that smuggling grew during the period to 31 per cent whilst duties-not-paid decreased to 22 per cent, with no significant changes regarding home-brewing (i.e. 24 per cent) and counterfeits (i.e. 23 per cent) as a proportion of illicit alcohol market.[74] The volume of illicit homebrew was the second largest from spirits, as there was an increase in the homebrewing of fruit fermented alcohol, including from pineapple. Sugar-fermented ales produced by wine manufacturers accounted for the third largest category by volume terms. The average illicit prices differential of legal and illicit alcohol was estimated at 43 per cent, which is lower than the reported estimate in 2017, which might suggest that those purchasing the illicit products were willing to pay a bit more to access these products.

8.7. A number of studies[75] were also conducted to assess the impact of the restrictions. Some studies concluded that the prohibition of alcohol sales in South Africa has reduced pressure on emergency care units and lowered mortality[76] or decreased trauma volume during periods of complete alcohol prohibition compared to non- and partial alcohol bans[77]. Another study[78] considered the impact of restrictions on the number of unnatural deaths and concluded the complete restriction on the sale of alcohol resulted in a statistically significant reduction in unnatural deaths, regardless of the length of curfew. However, the industry[79] contested all these conclusions in its report which indicated that reduced mobility due to curfew has the strongest association with a drop in trauma admissions.

8.8. Tackling illicit alcohol requires implementation of a number of strategies in concert with all relevant stakeholders, ranging from revenue administration, law enforcement, regulators, business, and communities at large. The factors that propel the illicit market are identified as:

- insufficient enforcement – requires strengthening of co-operation of law enforcement agencies since there is an element of organised criminality involved with illicit market, including other stakeholders,

[72] TRACIT (2020). SITUATIONAL BRIEFING, COVID-19 Supply restrictions compound demand for illicit alcohol, exacerbate health problems. Accessible at https://www.tracit.org/uploads/1/0/2/2/102238034/covid-19_situational_briefing_illicit_alcohol_290420.pdf

[73] Euromonitor International (2021). Illicit Trade: Alcoholic Drinks in South Africa in 2020. A custom research report compiled for South African Liquor Brand owners Association (SALBA), Beer Association of South Africa (BASA) and VINPRO

[74] Euromonitor International (2021). Illicit Trade: Alcoholic Drinks in South Africa in 2020. A custom research report compiled for South African Liquor Brand owners Association (SALBA), Beer Association of South Africa (BASA) and VINPRO

[75] SAMRC (2020). Alcohol abuse and Covid-19: Two colliding epidemics – government must act now to reduce the momentum. Accessible at: https://www.samrc.ac.za/news/alcohol-abuse-and-covid-19-two-colliding-epidemics-government-must-act-now-reduce-momentum

[76] Reuter et al. (2020). Prohibiting alcohol sales during the coronavirus disease 2019 pandemic has positive effects on health services in South Africa. *African Journal of Primary Health Care & Family Medicine, Vol 12, No 1 (2020). Accessible at https://phcfm.org/index.php/phcfm/article/view/2528/4051*

[77] Chu et al (2021). Trauma trends during COVID-19 alcohol prohibition at a South African regional hospital. *Drug and Alcohol Review (2021)*. Accessible at https://doi.org/10.1111/dar.13310

[78] Moultrie et al. (2021). Unnatural deaths, alcohol bans and curfews: Evidence from a quasi-natural experiment during COVID-19. Accessible at http://www.samj.org.za/index.php/samj/article/view/13345/9849

[79] SALBSA (2021). New Data Analysis Reveals Surprising Insights About Alcohol Harm in South Africa. Accessible at https://salba.co.za/new-data-analysis-reveals-surprising-insights-about-alcohol-harm-in-south-africa/

- inadequate sanctions and consequences for offenders – increase the penalties and sanctions for offenders including for those who perpetrate corruption in the system,
- consumer demand for lower-priced illicit products – consideration of implementing minimum unit pricing accompanied by consumer education about potential harm from consuming these products and enforcement,
- inadequate controls and regulation of supply chains – requires improvements in the tracking and tracing of supplies and movements of products and ensuring that all the dues are paid and accounted for.

8.9. More attention should be dedicated to addressing the challenge of illicit trade as it undermines government health and revenue objectives. All the role-players need to coordinate efforts and resources to effectively address this challenge.

9. MINIMUM UNIT PRICING

9.1. The WHO[80] recommends the establishment and implementation of minimum prices for alcohol where applicable. This is premised on the understanding that the more affordable alcohol is, the more it is consumed and the greater the level of related harm. Therefore, setting a minimum price per unit gram of alcohol reduces consumption of cheap alcohol and alcohol-related harm.

9.2. A number of studies have been done looking at the issue of minimum unit pricing (MUP) as a specific intervention to address both the problem of heavy drinking and the affordability of alcoholic beverages. The MUP is not a tax instrument but a pricing mechanism that sets the price floor below which no unit of alcohol should be sold. MUP also prevents producers and retailers from absorbing some of the tax increases by further reducing prices or offering substantial discounted prices on alcoholic products.[81] Under an MUP, there is no longer a possibility of "trading down" as there is no alcohol available for less than the floor price.[82]

9.3. National Treasury's review in 2014 reflected on the issue of minimum pricing for alcoholic beverages; however, there had not been any policy developments in that regard. In recent years, there have been discussions or some consideration of this policy instrument to complement the already existing policy interventions. Also, some research has been conducted locally, spurred on by developments in countries such as Scotland and Ireland.

9.4. A recent conceptual study (Walbeek and Chelwa, 2021)[83] considered the feasibility of a minimum unit price on alcohol in South Africa, targeted at reducing the prevalence of heavy drinking. The study found that the unit price of over 90 per cent of alcohol consumed by regular heavy-drinking households was valued at around R5.00 or less

[80] World Health Organisation. (2010). *Global strategy to reduce the harmful use of alcohol.*
[81] Anderson, M.D. et al. (2021): Impact of minimum unit pricing on alcohol purchases in Scotland and Wales: controlled interrupted time series analyses. Accessible at https://doi.org/10.1016/S2468-2667(21)00052-9
[82] WHO European Region (2020). Alcohol pricing in the WHO European Region, Update Report on the Evidence and Recommended Policy Actions
[83] Walbeek, C. & Chelwa, G. (2021). The case for minimum unit prices on alcohol in South Africa. *The South African Medical Journal (SAMJ)*, Vol. 111, No. 7 https://doi.org/10.7196/SAMJ.2021.v111i7.15430

per standard drink (i.e. this group pays very low prices for their alcohol). It concludes that imposing a MUP appropriately above what regular heavy drinking households pay for alcohol will have the highest impact on alcohol consumption, even though this group is least price sensitive. This is mainly due to the propensity of regular heavy drinking households to consume low priced alcohol products and the MUP will disproportionately increases the price for heavier drinkers than for moderate drinkers. As noted in the recent WHO[84] publication, heavy drinkers tend to drink the cheapest alcoholic beverages, and minimum pricing is able to target heavy drinkers without burdening moderate or light drinkers.

9.5. Another complementary study[85] on South Africa considered the potential impact of MUP of R10 per standard drink (i.e. 15ml or 12 grams of pure ethanol) on alcohol consumption, spending, and health impacts. The study's estimates indicate that alcohol consumption will immediately reduce by about 4.4 per cent which is equivalent to 0.93 standard drinks per week, with heavy drinkers experiencing the highest reduction of about 1.48 standard drinks per week. Occasional binge drinkers and moderate drinkers experience a slight decline in alcohol consumption equivalent to 0.41 and 0.40 standard drinks per week, respectively. In its report, the WHO also noted that since on average heavier drinkers consume cheaper alcohol than moderate drinkers, an increase in prices for heavier drinkers through MUP will lead to greater reduction in consumption and even greater reductions in harm (WHO, 2020)[86]. For economic reasons, the least expensive alcoholic beverages are preferred by youth, heavy drinkers, and people of lower socioeconomic status (PAHO, 2019).

9.6. A number of countries, such as Scotland (2018), Wales (2020) and Ireland (2022), and Australian Northern Territory (2018) have implemented the MUP in the recent past and others are also considering this price measure. The Scottish government implemented a minimum price of 50 pence per unit of alcohol on 1 May 2018, as a key measure in its alcohol strategy and a mechanism to address high levels of alcohol consumption and related harms. It had estimated that alcohol was 60 per cent more affordable than it was in 1980, and needed to act to tackle low cost, strong alcohol which tends to be drunk by heavier drinkers (Scotland, 2018)[87]. This policy instrument is implemented as a mandatory condition of business licensed to hold premises and occasional license to trade in alcohol (i.e. both for on and off premises consumption). Non-compliance could lead to license reviews and ultimately to revocation.

9.7. The Scottish government estimates that the implementation of MUP would "*result in 58 fewer alcohol-related deaths and 1,299 fewer alcohol-related hospital admissions in the first year, and to 392 fewer alcohol-related deaths and 8,254 fewer alcohol-related hospital admissions over the first five years.*"[88] Some evaluation studies[89] have

[84] WHO technical manual on alcohol tax policy and administration. Geneva: World Health Organization; 2023. Licence: CC BY-NC-SA 3.0 IGO.

[85] Gibbs N, Angus C, Dixon S, *et al*. Effects of minimum unit pricing for alcohol in South Africa across different drinker groups and wealth quintiles: a modelling study. *BMJ Open* 2021;11:e052879. doi:10.1136/ bmjopen-021-052879

[86] WHO European Region (2020). Alcohol pricing in the WHO European Region, Update Report on the Evidence and Recommended Policy Actions

[87] Scotland Government (2018): Scottish Government Guidance on the Implementation of Minimum Pricing for Alcohol. *Accessible at* https://www.gov.scot/publications/guidance-implementation-minimum-pricing-alcohol/documents/

[88] Scotland Government (2018): Scottish Government Guidance on the Implementation of Minimum Pricing for Alcohol. Accessible at https://www.gov.scot/publications/guidance-implementation-minimum-pricing-alcohol/documents/

[89] Anderson, M.D. et al. (2021): Impact of minimum unit pricing on alcohol purchases in Scotland and Wales: controlled interrupted time series analyses. Accessible at https://doi.org/10.1016/S2468-2667(21)00052-9

already been conducted which indicates that there was a reduction in alcohol consumption after implementation of MUP especially in households which bought the most alcohol. However, it might still be early days for the long-term health outcomes to be evaluated. Wales followed on the Scottish example by implementing the 50 pence MUP in March 2020. Regulators in other jurisdictions are looking at these new developments as a learning to address similar alcohol related harms confronting so many countries.

9.8. Also, in Australia, the Northern Territory government introduced a MUP of A$1.30 per standard drink (i.e. 10 grams of pure alcohol) on 1 October 2018 to minimise the harms associated with high-alcohol, low-cost wine beverages, specifically cask wine. It was reported[90] that cask wine represented less than 5 per cent of the liquor consumed in the Northern Territory but due to its high alcohol content and low price, contributed massively to alcohol-related harms in vulnerable drinkers and disadvantaged communities. The results[91] after a year of implementation indicate a significant decline in per capita alcohol consumption of cask wine (i.e. 50.6 per cent) and total wine whereas for other beverages such as beer were largely not affected by the MUP. In this regard, National Treasury supports, in principle, the implementation of minimum unit pricing, and government collectively should consider how such a mechanism, given our context and alcohol related problems, could form part of the package of interventions.

9.9. This will require collaboration between several government departments that are involved either in the regulation of the alcohol industry or affected by the impacts of harmful consumption of alcohol. The departments required include the following:

- Department of Agriculture, Land Reform and Rural development (DALRRD) as the custodian of the Liquor Products Act which regulates the sale and production for sale of certain alcoholic products;
- Department of Health responsible for public health and the regulation of the sale, manufacture, and importation of foodstuffs, under the Foodstuffs, Cosmetics and Disinfectants Act;
- Department of Social Development as the custodian of Prevention of and Treatment for Substance Abuse Act and leading government's Inter-Ministerial Committee (IMC) on Combating Alcohol and Substance Abuse;
- Department of Trade, Industry and Competition (the dtic) as the custodian of the Liquor Act, and regulates macro manufacturing and distribution of liquor;
- Provincial and local governments which are responsible the regulation of retail sale and micro manufacturing of liquor; and implementation and monitoring of by-laws, respectively; etc.

[90] The conversation (2021). A minimum price for alcohol helped curb problem drinking in the Northern Territory — is it time for a national rollout? https://theconversation.com/a-minimum-price-for-alcohol-helped-curb-problem-drinking-in-the-northern-territory-is-it-time-for-a-national-rollout-154829 accessed on 19 November 2021

[91] Taylor, N. et all (2021). The impact of a minimum unit price on wholesale alcohol supply trends in the Northern Territory, Australia. *Australian and New Zealand Journal of Public Health 2021 vol. 45 no. 1*

9.10. This measure will require careful consideration of monitoring and enforcement mechanisms needed for it to have the desired impact. This would be more so considering that, unlike excise duties which are collected at manufacturing or importation level, pricing policies are implemented at retail level, and the structure of this market is equally important (WHO, 2023)[92].

10. INTERNATIONAL OBSERVATIONS

10.1. Countries have been applying excise taxes on alcoholic beverage for a long period to either raise revenue and/or address alcohol-related harm and improve population health. Government recognises that the frameworks applied elsewhere may not necessarily be suitable for our context; nonetheless, it is still important to look at lessons that could be learnt for the optimal implementation of the excise framework in the country. These lessons include the tax bases, rate structures and rate adjustments, amongst others.

10.2. In the European Union (EU), the Directive 92/83/EEC on excise duties sets out the tax base, structures of excise duties and the categories of alcohol and alcoholic beverages subject to excise duty, whereas Directive 92/84/EEC sets out minimum rates that must be applied to each category of alcoholic beverage. EU member countries are free to apply excise duty rates above these minima, according to their own national needs. The Directive set the minimum rate at €0 for wine (still and sparkling) per hectolitre of product, for beer at €1.87 per hectolitre per degree alcohol, €45 for intermediate products (e.g. port, sherry) per hectolitre of product, and €550 for spirits per hectolitre of pure alcohol. This framework sets a differentiated tax structure which provides for different treatment of categories of alcoholic products (i.e. wine taxed per product volume, whereas beer and spirit based on alcohol content) and special rates for small producers.

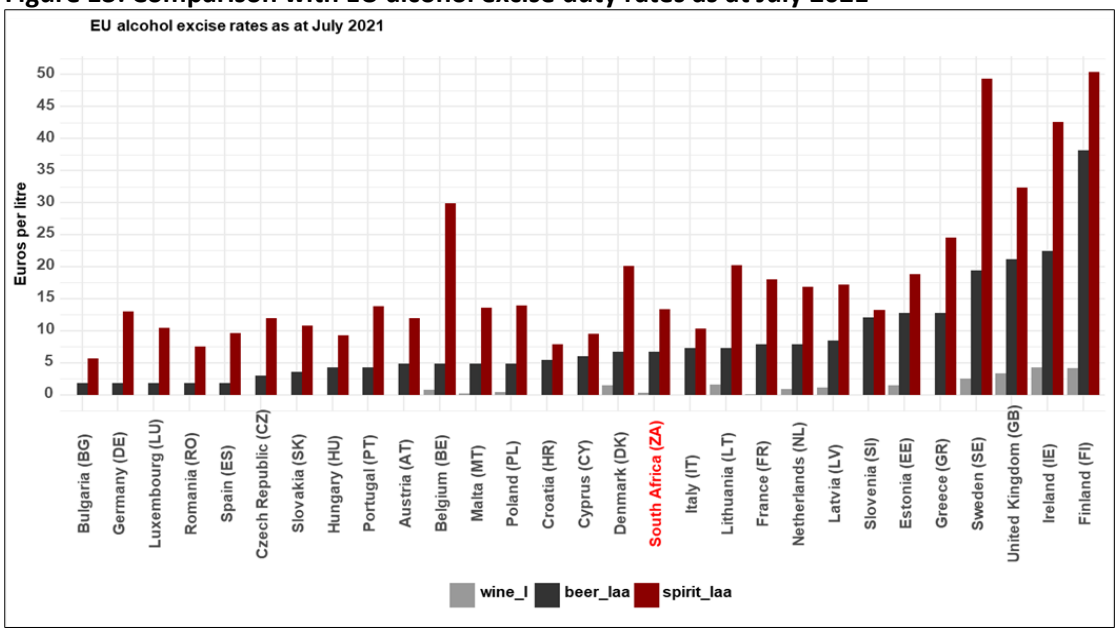
10.3. A study[93] comparing alcohol taxation throughout the European Union in 2018 found that in most countries, spirits are taxed at a higher rate per unit, in line with public health interests. However, in all but six countries the duty rate on 12.5 per cent ABV wine was lower than on 5.0% ABV beer. In other EU member countries, wine rates are as low as zero. The study argues that differences in production and distribution costs (and ultimately product prices) may be one of the compelling reasons, amongst a host of other reasons, for applying different rates for a unit of alcohol from different types of alcohol products, in addition to concerns regarding harm potential. It further observed that wine producing countries tended to have extremely low or zero rates of duty on wine, even though this is not similarly applicable for beer products. Incidentally, due to the high local production of cider, the United Kingdom is reported to apply low tax rate on cider products. This study only focused on alcohol duty rates and not the tax burden faced by consumers.

[92] WHO technical manual on alcohol tax policy and administration. Geneva: World Health Organization; 2023. Licence: CC BY-NC-SA 3.0 IGO.
[93] Angus, C. et al (2019). Comparing alcohol taxation throughout the European Union. *Society for the Study of Addiction*

10.4. Another study[94] focusing on the excise tax burden of 26 OECD countries found that even though there was a wide variation in excise tax burdens, spirits generally had a higher tax burden than beer, with wine bearing the lowest tax burden. Also, the tax burden on beer and wine were found to be lower than 30 per cent in 23 out of 26 of the countries for the period 2013 to 2018 and argue that there is scope for increasing alcohol excise taxes on these products. The study observed that "*the percentage of excise taxes in average off-premise alcohol prices was from 5% in Luxembourg to 59% in Iceland for beer, and from 0% in France to 26% in Iceland for wine*."[95] For spirits, the excise tax burden varied greatly based on the spirits concerned but ranged from 5 per cent of discount liquor prices in Czech Republic to 76 per cent in Sweden for Liqueur Cointreau.

10.5. The study further noted that there is a lack of systematic studies of excise tax burdens for alcohol despite many countries having implemented alcohol excise taxes and a globally established policy benchmark as is the case for tobacco control. This presents some difficulties in providing a comprehensive comparison between countries; however, lessons can still be learned from experiences in other jurisdictions. South Africa established[96] an excise tax framework, the benchmarks were determined in 2002 based on international research. Figure 13 shows the excise duty rates in the EU as of July 2021 and the observations above are evident. Wine is taxed relatively much lower than beer and spirits.

Figure 13: Comparison with EU alcohol excise duty rates as at July 2021



Source: Derived from www.taxfoundation.org

10.6. From the data that informed the graph above, the average excise in the European Union (including United Kingdom) stood at around Euros 18.32 and 8.55 per litre of

[94] Ngo, A.P. et al (2021). Alcohol excise taxes as a percentage of retail alcohol prices in 26 OECD countries. *Drug and Alcohol Dependence 219 (2021) 108415.*
[95] Ngo, A.P. et al (2021). Alcohol excise taxes as a percentage of retail alcohol prices in 26 OECD countries. Drug and Alcohol Dependence 219 (2021) 108415.
[96] National Treasury (2014). A Review of the Taxation of Alcoholic Beverages in South Africa. A Discussion Document

absolute alcohol for spirits and beer, respectively. For wine, the EU average stood at Euros 0.80 per litre. It is apparent that the South African excise taxes are below the average excise duties for all categories.

10.7. Other countries such as the Philippines applies a specific excise tax framework for distilled spirits[97], fermented liquors[98] and wines; however, for distilled spirits, the excise also includes an ad valorem component equivalent to 22 per cent of the net retail price per proof[99]. The excise duty on distilled spirit is based on per proof litre whereas for fermented liquors and wines is based on volume (i.e. per litre).

10.8. The Republic Act No. 11467, signed into law in January 2020, sets out a multi-year annual increases in excise taxes on alcohol products, amongst others. Wine excise duty increases are indexed by 6 per cent from January 2021, through revenue regulations issued by the Secretary of Finance. Other categories have specific amount of increases annually with indexation only starting from 2025 onwards. The table below shows the planned excise duty rates.

Table 1: Philippines alcohol excise duties[100]

Year	Spirit and distilled spirits (per proof litre)	Fermented alcohol (per litre)	Sparkling and still wine (per litre)
2020	P42	P35	P50
2021	P47	P37	P53
2022	P52	P39	P56.18
2023	P59	P41	P59.55
2024	P66	P43	P63.12
2025 onwards	Specific excise increase by 6% annually starting 1 January 2025		

10.9. Some reforms in the wine category were implemented in 2020, where the wine excise structure was consolidated into a single specific excise duty. Previously, wine excise was differentiated based on the type of wine, price, and alcohol content. Still wine containing less or equal to 14 per cent alcohol by volume levied 38 pesos per litre whereas still wine containing between 14% and 25% alcohol by volume levied 76 pesos per litre. Similarly, sparkling wine retailing for 500 pesos or less levied about 316 pesos per 750 ml, whereas that which retailed more than 500 pesos levied about 885 pesos per 750 ml. Fortified wine containing more than 25% alcohol by volume was taxed as distilled spirits.

10.10. From a policy and administrative perspective, this system seems to provide both certainty and simplicity, respectively; however, it raises equity concerns. All the revenues from the excise duties are used to partly fund the Universal Health Care,

[97] 'Spirits or distilled spirits' is the substance known as ethyl alcohol, ethanol or spirits of wine, including all dilutions, purifications and mixtures thereof, from whatever source, by whatever process produced, and shall include whisky, brandy, rum, gin and vodka, and other similar products or mixtures.

[98] Fermented Liquors refers to beer, lager beer, ale, porter and other fermented liquors regardless of whether they are manufactured in factories or sold and brewed at micro-breweries or small establishments such as pubs and restaurants, except tuba, basi, tapuy and similar fermented liquors

[99] 'Proof spirits' is liquor containing one-half (1/2) of its volume of alcohol of a specific gravity of seven thousand nine hundred and thirty-nine thousandths (0.7939) at fifteen degrees centigrade (15˚C). A 'proof litre' means a litre of proof spirits.

[100] Republic Act No. 11467. Accessible at https://lawphil.net/statutes/repacts/ra2020/ra_11467_2020.html

attainment of the Sustainable Development Goals, medical assistance, and the Health Facilities Enhancement Program.[101]

10.11. Canada, which performs better than South Africa in a number of WHO alcohol prevalence indicators, deals with the issues related to alcohol harm by applying a different excise duty structure. The excise duty structure and rates[102] on alcohol products is regulated under the Excise Act, 2001 and rates are adjusted annually every April 1 based on changes to the Consumer Price Index. The legislation provides for different subcategories of spirits, wines and beer with differentiated excise duty rates as follows:

- **Spirits** – has two categories for spirits containing not more than 7 per cent and those spirits containing more than 7% absolute ethyl alcohol by volume. The former levied $0.337 per litre of spirits whereas the latter levied $13.303 per litre of absolute ethyl alcohol for the year 2023. The excise duty base is different in each case. The rate of special duty on spirits delivered to or imported by a licensed user is $0.12 per litre of absolute ethyl alcohol.

- **Wine** – has three categories for wines containing not more than 1.2%; those between 1.2% and 7%; and those containing more than 7% absolute ethyl alcohol by volume levying $0.022; $0.337 and $0.702 per litre of wine, respectively. In relative terms, the other categories are 3 and 48 per cent of the highest excise duty applied. A 100% Canadian wine made from honey or apples is not subject to excise duty, and wine that contains not more than 0.5% absolute ethyl alcohol by volume (referred to as non-alcoholic wine) is also not subject to excise duty.

- **Beer** – has three categories for beer containing not more than 1.2%; those between 1.2% and 2.5%; and those containing more than 2.5% absolute ethyl alcohol by volume which levied an equivalent of $0,029; $0,178 and $0,355 per litre of beer, respectively. In relative terms, the other categories are 8 and 50 per cent of the highest excise duty applied. Further, beer containing not more than 0.5% absolute ethyl alcohol by volume is considered as a non-alcoholic beer and not subject to excise duty. Other provisions related to reduced rates of excise duty on beer brewed by domestic brewers are not considered here.

10.12. The Canadian excise duty structure provides an example of how some of the policy issues raised earlier regarding the differentiated rates within alcohol categories could be applied in practice.

10.13. The Kenyan government impose specific excise duties on alcoholic beverages, with spirits attracting a higher specific excise than wine and beer. The current excise duty rates[103] are as follows:

- Wines including fortified wines and other alcoholic beverages obtained by fermentation of fruits levy around Sh. 243.43 per litre;

[101] Republic Act No. 11467. Accessible at https://lawphil.net/statutes/repacts/ra2020/ra_11467_2020.html

[102] Government of Canada (2022). Excise Duty Rates. Accessed at https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/edrates/excise-duty-rates.html on 06 July 2022

[103] Accessed on 31 January 2024 at https://www.kra.go.ke/images/publications/Legal-Notice-Inflation-Combined-excise-duty-adjustment-of-rates-for-inflation-October-2022.pdf

- Beer, cider, perry, mead, opaque beer, and mixtures of fermented beverages with non-alcoholic beverages and spiritous beverages of alcoholic strength not exceeding 6% levy around Sh. 142.44 per litre; and
- Spirits of undenatured ethyl alcohol, spirits liqueurs and other spiritous beverages of alcoholic strength exceeding 6% levy around 356.42 per litre.

10.14. Interestingly, the section 10 of the Excise Duty Act empowers the Commissioner-General of the Kenya Revenue Authority, subject to approval by the Cabinet Secretary for the National Treasury, to adjust the specific rate of excise duty once every year to account for inflation. The inflationary adjustment is calculated as the average rate of monthly inflation of the preceding financial year. Further, section 8 allows the Cabinet Secretary to amend the excise schedules by increasing or decreasing any rate of excise duty on excisable goods by an amount not exceeding ten per cent. Both these provisions set the parameters and affords the government the flexibility regarding the adjustments to annual excise duties. However, the Act has introduced an amendment that empowers the Commissioner, subject to approval by the Cabinet Secretary, to exempt specified products from inflation adjustment after considering the prevailing economic circumstances in respect of such products.[104]

10.15. There are other alcohol excise frameworks which may be considered complex. For example, the Australian excise duty framework comprises of four different tax structures i.e. for beer, spirits, ready-to-drink beverages and wines, and two different modes of taxation.[105] Beer, spirits and other excisable beverages are all classified as excisable alcohol products and subject to excise duties whereas wine is not regarded as an excisable beverage; however, it is subject to wine equalisation tax (WET). It is levied at 29 per cent of the wholesale value of wine, and applies to beverages where they contain more than 1.15 per cent by volume of ethyl alcohol such as grape wine (including sparkling and some fortified wine), grape wine products (such as marsala), fruit wines and vegetable wines, cider and perry (not all cider and perry), mead and sake.[106] Other excisable beverages (OEBs) are beverages containing more than 1.15% alcohol by volume including liqueurs, pre-mixed spirit-based drinks, which are a type of ready-to-drink (RTD) beverage, fermented products that aren't beer or wine such as cider.[107]

10.16. Beer is subject to eight different excise rates, and brandy is taxed differently from other spirits, while wine has its own special tax arrangements. Excise duty rates are expressed on a per litre of alcohol (LAL) for alcoholic products and are adjusted by applying the indexation factor[108] to the last duty rates and it is conducted twice a year (i.e. 1 February and 1 August), in line with the consumer price index.

10.17. New Zealand applies excise duties on all alcoholic beverages with more that 1.15% alcohol by volume (ABV). Beer, and spirits greater than 14% ABV, are taxed based on

[104] Accessed at https://www.rsm.global/kenya/sites/default/files/media/rsm_kenya_finance_act_2022.pdf on 06 July 2022
[105] Alexeev, S & Weatherburn, D. (2021). Australia's Current Alcohol Tax System Impedes Public Health Policy. accessed at https://www.austaxpolicy.com/australias-current-alcohol-tax-system-impedes-public-health-policy/ on 04 July 2022
[106] Australian Tax Office. Accessed at: https://www.ato.gov.au/Business/Wine-equalisation-tax/Products-WET-applies-to/ on 06 June 2022
[107] Australian Tax Office (2022). Excise on alcohol. Accessed at https://www.ato.gov.au/Business/Excise-on-alcohol/ on 04 July 2022
[108] The indexation factor is calculated by dividing the most recent June or December quarter CPI number (determined and published by the Australian Bureau of Statistics) by the previous highest June or December quarter CPI number occurring after the June 1983 quarter.

the volume or amount of pure alcohol in the product. However, wine is charged by the total volume of the product regardless of alcoholic strength.[109] Spirits with ABV greater than 14% are taxed at the highest rate, which is estimated[110] to be about 80 percent higher than the tax rate per litre of pure alcohol for beer and wine. The report further estimates that the excise incidence on alcoholic beverages varied between 15 to 22 per cent for wine, for beer around 20 to 30 per cent, and for spirits over 50 per cent in 2020. The excise duty rates are adjusted annually for inflation.

10.18. In addition, alcoholic beverages are subject to the Health Promotion Agency (HPA) levy, to fund the agency established to help prevent and reduce alcohol-related harm. The Pae Ora (Healthy Futures) Act 2022, empowers the Ministry of Health to determine the aggregate expenditure requirements of the agency and to impose the variable levy rates on different classes of alcohol to recover costs it incurs in addressing alcohol-related harm; and in its other alcohol-related activities. The HPA levy rates are substantially lower than the rates for alcohol excise tax, ranging from 0.56 to 14.42 cents per litre from June 2022.[111]

11. POLICY CONSIDERATIONS

Adjustment to the guideline benchmarks framework

11.1. Over recent years, excise duties on alcoholic beverages in South Africa have been increasing above the rate of inflation, whilst the weighted average retail prices of specific categories of alcoholic beverages have not kept pace. This has resulted in the excise incidence exceeding the guideline percentage. From a policy perspective, the main issue is not necessarily that excise duties are increasing above the inflation rate, considering that excise duties are meant to reduce affordability and consumption of alcoholic beverages over time. Rather, consideration should be given to whether reference to the current framework is still relevant and fit for purpose.

11.2. In the early years of the implementation of the policy framework, due to the low bases from which the adjustments were made, above inflation increases did not pose any significant policy issues. Since 2012 to date, the cumulative adjustments in the guideline incidence for wine, beer and spirit has been 0.3, 2.3 and 5.3 percentage point, respectively. This has partly led to the growing divergence, as described earlier, in excise duties between these alcohol categories, especially for spirits.

11.3. Therefore, an option for consideration is to either increase the guideline tax burden for all the alcohol categories or to do away with it completely. The first option will be to adjust the guideline excise incidence by 5 percentage points for wine and beer, and 6 percentage points for spirits (i.e. the incidence for wine, beer and spirits should be 16, 28 and 42 per cent, respectively). This option, however, does not resolve the policy

[109] Alcohol Healthwatch. Factsheet on excise duties. Accessed at https://www.ahw.org.nz/Portals/5/Images/Other/Alcohol%20Healthwatch%20Factsheet%20on%20excise%20duties%20FINAL%202021.pdf on 31 January 2024

[110] Ibid

[111] New Zealand Custom Services. Accessed on 31 January 2024 at https://www.customs.govt.nz/about-us/news/important-notices/new-health-promotion-agency-hpa--levy-rates-for-alcohol-from-30-june-2022/

issue of excise increases moving above the guideline framework as some of the categories would already be close to the adjusted thresholds. Unless the adjustments to the guideline incidence are significantly higher, this option will run into similar issues in a few years' time. The objective is to ensure that the desired real increases in excise duties, as demonstrated by above inflation increases implemented, are enabled through an alternate framework.

Targeted Band Framework

11.4. Using the weighted average retail price has always been criticised as it has the potential to confine the level of excise adjustments. Other countries, such as Kenya, have legislated for an excise duty adjustment based on inflation as a minimum standard, but also provide for an adjustment on excisable goods by an amount not exceeding 10 per cent. In the case of South Africa, others have urged government to consider excise duty adjustments based on inflation indexation plus a certain percentage.

11.5. Since the 2010/11 fiscal year, the annual excise duty adjustments have not been more than 10 per cent, except for spirits excise duty increases for the 3 years following the adjustment to the guideline incidence benchmark in 2012. Given these historical adjustments in excise duties, it is proposed for consideration the establishment of a policy framework where the adjustments are made within the bounds of expected inflation, as a minimum, with an upper limit of 10 per cent. This option could serve for a long time to come considering also that inflation rates in South Africa have been below 10 per cent since 1993, except in 2008 where it registered about 10.06 per cent. A variation of this option could consider a minimum inflationary adjustment plus a maximum of up to 4 percentage points above inflation. These options overcome the reliance on industry's price changes and pass-through of excise duty adjustment, as is currently the case, but also confines the discretionary powers on the amount of excise adjustment.

Other considerations: Wine

11.6. The recent amendments to the Liquor Products Act 60 of 1989 and the regulations following the new developments in the wine sector has necessitated reconsideration of the current excise policy framework specific to wine. The expansion of definition of wines to include a new category of low alcohol wines with alcohol content ranging from 0.5 to 4.5 per cent poses equity issues in the context of alcohol harm reduction through the tax system. If the current excise tax system for wine is not amended to remain consistent with the broader regulatory environment, it would imply that a litre of wine with alcohol content of 0.5 per cent, for example, will levy the same excise duty rate as another with 16.5 per cent of alcohol. Canada has addressed some of these equity challenges by implementing a progressive 3-band system of wine categories with differentiated excise duty rates per litre.

11.7. For South Africa to start addressing equity issues with the current system and introduce progressivity in the wine excise duty rate structure, an option for consideration could be to draw a distinction between the newly introduced low alcohol wine category with the current class of wines (being wines with alcoholic strength of at least 4.5 per cent by volume but not exceeding 16.5 per cent by volume). This implies that the wine category would have the following subcategories:

- wine of alcohol volume of 0.5 per cent but not exceeding and 4.5 per cent;
- wine of alcohol volume of 4.5 per cent but not exceeding and 9 per cent; and
- wine of alcohol volume greater than 9 per cent but not exceeding 16.5 per cent by volume.

11.8. The consequence of this structure is that low alcohol wines should be taxed at a relatively lower duty rate compared to the next category. This could take the form of a pegged excise duty rate per litre. Using the current rate, as an example, the low alcohol wine could be assigned the current rate (i.e. R4.96 per litre) whilst the wine with alcohol content ranging from 4.5 to 9 per litre is taxed at 1.4 times the current duty rate (i.e. R6,94 per litre) and the wine with alcohol content ranging from 9 to 16.5 per litre is taxed at 1.8 times current duty rate (i.e. R8.93 per litre). This limited number of bands balances the need to target cheap high alcohol content wine. Also, such changes would mean that excise duty rate for fortified wine (i.e. 8.36 per litre) will need to be adjusted accordingly given that the upper duty rate, in this example, is higher than for fortified wine. It should be noted however, that such a design could be very complex and would impose a high administrative burden on SARS and compliance burden on industry.

11.9. Alternatively, the taxation of wine products could be moved from the current volumetric basis to taxation based on absolute alcohol content. This system will simplify excise administration and enforcement for SARS than is currently the case with a volume basis of taxation. Further, the system will target the "*harm-inducing chemical – ethanol – directly, thereby curbing total ethanol consumption as well as consumption of high-strength alcoholic beverages*."[112] The policy advantage of an alcohol duty rate structure based on alcohol content (although not a uniform rate structure across all alcoholic beverage types at this stage) is that it more clearly promotes government's public health policy objectives (NT, 2014). This will certainly provide positive incentives for both producers and/or consumers to reduce ethanol supply and/or demand, respectively, as those with higher alcohol content will have relatively higher excise duty rates. More importantly, it will address the concern of cheap high alcohol content beverages, which the volumetric system fails to address.

11.10. Taxation based on absolute alcohol content does not necessarily imply equalisation of excise duty rates across all the alcoholic beverage categories. Currently, beer and spirits are taxed on absolute alcohol content basis but at substantially different excise duty rates. Similarly, if wine is moved to taxation based on absolute alcohol content basis, the excise duty rates need to be considered carefully, given that the absolute alcohol content for wine vary quite substantially from 0.5 to 16.5 for natural wine. As

[112] WHO technical manual on alcohol tax policy and administration. Geneva: World Health Organization; 2023. Licence: CC BY-NC-SA 3.0 IGO.

a start, one could consider converting the current volumetric excise duty rates to absolute alcohol content, as indicated earlier in this document, calculated by applying the weighted average absolute alcohol content of the wines within each wine product category.

11.11. The structural changes to the taxation of wine on absolute alcohol content would require a phased approach to allow all the role-players time to develop and implement the necessary system enhancements for administration and enforcement of such a system. These structural reforms could allow for consideration of narrowing of the excise duty rates differential between alcohol categories over time.

11.12. However, it is important to note that tariff determinations are not required for excise accounting of alcoholic beverages, irrespective of whether the product is taxed per absolute alcohol content or not. Tariff determinations are only necessary where the tariff classification of the product as wine has to be confirmed. Further, rule 47.04 of the Customs and Excise Act, 1964, provides in respect of wine that *"No new tariff determination application in respect of an existing determination is required for any change in the alcoholic strength or vintage of beverages classified under any subheading of heading 22.04 or 22.05, provided the alcoholic strength remains within the range specified in the subheading of the existing tariff determination."*

Other considerations: Beer and other fermented beverages

11.13. Over the years, excise duties on ciders and other alcoholic fruit beverages were progressively raised to levels comparable to the excise levied on malt beer and ultimately equalised on the per litre of absolute content basis from 2016/17. Further, the current tariff structure provides for different categories of unfortified fermented beverages with alcohol content ranging from 0.5 to 15 per cent by volume; however, the excise duty rate is the same.

11.14. To consider the request for government to introduce a more progressive excise duty structure for beer to further incentivise low alcohol content beer and other fermented beverages, an option for consideration could include that the current structure be subdivided in the following manner:

- beverages with an alcoholic strength of at least 0.5%, but not exceeding 2.5% by volume
- beverages with an alcoholic strength of at least 2.5%, but not exceeding 9% by volume;
- beverages with an alcoholic strength of at least 9%, but not exceeding 15% by volume.

11.15. The consequence of the proposed structure is that low alcohol beer and other fermented beverages should be taxed at a relatively lower duty rate compared to the other categories. This could take the form of a pegged excise duty rate per litre of absolute alcohol. Using the current rate, as an example, the low alcohol beer and other fermented beverages with alcohol strength of at least 0.5% but not exceeding 2.5% could be assigned the current rate (i.e. R121.41/li aa), whilst the next category

with alcohol content ranging from 2.5 to 9 per cent by volume are taxed at 1.2 times the current duty rate (i.e. R145.69/li aa), and the last category with alcohol content ranging from 9 to 15 per cent by volume are taxed at 1.4 times current duty rate (i.e. R169.97/li aa). This limited number of bands balances the need for a more progressive system. It should be noted, however, that such a design could be very complex and would impose a high administrative burden on SARS and compliance burden on industry.

Other considerations: Spirits

11.16. Currently, the spirits category is taxed much higher than other alcohol categories for well-known reasons, and the excise duty rate divergence from others has increased over the years. Hence, the consideration for adjustment on other alcohol categories will also narrow the divergence of excise duty rates. For now, no further adjustments are proposed for consideration for the spirit category. However, any new regulatory development as discussed above will be considered in the future in the same manner.

12. MISCELLANEOUS POLICY REFORM CONSIDERATIONS

Minimum Unit Pricing

12.1. The minimum unit price is not a tax instrument, but a pricing mechanism that sets the price floor below which no unit of alcohol should be sold. It prevents producers and retailers from absorbing some of the tax increases and reducing prices or offering massive, discounted prices on alcoholic products. Setting a minimum price per unit gram of alcohol reduces consumption of cheap alcohol and alcohol-related harm, and the WHO recommends its establishment and implementation, where applicable. There have been discussions and consideration of this policy instrument to complement the already existing policy interventions. Given the experiences of countries that have implemented it, National Treasury supports, in principle, the implementation of minimum unit pricing. Therefore, government collectively should seriously consider how such a mechanism, given our context and alcohol related problems, could form part of the package of interventions.

The timing of excise adjustment

12.2. Several taxpayers raised an issue of the timing of excise duty rate adjustments and the administrative burden and compliance complexities it creates. The current system is such that the excise duty rate adjustments are effective from 14h00 on the day of the Budget as the Minister of Finance makes the Budget Speech. Before that time, taxpayers who are supposed to implement and comply with such changes would not have knowledge of the exact level of adjustment in excise rates prior to the

announcement. Furthermore, taxpayers are expected to keep two sets of records for the month of February to account for before and after the rate adjustment.

12.3. To address this difficulty, an option for consideration is to implement the excise duty rates adjustments either on 1 March, or 1 April following the announcement in the budget to coincide with the tax year or government fiscal, respectively. Other taxpayers have suggested an option of timing the rates increase to correspond with the respective excise accounting and payment periods of the various excisable goods. This suggestion is not preferred, and it is generally out of line with other excise duty rates increases in the tax system and may bring with it some administrative complexities. Whatever effective date will eventually be implemented, there needs to be suitable anti-forestalling measures put in place. SARS has already started implementing anti-forestalling measures since 2021, pursuant to section 58A and 120 of the Customs and Excise Act, 1964.

THE TAXATION OF ALCOHOLIC BEVERAGES

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