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National Treasury
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Dear members of National Treasury,

Re: Comments on the 'Taxation of Alcoholic Beverages' discussion paper

Thank you for the opportunity to comment on the 'Taxation of Alcoholic Beverages' discussion paper published by National Treasury on 13 November 2024. We are based at the Research Unit on the Economics of Excisable Products (REEP), University of Cape Town. REEP comprises a group of researchers with extensive experience in the economics of tobacco and alcohol control. We aim to promote public health by providing independent and rigorous research. The unit is independent of the tobacco and alcohol industries. We are funded by international organisations such as the Bill & Melinda Gates Foundation, Cancer Research UK, and Vital Strategies.

The structure of this submission is structured as follows: (1) background, (2) policy considerations (section 11 of National Treasury's discussion document), (3) miscellaneous policy reform considerations (section 12 of National Treasury's discussion document), (4) illicit trade, and (5) summary of our recommendations.

1. BACKGROUND

1.1. Existing literature on the effectiveness of pricing policies

An increase in excise taxes that are passed on to drinkers in the form of higher prices (as opposed to the alcohol industry covering the costs) results in a reduction in demand. Numerous reviews of the scientific evidence have concluded that pricing policies are a highly effective and cost-effective measure to reduce alcohol-related harm.[1 2 3 4 5]

An extensive body of economic literature has established that the overall price elasticity of alcohol demand is negative, with an average value of approximately −0.5, meaning that for every 10% increase in the price, the demand for beer decreases by an average of 5%.[2 6 7]Excise tax and price increases have different effects on different categories of drinkers. The 2009 systematic review, which considered >100 studies and > 1,000 price elasticity estimates, found that heavy drinkers (price

elasticity of –0.21) responded less to price increases than moderate drinkers (price elasticity of –0.41).[2] The implication is that excise tax increases are not particularly well suited for targeting heavy drinkers. An excise tax increase may, therefore, be a blunt instrument to reduce alcohol use among heavy drinkers. Furthermore, heavy drinkers tend to buy cheaper and more potent alcohol than moderate drinkers.[8 9] Excise tax and price increases also have different effects on different alcoholic beverages. The global average price elasticity for wine is –0.7, and for spirits –0.8.[2]

In the South African context, the following price elasticities were used to investigate the feasibility of Minimum Unit Pricing (MUP): –0.45 for moderately drinking households, –0.35 for intermediate-drinking households, –0.22 for occasional heavy-drinking households and –0.18 for regular heavy-drinking households.[10]

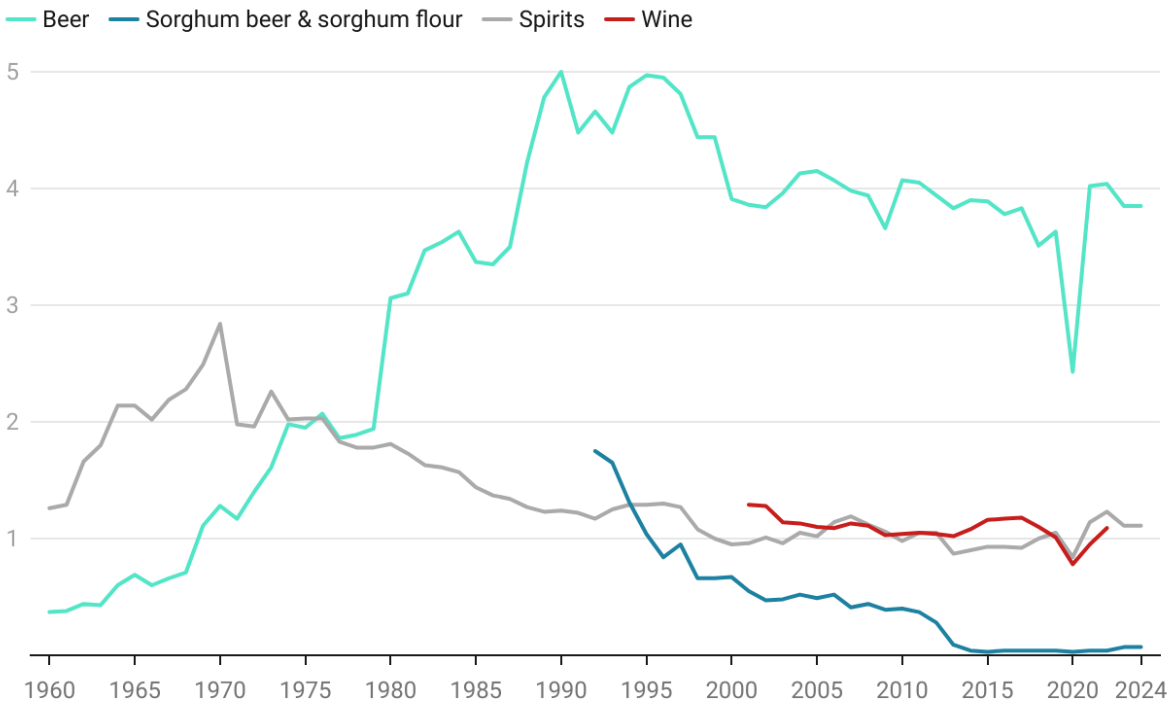
1.2. Alcohol consumption and heavy episodic drinking in South Africa

Alcohol consumption and heavy episodic drinking are major public health problems, contributing to violence, injuries, trauma presentations, and premature mortality.[11 12] The World Health Organization ranks South Africa as the country with the third highest per capita alcohol consumption in Africa, behind Namibia and Eswatini.[13] In 2012, alcohol-attributable harm in South Africa accounted for an estimated 7.1% of all deaths and 5.6% of all disability-adjusted life years DALYs.[14] Estimates from several publications indicate that the number of alcohol-attributable deaths in South Africa is in the range of 36,200 to 62,300 deaths per year.[14 15 16] A 2017 publication Popova, et al. [17] estimated the prevalence of foetal alcohol syndrome (FAS) in 180 countries. They found that South Africa has the highest rate of FAS in the world by far, estimated at nearly 600 cases per 10,000 people (i.e., 6%). The five countries with the highest prevalence of FAS per 10,000 people were South Africa (585.3), Croatia (115.2), Ireland (89.7), Italy (82.1), and Belarus (69.1).

The South African alcohol industry consistently argues that its contribution to the economy is substantial. Yet, the economic contribution of the alcohol industry is dwarfed by the costs of alcohol use, estimated at between R245 to R280 billion in 2009 (10–12% of GDP).[18] In comparison (although a different year: 2022/23 financial year), excise revenue from alcoholic beverages accounted for 2.5% of government revenue.[19]

Beer is the alcoholic drink of choice in South Africa (Figure 1). South African Breweries (SAB) dominate the beer market, with the three most popular brands (Carling Black Label, Castle, and Castle Lite) accounting for 56.2% of the total volume of beer sold in South Africa.[20]

Figure 1 | Annual per capita (age 15+) consumption (litres of pure alcohol)



For beer and spirits, the excise rate is based on litres of absolute alcohol (AA) so no assumptions on AA are necessary. For the products taxed by volume (wine, sorghum beer, and sorghum flour), the assumptions on AA are 10.5% for wine and 4.5% for sorghum beer and sorghum flour. 4.5% AA is the average for sorghum beer (3% AA) and sorghum flour (6% AA). In excise revenue data, the budget line is 'sorghum beer and sorghum flour', i.e., aggregated.

Source: Beer, spirits, and sorghum beer and sorghum flour: authors' calculations based on Auditor-General Reports and Budget Reviews. Wine: authors' calculations based on data from South African Wine Industry Information and Systems (SAWIS). Mid-year population estimates from Statistics South Africa. • Created with Datawrapper

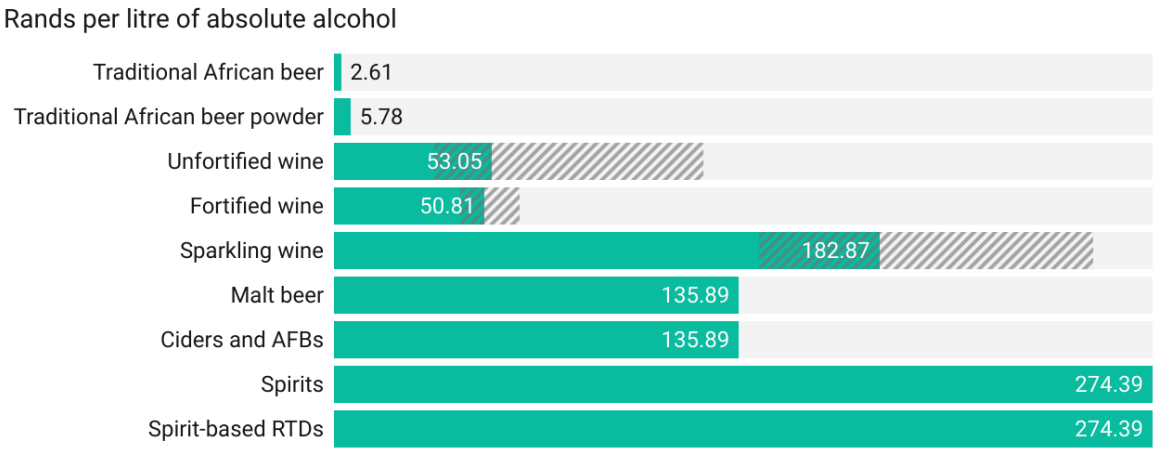
A central question to determine the appropriate tax policy design is which alcoholic drinks are causing the most harm. Excise taxes should be aligned to the externalities caused by alcohol harm. The cross-sectional International Alcohol Control (IAC) study conducted in 2014 in the Tshwane Metropolis is the only data we found that looks at the types of alcoholic beverages consumed by non-heavy and heavy drinkers. Eligible participants had to have consumed alcohol in the past six months and be 18 to 65 years old.[21] Heavy drinking was defined as consuming 96g of absolute alcohol or more (roughly eight standard drinks, or 120 ml of absolute alcohol) for men or 72g or more (approximately six standard drinks, or 90 ml of absolute alcohol) for women at any location at least monthly.[21] Although the data is weighted to represent Tshwane, it may not represent other parts of South Africa, but it is nevertheless useful. Among heavy drinkers, the most commonly reported primary beverages consumed at the primary drinking location were beer (57.5%), low-alcohol beer (1.1%), stout (0.9%) (total beer: 59.7%), cider (15.6%), wine (13.9%), spirits (10.2%), and home-brewed beer (0.8%). Together, heavy drinkers drank 93.9% of the absolute alcohol.[21] Despite the alcohol industry's claims that only a small proportion of alcohol is consumed in a harmful way, the evidence clearly shows that most alcohol is consumed by drinkers who consume it in a harmful way.

1.3. Alcohol excise taxes in South Africa

There is much scope to increase excise taxation on alcohol. Compared to cigarettes, alcohol excise taxes have increased by a much lower percentage over an extended period. Between 1990 and 2024, the real (inflation-adjusted) cigarette excise tax increased by more than 600%. Over the same period, the real excise tax on spirits increased by about 150%, and the real excise tax on beer increased by about 90%. In recent years, National Treasury has increased the excise tax on alcohol by slightly more than the inflation rate. Such modest increases in the excise tax do very little to reduce alcohol consumption. Nationally-representative survey data from 2015 indicates that alcohol use (any amount) was reported by 33.1% of the South African population aged 15+ (47.7% males, 20.2% females).[22] In 2015, the prevalence of self-reported binge drinking as a percentage of the total population was 14.1% (22.8% males and 6.4% females).[22]

Substantial differences exist in the excise tax on different categories of alcohol (Figure 2). Spirits attract the highest excise tax per litre of absolute alcohol: double that of malt beer and other fermented beverages. The excise tax per litre of absolute alcohol for unfortified wine is a fifth of the excise tax on spirits. This divergence harms public health, as consumers can trade down to cheaper and lower-taxed alcoholic beverages.

Figure 2 | 2024/25 excise rates, based on absolute alcohol content



The assumptions on the percentages of pure alcohol for drinks taxed by volume are as follows: Traditional African beer 3%, Traditional African beer powder 6%, unfortified wine 10.5% (range: 4.5-16.5%), fortified wine 18.5% (range: 15-22%), and sparkling wine 9.75% (range: 7-12.5%).

Source: Calculations based on excise data from Republic of South Africa: National Treasury. Budget Review. 2024 • Created with Datawrapper

The rationale for the special dispensation for the wine industry was to create employment, support tourism, and enable a successful export industry. Yet, tourists can generally afford higher prices, and wine exported is not subject to local excise taxes. The international market has grown substantially in the past three decades.[23] Given that the export market is now well-established, the rationale for preferential treatment of the wine industry should be questioned.

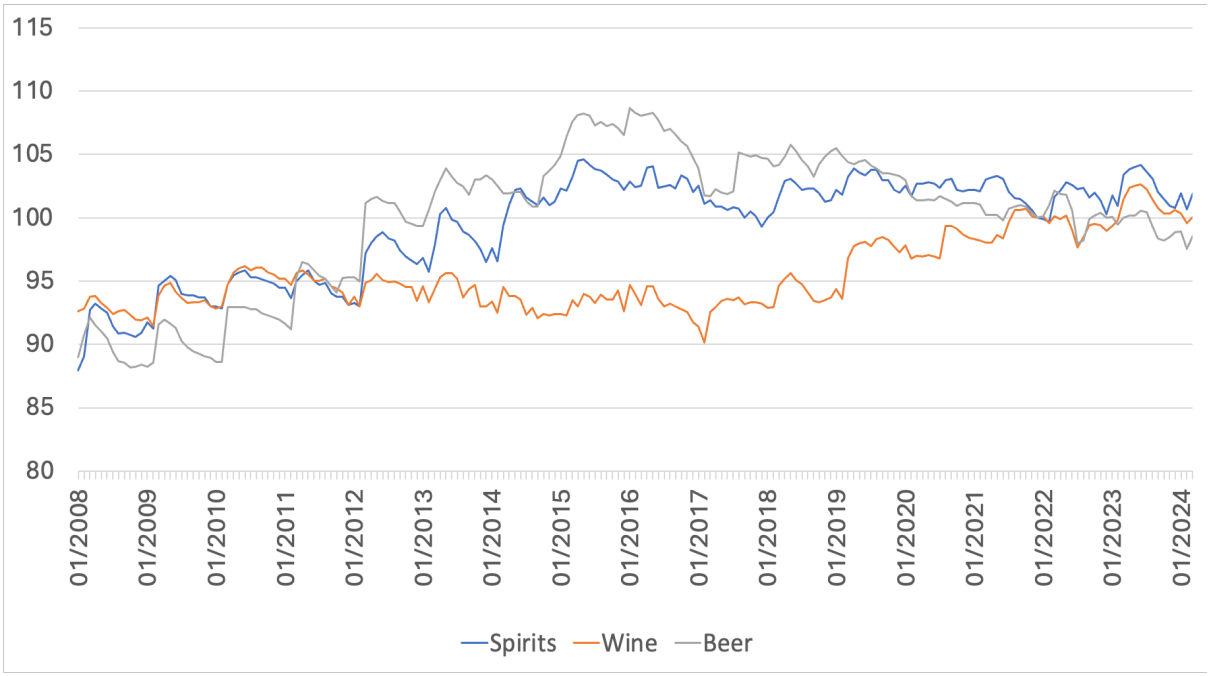
The low rate for wine reflects the historical and ongoing premise that South Africa is a wine-producing country. Whereas countries including Australia, France and Italy score very well on WHO's pattern of drinking score, South Africa's pattern of drinking is among the worst in the world.[4] Given that South Africa's drinking patterns do not correspond to the drinking patterns of most of the

prominent wine-producing countries,[4] the excise tax on unfortified and fortified wine should be set at a much higher level so that the excise tax better reflects the harm caused by wine consumption in South Africa.

1.4. Alcohol prices in South Africa

Publicly available data on historical average prices for spirits, wine, and beer were obtained online from Statistics South Africa.[24] Statistics South Africa provides an Excel file with monthly time-series data from January 2008 to the latest month (at the time of data collection, the latest month was March 2024).[24] Figure 3 shows inflation-adjusted prices for spirits, wine, and beer. Over the period January 2008 to March 2024, the inflation-adjusted average price of spirits increased by 15.9%. This increase occurred in the first half of the period. Over the period January 2008 to March 2024, the inflation-adjusted average price of wine increased by 8.1%, predominantly in the second half of the period. The average price of beer increased by 10.8% from January 2008 to March 2024, driven by increases in the first half of the period. From January 2016 to March 2024, beer became more affordable (the average price decreased by 9.3%), the affordability of spirits remained largely unchanged, and wine became less afforable.[24]

Figure 3 | Average real prices for spirits, wine, and beer (base: Dec 2021)



Source: Statistics South Africa. Time series data: Excel - - CPI(COICOP) from Jan 2008 (202403). https://www.statssa.gov.za/?page_id=1854&PPN=P0141&SCH=73791. 2024

2. POLICY RECOMMENDATIONS

2.1. Adjustment to the guideline benchmarks framework

The guideline excise tax burdens for wine, beer, and spirits have remained at 11%, 23% and 36%, respectively, of the weighted average retail price since 2012/13.[19] To calculate average prices, National Treasury requires detailed data from the alcohol industry. The drawback of this way of determining the increase in the excise tax is that it places too much power in the hands of the

alcohol industry. Their pricing decisions have a direct impact on the magnitude of the increase in the excise tax.[25] In addition, the industry can argue the average price down to reduce their tax liability.

The tax incidence for the first nine months of the current fiscal year is a reference point for the annual adjustments in excise duties for each alcoholic beverage category.[26] However, the actual adjustment in excise duties is calculated based on tax burdens derived from projected prices for the next fiscal year or the expected consumer inflation rate, whichever is higher.[26] This fall-back position ensures the market is not flooded with low-price alcoholic beverages to minimise the annual adjustment in excise duties.[26]

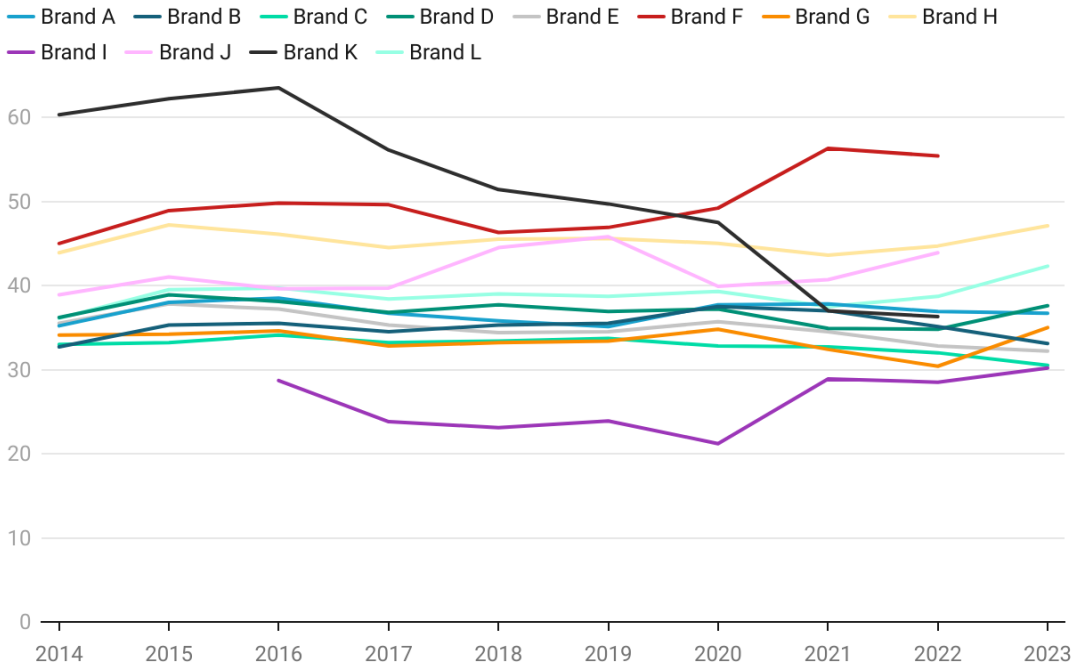
Even though the excise tax on alcohol is levied as a specific tax, South Africa's excise tax regime has characteristics of an *ad valorem* system.[25] The alcohol industry has a degree of control over the magnitude of the annual excise tax increases. For example, should SAB increase the net-of-tax price of beer by an above-inflation percentage, this would result in an above-inflation increase in the weighted average retail price of beer.[25] In the subsequent fiscal year, the Treasury would then increase the excise tax on beer by an above-inflation percentage to maintain the 23% excise tax burden. On the other hand, had SAB decided to increase the nominal price of beer by less than the inflation rate, the increase in the excise tax the following year would be equal to the expected inflation rate, in line with Treasury's principle that the excise tax should be adjusted to keep to the targeted benchmark, or the expected inflation rate (whichever is the highest). A below-inflation increase in the net-of-tax price, combined with an increase in the excise tax equal to the (expected) inflation rate, would thus increase the excise tax burden to more than the benchmark 23%. Unless for competitive reasons, it would not be in the alcohol industry's financial interests to increase the net-of-tax price by less than the inflation rate.[25]

We agree with the Treasury that over recent years, excise duties on alcoholic beverages have been increasing above inflation, while the weighted average retail prices of specific categories of alcoholic beverages have been below inflation. The alcohol industry has argued that the tax burden has been exceeded as a reason not to increase excise taxes even more.[27] If the industry passed through excise tax increases to consumers in the form of higher retail prices, the benchmarks would not be exceeded. A policy framework that delinks excise tax adjustments from the industry's retail pricing decisions will resolve the industry's complaints that the tax burden percentage is increasing and reduce the industry's power to set the excise tax level. **We strongly support doing away with the guideline tax burden for all the alcohol categories.** A targeted band adjustment on the excise duties framework is preferable.

Over the past decade, beer retail prices provide a great example of why the benchmark system is not working. Even though excise taxes have been increasing, retail prices have not. REEP obtained unpublished monthly beer price data (January 2014 to July 2023) from Statistics South Africa. A condition of data use is that the data must be anonymised. Using CPI data obtained online from Statistics South Africa, nominal prices were converted to real prices (base: December 2021).[24] Packaging sizes included: 330ml, 340ml, 440ml, 500ml, 660ml, 750ml, 6 x 340ml, 6 x 340ml, 6 x 440ml, 6 x 500ml, 24 x 330ml, and 24 x 450ml. Although the Statistics South Africa data do not capture 1L bottles of beer, they have existed since 2017 when SAB launched the 'Ama 1 litre' Black Label beer.[21] All data were converted to price per litre of beverage to facilitate comparisons.

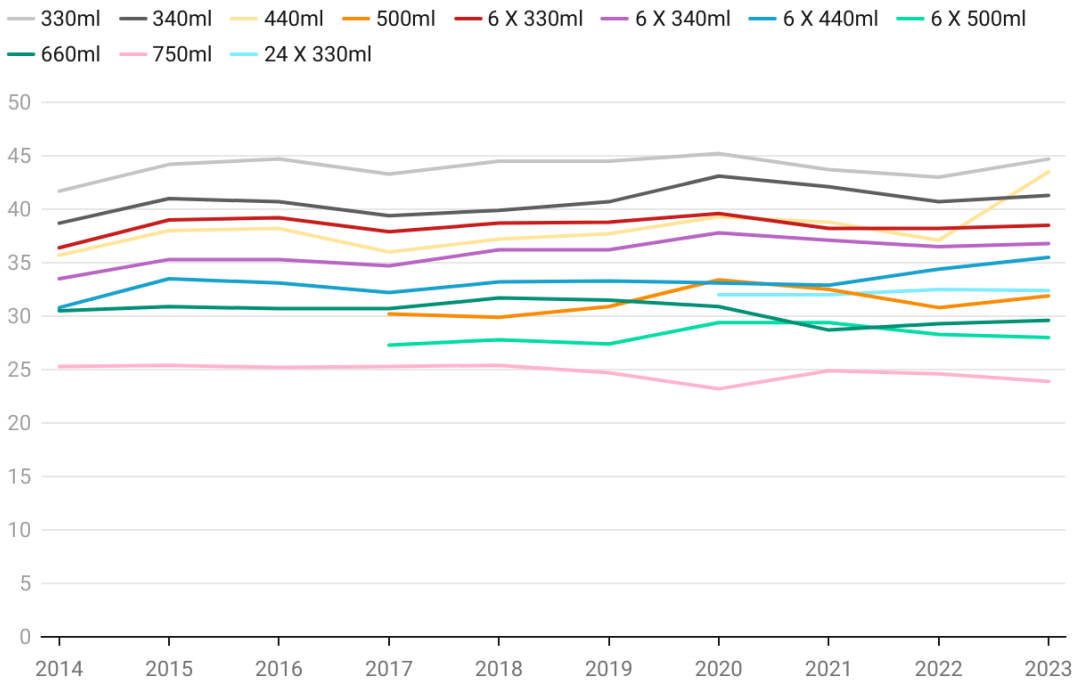
The real price for most beer brands remained roughly constant over the 10 years (Figure 4). From 2014 to 2023, the average retail price decreased from R35.72 to R34.49 (a 3.4% decrease), but the price changes differed for individual brands. Buying 330ml individual bottles is the most expensive way to purchase beer, while the cheapest is 750ml bottles (Figure 5). Purchasing 1L bottles (no price data) is likely even cheaper.

Figure 4 | Mean real price of beer per litre of beverage by brand (Rands, base: 2021)



Source: Statistics South Africa • Created with Datawrapper

Figure 5 | Mean real price of beer per litre by packaging type (Rands, base: 2021)



Source: Statistics South Africa • Created with Datawrapper

The two graphs above clearly indicate that the excise tax increases over the past decade have not resulted in higher beer prices. Higher beer prices are needed to make beer less affordable over time.

To investigate excise tax shares of beer, we look at the most popular beer brands in South Africa: Carling Black Label, Castle, and Castle Lite, which collectively account for 56.2% of the total volume of beer. Shoprite sells Carling Black Label and Castle Lager in 15 different packaging options for each brand, while there are 22 different packaging types for Castle Lite (Table 1). Generally, the price per litre decreases as packaging size increases. This holds within packaging size, e.g., buying 24 X 330ml bottles is cheaper than 1 X 330ml, and when packaging size increases, e.g., a 1L bottle versus a 330ml bottle. The most cost-effective way to purchase beer (any brand) is to buy 12 X 1L bottles of Carling Black Label (cost per litre of pure alcohol: R431.80) (Table 1). For Castle Lager and Castle Lite, the cost per litre of pure alcohol is the cheapest when buying 1 X 1L, even though both are sold in cases of 12 X 1L.

Table 1 | Beer (excise tax of R135.89 per litre of pure alcohol)

	Total ml	**Retail price on 4 March 2024**	**Excise tax**	**Excise tax share of retail price**	**Retail price per litre of beverage**	**Excise tax per litre**	**Cost per litre of pure alcohol**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Carling Black Label (5.5%)							
1 X 330ml (bottle)	330	15.99	2.47	15.4%	48.45	7.47	880.99
6 X 330ml (bottles)	1980	89.99	14.80	16.4%	45.45	7.47	826.35
12 x 330ml (bottles)	3960	164.99	29.60	17.9%	41.66	7.47	757.53
24 X 330ml (bottles)	7920	294.99	59.19	20.1%	37.25	7.47	677.20
1 X 330ml (can)	330	14.99	2.47	16.5%	45.42	7.47	825.90
6 X 330ml (can)	1980	89.99	14.80	16.4%	45.45	7.47	826.35
24 X 330ml (can)	7920	294.99	59.19	20.1%	37.25	7.47	677.20
1 X 500ml (can)	500	18.99	3.74	19.7%	37.98	7.47	690.55
6 X 500ml (cans)	3000	94.99	22.42	23.6%	31.66	7.47	575.70
12 X 500ml (cans)	6000	194.99	44.84	23.0%	32.50	7.47	590.88
24 X 500ml (cans)	12000	379.99	89.69	23.6%	31.67	7.47	575.74
1 X 750ml (bottles)	750	21.99	5.61	25.5%	29.32	7.47	533.09
12 X 750ml (bottles)	9000	264.99	67.27	25.4%	29.44	7.47	535.33
1 X 1000ml (bottles)	1000	23.99	7.47	31.2%	23.99	7.47	436.18
12 X 1000ml (bottles)	12000	284.99	89.69	31.5%	23.75	7.47	**431.80**
Castle Lager (5%)							
1 X 330ml (bottle)	330	14.99	2.24	15.0%	45.42	6.79	908.48
6 X 330ml (bottles)	1980	79.99	13.45	16.8%	40.40	6.79	807.98
12 X 330ml (bottles)	3960	134.99	26.91	19.9%	34.09	6.79	681.77
24 X 330ml (bottles)	7920	259.99	53.81	20.7%	32.83	6.79	656.54
1 X 330ml (can)	330	13.99	2.24	16.0%	42.39	6.79	847.88
6 X 330ml (cans)	1980	79.99	13.45	16.8%	40.40	6.79	807.98
24 X 330 ml (cans)	7920	259.99	53.81	20.7%	32.83	6.79	656.54
1 X 500ml (can)	500	16.99	3.40	20.0%	33.98	6.79	679.60
6 X 500ml (cans)	3000	94.99	20.38	21.5%	31.66	6.79	633.27
12 X 500ml (cans)	6000	174.99	40.77	23.3%	29.17	6.79	583.30
24 X 500ml (cans)	12000	349.99	81.53	23.3%	29.17	6.79	583.32
1 X 750ml (bottle)	750	19.99	5.10	25.5%	26.65	6.79	533.07
12 X 750ml (bottles)	9000	234.99	61.15	26.0%	26.11	6.79	522.20
1 X 1L (bottle)	1000	21.99	6.79	30.9%	21.99	6.79	**439.80**

12 X 1L (bottles)	12000	264.99	81.53	30.8%	22.08	6.79	441.65
Castle Lite (4%)							
1 X 250ml (bottle)	250	12.99	1.36	10.5%	51.96	5.44	1299.00
6 X 250ml (bottles)	1500	59.99	8.15	13.6%	39.99	5.44	999.83
24 X 250ml (bottles)	6000	214.99	32.61	15.2%	35.83	5.44	895.79
1 X 330ml (bottle)	330	15.99	1.79	11.2%	48.45	5.44	1211.36
6 X 330ml (bottles)	1980	89.99	10.76	12.0%	45.45	5.44	1136.24
12 X 330ml (bottles)	3960	164.99	21.52	13.0%	41.66	5.44	1041.60
24 X 330ml (bottles)	7920	279.99	43.05	15.4%	35.35	5.44	883.81
1 X 330ml (can)	330	12.99	1.79	13.8%	39.36	5.44	984.09
6 X 330ml (cans)	1980	89.99	10.76	12.0%	45.45	5.44	1136.24
24 X 330ml (cans)	7920	279.99	43.05	15.4%	35.35	5.44	883.81
1 X 440ml (bottle)	440	18.99	2.39	12.6%	43.16	5.44	1078.98
8 X 440ml (bottles)	3520	134.99	19.13	14.2%	38.35	5.44	958.74
24 X 440ml (bottles)	10560	384.99	57.40	14.9%	36.46	5.44	911.43
1 X 500ml (can)	500	18.99	2.72	14.3%	37.98	5.44	949.50
6 X 500ml (cans)	3000	99.99	16.31	16.3%	33.33	5.44	833.25
12 X 500ml (cans)	6000	184.99	32.61	17.6%	30.83	5.44	770.79
16 X 500ml (cans)	8000	199.99	43.48	21.7%	25.00	5.44	624.97
24 X 500ml (cans)	12000	300	65.23	21.7%	25.00	5.44	625.00
1 X 660ml (bottle)	660	21.99	3.59	16.3%	33.32	5.44	832.95
12 X 660ml (bottles)	7920	259.99	43.05	16.6%	32.83	5.44	820.68
1 X 910ml (bottle)	910	21.99	4.95	22.5%	24.16	5.44	**604.12**
12 X 910ml (bottles)	10920	279.99	59.36	21.2%	25.64	5.44	641.00

Sources: (1) Most popular brands from Euromonitor International, Alcoholic Drinks in South Africa, https://www.euromonitor.com/alcoholic-drinks-in-south-africa/report, June 2023; (2) Retail prices collected online on 4 March 2024 from Shoprite (https://www.shoprite.co.za) and Pick n Pay (https://www.pnp.co.za); (3) Excise tax rates from Republic of South Africa: National Treasury. 2024 Budget Review. https://www.treasury.gov.za/documents/National%20Budget/2024/review/FullBR.pdf. 2024

The cells highlighted in green in Table 1 Column 4 meet or exceed the 23% target. The excise tax share is an imperfect measure because it relies heavily on the price (which is the denominator). A small denominator yields a large tax share; a large denominator yields a small tax share. Take the example of a litre of beer with 5% alcohol from Table 1. The excise tax in 2024/25 is R6.79 (R135.89*0.05). To meet the 23% excise tax burden target, the retail price of 1L of beer must be R29.54 or less (R6.79/0.23). Any amount above R29.54 will result in an excise tax burden of less than 23%. The guideline excise tax burden is a seemingly contradictory measure:

- On the one hand, we want a high excise tax burden, which is generally met if the retail price – the denominator – is low. If the litre of beer is R20 instead of R29.54, the excise tax burden will be high, at 34% (R6.79/R20) rather than 23% (R6.79/R29.54).
- On the other hand, we want retail prices to be high, so drinks are less affordable. But a high retail price – the denominator – results in a low excise tax burden. If the litre of beer now costs R40, then the excise tax burden is 17% (R6.79/R40). Here, the tax burden is below the target, and the retail price is higher than the implied average price on which the target is based.

Is it better for beer to cost R20 (high excise tax burden) or R40 (low excise tax burden)? The latter is better from a public health perspective, even though the tax burden percentage is not met. National Treasury calculates the specific tax amount as a percentage of an 'average price', which is very shaky empirically. How do we know that the average price of beer is X and not

something higher than X? The alcohol industry has an incentive to make the recorded/official X as low as possible. For this reason, the alcohol industry challenges companies that calculate the average prices of beverages.[1]

(For a similar excise tax share analysis for cider, Ready-to-Drinks, spirits, and wine, see pages 68–71 of this report).

2.2. Annual excise duty rate adjustments

Regarding the option of a minimum inflationary adjustment plus a maximum of up to 4 percentage points above inflation, we strongly support adding a percentage point increase to the inflationary adjustment. However, we recommend scrapping 'a maximum', instead stating exactly what the percentage point above inflation will be. **We recommend increasing alcohol excise taxes by four percentage points above inflation for the next five or even 10 years**. This will ensure that alcohol prices become less affordable over time and also give the industry policy certainty.

Increasing the nominal excise tax by the sum of the inflation rate, the per capita GDP growth rate, and a specified percentage is an increasingly popular approach used in tobacco taxation. For eight years, from 2013 to 2020, the government of Australia increased the excise tax by 12.5% in excess of the growth in nominal wages (closely follows the sum of the expected inflation rate and the real per capita growth rate).[28] In the UK, the excise tax increases in line with the Retail Price Index plus 2% at each annual Budget, seemingly over an indefinite period.[29] Similarly, the Philippines government had a roadmap that spelt out the excise tax increases several years in advance. Through a multi-year approach, tax increases are more predictable.

Regarding the nominal adjustments being made with an upper limit of 10 per cent, we think it would be better not to have an upper bound, in the event that inflation is higher than we expect.

2.3. Other considerations: wine

The discussion document proposes a volume-specific tax on wine with alcohol-based tiers (Table 2). We support this proposal in principle, but we would like to suggest some changes to the bands. As with specific taxes based on alcohol content, placing wines with higher alcohol content in tiers with higher tax rates creates strong incentives for wine producers to lower their alcohol content and move consumers towards lower-alcohol wine (to the extent that this is possible in the production process).[4]

Treasury notes 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'. This has also been documented by the WHO, who notes that although well-designed tiers can sharpen the effectiveness of tax policy, they result in more complex tax administration.[4] Poorly designed tiers may bring no benefit and even result in unintended consequences (such as tax avoidance and evasion).[4] Tiered rates often provide more tax avoidance opportunities than a uniform rate, resulting in more leakages in tax revenue.[4 30] Tiered tax

[1] Conversation with a former beer-producer employee.

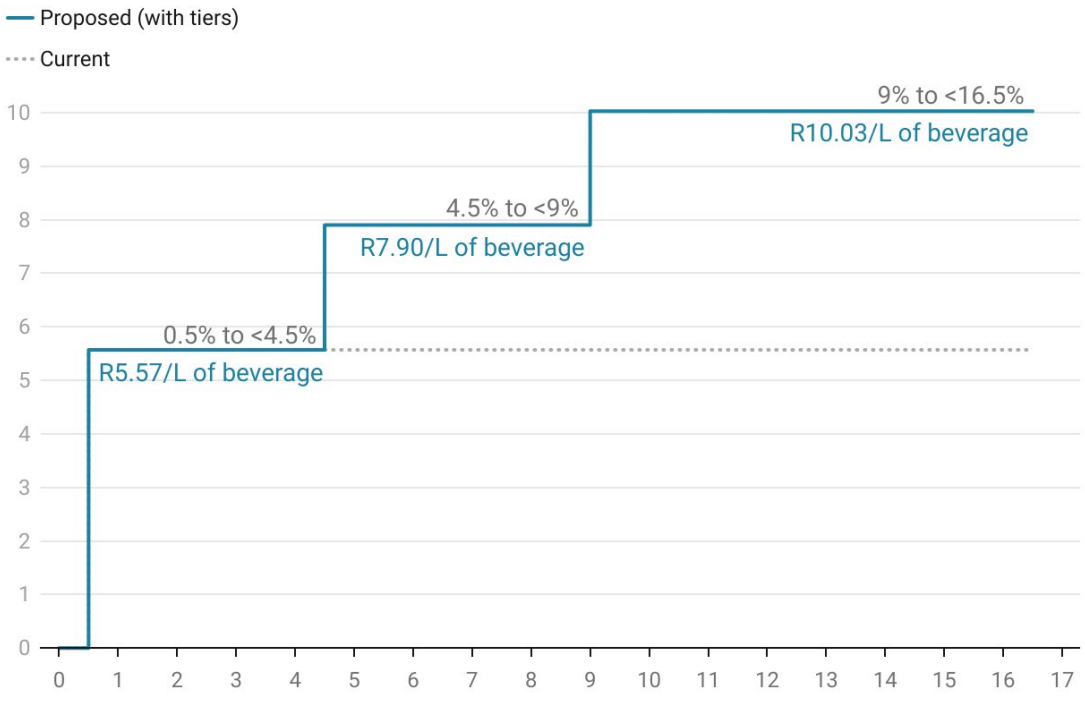
rates require strong tax administration to implement and enforce them. As with complicated tax structures, tiered rates may be challenging for low-capacity or poorly resourced tax-administration settings.[4] If National Treasury moves ahead with a tiered approach for wine (and beer), there will need strong support and capacity within SARS to enforce a tiered system. SARS will need to ensure that the appropriate tax is being applied and collected based on alcohol content, which would require measuring and verifying alcohol content.[4]

National Treasury proposes introducing tiers where wine with higher absolute alcohol (AA) is taxed at a higher rate (Table 2 and Figure 6). The excise tax remains the same within tiers. For example, the excise tax for wine is (1) R5.57 for 1 litre with 0.5% ABV and (2) R5.57 for 1 litre with 4.49% ABV.

Table 2 | National Treasury's proposal: Volume-specific tax, with alcohol-based tiers (2024/25 existing rates used as the base rate)

AA	Peg	Excise tax
0.5% – <4.5%	1	R5.57/L of beverage (2024/25 rate)
4.5% – <9%	1.4	R7.90/ L of beverage
9% – <16.5%	1.8	R10.03/ L of beverage

Figure 6 | Wine: excise tax by volume (1 litre of beverage)



Source: Research Unit on the Economics of Excisable Products, University of Cape Town. 2024/25 excise tax rate data from National Treasury's 2024 Annual Budget. Proposed tiers data from National Treasury's 2024 'Taxation of Alcoholic Beverages' documet. • Created with Datawrapper

In Table 3, we summarise the OECD countries that have wine tax tiers (volume-based specific (/HL of beverage) and alcohol-content-based specific (/L of AA). The countries were chosen because of their data availability.[31] The list of countries was taken from the OECD report,[31] and

additional information was then obtained directly from these countries' websites to update the rates to the most current ones.

Some observations from Table 3 include:

- The UK is the only country to apply an alcohol-content-based specific tax (/L of AA). The advantage of having the tax applied to each litre of pure alcohol (as opposed to litre of beverage) is that the tax amount changes within bands. For example, in the third band, a litre of wine with 4% AA will be subject to an excise tax of £0.99 (£24.77*0.04), while a litre of wine with 8% will be subject to double the excise tax of £1.98 (£24.77*0.08). However, the administration of this tax structure would be extremely complex, especially in a country with much local production (in contrast to the UK, where wine is mostly imported).
- The number of bands varies widely. Some countries have only two bands, while others have up to six.
- There is a wide variation in the uplift factor of the base rate. The lowest uplift factor is 1.5 in Sweden, while the highest uplift factor is more than 30 in Canada. The median uplift factor for the highest alcohol wine in the ten countries listed in Table 3 is 3.6.
- The proposal to have uplift factors in South Africa of 1.4 (for wine with 4.5% to 9% AA) and 1.8 (for wine with 9% to 16.5% AA) is substantially lower other countries. If National Treasury wants to incentivise producers to reduce the alcohol content, these uplift factors would have to be much larger.

Table 3 | OECD countries that have tiered excise taxes on wine based on alcohol content

Country	Type of excise tax	Tax tiers
Belgium[31]	Volume-based specific (/HL of beverage)	≤8% ABV: EUR 23.91/HL of bev >8% ABV: EUR 74.91/HL of bev (**3.1 X base rate**)
Canada (from 1 April 2024)[32]	Volume-based specific (/HL of beverage)	≤1.2% ABV: CAD2.20 /HL of bev >1.2% ≤7% ABV: CAD34.40 /HL of bev (**15.6 X base rate**) >7% ABV: CAD71.60 /HL of bev (**32.5 X base rate**)
Denmark[31]	Volume-based specific (/HL of beverage)	< 1.2% ABV: no tax ≥1.2% ≥ 6% ABV: DKK 518 /HL of bev > 6% ≥15% ABV: DKK 1126 /HL of bev (**2.2 X base rate**) > 15% ≥22 % ABV: DKK 1 508 /HL of bev (**2.9 X base rate**)
Estonia (from 1 January 2025)	Volume-based specific (/HL of beverage)	≤6% ABV: EUR 69.84 /HL of bev >6% ABV: EUR 162.97 /HL of bev (**2.3 X base rate**)
Finland (from 1 January 2025)[33]	Volume-based specific (/HL of beverage)	≤ 1.2% ABV: no tax >1.2% ≥ 2.8% ABV: EUR 36.00/HL of bev >2.8% ≥ 5.5% ABV: EUR 198.00/HL of bev (**7.6 X base rate**) >5.5% ≥8 % ABV: EUR 308.00/HL of bev (**8.6 X base rate**) >8% ABV: EUR 456.00/HL of bev (**12.7 X base rate**)
Ireland (current, exact dates not on website)[34]	Volume-based specific (/HL of beverage)	5.5% ABV: EUR 141.57/HL of bev >5.5% ≤15% ABV: EUR 424.84/HL of bev (**3.0 X base rate**) >15% ABV: EUR 616.45/HL of bev (**4.4 X base rate**)
Lithuania (current, exact dates not on website)[35]	Volume-based specific (/HL of beverage)	<8.5% ABV: EUR 109.00 /HL of bev ≥8.5% ABV: EUR 209.00 /HL of bev (**1.9 X base rate**)
Netherlands (from 1 January 2024)[36] [31]	Volume-based specific (/HL of beverage)	≤1.2% ABV: EUR 26.13 /HL of bev >1.2≥ 8.5% ABV: EUR 47.95/HL of bev (**1.8 X base rate**) >8.5% ≥15% ABV: EUR 95.69/HL of bev (**3.7 X base rate**)

Sweden (from 1 January 2024)[36] [31]	Volume-based specific (/HL of beverage)	≤ 2.5% ABV: SEK 0 /HL of bev >2.5% ≤4.5% ABV: SEK 1038 /HL of bev >4.5% ≤7% ABV: SEK 1534 /HL of bev (**1.5 X base rate**) >7% ≤8.5% ABV: SEK 2112 /HL of bev (**2.0 X base rate**) >8.5 ≤15% ABV: SEK 2958 /HL of bev (**2.8 X base rate**) >15.0 ≤18.0% ABV: SEK 6190 /HL of bev (**6.0 X base rate**)
United Kingdom (since 1 August 2023)[37]	Alcohol-content-based specific (/L of AA)	≤ 1.3% ABV: no tax >1.3% ≤ 3.4% ABV: GBP 9.27 /L of AA > 3.5% ≤ 8.4% ABV: GBP 24.77 /L of AA (**2.3 X base rate**) > 8.5% ≤ 22% ABV: GBP 28.50 /L of AA (**3.1 X base rate**) > 22% ABV: GBP 31.64/L of AA (**3.4 X base rate**)

Where to place the bands depends critically on the local market. In the latest SAWIS report (published in 2024), domestic sales in 2023 are reported as follows: 422.3 million litres of still wine, 26.4 million litres of fortified wine, and 15 million litres of sparkling wine. Of the 422.3 million litres of still wine sold in 2023, 77.3% were sold for R50 or less per litre, indicating that low-cost wine dominates the South African wine market (Table 4).[38]

Table 4 | Price per litre of still wine (includes local and imported wine), 2023

Price per litre	Litres (million)	Market share	<R50
< R30	168.3	39.9	
R30 – <R40	99.6	23.6	
R40 – <R50	58.4	13.8	77.3%
R50 – <R60	22.0	5.2	
R60 – <R70	16.5	3.9	
R70 – <R80	9.7	2.3	
R80 – <R90	8.4	2.0	
R90 – <R100	8.6	2.0	
R100 – <R120	13.3	3.2	
R120 – <R150	7.9	1.9	
R150 – <R200	5.4	1.3	
>R200	4.2	1.0	
Total	422.3	100.0%	

Source: South African Wine Industry Information and Systems. SA Wine Industry 2023 Statistics NR 48. https://www.sawis.co.za/info/download/Book_2023_Final_19_Jul_24.pdf

To explore which wines are falling into these low prices categories, we obtained data on brand market shares from Euromonitor International.[39] Distell holds a 35.4% market share of still light grape wine (SAWIS uses the term 'still wine', while Euromonitor uses the term 'still light grape wine'). The 35.4% market share is comprised three brands: 4th Street (18.7%), Paarl Perle (8.1%), and Drostdy-Hof (6.6%).[39] These wines have a relatively low alcohol content: 4th Street at 8% AA, Paarl Perle at 11.5% AA, and Drostdy-Hof at 8.5% AA. These wines are available in various packaging sizes, including the standard 750ml bottle (at all price points) and bag-in-box (at lower prices) (Table 5). For comparison, price per litre ≤ R50 is highlighted in yellow in Table 4 and in Table 5.

Table 5 | Still light grape wine (excise tax of R5.57 per litre of beverage)

	Total ml	Retail price on 4 March 2024	Excise tax	Excise tax share of retail price	Retail price per litre of beverage	Excise tax per litre	Cost per litre of pure alcohol
4th Street Sweet White (8%)							
1 X 750ml (bottle)	750	49.99	4.18	8.4%	66.65	5.57	833.17
1 X 3L (box)	3000	144.99	16.71	11.5%	48.33	5.57	604.13
6 X 3L (boxes)	18000	750	100.26	13.4%	41.67	5.57	520.83
1 X 5L (box)	5000	164.99	27.85	16.9%	33.00	5.57	412.48
4 X 5L (boxes)	20000	680	111.40	16.4%	34.00	5.57	425.00
Paarl Perle (11.5%)							
1L (bottle)	1000	39.99	5.57	13.9%	39.99	5.57	347.74
12 X 1L (bottles)	12000	446.76	66.84	15.0%	37.23	5.57	323.74
1 X 2L (bottle)	2000	69.99	11.14	15.9%	35.00	5.57	304.30
6 X 2L (bottles)	12000	394.68	66.84	16.9%	32.89	5.57	286.00
Drostdy-Hof Extra Light White (8.5%)							
1 x 750ml	750	54.99	4.18	7.6%	73.32	5.57	862.59
1 X 3L (box)	3000	149.99	16.71	11.1%	50.00	5.57	588.20
6 X 3L (boxes)	18000	870	100.26	11.5%	48.33	5.57	568.63
1 X 5L (boxes)	5000	189.99	27.85	14.7%	38.00	5.57	447.04
4 X 5L (boxes)	20000	720	111.40	15.5%	36.00	5.57	423.53

Sources: (1) Most popular brands from Euromonitor International, Alcoholic Drinks in South Africa, https://www.euromonitor.com/alcoholic-drinks-in-south-africa/report, June 2023; (2) Retail prices collected online on 4 March 2024 from Shoprite (https://www.shoprite.co.za) and Pick n Pay (https://www.pnp.co.za); (3) Excise tax rates from Republic of South Africa: National Treasury. 2024 Budget Review. https://www.treasury.gov.za/documents/National%20Budget/2024/review/FullBR.pdf. 2024

Given that 4th Street, Paarl Perle, and Drosty-hof are popular in the South African market, and that their alcohol content is in the range of 8–11.5 %, we suggest that the tiers be 4– <7%, and 7% – <16.5%. This will likely incentivise wine producers who make wine around 8% AA to reduce to <7% ABV. National Treasury may consider an additional tier within the 7% – <16.5% tier for wine.

The excise tax on fortified wine is R9.40 per litre in 2024/25 (1.8 times the rate of still wine). The excise tax on sparkling wine is R17.83 per litre in 2024/25 (3.2 times the rate of still wine). **We recommend increasing the uplift factors for fortified wine and for sparkling wine**, in line with the overall thinking of the Treasury regarding taxing wine per litre of beverage, but with higher uplift factors for higher strength products.

2.4. Other considerations: beer and other fermented beverages

National Treasury proposes introducing tiers within the existing alcohol-content-based specific tax (/L of AA) (Table 6). Figure 7 has excise tax per litre of AA on the y-axis, and Figure 8 has excise tax by volume (1 litre of beer) on the y-axis. If beer has 0.5 to 2.5% AA, then the excise tax rate is R135.89/L of AA; if beer has 2.5 to 9% AA, then the rate is R163.07/L of AA. Because the rates are based on AA, even within tiers, the excise tax for higher alcohol strength beer increases. In the 2.5% to 9% band: (1) excise tax on 1 litre of beer with 2.5% AA = R4.08 (0.025*163.07), while (2) excise tax on 1 litre of beer with 8.99% AA = R14.67 (0.0899*163.07). While we agree with introducing bands, the current bands will fail to meet the objective because most beer would sit in the middle band. In this case, the current rate of R135.89/L of AA could be increased to R163.07/L of AA without the

hassle of bands. We think the bands could be moved to strategically incentivise producers to decrease AA.

Table 6 | National Treasury's proposal (2024/25 existing rates used as the base rate)

AA	Peg	Excise tax
0.5% – <2.5%	1	R135.89//L of AA
2.5% – <9%	1.2	R163.07/ L of AA
9% – <15%	1.4	R190.25/ L of AA

Figure 7 | Beer: excise tax per litre of AA

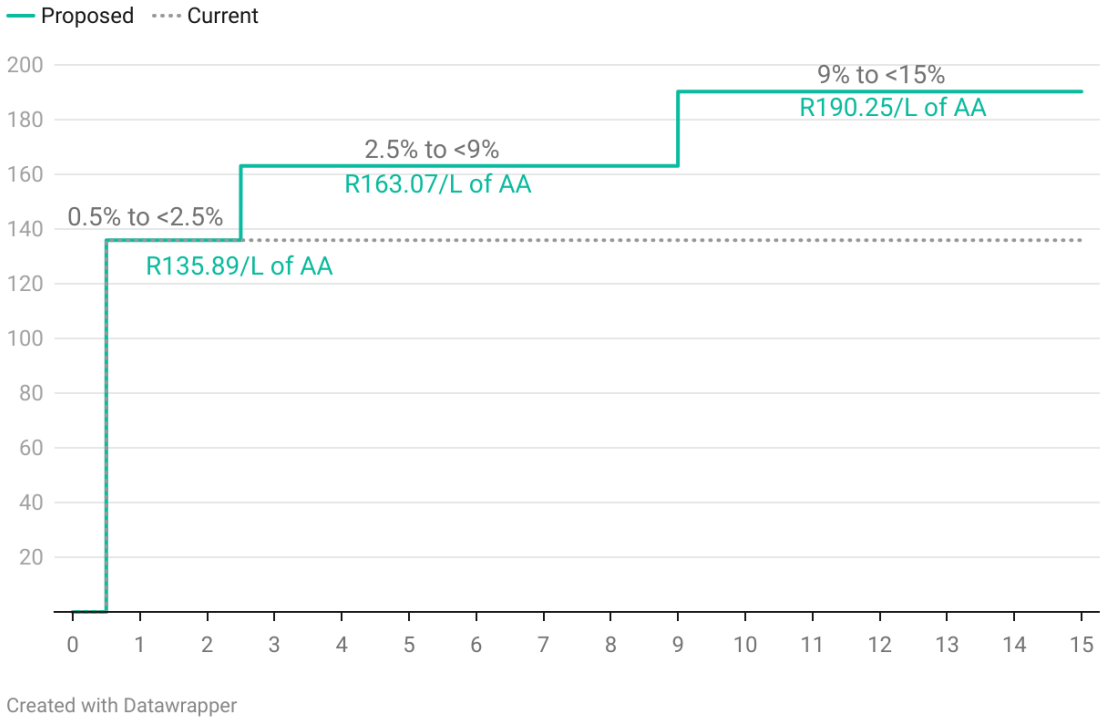
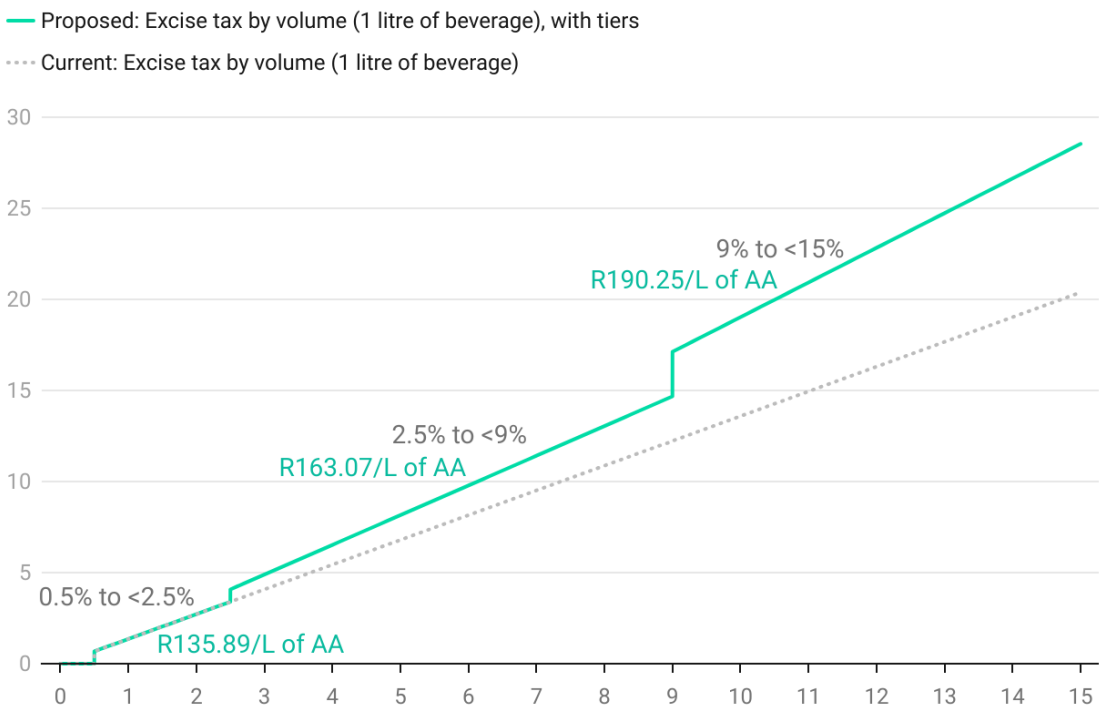


Figure 8 | Beer: excise tax by volume (1 litre of beverage)



Source: Research Unit on the Economics of Excisable Products, University of Cape Town. 2024/25 excise tax rate data from National Treasury's 2024 Annual Budget. Proposed tiers data from National Treasury's 2024 'Taxation of Alcoholic Beverages' documet. • Created with Datawrapper

To inform where the bands might be best placed, we looked globally. The WHO identified countries with alcohol-content-based tiers for beers (but not for wine).[40] The data extracted from the WHO's database is below (Table 7). The most common type of alcohol-content-based tax with bands is volume-based specific (n=11). Alcohol-content-based specific are also common (n=10).

Table 7 | Countries with alcohol-content-based tiers on beer

Tax type	Country/ Territory*	Example
Ad valorem	Democratic Republic of the Congo, Mexico, Paraguay	Mexico:[40 41] Ad valorem base: retail price excl. VAT and excise ≤14% ABV: 26.5% tax / L of bev >14 ≤ 30% ABV: 30% tax / L of bev >30% ABV: 53% tax / L of bev
Alcohol-content-based specific	Australia, Finland, France, Greece, Iceland, Ireland, Monaco, Papua New Guinea, Sri Lanka, UK	Finland:[33] ≤0.5% ABV: no tax >0.5 ≥ 3.5% ABV: 28.35 cent/centilitre of AA >3.5% ABV: 36.20 cent/centilitre of AA
Mixed – Volume-specific & Ad valorem	Gabon, Sao Tome and Principe, Senegal	Senegal:[40 42] Ad valorem excise of 40% (base: producer price). For beers with 6% to 18% ABV, a specific excise of 800 CFA francs per litre is added
Volume-based specific	Belarus, Canada, Fiji, Indonesia, Netherlands, New Zealand, Portugal, Russia, Seychelles, Switzerland, Vanuatu	Belarus: [4] 0.45 rubles (US$ 0.18) per litre for beer with an ABV of 0.5–7.0% and 0.96 rubles (US$ 0.38) per litre for beer with an ABV greater than 7%.
Volume-based specific and alcohol-	Norway, Spain	Norway:[43] ≤0.7% ABV: no tax

content-based specific		>0.7 ≤ 2.7% ABV: NOK 3.64 / L of bev >2.7 ≤ 3.7% ABV: NOK 13.68 / L of bev >3.7 ≤ 4.7% ABV: NOK 23.68 / L of bev > 4.7% ABV is NOK 5.29/ L of AA

**Source: World Health Organization. The Global Health Observatory: Global prices and taxes on alcoholic beverages [dataset].* https://www.who.int/data/gho/data/themes/topics/taxes-on-alcoholic-beverages. 2023.

Table 8 shows countries in the OECD with tiers in beer excise taxes. These examples show the significant variation in tiers and thresholds. There is almost no limit to how countries can apply tiers. Some observations drawn from the table include:

- Whereas excise taxes on wine were nearly exclusively based on the volume of the beverage, beer is more heterogeneous, with four countries levying the tax on the alcohol content, three countries levying the excise tax on the volume of beverage, and two countries with a mixed system.
- The median uplift factor for the highest-alcohol beer is 3.4, which is substantially greater than the uplift factor of 1.4 proposed for South Africa.
- The cut-off values for the various tiers differ substantially between countries. In some countries, like Australia, Canada, Finland, Ireland, and Norway, the highest tier starts at a relatively low alcohol concentration. These countries presumably want to incentivise producers to reduce the alcohol content further, even if it is already relatively low.

Table 8 | OECD countries that have tiered excise taxes on beer based on alcohol content

Country	Type of excise tax	Tax tiers
Australia (From 3 February 2025 to 3 August 2025)[44]	Alcohol-content-based specific (/L of AA)	<1.15% ABV: no tax Light: ≥ 1.15% <3% ABV: AUD 52.87 /L of AA Medium: ≥3% <3.5 ABV: AUD 61.57 /L of AA (**1.2 X base rate**) Heavy: ≥3.5 ABV: AUD 61.57 /L of AA (**1.2 X base rate**) (bottled, as opposed to kegs – the rates for kegs are less)
Canada (from 1 April 2024 to 31 March 2025)[32]	Volume-based specific (/HL of beverage)	<0.5% ABV: no tax >0.5 <1.2% ABV: CAD3.007 /HL of bev ≥1.2 <2.5% ABV AA: CAD18.12 /HL of bev (**6.0 X base rate**) ≥2.5% ABV: CAD36.23 /HL of bev (**12.0 X base rate**)
Finland (from 1 January 2024 to 31 December 2025)[33]	Alcohol-content-based specific (/ centilitre of AA)	≤0.5% ABV: no tax >0.5 ≥ 3.5% ABV: 28.35 cent/centilitre of AA >3.5% ABV: 36.20 cent/centilitre of AA (**1.3 X base rate**)
Ireland (current, exact dates not on website)[34]	Alcohol-content-based specific (/HL of AA)	≤1.2% ABV: no tax > 1.2 <2.8% ABV: EUR11.27 /HL of AA ≥2.8% ABV: EUR 22.55 /HL of AA (**2.0 X base rate**)
Norway (rates for 2024)[43]	Volume-based specific and alcohol-content-based specific (/L of beverage and /L of AA)	≤0.7% ABV: no tax >0.7 ≤ 2.7% ABV: NOK 3.64 / L of bev >2.7 ≤ 3.7% ABV: NOK 13.68 / L of bev (**3.8 X base rate**) >3.7 ≤ 4.7% ABV: NOK 23.68 / L of bev (**6.5 X base rate**) > 4.7% ABV is NOK 5.29/ L of AA
Portugal (rates as of 01 January 2024)[31]	Volume-based specific (/HL of beverage)	≤0.5% ABV: no tax >0.5. 1.2% ABV: EUR 9.64 / HL of bev >1.2 ≤2.8% ABV: EUR 12.06 / HL of bev (**1.3 X base rate**) > 2.8 ≤ 4.4% ABV: EUR 19.29 / HL of bev (**2.0 X base rate**) > 4.4 ≤ 5.2% ABV: EUR 24.13 / HL of bev (**2.5 X base rate**) > 5.2 ≤ 6% ABV: EUR 28.95 / HL of bev (**3.0 X base rate**) >6% ABV: EUR 33.85 / HL of bev (**3.5 X base rate**)
Spain (dates?) [31]	Volume-based specific and alcohol-content-based specific (/ HL of beverage and HL per degree Plato)	≤1.2% ABV: no tax >1.2 ≤ 2.8% ABV: is EUR 2.75/ HL of bev >2.8% ≤4.4% ABV: is EUR 7.48/ HL of bev (**2.7 X base rate**) > 4.4 ≤ 6% ABV: EUR 9.96/ HL of bev (**3.6 X base rate**) > 6% ≤ 7.6% ABV: EUR 13.56/ HL of bev (**4.9 X base rate**) >7.6% ABV: EUR 0.91/HL of bev and per degree Plato
Switzerland[45]	Volume-based specific (/HL of beverage)	Light beer (<10.0° Plato): CHF 16.88 /HL of bev Regular and special beer (10.1–14.0° Plato): CHF 25.32 /HL of bev (**1.5 X base rate**) Strong beer (from 14.1° Plato): CHF 33.76 /HL of bev (**2.0 X base rate**)
United Kingdom (since 1 August 2023)[37]	Alcohol-content-based specific (/L of AA)	≤1.3% ABV: no tax >1.3% ≤ 3.4% ABV: GBP 9.27 /L of AA > 3.5% ≤ 8.4% ABV: GBP 21.01 /L of AA (**2.3 X base rate**) > 8.5% ≤ 22% ABV: GBP 28.50 /L of AA (**3.1 X base rate**) > 22% ABV: GBP 31.64/L of AA (**3.4 X base rate**)

The current bands proposed for beer are unlikely to generate the desired objective of reducing alcohol harm because most beer would fall into the middle category (Table 9). Almost 90% of all beer sold in South Africa is in the range of 4–6% ABV (Table 9). Having a separate tier for beer

with more than 9% ABV does not seem appropriate because very little beer has such a high alcohol concentration.

Table 9 | 2023 beer brand market shares in South Africa

Brand	ABV	2023 market share
Carling Black Label	5.5%	23.5%
Castle	5.0%	17.9%
Castle Lite	4.0%	14.8%
Hansa Pilsner	4.2%	11.6%
Heineken	5.0%	5.9%
Amstel	5.0%	3.7%
Windhoek Lager	4.0%	3.3%
Chibuku	4.0%	3.1%
Flying Fish	4.5%	2.9%
Castle Milk Stout	6.0%	2.7%
Others		10.7%
Total		100%

Source: Euromonitor International. Alcoholic Drinks in South Africa. https://www.euromonitor.com/alcoholic-drinks-in-south-africa/report. June 2023 • Created with Datawrapper

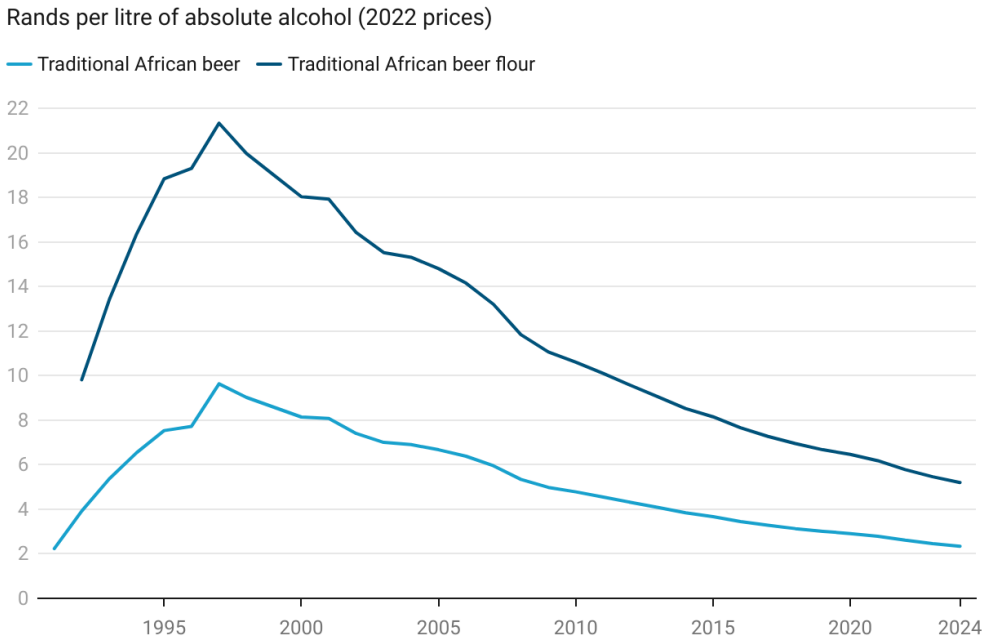
For beer, **we recommend that at least one additional tier be introduced in the 2.5–9% AA tier (2.5 – <3.5% and 3.5 – <9%)** so that beer producers will be incentivised to reduce the alcohol content of beer brands that have 4% AA to <3.5% AA. Should National Treasury want to consider more than one additional tax tier, having another tier at 5% would encourage beer producers with more than 5% AA to reduce this to below 5%.

Other beer products

The review document does not mention beer powder. Since 2001, the excise tax on Traditional African beer has been R0.0782 per litre of beverage and R0.347/kg for Traditional African beer flour. However, inflation has eroded this tax, which has decreased by more than 70% in real terms since its peak in 1997. This low excise tax will not have any deterrent effect (Figure 9).

At less than 8 cents per litre, traditional African beer is subject to the lowest excise tax by far. According to a 2014 National Treasury document, the low rate is due to the 'negative distributional effect' of alcohol taxation on the poor, and the risk that any significant taxation of traditional beer will lead to increased home brewing with potentially hazardous health results.[26] Along the same lines, National Treasury, in a 2023 document, noted: 'Traditional African beer has often been taxed lower to account for the negative distributional effect of alcohol taxation on the poor as this market is very informal and very small in South Africa'.[46]

Figure 9 | Excise tax on Traditional African beer and Traditional African beer flour



The assumptions on the percentages of absolute alcohol is 3% for Traditional African beer, and 6% for Traditional African beer flour.

Source: Excise tax rates retrieved from annual Budget Reviews. e.g., Republic of South Africa: National Treasury. 2024 Budget Review. https://www.treasury.gov.za/documents/National%20Budget/2024/review/FullBR.pdf. 2024. CPI data from Statistics South Africa. • Created with Datawrapper

In Budget Review 2022,[47] National Treasury, writing about beer powder, said, 'The current excise duty regime applies a flat excise rate for traditional African beer powder of 34.7c/kg. There are similar products in the market. In the interest of equity, these products will be included in the tax net with an excise equivalent to the powder rate from 1 October 2022'. This very low rate is inadequate to deal with new products such as Supa Ginja, which is beer powder used to produce an alcoholic ginger beer in 24 hours. On 29 March 2024, a 500g packet of Supa Ginja was sold at Shoprite for R22.99. The excise tax on this 500g packet of beer powder is only 17c (R0.347/2). All the consumer needs to do it mix the beer powder with 5L lukewarm water and the beer is ready to drink in 24hrs.

Supa Ginja is sold at retailers such as Shoprite, Checkers, and Cash & Carry – especially in rural areas. It has an alcohol content of 5–7%. These products lack any health warnings or legally required age limits on the packaging. Because the actual powder contains no alcohol, retailers sell it along with other food products instead of through their dedicated liquor outlets. The products gained popularity during the COVID-19 alcohol sales ban because, before water is added, there is no alcohol in the powder. Little is known about the market share of beer powder products. If consumers have cheaper alternatives to malt beer, alcohol consumption will likely increase. **We recommend that instant beer powder be taxed at a rate comparable to the rate of malt beer.**

While the best option would be to increase the excise tax on Traditional African beer and beer powder, if this is not feasible, an appropriately high tax should be imposed on instant beer powder by creating a new, separate category.

2.5. Other considerations: spirits

The discussion document does not cover the taxation of sugar-fermented beverages (SFBs). SFBs are made from cane sugar (sucrose), yeast, and water. SFBs sometimes contain cheap wine. According to an official from the Tax Policy Unit (personal communication, 11 September 2023), SFBs are taxed at the spirits rate (R274.39/L of AA) (this is also stated in a 2021 Euromonitor Consulting report[48]). SFBs fall under tariff sub-heading 2206.00.90 (Annexure Table C.4 of the 2024 budget), labelled 'Other' in the 'Other fermented beverages section' (tariff heading 2206).[19] SFBs fall under the punitive rate of R274.39 because their production process is much cheaper than other fermented beverages (taxed at a much lower rate of R135.89/L of AA or less).

In principle, SFBs are subject to the same tax as spirits. Anecdotal evidence suggests there are around seven leading cheap alcohol producers in the Western Cape. However, they sell at very low prices, suggesting that excise taxes on SFBs are not paid. SARS needs to investigate these producers. If SFB producers are not paying excise taxes, this is not a failure of excise tax policy but rather of implementation and enforcement.

3. MISCELLANEOUS POLICY REFORM CONSIDERATIONS

3.1. Minimum Unit Pricing

Another main proposal is the introduction of Minimum Unit Pricing (MUP), which we support. MUP do not serve as a substitute for excise taxes; they work alongside them to elevate the price of excessively cheap alcohol. This targeted approach is particularly effective because heavy drinkers typically opt for cheaper, higher-strength beverages. By increasing prices, MUP discourages excessive drinking and its associated health and social harms. MUP can, therefore, be more effective in reducing harmful drinking patterns than blanket taxation measures.

MUP operates as a legally mandated 'floor price,' preventing retailers from selling alcohol below a specified threshold.[49] Unlike increasing taxation, which affects the price of all products, MUP increases the price of only the cheapest alcohol. Since heavier drinkers typically favour cheaper drinks,[50] [51] MUP policies target the prices of the cheapest alcohol bought by heavier drinkers without significantly affecting the prices of alcohol purchased by moderate drinkers, who tend not to seek out the cheapest products.[52] To be most effective, MUP should cover all alcoholic beverages.

While excise taxes have been applied to alcohol for centuries, MUP was first applied in Scotland in 2012.[53] Scotland implemented MUP because they do not have the authority to increase excise taxes. As of June 2022, only 14 countries had minimum pricing policies on alcoholic beverages, with 11 in the WHO European Region (in the UK, only in Scotland and Wales).[54] In Canada, minimum pricing policies are in place in 10 of the 13 provinces.[54] In Australia, MUP is in place in one of the eight territories. Three countries have an MUP on all alcoholic beverages (Armenia, Ireland, and the UK (only in Scotland and Wales).[54]

The purpose of MUP is *not* to raise more revenue for the government but to increase prices, specifically for low-priced alcohol. Any extra revenue gained is to the benefit of liquor

manufacturers and/or retailers rather than the state, as in the case of excise taxes. However, the MUP has the potential to decrease state spending on addressing alcohol harms. If MUP were to be applied to alcohol in South Africa, then the authorities would have a strong case against shop owners, informal traders, and retail outlets who sell alcohol below the minimum unit price and confiscate the alcohol. Without MUP, retailers could argue that the tax has been paid (by the producer), but that they are selling the alcohol below cost as a loss leader.

MUP is good for public health because it discourages the heaviest drinkers from purchasing very cheap alcohol (which heavy drinkers often purchase). It is also helpful for the enforcement authorities; it gives them an additional tool to eliminate illicit traders because MUP makes it more challenging to operate in a cheap, illicit environment. The most significant criticism of MUP is that the additional spending on alcoholic beverages goes directly to the alcohol industry.

A substantial amount of research on MUP in South Africa has been done.[10 55-60] Van Walbeek & Chelwa (2021) found that irrespective of income group, binge and other heavy-drinking households in South Africa prefer cheaper alcoholic products, while moderate drinkers prefer more expensive ones.[10] The authors also found that a minimum unit price can have a substantial impact on the consumption of regular heavy drinking households, a lesser effect on occasional drinking households and a minimal impact on moderately drinking households. As the minimum unit price amount increases, the effect will also increase, but non-linearly.[10] The level at which the minimum price is set is crucial to its likely impact. The researchers worked with several options, but a value of R8 or R10 per unit of alcohol (15 ml) (in 2021 prices) gave the most promising results.

Gibbs et al. (2022) noted that a minimum unit price of R10 per unit of alcohol (15 ml) is likely to be regressive if the policy is assessed only in terms of alcohol expenditure and if the price elasticities of demand for alcohol in the South African literature are accurate.[57] They argue, however, that despite the possibility of an MUP being regressive on alcohol-dependent people, MUP should not be judged on financial (i.e., expenditure) grounds only, but also on health grounds.[57] MUP is associated with substantial health benefits (specifically reduced medical costs for alcohol-related ills and avoided alcohol-related deaths), which are accrued disproportionately by the poor.[57]

Considering how the MUP will impact retail prices, we present the following example of an MUP applied to spirits. A 750ml bottle of whiskey with 40% alcohol has 300ml of AA (750*0.40). Assuming that 1 unit of AA = 15ml of AA (the norm adopted in South Africa), the 750ml bottle of whiskey has 20 units of alcohol (300ml/15ml). Assuming that an MUP of R10 per unit of AA is applied to the bottle, the bottle should cost R200 (20 units*R10 per unit). The current (August 2024) retail price of a low-cost 750ml bottle of Three Ships Whiskey is R189 at Makro.

If an MUP on wine were to be introduced, the largest impact on retail prices would be on bulk purchases (Table 10 and Figure 10). The total millilitres of AA in one 750ml bottle with 11.5% AA is 63.75ml. The number of units (or standard drinks), assuming 15ml of AA/drink, is 4.3 (63.75/15). The MUP price would be R34 if the MUP is R8 (4.3*8). The price remains unchanged if the minimum unit price is lower than the current retail price. A minimum unit price of R8 would also make no difference to 1 X 3L or 6 X 3L, but does increase the price for 1 x 5L and 4 X 5L. One 5L box of wine has 425ml of AA (5000*0.085) and 28.3 units (425/15ml per unit). A minimum unit price of R8 would increase the retail price from R189.99 to R226.67 (28.3*8), i.e., an R36.68 (19.3%)

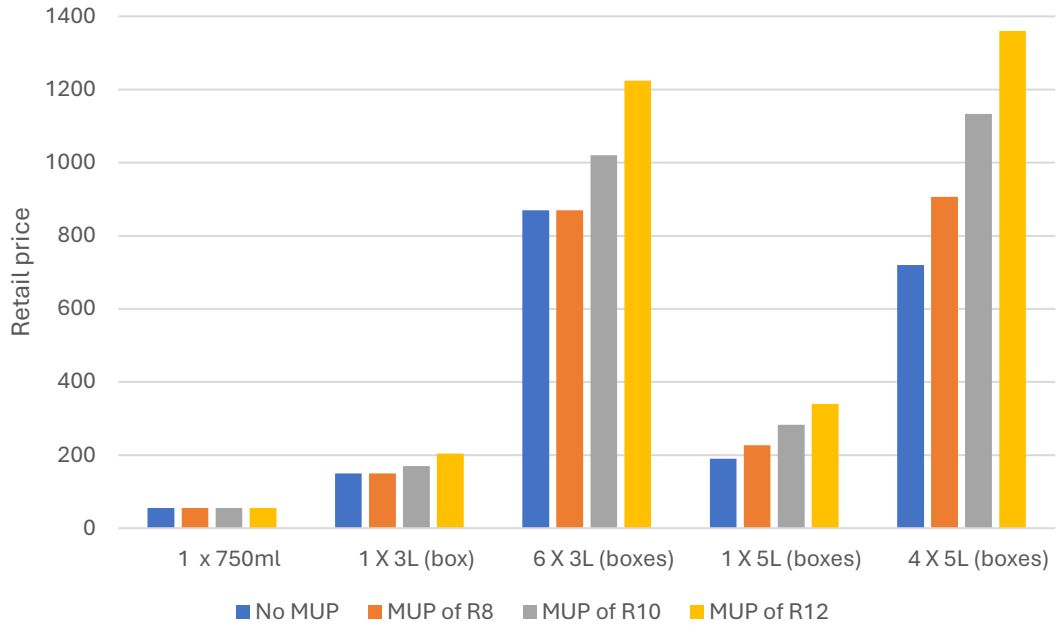
increase. A minimum unit price of R12 would increase the retail price of 4 X 5L from R720 to R1360 (89% increase).

Table 10 | The impact of MUP on retail prices of wine packaged in different sizes (using the example of Drostdy-Hof Extra Light White, 8.5% AA)

	Total ml of beverage	Retail price on 4 March 2024	Total ml of AA	Number of units (assuming 15ml of AA/ drink)	Price if MUP is R8 per unit	Additional industry margin	Price if MUP is R10 per unit	Additional industry margin	Price if MUP is R12 per unit	Additional industry margin
1 x 750ml	750	54.99	63.75	4.3	54.99	0.00	54.99	0.00	54.99	0.00
1 X 3L (box)	3000	149.99	255	17.0	149.99	0.00	170.00	20.01	204.00	54.01
6 X 3L (boxes)	18000	870.00	1530	102.0	870.00	0.00	1020.00	150.00	1224.00	354.00
1 X 5L (boxes)	5000	189.99	425	28.3	226.67	36.68	283.33	93.34	340.00	150.01
4 X 5L (boxes)	20000	720.00	1700	113.3	906.67	186.67	1133.33	413.33	1360.00	640.00

Note: Yellow cells show situations where prices would need to increase to ensure that MUPs of R8, R10, and R12 per unit are met.

Figure 10 | The impact of MUP on retail prices



We would like to highlight an excellent and comprehensive WHO publication on MUP in the European region. The reference is *World Health Organization: European Region. No place for cheap alcohol: the potential value of minimum pricing for protecting lives. https://www.who.int/europe/publications/i/item/9789289058094. 2022*

3.2. <u>The timing of excise adjustment</u>

We support implementing the excise duty rates on 1 March annually.

4. ILLICIT TRADE

Illicit alcohol can take several forms: (1) tax-evaded alcohol, where either registered or unregistered producers produce alcohol; (2) alcohol smuggled from other countries (either ethanol as raw material or finished product); (3) counterfeit (copying existing brands, or refilling empty bottles of legitimate brands), (4) illicit homebrew (home-made alcoholic beverages produced for commercial purposes without paying excise taxes), (5) surrogate alcohol (alcohol not meant for human consumption), or (6) high volumes of alcohol bought at duty-free shops and resold. Anecdotal evidence from a conversation with a SARS employee in March 2024 indicates that liquor is likely being smuggled into South Africa and bought at extremely low prices, undercutting tax-compliant alcohol producers.

Estimates published by WHO in 2024 indicate that in 2019 (three-year average of 2017, 2018, 2019), total alcohol per capita consumption (APC) among those aged 15+ was 8.8 litres of pure alcohol.[16] Of the 8.8 litres of pure alcohol, 7.4 was estimated to be recorded, while 1.4 is estimated to be unrecorded (illicit trade estimate of 15.9%).[2] [16] Estimates published by WHO in 2018 indicate that in 2016 (three-year average of 2015, 2016, and 2017), total alcohol per capita consumption (APC) among those aged 15+ was 9.3 litres of pure alcohol. [13] Of the 9.3 litres of pure alcohol, 7.1 was estimated to be recorded, while 2.2 is estimated to be unrecorded (illicit trade estimate of 23.7%).[13]

In a 2023 technical manual,[4] the WHO noted that taxation of wine using volumetric specific tax results in a common form of tax evasion in South Africa, where water is added (up to 25% of the volume) to duty-paid 'bulk wine' (wine not in packaging for retail sale) to increase the volume of 'wine' sold to the public.[4] In some cases, cheap alcohol (obtained from fermenting sugar with water and yeast) is added to bulk wine.[4] Tax evasion can also occur when bulk wine is cleared duty-free for distilling purposes (for example, to produce brandy) and subsequently sold as wine.[4] To address the high risk of illicit trade for bulk wine, the excise legislation was amended in 2013.[4] Strict licensing requirements are imposed on the movement of bulk wine, both domestically and for export.[4]

Euromonitor Consulting estimated that in 2020, 22% of the alcohol market by volume in South Africa was illicit.[48] It should, however, be noted that one should be cautious of these estimates of illicit trade in alcohol because (1) Euromonitor's estimates of illicit trade of *cigarettes* have been criticised for being inaccurate,[61] and (2) 2020 was an unusual year because of the more than 100 days of liquor sales bans which resulted in some people brewing their own alcohol, and/or obtaining alcohol through illicit means.[59] Euromonitor International's definition of illicit alcohol excludes homebrewed alcohol for own use.[59]

We estimated the illicit trade in *cigarettes* by applying the gap analysis technique.[62] [63] The number of illicit cigarettes is estimated by calculating the difference between the number of self-

[2] WHO description of the methods and data sources used to measure unrecorded APC is as follows: 'Unrecorded alcohol consumption was estimated as a percentage of total alcohol consumption. Country-level proportions of unrecorded alcohol consumption were estimated using a regression analysis. Estimates of unrecorded alcohol consumption were obtained from four sources: judgements from a WHO survey of experts; a WHO and CAMH nominal expert group Delphi survey assessing the proportion of unrecorded alcohol consumption in 34 WHO Member States where unrecorded APC was relatively large (Probst et al., 2018); a second WHO and CAMH nominal expert group Delphi survey of 129 experts from 42 WHO Member States; and the STEPwise approach to surveillance (STEPS) surveys (Probst et al., 2018).'

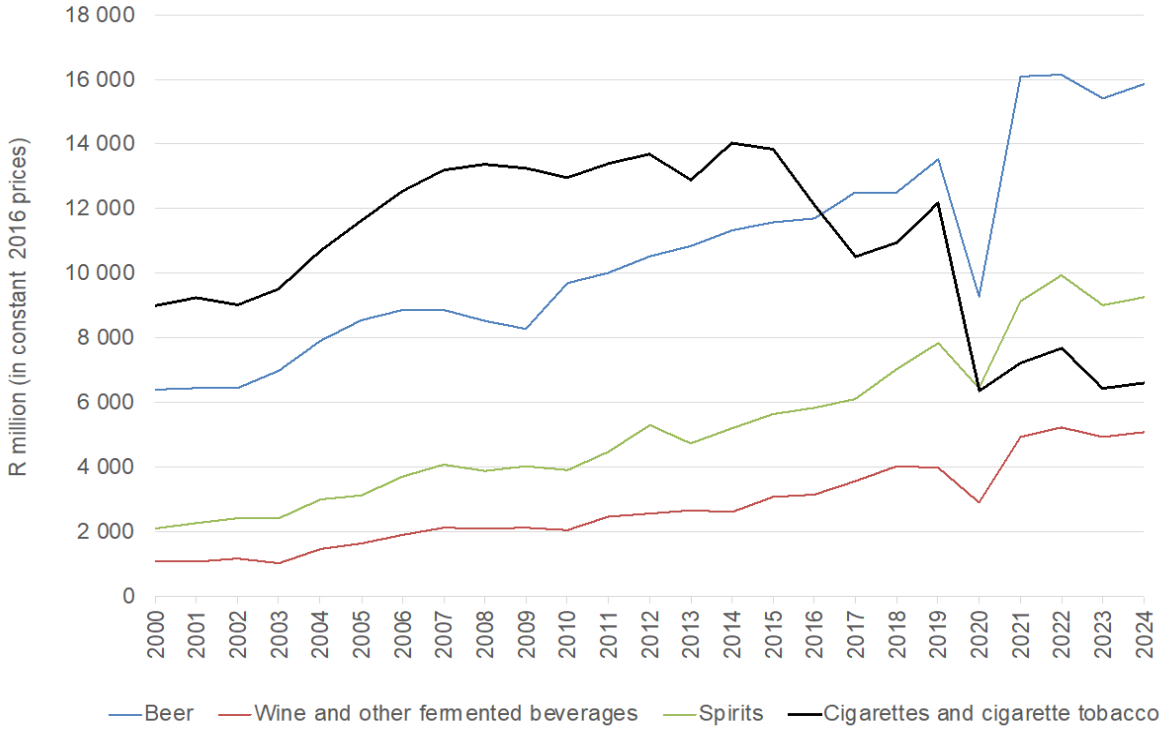
reported cigarettes (derived from nationally representative surveys and uplifted to account for under-reporting) and the number of legal (tax-paid) cigarettes (derived from government sources) from 2002 to 2022. In 2022, the cigarette illicit market accounted for around 60% of the total market.[63]

In any gap analysis, there are two unknowns: the number of illicit cigarettes and the level of under-reporting in survey data. The latter is a key assumption of the gap analysis. For cigarettes, people tend to under-report by only a small fraction (around 5–10%, and it could be as low as zero, i.e., no under-reporting). The under-reporting of alcohol is much more significant. A comparison between aggregate alcohol consumption, as reported by respondents to the NIDS surveys, and alcohol tax-based sales data indicates that NIDS respondents reported only about 22% of total recorded alcohol consumption in 2014/15.[22] A 2017 study found that NIDS 2012 covered only 14.6% (95% CI: 11.3% – 20.3%) of total per capita alcohol consumption.[64] Alcohol abstention is substantially less than reported, or consumption per drinker (on average) is much more than reported, or both. Because of significant under-reporting issues, we cannot use the gap analysis method to measure illicit trade in alcohol.

We can look at trends in consumption data and, from those trends, derive whether there are significant deviations, which could point to changes in illicit trade. Alcohol consumption is derived as total tax revenue, divided by the excise tax per litre of alcohol (or litre of beverage). Decreases in revenue-derived consumption can be affected by (1) increases in illicit trade or (2) actual decreases in consumption. We know that officially recorded alcohol consumption has remained essentially constant in the past few decades (estimated at 6.9 litres of pure alcohol per person per year in 2001 and 6.4 litres of pure alcohol per person per year in 2022) (Figure 1).

Figure 11 shows the real excise tax revenue from alcohol and tobacco from 2000 to 2024. From its peak in 2014, real *tobacco* tax revenue decreased considerably. It was lowest in 2020, driven by the 20-week sales ban in that year, but has recovered marginally subsequently. In contrast, no such downward trend exists for alcohol excise tax revenue. Other than a substantial dip in 2020 for beer and wine, which can be attributed to the numerous alcohol sales bans in that year, real excise tax revenue from alcohol has been increasing consistently over the past two decades. The increase in alcohol revenue (and therefore sales) is not due to rapid increases in household income because macroeconomic performance during this period has been weak. Based on this admittedly limited view of the market, arguments that the illicit trade in alcohol has increased sharply in the past years should be questioned. Whereas the increase in the illicit trade in *tobacco* products is reflected in the tax revenue numbers, there is nothing in the alcohol revenue numbers to suggest that this is a problem.

Figure 11 | Real excise tax revenues from tobacco and alcohol



Increasing excise taxes should be implemented together with adequate tax collection and enforcement capabilities. If alcohol beverage producers do not pay excise taxes, this is not a failure of excise tax policy, but rather of implementation and enforcement (the responsibility of SARS). To the extent that National Treasury can pressurise SARS to introduce a traceability system for alcohol. African countries with track and trace systems to curb illicit trade in alcohol include the Democratic Republic of Congo, the Gambia, Kenya, Malawi, Morocco, Sierra Leone, Togo, and Uganda. To this end we note a conference in Cape Town from 7–9 April 2025. According to the website: 'The Tax Stamp & Traceability Forum is a global event, inviting industry experts and sponsors to review, discuss and develop the excise duty on tobacco, alcohol, and other taxable goods. It provides an opportunity to investigate the challenges of illicit trade and its impact, the current initiatives, and solutions, and delve into successful case studies. The objective is to bring together governments, agencies, investigators, and relevant parties to learn and develop innovative solutions that will facilitate the tax stamp and traceability systems for a safer society.'

We agree with Treasury that: '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'.

5. RECOMMENDATIONS

In conclusion, our recommendations are as follows:

1. Do away with the guideline tax burden for all the alcohol categories.
2. For alcohol beverage types, we recommend increasing excise taxes four percentage points above inflation for the next 5 to 10 years, with no limit on total percentage increase (i.e., abandon the proposed 10% limit).
3. Revise the bands for wine and beer to strengthen the incentives for producers to reduce the alcohol content of their products. This can be done by choosing the tiers more appropriately (and possibly having more tiers) and significantly increasing the uplift factors (from the proposed 1.2 and 1.4 for beer and 1.4 and 1.8 for wine).
4. Increase the uplift factors for fortified wine (currently 1.8 X the base of still wine), and sparkling wine (currently 3.2 X the rate of still wine).
5. Allow for the opportunity to fine-tune the bands every year.
6. Increase the excise tax on instant beer powder at a rate comparable to the rate of malt beer.
7. Introduce MUP at the national level.
8. Request SARS to Investigate tax administration on sugar-fermented beverages. Even though they are subject to the same high spirits excise tax, the prices at which SFBs are sold suggest that excise taxes are not paid.

We would like to make a short presentation to the Committee about our research and potentially answer members' questions.

Best regards,

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