TRANSNATIONAL ALLIANCE TO COMBAT ILLICIT TRADE
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OFFICE OF THE DIRECTOR-GENERAL

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Jeffrey Hardy
Director-General
Transnational Alliance to Combat Illicit Trade
9 E 8th St #201, New York, New York, United States

Attention to Dr Duncan Pieterse

Director-General, National Treasury
Republic of South Africa

SUBJECT: ADDRESSING THE IMPACT OF ILLICIT ALCOHOL TRADE THROUGH STRATEGIC EXCISE TAX POLICY ADJUSTMENTS

Dear Dr Pieterse,

I am writing to you on behalf of the Transnational Alliance to Combat Illicit Trade (TRACIT), following the release of our updated research on illicit trade in South Africa and in consideration of the National Treasury's 2024 Draft Excise Policy Discussion Paper.

The TRACIT analysis highlights significant concerns about illicit alcohol trade in South Africa and identifies it as an aggravating factor for public health crises, the loss of government revenues, and the disruption of economic activity within the formal market. Our evaluation of the 2024 policy positions has raised several points that merit your attention, as they risk exacerbating, rather than alleviating, the rampant illicit alcohol problem.

The Link Between Illicit Alcohol and Excise Policy

As South Africa revisits its excise tax policy, it is crucial that this framework carefully strikes a balance between promoting public health objectives, securing government revenue, and limiting the unintended consequences of fueling illicit alcohol production and trade. South Africa already has one of the highest excise alcohol tax rates in the region. While targeting health priorities is noble, overly aggressive excise taxes on alcohol distort the market and diminish affordability for consumers. Many turn instead to cheaper, illicit options, which are untaxed, unregulated, and dangerous.

According to TRACIT's findings, illicit alcohol now comprises close to 20% of total alcohol consumption in South Africa, translating to billions of rands in lost government revenue annually. Our report emphasizes that excessive tax

burdens incentivize this behavior, making excise tax policy an indirect driver of the growing illicit trade. In light of these findings, we urge a thoughtful reconsideration of the excise tax policy changes proposed in the 2024 discussion paper.

2024 Draft Excise Policy Discussion Paper Concerns

While the draft excise policy discussion paper presents reforms that aim to modernize the tax system and improve alignment with broader goals such as public health and economic growth, several provisions appear problematic and risk unintended negative consequences:

1. High Rates and Steep Increases

The draft proposes aggressive annual escalations in alcohol excise taxes above inflation, combined with recommendations for significant upward adjustments to existing rates. While the intention is clear—to control alcohol consumption—it fails to consider the affordability challenges faced by ordinary South Africans. When taxed products become prohibitively expensive, consumers increasingly turn to untaxed, illicit alternatives. Empirical evidence from other markets demonstrates that sharp increases in excise taxes lead to growth in black-market activities, undermining the very goals of revenue collection and public health promotion. South Africa's illicit alcohol market is already expanding, and these proposals will likely exacerbate this trend.

2. Insufficient Measures to Address Illicit Trade

The discussion paper pays insufficient attention to measures aimed at countering illicit alcohol trade directly. While excise taxes are critical for revenue generation, robust enforcement mechanisms are equally vital in combating tax evasion and market distortions attributable to illegal alcohol sales. A more comprehensive approach is needed that combines taxation reform with targeted anti-illicit trade measures, such as enhanced tracking systems, improved law enforcement collaboration, and strengthened penalties for noncompliance. Without these complementary actions, excise tax policies will merely push more consumers and producers into the informal economy.

TRACIT's Recommendations to Strengthen South Africa's Excise Policy

To enhance the excise policy framework and mitigate the risks posed by illicit alcohol, TRACIT proposes the following adjustments:

1. *Moderate Tax Increases*: Adjust excise tax escalation rates that are closer to inflation so that it does not unintentionally push consumers away from the formal market. Annual adjustments should be predictable, gradual, and reflective of market realities such as average household affordability.

2. *Integrated Enforcement Mechanisms*: Prioritize investments in enforcement through modern technologies such as digital tracking systems, enhanced customs controls, and supply chain oversight. Combatting illicit alcohol trade requires tools that enable government agencies to detect, deter, and penalize illegal activities effectively.
3. *Public Awareness Campaigns*: Develop tailored campaigns that educate consumers about the health risks associated with illicit alcohol and the societal harm caused by tax evasion. Public messaging can play a pivotal role in shifting consumption patterns back to legal, taxed products.
4. *Strengthened Collaboration*: Collaborate with industry stakeholders, law enforcement, and international organizations to ensure that excise tax reforms align with a broader strategy to address illicit alcohol markets. Public-private partnerships can unlock innovative approaches to compliance monitoring and enforcement.

South Africa's excise tax policy framework for alcohol must address the urgent challenges posed by illicit trade while preserving public health objectives and securing stable government revenues. The draft 2024 excise policy discussion paper, in its current form, risks inadvertently incentivizing the growth of illicit alcohol markets by over-relying on aggressive tax measures without adequately addressing the drivers of illegal trade.

TRACIT is prepared to assist your office in refining the policy framework and implementing evidence-based strategies to combat illicit alcohol trade effectively. We strongly recommend using this opportunity to adopt a holistic approach, **combining excise taxation reform with targeted anti-illicit trade measures to safeguard South Africa's fiscal integrity and public health.**

I invite your office to engage further with TRACIT experts and access detailed insights from our updated research on illicit trade. Please do not hesitate to contact me directly to arrange a briefing or discussion.

Thank you for your attention to this critical matter.

Yours sincerely,

Jeffrey P. Hardy
Director-General
Transnational Alliance to Combat Illicit Trade
Jeff.Hardy@TRACIT.org / +1.239.935.9839