Hike on spirits risks fuelling illicit trade

Caution that price increases may jeopardise jobs and benefit criminal syndicates

The National Treasury held another virtual workshop on proposals to raise the excise duty on alcohol to curb excessive drinking in the country.

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By KHULEKANI MAGUBANE Glenfiddich
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• Multiple international organisations in the spirits industry have warned the National Treasury against introducing excise adjustments that could increase the cost of spirits, saying this would trigger a setback in the country's fight against illicit alcohol.

The Treasury held another virtual workshop on Thursday, to which Business Times was given access. It was part of consultations around proposals to raise the excise duty on alcohol to curb excessive drinking in the country.

Jeff Hardy, director-general of the Transnational Alliance to Combat Illicit Trade, said South Africa provided special insights into the criminal aspect of global illicit markets and corruption.

"The financial impact is significant. It cannot be ignored. You absolutely cannot ignore a loss or leakage of as much, I think, as 5% of your global GDP through these tax losses in the alcohol sector. So I wanted to address the excise taxes and what we see around the world."

Hardy said that, as seen during the Covid pandemic in South Africa, households increasingly turn to illicit products when price shocks occur for products like spirits; the higher the excise taxes imposed, the bigger the illicit market.

"Any economist is going to explain this to you very clearly. Price is the most significant driver of illicit consumption. When taxes increase the retail price of the legal product, the affordability gap is just too big. And for households, for low-income households or households that are struggling with inflation, like the households in South Africa, illicit alternatives become an attractive substitute."

He said South Africa's current average excise tax rate on beer and spirits was already 20% higher than the global average. For a G20 country and a leading economy in Africa, this should be an "unacceptable rate" and "unacceptable situation".

Currently, excise duty on a standard 750ml bottle of spirits amounts to R97.66, and the current proposals are broadly projected to raise beer excise by 20% if adopted.

Paco Soltero, director of public affairs at the World Spirits Alliance, said illicit alcohol was built into many markets.

It was not a passing problem, but occurred on a global scale and was becoming more concentrated.

"Four high-risk regions hold about 92% of illicit alcohol volume. Asia-Pacific leads in size. Sub-Saharan Africa has the highest share of any region. That matters for the design. A measure that works where enforcement is strong and illicit supply is low can behave very differently where illicit supply is widespread, feasible and cheaper. So tax policy has to be designed for the market it lands in."

Ilse Fieldgate, head of economic consulting and senior economist at Econometrix, said their research found the observed value of the illicit market was R25.1bn while the formal market was R39.8bn. She warned that the illicit market could displace thousands of jobs across 12 sectors.

However, Prof Charles Parry, chief specialist scientist at the South African Medical Research Council, said that while illicit trade was present, it was a minor policy risk, which required consistent enforcement, adequate track-and-trace systems, arrests, prosecutions and sanctions on the worst perpetrators.

"Unlike the case with tobacco, revenue data for alcohol shows an increase in recent years, discounting the view that the illicit trade is increasing rapidly... So the illicit trade is a reality, but it's a manageable policy risk."

Sars executive on excise, Anand

Khelawon, said Sars had been making progress and looking at using data, intelligence, and new track and trace technology to help fight illicit trade.

"There are men and women in Sars that put themselves, every day, in harm's way to stop this scourge. But we realise it's not a Sars problem alone. It is a combination of Sars, public institutions and even the private sector."

Chairing the workshop, Mpho Legote, the Treasury's director for VAT, excise duties and subnational taxes, acknowledged that the workshop was oversubscribed by submission requests, but the Treasury would continue to engage industry and stakeholders on the proposals.

R97.66

The excise duty on a standard 750ml bottle of spirits

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