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

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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: CHAPTER 8 ILLICIT TRADE IN ALCOHOLIC BEVERAGES

Dear Dr Pieterse,

I write on behalf of the Transnational Alliance to Combat Illicit Trade (TRACIT) in response to National Treasury's public consultation on the review of alcohol taxation.

As we warned in our 2025 report[1] – presented in May 2025 in collaboration with Business Unity South Africa – illicit trade imposes severe costs to South Africa's economy, fuels high levels of criminality, deprives the government of vital revenue, and exposes financially stretched households to the harms of illicit products. These losses are driven by illicit trade in a variety of sectors and particularly by illicit trade in alcohol, which comprises approximately 20 percent of total alcohol consumption in your country.[2]

The fiscal impact alone is substantial, whereas former SARS Commissioner Edward Kieswetter himself in 2024 estimated that trafficking in illicit alcohol drains excise-revenue collections of more than R11 billion every year.[3] More recent estimates cited in your Standing Committee on Finance's 2025 MTBPS report estimated annual fiscal losses between R16.5 billion and R25.1 billion.[4]

[1] TRACIT. (2025). South Africa's fight against illicit trade: A strategic review (2025). Transnational Alliance to Combat Illicit Trade. https://www.tracit.org/uploads/1/0/2/2/102238034/tracit_report_-_south_africas_fight_against_illicit_trade_-_a_strategic_review_2025.pdf
[2] WHO. (2025). Alcohol, unrecorded per capita (15+) consumption (in litres of pure alcohol). Retrieved from: https://www.who.int/data/gho/data/indicators/indicator-details/GHO/alcohol-unrecorded-per-capita-(15-)-consumption-(in-litres-of-pure-alcohol)-with-95-ci
[3] Jacobs, S. (2024, July 9). Edward Kieswetter watches R11 billion disappear. Retrieved from https://dailyinvestor.com/south africa/56985/edward-kieswetter-watches-r11-billion disappear/
[4] Parliament of the Republic of South Africa, National Assembly, Standing Committee on Finance. (2025, November 26). Report of the Standing Committee on Finance on the 2025 revised fiscal framework and revenue proposals. Announcements, Tablings and Committee Reports, No. 207—2025. Retrieved from: https://www.parliament.gov.za/storage/app/media/Docs/atc/01ls62wgg4zqixwxdktbai5rco4evcvz6v.pdf

Consequently, National Treasury should ensure that excise policy supports both revenue objectives and the sustainability of the legal alcohol market. While annual excise adjustments are expected, increases should not exceed inflation and should remain linked to the Consumer Price Index (CPI). Excise increases above inflation risk eroding affordability in the formal market, widening the price gap between licit and illicit products, encouraging down-trading to unregulated alternatives, and ultimately undermining revenue collection, public health objectives and economic growth.

## Limited affordability drives demand for illicit alcohol

Price is one of the most significant determinants of consumer behavior in alcohol markets. When taxes, tariffs or regulatory compliance costs substantially increase the retail price of legal products, the affordability gap between legal and illicit alcohol widens. This creates stronger incentives for consumers to purchase lower-cost illicit products—including smuggled, counterfeit, unrecorded, and informally produced alcoholic beverages—and increases opportunities for illicit suppliers to expand their market share.

The National Treasury's own report has estimated an average price differential of 43 percent between licit and illicit alcohol.[5] This affordability gap is particularly important in an economy facing sustained pressure on household incomes. This severe differential creates a powerful financial incentive for consumers to purchase alcoholic beverages outside of the legal market, and for criminal suppliers to expand smuggling, illicit bottling, counterfeiting, and other unlawful distribution channels.

Excise taxes are typically the most significant component of alcohol taxation and are levied specifically on alcoholic beverages. TRACIT's cross-country research shows that the higher the excise tax a country imposes, the larger its illicit alcohol market size.

In the case of South Africa, the average excise burden on alcohol (beer and spirits) is already more than 20% higher than the global average.[6] Notably, all countries with excise tax rates at—or higher than—those in South Africa exhibit concurrently high rates of illicit alcohol. For example, Türkiye, Pakistan and the Philippines, countries with the same excise rate, have very high levels of illicit alcohol estimated at 34%, 44%, and 20% of the alcohol markets, respectively. Countries with higher rates than South Africa have even larger markets for illicit. Vietnam, for example, has an average excise rate at approximately 44% and an illicit alcohol market estimated at 65%.

[5] National Treasury. (2024). The Taxation of Alcoholic Beverages. Retrieved from: https://www.treasury.gov.za/public%20comments/TaxationOfAlcoholicBeverages/The%20taxation%20of%20alcoholic%20beverages.pdf

[6] WHO. (2025). Tax: Excise taxes on alcoholic beverages. Retrieved from: https://www.who.int/data/gho/data/indicators/indicator-details/GHO/tax--excise-taxes-on-alcoholic-beverages

Compared to the G20, South Africa's excise rate is just over 20% higher than the average, and the third highest in the group. Not surprisingly, South Africa has the fifth highest market share for illicit alcohol in the G20, behind only countries like India and Russia.

TRACIT strongly encourages National Treasury to avoid increases in excise taxes and if necessary to adopt a predictable, evidence-based excise framework that protects the integrity of the legal market. In such cases, excise adjustments should not exceed CPI inflation and should be accompanied by strengthened enforcement against illicit trade. Such an approach maintains policy certainty, supports legal market participation, protects employment and investment, and reduces incentives for consumers to migrate toward illicit products.

## Weak enforcement allows illicit alcohol to flow unchecked

Beyond tax policies, a robust legal framework is a fundamental prerequisite for preventing illicit trade in alcohol. Effective controls over raw materials, production processes, and cross-border movements help governments monitor supply chains, ensure regulatory compliance, and detect unlawful activity. Conversely, gaps or weaknesses in legislation and regulation can create exploitable vulnerabilities that facilitate the diversion of industrial alcohol, unauthorized production, product adulteration, smuggling, and other forms of illicit trade.

Although South Africa has a comparatively strong statutory foundation for controlling alcohol production, imports and industrial alcohol, the country suffers from weak implementation and uneven enforcement. Lessons from the restrictive policies of the 2020 Covid lockdowns point to the vulnerability of regulatory systems to illicit traders and criminal groups. At the time, Mr. Kieswetter acknowledged that criminal networks had gained a foothold in South Africa's economy, which could take years to dismantle if enforcement measures remained weak.[7]

Consequently, in the absence of sufficient attention to measures aimed at countering illicit alcohol trade directly, it is unrealistic to expect excise policy alone to mitigate the negative social, economic and fiscal impacts of illicit trade in alcohol in South Africa. 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

[7] Naidoo, P. (2020) South Africa Booze, Tobacco Ban Created New Criminal Networks. Retrieved from: https://news.bloombergtax.com/daily-tax-report-international/south-africa-booze-tobacco-ban-created-new-criminal-networks

targeted anti-illicit trade measures, such as improved law enforcement collaboration, and strengthened penalties for noncompliance.

In this regard, TRACIT endorses recommendations of the Standing Committee on Finance that modifications in excise taxes should be accompanied by enhanced enforcement, including joint SARS–SAPS operations and improved customs controls. Without these complementary actions, excise tax policies will merely push more consumers and producers into the informal economy.

TRACIT therefore encourages Treasury to collaborate with the broader government and enforcement agencies to ensure the public-private partnerships generated through your consultation extend to bolster enforcement activities through intelligence-led investigations into illicit alcohol.

## Concluding Remarks and Recommendations

TRACIT urges National Treasury to avoid any approach that increases the tax burden on alcohol. South Africa's illicit alcohol market is already expanding, and these proposals will likely exacerbate this trend. Policies that increase the cost of lawful alcohol while leaving illicit suppliers largely untouched will drive consumers, revenue and market share to criminal operators.

The Treasury should instead adopt a balanced framework that directly tackles the problem of illicit trade in alcohol, including the elimination of incentives to consume and supply illicit beverages, and the introduction of measures that strengthen the capacity of the legal market to supply safe, secure and affordable products to South African consumers.

We respectfully recommend that National Treasury:

- Avoid further excise tax increases that materially widen the price gap between legal and illicit alcohol, unintentionally push consumers away from the formal market, and incentivize illicit alcohol consumption in the country. If necessary, adjustments be implemented through a predictable and transparent methodology, should not exceed CPI inflation and should be accompanied by strengthened enforcement against illicit trade.
- Target enforcement against illicit supply. Strengthen operational coordination among SARS, SAPS, customs authorities, provincial liquor regulators, and other agencies to detect, terminate and punish illicit manufacturing, ethanol diversion, under-declaration, counterfeiting and cross-border smuggling.
- Develop tailored public awareness 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.

- **Conduct an illicit-trade impact assessment.** Require a published assessment of the impact of any proposed excise adjustment on legal sales, excise revenue, consumer affordability, employment, illicit-market share, and cross-border diversion.
- **Establish public-private enforcement cooperation.** Create a standing mechanism involving Treasury, SARS, law-enforcement agencies and legitimate industry to share intelligence, monitor illicit-market activity and evaluate the real-world effects of excise-tax policy.

TRACIT stands ready to support you with further analysis and technical engagement on measures to protect the formal alcohol market, secure excise revenue and reduce illicit trade.

I invite your office to engage further with TRACIT experts and access detailed insights from our continuously 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.

Sincerely yours,

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