

# With production dwindling, beer industry calls for excise tax regime changes

South Africa's beer industry, still recovering from the Covid-19 national lockdown and four alcohol sales bans, is being further devastated by the country's energy crisis and ongoing bouts of load shedding. Ahead of the Budget Speech this week, the Beer Association of South Africa (Basa) is calling on Finance Minister Enoch Godongwana to announce amendments to the current excise regime governing the alcohol industry in a bid to provide a lifeline to thousands of business across the beer value chain.



Source: [Pexels](#)

Power outages have impacted the entire value chain, with craft brewers who barely managed to keep their doors open during the Covid-19 pandemic, most acutely affected. Basa noted that brewers need at least nine hours of uninterrupted electricity supply in order to brew beer, which means load shedding above Stage 3 makes it impossible to complete this process.

## Production drops while costs increase

Power outages have also disrupted the delivery of raw materials to produce beer as well as the packaging and delivery of beer to customers. Some craft brewers have invested in alternative energy supplies in order to keep their businesses operational including generators, inverters and batteries, however, this has added major financial strain on these businesses who were still trying to recover from the Covid-19 lockdown.

On average, production across the craft beer sector is down by 25% to 40% while operational costs have increased by 15%. Basa said that this loss of brewery income has forced some businesses to lay off workers with many craft brewers indicating that they will not be able to continue operating if load shedding continues at current levels.



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"It is critical that these craft breweries as well as other businesses across the beer value chain are provided with a lifeline in

order to protect the thousands of livelihoods they support.

"Basa believes that Minister Godongwana has an opportunity to provide this lifeline, by announcing in his Budget Speech this week, that government is moving to address the current disparities in the application of excise duties within the alcohol industry, which has negatively impacted low-alcohol beverage producers such as the beer industry," the association said.

## Key proposed changes

In particular, Basa is calling on National Treasury to allow for greater consistency within the current excise regime while still differentiating between products through the implementation of two proposals:

1. The application of an ABV Excise Duty System within all Excisable Alcohol Products, which means products with a lower ABV are taxed proportionally lower than products with a higher ABV.
2. That the excise adjustment approach be changed to one that is fixed, in line with (forecasted) inflation thus creating much-needed tax certainty moving forward.

"By implementing these proposals, we believe a win-win situation could be created when it comes to increased tax revenue and aligning with global standards and public health economics on harmful consumption reduction. In particular, the application of an ABV-based excise duty system has been recognised by the World Health Organisation as the best model for improving public health outcomes as it encourages consumers to purchase lower alcohol strength products," Basa said.

It noted that this taxation model has also been adopted by a number of countries including Australia, Canada, Denmark, Finland, France, Iceland, Ireland, Israel, Mexico, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.



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## Industry's economic contribution

Basa said that the beer industry, as a whole, is a major contributor to the South African economy, with one in every 66 jobs in the country sustained by the sector. Furthermore, R1 for every R79 of the country's GDP is attributable to beer-related economic activity, which means the beer industry makes up roughly 1.3% of the country's GDP.

"It is critical that government focuses on enabling policies to encourage the recovery of this sector instead of the continued

implementation of ones that prejudice the industry even further, particularly in light of the current load shedding crisis facing the country and putting the future of thousands of businesses at risk," the association said.

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