

14 February 2025

To: The South African Treasury

2024Alcoholreview@treasury.gov.za media@treasury.gov.za

Dear Sir/Madam,

RE: COMMENTS ON THE TAXATION OF ALCOHOLIC BEVERAGES

I refer to the invitation for comments on the published discussion documents and policy proposals on the taxation of alcoholic beverages, as published by the National Treasury on 13 November 2024, in particular the report under the name *The Taxation of Alcoholic Beverages*, and would like to submit the following comments on behalf of the Foundation for Rights of Equality and Expression (Free SA). Free SA is an organisation dedicated to upholding true democratic principles and empowering South African citizens to meaningfully participate in decisions that shape their futures. Free SA is a registered non-profit company (registration number: 2024/631561/08).

We appreciate the opportunity to raise the concerns regarding the Bill which concerns are shared by millions of South Africans who struggle under the burden of over-taxation and slow economic growth. The South African government's proposal to increase taxation on alcoholic beverages raises several concerns that warrant careful consideration. While the intent to mitigate the harmful effects of alcohol consumption is understood, the proposed measures may have unintended economic and social consequences. This submission outlines objections to the proposal, focusing on its impact on the Entertainment & Media (E&M) industry, the lack of stakeholder engagement, the questionable effectiveness of taxation as a deterrent, and the potential for government overreach in fiscal policy.

Free SA submits this submission on behalf of its supporters as well as the 25 submissions by individuals for submitted public comment on the Bill through our public participation facilitation process.

1. SUMMARY OF SUBMISSION

In this submission, Free SA raised the following four concerns regarding the Bill:

- 1) Increased taxation impacts the Entertainment & Media (E&M) Industry negatively.

- 2) Taxation on Alcoholic beverages is not being done with enough input from relevant stakeholders.
- 3) The ineffectiveness of taxation as a deterrent of irresponsible alcohol consumption habits.
- 4) The increased taxation is overreach by the treasury in order to cover overspending by the government.

Each of these concerns are addressed and elaborated upon below.

2. GENERAL COMMENTS

Negative Impact on the Entertainment & Media (E&M) Industry

The entertainment and hospitality sectors are integral components of South Africa's economy, contributing significantly to employment and cultural vibrancy. Increased taxation on alcoholic beverages is likely to lead to higher consumer prices, which could deter patronage at venues such as bars, restaurants, and nightclubs. This decline in customer turnout may result in reduced revenues for these establishments, potentially leading to job losses and business closures. The government's report acknowledges that "over the years, annual excise duty rate adjustments have been higher than inflation," which has already placed financial strain on the industry.

Furthermore, the ripple effect of decreased consumer spending extends to the broader E&M industry, including live music events, festivals, and other cultural activities that rely on alcohol sales for profitability. The contraction of these sectors not only affects economic output but also diminishes the cultural richness that defines South African society. It is crucial to consider these economic implications when evaluating the proposed tax increases.

Lack of Stakeholder Engagement in Policy Decisions

Effective policy making necessitates comprehensive consultation with all relevant stakeholders. The proposed tax increases appear to have been developed with insufficient input from key parties, including beverage producers, hospitality businesses, and consumer groups. The government's report notes concerns from the alcohol industry regarding the excise incidence exceeding policy guidelines, indicating a disconnect between policy formulation and industry realities.

Engaging stakeholders through public consultations and impact assessments ensures that policies are balanced and consider the perspectives of those directly affected. The absence of such engagement in this instance may lead to the implementation of measures that are not only ineffective but also detrimental to economic stability. A collaborative approach is essential to develop strategies that address public health concerns without imposing undue burdens on specific industries.

Ineffectiveness of Taxation in Curbing Irresponsible Alcohol Consumption

While the intention behind increased taxation is to reduce harmful alcohol consumption, evidence suggests that this approach may not yield the desired outcomes, it might in fact create what is often called a "Cobra Effect," where well-intentioned policies lead to unintended negative consequences. In this context, higher taxes could drive consumers toward illicit alcohol markets, exacerbating health risks and undermining regulatory efforts. The government's report

acknowledges the challenge of illicit trade, stating that "illicit trade in alcoholic beverages is a serious challenge requiring greater and concerted attention."

Rather than relying solely on taxation, a more effective strategy would involve targeted interventions such as public education campaigns, stricter enforcement of existing laws, and support for treatment programs. These measures address the root causes of alcohol abuse without the adverse side effects associated with increased taxation.

Government Overreach to Cover Fiscal Overspending

There is a concern that the proposed increase in alcohol taxation is motivated more by the need to address fiscal shortfalls than by public health objectives. As recent media articles on this issue have pointed out, sin taxes are often used as a convenient means to generate revenue without considering the broader economic implications.

The government's report indicates that "over recent years, excise duties on alcoholic beverages have been increasing above inflation," resulting in excise incidences that exceed policy guidelines. This pattern raises questions about the sustainability of using excise taxes as a primary tool for revenue generation. It is imperative to explore alternative fiscal strategies that do not disproportionately impact specific industries or consumer groups.

3. PUBLIC INPUT

Respondents to our Public Participation website overwhelmingly expressed three concerns about the increased taxation on alcoholic beverages:

1. 96% of respondents felt that alcoholic beverages in South Africa are over taxed.
2. 96% felt that both tourism and entertainment suffer under a taxation burden that is too large.
3. 84% felt that taxes do not suffice as a deterrent for the abuse of alcohol.

The public's overwhelming opposition to the proposed taxes indicate beyond doubt that the government is acting against the will of the people.

4. CONCLUSION

The proposed increase in taxation on alcoholic beverages poses significant economic and social risks, with potentially far-reaching consequences for the South African economy. While the government justifies the measure as a means to curb harmful alcohol consumption and generate public revenue, the evidence suggests that such taxation may have unintended negative effects. The entertainment, hospitality, and media industries—critical sectors for job creation and economic growth—will bear the brunt of the financial strain, leading to reduced business activity, potential job losses, and declining investment in these industries. Higher prices will discourage consumer spending in legal markets, while simultaneously fostering the expansion of illicit alcohol trade, an issue that is already a major challenge in South Africa.

Moreover, the lack of meaningful stakeholder engagement in shaping this policy reflects a concerning trend in governance. Effective policy should be developed in consultation with those directly impacted, ensuring that any fiscal or regulatory changes are both sustainable and fair. The voices of industry players, small business owners, employees, and consumers must be considered in the formulation of tax policies that affect millions of livelihoods. The absence of thorough stakeholder input in this case raises questions about the transparency and effectiveness of the decision-making process, ultimately undermining confidence in the government's approach to alcohol regulation and economic policy.

Furthermore, the assumption that higher alcohol taxes will directly lead to a reduction in harmful drinking habits is deeply flawed. As the government report and the opinion piece in Maroela Media highlight, increased taxation has historically contributed to the unintended rise of illicit alcohol markets rather than achieving its intended public health outcomes. Problematic drinking behavior is better addressed through targeted interventions such as stricter law enforcement, community education programs, and rehabilitation initiatives. These approaches tackle the root causes of alcohol abuse rather than merely imposing financial penalties that disproportionately affect businesses and ordinary consumers.

Finally, the broader context of government fiscal policy must be considered. South Africa has faced persistent budget deficits and inefficient public spending, and it appears that sin taxes, such as those on alcohol, are being used as a convenient tool to fill revenue gaps rather than as a well-considered public health measure. Over-reliance on such taxation is neither a sustainable nor an ethical approach to fiscal management. Instead of continuously increasing excise duties, the government should prioritize economic growth strategies, improve financial accountability, and reduce wasteful expenditure. By addressing the real issues driving fiscal shortfalls, rather than unfairly burdening specific industries, a more balanced and effective approach to taxation and public health policy can be achieved.

Yours sincerely,

Paul Maritz

Executive Director