

Voluntary Report – Voluntary - Public Distribution

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Report Name: Alcohol Restrictions Cause United States Exports of Distilled Spirits to Lag

Country: South Africa - Republic of

Post: Pretoria

Report Category: Beverages, Agricultural Situation, Agriculture in the Economy, Wine

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Report Highlights:

Since March 27, 2020, the South African Government has banned the sale and transport of all alcoholic beverages, causing strain on both the domestic and import industries. About US\$16 million worth of United States (U.S.) distilled spirits exports are at risk if South Africa continues restricting the sale of liquor products as one of the measures to contain the spread of COVID-19. The South African liquor industry has also been adversely impacted through revenue losses (US\$681 million), potential loss of employment (40,000 jobs) and possible closure of some liquor businesses. While the restriction on liquor sales and imports are expected to be eased by the end of May 2020, final regulations in this regard have not been published, thus raising uncertainty and concerns if this will be sufficient to prevent further losses for the industry.

Source:

South African Liquor Brand Owners Association (SALBA) - <https://salba.co.za/>

South Africa Wine Information System (SAWIS) - <http://www.sawis.co.za/>

VINPRO - <http://vinpro.co.za/>

Wines of South Africa (WOSA) - <https://www.wosa.co.za/home/>

Liquor Traders Association of South Africa (LTASA) - <http://salta.org.za/>

Exchange Rate – 1US\$ = 18.51 Rands (As at May 18, 2020)

Background

About US\$16 million worth of U.S. distilled spirits exports are at risk if South Africa continues restricting the sale of liquor products and imports. South Africa has been on a nation-wide lockdown from March 27, 2020 to date, as a measure to contain the spread of COVID-19. During the lockdown, people are only allowed to leave their residences for essential purposes, including for food, medical reasons and to perform essential services work. While the agriculture and food sectors were classified as an essential service and are operational during the lockdown, the sale and transport of all alcoholic beverages in the domestic market is prohibited. This has significantly impacted the domestic liquor industry and imports.

On May 1, 2020, South Africa implemented a risk-adjusted strategy aimed at easing the lockdown restrictions over 5 levels. The five different levels may be found on the following link, <https://sacoronavirus.co.za>. South Africa is currently on Level 4, and indications are that the government is considering to revise this to Level 3 at the end of May. While the sale of liquor products will only be permitted from Level 3, there may be restrictions on trading days, hours, volume, and imports. There are concerns that South Africa may not change to Level 3 anytime soon, resulting in the prolonged prohibition of alcohol sales. In the event that government changes to Level 3, the restrictions on trading days and hours may still impact alcohol sales and demand. Finally, there is uncertainty if alcohol sales will be permitted under Level 3, as government has previously reversed course on the sale of cigarettes despite announcing that this would be permitted.

The sections below detail the impact of restricting the sale of liquor products to the domestic liquor industry and United States liquor exports to South Africa.

Domestic Liquor Industry under Severe Pressure

The South African liquor industry has been extensively engaging with government and publicly commenting on the impact that liquor sale restrictions (wine, spirits, ciders and beer) have had on revenue losses, loss of direct and indirect employment and closure of small and medium sized liquor businesses. In a normal year, South Africa consumes about 4.3 billion litres of alcoholic beverages. Beer is the preferred alcoholic beverage, and at an annual consumption level of 3.2 billion liters, it accounts for 75 percent of the total alcoholic beverage consumption in South Africa, followed by alcoholic fruit beverages and spirit coolers (12 percent), wine (10 percent), and distilled spirits (3 percent). The consumption of alcoholic beverages is expected to decline by more than 16 percent due to domestic liquor sales restrictions.

The South African liquor industry estimates that restrictions for a period of 6 weeks, may result in a loss of R12.6 billion (US\$681 million) in wholesale revenue and R9.2 billion (US\$497 million) in total tax revenue loss for the government. The overall economic impact of a 6 week lockdown with a continued prohibition on domestic sales and exports will negatively impact South Africa's Gross Domestic Product (GDP) by R 7.6 billion (US\$411 million). An estimated 40,000 jobs are expected to be lost during this period.

While the above losses exclude the impact the domestic sales and import restrictions may have on other stakeholders in the liquor value chain, there are reports already emerging of this effect. For example, one of the popular agricultural magazines in South Africa, the Farmers Weekly (<https://www.farmersweekly.co.za>), reported that the lockdown and restrictions on alcohol sales poses a risk to the 2020 plantings of barley an important ingredient in beer making as some farmers may downscale their production in anticipation of the reduction in alcohol demand. Suppliers of packaging material, logistics partners and other related services will also be negatively impacted. In April 2020, Post also published the following GAIN report on the impact of export and domestic sales restrictions to the South African wine industry, [Wine Industry at a Crossroads Due to Export and Domestic Sales Restrictions](#).

South Africa's illicit trade in alcoholic beverages is already estimated at 24 percent of industry volumes and is expected to worsen due to current lock down and sales restrictions. According to the industry, a continued ban on alcohol sales may result in the illegal manufacture of alcoholic concoctions which could pose serious health risks to consumers; counterfeit trade; cross border smuggling; black market' price arbitrage; tax leakages; and the increase in the illegal looting of liquor outlets by people to procure alcohol during the lockdown. Media reports note that two people in Cape Town recently died after consuming home-made alcohol.

United States Distilled Spirits Exports Already Lagging in 2020

The restrictions of domestic liquor sales is expected to affect demand, and contribute to the decline of liquor imports in South Africa. In 2019, South Africa imported US\$15.8 million (2.7 million liters) worth of distilled spirits from the United States. Post forecast lower U.S. liquor exports to South Africa in 2020, based on the pace of exports up to March 2020 and the impact of COVID-19 on demand and the restrictions of domestic liquor sales and imports. Liquor is not classified as an essential good and imports have been restricted since March 27, 2020. There are reports of congestion at major ports and some liquor shipments stuck at ports, which has impacted importers who are liable for demurrage of these stuck container shipments. United States exports of distilled spirits to South Africa in the year 2020 are already lagging by 36 percent in volume as shown in the highlighted section of **Table 1**. This is expected to continue should the restriction of alcohol sales and imports be continued, and congestions at ports persist.

Table 1: United States Exports of Distilled Spirits to South Africa

United States Exports to South Africa								
Commodity: Distilled Spirits								
Annual & Year To Date								
Description	2014	2015	2016	2017	2018	2019	01/2019 - 03/2019	01/2020 - 03/2020
Total Distilled Spirits	2,844,895	2,230,823	1,599,488	2,188,599	3,725,953	2,739,983	516,902	328,840
Whiskies	2,563,397	1,776,262	1,232,111	1,779,919	3,050,586	2,338,735	479,593	295,675
Vodka	19,702	0	3,427	174,895	556,694	242,309	10,426	3,409
Gin And Geneva	0	0	0	47,929	37,522	78,261	12,098	12,264
Liqueurs & Cordials	87,942	117,159	82,762	19,102	23,731	44,349	9,201	3,146
Rum & Tafia	29,825	17,656	0	221	20,104	24,345	5,584	0
Spirituos Beverages	0	19,656	30,442	61,932	37,316	7,585	0	6,806
Spirits Obtained By Distilling Grape Wine	144,029	300,090	250,746	104,601	0	4,399	0	7,540

Source: Trade Data Monitor

Prospects for the Future

The different lock down levels published by the South African government only provide some limited guidance of what is to be expected in the coming months as shown in **Table 2**. South Africa is currently on Level 4 and government is considering moving to Level 3 at the end of May 2020. Detailed regulations have not been published for Level 3, but it is expected that there will be some easing of liquor domestic sales restrictions, but not a full reopening of all sales points. For example, sales may be restricted to certain times and days, and bars and restaurants will likely remain shuttered.

Uncertainty still remains on whether imports will be fully permitted during this period. However, World Trade Organisation (WTO) rules stipulate that domestic sales and imports be treated equally. As a result, imports are likely to commence when domestic sales are permitted under Level 3. Concerns have been raised by industry on the inconsistent implementation of other regulations such as the transportation of liquor products which may impact domestic sales, and transit imports destined to other countries in the region. In addition, regulations that have restrictions on trading days, hours and volume are likely to lead to serious congestion in liquor or retail shops, causing additional risk to spreading the disease. Alcohol distributors have indicated that once government allows sales, there will be an initial surge in demand which may result in shortages or empty shelves due to constraints on the supply chain. Demand for premium spirits is likely to be hit hardest as people have lost income during the lock down.

While the South African liquor industry has been lobbying government to ease domestic sales restrictions, there are some interest groups that are pushing for these restrictions to continue on the basis of the social effects of alcohol on crime, health and domestic violence in South Africa. According to industry contacts, there is a high possibility for South Africa to move to Level 3 at the end of May 2020. Uncertainty remains when South Africa will move to Level 2 and 1, which will only be allowed once cases start to decrease. Because South Africa is in the Southern Hemisphere, the peak of the crisis is not expected until August or September when spring begins. Domestic sales, exports and imports of liquor products are only expected to return to normal operations under Level 1.

Table 2: Different Lock-Down Levels and their Impact on Liquor Restrictions

Lock-Down Level	Liquor Related Restrictions	Comment
Level 5	<ul style="list-style-type: none"> No sale of liquor permitted. Transportation of liquor products prohibited. 	<ul style="list-style-type: none"> The domestic sale, imports and exports of liquor products severely impacted and restricted.
Level 4	<ul style="list-style-type: none"> No sale of liquor permitted. Import of alcohol is prohibited as it is not an essential good. Domestic transportation or distribution of liquor products prohibited. Transportation of liquor products for exports is permitted. 	<ul style="list-style-type: none"> The domestic sale of liquor products was severely impacted. While the export of liquor products was permitted, it was limited or affected by other regulations such as the prohibition of transporting liquor products and port congestion. Import of liquor products impacted, although some products were off-loaded at ports.
Level 3	<ul style="list-style-type: none"> Off-premises consumption of alcohol, subject to limited hours (Mon – Wed, from 8 am – 12 pm) and subject to an approved industry plan on social distance and quantitative restrictions. No consumption on premises. 	<ul style="list-style-type: none"> Detailed regulations still to be published. Uncertainty remains on the imports of liquor products. Industry approved plan on social distance and quantitative restrictions still uncertain.
Level 2	<ul style="list-style-type: none"> All retail permitted, subject to directions. 	<ul style="list-style-type: none"> Detailed regulations still to be published.
Level 1	<ul style="list-style-type: none"> All retail permitted, subject to directions. 	<ul style="list-style-type: none"> Detailed regulations still to be published. Domestic sales, exports and imports expected to return to normal operations.

Source: <https://sacoronavirus.co.za>, SALBA, and Post Comments.

Table 3: Related GAIN Reports

Name of Report	Link
Wine Industry at a Crossroads Due to Export and Domestic Sales Restrictions	Download
Rebounding South African Wine Industry facing Rising Imports and Growing Stocks	Download
Prospects for U.S. Exports of Craft Beer Ingredients to South Africa	Download
Proposed National Liquor Policy (Liquor Act 59 of 2003)	Download
Regulation Amendment on Container Labels of Alcoholic Beverages	Download

Attachments:

No Attachments.