

Voluntary Report – Voluntary - Public Distribution

Date: July 20,2020

Report Number: SF2020-0041

Report Name: South Africa Again Suspends the Sale and Distribution of
Liquor While Permitting Exports

Country: South Africa - Republic of

Post: Pretoria

Report Category: Beverages, Wine

Prepared By: Wellington Sikuka

Approved By: Kyle Bonsu

Report Highlights:

On July 12, 2020, South Africa reintroduced the suspension on the sale, dispensing and distribution of liquor with immediate effect. The first alcohol sales and transportation prohibition was implemented from the beginning of April until June 1, 2020, and resulted in revenue losses of about R18 billion (US\$ 1.1 billion) by the domestic industry. Consequently, the measure caused United States liquor exports to South Africa to lag by 35 percent in 2020. United States liquor exports, which are usually about US\$ 21 million annually, are under threat due to this recent prohibition. Notably, the ban does not impact exports, as they remain permitted.

Source:

South African Liquor Brand Owners Association (SALBA) - <https://salba.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\$ = 16.79 Rands (As at July 13, 2020)

Background

On July 12, 2020, South Africa reintroduced the suspension on the sale, dispensing and distribution of liquor with immediate effect. According to the South African government, the suspension was due to the substantial pressure being put on hospitals, including Intensive Care Units (ICU), due to alcohol induced trauma and motor vehicle accidents. Thus, affecting the efforts and available resources to address COVID-19. The regulations giving effect to this suspension can be downloaded from the following link, http://www.gpwonline.co.za/Gazettes/Gazettes/43521_12-07_Cogta.pdf. Below is an extract of the relevant clauses from the regulation:

"Sale, dispensing or transportation of liquor 44.

- (1) The sale, dispensing and distribution of liquor is prohibited.
- (2) The transportation of liquor is prohibited, except where the transportation of liquor is –
 - (a) in relation to alcohol required for industries producing hand sanitizers, disinfectants, soap or alcohol for industrial use and household cleaning products;
 - (b) for export purposes; or
 - (c) from manufacturing plants to storage facilities.
- (3) No special or events liquor licenses may be considered for approval during the duration of the national state of disaster.
- (4) The Cabinet member responsible for transport must, after consultation with the Cabinet members responsible for cooperative governance and traditional affairs, health, police and trade, industry and competition, issue directions for the transportation and storage of liquor. "

This is the second suspension of alcohol sales and transportation that has been introduced by the South African government during the lock down. The first prohibition was implemented from the beginning of April until June 1, 2020, as part of the government's initial public health response to contain the spread of COVID-19 in South Africa. The second suspension has been met with widespread criticism and debate by industry associations, consumers and some political parties. The sections below detail the impact of these restrictions to the domestic liquor industry and United States liquor exports to South Africa.

United States Liquor Exports under Threat

The United States exports about US\$ 21 million worth of liquor products to South Africa annually. The recently announced prohibition of the sale, dispensing and distribution of liquor is expected to affect U.S. liquor exports in 2020. The first liquor sales and transportation ban implemented between April and June 2020 had a significant impact on liquor imports into South Africa, including from the United States as shown in **Table 1**. United States exports of distilled spirits, wine and beer to South Africa in the year 2020 are already lagging by 35 percent due to the first prohibition. Of the liquor products exported from the United States, whiskey is the leading product, accounting for 67 percent of the total U.S. liquor exports to South Africa in 2019.

Table 1: South Africa's Liquor Imports from the United States

Commodity: Distilled Spirits, Wine & Beer					
Annual & YTD Series (US\$)					
Description	2018	2019	01/2019 - 05/2019	01/2020 - 05/2020	% Change 2020 vs 2019
Total	21,466,804	21,466,934	8,857,197	5,764,854	-35%
Distilled Spirits	19,638,927	20,482,175	8,677,578	5,282,513	-39%
Wine & Beer	1,827,877	984,760	179,618	482,340	169%

Source: Trade Data Monitor (TDM)

During the first suspension, importers of liquor products reported that shipments were not being cleared at the ports and were subjected to storage costs during the first prohibition, which added to congestions at the ports. Post contacts have indicated that it is still uncertain but highly likely that imports will be cleared during the second suspension to prevent the challenges experienced during the first suspension. Importers have indicated that depending on the duration of the second prohibition, they are also less likely to continue importing liquor products due to the restrictions. In addition, the second prohibition may affect planning and preparation for the peak liquor consumption period from November to December, which requires stock to be imported before-hand. Post will continue monitoring the situation to ensure that U.S. imports are treated equally when domestic sales resumes, as per the World Trade Organization (WTO) guidelines.

Devastating Blow to the Domestic Liquor Industry

The recently announced prohibition of **the sale and transportation of liquor** has dealt another blow to the South African liquor industry. During the first prohibition, which was implemented from the beginning of April until June 1, 2020, the alcohol industry lost R18 billion (US\$ 1.1 billion) in revenue and about 117,000 jobs were lost. The liquor industry released a joint statement indicating that the government's ban was reinstated without warning and did not consider the industry's attempts to address behavioral changes caused by alcohol consumption and abuse. The joint statement released by the liquor industry may be downloaded on the following link, https://www.wineland.co.za/wp-content/uploads/2020/07/20200713_Media-release-Alcohol-industry-response-to-Presidents-announcement_FINAL.pdf.

The alcohol ban means that official domestic sales, including online sales, could be nil for the foreseeable future when the prohibition is in place. This will worsen the blow for the industry already under financial distress, given that liquor exports are also not performing as expected in 2020. While liquor exports are not impacted by the new prohibition, the industry is already being affected by reduced efficiencies and logistics at the ports, and the impact of COVID-19 to global supply chains and demand. As a result, the year to date South African liquor exports are already lagging 34 percent in 2020, as shown in **Table 2**.

Table 2: South African Liquor Exports

South Africa Exports to the World					
Commodity: Distilled Spirits, Wine & Beer					
Annual & YTD Series (US \$)					
Description	2018	2019	01/2019 - 05/2019	01/2020 - 05/2020	% Change 2020 vs 2019
Total	1,095,509,153	965,246,049	389,003,360	258,499,402	-34%
Distilled Spirits	158,849,603	132,163,600	54,148,271	30,962,758	-43%
Wine & Beer	936,659,550	833,082,449	334,855,090	227,536,644	-32%

Source: TDM

Other effects of the restrictions on the sale, dispensing and distribution of liquor include the risk of increases in illegal liquor trade, illegal manufacture of dangerous alcoholic concoctions and the indirect impact to other stakeholders in the liquor value chain such as the suppliers of packaging material, logistics partners and related services. According to Post contacts, the various South African liquor industry associations have engaged government departments, including the office of the Presidency, to address this second suspension and to highlight the dire implications of the current legislation. Other sectors impacted by the liquor sale and transportation prohibition, such as the Restaurant Association of South Africa, are seeking legal advice on what action to take against the government on restrictions of liquor licenses and the curfew regulations (Note: in addition to the alcohol ban, the government re-introduced a curfew between 9:00 pm and 4:00 am). It is still uncertain if and when government will reverse the decision to re-suspend the sale, dispensing and distribution of liquor.

Related Post GAIN reports on the South African alcohol industry and the impact of liquor restrictions to the South African liquor industry are shown in **Table 3**.

Table 3: Related GAIN Reports

Name of Report	Link
Alcohol Restrictions Cause United States Exports of Distilled Spirits to Lag	Download
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.