

Report warns govts against using alcohol prohibition laws as emergency response

The South African alcohol industry reaffirmed its objections to the government's use of prohibition in the struggle against the Covid-19 pandemic, stating that the unintended consequences - specifically the rapid rise of illicit liquor production and distribution - far outweighed the efficacy of the ban.



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The industry said research conducted by the Transnational Alliance to Combat Illicit Trade (Tracit) analysed the economic and social impacts of strict restrictions on the production and/or consumption of alcohol (dry laws) during the early stages of the Covid-19 outbreak, with a specific focus on the consequences associated with illicit trade. The report was featured in a panel discussion hosted by the OECD.

The research showed overwhelmingly that "crisis-driven Covid-19 related prohibitions on alcohol beverages have... promoted the development of parallel illicit markets, plunging entire industries into a financial abyss and reducing much-needed government revenue".

The report, "[Prohibition, illicit alcohol and lessons learned from lockdown](#)" said governments should recognise the detrimental impacts that resulted when prohibition was used to try and achieve public health goals and saving livelihoods.

Recommendations

In the face of the ongoing health pandemic, the [report recommends](#) that governments:

- Avoid prohibition laws as emergency response measures to protect people from the spread of virus. The benefits are conjectural, while the negative consequences are many and counterproductive to interdependent health, employment, and economic objectives.
- Ensure availability and access to legitimate products that conform with social-distancing objectives without inducing demand for illicit substitutes.
- Avoid the imposition of "emergency tax" increases on alcohol. A quick fix approach could end up being as reckless as the imposition of prohibition laws, resulting in lower consumption of legal beverages, smaller pools of tax collections and an increase in demand for untaxed, cheaper illicit alternatives.
- Ramp up implementation of enforcement measures to ensure that illicit trade activities caused by the pandemic do not become permanent features of the post-pandemic economy.



Alcohol industry seeks deferment of excise duties until sales ban lifts

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Sibani Mngadi, chairman of the South African Liquor Brandowners' Association (Salba), said the industry supported the government's efforts to curb the rising spread of coronavirus infections. However, such measures should be applied rationally and not merely resort to imposing the knee-jerk reaction of prohibition.

"The government also has a duty to recognise the devastating social and economic consequences resulting from shutting down an entire sector of the economy," he said. "Apart from the resultant 'pandemic of poverty', the ban is creating, the increasing illicit trade in alcohol is a severe threat to the South African economy. There is an enormous loss of taxation including VAT and excise, as well as the loss of jobs contributed by legal alcohol producers and merchants to the fiscus."

He added that the industry had made several suggestions to the Government, including establishing a New Social Compact. The Tracit report is clear that the benefits of using prohibition to protect people are "conjectural" while the negative impacts are real: increased unemployment and devastation to the fiscus.

Illicit traders growing market share

In 2019, the alcohol sector accounted for 3.4% (R173bn) of South Africa's nominal GDP. The government is estimated to lose around R6.4bn per year due to illegal alcohol trading.

Kurt Moore, chief executive of Salba, said, "Roughly 15% of market share is accounted for by illicit trade or organised crime. That's a significant portion of market share in the hands of syndicates who have only been further entrenched by the Covid-19 lockdown period."

Moore says the problem is widespread. All stakeholders must ramp up their efforts, including the police, alcohol manufacturers, retailers, and consumers, to combat the illicit trade but can only do so if the ban is lifted.

The alcohol industry has repeatedly called for a more reasoned response, allowing access to legitimate products and tackling the root cause of the problem, which works to bring about behavioural change in the attitudes to drinking. The alternative is increased destitution for thousands and the illicit trade's further entrenchment as a permanent feature of the post-pandemic economy.

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