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Central Office
The South African Breweries (Pty) Ltd
65 Park Lane, Sandown, Sandton, 2196
Tel (011) 881-8111 Fax (086) 881-8136
PO Box 782178 Sandton 2146 South Africa

The Standing Committee on Finance and the Select Committee on Finance

The Committee Secretaries

By Email:

Mr Allen Wicomb awicomb@parliament.gov.za

Ms Teboho Sepanya tsepanya@parliament.gov.za

Mr Nkululeko Mangweni nmangweni@parliament.gov.za

15 November 2021

RE: 2021 REVISED FISCAL FRAMEWORK AND REVENUE PROPOSALS – SAB SUBMISSION

INTRODUCTION

SAB would like to commend the Minster in his maiden MTBPS for emphasising the extensiveness of South Africa's long-standing macroeconomic issues of poverty and unemployment and the prioritisation of the national budget to dealing with these issues in a substantial manner. We would also like to commend the Minster for highlighting that business remains constrained by persistent obstacles such as electricity shortages, inadequate broadband spectrum and red tape. The lack of progress in implementing reforms, including increasing the competition in electricity supply that has constrained business growth.

All budgets are about balance – weighing the needs of the present and the future, while addressing competing priorities for national development and, of course, managing revenue and expenditure, with limited space for government to maneuver. This year the country continues to face an exceptionally difficult balancing act, on one side is an unpredictable pandemic that has placed much of the world at one time or the other in lockdown mode. On the other side is a weak economy, with massive unemployment, that is burdened by ailing state-owned companies, and rapidly growing public debt.

Like the Minster, we also look forward to seeing a vibrant and growing South African economy that enables people to earn an income and for business to be able to innovate, retain and hire new workers and invest in the country. Over the medium-term the government has signalled its intention to shift expenditure away from consumption and crisis response towards growth-enhancing investment. The public sector can indeed lay the foundation for this to happen, in partnership with the private-sector that has the ability to foster investment and increase job creation.

The nature and shape of excise taxes have been muddied with uncertainty since South Africa's revised alcohol excise tax regime was announced in 2002. Excise duties have risen consistently above inflation and outside of the current excise policy principles. Every year on Budget Day, our industry holds its breath as we wait to find out the annual excise adjustment. And every year, excise duties are increased by more than the inflation rate of that year, stimulating the growth in the illicit alcohol market and stifling the legal alcohol market. In February 2021 for instance, the excise tax increase of 8%, was almost double that of inflation (4.2%). There is something not right in this approach and it needs to be urgently addressed and resolved.

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We appeal to the government to be guided by the key principles of taxation. These include, but is not limited to: the principle of equity and fairness in application, that will ensure that taxes imposed would present an equal burden on all alcohol categories in the same economic condition; The principle of predictability and certainty, essential for business planning. Certainty provides the industry with a clear basis on which to plan and make investment decisions; The principle of simplicity, that allows the alcohol sector to comply easily with the tax payment requirements and; The principle of economic growth and efficiency, based on the idea that a tax system should raise revenue and promote a reduction in harmful consumption.

MACRO-FISCAL POSITION OF SOUTH AFRICA

MTBPS: The 2021 Medium Term Budget Policy Statement (MTBPS) charts a course that will enable South Africa to continue the difficult task set out in the 2020 MTBPS, of economic recovery. Government's central policy goals over the next three years are to position the economy for faster, broad-based economic growth, and to return the public finances to a sustainable position. Achieving these objectives will require deliberate action. Working together with its social partners in business, labour and civil society, the government will be able to effectively implement an economic recovery plan, with immediate measures to boost confidence and investment, and the implementation of structural reforms to promote sustained higher economic growth.

SAB Commentary*: As deliberations take place on the medium-term budget, our ask is simple especially during a time when the entire economy has suffered, and the beer industry has been particularly hard hit. Minister excise policy certainty is critical to our business. When you decide to keep excise adjustments at or below inflation in line with policy, the beer value chain can start to grow again, business by business, allowing green shoots to spread throughout the economy. When we rebuild our beer value chain business by business, we can continue to contribute to the fiscus through taxes.*

That the adjustments in excise duties prioritise the main policy objectives communicated to all stakeholders – discouraging harmful consumption and revenue generation, and the incidence targets relating to wine, beer and spirits, which are currently set at 11, 23 and 36 per cent of the weighted average of the retail price respectively apply, but only as a policy guideline, means that the beer industry has no transparency or certainty to plan its business costs or future investments with regards to excise. Public policy, in particular tax policy, should be more than a guideline, but a means for the regulated to the direction of implementing excise taxes.

MEDIUM-TERM TAX OUTLOOK AND SPECIFIC EXCISE DUTIES RELATED MATTERS

MTBPS: After falling by 7.8 per cent last year, tax revenues rose appreciably in the first six months of 2021/22. Corporate income taxes in particular have increased due to high commodity prices and a favourable ratio of export to import prices. Provisional corporate income tax collected in the first six months of 2021/22 was 44.1 per cent higher than the equivalent period in 2019/20, primarily driven by the mining and quarrying sector. Other major tax categories have also grown above 2019/20 levels, except for specific excise and customs duties.

SAB Commentary: *We would like to raise two key issues:*

1. All major tax categories have grown above 2019/20 levels, except for specific excise duties. The fact that excise duties have not recovered Minster, is a direct reflection of the reality that the beer industry is still reeling from the effects	*2. The tax base for increases in specific excise duties has changed from consumer price inflation (CPI) to the growth in household consumption. This may decrease the ability of the alcohol industry to plan excise costs as household consumption growth is far more volatile (see figure 1 below) and also forecasts are not easily*

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of the pandemic and have not yet entered the path of economic recovery.

available to the industry, unlike CPI. Also, household consumption has tended to grow faster than CPI, which would create greater cost pressures for the beer industry.

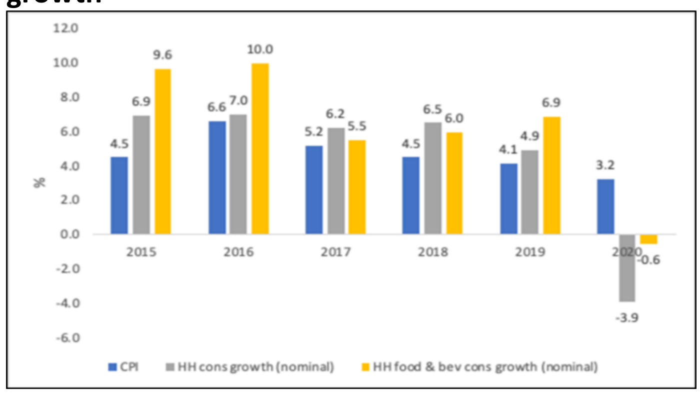
Table 1: Gross Tax Revenue

R billion	2020/21 Budget[1]	2020/21 Outcome	2020/21 Deviation	2021/22 Budget[1]	2021/22 Revised	2021/22 Deviation
Persons and individuals	482.1	487.0	4.9	516.0	542.1	26.1
Companies	188.8	202.1	13.3	213.1	288.6	75.5
Value-added tax	324.6	331.2	6.6	370.2	373.6	3.5
Dividends tax	23.0	24.8	1.9	26.2	29.9	3.8
Specific excise duties	24.7	32.3	7.6	43.7	42.3	-1.4
Fuel levy	75.2	75.5	0.3	83.1	89.2	6.1
Customs duties	45.2	47.3	2.1	53.1	54.7	1.6
Ad valorem excise duties	3.3	3.4	0.1	3.5	4.4	0.9
Other	45.3	46.1	0.8	56.1	60.4	4.3
Gross tax revenue	**1 212.2**	**1 249.7**	**37.5**	**1 365.1**	**1 485.4**	**120.3**

Table 2: Tax revenue and Tax bases

Tax revenue and tax bases							
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
R million/percentage	Outcome			Estimate	Projections		
Specific excise duties	**40,830**	**46,827**	**32,273**	**42,295**	**44,939**	**47,832**	**50,988**
Household consumption	*5.7%*	*5.3%*	*-5.4%*	*10.1%*	*6.3%*	*6.4%*	*6.6%*
Buoyancy	*1.62*	*2.79*	*5.78*	*3.08*	*1.00*	*1.00*	*1.00*

Figure 1: CPI to nominal household consumption growth; nominal household food and consumption growth



What we would like to know from National Treasury is:

a) *If the beer industry will be given a chance to recover via targeted economic and tax relief in the medium-term budget so that we can once again contribute through taxes to the fiscus;*
b) *The rationale behind the re-basing of specific excise duty taxes away from CPI to household consumption growth*.

ECONOMIC RECOVERY IN THE CONTEXT OF THE MEDIUM-TERM BUDGET: IMPLICATIONS FOR THE BEER INDUSTRY

MTBPS: Government’s efforts to manage the COVID-19 pandemic and support vulnerable households and firms has required increased spending in the current year. In particular, the fiscal relief package has included: • A reintroduction of the temporary R350 special COVID-19 social relief of distress grant until the end of 2021/22, with broadened eligibility to include caregivers who receive the child support grant. • A provision of R3.9 billion for SASRIA – the state-owned insurer covering risks such as public disorder and riots – for balance sheet support to ensure that claims following the July public violence are settled. • Support for small businesses affected by COVID-19 restrictions and the July public violence, amounting to R1.3 billion. • Additional funding totalling R950 million allocated to the South African Police Service and the South African National Defence Force. • An amount of R5 billion of estimated revenue foregone from expanding the

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employment tax incentive for four months from 1 August 2021. In addition, an amount of R5.3 billion has been set aside by the Unemployment Insurance Fund to extend coverage of the temporary employer/employee relief scheme.

National Treasury has stated in the MTBPS that details of further spending allocations will be provided in the 2022 Budget.

SAB Commentary*: The beer industry is still grappling with the economic impact of the COVID-19 pandemic that had led to 161 of days of no trade and multiple restrictions. Despite the challenging business environment that we have been faced with, SAB is still determined to be part of the economic recovery story of South Africa, via the growth of the beer value chain and the overall improvement in the job and investment landscape of the country.*

Earlier in the year SAB announced that it has allocated a R2 billion capital investment for its South African operations earmarked for 2022. The allocation will include, but is not limited to upgrades to operating facilities, installation of new equipment at selected plants, product innovations and other necessary operating systems. This much needed R2 billion capital injection targeted at projects to be completed in the financial year 2022. SAB believes that the investment will go a long way in supporting the country's economic recovery. This injection of funds into the economy, creating much needed jobs, supporting local SMME's and investing in communities indicates SAB's long-term commitment to helping grow South Africa. Furthermore, the beer industry continues to contribute substantially to South Africa through the provision of employment and income to thousands of workers, and makes a substantial contribution to export earnings and government tax revenue in South Africa. In addition, the process of manufacturing, packaging, marketing, and delivering alcoholic beverages stimulates economic activity throughout the beverage value chain, encompassing a range of upstream and downstream industries.

The beer industry has not received specific economic and tax relief from the government in order to continue to sustain our businesses through the length of the pandemic. We therefore request that National Treasury grant in the medium term a below or no inflation increase in excise to allow for our sector to recover and also as a means of tackling the growing illicit market that was further exacerbated by the alcohol bans.

CONCLUSION

SAB has been an active participant in the parliamentary process related to the amendment of the fiscal framework and the money bills in general. We have also made several submissions to National Treasury as a means of addressing the shortcomings and gaps in the current excise tax policy. In particular, we continue to seek platforms that allow for fruitful engagement with government around the excise tax framework. To that end we look forward to the release of the discussion paper around the excise policy review by Treasury and the related stakeholder engagement process.

This is also a time to reset and refresh, it has been seven years since the framework governing alcohol industry taxes has been reviewed and we look forward to collaborating with the government in identifying and resolving issues in the current excise system.

We are concerned that there may be limited engagement with National Treasury prior to the 2022 Budget, because of timelines in the budget cycle having been pushed back, however we would like to request that Pre-Budget 2022 engagements be prioritised by Treasury.

We continue to seek both economic and excise tax relief from the government that allows us to get back to a place where we can once again be a significant driver of investment and job growth. We are currently at the stage in our business where we are putting together plans as to where we want to place our future investments and assessing whether South Africa has the business enabling environment for us to do this.