

Alcohol Industry Value Chain

Impact on the Alcohol Value Chain

The Alcohol Value Chain:

- Encompasses an extensive ecosystem
- Supports a range of industries, from agriculture to retail
- Collectively **support 1 million livelihoods**
- The current regulations have forced our industry in an unprecedented crisis



The last two bans have had dramatic socio-economic consequences

- **165 000 people** have lost their jobs
- Another **100 000 people** have slid into poverty
- The potential **direct loss in GDP** is estimated to be **R7.38 billion**. This is equivalent to 0.2% of national GDP at factor cost.
- The potential **direct excise tax income lost** is estimated to be **R5.8 billion**. This is equivalent to 14.1% of total national excise tax revenue.

Each week of the alcohol ban results in significant losses

- These **losses will not be recovered**, the structural damage is yet to be quantified.
- Even worse: **lost taxes could have helped fund vaccination for the country.**

Impact on Retail Industry

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A total of **R5 billion** has **been lost in revenue for December 2020**

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Of the retailers who provided numbers for this presentation - **predicted revenue loss for January is R1,2 billion & February R1,5 billion**

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LTASA employs over 14 000 employees in 1 400 liquor outlets across the country. It is predicted that **jobs will be lost - approx. 7 000 jobs excluding the value chain** – at the end of January 2021

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The **illicit trade industry** will benefit from the restrictions imposed on the retail industry – **the illicit alcohol market has cost the fiscus more than R6.4 billion in lost tax revenue to date**

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Many liquor stores are suffering severe **short-term economic stress and are on the verge of collapse**

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They will not be able to pay a significant proportion of **their payroll at the end of this month January 2021**

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A significant number of **employees will face retrenchment**. Many of such employees are **unskilled or semi-skilled** and will find it very difficult to find employment once retrenched. The effect of this on them & their families and our wider economy will be devastating and will result in tremendous hardship and suffering

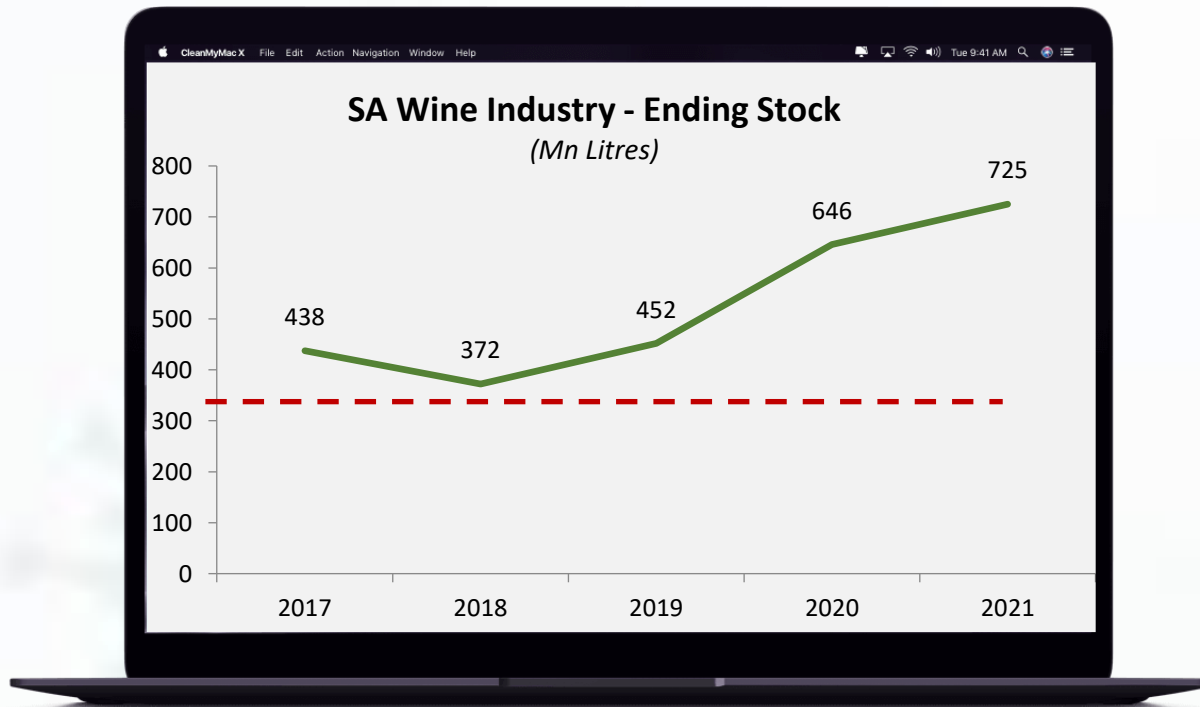
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Liquor store owners suffered significant losses due to the **expiry of liquor stocks** - which will mean irreversible damage to liquor businesses

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Many of the CGCSA members are not able to pay their rental. In order for a liquor store license to be valid, a valid lease is required. The consequence of members not being able to pay rentals is that landlords may invalidate their leases and thereby result in their liquor license being invalid. This would mean the closure of their liquor stores and businesses with devastating effects to both the economy and livelihoods





Context:

- Continued bans **increase excess supply** and risks industry capacity to process **2021 harvest**
- Contact Crime stats **also tracks mobility**
- Wine industry has **lost a third of its domestic sales in 2020** and **accumulated 300 mn litres excess supply** (prior to 3rd ban)
- **A month** of banning liquor sales **adds 25 mn litres of excess wine stock**
- **Storage:** Industry is currently at **100% capacity utilisation** (646 mn)
- **Processing capacity available 800 mn litres;** 100% utilisation not possible due to wine of origin & unique cultivar storage requirements
- **2021 Harvest** will be **highest in 5 years:** 1070 mn litres
- **Harvest period** commence from **mid-January to March 2021**

Impact on **Wine Industry**

Impact:

- Continued bans will significantly reduce capacity to harvest grapes
- 100% write offs of grapes not harvested within required time window
- Dumping: Export & local sales below cost to enable 2021 harvesting
- Longer term structural de-stabilisation of industry
- Serious risk to producer financial sustainability next 3 years



International Practice:

Most wine producing countries have implemented state subsidy support to reduce excess supply via distillation, juice concentration & export support

Wine industry – COVID-19 relief requested from Government

Funding required:
R225 million

Employee Benefit Support

- The extension of the TERS benefit for employees in the wine industry to enable wine producers and cellars to keep 25 000 workforce employed on farm and cellar level.
- R225 million will be sufficient to pay workers for three months.

Funding required:
R176 million

Hand Sanitiser Dispensation

- The distillation of 46 million litres of drinking wine for the production and marketing of hand sanitiser in South Africa and Africa as a surplus removal initiative.
- Support is required to subsidise distillation of 46 million litres of drinking wine for the production of 5.4 million litres of hand sanitiser.

Funding required:
R50 million

Marketing & Promotion Funding

- Funding for a global campaign to re-confirm SA as a reliable supplier & reinforce quality credentials – Seal/Sustainability/WIETA. Campaign to include: Reputation management; education in focus markets & road-show across all.

Funding required:
R21 million

Black Owned Brands & Farms Support

- Support for transformation projects in distress for operational expenses and technical market & production assistance & export assistance.

Funding required:
R10 million

Personal Protective Equipment (PPE) Funding

- Industry require funding support for PPE for workers in the industry. Proposal is for a R400 subsidy.

Funding required:
R25 million

Wine Tourism Support

- Support to sustain supply, Re-ignite demand and to strengthen enabling capacity.

Funding required:
R48 million

Interest Subsidy for Storage Infrastructure Investment - Surplus Wine Stock

- Support for the creation of additional storage space in the industry of 100 million litres.

Impact on Craft Beer Industry



→ **60% of staff retrenched** resulting in job losses

→ **78% in debt** due to inability to pay off loans, rental, staff, stock

→ **88% of craft brewers will not make it** through this lockdown.

→ Final lockdown is **decimating an entire craft industry**

Financial relief and support required to continue operations:

- **Access to TERS & quicker turn-around times** in processing. **40,6%** of craft brewers who applied for relief funding were unsuccessful or only received funding for the 1st month.
- **Freezing of rental** until sales resume
- **Financial support** in form of interest free loans, small business grants etc.
- **Debt relief**, support from Tourism SA, Ministry Small Business
- **Relaxation on disposal costs** for alcohol by SARS
- **Automatic renewals of annual license fee with liquor boards without payment** in light of no trading taking place last year and fees paid.
- IDC intervention in **relaxation of loan repayment conditions**

Measures taken to assist with preventing the spread of the pandemic

- The liquor industry committed R150 million, through Aware.org in direct harm-reduction programmes focusing on for example, drinking and driving, binge drinking and under-age drinking aimed at achieving significant behaviour change in individual and community approaches to alcohol abuse.
- Businesses in the liquor value chain, invested more than R 130,5 million in direct support to the health system towards personal protective equipment (PPE) and other necessities in the health sector.
- Retailers and manufacturers took all possible steps to preserve jobs and enterprises during the pandemic through for example, the Covid-19 Temporary Employee Relief Scheme which eased the burden for the millions of South Africans employed in the retail and manufacturing industries.
- Patrollers/Volunteers- The liquor industry programme of Community Patrollers will receive continued resourcing, these patrollers inspect outlets for compliance with COVID-19 safety protocols and liquor license conditions. In total, 1 000 Community Patrollers have been recruited to assist with driving compliance.
- Since the beginning of the lockdown, retailers continue to observe health and safety protocols in their respective stores across the country. These include:
 - ensuring compulsory sanitizing and wearing of protective masks by customers on entry and enforcing social distancing protocols;
 - visible displays and signage of safety protocols for all customers to observe; and
 - adherence to strict trading hours in liquor outlets including the enforcement of safety protocols such as sanitizing and no-drinking on premises.
- On-line shopping was introduced, and retailers continue to encourage customers to shop online to ease the burden on on-site shopping and thus avoid congestion.
- Retailers have partnered with GCIS to bolster communication and the adherence to safety protocols through campaigns such as #Save2021.
- The industry has upscaled resources for the consumer hotline managed by the Consumer Goods Council of South Africa (CGCSA) for members the public to report incidents of non-compliance with the Regulations and/or safety protocols plus reporting of illicit trade. The hotline numbers will be displayed in stores across the country including in on-site trading establishments, for example, in taverns, bars and restaurants.

Alcohol Industry impacts – key take outs

Immediate ask from the Industry: pre-15th February 2021

- Maintain the curfew at 21h00
- Allow Level 3 alcohol trade: “off-trade/ home consumption” - Monday to Friday from 10h00 to 18h00 ; Saturday 10h00-14h00
- Allow Level 3 alcohol trade: “on trade/ home consumption” - Monday to Friday from 10h00 to 18h00 ; Saturday 10h00-14h00 – exception for wine farms craft brewers and craft distillers who trade on week ends mainly
- **Enforcement to become stricter with consequences for traders and customers** – weekly meetings with the CGCSA Risk Initiative
- Online trading to resume – **same as off trade sales**
- Retain **moratorium on gatherings**
- Weekly update from Natjoints on state of hospitals, crime stats and law enforcement report – we need **commitment and a real, results-oriented partnership with Government**

Short-term ask from the Industry: prior to the 15th February 2021

- We need more **viable solutions in place before the 15th of Feb**
- **Commitment on key indicators for the resumption and maintaining of normal trading** – the uncertainty of the stop-go regulations reduce business confidence and threatens livelihoods
- We need **smart policy and smart regulation**, after this, normal trading conditions must resume. We simply have to restart the economic recovery of our country.
- “stage gate” process followed by government in making decisions around the relaxation of further imposition of restrictions

What the industry will do:

- Continue our **support for Government interventions in the fight against COVID19**
- Remain a **key contributor to the Solidarity Fund**
- **Join forces in the COVID19 vaccine roll-out** – we have the distribution capacity and logistics
- Continue and accelerate **interventions to prevent alcohol harm and drive responsible consumption** through all avenues, including the social compact
- Ensure that marketing messaging will support responsible consumption and COVID-19 related messaging for a period of four weeks from the date of the lifting of the ban
- Promotional activities will be confined to assuring availability of product

Thank you