

ERSA Research Brief

February 2016

How does a change in the excise tax on beer impact beer retail prices in South Africa?

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Alcohol abuse in South Africa is a major problem, resulting in many thousands of needless deaths every year, including those of many innocent third parties. This has prompted the Minister of Health, Dr Aaron Motsoaledi, to introduce legislation to Parliament to introduce measures that are aimed to reduce alcohol use and abuse. Even though a majority of adults indicate that they do not consume alcohol, those that do drink often so in excess and/or irresponsibly. In fact, South Africa's "pattern of drinking" is one of the worst in the world, being surpassed only by Russia and some ex-Soviet countries.

There is strong evidence internationally that an increase in the price of alcohol reduces alcohol use across the board, also by abusive drinkers. In fact, the World Health Organisation regards increasing the excise tax on alcohol as one of the "best buys" in reducing abusive alcohol use.

For an increase in the excise tax to be effective in reducing alcohol use, the crucial requirement is that it is actually passed onto consumers in the form of higher prices. This paper investigated the so-called pass-through effect of excise taxes on beer prices.

The excise tax on beer is levied as a specific tax (as opposed to an ad valorem tax), and is adjusted once a year when the Minister of Finance present the National Budget to Parliament. This typically happens in February. We found that the price of beer increases by substantially more than the increase in the excise tax. In fact, for every R1/litre increase in the excise tax on beer, the price of beer (lager and dark beer) increases by between R4.04 and R5.50/litre, on average. We found that the tax is passed through quite rapidly. About three quarters of the total tax pass-through happens in the month in which the tax is increased. However, for some brands the retail prices rise pre-emptively, i.e. before the tax increase is announced, but not more than one month before the tax increase is announced. In some cases there is a delayed effect, i.e. the retail price increases one month after the tax increase, but typically not in subsequent months.

The pass-through effect differs significantly by packaging type. The pass-through on 750ml beer bottles is substantially lower than that of individual 330/340ml cans and 6x340ml "six-packs". This means that the retail price of 750ml bottles has increased by a substantially smaller percentage than the retail price of the other packaging types over the past seven years. From the beer industry's perspective this seems like a clever strategy, since consumers of 750 ml bottles of beer (typically poor Black males) are more price sensitive than consumers of beer sold in cans (typically more affluent people). They would rather increase the price of a relatively price-insensitive product by a larger percentage, because consumers would still buy the product, and increase the price of a more price-sensitive product by a smaller percentage, since consumers would often not be able to afford a big price increase. By making 750ml bottles relatively cheaper than 340/340ml cans and "six-packs", the beer industry encourages consumers to switch to the larger packaging size. This is disconcerting from a public health perspective.



Despite the unfortunate finding that consumption of beer in larger bottles is encouraged at the expense of smaller cans, the implication of these findings is that increasing the excise tax on beer is a particularly powerful tool in reducing alcohol use. The beer industry, by increasing the retail price by more than the increase in the excise tax, amplifies the consumption-reducing effect of the increase in the excise tax. In the interests of public health, the Treasury should increase the excise tax more aggressively. The magnified effect of the tax increases on the retail price of beer can significantly reduce beer consumption and the social harms associated with it.