UNABLE to attended and had to cancel on 25/06/22

COVID-19 GOVERNMENT INTERVENTIONS: SUPPORT OR OBSTACLE?

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ABSTRACT

With the world still in the final throws of the Covid-19 Pandemic, it is now time to start asking questions on how the regulatory environment created by government have an impact on the Sector. In the case of South Africa, food production was declared an essential service from the outset, but health and safety concerns led to a ban on alcohol sales. In order to address the associated challenges, a number of unique interventions were introduced by the Western Cape Province of South Africa and in this way jobs and farming businesses were saved. However, an economic impact analysis has shown that the ban did lead to a sharp decline in profitability at farm level and the worst is still to come. Of major concern is the rise in illicit trade as a result of the curb on alcohol trade.

1. PURPOSE

With the world still in the grip of the Covid-19 Pandemic, governments (between and within countries), follows different approaches to the Wine Industry. This paper will provide a preliminary impact analysis of government interventions in South Africa's Wine Industry.

2. METHODS

In the Western Cape, one of South Africa's nine provinces, 44,7% of irrigated land is planted to wine grapes with a replacement value of R33,94 billion (US$1 ≈ R15). In 2018, 51% of the wine harvest was exported, making it the third biggest export product of the provincial economy and contributes 6,5% to the value of exports (Troskie, 2021). There are 2 873 producers of wine grapes and 542 cellars in South Africa (95% is in the Western Cape). Importantly, government revenue (excise duty, Value Added Tax) from the Wine Industry is up to 124% (2016) of producer income (Floris-Samuels, 2021). Finally, the iconic nature of the Wine Industry has a significantly positive impact on the provincial tourism sector and its attractiveness as an investment destination (Troskie, 2021).

Despite its importance, the Wine Industry was treated different from other agricultural industries during the Covid-19 Pandemic. Since the introduction of lockdown measures on 25 March 2020, export of wine was effectively blocked for four weeks and domestic sale of liquor banned for 26 weeks. During a further nine weeks, only off-site consumption was allowed for limited hours. For the remainder, wine sales were only allowed for limited hours on certain days of the week. Hence, no on-site consumption or liquor sales in restaurants was allowed for 35 weeks since lockdown started (Troskie, 2021). These strict measures were motivated by the need to prevent social transmission of the virus and to alleviate pressure on hospital and intensive care beds.

Due to lockdowns, the disastrous drought of 2017 to 2018 and a global slump in wine prices, the Western Cape Department of Agriculture was concerned about the financial health of the Wine Industry. Hence it introduced three interventions of which the first was the Wine Tourism Worker Support Stipend (WTWSS) with the intention to prevent workers in the wine tourism environment from losing their jobs. Through this intervention, which entailed a stipend of R3 000 (US$200) for three months, the jobs of 1 362 workers at 254 wineries in the Province were secured (Nieuwoudt, 2021). The Second intervention was the Producer and Brand Owner Protection Support Grant targeting small wine or wine grape producers, which could be rescued from the brink of financial collapse through strategic support. 29 businesses were rescued through direct financial support to the value of R13,5 million (US$900 000) (Ramabulana, 2021).

The third intervention was an analysis of the economic impact of government restrictions on domestic and international trade. The key questions to be answered by this research project included:

a) What is the nature and extent of the alcohol industry in the economy of the Western Cape Province?
b) What are the social and health implications of current alcohol consumption patterns in the Western Cape Province?

c) What is the impact (past and potential) of various government measures on the alcohol industry regarding the economic, livelihoods, social, society, judicial and health environment?
d) What plausible interventions can be identified to minimise the negative aspects of the alcohol industry (e.g. health and social) whilst at the same time maximise the positive aspects of the Industry?

In answering these questions a comprehensive literature review were completed by analysing scientific articles in peer-reviewed journals, news articles in popular media, reports and data compiled by various industry bodies and research houses. In the second phase of the report a survey of 55 key role-players were conducted. These included Government, Industry and other organizations, Companies, Labour, Academia, Input suppliers, Tourism / Restaurant, Retail and Municipalities. The third phase of the research project the project entailed a quantitative analysis at industry and farm level. This was conducted with the use of the multi-market models developed by the Bureau for Food and Agricultural Policy (BFAP) and the results was compared with the baseline annually released around October by BFAP. In the final phase of the project a simplified logframe analysis was used to develop the causality argument underpinning plausible interventions. (Louw, 2021).

3. RESULTS

Some of the key findings in the final report (see Louw, 2021) of the economic impact analysis include:
a) Current net farm profit (NFP) is only 14,3% of industry average required for long term sustainability.
b) Illicit alcohol trade increased to 22% of market share by volume and 12% by value (indicating the predominance of cheap low-quality liquor in this market).
c) Sharp decline of investment in physical and biological infrastructure.
d) Wine stock has increased by 22% on previous years leading to downward pressure on prices in the domestic market and lack of storage capacity for the 2022 harvest.
e) NFP in the Wine Industry will only reach its lowest level in 2022. Further curbs in wine sales will lead to the lowest levels of NFP to be pushed out to 2023.

f) Additional policy interventions (e.g. ban on advertising and increase in legal drinking age) will mean that NFP will not return to pre Covid-19 levels within the modelling horizon (i.e. by 2027)

From the logframe analysis and the associated workshop, agreement was reached that most of the proposed intervention under Intervention Area 1 (Creating a conducive legal and judicial environment), Intervention Area 3 (Tracible alcohol value chain management system) and Intervention Area 4 (Representative industry governance) are significant to highly significant and could be plausible. However, there is several interventions under Intervention Area 2 (Policy and regulatory development) where stakeholders indicated that they are not or less significant. Developing a Strategic/Masterplan to achieve a sustainable economic, social health conscious and environmental alcohol sector is regarded as highly significant.

4. CONCLUSION

Although all indications are that the Covid-19 pandemic will become endemic, a number of recurring infection "waves" will occur during 2022. These waves must be managed in such a way as to balance lives and livelihoods (e.g. jobs and the right to earn an income) and to this end the information, analysis and knowledge of interventions over the past twenty months will be valuable.

Unfortunately, the end of the Pandemic will not bring an end to the pressure on government to curb wine sales. Some lobby-groups are clamouring for the introduction of limited alcohol trading hours, increasing the minimum age at which alcohol can be bought, ban on advertisements and/or minimum unit pricing (see DG Murray Trust, 2021). The impact of these proposals, as well as its socio-economic impact from consumer to producer level needs to be analysed and monitored carefully.

Key words:
Covid-19, Regulations, Wine Industry, Sustainability

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