



THE SOUTH AFRICAN MEDICAL ASSOCIATION

SUBMISSION TO:

THE PARLIAMENTARY STANDING  
COMMITTEE ON FINANCE AND PORTFOLIO  
COMMITTEE ON HEALTH

In respect of the

*Policy Paper on Taxation of Sugar-Sweetened  
Beverages*

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## 1 INTRODUCTION

The South African Medical Association (“SAMA” or the “Association” in this document) is the professional association as well as a trade union for doctors in South Africa. We welcome the opportunity to submit our views to Parliament on the National Treasury’s Policy Paper (“the Policy”) on Taxation of Sugar-Sweetened Beverages (SSB) (“Sugar Tax”), initially published for public comment on 8 July 2016.

The South African Medical Association (SAMA) is a professional association for public and private sector medical practitioners and is registered as an independent, non-profit company. SAMA is also registered as a trade union for its public sector members. SAMA membership is voluntary and stands at over 17 000 (as of December 2015) public and private sector doctors currently registered as members.

SAMA applauds the move by the National Treasury of South Africa to publish the draft Policy and engage stakeholders in informing a policy aimed at addressing obesity and related noncommunicable morbidities in South Africa. The cost of obesity in South Africa is enormous and has been considerably underscored in the Policy under scrutiny; so, rather than duplicating this information, this submission will build upon it. **Our Association supports this proposed low-cost public health policy, recognizing its confirmed effectiveness in international settings. SAMA is in support of the proposed tax rate of R0.0229 (2.29 cents) per gram of sugar for labelled SSBs, and a higher assumed weight (50grams per 330ml) for SSBs that do not currently apply nutritional labelling.** The rate of R0.0229 per gram of sugar translates to a 20% tax rate, higher than the 10% that Mexico implemented.

SAMA also commends the policy alignment between the proposed Policy and existing local strategies, which are in turn influenced by international policies and frameworks. These are the South African Strategic Plan for the Prevention and

Control of Non-Communicable Diseases 2013-2017, the South African National Strategy for the Prevention and Control of Obesity 2015-2020, the Health Promotion Policy and Strategy, the WHO Initiative on Ending Childhood Obesity, and the WHO Global Strategy on Diet, Physical Activity, and Health. Furthermore, South Africa's overarching policy, the National Development Plan (NDP) 2030, incorporates condensed targets for reducing obesity and NCDs. The NDP aims to reduce the prevalence of NCDs by 28% by 2030; promote healthy diets and physical activity (with emphasis on schools); address social determinants of health, and foster collaboration across sectors. Also, the South African Food-Based Dietary Guidelines (FBDGs)[1] restrict consumption of sugar in beverages and food. The FBDGs state "Use food and drinks containing sugar sparingly, and not between meals". The same Guidelines recommend, in line with WHO, no more than 10% (preferably <6%) of daily energy coming from intake of added sugar (A 355-ml tin of an SSB contains approximately 40 g of sugar, equivalent to 6-7% of daily energy).

Until 2002 South Africa had a tax on soft drinks and mineral water, albeit devoid of health goals<sup>1</sup>. The re-introduction of this public policy that has an influence on health by a non-health government department (National Treasury) is a laudable demonstration of assent to the World Health Organisation (WHO)'s 'health in all policies' approach [2]. The 'health in all policies' approach emphasizes the inclusion of health considerations in policy making across different sectors that influence health, such as transportation, agriculture, land use, housing, public safety, and education. Being the first African country to propose a tax on sugary beverages, South Africa will likely influence other African states to pursue a similar policy option, given the reported high and rising rates of obesity in other African states [3].

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<sup>1</sup> The fundamental purpose of the tax was to generate revenue

SAMA firmly subscribes to **evidence- informed** policy making. As such, SAMA notes and commends the Policy document's effort to establish the case for a Sugar Tax in South Africa on the basis of the available evidence and practical experiences in countries that have implemented the measure. Nonetheless, our submission highlights some important weaknesses in the evidence, for example, the supposition of 'effectiveness' of a sugar tax based on data showing decreased **consumption** of SSBs. This Policy does not show evidence demonstrating that SSB tax results in tangible health status improvement (e.g. reduction in rates of obesity or associated non-communicable diseases). We will expand on this comment in section 1 of the document.

## 2 BACKGROUND

The global rise in the obesity epidemic is of fundamental concern among scientists, policymakers, and other health stakeholders, including the medical community. The World Medical Association (WMA), of which SAMA is a member, recognizes obesity as a severe public health concern and a serious medical condition requiring medical attention. Accordingly, the WMA has policies related to obesity, namely: *WMA Statement on the Physician's Role in Obesity*, and the *Proposed WMA Statement on Obesity in Children*. The latter advocates for an integrated approach to tackling obesity, including fiscal interventions. It states that:

*“Governments should impose a tax on unhealthy foods and sugary drinks and use the additional revenue to fund research and epidemiological studies aimed at preventing childhood obesity and reducing disease risk”[4].*

The mounting evidence from gene–environment interaction (GEI) studies shows that obesity is the result of a complex interplay between hereditary and environmental factors[5]. The latter encompasses multiple factors including the increasing urbanization, economic growth (and with it the unequal distribution of wealth), access to health information, and lifestyle (e.g. dietary habits, smoking, sedentary behaviour and intrauterine conditions). However, it is accepted that the complex interplay between genetic and environmental factors complicate the estimation of relative contributions of these two factors to obesity. This will

complicate the estimation of SSBs's attributable risk (ARR) for obesity. In implementing this policy, the aim should be to reduce that ARR. As it is difficult to isolate SSB's attributable risk for obesity, it might be futile to use the strategy alone.

As earlier established, the causes of obesity are multifactorial. Nonetheless, the proposed Policy rightly diagnoses, in line with the available literature, that the main culprit is excess sugar consumption from SSBs and other calorie-dense foods. Targeted advertising (children), weak regulation, and socio-economic deprivation are among the key elements behind the rising consumption of sugary beverages and spiralling levels of obesity[4]. Further, beliefs associating obesity with affluence, happiness, and absence of HIV infection perpetuate unhealthy eating habits[6, 7], more so in the African context. The 'obesogenicity' of an environment has been defined as 'the sum of influences that the surroundings, opportunities, or conditions of life have on promoting obesity in individuals or populations'[8]. These influences, which are social, economic and behavioural in nature, apply to multiple sectors external to health; that can range from Transport to Urban Planning, Agriculture, Education, Social Protection, and others. Therefore manipulating the consumption of sugary beverages through taxation as an isolated intervention would not have maximum impact on reducing obesity and related conditions.

SAMA strongly believes that the greatest impact of SSB tax can only be realised with the implementation of an **inter-sectoral, multidisciplinary, and comprehensive package of interventions**, as Mexico did. Evidence suggests that the decreased consumption of SSBs in the Mexican experience was not the result of the sugar tax alone but a net effect of supplemental interventions[9]. SAMA is concerned about the fact that, as acknowledged by the Strategy for the Prevention and Control of Obesity in South Africa, "there is no multi-sectoral approach to halting the scourge of obesity in the country"[10](page 10). With such an unrivalled scale of obesity as experienced in South Africa, a multisectoral approach to deal with obesity is urgently needed.

An **inter-sectoral, multidisciplinary, and comprehensive package of interventions** including a tax on SSBs will yield multiple public health benefits for

South Africa. The role of obesity in raising the risk for a number of chronic diseases is well established. Above that, evidence shows that there is a **direct** link, independent of body weight, between the consumption of SSBs and a wide range of chronic and other diseases, including[11]:

- Diabetes necessitate
- Dental caries
- Cardiovascular disease
- Metabolic syndrome

The existence of a direct association between SSBs and the diseases mentioned above demands the determination of baseline levels of these diseases before implementation of the Policy, and the monitoring of the disease trends in future to evaluate the impact of the proposed Policy. This is elaborated upon in the next section.

### 3 COMMENTS

In general, SAMA supports the Policy on Taxation of Sugar-Sweetened Beverages in view of its positive health intention. However, SAMA wishes to make comments on certain aspects that must be considered before the Policy is finalised or implemented, to enable successful implementation and evaluation of the Policy. Furthermore, we advance suggestions that will ensure successful stakeholder engagement, as well as strategies to benefit the low socio-economic class who are more likely to feel the tax burden of the Policy.

#### **3.1 Need for Baseline indicators**

Baseline data showing pre-tax trends is essential for measuring the impact of the tax intervention. Although the Policy document provides facts and figures on the current size of the obesity pandemic in South Africa, and the 'effectiveness' of Sugar Tax as evaluated by **reduced demand/consumption** of SSBs, SAMA's overriding concern is that these statistics are not from local data sources. The data presented in the Policy is not comprehensive and does not present a complete baseline picture of the burden of disease associated with sugar in South Africa.

The sole obesity prevalence data for South Africa cited in the Policy document (Section 1.2) is sourced from an international journal, the Lancet. The policy has omitted the following routinely local data sources:

- Medical Research Council (MRC) mortality and morbidity surveillance data,
- Demographic and Health Survey (DHS),
- successive nutrition surveys (South African National Health and Nutrition Examination Surveys),
- District Health Information System, and
- Stats SA.

Use of local routinely collected data will enable future cost-effective evaluation of the impact of the Policy.

The baseline data should ideally be presented disaggregated by variables such as age, gender, literacy levels, income levels, and geography (rural, urban). Such disaggregation will highlight any differential distribution of obesity-related disease, since the Policy rightly claims that obesity is '*a regressive disease that disproportionately affects those in lower socioeconomic groups*' (section 3.6).

In addition to determining the baseline, the Policy should anticipate and clearly outline how and at what frequency **measurement of the effect** of the Policy interventions will be done.

### 3.2 **Level of taxation (tax rate)**

The pertinent policy question is whether the proposed 20% tax rate is appropriate for South Africa? For the maximum impact of the Sugar Tax in South Africa, the tax rate must not be too high or too low. Otherwise, unintended consequences can ensue. An example is the alcohol tax rate which has not been pegged high enough to deter South Africans from consuming alcohol. The extent to which Sugar Tax will reduce obesity cannot be predicted confidently in South Africa, where being overweight is socially desirable due to its cultural associations with affluence.



### **3.3 Use of tax revenue**

Revenue generated from the additional tax can be quite substantial. For example, within a year of introducing a tax on SSBs, Mexico experienced a 51.1% increase in revenue [9]. In Canadian studies, 40% of Canadians stated that they strongly support a tax on sugary drinks if the proceeds are used to fund the fight against obesity[11]. Another poll in the USA showed that the public would support an SSBs tax on the proviso that the revenue is channeled towards child nutrition programs[12].

SAMA notes with concern that the Policy does not state the intended use of revenue from the sugar tax, whether Health will benefit directly from the income. The fact that revenue from alcohol tax in South Africa is not directed towards the Health sector could be part of the reason for the persistent high alcohol consumption and related morbidity/mortality in South Africa.

SAMA emphasizes that the revenue stream generated by the Sugar Tax should be channeled towards health promotion and public health preventive programs aimed at reducing obesity in South Africa, with special emphasis on schools and workplaces.

### **3.4 Lessons from other countries**

Although countries are urged to implement fiscal policies in consideration of their country policies, there is value in South Africa taking lessons (pleasant and unpleasant) from countries that have implemented sugar taxation. For example, factors that made Denmark repeal a tax on fat and sugary drinks in 2011 and 2014 respectively should be examined in the South African context.

### 3.5 Policy Assumptions and Challenges

Challenges and assumptions linked to the implementation of a tax on SSBs, as experienced in other countries, have been highlighted in literature and the proposed South African Policy (Section 4.3). It would be advantageous for South Africa to critically examine these and **transparently** anticipate how to deal with them. These are described below:

- I. **Job losses: Job losses in the South African job market are a possible result of a tax on SSBs.** One of the leading industry opponents of the Sugar Tax in South Africa estimates job loss in consequence of the tax to be about 60 000- 70 000 jobs[13]. A similar argument in the UK claims 4000 possible job losses in that country[14].
- II. **Administrative burden:** The Policy has indicated that the duty at source (DAS) approach will be used, to circumvent the administrative burden.
- III. **Price elasticity and product substitution:** Because sugar consumption has an **addictive** element, consumers value the substance (sugar) so much so that they can buy less of the taxed product and more of other calorie-dense products. High-calorie substitutes for sugar-sweetened beverages include fruit juice, full fat milk, wine, and beer. If South Africa consumers respond to the Sugar tax in this way, this will not result in a decrease in obesity (all other factors held constant).

**IV. Pass through rate and tax evasion:** The Policy appropriately notes that “for the tax to have the desired behavioral impact on consumption there has to be a pass through of the excise tax to the consumers of SSBs” (Section 5.5). Whether South African manufacturers and retailers will adequately pass on the tax burden cannot be discerned with certainty. Across the world, pass through rates for sweetened beverages in different countries have been diverse: as low as 22% in Berkeley (Australia) for Coke and Pepsi[15]; as well as 60% and 100% in France for fruit drinks and carbonated drinks[16]. If businesses do not pass on the tax to shoppers, consumption will not decrease, thereby offsetting the intended impact of the tax. As was experienced in Finland, businesses can also evade tax, leading to low revenue collections.

### **3.6 Complementary interventions**

Data and experience from across the world demonstrate that a tax on Sugar works best as part of a comprehensive set of interventions to address obesity and related chronic diseases. Fortunately, some of these interventions are contemplated in the South African Strategy for the Prevention and Control of Obesity and the Strategy on Non-Communicable Diseases. SAMA strongly recommends the key complementary strategies often associated with the Sugar Tax that should be implemented in South Africa, namely:

*(a) Food advertising regulations:*

Targeted advertising through all forms of media, specifically targeting to influence children’s choices is considered the main culprit for high demand on unhealthy food in both developed and developed countries. A study in South Africa found a high concentration of SSB advertisements in Soweto, with 50% of schools having branded advertising of SSBs on school property[8]. Strict regulation and enforcement of advertising of sugar containing food and beverages must be implemented in South Africa.

*(b) Food labelling:*

The food industry exhibits market failure in that not many consumers are literate enough to understand food labels. It is suggested that food labelling must be easy to understand for the ordinary consumer. The UK's innovative 'Traffic Light' nutrition labelling system should be emulated[17].

*(c) Subsidy on healthy foods:*

The Government should subsidize especially fruits and vegetables, as these are a much healthier food option containing micronutrients, yet are too expensive for many South Africans, resulting in micronutrient deficiency.

*(d) Educational campaigns*

Educational campaigns must focus on high-risk groups vs. population-wide as interventions at the individual level have been shown to have positive outcomes. This strategy is however very expensive as indicated in the National Strategic Plan for NCD.

*(e) School and work-based programs:*

Incorporating obesity-reducing strategies in the school curriculum is empowering to the children and more likely to be adopted as a norm. For example, Table view Primary School in Western Cape has banned SSBs in school. Only water is allowed. Revenue from the tax can be used to finance school sporting activities. The investment in sport will encourage an active lifestyle and divert scholars from misuse of harmful substances such as nyaope. Effective workplace interventions to reduce obesity should be widely promoted in the corporate sphere in South Africa.

### **3.7 Human Rights and Ethical Dilemmas**

The 1996 Constitution contains a range of civil and political rights alongside equally justiciable socio-economic rights, several of which inform the individual/collective balancing exercise in relation to public health.

Campaigners against the introduction of radical approaches such as 'sin taxes' can frame their argument around human rights. Such opponents are inclined to claiming individual rights to choice of lifestyle and restrictive nature of public health intervention. Striking the balance between individual rights and the public good can become a challenge. Literature suggests that '*the exercise of public authority and the imposition of public sanctions and penalties in an area as deeply personal as an individual's health choices require strong justification*'[18].

Other moral philosophies argue that moral decisions are those that will benefit the most worse off. We note in this Policy that the justification for SSB is that the poorest suffer the most, will the poorest benefit the most from this policy intervention through reduction of morbidity and cause-specific mortality. If this argument is used to justify this Policy, it is imperative that government implements multiple strategies and invest collected taxes in activities that will benefit the low socio-economic class the most, in the form of healthy food subsidies or health programs targeting specifically the poorest.

### **3.8 Summary of Recommendations**

- a. SAMA is in support of the proposed tax rate of R0.0229 (2.29 cents) per gram of sugar for labelled SSBs (20% tax rate), and a higher assumed weight (50grams per 330ml) for SSBs that do not currently apply nutritional labelling.
- b. The health outcomes (such as obesity rate, incidence or prevalence of non-communicable diseases such as diabetes, heart disease,) of the proposed Policy need to be clearly stated and the baseline indicators included in this Policy. Upfront identification of baseline indicators will enable evaluation of the impact of the policy.
- c. Baseline data must be based on routinely collected local data, such as MRC morbidity data, SANHANES, Household Surveys, as it will be easier to monitor the trend in a cost effective way.

- d. The realized sugar tax must be directed towards health activities especially those that will have the maximum impact on the lower socioeconomic class. It can include subsidies on fruits and vegetables, school-based nutrition, access to basic tap water, or other cost-effective preventative measures. Other options include redirecting it to the NHI.
- e. The tax on SSB should be part of an **inter-sectoral, multidisciplinary, and comprehensive package of interventions**, as Mexico did. Complementary strategies to the sugar tax could include: Strict regulation of advertising of sugary food and beverages; Transparent and easy - to - understand food labels; subsidy on healthy foods; educational campaigns on high risk population groups; and incorporating obesity-reducing strategies in the school curriculum and workplace programs.
- f. We recommend that selection of strategies be based on evidence and cost-effectiveness principles. The impact must benefit the lower socioeconomic strata maximally. We believe that will start to reduce the inequities in healthcare.
- g. We recommend explicit justification to substantiate this public health policy given the human rights advanced by the Constitution. Justification will require that policy makers use an ethical framework to justify the individual freedoms violation. SAMA has an established Ethics Committee which would be able to assist Government in a comprehensive ethical analysis of the Policy.
- h. We recommend inclusion of the requirement to **evaluate the** Policy's impact. Evaluation of policies helps the government to implement policies that work, address gaps in regulation and improve accountability and transparency.

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