CANEGROWERS

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Mr Allen Wicomb
Committee Secretary
The Standing Committee on Finance and Portfolio Committee on Health
3rd Floor
90 Plein Street
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Email: awicomb@parliament.gov.za

Dear Mr Wicomb,

RESPONSE: CALL FOR WRITTEN SUBMISSIONS ON THE TAXATION OF SUGAR SWEETENED BEVERAGES

The South African Cane Growers' Association (Canegrowers) hereby submits its response on the Taxation of Sugar Sweetened Beverages to The Standing Committee on Finance and Portfolio Committee on Health.

Introduction

The South African Cane Growers' Association represents the country's approximately 20 000 sugar cane growers, who operate mainly on small family farms and annually produce on average 19.9 million tons of cane, farm in excess of 371 662 hectares under sugar cane and make a substantial contribution to the economy, mainly in the rural areas of Mpumalanga and KwaZulu-Natal.

Since its inception in 1927, the Association has represented the interests and focused on the sustainability of all growers – from individual small-scale farmers to commercial enterprises.

It is worth noting that growers are an integral part of the sugar industry as growers carry 64% of industry costs, with the millers contributing 36%.

Affiliated farmer associations

Canegrowers represents the interests of a number of affiliate organisations with at least 11 farmer associations across Mpumalanga and KwaZulu-Natal noting their concerns on the negative impact a tax on sugar-sweetened beverages would have on rural economies. This was done in August 2016, when the first request for comment on the Policy Paper, Taxation of Sugar Sweetened Beverages, which was published by the National Treasury on 8 July 2016, was made.

I include pertinent excerpts from these submissions:

- **The Sezela Cane Growers' Association**: Our small-scale growers have been badly affected by the current drought conditions as well as other economic factors. Further negative impacts in these rural areas would not only be detrimental to these growers but their communities.

- **Umzimkulu Local Grower Council**: The proposed tax will reduce local demand and decrease income growers receive for their sugarcane. This will place further financial stress on sugarcane growers and potentially necessitate farms going out of production.
- **Darnall Farmers' Association**: Unintended consequences a taxation on sweetened beverages may have on a fragile rural economy in which agriculture plays a crucial role as the primary socio-economic driver.
- **Felixton Local Grower Council, Zululand**: The impact to sugarcane farmers has been estimated at between 15% and 30% reduction in net farm income.
- **Pongola Grower Council:** Reconsider the sugar-sweetened beverage tax proposal considering the severe negative financial impact on all growers who already face many challenges in the sugarcane industry.
- **Phumelela Mill Cane Committee**: The tax will result in a decline of small-scale growers as many will be pushed out of the industry thus increasing unemployment.
- **Komati Cane Growers Association**: It will lead to reductions in revenue into the area, extra financial pressure on farmers, loss of jobs through retrenchment or movement to mechanisation and affect the poorest of the poor.
- **Malelane Local Grower Council:** The proposed tax on sugar-related products will have a negative effect on the sugar industry of South Africa and in particular the rural regions where there are many dependents on the sugar industry for employment and an income.

Contribution to local, provincial economies
The industry is valued at R12 billion and a large percentage of this income is invested into rural economies.

Furthermore, sugarcane farmers are an integral part of the value chain of rural economies, making a consistent socio-economic contribution through employment, income generation, transport, services, fuel and support of local communities. It is often the case that the cultivation of sugarcane is the predominant employer in deep rural areas.

According to our calculations, growers provide an estimated 79 000 jobs on farm (being seasonal, temporary and permanent) – as well as an additional 350 000 direct and indirect jobs in the sector.

In addition, the industry is able to provide a number of benefits to rural areas including:
- Training for farm workers and growers;
- Bursaries;
- Upkeep of roads and rural infrastructure; as well as
- Boreholes.

The sugar industry's contribution to the South African economy was assessed in the 2008 study by Professor Jeff McCarthy as follows:
- The industry contributes between 0.5 and 0.7 per cent of national GDP. The industry accounts for 0.9 % of total merchandise exports by value, 0.5% of total income tax, 3.6% or total fixed capital stock of business enterprises, and 0.3% of salaries and wages;
- The estimated national multiplier for the sugar industry is 3.2, implying that for every R1 increase in output from sugar farming, milling and refining combined, national GDP will grow by R3.20.

Increasing financial pressure
Our current estimation is that the industry has lost about R6 billion due to the prolonged drought. The financial pressure has however resulted in numerous job losses and high levels of indebtedness as farmers and other institutions struggle to survive.

This has already had a knock-on effect on local economies, with growers reducing their requirements for temporary and seasonal employees over the past two seasons, which has led to a noticeable slump in rural economies.

Impact of a tax on sugar sweetened beverages

The volume of sugar supplied by the industry to the Sugar Sweetened Beverages (SSBs) sector is approximately 600 000 tons per annum. This is based on budgeted rebate tonnage for the rebate schemes that are likely to include SSBs as defined by the policy proposal. This is the largest single sector for the industry in terms of sales, making up approximately 32% of total local market sales, and more than 58% sugar sales to the industrial sector. With regard to production, approximately more than 100 000 hectares under cane are necessary to meet supply to the SSBs.

The estimated sugar market subject to tax on SSB for the 2016/17 season is approximately 624 886 tons. Working on a price elasticity of -1.299 (20% increase in SSB price leads to a drop of 26% in sugar in SSB) and equates to a loss of the local market of 162 000 tons of sugar, 1 400 000 tons of sugarcane, 5 817 job losses with a wider impact on 58 174 South Africans.

The difference with Mexico…

Proponents for the tax on sugar-sweetened beverages often cite the Mexican experience as a success story and one that can be easily duplicated elsewhere in the world.

However, there is a key difference between Mexico and South Africa.

Sugar divested from the Mexican local market, as a result of a reduced demand for sugar for sugar-sweetened beverages, can be readily sold to the United States. It is worth noting that the US is a net importer of sugar and therefore a ready market for any excess sugar from Mexico.

In South Africa, however, export market sugar is sold at the world market price – resulting in a much lower value for sugarcane growers.

Regulatory impact assessment

In line with government guidelines, it is expected that an Independent Regulatory Impact Assessment will be considered before implementation of such a policy. The proposed SSB tax will have a direct – and detrimental – impact on sugarcane growers and affiliated industries. In order to understand the full impact, both economic and social, and to mitigate any unintended consequences, it is highly suggested that Treasury conducts a RIA.

Added value alternatives

As an alternative to the required reduced volume of sugar in the local market anticipated in the implementation of the SSB Tax, support from government in terms of creating an enabling regulatory framework for the industry to participate in co-generation and biofuels is critical for the viability of the industry.

Conclusion

The South African Cane Growers' Association, on behalf of all sugarcane growers in South Africa, strongly recommends that a Regulatory Impact Assessment of this policy be conducted and the negative impact of the proposed tax on sugar sweetened beverages on the rural economy and the industry be considered before any further decisions are made on implementation.

The South African Cane Growers' Association welcomes the opportunity to further engage on this matter and expresses its appreciation for the opportunity to provide input on the proposed tax.

Yours sincerely,

T.P. Murray

TIM MURRAY
CHAIRMAN