



# South African Fruit Juice Association

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Reg. No. 122-886

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Thursday, 26<sup>rd</sup> January 2017

**TO: The Standing Committee on Finance**

And

**TO: The Portfolio Committee on Health**

**Attention:** Mr Allen Wicomb

Committee Secretary

3<sup>rd</sup> Floor, 90 Plein Street

Cape Town 8000

By email: [awicomb@parliament.gov.za](mailto:awicomb@parliament.gov.za)

Dear Mr Allen Wicomb

**RE: PROPOSED TAXATION OF SUGAR SWEETENED BEVERAGES**

**SUBMISSION BY THE SOUTH AFRICAN FRUIT JUICE ASSOCIATION (SAFJA) FOR THE EXCLUSION OF FRUIT JUICES FROM THE SCOPE OF THE TAXATION OF SUGAR SWEETENED BEVERAGES**

1. **BACKGROUND**

1.1 This submission is made by SAFJA which is the national association representing the South African Fruit and Vegetable Juice Industry. A list of our members as well as associates and linkages are reflected in the attached annexure. They represent the overwhelming majority of the Industry from primary fruit juice processors such as Granor Passi, Associated Fruit Processors, Ceres Fruit Processors, Magalies Citrus and Onderberg Verwerkingskooperasie to final fruit juice packers such as Clover, Parmalat, Pioneer Foods, Rhodes Food Group and Appletiser (Annexure 1).

1.2 Our submission is based the Policy Paper titled Taxation of Sugar Sweetened Beverages published for comment by the Department of National Treasury on 8<sup>th</sup> July 2016 and to which we have also submitted written comments thereon. The Policy Paper recommends the exclusion of 100% fruit juices from the scope of the proposed taxation of sugar sweetened beverages (SSB's).

2. **EXCLUSION 100% FRUIT AND VEGETABLE JUICES**

**SAFJA strongly supports the recommended exclusion of 100% fruit juices for the following reasons:**

2.1 **100% Fruit juice contains no added sugar and is therefore not a sugar sweetened beverage.**

The Regulations of the Department of Agriculture, Forestry and Fisheries (DAFF) in respect of 100% fruit and vegetable juice do not allow the addition of sugar. Regulation 286 in terms of the Agricultural Product Standards Act (Act 119 of 1993 as amended) is currently enforced and comprehensively provides for and defines 100% fruit and vegetable juices. DAFF implements an existing framework and mechanism in terms of the inspection and analysis of fruit and vegetable juice products to ensure compliance with these regulations including that no adulteration of the product, including the addition of sugar, is permitted or practiced.

The aforementioned is the internationally accepted standard which is also integrated into our South African regulations; and which is monitored by the relevant responsible authorities; industry and consumers to ensure compliance.

## 2.2 **100% Fruit juices have well recognised nutritional benefits for consumers.**

Fruit juices are made from natural fruits and reflect the intrinsic characteristics of fresh fruit. The adage that 100% fruit juice is “fruit, just juiced” is universally applied.

Fruit and vegetable juices are regarded as healthy beverage options and often included in dietary guidelines. In addition, they are also affordable and available throughout the year irrespective of the seasonality of the fresh produce. It is therefore important for consumers to maintain access thereto and consumption thereof in moderation and responsibly as part of a balanced diet and healthy lifestyle.

As an example, the United States of America 2015 – 2020 Dietary Guidelines issued by the USDA recommend that 100% fruit juice, which contributes beneficial nutrients, should be among the primary beverages consumed. These guidelines emphasize healthy eating patterns that include nutrient dense foods such as whole fruit and fruit juices. Furthermore given that the recommended amounts of fruit are not currently consumed, fruit juice is a simple way to include more fruit into the diet within the recommended food group amounts and calorie limits. The report confirms the essential place of 100% of fruit juice in a healthy eating pattern.

Furthermore, in the United Kingdom fruit juices form part of the Government’s 5-a-Day Fruit and Vegetable Scheme of the National Health Scheme and in their case it is deemed counterproductive to tax a product that is part of their recommended scheme.

The “National Nutrition and HIV/AIDS Guidelines for Service Providers of People living with HIV/AIDS” in respect of Botswana (and developed in conjunction with the World Health Organization) confirms that adequate nutrition is essential for achieving and preserving health for everyone. Food and nutrition thus play important roles in care and mitigation of infections including, and especially, HIV/Aids. These guidelines in respect of Healthy Eating specifically include fruit and indicate that “fruits provide vitamins and minerals. They are rich in Vitamins A & C, potassium, fiber and phytochemicals. On average most people do not eat enough fruits. It is recommended that 2 – 4 portions of fruit be consumed each day.” Fruits are described and “also, 100% fruit juice and pure fruit juice smoothies count” and are therefore included as a portion of fruit. Furthermore “most people should eat more fruits than they are presently eating.”

In South Africa the respected FACTS organization and the GI Foundation both highlight that fruit juice contains a wealth of nutrients and health and wellbeing benefits. In particular, unsweetened 100% fruit and/or vegetable juice contain not only intrinsic sugars such as fructose, as well as glucose and sucrose, but are also rich in nutrients and essential vitamins and minerals which are beneficial to the health of consumers. However we should be

mindful that fructose (i.e. intrinsic natural sugar in fruit juice) has a very low Glycaemia Index (“GI”) of 23 when compared to other sugars such as glucose, which has a GI index of 100. The latter alone, differentiates unsweetened 100% fruit juice from sugar sweetened beverages which have a high or very high GI index and far less, if any, nutritional value.

All countries have therefore excluded 100% fruit juices based on their inherent nutritional benefits. They do not categorize 100% fruit juice with soft drinks which are energy dense and nutrient deficient. Their motivation includes

- Fruit juices supplement fresh fruit intake worldwide, which daily intake is below recommended levels. In South Africa particularly, 100% fruit juice is seen as an important nutritional supplement for fresh fruit, especially in rural areas where fresh fruit is not available all year round.
- Fruit juices offer healthier beverage options. This is clearly motivated in the dietary guidelines of many countries. The common references to and modelling calculations of the intended substitution of carbonated soft drinks is clearly evidence of the desire of these Authorities to switch consumers to preferred options. The World Health Organization also clearly indicates “the overall health effects of food and beverage taxes depend on the price elasticities of demand, which are composed of the income and substitution effects. The size of the substitution effect depends on the extent to which there are available substitutes, for example from SSBs to water, milk, unsweetened 100% fruit juice and beverages with non-caloric sweeteners”.

The aforementioned conclusions referred to by the respective entities are already based on the robust and exhaustive review of the available scientific research in respect of applicable nutritional science.

### **2.3 This recommendation is consistent with international best practice.**

It is important to note that this has been acknowledged by the Department of National Treasury in their Policy Document, making reference to a number of international countries which all exempt 100% fruit juice from their respective sugar taxes. According to the International Federation of Fruit Juice Producers, all countries including Europe, UK, Turkey, USA, Gulf States and Algeria as well as importantly Mexico exclude 100% fruit juices.

In addition to the reference in the Policy Document on foreign sugar tax regimes, in France for example, products have to fulfil several criteria to fall under the “soda” tax and be categorized as such. The second criterion is that the beverage must contain “added sugar”. The document clearly states that drinks and preparations containing sugar naturally, such as fruit juices containing no added sugar at all, are excluded (note 1).

In view of the aforementioned, it is clear that 100% fruit and vegetable juices are categorized differently to other beverages which have been sweetened by the addition of sugar. The international precedent for the exclusion of 100% fruit juices is therefore very evident.

### **2.4 The agricultural value chain and employment in especially rural areas should not be disrupted or adversely affected.**

The fruit juice industry is an industry which comprises of several key sectors, namely:

- Primary farm production, packing and delivery
- Fruit processing
- Juice packing, marketing and distribution

All these sectors support auxiliary sectors such as irrigation, plant material, farm and fruit juice equipment, container and delivery logistics and many more support services. All these sectors employ large numbers of staff on farms, in factories and at service providers, especially in rural areas. The fruit juice industry value chain therefore has a very substantial footprint in primary agriculture and agro-processing (Annexure 1).

It should be noted that 20% to 30% of fresh fruit is channelled by necessity, and with no other outlet, to juice manufacture. Disruption of the fruit juice industry would therefore negatively affect the agricultural value chain of both primary agricultural production as well as agro-processing. This could lead to increased prices in respect of fresh fruit and also fruit juice as well as reduced local and export competitiveness in these two marketing channels.

Imposing an additional tax on fruit juice will put a strain on employment and ultimately the cost of manufacturing in these sectors which is disproportionate when considering other sugar sweetened beverages not involved in agriculture and which fall within the ambit of the scope of the proposed tax provision.

Various reports, including in South Africa, have quoted substantial job losses in the beverage sector resulting from the implementation of this taxation. With regard to employment, normal economic modelling may indicate that other jobs will be created and partially compensate for job losses in the beverage sector. However we are concerned that in South Africa we have a very high unemployment rate of 25% and that the economy (and therefore jobs) shows minimal growth. We are therefore particularly concerned that any taxation of 100% fruit juices will result in additional job losses in the rural areas where the fruit is grown, packed and processed but will not be re-created in those same areas. This could result in far greater and substantial pockets of poverty in these rural areas.

### 3. **PRINCIPLE of “ADDED SUGAR” BASIS**

- 3.1 Apart from the announcement made by the Minister of Finance in his budget speech last year (2016), the title of the Policy Document that was subsequently published by the Department of National Treasury is “Taxation of Sugar Sweetened Beverages”. Given the latter, it is clear that **the objective and scope of the proposed tax provision is aimed at sugar, which is added to sweeten a beverage.**
- 3.2 From a taxation implementation perspective, “added sugar” would be the easiest of all to tax, as it can be determined from the recipe used to produce a product without any need for technical and/or scientific analysis of the product as such, i.e. the total amount of sugar added to the recipe could be taxed at the appropriate rate. Where a manufacturer or importer fails to disclose this information, or is unable to do so, a deeming provision, as proposed, may be applied.
- 3.3 SAFJA is of the view that, given the objective of the proposed taxation in alignment with the definition of added sugar, this is the simplest, fairest and most practical way of implementing the tax without creating further technical and cost implications on the industry. SAFJA recommends that the only practical way to implement such as a tax is on an “added sugar” basis which does not require any analytical data, scientific analysis, nutritional tables or any other such information. Conversely, the latter would naturally exclude 100% fruit and vegetable juices as there is no “added sugar” in these beverage categories.
- 3.4 Countries such as France have also adopted the “added sugar” principle for its sugar taxes, whereas in Poland drinks with a fruit juice content of 20% or above attract VAT of 7%, while drinks with a fruit juice content of less than 20% as well as carbonated soft drinks are

attracting VAT at 23%. There are also similar examples in various States of the USA, for example in Philadelphia; drinks that are at least half milk or fruit juice are not taxed (note 2). In California “sweetened beverages” are taxed, but the definition of “sweetened beverage” does not include any sweetened beverage containing 50% or more of natural fruit juice or natural vegetable juice or combined natural fruit juice and natural vegetable juice (note 3).

3.5 An alternative practical method to tax only added sugar is to introduce a threshold such as proposed in the United Kingdom. Although this has the practical implication that it does not always accurately target the different levels of added sugar, it will in practice allow the intrinsic sugars of fruit and milk products to be tax free and also provide a strong incentive for the overall reduction of added sugars.

3.6 An added very important consideration is that both fruit and milk-based products, even though sweetened to varying degrees, do have considerable natural healthy content.

Whilst fruit nectars are not 100% fruit juices, they do contain a significant portion of fruit juice and therefore intrinsic sugars. The percentage of fruit is regulated by DAFF (APSA and R286) and varies depending on the fruit variety. Given that fruit nectars contain significant natural fruit juice content, they therefore also contain proportionate nutritional value and should still be promoted as a healthier product and alternative for consumption within calorie limits especially for the benefit of lower income groups as part of a balanced diet and healthy eating pattern.

The same conditions would apply to milk products which contain intrinsic sugar in the form of lactose, but which have proportionate health benefits. Both industries have many initiatives in place to reduce the level of added sugar and furthermore any Sugar Tax should strongly incentivize these initiatives.

**SAFJA therefore recommends that consideration also be given to the exclusion of fruit nectars** as defined and regulated by DAFF from any proposed taxation due to the significant and well recognized proportional nutritional benefits of the fruit juice content as regulated by DAFF; the potential impact on especially rural employment from farm and fruit processing to shelf; and the impact on retail prices to lower income earners.

3.7 **SAFJA however in any event strongly recommends for the reasons stated above that only the added sugar in fruit beverages be taxed.** This would mean that the naturally intrinsic sugars are not taxed which is aligned with the objectives of the Policy Paper.

#### 4. **VOLUNTARY HEALTH INITIATIVES**

SAFJA re-affirms that it shares the concerns of the National Department of Health (DoH) regarding health issues and particularly obesity as well as its commitment to contributing to the national population health and wellbeing. SAFJA will continue to address these concerns through voluntary initiatives partnering with the DoH, its members and other stakeholders. SAFJA will also continue initiatives to support the science-based promotion of a balanced diet within a healthy lifestyle.

In this regard SAFJA is already involved with the Consumer Goods Council of South Africa in coordinated initiatives to implement voluntary industry programmes to develop healthier food options to combat non-communicable diseases. These include actions in respect of obesity to reduce kilojoule intake as well as improve consumer information and education.

SAFJA however, would also recommend that Sugar Tax revenues be re-allocated in part to broader health initiatives in support of the national priorities and outcomes as articulated in existing policies of Government and the DoH such as dietary intake studies; consumer awareness and education; product inspection and analysis; and healthier lifestyle practices.

## 5. CONCLUDING REMARKS AND RECOMMENDATIONS

- 5.1 100% Fruit and Vegetable Juice, as defined and regulated by DAFF in terms of the Agricultural Product Standards Act and the Regulations thereunder, should be exempted from any proposed taxation of sugar sweetened beverages. This is based on our arguments that 100% fruit juices contain no added sugar; that 100% fruit juices have well recognized nutritional benefits; such exclusion is in line with international best practice; and exclusion will avoid significant disruption and negative impacts on the agricultural value chain.
- 5.2 Consideration should also be given to the exclusion of fruit juice nectars as clearly defined and regulated by DAFF from any proposed taxation due the significant and well recognized proportional nutritional benefits of the fruit juice content as regulated by DAFF: the potential impact on especially rural employment from farm and fruit processing to shelf: and the impact on retail prices to lower income earners.
- 5.3 The Taxation of Sugar Sweetened Beverages should in any event be implemented on the basis of “added sugar” only.

Should you require any further information or access to supporting documents and/or clarification, please do not hesitate to contact us.

We trust that the aforementioned will receive your favourable consideration and are available to participate in any further engagement in this regard.

We therefore kindly also request the opportunity to make an oral presentation before the Committees on the 31<sup>st</sup> of January 2017 in order to present our case and address any questions in this regard. Thanking you in advance and with appreciation.

Yours faithfully



**R C RICHARDS**  
**GENERAL MANAGER**



### Annexures

1. Annexure 1 SAFJA membership and representation

### Notes

1. Source: [http://circulaires.legifrance.gouv.fr/pdf/2015/01/cir\\_39144.pdf](http://circulaires.legifrance.gouv.fr/pdf/2015/01/cir_39144.pdf)
2. Source: <https://consumerist.com/2016/06/17heres-what-you-should-know-about-philadelphias-new-tax-on-soda/>,
3. Source: [https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=201320140SB622](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201320140SB622)

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