

# Proposed Tax on Sugary Beverages: Policy rationale

*Standing Committee on Finance*  
31 January 2017



**national treasury**  
Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

## Contents

1. Background
2. Problem of Obesity
3. Link between Sugary Beverages & Obesity
4. Overview of the Soft Drink Market
5. Measures to address obesity
6. Use of Fiscal Measures & International Examples
7. Proposed Tax Design
8. Use of revenue
9. Health Promotion - A National Priority
10. Consultation
11. Socio economic impact – see separate (2<sup>nd</sup>) presentation
12. Summary of initial responses to written comments & way forward

## Background

- The MoF announced in 2016 Budget the proposal to introduce a tax on sugar-sweetened beverages
- This decision as a result of growing concerns (in South Africa and globally) regarding obesity
- Since the announcement, NT has had meetings with industry associations, academics, NGOs and other stakeholders
- On 08 July 2016, NT published a draft Policy Paper for public comments with the comment period closing on 22 August 2016

## The Problem of Obesity

- Obesity is a global epidemic and is a major risk factor for the growing burden of non-communicable diseases (NCDs); 2.8 million deaths
- Globally, high blood pressure is responsible for 13% of deaths, tobacco use 9%, high blood glucose 6%, physical inactivity 6%, overweight and obesity 5% and alcohol 3.8% (NDoH, 2013);
- In South Africa obesity has grown over the last 30 years & considered most obese in sub-Saharan Africa (Hofman et al. 2014);
- Over half of SA's adults are now overweight and obese with 42% of women and 13% of men obese (Hofman et al. 2014);
- The World Health Organisation (WHO) has expressed concern over the increasing intake of free sugars, particularly in the form of sugar-sweetened beverages (SSBs).

# Link Between Sugary Beverages & Obesity

- Although the causes of obesity and being overweight are complex, dietary intake and food choices play an important role;
- Ingesting more calories than expended results in gain weight & SSBs provide calories but virtually no nutrients;
- Several studies demonstrating a link between body weight, risk for chronic disease and the intake of SSB;
- The association of SSB consumption and weight gain has been found to be stronger than for any other food or beverage (Rachel Lavin & Hannah Timpson, 2013);
- Weight gain from excess sugar consumption mainly stems from sugar sweetened beverages (SSBs) and high caloric energy dense foods (Hofman et al. 2014).

## Overview of the soft drinks market

Figure 1: Total Soft Drinks Volume (million litres)

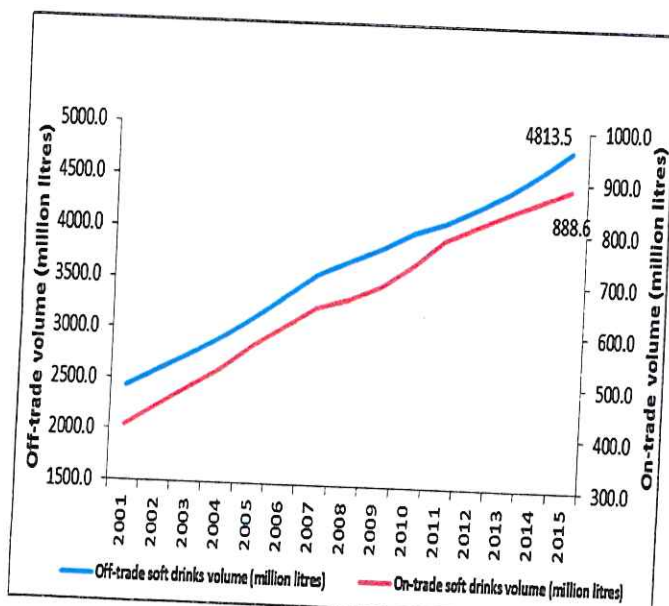
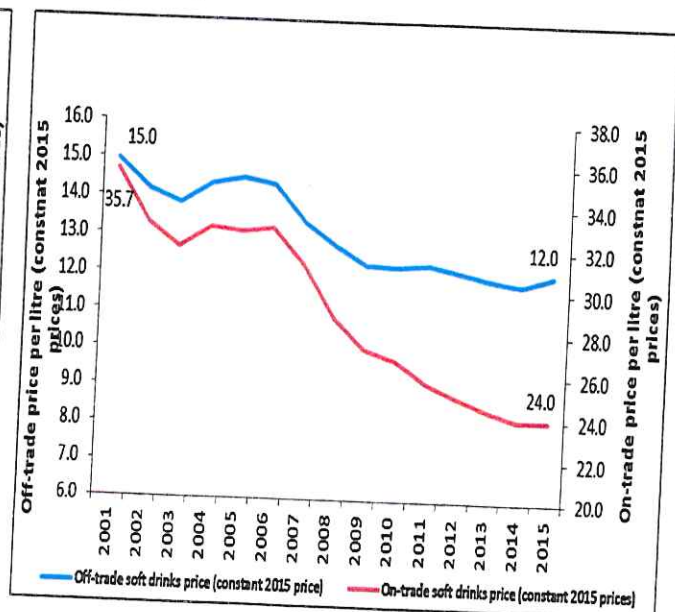


Figure 2: Total Soft Drinks Prices per litre (real 2015 prices)



## Measures to address obesity

The Dept. of Health has identified a number of measures, which includes regulations and taxes to address NCDs, and more especially unhealthy diets which lead to obesity and related diseases.

Table 1: Best Buys for Tackling Diet, Physical Activity and Obesity

	Cost in Rand per Head (2010)
Fiscal measures (e.g. taxes)	R0.20
Food advertising regulation	R0.90
Food labelling	R2.50
Worksite interventions	R4.50
Mass media campaigns	R7.50
School-based interventions	R11.10
Physician counselling	R11.80

Source: Table 7 of Strategic Plan for the Prevention and Control of NCDs 2013 – 2017 & Table 2 of National Strategy for the Prevention and Control of Obesity 2015 – 2020

## Fiscal Measures to promote health

- Fiscal measures can be used to promote health and prevent disease (aside from raising revenue)
- Globally, fiscal measures such as taxes are increasingly recognised as effective complementary tools to help tackle the NCDs & obesity epidemic at a population level (WHO, 2015)
- The main fiscal policy interventions include:
  - excise taxes on unhealthy foods (i.e. saturated/trans fats, salt and sugar-SSBs,)
  - subsidies on healthy foods (i.e. fruits, vegetables, etc.)
- This could influence manufacturers production (i.e. product reformulation) and consumers purchasing decisions (i.e. reduced consumption)
- Excise taxes are commonly used for correcting for market failures/negative externalities:
  - compensating for the negative effects of consumption of selected goods
  - to influence consumption behaviour by changing relative prices

# Fiscal Measures to promote health

- Studies suggest that a 10 to 20 per cent price increase of SSBs may be required to translate into a meaningful impact on health outcomes
- There are concerns that the tax will be regressive and cause harm to those most vulnerable in society
- However, obesity itself is a regressive disease that disproportionately affects those in lower socio-economic groups
- Therefore, lower socio-economic groups will benefit the most in terms of positive health gains from an SSB tax (due to price elasticity of demand within this group)
  - The poorer you are, the more likely you will not purchase SSBs after a price increase (with an SSB tax), reducing SSB consumption and in effect, reducing obesity and NCD-risk, and in the long-run, achieving better health outcomes

## Selected international examples

Country:	Tax base	Tax rate
<b>United Kingdom</b> Soft drinks industry levy: Implementation from <u>April 2018</u>	<ul style="list-style-type: none"> <li>• soft drinks that contain added sugar</li> <li>• will be charged on volumes according to total sugar content</li> <li>• exclude pure fruit juices and milk-based drinks with no added sugar</li> <li>• exclusion for small operators</li> </ul>	Not yet finalised but estimated at: <ul style="list-style-type: none"> <li>• Main rate charge: 18p/litre for drinks with 5–8g of sugar per 100ml</li> <li>• Higher rate charge: 24p/litre for drinks with more than 8g per 100ml</li> </ul>
<b>Mauritius</b> Excise Tax on Soft Drinks: Introduced in <u>2013</u>	<ul style="list-style-type: none"> <li>• soft drinks based on sugar content</li> <li>• excludes bottled water, pure fruit or vegetable juice and dairy products.</li> </ul>	3 cents per gram of sugar content
<b>Mexico</b> Soft Drink and Junk Food tax: Introduced: <u>January 2014</u>	<u>1. Non-Alcoholic Drinks</u> with Added Sugar.  <u>2. Junk Food</u> Calorie Rich Food with more than 275 calories/100g	<u>Non-Alcoholic Drinks:</u> 1 peso per litre  <u>Junk Food</u> 8% of price
<b>France</b> Introduced: <u>January 2012</u>	<u>1. Soft drink tax:</u> Drinks containing added sugar or sweetener as well as fruit drinks and flavoured waters.	<u>Soft drink tax:</u> 2014: £0.059 per / L Energy drinks: £0.79 per / L

## Selected international examples....(2)

Country/City:	Tax base	Tax rate
<b>Berkeley, California</b> Effective 01 January 2015	<ul style="list-style-type: none"> <li>Soft Drinks, sweetened fruit-flavoured drinks, energy drinks</li> <li>Pre-sweetened tea</li> <li>Infant formula, milk products, and natural fruit and vegetable juices are exempted</li> </ul>	<ul style="list-style-type: none"> <li>\$0.01 per fluid ounce</li> </ul>
<b>Philadelphia, Pennsylvania</b> Effective 01 January 2017	<ul style="list-style-type: none"> <li>Energy Drinks</li> <li>Soft Drinks</li> <li>Juices with less than 50% fruit or vegetable juice</li> </ul>	<ul style="list-style-type: none"> <li>1.5-cent per ounce</li> </ul>
<b>Barbados</b> Effective 01 August 2015	<ul style="list-style-type: none"> <li>carbonated soft drinks, juice drinks, sports drinks, fruit juices</li> <li>others particularly those which fall under tariff headings 20.09 and 22.02</li> </ul>	<ul style="list-style-type: none"> <li>10% excise tax</li> </ul>
<b>Dominican Republic</b> Effect since 1 September 2015	Food and drinks with high sugar content: <ul style="list-style-type: none"> <li>sweets, candy, chocolate bars, soft drinks and other sweetened drinks (including energy drinks)</li> </ul>	<ul style="list-style-type: none"> <li>10% excise tax</li> </ul>
<b>San Francisco, Oakland and Albany, In California</b> Voted for the tax in 2016	<ul style="list-style-type: none"> <li>Soft Drinks</li> <li>Energy Drinks</li> </ul>	<ul style="list-style-type: none"> <li>1-cent per ounce</li> </ul>
<b>Boulder, Colorado</b> Voted for the tax in 2016	<ul style="list-style-type: none"> <li>Beverages with Added Sugar</li> <li>Sports drinks</li> <li>Sweetened iced tea</li> </ul>	<ul style="list-style-type: none"> <li>2-cent per ounce</li> </ul>
<b>County Cook, Illinois</b> Voted for the tax in 2016	<ul style="list-style-type: none"> <li>Carbonated Drinks with Added Sugar</li> <li>Sports Drinks</li> <li>Iced Tea</li> </ul>	<ul style="list-style-type: none"> <li>1-cent per ounce</li> </ul>

## Proposed Tax Design

### Scope of the Tax:

- Beverages that contain added caloric sweeteners such as sucrose, high-fructose corn syrup (HFCS), or fruit-juice concentrates (i.e. soft drinks, fruit drinks, sports drinks, energy and vitamin water drinks, sweetened iced tea, and lemonade, etc.)

### Tax Base: Sugar Content of SSBs

- The actual sugar content in sugary beverage (in grams)
- It's the most accurate proxy for harm caused by sugary beverage

### Tax Rate:

- The tax is proposed at a rate of R0.0229 (i.e. 2.29 cents) per gram of sugar
- It equates to a 20 per cent tax incidence on 1 litre of Coca –cola
- By way of example, a litre of coca cola has about 106 grams of sugar, it means the tax rate will be around R2.42 per litre

# Proposed SSB Tax Design

## **Administration:**

- Implementation through the Customs and Excise Act (Act 91 of 1964) as a levy

## **Exemption:**

- 100 per cent fruit/vegetable juice
- Unsweetened milk and milk products

## **Default Category:**

- A relatively higher fixed gram of sugar for 330ml (i.e. 50 grams)
- For SSBs that currently do not apply nutritional labelling as an incentive for producers to move towards accurate nutritional labelling

# Use of revenue

- The proposed tax is not intended as a revenue raising instrument, but as an a health promotion tool. The current tax system provides options for efficient revenue raising (i.e.
  - providing limited relief for fiscal drag,
  - increasing marginal personal income tax rates,
  - introducing a new personal income tax bracket,
  - raising the VAT rate and/or
  - increases in other taxes.
- NT is concerned about the imbalances associated with earmarked taxation in the fiscal system (eg RAF, UIF)
- SA maintains an integrated fiscal framework in which funding is directed where it is needed
- To provide more flexibility for spending priorities, the use of earmarked taxes should be limited

# Health promotion as a national priority

Policy/Plan	Description
<i>NDOH Strategic Plan for the Prevention and Control of Non-communicable Diseases 2013-17</i>	<ul style="list-style-type: none"> <li>• Sets out national goals and targets for NCD prevention and control</li> </ul>
<i>NDOH Strategy for the Prevention and Control of Obesity 2015-2020</i>	<ul style="list-style-type: none"> <li>• Sets out national goals and targets for obesity prevention and control</li> </ul>
<i>White paper on National Health Insurance for South Africa</i>	<ul style="list-style-type: none"> <li>• Health promotion and disease prevention will form an important pillar towards the reduction in disease burden and rising healthcare costs</li> </ul>
<i>South African National Development Plan 2030 (NDP)</i>	<ul style="list-style-type: none"> <li>• Social determinants of health need to be addressed as a matter of urgency, including promoting healthy behaviours and lifestyles</li> </ul>
<i>Sustainable Development Goal 3.3</i>	<ul style="list-style-type: none"> <li>• “By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being”</li> </ul>

## Government support for health promotion programmes targeting NCDs

- Government is committed to supporting a comprehensive strategy to target obesity and NCDs. This approach is critical to:
  - Gain much needed public acceptability of the SSB tax
  - Avert the high cost of obesity on the health system and the economy
  - Contribute to long and healthy lives of South Africans, especially for the poor
- SSBs are pervasive, readily available in South Africa
  - Industry is not necessarily anti-health and will change as consumer preferences change (i.e. importance of health promotion/education)
  - It is important for government to put pressure on industry (e.g. SSB tax, threshold approach) to offer healthier food/drink options to change consumer behaviour



# Health promotion funding for HIV and AIDS vs. NCDs

- For the past decade, HIV and AIDS has been receiving the lion share of public health funding; however, 51.3% of all deaths attributed to NCDs (2013, Stats SA)

## HIV and AIDS

- HIV and TB conditional grant grows by 13.2% over 2017 MTEF and CG will reach R22b in 2019/20
- Roughly 60% on ART, 40% on prevention and other
- Also financed by PES and NDOH core budgets
- Multisectoral funding: DBE, DSD, DST, DOD, DCS and donors e.g. Global Fund and PEPFAR

## NCDs

- NCDs sub-programme at NDOH (for policy development) R20m pa, with 5.3% growth over 2017 MTEF
- Primarily financed by PDOHs as PES, no budget line item for NCDs and no CG for NCDs
- Minimal multisectoral funding, even though health promotion is a multisectoral challenge

# Proposed health promotion interventions

## Intervention

## Description

- | Intervention  | Description   |
|---|---|
| Health Communication on NCDs                                  | <ul style="list-style-type: none"> <li>Create community education and awareness programmes and media campaigns (television, road shows and radio) on the health effects of sugar sweetened beverages, promote healthy eating practices and screening for NCDs.</li> </ul> |
| Strengthen NCD research and surveillance                      | <ul style="list-style-type: none"> <li>Support NCD research and surveillance work in South Africa. We will be able to measure the impact of the SSB tax more effectively if NCD research and surveillance efforts are strengthened.</li> </ul>                            |
| Health promotion in Early Childhood Development (ECD) centers | <ul style="list-style-type: none"> <li>Strengthen ECD centres through health promotion (nutrition education to encourage healthy eating habits from the age of 0-5).</li> </ul>   |

# SSB tax: Health and Human Rights in SA

- There is a huge opportunity to improve the health outcomes of South Africans and if we do not act now,
  1. the incidence of NCDs will continue to escalate negatively impacting the lives of the **poor and vulnerable** the most
  2. The increased health care costs and increased utilisation rates will place a **heavy burden on the health system.**
  3. The growing NCD burden **will reduce productivity levels and GDP** (6.8% of GDP was lost due to NCD-related deaths, absenteeism, presenteeism, and early retirement in 2015)
- It is imperative for all stakeholders (government, industry, civil society) to defend the health and human rights of South Africans by supporting a comprehensive strategy to addressing NCDs, SSB tax as a first step

## Consultation process

- Minister of Finance announced the proposed tax on sugary beverages in February 2016
- Various bilateral meetings with industry associations and other stakeholders were held during 2016 by National Treasury and the Department
- A draft policy paper was published for public comment on 08 July 2016
- National Treasury received 144 written comments, plus 113 one page identical petitions which appears to have been orchestrated by the industry & 13 short emails / petitions
- National Treasury and the Department of Health hosted a public stakeholder workshop on 11 Nov 2016
- Standing Committee on Finance public hearings, 31 Jan 2017

# Summary of organisations & individuals who submitted written comments

Type	Total	Percentages
Academia	9	6%
Consultancy Firms	3	2%
National Government /Institutions	5	3%
Provincial Government	2	1%
International Government Institutions	2	1%
Non-governmental organisations/civil society	15	10%
Organised labour	1	1%
Non-Alcohol Industry and Industry Associations	27	19%
Food Industry and Associations	3	2%
Alcohol Industry	3	2%
Sugar Industry	15	10%
Retail, Packaging and Distributors	15	10%
Individuals	44	31%
<b>TOTAL</b>	<b>144</b>	<b>100%</b>

## Initial responses to comments and policy options going forward (1)

Policy consideration	Preliminary Policy response
<b>A. Policy rationale for the tax</b>	<ul style="list-style-type: none"> <li>The proposed tax is in line with Department of Health's Strategic Plan for the Prevention and Control of NCDs 2013 – 2017, and National Strategy for the Prevention and Control of Obesity 2015 – 2020.</li> <li>It is supported by many health experts including the WHO's Fiscal policies for diet and prevention of non-communicable diseases: see technical meeting report, 5-6 May 2015, Geneva, Switzerland.</li> </ul>
<b>B. Scope of the tax and 100% Fruit Juice</b>	<ul style="list-style-type: none"> <li>WHO definition will be applied to cover both intrinsic and added sugars (all free sugars)</li> <li>The exclusion or possible inclusion of 100% fruit juice still under consideration</li> </ul>
<b>C. Tax Base : Sugar content vs. volume:</b>	<ul style="list-style-type: none"> <li>Using sugar content provides closest proxy for targeted external harm</li> <li>Provides incentive for manufacturers to reformulate their products, decrease sugar content and thereby decrease their tax liability</li> <li>Consumers will be encouraged to shift to substitutes with no or low sugar</li> <li>A tax based on volume not supported – it will tax low sugar content beverages at the same rate as high sugar content beverages</li> <li>No incentive for manufacturers / consumers to decrease tax liability by shifting to lower sugar content SSBs.</li> </ul>

## Initial responses to comments and Policy options going forward (2)

Policy consideration	Preliminary Policy response
<b>C. Tax Base : Threshold vs. every gram</b>	<ul style="list-style-type: none"> <li>• Taxing every gram easier to administration</li> <li>• The threshold approach could be considered. Need to get a well reasoned argument for the proposed threshold. Must be in terms of grams per litre – cannot be % based as suggested by one to the commentators</li> <li>• Need to take into account administration</li> <li>• Could also consider to exclude / exempt very small producers – for administrative reasons although this might be open to abuse</li> </ul>
<b>D. Tax rate</b>	<ul style="list-style-type: none"> <li>• A balance needs to be struck between starting at the optimal rate to achieve the policy objectives and taking a phased in approach</li> <li>• The suggested tax rate of 2.29 gram per litre seems a reasonable starting point</li> <li>• Propose that the rate be increase annually at least by inflation</li> <li>• Could consider to maintain a tax burden of around 20% (excluding VAT) of the prices of the most popular beverage (large volume sales)</li> <li>• Or could consider a weighted average price as the reference price</li> </ul>
<b>E. Economic impact of the tax</b>	<ul style="list-style-type: none"> <li>• The economic impact done by the industry appears an exaggeration</li> <li>• The next presentation will deal with the Socio Economic impact of the tax – the overall initial negative macroeconomic impact is relatively marginal</li> </ul>

## Initial responses to comments and Policy options going forward (3)

Policy consideration	Preliminary Policy response
<b>F. Use of revenue</b>	<ul style="list-style-type: none"> <li>• Funding will be made available on budget to the Department of Health to spend on NCDs intervention programmes</li> <li>• The legislative earmarking of revenue is not supported – it introduces undue rigidities in the budgeting process.</li> </ul>
<b>G. Non-Tax measures</b>	<ul style="list-style-type: none"> <li>• The proposed tax on sugary beverages is just one tool in South Africa's strategy to deal with obesity and related diseases</li> <li>• A range of non-tax measures that will form part of a comprehensive package of measures will be rolled-out by the Department of Health</li> </ul>
<b>H. Administration and implementation date</b>	<ul style="list-style-type: none"> <li>• Legislative measures, including a Schedule in terms of the Customs and Excise (Act 91 of 1964) will be finalised early in 2017.</li> <li>• The implementation date of 1 April 2017 is feasible; <u>but if required a few months delay could be considered</u></li> <li>• The tax will be implemented as a standalone levy in terms of the Customs and Excise Act, and not as a excise duty. The revenue from this levy will therefore not form part of the SACU revenue sharing pool.</li> </ul>

# Process to implement sugar tax

- Minister's announcement in 2016 Budget
- Consultation paper July 216
- Response to consultation process in 2017 Budget
- Legislative changes in Rates Bill on Budget day or TLAB in June
- Customs and Excise Act schedules

## IMPLEMENTATION OF TAX LEGISLATIVE INSTRUMENT

- **Legislation**
  - ❖ Legislation through which implemented is Customs and Excise Act, 1964 (Act No. 91 of 1964). An additional Schedule or part to one of the existing Schedules will be added
  - ❖ The legislation can be legally implemented through the yearly Rates and Monetary Amounts and Amendment of Revenue Laws Bill
- **Tax Base**
  - ❖ Sugar content of a beverage
    - **Announcement of the new levy**
      - ❖ The implementation of the new levy is announced in the Budget Review
  - **Manner of implementation**
    - ❖ A new schedule is added to the Customs and Excise Act, 1964

## MECHANICS OF IMPLEMENTATION: Customs and Excise Schedule

- Rates and Monetary Amounts Bill amends Customs and Excise Act: Inserts a new section into Part 3 of Schedule no 1 of Customs and Excise Act:
  - ❖ Insertion consists of Heading, Notes and Tariff Items
  - ❖ Proposed heading will reflect the aim of the levy e.g. "Promotion of Health Levies"
  - ❖ Notes set out the tax base - thus stating to which beverages the section applies
  - ❖ Tariff items are inserted in a table with columns:
    - ❖ Each line in a column will contain information about a specific beverage—
      - The tariff item number
      - The tariff subheading
      - A description of the beverage
      - The rate of the levy

Thank you

QUESTIONS?

## Wording of petition (1)

- My name is xxxxx and I would like to thank the Department for the opportunity to submit written comments on the proposed draft Policy Paper on Taxation of Sugar Sweetened Beverages, which was published on 8 July 2016.
- The reason for this submission is that I am an employee/owner driver at Coca-Cola Beverages South Africa (CCBSA). I have been employed/contracted at CCBSA for the past xxxx years and I am able to sustain my family as a result of my employment/contract at CCBSA.
- In my view, if the Sugar tax is implemented, it will have a detrimental effect on my employer/me as an employer, as CCBSA will have to reduce its manufacturing and bottling of soft drinks, thus, might result in a reduction in the number of people they are able to employ to conduct these services.
- There are so many people that depend on me and I have seen the detrimental effect on families as a result of people losing their jobs; I do not wish that to happen to me and my family. I have many financial obligations including my home loan/ truck finance (*Elaborate if you want*).

## Wording of petition (2)

- I don't want to lose my job/contract at CCBSA as a result of the Sugar tax and unable to support my family as this is my only means of generating an income. I therefore would recommend that the Minister re-considers the implementation of the Sugar tax and finds better and more sustainable ways of addressing obesity. I believe CCBSA will welcome such a proposal unlike us losing our jobs/contracts and all other benefits that go with our employment/contract. Honorable Minister, I assure you this will affect many other industries up and down the value chain.
- I hope the Minister will give heed to my plea regarding these devastating implications and I am happy to discuss my views mentioned in this submission in more detail with the Department at a public hearing.
- I feel that sugar tax goes up its going to have a big impact on jobs and economic wealth. Many jobs will be lost including mine. I already pay tax in everything I buy. I don't see the point of paying extra on sugar. It cannot be placed as an obesity tax. It only attributes 3% to the human daily intake of calories.

