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*Submission File*

27 January 2017

Mr Allen Wicomb

**Standing Committee on Finance  
and Portfolio Committee on Health**

BY E-MAIL: [awicomb@parliament.gov.za](mailto:awicomb@parliament.gov.za)

Dear Mr Allen

## **SUBMISSION - TAXATION OF SUGAR SWEETENED BEVERAGES**

1. We present herewith our written submissions on the taxation of sugar sweetened beverages ("SSBs") per your request on behalf of the SAICA National Tax Committee as set out in **Annexure A**.
2. As always, we thank Standing Committee on Finance and the Portfolio Committee on Health for the on-going opportunity to participate in the development of the South African tax law.

Our submissions include a combination of representations, ranging from significant concerns about the impact or effect that the introduction of taxation on SSBs may have to basic alternative suggestions to achieve the ultimate proposed objectives. We have deliberately tried to keep the discussion of our submissions as concise as possible, which does mean that you might not require further clarification.



3. Should you require any further clarification on any of the matters raised please do not hesitate to contact us.

Yours sincerely

**Pieter Farber**

**Senior Executive**

**The South African Institute of Chartered Accountants**



## Annexure A

### 1. Introduction

- 1.1. Per your notice requesting written submissions on the taxation of SSBs, the Minister of Finance announced in the February 2016 Budget a decision to introduce a tax on SSBs with effect from 1 April 2017 to help reduce excessive sugar intake.
- 1.2. This announcement came to address obesity in South Africa, as South Africa has been ranked the most obese country in sub-Saharan Africa, per the National Treasury Policy Paper on the taxation of SSBs ("Policy Paper"), released on 8 July 2016.
- 1.3. The behavioural taxation on SSBs intake forms part of the Department of National Health ("DNH") Strategic Plan for the Prevention and Control of Obesity to address this diet related disease and reduce obesity by 10% by 2020.
- 1.4. With reference to many studies conducted world-wide and reports issued on the topic, such as the prestigious UK-based Institute of Economic Affairs, we note that the common conclusion reached is that sugar taxes are ineffective, regressive and inefficient to manage or reduce the global epidemic and a major risk factors linked to the growing burden of non-communicable diseases ("NCDs") including heart diseases, type 2 diabetes and some forms of cancers.

### 2. Taxation curbing social economic behaviour

- 2.1. It is apparent from the Policy Paper that the objective of this SSBs taxation is not to collect revenue, but rather to be used as *"complementary tools to help tackle the obesity epidemic at a population level"*.
- 2.2. The Policy Paper reflects international experiences and effects of SSBs taxation in various countries noting the price increase and decreasing demand. Annexure III of the Policy Paper however notes that the



contribution that the implementation of the SSBs taxes has on the statistics could not be determined, separated or clarified. The international statistics provided therefore do not necessarily and clearly substantiate that a taxation on SSBs intake would change behaviour of individuals to lead a healthier life.

- 2.3. The argument may be made that internationally the taxation of SSBs can effectively be used as a tool to change the behaviour of individuals to curb obesity, South Africa with its unique demographics should be considered on its own merit.
- 2.4. Bateman noted in his article<sup>1</sup> that obesity is a matter of perception and cultural choices in South Africa. Bateman found that obesity has social significance and may even represent an HIV negative status. Micklesfield<sup>2</sup> reiterated that in many African communities, obesity or overweight may still be considered a sign of good health, beauty and affluence.
- 2.5. We therefore submit that the cultural variances and preferences in South Africa should specifically be considered as to whether SSBs taxation will affect the intended behaviour and choices of saturated sugar consumption to decrease obesity.

### **3. Is sugar a high contributor to obesity**

- 3.1. Dr Mungal-Singh, CEO of the Heart and Stroke Foundation South Africa stated that *“South Africa is a country that’s been going through a nutrition transition. The bulk of our population used to be physically active and ate a diet high in fibre and indigenous vegetables, low in animal protein and refined carbs. However, due to increased urbanisation, people are adopting a more westernised diet, high in unhealthy fats, sugar and salt. Greater disposable*

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<sup>1</sup> Bateman C (2007) Black women at major risk for obesity-related diseases. South African Medical Journal, 97(7):490.

<sup>2</sup> Micklesfield LK (2013) Socio-cultural, environmental and behavioural determinants of obesity in black South African women. Cardiovascular Journal of Africa.



*income and a faster paced lifestyle have resulted in people consuming more fast foods and convenience foods. This is partly why there has been an increase in overweight and obesity over the last 15 years.”*

- 3.2. In addition to the above common reasoning another contributor to the overweight and obese issue is an overall more inactive lifestyle. The Heart Foundation<sup>3</sup> notes that the problem starts in childhood and continues into adulthood, with less than two-thirds of children participating in weekly physical activity. In adults half of the male population and almost two thirds of the female population are physically inactive.
- 3.3. NCDs are recognised as the leading causes of high mortality rates globally, resulting in more deaths than all other causes combined the conditions have many causes – including bad diet, lack of exercise, sedentary lifestyles and genetics – and require a coordinated approach.
- 3.4. Taking the above into consideration, calorific intake from everything a person eats and drinks. To therefore attribute obesity almost exclusively to the sugar intake from soft drinks is virtually impossible given the many other dietary sources of sugar.
- 3.5. A person’s sugar intake is therefore but one factor to be considered, when determining the reasons for overweight and obesity. Other factors to consider instead are how to make physical activity more accessible for everyone and provide education and awareness regarding obesity to ensure a healthier diet.

#### **4. Natural sugar compared to artificial sweeteners**

- 4.1. The question as to whether natural sugars are healthier than artificial sweeteners has been long debated in the past and remains an open question depending on the school of thought.

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<sup>3</sup> National obesity week: South Africa’s weighty problem (<http://www.heartfoundation.co.za/media-releases/national-obesity-week-south-africa%E2%80%99s-weighty-problem>)



- 4.2. Clarity needs to be provided on how the targeting of the sugar industry could be considered to be in line with principles of equality and non-discrimination. The question is further why only one industry should bear a significantly higher tax burden compared to other industries where the raw materials may equally be proved to negatively impact on health.
- 4.3. The approach seems to be somewhat fragmented and not as well researched as may be required, with an insufficient lead time given for the industry to respond properly given the possibility of a significant socio economic impact.

## 5. **Broader economic impacts on farmers and employees**

- 5.1. The proposed rate of 20% is based on the premise that it will have significant impact on consumption and production patterns. Consideration should then be provided to the possible agricultural impact given that production is also targeted.
- 5.2. Sugar cane farming represents about 50% of crops grown in Kwa-Zulu Natal ("KZN") and Mpumalanga according to the South African Sugar Association. Doing some rough maths from the various data sources, the sugar industry in South Africa produces about 2.2 million tons of sugar per season. Commercial farmers produce 75% of this, therefore 20 000+ small farmers produce 550 thousand tons.
- 5.3. Based on the 2012 consumption figures and gram per litre data in the Policy Paper, it can be estimated that soft drinks manufacturers consume between 364 to 627 thousand tonnes a year or rough average of 496 thousand tonnes, nearly all that the 20 000+ small farmers produce.
- 5.4. If South Africa achieve the best international comparison results (i.e. Mexico) consumption (i.e. ultimately production) reduced by 10% or 49.6 thousand tonnes and if it is assumed that directly translates to number of farmers, that 2000+ small farmers will go out of business.
- 5.5. Using the same rough maths for employment that is about 1 759 (based on the Sugar Association job numbers) jobs lost for every 10% per year decrease in



consumption of sugar drinks that is achieved. The Beverage Association of South Africa (“BEVSA”) also contends in its response document released in August 2016 that the taxation of SSBs will result in approximately 62 000 to 72 000 job losses. It does not make for good reading in a country that nearly has 0% economic growth and endemic unemployment issues.

- 5.6. However as with all difficult policy decisions this is one of opposing priorities that government will have to take into consideration and it is not as simple as comparing obesity versus job losses. According to the World Wildlife Foundation (“WWF”), sugar as a crop consumes very large amounts of water compared to other crops, leads to a degradation of biodiversity, annual burning creates air pollution and ammonia is released during the concentration process. The recent drought in KZN has highlighted just how much of a water scarce country South Africa is and how dependent the country is on properly looking after our water resources. The WWF generally concludes, *“the removal of plant matter from the fields makes the production of sugarcane unsustainable as it is currently practiced”*.
- 5.7. It is submitted that government should carefully consider a proper alternative of the overall socio economic impact on existing sugar farmers, the productive agricultural use of farming lands and alternative sugar off set markets before it implements the SSBs taxation.

## **6. Lower income house holds**

- 6.1. Soft drinks make up a higher proportion of spend for the low-income groups. Per the Policy Paper households in the lowest income spend 1.5% of their household budget on non-alcoholic beverages, compared to less than 0.5% for the top income.
- 6.2. The price increases resulting from the SSBs taxation will further stretch already tight budgets, hitting regressive low-income and vulnerable groups.
- 6.3. The argument that the SSBs tax will not result in regression, due to the reduced consumption of unhealthy “foods”, given that the low-income group will



purchases less of the unhealthy items has shortcomings which must first be considered at a policy level.

- 6.4. An argument can also be made that beverage choices are determined by availability, affordability and marketing making it increasingly difficult to make healthy choices.
- 6.5. It is submitted that although the SSBs taxation have the potential of reducing consumption when prices are increased, the low-income group are still spoilt for choice reverting to cheaper brands.

## **7. General tax policy**

- 7.1. Global trend towards consumption and “stealth” taxes seems more to be a political choice for governments to obscure per person tax collections, as direct taxes are more visible and have become more unpopular and difficult to impose in a tax competitive global economy.
- 7.2. It is submitted that broader tax policy issues must be considered, including the appropriate balance between direct and indirect taxes, before introducing yet another tax into the South African tax system.

## **8. Alternative considerations to the SSBs taxation model**

- 8.1. Another question to be raised is why a tax is needed at all if government could just prohibit manufactures of all sweetened goods, not just beverages, of adding excessive levels of sugar, which by implication would reduce consumption drastically.
- 8.2. It is submitted that prior to implementation of the SSBs taxation model, government should follow a sensible approach by collaborating extensively with the affected industries and also do a comprehensive quantitative as well as socio economic impact study as how it would affect South Africans.
- 8.3. Where it is determined that the SSBs taxation model is the only option, consideration should also be provided to the viability of levying the 20% on per gram of sugar.





## 9. Southern African Customs Union (“SACU”)

- 9.1. Having regard thereto that the proposed tax may be introduced as an excise duty, it is submitted that consideration must be given to the possible impact on the Southern African Customs Union and its members. It is not apparent from the Policy Paper to what extent this has been taken into account.