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The Standing Committee on Finance and Portfolio Committee on Health
Parliament of South Africa
Cape Town
8000

27 January 2017

Dear Members of the Committees

Comments on the proposal to impose an excise tax on sugar-sweetened beverages

I write on behalf of the Economics of Tobacco Control Project, based at the University of Cape Town. While the main focus of the Project is tobacco control, we have a strong interest in public health generally, and our aim is to perform rigorous and objective research which can influence policy. Our website can be found at <http://www.tobaccoecon.uct.ac.za/>.

The Minister of Finance announced in February 2016 that the government intends to implement an excise tax on sugar-sweetened beverages from 1 April 2017. As indicated in the announcement about the public hearings, the primary reason for implementing the excise tax on SSBs is the global concern regarding obesity stemming from the overconsumption of sugar. In a Policy Paper published on 7 July 2016, the National Treasury set out its proposed excise tax structure. By introducing this tax South Africa is joining a growing number of countries who are actively addressing the obesity problem.

The Economics of Tobacco Control Project would like to congratulate the Minister of Finance for introducing an excise tax on sugar-sweetened beverages, and the Economics Tax Analysis Chief Directorate at the National Treasury for an excellent Policy Paper on the proposed SSB tax. The Policy Paper makes a convincing case for implementing an SSB tax, and suggests a particularly good tax structure.

While an excise tax on SSBs will raise revenues for government, it is encouraging that the main reason for this tax is the improvement of public health. Public health concerns also drove the decision to raise the excise tax on tobacco products in the 1990s and subsequently. As a result of these tax changes, more than any other tobacco control intervention, there has been a dramatic fall in smoking prevalence. In the early 1990s about a third of adults in South Africa smoked cigarettes; in recent years smoking prevalence was down to 20% or even lower.^{1 2}

¹ CP van Walbeek. 2005. The Economics of Tobacco Control in South Africa. Unpublished PhD thesis. Available at: <http://tobaccoecon.org/corne-van-walbeek/>

² O. Shisana, D. Labadarios, T. Rehle et al. 2014. The South African National Health and Nutrition Examination Survey, 2012: SANHANES-1: the health and nutritional status of the nation.



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By their training, economists understand the role that incentives play in changing behaviour, both on the consumer and producer side. This is evident in at least two places in the National Treasury's Policy Paper. Firstly, beverage producers that currently do not have a nutrition label on the beverage will be charged a "penalty tax", i.e. a tax higher than would be charged if the beverage carries a nutrition label, which will incentivise producers to affix nutrition labels to their product.

Secondly, by taxing the quantity of sugar content, rather than the volume, the National Treasury incentivises SSB producers to reduce the sugar content. As such the tax acts as a double-edged sword: (1) it will reduce the demand for SSBs, by raising the price of the product, and (2) it will reduce the detrimental health impact of SSBs by incentivising producers to reduce the sugar content of their products.

Taxing alcohol content on beer and spirits in South Africa serves as a good example of how a well-considered excise tax resulted in substantial changes on the supply side. Since 1998 the excise tax on beer has been levied as an amount per litre of pure alcohol. Before 1998, when the excise tax was levied on the volume of beer (irrespective of the alcohol content), there was no incentive for beer producers to reduce the alcohol content of their product. However, since 1998 beer manufacturers have actively promoted lower alcohol beer (e.g. Castle Lite). A recent study by Evan Blecher³, shows that, since the late 1990s, lower alcohol beer brands have been promoted more aggressively than higher alcohol brands. Since the harm caused by alcohol is broadly proportional to the alcohol content, tax regimes that encourage the industry to reduce the alcohol content of their products should be applauded as effective harm-reduction mechanisms. Coca-Cola Life is being promoted by Coca-Cola as a lower-sugar alternative to standard Coca-Cola, which suggests that the company has learnt from SA Breweries' experience with Castle Lite. These changes in the industry's actions are in line with incentives created by government, and should be applauded

In the short run the SSB tax will increase government revenue. While this is to be welcomed, given the current fiscal pressures on government, one should not lose sight of the fact that the tax is levied primarily as a public health measure. To the extent that, in the long run, there will be a relative reduction in the revenues from this source, either because of a reduction in consumption, or because of a reduction in the sugar content of SSBs, this should be seen as a sign of success, rather than a cause for concern.

Unsurprisingly, these interventions have been met with fierce opposition from the SSB manufacturing industry. Predictions that up to 60 000 jobs may be lost because of this tax have made headlines in the newspapers. The tobacco industry made similar alarmist claims in the late 1990s (e.g. a massive decrease in the restaurant clientele, and a major slump in the advertising industry) when the government was debating the Tobacco Products Control Amendment Act. Despite these scare tactics, the legislation was passed and the population has benefitted greatly

³ Blecher, EH, 2015. "Taxes on tobacco, alcohol and sugar sweetened beverages: Linkages and lessons learned," *Social Science & Medicine*, Elsevier, vol. 136, pages 175-179.



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from smoke-free places and not being bombarded with tobacco advertising. The dire predictions made by the tobacco industry did not come to pass. People still frequent restaurants in similar numbers, even if they are unable to smoke.⁴ The advertising industry has grown from strength to strength, despite the fact that tobacco advertising has been banned.⁵ In fact, the tobacco industry has been thriving, despite the legislation.

Thank you for allowing us to make this submission to the Standing Committee on Finance and Portfolio Committee on Health. We wish you well and implore you to place the public health of South Africans above the commercial interests of a relatively small group of people.

Kind regards

A handwritten signature in black ink, appearing to read 'C. van Walbeek'.

Corné van Walbeek, PhD

Professor of Economics and Principal Investigator of the Economics of Tobacco Control Project

⁴ Van Walbeek, CP, Blecher, EH and Van Graan, M, 2007. The effects of the Tobacco Products Control Amendment Act of 1999 on restaurant revenues in South Africa: a survey approach, *South African Medical Journal* 97(3): 208-211.

⁵ http://www.tobaccoecon.uct.ac.za/sites/default/files/image_tool/images/405/People/alcohol-advertising-in-south-africa-a-trend-and-comparative-analysis_0.pdf