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BUSA SUBMISSION TO THE STANDING COMMITTEE ON FINANCE REGARDING THE DRAFT RATES AND MONETARY AMOUNTS AND AMENDMENT OF REVENUES BILL, WITH PARTICULAR REFERENCE TO THE HEALTH PROMOTION LEVY ON SUGARY BEVERAGES

26 May 2017

Background

BUSA is a confederation of business organisations including chambers of commerce and industry, professional associations, corporate associations and unisectoral organisations. It represents South African business on macro-economic and high-level issues that affect it at the national and international levels. BUSA's function is to ensure that business plays a constructive role in the country's economic growth, development and transformation and to create an environment in which businesses of all sizes and in all sectors can thrive, expand and be competitive.

As the principal representative of business in South Africa, BUSA represents the views of its members in a number of national structures and bodies, both statutory and non-statutory. BUSA also represents businesses' interests in the National Economic Development and Labour Council (NEDLAC).

Introductory comments

As members of the Standing Committee may be aware, organised business represented by BUSA is currently participating in a NEDLAC task team on the proposed levy on sugary beverages, which includes participation from organised labour and government. The first engagement of the task team took place on 3 April 2017. The social partners agreed to focus the work of the task team on the socio-economic impact assessment of the proposed levy in order to mitigate against potential negative effects. During the course of proceedings, it became apparent that the policy had been developed without first conducting a socio-economic impact assessment (SEIAS), which is a prerequisite for all changes to government policy and legislation that will have

a discernible socio-economic impact. On 17 May 2017, a technical appendix[1] was shared with social partners in the NEDLAC task team. While detailed comments on the manner in which the technical appendix does not meet the requirements of a SEIAS will follow, the key consideration is the fact that a SEIAS has not been developed to ascertain the socio-economic impact of the proposed levy. In our view, the proposed levy will have significant, deleterious effects on employment and the economy with only very limited, if any, positive effects on health and reducing obesity levels (the stated objective of the levy) unless social partners can jointly develop mitigation measures to counteract the negative impacts of the proposed levy. Business supports the underlying health objectives but believes that social partners must be afforded sufficient time to co-develop mitigation strategies to avoid job and economic losses.

Detailed comments

It is important to note that government has to date **not issued a SEIAS** on the National Strategy for Prevention and Control of Obesity nor the Taxation of Sugary Beverages in South Africa. A SEIAS, according to government precepts, needs to examine both the economic and health consequences of the proposed revised initial and future rates. In other words, a SEIAS on the proposed levy should answer the following question: What are the future tax rates and thus socio-economic and job impacts? The SEIAS should cover a comprehensive set of more effective solutions, which are required to reduce obesity in the country, improve overall health and improve food security through a transition to a sustainable and growing agricultural sector which provides required food and nutritional products. Many of the leading studies have confirmed that these include, inter alia: Portion control; Reformulation; High calorie food/beverage availability; Weight-management programs; Education; Healthy meals - encourage use of home prepared food based on a balanced diet; Improved labelling; and Increased physical activity.. A change in diet and level of food consumption will impact agriculture as a whole and thus the rural economy. Government thus needs to holistically review how best to support the poor and eliminate under nutrition, encourage balanced nutrition and lifestyle and reduce over consumption of food whilst supporting the transition of the agricultural sector to grow the rural economy and preserve jobs across all sectors.

[1] For a representation of the ways in which the technical appendix does not meet the requirements of a SEIAS, please refer to Annexure A.

The policy and proposed levy impacts negatively on many other policies and none of this has been evaluated to date as required by the SEIAS guidelines. For example, the tax on SSB reduces the viability of sugar cane farming and thus undermines Governments agriculture, rural development, transformation and land reform policies.

The SEIAS needs to contextualise the tax on SSB from both a diet and health impact. The consumption of added sugar in the form of liquid products is between 3-4% of the daily energy intake of the average South African. Globally and in South Africa the consumption of food energy has increased and consumption exceeds requirements in the developed world by 50% and in the developing world by 23%. As the impact of the tax on SSB only achieves at most 0.24% to 0.32% (0.24% = 3% of food energy * 11%[2] effective tax rate * -0.73 price elasticity) reduction of the total food energy intake it will have no discernible impact on obesity and NCD as the key underlying drivers have not been addressed and continue to drive obesity up. In this context rising obesity and NCD rates could thus always be used as a basis for more tax on SSB or sugar in food and raises questions as to what processes will be followed, especially in the context where many measures must be implemented to achieve the desired outcome. There is no South African evidence as to whether and at what level a narrow tax on SSB's might form part of such measures in the food and beverages sector.

Critically, the SEIAS needs to consider the underlying trends that lead to obesity to ensure that proposed solutions have the desired impact. In the case of sugar the total per capita sugar consumption has been steady to declining over the last 10 to 15 years whilst obesity levels have been rising. Business is of the view that a tax on SSBs is only one of many tools that can be used to reduce sugar consumption and should not be the first option given questions around effectiveness of health impacts and negative economic impacts have not been evaluated. This is particularly so given the potential **job losses that are likely to arise: between 18-24000 jobs are likely to be lost.** This is in contrast to Treasury's estimates of between 5-7000 job losses, which does not take into consideration the informal sector. In business' view, even these conservative estimates would be devastating in the context of South Africa's chronically high levels of unemployment, poverty and inequality. Alternate solutions therefore need to be considered. Alternate solutions to a SSB tax could involve industry partnering with government and labour in order to tackle the health issue more

[2] This is a conservative estimate: the true figure if substitution is taken into account may be as high as 16%.

effectively and business is willing to be bound to measurable consumption and economic commitments. Industry can play a more meaningful role, alongside other stakeholders, in addressing the increasing trend in obesity and the HFO forum has already created a partnership platform in this regard.

A SSB tax cannot in and of itself appropriately address the health concerns but it will have unintended economic consequences and result in significant job losses, especially in the rural agriculture economy and among small businesses in retail and distribution with very limited alternative rural job opportunities at a time when the country is facing strong economic headwinds.

Conclusion

Business supports the underlying health objectives outlined in the Department of Health's Strategy for the Prevention and Control of Obesity 2015-2020 and seeks to play a meaningful role in supporting these objectives. However, the proposed levy on sugary beverages – in the **absence of mitigation strategies** to ameliorate the negative socio-economic impact – will result in sub-optimal health outcomes and **significant economic and job losses**. Business believes it is imperative for the NEDLAC process to be afforded an opportunity and sufficient time to co-develop appropriate strategies to bring about the desired health outcomes whilst addressing the considerable socio-economic challenges that will arise from the proposed levy. Business therefore urges the Select Committee to **remove the Health Promotion Levy on Sugary Beverages from the Draft Rates and Monetary Amounts and Amendment of Revenue Laws Bill 2017, pending the finalisation of the existing NEDLAC process and the co-development of mitigation strategies that are supported by government, business and labour.**

BUSA stands ready to provide further information to the Standing Committee, engage on technical matters or respond to any questions members of the Standing Committee may have. BUSA would also like to request that it be afforded an opportunity to present its views before the Select Committee at the Public Hearings scheduled for 31 May 2017 at Parliament.