CANEGROWERS

South African Cane Growers' Association | Tel +27 31 508 7200 | Fax +27 31 508 7201 | Email central@canegrowers.co.za
Kwa-Shukela, 170 Flanders Drive, Mount Edgecombe 4300 | PO Box 888, Mount Edgecombe, KwaZulu-Natal, 4300
Registration Number 1928/001125/08 | NPC

23 May 2017

Mr Allen Wicomb
Committee Secretary
The Standing Committee on Finance and Portfolio Committee on Health
3rd Floor
90 Plein Street
CAPE TOWN
8000

Dear Mr Wicomb,

RESPONSE: CALL FOR WRITTEN SUBMISSIONS ON THE TAXATION OF SUGAR SWEETENED BEVERAGES

The South African Cane Growers' Association (Canegrowers) hereby submits a follow up response on the Taxation of Sugar Sweetened Beverages to The Standing Committee on Finance and Portfolio Committee on Health.

1. INTRODUCTION

The South African Cane Growers' Association represents the country's approximately 20 000 sugar cane growers, who operate mainly on small family farms and annually produce on average 19.9 million tons of cane, farm in excess of 371 662 hectares under sugar cane and make a substantial contribution to the economy, mainly in the rural areas of Mpumalanga and KwaZulu-Natal.

Since its inception in 1927, the Association has represented the interests and focused on the sustainability of all growers – from individual small-scale farmers to commercial enterprises.

It is worth noting that growers are an integral part of the sugar industry as growers carry 64% of industry costs, with the milling companies contributing 36%.

2. PREVIOUS SUBMISSIONS AND COMMENTS

The current situation is dire and the current sustainability of the industry is threatened by a number of external factors. As an example, the sugar industry is currently fighting for its survival in the midst of the worst drought in recorded history (2016) which has resulted in a decrease in production of 53% in some areas and the unprecedented closure of a number of mills. The lack of sufficient import tariff protection has also resulted in an influx of imports from subsidized countries. The SA sugar industry is in the top 15 most efficient producers out of 120 countries worldwide but with these challenges the financial viability of the industry hs been eroded and it has pushed the sector to the edge of ongoing sustainability.

Despite the above-mentioned challenges, faced by the industry, National Treasury has gone ahead and proposed a levy on sugary beverages. The singling out of an individual ingredient in a particular product as the tax aims to do, is unlikely to achieve the desired health outcomes, in fact, will not even benefit the consumer in the slightest way as a multi-disciplinary approach is actually required. Canegrowers would like to stress that insufficient consideration has been given to the full impact of the imposition of the tax, and

the significant negative unintended industrial, socio-economic and agricultural consequences. The imposition of the tax is a completely inappropriate financial instrument and will not achieve the desired reduction in obesity in South Africa.

Canegrowers has made the following submissions to national government and parliament:

- Submission of comments to National treasury on the Policy Paper on the Taxation of Sugar Sweetened beverages (SSBs) - 22 August 2016;
- Submission to parliament on the SSBs - 24 January 2017;

3. COMMENTS

Canegrowers is extremely concerned about the increasing trend in obesity and NCDs in South Africa but is of the view that the targeting of an individual ingredient in a particular food product as the tax aims to do, is highly unlikely to resolve a complex health condition that requires a multi-disciplinary approach, including an improvement of the current government health care system.

Since the announcement of the proposed tax on sugar sweetened beverages in February 2016, Canegrowers opposed the tax as it would be completely ineffective in achieving the desired outcome of reducing rates of obesity, and will adversely impact on both the sugar milling and sugarcane agricultural sectors in KZN and Mpumalanga. The levy has been proposed without sufficient engagement and consideration of the following recommendations put forth by the sugar industry to National Treasury on its policy for taxation on SSBs:

- Multi-disciplinary approach to be followed to manage obesity in South Africa are used.
- An independent Socio-Economic Impact Assessment of the proposed intervention on the sugar industry and its value chain is considered ahead of implementation.
- A strong awareness campaign is needed to accurately inform and enable the public in following healthy diets.

The sugar industry stands to be most negatively impacted by the tax and yet concerns raised and recommendations put forward by the sugar industry on the tax, have been ignored and thus Canegrowers feels strongly that the suggested health promotion levy on sugary beverages be withdrawn to allow for the abovementioned recommendations, that have not only been suggested by the sugar industry, but by other industries and associations that would be affected by the tax as well, to be properly considered.

It is evident that when examining the tax bill that no purpose statement is contained therein. However, in the media statement published in parallel to the bill it is clearly specified that the tax is considered a measure to promote health, prevent disease and raise revenue. In fact, there is convincing scientific evidence that taxes on individual foods are ineffective in curbing rates of obesity. The McKinsey Global Institute report on obesity (2014), cites taxes on foods being the least effective measure to reduce obesity. It thus seems strange that if this is the purpose of the tax that the substantial amount of scientific evidence is being ignored.

The basis for the tax rate of 2.1c/gram of sugar above 4g/100ml has not been specified and the scientific reasoning for legislation of this nature should be made available for public scrutiny, as the tax is intended to effect health outcomes. Canegrowers appreciates that rate of the tax has been reduced since the initial amount proposed by National Treasury, commitment is required that the rate going forward not be increased by more than the CPI (consumer price index).

4. IMPACT OF THE TAX

The volume of sugar supplied by the industry to the Sugar Sweetened Beverages (SSBs) sector is approximately 600 000 tons per annum. This is based on budgeted rebate tonnage for the rebate schemes that are likely to include SSBs as defined by the policy proposal. This is the largest single sector for the industry in terms of sales, making up approximately 32% of total local market sales, and more than 58% sugar sales to the industrial sector. With regard to production, approximately more than 100 000 hectares under cane are necessary to meet supply to the SSBs.

Based on elasticity quoted by the policy paper (-1.29), an 11% tax will yield a reduction of domestic sugar sales of approximately 90 000 tons. These tons will be displaced onto the world market at a loss. The loss of revenue will affect both the growing and milling sectors negatively. Small scale growers who lack economies of scale and are unable to diversify, will be hardest hit as they currently operate with the tightest of margins. The South African sugar industry is estimated by LMC to operate at one of the lowest margins of all sugar-producing countries. This is largely due to escalating costs of production, some of these beyond the influence of the industry, and an inability to recover costs by market pricing strained by competition from sugar imported from Swaziland, the SADC and other sources.

It follows that any government policy which impacts the sugar industry, such as the imposition of a tax, will have significant and far-reaching consequences on the livelihood of those dependent on it. Suppliers of agricultural and manufacturing inputs amongst others would be severely impacted on. This is particularly significant where historically disadvantaged business owners will be put at risk due to compounded losses. Any reduction in sugar consumption will have a negative impact on employment in the industry. To contextualise job losses both macro and micro-level employment should be considered.

The industry estimates that based on the industry average of approximately 60 tons cane/ha, more than 13 500 000 hectares (90 000 tons sugar) is at risk. This is about 5.5% of the harvested area under cane across the industry. With respect to jobs, on average 1000 ha of commercial cane production results in approximately 133 permanent jobs and 210 seasonal jobs. If Treasury's assumptions are correct, 1 795 permanent and 2 835 seasonal jobs could be affected. The full impact of the tax on the sugar industry has not yet been modelled.

The sugar industry includes more than 20 000 small scale growers that farm in rural areas, often on small units of land. In many instances, the small-scale growers operate on marginal soils and at a considerable distance from the mills. Given the tight financial margins of these growers, support from the industry together with the guaranteed market significantly assists the viability of their businesses.

5. CONCLUSION

The South African Cane Growers' Association, on behalf of all sugarcane growers in South Africa, strongly recommends that a

- Multi-disciplinary approach to be followed to manage obesity in South Africa are used.
- An independent Socio-Economic Impact Assessment of the proposed intervention on the sugar industry and its value chain is considered ahead of implementation.
- A strong awareness campaign is needed to accurately inform and enable the public in following healthy diets.

The South African Cane Growers' Association welcomes the opportunity to further engage on this matter and expresses its appreciation for the opportunity to provide input on the proposed tax.

Yours sincerely,

TIM MURRAY
CHAIRMAN
The South African Cane Growers' Association