

31 MAY 2017



HEALTH PROMOTION LEVY
IMPACT ON SUGARCANE

Just 5 simple messages

This is a political arena.

You've heard advocacy addressing competing health and job impacts.

After listening carefully and taking up the challenge of the chair for new insights

I have just five simple messages:

1. Sugars are **not harmful** ... and don't cause obesity
2. **Less obesity** requires **less food energy**
3. The sugar industry is **important to South Africa**
4. The tax **won't make a difference** to obesity
5. The tax **will be harmful** to the rural social economy

So let's start with the first message ...

Sugars are not harmful: They're part of life

- Sugars are basic building blocks in human life as we know it.
- Carbohydrates (which include sugars) are the primary carriers of energy from sunlight into our bodies. Plants convert energy from the sun into stored energy in carbohydrates, which we eat as food.
- Carbohydrates are broken down in our bodies into simple sugars, which our cells can use for energy.
- A simple sugar, glucose, is the primary energy source for the brain.
- Sugar, glucose and fructose are intrinsically safe food constituents and food ingredients.
- “Free” or “added” sugar are identical to the sugars found naturally in plants (vegetables and fruit) - that is, after all, where they are obtained from!
- The vast majority of mainstream science has shown no causal link between sugars consumption and obesity or any NCD, other than dental caries, in the absence of good oral hygiene.
- Any food or nutrient that is consumed in excessive amounts leads to harm (such as obesity) - sugars are no different.
- It is as much a mistake today to vilify sugar as it was in the past to vilify fat.

What about obesity then? So on to my second message ...

Less obesity requires less food energy; we eat too much!

So what causes obesity?

- Due to food insecurity humans evolved with a biological ability to cope with food scarcity rather than abundance
- Hormones that regulate hunger and satiety encourage us to seek food but don't seem to prevent over-consumption
- Obesity is rooted in the sedentary nature of post-industrial life and more widely available and affordable food. Prevalence of obesity is growing as prosperity increases.
- Food energy exceeds requirements in developed world by 50% and in developing world by 23%.
- Food energy consumption in SA is over 3000 kcal / day or exceeds requirements by 33%.
- The WHO carried out an extensive literature meta study in 2015. It found:
 - Sugars make no special contribution to obesity, other than their contribution to food energy (no different to any other food).
 - **Iso-caloric studies** (where the total food energy content is controlled), showed **NO** impact of sugars themselves on body weight (obesity).
- The total (direct and indirect) per capita sugar consumption in South Africa has been steady over the last 10 to 15 years *but obesity levels have been rising*. **No correlation exists between sugar consumption and obesity in SA.**

The rise in obesity and NCD in SA must be addressed:

Total food energy intake must be reduced to reduce energy intake and weight. This is not easy.

- Objective of National Strategy for Prevention and Control of Obesity
- High impact measures need engagement and implementation – only low impact to date

So on to my third message ...

Sugar Industry is important to SA: Black sugarcane farmers

- Approximately 1 million South Africans depend on the sugar industry for their livelihood.
- Of the 21 441 registered growers in the South African Sugar Industry in 2016/17, **20 140 (94%)** are small-scale growers, of whom **19 307 (90%)** are located in KwaZulu-Natal.
- KZN has the highest proportion of rural dwellers in SA - of its population of 11 million people (community survey 2016), 51% live in rural areas (national average is 38%).
- Total revenue earned by sugarcane growers in KZN in 2016/17 was R6,7 billion, of which **R1,25 billion (19%)** was earned by communal, small-scale and land reform growers.
- *The estimated revenue that Treasury will derive from the Health Promotion Levy is similar to the total annual earnings of all sugarcane growers in KZN!*

Intervention by Government and Tongaat Hulett

- Once implemented Tongaat Hulett will obtain its sugarcane in SA from 123 000 hectares of land, of which **46%** are owned by Historically Disadvantaged Individuals.
- Tongaat Hulett is currently working with the following in developing and supporting Black and community sugarcane farming: CASP, RADP, SEFA, DBSA Jobs Fund, Drought Relief funding, MAFISA and KZN Dept of EDTEA.

Now let's move on to my fourth message ...

The HPL (tax on SSBs) will not reduce obesity

- The stated objective of the HPL is to reduce obesity, and through that reduction, reduce NCDs.
- How much weight must be lost to achieve an impact on NCDs? There are no categorical answers, but:
 - One presenter mentioned at least 1 BMI unit - this is equal to about **3 kg** for an average person
 - Some doctors recommend moving 1 full BMI bracket - from obese to over weight - this is equal to about **15 kg**
- So what average reduction in weight is each South African likely to achieve due to the Health Promotion Levy?
 - Less than 500 gram?
 - 500 gram to 1 kg?
 - 1 kg to 3 kg?
 - More than 3 kg?
- Based on the Manyema (Priceless/WITS) model and updated latest Treasury tax levels and elasticities:

Less than 100 grams!

- Is the impact once-off or repeated every year? For any sustained calorie reduction at a reasonable level, **once-off**, as the body weight reaches a new equilibrium; thereafter the new equilibrium weight is maintained (Swinburn, Hall and others).
- Without a material impact on obesity, the tax cannot have a favourable impact on NCDs.
- *For less than 100 g per person, the tax will cost consumers half a trillion Rand over a South African person's lifetime.*

So, on to my fifth and final message ...

The HPL will be harmful

- South Africa has the lowest local market sugar prices in the Southern African region.
- The Health Promotion Levy will reduce domestic market sugar volumes and shift this sugar on to the dumped world export market, which will reduce revenue for that volume by about half and substantially reduce already tight margins of farmers and millers.
- The impact of the Health Promotion Levy on domestic market volumes may be multiplied by the beverage manufacturers substituting other ingredients for sugar (reformulation), in order to reduce the impact of the tax.
- Land under sugar cane reduced by 10% from 2000 to 2010 due to economic pressures, but:
 - From 2010 the area under cane has stabilised due to substantial intervention by Government, millers and growers.
 - The intervention focusses on developing new emerging farmers both in communal and land reform farms.
- In Tongaat Hulett's cane supply areas, Government has provided direct funding to develop small scale, communal and land reform farmers, totalling R505 million. Tongaat Hulett has matched that with funding and expertise.

The HPL tax will **hurt the vulnerable**, the small scale and new emerging, communal and land reform farmers. The loss of revenue will squeeze already tight margins, resulting in job losses and risking reversal of major developmental gains.

- Health Promotion Levy is uncapped and increases are unfettered.
 - The Rates and Monetary Amounts and Amendment Bill is revised annually.
 - Levy can and will be increased way above inflation (in real terms) as has been the case for the so-called "sin taxes".
 - National Treasury has stated that, if obesity does not come down, the level of the levy will be increased in real terms.
- As already argued, the HPL will not reduce obesity, which makes future increases in the tax rate likely.

Key Concern: What is the future level of the levy and related level of job destruction?

So if ...

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Is the process to consider these issues working?

The consultation process to date

Socio-Economic Impact Assessment Study (SEIAS) Guidelines (Version-May 2015):

“A particular challenge arises in evaluating stakeholders’ inputs. By definition, stakeholders often know more about the context and likely impact of any policy than government officials.”

- National Treasury claims that the job losses are only in the SSB industry, not upstream in agriculture. This **makes no sense**, as the premise of the tax is that higher prices and reformulation will lead to lower sugar consumption.
- Treasury has ignored concerns raised and recommendations put forward by the sugar industry, and to date no direct consultations have taken place between Government and the sugar industry.
- Government has not issued a Socio-Economic Impact Assessment Study (SEIAS) on either the
 - National Strategy for Prevention and Control of Obesity
 - proposed Health Promotion Levy

despite the fact that both cut across and may impact negatively many Government policies and priorities

The NEDLAC process requires real engagement between the social partners. However:

- Treasury has appeared an reluctant participant (failed to attend the second meeting without notice).
- Requests for an SEIAS yielded a Technical Appendix on 15 May 2017, with no engagement on it yet possible.
- Engagement on proactive mitigation still needs to commence, involving Department of Energy, DAFF, EDD and dti.
- The process requires real commitment and realistic time frames to be concluded.

The chair of the Finance Committee stated that Parliament will not wait for NEDLAC, which, if true, will render the process and related processes like an SEIAS meaningless.

In concluding we request

We request of Parliament and the Standing Committee on Finance that:

- The NEDLAC process to be afforded the opportunity and sufficient time to co-develop appropriate strategies to bring about the desired health outcomes whilst avoiding the considerable socio-economic challenges that would arise from the proposed levy.
- The Treasury be required to carry out a comprehensive SEIAS, with proper engagement with stakeholders, to be reviewed by the partners in the NEDLAC process.
- The Standing Committee remove the Health Promotion Levy on Sugary Beverages from the Draft Rates and Monetary Amounts and Amendment of Revenue Laws Bill 2017, pending finalisation of the existing NEDLAC process and co-development of mitigation strategies that are supported by government, business and labour.



**Thank you for the opportunity to address
the Finance and Health Standing Committees.**

**Tongaat Hulett is committed to pursuing a win-win that seeks to promote
obesity reduction, improved health, job creation and rural development**



**Communal Leasehold Model
at Mbongolwane**