

26 May 2017

Dear Honourable Yunos Carrim, Chairman of the Finance Standing Committee

THE TONGAAT HULETT SUBMISSION TO PARLIAMENT ON THE DRAFT RATES AND MONETARY AMOUNTS AND AMENDMENT BILL, WHICH INCLUDES THE HEALTH PROMOTION LEVY

Tongaat Hulett supports the objective of the South African Government to reduce the incidence of Non-Communicable Diseases in our population, and its efforts to reduce obesity, a known risk factor for these diseases. We understand and support, therefore, the need to improve nutrition, reduce per capita food energy intake to recommended guideline levels and improve physical activity in South African society. As part of the reduction in food energy intake, we recognise Government's intention to reduce sugar consumption by those individuals who consume it in excess, and need to reduce calorie intake. We oppose the proposed tax on Sugar Sweetened Beverages (SSBs), called the "Health Promotion Levy" (HPL) as we believe that it will be completely ineffective in achieving these objectives, while inflicting harm on the rural social economy of parts of South Africa.

We believe that the HPL will not reduce obesity or NCDs in South Africa because:

- Globally and in South Africa the consumption of food energy exceeds requirements in the developed world by 50% and in the developing world by 23%. This overconsumption of food energy is the primary cause of obesity.
- Sugar makes no special contribution to obesity, other than its contribution to food energy (like any other food). This fact is supported by the overwhelming majority of mainstream science.
- The consumption of added sugar in the form of liquid products is 3-4% of the daily energy intake of the average South African. As the impact of the tax on SSB is likely to achieve only 0.24% to 0.32%¹ reduction of the total food energy intake it will have no discernable impact on obesity.
- If the key underlying drivers of obesity are not addressed, they will continue to drive obesity up.
- Without a favourable impact on obesity, there will be no improvement in NCD levels.
- The total per capita sugar consumption in South Africa has been steady over the last 10 to 15 years whilst obesity levels have been rising. There has been a gradual shift from direct consumption to indirect consumption but the overall sugar consumption has been largely unchanged. There is no correlation between per capita sugar intake and either obesity or NCD trends.
- We believe that the HPL will cause harm because: The sugar industry is a mainstay of the rural economies of KZN and Mpumalanga, providing economic opportunity and employment. These rural economies offer very limited job-intensive alternatives to sugar cane farming.
- As South Africa has the lowest local market sugar prices in the Southern African region, the margins of sugarcane farmers and millers are already very small. The impact of the HPL will be to reduce domestic market sugar volumes and shift this sugar on to the dumped world export market, which will have a substantial impact on the viability of farmers and millers.

¹ 0.24% - 0.32% = 3% - 4% of food energy * 11% effective tax rate * -0.73 price elasticity

- The impact of the HPL 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. Also, by making the HPL part of a Money Bill, the Minister of Finance can change the future rate. National Treasury has already stated on many occasions, that if obesity will not come down, the level of the tax will be increased. As already argued, the HPL will not reduce obesity, which makes future increases in the tax rate likely.
- **The key concern is that, once introduced, that the HPL is uncapped and increases are unfettered.** The Rates and Monetary Amounts and Amendment Bill is revised annually and the HPL 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 is not coming down, the level of the HPL will be increased in real terms.
- The HPL at current level could drive many numbers of smaller farmers (the most vulnerable) out of business. The HPL at possible future levels will drive large numbers of small to medium scale farmers (the most vulnerable) out of business and possibly lead to closures of sugar mills. The final rural job losses could be severe with no real alternatives.
- Over time the HPL is likely to have dire consequences for the rural poor in KwaZulu-Natal and Mpumalanga.


The following should be noted about the process to date:

- The sugar industry will be the most negatively impacted by the HPL and yet concerns raised and recommendations put forward by the sugar industry on the tax, have been ignored. No direct consultations between Government and the sugar industry have taken place.
- SASA and Tongaat Hulett, through BUSA, are participating in the NEDLAC SSB task team convened by the Public Finance and Monetary Policy chamber.
- Government has not issued a Socio-Economic Impact Assessment Study (SEIAS) on either the proposed HPL or the National Strategy for Prevention and Control of Obesity
- Government issued a Technical Appendix to a SEIAS on 15 May 2017 to the NEDLAC task team. No engagements on this have yet been possible. The new proposed level of the tax and changed economic assumptions have materially reduced the potential health benefit but none of this has been updated.
- Issues as required to be considered by SEIAS still need to be addressed. For example pro-active mitigation issues still need to be considered.
- The engagements at NEDLAC have not progressed as anticipated due to delays by government in sharing a version of the SEIAS. Notwithstanding various attempts, the task team has had only two successful meetings and remains some way from engaging substantively on key aspects of the policy.

In conclusion Tongaat Hulett view is that an increasing taxation of sugars in SSBs in isolation, without any accompanying mitigating measures, would be a blunt tool with many unintended consequences, including undermining Government’s deep desire and articulated policy to develop the rural economy and create rural jobs. The seriousness of the likely impact of the proposed tax on rural livelihoods warrants spending more time to develop a comprehensive and sustainable approach to address the real challenges of reducing food energy intake, reducing obesity and related health impacts, improving agriculture and food supply and increasing rural development, transformation and job creation. We believe that a win-win approach is possible, in which obesity may be targeted without putting at risk the direct and indirect sugar industry jobs on which approximately one million South Africans depend.

We recommend that Parliament and the Standing Committee on Finance:

- Insist that the NEDLAC process be concluded, and afford the sugar sweetened beverages tax task team the timeframe in line with standard NEDLAC processes.
- Insist that any measures on sugar are considered in the context of implementing the National Strategy for Prevention and Control of Obesity comprehensively.
- Remove the Health Promotion Levy on Sugary Beverages from the Draft Rates and Monetary Amounts and Amendment of Revenue Laws Bill 2017. National Treasury has consistently stated that purpose of the HPL is not to raise revenue, so there is no reason to rush the legislation through without due process.



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