Submmision on the Rates and Monetary Amounts Bill and the Health Promotion Levy

Submission to the National Council of Provinces

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# Executive Summary

* The process surrounding the NCOP’s hearing on the Health Promotion Levy has been highly irregular. There was no public call for comment and only industry stakeholders were initially to be represented.
* We welcome the inclusion of the Health Promotion Levy in this bill as a vital and important step in the fight against obesity related non-communicable diseases.
* Obesity and related non-communicable diseases (diabetes, heart disease, and various cancers) are a significant driver of health expenditure, a financial burden on households and responsible for a significant negative impact on overall economic productivity.
* South Africa is one of the top global consumers of sugary beverages.
* A typical 330ml sugary beverage contains 8-10 teapoons of sugar per serving and there is substantial independent, high-quality, peer reviewed scientific evidence that consumption of these products is linked to the onset of obesity, type 2 diabetes, and metabolic syndrome.
* South African and international evidence suggests the tax will reduce obesity and its related diseases, by incentivizing consumers to reduce intake of sugary beverages.
* The tax will raise revenue which can be targeted to fund disease prevention interventions which will further promote healthy lifestyles and obesity and non-communicable disease reduction.
* Evidence from other middle income countries shows that job losses will not occur as people will move their expenditure to other drinks and products.
* The tax rate has been lowered significantly in a meaningful concession to industry, at the cost of reducing the potential health benefits.
* The proposed design of the tax creates incentives for producers of harmful beverages to reduce the sugar content and reduce their tax liability.

# **Background**

## The NCOP hearing on the Health Promotion Levy

The process surrounding the NCOP’s hearing on the Health Promotion Levy has been highly irregular. There was no public call for comment and yet only one selected group of stakeholders were to be represented. According to the Parliamentary Monitoring Group, **“Allowing only the losing side of the contested Health Promotion Levy to make a submission to the NCOP Select Committee on Finance is a most unusual move … One could call it a hijacking of the legislative process for this Bill as there have never been hearings on tax bills in the NCOP. It will be interesting to watch this play out – to see if there is a sudden change of mind by a majority in the committee. Any NCOP amendment would mean it has to go back to the National Assembly for approval.”[[1]](#footnote-1)**

## Obesity and Diet-Related Disease in South Africa

South Africa is now facing an increasingly severe obesity and non-communicable disease (NCD) epidemic, rivaling the HIV/AIDS and Tuberculosis co-epidemics. Non-communicable diseases like type 2 diabetes mellitus and hypertension, place a unique strain on the public and private healthcare systems. They are chronic diseases and require costly treatment, monitoring, and healthcare utilization over long periods of time. If these diseases are not actively managed, they progress rapidly to acute complications like stroke, and heart or kidney failure, requiring extremely costly hospital admission, and may result in disability and death.

The public healthcare sector faces significant challenges. Looking forward, the viability of the proposed National Health Insurance (NHI) scheme will depend on significant cost-containment and prevention of NCDs will be crucial. In the private sector, the Council for Medical Schemes reports that non-communicable diseases among members have risen significantly since 2008, driving up premiums for all medical scheme members.

In addition, these diseases have a significant impact on the economic well-being of households as they impair the ability of those afflicted to work, and typically affect adult breadwinners. The resulting productivity losses have broader economic costs too. Estimates suggest that by 2030, South Africa’s gross domestic product will be 7.0% lower as a consequence of NCD-related early retirement, absentee-ism, and presentee-ism.1

## Sugary Beverage Consumption and Sales in South Africa

Sugary Beverages are non-alcoholic beverages containing free sugars. The World Health Organization defines free sugars as *“monosaccharides (such as glucose, fructose) and disaccharides (such as sucrose or table sugar) added to foods and drinks by the manufacturer, cook or consumer, and sugars naturally present in honey, syrups, fruit juices and fruit juice concentrates.”* 2 As such, sugary beverages include:

* carbonated soft-drinks (e.g. Coke, Fanta, Twizza),
* fruit juices (e.g. Ceres, Liqui Fruit),
* liquid concentrates (e.g. Oros),
* powdered concentrates (e.g. Game),
* flavoured-milks and dairy-based products (e.g. Tropika)

Consumption of these drinks is on the rise in South Africa. Per capita consumption of these beverages grew by over 50% between 2001 and 2015, reaching over 260 ml per day, more than one cup per person per day. Furthermore, sales of these beverages are projected to grow at 3-4% year-on-year until 2020.3 Consumption of these harmful beverages is spreading to areas previously un-affected. A study of adults in rural North West Province found between 2005 and 2010, the proportion of adults consuming sugary beverages doubled.4 Soft drink industries are targeting lower SES groups as this is where the growth margin lies. This is achieved through managing pricing opportunities to ensure affordability, manipulative product placement and availability alongside ubiquitous and extensive marketing.

Figure 1 Trends in Per Capita Sales of Sugary Beverages in South Africa

Source: Euromonitor International

## Health Effects of Sugary Beverage Consumption

The WHO recommends that sugar intake be limited to 10% of daily caloric intake and 5% of daily caloric intake for further health benefits.2 This is the equivalent of 6-12 teaspoons of added sugar per day, often the amount present in one sugary drink. Sugary beverages are linked to obesity and the onset of type 2 diabetes and metabolic syndrome. This includes evidence from randomized controlled trials, observational prospective dietary studies and even cross-country studies.4-7 The physiological pathways underlying this link are well understood. Some of these are summarized below:

* Sugary beverages are extremely energy dense and their consumption increases caloric intake.
* As they are in liquid form, relative to their energy content they are less satisfying than solid foods. Because people do not feel full, they continue to eat and drink, increasing their energy intake.
* Due to the high sugar content in liquid form, they provoke an extreme insulin response in the body which placing significant strain on the pancreas and increasing the risk of insulin resistance and the development of diabetes.

# **Sugary Beverage Taxation**

## Health Benefits of Reduced Consumption of Sugary Beverages

South Africa’s use of tobacco and alcohol excise taxes are widely regarded as public health successes. There is increasing evidence that taxation of sugary beverages is an effective means to reduce their intake.8 The WHO recommends the use of fiscal policies like taxation as a means to reduce sugary beverage intakes, incentivize healthy diets and reduce NCD disease burdens.9

A series of mathematical modelling studies specific to South Africa have examined the potential health effects of the introduction of a tax on sugary beverages.10-12 These studies demonstrate that the tax would reduce obesity prevalence, reduce type 2 diabetes and stroke and expenditure on their treatment. Further, if no action is taken there will be growth in obesity with a significant share of new cases resulting from increasing sugary beverage intake.13 With industry growth strategies specifically targeting lower socio-economic status groups, the health burden of this increased beverage consumption will fall more heavily on the poor.13 Importantly, these studies find that the beneficial health effects of the tax are increasing in the rate applied. Out advice is that a 30% tax rate be adopted rather than the 20% proposed.

## Raised Revenue for Further Disease Prevention and Treatment Efforts

Not only will lives be saved and costs averted but a key benefit of the tax is that it will raise revenue. This could be further used to target reductions in obesity-related NCDs, or other health promotion activities. The health impacts of the tax could therefore be further amplified through targeted spending. In addition, concerns have been raised that the tax revenue would be used as a general revenue source. The concerns may be allayed if the revenues raised were being used to target the same societal issue the tax was intended to address - health. We propose the use of the revenue to finance interventions that address obesity or health more generally. In particular, the following may be considered:

* The many interventions identified in the National Strategy for the Prevention and Control of Obesity, 2015-2020, including:
* Early Childhood Development centres
* Community health workers
* The provision of potable water to un-serviced household

# False Industry Claims

Industry have sought to influence the debate on the proposed tax by making false claims. These claims are the based on flawed research reports, that are not independent and were produced by financially-conflicted researchers commissioned by industry.

## The tax will result in significant job losses - FALSE

The numbers of job losses that might result from the tax suggested by beverage industry associations are the result of flawed assumptions. The simulation modelling methodologies used to arrive at the significant job losses grossly overstate the employment effects as they assume among other things that individuals and households will not shift their expenditure to other products.14

## The tax will not reduce sugary drink consumption – FALSE

There is significant evidence internationally that taxes on sugary drinks raise prices and induce a reduction in their consumption.8,9,15-17 Industry use the following sources to argue this point:

* A report commissioned by BevSA, that assumes the tax will not be fully passed through to retail prices.18 This assumption is contrary to the experience of South Africa with taxes on alcohol and tobacco, and the experience of other middle income countries with taxes on sugary beverages.
* A report produced by the Mckinsey Global Institute looking at tackling obesity in the United Kingdom. This report finds that a tax would not be effective, but in its analysis assumes a smaller tax than has been proposed in South Africa and assumes that the tax will not be passed through to retail prices.

# Summary

South Africa is at a crossroads with respect to diabetes and other obesity related diseases. We urge the Standing Committee on Finance and Portfolio Committee on Health to support the passage of sugary beverage tax legislation without delay. Passing this tax will enable us to make much needed progress regarding the goals we have set ourselves on life expectancy and non-communicable disease in the National Development Plan and Sustainable Development Goals.

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1. https://www.dailymaverick.co.za/article/2017-11-27-health-e-news-sugar-war-is-a-microcosm-of-sas-political-rot/#.WhvkvrT1XVo [↑](#footnote-ref-1)