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14 November 2022

Mr Nkululeko Mangweni
The Select Committee on Finance (National Council of Provinces)
By email: nmangweni@parliament.gov.za

Dear Mr. Mangweni

GS1 SOUTH AFRICA, TRADING AS THE CONSUMER GOODS COUNCIL OF SOUTH AFRICA: 2022 RATES BILL – POSTPONEMENT OF THE EFFECTIVE DATE OF AN INCREASE IN THE HEALTH PROMOTION LEVY

1. INTRODUCTION

1.1 GS1 South Africa, trading as the Consumer Goods Council of South Africa ("CGCSA") is a not-for-profit industry organisation representing the interests of more than 9 000 members in the Consumer Goods, Retail, Manufacturing and Services sectors, i.e., the Fast-Moving Consumer Goods (FMCG) sector. The FMCG sector contributes up to R1 trillion annual GDP (roughly 20% of economic production) and employs 2.5 million people, which account for 16% of the total labour force.

1.2 CGCSA thanks the Select Committee on Finance ("the Select Committee") for the opportunity to submit this written submission on the proposed increase in the Health Promotion Levy ("HPL") as announced by National Treasury in a media statement dated 1 April 2022, wherein it was stated, *"The Minister also announced that consultations will be initiated to consider lowering the 4g threshold and extending the levy to fruit juices. To allow for the consultation process, it is proposed that the effective date of the increase be postponed to 1 April 2023"*.

1.3 Prior to issuing the media statement, the Minister of Finance had announced on 23 February 2022 that the HPL for Sugar Sweetened Beverages with more than 4g of sugar content per 100ml will be increased from 2.21c/g to 2.31c/g from 1 April 2022. The Minister also stated that consultations would be held to consider lowering the 4g threshold and extend the levy to fruit juices. It is our submission that the increase in the HPL, the lowering of the 4g threshold and extension of the HPL to fruit juices, will severely impact our member businesses, the consumers and wider national economic activity.

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1.4 The announcement of plans to increase the HPL, against Government promises that there would be no further increases, not only demonstrates bad faith but ignores Government's own commitment to ensure there is sufficient and constructive consultation before major policy decisions and announcements are made. It is in this spirit that we urge that consultations between National Treasury and the industry take place before any amendments are made to the HPL. National Treasury in fact committed to such consultations in the media statement of 1 April 2022 as stated in paragraph 1.2 above, however to date there has been no consultations.

1.5 We are particularly concerned that the Government has refused to accept previous requests to allocate or ring-fence money raised from HPL to health promotion as originally planned. Similar requests to ring-fence money collected from the plastic bag tax were also ignored. What is in fact happening is that industry is double taxed through the recently Extended Producer Responsibility Regulations.

1.6 The announcement to increase the HPL and extend it to other products undermines the scope and construct of the Sugarcane Value Chain Master Plan ("Sugar Master Plan") as a multi-stakeholder forum, and by extension has devastating consequences of the concept of all Master Plans underway and/or planned.

1.7 The primary focus in discussions with government, labour and other industry role players has been to prevent job losses and sectoral decline in the sugar cane value chain. Central to this was mutual alignment on the need to stabilise the value chain through Phase 1 of the Sugar Master Plan. Such stabilisation was agreed between the parties to include no change of any sort to the HPL until the end of Phase 1 of the Sugar Master Plan, where Phase 1 is detailed in the Sugar Master Plan to run for 3 years effective from 28 February 2020. However, given the unforeseen circumstances and factors beyond our control, the Phase 1 implementation has been severely delayed. The implementation challenges are discussed further on in the document. We are therefore of the view that, the proposed increase in the HPL is premature under the structure and letter of the Sugar Master Plan. It should be added that on the side of industry participants to the Sugar Master Plan, domestic sugar usage targets and sugar pricing constraints as further terms of the Sugar Master Plan have been adhered to.

1.8 The deviation from the intent of the Sugar Master Plan brings into question industry's participation and commitment to existing and planned Master Plans.

2. POINT OF DEPARTURE

Our members, particularly in the beverage sector, acknowledge the need to prevent and control obesity in South Africa. They further agree with the Department of Health that obesity has become a major risk factor linked to the growing burden of Non-Communicable Diseases (NCDs), which include heart diseases, type II diabetes and some form of cancers. In this respect, manufacturers of Sugar Sweetened Beverages have responded as follows:

- Reduced packaging sizes and reformulated their products to reduce sugar content
- Introduced low or zero sugar content products
- Scaling up production of low and zero sugar options for consumers

These measures were not necessarily in response to the HPL but have been in response to the health concerns related to high consumption of sugar sweetened beverages and other sugary products, prior to the introduction of the HPL in line with the National Obesity Strategy, 2015-2020.

3. NEDLAC REPORT

In June 2021, the National Economic Development and Labour Council (NEDLAC) published a report titled, 'Economic Impact of the Health Promotion Levy on the Sugar Market Industry'. The NEDLAC report is attached hereto as Appendix 1 for ease of reference.

The NEDLAC report reveals that looking at the HPL impact at industry level, model results suggest that the sugar sweetened beverages' industry, which the levy was directly imposed on, had cut a cumulative 1,104 jobs by 2019 and its GVA contribution to GDP fell by a cumulative R 1.58 billion, largely due to a reduction in the household consumption of sugar sweetened beverages.

The main conclusions of the report are that the imposition of the HPL had a significant impact (in terms of employment and output) within sugar sweetened beverages industry, with related industries, particularly the sugar industry, also affected. The NEDLAC report further states that economic losses in the sugar and sugar sweetened beverages industries will invariably induce more job and output losses in sectors within their supply chain. It warns that these impacts should not be ignored especially in the current environment of high unemployment and declining economic growth.

4. OUR SUBMISSION

4.1 Industry Concerns

When the HPL was first implemented on 1 April 2018, our members expressed concern about the lack of consultation on the impact of the levy particularly on the struggling sugar industry as well as job security in the beverage sector and entire value-chain of the beverages industry. It is worth noting, according to the Sugar Master Plan, about 250 000 tonnes of sales were lost with a forfeiture of R1.2 billion in industry revenue just in the first year of implementation.

4.2 The Need for the Total Dietary Intake Study

4.2.1 In 2018, the South African government introduced the HPL at approximately 10%. While there has been a significant amount of debate and discussion about the merits of the levy and its negative socioeconomic impacts (measured in jobs losses and modelled net negative tax impacts) and peripheral health impacts (modelled health impacts absent and Total Dietary Intake Study by National Department of Health (NDoH), that is long outstanding), there has been far less discussion of the scientific basis of this policy. There is widespread acknowledgement from all stakeholders that there is no national data on the dietary intake of adults in South Africa[1]. This missing information or scientific evidence has also been identified as a significant shortcoming in South Africa's ability to develop robust and defensible food policy, including the current and proposed increases in the HPL.

[1] There is a National Food Consumption Survey which documented dietary intake of children 1-9 years, but this study is focuses exclusively on minors and is more than 20 years old, making it an unsuitable substitute.

4.2.2 It is an internationally accepted principle that scientific evidence should play an essential role in policymaking. Facts about the extent of a problem need to be obtained before any issue can be fully addressed, and fact-based evidence needs to be available for policymakers to decide on solutions. Therefore, the lack of a Total Dietary Intake Study which the industry has been calling for as a basis for the HPL, remains a crucial inhibitor in determining appropriate quotas and/or increases, defeating the purpose of addressing health related challenges and policy recommendations on the HPL.

4.2.3 The lack of the Total Dietary Intake Study continues to present challenges as there has been very little, or no information provided to affected stakeholders about the structure, orientation, methodology, or any other vital details of this study to ensure that the information gathered is helpful beyond the immediate needs of the NDoH. The unavailability of the study and any information relating to it has meant that a critical element of the necessary information to prepare a recommendation on the future of the HPL is missing.

4.3 Economic Effects of COVID – 19 Pandemic

4.3.1 The impact of the COVID-19 pandemic on the South African economy has been well documented[2]. Across the economy, the various lockdown resulted in a GDP growth figure of -7.0% (StatsSA). This considerable economic downturn has also impacted the South African sugar production sector. Despite the sector being deemed an essential service by government at the start of the national Covid-19 pandemic lockdown starting March 27, 2020, sugar production throughout the pandemic was further burdened by the additional costs associated with operating during a pandemic. These costs included:

4.3.1.1 The supply of protective equipment such as masks, sanitisers, etc.; and

4.3.1.2 All costs associated with training staff on measures to prevent the spread of the disease.

4.3.2 These additional costs arrived when prevailing international sugar prices were highly distorted. For instance, from April 2020 to March 2021, the average global price of exported sugar was between US$200/t and US$300/t (around R3 050/t to R4 500/t). This was less than any country's sugar producers were able to obtain in their domestic markets[3].

4.3.3 Additional research by the University of Pretoria's Marc Wegerif into the impact of COVID-19 on the South African Agricultural Sector has also determined that "COVID-19 and the government interventions to respond to the pandemic had overwhelmingly negatively affected black farmers. Most experienced reduced demand as well as lower prices for their produce."[4] This consequence of the pandemic undermined and negatively affected several of the targeted objectives and actions of phase one of the Sugar Master Plan.

4.3.4 The culminative effect of these impact on the economy, the agricultural sector as well as the sugar production sector and its associated value chain ultimately mean that the stabilisation and

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[2] The National Income Dynamics Study – Coronavirus Rapid Mobile Survey (NIDS-CRAM) - a broadly nationally-representative panel survey of South African individuals

[3] Geran Ranganthan, Export manager at South African Sugar Assocation.

[4] Marc Wegerif (2022) The impact of Covid-19 on black farmers in South Africa, Agrekon, 61:1, 52-66

restructuring of the sugar sector, as envisaged in the Sugar Master Plan, could not continue as planned. This is because the industry was required to implement new modes of operation that took into account the additional cost burden of COVID compliance in an environment of unstable and distorted international sugar prices. More importantly, these developments have made achieving phase one's objectives challenging in the initial time frame for phase one of the Sugar Master Plan. All while the original need for the Sugar Master Plan Phase 1, namely to stabilise the rural economy of KZN and prevent further jobs losses by stabilizing the Sugarcane Value Chain, has in fact increased in light of COVID. The 16 000 odd direct jobs lost per the NEDLAC commissioned study into the economic impacts of the HPL (see footnote 9) only paints the picture up until 2018, there will undoubtedly have been a substantial increase in these negative economic impacts to 2022. The recent developments at Tongaat Hulett also paint a very bleak picture which cannot be ignored.

4.4 Unrest in Kwa-Zulu Natal in July 2021

4.4.1 The provinces of KwaZulu-Natal and Gauteng were rocked civil unrest and looting that occurred from 9 to 18 July 2021. The unrest primarily took the form of shops, businesses, critical infrastructure and warehouses being looted and torched. The riots resulted in the deaths of more than 350 people – the vast majority of them in KwaZulu-Natal. The unrest also left more than two million people jobless, and the estimated cost of destruction was calculated at more than R50bn to the economy[5].

4.4.2 The impact of the unrest on the sugar industry in KwaZulu-Natal has been profound. More than 500,000 tonnes of sugarcane were burnt in arson attacks associated with the unrest, resulting in over R100 million in losses. Reports further indicate that almost a third of the 500,000 tons of destroyed cane belonged to small-scale growers, many of which will not be able to recover from financial losses due to underinsurance[6]. Additionally, trucks transporting cane to the sugar mills for processing were hijacked, resulting in the closure of the mills[7]. During the unrest, operations were halted at ten mills for extended periods, two warehouses were looted of over 2 500 tonnes of sugar, a further 120 000 tonnes of sugar could not be processed, and more than 50 towns in the sugar belt were left negatively impacted[8].

4.4.3 These significant disruptions and losses to the South African sugar sector should be understood in the context of a loss of an estimated 16 000 jobs in total since the HPL was introduced in 2018[9] and with the industry facing other considerable headwinds.

4.4.4 Considering the ruinous effects of the July unrest on the sugar production sector, the objectives and actions envisaged for phase one of the Master Plan could not be pursued as required to achieve the stabilisation and restructuring necessary for the subsequent phases of the Sugar Master Plan. An increase in the HPL will therefore not further impact the implementation of the Sugar Master Plan but may lead to a total devastation of the sector, leading to sugar imports to the detriment of both the sector and consumers alike.

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[5] Cyril Ramaphosa testifying at the South African Human Rights Commission in April 2022

[6] SA unrest: Aftermath threatens thousands of sugar industry jobs

[7] Vhumbunu, Clayton Hazvinei. "The July 2021 Protests and Socio-Political Unrest in South Africa: Reflecting on the Causes, Consequences and Future Lessons." Conflict Trends 2021, no. 3 (2021): 3-13.

[8] South African Sugar Association, The Impact of the Civil Unrest on the Sugar Industry

[9] National Economic Development and Labour Council, Economic Impact of the Health Promotion Levy on the Sugar Market Industry Impact Assessment Report

4.5 Extreme Floods in Kwa-Zulu Natal in April 2022

4.5.1 In mid-April 2022, the South African government declared a state of disaster in the east of the country, which was hit by severe flooding over for over a week, leading to the loss of more than 440 lives and causing significant physical and economic damage. Most of the destruction was concentrated in the Durban region of the KwaZulu-Natal province. As a direct result of the extreme flooding, the South African sugar industry lost more than R222 million due to heavy rains and floods, which have caused damage to thousands of hectares of cane crops and a further 2,516.65 hectares of cane fields which needed to be replanted.[10] This is in addition to the destruction of farming infrastructure worth more than R27 million. The extreme weather patterns have severely affected access routes to cane mills and farms, with most of the road infrastructure remaining unrepaired as at the writing of this submission. The impact of the devastation caused by the floods has undermined the sugar industry's ability to stabilise and restructure.

4.6 The need for a Socio-Economic Impact Assessment System (SEIAS)

4.6.1 In a country facing massive socio-economic challenges and worsening inequality particularly affecting the most vulnerable due to rising food and fuel prices, it is critical that regulators consider first the impact of legislative reforms on the economy and population by subjecting such reforms and/or amendments to a Socio-Economic Impact Assessment System (SEIAS). The Select Committee will no doubt be aware that in February 2007, Cabinet decided on the need for a consistent assessment of the socio-economic impact of policy initiatives, legislation and regulations. The approval followed a study commissioned by the Presidency and the National Treasury in response to concerns about the failure in some cases to understand the full costs of regulations and especially the impact on the economy[11].

4.6.2 We hereby implore the Select Committee to consider the negative economic and social impact of the proposed HPL increase in the absence of a SEIAS, particularly given the challenges currently experienced by the agricultural sector and sugar value-chain, alluded to above.

5. RECOMMENDATIONS

Given the number of challenges outlined above in particular, the sustainability of the sector and fear of further job losses, it is recommended that the HPL be put in abeyance for a further two-to-three years. This will enable the following:

5.1 the NDoH to conduct the Total Dietary Intake Study that is long overdue;

5.2 the industry to recover from the devastation of among others, the effects:
- the inflationary prices brought about by the war in Ukraine
- COVID-19 closures
- the significant job losses
- the July 2022 unrest, and
- the KZN floods.

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[10] According to a survey conducted by the South African Canegrowers Association

[11] https://www.dpme.gov.za/keyfocusareas/Socio%20Economic%20Impact%20Assessment%20System/Pages/default.aspx

5.3 Government to conduct the necessary research and in particular the SEIAS to realistically come up with future HPL increases and/or amendments.

5.4 National Treasury and related departments namely the Department of Agriculture, Rural Development and Land Reform as well as the Department of Trade, Industry and Competition to constructively consult and engage the sector and together map out a sustainable policy environment.

6. CONCLUSION

The CGCSA has and continues to support legislative and regulatory interventions that benefit our members in particular and support national economic objectives in general. We reiterate however that these interventions should be fair and transparent and consider the inputs of the affected stakeholders.

In this respect, we therefore hope that the Select Committee will consider our submissions and concerns which have been made in order to ensure the sustainability of the industry and prevention further job losses.

We look forward to your favourable response.

Best regards

Zinhle Tyikwe
Chief Operating Officer