International Sugar Organization

1 Canada Square
Canary Wharf
London E14 5AA

EXECUTIVE DIRECTOR

Press Release(16)13
(English only)

25 August 2016

Three articles regarding sugar in South Africa

The Executive Director would like to draw your attention to three recent articles from Sugaronline all concerning the sugar industry in South Africa.

SOUTH AFRICA: Beverages association says sugar tax unfair and regressive

The Beverages Association of South Africa (BevSA) believes that the proposed 20% tax on sugar sweetened beverages (SSBs) could trigger between 62,000 and 72,000 job losses, hurting the South African economy and exacerbating the broader fiscal and societal costs associated with unemployment, according to South Africa's Creamer Media.

Finance Minister Pravin Gordhan first made the proposal during his budget speech in February, suggesting that a tax on SSBs would help South Africans reduce their intake of excessive amounts of sugar in a bid to reduce the country's obesity rate.

However, BevSA director Mapule Ncanywa says that SSBs account for only 3% of the daily calories consumed in South Africa.

Addressing the proposed tax at a media briefing on Tuesday, Ncanywa explained that the tax is levied per gram of sugar, and that smaller players who compete with lower prices and larger pack sizes will be severely impacted.

She added that the SSB tax would represent a higher markup on the beverage industry's relative prices, which could be as high as 80% on 2 units.

Further, this would be done with very little impact on the country's overall calorie intake.

"The average daily energy consumption in South Africa increased by 191 daily calories per capita from 1991 to 2011. As a result, adult obesity rates grew from 22% to 27.7% over this period," she said.

Ncanywa pointed out that the biggest contributors to the rise in energy intake are calorie-rich foods, such as those containing vegetable oils.

Referencing the 2014 McKinsey Global Institute report on obesity, which analysed and ranked the most effective interventions to tackle obesity, she added that sugar reduction reformulation and smaller portion sizes were the two most effective interventions in the UK, whereas sugar taxes did not rank among the top ten interventions.

"In addition, there is no conclusive evidence from other markets that imposing a tax on soft drinks helps people to lose weight," she said.

Ncanywa further argued that the proposed tax would undermine the National Development Plan's commitment to encouraging economic growth, eliminating poverty and increasing employment.

"This tax is unfair and regressive and will hit the poor the hardest, as they spend a higher portion of their income on food as opposed to the wealthy," she noted.

She added that the industry was worried about the impact of the tax on business profitability, as well as direct and indirect jobs, highlighting that it would force 10,000 small businesses to close.

Also speaking at the briefing, BevSA chairperson Velaphi Ratshefola noted that the tax would destroy small players and hurt big players in the industry.

"We don't want to fight government on this, we want to work with the Department of Health, like we have been doing, to tackle the obesity problem in South and find a win-win solution," he said.

Ratshefola further noted that BevSA had plans to reformulate beverages, offer smaller pack sizes, expand consumer access to low- and no-calorie beverages and invest in health education and awareness programmes.

Ncanywa added that BevSA members had already begun reformulation efforts by reducing added sugar in some beverages, which would reduce average daily energy intake by at least 14 to 18 calories (59 to75 kJ) per capita by 2020.

"This is double the estimated 7 to 9 calorie impact the Treasury hopes to achieve through this tax," Ncanywa said.

Meanwhile, in a policy paper released by the association on Tuesday, the industry body stipulated that the proposed tax had the potential to reduce the industry's contribution to South Africa's gross domestic product (GDP) by ZAR14-billion, or the equivalent of 0.4 percentage points, in 2016.

"It is also unlikely to raise the revenues expected by the National Treasury. Government revenues from its existing taxes could fall by at least ZAR3.1-billion (US$1.03 billion) a year, representing more than 40% of the revenue government hopes to raise through the SSB tax," the policy paper said.

It further mentioned that the tax would, through its impact on unemployment, result in increased unemployment insurance fund payments of about ZAR7-million.

Ncanywa added that the SSB tax would create significant uncertainty for the industry and foster a climate in which investments may be unviable.

"This will prevent or reverse further growth and innovation," she argued.

SOUTH AFRICA: Department of Health defends sugar tax

Government has come out in defence of the proposed tax on sweetened beverages from next year, saying that the charge was aimed at reducing a growing non-communicable disease epidemic and oral health problems, according to South Africa's Independent newspaper.

The Department of Health said Tuesday that research had shown that excessive sugar consumption was a serious public health concern worldwide, which had led to a sharp increase in obesity and associated non-communicable diseases such as diabetes, cardiovascular disease, cancer and dental caries.

The department's cluster manager for noncommunicable diseases Professor Melvyn Freeman said the tax was also aimed at fighting the growing obesity problem in the country.

"There is good reason to believe from both local experience with tobacco and alcohol and international experiences with sugar (as well as tobacco and alcohol) that taxes are an excellent mediator of consumer behaviour," Freeman said.
The department's stance comes after the Beverages Association of South Africa (BevSA) Tuesday warned of the dire consequences of the proposed tax, claiming that it would cost the local economy ZAR14 billion, push the country into recession and lead to job losses.

Launching its first official response to the National Treasury's policy paper, BevSA said the proposed tax could have devastating consequences on the economy that could leave between 62,000 to 72,000 people without jobs.

The association said beyond this, the tax could put more pressure on the already over-stretched local consumer.

"The tax would also further increase the burden on consumers with 25% price increases (up to 80% in some cases), and damage the competitiveness of the non-alcoholic beverage industry, the association said.

Last month, the Treasury recommended a levy on sugar sweetened beverages, arguing that the charge was aimed at reducing the consumption of sugar and to encourage producers and suppliers to cut the sugar content in their drinks.

However the proposal has drawn the ire of the beverages industry, with Coca-Cola Beverages South Africa this week warning that it could force it to close some of its plants and reduce its profits by half.

Industry experts on Tuesday described the BevSA job losses numbers as exaggerated.

Efficient Group chief economist Dawie Roodt said whereas the proposed tax would lead to job losses, the numbers would not be as big as BevSA claimed.

"I believe there will be job losses, but not on a large scale as these companies are claiming. I think they are overstating the numbers."

Ettiene Retief, a tax specialist at the South African Institute of Professional Accountants, said there had been no reports of massive job or financial losses from countries where a sugar tax had been implemented.

Retief said the introduction of a one-peso-per-litre tax on soda and other sugary drinks by the Mexican government in 2014 saw a drop of 10% in the purchase of soda and other similarly taxed drinks, balanced by an increase of 13% in purchases of bottled water. He said manufacturers of sugary drinks also had bottled water and sugar free drinks product options.

"Doing nothing has an increased burden and cost with regards health care," Retief said. "Let us not forget that the companies that make drinks with added sugar also make the sugar-free alternative. The beverage industry has known for many years that a sugar tax was likely to be introduced, and the various companies should have planned accordingly."

Coca-Cola Beverages South Africa this week warned that it could be forced to close some of its plants and have its profits reduced by half once a sugar tax is imposed in South Africa.

SOUTH AFRICA: Study says sugar tax could jeopardise 70,000 jobs

The Beverage Association of SA, whose members include almost all manufacturers of nonalcoholic drinks in the country, has warned that up to 70,000 jobs in the industry could be lost if the Treasury's mooted tax on sugar-sweetened drinks were implemented in its current form, according to South Africa's Business Day.

This is the first time the industry has put a number to the potential ramifications for employment since the proposed tax was published for public comment in July.

The findings are based on an independent study conducted by Oxford Economics and commissioned by the association.

The study found the proposed tax would result in 60,000-70,000 workers losing their jobs. About 60% of the jobs lost would be direct, upstream jobs, says the report.

SA would be following in the footsteps of countries such as Mexico, Mauritius and Hungary, which have implemented the tax to tackle rising obesity and diabetes rates.

Experts forecast that the proposed levy could raise up to ZAR4.5 billion in revenue, relieving pressure on the fiscus. However, having already shed about 500,000 jobs in 2016, the country can ill afford to lose any more.

The Treasury's proposal is for a tax of ZAR0.029 per gram of sugar in all sugar-sweetened drinks. This could raise the price of popular soft drinks, such as Coca-Cola, about 20% - making the tax rate one of the highest in the world. In Mexico, which has a similar tax, the rate is about 10%.

On Tuesday, Phil Gutsche, chairman of Coca-Cola Beverages Africa, the largest bottler of Coke products on the continent, called on stakeholders to assist the industry in opposing the proposed tax to save jobs.

Beverage Association of SA executive director Mapule Ncanywa said the organisation had told the Treasury on numerous occasions that taxing a single category of food would not be effective in tackling obesity and diseases, such as diabetes, that resulted from excessive sugar intake. Sugar-sweetened beverages accounted for only about 3% of total daily calorie consumption, she said.

"If sugar is the problem, why not go straight for the source?" asked Ncanywa.

The Food and Allied Workers Union (Fawu) said it supported the government's initiatives to tackle health challenges in the country. But it said it would have a problem with the proposed tax if it resulted in the volume of job losses the industry predicted.

"We cannot add an extra 70,000 workers to our existing army of unemployed," Fawu general secretary Katishi Masemola said.

The deadline for public comments on the policy paper is August 22.

The Treasury has said the tax will come into effect in April 2017.