DURBAN CHAMBER
OF COMMERCE AND INDUSTRY
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The Ultimate Business Network

Comment on Sugar- Sweetened Beverages Taxation

The National Treasury has proposed a tax on sugar sweetened beverages with effect from 1 April 2017 to reduce excessive sugar intake. The Durban Chamber of Commerce and Industry welcomes the opportunity to comment on the proposed Sugar- Sweetened Beverages Taxation. The Chamber would like to make Treasury aware of the following impact the SSB Tax will have on industries.

Beverage Industry Contribution to the Economy

The **Beverage Industry** has punched above its weight in its contribution to the South African economy, with

- **Gross Value Added of R 59.7 billion**,
- **Supports 188.5 thousand jobs** and,
- Contributes to a **total of R 17.9 billion of taxes (indirect and direct)**.

Economic Impact (Harm) on the Beverage Industry

The proposed tax will have significant economic harm;

- It will **reduce the size of the industry by ¼** overnight,
- **Approximately 80%** of the total non- alcoholic ready- to- drink market, plus cordials **will be taxed**.
- It is expected to cause a **24% drop in overall volumes across the industry, including 31% drop in SSB's**.
- The tax would cause a **R 13 billion reduction in industry GVA**
- The tax will impact the entire value chain with **55- 60 thousand being lost across the value chain** (value chain includes, agriculture, hunting, forestry, fishing; mining and quarrying; soft drinks; manufacturing (excl. soft drinks); utilities; construction; wholesale, retail, hotels, catering; transport and communications; financial and business services; public health admin and education; other services)

- Current estimates suggest that **10- 20 thousand planned new jobs will not be created** due to limited capacity for investment and decreased ability for new "spaza" shops to break even with SSB tax in place.
- Revenue raised from the tax would likely be less than half the headline R7.6 billion collection proposed by government due to reductions in income and corporation tax and VAT, and increased unemployment benefits and social grants.

The Beverage Industry is committed to adding value within the South African economy, with plans to invest in 30 thousand new outlets creating 60 thousand new jobs over the next 5 years. If the industry continues to grow their contribution to tax receipts will quickly outweigh expected revenue from SSB tax.

Sugar Industry Contribution to the Economy

The growing milling activities of the Sugar Industry contributes significantly to the South African Economy,

- **The sugar industry creates a total of 85000 direct jobs**.
- **Indirect employment created by the industry is projected at 350 000 jobs** which excludes induced employment.
- It is estimated that at least **1 million people are dependent** on the activities required to supply the market with sugar.

Economic Impact (Harm) on the Sugar Industry

The South African Sugar Industry is estimated by LMC Consultants to operate within tight margins of all sugar-producing countries. This is largely due to escalating costs of production; some of these are beyond the influence of the industry for example sugar imported from Swaziland, the SADC and other sources.

Therefore the taxation of SSB's, is estimated to result in,

- A **price elasticity of -1.299**, implying a 20% increase in SSBs price will **lead to a drop of 26% of sugar in SSBs**. This equates to a **loss of local market sales of 162 000 tons of sugar**, approximately **10%** of **total current sales**.

This would effectively result in a fatal blow for the industry by further decreasing industry margins. Furthermore it would be difficult for farmers particularly those in deep rural areas, communities and mills to continue production.

Negligible Impact on Health

The tax will have a negligible impact on health. The Obesity rate increased from 14% in 1990 to 19.6% in 2011 (40% increase), sugar consumption decreased from 354 calories in 1990 to 300 calories per day in 2011 (15.4% decrease). This indicates an increase in obesity while the sugar consumption decreased indicating a negative correlation. Vegetable oils and poultry, not sugar, seem to be the major driver behind increasing calorie consumption in South Africa, over the period 1990 to 2011; it has increased from 10% to 16%. This indicates that sugar is not the only contributing factor towards obesity. Today, sugar accounts for 10% of total calorie intake and sugar from SSBs accounts for only 3% of calorie intake.

The sugar industry stands for promoting a healthy balanced lifestyle living through various programmes. However, sugar is not the sole contributing factor towards obesity. These health issues are complex and require a collective effort to solve, it is important to understand all factors that contribute to obesity and not just focus on a single ingredient, sugar.

The Chamber's suggestions on the Proposed SSB Tax

The Chamber therefore suggests that it is important not to interfere with the already overbearing tax regime. The Chamber strongly recommends that Treasury,

- **Defer the implementation of the proposed tax** until a full assessment of the causes of obesity and NCD's in the South African context has been undertaken.
- An assessment of any measure required should be fully considered through a **Regulatory Impact Assessment to determine the negative on the affected industries** as well as to ensure the unintended consequences do not outweigh the potential benefits.
- **Reduce the proposed tax rate**, or
- **Broadens the application of the tax with a wider range of participants at a lower rate**.

The use of fiscal interventions to tackle obesity may be short sighted if government just focuses on sugar tax to fight obesity and not ring fence funds for programmes to help alleviate this challenge. The Chamber therefore request that the utilization of the revenue generated from such a tax be clearly outlined. Furthermore, the Chamber suggests that revenue generated should be used to subsidize vegetables, fruits and other healthy food businesses to help tackle this challenge in South Africa together with health awareness programmes.

Such a tax is a concern to businesses and sugar producers especially in these economic times, coupled with a high unemployment rate. It is likely that a 20% rate will make these beverages unaffordable to large segments of the population many of whom purchase these goods from small business i.e. “spaza” shops in local townships. Many small and micro businesses will have to bear the brunt of such a tax as they depend on these goods to generate revenue on a daily basis. Should this be the expectation there is a material risk involved. Furthermore, such a tax has the potential to damage an already weak economy.

The SSB Tax will hurt the beverage sector that is currently growing in South Africa as many will substitute and move towards alternatives. The reduction in demand will inevitably have a reduction in revenue for farmers, forcing them to drive down prices. These industries employ large numbers; as a result this will weaken the economic viability of the sugar industry.

The proposed SSB Tax will create barriers for producers and manufacturers that use sugar as a primary ingredient in their beverages. South Africa needs to promote investment in the manufacturing sector and cannot afford to create a destination that is not conducive for industrialization. In order to create a business- friendly environment that is hospitable encourages businesses and employment within South Africa. The interdependence between the private and public sector is vital. A sound strategy and implementation of such a tax cannot separate one from the other; therefore an implementation of such a tax needs to reflect strong co-operation and collaboration throughout the process of formulation with relevant stakeholders.

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