

Response to taxation of sugar- sweetened beverages policy paper

The Beverage Association
of South Africa

August 2016

Executive summary

We recognise the complex challenge that obesity presents to South Africa, and we are committed to playing our part in addressing the problem. We welcome the Government's ambition to find new economically sustainable ways to address the obesity challenge. Obesity is a multifactorial issue that cannot be resolved with a narrow approach. Imposing a tax on sugar-sweetened beverages (SSBs) will hurt the South African economy in return for small and highly uncertain benefits to both health outcomes and tax revenues. It threatens to undermine the aspirations to secure South Africa's future prosperity as articulated in the National Development Plan (NDP). There is no conclusive evidence from other markets that imposing a tax on soft drinks helps people to lose weight. Moreover, the tax is discriminatory, because it applies to a single product category, when there are many that contain Calories.

We urge the Government to drop its proposed tax on SSBs and to conduct a full socio-economic impact assessment, in consultation with the industry, to inform any plan to tackle obesity.

We call for the opportunity to work with Government to design an effective policy to combat obesity, whilst preserving the livelihoods of South African people in the industry and surrounding communities, and growing tax revenues.

The Non-Alcoholic Beverage (NAB) industry is a key driver of the South African economy at a time when other sectors are declining

The NAB industry contributes R60 billion to South Africa's Gross Value Add¹ (hereafter referred to as contribution to GDP), supports approximately 294,000 jobs (including many small-scale farmers, small business owners, entrepreneurs, women and black South Africans), and contributes R18 billion in direct, indirect, and induced taxes. Direct employment by the NAB industry has increased by up to 5% per year since 2003,² significantly outperforming the overall South African labour market, which grew by only 2% per year over this period. Many other industries, such as mining and quarrying, have declined since 2003.

SSBs are not driving obesity in South Africa

Obesity is caused primarily by Calories consumed exceeding Calories burned.³ Sugar's role in obesity is primarily linked to its contribution to Calories consumed. Yet SSBs account for just 3% of daily Calorie intake in South Africa. Average daily energy consumption in South Africa has

increased by 799 kilojoules (kJ) per capita (191 Calories) from 1991 to 2011. As a result, adult obesity rates have grown from 22.0% to 27.7% over this period. However, during this same time period, consumption of added sugars has declined in both absolute terms (by 192 kJ or 46 Calories per capita per day), and relative terms (from 12% to 10% of total Calories). The largest contributors to the rise in energy intake are Calorie rich foods such as vegetable oils (up 440 kJ or 105 Calories per day), and cereals (up 213 kJ or 51 Calories per day).⁴

At best, the SSB tax will have a negligible effect on obesity

Research cited by the Treasury in its policy paper finds that, in the central case, the proposed SSB tax will lower average energy consumption by only 36 kJ (8.6 Calories) per day (0.3%). Under this scenario, obesity rates would fall from 13.5% to 13.0% for men and from 42.0% to 41.2% for women. However, the wide confidence margin in this research means the reduction could be as little as 9 kJ (2 Calories) per day.

1 Defined as GDP + subsidies – taxes on products

2 PwC report commissioned by the Coca-Cola System in 2012. Based on growth estimated from 2003 from "The economic impact of the Coca-Cola System in South Africa", Moore School of Business, University of South Carolina, March 2005, assuming Coca-Cola was 90% of the market in 2003

3 Gortmaker et al. Changing the future of obesity: science, policy and action. The Lancet volume 378. August 2011

4 Food and Agriculture Organization of the United Nations

Tax is the wrong mechanism to reduce obesity

There is a range of different policy interventions that governments can use to tackle obesity. SSB taxes have been found to be among the least effective of these. The McKinsey Global Institute's report on obesity⁵ analysed and ranked the most effective interventions to tackle obesity. The report cites sugar reduction reformulation and providing smaller portion size as the two most effective interventions in the UK, whereas taxes are not among the top ten. In addition, there is no conclusive evidence from other markets that imposing a tax on soft drinks helps people to lose weight. The proposed tax is not the most effective way to achieve the NDP's aim to promote health and wellbeing.

The proposed SSB tax will cause significant economic harm and disproportionately hurt lower income families

The proposed SSB tax could trigger tens of thousands of job losses, hurt the South African economy, exacerbate the broader fiscal and societal costs associated with unemployment, harm consumers with punitive price increases, and damage the competitiveness of the NAB industry. The proposed tax will undermine the NDP's commitment to encouraging economic growth, eliminating poverty, and increasing employment. Such a punitive tax will inevitably dissuade international investors from committing to the South African economy and increase the risk of a credit downgrade.

For **consumers**, the proposed SSB tax equates to a 25% weighted average price increase for SSBs, which is almost unprecedented by international standards. For **industry**, the price increase could cause SSB volumes to decline more than 33% (based on the Treasury policy paper's own

elasticity estimates), leading to a 23% drop in revenues - equivalent to R13 billion. For **workers**, this decline in volumes could result in 62,000-72,000 job losses,⁶ many of which will be in small-scale farms and spazas. For the **Government**, the SSB tax could reduce existing personal income tax, corporate income tax, and VAT revenues by R3.1 billion per annum (which will significantly offset any revenues generated by the SSB tax). Putting it into perspective, the SSB tax could reduce South Africa's GDP by R14 billion – this is equivalent to 0.4 percentage points of GDP growth in 2016. All of this will disproportionately hurt lower income families and cause significant economic harm.

We are ready to work with the Government on more effective ways to combat obesity and generate tax revenues

We are committed to working with the Government to tackle our country's obesity problem. BevSA members have committed to achieving at least double the impact of the proposed SSB tax through energy reductions of 59-75 kJ (14-18 Calories) per capita per day by 2020.

We are also strongly committed to the South African economy, with significant growth investments planned. The punitive SSB tax will create significant uncertainty for the industry, and will prevent or dampen prospects of further growth and investment.

We call for the opportunity to work with Government to design a more effective policy to combat obesity whilst preserving the livelihoods of South African people in the industry and surrounding communities. We urge the Government to drop its proposed tax on SSBs.

⁵ Overcoming obesity: An initial economic analysis. McKinsey Global Institute. November 2014.

⁶ Oxford Economics analysis. Oxford Economics is a leading economics consultancy, founded in 1981 as a commercial venture with Oxford University's business colleges. Their client base comprises over 1,000 international organisations, including governments, think-tanks and multinational companies. They have conducted similar research on the economic impact of sugar taxes in other markets, including the UK.

section I

Our industry makes a major and growing contribution to the South African economy

Since the repeal of the excise tax on soft drinks in 2002, the NAB⁷ industry has been a key driver of the South African economy. Our thriving industry supports direct job growth of up to 5% (vs. 2% for the economy as a whole) and features vibrant competition between producers of many sizes.

The NAB industry makes a contribution of R60 billion to South Africa's GDP (1.6% of the total in 2015). Our direct contribution has increased by 4.5% per year in real terms since 2003,⁸ significantly outperforming overall GDP which grew by 3% per year in real terms over this period. The NAB industry supports approximately 294,000 jobs in South Africa (more than 1.7% of total employment).⁹ This comprises:

- Direct employment of 14,500
- Indirect employment related to the supply chain, (e.g. agriculture) of 108,000, including approximately 10,800 small farmers
- Indirect employment related to distribution (e.g. retail outlets) of 80,000-130,000
- Induced employment, generated by the earning power of direct and indirect employees, of 66,500.

Direct employment by the NAB industry has increased by up to 5% per year since 2003,¹⁰ significantly outperforming the overall South African labour market which grew by 2% per year over this period. Other industries, such as mining, have declined since 2003. Our industry's procurement of goods and services has focused overwhelmingly on domestic suppliers, especially for sugar, and makes a significant contribution to small-scale farmers, small business owners, entrepreneurs, women, and black South Africans. The industry supports a thriving economy of retail outlets, which boasts around 360,000-455,000 jobs in informal outlets (e.g. spazas), and 260,000 jobs in formal outlets (e.g. supermarkets). The NAB industry is also a significant contributor to Government revenues, generating R18 billion in direct, indirect, and induced taxes in 2015 – 1.7% of all tax collections.

⁷ The NAB industry includes cordials, SSBs (regular sugar-sweetened carbonated soft drinks, and other SSBs such as ready-to-drink tea, <100% juice, energy and sports drinks), and non-SSBs (water, 100% juice, and diet drinks)

⁸ Based on growth estimated from 2003 from "The economic impact of the Coca-Cola System in South Africa", Moore School of Business, University of South Carolina, March 2005, assuming Coca-Cola was 90% of the market in 2003

⁹ Oxford Economics analysis

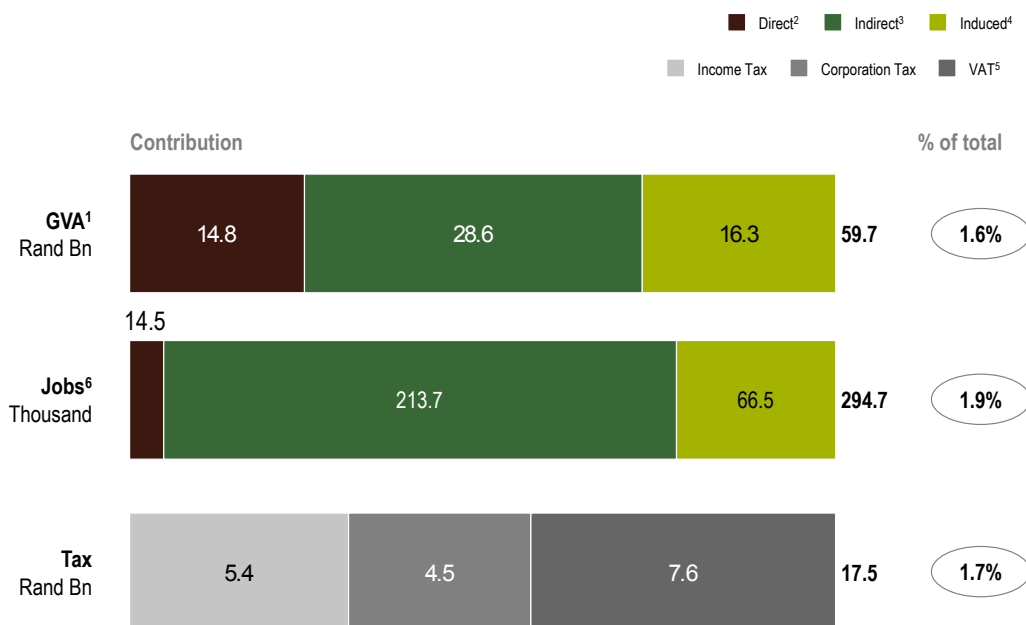
¹⁰ Based on growth estimated from 2003 from "The economic impact of the Coca-Cola System in South Africa", Moore School of Business, University of South Carolina, March 2005, assuming Coca-Cola was 90% of the market in 2003

Thriving competition in soft drinks

Competition in the NAB industry has thrived since the repeal of the excise tax on soft drinks in 2002. Many new players have entered the market, creating a vibrant and competitive industry. Small players are challenging market leaders by launching new flavours as well as competing on price. This has been a key contributor to creating new jobs in the industry.

The NAB industry is seeing the rise of new beverage companies owned by young African industrialists, such as MoFaya, owned by South African entrepreneur and radio DJ, Sbusiso Leope (aka DJ Sbu). Local soft drink producers have also expanded their product lines. Recent product launches include energy drinks Refreshhh! and Reboost, from Little Green Beverages and Shorelines respectively, and Coco V coconut water from Woosh Beverages. Local iced tea manufacturer Bos has grown to be a market leader in South Africa since its launch in 2010, and released two new products in 2014: Bos Sports and Bos Plus. We are proud that our industry encourages competition and new talent to enter the market.

Figure 1: NAB industry contribution to the South African economy



1. GVA (Gross Value Added) is related to GDP as follows: GVA + taxes on products – subsidies on products = GDP

2. The economic activity supported by the soft drink industry itself

3. The economic benefit and employment supported in the industry's supply chain as a result of the procurement of goods and services

4. The wider economic benefits that arise when employees of the soft drink industry and its supply chain spend their earnings, for example in local retail establishments and business services

5. VAT receipts on NAB plus cordial products sold to end consumers

6. Indirect jobs contribution ranges from 83-130k, including 70-100k jobs in informal retail stores (GVA and Tax exclude the indirect retail stores contribution)

SOURCE: Oxford Economics

section II

Tax is the wrong mechanism to reduce obesity

We recognise the complex challenge of obesity in South Africa and welcome the Government's ambition to address this important issue. Obesity is caused primarily by Calories consumed exceeding Calories burned. SSBs account for just 3% of daily Calorie intake in South Africa. While average daily energy consumption in South Africa has increased since 1991, consumption of added sugars has declined in both absolute terms and relative terms over this period.¹¹ There is no conclusive evidence from other markets that imposing a tax on soft drinks helps people to lose weight. We are fully committed to actions that have been proven effective in reducing obesity, such as sugar reduction reformulation and providing smaller portions.

SSBs are not the main cause of South Africa's obesity problems

Comprehensive global evidence states that obesity is caused primarily by an imbalance in the number Calories consumed versus expended. This imbalance does not have a single cause, but is related to all Calorie-containing dietary inputs (fats, sugars, refined grains, etc.) and lifestyle factors. In South Africa, average daily energy consumption has increased by 0.3% per year from 11,782 kJ (2,816 Calories) in 1991, to 12,581 kJ (3,007 Calories) in 2011.¹² Unsurprisingly, adult obesity rates have increased from 22.0% to 27.7% over this period. However, consumption of added sugars has declined over the same period – both in absolute terms (by 192 kJ or 46 Calories per capita per day), and relative terms (from 12% to 10% of total Calories). The largest contributors to the rise in energy intake have been other Calorie-rich foods such as vegetable oils (up 440 kJ or 105 Calories per day), and cereals (up 213 kJ or 51 Calories per day) (see figure 2). While average daily intake in South Africa is too high overall, the 10% of Calories accounted for by sugars is broadly in line with WHO guidance that “the intake of free sugars should be reduced to less than 10% of total energy intake.”¹³ When considering sugar from SSBs specifically, South Africa lags behind other markets – sugar from SSBs accounts for only 3% of South Africans' total Calorie intake, compared to 7% of total Calorie consumption from carbonated soft drinks in the USA, and 4-5% in Mexico. We have concerns around

how the tax was conceptualised, as the focus on SSBs excludes fruit juices and many other ingredients (e.g. carbohydrates, processed meats) which are Calorie-dense.

The anti-sugar lobby provides several justifications for their claim that SSB consumption leads to weight gain which cannot be explained by Calories alone. These include lower satiety power and the potential for sugar addiction. However, the evidence is currently inconclusive:

- **Satiety power:** A recent review of the epidemiological and clinical trial evidence evaluating added sugars, especially SSBs, and the risk of obesity (Malik & Hu, 2015), concluded that there is limited evidence that consumers do not reduce their Calorie intake from other sources to offset Calories consumed in liquid form
- **Sugar addiction:** A 2016 review of the evidence on sugar addiction (Westwater et al., 2016) concluded that there is little evidence to support a neurochemical effect from sugar.

Two large prospective cohort studies – Mozaffarian et al, 2011, and Dong et al, 2015 – show that other food categories such as potato chips and breaded poultry have a stronger association with weight gain than SSBs.

We are also aware of advanced progress in conducting an independent Total Dietary Study (TDS) to determine the source of all energy intake (kJ) in the South African diet. Proposed regulatory interventions that do not take into account the outcomes of the TDS would be premature.

¹¹ Food and Agriculture Organization of the United Nations

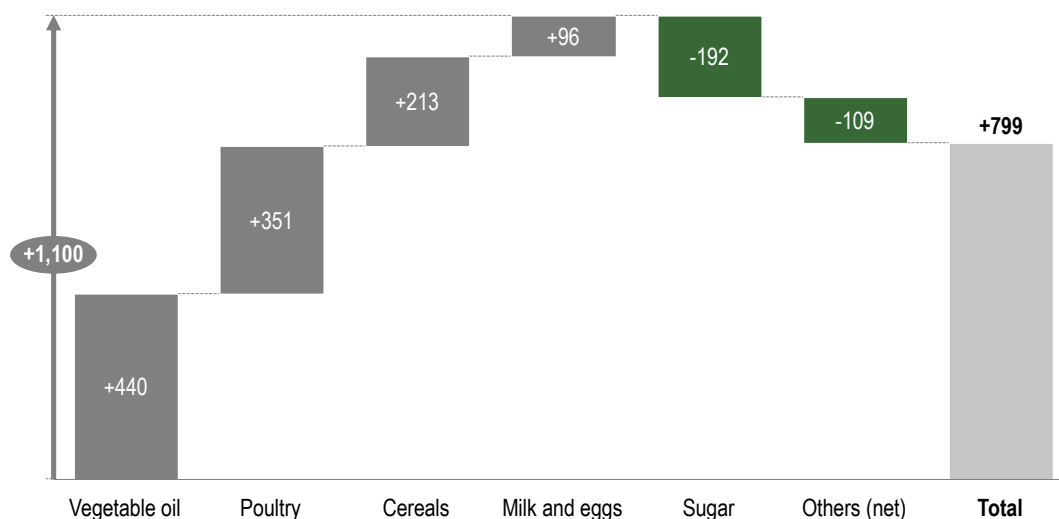
¹² Food and Agriculture Organization of the United Nations

¹³ Healthy diet: Fact sheet No.394. World Health Organization. September 2015. The WHO defines free sugars as “all sugars added to foods or drinks by the manufacturer, cook or consumer, as well as sugars naturally present in honey, syrups, fruit juices and fruit juice concentrates.”

Figure 2: Energy consumed in South Africa by food category over time

Drivers of energy consumption change in South Africa, 1991-2011

Change in daily kJ consumed



SOURCE: Food and Agriculture Organization – United Nations
Note numbers may not sum due to rounding

At best, the SSB tax will have a negligible effect on obesity

Research cited by the Treasury in its policy paper finds that, in the central case, the proposed SSB tax will lower average energy consumption by only 36 kJ (8.6 Calories) per day (0.3%),¹⁴ equivalent to a stick of celery. Under this scenario, obesity rates would fall by 3.8% for men (0.5 percentage points), and 2.4% for women (0.8 percentage points). These would make very modest improvements to current obesity rates – from 13.5% to 13.0% for men, and from 42.0% to 41.2% for women. However, the high degree of uncertainty around this number means the reduction could be as little as 9 kJ (2 Calories).

SSB taxes are ineffective in reducing obesity

There is a range of different policy interventions that governments can use to tackle obesity. SSB taxes have been found to be among the least effective among these. The McKinsey Global Institute's report on obesity¹⁵ specifically highlighted industry measures such as portion control and sugar reduction reformulation as the most effective means to tackling obesity in the UK (see figure 3).

A sugar tax is also highly inefficient in terms of reducing obesity. The report found that a 10% sugar tax had a cost of \$1,800 (R24,000) per disability-adjusted life year (DALY) saved. This compares to a cost of just \$200 (R2,700) for public health campaigns or price promotions on low-sugar alternatives. Moreover, the report found that no single solution creates sufficient impact to reverse obesity: only a comprehensive, systemic programme of multiple interventions is likely to be effective.

One such example of a systemic set of interventions to address obesity is EPODE (Ensemble, Prévenons l'Obésité des Enfants – 'Together, let's prevent childhood obesity'). The EPODE International Network (EIN), is an internationally recognised NGO with a proven track record of childhood obesity prevention through local community projects. EPODE recently launched an innovative project to help tackle obesity in children aged 0-12 years in Europe. Its program is focused at the community level and has been shown to decrease childhood obesity rates. EPODE achieves a positive behaviour change by coordinating political commitment, public and private partnerships,

¹⁴ Hofman et al. The Potential Impact of a 20% Tax on Sugar-Sweetened Beverages on Obesity in South African Adults: A Mathematical Model. PLOS One volume 19. August 2014

¹⁵ Overcoming obesity: An initial economic analysis. McKinsey Global Institute. November 2014.

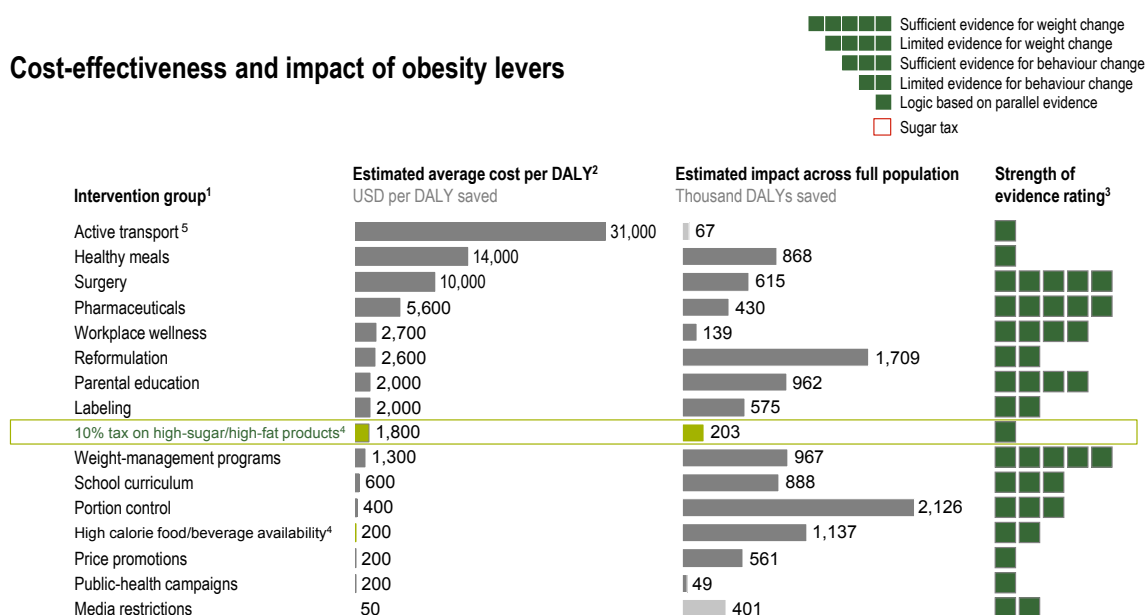
community-based actions, and evaluation measures. The EPODE methodology has proved highly successful, and is now being used in more than 300 towns in 29 countries.

An example of successful sugar reduction reformulation, portion control and availability shifts is an initiative carried out by the American Beverage Association and the Alliance for a Healthier Generation. This initiative made a concentrated effort in American schools to replace full Calorie beverages with low Calorie alternatives in age-appropriate pack sizes. By 2009, this had led to a 90% decrease in beverage Calories delivered to American schools compared to 2005.¹⁶

Experience in other markets has substantiated the ineffectiveness of SSB taxes. Hungary, France and Finland currently impose taxes on SSBs, but obesity has continued to rise in these countries.¹⁷ A report evaluating the impact of food taxes in Europe notes that there is no clear evidence that the observed reduction in SSB consumption has led to public health benefits.¹⁸ Given that SSBs contribute only a small share of overall Calorie intake, a tax on SSBs alone will not have a meaningful impact on obesity. Even in Mexico, the SSB tax only reduced daily consumption of soft drinks by 17 kJ (4 Calories) per day¹⁹ – less than 0.2% of daily energy intake. The primary outcome of the Mexican SSB tax has been to

Figure 3: Prevalence of obesity and overweight by income group

Cost-effectiveness and impact of obesity levers



¹ Includes only non-overlapping levers in each category. Where two levers overlapped, such as plain and engaging labeling or gastric banding and bariatric surgery, the higher-impact lever was chosen

² Impact and cost over lifetime of 2014 population; uses UK-specific cost-effectiveness calculated using GDP and World Health Organization methodology

³ Based on the evidence rating system of the Oxford Centre for Evidence-Based Medicine

⁴ All intervention impact modeling was subject to scalable assumptions on potential reach. Tax levers are also subject to scalability of levy incurred. In this case, MGI modeled a 10 percent tax on a set of high-sugar and high-fat food categories, based on empirical precedents and size of levy often studied. It is scalable, and impact would increase close to directly with increase in levy

⁵ Impact assessed here is only from reduced body mass index (BMI), not full health benefits of some interventions (e.g., cardiovascular health, mental health). For example, active transport health benefits are higher when all of these benefits are taken into account

NOTE: We do not include health-care payers because this is a less relevant intervention in the United Kingdom context. There are insufficient data to quantify urban-environment interventions

SOURCE: Literature review; expert interviews; McKinsey Global Institute analysis

16 Wescott RF et al. Industry Self-Regulation to Improve Student Health: Quantifying Changes in Beverage Shipments to Schools. American Journal of Public Health volume 102. October 2012

17 Organization for Economic Co-operation and Development (OECD) Statistics Database. Accessed August 2016.

18 Food taxes and their impact on competitiveness in the agri-food sector. European Competitiveness and Sustainable Industrial Policy Consortium. July 2014.

19 Colchero et al. Beverage purchases from stores in Mexico under the excise tax on sugar sweetened beverages: observational study. British Medical Journal volume 352. January 2016

20 Hanks et al. From Coke to Coors: A Field Study of a Fat Tax and Its Unintended Consequences May 2012

21 Fletcher et al. The effects of soft drink taxes on child and adolescent consumption and weight outcomes. Journal of Public Economics volume 94. September 2010.

22 Fletcher et al. Non-linear effects of soda taxes on consumption and weight outcomes. Health Economics volume 24. May 2015.

make consumers, and in particular lower socio-economic groups, poorer not thinner. This is because SSBs account for only a small share of excess Calorie consumption.

Moreover, consumers typically substitute SSBs with other Calorie-dense products, such as alcohol.²⁰ Others may simply buy cheaper brands of the same product. Most research on SSB cross-price elasticity does not consider all circumstances in which SSBs are consumed (e.g., restaurants or socialising), where alcohol may be a substitute. At least one study purported to show an increase in household beer purchases associated with an SSB tax. Several studies of observed market outcomes from SSB taxes in the US have found no impact on obesity rates. These studies conclude that “any reduction in soft drink consumption has been offset by the consumption of other Calories.”²¹ The findings “cast serious doubt on the assumptions that proponents of large soda taxes make on its likely impacts on population weight.”²²

Non-tax initiatives from industry and Government partners are more successful in reducing Calories

Industry-led measures and self-regulation have successfully delivered significant health benefits. Through the Healthy Food Options forum, the NAB industry in South Africa has committed to a number of initiatives to improve health outcomes for consumers:

- Increase the range of product options that help consumers to reduce Calorie intake
- Increase the availability of smaller pack sizes
- Improve labelling to inform consumers about the energy content of beverages (led by the Department of Health)
- Avoid marketing SSBs to children (marketing code currently submitted to the Advertising Standards Authority of South Africa for enforcement)
- Conduct a total dietary study (TDS), which will provide the first ever comprehensive analysis of Calorie consumption in South Africa.

Case study: Salt reduction through consultation

A collaborative effort between industry and Government is set to significantly reduce the salt content in food in South Africa. High salt intake is a major cause of hypertension, one of the leading contributors to morbidity and mortality in South Africa. At 8-9g per capita, average daily salt intake is well above the 4-5g recommended by the WHO. In developing its policy response to this challenge, the South African Government engaged with industry and established a working committee which helped to gain industry acceptance for revisions to an initial proposal. The Government also gave producers three years to reformulate products before the regulation came into force, and a further three years to meet more ambitious ‘phase 2’ reductions. Major processed food suppliers are on track to comply with implementation. This successful outcome has been achieved without imposing punitive taxes, with minimal additional costs and without devastating job losses.

Although it is too early to measure the effectiveness of the regulation, evidence from other countries suggests that voluntary and legislative limits on added salt have been successful. Governments in 38 countries have worked with industry to implement initiatives to reduce salt consumption. Evidence from these countries suggests that industry involvement in policy development is one of the key components to successfully reduce salt consumption. For example, the UK’s voluntary strategy to reduce added salt in processed foods resulted in a 15% reduction in salt consumption between 2002 and 2011.

section III

The proposed SSB tax will cause significant economic harm

The proposed tax on SSBs threatens to undermine the positive impact the NAB industry has had on the economy and on communities. The tax could trigger tens of thousands of job losses and damage the South African economy. It could exacerbate the broader fiscal and societal costs associated with unemployment, harm consumers by pushing up prices, and damage the competitiveness of the NAB industry by driving out smaller players. All of this will disproportionately affect lower income families and reduce the expected fiscal revenues that the tax is intended to generate.

In 2002, the present Government repealed the existing excise tax on soft drinks in the interest of fairness, of promoting investment, encouraging innovation, and ultimately of promoting economic growth.

Punish consumers and reduce the size of the industry by one third

The proposed SSB tax of 2.29 cents per gram of sugar equates to a weighted average price increase for SSBs of around 25%, after considering the impact on VAT and margin requirements of retailers. This is almost unprecedented by international standards (see figure 4). Moreover, the tax will come on top of 60% increases in sugar prices since 2013, which have been reflected in higher retail prices for all products using added sugars.

Unlike with alcohol or cigarettes,²³ consumers are highly sensitive to price changes for SSBs and have multiple substitution options for soft drinks. Based on the demand elasticities cited in the Treasury's policy paper,²⁴ the sharp increase in SSB prices could cause SSB volumes to decline by 33%. This could lead to a 23% drop in revenues, equivalent to R13 billion.

Moreover, the negative consequences of the proposed SSB tax could be even more severe than this analysis suggests. Given the magnitude of the price increases triggered by the tax and the inherent limitations of price elasticity assumptions,²⁵ it is entirely possible that such large increases would cause a 'tipping point' where consumers exit the category on a large scale and opt for substitutes with more Calories, or categories without safe consumption levels.

Economic impact methodology

BevSA has commissioned an independent study from Oxford Economics to assess the impact of an SSB tax in South Africa. Oxford Economics calculates a weighted average price increase for SSBs of 25.1%. This figure is based on volume and sales data provided by Nielsen, as well as sugar content data provided by the industry. It includes retailer margins.

Using a price elasticity of -1.3, as quoted in the Treasury's policy paper, this would result in a 32.6% drop in volumes for SSBs. The resulting direct, indirect, and induced impact on GDP, jobs, and tax revenues has been modelled using baseline figures and economic multipliers derived from input-output tables produced by Statistics South Africa.

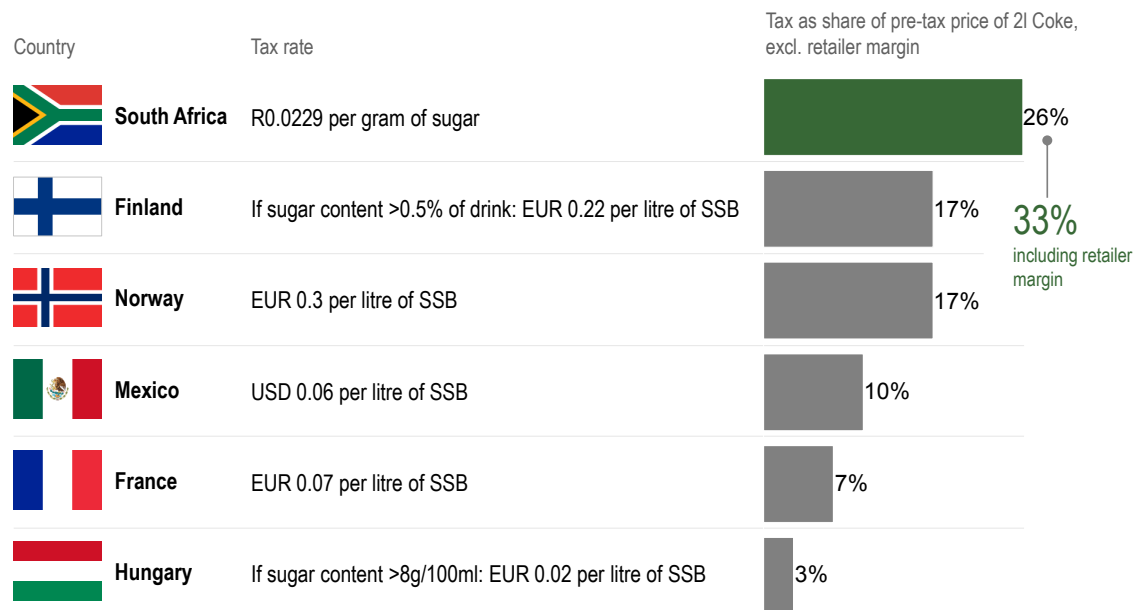
The price and volume impacts on individual products and packs will, in some cases, be significantly higher than 25.1% (see figure 7).

²³ Alcohol has a price elasticity of -0.8 to -0.5, and tobacco has a price elasticity of -0.6 to -0.3 (Green. R et al., The effect of rising food prices on food consumption: systematic review with meta-regression, British Medical Journal, volume 346, June 2013).

²⁴ Hofman et al. The Potential Impact of a 20% Tax on Sugar-Sweetened Beverages on Obesity in South African Adults: A Mathematical Model. PLOS One volume 19. August 2014.

²⁵ Price elasticity assumptions are only valid in the context of small changes to consumer prices and may not be valid for large changes, such as the envisioned 25% increase for SSBs.

Figure 4: SSB taxes proposed and implemented in international markets



SOURCE: CCBA; Expatistan.com; Press search

Reduce GDP by R14 billion

Using the least severe set of assumptions, the effects described above could reduce South Africa's GDP by R14 billion (R3.5 billion direct, R6.7 billion indirect, and R3.8 billion induced GDP contribution). This is equivalent to 0.4 percentage points of GDP growth in 2016. Such a punitive tax will inevitably dissuade international investors from committing to the South African economy and increase the risk of a credit downgrade.

Trigger the loss of 62,000-72,000 jobs

The report from Oxford Economics (see Economic impact methodology sidebar) estimates that the proposed SSB tax could result in the loss of 62,000-72,000 existing jobs (3,400 direct, 25,200 upstream, and 15,400 induced job losses; combined with 19,000-29,000 downstream job losses). The industry estimates that this will prevent the creation of 18,000-28,000 planned new jobs over the next three years. The tax could force the closure of 8,000-13,000 small retail outlets and spaza shops. Small-scale farmers, small business owners, entrepreneurs, women, and black South Africans will suffer disproportionately from the negative impact of

the tax. The proposed tax will hurt the aspiration, laid out in the NDP, to foster an inclusive and integrated rural economy by supporting new job creation and rising agricultural production.

The spaza-shop economy has no defence against the consequences of this tax, and these small outlets account for the vast majority of the vulnerable stores. SSBs account for 30% of spaza store profits (17% of revenue) and are pivotal to smaller outlet viability. Following the implementation of an SSB tax in Mexico, The Alianza Nacional de Pequeños Comerciantes found that "over 30,000 tienditas have closed across the country, in part because of the fiscal reform's tax on beverages."²⁶ Research indicates that unemployment correlates with higher all-cause mortality (the mean Hazard Ratio for mortality is 1.63 for unemployed vs employed people).²⁷ Standard approaches put the social cost of the increase in mortality, due to the job losses caused by the SSB tax, at more than R1 billion. This is in addition to the other social effects of unemployment, such as increased violent crime. It does not include a direct impact to the fiscus of R500-700 million in Unemployment Insurance Fund payments.

²⁶ Alianza Nacional de Pequeños Comerciantes, Economic policies led to the closure of "neighborhood stores" and place small shopkeepers in survival mode, March 2015

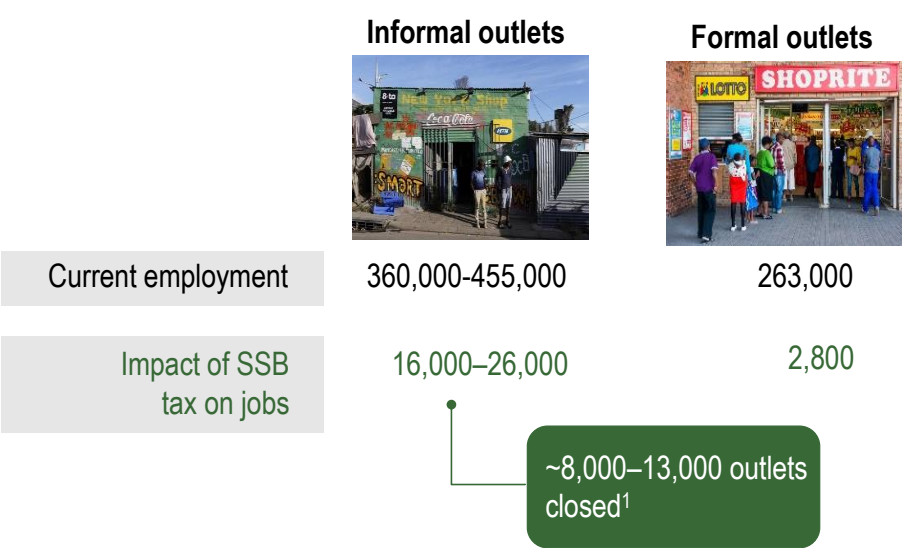
²⁷ Roelfs DJ et al. Losing Life and Livelihood: A Systematic Review and Meta-Analysis of Unemployment and All-Cause Mortality. Social Science and Medicine volume 72. March 2011.

SSB taxes in other markets – lost growth and illegal trade

Even in markets where volumes have eventually recovered to pre-tax levels, as in Mexico (the market with the highest per capita consumption of SSBs), the tax has imposed significant ongoing opportunity costs in the form of lost growth which will take years to recover, if at all. In Mexico, following the introduction of the SSB tax, some consumers switched to making drinks at home, removing jobs and tax receipts. This behaviour occurred even though the price increases from the tax in Mexico were smaller than those that will occur in South Africa.

In South Africa, many illicit alcohol producers have the infrastructure to produce SSBs and may find it economically attractive to do so following price rises of 25% for SSBs in legal retail channels. Some smaller commercial producers could also attempt to avoid taxes by under-declaring volumes.

Figure 5: Impact of SSB tax on job losses
Impact on existing retail jobs



1 Industry analysis based on 2 jobs per spaza
SOURCE: Job numbers from Oxford Economics. Note, informal outlets includes spaza and wider L&T trade

28 Excludes indirect and induced VAT, which would raise the number even higher
29 SA National Income Dynamics Survey Wave 4 – 2014-15

Reduce existing tax revenues by over R3.1 billion

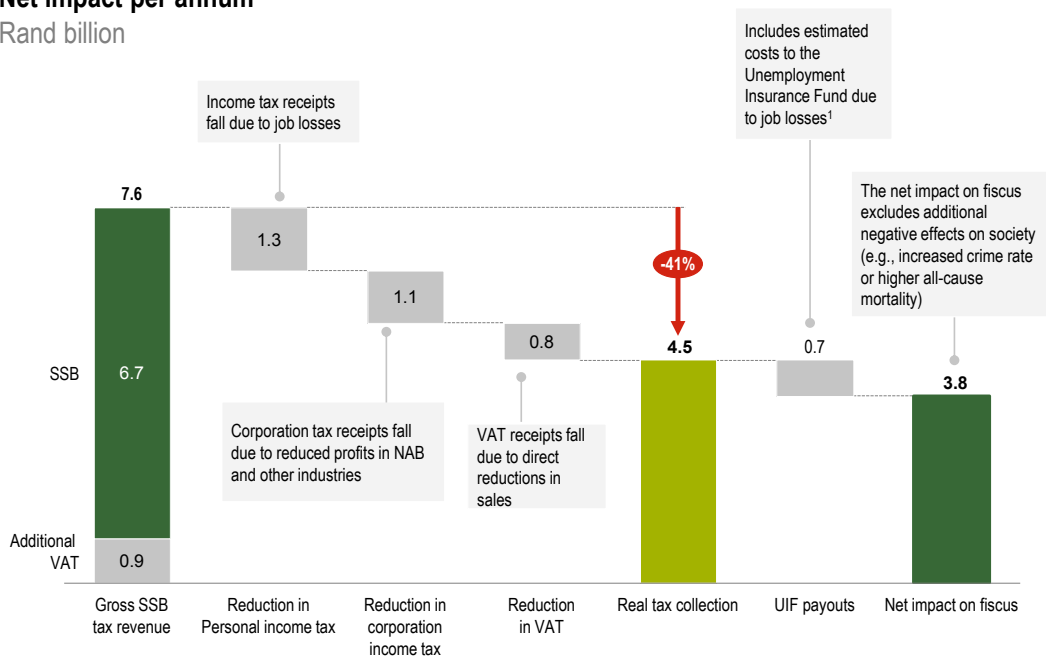
The report by Oxford Economics estimates that job losses and lower industry profits could reduce Government revenues from its existing taxes by at least R3.1 billion per annum. The Government could see personal income taxes fall by R1.3 billion, corporate income taxes fall by R1.1 billion, and VAT reduced by R0.8 billion²⁸. In addition, the tax would,

through its impact on unemployment, result in increased UIF payments of approximately R0.7 billion, as well as additional (unquantified) costs to the fiscus from secondary socio-economic effects of unemployment. As a result, the net impact on the fiscus from the SSB tax could be 50% lower than expectations. In our view this is certainly insufficient to justify the economic damage that the tax would cause (see figure 6).

Figure 6: Net fiscal impact of the SSB tax

Net impact per annum

Rand billion



¹ For direct employees, we assumed 100% of laid off workforce will claim UIF; For indirect employees we assumed 80% will claim UIF, the rest not being covered; For induced workforce we took into account that 13.6% of workforce is self-employed and 80% of employed would claim UIF. Assumes 100% of direct, 80% of indirect and induced employees in the beverage industry would claim UIF for the 8 month period after losing their job

SOURCE: Oxford Economics; COBA; World Bank; Statistics of South Africa, Monthly Earning of South Africans, 2010

Create a less competitive and less inclusive industry

We expect the tax to have a negative impact on competition, forcing smaller producers of SSBs to exit the market, thereby reducing industry competition. Many smaller players compete with lower prices and larger pack sizes. As a result, the SSB tax would represent a higher mark-up on their relative prices. Price increases on some drinks could be as high as 80% (e.g., 2 litre bottles of Twizza Cola) (see figure 7). Moreover, consumers are likely to be more sensitive to price increases on small producers'

drinks due to lower brand recognition. As a result, the elasticity for these players is likely to be significantly higher than the -1.3 industry average. The NAB industry has high fixed costs and small-scale producers will not be able to withstand a sudden collapse in revenue, particularly as smaller players also have a limited ability to manage such shocks across a narrower band and small package portfolio. The fact that the tax is levied at factory gates will amplify the cash flow challenges for small producers, given the payment terms typically imposed by retailers.

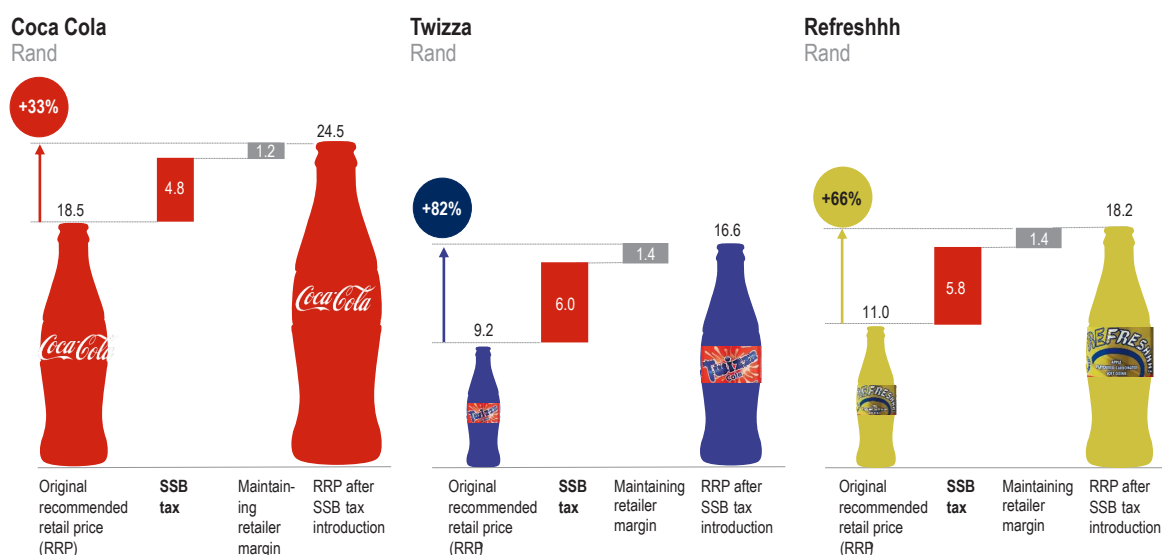
²⁸ Excludes indirect and induced VAT, which would raise the number even higher

Price increase

The proposed SSB tax could increase the recommended retail price of a 2 litre bottle of Coca-Cola by 33%. This equates to a direct price impact of R4.80 per bottle. In addition, supermarkets and discount stores will add a further R1.20 to maintain their profit margin. The price of

a 2 litre bottle of Twizza and Refreshhh could rise by as much as 82% and 66% respectively.²⁹ For cordials the effect will be markedly greater: an average price increase in the order of 40% across the industry, and significantly more for some individual packs and brands.

Figure 7: Price increase for selected SSBs



Disproportionately hurt lower income families

The tax is regressive, disproportionately hitting low-income and vulnerable groups. Soft drinks make up a higher proportion of spend for these groups, as the Treasury's policy paper recognises: households in the lowest income deciles spend 1.5% of their household budget on non-alcoholic beverages, compared to less than 0.5% for the top income decile. The price increases resulting from the tax will further stretch already tight budgets. The Treasury's policy paper justifies the tax on the basis that lower income groups have higher rates of obesity and that "regressivity

is minimised when the low-income group purchases less of the unhealthy item, thereby potentially improving health outcomes." However, an analysis of the National Income Dynamics Survey Wave 4³⁰ indicates that the prevalence of obesity is in fact lower among poorer individuals (see figure 8). The tax would therefore hit hardest those with the least to gain. This underlines the importance of the Government conducting a full socio-economic impact assessment of this policy, in consultation with the industry, to understand impact of the tax on different demographics in South Africa. Tax is, at best, a blunt health instrument.

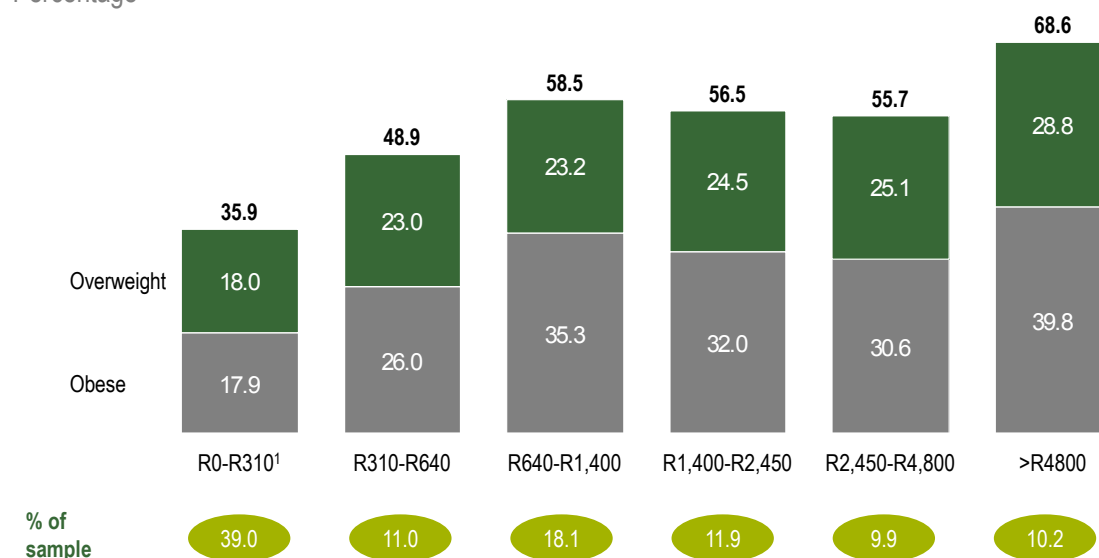
²⁹ Price increases have been calculated on the basis of the punitive rate at 50g sugar/330ml due to current labelling practices.

³⁰ SA National Income Dynamics Survey Wave 4 – 2014-15

Figure 8: Prevalence of obesity and overweight by monthly income

Prevalence of Obesity & Overweight by income group in 2014/2015

Percentage



¹ 97% of this group reports R0.00 income

SOURCE: SA National Income Dynamics Survey Wave 4 – 2014/15

section IV

There are more effective ways to combat obesity and generate positive economic outcomes

We are committed to working with the Government to tackle the obesity problem in South Africa. We have specific plans underway to reformulate drinks and invest in health programmes, measures that we know to be effective in addressing obesity based on rigorous independent research.

BevSA members have committed to reduce average daily energy intake by at least 59-75 kJ (14-18 Calories) per capita by 2020, which equates to a reduction of approximately 15%.³¹ This includes the launch of a number of low sugar or no Calorie products, as well as sugar reduction reformulations. BevSA will also create a health education fund and partner with the Government to find further ways to tackle obesity. On a like-for-like volume basis, these initiatives will have doubled the Calorie reduction forecast for the proposed SSB tax as estimated by research cited in the Treasury's policy paper, and avoid its adverse impact on jobs, unemployment, GDP growth, and South Africa's poor. These industry commitments, through BevSA, have been endorsed by the Director General of the Department of Health.

The punitive 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. We are committed to working with the Government, particularly at this critical juncture for the country's future.

31 To calculate per capita consumption, we have assumed that the population in South Africa was 49 million in 2010 and 55 million in 2015. We have assumed that the population grows by 2.34% per year to 61.7 million in 2020, in line with the average growth rate from 2010 to 2015. We have also assumed that 75% of population drinks SSBs in each year.

Concluding statement

In summary, we call for the Government to drop its proposals for a tax on SSBs. It will provide only small and highly uncertain benefits to both health outcomes and tax revenues. By contrast, it is certain to damage the South African economy and all parts of the NAB value chain, including tens of thousands of small traders. Moreover, the tax is discriminatory because it is applied only to a single product category out of many that contain Calories. We have concerns around how the tax was conceptualised, as the focus on SSBs excludes fruit juices and many other ingredients (e.g. carbohydrates, processed meats) which are Calorie-dense. There is a better way: a partnership between the Government and industry to maintain job creation, investment and growth, and encourage innovation to reduce Calorie intake.

The Treasury should **conduct** a comprehensive socio-economic impact assessment in line with standard Government practice, and base its policy assessment on data from consumer behaviour in the South African market. This should include a full consultation with industry and affected partners.

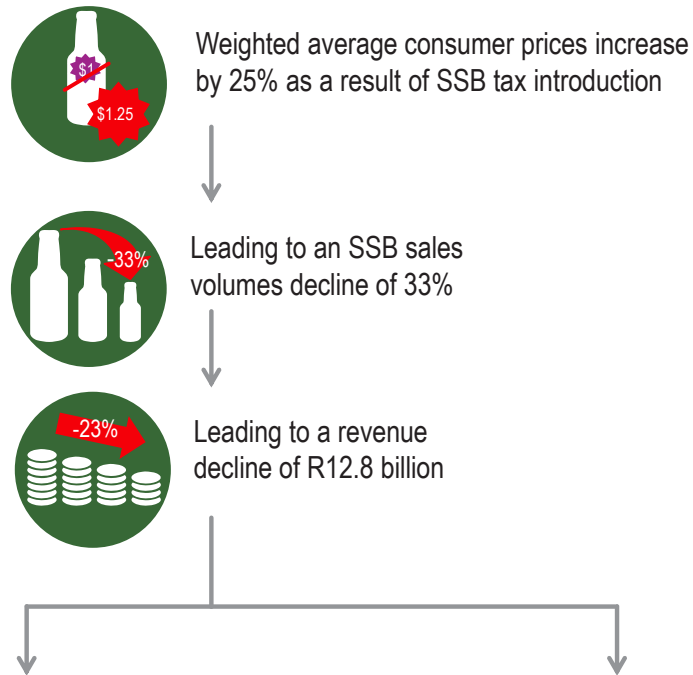
The Treasury should **await** the findings of the ongoing total dietary study.

The Treasury should **conduct** a full set of oral hearings with full participation of affected parties to provide an opportunity for the industry to engage with the Government to help reach a positive outcome for South Africa.

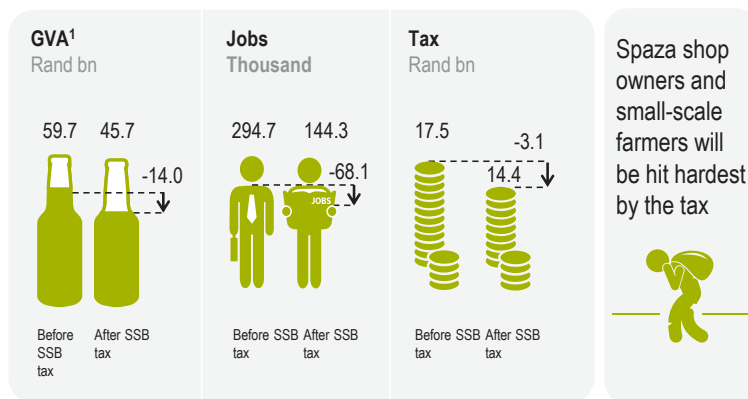
About BevSA

The Beverage Association of South Africa (BevSA) is a not-for-profit membership based industry organisation that represents the interests of the non-alcoholic beverage industry. Our members include large to small beverage manufacturing companies who produce, import, distribute, and sell a variety of non-alcoholic sparkling and still beverages, including soft drinks, sports drinks, energy drinks, bottled waters, flavoured and/or enhanced waters, ready-to-drink teas and coffees, and dairy-based beverages.

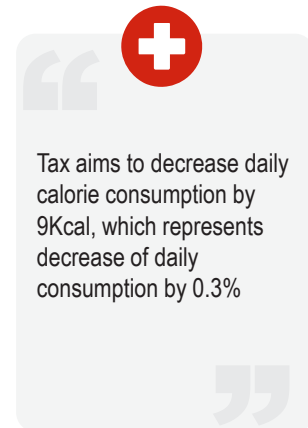
Appendix



Economic impact



Health impact



¹ Gross Value Added: a proxy linked to GDP via the following relationship: GVA + taxes on products – subsidies on products = GDP
SOURCE: Oxford Economics; FAO

