Proposed Tax on Sugary Beverages

Standing Committee of Finance Select Committee on Finance

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Introduction

- The Minister of Finance announced in his February 2016 Budget a proposal to introduce a tax on sugary beverages with effect from 1 April 2017 to help reduce excessive sugar intake through beverages.
- This follows on work initiated by the Department of Health.
  - Strategic Plan for the Prevention and Control of NCDs 2013 – 2017, and
  - National Strategy for the Prevention and Control of Obesity 2015 – 2020.
- This strategy set an ambitious target of reducing obesity prevalence by 10 per cent by 2020.
- The strategy identified a number of measures to address NCDs, and more especially unhealthy diets. Amongst these measures taxes on foods high in sugar are potentially a very cost-effective strategy to address diet related diseases.

Background

- Obesity is a global epidemic and is a major risk factor for the growing burden of non-communicable diseases (NCDs); 2.8 million deaths

- Globally, high blood pressure is responsible for 13% of deaths, tobacco use 9%, high blood glucose 6%, physical inactivity 6%, overweight and obesity 5% and alcohol 3.8% (NDoH, 2013);

- In South Africa obesity has grown over the last 30 years & considered most obese in sub-Saharan Africa (Hofman et al. 2014);

- Over half of SA's adults are now overweight and obese with 42% of women and 13% of men obese (Hofman et al. 2014);

- The World Health Organisation (WHO) has expressed concern over the excessive intake of sugars, particularly in the form of sugary beverages.

Link between sugary beverages & obesity

- Although the causes of obesity and being overweight are complex, dietary intake and food choices play an important role;
- Ingesting more calories than expended results in gain weight & sugary beverages provide calories but virtually no nutrients;
- Several studies demonstrating a link between body weight, risk for chronic disease and the intake of sugary beverages;
- The association of sugary beverages consumption and weight gain has been found to be stronger than for any other food or beverage (Rachel Lavin & Hannah Timpson, 2013);
- Weight gain from excess sugar consumption mainly stems from sugary beverages and high caloric energy dense foods (Hofman et al. 2014).

Measures to address obesity – (1)

- WHO recommends that:
  - In both adults and children, WHO strongly recommends reducing the intake of free sugars to less than 10% of total energy intake;
  - WHO suggests a further reduction of the intake of free sugars to below 5% of total energy intake (conditional recommendation) - Equivalent to a total limit of 6 teaspoons of sugar/day.
- NDoH has committed itself to:
  - Prevention and Control of NCDs (2013-2017)
  - Prevention and Control of Obesity (2015-2020)
- Major risk factors for NCDs identified include unhealthy diets and physical inactivity & set targets for 2020:
  - Reduce percentage of people who are obese and/or overweight by 10%;
  - Increase the prevalence of physical activity (defined as 150 minutes of moderate-intensity physical activity per week, or equivalent) by 10%;

Measures to address obesity - (2)

- Three categories of measures that government may implement to prevent and control of NCDs:
  - appropriate regulations;
  - information strategies; and
  - price instruments
- Interest increasing in combined approaches to address individual behaviour change together with population-oriented fiscal policies such as tax and subsidies to encourage healthier food consumption patterns;
- NDoH has also identified the most cost-effective interventions to address unhealthy diets and physical inactivity are:
  - reduce salt intake in processed foods; eliminate industrially produced trans-fats in foods;
  - food taxes on unhealthy food (foods high in fats and sugar) and food subsidies on healthy food (fruits and vegetables); and
  - Promote physical activity amongst the populace.

Use of fiscal measures

- Using fiscal measures to promote health, prevent disease and raise revenue is not a new idea
- Globally, fiscal measures such as taxes are increasingly recognised as effective complementary tools to help tackle the NCDs & obesity epidemic at a population level (WHO, 2015)
- The main fiscal policy interventions include taxes on unhealthy foods (i.e. saturated/trans fats, salt and sugary beverages) and subsidies on healthy foods (i.e. fruits, vegetables, etc.)
- Taxes on sugary beverages likely to encourage reduced consumption and/or products reformulation
- Studies suggest that a 10 to 20 per cent price increase of sugary beverages may be required to translate into a meaningful impact on health outcomes
- There are concerns that the tax will be regressive and cause harm to those most vulnerable in society
- However, obesity itself is a regressive disease that disproportionately affects those in lower socio-economic groups

Fiscal Measures - International Perspective

Country	Tax Base	Tax Rates
United Kingdom **Soft drinks industry levy: Implementation from April 2018**	• soft drinks that contain added sugar • will be charged on volumes according to total sugar content • exclude pure fruit juices and milk-based drinks with no added sugar • exclusion for small operators	Not yet finalised but estimated at: • Main rate charge:18p/litre for drinks with 5–8g of sugar per 100ml • Higher rate charge: 24p/litre for drinks with more than 8g per 100ml
Mauritius **Excise Tax on Soft Drinks:** **Introduced in 2013**	• soft drinks based on sugar content • excludes bottled water, pure fruit or vegetable juice and dairy products.	3 cents per gram of sugar content
Mexico **Soft Drink and Junk Food tax:** **Introduced: January 2014**	1. Non-Alcoholic Drinks with Added Sugar. 2. Junk Food Calorie Rich Food with more than 275 calories/100g	Non-Alcoholic Drinks: 1 peso per litre; 9% of price Junk Food 8% of price
France **Introduced January 2012**	1. Soft drink tax: Drinks containing added sugar or sweetener as well as fruit drinks and flavoured waters.	Soft drink tax: 2014: £0.059 per / L Energy drinks: £0.79 per / L Tax burden of about 6% of the average price of sodas.

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Proposed SSB Tax Design

Scope of the Tax :

- Beverages that contain added caloric sweeteners such as sucrose, high-fructose corn syrup (HFCS), or fruit-juice concentrates (i.e. soft drinks, fruit drinks, sports drinks, energy and vitamin water drinks, sweetened iced tea, and lemonade, etc.)

Tax Base: Sugar content of sugary beverages

- The actual sugar content in sugary beverages (in grams)

Tax Rate:

- 2.29 cents per gram of sugar (equates to a 20 per cent tax incidence on 1 litre of soft drinks / sugary beverage (e.g. Coca –Cola)

Administration:

- Implementation through the Customs and Excise Act (Act 91 of 1964)

Exemption:

- 100 per cent fruit juice and unsweetened milk and milk products will be exempted from the tax.

Consultation process

- Draft Policy Paper published for public comment on 08 July 2016
- Comments period closed on 22 Aug 2016
- Stakeholder workshop planned for Nov 2016
- Proposed implementation date 1 April 2017

- Initial external consultation meetings with some stakeholders:
  - 21 April: Beverages Association of South Africa (BEVSA)
  - 30 May: South African Fruit Juice Association (SAFJA)
  - 14 June: Consumer Goods Council Of South Africa (CGCSA)
  - 04 Aug: Bloomberg Philathropies
  - 04 Aug: South African Fruit Juice Association (SAFJA)
  - 19 Aug: South African Sugar Association (SASA)

- Received 135 written comments to-date