



Sugar Tax Update

The Minister of Finance announced during his Budget Speech of February 2016 that a Sugar Tax on Sugar Sweetened Beverages would be implemented in 2017.

The subsequent process included publication of a draft Policy Paper and public workshop of the National Treasury as well public hearings at the parliamentary Portfolio Committees of Finance and Health. During this entire process SAFJA held numerous discussions with the National Treasury and other Stakeholders; also made many submissions and presentations to all involved; and generally promoted the interests of the fruit juice industry.

During the 2017 Budget Speech the Minister announced amended proposals in respect of a Tax on Sugary Beverages which are available on the Treasury website (www.treasury.gov.za). This “Health Promotions Levy on Sugary Beverages” will be administered as an excise tax and will be implemented after final comments and consultations. There are a number of practical issues still requiring review before final implementation.

The new proposals differ from the original proposals published in July 2016. The tax will firstly apply to both intrinsic and added sugar, but a threshold of 4gm/100ml has been introduced below which the sugar content will not be taxed. This is equivalent to almost a teaspoon of sugar per 100ml which will not be taxed. The tax will therefore only be applied to the additional sugar above 4gm/100ml. The second change is that the rate is slightly lower at 2.1c/gm (previously 2.29c/gm). In addition concentrated drinks will only be taxed at 50% of the tax rate.

Most examples of the impact of the sugar tax are based on Coca Cola. This means that for a can of Coca Cola which contains 330ml and 35gm of sugar which is equivalent to just over 8 teaspoons of sugar, the first 3 teaspoons will be tax free and the tax rate of 2.1c/gm will be applied to the 5 teaspoons. The tax will therefore be 45.7c. Similarly a one litre Coca Cola contains 106 gm of which 40gm are tax free and 66gm taxable resulting in a tax due of 138.6c. Based on a retail price of R11.45 per litre this would translate into a 12% increase excluding VAT and added margins. This impact would of course differ depending on the premium achieved through smaller pack sizes or alternatively foregone by weaker brands.

Milk and 100% fruit juice are exempted in line with international practice. Jurisdictions that have implemented the tax on sugary drinks have also exempted 100% fruit juice and milk. However many health experts have argued that 100% fruit juice should also be subject to tax and this may therefore be reconsidered in the future.

Fiscal measures such as an excise tax are increasingly being used globally to promote health and raise revenue. These are either already implemented such as in Mexico or envisaged such as in the UK. The revenue will however **not** be ring fenced in South Africa for health promotion.

We need to develop our industry strategy going forward, both to defend and promote 100% fruit juice. The nutritional benefits of fruit juice are scientifically well documented, but not widely enough accepted or acknowledged. Many countries now have strong promotional campaigns to balance the debate and promote fruit juice such as in Europe (www.fruitjuicematters.eu) which campaign focusses on science and health information in respect of 100% fruit juices.

INSPECTION SERVICES

In the past Inspection Services in terms of regulated agricultural products under the Agricultural Products Standard Act were performed by the Department of Agriculture and they created the infrastructure to perform these functions.

Assignees have now been appointed by DAFF in respect of these regulated agricultural products. This includes fresh fruits and grains as well as dairy, animal and processed products. This has significant implications for industry and is intended to substantially upgrade the existing inspection services, but unfortunately the significant cost thereof will be transferred to industry.

The process of implementation in respect of fresh fruits and grains is problematic and many differences in respect of opinions, principles, details and affordability need to be resolved through consultation.

DAFF have appointed Impumelelo Agribusiness Solutions of Nelspruit as assignee for fruit juices and drinks. Their assigned product range also includes frozen fruit and vegetables; canned and bottled fruits and vegetables as well as jams and marmalades; rooibos; and other processed products for which regulations have been promulgated such as honey, olives, fat spreads, salad dressings and vinegars.

Fruit juice inspection will be based on the existing fruit juice regulations (R286). The current well advanced redrafting process to update and simplify these regulations will also facilitate improved inspection.

We have commenced the consultation process in respect of scope, methodology and cost. There will be follow up meetings to workshop the way forward both in terms of principles and in detail. It is in our interest to be fully involved with the consultation process and especially cost determination process so as to ensure that the system not only meets our inspection requirements, but is also implemented in an affordable and cost effective manner.

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(www.safja.co.za)