SA FARMERS DEVELOPMENT Association

Thriving rural communities
Thriving rural economies

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Honourable Ms JL Fubbs
Chairperson: Parliamentary Portfolio Committee on Trade and Industry
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Dear Honourable Chairperson Fubbs

HEALTH PROMOTION LEVY

I write this letter to highlight to you our latest challenge as sugarcane farmers and as a sugar sector because of the impact of what is called Sugar Tax (Health Promotion Levy [HPL]).

The **Health Promotion Levy (HPL)**[1] on sugary beverages administered by SARS. It is a new levy introduced in 2018. The levy is in support of the Department of Health's deliverables to decrease diabetes, obesity and other related diseases in South Africa. HPL was legislated through the Rates and Monetary Amounts and Amendment of Revenue Laws Act, 2017 - Act No. 14 of 2017 as published in the Government Gazette on 14 December 2017. It became effective from 1 April 2018. The rate is fixed at 2.1 cent per gram of the sugar content that exceeds 4 grams per 100ml. The first 4 grams per 100ml are levy free. Yesterday, during his Budget Speech, Minister TT Mboweni increased the levy to **2.21 cent** per gram of sugar content that exceeds 4 grams per 100ml.

When this levy was introduced, SAFDA was still fighting for our recognition in the sugar industry. We did not get a change to engage the facts and highlight its impact on our industry and our farmers. When we joined the industry, we immediately got involved in fighting against imports that we eroding our revenue and threating livelihoods of our farmers. Thank you to your decisiveness Chairperson in helping us to fight for an improved tariff protection.

While we were fighting for a better tariff protection against imports and pushing the industry to transform, recognise and support vulnerable small-scale farmers, the Health Promotion Levy was kicking in, in the background without us noticing. The industry did not anticipate that this Levy will be so disastrous. They lobbied government against it highlighting the fact that

[1] http://www.sars.gov.za/ClientSegments/Customs-Excise/Excise/Pages/Health%20Promotion%20Levy%20on%20Sugary%20Beverages.aspx

loss in revenue and reduction in sugar consumption will result in a shrinkage of the industry and consequent jobs losses. The industry was unable to stop this levy.

The industry argued that the singling out of an individual ingredient in a particular food product as the HLP does, is unlikely to resolve a complex health condition that requires a multi-disciplinary approach. The HPL is an inappropriate financial instrument and will not achieve the desired reduction in obesity. There is a limited understanding of what the population is currently eating and which foods contribute to the rise of calorie intake and impact the most on obesity. Before any tax on food is implemented, government was asked to conduct a study on what factors are contributing to obesity in South Africa and consider the use of multiple, evidence-based interventions to prevent and manage obesity other than taxing sugar.

Devastating impact of the Health Promotion Levy

Health Promotion Levy has proved to be our biggest challenge since the sugar imports. The Dollar-Based Reference Price (DBRP) of $680 per ton managed to drastically reduce imports in the country. The intervention of the PPC on Trade and Industry and action of the DTI and ITAC, helped to stem the onslaught of cheap imports.

We are now facing another monster which in the past season slashed our sugar sales by about 200 000 of sugar due to reformulation by sugary beverages manufacturers in order to comply with the Levy. This translates to loss of industry revenue to a tune of about R1 billion[2]. About R592 384 000 of this loss has been experienced in the sugarcane farming sector which puts a lot of rural livelihoods and farm level jobs at serious risk.

Because of the erosion of revenue due to HLP, farmers have been operating in loss. At the close of this 2018/19 season at the end of March 2019, farmers will be owing sugar millers a total amount of about R400 million, part of which will be offset by some retention savings. The net effect is that farmers will owe millers more than R240 million and will start the new season with negative balances. Many small-scale farmers will not afford inputs to start farming operations at the beginning of the 2019/2020 season and my leave sugarcane farming for good.

Mitigation Measures

At NEDLAC, mitigation measures to ameliorate the impact of this Levy were agreed and these would be implemented together with the introduction of the HPL. The measures agreed included:

- Protection of the local market for sugar at a level that allows for the full cost of production which must include a return on investment.

[2] http://www.engineeringnews.co.za/article/sugar-tax-will-shrink-the-industry-sa-sugar-association-2019-02-21

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- Maximizing the local market sugar volume in SACU. This protection needs to provide for cost of production, return on investment and the surplus removal scheme currently in place in the sugar industry

- A reduction in local market demand of 150 000 to 250 000 tons would have a devastating impact on the sugar industry. Job creation and mitigation to balance the impact of health based policy interventions that reduce local demand for sugar require:

    - Increasing the Dollar Based Reference Price (DBRP) to curb imports and ensure that local demand is meant by local producers (short term mitigation – immediate implementation).

    - Increasing access to preferential export markets (medium to long-term mitigation – implementation in 1 to 10 years).

    - Diversification into ethanol production is the only mitigation intervention that could be implemented in the sugar industry which could absorb substantial tonnages of sugar and unlock a new revenue stream, while sustaining sugarcane agricultural production and jobs.

- In addition the following support for land reform and small scale growers is a necessity:

    - Development finance facility for cane development and ratoon management for land reform, communal, cooperative and small scale growers.

    - Allocation of funding to support loss of income, fire and drought insurance facility for small scale growers.

    - Subsidisation of electricity and water costs on land reform and small scal grower irrigation projects.

Except for the increase in the DBRP, we are yet to see the implementation of these mitigation measures and hence the crisis because of HPL which was implemented without introducing all these measures.

We hope the PPC will assist in lobbying government to assit our sector by immplementing commitments that were made in preparation for the implementation of the HPL. Failure to do this will result in farmers loosing their livelihoods, some sugar factories closing and jobs being lost with adverse impact on the economy that will exceed collections by the National Treasury from the HPL.

Yours for a transformed, inclusive and sustainable South African sugar industry.

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