

Debates on the sugar tax

SUMMARY

The Beverage Association of South Africa's response to the sugar tax proposal has been aggressively publicised. But its arguments rely on a misunderstanding of economic realities combined with repeated misrepresentations of the available data. In particular, because of the host of substitutes available for sugary drinks, both consumers and producers can adapt to the tax in ways that avoid economic costs while achieving significant health benefits.

In July 2016, the National Treasury proposed an effective 20% tax on sugary soft drinks. The proposal derives from the National Department of Health strategy to reduce obesity. It is rooted in the scientific consensus that these kinds of drinks are a key factor behind rising obesity and the attendant ailments of diabetes, heart disease and some cancers.

A month later, the Beverage Association of South Africa (BEVSA), representing the producers of sugary drinks, launched an aggressive attack on the proposed tax. In its *Response to Taxation of Sugar-Sweetened Beverages Policy Paper*, it contends that the tax will:

- Cost between 62 000 and 72 000 jobs
- Cut the GDP by R14 billion, or 0,4%, and
- Have a harder impact on the poor.

None of these claims hold water. This brief first examines the economic arguments raised by the sugary-drinks industry. It then analyses a few of the errors in the data provided to back up these arguments, focusing on employment and trends in sugar consumption. Overall, the evidence underscores the frivolity of BEVSA's argument against the sugar tax.

ECONOMIC IMPACT OF THE TAX

BEVSA argues that the tax will lead to a 33% fall in the production of sugary drinks and a fall of R13 billion in revenues for producers. This decline, it argues, will result because, "Unlike with alcohol or cigarettes, consumers are highly sensitive to price changes for SSBs [sugar-sweetened beverages] and have multiple substitution options for soft drinks" (page 10). In other words, consumers will avoid the tax by

shifting to alternative drinks such as diet sodas, low-sugar variants, tea or water.

This argument confuses possible losses to producers of sugary drinks with the broader long-run impact on the economy. From the standpoint of national growth and employment, the fact that consumer demand will shift to near-substitutes, as BEVSA itself notes, means that:

- Demand for those products will increase, offsetting the decline in sugary-drink production, and
- The resulting increase in output and employment will replace the losses in the sugary-drink value chain.

In practical terms, the fact that there are close (and healthier) substitutes for sugary drinks means that consumers can easily avoid the tax. For their part, enterprising sugary-drinks companies could sustain their revenues by moving into healthier untaxed substitutes. That would be more socially responsible than waging a campaign to block efforts that are needed to improve public health in South Africa.

The availability of substitutes for sugary drinks means a number of other BEVSA arguments do not make sense.

First, BEVSA argues that the decline in production of sugary drinks will lead to lower overall employment and tax revenue. That prediction is, however, predicated on the assumption that consumers could not shift to other products instead – which BEVSA itself argues would be the probable outcome.

Second, BEVSA argues that because sugary drinks make up a larger share of consumption for low-income consumers, the tax would be regressive. That argument

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would only hold, however, if sugary drinks were a necessity with no near substitutes.

According to the 2011 Income and Expenditure Survey, the share of food in total spending falls steadily from over 30% for the poorest three deciles of households to 10% for the richest 10% of households. The share of household spending on the category of fruit juices (which would not be taxed) plus soft drinks shows a similar pattern, accounting for 1,3% of spending for the poorest 60% of households but only 0,7% for the richest 10%.

Because of South Africa's extraordinary income inequalities, although rich households spent less on food, they consumed far more in rand terms. In 2011, the poorest decile spent R122 a year on soft drinks, compared to R1 643 a year for the richest decile.

If sugary drinks were a necessity, then this pattern of consumption means that the tax would be regressive – that is, it would compel the poor to spend a higher share of their income on the tax than the rich, even though the rich would pay far more in rand terms. But because substitutes are easily available, the net impact would be far less. Sugary drinks are by no means a necessity, so that households could avoid the tax altogether by shifting their purchases to healthier beverages.

In addition, because of inequalities in access to healthcare, improved health would benefit poor households even more than rich ones. When family members fall seriously ill, poor families may become destitute because of the cost of healthcare and transport to health facilities as well as, in many cases, lost income. Reducing chronic diseases associated with obesity and diabetes would be a significant economic relief to these families, in addition to lessening emotional burdens. Analysis of data from the National Income Dynamics Survey shows that while obesity is higher among upper-income men, for women it is equally prevalent across income levels.¹

In sum, the core economic argument advanced by BEVSA does not hold up. It is premised on the idea that reduced consumption of sugary drinks forms a deadweight loss for both consumers and producers. In fact, however, it seems most likely that the reduction could be offset by increased demand for, and production of, substitutes.

JOB LOSSES

The sugary drink industry has threatened two kinds of job losses: relatively small downsizing in the bottling industry itself, and much larger retrenchments along the value chain, from suppliers and in retail.

BEVSA contends that total job losses would reach 62 000 to 72 000.

These figures are exaggerated because:

- They vastly overstate the number of jobs that depend on the production of sugary beverages, and
- They assume that a shift to substitute drinks will reduce employment overall as well as eliminating livelihoods and jobs in the retail industry.

According to BEVSA's inputs, the production of sugary drinks directly employed only around 14 500 people. But it claims that for each person employed directly to produce the beverages, another 20 find work in the value chain. BEVSA claims to support more than 100 000 upstream jobs; between 80 000 and 130 000 jobs in retail; and a further 66 500 in induced jobs, due to consumption of other goods and services by both direct and indirect employees.

These figures are patently exaggerated. If a similar employment multiplier applied to all of formal manufacturing, South Africa would have over 34 million employed people, rather than the actual 15,5 million. The BEVSA document does not explain how it arrived at its figures.

The fact that BEVSA is intent more on making its case than on providing a realistic analysis appears in the internal contradictions in its figures. On the same page (page 4), it claims both that:

- The non-alcoholic beverages 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)”, and
- That employment in the value chain includes “Indirect employment related to distribution (e.g. retail outlets) of 80 000-130 000”.

In the event, the official Quarterly Labour Force Survey for the second quarter of 2016 found 300 000 street traders in food-related goods as well as 100 000 spaza shop and shebeen owners, for a total of around 400 000. In other words, the total number of people in informal retail is lower than BEVSA's high estimate.

BEVSA arrives at its exaggerated figures for employment in the value chain by effectively assuming that every supplier and retailer in the value chain depends exclusively on sales of sugary drinks to stay in business. In other words, they consider every spaza shop or street seller who stocks soft drinks as employed solely in the value chain.

¹ Aluba, O. and Lumbwe Chola. 2014. Socioeconomic Inequalities in Adult Obesity Prevalence in South Africa: A Decomposition Analysis. In, *Int. J. Environ. Res. Public Health* 2014, 11, 3387-3406.

In arguing that sugar consumption is not a significant problem in South Africa, the Beverage Association of South Africa's document misuses Food and Agricultural Organisation data while ignoring actual studies of diet and nutrition.

For most retailers, however, beverages make up only a fairly small share of their turnover and often an even smaller share of their profits, since beverages typically have a lower mark-up than necessities. BEVSA itself claims that sugary drinks account for 30% of income but only 17% of profits for spaza shop owners. This figure seems exaggerated as a share of turnover, but BEVSA does not provide a source.²

In any case, as noted, as sales of sugary drinks decline, retailers should see higher sales of other untaxed drinks. By extension, they should not see any decline in turnover as long as they can stock appropriate substitutes.

The contention that the sugar tax will destroy tens of thousands of jobs derives from the same assumptions as the estimates for employment in the value chain, and is similarly unbelievable. BEVSA's forecast for job losses includes:

- 3 400 direct job in the production of sugary drinks,
- 25 200 upstream jobs, presumably in production of packaging material, sugar and other inputs,
- 19 000 to 29 000 losses in retail, and
- 15 400 induced job losses, as demand falls with direct and indirect employment by the industry.

Again, these figures derive from:

- An exaggerated estimate of total employment dependent on sugary drinks production and sales, and
- The assumption that producers could not shift into the production of healthier, untaxed drinks.

CALORIES FROM SUGAR CONSUMPTION

The most egregious misuse of data in the BEVSA report relates to trends in the consumption of sugar in South Africa. It argues that figures from the Food and Agricultural Organisation (FAO) show that in South Africa, calories from sugar consumption actually fell from 1991 to 2011 (page 7).

In the event, the FAO data do not attempt to determine actual consumption of added sugar.

Rather, they indicate the average calories per person that could, in theory, be derived from sugar crop production plus imports. As a result, the FAO does not include in its calorie estimates for sugar:

- Consumption of sugar incorporated in imported manufactures, such as the soft-drink syrup South Africa buys from Swaziland, and
- Sugars produced from products other than sugar, such as corn syrup (which is extracted from maize).

A more accurate assessment of the impact of sugar on South African diets can be found in a 2013 survey of health and nutrition in South Africa undertaken by the Human Sciences Research Council³ and the Medical Research Council. It found that 20% of South Africans have a high sugar intake. Levels of sugar intake were highest among the youngest group surveyed, which was 15 to 24 years old (Page 173).

The International Diabetes Foundation annual scorecard puts South Africa at above the global average for diabetes, with incidence at around 10%. The WHO gives four strategies for helping to prevent diabetes, which include "eat a healthy diet, avoiding sugar and saturated fats intake".⁴

In short, in arguing that sugar consumption is not a significant problem in South Africa, BEVSA's document misuses FAO data while ignoring actual studies of diet and nutrition.

² Generally, BEVSA relies heavily on a 2005 study commissioned by Coca Cola from US consultants to demonstrate its importance to the South African economy (Moore School of Business. 2005. "The economic impact of the Coca-Cola System in South Africa". University of South Carolina). The study demonstrates a relentless bias toward Coca-Cola and depends heavily on a survey of spaza shops retailing Coca-Cola, undertaken in 2003, with findings that diverge in many respects from larger surveys of informal retailers carried out over the past 20 years.

³ HSRC and MRC. 2014. *The South African National Health and Nutrition Examination Survey (SANHANES-1)*. HSRC Press. Pretoria.

⁴ <http://www.who.int/mediacentre/factsheets/fs312/en/>