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Report Name: Mixed Reactions to the 2021 National Budget by the South African Agricultural Sector

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Report Highlights:

On February 24, South African Minister of Finance Tito Mboweni presented the 2021 National Budget. The budget was met with mixed reactions by the agricultural sector. The 8 percent increase in excise duties on alcohol (wine, beer and spirits) has been heavily criticized and is likely to hamper the recovery of the financially distressed liquor industry. On the other hand, the budget has been positively received by some due to the increased support for the financially distressed land bank, which plays an important role in advancing loans in the agricultural sector, including commercial agriculture which is the largest contributor to production in South Africa. While the impact of the budget to U.S trade is still uncertain, the budget seemed fair and not prejudicial to U.S agricultural exports.

Background

On February 24, 2021, South African Minister of Finance Tito Mboweni presented the 2021 National Budget. The South African budget focuses on the economic outlook, national deficit, debt, revenue, spending programs and tax proposals that government will implement in 2021. The budget speech and detailed budget may be found on the following links http://www.treasury.gov.za/documents/national%20budget/2021/speech/speech.pdf and http://www.treasury.gov.za/documents/national%20budget/2021/review/FullBR.pdf. While the budget initially received a positive reaction based on media releases, analysts' commentary and key economic indicators, concerns are growing on the reality of the country's dire economic situation and the growing cost of debt. These mixed reactions are also reflected on the agricultural sector as detailed below.

Increase in Excise Duties on Alcohol and Tobacco

The current targeted excise duties ("sin tax") for wine, beer and spirits are set at 11, 23 and 36 percent, respectively. Government will increase excise duties on alcohol by 8 percent for 2021/22. The liquor industry has publicly criticised this increase and indicated that it will hamper the recovery of the already financially distressed liquor industry and associated industries in the supply chain. The timing of the increase in excise duties also comes at a time when the liquor industry is grappling with the recently implemented minimum wage increases (16 percent), and electricity increases (15 percent). The liquor industry is also still dealing with the devastating impact of national lockdowns due to COVID-19 that the government has been implementing since March 2020. Post has published several reports on the impact of the national lockdowns to the liquor industry's financial position, jobs and United States exports (Widespread Relief as South Africa Lifts Alcohol Ban but Uncertainty Remains - Report No. SF2021-0004).

Figure 1: Increases in Excise Duties on Alcohol and Tobacco

Product	Current excise duty rate	Proposed excise duty rate	Percentage change Nominal	Real
Malt beer	R106.56 / litre of absolute alcohol (181,15c / average 340ml can)	R115.08 / litre of absolute alcohol (195,64c / average 340ml can)	8.0	3.8
Traditional African beer	7,82c / litre	7,82c / litre	–	-4.2
Traditional African beer powder	34,70c / kg	34,70c / kg	–	-4.2
Unfortified wine	R4.39 / litre	R4.74 / litre	8.0	3.8
Fortified wine	R7.34 / litre	R7.92 / litre	8.0	3.8
Sparkling wine	R14.36 / litre	R15.51 / litre	8.0	3.8
Ciders and alcoholic fruit beverages	R106.56 / litre of absolute alcohol (181,15c / average 340ml can)	R115.08 / litre of absolute alcohol (195,64c / average 340ml can)	8.0	3.8
Spirits	R213.13 / litre of absolute alcohol (R68.73 / 750ml bottle)	R230.18 / litre of absolute alcohol (R74.23 / 750ml bottle)	8.0	3.8
Cigarettes	R17.40 / 20 cigarettes	R18.79 / 20 cigarettes	8.0	3.8
HTPs sticks		R14.09 / 20 sticks	8.0	3.8
Cigarette tobacco	R19.55 / 50g	R21.12 / 50g	8.0	3.8
Pipe tobacco	R5.79 / 25g	R6.26 / 25g	8.0	3.8
Cigars	R96.45 / 23g	R104.16 / 23g	8.0	3.8

Source: South African National Treasury

Increase in Fuel Taxes on Petrol and Diesel

The general fuel levy applicable to all petrol and diesel sales was increased by 4 percent (15 cents/litre) and the Road Accident Fund Levy was increased by 5 percent (11cents/litre), with effect from April 7, 2021. The agriculture industry, especially at primary production level, is a big user of fuel, and this will add-up to the increases in cost of production.

Figure 1: Increases in Fuel Taxes on Petrol and Diesel

Rands/litre	2019/20 93 octane petrol	2019/20 Diesel	2020/21 93 octane petrol	2020/21 Diesel	2021/22 93 octane petrol	2021/22 Diesel
General fuel levy	3.54	3.39	3.70	3.55	3.85	3.70
Road Accident Fund levy	1.98	1.98	2.07	2.07	2.18	2.18
Customs and excise levy	0.04	0.04	0.04	0.04	0.04	0.04
Carbon tax[1]	0.07	0.08	0.07	0.08	0.08	0.09
Total	**5.63**	**5.49**	**5.88**	**5.74**	**6.15**	**6.01**
Pump price[2]	15.88	14.64	14.06	12.47	15.50	13.58
Taxes as percentage of pump price	*35.5%*	*37.5%*	*41.8%*	*46.0%*	*39.7%*	*44.3%*

Source: South African National Treasury

Ambitious Recruitment of 10,000 Experienced Extension Officers

Minister Tito Mboweni announced that the Department of Agriculture, Land Reform and Rural Development (DALRRD) set aside R896.7 million (US$60.4 million) for post-settlement support of land reform beneficiaries. This will include the recruitment of approximately 10,000 experienced extension officers. The appointment of additional experienced extension officers is a much needed intervention given the low numbers and limited capacity of the current government extension services. However, this does not seem practical given the current budget figures presented which are insufficient to cover this cost. The total budget of R896.7 million (US$60.4 million) equates to an average salary of R89,670 (US$6,038) per year, if 10,000 extension officers are appointed. This salary is way too low and not feasible, even for an entry level extension officer. Therefore, the appointment of 10,000 extension officers has been met with scepticism by various media releases and agricultural stakeholders.

Increased Support for the Financially Distressed Land Bank

The Land Bank plays an important role in advancing loans in the agricultural sector including commercial agriculture which is the largest contributor to production in South Africa. However, the Land Bank is in financial distress and recorded a loss of R2.1 billion (US$141 million), high cost-to-income ratio of 114 percent, and non-performing loans of 18.1 percent in 2019/20. This was attributed to the sustained droughts, higher frequency of livestock and crop disease. As a result, the budget allocated R5 billion (US$337 million) in 2021/22, and R1 billion (US$67 million) in each of the two subsequent years to support the restructuring of the Land Bank. This has been viewed positively given the relative importance of the Land Bank to the agriculture sector.

No Increase on the Health Promotion Levy ("Sugar Tax")

Since April 1, 2018, imported and domestic sugar sweetened beverages have been subject to the Health Promotion Levy (popularly known as the "sugar tax"). The impact of the sugar tax has been devastating for the already distressed sugar industry (South African Sugar Industry Crushed by Not So Sweet Tax - Report No. SF2019-2943). Despite the negative impact of the tax to the sugar industry, there were growing calls by various lobby groups for the government to increase this tax given its effectiveness in curbing sugar consumption and the derived health benefits. However, to the respite of the sugar industry, the 2021 budget was silent on the health promotion levy and no increase was announced. Notably, in December 2020, South Africa launched the Sugarcane Value Chain Master Plan (https://sasa.org.za/wp-content/uploads/2020/11/SA-Sugar-Master-Plan-1.pdf) to support and revitalise the economic and finally distressed sugar industry. As a result, not increasing the health promotion levy was expected.

Decrease on the Taxation of Bio-based Plastic Bags

To support the shift to a greener economy, South Africa will differentiate levies on fossil- based and bio-based plastic bags. Plastic bags are currently taxed at 25c/bag. A reduced levy of 12.5c/bag will apply to bio-based plastic bags. These bags, made from renewable feedstocks such as sugarcane and food residue, emit less greenhouse gas but still contribute to littering and marine pollution. The implementation date and technical specifications will be included in the upcoming Taxation Laws Amendment Bill. This decrease has potential for good news for the agricultural sector including the sugar industry who are looking to diversify their income into producing bioplastics as outlined on the Sugarcane Value Chain Master Plan.

Attachments:

No Attachments.