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# **Report Name:** South African Sugar Industry Welcomes Report on the Economic Impact of the Health Promotion Levy

**Country:** South Africa - Republic of

**Post:** Pretoria

**Report Category:** Agricultural Situation, Agriculture in the News, Agriculture in the Economy, Sugar, Beverages

**Prepared By:** Wellington Sikuka

**Approved By:** Laura Geller

**Report Highlights:**

The South African sugar industry has always publicly lamented the negative impact of the Health Promotion Levy (HPL) that was introduced in 2018 to the already distressed sector. In June 2021, the National Economic Development and Labour Council (NEDLAC) published a report titled, ‘Economic Impact of the Health Promotion Levy on the Sugar Market Industry’. The NEDLAC report confirms and quantifies the exact impact of the HPL up to the 2019/20 Marketing Year (MY). The sugar industry has welcomed the NEDLAC Report and suggest that it may assist in engagements with government during the implementation of the Sugar Industry Master Plan whose objective is to address the decline of the South African sugar industry.

US$ = 14.02 as at June 17, 2021

**Background**

In June 2021, the National Economic Development and Labour Council (NEDLAC) published a report titled, 'Economic Impact of the Health Promotion Levy on the Sugar Market Industry'. The report was published for the Portfolio Committee of Trade and Industry (One of South African Parliamentary Committees) and is included under attachments at the end of this GAIN report. This report is important as it quantifies the exact impact of the Health Promotion Levy (HPL) up to the 2019/20 Marketing Year (MY).

The HPL on sugar-sweetened beverages (popularly known as "the sugar tax") was implemented in April 2018, as one of the measures by the Department of Health to address obesity and non-communicable diseases (NCDs) in South Africa. The HPL was initially set at 2.1 cents (US$0.0015) per gram of sugar content that exceeds 4 grams per 100ml, which means that the first 4 grams per 100ml are levy free. The HPL was increased to 2.21 cents (US$0.0016) in 2019. Post has published several reports on the sugar tax and these may be downloaded from **Table 7** at the end of this report.

**Summary of Report Findings:**

The sugar industry has welcomed the NEDLAC Report and expects that it may assist in engagements with the South African government during the implementation of the Sugar Industry Master Plan discussed at the end of this report. Below is a summary of the NEDLAC Report on the Economic Impact of the Health Promotion Levy on the Sugar Market Industry.

**Sugar Tax Revenue Declining**

In the first year of the HPL implementation in the 2018/19 MY, government surpassed the budgeted revenue collected from the HPL. The 2018/19 Fiscal Year (FY) total tax revenue collected from the HPL amounted to R3.195 billion (US$228 million), against a budget estimate of R2.396 billion (US$171 million). In the 2019/20 FY, the tax revenues collected from the levy amounted to R2.446 billion (US$174 million) against a budget estimate of R2.590 billion (US$185 million). In the 2020/21 the South African Treasure estimates that the tax revenue will further decrease to R1.952 billion (US$139 million). The year-on-year decline in tax revenue from the HPL is due to a significant degree of reformulation in the beverage industry. The Beverages Association of South Africa (BEVSA) reports that key producers in the industry are reformulating their products, i.e. reducing the sugar content by 15 percent and increasing the offering of low and zero sugar options. As a result, tax revenues from the HPL declined by 23 percent in the 2019/20 MY and 20 percent in the 2020/21 MY.

**Table 1: Sugar Tax Revenue**

| | **2018/19** | **2019/20** | **2020/21*** |
|---|---|---|---|
| Sugar Tax Revenue (R billion) | 3.195 | 2.446 | 1.952 |
| % Change | | -23% | -20% |

*Estimates.
Source: South African National Treasury

## Beverage Industry Reformulations Impact Sugar Demand

The non-alcoholic industry in South Africa is dominated by carbonated drinks, which account for 82 percent of market sales. Coca Cola South Africa (Pty) Ltd is the most dominant player in the non-alcoholic beverages landscape with an estimated market share of 55 percent. When the HPL was introduced in 2018, the beverage manufacturing sector immediately undertook several measures to either avoid or minimize the impact of the sugar tax by introducing "low" or zero sugar products, reducing packaging sizes, and reformulating their products to reduce sugar content. This resulted in the reduction in sugar usage by up to 250,000 MT. Reformulation seem to have stabilized in the 2020/21 MY due to various initiatives implemented under the Sugar Industry Master Plan introduced in 2020. According to BEVSA, the industry target was to reduce sugar content in non-alcoholic beverages by 15 percent over time, while also scaling up the introduction of low and zero sugar options to the production mix. Product reformulations involved the use of non-calorific sweeteners to replace sugar. As a result, demand for locally produced sugar reduced in the 2018/19 MY, as shown in **Table 2**, and refined sugar imports have also continued their decline as shown in **Table 3**.

**Table 2: Domestic Sugar Demand**

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|
| Local Sugar Demand (Metric Tons) | 1,190,281 | 1,140,990 | 1,249,476 | 1,476,011 |
| % Change | | -4% | 10% | 18% |

Source: South Africa Cane growers Association

**Table 3: South African Refined Sugar Imports**

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|
| Refined Sugar Imports (MT) | 314,214 | 212,420 | 116,267 | 84,166 |
| % Change | | -32 | -45 | -28 |

Source: Trade Data Monitor

## Sugar Cane Growers and Sugar Millers Revenues Fall

The fall in local demand for sugar, in part due to the HPL, has had a significant impact on the sugar industry. According to the NEDLAC Report, the sugar cane farming sector's output had declined by a cumulative R414.2 million (US$30 million) by the 2019/20 MY, as a result of the HPL. Lower domestic demand of sugar due to the HPL forced sugar millers to turn to the export market, with the export share of sugar sales rising to 48 percent in 2019/20 MY, from 38 percent in the 2018/19 MY. South Africa always exports its surplus sugar regardless of the global prices and sometimes at a loss because of the domestic sugar regulations that stipulate that the price of cane paid to sugar cane growers should be based on revenue obtained from the sugar sales in the local and export market for that specific season. The decline in revenue as a result of the HPL, worsened the situation for the sugar industry that was already grappling with lower global sugar prices. The Report also states that the sugar processing sector's output had declined by a cumulative R772.1 million (US$55 million) by the 2019/20 MY due to the HPL. The challenging financial situation in the industry due to various factors including the HPL, resulted in the closure of one sugar mill early in 2021.

**Recoverable Value (RV) Price for Sugar Cane Impacted by HPL**

Sugar cane growers in South Africa are paid by mills based on the quality of sugar cane they deliver at the mill. The quality of sugar cane is measured using an industry agreed formula and is known as the Recoverable Value (RV) Tonnage. The price paid to sugarcane growers also takes into account the net revenue obtained from the sale of sugar and molasses in the export and domestic markets. The prices paid to sugarcane growers declined significantly by 15 percent in the 2018/19 MY as shown in **Table 4**. The decline was mainly driven by lower global prices and lower demand for sugar in the domestic market due to the HPL. While prices paid to cane growers have improved since the 2019/20 MY, input costs (labor, fertilizer and fuel) have also been increasing at a higher rate. This has resulted in most sugar cane growers being under increasingly difficult financial pressure.

**Table 4: RV Price for Sugar Cane Growers**

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|
| RV Price (Rands/ RV Ton) | 4,187.11 | 3,574.41 | 4,220.58 | 5,030.39 |
| % Change | | -15% | 18% | 19% |

Source: South Africa Cane growers Association

**Job Losses Due to the HPL**

According to the NEDLAC report, the beverage sector which the HPL was directly imposed on, had cut a cumulative 1,104 jobs by the 2019/20 MY in the beverage sector as shown in **Table 5**. This was largely due to a reduction in the household consumption of Sugar Sweetened Beverages (SSBs). Given that sugar is an essential input in the manufacturing of SBBs, the decline in sugar used by the SSBs industry due to reformulation and lower demand had an impact on the downstream sugar industry. Due to the HPL and associated decline in domestic sugar demand, the sugar industry (sugarcane farming and sugar milling) had cut a cumulative 9,711 jobs by the 2019/20 MY. **Table 5** shows that the total cumulative job losses due to the HPL was estimated at 10,815 up to the 2019/20 MY.

**Table 5: Impact of HPL on Employment in the Sugar and SSBs Industries**

| | 2017/18 | 2018/19 | 2019/20 | Total Cumulative Job Loses |
|---|---|---|---|---|
| Sugar Industry Jobs | 88,703 | 84,880 | 78,992 | -9,711 |
| Sugar Sweetened Beverages Jobs | 13,965 | 13,320 | 12,861 | -1,104 |
| **Total Employment No.`s** | **102,668** | **98,200** | **91,853** | **-10,815** |

Source: NEDLAC Report

**Contribution to the Gross Domestic Product Declines**

According to the NEDLAC report, the beverage sector which the levy was directly imposed on, had a cumulative R1.58 billion (US$113 million) decline in its contribution to the Gross Domestic Product (GDP) by the 2019/20 MY. Due to the HPL, the contribution of the sugar industry to the GDP declined by a cumulative R1.186 billion (US$85 million) up to the 2019/20 MY. **Table 6** shows that the total cumulative decline in the contribution of the sugar and beverage sector to the GDP was estimated at R2.766 billion (US$197 million) up to the 2019/20 MY.

**Table 6: Impact of HPL on the Contribution of the Sugar and SSBs Industries to GDP**

| | 2017/18 | 2018/19 | 2019/20 | Total Cumulative GDP Contribution Loses |
|---|---|---|---|---|
| Sugar Industry Contribution (R billion) | 13.730 | 13.134 | 12.544 | -1.186 |
| SSBs Contribution (R billion) | 14.907 | 14.136 | 13.327 | -1.580 |
| **Total GDP Contribution (R billion)** | **28.637** | **27.270** | **25.871** | **-2.766** |

Source: NEDLAC Report

**Sweetened Beverage Prices Increases**

According to the NEDLAC Report, in most instances part of the costs related to the HPL were passed on to consumers. In other cases manufacturers have used the opportunity of the introduction of a HPL to increase prices by more than the effective tax rate. As a result, the burden of the HPL was passed on to consumer in the form of higher prices. This conclusion was supported by increases in the Consumer Price Index (CPI) - adjusted price indices of non-alcoholic beverages, particularly fizzy drinks, following the implementation of the HPL in April 2018. The most significant increases were observed in the price indices related to 'fizzy' drinks in cans and bottles, which increased by 4.2 percent and 3.7 percent month-on-month in April 2018, respectively.

**Master Plan Expected to Provide Relief to the Sugar Industry in Crisis**

On November 17, 2020, the Department of Trade, Industry and Competition (DTIC); Department of Agriculture, Land Reform and Rural Development (DALRRD); and industry stakeholders signed off the South African Sugar Industry Master Plan. The Sugar Industry Master Plan may be downloaded on the following link, https://sasa.org.za/wp-content/uploads/2020/11/SA-Sugar-Master-Plan-1.pdf. Industry Master Plans seem to be common under the current South African administration as a tool to support industries in South Africa e.g. the poultry industry also has a master plan. In general Master Plans provide a comprehensive plan of action to achieve common policy objectives, and provide guidance on policies, support, strategies and actions required to achieve specified targets. Notably, the South African Sugar Industry Master Plan Vision for 2030 is "A diversified and globally competitive, sustainable and transformed sugarcane-based value chain that actively contributes to South Africa's economic and social development, creating prosperity for stakeholders in the sugarcane value chain, the wider bio-economy, society and the environment."

The South African sugar industry is looking towards the Master Plan to provide support through the following interventions. First, the Master Plan is expected to curb any increases in the HPL and associated products for at least three years. This seems to have been achieved as evidenced when National Treasury announced that they will be no increases in the HPL in 2021. Second, the Masterplan is expected to increase industry revenue by providing incentives to local retailers, wholesalers and manufactures that will increase the purchase of domestic sugar in South Africa. This also seems to be paying off based on the increaser in domestic sugar demand by up to 250,000 MT. The Master Plan also has several initiatives to promote the profitability and sustainability of the sugar industry. If successful, these initiatives may be able to assist in addressing the general decline in the sugar industry and also lessen the impact of the HPL.

**Table 7: Related GAIN Reports**

| Report Name | Link |
|---|---|
| South African Small Maple Syrup Market may Present Niche Prospects for United States Suppliers (SF2021-0027) | Download |
| Sugar Annual (SF2021-0021) | Download |
| South African Sugar Industry Crushed by Not So Sweet Tax (SF2019-2943) | Download |
| Update on the proposed taxation on sugar sweetened beverages in South Africa (SF2017-3531) | Download |
| South Africa to implement the tax on sweetened beverages in 2018 (SF2017-3334) | Download |

**Attachments:**

Economic Impact of the Health Promotion Levy _ Final Submission_Wesbound_100321.pdf