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South African Sugar Industry Crushed by Not So Sweet Tax

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Report Highlights:

A tax on sugary beverages that went into effect in April 2018 is straining the South African sugar industry. Adding to the pressure, in February 2019, the Minister of Finance announced a 5 percent increase in the tax on sweetened beverages from 2.1 cents to 2.21 cents per gram of sugar content that exceeds 4 grams per 100 ml. The “sugar tax” impacts both domestic and imported beverage products equally, and is causing negative impacts to the beverage and sugar sectors in South Africa. The sugar industry’s revenue is expected to decrease by up to R1.8 billion (US\$129 million) in the 2018/19 MY. However, there may be opportunities for U.S. exporters of alternative sweeteners, and beverage exporters who can supply the health foods market or are able to reformulate their products to the sugar content threshold of less than 4 grams per 100 ml.

Background

Since April 1, 2018, imported and domestic sugar sweetened beverages have been subject to the Sugary Beverages Levy (popularly known as the “sugar tax”) of 2.1 cent per gram of sugar per 100ml. According to the [South African National Treasury](#), the sugar tax applies to beverages that contain added caloric sweeteners such as sucrose, high-fructose corn syrup (HFCS), or fruit-juice concentrates, which include but are not limited to (i) soft drinks, (ii) fruit drinks, (iii) sports and energy drinks, (iv) vitamin water drinks, (v) sweetened iced tea, and (vi) lemonade, among others. The tax does not apply to beverages that only contain natural sugar such as 100 percent fruit juices.

During the budget speech in February 2019, the South African Minister of Finance announced a 5 percent increase in the sugar tax on sweetened beverages from 2.1 cents to 2.21 cents per gram of sugar content that exceeds 4 grams per 100ml. The first 4 grams per 100 ml still remains levy free. The increase seems to be an inflation adjustment, which is common in the South African budget. Expectedly, this increase was widely criticized in the media by the beverage and sugar sector, based on the severe impacts it is already having since its introduction in April 2018.

Impact of the Sugar Tax

According to the Beverage Association of South Africa (BevSA), the beverage manufacturing sector has undertaken several measures to either avoid or minimize the impact of the sugar tax. They have done this by introducing “low” or “no” sugar products, reducing packaging sizes, and reformulating their products to reduce the sugar content by combining less sugar with other sweeteners. The reduction in sugar usage by the beverage sector has risen to at least 30 percent since the introduction of sugar tax in April 2018. The beverage sector has reported a reduction in demand of some re-formulated products, and gradual uptake of newly introduced products, as consumers have been slow in adapting to these new tastes and products. Decreased demand may also be due to the growing anti-sugar sentiments and awareness that high sugar consumption is linked to obesity, diabetes, stroke and heart diseases. As a result, the beverage industry has reported that the sugar tax could result in massive job losses. Recently a media outlet reported that Coca-Cola Beverages South Africa intends to retrench over 1,000 employees due to reduced production caused by the sugar tax.

The sugar industry has also reported on the devastating impact of the sugar tax. According to the South African Sugar Association and South African Canegrowers Association, the sugar tax has resulted in an over 30 percent (200,000 MT) decrease in the amount of sugar sold to the beverage sector since April 2018. The decrease in domestic sugar demand, has consequently resulted in the increase of South African sugar exports at a lower price. 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. As a result, the sugar industry estimates its` revenue will drop by up to R1.8 billion (US\$129 million), further reducing the price paid to sugar cane growers in the 2018/19 MY. This is expected to have serious viability implications for sugar cane farmers and could put at least 10,000 on farm jobs at risk, with some farms unable to survive. Similarly, sugar milling companies are also under profitability strain due to this revenue loss.

Despite the widespread media coverage on the negative impact of the sugar tax, it does not seem that the South African government will withdraw the sugar tax at this stage. This is due to the support that the tax enjoys from the South African National Treasury and the Ministry of Health. According to the South African National Treasury, by the end of December 2018, the sugar tax had raised R2.3 billion (US\$164 million), of which R37 million (US\$2.6 million) was from beverage imports. Therefore, imports only accounted for less than two percent of the revenue raised from sugar tax. Undoubtedly, the sugar tax is a welcome revenue generator for the strained South African budget. The Ministry of Health is also a strong supporter of the tax as part of the various policy instruments to address non-communicable diseases such as obesity, diabetes, stroke and heart disease. Notably, the South African National Treasury also reported that it is still researching the impact of the levy on the industry and the consumption of sugary drinks in order to project whether the levy will actually reduce obesity, and associated diseases. However, there are concerns that repealing the sugar tax may be too late for the sugar industry as most beverage manufacturers have already reformulated their products and changed package sizes, and it may be difficult to reverse these measures.

There are growing sentiments that while the sugar tax may have had negative impacts since April 2018, the sugar industry was already in decline due to low margins, low global sugar prices, competition from imports, frequent droughts and increased pressure to transform. Therefore, the current crisis in the sugar sector may be an opportunity for the industry to restructure and for government to reconsider the support measures it should be providing to the industry. New uses for sugarcane present opportunities for change, such as the production of biofuels (fuel ethanol), biogas, biomaterials (plastics), and the cogeneration of electricity. However, it seems that these opportunities will only be implemented when government introduces appropriate measures and policies to support the sugar industry. In the interim, the sugar industry seems to have started responding to the challenges it is facing. Sugar cane growers are diversifying to other crops, like macadamia nuts, as a strategy to increase profitability. There are also reports that sugar milling companies are increasing the production of alternative sweeteners, as a way of diversifying their revenue. Producing sweeteners also responds to growing anti-sugar sentiment among consumers and beverage manufacturers are reformulating their products to meet those needs.

Post expects that there may be structural changes to the sugar industry in the medium to long-term, largely driven by sugar cane growers and sugar milling companies responding to viability challenges, and the success of these changes will be highly dependent on the level or nature of government support that may (or may not) be introduced in the coming years.

Post Comments

There are growing possibilities that the sugar tax may change consumption patterns and preferences in South Africa as consumers adapt to reformulated and low sugar content products, and if the growing anti-sugar sentiments continue. While this may impact some U.S. beverage exports, this may also be an opportunity for U.S. exporters of alternative sweeteners, and exporters who can supply these new markets or are able to reformulate their products to the sugar content threshold of less than 4 grams per 100ml.

Post encourages U.S. exporters of beverage products to ensure that the sugar content of their products are correctly declared and supported by certified test reports obtained from a testing laboratory accredited with and using methodology recognized by the South African National Accreditation System

([SANAS](#)) or the International Laboratory Accreditation Cooperation ([ILAC](#)). Failure to provide supporting documents will result in the highest tax level and penalties being charged by SARS at the ports of entry.

Post will continue to monitor and provide updates on the tax to ensure that it is fairly enforced on both domestic and imported beverages, and report any significant shifts in consumer demand.

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