PMAC Short paper

Title: The political economy of Sugar-Sweetened Beverage Taxation in South Africa: lessons for policy making

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Introduction

The South African Parliament passed a Sugar-Sweetened Beverage (SSB) Tax subsequently renamed the Health Promotion Levy – in December 2017, with effect from 1 April 2018. The SSB tax in South Africa is part of a global movement to combat the adverse metabolic health consequences of excessive sugar intake that has proven to be effective in countries like Mexico and cities across the US. Despite evidence showing that taxation is a potential tool to curb the non-communicable disease (NCD) epidemic (1), the adoption and implementation of SSB taxation faced significant challenges in South Africa. The political economy of fiscal measures and the inevitable legislative confrontation with large profit-motivated institutions is complex (2).

Context: health and nutrition in South Africa

Critical to the rise of the tax on the agenda of the Government of South Africa were changes to both the nutritional situation and the food environment, triggering a rise in the burden of diet-related NCDs. More recently, the prevalence of obesity and overweight has risen to 68% among women and 31% among men (3), and diabetes in the adult population has doubled over the past decade (4). The economic cost of NCDs in South Africa is significant – equivalent to around 7% of GDP (5).

The SA food environment is characterised by rapidly growing availability and affordability of processed food and beverages that are energy-dense and nutrient-poor, resulting in a food system that is contributing to chronic, and expensive ill-health. Changing patterns are particularly striking for sugar consumption across the population with children consuming approximately 50g per day (6). The intake of high energy – low nutrient SSBs significantly contribute to several adverse health conditions. For example, meta-analyses of observational studies and randomized trials have associated consumption of SSBs to the onset of not only obesity, but also to its consequences including type 2 diabetes mellitus, cancer and heart disease (7,8).

Global recommendations indicate that addressing this burden requires a comprehensive policy approach (9), including the use of fiscal policy tools. South Africa's *National Strategy for Prevention and Control of NCDs*, 2013-2017 (10) and *National Strategy for Prevention and Control of Obesity*, 2015-2020 (11) both identified a tax on unhealthy foods (including SSBs) as one key component of their comprehensive approach.

Context: the political economy of SSBs in South Africa

South Africa's National Development Plan (NDP) clearly identifies the importance of taking policy action to address the burden of malnutrition. However, the main focus of the NDP is strengthening (inclusive) economic growth and increasing employment (12).

The significant contribution of sugar and SSBs to the economy was therefore a major consideration for the Government in considering a tax designed to decrease consumption, which might affect industry (13). Sub-Saharan African countries are seen as a major growth market for the processed food and beverage Industries, in contrast to declining markets in the global north. The market for SSBs in South Africa has doubled in 1998, from 2,294 million litres to 4,746 million litres in 2012 (14). In addition, industry has increased its annual spending on marketing. For example, energy drink advertising over the past 15 years, from nearly zero at the beginning of 1998 to a high of approximately four and half million rand being spent monthly across all media by early 2013 (constant 2013 rand) (15).

Three transnational companies control the South African soft drink market with Coca-Cola as the dominant player (16). The South African bottling partner is CCBA (Coca-Cola Beverages Africa), the largest bottler in the African continent, accounting for 40% by volume of Coca Cola sold on the continent of Africa (17). CCBA shareholders are the Coca-Cola Company (65.5%) and Gutsche family investments (34.5%). The political context regarding a sector dominated by multinational, non-South African companies was likely a relevant dimension of the political economy of the SSB tax decision.

How did the tax get on the agenda?

The national NCD strategy (2013) made a general recommendation for taxes on unhealthy foods. Following this, the national obesity strategy (2015) cites mathematical modelling studies simulating the potential impact of a SSB tax on obesity undertaken by the research unit *PRICELESS SA* (www.pricelesssa.ac.za) as evidence to support the specific proposal for a SSB tax. The indication for an SSB tax was followed in February 2016 with an announcement by the Minister of Finance to introduce a 20% SSB tax with effect from 1 April 2017 (18). The policy paper explicitly notes the difference between the proposed tax, and a prior tax on soft drinks and mineral waters previously removed in 2002. This was at a low rate at that time and had been implemented for revenue and not health reasons. The subsequent policy paper (July 2016) cites the primary reason for a tax as "to help reduce excessive sugar intake” (19). The policy proposal was open for public comment during July and August 2016 with discussion of potential impacts during multiple public consultations at Parliament and Treasury in late 2016. In 2017, Treasury delayed the introduction of the tax and further parliamentary hearings were held as well at NEDLAC (national economic development and labour council) that facilitates effective public participation between government, labour, business and the community.

Industry opposition

Industry strongly opposed the proposed SSB tax for NCD prevention from the time of its initial proposal, and drew on three primary arguments.

Industry actors appealed first and foremost to their contribution to national and local economic growth and employment; political priorities for the country with an official unemployment rate of 24%. Industry actively lobbied key national policy makers, including Treasury, asking for the tax to be removed because it would ‘hurt jobs’ (20,21). A huge media controversy followed industry’s claim that a “tax could result in the loss of 62,000-72,000 existing jobs” (22). The industry argued that the proposed tax would be "regressive" and would disproportionately affect the poor, causing them to ‘become poorer and not thinner’ (23).

Industry also sought to cast doubt on the evidence for the link between SSB consumption, obesity and NCDs. Industry publicly and repeatedly stated that ‘sugar taxes do not work’, and encouraged the Government to ‘pause legislative action’ until more research into the causes of obesity was available (20,24). Their argument was focused on the distorted fact that (on average) SSBs contribute approximately 3% to daily energy intakes per capita, and that the major contributors to the rise in energy intake have been other caloric-rich foods (25).

The SSB industry also drew on policy substitution strategies, such as proposal of voluntary initiatives and self-regulation as part of efforts to avoid mandatory regulations, similar to approaches used by the alcohol and tobacco industries (26). For example, BevSA called for Government to pursue voluntary reformulation, packaging, labelling and other targeted commitments already adopted in South Africa, which, it was argued, ‘would result in greater impact on tackling obesity than the anticipated reduction of only 37 kilojoules a day because of a tax’ (27). Coca-Cola also voluntarily reduced the size of sugary beverage containers, although this move met with consumer backlash because the price remained the same (28).

Finally, industry invested in activities to promote a positive public image during the period in which the public discussion of the proposed tax occurred. Key PR strategies included sponsoring sporting events such as the South African Rugby team (29) and school sports and the use of creative advertising that played on anti-apartheid rhetoric.

Advocacy and public support

Civil society organisations and distinguished academics (from SA and from across the globe) publicly expressed support for the legislation from the outset, consistently countering industry arguments in the media, and repeatedly restating the link between SSBs, obesity and NCDs. Research on the potential effectiveness of taxation and health risks of SSB consumption were widely reported in the media (30). For example, the Healthy Living Alliance (HEALA), formed in 2016 to advocate for healthy food and clean water for all citizens, used three main strategies to promote the sugar tax, including mobilising public support, making statements to the media, and monitoring public opinion.

Independently, researchers at Trade and Industrial Policy Strategies, a respected South African think tank, countered industry claims regarding job losses. In an open policy brief (31) they argued that industry claims regarding the loss of 62 000-72 000 jobs and R14 billion (0.4%) of GDP, and a harder impact on the poor, did not 'hold water'. Their assessment of the estimates was that while advertised as final net impacts, they were greatly exaggerated crude gross impacts which did not take into account diversification and substitution by consumers and supply chain actors. There was also no consideration of the impact of the revenue generated in contributing to government employment, which is highlighted as essential (32).

Decision and implementation

The Health Promotion Levy was announced in 2017 as an excise tax to domestically manufactured and imported sugary beverages, as well as to sugary beverages manufactured locally and then exported (33). The tax rate is 0 ZAR per gram for the first 4g/100ml and 0.021 ZAR per gram over 4g/100ml (18). Active industry lobbying against the introduction of SSB tax contributed to significant weakening of tax. The original proposed 20% tax was effectively reduced to 12%. Fruit juices were originally to be included, however the revised structure excluded them (34).

The National Treasury is responsible for tax policy, but the South African Revenue Service (SARS) is responsible for implementation and collection of taxes. Non-compliance with the provisions of the Act is considered an offence, and offenders may be subject to monetary penalties; Criminal prosecution; and / or Suspension / cancellation of registration / license.

Looking forward

With the implementation of the tax on SSBs, evaluation is now possible. Efforts should focus on the impact of the tax within the industry, including changes in pricing, product reformulation, marketing, and also on the individual perspective looking at changes in knowledge and attitudes regarding SSB consumption.

The tax also indicates political will for strong measures to address NCDs. This suggests an opportunity for public health actors to continue to raise awareness of the benefits of stronger action – both in strengthening the tax through the adoption of a higher rate as recommended by WHO, and expanding its scope. This should include other high sugar liquids such as 100% fruit juices, as well as the implementation of a broader set of interventions including advertising and marketing restrictions; front-of-pack labelling using symbols in a multi lingual country, taxes on junk food, subsidization of healthier unprocessed foods, and improved food provisioning at schools, workplaces and local communities.

It is likely that the SSB and processed food industries will continue to lobby heavily for (ineffective) voluntary regulation, including approaches based on companies' corporate social responsibility, and seek to water down any new policy proposals.

Conclusion

Confronted with difficult business environment in the global North, industry is increasingly looking to emerging economies like South Africa. Despite potential economic benefits, the increasing presence of SSB and processed food industries can undermine strong public health policy for NCD prevention. Threatened by potential economic effects of the tax, industry used several strategic approaches to lobbying government at all levels, seeking to influence decision-making. However, consistent and strategic public messaging and policy engagement by civil society and academic actors was critical to maintaining the tax on the government's agenda, and this case suggests it must take place from the outset. In South Africa, industry's role in policy making processes proved to be critical in shaping the policy outcome, with the final tax rate only half of what was originally proposed.

This case study highlights the importance of taking account of political economy and the powerful influence of the industry in determining policy outcomes as well as the effect of food taxes. Strong advocacy is important in keeping the debate alive, and the public must be fully engaged. While, evidence plays an important role, ultimately the political economy may have greater influence on the policy process.

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Competing interests

None declared.

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