

An analysis of the possible success of a tax on sugar-sweetened beverages in South Africa

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Bandla Sazi Mabaso

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Abstract

The increase in obesity is a global crisis that is prevalent in both the developed and developing economies, including South Africa. It endangers the health and threatens the life of many people. Sugar-sweetened beverages have become the key target in the fight against obesity, in preference to other foodstuffs that contain added sugar, because of the poor nutritional value they contain and harm they cause if consumed excessively.

The Minister of Finance announced in the 2016 Budget Speech, that a proposed tax on sugar-sweetened beverages would be introduced in South Africa and would be implemented in April 2017, but the anticipated date is now 1 April 2018.

The thesis examined the possible success of this proposed tax in South Africa, using as a benchmark the process followed prior to implementing the tax and the experience of selected foreign countries that have implemented the tax, one country subsequently abolishing it, and another country considering implementing it. Additionally, the research analysed the success of the existing excise taxes levied on tobacco and alcohol in South Africa, in attempting to predict the possible success of the proposed tax. The success of the proposed tax is, however, threatened by the emergence of illegal markets that offer the targeted products inexpensively, particularly if similar restrictions and laws do not exist in bordering countries.

The research was carried out by means of the analysis of journal articles, information from the selected countries' revenue authorities' websites, National Treasury publications, commentaries by experts and publications by professional organisations and firms.

Overall, the proposed tax has been successful in curbing obesity and high sugar intake in other countries. Similarly, the excise taxes on tobacco and alcohol have been successful in reducing the consumption of targeted products in South Africa. These successes have been realised through a collaborated effort and employing a multi-faceted approach, including advertising restrictions. Nevertheless, the proposed tax is popularly criticised for its regressive nature and the potential job losses that are associated with it.

Keywords: obesity, sugar-sweetened beverages, excise taxes on tobacco and alcohol

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Chapter 1: Introduction

1.1 Context of the Research

Excise taxes are levied on products with a high level of consumption and on luxury items (South African Revenue Service, 2016). They are mainly intended to provide a continuous revenue stream for the State and to encourage responsible citizenry (South African Revenue Service, 2016). The Customs and Excise Act No. 91 of 1964 regulates South African excise taxes.

On 24 February 2016 the Minister of Finance announced the introduction of a tax on sugar-sweetened beverages, effective from 1 April 2017, in response to health concerns raised that pertain to obesity-related diseases (National Treasury, 2016a). A National Treasury policy paper (National Treasury, 2016b) that outlines the exact details of the rationale for the tax later followed the announcement. The details of the policy paper (National Treasury, 2016b) included the application of the tax in the South African context, the findings from comparing it to other countries that have already introduced it, and the implementation of the tax, and confirmed a 20% effective tax rate, based on an estimate by Manyema, Veerman, Chola, Tugendhaft, Demetre, Sartorius, Labadarios and Hofman (2014).

The Davis Tax Committee (2014), tasked with reviewing the South African tax system, noted the significant contribution that customs and excise taxes, together with the fuel levy, collectively have made to the fiscus. According to the Davis Tax Committee (2014), during the 2013/14 tax year, customs and excise taxes accounted for 13.3% of total tax revenues. Despite the regressive nature of indirect taxes, the Davis Tax Committee (2014) and Rippe, Clemens and Papanikolaou (2014) recognise and support the strong public health rationale that underpins their imposition. More specifically, Hofman and Tugendhaft (2016) and Mchiza, Parker and Labadarios (2016) suggest that the imposition of a tax on sugar-sweetened beverages is an effective mechanism to reduce substantially the consumption of sugary beverages that are strongly associated in most countries with obesity and related lifestyle diseases.

Unlike other economies that faced resistance from key industry stakeholders and opposition from political parties regarding the imposition of the tax, Manyema *et al* (2014) anticipated a different reaction from the South African community. Their argument was immediately borne out by the support of the trade union affiliate, the Democratic Nursing Organisation of South Africa (DENOSA). The organisation pledged its support for a tax on sugar-sweetened

beverages, which aims to control the escalation in lifestyle diseases and the severe strain they place on public health spending (COSATU, 2014). It was, however, not long before the resistance noted in other countries occurred. After the actual announcement of a tax on sugar-sweetened beverages and as a response to the National Treasury policy paper, the beverage industry cited the possible ills associated with the proposed tax. According to Beverage South Africa (BevSA) (2016), *Coca-Cola*[®] (2016) and Forbes (2016) it was estimated that 62 000 jobs are at risk and the beverage industry made a commitment to contribute towards curbing obesity without the imposition of taxes, by increasing the prices of sugar-sweetened beverages.

Responding to the possible adverse consequences of the proposed tax, Hofman and Tugendhaft (2016) reveal that, over time, the impact of the tax on the consumption of sugar-sweetened beverages was minimal in Mexico where people's tastes and habits readjusted only slightly. Thus, the feared unemployment effect that is associated with the imposition of tax on sugar-sweetened beverages will possibly not be as severe in the long run as anticipated. In addition, Hofman and Tugendhaft (2016) discuss the unquantified loss of productivity and absenteeism that could be linked to sicknesses associated with obesity and excessive consumption of sugary beverages, which offsets the effect of loss of employment. While Jansen, Siebrits and Steyn (2016) confirm the certainty of a decline in Gross Domestic Product (GDP) and labour income with the imposition of the tax and thus a decline in output, they highlight the role that substitute goods and alternative healthier and untaxed products¹ could play in maintaining employment and profits when the tax on sugar-sweetened beverages is imposed.

As an alternative solution, a pricing strategy intended to promote the consumption of healthier beverages, while discouraging harmful beverages could be implemented. Brownell, Farley, Willett, Popkin, Chaloupka, Thompson and Ludwig (2009); Marais (2016); and Blecher (2015) suggest a threshold approach and dose-based taxation respectively, where the tax is levied on a quantity that is considered harmful. These authors consider that this will incentivise producers to reduce the volume of supply and revise the quantity of the harmful ingredient (calorific sweeteners) in the finished product. Accordingly, Blecher (2015) found that the dose-based approach would encourage the suppliers to reformulate their products.

¹ Milk as an example is zero rated in South Africa for Value-Added Tax purposes as it is considered a nutritional beverage.

While there are different views on the introduction of a new excise tax, Van Walbeek (2006) refers to the notable industry cooperation and positive reaction in adapting the pricing and marketing strategies for tobacco. These revised strategies resulted in the desired outcomes and exercised control over tobacco consumption. This provides evidence that, despite the resistance to the imposition of a new tax, key stakeholders, including suppliers, play a crucial role in addressing the concerns and problems that the tax intends to prevent.

As an alternative or simultaneous measure to address obesity-related health and fiscal burdens, Mchiza *et al* (2016) and Rippe *et al* (2014) propose regulation of advertising, accessibility of the targeted products and the size of the container in which the product is made available, as those have a significant correlation with the product's consumption.

Tax on sugar-sweetened beverages is a form of consumption tax and consequently it appears feasible to attempt to predict its possible effectiveness and long-term sustainability, based on the success of the existing excise taxes, such as the tax on tobacco and alcohol. Blecher (2015) found that there is an established link between tobacco and alcohol consumption and the product related diseases. The author further confirms the use of an excise tax as an effective tool for reducing the consumption and demand for tobacco and alcohol. The prevailing finding is that excessive consumption of sugary-beverages contributes significantly to obesity related sicknesses. Consequently, it appears reasonable to propose a study that explores the similarity of the imposition and effect of the three excise taxes: the tax on tobacco, alcohol and sugary-beverages. In addition, these excise taxes are similar in respect of the health motive that underpins their imposition. Blecher (2015) and Marais (2016) support this proposition by explaining that the primary health objective for the excise taxes supersedes the revenue generating objective.

Excise taxes are regularly reviewed to monitor their effectiveness and to provide responsive measures to challenges that later become evident in relation to an excise tax. In 2014, National Treasury published a review (National Treasury, 2014a; National Treasury, 2014b) that it carried out examining the effectiveness of the taxation on alcoholic beverages. This review compared South African taxation of alcoholic beverages to other countries' excise tax on alcohol. It outlined both the potential threats that face the excise tax on alcoholic beverages, and proposed recommendations for improving it. The findings from the review revealed, amongst others, factors such as those identified by Boshoff (2008) that include the role of non-tax interventions in curbing exorbitant consumption of alcohol, such as alcohol accessibility,

advertising, education and awareness. The review findings also referred to the existence and impact of illegal markets.

There appears to be a wide range of available research to enable a comparison to be made with other countries that have implemented the tax on sugar-sweetened beverages. However, it does not appear that the possible success of a tax on sugar-sweetened beverages has been investigated, based on the success of existing excise taxes in South Africa.

1.2 Goals of the Research

The goal of this research is to ascertain whether the existing excise taxes on tobacco and alcohol in South Africa, research relating to the countries referred to in the National Treasury policy document, and other studies, could be used to predict the success of the proposed tax on sugar-sweetened beverages in South Africa.

The following sub-goals will be undertaken in achieving the broader research goal:

- a detailed analysis of the proposed tax on sugar-sweetened beverages in South Africa, presenting the challenges, opportunities and threats;
- a comparison of the proposed tax in relation to other countries that have either levied the proposed tax or are considering levying it;
- a general overview of excise taxes in South Africa, including a review and analysis of the excise taxes levied on tobacco and alcohol, and using the results to predict the possible success of the proposed tax; and
- an analysis of the role of key stakeholders in promoting the possible success of an excise tax.

1.3 Methods, Procedures and Techniques

An interpretative research approach will be adopted for the present research as it seeks to understand and describe (Babbie & Mouton, 2009). The research methodology to be applied can be described as a *doctrinal* research methodology. This methodology provides a systematic exposition of the rules governing a particular legal category (in the present case the imposition of a tax on sugar-sweetened beverages in South Africa and the existing excise taxes on tobacco and alcohol), analyses the relationships between the rules, explains areas of difficulty and is based purely on documentary data (McKerchar, 2008).

The documentary data to be used for the research consists of:

- legislation (the Customs and Excise Act, No. 91 of 1964, for South Africa and specific legislation applicable to each country to be referred to for comparative purposes);
- articles in accredited journals, professional journals and in-house publications that discuss the topic from a South African context and the perspective of selected foreign countries;
- and other writings that include reports by key stakeholders (in relation to South Africa and the selected foreign countries), National Treasury reports and policy documents, reports by the Davis Tax Committee, and the National Development Plan.

The research will be conducted in the form of an extended argument, supported by documentary evidence. The research will:

- place greater evidential weight on legislation (primary data) and the writings of acknowledged experts in the field;
- discuss opposing viewpoints and conclude, based on a preponderance of credible evidence; and
- present rigorous arguments.

1.4 Ethical Considerations

As all the data are publicly available, no ethical considerations arise in relation to their use. Interviews will not be conducted; opinions will be considered in their written form. The researcher will not exaggerate or filter the data or results to support a specific viewpoint. Content will not be withheld or toned down. All sources of data will be appropriately acknowledged, and full references provided.

1.5 Overview of the Chapters

This chapter provided an overview of the thesis. It highlighted the key issues for research that serve as a cornerstone of this study. It further outlined the manner in which the research will be undertaken in order to realise the goals set for the research.

Chapter 2 discusses in detail the proposed tax from a South African perspective. In doing so, several National Treasury documents that propose the tax, journal articles, including comments that criticised the proposed tax, and National Treasury's policy statements that responded to queries and comments raised regarding the tax, are examined. Effectively, the chapter focuses on the background, rationale and economic impact of the proposed tax.

Chapter 3 expands the discussion of the proposed tax in South Africa by examining the proposed tax from the perspective of selected foreign countries that have either implemented the tax, one that later abolished it and one that is also considering introducing it. The lessons and experience of these countries enriches the understanding of the need for the tax and provides relevant insights for recommendations to improve the effectiveness of the proposed tax in South Africa.

Chapter 4 recognises the proposed tax as an excise tax and therefore adds to the discussion by analysing the impact of the existing excise taxes levied on tobacco and alcohol in South Africa. The chapter examines the successes enjoyed and challenges encountered by these excise taxes levied to generate additional revenue and to discourage consumption of certain products.

Chapter 5 continues the discussion of the proposed tax by discussing the role that selected stakeholders play in the possible success of an excise tax. The analysis draws on the experience of the selected countries that have levied or are considering levying the proposed tax and the experience of the excise taxes that are in existence in South Africa.

Finally, Chapter 6 summarises the main findings from the research, draws key conclusions and makes recommendations for refining and improving the proposed tax in South Africa. The chapter recognises limitations of scope that applied to the research and highlights opportunities for future research.

Chapter 2: Analysis of the Proposed Tax on Sugar-Sweetened Beverages in South Africa

2.1 Introduction

This chapter analyses in detail the proposed tax on sugar-sweetened beverages in South Africa. It does this by discussing the development of the design of the tax in South Africa. This includes the background, rationale, the reactions and speculations by various affected stakeholders, and the prospects of success. The stakeholders that will be directly affected include the beverage and sugar industries, representing producers and manufacturers, government, revenue authorities, trade unions and consumers.

In discussing the proposed tax, the chapter analyses the specific details contained in National Treasury's policy paper (National Treasury, 2016b), in the Draft Rates and Monetary Bill² (National Treasury, 2017b) and the related Treasury documents that reveal the development of the proposed tax. The discussion includes the changes that have been made in modifying the proposed tax since it was first announced and following the submission to National Treasury of various complaints, queries and concerns expressed by different stakeholders. The chapter examines the motives for the proposed tax and its possible overall economic impact, against the background of the National Development Plan (National Planning Commission, 2011) that serves as South Africa's strategic document and guide going forward into 2030. The chapter also discusses the legislative processes followed in drafting a Money Bill and for amending an existing Act.

Finally, the chapter investigates whether the fiscal policy intervention alone is an ideal or sufficient tool to curb excessive sugar intake, or whether there are other non-fiscal policy interventions that could be used in conjunction with a fiscal policy measure to prevent obesity. This chapter therefore addresses the first goal of the research, which is to provide a detailed analysis of the proposed tax on sugar-sweetened beverages in South Africa, presenting the challenges, opportunities and threats.

² In relation to the Bill, the proposed tax on sugar-sweetened beverages, is referred to as the Health Promotion Levy.

2.2 Background, Rationale and Overview

The Minister of Finance first announced the proposal of the new tax, the tax on sugar-sweetened beverages, in the February 2016 Budget Speech (National Treasury, 2016a; National Treasury, 2016b), with an effective date of 1 April 2017. The announcement of the proposed tax received an overwhelming number of responses and mixed reactions from a broad spectrum of interested stakeholders. These stakeholders include producers, the beverage industry, health, economics and tax professionals and experts, government, trade unions and independent bodies. The announcement of the proposed tax clearly demonstrated National Treasury's support and commitment to the call for and pledge by the National Department of Health to fight the excessive sugar intake (National Treasury, 2016b).

Empirical evidence (National Treasury, 2016b; Bartsch, Nuzzo & Alford, 2015; Tugendhaft, Manyema, Veerman, Chola, Labadarios & Hofman, 2015; Malik, Popkin, Bray, Despres, Willett & Hu, 2010; Blecher, 2015; Brownell *et al*, 2009; Maria A Cabrera Escobar; J Lennert Veerman; Stephen M Tollman; Melanie Y Bertram & Karen J Hofman, 2013) suggests that excessive sugar intake is the underlying and primary cause of the prevailing obesity in South Africa and the world. Bartsch *et al* (2015) explain that this claim does not in any way suggest, in the absence of conclusive evidence, that sugar alone is the direct cause of obesity. Instead, as supported by Adams, Tyrrell, Adamson and White (2012), they point out that sugar, or an unhealthy diet, remains the dominant contributor to the prevalence of obesity. Hence sugar intake became the focus area in the fight against obesity.

Bartsch *et al* (2015), Seedat and Singh (2017) and the World Health Organisation (2015) reveal that the World Health Organisation has recently recommended a revised maximum daily intake by both children and adults of free sugars of 5%, from previously 10%, of their daily energy intake. For sugar intake, according to De Waal (2016), this is equivalent to six teaspoons a day to remain healthy. Obesity is perceived as a global crisis (World Health Organisation, 2015; Manyema *et al*, 2014; Escobar *et al*, 2013; Maniadakis, Kapaki, Damianidi, Kourlaba, 2013; Nakhimovsky, Feigl, Avila, O'Sullivan, Macgregor-Skinner & Spranca, 2016), and according to Bowcott (2014) it is even being considered for disability classification by European Court of Justice. Nakhimovsky *et al* (2016) explain how a model study revealed that in 2010 about 184 000 annual deaths worldwide are attributed to the consumption of sugar-sweetened beverages, of which 71% of the deaths take place in the middle-income countries. The authors further foresee a continuing rise in the consumption of sugar-sweetened beverages in the

middle-income countries as multinational companies continue to increase their investments in these countries. In other words, the middle-income countries have become targets for new investments and they, in turn, are working hard to grow foreign investment in their countries to boost their economies. From a regional perspective within the continent, Tugendhaft *et al* (2015) and Escobar *et al* (2013) found that South Africa is regarded as the most obese country in Sub-Saharan Africa and, according to National Treasury (2016b), the country with the most non-communicable diseases (and deaths) associated with the obesity. The South African context and profiling in this regard is consistent with findings by Bartsch *et al* (2015) and Escobar *et al* (2013) that obesity prevalence amongst children and adolescents and particularly in the developing countries is growing. Moreover, Bartsch *et al* (2015) found that the growing obesity prevalence in developing countries coexisted with the shrinking trajectory of the epidemic in the developed economies. Thus, the National Department of Health, in its Strategic Plan for the Prevention and Control of Non-Communicable Diseases 2013-2017, and National Strategy for the Prevention and Control of Obesity 2015-2020 (Tugendhaft *et al*, 2015) has considered that adopting a fiscal policy measure would help to contain the crisis.

National Treasury (2016b) plans considered taxing the foodstuffs that are perceived to be harmful and contain excessive sugar. Narrowing this scope for its purpose and context, National Treasury directed it to the sugary drinks. Targeting this specific product range is based on the widely accepted and researched reality (World Health Organisation, 2015; Bartsch *et al*, 2015; Manyema *et al*, 2014; Tugendhaft *et al*, 2015; Nakhimovsky *et al*, 2016) that obesity is a direct result of excessive intake of sugar, mainly found in sugary beverages that according to National Treasury (2016b) and Brownell *et al* (2009) contain excessive quantities of sugar compared to other foodstuffs in which sugar is naturally found. As is the case internationally, BevSA (2016) and Krugel, Engelbrecht, Samuel and Feddersen (2016) found that this approach receives overwhelming criticism for being discriminatory in nature and targeting certain industries over others and, in some circles, it could therefore be perceived to be politically motivated. In support of targeting sugar-sweetened beverages, Brownell *et al* (2009) further reveal that the intake of solid food is closely linked to hunger, while consumption of beverages is also associated with quenching thirst or social satisfaction. Moreover, Nakhimovsky *et al* (2016) submit that the consumption of sugar-sweetened beverages leading to weight gain is prevalent in middle-income countries. Therefore, the excessive intake of sugar is closely linked to sugar-sweetened beverages, compared to solid foodstuffs. This is in addition to the sugar

content the different product types contain³. This serves as a further justification and motivation for the targeting of sugary drinks over other foodstuffs.

Blecher (2015) supports the fiscal policy approach because it is considered more efficient and with less of an administrative burden. The author argues that this is based on existing and efficient systems for administering and implementing the excise taxes. Subban and Sher (2016) and Smit and Marais (2016), however, explain that the efficiency and burdensome claims overlook the legislative processes and procedures for amending a Money Bill and an existing Act⁴. This process can be rigorous and bureaucratic. The authors explain that the process usually involves intense parliamentary considerations and deliberations, public hearings or consultations and engagements with industry and experts. In terms of section 48(4A) of the Customs and Excise Act, the Minister of Finance may expedite the process through a notice in the Government Gazette. The Minister may do so if s/he considers the inclusion of an item as an additional taxable category expedient in the public interest. In the case of South Africa, as confirmed by National Treasury (2017c), a newly created Section A of Part 7 of Schedule No. 1 to the Customs and Excise Act has already been included. The inserted section lists the sugary beverages to which the tax will be applicable.

From an administrative perspective, the idea or assumption that the administrative process is not burdensome, disregards the complexities associated with levying the tax based on sugar content or size. Subban and Sher (2016) explain that compliance challenges would arise for the beverage industry, particularly the small businesses, the regulatory authorities such as the South African Bureau of Standards (SABS), as well as the revenue authorities, in monitoring and policing the tax. Accordingly, these compliance issues have a significant potential to create an unexpected and unquantifiable administrative burden.

National Treasury (2016b) states that the fiscal policy intervention for alleviating obesity is aligned with global trends and Nakhimovsky *et al* (2016) explain that it is supported (or highly recommended) by the World Health Organisation. National Treasury (2016b) further supports

³ As an example, De Waal (2016) explains that 330ml of Fanta Grape[®] is believed to contain nine teaspoons of sugar, while *Coca-Cola*[®] contains seven.

⁴ This additional category in the Customs and Excise Act of 1964 is a direct example of what National Treasury is envisaging in the context of the proposed tax (National Treasury, 2016b) (National Treasury, 2017a).

its fiscal policy intervention position by arguing that, in complementing the taxation of foodstuffs that are considered harmful, the approach also recommends that the healthier products should be subsidised. Moreover, National Treasury (2016b) explains that the complementary approach would encourage a switch in the consumption from a pricing perspective and promote the intake of healthier substitute goods. This approach of promoting health awareness and a healthy lifestyle and diet, complements the targets envisaged in the National Development Plan. The National Development Plan (National Planning Commission, 2011) seeks to promote an agenda that targets a substantial decline in non-communicable diseases in which obesity is highlighted as one of the key risk factors. Furthermore, the National Development Plan (National Planning Commission, 2011) considers the health of the population as integral to the achievement of a targeted unemployment rate of 6% by 2030. Thus, the focus on curbing the side effects of obesity also relates to combating unemployment and growing the economy in the long run.

The announcement of the effective date for the proposed tax was somewhat premature and perhaps ambitious from the perspective of National Treasury. The effective date was just over thirteen months from the date that the proposed tax was announced. The announcement of the effective date came prior to the clarification of various ambiguities surrounding the imposition of the proposed tax. The pertinent issues include the scope of items on which the tax would be levied, the tax rate and consultative engagements with relevant stakeholders. The announcement was unlike the United Kingdom's announcement, which stated clearly its intention of adopting this tax following an in-depth investigation. Subban and Sher (2016) and De Waal (2016) explain that an overview was given of how the tax was envisioned for the United Kingdom when the announcement was made. The announcement provided specific details, including items that would be exempt, and an even more distant expected effective date⁵. The South African government's urgent and radical approach could potentially give rise to uncertainty and instability and a loss of confidence and a lack of trust of investors and other key role players regarding the government's real intention.

⁵ Expected effective date was April 2018 for United Kingdom compared to South Africa's April 2017 (which was later changed to April 2018), when both countries made the announcements in their 2016 budget speeches. United Kingdom's announcement was made in March 2016 (Krugel *et al*, 2016).

When announced, National Treasury (2016b) revealed that the proposed tax gave rise to uncertainties that caused serious concerns for a broad range of affected stakeholders. Some of the concerns were immediately clarified in the policy paper (National Treasury, 2016b) that was later published for public commentary. Some of the concerns raised are still undergoing intensive investigation by policy makers. Moreover, National Treasury is continuing to provide responses to queries submitted. The policy paper served as a strong confirmation of National Treasury's determination to implement the proposed tax. The main issues of controversy and interest comprised the scope of foodstuffs to which the tax would apply and those that would be exempt from the tax, the tax rate and the possibility of a threshold margin of the harmful content to which the tax will apply. The impact on jobs and thus possible unemployment, the ambiguous effective date of implementation, the impact on beverage companies' performance and consequent growth and expansion prospects and the threat of capital outflow if some companies consider withdrawing from the South African market, were other issues. Therefore, the impression that the imposition of the tax creates for South Africa and investor confidence remains uncertain.

Following the policy formulation process and rigorous consultations and considerations to date (National Treasury, 2017c), the specific details regarding the proposed tax have been confirmed. A threshold of 4g/100ml will be applied. That is, a tax will only be levied on the sugar content above this threshold, at 2.1 cents per gram (National Treasury, 2017a; National Treasury, 2017b). This replaces the previous 2.29 cents per gram tax rate (National Treasury, 2016b), with no threshold. Brownell *et al* (2009) and Escobar *et al* (2013) express their firm support for the threshold approach because it incentivises product reformulation by producers. The benefits associated with product reformulation are discussed in Chapter 5, where the role played by producers in promoting the possible success of an excise tax is discussed.

It has been confirmed that no complete earmarking or ring-fencing will be applied to the revenue collected from this tax. This is despite National Treasury's declaration (National Treasury, 2017a; National Treasury, 2017c) that some of the funds will be used to support health-promotion interventions. This reinforces the South African stance and practice on earmarking tax funds. National Treasury (2017c) has confirmed that South Africa does not support the earmarking of tax funds and believes that the earmarking of tax funds imposes undue rigidities on the budgeting process.

The revised changes to the proposed tax are further expected to minimise the impact on job losses. The anticipated job losses were largely based on the initial tax design with a higher tax rate and no threshold. Gad (2018) reports that the effective date for the implementation is 1 April 2018. This is consistent with the Treasury Deputy Director-General's speculation (Ensor, 2017) that a delay until April 2018 would be more realistic and practical. This expected date of implementation is supported by the South African Revenue Service (South African Revenue Service, 2017c), which is expecting to collect the sugar tax from 1 April 2018.

2.3 Analysis of the Possible Economic Impact

2.3.1 Employment and Growth in Various Industries

There are widespread and even conflicting views on the impact that the proposed tax will have on the economy. A very popular argument advanced by most affected industry role players is the potential job losses. This is expected to manifest in various ways, whether in the form of layoffs, dismissals or permanent retrenchments. This is considered a direct consequence of the anticipated increase in production costs, which is likely to be followed by the downscaling of production and possible shutdowns by some manufacturers.

Krugel *et al* (2016) explain that the sugar industry is believed to be currently employing about 79 000 people directly and 350 000 people indirectly, while BevSA (2016) further reports that the Non-Alcoholic Beverage industry is currently employing about 294 000 people directly and indirectly. According to BevSA's submission to the Standing Committee on Finance and the Portfolio Committee on Health on the proposed tax (BevSA, 2017), 24 000 of these jobs would be lost as result of the proposed tax. BevSA, in this submission, disputed the claim of 5 000 anticipated job losses made by National Treasury. Furthermore, the Association, in its submission, outlines its contribution to the South African GDP. The Association reports its contribution of 1.6% to GDP, 1.7% of the South African jobs and 1.7% of the South African tax. If these statistics are correct, this is a valuable contribution to the economy and job losses that account for 5.6% of the jobs in the industry would be a setback. The industry employs people in the value chain of agriculture, retail and distribution and creates jobs in the informal sector (including "Spaza" shops). Moreover, this covers a wide range of expertise and groups of people, from skilled to semi-skilled and unskilled.

The unemployment plight extends beyond simply the territory of the beverage industry. It extends to all industries in the sugar value-chain. Therefore, the effect will be both direct and indirect and cumulative. It also has the potential to significantly destabilise the economy. The

introduction of this tax may, however, create some job opportunities in other fields, such as an increase in compliance officers in business, regulatory bodies like the South African Bureau of Standards and the Customs and Excise division of the South African Revenue Service. This is uncertain, as the existing staff can be trained to carry out the new task. Moreover, the job opportunities that will be created will not compare to the job opportunities that would have been lost. There is no convincing and reliable compensation in the form of job opportunities that could be associated with the introduction of the tax. Furthermore, most of the people who will suffer unemployment are likely to be unskilled and semi-skilled workers, which accounts for a significant proportion of the South African population and the poor. These are people who will be less likely to be employed in the job opportunities created by the imposition of the tax. Semi-skilled and highly skilled people will most likely be needed for compliance.

The setbacks in job creation and growth in the economy extend beyond the stated industries. The proposed tax and the possibility of increasing the scope of items to which the proposed tax would be subject, is a threat to various industries. These include pharmaceutical, medical technology and medical services industries, businesses manufacturing biscuits and sweet snacks, and many others such as the fruit canning industry. Despite the motive that underpins the imposition of the proposed tax, which is to reduce obesity substantially, this will also negatively impact growth prospects, profits and thus employment in the companies that exist predominantly for the manufacturing of drugs earmarked for obese and diabetic people. This is assuming that the proposed tax realises the expected outcomes, that is, combats obesity and discourages high sugar intake. Bartsch *et al* (2015) explain that pharmaceutical companies manufacturing drugs or medication to treat obesity and diabetes might not necessarily experience severe implications of reduced demand, because of the current unmet demand for most of the drugs.

The negative effects extend to those businesses that develop and design special medical devices for people suffering from obesity. Service industries include, *inter alia*, hospitals, clinics, nursing homes and private nurses who work directly with patients suffering from obesity and who require regular medical attention and assistance to function. The adverse consequences may not depend on the success of the tax on sugary drinks only. There may also be further adverse consequences if, in the revisions and amendments to the proposed tax on sugary drinks, other products are included. Based on various factors, apart from price, that influence consumer purchases, such as tastes and preferences, buying power and loyalty, a major shift or migration

to other products is not anticipated and therefore these industries do not yet expect a serious threat to their businesses.

Producers and all other industry stakeholders have a role to play in trying to mitigate the severity of job losses that the tax can create, by embarking on reformulation and repackaging of their products. This is discussed further in Chapter 5.

The proposed tax also threatens industries producing fruit and vegetable juices, dairy products and concentrated drinks that, for the present, have not been targeted. Presently, National Treasury (2016b) has resolved that unsweetened juices and dairy beverages will be exempt from the tax. However, National Treasury (2017c) and Ensor (2017) report that it is believed that in future this exemption may be revised, or a specific tax may be tailored for them. The possibility of this additional tax or increased scope materialising depends largely on how the current proposed tax meets its objectives. The reverse is also possible. If the sugar tax does not come into effect, other industries directly and indirectly involved in the agricultural value chain will benefit in profits and job security. National Treasury (2017a; 2017c), in its revenue trends and tax policy review, has explicitly and unequivocally declared that 50% of the proposed tax rate on sugary drinks will be applied to concentrated beverages and powder concentrates. This has received overwhelming criticism by concentrated beverages' consumers and supporters. De Wet (2017) points out a major criticism against this application of the tax to concentrated beverages on the basis that concentrated beverages like Oros[®] contain a significant sugar content that exceeds the sugar content in a can of *Coca Cola*[®], but this is in its undiluted state, and Oros[®] is also sold in large containers.

The uncertainty that the proposed tax imposes may cast doubt on prospective expansion projects by many businesses. Business will be reluctant to invest large sums of money when the returns are not guaranteed. This possible investor suspicion and lack of trust or confidence may result in lucrative opportunities not being taken up and potential job opportunities being missed. Brown (2017) and Van Rensburg (2017) explain how Clover[®]'s branded food and beverages business has been reported to have suspended some of its new projects to focus its attention on addressing the consequences of the proposed tax to their business. This applies to both industries, the beverage industry that is already targeted, and possible industries in the future in fruit and vegetable juices and dairy products. This will extend, with a multiplier effect, to all involved in the value chain for sugar and agricultural production.

The proposed tax is also perceived to be ushering in stringent compliance requirements and possibly added administrative burdens for businesses, particularly those that are small and expanding. If this proves to be the case, it will suggest yet another impediment and barrier to entry for other role players and, in turn, increase the monopolistic trends that are already in existence. According to the 2010 statistics (Statista, 2011), these reveal that the diversification of market share for soft drinks by companies in South Africa based on sales value, has not changed much. According to Statista (2011), the *Coca-Cola*[®] Company held 49.8% of the market, which accounts for almost half of the market share.

The small business sector is central and paramount to job-creation and employment and has been earmarked as a key strategic job-creation avenue by government in the National Development Plan. The National Development Plan (National Planning Commission, 2011) envisages that 90% of the jobs that will be created building up to 2030, will emanate from the small and growing businesses. This projection is supported by the 90% job creation realised by small and medium-sized businesses between 1998 and 2005 (National Planning Commission, 2011).

2.3.2 Growth in Imports and Illegal Markets

The proposed tax further exposes the economy to growing imports. There is a very high risk that, if the bordering countries do not adopt the same tax, a niche market will open for the import of the targeted items, both legally and illegally, from the neighbouring countries. This creates other additional challenges for South Africa, which multiply the administrative, monitoring and policing burden associated with the tax. When this becomes widespread, the other unintended consequence is that local manufacturers may go out of business. This will give rise to another ripple effect of unemployment, poverty and inequality due to lost jobs, layoffs and dismissals. This is undesirable for any economy, particularly the South African economy, which according to South African Reserve Bank (2017) and Tradingeconomics (2018a) is currently experiencing a current account deficit. Even if illicit markets do not emerge, legal importation could certainly lead to local businesses not competing with imported products and going out of business. Another dimension, even prior to local businesses experiencing severe losses, is that they may decide to leave the country and operate their profitable businesses in the neighbouring countries.

2.3.3 Revenue Generation and Cost-Saving from the Tax

Empirical evidence (Krugel *et al*, 2016) reveals that the proposed tax is not intended to be another key revenue stream for the government. This is based on the projected revenue to be collected from this tax, both the original and revised proposed terms of the tax. This corresponds with the primary objective outlined in the background to and rationale for the tax. The primary interest and focus of the proposed tax remains to influence consumers to lead healthier lifestyles so that the healthcare burden is minimised. Compared to other “sin” taxes levied on tobacco and alcohol, it is clear that the projected revenue from the proposed tax is likely to be minimal. This is without even incorporating the administrative, implementation and monitoring cost, which will reduce the overall net gains from imposing the tax. Krugel *et al* (2016) explain that an optimum revenue that the proposed tax is predicted to generate, assuming the price adjustment resulting from the tax does not alter the quantity consumed, is R2.17 billion. Comparing this amount of revenue collection to the tax collected from tobacco and alcohol, it becomes evident that the proposed tax is not earmarked for revenue generation. The authors support this by stating that the excise taxes collected from beer alone are five times greater than the projected revenue from the proposed tax on sugar-sweetened beverages. The counter-argument to the small amount of revenue that could be collected, is the unquantifiable, yet substantial, saving by consumers, government and the private sector on healthcare services. Bartsch *et al* (2015) explain that this saving includes medication, medical devices, healthcare consultations, dental costs, informal care costs, nursing home fees and the hiring of private nurses. Some of these costs are covered by medical aid schemes and others are not. Moreover, the authors reveal that there is significant lost productivity due to ill-health and hospitalisation that hampers economic growth. The authors explain that the loss of productivity is indicated by absenteeism from work, which requires temporary replacements, or alternatively reporting for work while unwell and therefore performing poorly when compared to normal productivity. Furthermore, the authors state that loss of productivity in the workplace is also visible in less mobility, more frequent and longer breaks. The saving in healthcare services, though unquantifiable, appears to far outweigh the revenue to be collected, thus confirming that the motive and rationale for the tax is not an additional revenue stream.

The substantial economic benefit envisaged from the proposed tax is the sizeable relief in the healthcare burden of government and individuals. Recent budget reviews (National Treasury, 2017a; Davis Tax Committee, 2017) indicate that the Department of Health is amongst the government departments that receive substantial budget allocations and enjoy government

priority, after the Department of Education. The Davis Tax Committee (2017), reports that, in 2014/15, South Africa spent 8.6% of its Gross Domestic Product (R334.6 billion) on health care. The Davis Tax Committee further explains that the public sector financed 48.3% of this expenditure, the private sector contributed 49.8% and donors contributed the remaining 1.8%. Moreover, apart from HIV/AIDS treatment and other key projects that the department is prioritising, the treatment of non-communicable diseases such as obesity are priorities. The excessive sugar intake, particularly by children, prevents a healthy diet. Brownell *et al* (2009) and Escobar *et al* (2013) point out that children consuming a substantial quantity of sugar-sweetened beverages tend to find nutritious food such as vegetables and fruits unappealing and prefer a poor and an unhealthy diet. This leads to illnesses and chronic adverse effects. In addition to the bad traits that are associated with excessive sugar consumption, and particularly by children, Bartsch *et al* (2015) point out that sugar is addictive. Therefore, while no substantial revenue is expected to be generated from the tax, there is, however, a substantial compensatory saving that is expected in healthcare expenditure and the real need for containing sugar intake. Furthermore, Maniadakis *et al* (2013) explain that the health care benefit or saving that is associated with the tax, mitigates the criticism raised that the proposed tax, or fiscal approach in general, and violates consumer's freedom of choice in buying foodstuffs. This criticism disregards the after-effects that a less informed consumer is exposed to. Furthermore, government would be considered irresponsible if it did not take appropriate action to prevent any dangers that are avoidable or if educational programmes and other means to encourage a healthy diet were not implemented.

While the tax is accepted as health-driven rather than another revenue-generating source, there are still pressing issues that will not necessarily be resolved. While on the one hand, relief is forecast for the very strained government healthcare budget and spending, the expected saving over time does not necessarily compensate for the negative economic effects that the tax can potentially bring, the economic loss in the form of job losses and increased inequality and therefore poverty.

2.3.4 Use of the Tax Revenue

The final issue in question, and that has received much attention, pertaining to the proposed tax and particularly the funds to be collected, relates to the manner in which the collected funds will be utilised or allocated. Primarily, three options exist in this regard. The funds could be ring-fenced for exclusive use in programmes, campaigns and projects aimed at advancing the

cause that the tax stands for or represents, which is to promote the health of the citizens. Van Walbeek (2003) explains that South Africa currently subscribes to a general rule that no collected revenue is earmarked. This general rule also applies to the tax collected on tobacco and alcohol. Van Walbeek (2003) also points out that only a few exceptions relating to ring-fencing or earmarking tax revenue apply, for example, the Unemployment Insurance Fund and the Skills Development Levy.

The alternative is simply putting all revenue collected into one basket (the National Revenue Fund), as with all other funds collected, and allocate it to various departments based on the needs and priorities set out by the government. This addresses the criticism that certain initiatives are prioritised above others. Advocates for the second option can argue that, in any event, the department of health still receives a substantial budget, despite the government not designing or developing specific revenue collection streams. In other words, the health department benefits from revenue collected in other forms and ring-fencing funds could create unreasonable demands that could distort the existing budgeting process, which is currently accepted as being efficient and fair.

The final option, which to date has received varying support and has given rise to controversy, is a combination of the two options outlined above. It suggests that part of the collected funds should be earmarked for use in those programmes intended to fight obesity and excessive sugar intake and the remainder be made available for use in other government projects. National Treasury (2017a) has, to some extent though not entirely, in publications seeking to clarify ambiguities that surround the proposed tax, declared their support for the partial use of the tax collected to be directed towards health promotion interventions that fight non-communicable diseases. The support for this option and the ring-fencing option is that this could be one way of motivating those directly paying and suffering the consequences of the proposed tax to see the direct effect of the collected funds in the fight against the health problems. Escobar *et al* (2013) further suggest that the collected funds should be used to subsidise the price of the alternative healthy drinks. That way, the price of alternative healthy drinks is reduced and their consumption is encouraged. The criticism directed at this proposition would be the unfair preferential treatment of some products over others and possibly discrimination. This recommendation could also be seen as demonstrating an unfair business practice, where the funds collected from the consumption of one product are used to advance the consumption of another product. The ring-fencing or the combination of the two options would, however,

reduce the suspicion that the proposed tax is one way of creating another revenue stream for the government.

2.3.5 A Regressive Tax

The supposed regressive nature of the proposed tax, that it will affect the poor adversely, is another criticism. The proposed tax is perceived to defy the efforts and means aimed at alleviating the inequality between the rich and the poor. Even if, in the hypothetical case, people switch to alternative substitutes, ultimately, they will still be consuming some sugary beverages. Krugel *et al* (2016), Escobar *et al* (2013) and Maniadakis *et al* (2013) further state that statistics reveal that low-income earners tend to spend the highest percentage of their income on foodstuffs compared to the rich, in real terms. As with any other consumption tax, the poor will ultimately suffer and endure the burden of the tax more than others. Brownell *et al* (2009) explain that sugar-sweetened beverages are not necessities for survival. More alternatives, such as water, are available more cheaply. Therefore, while sugar-sweetened beverages are satisfying, Escobar *et al* (2013), Brownell *et al* (2009), George (2017), Nakhimovsky *et al* (2016) and Bartsch *et al* (2015) argue that sugar-sweetened beverages do not necessarily provide nutritional value. Instead, when consumed in excess, they are harmful. Moreover, low-income earners are generally sensitive to price increases. Therefore, a price increase of a harmful product encourages a switch to affordable alternatives. When this happens, the overall impact is not entirely regressive. The low-income earners benefit from the health gains that will be realised from healthier eating. This is based on the notion of subsidising healthier alternatives. Brownell *et al* (2009) substantiate this argument by pointing out that consumption of healthier alternatives that are available inexpensively improves health and reduces expenditure, thus cancelling out the regressive nature of the tax.

2.3.6 A Multi-faceted Approach

Empirical evidence (Krugel *et al*, 2016; Bartsch *et al*, 2015; National Treasury, 2016b; BevSA, 2016; Maniadakis *et al*, 2013; Nakhimovsky *et al*, 2016) suggests that the fiscal policy approach alone will not be enough. A multi-faceted approach that calls on all relevant stakeholders to play a role in the fight against obesity is likely to have a more meaningful impact. Krugel *et al* (2016) expand on this claim by pointing out that there are a number of factors that influence and drive consumer purchasing power and choice, and price is only one factor. The imposition of the tax directly affects the price and the final price is subject to the

manufacturers' manipulation, where shifting of the tax effect takes place or profit margins are altered significantly to compensate for the tax.

This in no way undermines the material impact fiscal policy has on influencing the behavioural change of consumers. Instead, it suggests that the introduction of the tax should be coupled with other programmes, projects, campaigns and regulations. Brownell *et al* (2009) suggest that the lack of knowledge or ignorance at youthful ages, of the link between consumption of sugar-sweetened beverages and health deterioration are other major causes for excessive sugar intake and increasing obesity statistics. This includes stereotypes that certain illnesses are for certain groups of people (the elderly, the rich, etc.). This lack of knowledge and stereotypes, Brownell *et al* (2009) further suggest, is motivated by advertisements that reveal only the positive side of the product, such as giving more energy. The authors explain that this one-sided effect that advertising portrays, promotes short-term gratification over long-term health. Notwithstanding the harmful effect associated with the sugary-drinks, Escobar *et al* (2013) explain that the sugary-drinks are easily accessible in various places and are aggressively marketed as appealing. The additional interventions could therefore include education campaigns, where citizens in various ways, whether as part of the schooling system or syllabus, are educated about the serious implications of high sugar intake and about healthier alternatives. Health awareness and screenings can be undertaken by the health department in partnership with other government departments, non-profit organisations and key industry role players that are affected, to enlighten the broader society in various forums and gatherings, sporting events, church masses, society or community association or club meetings. This reflects the reality that the responsibility for improving citizens' lifestyle does not only vest with the government, but with the broader society.

An additional approach suggested, which would also be familiar in the South African context, is customer loyalty points aimed at rewarding healthy living. Donnelly (2016) describes Discovery Vitality models that are a very good example of this, where they reward their customers for purchasing healthy foodstuffs. It is expected, although not under Discovery's control, that customers begin to be initiated into healthy living (eating healthy foodstuffs, exercising regularly and driving responsibly) and this becomes a habit. This suggests a plausible association between healthy living and reduced illnesses and improved productivity. Consequently, this reduces healthcare costs for the insurance companies, medical aid schemes, government and the consumers.

Finally, Maniadakis *et al* (2013) reveal that several other factors, apart from total energy intake, contribute to the prevalence of obesity. These factors include socioeconomic, environmental, behavioural and genetic factors and physical inactivity. South Africa currently suffers from water shortages and a prevailing inaccessibility of clean water, particularly in rural areas and the townships. These realities and factors cited by Maniadakis *et al* (2013) support a varied approach in trying to curb and overcome the prevalence of obesity.

Viewing the proposed tax through the lenses of the opposition, mainly the beverage industry, allows for an improved comprehension of the context. It allows for a broader understanding of the potential shortcomings the tax could have on government and the country's long-term goals envisaged in the National Development Plan. These include the reduction of unemployment to 6% by 2030 and growing small businesses. It also enables policy setters to consider a broader perspective in amending and making necessary refinements to the proposed tax.

2.4 Conclusion

Sugar-sweetened beverages do not necessarily provide nutritional value. Instead, when consumed in excess quantities, they are harmful. While sugar consumption is found in both solid foodstuffs and sugary beverages, sugary beverages are found to be consumed in large quantities. Unlike solid foodstuffs, which are mainly associated with hunger, beverages are often consumed for social reasons, to quench thirst, etc. Furthermore, beverages are marketed extensively, revealing only the positive effect of giving more energy. They are also easily accessible in a number of places. They are found in schools, eating places, sports arenas and other places of social gathering, and on formal occasions.

The government's focus on taxing sugary drinks is based on an effort to fight rising obesity rates. Obesity is a global crisis and South Africa is ranked top in obesity statistics in Sub-Saharan Africa. Sugary drinks have been found to be the major contributory factor towards increasing obesity. The fight against obesity is central to increasing productivity and curbing the increase in non-communicable diseases and related deaths. A fiscal policy measure has been identified as one of the essential tools to drive the fight against obesity. This is based on the price sensitivity of consumers. The adoption of other non-fiscal policy interventions, such as education campaigns, creating awareness, and health screenings are also recommended to strengthen the effect of the fiscal policy measure. Brownell *et al* (2009) also reveal that the tax laws that are carefully drafted to allow for continuous increases or adjustments to the proposed tax tend to provide a more meaningful impact in reducing consumption of a harmful product.

A more effective tax approach targets the dosage that is considered harmful. This approach incentivises the producers to reformulate their products, thereby reducing the harmful content in the products.

Although the tax is currently focussed on sugary beverages, there is still a possibility that it will be extended to other products in the future. The ultimate benefit to the government does not come from the revenue that will be collected. Instead, it is in the anticipated saving in healthcare expenditure by the government, consumers and the medical aid schemes. Presently, it appears that National Treasury intends to earmark a portion of the collected revenue for programmes that promote the health welfare of the citizens. However, this is in contrast with the practice that South Africa applies to other specific excise taxes.

The proposed tax is considered regressive. This is based on the proportion of the money that low-income earners will spend on the sugary drinks that will now be more expensive because of the price adjustment. This will not necessarily be the case, however, if the healthier alternatives are subsidised. The low-income earners would, instead, benefit from improved health and productivity and reduced sicknesses and healthcare costs.

The revised terms of the proposed tax, such as a lower tax rate of 2.1 cents per gram on the sugar content above the 4g/100ml threshold, have been seen as mitigating any potential job losses that were previously associated with the proposed tax. The extensive consultations with industry and experts and the commitment from National Treasury to engage stakeholders, seems to have paved the way to the introduction of a more acceptable proposed tax.

Chapter 3 investigates the experience of other countries that have either levied the proposed tax and those that are considering levying it, like the United Kingdom. In the first category, countries like Denmark have recently repealed it, while others like Mexico and Mauritius have recently introduced it. The experience of these countries will enrich the broader understanding and implications associated with the proposed tax.

Chapter 3: An Analysis of a Tax on Sugar-Sweetened Beverages as Levied in Selected Countries

3.1 Introduction

Taxes to control consumption of a harmful product have been applied for a long time and are therefore not unfamiliar. The well-known economist, Adam Smith, in the *Wealth of Nations* in 1776 (Blecher, 2015), expressed his firm support for the taxation of tobacco, alcohol and sugar, since they were not considered essential or necessities of life.

As discussed in Chapter 2, the prevailing obesity problem is a global issue, and not a uniquely South African problem. Accordingly, South Africa's consideration of using a fiscal policy intervention to curb obesity follows a practice that other countries have also considered and applied. These are mainly countries whose populations suffer from the prevalence of obesity. The fiscal policy measure is therefore aimed at curbing rising obesity rates. Mexico is an emerging economy that compares relatively well to South Africa, based on the size of the economy and the stage of development. With effect from January 2014, Mexico introduced a similar tax (Krugel *et al*, 2016; Colchero, Popkin, Rivera & Wen Ng, 2016). Denmark has applied the policy of taxing foodstuffs for a very long time. Seedat and Singh (2017) explain that Denmark introduced the tax from the 1930s and recently repealed it in 2013. HM Revenue and Customs (2016) reports that the United Kingdom is a first-world economy that is considering the introduction of the tax on sugar-sweetened beverages in April 2018. Finally, Mauritius is also a country that is comparable to South Africa, based on geographical location, its stage of development and the well-being of its citizens. Mauritius introduced the tax in 2013 (World Health Organisation, 2015; Seedat & Singh, 2017). As a Sub-Saharan African state, Mauritius provides a valuable perspective and insight as it shares experiences that are similar with South Africa.

It is important to recognise that many other countries globally, including Chile, France and Hungary (Seedat & Singh, 2017), Thailand and Vietnam (Nakhimovsky *et al*, 2016) and Mauritius and the Seychelles on the African continent (Lawrence, 2018) are applying the tax or are considering its introduction. Seedat and Singh (2017) point out that the countries referred to above, except for Denmark, reveal similar trends and trajectories as South Africa in soft drink consumption and obesity rates. The selected countries (Mexico, Denmark, the United Kingdom and Mauritius), with different profiles as outlined above, provide valuable insights and perspectives based on their different experiences. The experience of these countries will

provide the necessary context to be used to benchmark and compare the imposition of the tax in the selected countries to the South African proposal and context. The experience of these countries will also allow for the development of effective recommendations that could be made to either improve or refine the proposed tax in South Africa. This chapter therefore addresses the second goal of the research, which is to provide a comparison of the proposed tax on sugar-sweetened beverages in South Africa to the tax that is levied or being considered in other countries.

3.2 Mexico

3.2.1 Introduction, Basis and Scope

Krugel *et al* (2016) and Colchero *et al* (2016) report that, from 1 January 2014, Mexico introduced a tax on all sugar-sweetened beverages, including carbonated and non-carbonated drinks. This broad scope meant that only diet drinks, unsweetened beverages and specifically exempt items would be excluded from the tax.

The introduction of the tax was in response to observed international comparisons that exposed Mexico as one of the countries with high prevalence of sugar intake and obesity when compared to the rest of the world. Bartsch *et al* (2015) submit that Mexico is one of the largest sugar cane producers in the world and ranks in the top ten of countries that consume about 70% of their sugar produce domestically. Based on the high sugar consumption discussed, Bartsch *et al* (2015) and Colchero *et al* (2016) describe it as understandable that Mexico is among the countries that experience double digit diabetes prevalence and the highest rates of obesity globally. According to Boseley (2017), 70% of the Mexican population is considered to be overweight or obese. This is prevalent among both children and adults. The World Health Organisation (2015), Colchero *et al* (2016) and Batis, Rivera, Popkin and Taillie (2016) report that approximately 71% of adults and 30% of children and adolescents are overweight or obese in Mexico. Consistent with most growing economies or low and middle-income countries, Blecher (2015) submits that the rising obesity experienced in Mexico is mainly attributed to the increased consumption of sugar-sweetened beverages. Seedat and Singh (2017), the World Health Organisation (2015) and Colchero *et al* (2016) report that during 2012, Mexico reported the highest worldwide consumption of sugar-sweetened beverages with 163 litres per capita in that year. These sources further explain that the added sugar intake from sugar-sweetened beverages represented 71% of the total added sugar consumed. To give an example of the high number of calories in sugar-sweetened beverages, Seedat and Singh (2017) explain that the

330-millilitre bottle of *Coca Cola*[®] consists of 7% of daily caloric intake, which already exceeds the World Health Organisation's recommended 5% daily added sugar calorie intake. Consequently, Krugel *et al* (2016) argue that the prevalence of obesity in Mexico puts a strain on the national budget and, in 2014, the National Health Department allocated 7% of its budget towards obesity-related diseases.

Blecher (2015) submits that the intention with introducing the tax was to reduce the demand for (and consumption of) sugar-sweetened beverages and to increase the demand for healthier alternative beverages, low in calories. Accordingly, Seedat and Singh (2017) point out that it was anticipated that this behavioural trend would curb the rising obesity rates. Seedat and Singh (2017) explain that the tax in Mexico was imposed on all sugar-sweetened drinks, whether in the form of powder, syrup, flavour extract or actual sugar, and the World Health Organisation (2015) adds that the tax is imposed on beverages in the form of a concentrate or ready-to-drink. Seedat and Singh (2017) explain that the scope includes, *inter alia*, soft drinks, fruit juices, energy drinks and dairy products with added sugar. Seedat and Singh (2017), Krugel *et al* (2016) and Blecher (2015) report that at its inception, the tax was levied at a rate of 1 Mexican Peso per litre (approximately US\$ 0,08 per litre or 10% of the average price) of the sugar-sweetened beverage. The tax rates have remained unchanged since the introduction of the tax. The constant rate does not appear to have rendered the tax ineffective.

The World Health Organisation (2015) and Colchero *et al* (2016) submit that in addition to taxing all sugar-sweetened beverages, including fruit juices and dairy products with added sugar, Mexico targeted a list of non-essential energy-dense foods (snacks, confectionery products, chocolate), that contain 275 calories per 100 grams or more. For the selected non-essential energy-dense foods, these writers and Batis *et al* (2016) explain that an 8% ad valorem tax is levied. Broadening the scope of the targeted items to include fruit juices and dairy products can be perceived as strategic. It potentially eliminates the perceived discrimination that is generally cited against the tax when only a few selected items appear to be targeted, while other foodstuffs causing a similar level of harm or more are either exempt or excluded from the tax. The broader approach further supports the efforts to curb obesity, from the perspective of food consumption.

The empirical evidence presented by experts on nutrition (World Health Organisation, 2015) provided a convincing basis for the acceptance and support of the tax on sugar-sweetened beverages and other non-essential energy dense foods. That is, the Mexican authorities took

account of the recommendations and evidence presented by experts in arriving at its decision to accept and approve the tax. The statistics and facts discussed above describe the prevalence of obesity and diabetes in Mexico. The prevalence of obesity was shown to be closely linked to a high consumption of sugar-sweetened beverages and non-essential high energy-dense foods. In addition to the evidence presented by the nutrition experts in support for the call for the tax, the World Health Organisation (2015) further revealed that the economic considerations (price elasticities, the income effect, potential substitutes, and revenue estimation), the active intervention of civil society in the form of advocacy, campaigns, and other initiatives, and the interest or appetite of the government, added to the decision to impose the tax in Mexico.

As outlined above, Bartsch *et al* (2015) confirm that Mexico adopted a tax approach that targeted a broad range of foodstuffs using various forms of tax. Value-Added Tax was also levied on numerous sugar products, such as flavoured beverages, gum and foods with high calorific density. The authors explain that the radical fiscal approach was complemented by the strict labelling regulations that required that sugar and other contents be listed as a percentage of recommended daily intake, rather than just weight. The authors submit that these regulations forced producers to reformulate their products to reduce the sugar content. The authors state that, in its multifaceted approach to strengthen the effectiveness of the fiscal intervention, in 2014 Mexico also started to regulate the advertising of certain foodstuffs. The authors submit that these regulatory measures followed the United Kingdom's strict restrictions and the World Health Organisation's recommendations on advertising food high in calories, especially for children. Consequently, Pekic (2014) reports that the Mexican government banned the advertising of soft drinks, snacks, sweets and chocolates during cinema showings for children. In addition, the author reports that the government imposed stringent controls on television advertising of these food products. Pekic (2014) also reveals that the restrictions included the prohibition of the showing of these advertisements during certain times, the restricted times being time slots during which it was believed that children tend to watch television, and mainly watch it without the presence of adults. The author also explained that a 97% compliance rate with the new rules was noted soon after the restrictions came into force on 15 July 2014.

3.2.2 Estimated Revenue and Use of the Tax Revenue

Seedat and Singh (2017) submit that the estimated revenue from the sugar tax was expected to approximate £693 million. Using the 2014 annual average exchange rate of US\$ 1.647701 per Great British pound, this revenue prediction approximates US\$ 1.141 billion. However, the authors also point out that the actual revenue raised far exceeded the estimated tax revenue. Roache and Gostin (2017) submit that during 2014, Mexico collected revenue from the tax approximating US\$ 1.2 billion. The actual revenue collected exceeded the expected revenue despite the consumption or purchases of the taxed items reducing. This is possibly due to inaccurate prediction or the consequence of estimates where the outcome could not be predicted precisely, or perhaps a very conservative approach was adopted in making the forecast. It is also possible that a shift away from the taxed foodstuffs and beverages was smaller than predicted. Seedat and Singh (2017) and The Telegraph (2016) explain that the main shift and reduction in purchases was among low-income earners who would not ordinarily buy in bigger quantities. That is, the impact was small among high income earners.

Unfortunately, the revenue raised was not fully earmarked for curbing obesity or promoting healthy lifestyles (Seedat & Singh, 2017). Krugel *et al* (2016), Colchero *et al* (2016) and Roache and Gostin (2017) explain that, in line with the Senate's resolution, part of the collected tax revenue was used to finance potable water at public schools, more especially in the underprivileged areas. This improvement in the water infrastructure and access to clean water should be one of government's basic and primary tasks. Wall (2015) reveals that the Mexican government invested about US\$ 31.9 billion on improving water infrastructure in an attempt to promote the drinking of water as an easily accessible option, and the aim was to have 100% access to safe drinking water by 2018. The approach adopted by the Senate to finance potable water to public schools is a response to the challenge of inaccessible healthy alternatives, such as water, and the challenge of unclean water is particularly prevalent in rural areas and underdeveloped areas. Roache and Gostin (2017) explain that it remains unclear how the rest of the tax revenue was used. This is not to suggest that it has been misused or has not been accounted for. Instead, it has not been earmarked and it is therefore likely have been included in the national revenue. Furthermore, the authors submit that the World Health Organisation advises, for the purposes of transparency of this tax revenue, that the funds be earmarked for health promotion.

3.2.3 Early Evaluation of the Impact of the Tax

George (2017), the World Health Organisation (2015), Boseley (2017) and Colchero *et al* (2016) explain that an evaluation conducted early in 2015 revealed that, in the first year of the tax, 2014, there was an immediate 6% decline in purchases of taxed beverages, in comparison with the previous year. During the same period under review (2014 compared to 2013), Seedat and Singh (2017) and Colchero *et al* (2016) explain that the demand for non-sugar sweetened beverages and bottled water gained popularity, with an increase in sales of 4%. Colchero *et al* (2016) state that the untaxed beverages that gained popularity included diet soft drinks, sparkling and still plain water, 100% juices, flavoured water with non-caloric sweeteners and dairy beverages without added sugar. The above observations and trend that point out a decline in the consumption of taxed beverages, is supported by research performed across 53 cities in Mexico, comprising of more than 6 200 households. Seedat and Singh (2017) and The Telegraph (2016) submit that, in real terms during 2014 on average, each person reduced the purchase of sugar-sweetened beverages by 4.2 litres. The initial evidence was consistent across the targeted food items. Bartsch *et al* (2015) explain that the decline during 2014 in the consumption of targeted foodstuffs was also evident in cookies and ready-to-eat cereals, indicating the positive impact the tax has on consumption, as early as the year of imposition. Consequently, Blecher (2015) submits that the early evidence suggests that the tax is working as planned. The short-term outlook suggests that the tax has had a positive impact on the consumption, even if it is minimal.

George (2017), Boseley (2017) and Colchero *et al* (2016) state that an evaluation performed two years after the implementation of the tax in 2014, revealed an average decrease of 9.7% of the purchases for taxed beverages for 2015. Analysed further, during 2014, the decline in taxed foodstuff purchases was prevalent among the lower socioeconomic households. Moreover, Batis *et al* (2016) explain that among the lower socioeconomic households, the drop approximated 10.2%, while among medium socioeconomic households, a 5.8% decline in the consumption of the taxed foods was reported. Consequently, the low-income group responded more positively and was more sensitive to price increases than middle to high income groups. Unlike the beverage trend, Batis *et al* (2016) explain that there was no observable change in the consumption or purchase of untaxed foods.

The immediate evaluation of the tax also revealed some setbacks that are traceable to the tax. De Waal (2016), Krugel *et al* (2016) and Ncanywa (2016) explain that the shortcomings

include 1 700 jobs that are said to have been lost in the beverage industry. Furthermore, Ncanywa (2016) reports that 7 500 jobs are said to have been affected (either lost or were at risk) in the industry value chain. De Waal (2016) and Krugel *et al* (2016) reveal that all the jobs that had been lost and were affected are claimed to be closely linked to the introduction of the sugar tax, but it is too early to understand the full effect. The authors further indicate that there is not enough data or information available currently to understand the full effect of the tax from a broader scale and long-term perspective.

Consequently, in the short-term, the sugar tax reduces consumption of sugary drinks, but that cannot necessarily be extended into the long term as there is not enough information yet to ascertain the long-term impact of the tax. All the predictions are based on the short-term results and the evidence from other countries that have implemented the tax for a longer period. That is, the period since the introduction of the tax is too short to provide a long-term outlook.

3.3 Denmark

3.3.1 Introduction, Basis and Scope

Denmark introduced the tax on sugar-sweetened beverages in the 1930s and abolished it in 2014 (Seedat & Singh, 2017). According to Niels Hald, the Chief Executive Officer of Danish Brewers' Association (Hald, 2017), the exact periods are 1934 for the introduction and 1 January 2014 for the effective repeal of the tax. Seedat and Singh (2017) confirm that the tax was intended to reduce sugar intake. In terms of the World Health Organisation (2013), the imposition of the tax was consistent with the profiling of Denmark as an obese country or a country that is threatened by obesity. In addition, Bartsch *et al* (2015) submit that the profiling of Denmark as an obese country is further supported by the European Union analysis of its member states that revealed Denmark as one of the leading sugar consuming countries in the region. The European Union analysis confirms the World Health Organisation's findings on its intercountry comparison of overweight and obesity in the European region. The World Health Organisation (2013) revealed that from 2008, a year when the sugar tax was effective in Denmark, 51.9% of Denmark's adult population (older than 19 years old) was overweight and 18.2% obese. In this report, the World Health Organisation (2013) predicted obesity prevalence in Denmark in the medium to long term and anticipated that by 2020, 20% of men and 19% of women will be obese in Denmark. Since the announcement was made in April 2013 to abolish the sugar tax, the same year that the World Health Organisation published its report (Northern Ireland Assembly, 2015), it would be reasonable to believe that the World Health

Organisation's predictions and speculations, contained in its report, of obesity prevalence in Denmark by 2020 took into account the prospect of abolishing of the tax in Denmark.

In an attempt to intensify the fight against the prevalence of obesity, Nieburg (2013) and Bartsch *et al* (2015) explain that the Danish authorities applied the sugar tax to various items that include sugar-sweetened beverages, confectionery (sweets and chocolates) and ice cream. Nieburg (2013) further points out that the tax on sweets and chocolate was introduced in 1922 and had undergone three increases in the four years preceding 2013. In addition, the author states that the sugar tax was levied based on the weight or volume of the product and not on the sugar content in each product. The author reports that in 2013, the prevailing tax rates were, DKK 24.1 (€3.57) per kilo of chocolate and sweets, DKK 6.61 (€0.89) per litre of ice cream and DKK 1.64 (€0.22) per litre of soft drink. In 2012, just a year ahead of the abolishing of the sugar tax, a proposal was approved to have a multi-tier tax (two tax rates). Nieburg (2013) further reports that a reduced rate was introduced that applied to products containing less than five grams of sugar per kilo. In the same year, 2012, the author reveals that there was also a proposal to extend the scope of items to include other products that are considered high in sugar, to increase the scope of targeted items beyond soft drinks, sweets, chocolates and ice cream that were already taxed in terms of the excise tax. But this extension of the scope never materialised. In fact, the author claims that the proposal was never introduced in parliament.

3.3.2 Abolishing of the Tax

Seedat and Singh (2017) report that the April 2013 announcement to abolish the sugar tax was soon followed by a reduction in the tax rate in July 2013. In July 2013, the Northern Ireland Assembly (2015), Seedat and Singh (2017) and Hald (2017) report that the tax rate on soft drinks was reduced by 50%. This is likely to have been the first excise tax cut on soft drinks in Denmark. Nieburg (2013) suggests that this assumption is based on the substantial increases in the tax rate from 2010 and the general trend of continuing to increase the excise taxes to reduce consumption and efforts to keep up with inflation.

Seedat and Singh (2017) report that the motive behind the repeal of the tax was to increase employment and grow the economy in Denmark. The tax had a noticeable adverse impact on domestic jobs, mainly due to cross-border shopping, and the substantial decrease in the tax rate in July 2013 was not enough to mitigate the job losses. Seedat and Singh (2017) and the Northern Ireland Assembly (2015) report that 5 000 jobs are believed to have been lost due to cross-border shopping. Danish citizens preferred to shop cheaply from the bordering countries

where a similar tax was not in place and this resulted in a significant decline in production. Businesses were forced to reduce their Danish production, invest and grow their businesses in other countries, retrench employees and, in some cases, close operations.

The sugar tax was also criticised for being regressive and Seedat and Singh (2017) cite this as another motivation for the abolishing of the tax. The criticism of the regressive nature of the tax in Denmark appears to support the discussion in Chapter 2 of this thesis, that the tax on sugar-sweetened beverages is believed to more adversely affect the poor, leading to possible increased inequality. The poor are more sensitive to price increases and suffer a heavier burden of the tax compared to other consumers.

Seedat and Singh (2017) and The Spectator (2016) reveal that, as a result of abolishing the tax, Denmark forfeited the €60 million tax revenue that was collected in a year. Moreover, the authors report that the revenue collected in the year prior to abolishing the tax reflected a loss of €38.9 million in Value-Added Tax due to illegal purchases of soft drinks. According to The Spectator (2016), this revenue lost is based on the 2013 figures, just a year prior to abolishing the tax, which was levied at a rate of €0.22 a litre during 2013 (The Spectator, 2016).

The abolishing of the sugar tax in January 2014 followed the recent withdrawal of the fat-tax that had a limited lifespan. Nieburg (2013) reports that the fat-tax was introduced in 2011 and repealed in 2012. Ncanywa (2016) reveals that the intention of the fat tax, in addition to the sugar tax, was to increase the life expectancy by three years over the coming ten years from its introduction. The early abolishing of the fat tax appears to have paved way for the revision of other health taxes. Hald (2017) explains that the tax on sugar-sweetened beverages was immediately abolished and the excise tax on beer was reduced by 15% on 1 July 2013. Therefore, it appears reasonable to believe that Denmark realised that adverse effects associated with the health taxes outweighed the health benefits. This also reveals the realisation by the Danish authorities that the fight against unhealthy diets will not necessarily be won by taxes. Apart from economic setbacks that cross-border shopping introduced, people reverted to cheaper brands that were still harmful to their health. Hald (2017) explains that there was a shift away from health promotion excise taxes towards promoting healthy lifestyles. This shift was consistent with the new policy that the Danish authorities decided to pursue. The fat-tax only lasted for fifteen months (The Spectator, 2016).

At the time the fat tax was abolished in 2012, Seedat and Singh (2017), The Spectator (2016) and Ncanywa (2016) report that while 7% of Danish citizens had reduced their fat intake, 1 300

jobs are believed to have been lost owing to the tax. Therefore, a consistent trend appeared to prevail in significant job losses resulting from a health promotion tax. Ncanywa (2016), Nieburg (2013) and the Northern Ireland Assembly (2015) explain that the Danish citizens preferred to legally import or shop in Sweden and Germany for the products that were more expensive in Denmark due to regular tax increases. Consequently, the Northern Ireland Assembly (2015) concludes that the taxes threatened the small and medium-sized businesses, forcing some out of business and hence resulted in the significant job losses. De Waal (2016) and Krugel *et al* (2016) also hold the view that the sugar tax was repealed in 2014 due to cross-border shopping effects that led to domestic companies involved in the production and distribution of fizzy drinks becoming less profitable and ultimately being forced out of business, resulting in significant job losses and poor economic performance in the country.

According to De Waal (2016), the Danish government then pledged to look at other viable options to curb obesity. It intended to focus on interventions and programmes that will not harm the economy, discriminate against citizens or promote illegal trade. Moreover, Hald (2017) explains the Danish authorities' approach as pursuing a new path that abandons excise taxes as a regulatory instrument, as it had become evident that the excise taxes were worsening the situation. This was borne out in the stockpiling by importers from cross-border shopping. Hald (2017) submits that stockpiling was also believed to cause excess consumption, compared to what people would normally consume if they purchased foodstuffs only when they needed the food item. The imported item became easily accessible in bigger quantities at the consumer's convenience. Furthermore, the author explains that the cross-border shopping created an increased administrative burden for customs authorities. The cost of monitoring and promoting compliance became untenable. Hald (2017) explains that this included the cost of storing confiscated items imported illegally. Finally, Hald (2017) reveals that the excise tax was found to be discriminatory in that law-abiding citizens were placed at a disadvantage by higher prices charged domestically.

Consequently, Hald (2017) reports that the Danish government then pursued a new policy that focuses on the lifestyle rather than punitive tax measures. The new lifestyle approach consists of education and awareness. This is likely to include disseminating important health information on various media platforms for a wider reach. The other intervention, Hald (2017) suggests, includes the promotion of physical exercise or activity by citizens. This could be realised through the creation of recreational facilities for young and the old, offering rebates and incentives for cycling and making gym facilities affordable through subsidies. Other non-

fiscal measures the author mentions include making clean water and sugar-free alternatives easily accessible to all citizens. Additionally, the author discusses an alternative approach that focusses on redirecting the regulations from excise duties to the marketing of harmful products, especially for children, in line with the World Health Organisation's 2014 recommendations. Regulating vending machines in schools is one proposed intervention in this regard and Hald (2017) explains that the government intends to prohibit vending machines in schools. In this way, children will be prevented from getting easy access to the sugar-sweetened beverages. Furthermore, the author reveals that the government also intends to encourage producers to reformulate their products to contain less content of the harmful product or ingredient, or none where possible. Finally, Hald (2017) states that the government has planned to collaborate and partner with all affected stakeholders to intensify and coordinate the efforts aimed at curbing obesity, without imposing excise taxes.

Denmark's abolishing of the tax on sugar-sweetened beverages set a precedent for other countries that later repealed their sugar taxes. Finland and Iceland have since abolished their excise taxes on sugar content. Seedat and Singh (2017) reveal that Finland repealed the tax on sweets, chocolates and non-alcoholic beverages, with effect from 1 January 2017. This was despite the tax only having been effective from 2011. The authors explain that the increased cost of production was cited as one reason for the withdrawal of the tax. Urbach (2016) reports that Iceland repealed its tax on sugar-sweetened beverages and sugary goods in 2015. The author explains that Iceland's basis for abolishing the tax was to simplify its tax system and benefit the households with reduced prices, thus increasing their buying power or ability.

3.4 The United Kingdom

3.4.1 Introduction, Basis and Scope

Bartsch *et al* (2015) report that the United Kingdom is considered one of the "sweet tooth" countries in the developed economies and, accordingly, the United Kingdom is classified as one of the first world countries with high obesity rates. Bartsch *et al* (2015) and Adams *et al* (2012) explain that in 2017 the United Kingdom became the first country to introduce statutory restrictions on televised food advertisements aimed at children. Adams *et al* (2012) state that the restrictions were aimed at significantly reducing the exposure of children below the age of sixteen years to high fat, salt and sugar advertising. Bartsch *et al* (2015) and the World Health Organisation (2014) explain that this advertising regulatory approach preceded the World Health Organisation's 2014 recommendations on regulating children's exposure to the

marketing of food. The World Health Organisation (2014) and Adams *et al* (2012) show that the restrictions were also a positive response to the clarion call made by the United Kingdom's Secretary of State for Culture, Media and Sport in 2003. The call was an appeal to restrict the advertising of foodstuff that is rich in fat, salt and sugar and was based on the reported obesity prevalence amongst children at the time. Empirical evidence (Adams *et al*, 2012) reveals that both adults' and children's food preferences are mainly influenced by food promotion or advertising. Adams *et al* (2012), however, found that the advertising restrictions proved to be ineffective. They believe the reason for the ineffectiveness of the restrictions is that they were only applied to a selected few broadcasts, rather than all the television broadcasting corporates. Furthermore, they believe that a multi-faceted approach that involves other interventions is necessary to achieve the desired outcome. The multi-faceted approach includes the government's role in banning the sale of fizzy drinks, crisps and sweets in local authority-run schools (Bartsch *et al*, 2015). The authors further state that the discretion regarding whether children could bring the foodstuffs into schools vests with the head teachers.

Subban and Sher (2016) and Krugel *et al* (2016) report that in the March 2016 Budget Speech, the Chancellor of the Exchequer (the Minister of Finance) announced the introduction of the tax on sugar-sweetened beverages, with effect from April 2018. Seedat and Singh (2017) and HM Revenue and Customs (2016) explain that the announcement of the introduction of the tax came after various concerns had been expressed pertaining to rising obesity rates amongst children in the United Kingdom. Triggles (2016) explains that it was the health community advocates who were at the forefront of the campaigns and calls for the tax. Thus, the prevalence of obesity, particularly amongst children, was the fundamental basis for introducing the proposed tax. Empirical evidence reveals (Triggles, 2016) that about 50% of seven-year-old children do not take part in sufficient physical exercise. Furthermore, the author reveals that when children start primary school, one in ten children in England is obese. The author also explains that this obesity prevalence among school children in England is believed to worsen by the time they finish school, as one in five is obese by then. The introduction of the tax is therefore intended to curb rising obesity trends, especially among the youth. This forward-looking approach aims at alleviating the potential burdens and strain that obesity will impose on the population in the long run. This includes the productivity of the workforce.

The tax rate will depend on the sugar content (Seedat & Singh, 2017; George, 2017). Seedat and Singh (2017) confirm that a combination of a multi-tier tax and a threshold approach has been proposed (rather than a single tax rate). This is believed to yield more desirable outcomes

in curbing obesity and high sugar intake. Seedat and Singh (2017) and Triggles (2016) explain that the specific details of the two tax rates are that the sugar content exceeding 5 grams per 100 millilitres and below 8 grams per 100 millilitres will be taxed at a rate of £0.18 per litre, and that the sugar content exceeding 8 grams per 100 millilitres will be taxed a rate of £0.24 per litre. That is, all beverages with sugar content that is less than 5 grams per 100 millilitres (Seedat & Singh, 2017; Triggles, 2016) and all beverages with no added sugar (HM Revenue & Customs, 2016) will be exempt from the tax. Triggles (2016) reports that *Coca-Cola*[®], *Pepsi*[®] and *Lucozade Energy*[®] are some of the soft drinks that will be taxed at a higher rate, while others, such as *Fanta*[®], *Sprite*[®], *Schweppes*[®] and *Indian tonic water*[®], will be taxed at a lower rate. HM Revenue and Customs (2016) confirms that the proposed tax would be levied on both locally produced targeted beverages and imported beverages. Triggles (2016) further reveals that an exception is applicable to the smallest producers and operators importing from the smallest producers abroad. The smallest producers with low volumes of production (HM Revenue & Customs, 2016) will be exempt from the tax (Seedat & Singh, 2017; Triggles, 2016).

Seedat and Singh (2017), Triggles (2016) and Subban and Sher (2016) explain that pure fruit juices and milk-based drinks will be exempt from the tax. Seedat and Singh (2017) and King (2017) explain that a criticism raised against this exemption for certain beverages and other foodstuffs, is that some pure fruit juices, dairy-based products, sweets and chocolates may contain a higher sugar content compared to the soft drinks. Consequently, the exemption is considered discriminatory in nature. If this is the case, and if only sugar-sweetened beverages are targeted when other foodstuffs pose a similar or greater level of harm, the proposed tax will not produce the desired outcome. Instead, it will worsen the situation.

3.4.2 Immediate Reactions to the Proposed Tax

Krugel *et al* (2016) confirm that one of the immediate reactions following the March 2016 announcement to introduce the tax on sugar-sweetened beverages was the sharp decline in the share prices of the beverage industry's three largest manufacturing firms. This appears to be a likely reaction across countries and is reflective of industry shock and the immediate anticipation of the tax. This does not, however, reflect the overall and long-term effect of the tax.

With just over a year since the announcement of the introduction of the excise tax and a year ahead of the implementation date, positive results started to show. Producers began to embark on and report ongoing plans to significantly reformulate their products to qualify for the exempt

threshold or reduced tax rate. Kottasova (2017) reveals that, in 2016, Lucozade Ribena Suntory® had already reported intentions to reduce the sugar content in their products by 50% by July 2017. Lucozade®'s follow-through on their commitment, North (2017) submits, resulted in Lucozade Original® reducing the sugar content by 48% before July 2017. This radical move and adjustment, North (2017) explains, was not popular with the consumers, who expressed discontent on social media about the taste of the new recipe. Cave (2017) reports that, notwithstanding the negative feedback from the consumers, Lucozade Ribena Suntory®'s management remained firm and confident that, while the sugar content in their products had been halved, they still taste as good. Moreover, Kottasova (2017) explains that *Coco-Cola*® also communicated over 200 reformulation plans globally to reduce the sugar content in its products. This was already confirmed in brands such as Sprite® and Fanta® that have cut sugar and calories by 30% in the United Kingdom (Kottasova, 2017). Kottasova (2017) explains that these necessary reformulations have also signalled a substantial decrease in the expected tax revenue from the excise tax. Based on the significant reformulation, it is expected that £380 million, instead of the initially forecast amount of £520 million, would be collected from the tax. Unlike at other times, HM Revenue and Customs (2016) reports that the decline in the expected tax revenue is welcomed by the Finance Ministry as it is believed to be in line with the objectives of the tax, to curb obesity, especially among children. This is seen in the reformulations by producers, cutting down the sugar content in their products. This further reveals that revenue generation was never a primary objective of the tax, but an incidental outcome.

3.4.3 Expected Gains from the Proposed Tax and Criticism of the Tax

Seedat and Singh (2017) and Triggle (2016) reveal that the tax is estimated to raise approximately £520 million per year. De Waal (2016), Seedat and Singh (2017), George (2017) and Triggle (2016) explain that the funds collected will be earmarked for the financing of sports facilities at primary schools.

HM Revenue and Customs (2016) expects the introduction of the tax to usher in substantial relief in the healthcare costs for both individuals and the government from illnesses that are associated with obesity and overweight. HM Revenue and Customs submits that the training costs for staff who will work directly with the levy for producers and for revenue authorities are expected to be minimal. Other compliance and administrative costs include completing, filing and paying quarterly returns and once-off costs of developing a compatible system for

administering the tax (HM Revenue & Customs, 2016). Plans are in place to monitor and evaluate the effectiveness of the levy through information collected from tax returns (HM Revenue & Customs, 2016).

Seedat and Singh (2017) state that a criticism of the proposed tax is its regressive nature, indicating that the poor suffer the highest burden of the tax.

3.5 Mauritius

3.5.1 Introduction, Basis and Scope

Mauritius is a sugar producing country and according to World Health Organisation (2015) its sugar production makes up about 19% of its foreign exchange earnings. This makes the sugar industry a key contributor to the country's economy. Notwithstanding this, the World Health Organisation (2015) and Seedat and Singh (2017) explain that the country introduced an excise duty on the sugar content of soft drinks in February 2013. Mauritius is considered an obese country or threatened by possible obesity. The 2015 Mauritius non-communicable diseases survey report (Gayan, 2015) reveals that about 398 417 people between the ages of 25 and 74 were obese. This is a significant proportion of the active and productive workforce for a country that, in terms of Stats Mauritius (2015), accounted for a total population of approximately 1 262 863 in 2015. When compared to the previous time a similar survey was conducted in 2009 (Gayan, 2015), the prevalence of obesity in Mauritius had risen from 16% in 2009 to 19.1% in 2015. The survey (Gayan, 2015) further revealed that about 68.6% of the participants were either overweight or obese. This information is probably the reason for the imposition of the tax and the subsequent revision of the scope of the items on which the tax is levied. The obesity trend aligns with the high domestic sugar intake by a sugar-producing country. Kwong (2005) explains that Mauritius consumed about 40 000 tonnes of sugar per year in the early 2000s out of its 600 000 tonnes of sugar produced. Mauritius also boasts a small population. Therefore the 40 000 tonnes for its small population size is substantial. It is also highly unlikely that any sugar would be imported, as this would possibly be costly for the country, and the country's substantial exports of sugar to other countries could reflect that there are surplus quantities and imports would not be needed. Therefore, the quantities consumed from local production are probably a good estimate of the actual sugar consumption in Mauritius. This analysis ignored the effect of imported sugar-sweetened foodstuffs.

When the tax on sugar-sweetened beverages was first introduced in 2013, the World Health Organisation (2015) reports that the soft drinks that were subject to tax included any aerated

beverage (such as colas), any syrup for dilution and any fruit squash, cordial or fruit drink (including blends and juice with added sugar). The World Health Organisation (2015) explains that when introduced, the excise tax excluded bottled water, pure fruit juice and blends thereof, pure vegetable juice, and blends thereof and dairy milk. The rate of the excise duty was set at 2 Mauritian cents per gram of sugar (World Health Organisation, 2015). The World Health Organisation (2015) and Seedat and Singh (2017) explain that the tax rate was increased to 3 cents per gram from 1 January 2014. The Mauritius Revenue Authority (2016), the Mauritius Revenue Authority (2018) and the World Health Organisation (2015) reveal that the same tax rate is levied on imported products and locally produced non-alcoholic beverages. The tax is levied on each gram of sugar in the beverage and no threshold is applied. Therefore, there is no acceptable level of sugar content that is exempt from taxation.

The Mauritius Revenue Authority (2018) confirms that the tax is not applicable or charged on soft drinks meant for export. In this way, the export of the targeted product is encouraged, while the local citizens are protected from the harm the targeted product causes. There is clearly an economic rationale that underpins the export exemption, which boosts the local economic performance.

In 2016 Mauritius extended the scope of items on which it levies the excise tax. The rationale behind increasing the scope is possibly the increase in the prevalence of obesity in Mauritius revealed in the 2015 survey discussed above. George (2017) reports that the revised scope now includes any non-alcoholic beverage containing sugar, including juices and dairy products. The effective date of the revision or amendment was 1 October 2016 (Mauritius Revenue Authority, 2016). Accordingly, as stated by the Mauritius Revenue Authority (2016), the Excise Act has been amended to include any non-alcoholic beverage containing sugar in the form of juice, dairy products and soft drinks. The Mauritius Revenue Authority (2018) confirms that fruit and vegetable juices and soft drinks containing artificial sweeteners remain exempt.

3.5.2 Administrative Burden

The introduction of the tax ushered in a compliance and administrative burden for the Mauritian authorities. According to the World Health Organisation (2015), the beverage suppliers have since been required to obtain a Sugar Content Certificate from an accredited body (such as the Government Analyst Division) or the Mauritius Standards Bureau, declaring the sugar content in the soft drink. The World Health Organisation (2015) reports that this certification requirement is applicable to both imported and locally manufactured drinks. Moreover, the

World Health Organisation (2015) further states that the Mauritius Revenue Authority carries out post-control audit checks on a risk management basis. The administrative and compliance burden includes the cost of training officers to carry out, monitor and regulate adherence to the stipulated requirements and all other related costs such as travelling, accommodation, materials, etc.

3.5.3 Tax Revenue

According to the World Health Organisation's study (World Health Organisation, 2015), the Mauritius Revenue Authority collected tax revenue amounting to 330 million Mauritian rupees (US\$ 9.2 million) from the sugar tax. It is unclear whether the tax revenue is earmarked for health promotion. However, the World Health Organisation (2016) indicates that the experience with the tobacco tax levied in Mauritius, which is also a health promotion tax, is that part of the tax revenue is earmarked for health promotion. Consequently, there is a reasonable expectation that part of the tax revenue collected from this tax is earmarked for health promotion. The World Health Organisation (2015) states that the impact on the sales of soft drinks has not been assessed. Furthermore, information that discusses the impact of the tax on consumption of taxed foodstuffs and the prevalence of obesity could not be obtained. This posed a restriction in the present research relating to evaluating the effectiveness of the tax in curbing obesity.

3.5.4 Illegal Markets

There is no available information that reports on the emergence of illegal markets or the existence of cross-border shopping where Mauritius citizens shop for the taxed foodstuffs from the neighbouring countries that do not levy a similar tax. Currently, there is only one Mauritian neighbouring country, Seychelles that is considering taxing sugary drinks. Lawrence (2018) explains that Seychelles also plans to introduce the tax in 2019 to combat obesity. Furthermore, the geographical location that involves the existence of islands in and around Mauritius and its neighbouring countries can also hinder easy movement of goods. The restrictions or regulations in moving the goods and the related cost could be discouraging cross-border shopping by Mauritius consumers.

3.6 Conclusion

The above discussion reveals and explains the complexity that countries around the world are facing in trying to combat obesity. The obesity problem is a challenge for both the developed and the developing economies. It is a threat to future productivity and an active workforce. While it is prevalent among all age groups, there seems to be a serious and radical focus by many countries to try to curb it among children.

As discussed in Chapter 2, the fight against obesity is unlikely to be won by only fiscal intervention. A multi-faceted approach that involves education, awareness, promoting physical exercise, improving access to clean water and other healthier alternatives for all citizens, is necessary to try to overcome obesity. The legislation also has a role to play in regulating the advertising of food products that are considered harmful to children and all citizens. The approach that Mexico adopted is a classic example of restrictions that prohibit the display of certain television and cinema advertisements considered harmful to children. The Danish banning of vending machines in schools to restrict easy access to the foodstuffs high in sugar and calories is another good, practical and easy example to implement.

Other valuable lessons that the experience of other countries provide is understanding the complexities that led to some countries repealing the tax. These experiences provide a platform for proper planning and a proactive approach. The additional lessons that these countries offer is alternative measures that are available to fight obesity, in addition to fiscal policy measures. Finally, this group of countries discussed teaches valuable lessons regarding the potential harm that the tax could introduce into a stable economy. Linked to the negative economic impact is the cost of compliance, monitoring and evaluation.

The other critical issue that is important for careful consideration of the tax, is the tax approach – whether a multi-tier approach is used or a single rate, a threshold approach and exemption of other beverages, or a wider approach that taxes a broader range of food items. Unlike the South African proposal, most countries seem to target also the foodstuffs that are high in sugar and calories rather than only the beverages. Sweets, chocolates, ice cream, and some cereals are examples of foodstuffs that are taxed by many countries that adopt the sugar tax. Tax based on sugar or nutrient content is suitable for countries with strong tax administration. Otherwise, for a simpler tax system, the World Health Organisation (2015) recommends a volume-based sugar tax.

In promoting economic performance, a special exemption as applied in Mauritius could be ideal, where the tax is not levied on targeted products manufactured for export. While this protects its citizens by making the products expensive domestically, it also seeks to protect the stability of business and employment by encouraging production for export. It needs to be borne in mind, however, that this increases the administrative burden for compliance officers and regulatory bodies.

Finally, it seems that different countries hold different views on earmarking the tax revenue collected to be used for the promotion of a healthy lifestyle. To some extent, it appears as if the size of the economy, its stage of development and the pressing need for additional revenue to finance other government programmes, significantly influences the extent to which the funds are earmarked. With the exception of the United Kingdom, a first world country, it seems that a substantial portion of the tax revenue collected is rarely earmarked transparently by countries for the promotion of healthy lifestyles.

The existence of illegal markets and cross-border shopping is a very serious hindrance and setback to the policy. Therefore, this should not be taken lightly in planning and implementing the tax. It became the reason for abolishing the tax by other countries and a major setback in those countries' economic performance and employment.

A very positive result of the tax is the radical reformulation of the products by many key beverage producers around the world. While this reduces the expected tax revenue, this is beneficial as less harmful content of sugar and calories is included in the targeted products. This is discussed further in Chapter 5, where the role that producers play in promoting the success of the tax is discussed.

It is clear from the experience of other countries that where cross-border shopping does not exist (or is minimal), the sugar tax in the short term reduces the consumption of the harmful products. Consumers tend to be responsive to price increases. Where possible, subsidising healthier alternatives should be considered to encourage their consumption. The impact on jobs can be minimised if a collaborative approach is employed in introducing the tax. Undue pressure is exerted by food and beverage industries with opposing arguments exaggerating job losses and the regressive nature of the tax. The United States of America's experience reveals (World Health Organisation, 2015), however, that the net effect of jobs is positive in that the substitution effect increases purchases and production capacity of untaxed items and if taxed products are price inelastic, then the effect on product sales and jobs is minimal and not adverse.

To add to the understanding gained from the in-depth analysis of the proposed tax on sugar-sweetened beverages from a South African and an international context, Chapter 4 examines the existing excise taxes in detail, the excise taxes on tobacco and alcohol that closely compare to the proposed tax.

Chapter 4: Excise Taxes in South Africa on Tobacco and Alcohol: Predicting the Possible Success of a Tax on Sugar-Sweetened Beverages

4.1 Introduction

An in-depth analysis has been made of the proposed tax on sugar-sweetened beverages in South Africa and an analysis of similar taxes levied in selected foreign jurisdictions. Since the proposed tax on sugar-sweetened beverages forms part of excise taxes, this chapter enlarges on the discussion by examining the experience of the existing excise taxes levied on tobacco and alcohol in South Africa. The chapter uses the results obtained from the experience of these existing excise taxes to predict the possible success of the proposed tax on sugar-sweetened beverages.

Excise taxes are levied on products with a high level of consumption and on luxury items and are mainly intended to provide a continuous revenue stream for the State and to encourage responsible citizenry (South African Revenue Service, 2016). According to the 2017 Tax Statistics compiled by National Treasury and the South African Revenue Service (South African Revenue Service, 2017a), specific excise duties account for a meaningful contribution to the total tax revenue collected. During the 2016/17 tax year, the Tax Statistics (South African Revenue Service, 2017a) revealed that the specific excise duties accounted for 3.1% of the R1.144 trillion total tax revenue collected (in 2015/16 and 2014/15 the percentage was 3.3% of the total tax revenues of R1.069 trillion and R986 billion respectively). These tax revenue amounts derived from specific excise duties (South African Revenue Service, 2017a) account for 0.8%, 0.9% and 0.8% of the Gross Domestic Product for the three respective tax years 2014/15, 2015/16 and 2017/16.

The Customs and Excise Act, No. 91 of 1964, regulates South African excise taxes. Various excise taxes are currently in place in South Africa and include the tax on tobacco and alcohol, the fuel levy, the *ad valorem* excise duty, an environmental levy and an export duty. The excise taxes on tobacco and alcohol can be compared with the proposed tax on sugar-sweetened beverages⁶, since all the three excise taxes have a strong health rationale that underpins their imposition. Bartsch *et al* (2015) explain that the excise taxes are intended to encourage a healthier lifestyle and to discourage the excessive consumption of products that expose

⁶ Referred to as the Health Promotion Levy in the 2017 Rates and Monetary Amounts and Amendment of Revenue Laws Bill and often referred to as a sugar tax by others.

consumers to non-communicable diseases and severe illnesses and that result in a significant burden on the public health budget. The authors further claim that the excise taxes aim to accomplish this by the anticipated decrease in consumption, as the target products become more expensive and therefore less affordable. This primary objective that focuses mainly on consumption is probably more important than the normal revenue-generating intention in levying the taxes.

Because of the similarities between the tobacco and alcohol taxes and the proposed tax on sugar-sweetened beverages, this chapter seeks to establish similarities between the three excise taxes through an extensive analysis of the excise taxes. The chapter further intends to identify lessons that could be learned from the existing excise taxes levied on tobacco and alcohol that could provide guidance regarding the likely success of the imposition, administration and implementation of the proposed tax on sugar-sweetened beverages. The excise taxes on tobacco and alcohol have been levied over a long period, have undergone rigorous reviews over the years and have been amended to deal with the many challenges that have emerged since they were introduced and implemented. Furthermore, the practice of imposing taxes to control consumption of a harmful product has been applied for over a long period and therefore it is not unfamiliar. The well-known economist, Adam Smith, in the *Wealth of Nations* in 1776 (Blecher, 2015), expressed his firm support for the taxation of tobacco, alcohol and sugar, since they were not considered essential or necessities of life.

4.2 Excise Tax on Tobacco

4.2.1 Basis of the Excise Tax and the Evolution of Tobacco Regulation in South Africa

Empirical evidence reveals that there are far-reaching detrimental effects that are associated with tobacco⁷ consumption. Mohamed (2002) explains that these harmful effects extend beyond endangering only the actual smoker, to endangering non-smokers and unborn children of smoking pregnant women. Therefore, there is a heavy social cost burden that is associated with treating and dealing with illnesses and deaths that result from the habit, lifestyle and behaviour involving tobacco consumption. Van Walbeek (2006) states that, among the measures aimed at preventing the spread of the hazard that relates to tobacco consumption, the

⁷ “Tobacco Products include cigarettes, cigars, cigarette tobacco and pipe tobacco and are subjected to the payment of Excise Duty if consumed within the Southern African Customs Union (SACU)” (South African Revenue Service, 2017b).

South African government, in response to numerous calls by anti-smoking groups, passed tobacco control legislation in 1993 (the Tobacco Products Control Act, No. 83 of 1993) to manage and reduce tobacco consumption. The measures, Mohamed (2002) and Van Walbeek (2006) explain, comprised amongst others, an advertising ban, strict restrictions on smoking in public areas and public transport, a ban on selling tobacco to minors, health warning signs on cigarette packs and the imposition of an excise tax on tobacco. Notwithstanding the health rationale that underpins the tobacco control policy, Van Walbeek (2010) claims that the imposition of the excise tax on tobacco, particularly in the low and middle-income economies serves to provide additional revenue for the government. Ucko (2015) explains that the Tobacco Products Control Act was the first official tobacco control legislation in South Africa, which followed numerous regulations by certain institutions, such as the banning of smoking in cinemas in 1965, on South African Airways flights in 1988 and on properties occupied by authorities, such as municipal buildings, by the Edenvale Town Council in 1989.

In its preamble, the Tobacco Products Control Act acknowledges the harmful effects associated with tobacco and, moreover, confirms its alignment with the World Health Organisation's Framework Convention on tobacco control and the upholding of the South African Constitution in the best interest of its citizens, and recognises the commitment by South African policy-makers to adopt the World Health Organisation's recommendations and advance the aims of the Constitution of the Republic of South Africa. It is therefore clear that the practice of adopting World Health Organisation recommendations is not foreign in South African policy formulation.

Despite the fiscal policy measure being considered an efficient and a resourceful tool to combat or control consumption of a harmful product, such as tobacco, Mohamed (2002) states that it has become evident that the demand for addictive products is relatively inelastic. Thus, the imposition of taxation does not necessarily fully deter people from consuming the product, a result that defeats the original intention and instead makes it a revenue-generating scheme with a reduced health consciousness effect. Mohamed (2002) further points out that there is unfortunately an unintended shift towards even worse (more harmful or of poor quality) substitute products, where healthier substitute goods are less affordable and not easily accessible. Notwithstanding the counterintuitive result of consumers resorting to cheaper and more harmful tobacco products, Van Walbeek (2010) reveals that numerous studies still argue that the tobacco addiction has not rendered fiscal policy measures ineffective. Van Walbeek (2010) and Blecher (2015) report that people have reduced their tobacco consumption when

faced with higher prices. Boshoff (2008) further substantiates and supports this claim by pointing out that the consumption of tobacco products was more prevalent during the 1990s. In this regard, Boshoff (2008) points out that the country's economic performance, the phase of the business cycle and overall health awareness of the hazards and dangers associated with tobacco consumption, stimulate the effect of price increases on tobacco consumption. In periods of economic recession, price increases are severe and have a direct impact on real income. Consequently, during recession periods, consumers become more sensitive to price increases and revise their purchase preferences. In other words, consumers are led to reconsider their consumption "basket". Conversely, Boshoff (2008) also points out that during booming or peak phases in the business cycle or economic performance of the country, consumers' disposable income increases, and at times this is coupled with low health awareness, and these combined negate the effect of price increases.

4.2.2 A Multi-faceted Approach and Illegal markets

Thus, as acknowledged by National Treasury (2016b), it is important that a multi-faceted approach is adopted in the fight against a harmful product (or its content), which looks beyond just the targeted product and instead, considers the power of addiction, recognises the need to have affordable alternative products, while discouraging the consumption of the targeted product. In addition, Mohamed (2002) indicates that the success of the taxing policy in discouraging the consumption of a harmful product needs to factor in the existence or emergence of the illegal market that offers the harmful and targeted product, or its close substitute, more cheaply. This happens, particularly, if the targeted product can be sourced inexpensively from providers that are not subject to the restrictions that the tax imposes. Boshoff (2008) states that the Tobacco Institute of South Africa reported that the sales volume of illegal cigarettes sold in South Africa increased from 8 million per day in 2005 to 10 million per day in 2006. The Tobacco Institute of South Africa (2007), in explaining the magnitude of the problem, reported that the existence of the illegal market resulted in an estimated excise tax revenue loss of R1.4 billion by the government. During the 2016/17 tax year, Tobacco South Africa (2017) reports that the illegal cigarette market was estimated at 23% of the total market. In terms of Tobacco South Africa (2016a) this growing market share accounts for approximately R27 billion that South African Revenue Service has lost since 2010 in excise duty and Value-Added Tax.

If these realities are not taken account of, broadly and systematically, they pose a threat to the effectiveness of the fiscal policy measures and expose the government to complexities and increasing social and preventative costs. In other words, serious unintended consequences may result if complementary measures, in addition to imposing a tax, as a means of controlling consumption of a harmful product are not considered carefully. The existence of illegal markets or smuggling in its many forms could prove counterproductive and more harmful if fiscal policy measures are inadequately structured and are poorly coordinated.

4.2.3 Continuous Increase in Excise Taxes

Empirical evidence (Van Walbeek, 2006; Blecher, 2015) reveals that a continued increase in excise taxes on tobacco has, over time, resulted in the significant decline in tobacco consumption, particularly in the South African context, indicating the effectiveness of the fiscal policy measure in combatting tobacco consumption. Van Walbeek (2006) points out that this noteworthy outcome is also coupled with an increase in government revenue, generated from the excise tax on tobacco. Consequently, the author suggests that the tobacco industry has inevitably been forced to be more creative and dynamic in responding to the change, where the progressive increases in excise tax on tobacco appeared to be a permanent feature.

Van Walbeek (2006) submits that the less popular industry reaction to increasing excise taxes is the continued increase in the industry price of the targeted product to mitigate the adverse effect of tax on manufacturers' performance and profits. The author points out that, regrettably, the entire price increase in the targeted products tends to be attributed to the excise tax, when in many instances its real impact is very minimal. This happens through the monopoly power within the industry capitalising on the media focus on the excise tax. Van Walbeek (2006) submits that, due to the existence of an almost monopolistic practice within the industry⁸, the price of the targeted product tends to be manipulated over time by the industry key role players as the demand and consumption of the targeted product reduces. Moreover, the author suggests that this possible price manipulation occurs when higher prices are initially charged for the targeted product, which results in substantial profits for the manufacturers or producers, while consumer tastes and habits remain unchanged.

⁸ In mid-2000s, it was reported that British American Tobacco (BAT) South Africa, subsequent to Rothmans/BAT merger, retained 93% of the market share, followed by Japanese cigarette company Camel, with approximately 5% (Van Walbeek, 2005).

Van Walbeek (2006) submits that industry reaction to prospective excise taxes drives the prices higher, at times resulting in increased unemployment. The author supports this claim by pointing out that it happened in the Rembrandt merger with the United Tobacco Company to form British American Tobacco South Africa. This reveals that the long-term prospects and strategic plans of the companies or the industry play a vital role in increasing joblessness. Obviously, a loss of jobs can partly be attributed to excise taxes, but it is mainly the profit motive of industries that multiplies the effect. Van Walbeek (2006) submits that the speculations, discussion and threats at the introduction or announcement of an excise tax have been seen to cause retrenchments in the tobacco industry. The author explains that job losses occurred during the period when the official legislation on tobacco was being discussed and ultimately enacted. However, the author also reveals that the industry suffered severe job losses in the range of 20% of the labour force long before the serious talks about the legislation began. Van Walbeek (2006) explains that, in 1985, the tobacco manufacturing industry experienced a 65% drop in employment. The author suggests that during the post-legislation enactment period (the late 1990s), the substantial job losses can possibly be attributed to the merger between two industry giants, Rembrandt and United Tobacco Company to form British American Tobacco South Africa and is therefore not wholly attributable to the excise taxes on tobacco. It appears, therefore, that the steady decline in jobs can, to some extent, be due to the decline in consumption resulting from excise taxes, the result of the fiscal policy interventions (constantly increasing the tax on tobacco). However, this will not account entirely for the job losses as various factors play a role in the industry. The improved production techniques and the industry becoming more capital intensive resulted in other job losses when, in certain instances, the timing coincided, unintentionally, with the continued increase in excise taxes that dominated the media and created controversy and debates. Van Walbeek (2006) explains that it therefore becomes evident that the effectiveness of tobacco control measures that involve fiscal policy, are most effective when complemented by the industry cooperation in the pricing and marketing strategies that support, whether directly or indirectly, the objectives of the fiscal policy measure. Ucko (2015) explains that cigarette production has become mechanised with limited input from employees and these improved production techniques have also increased unemployment in the tobacco industry. This claim further reveals that a number of factors other than the fiscal policy intervention cause job losses in the tobacco industry.

4.2.4 A Uniform South African Tax Structure on Tobacco

Currently, the South African approach of a uniform tax structure that involves levying the excise tax on all tobacco products, mitigates the disadvantages of taxing only selected items, which generally allows consumers the opportunity to switch to other cheaper substitutes that pose similar harmful consequences. In addition, Blecher (2015) explains that this tax structure is considered as efficient, easy to administer and useful in projecting reliably the expected revenue from the tax.

4.2.5. Overall Impact of the Excise Tax on Tobacco in South Africa

If similar reactions, such as forming a monopolistic market by key industry role players, emerge in response to changes that include fiscal policy interventions, the role played by the independent competition regulatory bodies established in 1998 and 1999 (Competition Tribunal, 2017) provides a level of confidence. These are the Competition Commission, the Competition Tribunal and the Competition Appeal Court. They are respectively tasked with investigating and enforcing fair competition regulations, holding hearings and conducting consultations, and handling disputed outcomes (Competition Tribunal, 2017). These bodies all seek to ensure that no unfair business practices and market exploitation takes place.

The excise tax on tobacco has proved to be successful. It has accomplished both its objectives. Over time, it has reduced tobacco consumption significantly and generated substantial revenue for the government. Despite the significant drop in tobacco consumption (the desirable and intended outcome) (Van Walbeek, 2005; Van Walbeek, 2006), both the government revenue (Van Walbeek, 2005; Van Walbeek, 2006) and the industry revenue (Van Walbeek, 2006) continued to increase, in real terms. This has been accomplished through the radical approach by government and anti-smoking advocates, organisations and campaigns, since the legislative regulation of the tobacco industry. This includes the above-inflationary adjustments in the annual budgets of the excise tax on tobacco. In the 2018 Budget Speech (Gigaba, 2018), the excise tax adjustment on tobacco and alcohol is between 6% and 10%, while the projected inflation rate for 2018 is estimated at 5.33% (Statista, 2017). Consequently, some smokers have been forced to give up smoking, while those who are more heavily addicted have reduced their consumption. Another reason for the success of this excise tax is that it is levied on all tobacco products, thus not allowing smokers to change to cheaper alternative products. Additionally,

the imposition of the tax both in the region and in bordering countries⁹ helps to prevent the incentive to source tobacco products from bordering countries more cheaply, when the bordering countries do not levy the excise tax. With the exception of Lesotho, where there is no law or policy regulating or controlling tobacco, Tobacco South Africa (2016b) reveals that the other bordering countries (Namibia, Swaziland and Botswana) have legislation that governs and controls the use of tobacco. The legislation on tobacco by bordering countries strengthens and complements the effectiveness of the local regulations and laws aimed at controlling tobacco consumption.

The legislation and regulations have undergone rigorous and regular refinements and improvements. These include the 1999, 2007 and 2008 amendments to the legislation. The changes also signalled the policy makers' commitment and intention to be adaptable to changing times, to the World Health Organisation recommendations and to remain relevant in the fight against the dangers of tobacco use. Ucko (2015) points out that the imposition of the excise tax on tobacco survived criticism from industry and experts, who claimed that it would harm the economy and was not suited for a third world economy such as South Africa. Overall, Van Walbeek (2006) submits that the number of jobs lost as a result of regulating the tobacco industry by way of a legislation, appear to be comparable to the jobs lost during the periods prior to the conversations about national regulation of the tobacco industry. The author further states that there were no excessive job losses and no destabilisation of the tobacco industry value chain.

4.3 Excise Tax on Alcohol

4.3.1 Basis of the Excise Tax and Regulation of Alcohol Marketing, Sale and Usage

Apart from generating revenue, the excise tax on alcohol is intended to induce a significant decline in alcohol consumption (Russell & Van Walbeek, 2016), which is considered harmful for individuals, families and the whole of society. The National Liquor Act, No. 59 of 2003, together with complementary regulations, govern and regulate the production or processing of alcohol, advertising and marketing, accessibility or distribution, etc. in South Africa. The Department of Trade and Industry (2018) reveals that, prior to the enactment of this Act,

⁹ Excise tax is levied on all tobacco consumption within the Southern African Customs Union (SACU) (South African Revenue Service, 2017b), which comprise of Botswana, Lesotho, Namibia, South Africa and Swaziland.

provincial Liquor Authorities were responsible for overseeing and monitoring alcohol manufacture, distribution and use. Therefore, the motivation for the imposition of this excise tax includes health, safety and social concerns (National Treasury, 2014a) for those who are either consuming alcohol or are surrounded by people consuming alcohol.

4.3.2 Tax Structure

Blecher (2015) and Russell and Van Walbeek (2016) explain that, in contrast to the tax that South Africa applies on tobacco, since the 1998/1999 fiscal year the excise tax on alcohol has been levied on the dosage, rather than a standard flat rate for a certain quantity. Blecher (2015) states that the rationale for this is the observed and established correlation between the alcohol consumption and alcohol-related diseases, the dose of alcohol and the resultant harm that it causes. Prior to this change, Blecher (2015) mentions that a flat rate was applied to, for example, a litre of beer, rather than on alcohol content.

Russell and Van Walbeek (2016) explain that the immediate price adjustment for beer and many other alcoholic beverages in response to an excise tax change¹⁰ expedites or accelerates the desired effect of the imposition and adjustment of the excise tax. Thus, there is both an immediate and longer-term impact that the imposition and adjustment of the excise tax encompasses. Russell and Van Walbeek explain that the overall and long-term impact is seen in the full price adjustment that takes place within two to three months from the tax changes. In addition to the price adjustment for alcohol, the inflationary impact on alcohol price is seen in the period until the next Budget Speech. The inflationary impact has a more steady and real impact on the price of beer and alcohol over time. The excise tax on alcohol puts pressure on manufacturers or producers to be more creative in their marketing and pricing strategy to remain profitable and competitive. It is submitted that, as soon as manufacturers react, whether to advance their profit motive or to mitigate the medium to long-term effect of the price increase when consumers' tastes and preferences change, the demand diminishes substantially, and ultimately, the objective is achieved.

¹⁰ The date of the Budget Speech date or 1 March in the South African context.

4.3.3 Shifting of the Tax Burden onto Consumers

Despite the difference between the excise tax levied on alcohol and the excise tax on tobacco, Russell and Van Walbeek (2016) point out the similarity between the two excise taxes regarding the shifting of the tax burden by manufacturers or producers onto the consumers. Russell and Van Walbeek point out that, as a direct consequence of manufacturers shifting the tax increase onto consumers for highly priced demand-elastic beer products, there has been an observable decrease in consumption. As manufacturers shift the tax increase onto the consumers, they realise increased profits and remain profitable and competitive. Finally, the carefully engineered approach by manufacturers assures a stable and constant revenue collection. This is possible when the manufacturers in, for example, the beer industry apply the shifting-over technique carefully on those beer products or sizes that are highly price inelastic¹¹, rather than those that are highly price sensitive. Blecher (2015) points out the options producers have to minimise the effect of tax on their profits and those they have adopted, and explains that, in certain instances, producers have preferred to absorb the tax on high alcohol content beer and not pass it on to consumers. In mitigation, the author explains that the producers have improved the marketing and pricing of lower alcohol content beer such as Castle Lite^{®12}. Blecher (2015) submits that this has resulted in the Castle Lite[®] advertising share growing significantly from 7% in 1997 to 26% in 2013. Castle Lite[®] has been premium priced (Blecher, 2015) to make up for the tax on other alcohol products with high alcohol content that producers have absorbed. In other words, producers have essentially redirected their profit maximisation towards the alcohol products with low alcohol content. Consequently, the consumption of the harmful content has been reduced, while producers have also improved their profits. Therefore, producers have become very strategic in improving their profits while realising and promoting the objectives of the excise tax on alcohol. Accordingly, Blecher (2015) reveals that there has been a general observation of improved sales of the beer that is

¹¹ Chegg Inc. (Online, 2012) defines price elasticity as “a measure of the responsiveness of demand or supply of a good or service to changes in price. The price elasticity of demand measures the ratio of the proportionate change in quantity demanded to the proportionate in the price.”

¹²Castle Lite[®] contains approximately 4% alcohol content and is considered low alcohol content beer, while Carling Black Label[®], for example, contains 5.5% alcohol content and is considered a high alcohol content beer (Russell & Van Walbeek, 2016).

most aggressively advertised and marketed, which in this case has a low alcohol content. In the unlikely event that producers would continuously absorb the tax on alcohol products with high alcohol content, over time, consumers will find those most affordable and consume more of them. This could nullify the effect of the excise tax, which is to reduce consumption of the harmful products, or products containing harmful content. Thus, the balance between the pricing and marketing policies provides stability and enables manufacturers to continue to make profits or increase business and mitigate the threat that excise taxes pose.

Under these circumstances, it appears reasonable to believe that the regressive nature and impact, and the threat to employment, closely linked with poor profits, that are associated with the imposition (or adjustment) of excise taxes, can be minimised.

The practice of shifting of the tax burden onto consumers of the beer price increase is common practice in the South African context, primarily due to the monopolistic power that exists in the industry. Blecher (2015) and Russell and Van Walbeek (2016) reveal that in 2012, South African Breweries held almost 80% of the market share of the total beer market, and Blecher (2015) further reveals that the largest three producers combined held 95%. This confirms that perfect competition, where there are many buyers and producers or providers, does not exist in the beer industry, as only a few suppliers dominate the industry. Russell and Van Walbeek (2016) conclude that, because of price-shifting by producers onto consumers, producers are also able to maximise their returns and benefit by way of increased profits.

The levying of excise taxes tends to be more effective when the manufacturers pass the tax onto the consumers, making the targeted products more expensive. Thus, where manufacturers choose to absorb the tax themselves, this would reduce their profits, threaten employment and negate the health rationale that underpins the imposition of the tax.

Russell and Van Walbeek (2016) explain that, in the process of manufacturers shifting the tax burden onto consumers, the impact that geographical location has on the availability of the product at a lower cost from elsewhere, must be considered. This relates to the emergence of illegal markets offering the targeted product at a cheaper price where equally stringent tax policies do not apply in neighbouring countries or regions.

4.3.4 Overall Impact of the Excise Tax on Alcohol in South Africa

Like the excise tax on tobacco, the excise tax on alcohol has also proved to be successful over the years. It has accomplished both of its primary objectives. Russell and Van Walbeek (2016) conclude that the excise tax on alcohol has resulted in a decrease in alcohol consumption, while it has generated higher revenue for the government. In support of the revenue generation, National Treasury (2014a) confirms that tax revenue estimated at R14 billion was collected from the excise taxes levied on alcohol during the 2012/13 tax year. The success of this excise tax is based (partly) on the observed inverse relationship between the excise tax on beer and beer consumption over a period of twenty years (Russell & Van Walbeek, 2016) and a resolution or commitment to increase excise taxes annually on alcohol above the inflation rate since 2002/03 (National Treasury, 2014a). Over a period of twenty years, the continuous increases in the excise tax have led to a substantial decline in alcohol consumption. While the excise tax is effective in relation to the revenue it has generated for the government, National Treasury (2014a) points out that it has not succeeded in raising enough revenue to fund all external costs associated with alcohol abuse or intake, thus, prompting more aggressive increases in the excise tax going forward.

The excise tax on alcohol undergoes regular and rigorous reviews, with the most recent reviews having been published in 2002 and 2014. National Treasury (2014a) explains that in these reviews, the taxing policy applied is compared to other international countries' policies, critiqued for its relevance in modern society and consultations are held with all relevant stakeholders. Accordingly, the review conducted and published in 2002 (National Treasury, 2014a) resulted in significant changes in the excise tax, including streamlining the tax in line with international standards and practices, where feasible. National Treasury (2014a) also explained that the review revealed the important role that non-fiscal policy measures, such as education programmes and other regulatory programmes on advertising and accessibility of alcohol, have over time played in the fight against alcohol abuse and the resultant externalities. Studies continue to be carried out to find feasible ways of fighting the illegal trade in alcohol. National Treasury (2014a) confirms that some of the recommended strategies from the review include educational campaigns, the harmonisation of efforts aimed at fighting the scourge by various regional countries, and balancing tax rates to eliminate the incentive to engage in the illegal market. Due to strong policy enforcement, South Africa is thought to be performing better in the statistics of unrecorded alcohol consumption, compared to continental and global statistics (National Treasury, 2014a). The unrecorded consumption of alcohol is likely to be

connected to alcohol that is available through illegal schemes for which there are no records or statistics.

4.4 Conclusion

It is evident from the above discussion that the two existing excise taxes on tobacco and alcohol are comparable to the proposed tax on sugar-sweetened beverages in the health rationale that underpins their imposition. Unlike most excise taxes that are levied to generate additional revenue for the government, over and above reducing consumption, the generation of revenue is not the primary goal of the proposed tax on sugar-sweetened beverages. This is evident in the minimal revenue that is projected from its imposition, compared to the current healthcare burden or social cost burden associated with high sugar intake and obesity, as discussed in Chapter 2 of this thesis.

The existing excise taxes have survived rigorous criticism from their respective inception. There was speculation on how they would negatively impact the economy, despite the negative societal ills that were associated with the harmful products. With regular refinements and amendments to the legislation and regulations, and the active participation of each group of stakeholders, the negative impact was minimised and the intended objective of reducing consumption of the harmful product is being realised.

This suggests that the similar criticism and confrontations the proposed sugar tax is facing will already be familiar to the government. The commitment by National Treasury to hold extensive hearings and consultations with affected stakeholders and to revise the terms of the proposed tax, including the tax rate, are indicative of the conciliatory approach that National Treasury is adopting and the carefully organised methods of mitigating any adverse and unintended consequences. These include responses to queries, comments and suggestions that were submitted to National Treasury.

The approach adopted in introducing the proposed tax is not new. In legislating the tobacco and alcohol taxes, similar protocol and procedures comprising of hearings and adapting the World Health Organisation recommendations to the South African context have been followed. Furthermore, the holistic approach that is linked to long-term planning for the country, now outlined in the National Development Plan, has always been central to the fiscal policy intervention on excessive tobacco and alcohol consumption and related dangers. Chapter 2 of this thesis discussed this point in detail, explaining that the proposed tax on sugary-sweetened

beverages followed an investigation into the experience of other countries that have imposed similar taxes and that the tax was designed to coincide with South Africa's long-term planning.

The annual increments announced in the Budget Speeches in excise taxes for tobacco and alcohol have been found to be instrumental in the substantial decline that has been observed in the consumption of these harmful items. Therefore, it is expected that a similar trend will be followed with the proposed taxation on sugar-sweetened beverages, that annually the tax rate will be increased. Similar reactions and responses, and others that are more specific to the proposed tax, should be expected.

Finally, the success of all these excise taxes is also linked to the multi-faceted approach that is adopted in the fight against any harmful product. This has greatly assisted the excise tax on tobacco and alcohol, with the regulation of advertising, marketing, and other restrictions. Similar non-fiscal interventions, discussed in Chapters 2 and 3 of this thesis, are expected to be in place in pursuing the fight against high sugar intake and obesity.

Chapter 5 discusses the role that different stakeholders play in strengthening the effectiveness of an excise tax.

Chapter 5: Stakeholders' Roles in Promoting the Success of an Excise Tax

5.1 Introduction

The previous chapters discussed the various excise taxes, including the proposed tax on sugar-sweetened beverages, the excise tax on tobacco and on alcohol. Chapter 3 analysed the experience of selected countries, Mexico, Denmark, the United Kingdom and Mauritius, in relation to the proposed tax. In the discussion of excise taxes on tobacco and alcohol, the role that various stakeholders play in the design of an excise tax was highlighted.

The previous chapters explained the challenges and criticism that confront excise taxes. These challenges are present from the time an excise tax is contemplated and proposed to the time that the excise tax is effective and operational. This chapter discusses the final research goal of this thesis, which is to examine the role that various stakeholders play in promoting an excise tax. The discussion focusses on the proposed tax on sugar-sweetened beverages, drawing on the experiences regarding a similar tax imposed in the selected countries discussed in chapter 3, and the experience of the excise tax on tobacco and alcohol discussed in Chapter 4.

This chapter discusses the role played by the six groups of stakeholders considered to have a significant influence on the possible success of an excise tax. These include experts in the field, government and revenue authorities, trade unions, producers and consumers. The chapter will also identify whether a similar tax is imposed in the bordering countries or regional formations.

5.2 Experts

Elaigwu (2008) explains the role of experts in government policy formulation as providing new and alternative perspectives. Accordingly, academic experts and experts in various professions are responsible for advising on policy formulation by providing evidence regarding issues of interest to society at large. The role of experts extends to providing empirical evidence that could be used to dispute the non-substantiated or inaccurate information presented in support of a specific policy stance, to criticise the proposed policies that are designed to advance the interests of the society. Elaigwu (2008) further explains that the acceptance and implementation of expert opinions, to a great extent, depends on a number of factors, including the political context or will, pressure from society and the quality of the advice or opinions.

As noted in the discussion in the previous chapters, arguments in favour of the proposed tax in the selected countries, including South Africa, and the excise tax on tobacco and alcohol, have been supported by the research done by experts. Sinclair, Isba, Kredo, Zani, Smith and Garner

(2013) explain that the World Health Organisation places heavy reliance on the work done by experts in making its recommendations, thus ensuring that its recommendations are credible, sound, and reliable.

Since the excise taxes are closely linked to the reduction of the consumption of a harmful product, experts in the health fraternity and others involved in policy formulation, including economists, play a vital role in undertaking the research needed to support the intervention.

5.3 Government and Revenue Authorities

In examining the rationale behind the proposed tax on sugar-sweetened beverages, Krugel *et al* (2016) explain the role that the government has in society. The authors explain that the government has a moral duty to set principles and pass laws and regulations that govern, regulate and provide guidance on citizens' consumption decision-making. Accordingly, the government's responsibility remains, even if citizens do not immediately or ultimately change their eating habits. The government fulfils this task of shaping the citizen's consumption decisions by introducing interventions aimed at protecting the citizens against any harm to their health and life. Informed by evidence presented and research done, the government is responsible for advancing each citizen's constitutional right to health and life. In terms of section 7(2) of the South African Bill of Rights in the Constitution, the government has a duty to protect, promote and fulfil the rights set out in the Bill. In relation to the excise taxes in question, sections 11 and 27(2) of the Bill of Rights impose upon the government the burden to ensure the safety of everyone's life and to take appropriate and reasonable legislative and other measures to advance the realisation of every citizen's right to adequate and appropriate health, security and protection. Therefore, when anything threatens the health and the life of the citizens, such as the dangers associated with high sugar intake, the government has a duty to act in the citizens' best interests.

Government's intervention programmes include fiscal and non-fiscal measures. In responding to the prevailing hazard and the problem, the government needs to carefully consider recommendations provided by international organisations and bodies such as the World Health Organisation and the United Nations. The recommendations emanating from these institutions usually address the problems prevalent in the specific geographical regions, economies and those that affect the international community at large. Therefore, when the government responds to a universal problem, it needs to be aware of the results of remedial actions in other

jurisdictions and the World Health Organisation and the United Nations reports and recommendations.

Therefore, the government needs to capitalise on the synergies arising from its affiliation with such credible and reputable international organisations. As discussed in the previous chapters, fiscal policy intervention is strongly recommended by the World Health Organisation as a measure to curb obesity. It is therefore responsible and justifiable for the government of South Africa to seriously consider adopting the excise tax on sugar-sweetened beverages in view of the prevalence of obesity in the country.

Furthermore, when the government fails to take responsible and appropriate steps towards helping its citizens make the correct choices, it suffers the consequences. South Africa, as demonstrated in Chapter 2 of this thesis, allocates a substantial budget towards public health, and obesity threatens the country going forward in the form of placing a strain on the budget in future. Obesity is a threat to the economic growth of the country and the realisation of the country's goals as enshrined in the National Development Plan. The threats include the possibility of reduced productivity as a result of the illness of potentially active and skilled people or when people retire early due to illness or die prematurely.

The government is a supreme authority or structure that governs the affairs of the State. It best realises this objective of governing the affairs of the State by passing laws and regulations that become legally enforceable. Tax laws imposing a tax on products that are hazardous to the public health directly affect the citizens' buying decisions, through the price increase, which brings with it some awareness about the hazards linked to a targeted product. As has happened in other countries, regulations on product accessibility and advertising can be adopted. These include the banning of certain advertisements, restricting certain advertisements to specific times of the day and the banning of vending machines in schools. Bartsch *et al* (2015) explain how the United Kingdom has championed the implementation of statutory restrictions on televised food advertisements for children. The authors further detail how the governments of the United Kingdom and Australia have banned the sale of soft drinks and sweets in local schools to assist in the fight against the prevalence of obesity. Furthermore, Bartsch *et al* (2015) explain the value of the labelling regulations, an intervention that the Mexican government introduced in April 2014, requiring that the sugar content be listed as a percentage of recommended daily intake, rather than just the weight. Some of these policies, such as warnings

and banning regulations, are familiar in South Africa as they are used in the fight against tobacco and alcohol consumption, as was discussed in Chapter 4.

Government is also responsible for creating relationships and collaborations with other stakeholders that seek to protect and advance the interests of citizens. The government needs to be in the forefront or play an integral part in campaigns and educational programmes that are aimed at promoting the health of its citizens. The government needs to obtain substantial empirical evidence prior to introducing new policies, so that the policies that are initiated are credible. The government, as noted with the proposed tax on sugar-sweetened beverages, needs to actively engage with various stakeholders, hold public hearings, create platforms for engagement, including the provision of feedback on concerns raised. This organised and inclusive approach is likely to promote unity, cohesion and stability.

The government needs to be careful in adopting and designing its policies and should strive to balance all the interventions with preserving jobs and, where possible, aim to create employment. However, this should not be done at the expense of the citizens' health and life. South Africa is currently struggling with a high unemployment rate¹³, poverty and inequality. The elimination of the latter two concerns features predominantly in the foreword to the National Development Plan and the overview (National Planning Commission, 2011), as government's key long-term primary objectives. When regulating industries and trying to influence consumers' consumption choices, these very important issues need to be borne in mind.

Finally, the government needs to oversee the effective and efficient use of the tax revenue collected. Pourkiani, Asgharpoor and Hosseini (2015) explain that improper use of tax funds and insufficient recording and accountability by revenue authorities or government promotes non-compliance and impairs the tax morale of taxpayers. In other words, the proper use of tax revenue, accountability and transparency improves tax morale and taxpayers' confidence in the authorities.

As Adam Smith pointed out in his *Canons of Taxation* (Economics concepts, 2015), the revenue authorities need to make it convenient for the taxpayer to pay the tax. In the context of the proposed tax, it will form part of the already existing taxes under the Customs and Excise

¹³ TradingEconomics (2018b) reported a 26.7% unemployment rate in South African in the 4th quarter of 2017.

Act and the systems are already in place that make the payment and collection of the excise taxes convenient.

5.4 Trade Unions

According to the *Basic Guide to Trade Union Representatives* (Department of Labour, 2014), trade unions generally exist for active representation of affiliated workers' interests in negotiations, realisation of conducive working conditions and dispute resolution. The Guide further explains the manner in which the trade unions achieve this objective, which includes protecting and advancing the interests of workers and representing workers in negotiations with employers.

The primary role of the trade unions as outlined above necessitates that trade unions also look after the workers' health and prospects for employability. Therefore, they have a vested interest in excise taxes aimed at improving the health, productivity and lives of their constituencies.

While the trade unions need to protect against any potential job losses that could result from the implementation of an excise tax, they are equally responsible for ensuring or safeguarding long term-term employability and productivity of the workers they represent.

The trade unions play an instrumental role in the stability of the economy as they can easily disrupt operations when they embark on strikes and protests. Therefore, their voice needs to be heard and they need to be consulted in implementing new tax policies.

5.5 Producers

Producers play a crucial role in promoting the success of an excise tax. The introduction of the excise taxes, including their annual adjustments, have the potential to threaten producers' profit margins, as targeted products become more expensive and less affordable. However, excise taxes can incentivise producers to reformulate their products to the extent that they reduce the harmful content in the targeted products or redirect advertising towards the products with less harmful content, where the tax burden is small.

Producers are critical role players in the economy with the employment that they create. Therefore, it is imperative that in their reformulation of their products to minimise the impact of the tax on their profit margins and sales and indirectly support the objectives of the tax, they protect employment and job opportunities.

As discussed in Chapter 4, the excise tax on tobacco and alcohol has increased significantly over the past few years, yet through the commitment by producers to reformulate their products where possible and realign their advertising focus, they have preserved jobs and have grown their businesses.

Apart from raising tax revenue, excise taxes are aimed at reducing the consumption of a harmful product. Therefore, producers contribute significantly to this objective through reformulation. As discussed in Chapter 3, multinational companies such as *Coca Cola*[®] have embarked on substantial reformulation programmes aimed at reducing the sugar content of their products globally. In South Africa, as well, as discussed in Chapter 2, there has been a commitment expressed by *Beverage South Africa* that it would promote the reformulation of the ingredients in their products in support of the fight against obesity.

5.6 Consumers

Consumers are at the centre of the excise tax intervention policies that are implemented and adopted. When experts advise the government on the interventions, the objective is to advance the interests of the consumers. In the excise taxes discussed in this thesis, the health and the life of the consumers is of paramount importance.

While, at times, the policies adopted and implemented appear to act to the disadvantage of the consumers' buying power through the increased prices when fiscal policies are adopted, the underlying and fundamental intention is to protect and improve their well-being. Therefore, while in the short-term some policies could be perceived as causing harm to consumers through price increases, when these policies are viewed from a long-term perspective, the resulting benefits weigh more heavily.

Therefore, consumers can promote the possible success of an excise tax when they respond positively to the objectives envisaged by the tax, that is, when they reduce their consumption of the harmful product and consider consuming the healthier alternatives that are available. If there are no available alternatives, then by reducing their consumption and changing their habits, lifestyle or behaviour, they will contribute to achieving the policy objectives.

Consumers should also be at the centre of campaigns, awareness programmes and educational forums that educate the public about the dangers associated with the harmful products. That is, in the family households, a good healthy diet should be promoted. This includes specifically supporting the initiatives instituted by the government that restrict the availability of certain

products to children. That way, children will grow up knowing about the responsible consumption choices. This includes the consumers' active participation in campaigns that promote physical activity and exercise.

5.7 Bordering Countries or Regional Formations

The implementation and practice of similar policies by governments within a region strengthens the effectiveness of the policies in their respective countries. A universal approach within a region discourages the existence of illegal markets, since no absolute advantage is created in obtaining the product or its close substitute inexpensively from another country within the region.

As discussed in Chapter 4, this does not fully eliminate the existence of illegal markets, but at least minimises its extreme effect. While the countries bordering on South Africa have legislation to regulate and contain tobacco consumption, there is still a substantial market that deals in illegal cigarettes. The absence of the similar policies and regulations in the bordering countries, as discussed in Chapter 3, can harm the domestic economy through cross-border shopping. Denmark suffered serious consequences from levying the tax on sugar-sweetened beverages when it's bordering countries, Sweden and Germany, did not levy a similar tax.

Therefore, where possible, bordering countries or regional countries should strive to unify their efforts towards fighting a problem that could threaten their region. Accordingly, the failure to implement the proposed tax by the countries bordering on South Africa would create a niche market along the border for sugar-sweetened beverages and this could, over time, result in illegal markets for the products, unless the cross-border transacting is strongly monitored and policed. De Waal (2016) explains that it is unlikely that the South African neighbouring countries, including Tanzania, Malawi, Swaziland, Mozambique and Zambia, would adopt a similar tax because of their low per capita sugar consumption and sugar being a staple ingredient of the diet of their citizens.

5.8 Conclusion

Based on the above discussion and the discussion in previous chapters, it has become evident that the possible success of an excise tax is dependent on various stakeholders. Each stakeholder has a critical role to play in the realisation of the set objectives for an excise tax. Therefore, only by way of a collaborative effort, will a possible success of an excise tax be realised.

Notwithstanding government and revenue authorities appearing to be at the centre of implementing an excise tax, an excise tax objective extends beyond revenue collection to the reduction of the consumption of a harmful product. Therefore, the active participation and involvement of other stakeholders ensures a multi-faceted approach to the fight against the consumption of a harmful product.

The list of stakeholders discussed in this thesis is not exhaustive. Other stakeholders, such as non-profit organisations, media or broadcasting platforms and recreational organisations, play a crucial role in bringing awareness and educating the public about health hazards and recommended diet and lifestyle changes.

Chapter 6 summarises the main findings of this research, concludes on the research and provides recommendations emanating from the research carried out in this thesis that could improve the potential success of the proposed tax in South Africa.

Chapter 6: Conclusion

6.1 Introduction

The main goal of this thesis was to investigate the possible success of the proposed tax on sugar-sweetened beverages in South Africa. In addressing this main goal, various sub-goals were formulated. Chapter 2 examined the background, rationale and possible economic impact of the proposed tax in South Africa. The discussion also entailed an analysis of the processes that unfolded until the announcement of the final date of implementation, 1 April 2018, in the 2018 Budget Speech. Chapter 3 extended the discussion by examining the experience in selected foreign countries that have implemented the tax, one having abolished it subsequently, and one country still considering implementing the tax. The proposed tax forms part of existing excise taxes that are currently levied in South Africa aimed at curbing the use or consumption of a harmful product. Therefore, Chapter 4 examined the effectiveness of the existing excise taxes levied on tobacco and alcohol. The objective was to understand any valuable lessons that could be learnt from the experience of these excise taxes that would indicate the possible success of the proposed tax on sugar-sweetened beverages. Finally, Chapter 5 used the knowledge gathered from the previous chapters of this thesis to analyse the role that various stakeholders play in promoting the possible success of an excise tax.

6.2 Findings

The discussion in Chapter 2 revealed that obesity is prevalent in South Africa, the country ranking high for obesity in Sub-Saharan Africa. In terms of the National Development Plan (National Planning Commission, 2011), the prevalence of obesity has been identified as a critical area for preventative action by government, if the envisaged reduction in unemployment and realisation of economic growth are to be realised by 2030. This is based on the evidence that obesity threatens productivity and the working life of individuals (Bartsch *et al*, 2015).

Chapters 2 and 3 revealed that the approach of taxing foodstuffs that are high in sugar is consistent with the World Health Organisations' recommendations. The approach to target only sugar sweetened beverages is consistent with the studies performed that reveal that sugar-sweetened beverages have no nutritional value, instead, when consumed in excess quantities, they are harmful. Furthermore, the targeting of sugar-sweetened beverages only, is based on evidence that sugar-sweetened beverages contain substantial quantities of sugar, which is above the recommended daily sugar intake by the World Health Organisation. Sugar-

sweetened beverages, like a single 330ml bottle of *Fanta Grape*[®], are believed to contain about nine teaspoons of sugar, while the World Health Organisation recommends sugar intake that is equivalent to no more than six teaspoons a day to remain healthy. Unlike solid foodstuffs that are consumed mainly to satisfy hunger, it was found that beverages are consumed more regularly to quench thirst and for social enjoyment.

Chapters 2 and 3 explained the importance of a continuous revision of the scope of the foodstuffs on which the tax is levied. It is submitted that the scope of targeted items could be revised in the future to include some currently exempt items, such as dairy products, fruit and vegetable juices, sweets and chocolates. Some of these foodstuffs are considered as equally, or even more harmful than sugar-sweetened beverages.

Chapter 3 explained that the lack of knowledge or ignorance and stereotypes about certain groups of people being more prone to certain illnesses, contribute to the prevalence of obesity and a poor diet. This is believed to be borne out of the over-emphasis on the misleading advertising of sugar-sweetened beverages as providing more energy that results in people giving priority to short-term gratification over the long-term harm that the sugar-sweetened beverages are causing.

Chapter 3 revealed that the proposal to apply a threshold approach, where a stipulated portion of the sugar content in products is exempt from the tax, has incentivised companies like *Coca-Cola*[®] to embark on significant reformulation of their products globally. These actions include the reduced size of the containers in which sugar-sweetened beverages are sold and the reduced sugar content in the soft drinks.

Chapter 3 also revealed that, in the short-term, both the proposal for the tax and the implementation of the tax give rise to a significant decline in the consumption of the sugar-sweetened beverages in the countries referred to, but that it remains difficult to measure the long-term impact. Denmark, for example, a country that has implemented the tax for a very long time, encountered wide-spread cross-border shopping for the targeted items, which nullified the overall success of the tax and consequently the tax was discontinued.

Chapters 2 and 4 explained that the expected revenue that will be generated by the proposed tax is minimal when compared to the tax revenue collected from other excise taxes, such as taxes on tobacco and alcohol. Excise taxes collected from beer alone are five times greater than the projected revenue from the proposed tax. However, the material gains associated with the

proposed tax include substantial relief in the health budget for the government, individuals and the medical aid schemes.

Therefore, Chapter 4 concluded that excise taxes are effective in reducing the consumption of harmful products. The success of these taxes is partly due to the annual tax rate adjustments that are above the inflation rate, together with other non-fiscal interventions.

Chapter 5 pointed out that it is government's duty in terms of the Bill of Rights in the Constitution of the Republic of South Africa, 1996 to pass laws and regulations that strive to promote and protect the health and the life of the citizens, thus validating the intervention by National Treasury.

All the discussions in the chapters of this thesis reveal that there is a common approach to the fight against obesity, which adopts a multi-faceted programme that includes measures such as strict advertising and labelling regulations, awareness campaigns, health screening and the promotion of physical exercise. The phase of the business cycle also plays a critical role in the impact that the tax has on consumers' buying power. In periods of recession, the tax effect weakens the consumers' buying power and the tax is likely to be more effective in achieving its objects.

Based on the experience of the selected countries in this research and the studies referred to, it was shown that the proposed tax has also been generally criticised for being regressive in nature, affecting the poor more heavily.

6.3 Summary

The prevalence of obesity is a global crisis and South Africa is not immune to the problem. High sugar intake, particularly from sugar-sweetened beverages, is accepted as the key contributing factor. Like other countries that have been discussed in this thesis, South Africa has adopted the recommendations of the World Health Organisation, which advises that foodstuffs that are high in sugar should be taxed, in an effort to fight obesity.

The existing excise taxes levied in South Africa have proven effective in reducing consumption of the harmful products tobacco and alcohol and, therefore, it is expected that a similar outcome would be achieved by the tax on sugar-sweetened beverages in reducing high sugar intake. The desirable reduction in the sugar intake will require a multi-faceted approach, as imposing an excise tax alone will not be enough.

6.4 Recommendations

It is recommended that the South African government and policy makers consider the following measures to strengthen the impact of the proposed tax in realising the objective of reducing the high intake of sugar:

- the regulation of advertising of sugar-sweetened beverages;
- control of easy access to the products; and
- the reduction of the sizes of containers in which they are made available.

In regulating advertising, the times of the day during which the advertisements promoting the consumption of sugar-sweetened beverages (or the targeted product) are televised or aired on radio should be controlled. Dissemination of advertisements in other media and social platforms should be regulated. Additionally, the government should consider banning vending machines in schools that sell sugar-sweetened beverages and even consider banning their sale in schools in general, as the easy access to the products facilitates their consumption.

Furthermore, the government could prioritise the development of recreational facilities in most areas to promote physical exercise. In the big cities, specifically, the government could consider the promotion of running, walking or cycling by providing safe areas. Most importantly and very pertinent in South Africa, the government should accelerate its efforts aimed at ensuring access to clean water by all citizens, as a healthy alternative to sugar-sweetened beverages.

National Treasury could consider, in the very near future, the extension of the scope of the foodstuffs on which the tax is levied. In that way, a maximum impact in the fight against obesity will be realised. These other foodstuffs could include sweets, chocolates, ice cream, dairy products, fruit and vegetable juices and certain sweetened cereals.

The government should consider ring-fencing or earmarking a portion of the tax revenue collected by a way of the tax on sugar-sweetened beverages to promote the vision of the proposed tax. The revenue could be used to fund awareness campaigns and address the health consequences of obesity. The revenue could also be used to subsidise healthy alternatives.

The government should also strengthen its measures aimed at preventing cross-border shopping and minimise the opportunities for illegal trading in the targeted items. Excise taxes on tobacco and alcohol proved effective and successful, because of bordering countries also

levying similar taxes. Their success is despite a significant trade still taking place in the market for tobacco. Unfortunately, at this point, neighbouring countries do not appear to be considering imposing a tax that is similar to the proposed tax on sugar-sweetened beverages in South Africa.

Areas for possible future research include the study of the long-term impact of the tax on sugar-sweetened beverages in reducing high sugar intake and obesity. The other area involves the impact of cross-border shopping and the existence of illegal markets for sugar-sweetened beverages in Mauritius and South Africa, since most of their bordering countries are not currently considering the implementation of the tax on sugar-sweetened beverages.

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