

FAIRPLAY

NO TO PREDATORY TRADE

Submissions
on making
chicken VAT free

Standing Committee on Finance

12 September 2018



Stand on the side of the poor



Lower-income households benefit the most

Benefits outweigh costs

Chicken is the best choice

Nutrition: the best option for combatting malnutrition

Fair evaluation of chicken

Chicken is a staple of lower income households



- The largest staple protein for low-income households.
- Not a luxury but a necessity in the diet.



- More zero-rated food items purchased.
- Nearly half their food spending goes on VAT-free items.



- Chicken is South Africa's most popular source of meat protein.
- Chicken consumption has doubled since the year 2000.
- More is spent on chicken than on mealie meal, brown bread, rice or beef.



- South African consumers are under pressure – the poor are hardest hit.
- There are no zero-rated meat items.
- Targeting food items helps reduce the regressive effect of VAT on the poor.

The most nutritious option



- Chicken is the highest-protein meat source available per rand spent, so chicken affordably improves nutrition and food security.
- Policy measures that increase protein intake, especially by the young and the elderly, can both increase national productivity and improve our national health status.
- Malnutrition, which can result in both stunting and obesity, is a serious problem in South Africa.
- Stats SA reported recently that about a third of all children in Gauteng and the Free State are stunted as a result of chronic malnutrition.
- Research published recently in the International Journal of Epidemiology shows that South African children are fast becoming the world leaders in obesity as a result of poor nutrition. In only six years, the rate of obesity among local children has doubled; in the US, the same development took 13 years.

Malnutrition is a national priority

Poverty is on the rise in South Africa, and the poor are hardest hit by the increase in VAT. Adding nutrient-rich food such as chicken to the VAT-free basket would bring welcome relief.

1.58 million SA children under 5 are stunted

(Source: South African Child Gauge 2017)



27.4%

- Stunting is caused by inadequate dietary intake.
- Stunting in the first 5 years results in intellectual impairment, increased risk of infection, obesity, heart disease and diabetes.
- Stunting hampers the development of human capital and society-resulting results in substantial long term health costs.

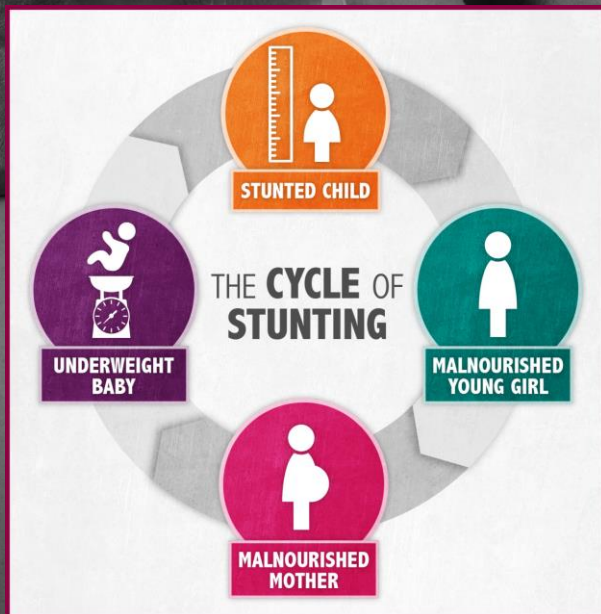


30,4 million
South Africans are
living in poverty

(Source: StatsSA, "Poverty Trends in SA", 2015)

- Most affected by poverty are children (aged 17 years and younger), black Africans, females and people from rural areas.

Malnutrition is a national priority



THE LIFETIME COSTS OF STUNTING

CHILD MORTALITY

STUNTED CHILDREN ARE

4x MORE LIKELY TO DIE

THAN CHILDREN WHO ARE NOT

IQ SCORES

STUNTING CAN REDUCE IQ BY

AS MUCH AS **11 PTS**

INCOME

ADULTS WHO ARE STUNTED EARN

22% LESS

ECONOMY

IN COUNTRIES LIKE **ETHIOPIA** STUNTING CONTRIBUTES TO LOSSES IN GDP AS HIGH AS **16%**

(Source: ConcernUSA.org Graphics: Aeri Wittenborough)

The benefits outweigh the costs – we can afford it.



- Chicken has the best costs to benefit ratio.
- Costs to the fiscus is recoverable – could result in:
 - **11 000 new jobs**
 - **R1bn in tax revenue**
 - **+R3.7bn to GDP**
- The economic benefits are widely distributed.
- Reviewing the current basket of zero-rated items will produce savings.
- We can afford VAT free chicken by fighting corruption and illicit trade that evades revenue collection.

The Panel's Report is not The Full Story

- **No review of the current zero-rated list:** the list was left unaltered and the changing dietary needs and consumer preferences over the last 27 years were totally disregarded. This demonstrates that all significant aspects of the revised terms of reference were not adequately explored in the report.
- **The recommended items are treated inconsistently in terms of how criteria are applied.**
There are items recommended which:
 - are in industries that are more highly concentrated,
 - where parties have been found guilty of price-fixing,
 - where the bulk of the sales are from imported produce and,
 - where the benefits are less regressive.Chicken has been discriminated against.
- **Divided on chicken:** The arguments for chicken in the report weigh more heavily in favour of chicken. The inability to come to a conclusion leaves the decision to Parliament.

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Our Case for Zero-rating Chicken



FairPlay submission to National Treasury in support of VAT-free chicken

- The FairPlay movement was founded in 2016 in support of jobs and in opposition to predatory trade practices. From the outset we have had a focus on the impact of unfair and predatory trade on the poor, including the plight of those forced out of jobs by dumped imports and the impact of this on impoverished communities.
- We therefore view the VAT issue from a pro-poor perspective. In the debate on which items should be zero-rated for VAT, FairPlay wants to achieve what is best for lower-income households.
- We have campaigned for VAT-free chicken because FairPlay believes the inclusion of chicken on the list of zero-rated food items is an essential intervention to address the plight that lower-income households find themselves in. It will ensure that these vulnerable households have access to affordable, nutritious meals that are rich in protein and iron.
- We also believe that the Woolard Panel erred in not making this recommendation, even though they saw decided advantages in zero-rating the chicken portions most consumed by the poor. The Panel has deferred this decision to Parliament.
- FairPlay is supported in its VAT-free chicken campaign by the two major union bodies in the poultry sector, the Food and Allied Workers Union (FAWU) and the Congress of South African Trade Unions (COSATU).

FairPlay submission to National Treasury in support of VAT-free chicken

The Woolard Panel report

- We believe that the Woolard Panel erred for a number of reasons when they did not recommend the inclusion of chicken on the VAT-free list.

Time constraints:

- The chairperson of the Panel was appointed on 29 March, the terms of reference and additional panel members were only announced in a statement a month later, on 25 April and, according to this statement, the Panel was supposed to submit their report two months later, on 30 June 2018. The call for submissions was published on 10 May and only two weeks were given for the public to make these submissions (note that the subsequent process that the Finance Minister launched for submissions from the public allowed for 21 days - three weeks).

Two days before the deadline for submissions, the Minister amended the terms of reference of the Panel, extended the public submissions deadline by a day and extended the deadline for the submission of the report by another month. There was no public consultation which could have materially influenced the Panel's recommendations. FairPlay stated that the time given was inadequate and that this would hamper the quality of the work. This assertion was confirmed by the chairperson of the Panel when she conceded to the Standing Committee on Finance on 28 August 2018 that they did not have sufficient time to gather and "drill down" the data. This, we believe, is the major reason why the current list was not reconsidered and why only white bread, bread and cake flour were recommended as additional food items to the list.

FairPlay submission to National Treasury in support of VAT-free chicken

No review of the current list:

- Mainly due to the above and the fact that the Panel was not adequately resourced and took some time to get off the ground, FairPlay is also convinced that the Panel neglected to give due attention to the requirement in the terms of reference that they review the existing list of zero-rated items. Instead, this list was left unaltered and the changing dietary needs and consumer preferences over the last 27 years were totally disregarded. This demonstrates that all significant aspects of the revised terms of reference were not adequately explored in the report.

Divided on chicken:

- According to the report, chicken, just like maize meal and samp, is “a staple food for virtually all South Africans families”. The Panel made arguments for its inclusion but then decided against it based on reasons that can be addressed through other regulatory means in the same way as it has been addressed in bread. Accordingly, it seems rather that the Panel adopted an attitude of “cutting off the nose to spite the face” by not including a product on which lower-income households in particular depend as their main source of protein.

Inconsistency:

- Items under consideration were treated inconsistently.

FairPlay submission to National Treasury in support of VAT-free chicken

Why chicken should be VAT-free

- Three strong arguments were cited by the Woolard Panel itself. They are:
- Chicken is the largest staple protein for low-income households.
- Zero-rating chicken would have a progressive impact, as it would lower the tax burden on lower-income households.
- Individually quick-frozen portions, or IQF, which the Panel selected, are easy to define and monitor for zero-rating.
- The Panel also pointed out that, from a nutritional and environmental standpoint, chicken is preferable to red meat and dairy.
- There are additional arguments which together make a compelling case for removing VAT from chicken.
- Lower-income households spend more on chicken than on mealie meal, brown bread, rice or beef.
- Lower-income households buy more zero-rated food items. Nearly half their food spending goes on VAT-free items. So zero-rating food items effectively targets the poor.
- Chicken is the highest-protein meat source available per rand spent, so chicken affordably improves nutrition and food security.
- Chicken is South Africa's most popular source of meat protein. Per capita chicken consumption has doubled since the year 2000 and it far outstrips beef or pork.
- South African consumers are under pressure, but the poor are hardest hit. VAT-free chicken will bring them much-needed relief.
- There are no zero-rated meat items. Targeting food items helps reduce the regressive effect of VAT on the poor, who spend more of their total income on food than richer households do.
- Cheaper chicken would increase demand and create jobs. It could result in 11 000 new jobs, bring in R1bn in tax revenue and add R3.7bn to GDP

FairPlay submission to National Treasury in support of VAT-free chicken

Cost to the fiscus

- The principal argument against zero-rating chicken is the cost to the fiscus. That is a valid concern, which needs to be considered. FairPlay will not address it in this submission, as we understand it will be addressed in detail in other submissions. We would, however, like to point out that a review of the existing list of 19 zero-rated items, some of them included on the basis of considerations that are now outdated, would make it easier for the National Treasury to add new items to the VAT-free list, including chicken.

Nutrition

- As chicken is a popular and nutritious food, this is an important consideration in the discussion of VAT-free chicken.
- Malnutrition, which can result in both stunting and obesity, is a serious problem in South Africa. The World Health Organisation regards malnutrition as the single biggest threat to global public health.
- Stats SA reported recently that about a third of all children in Gauteng and the Free State are stunted as a result of chronic malnutrition. With such a poor start in life, these children will never reach their full potential. This is the situation in only two of our nine provinces.
- Research published recently in the International Journal of Epidemiology shows that South African children are fast becoming the world leaders in obesity. In only six years, the rate of obesity among local children has doubled; in the US, the same development took 13 years.
- Policy measures that increase protein intake, especially by the young and the elderly, can both increase national productivity and improve our national health status. A number of studies in developing countries have shown that supplementing protein levels, especially with animal protein sources, have led to developmental improvements in young people, giving them a better chance to make it in the hurly-burly of a crowded society.
- A range of research papers that support this argument are attached to this submission which show that using VAT zero-rating to help change dietary patterns in South Africa is a good thing to do.

FairPlay submission to National Treasury in support of VAT-free chicken

Conclusion

- The benefits of VAT-free chicken, particularly for lower-income households, are overwhelming.
- It is South Africa's most popular meat, it is nutritious and it is the major protein source for poor people. VAT-free chicken will therefore bring immediate economic and nutritional benefits to the poor. FairPlay is not in a position to judge other potential government expenditure programmes designed to achieve this objective, but we believe that zero-rating chicken is a simple and effective mechanism to provide targeted relief for lower-income households.
- There are concerns about the cost of VAT-free chicken. The discussion in parliament should be about the best way to implement it and relieve the burden on those who suffer most from rising food prices.

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THANK YOU

