

Budget 2018 proposed hiking the VAT rate to 15% and levying a 52 cents hike on the fuel levy. Using food as an entry point and drawing on PACSA’s food price barometer research, the following short paper is intended as a resource to better understand and conceptualise the impact of these proposals for working class households.

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*Everything comes from the body. The connection between the food we eat and how our bodies function is direct. Our bodies are designed to function on foods which deliver a diversity of macronutrients (energy, protein and fat) and micronutrients (which include vitamins and minerals e.g. iron, calcium, vitamin A and vitamin C, etc.) in appropriate quantities relative to ages, gender and life stages.*

High food prices and poverty-level wages and grants mean that the majority of households in South Africa are unable to afford the foods which our bodies need to function optimally. Food is not just like any other good or service. It is critical for our bodies, minds and health. All our developmental outcomes rest on the ability of households to secure proper nutritious food. An increased VAT rate and fuel hike in a context where millions of South Africans are already struggling to put proper nutritious food on the table will put all our developmental outcomes at risk.

## 1. Some basics on food prices and fuel prices and why increasing VAT and the fuel levy is not a good idea.

### 1.1 Food prices

**The South Africa Government does not control food prices.**

- South Africa’s food value chains are highly concentrated and dominated by oligopolies (when four or fewer companies in each of the main product lines control over half the market). For example, the big bakers and millers are Tiger Brands, Pioneer Foods, Premier Foods and Food Corp; and the big retailers are Shoprite Checkers, Pick n Pay, Spar and Woolworths. Oligopoly is Greek for ‘few sell.’ When few sell, the few do not have to compete on price.<sup>i</sup>
- The agro-industry sector is highly exposed to drought and other biological and environmental risks due to its agricultural practices (we are the only country in the world where our staple food white maize has been allowed to be cultivated from genetically modified seed. In 2013/14 80% of all white maize seed planted was GM seed)<sup>ii</sup> and highly exposed to exchange rate fluctuations because of its reliance on imports (tractors and implements; chemicals, fertilizers, pesticides and weedicides; veterinary supplies: medications and vaccinations; genetic stock and seeds).
- The agro-industry is highly exposed to commodity price movements, fluctuations and speculation.
- Commercial agriculture is in the hands of a few farmers, mostly White aging farmers.
- Farmers do not receive government subsidies. Much of our agricultural sector is highly indebted.
- The South African government does not regulate food prices or the quality of foods on supermarket shelves.

### 1.2 Fuel prices

**The South Africa Government does not control the crude oil price.**

- South Africa relies heavily on imported crude oil from the Middle East and West Africa. Most of South Africa’s crude oil requirements are imported.

- Commercial agriculture is highly mechanised with a high reliance on oil, diesel and petrol.
- Fuel is used across the food value chains (farming inputs e.g. tractors, pesticides, chemicals, fertilisers; outputs e.g. milling, processing, packaging; and transportation across the chains and to the supermarket shelves).
- Increases in fuel prices impact on the prices of all goods and services.
- Whilst government regulates wholesale margins and controls the retail price of petrol and diesel; domestic prices are influenced by supply and demand (and speculation) of crude oil in international markets, combined with the Rand/Dollar exchange rate.

### 1.3 Food price inflation is highly volatile and unpredictable.

- This has been seen by the recent impact of the drought and high temperatures which started impacting on supermarket shelves from November 2015. PACSA's Food Basket showed an increase of 16.1% between November 2015 and September 2017.<sup>iii</sup> From September 2017 to February 2018, even with a distinct recovery in most of our important agricultural regions– the PACSA Food Basket increased by 8%.<sup>iv</sup>
- The agricultural sectors vulnerability to drought and other environmental and biological factors together with the way our agro-industry is structured, being highly exposed to exchange rate fluctuations given the high reliance on imports and the crude oil price; and given the oligarchies in the food value chain all expose South Africa's food to great volatility and unpredictability.
- The accelerated land reform process must also be a factor here where it is not yet known how the organised agricultural sector will respond.

*The South African Government does not regulate food prices and nor does it control the crude oil price. It should not tax what it cannot control. It cannot accurately predict what the impact of food price inflation will be for households living on low incomes. In this context, by then instituting an increase in VAT on a good that government has no control over, and which the past three years have proved to be highly volatile if not wildly unpredictable (and damaging) and given the special and critical role food plays in our health and for all our developmental outcomes and social stability, more so in the context of rising poverty and substantial underspending on food, is very reckless.*

### 1.4 The proposal to increase VAT to 15% and introduce a 52 cents fuel levy increase have revealed some fundamental misunderstandings.

- Fundamental misunderstanding of the role food plays in our bodies and our health; and that all our developmental and economic outcomes rest on the ability of households to secure proper nutritious food.
- Fundamental misunderstanding of what foods people eat and how meals are prepared.
- Fundamental misunderstanding on the zero-rated food basket: zero-rating foods does not guarantee affordability. Zero-rating just means a zero VAT rate; it does not mean subsidisation. It does not mean that the food is affordable.
- Fundamental misunderstanding of the extent of the VAT exposure of households living on low incomes.
- Fundamental misunderstanding of the limitations of the zero-rated food basket in including sufficient animal protein.
- Fundamental underestimation of the extent of the food affordability crisis facing millions of South African households.
- Fundamental misunderstanding of the limited control government actually levies on food prices and fuel prices.

**We have been warning for the past several years that we are fast approaching a tipping point where we start seeing the emergence of widespread hunger riots and food protests. The deferral of such an eventuality is that women are absorbing the crisis in their bodies by restricting their diets and taking on debt. This strategy is fast wearing thin. Levying a VAT hike on food brings this eventuality ever nearer.**

The fundamental problem we face is much greater than an argument about VAT and trying to make it less harmful. Households living on low incomes are not going to be able to escape the VAT increase. Our problems are much greater than VAT however. The fundamental problem is that food is not affordable. The majority of South Africans are facing a food affordability crisis. Millions of our people are struggling to put food on the table. Considering a VAT hike in our current socio-economic context is not wise. We have to question government's vision for South Africa's future. The political consequences of the VAT increase would need to be carefully weighed.

## 2. The affordability framework for households living on low-income households

### 2.1 The socio-economic context in which the 15% VAT rate and 52 cents increase on the fuel levy is being proposed.

- In 2015 nearly two-thirds (64.2%) of Black South African households lived below the upper bound poverty line (R992 in 2015 and R1 138 in 2017).<sup>v</sup>
- In 2015 a quarter (25.2%) or 13.8 million South Africans lived below the food poverty line (R441 in 2015 and R531 in 2017).<sup>vi</sup>

- In 2016 nearly a third (27%) of South African children under the age of 5 years were stunted: ⅓ of boys and ¼ of girls were stunted.<sup>vii</sup>
- PACSA's data in February shows that households are underspending on proper nutritious food by 25% (R3 115.07 vs. R4 161.04 – a shortfall of R1 045.97).<sup>viii</sup>
- The Child Support Grant at its maximum level of R410 in October 2018 is set 28% below the April 2017 food poverty line of R531, and 35% below the actual cost of feeding a small child aged between 10-13 years old a proper nutritious diet in February of R583.35.<sup>ix</sup>
- South Africa is experiencing a major spike in Non-communicable diseases in women aged from 45 years and above (women bear the burden of the affordability crisis as they restrict their diets in order to prolong the period of better nutrition for their children; and they eat last and whatever is left in the pot); and local clinics are seeing an increase in the numbers of children presenting with more severe and more prolonged childhood illnesses (diarrhoea, measles, pneumonia, colds, flu and rashes) which should be resisted on the plate if children were eating proper nutritious food.
- In 2017 approximately 7.06 million people were living with HIV, this is 12.6% of the population.<sup>x</sup>
- Millions of households are struggling to put proper nutritious food on the table.

## 2.2 The basics of food price affordability.

- South Africans are net buyers of food. Supermarkets are the main source of food for the majority of South African households.
- In a cash-based capitalist economy where food is not a public good; access to food requires money.
- It is income and affordability of goods and services that determines access to food.
- Food price affordability is complex but at its core food is affordable or not depending on how much money you have in your pocket.
- Food price affordability is related to a number of factors, the most important of which are: unemployment rates; wages and income levels; family sizes and the numbers of persons the wage supports; the cost of goods and services; food being only one of these costs; and household debt levels.

## 2.3 What the affordability crisis means for households living on low incomes?

- Households living on low incomes cannot get through the month on the level of income that comes into the house.
- Households struggle to secure the goods and services their families need.
- Most have already cut back consumption to levels that are damaging.
- Households are forced to **identify** and **prioritise competing expenses**.
- Households prioritise their expenditures by **differentiating non-negotiable expenses** from those **expenses they have some measure of control over**. For example, households prioritise transport (to get to work to earn a wage, and to transport children to school – unchanged apartheid geography means that workers and scholars live far from the workplace and better schools); households prioritise electricity (to cook food – most staple foods need to be cooked, to keep the lights on, to keep warm, and very importantly in South Africa – for security); households prioritise education (so children can have a brighter future); households prioritise burial insurance (so that at least in death there can be a semblance of dignity); and very importantly households prioritise the repayment of debt as this is essential for securing credit going forward.
- **Food is not prioritised first**. Instead, foods being one of the few expenses women have some measure of control over; the food budget arises out of the money left over only after other non-negotiable expenses have been paid. This means:
  - The food budget is low and households underspend on food.
  - Food runs short before the end of the month.
  - Women absorb these food shortfalls in their bodies and by taking on more debt.

## 2.4 How women respond to the affordability crisis?

Women tell us that the foods in the trolley to begin with are not enough and not nutritionally complete and will run out before the end of the month. Women tell us that it is not just household expenses in general which are prioritised but because the food budget is so low; the foods in the food budget are also prioritised.

- Women prioritise foods which fill bellies (the starches), foods which enable meals to be cooked, and foods which provide for palatability.
- A limited variety and small quantities of vegetables are bought.
- Low volumes and very poor quality meats are bought.
- Women prioritise meats, eggs, Maas, vegetables, fruits, polony and peanut butter for their children.
- For long periods there is almost no calcium in the family diet and close to zero for women.
- Diets are very low in protein, vegetables, calcium, fibre, minerals and vitamins. There is very little diversity in the family diet.

- Women don't choose this for their families; they are forced to eat like this given affordability constraints.

## 2.5 Even with this prioritisation, women tell us that ...

- *Not everybody in the home has universal and equitable access to all the food in the trolley all the time:* it depends on whose plate and the time of the month.
- Women eat reasonably well for the **first two weeks** of the month and then severely restrict their diets and prioritise child nutrition. Mothers absorb the food shortfalls in their bodies by not eating nutritionally-rich foods so as to lengthen the period of relatively better nutrition for their children. It is a critical approach to secure their children's growth and development, health and well-being.
- In the last week everybody eats very poorly. The foods left in the cupboards are mostly starches with very little nutritional diversity on offer (e.g. maybe some very cheap fatty meat, onion, cabbage, sugar, salt and fat). Women eat last and whatever is left in the pot.
- Women tell us that the pressures they face are unbearable: women sacrifice their bodies for their families. These sacrifices are coming at enormous cost to women's health. Women are getting sick.

## 2.6 Households switch to vatable foods in response to high food prices.

Households respond to high food prices by switching their purchases. We have found that households tend to switch their purchases to foods subject to VAT. For example:

- As chicken and beef have increased in price households buy more stock, soup, curry and other spices to create an illusion of the 'meaty-taste' of the rapidly declining pieces of chicken in the meal. These additives are subject to VAT (as were the chicken and beef they are now trying to extend/substitute)
- As bread becomes more unaffordable, households make their own amagwinya and ojeqe from cake flour, sugar, salt and yeast (these are subject to VAT).
- As milk becomes unaffordable (the PACSA Food Basket no longer tracks milk), households switch to cremora as cremora can be better managed (kids don't drink it out the fridge) and it therefore lasts longer than milk (cremora is not a dairy product; it is subject to VAT).

The trend therefore is that as food prices increase and the affordability crisis deepens; foods subject to VAT make up a larger portion of the monthly household food basket. PACSA tracks 38 foods on a monthly basis that working class households have identified as the foods which they would buy should they have sufficient money to do so. 20 out of the 38 foods are vatable; and 18 are zero-rated. Of the total cost of the basket of R3 129.84, **a 15% VAT component is R221.59**. The total contribution of VAT to the overall PACSA Food Basket is 7.08%. Vatable foods contribute **R1 698.87 or 54%** to the total cost of the PACSA Food Basket.

<sup>i</sup> George & Paige (1982). **Food for beginners**. Writers and Readers Publishing Cooperative Society Ltd. P111.

<sup>ii</sup> African Centre for Biosafety (2014). **GM Maize: lessons for Africa. Cartels, collusion and control of South Africa's staple food**. The African Centre for Biosafety. Melville, South Africa. P4. See link: <https://acbio.org.za/wp-content/uploads/2014/12/GM-Maize-Report.pdf>

<sup>iii</sup> Smith, Abrahams & Chiya (2017). 2017 PACSA Food Price Barometer. Annual Report. October 2017. Pietermaritzburg Agency for Community Social Action, Pietermaritzburg. P14. See link:

[http://www.pacsa.org.za/images/food\\_barometer/2017/2017%20PACSA%20Food%20Price%20Barometer%20Annual%20report.pdf](http://www.pacsa.org.za/images/food_barometer/2017/2017%20PACSA%20Food%20Price%20Barometer%20Annual%20report.pdf)

<sup>iv</sup> PACSA (2018). **PACSA Monthly Food Price Barometer: February 2018**. Pietermaritzburg Agency for Community Social Action, Pietermaritzburg. P1. See link: [http://www.pacsa.org.za/images/food\\_barometer/2018/February\\_2018\\_PACSA\\_monthly\\_food\\_price\\_barometer.pdf](http://www.pacsa.org.za/images/food_barometer/2018/February_2018_PACSA_monthly_food_price_barometer.pdf)

<sup>v</sup> STATSSA (2017). **Poverty Trends in South Africa: An examination of absolute poverty between 2006 and 2015**. Report No. 03-10-06. Statistics South Africa, Pretoria, South Africa. P58.

See link: <http://www.statssa.gov.za/publications/Report-03-10-06/Report-03-10-062015.pdf>

<sup>vi</sup> STATSSA (2017). **Poverty Trends in South Africa: An examination of absolute poverty between 2006 and 2015**. Report No. 03-10-06. Statistics South Africa, Pretoria, South Africa. P14.

See link: <http://www.statssa.gov.za/publications/Report-03-10-06/Report-03-10-062015.pdf>

<sup>vii</sup> Statistics South Africa (2017). **South Africa Demographic and Health Survey 2016: Key Indicator Report**. Statistics South Africa. Pretoria. P27-28.

See link: <http://www.statssa.gov.za/publications/Report%2003-00-09/Report%2003-00-092016.pdf>

<sup>viii</sup> PACSA (2018). **PACSA Monthly Food Price Barometer: February 2018**. Pietermaritzburg Agency for Community Social Action, Pietermaritzburg. P1.

See link: [http://www.pacsa.org.za/images/food\\_barometer/2018/February\\_2018\\_PACSA\\_monthly\\_food\\_price\\_barometer.pdf](http://www.pacsa.org.za/images/food_barometer/2018/February_2018_PACSA_monthly_food_price_barometer.pdf)

<sup>ix</sup> PACSA (2018). **PACSA Monthly Food Price Barometer: February 2018**. Pietermaritzburg Agency for Community Social Action, Pietermaritzburg. P5.

See link: [http://www.pacsa.org.za/images/food\\_barometer/2018/February\\_2018\\_PACSA\\_monthly\\_food\\_price\\_barometer.pdf](http://www.pacsa.org.za/images/food_barometer/2018/February_2018_PACSA_monthly_food_price_barometer.pdf)

<sup>x</sup> Statistics South Africa (2017). **Mid-year population estimates, 2017**. Statistical Release P0302. Statistics South Africa. Pretoria. P7.