QUOTE OF THE DAY

Never trust a man who when left alone with a tea cosey… Doesn't try it on. – Billy Connolly, Scottish comedian, musician and actor

The best way to manufacture a stronger country

TURN TALK TO ACTION

Philippa Rodseth

> There is much that government is doing which we applaud – the state incentives for investment are playing an important role.

SOMETIMES it would be nice to think that the world of business was as simple as life in a British soap opera. Death, divorce, you name it… The universal remedy is to sit yourself down and 'ave a nice cuppa tea. No doubt this was the almost universal response after the announcement of the Brexit vote – kettles being put on to boil to celebrate or to mourn a new era.

We in business like our tea, and our coffee. However, when the country is limping along at near-zero GDP (gross domestic product) growth, with unacceptably high unemployment and unacceptably low standards of education, we in the Manufacturing Circle fear that a few hot beverages are unlikely to do the trick.

We are a strategic partner of the annual Manufacturing Indaba, alongside the Trade and Industry Department (dti) and the city of Ekurhuleni. It is an event which took place last month, attracting Trade and Industry Minister Rob Davies, the mayor of Ekurhuleni (Mondli Gungubele), the premier of Gauteng (David Makhura) and – most important of all – many hundreds of business people.

We heard from international academics, chief executives, tanks full of thinkers, consultants, government officials and more. It was a useful and worthwhile dialogue. A full day of the event was devoted to small business; there was a strong emphasis on the importance to South Africa of the rest-of-African market, while, current hot topics such as support for black business, government procurement and export promotion were all debated. Of course, discussion is easy, but action takes real effort. So we must now look forward.

Looking forward

I am relieved to say that, invigorated by the Indaba and conscious of the massive challenges which face us all, there is to be a more intense and regular dialogue between business and government, to move beyond words into action.

There is much that government is doing which we applaud – the state incentives for investment are playing an important role, even if some of the mechanisms and fine-print could do with an overhaul. Similarly, the government programme to support black industrialists is something which we endorse; hoping it will result in sufficient opportunities in our manufacturing sector, which is experiencing economic pressure.

The manufacturing sector has an important role to play in developing a brighter future for South Africa, says the writer. PHOTO: BLOOMBERG

We have also seen much focus applied to the state procurement of locally manufactured goods, with a range of products and sectors having been designated for this purpose, although monitoring and implementation remain a challenge which needs to be addressed by both public and private parties.

Furthermore, a targeted approach towards export promotion by identifying opportunities in Africa is apparent.

These areas are in support of our manufacturing sector and central to South Africa's industrial revival. The Manufacturing Circle is working closely with the dti to provide industry with support where appropriate.

We are not going to talk until the cows come home, and look forward to reporting on our progress by the next Indaba.

We believe we can make a real difference by bringing the common sense, problem-solving expertise, drive and energy of the manufacturing sector to bear in helping to identify problems, and to work out ways of how together we can solve them.

We will be able to draw on many of the ideas and themes of the Indaba: one professor who addressed us suggested it is wise to aim for a few islands of excellence – pockets of effectiveness – and to expand from there.

We cannot ignore international perspectives, as many of the current challenges facing the South African economy stem from a global economy which is limping along – and few believe that the recent Brexit vote in the UK will do much to help.

It was useful to hear from the likes of General Electric, which is committed to local procurement, and from the chief executive of the Gautrain Management Agency, who announced an expansion decision is imminent, with another 200km of Gautrain track.

Crucial element

It is often said – and can't be said often enough – that SMEs (small and medium enterprises) are a crucial element of the economy, in terms of future growth, employment and innovation. And this sector needs more help. The challenge is to ensure that the concerns and frustrations of SMEs ring out not only in the ears of government – which has yet to demonstrate a unified approach to SME support – but also in the ears of industry. There is much that larger firms can do to assist – from paying their bills on time, to targeting procurement, to mentoring and advising.

So, the talk is over for another year.

It's time for us to sit down with government in a mature and practical dialogue. Perhaps over a nice cuppa tea.

Philippa Rodseth is executive director of the Manufacturing Circle

Comments are open on Treasury's proposed sugar tax

FISCAL HEALTH

Virusha Subban
Yonatan Sher

THE TREASURY this month published a policy paper that sets out proposals on the new sugar tax to be imposed on sugar-sweetened beverages. This follows the minister of finance's statement in his February Budget Speech where he announced that a new sugar tax will be introduced by April next year.

The tax is positioned from the point of view of combatting obesity and other health issues, and it is an additional method to raise revenue. The proposed sugar tax targets beverages that contain added caloric sweeteners such as sucrose, high-fructose corn syrup or fruit-juice concentrates.

This includes soft drinks; fruit drinks; sports and energy drinks; and even "healthier" drinks such as vitamin water drinks; iced tea and drinking yogurt. The tax will not target beverages that only contain sugar naturally built into the structure of the ingredients, such as unsweetened milk and 100% fruit juice.

Three models of how to calculate the tax rate were considered in the policy. Firstly: a per litre rate on all beverages irrespective of sugar content. Secondly: a tax rate per gram of sugar actually present in the beverage (which can be determined by the nutritional labelling). Thirdly: a threshold approach where different categories of beverages are established, depending on their sugar content, and the tax rate is determined by which category the beverage falls within.

Price determination

The policy paper recommends the second model, as this would support the government's objective of incentivising manufacturers and consumers to switch to lower sugar-content beverages or reformulate their products, by decreasing their tax liability accordingly. It also involves less of an administrative burden than the third proposal.

The policy paper asserts that to influence consumer behaviour the tax rate must be at least 10 percent to 20 percent. It therefore recommends a rate of about 2.29c per gram of sugar (adjusted yearly for inflation), which equates to about a 20 percent hike on the average price per litre of carbonated soft drinks. It further proposes that if the beverage does not have a nutritional label, it should be taxed at an assumed sugar-content which is very high. This would have the added benefit of encouraging the nutritional labelling of all beverages.

It is envisaged that the tax will be levied by way of the Customs and Excise Act, and it will be levied at the manufacturer level, and not at the consumer level (duty-at-source principle).

There remains uncertainty as to who would bear the tax liability where there are several sugar-sweetened beverages that go into making the final product, and are sourced from external suppliers.

It is also unclear from the policy paper whether the tax per gram of sugar will be imposed on the total sugar content of the beverage, or only on the added sugar, which is in addition to the naturally occurring sugar.

The empirical evidence of the health benefits of similar sugar taxes in other jurisdictions is also much more ambivalent than the policy paper portrays them to be. The deadline for comments on the policy paper is August 22.

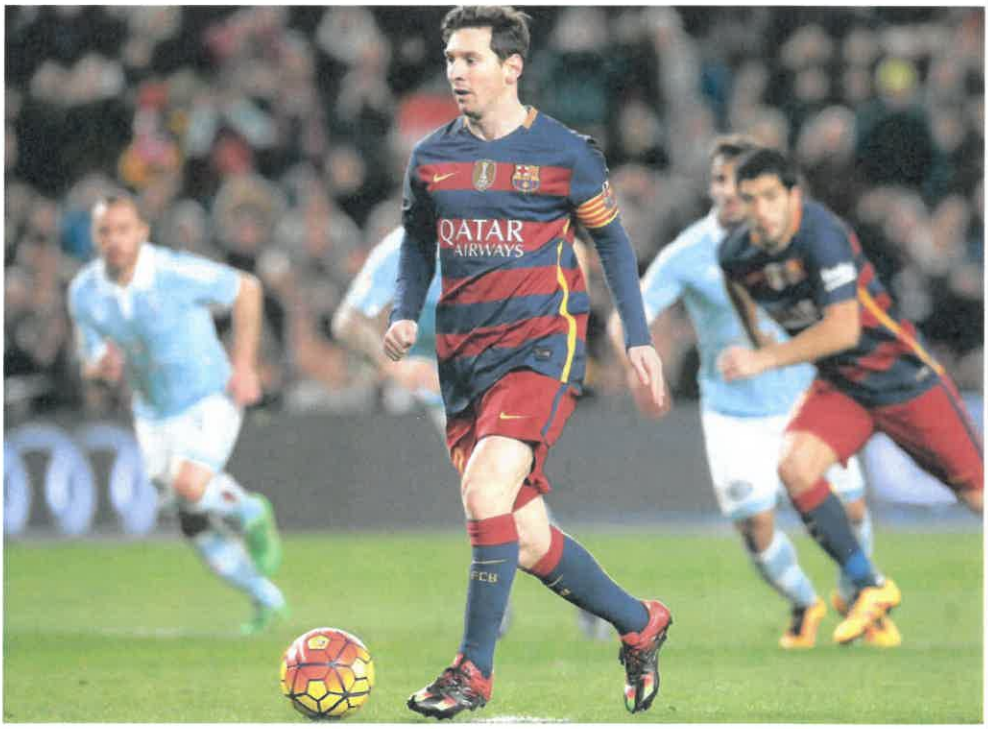
Virusha Subban is a partner specialising in customs, excise and international trade and Yonatan Sher is a candidate attorney at Bowman Gilfillan Africa Group.

There remains uncertainty around the Treasury's new proposed sugar tax policy. PHOTO: REUTERS

Messi's tax fraud is just one issue in global industry

FOOTBALL AND FINANCE

Thomas Hastings



Lionel Messi has been sentenced to a 21-month jail sentence for tax fraud, highlighting some of the economic implications for the game PHOTO: REUTERS

ONE THING'S for sure, it has not been a good summer for Lionel Messi. After a fourth international cup final defeat, the diminutive Argentine announced his retirement from international football on June 26, aged just 29. The "Don't go, Leo" campaigns had barely subsided before he and his father were handed a 21-month jail sentence for tax fraud.

They were found guilty of not declaring £3.5 million (R66.6m) of earnings from 2007 to 2009, linked to the use of tax havens in Belize and Uruguay.

Football lovers fearful of the loss of (arguably) the world's greatest player should be comforted by the fact that sentences under two years can be served outside of prison in Spain.

Messi maintains his innocence and will appeal the decision.

But this and the fact that he can keep playing does little to address the serious issue of how some footballers manage their finances – something many in the industry struggle with.

Messi's case is not unique in Spain or Barcelona. Earlier this year, Messi's Brazilian team-mate Neymar was also reprimanded and fined for failure to disclose earnings from a range of sources.

Neymar also maintains his innocence and is making an appeal. From one perspective, Messi's tax dealings should not come as much of a surprise.

Bigger picture

The use of tax havens is seemingly the done thing for the super wealthy, the world over. But there are aspects of the beautiful game which may lend themselves more generally to the aggressive pursuit of even greater earnings.

The game's global union FIFPro has long urged an abolition of transfer fees so pivotal to the concept of player "ownership", as well as caps on agent earnings. Outside of player registrations, the concept of economic rights for players has also proliferated in recent years, adding exposure and marketing revenue to the game's more famous stars, the clubs they play for and the brands/products they advertise.

Messi earns a purported £256 000 a week after tax – so why would any player risk biting the hand that feeds them? One partial explanation may lie in recent adjustments to the Spanish tax system. Previous low rates of tax, linked to a source of competitive advantage for the top flight of Spanish football, La Liga, have since been hiked.

The Spanish tax rate for top earners more than doubled in 2012 to 54 percent.

More generally, the problems emerging from the Messi case reflect the fact that, while the globalisation of football in economic and cultural terms is near-complete, the legal rights, regulations and procedures surrounding the sale of players remain highly varied across the globe.

THE CONVERSATION

Footballers are recruited across a global labour market, though key regions (notably South America) operate with very different norms and regulations on ownership rights and recruitment procedures.

Third party ownership, for example, has become commonplace in certain regions of the world. This is where a third party individual or company will give a player or club money in return for owning a percentage of a player's future transfer fee or "economic rights".

In the UK, the process has become synonymous with Carlos Tevez who arrived at West Ham against the rules of English football, under the ownership of businessman Kia Joorabchian.

But in South America third party ownership is common.

It is also accompanied by a spate of high profile scandals involving tactics whereby players are temporarily registered and sold via low-tax jurisdictions (such as Uruguay) as a means of avoiding tax on transfer fees.

The point here is not to conflate issues of third party ownership with Messi's own crime of tax avoidance, but to put the crime in context. Football is a global industry that operates differently in different parts of the globe.

Professed ignorance

Added to this, many footballers emerge from humble backgrounds and difficult circumstances: combinations of ignorance, greed and acting on bad advice are likely to emerge.

This is not to say that footballers, like workers in any other profession, are free from responsibility when it comes to paying tax or meeting their legal obligations.

> While the globalisation of football in economic and cultural terms is near-complete, the legal rights, regulations and procedures remain highly varied.

A major problem is that many people who stand to profit (which may include friends and family members) have an interest in taking risks on the player's behalf.

Did Messi even know his actions were illegal? Barely a year goes by in football where a legal controversy of one form or another does not emerge, be it more serious cases of fraud or tax avoidance (as with Messi), illegal payments relating to transfer fees (see manager Harry Redknapp's infamous case in 2012) or unlawful player gambling (including in games they are involved in).

Like Messi, Redknapp pleaded ignorance as well as innocence when it came to charges over his own illegal payments. As well as "knowing nothing" Redknapp went a stage further by citing an inability to text, write or type as part of his defence. He was cleared of tax evasion charges.

If ignorance is no defence, then football as an industry must ensure its players are educated on the legal rights and wrongs associated with the profession.

This is particularly important for those elites at the forefront of the game and its marketing, not least because billions of viewers (including young, impressionable and avid fans) consume the global game.

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