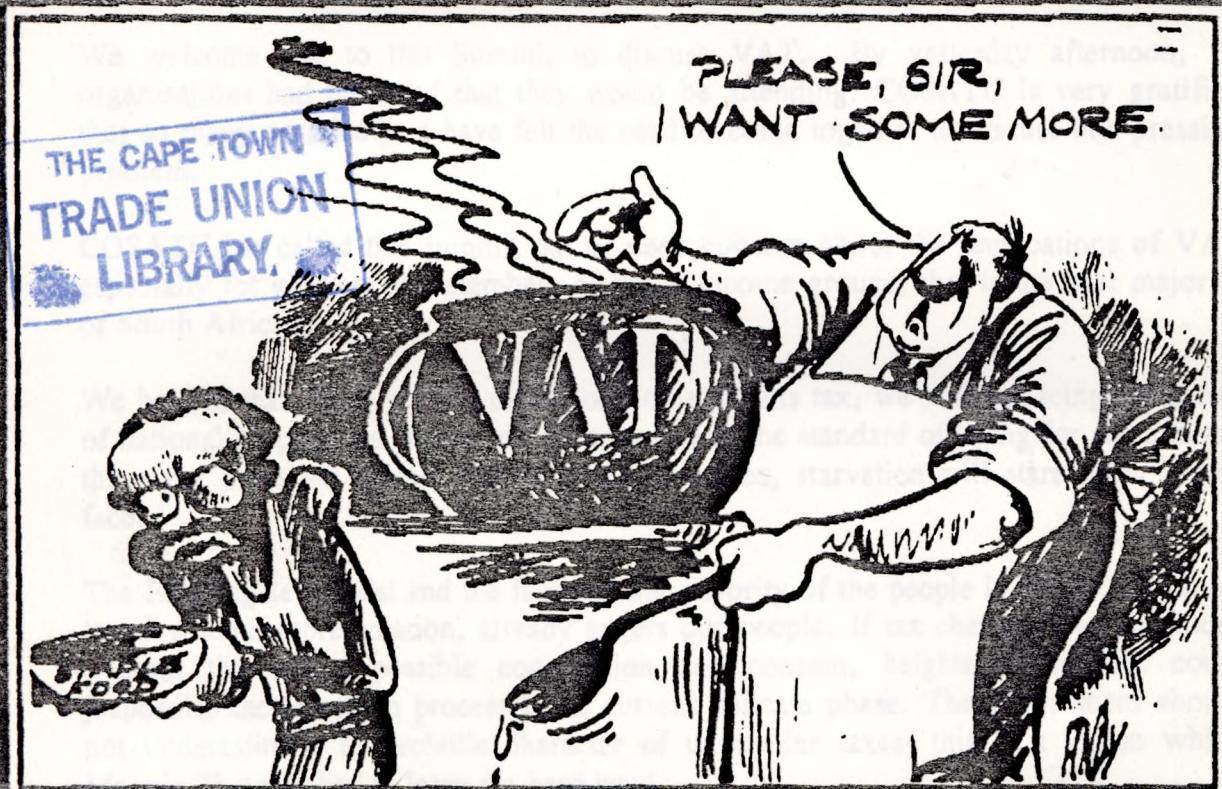




Congress of South African Trade Unions



SALHAZZA: COSATU. 1991.

VAT Summit

22 August 1991



COSATU

CONGRESS OF SOUTH AFRICAN TRADE UNIONS

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PROCESSED

22nd August 1991

Dear delegates

We welcome you to this Summit to discuss VAT. By yesterday afternoon, 22 organisations had indicated that they would be attending. COSATU is very gratified that so many organisations have felt the need to come together to discuss this pressing problem.

COSATU has called this summit out of deep concern about the implications of VAT especially for workers and members of lower income groups, that is the vast majority of South Africans.

We believe that unless we can reach consensus on this tax, we will be facing a disaster of national proportions. There will be a decline in the standard of living for all, and for those not protected against cost of living increases, starvation will stare them in the face.

The Inkathagate scandal and the fact that the majority of the people in South Africa are taxed without representation, already angers our people. If tax changes are introduced without the widest possible consultation and consent, heightened conflict could jeopardise the transition process in its current delicate phase. The government should not underestimate the volatile character of unpopular taxes- this is a lesson which Maggie Thatcher had to learn the hard way!

It will only be through the unity of organisations from all walks of life, that we will be able to successfully achieve modifications to the tax system.

That is why we called this meeting. We sincerely hope that from this meeting, we will be able to develop a common approach.

The accompanying memorandum, lists the problems we see with VAT and a proposal that we would like this meeting to discuss. Most of the organisations here, we believe,

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have a similar view of the problems.

The short notice makes it difficult for us to respond comprehensively respond to the Minister's press release last night. We still have to consult our affiliates. However we believe that it is important for this meeting to formulate a broad response, which we can take back to our respective organisations.

We are disappointed that the Cabinet chose to announce piece meal changes to the tax without adequate consultation and in what we believe was an attempt to forestall the discussion at this meeting.

We look forward to constructive discussion and ongoing co-operation on this matter.

Yours faithfully,


Jay Naidoo
COSATU General Secretary.

Agenda of VAT Summit

Below is a suggested agenda for the meeting.

1. Welcome and introduction - *COSATU President, John Gomomo*
2. Ratification of agenda
3. COSATU input - *Dr Bernie Fanaroff, National Union of Metal Workers of South Africa (NUMSA)*
4. Comments from organisations
5. Proposal for the way forward
6. Closure

Note: Depending on the outcome, we would like to hold a press conference shortly after the meeting.

Organisations Attending VAT Summit - 22nd August 1991

Below is a list of organisations who have responded by 21 August 1991, to our invitation to attend the VAT Summit.

1. African National Congress
2. CAST
3. Consumer Council
4. COSATU
5. Fedsal
6. Johannesburg Child Welfare Society
7. Medical Association of South Africa (MASA)
8. Natal Provincial Staff Association
9. National Black Consumers Union
10. NACTU
11. National Civics Interim Co-ordinating Structure
12. National Medical and Dental Association (NAMDA)
13. National Union of Leather Workers
14. Operation Hunger
15. Public Servants Association of South Africa
16. South African Council of Churches
17. South African Health Workers Congress (SAHWCO)
18. South African National Consumers Union
19. South African Union of Journalists
20. Society for Dispensing Family Practitioners
21. Sunnyside Group
22. World Vision

Congress of South African Trade Unions (COSATU)
Input to VAT Summit
22 August 1991

1. COSATU's position

After careful deliberations, research and consultation with other organisations, COSATU has come to the conclusion that the implementation date of VAT should be postponed until there can be effective negotiations to address the shortcomings of this tax.

We do not believe that the Cabinet decision yesterday adequately addressed all the problems associated with VAT and we thus stand by our position that the Department of Finance needs to urgently enter into bona fide negotiations with all the major parties affected by VAT.

We are prepared to enter into negotiations as a matter of urgency and with a view to completing them as rapidly as possible.

It has been our experience that a process of negotiations in which the parties are seriously committed to reaching agreement is the only effective way of reducing conflict.

The Minister of Finance has argued that the costs of postponing the implementation date of VAT will be too high. However the costs of social and industrial conflict if the government insists on pursuing its present course, may be far higher.

2. The process of consultation

The approach the Minister and his Department of Finance has pursued up to now, is not in our view a proper process of negotiations or even consultations.

Other organisations present can probably add to our claims, but we have identified a number of weaknesses in the Department's approach:

- 2.1. Organisations around this table have not been privy to the calculations upon which the rate of VAT was set. The revenue targets have not been made clear to the public.
- 2.2. When the Minister invited comment on VAT, he stated that a rate could not be

set until after the conclusion of the consultation process. All representations were therefore made without knowing that the rate would be 12%. Even now we do not know on what basis he arrived at the figure of 10%.

- 2.3. It seems that the recommendations of the many organisations that did submit representations to VATCOM, were not heeded. The only input which was taken seriously was that of the IMF which is not as familiar with conditions in our country, as the organisations which made representations.
- 2.4. In recent weeks, as the opposition to VAT has mounted, the Minister of Finance has still been reluctant to consult properly. For example, following our first meeting with the Minister on July 16th, at which he undertook to consult with COSATU, we were unable to obtain a reply to numerous faxes and phone calls for several weeks.
- 2.5. Even now the Cabinet's response is an attempt to undermine and pre-empt consultation rather than to strengthen it. The Minister's announcement was scheduled for Friday 23rd August, but hastily reorganised in an attempt, we believe, to pre-empt the decisions of this meeting.

3. Recent announcements by the Ministers of Finance and National Health

It is only as a result of increasing public pressure, that the Departments of Finance and National Health have come forward this week with a series of measures to address the shortcomings of VAT.

However, we are of the opinion that these responses are rushed, poorly thought out and inadequate. They are a thinly disguised attempt to pre-empt a proper process of consultation and negotiation.

As such they are only likely to lead to more conflict, not less.

In the studies we have commissioned, it appears that most countries have given a great deal more consideration to the impact of VAT on the poor, unemployed and other disadvantaged groups.

We are encouraged however by the fact that the Ministers do seem to have begun to understand the need to seriously address the problems of poverty.

4. Objections to the present VAT system

We will now turn to the substantive objections that COSATU (and we believe many organisations around this table), have. We will attempt, where possible, to comment on

the implications of the recent announcement by the Minister of Finance.

- We have not at this stage, put forward our preferred options. Many of us around the table may have suggestions and expertise, which we believe should be shared to develop a common set of policy options.

4.1. The VAT rate

We continue to believe that the rate is too high. The Housewives League recently calculated that the rate would need to be set at 5% on all groceries to bring in almost exactly the same amount of revenue as the present 13% GST.

Increasing the price of petrol and diesel, does not solve the problem of the increased cost of living. Petrol price increases inevitably lead to price increases and so directly affect the poor as well as all other sections of society.

In other countries where VAT has been implemented there have been differential rates, with lower or zero-rating of essential commodities and services and a higher rate for luxuries. The government is fond of quoting the overseas experience of VAT, but appears to be ignoring its lessons.

4.2. Tax on previously exempt items

Items previously exempt or excluded from GST, will be subject to VAT. These include:

- * Basic foodstuffs.
- * Medicines.
- * Medical services.
- * Sick pay contributions.
- * Telephones
- * Water and electricity.

The addition of tax on these items will fundamentally affect the living standards of the unemployed, aged and lower paid workers.

We support the view of the health sector that VAT on medicines and medical services is "immoral". The partial exemption of medical services and medicines is not good enough.

No amount of poverty relief, in a country with such an underdeveloped social welfare system as ours, can compensate for a tax which will hit the poor in this way.

In particular lower paid workers, who are going to be hard hit by the increase in the cost of living, are very unlikely to benefit from the poverty relief.

4.3. The inflationary effect of VAT

It has been calculated that at 12%, VAT could push inflation up by about 2.5%. While,

Difference between
PPI & CPI on food as ex.

figures still need to be established about the inflationary effect of a 10% VAT rate, the petrol and diesel price increases announced last night, will also be inflationary.

While there is no guarantee that the inflationary effect is only short term as the government claims, even inflation in the short run will be disastrous in the present climate.

4.4. The abuse of VAT

We are concerned that VAT will be abused by the commercial sector to raise prices and we do not believe that VATWATCH alone is an adequate safeguard.

In other countries, more far reaching measures have had to be introduced to prevent price rises during the implementation stage. Other countries also have far more developed mechanisms and organisations to safeguard the consumer from exploitation.

4.5. Small business

The costs entailed in administering VAT, especially for the small business sector are expected to increase by four times when VAT is implemented. This additional cost will inevitably be passed on to the public.

While exist. consumer org in SA doing a good job
Again, in other countries, special provisions have been made to assist small business.

4.6. Poverty relief programmes

The amount of poverty relief granted by the government remains inadequate.

In addition, we do not believe that there has been proper thought given or consultation done on the mechanisms to distribute poverty relief.

Without very carefully considered programmes and the active participation of the affected communities and organisations, poverty relief will not achieve its objective. The existing welfare organisations can not take on the full responsibility for these programmes.

It also does not make much sense to introduce poverty relief, while at the same time removing subsidies on basic staple foods such as maize and bread. The targeted groups will effectively exclude the lower paid workers, who will therefore not benefit from these programmes.

4.7. Trade unions subscriptions

The trade union movement has been particularly concerned that the imposition of VAT on trade unions will seriously jeopardise the continued existence and efficient functioning of many unions.

We believe that our concerns have only been partly addressed by "exempting" trade unions, when our demand was for "zero-rating". While political and religious

organisations are zero-rated, we will continue to pay VAT on our purchases.

5. COSATU's proposal to this meeting

Firstly, we would like to urge the organisations present to consider supporting the call that the implementation date of VAT be postponed until there can be effective negotiations with the major organisations affected by VAT.

Secondly, we suggest that we establish a mechanism for co-ordination between the organisations represented here to:

et al *join us.* *organisations* * Make further representations to the Department of Finance arising out of the conclusions of our meeting today.

- * Co-ordinate the development of a common set of policy alternatives to resolve the shortcomings of the VAT system.
- * Be responsible for co-ordinating the process of negotiations with the Department of Finance.



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COSATU PRESS STATEMENT AUGUST 26 1991

VAT: GOVERNMENT MUST ADDRESS THE ISSUES

It is unfortunate that Theo Alant, the Deputy Minister of Finance, has chosen to try and discredit those who are campaigning for the suspension of VAT, by attacking the organisations concerned, instead of addressing himself to the substantive problems we are raising. Mr Alant was quoted on the weekend as saying that "no representations were received from the parties and organisations now accusing the government of not consulting" (Star 24/8/91). Further Mr Alant is quoted as having said that after COSATU's meeting with the Minister on July 16 1991, "despite repeated invitations from the Minister of Finance" Jay Naidoo was "unable to fit in a follow-up meeting". (Citizen 24/8/91)

At the summit on VAT last Thursday (August 22) it was reported by a number of the organisations present that they had made representations to the government on the VAT issue, which they felt had been disregarded. For example, a number of organisations had suggested a low VAT rate, and proposed that basic foods should not be taxed.

As far as COSATU is concerned, it is totally untrue to say that no representations were submitted on the VAT issue, something Mr Alant should certainly be aware of. In our meeting with the Minister on 16 July, COSATU submitted a memorandum on VAT on basic foods, medicines and medical services. We submitted further representations on 19 July on the issue of trade union subscriptions and affiliation fees. Mr Alant's apparent ignorance of these submissions perhaps indicates the lack of seriousness which the government has displayed in relation to peoples objections to VAT.

Furthermore Mr Alant is disingenuous, to say the least, to suggest that the failure to have a follow-up meeting to COSATU's July 16 meeting with the Minister is in any way the result of reluctance on COSATU's part to have such a meeting. After the July 16 meeting it was agreed that the Minister would respond to us on our representations before COSATU Congress (July 24), and that a follow up meeting

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would be held. The Minister failed to honour this undertaking. Numerous phone calls and faxes to his office received no response. Further faxes were sent to the Minister on July 29 and on 2nd August requesting a response. We finally received an acknowledgement from the Minister on August 16, exactly one month after his undertaking to respond in 48 hours, apologising for his "oversight" in failing to respond.

Even more disturbing is the fact that although the Minister was aware that a summit of organisations on VAT was scheduled for August 22, and that he had agreed in principle to hold a meeting with us to hear our concerns, he unilaterally went ahead and announced the changes to VAT. It is widely believed that this announcement was deliberately aimed at pre-empting the results of the Summit, and avoiding consultations with the main parties who were raising serious reservations about the way in which the government was implementing VAT.

For the Deputy Minister to now suggest that the government has been frustrated in its attempts to consult on the issue is an insult to the intelligence of South Africans. If the government has become a late convert to the virtue of genuine consultation and negotiations on these issues, we suggest that they take seriously the central demand of signatories to the VAT summit that the implementation of VAT be deferred so that proper consultation and negotiation can take place. If the government wants to continue politicking on this issue, instead of addressing the genuine concerns of a wide range of South Africans, they will be responsible for the industrial and social conflict which will follow. We suggest that they reflect on the lessons of the LRA experience.