

12 February 2013



RESPONSE TO ACTION AID STATEMENT: THE FACTS

Illovo denies emphatically that it is engaged in anything illegal, immoral or in any way designed to reduce the tax rightly payable to the Zambian government. We are very proud of Zambia Sugar and the major contribution that it makes to the Zambian economy.

Despite our attempts to persuade ActionAid to improve its report by correcting errors and introducing more balance into its analysis, ActionAid has decided to publish a highly inflammatory account of the company's tax position that is incomplete at best and factually wrong in places. Illovo has engaged openly with ActionAid to set out the correct position, however, ActionAid has failed to reflect this in its report, clearly deciding that its campaign should take priority over the facts.

Illovo does not engage in aggressive tax planning. In fact, the group has an open and transparent relationship with all the tax authorities in the jurisdictions in which it operates. For the year ending 31 March 2012, the Illovo Group's effective tax rate was 30.3%. The group has paid R1.3 billion in taxes over the last five years and collected another R1.9 billion in employment and sales taxes.

Illovo's contribution to Africa is not limited to tax payments. The group employs 14 500 permanent employees and another 17 000 seasonal workers, and its substantial investment in facilities has brought huge benefits to the African nations in which it operates, including Zambia, the country which ActionAid has selected for particular focus in its report. The group's businesses form the economic and social backbone of the local communities in which they operate, providing infrastructure, healthcare facilities and schools.

Corporate taxes

In Zambia itself, Illovo invested R1.6bn to double the size of the sugar mill, so creating Africa's largest sugar mill that will benefit the nation for many years to come. Capital allowances on this investment have resulted in almost no corporate tax being payable since the investment was made. The mill and its associated operations will be making a substantial tax contribution for many years after the reliefs have expired. The availability of these allowances, used by governments all over the world, has nothing to do with tax avoidance. African governments should be as free as any other to attract investors.

The investment in the 2007 Nakambala expansion, which was made possible through the available and legitimate Zambia Development Agency investment incentives, has brought considerable benefits to the Zambian economy. This expansion and related activities provide employment and benefits for more than 5 000 people and their dependants. Without these investment incentives, the Nakambala expansion would not have materialised. Zambia Sugar and Illovo complied with all of the obligations specified in the relevant Investment Promotion and Protection Agreement. The multiplier effects of this investment have led to increased taxes being paid through import duty, income taxes, withholding tax and VAT for sugar sold along the sugar value chain.

Rather than denigrate this investment, ActionAid should welcome it as an example of how governments in developing economies can drive economic growth by attracting inward investment, bringing long-term economic benefits to local communities.

Corporate taxes of KR27.3 million (re-based Kwacha), were paid between 2006/7 to 2011/12. Corporate tax is clearly low during the years of the expansion which is perfectly normal, as the allowances are being utilised. Once these capital allowances have been fully utilised, Zambia Sugar will continue to pay corporate tax for generations to come.

It is important to note that during the 5-year period 2008 to 2012, Zambia Sugar has paid withholding taxes of KR28.7 million; and customs and excise duty of KR78 million. Employment related taxes have increased to KR136 million over the same period from jobs generated as a direct result of the expansion.

In addition, the increased production capacity arising from this expansion has allowed the company to generate additional foreign exchange earnings, increasing from US\$78 million in 2007 to US\$164 million in 2012 and as such, has been an important contributor to the economic stability of the country.

Management fees

ActionAid's report alleges that Zambia Sugar pays fees to other parts of the Illovo group in order to reduce tax. This is not true. Payments made by Zambia Sugar for the services of third party contractors, expatriate personnel in Zambia and export services provided by Illovo, are made at cost. As a result there is no artificial reduction in profit in Zambia Sugar. These payments are made to overseas companies, for commercial reasons, and are not driven by tax considerations.

ActionAid alleges that US\$13.8 million is paid out of Zambia annually via "tax haven" sister companies. Given the availability of the tax losses in Zambia, generated from the capital allowances, there is absolutely no motivation for Zambia Sugar to reduce its taxable profit in Zambia. Management fees and export commissions are for specific specialist technical, agricultural, financial and marketing services provided to the company **at cost**. If there had been any mark up on these costs, the profit would have ultimately been taxed at the group level in South Africa at 28%; clearly no tax motive, simply recovery of costs for specialist services provided.

Social Investment

Zambia Sugar is proud to be a good corporate citizen, complying with all the laws of Zambia and contributing to the community and small scale farmer schemes. The company's community projects amounting to KR112.7 million over the past six years, benefit education, health, small business development, sports and culture. Zambia Sugar operates an estate with 2 900 housing units providing municipal type services such as roads, schools, health facilities, potable water, electricity and security. The company will continue to invest heavily in social spend as it continues to grow.

Conclusion

We have responded in a transparent and detailed manner to ActionAid and despite this they have produced a report written in inflammatory language that is designed to mislead.

Illovo believes that ActionAid's work on the ground in many countries is laudable. However, this report is inaccurate and misleading. As such, it demeans ActionAid and undermines the trust that should help NGOs and business to work together to bring swifter economic and social prosperity to communities in Africa. With limited detail, ActionAid have attempted to use Zambia Sugar's tax affairs to gain publicity at the expense of accuracy.