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EXECUTIVE DIRECTOR

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SUGAR TAX UK

"Tax is a blunt, ineffective instrument for reducing obesity"

Dear Colleagues and Friends,

The Executive Director would like to draw your attention to the attached document regarding taxing sugar, which contains solid arguments to rebut any initiative that aims to punish sugar consumption. The Secretariat strongly recommends that relevant elements be extrapolated from this valuable source in order to articulate a firm, facts-based position that safeguards the genuine interests of our industry.



Tax is a blunt, ineffective instrument for reducing obesity



IMF-ITIC Consultative Meeting



1 December 2015

Background

- Greater government interest in the use of Selective Food and Beverage Taxes (SFBTs).
- Two key objectives of these taxes:
 - Encourage healthier consumption patterns
 - Generate tax revenue
- Tax revenue sometimes earmarked to support public health objectives.

Key messages

- Total net tax revenue gains are likely to be negligible at best; and these taxes are often complex and costly for tax administrations and ministries of finance to administer.
- SFBTs have unintended consequences on jobs, incomes, investment, and total tax revenue. These are reinforced by adverse multiplier effects.
- The burden of SFBTs falls disproportionately on the poor.
- The impact of SFBTs on reducing non-communicable diseases (NCDs) is unproven - there is no direct link between SFBTs and overall average calorie consumption.
- SFBTs undermine the key principles guiding good tax practice and generate adverse unintended consequences.

Impact on jobs and government tax revenue



SFBTs cost jobs

- Mexico's case shows that the SSB tax of 1 peso/litre introduced in January 2014 results in significant job losses:
 - 1,700 beverage industry jobs lost
 - 30,000 corner shops (Tienditas) closed
 - 50% of what is sold in Tienditas is subject to the tax – main patrons are low and middle income consumers
 - 600,000 families depend on these stores to survive
- Each direct job in soft drinks supports >10 additional jobs in the Mexican economy, whether with upstream suppliers or those employed by downstream distributors/retailers
- Sources: ANPEC (Mexican small store association), ANPRAC (National Beverage and Carbonated Drink Producers' Association).

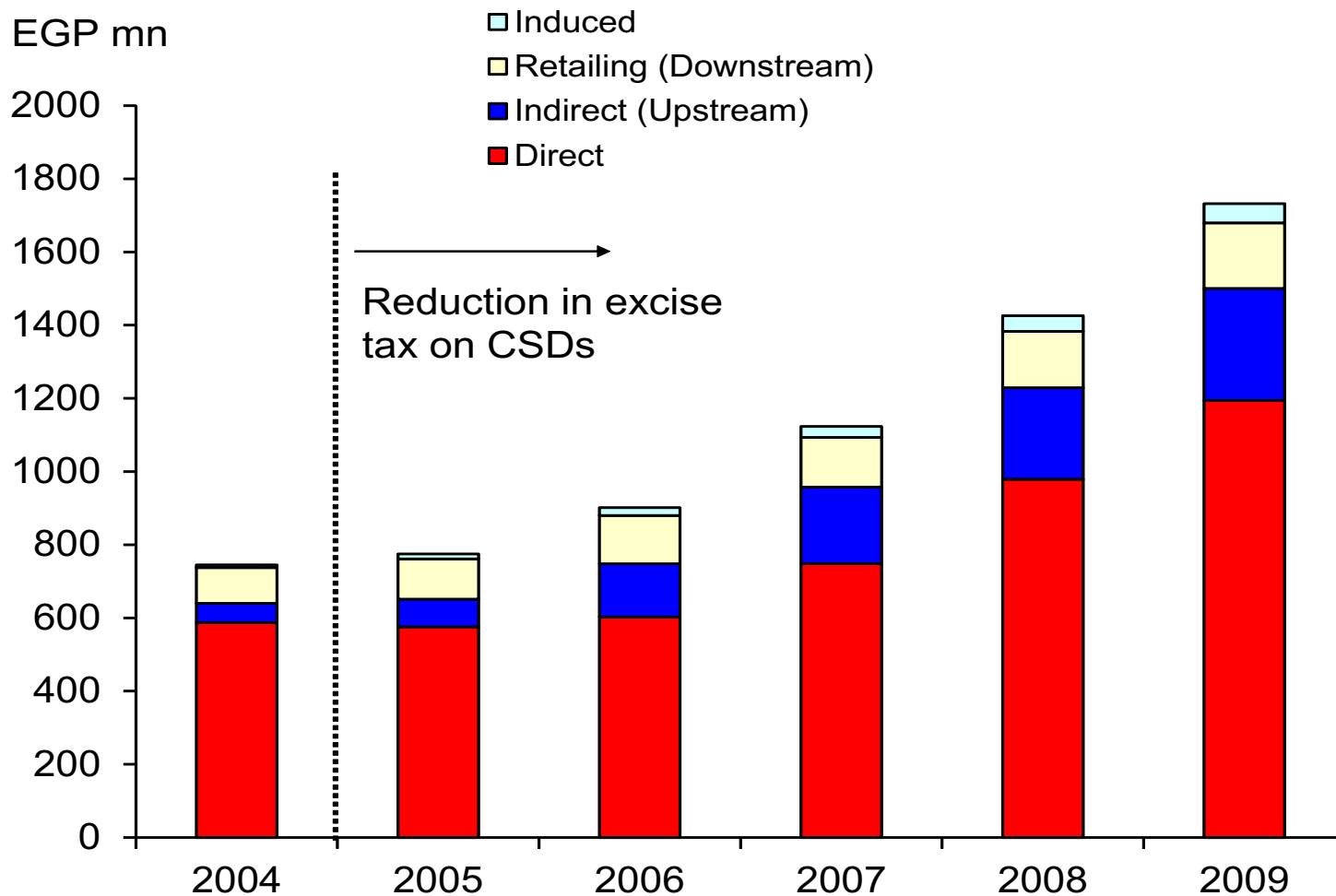
An SFBT is regressive

- The burden of paying the tax is heaviest on those who have the least amount of money -- Allais et al. (2010)
- Spending on taxed items in Mexico:
 - Poorest citizens spent on average 11.2% of income
 - 4.9% for middle class, 1% for upper class
 - 64% of taxes collected came from low socioeconomic level; one-third of this group live in poverty

Reducing SFBTs can boost government revenue

- Removing or reducing SFBTs can lead to greater economic growth, more jobs and increased government tax revenue.
- Egypt reduced the tax on carbonated soft drinks (CSDs) from 29% to 19% in 2005. Over the next four years:
 - The beverage industry's contribution to GDP increased by over 27% per year on average.
 - The total tax contribution, including supply-chain effects, increased by more than 20% a year.
- Source: Oxford Economics (2010)

Reducing SFBTs can boost government tax revenue



Source : Oxford Economics

The link between SFBTs,
consumption and health
objectives is unclear



Public health claims are overly optimistic

A systematic scoping review of 880 studies by Shemilt et al. (2013) concluded:

"Our findings have exposed a complex, limited and largely equivocal evidence base, suggesting that the public health case for using economic instruments to promote dietary and physical activity behaviour change may be less compelling than some proponents have claimed. This conclusion provides an important counterpoint to what are, in our view, overly optimistic claims made by some authors of individual primary studies and reviews for the use of economic instruments to improve population health behaviour. It implies a need for caution in the development of public health policies intended to alter economic environmental stimuli to incentivise health-enhancing dietary and physical activity behaviour change at population level (p.9)."

Link between sugar consumption and NCDs is unclear

- The scientific evidence from a number of expert reports suggests that sugars (free or otherwise) do not have a unique effect on body weight beyond their contribution to calorie intake.
- Khan and Sievenpiper (2014): “Placing the blame on sugar consumption lacks persuasive evidence and is misguided ...when consumption is corrected for energy intake, sugar has no effect on body weight (p.961).”
- In a review of evidence about sugar-sweetened drinks, Gibson (2008) concludes: “Assertions that SSDs are a disproportionate cause of excess body weight and/or that their avoidance would be effective in preventing weight gain are, in my opinion, not well substantiated by the science (p.145).”

Link between tax and total caloric consumption unclear

- Comprehensive meta data analysis by Andreyeva (2010) and Thow et al. (2010).
- Both reviews conclude that taxes are one method to change behaviours and may improve health outcomes by lowering the incidence of NCDs and their associated risk factors.
- A closer inspection of the underlying research undermines their conclusions:
 - Failure to take into account other highly relevant factors that may influence outcomes – product substitution
 - Use of methodologies that present only subjective results

Quotes from the underlying research

- Mytton et al. (2007) state that “taxing food stuffs can have unpredictable health effects if cross-elasticities of demand are ignored (p.689).”
- Jou et al. (2012) suggests that “SSB taxation may be susceptible to the substitution effect, wherein consumers substitute other high-calorie beverages for taxed SSBs in response to a price increase (p.7).”
- Pratt (2012) states that, “It is not yet clear, from an empirical perspective, that soda taxes would significantly reduce obesity-related morbidity or mortality (p.113).”

Substitution impacts will undermine the tax

- These concerns play out in practice as predicted – Smed et al. (2012), Yaniv (2009), Schroeter et al. (2008)
- Consumers switch to cheaper products or untaxed items with similar or higher calorie or fat content – Fletcher et al. (2010)
- Denmark – downturn in sales of domestically produced Lurpak and a corresponding increase in lower-priced imported butter from New Zealand – ITIC/OE (2014)

Market research

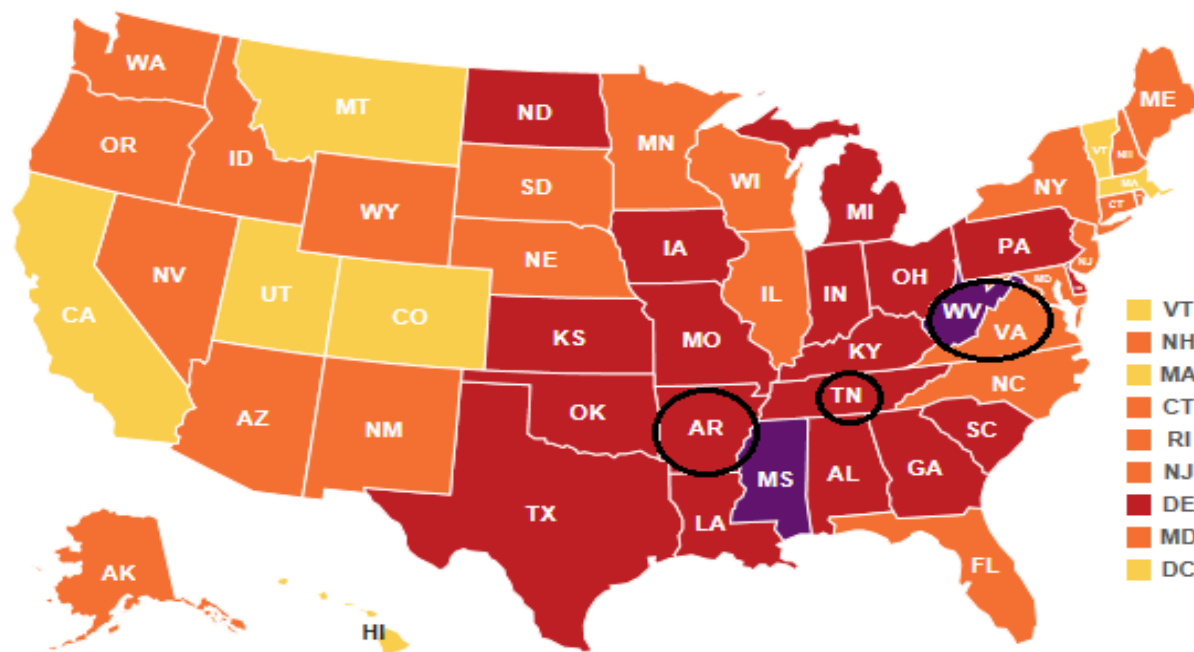


An SFBT will have little impact on obesity

- Four U.S. states levy excise taxes on soft drinks.
- Three of these (West Virginia, Arkansas and Tennessee) have the highest rates of state-level obesity in the U.S.

Percent of obese adults (Body Mass Index of 30+)

0 - 9.9% 10 - 14.9% 15 - 19.9% 20 - 24.9% 25 - 29.9% 30 - 34.9% 35%+



Mexico is not an exemplar for SFBTs

The claims

- National Institute of Public Health of Mexico
- 12% reduction in consumption
- 17% reduction among lowest socioeconomic group
- Impact will grow over time

The evidence – (Nielsen Data)

- No significant reduction in litres consumed
- Between May 2013 and May 2015, consumption declined by 182,000 litres in a market of 11 billion litres
- Less than 0.1% reduction in consumption
- 6 fewer calories per day
- Growth of 1% anticipated in calendar year 2015

Lead author Professor Popkin quoted saying the Mexico sugar tax is too low “*to meaningfully affect consumption*” (Washington Post, 2015)

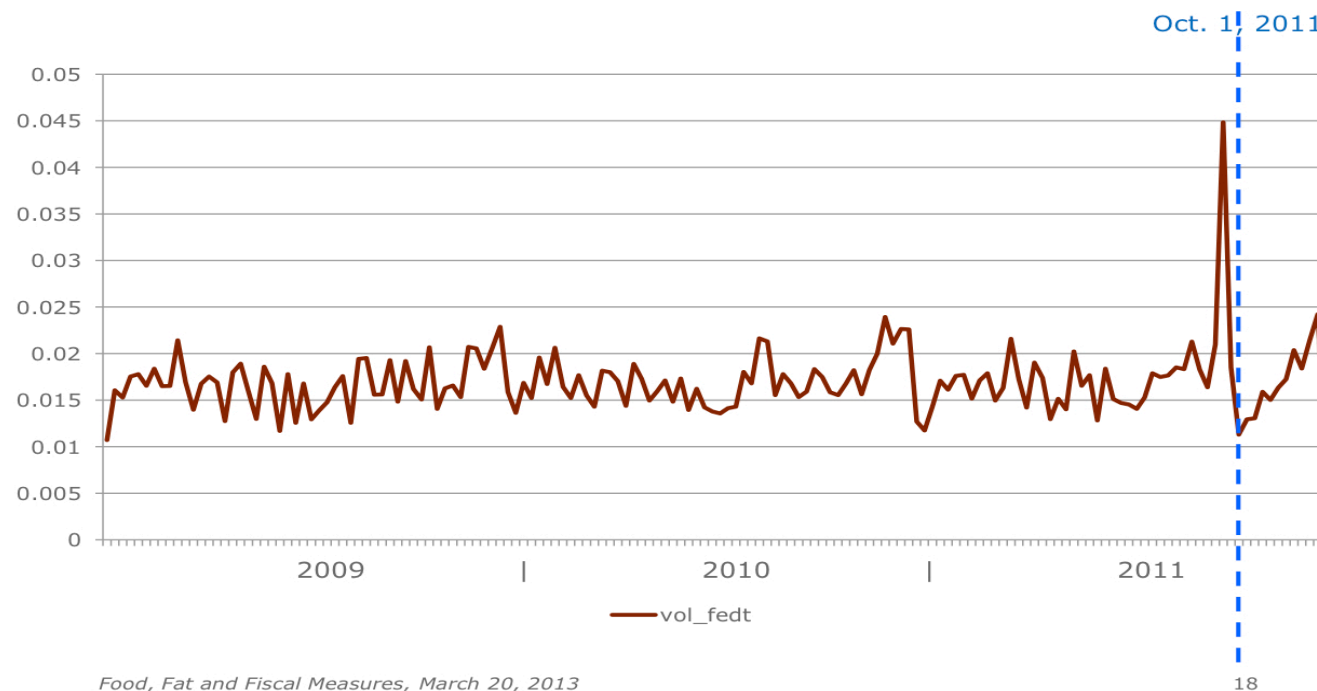
Short-term impact in Mexico due to hoarding

- Impact of SSB tax in Mexico akin to the introduction of the fat tax in Denmark
- Consumers in Denmark stocked up on ‘fat products’ prior to the introduction of the fat tax
- After the introduction, there was an initial decline (10-15 percent) in sales of taxed products – Smed et al. (2015)
- Consumers simply ran-down their stock of these newly taxed items over the next few months – hence sales during the first three months of the tax decreased

Reduction in spending due to hoarding - Denmark

Hoarding effects prior to the introduction of the tax

Fat products' share of total purchased food quantities per week, 2009-2011



Food, Fat and Fiscal Measures, March 20, 2013

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Minimal long-term impact on calorie consumption?

- SSB tax in Mexico may have an even smaller impact on calorie consumption and health objectives in the long term
- Analysis of the Denmark tax by Bodker et al (2015) showed:
 - Sale of products containing saturated fat declined by just 0.9% during the 15 months the tax was in effect
 - The Danish fat tax had a “marginal effect on population consumption of fat and risk of ischemic heart disease (IHD)”
 - “One estimate suggests heart disease risk increased by 0.2 percent”
 - “The other estimate suggests that the risk of IHD decreased by 0.3 percent”.

Other findings

Quotes from countries that repealed/rejected

- Iceland – “The cancellation of all categories of the commodity tax greatly simplifies the system, as well as benefiting households and abolishing an obsolete consumption steering mechanism”. Treasury Budget 2015 – Ministry of Finance
- Denmark – Tax Ministry said the fat tax had been criticized for “increasing consumer prices, increasing corporate administrative costs and putting Danish jobs at risk.”

Quotes from countries that repealed/rejected

- Finland* – The European Commission stated that the sweets tax is unacceptable under EU state aid rules. The tax does not treat similar products neutrally with respect to its objective and confers a selective tax advantage, which amounts to state aid to non-taxable products.
- New Zealand – Health Minister Coleman stated, “Some people leap to sugar taxes as being the answer. I don't believe that is the answer and we've been pretty clear...because, actually, in some places where they have imposed them, they've actually reversed them, and I'm not convinced that it works.”
- * Translated from Finland Government Communications Unit press release 29 Sept 2015. http://vnk.fi/artikkeli/-/asset_publisher/makeisten-ja-jaatelon-vero-poistetaan-vuonna-2017

What about earmarking taxes?

- Popular in practice, but earmarking has long been out of favour with budgetary experts (Bird 1997, Bird & Jun 2005)
- Earmarking taxes can:
 - introduce budget inflexibility into the fiscal system
 - distort decisions on overall funding levels
 - reduce control that finance ministers and the legislature can exercise over spending
 - weaken public scrutiny of the value and effectiveness of government spending

Other issues associated with earmarking

- Fluctuations in funding for the programs they support.
- A loss of macroeconomic control over public finances (Bird 1997, Dye and McGuire 1992)
- Increased tax administration and compliance costs
- Adverse distributional impacts (Bird 1997)
- Public misunderstandings on the use of tax revenues

International tax policy – guiding principles

- Seminal IMF Tax Policy Handbook, 1996.
- Taxes should be broad-based to limit market distortions.
- Limit use of discriminatory taxes to cases where:
 - Luxury items – SSBs are income inelastic.
 - Create a more progressive tax base – lower-income spend higher % of income on SSBs. Tax will be regressive.
 - Products that cause negative externalities. SSBs do not cause NCDs in their own right – it is the quantity and frequency of consumption that matter. Evidence on the impact of tax on health is still unclear.
 - Efficiently generate revenue – administrative cost to government and business. Minimise exemptions.
- SSBs do not meet any of the above criteria.

Summary observations



Key takeaways

- Overall revenue gains are likely to be negligible at best.
- SFBTs undermine business growth and cost jobs.
- SFBTs disproportionately impact lower income strata.
- Impact on health outcomes is unproven – there is no direct link between SFBTs and overall average calorie consumption.
- SFBTs undermine the key principles guiding good tax practice and generate adverse unintended consequences.

Tax is a an ineffective instrument for reducing obesity

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Annex



IMF guidelines for fiscal adjustment

Measures to improve the tax system and increase revenue should include:

- “the most promising short-term measures may emphasize increases in the rates of indirect taxes (particularly broad-based sales taxes and excises) and expansion of the tax base by eliminating exemptions”.

And in the design of major taxes

- **Sales tax/value-added tax (VAT)** “should be a broadly based tax on final domestic consumption.... Because of its efficiency and revenue security, the ideal instrument to achieve this objective is a VAT at a single rate.
- **Excises.** A selected number of excises can be introduced to discourage consumption of particular items (for example, alcohol and tobacco); to link tax payments to the existence of negative externalities (for example, a gasoline tax as a means of pollution abatement); or to tax certain luxury goods. Excises should be levied equally on domestic production and imports and, particularly in an inflationary environment, on an ad valorem basis”

2015 cases for discussion: Barbados and Iceland

- Barbados short-term recommendations: “Consider the introduction of an excise on carbonated soft drinks with an ad valorem rate graduated by sugar contents (p.29)”.
- “The base excludes some goods often subject to excises in other countries. Soft drinks are the best example...The imposition of excises on soft drinks is common in developing countries (p.27)”.
- “Soft drinks taxes have, in addition, been considered in a number of developed countries, in particular the U.S. (p.27)”.
- Similar IMF technical report in Iceland notes:
 - “Increase the VAT reduced rate on food products to at least 14 percent (p.16)”.
 - “If the sugar tax portion of the commodity tax is retained, conduct a study to ensure that the price increase it imposes on sweetened products is sufficient to discourage their consumption. Alternatively, repeal the sugar tax and move sweetened products to the top VAT rate (p.7)”.

Tracking SFBTs around the world

Often considered but rarely enacted, with several incidences of the tax being abandoned due to unintended consequences

● Active – fewer than 20

- Albania, Finland, France, Hungary, Latvia, and Norway
- Barbados, Brazil, Chile, Honduras, and Mexico
- India, some Pacific Islands

● Repealed

- Iceland, Denmark
- Zambia
- Finland – will abolish sweet and ice cream tax in 2017

● Considered – less than 10

- Belgium, Bulgaria, Serbia
- Australia, Philippines, Indonesia
- Ecuador, South Africa, Colombia

● Rejected – at least 8

- Belgium, Ireland, Italy, and UK
- Estonia, Romania and Slovenia
- New Zealand, Vietnam