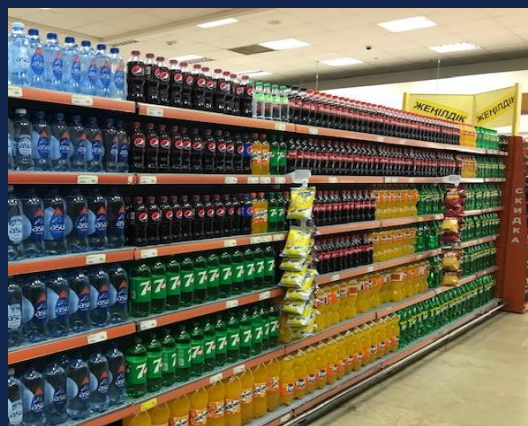


COUNTERING COMMON ARGUMENTS AGAINST TAXES ON SUGARY DRINKS

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KEY MESSAGES:

- Implementing jurisdictions should be prepared to face considerable opposition in introducing and defending a tax on sugar-sweetened beverages (SSB).
- Arguments against SSB taxes tend to closely mirror those used against tobacco taxes, including that these taxes are not effective, are regressive, negatively affect employment and economic growth, and violate international, regional, or national law.
- These arguments can be successfully countered with a careful and considered approach to tax framing and design, using strong evidence-based reasoning and attention to due process.

Introduction

Taxation of sugar-sweetened beverage (SSBs) is internationally recommended as a priority component of a comprehensive approach to preventing and controlling obesity and diet-related NCDs. More than 50 SSB taxes are in effect in more than 40 countries, and many more governments are considering SSB taxes. Yet, despite the global momentum behind SSB taxes, they continue to be met with considerable opposition.

Arguments against SSB taxes tend to closely mirror those used against tobacco taxes, including that these taxes are not effective, are regressive (place a disproportionate burden on lower income groups), negatively affect employment and economic growth, and violate international, regional, or national law. Around the world, these arguments have been used very effectively by opponents to impede and undermine public and political support for SSB taxes, both proposed and existing.

Yet, as this brief shows, these arguments are not

supported by sound evidence. Common arguments against SSB taxes are outlined below, along with the evidence that can be used to counter each proposition.

Arguments against SSB taxes

SSB TAXES ARE REGRESSIVE

A common concern about taxes on foods and beverages is that they are regressive, with the burden falling disproportionately on lower income groups. In the short term, price increases arising from taxes on unhealthy products can place a larger burden on low-income households, who tend to spend a higher proportion of their income on SSBs. However, because low-income consumers are more price-responsive, they are expected to reduce their spending on SSBs the most in response to a tax (Sassi et al. 2018).

In the long term, the greatest health benefits of SSB taxes are expected to be accrued by low-income consumers who experience disproportionately greater health and

economic burdens associated with obesity and diet-related NCDs. Reduced SSB consumption and lower rates of SSB-related diseases will lead to individuals spending less on medical costs and earning more from increased years of productive life. When an extended cost-benefit analysis was undertaken to calculate the net income effect of an SSB tax in Kazakhstan, including the effect on household spending on SSBs, out-of-pocket spending on SSB-related medical costs, and productivity from increases in working life years, lower-income households benefitted more than higher-income deciles from the tax in relative terms in the long run (World Bank 2019b).

Directing SSB tax revenue to fund programs that benefit low-income communities and reduce inequalities (such as school or community-based food and nutrition programs, early childhood health or education programs, broader education programs, or improvements to community facilities) can further strengthen positive impact on equity (Cawley et al. 2019; Thow et al. 2018).

SSB TAXES ARE NOT EFFECTIVE

A common argument used by SSB tax opponents is that they are not effective because consumers will simply substitute taxed products with other similar untaxed products that are not necessarily healthier (for example, other caloric beverages not included in the tax) or shop across the border. However, evaluations of implemented taxes have shown that, while some degree of substitution and cross-border shopping occurs in all jurisdictions, the overall effect of well-designed taxes is positive. Well-designed, broad-based taxes can minimize leakage and encourage substitution toward healthier food and beverage products.

Another common argument is that softer policy measures, such as voluntary reformulation or nutrition education, are equally as effective as, or more effective than, SSB taxes. However, there is now strong evidence from evaluations of implemented taxes, intervention trials, and simulation studies that fiscal policy measures are effective at reducing consumption, particularly when implemented as part of a comprehensive approach to tackling obesity and diet-related NCDs (Thow et al. 2018).

SSB TAXES COST JOBS AND HARM THE ECONOMY

A common argument against SSB taxes is that reduced demand for SSBs will harm businesses, lead to job losses, and slow economic growth. An associated HNP Knowledge Brief summarizes the available evidence on business, employment, and productivity impacts of SSB taxes from independent (i.e. non-industry funded) studies. These studies contradict arguments against SSB taxes by consistently identifying net positive economic impacts,

including overall employment and productivity gains, and increased government spending. This is supported by the findings of a recent systematic review (Mounsey et al 2020).

In Mexico, for example, the SSB tax has had no impacts on employment, while the demonstrated revenue-generating effect of the tax, as well as the potential to allocate this revenue to improving the supply of safe drinking water, has proved a key factor in the Mexican government's decision to maintain the tax in the face of continued industry opposition (Thow et al. 2018). There is similarly no evidence of job losses following introduction of Philadelphia's SSB tax (Lawman et al. 2019).

Simulation studies also show no changes to employment or unemployment following SSB taxes, with any potential job losses in the taxed sector offset by job gains in other sectors. A simulation study of a hypothetical 20 percent SSB tax in California, for example, showed that although there would likely be small drops in employment within the beverage industry, this would be more than offset by employment gains in non-beverage industry and government sectors (Powell et al. 2014).

SSB TAXES WILL HARM A COUNTRY'S DOING BUSINESS RATING

The World Bank's Doing Business annual study presents quantitative indicators on business regulations and the protection of property rights that can be compared across 190 economies—from Afghanistan to Zimbabwe—and over time. The study analyzes regulation that encourages efficiency and ease in doing business, including an indicator on paying taxes.

Governments may have concerns that the introduction of an SSB tax may affect their country's ranking in the annual index. However, the World Bank group in charge of the index has confirmed that excise taxes are not included in the data used for this indicator, and thus an excise tax on sugary drinks will not affect any country's Doing Business rating.

SSB TAXES WILL ENCOURAGE ILLICIT TRADE

Although there is a lack of evidence on cross-border illicit trade with respect to SSBs, international experiences from tobacco and alcohol border control efforts show that higher taxes alone are not decisive in fueling illicit trade. The introduction of substantial levies on tobacco and alcohol in Botswana, for example, has not led to major increases in cross-border smuggling (World Bank 2019a).

Lessons learned from monitoring and enforcement of tobacco and alcohol taxes can also provide valuable insights for SSB taxation efforts, in particular, through the use of tax stamps and track-and-trace¹ systems (see Box 1, for example).

Box 1. Lessons from international experiences in monitoring and enforcement of tobacco and alcohol taxes

Philippines. Reforms to the Philippines' excise tax structure on tobacco products, initiated in 2012 as part of the Sin Tax Reform Act, were combined with strengthening of a wide range of monitoring and enforcement measures aimed at controlling illicit flows. These measures include use of mandatory tax stamps, licensing, audits, and the imposition of stiff penalties for violators. Monitoring dashboards track retail prices, presence or absence of excise tax stamps, and compliance with health warning labels on packaging. Weekly verifications of the presence of the tax stamp (as a proxy to determine illegal trade due to stamp absence) improved within a year in selected large city markets from below 40 percent to close to 98 percent (2015–2016).

Armenia. The Armenian government has implemented an advanced track-and-trace system for tobacco and alcohol products, under the responsibility of the Ministry of Finance. This system includes the use of excise stamps with unique, secure, and nonremovable identification markings. These enable verification of the correct application of the stamp according to product, quantity, dates, and place of production, either directly or accessible by means of a link to an MoF database. The tax stamp technology differentiates stamps for bottled products (including alcohol products) from cigarettes and other tobacco products. Bottle stamps include quick response code (QRC) technology readable with smart phones and special scanners. The database enables determination of the origin of taxed products, the point of production, intended market of retail sale (where applicable), and monitoring and control of the movement of the products and their legal status. Rapid action teams act when no or irregular stamps are found. Any avoidance over US\$100 equivalent is considered a crime.

Source: World Bank 2019a.

Article 8 of the WHO Protocol to Eliminate Illicit Trade in Tobacco Products requires the use of tax stamps to facilitate enforcement and collection of tobacco taxes (WHO 2013). Ideally, these markings possess multiple layers of security, are not removable, are destroyed when the pack is opened, and are combined with downstream verification (to detect presence or absence of an authentic stamp on excisable goods). They should be supported by regulations and penalties for tax avoidance, forgery, and

sale of excisable goods without appropriate product content and health warning labels.

The use of tax stamps on SSB products would provide identification tools for tax administration purposes while helping to combat potential illicit trade by verifying tax avoidance. They would also support track-and-trace systems, which can help control underdeclared domestic production, production declared for export which is then sold on the domestic market, and cross-border illicit trade.

SSB TAXES ARE DISCRIMINATORY

SSB taxes can be challenged under international trade rules or be subject to threats of litigation if they only apply to certain products and not others (that is, discriminate based on the product type or country of origin) (George 2019). However, these challenges can be defended if tax measures are nondiscriminatory (applying equally to the same products produced domestically and imported) and clearly justified in terms of their contribution to public health.

The industry may also claim that other foods contain equally large amounts of sugar and that they are being unjustly singled out. However, SSBs play a uniquely important role as a source of added sugar in the diet, with little to no nutritional value other than as a source of energy.

SSB TAXES ARE UNCONSTITUTIONAL OR ILLEGAL

Experiences with tobacco control show that taxes can be challenged under international, regional, and domestic law on the grounds that governments do not have the legal authority to enact them, have violated the rights or legitimate expectations of companies, infringed on individual consumer rights, or failed to observe due process (George 2019).

The sovereign right of governments to regulate in the public interest, including to protect public health, is protected under domestic constitutions and laws and international trade and investment law. Nonetheless, governments should ensure that they are fully informed of all relevant legal and regulatory frameworks, that they have the relevant authority to implement an SSB tax (this is particularly the case when SSB taxes are being considered at the subnational level), and that due process is observed in developing the measure, including industry, civil society, and public consultations.

Conclusions

Well-designed and evaluated SSB taxes have

consistently been shown to: a) increase retail prices, and b) reduce sales and purchases of taxed beverages, with greater reductions in more disadvantaged areas. The vast majority of independent modelling studies have predicted that lower-income groups stand to gain the most from SSB taxes in the long-term, through greater health gains and greater reductions in health spending. Independent (non-industry funded) studies of SSB taxes have also consistently identified net positive economic impacts, including overall employment and productivity gains, and increased government spending.

Experiences from existing SSB taxes (as well as experiences with tobacco and alcohol control) show that a careful and considered approach to tax framing and design, using strong evidence-based reasoning and attention to due process, is essential to ensure a robust and effective tax with broad-based support. This will also minimize the risk of costly and lengthy legal challenges.

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End Notes

- 1 Track-and-trace systems combine markers (for example, tax stamps) with national record-keeping structures to enable tracking of tobacco or other products throughout the supply chain—tracing the movement of products by transferring the tracking data into a national information-sharing database (WHO 2013).

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The Health, Nutrition and Population Knowledge Briefs of the World Bank are a quick reference on the essentials of specific HNP-related topics summarizing new findings and information. These may highlight an issue and key interventions proven to be effective in improving health, or disseminate new findings and lessons learned from the regions. For more information on this topic, go to: www.worldbank.org/health.