Sugar Tax: all cost, no benefit

Irish Beverage Council pre-Budget submission

July 2016
“We recognise the problem of obesity, overweight and related disease in Ireland and are fully committed to playing our part in solving that problem.”

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Introduction

The Irish Beverage Council opposes the introduction of a health levy on sugar-sweetened drinks. We believe there are significant unanswered questions surrounding the implementation and practicality of this tax. We are calling for the opportunity to work with Government and other stakeholders to design the most effective policy instrument and to work towards achieving our common goals.

The Irish Beverage Council (IBC) represents companies that produce, distribute and market soft drinks, fruit juices, bottled water and sports and energy drinks throughout the island of Ireland.

IBC companies employ approximately 3,500 people directly and support a similar number of additional jobs. Members range from Irish-owned SMEs to major multinational corporations and operate throughout the country.

We recognise the problem of obesity, overweight and related disease in Ireland and are fully committed to playing our part in solving that problem. Our commitment has been well demonstrated by our efforts to reformulate products and introduce innovative new products containing less sugar and fewer calories. The FDII / Creme Global Reformulation Report launched by then Minister for Health Leo Varadkar showed that IBC members took 2500 tonnes of sugar and 10 billion calories out of the Irish diet each year between 2005 and 2012.

The commitment contained in the Programme for a Partnership Government to introduce “a health levy on sugar-sweetened drinks” raises a number of fundamental questions which have yet to be answered.

IBC would welcome consultation with Government to gain clarity on the objectives of this levy. It remains unclear whether this is being introduced solely as a revenue raising measure or as a health levy with a related strategy.

As a source of revenue, such a discriminatory tax would be extremely unstable and, as the Department of Finance and Revenue have said, both complex to design and challenging to collect.

International evidence shows that additional taxation on sugar-sweetened drinks does not achieve public health objectives of reducing incidence of obesity, overweight and related illnesses. Experience shows no sustained reduction in consumption of soft drinks has ever been caused by imposition of a punitive levy.

There is no reason to think Ireland will prove successful where others have failed.

Taxation is a blunt instrument and is an inappropriate model to effectively deal with concerns on obesity in Ireland. As it cannot realistically be expected to reduce consumption of soft drinks, it will prove ineffective as a public health measure while harming the economy.
Irish Beverage Council’s key recommendations

- IBC opposes the introduction of a health levy on sugar-sweetened drinks
- There are significant unanswered questions surrounding the implementation and practicality of this tax
- We call for the opportunity to work with Government and other stakeholders to design the most effective policy instrument and to work towards achieving our common goals
- IBC recognises Ireland’s food industry as a key driver for our economy and is calling on the Government to work with industry to ensure the sector is not damaged by taxation which is costly to the consumer, damaging to Irish businesses and will make no sustainable positive contribution to public health
- IBC welcomes the opportunity to work with Government on a cross-sectoral approach to best support desired public health outcomes while providing much needed certainty for this crucial industry
- IBC would welcome a formal discussion with Government on how best to proceed and how we may work together to increase our efforts to combat obesity
- IBC calls on the Minister for Finance to delay the implementation of a levy on sugar sweetened drinks until further detailed consideration and engagement with the industry
- IBC urges the Minister for Finance to ensure no additional tax is applied to products that contain no sugar
IBC urges the Minister for Finance to take concerns on cross border shopping into consideration before proceeding with this policy

We urge the Minister for Finance to further investigate the potential of cross-border smuggling, and to consider the consumer health risks in the case of the development of unregulated counterfeit products

IBC urges the Minister for Finance protect Irish consumers from an additional charge which will achieve no public health benefit

IBC urges the Minister for Finance to ensure the administrative and cost burden to Irish businesses is not increased

IBC urges the Minister for Finance to protect Irish jobs and investment in research and development of new healthier products

IBC urges the Minister for Finance to protect the level of VAT raised in Ireland by discouraging illicit cross border trade in soft drinks

In response to the UK’s recent vote to leave the European Union, we believe that Government must now delay the introduction of the levy on sugar-sweetened drinks

We oppose the introduction of a health levy on sugar-sweetened drinks in Budget 2017. We are calling for the opportunity to work with Government and other stakeholders to design the most effective policy instrument and to work towards achieving our common goals

Find out more at www.ibec.ie/0/sugartax
Ireland – a food nation

Ireland’s food and drink industry is our most important indigenous industry with a turnover approaching €24 billion.1

We welcome the significant importance the Government attaches to the food and drink industries and its contribution to Ireland’s economic recovery.

Our reputation abroad as a ‘Food Nation’ is growing every year. Exports have increased from less than €8 billion in 2010 to just less than €10.8 billion in 2015.

Agri-food is Ireland’s most important indigenous sector employing 50,000 directly, with 180,000 linked jobs in farming and support industries.

IBC companies alone employ approximately 3,500 people directly and support a similar number of additional jobs. Members range from Irish-owned SMEs to major multinational corporations and operate throughout the country.

Our food and drink industry is well placed to exploit market developments and national policy must continue to support the measures necessary for investment, market access, and expansion and volume growth.

We welcome the ambitious plans by this Government to revitalise all of Ireland so that economic benefits are felt across every community. Uniquely, the food and drink industry is dispersed throughout all regions of Ireland and is at the heart of the social fabric of rural Ireland. We believe that the Government has a responsibility to support confidence and competitiveness in this important industry, and to provide stability and reassurance.

IBC recognises Ireland’s food industry as a key driver for our economy and is calling on the Government to work with industry to ensure the sector is not damaged by taxation which is costly to the consumer, damaging to Irish businesses and will make no sustainable positive contribution to public health.

1. Food and Drink Industries Ireland, www.fdii.ie
230,000 jobs linked to the agri-food sector

€26bn turnover in the sector

€10.5bn worth of exports in 2014 to 120 countries

Total payroll in the sector is €1.8bn – more than any other manufacturing sector

76% are sourced in Ireland

€9.6bn worth of materials purchased

55% are sourced in Ireland

€3bn worth of services purchased

Ireland is the UK’s largest supplier of food and drink

40% UK

31% rest of Europe

29% rest of world

50% of exports by indigenous Irish companies

2. Food and Drink Industries Ireland, www.fdii.ie
Industry action to tackle obesity

“Overweight and obesity are conditions which develop over a number of years in both children and adults. The determinants are multiple and include the built environment, access to healthy and affordable food, exercise and leisure activity, cultural and societal norms, education and skill levels, genetic makeup and individual lifestyle choices. The key issue is to make the healthy choice the easy choice. Government policy and action in a wide range of areas impact on most of these lifestyle determinants. Efforts to address overweight and obesity therefore require a cross-sectoral approach.”

Minister of State for Health Promotion, Marcella Corcoran Kennedy, Dáil Debates, 12 July 2016

IBC recognises the problem of obesity and related diseases in Ireland and we are fully committed to playing our part in solving that public health problem. Obesity is a multi-faceted problem and one that requires strategic coordination of a variety of policy interventions. We have demonstrated our commitment through investment in reformulation of products and introduction of innovative new lines containing less or no sugar and fewer or no calories.

In recent years, the soft drinks industry has taken thousands of tonnes of sugar and billions of calories out of the national diet by changing recipes and offering consumers a wider choice of products. About half of all non-alcoholic beverages consumed in Ireland are now low and no-calorie drinks.

Between 2005 and 2012 the beverage industry has reduced sugar in their products by approximately 10% at no cost to the consumer.

This was not as a result of legislation or in response to pressure from government; the industry developed and marketed new products as part of their contribution to health and wellbeing. Even “standard” varieties of soft drinks have been reformulated to reduce the levels of sugar.

A report commissioned by Food and Drink Industry Ireland 2016 showed that by changing the recipes of existing products and producing and marketing low and no-calorie/sugar products, the industry reduced the amount of sugar contributed by soft drinks to the Irish diet by 10% in just seven years.

IBC will play a continued role in strengthening the cross-sectoral response required to tackle obesity. We are committed to yet further reformulation and product-innovation and increased efforts to educate consumers.

IBC welcomes the opportunity to work with Government on a cross-sectoral approach to best support desired public health outcomes while providing much needed certainty for this crucial industry.
Taxation – a blunt instrument

The Irish Beverage Council is opposed to a further taxation on sugar-sweetened drinks as we do not believe that it is the appropriate measure to achieve our desired public health outcomes.

Industry shares Government’s commitment to address the serious public health issue of obesity. However, taxation is a blunt industry that will not achieve desired public health outcomes but has significant drawbacks.

The suggested “sugar tax” is cumbersome, it will be difficult to implement and have significant unintended consequences which will be costly to consumers, soft drink companies and the economy while threatening the most indigenous industry in the State.

IBC welcomes the ongoing efforts the industry has taken to improve measures to address obesity. Reformulation and new product innovation, in particular have resulted in the industry reducing the amount of sugar contributed by soft drinks to the Irish diet by 10% in just seven years.

However, the introduction of this levy on sugar-sweetened drinks could prove so cumbersome and difficult to introduce that it could potentially divert soft drinks companies from investment in further development.

It is also worth noting that Ireland’s VAT system already imposes a tax on soft drinks.

The existing 23% VAT on sugar-sweetened drinks led the Minister for Finance, Michael Noonan, to rule out introducing a specific tax on sugar-sweetened beverages as part of the Budget 2013.3

Despite this high VAT rate, Ireland’s obesity levels remains stubbornly high. We believe this is sufficient to cast significant doubt on the efficacy of a sugar tax as a public health intervention.

We believe that this type of tax on consumption which hits all consumers equally regardless of their health status or income is badly targeted. There is much evidence to show that food based ‘sin’ taxes are regressive and have a disproportionate effect on low income households.

The effectiveness of taxation as a means of tackling obesity is not proven. McKinsey’s 2014 report, Overcoming Obesity: An Initial Economic Analysis found reformulation of products to be significantly more effective taxation. Reformulation in the context of soft drinks is described as when “beverage produces deliver small incremental reduction in the caloric content of beverages that consumers do not notice.”4

This combined with the development, bringing to market and marketing of new products has been shown to have been considerably more effective in reducing consumption of sugar and energy intake than the Health Impact Assessment undertaken by the Institute of Public Health for the Department of Health claims possible through the introduction of a “sugar tax”.

Other cross-sectoral options such as better education, higher-impact labelling, and improved guidelines across food and drink prove to be a more effective means of dealing with obesity than taxation.

It is clear that obesity is a multi-faceted issue that requires several policy solutions across stakeholders. IBC would welcome an opportunity to engage further with Government and wider industry as part of a cross-sectoral response.

IBC would welcome a formal discussion with Government on how best to proceed and how we may work together to increase our efforts to combat obesity.

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Economic arguments

How will a levy on ‘sugar-sweetened drinks’ be implemented?

IBC shares the valid concerns surrounding how such a tax on sugar-sweetened drinks could be implemented.

As outlined by Minister Noonan recently, he and his officials are currently considering the design and application of the tax. The Minister has signaled issues that exist around effective compliance measures, “to support collection in a Single Market environment in which the free movement of products cannot be impeded and products cannot be made subject to cross-border or excise movement controls.” 5

IBC share concerns that there could be consequences for EU rules and restrictions in order to maintain the integrity of the single market. We point to the the example of the Finnish Government which was forced to scrap certain discriminatory taxes designed to reduce consumption of sugar as the European Commission considered them to be in breach of internal market and State aid rules.

In addition, we welcome Minister Noonan’s recognition that the issues around cross-border trade will have to be examined carefully, and that he must “consider the effects that the design and timing of the introduction of the UK tax may have on an Irish tax on SSDs.” 6

We also welcome Minister Noonan’s commitment to carefully consider all aspects of the design and implementation before he proceeds, that he recognises the potential trade distortion that could arise should we apply this tax without a similar measure being in place in the UK.

WTO law prohibits any unnecessary obstacle to trade. We believe, given the overwhelming evidence that discriminatory taxes on soft drink are ineffective in achieving public health benefits, such a measure would fail the test of balancing the restrictiveness of the measure against the degree of contribution of the measure to the legitimate objective sought to be achieved.

IBC calls on the Minister to delay the implementation of a levy on sugar sweetened drinks until further detailed consideration and engagement with the industry.

Excise code CN2202

Documents of the Tax Strategy Group indicate the imposition of a tax on all products which fall under Excise Code 2202 is under consideration. VAT is charged at 23% on all products covered by CN2202.

This category includes soft drinks that contain no sugar.

In addition to the obvious illogicality of applying a “sugar-tax” to products which contain no sugar, to do so would entirely undermine the claimed motivation of this intervention – to discourage the consumption of sugar.

If, in the alternative, the Minister is considering using a different or modified mechanism to impose a sugar tax then that approach requires careful consideration by the Tax Strategy Group and significant engagement with industry.

IBC urges the Minister for Finance to ensure no additional tax is applied to products that contain no sugar.

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6. Ibid.
Economic uncertainty and unintended consequences

Cross-border shopping
Experience in other European countries has shown preparedness of consumers to cross borders to purchase soft drinks where a price differential exists.

Denmark, for example, abandoned a tax on sugar sweetened drinks after only 15 months because it was losing €38.9m in VAT due to consumers travelling to Germany or Sweden to purchase products.

The UK will not impose additional tax on soft drinks before 2018 at the earliest. 231 entry points currently exist between the Northern Ireland and the Republic of Ireland.

Any attempt to introduce a soft drinks tax prior to the UK’s potential implementation would create a significant differential to the price of products sold North and South of the border and constitute an incentive to cross-border trade.

Following the UK’s decision to leave the EU, there has been concern among major retailers that a continued, weakened sterling may lead to increased cross border trade. For example, in 2009 with little difference between the euro and sterling cross-border shopping accounted for an average spend of €286 per shopper.7

At that time, Retail Ireland estimated that this cross-border shopping cost the State 11,000 jobs and €220m.8

IBC urges the Minister for Finance to take concerns on cross border shopping into consideration before proceeding with this policy.

Illicit trade and smuggling
Separate to a potential incentive to cross border shopping is the more sinister risk to an increase in cross-border smuggling.

Questions remain as to how the movement of soft drinks would be controlled into and out of the State.

At present there are no border controls to enable a check on importing soft drinks which could be subject to a sugar tax. Therefore, any such imports would need to be the subject of a voluntary declaration and self-assessment.

IBC is concerned that this will lead to an increased risk of cross-border smuggling, along with a risk of the sale of non-controlled products in the State.

We urge the Minister for Finance to further investigate the potential of cross-border smuggling, and to consider the consumer health risks in the case of the development of unregulated counterfeit products.

Consequences?

Cross-border shopping

Illicit trade and smuggling

Cost to customers

Cost to business

Cost to Irish soft drinks sector
Cost to customers

There is an absence of awareness for the consumer of the financial cost that may be imposed on them if such a tax on sugar-sweetened drinks is enforced.

Based on a targeted income to Revenue of €100m, the average household can be expected to spend an additional €60 per year.

Department of Finance officials have made it clear that the hypothecation of funds generated by a soft drinks tax for public health projects has been ruled out.

It is likely that current, soft, popular support for a type of sugar tax in theory will dramatically reduce in practice, when consumers are made aware that they will all be forced to pay more for their grocery basket without any guarantee of greater investment in public health initiatives.

There is much evidence to show that food based sin-taxes are regressive and have a disproportionate effect on low income households.9

A tax on the consumption of sugar-sweetened drinks would hit all consumers equally, regardless of their BMI or health status. Those of healthy weight and occasional consumers will all pay more – not just those in whom it is sought to encourage behavioural-change.

The majority (60%) of Irish adults indicate that the introduction of a tax would make no difference to their consumption levels of sugar sweetened drinks. This corresponds to the results found in countries that have introduced a similar tax.10

While there is a belief that a sugar tax will positively affect obesity levels, polling by Red C showed a greater proportion of Irish consumers think that it will act as a catalyst to encourage purchase of cheaper non-branded alternatives.

80% of sugar consumption comes from sources other than sugary drinks, according to research carried out by the Institute for Fiscal Studies (IFS) in the UK.11 The Director of the IFS has stressed to the UK government that the mooted policy for a sugary drinks tax could mean consumption of sugary foods will rise in the aftermath as people substitute one for the other.

IBC urges the Minister for Finance protect Irish consumers from an additional charge which will achieve no public health benefit.

Cost to business

If a “sugar tax” were to be applied to soft drinks in Ireland it seems reasonable to expect that it would take the form of a national excise tax as that was the only mechanism considered by the Tax Working Group.

To meet the conditions of Article 1(2) of EU Directive 2008/118/EC (as implemented by Finance Act 2010, Part 2), Member States may levy other indirect taxes on excise goods for specific purposes, provided that those taxes comply with the Community tax rules applicable for excise duty or value added tax as far as determination of the tax base, calculation of the tax, chargeability and monitoring of the tax are concerned, but not including the provisions on exemptions.

As such, introduction of a soft drinks tax will create considerable obligations not only for manufacturers, importers and distributors of soft drinks in Ireland, but also for retailers and wholesalers. Each presumably will have to register to trade in these products and give regular account for receipts and deliveries.

Introduction of an additional levy on soft drinks in the form of a national excise tax will create an administrative burden of self-assessment and reporting for every link in the supply chain. As such it could create a cost on almost every petrol station, newsagent, convenience store, supermarket, bar, hotel and restaurant in Ireland.

Incentives that may increase cross-border shopping may result in loss of revenue to the State and potential job losses.

The potential in illicit cross border smuggling is also a concern, with potential loss in revenue to the State, along with increased risk for consumer health with the potential for cheaper, unregulated products.

IBC urges the Minister for Finance ensure the administrative and cost burden to Irish businesses is not increased.

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10. Red C polling
11. Institute of Fiscal Studies
Cost to the Irish soft drinks sector

Members of IBC have calculated the likely cost of cross-border trade to their businesses caused by a “health levy on sugar-sweetened drinks” designed to generate revenue of €100m. These calculations were based on consumer behaviour demonstrated when similar price differentials were caused by major variance in the value of the euro relative to the British pound. It is expected that Irish soft drink companies could lose sales worth in excess of €60 million per year through cross-border shopping were a tax equating to 10c per can to be levied.

The risks in bringing in a cumbersome, difficult to manage taxation with numerous unanswered questions as to how it can be implemented could result in industry being forced to divert attention from proven solutions to the obesity problem, such as reformulation, product innovation and improved labelling.

As IBC member companies are significant employers in Ireland it cannot safely be assumed that such losses will not threaten employment or potential future investment here.

IBC urges the Minister for Finance to protect Irish jobs and investment in research and development of new healthier products.

“It is expected that Irish soft drink companies could lose sales worth in excess of €60 million per year through cross-border shopping were a tax equating to 10c per can to be levied.”
Cost to the Irish economy

If a soft drinks tax is introduced in the Republic of Ireland then manufacturers, importers and distributors of soft drinks will not be alone in losing significant income due to cross border trade. The VAT which would otherwise be payable on those sales will be lost to the Irish Exchequer. This would have the effect of replacing a stable form of tax income with an extremely unstable one.

Based on the same industry modeling which revealed the level of loss to industry, it has been calculated that tax returns are likely to be reduced by €35 million.

IBC urges the Minister for Finance to protect the level of VAT raised in Ireland by discouraging illicit cross border trade in soft drinks.

International experience – no evidence of successful sugar tax

There is no robust evidence to show the effects that global tax policies have had on consumption or on health impacts. There is no evidence that the sugar tax implemented elsewhere has affected behavioural change.

UK
The Director of the Institute of Fiscal Studies (UK) has stressed to the UK government that the mooted policy for a sugary drinks tax could mean consumption of sugary foods will rise in the aftermath as people substitute one for the other. He also stated that 80% of sugar consumption comes from sources other than sugary drinks according to research carried out by the IFS.12

Mexico
Mexico introduced a sugar tax, but 18 months later faced a return to pre-tax soda intakes as recently reported by the Wall Street Journal13 and producers report sales now exceed those before the implementation of the tax. Once lauded as successful example of a sugar tax, current research shows no impact on obesity levels has been achieved.

Denmark
In 2013, Denmark scrapped its fat tax because of its economic impact and abandoned plans for a tax on sugar. A year after it was first imposed; Denmark abolished their “fat tax” and dropped plans for a sugar tax, as a result of consumers crossing into Germany or Sweden to shop, unintentionally raising the price of everyday food items. There was no measureable impact on public health.

The Danish Government estimated that it was losing €38.9m in VAT from illegal soft drink sales.

The tax was also blamed for 1,300 lost jobs as Danish shoppers crossed to Germany or Sweden.

Finland
Finland announced it would scrap a tax on sweets and ice-cream as the European Commission found that the tax gave an unfair advantage to producers within the country as they would avoid additional import duties.

12. Institute of Fiscal Studies
Brexit uncertainty

We believe that the impact of the UK’s decision to leave the European Union (Brexit) must to be assessed before rushing into imposing an additional tax which could cause issues for UK-Ireland Trade.

The ability of Revenue systems to manage the projected increase in customs declarations would be further stretched by the inclusion of a requirement to report on sugar in soft drinks.

There are significant difficulties posed in controlling illegitimate trade imports from the UK unless any proposed Irish Tax is aligned with the UK.

Therefore, until either:

a) There is an identical tax applied North and South and/or
b) Control is introduced at potential border crossings (following Brexit)

the imposition of an Irish only tax is simply unworkable and has the potential to risk consumer health with the incentive for those involved in illegitimate trade to develop counterfeit products.

In response to the UK’s recent vote to leave the European Union, we believe that the Government must now delay the introduction of the levy on sugar-sweetened drinks.
Conclusion

The Irish Beverage Council is fully committed to continuing to play its part in helping to tackle obesity and other relevant public health issues.

We want to strengthen and develop on our existing policies to tackle obesity through further reformulation, education and innovation.

We believe the best way to do that is through discussion, consultation and engagement with Government and other relevant stakeholders.

We do not believe that the obesity issue will be resolved by taxation or other forms of discriminatory legislation aimed at individual food categories.

There is no robust international evidence to suggest that a health levy on sugar sweetened drinks affects behavioural change.

Significant questions around the implementation and practicality of this potential new tax remain unanswered. We believe a significant amount of further work is required to assess the following:

- How to assess the basis of the tax in terms of the calculation of the percentage/quantity of sugar in a soft drink
- The control of imports of soft drinks, particularly in the context of North – South Trade
- The control of the movement of soft drinks from within Europe
- The registration and license requirements on retailers
- The development of a means of self-accounting for the tax

Taxation is a blunt industry that will not desired public health outcome and has significant drawbacks.

The added uncertainty of the post-Brexit scenario further increases the significant difficulties posed in controlling illegitimate trade imports from the UK unless any proposed Irish tax is aligned with the UK.

We also believe that this measure could act as an incentive for increased cross-border shopping which could result in a loss of revenue for the State, potential job losses and increased risks for consumer health from a possible development in counterfeit goods.

IBC would welcome the opportunity to work with Government to evaluate the risks associated with this proposed policy choice.

We recommend a thorough risk-assessment report is carried out to look at all sources of added sugars and the best ways to improve public health.

We oppose the introduction of a health levy on sugar-sweetened drinks in Budget 2017.

We are calling for the opportunity to work with Government and other stakeholders to design the most effective policy instrument and to work towards achieving our common goals.
Irish Beverage Council

Irish Beverage Council is the Ibec group that represents companies that produce, distribute and market soft drinks, fruit juices, bottled water and sports and energy drinks throughout the island of Ireland.

IBC members:

- Britvic Ireland
- Clada Group
- Coca-Cola Hellenic
- Coca-Cola Ireland
- innocent drinks
- Lucozade Ribena Suntory
- P Mulrine and Sons
- P Mulrine and Sons
- Pepsi Ireland
- Richmond Marketing

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