Companies protest WHO advice to increase taxes on soft drinks

Higher global taxes on carbonated drinks have not led to decline in consumption, say firms

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Draft guidelines released by the World Health Organization (WHO) a few weeks ago, asking governments for a tax-induced price increase on a range of beverages to reduce their consumption and promote a "healthy diet", have raised serious concerns among companies in the business.

The products which have been identified in the guidelines "on fiscal policies to promote healthy diets" include beverages containing free sugar in carbonated soft drinks, carbonated fruit and vegetable juices, flavoured water, energy and sports drinks, ready-to-drink coffee and tea, and flavoured milk and milk-based drinks. The list also includes food products which are inimical to a healthy diet, such as those with high saturated fats, trans fats, free sugars, and salt.

WHO says that a 10 per cent tax-induced price hike could reduce the purchase of sugar-sweetened beverages (SSB) by 16 per cent. And the pass-through rate, that is, the rate of tax that is transferred into the price paid by the consumer, would be 82 per cent.

Rejecting the guidelines, the India Beverage Association (IBA) secretary-general, JP Meena, says, "This (the assumption that increase in taxes will lead to a reduction in the consumption) has not worked in India and in any other country. What is required is a graded taxation system."

WHO TAXES HOW MUCH

Products and duty

MEXICO
Sugary drinks, including sodas
1 peso/litre

SAUDI ARABIA
Carbonated beverages and diet drinks
50%

UK
Drinks that contain added sugar
5-8 gm/litre
£0.18/litre
More than 8gm sugar/100 ml
£0.24 a litre

CHILE
Sodas, concentrated beverages, beverages with artificial sweeteners
With sugar less than 6.25 gm/litre: 10%
Above 6.25 gm: 18%

FINLAND
Soft drinks, sugar sweetened beverages and juices
€0.220/litre

Note: There are certain special exemptions in each country
Source: WHO

Some beverage companies are concerned that the WHO guidelines may impel the government to go for a further increase in taxes on carbonated drinks, at a time when they are demanding a reduction in the GST on these products to 18 per cent.

In 2017, the Indian government decided to impose a GST of 40 per cent (the top end of the slabs) on carbonated beverages (28 per cent GST and 12 per cent cess, which could go up to 15 per cent). Yet, the imposition of a high GST on these so-called sin products has not reduced their consumption. Based on industry estimates, 2022 was a bumper year for carbonated drinks, colas and non colas, with sales hitting 7.0 to 7.25 billion litres. This is a sharp rise from pre-Covid times — 6.5 billion litres in 2019, after which it fell due to the pandemic. According to Euromonitor, even after the 2017 duty imposition, volume sales went up from 5.5 billion litres to 6 billion litres in 2018. It only fell in 2020 to 4.8 billion litres, going up again in 2021.

But soft drink companies are worried. "We are concerned about the WHO guidelines. There is an apprehension that cess could be brought up to 15 per cent, which would have an adverse impact on the industry which has just recovered from the pandemic and has seen higher than pre-Covid sales in 2022," says a senior executive of a leading beverage company.

The IBA is advocating a rationalisation of the GST on carbonated drinks and the adoption of an evidence-based taxation regime. Says Meena, "We could use nutrition, or low-sugar-low tax, which is more scientific. Tax policy should also incentivise innovation and align with the Food Safety and Standards Authority of India (FSSAI) norms."

As many as 86 countries have imposed some tax on SSBs, with Saudi Arabia slapping the highest tax rate on the products — as much as 50 per cent (*see chart*).