

Chapter 6

Tax on sugary drinks

6.1 The World Health Organisation (WHO) *Global Action Plan for the Prevention and Control of Non-communicable Diseases 2013-2020* recommends that member states consider economic tools, including taxes and subsidies, to promote the consumption of healthier food products and discourage the consumption of less healthy options.¹

6.2 In particular, WHO recommends that governments tax sugary drinks to address type 2 diabetes, obesity and tooth decay.²

6.3 Over 30 countries and sub-national jurisdictions around the world have introduced taxes on sugar-sweetened beverages (SSBs), in line with the WHO recommendations.³

6.4 A few countries such as Hungary have also introduced tax on confectionery, salty snacks and other products.⁴

Sugar-sweetened beverage (SSB) tax

6.5 The vast majority of submitters, with the exception of the food and beverage industry, are of the view that a tax on SSBs is an important piece of the puzzle of multiple strategies required to address obesity.⁵ They all recommended the introduction of a SSBs tax.⁶

6.6 Parents' Voice recently conducted a survey which showed that a levy on sugary drinks had the support of 90 per cent of Australian parents who participated in the survey.⁷

6.7 However, many submitters also stressed to the committee that a tax on SSBs in isolation will not solve the high rate of overweight and obesity and that it has to be considered within a suite of strategies and programs.⁸

1 Food Fairness Illawarra, *Submission 27*, Attachment 1, p. 9.

2 Obesity Policy Coalition, *Submission 135*, p. 18.

3 Public Health Association of Australia, *Submission 73*, p. 14.

4 Australian Taxpayers' Alliance, *Submission 123*, p. 21.

5 See for example: Public Health Association of Australia, *Submission 73*, p. 15; The George Institute, *Submission 104*, p. 2; Dietitians Association of Australia, *Submission 107*, p. 11.

6 See for example: Australian Medical Association, *Submission 126*, p. 7; The Boden Institute, University of Sydney, *Submission 130*, p. 18; Dr Joanne Walker, Director, Policy and Strategy Development, National Rural Health Alliance, *Committee Hansard*, Melbourne, 4 September 2018, p. 42; Public Health Association of Australia, *Submission 73*, p. 14.

7 Parents' Voice, *Submission 43*, p. 3.

6.8 For example, the Grattan Institute stated:

We recognise that a tax on sugary drinks is not a 'silver bullet' solution to the obesity epidemic – that requires numerous interventions at an individual and population-wide level.⁹

Benefits of introducing a SSB tax

6.9 The committee heard that price signals influence consumer choice and therefore introducing a SSB tax should be supported in a bid to reduce consumption of these products.¹⁰

6.10 For example, Diabetes Australia said:

There is clear evidence, though, that a sugary drink tax discourages consumption. One study found a 20 percent levy could reduce consumption by around 12.6 percent. This could lead to 800 fewer people developing type 2 diabetes annually.¹¹

6.11 According to the Dietitians Association of Australia, introducing a SSB tax in Australia would trigger the food industry to reformulate more of their products.¹²

6.12 Dr Tony Bartone, President of the Australian Medical Association (AMA), told the committee:

What we also know is that where there have been jurisdictions where a tax has been introduced, there have been reformulations of those beverages to lower sugar-sweetened options, and that's part of the conversation that we need to have.¹³

6.13 The Royal Children's Hospital Melbourne provided an example from the United Kingdom (UK), where as soon as the government committed to introducing a sugar tax in 2016, companies elected to reformulate the sugar content of their drinks. Within months of the proposed tax, the amount of sugar was halved in the formulation of Sprite and the sugar content of Fanta fell from 7 to 4.5grams. The Royal Children's Hospital Melbourne concluded:

8 See for example: Dietitians Association of Australia, *Submission 107*, p. 11; Mr Terry Slevin, Chief Executive Officer, Public Health Association of Australia, *Committee Hansard*, Melbourne, 4 September 2018, p. 23.

9 Grattan Institute, *Submission 50*, p. 3.

10 See for example: Australian Medical Association, *Submission 126*, p. 1; Consumers Health Forum of Australia, *Submission 129*, p. 4; Obesity Policy Coalition, *Submission 135*, p. 18; Diabetes Australia, *Submission 67*, p. 4.

11 Diabetes Australia, *Submission 67*, p. 4.

12 Dietitians Association of Australia, *Submission 107*, p. 11.

13 Dr Tony Bartone, President, Australian Medical Association, *Committee Hansard*, Melbourne, 4 September 2018, p. 42.

These UK gains show that far quicker and greater sugar reductions can be achieved than what is proposed for Australia.¹⁴

6.14 Many submitters believe a SSB tax should be used to offset the cost of other elements of a comprehensive program to address obesity in Australia.¹⁵ For example, The George Institute considered that the funds generated from the tax could be used to make healthier foods cheaper, or to increase children's participation in physical activity.¹⁶

Level of tax

6.15 There are a number of different fiscal models that have been used internationally to increase the price of SSBs. For example, the UK introduced a volumetric tax in April 2018 that has two levels – one for more than 5g of sugar per 100ml and a higher one for drinks with more than 8g per 100ml.¹⁷

6.16 Other countries such as Nauru or Chile have introduced an *ad valorem* tax of between 10 and 30 per cent on all SSBs.¹⁸

6.17 In November 2016, the Grattan Institute published *Sugary drink tax – recovering the community costs of obesity*. The report called for an excise tax of 40 cents per 100 grams of sugar on non-alcoholic, water-based beverages that contain added sugar. The report says this would increase the price of a two-litre bottle of soft drink by about 80 cents. This tax would raise an estimated \$500 million a year and reduce by about 15 per cent the consumption of SSBs.¹⁹

6.18 The Grattan Institute recommended that SSBs subject to a tax include soft drinks, flavoured mineral waters, energy drinks, cordials and fruit juices with added sugar.²⁰

6.19 Ms Jane Martin, Executive Manager at the Obesity Policy Coalition (OPC), explained its recommendation for a 20 per cent tax was based on WHO analysis of fiscal policies on food, which said that, for the best health outcomes, a 20 per cent or more price increase is required.²¹

6.20 Dr Bartone from the AMA explained that a recent Australian study estimated that a 20 per cent tax on SSBs could result in a 12 per cent decline in consumption and

14 The Royal Children's Hospital Melbourne, *Submission 17*, p. 3.

15 See for example: Public Health Association of Australia, *Submission 73*, p. 15; Australian Healthcare and Hospitals Association, *Submission 101*, p. 3.

16 The George Institute, *Submission 104*, p. 2.

17 Heart Foundation, *Submission 139*, p. 14.

18 Grattan Institute, *Submission 50*, p. 26.

19 Grattan Institute, *Submission 50*, p. 3.

20 Grattan Institute, *Submission 50*, p. 4.

21 Ms Jane Martin, Executive Manager, Obesity Policy Coalition, *Committee Hansard*, Melbourne, 4 September 2018, p. 32.

would result, over a 25 year period, in as many as 16 000 fewer cases of type 2 diabetes and 4400 fewer cases of heart disease.²²

6.21 Most submitters endorsed the recommendation of the OPC's *Tipping the Scales* report, which supports a 20 per cent tax on sugary drinks.²³

Arguments against the introduction of a SSBs tax

6.22 In 2017, the Menzies Research Institute published *Fat chance: why sugar taxes won't work*. The report argues it reviewed a series of papers in favour of the introduction of a SSB tax and found that these papers failed to provide a comprehensive assessment of the overall costs and benefits that such a tax would impose on Australians. It further argued that SSBs tax proposals are not convincing because the logic of the connection between SSBs consumption and obesity is weak given SSBs are neither the sole source of sugar in foods nor even the main source.²⁴

6.23 Coca-Cola Amatil and other submitters also claimed there is very little evidence that taxes targeting SSBs actually work to reduce obesity rates.²⁵

6.24 For example, Dr Alan Barclay pointed out that while consumption of sugary drinks falls after a sugar tax is introduced, there is no evidence that obesity rates decline.²⁶

6.25 Professor Greg Johnson, Chief Executive Officer of Diabetes Australia, responded to this argument by explaining that it takes five to 10 years to see change and that you can only measure impacts in the long-term. Professor Johnson took the example of tobacco control:

You've heard about tobacco control and the measures. Many of these things take five to 10 years as an individual element in an overall package of things. Tobacco control has been going on for 40 years. It's 40 years since we started TV advertising against tobacco, against cigarettes—all of those things. These are long-term things. All the public policy instruments that we've recommended here are things that will have long-term impacts, but

22 Dr Tony Bartone, President, Australian Medical Association, *Committee Hansard*, Melbourne, 4 September 2018, p. 42.

23 See for example: Sugar Free Smiles, *Submission 31*, p. 2; Nutrition Australia, *Submission 61*, p. 4; Public Health Association of Australia, *Submission 73*, p. 17; Diabetes Australia, *Submission 67*, p. 4.

24 Menzies Research Institute, *Submission 119*, Attachment 1, p. 1.

25 See for example: Coca-Cola Amatil, *Submission 84*, p. 15; Australian Food and Grocery Council, *Submission 89*, p. 19; Mr Nick Cater, Executive Director, Menzies Research Centre, *Committee Hansard*, Sydney, 6 August 2018, p. 70; Australian Taxpayers' Alliance, *Submission 123*, p. 14; Australian Association of Convenience Stores Limited, *Submission 6*, p. 4.

26 Dr Alan Barclay, private capacity, *Committee Hansard*, Sydney, 6 August 2018, p. 56.

they're not things that you can necessarily measure in two years or three years.²⁷

Committee view

6.26 The committee believes that the introduction of a tax on sugary drinks (SSB tax) should be considered as part of a suite of strategies and programs within a national obesity strategy. The committee notes that WHO has recommended governments tax sugary drinks and that, at present, over 30 jurisdictions across the world have introduced a SSB tax as part of their effort and commitment toward preventing and controlling the rise of obesity.

6.27 Importantly, the committee is of the view that the introduction of a SSB tax will have a significant impact on reformulation. It will compel the food industry to reformulate more of their products. This will drive food and drink companies to focus on producing and marketing much healthier products. Indeed, the committee heard that as soon as the UK Government announced its commitment to the introduction of a sugar tax, beverage companies started to reformulate products. Within months, the amount of sugar was halved in the formulation of Sprite. The committee is confident that similar reformulation activities will actively occur if a SSB tax is introduced in Australia.

6.28 The committee also believes that a SSB tax will influence purchasing and consumption behaviour. Price signals do influence consumer choice and the introduction of a SSB tax will contribute to reduced consumption of SSB. Also, it is likely to influence demand for healthier alternatives such as water and low fat milk.

6.29 Additionally, the introduction of a SSB tax would firmly convey the message that the Australian Government is committed to discouraging the consumption of products that contribute to the rise of obesity as well as diseases such as type 2 diabetes and tooth decay. Finally, the committee received plenty of evidence showing there is strong support for a tax from Australian and international health experts.

6.30 Equally, the Committee noted analysis that a SSB tax would have a disproportionate impact on poorer Australians, as well as industry arguments that a SSB could have adverse consequences for employees and industry. The committee is of the view that the impact of a SSB tax would be mostly on manufacturers, not consumers. As seen in the UK, the food industry is likely to bring forward alternatives in order to avoid tax. The impacts of sugary drinks are borne most by those on low income and they will also reap the most benefits from measures that change the behaviour of manufacturers. Finally, the government has taken this approach tax other products, which may have an impact on public health. In particular, smoking and carbon pricing have successfully set price signals that changed corporate behaviours. And, in the case of carbon pricing, the impacts were offset through the tax and transfer system (raising the tax free threshold).

27 Professor Greg Johnson, Chief Executive Officer, Diabetes Australia, *Committee Hansard*, Sydney, 6 August 2018, p. 19.

6.31 The committee heard that there are a number of different fiscal models that have been used internationally to increase the price of SSBs. The committee notes that many submitters, in line with the WHO recommendation, were supportive of a 20 per cent tax on sugary drinks. The committee believes that the government should investigate what is the best fiscal model to achieve a price increase of at least 20 per cent on SSBs and whether a tiered volumetric tax or a 20 per cent *ad valorem* tax should be implemented to achieve optimal impacts on consumption behaviour and reformulation activities.

Recommendation 10

6.32 The committee recommends that the Australian Government introduce a tax on sugar-sweetened beverages, with the objectives of reducing consumption, improving public health and accelerating the reformulation of products.