Sugar tax spells bitter times ahead?

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Malaysia has had a long-standing relationship with sugar. With an average production of 1.678 million metric tonnes of sugar annually over the past five years, and bearing the badge of honour as one of the world's top sugar importers, it is clear that sugar plays a very important part in Malaysia's economy – and diet.

However, perhaps the time has come for us to curb our sugar intake with the suggested introduction of a "soda tax" by the government.

With more than half (51.8 per cent) the population either overweight or obese and 2.5 million adult diabetic patients, the healthcare costs alone for obesity related illnesses is estimated to be around RM4.26 billion to RM8.53 billion.

According to a report by the Economist Intelligence Unit, this is equivalent to 10 to 19 per cent of our total spending on healthcare.

The report entitled 'Tackling Obesity in Asean' showcased that our growing waist lines and health problems stemmed from a range of interlinked factors – rising incomes, urbanisation, shifting lifestyles, genetic factors, widespread misconceptions about obesity and related illnesses, among other things.

Sugar, especially, has been in the limelight in recent years on increased awareness on how the sweet ingredient affects our bodies and health.

High in calories, an overconsumption of sugar contributes not only to excessive weight gain but also to insulin resistance, nerve damage and the thickening of artery walls.

With all these factors in place, a person who consumes too much sugar daily will be at high risk of developing obesity, diabetes, kidney failure, heart disease and even cancer.

Our issue with diabetes is especially concerning as Prime Minister Tun Dr Mahathir Mohamad and several national health institutes and bodies have reported that many Malaysians are living unaware that they have the disease, which left untreated will lead to nerve damage, blindness, gangrene, kidney failure, stroke and other heart diseases.

To prevent this from getting out of hand, there have been news circulating recently that the government is considering the possibility of a soda or sugary drink tax to curb sugar consumption in the population and encourage healthier lifestyle choices.

The theory is that the tax will cause unhealthy drinks high in sugar to be less affordable and incentivize consumers to reduce their consumption or to purchase healthier and more affordable beverages.

At the same time, local manufacturers would also be motivated to reformulate their products to utilise lower sugar levels to avoid the tax and importers may instead opt to bring in lower sugar beverages into the market.

The tax would provide a steady revenue for the government and the overall reduction of sugar consumption would lead to a healthier population which may translate to savings in healthcare costs and increases in work productivity as employees would take less medical leaves.

While in theory a tax on sugary foods and drinks sounds like a novel idea, some critics have voiced their doubts on whether a sugar tax will have any significant impact on public health and instead further burden our lower income groups (B40).

After all, sugar has always been a tax exempted commodity due to its label as an 'essential commodity' in our daily lives.

However, that being said, many our Asean counterparts as well as other countries around the world have already begun implementing such taxes with varying degrees of success:

Case studies around the world

Asean

Currently, there are a total of 5 countries in the Asean region that have already employ a sugary drink or food tax while the rest is either mulling for their own version of the tax or have proposed some plans for it. The only exception is Myanmar who looks to be not considering a sugar tax at this juncture.

Singapore

A sugary foods tax has been a topic long debated in Singaporean parliament as rates of obesity and related illness in the island nation have risen alongside its Asean members.

You would think our fast-paced neighbour would be the first in Asean to implemented such a tax but Singapore has opted instead to go a different route and focus on increasing healthier lifestyles and diets in its population first.

Waging a war on obesity, diabetes and cardiovascular diseases, the Singaporean government have started implementing several initiatives over the past few decades to promote healthier eating habits and increase activeness in both children's and adults living in Singapore.

From its national steps challenge to promote walking to its rebates on low sugar drinks that give citizens more incentive, the small country has placed heavy effort in changing the habits of its people.

While their efforts have seen significant success, Singapore took it a step further last year when it announced that they had come to an agreement with 7 major soft drink manufacturers in Singapore to reformulate their products to have lower sugar content.

In a statement, Singapore's Ministry of Health stated that the agreement with manufacturers would potentially reduce sugar consumption from sugary beverages by about 300,000kg per year.

Thailand

In a bid to reduce over consumption of sugar and encourage beverage manufacturers to produce healthier products, Thailand has begun phasing in a sugar tax on Sept 16, 2017 that will increase over the next six years.

Currently, beverage manufacturers are enjoying a grace period until Sept 30, 2019 where the first increase of the tax will be implemented and then gradually increase over the next two years.

According to a 2017 report by the US Department of Agriculture, Foreign agricultural service, it was assessed that the US$9 million (RM33.22 million) of US beverage exports to Thailand will be affected and that total excise tax burden would increase by an additional 20 to 30 per cent once the higher tax rates for high content sugar beverages goes into effect.

However, on the bright side, the sugar tax is expected to help drive down the costs of healthier less sugary beverages on the market as it has replaced the previous flat 20 per cent tax on imported beverages.

Laos, Cambodia and the Philippines

According to various sources, Laos, Cambodia and the Philippines currently all have a sugary drink and or foods tax in place. This is 5 to 10 per cent in Laos, 20 per cent in Cambodia and a tax of 6 to 12 pesos per litre of sweetened drinks.

The Philippines' sugary drink tax differs from most of Asean as the tax is placed on all sweetened drinks, regardless of whether they are sugar free and artificially sweetened. The tax is at 6 pesos (RM0.46) per litre of drinks sweetened with either sugar or artificial sweeteners and 12 pesos (RM0.92) per litre for drinks sweetened specifically with any amount of high fructose corn syrup.

The only exceptions to this wide scope are products sweetened purely with stevia and coconut sap sugar, and products that arguably offer high nutrition values or are deemed essential (milk, coffee, natural fruit and vegetable juices and meal replacements).

Brunei

Our neighbour Brunei join in on the war against sugar on April 1, 2017 with a tax of B$4 dollar (RM15.21) per 10L for drinks with over 6g of sugar per 100ml. The tax is expected to raise the average price of soft drinks by 13 cents more.

While there is no information yet on whether the sugar tax has made an impact on Brunei's high obesity and diabetic rates, some local new outlets have reported increased health consciousness in the consumers of Brunei.

Vietnam and Indonesia

Vietnam is expected to soon join in the party as well as its government have proposed to implemented a 10 per cent tax for sugary foods and drinks by 2019. There has been a fierce opposition to the proposal as critics argue that the new tax which will see another 12 per cent value-added tax will be prohibitive to economic growth.

Vietnam's proposed sugary foods tax is expected to generate nearly five trillion Vietnamese dong (RM892 million) in revenue for the country.

Like Vietnam, Indonesia is currently mulling to implement a sugary foods tax but we have yet to see any concrete proposal on the matter. Reports have indicated that the Indonesian government is currently studying a tax model akin to Mexico's and are aiming to put in place some regulations for sugar, salt and fat in foods by the end of the year.

Further away from home

While taxation of sugary drinks and other products has been a fairly new phenomenon in Asean, the practice is no stranger to countries further away from home.

United Kingdom and Ireland

The UK and Ireland have both recently introduced a sugary drink tax earlier this year. On April 6, 2018, the UK introduced a tax on sugar-sweetened beverage that started at 18p per litre for drinks with over 5g of sugar per 100ml up to 24p per litre for drinks exceeding 8g of sugar per 100ml, while Ireland introduced a tax of 30 cents per litre to sugary beverages containing more than 8g of sugar per 100ml on May 1, 2018.

The tax is expected to generate an addition 1 billion pounds (RM5.39 billion) a year in tax revenue which is earmarked by the UK government to be spent on funding for sport and physical education in UK schools. As the introduction of the taxes is very recent, no identifiable effects have been observed yet. However, there has been some changes in the perception of sugar in UK consumers.

According to a report by data analytics company, Nielsen, 62 per cent of UK consumers have not changed their consumption behaviour since the tax was implemented. However, they also now more health conscious as 25 per cent of consumers are now checking the sugar content of their drinks more while 69 per cent believe the tax should be extended towards other products like biscuits and confectionary.

But despite being more health conscious, survey also revealed that complete banning or dissuasion from sugary drinks may not be feasible in the long run as after the tax implementation, the percentage of people who intend to continue buying sugary drinks has increase and the percentage of consumer who had planned to stop drinking sugary drinks have now dropped from 11 per cent to one per cent.

Norway

The first adopter of a tax on refined sugar products or unhealthy foods is Norway who introduced a tax on sugar and sugary products back in 1922. In 2018, the current levels of Norway's sugar tax has been raised by 83 per cent for general sugar-containing ready-to-eat products and 42 per cent for beverages. The sugar tax per litre for naturally or artificially sweetened drinks is currently 4.75 kroner (RM3.06) per litre.

Denmark

Denmark introduced its 1.64 Danish Krone (RM1.06) per litre soft drink tax all the way back in the 1930s, alongside a tax on foods high in saturated fat.

The soft drink tax and fat tax were very unpopular as its critics claimed that the taxes were ineffective in providing any health benefits to the Danish population due to their proximity to neighbouring countries. Local retailers were reporting lost business and market share to their competitors from the neighbouring Sweden and Germany who were not subjected to soft drink or fat taxes.

Despite the loss of potential economic benefit that the two taxes have caused its country, they last for more than half a century until Denmark finally repealed its fat tax in 2013 and soft drink tax in 2014.

France

Joining in the party in 2012, France introduced a nation-wide tax on sugary drinks where beverages with added sugar are taxed at 7.5 euros (RM36.07) per hectolitre (10L) for drinks with 1g of sugar per 100ml. This amount increases as with the sugar content rises, and caps at 20 euros per 10L for drinks with more than 11g of sugar per 100ml.

While we have yet to see solid figures on how the tax has improved the health of the French population, initial findings have been comforting as the sales of carbonated drinks fell for the first time in eight years following the introduction of the tax. Conversely, market analysts have also reported that the sales of healthier products such as packaged water have risen instead.

Currently, the French government is mulling on a further increase to their sugary drink tax.

Hungary

In 2011, Hungary placed a four per cent tax on packages foods and drinks that contain high levels of sugar and salt in certain product categories. These include soft drinks, confectionary, salty snacks, condiments and fruit jams.

The taxes have been viewed as one of the most successful cases around the world as the first impact assessment conducted by the National Institute for Health Development (NIHD) found that in the first year after the tax was implemented, 40 per cent of unhealthy food and beverage product manufacturers adopted their product formulas to reduce or eliminate unhealthy ingredients. The study also found that taxable products sales fell by 27 per cent while their prices rose by 29 per cent.

And subsequent studies by the NIHD found that Hungarian consumers were responding positively to the tax by choosing cheaper and healthier products while consuming less unhealthy products.

The NIHD concluded that in the first four years after its introduction, the unhealthy food taxes have generated 61.3 billion Hungarian forint (RM908 million) for public health spending – around 1.2 per cent of the Hungary's health expenditure in 2013.

United States

On the other side of the globe, the US has yet to implemented a nationwide tax on sugary drinks or food. Nevertheless, several of its cities have passed their own versions of the tax and has kept a debate of the possibility of a nationwide tax ongoing in congress.

First to pass the tax was Berkeley who introduced the tax on Jan 1, 2015 where a tax of one cent per ounce (29.5 ml) was placed on the distributors of sugar-sweetened beverages such as soda, sports drinks, energy drinks, meal replacement drinks, diet sodas, fruit juice and alcohol. Revenue generated from this tax would be used for the development of the city.

Overall, the tax saw rather positive results as analysis from a 2016 study from UC Berkeley showcased a sales drop of 21 per cent of sugary beverages in the low-income neighbourhoods. Similarly, a 2016 study in the American of public health journal stated that overall, Berkeley saw a 26 per cent decrease in soda consumption and an increase in water consumption and sales.

With positive results, the tax soon spread to other states in the US – Pennsylvania, San Francisco, Oakland, Albany, Boulder and Illinois in 2016 and Seattle in 2018.

Mexico

In 2013, Mexico passed a 10 per cent tax on all soft drinks in a bid to reduce the number of patients in their population that are afflicted with diabetes and cardiovascular diseases, as the country's obesity rate has risen to one of the world's highest.

Alongside the soda tax, the country also implemented an 8 per cent tax on all 'non-essential' foods that surpassed a calorie density of more than 275 calories per 100 grams. These foods included products such as soft drinks, confectionary, spreads, snacks and cereal products.

The war on unhealthy foods the Mexican government has waged is one the most drastic measures seen around the world and while it has received criticism and backlash from affected industries, it seems that tax was well worth the effort as research has shown reduced soft drink consumption. According to a 2017 study in the Journal of nutrition, Mexico saw a 6.3 per cent reduction in soft drink consumption and a 16.2 per cent increase in water purchases in its population. The greatest reduction was among lower-income households, residents living in urban areas and households with children.

While there has yet any key figures on its impact on public health, a 2016 study published in PLOS medicine suggested that the tax would be able to prevent 189,300 new cases of Type 2 diabetes, 20,400 strokes and heart attacks and 18,900 deaths among adults aged 35 to 94.

Australia

Down under, Australia has yet to see any form of sugary drink or food tax. However, its Australian Medical Association has continued to press for a sugar tax as the issue of obesity and related illness continues to rise in the population.

To stave off a sugar tax, Australia's beverages industry announced in June 2018 that they would be cutting their use of sugar by 10 per cent by 2020 and an additional 10 per cent by 2025. According to the Australian Beverages Council, more than 80 per cent of the non-alcoholic beverage industry has signed up to this agreement.

It is understood that the industry is aiming to achieve this goal by largely focusing on efforts to produce and market low-sugar alternatives and reducing serving sizes. However, that being said, the beverages with the highest sugar content such as Coke will remain unchanged, to give the public a choice.

Will it work for Malaysia?

Looking over all the case studies around the world, it seems that a reoccurring theme in countries experiencing the most successes is that taxation alone is not enough to accomplish the main objective of improved public health.

In the case of Hungary and Mexico, the taxes were not limited only to sugary drinks but also to sugary foods and other consumable products high in fat or salt. Philippines took it a step further and taxed artificial sweeteners as well as studies have demonstrated that artificial sweeteners may cause a similar effect on the body as normal sugar.

Awareness programs and initiatives to promote healthier lifestyles also saw much success as Singapore who does not currently employ a sugary food tax has managed to keep their crude diabetes prevalence constant at circa 11 per cent.

But having a wider scope and supporting activities will not necessarily mean that a sugary food tax will successful in Malaysia.

Vincent Lai the vice-president of research at Rakuten Trade Sdn Bhd warned that such a tax would only be successful if the implemented tax is not too prohibitive.

"If the tax is too prohibitive, smugglers will end up wanting to exploit the arbitrage and it may turn out like our tobacco industry where our illicit cigarettes are getting bigger than the legal market."

The Danes' soda tax which was in place since the 1930s is clear example of this as Denmark ended up repealing the tax in 2014 despite the tax netting the government RM286.1 million annually in revenue.

The main motivation for this repeal was the tax was negatively impacting its economy by causing a yearly loss of about RM184.38 million to illicit soft drink sales and its citizens deciding instead to source soda from neighbouring countries like Sweden and Germany who do not have soda taxes in place.

"Cities in California as well as just repealed their soda tax because of mounting pressure they faced from beverage companies," Lau added.

"However, if the tax is not prohibitive enough, eventually consumers will just continue on consuming their usual favourite sugary drinks."

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