Using taxation to reduce sugar consumption

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Should we tax sugar?

- Government intervention to reduce sugar intake is potentially justified if there are costs associated with consumption that are not taken into account by the individual:
  - Publicly funded health costs of treating diet related disease
  - The extent of these costs is likely to vary across individuals
- A corrective tax should aim to raise the price to bring the perceived costs in line with the true costs
- The efficacy of such a tax will depend on:
  - How the prices of products change
  - How consumers respond to the price changes
- What is the appropriate base for a tax?
  - Soft drinks? All sugar?
  - Has potentially important implications for other aspects of diet
Households that buy a lot of sugar get a disproportionate amount from soft drinks

Note: Processed added sugar excludes raw sugar. Each bar shows the share of total processed added sugar bought (across all households within the group shown in the legend) in 2013 from each food group shown on the horizontal axis. Source: Living Costs and Food Survey 2013.
How consumers respond to price changes determines the impact of the tax

- A key issue is how consumers change their spending:
  - How much do they reduce their consumption of the taxed products?
  - Towards which products do they switch? Diet drinks or water?
- The proposed soft drinks levy has a relatively narrow base
- Best case scenario:
  - Households switch entirely to non-sugar soft drinks
  - A 15% tax on sugary soft drinks would lead to a decline in total sugar purchases of 3% (assuming an own price elasticity of -1)
- If households have a stronger taste for sugar, then they might partially switch to chocolate or confectionery:
  - This could more than halve the reduction in sugar consumption compared to the best case scenario
A broader based sugar tax?

• A broader tax base would probably lead to a greater reduction in total sugar purchased

BUT:

• It risks having a larger impact on people for whom the perceived costs of sugar consumption are not much lower than the true costs
  – There is a trade off in designing a tax that reduces the consumption of those that consumer more than is ideal, and raising the prices faced by individuals whose behaviour does not create excess costs

• It may have a knock-on effect on other areas of nutrition
  – Increasing the prices of all sugary products may lead to switching towards products high in fat or salt
  – Or away from otherwise nutritious products, such as fruit
Conclusions

• A tax on sugary soft drinks seems to be well targeted at high-sugar consuming households and households with children

• But chocolate and confectionery also account for a large part of these households purchases – people may switch towards them

• It is important to consider the response of manufacturers:
  – How much of the tax will they pass on to retail prices?
  – Will they reformulate their products? The proposed structure of the current tax does not provide strong incentives for this

• They may be other consequences of the tax e.g.
  – It may provide information to consumers that sugar is bad
  – It may lead to change in the preference for sugar that encourages further reformulation