ICC comments on the Proposed United Nations Handbook on Health Taxes for Developing Countries

Chapter 2 – An Introduction for Policymakers: Looking at health taxes through different lenses.

The International Chamber of Commerce (ICC), as the world business organization speaking with authority on behalf of enterprises from all sectors in every part of the world, appreciates the opportunity to provide written comment on the published draft "Chapter 2" of the UN Handbook on Health Taxes for Developing Countries through the public consultation process, prescribed by the Subcommittee on Health Taxes[1]. We consider this as a valuable occasion for private sector to engage with the Members of the Tax Committee as this new important workstream on health taxes continues to being developed.

In the comments below we would like to outline industry concerns and comments in relation to the draft of Chapter 2 which addresses the different perspectives of health taxes. We remain at the disposal of the members of the subcommittee for further clarifications and information as needed.

General considerations

- We would like to reiterate once again the importance of difference between **alcohol consumption versus alcohol abuse /harmful consumption**. The distinction is clearly included and acknowledged by global initiatives like the WHO Global strategy, which is given a mandate to tackle **the harmful use** of alcohol and the GAAP. Chapter 2 does not clearly include and take into account such distinction, going beyond the established framework. Instead, it generally states that '*Health taxes are excise taxes on tobacco, alcohol, sugar-sweetened beverages and other harmful products, that are intended to reduce their consumption, thus improving health outcomes*'.
  Sugar, salt, sugar-sweetened beverages or alcoholic beverages are not harmful products per se, but the harmful impact depends on the amount of sugar, salt or alcoholic beverage consumed, and the lifestyle of the consumer (overall diet, exercise etc.). Whether a reduction in consumption (assuming this can be triggered by price increases) would lead to improvements in health outcomes needs to be treated with some caution. For example , a tax on sugar-sweetened beverages in Berkeley, California, led to an overall increase in calories consumed and raising, not lowering, concerns about obesity[2]. As we commented previously, instead of the

[1] As reported on the subcommittee website page "The Subcommittee will also make drafts of its proposed reports and other publications available for written comment in order to receive input from industry stakeholders." https://www.un.org/development/desa/financing/subcommittee-health-taxes

[2] Silver LD, Ng SW, Ryan-Ibarra S, Taillie LS, Induni M, Miles DR, Poti JM, Popkin BM. Changes in prices, sales, consumer spending, and beverage consumption one year after a tax on sugar-sweetened beverages in Berkeley, California, US: A before-and-after study. PLoS Med. 2017 Apr 18;14(4)

term '*harmful products*' which has already been used in other chapters, we recommend using the term '*harmful consumption of*', which would be consistent with the approach of the WHO Global strategy to reduce the harmful use of alcohol and the SDGs.

- Concerns arise also in relation to the **overestimation by the authors of the revenue potential for excise taxes** which have existed for a long time, to generate additional revenue, in particular in LMICs. The WHO 2018 Global Status Report on alcohol and health cites that 25.5% of all alcohol consumed is in the form of unrecorded alcohol[3], and in some countries this is as high as 70%. Increased taxes will only impact the formal, already taxed part of the total alcohol beverage market, and will have minimal impact on tax revenue or alcohol related harm occurring in the untaxed sector.

- **Questionable universal treatment of all products.** Three very different products are lumped together for mostly universal treatment. Where policy recommendations are differentiated, the experience with tobacco taxation seems to drive considerations of how best to tax and reduce harm from excessive alcohol and/or SSB consumption. That is a questionable approach given the many distinct differences in these product categories and their differentiated sales and consumption patterns in various countries around the world.

Comments on the relation between economic development and patterns of consumption

- According to the data provided and in relation to the statements contained in part I.a (p.3 + table 1), over the past decades, alcohol-attributable deaths have been declining in high income countries. This trend coincides with increases in alcohol affordability, mainly driven by increases in disposable income. Indeed, in most EU countries, real prices for alcoholic beverages have also increased (meaning, above the inflation rate), but these price increases were topped by increases in income. Hence, excise/ health taxes appear to have had little to no impact on overall consumption, and especially on harmful drinking patterns.

- p. 5 '*For instance, by 2020, 40 countries in the world applied WHO's recommended level of taxation on tobacco products, whereby total taxes should represent 75 per cent or more of retail prices*'.
  Drawing a parallel between alcohol and tobacco is questionable as in the case of alcohol, high taxes drive consumption into the illicit sector, so (1) the net impact on total consumption is likely negligible, (2) unrecorded products are associated with additional health risks from poor quality, high alcohol content, contamination, etc., (3) unrecorded alcohol is most likely to be consumed by the poorest and heaviest drinkers. Various economic considerations relating to the unrecorded market need to be taken into account. Furthermore, it should be taken into account that the context of illicit alcohol includes that it can be made from scratch domestically in any country, differently from tobacco which is grown only in some countries.

- p. 13 '*Health taxes can be progressive. When the response to a health tax is relatively pronounced among low-income consumers, they experience a relatively big increase in their budget to be used on other (more useful) goods.*'

[3] Global status report on alcohol and health 2018. Geneva: World Health Organization; 2018. Licence: CC BY-NC-SA 3.0 IGO.

The above can only be achieved if low-income consumers with risky drinking patterns respond to price changes and thereby gain health benefits. However, please see our comments above regarding the danger of lower-income consumers switching to the unrecorded alcohol market. Even where taxation does not trigger this change in behaviour, this statement assumes that the consumption of any alcoholic drink is detrimental to one's health (negative internalities) and is associated to negative externalities (e.g., drink-driving). Neither assumption is supported by the majority of the available evidence. Based on our members' experience and other research, we also know that low-income consumers are likely to 'trade down' in price (and quality). They will choose cheaper brands, move to unrecorded/illicit products, and in some markets opt for surrogates, which are alcohol-containing products not intended for human consumption (household cleaners, etc.). Therefore, taxes are always regressive.

- p. 20 '*A general feature of taxes is that they distort economic behaviour. They tend to reduce production and consumption, creating market inefficiencies. This is one of the costs of raising taxes. Health taxes are different because they influence behaviour in a way that improves market efficiency. They reduce unhealthy behaviour and may also incentivize the transition to more productive industries. Adding to this the potential for increased government revenue should make health taxes an easy sell for any government concerned with public health, public finances, and inclusive development*'.
  In developed countries, a major part of tax collection is via progressive income taxes rather than regressive consumption taxes. Health taxes remain consumption taxes and therefore are regressive in nature. The possible difference as described above could be obtained, **if harmful drinkers respond to price changes**, while light-to-moderate drinkers don't or if it is assumed that any drink, any consumption of sugar or fat is already detrimental to one's health. Neither assumption is supported by the available evidence.

Consumption versus abuse

- p. 5 '*Acknowledging this trade-off, maximum impact requires health taxes to be implemented alongside complementary measures such as public* ***information campaigns to educate citizens*** *on* ***the harms*** *and costs of consumption and measures to reduce the attractiveness and availability of the products*'.
  We appreciate the acknowledgement of the education campaigns about the **harmful use of alcohol**. Effective policies are only those that balance regulation and targeted interventions in proportion to the needs and conditions in a particular country. The context needs to be taken into consideration and no initiative works in isolation. Our industry-relevant members commit to a number of educational campaigns all over the world via global stakeholders like International Alliance for Responsible Drinking (IARD) and other local trade associations. They also work closely with governments and local communities to promote responsible alcohol consumption and combat harmful drinking.

- p. 8 '*Negative internalities are the adverse effects that consumption has for oneself*'. While negative externalities, e.g., drink-driving, is indeed a social issue that needs to be addressed, the concept of negative internalities is significantly more complex. How much social costs are linked to such irrational behaviour and, most importantly, at which consumption levels and drinking patterns individual negative internalities will occur needs to be taken into account.

There is ample evidence, acknowledged in major initiatives like the Global Burden of Disease study, that moderate drinking confers a net benefit on overall health and reduced premature mortality for many consumers. Moreover, the objective of minimizing negative internalities (IIIc p10) via a zero-consumption level, e.g., restricting availability and/or increasing prices to a degree that it becomes extremely difficult to obtain alcoholic beverages, will mostly affect people who are priced-out of the regulated, taxed market, switching to alternatives, in particular the illicit market.

Economic aspect of health taxes

- p. 8 *'Over the long term, the most important part of any country's national wealth is the value of its labour'*. The link between health – taxes and the value of one country's national labour is unclear.

- p. 9 '*Taxing goods that are harmful to long-term growth and public health is one effective solution'*. It should be noted in the chapter that alcohol is already taxed -quite significantly - in most jurisdictions and in ways that conform to a sovereign country's overall fiscal outlook as part of a policy mix, mindful of the local environment and societal factors. There is no '*one size fits all*' approach to any tax measure, particularly in the case of food and drink taxes whose consumption is deeply rooted in local/cultural preferences. Moreover, we would suggest updating the start of the sentence to be "using tax to reduce consumption that is harmful to".

- '*…when governments have more tax revenue, they spend more on public services. The virtuous circles between government revenues and governance and the positive relationship between governance and economic growth is well-established.*'
  While ICC members acknowledge the general need for tax revenue to provide public services, this statement is too simplistic in describing governments' public spending, which in many countries is affected by widespread corruption, inefficient spending, lack of democratic and transparent accountability. Not necessarily are additional revenues earmarked for related purposes.

- p. 14 '*However, if demand is price inelastic (as is typical for many unhealthy products), those with lower incomes who continue to buy these products have less to spend on basic needs, such as housing, heating, and healthy food, potentially at the expense of their health and general welfare.*' Many economists believe that consumption excises are inherently regressive;[4] and this section suggests that they could be (hypothetically) progressive if household spending is converted to savings; However, such statement does not mention or take into consideration that the prevalent substitution and switch-out effects that have occurred in Mexico and elsewhere. For example, in Mexico any reduction in consumption of SSBs following the 2014 imposition of an SSB and snack tax in the country was brief and not sustained. Four oft-cited

[4] Jorge Barro, Among many: Are Consumption Taxes Really Regressive?, November 30, 2017, Center for Public Finance, Baker Institute, Rice University, https://www.bakerinstitute.org/research/are-sales-taxes-really-regressive; Howard Chernick, Andrew Reschovsky, Yes! Consumption Taxes Are Regressive, Challenge, Vol. 43, No. 5 (SEPTEMBER-OCTOBER 2000), pp. 60-91, https://www.jstor.org/stable/40722031?typeAccessWorkflow=login; Len Burman and William G. Gale, The Pros and Cons of a Consumption Tax, March 3, 2005, https://www.brookings.edu/articles/the-pros-and-cons-of-a-consumption-tax/; Patrick Petit, Mario Mansour and Mr. Philippe Wingender, How to Apply Excise Taxes to Fight Obesity in - IMF eLibrary.

studies led by researchers Colchero, Popkin, et al, claim that the Mexican tax resulted in compounding decreased consumption of sugar-sweetened beverages. It is worth noting that all four studies are based on counterfactuals (models), not real-world results. These models inaccurately predicted significant decreased consumption would result from the tax in year 2 (2015). However, Government of Mexico data based on actual results (*i.e.*, sales and tax revenues) show that although soft drink sales declined 1.9 percent in year one, they ***grew*** the following years. Government data on tax receipts indicates that the trajectory for growth in sales has continued upward, despite the tax. In addition, obesity has continued to rise in Mexico since the introduction of the tax. Data from Mexico's most recent national health and nutrition survey (2016 ENSANUT survey) showed that between 2012-2016, the obesity rates edged upward among adults, especially among adult women. (A statistically significant rise from 73 percent of the adult female population to 75.6 percent of that population). Therefore, from a health/obesity perspective, these Mexican taxes have not yielded any positive health outcomes.[5] and consumption has continued to increase since 2015, highlighting that the SSB tax has been an ineffective policy.

In Berkeley, CA, according to a study by Silver, Popkin et al, following the introduction of a tax on SSBs caloric beverage intake has ***increased*** rather than decreased. While caloric consumption of the newly taxed beverages dropped marginally by an average of six calories per day – the equivalent to a bite of an apple -- caloric consumption of other untaxed, non-alcoholic beverages rose by an average of 32 calories per day, resulting in a net ***increase*** of 26 calories per person per day following introduction of the tax.[6] This is a real-world example of the unintended consequences of this seemingly simplistic fix (tax) to complex problems (overweight and obesity).

- **Finally, at the request of New Zealand's Ministry of Health**, the New Zealand Institute of Economic Research conducted an analysis entitled 'Sugar taxes: A review of the evidence', in which the authors ultimately concluded that '**[t]he evidence that sugar taxes improve health is weak**.'[7] In their review of the 47 peer-reviewed studies and working papers on the topic of sugar taxes, the authors found, among other things, that: (1) estimates of reduced intake are often overstated due to methodological flaws and incomplete measurements; (2) there is insufficient evidence to judge whether consumers are substituting other sources of sugar or calories in the face of taxes on sugar in drinks; (3) studies using sound methods report reductions in intake that are likely too small to generate health benefits and could easily be cancelled out by substitution of other sources of sugar or calories; and (4) no study based on actual experience with sugar taxes has identified an impact on health outcomes.

Industry's comments and importance of all-inclusive approach

- p. 15 '*Common arguments made against health taxes by industry are that they are ineffective in achieving health outcomes, have limited revenue potential, are regressive, hurt employment and increase illicit trade*'. The arguments indicated as the ones raised by industry are points supported by scientific evidence as well as real-life data; they are based on real-world

[5]This government tax receipt data can be reviewed at[http://presto.hacienda.gob.mx/EstoporLayout/estadisticas.jsp]

[6] L. Silver et al., "Changes in prices, sales, consumer spending, and beverage consumption one year after a tax on sugar-sweetened beverages in Berkeley, California, US: A before-and-after study," *PLOS Medicine* (April 18, 2017).

[7] Nzier, "Sugar taxes: A review of the evidence," at ii (2017), *available at* https://nzier.org.nz/static/media/filer_public/f4/21/f421971a-27e8-4cb0-a8fc-95bc30ceda4e/sugar_tax_report.pdf (last accessed January 7, 2019) (emphasis added).]

experiences and are the consequence of poorly designed and implemented taxes based on policy preferences introduced without adequate economic analysis. A recent WHO manual highlights that there are no studies showing that taxation of sugar sweetened beverages leads to better health outcomes – instead all estimated health impacts use simulation studies that presuppose that the taxes will be effective.[8] Analogously, a recent meta-analysis found no evidence that SSB taxes reduce Body Mass Index (BMI), and that 75% of studies examining SSB consumption were of "low quality".[9] **Impact studies and extensive stakeholder consultations should be a prerequisite for designing and introducing controversial measures**; a deliberative, inclusive process increases the chances of successfully realizing the objectives. ICC members are available to provide many more datapoints on the ineffectiveness of taxes on health outcomes, including on the effects of substitution and untaxed sales in the informal economy. We would thus welcome the opportunity to constructively exchange to improve possible policy solutions.

- p.20 '***Building broad alliances may also help governments counter opposition and succeed in implementing health taxes***. *Having well-respected experts and academic institutions on board from the beginning of a process can ensure access to independent evidence. Active civil society organizations can further strengthen outreach to the public. Similarly, broad media coverage has been found to help shape public opinion (Carriedo Lutzenkirchen, 2018)*'. Transparency (of assumptions, conditions, uncertainties, etc.) and inclusive participation of all stakeholders is a prerequisite to a balanced and properly informed debate. It is important not to oversimplify the complexity characterizing this policy area and the broader public (industry included) should be invited to participate in the discourse about the present and future role of alcoholic beverages and SSB in our society. A top-down approach, even if well intended, may reduce trust, credibility and public acceptance in the longer term.

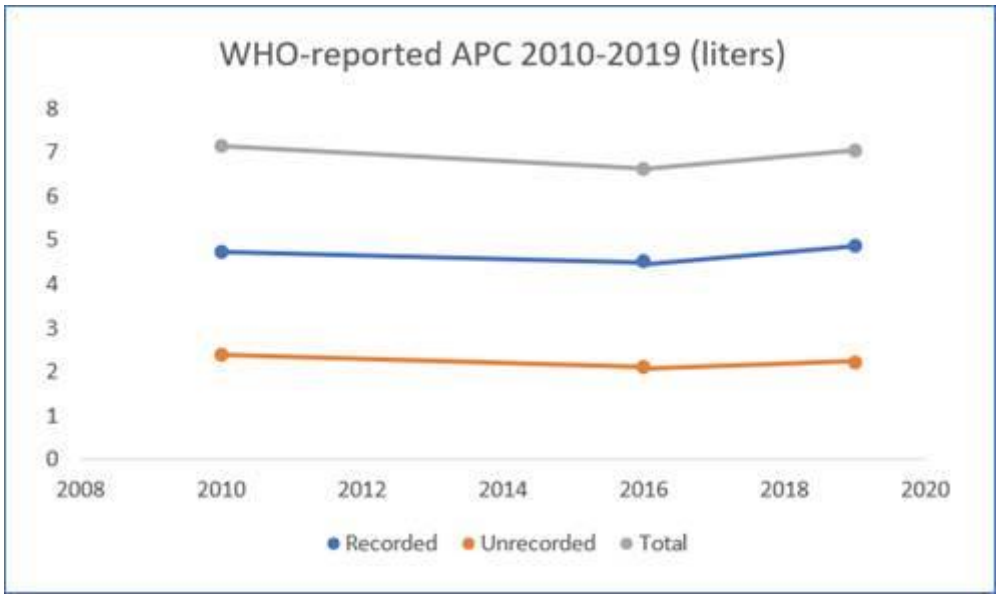
Annex, comment on Box 1: Health taxes in Philippines.

According to the box, Philippines alcohol tax reform in 2012 lead to the reduction of alcohol consumption: "Data from the Global Status Report on Alcohol and Health showed that alcohol per capita consumption in the country dropped from 7.1 in 2010 to 6.6 liters of pure alcohol in 2016".

We would challenge the conclusion as in a long term, there's no strong correlation between excise rise and alcohol per capita (APC) consumption drop.

When we look at the same WHO data for the Philippines as reported in to Global Health Indicators (Indicators (who.int)) and the Global Status Report (2018), the figures indicate an increase in consumption between 2010 and 2019, both in recorded and unrecorded APC, and, therefore, also in total APC.

[8] WHO, Manual on sugar-sweetened beverage taxation policies to promote healthy diets, 13 December 2022.
[9] Andreyeva et al (2022), Outcomes Following Taxation of Sugar-Sweetened Beverages. A Systematic Review and Meta-analysis, in JAMA Network Open, Nutrition, Obesity, and Exercise section, vol. 5.



Recorded APC alone shows fluctuations, but a generally stable level of consumption, and with an increase since 2016.