

Case study

# Taxing sweetened drinks in France



July 2015

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France has been taxing sugar-sweetened beverages (SSB) and artificially sweetened beverages (ASB) since January 1, 2012.

This case illustrates the feasibility of a tax on these products, the revenues of which are allocated to public health, and allows drawing lessons for other jurisdictions considering the adoption of tax measures to reduce the consumption of sweetened drinks.

## Background

On August 24, 2011, at the time of tabling a deficit-cutting budget, French Prime Minister François Fillon announced the government's intention to enact a behavioural tax on SSB. The initial formulation of this measure was geared to increase the price of these products recognized as contributors to obesity, in order to incite consumers to reduce their consumption and, ultimately, to slow the rise of health insurance costs. In documents accompanying his recommendation, the Prime Minister underscored that, from 1997 to 2009, obesity in France had gone from 8.5% of the population to nearly 15% and that the average weight of the French had increased 3.1 kg while their average height had increased only 0.5 cm. Set initially at €3.58/hL (\$0.05/L), the tax was supposed to generate an estimated €120 million in revenues for funding social security programs (health and social services)<sup>1</sup>. It should be noted that the total annual cost of obesity in France is estimated at between €2.1 and €6.2 billion<sup>2</sup>. In 2002, this represented from 1.5% to 4.6% of health spending.

On October 21st, 2011, France's National Assembly voted in favour of enacting an SSB tax and doubled the rate initially proposed by the government's plan, fixing it at €7.16/hL (\$0.10/L). The elected representatives also voted in favour of a tax on ASB (e.g., with aspartame). The two taxes, however, differ in terms of objective: the first is a public-health measure and the second, a revenue-generating measure aimed at lowering farm labour costs<sup>3</sup>. France's Constitutional Council ratified these measures on December 28, 2011. Nevertheless, in its decision, the latter emphasizes that taxing SSB and ASB at the same time and basing the tax amount on volume rather than sugar content, "Parliament has singled out the fiscal yield of those contributions compared to the public health goal initially pursued"<sup>4</sup>. The public health goal is thus not officially recognized and retained by the Constitutional Council.

## The taxes in question

The SSB and ASB taxes were inserted, respectively, under Sections 1613 ter (previously 520 B) and 1613 quater (previously 520 C) of the French General Tax Code<sup>5,6,7,8,9</sup>.

**Effective date:** January 1, 2012

**Economic model:** Excise tax of €7.45/hL (\$0.11/L) in 2015<sup>10</sup>, which represents an increase of €0.05 compared to 2014<sup>11</sup>. It should be noted that the initial rate was set at €7.16/hL but that the measure foresees an annual adjustment based on the consumer price index (excluding tobacco) for the next-to-last year.

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**Targets:** SSB (e.g., soft drinks, fruit beverages, vitamin water, flavoured milk) and ASB with no added sugar.

**Exceptions:** Exports, starter and follow-up infant formula, growing-up milk, enteral nutrition products for sick people, food for special medical purposes, and high-protein foods for under-nourished people.

**Annual revenues:** €280 million (\$375 million), of which €240 million from SSB and €40 million from ASB in 2012<sup>12</sup>, and €288 million in 2013<sup>13</sup>.

**Investment of revenues:** 100% allocated to funding social security, including universal health insurance. When the tax was first implemented, it was agreed that half of the revenues from the SSB tax (€120 million) would be invested in health and that the other half and the revenues from the ASB tax (about €160 million total) would be allocated to the government general fund. One year later, in October 2012, the elected representatives voted for all revenues from “behavioural taxes”, such as those on SSB and ASB, to be allocated to social security as of January 1, 2013<sup>14</sup>.

### Impact of tax...

#### ...on prices

According to an analysis<sup>15</sup> comparing prices pre-implementation with those six months post-implementation, the taxes were gradually absorbed into the price of the products as follows: in full for soft drinks (100%) and in part for fruit beverages (85%), sweetened iced tea (85%) and vitamin water (60%). Some variations emerged in this regard across producers and distributors of these beverages.

#### ...on consumption

Very little data are presently available on this topic. However, a few months after the taxes went into effect, the non-alcoholic beverage market shrank 0.8% after growing over the previous six years<sup>16</sup>. Other sources indicate that, from 2012 to 2013, sales diminished 4%<sup>17</sup>. Overall, in 2 years of application, the tax would have curbed the growth of the non-alcoholic beverages sector and reduced sales volumes by 2.2%.<sup>18</sup>

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