Lessons from the field

Development of a sweetened beverage tax, Philippines
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Introduction
Sugar-sweetened beverages are more strongly associated with high energy intake and weight gain than any other form of processed food. In the Philippines, both the proportion of the population that consumes these beverages and per capita consumption increase with age (Pulse Asia Research Inc., unpublished report, 2017). Moreover, the fraction of daily sugar intake that comes from sugar-sweetened beverages increased 44% in 10 years: in 2005, Filipinos consumed 14.9 g of sugar per capita per day from sugar-sweetened beverages alone; in 2015, it was 21.4 g (M Abrigo and K Francisco, Philippine Institute for Development Studies, unpublished report, 2018).

Obesity prevalence in the Philippines have remained low relative to other countries in the Association of South-East Asian Nations (ASEAN). Nevertheless, a growing proportion of Filipinos of all ages are overweight or obese, which is likely to substantially increase the number of productive years lost due to poor health. Cross-country comparisons among ASEAN member states indicate that the loss of productive years due to obesity is greatest in the Philippines. The annual cost of obesity-related productivity loss in the country has been estimated to 567 million United States dollars.

Local setting
Before 1 January 2018, no specific tax applied to sugar-sweetened beverages in the Philippines, although they were subject to a general 12% value-added tax. Beverage manufacturers sustained sales by enhanced marketing and offering products in small portion, this lowered the unit price of sugar-sweetened beverages (Organic Intelligence Consulting Inc., unpublished report, 2017) and increased the likelihood of frequent consumption. When the World Health Organization recommended taxes on sugar-sweetened beverages to address childhood obesity in 2016, the Philippines was presented with the opportunity to enact another landmark piece of health legislation to follow the 2012 Sin Tax Reform Law on Tobacco and Alcohol. A proposal to tax sugar-sweetened beverages was filed by a first-term lawmaker in the House of Representatives (House Bill 3365) during the 16th Congress (from 2013 to 2016). When this was not successful, she refilled it (House Bill 292) during the 17th Congress (from 2016 to 2019) and then secured the support of the health department and the finance department. This partnership between executive and legislative branches of the government culminated in the Philippines, becoming the third ASEAN member state after Brunei Darussalam and Thailand to impose taxes on sugar-sweetened beverages.

Legislative approach
As the sugar-sweetened beverage tax was a health-related tax, the health department and finance department collaborated on recommending a tax policy that would maximize benefits to both public health and government revenue and that considered reviews of the best available evidence, including in-house evidence from both agencies. In particular, the policy focused on firstly modifying health risks by introducing taxes that increased the price of sugar-sweetened beverages sufficiently to deter purchases and that could be applied to a wide range of products, thereby discouraging unhealthy substitution. Secondly the policy also focused on securing revenues by using a unitary tax scheme (i.e. applying a single tax rate) and volumetric tax collection (i.e. basing tax on the volume of sugar per litre of beverage), both of which simplify tax administration.

Submitted: 15 July 2018 – Revised version received: 1 November 2018 – Accepted: 12 November 2018 – Published online: 1 December 2018

doi: http://dx.doi.org/10.2471/BLT.18.220459
and minimize opportunities for avoidance and evasion. Box 1 summarizes the legislation’s development.

The sugar-sweetened beverage tax was framed as a preventive health measure that addressed features of the food market associated with increased rates of obesity and diabetes. The acceptance of the tax was hampered by: (i) limited interest in tackling obesity and diabetes; (ii) the claim that sugar-sweetened beverages help poor people satisfy their dietary needs; (iii) the misconception that the positive health effects of the tax would favour richer households with more flexible spending power; and (iv) the strongly held belief that undernutrition is the real problem despite evidence of the country’s double burden of malnutrition (i.e. the coexistence of undernutrition and diet-related non-
communicable diseases). To increase the likelihood that the tax proposal would be passed, it was incorporated into the government’s proposed comprehensive Tax Reform for Acceleration and Inclusion (TRAIN) Bill. Certification of the TRAIN Bill as urgent by the Philippine president was instrumental in ensuring the sugar-sweetened beverage tax entered into law.10

To advance discussions, the health argument was expanded to include the country’s poor performance in oral health. Although prolonged sugar exposure has been strongly associated with dental caries, this association has not often been used to support sugar-sweetened beverage tax policies. Dental caries are common in the Philippines, with a national prevalence of 88%.11 Moreover, untreated dental caries among Filipino children have been linked to being underweight,12 and data from the education department indicate that toothache is a principal cause of school absenteeism. This argument contributed to a compelling narrative that helped anchor the sugar-sweetened beverage tax policy within the TRAIN Bill; namely the tax proposal supported human capital development and ongoing universal health-care reforms.

After advancing through both chambers of Congress, the Bicameral Conference Committee reconciled differences between the sweetened beverages tax proposals incorporated in House Bill 5636 and Senate Bill 1592. The TRAIN Law signed by the president adopted most provisions in the Senate version (Box 1), including use of the term “sweetened beverages” to emphasize that the tax covers both sugar and non-sugar sweetened beverages. Successful lobbying by the sugar industry resulted in the decisions: (i) to impose a high differential tax rate on drinks containing high-fructose corn syrup; and (ii) to subject artificially sweetened beverages to an excise tax. The local sugar industry, which had been disadvantaged by an influx of high-fructose corn syrup into the country, expressed concern that food manufacturers would shift to artificial sweeteners should artificially sweetened beverages be exempted from excise tax. The tax on artificially sweetened beverages was also supported by medical societies as a way of reducing consumption of all types of sweetened beverage.

The final tax rate was set to 6.00 Philippine pesos (equivalent to 0.111 United States dollars in 2017) per litre for beverages sweetened with caloric or non-caloric sweeteners, except for beverages sweetened with high-fructose corn syrup with a tax of 12.00 Philippine pesos per litre (Box 1).

**Impact of the tax**

A month after the sweetened beverage tax was implemented on 1 January 2018, market surveillance indicated that the average price of taxable sweetened beverages in sari-sari stores (i.e. neighbourhood convenience stores) had increased by 20.6% and average prices in supermarkets had increased by 16.6%.13 Among taxable product categories, carbonated non-alcoholic drinks experienced the highest average price hike, at 21.0%. Sari-sari stores experienced the greatest decline in sales, which averaged 8.7% over the month.14 Given that the tax has just recently been implemented, it is too soon to evaluate its impact on risks to population health. A monitoring programme is planned to investigate changes in consumers’ purchasing and consumption behaviour and the food industry’s response. The health department has allocated research funds to start monitoring in 2019.

Implementation of the sweetened beverage tax also catalysed substantial policy changes in the food system. The resulting Implementing Rules and Guidelines meant that prepacked concentrates sold to food retailers for dispensing were also subject to excise tax. As a result, the unlimited beverage refills offered in some food outlets have been discontinued. In addition, the president issued a directive to put health warning labels on sweetened beverages to help consumers make an informed choice.15 This provided an opportunity to finally regulate front-of-pack labels and to counter misleading brand messages from manufacturers.

**Lessons learnt**

The main lessons learnt in establishing the sweetened beverage tax are summarized in Box 2. First, the tax greatly benefited from visible, high-level, sustained commitment from both legislative and executive branches of government, which counterbalanced opposition led by the beverage industries. In addition, the soft power represented by the presence of former health ministers, incumbent cabinet officials, development partners and legislators at public hearings enhanced the political desirability of the reform. Experience in the Philippines demonstrates that taxes relevant to health do not have to be framed or designed as exclusively health or revenue measures. Moreover, reduced consumption and higher revenues can be sustained over the long term by ensuring taxes are simple to implement administratively. Policies should also be kept simple to avoid loopholes that could provide opportunities for tax avoidance and evasion or for biased interpretations of the legislation that could weaken the tax base. Although obesity is the dominant health rationale globally for imposing sugar-sweetened beverage taxes, the lack of political interest in addressing obesity in the Philippines meant that progress depended on framing the threat to health differently. Taking both health and non-health considerations into account could therefore be valuable when developing comprehensive, highly nuanced and compelling arguments about the societal cost of poor health over the long term.

This paper describes strategies used in the Philippines that could help other countries develop fiscal interventions to address market failures influencing health. These interventions should balance health and fiscal objectives. Four other ASEAN member states are already planning to implement sugar-
sweetened beverage taxes: (i) Indonesia and Singapore are exploring appropriate policy designs; and (ii) Malaysia and Viet Nam are finalizing proposals for submission to lawmakers. Although a sugar-sweetened beverage tax will not reverse the burden of malnutrition and noncommunicable diseases by itself, it could trigger a domino effect in the food system that will modify health risk factors. Such a tax could be a tangible first step towards re-engineering an obesogenic environment by denormalizing the consumption of sugar-sweetened beverages in the mind of the public.

**Acknowledgements**

We thank Representative Estrellita B Suansing (Nueva Ecija, 1st District), Representative Dakila Carlo E Cua (Quirino, Lone District), Senator Juan Edgardo M Angara, Undersecretary Mario C Villaverde, Assistant Secretary Francia M Laxamana, Dr Kenneth G Ronquillo (Director of the Health Policy Development and Planning Bureau, Department of Health), Maria Lourdes C Santiago (Deputy Director General for Field Regulatory Operations, Food and Drug Administration), Elsa P Agustin (Director of the Fiscal Policy and Planning Office, Department of Finance), and staff at the Center for Food Regulation and Research Policy and Planning Service (Food and Drug Administration), the Nutrition Policy and Program Division (National Nutrition Council), the Strategy, Economics and Results Group (Department of Finance), the Fiscal Policy and Planning Office (Department of Finance), the WHO country office in the Philippines, the WHO Regional Office for the Western Pacific and the World Bank.

**Competing interests:** None declared.
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(TRAIN) destiné à accroître la probabilité d’acceptation. Le ministère de la Santé et le ministère des Finances ont recommandé l’adoption d’une politique qui présenterait des avantages en matière de santé publique, mais aussi pour les recettes de l’État. Afin de faire avancer les discussions, le ministère de la Santé a élargi le débat sur la santé de façon à inclure les mauvais résultats du pays en matière de santé bucco-dentaire. La loi TRAIN utilise l’expression « boisson sucrée » pour souligner le fait que la taxe s’applique à la fois aux boissons sucrées avec du sucre et aux boissons sucrées avec d’autres substances. Le taux de la taxe a été fixé à 6,00 pesos philippins (0,111 dollar des États-Unis) par litre de boisson sucrée. L’industrie du sucre a plaidé avec succès pour l’application d’un taux plus important aux boissons contenant du sirop de maïs à haute teneur en fructose, ce qui a donné lieu à un taux différencié de 12,00 pesos philippins par litre.

Environnement local Malgré une taxe sur la valeur ajoutée de 12% sur les boissons sucrées avec du sucre, les ventes se sont maintenues grâce à un marketing renforcé et à des variantes de produits proposés en petites portions.

Changements significatifs Un mois après l’instauration de la taxe le 1er janvier 2018, les prix des boissons sucrées imposables avaient augmenté de 16,6 à 20,6% et les ventes dans les magasins sari-sari (de proximité) avaient diminué de 8,7%.

Leçons tirées La taxe a bénéficié d’un engagement et d’un soutien de haut niveau de la part du gouvernement; le fait que la politique soit simple a réduit les possibilités d’évasion et de fraude fiscales et la prise en compte de considérations aussi bien sanitaires que non sanitaires a été utile dans l’argumentaire en faveur de la taxe.

Resumen
Desarrollo de un impuesto sobre las bebidas endulzadas, Filipinas

Problema Tanto el consumo de bebidas azucaradas como la incidencia de la obesidad han aumentado en Filipinas en los últimos años.

Enfoque Se presentó una propuesta de aplicar un impuesto a las bebidas azucaradas en la Cámara de Representantes y se fusionó en una propuesta de Reforma Tributaria integral para el Proyecto de Ley de Aceleración e Inclusión (TRAIN, por sus siglas en inglés) para aumentar la probabilidad de aceptación. El departamento de salud y el departamento financiero recomendaron una política que maximice los beneficios tanto para la salud pública como para los ingresos del gobierno. Para avanzar en las discusiones, el departamento de salud amplió el argumento de la salud para incluir el pobre desempeño del país en salud bucal. La Ley TRAIN aprobada adoptó el término «bebidas endulzadas» para enfatizar que el impuesto cubre tanto las bebidas endulzadas con y sin azúcar. El impuesto se fijó en 6,00 pesos filipinos (0,111 dólares estadounidenses) por litro de bebidas endulzadas. La industria azucarera presionó con éxito para que se aplicaran tasas impositivas más altas a las bebidas que contienen jarabe de maíz con un alto contenido de fructosa, lo que resultó en una tasa diferencial de 12,00 pesos filipinos por litro.

Marco regional A pesar de un impuesto al valor añadido del 12 % sobre las bebidas azucaradas, las ventas se habían mantenido gracias a la mejora de la comercialización y a las variantes de productos que se ofrecían en pequeñas porciones.

Cambios importantes Un mes después de la implementación del impuesto, el 1 de enero de 2018, los precios de las bebidas endulzadas inmobibles habían aumentado entre un 16,6 y un 20,6 % y las ventas en las tiendas sari-sari (supermercados) habían disminuido un 8,7 %.

Lecciones aprendidas El impuesto se benefició del compromiso y el apoyo de alto nivel del gobierno, que mantuvo la política simple, lo que redujo las oportunidades de evasión y eludición de impuestos, y tuvo en cuenta tanto las consideraciones de salud como las no relacionadas con la misma, lo que fue de gran ayuda para argumentar a favor del impuesto.
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