



Bulletin of the World Health Organization

Lessons from the field

Development of a sweetened beverage tax, Philippines

Frances Claire C Onagan ^a, Beverly Lorraine C Ho ^b & Karl Kendrick T Chua ^c

a. Health Policy Development and Planning Bureau, Building 3, Department of Health, San Lazaro Compound, Rizal Avenue, Santa Cruz, Manila, 1003, Philippines.

b. Health Policy Development and Planning Bureau, Department of Health, Manila, Philippines.

c. Strategy, Economics and Results Group, Department of Finance, Manila, Philippines.

Correspondence to Frances Claire C Onagan (email: francesonagan.doh@gmail.com).

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

Bulletin of the World Health Organization 2019;97:154-159. doi: <http://dx.doi.org/10.2471/BLT.18.220459>

Introduction

Sugar-sweetened beverages are more strongly associated with high energy intake and weight gain than any other form of processed food.¹ 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of the population that consumes these beverages and per capita consumption increase with age (Pulse Asia Research Inc., unpublished report, 2017).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beverages alone; in 2015, it was 21.4 g (M Abrigo and K Francisco, Philippine Institute for Development Studies, unpublished report, 2018).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).² 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.³ Cross-country comparisons among ASEAN member states indicate that the loss of productive years due to obesity is greatest in the Philippines.⁴ The annual cost of obesity-

related productivity loss in the country has been estimated to 567 million United States dollars.²

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.⁵ When the World Health Organization recommended taxes on sugar-sweetened beverages to address childhood obesity in 2016,⁶ 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.⁷ 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).⁸ 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 and minimize opportunities for avoidance and evasion. Box 1 summarizes the legislation's development.

Box 1. Legislative steps towards a sweetened beverage tax, the Philippines, 2017

House Bill 292 (standalone sugar-sweetened beverage tax bill), included in the TRAIN Bill 26 April 2017

Definition: sugar-sweetened beverages were defined as non-alcoholic beverages that contain caloric sweeteners or added sugar or artificial or non-caloric sweeteners in the form of a liquid, syrup, concentrate or solid mixture that is added to water or other liquids to make a drink.

Taxable products: (i) soft drinks and carbonated drinks; (ii) fruit drinks and punches; (iii) sports drinks; (iv) sweetened tea and coffee drinks; (v) energy drinks; and (vi) all non-alcoholic

beverages that are ready to drink or in powder form and contain added natural or artificial sugar.

Exemptions: (i) 100% natural fruit juices without added sugar or caloric sweeteners; (ii) 100% natural vegetable juices without added sugar or caloric sweeteners; (iii) yogurt and fruit-flavoured yogurt beverages; (iv) meal-replacement beverages (e.g. medical food), weight-loss products, any liquid or powder drink or product for oral nutritional therapy; and (v) all milk products.

Tax rate: 10.00 Philippine pesos^b per litre with a 4% increment each year to adjust for inflation.

House Bill 5636 (House version of the TRAIN Bill) passed 31 May 2017

Definition: sugar-sweetened beverages were defined as non-alcoholic beverages of any constitution (i.e. liquid, powder or concentrate) that are prepackaged and sealed in accordance with Philippine Food and Drug Administration standards and that contain sugar added by the manufacturers.

Taxable products: (i) sweetened juice drinks; (ii) sweetened tea and coffee; and (iii) other beverages (including all carbonated beverages) with added sugar or caloric or non-caloric sweeteners, flavoured water, energy drinks, sports drinks, powdered drinks not classified as milk, juice, tea or coffee, cereal and grain beverages, and other non-alcoholic beverages that contain added sugar.

Exemptions: (i) plain milk and milk drink products without added sugar; (ii) all milk drink products, infant formula and milk alternatives (e.g. soy milk and almond milk), including flavoured milk, such as chocolate milk; (iii) 100% natural fruit juices without added sugar or caloric sweeteners; (iv) 100% natural vegetable juices without added sugar or caloric sweeteners; (v) meal-replacement and medically indicated beverages; (vi) ground coffee; and (vii) unsweetened tea.

Tax rate: 10.00 Philippine pesos^b per litre for beverages containing locally sourced sweeteners and 20.00 Philippine pesos^b per litre for beverages containing imported sweeteners.

Senate Bill 1592 (Senate version of the TRAIN Bill) passed 27 November 2017

Definition: sweetened beverages were defined as non-alcoholic beverages of any constitution (i.e. liquid, powder or concentrate) that are pre-packaged and sealed in accordance with Philippine Food and Drug Administration standards and that contain caloric or non-caloric sweeteners or both added by the manufacturers.

Taxable products: (i) sweetened juice drinks; (ii) sweetened tea; (iii) all carbonated beverages; (iv) flavoured water; (v) energy and sports drinks; (vi) powdered drinks not classified as milk, juice, tea or coffee; (vii) cereal and grain beverages; and (viii) other non-alcoholic beverages that contain added sugar.

Exemptions: (i) plain milk, infant formula milk and growing-up milk; (ii) powdered milk, ready-to-drink milk, flavoured milk and fermented milk; (iii) 100% natural fruit juices without added sugar or caloric sweeteners; (iv) 100% natural vegetable juices without added sugar or caloric sweeteners; (v) meal-replacement and medically indicated beverages; (vi) ground coffee, instant soluble coffee and prepackaged powdered coffee products, with or without added sugar; (vii) unsweetened tea; and (viii) beverages sweetened with coconut sap or stevia glycosides.

Tax rate: 4.50 Philippine pesos^b per litre for beverages sweetened with a caloric or non-caloric sweetener (except high-fructose corn syrup) and 9.00 Philippine pesos^b per litre for beverages sweetened with high-fructose corn syrup.

Republic Act 10963 Section 47 (TRAIN Law) signed into law 19 December 2017

Definition: sweetened beverages were defined as non-alcoholic beverages of any constitution (i.e. liquid, powder or concentrate) that are prepackaged and sealed in accordance with Philippine Food and Drug Administration standards and that contain caloric or non-caloric sweeteners or both added by the manufacturers.

Taxable products: (i) sweetened juice drinks; (ii) sweetened tea; (iii) all carbonated beverages; (iv) flavoured water; (v) energy and sports drinks; (vi) powdered drinks not classified as milk, juice, tea or coffee; (v) cereal and grain beverages; and (vi) other non-alcoholic beverages that contain added sugar.

Exemptions: (i) all milk products, including plain milk, infant formula milk, follow-on milk, growing-up milk, powdered milk, ready-to-drink milk, flavoured milk, fermented milk, soy milk and flavoured soy milk; (ii) 100% natural fruit juices without added sugar or caloric sweeteners; (iii) 100% natural vegetable juices without added sugar or caloric sweeteners; (iv) meal-replacement and medically indicated beverages; and (v) ground coffee, instant soluble coffee and prepackaged powdered coffee products; and (vi) beverages sweetened with coconut sap or stevia glycosides.

Tax rate: 6.00 Philippine pesos^a per litre for beverages sweetened with caloric or non-caloric sweeteners (except high-fructose corn syrup) and 12.00 Philippine pesos^a per litre for beverages sweetened with high-fructose corn syrup.

TRAIN: Tax Reform for Acceleration and Inclusion.

^a In 2017, 1 Philippine peso was equivalent to 0.0185 United States dollars.

Note: In the Philippines, fiscal policies requiring legislation follow a sequential process in Congress: (i) tax proposals should pass the House of Representatives before the Senate initiates discussions on their counterpart bill; (ii) differences between versions of the bill passed by the House of Representatives and the Senate are reconciled during a Bicameral Conference; and (iii) both chambers of Congress then ratify the reconciled version, which is sent to the Office of the President to be signed.

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;⁹ (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 noncommunicable diseases).³ 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.

Box 2. Summary of main lessons learnt

- Visible, high-level, government commitment and support were vital for establishing the sweetened beverage tax.
- A simple and clear policy reduced opportunities for tax avoidance and evasion and helped avoid biased interpretations of the legislation that could weaken the tax base.
- Both health and non-health considerations were helpful to take into account in developing comprehensive and compelling arguments for the tax.

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 Francina 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 and 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.

References

1. Woodward-Lopez G, Kao J, Ritchie L. To what extent have sweetened beverages contributed to the obesity epidemic? *Public Health Nutr.* 2011 Mar;14(3):499–509. <http://dx.doi.org/10.1017/S1368980010002375> pmid: 20860886
2. Helble M, Francisco K. The imminent obesity crisis in Asia and the Pacific: first cost estimates. Tokyo: Asian Development Bank Institute; 2017. Available from: <https://www.adb.org/sites/default/files/publication/320411/adbi-wp743.pdf> [cited 2018 Aug 9].
3. 2nd National Nutrition Summit: 8th National Nutrition Survey. Manila: Food and Nutrition Research Institute, Department of Science and Technology; 2013. Available from: <http://122.53.86.125/NNS/8thNNS.pdf> [cited 2018 Aug 9].
4. Tackling obesity in ASEAN: prevalence, impact, and guidance on interventions. London: Economist Intelligence Unit; 2017. Available from: https://www.eiu.com/public/topical_report.aspx?campaignid=ObesityInASEAN [cited 2018 Aug 9].
5. Mantzari E, Hollands GJ, Pechey R, Jebb S, Marteau TM. Perceived impact of smaller compared with larger-sized bottles of sugar-sweetened beverages on consumption: a qualitative analysis. *Appetite.* 2018 Jan 1;120:171–80. <http://dx.doi.org/10.1016/j.appet.2017.08.031> pmid: 28864259
6. Report of the Commission on Ending Childhood Obesity. Geneva: World Health Organization; 2016. Available from: http://apps.who.int/iris/bitstream/handle/10665/204176/9789241510066_eng.pdf?sequence=1 [cited 2018 Nov 25].

7. Secretary Ona: health wins with Sin Tax Reform Law. Manila: Government of the Philippines; 20 December 2012. Available from: <http://www.officialgazette.gov.ph/2012/12/20/secretary-ona-health-wins-with-sin-tax-reform-law/> [cited 2018 Nov 25].
8. Cruz RG. Solons seek taxes on sugar-sweetened soft drinks. Quezon City: ABS CBN News; 5 July 2016. Available from: <https://news.abs-cbn.com/business/07/05/16/solons-look-for-taxes-on-sugar-sweetened-soft-drinks> [cited 2018 Nov 25].
9. Tax on sugary drinks? Nutritionists say they help poor meet dietary needs. Pasig City: Rappler; 2017. Available from: <https://www.rappler.com/nation/180735-sugar-sweetened-beverage-tax-poor-dietary-needs> [cited 2018 Oct 25].
10. PRRD certifies tax reform bill as urgent. Manila: Department of Finance; 2017. Available from: <http://www.dof.gov.ph/taxreform/index.php/2017/05/29/prrd-certifies-tax-reform-bill-as-urgent/> [cited 2018 Aug 9].
11. Duangthip D, Gao SS, Lo EC, Chu CH. Early childhood caries among 5- to 6-year-old children in Southeast Asia. Int Dent J. 2017 Apr;67(2):98–106. <http://dx.doi.org/10.1111/idj.12261> pmid: 27753083
12. Benzan H, Monse B, Heinrich-Weltzien R, Hobdell M, Mulder J, van Palenstein Helderman W. Untreated severe dental decay: a neglected determinant of low body mass index in 12-year-old Filipino children. BMC Public Health. 2011 07 13;11(1):558. <http://dx.doi.org/10.1186/1471-2458-11-558> pmid: 21752286
13. What's next after sugar tax. Pasig City: The Nielsen Company (Philippines) Inc.; 2018. Available from: <https://www.nielsen.com/ph/en/insights/news/2018/whats-next-after-sugar-tax.html> [cited 2018 Oct 18].
14. Sales of taxed sugary drinks dip further as consumers alter spending amid price hikes. Pasig City: The Nielsen Company (Philippines) Inc.; 2018. Available from: <https://www.nielsen.com/ph/en/insights/news/2018/sales-of-taxed-sugary-drinks-dip-further-as-consumers-alter-spending-amid-price-hikes.html> [cited 2018 Oct 18].
15. Parrocha A. Duterte wants warning labels on sugary drinks. Quezon City: Philippine News Agency; 2018. Available from: <http://www.pna.gov.ph/articles/1038856> [cited 2018 Aug 9].

ABSTRACT

Development of a sweetened beverage tax, Philippines

Frances Claire C Onagan, Beverly Lorraine C Ho & Karl Kendrick T Chua

What we do	▼
Regions	▼
About us	▼

Subscribe to our newsletters

Privacy Legal Notice

© 2020 WHO