



Dr. Indrani Thilakatna

# Sri Lanka's SSB Tax

*Implementation and impacts*

*Nisha Arunatilake, IPS*



INSTITUTE OF POLICY STUDIES OF SRI LANKA



# NCDs are a growing health concern in Sri Lanka

- NCDs - 83 % of all deaths
- Diabetes - 9 % of deaths (or 10,000 a year)
- NCD risk factors are increasing
  - obesity
  - high blood pressure

Source: (WHO, 2018)



INSTITUTE OF POLICY STUDIES OF SRI LANKA



## Risk factors

- Unhealthy food habits of young people
  - Consumption of high energy, high sugar, high fat, and high salt food
  - Consumption of high amounts of sugar sweetened beverages (SSBs) leading to obesity, diabetes, heart disease and tooth decay among a host of NCDs
- Sedentary lifestyles



# Policy Measures

- Taxes to reduce affordability
  - Specific tax -- Constant by a relevant chosen unit (e.g. volume content of the SSB, sugar content by 100 ml)  
Need to change periodically to account for inflation
  - Ad-valorem tax -- Percentage of the purchasing value of the beverage
- Regulation (eateries, restaurants, food labeling and food promotion)
- Better information on food
- Awareness building



# Sri Lanka's SSB Tax & Regulations

---

Traffic Light Labeling (TLL)	Symbolic colours to educate the public, when making food choices
2016	Mandates labeling the sugar content of their products using the traffic light colours
SSB Tax	Sugar tax on sugar sweetened beverages (SSB) was introduced to reduce the affordability of SSBs
2017	

---



# Sri Lanka's SSB Tax

---

SSB excise tax

Type of tax -- specific tax

Current SSB tax rate – LKR 12/liter or 40 cents/gram of sugar, (for drinks with more than 4 g sugar per 100 ml)

---

SSB tax applies to

Carbonated soft drinks

Energy drinks

Fruit or vegetable-based drinks sugar content is more than 6g/100ml (from July 2018)

Cereal based drinks sugar content is more than 6g/100ml

---



# SSB Tax Impacts

- Price increased by 30-50 per cent
- The demand for SSBs dropped.
  - The volume of carbonated soft drinks sales declined by 27 per cent in the first quarter in 2018 (first full quarter after SSB tax)
  - (note food inflation may have also contributed for the drop in demand)
  - Pepsi has been affected the most by the sugar tax in terms of volumes. (Chandrasena, 2018).
  - Beverage sales of Elephant House, Coca Cola Lanka (Pvt.) Ltd., Ceylon Cold Stores, and Varun Beverages Lanka (Pvt.) Ltd. was impacted due to the sugar tax as the retail prices went up by 40 per cent. (Chandrasena, 2018).



## SSB Tax Impacts – contd.

- SSBs incentivized manufacturers to reformulate products, lowering their sugar content.
- The popularity of sugar-free variants increased driven by a more health-conscious market.
  - Sugar-free variants entered the local beverage market in 2018, which mitigated the impact of the decline in volumes to a certain extent.
  - Coke and Pepsi had a sugar-free variant globally which they promoted heavily with the introduction of this tax
  - Elephant House introduced its sugar-free variant in the first half of 2018.





## SSB Tax Impacts – contd.

- Budget 2018 has estimated LKR 5 billion from SSBs. As the total expected from the revenue proposal is LKR 110 billion, the revenue from the sugar tax accounts for 4.5 per cent of the total estimated revenue from that year's budget.



# Industry Reaction

---

Industry  
Opposition

Constituency building and lobbying

---

Legal action (or threat of)

---

Negative public information campaigns

---

**Aggressive marketing and pricing strategies**

---

Donations to community groups, local institutions, policy makers

---



## Industry Reactions – contd.

- **Consumer will be deprived of fruit juice**

“The price of a bottle of fruit juice or drinks would go up by 30 per cent, and consumers would be deprived of more organic and natural fruit juice and beverages due to price increase”

- leading member of the fruit juice manufacturers association,

- **Local farmers will be hurt**

“Fruit producing companies are purchasing over 12 million kilograms of fruits annually from farmers and this massive stock of fruits is almost 80 per cent of the total production. In addition, over 90 family-based small and medium scale fruit drink producers earn a living from this industry.”

- leading member of the fruit juice manufacturers association,



## Industry reactions – contd.

- **Special fruit growers project affected by SSB tax**

“Special fruit out growers' projects such as the cultivation of passion fruit, pineapple and Aloe Vera has affected as the fruit demand for sugary drinks has dropped by a significant margin, an indication that the higher prices have pushed away consumers from high sugar drinks.”

- - leading member of the fruit juice manufacturers association

- **The principle of neutrality has been ignored**

Given that the sugar tax applies only to carbonated drinks and excludes other sweetened drinks like fruit juice or milk packets, it is clear that the principle of neutrality has been ignored here.

- leading member of the fruit juice manufacturers association

- **Objective not attained as consumers shift to other SSBs**

Given that this tax only applies to one category of sweetened beverages, consumers can easily substitute it with another, cheaper beverage.

- leading member of the fruit juice manufacturers association



## Industry reactions – contd.

- Industry used aggressive marketing and promotional strategies to keep the consumers



## Results of industry lobbying

- Industry lobbying led to a 40% cut in tax per gram of sugar (rate drop from 50c/g to 30c/g in 2018)



# SSB Tax : Gaps and Limitations

Taxes rates are not consistent and don't change regularly

Industry lobbying led to a **40%** cut in tax per gram of sugar



Limited coverage

Milk products excluded  
Drinks in informal market

**TAX EXEMPT**

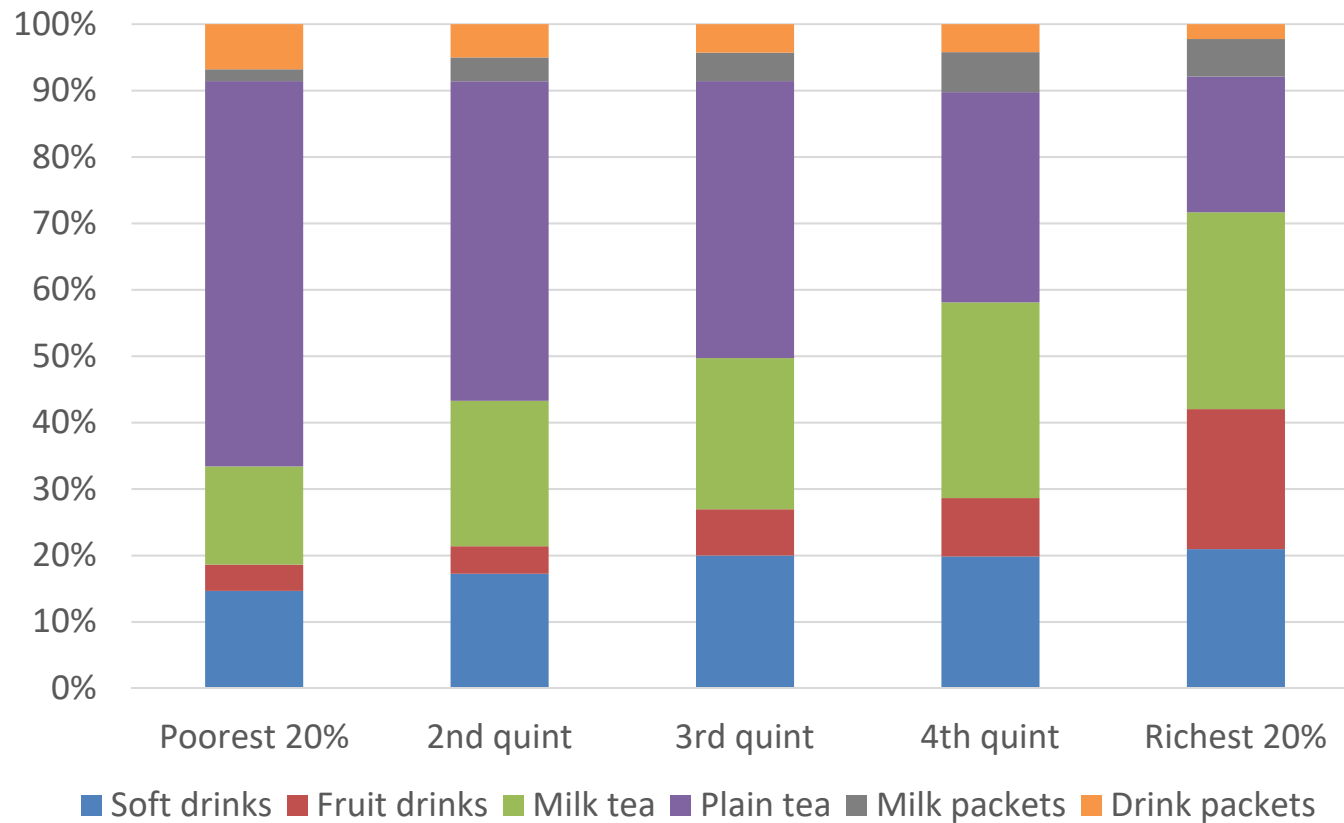


Implementation issues

Aggressive marketing and pricing strategies - promotional discounts are not regulated



# SSB Tax Excludes 70% of Sweetened Beverages





# Recommendations

- Institutionalize tax changes with income changes and inflation, so affordability is kept low
- Strengthen research capacity to refute false industry arguments
- Assist firms to produce low sugar alternatives
- Assist potential losers (e.g., farmers) to find alternate markets
- Ensure coverage of all types of beverages (and food)
- Build public awareness regarding the SSB tax and its objectives to both enhance its acceptance and complement its intended impact to reduce SSB consumption and improve public health.



# *Thank you*



## **Institute of Policy Studies of Sri Lanka**

100/2 Independence Avenue,

Colombo 7, Sri Lanka

T: +94 11 2143100

[www.ips.lk](http://www.ips.lk)

 [www.ips.lk/talkingeconomics](http://www.ips.lk/talkingeconomics)

 [/instituteofpolicystudies](https://www.facebook.com/instituteofpolicystudies)

 [@TalkEconomicsSL](https://twitter.com/TalkEconomicsSL)

Dr. Nisha Arunatilake, Director of Research  
(IPS)

Priyanka Jayawardena, Research Economist  
(IPS)

Sunimalee Madurawala, Research Economist  
(IPS)

Ashani Abayasekara, Research Economist (IPS)