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Study Shows Special Tax Reduced Consumption of Sugary Drinks in Mexico

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On Jan. 1, Mexico observed the two-year anniversary of a special consumption tax on soft drinks and other sugary beverages that the Congress approved in 2013 as part of a plan to reform Mexico's tax system. President Enrique Peña Nieto and supporters backed the tax (Impuesto Especial sobre Producción y Servicios, IEPS) of 1 peso (US$0.05) per liter, or about 10%, on sugary drinks as a means to encourage Mexicans to reduce their consumption of sodas and other sugary beverages (SourceMex, Sept. 18, 2013, and Oct. 23, 2013).

The new tax unleashed a tug of war between health advocates and the Mexican beverage industry, with the conflict manifesting itself during the release of a study in the summer of 2015 that confirmed the effectiveness of the measure. Controversy arose again in the fall of 2015, when Congress was debating the 2016 budget. Faced with strong lobbying from the Asociación Nacional de Productores de Refrescos y Aguas Carbonatadas (ANPRAC), the Chamber of Deputies cut the IEPS on sugary drinks to 50 centavos (US$0.025) per liter in its budget proposal. The Senate budget plan, however, kept the tax at 1 peso per liter, which was the level that prevailed in the final budget that Congress approved.

A study conducted by the Instituto Nacional de Salud Pública (INSP) and the University of North Carolina in 2014 indicated that the tax might have fulfilled its intended purpose. Researchers examined household consumption trends in 53 Mexican cities. The results indicated that purchases of sugary beverages dropped 6% on average in 2014, compared with trends before the IEPS went into effect. By December 2014, purchases had declined by 12% in comparison with previous years. The study adjusted for other factors, such as the overall downward trend in soda consumption, wages and unemployment.

"Despite promotions and marketing strategies [from beverage companies to counter the tax], the effect of the soda tax in Mexico has been successful," INSP researcher Juan Rivera said in an interview with US-based National Public Radio (NPR).

Promoters say diabetes, obesity already on the decline

Rivera expressed hope that the decline in consumption of sugary drinks would help Mexico reduce the high rate of obesity in the country, which ranks among the highest in the world, according to the World Health Organization (WHO). "Along with other strategies the Mexican government is using, I hope that the intake of sugar-sweetened beverages will continue to drop," Rivera said.

The study found that consumption dropped among all socioeconomic groups, but the decline was greatest among lower-income consumers. That socioeconomic group reduced consumption of soft drinks by about 9% on average. In a measure taken at the end of the year, the study showed that consumption by lower income populations was down 17%."

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The tax on soft drinks has gained the support of consumer advocates in Mexico. “In Mexico’s case, there’s no alternative but to have a tax. We have a crisis,” said Alejandro Calvillo, director of El Poder del Consumidor, an advocacy group that led the campaign on the special tax.

The measure has also been endorsed by health researchers overseas. “If it’s shown that Mexico’s soft drink tax is effective in reducing soda consumption, and that, in turn, has an effect on Mexico’s obesity rate, I think you’ve got a pretty good case,” Michael Roberts, executive director of UCLA’s Resnick Program for Food Law and Policy, told NPR.

“There are many countries in the region and other parts of the world that have been waiting on empirical evidence from Mexico to determine whether to implement similar measures,” said Franco Sassi, head of the public health program at the Organization for Economic Cooperation and Development (OECD). “I think this is encouraging for all the countries that have been deciding whether to use this measure. This is a demonstration that it works.”

The INSP is so encouraged by the results of the study that researchers have put together fairly optimistic projections, including a huge reduction in the number of people in Mexico who are obese or overweight. “Furthermore, the institute projects a reduction of 400,000 in the number of cases of diabetes by 2030,” said the weekly newsmagazine Proceso.

Beverage industry opposes tax

In addition to the reduced consumption of sugary drinks, the government collected billions of pesos, which the Secretaría de Salud is using to fund programs to prevent obesity and related diseases. The tax is expected to yield about 21 billion pesos (US$1.14 billion) in 2016, according to projections from the Instituto Mexicano para la Competitividad (IMCO) and the Centro de Investigación Económica y Presupuestaria (CIEP).

The reduced consumption of sugary drinks has raised concern among beverage manufacturers. Shortly after the study was released, ANPRAC released its own report indicating that the reduced consumption, due to the tax on soft drinks, has resulted in the loss of almost 9,000 direct and indirect jobs in the soft-drink industry.

Furthermore, the industry group said this was a regressive tax imposed primarily on low-income populations. “The popular classes and those populations with lower incomes are having to pay more for soft drinks, sacrificing expenditures on other necessities like soap and other hygienic products,” ANPRAC director Jorge Terrazas said in July.

As budget deliberations were starting in Congress in September and October 2015, ANPRAC launched a major lobbying campaign urging members of the Chamber of Deputies to lower the IEPS to 50 centavos in the expenditures budget (Presupuesto de Egresos). The industry group acknowledged that the tax had already achieved one of its goals, which was to improve the health of Mexicans, and that it was time to lower it.

The ANPRAC lobbying efforts achieved their result in the lower house, with members of the governing Partido Revolucionario Institucional (PRI) and the pro-business Partido Acción Nacional (PAN) supporting the proposal, overcoming opposition from smaller parties.

The ANPRAC efforts then moved to the Senate, focusing primarily on the pro-business PAN. But officials at the Secretaría de Salud launched their own campaign, urging the Senate to reject the

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reduction in the IEPS. "Research demonstrates that the tax has reduced the consumption of soft drinks and stimulated the consumption of water," Health Secretary Mercedes Juan López said at a conference in Mexico City in October.

The Senate eventually voted by an overwhelming margin of 87-21 to keep the IEPS at 1 peso, with support coming from members of all parties. The divisions in the PAN reflected the general debate. "There are those in our party who in principle oppose more taxes and those who see [the IEPS] as an effective mechanism to mitigate and address the problems of obesity and weight and all the related problems," said PAN Sen. Javier Lozano.

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