Case study

Taxing sweetened drinks in Mexico

July 2015

Since January 1, 2014, Mexico has levied a special excise tax of 1 peso per litre ($0.08/L) on all sugar-sweetened beverages (SSB) except flavoured milk and drinkable yogurt. This case demonstrates the feasibility of a special tax, the revenues of which are invested in part in prevention, and allows drawing lessons for other jurisdictions considering the adoption of tax measures to reduce the consumption of SSB.

Background

In 2013, the prevalence of adult obesity in Mexico reached 32%, thus surpassing the rate in the United States and taking the lead in this regard among the member states of the Organisation for Economic Co-operation and Development (OECD)[1]. Moreover, type 2 diabetes affected 14% of the country's adults[2,3] and experts estimated that this disease would cause 500,000 deaths over the next six years[4]. This began to be perceived as an unprecedented public health crisis that could harm the country's already fragile economy. One solution proposed was to tax SSB. This measure was initially viewed as a way of preventing obesity and diabetes and dissuading a behaviour contributing to these: the overconsumption of SSB. At the time, consumption of liquid sugars per inhabitant in Mexico was among the highest in the world[5]. It was also suggested that such a tax be used to improve access to drinking water, a healthy alternative to SSB, and that it help fund the growing costs of the country's universal health system[6,7].

As it happened, the political situation in Mexico in the fall of 2013 was propitious to the adoption of an SSB tax. Among other things, a new president had been elected, the "Pact for Mexico" (i.e., an undertaking agreement among political parties to work collaboratively) had been adopted, and major tax reforms had been announced to allow greater investment in health and social services[8,9,10,11,12]. Moreover, 70% of Mexicans were in favour of such a measure if funds generated were invested in the prevention of obesity and type 2 diabetes[13].

SSB over-consumption had been recognized as a problem in Mexico for some time. For example, in 2008, the Health Minister had set up the "Mexican Beverage Guidance Panel"[14,15]. Then, in 2010, Mexico's federal government acknowledged in a document the influence of public policy on nutrition and signed the *National Agreement for Nutritional Health* with numerous players from multiple sectors, including industry. In particular, this agreement in principle provided for the removal of SSB from schools[16,17]. However, as it did not provide for sanctions, the agreement has been criticized by many sides, including the United Nations' Special Rapporteur on the right to food, Olivier De Schutter, who encouraged Mexico to regulate more in this regard and impose a tax on soft drinks, which revenues would serve to fund preventive intervention and improve access to water[18]. Frustration with the country's lack of progress in the field of nutrition led to the creation in October 2012 of the *Alianza por la salud alimentaria*, a coalition of 22 non-governmental bodies and networks representing some 650 non-profit organizations. The group immediately began pressuring the government to levy an SSB tax[19]. By imposing such a tax, Mexican decision-makers recognized the SSB industry's responsibility in contributing to the country's weight problem[20].

The tax in question

In the fall of 2013, a tax reform bill was proposed and adopted by the Mexican Congress. The bill provided for the application of a special excise tax on SSB through the goods and services tax[21,22,23,24,25,26].

Effective date: January 1, 2014.

Economic model: Special excise tax (IEPS in Spanish) of 1 peso per litre ($0.08/L).

Target: SSB, including concentrates, powders, syrups, flavouring oils and flavour extracts that, once diluted, allow producing sweetened drinks.

Exceptions: Flavoured milk and drinkable yogurt.

Real revenues in first quarter (March 31, 2014): 2.3 billion pesos ($180 million)[27].

Investment of revenues: Revenues deriving from a given tax cannot be allocated to a specific purpose under the Mexican constitution. However, it is possible to allocate the revenues from the SSB tax indirectly and unofficially by passing legislation to allow funding of promising measures for the prevention of obesity and type 2 diabetes[28].

Accordingly, with a view to diminishing the appeal of SSB and promoting healthy hydration, an act was adopted to make the installation of drinking fountains mandatory in all Mexican schools by the end of 2017. The Secretariat of Public Education is responsible for its application and some 3.5 billion pesos ($290 million) have been provided to implement it[29,30].

Impact of tax…

…on prices

When the Mexican tax went into effect, one litre of soda cost 9 pesos ($0.73) on average. The tax, then, corresponded to a theoretical increase of about 10% of the price. Within the first few months of the tax becoming effective, SSB producers and distributors had transmitted the added cost of the tax to consumers by increasing prices nearly 15%[31,32].

…on consumption

The Mexican National Institute of Public Health and the University of North Carolina have carried out an evaluation of the impact of the tax[33,34,35,36,37,]. The preliminary results show that SSB purchases have decreased by an average of 6% across 2014. The effect was greater on lower-income households, who cut their purchases by an average of 9% across the 12 months[38,39].

The study, which looks at household groceries spending in 53 Mexican cities, also demonstrates a 4% increase in purchases of untaxed beverages, meaning the tax encouraged consumers to shift their dietary habits towards waters, diet soda, or natural juices that don't have extra sugar added[40].

It should be noted that public discussion and media coverage of the adoption of the tax, as well as a public awareness campaign by the *Alianza por la salud alimentaria*[41] titled "*12 cucharadas*" (12 spoonfuls) on the amount of sugar contained in SSB, could also have contributed to denormalize and discourage consumption of these products[42]. Among persons exposed to this campaign, 59% reported offering less soda to their children, 44% reported drinking less soda than prior to the campaign, and 36% sought to encourage the people around them to reduce their consumption[43].

Further info on the Mexican SSB tax

Legislative timeline[44]

Early September 2013: President proposes a tax reform bill in Mexico's House of Representatives. Bill comprises implementation of a special excise tax on SSB through the goods and services tax.

September/October 2013: President announces and implements *National strategy for preventing and controlling obesity and diabetes*[45].

Early October 2013: The House of Representatives adopts tax reform bill, including special excise tax on SSB.

Late October 2013: Senate adopts tax reform bill, including special excise tax on SSB.

December 6, 2013: President signs tax reform bill.

December 11, 2013: Tax Reform Act published in the *Gazette*.

January 1, 2014: Effective date of tax reform, including SSB excise tax.

May 2014: Adoption of Act for the mandatory installation of water fountains in all Mexican schools.

February 25, 2015: The Mexican Supreme Court has passed its first important judgement on a writ of unconstitutionality (*amparo*) filed by Livsmart de México, S.A. de C.V., importer of SSB. In a statement[46], the First Chamber of the Supreme Court unanimously confirms the constitutionality of the SSB tax and validates it as a reason of being a public health measure aiming to "increase the cost of a consumer good that harms health or has undesired social consequences" [47,48].

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