**FACTSHEET - DEBATE 2: Price Mechanism (Tax): Sugar Tax as a Government Intervention**

**Background to the Debate**

The UK government has published draft legislation for a tax on sugar-sweetened drinks, which is set to begin from April 2018. There will be two bands - one for soft drinks with more than 5g of sugar per 100ml and a higher one for drinks with more than 8g per 100ml. Ministers hope it will help tackle the nation's obesity problem.

Many companies have already begun cutting the amount of sugar in their drinks due to changes in consumers tastes as the threat posed by sugar is highlighted. Pure fruit juices will be exempt - but health officials stress people should limit consumption of these beverages to no more than 150ml per day. Likewise, sugary milkshake and yogurt drinks will also be excluded.

The government has said it expects the levy to raise £520m in the first year. The Office for Budget Responsibility estimates the levy could add 18p to 24p to the price of a litre of fizzy drink if the full cost is passed on to the consumer. This amounts to an extra 6p on a regular can of Fanta and Sprite, and an extra 8p on a regular can of Coca-Cola, Pepsi and Irn-Bru.

Health campaigners have broadly welcomed the initiative: Dr Max Davie, of the Royal College of Paediatrics and Child Health, said: "We are very pleased to see government moving forward with this draft legislation. The sugary drinks that will be affected by this tax have no nutritional benefit and often contain levels of sugar that are above a child's daily recommended limit. These drinks are a major contributor to the high sugar intakes of children, particularly teenagers, and we are in no doubt that they are, in part, contributing to this country's obesity crisis."

Cancer Research UK estimates a 20% tax on sugary drinks could prevent 3.7 million cases of obesity over the next decade - something the soft drinks industry rejects. Gavin Partington, of the British Soft Drinks Association, said: "There is no evidence worldwide that taxes of this sort reduce obesity, and it is ironic that soft drinks are being singled out for tax when we've led the way in reducing sugar intake, down over 17% since 2012. We're also the only category to have set a 20% calorie reduction target for 2020."

Are there better alternatives to a tax? Should the Government be putting more money into advertising and education? Should regulations on food labels be made more stringent? Currently there is a traffic light system showing whether a foodstuff is high in sugars, fats and salt. But this is not a mandatory regulation and is rather due to initiatives from private food retailers ilke supermarkets.

**General Arguments For and Against an Indirect Tax on a Product**

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| **Advantages of an indirect tax** | **Disadvantages of an indirect tax** |
| + Uses market forces to internalise the externality into decision making and make the economic agent pay the full cost of their actions  + Reduced amount of production/consumption, reducing the amount of market failure  + Provides revenue for the Government which could be used for spending on solving a general issue further | - Very hard to tax at the right level from society’s point of view as valuing social costs is very difficult.  - Producers can pass on burden to consumer if PED relatively inelastic and may have little impact.  - Cost for firms making them less internationally competitive  - May encourage firms to move abroad or tax evasion.  - May encourage secondary markets  - Cost of collection & administration  - Can harm the poor substantially more |

**Sources to Access (as a bare minimum)**

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| Watch these videos   * 10: Watch this video from Sky News - <https://www.youtube.com/watch?v=eP3PsoixBOw> (type in ‘Sam Bowman debates the sugar tax’ or click on the link * 6: Watch this video from Good Morning Britain - <https://www.youtube.com/watch?v=McTNFVkrKt0> (type in ‘This Morning. Should the UK Introduce a Sugar Tax) * 3:Watch this video from Channel 4 News - <https://www.youtube.com/watch?v=XQnOZCp-SV4> (type in ‘Channel 4 News Should we have a sugar tax) | Read these articles   * Mexico Sugar Tax - <https://www.theguardian.com/society/2017/feb/22/mexico-sugar-tax-lower-consumption-second-year-running> * Coca-cola – we are tackling the sugar question but tax isn’t the answer - <http://www.telegraph.co.uk/business/2016/05/25/were-tackling-the-sugar-question-but-tax-isnt-the-answer/> * Tax could lead to greater tax elsewhere - <http://www.telegraph.co.uk/food-and-drink/news/sugar-tax-could-mean-rise-general-taxation-pressure-group-claims/> |

**EVALUATING THIS GOVERNMENT INTERVENTION: Is the Sugar Tax going to work??**

Use the resources above and other internet research to put down some arguments on both sides.

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| Advantages (Government Intervention is a Success) | Disadvantages (Government Intervention is a Failure |
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| CONCLUSION | |