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Malaysia's New Soda Tax: An Easy Swallow?

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EXECUTIVE SUMMARY

- On 1 July 2019, the Royal Malaysian Customs Department began implementing a fixed duty on pre-packaged sugar-sweetened beverages (SSBs) throughout Malaysia.

- Domestic resistance to the idea of the tax has been muted. Public acquiescence rests on the fact that such a measure was overdue, as well as the perceived success of SSB taxes outside Malaysia in trimming sugar consumption.

- The tax is likely to reduce Malaysia's sugar intake from pre-packaged SSBs in the near future.

- While the tax is a significant milestone for the Pakatan Harapan-led administration, its health-related impacts could be reinforced through refinements to its design and a more supportive policy ecosystem.

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INTRODUCTION

On 1 July 2019, the Royal Malaysian Customs Department began implementing a long-anticipated tax on pre-packaged sugar-sweetened beverages (SSBs). Under the new regulations, all ready-to-drink SSBs that are either imported into or manufactured within Malaysia are subjected to a duty of RM0.40/litre (roughly SGD$0.13 under current exchange rates). Other things being equal, a one-litre sugar-sweetened beverage would therefore cost RM0.40 more from 1 July onwards, while a 250-ml bottle would cost RM0.10 extra.

Tax exemptions have been granted to pre-packaged SSBs whose sugar content falls within predefined limits. These caps differ based on the kind of beverage under scrutiny. Just as not all sugars are equal (some being more complex than others), SSBs also vary according to the quality and amount of sugar contained. Sugars in sweetened carbonated drinks, for example, tend to consist solely of added sugars (mainly sucrose and high-fructose corn syrup) whereas flavoured milk and fruit and vegetable juices contain highly variable mixtures of added and 'naturally-occurring' sugars.

Table 1. Structure of Malaysian SSB Tax, implemented on 1 July 2019[2]

Type of beverage:	Waters containing sugar/other sweeteners/flavourings, carbonated or otherwise, non-alcoholic)	Flavoured UHT milk-based drinks	Fruit/vegetable juices with/without added sugar/other sweeteners
Examples:	Energy drinks, fizzy drinks, isotonic beverages, canned coffee, packet drinks like chrysanthemum tea, canned coffee	Chocolate and strawberry-flavoured milk	Orange and apple juice.
Excise duty of RM0.40/litre applies to:	Drinks containing sugar in any form exceeding 5 gm/100 ml.	Drinks containing sugar in any form exceeding 7 gm/100 ml.	Drinks containing sugar in any form exceeding 12 gm/100 ml.

This paper offers an overview of Malaysia's new sugar tax regime to date. It examines the recent background and context in which the tax surfaced and was passed, before going on to outline various criticisms of the tax. While it is still premature to make any definitive statements regarding the results of the tax on government coffers and public health, this paper will also discuss some likely outcomes stemming from the tax's introduction.

MOTIVATIONS

Taxing sugar on health grounds has been a relatively recent development, both in Malaysia and globally. National dietary guidelines urging Malaysians to reduce their overall sugar intake have been promoted through the Ministry of Health's 'Healthy Lifestyle Campaign' as far back as 1991.[3] But a national tax on food and beverages deemed unhealthy was only first publicly floated in parliament in 2016, during former-Prime Minister Najib Razak's second term of office. Under the Health Ministry's ten-year-plan of nutritional action for the period spanning 2016-2015, a national tax on unhealthy food and SSBs was to be implemented by 2020.[4]

Following Barisan Nasional's defeat at May 2018's general election, the incoming Pakatan Harapan-led federal government renewed the push for an SSB tax. In his capacity as special adviser to the Finance Minister, Damansara MP Tony Pua took on the task of selling the initiative to the public. In August 2018, he informed the mass media that the Finance Ministry was looking into various options to raise revenue following the removal of the Goods and Services Tax (GST). Both he and Prime Minister Mahathir Mohamad publicly floated the notion of an SSB tax as a way to both recoup finances and reduce sugar consumption.[5] By November the same year, Finance Minister Lim Guan Eng confirmed that the administration intended to impose duties on SSBs by April 2019, announcing them as part of the federal government's 2019 Budget plans.[6]

Despite its unprecedented nature, public resistance to the *idea* of an SSB tax has been remarkably muted so far. Protests came mainly from SSB manufacturers, who helped delay the tax's implementation by three months, in the process gaining more time to craft their own commercial responses to the duty. Otherwise there appears to have been grudging acceptance of the tax, including among members of Barisan Nasional, now in opposition.

Acquiescence rests on the fact that such a measure was overdue. By 2013, Malaysian nationals were estimated to have one of the highest per capita levels of sugar intake in the world, coming only second in Asia to nationals in Jordan.[7] While Malaysians consume sugar in many forms – not least via processed food – sugar delivered through pre-packaged SSBs comes with a high glycemic load that raises blood sugar levels rapidly. On average, residents consume about 3kg of sugar per year from soft drinks alone.[8] A June 2019 poll of 1,022 Malaysians revealed that 6 per cent consumed multiple SSBs each day, another 8 per cent at least one SSB a day, and an additional 20 per cent of respondents guzzled several SSBs per week.[9] The situation among youth gives even more cause for concern: between 2012 and 2017, average daily sugar intake rose from seven teaspoons equivalent – already in excess of the six teaspoons limit conditionally recommended by the World Health Organisation – to ten teaspoons.[10] By 2017, over one-third of Malaysian teens were drinking at least one SSB daily.[11] Notwithstanding some differences between survey findings, Malaysians clearly have a serious craving for sweet drinks.

Rising sugar consumption has been scientifically linked with the increasing incidence of diet-related non-communicable diseases, chiefly diabetes, cardiovascular disorders, heart disease, and cancer. Many of these non-communicable diseases are also associated with rising rates of obesity and excess body weight. Malaysia is hardly the only country in Southeast Asia to be experiencing an epidemic of 'lifestyle diseases', but it is now by far the most heavily afflicted. Between 2006 and 2015, levels of excess weight and obesity within Malaysia surged from over a fifth to nearly half of the resident population.[12] The country is now believed to be Asia's fattest, with over half the population overweight or worse.[13] In the same interval, diabetes prevalence increased from 11.6 per cent to 17.5 per cent, one of the world's highest rates.[14] Based on past trends, Malaysia's current Health Minister envisioned that diabetes would afflict nearly a third of all Malaysians by 2025.[15]

The corresponding burden on Malaysia's public healthcare system has been immense. About 10-19 per cent (roughly RM4-8 billion) of Malaysia's total public healthcare budget goes to lab tests, medicines and treatments for obesity-related non-communicable diseases, the highest proportion amongst ASEAN member states.[16] 73 per cent of all deaths recorded in Malaysian public hospitals are believed to stem from obesity-related diseases.[17] Harder to quantify but just as serious are the impacts of obesity on quality of life, stemming from impairments to physical mobility, sexual fulfilment, work performance and self-esteem.[18] These losses in turn aggravate mental health concerns such as depression and anxiety, creating downward spirals in overall health and productivity that add to the burden on government coffers.

The failure of 'soft' measures alone in reducing diet-related non-communicable disease levels has also made 'harder' preventative measures like taxes on consumption more publicly palatable. The Ministry of Health's 'Healthy Lifestyle Campaign', which officially ran between 1991 to 2002, was intended to improve public awareness of diets and associated diseases and foster healthier dietary practices. However, it was unable to stem rising rates of non-communicable diseases in Malaysia.[19]

Malaysia's federal authorities also have been emboldened to implement the SSB tax due to its perceived success elsewhere. At the time of its implementation in Malaysia, at least 38 other states already had a duty in place, including Thailand, Brunei and the Philippines. Mexico, whose government was one of the first to pass an SSB tax, has been frequently cited as an inspiration by Malaysia's policymakers, including during the Najib era.[20]

CRITICISMS

Public acceptance of an SSB tax should not be mistaken as a guarantee of its success. First, the tax has been criticised for being poorly designed. Both UNICEF and the WHO find the current tax rate too lenient. SSB sugar content levels qualifying for exemption are still too high, particularly for milk-based beverages and fruit juices. Furthermore, the RM0.40/litre rate is 60 per cent lower than what international benchmarks and available scientific evidence suggest is needed to change SSB consumption patterns effectively.[21]

Perhaps a more interesting critique is that the Malaysian SSB tax is too blunt: it actually taxes the overall volume of the sugar-sweetened beverage, instead of sugar directly. As a result, taxes like Malaysia's 'provide no incentive for consumers to substitute to lower-sugar SSBs *within* a tier and no incentive for producers to reduce the sugar content of their drinks *within* a tier [italics added]'.[22] In other words, Malaysia's current SSB tax, like most other SSB duties implemented elsewhere, does not actually pinpoint sugar in proportion to the harm caused.

A second line of criticism relates to financial aspects of the SSB tax, particularly its potential effects on domestic living costs. While there is no escaping the fact that the tax is intended to reduce sugar consumption by incentivising manufacturers to shrink their product offerings or hike existing prices, consumer activists are concerned that intermediaries and retailers may take advantage of the situation to raise prices of goods beyond those directly affected by the new tax.[23] This position has been echoed by the Ministry for Domestic Commodities, which has sought to keep the cost of consumer 'essentials' down, including that of granulated sugar.[24]

Alert to the political hazard of promoting and sustaining an SSB tax that risks being seen as regressive, the Pakatan administration has framed the tax not as a punitive health measure, but as a positive universal welfare service.[25] In early 2019, Mahathir declared that revenue collected from the SSB duty would be used to fund a nation-wide programme providing free healthy breakfasts to primary school students.[26] Education Minister Maszlee Malik outlined some additional details in Parliament in October 2019: the programme would be launched in January 2020, extend to over 2.7 million students, and cost in the range of between RM800 million and RM1.67 billion for the entire year.[27] Such a scheme is much needed in Malaysia, given that around 25 per cent of Malaysian children from various socio-economic backgrounds still do not eat breakfast regularly, and that as many as 97 per cent of Malaysian households living in low-cost housing do not prepare healthy meals for their children due to their unaffordability.[28] There seems little reason to doubt Pakatan's commitment to the feeding programme, but at the time of writing there is still no public communication regarding how much revenue has been collected via the SSB tax.

A third criticism is on problems of demand transference. An SSB tax that suppresses purchases of manufactured sweet drinks may inadvertently increase the demand for sugar outside the tax structure, particularly through cheap beverages made on the spot at home or in coffeeshops like coffee/tea/drinking chocolate or sugar-laden food items.[29] These concerns have prompted calls from consumer associations and academics to enact a general tax on sugar itself.[30] But this is politically risky since sweetened comestibles are strongly associated with hospitality and conviviality in Malaysia, and are thus still considered consumer essentials.[31]

POSSIBLE OUTCOMES

While it is still too soon to evaluate the behavioural, health or fiscal impacts of Malaysia's SSB tax, it is nevertheless worth critically reflecting on several Malaysian scenarios posted by marketing research firm Nielsen,[32] shortly after the tax was enacted:

1. *Consumption of manufactured SSBs drops in Malaysia, but only temporarily.* Nielsen offered this scenario for Malaysia based on claims that SSB consumption in Mexico had rebounded to pre-tax levels after two consecutive years of decline since 2014, when the tax was first instituted.[33] However, the firm did not offer any sources for their claim. An independent review of analyses regarding the Mexican situation found that studies claiming that a rebound effect had wiped out previous progress were either methodologically flawed or directly funded by industry.[34]

2. *Consumer preferences outweigh change within the manufacturing sector*. Nielsen claimed that a sugar tax passed in the United Kingdom in 2018 prompted beverage SSB manufacturers to offer new products containing less sugar but 'many consumers' continue to purchase the original higher-sugar offerings, still on sale. Again, no sources were cited. The situation in the United Kingdom is complex, too early to judge, and depends partly on whether consumers view reformulated beverages as sufficiently attractive substitutes. In Malaysia, large manufacturers like F&N have begun reformulating their drinks to contain less sugar, but are nonetheless threatening to increase the prices of the new offerings when they are launched.[35] At the same time, the SSB tax's signalling effect has been relatively strong in Malaysia: 64 per cent of respondents in a YouGov poll conducted in June 2019 indicated that they were already aware of the upcoming SSB tax.[36] Independent studies elsewhere indicate that such signalling effects can help drive changes in consumer preferences for sugary drinks through social influence, rather than just impacts on prices and product reformulations.[37]

3. *SSB consumption drops dramatically*. Nielsen mentioned the examples of Saudi Arabia and the Philippines, where SSB taxes have led to steep falls in sugary drink consumption and rising bottled water sales. In Malaysia, polls conducted prior to July 2019 suggest that the tax may have a noticeable effect, at least in the short term. A GlobalData survey in late 2018 revealed that 65 percent of the Malaysians polled claimed that 'health impact' was often or always something that influenced their purchasing decisions.[38] The above-mentioned June 2019 YouGov poll found that three-fifths of all Malaysian respondents claimed they intended to drink less pre-packaged SSBs due to the tax. An additional 13 per cent stated that they would cease drinking pre-packaged SSBs completely.[39]

FINAL REMARKS

It is still too soon to measure the behavioural, health and fiscal consequences of Malaysia's new duties with any reasonable accuracy, but Malaysia's domestic situation and the experiences of SSB taxes elsewhere suggest that per capita sugar intake from manufactured SSBs is likely to drop to a certain extent. To what degree and in what timeframe this decline takes place remains to be seen. There is a small risk that the tax may be repealed if living standards are perceived to be worsening, and if current or future administrations decide to enact populist fiscal measures similar to the way the GST was repealed. This reversal seems unlikely though, given that unlike the GST, the SSB tax benefits from a strong moral dimension akin to other 'sin' taxes, like those on tobacco and alcohol.

A more pressing concern is the need for the Ministries of Health, Agriculture and Finance to shore up the long-term effectiveness of the SSB tax by implementing complimentary policies in the realms of consumer awareness and access to healthier meals. These include, but are not limited to, a ban on the advertising of unhealthy food and beverages targeting children on national television, mandatory requirements on food outlets to display accurate nutritional information, and an effective national expansion of markets selling affordable fresh fruits and vegetables. The SSB tax is not a silver bullet for Malaysia's public health woes, but it deserves a lasting place in the toolkit that the authorities are crafting to help fight for a healthier, happier future.

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[1] Much thanks go to Kevin Zhang for his research assistance. Francis Hutchinson offered helpful comments on an earlier draft. The usual caveats apply.

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