

Key Findings of the Policy Brief

Carbonated Beverages Industry in India: Tax Policy to Promote Growth, Innovation and Investment

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Global Market and India: The Context

Carbonated Soft Drinks, or CSDs are a key component of the beverages and the Non-Alcoholic Ready-to-Drink industry.

FSSAI Definitions have been followed in this policy brief.

In 2023, more than 44% of the total global revenue of beverages was generated by CSDs.

The Global market revenue from CSDs

- Increased by 7.1% from 2022 to 2023, generating revenue of USD213 billion in 2023.
- It is expected to earn an estimated revenue of USD226 billion in 2024.
- Is expected to grow at a compound annual growth rate (CAGR) of 5.33% from 2024 to 2028.

The Indian CSDs market

- Generated revenue of USD 18.25 billion in 2022. Grew at a CAGR of 19.8% between 2017 and 2022, according to Research and Markets (2023).
- Grew at a CAGR of 8.1% between 2011 and 2021, according to Euromonitor (2023).*

**CAGR varies across different studies due to variations in sector coverage by the data.*



The Indian Market for CSDs

- 80% of the CSD market in India is in the informal sector.
- India is one of the largest global producers of fruits and sugar, often used in CSDs.
- However, CSD processing in India is underdeveloped, trailing other developing nations.
- Investment and job potential in Tier 2 and Tier 3 cities remain untapped.

Is the growth of the formal sector and development of innovative low-sugar products, restricted by the 40% GST?

Top 10 Markets with Highest Select CSD Revenue in 2023
Value in USD Billion

Rank	Country	Revenue
1	United States	51.3
2	China	14.4
3	Nigeria	14.0
4	Mexico	11.0
5	United Kingdom	9.6
6	Japan	8.1
7	Germany	7.2
8	Brazil	6.4
9	France	5.7
10	Iran	4.6
21	India	2.1

The objective of the policy brief is to provide evidence-based & data-driven tax policy recommendations to

- Increase Government GST Collections;
 - Limit the Intake of Added Sugars in Beverages;
 - Support Reformulation Initiatives for the Production of Healthier Beverages;
 - Induce Investment, Job Creation and Overall Growth of the Sector.
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- The policy brief presents global best practices for layered-sugar taxes vis-a-vis the Indian tax regime.
 - It presents the sales trends and growth across different CSDs products, based on their sugar content.
 - It analyses the impact of the high GST and then makes recommendations.

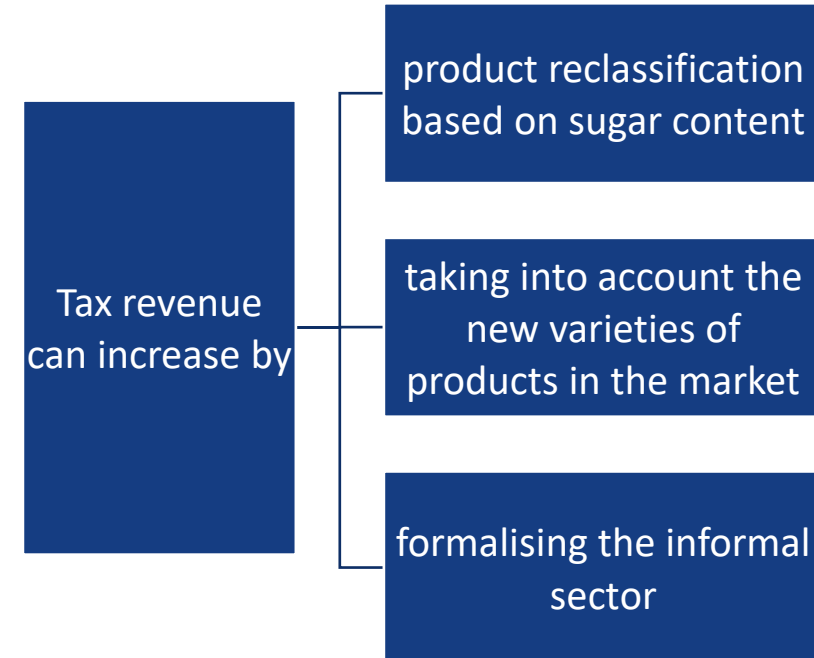
Type of Taxes: Excise v/s Sales Tax

Excise duties are divided into three broad types – specific, ad-valorem and mixed excise.

Ad-valorem is calculated as a per cent of the wholesale or retail price of the beverage.

Mixed excise combines the features of specific and ad-valorem excise duty.

In specific excise duty, the tax rate is constant per given unit. It can be based on the quantity of liquid (volumetric) or on the sugar content per 100 ml sugar.



Specific excise is categorised into volumetric and sugar-based specific excise – In volumetric specific excise duty, the tax rate is constant per volumetric unit of product whereas in sugar-based specific excise duty, the tax rate is constant per specific amount of sugar per 100 ml of beverages.



Carbonated Beverages Market and Taxes: Global Overview

- As of 2022, over 120 countries are taxing sugary drinks to promote healthier, low/no-sugar alternatives.
- Companies are reformulating beverages by reducing sugar or using substitutes for healthier options.
- SSB taxes encourage product reformulation, as seen in the UK and other countries.

Sugar Tax in the United Kingdom: Soft Drinks Industry Levy

- The UK's 2018 Soft Drink Industry Levy (SDIL) taxes sugar-sweetened beverages based on sugar content, pushing the beverage industry to lower sugar levels to reduce or avoid the tax.
- SDIL led to a reduction in average sugar content from 9.1g/100ml to 4.4g/100ml after 2018.

114 out of 122 countries implement excise duties.

8 out of 122 countries, including India and the UK implement VAT/GST.

61 out of 114 countries have specific excise duties, of which four have tier-based taxes on sugar content.

54 countries with specific excise duty, have tax based on volume. While France and Belgium, have specific excise duty based on a mix of volume and sugar.

42 out of 122 countries have ad-valorem excise duties (for example Brazil)

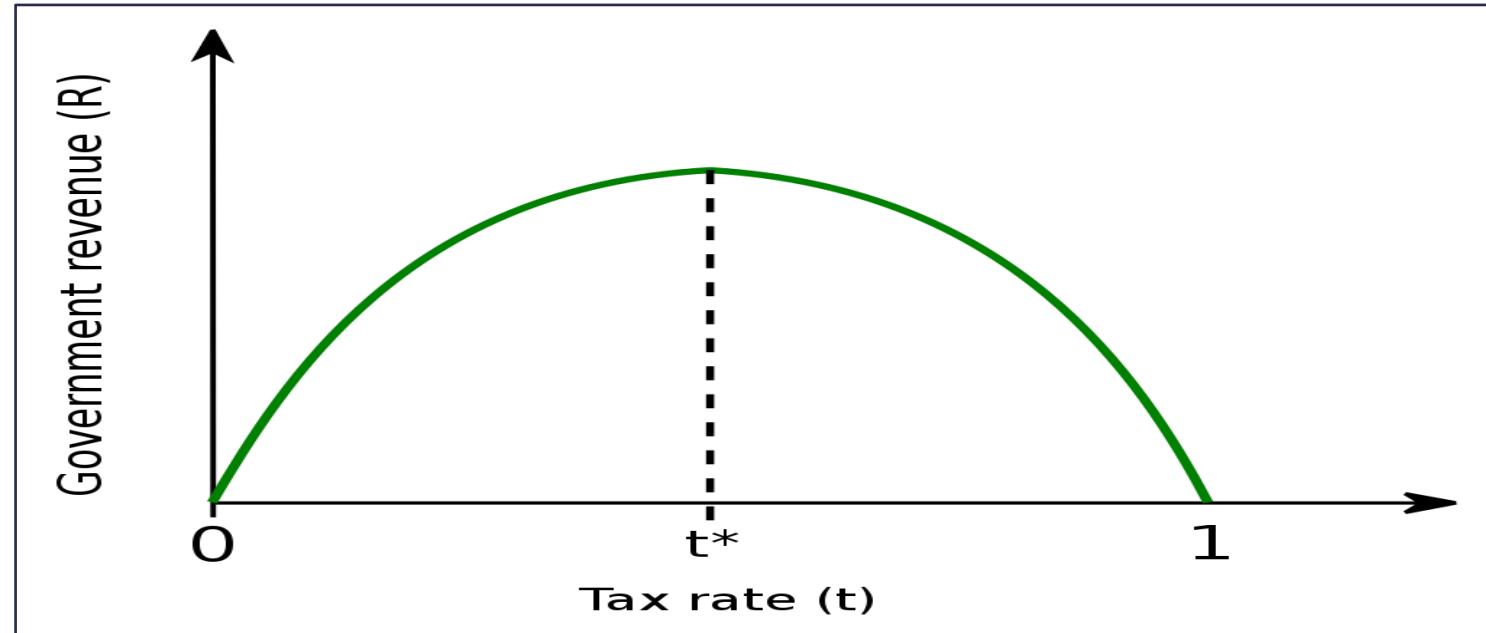
11 out of 122 countries have mixed excise duties (for eg, Thailand).

The Laffer Curve Theory

Provides the theoretical relationship between tax rates and the government's tax revenue.

According to the theory, at zero and extremely high tax rates, tax revenues tend toward zero.

An extremely high tax can result in unaffordable prices, leading to low purchase volumes or tax evasion



- High taxes can also lead to tax evasion, tax leakage, and the rise of counterfeit products, hindering economic growth and job creation.
- In 2014, Denmark abolished its sugar tax due to regional job losses and economic impacts from cross-border shopping. The Danish government estimated an annual revenue loss of EUR60.35 million (USD68.96 million) from eliminating the sugar tax and a loss of EUR38.9 million (USD44.45 million) due to illegal sales and cross-border purchases of cheaper soda.



India's Tax Structure: The GST

- The central government introduced Goods and Services Tax (GST) on July 1, 2017, replacing multiple previous taxes –path breaking reform to make a single market for taxes.
- GST has a four-tier system with zero (0%), low (5%), standard (12% and 18%), and high (28%) rates.
- A 12% compensation cess applies to SSBs like aerated water, cola drinks, lemonade, and energy drinks.
- **GST in India is not linked to sugar content, but whether it is a carbonated beverage or not.**
- The WHO and Indian health authorities agree that tax should be based on the sugar content of the beverages, and not on whether the beverage is carbonated or not.

- In India, CSD manufacturers have to be fully compliant with FSSAI regulations and hence, there is no food safety or health issue.
- The Joint Expert Committee of Food Additives (JECFA), the joint scientific body of the FAO and WHO, has done a comprehensive risk assessment of carbon dioxide and given guidelines, which India is compliant with.
- FSSAI regulations are also fully compliant with Codex Alimentarius.



GST Rates of Beverages as of September 2024

HSN Code	Type of Goods	GST Rate + Compensation Cess	Examples	Effective From
2201 10 20	Aerated water i.e., soda w/o sugar or artificial sweetener or w/o any flavours	18%	Kinley Soda, Schweppes Soda, Everess Soda, Sepoy & Co. Indian Tonic Water	July 1, 2017
2201 90 90	'Others'	18%	Kinley Water, Smart Water, Aquafina water, Bisleri Water, Himalayan Natural Mineral Water (Tata Consumer Products)	July 1, 2017
	Packaged Drinking Water			
2201	Drinking water packed in 20-litre bottles	12%	Bisleri, Kinley, Aquafina	January 25, 2018
2202 10 10	Aerated Water	28% + 12%	Coca-Cola, Campa Cola, Sprite, Coke Zero, Pepsi Black, Mountain Dew, 7up, Limca,	July 1, 2017
2202 10 90	Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured: Other	28% + 12%	Limca Sportz ion, Gatorade	July 1, 2017
2202 99	Carbonated Beverages of Fruit Drink or Carbonated Beverages with Fruit Juice (CFD)	28% + 12%	Nimboo Masala Soda, Fanta Orange, Apple Delite, Appy Fizz, Bisleri Limonata	Effective October 1, 2021, the GST rate is 40% on all carbonated beverages of fruit juice irrespective of the amount/percentage of juice content
2202 99 20	Fruit Juice Based Drinks	12%	Slice, Tropicana, Maaza, Minute Maid Juices, Nimbooz, Tropicana, Dabur Real Fruit Juice, Frooti, B Natural by ITC	July 1, 2017
2202 99 30	Beverages containing milk	12%	Creambell, Parle Agro (Smooth), Mother Dairy, Amul, Nestle	1st July 2017
2202 99 90	'Others'	28% + 12%	Energy Drinks/ Caffeinated Beverages – Red Bull, Thums Up Charged, Sting, Monster	Earlier launched at 18% GST until September 20, 2019. However, w.e.f October 1, 2019, GST rate increased to 40%,
0403	Buttermilk/ Lassi	5%	Amul, Mother Dairy, Maaza Lassi	Recently re-launched 'Tea Based Beverage'. Taxes effective from July 1, 2017
2009	Fruit Juices	12%	Tropicana 100%, Dabur Real Active 100% juice	July 18, 2022
2106 90 50	'Other'	18%	Beverage in Bag	July 1, 2017

- The effect of a high tax on a high-sugar drink might be nullified if a subsidy is provided on the sugar used for beverage processing. Thus taking away any health benefit of a high tax.
- A higher tax burden also incentivises tax evasion, as in the case of India where there is a large informal market.
- Some companies are contemplating withdrawing from manufacturing and sales of CSDs due to high taxes.

Indian GST rates for food & beverages are one of the highest in the world.

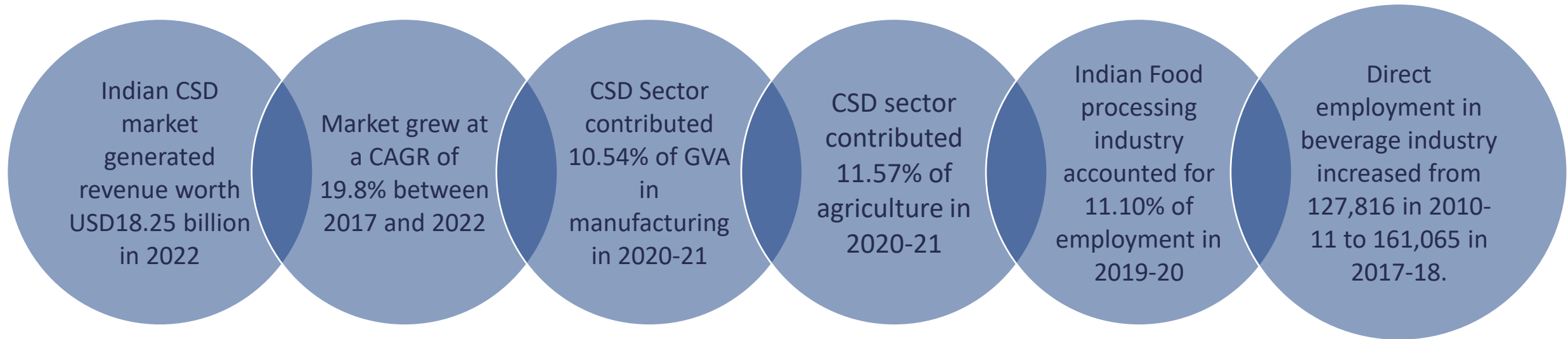
India has the highest standard GST rate in Asia – food processing and exports of process food is suffering. Limited value addition in the country.

Indian GST has highest number of different slabs of GST in the world.

GST rates are not aligned with the sugar content in the CSDs.

GST rates are not aligned with the FSSAI product classification.

GST does not differentiate between healthy and less-healthy beverages.



Indian Beverages Association members plan to invest around USD10 billion in the next five years (2024- 2029), but why are there hardly any investments in fresh fruit-based CSDs?



Carbonated Beverages Market: Indian Market Trends

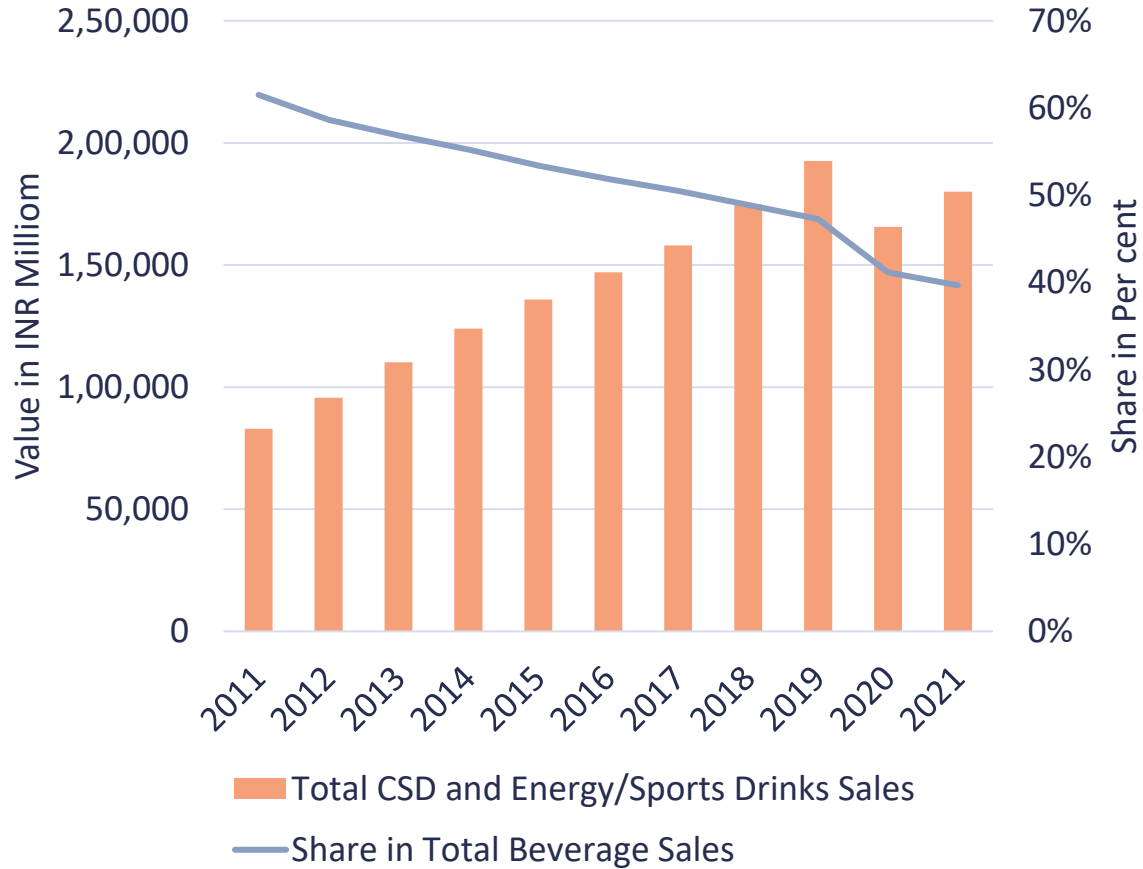
- Euromonitor database has been referred to for the study as a proxy for the consumption of different types of beverages, by their sugar content, volume and value.
- The combined market size of CSDs and energy and sports drinks has grown at an estimated CAGR of 8.1% over the past decade.
- In terms of retail sales value, sales peaked in 2019 at INR192,662.6 million, followed by a decline of 16.3% in 2020.
- The overall share of these products in the market declined at a CAGR of (-) 4.3% from 2011 to 2021.
- Per capita retail sales value of CSDs, energy drinks, and sports drinks increased at a CAGR of 6.8% from 2011 to 2021.
- Sales volume has grown at a CAGR of 5.7% from 2011 to 2021, but its share in the retail sales of all beverages has declined.

Overall, tax collection may not have increased and the sector growth is reducing and informal sector continues to be high.

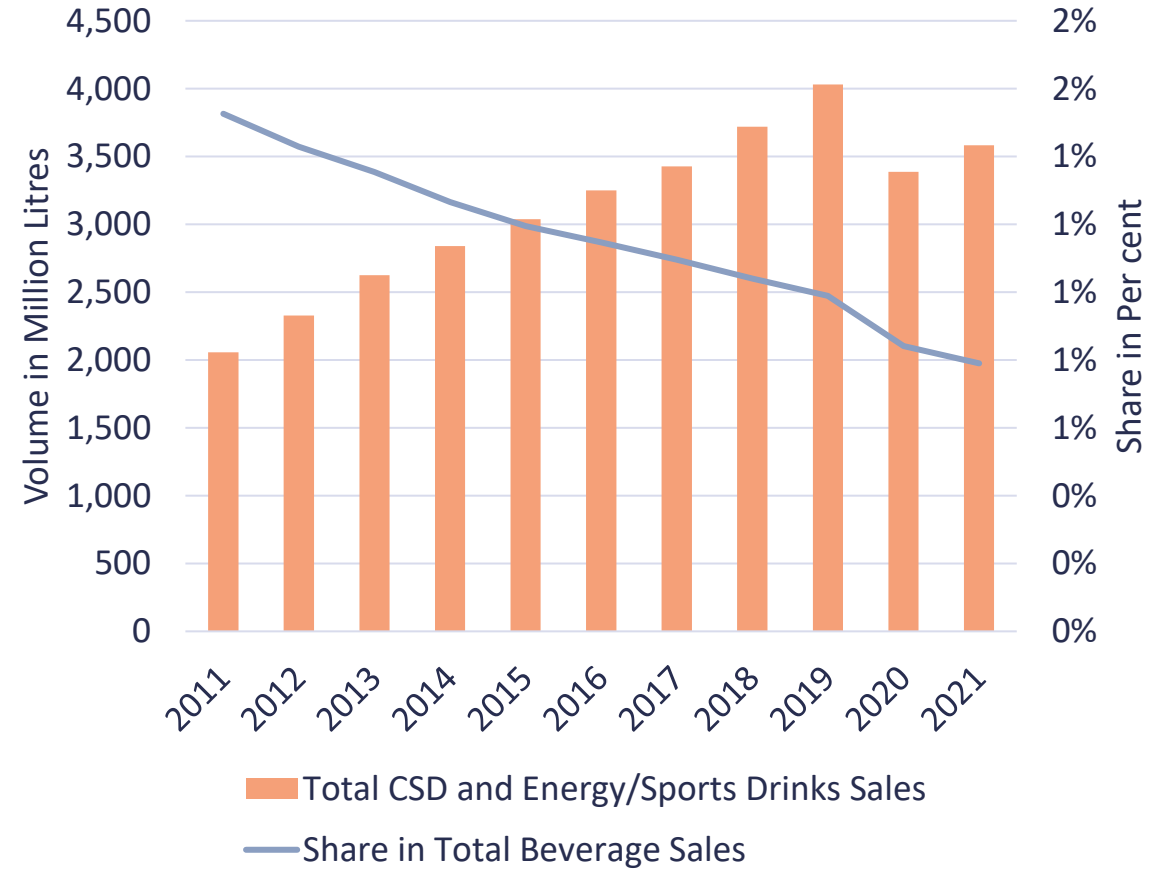


Retail Sales of Carbonated Beverages, Energy Drinks and Sports Drinks: 2011 to 2021

Retail Sales Value



Retail Sales Volume





Trends in carbonated beverages and their sugar content

Changes in Sugar Content of Beverages Over the Years

Sugar content in g per 100g/ml, percentage change

Beverages category by sugar content	Subcategory	2011	2021	Change
A. Sugar level more than 5.0 - 6.0 g per 100 g	Regular Cola Carbonates	10.5	10.5	0.00
	Lemonade/Lime	11.5	12.0	4.35
	Ginger Ale	9.0	8.0	-11.11
	Tonic Water/Other Bitters	8.0	8.0	0.00
	Orange Carbonates	13.4	13.4	0.00
	Other Non-Cola Carbonates	12.3	12.6	2.44
	Energy Drinks	11.6	9.8	-15.52
B. Sugar level between 5.0 - 6.0 g per 100 g	Sports Drinks	6.1	5.9	-3.28
C. Sugar level less than 5.0 - 6.0 g per 100 g	Low Calorie Cola Carbonates	1.0	5.5	450.00

CSDs are experiencing significant changes in sugar content, with a rising demand for low-sugar alternatives.



CAGR (2012-13 to 2022-23) of Bottled Soft Drinks Sub-categories: SECs* and Rural/Urban

- From 2012-2023, SEC A saw a purchase volume CAGR of only 5.48% for CSDs, while lower SEC groups (B, C, D/E) exceeded 7%, indicating faster growth in lower-income segments. The regressive nature of GST places the tax burden on low-income groups.
- Similarly, CAGR for Urban CSD purchase volume was -2.87%, while juices grew significantly, highlighting a shift away from carbonated drinks
- For rural populations, juices led with a CAGR of 35.18% in volume and 38.58% in value from 2012-2023, outpacing CSD growth.
- Urban consumers are moving towards healthier beverages, but it is difficult to differentiate between healthy and less-healthy beverages

SECs	Purchase Volume			Purchase Value		
	CSDs	Mango-based Drinks	Juice	CSDs	Mango-based Drinks	Juice
SEC A	5.48	10.27	5.31	10.55	13.91	9.03
SEC B	7.88	7.08	11.88	12.80	10.70	15.42
SEC C	7.16	5.17	13.35	11.71	8.97	16.96
SEC D/E	7.17	9.46	9.70	11.51	13.11	13.88

**The socio-economic classification (SEC) is a measure as defined by Market Research Society of India (MRSI). It is based on two broad parameters – 1) education of chief earner and 2) number of “consumer durables” owned by the family (from the predefined list of 11 durables, namely, electricity connection, ceiling fan, LPG stove, two-wheeler, colour TV, refrigerator, washing machine, personal computer/laptop, car, air conditioner and agricultural land).*

- There is a need for a layered tax on CSDs based on sugar content.
- A lower tax on healthy products may lower prices, and increase consumption, besides providing incentives to producers to shift production to healthier options.

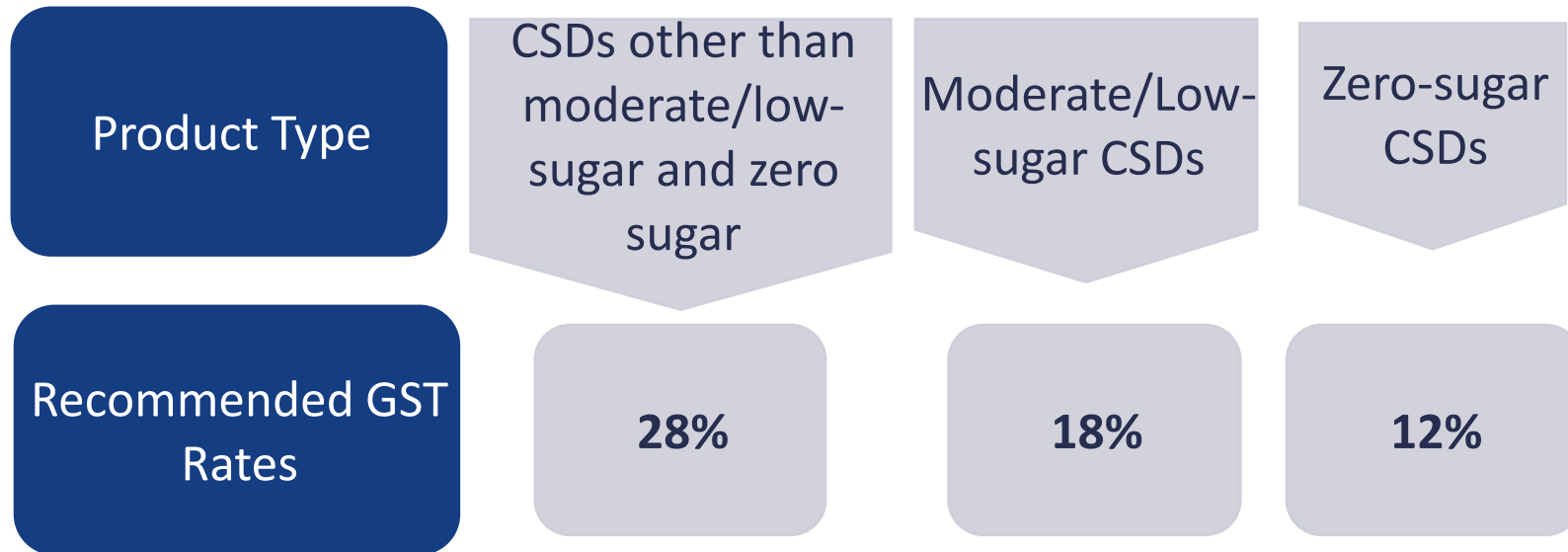
A layered tax structure is needed to:

- Separate healthier products from the less healthy products;
- Promote the production and sale of healthier alternatives; and
- Enable and encourage consumers to opt for low and no-sugar beverages

A successful SSB Taxation Policy

- Should be to drive consumers towards alternatives and options that are healthier
- Consider factors like tax revenue impact, ease of collection, health outcomes, manufacturing support, and portion size.

Recommended GST Rates for CSDs: Added Sugar-based Layered Tax



The Next Steps:

- The FSSAI, ICMR-NIN and other health organisations should work with the GST council to have a layered-sugar tax for CSDs.
- CSDs have to be classified based on added sugar at the back of the pack.
- FSSAI may work with the GST Council to align taxation with regulations.

Fiscal policy has to be holistic and taxation categories have to be clearly defined.

THANK YOU

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