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France to tax soft drinks - U.S. Companies to pay the most

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Report Highlights:
The French National Assembly passed a tax on all soft drinks with added sugar or artificially sweetened to raise €280 million ($380 million) a year. Beverages without added sugar, such as natural fruit juices, are excluded from the tax, in addition to beverages with alcohol content. The tax will be paid by manufacturers and processors, as well as French importers. A significant share (€160 million or $216 million) of the money raised will be used to fund a lowering of social taxes on farm labor. U.S. companies, especially Coca-Cola and PepsiCo, will bear the bulk of this tax. French media reports that Coca-Cola alone would disburse more than €100 million. It has also been reported that Coca-Cola had unsuccessfully lobbied against the extension of the tax to artificially sweetened drinks, due to concern about its strong market position with Coke Zero and Diet Coke. Most nutrition experts and beverage analysts do not expect the tax to change consumers' habits significantly; however, some experts highlighted the risk that facing a tight budget situation, the GOF may, in the future, extent such tax system to other food products.

General Information:

The Government of France (GOF) announced this summer its intentions to incorporate in the 2012 budget bill a soda tax with an initial goal of raising €120 million ($162 million). The French National Assembly began examining the bill in early October and approved the tax proposal on October 21. The Assembly notably doubled the proposed tax rate from €3.16 per hectoliter ($0.16 per gal) to €7.16 per hectoliter ($0.36 per gal) or about €0.2 per can**.** The tax would target all drinks with added sugar. The higher rate will raise the return to €240 million ($324 million). Beverages without added sugar, such as natural fruit juices, are excluded from the tax. This category notably includes orange and grapefruit juices from Florida. Beverages with alcohol content over 1.2 percent in volume (0.5 percent for beer) are also excluded from the tax. Sweetened baby milk and milk replacement, in addition to liquid food preparation intended for infirmed persons are also excluded. The tax will be raised every year in line with the official inflation rate of the previous year. The tax will be paid by manufacturers and processors in France of those soft drinks as well as French importers.

Following an amendment of its Financial Commission, the French National Assembly also voted on October 21 to expand the tax to artificially sweetened drinks, with the same level of €7.16 per hectoliters ($0.36 per gal). Artificially sweetened drinks amount for 17 percent of total carbonated beverages consumed. The tax on artificially sweetened drinks is expected to raise € 40 million ($54 million). The parliamentarians proposed to use a significant share (€160 million or $216 million) of the money raised to fund a lowering of social taxes on farm labor, which is estimated to cost at least €250 million ($324 million), while the leftover (€120 million or $162 million) will go to the French Social Security.

The initial announcement was seen by nutrition experts as a tool to fight the obesity epidemic in France. After a strong lobbying effort from the French Food Industry Association (ANIA), who feared the tax could stigmatize soft drinks; the GOF dropped the mention of the fight against obesity in its final proposal. The French Soft Drink Manufacturers' Union harshly criticized the new taxes, forecasting it could raise consumer prices by more than 20 percent, in addition to higher costs for sugar (+ 50 percent in the last year average prices) and fruit juices (+ 30 percent in the last year average prices).

In September, following the initial announcement, Coca-Cola France threatened to postpone a € 17 million ($23 million) bottling investment in Marseille, but later recanted. U.S. companies, especially Coca-Cola and PepsiCo, will bear the bulk of this tax. French media reports that Coca-Cola alone would disburse more than €100 million. It has been reported that Coca-Cola had unsuccessfully lobbied against the extension of the tax to artificially sweetened drinks, due to concern about its strong market position with Coke Zero and Diet Coke. Just as Orangina Schweppes, owned by Suntory Japan, which is the second largest producer and seller of soft drinks in France but weak on artificially sweetened drinks, lobbied for a decrease of the tax level but taxing all soft drinks (which it did not get either). According to media reports, the CEO of Coca-Cola Europe, Dominique Reiniche, secured a meeting with French President Sarkozy to lobby against the extension to artificially sweetened drinks. Analysts expect Coca-Cola will continue to lobby at the highest level when the Senate will vote on the Budget Bill in November 2011. Some Political experts also forecast that the tax on artificially sweetened drinks may be struck down by the French Constitutional Council (roughly similar to the U.S. Supreme Court) because it lacks legal basis.

On a more global picture, both nutrition experts and beverage analysts do not expect the tax to change consumers' habits significantly. However, some experts highlighted the risk that facing a tight budget situation, the GOF may, in the future, extent such tax system to other food products seen as unhealthy, such as saturated and trans fats.