



# New Paradigm: Abolishing excise duties as a regulatory instrument – the Danish case

Niels Hald,  
CEO, Danish Brewers' Association

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# The tax regime



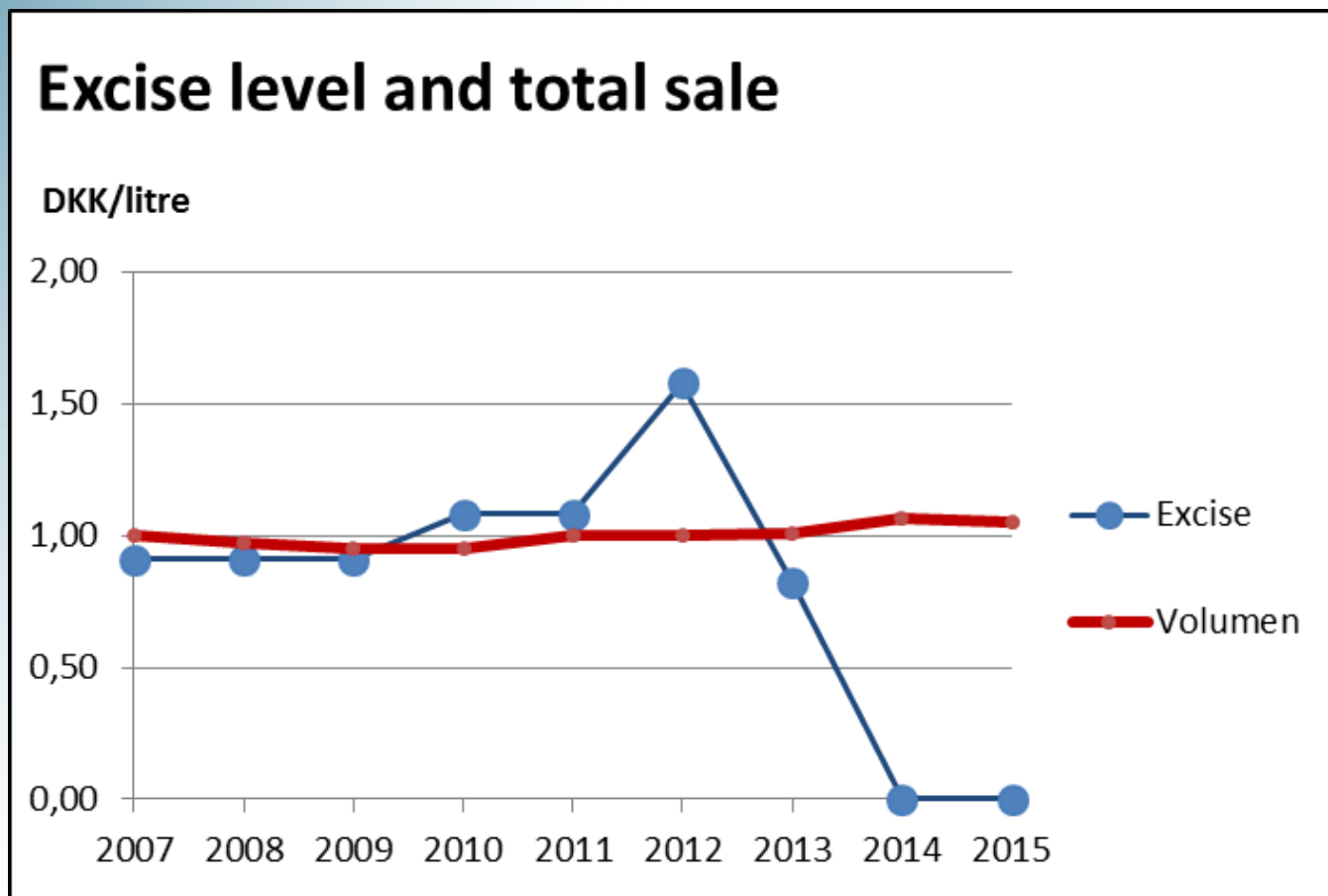
# Excise duty on soft drinks

Introduced in Denmark in 1934 and abolished in 2014





# Excise duty on soft drinks and total sales





# Effects of the soft drink tax before 2014: Double Economy

Sale in DK  
2/3 of Consumption

- Danish work places
- Revenue for the state
- Part of Public Health regulation
- Environment – Return and deposit system

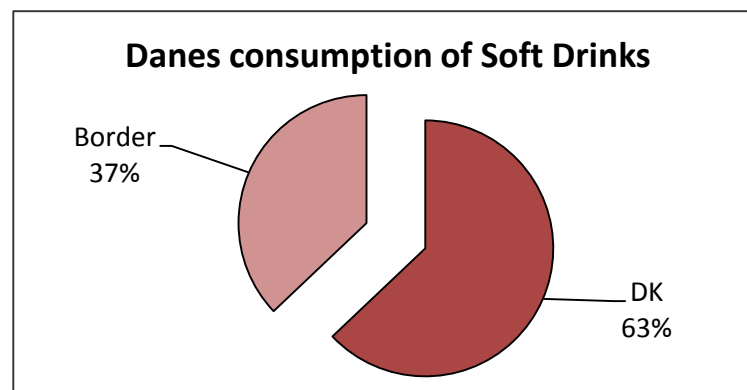
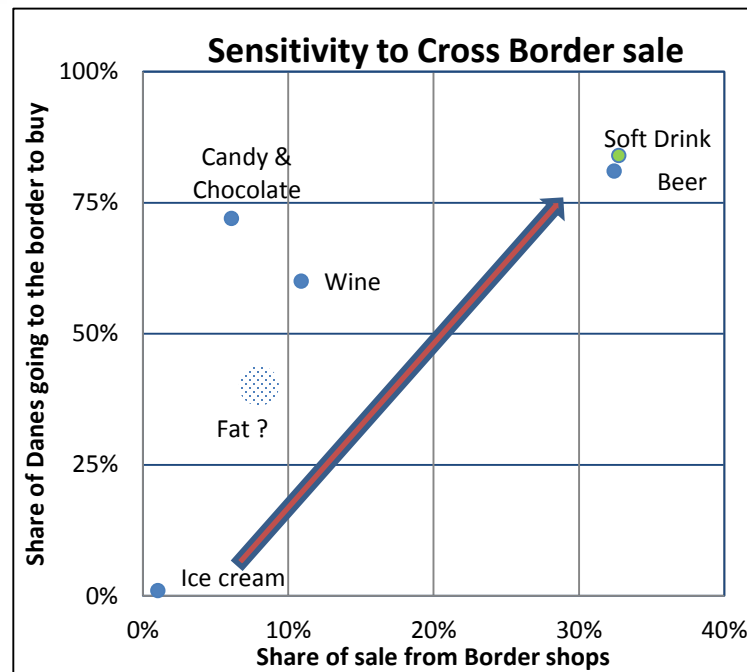
Border sale/  
Illegal trade  
1/3 of Consumption

- Loss of Danish jobs
- Loss of state revenue
- Illegal trade
- Discriminates law-abiding citizens
- Overconsumption (stock piling)
- Environmental loss: Double transportation and not recollected packaging



# Border sale

- Danes purchase soft drinks (and Beer) in German border shops
- 1/3 of national consumption of soft drinks sold from border shops
- Danes are travelling for soft drinks and beer ...  
AND brings other goods from the border shops





# Loss of jobs

- High excises on beer and soft drinks – the two drivers on the border trade – damages Danish economy
- The cross border sales represented a loss in turnover of Danish shops of **5,5 billion DKK and 3000 jobs**
- Prof. econ. Jan Bentzen (2013): A 50 % reduction of the excises of beer and soft drinks would create **1300 new jobs**







# Loss of state revenue

Danish state lost (2012): More than 1,5 billion DKK

- Lost excise on beer: 500 mio. DKK
- Lost excise on soft drinks: 250 mio. DKK
- Lost VAT on beer and soft drinks: 1,1 bio. DKK
- Lost from illegal trade: 0,5 Billion DKK







# Illegal trade

## Discrimination of law-abiding citizens

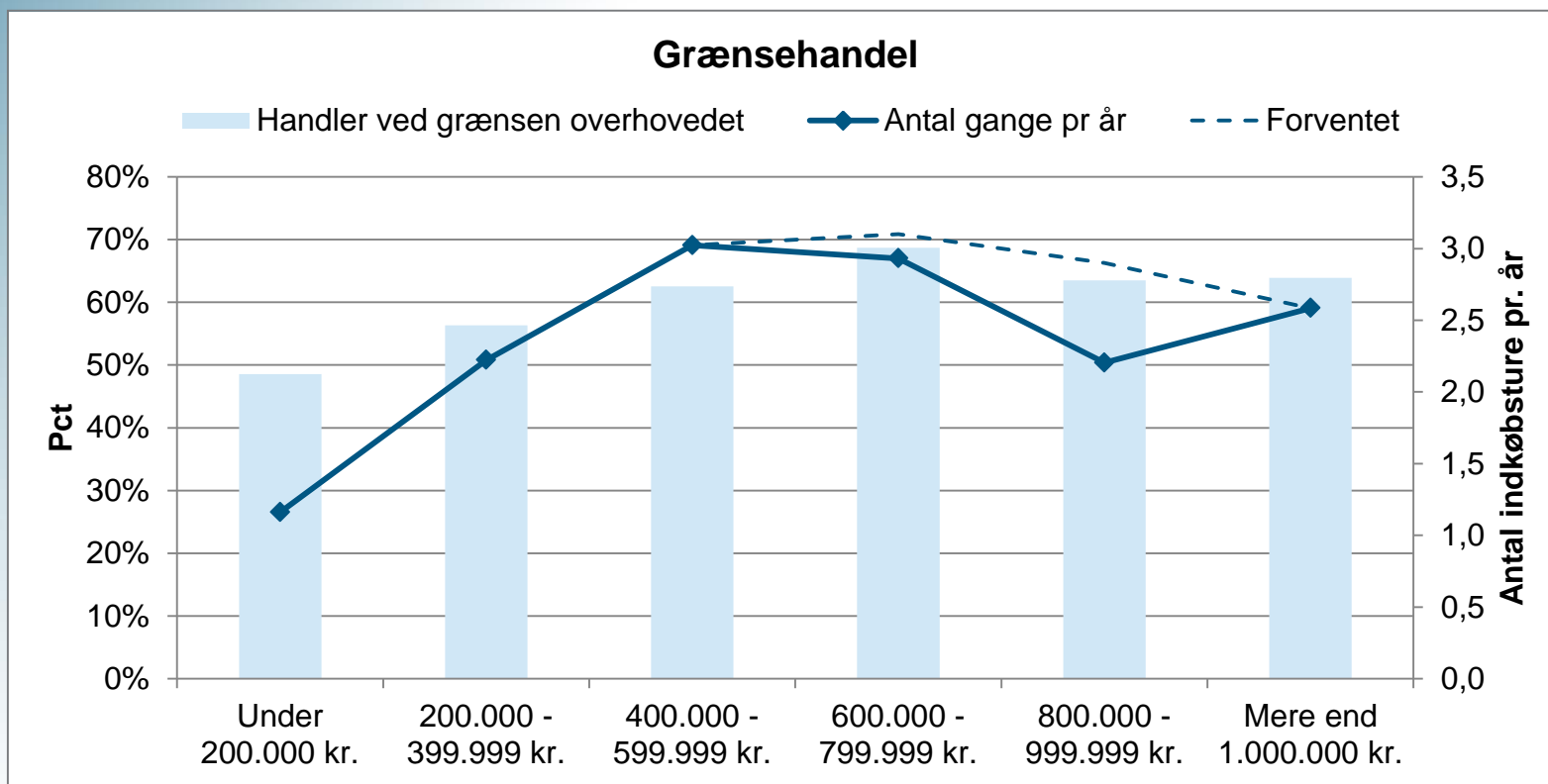
- Illegal trade constantly increasing (31 mio. liters in 2012)
- Tax and custom authorities using huge resources on confiscating illegal stocks
- Large illegal sales from small shop
- Large illegal sales to "friends", within companies etc.
- Supporting a "parallel" economy
- Law-abiding shops cannot compete
- State loss of 50 mio. euro p.a.





## Effects on income distribution: Hitting low income group

- Excise duty on soft drinks effects the disposable income for low-income groups
- Low-income groups do not purchase soft drinks (and Beers) at the border





## Border trade/illegal trade leads to stock piling and overconsumption

- Cross-border trade leads to overconsumption
- Danes purchasing soft drinks and beer in the border shops buys for stock piling. As a consequence they have easy access to consumption
- Consumer surveys shows that Danes buying in the border shops consider their consumption to be higher than it would have been if they did not purchase in the border shops





# The Environment

- ▶ Packaging from the border and illegal trade are not collected via the deposit system - ends up as ordinary waste
- ▶ 62.500 T CO<sub>2</sub> would have been saved if 1,25 billion cans had been collected and re-used
- ▶ 70.000 T CO<sub>2</sub>-reduction by avoiding the dual carriage of cans



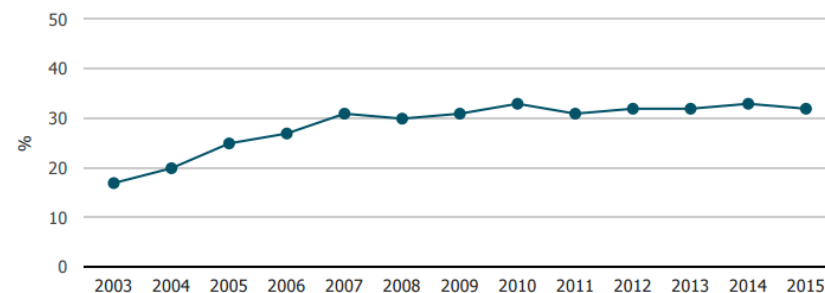


# No effect on health

- Soft drinks constitute a negligible part of total calorie intake
- Share of sugar free soft drinks are increasing
- Other sources of sugar is increasing relatively
- Obesity is multi-causal: Lifestyle, less physically demanding work and leisure activities

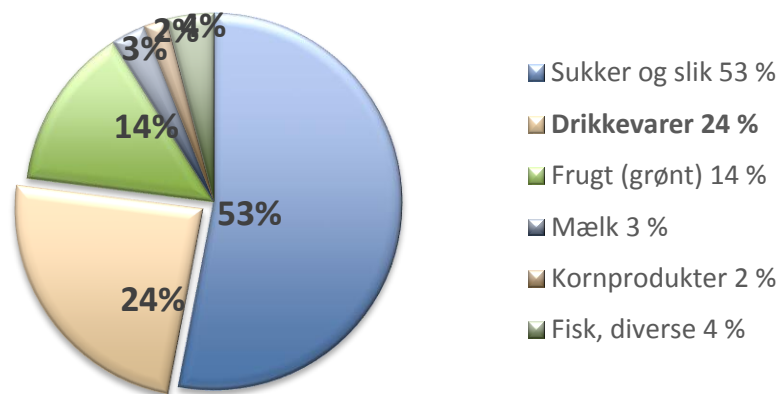
## Udviklingen i salgsandelen af light-læskedrikke (%)

*Development in market share of "light" products (in%)*



Kilde: Brugsforeningerne

## Sugar intake







# Changing Paradigma



# Danish Growth Plan 2013



- **The Aim:**
  - Redirect Danish citizens from German border shops to Danish shops.
  - Stop illegal sales
  - Create growth and job in the Danish economy
  - Focus on life style
- **Excise Duty on soft drinks:**
  - Reduced by 50% on 1 July 2013 and fully removed on 1 January 2014
- **Excise duty on Beer:**
  - Reduced by 15% on 1 July 2013



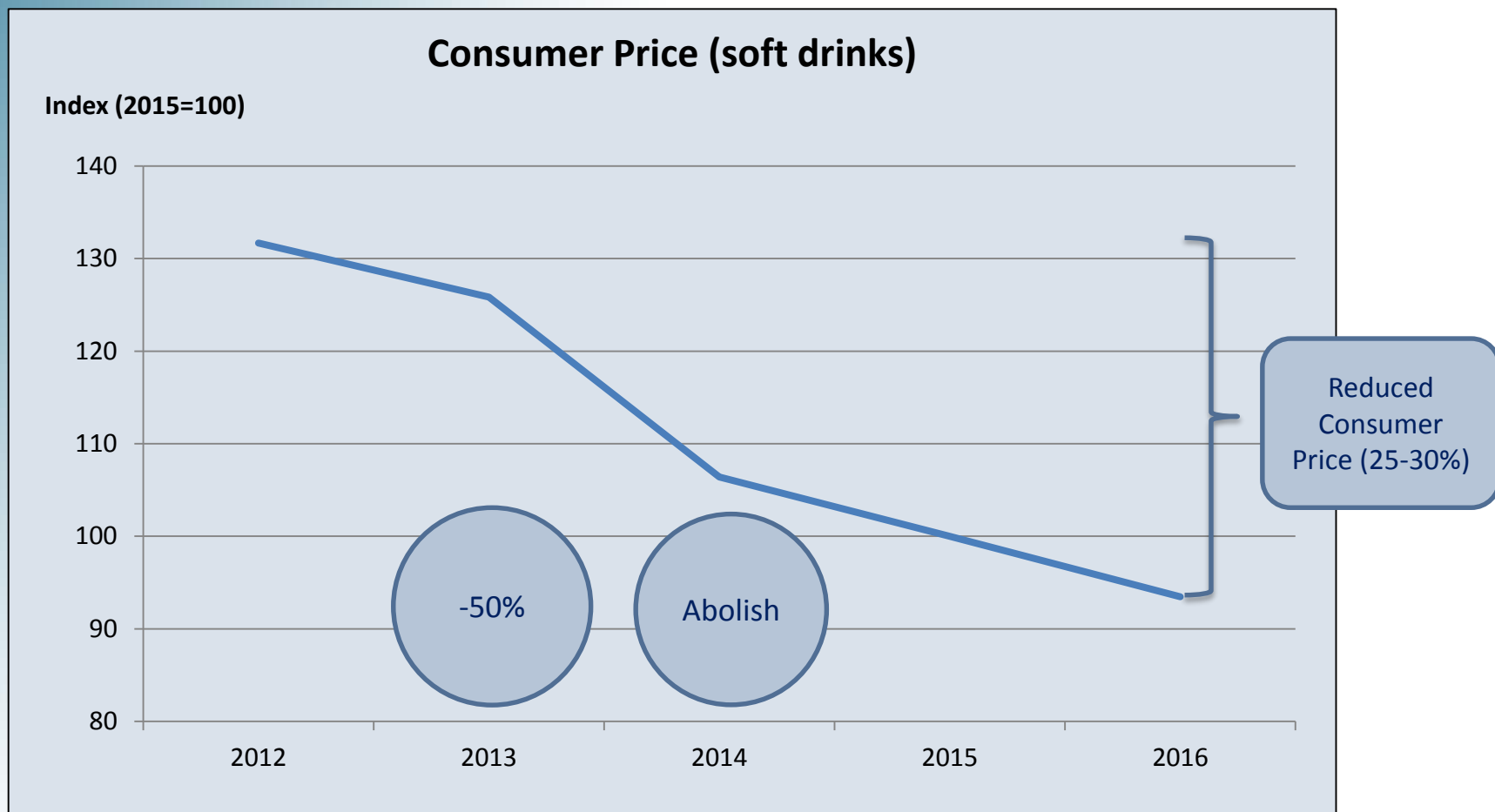


# Abandoning duties as a regulatory instrument

- **Excise on Fat (2013)**
  - Administrative cumbersome, discriminatory, difficult to make fair, risk of illegal state aid
- **Excise on sugar (Introduction dropped in 2013)**
  - Administrative cumbersome, discriminatory
- **Excise on Soft Drink (2014)**
  - Administrative cumbersome, loss of work places, harmful to the environment
- **Excise on Beer (Reduced in 2013)**
  - Administrative cumbersome, loss of work places, harm environment



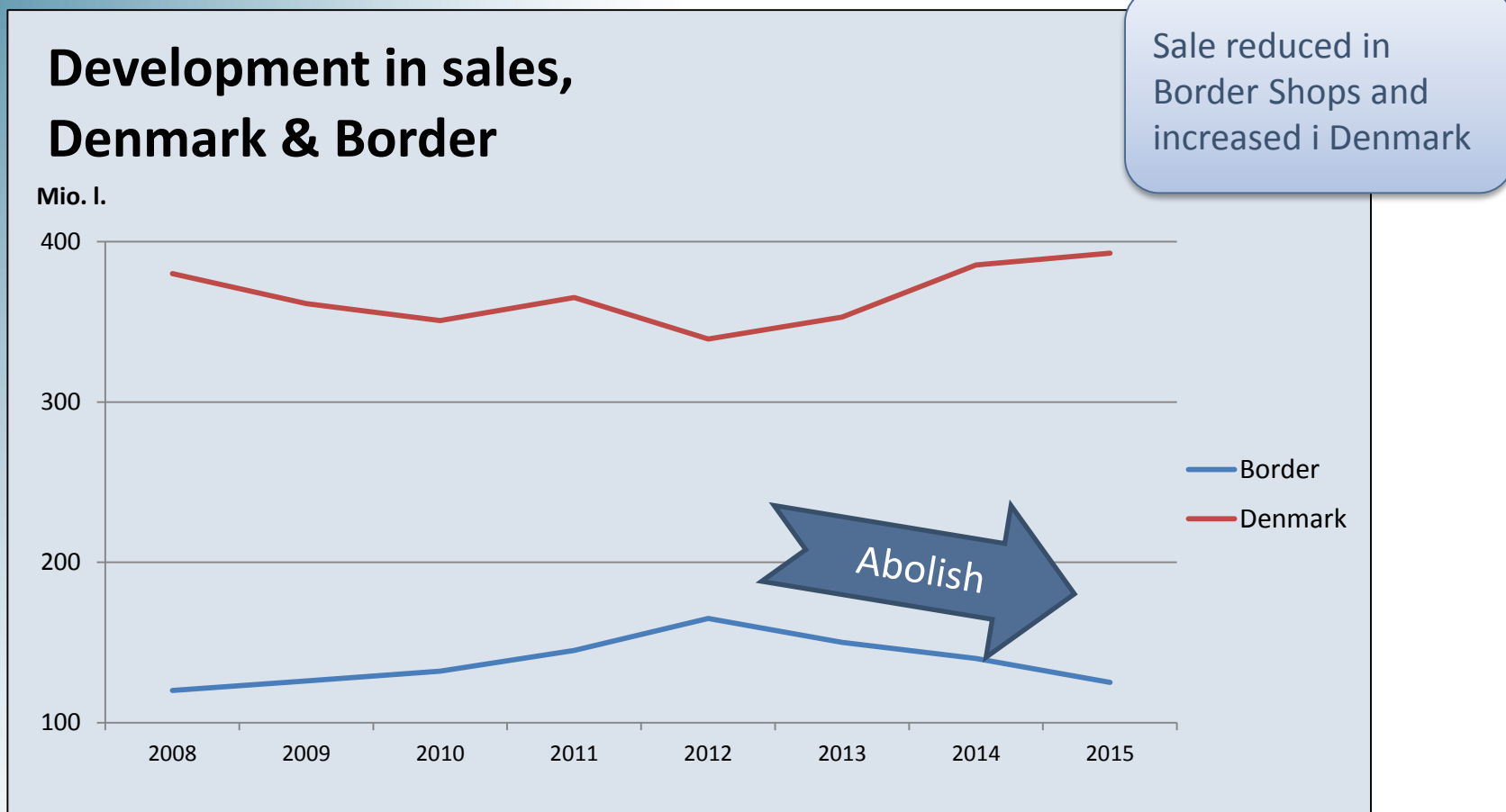
# Lower Prices for the consumers





# Cross Border sales

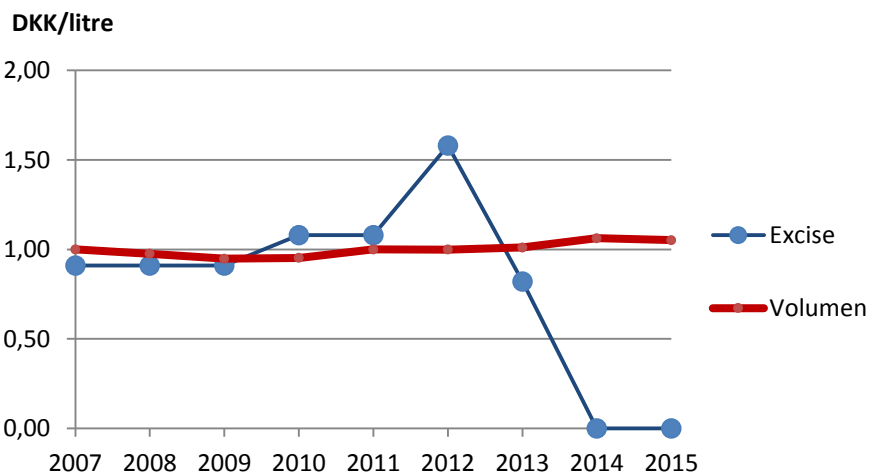
## Affected by Danish Growth Plan 2013





# Excise level and sale

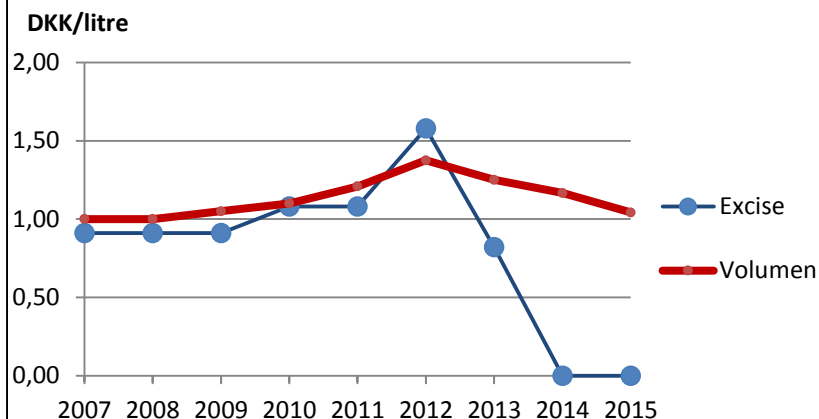
## Excise level and total sale



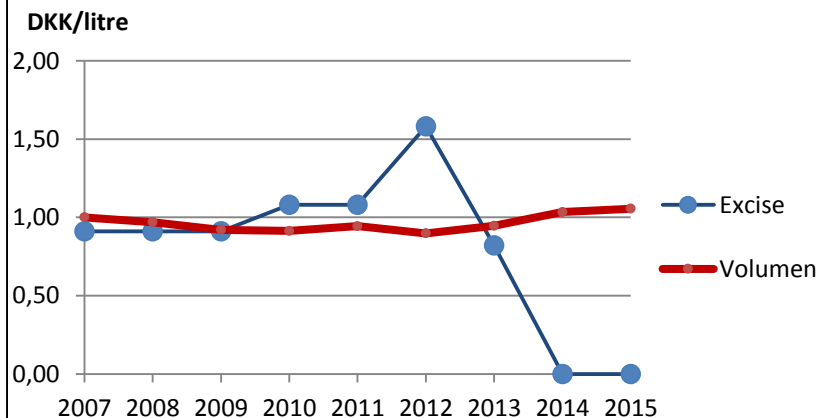
### Source:

- Tal fra Bryggeriforeningen
- Skatteministeriets Grænsehandelsrapport

## Excise level and Border sale



## Excise level and Danish sale





# Focus on life style

- Information
- Exercise
- Making water and no-sugar alternatives available
- Marketing rules for children
- No vending machines in schools
- Reformulation
- Partnerships



lifestyle



# Weaknesses of excise duties

**Excise duties/consumption taxes have had their days in a world of open economies. They actually increase consumption and harm the environment**

- They do not reduce consumption
- On the contrary, they lead to increased consumption due to stock piling in connection with border trade
- They distort trade and are discriminatory
- They cause increased illegal sale and crime
- They are socially unbalanced and hit the citizens with the lowest incomes the hardest



# Nordic Trends on excise duties and state control

- No taxes on soft drinks in Denmark, Sweden and Finland
- Denmark gave up fat tax because of bureaucratic chaos
- Denmark gave up sugar tax
- Denmark has lowered the tax on beer and removed the tax on soft drinks
- Iceland plans to dismantle the state alcohol monopoly
- Norway under pressure to do the same
- Finland increases the limit on the strength of the alcohol which may be sold in stores





# Conclusion

- More production and sale in Denmark
- Less illegal trade
- Optimism among producers
- More jobs in Denmark
- Improving disposable income for low-income Groups
- Less harm to environment
- Lower prices for consumers
- Less purchase for stock piling