Soda Sales in Mexico Rise Despite Tax; This is a bright spot for an industry that has feared it could be cast as the next tobacco

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Sales of soda are climbing two years after Mexico imposed a roughly 10% tax on sugary drinks—a bright spot for an industry that has feared it could be cast as the next tobacco.

Mexico's tax was an attempt to cap alarming obesity and diabetes rates in a country where per capita soda consumption is the highest in the world. It came at a time when then Mayor Michael Bloomberg was trying to limit sales of the beverages in New York City, and more countries are weighing a similar tax.

Purchases, however, are rising in Mexico after an initial drop, making the country a key-growth market again for soda giants Coca-Cola Co. and PepsiCo Inc.

Underscoring the resiliency of sugary drinks, the tax of one peso per liter has raised more than $2 billion since January 2014, about a third more than the government expected.

"Coke is like cigarettes—it turns you into an addict," said Luis de León, a 24-year-old Mexico City parking attendant, who stood next to a three-liter bottle he recently shared with two other valets.

Mr. de León said he stopped drinking soda for a month after seeing a publicity campaign financed by Bloomberg Philanthropies that linked diabetes to sugary beverages and asked Mexicans if they would eat 12 spoonfuls of sugar, roughly the amount in Coke's popular 600-milliliter bottle.

While that public-health campaign is long gone, soda makers continue to advertise their products heavily and say it is unfair to single out something representing less than 10% of daily caloric intake.

Coca-Cola Femsa SAB, the country's largest Coke bottler, said last Wednesday that its Mexican soda volumes rose 5.5% in the first quarter from a year earlier. Arca Continental SAB, the No. 2 Coke bottler, reported soda volumes surged 11%.

The turnaround began last year, when Mexican soda-industry volume rose 0.5% after falling 1.9% in 2014, said data service Canadean.

Consumers also aren't flocking to untaxed zero-calorie sodas. The market shares of full-calorie Coca-Cola and Pepsi-Cola inched higher last year to 48% and 11%, respectively, according to Euromonitor, another data service. Antisoda groups aren't ready to declare the tax a failure and say sales got a boost from unusually warm weather.

Mexico's National Institute of Public Health estimates per capita consumption of sugar-sweetened beverages was 8% lower in 2015 than the pretax period of 2007 to 2013, after making adjustments including population growth and economic activity.

Soda sales growth is slowing worldwide, with volumes rising just 0.1% last year, according to Euromonitor.

Companies such as Coke and PepsiCo increasingly are relying on other products like bottled water, whose global volumes were up 5.7% last year.

A World Health Organization commission recommended in January that governments tax sugar-added beverages to reduce childhood obesity, citing a joint study by Mexican health officials and the University of North Carolina.
That peer-reviewed survey estimated 2014 purchases of sugary beverages dropped 6% from the average of the previous two years. It found the decline accelerated to 12% in the final month of 2014 from the previous two Decembers.

Several countries are debating special taxes on sodas including India, South Africa and the Philippines. In the U.S., Philadelphia’s mayor has proposed a 3-cent-per-ounce tax on sweetened beverages.

The American Beverage Association is fighting that proposal and plans to highlight a new study that found Mexico’s beverage industry lost about 3,000 jobs in the first quarter of 2014 due to the tax. The survey, conducted by the Beverage Marketing Corp., estimates Mexican soda consumption returned to pretax levels by mid-2015. Even the initial downturn only lowered the average Mexican’s daily caloric intake by 6 to 7 calories, or 0.2%, according to the study.

"We know these taxes don’t work,” said Coke Chief Executive Muhtar Kent at a company’s annual shareholder meeting last Wednesday, pointing to Mexico.

Governments also must spend money to raise awareness about sugar intake, require clear nutritional labels and encourage exercise, among other things, health experts say.

"The sugar tax is an important piece but not the only one,” said Kelly Henning, who heads the public-health program at Bloomberg Philanthropies.

Mr. Bloomberg also unsuccessfully tried to cap serving sizes of sugary drinks as mayor of New York City. Supporters of sugary-drink taxes say Mexico’s levy should be higher to have a bigger impact. Senator Armando Ríos Piter wants to double the tax to offset the rising public-health cost of treating people with diabetes, a disease that disproportionately affects poor Mexicans, who buy the majority of sugary beverages.

Wilebaldo Ramírez, a 45-year-old shoe shiner in Mexico City, said he allocates about 6% of his daily wages to soda even though his wife has been pestering him to drink bottled water.

"If water was cheaper than soda, maybe I’d switch. But in the meantime I want flavor," said Mr. Ramirez, after polishing off a 600-milliliter bottle of fruit-punch flavored Jarritos, a local soda brand.

The bottle sells for 6.50 pesos (about 37 cents) at a store near his shoe-shine stand, compared with at least 8 pesos for the same size of bottled water.

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