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Report Name: Israel Passes New Soft Drink Tax

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Report Highlights:

On October 20, 2021, Israel passed its proposed tax for soft drinks, concentrates, and powders (HS 20.09, 21.06, and 22.02). The new tax ordinance was published in Israel's official gazette and will enter into force on January 1, 2022. As a result, tax levels across the board on soft drinks will increase.

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Details on the Israeli Soft Drink Tax

According to the ordinance, sweet drinks with a sugar content higher than, or equal to, 5 grams (0.18 ounces) per 100 milliliters (ml) (3.38 fluid ounces) will be taxed NIS 1 ($0.31) per liter (0.264 US gallon liquid). Sweet drinks with a sugar content less than 5 grams per 100 ml, and fruit juice with a sugar content of more than 5 grams per 100 ml, will be taxed NIS 0.7 ($0.22) per liter.

In addition, concentrates and powders for the preparation of sweet drinks with a sugar content higher than or equal to 5 grams per 100 ml will be taxed NIS 6 ($1.86) per liter. Concentrates and powders for the preparation of the following will be taxed NIS 4 ($1.30) per liter – sweet drinks with a sugar content lower than 5 grams per 100 ml, fruit juice with a sugar content of more than 5 grams per 100 ml, and sweet drinks containing a different sweetener (See Table 1).

Table 1: Tax on soft drinks, soft drinks concentrates, and soft drinks powders

Product	**Tax per 1 liter**	**Tax per 1 liter concentrate**	**Tax per 1 kilogram powder**
Sweet drinks with a sugar content higher than or equal to 5 grams per 100 ml	1 NIS per liter	6 NIS per liter	6 NIS per kilogram
Sweet drinks with a sugar content lower than 5 grams per 100 ml, fruit juice with a sugar content of more than 5 grams per 100 ml, and sweet drinks containing a different sweetener	0.7 NIS per liter	4.2 NIS per liter	4.2 NIS per kilogram

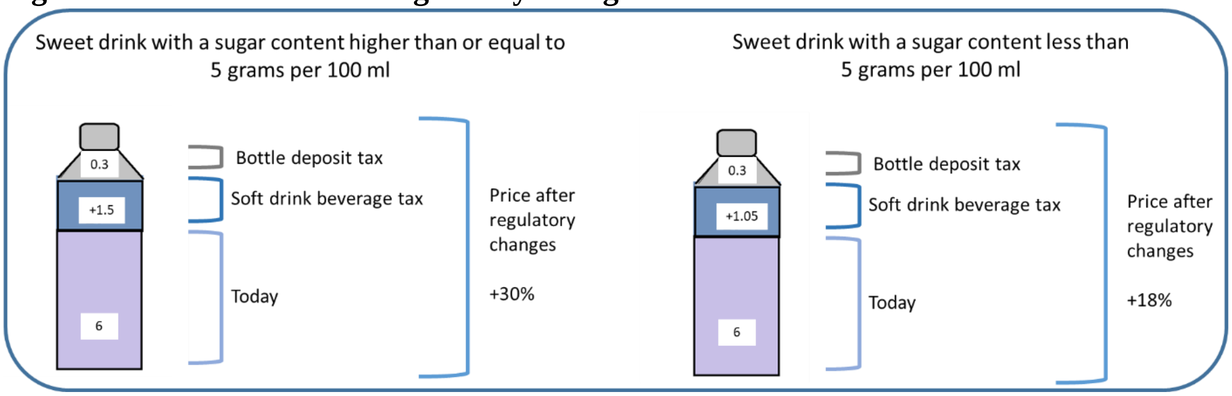
Moreover, some of the imported raw materials used by the soft drink production industry will also be taxed. As a result, local soft drink manufacturers will be affected by two taxes – the consumer tax and a tax on raw materials. The tax on the raw material will be collected when the goods are cleared from customs. In addition, an inventory tax will be imposed.

The Israeli soft drink companies are preparing for the sharp price increase. A 1.5 liter (1.6 quart) bottle of a sweet drink with a sugar content higher than or equal to 5 grams per 100 ml, which currently costs about NIS 6 ($1.86) per consumer, will increase to at least[1] NIS 7.5 ($2.33). While, a 1.5 liter bottle of a sweet drink with a sugar content less than 5 grams per 100 ml, and fruit juice with a sugar content of more than 5 grams per 100 ml, which currently costs about NIS 6 per consumer, will increase to at least NIS 7.05 ($2.19).

[1] The price increase depends on whether the soft drink is produced locally or not. Soft drinks produced locally will be subject to a tax on the raw materials, unlike soft drinks produced elsewhere.

This price increase is prior to adding an additional deposit of NIS 0.30 ($0.09) per bottle (See Figure 1). Following the extension of the bottle deposit law, large plastic bottles will be included in the deposit law. The law will take effect on the first of December 2021.

Figure 1: Price in NIS after regulatory changes



Source: FAS research

Israeli Soft Drink Market

In 2020, Israel's soft drink market annual sales stood at about NIS 2.5 billion ($0.78 billion). The market is dominated by three main players: the Central Bottling Company (CBC) (52.4 percent market share), Jafora (16 percent market share), and Tempo (13 percent market share). These companies are all best known for their distribution of international brands. For instance, CBC is licensed to manufacture Coca Cola, and Tempo is licensed to manufacture Pepsi.

According to the soft drink companies, the new tax will have an adverse effect on sales. Clal Industry and Beverages, owner of Jafora made a stock exchange announcement stating that the company expects the imposition of the tax will have a material adverse effect on the company's results. In addition, the company stated that it is studying the implications of the new tax ordinance on its conduct with its customers and suppliers of raw materials and manpower.

Trade Impact

Post projects that the price increase will encourage a higher consumption of bottled water and 100% juice drinks over sugary drinks. Based on the projection, there will be a drop in imported raw materials to the Israeli soft drink industry. In many cases, the raw materials are sourced from the United States. For instance, in 2020, Israel imported $1.9 million of "fruit juice other in packages containing 230 kg or more of a Brix value exceeding 40" (HS Code 20092911) and 19 percent was sourced from the United States. In addition, if Israel experiences a drop in soft drink production, there will be a corresponding decrease in the amount of imported sugar, which Israel does not produce locally. Below are a few examples of imported food products that may be impacted by the new tax (See Table 2).

Table 2: Examples of food products imported into Israel that may be impacted by the tax

HS Code	Product	2020 imported value, million USD	U.S. market share
1701	Cane or beet sugar and chemically pure sucrose, in solid form	160.22	0.26%
20092911	Grapefruit juice, unfermented, brix value > 20	5.8	21.11%
20093911	Fruit juice other in packages containing 230 kg or more of a Brix value exceeding 40	1.9	19%
200981	Cranberry juice not fortified unfermented no spirit	0.7	68.32%
21069050	Concentrated extracts containing no alcohol	76.48	0.16%

Source: FAS research and Israel's Central Statistics Bureau

Attachments:

No Attachments.