
Excise Policy on Sugar-sweetened Beverages: A Step Towards Indonesia's Future

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Abstract

Over the past two decades, the consumption of sugar-sweetened beverages (SSBs) in Indonesia has risen significantly, leading to an increased burden of non-communicable diseases (NCDs), particularly type II diabetes mellitus. In 2022, the International Diabetes Federation (IDF) reported that 41,817 individuals in Indonesia were diagnosed with diabetes. To address this public health challenge, the Indonesian Government plans to expand the scope of excisable goods to include SSBs, leveraging excise duties as both a revenue-generating mechanism and a regulatory tool. This study analyzes the formulation of SSB excise policies and their potential impacts, drawing comparisons with similar policies in other countries. This research uses a qualitative descriptive method through theoretical analysis of secondary data, supported by interviews with DGCE officers, health ministry officials, and an SSB shop owner. The analysis applies policy formulation theory (Lester & Stewart, 2000), political system theory (Easton), and cost-benefit analysis (Dreze, 1987). The findings suggest that the policy formulation process in Indonesia has been effective, with potential positive outcomes including a projected IDR 6.25 trillion increase in state revenue and a reduction in SSB consumption, leading to decreased NCD prevalence. However, the policy also poses risks such as increased unemployment and negative effects on related industries, including sugar production. The study's novelty lies in its comparative analysis and its potential to inspire similar excise policies targeting goods with negative societal and environmental impacts.

Keywords: excise policy, sugar-sweetened beverages (SSBs), cost and benefit analysis

1. Introduction

Sugar-Sweetened Beverages (SSBs) have now become an inseparable part of modern lifestyle in Indonesia. In daily life, people can easily find various types of these beverages available in different places, from small stalls to large supermarkets. The convenience and ease of access are among the reasons why this drink is so popular among the public. However, behind its

popularity, there is a growing concern regarding the negative impact of excessive SSBs consumption on health.

A report from the Center for Indonesia's Strategic Development Initiatives (CISDI) shows that the consumption of SSBs in Indonesia has drastically increased over the past two decades. In 1996, the consumption of this beverage was recorded at around 51 million liters, but this number skyrocketed to 780 million liters in 2014. This trend is evident in data from the National Socio-Economic Survey (SUSENAS).

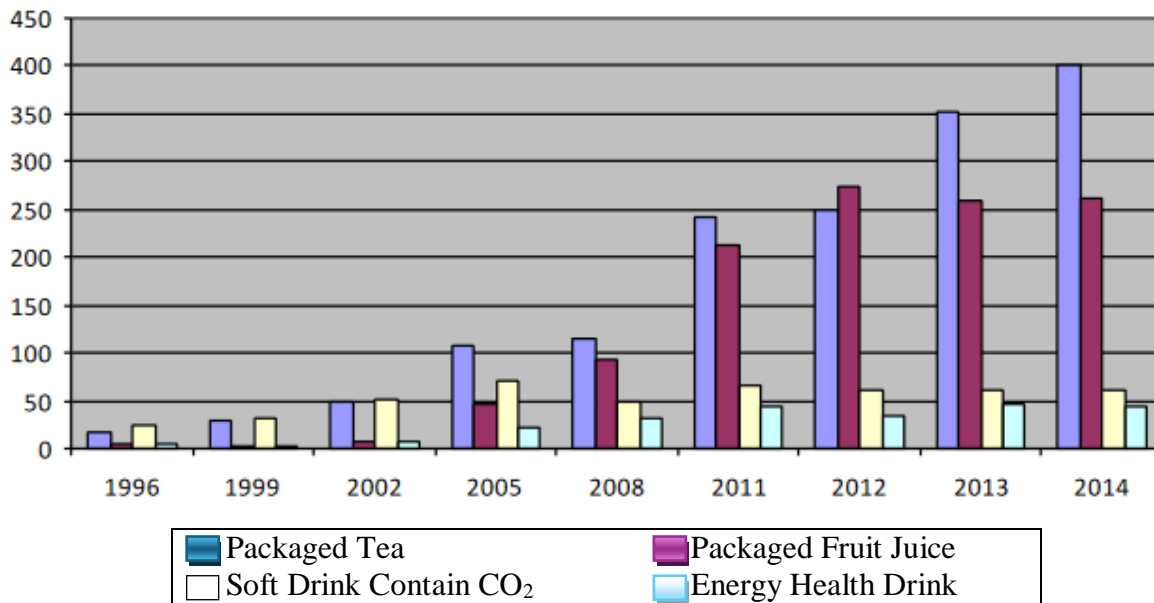


Figure 1. SSBs Consumption in Indonesia (in million liters)
Source: SUSENAS 1996-2014

The rising trend in SSB consumption is concerning due to its link to an increased burden of non-communicable diseases (NCDs). In 2018, 73% of total deaths in Indonesia were caused by NCDs. Concurrently, there has been a significant rise in overweight and obesity cases, which are major risk factors for NCDs such as diabetes, cardiovascular diseases, and strokes. According to the latest Basic Health Research data, the prevalence of NCDs like diabetes has increased. The International Diabetes Federation (IDF) reported that, in 2022, 41,817 Indonesians were diagnosed with diabetes. Research from the Ministry of Health shows that an average 250-milliliter SSB in Indonesia contains 22.8 grams of sugar, representing 45.6% of the recommended daily sugar intake. This places Indonesia as the ASEAN country with the highest number of diabetes cases.

In response, the government, through the Directorate General of Customs and Excise (DGCE) under the Ministry of Finance, has proposed classifying SSBs as excisable goods to mitigate the health impacts of excessive consumption and address the growing NCD burden. Excise duties

are state levies imposed on specific goods that require consumption control, distribution monitoring, and regulation due to their adverse societal impact. Excise duties serve both regulatory and budgetary functions, acting as tools for governance and state revenue generation. Compared to other ASEAN countries, Indonesia is one of the countries with an extremely narrow coverage of excise tax, as it only establishes three types of Excise Goods, namely Tobacco Products, Alcoholic Beverages, and Ethyl Alcohol. Facing this situation, the government through the DGCE is currently promoting a policy to expand the types of Excise Goods by imposing excise duties on SSBs, which include beverages containing sugar, natural sweeteners, and/or artificial sweeteners, whether packaged together or separately, except for alcoholic beverages.

2. Method

The method used in this research is qualitative descriptive. In its implementation, a theoretical analysis was conducted based on secondary data, including research results such as books, journals, articles, websites, and other relevant data as references in conducting the research analysis. The literature review is a research model obtained from summaries and reviews of research articles or previous research documents that have the same focus (Agus et al., 2023). Additionally, interviews were conducted with several relevant parties to understand their perceptions, experiences, or opinions regarding the SSBs excise policy. The sources in the interviews were selected based on specific criteria relevant to the research. In this study, the sources consist of DGCE officer, health ministry officer, and one of the shop owners stall that sells SSBs.

This research also employs several related theories as analytical tools, such as the policy formulation theory proposed by Lester and Stewart (2000), David Easton's political system theory, and the cost-benefit analysis theory according to Dreze (1987).

3. Results

Policy Formulation Process

Formulation refers to the stage that occurs after an issue has been scheduled or agenda. Lester and Stewart (2000) in Kusumanegara (2010) state that public policy formulation is a stage in the policy-making process that specifically aims to formulate government actions deemed appropriate for solving public problems. Raymond Bauer in Kusumanegara (2010), and Wahab (2017) state that public policy formulation is the process of transforming input into output.

Based on David Easton's political system, Bauer's opinion indicates that the activities occurring within the system are a process of converting input into output (Kusumanegara, 2010). Easton and Bauer's opinion emphasizes that the agenda-setting of an issue is fundamentally an input function, and public law (policies, decisions) is the output of David Easton's political system model (in Kusumanegara, 2010). The following is the model of David Easton's theory.

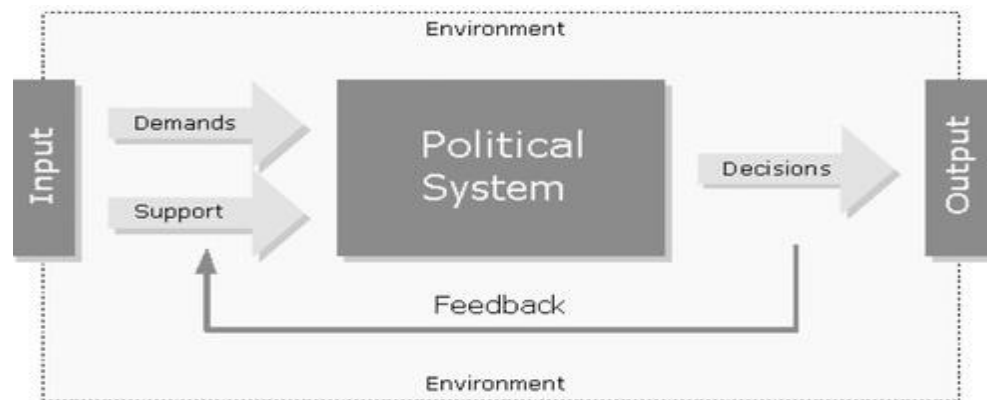


Figure 2. Model of David Easton's Theory
Source: Kusumanegara (2010)

The process of formulating the SSBs excise policy begins with the preparation of an economic study draft by the Fiscal Policy Agency of the Ministry of Finance, an industrial study by the Ministry of Industry, and a health impact study by the Ministry of Health. After conducting a study, in early 2020, the Ministry of Finance presented the plan for the imposition of SSBs excise policy at a meeting with Commission XI of the Indonesian House of Representatives. What was presented at that time was related to the high prevalence of non-communicable diseases, which requires swift action to address, as well as explaining the potential state revenue if the SSBs excise policy is implemented in Indonesia. Basically, the proposal for the implementation of the SSBs excise policy was well received by the Indonesian House of Representatives. However, until the end of 2020, the government had not been able to decide to implement the SSBs excise policy due to the unstable economic conditions at that time.

Next, in early 2021, in front of Commission XI of the House of Representatives, the Ministry of Finance again discussed the implementation of the SSBs excise policy. The proposal was reinforced by the declining tax revenue due to the Covid-19 pandemic, so it was hoped that the implementation of the SSBs excise would be able to increase state revenue. Once again, the policy could not be implemented in 2021 due to the unstable economic conditions.

Then, in 2022, this SSBs excise policy was included in Presidential Regulation Number 130 of 2022 concerning the Details of the 2023 State Budget, which is expected to be implemented in 2023. However, the government postponed its implementation again due to the economy not yet recovering. In 2024, the government's plan to implement the SSBs excise policy is becoming increasingly imminent. The coordination process among various related agencies has been carried out. Until then, the implementation of the SSBs excise has been regulated in Presidential Regulation No. 76 of 2023 concerning the Details of the 2024 State Budget. Thus, if implemented in 2024, the government is expected to have a positive opportunity to collect, referring to the economic growth of 2023 above 5% based on data from the Central Statistics Agency.

In 2025, the plan to implement the SSBs excise policy is getting closer. Based on an interview with one of the DGCE officers, it was mentioned that the SSBs excise policy was discussed in 2024, with its implementation expected to take place in the second semester of 2025. This is also supported by the statement of Akbar Harfianto, the Subdirector of Excise Tariffs and Basic Prices at DGCE, who stated that the target for the implementation of SSBs excise is currently in accordance with the National Budget (APBN) in the second semester (CNBC Indonesia, 2025). Furthermore, he also stated that technically, the Ministry of Finance has prepared Government Regulations, Minister of Finance Regulations, and their derivative regulations (CNBC Indonesia, 2025).

Based on the above points, it can be concluded that although it takes a long time, the series of policy formulation processes have been progressing quite well because the related parties support the policy. However, the problem lies in the country's economic condition, which is still unstable due to the impact of the Covid-19 pandemic, preventing the implementation of the policy until now.

When linked to the theory proposed by Eston, it can be explained that the agenda-setting of the SSBs excise policy issue becomes an input structure, which involves resources, support, and demands/obstacles from the involved actors. From that input, it is then processed within the political system involving the Ministry of Finance and the House of Representatives. After that, the output of the political process is a presidential regulation issued to accommodate the SSBs excise policy. From the input side, it has been going well due to competent human resources and support from each involved actor. Similarly, the political process stage has also gone well, although it took a long time, and at the output stage, it has been quite good because a Presidential Regulation has been issued to accommodate the policy. However, at the output stage, it would be more optimal if the government could promptly revise Law No. 39 of 2007 on Excise by incorporating SSBs as a new excise good.

Policy Approach

The approach taken in formulating this SSBs excise policy is a rationalism approach. This approach suggests that the government must choose policies that yield the best results for society. Furthermore, this approach must also consider all aspects (social, political, cultural, economic, and financial) that may be affected by public policy. In this case, cost-benefit analysis (CBA) plays an important role in analyzing the alternatives of the policy. CBA is one of the tools to assess whether a policy is worth accepting or not by comparing the costs incurred with its impact on social welfare (Dreze, 1987). The following is a cost-benefit analysis of the SSBs excise policy.

Cost

Increasing number of unemployed: with the implementation of the SSBs excise policy, there is potential for a decrease in the sales volume of SSBs products in the community. This will affect the production quantity of SSBs, which will also decrease. The impact of the declining SSBs

production will indirectly affect the reduction in the number of workers due to efforts to cut production costs. Reflecting on the case of Saudi Arabia, the imposition of excise tax on SSBs has resulted in a price increase of up to 55%, with 50% contributed by the excise tax and 5% by VAT. This has resulted in a decrease in sales, which in turn has led to employee reductions due to the impact on beverage prices (Alsukait, 2020).

Decrease in revenue from several types of taxes: the implementation of the SSBs excise policy has the potential to reduce state revenue by IDR 700 billion (bcc, 2020). This is a consequence of the increase in the price of sweetened beverages, which will result in a decrease in the level of public consumption and potentially reduce the profits obtained by SSBs entrepreneurs. With the condition of declining company profits, it could lead to employee layoffs, resulting in a decrease in corporate income tax and individual income tax revenue. On the other hand, the imposition of excise taxes on SSBs can also encourage tax evasion and avoidance practices. This has occurred in several countries that have implemented SSBs excise policies (Chalaoupka, 2019).

Benefit

State revenue increases from new objects: The imposition of excise on SSBs is expected to increase state revenue. With an excise rate of IDR 1,500 for sweetened beverages and IDR 2,500 for carbonated beverages, the potential excise revenue is estimated to reach IDR 6.25 trillion.

Tabel 1. Potential Excise Revenue from SSBs

Product	Production	Elasticity	Rates	Estimated Production After Excise (Million L)	Potential Revenue
Packaged Tea	2.191	-0.8	IDR1,500/L	2,015	IDR2.7 T
Carbonation	747	-0.8	IDR2,500/L	687	IDR1.7 T
Other	808	-0.8	IDR2,500/L	743	IDR1.85 T

Source: Ministry of Finance (CNBC, 2020)

If SSBs excise can be implemented in 2025, the government is estimated to have a positive opportunity to collect, referring to economic growth in third quartal 2024 at 4.95% based on data from the Central Statistics Agency. The results of the imposition of SSBs excise can be allocated to support the financing of NCDs in Indonesia, which in 2022 alone spent a budget of IDR 24.1 trillion

The decrease in SSBs consumption: according to WHO, the implementation of excise on SSBs is an effective step to reduce sugar consumption. Based on WHO data, it shows that an increase in the price of SSBs by 20% can reduce consumption by 20%. Several countries have achieved positive results from the implementation of SSBs excise. For example, Mexico, since the implementation of excise in 2014, consumption of sweetened beverages in poor households has decreased by 11.7% and in the general population has decreased by 7.6% in two years (Rosyada & Ardiansyah, 2018).

The decrease in NCDs: The decrease in SSB consumption has a positive impact on health, such as reducing the risk of chronic diseases (diabetes, obesity, and heart disease). Furthermore, through the implementation of SSBs excise policy, the number of overweight and obese individuals will decrease, more than one million cases of diabetes will be prevented, and the number of NCD cases in Indonesia will decline. This is also supported by the statement of one of the Ministry of Health officers who stated that the policy has the potential to reduce the risk of non-communicable diseases, in accordance with the health theory that health status is influenced by four factors: genetic, behavioral, environmental, and healthcare services. The SSBs excise tax policy is one of the efforts to modify human behavior in consuming SSBs, with the hope of reducing that consumption. It is previously known that the consumption of SSBs is one of the risk factors for various non-communicable diseases such as hypertension, obesity, diabetes mellitus, cardiovascular disorders, and chronic kidney disease. Efforts to reduce non-communicable diseases to be effective need to be supported by other policies, not just SSBs taxes. Referring to health theory, it is not only behavior that needs to be modified to achieve optimal health status, but also modifications in the environment and healthcare services. The SSBs excise policy is one of the efforts that, if accompanied by other health initiatives such as environmental health control efforts and health service improvement efforts, can potentially be effective in reducing infectious diseases. The Ministry of Health is undertaking a health transformation across six health pillars, which include the transformation of primary services, referral services, health resilience systems, health financing systems, health human resources, and health technology. Efforts to control non-communicable diseases are partly included in Pillar two, which is the transformation of referral services in the form of a program to improve the quality of referral services for non-communicable diseases, including Cancer, Heart, Stroke, and Urology.

Substitution of SSBs product: the increase in prices due to the imposition of excise tax on SSBs has the potential to drive a shift in consumption to other types of beverages. For example, in Mexico, the implementation of the tax resulted in a shift in consumer preference to other beverages, such as mineral water, which saw a 2.1% increase in purchases. This is supported by research conducted by the Mexican National Institute of Public Health from 2014 to 2015. Meanwhile, in Berkeley, California, the implementation of the tax led to a 15.6% increase in bottled water sales (Chalaoupka, 2019). In Indonesia, according to one of the Ministry of Health officers, it is hoped that with the implementation of the SSBs excise policy, consumers will switch to other products with lower sugar content or producers will reformulate their products to reduce sugar content.

Encouraging the Industry to Reduce Sugar Content in Its Products: the beverage industry players in England and Northern Ireland are reformulating the composition of packaged drinks by reducing ingredients that may be harmful to health, such as lowering sugar content (Hashem et al., 2024). The industry believes that by doing so, it can maintain consumers' purchasing power for the same product. This is supported by a statement made by one of the Ministry of Health officers, who stated that with the SSBs excise policy, the hope is that producers will reformulate their products to reduce sugar content.

Based on the cost-benefit analysis, it can be concluded that the potential benefits obtained from the imposition of excise taxes on SSBs, both from social, economic, and financial aspects, are greater than the incurred costs.

Policy Challenge

The plan to impose taxes on SSBs faced rejection from food and beverage entrepreneurs. This is because the implementation of the tax has the potential to reduce their income. Furthermore, according to the records of the Indonesian Food and Beverage Entrepreneurs Association, there are currently around 1.6 million small businesses and 6,000 medium and large businesses producing sweetened and soda beverages. Therefore, this policy is considered less appropriate because it only targets manufacturers, which are fewer in number compared to small or home-based businesses (BBC Indonesia, 2020).

The implementation of SSBs excise policy will also impact on the entire related industry, including sugar and cane farmers, and even the shop owners in residential areas who sell SSBs. This is reinforced by an interview conducted with one of the shop owners in the Jakarta area, who mentioned that the imposition of excise on sugary drinks will impact their income, as prices will become more expensive, leading to a decrease in the purchasing power of the community. The imposition of excise taxes on SSBs is also considered ineffective for maintaining health because, in essence, it is the consumption patterns of the community that should be improved (Kompas.com, 2021).

4. Discussion

The formulation of the SSBs excise policy has been progressing well. The issues found are that in the implementation plan, various obstacles often arise, such as the unstable economic conditions and the rejection from related business associations. In response to this, the government needs to take decisive steps to implement the policy immediately because, fundamentally, the tax on sugary drinks can be one of the policies that can reduce various diseases caused by excessive sugar consumption, in addition to the fact that the community itself must maintain a healthy diet. Evidence from countries that have implemented taxes on sugary beverages can serve as a reference for the government in implementing the sugary beverage tax and addressing potential challenges that may arise.

The recommendations that can be provided in relation to this SSBs excise policy include:

1. The government can provide support for industries affected by the SSBs excise policy. As it is known that with the implementation of this SSBS excise policy, it will certainly impact several related industries, such as sweet beverage producers, which currently consist of around 1.6 million small businesses and 6,000 medium and large businesses. In our opinion, one concrete step that the government can take is to provide ease, assistance, and facilitation to encourage these related industries to expand their product export activities to maintain stable sales.
2. The government can provide incentives to producers who successfully reduce the sugar

content in their products without sacrificing taste or quality. The form of such incentives can include tax relief, such as reductions in Income Tax or exemptions from Value Added Tax. As a reference, several countries such as the UK have implemented a similar mechanism through a sugar tax, accompanied by incentives for producers who successfully reduce the sugar content in their products.

3. Most of the SSBs excise revenue is expected to be allocated to fund non-communicable disease prevention programs, such as diabetes and obesity, as well as nutrition education campaigns. SSBs excise funds can be used to improve access to healthcare services, provide routine check-ups, medications, and specialized training for healthcare workers in handling diseases related to excessive sugar consumption. In addition, the funds can also be allocated for nutrition education programs in schools, public campaigns about the dangers of excessive sugar, and promoting healthy eating through media or local communities. Based on the statement made by one of the Ministry of Health officers, the health budget in Indonesia currently comes from various sources, both from the national budget (APBN) and the regional budget (APBD). The sources of funding include the Special Allocation Fund for Health, the General Allocation Fund, the National Health Insurance, Regional Original Revenue, grants and international aid, and the budget from the Ministry of Health. The Health Budget is at least determined through coordination with the Ministry of Finance, the House of Representatives, and the Ministry of Health. If approved by the involved parties, this proposal can certainly support efforts to improve the health status of Indonesia.

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