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## PFP Position Paper on Food Taxes

Unbalanced diets and unhealthy lifestyles are recognized as being contributors to causing increasing rates of overweight and resulting NCDs. But these determinants are not solely responsible for the alarming trend; non communicable diseases (NCDs) are the result of a combination of genetic, physiological, environmental factors<sup>1</sup>.

With the stated aim of improving the health of their citizens, some EU Member States have been introducing laws designed to set or increase taxes targeting a specific ingredient or a range of products based on their nutrient content, claiming that it will discourage people from consuming certain products, and will hence positively improve their health. Such direct taxes are multiplying in several EU Member States, and are either targeting a specific nutrient (such as sugars, saturated fatty acids, caffeine or salt), or specific food categories like ice cream, candy confectionery, chocolate, soft drinks etc. Rather than targeting individual foods which cannot be considered as such as good or bad, a multifactorial approach - including notably education and awareness raising on healthy lifestyle (nutrition and physical activity), communication, product reformulation (provided that it is truly beneficial to the consumer) etc. – is the only way forward to achieve concrete results on public health. This is confirmed by the findings of the 2014 European Commission study on *“Food taxes and their impact on competitiveness in the agri-food sector”* where *no clear cut health improvement can be derived from introducing food taxes*<sup>2</sup>.

Taxes on food and drink products, will moreover inevitably increase food prices and affect the competitiveness of the industry and the purchasing power of the consumers. In addition, a number of current examples of food taxes are discriminatory and therefore penalize arbitrarily products without considering alternative options which have a similar nutrient composition (substitution effect). More specifically, some prepacked food is taxed in a country and an alternative product belonging to the same product category which is sold not prepacked in the same country is not taxed and thus becomes less expensive, hence creating discrimination.

**PFP considers Food taxes to be disproportionate and ineffective, to lead to discrimination amongst products, also between imported and local products, and to a loss of competitiveness. Due to these reasons, expanded below, PFP intend to express their strong disagreement with such tool<sup>3</sup>.**

<sup>1</sup> World Health Organisation - <http://www.who.int/mediacentre/factsheets/fs355/en/>

<sup>2</sup> *Food taxes and their impact on competitiveness in the agri-food sector, a study*, Ecorys report, 2014, p. 47.

<sup>3</sup> The Primary Food Processors of the EU (PFP), representing the interests of the EU starch, sugar, flour, cocoa, vegetable oils and vegetable protein meal industries

1. Food or nutrient-related taxes are discriminatory, disproportionate and ineffective to improve health

1.1. **Obesity is a complex and multi-factorial issue, and it can only be effectively addressed through a comprehensive approach and targeting the actual causes.** This means that if food intake is indeed one of the factors, insufficient caloric expenditure (due to lack of physical activity), the socio-economical environment and genetic predispositions, are all equally important aspects to be taken into account. Furthermore, when considering the imbalance between energy intake and energy expenditure food intake measurement should be based **on the total energy intake in the context of a varied diet, rather than on individual nutrients.**

Experience in countries where taxes have been implemented mostly shows that taxes, and in particular discriminatory taxes, are **NOT an effective approach for tackling complex diet and lifestyle-related problems. More specifically:**

- Based on the examined case studies, the 2014 European Commission study on *“Food taxes and their impact on competitiveness in the agri-food sector”* (hereinafter “2014 EC study on food taxes”) found that, while an increase in the price of a good reduces consumption of that good, this reduced consumption is usually accompanied with “increased consumption of substitute goods” as “consumers may move to cheaper versions of the taxed product (brand substitution), to non-taxed products or to less heavily taxed products (product substitution).” The study concludes that *“health effects are uncertain, primarily due to uncertainties and disparate views on product substitution, as well as due to the linear methods used in simulation studies”* and mentions that *“there are as yet no robust conclusions on the impact of food taxes on public health”* and *“the effectiveness of food taxes in curbing obesity is therefore uncertain”* as *“to what extent changes in consumption resulting from a food tax actually lead to public health improvements is still widely debated and evidence from academic literature is inconclusive and sometimes contradictory.”*
- A 2015 study conducted by the Autonomous Technological Institute of Mexico (ITAM) on the impact of the 2014 tax on sugary drinks and high caloric density food in Mexico found that the measure did not change the total caloric consumption of households given the substitution effect the tax generated.<sup>4</sup> Such ineffectiveness of food taxes has been also raised in a report by the UK Institute of Economic Affairs, in which **inelastic demand and substitution effects were found to make taxes on food and drinks ineffective in reducing obesity.**<sup>5</sup>
- An Organisation for Economic Co-operation and Development (OECD) study<sup>[6]</sup> conducted on the effects of a discriminatory tax in Denmark on sugary products concluded that the tax had **no impact on reducing obesity or other lifestyle-related diseases.** Indeed these taxes focus on foods or on a specific nutrient, while there is clear evidence that obesity and health in general can only be managed appropriately when looking at multiple factors<sup>[7]</sup>.

<sup>4</sup> Aguilar A. et al *Taxing Calories in Mexico*, Instituto Tecnológico Autónomo de México, 2015.

<sup>5</sup> Lyons R. & Snowdon C. *Sweet Truth- Is there a market failure in sugar?* UK Institute of Economic Affairs, 2015.

<sup>6</sup> OECD (2004): Health data from OECD (See: <http://www.oecd.org/dataoecd/16/8/34969655.pdf>)

<sup>7</sup> Willet, W.C. et al. (2002) *Dietary fat is not a major determinant of body fat*. The American Journal of Medicine 113(9B):475-59S

- In addition, other studies have shown that these taxes do not lead to a meaningful reduction of calories or weight loss<sup>[8]</sup>, and confirm the fact that, given the multi-factorial nature of obesity, these measures are **inefficient and unjustified**<sup>[9]</sup> and are not necessarily backed up by data<sup>10</sup>.
- If such tax measures are to be proposed and implemented, their **impacts** should be fully and scientifically assessed to determine their actual effects and benefits for the health of the population. For example, as called for by the 2014 EC study on food taxes, additional research is needed to better understand what drives consumer behavioural changes, food decisions and lifestyle selection.
- *Taxes are not simple tools, and designing them to engineer an improvement in people's diets is especially complex. Setting them at sufficiently high levels is politically challenging, and increases the risk of unintended consequences. Taxes (...) cannot be viewed as a magic bullet in the fight against obesity.*<sup>11</sup>

**1.2. Education campaigns and information to consumers are key to effectively promote balanced diets and healthy lifestyles** - There are no healthy or unhealthy foods but rather healthy and unhealthy diets. This is one of the aims of the EU Platform for Action on Diet, Physical Activity and Health. Healthy eating can only be appropriately managed through multiple means, such as consumer information and education<sup>[12]</sup>. PFP encourages the dissemination of that kind of information through various tools such as websites, newsletters and community projects.

**1.3. Tax measures are imposed on food products irrespective of the contribution of these foods to the diet** - Taxes imposed on soft drinks ignore the fact that soft drinks represent a small percentage of the average daily caloric intake of the overall EU population<sup>[13]</sup>. **Such measures are arbitrary and discriminatory and penalise all consumers, and primarily low income populations, regardless of how balanced their diet is or how healthy their lifestyle is.** Indeed, lower socio-economic groups spend a larger share of their income on food than other income categories. Such taxes would

<sup>8</sup> Allais, O. et al. (2008) *The Effects of a "Fat Tax" on the Nutrient Intake of French Households*, European Association of Agricultural Economists, 2008 International Congress Ghent, 2008, <http://www.inra.fr/internet/Departements/ESR/publications/iss/pdf/iss10-03.pdf>; Bodker, M. et al (2015) *The Danish Fat tax – Effects on consumption patterns and risk of ischemic heart disease*. Preventive Medicine; Aguilar A. et al *Taxing Calories in Mexico*, Instituto Tecnológico Autónomo de México, 2015.

Fletcher, J. M. et al. (2010) *The effects of soft drink taxes on child and adolescent consumption and weight outcomes*, Journal of Public Economics 94, 2010, <http://medicine.yale.edu/labs/fletcher/soda.pdf>.

<sup>9</sup> Crowle, J. & Turner, E. (2010) *Childhood Obesity: An Economic Perspective*, Australian Government, Productivity Commission Working Paper, Melbourne 2010, [http://www.pc.gov.au/\\_data/assets/pdf\\_file/0015/103308/childhood-obesity.pdf](http://www.pc.gov.au/_data/assets/pdf_file/0015/103308/childhood-obesity.pdf).

<sup>10</sup> Suggs S. & McIntyre C. (2011) European Union public opinion on policy measures to address childhood overweight and obesity

*Journal of Public Health Policy* 32, 91-106 (February 2011) | doi:10.1057/jphp.2010.44

<sup>11</sup> Sassi F.. Taxing sugar BMJ 2016; 352 :h6904 <http://www.bmj.com/content/352/bmj.h6904>

<sup>12</sup> [http://ec.europa.eu/health/ph\\_determinants/life\\_style/nutrition/platform/docs/platform\\_charter.pdf](http://ec.europa.eu/health/ph_determinants/life_style/nutrition/platform/docs/platform_charter.pdf) Founding statement of the EU Platform on Diet, Physical Activity and Health.

<sup>13</sup> Less than 3.5% in France according to *CREDOC, CCAF 2010*; Ellrott T. (2011) *Ernährungs-Umschau* 4/2011, pp. 212-213 (in Germany, the average caloric contribution from lemonades (soft drinks) (E%) is 1.3 E% for women and 2.8 E% for men);

Bates, B. et al. (Eds.) (2010) *National Diet and Nutrition Survey: Headline results from year 1 of the Rolling Programme (2008/09)*. [Online]. Available from: [www.food.gov.uk/science/dietarysurveys/ndnsdocuments/ndns0809year1](http://www.food.gov.uk/science/dietarysurveys/ndnsdocuments/ndns0809year1); The European soft drinks sector UNESDA reports that “published data shows that soft drinks contribute just 3% of calories to the daily diet of the average European” (see [www.unesda.eu](http://www.unesda.eu)).

particularly impact consumers in countries, where the household expenditure on food is very high (e.g. in France, the tax on soft drinks containing added sugars or artificial sweeteners increased by 9% the food budget of the poorer households<sup>14</sup>; in Romania the household expenditure is 40% of the income compared to the EU average of 16%)<sup>[15]</sup>.

2. **Food or nutrient-related taxes lead to discrimination between products, unfair competition and market distortion. This is caused by the fact that similar products are taxed differently** (e.g. Cocoa Butter Equivalents vs. cocoa butter in the past Danish tax on saturated fatty acids, certain concentrate, syrups, nectars and other fruit juices vs. soft drinks in the Hungarian Public Health Product Tax, or milk shakes v. frozen ice and mixes for ice cream in the Danish tax on ice cream) . Exceptions/derogations granted to certain food products or ingredients as opposed to competing products can be interpreted as state aid falling under Article 107 of the EU Treaty or as contrary to WTO law<sup>16</sup>. For instance, in 2016, the Finnish confectionary tax was abolished as of 2017 following a complaint that it distorted competition and amounted to illegal state aid. More recently, in September 2017, the Estonian Government Coalition left their tax on sweetened beverages out of the 2018 State Budget due to potential incompatibility with state-aid rules.
3. **Food or nutrient-related taxes can potentially lead to a discrimination between imported and local products** - National fiscal measures can potentially lead to a difference of treatment between imported and locally produced food products. More importantly, if one particular nutrient is targeted (e.g. saturated fatty acids in the case of the past Danish tax on saturated fatty acids), when oils and fats formulations are imported in B2B (Business to Business) they could end up being taxed higher, if the supplier does not want to disclose the detailed compositions (IP protection rights). National taxes could generate increased analytical and administrative costs for importers as opposed to national manufacturers.
4. **Food or nutrient-related taxes can lead to a loss of competitiveness - The 2014 EC study on food taxes found evidence of a negative impact of food taxes on competitiveness of food and drink producers in terms of administrative burden and profitability**<sup>17</sup>. - The study observed that “*food taxes leading to an increase in administrative burdens, notably if the tax is levied on ingredients*

<sup>14</sup> impact assessment study conducted by the institutes IRI and Kantar Worldpanel in 2013 for the French association of soft drinks .

<sup>15</sup> Amarasinghe, A. & D’Souza, G. (2010) *Obesity Prevention: A Review of the Interactions and Interventions, and some Policy Implications*, West Virginia University, Regional Research Institute, Research Paper 2010-2, 2010, <http://www.rri.wvu.edu/pdf/files/wp2010-2.pdf>;

Allais, O. et al. (2008) *The Effects of a "Fat Tax" on the Nutrient Intake of French Households*, European Association of Agricultural Economists, 2008 International Congress Ghent, 2008, <http://www.inra.fr/internet/Departements/ESR/publications/iss/pdf/iss10-03.pdf>;

Sassi, F. (2010) *Obesity and the Economics of Prevention. Fit not Fat*, OECD Publications, Paris 2010, [http://www.oecd.org/document/31/0,3746,en\\_21571361\\_44701414\\_45999775\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/31/0,3746,en_21571361_44701414_45999775_1_1_1_1,00.html).

Snowdon C. (2013), The proof of the pudding, IEA Current Controversies Paper n°42, May 2013.

Lyons R. & Snowdon C. *Sweet Truth- Is there a market failure in sugar?* UK Institute of Economic Affairs, 2015

Snowdon C., Sugar taxes: A briefing, UK institute of Economic Affairs, 2016.

<https://iea.org.uk/wp-content/uploads/2016/07/IEA%20Sugar%20Taxes%20Briefing%20Jan%202016.pdf>

<sup>16</sup> Alemanno A. & Carreno I. (2013, *Fat taxes in Europe – a legal and policy analysis under EU and WTO law*, European Food and Feed Law Review, 2/2013, pp. 97-112.

[http://papers.ssrn.com/sol3/Delivery.cfm/SSRN\\_ID2295923\\_code553230.pdf?abstractid=2295923&mirid=1](http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID2295923_code553230.pdf?abstractid=2295923&mirid=1)

<sup>17</sup> Please see footnote 2

*(specific tax) or the tax base is highly differentiated and complicated” and noted that “[f]ood taxes may negatively impact profitability, although changes in net profitability are dependent on a wide range of factors, including the impact of food taxes on substitute products and factors that are not influenced by food taxes.” The study also saw a loss of competitiveness at company level as “in some cases (Finland and Hungary), manufacturers of the taxed products have lost competitiveness to those manufacturers of the non-taxed goods due to the scope of the tax not covering all of the products within a category.”*

5. **Discriminatory tax measures have different impacts depending on the national context** - The country implementing such a tax can be put at a competitive disadvantage, especially when decisions on future investments are taken by food companies. Indeed, companies will have a tendency to develop their activities in countries, where tax measures and regulations are more favorable to their business. Exploitation of different tax regimes could be a possible and unwanted consequence. For each fiscal measure envisaged, a detailed impact assessment should be made. This would illustrate the discriminatory elements introduced by the given food tax. This evaluation will most probably show that the primary food processor and the food industry as a whole could be forced to implement specific solutions for the market where the tax will apply, hence hindering the open market.

**Given the above, PFP believes food taxes are not an appropriate tool to address increasing rates of overweight and obesity and non-communicable diseases.**

The **Primary Food Processors of the EU (PFP)** is composed by:

**European Committee of Sugar Manufacturers (CEFS)**  
**European Cocoa Association (ECA)**  
**European Flour Milling Association (European Flour Millers)**  
**European Vegetable Protein Federation (EUVEPRO)**  
**European Vegetable Oil and Proteinmeal Industry (FEDIOL)**  
**European Starch Industry Association (Starch Europe)**

PFP members process approximately 220 Million tons of raw materials (cereals, sugar beet, rapeseeds, soybeans, sunflower seeds, crude vegetable oil, cocoa products, starch potatoes...) employing over 120 000 people in the European Union.