



## PFP Position Paper on Food taxes

With the stated aim of improving the health of their citizens, some EU Member States are discussing and introducing laws designed to set or increase taxes targeting a specific range of products based on their nutrient content, claiming that it will discourage people from consuming certain products, and will hence positively impact obesity rates. Such direct taxes have multiplied 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. Unbalanced diets and unhealthy lifestyles are recognized as causing increasing obesity rates. Rather than targeting individual foods which cannot be considered as such as good or bad, a multifactoral approach - including notably education and awareness raising on healthy lifestyle (nutrition and physical activity), communication, product reformulation (as long as it is beneficial to the consumer) etc. – is the only way forward to achieve concrete results. This is one of the reasons why the EU Commission has repeatedly indicated that they do not intend to introduce, in the near future, food or specific nutrient-related taxes at EU level.

At the same time, direct taxation falls under the competency of national governments. Therefore, the EU Commission cannot intervene at national level, unless the envisaged tax system would go against the EU principle of non-discrimination, as laid down in the EU Treaty (Treaty of Lisbon).

Taking individual measures which increase taxes on food and drink products, will moreover inevitably increase food prices and affect the competitiveness of the industry. 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 become less expensive, hence creating discrimination. This is notably the case in Hungary where among many other examples candies in bulk are not taxed while candies in sachet are.

**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 are extremely concerned about the spreading of food-related taxes throughout the EU and would like to share some considerations and arguments on why we are opposed to the setting of food taxes in the context of DG Enterprise and Industry study on food taxes.**



## - Why Food or Nutrient-Related Taxes are Disproportionate and Ineffective

**As Obesity is a complex and multi-factorial issue, measures to address this phenomenon must target the actual causes and be comprehensive.**

- Intending to solve the issue of obesity with a tax measure disregards the fact that **obesity is due to a variety of factors** that may include food intake but also insufficient caloric expenditure (due to lack of physical activity), the socio-economical environment and genetic predispositions. This is why the measures adopted to tackle obesity must take into account all of these factors and not merely focus on one of them (food intake).
- Regarding the issue of imbalance between energy intake and energy expenditure, it is important to note that any control over food intake should be **focused on the total energy intake rather than on individual nutrients**.
- Experience in countries where taxes have been implemented shows that taxes, and in particular discriminatory taxes, are **NOT an effective approach for tackling complex diet and lifestyle-related problems. More specifically,**
  - A World Health Organisation (WHO) Review investigating the effectiveness of economic instruments *“found **no direct scientific evidence** of a causal relationship between policy-related economic instruments and food consumption, including foods high in saturated fats”*<sup>[1]</sup>.
  - A recent Organisation for Economic Co-operation and Development (OECD) study<sup>[2]</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>[3]</sup>.
  - In addition, other studies have shown that these taxes do not lead to a meaningful weight loss<sup>[4]</sup>, and confirm the fact that given the multi-factorial nature of obesity, these measures are **inefficient and unjustified**<sup>[5]</sup> and are not necessarily backed up by data<sup>6</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

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<sup>1</sup> Goodman, C. & Anise, A. (2006) *What is known about the effectiveness of economic instruments to reduce consumption of foods high in saturated fats and other energy-dense foods for preventing and treating obesity?*, WHO Regional Office for Europe (Health Evidence Network report); <http://www.euro.who.int/document/e88909.pdf>, accessed 11-07-2011]

<sup>2</sup> OECD (2004): Health data from OECD (See: <http://www.oecd.org/dataoecd/16/8/34969655.pdf>)

<sup>3</sup> Willet, W.C. et al. (2002) *Dietary fat is not a major determinant of body fat*. The American Journal of Medicine 113(9B):47S-59S

<sup>4</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>;

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>5</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>6</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



population. For example, additional research is needed to better understand what drives consumer behavioural changes, food decisions and lifestyle selection.

**Education campaigns and information to consumers on balanced diets and healthy lifestyles are key.**

- There is a common understanding amongst stakeholders of the EU Platform for Action on Diet, Physical Activity and Health, that there are no healthy or unhealthy foods but rather healthy and unhealthy diets, and that healthy eating can only be appropriately managed through multiple means, such as consumer information and education<sup>[7]</sup>. PFP encourages the dissemination of that kind of information through various tools such as websites, newsletters, research projects, community projects...
- Education campaigns to inform and educate consumers about achieving a balanced diet and adopting a healthy lifestyle are a more efficient way to ensure not only that consumers become aware of their own health, but also that they transmit better habits to their peers and children.

**Tax measures are imposed on food products irrespectively of the contribution of these foods to the diet.**

- For example, 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>[8]</sup>.

**Such measures are arbitrary and discriminatory and penalise all consumers, regardless of how balanced their diet is or how healthy their lifestyle is. These measures also impact primarily low income population.**

- Indeed, lower socio-economic groups spend a larger share of their income on food than other income categories. Such taxes would particularly impact consumers in countries, where the household expenditure on food is very high (e.g. in Romania, where household expenditure is 40% of the income compared to the EU average of 16%)<sup>[9]</sup>.

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<sup>7</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>8</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)

<sup>9</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/pdffiles/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.



- **Why Food or Nutrient-Related Taxes Lead to Discrimination Between Products**

- The discriminatory element introduced between different food products based on subjective criteria leads to an unfair competition between foods and may lead to market distortions by creating unfair competition between similar products and by triggering a substitution effect (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 bakery wares and other dairy-based desserts vs. ice cream in the Finnish Act on Excise Duty on Sweets, Ice Cream and Soft Drinks)
- 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>10</sup>.

- **Why 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, specific 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 due to IP protection rights (e.g. oils and fats formulation in the case of the past Danish tax on saturated fatty acids).
- National taxes could generate increased analytical and administrative costs for importers as opposed to national manufacturers.

- **Why Food or Nutrient-Related Taxes Can Lead to a Loss of Competitiveness**

**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

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<sup>10</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)



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.

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

**European Starch Industry Association (AAF)**

**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)**

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.