

„Health taxes“ on foods & beverages A new trend in Europe?

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Recent developments

Hungary: Introduced tax on beverages with „high“ sugar levels and on snacks and seasonings with „high“ salt levels in Sept 2011

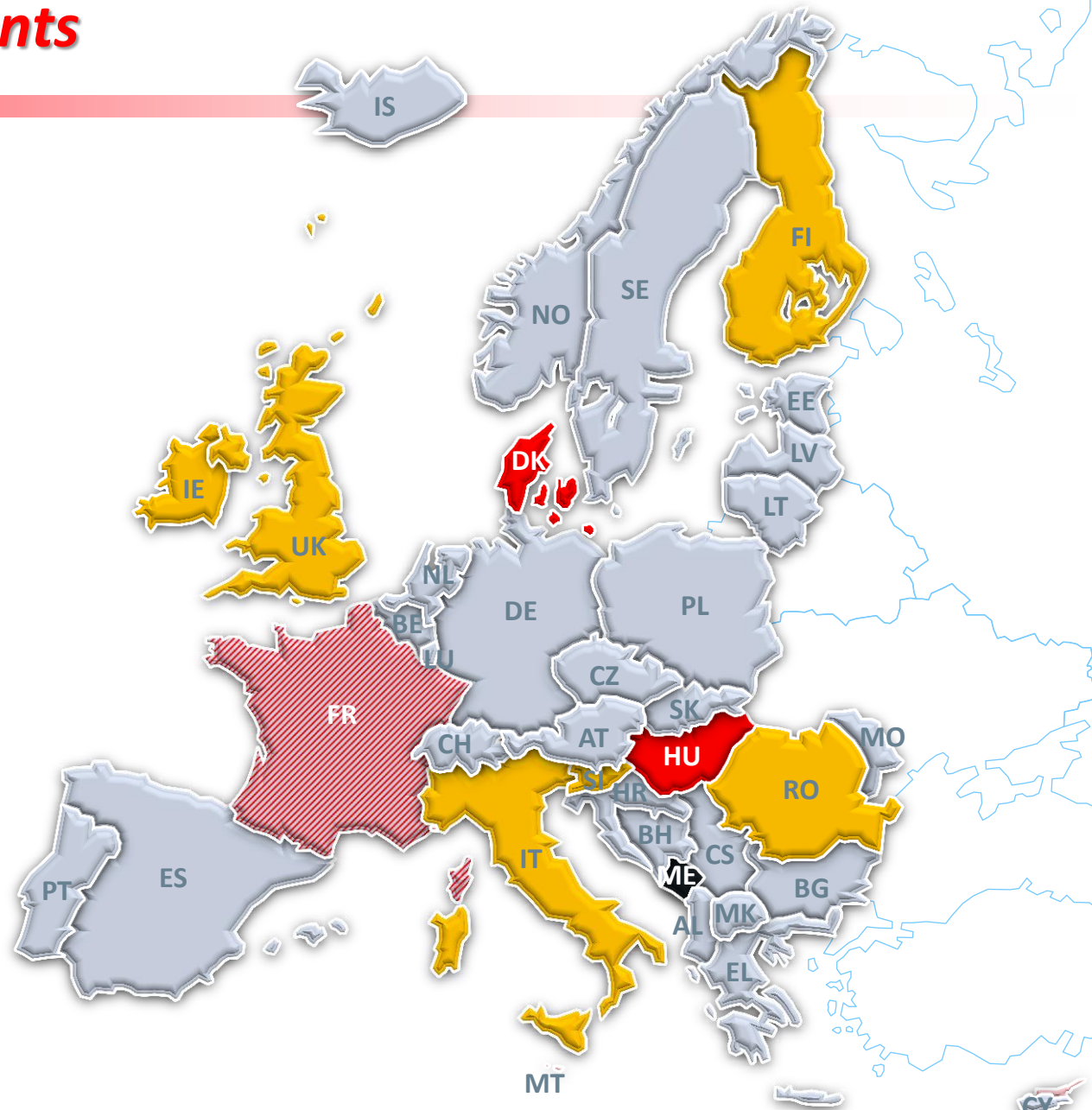
Denmark: Introduced tax on saturated fats in Oct 2011; considers tax on sugars

France: Introduced tax on beverages with added sugars/sweeteners in Jan 2012, but abandoned link to health

Finland: Considers tax on sugars

Ireland, Italy, Romania, Slovenia, United Kingdom: Ongoing debates about taxes on “un-healthy” foodstuffs

Montenegro: Will apply new tax on soft drinks as of April 2012, not linked to health

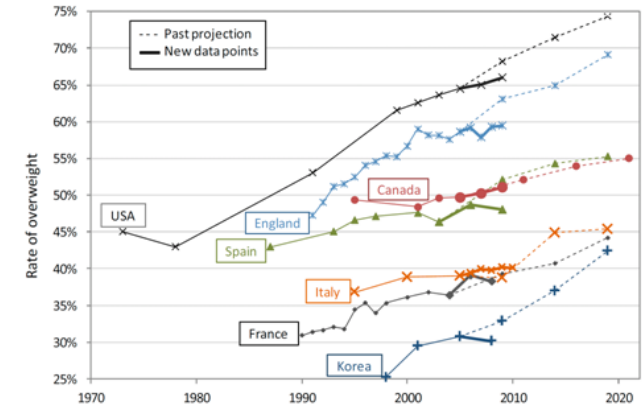
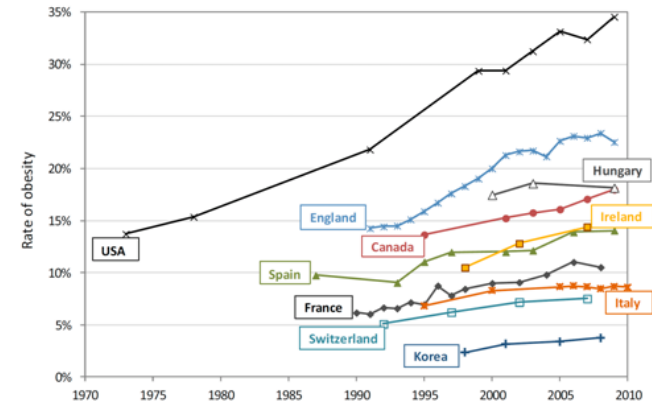


Excise taxes on foodstuffs exist in: BE, DK, FI, FR, HR, HU, IS, LV, ME, NL, NO

The drivers



Debt crisis



Obesity trends

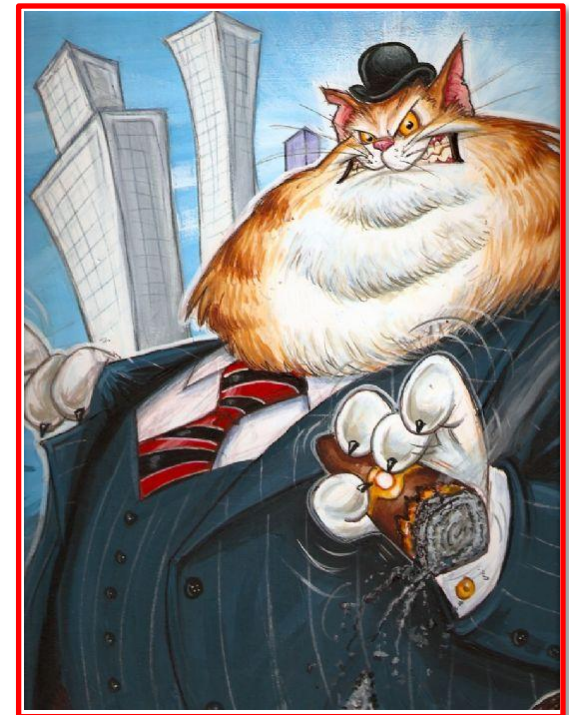
Catalyzing assumptions



**Public health
as „easy excuse“?**



**Profitable sectors
as „cash cows“?**



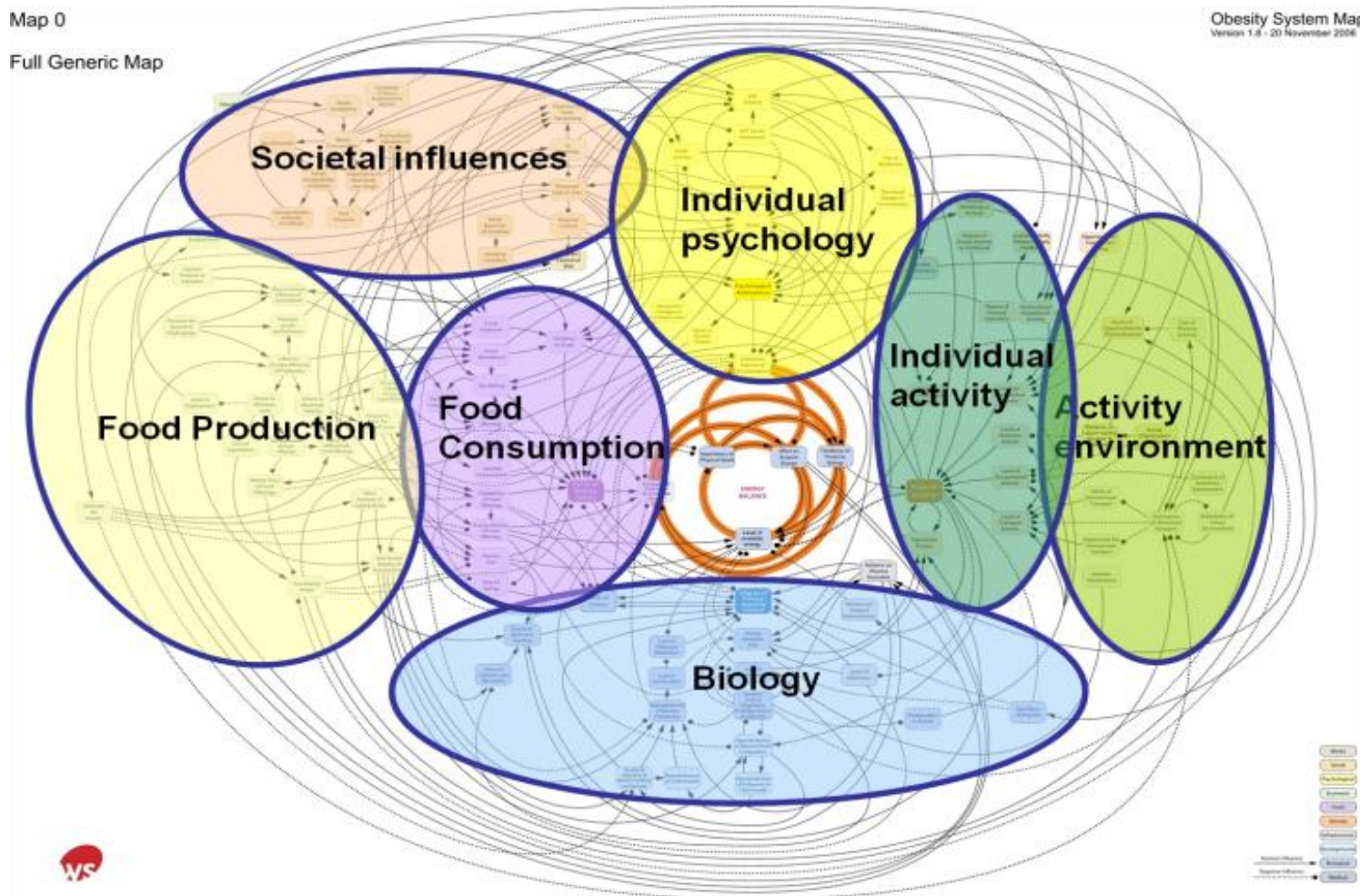
**Only „fat cats“
will suffer?**

Taxing obesity?

Map 0

Full Generic Map

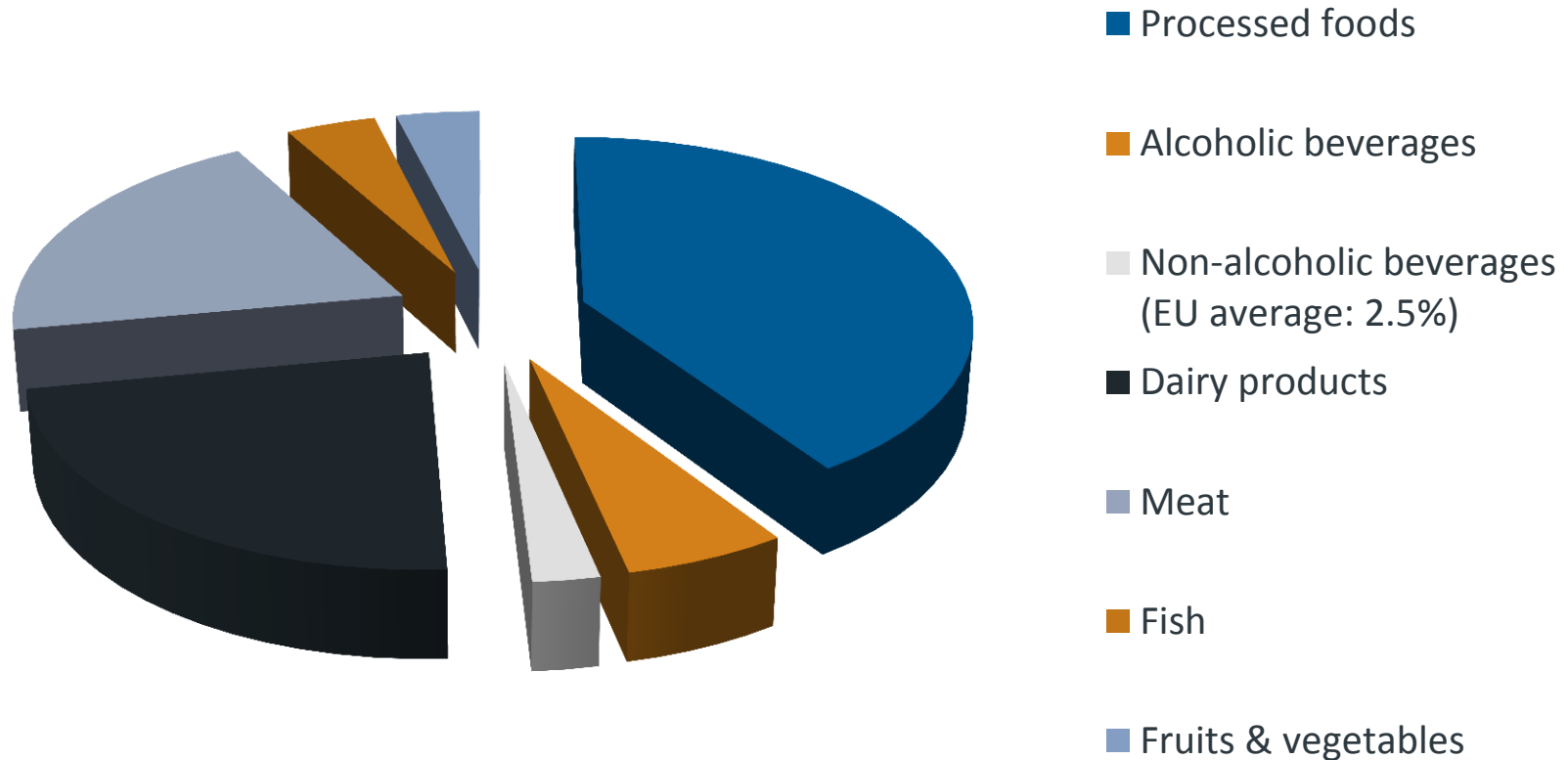
Obesity System Map
Version 1.0 - 20 November 2006



The complexity of obesity

(British Nutrition Foundation, 2006)

Taxing calories?



Sources of energy intake

(Percentage calorie intake per person per day; source: Reding University, UK data 2011)

Tackling „unhealthy“ diets, nutrients, or products?

Cooperative approach

- Assumption: There are no healthy or unhealthy products but only healthy or unhealthy diets/lifestyles
- Conclusion: Policy actions have to tackle unhealthy diets, not products
- Actions: Integrated, multi-stakeholder programmes



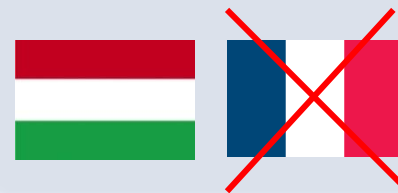
Nutritional approach

- Assumption: Obesity is caused by over-consumption of certain nutrients (fat, salt, sugar)
- Conclusion: Policy actions have to tackle nutrients, not products
- Actions: Impose excise taxes on nutrients, incentivize reformulation



Punitive approach

- Assumption: Obesity is caused by consumption of „unhealthy“ products
- Conclusion: Policy actions have to tackle „unhealthy“ products
- Actions: Impose excise taxes, marketing restrictions, bans on certain foods products



Policy approaches – Cooperative vs. punitive

Activities at EU level



“[...] It cannot be generally stated that ‘exceptional taxation’ is an effective mean to changing people’s dietary habits.”

Algirdas Šemeta, Commissioner for Taxation and Customs Union, Audit and Anti-Fraud

Written answer to EP Question E-007426/2011, 01 Sept 2011

“[...] While taxation of certain categories of food products is not envisaged, the Commission is working closely with Member States and with the stakeholders for the reformulation of food products to encourage easy access to healthier products. In particular, commitments of the members of the Platform for action on Diet, Physical Activity and health are noteworthy.”

John Dalli, Commissioner for Health and Consumer Affairs

Written answer to EP Question E-0476/2010, 19 April 2010



EU Platform on Diet,
Physical Activity and Health

Soft drink taxes from a public health perspective

Soft drink taxes would hardly have any impact on health:

- Would cover only 2.5% of energy intake, and therefore would not have any significant effect on overall calorie reduction
- Would penalize huge majority of soft drinks consumers with “healthy” consumption patterns (e.g. UK: only 6% consume more than 250ml per day)
- Would unreasonably discriminate one foodstuffs category against others, by singling out allegedly “unhealthy” products without impacting unhealthy diets or unhealthy lifestyles

“It is difficult to predict how consumers will react to price changes caused by taxation. Some may respond by reducing their consumption of healthy goods in order to pay for the more expensive unhealthy goods, thus defeating the purpose of the tax. Others may seek substitutes for the taxed products, which might be as unhealthy as those originally consumed”.

OECD, 2012. Obesity Update 2012, OECD Policy Brief, Paris 2010, www.oecd.org/dataoecd/1/61/49716427.pdf

Soft drink taxes from a socio-economic perspective

Soft drink taxes would have a negative effect on local economies:

- Fail to significantly raise revenues for public authorities (high price elasticity)
- Lead to an overall reduction in revenues when looking at wider supply chain (multiplier effects)
- Have a negative macro-economic impact (GDP, investment, inflation, recovery)
- Lead to a variety of market distortions (cross-border shopping, illegal businesses, substitutes competition)
- Have unfair social impact (regressivity)

“The economic case for taxing soft drinks is weak. [...] A middle or higher income country that resorts to a tax list of discriminatory excises on consumption of specified products is taking a step back in the development of their fiscal system and is postponing a more proper reform that would be in the better interest of the country.”

Bahl, R., 1998. Why Levy Discriminatory Excises on Soft Drinks?, International Studies Program, School of Policy Studies, Georgia State University, Working Paper 98-3, 1998, <http://aysps.gsu.edu/isp/files/ispwp9803.pdf>

Coca-Cola in Europe



Coca-Cola

Coca-Cola, an American „Fat Cat“?

Coca-Cola in Europe

Coca-Cola makes a substantial contribution to the European economy:

- Coca-Cola is associated with € 32.8 billion of value added in the EU-27 (or 0.27% of GDP)
- 1 Euro spent on Coca-Cola products generates a value added of 78 cents in the EU-27 Member States
- Almost 700,000 jobs (or 0.29% labor force) are supported in the EU-27 (50,000 direct + 650,000 indirect jobs; job multiplier: 1:13)
- For every €1 million spent on Coca-Cola products, 17 jobs in the EU-27 are supported

Coca-Cola's various multipliers are comparable with the European beer industry

(Source: Prof Ethan Kapstein, INSEAD; steward redqueen 2012)

ANNEX: Scientific views on food taxes (1)

The academic community has extensively looked into taxation as an instrument to change dietary consumption patterns over the last years, and a large number of scientific studies expresses serious doubts about the effectiveness and appropriateness of taxes, and shows that taxes should not be used to promote healthy diets:

Allais, Olivier & Bertail, P. & Nichele, Veronique, 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>

"[...] a "fat tax" would have ambiguous and extremely small effects [...]"

"[...] a fat tax policy is unsuitable for substantially affecting the nutrient intake of French households."

"[...] food policymakers need to keep in mind that a fat tax policy may have perverse effects by exacerbating nutritional disparities among consumers".

Amarasinghe, Anura & D'Souza, Gerard, 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>

"Since fat taxes are regressive, tax incidence would be felt hardest by low income families."; "[...] justification for a discriminatory excise tax on soft drinks is weak."

Bahl, Roy, 1998. *Why Levy Discriminatory Excises on Soft Drinks?*, International Studies Program, School of Policy Studies, Georgia State University, Working Paper 98-3, 1998, <http://aysps.gsu.edu/isp/files/ispwp9803.pdf>

"[...] the economic case for taxing soft drinks is weak. [...] A middle or higher income country that resorts to a tax list of discriminatory excises on consumption of specified products is taking a step back in the development of their fiscal system and is postponing a more proper reform that would be in the better interest of the country"

"The case for a discriminatory tax on soft drinks is very weak. At best the discriminatory taxation of soft drinks is part of a "stopgap" program, usually designed to solve a short-term revenue problem"

ANNEX: Scientific views on food taxes (2)

Barclay, Alan W. & Brand-Miller, Jennie, 2011. "The Australian Paradox: A Substantial Decline in Sugars Intake over the Same Timeframe that Overweight and Obesity Have Increased", *Nutrients* 3, 2011, <http://www.mdpi.com/2072-6643/3/4/491/pdf>

"Our findings do not support the widely held belief that reducing the consumption of refined sugars, and increasing the availability and preference for low-joule beverages, will help to reverse societal trends in obesity"

"The findings challenge the implicit assumption that taxes and other measures to reduce intake of soft drinks will be an effective strategy in global efforts to reduce obesity"

Crowle, Jacqueline & Turner, Erin, 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

"Bans or taxes on particular energy-dense nutrient-poor foods, for example, face design difficulties, affect all consumers regardless of their weight status, and in the case of taxes, can have perverse budgetary and health effects particularly for the neediest groups."

"The considerable uncertainty about the causes of obesity suggests that hard interventions, such as taxes or subsidies on specific goods and services, would be difficult to justify. Further, the practical challenges of designing taxes on specific goods and services limit the likelihood of them being effective in addressing obesity (and may lead to perverse outcomes)."

Fletcher, Jason M. & Frisvold, David E. & Tefft, Nathan, 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>

"[...] soft drink taxes do not appear to have countered the rise in obesity prevalence because any reduction in soft drink consumption has been offset by the consumption of other calories. Cast in this light, the revenue generation and health benefits of soft drink taxes appear to be weaker than expected."

ANNEX: Scientific views on food taxes (3)

Gelbach, Jonah B. & Klick, Jonathan & Stratmann, Thomas, 2007. *Cheap Donuts and Expensive Broccoli: The Effect of Relative Prices on Obesity*, Social Science Research Network, Working Paper Series, 2007, <http://tigger.uic.edu/~nba/donuts.pdf>

"[...] the sensitivity of individuals to changes in relative food prices may not be sufficient to make fat taxes, within plausible ranges, a viable tool to lower obesity".

Hespel, Véronique & Berthod-Wurmser, Marianne, 2008. *Rapport sur la pertinence et la faisabilité d'une taxation nutritionnelle* (Report on the pertinence and feasibility of a nutritional tax), République Française, Inspection générale des Finances, Inspection générale des Affaires sociales, Paris 2008, http://www.igf.finances.gouv.fr/gcp/webdav/site/igfinternet/shared/Nos_Rapports/documents/2008/Taxe_nutritionnelle.pdf

"The establishment of a tax for exclusively nutritional purposes would face a number of difficulties: Very heavy administrative costs for companies and authorities, as well as legal, technical, economic and social obstacles, especially in terms of justification. The mission repels this option and rather recommends to go back to available fiscal measures" (translation from the French).

Lacanilao, Ryan D. & Cash, Sean B. & Adamowicz, Wiktor L., 2011. "Heterogeneous Consumer Responses to Snack Food Taxes and Warning Labels", *Journal of Consumer Affairs* Vol. 45 No. 1, 2011, <http://onlinelibrary.wiley.com/doi/10.1111/j.1745-6606.2010.01194.x/pdf>

"The low own-price elasticities found here provide support to the existing literature that suggests that a tax on less healthy food products would not be an effective way to decrease consumption of these products".

Mattes, R.D. & Shikany, J.M & Kaiser, K.A. & Allison, D.B., 2011. "Nutritively sweetened beverage consumption and body weight: a systematic review and meta-analysis of randomized experiments", *Obesity Reviews* Vol. 12 No. 5, 2011, http://www.coca-cola.com.sg/media/pdf/research-paper_obesity.pdf

"The current evidence does not demonstrate conclusively that NSB consumption has uniquely contributed to obesity or that reducing NSB consumption will reduce BMI levels in general".

ANNEX: Scientific views on food taxes (4)

OECD, 2010. *Healthy Choices*, OECD Health Ministerial Meeting, Paris, 7-8 October 2010, Session 2, Paris 2010, <http://www.oecd.org/dataoecd/14/13/46098333.pdf>

"[...] fiscal measures aimed specifically to change behavior are complex to design and enforce; their impact may be unpredictable as the price elasticity of demand varies across individuals and population groups; they can bear more heavily on low-income groups than on those with higher incomes, and substitution effects are not always obvious".

OECD, 2010. F. Sassi, *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

"The impact of the tax on government and supplier (e.g. food manufacturer) revenues will depend on the elasticity of consumers' demand for the taxed product".

"Taxes on lifestyle commodities, or sin taxes, tend to be controversial. Critics perceive them as undue interference with individual choice. Governments levying such taxes are sometimes seen as "profiting" from unhealthy behaviours".

"In addition, taxes on consumption are typically regressive, unless consumption is concentrated among the wealthiest, which is certainly not the case for most potentially unhealthy lifestyle commodities, as the consumption of these tends to be concentrated among the less well off. Therefore, tax payments will weigh more heavily on the incomes of the most disadvantaged".

"In addition to distributional effects, imposing taxes on certain forms of consumption may also generate costs, mainly in relation to enforcement. When prices in a market are kept artificially high by taxation, phenomena like parallel trade and smuggling will flourish, which governments must then regulate or repress".

OECD, 2012. *Obesity Update 2012*, OECD Policy Brief, Paris 2010, www.oecd.org/dataoecd/1/61/49716427.pdf

"It is difficult to predict how consumers will react to price changes caused by taxation. Some may respond by reducing their consumption of healthy goods in order to pay for the more expensive unhealthy goods, thus defeating the purpose of the tax. Others may seek substitutes for the taxed products, which might be as unhealthy as those originally consumed".

ANNEX: Scientific views on food taxes (5)

Suggs, L. Suzanne & McIntyre, Chris, 2011. "European Union public opinion on policy measures to address childhood overweight and obesity", *Journal of Public Health Policy* 32, 2011, <http://www.palgrave-journals.com/jphp/journal/v32/n1/full/jphp201044a.html>

"Our results suggest strong consistency among EU countries in support for two policies: providing information to parents and more physical activity in schools. For improving children's diets, our data show widespread support for providing parents with information, education programs in schools, and restrictions on advertising. For reducing childhood obesity, more physical activity in schools received the most support followed by education and advertising restrictions. There was very little support for imposing taxes on unhealthy food".

In the survey, tax increases were overwhelmingly rejected, receiving only 2.8 per cent support. Sixteen countries had 2 per cent or less support for this measure.

Valente, H. et al., 2010. "Sugar-sweetened beverage intake and overweight in children from a Mediterranean country", *Public Health Nutrition* Vol. 14 No. 1, 2010, http://journals.cambridge.org/abstract_S1368980010002533

"We did not find any association between overweight and SSB consumption in any consumption group [...]"

"The intake of SSB was not associated with increased risk of overweight [...]"