



AUSTRALIAN
FOOD AND GROCERY
COUNCIL

Australia's Future Tax System

Response to the Consultation Paper
Section 11. Taxes on Specific Goods and Services

30 April 2009

PREFACE

The Australian Food and Grocery Council is the peak national organisation representing Australia's packaged food, drink and grocery manufacturing industry.

The membership of the AFGC comprises more than 150 companies, subsidiaries and associates which constitutes in the order of 80 per cent of the gross dollar value of the highly processed food, beverage and grocery products sectors. The AFGC represents the nation's largest manufacturing sector. By any measure our members are substantial contributors to the economic and social welfare of all Australians. Effectively, the products of AFGC's member companies reach every Australian household.

The industry has annual sales and service income in excess of \$70 billion and employs more than 200,000 people – almost one in five of the nation's manufacturing workforce. Of all Australians working in the industry, half are based in rural and regional Australia, and food manufacturing sector sources more than 90 per cent of its ingredients from Australian agriculture.

The AFGC's agenda for business growth centres on public and industry policy for a socioeconomic environment conducive to international competitiveness, investment, innovation, employment growth and profitability.

The AFGC's mandate in representing member companies is to ensure a cohesive and credible voice for the industry, to advance policies and manage issues relevant to the industry enabling member companies to grow their businesses in a socially responsible manner.

The Council advocates business matters, public policy and consumer-related issues on behalf of a dynamic and rapidly changing industry operating in an increasingly globalised economy. As global economic and trade developments continue to test the competitiveness of Australian industry, transnational businesses are under increasing pressure to justify Australia as a strategic location for corporate production, irrespective of whether they are Australian or foreign owned. In an increasingly globalised economy, the ability of companies to internationalise their operations is as significant as their ability to trade globally.

Increased trade, rationalisation and consolidation of businesses, increased concentration of ownership among both manufacturers and retailers, intensified competition, and increasingly complex and demanding consumers are features of the industry across the globe. Moreover, the growing global middle class of consumers is more sophisticated and discerning, driving innovation and differentiation of products and services.

The AFGC is working with governments in taking a proactive approach to public policy to enable businesses to tackle the threats and grasp the dual opportunities of globalisation and changing consumer demands.

1 EXECUTIVE SUMMARY

The Australian Food and Grocery Council (AFGC) welcomes this opportunity to respond to the review of Australia's Future Tax System. The AFGC comments are restricted to Section 11. Taxes on Specific Goods and Services.

The AFGC supports the well-accepted principles of good taxation and taxation systems, namely that they should be efficient and effective, fair and equitable and imposing minimal compliance and enforcement costs on the community.

The primary reason for Government's to impose taxes is to raise revenue to support activities and programs. This is a well-accepted purpose underpinned by sound principles to ensure that imposition of taxes is as fair as possible with minimal unintended consequences.

Governments may also impose taxes to moderate behaviour – including to achieve public health objectives. Using taxation to further public health objectives remains largely untried both in Australia and overseas, with no definitive paradigms having been established to guide the appropriate use of taxation. The corollary is that there is no established wisdom regarding how to address public health issues of complexity effectively through taxation measures.

In light of this, the AFGC is of the strong view that taxation should be rejected as a public health measure unless clear and compelling evidence is presented which demonstrates that the taxation will achieve the public health objective at least as effectively as other potential interventions, and will result in a net public benefit (i.e. benefits outweigh costs).

1.1 RECOMMENDATIONS

- **That the Review note how the differential application of the GST to food products has resulted in unnecessary complexity and costs for the food industry and consider how such outcomes can be avoided in future taxation reforms and arrangements.**
- **That the Review recommend that imposition of any taxes on goods and services, including those designed to influence individual behaviour are consistent with the principles of good taxation.**
- **That in the absence of evidence supporting their effectiveness, and with clear evidence of their highly regressive nature and potential to cause harm, suggestions to use taxes on foods to change consumer behaviour be rejected.**
- **That the Review confirms taxes imposed to modify individual choice should adhere to well established principles of taxation to ensure they are the most cost-effective policy intervention.**

2 OPENING STATEMENT

The Australian Food and Grocery Council (AFGC) welcomes this opportunity to respond to the review of Australia's Future Tax System.

The AFGC supports the well-accepted principles of good taxation and taxation systems, namely that they should be:

- efficient and effective through being targeted at well defined objectives;
- fair and equitable avoiding unwarranted or unforeseen burdens on individuals or parties; and
- as simple as possible imposing minimal compliance and enforcement costs on the community.

In this submission the AFGC will restrict its comments to Section 11. Taxes on Specific Goods and Services.

2.1 TAXING GOODS AND SERVICES – THE GST EXPERIENCE

The AFGC notes that the Goods and Services Tax (GST) is excluded from consideration by the current Review. The Review Panel may find it instructive, however, to consider the application of the GST to food and note how deviation from the principles of good taxation can lead to less than optimal outcomes.

At the time of its introduction the GST was promoted as an efficient and effective, fair and equitable means to raise revenue to meet the rising cost of providing government services. It was to replace a raft of other inefficient and inequitable tax measures imposed by States and Territories. The AFGC supported its introduction on this basis. The AFGC objected, however, to the exclusion of some foods from the GST system expressing concerns that it would introduce complexity and higher compliance costs for industry.

The food industry is still bearing those additional costs due to the inequitable imposition of the GST across food products and their inputs. This highlights the need for the objectives of imposing a tax to be clearly identified – the exclusion of some foods from the GST was in response to community concern that changes in the relative price of some foodstuffs would lead to alterations in the diets of some consumers leading to adverse health outcomes. In providing these exclusions the revenue-raising objective of the GST was subjugated to an alternative objective, namely to influence food consumption patterns in the belief (unproven) that a population health benefit would flow. The legacy is unnecessarily complex and a tax arrangement which requires a 12 page booklet to provide a simplified guide to the tax requirementsⁱ

Recommendation

That the Review note how the differential application of the GST to food products has resulted in unnecessary complexity and costs for the food industry and consider how such outcomes can be avoided in future taxation reforms and arrangements.

ⁱ <http://www.ato.gov.au/content/downloads/Gst18694nat3338.pdf>

2.2 TAXATION TO CHANGE CONSUMER BEHAVIOUR

Taxation raises revenue and historically taxes on food and alcohol had this objective. More recently taxes have been used to change consumer behaviour with the argument being that some consumer behaviour results in costs being borne by the community (a negative externality). Interestingly, a tax may not successfully do both. If consumer behaviour is substantially altered revenue targets may not be met, and if revenue targets are met, consumer behaviour may not have been substantially altered.

The AFGC recognises under some circumstances it is appropriate to use taxation to change behaviour, including consumer consumption behaviour, to achieve specific public policy outcomes. The AFGC considers, however, that it is critical that the principles of good taxation (listed above) are met – the objectives must be clear, the measures must be equitable and compliance costs minimal. It is up to Government to demonstrate that any particular tax it proposes meets these hurdles, rather than leaving it up to the community to highlight shortcomings of the tax.

2.2.1 A comment on the “alco-pops” debate

The recent debate regarding the tax on ‘alco-pop’ beverages illustrates the importance of determining what the primary objective of the tax measure is – and demonstrating it will work.

The increase in tax on ‘alco – pops’ was introduced initially to address concerns regarding high levels of consumption of this type of beverage by young peopleⁱⁱ, as part of the Government’s *National Binge Drinking Strategy*. Arguments supporting its introduction have also been based on the contribution the tax would make to Government revenueⁱⁱⁱ and the closing of a tax loophole^{iv}.

The AFGC does not have a specific view on the alco-pops tax *per se*, except to comment that the difficulty in imposing the tax highlights the importance for Government, whatever the reason for an imposing a tax, to gather convincing evidence that the tax will achieve its objective.

Recommendation

That the Review recommend that imposition of any taxes on goods and services, including those designed to influence individual behaviour are consistent with the principles of good taxation.

3 RESPONSES TO CONSULTATION QUESTIONS

In this section the AFGC will respond directly to the Consultation Questions posed in the Consultation Summary. In doing so, the AFGC will restrict its comments to the use of taxation to influence alcohol and food consumption choices.

ⁱⁱ <http://www.health.gov.au/internet/ministers/publishing.nsf/Content/mr-yr08-nr-nr159.htm?OpenDocument&yr=2008&mth=11>

ⁱⁱⁱ <http://www.alp.org.au/media/0409/pcheagtres150.php>

^{iv} <http://www.alp.org.au/media/0409/msheagtres150.php>

Q11.1 Is it appropriate to use taxes on specific goods or services to influence individual consumption choices, and if so, what principles can be applied in designing the structure and rates of such taxes?

Generally taxation should only be used to influence consumption choices if the principles of good taxation (above) can be satisfied. Additional factors which need to be considered include:

- 1) the complexity of the objective - e.g. a cessation of a behaviour versus a moderation in behaviour;
- 2) the availability and ramifications of alternative choices being made;
- 3) the levels of evidence regarding the rate of taxation necessary for choices to be influenced – specifically some information regarding price elasticity should be available;
- 4) practicality of levying the tax appropriately (i.e. fair, equitable and non-market distorting^v sensible identification of products or services to be taxed); and
- 5) the levels of evidence that changing the choices made will result in a cost-effective benefit particularly compared to other potential policy interventions.

In the food and beverage area the primary reason for imposing taxes, other than to raise revenue has been to moderate consumption for public health benefit

3.1 ALCOHOL

Alcoholic beverages are considered foods under the Australia New Zealand Food Standards Code (FSC)^{vi}. When consumed they contribute to energy intake derived from alcohol (a nutrient in its own right) and from carbohydrates which may also be present. Alcoholic beverages are subject to many of the requirements of other foods within the FSC (with a few exceptions). Unlike other foods, however, alcohol is also subject to regulatory restrictions to moderate its consumption reflecting that it is a drug. These include limits on alcohol levels in beverages and on the location and times of sale and consumption in public. Further regulations restrict the advertising and promotion of alcoholic beverages, and they are subject to self-regulatory codes.

Alcoholic beverages are, therefore, already highly regulated through a number of mechanisms to encourage responsible consumption and discourage over-consumption.

Most Australians drink sensibly without appreciable risks to health. There is community concern, however, regarding the pattern of drinking occurring in some sections of the community – for example, excessive drinking among teenage girls.

The AFGC considers, however, that introducing even more restrictive regulations (i.e. banning advertisements or heavy taxation) is unlikely to be successful in moderating substantially the more damaging and ingrained patterns of alcohol consumption, or reduce greatly the incidence of alcohol-related adverse health outcomes, unless the measures are

^v A tax to influence market choice is clearly intended to be “market distorting”, but it is important that only the intended market distortion results from the imposition of tax.

^{vi} www.foodstandards.gov.au

extreme. Extreme measures are unlikely to gain widespread community support given the roles alcoholic beverages have in the everyday lives of multi-cultural Australians. Certainly there is no evidence or strong argument that this would be the case. Interestingly per capita consumption of alcohol in Australia has remained almost constant in recent years despite it becoming relatively cheaper (23% decrease in household relative expenditure on alcohol over the last 24 years), and despite the manner of its advertising and promotion being substantially restricted.

The challenge, therefore, is not how to get all Australians to drink a little less, but rather how to reduce substantially excessive consumption of alcohol and the anti-social behaviour which often accompanies it.

The great success in Australia of the anti-drink drive campaign demonstrates that it is possible to modify the behaviour of large portions of the population, but the success was due to a combination of effective messaging and the threat of severe penalties.

Notwithstanding this, the AFGC considers the lesson from the drink/drive success is that community values can be changed – it is now generally unacceptable to drink and drive whilst 25 years ago it was almost the norm.

The AFGC considers there is opportunity for the alcoholic beverages industry to collectively take further action in the areas of advertising, packaging and product format to ensure industry practices are in line with modern community values – the key message being not to stop drinking alcohol, but to consume it within safe limits. Working with Government and the public health sector, industry can contribute to specific approaches which might include:

- continuing support for random breath testing;
- responsible education on what constitutes safe drinking;
- ensuring low alcohol beverages are cheaper;
- limiting price promotions on mass media; and
- assisting consumers to better gauge the alcohol content of beverages and their consumption.

If taxation is to become a front-line policy instrument of the Government in combating excessive alcohol consumption Government must firstly establish whether

- 1) it will target excessive consumption by a small part of the population, or
- 2) seek to reduce the already moderate consumption of the majority of the population.

Both approaches require careful consideration of the rate of taxation and the effectiveness of the measure.

If the former is to be the target then it is also important to consider what factors lead to excessive consumption and identify the issues of concern. Issues of concern may include:

- traffic accident injuries and mortalities caused by drink-driving;
- domestic violence associated with drunkenness in the home;

- youth violence and self-harm associated with drunkenness in public places;
- absenteeism caused by ill-health following binge drinking; and
- chronic ill health caused by alcohol-related malnutrition.

In the past most of these have been addressed directly through alternative measures including social marketing and criminal penalties with some success and it would be incumbent upon government to demonstrate that increasing taxation on alcoholic beverages would be more effective, or bolster the effectiveness of these measures. Interestingly, fortification of alcoholic beverages with vitamins has been strongly advocated by public health nutritionists as a means of preventing some of the chronic health problems associated with long-term alcohol abuse^{vii}.

If the intent is to use taxation to reduce overall consumption of alcohol across the broad population issues of social inequity come to the fore. Currently, the taxation of alcohol is not equitable across all alcoholic beverages – specifically the rate of taxation is not proportionate to alcohol content. There is an argument for a “volumetric” tax, set at a level which discourages excessive consumption. There are however some issues from adopting this approach viz:

- the well-off would be less affected than the poor – they have a greater capacity to pay the tax therefore their consumption may not be curtailed (a differential price elasticity). This is a social equity issue;
- very moderate alcohol consumers whose drink choices have no detrimental effect on themselves or society are forced to pay for a public health measure which has no direct relevance to them. This is also a social equity issue; and
- there may be a counter-productive public health effect – it is easier to abuse alcohol when it is more concentrated in the beverage. For example, it is easier to drink large quantities of alcohol in the form of spirits, than in the form of beer. From a public health perspective therefore, it would seem sensible to apply a differential volumetric tax where the level of taxation is disproportionately greater as the concentration of alcohol in the beverage rises. This would mean a greater “per serve” tax for spirits, based on “standard drinks”, compared to other beverages.

The above discussion highlights the complexity in imposing taxes on alcohol to modify individual choices for public health benefit.

3.2 TAXING RISK-ASSOCIATED NUTRIENTS IN FOODS

There is no doubt that poor nutrition is associated with poor health outcomes. In Australia there are high levels of preventable illness including cardiovascular disease, diabetes, osteoporosis and many cancers which have diet as a factor in their aetiology. The rising incidence of adult obesity is also indicative of poor lifestyle, including poor diet choices, leading to over consumption of risk associated nutrients such as fat, saturated fat, salt and sugar.

^{vii} <http://www.mja.com.au/public/issues/jun1/drew/drew.html>

The AFGC considers, however, that proposals to tax foods high in the levels of these nutrients to moderate their consumption are misguided. The AFGC has previously examined the practicality of using the tax system to combat obesity^{viii} ([Appendix 1](#)). **The work demonstrated that not only is there considerable doubt that such a tax would change consumer behaviour, but also that it would be inequitable imposing a proportionately higher cost on the lower-socio economic groups.**

In the light of more recent studies by Drewnowski and colleagues^{ix} the AFGC is concerned that such taxes may have the opposite effect to the one desired resulting in poorer food choices by individuals with further adverse health outcomes. The studies demonstrate that higher rates of obesity in lower socio-economic groups are related (perhaps causally) to the cost per unit energy of foods. Energy dense food are less expensive than fresh fruits and vegetables in “dollar per kilojoule” terms. It therefore makes economic sense when budgets are limited to choose energy dense foods to satisfy hunger. This coupled with the fact that the physical volume of food consumed is directly related to satiety, and therefore energy intake due to the effects of gastric distension^x, suggests that matching energy intake to energy need is more difficult with energy dense foods.

Empirical data of fruit and vegetable consumption across socio-economic groups from the UK shows the lowest decile (measured as net family income) spends 26% of their income per week on food and drink but purchase less than 1kg of fruit and vegetables per person per week. Consumers in the uppermost decile, spend 5% of their income on food and drink but purchase almost 2.5kg of fruit and vegetables^{xi}.

3.2.1 Taxes may lead to other problems

If energy dense foods are made more expensive through the imposition of a ‘fat tax’ the first effect will be to put further pressure on the budget of the poor. This may in turn drive further consumption of cheaper energy dense foods as it is highly unlikely that the level of taxation would be sufficient to reverse the current situation of energy dense foods being cheaper per kilojoule than fresh fruits and vegetables.

There are also some foods which are relatively high in fat which are also very important vehicles for other nutrients – for example dairy products. The recent *Australian Children’s Nutrition and Physical Activity Survey*^{xii} demonstrated that many children have very low calcium intakes – which may lead to bone health problems in later life. It would be unconscionable to impose a tax which might raise the cost of dairy products thereby making them less affordable for families.

^{viii} Critical assessment of proposals for introduction of a ‘Fat Tax’ as a measure to combat overweight and obesity. Report commissioned by the AFGC. Access Economics. August 2002.

^{ix} Drewnowski A & Specter SE. Poverty and obesity: the role of energy density and energy costs. *Am J Clin Nutr* 2004;79:6-16.
Drewnowski A. & Darmon N. The economics of obesity: dietary energy density and energy cost. *Am J. Clin Nutr.* 2005;82(suppl):255S-73S; Mailliot, M. et al. Low energy density and high nutritional quality are each associated with higher diet costs in French adults. *Am J Clin Nutr* 2007; 86:690-6; Drewnowski, A. & Darmon, N. Does social class predict diet quality?. *Am J Clin Nutr* 2008; 87:1107-17.

^x Sturm, K et al. Energy Intake and appetite are related to antral area in healthy young and older subjects. *Am J Clin Nutr* 2004; 80:656-67.

^{xi} Farming and foods contribution to sustainable development. DEFRA 2002. p 37.

^{xii} www.health.gov.au

Given the lack of evidence that taxing energy dense foods would reduce their consumption significantly, and that it may actually exacerbate the obesity problem it would be inappropriate to impose such a tax. This is clearly an area where further research into the relationship between food cost, food consumption and health outcomes is required.

Recommendation

That in the absence of evidence supporting their effectiveness, and with clear evidence of their highly regressive nature and potential to cause harm, suggestions to use taxes on foods to change consumer behaviour be rejected.

The discussion above demonstrates the complexity in using taxes to influence consumer choice for public health reasons and the importance of ensuring that consideration must be guided by well established taxation principles.

Recommendation

That the Review confirms taxes imposed to modify individual choice should adhere to well established principles of taxation to ensure they are the most cost-effective policy intervention.

Q11.2 Can the competing potential objectives of alcohol taxation, including revenue raising, health policy and industry assistance, be resolved? What does this mean for the decision to tax alcohol more than other commodities?

The AFGC has presented argument above which confirms that taxation for revenue raising and health policy may be in conflict. This may also conflict with industry assistance programs run by Government.

The fundamental challenge for Government is to ensure that its policies reasonably reflect the rights, values and concerns of the broad majority of the population whilst at the same time limit any unnecessary constraints on the freedom of population subgroups.

The AFGC considers that Government must examine all policy options, including regulation and taxation and when considering the issue of alcohol, its use and misuse. The AFGC considers that a suite of measures and interventions is most appropriate to ensure that Australians have the freedom to continue to enjoy alcohol in a manner consistent with main stream cultural values and norms.

Q11.3 What is the appropriate specific goal of taxing tobacco? Is it necessary to change the structure or rate of tobacco taxes?

The AFGC has no comment on this issue.

Q11.4 If health and other social costs represent the principal rationale for specific taxes on alcohol and tobacco, is any purpose served in retaining duty free concessions for passenger importation of these items?

The AFGC has no comment on this issue.

Q11.5 Are taxes on specific 'luxury' goods an effective way of making the tax system more progressive? If so, what principles should apply to the design and coverage of these taxes?

The AFGC has no comment on this issue.

Q11.6 Should the tax system have a role in influencing the relative prices of different types of cars, including luxury cars and higher polluting cars, and if so, on what basis? What does this mean for taxes on the purchase price of motor vehicles?

The AFGC has no comment on this issue.

4 CONCLUDING REMARKS

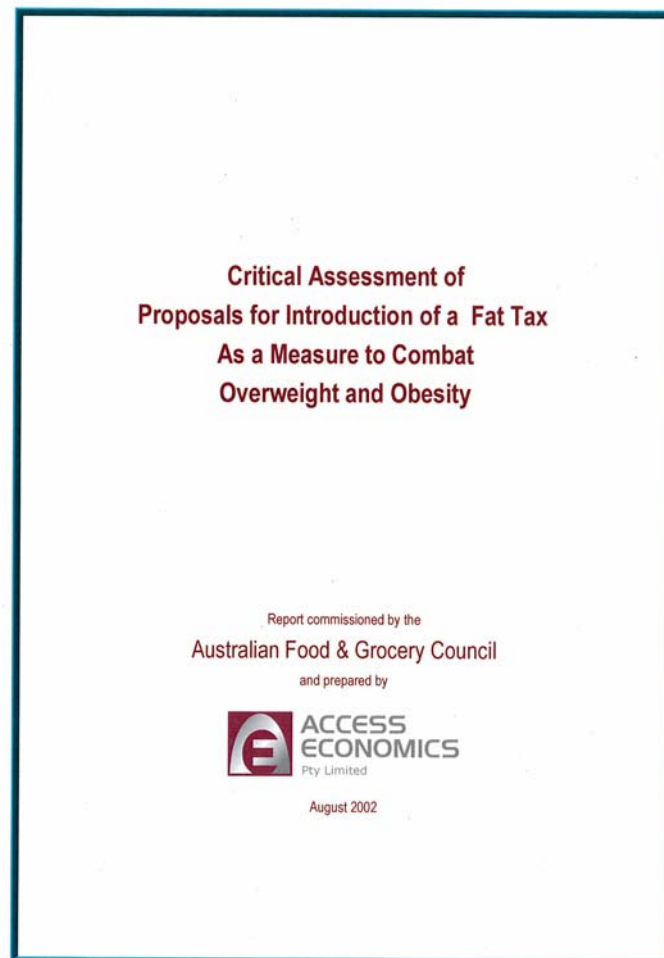
The AFGC considers the primary objective of taxation remains to be to allow Governments to raise revenue to pursue its policy objectives.

Using taxation to further public health objectives remains largely untried both in Australia and overseas, with no definitive paradigms having been established to guide the appropriate use of taxation. The corollary is that there is no established wisdom regarding how to address public health issues of complexity effectively through taxation measures.

In light of this, the AFGC is of the strong view that taxation should be rejected as a public health measure unless clear and compelling evidence is presented which demonstrates that the taxation will achieve the public health objective at least as effectively as other potential interventions, and will result in a net public benefit (i.e. benefits outweigh costs).

5 APPENDIX 1 - ASSESSMENT OF A 'FAT TAX' TO COMBAT OBESITY

The Executive Summary of a report examining the practicalities and effectiveness of introducing of a 'fat tax' is presented. A full copy of the report can be obtained from the AFGC Secretariat.



Foreword

This report has been commissioned by the Australian Food and Grocery Council (AFGC) and prepared by Access Economics.

Growing evidence of overweight and obesity as a major Western economy health problem has induced a variety of suggestions intended to address its causes. Amongst these is the suggestion that an (additional) indirect tax should be imposed on selected food products based on specified criteria such as a high content of fat, sugar and/or salt.

Implicit in this prescription is the assumption that the type of food consumed is a significant contributor to the overweight and obesity problem. Also implicit in this suggestion is the assumption that higher taxation of such products will substantially shift the pattern of food consumption away from such products and towards other, more healthy, foods. We note, however, that the proponents of this initiative also support it as a revenue-raising measure, with the revenue to be used to promote more healthy diets. At least to a significant degree, these two objectives are internally inconsistent.

Access Economics does not rule out the possibility that differential or discriminatory taxation has a role to play in modern economies. But it does start from the three premises that deviations from the broad base/low uniform rate design ideal for taxation of goods and services must (a) be justified by demonstrating a clear case in principle for such deviations; (b) in practice, be an efficient and effective way of promoting the specified objectives; and (c) that the side-effects of the deviations are an acceptable cost to the community.

In this Report, Access Economics applies these three principles to evaluate the in-principle and practical merits of proposals to impose an additional tax on selected food products considered to have unhealthy characteristics.

Access Economics

Canberra

August 2002

EXECUTIVE SUMMARY

This report has been commissioned by the Australian Food and Grocery Council (AFGC) and prepared by Access Economics. It presents a critical evaluation of the proposal to impose an additional discriminatory tax on food products on the basis of high fat, sugar and/or salt content hereafter dubbed the fat tax.

ACCESS ECONOMICS CONCLUSIONS

Access Economics conclusions can be summarised as follows:

- The introduction of a fat tax would be an ill-targeted and ineffective way of improving health outcomes. Above all, it is not targeted at overweight or obese people, but rather at food products consumed in some degree by all people.
- Obesity is related to diet and especially levels of activity relative to energy intake. The fat tax is aimed at changing the composition of the diet away from unhealthy foods, deemed to be those high in fat, sugar and/or salt. It has also been suggested that the tax could raise revenue to fund public health campaigns.
- The twin objectives proposed by advocates of the fat tax (to change behaviour and raise revenue) are internally inconsistent to the extent that the tax raises revenue it does not change behaviour.
- Given that demand for food generally is relatively insensitive to price movements, the fat tax is more likely to raise revenue than change consumption patterns.
- The fat tax would need to be imposed at very high rates to change consumption patterns substantially and have any significant impact on health outcomes. The cost in terms of equity and tax system simplicity would be unacceptably high.
- The fat tax would be regressive, taxing the poor proportionately more than the rich. Poor people who are not overweight or obese would be caught by the tax, even though their consumption of bad foods is not causing them to be either overweight or obese.
- The tax would be extremely complex to design and administer, imposing significant compliance costs on the community and administrative costs on the Australian Taxation Office.
- Any new public health campaigns would be best funded from the budget (and out of general revenue) rather than through the imposition of a fat tax.

PRACTICAL IMPLICATIONS FOR TAXATION POLICY

The policy implications are as follows:

- The introduction of a fat tax is not justified. A fat tax would be neither effective in changing the composition of the diet away from unhealthy food high in fat, sugar or salt, nor equitable across different income groups.



- The tax would catch all people consuming the taxed products, not just those who are overweight or obese. It would be inequitable in this sense as well.
- If, nevertheless, a fat tax were to be considered, an excise-based (volumetric) tax would more accurately target fat, sugar or salt content than an ad valorem tax but it still would not accurately target overweight or obese people.
- Were such a tax to be considered seriously, further detailed studies would be required to assess the social cost of obesity, set tax rates and fat tax-free content thresholds.
- Especially with the existing GST treatment of food, both possible tax base options (volumetric and ad valorem) would be difficult to administer and with which to comply. Given the range of foods high in fat, sugar and/or salt, selection of offending products would be problematic and ongoing.
- A new tax on food, in addition to the already-complex GST treatment of different food products, would create additional multiple tax rates, new anomalies and inconsistencies, and compound existing anomalies.

SUMMARY OF REASONS FOR THESE CONCLUSIONS

The reasons for these findings can be summarised as follows:

Taxes and tax systems are conventionally assessed according to three main criteria: economic efficiency, equity, and simplicity. In general, taxes should be designed to do the job they are primarily designed to do – raise revenue *without* introducing avoidable distortions, unfairness and complexity.

However, the fat tax is designed specifically to distort economic choices *across all consumers*; to increase prices to reflect the social cost of obesity and related health problems. Such a negative externality tax may be appropriate, but only if the tax adequately achieves its objective of changing the relevant peoples' behaviour; and the cost of imposing the tax, in terms of efficiency, simplicity and equity, is acceptably low.

The fundamental weakness of the proposed fat tax is that it targets selected **products**; not overweight or obese **people**. There is no good case to heavily tax consumers of so-called 'bad' foods in the name of tackling overweight and obesity when such consumers are not themselves overweight or obese. Just as it is not sensible or efficient to seek to promote income redistribution through taxes on products rather than taxes on people, so also it is neither sensible nor efficient to seek to reduce overweight and obesity by taxing people who are neither. But this is what the fat tax proposal involves.

Beyond this fundamental flaw, the targeting of the relevant food products, setting relevant thresholds, and policing the system would be either complex and costly – much more complex and costly than the already complex indirect tax treatment of food in Australia – or, if simple, would be very poorly targeted.

And it gets worse.

The fat tax is intended to make certain food types more expensive than others, and, as a result of that, to shift the composition of diet away from such food and towards healthier foods. The available empirical evidence suggests that the fat tax would be ineffective in changing behaviour and would come at a considerable cost.

It has also been suggested that revenue raised through the tax could be used to fund public education campaigns.

However, there is an inherent conflict between these objectives:

- To the extent that the proposal is designed to alter consumer behaviour, and is effective in that respect, it will not raise any additional tax revenue.
- To the extent that the proposal does raise additional revenue, it will be to the extent that it has proven ineffective in shifting consumer demand away from the 'bad' foods subject to the fat tax.



Indeed, the evidence suggests that the fat tax would be quite effective in raising revenue, but precisely because it is ineffective in changing behaviour. Econometric evidence confirms the expectation that demand for food generally is price-inelastic, or relatively insensitive to changes in price. The fat tax would need to be imposed at very high rates to induce any significant behavioural response.

As such, it is not an efficient or effective way of reducing the incidence of obesity and related health problems.

The tax would be highly regressive – poor households (including those whose members are not overweight or obese) spend a larger proportion of total expenditure on food and a larger proportion on many junk foods likely to be caught in the fat tax net. The poor, rather than the rich, would bear the brunt of the new tax. People would pay different amounts of tax, based on their food choices, rather than their income or ability to pay.

There would be considerable practical difficulties in implementing the fat tax as an excise (volumetric) tax or value-based (ad valorem) tax.

An excise tax could in principle more accurately target the content of fat, sugar and salt. However, if fat, sugar and salt each were considered a problem, each food product could be subject to up to three excise taxes (fat excise, sugar excise and salt excise). Difficult judgements would need to be made regarding the contribution of each of these to poor health outcomes and appropriate tax-free thresholds.

While relatively efficient as a revenue-raiser, an excise-based fat tax regime would rate poorly in terms of simplicity in fact, when combined with the existing GST, up to 16 different tax rates would apply to food.

An additional ad valorem-based fat tax regime (like an additional GST) would be highly discriminatory and inefficient. It would not effectively achieve the objective of the fat tax – because the tax would vary in proportion to the product price and not the content of fat, sugar or salt. For example, a \$20 cake would pay the same amount of fat tax, whether it had, say, 10 grams or 30 grams of fat. It would not rate highly in terms of simplicity either, with 4 different tax rates applying to food.

Both tax base options would involve arbitrary distinctions and exacerbate the already complex, discriminatory and anomalous treatment of food that previously existed under the WST, and that continues under the current Australian GST.

While the fat tax may raise revenue it is unlikely to have a significant impact on the mix of food that Australians consume. The cost of this proposal will be the introduction of a highly regressive, complex and arbitrary tax, while the benefit in terms of reducing obesity and improving health outcomes is likely to be small at best.

The concern at the growing incidence of obesity and related health problems is understandable. However, if the fat tax is aimed at significantly discouraging the consumption of bad food as a part a solution, the main problem is that it is unlikely to work.

The other purpose of the fat tax may be to raise revenue for public education campaigns, aimed at encouraging better eating habits. However, the fat tax is an inequitable and costly way of raising funds for this purpose. If the Government considers further public education campaigns to be a priority, they should be funded from the budget, rather than through a new, arbitrary tax that disproportionately taxes the poor and imposes significant compliance costs on the community.

The problems of overweight and obesity should be tackled by initiatives targeted specifically at people – that is, the overweight and obese – rather than ineffective, costly and scattergun proposals such as the fat tax.

APPENDIX 10: AFGC MEMBERS AS AT DECEMBER 2008

<p> Arnott's Biscuits Limited Snack Foods Limited The Kettle Chip Company Pty Ltd Asia-Pacific Blending Corporation Pty Ltd Barilla Australia Pty Ltd Beak & Johnston Pty Ltd BOC Gases Australia Limited Bronte Industries Pty Ltd Bulla Dairy Foods Bundaberg Brewed Drinks Pty Ltd Bundaberg Sugar Limited Cadbury Schweppes Asia Pacific Campbell's Soup Australia Cantarella Bros Pty Ltd Cerebos (Australia) Limited Christie Tea Pty Ltd Clorox Australia Pty Ltd Coca-Cola Amatil (Aust) Limited SPC Ardmora Operations Limited Coca-Cola South Pacific Pty Ltd Colgate-Palmolive Pty Ltd Coopers Brewery Limited Dairy Farmers Group Danisco Australia Pty Ltd Devro Pty Ltd DSM Food Specialties Australia Pty Ltd DSM Nutritional Products Earlee Products Ferrero Australia Fibrisol Services Australia Pty Ltd Fonterra Brands (Australia) Pty Ltd Foster's Group Limited Frucor Beverages (Australia) General Mills Australia Pty Ltd George Weston Foods Limited AB Food and Beverages Australia AB Mauri Cereform/Serrol Don GWF Baking Division George Weston Technologies Jasol Weston Cereal Industries GlaxoSmithKline Consumer Healthcare Golden Circle Limited Goodman Fielder Limited Meadow Lea Australia Quality Bakers Aust Pty Ltd H J Heinz Company Australia Limited Hans Continental Smallgoods Pty Ltd Harvest FreshCuts Pty Ltd Hoyt Food Manufacturing Industries Pty Ltd </p>	<p> Johnson & Johnson Pacific Pty Ltd Pfizer Consumer Health Kellogg (Australia) Pty Ltd Day Dawn Pty Ltd Specialty Cereals Pty Ltd Kikkoman Kimberly-Clark Australia Pty Ltd Kerry Ingredients Australia Pty Ltd Kraft Foods Asia Pacific Lion Nathan Limited Madura Tea Estates Manildra Harwood Sugars Mars Australia Mars Food Mars Petcare Mars Snackfood McCain Foods (Aust) Pty Ltd McCormick Foods Aust. Pty Ltd Merino Pty Ltd Merisant Manufacturing Aust. Pty Ltd National Foods Limited Nerada Tea Pty Ltd Nestlé Australia Limited Nestlé Foods & Beverages Nestlé Confectionery Nestlé Ice Cream Nestlé Nutrition Foodservice & Industrial Division Novartis Consumer Health Australasia Nutricia Australia Pty Ltd Ocean Spray International Inc Parmalat Australia Limited Patties Foods Pty Ltd Peanut Company of Aust. Limited Procter & Gamble Australia Pty Ltd Gillette Australia PZ Cussons Australia Pty Ltd Queen Fine Foods Pty Ltd Reckitt Benckiser (Aust) Pty Ltd Ridley Corporation Limited Cheetham Salt Limited Sanitarium Health Food Company Sara Lee Australia Sara Lee Foodservice Sara Lee Food and Beverage SCA Hygiene Australasia Sensient Technologies Simplot Australia Pty Ltd Spicemasters of Australia Pty Ltd Stuart Alexander & Co Pty Ltd Sugar Australia Pty Ltd SunRice </p>	<p> Swift Australia Pty Ltd Symrise Pty Ltd Tate & Lyle ANZ The Smith's Snackfood Co. The Wrigley Company Unilever Australasia Wyeth Australia Pty Ltd Yakult Australia Pty Ltd </p> <p>Associate members</p> <p> Accenture Australia Pork Limited ACI Operations Pty Ltd Amcor Fibre Packaging CHEP Asia-Pacific Concurrent Activities Dairy Australia Exel (Aust) Logistics Pty Ltd Focus Information Logistics Pty Ltd Food Liaison Pty Ltd FoodLegal Food Science Australia Foodbank Australia Limited IBM Business Cons Svcs innovations & solutions KPMG Legal Finesse Linfox Australia Pty Ltd Meat and Livestock Australia Limited Monsanto Australia Limited Promax Applications Group Pty Ltd Sue Akeroyd & Associates Swisslog Australia Pty Ltd The Nielsen Company Touchstone Cons. Australia Pty Ltd Visy Pak Wiley & Co Pty Ltd </p> <p>PSF members</p> <p> Amcor Fibre Packaging Bundaberg Brewed Drinks Pty Ltd Cadbury Schweppes Asia Pacific Coca-Cola Amatil (Aust) Limited Foster's Group Limited Golden Circle Limited Lion Nathan Limited Owens Illinois Visy Pak </p>
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