Financial penalties on unhealthy foods
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Financial Penalties on Unhealthy Foods - the “Fat Tax” in Denmark

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Agenda

- The dietary status in Denmark
- Some background for the “fat tax”
- Regulating dietary habits in a theoretical setting
- The new tax “package”
  - Sugar tax
  - The fat tax
    - The difficult delivery of the fat tax, proposals, discussions and modifications
  - The final proposal
- The industry
- What is the assumed effect of the tax?

Only a limited amount of obese

"Good" trends in nutrient consumption

"Good" trends in nutrient consumption

High awareness of dietary recommendations

Source: Smed (2008): Empirical essays on health information and consumer behaviour, PhD Dissertation

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Source: Andersen L.M. (2010): Documentation of CONCEPTS questionnaire
There is a social bias in obesity

Only a few fulfil the dietary recommendations

And we die too early

• Smoking, bad diets, alcohol and inactivity are cause of 40% of all deaths
  • Excess intake of saturated fat 3.7%
  • Smoking 23.8%
  • To little fruits and vegetables 3.8%
  • Inactivity 7.4%
  • Alcohol 5.2%
• Prevention committee
  • Increase average years of life with 3 years over a period of 10 years
  • 51 recommendations
  • Increasing the tax on sugar and impose a tax on saturated fat

History of food taxes in Denmark

• We have a VAT on 25% on almost everything
• Cigarettes, alcohol and soft-drinks

Why do economists like taxes?
Arguments for taxing food
• Opposite bans consumers have the possibility of adjusting to the changed conditions
• The price of the food will reflect the social cost of consuming that food
• Revenue for the authorities – can be used for health promoting activities

Arguments against taxing food
• You want to tax abuse NOT use
• Administration costs
• Food is a private thing
• Regressive effect of taxation

The 2010 tax reform
• Increased taxation of tobacco by 0.4 € per 20 cigarettes.
• Tax on sweets, chocolate and sugar products and ice cream is increased by:
  • Sugar-products 0.48 €/kg
  • Ice-cream 0.11 €/litre
    • This means that the tax on a 100 grams bag of sweets increases from 0.19 € to 0.24 €
• Tax on soft drinks with sugar increases by 0.04 €/litre and decreases by 0.04 €/litre on sugar free soft drinks
  • Tax on 1 litre of e.g. Coca Cola increases from 0.12 € USD to 0.16 € or decreases to 0.08 €
• Tax on saturated fat

Danish nutrition policy
What does the reform imply?

Before tax-reform: Price = $8.45 + $0.76 = $9.22

After tax-reform: Price = $8.45 + $0.90 = $9.35

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Before tax-reform: Price = $8.45 + $0.76 = $9.22

After tax-reform: Price = $8.45 + $0.82 = $9.27

History of the fat-tax proposal

• Original proposal - saturated fat with milk and meat exempted
  - Meat contribute with 22% of total fat and 19% of sat. fat
  - Drinking milk contribute with 19% of total fat and 16% of sat. fat
  - EU – commission found it anti-competitive

• Modified proposal
  - Tax on saturated fat (except milk) 13.50 DKK/kg (1.81 €)
    - The cost of a packet of butter (250 grams) increase by 0.3 €
    - The cost of 250 g chips increase by 0.08 €
  - Meat – taxed according to estimated content of fat by means of animal type
    - Beef 10 g saturated fat/100 g
    - Pork 12 g saturated fat/100 g
    - Poultry 3.4 g saturated fat/100 g

Final proposal

• Major critique points of “fat tax”
  - The “fat” pig
  - The undiversified “tax” on meat

• Final proposal passed in the Parliament the 17th of March 2011
  - Coefficients on saturated fat adjusted to Danish conditions
  - Possibility to differentiate according to cut of meat
  - Tax increased to 2.15 € per kg saturated fat
  - Start October 2011
The estimated effect of the fat tax on consumption

Model concept

Policy
Tax/subsidy on nutrients
Food/nutrient conversion model
Price elasticities
Food prices
Food consumption
Target
Nutrient intake

Suggested outcome of tax on saturated fat

Change in consumption of specific food groups

Change in pork consumption if tax is differentiated

Change in cheese consumption if tax is differentiated
Estimated revenue from tax reform

- Health taxes in total 2.75 billion D.kr. in revenue to the state (cigarettes, sugar and fat)
- Fat tax will provide a bit more than 1.2 billion D.kr in revenue
- Will cost each household almost 550 D.kr/year

On a longer term basis

- Evaluation of natural experiments
- Cost – benefit analysis of the use of taxation
  - Calculation of administration cost
  - Short and long term welfare economic costs
- How to design a subsidy/tax scheme most effectively
  - In order to decrease social bias in obesity
  - In order to get most "efficiency"
- Are there synergy effects from combining taxation schemes and information campaigns?

Literature/contact

- Email: ss@foi.dk

More on the topic


More on the data used for model estimation