

Tax 'HFSS' foods, view it as a public health imperative

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Combined with nutrition literacy and effective food labelling, tax on High-Fat Sugar Salt (HFSS) foods can help improve health outcomes

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'Current GST rates on ultra-processed foods, such as salty snacks and SSBs, do not adequately align with nutritional content' | Photo Credit: Getty Images

The consumption of High Fat Sugar Salt (HFSS) foods is one of the major risk factors to a host of health issues that include obesity, diabetes and high blood pressure. According to a World Bank report of 2019, worldwide, 70% of all overweight and obese people live in Low- and Middle-Income Countries, with a 55% rise in rural areas across the globe, dispelling the perception that overweight/obesity is only a problem in high-income countries and urban and affluent communities. The Non-Communicable Diseases (NCDs) burden in India has skyrocketed from 38% in 1990 to 65% in 2019. The global burden of diseases study shows that annually, 1.2 million deaths in India can be attributed to dietary risks alone. The economic impact of overweight and obesity in India was estimated at \$23 billion in 2017. If unattended, this is likely to rise to \$480 billion by 2060.

India's shift in dietary habits

The ultra-processed food sector in India witnessed a compounded annual growth rate of 13.4% between 2011 and 2021. As the world's largest producer and consumer of sugar in 2022, the country has seen an alarming surge in consumption of HFSS foods. About 50%-60% of edible sugar, salt and fat produced in India is consumed by the processed food industry. Sales of snacks and soft drinks have tripled over the past decade, exceeding \$30 billion last year, indicating a disturbing trend in dietary habits. This not only poses severe health risks but also impacts productivity and economic growth, necessitating urgent interventions to curtail the rising consumption of these products.

There is a global trend of utilising fiscal measures to combat obesity. Taxation is considered to be an effective means to reduce the consumption of these products as most consumers are price responsive towards them. While taxation on sugar-sweetened beverages (SSBs) is far more wide and used in more than 60 countries, taxation on HFSS food is less common, although rapidly increasing. Some 16 countries including Denmark, France, Hungary, Mexico, South Africa, the United Kingdom and the United States, among others, now have a dedicated tax on HFSS foods. Most recently, Colombia's "junk food law" introduced a gradually increasing levy on ultra-processed foods, providing a model for other nations. In India, Kerala had also introduced a 'fat tax' way back in 2016, which later got subsumed into India's Goods and Services Tax in 2017.

Case for high HFSS tax

The imperative for taxing HFSS arises from significant market failures associated with their consumption, contributing to negative externalities and internalities. Negative externalities manifest as societal costs in the form of increased health-care expenditures. For example, the escalation of diabetes and obesity due to increased HFSS consumption leads to external costs imposed on society, necessitating substantial health-care expenditures, borne through elevated taxes to finance public health insurance such as the Ayushman Bharat Yojana. Meanwhile, internalities, stemming from consumers' limited understanding, influenced by aggressive marketing, result in inadvertent harm to themselves. Taxes can offer a targeted and effective means to curb detrimental consumption habits, thereby reducing societal burdens. Implementing such taxes has shown promise in various countries, demonstrating a reduction in the purchase of unhealthy items.

Unlike the taxation of other sin goods such as tobacco and alcohol, the HFSS taxation need not be viewed as a means for raising revenue, but should be seen as a fiscal tool to incentivise the industry to reformulate the products more in favour of healthier alternatives and for people to reorganise their food consumption basket in favour of a healthier diet. If properly designed, HFSS food tax can be both non-regressive, and fiscally neutral. A recent study on South Africa's Health Promotion Levy showed that there were larger relative reductions in purchases of taxable beverages among lower socio-economic status (SES)

households compared with reductions observed in higher SES households, making such taxes non-regressive. Tax rates need to be differentiated based on the nutritional quality of the food so as to incentivise product reformulations. For example, it is possible to have a GST system with HFSS foods in the highest rate structure while their healthier alternatives have either zero or minimal tax rates so that the net tax burden on a household's food consumption basket remains the same. This would create a level-playing field between HFSS and their healthier alternatives, making healthier food choices more affordable and accessible.

GST and nutritional content

Current GST rates on ultra-processed foods, such as salty snacks and SSBs, do not adequately align with nutritional content. For example, tax on SSBs with a 28% GST rate and 12% compensation cess, overlooks sugar content. All aerated beverages are taxed uniformly as well. Similarly, juices face a flat 12% rate, irrespective of their fruit and sugar content. Salty snacks are taxed at 12% regardless of their salt content. Such inconsistencies fail to consider the varying nutritional impact of these products and hence show limited impact on altering consumption baskets in favour healthier alternatives.

HFSS taxation in India should not be merely seen as an economic or fiscal policy concern but it deserves to be considered a public health imperative. Effectively designed taxes can reap multiple benefits — they can act as a deterrent to consuming HFSS; promote healthier food choices; prompt manufacturers to reformulate foods; improve public health outcomes; reduce the burden on the health-care system, and foster the nation's well-being. When combined with other measures such as promotion of nutrition literacy and effective food labelling, it can be a more potent tool to combat the rising epidemic of overweight and obesity by creating a more sustainable and equitable food system.

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