

Why is healthy food increasingly out of reach for the Brazilian population?

PROPOSALS FOR A TAX POLICY TO FIGHT HUNGER, PROMOTE HEALTH, AND PROTECT THE ENVIRONMENT.

Brazil is living in a challenging and contradictory time. While we are considered the world's breadbasket, millions of Brazilians are going hungry or falling ill due to poor diet or lack of access to healthy food in our country. This reality mainly affects ethnic minorities, the black population, and low-income communities.

A recent study revealed an alarming statistic: some 57 thousand premature deaths in Brazil in 2019 are attributable to the consumption of ultra-processed products (UPPs), accounting for 10.5% of all premature deaths in Brazilian adults¹. Studies like this show the urgency of placing this issue at the center of the public debate.

FOOD CONTEXT IN BRAZIL AND ITS IMPACT ON THE POPULATION'S HEALTH AND THE ENVIRONMENT

HEALTH

33 million Brazilians are now going hungry, and 125.2 million do not feel sure of their ability to eat adequately in the future²; **6 out of 10 adults and 1 out of 3 children are overweighted**³.

2.21 million cases of overweight and of obesity in adults and more than 721 thousand cases in children and adolescents are attributable to consumption of sugar sweetened beverages.

ENVIRONMENT

In the last 30 years, changes to the Brazilian population's diet have left major environmental impacts and are at the center of the climate crisis, increasing greenhouse gas emissions and intensive use of natural resources.

HEALTHY VERSUS ULTRA-PROCESSED FOODS

Why are we living this reality? Because Brazil's fiscal and economic policies have been designed to encourage the production of agricultural commodities and industrialized products rather than stimulating the production and consumption of healthy foods such as rice, beans, fruit, greens, and vegetables.

The price hikes on foods and beverages express this reality all too starkly. From 2006 to 2022, food prices increased 1.7 times more than overall inflation, and prices on healthy foods increased nearly 3 times more than those for UPFs.

The following factors explain the price increases:

- _ Global economic and climate crises.
- _ Exchange rate fluctuations.
- _ Organization of the agrarian structure favoring land use for growing commodity crops such as soybeans and corn rather than rice, beans, fruits, greens, and vegetables.
- _ Decrease in domestic grain reserves for price regulation.
- _ Dismantlement of public policies for production and access to healthy foods.

Another factor is the huge tax inequality in food production, processing, and marketing, increasingly making UPFs cheaper and more accessible.

HOW TAXATION FAVORS ULTRAPROCESSED FOODS



Many situations reveal the inequality in food taxation. Healthy foods and ingredients generally receive the same or worse treatment as UPFs, facing hurdles to enter Brazilians' basic food basket, in unfair competition with industrialized products containing poor nutritional quality.

In addition, the inputs used in conventional crop and livestock production also enjoy tax breaks and exemptions that are denied to agroecological production and family farming. While large agricultural corporations and UPF industries enjoy the lowest possible tax burdens, small farmers are unable to compensate for the accumulated taxes in the downstream production chain and end up having to cover the losses.

EXAMPLES OF UNEQUAL TAXATION

Chocolate-flavored milk and instant noodles pay zero federal taxes, while whole fruit juices (minimally processed) pay 9.25% (noncumulative) or 3.65% (cumulative).

Although the IPI excise tax is based on the product's essentialness, **UPPs such as instant noodles, nuggets, and fruit nectars are exempt from it.**

Sodas enjoy a very low excise tax (currently about 2.6%), the same as bottled mineral water. If they contain any fruit, guarana, or açaí, they receive an additional tax break of 25% to 50%.

Since a large share of soda concentrate is produced in the Manaus Free Zone, **the sugar-sweetened beverages industry fails to pay BRL 3-4 billion (US\$ 600-800 million) in taxes every year.**

In São Paulo state, hotdogs are part of the food basket and pay the same value-added tax (ICMS) as rice and beans (7%). The same holds for instant noodles in the state of Bahia.

The fiscal war between Brazilian states pushes the prices up on natural and minimally processed foods. The state of Amazonas levies a 12% value-added tax on rice and beans grown in the state. If they are grown in other states, the VAT is increased to 18%.

No tax policy exists to favor organic or agroecological foods. Organic whole grape juice pays nearly four times more taxes than grape nectar, which is a UPF.

Although not levied with excise or value-added taxes, the production chains for **natural foods are burdened with embedded taxes that increase the final prices,** paid in the purchase of inputs, services, and labor.

Exemptions on exports help expand the markets for the agricultural export system, which is connected to the UPP industries.

Thanks to the so-called Simplified Tax System ("Simples Nacional"), **the classification of farmers as physical persons or Individual Micro-Entrepreneurs does not allow them to draw tax credits for inputs.**

SOLUTION – BRAZILIAN TAX REFORM

BRIEF CONTEXT

After more than 30 years of discussion and numerous attempts by various governmental administrations, a pivotal phase of Brazilian tax reform focusing on consumer product taxes was ratified through a constitutional amendment in the National Congress in December 2023.

With the primary objective of enhancing efficiency and transparency in the current tax system, the approved framework consolidates five levies into a dual value-added tax (VAT) system with distinct federal and regional rates, and introduces several new components:



Excise Tax: Introduction of an excise tax to reduce the consumption of products harmful to health and the environment.

National Basic Food Basket: Establishment of a zero-tax rate national basic food basket, reflecting the cultural diversity of the country, aiming to provide nutritious food and also ensuring zero-Tax Rate for fruits, vegetables, and eggs.

Reduced Tax Rate for Food and Agricultural Inputs: Implementation

of a lower tax rate (60% of the average tariff) for “food for human consumption” and “agricultural inputs.” However, broad definitions might unintentionally benefit harmful ultra-processed foods and pesticides.

Complementary Laws: All food categories and their tax rates to be detailed in a complementary law based on a 2024 bill proposed by the Ministry of Finance.

VAT Exemption and Tax Credits for Small Producers: Exemption from

dual VAT for family farms and small producers earning less than USD 0.8 million, along with tax credits to enhance competitiveness against larger producers.

Cashback Mechanism: Creation of a cashback system to refund taxes paid by low-income individuals.

Manaus Free Zone: Preservation of tax benefits for the production chain of sugary drinks within the Manaus Free Zone.

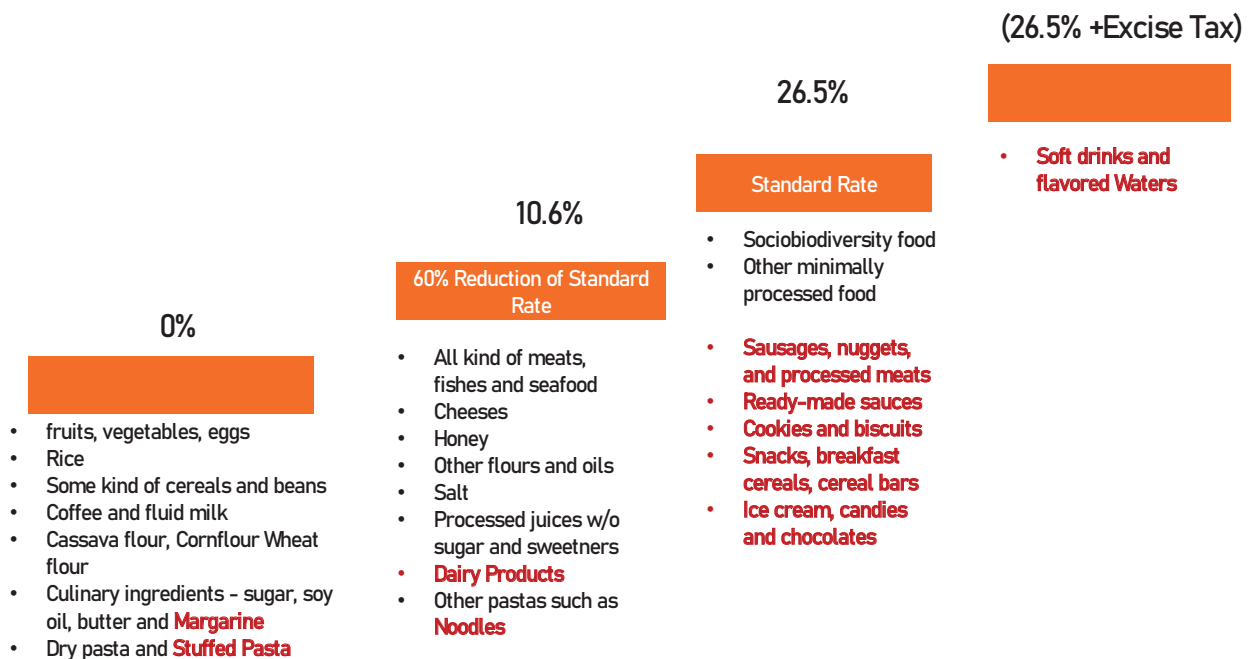
UPCOMING LEGISLATION

During the first months of 2024, civil society and academia collaborated with the Ministry of Health and the Ministry of Social Development to provide a list of foods and their respective tax rates to the Minister of Finance, using the Brazilian Dietary Guidelines as the primary framework. In other words, the level of processing of NOVA Classification was the main criterion, with proposals suggesting that in natura and minimally processed foods should receive tax exemptions, while

ultra-processed products (UPPs) should face higher tax rates. The tax reform in Colombia, which included the taxation of ultra-processed products was a important inspiration to the Ministry of Health had submitted a proposal to the Ministry of Finance with a comprehensive list of UPPs for the excise tax. An unprecedented study, developed in partnership with the Faculty of Economics in São Paulo (FEA), simulated the impact on

consumption and tax revenue in a scenario with exemptions for healthy foods and an excise tax on ultra-processed products (tax rate: 20%). The main results indicated an 8.1% increase in the purchase of healthy foods (by weight) and a 19.6% reduction in the purchase of ultra-processed products. Additionally, the study projected a potential revenue of approximately USD 1.8 billion from the tax on ultra-processed products.

On July 26th, the Minister of Finance presented a bill proposal to regulate a tax reform to the National Congress and it is important highlight how foods were classified in their respective aliquot ranges



Positive Aspects: Despite the inclusion of some ultra-processed products such as margarine, dairy compounds, and instant noodles in the basic food basket and exemptions list, it is noteworthy that the Ministry of Finance maintained a restricted list and did not yield to pressure from the food industry.

Points of Concern: The proposed excise tax was limited to only to soft drinks and sweetened carbonated waters. This leaves out other equally harmful sugary beverages, such as fruit nectars and dairy drinks and several minimally processed and socio-biodiversity foods were subject to a standard rate.

Our main objective in the Complementary Laws processing in the National Congress is now trying to avoid more exemptions for UPPs and expand the category of SSBs and include some categories of UPPs.

INDUSTRY INTERFERENCE

The reform has faced substantial resistance from interest groups, particularly the food industry and agribusiness. These groups actively sought mechanisms to preserve fiscal benefits and prevent the implementation of the excise tax on ultra-processed products. Beyond lobbying through the agribusiness and entrepreneurship caucus, the food industry conducted various actions, especially in the media, to discredit the Nova classification and its researchers.

CIVIL SOCIETY PARTICIPATION

Civil society organizations play a pivotal role in providing the necessary support to increase public and political backing for the UPP taxation. Beyond direct lobbying, several actions have been undertaken in Brazil to engage stakeholders, influencers, the public, and other CSOs:

Mass media campaign focusing primarily on UPPs and their externalities

Manifesto with former health ministers, health professionals, and influencers to support the excise tax on UPPs

Minidocumentary about UPPs and their externalities

Press releases, op-eds, and social media campaigns

Partnership with investigative journalists to expose industry interference

Studies on economic impact, simulating scenarios with exemptions and excise taxes