



AN INDEPENDENT NEWSPAPER



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# Taxing fat, killing jobs

Have Europe's food industries lost the plot?

BY NEIL HRAB

Dark clouds of uncertainty now hover over the future of some 26,000 European companies and their 2.6 million employees. These firms represent Europe's food industry, which ranks as the third largest sector of the EU's economy. The reason for this uncertainty is the failure of EU member states to oppose proposals by the World Health Organization (WHO) for higher food taxes around the world. If the EU adopts the WHO's idea, these higher food taxes may hurt the European food industry's opportunities to grow and to create new jobs - a prospect few people will welcome, at a time when average unemployment in EU member states runs at 8.1%.

The WHO's demands for higher taxes on food are laid out in a planning

document known as the "Draft global strategy on diet, physical activity and health." (Available at: [www.who.int/gb/EB\\_WHA/PDF/EB113/eeb11344a1.pdf](http://www.who.int/gb/EB_WHA/PDF/EB113/eeb11344a1.pdf)) The draft strategy calls on WHO member states to "use tax policy and other fiscal measures in a manner that promotes health." The document elaborates on this point further. It notes that food prices directly influence "consumption choices" and points out how some countries "use taxes to increase or decrease consumption of [particular kinds of] food." The WHO believes that, globally-speaking, "excessive consumption of fatty, sugary and salty foods" has reached crisis proportions. The WHO therefore wants governments in developed countries - especially those where upwards of 10% of the population is obese - to



**"To say that many observers were surprised to see an industry association publicly cheering on the prospect of higher taxes on its members' products is an understatement."**

force consumers to change their eating habits by imposing taxes on fatty foods.

On January 19, the Confederation of the Food and Drink Industries of

the European Union (CIAA) issued a press release pledging support for the WHO's proposed tax hike, as announced. The CIAA, according to the release, "welcomes

the WHO Global Strategy and looks forward to work with WHO and national governments in its execution." To say that many observers cont p2

## Innovation and jobs are key priorities of the Irish EU Presidency

BY ANN CAHILL

How to manage a meeting of 25 ministers without it turning into a series of boring monologues is a problem being addressed by the Irish Tánaiste (deputy prime minister) for

her informal Competitiveness council meeting.

The theme of the event in Shannon, Ireland is innovation and the Irish presidency has been working on an innovative way to make it productive.

In many ways the

meeting will be the flagship of the Irish Presidency because its priority is innovation and jobs.

The Tánaiste, Mary Harney, has lined up some leading lights from the global IT industry, including from the US,

to speak at the April meeting.

She hopes this will stimulate dialogue between the business leaders on the one hand and the European competitiveness ministers and the Commission on the other.

"This form of dialogue is new and has the capacity to stimulate original thinking about how Europe is to encourage growth and a knowledge based economy" she told the European Parliament's

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## From our notebook



## What they are really saying

— and we have been unable to get on-the-record

"Most of the right wing British Conservative MEPs in the European Parliament are busy reinventing themselves. There will be no parting with the Christian Democrats.

**A senior Conservative MEP**

"The tobacco industry is being denied the right of free speech. We have a right to be heard on issues that are of public interest."

**A tobacco industry lobbyist overheard in Brussels.**

"Commissioner Byrne has highlighted the shortcomings of the food industry umbrella groups to lobby effectively. They are all at odds and that includes their memberships. Unfortunately it makes a mockery of the consultation process and that is something we need to consider."

**A senior Commission official**

"The language debate is a democratic process. It will be conducted in French."

**A senior Commission official**

"I never realised how many people think the European Parliament is important because I seldom came here before."

**A European Commission official**

"The Irish Presidency is proving popular. No great agenda but plenty of Guinness"

**A European Parliament official**

"Do you realise that the next effective Presidency will be British in 2005 because the first months of the new Commission will be spent preparing Green papers."

**A Dutch journalist on the prospect for his country's second half presidency in 2004**

"If the Belgians are allowed to close their borders to citizens from the enlargement countries until 2006 there is a clear issue of access to their democratically elected representatives. This must be challenged."

**A senior MEP**

"Hotels in Brussels are less than half full this year. If it weren't for the EU institutions some would not exist at all."

**A leading hotelier in Brussels**

"The menu here is in English. That's why we like eating here. The food tastes better."

**A British businessman at the White Hart Inn, Buxted, East Sussex, UK**

## Taxing fat, killing jobs

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were surprised to see an industry association publicly cheering on the prospect of higher taxes on its members' products is an understatement. But the CIAA - the "voice of [the] EU food and drink industry" - has spoken.

## Fat tax just the start

What the CIAA may not be aware of is that direct taxes on the sale of fatty foods may just be the beginning. Take the example of alcohol taxes. During a January 5 debate in the British House of Commons. Ross Cranston, a Labour Party MP, described alcohol as "a product that, in certain circumstances, has serious negative consequences for our health and society," and mused about the question

of finding new ways to force the alcohol industry to "take financial responsibility for [these] social costs [associated with abuse of alcohol]." He also alluded to a debate underway in the Labour Party about using special taxes on alcohol advertising to recoup these costs. Following Mr. Cranston's remarks, Melanie Johnson, the Parliamentary Under-Secretary of State for Health, said she looked "forward to hearing what people have to say about the proposals for an advertising levy" at a major upcoming Labour Party meeting.

Using taxation policy to mould consumer behavior is hardly a new thing. Across the Atlantic, governments in Canada and the United States at

various jurisdictional levels have long used so-called "sin taxes" on things such as alcohol and tobacco. These taxes are supposed to accomplish two things. One, of course, is to raise money. The other is, nominally, to improve public health by reducing consumption of these allegedly "sinful" products.

There's an odd contradiction at the heart of the WHO's demand for higher taxes on fatty foods - a contradiction that has coincidentally dogged the spread of sin taxes in the North American context. It's a contradiction that the CIAA, had it been more keen on standing up for its members' interests, might have wanted to point out to the WHO.

The contradiction is as follows: as American economist Phineas Baxandall has observed, "singling out a vice for

taxation indirectly promotes the activity as a virtuous contributor to the public purse." For example, when North American lawmakers increase taxes on cigarettes, even though they claim that their objective is to discourage consumers from smoking, their actions betray what Baxandall calls a "tacit acceptance" of the very same activity they say that they oppose. This raises questions about whether they in fact really want to discourage smoking. If legislators truly want to stamp out smoking, then they should instead be trying to use what Baxandall calls "non-tax measures" to actively discourage smokers from using tobacco products. They could ban all sales of cigarettes, rather than simply taxing them. The legislators' professed concern about public health, from this perspective, looks like a disguise for another, more self-serving goal - raising taxes and tapping into a new revenue source.

## Revenue opportunity

We can use this example to tease out one possible explanation for why no EU member state spoke out forcefully against the WHO's call for higher food taxes. If EU member governments really did believe that the global food industry knowingly promotes products that contain dangerous levels of "saturated fats, sugar and salt" to consumers, and that these products threaten public health, then one would expect them to make plans to banish all such products from the marketplace. But they have not.

Like their North American counterparts and their "sin taxes," EU member states may see the WHO's tax on fatty foods as an opportunity to develop a new revenue stream. They have good reason to, given the current economic situation in Europe. As a January 21 report by the European Commission noted, in the eurozone region, "the average nominal budget deficit worsened further in 2003 to 2.7 percent of GDP." A sin tax on candy bars, potato crisps, foie gras, cheese, and other fatty food products could plug that deficit rather nicely.

The next major WHO meeting takes place in May, at its annual World Health Assembly. Given the stakes - the economic fortunes of up to 26,000 companies and their 2.6 million employees - one hopes that the CIAA can rethink its knee-jerk support for the WHO's call for higher food taxes.

Neil Hrabis Warren T. Brookes Fellow at the Competitive Enterprise Institute.

## Innovation and jobs are key priorities of the Irish EU Presidency

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External Trade, Research and Energy Committee.

Europe's future economic success depends on innovation and research - but she pointed out in her presentation to the Committee, its scientists and researchers prefer to work in the US.

She said ways must be found to attract them back, and to attract more non-EU scientists to work in the Union, if Europe wants to stimulate growth and jobs.

As Europe continues to lose competitiveness to the US the latest figures show that 40% of the entire US science and research community is made up of EU science graduates.

At the same time only one in four science and technology graduates from the Far East who move abroad to work end up in Europe, Ms Harney told the Parliament's Industry, External Trade, Research and Energy Committee.

"Innovation drives economic activity, growth and enterprise which is why the research agenda is so

critically important for the EU. We produce more scientists and researchers than the US but too many of them move to the US to work. We must provide more incentives to keep these graduates in Europe and to attract others to work here," she said.

The Irish Presidency is prioritising the ongoing negotiations designed to facilitate the free movement of scientists and researchers, and their families, within the EU and into the EU from third countries, she said.

## Bigger research budget

Ms Harney said a larger proportion of the EU budget should be devoted to research to kick-start investment and activity in the private sector, and the rules and regulations dealing with access to research funds needed to be greatly simplified.

She promised to bring some new thinking to this issue over the coming months but there was also

a need for closer links between industry and the higher education system, similar to those developed in the US, she said.

## Intellectual property

The broad issue of intellectual property rights and the lengthy and continuing negotiations on the Community Patent were key components of the legal infrastructure needed to support research and innovation.

Ms Harney said the Irish Presidency intends to try and reach agreement on the few outstanding issues holding up final agreement on the Patent.

"It is vitally important that we reach a political agreement on this issue which has been on the agenda now for 14 years," she said.

Ireland has made innovation and jobs its key EU Presidency priority and will be pushing the Lisbon agenda at the spring summit in Brussels in March.

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<http://www.eureporter.co.uk> • [editor@eureporter.co.uk](mailto:editor@eureporter.co.uk)

## Executive Editor

MALCOLM TRAVERS [malcolm@eureporter.co.uk](mailto:malcolm@eureporter.co.uk)

## European Parliament Editor

CHRIS SCOTT-WILSON [csw@eureporter.co.uk](mailto:csw@eureporter.co.uk)

## EP Contributing Editors

CLARA WORTHINGTON [clara@eureporter.co.uk](mailto:clara@eureporter.co.uk)

MICHELLE SCHMITZ [michelle@eureporter.co.uk](mailto:michelle@eureporter.co.uk)

## Advertising Director

JAN TALJAARD [jan@eureporter.co.uk](mailto:jan@eureporter.co.uk)

## Publisher

BESTPART LTD (UK)

CHRISTOPHER WHITE [chris@eureporter.co.uk](mailto:chris@eureporter.co.uk)

Letters to the Editor: [editor@eureporter.co.uk](mailto:editor@eureporter.co.uk)



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