

**Recommendations to Health Canada**

Pouring Over the Numbers: Evaluating the Effects of a Tax on Sugary Drinks

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Canada has an obesity issue.

While genetic factors may contribute to individuals' susceptibility to this condition, the rapid increase in obesity at the population level in recent decades suggests that social and environmental factors play a significant role. Our sedentary routines and the surge in direct screen time have led to an obesogenic environment. This coupled with a “nutrition transition” – an increase in the consumption of nutrient-poor, processed, and energy-dense foods – has heightened patterns of consumption that foster the prevalence of non-communicable diseases (NCDs).<sup>1</sup> One built-in cause-and-effect of this issue is the excessive consumption of sugar: two out of three Canadians exceed the recommended sugar intake advised by both Canada’s Food Guide and the World Health Organization (WHO).<sup>2</sup>

The consumption of sugar-sweetened beverages (SSBs) is at the heart of the inflation of adverse health conditions. SSBs are categorized as non-alcoholic beverages containing sugar. They comprise a broad range of energy drinks, enhanced milk, juices, carbonated soft drinks and vitamin waters.<sup>3</sup> Drinking a singular sugary beverage daily raises the chances of adults and children being overweight by 27 percent and 55 percent, respectively.<sup>4</sup> Not only is there an established link between high sugar consumption in 16 diet-related chronic conditions, but SSBs also create both direct and indirect costs to our healthcare system (e.g. increase in drugs, loss of productivity due to illness). For every ten dollars Canadians spend on food, roughly one dollar will have to be set aside on chronic disease-related healthcare because of Canadians failing to follow dietary recommendations.<sup>5</sup> If Canadians were to follow the sugar consumption guideline as set out by the 2019 guide, our healthcare systems could save an estimated \$2.5 billion.

With 67 percent of all healthcare costs being related to the treatment and management of chronic diseases (often fueled by high sugar consumption), measures to counter poor nutritional intake merit serious consideration.<sup>6</sup> Aside from the economic and health spheres, our diets also impact our planetary health: it is estimated that a regular soft drink (17 ounces) uses a water cycle between 168 to 309 liters (about the volume of a bathtub), depending on sugar source and farming technologies.<sup>7</sup>

We contend that while a comprehensive health promotion strategy is essential, creating a monetary disincentive is the most straightforward and short-term goal-oriented strategy to

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<sup>1</sup> Barry M. Popkin and Shu Wen Ng, “Sugar-Sweetened Beverage Taxes: Lessons to Date and the Future of Taxation,” *PLOS Medicine* 18, no. 1 (January 7, 2021): e1003412, <https://doi.org/10.1371/journal.pmed.1003412>.

<sup>2</sup> WHO recommends consuming no more than 10 percent of total calories from added sugar, and preferably less than 5 percent, yet a typical 12-ounce can of soda (355mL) contains approximately 5 percent of a 2000 kcal diet (10 to 13 teaspoons of added sugar) with no nutritional value. Data were collected in 2015. See Health Canada, “2015 Canadian Community Health Survey - Nutrition - Food and Nutrition Surveillance - Health Canada,” Canada.ca, July 13, 2022, <https://www.canada.ca/en/health-canada/services/food-nutrition/food-nutrition-surveillance/health-nutrition-surveys/canadian-community-health-survey-cchs/2015-canadian-community-health-survey-nutrition-food-nutrition-surveillance.html>.

<sup>3</sup> World Health Organization, *WHO Manual on Sugar-Sweetened Beverage Taxation Policies to Promote Healthy Diets* (13 December 2022), <https://www.who.int/publications/i/item/9789240056299>, 2.

<sup>4</sup> Popkin and Ng, “Sugar-Sweetened Beverage Taxes: Lessons to Date and the Future of Taxation,” January 7, 2021.

<sup>5</sup> Rutherford, “Excess Sugar Costs Canada \$5 Billion Each Year: Study”.

<sup>6</sup> Idem

<sup>7</sup> Brian Chow, “Evaluating a Sugar-Sweetened Beverage Tax in Canada: A Cost-Benefit Analysis,” *Department of Economics - Queen’s University*, September 2021, [https://www.econ.queensu.ca/sites/econ.queensu.ca/files/student\\_papers/Chow%20%20Brian-MAEssay2020.pdf](https://www.econ.queensu.ca/sites/econ.queensu.ca/files/student_papers/Chow%20%20Brian-MAEssay2020.pdf).

discourage the consumption of SSBs and lower the pressure overall sugar intake has on our health systems.

### Sugar-Sweetened Beverage Tax as a Solution

Amongst all policy solutions, the WHO called for taxing SSBs to dissuade consumption.<sup>8</sup> Robust empirical evidence shows that taxing SSB is effective in changing consumer behaviors and improving health outcomes: it increases prices, reduces sales, and creates additional revenue for the government.<sup>9</sup> SSB taxes can be designed in many ways with the aim of achieving different policy objectives. An *Ad valorem* tax based on the value of the goods can better incentivize trading down (consuming beverages that are less taxed), while volume- or sugar- based taxes can be simpler in administration or encourage reformulating beverages by producers.<sup>10</sup>

The Task Force on Fiscal Policy for Health convened in 2018 to develop revenue mobilization and health development policy avenues, particularly as it relates to the Sustainable Development Goals. In looking at the effect of large excise taxes on sugary beverages, they found that higher beverage prices are associated with lower body weight and that a reduction of sugary drink consumption could lower obesity rates and non-communicable diseases such as obesity. Although SSB taxes only target one set of products that account for the nutritional transition of our diets, it has a large impact. The Task Force estimates that this measure could prevent 0.8 to 2.2 million premature deaths worldwide and its revenues could be re-inserted into the health economy of said country.<sup>11</sup>

Price increase due to higher tax	Deaths averted (millions)	Years of life gained (millions)	Change in tax revenue (trillions, \$2016 discounted)
20%	0.8	23.7	0.7
30%	1.3	35.0	1.0
40%	1.7	46.5	1.2
50%	2.2	57.8	1.4

Note: Taxes are increased in 2017 sufficiently to raise prices by 20, 30, 40, and 50 percent. The impact of the increases is projected over a 50-year period (2017-2067).

Source: Summan and Laxminarayan 2018

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There are successful international examples of using SSB taxes to reduce sugar consumption. A WHO report showed that as of July 2022, at least 108 countries applied at least one type of

<sup>8</sup> World Health Organization, *Fiscal Policies for Diet and Prevention of Noncommunicable Diseases: Technical Meeting Report, 5-6 May 2015, Geneva, Switzerland* (Geneva: World Health Organization, 2016), 9.

<sup>9</sup> While the SSB tax will depend on various indicators such as the price elasticity of demand and the “pass-through” rate of the tax, evidence shows that a 10% increase in the price of SSBs will lead to a reduction of consumption between 8-13%, as well as brining consistent revenue gains. See WHO, *WHO Manual*, 17-24.

<sup>10</sup> WHO, *WHO Manual*, 47-63.

<sup>11</sup> Task Force on Fiscal Policy for Health, *Health Taxes to Save Lives: Employing Effective Excise Taxes on Tobacco, Alcohol, and Sugary Beverages*, Chairs: Michael R. Bloomberg and Lawrence H. Summers (New York: Bloomberg Philanthropies, 2019), <https://www.bloomberg.org/program/public-health/task-force-fiscal-policy-health/>.

<sup>12</sup> Task Force on Fiscal Policy for Health, *Health Taxes to Save Lives: Employing Effective Excise Taxes on Tobacco, Alcohol, and Sugary Beverages*, Chairs: Michael R. Bloomberg and Lawrence H. Summers (New York: Bloomberg Philanthropies, 2019), <https://www.bloomberg.org/program/public-health/task-force-fiscal-policy-health/>.

SSB excise taxes.<sup>13</sup> In Spain, SSB consumption had decreased by 22.2 percent after collecting a SSB taxes in a year.<sup>14</sup> Another research witnessed a 16.7 percent per capita consumption of SSBs introducing the SSB tax for three and a half years.<sup>15</sup>

Despite the lack of a national regulation on sugar consumption, an SSB tax is not foreign to the Canadian policy-making landscape. Since September 2022, Newfoundland and Labrador has collected a \$0.2 per liter tax for all ready-to-drink beverages, dispensed beverages, and concentrated drink mixtures, while a higher rate is charged for concentrated drink mixtures without sufficient directions for finished beverage preparation and/or volume.<sup>16</sup> The provincial government created \$11 million in revenue from SSB tax. The surplus is reinvested into low-income or marginalized communities that face the brunt of the obesogenic environment. It remedies the financial impact and improves health outcomes by funding the province's glucose-monitoring pilot program, physical activity tax credit, and healthy living initiatives.<sup>17</sup> In British Columbia, soda beverages are not qualified food products for human consumption for Provincial Sales Tax exemption, i.e. subject to a seven percent tax compared to other beverages.<sup>18</sup> Moreover, the civil society has also been calling for a Canada-wide SSB tax.<sup>19</sup> A cost-benefit analysis estimated that a 20 percent nationwide SSB tax will return a net present value of \$25.7 billion, after quantifying improved health outcomes, healthcare savings, implementation costs, lost sales revenue and tax income.<sup>20</sup> The tax revenue from SSB consumption can be redistributed to achieve better health outcomes. The implementation experiences in Newfoundland and Labrador and British Columbia are advantageous for a national SSB tax.

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<sup>13</sup> World Health Organization, *Global Report on the Use of Sugar-Sweetened Beverage Taxes*, 2023 (5 December 2023), <https://www.who.int/publications/i/item/9789240084995>, vii.

<sup>14</sup> Vall Castelló, Judit. "Impact of SSB Taxes on Consumption." CRES-UPF Working Paper #201804-110. Centre for Research in Health and Economics, Universitat Pompeu Fabra, April 2018. <https://www.upf.edu/documents/3223410/7582912/CRESWP201804110.pdf/c888c03c-06e2-7e2b-415f-accacae486a9c7>, 6-9.

<sup>15</sup> Royo-Bordonada, Miguel Ángel, Carlos Fernández-Escobar, Carlos José Gil-Bellosta, and Elena Ordaz, "Effect of Excise Tax on Sugar-Sweetened Beverages in Catalonia, Spain, Three and a Half Years after Its Introduction." *The International Journal of Behavioral Nutrition and Physical Activity* 19, no. 1 (2022): 1–11. <https://doi.org/10.1186/s12966-022-01262-8>, 1.

<sup>16</sup> Newfoundland and Labrador, "Facts About the Sugar Sweetened Beverage Tax." Accessed January 10, 2024. <https://www.gov.nl.ca/fin/sugar-sweetened-beverage-tax/>.

<sup>17</sup> Moore, Mike. "N.L.'s Sugar Tax Is a Year Old. The Government Collected \$11M but Can't — or Won't — Say If It's Working." CBC News, September 1, 2023. <https://www.cbc.ca/news/canada/newfoundland-labrador/nl-sugar-tax-one-year-1.6954263>.

<sup>18</sup> British Columbia, "Notice to Sellers of Soda Beverages: Provincial Sales Tax Act." Notice 2021-002. February 2021. <https://www2.gov.bc.ca/assets/gov/taxes/sales-taxes/publications/notice-2021-002-sellers-soda-beverages.pdf>.

<sup>19</sup> *Arguments from the civil society on a SSB tax are diverse. Arguments justifying a national SSB tax range from health consequences to societal outcomes.* See Tom Warshawski, "The Need for Canada to Tax Sugar-Sweetened Beverages." *Canadian Medical Association Journal (CMAJ)* 190, no. 32 (2018): E966–E966. <https://doi.org/10.1503/cmaj.69612>; Veda Jain-Allington, "Why a Sugar-Sweetened Beverage Tax is a Plus for All Canadians," *The Hill Times*, January 4, 2024, <https://www.hilltimes.com/story/2024/01/04/why-a-sugar-sweetened-beverage-tax-is-a-plus-for-all-canadians/407090/>; Diabetes Canada, "Sugar & Diabetes," accessed January 11, 2024, [https://www.diabetes.ca/advocacy---policies/our-policy-positions/sugar---diabetes?fbclid=IwAR2OV16hA3ZgXk0fn0czp-RKB30qQvJ1KbSpBIbrQmp9E35H1kmnoSHRxpM](https://www.diabetes.ca/advocacy---policies/our-policy-positions/sugar---diabetes?fbclid=IwAR2OV16hA3ZgXk0fn0czp-RKB30qQvJ1KbSpBIbrQmp9E35H1kmnoSHRxpM;);

Canadian Paediatric Society, "A Proposal to Increase Taxes on Sugar-Sweetened Beverages in Canada," posted January 30, 2020, <https://cps.ca/en/documents/position/tax-on-sugar-sweetened-beverages?fbclid=IwAR1ik8Yo7V43x9wda3z3IosVGWC5SzkjFCWPd97m0Rpc-my4lnUhSFV5fA>.

<sup>20</sup> Brian Chow, "Evaluating a Sugar-Sweetened Beverage Tax in Canada: A Cost-Benefit Analysis." Master of Arts Essay, Department of Economics, Queen's University, September 2021. [https://www.econ.queensu.ca/sites/econ.queensu.ca/files/student\\_papers/Chow%2C%20Brian-MAEssay2020.pdf](https://www.econ.queensu.ca/sites/econ.queensu.ca/files/student_papers/Chow%2C%20Brian-MAEssay2020.pdf), 14-33.

## **A Sugar-Sweetened Beverage Tax Framework in a Canadian Context**

Canada can learn from all these domestic and international examples. Considering the federalism context, we propose that Health Canada can adopt a province/territory-led, federal-assisted SSB tax framework.

**Provincial and Territorial Leadership:** Provinces and territories are encouraged to enact their own SSB tax that is comparable to a federal-guided tax rate. Provincial/territorial governments will enjoy the flexibility in the implementation details, such as taxing SSBs via non-exemption of provincial sales tax or enacting an additional volume- or sugar-content-based tax. Provinces and territories are encouraged, while not mandated, to spend the tax revenue on funding food- or nutrition-related programs. Provinces and territories can allocate this additional revenue addressing their own healthcare gaps.

**Federal guidance and backstop:** The federal government can establish a progressive federal-guided tax rate to encourage incremental behavioral changes by consumers, beginning at 20% as the WHO recommended. Provinces and territories will be given a 2-year transition period to design their own tax framework. If the province or territory does not create their tax within the transition period, a nationwide tax tiered by the sugar content at a rate determined by the federal government will apply. The tax collected from the backstop measure will be returned to provinces/territories to fund federally designated health programs.

This system has advantages catering the interprovincial dynamics in Canada. The revenue collected can fund provincial/territorial programs for improving health outcomes. Provinces and territories are encouraged to make their tailored policy given the design nudging province/territory-led actions. Accompanying with a comprehensive healthy diet promotion campaign, the SSB tax will send a clear message to influence Canadian's purchasing and consumption behaviour.

### **Challenges from the Industry**

The SSB tax framework will face strong opposition from the beverage and retail industries, which will leverage mass media campaigns and lobby decision makers to resist an SSB tax.<sup>21</sup> This challenge is not insurmountable: a clear public campaign and use of financial incentives can help sway public opinion in its favour. Canada should not only clearly communicate the benefits and the empirical evidence on the health and fiscal outcomes from a SSB tax, but also incentivize the beverage industries to reduce sugar content in SSBs. Drawing experiences from the United Kingdom, where a three-tiered tax structured based on sugar content was created, more than 50 percent of the SSB manufacturers had reduced its sugar content with an intention to reduce their tax burden.<sup>22</sup> Health Canada must proactively counteract common criticisms from vested interests and leverage strong scientific evidence to garner public support.<sup>23</sup>

### **Conclusion**

Dr. Ruediger Krech, the Director of Health Promotion at the WHO, noted that "Taxes on sugar-sweetened beverages can be a powerful tool to promote health because they save lives and

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<sup>21</sup> The WHO's Manual recorded detailed "scare tactics" commonly applied by the beverage and retail industries, including sowing doubt by discrediting science and diverting attention, court and legal challenges, anti-poor rhetoric, revenue instability, and employment impact. See WHO, *WHO Manual*, 69-87.

<sup>22</sup> WHO, *WHO Manual*, 56-57.

<sup>23</sup> WHO, *WHO Manual*, 88.

prevent disease while advancing health equity and mobilizing revenue for countries”.<sup>24</sup> As outlined in this recommendation, while an SSB tax is not an all-encompassing solution to the health and economic challenges posed by our heightened sugar consumption, it (1) has a proven worldwide track record of results, in short-term and long-term, (2) its revenues can be re-invested into our healthcare system and target measures to counter-balance inequality in nutritional accessibility, and (3) its implementation is facilitated by Canadian precedence and its flexibility in relation to our federalist system.

Instead of reaching for the sugary beverage, it is time for policymakers to look at the low-hanging fruit; the SSB tax is an easy (and delicious) alternative to our current policy landscape and NCD crisis.

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<sup>24</sup> World Health Organization: WHO, “WHO Calls on Countries to Tax Sugar-Sweetened Beverages to Save Lives,” *World Health Organization - Departmental News*, December 13, 2022, <https://www.who.int/news/item/13-12-2022-who-calls-on-countries-to-tax-sugar-sweetened-beverages-to-save-lives/>.

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