Championing Public Health Nutrition

Panel:

Food Tax Reform – Digesting the $6 billion Mandate

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CENTRE FOR Science IN THE Public Interest — CENTRE POUR la science DANS l'intérêt public

The nonprofit publisher of Nutrition Action Healthletter — *Éditeur sans but lucratif de Nutrition Action Healthletter*

About the Centre for Science in the Public Interest

- **Is an independent health advocacy organization focussing on nutrition policy issues.**
- **Has offices in Ottawa and Washington, with Canadian staff based mostly in Toronto and Ottawa.**
- **Is funded in Canada by over 120,000 subscribers to the Canadian edition of the *Nutrition Action Healthletter.***
- **Does not accept funding from industry or government.**

Canadian annual costs of diet-related disease

- **An average of nearly 5 years of healthy life expectancy is lost due to six diet-related risk factors.** (See: World Health Organization, *The World Health Report 2002*, (Geneva: WHO, 2002). Esp. see Table 4 in the annex which shows that loss of healthy life expectancy due to all risk factors is 9.4 disability-adjusted-life-years averaged for Canadian men and women at http://www.who.int/whr/2002/en/whr2002_annex4.pdf) and Table 10 which shows that, in developed countries, 50% of all-risk-attributable Disability-Adjusted Life Years (DALYs) were lost due to blood pressure, cholesterol, overweight, low fruit and vegetable intake, and certain rare types of childhood and maternal undernutrition at http://www.who.int/whr/2002/en/whr2002_annex9_10.pdf). So, 50% of 9.4 years is 4.7 years.)
- **More than 25,000 premature deaths annually are caused by diet-related disease.** (See, for example, the extrapolation from published figures in endnote 11 at: http://cspinet.org/canada/pdf/Eng_CSPI_Finance.pdf)
- **A total of $6.6 billion per year from the Canadian economy as a whole (health care costs plus lost productivity)** (See: Diane Gorman, Assistant Deputy Minister of Health, "Speech at the Stakeholder Meeting on the Review of *Canada's Food Guide to Healthy Eating*," (Ottawa: Health Products and Food Branch, Health Canada, January 20, 2004) at 3 estimating the value of health care costs and lost productivity due to diet-related disease to be $6.6 billion annually in Canada. Available on the Internet at: http://www.hc-sc.gc.ca/fn-an/alt_formats/hpfb-dgpsa/pdf/food-guide-aliment/pres_speech_adm-pres_contexte_sma_e.pdf and see Health Canada (2003) Economic Research Analysis Section, Policy Research Division, Strategic Policy Directorate, Population and Public Health Branch. Custom tabulations).

Whole Foods/Ingredients:

Report of the Joint WHO/FAO Expert Consultation on Diet, Nutrition and the Prevention of Chronic Diseases (Tech. Rpt. 916) (Geneva, 2003)

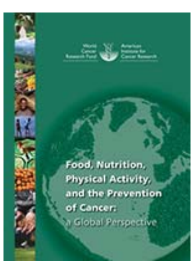
Whole foods (as distinct from nutrients) for which there is convincing or probable evidence of causative (↑) or protective (↓) effects on disease risks

Whole foods/ingredients (as distinct from nutrients)	Cancer	Cardiovascular Disease	Hypertension	Diabetes	Dental Caries	Obesity
Fruits	↓ (98,100)	↓ (81,89,90)	↓ (88)	↓ (75,77)		
Vegetables	↓ (98,100)	↓ (81,89,90)	↓ (88)	↓ (75,77)		
Whole grain cereals		[illegible]		[illegible]		
Non-starch polysaccharides (from whole grains, fruits, vegetables)		[illegible]		[illegible]		[illegible]
Legumes		[illegible]	[illegible]	[illegible]		[illegible]
Fish		[illegible]				
Fish Oils		[illegible]				
Water (as an indicator of energy density)						[illegible]
Free sugars					[illegible]	[illegible]
Preserved and red meat	[illegible]					
Salt-preserved foods; salt (as distinct from sodium)	[illegible]					
Unsalted nuts [illegible]		[illegible]				
Hydrogenated Oils		[illegible]				
Chinese-style salted fish	[illegible]					

N.B. Numbers in parentheses refer to pages in Technical Report 916 where applicable conclusions are made.

Report of the Joint WHO/FAO Expert Consultation on Diet, Nutrition, and the Prevention of Chronic Diseases (Tech. Rpt. 916), Geneva, 2003)

World Cancer Research Fund,
***Food, Nutrition , Physical Activity and the Prevention of Cancer*, 2007**
http://www.dietandcancerreport.org/



Resolution 57.17 of the 57th session of the World Health Assembly passed May 22, 2004 adopting the "Global Strategy on Diet, Physical Activity and Health" at: http://www.who.int/gb/ebwha/pdf_files/WHA57/A57_R17-en.pdf).

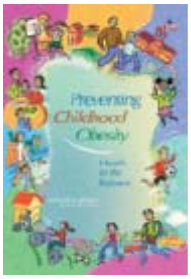
Article 47…

(2) Fiscal policies. Prices influence consumption choices. Public policies can influence prices through taxation, subsidies or direct pricing in ways that encourage healthy eating and lifelong physical activity. Several countries use fiscal measures, including taxes, to influence availability of, access to, and consumption of, various foods; and some use public funds and subsidies to promote access among poor communities to recreational and sporting facilities. Evaluation of such measures should include the risk of unintentional effects on vulnerable populations.

National Council for Nutrition: Strategy Plan for 2005-2009,
(Oslo: Norwegian Directorate for Health & Social Affairs, March 2005) at 12.
(Available at http://www.shdir.no/vp/multimedia/archive/00007/IS-1259_Engelsk_7033a.pdf.)

- **Increase VAT on energy-dense, nutrient-poor foods**
  - To reduce the consumption of energy-dense, nutrient-poor foods, these foods ought to be relatively more expensive. This can be achieved by increasing VAT from the present-day reduced percentage to the standard percentage.
- **Increase taxes on sugar, chocolate and foods that contain added sugar**
  - Studies of price elasticity show that higher retail prices on sugar, chocolate and foods that contain added sugar would help curb their intake. This applies to high-consumption groups in particular.
  - For instance, a doubling of the production tax and VAT on soft drinks could result in a reduction of more than 40 percent in the consumption of soft drinks among high-consumption groups. Taxes on sugar, chocolate and other foods that contain added sugar are so-called special excise taxes that also tax the consumption of these foods. The food and related-products industry is striving to remove or reduce these excise taxes. Since it has been shown that price is an important factor for the consumption of sugar-rich products, these taxes should remain in place, and preferably be raised. Consideration should also be given to earmarking the government revenues from these taxes for health-promoting nutrition efforts.

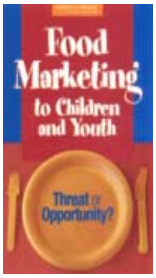
Jeffrey P. Koplan, et al., eds (2005)
Preventing Childhood Obesity: Health in the Balance,
(Washington, DC: National Academies Institute of Medicine, 2005) at 147.
Summary available at http://newton.nap.edu/pdf/0309091969/pdf_image/147.pdf .



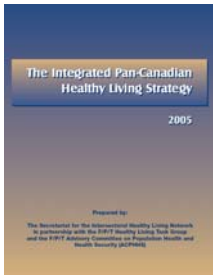
- " The committee suggests that research into the effects of taxation and pricing strategies be considered a priority to help shed light on the potential outcomes of more broadly applying taxation as a public health strategy for promoting improved dietary behaviors, more physical activity, and reduced sedentary behaviors."

Inst. of Med. of the Nat'l Acads. of Sci., *Food Marketing to Children and Youth: Threat or Opportunity (J. Michael McGinnis et al. eds., 2006) [in press)* . See the exec. summ. at http://www.nap.edu/execsumm_pdf/11514.pdf

- **Gov't should use agri subsidies, taxes, to increase consumption of fruits and vegetables.**



Integrated Pan-Canadian Healthy Living Strategy,
Secretariat for the Intersectoral Healthy Living Network in partnership with the F/P/T Healthy Living Task Group and the F/P/T Advisory Committee on Population Health and Health Security
available at http://www.phac-aspc.gc.ca/hl-vs-strat/pdf/his_e.pdf
(Approved by the F/P/T Ministers of Health October 2005.)



Medium Term (18–60 months) Federal...

- Undertake feasibility study on fiscal measures to encourage healthy living (i.e. tax credits/penalties, subsidies, price supports, etc.)

The Select Standing Committee on Health, *The Path to Health and Wellness (Victoria:* Legislative Assembly of BC, 2004) at 62-3.

- Recommendation 29 states:
  - "The Committee recommends that both the provincial and federal government examine modernizing the tax structure and amend tax policies, including establishing tax credits, to ensure tax policies are fair and equitable, promote strong and healthy families, childhood development and health and wellness in our society."
- Pamela Fayerman, *The Vancouver Sun*, March 15, 2008 at A1.
  - The B.C. government isn't eliminating the provincial sales-tax exemption on candy and soft drinks, to the chagrin of the chair of an all-party committee that touted such action to help combat childhood obesity. "The specific tax exemption on things like chocolate bars and other candy and confections goes back a long way in B.C. [1966] and it is inexplicable," said Ralph Sultan, chair of the select standing committee on health. "I've heard that small business merchants say it would be challenging for them to change their systems if the tax exemption was lifted but, give me a break, that's a bunch of malarkey, in my considered opinion," said Sultan, the Liberal MLA for West Vancouver-Capilano and a former professor at the Harvard University business school.

Economic research on food tax effects/forecasts

- United Kingdom:
  - **Oliver Mytton, Alastair Gray, Mike Rayner and Harry Rutter, Could targeted food taxes improve health? *J. Epidemiol. Community Health 2007;61;689-694.***
  - A. Leicester, F. Windmeijer, *Briefing Note No. 49: The 'Fat Tax': Economic Incentives to Reduce Obesity*, (London: The Institute for Fiscal Studies, 2004) available at http://www.ifs.org.uk/consumer/bn49.pdf
  - T. Marshall, "Exploring a Fiscal Food Policy: The case of diet and ischemic heart disease," (2000) *British Medical Journal* (320:301); and
- United States
  - J. Kinsey, and B. Bowland, "How Can the US Food System Deliver Products Consistent with the Dietary Guidelines? Food marketing and retailing: An economist's view" (1999) 24 Food Policy 237 at 251; and
  - J. Strnad, Professor of Law, Stanford University, "Conceptualizing the 'Fat Tax': The Role of Food Taxes in Developed Economies" Harvard Tax Policy Conference, Cambridge, Massachusetts (October 2002) at 83.
  - H. H. Chouinard., D. E. Davis, T. LaFrance, and J. M. Perloff., *Effects of a Fat Tax on dairy Products: Working Paper No. 1007*, (Department of Agricultural and Resource Economics and Policy, U. Calif. At Berkley) at 20. (which predicted a 1.4% reduction in total fat intake upon applying a 10% tax on milk fat alone)
  - F. Kuchler, A. Tegene, and J. M. Harris, "Taxing Snack Foods: What to Expect for Diet and Tax Revenues" (2004) 747-08 Agriculture Information Bulletin 1 at 5, 9
- Denmark
  - Sinne Smed, Jørgen Dejgaard Jensen and Sigrid Denver, "Differentiated Food Taxes as a Tool in Health and Nutrition Policy," presented at the XIth Congress of the European Association of Agricultural Economists, 'The Future of Rural Europe in a Global Agri-Food System,' Copenhagen, Denmark, August 24-27, 2005 at http://www.eaae2005.dk/CONTRIBUTED_PAPERS/S23_474_Jensen&Smed.pdf).

Economic research on food tax effects/forecasts

- Tanzania:
  - A. Abdulai, and D. Aubert, "A Cross Section Analysis of Household Demand for Food and Nutrients in Tanzania," (2004) Agricultural Economics 67 at 77:
    - concluding that own-price elasticities for food are near one, and therefore food consumption is very responsive to price changes, however, expenditure elasticities are higher indicating that income policies would be even more effective in influencing consumption patterns in this developing country.
- China:
  - X. Guo and B.M. Popkin, "Food Price Policy Can Favorably Alter Macronutrient Intake in China" (1999) 129(5) Journal of Nutrition :994 at 999, 1000; and
  - H. Ma, A. Rae, J. Huang, S. Rozelle, "Chinese Animal Product Consumption in the 1990s" (2004) 48 The Australian Journal of Agricultural Resource Economics 569 at 585.
- Norway:
  - K. Rickertson, "The Demand for Food and Beverages in Norway" (1998) 18 Agricultural Economics 89 at 97, 99.
- Canada
  - P.W. Kennedy, M. Toner, "**Economic Incentives for a Healthy Diet: A Comparison of Policies in a Canadian Context* (unpublished Manuscript)**

Sweanor D, Kyle K, "Legislation and Applied Economics in Pursuit of the Public Health," at 87 and 87-91 in J. de Beyer and L. Waverly Bridgen, *Tobacco Control Policy: Successes and Strategies*, (Washington: The World Bank, 2003) at http://www1.worldbank.org/tobacco/pdf/2850-Ch04.pdf

Canadian Federal political party positions of note:

- Conservative platform in 2006: "…the most important part of healthcare is prevention, including ensuring people, especially children, have proper diet and nutrition."
- Liberal Platform in 2006: "Taxes should be *smart."* (at p. 50) [emphasis in original] Though see: http://www.cspinet.org/canada/pdf/CSPIsurveyElection2006.pdf at 6-7.
- NDP Platform in 2006: "Smart incentives" (at p. 30) and see: http://www.cspinet.org/canada/pdf/CSPIsurveyElection2006.pdf at 6-7 (n.b. Green Party response)

And an observation from a US economist:

- Quote: "Implementing food taxes may not be easy…nonetheless…it is possible to overestimate the political and implementation difficulties in light of the potential gains." (Strnad J, Professor of Law, Stanford University, "Conceptualizing the 'Fat Tax': The Role of Food Taxes in Developed Economies" Harvard Tax Policy Conference, Cambridge, Massachusetts (October 2002) at 83.)

"Dumb" incentives in current GST rules in Canada's *Excise Tax Act*

(Note: GST was originally proposed to be 9% with food completely zero-rated.)

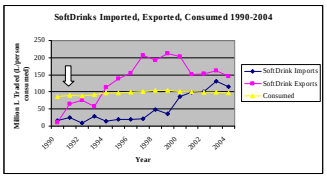
Currently Taxable

- Health eroding foods
  - soft drinks [ss. 1(c) and (d)], and
  - snack food [ss. 1(f)].
- Health Promoting or neutral foods
  - low-fat milk, and vegetable dishes when sold in restaurants [ss. 1(o)],
  - club soda [ss. 1(c)],
  - salads [ss. 1(o.1)],
  - vegetable and fruit trays [ss. 1(o.3)],
  - small bottles of water [s. 2] when sold in retail stores.

Currently zero-rated

- Unhealthful foods
  - sugary breakfast cereal [ss. 1(h)],
  - trans-fat-laden shortening [s. 1 generally],
  - high-fat cheese [s. 165],
  - coffee cream [1(d)],
  - (salty) caviar
  - chicken wings

Replacing the 13.5% Canadian MST with 7% GST meant a significant decrease in the costs of soft drinks January 1991 (and 13.5% decrease in costs of soft drink exports). So…



OECD,
Consumption Tax Trends:
***VAT/GST and Excise Tax Rates,Trends and Administration Issues*,**
(Paris: OECD, 2004) at 22.
(and other national tax legislation)

Country	Standard Rate of VAT	VAT on Groceries	VAT on Prepared Foods	Comments
Canada	6%-14% (most provinces)	0% (with exceptions)	14% (usually)	Froot Loops, shortening zero-rated; salad, bottled water 7% or 14% (cf venue)
France	19.6%	5.5% or 19.6%	5.5% - 19.6%	Take-away food (fast food) taxed at the lower rate + Higher rate applies to sweets, chocolate, margarine, vegetable fat
United Kingdom	17.5%	0%	17.5%	Temperature at time of sale is defining feature
South Africa	14%	5.5% or 0%	14%	Milk sold in restaurants (regardless of fat content) is taxable, as are vegetables or salad sold in grocery stores with added flavouring/dressing.
Tanzania	20%	0% (fruits, vegetables, nuts, grains *if unprocessed)*	20%	Exemptions also include: Tea, coffee, sugarcane, refined flour. Healthful breakfast cereals, restaurant or prepared foods are taxable
El Salvador		13%	13%	Introduced for all food in 2000.
Brasil (state)	18% (avg.)	18% (some exemptions)	18%	

1. **US: In 2000, 19 states and cities apply sales/manufacturers tax on soft drinks, snack foods (sales taxes range from 5% to 7.5%)** (MF Jacobson, KD Brown, "Small Taxes on Soft Drinks and Snack Foods to Promote Health," (2000) 90(6) *American Journal of Public Health* 854.)
2. **VAT adopted by virtually all of developing countries by the 1990s.**
3. **US: By 2005, 27 such regimes were in existence or proposed in US jurisdictions** (See: Chouinard HE, Davis DE, et al., "Effects of a Fat Tax on Dairy Products," Working Paper No. 1007, Dept. of Agriculture and Resource Economics & Policy, Division of Agricultural an Natural Resources, University of California at Berkley, 2005 at 26-7 at http://are.berkeley.edu/~lafrance/working%20papers/WP-1007.pdf)

What would a health promoting food tax look like?

- **Based on Overall Nutrition Profile**: Not focussed on total fat, or (exclusively) saturated fat or sugar alone; overall nutrition profile of food must be considered is determining whether to tax or exempt (note cross-elasticities demands a comprehensive approach).
- **Three Scenarios**: Effect on tax revenue of criteria for zero-rated status:
  - Strict: more revenue (excess could fund nutrition promotion programs; departures from tradition are imperative);
  - Permissive: less revenue;
  - Intermediate: revenue neutral.
- **Fix Regressive Effects, Fairly and Wisely**: Redress regressive effects through income tax reform or targeted VAT credits;
- **Manufacturer's Label Statement is Vital**: Manufacturer determines tax status from rules and indicates status with a statement on the product label or menu -- i.e., helps address info market failure and amplifies effect of price elasticity.
- **Restaurants Stand to Benefit**: Nutrition-promoting restaurant foods could become zero-rated.

Further research to help promote policy reform:

- **Nutrition Criteria**: Build on Rayner's and others' work on food scoring to inform a simple system for categorizing taxable and non-taxable foods.
- **Food Tax Revenue Estimates**: Rigourously estimate tax revenue received, and forgone by nutritionally delimited product categories.
- **Price Elasticity**: Use nutritionally coherent food groups as a basis for estimating policy-relevant price-elasticities.
- **Effects on Historic Sales, Disappearance Data**: Examine the time trend effects of food tax changes (e.g., GST/vat) on detailed food disappearance data, historic ACNeilsen sales data, and restaurant sales data in time trend charts.
- **Model Health Consequences, too**: Conduct econometric estimates of changing consumption on population attributable risks, including associated death, disability and economic burden of indiscriminate government food tax policies (...and checking for possible negative effects of cross-elasticities on diet).

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