2018 Pre-Budget Consultations

Canadian Beverage Association Submission

August 4, 2017

OUR STORY

The Canadian Beverage Association (CBA) represents the broad spectrum of companies that manufacture and distribute the majority of non-alcoholic refreshment beverages consumed in Canada. Our members have a rich history in Canada and over the last 75 years, the beverage industry has continued to grow, prosper and evolve.

We are the national voice for more than 60 brands of juices, bottled waters, sports drinks, ready-to-serve iced teas and coffees, enhanced beverages, carbonated soft drinks, energy drinks, and other non-alcoholic beverages, including low and no calorie options. In total, we have more than 200 facilities nation-wide and are a committed partner at a time when Canada is working hard to sustain its competitive position as a place to manufacture goods.

That said, we are more than beverage manufacturers. We are Canadian companies that provide good-paying, long-term Canadian jobs that employ directly and indirectly more than 60,000 Canadians across the country.

For every production dollar we earn, 88 cents is retained in the Canadian economy, supporting hardworking-families – the majority of which are middle class – local businesses and the communities where they live and work. Most of our products are made and shipped right here in our own backyard, in virtually every jurisdiction Canada-wide. We are in grocery stores, restaurants, convenience stores, supporting tens of thousands of businesses and hundreds of thousands of retail and food-service jobs.

In total, the impact of our industry (direct, indirect and induced effects) amounts to approximately $900 million in government revenues every year.

We are hardworking Canadians, committed to growing our contributions to the domestic economy by promoting innovation and expanding business, while providing better-than-average wages for our workers, and investing in community programs that support sustainability initiatives and local charities.

CANADA

NUMBER OF FACILITIES	220
JOBS	58,996
VALUE-ADDED (GDP)	$6.652.1M
EMPLOYMENT INCOME	$3,275.4M
TAX REVENUES (FEDERAL& PROVINCIAL)	$892.4M

Q 2: What federal measures would help Canadian businesses to be more productive and competitive?

We believe providing Canadian businesses with a supportive and stable environment is the best way to ensure they have the confidence and necessary tools to be more productive and competitive.

OUR ASK: Refrain from product-specific taxation

The Canadian beverage industry supports the Government of Canada's mandate of encouraging Canadians to lead healthier lives. We also recognize that obesity poses a critical challenge to this, impacting individuals, public health, and government resources, however, introduction of a sugar-sweetened beverage tax (SSB tax) is not the answer to obesity. SSB taxes lack evidence of any impact on health, they are discriminatory and ineffective, they will most impact Canadians who can least afford them, and will cost our economy good paying, Canadian jobs.

SSB taxes lack scientific evidence

As countries all over the world look to address rising obesity rates, some have resorted to the introduction of SSB taxes in hopes of improving the health of their populations. Among these countries, there continues to be no consistent evidence that these measures have had a real, positive impact on health outcomes.

Real world evidence has found such taxes have only a modest effect on beverage consumption and little to no effect on reducing obesity rates in any country where such a tax has been tried.

Denmark, one of the first countries to enact an excise tax, abandoned it 18 months later, noting that not only did the tax increase cross border shopping and caused the cost of goods to rise dramatically, it made no significant impact on individuals consumption habits, obesity or health.[1]

Data from Mexico's 2016 national health and nutrition survey shows that their 2014 SSB tax has not made an impact on obesity rates either. In fact, adult obesity rates have increased from 2012-2016, especially among Mexican women.[2]

Lastly, a recent study of the municipal SSB tax introduced in Berkley, California concluded that while caloric consumption of taxed beverages decreased marginally, by about six calories per day, consumption of untaxed beverages rose by an average of 32 calories per day resulting in a net increase.[3]

[1] The study that references a decrease in consumption looks only at the three months after the tax was instituted. Having hoarded products before the introduction of the tax, consumption levels returned to normal after the three months. http://health.spectator.co.uk/revisionists-are-trying-to-turn-denmarks-failed-fat-tax-into-a-great-success-dont-be-fooled/

[2] Mexico's 2016 National Health Survey (ENSANUT), finding that the prevalence of obesity and overweight rose overall from 71.2% to 72.5% among adults from 2012-2016, and among adult women it rose from 73% to 75.6% during that same time frame, a statistically significant result.

[3] Barry M. Popkin et all. "Changes in prices, sales, consumer spending, and beverage consumption one year after a tax on sugar-sweetened beverages in Berkley, California, US. A before-and-after study," PLOS Medicine, April 18, 2017.

SSB taxes have been tried in other jurisdictions and they have failed. They didn't reduce obesity. It's important that as a country, our government learn from the experiences of others around the world, as we work together to improve the health and well-being of Canadians.

SSB taxes are discriminatory and ineffective

There is a disproportionate and misplaced focus on sugar-sweetened beverages as a unique contributor to obesity. Introducing a discriminatory tax on one part of Canadians' total diet will not impact rate of overweight and obese people.

Experts, including Health Canada, agree that the factors associated with overweight and obesity are complex, multifactorial, and include health behaviours such as eating habits, daily physical activity, as well as broader social, environmental and biological determinants.

A report by the McKinsey Global Institute concluded that the most effective interventions to address obesity include portion control and reformulation, followed by changes in the school environment, and parental education. Out of 16 interventions considered, taxation was ranked 12th.[4]

Advocates in favour of SSB taxes claim they will help curb rising obesity rates based on the assumption that Canadians are consuming too many carbonated soft drinks. This is, however, not the case.

According to the most recent, publicly available Canadian Community Health Survey (CCHS) from Statistics Canada, soft drinks and fruit drinks accounted for only 3.9% of the average Canadian's daily calories.[5] That means over 96% of Canadians' calories come from other sources.

Furthermore, Canadians are already choosing to consume fewer calories from beverages all on their own. Last year, as part of our Balance Calories Initiative, the assessment and review by the Conference Board of Canada confirmed that Canadians' daily per capita calorie consumption from liquid refreshment beverages (LRBs) decreased by 20% between 2004 and 2014.[6]

Through the Balance Calories Initiative, our members have also committed to reducing Canadians' daily per capita calorie consumption of LRBs by a further 20 per cent by the year 2025, by implementing top-ranked interventions to overcome obesity, including portion control, more choices and fewer calories.

Information obtained from Statistics Canada presented in the graph below clearly shows steadily-declining daily per capita consumption of sugar-sweetened beverages.[7]

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[4] McKinsey Global Institute, Overcoming obesity: An initial economic analysis, 2014.

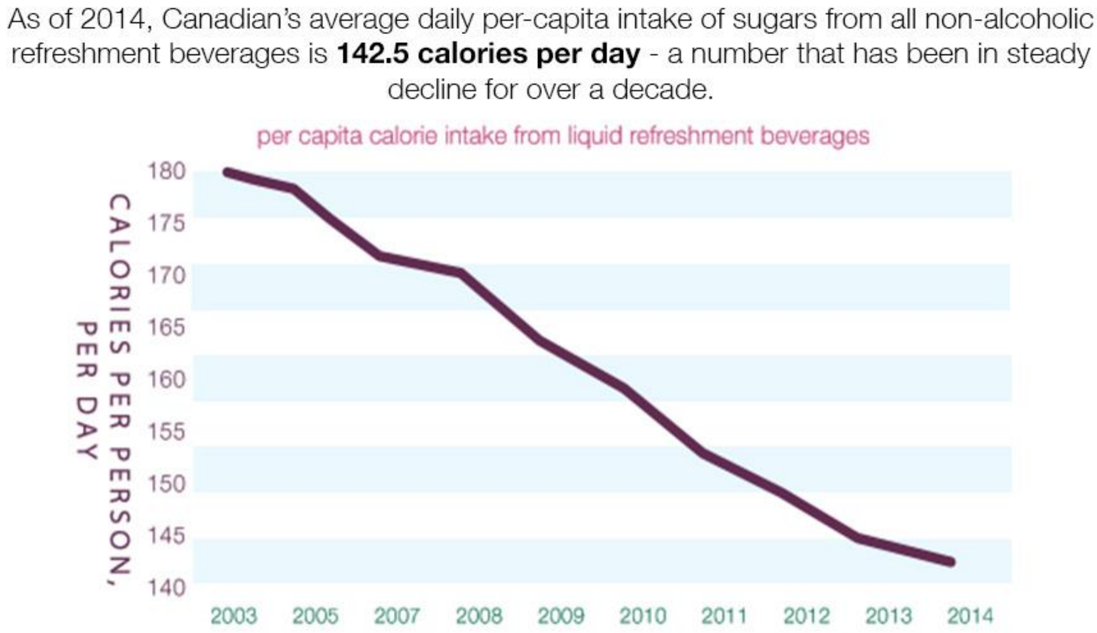
http://mckinsey.com/industries/healthcare-systems-and-services/our-insights/how-the-world-could-better-fight-obesity

[5] Data compiled from Chart 2 and Table 4 of the Nutrition: Findings from the Canadian Community Health Survey – Canadians' Eating Habits 2004; Statistics Canada Catalogue no. 82-620-MIE — No. 2; July 2006

[6] "Canadian Beverage Association Balance Calories Initiative: Baseline Report," The Conference Board of Canada, October 24, 2016

[7] Source for obesity rates: Overweight and obese adults (self-reported), 2014 – Statistics Canada. http://www.statcan.gc.ca/pub/82-625-x/2015001/article/14185-eng.htm

Source for consumption of sugar-sweetened beverages: Statistics Canada. *Table 002-0011 – Food available in Canada, annual (kilograms per person, per year unless otherwise noted),* CANSIM (database).



We are awaiting the next round of CCHS data to be made publicly available, and are hopeful this downward trend will continue.

SSB taxes will impact the Canadians who can least afford them

In response to the Senate Report on Obesity, the Government of Canada indicated that any new tax measures are to be evaluated for legal and financial impacts, potential impacts on different communities, and efficiency in achieving the policy objective.

We do not believe an SSB tax would measure up to these standards.

The burden of paying an SSB tax would fall mostly on low and middle-class Canadians, hurting those who could least afford it, making it highly regressive.

In the case of Mexico, where obesity rates continue to climb, more than 60 per cent of the revenues generated from their SSB tax is being collected from low socioeconomic households. Of this, more than 35 per cent is being paid by consumers already living below the poverty line.[8]

SSB taxes will cost the Canadian economy good paying jobs

Canada's beverage industry is already facing increased costs and administrative burdens due to regulatory modernization initiatives currently underway at Health Canada, including proposals to significantly change the labelling of all packaged foods and non-alcoholic beverages sold in Canada.

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[8] "The non-alcoholic beverage industry in Mexico," Joana Chapa Canut, Daniel Flores Curiel, Laura Zuniga Valero, Centro de Investigaciones Economicas, Universidad Autonoma Nuevo Leon (December 2015).

The estimated $2-billion cost to the food and beverage industry for implementing these initiatives will have a significant impact on our industry's ability to innovate, grow and remain competitive. This at a time when we are being tasked by the Government of Canada to do just that on the global stage, as per commitments in Budget 2017 to increase agri-food exports by 75 per cent over the current fiscal year.[9]

At the same time, Health Canada is contemplating introducing some of the most restrictive advertising legislation in the world despite the fact that our members already voluntarily do not advertise to children under 13.

By implementing fiscal policies that protect good-paying Canadian jobs, more people can afford to pay taxes and purchase consumer goods, contributing to everyone's overall quality of life and growing the Canadian economy.

Recommendations:

- Government ensure all regulation, policy and taxation measures are principle-based, science-based, and equitable.
- Government refrain from implementing an SSB tax, ensuring that beverage companies can continue to provide more choices to consumers, increase competitiveness in the Canadian market and help improve opportunities for job creation.

OUR ASK: Removing red tape

Create permanent regulations for energy drinks

Previously, the Government of Canada announced they would create permanent regulations for energy drinks by 2016 after a 5-year fact-finding process, this timeline has now been extended to 2021. CBA believes that with the imminent release of the 2015 cycle of the Canadian Community Health Survey – Nutrition (CCHS 2015), and with the analysis of industry-funded research completed on behalf of Health Canada, the government now has ample data on which to finalize energy drinks requirements within Canada's food regulations.

Finalization of amendments to encompass energy drinks within the food regulations would significantly decrease an onerous regulatory process affecting workload for Health Canada's Food Directorate as well as for business, currently tied into the burdensome Temporary Marketing Authorization Letters (TMAL) process. For an established product category that is available in over 170 countries and has now been in the Canadian marketplace for 13 years, it is CBA's desire that we can work collaboratively with the government to transition CEDs to a permanent regulatory regime.

Mandatory declaration of intense non-caloric sweeteners on the Principle Display Panel (PDP)

For more than two decades, Canada has been the only jurisdiction in the world where certain intense non-caloric sweeteners (e.g. aspartame) must be declared on the Principle Display Panel (PDP; aka 'front-of-pack'). No other country in the world has deemed this necessary.

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[9] Government of Canada (2017). *Budget 2017: Building a Strong Middle Class*. Retrieved from the Government of Canada Budget website. http://www.budget.gc.ca/2017/docs/plan/budget-2017-en.pdf

Health Canada states on its own website that there are no health risks associated with non-caloric sweeteners, yet certain non-caloric sweeteners must be declared on PDP. The current PDP declaration requirement creates confusion among consumers and appears to flag a health issue where none exists.

Additionally, the Government's own Innovation agenda will depend on its ability to move regulatory modernization in a timely way. By removing this regulatory barrier, the beverage industry will be able to enhance innovation, and increase efforts to further reduce the already low caloric impact of its beverages. Innovation, research and development are being impeded in our sector by outdated regulations and the inability to modernize in a timely and competitive way.

Health Canada agrees that the PDP declaration requirement is unwarranted and should be removed, and we are hopeful this issue will be resolved following recent Canadian Food Inspection Agency consultations.

Recommendations:

- Government ensure beverage industry regulatory consultations and changes are bundled together, with timely implementation, to minimize cost impacts.
- Government work with industry to finalize energy drink regulations within the next 12 months.

CONCLUSION

CBA and its members have a proud history in Canada and are committed to the health and wellness of all Canadians.

The Government of Canada has made it clear that they are committed to creating a business growth environment. In order to ensure future success, it is critical that productivity and efficiency are not hindered by punitive, unwarranted measures such as taxation, over regulation, or unwarranted labelling requirements. We support the government's intentions to pursue evidence-based policy decision making and streamlining of processes across departments.

CBA's suggestions and policy highlights within this budget submission are easy to implement/achievable at no cost to government, and in many cases, officials are already in agreement with industry on the need to address them (e.g. repeal of mandatory PDP labelling of certain intense/non-caloric sweeteners).

By providing a competitive environment for business to thrive, the Government of Canada will enable the beverage industry to continue its leadership role in product innovation that can lead to significant future investment in jobs across the country and thus a more financially stable economy for all of Canada.