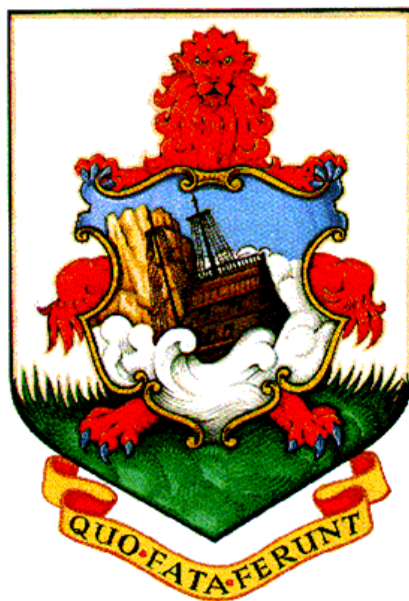


A BRIEF OF A BILL ENTITLED THE  
**CUSTOMS TARIFF AMENDMENT (No 2) BILL 2018**



Prepared for

The Honourable Kim N. Wilson, JP, MP

Minister of Health

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# CUSTOMS TARIFF AMENDMENT (No 2) BILL 2018

## Overview of the Bill

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### **Mr. Speaker**

I'm very pleased to invite Honourable Members to give consideration to the Bill entitled 'Customs Tariff Amendment (No 2) Act 2018'.

### **Mr. Speaker**

The Bill proposes to amend the Customs Tariff Act 1970 ("the principal Act") with measures that include—

1. introducing the sugar tax and;
2. amending the End-use duty relief for goods for electric vehicles.

These measures affect the 1<sup>st</sup> and 5<sup>th</sup> Schedules to the principal Act. As the Minister responsible for the policy initiative pertaining to the major part of this amendment, I'm pleased to be speaking on the matter to this Honourable House.

### **Mr. Speaker**

Given the background of the sugar tax, I wish to comment in detail on the various measures of the Bill related to sugary items.

I must also highlight that following further consideration of the consultation feedback, I will be proposing amendments on the floor, which I will outline shortly.

**Mr. Speaker**

In this Bill the Government proposes, as promised in the Throne Speech and the Budget Statement, to increase the duty rate on sugary soft drinks (namely sodas, energy drinks, non-100% fruit juices, drink powders and dilutables), on candies and on pure sugar imports. These proposals were outlined in detail in in the Ministry of Health’s Sugar Tax Consultation document and subsequent reports.

This is, **Mr Speaker**, the first phase of Bermuda’s new sugar tax.

I say the “first phase” because the outcome of the consultation and the valuable public dialogue that took place consequently, highlighted a number of issues which we could not adopt on a short-term basis but intend to phase in, in due course.

To begin, I can advise my Honourable colleagues that the increased duty will be phased in gradually. The amendments introduced today propose to begin the new duty rates on the said items at 50% duty on 1<sup>st</sup> October

2018, and increased them to 75% in the next fiscal year from 1<sup>st</sup> April 2019. This will allow businesses to adjust and prepare for the new tariffs.

However, the phased implementation does not detract from the Government's determination to take this progressive step to tackle Bermuda's obesity and chronic disease epidemics.

### **Mr Speaker**

It shouldn't need to be re-stated, but I feel obliged to remind us all that three in four adults in Bermuda are overweight or obese. Unhealthy weight is a leading risk factor for health problems such as heart disease, diabetes, hypertension, stroke, high-cholesterol, osteoarthritis, sleep apnea and asthma.

Persons who are overweight or obese are also more likely to develop cancer. The 13 cancers associated with overweight and obesity include brain, thyroid, esophagus, blood, breast, liver, kidneys, uterus, ovaries, gallbladder, upper stomach, pancreas and colon and rectum.

Fifty percent of the population drink at least one sugary drink a day. Regular consumption of excess calories leads to obesity so this added consumption contributes to our growing problems.

Health experts around the world have identified sugary drinks as the primary source of sugars in Western diets, typically one quarter of calories consumed. The addition of one sugary drink a day to the normal US or Bermuda-style diet can result in 15 pounds of weight gain over the course of 1 year.

Indeed, one can of soda can exceed the entire daily recommended maximum intake of sugar. For example, a can of cola-like soda can contain 35g of sugar, which is equal to 8.75 teaspoons.

The World Health Organization (WHO) recommends that free sugars should be limited to less than 5% of the daily energy intake or less than 25g of sugar per day. **Mr Speaker**, this means that a single soda already exceeds the WHO recommended daily intake. And since 50% of adults in Bermuda drink at least one sugary drink a day, we can begin to appreciate how it may contribute to 75% of our population being overweight or obese.

But, **Mr Speaker**, I know not everyone believes the obesity statistics for various reasons. So it is helpful to use other indices beyond weight, such as waist circumference. As I've noted in this House previously for women

to be in a healthy range waist measuring should be under 35 inches; for men it should be under 40 inches. This is a helpful guideline for each one of us to use at home to have that honest conversation with ourselves about our local statistics and how we measure up.

**Mr Speaker**, no matter how we dress it up, Bermuda's prevalence of obesity and diabetes is one of the highest among developed countries; 12% of adults have type 2 diabetes, which is the highest of all high income countries. And this high rate of disease is a very costly burden for our community and our economy to carry.

Last year, the total health spending for individuals with diabetes was \$77.8 million. That is more than 10% of the country's total health spending. We also spent \$24 million on dialysis due to chronic kidney disease, adding further preventable costs to our already strained system. These costs are being paid by all of us through our premiums and taxes which subsidize healthcare.

**Mr Speaker**, I can't emphasize enough that these preventable, lifestyle-induced chronic diseases are crippling our country both physically and financially. We have to take action.

**Mr Speaker,**

The World Health Organization (WHO) proposes the use of economic tools to improve health outcomes and direct persons towards healthy options. Indeed, a number of other jurisdictions have introduced measures in recent years, and studies before and since the introduction of sugar taxes have shown that they help reduce consumption of these products.

Finland introduced a soft drink tax in 2011. Hungary has had since 2011 a public health product tax, which covers all food products with unhealthy levels of sugar, including drinks. France introduced a targeted sugar tax on soft drinks in 2012. Similar measures were also introduced in Mexico in 2013 and in the United Kingdom in 2016. Closer to home, Berkeley, California was the first city in the U.S. to pass a targeted tax on sugary drinks in 2014.

In the Caribbean, Barbados introduced an excise tax on sugar-sweetened beverages in 2015. And St Helena, a British Overseas Territory, introduced recently an additional import duty of 75 pence per litre on sugar-sweetened carbonated drinks to tackle obesity on the island and the resulting high incidence of type 2 diabetes.

While sugary drinks have been the focus of the sugar taxes in most other jurisdictions, the tax proposed for Bermuda includes items such as candies and plain sugar. The goal is to curb unwanted consumption of these foods which contribute no nutritional value to our daily diets.

**Mr Speaker**

The sugar tax will not fix obesity on its own. It will not eliminate lifestyle-induced chronic diseases by itself. The sugar tax will not magically reduce healthcare costs. But it is a fundamental part of the broader Government's commitment to reduce these conditions which are costing us so dearly.

As part of broader strategies, it is one tool to help us tackle these issues; alongside our other Throne Speech commitment to introduce a society-wide framework to halt the rise in obesity and diabetes. And, of course, the recent elimination of duty on some fruits and vegetables also supports healthier nutritional choices, showing this Government is absolutely committed to leave no stone unturned in our determination to improve our people's health.

**Mr Speaker**



The Department of Health's full consultation report has been published on our web site. In addition, the Department of Health held a meeting with stakeholders on 27<sup>th</sup> March 2018 to discuss with them ~~of~~ the outcome of the consultation and respond to their feedback. Further meetings were held subsequently with stakeholders by the Minister of Finance and myself.

**Mr Speaker**, we received 351 responses to the consultation, which is an excellent response. In summary, the final findings of the consultation were as follows:

- There was more support for a sugar tax than opposition, with 52% in favour. A smaller proportion of respondents were opposed, with 44% against.
- The majority of persons felt the tax would change consumers' behaviour.
- Nearly two thirds said 100% fruit juice should not be included at this time, and
- Half said milk-based items should not be included at this time.
- Nearly half said dilutables should be taxed, and
- A clear majority of 60% said candy should be taxed; indeed only 31% opposed.

Interestingly, we also learned that a quarter of respondents felt processed food should also be subject to an increased tax. Logistically this is more difficult to do, but we have heard the public's view and it certainly merits considering in the future.

**Mr Speaker,**

The consultation found that there was broadest support for the tax to be introduced at 75% duty on the suggested items. However, it is not expected that there will be a 75% mark up in retail prices, even when the full duty is in place. It is projected that retail prices could increase 20 to 50% for the affected items, though this will depend on individual businesses.

Locally-made foods such as fudge (almost 100% sugar) will be impacted and may increase 50% at retail. Baked items with lots of icing and sugar-based fillings will be impacted and may increase 15% at retail. Items like bread will be impacted less because sugar is proportionally a minor ingredient and may only increase 5% at retail or less.

The bottom line is that sugar and sugar sweetened items will become more expensive at retail and that the increase will be sufficient to

trigger greater awareness and adoption of healthier buying habits. The Department of Health intends to leverage this awareness and opportunity to promote healthier eating.

It is estimated that in a full year of 75% duty rates, an additional amount of \$10 million could be raised from the sugar tax, although this is dependent on volume of imports, etc. As the Government has indicated in the Budget Statement the additional revenue collected from the sugar tax will be earmarked for expanded, health promotion and disease prevention activities to encourage healthy lifestyles.

**Mr Speaker,**

The consultation feedback highlighted an inconsistency in including diet sodas and iced teas in the sugar tax. The Bill tabled excluded diet iced teas, but had not accommodated for diet sodas; this was due to the existing tariff code structure.

However, we have since been able to work a solution and will be proposing an amendment that will exclude diet sodas from the increased duty of the sugar tax. While the Ministry of Health does not support consumption of diet sodas, we agree with the principle that it does not make sense to apply a “sugar tax” to items with no sugar.

**Mr Speaker,**

The consultation process also noted that local businesses are concerned that taxing sugar will make it more expensive for them to do business as their goods will be more expensive than imported goods. Naturally, we don't want to unintentionally disadvantage local businesses.

While we hope this can be seen as an opportunity for local businesses to seek alternative business models that will promote healthier food options, rather than encouraging more of the same unhealthy practices that are making us sick and costing us greatly, we recognize that local producers of foodstuffs should not be disadvantaged compared to imported products.

Accordingly, **Mr Speaker**, we propose to amend the Bill to allow for local preparers of foodstuffs to apply for concessionary rates from the Minister of Finance under the existing provisions for commercial manufacturers of goods.

Furthermore, we will continue to review the tariff codes to consider if imported baked goods can be subject to the sugar tax in future phases.

**Mr Speaker,**

Lastly, the consultation feedback also noted the inconsistency in excluding chocolate from the sugar tax. While we have not been able to accommodate this at this time, we will seek to make further amendments to the tariff code in order to apply the 75% duty to chocolate in due course, in the same manner as other confectionery items.

But as we phase in further items to be subjected to the sugar tax, we will also monitor consumption levels through health surveys and imports. And our health surveys such as STEPS will continue to monitor overweight and obesity to evaluate whether our interventions are making the difference we need.

Just like tobacco use decreased from 22% in 1999 before smoking was banned in public places, to now 13%; so we hope to see improvements in reduced consumption of sugary drinks and reduced obesity and life-style diseases in the long run.

**Mr Speaker**

I now highlight those measures of the Bill that concern import duty reliefs for electrical vehicles.

The Bill amends customs procedure code (CPC) 4227 which is goods for electric vehicles. The scope has been widened to include electric vehicle charging stations, parts and accessories. This measure supports the use of more environmentally friendly means of transportation in Bermuda.

Finally, **Mr Speaker**

The Government's original intention was to consult on the sugar tax this year. However, we were able to progress this at a much faster pace and are proud that we will be able to implement the tax much sooner than expected.

While the Bill indicates an effective date of June 2018, as stated previously, we will propose an amendment for the provision to commence on 1<sup>st</sup> October 2018.

**Mr Speaker**

The Government is serious about reducing chronic diseases and life-style related health problems in Bermuda. As my Honourable colleagues know, in addition to the sugar tax, duty rate amendments were introduced in this year to eliminate the duty on healthy essential foods

such as some fresh fruits and vegetables. This is all in an effort to help Bermuda eat a healthier diet to prevent chronic diseases like diabetes.

Our intention is to reduce healthcare costs, and a healthier population is one of the essential pillars to achieve that goal.

Thank you, **Mr. Speaker.**