Tax Working Group
Te Awheawhe Tāke

Tax Working Group Public Submissions Information Release

Release Document

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

30 April 2018

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Dear Sir/Madam

Attached are the comments that the New Zealand Food & Grocery Council wishes to present to the Tax Working Group in response to the ***Future of Tax: Submissions Background Paper***. This is focussed solely on the issues concerning a sugar tax.

[1]

Yours sincerely

[1]

Katherine Rich
Chief Executive

Future of Tax: Submissions Background Paper

Submission by the New Zealand Food & Grocery Council

30 April 2018

NEW ZEALAND FOOD & GROCERY COUNCIL

1. The New Zealand Food & Grocery Council ("NZFGC") welcomes the opportunity to comment on the ***Future of Tax: Submissions Background Paper***.

2. NZFGC represents the major manufacturers and suppliers of food, beverage and grocery products in New Zealand. This sector generates over $34 billion in the New Zealand domestic retail food, beverage and grocery products market, and over $31 billion in export revenue from exports to 195 countries – some 72% of total merchandise exports. Food and beverage manufacturing is the largest manufacturing sector in New Zealand, representing 44% of total manufacturing income. Our members directly or indirectly employ more than 400,000 people – one in five of the workforce.

OVERARCHING COMMENTS

3. As noted at the outset, NZFGC has chosen to submit on one aspect of the tax proposals and that concerns a 'sugar tax'. We are confident our interests in other areas are adequately covered by submissions from the likes of Business New Zealand and the Chambers of Commerce.

4. This submission touches on several aspects of a sugar tax, focussing on what one report calls 'real-world' evidence to show:
   - sugar drink taxes demonstrate that demand for beverages tends to be inelastic making these products poor choices for control via taxes
   - consumers frequently substitute untaxed but equally caloric food and drink products for taxed items
   - real-world evidence from countries that have imposed soda taxes (US, Mexico, France, Hungary and Denmark) shows no discernible improvement in obesity rates.
   - such taxes are among the least cost-effective and are regressive. They disproportionately affect those on lowest incomes
   - they can cause unintended negative consequences
   - impacts are wide-ranging, highly uncertain and highly speculative.

5. The overall conclusion is that sugar taxes fail on the principles of good regulatory practice of equity, efficiency and necessity.

6. NZFGC considers more certain results are obtainable from the likes of reformulation being seen from the Health Star Rating scheme and that strong promotion of this by Government together with extensive and focussed education are more certain and better value for cost of implementation.

DETAILED COMMENTS

Sugar – essential building block

7. Sugar is essential for growth particularly in the form of complex carbohydrates such as those found in grains, starchy vegetables, breads and cereals, because they take longer to digest. Simple sugars, such as table sugar, honey and syrup, metabolise quickly and challenge blood sugar levels. Both complex and simple sugars provide energy.

Why Sugar

8. Many opposing sugar in the food supply face a paradox that fruit is a high source of sugar but fruit and vegetables are part of the New Zealand '5 a day' programme and recommended in dietary guidelines. Refining the target to 'simple sugars' is intended to address the paradox and narrow the target. However this ignores many other factors,

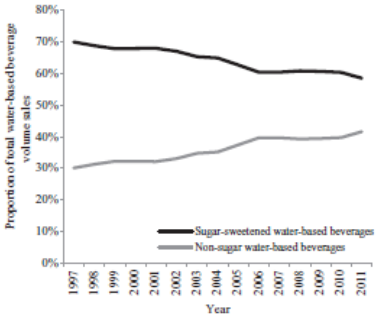
particularly economic factors about how taxes work and human behaviour in relation to them.

9. Parnell (2015) reports that "… New Zealanders are consuming a moderate level of sucrose that's *within* the WHO recommendation for added sugars: below 10% of our total energy intake. Sucrose consumption can be used as a proxy for measuring added sugar intake, and sucrose intakes declined between 1997 and 2008/09, from a median of 53g/day to 48g/day. That's about a teaspoon less per person a day - nearly 2kgs less a year … The latest adult nutrition survey also indicates a reduction in the proportion of sucrose from non-alcoholic beverages and sweets, and an increase in the proportion of sucrose from fruit, compared with 1997."

10. Since then, (Kibblewhite 2017) the data collected for the 2008-09 Adult nutrition survey has been reanalysed to estimate the free and added sugar intakes in New Zealand. This confirmed that even a decade ago, 42% of New Zealand adults consumed less than 10% of their energy intake (the level recommended by the WHO) from free sugars. The paradox is that sugar consumption has been declining at the same time as obesity rates have been rising.

11. In New Zealand, almost 1 in 2 beverages (non-dairy) available in the supermarket <u>do not contain</u> any added sugar. We estimate that figure to be an improvement on previous years but without historical data we cannot claim this is the case. What we do know is that:
    - a government survey (Ministry of Health, 2011) found that only 1.1% of an average child's energy intake came from soft drinks
    - New Zealanders choose to drink water a third of the time while soft drinks are chosen less than 4% of the time (based on Neilsen data)
    - the consumption of water has grown by 21% since 2010 while the consumption of soft drink continues to trend down by 4.2% over the same period (NZ Beverage Council website)
    - manufacturers are responding to consumer demand for low sugar alternatives by reformulating their products, offering smaller pack sizes and promoting low and no calorie soft drinks.

12. These trends are replicated in Australia. Over 15 years, from 1997 to 2011, the sales of non-alcoholic, water-based beverages increased by 26% with an annual growth rate of 1.7%. This growth rate was driven by increasing sales of non-sugar beverages which increased by 73% with an annual growth rate of 4.9% (Levy and Shrapnel 2014). This can be seen in the graph opposite.



13. New Zealand may already have reached the tipping point where no-added sugar drinks dominate the market and, if milks are added in, most being unflavoured, New Zealand would certainly already be there.

NZIER Report

14. The NZIER report *Sugar taxes: a review of the evidence* produced for the Ministry of Health in August 2017 and released earlier this year was intended to review any new evidence on the effectiveness of a sugar tax as a tool for improving health outcomes. NZIER said the Ministry was especially interested in the effect of taxes on sugar-sweetened non-alcoholic beverages and found the following:
    - "No study based on actual experience with sugar taxes has identified an impact on health outcomes."

- "Studies … report reductions in [sugar] intake that are likely too small to generate health benefits and could easily be cancelled out by substitution of other sources of sugar or calories."

15. NZIER found that earlier studies significantly overestimated the effect of sugar taxes on sugar consumption due to 'fundamental methodological flaws,' and these estimates had contaminated later modelling trying to assess the health benefits of sugar taxes. NZIER considered the evidence was weak that sugar taxes improved health.

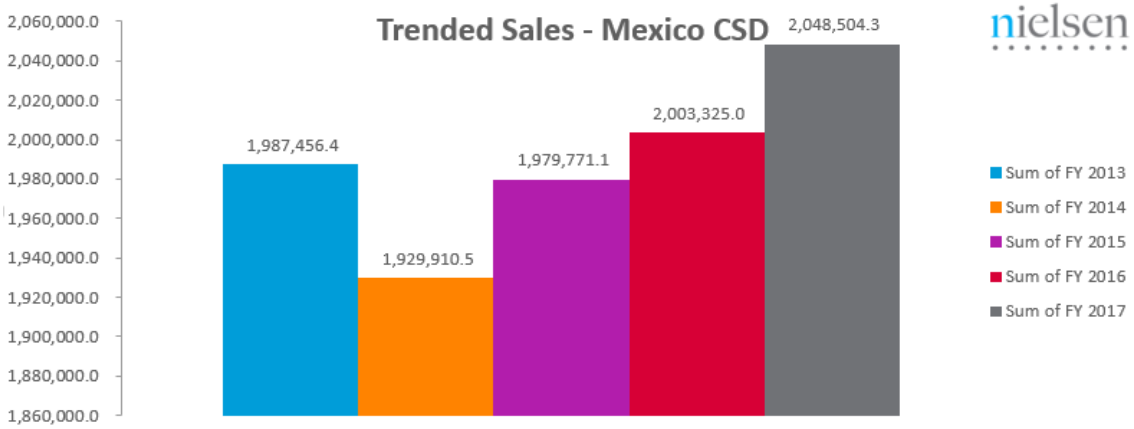
16. The NZIER report shows that a tax on sugary beverages is not a contributing solution to reducing the complex issue of obesity and people cannot be taxed to slimness.

17. INC believes the Health Star Rating scheme is generating a level of reformulation that is leading to healthier choices and stronger Government support for the scheme would cement the good work to date. Complementing that, New Zealand needs to concentrate on education around healthy eating, good food choices and moderation, and how all that works alongside being more active.

Mexican experience

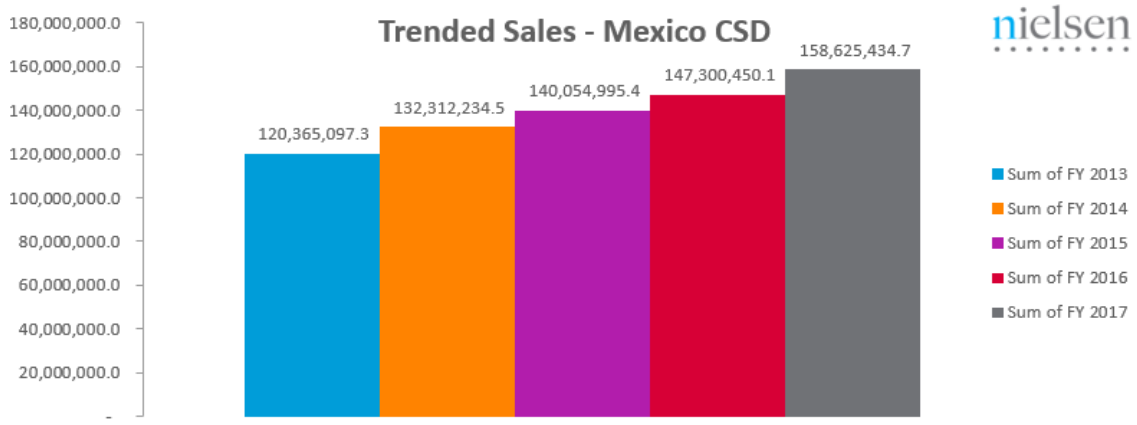
18. NZFGC is concerned that while a sugar tax has proven to be an easy target for campaigners, it is not backed by evidence. This is particularly the case in Mexico where sales data NZFGC obtained from Nielsen's Mexico showed that two years after the tax was introduced, sales had dropped by just 0.5% – amounting to not even one sip per person. Sales initially dropped by 3% but within a year were back to pre-tax levels.

Diagram 1 Sales by Volume, Mexico 2013-2017[1]



[1] Based on Nielsen RMS data for Carbonated Soft Drink (CSD) category (NZFGC defined) for the continuous 12-month periods from 1 January 2013 to 31 December 2017 for the Mexican Total retail market (Copyright © 2017, Nielsen)

Diagram 2 Sales by value, Mexico 2013-2017[2]



19. Mexico's 10% tax raised a lot of money, particularly from the poor, but did nothing to improve health. The only success from that tax was a boost to Government revenue of 21 billion pesos (NZ$1.5 billion) in 2015, which itself proved there was little decline in consumption.

20. Andalon and Gibson (2017) found that estimates of health impacts (weight loss) of the Mexican soda tax ignored consumer responses on the quality margin and correlated measurement errors. The researchers used Mexican household budget survey data and city soda prices to model demand that showed an elasticity of quantity demand of just -0.2 to 0.3. This showed tax induced price increases *might* reduce average weights by less than a pound which is too small to improve health.

21. The lessons from Mexico are:

- The excise tax has been absorbed by the consumer. Prices for sugar sweetened beverages have increased by 15.4% since the first year which is over three times higher than the increase reported in 2013
- The tax has proved inflationary by directly affecting the price of the basic food basket in Mexico
- The tax has been ineffective on consumption and the drinks category continues to grow at around 1.5-2% per annum. Initially there was a reaction to the price change but consumers quickly reverted to previous consumption rates. Our information suggests the following:

Year	Sales volume increase (decrease)
2014	(1.9%)
2015	0.0%
2016	1.6%

- The tax has been ineffective for health purposes since the consumption of calories from soft drinks was not significantly reduced (it represents only 5.5% of total daily calorie intakes)
- It is regressive with the poorest households being the most affected by the tax. According to CONEVAL (National Center for the Evaluation of Social Development Politics from Mexico), INEGI (National Institute of Statistics and Geography) and KANTAR (Global Consumer Behaviour Specialist) 62% of the tax collected came from

[2] Based on Nielsen RMS data for Carbonated Soft Drink (CSD) category (NZFGC defined) for the continuous 12-month periods from 1 January 2013 to 31 December 2017 for the Mexican Total retail market (Copyright © 2017, Nielsen)

the lowest income households. We understand that studies undertaken by UANL (Universidad Autonóma de Nuevo Leon), COLMEX (College of México) and ITAM (Instituto Technológico Autonóma de Mexico) confirm this.

- The tax induced substitution for other taxed and non-taxed categories. Since the purchasing power of consumers did not increase, in order to continue the beverage category products, people appeared to reduce purchasing in home care and personal care items (according to Kantar and Nielsen).
- The Mexican economy reflected a negative impact from the tax. According to INEGI, the country's production fell in the equivalent of 0.04% of GDP during 2015 and, according to ANPEC (National Association of Small Businesses), 30,000 convenience stores closed in 2014.

Australia

22. A study commissioned by the Menzies Research Centre *Fat chance: why sugar taxes won't work* from Cadence Economics, asked the question about a causal relationship between aggregate soft-drink consumption and the prevalence of obesity and finds the evidence is very weak. Both sugar-sweetened soft drink consumption and sugar consumption are trending down in Australia with no particular impact on obesity.

Europe

23. The European Commission engaged ECSIP (European Competitiveness and Sustainable Industrial Policy Consortium) to conduct a detailed analysis of the impact of food taxes. This involved a literature review, quantitative analysis interviews and case studies across the EU. While overall food taxes reduce consumption of taxed products, for food which is particularly inelastic, product substitution takes place both from cheaper brands and less or non-taxed products. As well, administrative burdens increase, employment may be negatively impacted and competitiveness can be impacted.

24. NZFGC refers to a study by the London Metropolitan University that estimated a 10% tax in the UK would reduce the average personal daily intake by 7.5ml, also less than a sip.

25. Similarly, an issues paper by the International Tax and Investment Center, Oxford Economics, Oxford University identified four main factors that influence the success of targeted food and drink taxes: extent to which taxes are passed on to consumers (noting that most manufacturers have a range of products over which commercial decisions on spreading costs can be made), responsiveness of demand for taxed goods to price rises (food and beverage purchases are largely unresponsive), consumer substitution of taxed products with others that are no less unhealthy, and increased trans-border purchasing.

Canada

26. Canada has not implemented a sugar tax but as with many countries the debate continues. A recent discussion (Taylor 2017) showed the experience in countries and cities with soda taxes reveals demand for beverages tends to be inelastic, which makes these products poor choices for control via taxes. Consumers frequently substitute untaxed but equally caloric food and drink products for taxed items. Real-world evidence from countries that have imposed soda taxes (US, Mexico, France, Hungary and Denmark) shows no discernible improvement in obesity rates. Such taxes are among the least cost-effective, are regressive, disproportionately affect those on lowest incomes, and can cause unintended negative consequences. As a source of Government revenue a soda tax appeals to cash strapped economies.

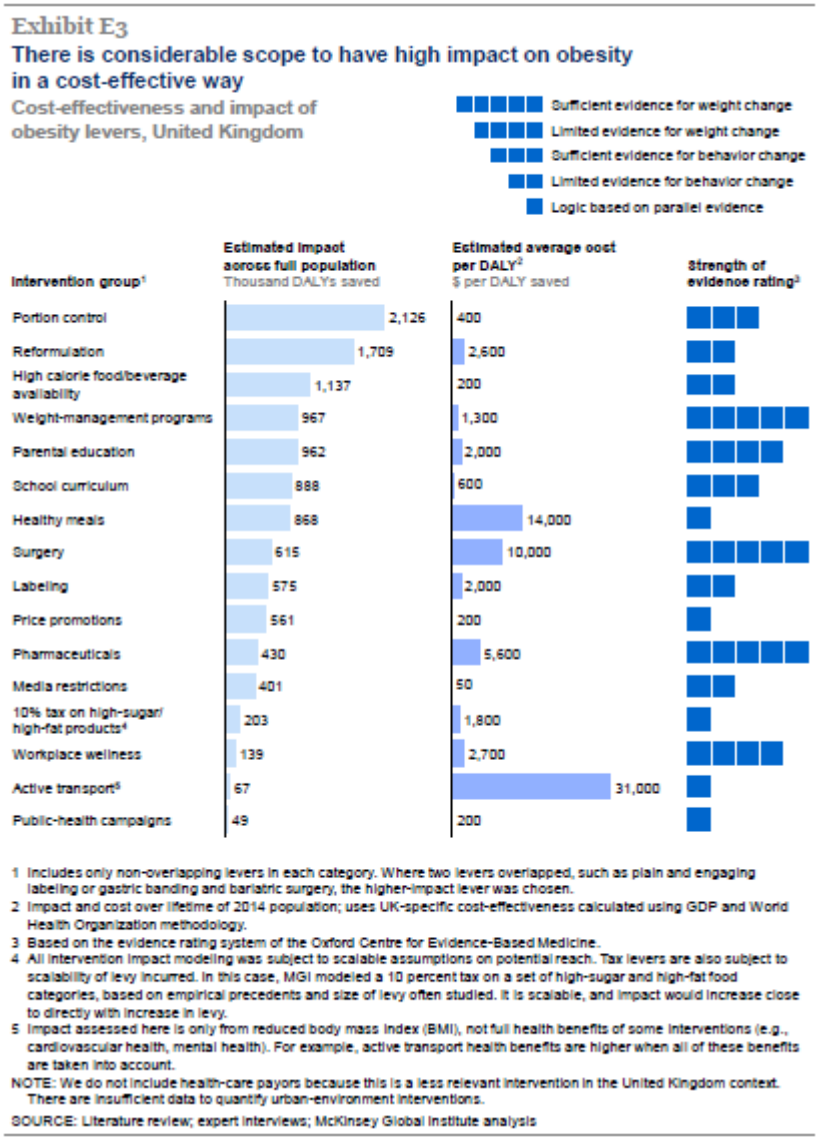
Other

27. Globally the McKinsey Global Institute considered 74 interventions and developed an initial assessment of their cost-effectiveness and the potential scale of their impact if applied at a national level. Of 16 of the key interventions, a tax was in the lowest quarter

of effectiveness (portion control and reformulation led the impact table). See Diagram 3 over.

28. Finally, in terms of unintended consequences, there is the potential growth of a black market in soft drinks of unknown quality estimated which, in France for example, is estimated as comprising around 5% of the market. A soft drink tax also has the potential to lead to an increased consumption of competing products such as those containing alcohol. According to research (Hanks et al 2013) when soft drinks are discriminately taxed, consumers will buy more alcohol and other higher caloric drinks underlining the inelasticity of the drinks market.

Diagram 3: Extract from McKinsey Global Institute Report



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