Tax Working Group Public Submissions Information Release

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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

Via submissions@taxworkinggroup.govt.nz

Tax Working Group Secretariat
PO Box 3724
Wellington 6140
New Zealand

Re: **Submission to the Tax Working Group on the Future of Tax 2018**

Dear Secretariat,

The International Council of Beverages Associations (ICBA)[1] represents the interests of the international non-alcoholic beverages industry. The ICBA Asia Pacific Regional Group (APAC Group) represents the interests of the beverage industry in the region including Australia, New Zealand, South Pacific Islands and all markets from India through to Japan. Today the APAC Group comprises over 100 industry professionals from both company and national associations.

The ICBA APAC Group welcomes the opportunity to provide its perspective on a range of issues on the Future of Tax in New Zealand. On behalf of our Members across the Asia-Pacific, including New Zealand, we wish to provide comment specifically on two issues that have been raised in the Background Paper:

1. **Taxation of sugar-sweetened beverages**
2. **Water management and usage.**

[1] ICBA is an international nongovernmental organization established in 1995 that represents the interests of the worldwide non-alcoholic beverage industry. The members of ICBA include national and regional beverage associations as well as international beverage companies that operate in more than 200 countries and territories and produce, distribute, and sell a variety of non-alcoholic sparkling and still beverages, including soft drinks, sports drinks, energy drinks, bottled waters, flavored and/or enhanced waters, ready-to-drink teas and coffees, 100 percent fruit or vegetable juices, nectars and juice drinks, and dairy-based beverages. ICBA has been a recognized and well-respected observer at Codex Alimentarius for 20 years.

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1. Taxation of Sugar-Sweetened Beverages

Recently, taxation of certain food products, and specifically sugar-sweetened beverages (SSBs), has been mooted by a small group of commentators as a means to address a complex and multi-factorial problem like obesity.

The notion of a SSB tax to address obesity fails on all fronts. Specifically a SSB tax:

a. Is not a WHO 'cost-effective' intervention;
b. Is lacking any robust evidence and should not be a public health policy;
c. Has not shown to improve public health from any global example;
d. Will lead to unintended budget and economic problems.

A) Taxation of SSBs is not a WHO 'cost-effective' intervention

In the recent update to Appendix 3 (the menu of interventions to combat Non-Communicable Diseases (NCDs)), the World Health Organisation (WHO) acknowledged that **taxing sugar-sweetened beverages to reduce consumption is one of the weaker methods** available to member states. As identified by the WHO's internal CHOICE analysis it is not cost-effective nor does the WHO consider it a "best buy" for countries to use.[2] The WHO's findings regarding the ineffectiveness of taxing sugar-sweetened beverages mirrors independent findings by the McKinsey Global Institute. McKinsey also noted the very poor science base to support such an intervention, its cost-ineffectiveness and the lack of DALYs resulting from adoption of such a policy. Moreover, there is concern among Members of the ICBA in New Zealand and elsewhere that the introduction of a levy on sugar-sweetened beverages would be costly to administer (see D) and the outcomes of any levy would, by extension, be challenging to measure.

A SSB tax failed the WHO's internal CHOICE analysis, and is neither a 'best buy' nor a cost effective intervention for member states to adopt.

B) Lack of robust evidence should not be a proxy for sound public health policy

There is insufficient evidence to support the use of SSB taxation as efficient public policy. There also is an inconvenient truth that there is no real world evidence that a SSB tax has produced positive health outcomes on any of the populations subject to this measure. Such an approach oversimplifies the economic complexities of taxation and ignores significant pitfalls with this approach:

i. Good Fiscal Governance Means Examining a Budget as a Whole, Not Promoting Piece-meal "Solutions"

[2] It's further worth noting that at WHA70, the US government formally disassociated from the resolution endorsing Appendix 3 due to concerns about the lack of evidence underlying certain recommendations, including taxation of sugar-sweetened beverages.

Taxation policy is complex, and there are documented "side-effects" to taxing sugar-sweetened beverages, as documented by the experience in Philadelphia. In January 2017, the city of Philadelphia, PA adopted a 1.5 cent per ounce beverage tax to raise revenue for pre-K education. As a recent study from the Tax Foundation highlights, the result has been fewer jobs and lower revenues[3]:

- **Promises to direct revenue toward particular programs go awry**: In Philadelphia, only 49% of the revenue is going to pre-Kindergarten programs, despite Mayoral pledges. The rest is going toward consolidated revenue. There is simply no guarantee that funds raised from a beverage tax will go where promised.
- **Revenue projections can fall short…. leaving budget shortfalls**: soda tax collections in the first six months were already $6.9 million below Philadelphia's downwardly revised estimates. When the existence of a program is predicated on an uncertain tax, the foundation is at best shaky.
- **Jobs loss is real**, and in Philadelphia, families are feeling the impact, especially those who cannot afford to travel outside the city limits to avoid the punitive beverage tax. Major beverage companies have announced layoffs of nearly 20% of their workforce in the city, and bodegas, supermarkets and gas stations are struggling.

The SSB tax in Philadelphia has resulted in workforce layoffs of 20% and tax revenue is nearly $7million below estimates for the first six months.

ii. The Economic Impact of Selective Taxation May Have Detrimental Effects on Health.

The economic growth created by beverage and retail industries contributes positively toward health outcomes, particularly in low-income populations, by providing employment and livelihood to thousands of people around the world, and supporting access to foods. It has been clearly demonstrated that socio-economic status plays a key role in health status. In January 2017, *The Lancet* published a study on socioeconomic status as a risk factor for premature mortality.[4] This study of 1.7 million people across seven high-income WHO member countries[5] found that **socioeconomic status is a more important driver of health outcomes than alcohol, obesity and other risk factors considered in the WHO 25x25 initiative (which did not consider socioeconomic factors).**

[3] "Soda Tax Experiment Failing in Philadelphia Amid Consumer Angst and Revenue Shortfalls," S. Drenkard and C. Shupert, Fiscal Fact No. 555 (August 2017).

[4] "Socioeconomic status and the 25 × 25 risk factors as determinants of premature mortality: a multicohort study and meta-analysis of 1·7 million men and women," Stringhini et al January 2017.

[5] UK, France, Switzerland, Portugal, Italy, USA, and Australia

Participants with low socioeconomic status had greater mortality compared with those with high socioeconomic status.[6] By singling out sugar-sweetened beverages for discriminatory tax treatment and thereby reducing the industry's employment, governments (or tax advocates who advise them) are pursuing policies that have a disproportionate detrimental impact on the very populations they are supposed to help, and therefore may worsen health outcomes.

Socio-economic status is a more important driver of health outcomes than alcohol, obesity and other risk factors.

C) Taxing SSBs has not shown to improve public health from any global example

There is no demonstrated real-world example of taxation reducing obesity or improving public health. The global experience with taxation to date demonstrates a minimal initial, and then unsustained, calorie drop from taxation of beverages, which in turn does not reduce obesity. In Mexico, for example, there is no evidence that the 2014 tax on sugar-sweetened beverages has had any impact on obesity. In fact, data from Mexico's 2016 national health and nutrition survey has shown that the obesity rates have edged upward among adults from 2012-2016, especially among adult women (a statistically significant rise from 73% of the adult female population to 75.6% of that population).[7] **Obesity in Mexico has increased, not declined, since the imposition of a beverage and snack taxes in country. The tax resulted in a decrease of only 4 calories per consumer per day in year one (2014) with government sales tax receipts demonstrating resumed levels of consumption in years two and three.[8]**

Four years after a SSB tax was introduced in Mexico, prevalence rates of obesity continue to climb, with statistically significant increases in rates amongst women in the period 2012-2016.

[6] Low socioeconomic status was associated with a 2.1-year reduction in life expectancy between ages 40 and 85 years, the corresponding years-of-life-lost were 0.5 years for high alcohol intake, 0.7 years for obesity, 3.9 years for diabetes, 1.6 years for hypertension, 2.4 years for physical inactivity, and 4.8 years for current smoking.

[7] *See* Mexico's 2016 National Health Survey (ENSANUT).

[8] Notably, a recent article in the journal *Health Affairs* claimed incorrectly that the drop in consumption witnessed in 2014 was sustained in later years. Regrettably, the authors of this article are relying on theoretical models, which are estimations that do not align with actual tax receipts from the Mexican Secretariat for Finance and Public Credit (SHCP). This real-world data shows increases in sugar-sweetened beverage sales through 2016, as opposed to the projected decrease suggested by the authors. This government tax receipt data can be reviewed at http://finanzaspublicas.hacienda.gob.mx/es/Finanzas_Publicas/Estadisticas_Oportunas_de_Finanzas_Publicas

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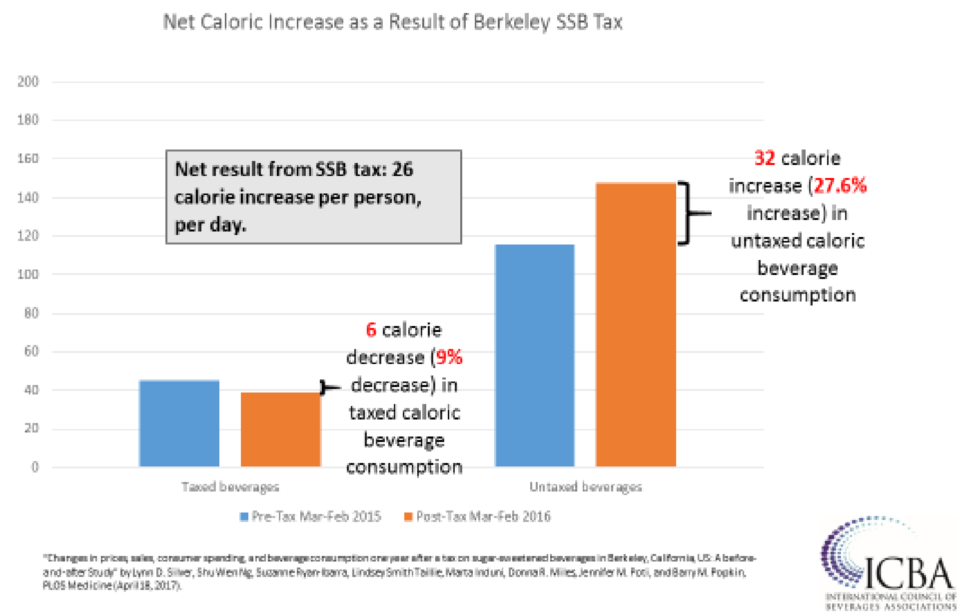
In Berkeley, California, a tax on SSBs has caused calorie intake to rise rather than decrease. For instance, a recent study of the SSB tax implemented in Berkeley, California, found that while caloric consumption of taxed beverages dropped by a statistically insignificant margin of an average of six calories per day – equivalent to a bite of an apple, caloric consumption of untaxed beverages rose by an average of 32 calories per day, resulting in a net *increase* of 26 calories per person per day resulting from the tax.[9] In other words, consumers switched from soft drinks to milkshakes, smoothies and other similarly calorie-dense products – resulting in more calories consumed. Using the simplistic linear thinking of soft drink tax proponents, a narrow tax on sugar-sweetened soft drinks produced insignificant decrease in consumption of tax beverages, it also produced the unintended consequence of driving greater consumption of untaxed higher calorie beverages, and likely exacerbating the overweight and obesity issue.

The Berkeley results are highlighted in the figure below:



A year after the Berkeley tax was introduced, daily per capita caloric intake from all non-beverages has increased by 26 calories.

A number of other reputable studies and acclaimed reports further question the utility of sugar and/or soft drink taxes. For example:

- At the request of New Zealand's Ministry of Health, the well-regarded New Zealand Institute of Economic Research conducted an analysis entitled "Sugar taxes: A review of the evidence," in which the authors ultimately concluded that "**the evidence that sugar**

[9] L. Silver et al., "Changes in prices, sales, consumer spending, and beverage consumption one year after a tax on sugar-sweetened beverages in Berkeley, California, US: A before-and-after study," *PLOS Medicine* (April 18, 2017).

taxes improve health is weak."[10] In their review of the 47 peer-reviewed studies and working papers on the topic of sugar taxes, the authors found, among other things, that:

i. estimates of reduced intake are often overstated due to methodological flaws and incomplete measurements;
ii. there is insufficient evidence to judge whether consumers are substituting other sources of sugar or calories in the face of taxes on sugar in drinks;
iii. studies using sound methods report reductions in 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; and
iv. no study based on actual experience with sugar taxes has identified an impact on health outcomes.[11]

- A June 2016 paper by the International Tax and Investment Center and Oxford Economics entitled "The Impact of Selective Food and Non-Alcoholic Beverage Taxes,"[12] evaluated the different factors that influence the effectiveness of selective food and non-alcoholic beverage taxes ("SFBT") on two policy objectives: improving public health and raising government revenues. It concluded that the evidence "**suggests that the impact of introducing SFBT can be wide-ranging and highly uncertain**. Very few studies provide a robust and complete account of the effects of such taxes, meaning that **governments seeking to introduce them are doing so in a highly speculative context**."[13]

- Recent Cornell University (US) research showed that subjects showed a tendency to substitute taxed soft drink purchases with beer purchases. Consumers who were charged a 10 percent tax on soft drinks showed no decrease in purchase of soft drinks at three and six months compared to the control group not charged the tax. Further, in beer-purchasing households, the tax led to significantly increased purchases of beer so that calories purchased were not lowered and alcohol consumption likely was raised.[14] This research is notable because it is a controlled experiment conducted to evaluate the real-time effect of soft drink taxation, as compared to the body of economic estimates and projections research.

[10] NZIER, "Sugar taxes: A review of the evidence," at ii (2017), *available at* https://nzier.org.nz/static/media/filer_public/f4/21/f421971a-27e8-4cb0-a8fc-95bc30ceda4e/sugar_tax_report.pdf (last accessed February 12, 2018).

[11] *Id.* at i-ii.

[12] Oxford Economics and International Tax and Investment Center, "The Impact of Selective Food and Non-Alcoholic Beverage Taxes" (June, 2016), *available at* http://www.oxfordeconomics.com/my-oxford/projects/341055 (last accessed February 13, 2018).

[13] *Id.* (emphasis added).

[14] B. Wansink, A. Hanks, and D. Just, "From Coke to Coors: A Field Study of a Fat Tax and Its Unintended Consequences" (May, 2012), *available at* http://www.jneb.org/article/S1499-4046(13)00284-4/pdf (last accessed February 12, 2018).

- Finally, the very highly-regarded McKinsey Global Institute's 2014 Report similarly found that **taxing sugar is one of the least effective interventions in combating obesity**. This study reveals that out of more than 40 modeled interventions, taxation was not even in the top ten interventions. And even at this level of ineffectiveness, the science supporting taxation as an effective policy intervention was deemed weak (ranking 1 on a scale of 1-5, with 5 being the best science).[15] According to the McKinsey Global Institute, the most effective ways to combat obesity include reformulating drinks, offering smaller portion sizes and providing better education, all of which our industry is committed to supporting.

Leading economic think tanks including NZIER, the International Tax and Investment Centre, the McKinsey Global Institute and Cornwell University clearly shows taxes to be weak public policy and more efficient alternatives such as reformulation, portion control and education have a greater return on investment.

D) Taxing SSBs will lead to unintended budget and economic problems.

The United Kingdom's experience with its recently implemented Soft Drinks Industry Levy highlights clearly the unintended budget and deeper economic consequences of introducing a tax. The Government Office of Budget Responsibility (OBR) found that the increase in price of soft drinks due to the tax will raise inflation. This food inflation in turn will raise the cost of interest payments on index-linked payments by the Government by approximately £1 billion in 2018-19. Net-net, the new soft drink tax will **cost** the Government approximately twice as much as it raises in revenues, and do even less for the taxpayers having to foot this bill[16].

The tax (levy) hurts the poor and low-income consumers the worst as they spend more of their disposable income on food and beverage than the affluent. Now, in addition to bearing a disproportionate burden of paying soft drink tax, these same poor and low-income consumers will have their health care threatened as the sugar-sweetened soft drink tax reduces overall government resources by ratcheting up inflation, meaning fewer resources to support existing programs.

Similar negative impacts on jobs, GDP and economic growth have been reported by government entities in Vietnam and the Philippines.

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[15] R. Dobbs et al., "Overcoming obesity: An initial economic analysis," McKinsey Global Institute (November, 2014), *available at* https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/Economic%20Studies%20TEMP/Our%20Insights/How%20the%20world%20could%20better%20fight%20obesity/MGI_Overcoming_obesity_Full_report.ashx (last accessed February 13, 2018).

[16] 'Unintended consequencyes of the sugar tax', http://www.taxpayersalliance.com/unintended_consequences_of_the_sugar_tax, (last accessed April 30 2018).

2. Water Management and Usage

As a peak regional body representing all non-alcoholic beverage manufacturers including bottled water companies, we are proud of our industry's stance on water and environmental stewardship.

Like SSB taxes, we understand that small but vocal community groups have raised concerns over water extraction and permit issues relating to bottled water companies. As an industry peak body, we would contend that the existing status quo regarding permit fees remain in place. This is based on some foundation facts relating to the bottled water industry, in particular:

a. The NZ bottled water industry is a small user of groundwater;
b. The NZ industry delivers a significant contribution to local and national economies;
c. Groundwater is different to other 'resources' currently subject to royalties;
d. Industry capacity to absorb any further costs is limited.

A) The New Zealand Bottled Water Industry Impact on the Environment is Small

The bottled water industry in New Zealand is estimated to be $163.7 million or 162.9 million litres. Five trillion litres of water is consumed every year through irrigation – substantially more than the amount used by the bottled and packaged water industry[17] It is estimated that 0.02% of the daily amount of consented consumptive, non-hydroelectric water is allocated for water bottling.[18]

B) The New Zealand Bottled Water Industry Provides Significant Economic Benefits

It is estimated that the economic benefit from the bottled water industry is $60.7 million per annum based on return on capital and labour[19]. Water bottling operations generate approximately $28 million dollars in profit between 2016 and 2017.[20]

C) Water is Different than Resources that Currently Require Royalties to be Paid

The Crown Minerals Act 1991 requires royalties to be paid for extraction of oil, gas and mineral resources. The payment of royalties for these resources ensures fair return is created from the extraction of non-renewable resources.

Freshwater is not considered to be owned, unlike the resources outlined above. It is a renewable source with New Zealand's estimated rainfall being 500 trillion liters. Only 163 million litres is consumed by the bottled water industry.

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17 https://www.stuff.co.nz/business/industries/97796506/The-biggest-users-of-New-Zealand-water

18 Information provided to the NZBC by the Ministry for the Environment

19 *Water Bottling in New Zealand: Industry overview and initial analysis of potential charge.* Ministry for the Environment and Deloitte, January 2018

20 Ibid

D) There are not Sufficient Margins in Bottled Water for Royalties to be Paid

Earnings before tax of 5% to 30% was reported for the bottled water industry in analysis by Deloitte. This small percentage would make it challenging for manufacturers to absorb any royalty without passing it onto the consumers. Due the high elasticity of bottled water it is estimated that a one percent increase in the price of water could lead to a 1.17 percent reduction in the demand for water.[21]

The imposition of a water royalty on exported bottled water would make New Zealand bottled water significantly less competitive on international markets.

3) Conclusion

The ICBA APAC Group sincerely appreciates the consultative approach of the Tax Working Group in allowing comments and providing a clear channel for communicating our Members' concerns. We encourage the Working Group to focus on fact-based investigations and to consider any interventions that are based on irrefutable scientific research in the field of public health and environmental stewardship.

It is important that any consideration in relation to tax, royalty or levy on non-alcoholic beverages, including bottled and packaged water, does not prohibit the industry from being competitive both in domestic and overseas markets. We value the opportunity to provide our responses in this document to an important review which will shape the future of New Zealand, and we look forward to continuing productive discussions in due course.

Please do not hesitate to contact me directly should you wish to discuss this correspondence in more detail. I can be contacted on [1]

Yours sincerely,

[1]

Geoff Parker
Executive Director
ICBA Asia Pacific Regional Group

[1]

www.icba-net.org

[21] 'The Economic Impact of the Soft Drinks Lev', http://www.britishsoftdrinks.com/write/MediaUploads/Publications/The_Economic_Impact_of_the_Soft_Drinks_Levy.pdf, (accessed 26 April 2018).