

Tax Working Group Public Submissions Information Release

Release Document

September 2018

taxworkinggroup.govt.nz/key-documents

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;
- [2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

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

Tax Working Group Secretariat
PO Box 3724
Wellington 6140
New Zealand

submissions@taxworkinggroup.govt.nz

Dear Tax Working Group Members

Re: Tax Working Group – The Future of Tax

I am writing to you in regard to the Background Paper released by the Tax Working Group (TWG) entitled "Future of Tax".

Executive Summary

Coca-Cola¹ welcomes the opportunity to submit on the Tax Working Group's ("the Group") *Future of Tax: Submissions Background paper* ("submissions paper"). In particular, we would like to comment on the potential introduction of a tax on sugar-sweetened beverages ("SSBs").

At its heart, a tax on SSBs is targeted at an increase in healthy eating and lifestyles, and a decrease in the incidences of obesity, diabetes, and other overconsumption / lifestyle related health issues. These are goals that Coca-Cola completely supports. We are devoted to ensuring that New Zealand's future is a healthy one and this is part of our core business strategy.² However we believe that a tax on SSBs is unnecessary and should not be introduced as outlined in this submission.

1. The solution lies in more effective methods of combatting obesity

A systematic response is required – no single intervention is likely to have a significant overall impact. Coca-Cola is committed to sugar reduction and is:

- a) Actively reducing the sugar in our beverages by reformulating our recipes to reduce sugar in our current beverage portfolio
- b) Developing new drinks with low or no sugar.
- c) Promoting smaller packs / sizes
- d) Encouraging informed choice by providing straight-forward, accessible ingredient information.

2. There is a lack of evidence that a SSB tax is effective

There is insufficient evidence proving that a tax on SSBs is effective in reducing obesity, A New Zealand Institute of Economic Research Report to the Ministry of Health *Sugar taxes: A review of the evidence* concluded that no study based on actual experience with sugar taxes has identified a positive impact on health outcomes.³ For example, Hungary, France and Finland currently impose taxes on SSBs, but obesity has continued to rise in these countries.⁴

¹ In this submission "Coca-Cola" refers to Coca-Cola Oceania Limited, a wholly owned subsidiary of The Coca-Cola Company.

² <https://www.coca-colacompany.com/stories/cokes-way-forward-new-business-strategy-to-focus-on-choice-convenience-and-the-consumer>

³ NZIER Report to Ministry of Health *Sugar taxes: A review of the evidence*.

⁴ Organisation for Economic Co-operation and Development (OECD) Statistics Database. Accessed August 2016. Also: <http://www.ncdrisc.org/bmi-mean-line.html>

3. A sugar tax is regressive

A sugar tax is a discriminatory tax as it will disproportionately affect low-income earners (as they are the most at risk of health related issues from overconsumption and lifestyle factors⁵), without actually providing the benefits to these consumers as intended.

4. A SSB tax should not be introduced

We at Coca-Cola ask the Tax Working Group to consider our submission and what is best for New Zealand. In our view any form of SSB tax would be an ineffective policy solution for combatting obesity and other health related issues. It would also be unnecessary given the sustained portfolio of more effective initiatives already put in place by the industry, targeting those at risk. We suggest that a broader use of alternative initiatives (such as those Coca-Cola has implemented) will be a significantly more effective method for increasing the health and wellbeing of New Zealand.

The solution lies in more effective methods of combatting obesity

A tax on SSBs is not the appropriate path towards a healthy future for New Zealanders. A systemic response is required, one that focuses on the most efficient and effective methods for improving the wellbeing of New Zealand.

A systematic response is already in action

We believe that a systematic response is required – no one single intervention is likely to have a significant positive overall impact. Obesity and like health issues are complex problems that do not have a single solution. Education and encouraging personal responsibility are necessary, but not sufficient. The McKinsey Global Institute in the UK analysed a wide range of interventions to tackle obesity and found that taxes fell outside the ten most effective interventions.⁶ The report cited portion control, reformulation, parental education and weight-management programmes as some of the most effective policy measures to address this problem. A SSB tax is not the appropriate mechanism for bringing in change, what is required is a systemic and sustained portfolio of initiatives.

Coca-Cola is committed to building a healthier future for New Zealanders and has already been implementing the systemic and sustained portfolio of initiatives that the McKinsey Global Institute recommended and that we believe are required. This is now part of our core business strategy.⁷

We are focused on producing – and responsibly marketing – low and no sugar / kilojoule drinks. Currently our portfolio is made up of more than 120 products across 21 brands and all of our top selling brands offer a no sugar alternative. The average kilojoule content of beverages in our portfolio has reduced by 3% each year over the past three years. Today, one third of our sales are in either low or no sugar varieties – an increase of 13% since 2015.

To achieve this, we have made significant changes within our product portfolio, packaging and marketing communication to help Kiwis consume less sugar from our beverages. We have expanded our product range, offering more low and no sugar/kilojoule options, reformulating some of our drinks with less sugar/kilojoules, reducing pack/portion sizes and actively marketing our low and no sugar/kilojoule drinks and responsibly marketing our sugar/kilojoule containing products.

Our continued adoption of the Health Star Rating System's integrated energy icon on our packs, our long-held and externally audited global Responsible Marketing to Children Policy, our voluntary commitment to the Advertising Standards Authority's Codes and the

⁵ <http://www.superu.govt.nz/sites/default/files/Obesity%20Summary%20Report.pdf>

⁶ McKinsey Global Institute *Overcoming obesity: An initial economic analysis*. November 2014.

⁷ <https://www.coca-colacompany.com/stories/cokes-way-forward-new-business-strategy-to-focus-on-choice-convenience-and-the-consumer>

NZ Beverage Industry commitment to only directly sell water into primary and intermediate schools are also integral to our commitment to support healthier beverage consumption.

Additionally, we have set ourselves a target to reduce sugar across our portfolio by 10% by 2020. To achieve this, we will continue our ambitious reformulation and new product innovation programme and harness our marketing capabilities to encourage more people to choose our lower kilojoule and no sugar options more often.

All these initiatives highlight that a tax on SSBs is unnecessary as there are already actions in place to address the issues.

This commitment is further evidenced through Coca-Cola ranking third out of 25 of New Zealand's largest food companies for its nutrition commitments, in a study which assessed obesity prevention and nutrition related policies and commitments of these New Zealand food companies.⁸

Coca-Cola would also welcome the opportunity to work with the Government on developing and implementing voluntary measures to reduce the sugar that people consume from food and beverages. We are committed to being visible in our actions, and our existing commitment to the Ministry of Health Healthy Kids Industry Pledge demonstrates our dedication to help Kiwis consume less sugar from our beverages. We refer you to our March 2018 Report *Sugar Reduction: Our Actions in the New Zealand Marketplace for Coca Cola's current initiatives* for further details of the actions we are undertaking to support the wellbeing of New Zealand and New Zealanders. As an industry we are committed to ensuring we deliver change and continue to build on the progress we have already made.

SSB consumption in New Zealand

In 2016, only 3.5% of all drinks (excluding alcohol) consumed by New Zealanders were soft drinks, as a smaller subset of SSBs, (and a decrease from 2010), with 27.5% of drinks consumed being water, 45% coffee and tea.⁹

Further, over the past decade sales of low and no kilojoule non-alcoholic beverages have grown by 66.7%.¹⁰ These facts all suggest that the initiatives Coca-Cola and other industry members are undertaking are effective in changing behaviour. The introduction of a tax on SSBs is unnecessary because other more effective initiatives have already been successfully implemented.

Despite the decrease in SSB consumption, obesity levels continue to rise. The child obesity rate has increased from 8% in 2006/07 to 12% in 2016/17 and the adult obesity rate has increased from 27% in 2006/07 to 32% in 2016-17.¹¹

SSBs (and sugar) are only a small part of the average diet. Soft drinks only account for 1.6% of an adult New Zealander's average energy intake. The remainder is made up of 3.4% from other non-alcoholic beverages, 11% from bread, 10% from cakes, pies, muffins, pastries and biscuits, 7% from grains and pasta, 5% from milk, 5% from alcohol, 4% from sugars and sweets and then 53% of 'other food' (including cereals).¹² This highlights that taxing SSBs will not solve obesity issues in New Zealand as they are not the only (nor the main) problem. This is a situation where a wider response is required.

⁸ <https://www.coca-colajourney.co.nz/stories/coca-cola-oceania-ranks-number-3-in-nz-for-commitment-to-nutrition>

⁹ Frequency of Beverage Drinking; 'Consumer and media insights service for YE Q1 2016', The Nielsen Company.

¹⁰ Nielsen Scantrack Total Supermarkets MAT to 18/09/2106..

¹¹ Ministry of Health. 2017. Annual Data Explorer 2016/17: New Zealand Health Survey. <https://www.health.govt.nz/nz-health-statistics/health-statistics-and-data-sets/obesity-statistics/> https://minhealthnz.shinyapps.io/nz-health-survey-2016-17-annual-data-explorer/w_7135082c#!/key-indicators.

¹² NZ Beverage Council *A look inside NZ fridges: Beverage consumption in New Zealand*.

There is a lack of evidence that a SSB tax is effective in reducing health related issues from overconsumption

We recognise the complex challenge of obesity and other health related issues in New Zealand and that there is scope to improve the outcomes we are seeing in this area. However, no single food or beverage alone is responsible for these issues. There is no conclusive evidence that imposing a tax on soft drinks helps people to lose weight. We are fully committed to actions that have been proven effective in reducing obesity and promoting healthier lifestyles such as sugar reduction reformulations, new low and no kilojoule and sugar products, providing smaller portions and responsible marketing.

Problem definition

The submissions paper does not actually specifically query whether there should be a sugar tax or a tax on SSBs, but asks whether there is scope for more behavioural taxes to be introduced into New Zealand. However, page 26 of the paper uses sugary drinks as an example where there have been calls for tax to discourage behaviour. We understand the concern is in relation to health issues such as obesity and diabetes. We have prepared this submission on the basis that this is the reason for the potential introduction of a SSB tax, and not for other reasons such as raising revenue.

The problem definition must actually be set wider than merely that of overconsumption of sugar. The issue is not only overconsumption of sugar, but overconsumption of total energy / kilojoules from all sources (fat, starches, sugar, protein and alcohol) versus energy expended (i.e lack of daily physical activity, regular exercise and overall attention to wellbeing).

In New Zealand, sugar-sweetened soft drinks, often viewed as the largest of the SSBs categories, is actually decreasing¹³, however obesity remains an issue. There is a wider matrix of factors to consider in relation to the cause of obesity, diabetes, and other health issues. Obesity is a complex problem that is related to all kilojoule-containing dietary inputs, genetic make-up, lifestyle factors and other less tangible considerations.

Why a tax on SSBs?

When it comes to a SSB tax, the underlying assumption is that there is a correlation between increased consumption of SSBs and obesity or that there is a correlation between increased tax and a reduction in obesity and other health issues. However, there is insufficient evidence to say with any certainty that either point is accurate. Studies have shown that reductions in intake are too small to generate health benefits – particularly given that consumers may just be substituting other sources of sugar or kilojoules in response to increased tax on SSBs.¹⁴

The New Zealand position

NZIER report

The New Zealand Institute of Economic Research Report to the Ministry of Health *Sugar taxes: A review of the evidence* (the "NZIER report") involved the study of a wide-range of evidence from overseas studies on SSB taxes, including where SSB taxes have actually been introduced (such as Mexico). The conclusion was that there is no clear evidence that imposing a SSB tax would meet a comprehensive cost-benefit test. This report is important because it involved an analysis of the New Zealand context and some key points to draw out from the report include:

¹³ NZ Beverage Council *A look inside NZ fridges: Beverage consumption in New Zealand.*

¹⁴ NZIER Report to Ministry of Health *Sugar taxes: A review of the evidence.*

- Estimates of reduced intake are often overstated due to methodological flaws and incomplete measurements.
- There is insufficient evidence to judge whether consumers are substituting other sources of sugar or kilojoules in the face of taxes on sugar in drinks.
- Studies 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 kilojoules.
- No study based on actual experience with sugar taxes has identified a positive impact on health outcomes.¹⁵

These outcomes reflect that sugar, including sugar from SSBs, is only one part of the kilojoules in diets and is therefore only part of the energy imbalance problem. In New Zealand, non-alcoholic sweetened beverages make up only 5% of an adult's average kilojoule / energy intake.¹⁶ The largest intake of energy is from fats (33.7%), starches (25%), sugar (21%), protein (16.5%) and alcohol (3.8%).¹⁷

Consistent with the analysis in the NZIER report, a report by the New Zealand Initiative in April 2016 concluded that studies which analysed the effect of sugar taxes fail to prove that taxes will achieve their stated policy intention of reducing obesity. Its research noted that many studies focus on proxies (for example whether a tax will reduce consumption) but those studies did not consider whether people substitute with cheaper products or other kilojoule containing foods.¹⁸

With regards to substitution, the NZIER report noted sugar / kilojoule substitution can easily occur and consumers will merely move (if they move on at all) to consuming other sugar / kilojoule containing foods or beverages. The vast array of alternative food and drinks means that a tax on SSBs will not have predictable outcomes and will have a complex relationship to health behaviours.¹⁹

The same can even be said within the same product or type of SSB. A report by Ecorys (in conjunction with the European Competitiveness and Sustainable Industrial Policy Consortium) found that where an SSB or sugar tax had been introduced, some consumers favoured cheaper brands of the taxed product in order to maintain their current consumption.²⁰ The Kantar World Panel Mexico Report found that after the introduction of an SSB tax in Mexico many families turned to cheaper brands in more informal markets (i.e. street sales).²¹ In Philadelphia consumers bought SSBs from outside the city.²²

What has been the experience of other countries?

A small number of countries have implemented or tried to implement a SSB tax (or similar) with the stated aim of reducing obesity. The general experience from these countries is that there was no reduction in obesity. In fact, these real life examples found that kilojoule intake reduced very minimally, if at all, and that the health benefits of a sugar tax are uncertain. For example Hungary, France and Finland currently impose taxes on SSBs, but obesity has continued to rise in these countries.²³

¹⁵ NZIER Report to Ministry of Health *Sugar taxes: A review of the evidence*.

¹⁶ University of Otago and Ministry of Health. 2011. *A focus on Nutrition: Key findings of the 2008/09 NZ Adult Nutrition Survey*. Wellington. Ministry of Health. [<http://www.nzbc.nz/media/release/012.asp>]

¹⁷ University of Otago and Ministry of Health. 2011. *A focus on Nutrition: Key findings of the 2008/09 NZ Adult Nutrition Survey*. Wellington. Ministry of Health. [<http://www.nzbc.nz/media/release/012.asp>]

¹⁸ The New Zealand Initiative Health of the State, April 2016

¹⁹ NZIER Report page 21, reference 49 Shemilit et al. 2013.

²⁰ European Competitiveness and Sustainable Industrial Policy Consortium *Food taxes and their impact on competitiveness in the agri-food sector*. July 2014.

²¹ Kantar Worldpanel Mexico Report, December 2014.

²² ICBA submission on Bermuda's Tax Consultation document. 20 February 2018.

²³ Organisation for Economic Co-operation and Development (OECD) Statistics Database. Accessed August 2016.

The Ecorys report evaluated the impact of food taxes in Europe (including Hungary, France, Denmark and Finland) and found that there is no clear evidence that an observed reduction in SSB consumption has led to public health benefits.²⁴ We set out below the experience of some of the countries who have (or have tried to) introduce a tax on SSBs/sugar.

Mexico

In 2014 Mexico imposed an excise tax on SSBs (at 1 peso per litre), in a bid to address the country's growing obesity epidemic. However, the data obtained since 2014 has not been positive. In the first year of the SSB tax, SSB consumption only declined by a nominal amount (approximately 4 calories a day, from a diet of more than 3,000 calories a day).²⁵ This sort of calorie reduction is nominal and is, at most, a 0.13% reduction in calorie intake, which can hardly be said to be effective in improving the well-being and lifestyles of the Mexican people. Further, in 2015 SSB consumption levelled and in 2016 SSB consumption returned to growth.²⁶

There is no clear evidence that overall the Mexican people have improved their health following the introduction of the SSB tax. Government of Mexico data showed that obesity rates continued to rise despite the implementation of the SSB tax *and* a high calorie/kilojoule snack tax in 2014. From these statistics alone it is clear that the SSB tax in Mexico was unsuccessful in reducing calorie/kilojoule consumption and improving lifestyles. The greater issue here is the total daily calorie/kilojoule consumption, which tax has proven to be ineffective at solving.

Despite the SSB tax in Mexico being successful in raising revenue (noting that the tax increased prices on SSBs by an average of 9%-18%)²⁷, the tax had significant downsides. It cost tens of thousands of jobs, caused upwards of 30,000 mum & dad retailers to close and had a negative impact on Mexican GDP.²⁸

United States of America

A number of cities in the United States have introduced or considered a SSB tax, including Philadelphia (Pennsylvania). Philadelphia introduced a 1.5 cent per ounce beverage tax and as a result of the tax the major beverage companies announced significant job losses in the industry, with layoffs of nearly 20 percent of the workforce in the city, as consumers found alternative ways to purchase SSBs.²⁹

Other major cities including Santa Fe (New Mexico) and Cook County (Illinois), have faced widespread rejection of beverage taxes. In May 2017 in Santa Fe, New Mexico voters decisively rejected a two-cent per ounce tax on SSBs, due to concerns that the tax would harm working class families and small businesses. In Cook County, Illinois a SSB tax was repealed only two months after enactment after public outcry over the resulting price hikes in stores.³⁰

Studies in the US of the already implemented taxes have found that despite soft drink consumption reducing steadily in recent years, research does not support the theory that soft drink taxes will reduce BMI meaningfully.³¹ While soda consumption in the US has

²⁴ European Competitiveness and Sustainable Industrial Policy Consortium *Food taxes and their impact on competitiveness in the agri-food sector*. July 2014.

²⁵ Kantar Worldpanel Mexico Report, December 2014.

²⁶ ANPRAC: Industria Refresquera Mexicana: 10 Reasons why excise tax imposed to soft drinks in Mexico is a bad idea

²⁷ ICBA submission on Bermuda's Sugar Tax Consultation document. 20 February 2018.

²⁸ ICBA submission on Bermuda's Sugar Tax Consultation document. 20 February 2018.

²⁹ ICBA submission on Bermuda's Tax Consultation document. 20 February 2018.

³⁰ ICBA: The Economic Impact of Sugar-Sweetened Beverage Taxation.

³¹ Fitts, *Vader The Effect of State Level Soda Tax on Adult Obesity*, The Evans School Review (available here: https://depts.washington.edu/esreview/wordpress/wp-content/uploads/2013/06/Fitts_Vader_SodaTax_PublishOnline.pdf).

been in steady decline for many years, obesity has continued to increase. Similar examples are extant in Australia and many European countries.³²

A study of actual results of a SSB tax in Berkeley, California, showed an increase in calorie/kilojoule consumption as consumers switched from taxed beverages to higher calorie/kilojoule untaxed beverages like milkshakes.³³

France

France's SSB tax led to a decrease in soft drink consumption of 3-3.5 litres per year, per person.³⁴ However, this only equates to 8.2-9.6 fewer millilitres a day – which is about one sip of a SSB. France's position illustrates that a tax on SSBs will not result in a meaningful reduction in consumption and that other, more targeted measures are more important in the fight against obesity.

France's SSB tax *has* been successful in raising revenue. However, a SSB tax is a behavioural tax, the effectiveness of which is not measured by revenue collection. In fact, it is arguable that a 100% successful behavioural tax collects no money at all.

Hungary

In 2011 Hungary introduced a tax on SSBs and a number of other food items. The sale of SSBs fell by 15.1% from 2011–2013, however in the period before the tax was introduced (2007-2011) sales had already fallen by 13.5%.³⁵ This highlights that the SSB tax as introduced had little effect and other factors were the driving force behind any decrease in consumption.

A Hungarian study also illustrated that, of the total energy intake for adult women in Hungary, 2% comes from added sugars in taxed soft drinks.³⁶ The remaining intake comes from naturally occurring sugars in food or added sugars in other product groups. Again, this highlights that a SSB tax would only target a very small portion of energy intake and would do little to change overall consumption patterns.

Denmark

While not a sugar tax, in 2011 Denmark introduced a 'fat tax' with a similar goal to a SSB tax of increasing the health and wellbeing of its population (and to increase public revenue). This tax was levied on all products containing more than 2.3% of saturated fats (at 16 kroner per kilo).

However, after a year the tax was repealed due to near universal opposition and widespread evasion. The 'fat tax' was responsible for 1,000 job losses, it increased the cost of some grocery staples by 20 per cent, involved \$27 million in administrative costs to businesses, and didn't have any significant impact on consumption patterns or dietary habits. Danish citizens largely evaded the tax by shopping across the border.

³² <https://www.cdc.gov/obesity/data/adult.html/>
https://nccd.cdc.gov/dnpao_dtm/rdPage.aspx?rdReport=DNPAO_DTM.ExploreByTopic&isClass=OWS&isTopic=OWS1&qo=GO

³³ Popkin 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.*

³⁴ European Competitiveness and Sustainable Industrial Policy Consortium *Food taxes and their impact on competitiveness in the agri-food sector.* July 2014.

³⁵ European Competitiveness and Sustainable Industrial Policy Consortium *Food taxes and their impact on competitiveness in the agri-food sector.* July 2014.

³⁶ European Competitiveness and Sustainable Industrial Policy Consortium *Food taxes and their impact on competitiveness in the agri-food sector.* July 2014.

In addition, the government experienced an uptick in black market sales to avoid the tax. With this backdrop, the “fat” tax was quickly repealed, as was Denmark’s longstanding soft drink tax, and plans to introduce a wider sugar tax were dropped.³⁷

Over the period of Denmark’s tax (and following repeal), there was no discernible change in the rate of increase in BMI and obesity. Further, in 2015 and 2016 (after the tax was repealed), the rate of increase of BMI and obesity was negligible.³⁸

Colombia

The legislature in Colombia rejected a SSB tax proposal in 2016 after economic concern was expressed from a number of parties, including small retailers and shopkeepers. It was noted that the tax could lead to hard times for small shopkeepers, potentially forcing them to close their businesses, because of the negative effects that the tax would have on their overall revenues and profit margins.³⁹

Iceland

In Iceland a sugar tax on food and beverages was repealed in 2015 to benefit households and simplify the tax system.⁴⁰ It is also worth noting the International Monetary Fund conducted a report into modernising the Icelandic VAT system, concluding that it would be more efficient to raise the VAT rate than levy a commodity tax.⁴¹ The IMF Report also noted that “If the goal of taxing sweet foods is to deter obesity, then taxing foods containing artificial sweeteners appears to make little sense, since these goods offer low-calorie/kilojoule substitutes for the foods whose consumption is being discouraged.”

United Kingdom

While only just implemented, the United Kingdom’s tax on SSBs raises the issue of substitution and alternative sugar consumption. The Institute for Fiscal Studies (UK) found that in the UK, 83% of sugar consumption comes from sources other than SSBs and that the effectiveness of a tax on SSBs will depend on the products people switch to.⁴²

The March 2018 Economic and Fiscal Outlook prepared by the Office for Budget Responsibility⁴³ notes that the soft drinks industry levy had originally been forecast to raise £520 million in 2018-19 and progressively lower amounts in later years, as producers responded by lowering the sugar content in their drinks in order to reduce their tax liability.

The Government had presented the soft drinks industry levy as a hypothecated tax, with revenue being applied to “pay for school sport”. At this stage it is unclear whether the receipts shortfall (due to an increase of inflation stemming from the soft drinks tax) will lead to a change in associated spending commitments.

The experiences of these other countries have shown that behavioural taxes on food and drink are anything but straightforward. The NZIER report on sugar taxes notes that “*Taxes are costly to administer and comply with and, especially in the case of people who are not the target of the intervention, come with deadweight losses that reduce their welfare. They should only be introduced if they are the best way to improve health.*”⁴⁴ After considering the overseas’ experiences, it cannot be clearly said that a sugar tax would improve the health of New Zealanders.

³⁷ ICBA submission on Bermuda’s Sugar Tax Consultation document. 20 February 2018.

³⁸ http://www.skm.dk/media/11579/faktaark_afgiftsogkonkurrencepakke.pdf

³⁹ <http://www.ncdrisc.org/bmi-mean-line.html>

⁴⁰ ICBA: The Economic Impact of Sugar-Sweetened Beverage Taxation.

⁴¹ <https://iea.org.uk/wp-content/uploads/2016/07/IEA%20Sugar%20Taxes%20Briefing%20Jan%202016.pdf>

⁴² <https://www.imf.org/external/pubs/ft/scr/2014/cr14291.pdf>

⁴³ <https://www.ifs.org.uk/uploads/publications/bns/BN180.pdf>

⁴⁴ http://cdn.ibr.uk/EFO-MaRch_2018.pdf (refer to page 213-214 in respect of the soft drinks industry levy)

⁴⁴ NZIER Report to Ministry of Health *Sugar taxes: A review of the evidence.*

Comparison with other behavioural taxes and line-drawing

The excise tax on tobacco in New Zealand has been extremely effective in raising revenue and since its introduction, the popularity of smoking has decreased significantly. At first glance, this is a situation where a behavioural tax has worked; however it is not quite as simple as this. Without going into a detailed analysis of the excise tax on tobacco, many other factors have played into this decrease, including education, responsible (or even zero) marketing, as well as the fact that tobacco has few substitutes. Also, at its base, a person cannot safely consume tobacco; it has adverse health consequences. These facts do not hold with SSBs, which can be consumed safely in moderation.

If a broader sugar tax is proposed, there will be difficult questions to consider about where the line is drawn in order for the tax to be effective. Is it only added sugar products, is it only products with added or total sugar content over a certain percentage or is it some other measure? What about items such as biscuits, cakes and cereals, or what about milk and juices where there is naturally occurring sugar? Any distinction will be arbitrary and if the approach is not comprehensive, there is a risk of substitution with other products containing sugar (let alone kilojoule-containing high fat or starch alternatives).

A sugar tax is regressive and will hurt the economy and the poorest communities

A sugar tax will disproportionately affect low-income earners, meaning that it is a discriminatory tax. Those most at risk of health related issues from overconsumption and lifestyle factors are those in low-socio-economic households.⁴⁵ A sugar tax will penalise these particular consumers relatively more than others, without actually providing the benefits to these consumers as intended. There will also be other unintended and detrimental consequences to introducing a sugar tax and these must be considered.

A tax on SSBs will not target those at risk (and will penalise them instead)

A SSB tax will disproportionately affect low-income earners, discriminating against the very people it is targeted at. The Kantar Worldpanel Mexico Report found that 63.7% of the tax collected by Mexico's sugar tax was from low-socio-economic households.⁴⁶ In this situation tax merely acts to penalise certain consumers, without actually aiding those same consumers in any way. Behavioural taxes are a blunt tool and a sugar tax is ineffective in actually targeting those at risk of obesity or other health issues. The primary outcome of the Mexican SSB tax has been to make consumers, and in particular lower socio-economic groups, poorer not thinner. This is because SSBs only account for a small share of kilojoule consumption.

In New Zealand, children living in the most socio-economically deprived neighbourhoods are 2.5 times as likely to be obese as children living in the least deprived neighbourhoods (after adjusting for age, sex and ethnic differences).⁴⁷ The Mexican experience shows that a SSB tax will hit the households of these children the hardest. It is vital that instead of introducing a SSB tax (which will be ineffective in targeting those at risk) targeted measures are implemented to help these children.

The International Council of Beverages Associations Report in response to the Government of Bermuda's proposed SSB tariff noted that "*By singling out sugar and / or SSBs for discriminatory tax treatment, governments are pursuing policies that have*

⁴⁵ <http://www.superu.govt.nz/sites/default/files/Obesity%20Summary%20Report.pdf>

⁴⁶ Kantar Worldpanel Mexico Report (December 2014)

⁴⁷ Ministry of Health. 2017. Annual Data Explorer 2016/17: New Zealand Health Survey. <https://www.health.govt.nz/nz-health-statistics/health-statistics-and-data-sets/obesity-statistics/> / <https://minhealthnz.shinyapps.io/nz-health-survey-2016-17-annual-data-explorer/> w 7135082c/#1/key-indicators.

disproportionate detrimental impact on the very populations they are supposed to help, and therefore may worsen health outcomes.”⁴⁸

A discriminatory SSB tax is poor tax policy, with the IMF – Tax Policy Handbook noting that it is best practice to limit discriminatory taxes to luxury goods, products that are inelastic or have few substitutes (e.g. tobacco or alcohol). None of these differentiators apply to SSBs.⁴⁹

A targeted response is important. Even if consumption decreases overall with the introduction of a tax on SSBs, the Ecorys Report noted that, it is not clear if an observed average consumption is largely driven by “*consumers who eat the taxed products as part of a balanced diet and healthy lifestyle, or by consumers who overconsume the nutrient which is being targeted by the tax. If the consumption decrease occurs in the segment of the population that is consuming the products as part of a balanced diet, and does not affect consumption of those at risk (does not target excess consumption), it may be that the tax is ineffective in reducing obesity.*” This highlights the bluntness of a SSB tax and its ineffectiveness at meaningfully targeting those at risk.

Unintended consequences

The introduction of a tax on SSBs will also have unintended consequences, to the detriment of New Zealand. In Mexico, there was a loss of jobs in the industry, as well as the closure of a significant number of small businesses (“tiendas”), given the reliance of these businesses on the sales of SSBs (even though within two years’ time SSB consumption was in growth.⁵⁰

While the cause for this is unclear, the return of SSB consumption would indicate that consumers have simply shifted their purchasing location away from smaller retailers. There are also concerns around the creation of a ‘black market’ for SSBs. While we do not think that there will be such extreme consequences for the New Zealand economy, there will be unintended consequences arising from a SSB tax and it is important to be aware of their potential impact.

The United Kingdom recently began implementation of a SSB 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 about £1 billion in 2018-19. Net-net, the new soft drink may **cost** the Government about twice as much as it raises in revenues, and do even less for the taxpayers having to foot this bill.⁵¹

There may also be other New Zealand specific consequences that will only become clear if a tax is implemented.

The Ecorys report considered the effectiveness of food taxes and their impact on competitiveness.⁵² On sector competitiveness, the study concluded “... *we observe food taxes leading to an increase in administrative burdens, notably if the tax is levied on ingredients (specific tax) or the tax base is highly differentiated and complicated.*” The study also found that employment may be negatively impacted by a food tax. A SSB tax will introduce deadweight costs, especially if the scheme is complex. These administrative costs will go to profit margins, for all those involved, but in particular small business who stock and sell SSBs (or other sugary products if a wider tax is implemented).

Most notably the Ecorys report found “*To what extent changes in consumption resulting from a food tax actually lead to public health improvements is still widely debated and*

⁴⁸ ICBA submission on Bermuda’s Sugar Tax Consultation document. 20 February 2018.

⁴⁹ IMF Tax Policy Handbook, Washington, IMF, 1995.

⁵⁰ ANPEC, Mexican “National Alliances of Small Businesses”

⁵¹ http://www.taxpayersalliance.com/unintended_consequences_of_the_sugar_tax

⁵² European Competitiveness and Sustainable Industrial Policy Consortium *Food taxes and their impact on competitiveness in the agri-food sector.* July 2014.

evidence from academic literature is inconclusive and sometimes contradictory."⁵³ In Hungary the evidence was that consumers were able to substitute with products containing the ingredients targeted by the tax (i.e. sugar and salt).

In Finland the sugar tax contributed to changes in consumer demand in different categories of products but not an overall reduction in the demand for sweet and sugary products. This highlights that it cannot be proven, and indeed based on evidence to date unlikely, that a tax on sugary drinks will achieve its intended aim. It would be inappropriate to introduce compliance costs and other deadweight costs when the supposed benefits are not likely to come to fruition.

Concluding statement

We contend the Tax Working Group should not recommend a SSB tax. Such a tax would only provide, at best, limited revenue benefits and would be even less likely to provide any health outcomes. Evidence globally suggests that, in reality, a SSB tax would do little to reduce the level of obesity or positively impact other health issues. It is unnecessary given the sustained portfolio of more effective initiatives already targeting those at risk. We at Coca-Cola look forward to partnering with Government and other members of civil society to develop and implement long-term solutions to obesity and other related health issues.

Thank you for the opportunity to comment.

Yours sincerely

[1]

Sandhya Pillay
General Manager
Coca-Cola Oceania

Contact

If you have any queries about this submission or for more information, please contact:

Karen Thompson, Head of Communications, Coca-Cola Oceania, [1]
[1] or visit www.coca-colajourney.co.nz

⁵³ European Competitiveness and Sustainable Industrial Policy Consortium *Food taxes and their impact on competitiveness in the agri-food sector*. July 2014.

ABOUT COCA-COLA IN NEW ZEALAND

The Coca-Cola Company (NYSE: KO) is the world's largest beverage company, refreshing consumers with more than 500 sparkling and still brands and nearly 3,900 beverage choices. Led by Coca-Cola, one of the world's most valuable and recognisable brands, our company's portfolio features 21 billion-dollar brands, 19 of which are available in reduced-, low- or no-kilojoule options. These brands include Diet Coke, Coca-Cola Zero, Fanta, Sprite and Powerade. Through the world's largest beverage distribution system, we are the No. 1 provider of both sparkling and still beverages. More than 1.9 billion servings of our beverages are enjoyed by consumers in more than 200 countries each day. With an enduring commitment to building sustainable communities, our company is focused on initiatives that reduce our environmental footprint, create a safe, inclusive work environment for our associates, and enhance the economic development of the communities where we operate. Together with our bottling partners, we rank among the world's top 10 private employers with more than 700,000 system associates. For more information, visit Coca-Cola Journey at <http://www.coca-colajourney.com.nz/>. Coca-Cola Oceania, an indirect wholly owned subsidiary of The Coca-Cola Company, provides marketing and technical/quality services to The Coca-Cola Company in New Zealand.

Appendix

Sugar Reduction:
Our Actions in the New Zealand Marketplace



Coca-Cola CCA COCA-COLA AMATIL
NEW ZEALAND

March 2018

Executive Summary

Our wellbeing target: sugar reduction



We aim to reduce sugar across our entire portfolio by 10%¹

Our actions and future goals to help us deliver the sugar reduction target



In 2017, we launched **Kari** Less Sugar Fruit Drink* 

50%

Coca-Cola No Sugar - our biggest launch of a new Coca-Cola in the last decade.

5 years in development
Research, recipe mixing & consumer trials

 New recipe significantly preferred by Coca-Cola drinkers & equally loved by **Coke Zero** drinkers (vs current Coke Zero formulation)²



We've reduced sugar and kilojoules in **5 products** since 2015

7 reformulations in our portfolio are planned for **sugar reduction** in 2018

From 2017 our ambition is for **ALL** new Coca-Cola innovations to be **reduced, low or no sugar only**



Between 2013 and 2016 sales of **small packs** grew by **69%**³

Our **small packs** are available in **95%** of supermarkets⁴

95% 

We've **downsized** our **355mL multipack can** to **330mL**, a reduction of 7%

Was 355mL  **Now 330mL**



Promoting water: **85%**  increase in media investment in Pump from 2016 to 2017⁵

We have committed to the **ASA** Children and Young People's Advertising Code ensuring those under 14 are not directly targeted by our advertising or promotions.⁶

We are committed to the **Ministry of Health's Healthy Kids Industry Pledge**

¹Which has 50% less kilojoules and sugar from fruit juice than regular Kari Everyday Juice and Fruit Drinks.

Our Commitment to Sugar Reduction

We've come a long way since 1940 when The Coca-Cola Company produced Coca-Cola in New Zealand for US troops on leave⁷ while fighting in the Pacific. Today, we produce more than 120 products over 21 brands.

We're proud of our innovation and recognise that just as the tastes and lifestyles of New Zealanders are changing, we are changing too. That is the key to us being around for 131 years globally and will enable us and our partners to grow our business, responsibly, in years to come.

Our portfolio of products in New Zealand includes the whole Coca-Cola range from Coca-Cola Classic to Coke No Sugar, Fanta, Sprite, L&P, Keri Juice, Most organic juice, Powerade, the Schweppes range, Barista Bros Flavoured Milk, FUZE tea, Deep Spring, Pump water and Kiwi Blue water. These are manufactured and distributed right across the country by Coca-Cola Amatil, the New Zealand bottler, manufacturer and partner of The Coca-Cola Company. Together, as part of the Coca-Cola System, Coca-Cola Amatil and Coca-Cola Oceania employ around 1000 people across the country.

Since Diet Coke was launched 35 years ago, we've continued to focus on new product innovations. Today, all of our top sellers now offer a low or no kilojoule alternative.

We are actively reducing the sugar that Kiwis consume from our beverages by rethinking our recipes to reduce sugar in our current range of drinks. Today around a third of our sales are either low kilojoule or no sugar varieties - an increase of 13% since 2015⁸. The average kilojoule content of beverages in The Coca-Cola Company portfolio in New Zealand has reduced by 3% each year over the past three years⁹.

We are also promoting smaller packs in more places and encouraging informed choice by providing straightforward, accessible ingredient information.

However we recognise we need to do more for the wellbeing of New Zealanders.



[1]

**Chris Litchfield, Managing Director,
Coca-Cola Amatil New Zealand and Fiji**

Beyond our innovation and reformulation efforts we continue to work with a range of health and nutrition experts and align with guidelines from leading health authorities like the World Health Organisation on sugar.

We will continue our ambitious reformulation and new product innovation programme and harness our marketing capabilities to encourage more people to choose our lower kJ and no sugar options.

The launch of Coca-Cola No Sugar, a new and improved sugar-free Coca-Cola, is a key part of our strategy to help Kiwis reduce their sugar intake. It took more than five years of development to achieve a taste as similar to Coca-Cola as possible because while we continue to reduce sugar, we never forget that taste is king. We are delighted with the positive response.

We also ensure that our marketing and communications are responsible and appropriate for every possible space and place. In New Zealand we have committed to the Advertising Standards Authority's Children and Young People's Advertising Code ensuring those under 14 are not directly targeted by our advertising or promotions. We exercise a duty of care for advertisements directed at young people aged 14 to 17 years of age⁶.

We have also committed to the Government's Healthy Kids Industry Pledge.

We genuinely recognise that the world is changing. So we are too. We are proud of who we are and of our portfolio of beverages. And in line with what consumers are telling us, we are now even more focused on producing - and responsibly marketing - reduced sugar drinks. We are committed to being visible in our actions, ensuring we deliver this change and continue to build on the progress we have already made.



[1]

**Sandhya Pillay, General Manager,
Coca-Cola Oceania**

New Product Innovations



Our innovation team is focused on creating new recipes and products with no or lower sugar content, along with great taste. Examples of our recent innovations created for Kiwi consumers are included below.

Coca-Cola No Sugar (June 2017)

Aim: To actively encourage more Kiwis to choose a no-sugar Coca-Cola

Coca-Cola No Sugar was created to taste just like Coca-Cola Classic - but with no added sugar. It plays a key role in achieving our sugar reduction target as our insights found that a sizeable proportion of consumers are looking for a new, great tasting no sugar Coca-Cola Classic alternative.



5 Years in Development

The journey began in 2012 where the R&D team based in Atlanta was tasked with creating a Coca-Cola that is sugar free and tastes more like classic Coca-Cola. For the next five years, R&D trialled dozens of recipes and undertook multiple consumer trials in different markets, eventually creating our best tasting no sugar Coca-Cola.

New recipe **SIGNIFICANTLY PREFERRED BY COCA-COLA DRINKERS** & equally loved by Coke Zero drinkers (vs current Coke Zero formulation)*

Our biggest launch of a new Coca-Cola in the last 10 years



~467,000 
free samples have been taken up by consumers*

What we'll do next

From 2017 our ambition is for all new Coca-Cola innovations to be **reduced, low or no sugar only**

* As at 20/12/2017

Keri 50% Less Sugar Fruit Drink

Keri 50% Less Sugar Fruit Drink was launched in 2017 and has 50% less sugar from fruit juice than regular KERI Everyday Juices and Fruit Drink. It comes in three flavours Orange & Apple, Tropical & Orange, Apple & Mango. New Zealand's leading juice brand Keri can now offer consumers a lower in sugar option that does not compromise on taste.





Sweetened with stevia - a sweetener with zero kilojoules, obtained from the leaf of the stevia plant.

Deep Spring Light

Deep Spring Light was also launched in 2017 and contains less than a teaspoon of sugar per bottle. The carbonated fruit drink is sweetened with stevia and juice and is available in two flavours, Orange & Mango and Raspberry.

In 2017, we launched new flavours with reduced sugar

<p>Coca-Cola Raspberry with</p> <p>25% less sugar</p> <p>compared to Coca-Cola Classic</p> 	<p>Barista Bros Mocha with</p> <p>28% less sugar</p> <p>compared to Barista Bros Iced Coffee</p> 
---	---

Reformulation



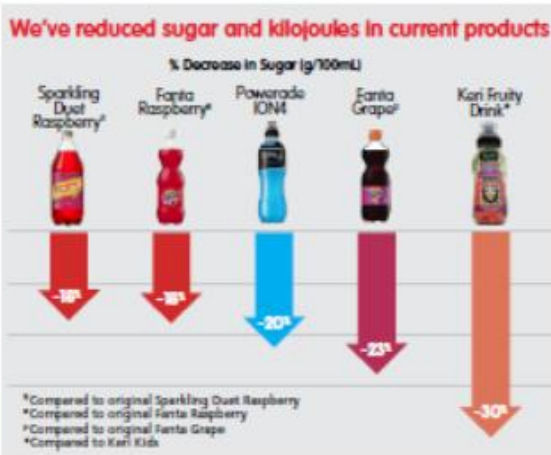
As part of our commitment to sugar reduction, we've **reduced sugar by an average of 21.8%** across five key products since 2015¹⁰.

We've been carrying out a sugar reduction programme of our current range of beverages over many years. We are doing this in two ways:

1. Reducing sugar content over time, reducing the overall sweetness profile - eg Powerade ION4
2. Reducing sugar and replacing with non-nutritive sweeteners, including stevia - eg Fanta Raspberry

"When it comes to sugar reduction, our goal is to gradually reduce sugar content over time by a variety of methods, including the use of sweeteners from natural sources."

- Coral Colyer, Scientific & Regulatory Affairs Manager, Coca-Cola South Pacific



Introduction of company nutrition guidelines

To help ensure our product development team have the information and guidance to drive the reformulation and new product development programme, we introduced 'Nutrition Guidelines' in 2016. They are based on the Australian Dietary Guidelines and targets set by leading health authorities, such as the World Health Organisation.

These guidelines are updated annually based on regular reviews and evaluation of new science, nutrition recommendations and our global research and development programme.

What we'll do next

7 reformulations in our portfolio are planned for sugar reduction in 2018



Our guidelines include:

7 TARGETS:

Energy, Sugar, Total Fat, Saturated Fat, Protein, Sodium & Caffeine.

CATEGORY TARGET REQUIREMENTS:

Specific to each beverage category e.g. regular soft drinks and flavoured milk.

SUGAR GUIDELINES:

- ≤ 7.9g sugar per 100mL. (excludes 100% Fruit Juice)
- "No Added Sugar" - 100% Fruit Juice

Smaller Pack Sizes



We're committed to providing consumers with more choice by providing a range of smaller packs and more convenient sizes across our portfolio. And importantly, making sure we increase the availability of these small packs in more locations.

Our journey



Between 2013 to 2016, sales of small packs grew by

69%³

We're increasing the range of smaller packs in more locations

Our small packs are available in **58%** of convenience stores and petrol stations¹¹ and **95%** of supermarkets.⁴

95%



58%



We've downsized our 355mL multipack can to 330mL, a reduction of 7%.



Responsible Marketing



We are committed to harnessing our marketing capabilities to drive behaviour change towards low and no sugar options through innovative campaigns while ensuring all communications are responsible and appropriate for every possible space and place.

80%



of our Coca-Cola media marketing spend in 2018 will be for a no kilojoule Coca-Cola

At least one major marketing campaign per year to **hero low kJ** products

In New Zealand we have committed to the Advertising Standards Authority's Children and Young People's Advertising Code, ensuring those under 14 are not directly targeted by our advertising or promotions. We also exercise a duty of care for advertisements directed at young people aged 14 to 17 years of age⁴.

Sugar-free Schools

In 2017 we committed to the New Zealand Beverage Council industry pledge to directly sell only bottled water to primary and intermediate schools.

Since 2006 we have been part of the Voluntary Schools' Agreement - a world-leading agreement removing all full sugar carbonated beverages and sports drinks from secondary schools.

Healthy Kids Pledge

We endorse and commit to the Government's Healthy Kids' Industry Pledge², continuing to seek ways to support healthy beverage consumption and working with independent experts to guide us.

Feel the flow with Pump

WHY: We needed to make Pump more exciting to new drinkers to encourage them to buy water.

WHAT: In 2017, we took a novel approach to water marketing with a new brand campaign capturing the idea that staying hydrated puts you in a clearer frame of mind, allowing everything to flow

seamlessly. "Feel the Flow" encapsulated Pump's revised positioning centred on the benefits of staying hydrated, using a group of drummers in the TV ad performing a flowing beat - pausing only to refresh with Pump.

The campaign was supported by a cinema spot, TV commercials, social content and outdoor.



Provide more information



Adoption of Health Star Rating (HSR) system



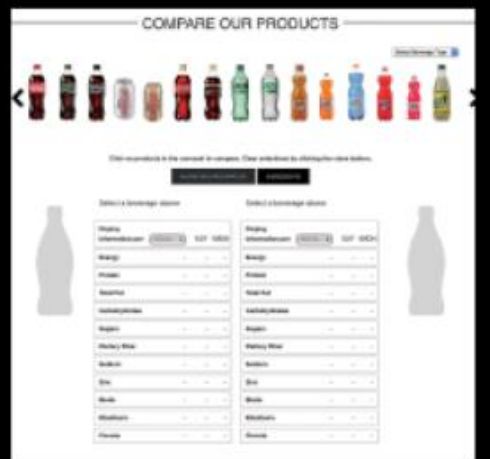
PER 375mL PACK

81% of our packs have the Health Star Rating integrated energy icon as part of the Government's voluntary Health Star Rating System¹⁷

Over **95%** of our vending machines have energy information panels¹⁴

Beverage Comparison Tool

Launched in 2015, our online beverage comparison tool allows people to **compare the nutrient information and product ingredients** across our beverages.



Serves per pack

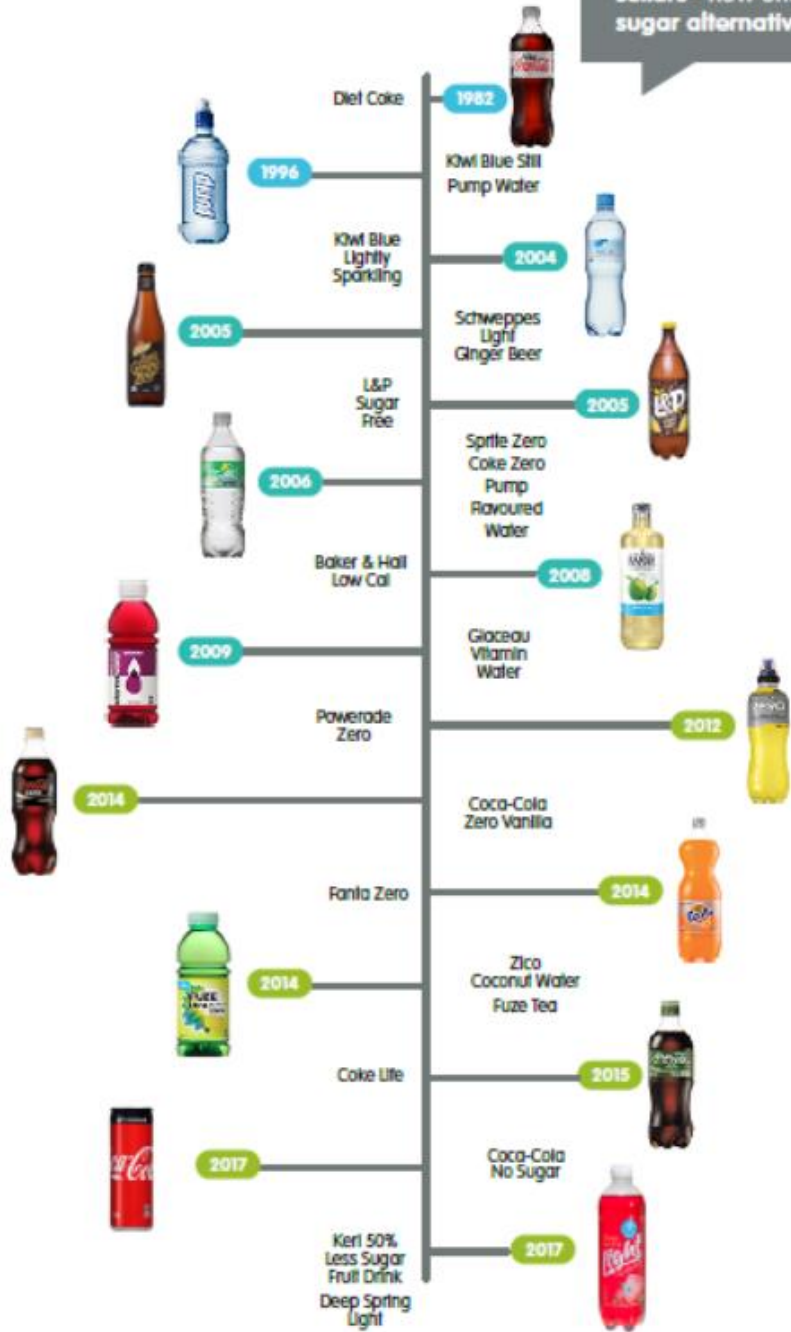
Highlighting serves-per-pack on the labels of our multi-serve bottles (e.g. 1.25L = 5 serves) to show how many serves (250mL) it contains.



Impact to Date:

We've increased our range of no sugar and low kJ varieties

Today our portfolio consists of more than 120+ products and 21 brands with ALL top sellers¹⁵ now offering a no sugar alternative



For more information please contact:

Karen Thompson
Public Affairs Manager
Coca-Cola Oceania

[1]

Neil Waka
Corporate Affairs Manager
Coca-Cola Amatil

[1]

Or visit:

www.coca-colajourney.co.nz

References

1 Based on volume weighted average sugar content (g per 100mL). Reduction from 2016 to 2020. Coca-Cola Oceania (CCO) and Coca-Cola Amatil NZ Beverages (CCA NZ) portfolio: Carbonated soft drinks, fruit drinks, fruit juice, iced tea, water and flavoured waters, sports drinks, energy drinks and flavoured milks.

2 Sensory Performance Research, Colmar Brunton, December 2016.

3 Compass Data – 2015-2016 (refers to 300ml PET & 6x250ml multipack)

4 Nielsen Answers, Total Supermarkets, Data to w/e 12/11/2017

5 Includes investment in TV, cinema and online media

6 Advertising Standards Authority's Children and Young People's Advertising Code

7 CCA archives

8 As at 15/10/17, Total Measured Market

9 Global Compass / Internal Sales Report 2014-2016

10 The average decrease in sugar in Sparkling Diet Raspberry, Fanta Raspberry, Powerade IO4, Fanta Grape, Kari Fruity Drink.

11 CCA Ex-Factory data to 27/10/2017

12 Ministry of Health, Childhood Obesity Plan, Healthy Kids' Industry Pledge

13 As at 16/10/17

14 As at 27/10/17

15 Top Sellers: Coca-Cola, Schweppes, Sprite. Nielsen Market Tracking, Total MeasuredMarket, MAT, 2012-2016

