

Item #26

Memorandum summarising Treasury Working Papers on Sugar Tax
(Gardiner, 2016; Creedy, 2016)

Draft, unsent memorandum on Treasury Working Papers on sugar tax, prepared by the
Ministry of Health, 12 January 2017

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Memorandum: Treasury Working Papers on Sugar Tax

To: Hon Dr Jonathan Coleman, Minister of Health

Copy to: [REDACTED] Senior Advisor, Office of the Hon Dr Jonathan Coleman

Purpose

This memorandum is to inform you of the key points and policy relevance of two working papers on sugar tax by the New Zealand Treasury, neither of which support a sugar tax in New Zealand:

Gardiner, A. (2016). *Implications of a Sugar Tax in New Zealand: Incidence and Effectiveness*, November 2016.

Creedy, J. (2016). *Sugar Taxes and Changes in Total Calorie Consumption: A Simple Framework*. New Zealand Treasury and Victoria Business School, 2016.

These papers were sent to your office on 22 December 2016 by an economic advisor in the Office of the Minister of Finance. They are expected to be published on the Treasury website this month.

Summary of key points

1. Treasury working papers are notable as they present a credible New Zealand economic perspective and have been peer reviewed to ensure robustness. The conclusions of the two Treasury working papers are in line with previous Ministry of Health advice.

Implications of a Sugar Tax in New Zealand: Incidence and Effectiveness

2. This paper consists of a literature review and an empirical analysis of New Zealand household survey data to determine to what extent a sugar tax might impose a heavier burden on lower income groups ("regressivity").
3. The paper notes that the high consumption of sugar and sugar-sweetened beverages (SSBs) in absolute amounts as well as in proportion of energy intake in more highly deprived areas. SSBs represent a particularly high proportion of energy and sugar intake for young people.
4. For most population groups, people with higher incomes consume fewer SSBs. However, for Maori people, higher SSB intake tends to be associated with higher income.
5. The author points out a lack of evidence of consumer response ("elasticities") to sugar taxes, noting a range of methods in published studies with many lacking robustness. In particular, the potential for substitution to other unhealthy foods and drinks has been largely ignored. The paper suggests that this casts significant doubt on the argument that sugar taxes would deliver health benefits.
6. The paper's empirical analysis of New Zealand household survey data reveals that a tax on SSBs would be regressive. A broader tax on highly sugary foods was found to be more regressive than a tax only on SSBs.

Contacts:	Bronwyn Croxson, Chief Economist, Client Insights and Analytics	[REDACTED]
	[REDACTED], Senior Policy Analyst (Economics), Office of the Chief Economist, Client Insights and Analytics	[REDACTED]

Sugar Taxes and Changes in Total Calorie Consumption: A Simple Framework

7. This paper briefly discusses the published evidence on consumer substitution in response to a tax on SSBs or other caloric items and develops a theoretical model of consumer choice when substitution is possible.
8. The author notes the overall poor quality of published studies and lack of evidence with respect to substitutions that may negate any potential health benefits from reduced intake of SSBs.
9. The theoretical model demonstrates that the success of a tax intended to reduce caloric intake is dependent on the extent to which consumers will reduce intake of SSBs as well as the extent to which they increase intake of other sources of calories.
10. The author uses the theoretical model to derive conditions that affect the success of a tax. These conditions show that the risk of unhealthy substitution negating any reduced consumption of SSBs is highest when substitutes have low prices, represent a large share of total expenditure relative to SSBs; and, have high calorie content relative to SSBs.
11. The paper illustrates that the evidence gap with respect to substitutions is significant and that further research is needed.

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