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18 January 2017

The Treasury
Langton Crescent
PARKES ACT 2600
AUSTRALIA

Submission via www.treasury.gov.au
2017-2018 Pre-Budget Submissions page

Dear Sir/Madam,

Australian Government pre-budget submission 2017-2018

The Obesity Policy Coalition (OPC) is a partnership between Cancer Council Victoria, Diabetes Victoria, and the Global Obesity Centre at Deakin University, a World Health Organization (WHO) Collaborating Centre for Obesity Prevention. The OPC is concerned about the high rates of overweight and obesity in Australia, particularly among children.

We are pleased to have the opportunity to provide a submission to the Australian Government's pre-budget consultation for the 2017-2018 financial year.

If you require further information, please contact Ms Katarnya Hickey, Legal Policy Adviser for the Obesity Policy Coalition, on (03) 9514 6446 or at katarnya.hickey@cancervic.org.au

Yours sincerely

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Chief Executive Officer
Diabetes Victoria

Todd Harper
Chief Executive Officer
The Cancer Council Victoria

A partnership between:

The Cancer Council Victoria
Diabetes Australia-Vic
Global Obesity Centre, a WHO Collaborating Centre for Obesity Prevention, Deakin University

Pre-budget submission 2017-2018

Submission to Treasury

Obesity Policy Coalition

January 2017

About the Obesity Policy Coalition

The Obesity Policy Coalition (OPC) is a coalition between Cancer Council Victoria, Diabetes Victoria and the Global Obesity Centre at Deakin University, a World Health Organization (WHO) Collaborating Centre for Obesity Prevention. The OPC advocates for evidence-based policy and regulatory change to address overweight, obesity and unhealthy diets in Australia.

Recommendations

The OPC makes the following recommendations to Treasury for the 2017-2018 Australian Government budget:

- Increase spending on preventive health, with a particular focus on programs to reduce the growing burden of overweight and obesity, and associated chronic disease.

- Introduce a tax on sugar-sweetened beverages[1] (SSBs) to effect a price increase of at least 20%, generating revenue of approximately $400-500 million per year and reducing obesity levels.

Introduction

The OPC welcomes the opportunity to make a pre-budget submission to the 2017-2018 Australian Government (Government) budget. This submission recommends increased spending on preventive health and the introduction of an SSB tax to generate government revenue and reduce healthcare costs.

Obesity is a critical issue in Australia from both a health and economic perspective. The National Health Survey for 2014-15 reports that 63.4% of Australians are overweight or obese and 27.4% of children, ages 5-17 are overweight or obese.[1] From a health perspective, these alarming figures mean that a large proportion of the population is at heightened risk of non-communicable diseases including cardiovascular disease, diabetes and some cancers.[2] From an economic perspective, high rates of obesity and associated chronic disease cost the Australian Government, as well as State and Territory governments, businesses and individuals, a staggering amount. Analysis puts the cost to the Australian Government at around $5 billion to $6 billion per year,[3] including increased health care costs, higher welfare spending and reduced tax revenue.

[1] Sugar-sweetened beverage includes all non-alcoholic water based beverages with added sugar, such as sugar-sweetened soft drinks, energy drinks, sports drinks and cordials, excluding 100% fruit juices.

As well as reducing some of these costs, an SSB tax would represent a significant source of Government revenue, raising around $400 million to $500 million each year.[4] A tax on SSBs would have the dual effect of improving health outcomes for Australians and both reducing and recouping some of the economic cost of obesity, assisting the Government to balance the budget.

We acknowledge that an SSB tax alone will not fix Australia's obesity crisis, however it is an important element of a comprehensive package of measures that together can significantly improve the health of Australians. A substantial increase in funding for preventive health, specifically obesity prevention, is of fundamental importance. Real progress requires the severity of the problem to be matched by an appropriate level of funding.

Increase spending on preventive health

We strongly urge the Government to significantly increase spending on preventive health, focusing on programs and policies targeting overweight, obesity and associated chronic disease.

Obesity in Australia is a critical issue that places a high burden on our health system and on the lives of many individual Australians. With the majority of Australians being overweight or obese, a significant investment by the Government is urgently required to develop, implement and evaluate a range of obesity prevention policies and programs.

Current spending on preventive health does not match the significance of the problem and makes it difficult to achieve real progress. In the 2014-15 financial year, Australian Government spending on public health (which includes prevention activities) was only 1.9% of total recurrent health spending.[5]

Given the severity of the problem, what is needed is a substantial, long-term investment in obesity prevention. We would welcome a level of investment similar to that provided as part of the now-ceased National Partnership Agreement on Preventive Health.

This type of significant funding increase could be invested in evidence-based policies and programs aimed at preventing and reducing obesity across Australia. In our view a comprehensive package of measures is required to address the many contributors to obesity. The OPC advocates for a range of measures to be introduced by government, a key measure being the SSB tax recommended in this submission. For more information on the policies and positions supported by the OPC, please see our website at www.opc.org.au.

In particular, we would like to see increased funding for community systems-based intervention programs, those that deliver multi-component interventions across a range of

settings that influence an individual's daily environment. These include settings such as workplaces, early childhood services, schools, universities, shops, food outlets and recreational and sporting facilities. A community based approach to prevention recognises that obesity is a complex, multi-factorial health issue that can be addressed by creating healthier environments for individuals to lead their daily lives. These interventions, however, require significant levels of funding beyond those currently provided by the Government.

A significant increase to funding levels for obesity prevention programs and policies, including community based programs, is of critical importance to reducing obesity and improving the nation's health.

Why do we recommend a Sugar-Sweetened Beverage Tax?

1. Sugar-Sweetened beverages are a significant contributor to obesity

Although many factors influence the high rates of obesity in Australia, research suggests that SSBs play a significant role in driving obesity trends. SSBs including soft drinks, sports drinks, sweetened mineral waters and cordials contribute almost no valuable nutrients to Australian diets (except water), but deliver large quantities of sugar. A single can of Coke contains 40g of sugar (approximately 10 teaspoons). Robust evidence has associated the consumption of these products with increased energy intake, weight gain, diabetes and dental erosion.[6]

Australians are high consumers of SSB products. Just looking at supermarket retail sales, Australians bought around 1.1 billion litres of sugary soft drinks in 2015, at a cost of $2.2 billion.[7] This doesn't include what is bought from fast-food outlets, cinemas, vending machines, hotels and convenience stores. A recent analysis of added sugar consumption in the Australian population has found that most exceeded the World Health Organization Guidelines on added sugar consumption. The study found that sugar sweetened beverages accounted for the greatest proportion of added sugar intake in the population.[8]

2. A Sugar-Sweetened Beverage Tax is an effective tool to decrease SSB consumption and reduce obesity

Price can be a highly effective factor in influencing consumption of SSBs.[9] There is evidence that taxes on SSBs (or sugar-sweetened soft drinks alone) could reduce consumption and improve population weight and health outcomes, if the tax is set at a sufficiently high level.[10]

A recent Australian study based on the latest local dietary intake data, estimated the consequences of an additional 20% tax on SSBs in Australia on health and health care

expenditure. The results show that a 20% tax on SSBs could result in a 12.6% decline in consumption of SSBs and an overall decline in obesity of 2.7% in men and 1.2% in women. The study concluded there would be sustained reductions in the incidence of diabetes, cardiovascular disease, and some cancers. Over a 25 year period, there could be 16,000 fewer cases of type 2 diabetes, 4,400 fewer cases of heart disease and 1,100 fewer cases of stroke. It is estimated that 1,606 more Australians would be alive in 25 years if the tax were introduced.[11]

Data is still building around the impact of food taxes on health in other countries. Food taxes to improve population health have been implemented in countries including France (2012), Hungary (2011) and a number of countries in the Western Pacific.[12 13] Evaluation of the impact of the Hungarian tax, which applies to food high in sugar, fat and caffeine, found evidence of reformulation of products, a decrease in sale of taxed products by 25%, and a decrease in consumption of between 25-35% compared to the previous year.[14]

Mexico's tax of approximately 10% on SSBs took effect on 1 January 2014. Evaluation data demonstrates an overall reduction in consumption of taxed beverages of 6%, with the reduction increasing over time, reaching a 12% decline by December 2014. There was also a 4% increase in the amount of untaxed beverages purchased, mainly driven by the purchase of bottled water.[15]

Recent UK-based research has confirmed the potential for an SSB tax to impact obesity rates, finding that a 20% tax on sugar sweetened drinks would lead to a reduction in the prevalence of obesity in the UK of 1.3% (around 180,000 people), with the greatest effects likely to be seen in young people, who are the greatest consumers of SSBs.[16] Modelling in respect of population impacts of SSB taxes in India,[17] New Zealand[18] and South Africa[19] has also shown positive impacts on health, even after substitution effects are taken into account.

Strong evidence of the effectiveness of taxation to influence behaviour and decrease consumption can also be found by looking at the impact of price increases on tobacco products. Price rises on tobacco products were effective in motivating consumers to quit, preventing potential users from starting to use, and reducing consumption among people who continue to use.[20]

3. There is strong support for an SSB tax from experts, the Australian public and global peak health bodies

An SSB tax is widely supported both in Australia and internationally. On a global scale, the WHO's *Global Action Plan for the Prevention and Control of Noncommunicable Diseases*

2013-2020, endorsed by Australia, urges governments to consider economic policies, including taxes and subsidies, to improve the affordability of healthier food products and discourage the consumption of less healthy options.[21] In 2016 the WHO released a report on *Fiscal Policies for Diet and Prevention of Noncommunicable diseases* that provides strong support for an SSB tax, concluding that *"…there is reasonable and increasing evidence that appropriately designed taxes on sugar-sweetened beverages would result in proportional reductions in consumption, especially if aimed at raising the retail price by 20% or more.*"[22] The report provides a review of evidence, case studies and guidance for countries on the design and implementation of effective fiscal policies on diet.

The Australian Government has also been recommended to consider the issue through the 2009 final report of the National Preventative Health Taskforce (commissioned by the then Commonwealth Government) proposing "*the development of methods for using taxation, grants, pricing, incentives and/or subsidies to promote production, access to and consumption of healthier foods*".[23] Specifically, the taskforce recommended that the Government "*provide disincentives for unhealthy foods by considering increasing taxes for energy-dense foods*".[24]

Australian health organisations also provide widespread support for an SSB tax, with a tax recommended by bodies including Australian Medical Association, Public Health Association Australia, Australian Healthcare and Hospitals Association, Committee of Presidents of Medical Colleges, Australian Dental Association, and Australian Chronic Disease Prevention Alliance (Heart Foundation, Cancer Council Australia, Kidney Health Australia, Diabetes Australia, Stroke Foundation).

The Australian public also strongly supports increasing the price of SSBs. Recent research into the attitudes of Australian grocery buyers found that 69% of participants supported a tax on SSBs if the revenue was used to subsidise healthy foods.[25].

Economic impact of a Sugar-Sweetened Beverage Tax

1. A Sugar-Sweetened Beverage Tax would generate significant Government revenue

An SSB tax would provide a significant revenue source for the Government. Projections of the expected revenue vary, but all indicate annual revenue of between $400 million and $570 million.

The best evidence of the likely revenue is summarised as follows:

- A 2016 Australian study found that an SSB tax could generate more than $400 million annually.[26] This figure was calculated based on local dietary intake data using a 20% tax on the retail price of the product.

- A 2016 report by the Grattan Institute modelled projected revenues of several different types of SSB tax, including taxes based on the sugar content of the beverage, taxes based on the volume of the beverage and a tax based on the retail price of the beverage.[27] The revenue estimates were between $400 million and $550 million annually. For example, a tax on the sugar content of the beverage of 40 cents per 100g of sugar was estimated to generate $520 million in its first year and $400-$450 million in later years.

- A 2016 policy costing by the Australian Parliament's Parliamentary Budget Office projected increased revenue of between $545 million and $570 million annually for each full year of the tax's operation.[28] These figures were calculated based on a 20% excise tax applying to the retail price of SSBs with more than 5 grams of sugar per 100ml.

2. A Sugar-Sweetened Beverage Tax would provide healthcare savings

A reduction in obesity caused by an SSB tax would also reduce the significant economic cost of obesity, largely incurred by the Government. In 2015, Price Waterhouse Coopers produced a report titled *Weighing the cost of obesity – a case for action*, estimating the total cost of obesity in 2011-12 in Australia to be $8.6 billion (in 2014-15 dollars).[29] That estimate included personal costs borne by individuals as well as third party costs mostly borne by government. The report found that adult obesity cost the Commonwealth Government $6.06 billion in 2011-12 (in 2014-15 dollars), in both direct and indirect costs. Direct costs include increased health care expenditure spending as well as the cost of obesity prevention interventions. Indirect costs include productivity losses caused by absenteeism and presenteeism, as well as reduced tax revenue and higher welfare spending.

The Grattan Institute's 2016 report on SSBs estimated that in 2014-15, adult obesity created $5.3 billion in third party or community costs, mostly borne by governments.[30] These costs included increased healthcare expenditure, reduced tax revenue and increased welfare expenditure. The report estimated that obesity generated $2.6 billion in extra healthcare spending by governments in 2014-15.

The potential healthcare savings of an SSB tax are significant. A 2016 Australian study on the impact of a SSB tax found that if a 20% tax on the retail price of SSBs was introduced in

2010, the overall health care expenditure over the lifetime of the 2010 population aged 20 or over would be reduced by $608 million.[31] The study found that the annual health care cost savings would rise over the first 20 years, stabilising at about $29 million per year. This does not take into account other savings or increased revenue that may result from a decline in obesity.

A specific area where the Government may see substantial savings within a relatively short period is on dental health. Evidence shows that SSB consumption is linked to high levels of dental caries and dental erosion.[32] A decrease in SSB consumption may lead to a drop in the levels of dental caries and dental erosion, resulting in decreased government spending on dental services, including on hospital dental treatment for children. For example, a recent UK study modelled a scenario where an SSB tax led to an average price rise of 15%, with a maximum of 20%. The study found that this scenario led to an annual reduction in the number of decayed, missing or filled teeth of 149 378 along with an overall reduction in obesity of 0.5%.[33] A similar result in Australia could lead to dental care savings.

As well as analysing the cost of obesity, Price Waterhouse Coopers' report assessed the cost-effectiveness of various interventions to address obesity, including environmental interventions of reformulation, food labelling and taxes on unhealthy foods. The report found that environmental interventions, including taxes, had a high benefit to cost ratio of 3.2, meaning that for each dollar spent, $3.20 is returned.[34] This was the highest benefit to cost ratio of any intervention assessed in the report, including medical interventions, educational and personal interventions.[35] This analysis supports the view that an SSB tax is likely to be a highly cost effective intervention, with savings outweighing costs incurred by a considerable degree.

Design and implementation of a Sugar-Sweetened Beverage Tax

In Australia, a tax on SSBs could be relatively simply imposed through existing tax structures, keeping the costs of implementation and administration reasonably low.[36] Use of existing tax frameworks capable of accommodating a tax would mean implementation would not require the development of complex independent legislation and administrative structures.[37]

This relative ease of implementation and administration means that an SSB tax is an extremely cost effective measure to address obesity, especially when compared to other interventions that involve significant cost without generating revenue. The revenue raised and expenditure reduced by the tax will be far in excess of the costs of implementation and administration. A 2016 Australian study found that "*The costs of legislation and monitoring of*

the tax would be paid back around 14 times over in the form of reduced health care expenditure".[38] This is also supported by the Price Waterhouse Coopers analysis, discussed above.

The design of the tax would need to reflect the policy objective of reducing population consumption of sugar through SSBs, to improve health. Consistent with modelling and research discussed, the tax imposed would need to be sufficiently high to achieve an increase in retail price of at least 20%, in order to be effective.

There are several possible ways to design and implement an SSB tax. The tax could be calculated at either a percentage of the retail price (ad valorem) or at a specific rate, based either on the quantity of sugar within the SSB or the actual volume of the SSB. A volumetric tax calculated with reference to concentration of sugar in the SSB would alert consumers to the sugar content of an SSB and encourage consumers to substitute the more expensive SSBs containing higher proportions of sugar with cheaper, less sugar dense products. It may also encourage manufacturers to reformulate their products to reduce sugar content.

The alternative method of calculating the levy with reference to the volume of the actual beverage may have the effect of discouraging bulk purchasing and encouraging a reduction in portion size, but there is no incentive for manufacturers to reduce the concentration of sugar in the product. It may, however, be easier to administer as the volume is stated on the packaging.

We recommend that during the development of an SSB tax, the Government conduct further analysis on the level of tax needed to reduce consumption and generate population health benefits.

For a detailed discussion of the considerations relevant to the design of an SSB tax in Australia, please see OPC Policy Brief: The case for an Australian tax on Sugar-Sweetened Beverages.

Conclusion

Thank you for the opportunity to provide our views on the development of the 2017-2018 Australian Government budget. We urge the Government to significantly increase spending on preventive health programs, focused on overweight, obesity and associated chronic disease. A substantial investment in obesity prevention is urgently needed.

An SSB tax for Australia deserves close attention given the evidence supporting a tax as a cost-effective and potentially powerful intervention, particularly given Australia's increasing rates of overweight, obesity and non-communicable diseases. We urge the Government to

investigate, design and implement a tax on SSBs to effect a price increase of at least 20%, with the objective of reducing consumption, improving public health and reducing the economic burden of obesity. For more information on the policies and positions supported by the OPC, please see our website at www.opc.org.au.

Please contact Katarnya Hickey, Legal Policy Adviser to the OPC at katarnya.hickey@cancervic.org.au if you have any queries about this submission or require further information.

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