

Reference: 20200340

27 October 2020

s9(2)(a)

Dear s9(2)(a)

Thank you for your Official Information Act request, received on 28 September 2020.  
You requested:

- 1. All briefings, advice and correspondence received and/or prepared by the Treasury related to the 2009 Marsden Jacobs Associates report entitled, The benefits, costs and taxation of alcohol: towards an analytical framework; and*
- 2. Copies of all correspondence and other records of contact between representatives of the alcohol industry (including retailers and hospitality) and the Treasury since August 2008. This includes a list of all meetings, meeting notes, emails and attachments, Power-Point slides, letters, text messages, diary entries, briefing notes, and other such methods of correspondence.*

## Information being released

Please find enclosed the following documents:

Item	Date	Document Description
1.	29 January 2010	Letter to Sir Geoffrey Palmer on Alcohol Excises
2.	January 2010	Briefing for John Whitehead on excises taxes on alcohol

I have decided to release the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions.

### Information publicly available

The following information is also covered by your request and is publicly available on the Treasury website:

Item	Date	Document Description	Website Address
3.	August 2010	Alcohol Reform 2010: Regulatory Impact Statement	<a href="https://www.treasury.govt.nz/sites/default/files/2010-08/ris-justice-ar-aug10.pdf">https://www.treasury.govt.nz/sites/default/files/2010-08/ris-justice-ar-aug10.pdf</a>

Accordingly, I have refused your request for the documents listed in the above table under section 18(d) of the Official Information Act:

- the information requested is or will soon be publicly available.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Felicity Barker  
**Team Leader, Tax Strategy**

# OIA 20200340

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29 January 2010

Rt Hon Sir Geoffrey Palmer  
President  
New Zealand Law Commission  
PO Box 2590  
WELLINGTON

Dear Sir Geoffrey

**The benefits, costs and taxation of alcohol: towards an analytical framework**

Following our discussion a few weeks ago I undertook to write to you outlining Treasury's thoughts on the report prepared for Commission on the benefits, costs and taxation of alcohol by Marsden Jacob Associates.

Treasury regards the paper as a valuable contribution to the existing literature on the consumption of alcohol in New Zealand. The paper presents a balanced consideration of both the economic costs and benefits and should serve to advance the debate on the appropriate policy settings.

In particular, the paper benefits from distinguishing between different value judgements and their analytical implications, which has been a major point of contention in recent academic disputes. While aspects of the paper remain open to challenge, such as estimates of price elasticities for moderate and heavy consumers of alcohol, this is unlikely to undermine the main conclusions of the report.

The report is notable for departing markedly from recent analysis of the cost and benefits of alcohol consumption in the New Zealand and Australian context by relying heavily on the policy-analytical framework developed at the University of Sheffield. This framework has not been previously considered by the Treasury. Given the dependence of the report's conclusions on this framework, we consider that some form of independent quality assurance would be prudent.

In a very broad sense the report is consistent with the Treasury's current approach to tax policy, which has been informed by the recent Tax Working Group (TWG) process. Treasury recognises the need to reduce taxes on capital and labour and supports funding these reductions through increases in taxes least likely to reduce welfare. Welfare losses from excises taxes on alcohol are likely to be lower than for many other forms of tax.

1 The Terrace  
PO Box 3724  
Wellington 6140  
New Zealand

tel. 64-4-472-2733  
fax. 64-4-473-0982

More specifically, the report relies on recycling all revenue raised from increased excise taxes directly to taxpayers via a rebate or a reduction in other taxes. By doing so, the report concludes that welfare can be enhanced despite conservative consumer sovereignty assumptions. This revenue constraint needs to be clearly conveyed when any policy recommendations to increase the excise rate are made. In particular, using any increased excise revenues as "tied taxes" to fund the costs to Government of alcohol consumption would violate this constraint.

Overall, the paper provides useful insight into the merits of changes to excise taxes on alcohol. However, the analysis assumes that other policy settings remain unchanged. Treasury considers that any attempts to reform New Zealand's liquor laws should consider a range of legislative and regulatory policies. As the Marsden Jacob Associates paper acknowledges, to the extent that other policies are implemented and are effective, less reliance might be placed on an increase in the excise tax to reduce alcohol-related harms.

Yours sincerely

A handwritten signature in black ink that reads "John Whitehead". The signature is written in a cursive style with a large, looped 'J' and a trailing 'd'.

John Whitehead  
Secretary to the Treasury

**Excise Taxes on Alcohol – Conversation with Sir Geoffrey Palmer, 20 January 2010**  
**Briefing for John Whitehead**

Sir Geoffrey Palmer has sought a discussion with you about a paper commissioned by the Law Commission on excise taxes on alcohol. The paper was written by an Australian economic consultancy, Marsden Jacob Associates. This note provides a brief background on the paper and how the paper's conclusions fit in with the Treasury's current approach to tax advice.

**Key points on the Marsden Jacob Associates paper:**

- 1) The paper is a valuable contribution to the literature and presents a far more balanced consideration of the economic costs and benefits of excise taxes than was typical during earlier debate.
- 2) The paper benefits from clearly explaining the implicit value judgements behind its assumptions and relying on conservative assumptions in generating its main conclusions.
- 3) Given the topic being debated, there will likely be continued debate about the economics of excise taxes. This is expected due to the extremely difficult issues involved. While there are sections of the paper that can and should be debated (for example, the assumptions around price elasticities of moderate and heavy consumers and the ability of the excise to target cheap alcohol) these aren't fundamental problems with the paper and shouldn't undermine the main conclusions of the paper.
- 4) In saying that, the paper draws heavily on a study from the University of Sheffield which has not been widely publicised or considered in New Zealand and Treasury has not analysed this paper. For this reason it may be prudent to seek an independent QA of the MJA paper.
- 5) Most importantly, in order to generate a positive cost/benefit ratio the paper relies on recycling any tax revenues raised from increased excise taxes via a rebate or through a reduction in other taxes. This revenue constraint on the Government is a critical aspect of the report because it allows for an increase in the excise rate under conservative assumptions of consumer surplus and consumer sovereignty. If recommendations are made to Government to increase the excise tax rate on alcohol on the strength of this report, that constraint needs to be clearly conveyed. This fits well with the Treasury's current approach to tax policy, as explained below.

**Key points on the current direction of tax advice:**

- 6) Treasury has spent a lot more time considering the work of the Tax Working Group (TWG) than we have on excises and this process has led Treasury to rethink some of our basic tax policy assumptions.
- 7) In contrast to our past focus on a broad-based low-rate tax system with no explicit recognition of "Ramsey principles", we now recognise the need to reduce taxes on investment/companies to remain competitive and to reflect the different elasticities for capital and labour. Accordingly, we don't support rate alignment any more.
- 8) That insight does allow us to take more account of the same kind of issues in excises – we need to ensure excises cover at least the net social costs of alcohol, and we can also be more open about the point that the welfare losses from raising excises are likely to be lower than for many other forms of tax.
- 9) A major issue for tax design would be how best to integrate the timing of any excise tax changes into whatever the Government decides to do in response to the TWG report, and with cigarette excises. The point that concerns us now is if there was to be an increase in GST, the Government would almost certainly want to fully compensate lower income people. Increasing alcohol and tobacco excises at the same time would affect the same groups as well – and we don't want to reduce the overall living standards of lower income groups.

10) We have no problems with the Law Commission using Australian advisors – we do it ourselves a lot. s9(2)(g)(i)

11)

RELEASED UNDER THE  
OFFICIAL INFORMATION ACT