

Introduction

This briefing outlines the importance of maintaining the alcohol duty escalator. Reducing the affordability of cheap alcohol is a key component of the Government's Alcohol Strategy, and is internationally recognized as one of the most effective ways of tackling alcohol harm.

The alcohol duty escalator, introduced in 2008, sees the duty rate on all alcoholic drinks increase by two per cent above the rate of inflation every year. The escalator is due to run until March 2015. However in the 2013 Budget the Chancellor George Osborne froze the duty escalator on beer, and now sections of the drinks industry are asking for it to be scrapped for wine and spirits in this year's budgetⁱ.

Alcohol consumption and harm in the UK is at historically high levels. Despite some declines in these rates during the current economic downturn, more than 10 million adults in England and nearly one million in Scotland exceed recommended daily limits for low-risk drinking. Furthermore, **approximately half of all crime is alcohol-related** and each year there are more than **8,700 alcohol related deaths and 1.2 million hospital admissions** in the UKⁱⁱ.

Alcohol duty as a share of total tax receipts has more than halved since 1978ⁱⁱⁱ. **Parliament has been right to support the duty escalator since 2008** to correct this downward trend, so that alcohol duty can make a fairer contribution to mitigating the burden alcohol poses. With **alcohol harm estimated to cost the economy in excess of £21bn^{iv}** each year, which is **more than double the £10bn^v revenue generated from alcohol taxes**, now is not the time to end that support.

Key Points

- **The alcohol duty escalator is appropriate and fair, and maintaining an upward trend in alcohol duties will be beneficial to the economy, society and public health**
- **Scrapping the Alcohol duty escalator would unfairly increase the burden on the public purse thus putting even more pressure on public services and frontline workers**
- **Reducing the affordability of alcohol is internationally recognized as one of the most effective ways of addressing alcohol harm**
- **Alcohol is 61% more affordable than it was in 1980, and in the UK alcohol affordability has increased significantly more than most other EU countries in recent years**
- **Ending the duty escalator will further weaken the ban on below cost sales: Current proposals mean strong white cider can be sold for 6p per unit and distilled spirits for 32p – we can't afford for cheap drink to get cheaper**
- **UK wine and spirits consumption is at record levels, and among young women aged 16-24 the proportion of spirits drinkers is now larger than any other demographic group.**
- **The duty escalator isn't bad news for all businesses - a decrease in drinking levels doesn't necessarily mean job losses, and raising taxes on wine and spirits may help boost the pub trade**

Alcohol Health Alliance Recommendations

1. **Maintain the duty escalator.** Alcohol sold in the UK remains highly affordable. Duty levels should continue to increase year on year, above inflation and in line with disposable incomes, to counter the trend of increasing affordability that has been associated with rising consumption and harm
2. **Ensure spirits are taxed at a higher rate than wine and beer.** In comparison to beer and wine, spirits are generally much cheaper to produce and distribute. The same rate of duty for all beverage types would mean that distilled spirits could be sold much more cheaply than wine or beer, which is a public health concern as they are much stronger and carry a greater risk of health and social harm.
3. **Increase duty rates on cider.** Cider and beer are similar products however cider is currently taxed at a much lower rate than beer. The alcohol duty rate (duty+VAT) on a litre of cider 7.5% ABV is 6p per unit of alcohol, compared to 23p per unit of alcohol for a litre of beer of the same strength. Cheapness relative to alcoholic strength makes cider a popular choice with dependent drinkers, and the current ban on below cost sales will not affect even the cheapest ciders on sale today.

About the Alcohol Health Alliance UK (AHA)

The AHA is a group of 37 organisations who share a joint interest in reducing the damage caused to health by alcohol misuse. For more information, visit www.rcp.ac/aha. To arrange a meeting with an AHA representative please contact Madeleine Harris Smith, Policy and Advocacy Manager on mharrissmith@alcoholconcern.org.uk or 020 7566 9809.

Why must the Alcohol duty escalator be maintained?

1. **The alcohol duty escalator is appropriate and fair, and scrapping it would unfairly increase the burden on the public purse.** The need for duty on alcohol to compensate for the burden of alcohol related harm to societies has been accepted in the UK and elsewhere for centuries. The question is what that contribution from alcohol consumers to public services should be. The taxpayer is already paying too much to foot the bill alcohol causes society – estimated to exceed £21bn each year, this is more than double the revenue generated from alcohol taxes (£10bn). Alcohol duty as a share of total tax receipts has more than halved since 1978. Parliament has been right to support the duty escalator since 2008 to correct this downward trend, so that alcohol duty can make a fairer contribution to mitigating the burden alcohol poses. Now is not the time to end that support.
2. **Reducing the affordability of alcohol is internationally recognized as one of the most effective ways of addressing alcohol harm and “coming down hard on cheap alcohol” forms a major part of the UK Government’s Alcohol Strategy.** Recent reports from the **World Bank**^{vi}, **OECD**^{vii}, **World Health Organisation**^{viii} and the **European Commission**^{ix} all recommend that national governments prioritise raising the price of alcohol in real terms through taxation in order to tackle the health and social consequences associated with harmful consumption.
3. **Alcohol is currently 61% more affordable than it was in 1980, largely because duty rates and therefore retail prices have not risen in line with disposable income^x** (see fig 1). The alcohol duty escalator has played an important role in recent years in starting to reverse this affordability trend.

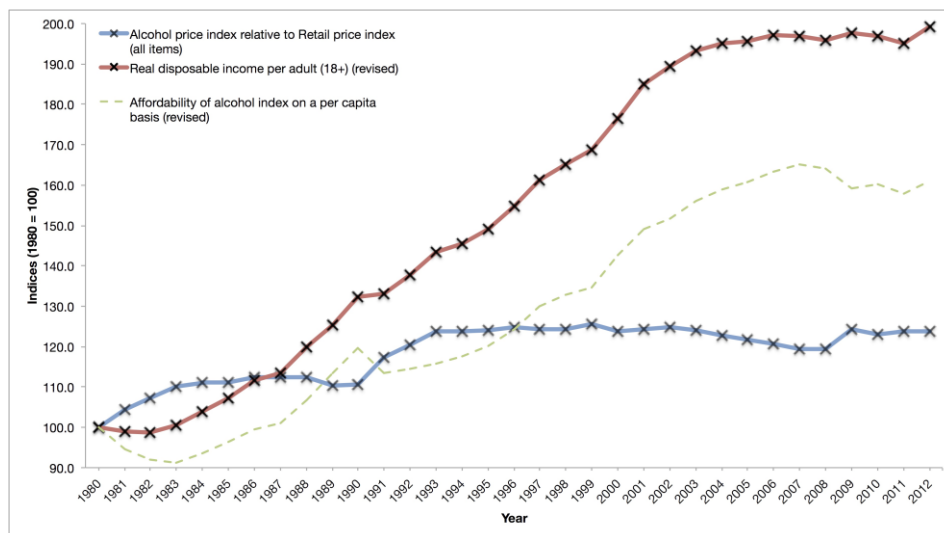


Fig. 1: Affordability of alcohol in the UK 1980-2012. Source: HCSC 'Statistics on Alcohol: England 2013' table 2.2

4. **Alcohol affordability in the UK has increased significantly more than most EU countries.** Whilst there are many EU countries where alcohol is cheaper than in the UK, there are few countries where the affordability of alcohol has increased so much as in the UK. Work by RAND Europe shows that from 1996 to 2008, only the Baltic States had increases in affordability of alcohol greater than the UK (see fig 2)^{xi}.

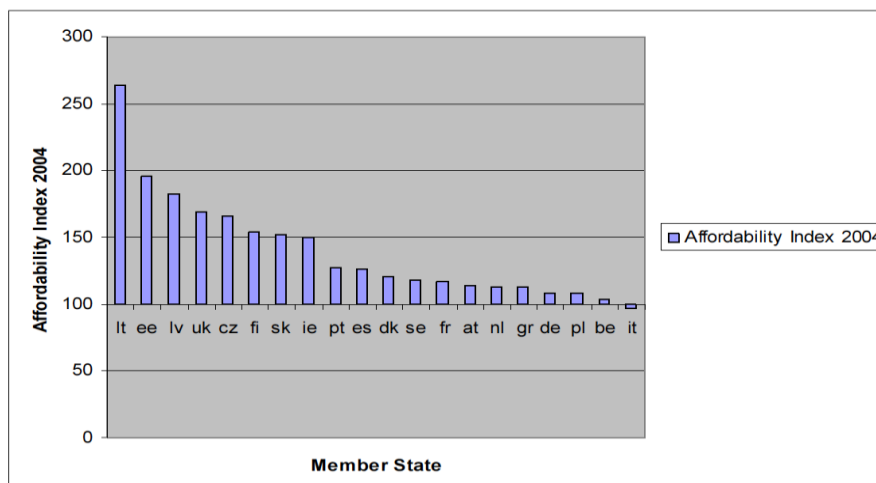


Fig. 2: European Affordability Index 1996-2004.

Taken from RAND Europe, 'The affordability of alcoholic beverages in the European Union', 2009

5. **We can't afford for alcohol to get any cheaper.** In England and Wales where there are no plans for minimum pricing legislation, tax is left as the only means available to legislate against overly cheap alcohol, with a proposed a ban on 'below cost' sales of alcohol, where the 'cost' is determined by the value of duty + VAT on a product. A number of reports have shown that the ban on 'below cost' sales will have a limited impact on tackling harmful consumption of alcohol. Just 1.3% products sold will be affected by the measure^{xii}, which means in practice shops and supermarkets will be able to sell **strong white cider at 7.5% ABV for 6p per unit** and **distilled spirits at 40% ABV for 32p per unit**. **We cannot afford to have the effect of the below cost selling ban further weakened by scrapping the duty escalator.**
6. **Alcohol taxes for wine and spirits are historically low, yet consumption rates are historically high – and this has raised particular concerns about young women.** Present rates of duty for wine and spirits are much lower today than in 1982^{xiii} (see fig 3). The fall has been greatest for spirits where duty rates were frozen for 10 years until the introduction of the alcohol duty escalator in 2008.

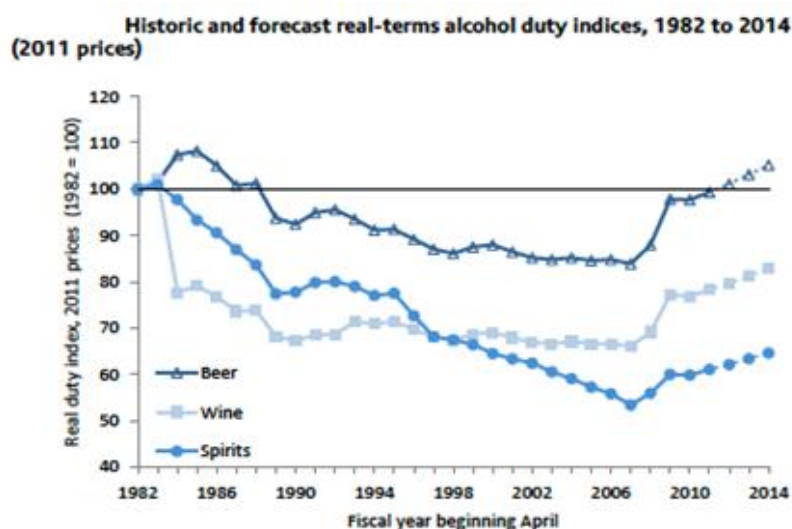


Fig. 3: Historic and forecast real-terms alcohol duty indices 1982- 2014.

Taken from 'Alcohol pricing and taxation policies',
Institute for Fiscal Studies,

Notes and sources: Duty rates for April each year up to 2010 taken from IFS Fiscal Facts (<http://www.ifs.org.uk/ff/excise.xls>). 2011 values based on HMRC figures (<http://www.hmrc.gov.uk/budget2011/overview.pdf>). Forecasts between 2012 and 2014 assume 2% real-terms increases each year based on latest Office for Budget Responsibility inflation forecasts. Figures deflated to April 2011 prices using all-items RPI (historical and forecast). Wine assumes 12% ABV, beer assumes 3.9% ABV.

Over the same time period, consumption of wine and spirits has increased significantly, which has raised particular concerns about young women. Today, **wine and spirits make up 73% of alcohol consumed each week by women** and **among young women aged 16-24 the proportion of spirits drinkers is larger than any other demographic group**^{xiv}. Latest statistics show that **almost one-in-three (28%) women drinkers aged 16-24 drink more than three times the recommended low risk guidelines – the equivalent of 9x25ml shots of vodka – on their heaviest drinking day each week**^{xv}. Between 2002-2010 **female alcohol-related hospital admissions amongst this age group increased by 76%**^{xvi}, which has been linked to consistently high levels of drinking.

7. **The alcohol duty escalator isn't bad news for all businesses.** A decrease in drinking levels doesn't necessarily mean job losses. Studies have shown that changes in population alcohol consumption are unlikely to have a direct impact on jobs in the alcohol sector^{xvii}, and despite claims that the UK drinks sector is struggling, **the number of licensed premises has risen year on year since 2009**. Furthermore, claims about job creation in the drinks sector if the duty escalator is scrapped need to be balanced against the financial burden that alcohol places on employers, with **alcohol related lost productivity in the workplace estimated to cost £7.3 billion**^{xviii} each year.
8. **Freezing tax on wine and spirits will do little to help the pub trade.** With nearly 80% of wine and spirits sold by the off-trade, mainly in large supermarkets at much lower prices, there has been a large and a shift away from consumption in pubs. Scrapping the duty escalator for wine and spirits is likely to reinforce this trend.

Alcohol Health Alliance Recommendations

1. Maintain the alcohol duty escalator

Alcohol sold in the UK remains highly affordable. Duty levels should continue to increase year on year, above inflation and in line with disposable incomes, to counter the trend of increasing affordability that has been associated with rising consumption and harm.

2. Ensure spirits are taxed at a higher rate than wine and beer

In comparison to beer and wine, spirits are generally much cheaper to produce and distribute^{xix} (see fig 4). The same rate of duty for all beverage types would mean that distilled spirits could be sold much more cheaply than wine or beer. This is a public health concern. Spirits have a much higher percentage of alcohol by volume and are associated with a higher rate of alcohol poisonings, as well as higher overall alcohol consumption. For these reasons, spirits should be taxed at higher rate per unit of alcohol than wine or beer.

Cost of producing a litre of pure alcohol in beer and spirits: UK 2007⁹

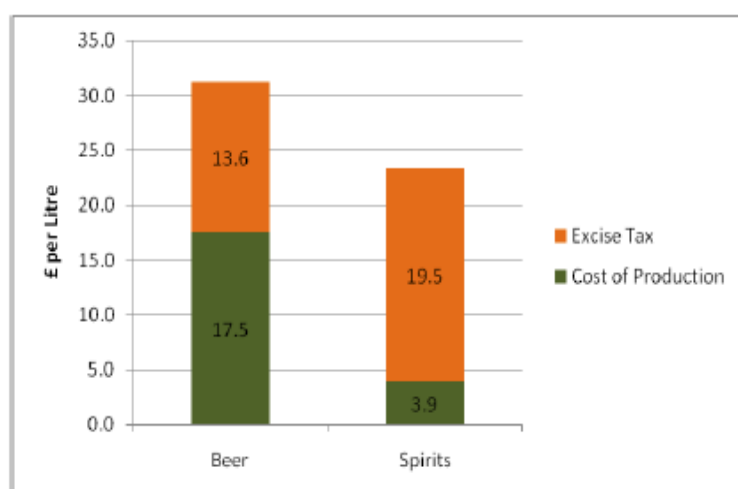


Fig. 4: Cost of producing a litre of pure alcohol in beer and spirits: UK 2007

Taken from British Beer and Pub Association response to Government review of

3. Increase duty rates on cider

Cider and beer are similar products and consumed in a similar way. However, cider is currently taxed at a much lower rate than beer. The alcohol duty rate (duty+VAT) on a litre of cider 7.5% ABV is 6p per unit of alcohol, compared to 23p per unit of alcohol for a litre of beer of the same strength. Setting a minimum juice content to be able to benefit from lower tax rates has had limited impact as manufacturers of industrial quantities of cider are able to meet the threshold using imports of cheap juice concentrate. Cheapness relative to alcoholic strength makes cider a popular choice with dependent drinkers and the current ban on below cost sales will not affect even the cheapest ciders on sale today.

ⁱ <http://www.calltimeonduty.co.uk/>

ⁱⁱ *Health First: An evidence-based alcohol strategy for the UK*, University of Stirling (2012)

ⁱⁱⁱ *Alcohol Pricing and Taxation Policies*, Institute for Fiscal Studies (2011)

^{iv} *The Government's Alcohol Strategy*, Home Office, 2012

^v Office for National Statistics, HMRC TAX & NIC receipts 2012/13, April 2013

^{vi} World Bank 'Risking your health: Causes, consequences and interventions to prevent risky behaviours' (2013) accessed at

<http://www.worldbank.org/en/topic/health/publication/risky-behaviors-constitute-growing-threats-to-global-health>

^{vii} OECD working paper, "The role of fiscal policies in health promotion", December 2013, accessed at http://www.oecd-ilibrary.org/social-issues-migration-health/the-role-of-fiscal-policies-in-health-promotion_5k3twr94kvzx-en

^{viii} WHO Global Strategy to the reduce harmful use of alcohol, 2010, accessed at http://www.who.int/substance_abuse/activities/gsrh/en/

^{ix} Detailed opinion from the European Commission on Notification 2012/0394/UK on the draft Alcohol (minimum price per unit) (Scotland) Order, 2013

^x HSCIC, Statistics on Alcohol, England 2013

^{xi} RAND Europe, 'The affordability of alcoholic beverages in the European Union', 2009

^{xii} Meng et al, 'Modelled income group-specific impacts of alcohol minimum nit pricing in England 2014/15: Policy appraisals using new developments to the Sheffield Alcohol Policy Model (v2.5) Addendum examining the impact of a ban on below cost selling', University of Sheffield, 2013

^{xiii} *Alcohol Pricing and Taxation Policies*, Institute for Fiscal Studies (2011)

^{xiv} ONS, 'Drinking habits among adults, Great Britain 2012', December 2013 accessed at http://www.ons.gov.uk/ons/dcp171778_338863.pdf

^{xv} *ibid*

^{xvi} Health and Social Care Information Centre, Statistics on Alcohol England 2012, accessed at <http://www.hscic.gov.uk/pubs/alcohol12>

^{xvii} Baumberg, B and Anderson, P, 'Alcohol in Europe: A public health perspective', European Commission 2006, accessed at:

http://ec.europa.eu/health/ph_determinants/life_style/alcohol/documents/alcohol_europe.pdf

^{xviii} Government's Alcohol Strategy

^{xix} British Beer and Pub Association response to Government review of alcohol taxation, 2010, accessed at <http://s3.amazonaws.com/bbpa-prod/attachments/documents/resources/21180/original/BBPA%20Response%20to%20review%20of%20Alcohol%20Taxation.pdf?1328114934>