

The Impact of Abolishing the Alcohol Duty Escalator *Can society afford for cheap drink to get cheaper?*

Key points

This year's Budget saw the Chancellor abolish the Alcohol Duty Escalator, after an intense lobbying campaign from sections of the drinks industryⁱ. In practice, this means that duty rates on spirits and most ciders were frozen in cash terms and the duty rate on beer was reduced by 2%ⁱⁱ. Duty rates on wine will increase by RPI, as will rates on 'high strength sparkling cider', however, this briefing explains that the definition of 'sparkling cider' for tax purposes does not include the strong, cheap, industrially produced white ciders, consumed by heavy drinkers and vulnerable groups.

The main impacts of abolishing the Alcohol Duty Escalator include:

- **Cheap, strong drink will become more affordable:** Strong, white cider can be sold for as little as 6p per unit and distilled spirits for 32p per unit
- HMT estimates **overall alcohol consumption will increase**, with beer consumption predicted to increase by 1.5% by March 2015ⁱⁱⁱ
- HMT estimates the **loss of revenue from alcohol duty will be -£290million**. This sum could fund more than 7,300 Alcohol Nurses in A&E, 1.2 million ambulance call outs and 9,700 Support Workers to help families affected by alcohol misuse^{iv}
- **Increasing the affordability of alcohol is in conflict with the commitment in the Government's Alcohol Strategy to reduce alcohol affordability, and undermines the policy to ban 'below cost sales' of alcohol by lowering the (already ineffectual) floor price of cheap drink**

Trends in alcohol affordability

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^v. **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.

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.

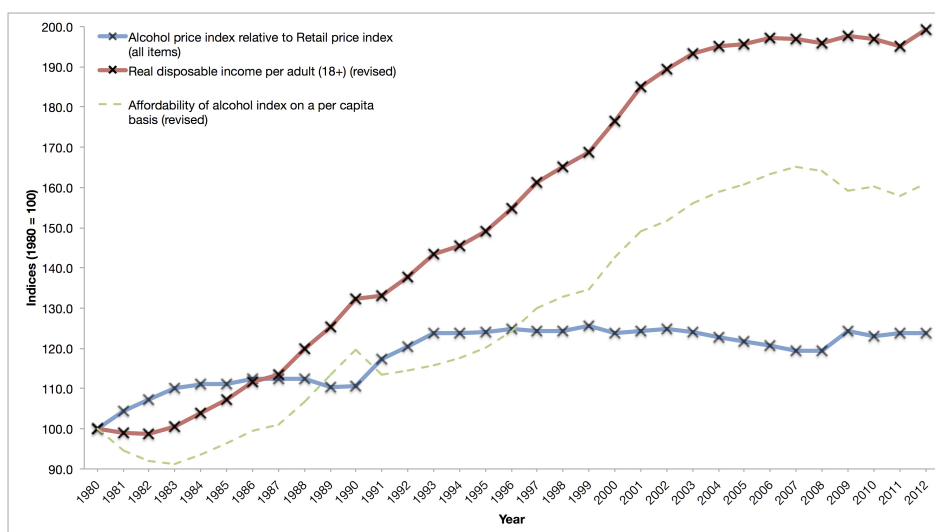


Fig. 1: Affordability of alcohol in the UK 1980-2012. Source: HCSC 'Statistics on Alcohol: England 2013' table 2.2

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}.

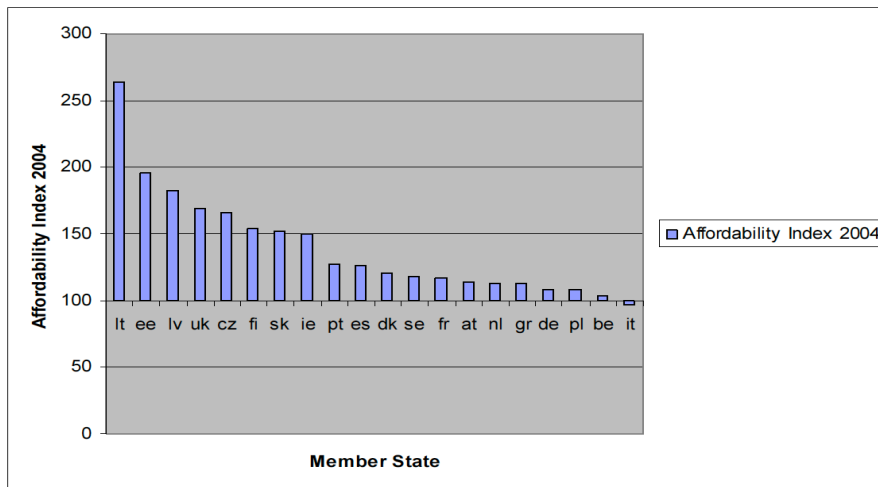


Fig. 2: European Affordability Index 1996-2004. Taken from RAND Europe, 'The affordability of alcoholic beverages in the European Union', 2009

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^{xii} (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.

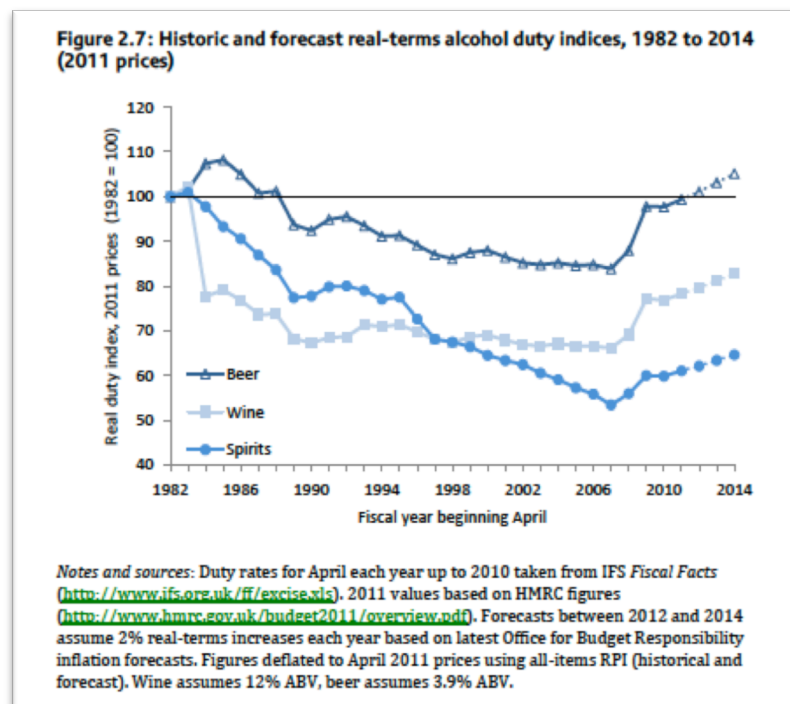


Fig. 5: Historic and forecast real-terms alcohol duty indices 1982-2014. Taken from 'Alcohol pricing and taxation policies', Institute for Fiscal Studies, 2011

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^{xiii}**. 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^{xiv}**. Between 2002-2010 female alcohol-related hospital admissions amongst this age group increased by 76%^{xv}, which has been linked to consistently high levels of drinking.

Impact of abolishing the Alcohol Duty Escalator

HM Treasury estimates that abolishing the alcohol duty escalator will **increase overall alcohol consumption** by 0.8%, which includes a predicted increase in beer consumption of 1.5% and spirits consumption of 1.1% (see fig 3)^{xvi}. It also estimates that the **loss in revenue to the Exchequer as a result will be -£290 million** (fig 4). This sum could fund more than 7,300 Alcohol Nurses in A&E, 1.2 million ambulance call outs and 9,700 Support Workers to help families affected by alcohol misuse^{xvii}

Estimated change in consumption (%)

	2014-15	2015-16	2016-17	2017-18	2018-19
Beer	1.5%	1.5%	1.6%	1.7%	1.8%
Spirits	1.1%	1.2%	1.2%	1.3%	1.4%
Alcopops	0.1%	0.1%	0.1%	0.1%	0.2%
Cider	0.9%	0.9%	1.0%	1.0%	1.1%
Wine	0.0%	0.0%	0.0%	0.0%	0.0%
Total	0.8%	0.9%	0.9%	0.9%	0.9%

Fig. 3: Estimated change in alcohol consumption (%) following the abolition of the alcohol duty escalator, HMT figures, Hansard, 1 Apr 2014: Column WA163

Exchequer impact (£m)

2014-15	2015-16	2016-17	2017-18	2018-19
-290	-295	-305	-315	-325

Fig. 4: Estimated impact on Exchequer of abolishing the Alcohol Duty Escalator

Abolishing the alcohol duty escalator further **weakens the ban on 'below cost sales'** as it lowers the floor price below which alcohol cannot be sold. **At current duty rates, strong white cider with an ABV strength of 7.5% can be sold for 6p per unit, and distilled spirits with an ABV strength of 40% can be sold for 32p per unit.** Setting a minimum juice content for cider producers 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. This means that many of the strong white cider products are classed as 'ordinary cider' for duty purposes, as opposed to 'made wine' or 'sparkling cider'. Indeed, the definition of 'sparkling cider' for duty purposes covers a very small, niche market of artisan ciders and perries^{xviii}.

IAS recommendations

In order to realise its commitment to tackle the affordability of alcohol, IAS recommends the Government take the following actions:

1. Review a mechanism to increase alcohol duty above inflation, in line with disposable incomes

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 6). 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.

Chart 7: Cost of producing a litre of pure alcohol in beer and spirits: UK 2007⁹

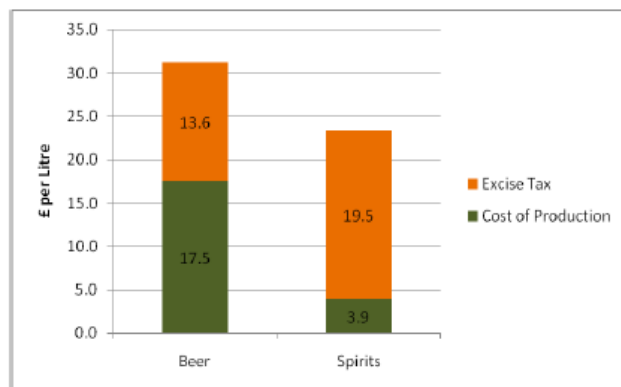


Fig. 6: Cost of producing a litre of pure alcohol in beer and spirits: UK 2007
Taken from British Beer and Pub Association response to Government review of alcohol taxation 2010

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. As stated above, 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.

4. Lobby for change in Europe to the EU taxation directive

The structure of UK alcohol taxes is governed by European Directives that mean it is not possible at present to tax wine or cider based on their strength, but it is possible for beer and spirits. This means that there is no tax incentive for wine and cider manufacturers to produce lower strength products. The duty on wine between 8.5% and 15% ABV is a flat rate, and no products can be marketed as 'wine' in the EU if they are below 8.5% ABV (with the exception of wine of Protected Designation of Origin). Furthermore, current EU rules prohibit the use of technology to reduce the strength of wine by more than 2% ABV. Lobbying for change at the EU level should be a long-term goal for the Government in order to have greater freedom over domestic pricing policies that can incentivise switching from high strength alcohol products to lower strength alternatives.

Contact

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ⁱ <http://calltimeonduty.co.uk/>

ⁱⁱ HMRC Alcohol duty rates 2014, accessed at <https://www.gov.uk/government/publications/alcohol-duty-rates>

ⁱⁱⁱ HMRC Alcohol duty rates 2014, accessed at <https://www.gov.uk/government/publications/alcohol-duty-rates>

^{iv} PSSRU, Unit Costs of Health and Social Care 2013, accessed at <http://www.pssru.ac.uk>

^v PSSRU, Unit Costs of Health and Social Care 2013, accessed at <http://www.pssru.ac.uk>

^{vi} The Government's Alcohol Strategy, 2012, accessed at <https://www.gov.uk/government/publications/alcohol-strategy>

^{vii} 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>

^{viii} 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

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

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

^{xi} HSCIC, Statistics on Alcohol, England 2013

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

^{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} Hansard, HL 1 Apr 2014 : Column WA163

^{xviii} PSSRU, Unit Costs of Health and Social Care 2013, accessed at <http://www.pssru.ac.uk>

^{xix} HMRC Notice 162, April 2014, accessed at

http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageLibrary_ShowContent&id=HMCE_CL_000207_propertyType=document#P196_21221

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