Alcohol Duty Review: Call for Evidence response template

It is recommended that you read the full call for evidence document before completing your response. Please note that the text boxes used in this template can be expanded to accommodate additional text.

Guidance for respondents

- In your response, please clarify which questions you're answering, by referring to the relevant numbers assigned to each question.
- You do not need to respond to all of the questions if they are not all relevant to you, and you may wish to provide a single answer to multiple questions.
- You are not limited to only answering the questions asked and we will also consider written submissions provided to the review.
- There is no minimum word limit.

Responses should arrive no later than **23:59 BST on 29 November 2020,** with early responses encouraged where possible. If you need an extension, please contact the review team via the email address below.

For further information on how we handle your personal data please read the Alcohol Duty Review Call for Evidence Data Protection Notice at paragraphs 1.21 to 1.42 of the Call for Evidence.

Please send your response to:

HMTVATandExcisePolicy@hmtreasury.gov.uk

Please enter "**Alcohol Duty Review Call for Evidence 2020**" in the subject line.

General Information

1. Full name (including title)

Jennifer Keen

2(a). Mark the statement below [X] as applicable.

[X] I have read the Alcohol Duty Review Call for Evidence Data Protection Notice (paragraphs 1.21 – 1.42) and understand that any information submitted may be published or disclosed.

[ ] I would like the information I have provided to be treated as confidential.

If you would like the information provided to be treated as confidential please explain why

2(b). Are you responding (please mark the relevant box [X]):

*[ ] as an individual (please complete **3 to 4** below)*

*[X] on behalf of an organisation / company (please complete **5 to 8** below)*

If you are responding as an individual:

3. E-mail address

4. Address

If you are responding on behalf of an organisation / company:

5. Organisation / Company

Institute of Alcohol Studies

6. Position within Company / Organisation

Head of Policy

7. E-mail address

jkeen@ias.org.uk

8. Address

Alliance House
12 Caxton Street
London
SW1H 0QS

9. If you are responding on behalf of an alcohol business please mark the relevant boxes below with an x (please mark all that apply)

9(a). Type of alcohol business:

[ ] producer [ ] importer [ ] excise warehouse/bottler

9(b). Type(s) of alcohol your business is involved with:

[ ] beer [ ] cider [ ] made-wine [ ] spirits [ ] wine

9(c). Size of business (no of employees):

[ ] 0-9 [ ] 10-49 [ ] 50 - 249 [ ] 250+

9(d). Amount of alcohol produced/imported per year (hectolitres):

Beer

[ ] 0-5000 [ ] 5001 – 60,000 [ ] 60,001 – 200,000 [ ] 200,001 +

Cider

[ ] 0-5000 [ ] 5001 – 60,000 [ ] 60,001 – 200,000 [ ] 200,001 +

Made-wine

[ ] 0-5000 [ ] 5001 – 60,000 [ ] 60,001 – 200,000 [ ] 200,001 +

Spirits

[ ] 0-5000 [ ] 5001 – 60,000 [ ] 60,001 – 200,000 [ ] 200,001 +

Wine

[ ] 0-5000 [ ] 5001 – 60,000 [ ] 60,001 – 200,000 [ ] 200,001 +

10. If you are not responding on behalf of an alcohol business please mark the relevant box below with an x

[ ] Retailer [ ] Member of public [ ] publican [ ] health group [ ] economic group

[ ] other

If other please advise

Call for Evidence questions

Please provide your response in the boxes below. Make sure to note the "Guidance for respondents" provided above before completing.

The overall duty system

1. Overall, how effectively does the current set of individual duties work in meeting the Government's aims of raising revenue and protecting public health?
2. Do you have any general comments about the current system of alcohol duties, and how it could be improved? In particular, if you are a producer, we would welcome information on your experiences of the duty system.
3. Are there any structural changes you anticipate taking place in the alcohol industry that you believe the duty regime should reflect?

Question 1

The Institute of Alcohol Studies welcomes the importance dedicated to protecting public health as one of only two government aims for the duty system.

Based on the evidence set out below we do not believe that the current duty system meets the aims of raising revenue and protecting public health as effectively as possible. This position is shared by other notable institutions. Tax think tank the Institute for Fiscal Studies has stated that "overall, it is very difficult to justify the existing structure of alcohol

excise taxes based on the likely harm associated with consuming different types and strengths of alcoholic drinks."[1]

Currently the cost of alcohol harm to society far exceeds the revenue raised in duty. It is estimated that alcohol costs the UK at least £27 billion a year,[2] while alcohol duty raises just £10.5-£12.1 billion annually.[3] Looking at products individually, those which are most closely linked with harms, such as high-strength cheap cider, contribute the least to revenue. Strong, white cider is consumed disproportionately by harmful drinkers[4] and yet a 500ml 8% cider pays just 7.6p per unit in duty compared to 24.8p for an equivalent strength beer.[5]

Raising additional revenue would provide the opportunity to address some of the harms caused by alcohol. Alcohol treatment is currently significantly underfunded: local authority spending on alcohol treatment was cut by 16% on average between 2015-2018,[6] and less than 20% of those who need treatment receive it.[7] To give an indication of the amount of additional revenue required to tackle these issues, it is estimated that an investment of just £100 million would help to increase the proportion of dependent drinkers receiving treatment from around 20% to 30% and would provide funding for all acute hospitals to host an alcohol care team.[8] As highlighted in the NHS long term plan, alcohol care teams play an important part in reducing future admissions and ambulance call-outs.[9]

Compared to other taxes, alcohol duty is a popular way of raising revenue. A YouGov poll ahead of the March 2020 Budget found that alcohol duty was the second most popular tax to increase to raise revenue, behind tobacco duty and equal with corporation tax. Duty increases were favoured over increasing capital gains tax, income tax, national insurance, or VAT amongst others.[10]

There is an urgent need to ensure that alcohol duty is better able to protect public health. Alcohol is linked to 200 health conditions, [11] including seven types of cancer,[12] and is the

[1] Institute for Fiscal Studies (2016) IFS Green budget p. 223
[2] Public Health England (2016). A rapid evidence review of the effectiveness and cost-effectiveness of alcohol control policies: an English perspective.
[3] HM Revenue and Customs (2020). UK alcohol duty statistics.
[4] Sheron, N., et al. (2014). Impact of minimum price per unit of alcohol on patients with liver disease in the UK. Clinical medicine; and Black, H., Gill, J., & Chick, J. (2011). The price of a drink: levels of consumption and price paid per unit of alcohol by Edinburgh's ill drinkers with a comparison to wider alcohol sales in Scotland. Addiction
[5] HM Treasury and HM Revenue and Customs (2020) Alcohol duty review: call for evidence
[6] Alcohol Change UK (2018). The Alcohol Treatment Levy
[7] Public Health England (2018). Substance misuse treatment for adults: statistics 2018 to 2019
[8] Alcohol Change UK (2018). The Alcohol Treatment Levy
[9] NHS (2019). The NHS long term plan
[10] YouGov (2020). Budget 2020: what tax changes would be popular?
[11] World Health Organisation (September 2018). Fact sheets: alcohol.
[12] Schütze M. et al. (2011). Alcohol attributable burden of incidence of cancer in eight European countries based on results from prospective cohort study. British Medical Journal.

leading risk factor for death, ill-health and disability in the 15-49 age group. [13] Alcohol is linked to 80 deaths in the UK each day.[14]

A failing of the current system is that it allows products to be on sale too cheaply, resulting in high levels of consumption and negative consequences for public health. Though elasticities are complex, depending upon the level of the price increase, the drink, the drinker and the place of retail, increases in price do reduce consumption, typically by around half the increase in price (i.e. a price rise of 1% will reduce consumption by around 0.5%). Higher-risk drinkers are more sensitive to price increases than moderate drinkers, especially for cheap alcohol sold in the off-trade.[15] As this group stands to benefit the most from reductions in their consumption, this demonstrates the importance of alcohol prices, and therefore duty, as a lever for protecting and improving health.

Public Health England's evidence review states that "policies that reduce the affordability of alcohol are the most effective, and cost-effective, approaches to prevention and health improvement".[16] The World Health Organization highlights alcohol taxes as one of the most cost-effective ways of achieving its 10% reduction in harmful alcohol consumption global target,[17] which the UK Government has signed up to. Alcohol tax has also been endorsed by the Organisation for Economic Co-operation and Development (OECD) among other measures to reduce the negative health effects from alcohol.[18]

However, under the current system, alcohol is available at very low prices. A recent survey by the Alcohol Health Alliance UK found alcohol can be purchased in England for just 19p per unit: with a 2.5 litre bottle of 7.5% ABV cider on sale for just £3.59.[19] This is in part due to the growth of alcohol affordability over time (outlined further in response to questions 29-31) and in part due to inconsistencies within the duty system (discussed in more depth in response to question 5). Tax on cider is disproportionately low. As noted in the call for evidence, strong ciders above 7.5% ABV pay less duty per unit than any beer, including low-strength beers below 2.8% ABV. A 500ml beer at 8% ABV will pay three times more in duty than a cider of equivalent size and strength.[20]

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[13] Public Health England (2016). The public health burden of alcohol and the effectiveness and cost-effectiveness of alcohol control policies.
[14] The UK wide estimate comes from summating the most recent estimates from England, Scotland, Northern Ireland, and Wales: Public Health England (accessed March 2020), Local Alcohol Profiles for England; Scottish Public Health Authority (2018). Hospital admissions, deaths and overall burden of disease attributable to alcohol consumption in Scotland; Public Health Wales Observatory (accessed July 2020). Alcohol in Wales; Northern Ireland Statistics and Research Agency (2019). Alcohol-specific deaths registered in Northern Ireland (2018).
[15] Public Health England (2016). The public health burden of alcohol and the effectiveness and cost-effectiveness of alcohol control policies.
[16] Ibid.
[17] World Health Organization (2013) Global Action Plan for the prevention and control of noncommunicable diseases 2013-2020
[18] Sassi, F. et al (2013) The Role of Fiscal Policies in Health Promotion, OECD Health Working Papers, No 66
[19] Alcohol Health Alliance UK (2020). Small change: alcohol at pocket money prices
[20] HM Treasury and HM Revenue and Customs (2020) Alcohol duty review: call for evidence

Cheaper products are linked to higher harms, with heavier drinkers known to drink a higher proportion of cheap alcohol: research carried out by the University of Sheffield found that 40% of alcohol sold below 50p per unit is consumed by the 4% of population who drink at higher-risk levels.[21] There is also evidence that cheap, strong products such as white cider are favoured by other vulnerable groups such as homeless people and children, as outlined in response to question 5.

Question 2

There is considerable room for improvement in the current system of alcohol duties. The Institute of Alcohol Studies is a member of the Alcohol Health Alliance UK (AHA) and, together with other members of the AHA, we believe there are four principles which an ideal duty system would encompass:

- Scaled – stronger drinks should be taxed more, for example through a strength duty escalator
- Proportionate – alcohol duty should at least cover the cost of alcohol harm to society
- Consistent – duty rates should be consistent across products so drinks of the same strength are taxed the same amount
- Uprated – duty should be automatically increased to ensure that it retains its value

Comparisons between the duties

4. Overall, how well do the different duties work when combined together as a system?
5. Do the differences and inconsistencies highlighted cause real-world issues for producers and for public health, or are these more theoretical concerns? In particular, if you are a producer, have differences in the duties affected your business decisions?

Question 4

The current system of different duties for different products creates anomalies and inconsistencies within and between products.

The fact that cider and wine are taxed by volume of liquid rather than alcohol content means that stronger drinks within the same duty band are taxed at exactly the same rate per litre and so are charged a lower rate of duty per unit. This creates a perverse incentive for producers to increase the strength of their products. Research by the Alcohol Health Alliance looking at the cheapest products on sale found that the cheapest drinks, per unit of alcohol, were sold at the top range of a cider band.[22]

Chart 3.A in the call for evidence showed the low rates of duty charged on strong cider. High-strength ciders pay the least duty per unit of all alcohol product. A 500ml can of cider at 7.5% ABV generates 25p of duty, just over a third of the duty on a can of beer of

[21] Sheffield University. Appraising the effect of implementing local Minimum Unit Pricing on alcohol consumption and health in the North West of England.
[22] Alcohol Health Alliance UK (2020). Small change: alcohol at pocket money prices

equivalent size and strength (72p). It is no surprise, then, that a number of ciders are produced at this strength to fully exploit the duty structure.

The existence of strong white ciders is a direct result of the idiosyncrasies of the current duty system. Under a more rational duty system these products would likely cease to exist in their current form. In England it is possible to buy a 2.5 litre bottle of Frosty Jack's cider at 7.5% ABV containing 18.75 units at just £3.59 or 19p per unit. In Scotland, where it is illegal to sell alcohol below 50p per unit, the nearest equivalent bottle of Frosty Jack's is a 2 litre bottle at 6% ABV containing just 12 units for £6. Though minimum unit pricing is outside of the scope of this review, this example indicates that the low per unit price of this product, which could also be corrected through duty, is a factor in its high alcohol formulation and large container size.

Figure 1: Comparison of Frosty Jack's cider as found in England and Scotland[23]

	Product	Volume	ABV	Price	Units	Price per unit	Minimum price with 50p MUP
England	Frosty Jack's	2500	7.5	£3.59	18.75	0.19	£9.38
Scotland	Frosty Jack's	2000	6	£6	12	0.5	£6

It is clear that the amount of duty charged on products has a direct impact on prices, especially at the lower end of the market. The AHA's research assessing the cheapest product available in each category found that the differential rates of duty are broadly reflected in price per unit for most products, with cider available at the lowest price and spirits significantly higher.

Figure 2: The cheapest drinks available in off-trade sites in England[24]

	Volume	ABV	Units	Price	Price/unit
Beer, lower-strength	4 x 440ml	2.1%	3.7	£1.00	£0.27
Beer	4 x 440ml	4%	7	£2.15	£0.31
Beer, higher-strength	330ml	8.5%	2.8	£2	£0.71
Cider	2.5l	7.5%	18.8	£3.59	£0.19
Perry	3l	6.5%	19.5	£4.75	£0.24
Vodka	1l	37.5%	37.5	£14.19	£0.38
Wine	750ml	13%	9.75	£3.49	£0.36

The difference in prices of the beers in the table above indicates that the banding of beer is a more rational approach than the unitary tax on wine and cider. It shows that the lower-strength beer is available more cheaply than the mid-strength, with both priced below the higher-strength alternative.

[23] Ibid.
[24] Ibid.

Question 5

The inconsistencies of the current duty system, and the cheap, high-strength drinks that are produced as a result, have a very real impact on public health. The harm caused by cheap, high-strength alcohol is well documented. Research indicates that heavier drinkers consume cheaper and stronger drinks on average than lighter drinkers.[25] Ciders are disproportionately consumed by harmful drinkers,[26] and are a common choice of those with alcohol-related problems. Before the introduction of minimum unit pricing in Scotland, 25% of alcohol treatment service patients in Glasgow and Edinburgh drank white cider, and 45% of white cider drinkers drank it exclusively.[27]

Homelessness charity Thames Reach found that high-strength drinks were directly responsible for 10 out of 16 deaths of their hostel residents and noted that 98% of their residents who experience problems with alcohol primarily drink high-strength ciders and beers.[28] Strong ciders have also been favoured by young people: Frosty Jack's, the leading high-strength cider brand, has been named among the top five most consumed brands by underage drinkers in treatment.[29]

The popularity of high-strength cider amongst these groups is primarily due to its low cost and studies of white cider drinkers have indicated 75-85% favour it for its low price.[30]

There are also consequences for health inequalities. Cider and fortified wines, as well as spirits, account for a larger proportion of alcohol consumed by people on lower incomes.[31] Reforming the duty rates on these drinks therefore would provide an opportunity to reduce health inequalities, delivering a manifesto commitment for the government. Despite consuming less alcohol on average, lower socio-economic status groups experience greater health and social harms than other groups.[32] Cuts to alcohol duty since 2012 have worsened health inequalities, with an increased number of alcohol-related deaths occurring disproportionately in more deprived households.[33]

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[25] Institute for Fiscal Studies (2017). Tax design in the alcohol market
[26] Sheron, N., et al. (2014). Impact of minimum price per unit of alcohol on patients with liver disease in the UK. Clinical medicine; and Black, H., Gill, J., & Chick, J. (2011). The price of a drink: levels of consumption and price paid per unit of alcohol by Edinburgh's ill drinkers with a comparison to wider alcohol sales in Scotland. Addiction
[27] Black, H. et al (2014). White Cider Consumption and Heavy Drinkers: A Low-Cost Option but an Unknown price. Alcohol and Alcoholism pp675-80
[28] Nicholas, M. (2017). Murder in a can. Blog for the Institute of Alcohol Studies.
[29] Alcohol Concern (2015). Alcohol Brands Consumed by Young People in Treatment 2015
[30] Black et al (2014). White Cider Consumption and Heavy Drinkers: A Low-Cost Option but an Unknown price. Alcohol and Alcoholism pp675-80
[31] Social Market Foundation (2019). Pour Decisions: The case for reforming alcohol duty
[32] Public Health England (2016). The public health burden of alcohol and the effectiveness and cost-effectiveness of alcohol control policies.
Bryant, L. (2019). Inequalities in victimisation: alcohol, violence, and anti-social behaviour
[33] Angus, C. & Henney, M. (2019). Modelling the impact of alcohol duty policies since 2012 in England and Scotland. The University of Sheffield and Institute of Alcohol Studies.

Methods of taxation

6. Is there a case to move to a standard method of taxation?
7. In particular, should the UK replicate the example of other countries and move wine and cider duties to be taxed in proportion to the strength of the final product, i.e. converted to a specific basis?

Questions 6 & 7

Chart 3.A of the call for evidence demonstrates the inconsistencies that arise from using two different methods of taxation. A stated aim of the duty review is to simplify the current system and to make alcohol taxation more "economically rational" with "fewer distortions and arbitrary distinctions". [34] A standard method of taxation would help to reduce distortions and distinctions.

In supporting public health, another key objective of the review, the best system is one which reduces the consumption of the most harmful products. It is therefore best to link tax to harm. As outlined in response to questions 8-12, harm is linked more closely to alcohol content than the source of alcohol so we therefore believe that duty should be standardised and based upon alcohol content. A 4% beer should be taxed the same as a 4% cider, for example.

As noted in the call for evidence, the unitary system of taxation for wine and cider can incentivise the production of higher-strength drinks within a band. This is evident in real world examples of cider where duty acts as an inverse duty strength escalator: cheapest drinks, per unit of alcohol, sold at the top range of a band.[35] We therefore believe that a specific rather than unitary system should be adopted. This is line with the World Health Organization's view that a fully specific system of taxation is most effective in improving public health.[36]

Distinguishing products by the source of their alcohol

8. Is the current system of differentiating different alcoholic products on the source of their alcohol a fair approach?
9. Is there a case to remove, or add further, categories of products?
10. Is there a case to end the individual alcohol taxes and reconstitute them with a single, unified alcohol tax? If not, on what basis should individual alcohol taxes be retained?
11. Should taxation recognise the costs associated with producing different products?
12. What evidence is there of the differing harms associated with individual products?

[34] HM Treasury and HM Revenue and Customs (2020). Alcohol duty review: call for evidence
[35] Alcohol Health Alliance UK (2020). Small change: alcohol at pocket money prices
[36] Alcohol Pricing in the WHO European Region – update report on the evidence and recommended policy actions, World Health Organisation (2020). Cited in HM Treasury and HM Revenue and Customs (2020). Alcohol duty review: call for evidence

Questions 8, 10, 11 & 12

There are some arguments in favour of a differential rate of duty for spirits, including in order to account for their low production cost which means that without a higher rate of duty they would be cheaper than other drinks.[37]

Evidence indicates that heavy drinkers consume a larger proportion of alcohol in the form of higher strength drinks.[38] An analysis of the Defra Family Food dataset showed that spirits makes up a larger proportion of alcohol consumed by the lowest income quintile than for other groups.[39] Consumption of spirits amongst both heavier drinkers and lower income drinkers, two groups where alcohol harms are concentrated, suggests that a higher tax on spirits would have positive outcomes for both public health and health inequalities.

There is evidence that spirits are linked to higher harms, having a stronger association with aggression and fatal alcohol poisonings than other drinks.[40] There is some evidence from Denmark that drinking spirits may be an independent risk factor for experiencing delirium tremens, a condition associated with alcohol withdrawal.[41] It is physically easier to drink large quantities of alcohol in spirits because a smaller volume of liquid is required and there is also some evidence that spirits sold in the off-trade can carry a greater risk of overpouring, though more research is needed in this area.[42]

However, differentiating taxation by source creates additional complexity due to the difficulties of classification and distinction in product categories. The call for evidence gives the example of products marketed as fruit ciders that are taxed as wines.[43] Further anomalies arise in the categorisation of "spirits" which under the current system is a broad category encompassing a wide range of product strengths. Under existing categorisations, some products classed as spirits, such as a fruit liqueur, may have a minimum strength of 15% ABV.[44] This is closer in strength to most wines than to other spirits such as whisky, which has a minimum strength of 40%.[45]

Moreover, further research is required to investigate whether harms linked to spirits are due to their being spirits per se, rather than purely due to their higher strength. As noted in response to question 5, the greater harms associated with white cider are likely due to its cheap price and high strength rather than due to intrinsic qualities of the product relating to its source. Weaker, more expensive ciders do not have the same well-documented links to harm as cheap high-strength cider.

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[37] Social Market Foundation (2019) Pour Decisions: The case for reforming alcohol duty
[38] The Institute for Fiscal Studies (2017). Tax design in the alcohol market.
[39] Social Market Foundation (2019) Pour Decisions: The case for reforming alcohol duty
[40] Mäkelä, P. et al. (2007) Does beverage type matter?, Nordic Studies on Alcohol and Drugs, 24, pp617-31.
[41] Sørensen, HJ. Et al. (2019). Alcohol and delirium tremens: effects of average number of drinks per day and beverage type. Acta Psychiatrica Scandinavica https://doi.org/10.1111/acps.13006
[42] BBC News (2009) Home drinkers 'over-pour spirits'.
[43] HM Treasury and HM Revenue and Customs (2020) Alcohol duty review: call for evidence.
[44] Regulation (EU) 2019/787 of the European Parliament and of the Council of 17 April 2019
[45] Ibid.

As the existing body of evidence shows that harm is most strongly linked to price and strength, as noted above, we therefore believe that it would be beneficial to address the most harmful products through a strength escalator, rather than by treating spirits or cider as a separate category.

Distinguishing products by strength

13. How well does the current system work in taxing products of different strengths?
14. Would you support a "strength escalator" system, i.e. one where products that are stronger consistently pay more duty per unit?
15. Can a product be more or less harmful for reasons other than the strength of the product?
16. How should the Government consider setting different rates of duty for higher and lower strength products?
17. Are there appropriate points at which products become more or less harmful, which could be used to set bands for different strength products?
18. What would be the effect of moving away from a banded system to a formula-based approach such as in Iceland?
19. Should the duty system be used to encourage producers to switch to lower strength products, or reformulate existing products?
20. If so, what would the best way of encouraging such practices?

Questions 13, 14, 15, 16, 17, 18, 19 & 20

The call for evidence notes "it is extremely common around the world for stronger products to pay more duty per unit than weaker products."[46] The most effective way of linking duty to harm is through a strength escalator via a formula-based system. As noted in response to questions 8-12, heavy drinkers are more likely to consume higher-strength products, and stronger products are associated with specific harms. Though hazardous and harmful drinkers make up only 25% of the population they account for 78% of alcohol consumed in England. This trend continues for the heaviest drinking individuals: 30% of all alcohol is

[46] HM Treasury and HM Revenue and Customs (2020). Alcohol duty review: call for evidence

consumed by just 4% of the population.[47] Most of the costs associated with alcohol are linked to consumption by heavier drinkers.[48] To bring about the greatest public health improvements, alcohol duty should be focused on the products consumed by this group. Higher-strength products should therefore be taxed at a proportionately higher rate.

As well as being a lever to reduce consumption, duty can also encourage reformulation. There are examples of reformulation in response to incentives created by duty: a reduction in strength of Skol, from 3% to 2.8% ABV occurred in response to the creation of a lower-rate duty band for low strength beers and AB InBev reduced the strength of brands such as Stella Artois, Budweiser and Becks, as a way of reducing costs associated with alcohol duty.[49] There is also evidence of reformulation in Scotland following the introduction of minimum unit pricing: the AHA pricing survey found that the 2.5-litre bottle of 7.5% ABV Frosty Jack's cider which was the cheapest available product in England was not available in Scotland. Instead, the nearest equivalent was a 2-litre bottle at just 6% ABV.[50]

While both banding and a formula-based approach could incentivise reformulation, a significant advantage of a formula model is that it would encourage reformulation at all strength levels, not just at the margins between bands. There is not sufficient evidence that products become significantly more harmful at certain points of strength and banding can create its own distortions of the market. As noted in response to question 4, banding systems can incentivise manufacturers to gravitate towards producing stronger products at the edge of a band.[51]

Strength and price are the most important factors in harmfulness of a product and should therefore be the main focus of the duty review. However, other factors such as marketing and product composition can also influence harmfulness:

Marketing

There is evidence that certain products are targeted particularly at young people, for example, analysis of internal documents showed a TV campaign by Lambrini TV aimed to be "a cross between myspace and High School the Musical".[52] Alcohol consumed earlier in life can be more harmful. Underage drinking is associated with risk-taking behaviour, accidents and injuries and there is also some evidence that alcohol consumption can have a detrimental impact upon brain development.[53]

Composition

More calorific and sugary drinks can be more harmful to health and the calorie and sugar content of drinks vary considerably. A pint of 5% lager can contain 293kcal compared to a

[47] Bhattacharya et al (2018). How dependent is the alcohol industry on heavy drinking in England? Addiction
[48] Institute for Fiscal Studies (2017). Tax design in the alcohol market
[49] Social Market Foundation (2019) Pour Decisions: The case for reforming alcohol duty
[50] Alcohol Health Alliance UK (2020) Small change: alcohol at pocket money prices
[51] Ibid.
[52] Hastings, Gerard (2009). "They'll drink bucket loads of the stuff": an analysis of internal alcohol industry advertising documents. The Alcohol Education and Research Council.
[53] SHAAP (2013) Alcohol and the developing adolescent brain: evidence review

standard glass of 12% wine at 133kcal.[54] Research by Action on Sugar indicates that a 500ml Ready-To-Drink alcoholic drink can contain up to 49.1g of sugar per bottle – more than 12 teaspoons of sugar.[55] Alcohol can be a contributor to obesity, with adults who drink getting nearly 10% of their daily calorie intake on average from alcohol.[56]

There is evidence that caffeine can make an alcoholic product more harmful. The stimulant effect of caffeine allows drinkers to remain awake longer and consume more alcohol on a single occasion. A Canadian survey found that when students consumed alcohol with energy drinks they drank significantly more alcohol (an average of 8.6 drinks compared to 4.6 drinks).[57] A study involving US college students found that those who reported combining energy drinks with alcohol were twice as likely to be hurt or injured, and twice as likely to require medical attention.[58]

Distinguishing based on the place of retail

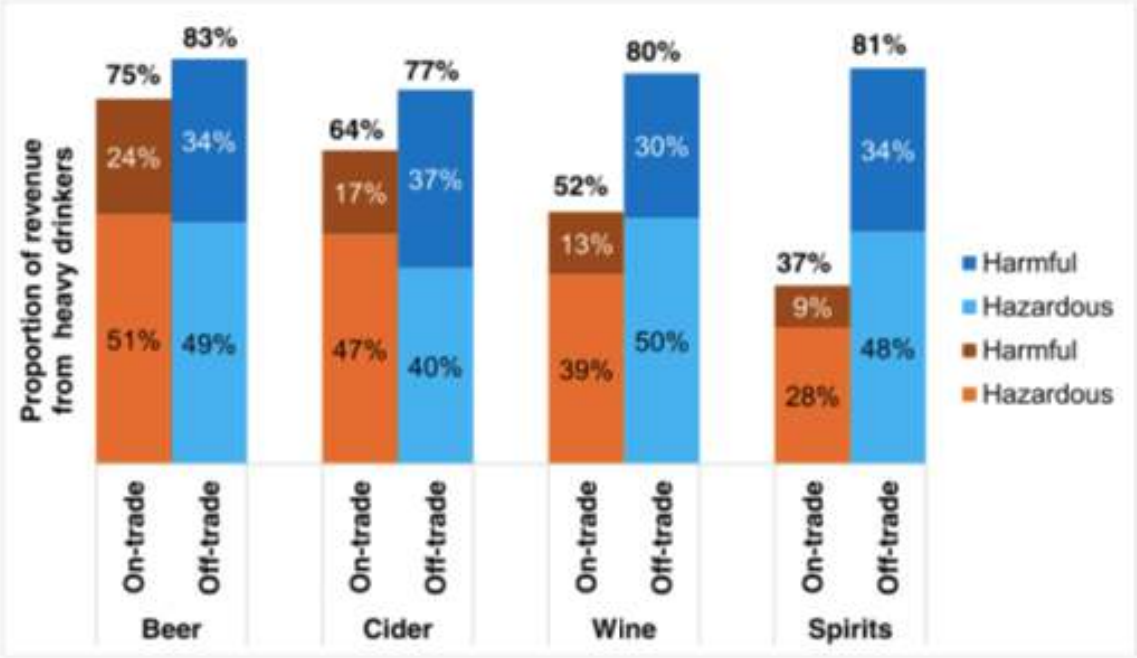
21. Is there a case to distinguish between different retail sources in the alcohol duty system? What would be the benefits and disadvantages of doing so?
22. If so, what would be your recommended method of doing so?
23. What would an appropriate level of a differential be?
24. What retailers should qualify for reliefs? For example, should all "on-trade" venues qualify for reliefs?

Questions 21 & 22

Harmful drinkers (women drinking more than 35 units per week and men drinking more than 50 units) account for 32% of alcohol-related revenue in the off-trade, compared with just 17% of revenue in the on-trade. As illustrated in Figure 3 below, harmful and hazardous consumption is more associated with off-trade alcohol across all beverage categories, with the strongest association for wine, cider and spirits.[59] As we believe that alcohol duty should be linked to harm, there is a case for distinguishing alcohol duty based on retail sources.

[54] NHS: Calories in alcohol
[55] Action on Sugar (2020) Sugar content of ready-to-drink alcoholic beverages
[56] Department of Health and Social Care (2020) Tackling obesity: empowering adults and children to live healthier lives
[57] Price et al (2010) Energy drink co-administration is associated with increased reported alcohol ingestion, Drug Alcohol Review, cited in Ferre and O'Brien (2011) Alcohol and Caffeine: The Perfect Storm Journal of Caffeine Research
[58] O'Brien et al. (2008) Caffeinated Cocktails: Energy Drink Consumption, High-risk Drinking, and Alcohol-related Consequences among College Students Academic Emergency Medicine
[59] Bhattacharya et al (2018) How dependent is the alcohol industry on heavy drinking in England? Addiction

Figure 3: Proportion of revenue from heavy drinkers by beverage type and retailer, 2013/14[60]



Alcohol consumption patterns in the UK have changed over time. On-trade consumption by adults in the UK has been steadily decreasing over the last twenty years while the amount of off-trade alcohol consumed has increased. In 2018, more than twice as much alcohol was consumed from off-trade than on-trade sources.[61] This is likely in part due to the affordability gap between the on- and the off-trade which has widened in recent years: since 1987, the affordability of off-trade beer has more than tripled, and the affordability of off-trade wine and spirits has risen by 163%.[62] As duty accounts for a larger proportion of the price of off-trade sales, this affordability gap has been partially driven by cuts and freezes to duty: the part of this period which coincided with the existence of the alcohol duty escalator was one of the few times since the late 1980s where the affordability gap between the on- and off-trade did not substantially widen.[63]

There is no evidence that alcohol duty increases are harmful to pubs. Alcohol duty increased by more than inflation between 2008 and 2013, during which time there was a net decline in the number of pubs of around 1.5% a year. From 2013 to 2018 alcohol duty was regularly cut or frozen, and yet the rate of pub closures increased to 1.9%.[64] A survey of publicans carried out for the Institute of Alcohol Studies found that 83% of publicans surveyed thought supermarket alcohol was too cheap and supermarket competition was seen as the single greatest threat to pubs.[65] Similarly, a survey of publicans in the North East of England found that 89% of respondents reported that duty cuts had no benefit to their business, with just 4% attributing the main cause of pub closures to alcohol taxes.

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[60] Ibid.
[61] The British Beer & Pub Association statistical handbook 2019, cited in Institute of Alcohol Studies, Consumption factsheet
[62] Institute of Alcohol Studies (2020). Budget 2020 analysis
[63] Ibid.
[64] Ibid.
[65] Institute of Alcohol Studies (2017). Pubs Quizzed, what publicans think about policy, public health and the changing trade

Conversely, 51% of publicans cited cheap off-trade alcohol as a main cause of pub closures.[66]

The Social Market Foundation considered the case for differential rates between the on- and off- trade, highlighting Australia as an international example of a jurisdiction with a tax system which favours the on-trade, as draft beer qualifies for a lower rate of duty than packaged beer. They indicate that a "Pub Relief" along the lines of the Alcoholic Ingredients Relief, would allow businesses to claim relief on alcohol duty.[67] If the Government is planning to support the hospitality sector, especially following the pandemic, there are other options available beyond a differential rate of duty. Reductions to both business rates and VAT on food would help to support pubs without incentivising additional alcohol sales.

Small producers

25. Is there a case to extend reduced rates for small producers to other categories?
26. Do you think exemptions or reduced rates are the best way to support producers?
27. Should relief thresholds be set in reference to only the market for that product, or in reference to the whole market for alcoholic beverages?
28. What evidence is there that small producer reliefs for other categories would be value for money? Would the value of the relief be simply competed away by new market entrants?

Indexing rates for inflation

29. How well does the current system of indexing duties in line with inflation work?

[66] Balance North East (2018). Views from behind the bar, North East Landlord Survey 2018.
[67] Social Market Foundation (2019). Pour Decisions: The case for reforming alcohol duty

30. Would a more consistent, systematic approach to indexing alcohol duties be of benefit?
31. Is there a more appropriate index to use for inflation-matching increases than RPI

Questions 30 & 31

The lack of automatic indexing of duty has allowed duty to lose value over time. Since the end of the duty escalator, the Chancellor has set the rate of increase of alcohol duty every year at the Budget and, as a result, we have seen cuts and freezes to duty over a number of years. Successive duty cuts since 2012 mean that in real terms, beer duty is 19% lower today than in 2012, spirits and cider duties 12% lower, and wine 3% lower.[68] Modelling shows that cuts to alcohol duty since 2012 have led to an estimated:

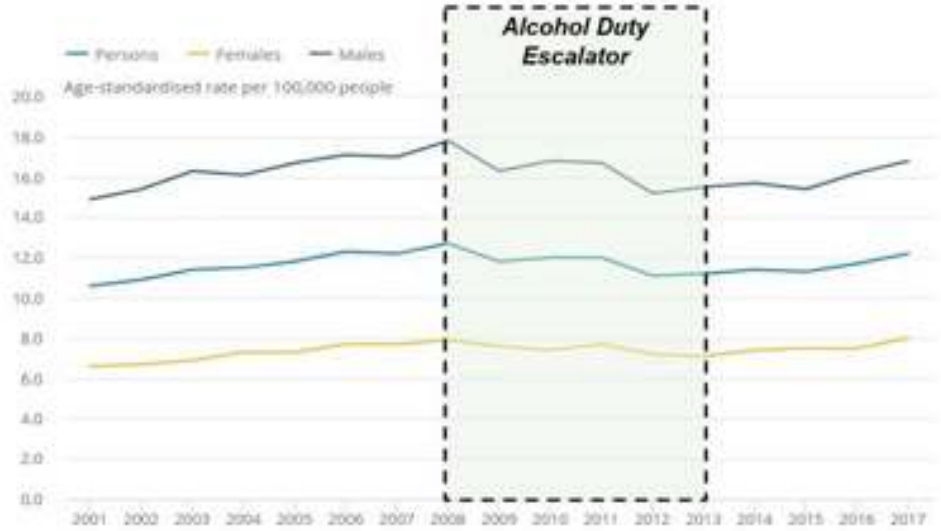
- 1,969 additional deaths
- 61,386 additional hospitalisations
- £317 million in additional costs to the NHS
- £277 million in additional societal costs of crime
- £58 million cost to the economy in reduced productivity.[69]

Furthermore, the negative impact of cuts to alcohol duty have been experienced disproportionately by the poorest in society, with cuts exacerbating existing health inequalities. Relative to 2012 levels in real terms, duty cuts up to 2018 are expected to cause alcohol-attributable deaths to rise by 7.4% among the most deprived by 2032, compared with 0.4% among the least deprived.[70]

As shown by Figure 4, the duty escalator had a real-world positive impact on public health. Alcohol-specific deaths peaked in 2008 with the introduction of the duty escalator, stalled while it was in place and began rising again after its repeal.

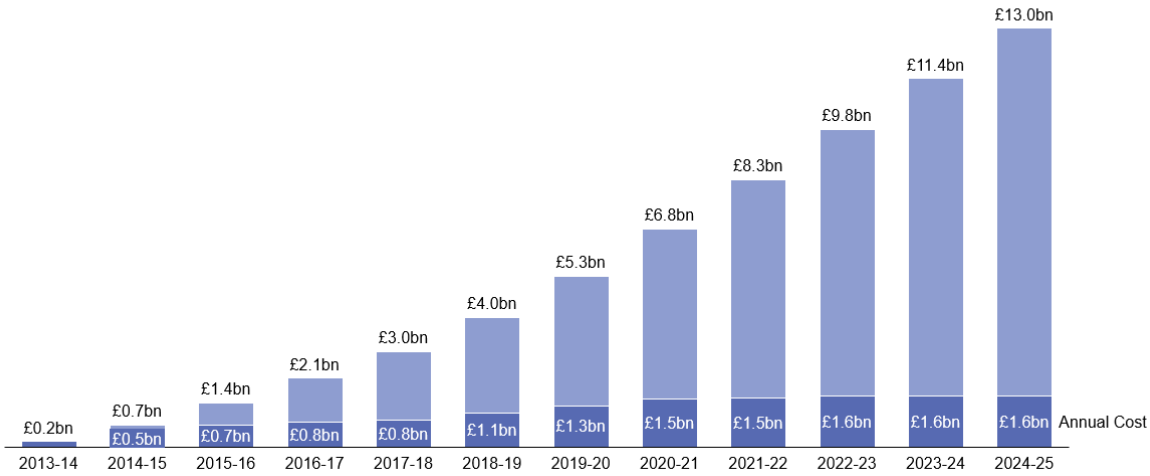
[68] Institute of Alcohol Studies (2020). Budget 2020 analysis
[69] Angus, C. and Henney, M. (2019). Modelling the impact of alcohol duty policies since 2012 in England and Scotland. The University of Sheffield and Institute of Alcohol Studies
[70] Ibid.

Figure 4: Age-standardised alcohol-specific deaths, UK 2001–2017[71]



As well as the public health costs, the loss of value of alcohol duty negatively impacts upon revenue. Figure 5 shows how cumulative cuts to alcohol since 2012 will result in a reduction in revenue of over £1.5 billion in 2020/21, and almost £13 billion over the ten years to 2024/25.[72]

Figure 5: the cumulative cost of duty cuts[73]



The impact on public health and on revenue makes a compelling argument for automatic uprating. The Social Market Foundation set out a model for uprating duty with review periods every 5 – 10 years to assess the cost of alcohol to society and take account of new knowledge about health harms. This is similar to the example set out in the duty

[71] ONS (2018). Statistical Bulletin: Alcohol-specific deaths in the UK: registered in 2017
[72] Institute of Alcohol Studies (2020). Budget 2020 analysis
[73] Institute of Alcohol Studies (2020). Budget 2020 analysis

review document of making decisions about duty for a whole Parliament at the first budget with automatic uprating taking place for subsequent years.[74]

From an economics perspective, there is a clear case to balance the negative externalities and internalities created by alcohol consumption.[75] Externalities include the cost the NHS (estimated to be £3.5 billion in England)[76] and the cost of crime (estimated to be £11.4 billion in England and Wales).[77] Public Health England estimates that alcohol costs the UK at least £27 billion a year.[78] Over the past 5 years, alcohol duty has raised just £10.5-£12.1 billion annually.[79]

Linking alcohol duty to the harm caused by alcohol could also have the benefit of providing an incentive for alcohol manufacturers to ensure that their products do not cause harm, for example through advertising which encourages harmful consumption.[80] We support the principle of automated uprating with review periods and believe that the reviews could be carried out by an independent body of experts in a similar model to the Low Pay Commission.

In response to the specific question of whether uprating is linked to RPI or another measure, there are arguments in favour of linking alcohol duty to earnings rather than prices. Public Health England note that "taxation and pricing policies need to be updated in line with changes in income and inflation, in order to retain the impact on affordability".[81] An economy experiencing productivity growth will see earnings increasing faster than prices, meaning that uprating by RPI would not necessarily be sufficient to prevent growth in affordability.

Approvals

32. What are your views on a standard framework for approval of alcohol production regimes? What would be the benefits or disadvantages?
33. What are your views on a single approval to produce any type of alcohol? What would be the benefits or disadvantages?

[74] HM Treasury and HM Revenue and Customs (2020). Alcohol duty review: call for evidence
[75] Institute of Alcohol Studies (2016). Dereliction of Duty
[76] Home Office (2012). Impact assessment: a minimum unit price for alcohol.
[77] Association of Police and Crime Commissioners (2020). Alcohol and drugs in focus
[78] Public Health England (2016). A rapid evidence review of the effectiveness and cost-effectiveness of alcohol control policies: an English perspective.
[79] HM Revenue and Customs (2020). UK alcohol duty statistics.
[80] Social Market Foundation (2019). Pour Decisions: The case for reforming alcohol duty
[81] Public Health England (2016). The public health burden of alcohol and the effectiveness and cost-effectiveness of alcohol control policies.

Declarations and payments

34. What are your views on a single policy and process for duty payment across all the alcohol production regimes? Please include details of any benefits or disadvantages.

Avoidance and evasion

35. How effective do you think the current systems of controls are at tackling avoidance and evasion?
36. What more could be done to reduce the alcohol tax gap?