Our policy position on alcohol taxation

Alcohol places an intolerable strain on our health service. Every year, one million hospital admissions are related to alcohol, and alcohol accounts for 10% of the UK burden of disease and death\(^{iv}\), making alcohol one of the three biggest lifestyle risk factors for disease and death in the UK.\(^{iii}\) The Government estimates that alcohol related harm currently costs the NHS £3.7 billion every year (equal to £120 for every taxpayer) and wider UK society more than £21 billion\(^{v}\) - more than double the £10 billion revenue generated from alcohol taxes.\(^{v}\)

With our NHS in crisis, we need the alcohol industry to pay a fairer share towards the cost of alcohol harm to the UK economy.

Tax cuts given to the alcohol industry in 2014 and 2015 were estimated by the Treasury to total a cost to the public purse of £2.4 billion over five years.\(^{vi}\) Over the next five years, this amount could cover the annual salaries of over 12,000 nurses, nearly 10.5 million emergency ambulance call outs or more than 10 million hospital bed days.

While a minimum unit price remains the most effective and targeted intervention in tackling alcohol related harm, alcohol taxes unquestionably contribute to public health today. Alcohol taxation has an important role to play in reducing harmful consumption, particularly alongside a policy of minimum unit pricing. Raising the price of cheap alcohol is internationally recognised as one of the most powerful tools at a government’s disposal to address harms caused by alcohol.\(^{vii}\) In the UK, where liver disease rates have increased in some groups by up to 400% over the last decade,\(^{viii}\) tackling harmful consumption must be a priority for Government.

We are calling on the Government to:

1. **Reinstate the duty escalator.** Alcohol sold in the UK is 54% more affordable than it was in 1980.\(^{ix}\) We know that price drives consumption; duty levels should continue to increase year on year to counter the trend of increasing affordability that has been associated with rising consumption and harm.

2. **Increase duty on high strength cider.** Due to anomalies in the excise system, high strength 7.5% ABV ciders are available for the lowest price per unit of any drink. As a result, they are overwhelmingly favoured by dependent, street and young drinkers. Restructuring cider duty so that these products can be targeted with higher tax rates would substantially reduce the harms associated with them.

3. **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.

4. **Lobby for change at EU level so that drinks in all categories can be taxed according to their strength.** The structure of UK alcohol taxes is governed by European Directives in a way that means that under current structures, it is not possible to tax wine or cider in proportion with their strength. However, changing the structure on cider duty, to allow greater variation in tax levels, is possible.

5. **Implement a minimum unit price for all alcoholic products.** MUP is needed to deal with the particular problem of the cheapest strongest drinks favoured by the heaviest drinkers and is compatible promoting alcohol duty structure for other products.
Changes to alcohol duty rates have been shown to impact on consumption levels and alcohol harms. Decreases in alcohol taxes in Finland in 2004, for example, led to a 10% increase in overall consumption and a 46% increase in liver disease deaths.\textsuperscript{x} It therefore follows that tax increases may have the reverse effect of improving health outcomes through reduced incidences of excessive consumption. The report on ethical issues in public health by the Nuffield Council on Bioethics argues that higher taxes on alcohol are an “effective strategy for reducing consumption.”\textsuperscript{xi}

The effectiveness of reducing alcohol-related harm through changes to excise duty, such as increased duty on high strength alcohol, will of course depend on whether retailers fully pass any increases to consumers in the form of increased prices. Collaborative research from three universities in England found that tax increases led to lower than expected price increases for cheaper products and higher than expected tax increases for more expensive products – in other words, cheap alcohol stayed cheap. In order to offset this, the researchers concluded that duty rises would be more effective if implemented alongside other interventions, in particular minimum unit pricing.\textsuperscript{xii}

**Our recommendations**

1. **Reinstate the alcohol duty escalator**  

   *Scrapping the alcohol duty escalator has allowed cheap alcohol to become more affordable to heavy drinkers while at the same time unfairly increasing the burden on the public purse, with an estimated cost to the taxpayer of over £1.2 billion over four years. 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 duty escalator was appropriate and fair.*

   **The Alcohol Health Alliance recommends:**  
   - The duty escalator should be reinstated at 2% above inflation

Alcohol is 54% more affordable than it was in 1980.\textsuperscript{xiii} We know that price drives consumption; 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.

![Figure 2.2 - Alcohol affordability index in the United Kingdom: 1980 to 2014](source)

*Sources: Alcohol Price and Retail Prices (all items) Indices: derived from Food or Consumer Price Indices (Codes: CSAA, CSBD, CHAW), Office for National Statistics; Real Households Disposable-income from the UK Economic Accounts (Code: NSUS), Office for National Statistics. Copyright © 2013 Health and Social Care Information Centre. All rights reserved.*
The Alcohol Duty Escalator was introduced in 2008 and saw duty on alcohol rise 2% above inflation each year until it was scrapped for beer in the 2013 budget and remaining products last year, after an intense lobbying campaign from the alcohol industry. Alongside alcohol becoming 54% more affordable than it was in 1980\textsuperscript{ix}, \textbf{alcohol duty as a share of total tax receipts has more than halved since 1978.}\textsuperscript{x} Parliament was right to support the alcohol duty escalator – it was appropriate and fair and should be reinstated to compensate for the burden of alcohol related harm to our society.

Latest research from the University of Sheffield compares a range of duty scenarios, both separately to and in combination with, minimum unit pricing. In this diagram, The University of Sheffield have compared the effects in England of the duty changes introduced by the Chancellor of the Exchequer in the Spring Budget of 2015 to those of a hypothetical 60p minimum unit price. Following the Budget changes of last year, the projected rise in hospital admissions is clear from the diagram below, amongst all three groups, with the most significant rise being for the ‘high risk drinkers’.

![Diagram showing change in annual hospital admissions](source)

\textbf{2. Increase duty on high strength cider}

\textit{High strength ‘white’ cider is a product that causes disproportionate levels of harm. It is closely associated with dependent, street and underage drinking. This product has largely developed because of anomalies in the tax system which mean that high-strength cider has the lowest cost per unit of alcohol of any product. The Government should rationalise the duty structure for cider and end this harm.}

The Alcohol Health Alliance recommends:

- Cider duty should be split into four bands, with higher strength bands subject to higher rates of duty
- High strength ciders should attract similar rates of duty to high strength beers
- The Government should consider introducing duty relief for small cider producers
In recent years, doctors, alcohol treatment services and homeless charities have expressed increasing concern about high strength cider (typically - but not always - ‘white’ i.e. colourless, sold in large 2-3 litre plastic bottles at relatively low prices) [see appendix on White Cider]. According to Thames Reach, which works with rough sleepers in London, “Super-strength drinks have become one of the biggest causes of premature death of homeless people in the UK, and our figures indicate that super-strength drinks are doing more damage than both heroin and crack cocaine”. 78% of the deaths in Thames Reach hostels are attributed to high strength alcohol. 25% of alcohol treatment services patients in Glasgow and Edinburgh drink white cider, and of these 45% drink it exclusively. Moreover, these products have often been targeted at young people: Frosty Jack’s, the leading high-strength cider brand, has consistently been among the top five most consumed brands by underage drinkers in treatment.

The prominence of high-strength cider amongst these groups is primarily due to its cheapness. Studies of white cider drinkers have indicated 75-85% favour it for its low price. Alcohol Concern’s research has found that though “it is often argued that raising prices would not change the drinking habits of this group. It was very apparent during interviews that most of them have a very detailed knowledge of price variations”.

High strength cider has a particularly damaging position relative to other drinks, with evidence it is seen as a ‘buffer drink’, aiding harmful drinkers in maintaining their consumption even when their financial circumstances decline.

It is the idiosyncrasies of the duty system that allow white cider to be sold so cheaply. The chart below demonstrates that cider of 7.5% ABV attracts the lowest level of duty of any alcohol product at any strength. For example, a 500ml can of cider at this strength generates 19p of duty, less than a third of the duty on a can of beer of equivalent size and strength (69p). It is no surprise, then, that a number of ciders are produced at exactly this ABV to fully exploit the duty structure.

There are two fundamental reasons for this anomaly. Firstly, cider is taxed at a lower level than other drinks categories. Secondly, cider is taxed by volume, rather than alcohol content, meaning that stronger drinks within
the same duty band are taxed exactly the same.

At present, duty rates for cider are split into two bands: 1.2% to 7.5% ABV, and 7.5% to 8.5% ABV. The lower band is extremely wide, particularly in light of the fact that cider is taxed by volume (and so there is no variation in duty within bands either) – with the effect that the weakest ciders on the market (around 2.5-3%) attract the exact same duty as 7.5% white ciders, for comparable containers (£38.87 per hectolitre).

While in the short term duty cannot be made directly proportionate to strength (due to European regulation, see recommendation 4), the Government can restructure the duty system so that tax better corresponds to strength. The Alcohol Health Alliance recommends four bands for cider duty, as suggested below:

<table>
<thead>
<tr>
<th>Band</th>
<th>Strength (ABV %)</th>
<th>Current Rate (per Hectolitre)</th>
<th>Suggested change</th>
<th>Suggested Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1.2 - 2.5</td>
<td>£38.87</td>
<td>2% reduction</td>
<td>£38.09</td>
</tr>
<tr>
<td>B</td>
<td>2.6 - 5.5</td>
<td>£38.87</td>
<td>In line with duty escalator</td>
<td>£40.11</td>
</tr>
<tr>
<td>C</td>
<td>5.6 – 7.5</td>
<td>£38.87</td>
<td>20% increase</td>
<td>£46.64</td>
</tr>
<tr>
<td>D</td>
<td>&gt;7.5</td>
<td>£59.99</td>
<td>In line with duty escalator</td>
<td>£60.75</td>
</tr>
</tbody>
</table>

In particular, we would urge a significant increase in the duty rate associated with band C, which would raise the price of the cheapest alcohol, and represent a significant step towards addressing the social harms linked to products of this strength. At the same time, we recommend a new band A for low-strength cider, and a reduction of duty for drinks within this band, to incentivise producers to develop and market lower-strength ciders. For bands B and D, we recommend that duty should increase in line with a revised duty escalator, at 2% above inflation.

This revised duty structure would represent targeted and proportionate action on the products that cause the most harm, by rationalising cider duty to reduce perverse incentives. The chart below shows a selection of the leading cider brands, and the duty bands they would fall into. The first point to note is that the vast majority of household cider brands would fall into band B, and so would not see a substantial increase in duty. Market research data indicates that around 80% of the total cider market falls into this band.xxv The second point is that while certain products that would not be considered ‘white’ ciders – such as Scrumpy Jack and Thatchers - might be captured in band C, and suffer duty increases, these are typically on the boundary of the duty category at around 6% ABV and so should be able to avoid the duty increase by reformulating to lower strength. Such moves would bring additional public health benefits. The third point is that there are very few low-alcohol cider products, in contrast to the large numbers of low-strength beers in the market. Introducing a low duty band A, as currently exists for beer, would incentivise the development of such products.
There is compelling evidence that altering duty bands can influence manufacturer behaviour. The introduction of the current top band for ciders over 7.5% ABV is credited with shrinking the market for ciders above this strength from 20% in 1996 to less than 2% today. xxvi Similarly, the market for super-strength lager declined by 18% between the introduction of a higher rate of duty for lagers over 7.5% in 2011 and 2014. xxvii At the other end of the spectrum, within a year of the announcement of a tax break for lower strength beers in 2011, sales of the products grew by 40% nationwide. xxviii

An equivalent to Small Breweries Relief, whereby reduced duty of up to 50% is applied to brewers producing less than 60,000 hectolitres, is not presently available to cider producers. This seems unfair: to illustrate, duty payable by a small brewer per hectolitre on the first 5,000 hl for a 2.8% ABV will be £11.34, but a small cider maker producing the equivalent amount at the same strength will pay £38.87 (after the first 70hl) – over three times more. The cider market in the UK is much smaller than beer, so the definition of a small cider producer should be adjusted accordingly. Nevertheless, having reached a suitable definition, the Government should consider finding a mechanism to offer similar relief to small cider producers, boosting the traditional cider industry and mitigating adverse effects of the proposals above on such producers.

3. 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.

The Alcohol Health Alliance recommends:
- A raised duty escalator for spirits should be introduced, raising 4% above inflation
With the duty rates on spirits frozen for 10 years, until the introduction of the alcohol duty escalator in 2008, alcohol taxes for spirits are historically low. Yet consumption levels are historically high with particular concerns around the consumption rate among young women.

Fatal alcohol poisonings and aggressive behaviour are more strongly associated with spirits than with other types of alcoholic drinks.\textsuperscript{xxx} Research also suggests that those drinking spirits at home tend to underestimate how much they are drinking and pour much greater amounts than typical single measures.\textsuperscript{xxx} Increased consumption of spirits therefore represents a public health concern and care must consequently be taken as to how these beverages are taxed.

Given the high potency of spirits, plus the fact that their production and distribution costs are much lower than for other beverage types,\textsuperscript{xxx} it is imperative that spirits continue to be taxed at a higher rate than beer, cider and wine. We recommend that, in recognition of the burden of harm that spirits consumption poses, the duty on spirits should, in the short to medium term, increase 4% above inflation as a result of raising the alcohol duty escalator on spirits.

4. Lobby for change at EU level so that drinks in all categories can be taxed according to their strength

The structure of UK alcohol taxes is governed by European Directives that mean under current structures, it is not possible to tax wine or cider based on their strength, although changing the structure on cider duty, as outlined under recommendation 2, to allow greater variation in tax levels is possible. This means that currently there is no tax incentive at an EU level for wine and cider manufacturers to produce lower strength products within the relatively wide existing tax bands.
The Alcohol Health Alliance recommends:

• The British Government should lobby the EU to change tax directives to allow different categories of drinks to be taxed based on their strength

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. Care must be taken however when making changes to the duty system to avoid incentivising the production of low strength wines in addition to higher strength products, creating a broader market and possibly encouraging more drinking occasions for consumers. The AHA strongly recommends that where tax reductions are offered for lower strength wines, these are matched by tax increases for higher strength wines.

5. Implement a minimum unit price for all alcoholic products

Minimum unit pricing and the alcohol duty escalator are complementary policies, that work together to reduce levels of alcohol related harm in the UK.

The Alcohol Health Alliance recommends:

• A minimum price of 50p per unit of alcohol should be implemented nationally

While increasing taxes in the ways outlined above will have an effect on consumption levels, taxes on stronger products would have to rise by several hundred per cent to produce a significant reduction in levels of alcohol related harm, and producers or retailers may choose to absorb the rise rather than pass it onto customers. It would also penalise the on-trade and the off-trade indiscriminately, negatively impacting on the already struggling pub trade and would make higher price alcohol more expensive than it already is.

Minimum unit pricing allows all alcoholic beverages to be priced based on strength (per unit of alcohol) so that stronger beverages have a higher price than weaker alternatives. The policy therefore:

• Targets cheaper, stronger drinks known to be consumed by harmful/young drinkers. It focuses on the problems caused by cheap, high-strength alcohol and on those who suffer the greatest harms
• Protects important and socially responsible local pubs by addressing irresponsibly low prices in the off-trade. Prices in pubs are likely to be unaffected as this would be the equivalent of a pint being sold at £1
• Protects socially responsible local independent retailers by targeting alcohol promotions used a ‘loss leader’ in larger chain

Modelling data produced in July 2013 by the University of Sheffield Alcohol Research Group forecasted that a 50p minimum unit priced would see a 2.5% overall reduction in alcohol consumption which in turn would lead to 50,700 fewer crimes in year one, 960 fewer deaths and 35,100 fewer hospital admissions by year 10 and a total cost reduction to health, crime and workplace absence of £5.1bn in the first 10 years.\textsuperscript{xii}
About the Alcohol Health Alliance

The AHA UK brings together over forty organisations who share an interest in reducing the damage caused to health by alcohol misuse.

Members include medical bodies, charities and alcohol health campaigners. We work together to highlight the rising levels of alcohol-related health harm, propose evidence-based solutions to reduce this harm and influence decision makers to take positive action to address the damage caused by alcohol misuse.

Members of the AHA:

Academy of Medical Royal Colleges, Action on Addiction, alcoHELP, Alcohol Action Ireland, Alcohol Concern, Alcohol Concern Cymru, Alcohol Focus Scotland, Balance North East, Beating Bowel Cancer, British Association for the Study of the Liver, British Liver Trust, British Medical Association, British Society of Gastroenterology, Centre for Mental Health, College for Emergency Medicine, Faculty of Dental Surgery, Faculty of Occupational Medicine, Faculty of Public Health, Institute of Alcohol Studies, Medical Council on Alcohol, National Addiction Centre, National Organisation for Foetal Alcohol Syndrome UK, Our Life, Royal College of Anaesthetists, Royal College of General Practitioners, Royal College of Nursing, Royal College of Physicians of Ireland, Royal College of Physicians London, Royal College of Physicians and Surgeons, Glasgow, Royal College of Psychiatrists, Royal College of Surgeons of Edinburgh, Royal College of Surgeons of England, Royal Pharmaceutical Society, Royal Society for Public Health, Scottish Health Action on Alcohol Problems, Scottish Intercollegiate Group on Alcohol, SHAAP (Scottish Health Action on Alcohol Problems), Society for the Study of Addiction, Spinal Injuries Association, Tobacco Free Futures, Turning Point, UK Centre for Alcohol and Tobacco Studies, UK Health Forum, Violence and Society Research Group


3 Government Alcohol Strategy 2012k


6 HM Treasury (March 2014), Budget 2014, p57.; HM Treasury (March 2015), Budget 2015, p64.


10 Mäkelä, P. and Österberg, P. (2009)


17 Institute for Fiscal Studies (2011) Alcohol pricing and taxation policies


20 Thames Reach statement


24 Goodall, T. (2011) op. cit.


29 NHS Health Scotland (2015), op. cit.


