



ALCOHOL  
HEALTHWATCH

**Briefing Paper 2004**

# **Alcohol Excise Tax**

## Changes to the New Zealand System

**This Alcohol Healthwatch briefing paper contains information on:**

- Excise tax as a tool to reduce alcohol related harm
- Funding harm through alcohol excise tax
- The effectiveness of the New Zealand excise tax system
- A critical look at arguments about alcohol excise tax
- Alcohol Healthwatch's position

**This paper is one of a set of five that includes:**

- The Advertising of Alcohol – In Support of Increased Restrictions
- Reducing the Legal Blood Alcohol Concentration for Driving
- Alcohol Health and Safety Advisory Statements
- **Alcohol Excise Tax – Changes to the New Zealand System**
- The Sale of Liquor in New Zealand – Recommended Changes to the Act

**These documents can be viewed in PDF on [www.ahw.co.nz](http://www.ahw.co.nz)**

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## ***EXECUTIVE SUMMARY***

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This paper discusses the current alcohol excise tax system in New Zealand from a public health perspective. It aims to ensure the system that generates tax revenue from the sale of alcohol is utilised more effectively as a public health tool to reduce alcohol-related harm.

### ***The price of alcohol is a proven major influence on consumption***

Evidence strongly supports the use of excise tax as an effective strategy to reduce alcohol-related harm. Studies have consistently shown that “when other factors remain unchanged, an increase in price has generally led to a decrease in alcohol consumption, and that a decrease in price has usually led to an increase in alcohol consumption” (Babor et al. 2003, p. 107).

The cost of alcohol has been shown to be an important determinant of consumption across a range of drinking groups, including young people and heavy drinkers (Chaloupka et al. 2002; Grossman et al. 1987; Laixuthai and Chaloupka, 1993). International evidence (reviewed in Babor et al. 2003; Public Health Association of NZ, 2001), has also shown that increasing alcohol taxes contributes to the subsequent reduction of a range of negative health outcomes including road traffic injuries and fatalities, educational failures, sexually transmitted diseases, crime, domestic violence, child abuse, and possibly marijuana and tobacco use.

Control on price through an alcohol excise tax system therefore provides an important and effective strategy to reduce harm (World Health Organisation, 2004; Babor et al. 2003).

The collection of excise tax is a process whereby the increased price of an alcoholic drink is borne by all drinkers, not just those drinking frequently or heavily. Since it is these heavier drinkers who contribute the most to the cost of harm, tax can also be considered a ‘user-pays’ tool that reaches its target effectively.

### ***Alcohol consumption in New Zealand***

Risky drinking is widespread in New Zealand. The proportion of alcohol consumed in heavier drinking occasions (defined as eight or more standard drinks for men and six or more for women) increased from 42 percent in 1995 to 50 percent in 2000 (Habgood et al. 2001). Statistics from the past decade in New Zealand confirm that there is a worrying trend for young drinkers to be drinking more heavily and more frequently at an earlier age. One quarter of 14 to 17 year olds are currently drinking heavily (Kalafatellis et al. 2003).

Estimates of the annual cost of alcohol-related harm to New Zealand society vary from \$1.4 to \$4 billion (Devlin et al, 1996) and, taking into account full social and economic costs, up to as much as \$16 billion (Easton, 1997).

Per capita consumption, a Government health indicator, which was declining from a peak in the early 1980s, has been increasing again since 1998 (Statistics NZ, 2004). Greater physical and economic availability, increasingly pervasive and sophisticated marketing and a global youth culture trend towards heavy drinking from a younger age are likely to have combined to push up consumption.

**The following sections outline recommended changes to the system that Alcohol Healthwatch believes would result in a greater reduction in alcohol-related harm.**

### **1. *An increase in excise tax***

Time series analysis of consumption in New Zealand has shown that price has a strong effect on consumption (reviewed in Alcohol and Public Health Research Unit, 2001). As a cost-effective strategy to discourage excess consumption, particularly among price-sensitive young people and to cover the direct public health costs of alcohol misuse, Alcohol Healthwatch recommends alcohol excise tax increase overall.

According to economist Brian Easton (2002) in a report for the Alcohol Advisory Council, the greatest gains resulting from an increase in alcohol prices are likely to be: reduced teenage consumption; reduced additional drinking in a session; and inhibiting moderate and heavy drinkers from becoming very heavy drinkers.

Available figures indicate that the revenue generated from alcohol excise tax does not cover the costs that the health sector alone incurs from dealing with alcohol-related harm (Easton, 2002; Hall, 1996). An increase in excise tax would better reflect the costs of alcohol-related harm.

The amount of increase would need careful investigation to find an optimal balance between achieving harm reduction and public acceptability. An overall tax increase of six dollars per litre of absolute alcohol, as suggested by Easton (2002), would be a useful starting point with possible further increases depending on indicators of harm.

### **2. *Using tax revenue to fund alcohol harm reduction***

Insufficient funds are currently allocated for the prevention of alcohol-related harm, despite this being a priority area of health for the Government. A small separate levy on the sale of alcohol goes to the Alcohol Advisory Council, but the New Zealand alcohol excise tax base that generates \$583 million annually (Treasury, 2001), goes into the consolidated fund from which any expenditure to reduce alcohol-related harm must compete for funding.

A greater proportion of the revenue generated from alcohol excise taxation should be dedicated to fund an increased level of inter-sectoral harm prevention strategies, increased enforcement of supply control measures, research and treatment. An increase in price resulting from a tax increase is likely to be more acceptable to the drinking public if there is a transparent process whereby the revenue generated goes specifically to evidence-based harm reduction strategies.

### **3. *A tax system based on actual alcohol content***

Currently, alcohol is taxed in ranges according to its ethanol content or beverage volume (NZ Custom Service, 2004). Taxing products with varying alcohol contents within a range requires that the rate for that range is set at one point, for example for products with an alcohol content between 9-14 percent, the rate is set at 10 percent (Easton, 2002). This has a tendency to encourage manufacturers to develop products at the highest end of the range in order to gain the best tax advantage.

In May 2003, the Government moved to introduce a change to the excise tax rate for beverages with 14-23 percent alcohol to close a loophole that allowed 23 percent spirits to be marketed much more cheaply than spirits 24 per cent alcohol and above. The amendment increased the tax rate for beverages containing between 14-23 percent alcohol to the same level as that applied to higher strength spirits (now \$40.035 per litre of absolute alcohol), effectively creating a single tax rate for all beverages with alcohol contents of 14 percent and above.

While the change reduced the flow of cheap light spirits with their evident appeal to minors, other remaining anomalies in the ranges below 14 percent allow, if not encourage, low cost higher alcohol content beverages on the market. These anomalies could be eliminated in the following ways:

- A tax rate based on the actual alcohol content be applied across all beverage types
- Existing ranges below 14 percent alcohol content remain but are taxed at the highest point in each bracket.

There are advantages to a single tax rate. It would eliminate existing anomalies and ensure the tax system is based on the actual alcohol content, encouraging consumers toward lower price, lower strength beverages. It would not, however, reflect the different production costs of the various types of beverage which are accommodated within the current scheme.

A single rate based on the actual alcohol content applied to all beverage types may result in a drop in the price of spirits that are currently taxed at a much higher rate than beverages 14 percent and below. However an accompanying tax increase would offset any potential drop in spirit prices as a result of such a change. At the time of writing his paper, Easton (2002, p.12) suggested that an increase of \$6.00 per litre of absolute alcohol would offset this possibility and would also recover more of the revenue lost as a result of alcohol-related harm.

#### **4. *Reviews***

Any changes to the excise system must be subject to regular reviews to measure their impacts, ensure they are sufficiently adjusted for price relative to income, and are responsive and flexible enough to cope with emerging products, consumption trends and evidence of harm.

#### **5. *Other price control options***

Alcohol is not an ordinary product and the risks associated with its use outweigh any benefit to society. It is therefore subject to regulation beyond that of other food products. Further options could be explored to address cheap liquor that appeals to young people, referred to as “pocket money alcohol”, and help curtail excessive consumption.

These include:

- the feasibility of introducing a minimum pricing structure for alcoholic beverages,
- a specific, higher tax on alcopops, as has recently been done in several European countries and
- extending the scope of Section 154A of the Sale of Liquor Amendment Act 1999, which makes it an offence to encourage persons on licensed premises to consume alcohol to an excessive extent, to cover cut price promotions.

## **6. *Other strategies***

Changes to the alcohol excise taxation system are important strategic measures to help reduce alcohol-related harm. However they are likely to be more effective in reducing the problem of youth drinking and heavy drinking if they are implemented with a range of other harm reduction strategies that are well resourced and informed by research.

In its Action on Liquor Campaign, Alcohol Healthwatch has identified five areas in New Zealand's liquor policy that require change to create a more effective environment for reducing alcohol-related harm. The five areas are: alcohol marketing; the legal blood alcohol concentration for driving; alcohol health and safety advisory statements; the sale of liquor act and alcohol excise tax.

Details of the five key areas for action can be viewed (in PDF format) at [www.ahw.co.nz](http://www.ahw.co.nz) the Alcohol Healthwatch website.

The amendments to the excise tax system recommended in this paper will be most effective when implemented as part of an evidence-based comprehensive approach to harm reduction.

## **BACKGROUND**

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Alcohol is New Zealand's most widely used drug (Wilkins et al. 2002). In 2000, 88 percent of men and 83 percent of women were drinkers (Habgood et al. 2001). An estimated 1.5 million New Zealand adults drink hazardously and can be classified as binge drinkers (drink 5-7 or more standard drinks per drinking occasion) (de Bonnaire et al. 2004). Alcohol has a causal relationship with over 60 types of diseases and injuries and is the third largest risk factor for disease burden in the developed world (WHO, 2004).

### ***The cost of alcohol-related harm***

Estimates of the annual cost of alcohol-related harm to New Zealand society vary from \$1.4 to \$4 billion (Devlin et al. 1997) and, based on an international methodology that includes a much fuller range of social and economic costs, as much as \$16 billion – as shown in Table 1 (Easton, 1997).

Table 1. Social Cost of Alcohol Misuse (based on 1990 figures)

	\$ million
<i>Intangible</i>	
Effect of population mortality	6,000
Effect of population morbidity	7,200
<i>Tangible</i>	
Reduced production from mortality	600
Reduced production from morbidity	1,200
Additional resources from consumption	900
Additional resources from not treating induced diseases and other consequences	750
<u>Less</u>	
Benefit from consumption	-540
<b>Total Cost from Alcohol Misuse</b>	<b>16,110</b>

*Source: Easton (1997)*

Easton estimated that this effect of alcohol misuse reduces effective Gross Domestic Product (GDP) by four per cent each year (Easton, 2002). The analysis of the social cost of alcohol carried out by Easton is likely to be an under-estimate, as it does not account for alcohol-related crime nor the lifetime cost associated with the effects from prenatal alcohol exposure (Easton, 2003).

Short-term consequences from episodic heavy drinking include: injury or death from drink-driving crashes, assaults and falls, high risk sexual activity, alcohol poisoning, increased risk of

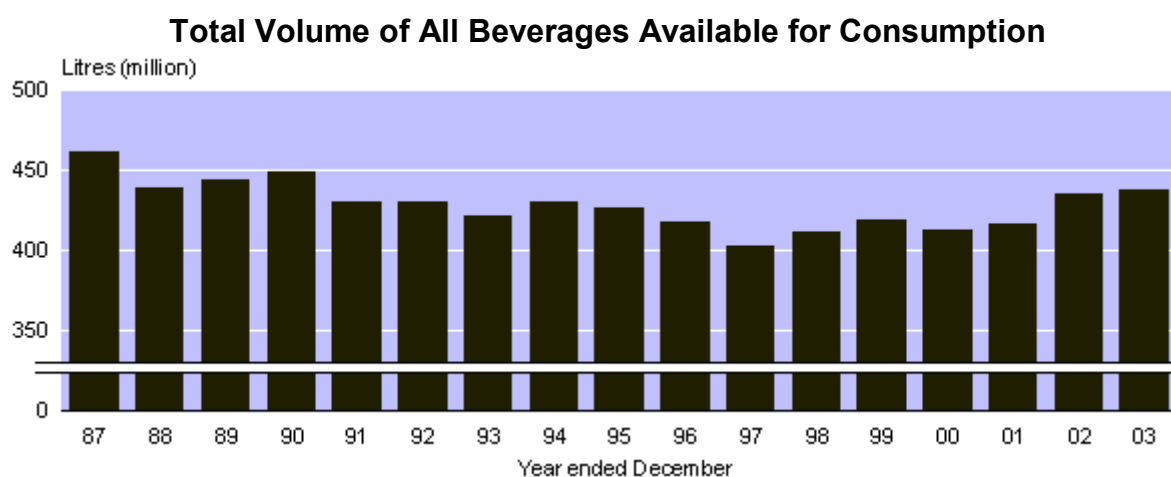
suicide and substance abuse, mental health problems, sexual harassment, alcohol-related family violence, depression and an increase in associated theft, academic failure and truancy.

Longer-term physical harm associated with drinking includes fetal alcohol syndrome, dependence, liver disease, increased risks of some cancers including breast, throat and mouth cancer and hypertension. Social costs include loss of opportunity to the individual, social effects of alcohol use, as well as costs to the economy from absenteeism and reduced productivity. Much of the human cost to families and communities affected by alcohol-related violence and injury, disease and death cannot be measured.

### ***Alcohol consumption in New Zealand***

As shown in Table 2, the volume of total alcoholic beverage available for consumption has been steadily increasing since 1998. Factors such as easy access to alcohol, a competitive alcohol market, new beverages, a lower purchase age, a culture that normalises regular drinking from a young age and a more buoyant economy are likely to have combined to push up per capita consumption.

Table 2



(Source: Statistics NZ, 2004)

Domestic sales of alcoholic beverages in New Zealand are estimated at \$3 billion per annum, accounting for four percent of New Zealand's GDP (ALAC Fact Pack, 2003). Alcohol is widely available from a variety of outlets, some open 24 hours a day/seven days a week, and it is possible to buy alcoholic beverages that cost less by volume than flavoured milk or bottled water.

Comparative data measuring differences in drinking patterns between 1995 and 2000 (Habgood et al. 2001) indicate a marked increase in the reported volume for all drinkers (11.4 litres of absolute alcohol in 2000, compared to 9.4 litres in 1995). The increase was especially significant for female drinkers.

Patterns of alcohol consumption are of particular concern to Maori. The average quantity of alcohol consumed per occasion by Maori drinkers is almost twice that of the general population (Dacey, 1995). The ALAC Youth Drinking Monitor (Kalafatelis et al. 2003) found that Maori are significantly more likely than other ethnic groups to drink 5 or more glasses on their last drinking occasion (48 percent of Maori, compared with 30 percent of 'other' ethnic



origin). In a recent national survey of people identifying as Maori, eighty-seven percent of respondents agreed that drinking by teenagers was a problem in their community (Moewaka Barnes et al., 2003).

A recent survey into New Zealanders' attitudes and behaviours toward drinking alcohol, "*The Way We Drink*", shows that there is widespread public acceptance of risky drinking. A quarter of young people say they drink to get drunk and 29 per cent of the adult population are 'uninhibited binge drinkers' – apparently placing no restrictions on their drinking. Urban males over thirty years with higher incomes are the group most likely to be drinking hazardously (de Bonnaire et al. 2004).

### ***Youth drinking in New Zealand***

Statistics from the past decade in New Zealand confirm that there is a worrying trend for young drinkers to be drinking more heavily, more frequently and at an earlier age. One quarter of 14 to 17 year olds are currently drinking heavily (Kalafatelis et al. 2003). The subsequent level of alcohol-related harm for young people and for others affected by their actions is largely preventable.

The number of alcohol-related injury admissions for 10-14 year olds increased 87 percent between the two time periods 1997-99 (39 admissions) and 2000-2002 (73 admissions). The rate per 100,000 increased from 4.6 to 8.1. During 2000-2002, 78 percent of admissions had the principal diagnosis 'toxic effect of ethanol', which was double the figure from the previous three year time period (Injury Prevention Research Unit, 2004).

It is well established that early onset of drinking has significant implications for health, both short and long term. Early regular drinking correlates with, immediate adverse effects of intoxication, injury, unplanned pregnancy and violence and with longer term effects including alcohol dependency and loss of opportunity (Chou and Pickering, 1992; Babor et al. 2003).

While our own trends in youth drinking are not vastly different to those of comparable countries, New Zealand has some of the worst statistics in the OECD for youth suicide, drug use, teenage pregnancy and motor vehicle accidents (Watson, 2001). The involvement of alcohol in all of these is well established.

### ***Revenue from under-age and excessive drinking***

Substantial revenue is generated from excessive drinking and sales to under-age drinkers. In New Zealand the proportion of alcohol consumed in heavier drinking occasions (defined as eight or more drinks for men and six or more for women) increased from 42 percent in 1995 to 50 percent in 2000 (Habgood et al. 2001).

In the ALAC survey mentioned above, de Bonnaire et al. (2004) interviewed 626 young people aged between 12 and 17. Of these, 22 per cent reported social binge drinking (approximately once every 2 weeks) while a further 14 per cent binge drink more regularly with the intention of getting drunk.

Statistics from the USA, with a reasonably similar drinking culture to New Zealand, indicate that around 50 percent of revenue from alcohol comes from underage and excessive drinking (Foster et al. 2003).

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## **EXCISE TAX AS A TOOL TO REDUCE CONSUMPTION AND HARM**

*“Taxation is one of the most direct ways available of reducing alcohol consumption through increasing prices. Prices are one of the major influences on alcohol consumption and the benefits from this policy arise from the reduction in consumption and consequent reduction in problems” (Godfrey and Maynard, 1995, p. 242).*

Excise duty tax is collected on all alcohol that is imported or manufactured in New Zealand. Excise tax has continued to be applied to products such as alcohol and tobacco, as it has been recognised that it is not only a source of revenue for Governments, but an important public health tool to reduce consumption of substances that contribute significantly to preventable injury, disease and death.

The vast majority of countries impose an excise tax on alcoholic beverages. As Table 3 below shows, the taxation rate varies greatly and, compared to other developed nations, New Zealand’s alcohol excise rate is relatively moderate.

Table 3. Taxes on beer, wine and spirits in a sample of countries

Country	Tax as a % of retail price			
	Beer	Wine	Spirits	Other taxes
Denmark	34.20	17.60	41.50	25.00
Finland	38.0	36.00	67.00	22.00
France	8.80	3.10	33.20	16.90
Germany	6.60	0.00	13.78	16.00
Ireland	20.40	22.50	41.30	21.00
Netherlands	20.00	9.40	45.80	19.00
Spain	6.18	0.00	22.25	16.00
Sweden	25.90	33.80	67.10	25.00
Australia	24.00	25.00	50.00	10.00
<b>New Zealand</b>	<b>10.00</b>	<b>15.00</b>	<b>38.00</b>	<b>12.50</b>

*(Source: World Health Organisation, 2004)*

Tax can be viewed as a general public health policy where any increased price on the product from taxation is borne by all drinkers, not just those drinking frequently or heavily. However those who drink the most contribute the most tax. Since it is these heavier drinkers who contribute the most to the cost of harm, tax can also be considered a ‘user-pays’ tool that reaches its target effectively. However, it seems that worldwide, especially in developed countries, taxation is not used to its full potential as a public health measure (WHO, 2004).

### ***Price and its effect on consumption***

*“The authors are persuaded that no other single policy has the same potential to reduce the social, health and economic costs of excess alcohol use in Australia today as alcohol taxation....”* (Stockwell et al., 2000).

The continuation or increase of alcohol excise tax as an effective public health tool is strongly endorsed by public health experts internationally.

Time series analysis of consumption in New Zealand has shown that price has a strong effect on consumption (reviewed in Alcohol and Public Health Research Unit, 2001). The degree to which the price affects consumption is termed the ‘price elasticity’ of that product.

Price elasticities vary according to time, place, and beverage, as well as the methods utilised to measure elasticity, the accuracy of data, and the statistical factors relating to the elasticities (Osterberg, 1995). Generally, the finding is that the main traditional beverage in a society is less responsive to price changes than other beverages, and that beer may be less price elastic than wine or distilled spirits (Chaloupka et al, 2002).

Pacula (1997) suggests that women are likely to be more price-sensitive to alcohol than men (In Kenkel and Lin, 2002). An econometric analysis suggests that higher prices for alcohol provide a statistically significant, cost-effective intervention for reducing fetal damage from prenatal alcohol exposure, when compared with education intervention.

In New Zealand, Wette et al. (1993) examined the effect of prices on alcohol consumption between 1983 and 1991 and found that “price is a major determinant of alcohol consumption in New Zealand. For beer and wine, a 10 percent price increase is predicted to lead to an 11 percent decrease in consumption”.

A recent change to alcohol tax in New Zealand provides an example of the importance of price on consumption levels. The 2003 alcohol tax changes to beverages in the 14-23 percent alcohol range (see page 14) increased the price of fortified wine. This change pushed up the price of, for example, a 750ml bottle of sherry by around \$4.00 – with the result that the consumption of fortified wines dropped by 41 per cent in the year following the tax change (Just-Drinks, 6/5/04).

According to Easton (2002) if prices in New Zealand increase, it is reasonable to expect that the consumption of alcohol will change very little in low to moderate drinkers, moderate to heavy drinkers will cut back on their expenditure on alcohol and alcohol consumption of chronic drinkers (alcoholics) is unlikely to change.

However studies reviewed in Babor et al. (2003) demonstrate that alcoholics and heavy drinkers are as responsive to short term changes in the price of alcohol as moderate drinkers and that price can influence the rate of problem drinking. For example;

In the United States the effect of changes in state liquor excise taxes between 1960 and 1975 on mortality from cirrhosis was studied (Cook, 1981). The study indicated that there was a greater reduction, or at least a smaller increase, in cirrhosis mortality in the states that raised their excise tax than states which didn't. Another study (Cook and Tauchen, 1982) found similar results, concluding that liquor consumption, indicated by mortality rates of cirrhosis, was quite responsive to price. This study also found that a liquor tax increase tended to reduce the incidence of fatal car accidents.

Other studies found that an increase in tax on alcohol decreases drink driving, in the general population, as well as in youth. One study estimated that, in the United States, a 10 percent increase in the price of alcoholic beverages would reduce the probability of drink driving by about 7 percent for males, and 8 percent for females (Kenkel, 1993). For people under 21 years old, the reductions were expected to be even larger.

A study in Switzerland to ascertain the effect of market reforms in 1999 that dramatically lowered the price of spirits (to comply with World Trade Organisation agreements), showed a strong correlation between price and alcohol-related problems for heavy drinkers. After the prices dropped, problems associated with frequent heavy drinking to intoxication increased (Mohler-Kuo et al. 2004).

### ***Affordability***

*“The spirit of “revelry” for some time dominated the mushroom town of Hokitika completely. There was a plentiful supply of money, and the holders thereof, as a rule, slung it about freely. Fancy an Irish or Scotch peasant, or an English farmhand suddenly possessed of 500 pounds or so in hard cash. Naturally he “revelled” and there were plenty of opportunities offered him to enjoy himself.”* (NZ Herald, 100 Years Ago, 4/10/04).

The price of alcohol in relation to disposable income is an important price consideration. Affordability is the difference between income rises compared to the rise in the price of goods such as alcohol (IAS Fact Sheet, 2004). Many countries have experienced a drop in the real price of alcohol over recent years (Babor et al. 2003; WHO, 2004).

Data on the price of alcohol relative to income in New Zealand is lacking. Excise tax in New Zealand has been linked to the rate of inflation and adjusted annually in recent times. However the affordability of alcohol relative to other consumer products linked to harmful outcomes are worth considering. For instance, it is now accepted that tobacco products are highly priced to discourage harmful consumption, whereas liquor in harmful amounts can be consumed very inexpensively. For example, 3 glasses of wine a day, while recognised as a health risk for adults if consumed long term, can amount to as little as \$1.50 (based on a 30 standard drinks cask of wine available from a supermarket). Certain alcopops, usually containing up to 1.5 standard drinks have been sold ‘on special’ for \$1.00, and similar for beer. By comparison, this is the price of the average chocolate bar.

ALAC’s recent study of drinking behaviours in New Zealand indicated not only that those on higher incomes are more likely to be drinking hazardously, but almost half of the adults surveyed indicated that affordability is a factor in their decision regarding how much alcohol they drink (de Bonnaire et al. 2004).

### ***Increasing taxation***

With increased drinking by teenagers currently a major public concern, an increase in excise taxes could reduce the amount consumed by young people per occasion, and act as a deterrent to the onset of regular drinking. A higher price for alcoholic beverages may also provide a barrier to the amount of alcohol supplied to minors by adults.

A significant rise in alcohol excise tax will increase the retail price. The extent to which this decreases consumption varies by type of drinker, by drinking situation and possibly by the

quantity of alcohol consumed in each drinking occasion (Easton, 2002). A reduction in consumption in turn reduces alcohol-related harm.

Easton (2002, p.6) summarises the available literature on the effects of price rises particularly on youth drinking. This shows that the young are more price sensitive than adults. He presumes that this reflects their different incomes, as well as their inexperience as drinkers. An increase in price, he says, will likely help to:

- reduce consumption of alcohol by teenagers and moderate to heavy drinkers,
- reduce additional drinking in a session,
- help to inhibit moderate drinkers becoming heavy and chronic drinkers, thus reducing the burden on health and other services.

Studies reviewed for the Public Health Association of New Zealand Taxation and Health Policy (2001) suggest that an increase in the price of alcohol is likely to result in a reduction in violence, reduction in road traffic injuries and fatalities. They also show that higher alcohol taxes appear to have beneficial health impacts by decreasing educational failures, child abuse, sexually transmitted diseases, and possibly marijuana and tobacco use.

Estimates of the social and health costs relating to alcohol misuse suggest the burden on society in New Zealand is substantial (Easton, 2002). Increasing alcohol excise tax is one cost effective intervention to reduce this health burden that involves no extra expense to the Government.

### *Cost effectiveness of an increase*

The features of alcohol excise tax that render an increase a cost-effective intervention to reduce harm are:

- consumers are relatively responsive to price
- ease of administration
- low levels of avoidance through home production
- public acceptance of the tax (Alcohol and Public Health Research Unit, 2001).

As well as being an effective harm reduction tool, an excise tax increase across the board would go some way towards recouping the direct fiscal costs of alcohol related harm, and meeting the costs of alcohol-related harm prevention efforts.

Easton (2002) estimates that an increase of \$6 per litre of absolute alcohol would cover direct public health costs generated by alcohol misuse. At the time of writing his paper, this was estimated to increase the price of a can of beer (4 percent alcohol) by nine cents, or a 66 cent increase in the price of a 750 ml bottle of wine.

**Alcohol Healthwatch recommends an alcohol excise tax increase as a cost-effective strategy to discourage excess consumption, particularly among price-sensitive young people, and to cover the direct public health costs of alcohol misuse. To be effective, the increase needs to be significant enough to lift the retail price of alcohol. An overall tax increase of six dollars per litre of absolute alcohol, as suggested by Easton (2002), would be a useful starting point with possible further increases depending on indicators of harm.**

## ***FUNDING HARM REDUCTION THROUGH ALCOHOL EXCISE TAX***

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Alcohol-related harm reduction is a stated health objective of the Government. Public health joins with police, licensing and other agencies to address alcohol-related harm. However the public health sector receives only a fraction of the already small public health budget (less than 2% of the total health budget) limiting their ability to undertake this work effectively.

The alcohol excise tax base in New Zealand generates \$583 million annually (Treasury 2001), but none of this tax take is specifically allocated to alcohol-related harm reduction strategies, enforcement of the sale of liquor laws or problem drinking treatment programmes. Rather it goes into the consolidated fund from which any expenditure to reduce alcohol-related harm must compete for funding. Available figures suggest that the Government revenue generated from alcohol excise tax is unlikely to cover healthcare costs due to alcohol misuse, let alone the cost to other sectors (Easton, 2002; Hall, 1996).

### ***Increased funding for harm reduction***

Currently the only specified budget for alcohol-harm reduction is an annual liquor levy of approximately \$8m that goes to the Alcohol Advisory Council (ALAC). This represents a very small amount of what is needed for long-term strategies to effectively address alcohol issues. The ALAC levy has had a small additional increase to support a 'Culture Change Program' directed toward changing attitudes to intoxication. This needs to be supported by additional resourcing to strengthen action across a broad range of agencies and sectors, including increased enforcement of alcohol licensing laws such as the minimum age of purchase.

Stockwell et al. (2000) suggested that the revenue raised by alcohol excise duty must have a transparent accounting line to reducing harm to ensure the public sees this benefit. They are more likely to be supportive of a rise in price when it can be shown to be used for alcohol harm prevention and treatment. Australian public opinion surveys have shown that between 75 percent and 90 percent of the electorate would support a small increase in alcohol taxation when it is channelled into prevention, education, research and treatment (Stockwell, 2000).

### ***Integration with other strategies***

A relationship exists between alcohol availability, alcohol use, and alcohol-related harm (Kenkel et al, 2002). To be effective long term, strategies for alcohol harm prevention must be integrated, evidence-based and well resourced. To achieve this, a specified budget that complements and strengthens current efforts, and that can be adjusted according to harm indicators, is needed.

**A greater proportion of the revenue generated from alcohol excise taxation should be dedicated to fund an increased level of inter-sectoral harm prevention strategies, increased enforcement of supply control measures, research and treatment. An increase in price resulting from a tax increase is likely to be more acceptable to the drinking public if there is a transparent process whereby the revenue generated goes specifically to evidence-based harm reduction strategies.**

## ***EFFECTIVENESS OF THE ALCOHOL EXCISE TAX SYSTEM***

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### ***Current system***

The current alcohol excise tax structure is complex. Currently alcohol is taxed in ranges according to either its ethanol content or beverage volume (NZ Custom Service, 2004). Taxing products with varying alcohol contents within a range requires that the rate for that range is set at one point, for example for products with an alcohol content between 9-14 percent, the rate is set at 10 percent (Easton, 2002). The differing rates reflect the variable costs of producing different types of beverages and the fact that the exact alcohol content can vary slightly, but they tend to encourage manufacturers to develop products at the highest end of the range in order to gain the best tax advantage.

Prior to the 2003, beverages referred to as 'light' spirits (for example vodka containing 23 percent alcohol), were taxed in a range where the rate was much lower than spirits with an alcohol content of 24 percent and subsequently were able to be marketed cheaply. As youth and heavier drinkers are more likely to purchase beverages on the basis of alcohol content and price, these low cost, relatively high strength drinks were appealing. The tax anomaly created what is known as 'pocket money alcohol', providing about 23 standard drinks for around \$10.

### ***Addressing anomalies***

In May 2003, Parliament passed the Customs and Excise Amendment Bill, which was a means for the Government to address the issue of 'light' spirit beverages. The amendment increased the tax rate for beverages containing between 14-23 percent alcohol to the same level as that applied to higher strength spirits (now \$40.035 per litre of absolute alcohol), effectively creating a single tax rate for all beverages with alcohol content of 14 percent and above.

Alcohol Healthwatch commends the Government for moving to close an exploited excise tax loophole. However, while the policy change addressed one anomaly, it has not addressed the inconsistent nature of the excise tax rates that creates other anomalies. Nor has it addressed other beverages popular with youth. The latest ALAC Youth Drinking Monitor (Kalafatelis et al. 2003) shows that the most popular beverage for youth is beer (37 percent) followed by ready to drink (RTDs) (20 percent), low alcohol spirits (19 percent), and full strength spirits (15 percent).

### ***Excise tax system based on actual alcohol content***

The current system still enables producers to take advantage of a lower tax rate to produce relatively high alcohol content beverages cheaply. For example, one manufacturer responded to the 2003 tax changes by developing what was called a "super light spirit" product, with an alcohol content of 13.9 percent, to qualify for the lower tax rate (ALAC media release, 22/5/03). This product markets for around \$10 for approximately 14 standard drinks.

While the change reduced the flow of cheap light spirits with its evident appeal to minors, other remaining anomalies in the ranges below 14 percent allow, if not encourage, low cost higher alcohol content beverages on the market.

These anomalies could be eliminated in two ways:

- A tax rate based on the actual alcohol content applied across all beverages
- Existing ranges below 14 percent alcohol content remain but are taxed at the highest point in each range.

According to Easton (2002), there seems to be little justification for the current system of various ranges other than to lower some compliance costs. There appears to be advantages and disadvantages to a move to a single tax rate. It would eliminate existing anomalies and ensure the tax system is based on the actual alcohol content - meaning the lower the alcohol content, the lower the tax amount and subsequent price. However, such a move would not necessarily reflect the different production costs of the various types of beverage which are accommodated within the current scheme. As such, a single tax rate could potentially increase the price of some lower strength alcohol and defeat the purpose of ensuring lower alcohol beverages were cheaper relative to high strength beverages.

A single rate based on the actual alcohol content may result in a drop in the price of spirits that are currently taxed at a much higher rate than beverages 14 percent and below. However an accompanying tax increase, introduced simultaneously, would offset any potential drop in spirit prices as a result of such a change. At the time of writing his paper, Easton (2002, p.12), suggested that an increase of \$6.00 per litre of absolute alcohol would offset this possibility and would also recover more of the actual costs of alcohol-related harm.

### ***Regular reviews of the New Zealand excise tax system***

Following an overall increase in the excise rate and any changes to the system, it will be necessary to have regular reviews of the system in order to identify if it is:

- working effectively to achieve the harm reduction aim,
- sufficiently adjusted for inflation, consumption trends and price relativity,
- responsive and flexible enough to cope with new and emerging alcoholic products and drinking trends.

### **Alcohol Healthwatch recommends:**

- **that to close exploited tax loopholes and to encourage consumers toward lower priced lower strength alcohol, the following options for changes to the excise tax system be considered for implementation:**
  - a tax system based on the actual alcohol content across all beverages
  - taxing existing ranges below 14 percent alcohol content at the highest point in the bracket
- **that the system be regularly reviewed to ensure effectiveness and responsiveness to changes in drinking trends.**



## **OTHER PRICE CONTROL OPTIONS**

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*“Christchurch’s Bush Inn Liquor King spirits and RTDs manager ..., said that almost all of the store’s alcopops were sold to students, at \$1 a stubbie in the store’s last special. ‘They just flew out the door in pallet loads.’” (The Press, 27/4/04).*

Alcohol is sold in a very competitive environment, where price ‘specials’ and promotions abound, and where ethanol-based beverages can be produced relatively cheaply. Some alcoholic beverages are cheaper to buy than flavoured milk or bottled water by volume.

It can be argued that, since alcohol is no ordinary product and carries risks and costs associated with consumption that far outweigh any benefit, it can legitimately be subject to regulations over and above those applied to ordinary food products.

Other countries with concerns about alcohol-related harm have explored additional price control options. Any moves to introduce different pricing structures to reduce harm need to be considered in the context of proposed changes to the excise tax system as discussed above.

### ***Minimum price***

A further option to address “pocket money alcohol” and help curtail excessive consumption of cheap liquor would be to explore the feasibility of introducing a minimum pricing structure for alcoholic beverages. The details of how this might be implemented is currently beyond the scope of this document, but could include setting a minimum price of say \$2.00 for any alcohol beverages available for sale with an alcohol content of 3.5 percent and above.

Such a move would help prevent undesirable price promotions or ‘specials’ that contribute to excessive consumption as illustrated in the news item above. It may also work to encourage the production and consumption of low alcohol beverages that would not be subject to a minimum price regulation.

In Canada, the Manitoba Liquor Control Commission called for a minimum price of \$2.25 as a way of reducing over-drinking in bars, pubs and restaurants (The Manitoban, 17/01/01). There was some support expressed for this move within the industry as it allowed smaller operators to compete, when previously the larger establishments could afford to lure customers with alcohol sold below cost.

A move such as this would need to be assessed against international free trade agreements to which New Zealand is a signatory. World trade controls appear to be increasingly intruding into domestic regulation and acting to increase the availability of alcohol (Greishaber-Otto et al., 2000), a trend incompatible with many efforts to minimise harm within nations.

Trade agreements have proved to be a barrier to some countries wishing to retain higher levels of excise duties to reduce harm. Some Nordic countries, in becoming members of the European Union (EU), have had to reduce excise tax rates on liquor because of free trade agreements in the EU where Sweden, for example, must now consider alcohol within the policy sphere of agriculture or industry rather than social policy (Hellebo, 2003).

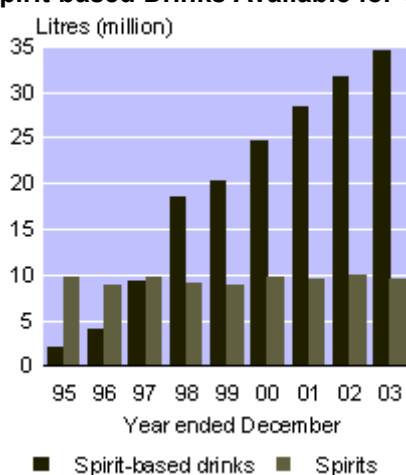
However, in Europe moves to increase specific taxes on alcopops do not appear to have been in breach of European Union rules (see below). While it can be argued that protection of consumers' health within individual nations prevails over commercial gain, international agreements to that effect may need to be established to protect healthy public policy.

### *Creating an 'alcopop' tax*

As illustrated in Table 4 below, New Zealand has experienced, as have many other countries, the meteoric rise in consumption of premix spirit-based ready to drink products (RTDs), commonly referred to as alcopops.

Table 4

**Spirit and Spirit-based Drinks Available for Consumption**



(Statistics NZ, 2004)

Several countries in Europe, concerned about the way in which alcopops are contributing to underage binge-drinking, have imposed heavier taxes on this category of beverage in an effort to reduce their appeal to minors. In 2003, Switzerland quadrupled the tax on a bottle of 'alcopop'. In 2004, in a move to curb drinking by young people, the German Government imposed an 80-90 cents US levy on bottles of alcopops. The extra tax revenues collected through the levy will be earmarked for drug-abuse prevention and education programmes (The Week in Germany, 7/5/04).

### *Strengthening the Sale of Liquor Act*

Another option to counter the practice of selling cut price alcohol might be to extend the scope of Section 154A of the Sale of Liquor Amendment Act 1999. This provision makes it an offence to encourage persons on licensed premises to consume alcohol to an excessive extent. This is currently limited to practices such as "all you can drink" promotions rather than cut price deals which more indirectly contribute to harm. However the consequences may be similar for customers, encouraged to consume more alcohol by way of 'cut price' or 'discount for bulk' alcohol deals.

**Alcohol Healthwatch recommends an investigation into the feasibility of other price control measures, such as a minimum pricing system, a specific tax on alcopops, or extending price controls within the Sale of Liquor Act.**

## ***A CRITICAL LOOK AT SOME COMMON ARGUMENTS ABOUT ALCOHOL EXCISE TAX***

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### ***“An increase in alcohol excise is a tax grab”***

Although critics of the 2003 excise tax amendment saw this move as a ‘tax grab’ by the Government, as the amendment is likely to raise about \$18 million in extra taxes, (NZ Herald, 8/5/03), the Government clearly stated that their reason for this increase was to “promote safer communities by discouraging underage teenagers and children from misusing alcohol” (Anderton, 2003). While an alcohol excise tax increase may be initially unpopular among regular drinkers and the alcohol industry, it is nevertheless an effective strategy used worldwide.

*“Any Government that is serious about reducing alcohol problems would increase the price of alcohol. It’s the one measure that will reliably reduce harm.”* (Smith, 2004).

### ***“Alcohol tax is no solution”***

An outcry over the taxation changes announced in May 2003, including the newspaper headlines “*alcohol tax hike seen as the wrong answer*”, “*alcohol tax no deterrent – educators*”; “*tax on alcohol fails to hit streetwise kids*”, failed to take into account the available research on the prices of alcohol and consumption. According to Osterberg, (1995) the effect of the price of alcohol on consumption has been more extensively investigated than any other potential control measure. Studies have consistently shown that when all other factors remain unchanged, an increase in the price of alcohol generally leads to a decrease in consumption and thus harm.

To achieve the greatest gain, a tax increase based on the actual alcohol content is needed alongside other effective evidence-based measures to strengthen alcohol-related harm strategies.

### ***“The burden of alcohol taxes falls disproportionately on low income groups”***

Concern is sometimes expressed that people on low incomes will be disproportionately impacted by alcohol taxes. Higher excise tax tends to reduce consumption, particularly heavy per occasion consumption, by making alcohol more expensive. Rather than increasing consumer costs, the same amount will be spent on less alcohol.

Alcohol taxes impose a lower relative burden on low income groups than most other commodity taxes (Edwards et al. 1994).

Data from New Zealand and overseas has shown that, as income increases, so does alcohol expenditure (reviewed in Ashton and Casswell, 1987).

### ***“A tax hike punishes the responsible drinker because of a few irresponsible ones”***

Responsible light drinkers will not be greatly affected individually by a small percentage increase in price while those who drink more heavily on occasion, who are the biggest contributors to the burden of harm, will be most affected.

The World Health Organisation recognises that, “Light to moderate drinkers, that is, the majority of the population in many countries who occasionally drink at high risk levels, while being individually responsible for fewer harms than heavy drinkers, are collectively responsible, due to their greater numbers, for the largest share of alcohol’s burden on society.” (WHO, 2004: p.1).

It is this common and acceptable pattern of drinking that is most likely to be tempered by higher pricing. Ideally, alcohol taxation would be seen as a user-pays system, whereby it is the high use consumer that bears the cost. A \$6 per litre increase in tax on absolute alcohol would increase a can of beer by around 9 cents (Easton, 2002).

### ***“Teenagers will simply shift to a different drink”***

Another concern is that substitution of one type of beverage to another will occur if excise taxes are increased. In a New Zealand study, Wette et al. (1993) conclude that if the price of one type of beverage increases, consumption of that beverage will decrease without causing increases in the consumption of other types of beverages.

### ***“Tax changes won’t stop teenagers buying alcopops”***

The disguised taste of alcohol in premixed alcopops makes them highly popular ‘starter drinks’ among teenagers. Their appeal to young people, in particular to females, extends beyond just the taste to include their colourfulness, brand appeal, marketing strategies, convenience as well as price. Higher price would help to off-set this appeal but strategies to reduce demand may also have to include greater controls on marketing and promotion of these drinks.

### ***“Higher prices will push teens onto other drugs”***

There is no evidence that alcohol price increases turn children onto illicit substances. There are a variety of deterrents for other drugs, such as legality and availability. Alcohol will likely remain the drug of choice of most young people, as it is for most adults.

### ***“Increasing tax on alcohol will encourage home production”***

Home production of alcohol currently amounts to approximately two percent of alcohol consumption in New Zealand. Any potential increase in home production that may result from an increase in excise tax is not enough to warrant inaction regarding the bulk of alcohol in the market place.

### ***“The sale of alcohol already pays for harm reduction”***

The separate ALAC levy based on the sale of alcohol is a small amount of what is needed for effective long-term strategies to reduce harm. ALAC do not and cannot be expected to provide the range of services required. Effective harm prevention strategies are under-resourced, as illustrated by indicators showing that consumption is up, patterns of harmful drinking in many sectors of society are worsening and some alcohol-related harm increasing.

The revenue generated from the alcohol excise tax does not sufficiently cover alcohol-related healthcare costs. A greater proportion should be specifically dedicated to fund increased enforcement of supply control measures, research, treatment and an increased level of inter-sectoral strategies that prevent harm from occurring in the first place.

## ***ALCOHOL HEALTHWATCH'S POSITION ON ALCOHOL EXCISE TAX IN NEW ZEALAND***

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The price of alcohol is a proven major influence on consumption, and controls on price through an alcohol excise taxation system provide an important public health strategy to reduce harm, particularly among price sensitive young people and moderate to heavy drinkers.

Alcohol Healthwatch recommends that the alcohol excise tax system in New Zealand should: be utilised more effectively as a tool to reduce excessive alcohol consumption; better meet the costs of alcohol-related harm and harm prevention efforts; integrate more effectively with a range of strategies to reduce alcohol-related harm.

To more effectively achieve harm reduction the alcohol excise tax system needs to change through implementing the following recommendations:

- that an overall tax increase of at least six dollars per litre of absolute alcohol be applied, to significantly increase the retail price of alcohol in order to help deter risky drinking and better reflect the cost to society of addressing alcohol-related harm
- that a greater proportion of the revenue generated from alcohol excise taxation be allocated to fund evidence-based and co-ordinated harm prevention strategies, law enforcement, research and treatment
- that to close exploited tax loopholes and to encourage consumers toward lower priced lower strength alcohol, the following options for changes to the excise tax system be considered for implementation:
  - a tax system based on the actual alcohol content across all beverages
  - taxing existing ranges below 14 percent alcohol content at the highest point in the bracket
- that there be an investigation into the feasibility of other price control measures, such as a minimum pricing system, a specific tax on alcopops and extending price controls within the Sale of Liquor Act
- that regular reviews of the resulting regime are carried out to ensure alcohol excise tax as a public health tool is effective and responsive to harm indicators

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