

Tax Working Group Public Submissions Information Release

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Spirits New Zealand

The Future of Tax - Submission to the
Tax Working Group.

April 2018



Introduction

1. Spirits New Zealand is the national trade organisation representing New Zealand's leading producers, distributors, brand owners, importers and exporters of premium spirits and spirit-based drinks. Our members are Bacardi, Beam Suntory, Brown-Forman, Diageo, Hancocks, Independent Liquor, Lion, Moet-Hennessy and Pernod Ricard. In addition we have three associate members who are Lactinol (formerly Anchor Ethanol), EuroVintage and Federal Merchants.
2. Spirits NZ represents over 96% of spirit industry interests in New Zealand.
3. Spirits NZ and its members are very supportive of a review of our current tax system within the remit of the Tax Working Group. A progressive, supportive and distributive tax system is at the core of a healthy functioning economy and society and a broad review of our tax systems functionality, effectiveness and scope is appropriate.
4. Additionally Spirits NZ has always supported well-evidenced policy and regulatory interventions that support the creation of a moderate drinking culture in New Zealand. We are, therefore, very interested in any discussion that might have implications to our tax system in general but also because of other interests who will claim that increased taxes – particularly excise tax – will have a marked impact on immoderate consumption.
5. While some of my members will make individual submissions on the broader questions posed in the Tax Working Group's discussion paper – *The Future of Tax* – this submission will deal specifically with the matter of excise, price and drinking behaviour. In particular we will show that although alcohol excise tax is being applied in recognition of consumption externalities it is not an effective or efficient means of modifying the behaviour of those consumers who drink hazardously and should not be viewed in this way.
6. Please do not hesitate to contact me to discuss anything in this document in more detail. We give permission for this submission to be made available publicly.

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Robert Brewer
Chief Executive
Spirits New Zealand Inc

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Submission

Current Drinking Statistics

7. By way of context we make the following points –
 - a. Per capita alcohol consumption, measured by alcohol available for consumption, has fallen from 9.6 litres of pure alcohol per capita (15 years and older) in 2010 to 8.6 litres at the end of 2017.¹
 - b. The volume of alcohol available per person aged 18+ (measured by the number of standard drinks) is the third lowest in the last 17 years (after 2015 and 2001), and 8.5 percent below the recent peak of 2010.¹
 - c. Harmful consumption (total population) for 15 – 24 year olds has fallen from 34.7% in 2006/7 to 26.1% in 2015/16.²
 - d. Harmful consumption (total population) for 45 – 65 year olds has increased for the same time period.²
 - e. Consumption of 6+ drinks at least once (monthly) has fallen significantly for all measured age groups since 2006/07 as has 6+ drinks at least once (weekly) for most demographics (45+ have increased but not with statistical significance).²
 - f. Approximately 80%, on a total population basis, drink moderately.³

The Role of Alcohol Excise Tax.

8. In her 2002 Treasury Working Paper, Felicity Barker concluded that an excise tax on alcohol is appropriate given the externalities associated with its consumption. However she goes on to make the point that because of its nature, excise is linear in impact – that is it must be applied uniformly and cannot be meted ‘...across individuals’⁴.
9. While we agree that the purpose of an indirect tax such as excise is to account for externalities we do not agree, as some might argue, that it is an effective modifier of harmful consumption behaviours. This is because of its linear nature and, by definition, the ‘non-linear’ nature of consumer behaviour.

Excise, Price and Behaviour

10. The drinking statistics listed in paragraph 7 above tell a story of changing drinking behaviour. This is particularly so among younger consumers who are choosing to drink less, less hazardingly or not at all than at any other time.
11. This is not a New Zealand-specific phenomenon but is echoed in most western democratic mature markets. As harmful consumption among younger consumers falls there has, more recently, been a rise in harmful consumption among 'older' drinkers as if this cohort or bubble of behaviour is slowly moving through the population.
12. In scaled up terms the data tells us that 80% of us drink moderately and 20% do not. It is therefore reasonable to expect that focus should be on growing the former and reducing the latter.
13. At its core this means trying to change negative consumer behaviours and the social constructs that support them and replace them with more positive 'moderate' constructs. Tax Working Group members will be more than aware of the number and range of interventions focusing on this but for more information see www.cheers.org.nz and www.hpa.org.nz.
14. In this context however price, and more specifically price increases, are often proposed as a means of changing consumer behaviour and significantly reducing harmful consumption. And one means cited to increase the price of a unit of alcohol is to significantly increase the level of excise.
15. However it is well documented that the price responsiveness of heavy drinkers is less so than moderate or light drinkers. A metastudy by Wagenaar et al found the price responsiveness among heavy drinkers to be about 60% of the price responsiveness of light drinkers.⁵ Wagenaar's analysis showed heavy drinkers responded to a 10% price increase by reducing consumption by 2.8% whereas average consumption dropped by 4.4% with the same price increase.
16. Byrnes et al found that even Wagenaar's analysis probably overstates the potential effect because heavier drinkers responded to price increases by curbing their consumption on light-drinking days to maintain their preferred binge habits – the main cause of harm.⁶
17. Additionally, Nelson's metastudy showed that heavy drinking by young adults is particularly difficult to shift through price.⁷
18. These and other analyses illustrate the complex interrelationships between price and consumption as it relates to alcohol with the evidence suggesting that the moderate consumer will tend to respond in a more price elastic manner than the heavy consumer – and that the heavy drinker will alter their consumption habit to maintain the binge elements of their lifestyle.

19. Considering that light to moderate consumption is associated with well-evidenced health benefits – including an extended lifespan on an all-cause mortality basis - then the implied somewhat perverse impact of unilateral price increases may actually be a negative health outcome.⁸⁻¹³
20. It is also relevant to bring the Tax Working Group’s attention that evidence often cited as indicating the effectiveness of taxation policies to reduce harmful drinking is increasingly being challenged by new studies that offer a more nuanced analysis of the complex relationships. Earlier work around the impact of taxation relied largely on aggregate consumption measures, such as per capita consumption and population-based indicators, obscuring the variations in impact within populations and across drinking patterns.
21. Additionally much of the evidence for taxation as a health policy tool are based on predictive models and projections of outcomes, and are rarely backed by empirical evidence. A large portion of the literature relies on predictive studies of the likely impact of changing taxation and price of alcohol on consumption per capita and other indicators of harm (e.g., road traffic crashes, liver cirrhosis, suicide, violence).^{5, 14-18}
22. Lastly, taxation as a policy tool has been well studied mainly in Northern Europe, North America, Australia, and New Zealand. One of the main insights from such studies is no matter the control policy, effectiveness relies heavily on adequate enforcement.^{19,20}

Conclusion

23. Increases in alcohol excise tax are often cited as a means to increase price and significantly reduce harmful drinking.
24. Evidence suggests that the relationship between consumption and price is complex. Because of the linear nature of excise the impact of tax increases will have different impacts on different cohorts within a drinking population with light to moderate consumers reducing consumption significantly more than heavy drinkers.
25. Spirits NZ therefore believes that other methods to continue or accelerate the generally improving trend in New Zealand’s drinking habits need to be examined rather than accepting that tax increases will provide a simple benefit in this regard.

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