

Alcohol Healthwatch  
*Whakatūpato Waipiro*

# A Road Map for Alcohol Pricing Policies:

Creating a fairer and healthier Aotearoa New Zealand

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# Summary

Alcohol use continues to play a key role in many of the issues that concern New Zealanders, such as low mental wellbeing and suicide, family violence, road deaths, child maltreatment and cancer. Individually and collectively, we all pay the direct and indirect physical, social, emotional and economic costs that arise from our drinking culture.

Effective policies that enable New Zealanders to drink less and establish new norms of drinking will bring about significant dividends across society – empowering current and future generations to uncage their full potential. Current Government expenditure on alcohol harm has substantial opportunity costs for everyone. As such, the economic benefits that will accrue from reduced harm will benefit all New Zealanders, freeing up a substantial portion of the public budget for services that we all use, particularly those in the police, ACC, health and justice sectors.

As a country genuinely committed to fairness and wellbeing, we have a duty to prioritise the most effective and cost-effective approaches that save lives and reduce harm. We also have a clear obligation to reduce the pronounced inequities in alcohol harm, particularly between Māori and non-Māori. Alcohol harm and associated inequities are preventable, through the adoption of evidence-based policies.

There is a strong, consistent body of research demonstrating that the price of alcohol is a key driver of demand and hence, alcohol consumption. Similar to many other high-income countries, New Zealand has witnessed a rising affordability (price relative to income) of alcohol alongside a shift towards drinkers purchasing more of their alcohol from off-licence premises (bottle stores, supermarkets, etc.). Today, around 75% of all alcohol (by volume) is now sold from off-licences<sup>1</sup>, often on promotion and at much lower prices than those found in bars and pubs.<sup>2</sup>

Increasing the price of alcohol is listed by the World Health Organization<sup>3</sup> as one of the three recommended ‘best buy’ interventions to reduce harmful drinking and prevent the growing burden of non-communicable diseases, including cancer. Of all alcohol policies, alcohol pricing policies are among the most effective and cost-effective strategies for reducing consumption and inequities in harm. Such policies can be used to 1) delay the uptake of drinking by children and young people, 2) prevent low-risk drinkers becoming hazardous drinkers and, 3) prevent hazardous drinkers developing alcohol use disorders, including dependence. As there is no safe level of alcohol use in terms of cancer, alcohol pricing policies should also be considered as cancer prevention strategies.

Alcohol prices may be increased via a number of mechanisms. Increasing alcohol excise taxes has been shown to be the most effective approach to reduce alcohol consumption and harm across the population, including among young people and heavy drinkers.<sup>4</sup> New Zealand has an unnecessarily complicated alcohol excise tax structure that cannot be justified by either health or economic reasons. At present, the rates of alcohol excise do not come close to reflecting the true social costs of harm. To reduce consumption and harm across society (as well as the associated costs), alcohol excise rates need to be increased by at least 50% to bring about an overall price increase of 10%.<sup>5</sup> There is also an urgent need to address the historical anomalies in the tax structure that currently incentivise the production of high-strength alcohol beverages, further perpetuating the risk of harm. Increasing alcohol excise taxes and reforming the tax structure are uncomplicated and cost-effective, and would have a significant influence on the purchasing behaviour of New Zealanders. The large number of low-risk and moderate drinkers in our country are the unequivocal beneficiaries of excise tax increases, as a result of the recycling of additional tax revenue and cost savings from reduced harm. In financial terms, excise taxes are mildly regressive; it is estimated that the additional weekly spend for a low-risk drinker resulting from an 82% increase in tax rates is \$1.77, \$5.87 for an increased risk drinker and \$13.65 for a harmful drinker.<sup>6</sup>

Minimum unit pricing policies, that set a minimum or floor price for which alcohol can be sold, also represent an important mechanism to address the very cheap or budget end of the alcohol market that is commonly favoured by heavy drinkers, including low-income heavy drinkers. It is these groups that also experience significant harm from their


drinking. In New Zealand, the budget end of the alcohol market has moved very little in price over the last two or more decades.<sup>5</sup> Currently, alcohol is sold for as little as 68c per standard drink. Research demonstrates that low-income heavy drinkers reduce their consumption the most under minimum price policies and consequently accrue the majority of the health benefits from policy implementation. On average, financial impacts from minimum pricing are demonstrated to be negligible, as drinkers report little additional spending. For example, the estimated additional weekly spend resulting from a minimum price of \$1.20 is estimated to be \$0.40 for a low-risk drinker, \$1.04 for an increased risk drinker and \$2.35 for a harmful drinker living in New Zealand.<sup>6</sup> All else remaining the same, heavier drinkers would be able to buy less alcohol for the money they currently spend.

Overall, pricing policies should be considered pro-equity<sup>i</sup>, given the evidence that they can significantly narrow the gap in health inequities whilst being mildly regressive. We argue that any distributional effects of price increases across income groups must be considered in the context of the overall distributional effects of all taxes paid by New Zealanders and the assistance they receive from the Government. The wider tax system can be used to compensate for any negative financial impacts on those drinkers who do not reduce their consumption following price increases.

An overwhelming majority (80%) of New Zealanders support action on alcohol.<sup>7</sup> Every New Zealander, in this generation and the next, stands to benefit from our country drinking less alcohol. Importantly, those experiencing inequities in harm will benefit the most. Evidence-based tools are available to change the wider culture of drinking in our country, and it is our duty to use them.

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i This paper considers a policy to be 'equitable' when its overall impact—not merely its financial effect—has greater net benefits for those with less financial means than those who are more affluent.



# Recommendations

Alcohol Healthwatch recommends the implementation of evidence-based alcohol pricing policies to enable New Zealanders to drink less and gains in equity to be made. Policy changes can create supportive environments where long-term, sustainable change can be made to New Zealand's drinking culture. New Zealand has witnessed similar types of changes in response to comprehensive tobacco control measures being taken.

Alcohol Healthwatch recommends a two-stage approach to policy implementation. The first stage seeks to increase taxes to reduce consumption and the social costs of harm, address the anomalies in the current tax structure, as well as address the harm from very cheap alcohol. The second stage moves New Zealand towards a more uniform volumetric tax rate for alcohol.

This road map centres on the role of excise taxes and other pricing policy measures. However, it is recognised that other evidence-based measures, such as reducing alcohol availability (eg. density and types of licensed premises), will also likely influence the price (as a result of reduced competition) and consumption of alcohol within communities.

## Stage One

Alcohol Healthwatch recommends that the following evidence-based pricing policies are immediately implemented to reduce alcohol-related harm (and inequities) in Aotearoa:

1. Increase alcohol excise tax rates by *at least* 50% (equivalent to an overall price increase by 10%) and require excise rates to be regularly adjusted by the inflation of goods and wages;
2. Address the unfair anomalies in the current alcohol excise tax structure that tax a range of commonly-purchased alcohol products by beverage volume and not actual alcohol content:
  - a. Anomaly 1: Wine is significantly under-taxed, set at a flat rate of 10% alcohol by volume (ABV) (which means that the fifth glass in a bottle of wine (12.5% ABV) is effectively tax-free);
  - b. Anomaly 2: The taxing of some beverages between 6% and 14% ABV (eg. Ready to Drinks (RTDs), cider, light spirits) by beverage volume and not alcohol content incentivises the production of higher-strength beverages;
3. Legislate to set a floor price for alcohol, through minimum unit pricing (preferably via a taxation approach whereby the government gains the extra revenue);
4. Prohibit single sales of alcoholic products; and
5. Mandate the alcohol industry to report sales data – including type of beverage, volume and cost of alcohol supplied.

In addition to the above, the following complementary approaches should be considered as part of a comprehensive pricing policy package to reduce alcohol-related harm:

- Tax RTDs at the same rate as spirits; and
- Restrict promotions of discounted alcohol.

## Stage Two

The ultimate goal for alcohol tax reform should be to move towards a volumetric rate, whereby all alcohol products are taxed by alcohol content. Even though a uniform rate (that applies to all types of beverages) would have practical appeal, its adoption would need to ensure that it does not result in the lowering of prices for some beverages (eg. spirits); thereby, increasing the potential for alcohol-related harm. Minimum unit pricing would remain necessary to address the harm caused by the budget end of the alcohol market, as well as assisting to mitigate any industry practices of not passing on the full amount of excise tax increases to the consumer.

# Part 1: The Current Situation of Consumption

## 1.1 How we drink

The way we drink is measured from the New Zealand Health Survey. This is the largest, most representative survey of New Zealanders' health and wellbeing. Since 2011, data has been collected annually. Other datasets supplement this information, including surveys conducted by the Health Promotion Agency and routine data collected by New Zealand Customs (eg. alcohol excise tax payments).

It is important to note that population-based surveys can substantially under-estimate consumption.<sup>8</sup> Therefore, information presented below is likely to present a conservative picture of alcohol use.

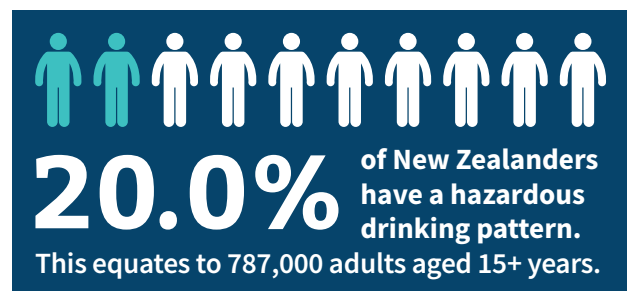
### DRINKING IN THE PAST YEAR

**Most New Zealanders drink.** In 2018/19, the majority (80%) of New Zealand adults (aged 15 years and over) reported drinking in the past year.<sup>9</sup> Men (84%) were significantly more likely to drink than women (76%), while drinking was less common among those living in the most deprived neighbourhoods of our country (71%), compared to those living in the least deprived (85%).

Between 2006/07 and 2011/12, past-year drinking prevalence in the total population reduced significantly, from 84% to 79%.<sup>9</sup> From 2011/12 to 2017/18 the prevalence stabilised, followed by a significant increase between 2017/18 and 2018/19 (from 78.7% to 80.3%).<sup>9</sup>

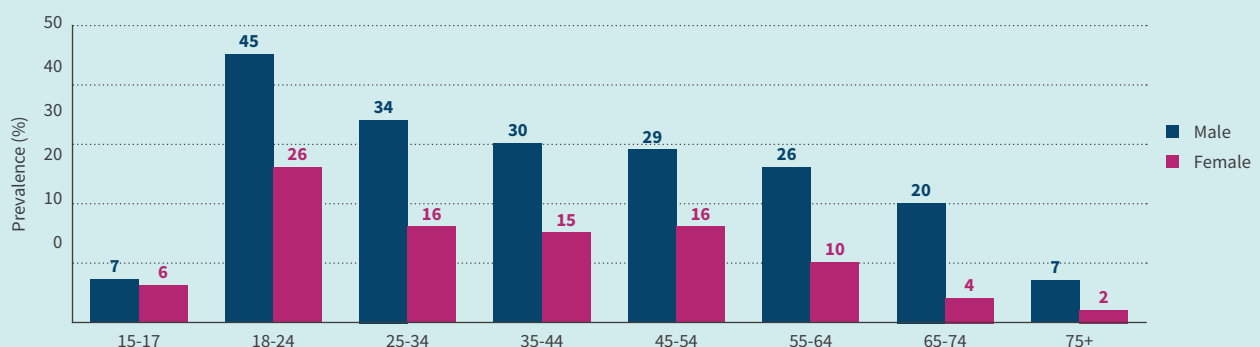
### HAZARDOUS DRINKING

**One in five New Zealanders are hazardous drinkers.** Of all New Zealanders aged 15 years and over, one in every five (20.0%) were classified<sup>ii</sup> as hazardous drinkers in 2018/19.<sup>9</sup> Among the drinking population, one-quarter (25%) were found to drink hazardously. In 2018/19, this equated to 787,000 adults aged 15 years and over.



Young adults reported the highest prevalence of hazardous drinking. Among those aged 18-24 years in 2018/19, 45% of males and 26% of females were hazardous drinkers.<sup>9</sup> Of significant concern, the prevalence of hazardous drinking remained high for all men aged 25-64 years (Figure 1).

Figure 1. Hazardous drinking among the total population aged 15+ years, by age group (2018/19 New Zealand Health Survey).



ii Hazardous drinking is defined internationally using the World Health Organization AUDIT scale that comprises 10 questions regarding frequency of drinking, amount consumed and experience of negative outcomes. The AUDIT is a screening tool. A score of 8 or greater is used to define hazardous drinking; a pattern which places the drinker and others at risk of harm.



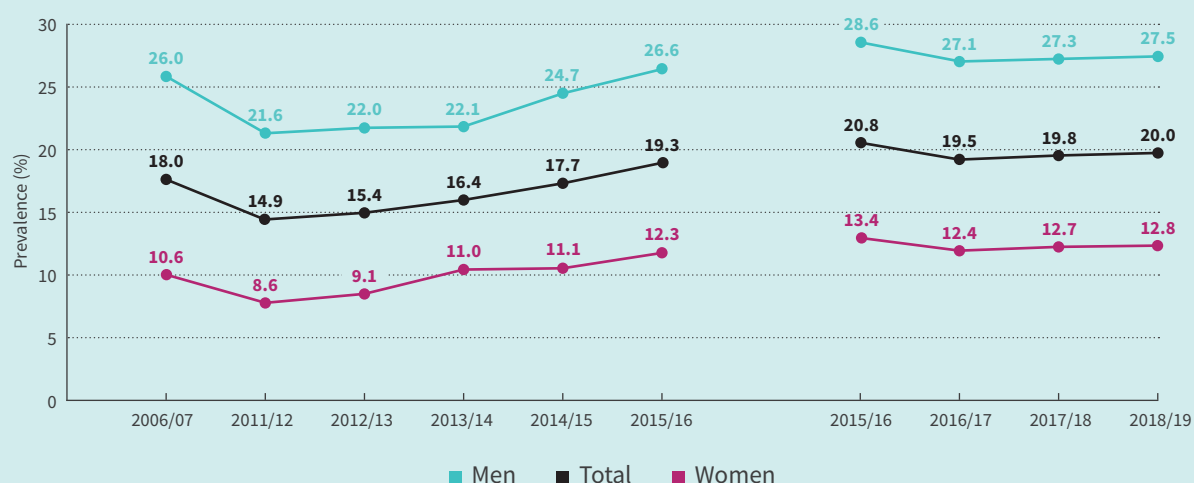
**Significant inequities exist and persist in drinking patterns.** In 2018/19, Māori men and women were 1.42 times and 2.11 times more likely to drink hazarously when compared to non-Māori men and women, respectively.<sup>9</sup> New Zealanders living in the most deprived neighbourhoods were found to be 1.2 times more likely to drink hazarously than those living in the least deprived neighbourhoods.<sup>9</sup> These inequities are avoidable and contribute to wider health and social inequities in society, including shorter life expectancy.<sup>10</sup>

### 1) TRENDS IN HAZARDOUS DRINKING

In 2015/16, the New Zealand Health Survey changed its methodology to assess hazardous drinking. Up to and including the 2015/16 survey, a 'drink' was not defined. From the 2015/16 survey<sup>iii</sup> onwards, a 'drink' has since been defined as a standard drink (ie. 10g of alcohol). This means that only comparisons between the 2006/07 and 2015/16 surveys are permitted, and between the 2015/16 and 2018/19 surveys. This is because the former surveys did not define the consumption of a 'drink'; whereas from 2015/16 onwards a 'drink' is defined as a standard drink (10g alcohol). Two datasets exist for 2015/16; one where a drink was defined and one where a drink was not defined.

**Overall decreases then increases.** In concert with the decline in the prevalence of past-year drinking between 2006/07 and 2011/12, the prevalence of hazardous drinking also significantly declined, from 18% to 15% of the total adult population (Figure 2).<sup>11</sup> Most demographic groups defined by age, sex and ethnicity (except those aged 25-44 years) showed reductions in consumption in this period.

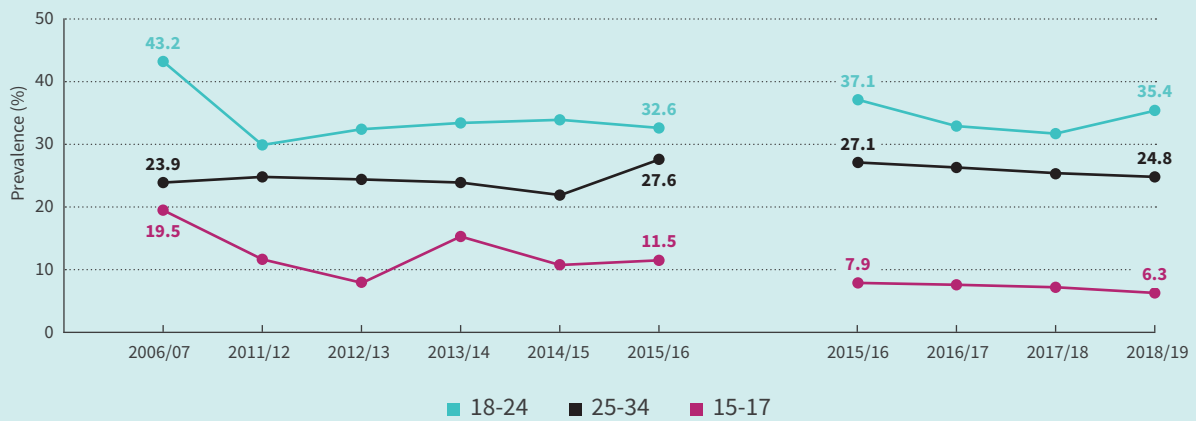
Figure 2. Prevalence (%) of hazardous drinking among the total population, by sex.



iii In 2015/16, the survey population was divided into two groups. One group answered using the earlier definition of a 'drink' whilst the other group answered according to the standard drink definition. Hence, there are two prevalence estimates of hazardous drinking for the 2015/16 New Zealand Health Survey.

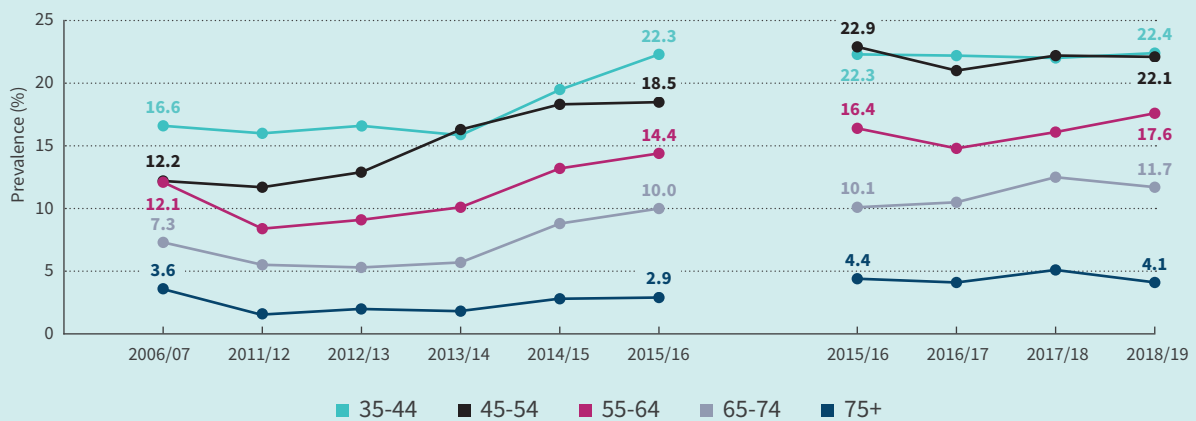
**Adolescents reduced their drinking.** Following the declines from 2006/07 to 2011/12, the prevalence of hazardous drinking remained stable for 15-17 and 18-24 year olds, but increased among those aged 25 years and over (Figure 3).

Figure 3. Prevalence (%) of hazardous drinking, by age group (15-34 years).



**Significant increases among middle-aged and older adults.** As shown in Figure 4, hazardous drinking increased from 2011/12 to 2015/16. Many age groups had a higher prevalence of hazardous drinking in 2015/16 than in 2006/07.

Figure 4. Prevalence (%) of hazardous drinking, by age group (35-75+ years).



**Inequities in drinking trends are pronounced.** As shown in Figures 5 and 6, Māori men and women consistently demonstrate a higher prevalence of hazardous drinking across all years. Most concerning is the significant and marked increases in hazardous drinking among Māori women between 2011/12 and 2015/16, from 20.9% to 29.4% (Figure 6).

Figure 5. Prevalence (%) of hazardous drinking among men, by ethnicity.

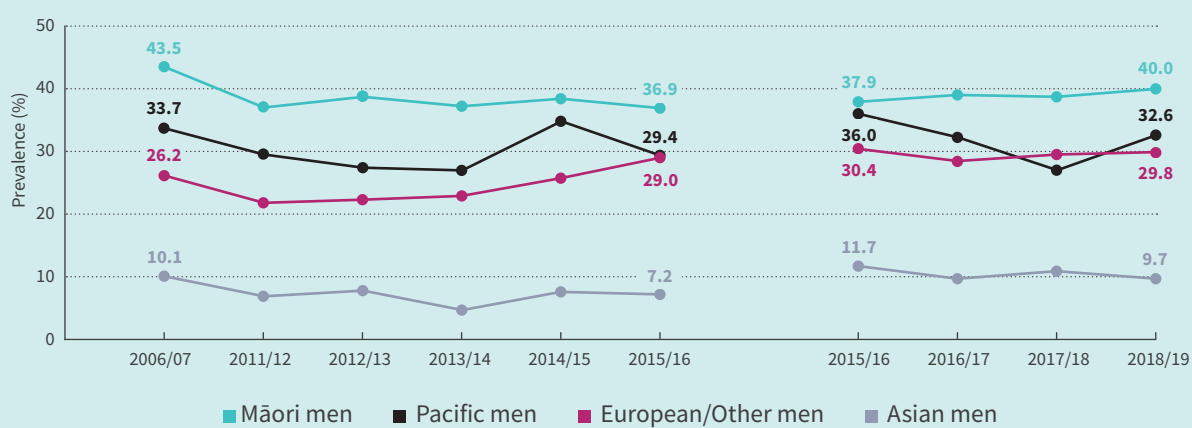
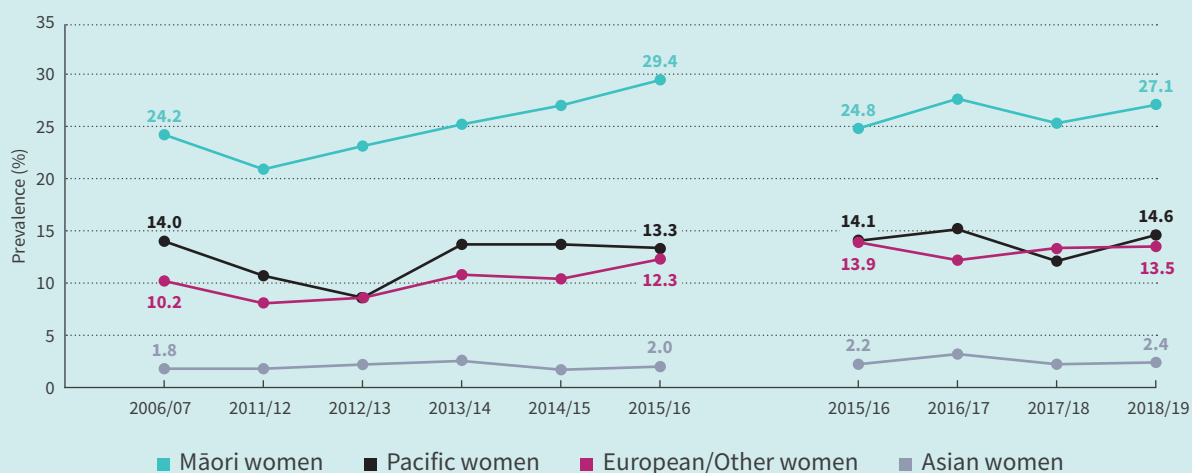


Figure 6. Prevalence (%) of hazardous drinking among women, by ethnicity.



## HEAVY EPISODIC DRINKING

In 2018/19, 849,000 New Zealanders (26.9% of the total population of drinkers) reported consuming six or more standard drinks at least once per month.<sup>9</sup> One in every seven (15.0%) drinkers reported consuming six or more standard drinks at least weekly. Weekly heavy episodic drinking prevalence was much higher among men drinkers; 20% to 35% of all male drinkers aged 18-64 years reported consuming high amounts of alcohol on a weekly basis.

The prevalence of heavy episodic drinking remained mostly stable from 2015/16 to 2017/18.<sup>9</sup> From 2017/18 to 2018/19, the prevalence of weekly consumption of six or more drinks significantly increased among all men (16.3 to 18.3%), 18-24 year olds (16.5 to 21.1%) and European men (17.6 to 20.1%).

In 2011, it was estimated that almost one-half (46%) of all alcohol sold in New Zealand was consumed in very heavy drinking occasions.<sup>12</sup>

**46% of all alcohol sold in New Zealand is consumed in heavy drinking occasions**



## ALCOHOL USE DISORDERS

In 2006, *Te Rau Hinengaro: The New Zealand Mental Health Survey* examined the prevalence of substance use disorders in the New Zealand population.<sup>13</sup> Using the *Diagnostic and Statistical Manual of Mental Disorders (DSM) IV*, it was estimated that 2.6% of all New Zealand adults experienced alcohol abuse in the previous 12 months. More than 1 in 10 (11.4%) reported ever experiencing alcohol abuse over their lifetime.

In relation to the DSM-IV diagnosis of alcohol dependence, 1.3% of New Zealanders reported alcohol dependence in the past 12 months. One in 25 (4%) reported ever experiencing dependence over their lifetime. Unfortunately, New Zealand does not have an up-to-date estimate of the prevalence of these disorders in the population.

Note: In 2013, the two DSM-IV disorders – alcohol abuse and alcohol dependence – were integrated in the DSM-V as a single disorder: alcohol use disorder (AUD) with mild, moderate and severe sub-classifications.<sup>14</sup>

## ‘MODERATE DRINKERS’ AND LOW-RISK DRINKERS

Although the New Zealand Health Survey categorises adults into past-year drinkers, hazardous drinkers and those who consume six or more drinks on an occasion, the reality is that alcohol use and drinking patterns represent a continuum and cannot be neatly fitted into prescribed categories.<sup>15</sup> There is also significant temporal and situational variability in drinking over the course of a year, especially for young people.<sup>16</sup>

Commonly, non-hazardous drinkers may be referred to as ‘moderate drinkers’. In the New Zealand context, this term would apply to 75% of the adult population of drinkers (as the other 25% drink hazardously). However, as the Ministry of Health has noted, ‘moderate drinking’ is “an inexact term for a pattern of drinking” (p. xii).<sup>11</sup>

**Moderate drinkers also drink to intoxication.** The Law Commission noted that, among the majority of New Zealanders who could be considered ‘moderate’ drinkers, there were high rates of drinking to intoxication.<sup>5</sup> Similarly, in Australia, it has been shown that 32% of moderate drinkers engaged in risky drinking in the past year, accounting for 16% of all binge events.<sup>17,18</sup>

**Moderate drinkers also exceed the low-risk drinking advice.** Moderate drinkers may also exceed the Health Promotion Agency’s low risk drinking advice<sup>19</sup>, placing them at a risk of 1 in 100 or greater of being injured or dying from an alcohol-related disease. The low-risk drinking advice is as follows:

- To reduce the risk of injury while under the influence of alcohol:
  - Females should consume no more than 4 standard drinks on any one occasion
  - Males should consume no more than 5 standard drinks on any one occasion

- To reduce the long-term risk from drinking:
  - Females should consume no more than 2 standard drinks daily, no more than 10 standard drinks per week and have at least 2 drink-free days;
  - Males should consume no more than 3 standard drinks daily, no more than 15 standard drinks per week and have at least 2 drink-free days;
- Drinking alcohol is not recommended for children and adolescents (<18 years) and pregnant women.

Compliance among past-week drinkers with the low-risk drinking advice was assessed in 2018. The national survey<sup>20</sup> found that:

- 53% of men and 45% of women drank more than the recommended daily limit;
- 25% of men and 19% of women drank more than the recommended weekly limit;
- 17% of men and 12% of women did not have at least 2 alcohol-free days in the last week; and
- 36% of men and 22% of women exceeded the daily limit to reduce risk of injury in a drinking occasion.

These findings mean that the drinking patterns of a large number of New Zealanders place them at short- and long-term health risks. For example, more than one-third of alcohol-related breast cancer deaths in New Zealand women were found to be attributed to consuming <2 standard drinks per day.<sup>21</sup> Because 'moderate' drinkers represent the majority of drinkers, the societal benefits from reduced drinking across the population will be substantial.

## 1.2 What we drink

**Amount of alcoholic beverages we drink.** In 2019, 491 million litres of alcohol were available for consumption. This measure is used as a proxy for alcohol consumption in the population and is derived from alcohol excise payments for beverage categories. Of this total volume, 298 million litres were beer (61% of total), 108 million litres were wine (22%), 70 million litres were RTDs (14%) and 15 million litres were spirits (3%).<sup>22</sup>

**Volume of pure alcohol from these beverages.** The same volume of different beverages can contribute different amounts of alcohol for consumption. For example, one litre of spirits has a higher alcohol content than one litre of beer.

In 2019, the 491 million litres of beverages equated to 35.3 million litres of pure alcohol available. This comprises 13 million litres from beer (37% of total), 11 million litres from wine (32%) and 11 litres from spirits or RTDs (31%). These figures show that although New Zealanders drink more beer by volume, each type of alcoholic category contributes a similar proportion of pure alcohol consumption.<sup>22</sup> The contribution of spirits and spirits-based drinks to New Zealand's pure alcohol intake has been increasing over time, from 23% in 2004 to 31% in 2019.<sup>22</sup>

The consumption of different types or categories of alcoholic beverages varies by age, sex, ethnicity and drinking pattern. The most recent data is from 2011, when the top five beverage types (in terms of standard drinks) sold in New Zealand were:

- low price beer at off-licences (27%);
- low price wine at off-licences (20%);
- high price beer at on-licences (13%);
- high price wine at off-licences (11%); and
- low price spirits at off-licences (7%).<sup>6</sup>

### BEVERAGE PREFERENCES – BY DRINKING PATTERN

The Ministry of Justice report into effective pricing policies showed that of all alcohol purchased per year, harmful drinkers were more likely to purchase beer (low- and high-price), followed by low-price wine and low-price spirits. This pattern differed by sex; male harmful drinkers preferred beer and low-price spirits, whilst female harmful drinkers were much more

likely to prefer low-price RTDs followed by low-price spirits.<sup>6</sup> Low-risk drinkers preferred wine (low- and high-price) and low-price spirits.

In relation to a single drinking occasion, harmful drinkers preferred low-price RTDs, low-price wine, and low- and high-price beer. Low-risk drinkers preferred low- and high-price wine.

### BEVERAGE PREFERENCES – BY AGE

The Attitudes and Behaviour Surveys conducted by the Health Promotion Agency have examined the types of alcoholic beverages consumed in the last drinking occasion in the past three months.

The combined surveys of 2013/14, 2014/15 and 2015/16 found that most New Zealand drinkers (70% of women, 66% of men) consumed one type of alcoholic drink (eg. wine or beer) in the last drinking occasion and almost one-quarter (24%) consumed two types of drinks.<sup>23</sup>

Among those aged 18-24 years, one-third consumed two types of alcoholic drink in the last drinking occasion and 13% consumed three types of alcoholic drink. This age group, compared to drinkers of other ages, was more likely to report drinking spirits (50%), RTDs (36%) and cider (19%) on their last drinking occasion.<sup>23</sup>

### BEVERAGE PREFERENCES – BY AGE AND SEX

The combined surveys from 2013 to 2016 showed that men typically consumed beer (80%), whilst women typically consumed wine (70%). However, this trend differed by age.

*Wine:* Among both men and women, wine consumption on the last drinking occasion increased with age. Among women, almost 40% of 18-24 year olds consumed wine on the last occasion compared to more than 80% among those aged 65 years and over. Among men, <10% of 18-24 year olds consumed wine compared to 50% of those aged 65 years and over.<sup>23</sup>

*Beer:* Substantial differences existed in beer consumption between men and women. Between 2013 and 2016, around 20% of 18-44 year-old women reported consuming beer on the last drinking occasion, compared to 60-70% of men. Men aged 65 years and over reported similar consumption of wine and beer (53%) on the last occasion.<sup>23</sup>

*Spirits and RTDs:* Similar levels of young adult women (52%) and men (~49%) consumed spirits on their last drinking occasion between 2013 and 2016. Among young adults, 18-24 year old women (41%) were more likely to consume RTDs than men (~30%); this was also true among 25-44 year old women and men.<sup>23</sup>

### BEVERAGE PREFERENCES – BY ETHNICITY

The New Zealand Health Survey 2012/13<sup>24</sup> examined the types of alcohol consumed by drinkers on a typical occasion, by ethnicity. The findings were as follows (respondents could report more than one type of beverage consumed in a typical occasion):

- Māori – 61% beer/cider, 30% wine/sherry, 21% spirits, 33% RTDs
- Pacific – 57% beer/cider, 31% wine/sherry, 28% spirits, 27% RTDs
- Asian – 58% beer/cider, 49% wine/sherry, 28% spirits, 6% RTDs
- European/other – 55% beer/cider, 59% wine/sherry, 27% spirits, 13% RTDs

After adjusting for age and sex, Māori were 2.1 times more likely, and Pacific people 1.5 times more likely, to drink RTDs on a typical occasion compared to non-Māori and non-Pacific people. Individuals living in the most deprived neighbourhoods were two times more likely to consume RTDs than those living in the least deprived.<sup>24</sup>

Māori and Pacific drinkers were significantly less likely to consume wine than non-Māori and non-Pacific drinkers. This was also true for those living in the most deprived neighbourhoods. Māori drinkers were also significantly less likely to typically consume spirits and more likely to consume beer than non-Māori drinkers.<sup>24</sup>

### 1.3 Where and when we drink

The Health Promotion Agency's 2016 Health and Lifestyle Survey<sup>25</sup> found that the most common place to drink, at least once in the last four weeks, was:

- the home (84%)
- at someone else's house (41%)
- at a restaurant or café (32%)
- at a pub or night club (30%)
- in a car or public park/place (5%).

Heavy drinkers were more likely to drink at multiple locations; more likely to drink at someone else's house, at a pub or nightclub; in a car; at the beach or other public place. This was similar for young adult drinkers.

The 2018 Health and Lifestyle Survey<sup>26</sup> demonstrated that the majority (59-73%) of drinkers consumed alcohol on Fridays and Saturdays, with around one-third of drinkers consuming on other days of the week. Higher quantities of alcohol were consumed on Saturdays.

### 1.4 How much we pay for alcohol and where we buy it from

In 2020, the cheapest alcohol product in the market is cask wine; sold for as little as 68c per standard drink. The second cheapest alcohol product is bottled wine, sold for around 85c per standard drink.

In 2019, New Zealanders purchased around 491 million litres of alcoholic beverages<sup>22</sup> with estimates of spending exceeding \$5 billion in the off-licence and on-licence trade.<sup>6</sup> The 2019 New Zealand Household Economic Survey showed that, on average, households that purchased alcohol spent \$20.50 per week.<sup>27</sup>

Increasingly, New Zealanders are buying their alcohol from off-licences. Around 75% of all alcohol (by volume) is sold from off-licences (although this is lower for spirits and RTDs), comprising 43% from bottle stores and 32% from supermarkets.<sup>1</sup> The Law Commission noted that, in 2008, supermarkets sold just over 30% of all beer and just under 60% of all wine available for consumption in New Zealand.<sup>5</sup>

In general, the cheapest beer and wine in New Zealand is sold in supermarkets due to their large purchasing power. Off-licence prices have been shown to be at least three times lower than the same product sold at an on-licence.<sup>2,28</sup>

### 1.5 Who buys cheap alcohol

New Zealand heavy drinkers and more frequent drinkers, including young heavy drinkers,<sup>2,29</sup> have been found to buy a greater proportion of alcohol from the cheapest end of the price range. Heavy drinkers do not exclusively purchase cheap alcohol, but a greater proportion of their purchases are low in price.<sup>29</sup>

In a study of dependent drinkers in a detoxification unit in Auckland, New Zealand, almost half (47%) exclusively purchased wine.<sup>30</sup> This is perhaps unsurprising given wine is the cheapest alcohol product sold in the New Zealand market.

In relation to ethnicity, it has been found that Pacific people were more likely than other ethnic groups to purchase the cheapest alcohol; as were Māori, but to a lesser extent.<sup>29</sup>

## Part 2: The Current Situation of Alcohol Harm

**Alcohol is the most harmful drug.** International research in countries similar to New Zealand (ie. Australia, United Kingdom) demonstrate that alcohol causes far more harm than any other drug (eg. tobacco, methamphetamine, ecstasy) in society.<sup>31,32</sup> This high level of harm reflects its widespread negative impacts on drinkers as well as impacts on broad sectors of our community.<sup>32</sup>

### 2.1 Harm to the drinker

Generally, the more alcohol consumed the greater the health risks to the drinker in both the short- and long-term. The chronic and acute health harms from alcohol are generally determined by the total volume of alcohol consumed and the pattern and/or style of drinking in an occasion.

Over 200 diseases and injuries are attributable (wholly or partially) to alcohol use.<sup>33,34</sup> Alcoholic beverages are classified as a Group 1 carcinogen, **causally related to seven types of cancer** including bowel and breast cancer.<sup>35</sup> In terms of cancer prevention, there is considered no safe level of alcohol consumption as the risk of cancer begins at low levels of regular use.<sup>36</sup>

Among New Zealanders aged between 15 and 49 years, alcohol use is the **leading cause of death and disability**.<sup>37</sup> In 2007, it was estimated that around 800 New Zealanders died prematurely as a result of their own or others' alcohol use. Alcohol-related injuries accounted for 43% of all deaths, followed by cancer (30%) and other long-term diseases (27%); for example, liver disease.<sup>38</sup> A 12-month study of presentations to the Auckland City Hospital Emergency Department (ED) in 2018/19, found over 5000 ED admissions were alcohol-related.<sup>39</sup>

In relation to **injuries**, there is a consistent increase in risk with the amount of alcohol consumed prior to injury<sup>40</sup> and with the frequency of heavy episodic drinking.<sup>41</sup> Of note, the greatest proportion of injuries has been found to be among the majority of drinkers who are typically non-heavy drinkers.<sup>42</sup> This signals the prevention paradox<sup>43</sup>, whereby the bulk of harm is experienced among those at less individual risk necessitating the need for population-based alcohol control strategies.

In 2007, **breast cancer** was the leading cause of alcohol-related death among New Zealand women drinkers.<sup>21</sup> More than one-third of alcohol-related breast cancer deaths were attributed to drinking <2 standard drinks (20g pure alcohol) per day.<sup>21</sup> Overall, New Zealand women are more likely to die from cancer due to their drinking than from any other cause (eg. alcohol-related traffic crash, injury, etc.).

Harmful alcohol use is further associated with **poor mental health** and is the second most common risk factor for **suicide**.<sup>44</sup> Heavy drinking is also one of the strongest modifiable risk factors for the onset of dementia.<sup>45</sup>

Alcohol harm is disproportionately experienced by Māori and those living in neighbourhoods of high socio-economic deprivation. Thus, it is a key driver of social and health inequities. In 2007, Māori were more than twice as likely to die from alcohol than non-Māori.<sup>38</sup> In 2016, the age-standardised rate of alcohol-attributable hospital admissions among New Zealanders (aged 15+ years) in the highest quintile of neighbourhood deprivation was more than twice the rate of the least deprived quintile.<sup>46</sup>

### 2.2 Harm to others

Harm to others from alcohol is substantial and pervasive, and is particularly experienced by women and young people. Research has shown that more New Zealanders report being harmed from the drinking of others, than from their own drinking.<sup>47</sup> Excessive drinking on an occasion (whether daily or otherwise) is the main driver of this alcohol harm to others.

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**More New Zealanders are harmed from the drinking of others, than from their own drinking**

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Among children, alcohol use can reduce wellbeing through a number of mechanisms. Firstly, prenatal alcohol exposure during pregnancy can result in a life-long disability: **Fetal Alcohol Spectrum Disorder (FASD)**. Every year in New Zealand, it is estimated that between 600 and 3,000 babies are born with FASD.<sup>48</sup> Secondly, children of heavy drinkers are at risk of unintentional injury, loss of educational opportunities, conduct disorders, poor mental health, drug and alcohol problems of their own and developing poor models of behaviour and parenting.<sup>49</sup>

Thirdly, alcohol is involved in a substantial proportion of New Zealand's high rates of family violence. It is estimated that at least one-third of the ~130,000 family violence investigations by New Zealand Police each year involve alcohol and/or drug use.<sup>50</sup> This figure likely under-represents the true prevalence, given the significant under-reporting of family violence to the police.<sup>51</sup> Family violence in New Zealand is estimated to account for 41% of a frontline police officer's time.<sup>52</sup>

**Children's exposure to family violence can have irreversible effects on children's development.** Exposure to family violence has been shown to negatively impact children's brain development, with adverse effects on cognitive development particularly evident among children exposed to trauma in the first two years of life.<sup>53</sup>

Communities are often at the forefront of shouldering the majority of the harms from alcohol, and commonly report alcohol and drug problems as key concerns in their communities. Alcohol is a significant driver of crime in neighbourhoods, implicated in approximately 30% of all crime offences.<sup>47</sup> Further, it has been found that approximately 40% of those injured in alcohol-related traffic crashes in New Zealand were not the drinker responsible.<sup>54</sup>

New Zealand's healthcare workforce is at significant risk of alcohol-related harm as a result of intoxicated patients and visitors. One study found that staff from Canterbury District Health Board reported 670 physical assaults and hundreds of verbal assaults in 2008/09, often provoked by alcohol.<sup>55</sup>

A qualitative and quantitative investigation into the impact of alcohol-related presentations on the Emergency Department staff at Wellington City Hospital found that one-half of the respondents reported ever being assaulted by an intoxicated patient while at work.<sup>56</sup> Nurses had the highest exposure to assaults. Almost all respondents described the negative impact of alcohol-related presentations on workload, Emergency Department waiting times and effects on other patients. An Official Information Request also revealed that one-half of "Code Orange" events (where patients became aggressive, intimidating or made staff feel uncomfortable) in Counties Manukau District Health Board between January 2018 and July 2019, were related to alcohol.<sup>57</sup>

Similarly, a five-year study of ambulance attendances in Victoria, Australia, found that alcohol intoxication was involved in more than one-half of attendances where aggression/violence was recorded, which was nearly twice as prevalent as those involving illicit drug use.<sup>58</sup>

All of these harms have significant personal, social and economic impacts on individuals, families and society. In 2018, alcohol harm was estimated to **cost \$7.85 billion**.<sup>59</sup> Lost productivity constituted a major proportion of the total costs (also see<sup>60</sup>), in combination with police, justice and health costs. This high level of harm, and associated cost, is avoidable.

## Conclusion

There is overwhelming evidence that alcohol-related harm in New Zealand is unacceptably high to both drinkers and others, and disproportionately impacts population groups that experience multiple inequities across their life course. Of all drugs in society, alcohol causes the most harm.

The positive news is that alcohol use is a modifiable risk factor. Its harms can be prevented and minimised when policy actions match the seriousness of alcohol harm as a public health and social concern.

## Part 3: The Price of Alcohol in New Zealand

### 3.1 Factors that determine the price of an alcohol product

There are many features that interact to determine the retail price of alcohol. These are described by Rabinovich et al.<sup>61</sup> as:

1. production costs, including the costs of the inputs (eg. grain and hops) and the costs of processing those inputs; as well as wider marketing costs (eg. for establishing and maintaining brands);
2. the costs of transporting, distributing and retailing;
3. the demand and supply for alcoholic beverages;
4. the level of competition (eg. between different retailers and between alcohol producers);
5. the quantity purchased (eg. bulk discounts such as a keg/box of beer, case of wine)
6. the level of taxation (eg. alcohol excise taxes and levies);
7. the type of retailing (eg. on- and off-licence sales).

**The New Zealand alcohol market.** Broadly speaking, the alcohol market in New Zealand is oligopolistic in nature, which means only a few large firms dominate the market.<sup>6</sup> In terms of producers of alcohol, transnational alcohol companies dominate the market with only 20% of revenue from beverage manufacturing in New Zealand returning to wholly-owned New Zealand companies.<sup>6</sup> Manufacturers' market power will have some influence on price in the market; but, more importantly, their resources dedicated to political relations and legal challenges provide major obstacles to the adoption of evidence-based pricing policies (as shown elsewhere<sup>62</sup>).

The retail supply side comprises around 3,000 off-licences (eg. bottle stores, supermarkets, online retailers), 7,000 on-licences (eg. pubs, bars, restaurants, cafés etc.) and almost 2,000 clubs (eg. sports, Returned Services Association (RSA), etc.). Suppliers have a heavy influence on price distribution in the market.<sup>63</sup> This is especially so in relation to the bargaining power of New Zealand's supermarket duopoly; two of the biggest companies in New Zealand. Today, around 75% of all alcohol is now sold from off-licences,<sup>1</sup> often on promotion, and at much lower prices than those found in bars and pubs.<sup>2</sup>

New Zealand is the only country in the world with a unified association representing the interest of wine growers and producers.<sup>64</sup> The New Zealand Wine Growers Association is also likely to play a key role in advocacy concerning alcohol pricing policies.

### 3.2 Trends in the price and affordability of alcohol

Current trends in the price of alcohol show that the real price (ie. price adjusted for consumer inflation) of beer and spirits has slightly increased relative to other consumer items in the Consumer Price Index (CPI) basket, whilst wine has substantially decreased in relative price. From 1989 to 2017, the real price of wine decreased by around 30%.<sup>65</sup>

**Alcohol affordability continues to increase.** Recently, annual wage inflation in New Zealand has exceeded that of goods (CPI) resulting in the affordability (price relative to income) of alcohol increasing over time. Research found that, in 2017, alcohol was more affordable than ever before. There is little reason to think this would also not apply in 2020. Between 2012 and 2017, wine increased in affordability by 20%.<sup>65</sup> Compared to 1999, in 2017 it took less time to earn enough to buy an average-priced standard drink of beer, whisky or cask wine from an off-licence.

Demand for alcohol is driven by both price and affordability. Generally, when incomes rise, consumption increases.<sup>66</sup> A study of changes in the affordability of alcohol in the European Union found that 84% of the increase in alcohol affordability was driven by increases in income, with changes in alcohol prices accounting for the remaining 16%.<sup>61</sup>

New Zealand research suggests that affordability may play a larger role than real price in driving consumption.<sup>67</sup> In addition, alcohol affordability may have more longer-lasting impacts on consumption in a population than changes in the real price.<sup>68</sup>

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**Both price and affordability influence consumption**

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### 3.3 Taxes and levies on alcohol

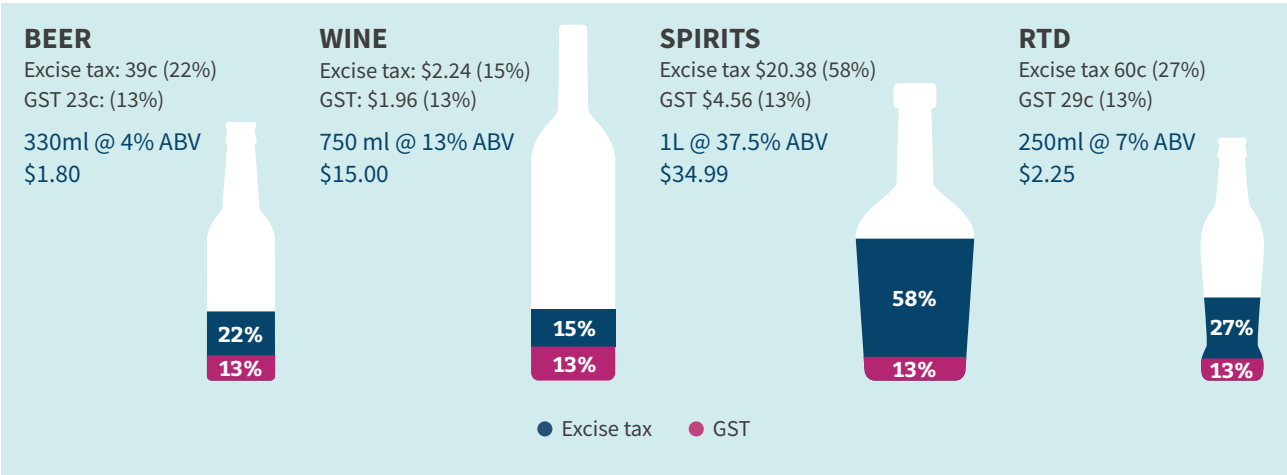
All alcohol sold in New Zealand is subject to alcohol excise tax, the Health Promotion Agency (HPA) levy and Goods and Services Tax (GST). These are described below.

#### EXCISE TAX

Excise taxes are applied to every alcoholic product (defined as >1.15% ABV) sold in New Zealand. Each year over 900 manufacturers and importers of alcohol pay alcohol excise tax, with the revenue collected by New Zealand Customs. Alcohol excise tax is not paid on alcohol exported out of New Zealand. There are also duty-free exemptions from alcohol excise tax whereby travellers can bring in 4.5 litres of wine or beer and 3 bottles (or other containers) of spirits or liqueur (each bottle or container can hold a maximum of 1.125 litres), provided they are for personal use or gifts.

In 2019, 491 million litres of alcohol was available for consumption in New Zealand<sup>22</sup>, resulting in \$1.074 billion of excise revenue.<sup>69</sup> Alcohol excise tax represents less than 1.5% of total government revenue. The yearly tax collection from alcohol equates to an average weekly tax spend of \$6.60 per drinker (this figure will vary considerably by an individual’s drinking pattern).

On average, alcohol excise tax represents ~25% to 30% of the price paid for wine and beer, and ~55% of the price of spirits (infographic below). It represents a much smaller component of the price paid for alcohol at on-licence premises compared to those found in off-licences, due to the operating costs of pubs, restaurants, cafés, etc. In comparison, around 65% of the price of a packet of cigarettes or roll-your-own tobacco comprises excise tax.

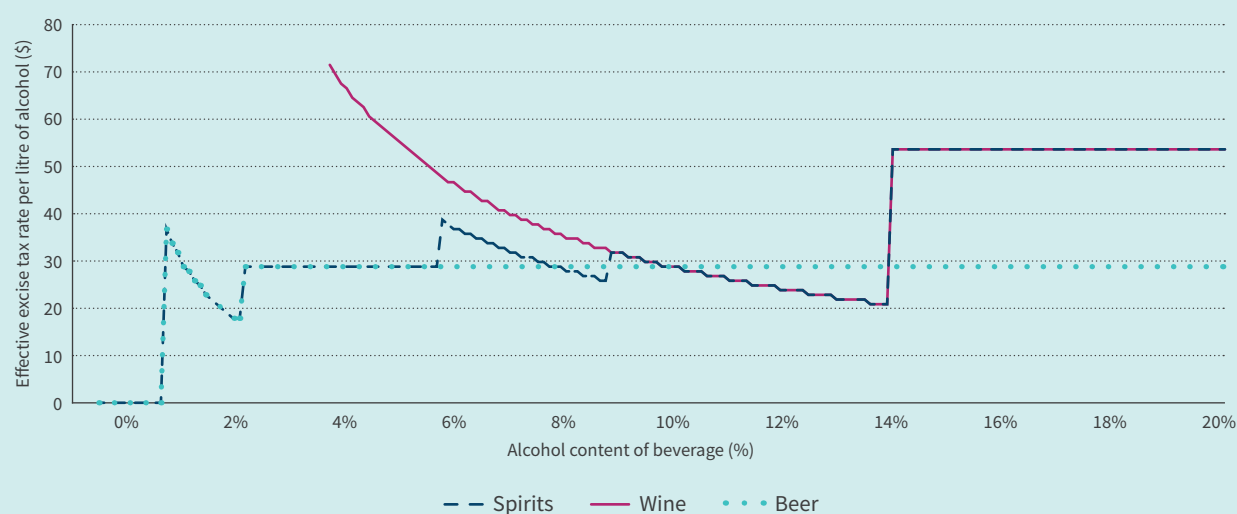


**Excise rates are adjusted annually for inflation.** Every July, excise tax rates are adjusted for inflation (against the CPI). This is a practical measure that reduces legislative clutter and provides the alcohol industry some level of policy stability.<sup>70</sup> At the time of excise increases, some producers may choose to make own-price adjustments to their products, although market pressures mean that they cannot always pass on an increased cost to the retailer and subsequent consumer. For example, The New Zealand Wine Growers Association states that their winemakers may choose to absorb the indexation rise in excise tax due to market pressures.<sup>5</sup> An alternative strategy used by producers is to lower the alcohol (as used everywhere else) content of their beverages, in order to maintain the price point of their product in the market.

Note: the annual inflation adjustments to alcohol excise tax are not mandatory.

**The alcohol excise tax structure has remained largely unchanged since 1989.** It is also unnecessarily complicated (Figure 7). As the alcohol market has changed over time, lack of attention to the tax structure has given rise to anomalies in the structure which needs to be urgently addressed.

Figure 7. Alcohol excise tax structure in New Zealand (Tax Working Group, 2018).<sup>71</sup>



In general, there are two steps in the excise tax rates. Products with an alcohol content below 14% are currently taxed at \$29.839 per litre of alcohol and products above 14% are taxed at a rate of \$54.347 per litre of alcohol (although there are anomalies, described in later sections of this report).

Although the structure of alcohol excise tax rates has remained largely unchanged since 1989 (for further information read Easton<sup>70</sup>) the threshold for the highest tax rate was reduced in 2003 from 23% to 14% to address the very low price of light spirits (23%) which were taxed by volume at a rate equivalent to 18% ABV.

Spirits (but not RTDs) are taxed at the highest rate (Figure 7), to maintain a 'high' price per standard drink given their lower production costs. For example, in March 2020 the tax rate for spirits was \$54 per litre of pure alcohol compared to around \$30 per litre for beer. It has also been argued that spirits have a greater potential to give rise to intoxication at lower volumes, and hence the higher tax rate.<sup>72</sup> Originally, spirits were taxed at the higher rate as it was assumed wealthier drinkers purchased spirits, making the tax structure more progressive.

For products of 14% ABV or below, it is regrettable that the tax structure features anomalies that incentivise the production of higher strength products that appeal to consumer preferences. These anomalies arise due to some beverages (eg. wine, selected RTDs, light spirits) being taxed per litre of beverage, rather than by the amount of alcohol they contain. The general rule is that the more complex or complicated a tax structure, the more opportunities exist for manufacturers to strategically differentiate brands and price levels.<sup>63</sup> This is certainly evident in the New Zealand market, with high strength wine and RTDs being produced to take advantage of the tax structure.

**Alcohol excise tax is not earmarked for alcohol harm reduction activities.** Whereas excise tax on petrol is earmarked to contribute towards the costs of developing and maintaining New Zealand roads, alcohol excise tax revenue is not earmarked; it goes towards core Crown revenue to be used for any purpose. Recommendations pertaining to hypothecation/ earmarking are discussed later (see pages 32-34).

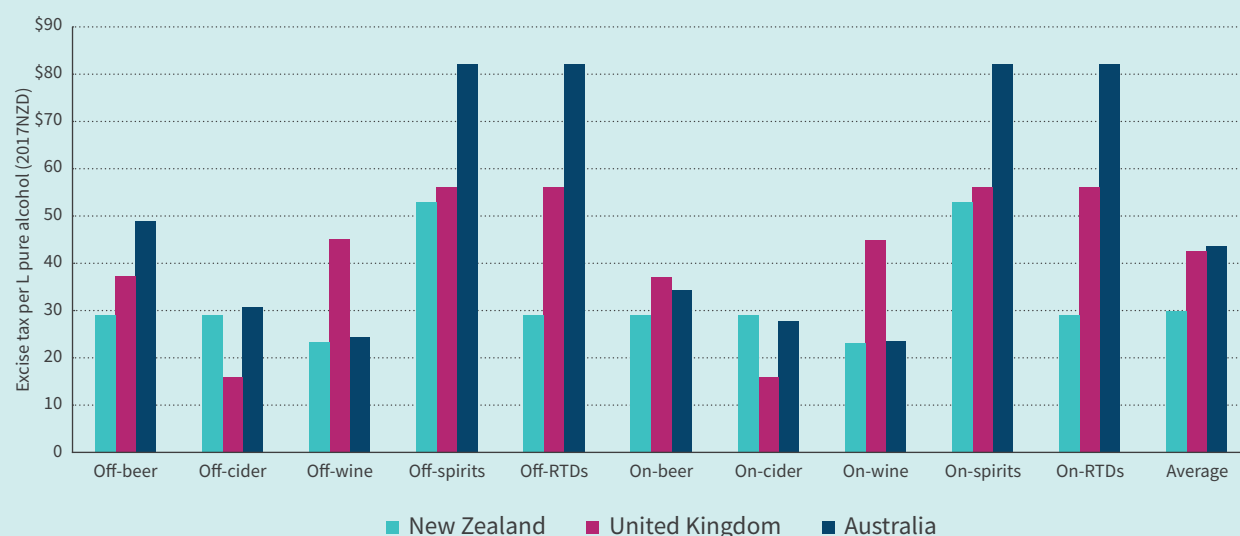
## INTERNATIONAL COMPARISON

Countries differ in the way they tax alcohol and the level of tax applied to different products. New Zealand has relatively lower alcohol excise tax rates per unit of alcohol compared to Australia (with the exception of wine) and the United Kingdom. For example, Australia has a differential tax rate for on- and off-licence beer and taxes wine by sale price, not by beverage volume. In addition, the highest tax rate in Australia commences at 10% ABV (compared to 14% in New Zealand).<sup>73</sup> In 2010, the United Kingdom introduced a higher tax rate for high-strength (>7.5%) beer and reduced the rate for lower-strength ( $\leq 2.8\%$  ABV) beers.<sup>74</sup>

In addition, many countries (including Australia and the European Union) tax RTDs/pre-mixed spirits at the same rate as higher strength spirits, and tax sparkling wine at a higher rate than still wine. There is also variability across countries in the thresholds for tax on low-alcohol beverages. These issues are described in later sections.

Differences between New Zealand, Australia and the United Kingdom are shown in Figure 8 (adapted from Cobiac et al<sup>75</sup> with permission). An international comparison of taxes among selected countries found that New Zealand had higher tax rates than Thailand, South Africa and Vietnam.<sup>76</sup>

Figure 8. International comparison of alcohol excise tax rates, as at August 2019.



## HEALTH PROMOTION AGENCY LEVY

A small, hypothecated levy is also paid by producers and importers, and is used to fund the HPA to undertake activities to reduce alcohol-related harm.<sup>77</sup> The HPA levy is approximately 2.6c on a bottle of wine, 0.5c on a 330ml can of beer, 13.3c on a 1L bottle of spirits and 0.7c on an individual 7% RTD of 250ml. In the year ending June 2019, the HPA levy revenue was \$11.522 million.<sup>78</sup>

## GOODS AND SERVICES TAX

GST is a value-added tax that adds 15% to the overall price of every product, including alcohol excise and the HPA levy. As such, there is a tax on taxes in relation to the sale of alcohol.

## Part 4: Reviews into Alcohol Pricing in New Zealand

Over the past decade, a number of reviews have examined alcohol pricing policies as a measure to reduce alcohol harm. These are described below.

### 4.1 Law Commission

In 2010, the Law Commission<sup>5</sup> recommended that alcohol excise tax rates increase by 50% to increase overall alcohol prices by 10%. Indicative modelling by the Ministry of Justice and Treasury estimated that this would result in the Government collecting almost \$300 million more in tax revenue per year.<sup>79</sup>

The Law Commission also recommended that retailers and producers be required by law to provide sales and price data to enable the government to fully investigate a minimum price regime. The recommendations to increase tax rates and require sales data to be mandatory were not adopted.

### 4.2 Ministry of Justice Regulatory Impact Statement

Following the Law Commission review, the Ministry of Justice published a Regulatory Impact Statement (RIS)<sup>79</sup> to inform the alcohol law reform package. The RIS recommended: 1) increasing excise rates, 2) reforms to the unique rate of tax applying to beverages between 6% and 14%, and 3) raising the excise-free band for very low-strength beverages. None of these measures were taken up and included in the Alcohol Reform Bill (subsequently enacted as the Sale and Supply of Alcohol Act 2012).

### 4.3 Ministry of Justice alcohol pricing report

In 2014, the Ministry of Justice<sup>6</sup> examined the effectiveness of excise tax increases and minimum unit pricing. Three levels of excise tax increases (82%, 100%, 130%) and minimum unit pricing (\$1, \$1.20, \$1.40) were examined.

An 82% increase in excise tax (projected to bring about an average minimum unit price of \$1) was estimated to reduce the annual volume of consumption among harmful drinkers by 13.1%. This was compared to an 11.5% reduction among low-risk drinkers, in part due to tax increases having a larger effect on the price of spirits (preferred by heavier drinkers).

Minimum unit pricing was found to be less effective than increasing excise taxes, but still generated significant cost savings from reduced harm. The Ministry of Justice recommended that a minimum price not be considered again until 2019, to allow the new Sale and Supply of Alcohol Act 2012 (including implementation of Local Alcohol Policies) to bed in and its impact on harmful drinking assessed.

### 4.4 The Tax Working Group

In 2018, the Tax Working Group embarked on a national conversation with New Zealanders about the future of the tax system. The system was assessed for its structure and fairness and balance, as underpinned by concepts from Te Ao Māori, the Living Standards Framework and the principles of tax policy design.<sup>71</sup>

The Group's final report was released in February 2019. The recommendation relating to the structure of alcohol excise tax changed little from the interim report, being that the Group:

- supports the development of a framework for deciding when to apply corrective taxes (similar to the framework developed by the Group for the use of environmental taxes) (recommendation #92)
- recommends that the Government review the rate structure of alcohol excise with the intention of rationalising and simplifying it (recommendation #93).

The Government's response in 2019 to both recommendations was "no further work required".<sup>80</sup>

## 4.5 The Mental Health and Addiction Inquiry

In 2018, the Government established an Inquiry into Mental Health and Addiction to develop recommendations for a better mental health and addiction system for Aotearoa New Zealand. The final report, tabled to the Government in December 2018, spoke of New Zealanders' serious concerns about alcohol harm and the blight it was on their communities.

Recommendation 24 of the final report from the Mental Health and Addiction Inquiry panel<sup>81</sup> recommended stronger action on alcohol by taking "a stricter regulatory approach to the sale and supply of alcohol, informed by the recommendations from the 2010 Law Commission review, the 2014 Ministerial Forum on Alcohol Advertising and Sponsorship and the 2014 Ministry of Justice report on alcohol pricing" (p.19).

In May 2019, the Government issued its formal response to the report. In relation to the recommendation for a stronger regulatory approach, the response was "further consideration needed".<sup>82</sup>



## Part 5: Principles of Alcohol Excise Taxation to Improve Wellbeing

The ultimate purpose of excise duty on alcohol should be to improve health and wellbeing. This aligns with the purpose of New Zealand's liquor laws (section 3 of the Sale and Supply of Alcohol Act 2012)<sup>83</sup> which state that, in general, the legislative reforms were “for the benefit of the community as a whole” (p.17).

Alcohol Healthwatch recommends that alcohol excise tax should be based on three principles:

1. Levels of excise tax across all alcohol should reflect the general social costs which alcohol consumption incurs;
2. Where possible, excise taxes should be imposed on the basis of alcohol content;
3. A high minimum price of alcohol should be maintained, either through a taxation approach or other policy measures.

### 5.1 Principle 1: Levels of excise tax across all alcohol should reflect the general social costs which alcohol consumption incurs

As described previously, there are a range of negative externalities from alcohol use. These include harms to the drinker and to others. Although many of the risks of harm are associated with regular or single occasion heavy drinking, even low to moderate drinking can increase the risk of harm (eg. traffic crashes, cancer). The overall low price of alcohol in New Zealand does not reflect the level of harm that can arise from its consumption.

**Current excise rates do not reflect the social costs of alcohol.** The revenue gained by the Government from excise tax is less than the total externalities associated with alcohol harm. For low-risk drinkers, the level of excise tax they pay is likely to exceed the externalities they impose. However, these drinkers also stand to benefit greatly if harm is reduced, due to cost savings being recycled to other core services that they utilise (discussed later). Non-drinkers pay no alcohol excise tax; yet, continue to pay the costs associated with harm.

Ideally, taxes would only be paid by those drinkers that produce externalities that cost more than the excise tax they pay. However, it is difficult and “prohibitively costly to distinguish *a priori* consumers who are likely to generate large externalities, as this would require information on the intended consumption pattern and level of consumption of the consumer” (p.10).<sup>84</sup> For this reason, each consumer, regardless of their consumption pattern, pays the same rate of tax on the alcohol products they purchase. However, because heavy drinkers drink more, they pay more in excise tax overall.

Increasing excise tax rates can reduce consumption and its associated externalities. Among all policies, increasing the price of alcohol is the most effective and cost-effective strategy to reduce drinking and harm.<sup>85,86</sup> Excise tax increases can reduce consumption broadly across the population and among heavy drinkers, as it affects all types of beverages consumed. Given heavy drinkers consume the most alcohol, they are especially targeted through excise tax increases.

As described previously, an overall 10% increase in the price of alcohol is associated with a 5% reduction in consumption. Meta-analyses have shown that higher prices of alcohol are associated with reductions in alcohol harm, including reduced motor vehicle crashes, death from cirrhosis, suicide and violence.<sup>87,88</sup>

### 5.2 Principle 2: Where possible, excise tax should be imposed on the basis of alcohol content

It is generally agreed that alcohol should be taxed on a uniform rate, based on the alcoholic strength of the product.<sup>70</sup> The rate at which excise is set should aim to reduce consumption and address the negative externalities of use.

New Zealand's current alcohol excise tax structure was constructed in the 1980s and, therefore, reflects the categories and strength of alcohol products at the time. Today, the alcohol market is very different from the 1980s with regards to alcohol products (consider RTDs, strength of wines, craft beers), producers (increasingly concentrated in transnational alcohol companies), and suppliers (supermarkets were permitted to sell wine in 1989 and beer in 1999). The differences over time have led to many anomalies in the current structure that need to be resolved to create a more contemporary, equitable and effective excise tax system. Addressing the anomalies would align excise rates more closely with modern-day alcohol content. These anomalies are discussed below, and include:



- Anomaly 1: All wine is taxed as though it is 10% alcohol content;
- Anomaly 2: Many products between 6% and 14% ABV (eg. RTDs, cider, light spirits) are taxed by beverage volume, not alcohol content;
- Anomaly 3: Tax rates on low-alcohol beverages (1.151-2.5% ABV) can be higher per unit of alcohol than higher strength products.

Ideally, the creation of a uniform rate must not result in the lowering of the highest tax rate for spirits. This could increase the risk for alcohol-related harm. Hence, a tiered approach to excise tax is likely required, whereby all non-spirit-based products adhere to one uniform rate whilst spirits maintain their higher tax rate to take into account their lower production costs and to maintain a high minimum price.

This view supports the Australian National Alliance for Action on Alcohol<sup>89</sup> who have stated “changes to tax should not be designed to produce a decrease in price for alcohol products, other than for low-alcohol products” (p.3).

### 5.3 Principle 3: Maintaining a high minimum unit price of alcohol

Alcohol pricing policies must seek to maintain an appropriate minimum price of alcohol. Currently, this principle is somewhat reflected in New Zealand’s excise tax structure via the taxing of spirits at the highest excise rate. However, as will be described later, a substantial proportion of alcohol in New Zealand is sold at very cheap prices per unit/standard drink.

There are a number of mechanisms that could be used to achieve a minimum price of alcohol across all alcohol products:

- Increasing the rate of the general excise duty across the board, to a high enough level to maintain the required minimum unit price across all products; or
- Imposing an additional tax on products which claws back as the price of alcohol rises so that it goes to zero; or
- Enacting minimum price controls in legislation, specifying the floor price at which alcohol cannot be sold for less.

Maintaining a minimum price for alcohol ensures that alcohol is not sold at very low prices (relative to ethanol content). Policies that set a minimum price establish a ‘floor price’ at which alcohol can be sold. An offence would result from any sale of alcohol below the minimum price.

Recommendations for alcohol pricing policies that encompass each of the three above principles are outlined in this road map. They include addressing the anomalies in the current alcohol excise tax structure, moving towards a uniform excise rate, increasing alcohol tax rates so that they reflect the social costs of alcohol and establishing a minimum price per unit of alcohol sold. Adoption of these policies would considerably improve the health and wellbeing of New Zealanders and enable a shift in the distribution of alcohol consumption towards New Zealanders drinking less. Such a shift would create a new norm around drinking, from which future generations will benefit. Currently, the low price of alcohol in New Zealand does not send a signal with regards to its harm.

## Part 6: Recommendations for a Fairer and More Effective Approach to Alcohol Pricing

### Recommendation 1: Increase excise rates across all beverages by at least 50%

The alcohol excise tax structure and the level of tax on alcoholic products does not reflect the social costs of harm to society. To better reflect the seriousness and prevalence of harm across society as well as reduce consumption, excise rates need to be increased.

**Of all alcohol policies, tax increases are the most effective in reducing consumption and harm.** Consistent evidence demonstrates that reducing the affordability of alcohol (by increasing its price) is the most effective approach to reducing individual and population levels of alcohol consumption.<sup>85</sup>

Policies that increase the price of alcohol can assist to:

- reduce overall consumption (and harm) in the population, and among heavy drinkers;
- delay the onset of drinking in young people; and
- prevent moderate drinkers taking up more harmful drinking and inhibit paths to addiction.

Among the total population, meta-analyses have shown that higher prices of alcohol are associated with reductions in alcohol harm, including reduced motor vehicle crashes, death from cirrhosis, suicide and violence.<sup>87,88</sup> These effects can bring about significant cost savings to society through reduced justice, police, health and welfare costs.

**Tax increases are also the most cost-effective alcohol policy.** There is consistent evidence that excise tax increases are the most cost-effective policy to reduce alcohol consumption. The implementation costs are low; yet yield moderate to high health returns.<sup>86</sup>

Recent modelling in New Zealand of the effect of alcohol excise tax increases (ranging from 20-50% increases in tax rates across beverages) on traffic injuries found significant cost savings to society in the magnitude of \$240 million as a result of reduced social costs, including lost output due to temporary disability, legal and court proceedings and vehicle damage.<sup>75</sup> Males and Māori were found to benefit the most from the modelled policy.

The Ministry of Justice found that an 82% increase in excise rates was estimated to generate **net savings to society of \$339 million in the first year and \$2,452 million over 10 years.**<sup>6</sup>

Higher prices for alcohol will not curb all risky drinking, pointing to the need for a comprehensive approach to reducing harm. Pricing policies should be one set of policies within a package of strong measures to shift New Zealand's drinking culture. New Zealand can look to the leadership shown in tobacco control, whereby a range of legislative measures have enabled reductions in smoking and lower uptake of smoking, particularly among young people.<sup>90</sup>

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**Sectors such as health, ACC, justice and police benefit substantially from cost savings from reduced harm**

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### How do price increases affect different groups in society?

To answer this question, there are four factors to consider: the expected *behavioural change* that would result from an increase in the price of alcohol, the *financial* and *health* effects that result from the tax and people's response to it, and any *recycling* effects from using the excise revenue to fund tax cuts or increase government spending.

Overall, heavy drinkers and those on lower incomes would tend to pay a greater proportion of their income towards the increased excise tax, but would stand to gain the most in health benefits. The Government could mitigate any regressivity in the financial effect of the tax by increasing the redistributive effect of some other aspect of the tax and transfer system, or by using the revenue to promote better health outcomes for those most in need.

## RESPONSES BY DRINKERS TO PRICE INCREASES

There are many options that drinkers may choose when prices increase. They may:<sup>91</sup>

1. reduce the number of occasions they drink
2. reduce the quantity they drink in an occasion
3. reduce the frequency of drinking occasions and quantity consumed
4. switch to cheaper alcohol products
5. not change their frequency of drinking or quantity consumed (and hence spend more money).

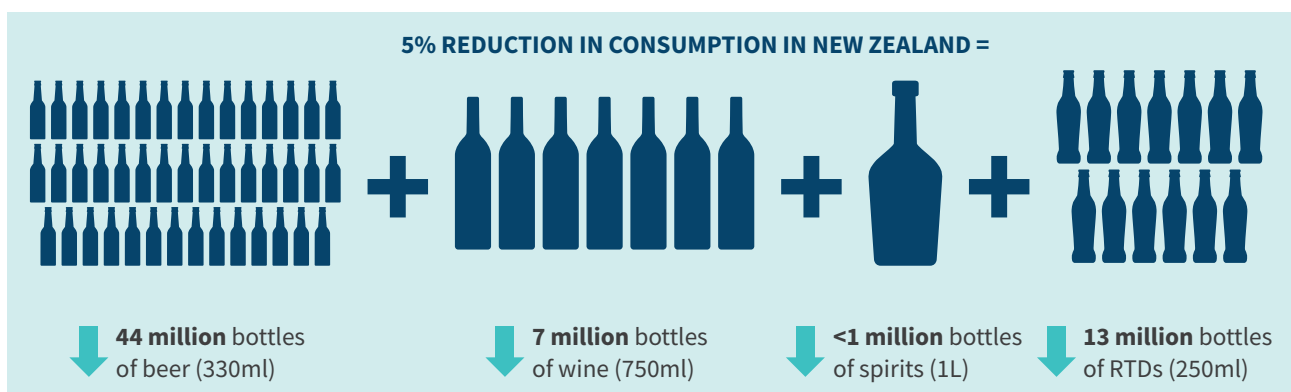
Factors such as beverage preference, drinking pattern, age, sex and location of drinking play a role in influencing the response and price sensitivity of a drinker to increased alcohol prices.<sup>92</sup>

## PRICE SENSITIVITY IN THE OVERALL POPULATION

Meta-analyses have demonstrated that for every 10% increase in the price of alcohol, overall consumption reduces by 4% to 5%.<sup>4,93</sup> This means that the price elasticity is -0.4 to -0.5; the percentage change in consumption that results from a 1% increase in price. Price increases generally work through reductions in average volumes consumed, rather than through reductions in the intensity of drinking occasions.

The price elasticity for alcohol is similar to that for tobacco (-0.4 to -0.5) in New Zealand.<sup>94</sup> It is estimated that higher increases in alcohol prices will result in larger reductions in consumption.<sup>95</sup>

Elasticities tend to vary across countries, with the most preferred beverage type (eg. beer) typically having the lowest price elasticity.<sup>95</sup> Income elasticities are estimated to be similar to price elasticities, with a meta-analysis finding an income elasticity for all alcoholic beverages of 0.50 – meaning that a 1% increase in income was associated with a 0.5% increase in alcohol consumption.<sup>93</sup>



### PRICE SENSITIVITY AMONG HEAVY DRINKERS

Some studies show that heavier drinkers may be less price sensitive than the general population of drinkers in terms of overall alcohol consumption.<sup>4,93</sup> However, in relation to specific beverage price sensitivity (ie. the response to changes in price of a particular product typically consumed), international studies show that heavy drinkers are more price responsive than moderate drinkers, across nearly all on- and off-licence beverages.<sup>95,96</sup> This suggests that heavy drinkers are more likely to substitute less expensive alcohol for a more expensive product of the same type following an increase in price.

A study in the United Kingdom<sup>97</sup> has estimated differential price and income elasticities across drinkers with different levels of consumption. The study found that income elasticities were fairly consistent across levels of drinking, but price elasticities reduced as the level of drinking increased.

It is important to remember that even though heavy drinkers may reduce their consumption to a smaller extent (relative to moderate drinkers) when overall prices are increased to the same extent, a small proportional reduction in consumption amongst heavy drinkers could translate to large absolute reductions in the amount of alcohol consumed; thereby, having large effects in terms of health and healthcare costs.<sup>97</sup>

**Small relative reductions in consumption among heavy drinkers can translate to large absolute reductions in the amount consumed**



Further, given the different bands of excise tax in New Zealand, uniform percentage increases in excise tax would have the greatest impact on the highest taxed beverage (ie. spirits). A 50% increase on the current (as at March 2020) tax rate for spirits of \$54.347 per litre of alcohol would impact the price more than a 50% increase on a tax rate for beer of \$29.432 per litre of alcohol.

These differences result in groups of drinkers having different responses to tax increases within the current excise structure. In the New Zealand context, the Ministry of Justice showed that reductions in consumption resulting from excise tax increases across all beverages would be the greatest among heavy drinkers.<sup>6</sup> This was partially due to excise tax increases having the greatest impact on the price of spirits; a product that is also preferred by many heavy drinkers, particularly males.<sup>6</sup>

### PRICE SENSITIVITY BY AGE, SEX AND LOCATION OF PURCHASE AND INCOME

When compared to the quantity of research on sensitivities to price by drinking pattern, there is less research by demographic group. One meta-analysis of studies has shown that young people may be less price sensitive to price increases, and males less sensitive than females.<sup>93</sup> This is despite young people tending to have lower incomes than those of working age; studies suggest that this is because young people may perceive the value of drinking to be greater (for instance, because it plays a significant role in young adults' social lives) than the value as perceived by older people.

It is also suggested that price sensitivity is greater for alcohol purchased at off-licences than that from on-licences.<sup>96</sup>

In relation to income, price elasticity analyses in Australia suggest lower income groups are more price sensitive than higher income groups.<sup>96</sup>

## Costs and benefits of increasing alcohol excise rates in New Zealand

**A 50% increase in excise rates would increase alcohol prices in New Zealand, on average, by 10%.** Due to the tax and pricing structure of alcohol, a uniform (ie. 50%) increase to the excise rates across all beverages would increase the price of the following beverages to a greater extent:

- Spirits >14% ABV (due to its higher tax rate)
- Low-price alcohol, particularly that sold at off-licences (due to excise tax comprising a larger proportion of cheap, off-licence alcohol)

**Costs: How much more do drinkers need to pay?** The below infographic shows the impact of a 50% increase in excise on the price of standard products consumed in New Zealand.



### COST: IMPACT OF EXCISE TAX INCREASES MUST BE CONSIDERED WITHIN THE WIDER TAX SYSTEM

Alcohol excise tax represents only one type of tax within the wider tax and benefit system. Any changes to the taxing of alcohol should not be considered in isolation; rather, its impact across different population groups needs to be considered among the overall distributional effects of all taxes paid by New Zealanders.

Therefore, whether one tax is more regressive than another must be weighed against the progressivity of other taxes in the system.<sup>72</sup> New Zealand policy often seeks to have redistribution goals pursued through the income tax and social benefit systems. For example, when GST was increased from 12.5% to 15% in 2010, income taxes were reduced.

Therefore, to mitigate or offset the financial effects of single tax rises, other taxes or welfare adjustments can be utilised to increase progressivity. In addition, excise tax revenue could also be earmarked for alcohol treatment services, to increase the likelihood that drinkers will reduce their consumption (described later on pages 32-34).

### COST: IMPACT OF EXCISE TAX INCREASES ON MĀORI

Price elasticities among Māori have not been studied. What is known from research is that Māori (and Pacific) drinkers are more likely to purchase the cheapest alcohol than other ethnic groups<sup>29</sup> and that cheap alcohol is more likely to be consumed in heavy and/or frequent drinking occasions.<sup>2,29,98</sup>

In relation to tobacco and food, studies show that Māori are (or are likely to be) more price sensitive than persons of Pacific, Asian, European or other ethnicity.<sup>94,99</sup>

Recent modelling in New Zealand of the effect of alcohol excise tax increases (ranging from 20-50% increases in tax rates across beverages) on traffic injuries found significant cost savings to society in the magnitude of \$240 million as a result of reduced social costs, including lost output due to temporary disability, legal and court proceedings and vehicle damage. Males and Māori were found to benefit the most from the modelled policy.<sup>75</sup>

One in six (17%) Māori adults aged 15 years and above report not consuming alcohol in the past 12 months.<sup>9</sup> For this group, there will be no personal impact on finances from increased excise taxes. Yet, these non-drinkers will experience significant benefits from reduced harm and costs associated with the drinking of others.

It must be acknowledged that the price of alcohol represents only one influence on drinking among a host of individual, community and societal factors.<sup>4</sup> To address the Crown's obligation to Te Tiriti o Waitangi, in relation to Article 3 protecting Māori health, it is important that policy measures that increase the price of alcohol occur in conjunction with addressing many of the root causes of consumption and health disparities. Research suggests these factors include inter-generational and personal trauma, coping, burying pain, discrimination<sup>100,101</sup>, structural inequalities and financial hardship.<sup>102</sup> If not addressed, inequities in consumption and harm may increase in the presence of some populations benefitting more from alcohol excise increases.

Any drinkers that maintain levels of drinking in the presence of price increases will necessarily increase spending on alcohol. To mitigate any financial impact from excise increases (as well as uphold the Crown's Treaty of Waitangi obligation to protect Māori), complementary social policies that particularly protect Māori from further hardship are required. The importance of considering excise increases within the wider tax system has been described earlier.

The extra revenue from taxes could also be used to fund community-based harm reduction programmes, as well as establishing and maintaining alcohol-related treatment services that are developed by Māori, for Māori. Access to services needs further consideration given Māori make up a greater proportion of the population living in highly rural and remote areas.<sup>103</sup>

### **COST: IMPACT OF EXCISE TAX INCREASES ON LOW-INCOME DRINKERS**

Overall, there is debate as to whether higher alcohol excise taxes would tend to be regressive or progressive in New Zealand; that is, when only the financial cost of the tax is considered. Early research found alcohol taxes to be mildly regressive, given that alcohol taxes represented a slightly higher per cent of household expenditure in low-income as compared to high-income groups.<sup>104</sup> That said, the 2001 tax review ('the McLeod Review') found that higher income groups spent a greater proportion of their income on alcohol tax, and so found that alcohol taxes were, in fact, progressive.<sup>105</sup> A discussion paper by Inland Revenue and the Treasury, to inform the 2018 Tax Working Group's assessment of corrective taxes, noted that of tobacco, sugar and alcohol taxes, the latter is likely to be the least regressive. The paper stated that "One reason why alcohol excise might be progressive – or at least not regressive – is that there is a higher proportion of non-drinkers in the most socio-economically deprived areas" (p.19).<sup>106</sup> That said, these areas also have a greater proportion of hazardous drinkers, so the financial consequences for taxpayers in New Zealand of higher excise taxes remain somewhat unclear.

Analysis of the Household Economic Survey (HES) 2013<sup>27</sup> found that low-income households spent 1.8% of their weekly income on alcohol (\$7.80) compared with 1.9% (\$42.40) for the highest income group. In other words, both household groupings spent a similar proportion of income on alcohol but low-income groups spent a smaller amount in absolute terms.

In relation to households, sole parent households spent the smallest proportion of their disposable weekly income on alcohol (\$6.10, 0.8%), whilst couples with one child spent more (\$21.70, 1.7%).

Data from the 2016 Household Economic Survey<sup>27</sup> showed a similar picture. Couples with one child spent \$19.00 per week, sole parents spent \$5.90, and the difference between the low-income and high-income households was \$7.50 versus \$54.40 (Table 1). In 2019, couples with one child spent \$19.20 per week, sole parents spent \$7.00, and the difference between the low-income and high-income households was \$10.00 versus \$45.40. Sampling error across all years is approximately 8%.

Table 1. Average weekly household expenditure on alcohol, 2007 to 2019

Weekly household expenditure on alcohol, \$					
	2007	2010	2013	2016	2019
<b>All</b>	19.6	21.4	21.0	21.2	20.5
<b>Income group</b>					
<b>L1</b>	5.7	7.1	7.8	7.5	10.0
<b>L2</b>	8.4	8.7	7.8	8.0	6.9
<b>L3</b>	10.4	11.9	12.0	11.0	12.5
<b>L4</b>	12.4	15.7	16.9	11.7	13.0
<b>L5</b>	16.1	17.2	14.5	18.2	15.9
<b>L6</b>	19.3	19.0	23.1	18.7	22.0
<b>L7</b>	22.1	22.9	23.6	23.0	24.1
<b>L8</b>	23.4	29.9	28.1	24.2	22.1
<b>L9</b>	33.0	37.1	34.3	35.1	33.5
<b>L10</b>	44.6	44.5	42.4	54.4	45.4

Australian research suggests that alcohol taxes are likely to be mildly regressive, with effects being small and concentrated among heavy consumers. It was found that the lowest-income consumers spent 2.3% of their income on alcohol taxes compared to 0.3% amongst the highest earners, although in dollar terms this difference was small in magnitude (around \$5.87 per week in New Zealand dollars).<sup>107</sup>

In Australia and Europe, it has been estimated that alcohol taxes appear to be much less regressive than tobacco taxes.<sup>72,92</sup> As described earlier, price elasticity analyses in Australia suggest lower income groups are more price sensitive than higher income groups.<sup>96</sup>

Finally, it must be acknowledged that alcohol excise tax represents only one type of tax within the wider tax (and transfer) system. As such, its distributional effect should be considered in the context of the overall distributional effects of all taxes paid by New Zealanders and the assistance they receive from the Government.

### COST: IMPACT OF EXCISE TAX INCREASES ON LOW-RISK DRINKERS

In the context of alcohol excise increases, the greatest financial impact is on those who continue to drink heavily, with a lesser effect on those who merely reduce their drinking and those who stand to gain from the sale of alcohol.

Excise increases target heavy drinkers – those who buy the most alcohol will pay the most in tax. This works towards a fairer society, whereby those who cause the greater share of the harm also pay the greatest share of tax.

Low-risk and moderate drinkers will be minimally affected by increased taxes. The Ministry of Justice estimated the additional spend per week resulting from an excise rate increase of 82% (below).<sup>6</sup>



As shown, although an increase in excise rates would result in increased expenditure by low-risk and moderate drinkers, the amount is minimal.

Further, any discussion on the financial impact to drinkers from excise increases needs to take into consideration that low-risk drinkers continue to subsidise the costs of alcohol harm in society, particularly those arising from heavy drinking. Government expenditure on alcohol harm has opportunity costs for all types of drinkers and non-drinkers. Non-drinkers may also suffer direct and negative financial impacts resulting from the drinking of others (eg. being injured in an alcohol-related crash, family violence, etc).

### Benefits of excise tax increases on taxpayers' health and wellbeing

Any (mildly) financially regressive effects of excise taxes must further be considered in relation to their progressivity in public health terms, even if the additional revenue is not used to offset any income regressivity of price increases.

The benefits of alcohol taxes in terms of health and wellbeing accrue to those who:

- reduce their alcohol consumption as a result of the increased tax; and/or
- are at risk of being harmed by the drinking of others.

An important outcome of reduced consumption across the population is the lower likelihood that moderate drinkers will become hazardous drinkers, and the latter moving to more chronic drinking.

Other positive health and social benefits from reduced consumption include:<sup>108</sup>

- the prevention of temporary or permanent loss of family income through death, injury, illness and/or long-term disability of the drinking family member;
- reduced birth complications and risk of developmental disorders due to reduced exposure of the foetus to alcohol during pregnancy;
- reduced risk of being a victim of robbery or assault in a public place, especially in areas with high crime rates;



- reduced risk of being injured by a drunk driver; and
- reduced risk of alcohol-related family violence.

### **BENEFIT: POSITIVE IMPACTS ON LOW-INCOME GROUPS, PARTICULARLY HEAVY DRINKERS**

Low-income groups stand to benefit the most from reduced consumption because the evidence shows that they experience more alcohol-related harm than other populations. This occurs via two pathways:

- Although those who live in the most deprived areas are significantly less likely to drink, they are more likely to drink hazardingously<sup>9</sup> and experience more harm;<sup>46</sup>
- Evidence suggests that low-income populations experience disproportionately more alcohol-related harm than those in areas with higher incomes but with similar patterns of drinking.<sup>109,110</sup> This means that, drink for drink, low-income drinkers experience more harm.

As will be described later, low-income heavy drinkers have been shown to benefit the most from implementation of minimum unit pricing policies, given their preference for cheap alcohol.

### **BENEFIT: POSITIVE IMPACTS ON LOW-RISK AND MODERATE DRINKERS**

As described earlier, whilst many moderate drinkers will enjoy the social benefits associated with alcohol consumption, others will drink to intoxication on occasion and/or at levels that exceed the low-risk drinking advice. This irregular pattern of drinking puts them at a  $\geq 1:100$  risk of dying of an alcohol-related disease or injury. For example, more than one-third of alcohol-related breast cancer deaths in New Zealand are attributed to drinking less than two standard drinks per day.<sup>21</sup> Given that there is no safe level of alcohol use in terms of cancer<sup>36</sup>, alcohol tax increases should be considered as cancer prevention strategies.

Whilst low-risk drinkers may impose relatively low-costs or externalities to society, their health and wellbeing stands to benefit from a reduced risk of personal harm from the drinking of others (eg. crime, victims in road crashes, etc.). For example, between 2014 and 2016, for every 100 alcohol/drug-impaired drivers/riders who died in road crashes, 37 of their passengers and 19 sober road users died with them.<sup>111</sup>

Finally, many low-risk and moderate drinkers stand to benefit as a result of the recycling of additional tax revenue and cost savings from reduced harm. This may be in the form of improved core services (police, health, ACC, justice, etc.) or through being recipients of tax cuts as a result of cost savings from reduced alcohol harm. Subjective wellbeing could also improve through increased perceptions of community safety.

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**Moderate drinkers are unequivocal beneficiaries when excise tax rates are increased<sup>17</sup>**

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### **BENEFIT: POSITIVE IMPACTS OF COST SAVINGS TO SOCIETY**

As described earlier, alcohol harm is a significant economic burden to society. This burden can be reduced through effective alcohol pricing policies.

The Ministry of Justice estimated that excise increases of 82% and 133% would generate a net increase in excise revenue of 78% and 85% respectively (\$633 million and \$929 million per year).<sup>6</sup> Overall, an 82% increase in excise rates was estimated to generate **net savings of \$339 million in the first year and \$2,452 million over 10 years.**<sup>6</sup> The majority of these savings were from reduced costs to ACC, the justice sector and health system.

## Wider co-benefits of excise tax increases

The health of the population stands to benefit greatly from reduced alcohol consumption. Reduced smoking and obesity prevalence, described below, are just two examples that may be favourable outcomes from increasing alcohol excise taxes (alongside reduced alcohol use and harm).

### 1. ENABLING THE ACHIEVEMENT OF SMOKEFREE 2025

Excise tax increases may offer wider co-benefits in terms of reducing smoking-related cancer inequities.

It is known that attempts to quit smoking are less successful among those with alcohol problems.<sup>112-114</sup> Furthermore, episodes of heavy drinking, whilst attempting to quit, can increase the risk of relapse to smoking.<sup>112</sup>

In the 2007/08 New Zealand Health Survey, one-third of smokers had a drinking pattern that was considered hazardous.<sup>115</sup>

Therefore, a lack of evidence-based action on hazardous drinking may be compromising the progress of the Smokefree 2025 goal. Evidence-based efforts to reduce alcohol use may assist smokers to quit successfully and remain smoke-free.

### 2. REDUCING OBESITY AND OBESITY-RELATED CANCERS

There is strong evidence that being overweight or obese heightens the risk of cancer of the bowel, kidney, pancreas, oesophagus, endometrium and the breast (in post-menopause women).<sup>116</sup>

Alcohol use can indirectly contribute to an increased risk of cancers associated with weight gain or obesity.<sup>117</sup>

Alcohol products are high in calories and low in nutritional value, especially when added to sugary mixed drinks.<sup>117</sup> Among respondents that had consumed alcohol in the past 24 hours, estimates from the 2008/09 New Zealand Adult Nutrition Survey showed that alcohol contributed around 11% of daily energy intake.<sup>118</sup> Estimates were much higher for males, especially Māori males aged 19 to 30 years.<sup>118</sup>

Alcohol use can, therefore, contribute to weight gain and obesity, especially when the extra energy intake from alcohol products is not compensated. The mechanism is yet to be established, especially when the development of obesity is slow and multi-faceted in nature.<sup>119</sup> However, the preponderance of the evidence, taken as a whole, justifies that alcohol use can be a risk factor for obesity, especially when consumed in large quantities.<sup>119</sup>

Recent research in Australia<sup>120</sup> found that alcohol price increases (via tax increases and minimum unit pricing) were among the most cost-effective strategies to reduce obesity.

## Unintended effects of tax increases

### ILLICIT TRADE

The geographical isolation of New Zealand, with no land borders, minimises the ability for illicit trade to flourish in the presence of excise increases. However, some expansion of illicit trade and informal production of alcohol could occur if alcohol excises are increased. It is also possible that the price of illicit alcohol may increase as a consequence of increases in excise tax, which can assist to reduce consumption and harm.

To mitigate the harms from illicit alcohol, continual monitoring by New Zealand Customs is required, as well as ongoing community surveillance and reporting. Annual investment by the alcohol industry to detect illicit alcohol can also contribute to expose sales.<sup>6</sup> Any increase in small-scale smuggling, through duty-free misuse, could be minimised through reducing the duty free allowance. For example, in 2014, the incoming travel allowance for tobacco was reduced to 50 cigarettes or 50 grams of cigars or tobacco products.

It would be unlikely that excise tax increases would result in an increase in overseas internet purchases of alcohol products, as these products are also subject to both excise and GST payment.

## HOME PRODUCTION

Some concerns arise that increased taxes will have an unintended consequence of an increasing home production of alcohol.<sup>6,121</sup>

New Zealand is one of a few countries which allow distillation for personal use. Home brew of beer is also permitted, with current regulations prohibiting the commercial sale of any home-brewed and distilled products. Whilst home-made alcohol may present safety concerns, they also avoid alcohol tax (and therefore represent lost Government revenue), and present challenges in terms of routine monitoring of the population's level of alcohol consumption (extrapolated via excise data).

Home production is also relatively efficient and cheap. For example, it takes 6-7 days to produce 6 litres of spirits (40% ABV) for personal consumption; and costs as little as \$20 per litre of alcohol (or 63c per standard drink). Today, large home brew kits are available that produce large volumes of high quality beer. In 2018, Consumer New Zealand found that a pint of beer could be produced for as little as 45c per pint.<sup>122</sup>

The renaissance of the home brew market in New Zealand requires on-going monitoring. Population-based surveys are required to monitor the prevalence of home production as well as understand the types of home brewed and distilled beverages. Regulations to restrict home production activities, through limiting the type of products which can be made and/or limiting the sale of raw materials online or in retail outlets, could be considered where required.

## SUPPLY-SIDE INDUSTRY FAILING TO PASS ON FULL PRICE INCREASE TO CONSUMER

In the presence of significant excise increases, supermarkets have a greater ability to absorb the increases, given the extent that they can cross-subsidise from alcohol products to food items<sup>61</sup> and/or force suppliers to absorb the increase in tax.<sup>6</sup> The New Zealand Wine Growers Association have noted that even the annual alcohol excise increases are generally not able to be passed on to consumers as the dominant retailers simply force producers to absorb them.<sup>123</sup> Consequently, some producers may leave the market because of reduced margins and profitability.

Evidence from the United Kingdom showed that supermarkets responded to excise tax increases by not passing the full increased price onto cheaper products (especially beer and spirits).<sup>124</sup> Rather, they increased the price of expensive products by more than would be expected. This reduces the effectiveness of tax increases, particularly for heavy drinkers. Similarly, New Zealand research has shown that the tobacco industry responded to excise tax increases by subsidising cheaper brands to maintain the affordability of heavy smoking.<sup>94</sup> New budget brands were also introduced into the market.<sup>94</sup>

In the long term, additional excise should be fully passed through to the consumer, together with a potential increase in the bargaining power of producers who remain in the market. Minimum unit pricing would assist to mitigate the effects of any industry responses to tax increases.

## Additional considerations

### 1) TAXING RTDS AT THE SAME RATE AS SPIRITS

Many jurisdictions comparable to New Zealand (eg. United Kingdom, Ireland, Australia, some states in North America) set the level of RTD excise tax to be commensurate with the rate for higher-strength spirits. Many of these countries set these rates in the first decade of the new millennium, when RTD consumption was increasing. Compared to other beverages, spirits have a greater potential for intoxication given the high concentration of alcohol at low volumes. RTDs are particularly palatable given the masking of alcohol with high levels of sugar and flavouring.

Some countries have further opted to set a higher tax rate for RTDs over other types of spirits. France implemented a special tax on RTDs in 1996, followed by Luxembourg in 2002 and Switzerland in 2004. Germany increased the tax on RTDs in 2004, with legislation requiring manufacturers to print a warning of the legal age limit directly on the RTD product. In 2005, Denmark levied an additional duty on spirit-based RTDs.

Research examining the impact of price increases for RTDs (also known as ‘alcopops’ or pre-mixed drinks) has generally found immediate reductions in RTD consumption alongside partial substitution to beer and other spirits.<sup>123-127</sup> Following a large RTD tax increase in Switzerland, alcopop sales declined considerably.<sup>128</sup> It is further reported that RTDs declined to such an extent in Germany that some of the largest retailers of RTDs took brands off the market. In Australia, consumption of RTDs reduced immediately in many groups; although reductions among females occurred three years after implementation of the alcopops tax.<sup>129</sup>

By far the most evident response to RTD tax increases has been the growth in ‘malternatives’, or creation of new pre-mixes that were exempt from the definition of a pre-mixed spirit drink. Loopholes in legislation saw the introduction of 33 key new product developments in Germany in 2009 and 2010, of which 14 were new RTDs or high-strength pre-mixes (often beer-based). In Germany they became the fastest growing RTD on the market.<sup>130</sup>

A similar situation arose in Australia, whereby the tax originally applied only to spirits-based drinks. Similar to the industry in Germany, manufacturers in Australia circumvented the tax by developing beer-based RTDs (eg. Smirnoff Platinum, Bolt). This loophole was later addressed to ensure the tax also applied to wine-based and beer-based RTDs. Cider Australia supports the higher level of taxation for cider-based RTDs when compared to the rate of traditional ciders.<sup>131</sup>

Applying narrowly-defined taxes can present circumstances such as those described above. More recently, additional RTD-like products have emerged in the market that may be exempt from taxes which focus on spirit content alone. These products could also be exempt from industry codes of practice, such as the Distillers Association of New Zealand Voluntary Industry Code for RTDs<sup>132</sup> which states the following:

- Limit the production and/or distribution of RTDs to a maximum alcohol strength of 7% ABV and a maximum of two standard drinks per single serve container to all licensed premises in New Zealand.

As this code only applies to spirit-based alcoholic beverages (and only 500ml or less containers intended for single serve), it would be foreseeable that malternatives (beer- and wine/cider-based RTDs) may not be required to adhere to the voluntary code.

Finally, as described previously, Māori, Pacific and drinkers living in the most deprived neighbourhoods have a disproportionately higher level of consumption of RTDs.<sup>24</sup> Although policies to increase the tax on RTDs may have profound health benefits for these groups, more progressive tax policies are required to mitigate the financial impact among those drinkers potentially spending more on RTDs.

## 2) EARMARKING TAX REVENUE

Hypothecation (or ‘earmarking’) is a feature of many taxes around the world. Rather than the tax revenue going toward the government’s general expenditure, any money raised from hypothecated taxes must be spent in a particular way.

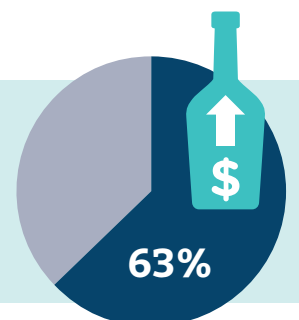
New Zealand’s HPA levy is a pertinent example of a hypothecated tax, as are New Zealand’s fuel taxes. Generally, however, New Zealand tends to avoid hypothecated taxes as they reduce the Government’s freedom over its budget and can result in misallocation.

In addition to the recycled cost savings to society, the regressive potential of excise increases can be further mitigated by allocating a proportion of alcohol excise revenue to alcohol control. For example, earmarked taxes could be used to increase screening and brief intervention in community, primary and secondary care settings. These services have been found to be cost-effective in reducing hazardous and harmful drinking.<sup>133</sup> Priority should be given to harmful or hazardous drinkers among Māori and low-income groups. In addition, earmarked taxes could be used to fund mental health and addiction services. This approach has high levels of public support.<sup>7</sup>

Recycling of alcohol excise revenue can be achieved by either allocating the excise tax revenue to alcohol-specific programmes or committing a proportion of alcohol excise taxes to budget priorities.<sup>85</sup> A tax-subsidy approach, whereby a proportion of alcohol excise duties are allocated to provide an extra subsidy on essential commodities and services, can be a useful approach to minimise the financial strain on low-income drinkers while improving their health outcomes.<sup>134</sup>

Consideration could also be given to imposing an ACC levy to cover its alcohol-related costs.

**63% of New Zealanders support raising the price of alcohol if the extra revenue was used to fund alcohol and mental health services<sup>7</sup>**



### THE ARGUMENTS AGAINST HYPOTHECATION

In recent decades, tax policy advisors have tended to view hypothecation unfavourably, especially in New Zealand. The core of the case against hypothecation is that it is unnecessary: if a demand for spending is sufficiently worthwhile, the Government would allocate money to it through the usual budget process.

Hypothecation is, therefore, likely to result in the *misallocation of resources*, for either (a) more money is raised through the hypothecated tax than is needed resulting in Government resources being wasted and certain tax rates being unnecessarily high; or (b) too little money is raised, in which case the Government is unlikely to provide more resources unless it is politically convenient to do so, because they can use the hypothecated tax as a reason for underfunding.

Hypothecated expenditure is also unlikely to be reviewed through the annual budget process, which means that the need for any particular hypothecated expenditure will usually not be properly compared to other demands on government spending, undermining the budget process.

### THE ARGUMENTS FOR HYPOTHECATION

However, there are several reasons why hypothecation may be beneficial:

- **Security of funding:** Hypothecation can be used to ensure that certain demands on the Government's finances will be met without political interference. This works because changing the law to remove a hypothecated source of funding is (a) more difficult and (b) more visible than merely allocating budget resources differently. This is why, for example, health funding in Britain is hypothecated.
- **Sectional concerns:** Some taxes – although these are less common in New Zealand – fall specifically on some parts of the community. Consider, for example, Auckland's regional fuel tax. Aucklanders would likely be aggrieved if the revenue from this tax was being spent around the country, rather than specifically in Auckland (and, for this reason, it is hypothecated to transport projects in Auckland).

### THE EFFECTS OF HYPOTHECATION ON THE DISTRIBUTIONAL IMPACTS OF TAXES:

When assessing the distributional impact of a tax (eg. the impact of alcohol taxes across income groups), there are various factors to consider:

1. The tax's incidence – who pays it and how much do they pay?
2. The behavioural costs and benefits – how does paying the tax affect the taxpayer and society?
3. How the revenue is spent – who benefits and how much?

Any of these three factors can be progressive, regressive or proportional vis-à-vis taxpayers' ability to pay. Overall, the system can be progressively redistributive, regressively redistributive or not redistributive.

Hypothecation affects the distributional impacts of a tax. For example, *on the one hand*, the financial burden of a higher excise tax on alcohol is likely to be somewhat regressive – those with less ability to pay, on average, drink more and therefore a greater proportion of the income of heavy drinkers would go towards the tax. However, *on the other hand*, those with a

less ability to pay are also more likely to benefit from drinking less (given they experience more harm per drink) as a direct consequence of the tax. Those with more ability to pay would also benefit from reduced personal harms from their own drinking and from the drinking of others, although to a lesser extent. The extent to which these two considerations cancel each other out determines how equitable the tax's impacts are.

If revenues of an excise tax on alcohol are hypothecated towards programmes to reduce alcohol-related inequities, the design of the programmes (specifically, who participated and how effective the programmes were) would determine their distributive impact.

## RECOMMENDATION

The evidence strongly suggests that excise tax increases in New Zealand will generally be pro-equity overall, as the overall health and wellbeing benefits that are accrued from reduced consumption will outweigh the financial harms from additional expenditure.

Alcohol Healthwatch recommends that excise tax rates are increased across all beverages to reflect the general social costs which alcohol consumption incurs. On average, excise represents approximately 25% of alcohol prices which does not equate with its seriousness as a public health and social concern, and key driver of health inequities. An ACC alcohol levy could also be considered to assist in covering the costs of alcohol to New Zealand's no-fault accidental injury compensation scheme (ACC).

Alcohol Healthwatch supports the recommendation of the Law Commission that excise rates across all beverages are increased by at least 50%, translating to an average increase of 10% in alcohol prices.

As with other tax increases implemented in New Zealand, the wider tax and welfare system should be used to minimise the impact of any additional spend required by individuals and/or families.

Any lowering of the tax rate for low-alcohol beverages should only be considered as a complementary strategy alongside increasing the tax rates of higher-strength beverages, and not as a stand-alone strategy. However, we do recommend that the tax rate for low-alcohol products should move away from being based on beverage volume, to being based on alcohol content (described later on page 39).

Because both the real price of alcohol and affordability interact to affect consumption<sup>4</sup>, excise tax rates need to be regularly indexed against the inflation of both wages and goods.

The base excise rate should be reviewed every three to five years, in line with developments in the supply and trends in harm.

Successive increases should be considered to follow the initial 50% increase. For example, a 10% increase could be required annually thereafter, with an evaluation of its impact taking place after the three-year period.

Consideration should be also given to taxing all RTDs (beer-, wine/cider- and spirits-based) at the higher rate of spirits.

Earmarking of alcohol taxes could be considered, prioritising the funding of alcohol harm reduction programmes for Māori, by Māori.

Evaluation of the impact of tax increases, particularly on inequities in harm and financial impact, is of paramount importance.

## Recommendation 2: Address the substantial under-taxing of wine

In the last 25 years, the volume of (unfortified) wine consumption in New Zealand has increased by 80% (from 60 million litres in 1995 to 108 million litres in 2019).<sup>135</sup> This has occurred in tandem with a decrease in the real price of wine and a marked increase in its affordability (eg. wine increased in affordability by 20% between 2012 and 2017).<sup>65</sup>

Today, wine is the cheapest alcohol product (by standard drink) in the domestic market; cask wine is sold for as little as 68c per standard drink, and bottled wine is sold for around 85c per standard drink (making it the second cheapest alcohol product). Often, the cheapest wine sold is produced overseas (eg. South Africa, Australia) and is imported into New Zealand. The flooding of the New Zealand market with cheap wine partly results from ineffective taxation policies in other countries (such as Australia's Wine Equivalent Tax), which incentivise the production of cheap bulk wine.<sup>136</sup>

However, rather than countering the distortive effects of other countries' wine taxes, New Zealand's alcohol excise contains a similar distortion of its own. In New Zealand, wine (specifically unfortified wine) is taxed differently to most other alcohol products: it is taxed per volume of beverage and not by alcohol content. This approach is common throughout the world, as wine producers claim they are unable to precisely control the alcohol content of batches, vintages, varieties and styles of wine. This means that every 750ml bottle of wine or cask of wine is taxed at the same rate, regardless of its alcohol content. The current level of the tax rate is set at all table wine being 10% ABV.

The reality, however, is that wine is rarely 10% ABV. Although the average alcohol content of wine was 11% between 1976 and 1987 (cited by Statistics New Zealand<sup>137</sup>); today, a 9.5% ABV bottle of wine is marketed as 'low-alcohol'. This is because the alcohol content of wine has gradually increased over time. It is not uncommon to find a selection of wines in New Zealand now reaching as high as 14.5% ABV. Australian estimates are that an average white wine contains 12.2% alcohol, whilst a red wine contains 13.4%.<sup>138</sup>

The taxing of wine at the equivalent level of 10% ABV requires urgent attention. The difference in treatment results in the under-taxation of a product that, on a per unit basis, can result in just as much harm as other alcoholic beverages. New Zealand research demonstrated that many (almost half) dependent drinkers report exclusively consuming wine.<sup>30</sup> Further, under-taxing wine is unfair on the manufacturers, retailers and consumers of other types of alcohol, and it is likely to distort the market such that consumers' true preferences are not being met. For example, there may be more interest in low-alcohol wine that is presently apparent, because the tax incentivises companies to forego this market in favour of wine above 10% ABV.

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**Today, the cheapest alcohol product in the market is cask wine, sold for as little as 68c per standard drink.**

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**The second cheapest alcohol product is bottled wine, sold for around 85c per standard drink.**

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**All wine (unfortified) is taxed as if it is 10% ABV, far from the reality of its true ABV.**

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The significant under-taxation of wine effectively means that every 5th glass in a 750ml bottle of wine is tax-free. The under-taxing also represents a form of corporate welfare, is foregone revenue for the Government and a lost opportunity to reduce alcohol harm.

**Every 5th glass of wine  
in a 750ml bottle is  
effectively tax-free**



As a comparison, many OECD countries tax wine within bands of alcohol content to more appropriately reflect a volumetric excise tax rate based on alcoholic strength. For example, in the United Kingdom there are three tiers of wine tax (1.2-4%, 4-5.5%, and 5.5-15%);<sup>139</sup> whilst in Finland there are four tiers (<2.8%, 2.8-5.5%, 5.5-8%, 8-15%). It is unknown if this tiered approach has encouraged the production of low-alcohol wines, but it would seem sensible to suggest this could be a possibility.

## RECOMMENDATION

Wine needs to move towards being taxed on a more appropriate volumetric rate. This approach is also recommended by two dominant wine producers in New Zealand.<sup>140,141</sup> We suggest that bulk wines can determine their alcohol content and, therefore, must be taxed at a volumetric rate.

If small producers are unable to determine the ABV of the vintage for taxation purposes, then their product should be taxed at a default rate; the ABV that wine is assumed to be, absent of a specific determination of its strength. Alcohol Healthwatch supports this rate being set at 14%, which is the higher end of the alcohol content found in unfortified wines. This creates an incentive for wine producers to have their wine's alcohol content tested. However, a case could be made for different default levels for white wine and red wine, or for the default level to be set at the average strength of both reds and whites (although this still incentivises higher-strength wine producers to not test the strength of their wine).

Alcohol Healthwatch also believes that pricing policies for wine should relate only to their ability to reduce acute and long-term harm. Industry assistance, regional development priorities, promotion of small business or growth in export potential are not goals that should be considered in the determination of alcohol tax rates.<sup>142</sup> This is because the justification for imposing a tax on alcohol (and thereby interfering with people's property rights and freedom to contract) is the health effects of alcohol. If the government wishes to make the case for imposing a tax for other reasons, in the interest of transparency, this should be done separately.

If bands of excise tax, according to alcoholic strength (eg. a rate for 10% to 14% wines), were to be used for taxing wine, the tax rate should be set at the top of each band in order to avoid suppliers avoiding actual taxation on ethanol content.<sup>70</sup>



### Recommendation 3: Move all other products taxed by beverage volume to being taxed by alcohol content

Similar to wine, some alcoholic products between 6% and 14% ABV (mostly cider, perry, light spirits, RTDs) are also taxed per litre of beverage, and not by alcohol content. Again, this relates to fermented (eg. cider) beverages being more difficult (or more expensive) to precisely determine an accurate alcohol content. Other products in this band include RTDs, for which alcohol content can be more easily measured.

#### PRODUCTS >6% TO ≤9% (MOSTLY CIDERS AND RTDS):

Similar to the taxing of wine, the effect of this tax band (by beverage volume rather than alcohol content) is that products at the top end of the band of alcohol content are undertaxed. In the 6% to 9% band of alcohol excise tax for spirits and cider, the tax rate is set at an equivalent of 8%, incentivising the production of higher strength products such as RTDs. Although RTDs in New Zealand have a maximum alcohol content of 7% (due to an industry voluntary code<sup>132</sup>), the tax structure currently incentivises 7% products over 6% products.

This likely contributes to the New Zealand market being dominated by 7% rather than 6% RTDs, having implications for inequities in alcohol-related harm. Although only 14% of all alcohol available for consumption is in the form of spirits-based drinks<sup>iv</sup> (by volume and by amount of pure alcohol),<sup>22</sup> one-third (33%) of Māori and 27% of Pacific drinkers typically purchase RTDs compared to 13% of European/other drinkers. Those living in the most deprived neighbourhoods are twice as likely to purchase RTDs than those in the least deprived areas.<sup>24</sup> In contrast, Māori are significantly less likely to consume full-strength spirits than non-Māori.

Many RTD producers should be able to determine the ABV of their products, as their method of production does not require fermentation. Those that are based on wine, cider or beer should also be able to accurately determine alcohol content. For this reason, the tax on RTDs needs to move away from being based on volume to being based on alcohol content (see below).

The other products in this band of tax (mostly ciders), also need to move towards a volumetric tax approach. At present, there is an incentive to produce higher-strength products given the effective tax rate equates to products in this range being 8% ABV. This likely explains why the New Zealand market contains ciders at 8% ABV, due to the lack of incentive for cider producers to manufacture products with a lower alcohol content in this band of alcohol tax.

Given that many cider products are likely sold in bulk,<sup>131</sup> a volumetric approach to alcohol tax should be feasible. In the United Kingdom, cider is taxed by beverage volume, but in bands based on alcohol strength (1.2-<6.9%, 6.9-<7.5%, 7.5-<8.5%) and with sparkling ciders having the highest cider tax rate. A tiered tax rate could be similarly applied in New Zealand.

#### PRODUCTS >9% TO ≤14% (MOSTLY LIGHT SPIRITS):

Products in this band of tax generally include light spirits. The tax rate is set at an equivalent of 10% ABV, likely explaining the distortion in the market towards many light spirits being sold at 13.9% ABV, to maximise the tax advantage. In Australia, the higher tax rates commence at 10% ABV. It is recommended that the products in this ABV band of tax move to a volumetric tax rate (ie. based on alcohol content).

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**The Fruit Wine and Cider Makers Association of New Zealand note that products are often diluted with water to remain in the <6% tax band, whilst they target products above 8% ABV “because of how the existing duty rates are defined” (p.4).<sup>143</sup>**

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**For products between 9% to 14% ABV, the tax rate is set at the equivalent of 10%.**

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iv Spirits-based drinks include RTDs and spirits less than or equal to 23% ABV

### **RECOMMENDATION**

The above tax rate bands for products containing  $>6\%$  to  $\leq 9\%$  ABV and  $>9\%$  to  $\leq 14\%$  ABV should move towards a volumetric approach (ie. based on alcohol content) or should be taxed in narrower bands determined by alcohol content. We believe that RTDs should be able to accurately determine the ABV of the product.

Consideration should be given to taxing all RTD products at the higher rate of spirits (described on pages 31-32).

## Recommendation 4: Tax low-alcohol beverages (1.151-2.5% ABV) by alcohol content, not by volume

Since 2003, low-alcohol beer (1.151-2.5%) has increased in volume by 91%, from 3.7 million litres to around 7.0 million litres. In 2019, it comprised 2.1% of the domestic market, by volume.<sup>22</sup>

In New Zealand, low-alcohol products are taxed by beverage volume, rather than alcohol content. The effective tax rate per litre of pure alcohol is higher for beers under 1.5% (and lower for beers between 1.5-2.49%) when compared to the volumetric rate applied to beer at 2.5% ABV (Figure 7, page 16). This perverse situation whereby, by unit of alcohol, some lower strength beers are taxed at a higher rate than regular-strength beer, needs to be addressed.

In Australia, tax rates are the lowest for beer up to 3% ABV<sup>73</sup> (compared to 2.5% in New Zealand). In the United Kingdom<sup>139</sup> and Ireland<sup>144</sup>, the lower tax rate threshold is 2.8% ABV; whilst in Canada it is 2.5%.<sup>145</sup>

The Law Commission<sup>5</sup> recommended that excise tax on products up to 2.5% ABV be removed to encourage the market to develop low-alcohol products.

Alcohol Healthwatch believes that the positive move towards consumption of low-alcohol products by New Zealanders is a welcome one, but that such a move will only minimise harm when consumers substitute or replace higher strength beverages with those of lower alcohol content. This is because health professionals are concerned that the effects of low-alcohol product availability are actually additive, resulting from an increased number of occasions that drinkers choose to consume alcohol (ie. at lunch, week nights, etc.).<sup>146</sup> Any increase in consumption would be of significant concern given the long-term health risks of alcohol consumption and consequent burden on the health care system.

Thus, increases in the availability and consumption of low-alcohol beverages have the potential to increase the number of New Zealanders drinking in excess of the low-risk drinking guidelines. To reduce the long-term health risk, it is imperative that low-alcohol products are not consumed in addition to higher strength beverages and that alcohol-free days are not replaced by the consumption of low-alcohol products. It is important to remember that it is the total volume of alcohol that is consumed that places a person at risk of long-term adverse health outcomes (eg. cancer), regardless of whether that alcohol is consumed from low- or full-strength beverages.

Evidence to date on the substitution or additive effects resulting from low-alcohol product availability is currently lacking. As such, there is no certainty that consumers will substitute their higher strength beverage consumption with the lower strength products. Only one study<sup>147</sup> has investigated the impact of an increase in the availability of low-alcohol products. In Finland, a change in alcohol policy resulted in the permission of mid-strength beers for sale in supermarkets and grocery stores, whilst all stronger beverages (including beers) remained for sale within bottle stores. An evaluation of this policy found consumption of all types of beverages, including stronger beers, remained the same, whilst consumption of mid-strength beers increased. It was therefore recommended that:<sup>147</sup>

*Substitution will take place more likely when the availability of strong alcoholic beverages is restricted than when just the availability of light alcoholic beverages is increased. In cases of availability increases, addition is a more likely outcome than substitution. (p.55)*

Alcohol Healthwatch acknowledges that, with regards to the risk of injury and acute alcohol-related harm, low-alcohol products have been found to be less likely to be consumed in risky drinking occasions (more than 4 standard drinks on an occasion).<sup>148</sup> This means that we need to be particularly vigilant about the possible negative externalities of an increased consumption of low-alcohol beverages on the long-term health risks from drinking, resulting in drinkers exceeding the volume of alcohol consumed recommended within low-risk drinking advice.

Tax increases to higher strength beverages could be used to incentivise consumers to replace or substitute their higher strength beverage consumption with low-alcohol products.

### RECOMMENDATION

Alcohol Healthwatch believes that the unnecessarily complicated structure of alcohol excise cannot be justified by either health or economic reasons.

Alcohol Healthwatch recommends that reductions to the tax rates of low-alcohol products **must only** occur in the presence of increasing tax rates for higher strength beverages. This will encourage New Zealanders to drink less, rather than adding low-alcohol beverage consumption to their daily or weekly alcohol use and running the risk of exceeding the low-risk drinking advice.

Monitoring also needs to be carried out to ensure that these products cannot be cheaply distilled back to a higher level of ethanol concentration, undermining any lowered tax rate.<sup>70</sup>

## Recommendation 5: Implement minimum unit pricing alongside tax increases

Alcohol excise tax structures should ensure that there is a minimum price at which alcohol is sold. To some extent, this is achieved in New Zealand by taxing the highest strength products (ie. spirits) at the highest tax rate.

**The budget end of the alcohol market has moved little in price over years.** The Law Commission noted that the budget end of the retail market had witnessed only minimal increases in price over the past two decades.<sup>5</sup> The Ministry of Justice found that, in 2011, almost one-quarter (24%) of all products in New Zealand off-licences were sold for less than \$1.20 per standard drink (10g alcohol). Almost two-thirds (65%) were sold for less than \$1.40. By far, spirits were more likely to be sold cheaply (72% sold <\$1.20 per standard drink), despite being taxed at the highest rate in the excise structure.<sup>6</sup>

**The cheapest alcohol product is cask wine.** In New Zealand, every beverage category (particularly in the off-licence environment) has a product that is positioned to the cheapest or 'budget' item. As previously discussed, cask wine is by far the cheapest alcoholic product in New Zealand, currently selling at around 68c per standard drink. Bottled wine is second cheapest, being sold for around 85c per standard drink. Some light spirits (<14% ABV), RTDs and a range of low-price beers are sold for less than \$1.00 per standard drink.

**Heavy drinkers are more likely to purchase cheap alcohol.** As described in previous sections, New Zealand heavy drinkers and more frequent drinkers,<sup>2,29</sup> including young heavy drinkers,<sup>98</sup> have been found to buy a greater proportion of alcohol from the cheapest end of the price range. Heavy drinkers do not exclusively purchase cheap alcohol, but a greater proportion of their purchases are low in price.<sup>29</sup> Research from Australia and the United Kingdom also shows that low-income heavy drinkers preferentially purchase low-cost alcohol.<sup>107,109</sup>

In a study of dependent drinkers in Auckland, 62% of respondents reported using at least some wine and 47% used exclusively wine.<sup>30</sup> In Australia, the contribution of cask wine to heavy consumption of alcohol is reported as profound. The heaviest 20% of drinkers were found to account for 83% of the total cask wine consumed by the sample of households.<sup>149</sup> In another Australian study, those whose main drink was cask wine were found to be the most likely to be among the heaviest drinking group.<sup>150</sup> Similarly, in Australia it has been found that lower-income harmful drinkers were more likely to consume cask wine than other income subgroups.<sup>151</sup> It is further noteworthy that the cheapest wine in the New Zealand market is unlikely to have been grown and produced in New Zealand.

Whilst many drinkers can respond to increases in alcohol excise tax by switching to cheaper products (or alternatively switching from buying alcohol at pubs to off-licences or from the illicit market),<sup>152</sup> those who consume the lowest-price alcohol can only respond by reducing the quantity they drink or spending more.<sup>153</sup> This means that minimum pricing policies are particularly targeted at the consumers of very cheap alcohol. Unlike excise tax increases which suppliers (eg. supermarkets) may not pass on through to the consumer, minimum price policies force suppliers to increase their prices.

### LEGAL MECHANISMS TO ESTABLISH A FLOOR OR MINIMUM PRICE

There are a number of mechanisms that could be used to achieve a minimum price of alcohol across all alcohol products:

- i. Increasing the rate of the general excise duty, across the board, to a high enough level to maintain the required minimum unit price across all products; or
- ii. Imposing an additional tax on products which claws back as the price of alcohol rises so that it goes to zero; or
- iii. Using a combination of taxes on price and alcohol content; or
- iv. Enacting minimum price controls in legislation, specifying the floor price for which alcohol cannot be sold for less.

### INTERNATIONAL IMPLEMENTATION OF MINIMUM UNIT PRICE CONTROLS

Many jurisdictions have legislation, or have recently enacted legislation, that sets a floor price for alcohol. These include:

- Canada (although based on volume of beverage, not on standard drink units)<sup>154</sup>
- Scotland<sup>155</sup> (with a sunset clause to be reviewed after five years)

- Ireland<sup>156</sup>
- Wales<sup>157</sup> (with a sunset clause of review after five years)
- Northern Territory of Australia<sup>158</sup>
- Belarus, Kyrgyzstan, the Republic of Moldova, the Russian Federation and Ukraine<sup>159</sup>

When comparing the level of minimum price established across countries (after adjusting for exchange rates), it is important to take into account at least two factors. Firstly, countries vary in their definitions of standard drinks or units (8g in the United Kingdom and Ireland, 10g in Australia and New Zealand). Secondly, the cost of living in a particular country significantly influences the price of alcohol. Also note that in some countries minimum unit pricing is referred to as the Minimum Price of Alcohol (or MPA).

In Scotland and Wales, the minimum price is 50p per 8g alcohol (or approximately NZ\$1.25 per standard drink in New Zealand). Ireland has passed legislation mandating 10 Euro cents per gram of alcohol, equating to approximately NZ\$1.70 per standard drink in New Zealand. The Northern Territory of Australia implemented a MUP of AU\$1.30 (NZ\$1.35-\$1.40, depending on exchange rate) in October 2018.

A common criticism of establishing a floor price by law is that the profits from higher prices flow back to the alcohol industry. This could be used to increase spend on advertising, political relations, etc.

Whilst the countries listed above have opted for a minimum unit pricing policy that sets the floor price, alternative approaches could be examined. For example, a combination of two excise taxes could be used: a volumetric tax with an *ad valorem* tax based on the recommended retail price (and not on wholesale price). Both taxes would be paid by producers and importers.

This combined approach was adopted in Thailand in late 2017.<sup>160</sup> It requires producers/importers to declare a recommended retail price of each product to the Excise Department of the Ministry of Finance. Within the mixed approach, the Government can set different *ad valorem* rates for different categories of alcohol products (eg. low- and high-strength alcohol products, low- and high-price). As such, the combined taxation approach is simultaneously able to work on both absolute alcohol content and price.

To increase the price of cheap alcohol in New Zealand, the *ad valorem* rate could be set according to the recommended retail price per standard drink. If the product's recommended retail price is less than \$1.40 per standard drink (for example), a higher *ad valorem* tax rate would apply. This approach would have the same goal as Minimum Unit Pricing, but with the revenue directed to the Government and not increasing the profits of the alcohol industry.

Alternatively, an additional tax could be imposed on products which claws back as the price of alcohol rises so that it goes to zero. This would mean that the cheapest products are taxed the most.

## EFFECTIVENESS OF MINIMUM UNIT PRICING

### CANADA

Evidence from Canada has shown that minimum unit pricing has been associated with reductions in alcohol consumption, wholly-attributable alcohol deaths, and alcohol hospitalisations.<sup>161</sup> In Saskatchewan<sup>161</sup> and British Columbia,<sup>154</sup> a 10% increase in the minimum unit price was associated with 8.4% and 3.4% reductions in overall consumption, respectively. The average minimum price in British Columbia, Canada, at this time was NZD\$1.23.<sup>108</sup> It is important to note that the alcohol industry's criticisms of these studies, leading to the suggestion that minimum unit pricing is ineffective, has been thoroughly addressed and invalidated by the lead author of the peer-reviewed studies.<sup>108</sup>

### SCOTLAND

Eight months after the implementation of a minimum unit price in Scotland, the weekly amount of alcohol purchased was shown to reduce by 7.6% per adult per household.<sup>162</sup> Reduction in weekly purchases was greater among lower income households, as well as among households that purchased the largest amount of alcohol. In terms of financial impact on

drinkers, early findings show no significant increase in the weekly spending on alcohol products, with an average increase in weekly alcohol expenditure of NZ\$1.20 (61p) per adult per household.<sup>162</sup>

Descriptive analysis of sales 12-months after implementation showed the volume of pure alcohol sold per adult in the off-trade in Scotland decreased from 7.4 to 7.1 litres.<sup>163</sup> In contrast, the volume of pure alcohol sold in the off-trade in England and Wales increased from 6.3 to 6.5 litres. The average price of off-trade alcohol in Scotland also rose by 5 pence per unit (ppu) (~NZD\$0.10) from 55 to 60ppu (NZD\$1.14 to \$1.25 ppu). A more detailed statistical analysis and evaluation of minimum unit pricing will be published in late 2020 and 2023.

Qualitative research involving 50 young people in Scotland in the 8 to 12 months following the introduction of minimum unit pricing showed that it had limited impact on alcohol use and related behaviour.<sup>164</sup>

## THE NORTHERN TERRITORY

Following implementation of minimum unit pricing in October 2018, initial results from the first six months suggest substantial reductions in the proportion of intensive care unit admissions to Alice Springs Hospital for acute alcohol misuse.<sup>165</sup> Alcohol-related assaults were found to decrease across the Northern Territory and in smaller areas 10 months after implementation; in addition to declines in alcohol-related domestic violence.<sup>166</sup> However, a suite of measures was concurrently implemented in the Territory, making it difficult to isolate the effect of minimum unit pricing. In addition, longer-term follow up is required to account for seasonal effects and background trends.

## MODELLING STUDIES FROM THE UNITED KINGDOM AND AUSTRALIA

Modelling studies in the United Kingdom<sup>95</sup> and Australia<sup>149</sup> have also shown similar reductions in consumption associated with minimum unit pricing policies. The greatest reductions were consistently found among heavy drinkers. Australian modelling of the effects of a range of alcohol pricing policies on alcohol consumption in subpopulation groups (eg. alcohol consumption pattern, and age and income groups) found that minimum unit pricing had greater impact on groups which experienced high levels of harm (ie. harmful drinkers and low-income drinkers).<sup>151</sup> In response to a minimum unit pricing of AU\$1.30, harmful drinkers were estimated to reduce annual consumption by 14.2% compared to 3% among moderate drinkers. Low-income drinkers were estimated to reduce consumption by 12.7%, compared to 4.1% among high-income groups. Minimum unit pricing policies were found to be less effective at reducing consumption among younger drinkers aged 16 to 34 years, when compared to implementing a uniform volumetric excise rate to all beverages and increasing these rates by 10% to 20% (or setting a high minimum price of AU\$1.50).

## MINIMUM UNIT PRICING IS PRO-EQUITY

Challenges against Scotland's minimum unit pricing in the United Kingdom Supreme Court were unsuccessful, partly due to the very targeted nature of minimum unit pricing, as well as the sunset clause attached to the policy. The Supreme Court noted that "minimum alcohol pricing will much better target the really problematic drinking to which the Government's objectives were always directed" (p. 33).<sup>167</sup>

Minimum unit pricing is a policy targeted policy towards heavy drinkers. Of all pricing policies, minimum unit pricing is estimated to narrow the socio-economic alcohol-related health inequities the most.<sup>110,151</sup> Because the policy has a greater impact on the purchases of low-income heavy drinkers, research shows that the positive impacts on health from minimum

**Minimum unit pricing is pro-equity:  
The health gains from minimum  
unit pricing are greatest among  
disadvantaged drinkers.**



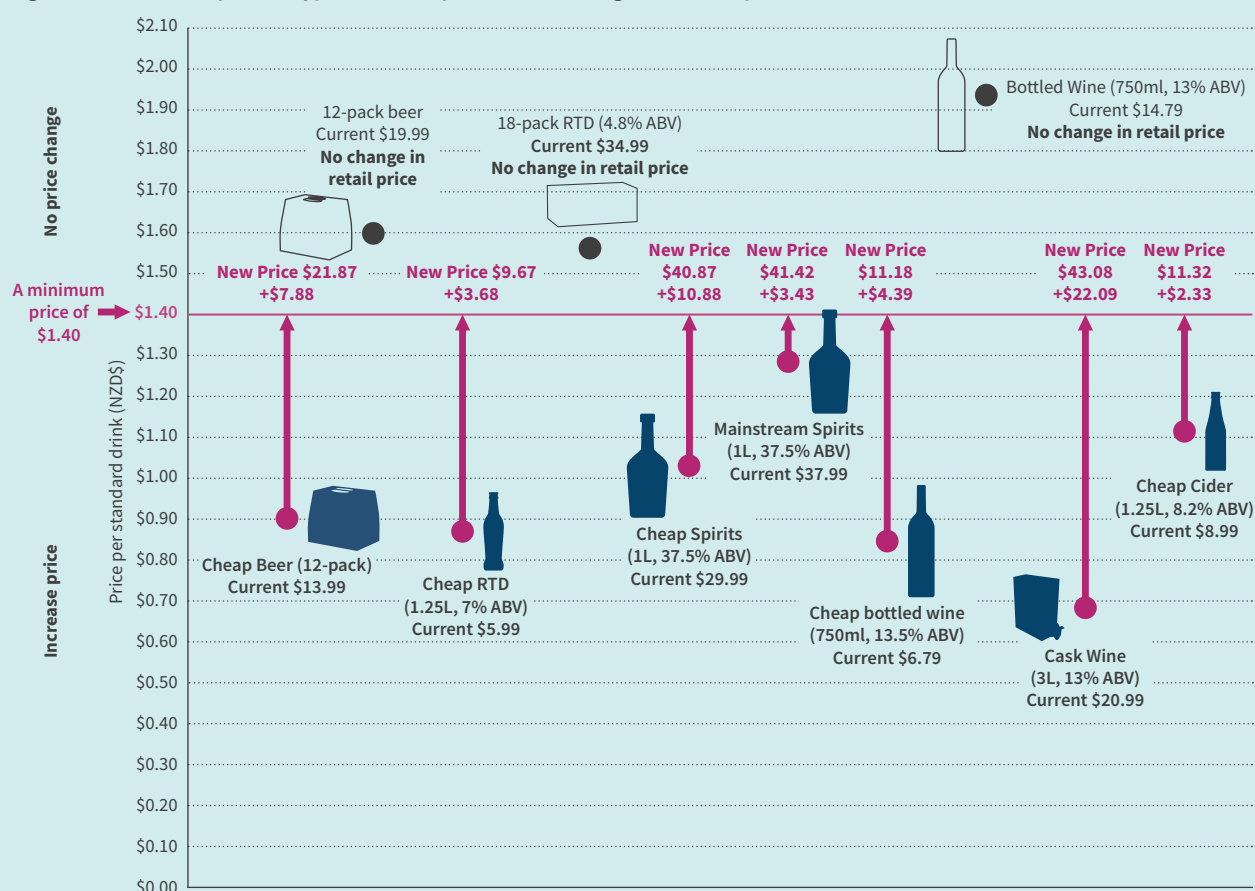
unit pricing are considerably larger for the most harmful drinkers in low-income populations, given their preference for purchasing low-cost alcohol and experience of high levels of alcohol-related harm.<sup>110,168</sup> For example, in British Columbia, Canada, minimum unit pricing was associated with reductions in alcohol-attributable hospitalisations, especially for lower income populations.<sup>168</sup> This was found in relation to immediate effects on acute hospitalisations as well as delayed effects on chronic hospitalisations. In a United Kingdom modelling study, it was estimated that 90% of the lives saved from minimum unit pricing would be from lower-socio-economic groups.<sup>110</sup> Closer to New Zealand, Australian modelling found that minimum unit pricing policies were estimated to result in greater reductions in consumption by heavy drinkers and low-income drinkers.<sup>151</sup>

Minimum unit pricing can, therefore, result in greater improvements in health among **low-income heavy drinkers**;<sup>110,168,169</sup> and thus, should be considered pro-equity.

### WHICH PRODUCTS WOULD INCREASE IN PRICE?

The impact of a hypothetical minimum unit price of \$1.40 is shown below. As shown in Figure 9, minimum unit pricing policies do not affect the price of more expensive alcohol products.

Figure 9. Increases in price of typical alcohol products following a minimum price of \$1.40.





## ADDITIONAL EXPENDITURE BY DRINKERS IS NEGLIGIBLE UNDER MINIMUM UNIT PRICING

### NEW ZEALAND

The Ministry of Justice found that the additional cost to low-risk drinkers from minimum unit pricing was negligible.<sup>6</sup> A minimum unit price of \$1.20 would result in an additional expenditure per week of:



Therefore, in New Zealand, minimum unit pricing can be effective in reducing consumption and harm without having highly regressive effects.

### SCOTLAND

The evaluation of the first eight months of minimum unit pricing in Scotland found that the weekly amount of alcohol purchased reduced by 7.6% per adult per household (particularly among low-income households); and there was no significant increase in spending as a result of the policy.<sup>162</sup> This is supported by qualitative interviews with retailers nine months after the implementation of minimum unit pricing, which revealed that heavy consumers were spending the same amount of money per week on alcoholic drinks, but reducing the volume they bought.<sup>152</sup>

### AUSTRALIAN MODELLING STUDIES

Australian modelling<sup>151</sup> of a minimum unit price of AUD\$2.00 found that the additional expenditure was negligible over the entire distribution of consumption levels (except for heaviest consumers above the 85th percentile). For light/moderate drinkers in the 50th to 80th quantiles, the per capita tax impact was less than AUD\$5.00 per week for light/moderate consumers (range 96c to \$3.24). The decrease in their daily alcohol consumption was also negligible, at less than 0.02 standard drinks. For drinkers at the 85th quantile, the extra spend was AUD\$7.56 per week, increasing to \$10.62 for the 90th quantile, and \$30.03 per week for the 95th quantile.

**All else remaining the same,  
heavier drinkers would be  
able to buy less alcohol for the  
money they currently spend**



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**Minimum unit pricing may reduce the gap in price between pubs and off-licences.** Minimum unit pricing policies may assist to reduce the differential between on- and off-licence prices, especially for low-cost beer, low-cost wine and low-cost spirits. This is because the lowest on-licence price is approximately \$1.60 per standard drink, meaning that minimum unit pricing would have limited impact on the prices in bars and pubs.<sup>6</sup> This may explain why some pub managers in the United Kingdom were found to support minimum unit pricing.<sup>170</sup> Case studies in Scotland nine months after the introduction of minimum unit pricing show that the policy had not directly affected the price of any on-licence products.<sup>152</sup>

Reducing the gap could play a role in decreasing the likelihood of pre-drinking or pre-loading before entering on-licence drinking environments. A New Zealand representative street-intercept survey of almost 500 pedestrians in the night-time economy of Hamilton found that 94% of drinkers had been pre-drinking, with price being the main motivation for pre-drinking.<sup>171</sup>

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### Minimum unit pricing policies have minimal or no impact on prices in pubs and bars

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**Minimum unit pricing could address the large price differential between supermarkets and bottle stores.** In 2010, the Law Commission noted that supermarket prices were cheaper than bottle stores.<sup>5</sup> Investigation of the first nine months of minimum unit pricing in Scotland found that the differential in price between supermarkets and bottle stores reduced, although there were no substantial changes in store visits or sales in bottle stores.<sup>152</sup> Long-term studies are required to determine if supermarkets lose footfall to bottle stores following minimum unit pricing.

Producers cannot circumvent minimum unit pricing with alternative and cheaper products; a common strategy employed by the industry following excise tax increases. As shown by the experience of tobacco tax increases in New Zealand, the tobacco industry responded by introducing 'budget brands' to complement the higher cost premium brands.<sup>94</sup> This led to the recommendation for the Ministry of Health to implement minimum unit pricing for tobacco products.<sup>94</sup>

The same scenario could equally apply to alcohol. To ensure excise tax increases are effective, they should be implemented alongside minimum price strategies.

## COST SAVINGS FROM MINIMUM UNIT PRICING

The Ministry of Justice estimated that the implementation of a \$1.20 minimum price in New Zealand would result in cost savings of \$86 million in the first year and \$624 million over 10 years. The greatest savings would be made through reductions in alcohol-related crime.<sup>6</sup> Savings from minimum unit pricing are estimated to be less than the savings from excise tax increases, given the very targeted nature of setting a minimum price.

## COSTS OF IMPLEMENTING MINIMUM UNIT PRICING AND ASSOCIATED COMPLIANCE

Initial set up costs for the Scottish Government to implement minimum unit pricing were estimated to be around £50,000 (~NZD\$95,000).<sup>172</sup> This included the set-up costs for providing guidance and marketing materials to licence holders; in consultation with relevant parties including retailers, wholesalers, producers, licensing officers and police officers etc.

The total incurred costs were estimated to be around £738,000 (~NZD\$1,400,000).<sup>172</sup> These costs included the cost of re-pricing and maintaining separate prices for Scotland, based on the time required for one staff member to spend on the task. However, it was estimated that the actual administrative costs would be lower as not all off-licences would be affected and not all products would be affected.

Compliance with minimum unit pricing among alcohol retailers since the legislation came into force in early May 2018 appears to be high.<sup>173</sup> In a study of compliance with minimum unit pricing, any non-compliance issues were considered to be minor and swiftly resolved. In brief, factors that supported the high level of compliance included:

- clear guidance provided by the Government;
- the mandatory status of MUP; and
- financial incentive for licensed premises (to protect their licence, and increased profits from minimum unit pricing).

It was found that on-licence retailers were largely unaffected by the implementation of minimum unit pricing, as the alcohol products sold at on-licences were generally above the minimum price. Non-compliance issues at on-licences were not found. For off-licences, there were different non-compliance issues for large and small off-licences retailers but all issues were promptly resolved.

Licensing officers perceived an increase in workload demands for them in the short term (ie. pre-implementation visits and immediate post-implementation visits), but felt the workload demands for the implementation of minimum unit pricing would be integrated into their routine inspection visits, as in the case of inspecting other licensing conditions. In reality, competition between premises is also likely to result in minimum unit pricing being self-enforced across the off-licence sector.

### INDUSTRY RESPONSES TO MINIMUM UNIT PRICING

Case studies in Scotland suggest that one of the most noticeable impacts of minimum unit pricing was a shift away from large pack sizes of beer and cider.<sup>152</sup> Customers opted for smaller packs, and the industry changed their offerings in response to minimum unit pricing. For example, the sale of large boxes of beer had reduced and some consumers were switching from 1litre to 700ml spirits to maintain the same expenditure on alcohol. One beer producer had replaced an 18-pack box of beer with a 15-pack. Industry data showed a large reduction in large pack sizes, although it should be noted that there may be wider contextual factors to explain the change.

Promotions were also affected as discounts on certain products were no longer possible. This had implications for retailers who wished to discount expiring or damaged stock, but also meant that some producers could receive higher margins as they were not investing in promotions with retailers. The reduced price differential between brands of products meant that retailers were less able to use price as a competitive advantage. This is suggested to have accelerated the premiumisation trend whereby consumers were switching to products they viewed as more premium, as their price was now similar to the cheaper and 'lower value' products they previously purchased.

There was little evidence in the first nine months of product reformulation in response to minimum unit pricing or delisting of products (apart from the 3L bottles of strong cider). Some new lines of products entered the market, such as new light (20%) spirits. It was noted by producers that there are large upfront costs associated with reformulation, which may prevent this response to minimum unit pricing.

### IMPACT ON COMPETITIVE DYNAMICS WITHIN THE INDUSTRY

When prices are required to increase, there are many in the supply chain who are likely to be impacted. There may be increased or decreased profits among producers, wholesalers and retailers. The Scottish experience in the first nine months showed that large supermarket chains had not renegotiated the wholesale price due to prices being determined at the national/United Kingdom level.<sup>152</sup> Some retailers noticed that wholesale prices had increased, particularly for products affected by minimum unit pricing. It was envisaged that producers of products with strong brand loyalty were likely to have greater bargaining power with wholesalers and retailers. Overall, qualitative evidence of stakeholders in the Scottish alcohol industry showed that the impact on retailers was small (as increased margins on products could compensate for decreased sales), whilst there was a small negative effect on revenue of wholesalers and producers. There appeared to be no short-term impact on business closure or reduced staff employment.

### UNINTENDED EFFECTS – HEAVY DRINKERS SWITCHING TO DIFFERENT SUBSTANCES

In Wales, quantitative and qualitative research was used to understand the unintended impacts of the implementation of a minimum unit pricing policy, namely the potential for substance switching.<sup>174</sup>

Results showed that for the majority of drinkers, switching over to drugs was not an option as alcohol was the clear drug of choice. Any switching behaviour would be within the context of drinking; for example, drinkers might switch the type of alcohol they consume or change their purchasing behaviour.

There was belief that some persons (eg. street drinkers and those with prior experience of drug use) who do choose to switch are likely to consume drugs that mimic the effects of alcohol. This included prescription medications such as benzodiazepines, followed by cannabis and synthetic cannabinoids. It was uncommon that respondents believed they would switch to cocaine or opiate use.

The authors of the study suggested that prior warning about a minimum unit pricing policy would forewarn and forearm heavy drinkers, especially if messages were carefully worded and publicised widely across multiple platforms.<sup>174</sup> Alcohol treatment and health services need to be well-prepared in advance for any potential increase in service demand. New Zealand's recent increase in funding for mental health and addiction services is important in this regard.

### RECOMMENDATION

Alcohol Healthwatch recommends that a minimum price for alcohol is set through legislation (either through a tax or other policy). Preferably, this floor price is implemented alongside increases in the rates of alcohol excise tax. The level of the floor price would need to be determined by Government.

If the level of the minimum unit price was set too low in New Zealand, it would have minimal impact on drinking and inequities in harm. And similar to excise tax policies, a minimum price would need to be adjusted for both wage inflation and CPI.

At a local level, territorial authorities could explore the use of establishing bylaws that set minimum prices in licensed premises. This has been undertaken in the United Kingdom (see Carragher and Chalmers<sup>130</sup> for more information).

## Recommendation 6: Mandate the industry to report sales data to inform minimum pricing and other alcohol control measures

To inform policies that establish a minimum price of alcohol, accurate sales data are required. The World Health Organization recommends that alcohol sales data are collected to inform policy-makers with a comprehensive picture of alcohol consumption and associated risks.<sup>175</sup> Regular collection of sales data is also considered to be the gold standard method for reporting data on per capita alcohol consumption.

In New Zealand, sales data is imperative to guide the development of national alcohol pricing policies, as well as inform the development and evaluation of local alcohol policies. It has significant use for understanding the relationship between local alcohol characteristics and harm, in addition to informing the planning and allocation of public resources to respond to inequities in harm.

In Australia, alcohol sales data is required by law in the Northern Territory, Queensland, Western Australia, Victoria and the Australian Capital Territory. New South Wales collects sales data from late night licensed premises in Kings Cross. Reporting requirements vary, from quarterly to annually.<sup>176</sup>

New Zealand does not mandate sales data. In 2010, at the first reading of the Alcohol Reform Bill, Minister of Justice Simon Connor stated that “Retailers would have a year to provide sales and price data, after which regulation could be likely. I will advise by the end of the year what information is required and by when” (para. 8).<sup>177</sup>

The Sale and Supply of Alcohol Act 2012 provides for the collection of pricing data, through section 397 (Regulations):

- 1) The Governor-General may, by Order in Council made on the recommendation of the Minister, make regulations for any or all of the following purposes:
  - d) for the purpose only of any investigations to be undertaken in relation to the possibility of introducing minimum pricing schemes for alcohol, requiring persons who sell alcohol to give the Chief Executive information relating to the quantities of alcohol they have sold over any period and the prices at which they have sold it;
  - e) prescribing the form in which information required to be given by regulations under paragraph (d) must be given;
  - f) providing for any other matters contemplated by this Act, necessary for its administration, or necessary for giving it full effect.

Alcohol Healthwatch recommends that these regulations are immediately utilised, and support the recommendations of others<sup>178</sup> that all producers, wholesalers and retailers provide monthly transaction-level data on all alcohol sales, geocoded to retail outlet. This data must include the price and volume of the product sold. To address commercial and privacy concerns, local data could be aggregated to relevant geographical or social boundaries for use by the public and policy makers.

Outlet-level data enables a more detailed and timely record of consumption. A simple way for collecting outlet-level data is to require retailers to provide electronic printouts from the sales registers. Given that there are more than 10,000 retailers in New Zealand, Alcohol Healthwatch recommends the collection of such data can begin with supermarkets, followed by off-licence retailers (<4,000) and high-risk on-licence premises. Alternatively, the frequency of reporting could be minimised. It is also recognised that alcohol sales data collected from wholesalers will have a lag time to consumption.

The New Zealand Alcohol Regulatory and Licensing Authority should be tasked to receive, collate and report on the sales data. Alternatively, the establishment of an academic-led project similar to the Australian National Alcohol Sales Data Project<sup>178</sup> should be considered. Enforcement of sales data reporting is essential and must be adequately resourced. However, some level of self-enforcement among the industry is expected.

Alcohol Healthwatch believes that there would be minimal cost to the industry in mandating an approach (as described above), as the data are currently provided to commercial market research companies (eg. Nielsen). It has been recommended by others that Statistics New Zealand be commissioned to collect the sales data, as part of its regular price collection programme.<sup>70</sup>

### RECOMMENDATION

Alcohol Healthwatch recommends that the mandating of alcohol sales data occurs immediately, through implementation of section 397 of the Sale and Supply of Alcohol Act.

## Recommendation 7: Prohibit the single sale of alcohol products

Many off-licences in New Zealand sell single serves/containers of alcohol (mostly beer, RTDs and small containers of spirits) that are designed for immediate consumption. Often these types of single containers may be sold chilled and wrapped in paper bags, and are likely to be favoured by those who are heavy drinkers and also price sensitive (namely adolescents, young adults, and those with an alcohol dependence). Whilst some single serve products may be marketed as a single unit, other single serves may result from multi-packs being split intentionally or from broken packages.

Many jurisdictions around the world have enacted laws or regulations to restrict the sale of single serves. These concerns have arisen from the role of single sales in facilitating immediate public consumption near retail outlets. In the United States, the focus of these policies has been on single sales of inexpensive, high-strength, large container beer.

Research has examined the relationship between the sale of single serves and alcohol-related harm in local surrounding areas. One study<sup>179</sup> showed that the average proportion of shelf space devoted to single serve containers was positively correlated to violent crime, after adjusting for the local density of liquor outlets and neighbourhood socio-economic characteristics.

Stronger evidence has been demonstrated from an intervention to reduce single sales. Following a local restriction to single sales, the rate of alcohol-related ambulance attendances reduced among 15 to 24 year olds when compared to the control area.<sup>180</sup> Subsequently, when the restriction was removed, the rate increased significantly.

More recently, an interrupted time-series design with comparison groups in the United States found that in areas that adopted (albeit weak) single sale restrictions (to high-strength malt liquor sales), modest reductions in crime, particularly assaults and vandalism, were found.<sup>181</sup> However, significant reductions were not found across all geographic areas which may relate to the limited restrictions included in some of the single sale policies.

Restrictions to single sales can be written into national legislation or regulations, included within local alcohol policies, or as a condition on an individual off-licence premises. A regulation prescribed in legislation would be preferable, as it would apply nationally and could be amended in a timely fashion as new products emerged on the market. An example of a single sales condition placed ([2018] ADLC 8220013176) on an off-licence bottle store in the Auckland region is<sup>182</sup>:

No single sales of:

- ii) Beer or ready to drink spirits (RTDs) in bottles, cans or containers of less than 440mls in volume may occur except for craft beer; and
- iii) shots or pre-mixed shots.

### RECOMMENDATION

Regulations pertaining to the restriction of single sales should be included in the Sale and Supply of Alcohol Act 2012.

## Part 7: Further Related Commercial and Economic Initiatives

### Restricting the promotion of discounted alcohol

Discounting is a common strategy used to encourage alcohol sales, particularly within off-licences but also in bars and restaurants through the use of 'happy hours' etc.

In New Zealand, the majority (55%) of drinkers have been found to purchase their alcohol when sold on promotion (cited in<sup>6</sup>). Nielsen research in 2019 found that supermarkets were more reliant on promotions to drive sales when compared to specialist liquor stores.<sup>183</sup> In the former, almost 6 in every 10 dollars spent on all items (including alcohol and groceries) were sold on promotion, compared to 2 of every 10 ten dollars spent in liquor stores. In the year ending 31 March 2018, 71% and 70% of dollars spent in supermarkets on beer and wine sales respectively, were for products on promotion (Figure 10).

**Figure 10. Percentage of dollar sales for alcohol products on promotion, by supply channel (52 weeks to Q1 2018). Permission to reproduce obtained by Nielsen.**



Nielsen data also showed that of all items in New Zealand supermarkets, alcohol is the most sensitive to price promotion.<sup>184</sup> Cask wine and beer have the highest price elasticity for promotion of all items in the supermarket, followed by bottled wine. Individual grocery items (eg. coffee, toilet paper, confectionery) are less sensitive than alcohol to promotion in price.

In a study of 24 off-licences in Perth and Sydney, 427 unique forms of promotion were found to be used across the alcohol outlets.<sup>185</sup> The study found the following:

- Price-based promotions (including but not limited to discounts) represented 61% of all the types of promotion activities;
- Supermarkets had a higher number of price promotions compared to chain stores;
- The most common form of price promotion was offering multiple items for a discounted price; and
- Wine had the highest number of price promotions, followed by spirits, beer and RTDs.

In the United States, it has been found<sup>186</sup> that larger volumes of alcohol products (eg. 12-pack) are more likely to be promoted than smaller units (eg. 6-pack). This finding has significant implications for reducing the harm from heavy episodic drinking.

It has also been found<sup>187</sup> that drinkers who participated in point-of-sale promotions report purchasing a greater quantity of alcohol than those who did not participate. This is particularly evident for beer purchases (average of 26.8 standard drinks vs 16.4), followed by RTDs (11.5 standard drinks vs 8.9) and wine (16.1 standard drinks vs. 13.8). Young drinkers were found to use descriptors such as 'Price' and 'Cheap' as the main reason that they purchased wine.

### HOW CAN PRICE PROMOTION BE ADDRESSED?

There are a range of approaches to reduce heavy consumption associated with discounting, including:

- Prohibiting multi-buy promotions;
- Restricting the maximum discount permitted or banning all discounting of alcohol; and
- Restricting or prohibiting time limited discounts (eg. 'happy hours').

New Zealand law<sup>83</sup> stipulates that any person commits an offence if they *advertise* discounts of 25% or more, where the advertisement can be seen or heard from outside of a licensed premises. Discounts of 25% or more are permitted inside a licensed premise or in an off-licence price catalogue. It is important to note that it is only the *advertising*, not the offer of the discount, that is prohibited. In other words, heavy discounting activities (eg. 60% discounts) continue in New Zealand, especially during the Christmas and New Year holiday period.

### A) MULTI-BUY RESTRICTIONS

The following countries have implemented restrictions to multi-buy offers:

- In 2008, Finland prohibited offering several packages or servings of alcoholic beverages at a reduced joint price;
- In October 2011 Scotland passed legislation to prohibit multi-buy promotion of alcohol in off-licences, whilst other forms of discounting remained permitted;
- In October 2018, Ireland enacted legislation to prohibit multi-buys (no date currently set for implementation).

Two studies have examined the impact of the Scottish legislation on alcohol consumption. One pre- and post-implementation study<sup>188</sup>, using household shopping panel data, found no effect of the law on consumption. The other study,<sup>189</sup> utilised aggregated sales data in an interrupted time series design and found the law reduced consumption by 2.6%, but this difference was not statistically significant ( $p = 0.07$ ). It was suggested that the differences in the results between the two studies may be due to data collection, with shopping panel data being prone to under-reporting and biases relating to representativeness.

In relation to health outcomes, the Scottish law was shown to have no impact on wholly-attributable hospital admissions or deaths.<sup>190</sup>

In response to the Finnish legislation, the alcohol industry reduced the price of a single can of beer so that it equalled the price of beer when sold in larger quantities at a reduced price.<sup>159</sup> This strategy had the effect of reducing the price of a single can of beer by 40%. However, it is believed that the law has had the effect of making the most substantial discounts practically disappear.

### B) PRICE DISCOUNTING

Sheffield modelling<sup>191</sup> of the effects of policies restricting price discounting demonstrated that a total off-licence discount ban could reduce annual consumption by 3% in Scotland and 2.8% in England. The policy was estimated to cost an average of £11 per drinker per year and affected wine prices the greatest. Policies that restricted the percentage of discounting permitted had smaller effects on consumption.

### C) 'HAPPY HOURS'

The Irish Government first passed legislation in 2003 to make 'happy hours' illegal. Scotland enacted similar legislation in 2005.

In the Public Health (Alcohol) Act 2018<sup>156</sup>, the Irish Oireachtas amended the 2003 legislation to prohibit a person from selling or supplying, or causing to be sold or supplied, an alcohol product during a limited period at a price less than that being charged for the alcohol product on the day before the commencement of the limited period.

In Scotland, the law<sup>192</sup> requires that alcohol prices for any particular product are required to stay the same for a period of 72 hours. The rationale for this length of time was that it would be uneconomic for premises to maintain lower prices for the 3-day period.

In 2008, Finland enacted legislation to require the price to remain the same for at least two months. Mass media advertising for short-term discount prices or happy hours was also prohibited. However, the industry responded by having price discounts that extended beyond two months.<sup>159</sup>

### RECOMMENDATION

Alcohol Healthwatch recommends that consideration be given to a total ban on price discounting to address the harms from price promotions of alcohol. We believe that setting a limit on the level of price discounting permitted would be difficult to monitor, especially when advertising of discounts predominantly occurs via personally-targeted digital media.

An alternative approach may be to prohibit the advertising of prices of alcohol products outside licensed premises.



# Conclusion

Pricing policies are the strongest tools available to reduce the harm from drinking. Excise tax increases and minimum unit pricing represent pro-equity harm reduction strategies, offering significant potential to reduce current inequities in alcohol-related harm and improve well-being for future generations.

Pricing policies must be included in a comprehensive suite of evidence-based regulatory actions to protect New Zealanders from alcohol harm and improve mental health and wellbeing. Policies that address the high availability of alcohol and its ubiquitous advertising are urgently required.



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