

SUBMISSION

To the Tax Review 2001

On the Tax Review 2001 – Issues Paper

INTRODUCTION

1. This submission is from the Alcohol Advisory Council of New Zealand - Te Kaunihera Whakatupato Waipiro O Aotearoa (ALAC), 36 Customhouse Quay, PO Box 5023, Wellington, New Zealand.
2. ALAC is a crown owned entity that operates under the Alcohol Advisory Council Act 1976.
3. ALAC's primary objective is the encouragement and promotion of moderation in the use of liquor, the discouragement and reduction of the misuse of liquor, and the minimisation of the personal, social, and economic harm resulting from the misuse of liquor. ALAC's mission statement is "helping people make healthy choices about alcohol".
4. This document provides ALAC's comments on the issue of excise on alcohol.

EXECUTIVE SUMMARY

5. ALAC does not support the removal or reduction of excise from alcoholic beverages. Pricing policy is recognised internationally as one of the most effective tools in reducing alcohol-related harm within the drinking population through reducing consumption.¹
6. Therefore, ALAC supports retaining an excise on alcohol to maintain the real price of alcoholic beverages. As an extension of this policy, ALAC supports a further increase in the excise on alcohol as a means of reducing consumption and related harm.
7. ALAC would also support the introduction of a differential excise on alcohol products in order to reduce the cost of low alcohol products such as low-alcohol beer (2.5% abv) relative to products with higher alcohol by volume. The goal of a differential excise policy would be to encourage consumers to choose lower alcoholic products over products with higher alcohol by volume and thus reduce per capita alcohol consumption and related harms.
8. ALAC supports the rationale of using the excise on alcoholic beverages as a harm reduction tool, which reflects the Government's commitment to harm minimisation principles.² These principles are set out in the *National Drug Policy*. The goal of this policy is, as far as possible within available

¹ Stewart L. Approaches to preventing alcohol-related problems: The experience of New Zealand and Australia. *Drug and Alcohol Review* (1997) 16(4), 391-399.

² Ministry of Health. *National Drug Policy: a national drug policy for New Zealand 1998–2003*. Ministry of Health, Wellington (1998). Alcohol Advisory Council of New Zealand and Ministry of Health. *National Alcohol Strategy 2000–2003*. Alcohol Advisory Council of New Zealand and Ministry of Health, Wellington (2001)

resources, to minimise harm caused by tobacco and alcohol use to both individuals and the community. Underpinning this goal are five principles. They are: efficiency; equity; use of both harm prevention and harm reduction strategies; upholding of individual rights where these do not unreasonably impinge on the rights of others; ensuring the needs of Māori are addressed by enabling development of specific strategies acceptable to Māori.³

9. ALAC would support an increase in the levy allocated to ALAC. Evidence suggests that the costs to society attributable to alcohol are extremely high and are spread across a variety of sectors and that multiple harm minimisation approaches are required to support a robust taxation policy for reducing alcohol-related harm in all sectors. A significant increase in the levy would allow ALAC to improve the quality of its leadership in the areas of alcohol-related policy, research, programme advice and interventions that better reflect the cost burden to society of alcohol-related harms.

SUBMISSION

The Tax Review's use of general statements about alcoholic beverages, tobacco, gaming, and petrol

10. Chapter Two of the Tax Review Issues Paper, 'Tax Bases', makes general statements about excise on alcoholic beverages, tobacco, gaming and petrol. ALAC is of the view that some of these statements are not well founded regarding alcohol and that generalised statements that treat alcohol like the other three items fail to adequately examine the benefits of excise on alcohol.
11. Example 1: The Issues Paper claims that "many of these taxes appear likely to have high deadweight costs per dollar of additional revenue raised relative to broadly based forms of taxation".⁴ It is important to separate alcohol from this equation, as an excise on alcohol is more likely to have low deadweight costs per dollar of additional revenue raised.
12. Example 2: The Issues Paper states that "many New Zealanders of modest means will pay as much or more indirect tax via alcohol and tobacco excise and gaming duties as they pay in GST levied on all of their spending".⁵ This statement is misleading and confusing, particularly as the Tax Review then goes on to refute its own statement in terms of the alcohol excise by using figures from the 1997/98 *Household Economic Survey*.⁶
 - a) Alcohol excise is not regressive. Evidence suggests that alcohol consumption increases with personal income and that people on lower family incomes, with lower education levels and living in the most deprived areas are least likely to report drinking any alcohol in the previous year.⁷
 - b) Based on the 1998 *Household Economic Survey* and the excise shown in Table 2.3 of the Issues Paper, the excise on alcohol makes up only 0.373% of the total expenditure for the

³ Ministry of Health (1998), p. 6.

⁴ Tax Review 2001. *Tax Review 2001: Issues Paper June 2001* (2001), p. 22.

⁵ Tax Review 2001 (2001), paragraph 134, p. 55.

⁶ Tax Review 2001 (2001), paragraph 138, p. 56.

⁷ Ministry of Health. *Taking the Pulse: The 1996/97 New Zealand Health Survey*. Ministry of Health, Wellington (1999).

average private household.⁸ Given that alcohol excise makes up a very small proportion of household expenditure, only if household spending on tobacco and gaming is extremely high could the Tax Review demonstrate that household expenditure on excise and duties is at least as high as the GST component of all household expenditure.

The use of taxation exclusively for revenue raising versus harm minimisation

13. The Issues Paper notes correctly that “an *increase* in a tax will raise less revenue than otherwise as taxpayers respond by altering their behaviour.”⁹ ALAC sees the change in consumer behaviour, rather than the increase in revenue, as the primary objective of an increase in tax on alcoholic beverages.
14. ALAC accepts that revenue raising may not provide a sustainable rationale for narrowly based indirect taxes in the modern-day environment.¹⁰ However, ALAC does not consider that revenue raising should provide the key rationale for an excise on alcoholic beverages. Rather, ALAC considers that that harm minimisation should provide the primary rationale for such an excise. Because ALAC considers that harm minimisation provides a sustainable rationale for an excise on alcoholic beverages in today’s environment, it does not follow that GST will provide an alternative form of consumption tax. Although ALAC accepts that GST is likely to be a more effective revenue raiser than a narrowly-based excise, the broad-based single rate of GST that makes it such an attractive revenue raising tool makes it ineffective as a harm minimisation tool. This is because GST is not targeted at consumer behaviour, whereas an excise is thus targeted.
15. The Issues Paper clearly supports the use of taxation exclusively for revenue raising purposes. Although the paper discusses alternatives such as “user charges” and “social spending”, ALAC does not consider that the paper provides a balanced view that takes into account the Government’s commitment to harm minimisation principles.
16. The Issues Paper discusses the question: “Are excises efficient revenue raisers?”¹¹ It notes that “it appears likely that the very significant contribution of excises to revenue is a major explanation for their persistence.”¹²
17. On the contrary, a high level of evidence suggests that the effectiveness of excise as a harm minimisation tool is the major explanation for the persistence of the excise on alcohol. Increasing the tax on alcohol has been shown to reduce per capita alcohol consumption both in New Zealand and internationally.¹³ A reduction of alcohol consumption has been strongly associated with a decrease in alcohol-related harm.¹⁴

⁸ Statistics New Zealand. *Household Economic Survey Year 1998*. Statistics New Zealand, Wellington (1998) and Tax Review 2001 (2001), Table 2.3: Illustrative Breakdown of Prices, p. 51.

⁹ Tax Review 2001 (2001), Box 2.1: The Marginal Excess Burden of Excises, p. 53.

¹⁰ Tax Review 2001 (2001), paragraph 130.

¹¹ Tax Review 2001 (2001), pp. 52–54.

¹² Tax Review 2001 (2001), paragraph 125.

¹³ Wette HC, Zhang JF, Berg R. Effect of prices on alcohol consumption in New Zealand 1983-1991. *Drug and Alcohol Review* (1993) 12(2), 151-158; Chaloupka F J, Grossman M, Saffer H. Effects of price on the consequences of

18. Zhang and Casswell's time-series analysis of alcohol consumption data has shown an impact of real price on alcohol consumption in New Zealand in the decade 1984–1996. The analysis showed that if the real price of beer increased 10%, the volume of beer consumption per capita in New Zealand immediately decreased by an estimated 10.2%. Consistent with this, the study also showed that if the real price of wine decreased 10%, the volume of wine consumption per capita in New Zealand immediately increased by an estimated 7.1%.¹⁵
19. In 1993, an American time series analysis showed that measures of alcohol use and motor vehicle accident mortality are negatively related to the cost of alcohol and to the legal drinking age.¹⁶ The study found that increases in federal taxes on alcoholic beverages are effective in reducing youth alcohol consumption and alcohol-related injuries and deaths. Of particular interest was the study's finding that tax policy appears to be more effective than a uniform drinking age of 21. Although the study authors noted that actual taxes on a gallon of pure alcohol were approximately \$US35 per gallon, the authors estimated optimal taxes on alcohol of \$US73, \$US78, or \$US79 per gallon of pure alcohol.¹⁷
20. Large-scale reviews suggest similar benefits from increased taxation of alcoholic beverages. In 1998, Chaloupka, Grossman and Saffer published a review of research by economists examining the impact of the price of alcoholic beverages on a variety of alcohol consumption-related outcomes, including non-fatal motor vehicle accidents, other potentially alcohol-related accidents, liver cirrhosis mortality, crime, and educational attainment. The review linked increases in taxes on alcohol to increases in alcohol prices and concluded that alcohol taxes and prices affect both alcohol consumption and consequences from drinking. Alcoholic beverage prices in the United States have been allowed to

alcohol use and abuse. Galanter M (ed.). *Recent Developments in Alcoholism: Volume 14: the consequences of alcoholism*. Plenum Press, New York. (1998), pp. 331-346; Cook P J, Moore M J. Violence reduction through restrictions on alcohol availability. *Alcohol Health and Research World*. (1993) 17(2), 151-156; Godfrey C. Can Tax be Used to Minimise Harm? A Health Economist's Perspective. Plant M, Single E, Stockwell T (eds.). *Alcohol: Minimising the Harm: What Works?* Free Association Books Ltd, New York (1997); Grossman M. Health benefits of increases in alcohol and cigarette taxes. *British Journal of Addiction*. (1989) October, Vol 84(10) 1193-1204; Toomey T L, Jones-Webb R J, Wagenaar A C. Policy: Alcohol. Langenbucher J W, McCrady B S, et al (eds.). *Annual Review of Addictions and Treatment: Volume 3*. Pergamon Press, New York (1994) 279-292.

¹⁴ Österberg, E. Effects of Price and Taxation. Heather N, Peters TJ, Stockwell T (eds.). *International Handbook of Alcohol Dependence and Problems*. John Wiley & Sons Ltd, Chichester (2001) 685–698. Österberg's review of econometric studies notes the 'the values of price elasticities for alcoholic beverages estimated in different studies have consistently shown that when other factors remain unchanged, a rise in the price of alcoholic beverages has usually led to a drop in alcohol consumption, and that decrease in price of alcoholic beverages has usually led to a rise in alcohol consumption.' (p. 688)

¹⁵ Zhang JF, Casswell S. The effects of real price and a change in the distribution system on alcohol consumption. *Drug and Alcohol Review* (1999) 18, 371–378. In contrast, during this period spirits were price inelastic. These figures are based on 1993 dollars. They were adjusted for normal seasonal fluctuations and changes brought about by amendments to the Sale of Liquor Act 1989, which in 1990 resulted in considerable expansion of retail outlets for wine through grocery stores (though not beer and spirits). The amount of increase was 7.4% for wine and 9.4% for beer without controlling for changes to the Sale of Liquor Act. It is important to note that the relationship between spirits consumption and real price of spirits was not clear over the time period studied.

¹⁶ Grossman M, Chaloupka FJ, Saffer H, Laixuthai A. *Effects of Alcohol Price Policy on Youth: Working paper No. 4385*. National Bureau of Economic Research Inc Working Paper Series. National Bureau of Economic Research Cambridge, Massachusetts (1993). The research was based on a time series of state cross sections for the periods 1975–1981 and 1981–1988. All the estimated effects are statistically significant. The legal drinking age was used as one of the variables as different states studied had different legal drinking ages.

¹⁷ The study's other significant finding was a positive relationship between college completion rates and the cost of alcohol and the legal drinking age. Grossman M, Chaloupka FJ, Saffer H, Laixuthai A (1993).

decline relative to the prices of other goods and services in large part because of the relatively small and infrequent changes in federal and state taxes. The review concluded that falling prices will lead to increases in many of the problems associated with alcohol use and abuse.¹⁸

21. Other reviews found that an increase in tax on alcohol would have real harm minimisation benefits. Some findings of high quality reviews are outlined below:
 - a) Australian Study: A review of the arguments and evidence that support the use of alcohol taxation as a primary health care intervention found that arguments against alcohol taxation for health policy cannot be substantiated, and that there is a strong case for increased alcohol taxes.¹⁹
 - b) US study: A policy to raise the federal excise tax on beer in line with the rate of inflation over the last 3 decades would cut motor vehicle fatalities of 18–20 year olds, many of which are alcohol-related, by about 15% saving more than 1,000 lives per year.²⁰
 - c) US Study: A review of studies showing relationships between alcohol use and violence and between restrictions on alcohol availability and per capita alcohol consumption found an association between increases in beer excise taxes, reductions in per capita alcohol consumption and decreases in the incidence of violent crime, particularly rape and robbery.²¹
22. Given the evidence, ALAC strongly supports Wette, Zhang and Berg's conclusion that the current taxing policy for New Zealand, in which excise tax is indexed to inflation, is deemed a useful tool for preventing an increase in alcohol consumption and alcohol-related problems.²²
23. It should be recognised that an increase in a tax will not necessarily lead to a change in behaviour by all consumers. However, the reverse cannot be said for a decrease in the excise on alcohol. The reduction or removal of the excise on alcohol takes away a barrier to access to alcohol for consumers, which is highly likely to lead to an increase in alcohol consumption and alcohol harm. Such an increase would probably occur across the board, from young people who are very responsive to price to long-term heavy drinkers who could now afford more alcohol.
24. The majority of studies examining the impact of alcohol taxation on consumption and related harms focus on the effects of increasing alcohol taxes and consequently reducing associated harms. However, there are a number of studies that have focused on the effects of a decrease of alcohol taxes or price on consumption and harm. These studies have found a direct relationship between a decrease in alcohol price and an increase in alcohol-related harm.
25. Zhang and Casswell's 1999 time series analysis takes both increases and decreases in alcohol tax into account and finds that when real price decreases, consumption increases; and when real price increases, consumption decreases.²³

¹⁸ Chaloupka F J, Grossman M, Saffer H (1998).

¹⁹ Richardson J, Crowley S. Case for increased alcohol taxation in Australia. *Drug and Alcohol Review* (1995) 14(1), 89–99.

²⁰ Grossman M (1989).

²¹ Cook P J, Moore M J. (1993).

²² Wette HC, Zhang JF, Berg R. (1993).

²³ Zhang JF, Casswell S (1999).

26. Several Swedish and international studies have shown that price increases lead to a decrease in alcohol consumption.²⁴ As a result of a tax policy taking advantage of harm minimisation principles, the Swedish alcohol tax in 1989 was four times higher than the tax proposal suggested within the European Community. Rosen's 1989 study shows that if Sweden enters the European Economic Community and harmonises its alcohol tax structure with that of member countries, the price of alcohol in Sweden will fall about 50%. A 50% decrease in alcohol prices is predicted to increase alcohol consumption by about 25%, with a concomitant increase in alcohol-related problems.²⁵
27. Likewise, Chaloupka, Grossman and Saffer's study in the late 1990s found that the steadily declining alcoholic beverage prices in the US would lead to increases in many of the problems associated with alcohol use and abuse.²⁶
28. The Issues Paper raises the question of why exclusive reliance on public health approaches, such as educational programmes informing users of risks and assistance, is inappropriate for alcohol problems.²⁷ Little evidence currently exists to support the efficacy of education as a primary prevention programme.²⁸ In a study published in 1989, Moskowitz suggested that before prevention programmes can become more effective, changes in social norms around alcohol consumption patterns will need to occur through the widespread adoption of prevention policies.²⁹
29. It is true that the provision of education and treatment or support programmes can be a useful tool and can be beneficial for targeting some problems related to alcohol. Education can be useful in early intervention work, and appropriate treatment and support services need to be available for people with alcohol problems. However, not all consumers respond to these tools, just as not all consumers respond to price changes brought about by increases in an excise. Godfrey's 1997 study shows that multiple harm minimisation tools must be used if we are to promote the safe use of alcohol and help people who have problems with alcohol.³⁰
30. Godfrey found that while there is considerable evidence that prices affect both levels of consumption and problem rates, there is less consistent evidence on the effect of prices on the heaviest drinkers. However, a 2001 review of econometric studies and surveys does provide some evidence that both youth drinkers and heavy drinkers experience large reductions in the number of adverse effects related to alcohol consumption due to an increase in alcohol price.³¹ Godfrey recommends further research into the effects of price change on heavy drinkers.³²
31. Godfrey's study also showed clearly that tax cannot be the only strategy used for achieving alcohol policy objectives. However, Godfrey uses economic principles to provide a rationale for using taxation as a base for a harm minimisation policy. Economic approaches to the evaluation of different options

²⁴ Rosen M. Price and health policy in Sweden: A critical review. *Health Policy* (1989) 12(3), 263-274.

²⁵ Sweden went on to join the European Union on 1 January 1995. ALAC has found no research either confirming or refuting Rosen's work since Sweden joined the EU.

²⁶ Chaloupka F J, Grossman M, Saffer H (1998).

²⁷ Tax Review 2001 (2001), p. 59.

²⁸ Moskowitz J M. Primary prevention of alcohol problems: A critical review of the research literature. *Journal of Studies on Alcohol* (1989) 50(1), 54-88.

²⁹ Moskowitz J M (1989).

³⁰ Godfrey C (1997).

³¹ Österberg, E. (2001).

³² Godfrey C. (1997).

favour one sort of harm minimisation approach. The decision rules are determined by the expenditure needed to reduce problems. If the cost of reducing the problem is greater than the benefits which would arise from lower rates of harm, then it would not be efficient in terms of society's welfare to pursue that policy. The framework can be effectively applied to tax policy, although there are a number of different costs and benefits associated with tax changes. In particular, tax can be seen as a blunt policy instrument affecting all drinkers. Godfrey recognised that the amount of tax paid will increase with the amount of alcohol consumed. Potentially, this could equate with the amount of tax being paid increasing with the amount of alcohol-related problems caused. Therefore, the study suggested that other harm minimisation tools be used along with taxation to target the problems of hazardous drinking.³³

32. Tax is only one component of price but, in general, prices rise if tax rises. Godfrey found that overcoming political impediments to adopting a consistent tax policy was the most problematic part of using tax as a harm minimisation tool. However, the study found that within an overall policy strategy for minimising harm, appropriate levels of tax could play an important role in increasing welfare for society by minimising the harms associated with inappropriate drinking.
33. Similarly, Horgen and Brownell found that public policy changes, particularly taxes and regulation of the media, are the most immediate, least expensive, and most powerful way to have an impact on alcohol abuse. They noted that although existing approaches to treatment provide some assistance to individuals and groups experiencing alcohol-related problems, the cost and accessibility of effective treatment services mean that relatively few people can receive effective clinical relief from alcohol-related problems.³⁴
34. There are a number of studies supportive of the findings that tax should form a strong component of a multiple component harm minimisation approach to addressing problems associated with alcohol use and misuse. Many of these studies are not new and form the basis of harm minimisation policies worldwide. Some of the key studies and their findings are outlined below:
 - a) Moskowitz carried out a critical review of the research evaluating the effects of programmes and policies in reducing the incidence of alcohol problems. Four types of preventive interventions are examined, one of which can be described as "policies affecting the physical, economic and social availability of alcohol" (eg. minimum legal drinking age and price).³⁵ The research generally supports the efficacy of alcohol-specific policies, two of which are increasing alcohol taxes and raising the minimum legal drinking age to 21. Research also suggests that various environmental safety measures reduce the incidence of alcohol-related trauma.
 - b) In 1994, Toomey, Jones-Webb and Wagenaar carried out a review of recent studies evaluating alcohol control policies in eight categories: economic control policies, structure of the distribution system, regulation of individual outlets, selling/serving control policies, controls on product contents

³³ Godfrey C. (1997).

³⁴ Horgen KB, Brownell KD. Policy change as a means for reducing the prevalence and impact of alcoholism, smoking, and obesity. Miller WR, Heather N, et al (eds.). *Treating Addictive Behaviors: Applied clinical psychology*. 2nd edition, 105-118. Plenum Press, New York (1998).

³⁵ Moskowitz J M. (1989). The other three types of prevention interventions were formal social controls on alcohol-related behaviour (eg. drinking- driving laws); primary prevention programmes (eg. school-based alcohol education); and environmental safety measures (eg. airbags in vehicles).

and packaging, marketing control policies, and social availability control policies.³⁶ The review found strong evidence that minimum drinking age, excise taxes, and other price controls are effective in reducing rates of alcohol consumption and alcohol-related problems. The authors noted that the literature reviewed demonstrated the importance of alcohol control policy as “a central component of comprehensive efforts to minimise the human suffering and social costs of alcohol consumption”. The authors recommended that these particular policy tools be supported by other apparently important alcohol policies for minimising the societal burden of alcohol problems.³⁷

- c) In 1999, the British Institute on Alcohol Studies found that there is no single solution to alcohol problems in Europe and that national and cultural differences make a single policy unworkable. The Institute found that a successful policy to reduce alcohol-related harm is likely to include alcohol taxation, controls on physical access to alcohol, provision of treatment (especially early intervention as part of primary health care) and action against drinking and driving.³⁸

Differential excise on alcohol

35. In addition, several studies found that a differential excise had significant benefits as a harm minimisation tool and recommended such an approach as a key component of alcohol taxation reform. A review of approaches to dealing with alcohol-related problems found that the creation of a price differential between low alcohol and full-strength beer in Australia has perhaps been responsible for raising the consumption of beer with an alcohol content of less than 3.5% by volume to up to 17% of the beer market. It has probably contributed to a decline in Australia’s per capita consumption and lower alcohol morbidity and mortality, although an increase in wine consumption, not subject to the same level of taxation, may have reduced the positive impact of the beer decline.³⁹
36. A report by Crosbie and Stockwell in 1998 addressed the debate about options for alcohol taxation reform in Australia in an effort to reduce the annual toll of more than 3700 alcohol-related deaths, 730,000 hospital bed-days, and the estimated \$A4.5 billion associated with alcohol-related harm. Crosbie and Stockwell recommended that alcohol taxation reform consider the following principles:
 - a) shift the balance of taxation from sales tax to excise tax
 - b) base alcohol excise on exact alcohol content on a graduated scale, and not on the cost of manufacture or production method
 - c) maintain the real price of alcohol relative to disposable income, and
 - d) increase overall level of taxation and simultaneously increase expenditure on prevention and treatment programmes.⁴⁰

³⁶ Toomey T L, Jones-Webb R J, Wagenaar A C (1994). Studies reviewed were limited primarily to peer-reviewed studies conducted after 1987.

³⁷ Examples of supporting policies include compulsory server training and monopoly distribution system maintenance.

³⁸ Institute on Alcohol Studies. *Counterbalancing the Drinks Industry: A summary of the Eurocare Report on Alcohol Policy in the European Union*. Institute on Alcohol Studies, London (1999).

³⁹ Stewart L. (1997)

⁴⁰ Crosbie D, Stockwell T. *Alcohol, Taxation Reform and Public Health in Australia*. National Centre for Research into the Prevention of Drug Abuse, Perth (1998).

37. There are a number of types of differential taxation policy. Evidence suggests that taxing alcohol content on a graduated scale (using a banded approach to alcohol taxation) would be most likely of these differential policies to encourage consumers to choose lower alcoholic products over products with higher alcohol by volume. The intended outcome would be the reduction of per capita alcohol consumption and of alcohol-related harms. To summarise the results of one high quality Australian study supporting a graduated approach to differential taxation of alcoholic beverages, "if the average drinker substituted one low strength beer for one glass of cask wine each week there would be 107 fewer assaults and 96 fewer hospital admissions for injuries per year".⁴¹

Consideration of the cost of alcohol-related harms

38. It is difficult to estimate the cost of alcohol-related harms. Attempts to specify costs associated with particular types of alcohol-related harms continue to be hampered by the lack and poor quality of relevant data, including ethnicity data. In attempting to address the current gaps in the evidence, ALAC has budgeted this year to commission leading researchers in the field to update the previous research on harms and costs. In addition, this project will be the first in New Zealand to provide ethnic specific data on harms and associated costs.
39. It is important to note that ALAC has found no studies that specifically investigate the impact of alcohol excise on Māori.
40. In separate studies, Easton⁴² and Devlin et al⁴³ specifically examined the social costs of alcohol misuse in New Zealand.⁴⁴ In summary, their studies found that the total estimated cost of alcohol-related mortality in New Zealand is \$5.5 billion and the total estimated cost of alcohol-related morbidity in New Zealand is \$6.6 billion.⁴⁵ In terms of the social costs of alcohol-related morbidity, the estimated productivity losses (including absenteeism) are estimated at \$1.8 billion. This suggests that the morbidity costs of alcohol are 20% higher than the mortality costs.
41. The studies found that the direct costs to society attributable to alcohol are dominated by costs associated with policing, court processing and imprisonment, rather than hospital treatment costs. It is generally recognised that the health costs of alcohol are high, so if these are the lesser of the alcohol-related costs, this represents an enormous impact on the justice and corrections sectors.

⁴¹ Gray D, Chikritzhs T, Stockwell T. The Northern Territory's cask wine levy: health and taxation policy implications. *Australian and New Zealand Journal of Public Health* (1999) 23(6), 651-653. This summary is quoted by National Centre for the Research and Prevention of Drug Abuse Director, Tim Stockwell, in the NCRPDA media release titled Using Taxation to Save Lives (4 June 2001).

⁴² Easton B. *The Social Costs of Tobacco Use and Alcohol Misuse: Report prepared for the Alcohol Advisory Council of New Zealand and the Health Research Council*. Public Health Monograph No. 2. Department of Public Health, Wellington School of Medicine, Wellington (1997).

⁴³ Devlin NJ, Scuffham PA, Bunt LJ. The Social Costs of Alcohol Abuse in New Zealand. *Addiction* (1997) 92(11), 1491-1505.

⁴⁴ Both studies used the estimates of alcohol-related harms calculated in: Scragg R. A quantification of alcohol-related mortality in New Zealand. *Australian and New Zealand Journal of Medicine* (1995) 25(1), 5-11.

⁴⁵ This figure is based on total loss of 36,000 QALYs.

The use of a corrective taxation policy

42. With such a widespread impact it is important that the excise on alcohol is retained. Although society cannot hope to use the excise to recoup all of the costs of alcohol-related harm, the funds from an excise can be allocated in a manner that recognises the widespread impact of alcohol-related harm. This is because Government resources are currently allocated from Vote funding, which is based around the current Government 'silo' infrastructure. Given the evidence, it is clear that simply allocating money to target alcohol-related harms from the Vote:Health budget, for example, will only allow an organisation to work on the health effects of alcohol. This would leave the justice and corrections area without adequate leadership in the areas of alcohol-related policy, research, and programme advice.

An increase in the Alcohol Advisory Council levy

43. Although taxation can form a sound base for a harm minimisation policy, other harm minimisation tools and approaches are needed to augment this or any other policy base. ALAC is in a perfect position to provide leadership in this area.
44. ALAC currently holds a unique status in New Zealand and the world. ALAC is funded by an annually fixed levy on all alcohol imported or produced for consumption in New Zealand. The levy ensures that funds are targeted at alcohol-related problems and reflects the government's desire to both address the consequences of alcohol misuse and promote safe drinking habits. New Zealand is one of the few countries internationally that supports this method of funding whereby the user pays and provides funding for an independent body specialising in alcohol policy, research and programmes aimed at reducing alcohol-related harm and encouraging moderation in the use of alcohol.
45. ALAC's current funding arrangements provide it with a unique advantage, allowing it to work across Government sectors where many other agencies cannot. Alcohol-related harms are not limited to public and personal health problems. Therefore, it is vital that funding is available outside of the silo of Vote:Health to allow ALAC to target the multiple areas and populations in which alcohol-problems occur.
46. The Government is encouraging inter-sectoral collaboration in an attempt to remove the barriers that funding silos create. In this environment, ALAC is in a position to provide cross-sectoral leadership in areas of health, justice, workforce training (for the hospitality industry, health promoters, and alcohol and drug workers), research, policy, and the community.

RECOMMENDATIONS

47. ALAC recommends that:

- a) the Government retain an excise on alcohol;
- b) the Government further increase the excise on alcohol;
- c) the Government introduce a differential excise on alcohol products using a banded approach;
- d) the Government use its harm minimisation policy as the rationale for the excise on alcoholic beverages;
- e) the Government increase the levy allocated to ALAC to augment support for a robust tax-based harm minimisation approach.

Dr Mike MacAvoy
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