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PART A

Part A.

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Begins : 23/10/87.
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PART A

Chancellor's (Lawson) Papers:

ALCOHOL MISUSE: MEETING WITH CABINET COLLEAGUES

DD's : 25 Years

Lawson

13/12/95.

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create difficulties and are potentially controversial; and it is not possible to demonstrate that they would be particularly effective in reducing alcohol-related problems. Our advice is to leave them well alone unless political imperatives require otherwise.

4. If there were strong pressures to use the drinks duties as a weapon against alcohol misuse, probably the best course would be to increase all duties, slightly narrow the duty differential between beer and cider (paragraph 34) and abolish the minimum duty charge for beer (paragraph 44). There would, of course, be other considerations to be taken into account, including the effect on the RPI. (Illustratively, a 10% increase on all drinks duties would increase the RPI by about 0.24%.) Some of the structural options considered by the working group would have an RPI effect but this would be very small.

X 5. The report is much as anticipated in my minute of 16 September to the Paymaster General in respect of which you noted that there would seem to be some inconsistency between the comment that there is concern with beer because more beer is drunk than anything else and the comment that per capita alcohol consumption would be reduced by shifting some of the burden of taxation from beer and wine to spirits. The paradox is there. The DHSS wish to see an overall reduction in per capita consumption of alcohol and since shifting some of the burden of taxation from beer and wine to spirits would achieve this, they are in favour of it. At the same time, they support the Home Office's advocacy of changes to the beer duty to make it more progressive in terms of alcoholic strength. The DHSS regard these objectives as complementary, and in order to avoid any reduction in the beer duty they would favour combining structural changes, and changes in the relativities, with increases in the overall level of the duties.

6. The report is expected to figure in the deliberations of the newly formed Ministerial Group on Alcohol Misuse, on which the Paymaster General represents the Treasury. The first meeting of this group is due to be held on 3 November and meetings are

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expected to take place at about two monthly intervals. If this timetable is adopted the group will need to consider taxation at its meeting in January if you are to take account of its views when drawing up next year's Budget.

PH ✓

P JEFFERSON SMITH

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REPORT OF THE INTER-DEPARTMENTAL WORKING GROUP
ON THE EXCISE DUTIES AND ALCOHOL-RELATED PROBLEMS

OCTOBER 1987

REPORT

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REPORT OF THE INTER-DEPARTMENTAL WORKING GROUP ON THE EXCISE DUTIES AND ALCOHOL-RELATED PROBLEMS

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Origins of the Working Group

1. Towards the end of 1986 the Ministerial Group on Crime Prevention discussed a Home Office paper on the relationship between alcohol and crime (MGCP(86)24). Arising from these discussions the Home Secretary wrote to the Chancellor of the Exchequer asking whether there was scope for changing the tax structure for beer to encourage consumption of lower strength beers. The Chancellor replied that the complex issues would require careful study and analysis, and that the necessary work could not be completed satisfactorily within the timescale for the 1987 Budget. The Chancellor therefore asked Customs and Excise to set up this Inter-Departmental Working Group.

Composition

2. The following Departments were represented at Working Group meetings or received papers:

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Customs and Excise*
Department of Health and Social Security*
Department of Transport*
Foreign & Commonwealth Office
Home Office*
Ministry of Agriculture, Fisheries and Food*
Northern Ireland Office
Scottish Office*
Treasury*
Welsh Office

This report has been agreed by and represents the views of officials of the Departments indicated by an asterisk.

Terms of reference.

3. The following terms of reference were agreed:

- (a) To examine the effect of the existing structure of the duties on alcoholic drinks, and the relativities between these duties, on alcohol-related problems.
- (b) To consider whether and how far any changes in the structure and relativities would have a beneficial effect on these problems, eg by bringing about a shift towards consumption of lower strength drinks.
- (c) To report conclusions to the Chancellor by the end of October 1987.

Alcohol-related problems

4. There is growing pressure upon the Government to take action to curb the problems caused by alcohol misuse. The medical profession is in the forefront of informed opinion which is lobbying the Government to introduce measures to reduce the level of alcohol-related harm in society (in health, social and economic terms) resulting from excessive or inappropriate drinking. One course of action consistently pressed on the Government is a reduction (or at least the prevention of further increase) in the overall level of per capita alcohol consumption in the UK. There is pressure on Home Office Ministers to tackle the problem of alcohol-related crime and to match the proposed liberalisation of the licensing laws with action to reduce alcohol misuse. Department of Transport Ministers share the growing public concern about the numbers of deaths and injuries caused by drink driving.

5. There is common ground between all these concerns: they are the product of excessive alcohol consumption. There are, however, differences in the nature of the problems, and for that reason it is important to analyse them separately.

Health and social problems

6. Alcohol is consumed in varying quantities by some 90% of the population. It provides enjoyment and even psychological benefit to many and performs a very useful function as a social lubricant. Most people who use it suffer no harm. However, alcohol misuse can produce widespread harm to health, ranging from liver disease and brain damage in the worst cases, to heart disorders, problems of the digestive system and also high blood pressure and breast cancer - these latter conditions may indeed be precipitated, in the case of pre-disposed individuals, by relatively moderate levels of alcohol consumption. Recently publicised claims that moderate alcohol use can actually reduce the risk of heart disease remain unproven. The Royal Colleges of Psychiatrists, Physicians and General Practitioners all regard the problem of alcohol misuse as so serious that they have each published a special report on the issue within the past year or so. All express concern about the lack of awareness of the health and other problems associated with alcohol misuse and draw attention to the conflicting interests of the various Government departments responsible for alcohol-related matters.

7. It is extremely difficult to estimate how many people have problems because of their drinking. The paper at Annex A by DHSS (on behalf of the Health Departments) summarises the available information. Some of the most important points are:

Estimates range from 600,000 to up to 5.5 million people who drink more than is regarded by three of the medical Royal Colleges as safe.

Recent surveys have revealed increasing levels of alcohol consumption by women and by young people.

Research studies have suggested that alcohol may be a factor in anything between 12% and 27% of all hospital in-patient admissions, ie something of the order of 1 million admissions, and anything up to 15% of all out-patient attendances, ie up to 5.8 million attendances.

These figures exclude many cases of lower levels of damage, for example as seen by GPs, which produce ill health and economic loss through absences from work.

Alcohol misuse also causes considerable social harm. For example, it has been found in certain studies to be a factor in over 50% of cases of "battered wives", and about one-third of all cases of child abuse - it is also a common factor in child sexual abuse cases.

Whilst grossly excessive drinking is confined to a small minority of the population, alcohol-related harm is much more widespread and affects many people whose overall levels of consumption are moderate: single incidents of inappropriate drinking may have serious consequences, eg drink driving.

8. The evidence indicates that a country's level of alcohol-related harm is related to its level of per capita consumption of alcohol, although the nature and consistency of the relationship is uncertain. Alcohol consumption roughly doubled between 1950 and 1979 and deaths in England and Wales directly attributed to alcohol-related illnesses - these would generally have been the result of many years' drinking - rose from 520 in 1974 to 1,261 in 1986. These figures do not give the full picture since research has revealed under-reporting of alcohol-associated mortality by a factor of between six and eight. Research into the costs of alcohol misuse indicates that in 1985 alcohol-related illness imposed costs of £112 million on the NHS in England and caused absence from work costing over £700 million in lost production. The general level of alcohol-related problems is as much a cause for concern in Scotland, Wales and Northern Ireland.

Crime problems.

9. Intoxication can itself be an offence - drunkenness - or an indispensable ingredient of an offence - drink-driving. Recorded crime figures give some indication of the extent and costs of these offences. Estimates of the influence of alcohol consumption upon other kinds of crime vary considerably. The Home Office paper at Annex B discusses the problems of demonstrating the nature and extent of the association between alcohol and crime in more detail. Some of the most important points arising from that paper are:

- 83,000 people cautioned for or convicted of drunkenness in England and Wales in 1985
- 18-19 the peak age-range for cautions and convictions for drunkenness
- 20-30% of violent offences, and disorderly offences falling short of serious violence, coming to the notice of the police take place in or near licensed premises
- studies in city centres suggest that almost half the incidents of disorderly behaviour dealt with by police occur shortly after the end of permitted drinking hours
- about 1,400 road accident deaths per annum associated with excess alcohol, ie one in four road deaths.
- an annual cost of £353.5 m for road fatalities associated with excess alcohol.

10. The picture which emerges is one of considerable crime and road-traffic problems associated with alcohol misuse. The problems are especially concentrated among young men, who are also the heaviest beer drinkers. The Home Office has estimated that, at a rough estimate, the cost of crime in which alcohol is an indispensable ingredient (including costs of drunkenness cases to the criminal justice system and the cost of road-traffic accidents, but excluding the cost of proceedings in drink-driving cases, and the costs of crime in which alcohol may have played an important role but was not an essential ingredient of the offence) is of the order of at least £1 billion.

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Alcohol consumption and structure of the alcoholic drinks industry and market.

11. Consumption of alcohol per head of the adult population rose virtually uninterrupted between 1950 and 1979 and is currently almost double the 1950 level. Consumption peaked in 1979 and fell by about 12% between 1979 and 1982. Not all sectors of the drinks trade were affected by this slump. Consumption of table wine has continued to grow since 1979 (86% increase 1979-1986) as did consumption of cider until 1983 (32% increase 1979-1986). However, the other three major sectors of the trade suffered a substantial decline, with per capita consumption down by 12% for beer, 17% for spirits and 26% for fortified wine over the period 1979 to 1982. Although there has been some recovery in spirit consumption and in overall per capita consumption since 1982, consumption of beer and fortified wine has declined further and is now broadly static. Figures for the period 1979 to 1986 show reductions in per capita consumption of 13% for beer, 9% for spirits, 62% for fortified wine and 8% for total alcohol consumption.

12. It is too early to say what effect the 1986 and 1987 duty standstills have had but there is no sign yet of a return to the vigorous growth prior to 1979. The fall in consumption caused particular problems for Scotch whisky because the industry has to plan its production several years in advance to allow for a period of maturation and the decline in UK sales was matched by a decline in world sales, which are of particular importance since more than 80% of Scotch whisky is exported. Some 33 distilleries have closed over the last ten years and many others are now working at much reduced capacity. There have also been brewery closures but despite the volume decline brewers have managed to maintain, or even increase, sales value and profitability. Some closures would probably have occurred as a result of rationalisation even if there had not been a reduction in consumption. Nevertheless it would be unrealistic to suggest that none of the closures were due to the decline in consumption.

13. Further information about alcohol consumption and the structure of the alcoholic drinks industry and market is at Annex C.

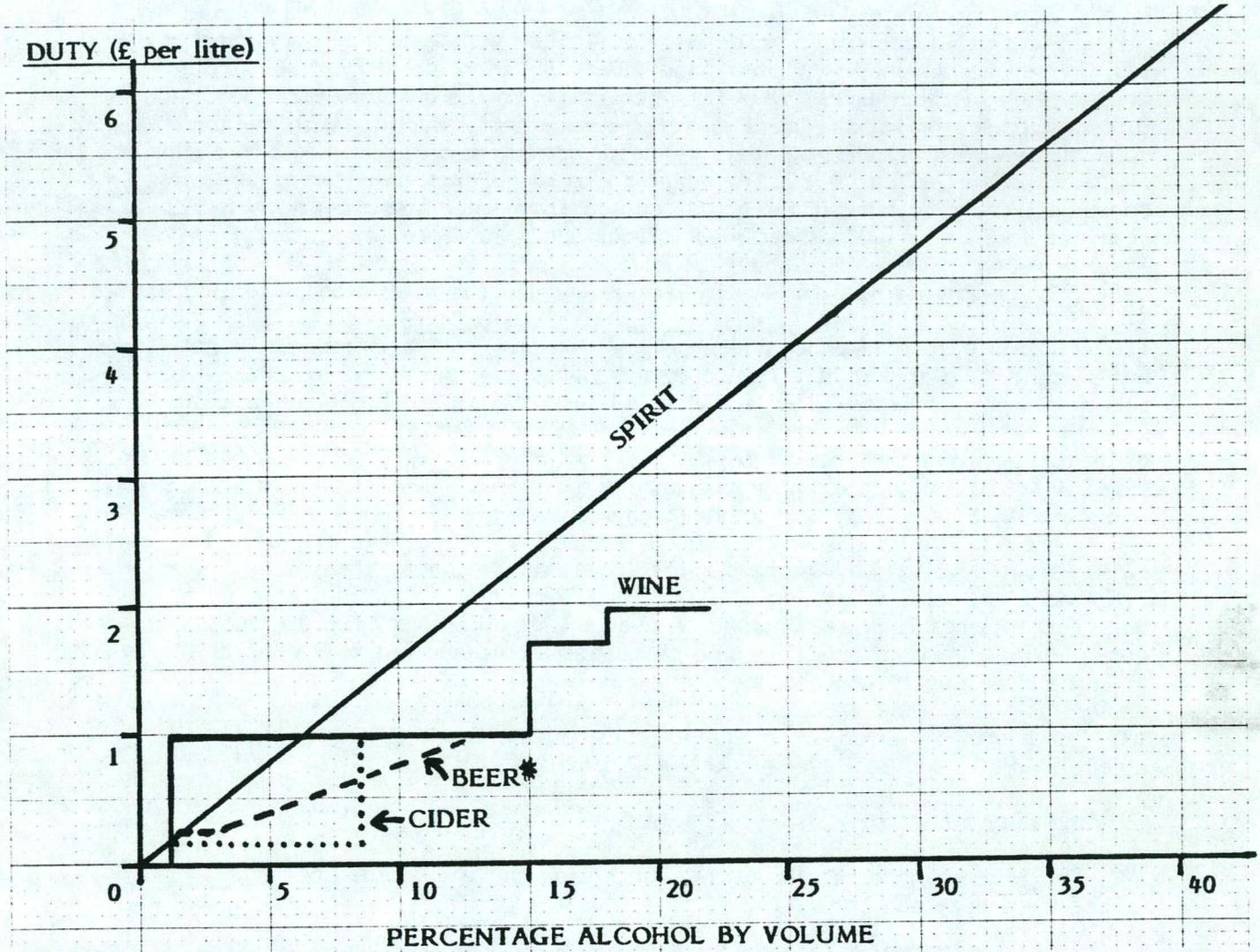
Existing duty structure.

14. The four main categories of alcoholic drinks have quite distinct and independent duty structures.

- (a) Beer duty is charged on "original gravity" - ie the specific gravity of the brew before fermentation.
- (b) Spirits duty is exactly proportional to the alcoholic strength.
- (c) Wine duty is charged on volume, but on a scale which charges fortified wines more than table wines.
- (d) Cider duty is simply charged on volume.

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The effect of these structures is demonstrated by the graph below. Further details are in Annex D.



* Beer duty is not charged according to alcoholic strength and the strength/duty relationship is an estimate - see Annex D for details.

Cost of alcohol to consumers.

15. Although the excise duties are an important element in the price of alcoholic drinks, the cost of production and other factors also vary so that in order to obtain some idea of the cost of alcohol to the consumer it is necessary to look at the price per unit of alcohol. Unfortunately, we do not have comprehensive data on prices. Table 1 below is based on prices used by the Department of Employment for the RPI. In order to construct the table it is necessary to make broad assumptions about alcoholic strength and the table should therefore be regarded as giving no more than an indication of magnitude. Prices vary considerably between on and off licence trade and regionally.

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TABLE 1: PRICE PER UNIT OF ALCOHOL

| Product | Assumed alcoholic strength | Price per litre of product | | Price per centilitre of alcohol | |
|-------------|----------------------------|----------------------------|-----------|---------------------------------|-----------|
| | | on trade | off trade | on trade | off trade |
| Cider | 4.3% | £ 1.53 | £1.02 | 36p | 24p |
| Beer: lager | 3.5% | £ 1.60 | 99p | 46p | 28p |
| bitter | 3.5% | £ 1.42 | 98p | 41p | 28p |
| Table wine | 11% | £ 6.08 | £2.73 | 55p | 25p |
| Spirit | 40% | £28.32 | £9.88 | 71p | 25p |

16. Although the cost of beer has risen in real terms in the last 10 years, the real cost of spirits and wine has fallen over the same period. These changes are in part attributable to changes in the duty. For example in the last 10 years the cost of a pint of beer has risen by about 21%, while the duty has risen by only 7%, both in real terms. Equivalent figures for spirits show reductions of about 13% in price and 34% in duty, and for wine reductions of about 36% in price and 40% in duty. Since 1979 the duty on beer has risen by 29% while the duties on spirits and wine have fallen by 21% and 27% respectively, all in real terms. But 1979 also saw an increase in the standard rate of VAT from 8% to 15% and if the effect of this is taken into account the combined duty and VAT burden on beer has risen 50% and on spirits and wine has fallen 12% and 17%, all in real terms since 1979.

Link between alcohol-related problems and taxation.

17. Taxation is an important component in the price of alcoholic drinks and duty changes can therefore have a significant effect on the price and on the level of consumption. Within the Group views differed as to the extent and strength of the link between taxation and alcohol-related problems. There is no dispute about the statistics as such, but their interpretation is open to debate and there were differences of opinion about the conclusions to be reached. The Home Office and DHSS regarded the link as strong: even though other pricing and income factors might have even stronger influences upon consumption patterns, they believed that taxation was an important element in determining price, and hence consumption whereas MAFF and Customs and Excise considered the link to be far from clear and pointed out that disposable income has a greater impact on consumption and other factors, such as changes in social habits and consumer tastes, are also relevant in the longer term. Nevertheless, taxation is an instrument in the sole control of the Government and, although the extent of any benefit is unclear, changes in taxation may offer a means of influencing consumption.

Objectives identified.

18. In the light of the information available the Group identified the following objectives (MAFF dissenting from the former):

- (a) **Health.** There is no evidence that any particular form of alcohol causes more damage to health than another, and since there is the relationship noted above between alcohol-related harm and per capita consumption of alcohol, the objective considered was to bring about an overall reduction in per capita consumption of alcohol.
- (b) **Crime.** Although alcohol-related crime is committed by all age-groups, young males are especially likely to be involved. Since they consume most of their alcohol as beer, the most promising objective seemed to be to bring about a reduction in their consumption of alcohol in beer by encouraging them to drink weaker beer, the intention being to achieve this objective without imposing undue costs on either the brewing industry or the administration of the excise duties.

Options considered.

19. With these objectives in mind the Group considered the advantages and disadvantages of:

- (i) the existing duty structure;
- (ii) a structure under which all alcoholic drinks would be taxed at the same rate according to their alcoholic strength;
- (iii) a structure under which all alcoholic drinks would be subject to a single duty scale chargeable according to alcoholic strength with the duty increasing progressively as the alcoholic strength increases;
- (iv) maintaining the existing structure of the individual duties but altering the relative weight of taxation to minimise total alcohol consumption; and
- (v) altering the beer duty to make it more progressive in respect of alcoholic strength.

Assessment of the options.

General considerations

20. Taxation is a crude weapon to use against a social problem such as alcohol misuse. There is no evidence that drinking in moderation and in appropriate circumstances is harmful and to this extent alcohol is different from tobacco for which there is no accepted "safe" level. There are conflicting views about what level of alcohol consumption may be regarded as safe, but medical opinion is tending towards a lower limit than was accepted a number of years ago. Nevertheless, any additional tax on alcohol affects all consumers, including the

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majority whose drinking is within sensible limits, although it has its greatest effect on those who drink most heavily.

21. The primary purpose of excise duties is to raise revenue and the duties on alcoholic drinks make a substantial contribution to Government revenue (about £4 billion in 1986/87). In deciding the level of these duties it is necessary to weigh carefully a range of economic and social considerations. However, there are differing views about the extent to which the duties should be used specifically to influence drinking habits so as to reduce alcohol-related problems, and the extent to which such action would be likely to be effective is debatable. Nevertheless the tax system does affect drink prices, prices do affect consumption, consumption affects harm, and it is therefore important as a minimum to avoid changes which could have positively undesirable social consequences.

22. The Government has a number of weapons available to it in the fight against alcohol abuse, for example considerable effort is already being devoted to health education and changing peoples attitudes to drinking and driving. The various weapons will be most effective if their use is co-ordinated, a point which has been highlighted during consideration of the Government's plans to liberalise the licensing laws and which led to the formation of the Ministerial Group with a remit to develop and co-ordinate policies on alcohol misuse.

23. EC rules need to be borne in mind. Article 95 of the Treaty of Rome prohibits Member States from taxing imported products more heavily than competing home-produced goods. The excise duties on alcoholic drinks have given rise to a number of European Court of Justice judgements under Article 95. These include one against the UK, as a result of which we have accepted that the duty on table wine should not exceed that on typical beer by more than 3:1, the ratio of the two products' alcoholic strength. Compliance with this judgement is a constraint in respect of options (iii) and (iv) at para 19, but EC rules do not restrict consideration of other options.

24. The Cockfield proposals for the harmonisation of excise duty rates would, if accepted, require very substantial reductions in all of the UK's alcoholic drinks duties. However, the likelihood of agreement being reached on the proposals as they stand is sufficiently remote that they need not act as a constraint.

Difficulties in assessing options.

25. Our work in assessing the effects of the various options was considerably hampered by the lack of any reliable figures on cross-price elasticities between different types and strengths of alcoholic drinks. For the purposes of argument, we have made some estimates, but it should be borne in mind that these are effectively not much more than educated guesses. Another point to be borne in mind is that all the estimates are based on the assumption that there are no other factors at work at the same time. The existence of other factors is explained at paragraph 17.

Assessment of the existing duty structure.

26. The existing duty structure is open to the criticism that there is no obvious logic to the different levels of taxation of different drinks and to a varying extent the beer, wine and cider duties all tax the alcohol in stronger drinks at a lower rate per unit of alcohol than in weaker drinks. Particular concern is expressed about the effect of the beer duty on the price of stronger beers. The nature of the relationship between the beer duty, charged as it is on original gravity, and final alcoholic strength is not precise; but it is generally true that although the rate of duty is constant per degree of original gravity, it falls as alcoholic strength increases. This illogicality has not yet attracted public attention, even from well-informed commentators, and is difficult to spot in the absence of widespread strength marking of beer. The nature of the relationship will be easier to establish if brewers include original gravity as well as alcoholic strength when marking of the latter becomes obligatory next year. Options for altering the beer duty structure to make it more progressive in terms of alcoholic strength are discussed at paragraphs 36 to 44 below.

27. The existing duties are the result of many factors, mostly historical, including experience of what the market will bear, the economics of the industry and the politics of the situation. Their main advantages are their flexibility, which enables the relative levels of taxation of different drinks to be adjusted to take account of such factors, and the fact that the duties are in general well understood by those who have to operate them and are relatively cheap and easy to collect both for Customs and for the trade. In the absence of conclusive evidence that specific alterations to the existing duty structure would produce a given, quantifiable reduction in the level of alcohol-related problems, there were differing views within the Group on whether the social costs of the alcohol misuse problem justified alterations which would have significant implications for the industry and uncertain social benefits. The Group acknowledged however that few changes in complex areas of social policy were capable of scientific analysis and that in the final analysis a political judgement has to be made which takes into account the economic and social considerations.

Assessment of the option of taxing all alcoholic drinks at the same rate according to alcoholic strength.

28. To tax all alcoholic drinks at the same rate "per degree" of alcoholic strength would be apparently logical, simple and fair. However, there are serious drawbacks. It would be fiscally inflexible and result in very large changes in the relative taxation of different drinks with a consequential disturbance of the market. A revenue neutral change would require the duty on spirits to be reduced by over one-third; whereas the duty on wine and beer would need to be raised by more than a tenth; and the cider duty would have to be more than doubled. The existing flat rate for all table wine would go, and the duty on a typical red table wine would be 50% more than that on a light white wine. However, perhaps the most serious objection in the present context is that for any chosen level of revenue yield this option would result in higher alcohol consumption than the present structure. Our estimates suggest that, other things being equal, consumption might increase by about 4%. Although MAFF were attracted to the principle of taxing all drinks according to their strength, the Group **concluded** that the disadvantages were such that this option should be rejected.

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Assessment of the option of taxing all alcoholic drinks according to alcoholic strength with the duty increasing progressively as the alcoholic strength increases.

29. This option (for convenience referred to as the "progressive per degree" option) offers a number of theoretical advantages over the neutral per degree option. As a general rule stronger drinks are cheaper to manufacture per degree of alcohol and a progressive per degree duty would enable the tax system to compensate for this to some extent so that the price to the consumer of a particular form of alcohol would not fall too far below that of any other drink. There would also be an additional element of fiscal flexibility in that in addition to changes in the overall level of the duty it would be possible to adjust the distribution to a limited extent by changing the degree of progressiveness of the duty.

30. However, a progressive per degree duty has serious drawbacks. It would introduce an anomaly which is most easily illustrated by an example. If the degree of progression was such that doubling the strength resulted in a two and a half fold increase in the duty, a gin and tonic containing 10% alcohol by volume would be liable to 56% more duty if made from gin purchased at 40% alcohol by volume (the normal strength for most spirits) than if purchased ready mixed with the tonic. This would be difficult either to defend or to avoid. Moreover, such a solution could fall foul of the European Court of Justice ruling that the duty on table wine should not exceed that on typical beer by more than the ratio of the two products' alcoholic strength (see paragraph 23). There would also be additional administrative difficulties and costs for Customs and the industry because of the need to establish and monitor the alcoholic strength of a wide range of wines and beers. This would involve a substantial increase in the number of samples taken for analysis, at considerable expense since the equipment currently available for accurately testing the alcoholic strength of wines and beers is expensive and intended to work in laboratory conditions. For beer the change would require the existing worts-based duty, charged as it is at an early stage in the production process, to be abandoned in favour of a duty on the alcohol in the finished product. These changes would be likely to bear most heavily on smaller businesses.

31. Although DHSS were attracted in principle to a progressive per degree duty, the disadvantages were such that the Group **concluded** that this option should be rejected.

Assessment of the option of maintaining the existing structure of the individual duties but altering the relative weight of taxation to minimise total alcohol consumption.

32. The Group examined the option of adjusting the relative weight of taxation applied to the existing alcoholic drinks duties (on a revenue neutral basis). The most important ratio is that between beer and spirits. These are the two major products and since the table wine duty is in effect pegged to the beer duty by the European Court's wine/beer judgement (see paragraph 23) this ratio effectively fixes the relativities between more than 90% of the alcoholic drinks market. The existing ratio between beer/wine and spirits is 1:1.7. Subject to the limitations mentioned at paragraph 25, it is estimated that reducing this ratio to 1:1 (roughly equivalent to a per degree duty structure) would lead to an increase in the amount of alcohol consumed of about 4% whereas increasing the ratio to 1:2.7 (the level in 1979) would reduce the amount of alcohol consumed by about 3.5%. There are two reasons for this effect: price changes have a greater effect on consumption of

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spirits than beer; and duty changes have a greater effect on the price of spirits than beer because duty accounts for a much higher proportion of the price. The duty, price and consumption changes involved in these examples are illustrated in the following table. It should be noted, however, that the analysis is based on conventional elasticities of demand which are relevant only for small changes in duty rates. Other factors may also be at work so that, for example, the actual change in consumption of spirits relative to beer since 1979 has been in the opposite direction to what such estimates would suggest.

DUTY, PRICE AND CONSUMPTION EFFECTS OF 1:1 AND 1:2.7 BEER/SPIRITS DUTY RATIOS

| beer/ spirits duty ratio | <u>% change in duty</u> | | | <u>% change in price</u> | | | <u>% change in consumption</u> | | |
|-----------------------------------|-------------------------|---------------|---------|--------------------------|---------------|---------|------------------------------------|---------------|---------|
| | beer | table wine | spirits | beer | table wine | spirits | beer | table wine | spirits |
| 1:1 | +10 | +10 | -37 | +2.4 | +2 | -15 | -1.3 | -2.6 | +24 |
| 1:2.7 | -14 | -14 | +39 | -3.4 | -3 | +16 | +1.8 | +3.8 | -18 |

- (1) The table is based on assumed average strengths of 3.6% for beer; 11% for table wine; and 40% for spirits.

In order to set the above figures in context, the potential reduction in alcohol consumption of 3.5% achieved by increasing the spirits duty by 39% and reducing the beer and wine duties by 14%, could also be achieved by raising the overall level of the alcoholic drinks duties by a uniform 14%.

33. On the basis of these estimates, it seems that any increase or reduction in the ratio between beer and spirits duties which was not accompanied by an increase in overall duty levels would lead either to an increase in overall consumption, or to an increase in beer consumption; the former unacceptable on health grounds, and the latter contrary to the crime objective. Moreover, any decision to change the ratio would have to take account of industrial considerations concerning the relative ability of the beer and spirits industries to withstand particular levels of duty increase. In the light of the conflicting interests it is not surprising that, while the DHSS favour an increase in the ratio, the Home Office are concerned that such an increase would result in a reduction in the duty on beer unless accompanied by an increase in overall duty levels. MAFF and the Scottish Office were opposed to any increase in the ratio since they were not convinced that, on balance, there was sufficient likelihood of a benefit to justify the damage to the Scotch whisky industry that would result.

34. Although the relatively low level of cider consumption means that duty changes would have at best only a marginal effect on overall alcohol consumption, the Group noted the concern that cider is a particularly popular drink amongst under-age drinkers. Moreover, there appears to be widespread ignorance about its strength. Cider is typically stronger than beer, but parents are known to give it to children as a "safe" drink, and because it is taxed at a flat rate strong cider is a relatively cheap source of alcohol. Cider is undertaxed compared with beer and this is undesirable on health and crime grounds. The Group **concluded** that there

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should be a positive policy of moving the cider duty towards parity with the beer duty. However, the fragile nature of the cider market suggests that this should be a gradual process so as not to cause undue adverse effects on the industry.

35. Special considerations apply to fortified wines such as sherry, vermouth and port. The market for these products has fallen more than any other in recent years and a move to increase duty substantially would inflict serious damage. Since this group of products accounts for less than 5% of alcohol consumption and has not been specially identified as a cause of particular alcohol-related health or crime problems, the Group **concluded** that the relative weight of taxation should continue to be determined primarily by other factors.

Assessment of the option of making the beer duty more progressive in respect of alcoholic content.

36. The Group examined whether there was any possibility that tax changes could be directed at that part of the population most involved in alcohol-related crime, ie young men. 18 to 24 year old men drink more than any other section of the population and consume 86% of their alcohol in the form of beer (for the 25 to 34 age group the figure is only slightly lower at 80%). Fewer offences might be committed if young men could be encouraged to drink the same volume of beer of a weaker type as a result of increases in the duty on stronger beer and reductions in the duty on weaker beer.

37. Assessment of this option is complicated by the shortage of direct evidence about the strength or quantity of beer young men consume before committing offences. The figures we have suggest that about 25% of the 18-24 age-group regularly drink beers with original gravities in excess of 1039°, so there is potential for a shift in this market; and the police have complained about young people who buy strong beers (especially lagers) with the intention of getting as drunk as possible in the shortest possible time. It is clear that alcohol consumed in beer is strongly associated with crime, especially that committed by young men, and that a reduction in the alcohol consumed would be desirable on health and crime grounds. But it is impossible to say what proportion of the crime problems described earlier in this report can be directly attributed to beer, and especially stronger beer.

38. The argument for a more steeply graduated beer duty relies on the assumption that young men will trade down to weaker beers if the price differential is increased. However, beer drinking habits are affected by taste and fashion as well as price and young men have not been deterred from drinking a much higher proportion of lager than older drinkers by its higher price (about 91p per pint for lager as opposed to about 81p per pint for bitter in a pub according to figures provided by the Department of Employment from the data used for the RPI). The growth in popularity of lager despite its price disadvantage suggests that to be effective any change in the duty structure would need to have a marked impact on prices. Since the excise duty accounts for only about a quarter of the final selling price of beer, any duty changes would have to be substantial.

39. A further uncertainty concerns the elasticity of demand in the weaker beer market. If the majority of weaker beer drinkers are already drinking the quantity of beer which they wish to consume, the decrease in strong beer drinking might

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not be offset by a comparable increase in the weaker beer market: if so, the proposed restructuring would be more effective than our predictions. Alternatively, there may be considerable elasticity of demand amongst weaker beer drinkers, in which case the proposed restructuring would be less effective.

40. We do not have information on how the consumption of different strengths of beer would be affected by changes in their relative prices. However, some indication of the potential for shifting consumption from strong to weak beer can be obtained by applying the formula to predict changes in total beer consumption as a result of changes in prices. Adding about 4p to the duty on stronger beer (taken to contain 4.4% alcohol) and reducing the duty on weaker beer (taken to contain 2.6% alcohol) by about 4p would produce a duty scale under which the duty per unit of alcohol would increase about twice as fast as the alcoholic content increased. Such a duty scale is illustrated as structure C at paragraph 3 of Annex E. This degree of progression would involve a duty increase of about 25p per pint for the strongest commonly available lagers (which contain as much as 9% alcohol) and would result in these paying slightly more duty than the same volume of table wine. It is therefore about the limit of what could be achieved without introducing major anomalies into the duty structure. If the formula for predicting volume changes in the total beer market were to apply to changes within the market such a change could be expected to reduce consumption of stronger beers by about 3% and increase consumption of weaker beer by about 3%. This would be roughly revenue neutral and would have a negligible effect on the volume of beer consumed and total consumption of alcohol in the form of beer. Even if consumption of different strengths of beer within the beer market is assumed to be twice as sensitive to price, consumption of stronger beer would fall by only about 5% while consumption of weaker beer would rise by about 6%. There would still be a negligible effect on the volume of beer consumed and on consumption of alcohol in the form of beer. Negligible in this context is taken to mean a change of 1% or less and, given the nature of the assumptions used to produce these estimates, it is not possible to place any confidence in estimates which suggest an effect as small as this.

41. Such information as we have about the drinking habits of different age groups suggests that the increase in the price of strong beer would not only affect young men but would also affect the 86% of the adult population who are aged 25 or over and who consume about three quarters of all strong beer. Thus any change to the tax system intended to bring about changes in the consumption of the minority who misuse alcohol, would also affect all other drinkers. There is at least a possibility that the older drinkers have a lesser part of their incomes available for discretionary spending and might therefore respond to the change more than the young men who were the true target. However, on social grounds it might be defensible that the majority of the population should drink rather less as a result of a taxation change.

42. Changes to the beer duty to make it more progressive would require potentially contentious legislation and a substantial restructuring of Customs and Excise controls. Both Customs and the brewers would need additional manpower. There would be more paperwork, and possibly changes to computer systems, for brewers at a time when the Government is seeking to reduce burdens on businesses. The change would also run counter to the considerable and successful efforts by Customs in recent years to modernise and simplify the administration and control of the beer duty. It is difficult to put a price on the additional work involved but it is thought that the minimum cost to Customs would be £200,000 per annum and the cost to brewers could well be several times this figure,

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particularly in the first year when computer systems would need to be amended. Nevertheless, the cost of making the beer duty more progressive is likely to be small when set alongside the cost of alcohol-related problems. Annex E discusses the technical problems involved and explains why making the beer duty more progressive might involve abandoning the existing worts system of taxation in favour of a system of taxing the finished beer.

43. The Group could not reach agreement on whether the prospect of achieving significant reductions in alcohol-related problems was sufficiently likely that it would justify the changes. Some were of the opinion that alcohol-related problems were of such serious proportions that the necessary changes could be justified even if only as an experiment to see what effect they would have. On the other hand others had serious doubts about whether the proposals would be effective and demonstrably so and felt that it was reasonable to expect further research into the drinking habits and attitudes of young men before major legislative changes could be defended to Parliament.

44. There was one change on which the group was in agreement. The minimum duty charge on beer of 1030° of original gravity and below (see Annex D) has in the past been cited by the Brewers' Society as an impediment to the introduction of lower strength beer. The original reason for the minimum duty charge, to ensure that the one-time excise duty on table waters was not undermined, has long since ceased to be relevant. There are no technical or revenue reasons for retaining the minimum duty charge, but the Brewers' Society have argued for its retention on the grounds that it helps to protect the traditional image of beer. The Group **concluded** that the minimum duty charge served no useful purpose and since the Brewers' Society had failed to demonstrate a convincing case for its retention, it should be abolished. However, in order to ensure that consumers were not misled as to the alcoholic strength, the change should not come into effect until new labelling requirements, which would result in the alcoholic strength of beer being shown, are brought into effect on 1 May 1988.

Summary of conclusions

45. Although the link between taxation and alcohol-related damage to health cannot be proved beyond doubt, it should nevertheless be accepted as a factor to be taken into account when the Budget is being drawn up. The level of alcohol-related damage to health is related to the level of per capita consumption of alcohol, and although the nature of the relationship is not clear, the health and social departments consider a reduction in per capita consumption to be desirable. Using taxation, this can most effectively be achieved by increasing the overall level of the alcoholic drinks duties but this is outside the group's terms of reference. The most cost effective way to reduce per capita consumption within the terms of reference is to shift some of the burden of taxation from beer and wine to spirits. Health considerations in isolation therefore point to the conclusion that future tax changes should reverse the moves in recent years to bring the duties on spirits more closely into line with those on beer and wine. However, a policy which would transfer some of the burden of tax from beer to spirits could well worsen the potential impact on alcohol-related crime, much of which is connected with beer drinking. Furthermore, MAFF and the Scottish Office were opposed to such a policy because they were not convinced that there was sufficient likelihood of an overall benefit to justify the damage that would be caused to the Scotch whisky industry.

46. Although the group concluded that the minimum duty charge for beer should be abolished, it was unable to reach agreement on whether there should be a more fundamental change to the beer duty structure to make it more progressive in terms of alcoholic strength. For a range of reasons, it is impossible to prove conclusively that such a change would produce the desired benefits. Those in favour of the change argued that given the enormous costs and suffering generated by alcohol-related crime, the present situation was insupportable. The Government, through the taxation system, was unavoidably implicated in determining the price of, and hence demand for, alcoholic drinks, and could not hide behind arguments that the duties system was merely a revenue collecting exercise. Given the nature of alcohol-related crime, changes to the beer taxation system - which at present actually favours higher-strength beers - of the kind proposed seemed to be the most acceptable and most likely to be effective. While the effectiveness of these proposals was not beyond doubt, further research would be costly, time-consuming, and might well not produce any firmer conclusions. The costs of the proposed restructuring were minimal when viewed alongside the costs of alcohol misuse. Given the choice of taking action which was likely to have at the least some beneficial effect, or of doing nothing on the grounds that absolute proof could not be made available, those who favoured change argued that the Government should choose the former, and demonstrate its commitment to exploring ways of countering the problem of alcohol misuse.

47. Others argued that revision of the beer duty structure would require legislation, impose costs on Customs and Excise and the brewing industry and penalise the majority of drinkers who do not inflict harm on themselves or others; whereas the benefits were at best speculative. In their view there were doubts whether any reduction in alcohol consumption successfully achieved by tax inspired price increases would necessarily bring about a change in alcohol-related crime. They concluded that the case for change was not proven and further research should be carried out into the drinking habits and motivation of those who commit alcohol-related offences.

48. Special considerations apply to fortified wines such as sherry, vermouth and port and the group concluded that taxation of these should continue to be determined primarily by factors other than health or crime-related considerations.

49. Cider is at present under-taxed compared with other alcoholic drinks and has been identified as a particular problem in respect of under-age drinking. The group agreed that the cider duty should be moved towards parity with beer, but this change should be gradual so as not to cause undue adverse effects on the cider industry.

ANNEX A

(Referred to at
paragraph 7)

ALCOHOL-RELATED HEALTH AND SOCIAL PROBLEMS

Note by DHSS

1. INTRODUCTION

This Annex contains further and more detailed information and sources on health and social aspects, including statistics and research, than is provided in the main body of the Report.

2. NATURE OF PROBLEM

Besides the psychiatric problems that can be caused by alcohol misuse, the associated physical health hazards affect the nervous, gastro-intestinal, heart, circulatory, respiratory, endocrine and reproductive systems. Recent research (Alcohol: An Important Cause of Hypertension. British Medical Journal (1987) 294 1045-1046 and Willett WC et al (1987) Moderate Alcohol Consumption and the Risk of Breast Cancer, New England Journal of Medicine 1174-1180) indicates that high blood pressure and breast cancer may be precipitated, in the case of pre-disposed individuals, by relatively modest levels of alcohol consumption.

The following table provides a summary of the physical health hazards associated with alcohol misuse:

Summary of physical health hazards associated with alcohol abuse

Nervous system

Acute intoxication; 'black-outs'

Persistent brain damage:

Wernicke's encephalopathy

Korsakoff's syndrome

cerebellar degeneration

dementia

Cerebrovascular disease:

strokes, especially in young people

subarachnoid haemorrhage

subdural haematoma after head injury

Withdrawal symptoms:

tremor, hallucinations, fits

Nerve and muscle damage:

weakness, paralysis, burning sensations in hands and feet

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Liver

Infiltration of liver with fat
Alcoholic hepatitis
Cirrhosis and eventual liver failure
Liver cancer

Gastrointestinal system

Reflux of acid into the oesophagus
Tearing and occasionally rupture of the oesophagus
Cancer of the oesophagus
Gastritis
Aggravation and impaired healing of peptic ulcers
Diarrhoea and impaired absorption of food
Chronic inflammation of the pancreas leading in some to diabetes and malabsorption of food

Nutrition

Malnutrition from reduced intake of food, toxic effects of alcohol on intestine, and impaired metabolism, leading to weight loss
Obesity, particularly in early stages of heavy drinking

Heart and circulatory system

Abnormal rhythms
High blood pressure
Chronic heart muscle damage leading to heart failure

Respiratory system

Fractured ribs
Pneumonia from inhalation of vomit

Endocrine system

Overproduction of cortisol leading to obesity, acne, increased facial hair, and high blood pressure
Condition mimicking over-activity of the thyroid with loss of weight, anxiety, palpitations, sweating, and tremor
Severe fall in blood sugar, sometimes leading to coma
Intense facial flushing in many diabetics taking the anti-diabetic drug chlorpropamide

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Reproductive system

In men, loss of libido, reduced potency, shrinkage in size of testes and penis, reduced or absent sperm formation and so infertility, and loss of sexual hair
In women, sexual difficulties, menstrual irregularities, and shrinkage of breasts and external genitalia

Occupation and accidents

Impaired work performance and decision making
Increased risk and severity of accidents

The fetus, the child, and the family

Damage to the fetus and the fetal alcohol syndrome
Acute intoxication in young children:
hypothermia, low blood sugar levels, depressed respiration
Effect on physical development and behaviour of the child through heavy drinking by parents

Interaction of alcohol with medicinal substances

Increased likelihood of unwanted effects of drugs
Reduced effectiveness of medicines

Evidence has been presented both for and against the assertion that moderate alcohol use can reduce the risk of heart disease. (Drinking for health: the daily light drinker fiction: G Knupfer. British Journal of Addiction (1987) 82, 547-555.) Having assessed the contradictory reports in terms of soundness of methodology and validity of interpretation, the DHSS has formed the impression that the studies which claim a protective effect of moderate drinking tend to be the earlier, less meticulous ones, while those studies which find no protective effect tend to be more recent and more carefully designed. The Royal College of Physicians has concluded that the apparent preventive effect of moderate drinking may be spurious because total abstainers may be a special group at higher risk for other reasons. The Royal College of Psychiatrists has commented that the question remains unproven.

3. EXTENT OF PROBLEM

This Report refers to the difficulty of estimating numbers of problem drinkers, firstly because people may forget or deliberately under-report the amount that they drink and secondly because heavy drinkers tend to be under-represented in surveys both because of the numbers who live in hostel-type accommodation rather than households and also the difficulty in general of contacting them. The estimate of 600,000 persons with a serious drinking problem in England and Wales was obtained by OPCS from mortality and other health data (Donnan & Haskey, Population Trends, HMSO March 1977).

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Another source of estimates is "Drinking in England & Wales" an enquiry carried out by OPCS on behalf of DHSS (HMSO 1980). This survey showed 1,350,000 people drinking at levels now regarded as definitely harmful and over 5 million people drinking at levels now regarded by three medical Royal Colleges as over the safe limits.

A survey of the drinking habits of adolescents has found that more than half of 15 year old boys and more than a third of 15 year old girls reported that they drank alcohol at least weekly (see Adolescent Drinking, a survey carried out by OPCS for DHSS and SHHD, HMSO, 1986).

A further OPCS survey found an increase in reported average consumption of alcohol by women in Scotland of over one-third in the period 1976-1984 (Drinking & Attitudes to Licensing in Scotland, OPCS, HMSO 1986).

4. HOSPITAL ADMISSIONS

There were 17,726 admissions to mental illness hospitals and units in England with alcohol-related diagnoses in 1986 (DHSS: Mental Health Enquiry).

A number of research studies have been carried out into the proportion of all hospital admissions where alcohol is either a direct or contributory factor. These studies indicate that alcohol is probably a factor in over 20% of hospital admissions (Kilbane et al, Lancet, 2.8.86; Jarman et al, British Medical Journal, 1979; Quinn et al, Health Bulletin (Edinburgh) 1976); Kessell, unpublished, 1974; Barrison et al, Health Trends, 1982; Jariwalla et al, Health Trends, 1979).

Research by the Institute of Health Studies, University of Hull (1986) found that out of a sample of out-patient attenders, 11.3% were definitely alcohol-related admissions and a further 4% possibly alcohol related.

5. HOSPITAL DISCHARGES

Discharges from and deaths in non-psychiatric hospitals in England of people with clear alcohol-related diagnoses increased from 10.7 per 100,000 population in 1979 to 16 in 1985 (DHSS: Hospital In-Patient Enquiry).

6. GENERAL PRACTICE

Statistics from "Morbidity Statistics from General Practice, Third National Study" (Royal College of General Practitioners, OPCS, DHSS, HMSO, 1986) show that 2.1 patients per thousand consulted general practitioners in 1981/82 for alcohol-related mental illness, ie 100,000 persons in England. This does not include non-psychiatric alcohol-related diagnoses. The consultation rate in 1971/72 for alcohol and drug dependence combined was 0.9 per thousand. The increase for alcohol is thus a large one.

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7. SOCIAL SERVICES DATA

A research project has found that alcohol was a factor in over 50% of cases of "battered wives" surveyed (A Bridge over Troubled Waters - a longitudinal study of Battered Women who went to a Refuge, by Jan Pahl, University of Kent at Canterbury, 1977 to 1980).

The NSPCC have stated that parental alcohol misuse is an associated factor in around one third of all cases of child abuse (Trends in Child Abuse 1977-1982. S K Creighton, London, NSPCC 1984).

Beezley-Mrajek et al (Recognition of Child Sexual Abuse in the UK in Sexually Abused Children and their Families Beezley-Mrajek P and Kempe CH (editors) Oxford, Pergamon Press 1986) have specifically identified parental alcoholism as being a common factor where a child is sexually abused.

8. DEATHS

Deaths in England and Wales directly attributed in death certificates to alcohol-related illnesses rose from 520 in 1974 to 1,261 in 1986 (Mortality statistics). These figures do not include cirrhosis deaths recorded as non-alcohol-related. However, research has revealed under-reporting of alcohol-related mortality by a factor of between six and eight (Pettersson et al, British Medical Journal, 280, 1403-06, 1980 and Lancet 8307, 1088-90, 1982). If all cirrhosis and alcohol-related mental illness deaths are included, we have 1,944 deaths in 1974 rising to 2,750 in 1986.

There were also an estimated 1,392 road traffic accident deaths in 1984 in Great Britain associated with alcohol. This is about one in four of total road deaths. (Road Accidents, Great Britain 1984. Department of Transport, HMSO).

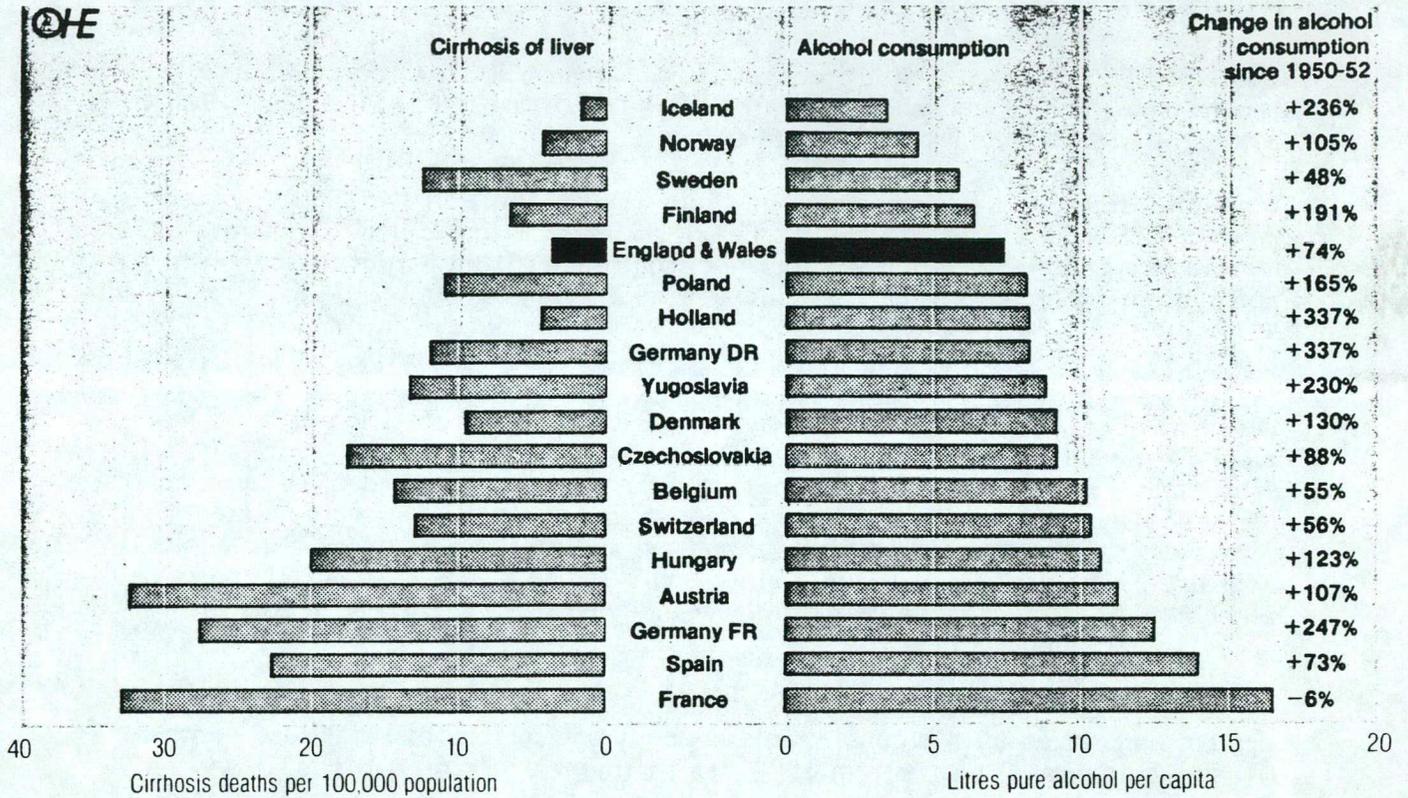
9. RELATIONSHIP BETWEEN ALCOHOL CONSUMPTION AND HARM

Evidence for the association between indicators of harm and general mean consumption of alcohol was reviewed by Bruun et al in 1975 (Alcohol Control Policies in Public Health Perspective, The Finnish Foundation for Alcohol Studies, the World Health Organisation Regional Office for Europe) and despite debate about how the correlations are generated it is rarely questioned. The evidence, both from time series analyses for individual countries in periods of decreasing and increasing consumption and from between country comparisons, indicates a positive correlation between per capita consumption and alcohol-related harm. Much of the earlier work on which the evidence is based used aggregated data but it seems that no study using individual level data has failed to replicate the same findings.

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The following chart of WHO statistics is quoted in the Office of Health Economics 1981 booklet 'Alcohol - reducing the harm'. This provides a graphic representation of international experience of liver cirrhosis vis-a-vis alcohol consumption.

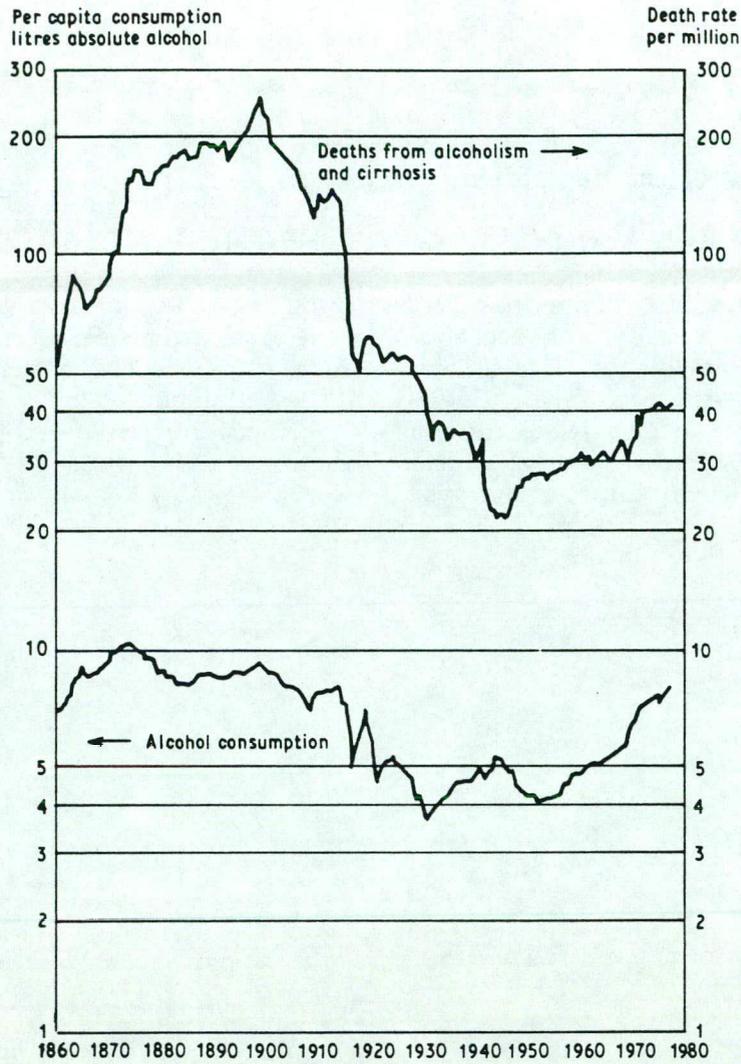
Liver cirrhosis mortality and alcohol consumption, selected countries mid 1970s



Sources WHO publications, various years.

While not all liver cirrhosis is alcohol-related, and there are varying estimates of the extent to which it is, it is generally agreed that liver cirrhosis deaths are the most sensitive and best indicator of alcohol-related health harm. This is illustrated in the following graph which covers the period 1860-1980.

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Trends in alcohol consumption and deaths attributed to alcohol.

It is acknowledged that the nature of the link between alcohol consumption and harm to health is not clear. However it is now generally agreed that there is a strong link between cigarette smoking and lung cancer although the means by which smoking leads to the development of cancer is far from clear.

Changes in other health indicators such as admissions to hospital also reflect changes in alcohol consumption. However, they are also affected by other factors such as changes in medical practice.

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10. COSTS

Researchers have estimated that the social costs of alcohol misuse amounted to £1.8 billion in 1985 (see Maynard et al ESRC Addiction Research Centre, University of Hull. Data Note 9. British Journal of Addictions, June 1987). The estimate is crude and conservative and, for example, does not include costs of hospital out-patient and day-patient care.

11. AWARENESS OF ALCOHOL-RELATED HEALTH PROBLEMS

Three medical Royal Colleges have recently published Reports in which among other things they express concern about the lack of awareness of the health and social problems associated with alcohol misuse and make recommendations for action to reduce the problems. (See Alcohol - A Balanced View - Royal College of General Practitioners, 1986; Alcohol - Our Favourite Drug - Royal College of Psychiatrists, 1987; the Medical Consequences of Alcohol abuse - A Great & Growing Evil - Royal College of Physicians, 1987.)

ALCOHOL AND CRIME

Note by the Home Office

The links between alcohol and crime

Association between alcohol consumption and crime

1. Some association between recent alcohol consumption and criminal activity, particularly violent crime, is easy to demonstrate. A descriptive study of 400 people charged with homicide in the Glasgow area between 1953 and 1963 concluded that alcohol was "the cause of crime" for over half the men and a third of the women (Gillies 1965, 1976). A study of 50 men convicted of murder in the London area found that 22% were either alcoholics or had been drinking immediately before the offence occurred (Scott 1968). In one police area, about a third of men charged with rape had consumed four or more units of alcohol before the offence occurred, with younger men more likely to have done so than older men. Descriptive studies covering all types of offence have consistently shown that those arrested for assault or disorderly conduct offences (criminal damage, breach of the peace) are more likely to be assessed as having recently consumed alcohol shortly before the offence than those arrested for other offences (Prys Williams 1976, Murphy 1982, Jeffs and Saunders 1983). On average, the studies show that about half of those arrested for disorderly conduct offences, and a quarter of those arrested for assault, were assessed as having recently consumed alcohol.

2. Around 40% of male, and 25% of female prisoners have been described as "excessive" or "problem" drinkers (Mott and Hope 1975), while "alcoholism" is the psychiatric diagnosis most frequently applied to male prisoners, especially petty persistent offenders (Gunn 1977, Banks and Fairhead 1976, Fairhead 1981). Interviews with prisoners to determine whether they attribute the commission of their crimes to alcohol produce mixed results. For prisoners as a whole, the proportion claiming alcohol as a cause is small. However, for young male prisoners the picture is rather different. Almost two thirds of the inmates of a Scottish young offenders institution in 1980 said that they had committed their offence while drunk (Heather 1982), while 30% of young male prisoners serving youth custody sentences in England and Wales in 1986 claimed the same (Home Office Prison Department 1987). Scottish prisoners who said they had committed unpremeditated offences (irrespective of offence type) were significantly more likely to have consumed greater amounts of alcohol on the day of the offence than those who said their offences were planned.

Causal links

3. The medical profession (British Medical Association 1986, Royal College of Psychiatrists 1986) is united in believing that there is a direct link between national per capita alcohol consumption and a variety of social ills, including rates of conviction for drunkenness and drink-driving.

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4. It is not yet possible, and may indeed prove to be impossible, to define the precise extent and nature of any causal relationship between the use of alcohol and crime, other than for alcohol-defined offences (ie offences in which alcohol is an indispensable ingredient). However, although the vast majority of drinking occasions do not result in known criminal activity, it is clear that there is a very considerable association between alcohol consumption and certain types of crime, especially those committed by young men, and that this has considerable resource implications for the criminal justice system.

Crimes in which alcohol is an essential ingredient

Drinking and driving

5. The Department of Transport and Home Office have adopted a wide range of legislative and educational measures against drunken driving over recent years. This package of measures appears to have had some success in reducing the problem, but the level of death and injuries arising from drunken driving remains extremely high. The most significant facts are:

about 1,400 road accident deaths p.a are associated with excess alcohol;

the annual cost of these fatalities is around £353.5m;

about one third of motorists killed on the roads are over the legal limit;

almost half of those aged 20-24 killed on the roads are over the limit;

about 60% of drivers killed on the roads between 2200 and 0359 are over the legal limit;

34% of drink-driving convictions involve under 25s;

21-25 is the peak age-range for these convictions;

nearly a quarter of English and Welsh pedestrian fatalities, and nearly two thirds of Scottish pedestrian fatalities, are over the limit.

6. The involvement of young people in all forms of traffic accident is particularly significant. In 1984, 28% of all car accidents involved a driver under 25, 10% under 20. 71% of motorcycle accidents involved a rider under 25, and 47% a rider under 20. The figures for accidents involving alcohol are even more significant: about 43% of accidents in between 2200 and 0359 involved drivers under 25, 16% under 20; the corresponding figures for riders were 79% and 50%.

7. Unlike certain other types of crime, the definition of drink-driving offences and the medical evidence of the effects of alcohol on the central nervous system demonstrate beyond doubt the direct link between alcohol and criminal consequences: if people drank fewer or weaker alcoholic drinks, fewer offences would be committed.

8. The 1982 British Crime Survey gave an indication of the extent of undetected drink-driving offences (Riley 1984). The self-reported incidence of driving after consuming 5 or more units of alcohol (about the legal limit) was highest in the 16-30 age-group of males. A comparison of the self-reported figures for all drivers in the sample with the number of convictions for drink-driving in 1981 suggests that the number of offences is 250 times greater than the number

prosecuted. In other words, there is a very considerable drink-driving problem which is hidden from the criminal justice system, and which would overwhelm it if criminal proceedings were brought in every case.

9. A significant proportion (about a quarter) of those convicted of drinking and driving have blood-alcohol counts in the 81-120 mg/100ml range, and this is especially true of young people. This means that relatively small reductions in alcohol consumption might have a significant impact upon the numbers of people driving over the limit. Moreover, since the risk of accident increases exponentially as alcohol consumption increases, the risk of accident, particularly for young and infrequent drinkers, increases rapidly with blood alcohol level. Almost any reduction in consumption levels, irrespective of the legal limit, should therefore have a significant effect upon accident levels.

Drunkenness offences

10. In 1985 there was a total of 83,000 findings of guilt or cautions for offences of drunkenness in England and Wales. 55,000 were sentenced by the courts, and nearly all (96%) were fined or given an absolute or conditional discharge. 1,100 people were committed to custody for fine default for a principal offence of drunkenness.

11. The extent of involvement of young people in alcohol offences is illustrated by some further figures:

Findings of guilt or cautions for drunkenness per 100,000 population in 1985

| <u>Age</u> | <u>Total</u> | <u>Males</u> | <u>Females</u> |
|------------|--------------|--------------|----------------|
| 14 | 29 | 43 | 14 |
| 15 | 65 | 108 | 20 |
| 16 | 197 | 349 | 36 |
| 17 | 442 | 806 | 60 |
| 18 | 673 | 1,243 | 71 |
| 19 | 667 | 1,247 | 62 |
| 20 | 613 | 1,136 | 67 |
| 21-29 | 345 | 637 | 46 |
| 30-59 | 182 | 330 | 33 |
| 60+ | 36 | 81 | 4 |

As these figures show, the rate of findings of guilt or cautions for drunkenness per 100,000 population reaches its peak at the ages of 18 and 19: 18 and 19 year-olds are almost twice as likely to be found guilty of, or cautioned for, drunkenness offences as those aged 21-29. At 17 - below the minimum age for ordinary drinking in pubs - the rate, although lower than for 18 year-olds, is still higher than for the over 21s. To some extent, the figures may reflect the attitudes of police and prosecutors in deciding whether or not to apprehend, and prefer charges against, different sections of the population; but it seems unlikely that this could account for the scales of the discrepancies in the figures.

Other crimes in which alcohol may be a factor

12. The research findings quoted in paragraph 1 above suggest that about one third of those arrested for disorderly conduct offences have recently consumed alcohol. We know that 45,000 people in the 18-24 age-group were cautioned or found guilty for such offences in 1985, which suggests that about 15,000 of these committed their offences after drinking.

13. Studies of violent offences, and of disorderly behaviour falling short of serious violence, coming to the notice of the police, consistently show that 20-30% of the incidents take place in or near licensed premises (McClintock 1982, Walmsley 1986). Studies in several city centres in England and Wales found that almost half the incidents of disorderly behaviour dealt with by the police occurred shortly after the end of permitted drinking hours, particularly on Friday and Saturday nights, and generally involved young men (Poyner 1980, Ramsay 1982, Hope 1985). It is reasonable to assume that most of those involved in the incidents had recently consumed alcohol. Such incidents have considerable resource implications for the police.

The cost of alcohol-related crime

14. The total cost of alcohol-related crime to the community is very difficult to estimate accurately, but an indication of the order of the costs to the criminal justice system may be obtained from the following figures (which apply to England and Wales only).

| | |
|---|--------|
| Annual cost of cautioning of drunkenness offenders: | £1.5 m |
| Annual cost of prosecution and sentencing of drunkenness offenders: | £4.3 m |
| Annual cost of fine default by drunkenness offenders: | £0.3 m |
| <hr/> | |
| Total: | £6.1 m |

This is simply the cost to the criminal justice system of drunkenness offences. To this must be added the third of a billion pounds which drunken-driving road fatalities cost; a proportion of the remaining 2.5 billion pounds which road traffic accidents cost; plus the unquantifiable costs of other alcohol-related crimes. It will be clear from these figures that the total cost of alcohol-related crime is likely to be of the order of one billion pounds at the very least.

Drinking habits

15. As explained above, certain types of disorder are closely associated with drinking by young men at pubs, who are also especially liable to be the perpetrators and casualties of drunken driving accidents. Several surveys have shown that in Great Britain young men between 16 and 24 drink more alcoholic drinks than the rest of the population and consume most of their alcohol as beer (86%) (Wilson 1980, Goddard 1986, Marsh et al 1987). They are also the section of the population most likely to be cautioned or prosecuted for all types of offences.

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ALCOHOL CONSUMPTION AND STRUCTURE OF THE ALCOHOLIC DRINKS
INDUSTRY AND MARKET

1. Table 1 below indicates how consumption of the various alcoholic drinks has changed since 1976. The table shows consumption for each drink and total consumption of alcohol expressed as the equivalent volume of pure alcohol.

TABLE 1: CONSUMPTION PER HEAD OF ADULT POPULATION (litres).

| | BEER | SPIRITS | TABLE WINE | OTHER WINE | CIDER | TOTAL (vol. of pure alc.) |
|-----|------|---------|---------------|---------------|-------|---------------------------------|
| '76 | 162 | 5.6 | 4.3 | 4.9 | n/a | 9.3 |
| '77 | 161 | 4.9 | 4.5 | 4.6 | 5.4 | 9.2 |
| '78 | 167 | 5.8 | 5.2 | 5.2 | 5.4 | 10.0 |
| '79 | 165 | 6.4 | 6.3 | 5.4 | 5.7 | 10.3 |
| '80 | 157 | 6.0 | 6.2 | 4.5 | 5.4 | 9.7 |
| '81 | 149 | 5.6 | 7.0 | 4.6 | 5.7 | 9.3 |
| '82 | 146 | 5.3 | 7.6 | 4.2 | 6.7 | 9.1 |
| '83 | 147 | 5.4 | 8.1 | 4.0 | 7.8 | 9.3 |
| '84 | 145 | 5.3 | 10.5 | 4.3 | 7.6 | 9.5 |
| '85 | 143 | 5.7 | 10.5 | 3.7 | 7.5 | 9.4 |
| '86 | 143 | 5.8 | 11.7 | 3.2 | 7.5 | 9.5 |

The table assumes the following alcoholic strengths:

beer - 3.6%
spirits - 40%
table wine - 11%
other wine - medium 17%, heavy 20% and sparkling 11%
cider - 4.3%

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2. **Beer.** Beer accounts for about half of consumer expenditure on alcoholic drinks. The UK brewing industry is dominated by 7 major brewers, who between them account for over three-quarters of annual output. The bulk of the remaining market is covered by "regional brewers" with small brewers, often brewing for only one outlet, accounting for the largest number of brewers but by far the smallest volume of production. Home production has been losing some ground to imports in recent years, though these are still only about 5% of the market.

3. Independent forecasts predict that the beer market is likely to be broadly static during the next few years. The reasons include:

An increase in the price of beer in real terms attributable partly to duty and tax increases and partly to brewers' price increases.

Economic decline in beer's traditionally strong markets (eg the North and heavy industry).

A shift in consumer preference in favour of other drinks.

Competition from other leisure activities.

Increasing public awareness of the health and drink driving dangers.

4. **Spirits.** Spirits account for just under a quarter of consumer expenditure on alcoholic drinks. Scotch whisky is the single most popular drink with about 47% of the market, followed by gin with about 14%, vodka with about 11% and brandy 8%. About 24% of UK consumption is of imported spirits, but exports exceed imports.

5. The industry is dominated by the Distillers Company Limited (DCL) now owned, along with Arthur Bell & Sons, by Guinness. A number of the other major spirit producers are owned by other major brewery and drinks companies.

6. **Wine.** Wine accounts for about 20% of consumer expenditure on alcoholic drinks with the bulk of this accounted for by table wine. Since 1979, the table wine and sparkling wine markets have continued to grow while clearances of fortified wines such as port, sherry and vermouth have declined substantially.

7. Roughly 90% of wine is imported. British sherry is the major domestic product and this is produced from imported grape concentrate (technically referred to as a "made-wine"). English wine (made from fresh grapes) accounts for only a fraction of 1% of the UK market.

8. **Cider.** Cider accounts for only about 3.5% of consumer expenditure on alcoholic drinks. 3 major companies account for about 96% of total cider sales. Imports and exports of cider are relatively minor.

9. The present cider duty was introduced on 6 September 1976 and did not appear to have a major adverse effect on consumption. Consumption grew fast in the early 1980s, while beer consumption was falling. However, growth was halted in 1984 by a substantial duty increase. Although there are signs that the cider market is recovering there is no evidence of a return to the earlier vigorous growth rates.

EXISTING DUTY STRUCTURE

- **Beer.**

Beer duty is charged according to the original gravity (og) of the liquid from which beer is produced (the worts) before fermentation takes place. The current rate of duty is £25.80 per hectolitre plus 86p for every additional degree of og above 1030°. Beer having a final alcoholic strength of less than 1.2% is relieved of duty, and is often not subject to the licensing laws - eg cans of shandy sold in cafes.

The original gravity provides an approximate measure of the potential alcoholic strength of beer but there is no precise relationship between og and final alcoholic strength because fermentation can be arrested at any stage. A rough guide to the incidence of the duty is that beer containing less than 1.2% alcohol (about 1020° og) pays no duty; beer containing between 1.2% and 2.5% alcohol (about 1020-1030° og) pays duty at just under 15p per pint; and for stronger beers the duty increases by about 4p per pint for every additional 1% of alcoholic strength.

- **Spirits, including liqueurs and other spirit-based mixed drinks.**

The duty is directly related to alcoholic strength, and is at present £15.77 per litre of alcohol (£4.73 per 75cl bottle of spirit at 40% alcohol).

Wine and made-wine. (1)

The duty is charged by reference to broad bands of alcoholic strength as follows:

| Alcoholic strength | Duty per hectolitre (£) | Duty per 70cl bottle (p) |
|-------------------------------------|-------------------------|--------------------------|
| not exceeding 15% (2) | 98.00 | 68.6 |
| exceeding 15% but not exceeding 18% | 169.00 | 118.3 |
| exceeding 18% but not exceeding 22% | 194.90 | 136.4 |

(1) A term for wine made from concentrated grape juice and non-grape based wine.

(2) Sparkling wine not exceeding 15% pays an additional 45p a bottle.

- **Cider and perry.**

These are charged at a flat rate of 15.8p per litre (9p per pint) unless they exceed 8.5% alcohol in which case they are taxed as made-wine.

OPTIONS FOR MAKING THE BEER DUTY MORE PROGRESSIVE IN TERMS OF ALCOHOLIC STRENGTH

1. This annex considers how the beer duty could be made more progressive in terms of alcoholic strength. Two options are considered. The first would involve a minimum of change to the duty structure but would only be capable of achieving a relatively modest change in the degree of progressiveness of the duty scale. To go further would involve the introduction of a completely new duty structure for which it would be necessary to start from scratch with new law, procedures, forms etc.

Option 1

2. We do not have any information on relative price elasticity of different strengths of beer, nor do we have detailed information about the distribution of UK beer sales by strength, although we know that the average strength is about 1037° of original gravity (og). To the extent that the alternative duty structures outlined below might be successful in persuading beer drinkers to transfer to weaker products without increasing the volume they consumed, there would be some reduction in revenue. Although the figures should therefore be used with caution, they do give an indication of the changes that might be possible under this option.

3. For the purposes of comparison, the table below sets out the duty payable on four specimen strengths of beer under the following duty structures:

A - the existing duty charged at a rate of 86p per hectolitre for every degree of original gravity in excess of 1000°, but without the minimum duty charge on beer of 1030° og and below (beers containing less than 1.2% alcohol would continue to be relieved of duty).

B - a roughly neutral scale in terms of alcoholic strength achieved by charging duty at a rate of £1.18 per hectolitre for every degree of original gravity in excess of 1010°.

C - a progressive scale achieved by charging duty at a rate of £1.87 per hectolitre for every degree of original gravity in excess of 1020°. Under this structure a beer at 1020° og would pay no duty although it could have an alcoholic strength as high as 2.5%, well above the existing 1.2% limit below which beer is relieved of duty. To preserve the existing 1.2% limit it would be necessary to introduce a minimum duty charge to underpin the structure.

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| original gravity | alcoholic strength by volume | duty - pence per pint | | |
|------------------|------------------------------|-----------------------|------|------|
| | | A | B | C |
| 1030 | 2.6% | 14.7 | 13.4 | 10.6 |
| 1037 | 3.5% | 18.1 | 18.1 | 18.1 |
| 1044 | 4.4% | 21.5 | 22.8 | 25.5 |
| 1080 | 9.0% | 39.1 | 46.9 | 63.8 |

The increase in alcoholic strength between a beer of 1030° and one of 1044° og is about 69% and this compares with increases in duty of 46%, 70% and 141% respectively for duty structures A, B and C.

4. The original gravity provides an approximate measure of the potential alcoholic strength of beer, but there is no precise relationship between the two because fermentation can be arrested at any stage. For example, lager of the "pils" variety would have an above average alcoholic strength for a given og because most of the fermentable sugar is turned into alcohol. On the other hand, brown ale is generally quite sweet, ie it has a fairly high level of residual sugar, and it would therefore have a below average alcoholic strength for a given og. The alcoholic strengths in the above table have been calculated using a formula derived by the Government Chemist from laboratory tests on a sample of beers. It provides a method of estimating the average alcoholic strength that can be expected for beer of a particular original gravity but is subject to a potentially large margin of error.

5. The flexible nature of the link between original gravity and alcoholic strength imposes a limit on the ability to achieve a large increase in the degree of progressiveness of a beer duty based on original gravity. A structure such as B or C would create a greater incentive for brewers to maximise the alcoholic content of finished beer for a given og. The problem already exists, though to a limited extent, under the existing structure.

6. The changes involved in structures B and C could not be achieved without making duty collection more complicated. The complication arises because of the practices of high gravity brewing and blending. High gravity brewing accounts for about 40% of UK beer production and involves brewing beer at a high original gravity and then diluting the resultant beer to the required strength by adding water nearer to the point of sale. This reduces costs, in particular of transport. It is also common practice to blend beers of different strengths. At present the addition of water or the blending of different strength beers does not affect the duty because the duty per litre per degree of original gravity is constant no matter what the strength. Duty structures B and C do not provide a constant duty per litre per degree of original gravity and complex duty adjustments would be required in respect of added water and blending of different strengths of beer. It is the administration and control of these duty adjustments that would require additional resources for the brewing industry and Customs.

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Option 2

7. The second option would involve abandoning the existing worts-based duty structure and replacing it with a duty on finished beer (usually referred to as an end product duty). The possibility of changing to an end product duty was last considered in detail in 1980 when the conclusion reached was that such a system would have undesirable consequences for trade and official resources and be unduly complicated.

8. The complexity and cost of operating an end product duty would depend on a number of factors, the most important of which is the duty point, ie the point in the production and subsequent distribution of beer at which the duty is to be assessed. The brewers would want a duty point as late as possible in the production/distribution chain. The 1980 examination concluded that such a system could not be implemented effectively without a significant increase in Customs and Excise resources because of the need to control a very large number of additional premises such as remote bottling plants and distribution depots, in addition to the breweries themselves. In 1980 it was estimated that such a duty system might involve about 35 extra staff at a current cost of about £1/2 million per annum. Moreover, the later the duty point the greater the delay in payment of the duty leading to a one-off loss of revenue in the year of introduction of the change. If the payment of one month's beer duty was delayed until the next financial year the cost to the Exchequer would be about £170 million.

9. There is no cheap method of measuring the alcohol content of beer, whereas original gravity can be measured in the field using an instrument which costs only about £17. Until new technology provides a reliable, readily portable, and reasonably priced machine for testing alcoholic strength an end product duty based on alcoholic strength would be expensive to operate. At present the cheapest machine for testing the alcoholic strength of beer to an acceptable standard for control purposes costs something over £3,000 and is intended to work in laboratory conditions. Particular objections could be expected to arise from small brewers who could not afford such equipment and for whom the cost of independent private analysis would be a particularly heavy burden at about £15 for each of a possibly large number of samples.



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Wakeham MP
Lord Privy Seal and Leader of the House of Commons
Privy Council Office
Whitehall
LONDON
SW1A 2AT

16 December 1987

Dear John,

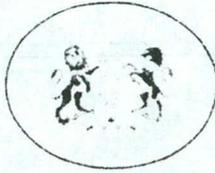
Alteration to the structure of the duties is not a matter about which Treasury Ministers would normally trouble colleagues in other Departments. However, in view of the current focus on alcohol misuse I shall be grateful for your views, and those of other members of the Ministerial Group, to whom this letter is copied, on the desirability of certain changes we are considering. As these changes may be included in this next Budget, I shall be grateful if you will treat the contents of this letter as particularly sensitive.

The alcoholic drinks industry has shown an interest in recent years in developing a market for lower strength mixed drinks such as "coolers". Typically these consist of a mixture of wine with fruit juice and/or mineral water, but they can also be produced by using a spirit, beer or cider base. They compete with each other regardless of the alcohol base but the present duty structure has a distortive effect. In practice it precludes imports of such drinks and it discriminates against those produced in the UK with a beer, cider or spirit base, and gives the UK produced wine-based products a near monopoly of the market.

Following a consultation exercise in 1986, the structure we are now considering would apply equally to UK produced and imported wine and to mixed drinks containing between 1.2% and 5.5% alcohol, and would be charged according to the strength of the product at a rate proportional to the duty on wine at 15% irrespective of the alcohol base. Products not exceeding 1.2% would not pay excise duty. The drinks would have to be appropriately labelled and marketed and, for example, not held out for sale using any description as spirits.

Certain traditional beer-based drinks such as a lager and lime and shandy would be excluded from the new duty structure, but with

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16/12



alternative facilities for their production under the beer duty regime.

Such a structure would result in UK manufactured spirit, beer and cider based drinks and imported products paying the same duty as existing UK produced wine-based products. This is about 20 to 40% lower than the duty on beer of similar strength, but considerably higher than the duty on cider. We have considered whether it would be better to set the duty rate higher to bring the duty payable more closely into line with that on beer. There are technical problems and extra administrative costs, but these are not insuperable. Revenue considerations are not paramount and the decision rests largely on other considerations, including social aspects. We have no clear evidence about the extent of competition between beer and "coolers". But our feeling is that the drinks appeal primarily to different markets with little direct competition. We believe that the main competition is between the coolers and wine and spirits. Taking this into account we have concluded that it would be undesirable to increase the relative duty on an established group of products, in a growing market which may contribute to a shift by consumers away from wines and spirits in favour of these lower-alcohol drinks. But it has to be recognised that, whatever course is adopted, criticism from some of those concerned with alcohol misuse could follow.

We are also considering removing the minimum duty charge on beer which is based on 1030° Original Gravity (about 2.5% alcohol). You will recall that this was recommended by the Inter-Departmental Working Group of officials. The brewers are not in favour of abolition, expressing concern about the "image" of beer and potential effects on the traditional beer market. I find their arguments unconvincing. The brewers are now selling a wide range of "lagers" with an alcoholic strength not exceeding 1.2% and any potential danger to the main beer market from removing the 1030° lower duty limit should be capable of being countered by appropriate marketing and labelling.

One final point. If these matters are part of the 1988 Budget and Finance Bill, the changes will not be implemented immediately so that the necessary adjustments and administrative arrangements for the trade, for example suitable labelling, can be completed.

I have set out very briefly some complex and technical issues. If you wish for further elucidation, I suggest your officials approach their normal contacts in Customs and Excise.

Yours ever
Peter

PETER LILLEY

11 JAN 1988



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

8 January 1988

Dear Peter

Thank you for your letter of 16 December setting out two changes to the alcohol excise duty structure which may be included in the next Budget.

As you are no doubt aware Douglas Hurd, John Moore and I are to see Nigel Lawson on 19 January to discuss alcohol taxation generally. It would, therefore, seem sensible to take up the points in your letter then.

In the meantime, as you suggest, I have asked the Secretariat to the Ministerial Group on Alcohol Misuse to prepare advice on the proposals in consultation as necessary with officials in Customs and Excise.

John Wakeham
John

JOHN WAKEHAM

Peter Lilley Esq MP
Economic Secretary
HM Treasury

| | |
|--------------------|----------------|
| ECONOMIC SECRETARY | |
| REC'D | 11 JAN 1988 |
| ACTION | Mr Jefferson - |
| COPIES TO | PS/Chancellor |
| | PS/CST, PS/FST |
| | Mr Culpin |
| | Miss Sinclair |

PS/cte

SMI
cte

PS/PMG

WAKEHAM
EST
8/1



H.M. CUSTOMS AND EXCISE
KING'S BEAM HOUSE, MARK LANE
LONDON EC3R 7HE
01-626 1515

mp.

FROM: P R H ALLEN
DATE: 15 January 1988

ECONOMIC SECRETARY

cc: Chancellor
Financial Secretary
Miss Sinclair
Mr Michie

TAXATION OF ALCOHOLIC DRINKS AND TOBACCO: DEPARTMENTAL REPRESENTATIONS

At about this time each year we canvas the views of MAFF, DHSS and DTI about taxation of alcoholic drinks and tobacco.

As far as alcoholic drinks are concerned, much of the ground this year has already been covered by the Inter-Departmental Working Group on the Excise Duties and Alcohol-Related Problems.

I attach for your information a brief summary of the views expressed. None of the points made was new to us, but you may expect the Ministers concerned to write formally with their views.

RA.

P R H ALLEN

Internal copies: CPS, Mr Knox, Mr Jefferson Smith,
Mr McGuigan, Mr Whitmore, Ms French

Allen
-cc
15/1

DEPARTMENTAL REPRESENTATIONS

MAFF

Report by Interdepartmental Working Group covers much of the ground:

- Against taxing higher strengths of beer at progressively higher rates.
- Against increasing taxation on spirits relative to beer and wine. Consider spirits should be treated more favourably than other drinks, as tax burden already disproportionately high compared with other sectors of drink industry and domestic sales fairly static.
- Support a gradual move to bring duty on cider into line with that for beer.
- Hope current wine duty structure can be left untouched. But want duty-paid blending facility for British Sherry to be discontinued.

DTI

- Highlight the TAC's representations, including the suggestion that duty on cigarettes and hand-rolling tobacco is no more than revalorised.
- Draw attention to fact that UK tobacco manufacturing is concentrated in areas of high unemployment. Jobs in industry very sensitive to a sharp increase in duty.

DHSS - tobacco

- Signs that fall in overall consumption slowing down - no change from 1986-87. Consumption by teenage males falling but no similar trend for teenage females. Price rises the best deterrent particularly in this sector.
- Increasing concern about 'passive smoking' - feel need to do something to recognise this, particularly in view of the Independent Scientific Committee on Smoking and Health report on the subject due out 2 March.
- Dispute industry's claim that improved competitiveness in 1987 due to no duty increase in 1987 Budget.
- Recommend price increase for cigarettes of at least amount necessary to bring real price back to level in April 1986 (6%), but would prefer a larger increase on grounds of public approval and health.

DHSS - alcoholic drinks

- Report by Interdepartmental working group sets out main health considerations on which DHSS views founded.
- Secretary of State for DHSS, Lord Privy Seal and Home Secretary considering making a joint presentation to Chancellor in mid-January (meeting now arranged for 9 February). Exact terms not yet decided but will be pressing for an overall increase in duty levels to offset decline in real prices over recent years.

MAIN BRIEF

Folder 912
to me!



Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

CONFIDENTIAL

JEFFERSON
-SMITH
5/2

FROM: P JEFFERSON SMITH

DATE: 5 February 1988

Chancellor

- cc PS/Chief Secretary
- PS/Paymaster General
- PS/Financial Secretary
- PS/Economic Secretary
- Mr Scholar
- Miss Sinclair
- Mr Michie
- Mr MacAuslan
- Miss G C Evans
- Mr Sutton
- Mr Sturges
- Mr Cropper
- Mr Tyrrie

ALCOHOL MISUSE: MEETING WITH CABINET COLLEAGUES

1. I attach a brief for the meeting at 5 pm on 10 February. It covers a number of subjects, some with technical aspects, and is consequently rather long. However, the main issues are likely to be:-

A general increase in the level of duty. You can expect your colleagues to press for this (paragraphs 8 and 9).

| | | | |
|----------------|---------|-------------|-----------|
| Internal circ: | CPS | Mr Whitmore | Mr Hawes |
| | Mr Knox | Mr Allen | Ms Noonan |

Higher duty on strong beer. The Home Office has previously advocated this but there are indications that they are now less inclined to press the point. There are a number of arguments against it, but perhaps a presentational case for taking a step in this direction. Your attitude on this will presumably depend on the strength of the pressure and how you expect your conjunctural decisions to be received (paragraphs 10 to 12).

The minimum duty for beer. We suggest you seek confirmation that there is general Departmental support for abolition (paragraphs 13 and 14).

Cider. You can expect general acceptance of the proposition that there should be a gradual narrowing of the differential between the beer and cider duties (paragraphs 15 and 16).

Lower strength mixed drinks. We suggest you ascertain whether there is general Departmental support for the proposed new duty band (paragraphs 17 to 20). This is a problem area in which some restructuring is required. But if there are hesitations or divided views, it is not essential to act this year.

2. **Revenue.** The revenue involved in the structural changes is negligible.

3. [Mr Whitmore and] I will attend in support, if required.

1/2 ✓

P JEFFERSON SMITH

We have suggested that we have only J-Smith — don't want too much of a crowd

mpw
9/2

CONFIDENTIAL

ALCOHOL MISUSE: BRIEF FOR THE MEETING WITH CABINET COLLEAGUES

Background.

1. Last year, following the Home Secretary's suggestion that the liquor duties might be altered to encourage the consumption of lower strength drinks, an Inter-Departmental Working Party of officials examined the duty structure and reported to you last October (Mr Jefferson Smith's note of 23 October).

2. An Inter-Departmental Ministerial Group was set up last September, with Mr Wakeham in the chair, "to review and develop the Government's strategy for combatting the misuse of alcohol and to oversee its continued implementation". The Economic Secretary represents the Treasury. At their first meeting the Group decided not to review overall Government policy at that stage but to examine specific target areas first; and they appeared to be generally content to keep a low profile on taxation accepting that decisions on this were a matter for you. However, it was noted that those concerned with alcohol misuse would be watching to see what was done in the Budget and it was envisaged that Mr Hurd, Mr Moore and Mr Wakeham would seek a pre-Budget meeting with you. The point was also made that Departments should bear in mind the passage of the Licensing Bill through Parliament. The second meeting in January did not discuss alcohol taxation.

3. Alcohol misuse has caused widespread harm to health and has links with crime and other social problems. The costs of dealing with the consequences of alcohol misuse are very significant.

BACK-
GROUND

4. **Health.** Medical opinion appears to be hardening on both the extent of the problem and the need to tackle it. It is very difficult to estimate how many people have health problems deriving from alcohol. However, a DHSS sponsored survey in 1980 indicated that in England and Wales some 1.35 million people were drinking at levels now regarded as definitely harmful, and over 5 million were drinking at levels now regarded by the three medical Royal Colleges as over the safe limit. Other research has suggested that alcohol may be a factor in something of the order of 1 million admissions to hospital a year and 5.8 million out-patient attendances.

5. **Social problems, including crime.** Alcohol is implicated in a wide range of crime and anti-social behaviour. In some cases, for example drunkenness, and drink-related driving offences, it is an essential ingredient. In others, for example hooliganism, the causal relationship is less clear; but there is little doubt that in many cases it is a significant contributing factor. The Home Office has estimated that the cost of crime in which alcohol is either an essential ingredient or has played an important role is over £1 billion a year.

6. The Working Group's report included an Annexe containing data on alcohol consumption, the market and the industry. For convenience this is attached as Annexe A to this brief. Note particularly that per capita consumption of alcohol, which had been rising throughout the post-war years, peaked in 1979, declined a little and is now on a plateau. Taxation policies must affect the direction the trend now takes.

Excise duty.

7. The DHSS wish to see an overall reduction in the per capita consumption of alcohol and taxation used to assist this by an overall increase in the drinks duties. The Home Office is particularly concerned with beer drinking by young men and, supported by the

DHSS and the Department of Transport, has previously pressed for the beer duty to be restructured to encourage a switch from stronger to weaker beers. The Home Office Working Group on Young People and Alcohol, chaired by Baroness Masham, also recommended increased duty on strong cider.

8. **Overall duty increase.** Alcohol misuse is not susceptible to a single, simple solution and it is primarily a matter of education and changing attitudes. Nevertheless, taxation is an instrument available to the Government and it can be argued that failure to increase the duties gives exactly the wrong signals. It seems likely that your colleagues will argue that the recent reduction in duty in real terms should now be reversed, pointing to the seriousness of the problem, the setting up of the Ministerial Group and the growing public awareness

9. **Line to take.** You may wish to point out that total alcohol consumption has dropped since the peak year of 1979 (Annexe A); the majority derive pleasure from drinking without harming themselves or others; a range of factors must be taken into account when fixing duty levels; and restoration of the duties to their 1985 levels in real terms would appear inconsistent with the 1986 and 1987 Budget decisions. Nevertheless, you recognise the seriousness of the alcohol misuse problem and the increasing pressure on the Government; and you will take these aspects on board when reaching your decisions on the drinks duties in next month's Budget.

10. **A higher duty on strong beer.** The Inter-Departmental Working Group officials were divided on this issue. The Home Office, supported by DHSS and Department of Transport, were strongly in favour. MAFF, as sponsors of the brewing industry were against, tending to deny the validity of the statistics; and Customs were cautiously sceptical. Although there is no doubt that drink causes some criminal behaviour, there is much conjecture and little hard fact about the link with crime and in particular the attitude of young men to

drinking. Because of this and the complications and extra costs which would be involved in operating a restructured beer duty, we felt the case for change unproven.

11. The arguments for doing something run as follows. Beer accounts for about half of consumer expenditure on alcoholic drinks, and has been identified as a problem drink particularly among young men. It is estimated that 18 to 24 year-old young men drink more than any other section of the population and consume 86% of their alcohol in the form of beer. The current beer duty is regressive with respect to alcoholic strength, and should be altered to encourage a switch from stronger to weaker beers. The arguments against loading duty on stronger beers are that it would unfairly penalise the majority of beer drinkers who drink sensibly; that there are serious doubts about the beneficial effect on the target population of any feasible duty increase, many of whom have high discretionary expenditure; and that it would involve additional commercial and official costs (Annexe B). The point about the extent to which extra duty could be loaded onto strong beers is very relevant. Some strong lagers can have about the same alcohol content as a light white wine (8%). To bring the tax up to the wine level would be the maximum feasible, and that would add 17p, to beers which already sell at a significant premium.

12. **Line to take.** There are arguments against changing the beer duty structure to increase relatively the duty on stronger beer. To do so would require controversial legislation and impose additional costs on the brewing industry and Customs and Excise. Moreover, the social benefits are as yet unproved. However, there is a presentational/placatory case for taking a step in this direction. **If pressed** and you judged it appropriate to make a helpful gesture to the social departments, you could offer to consider announcing at Budget time a review of the beer duty structure to be completed in time to be taken into account in the run up to next year's Budget. As you have previously recognised, it will be complicated to do anything in this Budget and any change would have to be

preceded by consultation with the industry and a reasonable period for adjustment. 1989 is the earliest practicable date. You may wish to indicate to your colleagues that whether you announce such a review will be influenced by what other changes are to be made in the drinks duties this year.

13. **The 1030° minimum duty for beer.** There are now no technical or revenue reasons for maintaining the minimum duty charge, but the Brewers' Society argue for its retention on the grounds that it helps to protect the traditional image of beer. This is not convincing. The Inter-Departmental Working Group of officials unanimously recommended abolition, and the Economic Secretary has written to other members of the Ministerial Group seeking their views. The Society have suggested an alternative of a new duty category for beers with an Original Gravity below 1030° and an alcoholic strength not exceeding 2.2%, with distinctive labelling. We regard the brewers' scheme as unnecessarily restrictive and cumbersome. It would be difficult to advocate as a government proposal.

14. **Line to take.** If your colleagues confirm that they are in favour of abolition, you could agree but point out that brewers will need time to adjust. The limit could be abolished in this year's Finance Act, with an effective date of (say) 1 October 1988. However, if you were to agree to an examination of the beer duty structure an alternative would be not to legislate this year but to take the question as part of the review of the structure. In the context of a review, this could have presentational advantages.

15. **Cider.** Average cider is stronger than average beer and is dutied at a flat rate of less than half that levied on average beer. Baroness Masham's Group recommended that the taxation of cider should be changed to increase the duty on high strength cider so that the price per unit of alcohol to the consumer is brought roughly into line with that for beer. (The report recognised that the production costs of cider were much higher than for

beer). The Inter-Departmental Working Group noted the potentially serious adverse affects on the cider industry of any abrupt steep increase in duty, and agreed that cider duty should move gradually towards parity with that on beer.

16. Line to take. You could acknowledge the relatively low duty on cider, but point out the underlying reasons - higher production costs, small UK industry with agricultural connections - and refer to the current sluggish market; but say you accept that there is a good case for gradually narrowing the differential between the beer and cider duties. If you have agreed to consider a review of the beer duty structure, there are strong arguments in logic and presentationally for a concurrent review of the cider duty.

17. Lower strength mixed drinks. There is a small but expanding market for "coolers" and similar drinks, albeit the market has not grown to the extent the trade had hoped. The existing structure caters satisfactorily for such drinks produced in the UK with a wine or made-wine alcohol base, because they are made from duty paid wine or made-wine to which is added fruit juice and/or soda water and other ingredients. Following the 1986 consultation exercise, the proposal is to introduce a new duty band for UK produced and imported products containing between 1.2% and 5.5% alcohol with a duty rate proportional to the duty on wine at 15% irrespective of the alcohol base. Such a structure would increase consumer choice, minimise distortion of the growing market and stop potentially embarrassing discrimination against imports.

18. Under such a band the duty would be virtually the same as on existing UK produced products. This is about 20% to 40% lower than the duty on beer of similar strength but considerably higher than the duty on cider. Brewers argue that the drinks compete with beer and we have considered whether it would be better to set the duty rate higher to bring the duty payable more closely into line with that on beer. We have no clear evidence about the extent and nature of competition between these drinks and others, but

our own feeling is that they mainly compete with wine and spirits; and we concluded that it would be undesirable to increase the relative duty on an established group of products which may contribute to a shift by consumers away from wines and spirits in favour of these lower-alcohol drinks. Moreover, if the duty were not aligned with the wine duty we should have to bring those drinks now made with duty paid alcohol under revenue control, with a consequential increase in trade and official costs. Revenue considerations are not paramount and the decision whether to introduce a new duty band at this juncture rests largely on other considerations. The Economic Secretary wrote to other members of the Ministerial Group asking for their views.

19. Besides being unpopular with the brewers the proposal may not find favour with the social departments. Some officials have argued that the maximum strength of a new band is too high and should be (say) 3.5%. They also have been inclined to favour a duty rate equating to that on beer of similar strength. However, we believe that the current view has come down on the side of the proposed band and duty based on the wine rate.]

20. **Line to take.** If colleagues are in favour you could agree to go ahead, with the caveat that the implementation date will have to be deferred until late in the year to allow time for the trade to adjust and the necessary administrative arrangements to be made. But if there are hesitations or divided views, it is not essential to press ahead this year.

21. **Tobacco taxation.** Although the meeting has been arranged to discuss the taxation of alcoholic drinks, tobacco may also be mentioned. You may wish to point out that although there was no duty increase in 1987, since 1979 the combined burden of duty and VAT on cigarettes has risen by more than 40% in real terms and consumption fell by 23% between 1979 and 1986. In reaching your decisions, however, you will take a balance of healty, revenue, industrial and other considerations into account.

22. **Harmonisation.** The present EC proposals would reduce the tax burden on tobacco products and alcoholic drinks. However, the proposals create problems for other countries as well as the UK. Unanimous agreement is required and the current package is unlikely to survive.

ANNEX A

ALCOHOL CONSUMPTION AND STRUCTURE OF THE ALCOHOLIC DRINKS
INDUSTRY AND MARKET

1. Table 1 below indicates how consumption of the various alcoholic drinks has changed since 1976. The table shows consumption for each drink and total consumption of alcohol expressed as the equivalent volume of pure alcohol.

TABLE 1: CONSUMPTION PER HEAD OF ADULT POPULATION (litres).

| | BEER | SPIRITS | TABLE WINE | OTHER WINE | CIDER | TOTAL (vol. of pure alc.) |
|-----|------|---------|------------|------------|-------|---------------------------|
| '76 | 162 | 5.6 | 4.3 | 4.9 | n/a | 9.3 |
| '77 | 161 | 4.9 | 4.5 | 4.6 | 5.4 | 9.2 |
| '78 | 167 | 5.8 | 5.2 | 5.2 | 5.4 | 10.0 |
| '79 | 165 | 6.4 | 6.3 | 5.4 | 5.7 | 10.3 |
| '80 | 157 | 6.0 | 6.2 | 4.5 | 5.4 | 9.7 |
| '81 | 149 | 5.6 | 7.0 | 4.6 | 5.7 | 9.3 |
| '82 | 146 | 5.3 | 7.6 | 4.2 | 6.7 | 9.1 |
| '83 | 147 | 5.4 | 8.1 | 4.0 | 7.8 | 9.3 |
| '84 | 145 | 5.3 | 10.5 | 4.3 | 7.6 | 9.5 |
| '85 | 143 | 5.7 | 10.5 | 3.7 | 7.5 | 9.4 |
| '86 | 143 | 5.8 | 11.7 | 3.2 | 7.5 | 9.5 |

The table assumes the following alcoholic strengths:

- beer - 3.6%
- spirits - 40%
- table wine - 11%
- other wine - medium 17%, heavy 20% and sparkling 11%
- cider - 4.3%

ANNEX
A

2. **Beer.** Beer accounts for about half of consumer expenditure on alcoholic drinks. The UK brewing industry is dominated by 7 major brewers, who between them account for over three-quarters of annual output. The bulk of the remaining market is covered by "regional brewers" with small brewers, often brewing for only one outlet, accounting for the largest number of brewers but by far the smallest volume of production. Home production has been losing some ground to imports in recent years, though these are still only about 5% of the market.

3. Independent forecasts predict that the beer market is likely to be broadly static during the next few years. The reasons include:

An increase in the price of beer in real terms attributable partly to duty and tax increases and partly to brewers' price increases.

Economic decline in beer's traditionally strong markets (eg the North and heavy industry).

A shift in consumer preference in favour of other drinks.

Competition from other leisure activities.

Increasing public awareness of the health and drink driving dangers.

4. **Spirits.** Spirits account for just under a quarter of consumer expenditure on alcoholic drinks. Scotch whisky is the single most popular drink with about 47% of the market, followed by gin with about 14%, vodka with about 11% and brandy 8%. About 24% of UK consumption is of imported spirits, but exports exceed imports.

5. The industry is dominated by the Distillers Company Limited (DCL) now owned, along with Arthur Bell & Sons, by Guinness. A number of the other major spirit producers are owned by other major brewery and drinks companies.

6. **Wine.** Wine accounts for about 20% of consumer expenditure on alcoholic drinks with the bulk of this accounted for by table wine. Since 1979, the table wine and sparkling wine markets have continued to grow while clearances of fortified wines such as port, sherry and vermouth have declined substantially.

7. Roughly 90% of wine is imported. British sherry is the major domestic product and this is produced from imported grape concentrate (technically referred to as a "made-wine"). English wine (made from fresh grapes) accounts for only a fraction of 1% of the UK market.

8. **Cider.** Cider accounts for only about 3.5% of consumer expenditure on alcoholic drinks. 3 major companies account for about 96% of total cider sales. Imports and exports of cider are relatively minor.

9. The present cider duty was introduced on 6 September 1976 and did not appear to have a major adverse effect on consumption. Consumption grew fast in the early 1980s, while beer consumption was falling. However, growth was halted in 1984 by a substantial duty increase. Although there are signs that the cider market is recovering there is no evidence of a return to the earlier vigorous growth rates.

BEER DUTY ADMINISTRATION

Present duty.

1. Beer duty is charged at an early stage of manufacture based on the original gravity (OG) of the liquid from which the beer is produced (the worts) before fermentation takes place. On completion of a collection of worts, the brewer must declare the volume and OG of the worts in a brewing record. Worts will be collected at different gravities during the month, so to make calculations of duty easier each collection is converted to a standard gravity of 1055°.
2. Once a month the brewer totals all the collections, deducts a standard 6% to account for process losses after the declaration, and makes a single calculation of duty payable for the month.
3. Because the present duty per hectolitre per degree of OG is constant, the addition of water or the blending of different strength beers after the duty point does not affect the amount of duty payable (unless beer is diluted below the present 1030° base line for duty which in practice rarely happens).
4. A non-linear duty scale with heavier duty on stronger beer would involve extra trade and official costs. The complications arise because of widespread high gravity brewing whereby the worts have a higher gravity than intended for the finished products, and water is added as near to the point of sale to reduce the beer to its required strength - the Brewers' Society say that virtually half of the beer produced in this country uses this technique. This cuts costs, particularly transport. It is also common practice to blend beers of different strengths. A non-linear scale would require adjustment of the duty to take account of the later processing.
5. Assuming that duty will continue to be based solely on OG, the following procedures would be adversely affected:

ANNEX
B

- Dilution of high gravity beer. The volume and OG would have to be declared after the addition of water;
- Blending of beers of differing OGs. The volume and OG would similarly have to be re-declared;
- Dilution and blending of beer away from the brewery of origin would require more premises to be brought under revenue control;
- Priming (sugar) solutions are often collected at OGs exceeding 1100° and would carry a higher rate of duty which might have to be reassessed after adding to beer;
- Beer concentrate. One large brewer concentrates beer after duty declaration to over 1100° OG and then reduces to sale gravity elsewhere. This would require at least two further declarations. Technical developments relating to dilution at the point of sale now being explored by two major brewers could seriously further complicate this aspect.

6. The OG provides an approximate measure of potential alcoholic strength of beer, but there is no precise relationship between the two because fermentation can be arrested at any time. The flexible nature of the link between OG and alcoholic strength means that a progressive structure based on OG would create a greater incentive for brewers to maximise the alcoholic content of finished beer for a given OG. This could lead to increasing pressure for a more fundamental restructuring, probably an end-product duty based on alcoholic strength.



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Jefferson
- SMITH
9/2

FROM: P JEFFERSON SMITH
DATE: 9 February 1988

PS/CHANCELLOR

cc: PS/Economic Secretary
Miss Sinclair
Mr Cropper

ALCOHOL MISUSE : MEETING WITH CABINET COLLEAGUES

For the meeting on Wednesday at 5 pm, it may be helpful to summarise the views that have been put at ministerial level on alcohol taxation.

Mr Moore has written to the Chancellor about the Budget, but about tobacco, not alcohol. Mr Wakeham, and Mr Hurd and Mr MacGregor do not appear to have written. But the Economic Secretary has received a letter from Mr Thompson (4 February) going along with our proposals for low strength mixed drinks and beers below 1030° OG. Mr Rifkind has asked for favourable treatment of spirits.

behind
At official level, we followed the normal practice of consulting MAFF, DHSS and DTI. Their views were summarised in Mr Allen's minute to the Economic Secretary of 15 January. MAFF seek favourable treatment for spirits; support a gradual raising of the duty on cider relative to beer; and oppose progressive taxation of stronger beers. DHSS take their stand on the health issues identified in the Report of the Interdepartmental Working Group - effectively they are much more concerned with the overall level of

Internal distribution: CPS
Mr Knox
Mr Whitmore
Mr Allen

145/2/88

the duties, which affect alcohol consumption in general, than they are with aspects of the duty structure. If they are particularly concerned about beer, this is because it accounts for over half the alcohol consumed.

ph ←

P JEFFERSON SMITH

CONFIDENTIAL

MP

CROPPER
ALCOHOL
MISUSE
9/2FROM: P J CROPPER
DATE: 9 February 1988

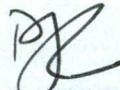
CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr TyrieALCOHOL MISUSE: MEETING WITH CABINET COLLEAGUES

I would argue strongly against using taxation to deal with the "alcohol misuse" problem. As Mr Jefferson Smith's brief says: "the majority derive pleasure from drinking without harming themselves or others". The majority should not be subject to penal taxation just because society has failed to get a grip on its hooligan element.

2. Many people would regard one half of Lord Cockfield's harmonisation plan with favour: that part which would bring down the cost of drink in the United Kingdom, towards the levels found elsewhere on the continent.

3. Tobacco is a quite different case. Medical evidence is quite clear to the effect that there is no smoking which is not both harmful to the smokers themselves, and to other people as well. A dictatorial government would ban smoking altogether, along the lines of prohibition in America in the twenties. Punitive taxation is the only effective alternative.


P J CROPPER