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Introduction..... 4

Alcohol Harm in Ireland 5

Alcohol Recommendation 1: Introduction of Minimum Unit Pricing 6

Alcohol Recommendation 2: Excise Duty Increase 9

Tobacco Harm..... 11

Tobacco Recommendation 1: Excise Duty Increase 11

Tobacco Recommendation 2: Tobacco Packs Environmental Levy 14

Tobacco Recommendation 3: VAT on Nicotine Replacement Patches..... 15

Tobacco Price Cap Regulation..... 15

References 17

RCPI Recommendations for Budget 2015

Recommendations from the RCPI Policy Group on Alcohol

- Introduction of a minimum unit price (MUP) for alcoholic beverages.
- Increase excise duties at least in line with inflation.

Recommendations from the RCPI Policy Group on Tobacco

- A minimum of a 60 cents increase on a packet of 20 cigarettes and a proportionate increase on related products on an annual basis.
- A 5 cents 'environmental levy' on tobacco packs.
- Removal/reduction of VAT on nicotine replacement patches.
- Examination of introduction of price cap regulation on tobacco industry profits.

Introduction

This document outlines budgetary recommendations to reduce health harms associated with smoking and excessive alcohol consumption. Both smoking and excessive alcohol consumption result in multiple health harms and incur high costs to the State in direct health costs and other costs such as lost productivity, and in the case of alcohol, crime and other ancillary costs.

The Royal College of Physicians of Ireland (RCPI) has established policy groups on both alcohol and tobacco. These groups aim to draw attention to the health harms associated with these substances and to recommend policy options to reduce these harms. This document highlights the fiscal measures recommended by these expert groups, for introduction in budget 2015.

Budgetary measures to reduce harmful alcohol consumption have direct health benefits. There are also both short term and longer term benefits for the State, in relation to taxation revenues raised through increased excise duties, and reduced costs associated with treatment, lost productivity, crime and other social costs.

Alcohol Harm in Ireland

Every month 88 deaths in Ireland are directly attributable to alcohol.¹ Alcohol-related harm costs the country an estimated €3.7 billion a year in health, crime/public order and other ancillary costs, such as work-place absenteeism.²

A 2014 report by the World Health Organisation found that Irish alcohol consumption levels are in decline (11.9 litres per year in 2008-2010, down from 13.4 in 2003-2004).³ However, consumption levels remain above the *Healthy Ireland* target of 9.2 litres as set out by the Government.⁴ The same WHO report lists Ireland as the second highest binge drinking nation in the world behind Austria and found that almost 40% of those aged over 15 were binge drinkers in 2010, as a result of the widespread availability of cheap alcohol in the off-sales trade.

The National Substance Misuse Strategy report (2012) recommended that alcohol should be made less affordable and less available through excise duties and minimum unit pricing.⁵ Therefore, we propose that the Government should tackle the problem of excessive alcohol consumption by introducing Minimum Unit Pricing (MUP) and increasing excise duty on alcohol annually at least in line with inflation.

Effect of pricing and taxation on alcohol consumption

The volume of alcohol sold and consumed is price-dependent. It has been shown that the effects of price and tax changes on alcohol consumption are much greater and of greater effectiveness in comparison to other prevention policies and programmes to reduce alcohol health harm.⁶

Price can be used to simultaneously reduce consumption and increase exchequer revenues. Below is a table showing the price elasticity in Ireland of beer and spirits and the changes in consumption for a given change in price. For example, an increase in price of 20% for beer would result in a decrease in consumption of approximately 7%. The change in consumption is less than the change in price, which means that a price change based on taxation will generate additional revenue for the exchequer.⁷

Item	Price elasticity ¹	Increase in price	Effect on consumption	Increase in price	Effect on consumption
Beer	-0.36	10%	-3.60%	20%	-7.20%
Spirits	-0.5	10%	-5.00%	20%	-10%

Employment supported by alcohol sales

The national trend has been of increasing proportions of alcohol sales moving from the on-trade sector to the off-trade sector. This move has had a detrimental impact on jobs in pubs and hotels, while creating relatively few jobs in the off-trade sector. Pubs and other on-trade locations are more labour intensive than those in the off-trade. If the Government were to introduce policy to increase the cost of off-sales alcohol, this could reverse this trend in drinking location. There is thus scope for substantial increases in employment as well as to reduce alcohol health harm.

Alcohol Recommendation 1: Introduction of Minimum Unit Pricing

Recommendation 1: Introduction of a minimum unit price (MUP) for alcoholic beverages.

This will prevent the sale of cheap alcohol and reduce the cost to the State of alcohol related harms.

The *Drinks Industry Group of Ireland* (DIGI) estimates that 60% of alcohol sold in Ireland is purchased in the off-trade, often at discounted prices.⁸ Cheap alcohol and multi-buy discounts, especially common in supermarkets, encourage excessive consumption, especially among problem drinkers and young people. While excessive consumption also occurs in the on-trade (including pubs, clubs, and restaurants) it remains a more controlled environment. We therefore propose that efforts to reduce alcohol consumption should focus on the off-trade, where cheap

¹ Based on actual changes in consumption following excise duty changes in Ireland.

alcohol is sold and the fewest jobs are maintained. This would be particularly effective because studies have shown that harmful drinkers and younger drinkers are more likely to consume cheap alcohol, and alcohol price increases have been shown to reduce harm related to alcohol.⁹ There is also evidence that hazardous drinkers tend to choose cheaper drinks whether they are young binge drinkers or problem drinkers.¹⁰

MUP sets a price, based on the alcohol content of an alcoholic beverage, below which no alcoholic beverage can be sold and which therefore cannot be undercut. Because MUP targets problems caused by cheap alcohol and mainly affects problem drinkers and adolescents/young adults, it has little or no impact on the vast majority of alcohol drinkers. It would affect the price paid by the consumer of cheap alcohol in retail outlets where very cheap alcohol is sold, for example in supermarkets. It would not affect the cost price paid by the retailer, and would not change the price of a drink in bars and restaurants.

MUP reduces the possibility of selling alcohol at a loss, which supermarkets in particular are inclined to do. Supermarkets and off-licence sales would therefore be affected and pubs would see no change in price.¹¹

Demand for alcohol has been shown to be price sensitive.¹² Young binge drinkers and problem drinkers tend to choose cheaper drinks.^{13 14} MUP is considered by the WHO to be one of the most cost-effective actions to reduce alcohol consumption in populations with moderate or high levels of drinking. This is based on analysis and costing of a range of interventions, including education, advertising and drink driving legislation.¹⁵

The introduction of a 10% increase in MUP in parts of Canada was associated with an 8.4% reduction in total consumption. There was also a reduction in alcohol-related deaths just one year after MUP increases came into effect.¹⁶

The Sheffield Alcohol Research Group has also done extensive work in modelling the impact of minimum price in the UK.¹⁷ Their research looked at impacts for different categories of drinker (moderate, hazardous and harmful). The group concluded that the introduction of a MUP of 45p in the UK would have the following effects:

- Population consumption of alcohol would decrease by 1.6%.
- Harmful drinkers (over 50 units per week) would decrease their consumption by 3.7%.

- Annual deaths due to alcohol would decrease by 624.
- Hospital admissions would decrease by 23,000.

Although a similar modelling exercise has not yet been conducted in Ireland, it is reasonable to assume that the introduction of a MUP in Ireland would result in similar trends in reduced alcohol consumption and alcohol health harm.

Meanwhile, there is evidence of likely effectiveness and acceptability of MUP in Ireland. 35% of respondents to a survey published in 2012 by the Irish Health Research Board said that they would decrease the amount of alcohol which they purchase in response to a 10% price increase. A majority of respondents also agreed that there should be a MUP for alcohol.¹⁸

VAT Recovery On Below Cost Selling

VAT on alcohol is currently charged at a rate of 23%. Where alcohol is sold below cost however, the seller can recover the VAT on the difference between the sale price and the cost price. The National Off-Licence Association has estimated that approximately €21 million of VAT receipts are lost to the State in this way annually.¹⁹

The Drinks Industry Group of Ireland asserts that the off-sales market segment is dominated by the multiples, discounters and symbol groups including chains such as Dunnes Stores, Tesco, Lidl and Aldi. These supermarket chains can often afford to use alcohol as a loss leader which means that while losing money on alcohol sales, increased profits are made on sales of other goods to customers attracted by the cheap alcohol.

A price based on Minimum Unit Pricing is likely to be above cost price. Thus, supermarkets would no longer be able to claim VAT refund on alcohol sold below cost. This would potentially generate €21 million annually for the exchequer.

Alcohol Recommendation 2: Excise Duty Increase

Alcohol Recommendation 2: Increase excise duties at least in line with inflation.

The effect of this measure will be to reduce affordability and increase exchequer revenue.

Alcohol consumption in Ireland more than doubled between 1963 and 2001. The reduction in consumption since then is directly related to affordability of alcohol. Alcohol consumption is affected by the level of personal disposable income. If income rises faster than price, then the real price of alcohol falls. If taxation is to be effective in decreasing consumption, increases in tax should match or exceed rises in disposable income.

It is frequently argued that excise duties on alcohol are already very high. But in fact, alcohol has become much more affordable in recent years. Tax as a proportion of the sale price of beer is actually less than it was 20 years ago. Tax as a percentage of price fell from 37% in 1994 to around 29% in 2007.²⁰

While the businesses opposed to excise increases typically seek to present such measures as 'punishing ordinary drinkers', the reality in Ireland is that drinkers as a group generate costs of about 3.7 billion per annum to Irish society via the harm they encounter themselves and the harm they inflict on others. In contrast the total excise and VAT revenue from drinkers is only 2 billion per annum.⁵ Therefore an excise increase will constitute another small step towards ensuring that those of us who drink alcohol cover the costs of the harm which we create.

Excise duty increases have successfully been used to reduce cigarette smoking. Between 1994 and 2010, excise on tobacco was increased by 171% which led to a reduction in cigarette sales of 31% and an increase in excise duty receipts from cigarettes of 149% or €1.1 billion in 2011.²¹

In 2011 a Tax Strategy Group estimated the increased revenue that could be raised from increasing excise duty. Their estimates suggest that an increase in excise duties which translated into a 20c increase in the price of a drink (beer, spirits or cider) in a pub would raise the following revenues:²²

Drink	Additional excise and VAT
Beer (pint)	€144m
Spirits (half glass) in pub	€73.5
Cider (pint)	€20.2

Based on the above estimates, an increase in excise duty in line with inflation would result in additional revenues for the exchequer while it would also help to reduce alcohol consumption due to its price sensitivity.

However, increases in excise duty must be combined with the introduction of MUP. This is because at present large retailers have the ability to absorb increases in excise duties which has seen them maintain the low price of alcohol and increase the price of other goods instead.

There is a strong case to be made that excise duties on all alcohol be raised in the 2015 budget and that the Government commit to increasing excise duties in future, at least in line with inflation in order to ensure that alcohol does not become more affordable.

Tobacco Harm

Tobacco is an addictive drug that kills when it is used as intended and tobacco use remains the leading cause of preventable death worldwide. One out of every two long-term smokers will die from a smoking related disease and an average smoker loses about 10 quality years of life because of smoking.^{23 24} The World Health Organisation (WHO) estimates that tobacco use is currently responsible for six million deaths each year, equating to one death every six seconds.²⁵ This figure is predicted to rise to eight million deaths per year by 2030, while in Ireland 15 people die every day from a smoking related illness.²⁶

Tobacco smoke affects virtually every organ in the body, and it has been found that tobacco use and exposure to second hand smoke (SHS) leads to serious and often fatal diseases, including cardiovascular and respiratory disease as well as lung cancer and other cancers. It is also the leading cause of preventable death in Ireland.²⁷ The most recent report from the US Surgeon General also cites a number of new findings that expand on the disease risks highlighted in previous reports by that office.²⁸

In addition to the health costs there are also high economic costs incurred due to tobacco use. It has been noted in the Government's policy document *Tobacco Free Ireland* that it costs €7,700 to treat an inpatient for a smoking related disease and that Ireland spends roughly €500 million of its health expenditure on tobacco related diseases.

Tobacco Recommendation 1: Excise Duty Increase

Recommendation 1: A minimum of a 60 cents increase on a packet of 20 cigarettes and a proportionate increase on related products on an annual basis. This will help to reduce the rate of smoking to the 5% target the Government has set in *Tobacco Free Ireland*. A significant proportion of this revenue should be used to fund smoking cessation services which will further decrease the rate of smoking.

The World Health Organisation (WHO) (2014) noted that "*increasing the price of tobacco through higher taxes is the single most effective way to decrease consumption and encourage tobacco users to quit*".²⁹ This point has been

reiterated by the most recent report from The U.S. Surgeon General (2014) which states: *"The evidence is sufficient to conclude that increases in the prices of tobacco products, including those resulting from excise tax increases, prevent initiation of tobacco use, promote cessation, and reduce the prevalence and intensity of tobacco use among youth and adults"*.²⁸

The reason that taxation is effective in reducing consumption and initiation is that tobacco, like other commodities such as alcohol is subject to price elasticity. This is a measure used in economics to show the responsiveness of the quantity demanded of a good or service to a change in its price.³⁰

Findings from the existing research on the price elasticity of cigarettes in Ireland centre around -0.4, this means that an increase of 10% in the price of a packet of cigarettes will result in a 4% decrease in consumption.³¹ The RCPI Policy Group on Tobacco is seeking a 60 cent increase in a packet of cigarettes and a proportionate increase on related products; this is approximately a 6% increase in the price of a packet of cigarettes. Based on the price elasticity of -0.4 the reduction in consumption would be 2.4%.

Increasing tobacco taxes by 60 cents would also increase tobacco tax revenues by a significant amount. This is contrary to what the tobacco industry says. They argue that the Government will lose revenues if they increase tobacco tax. However, the evidence is clear: calculations from the World Bank show that even very substantial cigarette tax increases reduce consumption and increase tax revenues. This is in part because the proportionate reduction in demand does not match the proportionate size of the tax increase, since addicted consumers respond relatively slowly to price rises. Furthermore, some of the money saved by those who cease smoking will be spent on other goods which are also taxed.³²

In addition, tobacco taxation policies would not just generate additional revenue; they will also have a real and positive impact on reducing disparities in morbidity and mortality in Ireland.

A 2004 NHS review of interventions to decrease smoking found that *"there is review-level evidence that increasing the unit price of cigarettes is effective at stopping tobacco use, and this remains true for vulnerable groups, women and men, low-income groups and people with lower educational achievement"*.³³

Excise duties should be increased on an annual basis if the Government wants to reach the 5% tobacco consumption rate set out in *Tobacco Free Ireland*.

Tax Harmonisation

Implementation of this measure should be assisted by harmonisation of tobacco pricing between the Republic of Ireland and Northern Ireland. We recommend that the pricing between the two countries is kept at a high level in order to deter consumers from purchasing cheap tobacco from either side of the border.

Illicit Selling and Smuggling

According to documentation produced by the Revenue Commissioners, roughly 15% of cigarettes smoked in this jurisdiction are illegal and this costs the exchequer some €240 million per annum.³⁴

The tobacco industry claims that this is caused by high taxation. There is no doubt that smuggling is a serious concern but even in the face of smuggling, the evidence from the World Bank,³² from a number of countries, shows that tax increases still increase revenues and reduce cigarette consumption. They recommend that governments adopt effective policies to control smuggling.

To address the issue of illicit selling and smuggling, more severe penalties are therefore needed to be enforced. At present, the penalties in Ireland are inadequate and do not deter illegal activity. A group representing retailers have noted that the maximum fine for cigarette smuggling was increased in the Finance Act 2009 to just over €126,000. However, fines for cigarette smuggling in the second quarter of 2011 were an average of €1,200.³⁵ RCPI proposes that the Government invest further financial resources in the fight against illicit selling and smuggling over the coming years.

Tobacco Recommendation 2: Tobacco Packs Environmental Levy

Recommendation 2: A 5 cents levy on tobacco packs.

Tobacco waste is our biggest urban waste issue according to the Department of the Environment. Thus the introduction of a levy on tobacco packs will help reduce the current waste issue while raising revenue for the exchequer.

According to a 2012 study³⁶ by the Department of the Environment, Community and Local Government, cigarette-related litter constitutes the highest percentage of litter in the locations surveyed. This is comprised mainly of cigarette ends which constitute almost half (48.62%) of all litter items nationally. The percentage of national litter represented by cigarette ends has increased by 8.82% from 39.80% in 2004. This is the highest percentage of cigarette related litter in the past nine years of surveys.

In view of this environmental cost, we call on the Minister for Finance to introduce a 5 cents levy on tobacco packs. The introduction of this levy has been set out in *Tobacco Free Ireland*. It recommends that the Government should “*consider the introduction of an environmental levy in the context of the Government’s waste policy ‘A Resource Opportunity’, the application of economic instruments and the review of producer responsibility*”.²⁶

The introduction of a levy on tobacco packs will help to reduce the current waste issue of cigarette ends while also raising substantial revenue for the exchequer.

Tobacco Recommendation 3: VAT on Nicotine Replacement Patches

Recommendation 3: Removal/reduction of VAT on nicotine replacement patches.

This will make nicotine patches more affordable to people who want to quit smoking, especially to people on lower incomes who are restricted from purchasing nicotine patches due to their high prices.

Studies show that approximately 70% of smokers would like to quit smoking.³⁷ Each year Irish smokers who are trying to quit pay several million Euros on VAT which applies to nicotine replacement patches.

The RCPI Policy Group on Tobacco is of the opinion that Ireland's VAT rate of 23% on nicotine patches is too high, and it should be reduced or removed as an initiative to encourage smokers to quit smoking. The current VAT level on nicotine patches in the UK are 5% and although Ireland is restricted from lowering its VAT to that amount because of the EU directive on VAT³⁸, the Minister for Finance should still consider lowering VAT on nicotine patches to the lowest possible level.

Tobacco Price Cap Regulation

RCPI's Policy Group on Tobacco also calls on the Minister for Finance to examine the introduction of a price cap regulation on the tobacco industry profits as proposed by the Irish Heart Foundation and Irish Cancer Society in 2013.³⁹

Price cap regulation would set a maximum price that tobacco companies can charge for their product. This price would be based on an assessment of the genuine costs each firm faces in its operations, and an assumption about the efficiency savings it would be expected to make.

Price cap regulation would ensure that the tobacco industry's excess profits are transferred to government revenues that can be used to fund smoking cessation services. The Government can ensure that the tobacco industry properly contributes to the costs it imposes on the State and on its citizens.

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