Summary
The Scottish Government is committed to securing devolution of the revenues from excise duty for alcohol, to enhance the existing provisions in the Scotland Bill.

The Scottish Government is also committed to tackling alcohol misuse in Scotland. Given the widely accepted link between price and consumption of alcohol, we will introduce a Minimum Price of alcohol. This is the most effective and efficient way of addressing this link and is vital to tackling Scotland’s often harmful relationship with alcohol.

As the Scottish Government and Scottish Parliament have primary responsibility for combating the negative social and health effects of alcohol, there is a compelling case for aligning the “revenue benefit” with the “public spending costs” from alcohol consumption. Devolving the revenues from excise duty for alcohol will enhance the financial responsibility of the Scottish Parliament and provide a stable income stream to help partly mitigate the flaws in the income tax proposals contained within the current Scotland Bill.

The Scottish Government believes that independence is the best option for Scotland, as this would provide the maximum degree of autonomy and flexibility to establish an alcohol duty regime which was in Scotland’s best interests. Under independence, the Scottish Government would establish a new, more transparent duty regime in Scotland which will work in tandem with Minimum Pricing to encourage more responsible drinking.

Our immediate constitutional priority is however to improve the Scotland Bill which is currently progressing through Westminster. A brief summary of the Scottish Government’s proposition to include excise duty within the Scotland Bill is outlined below –

- The Scotland Bill should be amended to devolve alcohol duties to the Scottish Parliament;
- The Scottish Budget should be reduced by a per-capita share of UK-wide alcohol duties, with the amount of duty actually collected in Scotland assigned to the Scottish Budget;
- This new revenue source will provide a stable tax base to help partly mitigate the flawed income tax proposals contained within the current Scotland Bill. It will also more closely align the ‘revenue benefit’ with the ‘public spending cost’ from the higher level of alcohol consumption in Scotland;
- Under independence, the Scottish Government will work with the industry and public health organisations to establish a revised, more transparent duty regime for Scotland. This system will work in tandem with Minimum Pricing to encourage more responsible drinking.
Scotland’s Relationship with Alcohol

Alcohol can be enjoyable if used responsibly. However, while many Scots have a balanced, positive and enjoyable relationship with alcohol, alcohol misuse is no longer a marginal problem with up to 50% of men and 39% of women exceeding the recommended weekly limits¹. There is widespread recognition²,³ that too many of us have an unhealthy relationship with alcohol, as witnessed by trends in alcohol-related harm, morbidity and mortality.

In 2009, the alcohol-related mortality rate among Scottish men was nearly double the rate for men in England & Wales (30 per 100,000 of the population vis-à-vis 16 per 100,000 of the population). Similarly, the alcohol-related mortality rate amongst Scottish women was also nearly double the rate for women in England & Wales (15 per 100,000 of the population vis-à-vis 8 per 100,000 of the population).

Furthermore, between 1998 and 2004, 15 of the 20 areas in the UK with the highest male alcohol-related death rate were in Scotland and 14 of the 20 areas with the highest female alcohol-related death rate were also in Scotland⁴.

Scotland has had one of the fastest growing chronic liver disease and cirrhosis rates in the world over the last two decades, at a time when rates in most of Western Europe are falling. Figure 1⁵ shows that Scotland’s chronic liver disease and cirrhosis death rates among 45-64 year old men have increased dramatically in the last 20 years and are now twice as high as in England and Wales⁶. A similarly concerning trend has been seen for women.

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¹ Scottish Health Survey 2009
² The Scottish Government's extensive public consultation in the previous parliamentary session around the Alcohol Strategy revealed a broad consensus across Scottish civil society for changing Scotland’s relationship with alcohol. Responses to our discussion paper, Changing Scotland’s Relationship with Alcohol, can be found here: http://www.scotland.gov.uk/Publications/2008/06/16084348/0
³ Changing Scotland’s Relationship with Alcohol: A Discussion Paper on Our Strategic Approach, Scottish Government June 2008, showed that there was an acceptance that alcohol misuse was a problem that needed to be addressed. http://www.scotland.gov.uk/Publications/2008/06/16084348/0
Alcohol sales data reveal that Scotland appears to have a fundamentally different relationship with alcohol from the rest of the UK. Annual sales of alcohol per Scottish resident aged 16-and-over were between 13% and 23% higher than that observed in England and Wales in each year from 2005 to 2010. A further concerning point about these figures is that the gap between Scotland and the rest of the UK over this period has been increasing year on year⁷.

It is estimated that each year Scotland’s often destructive relationship with alcohol costs our economy around £3.56 billion⁸. This includes £270 million spent on healthcare, £230 million on social care and £730 million on crime – vital resources that could be better deployed elsewhere.

### Link Between Alcohol Consumption and Price

There is strong evidence from numerous studies conducted in European countries, the United States of America, Canada, New Zealand and elsewhere, that levels of alcohol consumption in the population are closely linked to the retail price of alcohol. As alcohol becomes more affordable, consumption increases. As the relative price increases,

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consumption goes down. The Wagenaar systematic review\(^9\) considered 100 separate studies reporting over 1,000 statistical estimates over the last 30 years and found that there was a consistent relationship between price and consumption of alcohol - when prices go down, people drink more and when prices go up, people drink less.

The RAND Europe report\(^10\) supports the link between alcohol price/income/affordability and consumption, and the direct link between alcohol price/income and harms, and states that this provides strong support for the use of alcohol pricing policies as a potentially effective measure to curb hazardous and harmful drinking in Europe.

Price is a key component of affordability. In real terms (taking into account household disposable income per capita) the Health and Social Care Information Centre report that alcohol is now 44% more affordable in the UK than it was in 1980\(^11\).

Comprehensive research by the School of Health and Related Research at the University of Sheffield has been carried out for both the UK Government\(^12\) and the Scottish Government\(^13\). Based on econometric modelling, this research estimates that policies which increase the price of alcohol can bring significant health and social benefits and lead to considerable financial savings in the health service, in the criminal justice system, and in the workplace.

The World Health Organisation has stated that alcohol policies and interventions targeted at vulnerable populations can prevent alcohol-related harm, but that policies which address the population as a whole can have a protective effect on vulnerable populations whilst also reducing the overall level of alcohol problems\(^14\). Thus both population-based strategies and

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\(^9\) Wagenaar A.C., Salois M.J., Komro K.A., Effects of beverage alcohol taxes and prices on consumption: a systematic review and meta-analysis of 1003 estimates from 112 studies *Addiction*: 2009, 104


\(^11\) Statistics on Alcohol: England, 2011, The Health and Social Care Information Centre, 2011. The way in which the Information Centre calculates the alcohol affordability index was revised in 2011. The effect of this revision was to reduce the estimated change in affordability from 68% to 44% since 1980. Further details can be found at: http://www.ic.nhs.uk/pubs/alcohol


\(^13\) Model-Based Appraisal of Alcohol Minimum Pricing and Off-Licensed Trade Discount Bans in Scotland using the Sheffield Alcohol Policy Model (v2): An Update Based on Newly Available Data http://www.scotland.gov.uk/Publications/2010/04/20091852/0

interventions and those targeting particular groups, such as harmful drinkers, are required. We consider Minimum Pricing to be just such an approach as while it applies equally across the population, evidence suggests that cheaper alcohol relative to its strength tends to be bought more by harmful drinkers.\textsuperscript{15} Therefore, in this sense, it is also a targeted approach.

Given the inextricable link between consumption and harm, and evidence that affordability is one of the drivers of increased consumption, addressing price is an important element of the Scottish Government's long-term strategy to tackle alcohol misuse.

The Scottish Government is firmly of the view that Minimum Pricing is the most effective and efficient way to tackle alcohol misuse in Scotland, particularly due to its ability to ensure that changes are passed on to the final consumer price and in raising the price of the cheapest alcohol. That is why we will be introducing a Minimum Pricing Bill this autumn as a key part of our Programme for Government. However, the Scottish Government would welcome the devolution of excise duty on alcohol as it would align the “revenue benefit” to the “public spending costs” from alcohol consumption in Scotland.

**Current Arrangements for Excise duty\textsuperscript{16}**

Under the current constitutional framework, all excise duties – including alcohol and tobacco – are reserved to Westminster.

Alcohol excise duty arrangements are harmonised across the EU, with Directives specifying when duty should be charged, who is liable for duty, how excise goods can be moved, categories of alcoholic drink duty can be levied on, what the duty on each drink type should be fixed by reference to, minimum duty rates, and what reduced rates and exemptions can be applied.

Member States do have the full authority to set duty rates for different alcoholic drinks, provided that they comply with the above conditions.

There are currently four different duties in the UK for alcohol which vary according to alcoholic product. The current duty treatment of the main drinks categories is as follows:

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\textsuperscript{16} For a discussion of the current UK excise duty regime see The Mirrlees Review: [http://www.fis.org.uk/mirrleesReview](http://www.fis.org.uk/mirrleesReview)
• Beer duty is levied according to strength by hectolitres per cent of alcohol
• Wine duty is levied per hectolitre of product
• Spirits duty is levied per litre of pure alcohol
• Cider duty is levied per hectolitre of product

As there are currently no separate duty revenue arrangements for Scotland, or any other constituent part of the UK, an exact figure of how much is raised from alcohol duties is not recorded. However the National Statistics publication, Government Expenditure and Revenue Scotland (GERS), estimates the amount of duty raised each financial year from a detailed study of consumption patterns of alcoholic products in Scotland. This is then used to apportion a share of total UK revenue to Scotland\(^\text{17}\).

It is estimated that each year Scotland raises approximately £800 million in alcohol duties. The most recent figures cover the financial year 2009/10, and show estimated revenues of **£816 million**. This constituted around **1.7%** of all tax revenues raised in Scotland in that year\(^\text{18}\). To put this figure in context, £800 million is approximately **2.7%** of the Scottish Government Departmental Expenditure Limit (DEL) Budget.

| Table 1: Estimated Alcohol Duties Raised in Scotland: 2005-06 to 2009-10 |
|-----------------------------|-------------------|-------------------|-------------------|---------------|-------------------|
| Scottish Alcohol Duties     | £725m   | £724m   | £749m   | £752m   | £816m   |
| % share of total Scottish Revenues | 1.5%   | 1.5%   | 1.4%   | 1.4%   | 1.7%   |
| % share of total UK Alcohol Duties | 9.2% | 9.1% | 9.1% | 8.7% | 8.8% |

Source: Government Expenditure & Revenue Scotland 2009-10, Scottish Government

Scotland accounted for between **8.7%** and **9.2%** of UK alcohol duty receipts between 2005/06 and 2009/10, higher than its share of the UK population (8.4%). Over the five years to 2009/10, alcohol duty receipts in Scotland were almost £250 million higher than if Scotland accounted for a per capita share of UK duty receipts.

\(^\text{17}\) A full discussion of the Government Expenditure and Revenue Scotland methodology to estimate alcohol duties and the results obtained can be accessed here: [http://www.scotland.gov.uk/Publications/2011/06/21144516/0](http://www.scotland.gov.uk/Publications/2011/06/21144516/0)

\(^\text{18}\) Total revenues include an illustrative geographical share of revenues raised in the North Sea. Scottish Government (2011), *Government Expenditure Revenue Scotland 2009/10*. [link](http://www.scotland.gov.uk/Publications/2011/06/21144516/0) Excluding North Sea revenues, excise duty revenues account for 1.9% of all on-shore revenue in Scotland.
Rationale for Scotland Securing Responsibility for Alcohol Excise Duty

At the moment the Scottish Government picks up the cost of dealing with the health, social and economic consequences of Scotland’s often destructive relationship with alcohol, through spending on the NHS, public order and social services. However it is the UK Treasury that benefits from the extra revenue that arises from the higher levels of consumption of alcohol in Scotland. As set out above, Scotland’s excessive alcohol consumption has generated an additional £250 million in duty receipts for the UK Treasury over the past five years, compared to a population share of duty revenues.

Under the existing excise duty system, there is a clear misalignment between devolved and reserved policy and financial competencies within the current devolution settlement.

A more efficient system, and one that is adopted in many other countries, is to align the ‘revenue benefit’ from alcohol consumption with the ‘policy cost’ of dealing with the social, health and economic consequences. This would give the Scottish Government scope to allocate additional funding to tackle these negative consequences, such as through educational initiatives or other forms of preventative spending.

Devolving Excise Duty

Under independence, the Scottish Government would be able to freely establish a taxation system for alcohol which best met the unique characteristics of Scotland’s relationship with alcohol and establish a more transparent system of taxation.

However, an immediate priority is to improve the Scotland Bill, which is currently progressing through the UK Parliament.

There has been some support for additional powers over alcohol taxation. In addition to the Scottish Government, the Scottish Liberal Democrats have, in the past, proposed that consideration be given to greater devolution of excise duties within a Federal UK:

“We therefore ask that the Commission gives specific consideration to the following proposal for division of the tax basket –

**Scottish taxes:** devolved with all revenues accruing directly to the Scottish Parliament:

- income tax;
- corporation tax;
- air passenger duty;
- insurance premium tax;
The Scotland Bill provides an excellent opportunity to address the misalignment between the revenue benefit and the public cost from alcohol consumption in Scotland, and to improve the financial provisions which are currently contained within the Bill.

Our proposition is summarised in Box 1.

**Box 1: Proposition for Devolving Excise Duty for Alcohol**

- The Scotland Bill should be amended to devolve alcohol duties to the Scottish Parliament;
- The Scottish Budget should be reduced by a per-capita share of UK-wide alcohol duties, with the amount of duty actually collected in Scotland assigned to the Scottish Budget;
- This new revenue source will provide a stable tax base to help partly mitigate the flawed income tax proposals contained within the current Scotland Bill. It will also more closely align the ‘revenue benefit’ with the ‘public spending cost’ from the higher level of alcohol consumption in Scotland;
- Under independence, the Scottish Government will work with the industry and public health organisations to establish a revised, more transparent duty regime for Scotland. This system will work in tandem with Minimum Pricing to encourage more responsible drinking.

Under our proposal, there will be an appropriate per-capita adjustment to the Scottish Budget, with all alcohol duty revenues collected in Scotland now allocated to the Scottish Budget. This would more closely align the ‘revenue benefit’ with the ‘public spending cost’ from alcohol consumption, thus providing a financial framework that is more efficient and equitable. Furthermore, it would not only enhance the financial responsibility of the Scottish Government, but would have the advantage of providing a new source of a relatively stable tax revenue to counteract the flaws in other aspects of the Scotland Bill tax proposals.

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This proposal is compliant under current EU law. There are already examples within Europe of such a system operating in practice. For example, while some EU countries retain revenue centrally (as is currently the case with the UK), several countries such as Austria, Germany and Spain allocate shares of duty revenues to devolved administrations. Moreover, there is in fact precedent of such a similar arrangement closer to home, through the ‘Common Purse’ arrangement that exists between the Isle of Man and the UK. Under this regime, the rates of alcohol duty (along with other duties and VAT) in the UK and the Isle of Man are harmonised, with the amount of revenue raised in the Isle of Man from sales on the island retained within their budget.

Within the European Union, some autonomous regions have been granted latitude to set different alcohol duty rates. For example, on the Portuguese islands of Madeira and the Azores, the rates of duty on some products can be reduced by up to 25% below the rates in the rest of Portugal.

In addition, there are examples within Europe more generally of rates of duty being devolved. For example the States of Jersey and Guernsey collect their own alcohol duties and are able to vary the rates of duty, even though they are part of the British Isles.

**Excise Duty in an Independent Scotland**

Under independence the Scottish Government would set the most appropriate excise duty regime for Scotland. Therefore, alongside our Minimum Pricing policy, it would provide us with an additional and complementary tool to rebalance Scotland’s relationship with alcohol.

During scrutiny of the Alcohol Bill passed by the previous Scottish Parliament, some advocated the use of the excise duty system as an alternative to Minimum Pricing. Successive UK Governments have failed to make the necessary changes and it is clear that Scotland cannot rely upon Westminster to take decisive action.

Independence would enable the Scottish Government to put in place a revised duty system which was more efficient and transparent. For example, under the current duty regime, it is

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23 As set out in the European Council Decision 2009/831/EC, 10th November 2009
difficult for consumers to be fully informed of the tax that they pay and its relationship with the alcohol content of individual products.

As Table 2 highlights, the rate of duty can vary significantly according to the type of product consumed. The system also fails to incentivise producers to make lower strength products, and contains a number of significant anomalies. For example, 4.1% ABV beer is taxed more heavily than 5.5% ABV cider.

The current system in the UK appears to be more of a result of historical anomalies within the duty regime rather than a system designed to specifically address the alcohol problems in the UK, or provide a fair and transparent tax system for industry.

<table>
<thead>
<tr>
<th>Product</th>
<th>Standard Serving</th>
<th>Duty per Serving</th>
<th>Units per Serving</th>
<th>Duty per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer (4.1%)</td>
<td>568ml</td>
<td>43p</td>
<td>2.3</td>
<td>18.6p</td>
</tr>
<tr>
<td>Wine (11.5%)</td>
<td>175ml</td>
<td>42p</td>
<td>2.0</td>
<td>21.0p</td>
</tr>
<tr>
<td>Sparkling Cider (4%)</td>
<td>568ml</td>
<td>20p</td>
<td>2.3</td>
<td>9.0p</td>
</tr>
<tr>
<td>Spirits (37.5%)</td>
<td>25ml</td>
<td>24p</td>
<td>0.9</td>
<td>25.5p</td>
</tr>
<tr>
<td>Whisky (40%)</td>
<td>25ml</td>
<td>26p</td>
<td>1.0</td>
<td>25.5p</td>
</tr>
</tbody>
</table>

The current regime also puts a disproportionate tax burden on certain producers relative to others – e.g. the whisky industry in Scotland. It is estimated that Scotch whisky contributes around £3 billion to Scotland’s economy each year and employs around 10,000 direct jobs and a further 35,000 supported indirectly. It is estimated that at present the duty on Scotch whisky is around 185% greater per unit of alcohol than the duty levied on cider, 37% greater than that applied to beer, and 21% more than on wine.

In principle, the Scottish Government favours a regime that more closely aligns tax rates with alcohol content; that is, duty is levied according to the number of units of alcohol contained within a product. Such a system would provide greater transparency and clarity for consumers, help promote individual responsibility and establish a fairer regime for industry.

Conclusion

The Scottish Government is committed to tackling Scotland’s harmful relationship with alcohol and will introduce a Minimum Price for alcohol in Scotland as our preferred approach for tackling alcohol misuse in Scotland.

Given the primary role that the Scottish Parliament has in combating the negative social and health effects of alcohol, there is a compelling case for aligning the “revenue benefit” with the “public spending costs” from alcohol consumption. It would give the Scottish Government scope to allocate additional funding to tackle these negative consequences, such as through educational initiatives or other forms of preventative spending.

Furthermore, by devolving the revenues from excise duty for alcohol it would enhance the financial responsibility of the Scottish Parliament and provide a stable tax base to help partly mitigate some of the other flaws contained within the current Scotland Bill.

Under independence, the Scottish Government would establish a new, more transparent duty regime in Scotland which would provide greater clarity for consumers and help address the unfair disadvantage placed on industry. This system would work in tandem with Minimum Pricing to encourage more responsible drinking.

Scottish Government
October 2011
Annex A: Illustrative Amendment to the Scotland Bill

After section 10 of the Scotland Bill insert—

“10A Excise duties on alcohol

In Part 2 of Schedule 5 to the 1998 Act, in Section A1 (specific reservations: fiscal, economic and monetary policy), at the end of the Exception insert—


Interpretation

Paragraph 5(1) of Part 3 of this Schedule does not apply to the reference to the subject matter of the Alcoholic Liquor Duties Act 1979; and that reference is a reference to the subject matter of that Act as at the date on which section 10A of the Scotland Act 2011 came into force.”."