

STATES OF JERSEY



DRAFT BUDGET STATEMENT 2014 (P.122/2013): SECOND AMENDMENT (P.122/2013 Amd.(2)) – COMMENTS

**Presented to the States on 2nd December 2013
by the Minister for Treasury and Resources**

STATES GREFFE

COMMENTS

The Connétable of St. Helier is proposing not to implement the Minister for Treasury and Resources' proposals for an 11% increase on spirits and higher strength beers/ciders (exceeding 4.9% abv) and a 5% increase in wines and lower strength beers/ciders (not exceeding 4.9% abv), the proposed 11% increase on tobacco or the proposed 2% on fuel.

The Connétable is proposing that there should be a duty increase of 1.5% on all alcohol and fuel and a 4.5% increase on tobacco. The impact of this amendment would be a reduction in the estimated forecast for Impôts in 2014 of £1,955,000.

The Connétable states that the increases cannot be justified as they will add to inflation. The increases will have an impact on inflation, but this is not significant, as the figures below indicate –

Spirits – RPI increase 0.04%
Wines – RPI increase 0.02%
Weak Beer/Cider – RPI increase 0.01%
Strong Beer/Cider – RPI increase 0.03%
Tobacco – RPI increase 0.14%
Fuel – RPI increase 0.02%.

It is accepted that the duty increases are more likely to have an impact on licensed sales, as opposed to off-licence sales, because of the latter's ability to advertise drink promotions. Nevertheless, it should be noted that the 5% increase proposed on the weaker strength beer will result in an increase of duty of less than 2p per pint.

Alcohol

In deciding duty increases on alcohol, consultation takes place with the Ministers for Health and Social Services, Economic Development and Home Affairs, as well as other members of the Council of Ministers. In reaching agreement on proposed increases, the following is taken into account –

- (i) the economic interests of the Island;
- (ii) the impact on the Island's hospitality industry;
- (iii) the impact upon consumers of alcohol within the Island as a whole; and
- (iv) concerns for public health.

Having taken these factors into account, the current Alcohol Policy states that –

“in an attempt to reduce per capita consumption of alcohol, impôts duties on alcohol (may) be increased annually over and above the level of inflation if deemed advisable”.

The Connétable indicates that the Council of Ministers needs to focus on reducing the impact of alcohol abuse through educational measures. This is agreed. Price, however, is still considered a major factor in influencing consumption.

The Medical Officer of Health has reported as follows –

“In most jurisdictions, including Jersey, raising impôts duties on alcohol is one contribution fiscal policy can and should make towards reducing the consumption of alcohol.

By every available measure, the extent of alcohol consumption here in Jersey is wreaking damage on our Island society, our health and our economy:

- *We have the highest alcohol consumption per capita compared with UK and European neighbours*
- *Our death rate for conditions caused by alcohol consumption is TWICE as high as the average rate in England*
- *The death rate here for Chronic Liver Disease, much of which is caused by alcohol, ranks among those of the worst deprived areas of England*
- *Our rate of admission to hospital for alcohol-related conditions is second only to that in the North East region of England and higher than everywhere else*
- *A high proportion of crime in the Island, including domestic violence, is linked with excessive alcohol consumption*
- *The Jersey Annual Social Survey (JASS) has shown that a quarter of Jersey adults who drink alcohol report their consumption at the ‘hazardous’ level – that is over 8 units of alcohol daily for men, or 6 units per day for women. These self-reports are probably underestimates, partly because of lack of understanding about how much constitutes a unit of alcohol in higher strength beers and wines and larger glasses of the latter.*

Alcohol is responsible for massive costs to the taxpayer of Jersey: thinking of healthcare, policing, social security sickness payments, prison, probation... The rise in alcohol duty proposed is low compared with the real costs to this Island that can be attributed to alcohol consumption.

Estimates of the costs of alcohol-related harms to society elsewhere range from 1.3% to 2.0% of gross domestic product (GDP)¹. For Jersey, this would represent a cost to the Island of £45m–£70m per year based on analysis by States of Jersey Economics Unit.

The Jersey alcohol problem needs to be tackled on all possible fronts – no one measure can be effective alone. A new comprehensive, States-wide Alcohol Strategy is in development, to be linked to an up to date and effective Licensing Law.

Some decreases in alcohol consumption have been observed in recent years, but there is still a long way to go.

Increasing the price of alcohol, as well as reducing its availability are the most effective measures to achieve reductions in alcohol consumption, particularly in the young and those who drink the most heavily. We make no apologies for a measure to make this harmful substance less affordable.”

Alcohol-related crime

The 'Building a Safer Society' 2012 annual report stated that 11% of recorded crime was linked to domestic abuse and, throughout the year, States of Jersey Police attended 1,048 domestic incidents. Over half of all domestic incidents involved alcohol. In response to the report, the Minister for Home Affairs said –

“The statistics show that the work by the States departments, charities, community and faith-based groups is working and together the groups are ensuring that our children can grow up in a much safer society.

However, it shows that alcohol remains an issue. While consumption has fallen, it is still higher than other similar places and remains a factor in many domestic incidents and night time assaults.”

As far as minimum pricing is concerned, it is still too early to make any definitive decisions. The UK Coalition Government has put on hold its attempts to introduce minimum pricing, whilst in Scotland the matter has been referred to the Court of Session. It seems likely that the court will refer the matter to the European Court of Justice in Luxembourg. The indication, at present, is that the matter could take until 2017 to resolve.

Fuel

The proposed 2% increase on fuel will result in a 1p increase on duty on a litre of unleaded petrol. Taking into account that there has been no increase in duty on fuel for the last 2 years, and only one increase of 2p per litre in the last 5 years, it is considered that this increase is very modest. States Members might be interested to know that the recent Guernsey Budget increased the duty on fuel by 5%, which followed on from a 1.5% increase in the 2013 Budget.

Tobacco

The Connétable states that the numbers on consumption, revenue, imports and duty-free use do not support huge daily increases as a kind of stand-in social policy on tobacco use. No reference is made to the impact that smoking has on health. Again, it is appropriate to refer to the Medical Officer of Health, who has recently stated –

“We continue to have significantly high rates of lung cancer and of head and neck cancers (the majority of which are smoking related) compared with the South West region of England. The Cancer in Jersey independent report from the National Cancer Intelligence Network, published in summer 2013, attributes Jersey’s high rates of these cancers to the legacy of high rates of smoking, originating from an era when cigarettes were very cheap. We are beginning to see some improvement in the figures of smoking related cancers, thought due to the combined efforts to drive down smoking rates in our existing tobacco strategy, coupled with effective fiscal measures such as impôts increases”.

There are approximately 200 smoking-related deaths in Jersey every year, and the cost to the health service, let alone the individuals and their families and friends, is considerable.

As far as higher duty-free sales are concerned, it is apparent from evidence provided by officers from the Customs and Immigration Service that increasingly, passengers are importing cigarettes in excess of their duty free allowance. There is still no evidence or intelligence, however, to indicate that commercial smuggling of tobacco is taking place.

In addition, it is not possible to verify the results of the Channel Islands Tobacco Importers and Manufacturers Association's survey which indicated that 41% of cigarettes consumed in Jersey comes from duty-free sources. Publication of the Channel Islands Competition Regulatory Authority's report on the tobacco market is expected imminently.

Price margins

The Connétable makes reference to prices and margins. The retail prices used by the Minister for Treasury and Resources are provided by the Statistics Unit in the Chief Minister's Department and the Customs and Immigration Service. Various discussions have taken place between the Minister and the alcohol and tobacco trade on this issue, and the trade are aware of how the published figures are arrived at. At the present time the Minister is of the opinion that he has still not been given a satisfactory reason to explain why, when you remove all aspects of duty (excise/GST/VAT) from the retail price of alcohol/tobacco/fuel in both the UK and Jersey, that the net price in Jersey remains significantly higher.

Other issues

It is appropriate to remind States Members that, when giving consideration to the proposed duty increases, it should be remembered that the increases are on the duty rates themselves and not on the retail price of the products concerned.

The duty increases form part of an overall package of measures in the Budget which, when taken together, are designed to cut taxes to lower and middle-income taxpayers.

Trade comments

In relation to some of the comments made by members of the alcohol trade, it is difficult to believe that tourists, when deciding on destination choice, give significant consideration to the local price of alcohol/tobacco/fuel.

It is noted that reference is made to the 1p per pint duty reduction on beer in the UK announced by the UK Chancellor in March 2013 and, in particular, the 4% boost in UK pub-spend following the cut in rate. A recent report by Wilson Drinks, however, stated that research carried out in the months following the UK Budget indicated that pubs and bars had not actually passed on the duty cut announced, unlike supermarkets. (The Wilson Drinks Report, a quarterly industry survey, is independent of any producer, retailer or trade association. The Wilson Drinks Report conducts in-depth analysis of key topics affecting decision-makers in the UK drinks industry, including producers, distributors, retailers, advisers and trade associations.)

Additionally, the trade made a comment that the duty collection in 2013 is markedly down in 2013 after last year's excessive rise. This isn't actually the case. The duty collected on all alcohol and tobacco to date in 2013 (20/11/13) is as follows –

Alcohol – £15,086,786
Tobacco – £11,835,690

For the same period in 2012, the collection was –

Alcohol – £14,675,497
Tobacco – £12,921,988

In relation to quantities, however, the figures in 2013 to the end of September are down on 2012 (see table below).

	2013	2012
Spirits	108,230 litres of alcohol	112,777 litres of alcohol
Wines	2,788,658 litres	2,937,445 litres
Cider	1,040,024 litres	1,196,947 litres
Beer	6,308,431 litres	6,509,838 litres
Tobacco	27,918 kgs*	40,280 kgs*

*In considering the differences in the tobacco figures, it should be noted that the quantities imported in 2012 increased by 18% on the 2011 figure. This went against the previous 17 year trend. (In 1995, tobacco importation figures were approximately 188,000 kgs.)

The forecast that duties on alcohol will increase by an estimated £1.25 million is based on the previous 5 year importation trends up to the end of the second quarter of 2013, and assuming that the proposed duty increases are accepted by States Members. The estimated forecast, therefore, takes into account the reduced quantities imported for each category of product over the last 5 years.

The Minister for Treasury and Resources is aware of the ongoing year-on-year decreases in quantities imported, and this is another factor that is taken into consideration when deciding on proposed duty increases for impôts. It is important for overall budgeting purposes that the impôts revenue yield is at least maintained.

The proposal to introduce a new duty rate banding for lower alcohol beers is being given serious consideration by the Minister for Treasury and Resources.

Conclusion

In summary, the Minister for Treasury and Resources maintains that his proposed increases are fully justified for the following reasons –

- they are part of a package;
- they meet the principles laid down in the alcohol and tobacco strategies;
- they ensure revenue is maintained.

Statement under Standing Order 37A [Presentation of comment relating to a proposition]

The Minister apologises to the Assembly for the lateness of these comments, which was due to extra work being done to make sure that these were as useful as possible to all States Members.