Briefing

A comparison of the effectiveness of alcohol tax increases and minimum pricing in raising the price of the cheapest, strongest drinks.

Summary of key points

- Alcohol taxes and minimum pricing are complementary pricing mechanisms. Evidence strongly indicates that taxation and minimum pricing together can deliver greater health and social benefits, than taxation alone.

- Alcohol taxes apply to all alcohol products, cheap and expensive, on-sales and off-sales. The way that alcohol taxes are structured and applied limits their ability to raise the price of the cheapest alcohol to a level the evidence indicates will reduce harm.

- Minimum pricing is a price control that specifically targets the cheapest alcohol products in the cheapest retail setting. Evidence shows that a minimum price per unit of alcohol of 50 pence (€0.62), as proposed by the Scottish Government, will reduce harmful consumption, saving lives and improving health and social well-being.

- Despite a 36% increase in alcohol taxes in the UK since 2008, it is still possible to purchase alcohol in Scotland today for as little as 15 pence (€0.19) per unit. In 2011, more than one million litres of pure alcohol was sold in Scotland for less than 25 pence (€0.31) per unit.

- To use alcohol taxes to achieve a minimum price of 50 pence per unit (ppu) for all alcohol sales would take an increase in alcohol duty of more than 600% for certain low-cost products. Such a tax increase is not viable.

- European law is clear that Member States are free to decide on the degree of protection they wish to afford public health. If the Scottish Government wishes to achieve a degree of protection from alcohol-related harm that a 50ppu minimum price can bring; alternatives to minimum pricing can only be considered real alternatives if they deliver the equivalent of a 50ppu, and they are workable.
1. Purpose of briefing

Evidence strongly indicates that increased affordability of alcohol has been a major driver of rising consumption and harm in the UK in recent decades. It is widely accepted that measures to control the price of alcohol are necessary to tackle harmful alcohol consumption.

In May 2012, the Scottish Parliament passed legislation to introduce a minimum retail price for alcohol. Setting a minimum price per unit of alcohol increases the cost of the cheapest, strongest alcohol products, establishing a floor price to reduce and deter harmful drinking.

Minimum pricing for alcohol was due to come into force in Scotland in 2013. However, the European Commission (EC), which monitors functioning of the single market in Europe, has objected to minimum pricing on free trade grounds. The EC argues that taxation should be used as an alternative to minimum pricing as it is a less trade restrictive measure. The EC claims that alcohol tax increases can achieve the same impact as minimum pricing in reducing alcohol-related harm.

The purpose of this briefing paper is to compare the effectiveness of taxation and minimum pricing in raising the price of the cheapest, strongest alcohol products on sale in the UK. Evidence is clear that harmful drinkers purchase a bigger proportion of the cheapest alcohol. Raising the price of the cheapest alcohol is therefore likely to reduce harmful consumption. To be considered an alternative to minimum pricing, alcohol taxes need to work in raising the price of all alcohol products to a minimum level that the evidence indicates will reduce harm.

2. The problem of cheap alcohol

For much of the past thirty years, the price of alcohol in Scotland has been falling relative to income. Modern techniques of mass production, distribution and marketing mean that alcohol has rarely been cheaper, so accessible, or as heavily promoted by global alcohol corporations as an essential part of everyday life. Today alcohol is available for as little as 15 (€0.19) ppu in Scotland. A two litre bottle of cider (5%abv) can cost just £1.89 (€2.34). A man can drink at the recommended limit for daily alcohol consumption for as little as 60p (€0.74) and the weekly limit for £3.15 (€3.90). A woman can drink at her daily limit for 45p (€0.56) or weekly limit for £2.10 (€2.60) (see Appendix). This situation is in stark contrast to the early 20th century, when in the late 1940s, for example, the tax on a bottle of spirits in the UK was equivalent to around a quarter of the average weekly wage of manual workers.¹
As alcohol has become cheaper and more abundant, the amount of alcohol consumed by the drinking population has increased. **Enough alcohol is currently sold in Scotland to enable every adult (16+) to exceed weekly drinking limits for men.**

As alcohol consumption has gone up, the social costs associated with its use have proved to be unacceptably high. Alcohol use kills three people in Scotland every day, and leads to thousands of hospital admissions each year. Alcohol is implicated in 70% of assaults treated in emergency departments; a quarter of cases in Scottish Intensive Care Units; and one in two homicides. Many people who do not drink are negatively affected by other people’s alcohol consumption. It is estimated that between 36,000 and 51,000 children in Scotland live with a parent or carer drinking at harmful levels.

The detrimental consequences of increased alcohol use affect the whole population. But the severest harm has been experienced by the heaviest and most vulnerable drinkers. Since the early 1980s, hospital discharge rates for alcohol psychosis in Scotland have increased ten-fold, and alcoholic liver disease mortality rates have more than quadrupled.

### 3. The destructive impact of cheap alcohol on the most vulnerable drinkers

Charities working with homeless people have issued repeated warnings in recent years of the dangers of an accessible and cheap supply of super strong alcohol to people living rough and battling addiction. Research carried out with street drinkers reveals cost to be a significant factor in drink choice, location of drinking, and volume of drinking. The most popular drinks – white cider, super-strong cans of lager and cheap vodka – are chosen because of their affordability and strength.

"Many people we work with tell us they find it more difficult to get off super-strength than heroin. With drugs you've got to find dealers, whereas super-strength alcohol is in every corner shop."

Mike Nicholas, spokesperson for Thames Reach. Source: The Observer, 2010.

A 2009 study of the consumption patterns of ill drinkers in Edinburgh found that patients, drinking an average of 200 units of alcohol a week, drank a far bigger proportion of cheaper, stronger alcohol products than the wider population. White cider and super-strength lager/beer accounted for 16% and 7.8% of patients’ total units purchased, but are products that are rarely consumed by the wider population (0.009% and 0.006% respectively). Patients purchased a greater proportion of their alcohol from off-licences where the cheapest alcohol can be sourced, and those who paid the lowest prices per unit of alcohol drank the most.
Professionals working with street drinkers have called for cheap, super-strength drinks to be banned or priced out of reach. If prices are increased and people with a serious alcohol addiction move to consuming weaker alcohol products, their ability to gain control over their drinking improves.

“The problems we see don’t exclusively relate to white cider, but rather those drinking to gross excess search out drinks of lowest cost.”

Dr Iain Craighead, General Practitioner, Orkney

4. Effectiveness of minimum pricing in reducing consumption of cheap alcohol

As people with the most serious alcohol problems tend to purchase the cheapest alcohol, raising the price of the cheapest products is likely to be one of the most effective interventions to reduce harmful consumption.

Minimum pricing is a price control that specifically targets the cheapest alcohol sold in the cheapest retail setting. It is a tool for tackling affordability that works to prevent some of the problematic production and retail practices that have expanded the supply of cheap alcohol. These include below-cost selling, loss-leading and price discounting.

Under Scottish proposals for a minimum price of 50 ppu (€0.62) of alcohol, the cost of 2 litre bottle of white cider sold by a discount retailer would rise from £2.29 (€2.83) to £7.50 (€9.28). The price of a bottle of value vodka would rise from £9.29 (€11.50) to £14 (€17.32).

Economic modelling by Sheffield University demonstrates that different alcohol pricing policies are likely to have a different impact on levels of alcohol consumption and harm (Figures 1 and 2). Minimum pricing is predicted to have a greater impact on the consumption of harmful drinkers than moderate drinkers, as harmful drinkers buy more of the cheapest alcohol products. Evidence indicates that the reduction in consumption associated with minimum pricing will deliver significant health and social benefits. It is estimated that a minimum price of 50ppu will lead to 2000 fewer hospital admissions, and 4000 less alcohol-related crimes per year in Scotland.

“These people are literally drinking themselves to death. These super-strength lagers and ciders were not around in the 80s and 90s, and they have no place in society today. It is scandalous that the drinks industry is making money from the most vulnerable and troubled members of our society.”

Economic modelling is supported by empirical findings from Canada, where minimum pricing has been in operation for many years. A recent evaluation of the impact of minimum pricing in the Canadian province of Saskatchewan found that increased minimum prices linked to alcohol content introduced in 2010 led to a significant reduction in the consumption of cheap, high strength alcohol products. A 10% increase in the minimum prices reduced total consumption by 8%, but resulted in bigger drops in consumption of higher strength products. A 10% increase in the minimum price of beer was associated with a 22% decrease in consumption of higher strength beer compared to an 8% reduction in lower strength beers. The increase in the price of the cheapest, strongest alcohol was accompanied by a shift in consumer preferences towards lower alcohol content beer, wine and cocktails.
Both empirical findings and economic modelling indicate that minimum pricing is likely to be one of the most effective ways of reducing alcohol consumption and saving lives. Additionally, the evidence points to minimum pricing being a potentially more effective and targeted means of reducing harmful consumption than an overall price increase.

5. Limitations of using taxation to target cheap alcohol products

Alcohol taxes – which in the UK comprises alcohol duty (set as a specific amount) and Value Added Tax (a percentage of the retail selling price) – are applied to all alcoholic drinks sold in the UK. Alcohol taxation set at an appropriate level is an important means of regulating the overall affordability of alcohol and consequently curbing alcohol consumption and harm. However, the way that alcohol taxes are structured and applied in the European Union limits their effectiveness in raising the price of the cheapest alcohol products.

Under the EU directive governing the structure of alcohol duty, it is not possible to tax cheaper alcohol products more than expensive ones. EU rules dictate that the same rate of duty for a beverage type – beer, wine, spirits and cider – applies to a wide spectrum of products in terms of price and quality. The same rate of duty also applies to alcohol sold on-premises and off-premises, even though alcohol purchased from on-licensed premises in Scotland is three times more expensive than off-sales alcohol. Moreover, the way that alcohol duty is structured means that duty rates for some beverage categories do not rise in line with the amount of alcohol they contain. Beers and spirits are taxed in relation to alcohol strength, but wine and cider are taxed by volume per hectolitre of the product. The effect of this arrangement is that higher strength wines and ciders pay less tax per unit of alcohol than lower strength wines and ciders. This is contrary to a public health approach to taxation.

Since 2008, alcohol duties in the UK have increased by 36% (see Appendix), but there remain many alcohol products on sale far below the proposed minimum price of 50ppu (£0.62).

In 2011, more one million litres of pure alcohol was sold in Scotland for less than 25 pence per unit (£0.31) of alcohol.17

The EC stance that alcohol taxes can be used to achieve a minimum price relies on a previous ruling by the European Court of Justice that found against minimum pricing for tobacco.18 However, there are important differences between tobacco and alcohol that make it unfeasible to use taxation to establish a minimum price for alcohol. In contrast to alcohol, tobacco is sold in a limited range of standard formats, mainly manufactured cigarettes in packs of ten and twenty. Unlike alcohol, the price differential between the cheapest cigarettes and the most expensive is relatively narrow. There is no on-/off-trade distinction in the sale of cigarettes to exacerbate the price differential between the cheapest and most expensive products as is the case with alcohol.
Using only alcohol taxes to achieve a minimum price close to 50ppu for all alcohol products would require an unfeasibly large tax increase. This is illustrated by the example of white cider. Currently a two-litre bottle of white cider widely available from a discount retailer in the UK sells at £2.39 (€2.96), or 15ppu (€0.19). To increase the price of this product to a minimum price of 50ppu using only taxation would require a 660% increase in cider duty and passed on in full to the retail price. Such a duty increase would have to apply to all cider products, including those that currently retail in off-licensed premises in Scotland above 85ppu. It would also have to apply to all cider sold in on-licensed premises.

The large increases in alcohol taxes required to achieve a proposed minimum price of 50ppu are not viable. Alternatives to minimum pricing for alcohol can only be considered real alternatives if they deliver an equivalent reduction in alcohol consumption and harm, and they are workable. An unworkable solution is not a true alternative.

### 6. Minimum pricing for alcohol: Not the whole solution, but an essential part

Alcohol taxes are an important means of regulating the overall affordability of alcohol. However, establishing a minimum price per unit of alcohol is a targeted solution for reducing the sale of the cheapest, strongest alcohol products associated with the most serious harm. Evidence strongly indicates that minimum pricing and taxation together can deliver greater health and social benefits, than taxation alone.

Minimum pricing is not a panacea. However, as part of a comprehensive alcohol strategy it is a vital public health safeguard against alcohol-related harm. Preventing the sale of cheap, strong alcohol will reduce the amount of alcohol consumed by the most vulnerable, harmful drinkers, with associated health gains. It will deter the transition to harmful drinking amongst those currently drinking at risky and hazardous levels.

Minimum pricing will not bring an end to all alcohol addiction and dependence. But for many people struggling with serious alcohol problems, minimum pricing may mean the difference between continuing on a path of destructive drinking, or taking the first steps towards recovery. For some, it could mean the difference between life and death.
References

3. Alcohol Statistics Scotland, NHS Information Services Division Scotland.
4. Harmful Drinking: alcohol and assaults, Quality Improvement Scotland, 2006
10. White cider and street drinkers, Alcohol Concern, 2011
11. The Observer 2010, op cit
13. The Guardian 2012, op cit
15. Model-based appraisal of alcohol minimum pricing and off-licensed trade discount bans in Scotland using the Sheffield Alcohol Policy Model (v 2):- An updated based on newly available data, April 2010, Sheffield University.
18. C- 197/08. European Court of Justice.
Appendix

Price survey of alcohol products in Scotland 2010 to 2012

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<tr>
<td>White cider, 2L Frosty Jacks, 7.5%</td>
<td>£2.74/18ppu</td>
<td>-</td>
<td>-</td>
<td>£2.99/20ppu</td>
<td>£3.79/25ppu</td>
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<tr>
<td>White cider, 2L Scimitar, 7.5%</td>
<td>-</td>
<td>-</td>
<td>£1.99/13ppu</td>
<td>£2.09/14ppu</td>
<td>£2.29/15ppu</td>
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<tr>
<td>White cider, 2L White Ace, 7.5%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>£2.89/19ppu</td>
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<tr>
<td>Hawksridge cider, 2L 4.2%</td>
<td>-</td>
<td>-</td>
<td>£1.34/16ppu</td>
<td>1.48/18ppu</td>
<td>£2.00/24ppu</td>
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<tr>
<td>Super-strong lager Tennents, 9% abv</td>
<td>£6.15/34ppu 4x500ml</td>
<td>£6.00/33ppu 4x500ml</td>
<td>-</td>
<td>-</td>
<td>£7.09/45ppu 4x440ml</td>
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<tr>
<td>Super-strong lager Carlsberg Special Brew, 9% abv</td>
<td>£6.13/34ppu 4x500ml</td>
<td>£6.16/34ppu 4x500ml</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Vodka - cheap Supermarket own-label,</td>
<td>£7.38/26ppu</td>
<td>£7.97/28ppu</td>
<td>£8.47/30ppu</td>
<td>£8.72/31ppu</td>
<td>£9.29/33ppu</td>
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The table above shows the price of selected alcohol products in off-licensed premises in Scotland surveyed by AFS between 2010 and 2012. During this period, there were a number of tax changes affecting alcohol products.

Alcohol duty rates increased three times: 6% in March 2010; 7% in March 2011; and 5% in March 2012. In September 2010, a minimum juice content of 35% was introduced for cider to be taxed at the lower rate of duty of £37.68 per hectolitre. Cider not meeting the minimum juice content would be taxed at the much higher wine rate. The stated purpose of the change was to raise the price of cheapest, low quality ciders consumed by harmful drinkers, without impacting on craft ciders made by small-scale producers using local apples. In January 2011, VAT on products including alcohol rose from 17.5% to 20% in January 2011. In March 2011, a new additional duty on high-strength beers (above 7.5%abv) of 25% above the general duty rate was introduced.

Increased alcohol taxes are associated with an increase in alcohol prices, although higher commodity and energy costs will also factor into the retail price of alcohol. However, even with tax increases of 36% since 2008, cheap alcohol remains widely available in Scotland. Manufacturers of cheap, low quality cider appear to have been largely unaffected by the introduction of a minimum juice content for cider, which has made little difference to cider prices.

A range of tax increases since 2008 have not been successful in raising the price of the cheapest alcohol products in Scotland to a minimum price of 50ppu.