



ROYAL COLLEGE OF
PHYSICIANS OF IRELAND

RCPI Policy Group on Alcohol 2014 Pre Budget Submission

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Contents

1. Introduction.....	3
2. Recommendations	5
3. Effect of pricing and taxation on alcohol consumption	6
Alcohol price and consumption.....	6
Increases in excise duties.....	6
Low alcohol prices and the consumer	7
4. Economic impact of alcohol sales	8
Taxation raised from alcohol sales in off-licences and pubs	8
Employment supported by alcohol sales.....	9
VAT recovery on discounted alcohol: A missed opportunity for the exchequer.	11
5. The case for a minimum price for alcohol.....	11
Evidence of the effects of minimum pricing.....	12
Minimum pricing and below cost selling.....	13
Minimum pricing and excise duty	13
6. Increasing excise duty	14
References	16

1. Introduction

Alcohol consumption in Ireland remains at very high levels in comparison to other European countries and is a factor in a range of health, family and social harms. Recent data shows that alcohol consumption rates have reduced since reaching a peak of 14.3 litres in 2001¹, but at an estimated 11.68 litres of alcohol consumed per adult in 2012², consumption is still well in excess of recommended low risk limits and the Healthy Ireland maximum of 9.2 litres. Consumption is also in excess of the Western European Average and Irish people binge drink more frequently than other nationalities.

Alcohol has become much more widely available in recent years. According to Alcohol Action Ireland, the number of off-licence premises in Ireland increased five-fold between 1990 and 2006. Alcohol is now sold in supermarkets, convenience stores and petrol stations, often at discounted prices. The number of off-licences has reduced since 2006 due to a fall in the number of independent off-licences, some of which have closed as a result of competition from supermarkets.

Alcohol has also become dramatically more affordable. Between 2002 and 2007 there was a 44% increase in the amount of lager that could be purchased with one week's disposable income³. One of the reasons for this increased affordability was the removal of the ban on below cost selling in 2006. A woman can now reach her low risk weekly drinking limit for just €6.30, while a man can reach this weekly limit for less than €10. Overall, alcohol became more affordable by 50% between 1996 and 2008⁴.

At the same time, alcohol costs the state vast amounts of money and resources. A 2011 HSE study estimated that alcohol-related costs amounted to €3.7 billion per annum⁵. This figure is 1.8 times the income generated by the government in alcohol related excise duties and VAT revenues in 2008³.

The Drinks Industry Group estimates that 60% of alcohol sold in Ireland is purchased in the off-trade², often at discounted prices. Cheap alcohol and multibuy discounts, especially common in supermarkets, encourage excessive consumption. While excessive consumption also occurs in the on-trade (pubs, restaurants etc); it remains a more controlled environment. Thus, we propose that efforts to reduce alcohol consumption should focus on the off-trade, where the cheapest alcohol is sold.

This initiative would be particularly effective because studies have shown that harmful drinkers and younger drinkers are more likely to drink cheap alcohol, and alcohol price increases have been shown to reduce harm related to alcohol⁶.

2. Recommendations

The recommendations of this pre-budget submission focus on budgetary measures to reduce the consumption of cheap alcohol. The primary recommendations of this pre budget submission are:

- Introduce Minimum Unit Pricing to prevent the sale of cheap alcohol and to reduce the cost to the state of alcohol related harms.
- Increase excise duties at least in line with inflation to reduce affordability and to increase exchequer revenue.

Recommendation	Effect on alcohol consumption and health	Exchequer impact	Jobs impact	Other impacts
Introduction of a minimum unit price for alcoholic beverages	<ul style="list-style-type: none"> • Targets problem drinkers (younger drinkers and harmful drinkers). • Evidence shows that minimum pricing reduces alcohol harm. 	<ul style="list-style-type: none"> • Minimum price is likely to be above cost price- supermarkets would no longer be able to claim VAT refund on alcohol sold below cost. This would generate €21 million annually for the exchequer. 	<ul style="list-style-type: none"> • Reducing the sale of cheap alcohol in supermarkets etc. levels the playing field between pubs and off-trade. This may see a shift of business from off- trade to on- trade, which supports more jobs. 	<ul style="list-style-type: none"> • Supermarkets cannot compete using loss leaders in alcohol- forcing them to compete on other items- potentially leading to lower prices for consumers.
Increase excise duties at least in line with inflation	<ul style="list-style-type: none"> • Reduced affordability reduces consumption; reduces alcohol health harm. 	<ul style="list-style-type: none"> • Increased revenue to exchequer. • Money not spent on alcohol is spent on other goods and services in the economy. 	<ul style="list-style-type: none"> • Excise is a greater % of price in off-trade. Thus off-licences are more affected, driving business towards on-trade where more jobs are supported. 	

3. Effect of pricing and taxation on alcohol consumption

Alcohol price and consumption

The volume of alcohol consumed is price-dependent. To put it simply, when the price of alcohol goes up, less alcohol is purchased and consumed. Similarly, when the price goes down, the amount of alcohol purchased and consumed goes up. This concept is known as the elasticity of demand. It has been shown that the effects of price and tax changes on alcohol consumption are large in comparison to other prevention policies and programmes⁷. There is also evidence that hazardous drinkers tend to choose cheaper drinks whether they are young binge drinkers or problem drinkers^{6,8}.

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 beer, for example, a change in price of 20% would result in a decrease of 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.

Item	Price elasticity ^a	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%	-10.00%

Increases in excise duties

The increase in alcohol consumption in Ireland from 1963 to 2001 (consumption per capita more than doubled in this period) and the subsequent 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, the real price of alcohol falls. If taxation is to be effective in

^aBased on actual changes in consumption following excise duty changes in Ireland

decreasing consumption, increases in tax should match or exceed rises in disposable income.

Excise increases have not kept pace with inflation. Until the 1970s excise duties on alcohol were a major source of tax revenue constituting around 16% of total revenue. Today alcohol duties only comprise approximately 2.4% of total tax revenue. Over the period 2002 to 2011, alcohol excise duty receipts fell in money terms by 13.8%. But as overall consumer prices increased by 21.4% over this period, the real fall in excise receipts was approximately -29% in real terms. This compares with a reduction of 11.5% for total excise receipts and a 2.7% increase in overall tax receipts for the same period.⁹

It is frequently argued that excise duties on alcohol are already very high. As mentioned previously, 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 10 years ago. Tax as a percentage of the price of beer fell from 37% in 1994¹⁰ to 29% in 2012^b. These figures support the argument that excise duties on alcohol should be increased in line with inflation if the real price of alcohol is not to be allowed to fall.

Low alcohol prices and the consumer

The ban on below cost selling was removed in 2006 because it was argued that prohibiting below cost selling raised the cost of food to low income households. Removing the prohibition on below cost selling has led to a fall in alcohol prices with the volumes of alcohol sold in supermarkets having increased substantially. Many supermarkets use discounting of alcohol at low prices, or even below cost, to attract customers to buy more profitable goods. The use of cheap alcohol as a loss leader enables supermarket chains to make greater profits from other products, including basic foodstuffs.

The Consumer Association of Ireland has conducted a survey of prices of a basket of frequently bought foods and household items in the main supermarket chains. This index shows a steady upward trend with the price of the basket. According to this survey the price of the basket of supermarket goods rose by 12% between 2011 and 2013¹¹. This suggests that supermarkets are not competing on basic foods and household items. If supermarkets were denied the opportunity to compete on

^b 2012 figure based on average cost of a pub pint of €4.54

alcohol price, they may begin to compete on other genuine grocery products. This would be good for all consumers and has the potential to reduce the Consumer Price Index.

Additionally, as alcohol is an addictive good with known harmful health and social consequences, there is a growing concern that alcohol should not be used in this way and should be subject to minimum pricing.

4. Economic impact of alcohol sales

Taxation raised from alcohol sales in off-licences and pubs

The tax revenue raised by alcohol sales in the off-trade is substantially lower than the tax revenue raised by alcohol sales in the on-trade.

- The Drinks Industry Group estimates that 60% of all alcohol sold by volume and 25% by value is sold in off-licences.
- Excise duties raised from alcohol sales in 2011 were €829.5 million
- The 2011 CSO estimate for personal spending on alcohol was €6.277 billion. Applying a VAT rate of 21% on this figure, we can estimate that VAT receipts on alcohol in 2011 amounted to €1.318 billion.

Based on those figures, the table below shows the estimated breakdown of VAT and Excise contribution for 2011.

	Alcohol sold by volume	Alcohol sold by value	Estimated share of excise duties (m)	Estimated share of VAT (m)	total share of tax revenue(m)
Off-licence	60%	25%	€497.7	€329.5	€827.3
Pubs	40%	75%	€331.8	€988.5	€1.320

The difference between tax revenue raised by alcohol sold in a pub and alcohol sold in an off-licence or supermarket can be further illustrated by the example below^c:

- A group of people buy a 700 ml bottle of vodka in an off-licence/supermarket for €16 and 20 330ml bottles of beer for €20.
- The total tax raised is €15.72 (€10.32 for the vodka and 27c on each can of beer).
- No additional VAT would be paid because these drinks are sold below cost.
- If the vodka had been sold as 20 small pub measures (35.5ml), the total excise would be €10.40 and VAT would be approx €14.60 giving a total tax take of €25.
- The total excise on 20 bottles of beer sold in a pub would be €5.40 and VAT would be approx €19.60 giving a tax take of €25 for the beer.
- Total tax revenue from the pub sale at €50 is more than 3 times the tax raised from the off-licence sale.

Employment supported by alcohol sales

Alcohol sales in pubs and restaurants generate more employment than sales in the off-trade.

In rejecting increases in taxes on alcohol, the Drinks Industry Group argue that alcohol sales support a large number of jobs, some of which would be lost if taxes are increased. There are an estimated 49,200 people employed in pubs in Ireland, of whom 27,900 are fulltime and 21,300 part-time. Total employment in pubs has fallen by about 5,000 since 2008.

This fall is not entirely due to an overall fall in alcohol consumption but partly to a shift in consumption from drinking in pubs to buying alcohol in off-licences, mainly those in large supermarkets. Consumer spending on alcohol has fallen by 11% from €7.2 billion in 2007 to €6.4 billion in 2012. However overall consumer spending also fell during this period by 21% so that spending on alcohol as a percentage of

^c Assuming alcohol content of the beer of 4.3%; cost price of bottle of beer in pub of €4; cost price of vodka measure in pub of €3.

total consumer spending has been relatively stable, falling minimally from 7.8% to 7.7%.

The number of employees in off-licences is hard to estimate as many are part of a supermarket where goods other than alcohol are sold by employees. Extrapolating from estimates published by the Drinks Industry Group in 2009 the number of employees is likely to be about 5,200.

Based on these figures and the total annual sales of alcoholic beverages as calculated by the CSO, the number of jobs supported by alcohol sales can be calculated

- Dividing the total volume of alcoholic beverages sold per annum by the number of jobs in the drinks industry suggests that sales of 772 litres of alcoholic beverages per annum support one job.
- Each job in a pub is supported by sales of 342 litres per annum while the sale of 4,900 litres is required to support a job in an off-licence.
- In other words, one staff member in the off-trade sector can sell as much alcohol as 14 people in the on-trade sector.

Therefore, it is easy to see how the national trend of alcohol sales moving from the on-trade sector to the off-trade sector has had a catastrophic impact on jobs in pubs, while creating very few jobs in the supermarkets. If government policy could reverse this trend in drinking location, there is scope for substantial increases in employment as well as to reduce alcohol health harm.

Because the restaurant industry is more labour intensive than pubs and off-licences, dividing the value of restaurant sales by the number of employees in the sector shows that spending of only €1,240 is required to support one job in the restaurant industry while spending of €3,125 is required to support one job in the less labour intensive drinks sector.

VAT recovery on discounted alcohol: A missed opportunity for the exchequer.

Alcohol sold at a discount (below cost) allows retailers to recover VAT from the exchequer.

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.

This means that if a retailer pays 50c for a 500ml can of beer to a manufacturer or distributor, this price includes VAT of 16c. In a normal sale, if the off-licence sells this can of beer for 66c, the VAT is passed on to the consumer and recovered by the retailer. The VAT is ultimately paid by the consumer. If the beer is sold for 40c, a loss is incurred and the off-licence can recover the VAT it paid to the manufacturer or wholesaler, as it has not been passed on to the final consumer. There is therefore a loss of VAT revenue to the state on all alcohol sold below cost. At present the sale of alcohol at a loss by the multiples results in a loss of VAT receipts of approximately €21 million annually¹².

The Vintners Federation of Ireland estimates that 60% of all alcohol sold in Ireland is sold in off-licences and 50% of off-licence sales are accounted for by supermarket chains such as Dunnes, Tesco, Lidl and Aldi. The 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.

5. The case for a minimum price for alcohol

Minimum pricing 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.

Minimum unit pricing 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 drinkers. It would affect the price paid by the consumer 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 restaurants¹³.

Minimum pricing is preferred to excise duty increases because supermarkets may not pass on duty rises to customers. They often sell the alcohol at a loss. This could not happen with minimum price, and thus supermarkets and off-licence sales would be more affected than pub sales.

Evidence of the effects of minimum pricing

As few countries or states within countries have introduced minimum prices there is little direct evidence available on the impact of minimum prices but the evidence from states with minimum prices suggest that they lead to significant reductions in consumption and harm.

- Evidence from British Columbia, Canada showed that between 2002 and 2009, introduction of minimum pricing reduced the percentage of alcohol-related deaths. Alcohol related deaths fell by 32% within a year of the first introduction of a minimum price for alcohol¹⁴. Introduction of minimum pricing in Saskatchewan province in Canada also reduced alcohol consumption, with a 10% increase in minimum price associated with an 8.4% reduction in total consumption¹⁵.
- In the Tennant Creek area of Australia an initiative which controlled the sale of cheap alcohol to communities with a high Aboriginal population found that in the two years following the restrictions on cheap alcohol sales, there was a 19% reduction in alcohol consumption and a commensurate reduction in alcohol related hospital admissions and alcohol related crime¹⁶.
- In the United Kingdom, it has been estimated that a 10% rise in the minimum prices of alcoholic beverages would lead to a drop of 7.0% in male and 8.3% in female cirrhosis mortality, a drop of 5.0% for male victims and 7.1% for female victims of homicide, and a drop of 28.8% for male and 37.4% for female deaths from explicitly alcohol-involved causes (alcohol dependence, poisoning, etc)¹⁷.

The Sheffield Alcohol Research Group has done extensive work in modelling the impact of minimum pricing in the UK¹⁸. The research looked at impacts for different categories of drinker (moderate, hazardous and harmful). The group concluded that introduction of a minimum unit price of 45p 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 the same modelling exercise has not yet been done here in Ireland, it is reasonable to assume that introduction of minimum unit pricing here would result in similar trends in reduced alcohol consumption and alcohol health harm.

Minimum pricing and below cost selling

In July 2013, the UK government decided to introduce a ban on below cost selling (below the cost of the duty and VAT payable on the product). Comparison of this ban with minimum pricing has been carried out by the Sheffield Alcohol Policy Group, at the request of the UK Government. **The analysis showed that a ban on below cost selling would have a much smaller impact than Minimum Unit Pricing (40 to 50 times less) on alcohol consumption and alcohol related harms¹⁹.**

Minimum pricing and excise duty

An Impact Assessment by the UK Home Office²⁰ gives three reasons for preferring minimum unit pricing (MUP) over using alcohol duties to achieve the same impact on alcohol prices:

1. MUP is a more targeted approach to address the problems of cheap alcohol; EU rules prevent alcohol duties being linked to their sale price. A rise in alcohol duty would affect all types of alcohol products, including the most expensive products. A MUP is intended to specifically target the sale of cheap alcohol products.
2. Alcohol duties alone could not bring about a system of minimum pricing as EU rules prevent wine and cider duties being directly linked to their alcohol content.
3. There is no requirement for retailers to pass through higher duties into prices, so higher duties will not automatically increase the price of cheap alcohol, and there is some evidence that in practice prices do not always rise to reflect higher duties. It is therefore expected that MUP will be the most effective approach in terms of reducing the consumption of harmful and hazardous consumers in particular.

As previously mentioned, supermarkets etc. often attract customers in with cheap alcohol sold below cost, making money from those customers on other products. Minimum pricing would mean they would have to compete on other products, thereby reducing prices for consumers.

6. Increasing excise duty

While the Drinks Industry argues that taxes on alcohol in Ireland are high compared to other countries, alcohol is relatively cheap and affordable in Ireland because consumer purchasing power increased more rapidly than alcohol prices over the past 20 years.

While excise duty on alcohol was raised in the 2012 Budget the increased rates only restored the rates to their pre 2009 level. Between 1994 and 2012 excise duties have not been increased in line with inflation or consumers' income, which has led to alcohol becoming significantly more affordable.

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 2011²¹.

Additional revenue raised through increased excise duties could go some way to offset the high cost of alcohol harm. To illustrate the increased revenue that could be raised by increases in excise duties, the following estimates made in 2011 by the Tax Strategy Group (TSG) are useful²².

The 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:

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

Increases in excise duty would increase the price of all alcohol whether sold in pubs or off-licences but large supermarkets 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 therefore a strong case for combining increases in excise duties with minimum prices.

There is a strong case to be made that excise duties on all alcohol be raised in the 2014 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.

A major benefit of increasing the price of alcohol sold in off-licences is that more drinkers may return to drinking in the relatively more controlled setting of pubs. At present the discounted price of a bottle of lager in a supermarket off-licence is about one fifth of the average pub price. Increasing this ratio to one quarter or one third would reduce sales in off-licences and increase sales in pubs. This would lead to an increase in employment as pubs are more labour intensive than off-licences.

The Drinks Industry Group argues² that increases in alcohol prices lead to loss of jobs in the industry. This may occur in the short term but money not spent on alcohol is likely to be spent on other goods so that overall consumer spending remains constant.

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