

ADF POSITION ON A MINIMUM PRICE FOR ALCOHOL

PURPOSE

The purpose of this document is to articulate the ADF's position on the value of setting a minimum price for all alcohol beverage products.

BACKGROUND

Alcohol prices in Australia are influenced by three different taxes: Excise; the Wine Equalization Tax (WET), and Customs duties. In addition, the 10% Goods & Services Tax (GST) is applied to all retail alcohol sales. Under this system, different alcohol products – wine, spirits, beer, ciders and fortified wines - are taxed differently. The Excise tax which applies to beer and spirits, is based on the volume of alcohol contained in the product, while the Wine Equalization Tax is an ad valorem tax that is applied to the value of the product. Customs duties are a combination of both per-unit of alcohol and ad valorem levies.

An official review of Australia's tax system noted that the existing system of alcohol taxation was 'incoherent' and recommended a volumetric tax on alcohol based on alcohol content.¹ The WET provides the wine industry with a structural advantage as it offers an incentive for the production of cheap wine which has a relatively high concentration of alcohol, typically in the range of 10-15% alcohol by volume (or ABV). It is likely that the WET then contributes to higher alcohol related harm by promoting cheap, high strength products.² An economically efficient method is for all alcohol products to be taxed according to their ABV as this treats all alcohol in the same way. An Australian study reported volumetric taxation would reduce more alcohol related morbidity and mortality than any other intervention, because it would increase the price of the cheapest alcohol beverages.³

Price sensitivity of consumers of alcohol

There is a strong link between alcohol price, consumption and alcohol related harms. When prices increase, alcohol consumption and harms decrease. This effect is seen in overall consumption as well as in measures of heavy or problematic drinking, and in the level of

¹ Henry, K. (2010). *Australia's Future Tax System: report to the Treasurer*. Canberra: Australia's Future Tax System Review Panel.

² Australian National Preventive Health Agency. 2012. *Exploring the Public Interest Case for a Minimum (Floor) Price for Alcohol: Issues Paper*. Canberra: ANPHA

³ Cobiac L, Vos T, Doran C. and Wallace A. Cost-effectiveness of interventions to prevent alcohol related disease and injury in Australia. *Addiction*, vol. 104, pp. 1646-1655, 2009.

harms experienced by the drinker as well as to others, including family members^{4,5,6,7} While there are different price effects across societies, in general, a price increase of 10% reduces consumption by an average of 5%.^{8,9}

Although some people assume heavy or dependent drinkers are not influenced by price, a number of studies in different countries have found that the heaviest, most problematic drinkers, as well as young people, who have limited disposable income, are price sensitive and often purchase the cheapest forms of alcohol.^{10,11} Thus higher prices lead both heavy and youthful drinkers to drink less alcohol.

The Australian Preventative Health Taskforce reviewed 50 global alcohol studies that reported consumption declined as the price increased and noted that the World Health Organization confirmed price, taxation and physical availability are the most effective means by which alcohol harms can be addressed.¹² Subsequently, adjusting the price of alcohol is accepted as an effective means of reducing consumption of alcohol and the incidence of alcohol related harms, including mortality rates, crime and traffic casualties.¹³

Taxation

Taxation is an efficient way to control the price of alcohol. Numerous international studies and reviews have found higher taxation-inspired price points to be effective in reducing alcohol consumption and related harm.^{14,15} Alcohol taxation is also cost-effective as it imposes little administrative burden. A recent Australian study found that taxation measures could reduce social costs of alcohol in Australia by between 14% and 39% (or between \$2.19

⁴ Babor, T. et al. (2010) *Alcohol: No Ordinary Commodity* Oxford, Oxford University Press.

⁵ Anderson P., Baumberg B. Alcohol in Europe: a public health perspective. A report for the European Commission. London: Institute of Alcohol Studies, 2006.

⁶ World Health Organisation. WHO Expert Committee on Problems Related to Alcohol Consumption: second report. WHO Technical Report Series No. 944. Geneva: WHO, 2007.

⁷ Fogarty J. The nature of the demand for alcohol: understanding elasticity. *British Food Journal* 2006; 108: 316-32.

⁸ Wagenaar AC, Salois MJ and Komro KA. Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies. *Addiction* 2009; 104: 179-190.

⁹ Gallet CA. The demand for alcohol: a meta-analysis of elasticities, *Australian Journal of Agricultural and Resource Economics* 2007; 51: 121-35.

¹⁰ Cobiac L, Vos T, Doran C. and Wallace A. Cost-effectiveness of interventions to prevent alcohol related disease and injury in Australia. *Addiction*, vol. 104, pp. 1646-1655, 2009.

¹¹ Osterberg O. 2001. Effects of Price and Taxation, in Heather N., Stockwell T., Toumbourou J. (eds) *International Handbook on Alcohol Dependence and Problems*. UK: John Wiley & Sons

¹² Australian National Preventive Health Agency. 2012. Exploring the Public Interest Case for a Minimum (Floor) Price for Alcohol: Issues Paper. Canberra: ANPHA.

¹³ Babor T. et al. 2010. *Alcohol: No Ordinary Commodity*. Oxford University Press, 2nd ed. 115.

¹⁴ Chaloupka FJ, Grossman M, et al. The effects of price on alcohol consumption and alcohol-related problems. *Alcohol Res Health* 2002; 26:22-34.

¹⁵ Wagenaar AC, Salois MJ and Komro KA. Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies. *Addiction* 2009; 104: 179-190.

and \$5.94 billion in 2004-05 dollars).¹⁶ Another study of a range of interventions found that alcohol taxation based on alcohol content had the lowest intervention costs and provided the greatest benefits in terms of disability-adjusted life years.¹⁷ However, tax increases do not always result in all consumers paying a higher price as retailers might absorb the cost by discounting products, or offering products below cost as 'loss leaders'. Consumers might be able to substitute a cheaper brand of the beverage or turn to a cheaper beverage. This option is not available for consumers who already buy the cheapest product and it may explain their price sensitivity.¹⁸

Minimum pricing of alcohol

A minimum price for alcohol beverages, otherwise known as a floor price, establishes a price per standard drink below which alcohol cannot be sold. A minimum price therefore prevents, or places a limit on the ability of retailers to discount alcohol and act to reduce the consumption of alcohol, especially for people with limited disposable income, and the heaviest drinkers. As young people have less disposable income, a minimum price is likely also to lower underage and youthful drinking.

An advantage of a minimum price over a taxation increase is that retailers are unable to offset the price increase for the consumer by offering a discount for bulk purchases and so the consumer must pay the minimum price for each product. At present in Australia it is possible to purchase packaged alcohol for \$0.23 per standard drink due to discounting by retailers of cheap cask wine.¹⁹

Minimum pricing overseas

In the province of Saskatchewan, Canada, between 2003-2008, a minimum price for alcohol products was introduced incrementally for spirits, beer, wine and higher strength beverages. In 2010 the Liquor and Gaming Authority increased the minimum prices by 10% so that the minimum price per standard drink ranged from \$1.16 to \$1.84, depending on beverage type and alcohol content. A study of the effects found a generalised decline in consumption: in particular, beer decreased by 10.06%; spirits by 5.87%; wine by 4.58%; high strength coolers by

¹⁶ Collins DJ and Lapsley HM. The avoidable costs of alcohol abuse in Australia and the potential benefits of effective policies to reduce the social costs of alcohol. National Drug Strategy Monograph Series No. 70. Canberra: Australian Government Department of Health and Ageing, 2008.

¹⁷ Doran C, Vos T, Cobiac L, et al. Identifying cost effective interventions to reduce the burden of harm associated with alcohol misuse in Australia. Canberra: Alcohol Education and Rehabilitation Foundation, 2008.

¹⁸ T. Stockwell, J. Zhao, N. Giesbrecht, S. MacDonald, G. Thomas and A. Wettlaufer, "The Raising of Minimum Alcohol Prices in Saskatchewan Canada: Impacts on Consumption and Implications for Public Health," *American Journal of Public Health*, vol. 102, no. DOI:10.2105/APH.2012.301094, pp. e103-110, 2012

¹⁹ Coles. Coles online catalogue. Berri Estate Traditional Dry Red 5 Litre Cask "Any 3 for\$35.00". Perth, WA. Wesfarmers Limited 2017 July 5.

13.2%; cocktails by 21.3%; liqueurs by 5.3%, and all beverages by a combined 8.43%.²⁰ The authors noted that the strongest beverages declined most and concluded that minimum pricing is a promising method of reducing the public health burden associated with hazardous drinking.

Note Scotland will legislate in May 2018 for a floor price around £0.50, equivalent to about A\$.90 per standard drink.²¹

Minimum Price - NT Government

Following a review of alcohol policy and legislation in the Northern Territory, the NT government acknowledged that raising the price of alcohol is a cost-effective way to reduce alcohol related harm. Consequently, the government announced its support for the implementation of a floor price for alcohol based on modelling for the NT context. Its intention, after a planned review, is to introduce a minimum unit price for all alcohol products of approximately \$1.50 per standard drink, or other figure as may be determined. The NT minimum unit price will apply to all sales and supply of alcohol in the Northern Territory including all outlets conducting on-premises and takeaway sales. This figure will be indexed against average ordinary time wages to ensure its effect is not diminished over time. The impact of the introduction of a minimum unit price will be evaluated after three years to measure the impact on consumption and alcohol related harms. If the NT government deems it necessary, this requirement for a minimum price will be incorporated into the Liquor Act.²²

Opposition to a minimum price

Some sections of the alcohol industry are opposed to a minimum price while others are less concerned. Producers of low cost products will resist price increases that will decrease the attractiveness of their product and most likely lower consumption. Large volume wine producers of the cheapest products will resist stoutly because they stand to suffer the biggest loss. At the NT's intended price of \$1.30 per standard drink, a cheap 4-litre cask of wine will rise in price from around \$10.00 to \$39.00 per article. Premium wine producers, spirits manufacturers, and, to a lesser degree, beer manufacturers will be less concerned as their products are already priced above the nominated unit price.

²⁰ T. Stockwell, J. Zhao, N. Giesbrecht, S. MacDonald, G. Thomas and A. Wettlaufer, "The Raising of Minimum Alcohol Prices in Saskatchewan Canada: Impacts on Consumption and Implications for Public Health," *American Journal of Public Health*, vol. 102, no. DOI:10.2105/APH.2012.301094, pp. e103-110, 2012.

²¹ Scottish Government. Minimum Unit Pricing of Alcohol: Consultation Documents [Online]. <https://beta.gov.scot/publications/improving-scotlands-health-minimum-unit-pricing-alcohol-consultation-document/> [Accessed April 2018].

²² Table of Recommendations 2018. NT Government Position on Alcohol Policies and Legislation Review. Final Report's Recommendations <https://alcoholreform.nt.gov.au/?a=485316>

Packaged liquor retailers may object to the potential loss of turnover and the reduction of their capacity for creative marketing on price although they will be compensated by increased revenue and potential higher profits due to the higher prices.

National Competition Policy

It is possible that the alcohol industry will object to a floor price on the principle that the government should not interfere with the market and it could make a case that the floor price offends the national competition policy. However, the National Competition Policy requires that legislation should not restrict competition unless there is an overall public benefit in doing so.²³ A successful challenge on that ground would need to demonstrate that minimum pricing legislation would restrict competition. A defender might argue that price will affect the part of the alcohol market that is currently sold below the floor price, and that proportion of the market may be small. A second point is an argument that a floor price is in the public interest as it will improve health and wellbeing of the population, so the benefit from a floor price would outweigh the effect on competition.

Low income groups

Advocates for people on low incomes including the aged, unemployed and low waged, will object because the poor will lose an inexpensive pleasure. That is incontrovertible. However, abstention is relatively high among people on low incomes, possibly for financial reasons, and people on low incomes experience high levels of alcohol related harm relative to their consumption.

Politicians who favour a market based economy, small government and low taxation are likely to object on each of these grounds to a floor price for alcohol and opposition is likely to be accentuated in areas where the wine industry is concentrated. That may be one reason why the NT has led this issue although West Australia has also expressed interest in a floor price.

Summary and Recommendation

The price of alcohol is an important influence on consumption and on alcohol related harm. Price particularly affects vulnerable groups including the young and the heaviest and problematic drinkers. Much evidence suggests that a minimum price would have a beneficial effect on the health and wellbeing of the most vulnerable to alcohol related harm by lowering excessive consumption. Minimum pricing is applied overseas and is of increasing to governments in Australia. This measure is controversial because it will increase the price of a popular commodity, harm some economic interests, and for some people of low income it

²³ Competition Principles Agreement 11 April 1995 (As amended to 13 April 2007) <
http://www.ncc.gov.au/images/uploads/Competition_Principles_Agreement_11_April_1995_as_amended_2007.pdf
>

will turn a cheap pleasure into a luxury. Minimum pricing will be opposed by large wine producers, political parties that favour market economies and low taxation and advocates for people of low income.

The ADF supports the Northern Territory nominated floor price of \$1.30 per standard drink, it ADF recognises that a floor price will have a larger impact on wine producing regions and they may require time to adjust to a minimum price. The ADF believes a floor price of \$1.00 is an appropriate starting point although individual jurisdictions may choose a higher price.

POSITION:

- 1) The ADF supports the introduction of a minimum price per standard drink for alcohol products because problematic drinkers are price sensitive and minimum pricing will reduce problematic drinking and alcohol related harms.
- 2) The ADF urges each state and territory government to adopt a minimum price of at least \$1.00 per standard drink and that the price should be indexed to average ordinary time earnings to ensure that the price level does not decrease relative to income over time.

Ends.