Background

- Minimum unit pricing (MUP) has received considerable support
- Policy is set to be introduced in Scotland this year
  - Rate still to be set based on consultation and new evidence
  - Legal issues?
- Other policy action towards alcohol pricing
  - ‘Below-cost’ ban in April 2012, England and Wales
  - Beer tax reform in October 2011 – tax varies with ABV
  - 2% real increase in alcohol duty each year to 2014/15
Impact of minimum pricing (Leicester, 2011)

• Descriptive picture of off-licence alcohol purchasing in 2010
  – Impact on-licence likely to be much smaller
    • Average per-unit price on-trade £1.26 (E&W, 2009), off-trade £0.44

• Not modelling any likely behavioural responses

• Data from **Kantar Worldpanel** (market research organisation)
  – 25,000 British households with in-home barcode reader
  – Detailed grocery purchase records at the barcode level
    • Data on products, stores, prices, household characteristics
  – Look at alcohol purchasing and prices paid per alcohol unit
    • Actual strength ABV known for beer, cider and alcopops
    • Estimated for spirits based on brand and spirits type
    • Constant 12.5% ABV assumed for all table wine
  – Assume MUP is 45p in December 2010 prices
    • How to uprate any minimum price an important question!
## Impact by off-licence alcohol type

<table>
<thead>
<tr>
<th></th>
<th>% of units sold</th>
<th>Avg. p/unit</th>
<th>% below 45p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wine</td>
<td>37.6%</td>
<td>45.3p</td>
<td>65.3%</td>
</tr>
<tr>
<td>Spirits</td>
<td>26.9%</td>
<td>42.0p</td>
<td>77.3%</td>
</tr>
<tr>
<td>Lager</td>
<td>17.4%</td>
<td>37.9p</td>
<td>80.7%</td>
</tr>
<tr>
<td>Cider &amp; perry</td>
<td>8.8%</td>
<td>29.1p</td>
<td>87.4%</td>
</tr>
<tr>
<td>Beer</td>
<td>4.3%</td>
<td>49.6p</td>
<td>42.1%</td>
</tr>
<tr>
<td>Fortified wine</td>
<td>2.5%</td>
<td>37.7p</td>
<td>73.7%</td>
</tr>
<tr>
<td>Sparkling wine</td>
<td>2.0%</td>
<td>79.3p</td>
<td>18.6%</td>
</tr>
<tr>
<td>Alcopops</td>
<td>0.6%</td>
<td>83.4p</td>
<td>1.6%</td>
</tr>
<tr>
<td><strong>ALL</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>42.6p</strong></td>
<td><strong>71.0%</strong></td>
</tr>
</tbody>
</table>

Source: Leicester (2011), estimates from Kantar Worldpanel data 2010
Impact by alcohol consumption level
(units per adult per week)

Source: Leicester (2011), estimates from Kantar Worldpanel data 2010
Impact by household income group
(including those who do not buy off-licence alcohol)

Source: Leicester (2011), estimates from Kantar Worldpanel data 2010
Behavioural responses

• Consumers
  – Demand response to changing relative prices (across/within category)
  – Substitute towards on-licence consumption, other expenditures
    • Responses vary across consumers
  – Cross-border purchasing, home-brew, illicit alcohol purchasing?

• Manufacturers and retailers
  – Indirect effect on more expensive alcohol products
  – Long-term effects on product availability
  – Impact on non-alcohol prices? Alcohol as a ‘loss-leader’?

• Current models do not really consider this range of effects
Minimum pricing: summary

• Preferable to taxation if taxes are not passed through?
  – On average, pass through seems to be more than one-for-one
  – But need more evidence on the distribution of pass-through

• Small impact on moderate drinkers?
  – At a MUP of 45p, almost all off-licence purchasers directly affected
  – Two-thirds of moderate drinker units affected
  – Heavy drinkers on average pay less, but not that much less

• Probably slightly regressive
  – Low income households buy cheaper products
  – But on average effects are small, shouldn’t be main concern

• Transfers from alcohol consumers to producers/retailers
  – Higher alcohol taxes at least raise revenue for public purse
  – Reform tax system, not just raise rates ...
Current structure of alcohol taxes
(on an effective tax per alcohol unit basis)

Source: Leicester (2011)
Note: Cider assumes ‘still’ cider rate
A flat-rate excise tax on alcohol content?

• Starting point of taxing on basis of alcohol content sensible
  – Need compelling evidence to vary rates – area for further study?
  – Do the marginal external costs vary by drink / strength?
  – US studies: if anything, case for bigger tax on beer than spirits
• Floor price through tax system if combined with ‘below-cost’ ban
• EU Directives restrict tax structure
  – Precedents for levying additional alcohol taxes if not ‘state aid’
  – Convoluted – preferable to reform at EU level!