



**EXPLORING THE PUBLIC INTEREST CASE FOR A
MINIMUM (FLOOR) PRICE FOR ALCOHOL**

**Australian National Preventive Health Agency: Issues Paper
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Recommendations from the National Alliance for Action on Alcohol

The National Alliance for Action on Alcohol (NAAA) is a national coalition of health and community organisations from across Australia. It has been formed with the goal of reducing alcohol-related harm and currently has 73 member organisations with a focus on public health and alcohol.

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Preamble

The National Alliance for Action on Alcohol (NAAA) has developed principles for reform of the alcohol pricing and taxation system in Australia, including on the introduction of a minimum (floor) price for alcohol. These principles have been developed with the primary objective of reducing harm and promoting a safer drinking culture.

The NAAA's position is that alcohol taxation is a crucial public policy tool to reduce alcohol-related harm that is strongly supported by the evidence; however, substantial reform of the way in which alcohol is taxed is required, particularly reforming the Wine Equalisation Tax (the 'WET'). That said, whether introduced alongside a volumetric tax or as a stand-alone measure, a minimum floor price would eliminate some of the major inconsistencies and distortions in the current alcohol taxation framework, in particular, the deleterious effect of the WET.

Taxes that are scaled according to the alcohol content and type of beverages (volumetric alcohol taxation) and adjusted regularly in line with inflation have been shown to reduce consumption and related harm—so long as the real price of alcohol is affected.¹ Differentiated volumetric alcohol taxation is well recognised to be one of the most cost effective ways to reduce alcohol related harms.²

However, an alcohol tax increase may not always result in an increase in prices paid by consumers. Consumers can respond to alcohol price increases by 'down-shifting' the quality of alcohol purchased (e.g. buying cheaper spirits instead of premium brand spirits); or substituting expensive alcohol products with different, less expensive alcoholic beverages.³ Supermarkets and other large alcohol retailers are also well placed to absorb price increases by heavily discounting alcohol products to below cost prices, known as 'loss leading', therefore undermining the effect of an alcohol tax on consumers.

Approaches to pricing reform should take into account the potential for consumers and industry to adapt to changes. Any reform should be comprehensive and view options such as introducing a minimum floor price alongside the effect of a volumetric tax.

For the purpose of this submission, which is directed to the issue of minimum pricing and presents only a brief discussion of alcohol taxation, we will propose that:

1. Reform of current alcohol taxes is required; and
2. The optimal tax rate will be based on a differentiated volumetric model of alcohol taxation.

The NAAA's response to the issues paper

There has been an increase in alcohol-related harm from products that are most affordable. This is due, in part, to the differential treatment of alcohol products under Australia's alcohol taxation framework, which creates a price incentive for people to buy, and profit incentive for industry to produce, low priced products.

A minimum floor price would have the effect of raising the price of the very cheapest alcohol. If a volumetric tax is adopted, a minimum floor price would also prevent alcohol retailers from heavy discounting and product bundling to undermine the tax.

¹ Sally Casswell and Thaksaphon Thamarangsi 'Reducing harm from alcohol: call to action' (2009) Series: Alcohol and Global Health 3, 373 The Lancet, 2247

² Thomas Babor et al. Alcohol: No Ordinary Commodity - Research and Public Policy (Oxford University Press, 2nd ed. 2010) 115

³ World Health Organization Global status report on alcohol and health (2011) 24
<http://www.who.int/substance_abuse/publications/global_alcohol_report/msbgsruprofiles.pdf>

As with the principles underlying volumetric taxation, a minimum floor price should be set for each beverage based on alcohol content. Australian-specific modelling is required to determine the precise level at which a minimum floor price should be set.

Alcohol pricing reform should include consideration of a minimum floor price alongside a volumetric tax. This submission offers evidence on each of four statements from the issues papers, which are made in opposition to a minimum price. The weight of evidence is against each as an argument against minimum pricing.

ANPHA issues paper	NAAA's response	Rationale
A minimum price would adversely affect sensible, moderate drinkers	A minimum price would have little impact on moderate drinkers	A minimum floor price would have least impact on those who are drinking within low risk weekly limits, i.e. moderate drinkers, primarily because they drink less.
A minimum price would adversely affect individuals/households with low incomes	A minimum price would target alcohol-related harm	Harmful drinkers in all income groups buy significant proportions of cheap alcohol. The current structure of alcohol pricing means that those in low-income groups that are risky-drinkers suffer disproportionate harm compared with risky drinkers in other groups, from the same amount of alcohol.
A minimum price would have little effect on heavy drinkers and young drinkers	A minimum price would be particularly effective for drinkers most at risk of harm	The evidence is clear that price changes do impact on the drinking of heavy drinkers, although it is not clear if there is any difference between the effect on heavier drinkers or lighter drinkers. The evidence supports a greater effect on consumption of young drinkers than of older drinkers. When measuring the impact of a minimum floor price on drinkers, it is important to consider changes in the prevalence of alcohol-related harm in addition to the rate of change in consumption, because there are clear effects of price changes on harms associated with heavy drinking.
The effects of minimum pricing would adversely affect retailers and trade	The adverse effects of minimum pricing on retailers and trade are disputed	There is no direct evidence of the effect of minimum pricing on retailers and trade because it is an approach that has not been used before. Depending on the level of the minimum price, there will be profit at some point in the supply chain; for this reason, discussion of the effects on retailers and trade in other jurisdictions has been dominated by differing, and at times conflicting, viewpoints from various sectors of the alcohol industry, raising doubt as to what the true effect on industry would be. The potential for adverse effects on retailers and trade from a minimum price should be considered in the context of the benefits to communities and population health, noting that the impact of alcohol-related harm on individuals and the community is currently at unacceptable levels. Independent modelling on the potential effects of minimum pricing is required for a balanced and evidence-based debate.

Issues for further consideration

Although not explicitly addressing issues in relation to the implementation, legality and enforcement of a minimum floor price for alcohol, we raise the following questions that ANPHA may wish to address in next round of consultation. Each of these discussed is in the submission:

- a. At what level should a minimum (floor) price be set?
- b. Should a minimum price be introduced at a state or Commonwealth level, noting the challenges with achieving uniformity between States?
- c. Who should be responsible for enforcing a minimum floor price and how?
- d. How does introducing a minimum floor price interact with principles in National Competition Policy?

We think these, and other questions, warrant further discussion and recommend convening an alcohol and pricing summit of health, economic and finance experts, independent of alcohol industry participants, to develop the best approach.

EXECUTIVE SUMMARY

Substantial reform of the way in which alcohol is taxed is required, namely reforming the WET and adopting a differentiated volumetric model of alcohol taxation.

NAAA supports the principle of setting a minimum (floor) price for alcohol to prevent harms from low-cost alcohol.

Accordingly, the NAAA recommends:

1. Independent modelling and policy consideration is needed on the potential effects of minimum pricing for a balanced and evidence-based debate, albeit with the premise that preventing harms to the community must take precedence over the interests of the alcohol industry.
2. Convening an alcohol and pricing summit, independent of alcohol industry participants, to develop the best approach for a minimum floor price.
3. ANPHA consider the following questions in the next round of consultation:
 - a. At what level should a minimum (floor) price be set?
 - b. Should a minimum price be introduced at a state or Commonwealth level, noting the challenges with achieving uniformity between States?
 - c. Who should be responsible for enforcing a minimum floor price and how?
 - d. How does introducing a minimum floor price interact with principles in National Competition Policy?

Introduction

The NAAA is pleased to make this submission and to contribute its views on key issues around developing a public interest case for a minimum (floor) price of alcohol to discourage harmful consumption.

The NAAA is a national coalition of health and community organisations from across Australia. It has been formed with the goal of reducing alcohol-related harm and currently has 73 member organisations with a focus on public health and alcohol.

NAAA has been established at a time when there is an urgent need for action to address Australia's drinking problems. The formation of NAAA represents the first time such a broad group of health and related organisations has come together to pool their collective expertise around what needs to be done to address Australia's drinking problems. We all want to see a much stronger emphasis on action and the NAAA aims to put forward evidence-based solutions.

NAAA is not intended to be a large, new organisation but rather a genuine alliance. We aim to build the widest possible membership, so as to enable organisations from all sectors to play a role, and have maximum impact.

The economic and health costs of alcohol

In 2004, 3.8 per cent of all global deaths were attributable to alcohol while 4.5 per cent of the global burden of disease and injury was attributable to alcohol.⁴ Alcohol ranks eighth among global risk factors for death, and is the third leading global risk factor for disease and disability, after childhood underweight and unsafe sex.⁵

Alcohol related harms in Australia are significant. Every week, on average, 60 Australians die and a further 1,500 are hospitalised as a result of alcohol.⁶ Alcohol is also a significant contributor to injuries, crime and violence, as well as other significant social harms and costs, arising from law enforcement, policing and court costs, costs to business and individuals from vandalism and costs to businesses or individuals such as lost productivity due to illness and premature death.⁷ Alcohol use is a major factor in road crashes, and chronic diseases including cancer;⁸ and there is growing community concern about drinking patterns among young people.

There are also concerns in Aboriginal and Torres Strait Islander communities about the harms caused by alcohol, where rates of alcohol dependence and harmful alcohol use particularly high. The rate of alcohol-attributable death among Indigenous Australians is about twice that for the non-Indigenous population.⁹

⁴ Ibid.

⁵ Ibid. 31

⁶ Richard Pascal, Tanya Chikritzhs and Paul Jones, 'Trends in estimated alcohol attributable deaths and hospitalisations in Australia, 1996-2005' (National Alcohol Indicators, Bulletin No. 12, National Drug Research Institute, Curtin University of Technology, September 2009)

⁷ Allen Consulting Group, 'Alcohol-related harm and the operation of licensed premises' (Report to the Department of Justice (Victoria), July 2009) 14.

⁸ National Health and Medical Research Council, *Australian Guidelines to reduce health risks from drinking alcohol*, (2009) 13

⁹ National Health and Medical Research Council, *Australian Guidelines to reduce health risks from drinking alcohol*, (2009) citing Tanya Chikritzhs et al. 'Trends in Alcohol-Attributable Deaths among Indigenous Australians, 1998-2004' (National Alcohol Indicators Bulletin No. 11 National Drug Research Institute, Curtin University of Technology, 2007)

In 2008, Collins and Lapsley identified the social costs of alcohol use, primarily to drinkers and governments, at \$16 billion.¹⁰ The Alcohol Education and Rehabilitation Foundation [AERF – now the Foundation for Alcohol Research and Education (FARE)] estimates that an additional \$14 billion per annum could be attributed to the tangible costs of harm to others and more than \$6 billion to intangible costs.¹¹ This places the true annual cost of alcohol to society at around \$36 billion¹² and represents a major financial burden on federal, state and territory governments.

Alcohol pricing and taxation as effective harm reduction interventions

Achieving a reduction in the harmful effects of alcohol consumption requires a comprehensive approach, employing a combination of interventions such as restrictions on the marketing and promotion of alcohol, limitations on the availability of alcohol and controls on the pricing and taxation of alcohol products.

Evidence from Australia and overseas consistently shows that of all these interventions, adjusting the price of alcohol is one of the most effective ways to reduce the level of alcohol consumption and related problems, including mortality rates, crime and traffic accidents.¹³

There is a causal relationship between the increased affordability of alcohol and rising consumption, including strong correlations between price and overall consumption, heavy or problem drinking and harms to both drinkers and others.¹⁴ The reverse of this is when alcohol prices increase, consumers drink less, and alcohol-related harm decreases.¹⁵

A 2008 Australian study found that appropriate alcohol taxation measures could reduce the social costs of alcohol by up to 39 per cent (in 2004-05, this translated to a saving of up to \$5.94 billion dollars).¹⁶ A study of a range of interventions found that a volumetric tax based on alcohol content had the lowest intervention costs and provided the greatest reduction in harm measured in disability-adjusted life years.¹⁷ The *ACE-Prevention Report*, which assessed the cost effectiveness of policy actions for the prevention of non-communicable disease in Australia, found sufficient evidence to recommend a tax increase on

¹⁰ David J. Collins and Helen M. Lapsley, 'The costs of tobacco, alcohol and illicit drug abuse to Australian society in 2004/05' (National Drug Strategy Monograph Series No. 64, Australian Government Department of Health and Ageing, 2008)

¹¹ Anne-Marie Laslett et al 'The Range and Magnitude of Alcohol's Harm to Others' (Research report, AER Centre for Alcohol Policy Research, Turning Point Alcohol and Drug Centre, Eastern Health, 2010)

¹² AER Foundation Ltd 'Cost of alcohol misuse goes beyond the drinker' (Media Release, 24 August 2010), 1

<<http://www.aerf.com.au/showcase/MediaReleases/2010/Media%20Release%20-%20Cost%20of%20Alcohol%20Misuse%20Goes%20Beyond%20the%20Drinker%20-%20Cost%20Doubled.pdf>>

¹³ See, e.g. Babor et al, above note 2; Pater Anderson, Dan Chisholm and Daniela C Fuhr, 'Effectiveness and cost-effectiveness of policies and programmes to reduce the harm caused by alcohol' (2009 Series: Alcohol and Global Health, 373 *Lancet* 2234; Theo Vos et al, ACE-Prevention Team, 'Assessing Cost-Effectiveness in Prevention (ACE-Prevention): Final Report' (University of Queensland, Brisbane and Deakin University, Melbourne, September 2010)

¹⁴ See, e.g. Babor et al. above note 2; Peter Anderson and Ben Baumberg, 'Alcohol in Europe: a public health perspective. A report for the European Commission' (Institute of Alcohol Studies, June 2006); World Health Organisation 'WHO Expert Committee on Problems Related to Alcohol Consumption: second report' (WHO Technical Report Series No. 944, 2007); Andrew Booth et al. 'Independent review of the effects of alcohol pricing and promotion: Part A. Systematic Reviews' (University of Sheffield, England, 2008),

<http://www.dh.gov.uk/en/PublicHealth/Healthimprovement/Alcoholmisuse/DH_4001740>

¹⁵ See, e.g. James Fogarty 'The nature of the demand for alcohol: understanding elasticity' (2006) 108 *British Food Journal* 316; Craig A. Gallet 'The demand for alcohol: a meta-analysis of elasticities' (2007) 51 *Australian Journal of Agricultural and Resource Economics*; 121; Alex C Wagenaar, Matthew J Salois and Kelli A Komro, 'Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies' (2009) 104 *Addiction*, 179

¹⁶ David J. Collins and Helen M. Lapsley, '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, Australian Government Department of Health and Ageing, 2008)

¹⁷ Chris Doran et al. 'Identifying cost effective interventions to reduce the burden of harm associated with alcohol misuse in Australia' (Alcohol Education and Rehabilitation Foundation, 2008)

alcohol, preferably changing to a volumetric taxation at a level 10 per cent above the current excise on spirits.¹⁸

The *Australia's Future Tax System* review (the 'Henry review') and the National Preventative Health Taskforce both proposed changes to the tax system, recommending alcohol be taxed by volume of alcohol. The Henry review described the approach to alcohol taxes in Australia as 'incoherent', noting that,

While the abuse of alcohol imposes significant costs on society, these are not effectively targeted by current tax and subsidy arrangements for alcohol, which are complex and have conflicting policy rationales. In particular, the wine equalisation tax, as a value-based revenue-raising tax, is not well suited to reducing social harm.¹⁹

Overall, and despite its reported effectiveness, using taxes as a way to influence price and consumption of alcohol, and to reduce alcohol-related harm, has been under-utilised in Australia.

For a more in depth discussion of alcohol taxation and pricing reform in Australia, see the NAAA position statement annexed to this submission.

Developing a public interest case for a minimum (floor) price of alcohol

The primary focus of the issues paper is on the public interest issues which would inform consideration of a minimum pricing policy. The aim of the issues paper is to promote community discussion on the issue of minimum pricing and provide stakeholders with the opportunity to present their views to the Australian National Preventive Health Agency (ANPHA).

Noting the narrow focus of the issues paper, the comments in this submission are confined to matters arising in relation to the content of the issues paper. Where matters relating to the implementation, legality and enforcement of a minimum floor price arise, we have identified these as questions for ANPHA's further consideration.

This format of this submission broadly follows that of the issues paper, the numbers in square brackets refer to paragraph numbers in the issues paper.

Alcohol consumption in Australia

At [4] the issues paper states that in 2010-11, Australia's apparent per capita consumption of pure alcohol was 9.99 litres. Official national annual totals of per capita alcohol consumption suggest consumption has remained relatively stable since 1991, although this finding has been challenged because the Australian Bureau of Statistics data, on which per capita consumption estimates are based, have failed to take into account the increase in the alcohol content of wine over the past 20 years.²⁰

In any event, the paper notes that 'Australia's per capita consumption is *still considered high by world standards*' (emphasis added).

¹⁸ Theo Vos et al, ACE-Prevention Team, 'Assessing Cost-Effectiveness in Prevention (ACE-Prevention): Final Report' (University of Queensland, Brisbane and Deakin University, Melbourne, September 2010)

¹⁹ Ken Henry and Australia's Future Tax System Review Panel, Australia's future tax system: Final Report, Part one: overview (2010)

²⁰ Tanya Chikritzhs et al. 'Per capita alcohol consumption in Australia: will the real trend please step forward?' (2010) 193 (10) Medical Journal Of Australia 594

The World Health Organization uses adult per capita consumption as the key indicator of alcohol-related problems, and it has repeatedly been demonstrated that rates of alcohol-related problems tend to rise and fall in a given society with rates of per-capita alcohol consumption.²¹

The recent emphasis by the United Nations and the World Health Organization on the importance of non-communicable diseases and their prevention has put a new focus on the main risk factors for such diseases; a high volume of alcohol consumption is one of these main risk factors.²² Because of the relationship between alcohol consumption and harm, the focus for reducing alcohol-related harm must be two-fold—to introduce strategies that reduce risky drinking, and to introduce strategies that reduce per capita alcohol consumption.

At [5] the paper notes the increased consumption of wine and spirits over the past 50 years, while the proportion of beer consumed has decreased. In recent years, part of the increase in alcohol consumption in the form of wine has been the result of an increase in alcohol content of wine and its increasing affordability compared to beer and spirits.

This is in part due to the differential treatment of wine under Australia's current alcohol taxation framework. Under the WET scheme, wine is taxed according to price rather than alcohol content, which means that cheap wine attracts less tax. This, in turn, creates a price incentive for people to buy, and profit incentive for industry to produce, low cost wines.

This arrangement is significantly different from the taxation structure that applies to beer and spirits which are generally taxed according to alcohol content (cider, as noted in the paper, is an exception in that it is taxed *ad valorem* or according to alcohol content, depending on its formulation). Furthermore, the effective rate of WET has reduced in real terms since its introduction in 2001 as the WET rate is not increased by government in line with 6-monthly CPI movements, which does occur in the case of tax rates on beer and spirits. The consequence of this taxation system is to encourage the production of bulk, cheap wine, and in particular, cask wine. Cask wine has been found to be particularly associated with alcohol-related harm, including night time assaults and alcohol-related illnesses.²³

The WET and WET Rebate are contributing to the oversupply of wine in Australia, encouraging the production of cheap wine and acting as a disincentive to wine industry restructuring. Two of Australia's major wine producers have now publicly supported the abolition of the WET to be replaced with a volumetric tax for these reasons.

Alcohol affordability

At [18] the paper notes how over the past 20 years alcohol has become more affordable in Australia. While we agree with this statement, we would reiterate the point made above that certain beverages have become more affordable than others, and that this affordability has been facilitated in some part by the current alcohol taxation system. Consequently, we have seen an increase in alcohol related harm from those products that are most affordable.

²¹ See eg, Babor et al. above note2, 63; World Health Organization International Guide For Monitoring Alcohol Consumption and Related Harm (2000) <http://whqlibdoc.who.int/hq/2000/who_msd_msb_00.4.pdf>; Thor Norström (ed) 'Alcohol in Postwar Europe: Consumption, drinking patterns, consequences and policy responses in 15 European countries' (National Institute of Public Health, 2002) 157 <<http://www.fhi.se/en/Publications/All-publications-in-english/Alcohol-in-postwar-Europe-ECAS-I/>>

²² Robin Room, Jurgen Rehm, and Charles Parry, Alcohol and NCDs: time for a serious international public health effort (2011) 109 (9) *Addiction* 1547

²³ Tim Stockwell et al. Consumption of different alcoholic beverages as predictors of local rates of night-time assaults and acute alcohol-related morbidity (1998) 22(2) *Australian and New Zealand Journal of Public Health* 237

Pricing Policies and the minimum price experience in Australia

It is the NAAA's position that a comprehensive approach is needed to achieve a cultural change that will reduce the harms from alcohol and improve the health of all Australians, including reform of alcohol pricing, marketing and availability.

Various options for reform exist within each of these intervention areas. In relation to alcohol pricing, taxes that are scaled according to the alcohol content of beverages (volumetric alcohol taxation) and adjusted regularly in line with inflation have been shown to reduce consumption and related harm—so long as the real price of alcohol is affected.²⁴ Volumetric alcohol taxation is well recognised to be one of the most cost effective ways to reduce alcohol related harms.²⁵

However, an alcohol tax increase may not always result in an increase in prices paid by consumers. Consumers can respond to alcohol price increases by 'down-shifting' the quality of alcohol purchased (e.g. buying cheaper spirits instead of premium brand spirits); or substituting expensive alcohol products with different, less expensive alcoholic beverages.²⁶ Supermarkets and other large alcohol retailers are also well placed to absorb price increases by heavily discounting alcohol products to below cost prices, known as 'loss leading', therefore undermining the effect of an alcohol tax on consumers.

In Australia some remote communities have introduced price restrictions on, or banned the sale of, cheap wines—policies that have effectively operated as a de-facto increase in the minimum price of alcohol. An evaluation of these restrictions found reductions in overall harm,²⁷ but significant substitution to fortified wines (the next cheapest beverage).²⁸ We applaud the action being taken by various groups in the Northern Territory to promote action on price and suggest that the impact of price restrictions in the Northern Territory supports the need to introduce a minimum floor price, to target harmful drinking in all communities.

Alcohol pricing reform should take into account the potential for consumers and industry to adapt to changes; thus any reform should be comprehensive and view options like introducing a minimum floor price alongside the effect of a volumetric tax.

- **The relation between elasticities by beverage type can change within a given society**

At [25] the paper notes that demand for beer is more inelastic than demand for wine or spirits. While it is true to say that elasticities vary by beverage type, as well as by country, population group and so on, the paper creates an impression that the differences in price elasticities for different beverages are stable and maybe even inherent, which is not entirely accurate.

The relation between elasticities of different beverages may vary over time in a particular society. For example, in Sweden, the spirits elasticity was lowest in 1920-1951, while the wine elasticity was lowest in 1984-2004.²⁹ The Swedish case illustrates the general finding that it is the most commonly used alcohol beverage which has the lowest elasticity in a given society—thus, in Sweden, when spirits was the dominant beverage, the price elasticity for spirits was lowest, while in recent years, as the dominant beverage has shifted to wine, the price elasticity is lowest for wine.

²⁴ Sally Casswell and Thaksaphon Thamarangsi, above note 1.

²⁵ Babor, above note 2.

²⁶ Paul J Gruenewald et al, 'Alcohol Prices, Beverage Quality, and the Demand for Alcohol: Quality Substitutions and Price Elasticities' (2006) 30 *Alcoholism: Clinical and Experimental Research* 96

²⁷ Dennis Gray et al. 'Beating the grog: an evaluation of the Tennant Creek liquor licensing restrictions' (2000) 24 (1) *Australian and New Zealand Journal of Public Health* 39

²⁸ Eleanor Hogan et al. 'What price do we pay to prevent alcohol related harms in Aboriginal communities? The Alice Springs Trial of Liquor Licensing restrictions' (2006) 25 *Drug and Alcohol Review* 1.

²⁹ Babor et al. above note 2, 113

Table 2 in the paper shows meta-analyses that are based on overlapping series of underlying studies, most of them carried out in societies where beer was the dominant beverage, which explains at least in part why beer showed the lowest median price elasticity in the series.

- **The responsiveness of harmful drinkers to pricing change**

At various points the paper notes the finding in some studies of less elasticity for hazardous or harmful drinkers.³⁰ We do not dispute this characterisation of the literature, but suggest these findings should be put in context.

There is disagreement in the literature about the responsiveness of heavy drinkers to changes in alcohol pricing.³¹ While studies on the impact of alcohol price on young drinkers consistently find that changes in alcohol prices are related to changes in youth drinking, longitudinal studies on the impact of price on adult heavy and problematic drinkers are relatively rare. Most of the elasticity estimates used to support the finding that hazardous or harmful drinkers are less responsive to changes in price (including the Sheffield Study) are based on cross-sectional data.³² This data is inherently weaker evidence than longitudinal data—that is, data on the effects of changes in price on different classes of drinkers.³³ As argued below, the conventional approach of comparing price elasticities between different classes of drinkers does not tell us much about who would benefit most from increased prices in reduction of health and other harms: it would clearly be heavy drinkers and those that their drinking adversely affects.

Where longitudinal data is available is in studies of the effects of changes in price on rates of alcohol-related problems such as cirrhosis, traffic injuries and homicides (noted in the paper at [31]). Changes in the rates of these alcohol-related problems reflect primarily the behaviour of very heavy drinkers. From a public health point of view, the effects on such measures of harm are arguably more important than effects on purchasing behaviour per se.

Importantly—and in contrast to the sparse literature on the impact of pricing on different consumption levels—there is a substantial body of literature around the impact of price changes on rates of harm, in particular around the link between alcohol prices and a range of alcohol harms, including crime, violence, hospitalisations, and traffic injuries.³⁴ These studies frequently find a change in indicators of harm is that is greater than the change in overall level of consumption; which has implications not only for immediate harms, but for prevention of alcohol-related chronic diseases and other long term harms. Based on these studies, price changes may have stronger effects on heavy drinkers than on the wider population of drinkers. This effect is noted at [30] citing the 17 per cent increase in alcohol-related sudden deaths in Finland following a recent reduction in alcohol taxes by about a third.³⁵ We would further highlight that this figure was accompanied by an increase of 46 per cent in alcoholic cirrhosis mortality; the increase in alcohol related harms resulted from a 10 per cent increase in overall consumption.

³⁰ Australian National Preventive Health Agency, *Exploring the Public Interest Case for a Minimum (Floor) Price for Alcohol: Issues Paper*, (2012) paras. [27], [28], [55] and [58], <<http://anpha.gov.au/internet/anpha/publishing.nsf/Content/min-floor-price-alc>>

³¹ Babor et al. above note 2, 120

³² Babor et al. above note 2, 121

³³ Ibid.

³⁴ See Philip J Cook, *Paying the Tab: The Costs and Benefits of Alcohol Control* (Princeton University Press 2007); Babor et al. above note 2, 122

³⁵ Pia Mäkelä and Esa Österberg, 'Weakening of one more alcohol control pillar: A review of the effects of the alcohol tax cuts in Finland in 2004' (2009) 104 *Addiction*, 554

Summary of key issues

In relation to the arguments opposing minimum pricing, listed in the paper at [53] – [59], we make the following comments.

- A. “A minimum price would adversely affect sensible, moderate drinkers”

NAAA’s response: A minimum price would benefit moderate drinkers

As noted above, the evidence on whether moderate or heavy drinkers are more affected by changes in price is not settled; however, as the paper further notes, raising floor prices appears to have a greater impact on total consumption than does increasing the prices of more expensive drinks. A Scottish Parliamentary briefing on the Alcohol (Minimum Pricing) (Scotland) Bill noted that a drop in consumption at a population level from an increased floor price would likely be made up of a small reduction spread across the bulk of moderate drinkers, and a larger reduction across the smaller group of hazardous and harmful drinkers, including heavy drinkers and young people.³⁶

The extent to which a minimum floor price will impact on moderate drinkers depends on how much alcohol a person buys;³⁷ that is to say, minimum pricing will likely impact most on those that drink the most.³⁸ Minimum pricing should have least impact on those who are drinking within low risk weekly limits, i.e. moderate drinkers, primarily because they drink less.³⁹

- B. “A minimum price would adversely affect individuals/households with low incomes”

NAAA’s response: A minimum price would target alcohol-related harm

The paper notes the potential for minimum pricing to have a disproportionate impact on population sub-groups (for example, people on low incomes), including the possibility that problem drinkers with a low income may use spending from elsewhere in their budget to maintain their consumption levels.

The impact of minimum pricing on high and low income groups was examined in a report on the Alcohol (Minimum Pricing) (Scotland) Bill by the Scottish Parliament’s Health and Sport Committee.

Evidence presented to the committee and highlighted in the report acknowledged (as does the ANPHA issues paper) the lack of evidence on this issue. However, the committee received further evidence to the effect that:

- a. Harmful drinkers in all income groups buy significant proportions of cheap alcohol;
- b. There would perhaps be a slightly bigger effect on low-income groups, but not a substantial difference;
- c. A high proportion of people in low-income groups chose not to drink at all or to drink very moderately—(In Australia, the 2010 National Drug Strategy Household Survey

³⁶ Kathleen Robson, ‘Alcohol Etc (Scotland) Bill’ (SPICe Briefing Paper No 10/13, Parliament of Scotland, 2010) 17 citing Petra Meier et al. ‘Model based appraisal of alcohol minimum pricing and off-licensed trade discount bans in Scotland: A Scottish adaptation of the Sheffield alcohol policy model v2 – an update based on newly available data’ (Parliament of Scotland 2010) <<http://www.scotland.gov.uk/Publications/2010/04/20091852>>

³⁷ Ibid.

³⁸ Alcohol Action Ireland, ‘Alcohol in Ireland: Tackling the Financial Hangover’ (Pre-budget submission 2011 and the case for minimum pricing, 2011)

³⁹ Ibid.

- found those in the lowest socioeconomic group were almost twice as likely to be abstainers (26per cent) as those in the highest socioeconomic group (14per cent));⁴⁰ and
- d. That people in low-income groups that are risky-drinkers suffer disproportionate harm compared with risky drinkers in other groups, from the same amount of alcohol.⁴¹

Australian data on food and beverage expenditure across income levels shows that in the top income group, alcoholic beverages are the second highest weekly food expenditure (as a proportion of the average weekly expenditure on food), behind meals out and fast food; whereas for households in the lowest income group, alcoholic beverages was the fourth largest expenditure on food.⁴²

- C. “A minimum price would have little effect on heavy drinkers and young drinkers”

NAAA’s response: A minimum price would be particularly effective for drinkers most at risk of harm

As noted above, the evidence is clear that price changes do impact on the drinking of heavy drinkers, although it is not clear if there is any difference between the effect on heavier drinkers or lighter drinkers. However, consideration of the impact of minimum pricing on heavy and young drinkers should take into account not only the rate of change in consumption, but also any changes in the prevalence of alcohol related harm.

The results of a price change on behaviour in different subpopulations are routinely measured by comparing elasticities, calculated from the ratio of change in behaviour to the preceding level of behaviour. However, from a public health viewpoint, this is not necessarily an optimal measure of risk. For example, if in response to a price change, person A reduces their consumption from 6 units per week to 3, while person B reduces their consumption from drinking 30 units per week to 20, then “A”, the lighter drinker, will show a higher price elasticity than “B”.

However, B’s absolute drop in consumption is greater than A’s drop—and from a public health perspective, much more important. This is because for B, the change is greater than A (in absolute terms), which matters more in terms of risk of alcohol-related diseases. Additionally, the beneficial effect of a reduction for B is increased by the fact that many of the risks of drinking increase at a steeper rate at higher levels of drinking.⁴³ Thus a measure which produces an equal effect in elasticity terms on heavier and lighter drinkers will still result in a substantially greater health benefit for heavier drinkers.

In considering the public health impact of policy decisions on matters like alcohol taxes, attention should be focused on the reduction of health risks in different population segments, including heavy drinkers, and these reductions are not well represented by comparisons of price elasticities.

⁴⁰ Australian Institute for Health and Welfare, ‘2010 National Drug Strategy Household Survey Report’ (2011) 60 <<http://www.aihw.gov.au/publication-detail/?id=32212254712&tab=2>>

⁴¹ Laura Schmidt et al ‘Alcohol: equity and social determinants’ in Erik Blas and Anand Sivasankara Kurup (eds), *Equity, Social Determinants and Public Health Programmes*, (2010) 11 http://whqlibdoc.who.int/publications/2010/9789241563970_eng.pdf

⁴² Australian Institute for Health and Welfare, ‘Australia’s food and nutrition’ (No. PHE 183, 2012) 95

⁴³ See, eg, Benjamin Taylor et al, ‘The more you drink, the harder you fall: a systematic review and meta-analysis of how acute alcohol consumption and injury or collision risk increase together’ (2010) 110 (1-2) *Drug and Alcohol Dependence*, 108; Jurgen Rehm, ‘The relation between different dimensions of alcohol consumption and burden of disease - an overview’ (2010) 1045 (5) *Addiction* 817

D. “The effects of minimum pricing would adversely affect retailers and trade”

NAAA’s response: The adverse effects of minimum pricing on retailers and trade are disputed

At [59] the paper notes the potential for retailers and producers to benefit from the introduction of a minimum floor price. A similar concern was expressed during consultation on the Alcohol (Minimum Pricing) (Scotland) Bill.

There is no direct evidence of the effect of minimum pricing on retailers and trade in Australia because it is an approach that has not been used before (excluding the experiences of a de-facto minimum floor price from bans on the cheapest form of alcohol in towns in the Northern Territory⁴⁴). Evidence presented to the Scottish Health and Sport Committee by large retailers (Tesco and Asda) expressed scepticism about the extent to which minimum pricing would benefit retailers, and it was suggested that windfall figures were overstated; while evidence from representatives of on-trade retailers suggested a significant increase in profits for large retailers at the expense of smaller retailers and on-licensed premises.⁴⁵

It was further suggested to the Committee that the industry may respond by increasing production of lower-alcohol drinks, and the existence of a market in Australia for beers of less than 3 per cent was cited as evidence for this response from retailers and producers.

Consideration should be given to setting different minimum prices for alcohol beverages sold for off-premise consumption (i.e. packaged liquor) and on premise consumption (bars, pubs, etc). This will be important given the significantly lower prices for which packaged liquor is sold compared to on premise liquor. While minimum prices are perhaps most important for packaged liquor (as this sector represents around 75 per cent of the alcohol market in Australia), it will be equally important that on premise liquor is subject to minimum pricing controls given the practices of discounting and complimentary provision of alcohol (e.g. happy hours, complimentary drink with meal deals etc). The Scottish legislation accounts for this in a proposed schedule to the *Licensing Act 2005* in relation to mandatory conditions for premises licences (similar to our on-premise category of licences), which would impose a mandatory condition that,

- (1) Alcohol must not be sold on premises at a price below its minimum price
- (2) Where alcohol is supplied together with other products or services for a single price, sub-paragraph (1) applies as if the alcohol were supplied on its own for that price.

Depending on the level of the minimum price, there will be profit at some point in the supply chain; for this reason, discussion of the effects on retailers and trade in other jurisdictions has been dominated by differing and at times, conflicting, viewpoints proffered by various sectors of the alcohol industry, raising doubt as to what the true effect on industry would be. Independent modelling on the potential effects of minimum pricing on Australian retailers and trade including the potential for a minimum floor price to encourage the market to produce, market and retail lower alcohol products, is required for a balanced and evidence-based debate. Such evidence must be considered in light of the significant benefits of a decrease in consumption leading to a decrease in alcohol related harms.

⁴⁴ Tanya Chikritzhs et al ‘Restrictions on the Sale and Supply of Alcohol: Evidence and Outcomes’ (National Drug Research Institute, 2007) <<http://ndri.curtin.edu.au/local/docs/pdf/publications/R207.pdf>>

⁴⁵ 2nd Report, 2010 (Session 4): Stage 1 Report on the Alcohol (Minimum Pricing) (Scotland) Bill (SP Paper 83, HC/S4/12/R2) <<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/48155.aspx>>

Issues for further consideration

Although this response has not explicitly addressed issues relating to the implementation, legality and enforcement of a minimum floor price for alcohol, we note that these issues are integral to the discussion of a minimum floor price, and must be addressed in order to progress the debate here in Australia. Importantly, there needs to be consideration of how minimum pricing fits into a broader pricing reform agenda. This is because minimum pricing, if introduced at the level proposed by the Scottish Government, may have a similar effect to an increase in the tax rates applied to alcohol. Therefore, we raise for ANPHA's consideration, the following questions for discussion in the next round of consultation:

- a. *At what level should a minimum (floor) price be set?*

Australian-specific modelling is required to determine the precise level at which a minimum floor price should be set, in order to reduce the burden of harm from alcohol use. This modelling will need to take into account effectiveness (i.e. not setting the price too low) and determine the potential impact on competition and trade (if any), as well as the need to regularly review and potentially adjust the price to maintain its impact.

- b. *Should a minimum price be introduced at a state or Commonwealth level, noting the challenges with achieving uniformity between States?*

In Scotland, minimum pricing has been introduced as an amendment to the *Licensing (Scotland) Act 2005*, to making it a mandatory condition of a licence that a unit of alcohol will not be sold under a certain price.⁴⁶ In Australia, liquor licensing is the responsibility of the states and territories. If Australia were to follow the Scottish model and introduce a minimum floor price via licensing laws, then a national minimum floor price for alcohol will require the cooperation of states and territories to amend liquor licensing laws (noting that there are challenges with achieving legislative uniformity between states and territories), or national legislation using an appropriate Commonwealth head of power.

- c. *Who should be responsible for enforcing a minimum floor price and how?*

The responsibility for enforcing a minimum floor price will depend on whether minimum pricing is introduced at a state/territory, or Commonwealth level. If introduced at a state or territory level (taking the above example, as a condition of licences granted under local liquor licencing laws), then a minimum floor price should be enforced through the existing provisions in the relevant legislation. If introduced at a Commonwealth level, then the ability to delegate the enforcement power to state or territory licensing authorities should be explored.

- d. *How does introducing a minimum floor price interact with principles in National Competition Policy?*

National Competition Policy requires that legislation should not restrict competition unless there is an overall public benefit in doing so.⁴⁷ A preliminary issue to be determined is whether or not minimum pricing legislation would restrict competition. A minimum price will only affect that proportion of the alcohol market in Australia that is currently sold below the floor price, and that proportion may well be small. Again, independent modelling on the potential for a minimum pricing to restrict competition is required in order to determine the effects of a floor price on the

⁴⁶ Kathleen Robson, 'Alcohol Etc (Scotland) Bill' (SPICe Briefing Paper No 10/13, Parliament of Scotland, 2010) 5 <http://www.scottish.parliament.uk/ResearchBriefingsAndFactsheets/S4/SB_12-01.pdf>

⁴⁷ 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>

Australian market, whether it would operate to restrict competition in fact, and if so, whether the public benefit from a floor price outweighs the effect on competition.

We think these, and other questions, warrant further discussion and recommend convening an alcohol and pricing summit to develop the best approach.

Conclusion

We welcome the opportunity to contribute to the debate on a minimum (floor) price for alcohol to discourage harmful consumption.

The differential treatment of alcohol products under Australia's alcohol taxation framework, which creates a price incentive for people to buy, and profit incentive for industry to produce, low cost products, should not be maintained, due to the significant levels of alcohol related harm in Australia. Differentiated volumetric alcohol taxation, adjusted regularly in line with inflation, can reduce consumption and related harm. Meanwhile, a minimum floor price, whether introduced alongside a differentiated volumetric tax or as a stand-alone measure, would eliminate some of the major inconsistencies in the current alcohol taxation framework, in particular, the deleterious effect of the WET.

The NAAA and our member organisations look forward to working with the ANPHA to develop the public interest case for minimum floor pricing, and to assist in reforming alcohol pricing and taxation in Australia.

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