



Institute for
Fiscal Studies

Minimum unit pricing of alcohol

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Independent Scientific Committee on Drugs (ISCD), 2nd February 2012

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!

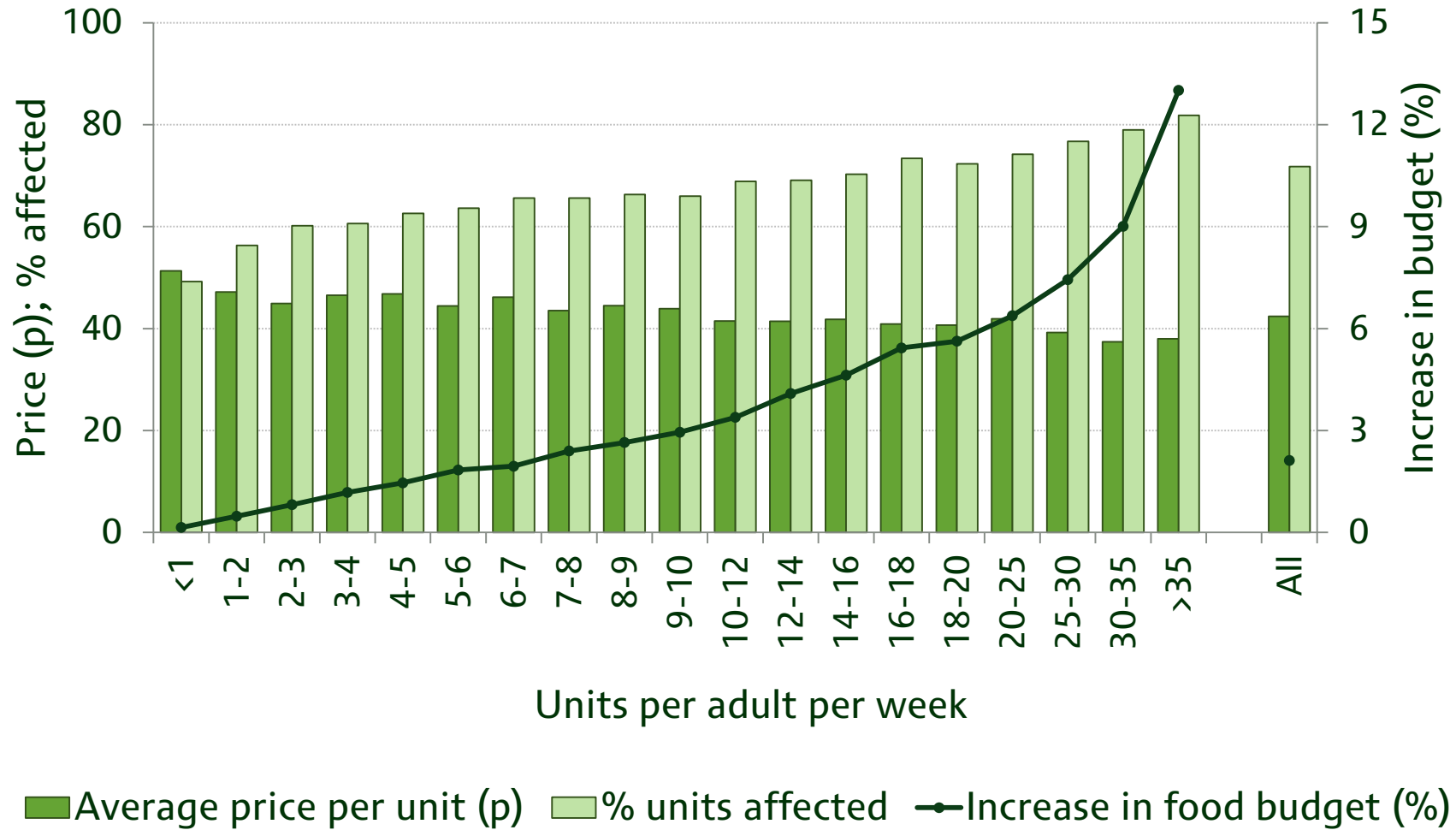
Impact by off-licence alcohol type

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

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

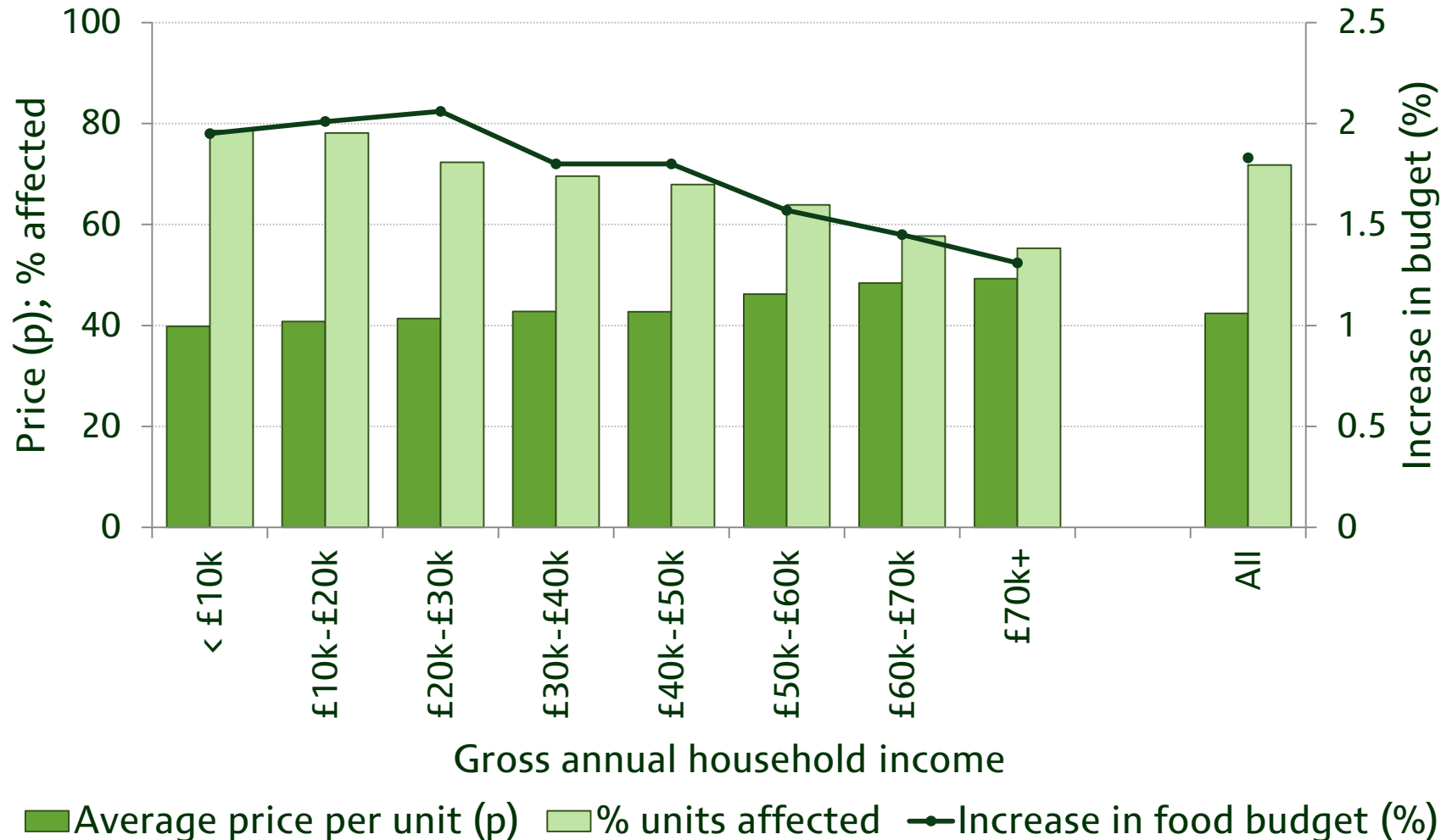
Impact by alcohol consumption level

(units per adult per week)



Impact by household income group

(including those who do not buy off-licence alcohol)



Behavioural responses

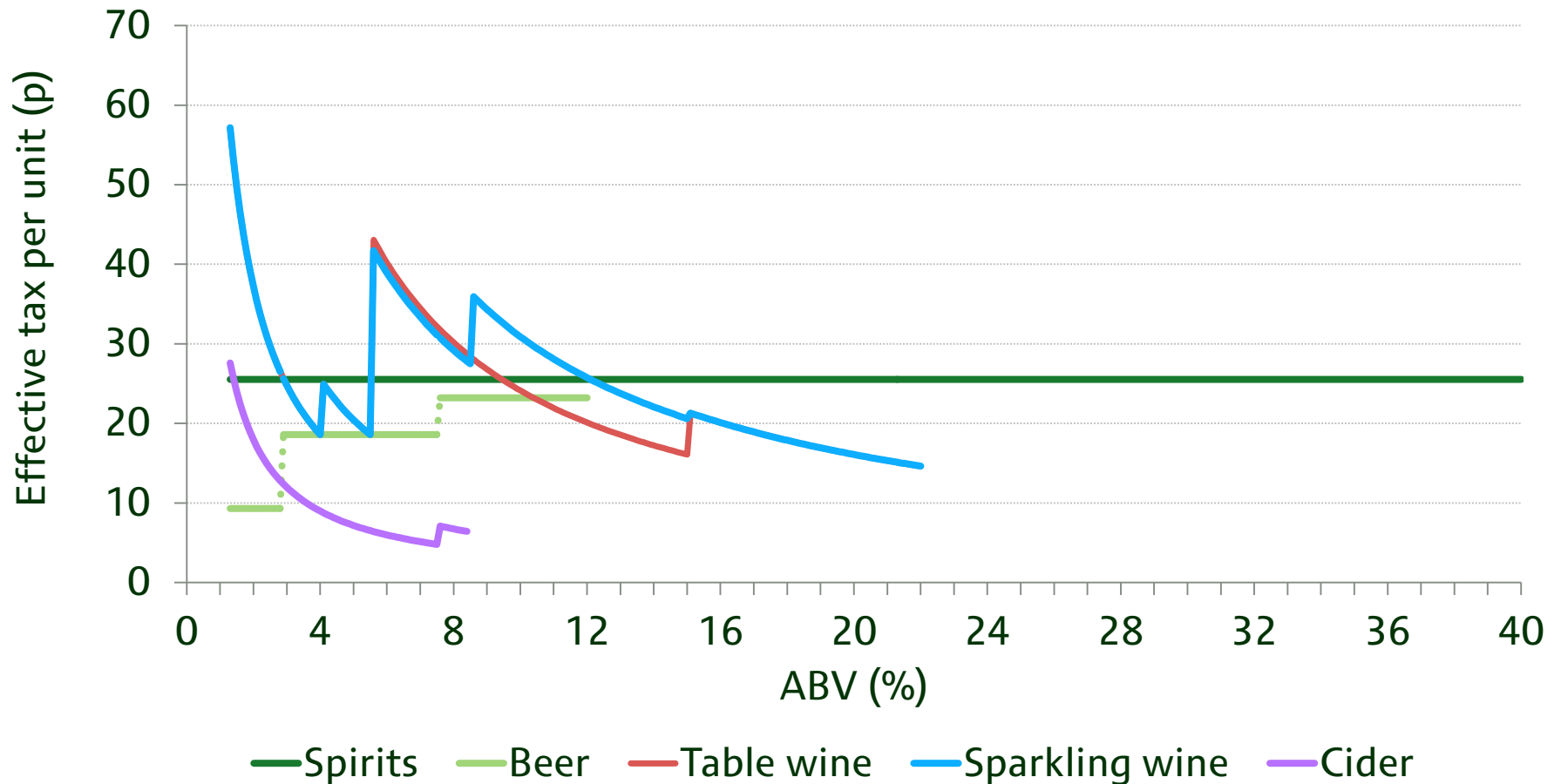
- Consumers
 - Demand response to changing relative prices (across/within category)
 - Substitute towards on-licence consumption, other expenditures
 - Responses vary across consumers
 - Cross-border purchasing, home-brew, illicit alcohol purchasing?
- Manufacturers and retailers
 - Indirect effect on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

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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!