

## Questions and answers - minimum price for alcohol

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### **What are the key findings of the report?**

The overall net effect on society of the different pricing options was determined by weighing up the benefits against the costs. The benefits are the estimated savings in health, crime and workplace productivity. The costs are the estimated lost consumer benefits incurred from higher prices and reduced consumption, lost tax revenue to Government, and lost value of industry assets from reduced demand.

All pricing options would theoretically result in net savings to society, which are estimated to average \$32m a year (for a minimum price of \$1.00), and \$62m a year (for a minimum price of \$1.20).

### **Why isn't the Government moving to introduce minimum price?**

While the minimum pricing approach could theoretically deliver benefits, caution is advisable for the following reasons:

- Minimum pricing is relatively untested. We already know that the Scottish law is being challenged. England and Wales consider that it is not wise to move to minimum pricing at present. A draft report in Australia recommends not implementing minimum pricing.
- Harmful drinkers purchase across the price spectrum, so targeting only cheap drinks would only have a modest effect on harmful consumption. The population group most likely to buy low-cost alcohol is those aged 65+, and minimum pricing could impact significantly on this group.
- Increased revenue from setting a minimum price would go to the alcohol industry. Alcohol retailers could use this increased revenue in any way they wanted, potentially increasing promotion of alcohol.

Other potential downsides identified in the report include:

- high prices encouraging people to move to other drugs
- possible increases in home brewing/distilling and illicit sales, with the risks associated with this
- economic impact, with more internet purchases from overseas suppliers.

On balance, the Government has decided that a wait and see approach will allow us to measure the effects of the alcohol reforms, and to observe what happens internationally before taking steps that may impact significantly on a wide range of drinkers.

### **What is happening in other countries?**

A minimum price on alcohol is already in place in some Canadian provinces where there is heavy state involvement in the alcohol industry.

A minimum price law was passed in Scotland in 2012, but its legality is being challenged in court by the Scotch Whisky Association and two other trade bodies, which represent European spirits and wine producers.

The UK has announced that it will not be proceeding with minimum pricing in the short term. It has, however introduced a 'below cost ban' which will prevent the sale of alcohol below duty + VAT. This is due to come into effect in April 2014.

The Australian Government is still considering the issue but a draft report recommends not implementing minimum pricing at this time.

### **What levels of minimum price did the report consider?**

The report focussed on two levels of minimum price: \$1.00 per standard drink and \$1.20 per standard drink. A minimum price over \$1.20 was not considered since it would affect over a quarter of all alcohol sales, therefore significantly affecting low risk drinkers.

For the purposes of comparison, the report also looked at the excise increase needed to achieve an average price of \$1.00 or \$1.20 per standard drink on the lowest priced alcohol. An excise increase would drive up the price of all alcohol (not just low price alcohol). It would therefore deliver greater net benefits but it would impact significantly on responsible consumers.

### **What would be the impact of a minimum price on the prices consumers pay?**

Drinks with a high number of standard drinks which are currently being sold at low prices, would see the greatest change in price.

The following table identifies the effects of minimum pricing on low-cost alcohol.

Beverage	If the current price was:	Price if a minimum unit price of \$1.00 was introduced	Price if a minimum unit price of \$1.20 was introduced
Beer (dozen)	\$10.00	\$15.30	\$18.40
Wine	\$7.00	\$7.20	\$8.60
RTD / mixed spirits	\$10.00	\$11.40	\$13.70

### **Who would be most affected by a minimum price?**

Clearly, those who buy the cheap alcohol now would be most affected. However, these are not necessarily the harmful drinkers. The research shows that harmful drinkers are more likely to drink beer (low and high price), high price spirits and low priced RTDs compared to other drinkers<sup>1</sup>. Since the biggest impact would be on those who currently purchase cheap alcohol, low income households are most likely to be impacted. Where low income families have harmful drinkers there is likely to be an increase in poverty since harmful drinkers are less likely to stop drinking and will buy alcohol despite the cost.

### **Where would the profits go?**

When minimum prices are set, the increased revenue goes to the alcohol industry. The research estimates that annual industry revenue would increase by \$69m (for a minimum price of \$1.00) or \$131m (for a minimum price of \$1.20)<sup>2</sup>.

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<sup>1</sup> P 85

<sup>2</sup> P 111