

Time to deal with cheap alcohol

Background

Alcohol can now be bought at a lower price than bottled water in New Zealand. It can be bought at 65c for a standard drink (\$4.99 for a bottle of wine), a price so low that children can easily buy intoxication with pocket money.

It is no accident that alcohol has become so cheap. A very low price is a predictable outcome from a highly competitive, relatively unregulated alcohol market. The big players, especially supermarkets, can force deals with suppliers and then use alcohol as a “loss-leader” in their own retail activity. “Loss-leading” is putting a retail price on alcohol which is lower or close to lower than the wholesale price, and so rather than using alcohol to make a lot of direct profit, “loss leading” uses alcohol as a bait to get people to come into the supermarket to buy other products, such as fruit and vegetables, at inflated prices.

Price is an external signal which is known to be a key factor in people’s decisions about buying any product, including alcohol.

It is not surprising, therefore, there is a considerable body of scientific evidence showing that raising the price is the single most effective and easily enacted alcohol strategy that would change heavy drinkers’ behaviour and thus reduce alcohol-related harm.

How can the price of alcohol be raised?

Two main mechanisms to raise the price of alcohol are discussed in the literature:

1. Excise tax increases; and
2. Establishing a minimum price.

A large body of research (involving 112 studies) examining the impact of excise tax increases on drinking has recently been summarized (Wagenaar et al 2008). This meta-analysis showed that excise tax increases have a strong impact on drinking across the spectrum; from light to heavy drinking, and across beer, wine and spirits. A great advantage of excise tax is that it provides the government with money that can then be used to deal with some of the negative impacts of heavy drinking such as hospitals, policing, alcoholism treatment etc.

However, the big players, such as supermarkets, have the ability to simply absorb small excise tax increases into their “loss leading” strategy and maintain ultra-cheap alcohol.

The second mechanism, minimum pricing, deals specifically with such “loss leading”. The evidence base for effectiveness is not as strong as for excise tax increases yet, but minimum pricing is an alternative strategy for the government to intervene with the alcohol market to raise the price, that targets the most price vulnerable drinkers, particularly the young and the heaviest drinkers. No one doubts it will be shown to be effective in reducing alcohol-related harm. Scotland is actively pursuing this strategy now.

Minimum pricing involves setting a minimum price per standard drink at which alcohol can be sold. A standard drink in New Zealand and Australia is 10g of pure alcohol (12.7ml). Introducing a minimum price will immediately eliminate the sale of ultra-cheap alcohol. For instance, if it was set at \$1.50 per standard drink then a 750ml bottle of normal strength wine (6.5 - 8 sds) could not sell for less than \$10.

A combination of a minimum pricing and a series of strategic excise tax increases over time (as has been so successful with tobacco) would appear to be an optimal way a government can use price to decrease alcohol-related problems.

What did the Law Commission recommend?

The Law Commission has identified “the unbridled commercialisation of alcohol” as the principal driver of the heavy drinking culture. One of the key aspects of excessive commercialisation is the very low price of some alcohol. The Law Commission has recommended an immediate 50% increase in alcohol excise tax which would increase the retail price of alcohol by 10%. This increase is estimated to bring about at least a 5% reduction in drinking overall and would provide a net benefit to New Zealand of \$72 million. The Commission also advised removing excise tax on low-alcohol products to make them relatively more attractive.

The Commission further recommended (in 2010) for minimum pricing to be fully investigated in the context of both alcohol retailers and producers required to provide sales and price data.

Raising the price will just punish responsible drinkers

The alcohol industry’s PR machine is very active behind the scenes with advice to its representatives on what to say in public. The aim is to counter discussion about evidence-based measures to decrease heavy drinking, such as raising the price, and to put sound bites into the mouths of politicians on the subject.

Here is one of the PR scripts revealed in secret industry internal memos that have recently come to light: *“The majority of people who drink do so responsibly”* and *“it would be unfair to penalize the majority to pay for the actions of a few”*. It is concerning that both the Prime Minister and the Justice Minister have recently used variations of this script in their comments about alcohol law reform.

But the majority of low-risk responsible drinkers don’t drink \$4.99 bottles of wine or equivalent. It is desperate heavy drinkers who do, the very people we all want to drink less, who will be affected by ultra-cheap alcohol disappearing under a minimum price.

Responsible (low-risk) drinkers will inevitably be affected to some extent by excise tax price rises, but we need to consider how much this will actually be. Let’s look at a 10% increase in the retail price. For low-risk drinkers the “punishment” would amount to a \$3 increase in their \$30 weekly alcohol budget; \$3 is just loose change in their pockets, hardly a punishment! However, for heavy drinkers (from whom the industry extracts the majority of its profit) who could easily have a \$100 weekly alcohol budget, a \$10 increase (\$500 a year) is significant, particularly for young heavy drinkers. Raising the price is therefore a fair and targeted measure to motivate a reduction in heavy drinkers’ drinking.

Finally, people who say that “raising the price will just punish responsible drinkers” fail to acknowledge the degree of punishment that responsible drinkers are currently already suffering with the heavy drinking culture. \$3 a week is a very small price to pay for a change in the heavy drinking culture, and most responsible drinkers would be prepared to pay a lot more than that for a DrunkLess New Zealand.

What does the public actually think about cheap alcohol prices?

The majority of the public support an increase in the price of alcohol. The 2010 Health Sponsorship Council survey asked people whether they agreed or disagreed about raising the price of cheap alcohol. 59% said they agreed or strongly agreed and 19% were neutral, totalling 76%. This survey involved a random sample of 1740 New Zealanders 15 years and over.

Don’t hesitate to ask for clarifications of any of the assertions made in this short paper - email: coordinator@alcoholaction.co.nz

RAISE THE PRICE OF CHEAP ALCOHOL