

## Response to the consultation on Public Health (Minimum Price for Alcohol) (Wales) Bill

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*"Proposed minimum unit price for alcohol would lead to large price rises", by Rachel Griffith, Martin O'Connell and Kate Smith, IFS Briefing Note No. 222, published 15 December 2017.*

*The proposed 50p minimum unit price for alcohol would have a large impact on prices. Almost 70% of off-trade alcohol units purchased (i.e. those bought in supermarkets and off-licenses) in Britain between October 2015 and September 2016 were priced below 50p per unit. The prices of these products would increase by at least 35%, on average, if a 50p minimum unit price is introduced. Price increases would occur across alcohol types, from cider (e.g. the price of a 20×440ml pack of Strongbow would double) to fortified wines (e.g. the price of a bottle of Tesco cream sherry would increase by 20%).<sup>1</sup>*

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<sup>1</sup> A 20×440ml pack of 5% Strongbow cider contains 44 units and was sold for £11 by Tesco on 12 December 2017 (<https://www.tesco.com/groceries/en-GB/products/274108990>). A 1l bottle of Tesco cream sherry contains 17.5 units and was sold for £7.15 by Tesco on 12 December 2017 (<https://www.tesco.com/groceries/en-GB/products/255246451>). Under a minimum unit price of 50p per unit, it would be unlawful to sell these products for less than £22 and £8.75.

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## Summary

The Welsh National Assembly is considering introducing a minimum unit price for alcohol.<sup>2</sup> The aim of adopting a minimum unit price is to reduce the prevalence of harmful and hazardous drinking. Estimates of the precise magnitude of the social costs of drinking vary, but are invariably high. The Welsh National Assembly cites research by the University of Sheffield that estimates that the overall cost to society of alcohol misuse in Wales is £15.3 billion over 20 years.<sup>3</sup>

A minimum unit price would make it unlawful to sell alcohol below a price that is based on the alcoholic content of the product. We show that a minimum unit price of 50 pence would have a substantial impact on off-trade alcohol prices. During the period October 2015 to September 2016, 68% of off-trade alcohol units sold in Britain were priced below the proposed 50 pence floor, with the average price of these products over 20% below the floor, at around 39 pence per unit. These numbers are similar across Scotland, Wales and England.

The effectiveness of the policy will depend on whether it successfully targets heavy drinkers and how they change their behaviour in response. We provide evidence that heavy drinkers do tend to buy cheap alcohol. This suggests a minimum unit price may well be reasonably well targeted at this group. However, the impact of the policy will depend crucially on the price sensitivity of different types of drinkers, i.e. how much less alcohol they consume in response to a rise in price. We also show that heavier drinkers tend to buy stronger alcohol, suggesting that redesign of the current system of alcohol excise duties could also help target problem drinkers. Tax reform is likely to avoid the main drawback of minimum unit pricing, which is that it boosts the profits of the alcohol industry.

### A minimum unit price of 50 pence would have a substantial impact on prices

We assess how big an impact a minimum price of 50 pence per unit of alcohol would likely have on prices using detailed data that are representative of the British population. These data contain information on the alcohol purchases of around 27,000 households over the period October 2015 to September 2016; they include purchases made off-trade (in supermarkets and off-licences) but not those made on-trade (in pubs and restaurants). It is likely that very few on-trade prices would be directly impacted by a minimum unit price of 50 pence.

The first column of Table 1 shows the average per-unit prices that households paid for different types of alcohol and (in the bottom row) for all alcohol. The second column shows the percentage of alcohol units that were sold for less than 50 pence per unit. The third column shows how much, in pence, below the proposed 50 pence floor these units were priced, on average. The fourth column shows the average percentage increase in

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<sup>2</sup> <http://senedd.assembly.wales/mgConsultationDisplay.aspx?id=282&RPID=1509748630&cp=yes>.

<sup>3</sup> Table 5.14, page 69 of Y. Meng, S. Sadler, L. Gell, J. Holmes and A. Brennan, *Model-Based Appraisal of Minimum Unit Pricing for Alcohol in Wales: An Adaptation of the Sheffield Alcohol Policy Model Version 3*, School of Health and Related Research, University of Sheffield, 2014; available at <https://www.sheffield.ac.uk/scharr/sections/ph/research/alpol/research/sapm>.

prices for products priced below 50 pence, assuming that their prices increased to the 50p floor.<sup>4</sup> Columns 3 and 4 give the minimum average price increases that the introduction of a 50 pence minimum unit price would imply for those units priced at less than 50 pence.

The numbers make clear that the introduction of a minimum unit price of 50 pence would represent a significant intervention in the market. In the calendar year beginning October 2015, the average price per unit paid for off-trade alcohol was 47.2 pence; cider had the lowest average price at 37.6 pence and alcopops had the highest at 86.8 pence. A minimum unit price of 50 pence would directly affect 68.2% of alcohol units purchased. On average, these units were priced 11.3 pence below the proposed 50 pence price floor.<sup>5</sup> Lager, cider, spirits and fortified wines all had over 70% of units purchased at below 50 pence. Of these groups, cider products priced below 50 pence per unit were cheapest – priced, on average, 21.2 pence below the proposed price floor.

**Table 1. Off-trade alcohol prices**

<b>Alcohol type</b>	<b>Average price per unit of alcohol</b>	<b>% of units bought below 50 pence</b>	<b>Average price increase for units priced below 50 pence<sup>†</sup></b>	<b>Average % price increase for units priced below 50 pence<sup>†</sup></b>
Wine	48.8	62.2	8.8	23.5
Spirits	47.6	75.4	9.1	23.4
Lager	39.5	85.6	14.2	43.8
Cider	37.6	79.7	21.2	89.5
Beer	54.0	46.5	6.9	18.8
Sparkling wine and perry	62.8	28.3	24.7	115.6
Fortified wine	45.0	71.5	12.1	39.0
Alcopops	86.8	1.5	7.9	20.8
All alcohol	47.2	68.2	11.3	35.1

Note: Alcohol types make up the following percentages of total units of alcohol purchased: wine, 36.7%; spirits, 27.3%; lager, 14.7%; cider, 7.8%; beer, 5.8%; sparkling wine, 4.1%; fortified wine, 2.9%; and alcopops, 0.7%. <sup>†</sup>This assumes that all products priced below 50 pence would be priced at the price floor of 50 pence.

Source: Authors' calculations using Kantar Worldpanel. Data are based on alcohol purchases made off-trade by a representative sample of British households over October 2015 to September 2016.

Following the adoption of a 50 pence minimum unit price, the price of all products that were priced below this floor would increase to at least 50 pence per unit. Over the period October 2015 to September 2016, this represents 68.2% of alcohol units purchased and implies an average price increase for these units of 35.1%. It is possible that, for some of these products, manufacturers and retailers would even raise the price to above 50 pence per unit. They may also respond to the policy intervention by changing the price of some

<sup>4</sup> Note that this differs from computing the percentage change in the average price.

<sup>5</sup> The average price per unit paid by households living in Wales was 45.2p; 72.6% of units bought were priced below the 50p floor, with these units priced 12.3p below the floor, on average.

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products that cost more than 50 pence per unit prior to the policy's introduction. These industry pricing responses are difficult to predict in advance and would depend on the nature of competition in the alcohol market.

## Heavy drinkers tend to purchase cheaper alcohol

The main rationale for policies that seek to raise alcohol prices is to deter problem drinking. In particular, there are costs associated with alcohol consumption that are not fully taken into account by some drinkers. These include public health costs, but also the costs of anti-social behaviour, drink-driving etc. Evidence suggests the majority of these costs are generated by a small number of heavy drinkers.<sup>6</sup> A well-designed policy should reduce the consumption of socially costly (typically heavy) drinkers, while limiting the impact of higher prices on light and more moderate drinkers.

A minimum unit price targets low-priced alcohol. Figure 1 is based on a graph from a recent working paper,<sup>7</sup> which shows how the average price per unit that households pay varies with the average number of units of alcohol they buy per week. The figure shows that relatively heavy drinkers systematically purchase cheaper alcohol than more moderate drinkers; therefore a higher fraction of their alcohol purchases would be directly affected by the introduction of a minimum unit price.

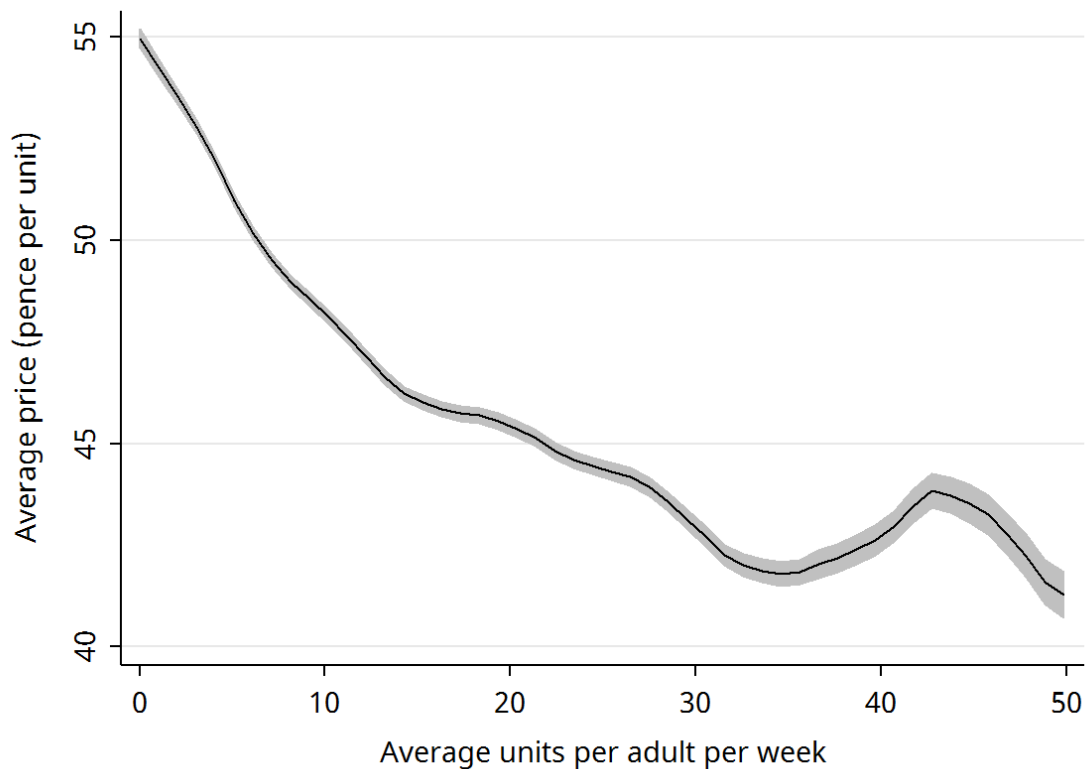
However, this is only part of the story. Policies that increase the price of alcohol would only be effective at reducing harmful drinking if they induce problematic drinkers to switch away from alcohol. In the working paper, we estimate how different households respond to changes in the prices of different alcohol products. We show that, although the heaviest-drinking households are more willing to switch away from a given product in response to an increase in its price, they are much more likely to switch to another alcohol product, rather than to choose not to buy alcohol at all. This means that the proportional reduction in total alcohol purchases in response to a rise in the price of alcohol will be considerably less for the heaviest drinkers than for lighter drinkers. This does not mean that the use of price-based policies to combat problematic drinking is a bad idea, but this differential price responsiveness should be taken into account when designing policy and when assessing the likely impact of policy change.

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<sup>6</sup> S. Cnossen, 'Alcohol taxation and regulation in the European Union', *International Tax and Public Finance*, 14, 699–732, <https://doi.org/10.1007/s10797-007-9035-y>.

<sup>7</sup> R. Griffith, M. O'Connell and K. Smith, 'Tax design in the alcohol market', IFS Working Paper W17/28, <https://www.ifs.org.uk/publications/10239>.

**Figure 1. Relationship between average price and drinking level**



Note: Shaded grey area represents 95% confidence intervals.

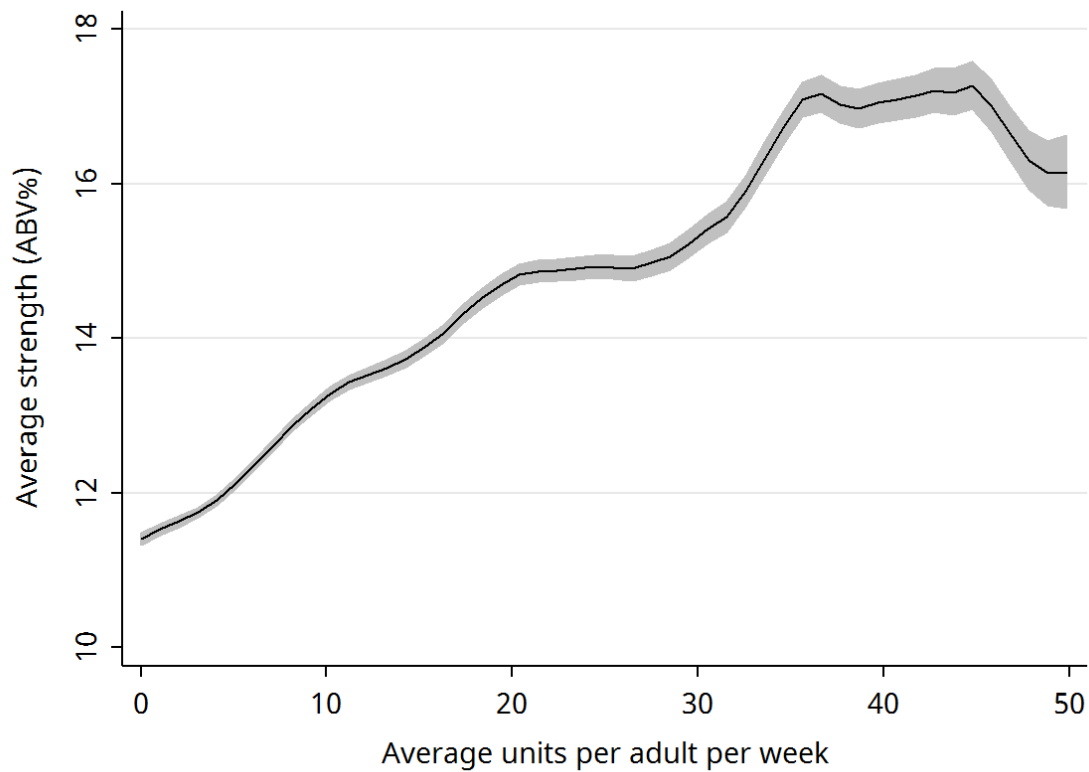
Source: Figure is based on figure 3.2(a) in R. Griffith, M. O’Connell and K. Smith, ‘Tax design in the alcohol market’, IFS Working Paper W17/28, <https://www.ifs.org.uk/publications/10239>. Numbers are based on authors’ calculations using Kantar Worldpanel, 2011–12.

### Heavy drinkers tend to purchase stronger alcohol

Raising the price of cheap alcohol is not the only way to target heavy drinkers. As shown in Figure 2, households that purchase a large amount of alcohol per adult typically purchase stronger alcohol. This is partly down to a tendency of heavy drinkers to get a higher share of their alcohol from spirits compared with more moderate drinkers. However, even within broad alcohol types, heavy drinkers tend to buy stronger alcohols.

An implication is that alcohol policy that raises the relative price of stronger alcohol products would affect a higher fraction of the alcohol purchases of heavy drinkers than of more moderate drinkers. The correlation between alcohol ABV and price per unit is very weak; strong products are not systematically cheaper in per-unit terms, or more likely to be affected by a minimum unit price, than weaker products. This means reforms that seek to raise the relative price of stronger alcohol products could be used either instead of, or as a policy complementing, minimum unit pricing.

**Figure 2. Relationship between average alcoholic strength and drinking level**



Note: Shaded grey area represents 95% confidence intervals.

Source: Figure is based on Figure 3.2(b) in R. Griffith, M. O'Connell and K. Smith, 'Tax design in the alcohol market', IFS Working Paper W17/28, <https://www.ifs.org.uk/publications/10239>. Numbers are based on authors' calculations using Kantar Worldpanel, 2011–12.

## With or without minimum unit pricing, reform of alcohol duties is overdue

By far the most well-established way for governments to influence alcohol prices is through the use of alcohol duties. In the UK, as in the rest of Europe, these are applied in addition to a broad-based value added tax. As with minimum unit pricing, the most compelling argument in favour of alcohol duties is to reduce problem drinking. Power over the system of alcohol duties resides with the Westminster Government; the Welsh Governments are unable to alter alcohol duties.

The current UK alcohol duty system is chaotic. Due to EU requirements, within broad strength bands, wine and cider must be taxed per litre, which means that higher ABV products are taxed less per unit of alcohol than lower ABV products. In addition (and not due to EU requirements), taxes levied on cider are much lower than those for other types of alcohol; for instance, a litre of 7.5% beer is taxed more than three times as much as a litre of 7.5% still cider. The very low tax rate on cider is a central reason why cider products will be impacted so strongly by the adoption of a minimum unit price; in effect, relative to other forms of alcohol, cider is under-taxed, and a minimum unit price would mean that the implicit subsidy from a lower tax rate is passed on to producers (or retailers) of cider rather than to drinkers of cider.

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A sensible reform that would substantially improve the system of alcohol duties would entail taxing directly the alcohol in wine and cider (a move which exiting the European Union will presumably make legally feasible) and increasing the tax on cider to bring it into line with that on beer. A more ambitious reform would involve adjusting rates to target more systematically the high-strength products most popular with heavy drinkers.

Such moves could be introduced along with a minimum unit price. However, there is a case to be made for alcohol duty reform being undertaken instead of adoption of a minimum unit price. The reason is that minimum unit pricing has a substantial disadvantage: by introducing a price floor, the policy is likely to dampen competition in the retail market, resulting in increases in profits to the alcohol industry.<sup>8</sup> In contrast, reform of alcohol duties that acts to raise the price of strong products, as well as cider, is likely to raise tax revenue.

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<sup>8</sup> R. Griffith, A. Leicester and M. O'Connell, 'Price-based measures to reduce alcohol consumption', IFS Briefing Note 138, 2013, <https://www.ifs.org.uk/publications/6644>.