

# **Submission to ANPHA Exploring the Public Interest Case for a Minimum (Floor) Price on Alcohol**

***August 2012***

## EXECUTIVE SUMMARY

The Winemakers' Federation of Australia (WFA) supports a responsible Australian drinking culture and, as the industry's representative body, is committed to working with the Australian Government and other stakeholders to minimise "at risk" consumption and alcohol related harm.

We welcome the release for comment of the Australian National Preventive Health Agency (ANPHA) Issues Paper *Exploring the Public Interest Case for a Minimum (Floor) Price for Alcohol*. The proposal to set a minimum price for alcohol with the aim of reducing misuse has attracted vigorous debate over recent years and the opportunity to consider it in detail is timely.

The Issues Paper has referenced and discussed research which suggests a direct link between the price of alcohol and rates of misuse and has proposed that a minimum price may therefore be an appropriate policy mechanism to achieve lower rate of consumption and harm.

However, WFA notes that there is also a body of research that concludes "at risk" drinkers are not price sensitive and that there are more effective policy options for governments to consider to reduce misuse. This research is referenced in this submission for further consideration. We also note findings from the most recent *National Drug Strategy Household Survey* that challenge the perception of an increasing alcohol problem in Australia. The figures quoted in the Issues Paper on the total cost of alcohol misuse to the Australian community have also been contested by peer review.

On balance, WFA argues that there is no clear consensus in the relevant research that a minimum price would reduce harm. More analysis is required on this key issue before the proposal can be considered further and progressed.

The Issues Paper acknowledges the potential for a minimum price to cause market distortions, but does not provide detail or a clear definition on what these might be. It also references the uncertainty over how increased margins would be distributed between retailers and producers. There may be a number of other unintended consequences caused by the introduction of a minimum price.

Again, WFA argues that more work is required. A robust consideration of the public interest test demands that the full economic and industry impact of the proposal be taken into account. Until these dimensions of the proposal are explored and known, it should not be progressed.

WFA looks forward to continuing to work with the ANPHA on the consideration of this matter and other policy initiatives aimed at reducing alcohol misuse and harm. We would welcome the opportunity to meet with the ANPHA to discuss the issues raised in the attached submission in further detail.

Paul Evans  
Chief Executive, Winemakers' Federation of Australia

## INTRODUCTION

This submission was prepared by the Winemakers' Federation of Australia (WFA) on behalf of the Australian wine industry.

Established in 1990, WFA is the peak body representing Australia's wineries on national and international issues. It is funded through voluntary membership and offers specific representation for small, medium and large producers. The current WFA membership produces more than 90% of Australian wine.

Throughout this paper, reference to the Australian wine industry is defined to include all aspects of the supply chain and production of wine. Therefore wine grape production is encompassed in the analysis.

## BACKGROUND

The majority of people choose to drink alcohol in moderation (that is, consistently in line with NHMRC guidelines) based on their evaluation of the risks and benefits (social and health) and the recommendations of health authorities. It is also apparent that rates of alcohol misuse in Australia are stable or in decline. The latest (2010) *National Drug Strategy Household Survey*<sup>1</sup>, indicates the following trends:

- There was a statistically significant decline in risky drinking from the 2007 survey.
- Daily consumers of alcohol have decreased to 7.2%, the lowest figure since the survey started in 1991.
- Patterns of frequent risky drinking on a single occasion remained stable between 2007 and 2010.
- There was an increase in abstainers, especially amongst people under the age of 18.
- The average age of initiation was largely unchanged – 17 years of age compared to 17.3 years in 1995.
- Fewer women are consuming alcohol during pregnancy.
- There was a statistically significant decrease in the number of people who drove under the influence or verbally abused someone; and a decline in people undertaking hazardous activities.

It is important to consider the proposal for a minimum price with these trends in mind. The initiative would impact a high proportion of responsible consumers and introduce a significant market distortion. To pass the public interest test, the proposal needs to clearly demonstrate that the social and economic cost it potentially introduces are outweighed by the benefits in an environment where rates of "at risk" consumption and harm are either stable or in decline.

The ANPHA Issues Paper also quotes the figure of \$15.3 billion proposed by Collins and Lapsley for the total opportunity cost of alcohol misuse to the Australian community.<sup>2</sup> This figure has been repeatedly challenged by researchers and economists and ANPHA should note that the Australian

---

<sup>1</sup> AIHW 2011. *2010 National Drug Strategy Household Survey report*. Drug statistics series no. 25. Cat. no. PHE 145. Canberra: AIHW

<sup>2</sup> Collins and Lapsley, *The costs of tobacco, alcohol and illicit drug abuse to Australian society in 2004/2005*, 2008

Government Department of Health has recently determined that this estimate should not be used in the *National Alcohol Data Knowledgebase*.<sup>3456</sup>

“Advice received from the Departmental working group members set up to inform the project, is that it can be difficult to identify and cost many of the health and social issues affected by or generated by alcohol abuse, and there remains controversy around these estimates. For this reason it is not appropriate to include it in the Knowledgebase at this time”.

## DISCUSSION

### The link between price and consumption behaviour

The ANPHA Issues Paper introduces the proposal for a minimum price per unit of alcohol with the aim of reducing rates of alcohol related harm. It is based on two assumptions;

1. cheap alcohol equates to increased per capita consumption, and
2. increased consumption rates directly equate to increased levels of misuse and harm.

These assumptions are actively debated among researchers and certain data sets suggest that price is not the major driver of consumption.

As the ANPHA Issues Paper notes, ABS data shows that alcohol has become more affordable over the past 20 years, yet per capita consumption has been relatively unchanged and actually decreased in the most recent year. Similarly, though cask wine is one of the cheapest forms of alcohol per standard drink, sales of cask wine have been in decline for a number of years.<sup>7</sup>

A study released in 2012 on youth drinking in Australian and New Zealand also suggests significant price increases would not deter young people from engaging in binge-drinking behaviour.

“Australian and New Zealand students were happy to pay higher prices for the same number of drinks, and would simply buy more if the strength of the alcohol was reduced. In fact, even when the cost was increased by up to 25 per cent, there was still no significant change in buying behaviour”<sup>8</sup>.

This view is also supported by Associate Professor Anthony Shakeshaft, Deputy Director of the National Drug and Alcohol Research Centre at the University of NSW.

“But we have also shown that when price goes up, our inclination is to drink on fewer days during the week to preserve our financial ability to binge drink on the weekend. So price alone is unlikely to reduce binge drinking significantly”<sup>9</sup>.

<sup>3</sup> *The Cost of Cost Studies*, Eric Crampton, Matt Burgess, Brad Taylor, 2011

<sup>4</sup> *Collins and Lapsley Review: Social Costs*, Access Economics, Nov 2008

<sup>5</sup> *Prevention No Cure: A Critique of the Report of Australia's National Preventative Health Taskforce*, Mark Harrison and Alex Robson, ANU Agenda, Volume 18, No. 2, 2011

<sup>6</sup> Access Economics, Collins and Lapsley report review: social costs, 28 November 2008

<sup>7</sup> Cask Sales of Australian Wine 2003-04 to 2010-11, Australian Bureau of Statistics; Nielsen Wine Sales data for July, August, Sept (1<sup>st</sup> Quarter), 2006-07, 2007-08, 2008-09

<sup>8</sup> *Increasing cost of alcohol won't stop youth drinking*, AUT University, Associate Professor Andrew Parsons, March 2012

<sup>9</sup> *We all need to act on drinking problem*, Sydney Morning Herald, 17 July 2012

Other evidence suggests that long-term heavy drinkers also have a relatively inelastic demand for alcohol and would not readily change their consumption behaviours in response to the introduction of a minimum price. The table below from international research indicates the elasticities of moderate and heavy drinkers to price increases.<sup>10</sup>

Products	Moderate drinkers	Heavy drinkers
Beer	-1.128	0.0282
Wine	-1.515	0.0816
Spirits	-0.926	0.00649

Assuming these elasticities hold in the Australian context, to be effective, a minimum price would have to be sufficiently high to offset this heavy-drinker inelasticity, thus increasing the impact on ordinary moderate consumers who impose few or no spill-over costs. This conclusion is supported by U.S. analysis on older heavy drinkers which indicates that their consumption levels are not sensitive to price increases<sup>11</sup>.

It is also worth noting other international evidence which suggests countries that have adopted a high-alcohol-price strategy still have high rates of harmful drinking. As the International Centre for Alcohol Policy concludes:

“Perhaps the most compelling evidence against taxation as an effective policy measure against abuse comes from countries where taxation rates have traditionally been high. In many of these, such as the Nordic countries or those in Eastern Europe, alcohol consumption and harmful drinking patterns remain high.”<sup>12</sup>

Similarly, an Australian study based on data from the most recent 2010 *National Drug Strategy Household Survey* concluded that “taxation policies that increase the price of alcohol .... may be relatively inefficient at decreasing alcohol harms associated with high-intensity drinking”.<sup>13</sup>

This body of research suggests that the drivers of misuse are complex.<sup>14</sup> In the 2010 *AIHW Household Survey*, the top two reasons given for deciding to reduce alcohol consumption were health (50.9%) and lifestyle (39.4%). An increase in the price of a consumer’s usual drink was the third lowest reason given, with just 6.9%. As such, WFA notes the emphasis and activities of organisations such as *Drinkwise Australia* who focus on understanding and positively shaping the Australian drinking culture through long-term education campaigns and research into how social norms develop and change over time.

### Impact on all consumers regardless of consumption pattern

Setting a minimum price on alcohol to reduce harm will impact all consumers regardless of the intentions and behaviours of different consumer groups. The public interest test for the proposal should take this consequence into account. As acknowledged by the Henry Review of Australia’s taxation system:

<sup>10</sup> *Sin Taxes: Do Heterogeneous responses undercut their value*, Ayyagari P, Deb P, Fletcher J, Gallo WT, Sindelar JL (2009), National Bureau of Economic Research, MA, USA

<sup>11</sup> Delaney L, Harmon C, Wall P, (2007) *Behavioural Economics & Drinking Behaviour: preliminary results from an Irish College Study*, UCD Dublin

<sup>12</sup> International Center for Alcohol Policies (ICAP), ICAP Reports 18, May 2006

<sup>13</sup> *Can harms associated with high-intensity drinking be reduced by increasing the price of alcohol?* Joshua Byrnes, Anthony Shakeshaft, Dennis Petrie, Christopher Doran, *Drug and Alcohol Review*, 20 June 2012

<sup>14</sup> *Price and Alcohol Content Effects on Purchase Behaviour: An Analysis of NZ and Australian Youth Drinking*, N L Stephenson, 2011

“In theory, if alcohol tax could be targeted at an individual's abusive consumption, it would be imposed on a per-drink basis, at a rate set according to the risk of harm for individual consumers. Drinks more likely to give rise to high spillover costs would be taxed prohibitively, while consumption with no risk of spillover costs would not be taxed. In this ideal world, the price of every glass of alcohol would include the risk of harm associated with its consumption.

In the real world, however, such a tax or floor price is technologically and administratively infeasible, and would be unnecessarily intrusive. Accordingly, alcohol taxes are levied equally on all products of a particular class or type. The effect of this is to raise the cost of drinking, but with the cost averaged across all drinkers, not targeted only at those most likely to cause social harm.

This makes setting a floor price a blunt instrument for reducing the spillover costs of alcohol use. It means that consumers who enjoy alcohol responsibly face an unnecessarily high price (and pay too much tax). In other words, even though alcohol tax raises revenue for the government, it is not a costless way of addressing alcohol abuse”.<sup>15</sup>

The arguments in favour of minimum price also presuppose that the costs caused by harmful use of alcohol are shared equally by the different categories of alcohol product. It is, therefore, reasonable to set a common taxation mechanism across all forms of alcohol. However, there is evidence which suggests spillover costs (externalities) vary with beverage type.<sup>16,17</sup> The current taxation arrangements in Australia, where wine is taxed by value and beer and spirits by alcohol volume, partly reflect and acknowledge the differences in externalities of each alcohol category. A minimum price would challenge this long-standing principle and represent an important departure from established policy rationale.

### Impact on the wine industry

The Issues Paper acknowledges the potential for a minimum price to cause market distortions and references the uncertainty over the distribution of margins if a minimum price was introduced. These issues require careful analysis and consideration to ensure the full socio-economic impact of the proposal on the alcohol and wine industry can be factored into the public interest test.

A price floor on low cost alcohol set above the market equilibrium price also has the potential to create several unintended consequences. For example, products produced at the margins of where the minimum price “kicks in” will confront intense pressure as a significant volume of wine will be regulated to move up to the minimum retail price points created by the proposal. Consumers purchasing at these price points are likely to reduce their purchases or drop out of the market entirely. This would reduce sales in an already challenging market for winemakers.

As the Issues Paper suggests, the general consensus among minimum (floor) pricing advocates is that the price should be set at \$1.20 per standard drink. Analysis of Nielsen scan data suggests that at this level 71% of all wine sold in Australia would increase in price, with cask wine increasing nearly 300% (from \$12.55 to \$47.40 for a four-litre cask).<sup>18</sup>

<sup>15</sup> *Australia's Future Tax System, Final Report: Detailed Analysis*. Commonwealth of Australia. Chapter E, 2010

<sup>16</sup> Freebairn J. (2010) “Special Taxation of Wine and Other Alcoholic Beverages” Invited paper for the AARES/AAWE Workshop on the World's Wine Markets, Adelaide, South Australia, February 7-9

<sup>17</sup> Fogarty James J (2011) “Optimal alcohol taxes for Australia, The University of Western Australia

<sup>18</sup> Nielsen Scan Data as at 10 June 2012

For bottled wine, and based on average alcohol content, a floor price of \$1.20 a standard drink would equate to approximately:

	Alcohol by Volume	Standard Drinks	Minimum Bottle Price
Red wine	13.5%	8	\$9.60
White wine	11.5%	7	\$8.40

This would create significant “crowding” of the majority of the Australian wine category at one price point, making an unknown percentage of the industry unsustainable. It may also favour the production of white wine over red wine, which could alter the balance of production capacity and economies of scale for red wine production. With this in mind, it is likely the proposal would reduce employment and investment levels in the Australian wine industry and have a significant impact the CPI.

The introduction of a floor price may also limit the free movement of alcohol products between other countries and Australia. ANPHA should note and investigate further developments in the U.K. where the Health Minister has recently received legal advice to this effect on the Scottish Parliament’s minimum price proposal. It is understood that the EU and WTO are likely to receive a trade dispute notification.

In order to guarantee a minimum retail price, the taxing point would also likely be at the final point of retail sale. Retailers would need to have the capacity to calculate a “tax” impost that will vary with each product and SKU. The additional administrative burden and related compliance issues for retail alcohol businesses from the introduction of a minimum pricing mechanism also need further analysis.

## CONCLUSION

The ANPHA Issues Paper introduces the proposal for a minimum price on alcohol with the aim of reducing rates of alcohol related harm. At this stage, important areas of contention, such as the link between price and misuse, require further analysis and a consensus to emerge in the relevant research. A more complete assessment of the impact on responsible consumers and the efficiency of other policy alternatives is also needed before a robust public interest test can be applied.

For the proposal to be considered further, more data on the unintended socio-economic and industry impact is also required. The Australian wine industry is already facing a number of significant market challenges. The introduction of a minimum price as proposed in the Issues Paper would introduce a significant distortion with unknown consequences.

The Australia wine industry supports the Government’s commitment to address problems of alcohol abuse in Australia, and we welcome the opportunity to continue working with ANPHA on this proposal and broader policy development aimed at reducing alcohol misuse and harm.