

PRICING OF BEVERAGE ALCOHOL: SUMMARYⁱ

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The argument is often made that increasing the price of commercial beverage alcohol is an effective and cost-effective way to reduce overall consumption and, in particular, to reduce harmful drinking. Although both producers and, to a greater extent, retailers can affect the price to the consumer, it is mainly governments that determine price through taxes and price/marketing controls.ⁱⁱⁱ The industry believes that real and effective solutions to harmful drinking lie elsewhere than in manipulating price. General price increases can have little effect on consumption and do not address harmful drinking. Moreover, price increases can have unintended consequences that can give rise to other difficulties.

The effects of increased alcohol prices would not be felt equally by all drinkers:

- Moderate and non-problem drinkers are most likely to be price-sensitive, so price increases hit them worst. Although the evidence in the case of young people is more conflicting, heavier or problem drinkers appear to be least affected—simply because their desire or dependence will lead them to find cheaper ways of maintaining consumption.
- This raises issues of equity (in relation to non-problem drinkers) and efficiency (in relation to problem drinkers). Taxes and price controls are regressive upon responsible consumers while failing to achieve their goal of reducing harm.
- Overall, most of the evidence points to relative inelasticity of demand. Thus, an increase in alcohol price results in a less than proportionate reduction in demand.
- This can be explained, in part, by the complexity of the alcohol market. There are different kinds of products, product sub-sets, brands, and venues where alcohol can be bought. This means that consumers can develop strategies other than buying less to compensate for price increases—e.g., drinking more at home, drinking cheaper brands, and so on.

ⁱ This is a summary of the paper submitted to the WHO public hearing on ways of reducing harmful use of alcohol. The paper and this summary were submitted by Godfrey Robson on behalf of the companies sponsoring ICAP: Asahi Breweries, Bacardi-Martini, Beam Global Spirits & Wine, Brown-Forman Corporation, Diageo, Heineken, InBev, Molson Coors, Pernod Ricard, SABMiller, and Scottish & Newcastle. A referenced version of the paper submitted to WHO is available on the ICAP website at www.icap.org. That paper was expanded into a chapter, published in the 2009 book [Working Together to Reduce Harmful Drinking](#): Chapter 5, "Pricing Beverage Alcohol," by Godfrey Robson (see www.icap.org/Publications/WorkingTogether).

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ⁱⁱⁱ **For an overview of research on beverage alcohol taxation as a public health tool, see ICAP Issues Briefing, [Taxation of Beverage Alcohol](#) (available: <http://www.icap.org/PolicyTools/ICAPIssuesBriefings/>).**

- High prices on legitimate products sold through official channels may force consumers to seek cheaper alcohol through “informal” channels. This can bring extra health risks (in the case of poor-quality illicit drinks) but can also deprive governments of revenue.

The industry has two positive suggestions:

- There is some uncertainty in the literature concerning the sensitivity to price of young people (i.e., young people of legal drinking age). This topic would benefit from further consideration, and targeted local-area pricing initiatives might be part of a solution.
- Following from this and as noted earlier, the application of competition law in some jurisdictions may seriously impede what would otherwise be sensible schemes to reduce harmful drinking, particularly among young people. It may be helpful to review these laws or clarify their non-application to avoid potentially problematic volume discounting.