

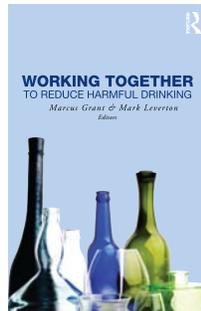
MEDIA BACKGROUNDER

If Alcohol Prices Increase, Will It Reduce Binge Drinking?

Reducing harmful drinking: Book addresses pricing in the context of harmful drinking behaviors

In *Working Together to Reduce Harmful Drinking*, edited by Marcus Grant and Mark Leverton, the book's authors endorse a balanced approach of stakeholders working together to reduce harmful drinking.

One of the tough topics addressed is that of how price increases impact drinking behaviors. Godfrey Robson, former Head of Economic and Industrial Affairs for Scotland and director of health policy in the Scottish government, explores the numerous factors and players involved in pricing beverage alcohol products. His answer is that pricing does have a role to play in devising any policy to tackle harmful drinking—but it cannot be the whole answer or even a substantial part of it. As the effect of price increases will fall most heavily on moderate and unproblematic drinkers, by contrast, problem drinkers would be least affected; price increases raise the issue of equity. In addition, there is yet insufficient evidence to demonstrate the efficiency of this approach in relation to problem drinkers.



Why don't alcohol producers raise their prices to see if it helps curtail binge drinking?

- Among other reasons, they can't. As author Robson explains, "Alcohol producers have surprisingly little influence on the final price the consumer pays for their product." (*Chapter 5 by Godfrey Robson, p. 92*)
- Pricing involves a myriad of factors, and alcohol producers have *far less* to do with how final prices are set than other players involved in the supply chain, including:
 - governments, who set tax rates and excise duties;
 - retailers, who are often in a strong position to extract tight terms from producers but have much leeway in their own pricing decisions;
 - hospitality sectors, who enjoy significant pricing freedom but, of course, also face their own distinctive cost structures.
- So, alcohol producers are in many cases effectively *price-takers*, and it is those nearer to the final consumer who are the price-makers. (*Chapter 5, pp. 92–96*)

If retailers raised alcohol prices and/or governments raised taxes on alcohol, would it help curtail binge drinking?

- To understand the impact that rising prices would have, it is necessary to understand how demand for alcohol is influenced by price. (*Chapter 5, pp. 96–106*)
 - Studies have shown that there is an inverse relationship between taxation and per capita consumption, and that demand for beverage alcohol is certainly price-sensitive—but *up to a point*.
 - There is little empirical evidence of a direct correlation between the level of taxation in a country and the level of drinking. For example, country-level experience shows that lowering taxation rates does not result in increased consumption.¹
- Studies that claim that there is strong evidence to suggest that price increases and taxation can have a significant effect on reducing demand for alcohol are not able to provide decisive or conclusive evidence for the change in behavior, neither are they able to indicate how long the effect lasts.
- Moreover, for chronic problem drinkers, studies have shown that abusive behavior would not be diminished to the same degree as for responsible consumers. Indeed, light and moderate drinkers are the most price-sensitive, whereas heavy drinkers have been found to be *least* responsive to changes in taxation/pricing.
 - Evidence shows that, when prices are raised, the heaviest drinkers are likely to shift their demand to less expensive products within the same beverage category.
 - As affordability declines, rather than drink less, "venue substitution" occurs, with consumers shifting from drinking in premises such as bars to drinking at home.
- Young people's drinking may be more sensitive to changes in alcohol taxes than that of adults; it has been suggested that this effect is most pronounced where young people purchase their own beverage alcohol. (*Chapter 5, pp. 100–101*)
 - However, many young people obtain their alcohol from so-called "social sources"; when parents and other adults are the primary source of beverage alcohol, price is not a significant factor in reducing consumption among young people.
 - Moreover, many young people, who may be of legal drinking age, have the capacity for relatively high discretionary expenditure (if, for example, they don't yet have liabilities for houses and families).

1 For a research overview and references to studies mentioned here, see ICAP Issues Briefing: Taxation of Beverage Alcohol, available at <http://www.icap.org/PolicyTools/ICAPIssuesBriefings>.

- In addition, as indicated above, there is evidence that price sensitivity often results in shifts in drinking venues—versus a reduction in drinking. For example, researchers have documented the phenomenon of “pre-drinking,” or “pre-loading,” where young people drink at home before going out.
- Problematic drinking patterns *do not* correlate with taxation rates across countries.
- For instance, in the table below, despite the fact that taxation rates are high in Finland and Iceland, rates of heavy episodic drinking are high as well. And in Slovakia, Italy, and Spain, which have some of Europe’s lowest excise taxes, rates of heavy episodic drinking are comparatively low.

Table: Rates of Heavy Episodic Drinking in Select European Countries

Country	Heavy episodic drinking among adult population (%)	
	Men	Women
Finland	49.1	14.1
Iceland	42.7	20.0
Germany	42.1	12.7
Slovakia	13.9	2.8
Italy	12.8	11.5
Spain	8.5	1.6

See: *ICAP Issues Briefing: Taxation of Beverage Alcohol*

Don’t alcohol producers’ profits ultimately increase if prices on their products are set lower so that people might buy more?

- No. In fact, conspicuously low prices
 - reduce profitability;
 - diminish brand value;
 - if associated with excessive or irresponsible drinking, can result in calls for high, even punitive, taxes and restrictions—all of which would serve to diminish producers’ profitability.

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Author quoted in this briefing: Godfrey Robson is Chairman of Scotland’s largest independent company of management consultants, a Director of LloydsTSB Bank Scotland, and a Trustee of a major Scottish charity providing health advice and services to young people. He was Head of Economic and Industrial Affairs for Scotland and subsequently Director of Health Policy in the Scottish Government. The first Scottish Executive Plan for Action on Alcohol Problems was drawn up under his direction.

More about the book: WORKING TOGETHER TO REDUCE HARMFUL DRINKING is intended to contribute to the World Health Organization’s (WHO) global strategy to reduce the harmful use of alcohol. It explores areas where alcohol producers’ technical competence can and does make a positive contribution to reducing harmful drinking and where industry input has been welcomed by WHO. The book describes each of these areas: producing beer, wine, and spirits; addressing availability of noncommercial beverages; pricing, marketing, and selling beverage alcohol; encouraging responsible choices; and working with others. The final chapter sets out views of how alcohol producers can contribute to reducing harmful drinking in countries where they are present. The messages recurring throughout the book are that reasonable regulation provides the context for good alcohol policy, excessive regulation often leads to unintended negative consequences, leading producers have a proud record of making positive contributions to implementing effective alcohol policies—but there are opportunities to do much more. For additional information about the book and its supporting materials, please see www.icap.org/Publications/WorkingTogether