Alcohol etc. (Scotland) Bill
Centre for Economics and Business Research Ltd (cebr)

Summary
The centre for economics and business research (cebr) is one of the United Kingdom’s leading independent economics consultancies. cebr was commissioned by SAB Miller plc in December 2008 to undertake a wide ranging economic assessment of the impact of alcohol pricing policies, in particular minimum alcohol pricing.

We submit three documents in support of our submission:

- Minimum Alcohol Pricing: A targeted measure?, June 2009
- Minimum Alcohol Pricing: A targeted measure?, Special Report for Scotland, January 2010
- Review of Regulatory Impact Assessment for the Alcohol etc. (Scotland) Bill, January 2010

In considering the merits of the Alcohol Etc. (Scotland) Bill, cebr believes that the Health and Sport Committee should be aware of the following:

- Minimum alcohol pricing is likely to be very limited in its effectiveness in curbing excessive alcohol consumption. Whilst heavier drinkers tend to consume cheaper and stronger alcohol than the average, most academic evidence shows that heavier drinkers are least responsive to changes in the price of alcohol products
- The University of Sheffield modelling appears to be inconsistent with this, showing that heavier drinkers are more responsive to price changes than moderate drinkers. This means that the benefits of minimum pricing in terms of reduced consumption amongst ‘hazardous’ and ‘harmful’ drinkers may be overstated by the Sheffield research
- The claim that ‘moderate’ drinkers are unaffected by minimum pricing is misleading. It is based upon drinkers that only consume around six units per week, and also fails to take account of the fact that not only would moderate drinkers pay more, but they would also consume less – which is also a cost to these drinkers who already consume within recommended guidelines
- Minimum pricing would disproportionately impact upon the poorest members of society, and have a significant impact on their household budgets
- The Regulatory Impact Assessment undertaken by the Scottish Government does not take into account important costs to consumers of minimum alcohol pricing. If these costs were properly accounted for then the case for minimum pricing would have to be reported as being negative.
cebr would be delighted to provide further oral evidence to the committee if required.

Minimum pricing unlikely to be effective as heavier drinkers are least responsive to price changes

1. Respected research into the relationship between changes in alcohol prices and changes in alcohol consumption shows that heavier drinkers are least responsive to price changes. Wagenaar et al (2008) found a price elasticity of demand of -0.28 for harmful drinkers, and -0.51 for the average drinker (which implies an elasticity of around -0.6 for moderate drinkers. Manning et al (1995) found that the 95th percentile of drinkers have an elasticity not significantly different from zero. The original University of Sheffield Phase B report for England1 found an elasticity of -0.21 for hazardous and harmful drinkers, and -0.47 for moderate drinkers, although this is not reflected in the University of Sheffield modelling.

2. The notion that heavier drinkers are less responsive to price changes than moderate drinkers is also explicitly supported in the Scottish Government’s regulatory impact assessment: ‘Generally, heavier drinkers can be expected to have relatively more inelastic elasticities of demand for alcohol than moderate drinkers, meaning that an overall change in the price of alcohol will cause heavier drinkers to change their consumption behaviour by less than moderate drinkers’.

3. In all model tests, including those that do not refer to minimum alcohol pricing, and including those that refer only to ‘general price increases’, the University of Sheffield modelling systematically shows a greater responsiveness to overall price changes amongst heavier drinkers, a direct contradiction of the evidence presented which shows that hazardous and harmful drinkers are least responsive to price changes overall.

4. Our best estimate is that the Sheffield modelling may over-estimate the responsiveness of hazardous and harmful drinkers to changes in price by a factor of two or more. In addition, it may significantly underestimate the responsiveness of moderate drinkers to price changes.

Minimum pricing would have a significant impact upon the average consumer, with relatively little benefit for the individual consumer

5. cebr believe that the way that the impacts on different types of drinkers has been presented is highly simplistic. The crude categorisation into ‘moderate’, ‘hazardous’ and ‘harmful’ drinkers presented in the University of Sheffield reports, which has been adopted by everyone involved in this debate (including ourselves), distorts the picture somewhat.

6. Moderate drinkers as classified in the University of Sheffield report only consume on average 6 units per week, therefore it is inevitable that the

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1 University of Sheffield: Modelling alcohol pricing and promotion effects on consumption and harm, 2008
analysis shows that the financial impact on such drinkers would be small.

7. However, our analysis shows that if minimum pricing at 40 pence per unit along with a ban on promotions was introduced in Scotland, in total consumers would end up paying over £154 million per year more for alcohol products – the equivalent of £67 per household per year for the average household.

8. In contrast, the benefits to individual consumers seem relatively small - the value of benefits of improved health and job prospects for individuals would be only £55 million per year.

9. In addition, both our estimates and the University of Sheffield’s estimates show that the benefits to wider society from the introduction of minimum pricing at this level are likely to only be between £15-20 million per year. Of these benefits, the savings to the NHS are projected to be largest, at between £9-12 million per year.

10. Therefore, both cebr’s analysis and the University of Sheffield’s analysis show that the impact of the introduction of such policies on individuals would be substantially negative.

Minimum pricing would disproportionately impact upon the poorest members of society

11. Neither the University of Sheffield modelling, nor the Scottish Government’s Regulatory Impact Assessment, explicitly considers the impact of the introduction of minimum alcohol pricing on lower income households.

12. cebr’s analysis shows that on average, lower income households consume only marginally less alcohol than the average household, but spend significantly less on alcohol products, meaning that such households spend substantially less per unit of alcohol than average. Therefore such households would be disproportionately impacted by minimum alcohol pricing.

13. Our analysis suggests:
   - The introduction of a 40 pence per unit minimum price is likely to lead to an increase in expenditure of £1.20 per week for the poorest ten per cent of households – around 1.1 per cent of their total income
   - The introduction of a 50 pence per unit minimum price is likely to lead to an increase in expenditure of £1.70 per week for the poorest ten per cent of households – around 1.7 per cent of their total income

14. However, this analysis assumes that these poorer households reduce their consumption significantly in response to price changes. If these households wished to maintain their consumption levels at their current levels then the effect on household budgets would be much more severe:
   - The introduction of a 40 pence per unit minimum price would lead to an increase in expenditure of around £4.70 per week for the poorest ten per cent of households - around 4.3 per cent of total income
• The introduction of a 50 pence per unit minimum price would lead to an increase in expenditure of around £7.00 per week for the poorest ten per cent of households - around 6.5 per cent of total income.

The economic case for minimum alcohol pricing is negative

15. Our analysis suggests that the introduction of the proposed alcohol pricing policies would have a negative economic impact of between -£100 million and -£700 million over ten years, depending upon which policy is chosen.
16. In addition, the Scottish Government’s Regulatory Impact Assessment shows that the impact on consumers is substantially negative, the impact on government is broadly neutral, and that the impact on firms is positive. This means that the economic case for minimum pricing rests upon additional revenue for firms, rather than the benefits to individuals and society from reduced levels of alcohol related harm.

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20 January 2010