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Alcohol (Minimum Pricing)(Scotland) Bill

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The Alcohol (Minimum Pricing)(Scotland) Bill is the Scottish Government's second attempt at legislating to introduce a price at which a unit of alcohol cannot be sold below. This briefing outlines the rationale behind minimum pricing, the results from the Health and Sport Committee's call for evidence and the key issues raised in relation to the policy.



The Scottish Parliament
Pàrlamaid na h-Alba

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EXECUTIVE SUMMARY

The Bill seeks to introduce a price at which a unit of alcohol cannot be sold below. This is with the aim of reducing alcohol consumption and related harms. The minimum price is not specified in the Bill.

The rationale behind the proposal is that price is linked to consumption, and that consumption is linked to alcohol related harms. The affordability of alcohol has increased over the years and so too have levels of alcohol consumption and alcohol related harms. There is research which has found that increasing the price of the cheaper brands prevents drinkers 'trading down' to maintain overall consumption levels. Modelling by the University of Sheffield has estimated the likely effect of minimum pricing on alcohol consumption and alcohol related harms in Scotland and found that at 45p per unit, population consumption is projected to reduce by 4.3% with consequent beneficial effects for alcohol related harms. Recent research from Canada, where they operate a version of minimum pricing, has found that a 10% increase in minimum prices led to a 3.4% reduction in alcohol consumption ([pp5-10](#)).

There have been few attempts to garner public opinion on minimum pricing but what attempts there have been have not found high levels of support. The Scottish Government consultation found 43% opposed and 49% in favour. Another study found high levels of scepticism among members of the public that the policy would be effective. Conversely, support among professional organisations is high. The most recent call for evidence from the Health and Sport Committee found that 85% of respondents were in favour and 15% were opposed (this was among those who made their opinion clear). Those in favour tend to come from the health, licensing and on-trade sectors, while those who are opposed tend to be from the alcohol manufacturing and off-trade sectors ([p11](#)).

The Committee call for evidence raised a number of issues in respect of the policy. These included how targeted the policy is. For example, concerns were expressed that it will unfairly penalise the majority and that the modelling underestimates the effect on moderate drinkers. The effect on heavy drinkers was also called in to question given that research shows that overall they tend to be less responsive to price. Finally, some felt it will be a regressive policy as it will disproportionately affect low income groups who tend to pay less for a unit of alcohol than higher income groups ([pp12-16](#)).

The lack of empirical evidence has also been raised as an issue and the link between price and harm called in to question. Some alcohol manufacturers have pointed out that alcohol related harms have been decreasing at a time when consumption has remained stable. Others have pointed out that the Sheffield research did not model the potential response of the industry to minimum pricing and that this is equally important to the consumer response in assessing the effect of the policy. Some responses suggested the inclusion of a 'sunset clause' in the Bill to allow the effectiveness of the policy to be evaluated before permanently being made law ([pp16-17](#)).

A number of unintended consequences of the policy have also been suggested. These include a detrimental impact on Scotland's alcohol industry, although the Sheffield modelling estimates a £104m windfall to the industry with a 45p minimum price. However, some commentators have

predicted a 14.5% reduction in whisky exports as a result of the policy being seen as an international trade barrier. In addition, the Government's own estimates predict that the demand for some products may disappear entirely depending on the minimum price. Some fear this will cost jobs and harm the economy. Others have also claimed the policy will be undermined by an increase in cross-border trade and the consumption of illicit alternatives. The extent of this is likely to depend on what level a minimum price is set at ([pp17-19](#)).

The legality of the policy also continues to be questioned, mostly in relation to its compatibility with EU law. The EU treaty generally prohibits restrictions on the free movement of goods although a public health defence to any restriction is allowed, with the onus on the member state to show that the measure is proportionate. Opponents to minimum pricing have highlighted case law and opinion which they claim shows the policy would be deemed illegal under EU law. However, the Scottish Government has continued to assert its belief that it would be the least intrusive measure to achieve its objectives. It has also been suggested that the proposal should be notified to the European Commission under the 'technical notifications procedure' in order to address the legal uncertainty. This procedure was designed to help avoid new technical barriers to trade but the Scottish Government has said it does not believe the measures are notifiable under the relevant directive ([pp20-22](#)).

The level at which the minimum price is set may also have a bearing on the legality of the policy, given the measure should be proportionate. The Scottish Government has not included the price per unit on the face of the Bill and is currently re-running the modelling with updated data. The largest proportion of respondents to the question of price in the Committee call for evidence expressed a preference for a 50p minimum price, followed by 45p per unit ([pp23](#)).

The financial memorandum to the Bill outlines a number of costs and benefits of the policy, although exact figures are not given as this will depend on what level a minimum price is set at. Questions have been raised about the potential impact of the policy on the 'Statement of Funding' - which sets out how spending is allocated to the devolved administrations. The previous alcohol Bill outlined that there would be a cost to the Scottish administration due to a reduction in duty and VAT receipts to the Exchequer. However, the current financial memorandum to the Bill states there are no costs that fall within the statement of funding. A recent letter from the Economic Secretary to the Treasury said an initial analysis of the Exchequer revenue costs as presented in the financial memorandum are 'too low' ([pp23-25](#)).

INTRODUCTION

The 2011 SNP manifesto pledged to reintroduce legislation to implement a minimum price at which alcohol could be sold in Scotland. This was following the rejection of a previous attempt during the passage of the Alcohol etc. (Scotland) Act 2010.

Section 1 of the Bill seeks to amend the Licensing (Scotland) Act 2005 to make it a mandatory condition of a licence that a unit of alcohol will not be sold under a certain price. The minimum price per unit is not specified in the Bill but instead would be stipulated by Ministerial order. The price of a drink would be calculated using the following formula:

Minimum Price per Unit x Strength of the Alcohol x Volume in Litres

Section 2 of the Bill seeks to remove section 1 of the Alcohol etc. (Scotland) Act 2010 which is the 'sunset clause' on the original minimum pricing provision that was contained in that Bill. This section of the Act was mistakenly voted through during stage 3 of the Bill after the minimum pricing section was removed. Therefore it is a sunset clause on a provision that does not exist.

There is no similar 'sunset clause' proposed in this bill.

THE RATIONALE BEHIND MINIMUM PRICING

Trends in alcohol consumption and related harm

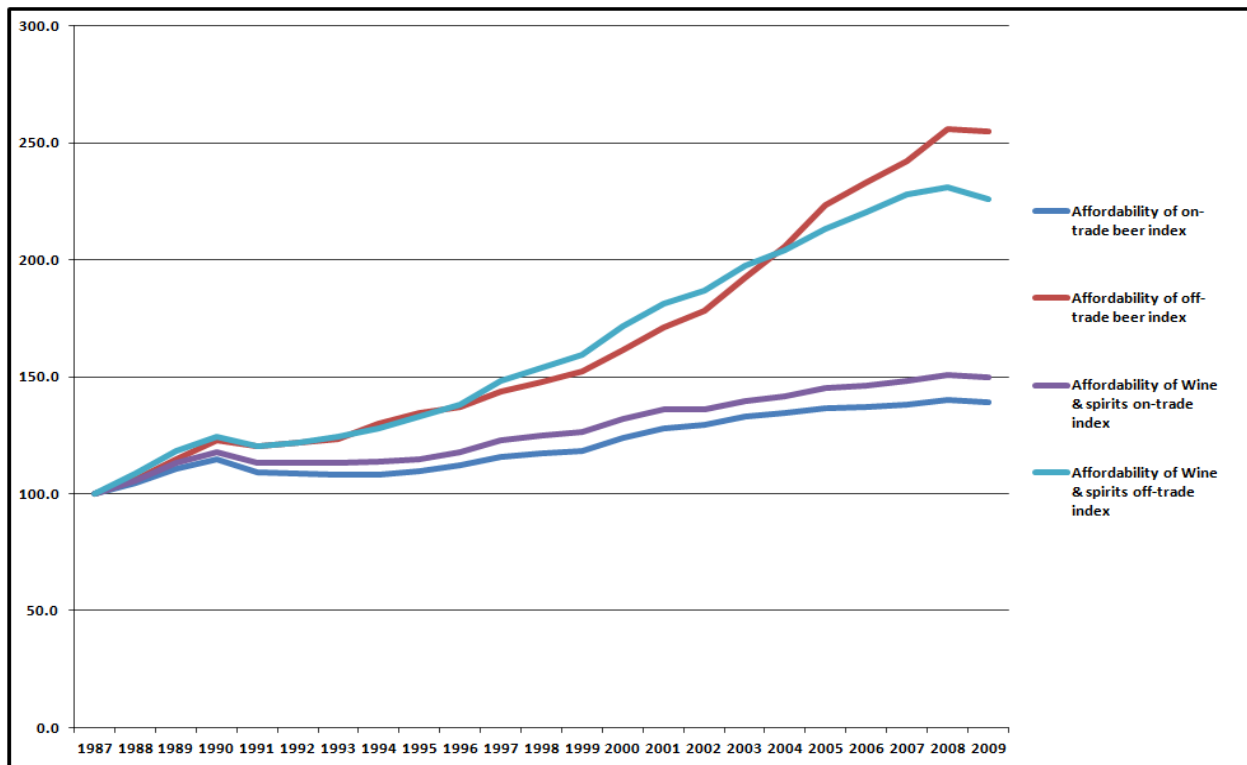
Scotland's problems with alcohol are well documented. For every adult in Scotland, 11.8L of pure alcohol are sold each year. This is the equivalent of 22.8 units per week and an increase of 11% since 1994, although consumption has been broadly stable since 2005. By comparison, consumption levels in England stand at 9.6L per adult per year. This means that Scottish consumption is now 23% higher than in England (NHS Health Scotland, 2011a).

At the same time, alcohol related harms have increased. For example, chronic liver disease and cirrhosis mortality rates have increased over the last 20 years when rates in most of Western Europe are reported to have fallen (NHS Health Scotland, 2011b).

A declining proportion of alcohol is sold in the on trade in Scotland, and off trade sales now account for the largest proportion of alcohol sales in Scotland (67%). The average price of a unit sold in the off trade is 45p, compared to an average of £1.34 in the on trade (NHS Health Scotland, 2011a).

The affordability of alcohol has increased since 1987, especially in the off trade. This is shown in figure 1. The affordability index represents the price of alcohol relative to income.

Figure 1: Affordability of alcohol index, Scotland, 1987-2009 (ISD Scotland, 2011)



The Evidence Base

There is no empirical evidence of the effect of the specific model proposed in the Bill because it is an approach that has not been used before. Evidence used in support of minimum pricing comes primarily from academic studies and econometric modelling¹. While price has long been recognised as an influence on alcohol consumption, the interest in minimum pricing was prompted by recent research and reports on the effect of alcohol pricing on consumption. This includes a Swedish study which found that price increases led to substitution behaviour by consumers. That is, if the price of one product increased, consumers would switch to cheaper drinks in order to maintain overall levels of consumption (Gruenwald et al, 2006). On the basis of this, the researchers concluded that levels of alcohol consumption may be affected more by increasing the price of the products at the lower end of the market.

Other sources of evidence used to back up the case for minimum pricing include:

- Research on the link between price and alcohol consumption
- Research on the link between alcohol consumption and harm
- Sheffield University Modelling
- Evidence from Canada

Each of these is discussed in more detail below.

The Link Between Price and Consumption

In 2010, the World Health Organisation acknowledged the link between price and consumption and concluded:

¹ Econometric modelling uses statistical methods and real life data to assess the effects of different economic theories

“Increasing the price of alcoholic beverages is one of the most effective interventions to reduce harmful use of alcohol” (WHO, 2010, pg 11)

Research has found that, like most other products, when the price of alcohol increases, demand decreases (Clements et al, 1997; Wagenaar et al, 2009; Gallet, 2007).

One of the key factors ascertained by the research is the sensitivity of drinkers to changes in price. ‘Price elasticity of demand’ is the economic concept used to indicate how consumer demand for a product changes when the price changes. It is the proportionate change in demand given a change in price, therefore if a 1% drop in price results in a 1% increase in demand, the elasticity value is said to be 1. Goods or services with an elasticity of less than 1 are termed ‘inelastic’ (i.e. less responsive to price changes) while goods with an elasticity value greater than 1 are termed ‘elastic’ (i.e. more responsive to price changes). Goods that are more essential to everyday living and have fewer substitutes are generally inelastic (e.g. staple foods) and have a low elasticity value, while goods or services that are not essential or have more substitutes tend to be elastic (e.g. restaurant meals).

Meta-analyses have found the following elasticity values for different drinks:

Table 1: Estimated elasticity values for different types of alcohol

	Literature
Alcohol	-0.497 (median: Gallet, 2007) -0.51 (Wagenaar et al, 2009)
Wine	-0.700 (Gallet, 2007) -0.68 (Clements et al, 1997) -0.69 (Wagenaar, 2009)
Spirits	-0.679 (Gallet, 2007) -0.98 (Clements et al, 1997) -0.8 (Wagenaar, 2009)
Beer	-0.36 (Gallet, 2007) -0.35 (Clements et al, 1997) -0.46 (Wagenaar, 2009)

This shows that the demand for alcohol is generally inelastic, although different types of drinkers will respond in different ways.

The Link Between Consumption and Harm

While there is a body of research on the relationship between price and alcohol consumption, at the same time there is research which has examined the link between alcohol consumption and alcohol related harm. Does a reduction in alcohol consumption at a population level lead to a reduction in alcohol related harm? Or does the harm only reduce when particular groups reduce their drinking to a certain level?

Anderson & Baumberg (2006) state that alcohol’s causal role in social and health harms is usually contributory, being one of only several factors responsible for the problem (pg 135). Research has shown that it is not only the volume of alcohol that is consumed that is important, but the pattern of drinking. That is, the pattern of drinking may result in a different effect despite the overall volume of alcohol consumed being the same (Rehm, 2003; Gmel & Rehm, 2003).

The problems arising from alcohol can be through the effects on:

- physical agility and coordination (e.g. falls)

- thinking and reasoning processes (e.g. reckless behaviour such as drink driving)
- moods and emotions (e.g. violent crime)
- the body (e.g. liver disease)

There is a body of research which has examined the direct link between population level consumption and harm. For example, the RAND report on 'The Affordability of alcoholic beverages in the European Union' (Rabinovich et al, 2009) reports a statistically significant association between alcohol consumption at the population level and 3 alcohol-related harms. Namely that a 1% increase in alcohol consumption at a population level is associated with an increase of:

- 0.86% in traffic accidents
- 0.61% in traffic injuries
- 0.37% in chronic liver disease

There is also research which has found that it is not only the heavy and harmful drinkers that cause alcohol-related problems but that light and moderate drinkers cause the largest proportion of such problems. This is because there are more light and moderate drinkers in the population and also because problems from alcohol use can occur at all consumption levels, therefore a small risk is spread across a large group. Finnish studies show that the majority of problems were found in the 90% of the population consuming moderately, compared to the 10% of the population drinking heavily (Poikolainen et al, 2007).

In relation to health harms specifically, research has linked alcohol consumption to more than 60 different medical conditions (WHO, 2011; Rehm et al 2003; Room et al 2005) and shown that most diseases have a 'dose-response' relationship with alcohol. That is, the risk of disease increases with the volume of alcohol consumed. As part of the same evidence base, an examination of the causes of disease and disability attributable to alcohol, shows that a greater proportion of the overall burden of harm is associated with the acute effects of alcohol use and drinking to intoxication, rather than the chronic effects of sustained heavy drinking over a long period of time (SHAAP, 2007). Acute effects of alcohol use include unintentional injuries such as road traffic accidents, burns, drowning and falls, and intentional injuries including suicide.

Sheffield University Modelling

One of the key pieces of evidence for minimum pricing comes from a modelling study conducted by the School for Health and Related Research (ScHARR) at the University of Sheffield. In 2008, the Department of Health in England commissioned ScHARR to undertake research examining the link between alcohol price, advertising and consumption. The project consisted of 2 parts; a systematic review of the literature; and a modelling exercise using domestic data (Booth et al, 2008; Meier et al, 2008). Subsequent versions of the modelling were carried out on behalf of the Scottish Government using Scottish data (Meier et al, 2009, Meier et al, 2010).

The results of the modelling form the basis of the case for minimum pricing and provide estimates of the effect of different prices on various alcohol related harms. While the current Bill does not stipulate what the minimum price should be, table 2 outlines the estimated effect of a 45p minimum price. This was the price proposed by the Scottish Government at stage 2 of the Alcohol etc. (Scotland) Bill:

Table 2: Estimated effect of a 45p minimum unit price

	Estimated Effect
MEAN ANNUAL CONSUMPTION	
Moderate drinkers	-2%
Hazardous Drinkers	-3.2%
Harmful Drinkers	-7.9%
All drinkers	-4.3%
SOCIAL BENEFITS	
Deaths in year 1	-50
Deaths in year 10	-225
Chronic illnesses in year 1	-200
Chronic Illnesses per year by year 10	-1,700
Acute illness in year 1	-800
Acute illness per year by year 10	-900
Hospital admissions in year 1	-1,200
Hospital admission per year by year 10	-4,200
Violent crime per year	-400
Criminal damage per year	-1,000
Other crime per year	-1,300
Days absence	-22,900
Unemployment	-1,200
FINANCIAL BENEFITS (YEAR 1)	
Healthcare costs in year 1	-£5.5m
Crime costs in year 1	-£2.2m
Absence costs in year 1	-£1.9m
Unemployment costs in year 1	-£26.5m
Health Quality Adjusted Life year Costs (QALY) in Year 1	-£14.3m
Crime QALY value in year 1	-£1.4m
Total value of harm reduction in year 1	-£51.9m
CUMULATIVE VALUE: HARM REDUCTION OVER 10 YEARS	
Healthcare costs	-£83m
Crime costs	-£18m
Absence costs	-£16m
Total direct costs	-£338m
Health QALY value	-£369m
Crime QALY value	-£13m
Total Harm Reduction incl QALYs	-£721m

Source: [Letter from the Cabinet Secretary for Health and Wellbeing to Christine Grahame MSP, Convener of the Health and Sport Committee](#) (2 September 2010)

The Scottish Government argues that minimum pricing would be a targeted measure as it would only affect those drinks which fall below the minimum at present. These drinks are more likely to be drunk by heavy and harmful drinkers and as shown above it is projected that the hazardous and harmful drinkers would reduce their consumption to a greater extent.

Canada

The closest thing to empirical evidence for minimum pricing comes from Canada and its experiences with 'Social Reference Pricing' (SRP). However, it should be noted that none of the Canadian Provinces or Territories operates a system like the one being proposed for Scotland i.e. where the minimum price is determined by the alcohol content and applies in both off-trade and on-trade sales.

The alcohol market in Canada is heavily controlled by the state, with federal and local government having considerable ability to regulate alcohol prices. Each of Canada's 13 provinces and territories has a liquor board or commission which oversees the control, distribution and sale of alcohol in its jurisdiction. Off-sales are also dominated by government controlled liquor stores. Most jurisdictions have maintained a total, or near-total, control of the sale of spirits whilst allowing limited privatisation of beer and wine sales. Licences issued to private businesses (bars, restaurants, nightclubs) are subject to a comprehensive body of laws and regulations that vary between jurisdictions.

In addition to all of this, provincial and territorial governments can also directly influence alcohol prices through SRP. SRP or floor prices exist in 8 of the 13 jurisdictions. It would appear that SRP differs markedly across the country. For example, some provinces link the price to the volume of the drink, others link it to the alcohol content for certain types of drink.

Until recently, there has been no research into the effect of SRP in Canada. However, Stockwell et al (In press) are in the process of publishing results of a study looking at the effect of SRP on alcohol consumption in British Columbia. This study found that a 10% increase in the average minimum price led to a reduction of 3.4% in total alcohol consumption. While this may provide an initial indication of how floor prices affect consumption, the extent to which is it generalisable to the Scottish model is likely to be debated. This is because the system in British Columbia has a number of characteristics not featured in the Scottish model and the research does not address specific questions frequently raised in the minimum pricing debate. For example:

- In British Columbia, the floor price differs between drinks and is not a standard price per unit
- When the floor price increases it may not happen for all drinks at the same time, therefore it may not entirely prevent 'trading down' or substitution behaviour (though this may mean the estimated effect of a minimum price on consumption is on the conservative side)
- The alcohol market in British Columbia is different to Scotland in that alcohol can only be sold in liquor stores and not alongside groceries. Therefore, questions over the response and impact on the industry may not be addressed by looking to Canada
- The revenue from SRP goes to the provincial government

The research also does not address some of the issues raised in the Scottish debate, such as the effect on low income groups, the effect on the alcohol industry and the effect on alcohol related harms.

Canadian Example: Ontario

- Sets a floor price for different categories of drink
- Price reviewed annually
- Linked to the Consumer Price Index to ensure it keeps pace with inflation and income
- Beer is the only drink where the price is explicitly linked to alcohol content

OPINION ON MINIMUM PRICING

There have been few attempts to garner public opinion on minimum pricing. The original Scottish Government consultation on minimum pricing found no consensus among individual respondents, with 43% opposed to the idea and 49% in favour (Scottish Government, 2009). Unfortunately, the Committee calls for evidence did not elicit enough of a response from members of the public to allow a meaningful analysis.

In September 2011, Alcohol Research UK published the results of a qualitative study examining public attitudes and perceptions of minimum pricing in England (Hagger et al, 2011). The study undertook focus groups with participants from varying demographic backgrounds and found:

“[I]t was clear that there was little evidence to suggest that people would support the introduction of a minimum price per unit of alcohol”

The authors analysed that objections had three main elements:

1. Participants were extremely sceptical of minimum pricing as an effective means to reduce UK alcohol consumption
2. Participants disliked the policy for a number of reasons – the most frequently cited reason was that the policy unfairly punished those who drink in moderation or ‘sensible’ drinkers
3. Concerns were also expressed that a minimum price per unit might create or exacerbate other existing social problems

However, minimum pricing has gained support from a variety of professional organisations and has been recommended by the National Institute for Health and Clinical Excellence (NICE) and the House of Commons Health Select Committee. In the previous Health and Sport Committee’s call for evidence on the Alcohol etc. (Scotland) Bill, the breakdown of opinion was 81% in favour and 19% against (Robson, 2010).

The recent call for evidence from the current Health and Sport Committee has found similar favour among respondents (n=95). Excluding those responses that did not make their opinion clear (n=12) 85% of the responses were supportive of minimum pricing (n=71) and 15% were opposed (n=12).

Those in favour and against have broadly remained unchanged. Those supportive of the policy tend to come from the health, licensing and on trade sectors and those against are usually representatives of the alcohol manufacturing and off-trade industry. Nevertheless, despite the general support expressed for minimum pricing, specific issues and concerns about the policy have been expressed on both sides of opinion.

KEY ISSUES

The following sections detail the main issues raised in the call for evidence. These are loosely grouped into 4 main areas

1. How targeted an intervention it would be
2. The evidence base
3. The unintended consequences, and
4. The legality of the policy

A TARGETED INTERVENTION?

Punishing the Many for the Sins of the Few?

The Scottish Government and proponents of minimum pricing believe that one of the main attractions of the policy is that it targets problematic drinkers because they are more likely to choose cheaper drinks. In the Committee call for evidence, this was the assertion that was most commonly challenged or questioned by respondents.

“Under the current proposals the majority of people in Scotland who drink responsibly will be unfairly penalised in the hope of reducing harm amongst a small few.” (Wm. Morrison Supermarkets, 2011)

According to the Sheffield modelling the effects of a 40p minimum price would be distributed among the different types of drinker in the following way:

Table 3: Cost and consumption of alcohol in Scotland and potential changes with a 40p minimum price, by type of drinker² (Source: Meier et al, 2010)

	Moderate (18yrs+)	Hazardous (11yrs+)	Harmful (11yrs+)	Scotland (11yrs+)
Number of Drinkers	2,535,025	848,118	240,012	3,789,079
Units per drinker per year (average current consumption)	316.2	1,429.8	3,746.0	779.9
Cost per drinker per year (average current spend)	£308	£1,098	£2,501	£620
Fall in units consumed per drinker per year at a 40p unit price	-2.93	-20.34	-180.31	-18.02
Cost if drinkers' consumption stays the same at a 40p unit price	£4.55	£30.11	£129.00	£18.11

This shows that, although in a minority, the hazardous and harmful drinkers are responsible for consuming the majority of the alcohol sold in Scotland. A drop in consumption at a population level would be made up of a small reduction spread across the bulk of moderate drinkers, and a larger reduction across the smaller group of hazardous and harmful drinkers. However, the drop in consumption in the hazardous and harmful drinkers would make up the largest proportion of the overall reduction (-60.5m units compared to -7.4m units in moderate drinkers).

However, some have questioned the estimated impact on moderate drinkers. This is on the basis that the moderate drinkers in the Sheffield study had a mean consumption of 5-6 units a week, while Government guidelines recommend 21 units a week for men and 14 units a week for women. It is therefore suggested that the impact on moderate drinkers, if going by Government guidelines, will be much greater than that estimated by Sheffield (e.g. Wm Morrison Supermarkets, 2011). This is substantiated to some extent by the Institute for Fiscal

² Please note that the modelling effects per drinker is not available for a 45p minimum price

Studies which found that more than 70% of off licence units were sold at less than 45p per unit (Institute for Fiscal Studies, 2011).

In addition, the response of the industry is unknown and this was not modelled by the Sheffield team. If retailers subsequently increase the price of more expensive alcohol, the cost to moderate consumers may be greater. In evidence to the previous Health and Sport Committee, the Liquor Control Board of Ontario's representative stated:

“... when a floor price is increased, the typical commercial activity that we see in the marketplace is not only an increase in the lowest-priced products but a corresponding lift in more expensive, premium products.” (Health and Sport Committee, Official Report, 23rd March 2010, [Col 3022](#))

Heavy Drinkers

Research shows that consumers of alcohol increase their drinking when prices are lowered, and decrease their consumption when prices rise (Babor et al, 2003). Heavy or harmful drinkers are no exception to this although the level of their response is disputed. Those opposed to minimum pricing question the responsiveness of heavier drinkers to price and therefore the potential effectiveness of the policy. This point was a strong feature of the debate the first time the proposal came before the Scottish Parliament. The Centre for Economics and Business Research conducted a review of the Sheffield study on behalf of the brewer SABMiller and found:

“...the University of Sheffield report provides scope for misinterpretation of the evidence, as it highlights ‘own price’ elasticities which show that for individual alcohol products, heavier drinkers are more responsive to price changes. However, own price elasticities include the impact of switching between product types. The executive summary fails to mention the substantial evidence that overall, heavier drinkers are least responsive to price changes.” (Centre for Economics and Business Research, 2009, pg 5)

The results of the Sheffield study appear on the face of it to be slightly conflicting in relation to this point. While the modelling exercise undertaken by Sheffield found hazardous and harmful drinkers were more sensitive to minimum pricing than moderate drinkers, the systematic review of the literature acknowledged evidence that heavier drinkers are less responsive to price increases.

The Sheffield report explains that this is because its modelling includes ‘cross-price elasticities’³ and that hazardous drinkers are more responsive to minimum pricing because they show the greatest level of substitution behaviour. The study does go on to provide an elasticity estimate for total alcohol purchasing which results in an elasticity value of -0.21 for hazardous and harmful drinkers and -0.47 for moderate drinkers. The authors note that this is in keeping with the findings of the literature that (for overall alcohol consumption) hazardous and harmful drinkers are less sensitive to price increases than other drinkers.

In the Scottish modelling the Sheffield team included a sensitivity analysis comparing the responsiveness of heavy drinkers to moderate drinkers which assumed that the hazardous and harmful drinkers are a third less responsive to price changes. The analysis showed that the harmful drinkers were still more responsive to minimum price policies, with the authors reasoning that this is because they are more likely to purchase the types of alcohol that is impacted by minimum pricing (Meier et al, 2010).

³ This is the measure of demand for one good when the price of another good changes.

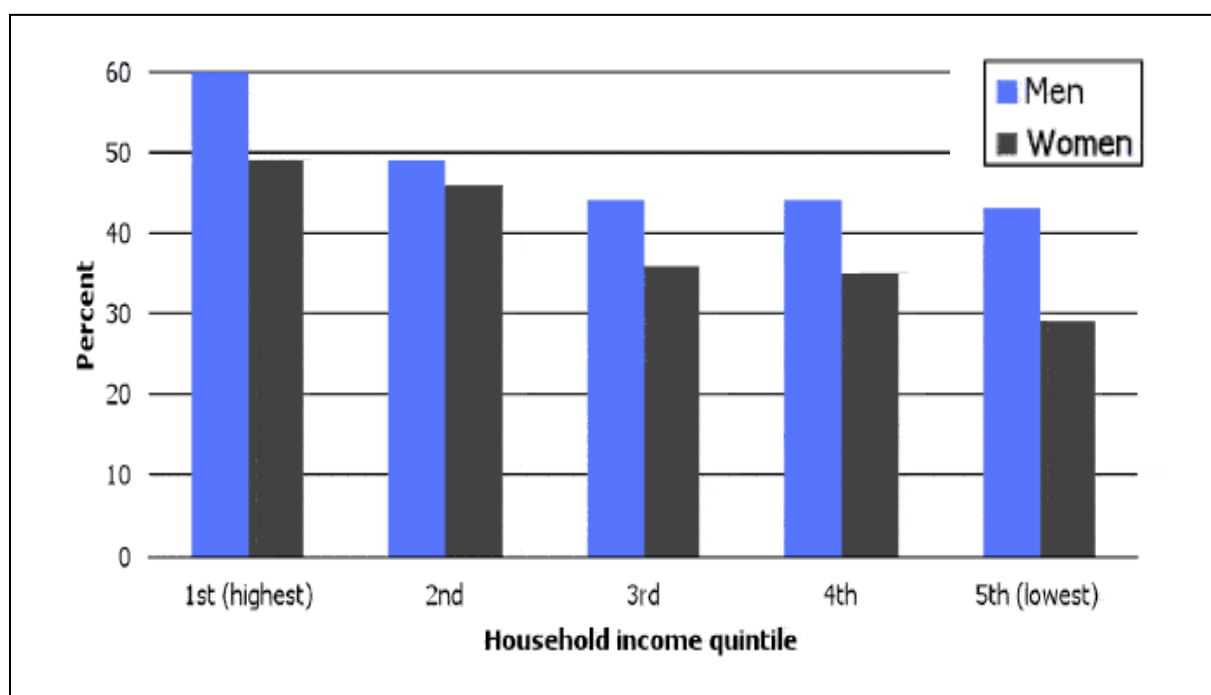
Therefore it may be that while heavy drinkers are generally less responsive to price, they may be more responsive to minimum pricing.

A Regressive Policy? The Effect on Low Income Groups

The Sheffield study did not model the effects of minimum pricing on different income groups due to inadequate elasticity data. Subsequently, the potential effect of minimum pricing on low income groups has become a key point in the debate. Many opponents to minimum pricing feel it is essentially a regressive policy as it would have a disproportionate impact on low income groups. In addition, a number of submissions to the Committee call for evidence perceived that one of the disadvantages of minimum pricing is that it may not affect those on higher incomes (e.g. NHS Lanarkshire, Youthlink Scotland⁴)

The distribution of alcohol consumption across the social groups was examined in the Scottish Health Survey 2010. This found that those in the highest income groups are more likely to exceed guideline limits:

Figure 2: Proportion of men and women drinking outwith the guidelines on weekly and daily alcohol consumption (age-standardised), by equivalised household income quintile, 2010



Source: Bromley et al, 2011

In response to concerns about low income groups during the previous alcohol bill, the Cabinet Secretary for Health and Wellbeing provided the Health and Sport Committee with an analysis of existing data (Cabinet Secretary for Health and Wellbeing, 2010a). This was also supplemented by additional evidence from Prof Ludbrook of Aberdeen University (Ludbrook, 2010).

The key findings from the Government analysis and the evidence from Prof Ludbrook were that:

- People in low income groups were more likely to drink nothing, very little or very heavily (i.e. their drinking pattern is fairly polarised)

⁴ Available on the Health and Sport Committee website: <http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/45563.aspx>

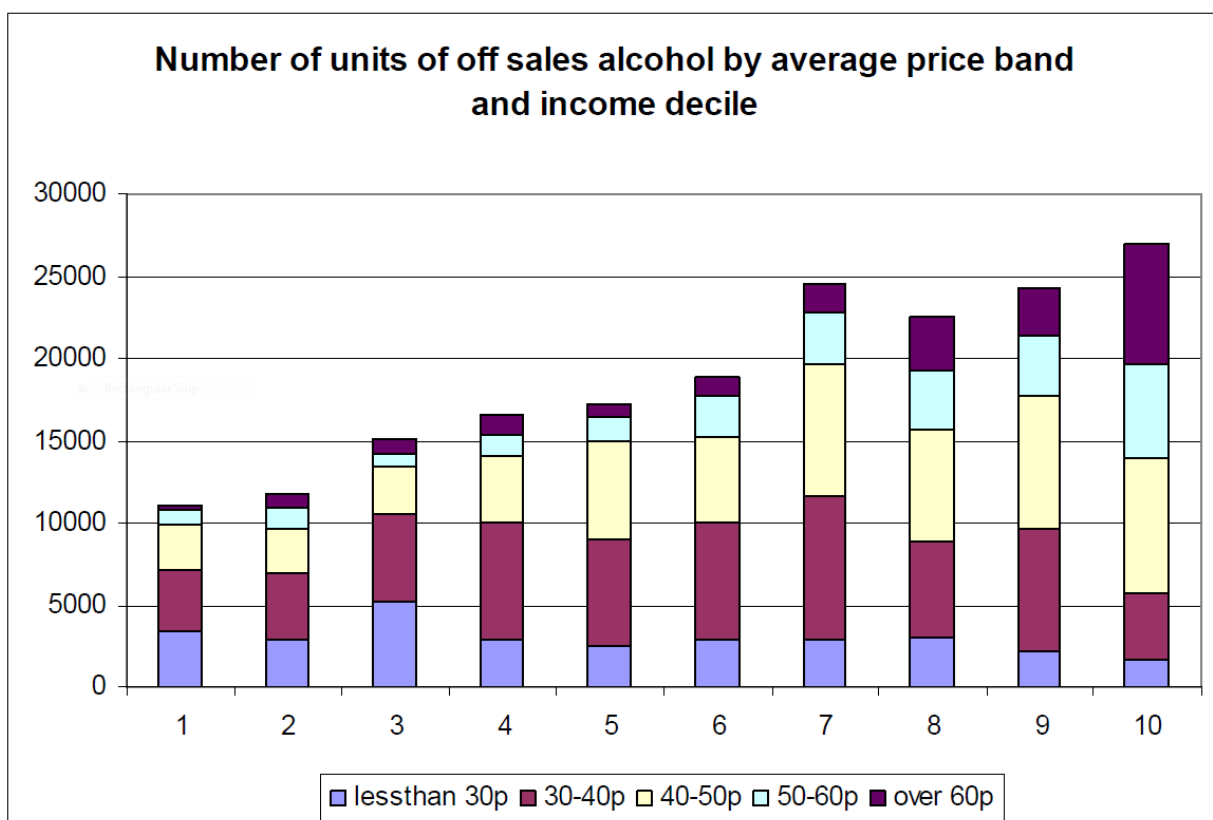
- 23% of the lowest income decile do not drink so will not be affected by minimum pricing
- 57% drink at very low levels (averaging 4.9 units per week) so will be slightly affected by minimum pricing
- Harmful drinkers in low income groups tend to drink more than harmful drinkers in higher income households and are more likely to be admitted to hospital or to die from an alcohol related cause
- Purchasing of low priced alcohol occurs across the income distribution

The Government concluded that when propensity to purchase alcohol is taken into account the lowest groups are among the least likely to buy cheap alcohol.

However, more recently the Institute for Fiscal Studies (2011) produced a report on minimum pricing which found that poorer households on average pay less for a unit of off-sales alcohol compared to richer households. For example, households with an income of less than £10,000 pay 39.8p per unit while those with a household income of more than £70,000 pay on average 49.3p. The authors also calculated that more than three quarters of units bought by households with an income of less than £20,000 are bought for less than 45p, compared to less than 60% of the units bought by households with an income of more than £60,000. As a result, they conclude that a 45p minimum price would have a larger impact on poorer households.

This corroborates arguments made by members of the previous Health and Sport Committee who pointed out that, while low income households may buy fewer units of alcohol, a larger proportion of what they do buy is priced below 40p. This is shown in the figure below:

Figure 3: Number of units of off sales alcohol by beverage price band and income decile (Ludbrook, 2010)



One other related concern raised in the call for evidence, is that if alcohol prices increase, problem drinkers with a low income may use spending from elsewhere in their budget to maintain their consumption levels. It is feared that this could be to the detriment of their families (e.g. Silverton and Overtoun Community Council, Scottish Women's Convention, Scottish Episcopal Church, Scottish Medical Advisory and Scientific Committee⁵).

No research could be found that specifically examined the effect of alcohol consumption on family spending in the UK. However, there is research from low income countries which has examined household spending in relation to tobacco use. This has found that tobacco expenditure 'crowds out' consumption of other essential goods (Wang et al, 2006; John, 2008; Efrogmson et al, 2001). It is not clear though to what extent these findings can be generalised to alcohol, minimum pricing and Scotland.

Those in favour of minimum pricing argue that ultimately, low income families would benefit from the policy, because they disproportionately experience many of the harms arising from alcohol misuse.

EVIDENCE BASE

The Link Between Price, Consumption and Harm

A number of the submissions to the Committee call for evidence highlight the lack of empirical evidence for minimum pricing and call in to question the link between price, consumption and harm. Some of the alcohol manufacturers and retailers claim that there is an assumption of a straightforward link between the price of alcohol and the level of harm but that there is little evidence to support this (e.g. National Association of Cider Makers, Wine and Spirit Trade Association, Co-Op, Diageo, Scottish Retail Consortium⁶).

In illustrating this point they highlight a number of international examples such as Scandinavia where prices are high but they still experience significant alcohol related harms. They also point out that price is the same across the UK, yet Scotland experiences higher levels of both consumption and harm.

In addition, they call in to question the projected effects of minimum pricing given that under the Sheffield modelling the number of hazardous and harmful drinkers does not reduce. It was also noted that recent data on alcohol related harm shows a decline at a time when consumption has been stable. For example, The Edrington Group and the Scotch Whisky Association point out that⁷:

- Alcohol-related deaths have declined 15% in the last 5 years and deaths in 2010 were the second lowest the last decade
- Deaths from alcoholic liver disease have also declined since 2006
- Alcohol-related hospital discharges have declined over the past two years (2007/08-2009/10) from 43,054 to 39,278, a reduction of 8.8%

The Sheffield modelling treats the link in two separate stages by looking at the link between price and consumption, then consumption and harm.

⁵ Available on the Health and Sport Committee website:
<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/45563.aspx>

⁶ Ibid

⁷ Ibid

The Industry Response

A number of the submissions speculated about the likely response of the alcohol industry to minimum pricing. This is something that was not modelled in the Sheffield report. Speculation covered a number of different scenarios with varying implications for minimum pricing. These included that:

- The industry could respond by lowering the price of other alcoholic products to compensate for the drop in consumption (e.g. Royal College of General Practitioners⁸)
- There could be market restructuring upwards to preserve current pricing structures thereby affecting all consumers (e.g. Consumer Focus Scotland⁹)
- The higher margin on low cost alcohol could give retailers an additional incentive to sell more rather than less of these products, for example, through advertising or changing the mix of products on the shelves (e.g. Office of Fair Trading¹⁰)

The recent report from the Institute for Fiscal Studies (IFS) also raises the matter of the industry response to price changes, stating that while it is much less studied than the consumer response, it is equally important. In addition to the suggestions outlined above, the IFS also suggests that other non-alcoholic products may become cheaper, or that there may be an increase in 'non-price' competition such as advertising.

If retailers were to lower the price of other goods, then it raises questions as to how it would impact on the effectiveness of minimum pricing. If other goods become cheaper, will this increase disposable income, make alcohol more affordable and thereby negate any effects of minimum pricing? This logic would follow on from the thinking in the RAND study that the increased affordability of alcohol has fuelled the increased consumption of alcohol (Rabinovich et al, 2009). Overall, the RAND analysis indicates that across the EU, 84% of the increase in alcohol affordability was driven by increases in income, and only 16% was driven by changes in alcohol prices (Rabinovich 2009, p. 26).

Sunset Clause and Evaluation

Submissions on both sides of opinion called for the inclusion of a 'sunset clause' on the Bill and the need for a robust evaluation of the measure. The Scottish Government has already committed to fund an evaluation of the effect of minimum pricing on heavy drinkers and NHS Health Scotland are responsible for evaluating Scotland's alcohol strategy. However (at the time of writing) no wider evaluation of minimum pricing has been confirmed.

UNINTENDED CONSEQUENCES

Impact on the alcohol industry

There has been much speculation as to the effect of minimum pricing on the alcohol industry. The Sheffield report does not model the effect on the industry and opinion on the potential effects differ.

⁸ Available on the Health and Sport Committee website:
<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/45563.aspx>

⁹ Ibid

¹⁰ Ibid

The alcohol manufacturing industry in Scotland is dominated by Whisky. International exports of spirits from Scotland were valued at £3.1bn in 2009 (Office for National Statistics, 2010) adding £2.1bn of Gross Value Added. Most of this is accounted for by Whisky although Scotland also produces a significant amount of white spirits.

The Scotch Whisky Association (SWA) asserts that the whisky industry directly employs 10,000 employees and supports nearly 35,000 jobs in the wider Scottish economy (Scotch Whisky Association, 2010). More recent figures from the SWA have shown a record increase in whisky exports. In the first 9 months of 2011 the value of whisky exports reached £3bn which is an increase of 23% on the same 9 months of 2010. The top two export destinations are the USA and France (Scotch Whisky Association, 2011).

The Scottish Government has suggested that the alcohol industry will benefit from the policy because a drop in consumption will be offset by an increase in price (Scottish Parliament, 2011a). The increased revenue to the industry with a 45p minimum price would be £67m for the off-trade and £37m for the on-trade sector (total = £104m). Higher unit prices would result in higher revenue, as shown below:

Table 4: Effect on revenue for alcohol industry of different minimum prices (excluding VAT and duty)

Minimum price and a discount ban	Off-trade sector per annum (£m)	On-trade sector per annum (£m)	Total per annum (£m)
25p	+£5m	+£3m	+£8m
30p	+£11m	+£8m	+£19m
35p	+£24m	+£15m	+£39m
40p	+£43m	+£25m	+£68m
45p	+£67m	+£37m	+£104m
50p	+£91m	+£49m	+£140m
55p	+£112m	+£63m	+£175m
60p	+£130m	+£77m	+£207m
65p	+£143m	+£92m	+£235m
70p	+£148m	+£109m	+£257m

However, the benefits of the policy are contended by some who point out that the windfall would only go to retailers. In addition, manufacturers of drinks that are likely to be affected by minimum pricing (e.g. white ciders, own brand spirits) are likely to see a significant fall in sales. The Business and Regulatory Impact Assessment models the likely effect on consumption of specific drinks at different minimum prices and shows that, at 45p, sales of cheaper ciders and supermarket beer would face significant reductions in overall sales (Scottish Government, 2011a, pg87). At higher minimum prices, demand for some drinks would disappear entirely. It is claimed this would cost the economy and jobs:

“[V]alue brands and supermarket own label products favoured by those on lower incomes would see immediate price rises. Companies specialising in this sector, which represent 26% of Scotch Whisky sales in Scotland, fear a significant loss of business, leading to job losses and closures. At a 50p a unit price, an average priced bottle of Scotch would increase by 18.6%.” (The Edrington Group, 2011)

In addition, the SWA and the Edrington group claim that minimum pricing would be a Scottish initiated trade barrier which would both impede attempts to open up new markets and create barriers in existing markets. The SWA says whisky is sold in 200 countries and it faces barriers to trade in 143 of them¹¹. The SWA and the Edrington group believe minimum pricing would be

¹¹ Personal communication with the Scotch Whisky Association.

an illegal trade barrier which would set a precedent and give other countries the opportunity to “introduce spurious ‘public health’ justifications” for keeping whisky out of export markets.

The SWA claims it would affect 14.5% of whisky exports and lose Scottish jobs. However, Alcohol Focus Scotland disputes the SWA’s claims and states that the debate on minimum pricing has not had an effect on exports given the record figures recently published by the SWA¹².

One of the perceived beneficial effects of the policy on the industry is that it will level the playing field between the on trade and off trade.

Additional Revenue

Many of the submissions did not want the additional revenue from minimum pricing to go to the retailers and felt it was more desirable for the money to be redirected to dealing with alcohol related harm. The Alcohol etc. (Scotland) Act 2010 introduced the power for local authorities to implement a ‘Social Responsibility Levy’ which could be a way for some of the additional revenue to be recouped. However, a recent PQ has made it clear that the Government will not take forward the levy until ‘the economic circumstances are right’ ([S4W-03484](#)). However, the Government did recently announce its intention to introduce a public health supplement on large retailers of alcohol and tobacco.

Cross Border and Illicit Trade

One of the commonly perceived disadvantages of the policy among the Committee submissions was that it may fuel cross-border and illicit trade and therefore undermine its effectiveness. According to Karlsson & Osterberg (2009) there are several factors which determine the magnitude of cross-border trade in alcoholic beverages:

- the level of price differences
- the existence of import quotas
- the severity of border control
- number of annual border crossings
- the traffic infrastructure
- the population living near the border
- motives for crossing the border

Of this list, the authors state that price difference is the main motive for cross-border trade. The larger the difference, the higher the volume of cross border trade.

Stockwell et al (2006) also highlight international experiences where price rises have resulted in the increased production and consumption of illicit alcohol, as well as the consumption of alcohol not intended for human consumption. This possibility was raised by respondents in both Committee calls for evidence.

Another point made frequently by respondents was that the policy could be undermined in the same way that retailers have allegedly been circumventing the discount ban. Scottish shoppers can order discounted alcohol via online retailers and so long as it is dispatched from England, it will comply with the legislation.

¹² Submissions available on the Health and Sport Committee website: <http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/45563.aspx>

In the financial memorandum to the Bill, the Scottish Government acknowledges that there may be a loss of trade to cross border shopping and internet trade. However, it goes on to contend the likely extent of this due to the time and costs associated with travelling to England. It also contends that the type of alcohol that will be affected by minimum pricing is unlikely to be bought over the internet (Scottish Parliament, 2011b).

In relation to illegal sales, the Scottish Government highlights estimates from the HMRC that 2% of alcohol consumption is due to illicit trade in spirits and beer (the methodology does not allow an estimate of other alcohol) and that it understands the Scottish Drugs Enforcement Agency does not consider sales of illicit alcohol to be a problem.

The potential for an increase in illicit trade will most likely depend on what level the minimum price is set.

LEGALITY

One of the key issues that has dogged the policy since the outset is the extent to which it is compatible with EU law. While a conclusion on the legality of the proposal can only be decided by the Courts, commentators have pointed to existing opinion and case law as an indication of its likely compatibility with EU law.

EU Law

The relevant EU provisions in this matter are articles 34 and 36 of the Treaty on the Functioning of the European Union¹³.

Article 34 prohibits member states from engaging in strategies that have the effect of restricting the free flow of goods between member states. It may be construed that article 34 has been breached when a state treats its own goods in a more favourable way than those coming from outside. However, even when rules apply to both domestic and imported goods, if the rule impedes the free flow of goods across borders it may still be construed that the article has been breached. Article 36 allows a public health defence to breaches of article 34 but the burden is on the member state to show the measure is proportionate and not 'arbitrary discrimination'.

Opinion and Case Law

In response to a [PQ from Catherine Stihler MEP](#) in July 2009, the European Commission set out an opinion on whether minimum pricing violated EC law. The Commission responded that secondary legislation such as directive 92/83/EEC¹⁴ does not prohibit Member States from setting minimum prices for alcohol but that any measure and its effects still need to be compatible with Treaty rules on the free movement of goods. The Commission did not state a definitive view on the legality of minimum pricing but instead outlined that the legality would be dependant on the specifics of the scheme, its resulting effects and how proportionate a measure it is.

Some responses have highlighted a legal opinion sought by the Swiss Alcohol Board in 2009 which took the view that minimum pricing would be illegal. While it considered its legality under the treaty between the Swiss Government and the EU, it also concluded that justifications for reasons of protection of public health fail because of the proportionality of the measure, due to reasons relevant under article 34 (Epiney et al, 2009).

¹³ Previously articles 28-30 of the Treaty establishing the European Community but amended by the Treaty of Lisbon which came into force on 1 December 2009.

¹⁴ Directive on harmonization of the structures of excise duties on alcohol and alcoholic beverages

More recently, the UK Public Health Minister, Anne Milton, [gave evidence](#) to the House of Commons Science and Technology Select Committee in which she said:

“Our advice is that [minimum unit pricing] in itself is probably illegal as it contravenes European free trade legislation. I know that Scotland is thinking about introducing it. They will be challenged and that will clarify the law. Our advice is that that is illegal.”

In addition to the above opinions, there is also European Court of Justice (ECJ) case law which is often referenced in the minimum pricing debate.

Openbaar Ministerie v Van Tiggele

In *Openbaar Ministerie v Van Tiggele* ([Case 82/77](#)), the ECJ considered Dutch legislation that set out minimum selling prices for certain spirits. The question was whether the minimum selling prices amounted to a quantitative restriction. In this case, the ECJ found that imports may be impeded where prices or profit margins are fixed at a level that places imported products at a disadvantage, but that prices fixed by reference to profit margins may be more compatible with Art 28 (now Art 34).

The SWA contends that this indicates the EU’s opposition to minimum prices for alcohol, while others argue that it cannot be generalised because the minimum price was not seeking to protect public health (SHAAP, 2011).

Commission of the European Communities versus the French Republic, Republic of Austria and Ireland

The ECJ issued a ruling on 4 March 2010 in which it judged that French, Austrian and Irish legislation on minimum prices for tobacco products were contrary to Directive 95/59 ([Case 197/08](#), [Case 198/08](#) and [Case 221/08](#)).

The court rejected public health justifications on the grounds that the Commission was not alleging an infringement of article 34 and instead the ruling was related to an infringement of article 9(1) of Directive 95/59. This directive relates specifically to taxes which affect the consumption of manufactured tobacco and article 9(1) states that manufacturers shall be free to determine the maximum retail selling price for each of its products.

The ECJ did give some consideration to the public health defence and found:

“...in so far as the protection of public health can be ensured by imposing high selling prices for manufactured tobacco, that objective can be fully achieved by appropriate taxation policies. Public health considerations played a role in the drafting and amendment of the Community directives on harmonisation in the field of excise duty on tobacco products, but the principle of the free determination of prices was not revoked. By contrast, a system of minimum prices is capable of producing damaging effects for public health because, by protecting producers’ margins, that system provides them with extra revenue which can be invested to increase sales of manufactured tobacco.” ([Case 197/08](#), para 25)

The Scottish Government has consistently asserted its opinion that the Bill does not breach EU law and during the Alcohol etc. (Scotland) Bill the Cabinet Secretary provided supplementary written evidence with a detailed explanation of why the Scottish Government considered the policy would be compatible (Cabinet Secretary for Health and Wellbeing, 2010b). The reasons given are summarised in figure 4.

However, the SWA has suggested that to address the legal uncertainty, the Scottish Government should notify the Bill to the European Commission under the Technical Standards and Regulations Directive (98/34/AC). In [guidance](#) published by UK Department for Business, Innovation & Skills (2009) it is noted that:

“The Directive is intended to help avoid the creation of new technical barriers to trade within the Community. It requires Member States to notify technical regulations to the Commission in draft, and then generally to observe a standstill period of at least three months before adopting the regulation, in order to allow other Member States and the Commission an opportunity to raise concerns about potential barriers to trade.” (p 1).

The guidance also discusses how “draft technical regulation” under the Directive has a broad meaning. It can include primary legislation and secondary legislation, as well as forms of departmental guidance.

The Scottish Government considers the measures in the Bill are not notifiable under Directive 98/34/EC, and stated so in the response to a recent PQ ([S4W-04519](#)).

Figure 4: Summary of Scottish Government Opinion on the Compatibility of Minimum Pricing with EU Law (Cabinet Secretary for Health and Wellbeing, 2010b)

Selling Arrangement

- It is a measure concerned with the arrangement under which alcohol is sold and does not concern the characteristics of alcohol itself
- It applies to all traders in the same manner as a matter of law
- It is non-discriminatory in practice in that it does not discriminate in favour of products produced domestically
- It does not amount to a restriction on the use of alcohol
- It would not influence consumers to such an extent that it prevents producers or distributors of alcohol from accessing Scottish markets

Necessary for Health and Other Social Policy Benefits

- It is a measure that is necessary to achieve health and other social benefits and which is proportionate to those objectives
- It may not need to be justified under article 36 as it could constitute a ‘mandatory requirement’ and therefore fall within article 34¹⁵

Least Intrusive Way

- There is no less intrusive way to achieve the objectives
- Increases in taxation will not necessarily result in an increase in alcohol prices
- Taxation would not target lower cost products
- A scheme of taxation levied on a unit of alcohol would not comply with the current system of excise duty required by EU law (Directives 93/83/EEC and 92/84/EEC)

¹⁵ In its Cassis de Dijon judgment, the Court of Justice laid down the concept of mandatory requirements as a non-exhaustive list of protected interests in the framework of Article 34. Mandatory requirements include protection of the environment and consumer protection. (European Union, 2010)

On the point of legality, the previous Health and Sport Committee concluded that:

“...minimum pricing of alcohol as proposed could be legal in principle, i.e. it could be capable of complying with EU law. However, without knowing the level at which the minimum price is to be set, it is not possible for the Committee to come to a view as to whether the policy is likely to meet the criteria required to come within the ambit of article 36 and thus render the policy legal.” (Health and Sport Committee, 2010, Para 171)

The point about judging how proportionate the measure would be by naming the price per unit was addressed by the Cabinet Secretary at stage 2 of the Alcohol etc. (Scotland) Bill when she lodged an amendment with a 45p minimum price.

The current bill does not include the minimum price and a number of the submissions to the current call for evidence called for it to be included on the face of the Bill. The call for evidence also specifically asked respondents what the unit price should be. Of those who answered this question (n=30), the largest proportion identified 50p as their preference (n=10). Second to this was 45p (n=8). Others respondents identified a range they considered acceptable with the lowest price identified being 40p and the highest 70p.

Prof Ludbrook has also pointed out in the past that middle and higher income groups tend to buy alcohol in the 30-40p and 40-50p price bands as opposed to below 30p. As a result she suggests that higher values for a minimum price (40p or 50p) will spread the effect more evenly across income groups (Prof Ludbrook, 2010).

The Cabinet Secretary has stated that the Government will consider the most appropriate price when the modelling is updated in January 2012. This is intended to ensure the most up to date evidence guides the judgement on what is proportionate (Subordinate Legislation Committee, 2011, Col 211).

FINANCIAL IMPLICATIONS

Alcohol misuse costs Scotland an estimated £3.56bn per annum (York Health Economics Consortium, 2007). This includes £267.8m on health costs, £727.1m on crime costs and £865.7m on lost productivity.

The financial memorandum summarises the estimated costs and benefits of the bill as follows:

Table 5: Summary of the financial implications of the Bill

	Costs	Benefits
Scottish Administration	SchARR report - £0.09m Initial business advice - £0.09m	
Local Authorities	Minimum following introduction (ongoing)	

	Costs	Benefits
Individuals	Increased spend on alcohol of between £9m and £191m	<p>Health Harms – reduction of up to £90m in year 1 (including QALYs) and up to £1965m over 10 years (including QALYs)</p> <p>Crime Harms – reduction of up to £16m in year 1 (including QALYs) and up to £138m over 10 years (including QALYs)</p> <p>Employment Harms – reduction of £2m to £85m in year 1 and £14m to £710m over 10 years</p>
Businesses	<p>Administrative costs to UK businesses of maintaining different pricing structures in Scotland to the rest of the UK – this has not been quantified by industry.</p> <p>Scottish Grocers Federation estimate –</p> <p>50p minimum price per unit – reduce sales by 10%</p> <p>70p minimum price per unit – reduce sales by 25%</p>	Increase in revenue of between £8m and £257m per annum
UK Government	Change in duty and VAT receipts of between +£1m to -£65m depending on the minimum price	Change in duty and VAT receipts of between +£1m to -£65m depending on the minimum price

Assumptions of different minimum price levels account for the wide variation in estimated costs and benefits outlined in the table above.

Statement of Funding and Estimated Exchequer Costs

One key change between this bill and the previous alcohol bill is its stance on the likely impact on the Statement of Funding (which sets out how spending is allocated by the UK Government to the devolved administrations of Scotland, Wales and Northern Ireland). There is a lack of clarity as to whether any changes to taxation receipts resulting from the introduction of minimum pricing for alcohol would result in a cost to the Scottish Administration. The FM for the Alcohol etc. (Scotland) Bill introduced in 2009 stated that:

“Under the terms of the Statement of Funding between Scottish Ministers and the UK Government, the reduction in VAT and duty falls as a cost to the Scottish Administration.” (Scottish Parliament, 2009, para 58)

However, in evidence to the Finance Committee on the 2009 Bill, the Bill team subsequently suggested that this would not be the case, citing the precedent set by the anti-smoking legislation, where HM Treasury had not recovered any sums in relation to reduced taxation and duty receipts, despite an estimated reduction in Exchequer receipts of between £7m and £76m (Finance Committee, 2010, Col 1871). The current FM states that “there are no costs to the UK Government which fall within the terms of the Statement of Funding” (Scottish Government, 2011, pg 19).

The Finance Committee sought clarification from HM Treasury on this issue at the time of the 2009 Bill but received no response. In considering its approach to the FM associated with the Alcohol (Minimum Pricing) (Scotland) Bill, the Finance Committee has again noted concerns in relation to this issue and wrote to HM Treasury for clarification. The Economic Secretary to the Treasury has responded saying:

“Initial analysis undertaken by HMRC suggests that the Exchequer revenue costs of introducing minimum pricing in Scotland, as presented in the Financial Memorandum, are too low” (Economic Secretary to the Treasury, 2011)

The FM identifies a potential net effect on Exchequer receipts of between +£1m and -£65m, depending on the minimum price adopted. This is based on an assumption that overall spending on alcohol will increase (so VAT receipts will rise) but the volume of alcohol sold will reduce (so duty receipts will fall). However, it has been suggested by groups such as the Scottish Grocer’s Federation and the Scotch Whisky Association that the value of sales might fall. If there was a fall in both the value and volume of sales, Exchequer receipts would fall further than has been suggested in the FM.

There is also the possibility that consumer spending elsewhere in the economy may reduce as consumers are projected to spend more on alcohol whether they reduce their alcohol consumption or not. Thus as far as impact on treasury receipts goes, a reduced spending elsewhere may offset the increase in VAT to a degree. However, reductions in unemployment and absence rates could result in reduced benefit expenditure which has not been taken into account as a benefit in the FM.

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