

A DISCUSSION OF MINIMUM UNIT ALCOHOL PRICING IN IRELAND

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“In January 2022, the Irish government introduced a Minimum Unit Pricing policy on the sale of alcohol. The intention of the policymakers is to combat alcohol related harm in the community. Brian Coady discusses the regressive nature of the policy and whether this may surprisingly improve the efficiency of the policy. Coady goes on to outline the stakeholders in the industry that may benefit from this policy and those that will be disadvantaged. The success of government policies is often determined by their efficiency in achieving their objective. Coady illustrates how minimum unit pricing is more effective than alternative policies in tackling harmful alcohol consumption.”

Introduction

In 2013, there were three alcohol related deaths a day in Ireland and over €1.5B spent on hospital discharges*, while excise duty receipts on alcohol only totalled €1.2B (Health Research Board, 2016; OECD, 2022). Tackling harmful alcohol consumption and its accompanying issues has been a key objective of Irish policymakers for some time, and the most recent initiative was taken in January of 2022 with the introduction of Minimum Unit Pricing (MUP). The policy is relatively simple, the introduction of a price floor on all retail sales of alcohol in Ireland, but its ramifications are wider reaching and more complex, with impacts on retailers, consumers, manufacturers, and the exchequer; as well as spatial considerations to be noted.

Equity / Efficiency Trade-off

Overview

Central to the discussion of the Minimum Unity Pricing Policy is the concept of the

*This excludes emergency cases, GP visits and treatment services.

equity/efficiency trade off when choosing policies. An effective policy should be efficient: it achieves its stated and intended goals using the least amount of resources; it should also be equitable: it maximises the welfare of the individuals affected by the policy (O'Hagan and O'Toole, 2017). Minimum unit pricing is not a sophisticated policy and requires very little resources to implement, and research shows it is at least somewhat effective at achieving its goals (Smith et al, 2020). However, where the policy requires more discussion is on the equity side of the equation. The pricing policy utilised is regressive in nature, disproportionately impacting individuals with low income, while also creating uncompetitive markets and reducing exchequer revenue (Smith et al, 2020). Furthermore, responsible drinkers are subject to the same price measures as harmful drinkers, despite not being the target demographic of the policy; in 2013 a consultation ran for the UK government did not find enough evidence to show that Minimum unit pricing did not unfairly penalise responsible drinkers (Jones and Sumnall, 2022).

Regressive Policy

Although the stated aim of the policy is to reduce harmful alcohol consumption, the policy is not targeted and will impact all consumers of alcohol, regardless of consumption levels. Furthermore, as this is a one price fits all policy, working in similar vein to how a consumption tax such as VAT does, we find that consumers with lower incomes pay a higher proportional rate relative to their income than their high-income counterparts. This implies that MUP is a regressive policy, and disproportionately impacts individuals with lower incomes.

Before discussing the regressive nature of MUP, we first note that there exists much heterogeneity regarding alcohol consumption patterns and risks across society. Lower educated men and women are less likely to report consequences of alcohol consumption than their higher educated counterparts, increasing their risk of harm from alcohol use (Bloomfield et al, 2012). This may be related to the fact those on lower incomes are less protected from deprivation and the impact of a stressful life event (Bloomfield et al, 2012). This could have the effect of exacerbating the effects of harmful alcohol consumption and its accompanying risks. However, in developed countries, professional and highly educated women are at an increased risk of heavy drinking and alcohol issues (Marmot, 1997). Further studies in India also found illiterate and less educated individuals consumed the most spirits (Kumar, 2017). The diversity of consumption habits across society and their accompanying health risk factors should be accounted for when formulating a policy such as MUP.

As we are most concerned with the equity of MUP across individual income, we will look at consumption patterns of different socioeconomic groups (SEGs). Lower incomes are associated with higher rates of alcohol abuse, but also higher rates of absti-

nence and are thus less likely to engage in any alcohol consumption, but those who are engaging in alcohol consumption are more likely to engage in harmful consumption. Interestingly, both previous studies found that those with higher incomes drink more often but consume less on each occasion, so on average are not participating in harmful consumption at the same rate as individuals with lower incomes. This would imply that lower income SEGs contain a higher proportion of harmful drinkers than higher income groups. So, the argument that this policy is regressive and disproportionately affects individuals with lower income may be an argument in favour of the policy, not against it. Price effects will affect those in lower SEGs more, but those in lower SEGs are more likely to engage in harmful alcohol consumption, and the stated goal of this policy is to reduce harmful alcohol consumption. People in higher SEGs will be proportionally less impacted by the price floor but are also less likely to engage in the harmful alcohol consumption this policy seeks to reduce in the first place. Unfortunately, there are few studies that investigate the differing responses to price increases across consumption patterns (Jones and Sumnall, 2022). In summary, given the nature of consumption patterns across SEGs, the regressive nature of MUP may be advantageous to achieving its stated policy goals.

Market Competition

With the introduction of minimum unit pricing, there has been a limit placed on the extent to which retailers can participate in price competition (Smith et al, 2020). The introduction of a price floor has allowed retailers to fix prices for all alcoholic goods which fall below the price floor, subsequently selling above the equilibrium price for many alcoholic products and generating supernormal profits. This of course is a foreign concept to “perfect” markets and is a practice reserved for monopolies and collusive oligopolies, a practice which is tightly regulated to protect consumers (European Commission B, 2022). Central to this discussion is consumer elasticity of demand for alcohol. Studies in the UK market, which is very similar to Ireland in terms of consumption habits and social norms surrounding alcohol, have shown the elasticity of spirits to be as low as -0.082 , and wine as low as -0.384^* (Meng et al., 2014). Income elasticities of demand for alcohol have also been calculated as inelastic (Nelson, 2013). These low elasticities indicate that price increases will only result in marginal decreases in consumption. The inelastic nature of alcohol ensures that retailers stand to make windfall profits at the expense of consumers.

This policy will not just adversely affect consumers, however, but also manufacturers in the alcohol industry. Demand for alcohol will decrease, as is the goal of the

* Off License Sales. On License sales showed higher elasticities indicating more price sensitivity (Meng et al., 2014). However, on license sales are typically unaffected by Minimum Unit Pricing and not the target of the policy. For this discussion, we are only concerned with off license sales.

policy, subsequently reducing quantities sold by manufacturers. Moreover, the incidence of minimum unit price falls on the consumer, not the retailer, so manufacturers will still compete on price for *all* alcoholic products when supplying retailers and will not be able to take advantage of any price floors, whereas retailers can when supplying consumers. The implications of this are that manufacturers will see a reduction in sales while not generating any excessive profits like the retailers are, leading to a potential for an overall welfare loss for the manufacturers as a result of this policy.

In summary, MUP benefits retailers at the expense of both the manufacturers and the consumers. Manufacturers of alcohol will record lower sales and still need to compete on price when selling to retailers, while consumers will be exploited for price on the lowest quality alcoholic products.

Loss for Border Retailers

The supernormal profits that retailers are set to make are dependent upon the assumption that there are no cheaper alternatives, which is not the case across all of Ireland (ROI). Alcohol in Northern Ireland was already considerably cheaper due to the lower cost of living there, and the minimum unit pricing policy will only enlarge these price differences (NISRA, 2021). The Irish government had intended to wait until the policy could be put in place in tandem with Northern Irish policymakers, but political deadlock in Northern Ireland led to ROI pursuing the policy independently (RTE, 2022). Now, retailers in border counties are likely to suffer because of the lack of synchronisation of pricing policy between the two jurisdictions. Consumers in the border counties will seek the cheaper alternatives in Northern Ireland, rather than paying premium prices in ROI for the same product. There will be little impact on the welfare of Irish consumers in these regions, while Irish retailers in the region will likely lose more business to their cheaper counterparts in the North. This represents a gross inefficiency for the policy; its stated goal of reducing harmful alcohol consumption is unlikely to be met in the border counties. Regions farther from the border are less likely to be impacted in the same manner as consumers there account for both temporal and transport costs in their consumption decisions i.e., Northern Ireland is too far away. Despite the existence of cheaper alcohol in a neighbouring jurisdiction representing a severe flaw in this policy, this cheaper option existed previously to the implementation of MUP and is a circumstance which is out of the control of Irish policymakers. MUP may not reduce harmful drinking in the region, but it will certainly not increase harm nor decrease overall welfare*.

*Referring to individual welfare, as the policy of MUP seeks to address. The welfare of the retailers in the region will be negatively impacted.

Policy Alternatives

The main issues MUP presents are hindrance to retail competition and a loss of revenue for the exchequer. Not forgetting the goal of the policy, which is to reduce *harmful* alcohol consumption, we analyse how MUP compares with two other potential policy options: An increase in excise duty and a unit surcharge on off-license sales.

An increase in excise duty would increase the cost of all sales of alcohol, including on licensed premises. This simplistic and easy to implement policy would also target harmful drinking in the same manner as minimum unit pricing, through a price effect. Competition would remain unhindered, and exchequer revenue would very likely increase. However, every consumer, including those who do not engage in harmful drinking, would be faced with higher prices. This is quite an inequitable outcome considering most drinkers are not engaging in harmful drinking (Health Research Board, 2016). What is of particular interest about this approach is its inequitable impact on on-licensed premises. The cross-price elasticity between on-licensed alcohol and off-licensed alcohol is positive in many cases, implying that the increased price in licensed premises could lead to higher off-license consumption, contrary to the goals of the policy (although off-license prices will also increase, so the results are potentially ambiguous) (Meng et al., 2014).

A surcharge per unit of alcohol on all off-license sales would result in the same decrease in consumption through a price effect as MUP does. However, consumer welfare is decreased as all off-license alcohol will increase in price. The impact of the surcharge could be either on the manufacturer or the retailer, while the incidence falls upon the consumer. In either case, competition in the market is retained. On-license consumption would increase due to the positive cross-price elasticity between on and off-license alcohol consumption (Meng et al., 2014). In line with the goal of reducing harmful alcohol consumption, revenue from the surcharge could be hypothecated towards alcohol-harm reduction initiatives etc.

Discussion

Developing a policy to discourage harmful alcohol consumption is a complex issue. The trade-offs between equity and efficiency can be significant, but it is the role of the policymaker to decide where on the scale between efficiency and equity they will place themselves. Minimum unit pricing has its criticisms and downfalls, but so too do the alternative policies of surcharges and hikes in excise duties. As discussed, the main drawbacks of minimum unit pricing are its anti-competitive market inefficiencies, the loss of revenue to the exchequer, and the unfair penalisation of responsible drinkers. The issue of unfair penalisation of responsible drinkers will be omnipresent across all

policies however, as it is unfortunately not feasible to discriminate between harmful and responsible drinkers. But the solution to the first two drawbacks could be as simple as a windfall gains tax placed upon retailers, reclaiming lost revenue for the exchequer. The availability of cheaper alcohol in Northern Ireland will be an uncontrollable factor for the time being, no matter what policy is chosen.

Finally, the question should be asked, are price measures the best policy for reducing harmful alcohol consumption? Ireland already boasts some of the highest alcohol prices in Europe, imposing the highest excise duties on alcohol of any EU state (European Commission A, 2022). This begs the discussion as to whether price controls are effective in the long run. Consumers may adjust their expectations and preferences for alcohol to prices in the long run, and demand side policies such as education and support systems could prove more effective in this time frame.

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