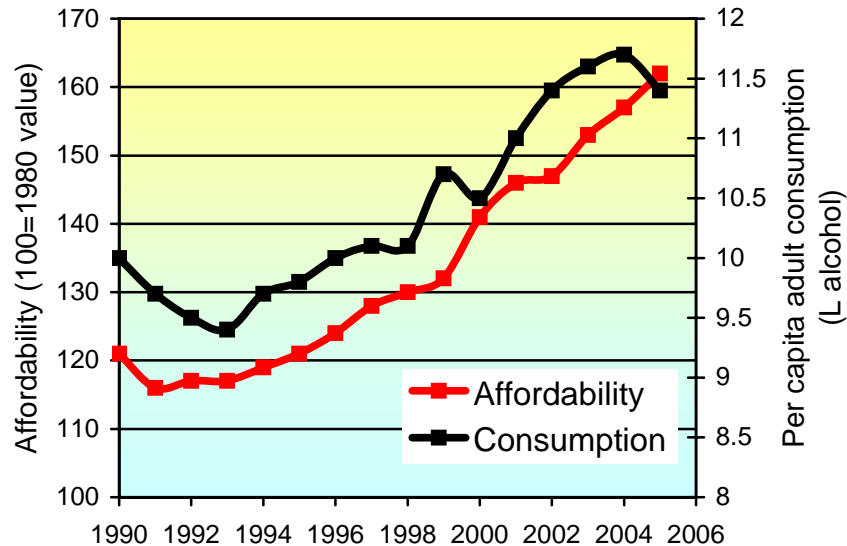


## Maintain relative price of alcohol

When it comes to alcohol's affordability, in general, the way drinkers respond to changes is similar to their responses to other consumer products. When other factors are held constant, the more affordable alcohol is, the more it is consumed; and the less affordable it is, the less it is consumed.



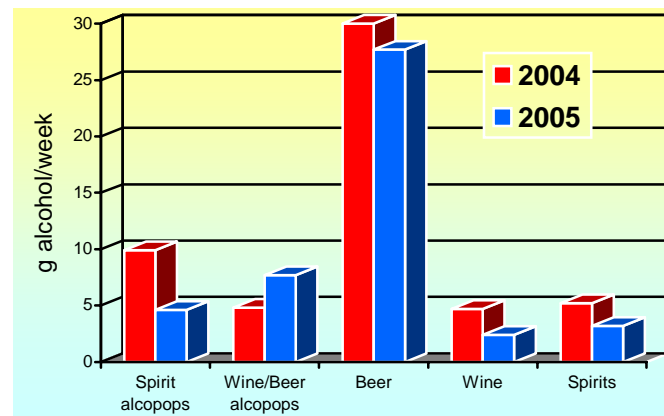
The affordability of alcohol (100=1980 value) and the adult per capita consumption (L alcohol, derived from tax receipts) in England<sup>1</sup>

The effect of price changes on alcohol consumption is described as the price elasticity of demand. Demand for alcohol is generally inelastic – that is, a change in its price results in a drop in consumption, but one that is relatively smaller than the increase in price. This means that while tax can be used as a strategy to reduce consumption and harm it will still serve the purpose of raising government revenue at the same time. In the EU, it has been estimated that a 10% price rise would give around €13bn of additional excise duty revenues, whilst at the same time saving over 9,000 deaths in the older 15 EU Member States in a given year<sup>2</sup>.

The price elasticity for different beverages and for different countries and over time is not uniform. Comparisons of beer, spirits and wine price elasticity have found it to be lower for the beverage generally preferred in a particular country, than for less preferred alcoholic beverage types. The way drinkers respond to and compensate for price changes is complex, because of the possibilities for substitution. Consumers tend to shift to more expensive beverages if relative prices decrease, either within the same beverage category or across beverage categories. If prices are raised, they both reduce overall consumption but also shift to cheaper beverages. Heavy drinkers tend to buy the cheaper products within their preferred beverage category. The impact of an increase in alcohol price is stronger in the longer term than it is in its immediate effects. From a public policy perspective, it is the long term effects, taking into account alcohol's dependence producing properties, that are more important.

**Young people** are particularly sensitive to price. Policies that increase alcohol prices have been shown to reduce the proportion of young people who are heavy drinkers, to reduce underage drinking, and to reduce per occasion binge drinking. Higher prices also delay intentions among younger teenagers to start drinking and slow progression towards drinking

larger amounts. Further, special taxes for spirit based sweet pre-mixed drinks lead to reductions in sales and consumption of the specific drinks.



12-17 year olds weekly alcohol consumption

Impact of specific tax in 2004 on spirits based alcopops on 12-17 year olds weekly consumption, Germany<sup>3</sup>

**Heavy drinkers** are also sensitive to price, with higher alcohol taxes or prices leading to reductions in deaths from liver cirrhosis, fatality rates from traffic crashes, and reduced rates of crime, including assault, violence related injury, homicide, family violence, and child abuse and other violence towards children.

Taxes based on the volume of pure alcohol could be regressive, compared to a tax that is a percentage of the price, with taxes weighing more heavily on poorer drinkers than on richer drinkers; however, the majority of people who drink small amounts of alcohol would gain from an increase in an alcohol tax, as current rates generally do not cover the direct fiscal costs of alcohol related harm; in general, it is heavy drinkers who would be worse off.

Alcohol tax increases can impact on illegal production, tax evasion and illegal trading, smuggling and cross border purchases. Where there are neighbouring countries with substantially lower taxes and open borders, this will need to be taken into account in governments' decisions about tax policies.

Alcohol taxes can be justified on the grounds of recouping the costs associated with alcohol related harm. Alcohol can have negative consequences and costs for the drinkers themselves and for third parties and communities (negative 'externalities'). A tax on alcohol that goes to a government to help meet the fiscal costs of alcohol related harm is a way of 'internalising' these costs to the sellers and drinkers in proportion to the alcohol consumed, instead of being met by all taxpayers. From one perspective, the rate at which alcohol taxes should be set is the rate at which costs of alcohol externalities to government and to the community is recovered. This is seldom the case at present.

<sup>1</sup> The Information Centre (2006). Statistics on alcohol: England, 2006. <http://www.ic.nhs.uk/pubs/alcoholeng2006>

<sup>2</sup> Anderson, P. & Baumberg, B. (2006). Alcohol in Europe: a public health perspective. [http://ec.europa.eu/health-eu/news\\_alcoholineurope\\_en.htm](http://ec.europa.eu/health-eu/news_alcoholineurope_en.htm)

<sup>3</sup> Entwicklung des Alkoholkonsums bei Jugendlichen [http://www.bmg.bund.de/nn\\_604240/SharedDocs/Download/DE/Themenschwerpunkte/Drogen-und-Sucht/pdf-Alkopops-Studie-pdf,templateId=raw,property=publicationFile.pdf/pdf-Alkopops-Studie-pdf.pdf](http://www.bmg.bund.de/nn_604240/SharedDocs/Download/DE/Themenschwerpunkte/Drogen-und-Sucht/pdf-Alkopops-Studie-pdf,templateId=raw,property=publicationFile.pdf/pdf-Alkopops-Studie-pdf.pdf)