FRAMEWORK FOR ACTION:
CHANGING SCOTLAND’S RELATIONSHIP WITH ALCOHOL

BUSINESS AND REGULATORY IMPACT ASSESSMENT FOR MINIMUM PRICE PER UNIT OF ALCOHOL AS CONTAINED IN ALCOHOL (MINIMUM PRICING) (SCOTLAND) BILL

SCOTTISH GOVERNMENT
2011
1. **TITLE OF PROPOSAL – MINIMUM PRICE PER UNIT OF ALCOHOL AS CONTAINED IN ALCOHOL (MINIMUM PRICING) (SCOTLAND) BILL**

1.1 The Alcohol (Minimum Pricing) (Scotland) Bill ("the Bill") introduces a power for setting a minimum price per unit of alcohol.

2. **PURPOSE AND INTENDED EFFECT**

Objectives

2.1 The Purpose of the Scottish Government is to focus Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. The evidence shows that building a healthy and sensible relationship with alcohol will be pivotal to realising our Purpose and four out of five of our Strategic Objectives. We must help and support people to make better choices about alcohol if we are to attain our ambitions for Scotland. There is strong evidence that increases in health harms are driven by increased consumption and that this in turn is driven by price which is why the cornerstone of our approach is to pursue the introduction of a minimum price per unit of alcohol.

2.2 The Government Economic Strategy sets out how we will work collaboratively with the private, public and third sectors in pursuit of our Purpose. A set of high level Purpose Targets have been identified to ensure that growth is shared by all of Scotland, focussing on:

- improving our productivity and competitiveness;
- increasing our labour market participation; and
- stimulating population growth.

2.3 Underpinning the Government's Purpose and Economic Strategy are five Strategic Objectives - to make Scotland Wealthier and Fairer, Safer and Stronger, Healthier, Smarter and Greener. To fully achieve these objectives we need to tackle alcohol misuse.

- **WEALTHIER & FAIRER** - Enable businesses and people to increase their wealth and more people to share fairly in that wealth.

  Developing a more mature and balanced relationship with alcohol will reduce the burden of alcohol misuse on business, public services and our most deprived communities, and thus contribute to a Wealthier and Fairer Scotland.

- **SAFER & STRONGER** - Help local communities to flourish, becoming stronger, safer places to live, offering improved opportunities and a better quality of life.

  Reducing consumption and alcohol misuse in Scotland will help to underpin the development of more resilient, cohesive and successful communities - by tackling alcohol misuse we will be able to reduce crime and anti-social behaviour, making Scotland Safer and Stronger.
• **HEALTHIER** - Help people to sustain and improve their health, especially in disadvantaged communities, ensuring better, local and faster access to health care.

Adopting a balanced approach to alcohol will contribute to increased physical and mental wellbeing amongst Scots especially in our most disadvantaged communities, making Scotland Healthier.

• **SMARTER** - Expand opportunities for people in Scotland to succeed from nurture through to life long learning, ensuring higher and more widely shared achievements.

Preventing young people misusing alcohol and enabling them to make positive choices and fulfil their potential while addressing the effects of alcohol misuse within families will make Scotland Smarter.

2.4 The Strategic Objectives themselves are supported by 15 national outcomes which describe in more detail what the Scottish Government wants to achieve over the next ten years. Policies to tackle alcohol misuse will make a positive contribution to delivering over half of our published national outcomes:

- we live longer and healthier lives;
- we have tackled the significant inequalities in Scottish life;
- we have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others;
- we live our lives safe from crime, disorder and danger;
- we realise our full economic potential with more and better employment opportunities for our people;
- our young people are more successful learners, confident individuals, effective contributors and responsible citizens;
- we have improved the life chances for children, young people and families at risk; and
- our children have the best start in life and are ready to succeed.

2.5 In addition, in recognition of the need to build a healthier relationship with alcohol in pursuit of our objectives, we also have a specific national indicator, related to excessive consumption, to reduce alcohol-related hospital admissions.

**Background**

2.6 The Scottish Government issued a consultation *Changing Scotland’s relationship with alcohol: a discussion paper on our strategic approach*¹ in June 2008 which set out the scale of the alcohol misuse problem in Scotland, the Scottish Government’s approach to tackling it, and a range of proposals aimed at reducing alcohol-related harm, drawing on the best available international evidence. Responses to this consultation are available on the Scottish Government’s website².

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¹ [http://www.scotland.gov.uk/Publications/2008/06/16084348/0](http://www.scotland.gov.uk/Publications/2008/06/16084348/0)
2.7 The Scottish Government published its own response *Changing Scotland’s Relationship with Alcohol: A Framework for Action* on 2 March 2009, and this identifies that sustained action is required in 4 areas:

- reduced alcohol consumption;
- supporting families and communities;
- positive public attitudes towards alcohol and individuals better placed to make positive choices about the role of alcohol in their lives;
- improved support and treatment.

2.8 A minimum price per unit of alcohol directly supports the first of these areas: reduced alcohol consumption, which in turn will have a potentially positive impact on the other 3 areas.

Evidence Base

2.9 Alcohol is not an ordinary commodity – it is a psychoactive and potentially toxic and addictive substance and is a contributory factor in around fifty different causes of death ranging from cancers and strokes to assaults and road deaths⁴. The harms are not limited to health and not experienced solely by the drinker - damage can and does occur to family and friends, communities, employers, and Scotland as a whole. Alcohol misuse acts as a brake on Scotland’s social and economic growth, costing an estimated £2.5 billion to £4.6 billion in 2007, with a midpoint estimate of £3.6 billion⁵. For the midpoint estimate, this includes around £870m in lost productivity, a cost of around £270m to the NHS and around £730m in crime costs.

Consumption

2.10 The volume of alcohol use in a country is best estimated from national sales, production and/or taxation data since population surveys invariably underestimate total alcohol consumption⁶ ⁷. These can come from sales data and supply data (e.g. data on production and trade such as Food and Agriculture Organization of the United Nations (FAO) and World Drink Trends (WDT))⁸ or tax receipts e.g. Her Majesty’s Revenue and Customs (HMRC) data in the UK. Not all alcohol released for sale will necessarily be consumed, or consumed by individuals resident in the country. However, this will be counter balanced by alcohol consumed abroad, home production, alcohol brought in from abroad, etc. Figure 1 illustrates the trend in the population level of drinking in the UK since 1900, showing that consumption has more than doubled since the 1950s.

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⁴ Grant, Springbett and Graham *Alcohol attributable mortality and morbidity: alcohol population attributable fractions for Scotland*, Information Services Division, 2009
http://www.scotpho.org.uk/alcoholPAFreport

⁵ The Societal Cost of Alcohol Misuse in Scotland for 2007
http://www.scotland.gov.uk/Publications/2009/12/29122804/0


⁷ ‘How much are people in Scotland really drinking?’ Health Scotland 2009
http://www.scotpho.org.uk/alcoholreport

2.11 Industry sales data shows that enough alcohol was sold in Scotland in each year since at least 2000 to enable all adults over the age of 16 to exceed the sensible male weekly guideline (21 units) on each and every week\(^{10}\). In 2010, average per capita sales in Scotland equated to 22.8 units per person per week representing an 11% increase since 1994. Scottish per capita alcohol sales are now almost a quarter (23%) higher than in England and Wales (this equates to an average of around two pints of beer or half a bottle of wine more per person per week). Significantly, whilst sales have fallen by around 8% from a 2005 peak in England and Wales, there has been no similar decline in Scotland (figure 2)\(^{11}\).

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11 *Ibid*
2.12 Population survey data is needed to understand drinking levels and patterns by different sub-groups of the population (such as age, gender and socio-economic group). However, compared to supply data, population surveys where alcohol consumption is self-reported usually show overall consumption figures which are much lower than those of supply-based estimates. While the Scottish Health Survey (SHeS) 2010 found that 49% of men and 38% of women exceeded the daily and/or weekly limit, SHeS only captures around 60% of actual sales, suggesting it may miss many very heavy drinkers. While survey data has found broadly similar consumption levels in Scotland and England, alcohol sales data confirm that Scots have been drinking at far higher levels than their counterparts in England and Wales since at least the mid 1990s and that this gap is widening. This higher consumption level in Scotland would appear to explain, at least in part, why alcohol-related harm continues to be significantly worse in Scotland.

**Consumption and harm**

2.13 The average consumption of alcohol in a population is directly linked to the amount of harm as evidenced in a number of systematic reviews. The more we drink, the greater the risk of harm. As overall consumption has increased in Scotland so have the resultant harms.

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2.14 Excessive drinking has been shown to damage the brain and nervous system; affect the immune system; harm bones, skin and muscles; cause fertility problems and impair foetal development. Along with physical harms, heavy drinkers are also more prone to anxiety, depression and suicide than moderate or non-drinkers\textsuperscript{20}. The World Health Organisation (WHO) identifies alcohol as the third highest risk factor for ill health in developed countries, behind only tobacco and high blood pressure\textsuperscript{21, 22}. The Chief Medical Officer has added alcohol liver disease to the list of Scotland’s ‘big killers’ alongside heart disease, stroke and cancer, emphasising the scale and seriousness of the problem we are now facing.

2.15 There were almost 40,000 alcohol-related general hospital discharges in 2009-10\textsuperscript{23}, equivalent to more than 100 discharges per day. As figure 3 shows, despite a slight fall over the last 2 years, alcohol-related discharges in Scotland have more than quadrupled since the early 1980s and remain at historically high levels\textsuperscript{24}. Similarly, alcohol-related mortality has more than doubled since the early 1990s (figure 4)\textsuperscript{25}. While there was some evidence that mortality rates may be falling (from 2006 onwards), rates increased again in 2010 (including a rise of 7% in male mortality rates). In 2009 (the latest year for which comparable data is available), alcohol-related mortality rates for men in Scotland were nearly double those for men in England & Wales (30 per 100,000 population compared to 16 per 100,000 population). A similar pattern was seen for women, with alcohol-related mortality rates for women in Scotland almost double those for women in England & Wales (15 per 100,000 population compared to 8 per 100,000 population)\textsuperscript{26}.

\textsuperscript{19} Anderson, P & Baumberg B (2006) \textit{Alcohol in Europe}, Institute of Alcohol Studies
\textsuperscript{20} Data from the Continuous Morbidity Register (CMR); \textit{Delivering for Mental Health and Substance Misuse: Consultation Draft}, Scottish Executive, 2007
\textsuperscript{21} Global Burden of Disease Project, World Health Organisation
\textsuperscript{24} Beeston C, Robinson M, Craig N, and Graham L. \textit{Monitoring and Evaluating Scotland’s Alcohol Strategy. Setting the Scene: Theory of change and baseline picture}. Edinburgh: NHS Health Scotland; 2011
\textsuperscript{25} Data from General Register Office for Scotland.
\textsuperscript{26} Beeston C, Robinson M, Craig N, and Graham L. \textit{Monitoring and Evaluating Scotland’s Alcohol Strategy. Setting the Scene: Theory of change and baseline picture}. Edinburgh: NHS Health Scotland; 2011
Figure 3: Alcohol-related general hospital discharges, Scotland 1982/3 – 2009/10

Figure 4: Alcohol-related mortality rates, Scotland 1979 – 2010

27 Figures 3 and 4 are based on the longest time series currently available.
2.16 Over the last 30 years Scotland has had one of the fastest growing rates of chronic liver disease and cirrhosis in the world. Despite a fall in recent years, rates among 45-64 year olds are still around 5 times higher for men and 4 times higher for women than they were in the 1950s and 1960s, and increased again for men in 2010 (figure 5).

Figure 5: Chronic liver disease and cirrhosis mortality rates per 100,000 population, 1950-2010

2.17 Recent research suggests that these mortality figures, being based on cases where alcohol use is considered to be the direct cause of death, may significantly underestimate the true scale of the problem. Following well established practice, the Information Services Division report estimates that alcohol use is either the wholly or partly attributable cause of death in 1 in 20 deaths in Scotland (almost twice as many as previously thought). A quarter of male deaths and a fifth of female deaths in the 35-44 year old age group are thought to be being alcohol attributable.

2.18 There is consistent evidence to suggest that alcohol consumption is associated with substantially increased risk of all-cause mortality even in people drinking lower than recommended limits, and especially among young people.

29 The study uses alcohol population attributable fractions. A population attributable fraction is an indirect quantification of mortality due to a specified risk factor. Partly attributable alcohol conditions are conditions (such as some cancers, injuries, etc.) where alcohol is causally implicated in a proportion but not all cases. It can be interpreted as the proportion of the total cases that would not have occurred in the absence of exposure to the risk factor (in this case alcohol use).
Research involving almost 6,000 Scottish men conducted over the past 35 years, showed a clear relationship between the amount drunk and the likelihood of being admitted to hospital. The likelihood of being admitted increased when drinking as little as 8 units a week. Results from the Million Women study reported in March 2009, showed that for women, low to moderate alcohol consumption, drinking 1 to 2 units a day, increases the risk of certain cancers (breast, bowel, mouth, oesophagus, larynx, liver and pharynx). The more that is drunk, the higher the risk.

2.19 There are significant social and economic costs of excessive alcohol consumption. A recent systematic review found there to be a consistent and statistically significant effect of alcohol on violence and injury at even quite low levels of consumption while the WHO has similarly pointed to a strong association between alcohol consumption and an individual’s risk of becoming a perpetrator or victim of violence. In Scotland half (50%) of all prisoners and three-quarters (77%) of young offenders say they were drunk at the time of the offence. In the 2007 Prison Survey most (80%) of the Young Offenders who had used a weapon to injure someone stated that they were under the influence of alcohol at the time. A recent prison alcohol needs assessment study found that almost three-quarters (73%) of prisoners in the case study prison had an alcohol use disorder (as measured by the AUDIT screening tool), including over a third (36%) who were alcohol dependent. The vast majority (almost 90%) of those interviewed reported previous prison experience.

2.20 At least 70% of assaults presenting to Emergency Departments may be alcohol-related, with the majority of these being concentrated at weekends and involving young men. In addition, 69% of those accused of homicide (and whose drug status was known) in 2009-10 were either drunk or drunk and under the influence of drugs at the time of the alleged offence. Alcohol misuse impacts on young people, putting themselves and others at risk of harm. Almost a quarter (23%) of 15 years olds who had drunk alcohol in the previous year reported getting into trouble with the police and 18% said they had tried drugs as a consequence of drinking alcohol.

37 Prisoner Survey 2009 – Young Offenders, Scottish Prison Service, 2010
40 Harmful Drinking Two: Alcohol and Assaults, NHS Quality Improvement Scotland, 2006
41 Homicide in Scotland 2009/10, Scottish Government 2010,
http://www.scotland.gov.uk/Publications/2008/12/15155727/0
42 Scottish School Adolescent Lifestyle and Substance Use Survey (SALSUS) 2008: National Report, Information Services Division, 2009
2.21 Aside from direct physical harms to the drinker, alcohol misuse also results in significant psycho-social harm to others. Heavy drinking is a common factor in family break-up. Research has shown that marriages where one or both partners have an alcohol problem are twice as likely to end in divorce as marriages where alcohol problems are absent, while one in three divorce petitions in the UK cite excessive drinking by a partner as a contributory factor\textsuperscript{43}. The findings of a recent report suggest that in the UK a disproportionately large number of calls received by ChildLine from children concerned about a significant other (e.g. parent, carer) person’s drinking, come from Scotland\textsuperscript{44}.

2.22 It is important to recognise that whilst consumption affects all socio-economic groups, the greatest harm is experienced by those who live in the most deprived areas. The reasons why alcohol has a more harmful effect on people living in deprived communities are complex and not fully understood. Risky and harmful alcohol use is likely to be both a cause and effect of social deprivation. What is clear is that the level of alcohol-related harm in deprived communities is substantial, with alcohol-related general hospital discharge rates in the 20% most deprived communities (as measured by the Scottish Index of Multiple Deprivation, SIMD) around 7.5 times higher than in the most affluent fifth. Similarly, alcohol-related mortality rates are 6 times higher in the most deprived areas\textsuperscript{45}.

2.23 The international evidence available clearly shows that if alcohol consumption falls, reductions in both acute (i.e. short term) harms (such as accidents and injuries) and chronic (i.e. long term) harm (such as liver cirrhosis) can follow within a relatively short time. Alcohol consumption in France has fallen over the last 20-30 years, as have chronic liver disease and cirrhosis deaths. In Italy a fall in average population alcohol consumption led to a reduction in alcohol-related mortality. The reduction in alcohol consumption in Russia in the late 1980s led to a dramatic fall in deaths, only to rise once consumption rose again in the mid nineties.

**Consumption and price**
2.24 There is strong evidence from numerous studies conducted in 15 European countries, America, Canada, New Zealand and elsewhere, that levels of alcohol consumption in the population are closely linked to the retail price of alcohol. As alcohol becomes more affordable, consumption increases. As the relative price increases, consumption goes down. The Wagenaar\textsuperscript{46} study considered 100 separate studies reporting over 1,000 statistical estimates over the last 30 years and found that there was a consistent relationship between price and consumption of alcohol: when prices go down, people drink more and when prices go up, people drink less. The RAND Europe\textsuperscript{47} report supports the link between alcohol consumption and price.

\textsuperscript{43} Alcohol Harm Reduction project: Interim Analytical Report, Prime Minister’s Strategy Unit, 2003
\textsuperscript{44} Untold Damage: Children’s accounts of living with harmful parental drinking, Scottish Health Action on Alcohol Problems (SHAAP) / Childline, 2009
\textsuperscript{45} Alcohol Statistics Scotland 2011, Information Services Division, National Health Service, 2011
\textsuperscript{46} Effects of beverage alcohol taxes and prices on consumption: a systematic review and meta-analysis of 1003 estimates from 112 studies, Wagenaar A.C., Salois M.J., Komro K.A Addiction: 2009, 104
\textsuperscript{47} Rabinovich, L et al., The affordability of alcoholic beverages in the European Union: Understanding the link between alcohol affordability, consumption and harms (RAND report)
price/income/affordability and consumption, and on the direct link between alcohol price/income and harms, stating that this provides strong support for the use of alcohol pricing policies as a potentially effective measure to curb hazardous and harmful drinking in Europe.

2.25 In Switzerland in 1999 a 30 to 50% reduction in taxation on foreign spirits led to a 28.6% increase in consumption of spirits. There was no significant change in the consumption of wine or beer. In March 2004, Finland cut tax on alcohol (by one third) in an effort to reduce the level of cross-border shopping undertaken by Finns in other EU countries, particularly neighbouring Estonia, where the price of alcohol was much cheaper. Following the change, liver cirrhosis deaths were found to have risen by 30 per cent in just one year, as alcohol consumption increased by 10 per cent. Finland subsequently reversed the measure although not until 2008, when alcohol taxes were raised by 15 per cent for strong alcoholic beverages and by 10 per cent for other alcoholic beverages. In 2009, total consumption of alcoholic beverages was down around 2 per cent, there was a 5 per cent reduction in alcohol related periods of care in hospital and a drop in the number of alcohol related deaths. Continuing the taxation policy in 2009, excise taxes on all alcoholic beverages were raised twice by 10 per cent, first on 1 January and then again on 1 October. Finland subsequently reversed the measure although not until 2008, when alcohol taxes were raised by 15 per cent for strong alcoholic beverages and by 10 per cent for other alcoholic beverages. In 2009, total consumption of alcoholic beverages was down around 2 per cent, there was a 5 per cent reduction in alcohol related periods of care in hospital and a drop in the number of alcohol related deaths. Continuing the taxation policy in 2009, excise taxes on all alcoholic beverages were raised twice by 10 per cent, first on 1 January and then again on 1 October.50 Consumption and health statistics from 2010 are not yet available. A very recent development on the link between price and consumption is the work undertaken by Professor Tim Stockwell at the University of Victoria, British Columbia, Canada, on the minimum pricing systems operating in two of the Canadian provinces. This work will be considered further as the full findings emerge. An article in Alcohol Focus Scotland’s newsletter, *In Focus*, reports on Professor Stockwell’s presentation to Members of the Scottish Parliament on 27 September 2011.

2.26 As noted previously, alcohol sales in Scotland have increased by 11% overall since 1994 and this increase is being driven by increasing sales in the off-trade. Off-trade sales increased by 52% between 1994 and 2010, compared to a fall of 29% in the on-trade. It is now estimated that around two-thirds of alcohol sold in Scotland is now sold through the off-trade. These trends are illustrated in figure 6.

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53 Ibid
2.27 The impact of differential prices across the off and on-trade in driving these trends is clear. The average price per unit in the on-trade in 2010 was 134p, compared to just 45p in the off-trade. As figure 7 demonstrates, the differential in average price per unit across sectors has increased significantly over the last decade. The on-trade has seen a 43% rise in average price per unit since 2000, compared to a 15% increase in the off-trade. Treasury data indicates that inflation during this period (1999-2000 to 2009-10) was 28%.

2.28 Price is a key component of affordability. In real terms (taking into account household disposable income per capita) NHS Information Centre report that

54 Calculated using GDP deflators: http://www.hm-treasury.gov.uk/data_gdp_index.htm
alcohol is now 44% more affordable in the UK than it was in 1980\textsuperscript{55}. However, changes in affordability are not uniform across sectors or drink types. Data from the Office for National Statistics demonstrate that while affordability of on-trade alcohol has increased only slowly since 1987 (and has changed little over the last decade), alcohol sold off-trade is significantly more affordable (figure 7). Beer sold off-trade is now almost 130% more affordable in real terms than in 1987, while the equivalent figure for wine and spirits is 98%. The impact of increasing affordability in the off-trade is clear: as affordability has increased, off-trade sales have also increased significantly at the expense of the on-trade (where affordability has remained relatively static).

Figure 8: The Affordability of On and Off-Sales Alcohol: UK, 1987-2010

2.29 Data from the Nielsen Company on the price of alcohol sold through the off-trade were published by NHS Health Scotland in July 2010\textsuperscript{56} and updated in August 2011\textsuperscript{57}. Nielsen obtain weekly price data from most large multiple retailers (which Nielsen estimate comprise around three quarters of all alcohol off-sales) and a stratified random sample of independent and smaller multiple retailers\textsuperscript{58}. The data comprise scanned readings at Electronic Points of Sale of the net retail price of each item along with its type and volume. The volume of each drink type was converted into units of pure alcohol using its percentage Alcohol by Volume (ABV).

\textsuperscript{55} Statistics on Alcohol: England, 2011, The Health and Social Care Information Centre, 2011. The way in which the Information Centre calculates the alcohol affordability index was revised in 2011. The effect of this revision was to reduce the estimated change in affordability from 68% to 44% since 1980. Further details can be found at: \url{http://www.ic.nhs.uk/pubs/alcohol11}. A Scottish specific affordability index is not available.


\textsuperscript{58} Monitoring and Evaluating Scotland’s Alcohol Strategy. Setting the Scene: Theory of change and baseline picture - Glossary and Appendices, NHS Health Scotland, 2011
to derive the net retail price in pence per unit of alcohol. All items were then coded into one of fifteen price bands. Off-sales data will include alcohol sold to tourists and then taken out of the country but, equally, it excludes alcohol bought by Scots abroad for consumption back home. It also excludes internet sales and alcohol bought at venues such as sporting events and festivals.

2.30 The 2010 price band data demonstrates that a considerable proportion of alcohol is sold very cheaply, with 11% of alcohol sold through the off-trade in Scotland retailing at below 30p per unit, 45% below 40p per unit and almost three-quarters (73%) under 50p per unit. Figure 9 shows the price distribution in percentage terms.

Figure 9: Price distribution (%) of pure alcohol sold off-trade in Scotland, 2010

2.31 The report analysed prices across a range of drink types and found significant variations across products. For instance:

- 45% of cider was sold at below 30p per unit, 72% below 40p per unit, and 85% below 50p per unit;
- 1% of vodka was sold at below 30p per unit, 70% below 40p per unit and 92% below 50p per unit;
- 1% of whisky was sold at below 30p per unit, 49% below 40p per unit and 72% below 50p per unit;
- 20% of beer was sold at below 30p per unit, 50% below 40p per unit, and 77% below 50p per unit;
- 3% of light wine was sold at below 30p per unit, 27% below 40p per unit, and 63% below 50p per unit.

2.32 The Nielsen data further shows that of the additional 2.2 litres of pure alcohol sold per adult in Scotland in 2010 compared with England and Wales, 1.6 litres is due to higher off-trade sales. Two-thirds of this off-trade excess relates to alcohol
sold in the 30-44.9p per unit price bands. This suggests that higher consumption in Scotland is to a large extent being driven by higher sales of cheap alcohol. Figure 10 illustrates this, showing the price distribution by litres of pure alcohol per head of population for both Scotland, and England and Wales.

**Figure 10: Price distribution (L per adult aged ≥16)) of pure alcohol sold off-trade in Scotland and England & Wales, 2010**

![Price distribution chart](chart)

Research on impact of pricing policies

2.33 In September 2008, the School of Health and Related Research (ScHARR) at the University of Sheffield published a UK government commissioned systematic review of the evidence, an *Independent Review of the Effects of Alcohol Pricing and Promotion, part A*[^59]. The review found strong and consistent evidence to suggest that pricing policies can have a significant effect in reducing demand for alcohol. An increase in the price of alcohol was estimated to reduce hazardous and harmful alcohol consumption, the harm done by alcohol, and the harm done by alcohol to those other than the drinker. Subsequent to this, the results from a substantial piece of modelling work undertaken by ScHARR, also commissioned by the UK Government, and based on data relating to alcohol consumption in England, was published in December 2008; the *Independent Review Of The Effects Of Alcohol Pricing And Promotion: Part B. Modelling the Potential Impact of Pricing and Promotion Policies for Alcohol in England: Results from the Sheffield Alcohol Policy Model Version 2008*[^60].

2.34 Following this review, the Scottish Government commissioned ScHARR to undertake analysis using Scottish data, as far as possible, in order to model the

potential effect of the introduction of minimum pricing per unit of alcohol, the
potential effect of introducing a ban on price-based promotions in the off-trade and
the potential effect of introducing minimum pricing simultaneously with an off-trade
discount ban in Scotland. The report, Model Based Appraisal of Alcohol Minimum
Pricing and Off-Licensed Trade Discount Bans in Scotland: A Scottish adaptation of
the Sheffield Alcohol Policy Model version 2, was published on 28 September
2009. This was then updated, as new data became available, in the report Model-
Based Appraisal of Alcohol Minimum Pricing and Off-Licensed Trade Discount Bans
in Scotland using the Sheffield Alcohol Policy Model (v2): An Update Based on
Newly Available Data which was published on 22 April 2010. The potential impact
of introducing minimum pricing is considered in more detail in section 5, however it
is worth noting the following points at this stage:

- The model showed a strong and consistent link between the price of alcohol
  and the demand for alcohol. Increasing the price of alcohol is estimated to
  reduce consumption and alcohol-related harm.
- The model demonstrated a link between price increases, reduced
  consumption and subsequent reductions in chronic and acute health harms.
- Minimum pricing targets price increases at alcohol that is sold cheaply. Cheaper
  alcohol tends to be bought more by harmful drinkers than moderate
  drinkers. So a minimum pricing policy might be seen as beneficial in that it
  targets the drinkers causing most harm to themselves and society. Studies
  also show that cheaper alcohol is attractive to young people.
- ‘Moderate drinkers’ (defined by the ScHARR report as those who drink within
  sensible drinking guidelines) are estimated to be only marginally affected,
  simply because they consume only a small amount of alcohol and also
  because they do not tend to buy as much of the cheap alcohol that would be
  most affected by minimum pricing.
- Although the driver for minimum pricing is the protection and improvement of
  public health, we note that the effects of price increases may not be
  disadvantageous to the alcohol industry as a whole because the estimated
  decrease in sales volume may be more than offset by the unit price increase,
  leading to overall increases in revenue.
- The economy is likely to benefit through a reduction in sick days per year for
  all categories of drinker (moderate, hazardous and harmful) and less
  unemployment among harmful drinkers.

61 Model Based Appraisal of Alcohol Minimum Pricing and Off-Licensed Trade Discount Bans in
Scotland: A Scottish adaptation of the Sheffield Alcohol Policy Model version 2,
62 Model-Based Appraisal of Alcohol Minimum Pricing and Off-Licensed Trade Discount Bans in
Scotland using the Sheffield Alcohol Policy Model (v2): An Update Based on Newly Available Data,
http://www.scotland.gov.uk/Publications/2010/04/20091852/0
Reviews, University of Sheffield, 2008
2.35 ScHARR specialises in health services and public health research and the application of health economics and decision science to the development of health services and the improvement of public health. The 2008 Research Assessment Exercise (RAE) confirmed ScHARR as the UK’s leading department for health services research. The RAE panel recognised the esteem in which ScHARR is held globally for excellence in health services research and evaluated the research environment as predominantly world-leading or internationally excellent.

2.36 The Sheffield researchers have received support for their approach from leading health economists and experts in the field of alcohol. The first of a number of journal articles – peer reviewed – is in the respected journal *Addiction*: “Meier, P.S., Brennan, A., Purshouse, R. (in press) Policy Options for Alcohol Price Regulation: The Importance of Modelling Population Heterogeneity” where the authors outline the importance of accounting for all the complexity and differences in drinking and purchasing patterns across different groups when estimating policy impacts.

2.37 An article was published in the Lancet in March 2010 outlining the main findings from the modelling output and an editorial article in the journal was highly supportive. It argued that because of the scale of alcohol related harm, governments should intervene for the public good, and that the Sheffield model provides “evidence on which to base fair and effective pricing” and it was “imperative” that it should be used.

2.38 The SABMiller brewing company funded the Centre for Economics and Business Research Ltd (CEBR) to produce a report “Minimum Alcohol Pricing: A targeted measure?” in June 2009. The report contained no new evidence but reviewed the University of Sheffield’s work. The CEBR report does not dispute that there is a link between the price of alcohol and consumption - and between consumption and harm - but questioned the Sheffield finding that harmful drinkers were more responsive to price change than moderate. An updated report was published in August 2010, critiquing the second version of the ScHARR modelling work for Scotland, using the same arguments.

2.39 The Sheffield model is, by definition, complex. The team produced estimates of responsiveness to price increase of products (own price elasticities) and the impact of switching behaviour (cross price elasticities) for 16 different categories of alcohol, separately for moderate drinkers and harmful/hazardous drinkers. This produces a matrix with 256 elements for each category of drinker. In this respect ScHARR’s model is more advanced than other research in this area, including the

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64 Peer reviewed publication remains the gold standard for academic credence
65 *Addiction*, Volume 105 Issue 3 pages 383-393
67 Evidence to drive policy on alcohol pricing: *Lancet* 2010 Published Online March 24, 2010 DOI:10.1016/S0140-6736(10)60276-0
CEBR report which does not use such a complex breakdown of either product type or consumer.

2.40 In January 2011 RAND Europe published a report sponsored by the Home Office: *Preliminary assessment of economic impacts of alcohol pricing policy options in the UK*[^69]. The options it examined were minimum pricing, a ban on below cost sales and increases in alcohol excise duty rates. The review of the evidence found that the research clearly indicated that increasing the price of alcohol can be effective in reducing alcohol harms.

2.41 The report highlights that minimum pricing circumvents retailers’ ability to absorb price increase and that its impact clearly depends on the level set. It notes that it is likely to have most impact on young people, hazardous/harmful drinkers and low income groups. Taxation, although having the benefit of increased revenue to the government, is regressive; does not target the drinkers who cause the harms; may allow large off-trade retailers to absorb the increase thereby blunting any impact; and the authors point out that there is limited understanding of the exact effect of alcohol tax increase on alcohol prices. The literature on below cost selling is the least developed and any impact is likely to be small although it might lead to some reduction in hazardous/harmful drinking. However across all three options the report states that: “...the strong association between alcohol policies and alcohol harms provides a compelling reason for considering a range of pricing policies for inclusion into a policy mix to tackle this problem”[^70].

**Rationale for government intervention**

2.42 The Scottish Government considers that the scale of alcohol problems in Scotland is such that strong action is required if we are to reduce alcohol consumption in Scotland and hence reduce alcohol-related harm. Whilst recognised as a UK problem, the evidence shows that alcohol misuse is more severe in Scotland (see paragraphs 2.11 - 2.12, 2.15 - 2.17) and that is why we consider it is now time to introduce measures in order to rebalance our relationship with alcohol. Despite an economic recession in recent years and a record investment in prevention and treatment initiatives in Scotland, consumption and harm remain at historically high levels. A cultural change is therefore needed in order to influence future attitudes and relationships with alcohol, and tough measures are required in order to trigger these changes.

2.43 Culture is a result of a complex and dynamic interaction of legislation, formal and informal controls, general and specific environmental influence and personal belief systems. The low price of high strength alcohol is now part of the culture that has to be changed, and this cannot be tackled without addressing price. Education alone is not a powerful enough factor to change behaviour and culture. We already know from experience on seatbelts and on smoking in public places that such culture change is possible and that legislation can make a significant contribution to delivering it by encouraging changes in behaviour.


[^70]: Ibid
2.44 We recognise that no single action will bring about the change which is required, which is why we have outlined a package of over 40 measures in our Framework for Action document which seek to reduce consumption, to support families and communities, encourage more positive attitudes and positive choices and to improve treatment and support services. This broader approach also focuses on education, diversionary activity, support for families and communities, and preventive public health measures such as alcohol brief interventions. Together with minimum pricing and other regulatory measures on issues such as irresponsible promotion of alcohol, we believe this wider package will help to create the cultural shift required to change our relationship with alcohol.

2.45 The WHO report Alcohol: No ordinary commodity⁷¹, published in 2003, covering a review of 32 alcohol strategies and interventions found that, in terms of the degree of effectiveness, the breadth of research support, the extent to which they have been tested cross-culturally, and the relative expense of implementation, the most effective alcohol policies include alcohol control measures (price and availability), drink-driving laws, and brief interventions for hazardous and harmful drinkers. At the other end of the spectrum, those alcohol policies for which it was difficult to find a direct positive effect on drinking patterns or problems include education in schools, public service announcements and voluntary regulation by the alcohol industry. WHO has recommended that if these latter measures are used, they should form only part of a comprehensive strategy to tackle alcohol-related harm. We consider that the introduction of minimum pricing will have a high impact on reducing consumption as it involves the pricing of alcohol.

2.46 The recently published WHO’s Global Strategy on alcohol⁷² adds to this by acknowledging the link between affordability and consumption and concludes that “increasing the price of alcoholic beverages is one of the most effective interventions to reduce harmful use of alcohol” and encourages Member States to consider implementing minimum pricing.

2.47 In addition, the National Institute for Health and Clinical Excellence (NICE), commissioned by the UK Government, published public health guidance on the prevention and early identification of alcohol-use disorders in adults and adolescents in June 2010. The guidance, Alcohol-use disorders: preventing harmful drinking⁷³, set out a number of recommendations including consideration of introducing a minimum price per unit. NICE further advise that the unit price should be reviewed regularly to ensure alcohol does not become more affordable over time.

2.48 As set out in more detail in paragraphs 10.2 to 10.5, a multi-component portfolio of studies has been developed to evaluate the extent to which the actions set out in the Framework, the Licensing (Scotland) Act 2005 (“the 2005 Act”), the Alcohol etc. (Scotland) Act 2010 (“the 2010 Act”) and the minimum pricing measure in the Bill are effective in delivering intended outcomes. The Monitoring and Evaluation of Scotland’s Alcohol Strategy (MESAS) portfolio is intended to provide

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⁷² Global Strategy to Reduce the Harmful Use of Alcohol 2010 para 32 http://www.who.int/substance_abuse/alcstrategyaftereb.pdf
⁷³ http://guidance.nice.org.uk/PH24/Guidance/pdf/English
more than just a final verdict on effectiveness of the alcohol strategy. To contribute to policy improvement and development, the evaluation therefore considers implementation and differential impact (where possible) alongside population outcomes. The portfolio is being managed by NHS Health Scotland on behalf of the Scottish Government.

**Minimum price per unit of alcohol**

2.49 The Government is proposing that alcohol must not be sold on the premises at a price below its minimum price. This will be a mandatory condition for all premises and occasional licences issued under the 2005 Act.

2.50 The formula for calculating the minimum price of alcohol is set out in section 1 of the Bill. The minimum price of alcohol takes account of the strength of alcohol, which is determined by the Alcohol By Volume (ABV) measure, and the volume of the alcohol in litres. The formula for calculating the minimum price will apply to all products equally regardless of whether the products are domestically produced or imported.

The minimum price for a product is calculated as follows:

\[
\text{price per unit of alcohol} \times \text{strength of product (ABV)} \times \text{volume of product} \times 100^* 
\]

* Note: the need to multiply by 100 is because ABV is expressed as a percentage

For example, for a 45p minimum price, a standard sized bottle of spirits (70cl) at 37.5% ABV would be £11.82 (0.45 \times 37.5/100 \times 0.7 \times 100). A bottle of whisky at 40% would be £12.60 (0.45 \times 40.0/100 \times 0.7 \times 100).

3. **CONSULTATION**

Public consultation

3.1 A public consultation *Changing Scotland’s relationship with alcohol: a discussion paper on our strategic approach* was launched on 17 June 2008 and closed on 9 September 2008. Minimum pricing was one of the measures included in the consultation. Given the proximity of the introduction of this Bill to the Alcohol Bill (which contained a minimum pricing measure at introduction in November 2009) the findings of the previous consultation are still relevant. There is no significant change in the proposed minimum pricing measure in this Bill to the previous Bill.

3.2 A total of 472 written responses to the discussion paper were submitted to the Scottish Government. This included 259 responses from individuals, 207 responses from organisations and six combined or group responses. In addition, Scottish Government Ministers received 53 letters or emails on issues relating to the

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74 Details of the MESAS portfolio is available at: [http://www.healthscotland.com/scotlands-health/evaluation/planning/MESAS.aspx](http://www.healthscotland.com/scotlands-health/evaluation/planning/MESAS.aspx)

75 Op. cit., Discussion paper

76 Op. cit., Consultation responses
discussion paper from members of the public. What is clear from the responses is that most people agree that alcohol misuse is a profound problem in Scotland and they welcome the leadership the Scottish Government has shown in trying to address it.

3.3 The 207 organisations that submitted responses were broken down into 26 groups. All organisational responses were considered in the analysis but in order to provide comparative information about the views of key sectors, three main groupings of organisations were identified:

- Health promotion and addictions groups (62) – including 20 Alcohol and Drugs Addictions Teams, 19 addictions and lifestyle groups, 8 NHS Boards, 11 professional bodies / Royal Colleges;
- Trade and business sector organisations (58) – including 17 small retailers, 9 large retailers, 6 retail associations, 13 producers, and 10 miscellaneous trade and business organisations; and,
- Local Government and related bodies (41) – including 13 Councils, COSLA, 10 Licensing Boards, 6 Licensing Forums, 4 professional associations and 3 Community Councils.

3.4 In addition, responses were received from 46 ‘other’ organisations, including national agencies and forums, youth organisations, voluntary groups and charities.

3.5 The quantitative analysis of the consultation responses was provided by independent consultants, Hexagon Research & Consulting\(^7\). On minimum pricing, most respondents commented on whether minimum retail pricing should be introduced rather than on the proposed principles on which a scheme should be established as the discussion paper requested. Almost two thirds (65%) of all responding organisations were in favour, while just under a quarter (23%) were opposed. Nine out of ten (90%) health organisations supported introducing minimum pricing, as did over eight out of ten (84%) local government bodies. Six out of ten (61%) trade and business sector organisations were opposed. Views amongst individual respondents were more mixed, with 49% who expressed an opinion in favour and 43% against.

3.6 Those in favour generally supported the rationale put forward in the discussion paper, that the increasing affordability of alcohol is one of the main drivers in higher consumption and harm. Various reasons were given by those who expressed opposition, including that minimum pricing was just a form of taxation; it would impact on ‘responsible’ drinkers and people on low income; and general opposition to the government setting prices.

3.7 Most of the organisations that supported minimum retail pricing did not comment on the principles outlined in the discussion paper but those that did suggested that minimum prices should be based on alcoholic strength and should apply across both off and on-sales.

\(^7\) Op. cit., Analysis of responses
3.8 During the consultation and policy development process numerous discussions took place on the proposals in the Alcohol Bill with stakeholders. As regards minimum pricing, the discussions were on the principles of minimum pricing and not on any specific minimum price per unit.

3.9 Discussions on the principles of minimum pricing took place with the following stakeholders:

- Alcohol Concern
- Alcohol Focus Scotland
- Aldi GmbH
- Anheuser-Busch InBev
- Asda Stores Ltd
- Association of Chief Police Officers Scotland
- British Liver Trust
- British Medical Association
- Convention of Scottish Local Authorities
- Co-op
- Diageo plc
- The Edrington Group Ltd
- Federation of Small Businesses
- William Grant & Sons
- Marks and Spencer plc
- Wm Morrison Supermarkets plc
- J Sainsbury plc
- The Scottish Grocers’ Federation
- Scottish Health Action on Alcohol Problems
- The Scottish Licensed Trade Association
- The Scotch Whisky Association
- Tesco plc
- The Wine and Spirits Trade Association
- Whyte and MacKay Ltd

3.10 In addition, discussion of the proposals took place at the meetings of the Scottish Government Alcohol Industry Partnership (SGAIP) and with the Law Society of Scotland Licensing Committee. The European Commission and the Office of Fair Trading were kept informed of the proposals throughout the development process. The SGAIP was formed in February 2007 in recognition of our shared aim to reduce alcohol misuse in Scotland. The Scottish Government and the alcohol industry agreed a number of actions to deliver a long term collaborative approach to tackling alcohol misuse in Scotland. The SGAIP has functioned and delivered successfully over the past 4 years, achieving its original objectives and effectively progressing individual work streams. Membership of the SGAIP includes both alcohol producers and retailers (covering both on and off-sales) and meetings are held quarterly, providing a constructive forum for members to work together to tackle alcohol misuse in Scotland, to promote responsible drinking and to understand the potential impact of our proposals on all concerned.
3.11 During progress of the Alcohol Bill, a further group was set up, the Retailers’ Working Group, comprising Scottish Government, the Wine and Spirits Trade Association (WSTA), the Scottish Grocers Federation (SGF) and the Scottish Retail Consortium (SRC) to discuss how the proposals included in the Alcohol Bill would affect their members. This group represents the majority of alcohol retailers in Scotland. The WSTA represents businesses which work across the entirety of the supply chain in wines and spirits in Scotland and the UK. Their membership includes producers, importers, wholesalers, brand owners and off-licence retailers including supermarkets and specialist stores. The SGF is the trade association for the Scottish convenience store sector, representing most of the Scottish Co-ops, Somerfield, SPAR and local independent retailers. The SRC is a retail trade association and includes major high street retailers and supermarkets to trade associations representing smaller retailers.

3.12 Discussions were held with the Scotch Whisky Association (SWA) – a trade association - on the potential impact of the proposals. Its members do not all exclusively produce Scotch Whisky. For example, Diageo produces a wide range of other spirits such as vodka and gin.

3.13 The Scottish Government also had discussions with the Scottish Licensed Trade Association which represents the licensed trade in Scotland. Its membership includes hotels, public houses, restaurants, refreshment premises, entertainment premises and some off-sales premises.

3.14 As part of the wider consultation, the Scottish Government commissioned Young Scot to seek the views of young people aged 11-26 and a total of 492 responses were received. The Scottish Government also held a summit on underage drinking and as a legacy of that event, Ministers asked Young Scot to establish a Youth Commission on Alcohol to explore the issues for young people. The Commission presented its final report and findings to the Minister for Public Health and Sport in March 2010 which is supportive of the Scottish Government’s stance on a number of issues including action to address availability of cheap alcohol.

3.15 Although the re-introduction of a Bill on minimum pricing is not a change or addition to the strategic approach, the Scottish Government is keen to continue to have a dialogue with the alcohol industry. Both through the SGAIP, and directly with individual companies involved in the alcohol industry, the Scottish Government has continued to solicit views on the principle of minimum pricing throughout the summer/autumn of 2011. Specifically, members of the SGAIP were invited to provide an assessment of what they consider the likely impact of a minimum price per unit of alcohol might have on their business. Twelve responses were received from the Scottish Licensed Trade Association, Scottish Grocers’ Federation, Chivas brothers Ltd and Pernod Ricard UK, Scotch Whisky Association, Heineken UK, Molson Coors, Scottish Beer and Pub Association, Whyte & Mackay, Scottish Retail Consortium, Wine & Spirits Trade Association, Ian Macleod Distillers Ltd, and SABMiller. Views are included in the relevant paragraphs in section 5. In addition, the European Commission and the Office of Fair Trading are being kept informed of the proposals.
4. OPTIONS

4.1 In considering options for reducing alcohol consumption by increasing the price of alcohol, a number of price-based policy options were considered: the ‘do nothing’ option; introduce a prohibition of selling alcohol below a specific minimum price per unit; increase the tax on alcohol products and prevent the sale of alcohol below the price of any duty and VAT.

‘Do nothing’ option

4.2 As previously mentioned, alcohol consumption in the UK has more than doubled since 1950 (illustrated in figure 1). Alcohol sales data from the Nielsen Company shows that enough alcohol was sold in Scotland in 2010 (and indeed every year since at least 2000) to enable every man and woman over the age of 16 to exceed the sensible weekly drinking limits for men every week of the year. In addition, these data also suggest that Scots, on average, are consuming almost 4.3 units (or 23%) per person per week more alcohol than their counterparts in England and Wales. The most recent estimate shows that alcohol misuse in Scotland cost an estimated £2.5 billion to £4.6 billion in 2007, with a midpoint estimate of £3.6 billion. For the midpoint estimate, this includes around £870m in lost productivity, a cost of around £270m to the NHS and around £730m in crime costs. “Do nothing” is not a feasible option. Despite recession and a record investment in prevention initiatives, alcohol sales in Scotland have been stable over the last few years and it would not be unreasonable to assume that unacceptably high levels of alcohol-related harm – and the cost associated with it – will persist without action.

‘Increase the tax on alcohol products’ option

4.3 The Scottish Government has noted the suggestion that the policy objective of protecting and improving public health by reducing alcohol consumption could, in theory, be achieved through increasing alcohol duty and taxation, and is often cited as a less intrusive method of achieving public health objectives. However, each case needs to be considered separately and the Scottish Government does not consider the option of taxation, on its own, with the current duty regime which is reserved to the UK Government, to be an effective alternative approach for the following reasons:

- A scheme of taxation that was levied on a unit of alcohol and so treated products of the same strength in the same way would not comply with the current system of excise duty required by EU law. EU directives limit the ability to align duty with alcoholic content. Directives 92/83/EEC and 92/84/EEC make provision for minimum rates of excise duty on alcohol and specify methods for calculating the rate of duty. These Directives mean a rate of duty for wine needs to be based on the range of the alcoholic strength of each particular wine, rather than on the actual alcoholic strength of the wine and so prevent there being a scheme of taxation levied on a unit.

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of alcohol. For example, wines of strength 8.5% to 15% would attract the same duty rate.

- Increases in taxation of alcohol will not necessarily result in a proportionate or indeed any increase in the price of alcohol as alcohol tax and duty increases are not always reflected in the price the consumer pays. For example, the Competition Commission’s paper on pricing practices noted that ten grocery retailers (9 of whom operate across Scotland) engage in below cost selling to varying extents. The Competition Commission further notes that for most grocery retailers, the majority of below-cost sales relates to two or three products groups, alcohol being one. This suggests that tax increases are sometimes absorbed by the retailer, absorbed by the producer or offset against other products. This means the price paid by the consumer can remain static, or reduce, resulting in no reduction in consumption and no reduction in harm. To the extent that prices are offset, customers are paying more for other groceries to subsidise alcohol consumption.

- There is evidence that across the board taxation increases do not have a targeted effect on the consumption of alcohol of those most at risk of alcohol related harm. This is because harmful and hazardous drinkers consume a disproportionate amount of cheaper products. A minimum price is a measure that is targeted at lower cost products.

- A straightforward increase in existing duty would impact on high price products as well as cheap ones and so would have a proportionately greater effect on moderate drinkers than a minimum price. When they are passed on taxes affect all drinkers, while minimum pricing only impacts on consumers who currently purchase alcohol below the minimum unit price.

- Recent sales data estimates that about two-thirds (67%) of all pure alcohol sold in Scotland in 2010 was sold through the off-trade. The average price of a unit of alcohol sold through the off-trade in Scotland was 45p per unit and through the on-trade, 134p per unit. Minimum pricing and duty increases apply equally to both the on and off-trade. However, given that more alcohol is consumed in the off-trade than the on-trade and the price of a unit of alcohol is far cheaper in the off-trade, a pricing measure

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81 E.g. Gruenwald et al developed a model which shows that price increases targeted at the lowest cost brand would produce a greater reduction in sales than across the board price increases. Gruenwald, P J Ponicki, W R Holder, H D and Romelsjö A (2006) Alcohol Prices, Beverage Quality, and the Demand for Alcohol: Quality Substitutions and Price Elasticities Alcoholism Clinical and Experimental Research 30 1: 96-105
82 Booth et al (2008), op. cit.
83 Hunt P, Rabinovich L, Baumberg B (2011) op cit
that predominantly affects the off-trade is likely to be more effective at tackling alcohol harms.

- It is difficult to see how a taxation scheme could be devised that could be targeted on low-cost products in the same way that a minimum price would be. For a tax system to result in increases in the price of low-cost products but not in the price of high-cost products the rate of duty would have to be higher for low-cost products. This could be difficult to administer and would provide an incentive for retailers to increase prices rather than pay increased tax. One of the perceived advantages of taxation is that it increases revenue for the State rather than for the alcohol industry, however if a taxation scheme provided an incentive to raise prices to avoid paying tax then this would not be as effective in increasing revenue to the State.

‘Prevent the sale of alcohol below the price of any duty and VAT’ option

4.4 The UK Government’s original intention had been to prevent the sale of alcohol below cost. There are difficulties, however, with determining what would constitute ‘cost’ and whether this information is commercially confidential. The UK Government’s intention is now to deliver on their commitment to introduce a ban on sales of alcohol below the rate of duty plus VAT85.

4.5 The Scottish Government does not consider this to be an effective alternative approach to minimum pricing per unit of alcohol for a number of reasons. Based on current VAT and duty rates, this approach would create a minimum price which would be so low as to have little or no effect on public health and so would not achieve the Scottish Government’s objective of reducing alcohol-related harm. Since taxes are not fixed by reference to their anticipated effects on health and, because taxes are not imposed uniformly, this approach may have a disproportionate effect on some products and not others. For example, the total tax on whisky is currently 31p per unit and the tax on strong cider is currently 9p per unit. In the most recent Scottish modelling work a minimum price of 30p per unit is estimated to reduce consumption by 0.3%86, with no benefits for health harms in the first year, 10 fewer deaths over 10 years, and a reduction of 200 crimes a year.

‘Introduce a prohibition on sales of alcohol below a minimum price per unit’ option

4.6 This is the option being progressed by the Scottish Government as it is considered to be the most robust option available in meeting our goals of reducing alcohol consumption in Scotland, and addressing the harm alcohol misuse does to public health, crime, public services, productivity and the economy as a whole. The SchHARR studies show that there is strong and consistent evidence linking the price of alcohol to the demand for alcohol - increasing the price of alcohol reduces...

85 Written ministerial statement was laid in the House of Commons by James Brokenshire, Parliamentary Under-Secretary of State for Crime and Safety at the Home Office, and in the House of Lords by Baroness Neville-Jones on 18 January 2011, http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm110118/wmstext/110118m0-001.htm#11011870000012

86 Model-Based Appraisal of Alcohol Minimum Pricing and Off-Licensed Trade Discount Bans in Scotland using the Sheffield Alcohol Policy Model (v2): An Update Based on Newly Available Data
consumption and alcohol-related harm. In the most recent Scottish modelling work a minimum price of 45p per unit is estimated to reduce consumption by 4.3%\textsuperscript{87}.

4.7 The ScHARR study estimates that a 45p minimum price will lead to reductions in health, crime and employment harms. The greatest health benefits accrued from minimum pricing are seen amongst hazardous and harmful drinkers as they disproportionately consume more of the lower cost, high strength products. Table 1 summarises some of the main benefits estimated from a range of minimum prices based on the modelling carried out by the University of Sheffield\textsuperscript{88}.

<table>
<thead>
<tr>
<th>Policy</th>
<th>Minimum price per unit</th>
<th>Deaths</th>
<th>Hospital admissions</th>
<th>Crime</th>
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\textsuperscript{87} Ibid

\textsuperscript{88} Meier et al (2010) Model-based appraisal of alcohol minimum pricing and off licensed trade discount bans in Scotland using the Sheffield Alcohol Policy Model (v2):-an update based on newly available data. ScHARR, University of Sheffield.
5. COSTS AND BENEFITS

5.1 The option being progressed by the Scottish Government is the introduction of a minimum price per unit of alcohol and this section deals with the costs and benefits of this option. The costs and benefits of the other options (do nothing, increase the tax on alcohol products, ban selling alcohol below duty and VAT) have not been pursued in any further detail in this section as we do not consider they would be effective in meeting our goals of reducing alcohol consumption in Scotland, and therefore addressing the harm alcohol misuse does to public health, crime, public services, productivity and the economy as a whole.

Costs

5.2 In developing an understanding of how the proposal on minimum price in the Bill might impact on the various sectors affected, the Scottish Government found that much of the information which might have assisted this process is not in the public domain because it is commercially sensitive information held by individual companies. As noted in section 3, the Scottish Government has consulted with those groups that are likely to be affected and invited them to provide information in order to better understand their position. In particular, groups representing the alcohol industry have provided information relating to costs of implementing the proposal on minimum price in the Bill. In many cases, however, the Scottish Government was not able to carry out an independent verification of this.

Benefits

5.3 As previously mentioned, the SchARR report, *Model-Based Appraisal of Alcohol Minimum Pricing and Off-Licensed Trade Discount Bans in Scotland using the Sheffield Alcohol Policy Model (v2): An Update Based on Newly Available Data*, forms part of this impact assessment and is used to provide some illustrative examples. Examples of estimated benefits, from the modelling, are presented either as a range or use a minimum price of 45p per unit as an example.

Robustness of modelling results

5.4 As regards margins of uncertainty around the costs and benefits, the SchARR report details the range of sensitivity analyses undertaken including probabilistic sensitivity analysis around the elasticity values. The elasticity results proved to be robust and subject to very narrow confidence intervals.

5.5 Further testing and adjusting of the baseline results took place using alternative assumptions around the differential responsiveness of moderate and heavier drinkers using a modelling assumption made by Chisholm et al (2004). This showed that even where hazardous and harmful drinkers are assumed to be one third less responsive to price changes than moderate drinkers, the model results still show harmful drinkers as more responsive to minimum price policies. This effect arises because harmful drinkers are estimated from the Expenditure and Food Survey data to purchase more of the types of alcohol that are impacted by minimum price policies.

89 [http://www.scotland.gov.uk/Publications/2010/04/20091852/0]
5.6 Further sensitivity analyses were carried out using an alternative data source for drinkers' preferences for off-trade versus on-trade consumption; differing assumptions around the risk functions for coronary heart disease; and alternative measures of attribution of crimes to alcohol consumption providing estimates based on a range of scenarios. Results of the sensitivity analyses are available in the annexes of the ScHARR reports.

Sectors and groups affected
5.7 The proposals have the potential to impact on society as a whole given that alcohol misuse is estimated to have cost £2.5 billion to £4.6 billion (with a midpoint estimate of £3.6 billion) in Scotland in 2007. The midpoint estimate of £3.6 billion includes around £870m in lost productivity, a cost of around £270m to the NHS and around £730m in crime costs. Harms are not just experienced solely by the drinker but also by family and friends, communities, employers, and Scotland as a whole.

5.8 Minimum pricing will directly impact on consumers of alcohol and those involved in the alcohol industry: producers, distributors and retailers in both the off and on-trade. There will also be effects on those in the public sector responsible for enforcing the proposals such as Licensing Standards Officers, Licensing Boards, and the police. Any change in the volume of alcohol purchased will affect the UK Exchequer in the form of the duty and taxation collected by the UK Government. Alcohol-related harm affects rates of ill health, crime and employment. There will therefore be potential savings for the NHS through a change in the number of deaths, hospital admissions for acute and chronic illnesses and primary care consultations for alcohol problems; on the justice system this includes the police, the criminal justice system and victims of crime; and on the workplace in the form of the number of unemployed due to alcohol misuse and the sickness absence rate.

Consumers
5.9 Consumers who currently purchase alcohol priced at less than the minimum price per unit will be directly affected. Although all groups of consumers are predicted to alter their behaviour, modelling has demonstrated that those likely to be most affected are the harmful and hazardous drinkers. This is supported by the findings from literature that young people and harmful/hazardous drinkers are most likely to consume low cost alcohol. Consumers will also be affected by any change in the level of societal harm associated with alcohol.

On and off-sales
5.10 Both on-sales and off-sales premises will be affected by setting a minimum unit price for alcoholic drinks. It is likely to have a greater impact on off-sales premises than on on-sales as the price of off-sales alcohol is generally lower than the price of on-sales alcohol. Off-sales may experience a reduction in the volume of sales and consumers may switch to purchasing some of their alcohol from on-sales premises.

5.11 The retail sector (off-trade) consists of a small number of large supermarkets who dominate, a number of smaller supermarkets, a decreasing number of specialist retailers, and a large number of smaller grocers and corner shops. The hospitality sector (on-trade) consists of a small number of national chains and a
large number of small pubs, clubs and restaurants. Independent pubs are increasingly being taken over by large beer producers\textsuperscript{91}.

\textit{Wholesalers and producers}

5.12 Wholesalers and producers of alcohol will be affected as the volume of alcohol purchased at less than the minimum price per unit is expected to decline. The extent of the impact will depend on the quantity of alcohol they produce and sell that is priced at less than the minimum unit price.

5.13 Within Scotland production consists of a number of multinationals producing a range of products for worldwide markets and a large number of smaller producers. These firms source inputs from a number of smaller firms both in Scotland and abroad.

\textit{Production supply chain}

5.14 In 2010 the whisky sector was the largest consumer of grain in Scotland using around 40\% of the wheat and barley crop\textsuperscript{92}. Barley is also used in the production of beer. If the reduction in domestic sales as a result of any minimum pricing were large enough, there could be a reduction in demand for grain from Scottish farmers. However, we note that over 90\% of Scotch Whisky is exported so any decline in Scottish sales is likely to have a minimal impact on grain producers.

\textit{Local government}

5.15 Local government will be affected as it will be the responsibility of Licensing Standards Officers to ensure compliance with minimum pricing and Licensing Boards to take action against businesses breaching the conditions.

\textit{UK Exchequer}

5.16 The UK Exchequer will be affected through a reduction in the level of the duty and VAT associated with any changes in the volume and pattern of purchasing of alcohol products.

\textsuperscript{91} Petrie D et al. (2011) Scoping study of the economic impact on the alcohol industry of pricing and non-price policies to regulate the affordability and availability of alcohol in Scotland.

\textsuperscript{92} Bell J (2010) The Scotch whisky sector and grain supply and demand in Scotland. SAC Consulting
Minimum price of alcohol

Benefits

Benefits to consumers

Health

5.17 In terms of health, the evidence is that increasing the price of alcohol leads to a reduction in harm\(^{93}\). The modelling estimates that there will be a reduction in both death and illness for all minimum prices over 30p. Table 2 shows estimates of some of the health benefits that could be achieved.

<table>
<thead>
<tr>
<th>Policy</th>
<th>Deaths</th>
<th>Illnesses (chronic + acute)</th>
<th>QALYs(^{94}) saved</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yr 1</td>
<td>Yr 10</td>
<td>Yr 1</td>
</tr>
<tr>
<td>25p</td>
<td>+6</td>
<td>+2</td>
<td>+100</td>
</tr>
<tr>
<td>30p</td>
<td>+2</td>
<td>-10</td>
<td>+0</td>
</tr>
<tr>
<td>35p</td>
<td>-9</td>
<td>-47</td>
<td>-100</td>
</tr>
<tr>
<td>40p</td>
<td>-26</td>
<td>-119</td>
<td>-500</td>
</tr>
<tr>
<td>45p</td>
<td>-50</td>
<td>-225</td>
<td>-1,000</td>
</tr>
<tr>
<td>50p</td>
<td>-80</td>
<td>-352</td>
<td>-1,600</td>
</tr>
<tr>
<td>55p</td>
<td>-114</td>
<td>-497</td>
<td>-2,300</td>
</tr>
<tr>
<td>60p</td>
<td>-150</td>
<td>-640</td>
<td>-3,000</td>
</tr>
<tr>
<td>65p</td>
<td>-185</td>
<td>-785</td>
<td>-3,700</td>
</tr>
<tr>
<td>70p</td>
<td>-221</td>
<td>-926</td>
<td>-4,500</td>
</tr>
</tbody>
</table>

* Figure is cumulative over 10 years and discounted at 3.5% consistent with current HM Treasury advice.

5.18 For a 45p per unit minimum price, it estimated that deaths will reduce by around 50 within the first year of implementation and after 10 years there will be a full effect of around 225 fewer deaths per annum. In the 10 year effect, deaths are differentially distributed across the groups with around 14 amongst moderate drinkers, around 100 amongst hazardous drinkers and around 100 amongst harmful drinkers. Alcohol-related illness is also predicted to decrease with an estimated reduction of around 1,000 chronic and acute illnesses within the first year. In the full 10 year effect, illnesses are expected to reduce by around 2,600 per annum differentially distributed across the groups with around 500 amongst moderate drinkers, around 1,000 amongst hazardous drinkers, and around 1,000 amongst harmful drinkers. Hospital admissions are estimated to reduce by around 1,200 in the first year, and a full effect in year 10 of around 4,200 differentially distributed across the groups with around 600 amongst moderate drinkers, around 1,600 amongst hazardous drinkers, and around 2,000 amongst harmful drinkers.


\(^{94}\) A quality adjusted life year is a measure of health outcome which combines quantity of life with quality: where 0 = death and 1 = 1 year in full health. Measured in this way a QALY of 0.5, for example, could be 6 months at full health or 1 year in a health state valued at 0.5.
5.19 Associated with a reduction in health harms are cost savings. Table 3 illustrates the estimated value of these for the range of minimum price scenarios modelled. With a minimum price of 45p per unit, healthcare service costs are estimated to reduce by over £5m in the first year, with a Quality Adjusted Life Years (QALY) gain valued at around £14m. For the full 10 year effect, the healthcare service costs are estimated to reduce by over £80m, with a QALY gain valued at around £370m.

Table 3: value of health harm reduction (£million)

<table>
<thead>
<tr>
<th>Minimum price per unit</th>
<th>Health care costs</th>
<th>Health QALY value</th>
<th>Total</th>
<th>Health care costs</th>
<th>Health QALY value*</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>25p</td>
<td>+0.3</td>
<td>+0.8</td>
<td>+1.1</td>
<td>+2</td>
<td>+13</td>
<td>+15</td>
</tr>
<tr>
<td>30p</td>
<td>+0</td>
<td>+0</td>
<td>0</td>
<td>-2</td>
<td>-8</td>
<td>-10</td>
</tr>
<tr>
<td>35p</td>
<td>-1.0</td>
<td>-2.7</td>
<td>-3.7</td>
<td>-17</td>
<td>-74</td>
<td>-91</td>
</tr>
<tr>
<td>40p</td>
<td>-2.8</td>
<td>-7.3</td>
<td>-10.1</td>
<td>-43</td>
<td>-193</td>
<td>-236</td>
</tr>
<tr>
<td>45p</td>
<td>-5.5</td>
<td>-14.3</td>
<td>-19.8</td>
<td>-83</td>
<td>-369</td>
<td>-452</td>
</tr>
<tr>
<td>50p</td>
<td>-8.8</td>
<td>-22.8</td>
<td>-31.6</td>
<td>-132</td>
<td>-583</td>
<td>-715</td>
</tr>
<tr>
<td>55p</td>
<td>-12.7</td>
<td>-32.9</td>
<td>-45.6</td>
<td>-188</td>
<td>-831</td>
<td>-1,019</td>
</tr>
<tr>
<td>60p</td>
<td>-16.7</td>
<td>-43.4</td>
<td>-60.1</td>
<td>-247</td>
<td>-1,084</td>
<td>-1,331</td>
</tr>
<tr>
<td>65p</td>
<td>-20.8</td>
<td>-54.3</td>
<td>-75.1</td>
<td>-306</td>
<td>-1,342</td>
<td>-1,648</td>
</tr>
<tr>
<td>70p</td>
<td>-25.0</td>
<td>-65.4</td>
<td>-90.4</td>
<td>-366</td>
<td>-1,599</td>
<td>-1,965</td>
</tr>
</tbody>
</table>

* Figure is cumulative over 10 years and discounted at 3.5% consistent with current HM Treasury advice.

Health benefits for those on low incomes

5.20 Whilst there is insufficient data to enable the reduction in health harms across different income groups to be modelled, the MESAS baseline report confirmed strong income/deprivation patterns to alcohol-related health harm. In 2009-10, alcohol-related discharge rates in the most deprived quintile (as measured by the Scottish Index of Multiple Deprivation (SIMD)) were 7.5 times greater than in the least deprived quintile, with a greater increase in rates in the more deprived quintiles since 2000-01. Alcohol-related mortality rates in the most deprived SIMD category were over 6 times higher than in the least deprived category. Analysis of SHeS 2008 and 2009 found that while 76% of men and 84% of women in the lowest income quintile did not drink or drank moderately, this group were also the most likely to drink at harmful levels (9% of men and 6% of women). And significantly, average weekly consumption among low income harmful drinkers was much higher than among other harmful drinkers (93 units for men and 69 for women compared to 69 and 52 units respectively for harmful drinkers in the highest income group). This helps to explain the differential harm patterns described above. In addition those on low incomes are likely to be more responsive to minimum pricing. Given this, it is

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97 Hunt P, Rabinovich L, Baumberg B (2011) op cit
therefore likely that those in lower income/more deprived groups will benefit from the greatest reduction in health harms.

**Crime**

5.21 Overall, crime volumes are estimated to fall following the introduction of a minimum price. Using the example of 45p per unit, this would be by around 2,600 offences per annum as shown in table 4. The distribution of the effect varies across the drinker groups with reductions in this case of around 100 offences from moderate drinkers, around 700 from hazardous drinkers and around 1,600 offences from harmful drinkers. The harm avoided in terms of victim quality of life\(^{98}\) is valued at around £1.4m in the first year and around £13m over 10 years. Direct costs of crime are estimated to reduce by around £2.2m in the first year and by around £18m over 10 years.

<table>
<thead>
<tr>
<th>Minimum price per unit</th>
<th>Violent crime</th>
<th>Criminal damage</th>
<th>Other crime</th>
<th>Total crimes</th>
<th>QALYs of crime victims</th>
</tr>
</thead>
<tbody>
<tr>
<td>25p</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>30p</td>
<td>0</td>
<td>-100</td>
<td>-100</td>
<td>-200</td>
<td>0</td>
</tr>
<tr>
<td>35p</td>
<td>-100</td>
<td>-200</td>
<td>-300</td>
<td>-500</td>
<td>0</td>
</tr>
<tr>
<td>40p</td>
<td>-200</td>
<td>-500</td>
<td>-700</td>
<td>-1,400</td>
<td>0</td>
</tr>
<tr>
<td>45p</td>
<td>-400</td>
<td>-1,000</td>
<td>-1,300</td>
<td>-2,600</td>
<td>0</td>
</tr>
<tr>
<td>50p</td>
<td>-600</td>
<td>-1,500</td>
<td>-2,000</td>
<td>-4,000</td>
<td>0</td>
</tr>
<tr>
<td>55p</td>
<td>-800</td>
<td>-2,100</td>
<td>-2,800</td>
<td>-5,700</td>
<td>0</td>
</tr>
<tr>
<td>60p</td>
<td>-1,000</td>
<td>-2,700</td>
<td>-3,700</td>
<td>-7,400</td>
<td>-100</td>
</tr>
<tr>
<td>65p</td>
<td>-1,300</td>
<td>-3,400</td>
<td>-4,600</td>
<td>-9,300</td>
<td>-100</td>
</tr>
<tr>
<td>70p</td>
<td>-1,600</td>
<td>-4,000</td>
<td>-5,500</td>
<td>-11,100</td>
<td>-100</td>
</tr>
</tbody>
</table>

**Employment**

5.22 Workplace harms are estimated to reduce for all minimum prices modelled. The economy is estimated to benefit from a reduction in alcohol related absence and from a reduction in the number of unemployed. For a minimum price of 45p per unit, for example, this would be by around 1,200 fewer unemployed people and around 22,900 fewer sick days per year. The estimated reduction in unemployment comes from the harmful drinking group. Sick days are differentially distributed across the groups with a reduction of around 5,200 amongst moderate drinkers, around 7,000 amongst hazardous drinkers and around 10,300 amongst harmful drinkers. Table 5 shows the estimates associated with each minimum price scenario. For the first year after implementation, the cost of sick days is estimated to fall by around £2m and the cost of unemployment by £26m. The cost of sick days and unemployment is estimated to reduce by around £240m over 10 years.

\(^{98}\) Following on from Dubourg et al (2005), direct physical and emotional impacts on victims of crime are valued at £81,000 per QALY.
Table 5: workplace outcomes from minimum price scenarios

<table>
<thead>
<tr>
<th>Minimum price per unit</th>
<th>Days absence</th>
<th>Unemployed people</th>
</tr>
</thead>
<tbody>
<tr>
<td>25p</td>
<td>-500</td>
<td>-100</td>
</tr>
<tr>
<td>30p</td>
<td>-1600</td>
<td>-200</td>
</tr>
<tr>
<td>35p</td>
<td>-4900</td>
<td>-400</td>
</tr>
<tr>
<td>40p</td>
<td>-11,800</td>
<td>-700</td>
</tr>
<tr>
<td>45p</td>
<td>-22,900</td>
<td>-1,200</td>
</tr>
<tr>
<td>50p</td>
<td>-36,900</td>
<td>-1,700</td>
</tr>
<tr>
<td>55p</td>
<td>-53,600</td>
<td>-2,200</td>
</tr>
<tr>
<td>60p</td>
<td>-70,500</td>
<td>-2,700</td>
</tr>
<tr>
<td>65p</td>
<td>-88,800</td>
<td>-3,100</td>
</tr>
<tr>
<td>70p</td>
<td>-108,000</td>
<td>-3,500</td>
</tr>
</tbody>
</table>

Summary

5.23 The societal value of these harms can also be estimated from the modelling. The value is disaggregated as follows: NHS cost reductions, value of QALYs saved, crime costs saved, value of crime, QALYs saved and employment related harms avoided. In addition the societal value of these harm reductions over the 10 year period is estimated across the different drinker groups: moderate, hazardous and harmful.

5.24 Table 6 summarises the total estimated effects on individuals for a range of minimum prices per unit. This illustrates the estimated financial value of harm reductions in health, crime and employment in the first year and over 10 years.
Table 6: Summary of financial valuation on health, crime and employment alcohol-related harms (£million)

<table>
<thead>
<tr>
<th>Minimum price per unit</th>
<th>Health (including QALYs)</th>
<th>Crime (including QALYs)</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m Year 1</td>
<td>Over 10 years</td>
<td>£m Year 1</td>
</tr>
<tr>
<td>25p</td>
<td>+1</td>
<td>+15</td>
<td>0</td>
</tr>
<tr>
<td>30p</td>
<td>0</td>
<td>-10</td>
<td>0</td>
</tr>
<tr>
<td>35p</td>
<td>-4</td>
<td>-91</td>
<td>-1</td>
</tr>
<tr>
<td>40p</td>
<td>-10</td>
<td>-236</td>
<td>-2</td>
</tr>
<tr>
<td>45p</td>
<td>-20</td>
<td>-452</td>
<td>-4</td>
</tr>
<tr>
<td>50p</td>
<td>-32</td>
<td>-715</td>
<td>-6</td>
</tr>
<tr>
<td>55p</td>
<td>-46</td>
<td>-1,019</td>
<td>-8</td>
</tr>
<tr>
<td>60p</td>
<td>-60</td>
<td>-1,331</td>
<td>-11</td>
</tr>
<tr>
<td>65p</td>
<td>-75</td>
<td>-1,648</td>
<td>-13</td>
</tr>
<tr>
<td>70p</td>
<td>-90</td>
<td>-1,965</td>
<td>-16</td>
</tr>
</tbody>
</table>

5.25 Table 7 illustrates that the harm reduction occurs in all drinker groups (over a 30p threshold) but predominantly in the harmful drinking group. All consumers will benefit from a reduction in the level of alcohol-related harm within society.

Table 7: Value of harm reduction (including QALYs) by drinker group (£million)

<table>
<thead>
<tr>
<th>Minimum price per unit</th>
<th>Moderate</th>
<th>Hazardous</th>
<th>Harmful</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>yr 1</td>
<td>yr 10</td>
<td>yr 1</td>
</tr>
<tr>
<td>25p</td>
<td>+1</td>
<td>+18</td>
<td>+0.</td>
</tr>
<tr>
<td>30p</td>
<td>+1</td>
<td>-10</td>
<td>+0.</td>
</tr>
<tr>
<td>35p</td>
<td>-1</td>
<td>-15</td>
<td>-1</td>
</tr>
<tr>
<td>40p</td>
<td>-3</td>
<td>-52</td>
<td>-4.</td>
</tr>
<tr>
<td>45p</td>
<td>-9</td>
<td>-110</td>
<td>-9</td>
</tr>
<tr>
<td>50p</td>
<td>-10</td>
<td>-181</td>
<td>-14</td>
</tr>
<tr>
<td>55p</td>
<td>-16</td>
<td>-269</td>
<td>-22</td>
</tr>
<tr>
<td>60p</td>
<td>-22</td>
<td>-63</td>
<td>-30</td>
</tr>
<tr>
<td>65p</td>
<td>-28.</td>
<td>-464</td>
<td>-37</td>
</tr>
<tr>
<td>70p</td>
<td>-35.</td>
<td>-569</td>
<td>-45</td>
</tr>
</tbody>
</table>

Benefits to retailers – off-trade

5.26 Minimum pricing is estimated to result in increased revenue to the alcohol industry as a whole. Table 8 shows the estimated increase associated with a range of minimum prices. For example, for a minimum price of 45p there would be increased revenue (excluding VAT and duty) of £104m per annum - £67m of which would accrue to the off-trade.
### Table 8: Estimated change in total spending on alcohol (£million)

<table>
<thead>
<tr>
<th>Minimum price per unit</th>
<th>Off retail (excl duty +VAT)</th>
<th>On retail (excl duty +VAT)</th>
<th>Off: duty + VAT</th>
<th>On: duty + VAT</th>
<th>Total spending change</th>
</tr>
</thead>
<tbody>
<tr>
<td>25p</td>
<td>+4.7</td>
<td>+3.1</td>
<td>-0.1</td>
<td>+0.9</td>
<td>+8.7</td>
</tr>
<tr>
<td>30p</td>
<td>+11.0</td>
<td>+7.6</td>
<td>-0.8</td>
<td>+2.3</td>
<td>+20.1</td>
</tr>
<tr>
<td>35p</td>
<td>+23.7</td>
<td>+14.9</td>
<td>-3.8</td>
<td>+4.5</td>
<td>+39.3</td>
</tr>
<tr>
<td>40p</td>
<td>+43.1</td>
<td>+25.0</td>
<td>-10.0</td>
<td>+7.6</td>
<td>+65.7</td>
</tr>
<tr>
<td>45p</td>
<td>+67.3</td>
<td>+36.7</td>
<td>-19.5</td>
<td>+11.1</td>
<td>+95.6</td>
</tr>
<tr>
<td>50p</td>
<td>+90.8</td>
<td>+49.2</td>
<td>-31.4</td>
<td>+14.9</td>
<td>+123.4</td>
</tr>
<tr>
<td>55p</td>
<td>112.1</td>
<td>+62.5</td>
<td>-46.0</td>
<td>+18.9</td>
<td>+147.6</td>
</tr>
<tr>
<td>60p</td>
<td>+130.3</td>
<td>+76.7</td>
<td>-61.4</td>
<td>+23.0</td>
<td>+168.7</td>
</tr>
<tr>
<td>65p</td>
<td>+142.8</td>
<td>+92.2</td>
<td>-78.5</td>
<td>+27.3</td>
<td>+183.8</td>
</tr>
<tr>
<td>70p</td>
<td>+148.0</td>
<td>+108.5</td>
<td>-97.2</td>
<td>+31.6</td>
<td>+190.9</td>
</tr>
</tbody>
</table>

5.27 This is a high-level estimate of revenue changes. We do not know where the change in revenue may accrue i.e. whether the estimated increases benefit retailers, wholesalers or producers, or all of them to some extent. The alcohol market is highly segmented and this makes it particularly difficult to identify potential effects. For different products, where the additional revenue accrues will depend, to some extent, on the relative market power of different parts of the supply chain. The total increase in revenue at a minimum price of 45p for example, represents 2.5% of the estimated value of total alcohol sales for both the on and off-trade sectors (£3,810m\(^99\)) in Scotland in 2010. It is worth noting that several of the responses received from industry indicated they did not consider the introduction of minimum pricing would result in additional revenue to the industry.

5.28 A minimum pricing policy is likely to affect the off-trade sector more than the on-trade sector as the average price of alcohol is lower in the off-trade sector. The average price of a unit of alcohol in the on-trade in 2010 was £1.34 whilst for the off-trade it was 45p\(^100\).

5.29 The majority of off-sales are from the large supermarket chains. Nielsen estimate that at least 70% of all alcohol off-sales are from “large multiple retailers” – Asda, Morrison’s, Tesco and Sainsbury’s\(^101\). The off-sales market is increasingly split between supermarket purchases at low prices (supermarkets have substantial buying power and the ability to negotiate lower prices from suppliers and producers) and impulse and convenience purchases from small shops with many traditional specialist off-licence retailers such as Oddbins, forced to exit the industry\(^102\).

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\(^101\) Communication with Health Scotland

minimum price per unit may allow smaller chains and independent shops to better compete with the supermarkets in terms of price and this is borne out by SGF\textsuperscript{103}.

5.30 SWA\textsuperscript{104} consider that any increased revenue is likely to be retained by retailers and do not consider any will be shared with producers. However, SWA also state that if retailers hold down the price of premium products and so undermine the brand’s position in the market, producers will seek to raise prices to retailers in order to maintain the brand’s position. Chivas Brothers Ltd, Pernod Ricard UK\textsuperscript{105}, and Heineken UK\textsuperscript{106} consider retailers would retain any additional revenue. WSTA\textsuperscript{107} consider, if there is any additional revenue, how it is shared will be part of a commercial conversation between retailer and suppliers. The RAND report for the Home Office\textsuperscript{108} concluded that the evidence from the UK alcohol market suggested that major retailers of alcohol, operating in an oligopolistic market, have a relatively stronger bargaining position than producers.

5.31 Convenience stores’ representatives\textsuperscript{109} have said that they need to try to maintain low prices to compete with supermarkets, particularly as supermarkets continue to develop their “convenience store” format (such as Tesco Metro and Sainsbury’s Central). A minimum unit price would reduce the ability of large supermarkets to undercut prices in smaller shops and allow the smaller shops to compete on non-price elements such as convenience. SGF consider at a minimum price of 45p and above, prices will increase through the inability of retailers to promote cheaper prices regularly as happens now. The convenience store sector should benefit from this through the creation of a ‘level playing field’ with supermarkets on alcohol.

5.32 As previously noted, some grocery retailers sell goods, including alcohol, at below-cost as a competitive strategy\textsuperscript{110}. Where this practice occurs those that drink moderately, or not at all, are subsidising those that drink heavily and purchase very low price alcohol. If this practice was no longer possible through the implementation of a minimum price per unit, it has been suggested that these retailers could consider lowering prices on other goods which are currently cross-subsidising low prices on alcohol\textsuperscript{111}.

\textsuperscript{103} Scottish Grocers Federation input to Business and Regulatory Impact Assessment through correspondence with Scottish Government, September 2011
\textsuperscript{104} Scotch Whisky Association input to Business and Regulatory Impact Assessment through correspondence with Scottish Government, September 2011
\textsuperscript{105} Chivas brothers Ltd and Pernod Ricard UK input to Business and Regulatory Impact Assessment through correspondence with Scottish Government, September 2011
\textsuperscript{106} Heineken UK input to Business and Regulatory Impact Assessment through correspondence with Scottish Government, September 2011
\textsuperscript{107} Wine and Spirits Trade Association input to Business and Regulatory Impact Assessment through correspondence with Scottish Government, September 2011
\textsuperscript{108} Hunt P, Rabinovich L, Baumberg B (2011) Op cit
\textsuperscript{109} Op. cit., correspondence with Scottish Government, September 2011
\textsuperscript{111} Record, C & Day, C: Britain’s alcohol market: how minimum alcohol prices could stop moderate drinkers subsidising those drinking at hazardous and harmful levels. Clinical Medicine vol 9(S) Sep 2009
5.33 Minimum pricing per unit could encourage an increase in advertising which may run counter to the aims of the legislation. The Scottish Government acknowledges that the imposition of minimum pricing will constrain price competition and that this may lead to an increase in non-price competition, including increased advertising or marketing.

Benefits to retailers – on-trade
5.34 Although, on average, on-trade prices are well above any potential minimum price, table 8 illustrates they too are expected to see increased revenue. A 45p per unit minimum price results in estimated increased revenue to the alcohol industry (excluding VAT and duty) of £104m per annum - £37m of which would accrue to the on-trade. Again it is unclear where the change in revenue may accrue i.e. whether the estimated increases benefit licensed premises, wholesalers or producers, or all of them to some extent. The alcohol market is highly segmented and this increases the difficulty in identifying potential effects. For different products, where the additional revenue accrues will depend, to some extent, on the relative market power of different parts of the supply chain.

5.35 The average price of a unit of alcohol in the on-trade in 2010 was £1.34 whilst for the off-trade it was 45p\textsuperscript{112}. A minimum pricing policy is therefore likely to affect the off-trade sector more than the on-trade sector. SLTA\textsuperscript{113} considers that few products in the on-trade would be affected at a 50p per unit minimum price. The on-trade sector revenue increases result from switching effects - as the differential between prices in the off-trade and on-trade reduces, the modelling predicts that some drinkers switch from purchasing in the off-trade to purchasing in the on-trade. This applies particularly to beer sales.

Benefits to wholesalers
5.36 Minimum pricing is estimated to result in increased revenue to the alcohol industry as a whole. The example of a 45p per unit generates an estimated increase (excluding VAT and duty) of £104m per annum with increases in both the off and on-trade sectors. This is a high-level estimate of revenue changes. It is difficult to predict how this increase might be distributed across the supply chain. Wholesalers deal mainly with smaller retailers, and consider they will see very little change. In common with SGF, they consider that the introduction of minimum pricing may result in their customers being more able to compete with larger retailers.

Benefits to producers
5.37 Minimum pricing is estimated to result in increased revenue to the alcohol industry as a whole. The example of a 45p per unit generates an estimated increase (excluding VAT and duty) of £104m per annum with increases in both the off and on-trade sectors. This is a high-level estimate of revenue changes. It was beyond the remit of the modelling to consider where the change in revenue may accrue. We do not know how that will be distributed across the supply chain within this highly segmented market and the extent to which producers may benefit.

\textsuperscript{112}Robinson M, Craig N, McCartney G, Beeston C 2011 op cit
\textsuperscript{113} Scottish Licensed Trade Association input to Business and Regulatory Impact Assessment through correspondence with Scottish Government, September 2011
5.38 There is no consistent view from the industry as to what the effect of a minimum price might be on producers. SWA\textsuperscript{114} consider that any increased revenue is likely to be retained by retailers and do not consider any will be shared with producers. However, SWA also state that if retailers hold down the price of premium products and so undermine the brand’s position in the market, producers will seek to raise prices to retailers in order to maintain the brand’s position. Chivas brothers Ltd and Pernod Ricard UK\textsuperscript{115} state that, in their experience, retailers will not discuss retail pricing policy with their suppliers so consider it highly unlikely that retailers would seek to share the increased revenue with producers. Heineken UK\textsuperscript{116} agree that any increased revenue would be retained by the retailer, although do mention it is difficult to assess the likely impact on the supply chain. However, SGF\textsuperscript{117} consider producers would take the opportunity to increase their prices to the trade so they can benefit from the increased revenue. WSTA\textsuperscript{118} consider, if there is any additional revenue, how it is shared will be part of a commercial conversation between retailer and suppliers.

**Benefits to local government**

5.39 As outlined in paragraphs 5.17 to 5.25, there are likely to be substantial savings in terms of health, crime and employment. Local authorities, for example, would benefit from the estimated reductions in crime and associated police and court costs. It is not possible to place an accurate cost on the potential saving to local authorities.

**Benefits to central government**

5.40 As outlined in paragraphs 5.17 to 5.25, there are likely to be substantial savings in terms of health, crime and employment. Central government, for example would benefit from the estimated reductions in NHS demand and an increase in the productivity of the workforce more generally. It is not possible to provide an accurate estimate of the amount of saving directly accrued by central government.

**Costs**

**Costs to consumers**

5.41 On the introduction of a minimum unit price, consumers directly affected will be those that previously purchased products priced below this. Consumers can be expected to respond to changes in price by reducing their consumption of an alcoholic product if the price increases, or by switching to alternative products (substitutes) whose relative price has decreased. The extent to which this happens will depend on consumers’ price responsiveness, known as own-price elasticity (PED) and cross-price elasticities (XED) of demand, which will determine change in consumption and switching behaviour.

\textsuperscript{114} Op. cit., correspondence with Scottish Government, September 2011
\textsuperscript{115} Op. cit., correspondence with Scottish Government, September 2011
\textsuperscript{116} Op. cit., correspondence with Scottish Government, September 2011
\textsuperscript{117} Op. cit., correspondence with Scottish Government, September 2011
\textsuperscript{118} Op. cit., correspondence with Scottish Government, September 2011
5.42 Knowledge of price elasticities is crucial in, for example, determining the impact of the change in duty rates. HMRC has a costing model in which price elasticities are one of the most important inputs. Their most recent work estimating elasticities, *Econometric Analysis of Alcohol Consumption in the UK*\(^{119}\), lists over 30 studies\(^{120}\) which they consider show that “there is fairly conclusive and longstanding evidence that price has a negative impact on alcohol consumption in the UK”\(^{121}\).

5.43 The ScHARR model essentially works in two stages. The first stage models elasticities taking into account on and off-trade, different types of products and different categories of drinker. This produces detailed tables which show that most products are substitutes to each other so a price increase in one product leads to increased consumption of other goods (switching).

5.44 The ScHARR modelling separated drinkers into the categories moderate, hazardous and harmful. The results show that whilst the introduction of a minimum price for a unit of alcohol leads to a decrease in consumption, it would result in an increase in consumers’ spending, particularly for hazardous and harmful drinkers as they consume the most alcohol and tend to consume the cheaper alcohol. The model takes into account switching behaviour through incorporating elasticities which provide information on the responsiveness of the population to price changes. The effects are slightly larger for hazardous and harmful drinkers than for moderate drinkers i.e. they are more responsive to price change. Table 9 shows the estimated effect on consumers’ spending for each of these groups for a range of minimum prices, and table 10 shows the estimated effect on consumers’ spending for all drinkers for a range of minimum prices.

<table>
<thead>
<tr>
<th>Minimum price per unit</th>
<th>Moderate drinkers</th>
<th>Hazardous drinkers</th>
<th>Harmful drinkers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Change in mean annual consumption per drinker per annum (%)</td>
<td>Change in spend per drinker per annum (£)</td>
<td>Change in mean annual consumption per drinker per annum (%)</td>
</tr>
<tr>
<td>25p</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>30p</td>
<td>0</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>35p</td>
<td>-0.3</td>
<td>3</td>
<td>-0.4</td>
</tr>
<tr>
<td>40p</td>
<td>-0.9</td>
<td>5</td>
<td>-1.4</td>
</tr>
<tr>
<td>45p</td>
<td>-2.0</td>
<td>8</td>
<td>-3.2</td>
</tr>
<tr>
<td>50p</td>
<td>-3.3</td>
<td>12</td>
<td>-5.6</td>
</tr>
<tr>
<td>55p</td>
<td>-5.0</td>
<td>15</td>
<td>-8.4</td>
</tr>
<tr>
<td>60p</td>
<td>-6.8</td>
<td>18</td>
<td>-11.3</td>
</tr>
<tr>
<td>65p</td>
<td>-8.8</td>
<td>21</td>
<td>-14.4</td>
</tr>
<tr>
<td>70p</td>
<td>-10.9</td>
<td>24</td>
<td>-17.6</td>
</tr>
</tbody>
</table>


\(^{120}\) Ibid. Table 1

\(^{121}\) Ibid pg 7
Table 10: minimum price: impact on consumption and spending

<table>
<thead>
<tr>
<th>Minimum price per unit</th>
<th>Change in mean annual consumption for all drinkers – all beverages (%)</th>
<th>Change in spend for all drinkers per annum (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>25p</td>
<td>-0.1</td>
<td>8.7</td>
</tr>
<tr>
<td>30p</td>
<td>-0.3</td>
<td>20.1</td>
</tr>
<tr>
<td>35p</td>
<td>-1.0</td>
<td>39.3</td>
</tr>
<tr>
<td>40p</td>
<td>-2.3</td>
<td>65.7</td>
</tr>
<tr>
<td>45p</td>
<td>-4.3</td>
<td>95.6</td>
</tr>
<tr>
<td>50p</td>
<td>-6.7</td>
<td>123.4</td>
</tr>
<tr>
<td>55p</td>
<td>-9.5</td>
<td>147.6</td>
</tr>
<tr>
<td>60p</td>
<td>-12.3</td>
<td>168.7</td>
</tr>
<tr>
<td>65p</td>
<td>-15.3</td>
<td>183.8</td>
</tr>
<tr>
<td>70p</td>
<td>-18.4</td>
<td>190.9</td>
</tr>
</tbody>
</table>

5.45 In terms of consumer spending, for the minimum price of 45p per unit as an example, the figures represent an increased spend of approximately 4.1% overall—split by 4.6%, 4.9% and 2.8% for harmful, hazardous and moderate drinkers respectively. The effect of a 45p per unit minimum price is estimated to increase overall spend by consumers by around £95m per annum, as shown in table 11, with moderate drinkers spending around £22m more per annum, hazardous drinkers around £45m more per annum and harmful drinkers around £28m more per annum. This additional spend needs to be balanced against the cost saving associated with reduced harms.

Table 11: Effect on drinkers for total population (£m): 45p per unit minimum price

<table>
<thead>
<tr>
<th>Total change in value of sales for population</th>
<th>Off-trade per annum</th>
<th>On-trade per annum</th>
<th>Total per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>Moderate</td>
<td>Hazardous</td>
<td>Harmful</td>
</tr>
<tr>
<td>47</td>
<td>11</td>
<td>21</td>
<td>15</td>
</tr>
<tr>
<td>48</td>
<td>11</td>
<td>24</td>
<td>13</td>
</tr>
<tr>
<td>£95m</td>
<td>£22m</td>
<td>£45m</td>
<td>£28m</td>
</tr>
</tbody>
</table>

5.46 Chivas Brothers Ltd and Pernod Ricard UK\textsuperscript{122} consider product ranges could be reduced thereby resulting in less choice for consumers. Retailers are only able to display alcohol in a pre-determined alcohol display area so they could be forced to reduce the product range in order to concentrate on those products that deliver

\textsuperscript{122} Op. cit., correspondence with Scottish Government, September 2011
consistent sales. It is not known which products these might be given it is not known what the shift in consumer behaviour might be. WSTA\(^{123}\) consider, as many logistics operations are UK wide, significant changes will have to be made as a result of minimum pricing which will incur excess cost to the industry and will result in less consumer choice.

**Consumers on low incomes**

5.47 Using increased price to manage the demand for alcohol is recommended by the WHO as one of the most effective interventions available to reduce consumption and associated harm. However without an accompanying increase in income (which would negate the effect) it is likely to be regressive. That is, proportionately, the impact is likely to be greater on those with lower incomes who purchase alcohol as the cost of any alcohol will make up a larger proportion of their income.

5.48 Analysis of SHeS 2008 and 2009 (combined) data shows that those on the lowest income are most likely to drink nothing, or very heavily. Men in the lowest household income quintile in Scotland are five times more likely to abstain from drinking than those in the most affluent quintile (20% compared to 4%) and women more than three times (23% compared to 7%) and therefore will not be affected by minimum pricing. A further 56% of men and 61% of women of those on the lowest income drink moderately, with average weekly consumption of 6.9 and 3.1 units respectively\(^{124}\). This group will be largely unaffected by minimum pricing by virtue of the small amount of alcohol consumed.

5.49 However, 9% of men and 6% of women in the lowest income quintile drink at harmful levels, the largest percentage of any income quintile. And these harmful drinkers drink significantly more (an average of 93 units for men and 69 units for women, per week) compared with those with the highest incomes (69 and 52 units respectively per week)\(^{125}\). Those consumers drinking at very high levels will clearly be affected by the introduction of minimum pricing. The exact impact will depend on the proportion of alcohol currently being bought below any minimum price threshold and their responsiveness to price changes.

5.50 Analysis on expenditure data published by SHAAP\(^{126}\) showed that all income groups purchase low price off-sales alcohol and confirmed that low income households are less likely to purchase off-sales alcohol at all. Further, it concluded that the relationship between income group and the amount of alcohol purchased at the cheapest price (below 30p a unit) is not particularly strong and that middle-to-higher income groups are the main purchasers of alcohol priced between 30p and 50p. When propensity to purchase alcohol is taken into account the lowest income groups are among the least likely to buy cheap alcohol. However, for those in low income groups who do buy alcohol, cheap alcohol makes up a proportionally larger share of the total alcohol bought.

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\(^{123}\) Op. cit., correspondence with Scottish Government, September 2011

\(^{124}\) Scottish Health Survey 2009 - Volume 1: Main report (2010) Scottish Government

http://www.scotland.gov.uk/Publications/2010/09/23154223/0

\(^{125}\) Ibid

\(^{126}\) Ludbrook, Prof A (2010) *Purchasing patterns for low price off sales alcohol: evidence from the Expenditure and Food Survey*; SHAAP
Costs to retailers – off-trade

Sales

5.51 For all minimum price scenarios the modelling estimates an increase in revenue to the alcohol industry as a whole. For example, a 45p per unit minimum price is estimated to result in an increase (excluding VAT and duty) of £104m per annum - £67m to the off-trade. Any effect on retailers would need to take into account that this overall impact is estimated to be as a result of a reduction in the volume of sales but with increased prices.

5.52 The sales data\(^{127}\) shows that 51.1 million litres of pure alcohol was sold through both the on and off-trade in Scotland in 2010. Of this 67% was sold through the off-trade and approximately a third (33%) through the on-trade. Within the off-trade sector,

- 32% was sold as spirits (41% as vodka, 25% as blended whisky);
- 33% as light wine;
- 24% as beer;
- 7% as cider;
- 4% as ‘other’.

5.53 For a 45p per unit minimum price, the modelling estimates that for sales of all spirits in the off-trade there would be a reduction of approximately 17 units per person per year – or about two thirds of a bottle\(^{128}\). The modelling also estimates a small increase in the amount of spirits sold via the on-trade. Using the population and consumption data in the SchARR report, the overall reduction is estimated at around 8% of total spirit consumption (on and off-trade) shown in the model. This represents around 2.5 million bottles of spirits a year across all types of spirits (vodka, gin, whisky, rum etc.) and both imported and domestic products.

5.54 The modelling was not able to estimate the potential impact at the level of different types of spirit but the price band data, referred to in paragraphs 2.29 to 2.32, provides detail on the price distribution of off-sales in 2010. It indicates that, in terms of pure alcohol, vodka has the largest share of the off-trade spirits market in Scotland, and that 85% of those vodka sales were below 45p per unit, equivalent to £11.82 per 70cl bottle (with almost 40% below 35p per unit, equivalent to £9.19 per 70cl bottle). For whisky, the percentage sold at below 45p per unit was 65%, equivalent to £12.60 per 70cl bottle (with 15% retailing at below 35p per unit, equivalent to £9.80 per 70cl bottle).

5.55 For beer and cider the model estimates that with a minimum price of 45p per unit there would be a reduction in consumption of around 23 units per drinker per year from off-sales. The modelling does not distinguish between different types or strengths of beer. It estimates that the reduction in off-sales of beer would be offset to a degree by switching to the on-trade. The overall decrease in beer sales would be around 4.5%.


\(^{128}\) Assuming a bottle = 700mls with an ABV of 37.5%.
5.56 At a minimum price of 45p per unit, the modelling estimates a small decrease in wine sold as off-sales and a marginal increase in on-sales. The decrease in off-sales is estimated to be just under 1.5%.

5.57 Large and small retailers are likely to be affected differently. Larger retailers sell large volumes of popular brands (often priced very competitively) and also a greater range of products. Convenience stores’ representatives have said that they need to maintain low prices to compete with supermarkets, particularly as supermarkets continue to develop their “convenience store” format (such as Tesco Metro and Sainsbury’s Central) putting pressure on independent retailers to compete with them on price. Action by large retailers to lower the price of individual items following the implementation of the quantity discount ban in the Alcohol etc. (Scotland) Act 2010, which came into force on 1 October 2011, illustrates how difficult it can be for smaller retailers to compete on price.

5.58 In their response to the minimum pricing proposals, SGF members consider that a minimum price of between 25p-49p would impact on up to 30% of products (mainly cider and cheaper spirits); a minimum price of between 50p-69p would impact on up to 90% of products; a minimum price of 70p or over would impact on all products. In their previous response, SGF estimated that a minimum price of 50p would result in a reduction in sales of 10%. SWA estimate that a minimum price of 50p would result in a reduction of Scotch Whisky sales in Scotland by 15% which equates to a reduction in sales of £23m (using the Wagenaar elasticities) and will have a significant impact on the Scottish market. They also consider the effect on sales will have a throughput effect on suppliers of such items as bottles, labels, cases etc. and further down the line it will impact on transport, farmers, maltsters and ultimately investment.

5.59 SGF considered it was unlikely that retailers would use the additional revenue to reduce the prices of other commodities, however if this did happen they would be concerned if these products included bread and milk where there is near-price parity between supermarkets and smaller retailers.

Implementation cost
5.60 There will be costs to retailers associated with the implementation of a minimum pricing scheme such as re-pricing products, altering bar codes and shelf tickets. The costs to retailers that operate only in Scotland will form part of their usual operational practice when altering prices. Those retailers that operate on a UK-wide basis may incur costs associated with a different pricing and promotion regime operating in Scotland. These retailers are predominantly large supermarket chains. There will be a lead in time prior to introduction. That, coupled with the resources available to them, should allow retailers to investigate the most cost effective method of implementing differential pricing across stores in different parts of the UK. Given large retailers are likely to increase their revenue on the

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130 Ibid
introduction of minimum pricing, they should be well able to absorb facilitation and implementation costs.

5.61 Information on how often prices change for products in supermarkets from weekly scanning data collected by Nielsen (including alcohol) shows that around 40% of prices in supermarkets change frequently. Around 25% of changes are adjusting for temporary reductions and, in any one week, 29% of alcohol prices rose and 29% fell. Any changes in alcohol duty imposed by the UK government also result in the need to re-price, and often at very short notice (for example, midnight that day). The level at which a minimum price was set would determine the proportion of products which would require re-pricing following the introduction of a minimum price (the price distribution shown in paragraph 2.30 may give an indication). However it would appear that altering prices is not an unusual activity.

5.62 Additional costs would not be significant for stores with head office support, however for independent/unattached retailers this may be equivalent to one member of staff for several days. If it is assumed that one shopfloor worker earning £6.08 per hour (national minimum wage for 21 years and over) is employed for 16 hours this would cost the employer approximately £117 per worker (including costs). It is unclear how many retailers would be affected in this way. In 2007 there were 3,224 off-sale liquor licences in force in shops in Scotland. If this cost was applied to all then the total incurred would be around £377,000.

5.63 SGF consider the wholesale distributor would be required to calculate all products’ prices in order to determine the wholesale selling price and retail selling price to ensure compliance with the minimum price and that “fair profit” was shared between wholesale and retail. The Scottish Government considers it would not be necessary for wholesalers to check prices as they will not be subject to any minimum pricing requirement (due to their trade-to-trade sales). Wholesalers may choose to increase prices in the knowledge that retail prices of certain goods have increased but that will be for individual companies within the supply chain to determine.

5.64 Heineken UK consider there will be increased costs in allowing for two different pricing systems north and south of the border. Multiple grocers would potentially be able to absorb these costs, but the “average independent retailer” would be potentially less able to, so their overall business performance could be impacted. WSTA point out that retailers have already incurred significant costs relating to the Alcohol Act coming into force and minimum pricing will result in another cost. Chivas Brothers Ltd and Pernod Ricard UK consider it is possible that large retailers will seek compensatory funding from suppliers in order to recoup facilitation and implementation costs. The Scottish Government consider this is

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135 Ibid
unlikely given large retailers are likely to increase their revenue on the introduction of minimum pricing, so will be well able to absorb facilitation and implementation costs. An alternative approach for those that operate on a UK-wide basis would be to use the Scottish pricing regime across the whole of the UK thus minimising the cost of operating different pricing structures.

**Cross-border**

5.65 There may be a loss of trade for Scottish retailers due to an element of cross-border alcohol tourism in order to take advantage of those areas in the UK that do not have minimum pricing in place. This is most likely to occur around the border where it is convenient to shop in England. The majority of the Scottish population live a considerable distance from the English border, so although there may be an element of cross-border activity, for most people, purchasing in England would incur both a time and travel cost (e.g. petrol and depreciation). This is likely to outweigh any savings on the price of alcohol. For example, a round trip from Glasgow to Carlisle involves a journey of just under 200 miles. Assuming an average of 40 miles per gallon, and a fuel cost per gallon of around £6.16 (equivalent to 135.5p per litre) the journey would cost around £30 in petrol/diesel alone and take a minimum of 3-4 hours. Additional running costs of around 40p per mile adds £80 to the cost. The level of any minimum price would determine any potential savings. Assuming that the purchased alcohol costs an average of 35p per unit and the minimum price is 45p per unit, then the consumer would need to buy 300 units of alcohol (equivalent to 33 bottles of 12% ABV wine or 11 bottles of vodka) simply to break even on the cost of the fuel. To cover the running cost as well would require the purchase of an additional 800 units of alcohol (equivalent to 88 bottles of 12% ABV wine or 30 bottles of vodka). In order to break even on the cost of fuel and running costs, the consumer would need to purchase 1,100 units of alcohol which is equivalent to 121 bottles of 12% ABV wine or 41 bottles of vodka. This estimate does not include a cost for the time element involved.

5.66 The WSTA cite the example of higher sales of alcohol in Northern Ireland due to the increase in the numbers of people travelling from the Republic of Ireland to Northern Ireland to take advantage of cheaper alcohol deals. This issue of cross-border shopping has been addressed in a recent report conducted by the Office of the Revenue Commissioners and the Central Statistics Office for the Irish Department of Finance. The report notes that the main causes of price differentials between goods in Northern Ireland and the Republic of Ireland are operating costs, profit margin, taxes and, in particular, the rapid depreciation of Sterling against the Euro (depreciation of around 30% between January and December 2008). These are specific circumstances where it is not just alcohol that is cheaper – people are travelling to do their whole grocery shopping.

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5.67 The Quarterly National Household Survey on Cross Border Shopping by the Irish Central Statistics Office\(^\text{142}\) shows that groceries and not alcohol are the main driver for cross-border shopping. At least one trip to Northern Ireland in the last year was made by 16% of households and on their most recent trip, 80% bought groceries, 44% bought alcohol, 42% bought clothing and consumer durables, 26% bought cosmetics and 19% bought other goods. On the most recent trip of those surveyed, an average of €286 was spent with only €32 of this being spent on alcohol. Cross-border shopping also extends to services such as hairdressing, dentists and opticians.

**Internet sales**

5.68 Minimum pricing will apply to all sales of alcohol licensed under the 2005 Act. This includes premises in Scotland providing internet sales. So consumers who regularly buy their weekly groceries online, including alcohol, would be affected by minimum pricing as these orders are normally despatched locally i.e. within Scotland. It is possible for consumers in Scotland to purchase alcohol where the goods are despatched from outside Scotland e.g. internet purchase or mail order and these sales are not subject to the 2005 Act. Like the potential for cross border shopping, the incentive to buy from outwith Scotland via the internet will be greater the bigger the price differential between the price of alcohol in Scotland and elsewhere, combined with the volume of goods being purchased. The average internet order, across all types of retail, cost £161 in June 2011\(^\text{143}\). The Scottish Government is aware of this possible purchasing route but considers that the type of alcohol that will be largely affected by a minimum pricing policy is not routinely purchased through the internet.

5.69 Whyte & Mackay estimate that approximately 5% of all alcohol sales are through the internet and mail order routes\(^\text{144}\), and the expectation is that this will increase. The Scottish Government is aware that this area is increasing, and this will be kept under review.

**Illegal sales**

5.70 The Scottish Crime and Drug Enforcement Agency does not consider there is a significant problem with illicit alcohol in Scotland. This is confirmed by both HMRC and Trading Standards. Illicit alcohol could be either alcohol on which the appropriate tax and duty has not been paid or counterfeit alcohol products. The former could, at present, be goods brought in from other parts of the EU where duty is lower and sold on illegally. Under minimum pricing, these could be goods bought in other parts of the UK and sold on under the minimum price. This would explicitly be illegal. Like individual purchases of alcohol from across the border, the incentive for trafficking on any scale would depend on the price differential between Scotland and the rest of the UK. The Scottish Government does not consider that the


\(^{143}\) IMRG/Capgemini e-Retail Sales Index: June 2011

\(^{144}\) Whyte & Mackay input to Business and Regulatory Impact Assessment through correspondence with Scottish Government, September 2011
differential is likely to be such as to incentivise this kind of activity. In giving evidence to the Health and Sport Committee during 2010, Chief Constable Pat Shearer of Dumfries and Galloway stated that illegal sales have never been a major issue, but they would assess whether it was becoming one after the introduction of minimum pricing\(^{145}\).

**Home production**

5.71 Home production of alcohol is currently considered to be undertaken on an insignificant scale and it is highly unlikely that any minimum price level set would be so high that it would result in a major increase in this activity.

**Costs to retailers – on-trade**

5.72 There are no anticipated costs to the on-trade. Rather the on-trade is predicted to benefit from a switch in consumption from off-trade, mainly in beer sales. Any minimum price set is likely to fall well short of the average price of £1.34\(^{146}\) per unit in on-trade premises in 2010 so any negative impact on the on-trade is likely to be non-existent or negligible. The alcohol market is complex and changes in price induce changes in behaviour including switching between products and between on and off-sales. Overall the on-trade could be expected to experience an increase in revenue after duty and VAT of around £3m to £109m for the range of minimum prices of 25p to 70p per unit (table 8 refers).

**Costs to wholesalers**

5.73 Wholesalers will not be directly affected as minimum pricing will not affect trade-to-trade sales. Minimum pricing is estimated to result in increased revenue to the alcohol industry as a whole. It was beyond the remit of the modelling to consider where the change in revenue may accrue i.e. whether the estimated increases benefit retailers, wholesalers or producers, or all of them to some extent. The alcohol market is highly segmented and this makes it more difficult to identify potential effects. For different products, where the additional revenue accrues will depend, to some extent, on the relative market power of different parts of the supply chain.

5.74 Wholesalers may be affected indirectly by the decrease in the volume the modelling estimates although there will be an increase in the value of sales. This decrease varies across types of alcohol. For a 45p per unit minimum price the modelling estimates that for sales of all spirits in the off-trade there would be a reduction of approximately 17 units per person per year – or about two thirds of a bottle of vodka\(^{147}\). This would be offset by only a marginal increase in drinking in the on-trade. Using the population and consumption data in the ScHARR report, the overall reduction is estimated at 8.6\% of total spirit consumption (on and off-trade) shown in the model. This represents around 2.5 million bottles of spirits a year across all types of spirits (vodka, gin, whisky, rum etc.) and both imported and domestic products.

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\(^{145}\) Oral evidence to Health and Sport Committee on 17 March 2010, col 2982  
\(^{146}\) Op. cit., Nielsen data  
\(^{147}\) Assuming a bottle = 700mls with an ABV of 37.5\%.
5.75 For beer and cider the model estimates that with a minimum price of 45p per unit there would be a reduction in consumption of around 14 units per drinker per annum. A reduction of 23 units per drinker from off-sales would be offset by some switching to the on-trade of approximately 9 units per drinker per year. The modelling does not distinguish between different types or strengths of beer. Assuming an ABV of 5%, this reduction is approximately 5 pints per drinker or over 18 million pints per annum. The impact on wholesalers is difficult to predict, partly because it is unclear to what extent they would benefit from the offset.

5.76 At a minimum price of 45p per unit, the modelling estimates a small decrease in wine sold as off-sales and a marginal increase in on-sales. The overall decrease is estimated to be just over 1% of current wine sales.

Costs to producers
5.77 Minimum pricing is estimated to result in increased revenue to the alcohol industry as a whole. With the example of a 45p per unit minimum price, the modelling estimates increased revenue to the alcohol industry (excluding VAT and duty) of £104m per annum. It was beyond the remit of the modelling to consider where the change in revenue may accrue i.e. whether the estimated increases benefit retailers, wholesalers or producers, or all of them to some extent. The alcohol market is highly segmented and this makes identifying potential effects difficult. For different products, where the additional revenue accrues will depend, to some extent, on the relative market power of different parts of the supply chain.

5.78 The supply side reaction to the imposition of a minimum price is not known. It is possible that its introduction will incentivise producers to produce lower strength alcohol products as these would retail more cheaply (although this is not an option for Scotch whisky production which must have a minimum bottling strength of 40%).

5.79 Producers that will be most affected by a minimum price are those whose production consists of a significant volume of products which sell below the level at which a minimum price is ultimately set. It has proved difficult to obtain comprehensive information about which producers produce the relatively ‘cheap’ alcohol and own label alcohol. It is also possible that companies may change their product emphasis, for example, moving from producing less cheap alcohol to more premium products. In the case of ciders, some of the cheaper brands are produced by global companies such as Constellation Brands and Heineken which are major drinks companies producing a whole range of alcohol products. These companies are likely to be affected to a very minimal extent by minimum price due to the diversity of their products and their international sales base. It has not been possible to source the producers of own label cider.

5.80 For own label spirits, it appears that there are two companies that are responsible for most of the own label whisky production in Scotland: Whyte & Mackay and Glen Catrine. This is borne out by the Scotch Whisky Association’s letter of 19 February 2010 to the Finance Committee in which they state that “while there are a number of companies involved in this trade [cheap or own label]...
two companies in particular rely heavily on this segment of the market.” The letter goes on to mention Whyte & Mackay and Glen Catrine.

5.81 Whyte & Mackay claims to be a leading supplier of own label whisky for the UK. In discussions with Whyte & Mackay we were able to ascertain that 30% of its production is own label whisky and that 25% of this is for the Scottish market.

5.82 The March 2010 edition of the Scottish Grocer magazine contains information on brands sold in Scotland in the off-trade. The information on whisky is reproduced in Table 12:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Brand</th>
<th>MAT to w/e 27/12/08 £000s</th>
<th>MAT to w/e 26/12/09 £000s</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Famous Grouse</td>
<td>25,945</td>
<td>23,281</td>
<td>-10</td>
</tr>
<tr>
<td>2</td>
<td>Whyte &amp; Mackay</td>
<td>18,269</td>
<td>21,159</td>
<td>+16</td>
</tr>
<tr>
<td>3</td>
<td>Own label</td>
<td>22,544</td>
<td>20,856</td>
<td>-7</td>
</tr>
<tr>
<td>4</td>
<td>Bells Original</td>
<td>11,426</td>
<td>16,165</td>
<td>+41</td>
</tr>
<tr>
<td>5</td>
<td>High Commissioner</td>
<td>8,790</td>
<td>10,645</td>
<td>+21</td>
</tr>
</tbody>
</table>

5.83 Whyte & Mackay claim to be the leading supplier of own label whisky for the majority of the UK’s grocery retailers with an estimated share of that market of 80%. They consider the own label and value brands would be “decimated”. This should, however, be seen in the context of their main Whyte & Mackay brand which, in off-sales, outsells all own label whiskies added together – table 12 shows a 7% decrease in supermarket own label whisky and a 16% increase in Whyte & Mackay's premium brand whisky. This suggests that it is possible that any decrease in Whyte & Mackay’s supermarket own label sales could be more than matched by sales of their mainstream brand. They were previously concerned that there would be a switch from supermarket own label to Grouse and Bells. Their own mainstream product would also be expected to benefit from that switching.

5.84 The other company mentioned as being heavily involved in cheap brands and own label production is Glen Catrine. Glen Catrine’s website states it is now the largest independent bottling plant in Scotland. Amongst a multitude of brands, they produce the 5th highest selling whisky in the UK (High Commissioner Scotch Whisky) and the 2nd highest selling vodka in the UK (Glen's Vodka). Glen Catrine also bottle own label whisky, rum, brandy, gin and vodka for many retailers. This would appear to put Glen Catrine in a similar position as that of Whyte & Mackay in that it is a leading supplier of own label whisky and vodka to the whole of the UK and not just Scotland.
5.85 Table 13 shows information on vodka, also sourced from the March 2010 edition of *Scottish Grocer* magazine:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Brand</th>
<th>MAT to w/e 27/12/08 £000s</th>
<th>MAT to w/e 26/12/09 £000s</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Glen’s</td>
<td>77,579</td>
<td>79,931</td>
<td>+3</td>
</tr>
<tr>
<td>2</td>
<td>Smirnoff Red Label</td>
<td>49,336</td>
<td>52,208</td>
<td>+6</td>
</tr>
<tr>
<td>3</td>
<td>Own label</td>
<td>25,419</td>
<td>29,887</td>
<td>+18</td>
</tr>
</tbody>
</table>

5.86 The ScHARR modelling estimates that there will be an increase in the value of sales but a decrease in the volume overall. The impact varies across types of alcohol and between on and off-trade. The model estimates that for spirits, for example, a minimum price of 45p would result in a reduction of around 17 units per person per year from off-sales. This would be partially offset by a marginal increase in drinking in the on-trade. The impact on producers is difficult to predict. Using the population and consumption data in the ScHARR report, the overall reduction is estimated at 8.6% of total spirit sales (on and off-trade) shown in the model. This represents over 2.5 million bottles\(^{149}\) a year across all types of spirits (vodka, gin, whisky, rum etc.) and both imported and domestic products. The modelling does not distinguish between different types of spirits. It should be noted that, for Scotch Whisky, less than 9% is sold in the UK domestic market. SWA suggest that around 20% of the UK domestic sales are in Scotland, so around 2% of total production is sold in Scotland. If the same percentage decrease applied across all spirit categories this would mean a reduction for whisky of around 0.13% of total whisky production.

5.87 A decrease in beer consumption in the off-trade may be partially offset by an increase in the on-trade, for example at a minimum price of 45p per unit the modelling results suggest that around 40% of the decrease in consumption of beer from the off-trade would be offset by an increase in on-trade premises. With any minimum price there is likely to be an overall reduction in consumption but the impact on brewers is difficult to predict, as is their response to changing market conditions. The modelling does not distinguish between different types of beer. They could respond by switching to products with a lower ABV for example.

**Jobs**

5.88 SWA estimate that supermarket and value brands account for around 26% of the Scottish off-trade market, and that 250-400 jobs\(^{150}\) could be at risk for Scottish companies supplying own label and/or value brands. Whyte & Mackay estimate that for a minimum price of 50p there are likely to be immediate job losses of 83\(^{151}\) with

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\(^{149}\) Assuming 1 bottle = 700mls with an ABV of 37.5%

\(^{150}\) Op. cit., correspondence with Scottish Government, September 2011

\(^{151}\) John Beard, CE, Whyte & Mackay in oral evidence at Health and Sport Committee on 17 March 2010

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indirect job losses of 250 (using SWA’s estimate of 3 jobs indirectly supporting each direct job in the whisky industry\textsuperscript{152}). Job losses would be unlikely if the minimum price was 40p. Whyte & Mackay anticipate their bottling plant at Grangemouth would close with the loss of 200 jobs and 100 jobs would be lost at distilleries with the reduction in production. However, previously, Whyte and MacKay have also said that they see the future of the company being driven by the ‘premiumisation’ of their brands – moving away from competing mainly on price, in accordance with the view that Scotch whisky is a premium product and should be marketed as such.

5.89 There are currently no specific estimates available as to the Scotland-wide impact on employment of the introduction of a minimum price per unit of alcohol although the Sheffield model estimates that as minimum price increases, unemployment due to alcohol problems is estimated to reduce.

5.90 In written evidence to the Health Committee, NHS Scotland\textsuperscript{153} refers to evidence that declining alcohol consumption may not effect employment in the way considered. While the analysis conducted by Anderson and Baumberg (2006)\textsuperscript{154} is on the Europe-wide alcohol market, they stress that, for each domestic market, there are a number of factors other than quantity demanded which will impact on the employment level in the drinks sector. Amongst these factors are consumer preferences (consumption of domestic versus foreign produced goods), consumers’ choice of whether to drink in on-trade facilities or at home, labour productivity, wage rates, the cost of capital associated with the production process, etc. While acknowledging that further research is needed, the study analyses Eurostat data and finds no relationship between trends in employment in hotels, restaurants and catering (and bars) and alcohol consumption. In several countries (e.g. Italy) employment and consumption levels even go in opposite directions.

**Effect on market**

5.91 There is no consensus from industry on what will happen to pricing of products and hence the effect on the market in relation to the introduction of a minimum price per unit of alcohol. Some consider all prices will be affected i.e. those above a minimum price will also be adjusted, others believe it will only be those below the minimum price that will be affected, and others consider it will be somewhere in between. SWA\textsuperscript{155} consider that all price fixing measures will distort the market. At a minimum price of 50p per unit they argue the premium of standard blends over value brands is reduced and estimate a standard blended whisky will become £20 a bottle, with consumers likely to switch to other drinks categories. However, they also state that consumers may switch to premium brands if the differential between the premium brand and the value brand is small. In their response to the Scottish Government, SWA\textsuperscript{156} state that supermarket own label and value brands account for around 26% of the Scottish off-trade market, with standard blended whisky accounting for around 59% of the off-trade market. In their response, Whyte & Mackay\textsuperscript{157} consider the own label market will be “decimated”. At

\textsuperscript{152} Op. cit., correspondence with Scottish Government, September 2011

\textsuperscript{153} Written evidence to the Health and Sport Committee

\textsuperscript{154} \url{http://dse.univr.it/addiction/documents/External/alcoholineu.pdf} (page 57)

\textsuperscript{155} Op. cit., correspondence with Scottish Government, September 2011

\textsuperscript{156} Ibid

\textsuperscript{157} Op. cit., correspondence with Scottish Government, September 2011

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a 50p minimum price, they consider own label will lose its competitive advantage over premium brands which most consumers would switch to. They claim they have it on good authority that supermarkets would likely de-list own label products if the competitive advantage was lost and demand shifted to premium brands. In their response, SGF\textsuperscript{158} consider own label may be de-listed.

5.92 There is no clear consensus on whether supermarkets would continue to sell own label spirits if a minimum price were introduced. This could be conditional on the price differential between own label and the lower-priced premium brands which would result. One leading supermarket maintained own label products would disappear whereas another leading supermarket still considered there was a place for own label products. Not all own label products are cheap. For example, Tesco Finest 12 year old blended whisky, selling at around £16 for a standard 70cl bottle, competes on price with mainstream brands. SWA\textsuperscript{159} consider retailers have considerable control over what is sold and they may decide to remove the own label products from the shelves, or maintain the pricing differential between own label and standard blends and so increase their return, or hold down the price of premium products thereby undermining the brand’s position in the market.

5.93 Chivas brothers Ltd and Pernod Ricard UK\textsuperscript{160} also consider product ranges could be reduced. Retailers are only able to display alcohol in a pre-determined alcohol display area so they could be forced to reduce the product range in order to concentrate on those products that deliver consistent sales. They were unable to identify which products these might be given any shift in consumer behaviour is unknown. WSTA\textsuperscript{161} consider suppliers will find it harder to bring new products onto the market, particularly where the costs of production of a new product are lower.

5.94 The volume of whisky production released for the domestic market is approximately 8.7\%\textsuperscript{162}. The SWA stated in evidence that around 20\% of that is sold in Scotland (equates to 1.7\% of production). The SWA said in Stage 1 evidence that value from whisky sold in Scotland has been “going down quite dramatically” and there has been “virtually no added value to the industry in terms of Scottish sales”\textsuperscript{163}. Own label whisky comprises around 30\% of that, or 0.5\% of total production. The average price of cheap and own label whisky is in the region of £10 a 70cl bottle (confirmed by SWA in their oral evidence) which makes it around 36p per unit. The retail price of own brand whisky is likely to rise therefore, with any minimum price over 35p.

5.95 Heineken UK\textsuperscript{164} consider it is not possible to currently forecast what the cost will be to their business before seeing what the consumer behavioural shift would be. Given Heineken UK’s portfolio of premium brands of beer and cider, they consider there will be no or little impact on the selling price of the majority of their products. No information was provided on wine.

\textsuperscript{158} Op. cit., correspondence with Scottish Government, September 2011
\textsuperscript{159} Op. cit., correspondence with Scottish Government, September 2011
\textsuperscript{160} Op. cit., correspondence with Scottish Government, September 2011
\textsuperscript{161} Op. cit., correspondence with Scottish Government, September 2011
\textsuperscript{162} uktradeinfo quoted by Optimat in “Scottish Drinks Industry Mapping Study”, October 2008
\textsuperscript{163} Oral evidence to Finance Committee by Gavin Hewitt, SWA, on 9 February 2010, col 1883-4
\textsuperscript{164} Op. cit., correspondence with Scottish Government, September 2011
International markets

5.96 SWA\textsuperscript{165} is concerned that any minimum pricing policy runs the risk of international copy-cat discrimination. They claim suggestions that minimum pricing would not discriminate or be protectionist and so not present a precedent for governments abroad fails to recognise that it is the breach of trade law, not the nature of the Scottish system, that threatens Scotch Whisky exports and thus the wider Scottish economy. If the precedent of overriding trade rules could be secured, a domino effect of ‘health-based’ restrictions on Scotch Whisky can be expected. SWA estimate copy-cat action could reduce Scotch Whisky exports up to £0.5bn a year – equivalent to 14.5% of 2010 exports. SWA claim that Scotch Whisky is already treated unfairly in around 140 countries and that such action is and would remain completely unjustifiable. No information has been provided in respect of which countries are contemplating or are likely to pursue such discriminatory action.

5.97 It is not possible to predict the reaction of other jurisdictions. The Scottish Government’s proposal treats all products fairly, whether imported or domestic. Where other countries have imposed barriers that are against international trade laws, the SWA will have the Scottish Government’s support in tackling any discrimination and in trying to overturn any unlawful barriers. The Scottish Government has always been supportive of this.

Costs to local government

5.98 The position of Licensing Standards Officers (LSOs) was created through the Licensing (Scotland) Act 2005. LSOs work on behalf of local authorities and are responsible for the monitoring and enforcement of the new licensing regime which became fully operational from 1 September 2009. LSOs ensure compliance with any conditions attached to premises licences. The Licensing (Scotland) Act 2005 and associated secondary legislation sets out a number of conditions that are attached to a premises licence including such conditions covering an operating plan, premises manager, staff training, pricing and promotion of alcohol, payment of fees, display of notices, and alcohol display areas. Minimum pricing would be added to this number. The Scottish Government considers business advice to licence holders will be required on the introduction of a minimum price per unit, and has agreed to fund this initial set up cost in order to assist LSOs and avoid costs falling on local government. It is considered there would be an increase in demand for advice to licence holders from LSOs in the run up to introduction and in the period immediately after introduction which would cause a reprioritisation of duties and resources. In the longer term, as licence holders and LSOs become more familiar with the minimum pricing provision, the workload associated with introduction should decrease. The cost of running the licensing system, including the costs of LSOs, are generally recovered by Licensing Boards from fee income in line with The Licensing (Fees) (Scotland) Regulations 2007 (SSI 2007 No. 553). If the costs of implementing minimum pricing were found to increase the workload of LSOs significantly, a review of the level of fee income would be appropriate.

\textsuperscript{165} Op. cit., correspondence with Scottish Government, September 2011
Costs to central government

5.99 The Monitoring and Evaluation of Scotland’s Alcohol Strategy (MESAS) portfolio of studies have been designed to measure the effectiveness of the actions set out in the Framework for Action (including minimum pricing). It is, therefore, not considered appropriate to apportion a specific cost to any one measure.

5.100 There will be initial set up costs for the Scottish Government in introducing a minimum price per unit of alcohol in order to provide business advice to licence holders about the necessity to comply with the provision. The costs of these are estimated to be in the region of £90,000.

5.101 There will be costs associated with varying the minimum price. A decision has not been taken on the preferred methodology and appropriate process required for varying the minimum price nor on the frequency of variation.

5.102 The ScHARR research estimates the effects on sales tax (VAT) and duty receipts to be relatively small due to the counter-balancing nature of the two taxes. Duty is applied to the volume of sales (which is estimated to reduce overall) but the VAT is applied to the monetary value of sales (which is estimated to increase overall).

5.103 There will be an impact on the level of UK Exchequer receipts. The actual effect will depend on the level of minimum price set and the response of consumers. Total receipts from VAT in the UK were £83,616m in 2009-10 and from alcohol duties in the UK were £9,246m.\(^{166}\) Table 14 shows the estimated change in government revenues associated with a range of minimum price scenarios.

<table>
<thead>
<tr>
<th>Policy scenario: minimum price per unit</th>
<th>Change in VAT and duty (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>25p</td>
<td>+0.8</td>
</tr>
<tr>
<td>30p</td>
<td>+1.5</td>
</tr>
<tr>
<td>35p</td>
<td>+0.7</td>
</tr>
<tr>
<td>40p</td>
<td>-1.7</td>
</tr>
<tr>
<td>45p</td>
<td>-8.4</td>
</tr>
<tr>
<td>50p</td>
<td>-16.5</td>
</tr>
<tr>
<td>55p</td>
<td>-27.1</td>
</tr>
<tr>
<td>60p</td>
<td>-38.4</td>
</tr>
<tr>
<td>65p</td>
<td>-51.2</td>
</tr>
<tr>
<td>70p</td>
<td>-65.6</td>
</tr>
</tbody>
</table>

\(^{166}\)Government Expenditure and Revenue Scotland 2009-10
http://scotland.gov.uk/Publications/2011/06/21144516/6#t42
6. SCOTTISH FIRMS IMPACT TEST

6.1 This section sets out in general terms the impact of a minimum price per unit on specific sectors of the alcohol industry. The alcohol industry is defined as the combination of alcohol manufacturing, the wholesale of alcohol, retail sale of alcohol and the sale of alcohol in beverage service establishments. In 2010 this broad industry employed 47,000 people, three quarters of these being in beverage service167. In 2009 spirits manufacturing generated international exports worth £3.1 billion168. The industry also relies on Scottish agricultural commodities as inputs. In 2010, the whisky sector used approximately 40% of the Scottish wheat and barley crop169.

6.2 Those areas of business most likely to be affected by a minimum price per unit in terms of costs are the off-trade sector and producers. The detail of the costs and benefits for each of the sectors in the alcohol industry is set out in section 5. As mentioned in section 3 on consultation, numerous discussions took place on the proposals in the Bill with stakeholders. As regards minimum pricing, the discussions were on the principles of minimum pricing. Discussions with any section of the alcohol industry on a specific minimum price are not permitted as the specific price must be set independent of economic operators for reasons relating to Competition Law.

6.3 In order to inform the Regulatory Impact Assessment170 that was published shortly after publication of the Alcohol Bill in 2009, various questions in relation to the likely impact of introducing minimum pricing (using 25p, 50p and 70p per unit as examples) were posed to groups representing the majority of retailers and producers of alcohol in Scotland. Although the policy proposal remains as before, this exercise was repeated in the summer/autumn of 2011 to inform this document, with members of the SGAIP being asked for their assessment of the likely impact of minimum pricing on their business. Twelve responses were received from the Scottish Licensed Trade Association, Scottish Grocers’ Federation, Chivas brothers Ltd and Pernod Ricard UK, Scotch Whisky Association, Heineken UK, Molson Coors, Scottish Beer and Pub Association, Whyte & Mackay, Scottish Retail Consortium, Wine & Spirits Trade Association, Ian Macleod Distillers Ltd and SABMiller.

6.4 The ScHARR modelling study gives an insight into how categories of drinkers may switch between different types of products. However the Scottish Government is not able to predict how individual companies and retailers will react to the introduction of a minimum price per unit. Responses relating to this from SGAIP members are included in section 5 of this document. In summary, there is no consensus on where any additional revenue arising from minimum pricing might end up – some respondents consider it will end up with retailers, some consider producers might be able to gain a share, some consider there will be no additional

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167 Source: Business register and employment survey 2010 (Office for National Statistics)
169 Bell (2010) The Scotch whisky sector and grain supply and demand in Scotland . SAC Commercial Unit
170 http://www.scotland.gov.uk/Topics/Health/health/Alcohol/resources/AlcoholbillRIA2009
revenue. The introduction of minimum pricing is likely to be of benefit to smaller retailers and independent stores as they will be more able to compete on price with the larger retailers such as supermarkets. The on-trade is unlikely to be adversely affected by minimum pricing as their prices are already likely to be above any minimum price set. As regards the effect on producers, again, there is no consistent view. Some respondents consider with the price of own label products likely to increase due to minimum pricing, producers may raise the prices of their premium brands in order to maintain a differential between the two types of products; or supermarkets may de-list the own label products; or the range of products may be reduced and this would depend on those products with most sales.

**Benefits to industry**

6.5 Across all minimum prices modelled there was an increase in revenue to the alcohol industry (shown in table 8). The example of a 45p minimum price results in estimated increased revenue to the alcohol industry (excluding VAT and duty) of £104m per annum for both the on and off-trade sectors. This is a high-level estimate of revenue changes to the alcohol industry as a whole. It was beyond the remit of the modelling to consider where the change in revenue may accrue i.e. whether the estimated increases benefit retailers, wholesalers or producers, or all of them to some extent. The alcohol market is highly segmented and this makes identifying potential effects difficult. For different products, where the additional revenue accrues will depend, to some extent, on the relative market power of different parts of the supply chain.

**Costs to retailers – off-trade**

6.6 A minimum price per unit is likely to affect the off-trade sector more than the on-trade sector due to the average price of alcohol being £0.45 in the off-trade and £1.34 for the on-trade in 2010. The on-trade may benefit from any reduction in the differential between prices in the off-trade and on-trade sectors. The SchARR modelling predicts that some drinkers would switch from purchasing in the off-trade to purchasing in the on-trade. So off-sales may experience a reduction in the volume of sales and consumers may switch to purchasing some of their alcohol from on-sales premises.

**Sales**

6.7 In their response to the minimum pricing proposals, SGF members consider that a minimum price of between 25p-49p would impact on up to 30% of products (mainly cider and cheaper spirits); a minimum price of between 50p-69p would impact on up to 90% of products; a minimum price of 70p or over would impact on all products. In their previous response, SGF estimated that a minimum price of 50p would result in a reduction in sales of 10%. SWA estimate that a minimum price of 50p would result in a reduction of Scotch Whisky sales in Scotland by 15% which equates to a reduction in sales of £23m (using the Wagenaar model), and will have a significant impact on the Scottish market. They also consider the effect on sales will have a throughput effect on suppliers of such items as bottles, labels, cases etc. and further down the line it will impact on transport, farmers, maltsters and ultimately investment.

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171 Robinson M, Craig N, McCartney G, Beeston C 2011 op cit
6.8 Identifying which part of the retail market will be most affected – supermarkets or small shops – is problematic. Large and small retailers are likely to be affected differently. Larger retailers sell large volumes of popular brands (often priced very competitively) and also a greater range of products. Nielsen state that at least 70% of off-sales are retailed through the large supermarket chains. The Scottish Government is currently not aware of any retailers who specialise in selling only those low cost products likely to be below any minimum price set.

Pricing
6.9 There will be costs to retailers associated with the implementation of a minimum pricing scheme such as re-pricing products, altering bar codes and shelf tickets. The costs to retailers that operate only in Scotland will form part of their usual operational practice when altering prices. Those retailers that operate on a UK-wide basis may incur costs associated with a different pricing and promotion regime operating in Scotland. These retailers are predominantly large supermarket chains. There is likely to be a lead in time prior to introduction. That, coupled with the resources available to them, should allow retailers to investigate the most cost effective method of implementing differential pricing across stores in different parts of the UK.

6.10 Information on how often prices change for products in supermarkets, including alcohol, from weekly scanning data from Nielsen\(^\text{172}\) show that around 40% of prices in supermarkets change frequently. Around 25% of changes are adjusting for temporary reductions and in any one week - 29% of alcohol prices rose and 29% fell. Given that around 70% of alcohol is sold through supermarkets it would appear that altering prices is not an unusual activity.

Costs to wholesalers
6.11 Wholesalers will not be directly affected as minimum pricing does not affect trade-to-trade sales. Wholesalers may be affected indirectly as although there is likely to be an increase in the value of sales there would be a decrease in the volume. This varies across types of alcohol so may depend on what type of alcohol the wholesaler sells and the nature of their customer base.

Costs to producers

Volume of Sales
6.12 Producers that will be most affected by a minimum price are those whose production consists of a significant volume of products which currently sell below a stated minimum price. These producers are likely to be the ones whose main production focuses on own label products. It has proved difficult to obtain comprehensive information about which producers produce the ‘cheap’ alcohol and own label alcohol. In the case of ciders, some of the cheaper brands are produced by global companies such as Constellation Brands and Heineken which are major drinks companies producing a whole range of alcohol products. These companies are likely to be affected to a minimal extent. It has not been possible to source the producers of own label cider.

\(^{172}\) Ellis 2009 op cit
6.13 For own label spirits, it appears that there are two companies that deal with most of the own label whisky production: Whyte & Mackay and Glen Catrine. Both of these companies supply the UK market. Whyte & Mackay claim to be the leading supplier of own label whisky for the majority of the UK’s grocery retailers with an estimated share of that market of 80%, and Glen Catrine appear to be a leading supplier of whisky and vodka to the UK market, supplying the UK’s 5th highest selling whisky and the UK’s 2nd highest selling vodka. A minimum price per unit will only affect those sales in Scotland. SWA estimate that a minimum price of 50p would result in a reduction of Scotch Whisky sales in Scotland by 15% which equates to a reduction in sales of £23m (using the Wagenaar model), and will have a significant impact on the Scottish market.

**Jobs**

6.14 SWA estimate that supermarket and value brands account for around 26% of the Scottish off-trade market, and that 250-400 jobs could be at risk for Scottish companies supplying own label and/or value brands. Whyte & Mackay estimate that for a minimum price of 50p there are likely to be immediate job losses of 83\(^{173}\) with indirect job losses of 250 (using SWA’s estimate of 3 jobs indirectly supporting each direct job in the whisky industry). Job losses would be unlikely if the minimum price was 40p. Whyte & Mackay anticipate their bottling plant at Grangemouth would close with the loss of 200 jobs and 100 jobs would be lost at distilleries with the reduction in production. However, previously, Whyte and MacKay have also said that they see the future of the company being driven by the ‘premiumisation’ of their brands – moving away from competing mainly on price, in accordance with the view that Scotch whisky is a premium product and should be marketed as such.

**Small businesses**

6.15 The Federation of Small Businesses (FSB) responded to the public consultation in 2008 and met with Scottish Government representatives. FSB is Scotland’s largest direct member business organisation representing almost 20,000 members. FSB’s views are that they supported the ending of irresponsible promotions that encourage binge drinking, however such intervention has to be balanced against the risks of the government intervening in the market, by deciding the pricing structure for a particular product. They state that anecdotal evidence suggests that most small shops are often not the main culprits associated with what might be deemed irresponsible pricing and the FSB has previously campaigned against the use of ‘loss leaders’ as a sales tactic by larger retailers.

**Small retailers**

6.16 The overall impact for small retailers is likely to be limited as the proportion of their turnover made up of alcohol sales likely to be directly affected by minimum pricing is small in comparison to turnover from alcohol products not affected by minimum pricing and all other product lines. The SchARR modelling, based on the responsiveness of consumers to changes in price, suggests that although the volume of sales in off-sales premises will reduce, the value of sales will increase. Minimum pricing effectively sets a price floor and will reduce the ability of multiple retailers, such as the larger supermarkets, to use alcohol as a “loss leader” (i.e.

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\(^{173}\) John Beard, CE, Whyte & Mackay in oral evidence at Health and Sport Committee on 17 March 2010
below-cost selling). This may be advantageous to smaller retailers who may be less able to compete on price compared to the larger supermarkets.

**Small specialist retailers**

6.17 Minimum pricing, by creating a price floor, may make small specialist retailers more able to compete on cheaper priced products. In addition they may be better able to compete on non-price attributes such as better product information and individual customer service.

6.18 For some small specialist retailers, such as wine merchants and whisky shops, their product range is such that they are unlikely to be affected by the introduction of a minimum price as they tend to specialise in premium products rather than cheap alcohol.

**Small producers**

6.19 Scotland has a thriving craft brewery sector producing a variety of beers, supplying beers of varying styles and alcoholic strength\(^{174}\). Scotland also has some small independent distillers. These are generally premium products sold at relatively high prices compared to ‘mainstream’ high volume brands.

6.20 There is also a growing number of micro distilleries such as Kilchoman, on Islay\(^{175}\) to meet increasing demand for new and novel malt whiskies\(^{176}\). However these represent a very small proportion of the overall Scotch Whisky market. This follows a growing international trend in the spirits industry which is, in part, a reaction to the domination of the market by large companies and mainstream brands. These produce premium products retailing at premium prices.

**Small on-sales premises**

6.21 On-sales premises in general are likely to be affected less than off-sales premises by setting a minimum price for alcoholic drinks, as the price of alcohol in on-sales premises is generally higher than in off-sales premises. In 2010, Nielsen data estimated that the average price per unit of alcohol in on-trade premises was £1.34 as compared to 45p for off-trade\(^{177}\).

### 7. LEGAL AID IMPACT TEST

7.1 There is unlikely to be any impact on legal aid.

### 8. TEST RUN OF BUSINESS FORMS

8.1 No business forms will be involved in the implementation of the proposed legislation.

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\(^{176}\) Ibid

9. **COMPETITION ASSESSMENT**

9.1 This is attached as Annex A.

10. **ENFORCEMENT, SANCTIONS AND MONITORING**

10.1 The minimum price proposal will be enforced through legislation. The proposal does not create any new enforcement or monitoring mechanisms. As with the other conditions of licences issued under the 2005 Act, it will be monitored by Licensing Standards Officers who are able to report infringements to the Licensing Board. The Licensing Board are then able to apply a number of sanctions to the licence holder which are available through the 2005 Act which range from a warning to the revocation of the licence.

10.2 Following publication of the discussion paper on alcohol in June 2008, the Scottish Government established a Monitoring and Evaluation Reference Group for Alcohol (MERGA) to oversee the development of a portfolio of monitoring and evaluation studies to measure the extent to which the actions set out in the Framework (and the 2005 Act) are effective in delivering the intended outcomes. Minimum pricing will be factored into these monitoring and evaluation arrangements.

10.3 The Monitoring and Evaluating Scotland’s Alcohol Strategy (MESAS) portfolio, which was peer reviewed by leading international alcohol and evaluation experts, includes both commissioned and in-house research and analysis. The aim of the monitoring and evaluation work is to provide more than just a final verdict on the effectiveness of the actions of the Scottish Government. Evaluation asks not just ‘did it work’ but ‘how is it working, who for and how might it work better?’ To contribute to policy improvement, the evaluation therefore considers implementation and differential impact (where possible) alongside the population outcomes that will assess effectiveness. The portfolio of monitoring and evaluation studies has a number of overall key aims:

- To evaluate the success or otherwise of the new legislation and strategic approach in achieving the Scottish Government’s desired outcomes;
- To track the implementation progress, reach and outcomes of the key actions included in the 2005 Act and the Framework for Action in order to inform any necessary amendments or adjustments;
- To identify any unintended outcomes or displacement effects, including differential effects or outcomes which may impact on health inequalities;
- To build knowledge about the effectiveness of actions where the evidence base is weakest.

10.4 By including an assessment of implementation and short-term outcomes it enhances our ability to consider necessary amendments or adjustments to our strategy, identify any unintended outcomes or displacement effects (including on health inequalities).
10.5 Going forward, NHS Health Scotland will be responsible for the management of the individual studies and the overall project management of the portfolio. The Scottish Government’s existing Alcohol Evidence Group, which includes a range of key stakeholders, will provide strategic oversight and advice on data availability, project commissioning and reporting. Details of the study portfolio and the first reports, including one which establishes the baseline for the evaluation and sets out how progress will be measured are available on the NHS Health Scotland website.²⁷⁸

11. IMPLEMENTATION AND DELIVERY PLAN

11.1 The policy will be implemented by various groups. All licensed premises will implement the minimum price which will be specified by Scottish Ministers. The Scottish Government will have discussions with local authorities and the licensed trade to assist implementation of the policy.

12. POST IMPLEMENTATION REVIEW

12.1 The Scottish Government will review the impact of the introduction of a minimum price per unit within 10 years through consideration of data collected from various surveys and studies already mentioned. The precise mechanism for altering a minimum price and the frequency of review has yet to be decided.

13. SUMMARY AND RECOMMENDATION

Summary Costs and Benefits Table

Minimum price per unit of alcohol

Recommendation
13.1 It is recommended that the Scottish Government introduces a minimum price per unit of alcohol.

<table>
<thead>
<tr>
<th>Option</th>
<th>Costs</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduce a prohibition on sales of alcohol below a minimum price per unit</td>
<td>Consumers Costs to consumers of between £8.7m to £190.9m (table 10) depending on the specific minimum price per unit. Retailers – off-trade SGF estimate a 50p minimum price will reduce sales by 10% (paragraph 5.58). SWA estimate that a minimum price of 50p would result in reduced Scotch Whisky sales in Scotland by 15% which equates to a reduction in sales of £23m (paragraph 5.58). Administrative costs of re-pricing and maintaining separate prices for Scotland and rest of UK. Will depend on size of retailer and whether they are UK or Scotland based. Scottish Government estimates around a maximum of £0.4m (paragraph 5.62) for re-pricing in off-sales convenience premises.</td>
<td>Consumers Health harms: between an increase of £1m in year 1 (including QALYs) to a reduction of £1,965m over 10 years (including QALYs) (tables 3 &amp; 6) depending on the specific minimum price per unit. Crime harms: reduction of up to £16m in year 1 (including QALYs) (table 6) and reduction of £138m over 10 years (including QALYs) (table 6) depending on the specific minimum price per unit. Employment harms: reduction of between £2m and £85m in year 1 (including QALYs) (table 6), and reduction of between £14m and £710m over 10 years (including QALYs) (table 6) depending on the specific minimum price per unit. Retailers – off-trade Increase in revenue of between £4.7m and £148m (table 8) per annum depending on the specific minimum price per unit.</td>
</tr>
<tr>
<td></td>
<td>Retailers – on-trade Unlikely to be adversely</td>
<td></td>
</tr>
<tr>
<td><strong>Wholesalers</strong></td>
<td>All minimum price scenarios result in increased revenues, however it is not possible to ascertain where this increased revenue will end up in the supply chain.</td>
<td></td>
</tr>
<tr>
<td><strong>Producers</strong></td>
<td>All minimum price scenarios result in increased revenues, however it is not possible to ascertain where this increased revenue will end up in the supply chain.</td>
<td></td>
</tr>
<tr>
<td><strong>Local government</strong></td>
<td>Benefits from estimated reductions in health, crime and employment harms and associated costs.</td>
<td></td>
</tr>
<tr>
<td><strong>Central government</strong></td>
<td>Benefits from estimated reductions in health, crime and employment harms and associated costs.</td>
<td></td>
</tr>
</tbody>
</table>

SWA estimate supermarket and value brands will be affected – these account for around 26% of the Scottish off-trade market, and 250-400 jobs (paragraph 5.88) could be at risk for Scottish companies supplying these products at a 50p per unit minimum price.

Whyte & Mackay estimate a 50p per unit minimum price would result in possible job losses for them of up to 83 in Scotland, with around 250 job losses in total (using 3 jobs indirectly connected with every direct job in the industry) (paragraph 5.88).

SWA claim that a minimum price of 50p would erode the differential between cheap and premium Scotch Whisky thereby affecting not only brands that would be directly affected by minimum pricing (paragraph 5.91).
SWA estimate that copy-cat discrimination in other jurisdictions could reduce Scotch Whisky exports in the region of £500m a year (paragraph 5.96). No information has been provided in respect of which countries are contemplating or are likely to pursue such discriminatory action.

Local government
Minimal.

Central government
Cost of business advice to licence holders of £0.09m (paragraph 5.100) regarding implementation of minimum pricing.

Cost of a periodic review of the minimum price for the Scottish Government – methodology and timescale not yet decided.

Effect on VAT and duty of between an increase of £0.8m to a reduction of £65.6m (table 14) for the UK Exchequer depending on the specific minimum price per unit.

Conclusions
13.2 There is strong and consistent evidence linking the price of alcohol to the demand for alcohol and that increasing the price reduces consumption and alcohol-related harm. The evidence supports the assertion that minimum price per unit of alcohol will lead to reductions in health, crime and employment harms.

13.3 Minimum pricing is a whole population approach and a targeted approach – it applies to the whole population but harmful and hazardous drinkers are likely to be affected more than moderate drinkers, both in terms of the amount they drink, how much they spend and how much they benefit from reductions in harm.

13.4 The increased costs to individuals are outweighed by the benefits in the reduction of societal harms. It is estimated there will be administrative costs for the
industry in setting up and maintaining a separate pricing structure to the rest of the UK (unless they voluntarily adopt the Scottish pricing arrangements across the UK) however the alcohol industry as a whole is estimated to benefit from increased revenues. Some parts of the industry may incur costs, however, we consider this is offset by the benefits they are also likely to experience.
14. DECLARATION AND PUBLICATION

I have read the impact assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs I am satisfied that business impact has been assessed with the support of businesses in Scotland.

Signed

Date 14 November 2011

Nicola Sturgeon, Cabinet Secretary for Health, Wellbeing and Cities Strategy.

Contact for enquiries and comments:

Name: Alison Ferguson
Address: Alcohol Policy Team
          Public Health Division
          Scottish Government
          Area 3E, St Andrew’s House
          Regent Road
          Edinburgh
          EH1 3DG

Telephone: 0131 244 2107

E-mail: Alison.ferguson@scotland.gsi.gov.uk
ANNEX A

ALCOHOL (MINIMUM PRICING) (SCOTLAND) BILL – COMPETITION ASSESSMENT

Introduction

1. This competition assessment analyses the likely economic impact of introducing a minimum price per unit of alcohol on the competitive ability of producers and retailers and the consequential impact on consumers.

Definition of competition

2. Competition is a process of rivalry between firms seeking to win customers’ business. This process of rivalry, where it is effective, encourages firms to deliver benefits to customers in terms of prices, quality and choice. Where levels of rivalry are reduced (say because a proposal restricts the number of firms active in any market) customers have less choice because they have fewer firms from which they can buy goods or services\(^\text{179}\).

3. Firms compete for market share using both price and non price competition. Competition between firms may focus on offering the lowest price, particularly where the product is standardised (either because of the characteristics of the product in question, or because of regulation). Most suppliers will try and compete in a number of ways in addition to price, for example by developing new 'improved' products, by offering products of differing quality or characteristics, by branding and advertising the differences in their products relative to their competitors’, or by using different sales channels.

Definition of markets

4. Markets and sectors which could potentially be affected both directly (downstream) and indirectly (upstream) have been identified and are listed below.

Directly affected markets/sectors (downstream)

- Sales of alcohol on off-licensed premises
- Sales of alcohol in licensed premises
- Market flows between on and off-licensed sales
- Sales of other products by retailers which sell alcohol, including footfall

Indirectly affected sectors (upstream) might include

- Drinks manufacturers
- Distributors/wholesalers

\(^{179}\) OFT guidance on competition assessments
Overview of the Scottish drinks industry

5. The structure of the Scottish alcohol industry is complex. On the manufacturing side, there are a number of multinational companies who produce multiple products for different worldwide markets plus a large number of smaller producers. These firms use a large number of smaller firms, from Scotland or abroad, to supply the required inputs for the production process and in some cases may subcontract out part of the production process, such as bottling, to other firms. The alcohol retail sector (off-sales) consists of a small number of large supermarkets, a decreasing number of smaller specialist retailers and a large number of other small grocers and corner stores. The hospitality sector (on-sales) consists of a small number of national chains and a large number of small pubs, clubs and restaurants. While previously there have been a large number of independent pubs, these are increasingly being taken over by mostly large beer producers. The retail sector and the hospitality sector sell products produced both within and outside Scotland.

6. An analysis provided by Health Scotland using Nielsen data found that in 2010, 11.8L of pure alcohol (1,185 units) were sold per adult in Scotland (22.8 units per adult per week). This level has stayed broadly constant in Scotland since 2005. Comparable sales in England and Wales were 9.6L in 2010 (964 units or 18.5 units per adult per week), meaning sales in Scotland are 23% higher than in England and Wales.

7. Table 1 provides an overview of the market size, employment, turnover and Gross Value Added (GVA) of the Scottish beverage manufacturing sector.

<table>
<thead>
<tr>
<th>Table 1: Overview Manufacturing of Beverages in Scotland, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business units</td>
</tr>
<tr>
<td>Number</td>
</tr>
<tr>
<td>Manufacture of Beverages</td>
</tr>
<tr>
<td>Distilling, rectifying and blending of spirits</td>
</tr>
<tr>
<td>Manufacture of beer</td>
</tr>
<tr>
<td>Manufacture of soft drinks; production of mineral waters and other bottled waters</td>
</tr>
<tr>
<td>Others *</td>
</tr>
</tbody>
</table>

* Includes: manufacture of malt, other non-distilled fermented beverages, other fermented fruit beverages, cider and Perry, cider and other fruit wines, wine based on concentrated grape must, wine of fresh grapes and fresh juice, wines and production of alcohol from fermented materials.

** GVA not available

Source: Office for National Statistics, Annual Business Inquiry (Compiled by Scottish Government)

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182 Gross Value Added (GVA) estimates GDP and is measured in basic prices, which excludes taxes (including VAT and excise duties) but includes subsidies on products
8. In 2008, the Scottish spirits sector accounted for a significant proportion of total UK output of the industry (around 80% for both turnover and Gross Value Added)\(^\text{183}\). This shows a stark difference relative to the whole of manufacturing where Scotland accounts for only around 8% to 9% of total UK output. The spirit sector accounted for over one third of Scottish food and drink manufacturing’s total turnover and over half of its total GVA.

9. GVA per employee of the spirits sector more than doubled from £81,069 in 1998 to £195,874 in 2007. This was over three times greater relative to the manufacturing sector as a whole (£61,252). Whilst average labour costs per employee (£46,600) are 60% higher in the spirit sector relative to the manufacturing as a whole (£28,866).

\textit{Intra-industry overview}

10. The industry sales data published by Health Scotland \(^\text{184}\) indicates that 51.1 million litres of pure alcohol were sold in Scotland in 2010. Analysis shows that approximately two thirds (67%, 34.1 million litres) of the total volume of pure alcohol sold in Scotland in 2010 was sold through the off-trade compared with approximately one third (33%, 17.0 million litres) through the on-trade. The majority of spirits (77%), light wine (77%) and cider (68%) was sold off-trade. Beer was the only category of drink for which the majority of alcohol was sold through the on-trade (52%).

\textit{Prices}

11. The Nielsen data published by Health Scotland estimates that the average price per unit of alcohol in Scotland in 2010 was £0.75, almost identical to the figure in England and Wales (£0.74). Over recent years, Scottish prices dropped by 8.7% \textit{(inflation adjusted)} between 2001 and 2004 to a low of £0.73 and have since increased again slightly to the current level.

12. Figure 1 displays the trends broken down by on-trade and off trade prices. While off-trade prices dropped slightly by 0.3% between 2004 and 2010, on-trade prices increased by 14.6% in that period leading to an overall increase of 2.2%, with quantities sold taken into account.

\(^{183}\text{Food and Drink Key sector report (2009), Scottish Government}\)

\(^{184}\text{Ibid}\)
13. Figure 2 uses Nielsen data to analyse the distribution of alcohol sold in the off-trade sector by price band by five main types of alcohol. It can be seen that the majority of off-trade sales are made within the price range 25p to 50p per unit.

14. An analysis of the cumulative off-sales volume of selected drink types based on 2010 Nielsen data is presented in Table 3. The last column in the table provides market shares of the product categories as a proportion of total off-sales volume. It
can be seen that, for a substantial number of drinks the largest share of volume sold in the off-sale sector is sold at a price below 70p.

Table 3: Cumulative volume of off-sales of pure alcohol (volume) by price band and total market share

<table>
<thead>
<tr>
<th></th>
<th>Price per unit (pence)</th>
<th>&lt;40p</th>
<th>&lt;45p</th>
<th>&lt;50p</th>
<th>&lt;55p</th>
<th>&lt;60p</th>
<th>&lt;65p</th>
<th>&lt;70p</th>
<th>% of total sales volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spirits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vodka</td>
<td></td>
<td>70%</td>
<td>85%</td>
<td>92%</td>
<td>97%</td>
<td>99%</td>
<td>99%</td>
<td>99%</td>
<td>13%</td>
</tr>
<tr>
<td>Blended Whisky</td>
<td></td>
<td>58%</td>
<td>77%</td>
<td>85%</td>
<td>93%</td>
<td>96%</td>
<td>98%</td>
<td>98%</td>
<td>8%</td>
</tr>
<tr>
<td>Malt Whisky</td>
<td></td>
<td>1%</td>
<td>3%</td>
<td>3%</td>
<td>9%</td>
<td>13%</td>
<td>28%</td>
<td>45%</td>
<td>1%</td>
</tr>
<tr>
<td>Gin</td>
<td></td>
<td>56%</td>
<td>77%</td>
<td>87%</td>
<td>94%</td>
<td>96%</td>
<td>98%</td>
<td>98%</td>
<td>3%</td>
</tr>
<tr>
<td>White Rum</td>
<td></td>
<td>46%</td>
<td>72%</td>
<td>78%</td>
<td>85%</td>
<td>94%</td>
<td>97%</td>
<td>98%</td>
<td>1%</td>
</tr>
<tr>
<td>Dark Rum</td>
<td></td>
<td>55%</td>
<td>70%</td>
<td>83%</td>
<td>92%</td>
<td>96%</td>
<td>99%</td>
<td>100%</td>
<td>1%</td>
</tr>
<tr>
<td>Golden Rum</td>
<td></td>
<td>15%</td>
<td>40%</td>
<td>56%</td>
<td>73%</td>
<td>83%</td>
<td>91%</td>
<td>92%</td>
<td>1%</td>
</tr>
<tr>
<td>Beer</td>
<td></td>
<td>50%</td>
<td>64%</td>
<td>77%</td>
<td>85%</td>
<td>91%</td>
<td>95%</td>
<td>96%</td>
<td>24%</td>
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<td>of which</td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard</td>
<td></td>
<td>52%</td>
<td>70%</td>
<td>84%</td>
<td>90%</td>
<td>94%</td>
<td>98%</td>
<td>98%</td>
<td>10%</td>
</tr>
<tr>
<td>Premium</td>
<td></td>
<td>46%</td>
<td>57%</td>
<td>70%</td>
<td>80%</td>
<td>87%</td>
<td>92%</td>
<td>94%</td>
<td>13%</td>
</tr>
<tr>
<td>Super Strength</td>
<td></td>
<td>80%</td>
<td>92%</td>
<td>99%</td>
<td>99%</td>
<td>99%</td>
<td>100%</td>
<td>100%</td>
<td>1%</td>
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<tr>
<td>Cider</td>
<td></td>
<td>72%</td>
<td>81%</td>
<td>85%</td>
<td>88%</td>
<td>91%</td>
<td>93%</td>
<td>94%</td>
<td>7%</td>
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<td>of which</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>White/ Strong</td>
<td></td>
<td>94%</td>
<td>98%</td>
<td>99%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>2%</td>
</tr>
<tr>
<td>Regular</td>
<td></td>
<td>66%</td>
<td>76%</td>
<td>81%</td>
<td>85%</td>
<td>88%</td>
<td>90%</td>
<td>92%</td>
<td>5%</td>
</tr>
<tr>
<td>Table Wine</td>
<td></td>
<td>35%</td>
<td>28%</td>
<td>52%</td>
<td>66%</td>
<td>81%</td>
<td>86%</td>
<td>91%</td>
<td>94%</td>
</tr>
<tr>
<td>Other</td>
<td></td>
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<tr>
<td>Fortified</td>
<td></td>
<td>32%</td>
<td>40%</td>
<td>63%</td>
<td>77%</td>
<td>87%</td>
<td>93%</td>
<td>94%</td>
<td>3%</td>
</tr>
<tr>
<td>Perry</td>
<td></td>
<td>92%</td>
<td>96%</td>
<td>99%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Exports

15. The Global Connections Survey indicates that in 2009 the whisky industry, along with other spirits (distilled potable alcoholic beverages), accounted for approximately 87% of all food and drink manufacturing exports, the share having increased in the last eight years from 80% in 2002. The nominal value of spirits exports has grown by 67% from £1.9bn in 2002 to £3.1bn in 2009\textsuperscript{185}. In 2009, 91.3% of the total volume of Scotch Whisky was exported and 8.7% consumed in the UK\textsuperscript{186}.

Individual company market shares

16. It is not possible to estimate the exact market shares of the biggest companies and brands for Scotland, however, the top 10 selling Scotch Whisky

\textsuperscript{185} Global Connections Survey 2009 \url{http://www.scotland.gov.uk/Publications/2010/12/GCS2009}
\textsuperscript{186} Scotch Whisky Industry Review 2009, \url{http://www.scotchwhiskyindustryreview.com/}, p.12
brands on the Scottish market by volume account for 72% of the market. Own label and cheap brands account for 30% of the market\textsuperscript{187}.

**Geographical impact**

17. Since the legislation would be introduced in Scotland only, there is theoretically some potential for consumers in the Border regions to purchase alcoholic products in off-licences across the border in England, thereby shifting market demand away from Scottish supply (cross-border effects). The extent to which this might happen is difficult to predict as it will depend on consumers’ willingness to travel for their alcohol purchases and on the scale of the price differential. The products most likely to be affected are high-strength, low price products and potential savings from purchasing these products in England would have to be weighed against increased travel and transport costs.

18. The issue of cross-border shopping between Northern Ireland and the Republic of Ireland has been addressed in a recent report conducted by the Office of the Revenue Commissioners and the Central Statistics Office for the Irish Department of Finance\textsuperscript{188}. The report notes that the main causes of price differentials between goods in Northern Ireland and the Republic are operating costs, profit margin, taxes and, in particular, the rapid depreciation of Sterling against the Euro (depreciation of around 30% between January and December 2008). These are specific circumstances where it is not just alcohol that is cheaper – people are travelling to do their whole grocery shopping.

19. The report estimates potential losses in Exchequer revenues due to tax losses to be between €92m (£83m) and €143m (£129m)\textsuperscript{189} in 2009. The value of cross-border shopping was estimated to be in the range of €350m (£315m) and €550m (£495m) in 2008. The Alcohol Beverage Federation of Ireland also noted that alcohol was a major contributory factor driving cross-border shopping, due to higher alcohol taxes in the Republic of Ireland relative to the UK. Based on Nielsen data, it was estimated that off-licence sales in the North have risen by 30% in the year to August, while off-sales in the South were down by 7%.

20. Another potential consequence of introducing minimum pricing in Scotland only is an increase in internet sales. If the alcohol is not despatched from within Scotland minimum pricing would not apply. Similar to cross-border shopping, the products most likely to be affected are high-strength, low price products. Also similar to cross border shopping, the incentive to buy from outwith Scotland via the internet will be greater the bigger the price differential between the price of alcohol in Scotland and elsewhere, combined with the volume of goods being purchased.

\textsuperscript{187} SWA response to 2009 consultation


\textsuperscript{189} Assuming €1=£0.9
Impact on retailers, suppliers and wholesalers

21. Guidance produced by the Office of Fair Trading (OFT) recommends the consideration of four key questions in order to discuss whether the legislation on alcohol products would have an impact on competition. Each of these questions is discussed in turn for the proposal of a minimum price for a unit of alcohol.

22. The four questions are as follows. In any affected market, would the proposals:

1. Directly limit the number or range of suppliers?
2. Indirectly limit the number or range of suppliers?
3. Limit the ability of suppliers to compete?
4. Reduce suppliers’ incentives to compete vigorously?

1. Would the proposals directly limit the number or range of suppliers?

23. Minimum pricing is not going to award exclusive rights to supply or restrict procurement processes to a single supplier or restricted group of suppliers. There will also be no direct impact or limitation (quota) on the number of suppliers or retailers as a consequence of any of the proposals.

24. A licensing scheme is already in place for the retail of alcohol in off-licences and on-sales premises. Minimum pricing will affect all off and on-sales licensed premises, however, it will not affect the existing licensing schemes or require the introduction of a new licensing scheme.

2. Would the proposals indirectly limit the number or range of suppliers?

25. A minimum price will essentially establish a price floor. This could potentially make it harder for firms to enter or exit the market for retailing alcohol if the price floor is binding, i.e. if the free market price for products lies below the price floor. New, small retailers would no longer be able to attract demand by challenging existing firms on price, and below that price floor would be left with the ability to compete only on non-price factors such as brand, quality, range, advertising, etc.

26. Products that currently retail below any minimum price set would require to raise their price to comply with the legislation. That could result in a number of brands of a similar product retailing at an identical price such as supermarket own label spirits, brands associated with a low retail price and those recognised as more premium brands. If there was no price differential it may be that demand for the own label product or value product diminishes leading ultimately to a reduction in the number of suppliers.

International competition

27. The same legislation would apply to international producers, wholesalers and retailers trying to enter the Scottish market. Any firms wanting to import high strength, low price products would have to raise their retail prices to comply with the
minimum price per unit legislation. This could impact on a foreign company’s ability to compete in the domestic market if the company was currently selling at very low margins in order to be competitive with domestic products.

28. In a ruling by the European Court of Justice concerning the imposition of minimum pricing on spirits by the Dutch government in 1978 it was found that:

“A fixed minimum price which, although applicable without distinction to domestic products and imported products, is capable of having an adverse effect on the marketing of the latter must be considered as a measure having an effect equivalent to a quantitative restriction in so far as it prevents their lower cost price from being reflected in the retail selling price. This conclusion must be drawn even though the competent authority is empowered to grant exemptions from the fixed minimum price and though this power is freely applied to imported products, since the requirement that importers and traders must comply with the administrative formalities inherent in such a system may in itself constitute a measure having an effect equivalent to a quantitative restriction.”

3. **Would the proposal limit the ability of suppliers to compete?**

29. Minimum pricing will restrict the ability of retailers to price alcohol products. Since the limitation will act as a price floor, retailers will not be able to out-compete through undercutting one another on price across some or all of their product range or through loss-leading. This could have a weakening effect on competition between retailers.

30. Identifying which part of the retail market will be most affected – supermarkets or small shops – is problematic. Large and small retailers are likely to be affected differently. Larger retailers sell large volumes of popular brands (often priced very competitively) but also, a greater range of products. Convenience stores’ representatives have said that they need to maintain low prices to compete with supermarkets, particularly as supermarkets continue to develop their “convenience store” format (such as Tesco Metro and Sainsbury’s Central) putting pressure on independent retailers to compete with them on price.

31. Some small retailers may depend on alcohol sales for a significant proportion of their turnover. The initial consultation response by the Scottish Grocers’ Federation estimated that the imposition of a minimum price of between 40p to 70p could reduce sales by between 10% and 25%. However, this will have to be weighed up against the additional (off-sales) turnover predicted to be generated at any given level of minimum price.

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191 Scottish Grocers’ Federation (SGF) response to 2009 consultation
32. It is therefore very unlikely that the minimum price legislation will force any small retailers out of the market. However, in the exception where this might be the case, there would be a potential competition impact since it could lead to a more consolidated market, and hence less competition between firms even on products where the minimum price floor does not have a direct effect. Since higher levels of minimum price will affect larger proportions of products, the overall impact on retailers' turnover will also increase. This will play a more important role for retailers whose turnover is derived to a larger extent from the sale of affected alcoholic products.

33. Table 4 illustrates the potential impact on the price of a selection of specific products following the introduction of a range of minimum prices. These are examples taken as a snapshot from a comparison website\textsuperscript{192} and represent products at low and medium price range in different drinks categories (sample taken on 5 October 2011). The price change is set to 0% if the minimum price level would result in a price below the current retail price and there would therefore be no change.

\textsuperscript{192} www.mysupermarket.co.uk
## Table 4: Hypothetical price changes at range of minimum prices

<table>
<thead>
<tr>
<th>Sample Product</th>
<th>Units in product</th>
<th>£ per unit at current price</th>
<th>% change in price at minimum price per unit of alcohol</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cider</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hawksridge Cider (2L)</td>
<td>9.0</td>
<td>16.4</td>
<td>52%  82%  113%  143%  174%  204%  234%  265%  295%  326%</td>
</tr>
<tr>
<td>Strongbow Cider (2L)</td>
<td>10.6</td>
<td>16.4</td>
<td>0%  0%  15%  32%  48%  65%  81%  98%  114%  130%</td>
</tr>
<tr>
<td>Magners Irish Cider (8x500ml)</td>
<td>18.0</td>
<td>49.8</td>
<td>0%  0%  0%  0%  0%  0%  10%  20%  30%  40%</td>
</tr>
<tr>
<td><strong>Whisky</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ASDA Smartprice Scotch Whisky (700ml)</td>
<td>28.0</td>
<td>35.6</td>
<td>0%  0%  0%  12%  26%  40%  54%  69%  83%  97%</td>
</tr>
<tr>
<td>The Famous Grouse Scotch Whisky (1L)</td>
<td>40.0</td>
<td>42.5</td>
<td>0%  0%  0%  0%  6%  18%  29%  41%  53%  65%</td>
</tr>
<tr>
<td>William Grant's Scotch Whisky (1L)</td>
<td>40.0</td>
<td>51.2</td>
<td>0%  0%  0%  0%  0%  0%  7%  17%  27%  37%</td>
</tr>
<tr>
<td><strong>Vodka</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Select Vodka (700ml)</td>
<td>26.3</td>
<td>31.5</td>
<td>0%  0%  11%  27%  43%  59%  75%  90%  106%  122%</td>
</tr>
<tr>
<td>Tesco Imperial Vodka (1L)</td>
<td>37.5</td>
<td>37.0</td>
<td>0%  0%  0%  0%  8%  22%  35%  49%  62%  76%</td>
</tr>
<tr>
<td>Eristoff Vodka (1L)</td>
<td>38.0</td>
<td>50.5</td>
<td>0%  0%  0%  0%  0%  9%  19%  29%  39%</td>
</tr>
<tr>
<td><strong>Rum</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tesco Value Dark Rum (700ml)</td>
<td>28.0</td>
<td>29.6</td>
<td>0%  1%  18%  35%  52%  69%  86%  103%  120%  136%</td>
</tr>
<tr>
<td>Liberty Ship White Rum (700ml)</td>
<td>26.3</td>
<td>36.1</td>
<td>0%  0%  0%  0%  11%  25%  39%  52%  66%  80%</td>
</tr>
<tr>
<td>Lamb’s Navy Rum (700ml)</td>
<td>28.0</td>
<td>49.9</td>
<td>0%  0%  0%  0%  0%  0%  10%  20%  30%  40%</td>
</tr>
<tr>
<td><strong>Gin</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ASDA London Dry Gin (1.5L)</td>
<td>56.3</td>
<td>35.9</td>
<td>0%  0%  0%  0%  12%  25%  39%  53%  67%  81%</td>
</tr>
<tr>
<td>Tesco Finest Classic No 1. Gin (700ml)</td>
<td>30.1</td>
<td>41.5</td>
<td>0%  0%  0%  0%  8%  20%  33%  45%  57%  69%</td>
</tr>
<tr>
<td>Gordon’s Special Dry London Gin (700ml)</td>
<td>26.3</td>
<td>55.1</td>
<td>0%  0%  0%  0%  0%  0%  0%  0%  0%  9%</td>
</tr>
<tr>
<td><strong>Beer and Lager</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tesco Value Bitter 2.1% (4x440ml)</td>
<td>3.7</td>
<td>18.7</td>
<td>34%  61%  87%  114%  141%  168%  195%  221%  248%  275%</td>
</tr>
<tr>
<td>Kronenbourg 1664 (15x275ml)</td>
<td>20.6</td>
<td>43.6</td>
<td>0%  0%  0%  0%  3%  15%  26%  38%  49%  60%</td>
</tr>
<tr>
<td>Guinness Original (12x440ml)</td>
<td>22.2</td>
<td>52.8</td>
<td>0%  0%  0%  0%  0%  0%  4%  14%  23%  32%</td>
</tr>
<tr>
<td><strong>Wine</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Cape Mill Stone Cabernet Sauvignon (750ml)</td>
<td>10.5</td>
<td>28.6</td>
<td>0%  5%  23%  40%  58%  75%  93%  110%  128%  145%</td>
</tr>
<tr>
<td>Blossom Hill Signature Italian White Wine (750ml)</td>
<td>27.0</td>
<td>37.0</td>
<td>0%  0%  0%  8%  22%  35%  49%  62%  76%  89%</td>
</tr>
<tr>
<td>ASDA Liebfraumilch Rheinhessen (750ml)</td>
<td>6.8</td>
<td>50.7</td>
<td>0%  0%  0%  0%  0%  0%  9%  18%  28%  38%</td>
</tr>
</tbody>
</table>

Data source: [www.mysupermarket.co.uk](http://www.mysupermarket.co.uk)
34. The initial change in the market is likely to be in the quantities sold of a specific alcoholic product if the original price lies below a newly set minimum price. The change in revenue to retailers and wholesalers will be determined by consumers’ elasticity of demand for that product – the more inelastic the demand, the greater the increase in revenue. This leads to a transfer of ‘rents’ from consumers to retailers. In effect, retailers can charge higher prices for the same goods than they otherwise could under free and unrestricted competitive markets.

35. The Scotch Whisky Association (SWA) point out that there could be another form of market distortion as a result of obligatory price increases in some of the low price, high strength products. Such an increase would reduce the price gap between low quality products (in this case own brand whiskies) and higher quality products such as branded blended whiskies and, to a lesser extent, single malts. The SWA claim this could potentially lead to a ‘commoditisation’ of the market, with consumers expected to switch to alternative, higher quality, but now similarly priced products.

36. An alternative consequence would be a proportionate increase in prices of higher quality products by retailers in order to maintain the product differentiation, which would then result in a higher level of prices throughout the alcohol product segment presented to the consumer. Evidence from British Columbia shows that when the minimum price for alcoholic drinks was raised, prices rose across all of the price distribution, including those well above the minimum price. The scale of that price increase reduced the higher the original price.

37. Findings on consumers’ price elasticities of demand for different alcoholic products from the Sheffield study and others are discussed in greater detail in the consumers section below. Broadly, it is found that demand for wine and beer is generally inelastic in the UK. Own-price elasticities for spirits range from relatively inelastic to elastic. The Sheffield study’s estimates are in line with other findings showing that demand for beer and ready to drink beverages is relatively more inelastic than demand for wine and spirits.

38. The Sheffield reports predict that all minimum price scenarios modelled result in increased revenue for the alcohol industry overall, both off-trade and on-trade (excluding duty and VAT). Higher minimum prices lead to greater retail receipts, with increases in off-trade receipts of around £4.7m to £148.0m for minimum prices of 25p to 70p respectively.

39. The updated Sheffield model of 2010 estimated a reduction in duty and VAT receipts for the off-trade sector at all levels of minimum price (with the exception of

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193 Alcohol pricing for public health: Alcohol General principles, the devil and the detail. Professor Tim Stockwell. Presentation to Scottish Health Action on Alcohol, Edinburgh, Scotland, September 28, 2009.

the 25p scenario), with increasing reductions at increasing minimum price rates. This is partially offset by linearly increasing duty and VAT receipts in the on-trade sector at increasing rates of minimum price. Duty is applied to the volume of sales on a per unit basis (which at this price scenario is reducing) but the sales tax is applied to the monetary value of sales (which is increasing).

40. The likely distribution of these increased revenues across the supply chain is not known. If the majority of profits are retained by retailers those margins could be used to become more competitive in other areas, e.g. fruit and vegetables. It might lead to loss-leading activities on staple items such as bread and milk. This might put smaller retailers, who would not have the same flexibility of margins, at a competitive disadvantage. If producers raise their prices accordingly following the imposition of a minimum price, this would negate any profit margin increase for retailers.195

41. The Loi Galland, passed in France in 1997, meant that large supermarkets could not pass on discounts negotiated with wholesalers to consumers, the equivalent to allowing industry-wide price floors. Any deals made by retailers with wholesalers would only result in an increase in the retailer's margins, and not benefit consumers. In France, between 1997 and 2002, food prices increased faster than general inflation – 11.8% compared to 6%. Before the Loi Galland food prices increased at a slower rate than inflation196.

42. Similarly, between 1987 and 2005 Ireland's Groceries Act (1987) provided very similar restrictions on retailers' pricing by outlawing below-cost selling in Ireland. Collins et al. (2001)197 identified the Act as a key influence on the behaviour of retailers, and as a significant variable in the explanation of retail gross margins. They show a positive relationship between the banning of below-cost selling and retail gross margins, which indicates that the law resulted in a reduction in price competition between retailers. A study by the Irish Competition Authority in 2005198 estimated that removing the restriction on below-cost selling could save households nearly €500 per year.

43. An OECD round table in 2005 on resale below cost199 further noted that restrictions on selling below cost are associated with slower economic growth and higher unemployment.

44. In some cases, there is a risk that Government-imposed restrictions on pricing could encourage rent-seeking activity e.g. lobbying by firms to maintain or

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195 Scottish Grocers' Federation input to draft Regulatory Impact Assessment; SGF response to 2011 consultation
198 Irish Competition Authority (2005), ‘Submission to the Minister for Enterprise, Trade and Employment on the Groceries Order, Submission: S/05/006’, July 2005
increase restrictions. This could lead retailers to divert resources away from developing and improving their products and services. In the long-run this can result in higher costs.

**Specialists**

45. In the case of specialists who sell alcohol products only, there would not be the opportunity to use any increase in revenue to reduce prices of other products such as fruit and vegetables in order to enhance competitiveness. However the aggressive low cost competition between the supermarkets within the off-sales sector is likely to have contributed to the failure of mid size off-sales chains such as Threshers, Haddows and Oddbins. In terms of lower priced products, a minimum unit price might increase the ability of independent shops and smaller chains to compete in this market.

**Production methods and innovation**

46. The producers that will be most affected by a minimum price are those whose production consists of a significant volume of products which currently sell below that minimum price threshold. These producers are likely to be the ones whose main production focuses on own label products, as these generally sell at lower price. It has proved difficult to obtain comprehensive information about which producers produce the ‘cheap’ alcohol and own label alcohol.

47. In the case of ciders, some of the cheaper brands are produced by global companies such as Constellation Brands and Heineken which are major drinks companies producing a whole range of alcohol products. These companies are likely to be affected, overall, to a very minimal extent. It has not been possible to source the producers of own label cider.

48. For own label spirits, it appears that there are two companies that are responsible for most of the own label whisky production: Whyte & Mackay and Glen Catrine. This is borne out by the Scotch Whisky Association’s letter of 19 February 2010200 to the Finance Committee in which they state that “while there are a number of companies involved in this trade [cheap or own label] two companies in particular rely heavily on this segment of the market.” The letter goes on to mention Whyte & Mackay and Glen Catrine.

49. There should be minimal impact on innovation or the introduction of new products. New, high-strength products would have to comply with a minimum price, but would not be prevented from being introduced. There might even be an incentive to innovate. One possible effect of minimum pricing could be the introduction of alcohol products containing lower strength alcohol which could be sold at a relatively lower price in larger quantities due to them containing fewer units of alcohol per litre. This would constitute an introduction of a new product in line with proposed legislation and would not change the characteristics of existing

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200 Scottish Parliament reference FI/S3/10/7/2
products. However, reducing the alcohol content will not be an option in the case of Scotch Whisky, where legal definitions dictate that the product has to be of strength of at least 40% or higher\textsuperscript{201}.

50. It is not anticipated that the proposals will limit suppliers’ freedoms to organise their own production processes or their choice of organisational form.

**International competition**

51. There is some concern by the industry\textsuperscript{202} that the establishment of minimum price legislation as a precedence in Scotland could lead to similar legislation being introduced in other countries under the health-based umbrella. Depending on how these measures are implemented in other countries, there could be a detrimental effect on the export segment of Scottish drinks producers, in particular for Scotch Whisky. At the same time Scotch Whisky is already subject to a number of imposed duties and restrictions in other countries.

4. **Would the proposals reduce suppliers’ incentives to compete vigorously?**

52. The primary effect of a price floor is to reduce the ability of retailers to compete on price grounds. Instead, retailers might switch to competing on other factors, such as customer service, quality, heritage, taste or origin. Some of this could be positive for consumers. However, other forms of competition can be less positive (e.g. competition on advertising). One unintended consequence of the legislation might be an increase in this type of non price competition facilitated by the increase in revenue and any resultant impact on sales.

53. The previous section (section 3: “limits the ability of suppliers to compete”) established that there could be increases in revenue to retailers following the introduction of a minimum price depending on the elasticity of demand for alcohol. This could remove pressure on retailers to be efficient as it may reduce incentives to compete on price grounds.

54. It is important to ensure that the introduction of a minimum price does not inadvertently allow or encourage competitors to share information on their commercial matters (e.g. future price or demand projections) during the process of setting their price according to the regulations. If this was the case, it could also lead to reduced incentives to compete.

55. Biscourop et al. (2008) find that before the Loi Galland retail prices were significantly lower in concentrated markets in France but, two years after the enactment of the law, the correlation vanished. This indicates that retail chains were no longer competing fiercely, and consumers would have been losing out. The larger retailers benefited the most in terms of ability to increase prices.

\textsuperscript{201} Definition of Scotch Whisky, 3.1.i [http://www.opsi.gov.uk/si/si2009/uksi_20092890_en_1#l1g3](http://www.opsi.gov.uk/si/si2009/uksi_20092890_en_1#l1g3)

\textsuperscript{202} SWA response to 2009 consultation

82
Impact on Consumers

56. A minimum price can be expected to have direct and indirect impacts on consumers. A price floor will lead to price changes for affected products. This means that relative prices of different alcoholic products would change as the minimum price floor would affect some products (whose total price would increase), but not others (whose original price was already set above the minimum price per unit).

57. Consumers can be expected to respond to these changes in either of two ways, either by reducing their consumption of an alcoholic product if the price increases, or by switching to alternative products (substitutes) whose relative price has decreased. The extent to which this happens will depend on consumers’ price responsiveness, i.e. the own-price elasticity (PED) and cross-price elasticities (XED) of demand, which will determine change in consumption and switching behaviour.

58. It is not expected that the proposals will affect the ease with which customers can switch between competing products.

59. For a better understanding, own-price and cross-price elasticities are explained below:
   - Own-price elasticity of demand is defined as the measure of responsiveness in the quantity demanded for a commodity as a result of a change in its own price. It is a measure of how consumers react to a change in price.
   - If demand for a good is inelastic, a change in the good’s price will invoke a proportionately smaller change in demand for that good (0<PED<1). Likewise, if the demand for a good is elastic, then a change in price will result in a relatively larger change in quantity demanded (1<PED<∞).
   - Aggregate analysis tend to suggest that heavier drinkers 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 relatively less than moderate drinkers. However, since heavier drinkers by definition consume more in absolute terms, the absolute quantities of alcohol consumed could change more than for moderate drinkers. The Sheffield study, however found that heavier drinkers were more responsive to price change.
   - Cross-price elasticities of demand (XED) measure the responsiveness of the demand for one good to a change in the price of another good. If the XED between two alcohol products is high, this means that consumers would switch easily to an alternative if the price of one product increased.

60. As alcohol is both mind altering and addictive it might be reasonable to suggest alcohol has relatively few substitutes203. The PED for alcoholic beverages is therefore likely to be inelastic. Estimates of the PED will vary, however, depending on how the beverage is defined, e.g. it could reasonably be argued the

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most important substitute products for beer are wine and spirits. As there are relatively few substitute products, it is likely the absolute value of the own-price elasticity of beer is quite low. The same is obviously also true for wine and spirits.

61. The more narrowly defined the market of a product (e.g. alcohol), the greater the flexibility to switch to alternative products, i.e. the greater the elasticity. For any given brand of beer, or beer sub-market category, e.g. imported beer, there are therefore many substitute beer products. As such, it is reasonable to expect the absolute value of the PED for a specific beer brand or beer sub-market category to be relatively high.

62. The Sheffield modelling produced a complex matrix of elasticities for different categories of drinkers and for different alcoholic drinks in both the on and off-trade for the UK. An extract of the results is used to populate the summary of own-price elasticities from the Sheffield study in Table 5 below. For comparison, examples of price-elasticities from other studies are given in Table 6.

<table>
<thead>
<tr>
<th>Table 5: Price elasticity of demand for 16 beverage categories (Sheffield – UK)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Off-trade</strong></td>
</tr>
<tr>
<td>Moderate drinkers</td>
</tr>
<tr>
<td>Beer</td>
</tr>
<tr>
<td>Low*</td>
</tr>
<tr>
<td>High*</td>
</tr>
<tr>
<td>Hazardous and harmful drinkers</td>
</tr>
<tr>
<td>Beer</td>
</tr>
<tr>
<td>Low*</td>
</tr>
<tr>
<td>High*</td>
</tr>
</tbody>
</table>

*Low/High=price point estimates for each product
RTD=ready to drink

<table>
<thead>
<tr>
<th>Table 6: Examples of price elasticities in international studies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Study</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Fogarty</td>
</tr>
<tr>
<td>Gallet</td>
</tr>
<tr>
<td>Wagenaar</td>
</tr>
<tr>
<td>(for harmful drinkers)</td>
</tr>
<tr>
<td>Huang</td>
</tr>
<tr>
<td>(off-trade beer)</td>
</tr>
<tr>
<td>Collis, Grayson &amp; Johal</td>
</tr>
<tr>
<td>(off trade)</td>
</tr>
</tbody>
</table>

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63. These tables show that demand for wine and beer is generally inelastic in the UK. Exceptions are on-trade spirits in both the Sheffield and HMRC studies; and off-trade beer in the HMRC studies. (Note that many studies do not split into on and off-trade). Findings in own-price elasticity for spirits range from relatively inelastic to elastic. The Sheffield study’s estimates are in line with other findings, showing that demand for beer and ready to drink beverages is relatively more inelastic than demand for wine and spirits.

64. A possible increase in the price of alcoholic products following the introduction of a minimum price proposal could therefore have different effects on consumption depending on these elasticities. For the more inelastic products, it can be expected that consumers will spend more. For the relatively more elastic products, consumers could reduce their consumption in response to price increases.

65. These PEDs do not take into account switching behaviour. This issue is addressed by the XEDs between different alcoholic products as defined above. Table 7 provides an overview of the consumption patterns between different products and between sales in the on and off-trade for moderate drinkers. Positive numbers indicate substitutes (a price increase in one good is expected to lead to a switch, i.e. an increase in demand, to the other good). Negative relationships indicate complements (a price increase in one good also leads to a fall in consumption in the other good) and are highlighted here for ease of reference.

Table 7: Cross-price elasticities of demand for 8 beverage categories (moderate drinkers) – Sheffield study

<table>
<thead>
<tr>
<th>Consumption</th>
<th>Off</th>
<th>On</th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
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</tr>
<tr>
<td>Off</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wine</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spirit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RTD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beer</td>
<td>0.0095</td>
<td>0.0052</td>
</tr>
<tr>
<td>Wine</td>
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<td>0.0037</td>
</tr>
<tr>
<td>Spirit</td>
<td>0.0083</td>
<td>0.0082</td>
</tr>
<tr>
<td>RTD</td>
<td>0.0119</td>
<td>0.0067</td>
</tr>
<tr>
<td>On</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wine</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spirit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RTD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beer</td>
<td>0.0128</td>
<td>0.01</td>
</tr>
<tr>
<td>Wine</td>
<td>0.0051</td>
<td>0.0055</td>
</tr>
<tr>
<td>Spirit</td>
<td>0.0021</td>
<td>0.0018</td>
</tr>
<tr>
<td>RTD</td>
<td>0.0025</td>
<td>0.0023</td>
</tr>
</tbody>
</table>

High price-point elasticities only
-ve = complements
+ve = substitutes

66. Table 7 shows that the majority of products are substitutes, meaning that consumers can be expected to switch between them. Exceptions include price increases in on-trade spirits, which cause reductions in all other on-trade products, and the on-trade relationship between beer and wine. It should be noted that the absolute figures recorded are small, so the extent of the induced switching behaviour can be expected to be almost negligible.

67. Table 8 summarises the Sheffield study’s findings on modelling consumers’ behaviour for different scenarios of varying minimum price levels. The changes in consumption are then translated into changes in spending on alcohol products.
Table 8: Impact of minimum price scenarios on consumption and total spending – Sheffield Study 2010

<table>
<thead>
<tr>
<th>Minimum price (£)</th>
<th>% change in consumption</th>
<th>Total spending change (£m)</th>
<th>% spending change</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.25</td>
<td>0.0%</td>
<td>1.7</td>
<td>0.2%</td>
</tr>
<tr>
<td>0.30</td>
<td>0.0%</td>
<td>3.8</td>
<td>0.5%</td>
</tr>
<tr>
<td>0.35</td>
<td>-0.3%</td>
<td>7.9</td>
<td>1.0%</td>
</tr>
<tr>
<td>0.40</td>
<td>-0.9%</td>
<td>13.8</td>
<td>1.8%</td>
</tr>
<tr>
<td>0.45</td>
<td>-2.0%</td>
<td>21.5</td>
<td>2.8%</td>
</tr>
<tr>
<td>0.50</td>
<td>-3.3%</td>
<td>29.7</td>
<td>3.8%</td>
</tr>
<tr>
<td>0.55</td>
<td>-5.0%</td>
<td>38.3</td>
<td>4.9%</td>
</tr>
<tr>
<td>0.60</td>
<td>-6.8%</td>
<td>46.3</td>
<td>5.9%</td>
</tr>
<tr>
<td>0.65</td>
<td>-8.8%</td>
<td>53.5</td>
<td>6.9%</td>
</tr>
<tr>
<td>0.70</td>
<td>-10.9%</td>
<td>59.6</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

68. From the table it can be seen that increasing levels of minimum pricing show increasing effects on consumption and, similarly, increases in overall spending. The increases in consumer spending at all minimum prices mean that consumption decreases do not keep pace with price increases and so overall spending rises.

69. The Sheffield report breaks down the extra spending per drinker per year into moderate, hazardous and harmful drinkers. These estimates take into account any changes in consumption that occur due to the price changes at different minimum price levels. Harmful drinkers account for the largest proportion of extra spending in each scenario. The spending impact on moderate drinkers is much lower than that observed for harmful drinkers.

70. The estimates on price changes generated in the drinks specific analysis presented in table 4 were applied to Sheffield price elasticities (off-sales, low-low point) for the three categories of all drinkers, moderate drinkers and hazardous and harmful drinkers. This generated an overview of how price changes might impact on the consumption of specific goods given different groups of consumers, presented in tables 9 to 11 below.

71. However, it should be stressed that this analysis is indicative only and makes the strong assumption that one drink specific demand elasticity applies to all products within that drinks category and at all price levels (constant elasticity of demand). That assumption automatically implies that consumption will linearly decrease with a linear increase in price (to the point where it is reduced by 100%), which might be unrealistic.
<table>
<thead>
<tr>
<th>Sample Product</th>
<th>% change in consumption at minimum price per unit of alcohol</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£0.25 £0.30 £0.35 £0.40 £0.45 £0.50 £0.55 £0.60 £0.65 £0.70</td>
</tr>
<tr>
<td>Cider Hawksridge Cider (2L)</td>
<td>-29% -46% -62% -79% -96% -100% -100% -100% -100% -100%</td>
</tr>
<tr>
<td>Strongbow Cider (2L)</td>
<td>0% 0% -8% -18% -27% -36% -45% -54% -63% -72%</td>
</tr>
<tr>
<td>Magners Irish Cider (8x500ml)</td>
<td>0% 0% 0% 0% 0% 0% 0% -6% -11% -17% -22%</td>
</tr>
<tr>
<td>Whisky ASDA Smartprice Scotch Whisky (700ml)</td>
<td>0% 0% 0% -8% -16% -25% -33% -42% -51% -59%</td>
</tr>
<tr>
<td>The Famous Grouse Scotch Whisky (1L)</td>
<td>0% 0% 0% 0% 0% -4% -11% -18% -25% -32% -40%</td>
</tr>
<tr>
<td>William Grant's Scotch Whisky (1L)</td>
<td>0% 0% 0% 0% 0% 0% 0% -5% -11% -17% -23%</td>
</tr>
<tr>
<td>Vodka Select Vodka (700ml)</td>
<td>0% 0% -7% -17% -26% -36% -46% -55% -65% -75%</td>
</tr>
<tr>
<td>Tesco Imperial Vodka (1L)</td>
<td>0% 0% 0% 0% 0% -5% -13% -22% -30% -38% -46% -55%</td>
</tr>
<tr>
<td>Eristoff Vodka (1L)</td>
<td>0% 0% 0% 0% 0% 0% 0% 0% -5% -11% -18% -24%</td>
</tr>
<tr>
<td>Rum Tesco Value Dark Rum (700ml)</td>
<td>0% -1% -11% -22% -32% -42% -53% -63% -73% -84%</td>
</tr>
<tr>
<td>Liberty Ship White Rum (700ml)</td>
<td>0% 0% 0% -7% -15% -24% -32% -41% -49% -58%</td>
</tr>
<tr>
<td>Lamb's Navy Rum (700ml)</td>
<td>0% 0% 0% 0% 0% 0% 0% 0% -6% -12% -19% -25%</td>
</tr>
<tr>
<td>Gin ASDA London Dry Gin (1.5L)</td>
<td>0% 0% 0% 0% -7% -16% -24% -33% -41% -50% -58%</td>
</tr>
<tr>
<td>Tesco Finest Classic No. 1. Gin (700ml)</td>
<td>0% 0% 0% 0% 0% -5% -13% -20% -27% -35% -42%</td>
</tr>
<tr>
<td>Gordon's Special Dry London Gin (700ml)</td>
<td>0% 0% 0% 0% 0% 0% 0% 0% -5% -11% -17% -23%</td>
</tr>
<tr>
<td>Beer and Lager Tesco Value Bitter 2.1% (4x440ml)</td>
<td>-19% -34% -48% -63% -78% -93% -100% -100% -100% -100%</td>
</tr>
<tr>
<td>Kronenbourg 1664 (15x275ml)</td>
<td>0% 0% 0% 0% 0% 0% -2% -8% -14% -21% -27% -33%</td>
</tr>
<tr>
<td>Guinness Original (12x440ml)</td>
<td>0% 0% 0% 0% 0% 0% 0% 0% -2% -7% -13% -18%</td>
</tr>
<tr>
<td>Wine First Cape Mill Stone Cabernet Sauvignon (750ml)</td>
<td>0% -3% -12% -20% -29% -38% -47% -56% -65% -74%</td>
</tr>
<tr>
<td>Blossom Hill Signature Italian White Wine (750ml)</td>
<td>0% 0% 0% -4% -11% -18% -25% -32% -39% -46%</td>
</tr>
<tr>
<td>ASDA Liebfraumilch Rheinhessen (750ml)</td>
<td>0% 0% 0% 0% 0% 0% 0% -4% -9% -14% -20%</td>
</tr>
<tr>
<td>Sample Product</td>
<td>% change in consumption at minimum price per unit of alcohol</td>
</tr>
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<td>-----------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>£0.25</td>
</tr>
<tr>
<td>Cider</td>
<td></td>
</tr>
<tr>
<td>Hawksridge Cider (2L)</td>
<td>-21%</td>
</tr>
<tr>
<td>Strongbow Cider (2L)</td>
<td>0%</td>
</tr>
<tr>
<td>Magner's Irish Cider (8x500ml)</td>
<td>0%</td>
</tr>
<tr>
<td>Whisky</td>
<td></td>
</tr>
<tr>
<td>ASDA Smartprice Scotch Whisky (700ml)</td>
<td>0%</td>
</tr>
<tr>
<td>The Famous Grouse Scotch Whisky (1L)</td>
<td>0%</td>
</tr>
<tr>
<td>William Grant's Scotch Whisky (1L)</td>
<td>0%</td>
</tr>
<tr>
<td>Vodka</td>
<td></td>
</tr>
<tr>
<td>Select Vodka (700ml)</td>
<td>0%</td>
</tr>
<tr>
<td>Tesco Imperial Vodka (1L)</td>
<td>0%</td>
</tr>
<tr>
<td>Eristoff Vodka (1L)</td>
<td>0%</td>
</tr>
<tr>
<td>Rum</td>
<td></td>
</tr>
<tr>
<td>Tesco Value Dark Rum (700ml)</td>
<td>0%</td>
</tr>
<tr>
<td>Liberty Ship White Rum (700ml)</td>
<td>0%</td>
</tr>
<tr>
<td>Lamb's Navy Rum (700ml)</td>
<td>0%</td>
</tr>
<tr>
<td>Gin</td>
<td></td>
</tr>
<tr>
<td>ASDA London Dry Gin (1.5L)</td>
<td>0%</td>
</tr>
<tr>
<td>Tesco Finest Classic No 1. Gin (700ml)</td>
<td>0%</td>
</tr>
<tr>
<td>Gordon's Special Dry London Gin (700ml)</td>
<td>0%</td>
</tr>
<tr>
<td>Beer and Lager</td>
<td></td>
</tr>
<tr>
<td>Tesco Value Bitter 2.1% (4x440ml)</td>
<td>-14%</td>
</tr>
<tr>
<td>Kronenbourg 1664 (15x275ml)</td>
<td>0%</td>
</tr>
<tr>
<td>Guinness Original (12x440ml)</td>
<td>0%</td>
</tr>
<tr>
<td>Wine</td>
<td></td>
</tr>
<tr>
<td>First Cape Mill Stone Cabernet Sauvignon (750ml)</td>
<td>0%</td>
</tr>
<tr>
<td>Blossom Hill Signature Italian White Wine (750ml)</td>
<td>0%</td>
</tr>
<tr>
<td>ASDA Liebfraumilch Rheinhessen (750ml)</td>
<td>0%</td>
</tr>
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</table>
### Table 11: Hypothetical consumption change for specific products - Hazardous and harmful drinkers

<table>
<thead>
<tr>
<th>Sample Product</th>
<th>£0.25</th>
<th>£0.30</th>
<th>£0.35</th>
<th>£0.40</th>
<th>£0.45</th>
<th>£0.50</th>
<th>£0.55</th>
<th>£0.60</th>
<th>£0.65</th>
<th>£0.70</th>
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<tbody>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hawksridge Cider (2L)</td>
<td>-30%</td>
<td>-48%</td>
<td>-66%</td>
<td>-84%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
</tr>
<tr>
<td>Strongbow Cider (2L)</td>
<td>0%</td>
<td>0%</td>
<td>-9%</td>
<td>-18%</td>
<td>-28%</td>
<td>-38%</td>
<td>-47%</td>
<td>-57%</td>
<td>-66%</td>
<td>-76%</td>
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<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>-6%</td>
<td>-12%</td>
<td>-18%</td>
<td>-24%</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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<td>ASDA Smartprice Scotch Whisky (700ml)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>-8%</td>
<td>-16%</td>
<td>-25%</td>
<td>-34%</td>
<td>-42%</td>
<td>-51%</td>
<td>-59%</td>
</tr>
<tr>
<td>The Famous Grouse Scotch Whisky (1L)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>-4%</td>
<td>-11%</td>
<td>-18%</td>
<td>-25%</td>
<td>-33%</td>
<td>-40%</td>
</tr>
<tr>
<td>William Grant’s Scotch Whisky (1L)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>-5%</td>
<td>-11%</td>
<td>-17%</td>
</tr>
<tr>
<td><strong>Vodka</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Selekt Vodka (700ml)</td>
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<td>0%</td>
<td>-7%</td>
<td>-17%</td>
<td>-26%</td>
<td>-36%</td>
<td>-46%</td>
<td>-56%</td>
<td>-65%</td>
<td>-75%</td>
</tr>
<tr>
<td>Tesco Imperial Vodka (1L)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>-5%</td>
<td>-13%</td>
<td>-22%</td>
<td>-30%</td>
<td>-38%</td>
<td>-47%</td>
<td>-55%</td>
</tr>
<tr>
<td>Eristoff Vodka (1L)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>-5%</td>
<td>-12%</td>
<td>-18%</td>
</tr>
<tr>
<td>Tesco Value Dark Rum (700ml)</td>
<td>0%</td>
<td>-1%</td>
<td>-11%</td>
<td>-22%</td>
<td>-32%</td>
<td>-42%</td>
<td>-53%</td>
<td>-63%</td>
<td>-74%</td>
<td>-84%</td>
</tr>
<tr>
<td>Liberty Ship White Rum (700ml)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>-7%</td>
<td>-15%</td>
<td>-24%</td>
<td>-32%</td>
<td>-41%</td>
<td>-49%</td>
<td>-58%</td>
</tr>
<tr>
<td>Lamb’s Navy Rum (700ml)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>-6%</td>
<td>-12%</td>
<td>-19%</td>
</tr>
<tr>
<td><strong>Rum</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ASDA London Dry Gin (1.5L)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>-7%</td>
<td>-16%</td>
<td>-24%</td>
<td>-33%</td>
<td>-41%</td>
<td>-50%</td>
<td>-59%</td>
</tr>
<tr>
<td>Tesco Finest Classic No 1. Gin (700ml)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>-5%</td>
<td>-13%</td>
<td>-20%</td>
</tr>
<tr>
<td>Gordon’s Special Dry London Gin (700ml)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Beer and Lager</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tesco Value Bitter 2.1% (4x440ml)</td>
<td>-20%</td>
<td>-35%</td>
<td>-51%</td>
<td>-67%</td>
<td>-82%</td>
<td>-98%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
</tr>
<tr>
<td>Kronenbourg 1664 (15x275ml)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>-2%</td>
<td>-9%</td>
<td>-15%</td>
<td>-22%</td>
<td>-29%</td>
<td>-35%</td>
</tr>
<tr>
<td>Guinness Original (12x440ml)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>-2%</td>
<td>-8%</td>
<td>-13%</td>
</tr>
<tr>
<td>First Cape Mill Stone Cabernet Sauvignon (750ml)</td>
<td>0%</td>
<td>-3%</td>
<td>-13%</td>
<td>-24%</td>
<td>-34%</td>
<td>-44%</td>
<td>-54%</td>
<td>-65%</td>
<td>-75%</td>
<td>-85%</td>
</tr>
<tr>
<td>Blossom Hill Signature Italian White Wine (750ml)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>-5%</td>
<td>-13%</td>
<td>-21%</td>
<td>-29%</td>
<td>-36%</td>
<td>-44%</td>
<td>-52%</td>
</tr>
<tr>
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<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>-5%</td>
<td>-11%</td>
<td>-17%</td>
<td>-22%</td>
</tr>
</tbody>
</table>
Alternative policy instruments

72. The Scottish Government has noted the suggestion that the policy objective of protecting and improving public health by reducing alcohol consumption could, in theory, be achieved through increasing tax on alcohol. However, the Scottish Government does not consider this to be an effective alternative approach for the following reasons.

73. The current taxation arrangements for alcohol are inequitable with different types of products taxed at different levels. The UK Government has not addressed this anomalous situation by linking tax to the ABV of the product, rather than the type of product. This means the current taxation arrangements are not a basis on which to construct a policy that is fair to all alcohol producers, both foreign and domestic, and so increasing taxation may have a disproportionate effect on some products and not others. We also note the UK Government's view in response to a ‘Number 10’ petition on alcohol duty that “the [UK] Government does not see alcohol duty as a prime tool for tackling the problems associated with alcohol consumption”208.

74. Alcohol tax is generally seen as a fiscal instrument rather than a public health one. Alcohol tax increases are not always reflected in the price the consumer pays. For example, the Competition Commission’s paper on pricing practices noted that 10 grocery retailers (9 of whom operate across Scotland) engage in below-cost selling to varying extents. The Competition Commission further notes that for most grocery retailers, the majority of below-cost sales relates to two or three products groups, alcohol being one209. This suggests that tax increases are sometimes absorbed by the retailer, absorbed by the producer or offset against other products. This means the price paid by the consumer can remain static, or reduce, meaning there would be no reduction in consumption and no reduction in harm. To the extent that prices are offset, customers are paying more for other groceries to subsidise alcohol consumption.

75. On-trade and off-trade retailers tend to have a different approach to passing on tax increases to the consumer. While on-trade retailers are typically understood to pass on any tax increases to consumers as higher alcohol prices, the off-trade, particularly large retailers such as supermarket chains, may be more able to absorb some or all of the change in taxation thus leading to a small or no increase in the price of alcohol. As a result, the level at which a tax increase would be effective is not a straightforward calculation and needs to take into account both the extent to which the tax increase would lead to price increases but also the differential way in which this may affect on and off-trade retailers210.

76. High levels of taxation can make alcohol more expensive for moderate drinkers whose consumption is not problematic and affect the competitiveness of the

alcohol industry\textsuperscript{211}. This means taxation is not a targeted approach at those drinking the most alcohol.

77. Tax rates for alcohol in the UK are already near the top end of those set in Europe, and alcohol consumption in the UK remains high despite this. Under Directive 92/84/EEC minimum tax rates are set for alcohol with Member States free to set their own tax rates anywhere above this minimum. The minimum rates have not been adjusted since 1992 which entails a reduction in their real value of around 25\%. There is a small group of countries that set significantly higher tax rates on alcoholic beverages than others – this group includes Sweden, Finland and the UK\textsuperscript{212}.

78. A recently published analysis\textsuperscript{213} on ‘Devolving Excise Duty in the Scotland Bill’ also noted that the duties set for the UK at present do not reflect the unique characteristics of Scotland’s relationship with alcohol and argued that alcohol duties should be devolved to the Scottish Parliament. The duty regime would be revised to make it more transparent and to work in tandem with minimum pricing to encourage more responsible drinking. It was also proposed that the Scottish Budget should be reduced by a per-capita share of UK-wide alcohol duties, with the amount of duty actually collected in Scotland assigned to the Scottish Budget. This would more closely align the ‘revenue benefit’ from alcohol consumption with the ‘public spending cost’ from the higher level of alcohol consumption in Scotland.

\textsuperscript{211} Op.cit., RAND report

\textsuperscript{212} Ibid

\textsuperscript{213} http://www.scotland.gov.uk/Resource/Doc/50931/0121572.pdf