

Hon Judith Collins, Minister of Justice

**Investigating the Effectiveness of a Minimum Price Regime for Alcohol**

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Action Sought	Timeframe/Deadline
<b>Agree</b> to discuss this briefing with the Ministry officials.	When practicable

**Contacts for telephone discussion (if required)**

Name	Position	Telephone		1st contact
		(work)	(a/h)	
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**Minister's office to complete**

<input type="checkbox"/> Noted <input type="checkbox"/> Approved <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Referred to: _____ <input type="checkbox"/> Seen <input type="checkbox"/> Withdrawn <input type="checkbox"/> Not seen by Minister <b>Minister's office comments</b>  
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16 April 2014

Hon Judith Collins, Minister of Justice

## Investigating the Effectiveness of a Minimum Price Regime for Alcohol

### Purpose

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1. This paper summarises the findings of the Ministry of Justice's analysis on the effectiveness of increasing the price of alcohol through imposing a minimum price regime for alcohol, and provides the Ministry's advice on minimum pricing.

### Executive summary

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2. About 10% of the New Zealand drinking population drink at harmful levels on a daily basis and 20% drink at harmful levels during drinking occasions. The proportion of harmful drinkers is particularly high among the younger age groups.<sup>1</sup>
3. The average price of alcohol at off-licences has decreased over the past decade, while average prices have increased at on-licences. Most alcohol is purchased at off-licences (76%) and likely contributes to harmful drinking behaviour such as preloading.<sup>2</sup>
4. Approaches to minimum price vary among countries, but overall, the approach is relatively untested internationally. A minimum price on alcohol is already in place in some Canadian provinces. A minimum price law has been passed in Scotland, but its legality is being questioned in the courts by the Scottish Whisky Association and other producers. The UK has announced that it will not be proceeding with minimum pricing, although it introduced a 'below cost ban' which will prevent the sale of alcohol below duty + VAT. The Australian Government also does not intend to implement minimum pricing at this stage.
5. The Ministry of Justice (in conjunction with The Treasury) focused on the effectiveness of two minimum pricing options: a minimum price of \$1.00 per standard drink and a minimum price of \$1.20 per standard drink. A minimum price above \$1.20 would affect over a quarter of all alcohol sales, therefore significantly affecting low risk drinkers and the alcohol industry.
6. To establish a comparison point for assessing minimum price, alongside the status quo, we also estimated the excise increase needed to bring products currently priced below the proposed minimum price levels up to \$1.00 or \$1.20 per standard drink on average. An excise increase of 82% would be required to indirectly achieve an average price of \$1.00 on the lowest priced beverages and of 133% to achieve an average price of \$1.20 on the lowest priced beverages.

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<sup>1</sup> For example, 57% of 18 to 24 year olds drink at harmful levels during a drinking occasion.

<sup>2</sup> Preloading is the practice of consuming alcohol at un-licensed premises prior to going to an on-licence premise to consume more alcohol.

7. Our analysis of the savings for society was based on the University of Sheffield's "Alcohol Policy Model". This is considered the leading method for analysis of alcohol policy proposals internationally.
8. The overall net effect on society of the different pricing options was determined by weighing up the benefits against the costs. The benefits are the estimated savings in health, crime and workplace productivity. The costs are the lost consumer benefits incurred from higher prices and reduced consumption, lost tax revenue to Government, and lost value of industry assets from reduced demand.
9. All pricing options result in net benefits for society. Net savings to society over a ten year period are estimated at \$318m for a minimum price of \$1.00 and \$624m for a minimum price of \$1.20. Excise increases to bring the minimum alcohol price up to the same levels result in savings of \$2,452m and \$3,416m respectively. An excise increase affects the price of all alcohol (not just low price alcohol) and therefore more significantly impacts consumer behaviour.
10. While the quantitative economic analysis shows that there are net benefits from a minimum price, there are also a number of factors that need to be taken into account in determining whether minimum pricing should be adopted:
  - Harmful drinkers purchase across the price spectrum so targeting only low price beverages would only have a modest effect on harmful consumption.<sup>3</sup>
  - Alcohol industry revenue will increase if a minimum price is imposed, and alcohol retailers could use this increased revenue to engage in non-price strategies to mitigate the effect of a minimum price and counteract the intent of the minimum pricing policy.
  - A minimum price will result in significant excise losses for the Government, which could have been used to offset the costs of alcohol-related harms.
  - There are implementation issues associated with the imposition of a minimum price regime, particularly the need for ongoing monitoring and enforcement.
  - A minimum price regime would entail more risk because it is relatively untested around the world as compared with an excise change.
11. Given the significance of these issues we are not at this point convinced that minimum pricing would yield the net benefits identified in the quantitative analysis.
12. We recommend that a minimum price not be considered for introduction for five years. This would allow the alcohol reforms to bed in and enable consideration of minimum pricing at that time to take into account the impact of the reforms on harmful drinking and any international developments in minimum pricing.
13. Excise is clearly more effective in addressing alcohol related harm. However, raising excise so significantly is not a simple solution given the complexity of the current alcohol excise system. Raising excise would also have a significant impact on responsible drinkers.

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<sup>3</sup> Sixty percent of harmful drinkers purchase alcohol below \$1.48 per standard drink, while 40% purchase alcohol above \$1.48 per standard drink.

## Background

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### Previous Cabinet decisions

14. On 9 August 2010 Government rejected the Law Commission's excise tax recommendations (to remove excise tax from low-alcohol products and raise excise tax on all other alcohol by 50 per cent) [ ]. Instead, Government agreed to monitor overseas developments on minimum pricing regimes and to explore non-regulatory options for obtaining price and sales data from alcohol retailers to inform consideration of a minimum price regime.
15. On 7 September 2011 the Cabinet Domestic Policy Committee:
  - agreed that the Ministry of Justice continue work to obtain and analyse more detailed alcohol retail price and sales data to inform investigation of a minimum price regime for alcohol
  - directed the Ministry of Justice to report to DOM with an assessment of the effectiveness and impact of a minimum price regime for alcohol by the end of June 2012, subject to detailed retail price and sales data being made available in sufficient time for the analysis to be completed [ ].
16. On 9 May 2012, the Chair of the Cabinet Social Policy Committee agreed to defer the report back until 30 September 2012 due to delays in receiving the necessary retail price and sales data required to undertake the analysis. The Ministry undertook detailed quantitative analysis of the impacts of minimum pricing during the latter part of 2012; however, we have not been able to complete our advice on the matter until this point as our priority focus during 2013 was on the work necessary to ensure the successful implementation of the Sale and Supply of Alcohol Act which came into force in December 2013.

### International developments in minimum pricing are variable

17. There are very few examples of minimum pricing being adopted in practice.
18. In Canada, where alcohol is regulated at the provincial levels and government plays a leading role in supply, of alcohol, there have been a number of reports using data from different provinces. These show that an increase of 10% in the minimum price resulted in decreases in total alcohol consumption between 3.4% and 8%. The reports concluded that minimum prices on alcoholic beverages can reduce alcohol consumption and can shift consumption toward lower alcohol content beverage types.
19. The Scottish Government has passed the Alcohol (Minimum (Scotland)) Act 2012. This sets a minimum price of 50p per standard drink<sup>4</sup> to apply from April 2013. The legality of this legislation is being challenged by The Scotch Whisky Association (SWA), several European wine and spirits bodies and by at least five European wine-producing nations. The case is currently before the Scottish Courts, but even if the Government wins the case, indications are that it will go to the Supreme Court in England and if it fails there, to the European Court of Justice.
20. On 17 July 2013 the UK Government, which has jurisdiction over England and Wales, announced that it will not be proceeding with minimum unit pricing, although the policy will remain "under consideration". The UK Government has said that it will instead ban

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<sup>4</sup> In the UK a standard drink is defined as 10ml of pure alcohol, in New Zealand it is 12.5ml.

the sale of alcohol below cost price i.e. the level of alcohol duty plus VAT. This ban is due to commence in April 2014.

21. On 1 November 2012 the Australian National Preventive Health Agency released a draft report examining the possibility of setting a minimum price on alcohol in Australia. The key recommendation was that a minimum price for alcohol should not be introduced nationally at this time. This was mainly due to a lack of adequate data to analyse the impact of a minimum price at a national level. The report also raised concerns that a minimum price would result in monopoly profits for the alcohol industry. The Agency advised that a minimum price may be more effective in more local circumstances in Australia, and also recommended a reappraisal of the alcohol tax system to ensure all beverages are taxed on a volumetric basis. Consultation on the draft report has been completed, but the final report has not yet been released.
22. In other countries, the Ukraine Government has introduced minimum pricing which came into effect in 2012. In 2010, Russia, Uzbekistan and the Republic of Moldova also introduced minimum pricing. No information is available on the outcomes of these changes.

### **Defining the problem for New Zealand**

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23. About 10% of the New Zealand drinking population drink at harmful levels on an average daily basis and 20% drink at harmful levels during drinking occasions. The proportion of harmful drinkers is particularly high among the younger age groups.
24. In terms of the annual volume of alcohol purchased:
  - harmful drinkers have a preference for beer (low and high price), low price wine, and low price spirits
  - eighteen to 24 year old harmful drinkers have a preference for low and high price beer, low price RTDs, and low price spirits.
25. In terms of alcohol purchased on a drinking occasion:
  - harmful drinkers prefer low price RTDs, low price wine, and beer (low and high price)
  - eighteen to 24 year olds have a greater preference for low price RTDs compared to the rest of the population.<sup>5</sup>
26. Low risk drinkers also have a preference for low price alcohol with 56% of low risk drinkers purchasing alcohol for \$1.48 or less per standard drink.

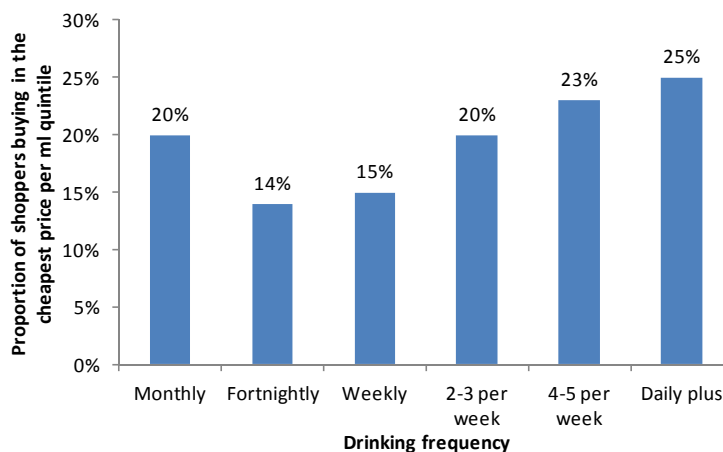
### **Harmful drinkers purchase across the price spectrum**

27. A report produced by the National Research Bureau for the Ministry of Health in 2012 found that while heavy drinkers were more likely to buy cheap alcohol than low risk drinkers, 75% also bought in the four dearer price quintiles.

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<sup>5</sup> 22% of 18 to 24 year olds who drink at a harmful level purchase low price RTDs on a drinking occasion compared with 14% of the drinking population overall.

**Figure 1: The proportion of alcohol shoppers of each drinking frequency who buy in the cheapest cost per ml alcohol quintile (figures rounded)**



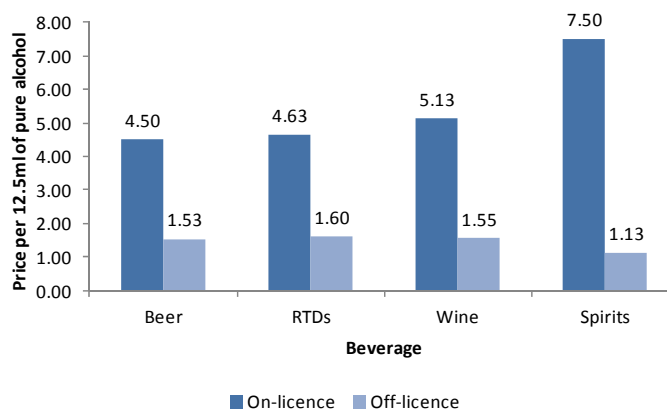
Source: NRB 2012, p.14

28. The study also found that 18 to 24 year olds purchased across the five price quintiles, rather than being noticeably imbalanced toward cheapest price quintile. Those aged 65 years and over were the most likely to buy in the cheaper price quintiles.

### The difference between off-licence and on-licence prices is increasing

29. The proportion of the drinking population buying alcohol from off-licences increased from 64% in 1995 to 76% in 2011. Figure 2 shows the difference in prices at off-licences and on-licences. On-licence prices are three times the average price of beer, RTDs and wine, and seven times the average price of spirits.

**Figure 2: The average price paid per 12.5 ml of pure alcohol at on-licence and off-licence premises by beverage type**



Source: The SHORE & Whariki Research Centre *International Alcohol study 2011*

30. The growing differential between off-licence and on-licence alcohol prices has led to the phenomenon of preloading; drinking alcohol before going to on-licensed premises. According to the *International Alcohol Control Survey 2011*, approximately 54% of respondents said that they had preloaded in the previous six months and almost 15% did so most of the time. Preloading is more common among the younger age groups.

### Overview of the analysis of alcohol pricing options

31. In order to determine the effect of pricing levers on the amount of alcohol bought and subsequent alcohol-related harm, we modelled both minimum price, and taxation which would have an equivalent pricing effect.

## Determining the pricing options to be analysed

32. To determine minimum prices to be analysed, off-licence and on-licence price distribution data was obtained. Table 1 shows the percentage of off-licence alcohol sales, by beverage type, likely to be affected by different minimum price levels. The proportion of off-licence alcohol sales affected varies from 10% of the alcohol market for a minimum price of \$1.00 per standard drink to 94% of the alcohol market for a minimum price of \$2.00 per standard drink.

**Table 1: Cumulative proportion of total volume of off-licence alcohol sales affected by different minimum price levels, by beverage type**

Price per standard drink (12.5 ml of pure alcohol)	Cumulative proportion of total volume of alcohol sales					
	Beer	Wine	Spirits	RTDs	Cider	Total alcohol
% below \$1.00	3%	25%	21%	16%	2%	10%
% below \$1.10	7%	32%	52%	28%	2%	15%
% below \$1.20	17%	39%	72%	39%	2%	24%
% below \$1.40	70%	52%	83%	73%	2%	65%
% below \$1.60	93%	70%	89%	90%	41%	86%
% below \$2.00	98%	86%	96%	96%	69%	94%

Source: Total Nielsen Liquor Markets, (Total Foodstuffs, Progressive, Henrys, Liquorland, Duffy & Finn's, Liquor King & Super Liquor), MAT to 17th July 2011

33. A minimum price above \$1.20 per standard drink would affect over a quarter of alcohol sales and significantly impact the alcohol industry and moderate drinkers. Therefore the analysis focused on two minimum pricing options: \$1.00 per standard drink and \$1.20 per standard drink.
34. The two minimum pricing options were compared to excise increases to achieve an average price of \$1.00 or \$1.20 per standard drink on the lowest priced alcohol. Overall, four pricing options were analysed:
- a minimum price of \$1.00 per standard drink
  - a minimum price of \$1.20 per standard drink
  - an excise increase to achieve an average price of \$1.00 per standard drink on the lowest priced alcohol (an excise increase of 82%)
  - an excise increase to achieve an average price of \$1.20 per standard drink on the lowest priced alcohol (an excise increase of 133%).
35. The estimated price increases for the four pricing options are provided in Appendix 1 for each beverage type, separated into low price and high price beverages.
36. The key difference is that minimum price options only affect the price of beverages currently priced below the proposed minimum price levels. In contrast, excise increases apply to all beverages across all price bands.
37. Table 2 shows the impact of the pricing options on different beverage prices. The excise options result in the greatest increase in prices, particularly for spirits, which could increase by as much as 108% if excise increases by 133%.

**Table 2: Estimated price changes for each pricing option**

Pricing option	Bottle of cheap wine	Bottle of expensive wine	Bottle of mixed spirits (750 ml)	Twelve pack of beer
<b>ORIGINAL PRICE</b>	\$7.00	\$18.00	\$10.00	\$10.00
<b>Minimum price of \$1.00</b>	\$7.20	No change	\$11.40	\$15.30
<b>Minimum price of \$1.20</b>	\$8.60	No change	\$13.70	\$18.40
<b>Excise increase of 82%</b>	\$8.90	\$19.90	\$16.70	\$14.88
<b>Excise increase of 133%</b>	\$10.10	\$21.10	\$20.80	\$17.90

Source: Estimated by the Treasury

### **Estimating impact of price increases on the consumption of low risk and harmful drinkers**

38. International evidence suggests that an increase in the price of alcohol results in a less than proportionate decrease in consumption. Heavier drinkers are generally less responsive to price changes than low risk drinkers and are more likely to switch from one product to another when the price changes. Demand for different beverages also varies, with demand for beer being less responsive to price changes than demand for wine and spirits.
39. To work out the impact on groups of consumers, we needed to use a measure of consumer responsiveness to price increases, or “elasticity”. Robust New Zealand estimates could not be obtained, so we used elasticity figures estimated by the University of Sheffield as part of the development of their “Alcohol Policy Model” in the UK.
40. Using these figures, the annual volume of alcohol purchased is estimated to decrease by two to five percent for the minimum price options, while the excise options result in decreases at least three times greater. Appendix 2 shows the changes in consumption by beverage type at on-licence and off-licence premises.
41. Our analysis found that, in terms of annual volume, the minimum price options have a greater impact on low risk drinkers than harmful drinkers. In contrast, excise options have a greater impact on harmful drinkers. This is driven by three factors, which are:
- harmful drinkers consume spirits as a higher proportion of their alcohol consumption compared to other drinkers
  - excise increases disproportionately alter the price of spirits as compared with other drinks due to excise making up a higher proportion of the price of spirits than other drinks
  - substitution to other alcoholic drinks is relatively low for spirits (even for harmful drinkers).
42. For per occasion purchases, harmful drinkers are more significantly affected than low risk drinkers, although the impacts of a minimum price are minimal. As with annual volume purchased, an excise increase of 133% has the greatest impact on harmful consumption.



**Table 3: Summary of changes in annual volume of alcohol consumed from pricing options**

	Percent change in annual volume of alcohol purchased				Percent change in alcohol purchased per drinking occasion			
	All	Low Risk	Increased Risk	Harmful	All	Low Risk	Increased Risk	Harmful
Minimum price of \$1.00	-2.4	-2.6	-2.3	-2.2	-1.0	-0.7	-1.1	-1.5
Minimum price of \$1.20	-4.7	-5.1	-4.6	-4.4	-2.1	-1.5	-2.3	-3.0
Excise increase of 82%	-12.2	-11.5	-11.8	-13.1	-8.6	-5.5	-9.7	-10.8
Excise increase of 133%	-19.5	-18.6	-18.8	-21.0	-13.3	-8.3	-15.0	-16.7

Source: Ministry of Justice

**Cost-benefit analysis of the pricing options**

43. The estimated changes in consumption outlined in Table 3 above were used to analyse the benefits and costs of the pricing policies. The overall net effect on society of the different pricing options was determined by weighing up the benefits against the costs. The benefits are the estimated savings in alcohol-related health, crime and workplace productivity harms from reduced harmful alcohol consumption. The costs are the lost benefits alcohol consumers incur from higher prices and reduced consumption, along with lost tax revenue to Government, and lost value of industry assets from reduced demand. The results are summarised in Table 4.
44. All pricing options result in net benefits for society, with an excise increase up to 133% generating estimated savings for society of \$472 million in year 1. Excise increases result in much larger price increases and consequent benefits to society compared with a minimum price. This is because an excise increase affects the price of all alcohol, not just the lower priced, and therefore more significantly impacts consumer behaviour. Low-risk drinkers who drink cheap alcohol would be affected by any change in price. They also cause the least harm. However, the overall savings to society significantly outweigh the lost consumer benefits for this group.
45. Table 4 summarises the savings to society from the minimum price and excise options considered. A taxation increase equivalent to a minimum price of \$1.00 is likely to result in savings nearly eight times greater than minimum price itself.

**Table 4: Year 1 net societal savings from minimum price and excise increase pricing options**

Pricing option	Benefits			Costs			Net savings to society in year 1 (\$m)	Cumulative net savings discounted at 8% over ten years (\$m)
	Savings in alcohol-related health harms (\$m)	Savings in alcohol-related crime harms (\$m)	Savings in alcohol-related workplace productivity (\$m)	Lost benefits to alcohol consumers (\$m)	Lost excise revenue from reduced demand (\$m)	Lost value of industry assets from reduced demand (\$m)		
Min. price \$1.00	11	45	9	3	18	0.842	44	318
Min. price \$1.20	23	94	19	13	35	2	86	624
Excise ↑ 82%	83	332	60	46	84 <sup>6</sup>	6	339	2,452
Excise ↑ 133%	129	516	95	120	137	10	472	3,416

Source: Ministry of Justice

<sup>6</sup> As a result of the excise increase, quantity demanded falls and this amount captures the welfare loss from consumption that was occurring but stops because of the introduction of a higher tax wedge.

46. We are confident in the results of our analysis as:

- we have not taken account of all of the potential harms inflicted upon others by those who have consumed alcohol, particularly harms within families, so estimated savings in harms are likely to be conservative.
- we have included the lost consumption benefits of harmful drinkers as a cost of the policy. It could be argued that such drinkers are irrational or ‘addicts’ and therefore do not derive benefits from consumption, or much lower benefits than we have estimated.
- we used estimates of consumer responsiveness to price changes that are more conservative than the NZ estimates obtained.

47. Further information on the methodology and the results can be found in the Ministry of Justice research report “*The Effectiveness of Alcohol Pricing Policies*”.

## Policy implications

48. In addition to the economic analysis outlined above, it is also important to consider the broader policy implications and risks of minimum pricing and alcohol excise increases. These are outlined in Table 5.

**Table 5: Policy implications and risks of the pricing policies on particular subgroups**

Policy implications/risks	Minimum pricing	Alcohol excise increases
<b>Impact on low risk, moderate drinkers</b>	Lost consumer benefits from increases in the price of low price beer, wine and spirits. But savings to society outweigh lost benefits to low risk alcohol consumers.	Larger negative impact compared to minimum pricing as price increases are greater. Savings to society outweigh lost consumer benefits.
<b>Impact on young drinkers</b>	Small reductions in consumption but large savings in alcohol-related harms for this age group. Reductions in consumption may be smaller if young drinkers are less sensitive to changes in pricing than estimated in the analysis	As for minimum pricing, with slightly greater reductions in consumption due to the larger increases in price.
<b>Impact on low income households</b>	Low income families are less likely to consume alcohol, but if they do, are more likely to consume low price products. Their budget will be negatively impacted if they continue consuming after the imposition of a minimum price.	As low income households are less likely to consume alcohol, alcohol excise tax increases would have a greater impact on higher income households.
<b>Impact on alcohol retailers</b>	Increase in revenue is primarily gained by the off-licence sector, but the on-licence sector is likely to benefit from reduced price differentials. Increased revenue could be used for advertising and other non-price strategies, which could undermine the policy intent of minimum pricing. Larger retailers would no longer be able to undercut smaller retailers based on price. Retailers primarily selling low-cost alcohol would be negatively affected.	Off-licence retailers would lose revenue from reduced demand, while on-licence retailers should gain in the long run due to the reduce price differential between off-licences and on-licences. An excise increase may also encourage alcohol retailers to circumvent the price increase by discounting, loss leading or below cost selling, especially by the large retailers.

Policy implications/risks	Minimum pricing	Alcohol excise increases
<b>Impact on alcohol producers</b>	<p>Who gets the additional revenue will depend on market share and market power.</p> <p>Demand for cheap alcohol will fall, impacting those who produce and supply in this market. There may be a surplus of some products (a particular concern for the wine industry, which is already dealing an oversupply of wine in the market).</p> <p>Average costs of production could increase, which may squeeze some producers out of the market.</p> <p>May incur a loss if fixed assets become obsolete due to reduced production.</p>	<p>If excise duties are not passed onto consumers, retailers may force producers to absorb the excise costs, reducing producer margins and profitability and pushing some producers out of the market. In the long-term excise increases should be passed onto consumers.</p> <p>May incur a loss if fixed assets become obsolete due to reduced production.</p>
<b>Impact on Government revenue</b>	<p>Government revenue will reduce as demand for alcohol lessens. Alcohol excise duties are estimated to fall by 2% for a minimum price of \$1.00 per standard drink and by 4% for a minimum price of \$1.20 per standard drink (a decrease of \$18 million and \$35 million).</p>	<p>Government revenue is estimated to increase because of the significant increase in excise rates modelled. This increase would help to recover a significant portion of the costs harmful alcohol consumption imposes on society or allow a partial shift away from income taxation.</p>
<b>Impact on compliance costs</b>	<p>The costs of implementation for retailers may include switching suppliers, re-pricing and re-labelling products, changing bar codes and display names. However, these are short run costs and since revenue is estimated to increase, retailers would be able to absorb these costs over time.</p>	<p>An excise increase would result in minor implementation and compliance costs for the alcohol industry as the excise system is already in place.</p>

### Other possible policy implications or risks

49. In general, these risks are similar regardless of the mode of price increase.

#### Risk of substitution to other drugs

50. The impact on consumption of other drugs depends on whether the other drugs are either substitutes or complements to alcohol consumption.<sup>7</sup> International research is inconclusive. If alcohol and other drugs are complements there could be positive knock-on effects of an alcohol pricing policy through reduced consumption of other potentially harmful substances.

#### Impact on duty free purchases

51. If duty free products are not included in a minimum price or taxation regime, consumers may increase their purchasing of duty free alcohol which would negatively impact local retailers. If duty free products are included in such a regime, it may be that selling alcohol duty free would no longer be a viable business model (as the price difference between dutiable and duty free products would narrow considerably).

#### Impact on parallel importing

52. Parallel imports of alcohol products purchased at lower prices than the same products supplied domestically currently impact on the brand shares of domestic manufacturers. With a minimum price or taxation changes, parallel imports of cheaper products may

<sup>7</sup> Complementary goods “go together”, that is a decrease in the price of one results in an increase in the demand for the other and vice versa. Substitutes are good that serve as replacements for one another; when the price of one increases, demand for the other good increases.

increase as retailers may aim to increase margins, which will increase pressure on producers and wholesalers to reduce prices.

### **Impact on home brew / illicit sales**

53. Increasing the price of alcohol could promote an increase in home brewing activity, which would be unregulated, unmonitored, and would avoid Government excise duties. This could result in a burgeoning black market for alcohol that is both cheap and of varying strengths. Counterfeit production may also increase. This is particularly a problem with spirits that are subject to a higher excise duty. The Distilled Spirits Association of New Zealand highlights that over \$250,000 has been spent in monitoring counterfeit production of spirits in the past few years.

### **Increase in overseas internet purchases**

54. Although domestic internet purchases would be subject to pricing policies, consumers may respond by increasing their internet purchases from overseas suppliers. However, since there is a time delay between purchasing and receiving the alcohol, it would not be related to impulse purchases.

### **Impact on employment**

55. A reduction in the quantity of alcohol demanded may impact on employment in the production and retail sectors of the alcohol market. However, employment could increase in other sectors if consumers decide to spend their money elsewhere.

### **Validity of these results**

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56. There is a wide range of opinion of the costs of alcohol-related harm.<sup>8</sup> The analysis in this paper is likely to generate comment from economists who have different views. The analysis undertaken was based on the best method available, and we have worked closely with the Treasury throughout the process.
57. We consider that the report as it stands is sufficiently robust to inform public debate.

### **Conclusion**

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58. All pricing options result in net benefits for society. Net savings to society over a ten year period are estimated at \$318m for a minimum price of \$1.00 and \$624m for a minimum price of \$1.20. Excise increases to bring the minimum alcohol price up to the same levels result in savings of \$2,452m and \$3,416m respectively. An excise increase affects the price of all alcohol (not just low price alcohol) and therefore more significantly impacts consumer behaviour.
59. While the quantitative economic analysis shows that there are net benefits from a minimum price, there are also a number of factors that need to be taken into account in determining whether minimum pricing should be adopted:

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<sup>8</sup> For example, in March 2009, BERL estimated that harmful alcohol use in New Zealand cost an estimated \$4.4 billion of diverted resources and lost welfare (in 2005/06 dollars). The BERL report was heavily criticised in a report from Matt Burgess and Eric Crampton from the University of Canterbury: "They estimated the external costs of alcohol to be \$967 million. The range of estimates reflects the different perspectives on which costs are relevant for policy, and different underlying assumptions upon which the analysis is based."

- Harmful drinkers purchase across the price spectrum so targeting only low price beverages would only have a modest effect on harmful consumption.<sup>9</sup>
  - Alcohol industry revenue will increase if a minimum price is imposed, and alcohol retailers could use this increased revenue to engage in non-price strategies to mitigate the effect of a minimum price and counteract the intent of the minimum pricing policy.
  - A minimum price will result in significant excise losses for the Government, which could have been used to offset the costs of alcohol-related harms.
  - There are implementation issues associated with the imposition of a minimum price regime, particularly the need for ongoing monitoring and enforcement.
  - A minimum price regime would entail more risk because it is relatively untested around the world as compared with an excise change.
60. Given the significance of these issues we are not at this point convinced that minimum pricing would yield the net benefits identified in the quantitative analysis. We are also concerned that the model is relatively untested in practice and that there may be unintended consequences in a range of areas.
61. We recommend that a minimum price not be considered for introduction for five years. This would allow the alcohol reforms to bed in and enable consideration of minimum pricing at that time to take into account the impact of the reforms on harmful drinking and international developments in minimum pricing.
62. In the modelling undertaken, excise is clearly more effective in addressing alcohol related harm. However, raising excise so significantly is not a simple solution given the significant impact it would have on responsible drinkers. Further work would need to be undertaken should there be any consideration given to excise changes.

## Consultation

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63. Consultation has not been undertaken, other than with Treasury during the preparation of this document.

## Recommendations

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64. We recommend that you:
1. **Note** that quantitative economic analysis undertaken by the Ministry shows that there may be net benefits from minimum pricing, but that it will only have a modest effect on harmful drinking across the price spectrum.
  2. **Note** there are a number of factors relating to the implementation of minimum pricing that mean these net benefits may not be realised.
  3. **Agree** that given the significance of these factors and the relatively limited impacts on harmful drinking, minimum pricing not be considered for a further five years. **YES / NO**

<sup>9</sup> Sixty percent of harmful drinkers purchase alcohol below \$1.48 per standard drink, while 40% purchase alcohol above \$1.48 per standard drink.

4. **Note** that significantly increasing excise is clearly more effective in addressing alcohol related harm but would have a significant impact on responsible drinkers.
5. **Note** that the analysis undertaken was based on the best method available and is sufficiently robust to inform public debate.
6. **Agree** that the report and the accompanying Ministry advice should be publicly released. **YES / NO**

David King  
General Manager, Civil & Constitutional

APPROVED / SEEN / NOT AGREED

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Hon Judith Collins  
**Minister of Justice**

Date:

**Attachments**

1. Estimated percentage price increases for each pricing option.
2. Impact of the pricing options on alcohol consumption.

## Appendix 1

Table 7: Estimated percentage price increases for each pricing option

Licence type	Alcohol type	Price level	Pricing Option			
			Min. Price \$1.00	Min. Price \$1.20	Excise ↑ of 82%	Excise ↑ of 133%
Off	Beer	Low	1%	3%	25%	41%
		High	0%	0%	18%	30%
	Wine	Low	13%	25%	27%	44%
		High	0%	0%	20%	32%
	Spirit	Low	17%	31%	63%	103%
		High	0%	0%	31%	51%
	RTDs	Low	3%	9%	28%	45%
		High	0%	0%	17%	28%
On	Beer	Low	0%	0%	22%	35%
		High	0%	0%	8%	13%
	Wine	Low	0%	0%	45%	57%
		High	0%	0%	9%	11%
	Spirit	Low	0%	0%	138%	225% <sup>10</sup>
		High	0%	0%	11%	18%
	RTDs	Low	0%	0%	28%	45%
		High	0%	0%	9%	14%

Source: Estimated by the Treasury

<sup>10</sup> This increase is discounted in the analysis because it is driven from data showing very small amounts of alcohol which are currently being sold below the excise value (ie, the tax paid on the alcohol is higher than the sale price).

## Appendix 2

Table 8: Summary of consumption changes at on-licences and off-licences by beverage type

SUMMARY TOTAL	Mean annual consumption per drinker (units)																
		Off-licence								On-licence							
Pricing option	% change in consumption (all beverages)	Beer low price	Beer high price	Wine low price	Wine high price	Spirits low price	Spirits high price	RTDs low price	RTDs high price	Beer low price	Beer high price	Wine low price	Wine high price	Spirits low price	Spirits high price	RTDs low price	RTDs high price
Minimum price of \$1.00	-2.4	-0.3	0.3	-6.3	0.4	-9.8	0.1	-1.1	0.1	0.6	0.6	0.0	0.0	0.0	0.1	0.0	0.1
Minimum price of \$1.20	-4.7	-1.0	0.6	-12.5	0.9	-18.3	0.2	-3.5	0.1	1.2	1.3	0.0	0.1	0.0	0.3	0.0	0.1
Excise increase to achieve an average price of \$1.00 on lowest priced beverages (82%↑ in excise)	-12.2	-9.7	-5.9	-12.6	-5.6	-36.5	-18.6	-10.3	-6.4	-7.5	2.3	-14.7	0.9	-100.0	0.1	-10.4	-3.1
Excise increase to achieve an average price of \$1.20 on lowest priced beverages (133%↑ in excise)	-19.5	-15.9	-9.6	-20.5	-9.1	-59.3	-30.4	-16.7	-10.4	-11.8	3.5	-18.6	2.6	-100.0	0.3	-17.0	-5.1