Alcohol Pricing, Public Health and the HST: Proposed Incentives for BC Drinkers to Make Healthy Choices

Gerald Thomas
Tim Stockwell
Dan Reist

The Centre for Addictions Research of BC is an official research centre at the University of Victoria in Britis
Columbia, Canada. Its mission is to create an internationally recognized centre, distributed across BC, tha
dedicated to research and knowledge exchange on substance use, harm reduction and addiction. It seeks to ac
this mission while advancing its values related to collaborative relationships, independent research, ethics, s
equity and justice, reducing risk and increasing protection, harm reduction and informed public debate.

Funding for this project is gratefully acknowledged from the BC Mental Health and Addictions Research Networ

Photo by Jon Reist, Overstump Photography

This report is available for download from www.carbc.ca.

use. These policies include limiting access to alcohol (e.g., legal drinking age laws), prohibiting driving under the influence, and fiscal policies that increase the price of alcohol.

International reviews of the research evidence consistently show that pricing policies are among the most effective tools for maximizing the benefits and minimizing the harms from alcohol (Babor et al., 2003; Toumbourou et al., 2007; Anderson et al.,

average consumption in BC and average consumption for all of Canada[2] in 2008. The increase in consumption is significant because research suggests that increases in consumption often lead to increases in alcohol-related health and social harms.

Some Alcohol-related Harms in BC are Increasing

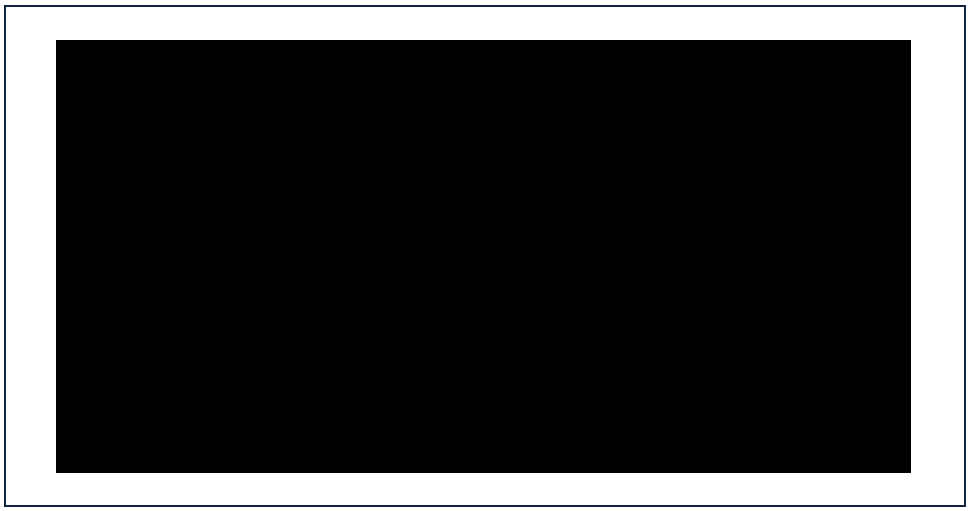
BC Vital Statistics publishes yearly data on deaths directly and indirectly related to alcohol in BC in its annual reports (Table 1). These data indicate that total alcohol-caused deaths increased 9.6% between 2002 and 2007, which was higher than the increase in deaths from all causes (4%) over the same time frame. Significantly, the number of deaths attributed to cirrhosis of the liver, one of the most accurate indicators of alcohol-related health harms, increased 38.7% between 2000 and 2007.[3] This is more than four times the increase in the rate of deaths from all causes during the same time interval.

Data from a roadside survey in Vancouver and Saanich suggests that

[2] A policy allowing for the rapid expansion of non-government liquor stores was introduced in BC in 2002 which led to a 65% increase in total outlets. According to forthcoming research, this shift in the physical availability of alcohol may explain some of the growth in consumption in the province since 2002 (Stockwell et al., in press).

[3] Deaths from alcoholic liver cirrhosis as reported by BC Vital Statistics increased at an even faster rate, but it is apparent that BC physicians are becoming more likely to add the term "alcoholic" to their diagnoses of cirrhosis. It was deemed more accurate to combine alcoholic and non-alcoholic causes of cirrhosis so as not to overestimate this increase.

Figure 3: Comparison of Direct Economic Costs and Benefits of Alcohol, BC, 2002



Sources: Costs: Rehm et al., 2006; Benefits: Statistics Canada, 2003.

the price of alcohol were to increase by 10 cents per drink, the impact on harmful patterns of drinking would result in benefits for everyone in terms of decreased healthcare and insurance costs and increased safety. Those who do not drink would reap these benefits without paying anything. The majority of drinkers whose drinking is within low-risk drinking guidelines might pay an additional $1 or $2 per week but still experience a net benefit. Only heavy frequent drinkers, whose patterns of drinking cause the most harm, would pay significantly more (Cook, 2008).

Shifting Toward Even More Targeted Pricing Policies

Fortunately, recent research is pointing the way to even more discerning pricing policies. These will target risky drinking practices more specifically and provide incentives for healthier patterns of alcohol use. The following findings are relevant here:

- even one or two drinks per day can increase risk of serious illnesses, including liver disease and some kinds of cancer, and the level of risk is directly related to how much alcohol is consumed over the years (Rehm et al, 2009)
- when alcohol prices increase, drinkers tend to react by both reducing consumption and substituting cheaper products for more expensive products (Gruenwald et al., 2006)
- contrary to popular belief, heavy drinkers are responsive to price changes even if slightly less so than light or moderate drinkers (Wagenaar, Salois & Komro, 2009)
- regular heavy drinking is concentrated in the young adult population, and these drinkers tend to be more price sensitive compared to mature drinkers due to lower average incomes and lower prevalence of alcohol dependence (Adlaf et al., 2005; Chaloupka et al., 2002)

[4] These figures provide an incomplete estimate of total direct social costs because it excludes other direct costs (e.g., those for research and prevention, etc.) and costs to the system derived from alcohol misuse that are not officially registered as alcohol-related, which are likely substantial. They also provide an incomplete estimate of total direct benefits because it does not include corporate and personal income taxes from companies and employees in alcohol-related industries/sectors.

THE HST: A RARE OPPORTUNITY TO ENHANCE % &¶LCOHOL PRICING POLICIES

One fiscal factor unique to BC that has direct bearing on alcohol pricing policies is the planned replacement of the Provincial Sales Tax (PST) with the Harmonized Sales Tax (HST) in July 2010. The introduction of the HST is expected to increase government revenue, mostly because many services currently exempt from PST will be taxed under the HST

The switch to the HST has direct bearing on alcohol pricing policy because BC currently adds an extra 3% sales tax to all alcohol products over and above the 7% sales tax administered under the PST. The value of the extra 3% sales tax on alcohol is estimated to be over $60 million per year at current levels of consumption. Given the current budget situation, the province is likely to act to preserve this revenue. Indeed, recent reports from reliable economic observers indicate that the province is planning to adjust markups by 3% across the board so that shelf prices remain the same for all alcohol products sold in liquor stores in BC (Deloitte, 2009). The introduction of the HST, however, creates an opportunity for BC to enhance its alcohol pricing policies rather than simply maintain the status quo.

Table 2: Market share and price incentives for consumers to drink different strength beers in BC, FY2008/09

Strength % alcohol	Mean $/L absolute alcoho

SPECIFIC RECOMMENDATIONS FOR APPLYING POLICY

An analysis of alcohol sales data for the financial year 2008/2009 provided to CARBC by the Liquor Distribution Branch shows that the incentives provided to drinkers in BC currently favour high alcohol content products in some beverage categories. Tables 2 and 3 below show market share and retail prices per litre of absolute alcohol for different strength beers and coolers.

What is striking from Table 2 is that per litre of alcohol retail prices are highest for the lowest alcohol content beers. Table 3 reveals an even more striking incentive in favour of higher alcohol content versus lower alcohol content coolers up to 7% alcohol content.

Table 3 also provides a good illustration of the power of alternative taxation and pricing strategies to shape market behaviour. The relatively high price for coolers above 7% alcohol content is caused by an increase in excise tax at that level. Very few people drink coolers that are above 7%, while those at exactly 7% that deliver maximum alcohol content per dollar spent represent 69% of the total market share of coolers in BC.

Changes could be introduced as part of the pricing modifications during the conversion to the HST in July 2010 that would start to apply the principles suggested above. In looking at the current structure of sales, market share and minimum prices, we recommend the following alcohol pricing policies be introduced as part of the adjustment to the HST.

1. Determine a socially relevant minimum price per standard bovena8(a)4.0r (e.g., $1.50 for alcohol sold in stores and $3.00 for drinks ena8(a)4.0 bars and restaurants) and adjust markups/prices so that no product a standard drink for less than this price in BC. The agreed upon price per standna8(a)4.ard drink shou reviewed annually and updatna8(a)4.ed according to the rate of ena8(a)4.0flation (CPI).

2. Adjust the markups scheduna8(a)4.le for all product classes to create price dena8(a)4.sincentives for products and price incentivna8(a)4.es for lower strength products (see initial suggestions in Table 4). Ma should be adjusted annually to reflect the rate of inflation and to continue to create price incentives for lower strength products.

3. If thena8(a)4.se pricing changes increase revenue, a portion of this increase should be set aside to fund a programs for addressing alcohol-related problems in thena8(a)4. province.

Table 4: Suggested initial adjustments to markup s

Markowitz, S, & Grossman, M. (2000). The effects of beer taxes on physical child abuse. Journal of Health Economics, 19(2):271-282.

Murphy, J. & MacKillop, K. (2006). Relative reinforcing efficacy of alcohol among college student drinkers. Experimental and Clinical Psychopharmacology, 14(2):219-27.

National Alcohol Strategy Working Group (2007). Toward a culture of moderation: Recommendations for a national alcohol strategy. Available at: http://www.nationalframework-cadrenational.ca/uploads/files/FINAL_NAS_EN_April3_07.pdf

Ohsfeldt, R. & Morrisey, M. (1997). Beer taxes, workers compensation, and industrial injury. Review of Economic Statistics, 79:155-160.

Pernanen, K., Cousineau, M., Brochu, S. & Sun, F. (2002). Proportions of crimes associated with alcohol and o drugs in Canada. Ottawa, ON: Canadian Centre on Substance Abuse (CCSA). Available at: http://www.ccsa.ca/2003%20and%20earlier%20CCSA%20Documents/ccsa-009105-2002.pdf

Rehm, J., Baliunas, D., Brochu, S., Fischer, B., Gnam, W., Patra, J., Popova, S., Sarnocinska-Hart, A. & Taylor, B. in collaboration with Adlaf, E., Recel, M., Single, E. (2006). The costs of substance abuse in Canada 2002. Ottawa, ON: Canadian Centre on Substance Abuse.

Rehm, J., Mathers, C., Popova, S., Thavorncharoensap, M., Teerawattananon, Y. & Patra, J. (2009). Alcohol and Global Health 1: Global burden of disease and injury and economic cost attributable to alcohol use and alcohol-use disorders. The Lancet, 373:2223-33.

Segal, D. & Stockwell, T. (2007). Low alcohol alternatives: A promising strategy for reducing alcohol-related harm. Victoria, BC: Centre for Addictions Research of BC.

Sen, B. (2003). Can beer taxes affect teen pregnancy? Evidence based on teen abortion rates and birth rates. Southern Economic Journal, 70:505-17.

Sen, B. & Luong, M. (2008). Estimating the impact of beer prices on the incidence of sexually transmitted diseases: Cross-province and time series evidence from Canada.