Social Reference Prices for Alcohol: A Tool for Canadian Governments to Promote a Culture of Moderation

July 2015

National Alcohol Strategy
ADVISORY COMMITTEE

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This document was published by the Canadian Centre on Substance Abuse (CCSA).

Suggested citation: National Alcohol Strategy Advisory Committee. (2015). *Social reference prices for alcohol: A tool for Canadian governments to promote a culture of moderation.* Ottawa: Canadian Centre on Substance Abuse.

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Production of this document has been made possible through a financial contribution from Health Canada. The views expressed herein do not necessarily represent the views of Health Canada.

This document can also be downloaded as a PDF at www.ccsa.ca

Ce document est également disponible en français sous le titre :

Prix de référence sociale pour les boissons alcoolisées : un outil de promotion de la culture de modération pour les gouvernements au Canada

ISBN 978-1-77178-269-2

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Overview

Most provincial liquor distribution and control authorities in Canada set social reference prices (SRPs) for alcoholic beverages, otherwise known as "floor" or "minimum" prices. Published research confirms SRPs can help reduce harmful patterns of alcohol use and related problems. The way SRPs are applied differs widely across Canadian provinces and territories. In this paper, the National Alcohol Strategy Advisory Committee (NASAC) provides a comprehensive set of recommendations for SRPs for alcohol sold from off-premise retail outlets.

Recommendations for Social Reference Pricing in Canada

Based on existing Canadian examples of best practice, NASAC recommends that liquor boards and commissions:

- Apply SRPs to all types of alcoholic beverage.
- Ensure SRPs reflect the alcohol content of drinks within each major beverage class.
- Regularly review, maintain and update the value of SRPs relative to provincial consumer price indices (CPI).
- Close existing loopholes that allow the sale of alcohol below SRPs.

Background

In 2007, the Canadian Centre on Substance Abuse led the development of the first National Alcohol Strategy (NAS) for Canada and produced a document entitled *Reducing Alcohol-related Harm in Canada: Towards a Culture of Moderation* (NASAC, 2007). A wide variety of representatives from civil society, public health, transportation safety, First Nations, criminal justice, law enforcement, liquor administration, academia and the alcohol industry were involved in the process. NASAC continues to oversee the implementation of the 41 recommendations in that report.

The current report focuses on the following NAS alcohol pricing recommendations:

> **Recommendation 26:** Adopt minimum retail social-reference prices for alcohol and index these prices, at least annually, to the Consumer Price Index (CPI).
>
> **Recommendation 28:** Create incentives, whether through tax or price adjustments, to promote the production and marketing of lower-alcohol content beers and coolers, with the overall goal of reducing the volume of absolute alcohol consumed per capita in Canada.

These recommendations from the NAS are based on evidence that the price of alcohol can have a significant relationship with level of consumption, albeit sometimes offset to a degree by increased cross-border purchases and home production. Nonetheless, impartial reviews of published studies estimate that a 10% increase in the average price of alcoholic beverages leads on average to a 4-5% reduction in total consumption (Gallet, 2007; Wagenaar, Saloi, & Komro, 2009). These recommendations also recognized that SRPs were likely to have a greater impact on those experiencing alcohol-related harms and less impact on individuals who drink within low-risk drinking guidelines.

Researchers have estimated the impacts of setting different floor prices for a given "unit" or "standard drink" of alcohol on different types of drinkers both in European jurisdictions (Purshouse, Meier, Brennan, Taylor, & Rafia, 2010) and Canadian provinces (Hill-McManus et al., 2012). These studies estimate minimal impacts on moderate drinkers, but reductions in consumption, alcohol-related deaths, crimes and hospital admissions for those drinking above low-risk drinking guidelines.

Recent Canadian research found evidence of an inverse relationship between alcohol-related deaths and hospital admissions, on the one hand, and changes in SRP rates on the other. For example, in British Columbia it was estimated that increases in the average SRP for alcohol were associated with reductions in alcohol-related hospital admissions (Stockwell et al., 2013). Other research has shown that frequent heavy drinkers are more likely to drink the cheapest alcohol (Kerr & Greenfield, 2007) and, further, the consumption of cheap alcohol is more responsive to price increases than is consumption of expensive alcohol products (Gruenewald, Ponicki, Holder, & Romelsjo , 2006).

While the evidence has grown that the use of SRPs can be a well-targeted strategy for reducing alcohol-related harm, it has also been highlighted that practice in setting SRPs varies substantially from province to province (Thomas, 2012). Giesbrecht et al. (2013) highlighted the following best and promising practices in some provinces:

1. Indexation of SRPs to the cost of living (e.g. Quebec and Ontario);
2. Application of higher prices for higher strength varieties within beverage types in Saskatchewan (e.g., 8.5%+ strength beers have higher SRPs than 5% beers);
3. Higher overall SRPs in some Atlantic provinces, such as Nova Scotia and Newfoundland, when calculated per Canadian standard drink (i.e., 13.45 g ethanol or the amount in a 12 ounce 5% beer, 5 ounce 12% wine or 1.5 ounce 40% spirit-based drink), mostly in the range of $1.50 to $1.75.

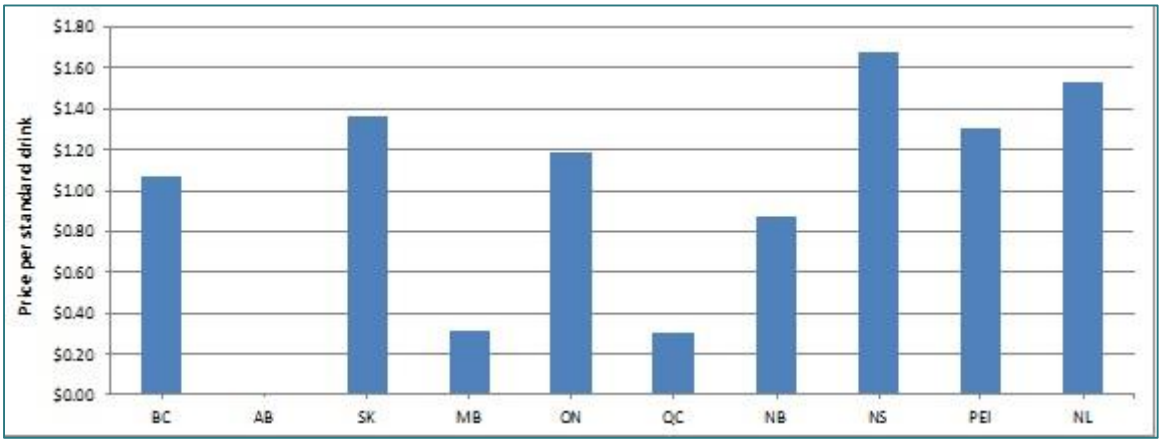
More recently, further examples of good practice have emerged. Manitoba announced the introduction of a sliding scale for beer SRPs according to exact alcohol content, starting June 2, 2014 (Lambert, 2014). New Brunswick and Manitoba imposed stricter conditions on SRPs by disallowing heavy discounts on product lines that were not selling well. However, many provinces do not regularly update SRPs with inflation, and many allow loopholes that permit the sale of alcohol below SRPs.

Local economic and cultural factors will incline Canadian provinces and territories to develop their own unique alcohol pricing strategies. Variation in the rates of provincial liquor sales taxes is a particularly important factor determining final retail prices over and above SRP rates. Giesbrecht et al. (2013) noted considerable potential for strengthened public health policy in this area by applying existing best practices in Canada across all jurisdictions. In this document we offer guiding principles rather than exact prescriptions.

Provincial Variations in SRP Rates

Figure 1 illustrates the substantial variation across provinces in average SRP rates (accounting for all applicable sales taxes but not container deposits) calculated for typical strength and container size, with examples of each main beverage type (5% beers, 7% coolers, 12.5% wines and 40% spirits). Newfoundland and Nova Scotia have the highest SRPs per standard drink; Alberta does not apply SRPs to liquor sold in retail stores; and Manitoba and Quebec have very low average SRPs reflecting the fact that they only apply to beer. More detailed breakdowns for individual beverage types across provinces are provided in the Appendix, Figure A1.

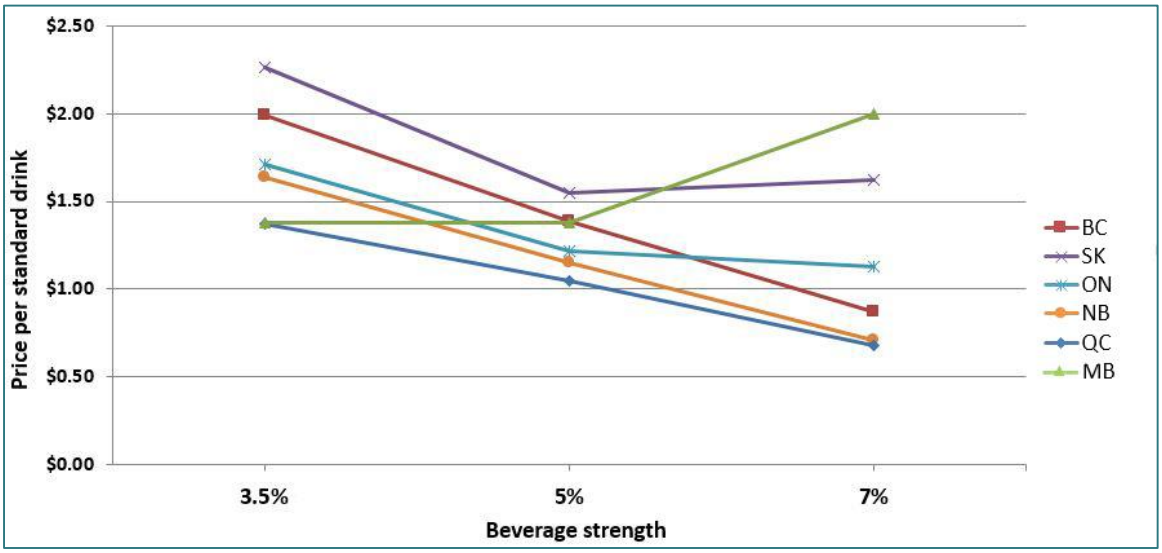
Figure 1. Average SRPs per Standard Drink in 2012 Across All Beverage Types for Liquor Stores (including sales taxes, not container deposits)



Source: Data provided with permission from the Canadian Alcohol Policy Project (Giesbrecht et al., 2013)

There is also substantial variation across Canadian provinces in the extent to which SRPs reflect the exact alcohol content within the main beverage categories. For example, Manitoba has the most fine-grained sliding scale applied to SRP rates for beer, whereas Saskatchewan, Ontario, Quebec, Nova Scotia and Newfoundland vary SRP rates by percentage alcohol content for broad ranges of products within a beverage category. Both ways of setting SRPs give consumers an incentive to avoid high-strength beverages and select lower strength products. Other provinces, however, use flat rates for SRPs calculated per litre of beverage, regardless of alcoholic strength. As illustrated in Figure 2 below, this practice results in consumers having an incentive to select higher strength beers. Similarly perverse price incentives for consumers of wines, spirits and coolers are shown in the Appendix, Figures A2 to A4.

Figure 2. SRPs per Standard Drink for Low, Regular and High Strength Beer Sold in Liquor Stores (2014) (including sales taxes, not container deposits)



Source: Data reported or provided by provincial liquor authorities

Recommendations for SRPs in Canada

1. SRPs should apply to all types of alcoholic beverages and be increased for some beverages in some provinces.

Giesbrecht et al. (2013) and Thomas (2012) noted considerable variation in average SRPs for alcohol sold from off-premise outlets (liquor stores). Atlantic provinces, such as Newfoundland and Nova Scotia, tend to have the highest rates for commonly consumed beverages. While there are differences in provincial pricing practices (e.g., liquor sales taxes, markups, fees and levies) average rates of effective SRPs in some provinces are currently 50% or more below those in Newfoundland and Nova Scotia. Also, some jurisdictions do not apply SRPs to all beverage types. This report recommends that SRPs be applied to all products and that lower provincial SRPs be increased while taking account of unique local factors to determine an appropriate level. Higher rates of SRP can be associated with reduced alcohol misuse and related harms.

2. SRPs should be higher for higher alcohol content drinks.

The risk of alcohol-related harms is directly related to the amount or dose of ethanol on a drinking occasion for acute harms (e.g., injury, poisoning) and the overall volume of ethanol consumed in a lifetime for alcohol-related illnesses (e.g., liver disease, gastrointestinal problems). At present, many provinces set the SRPs at a flat rate per litre for each beverage type. For example, the rate might be set at $5.00 per litre of beer and is the same if those beers contain 3% or 15% alcohol by volume. This encourages drinkers, especially high-risk and younger drinkers, to seek out cheaper high-strength beverages to get more alcohol for their dollar (Stockwell, Leng, & Sturge, 2010). When the Saskatchewan Liquor and Gaming Authority introduced differential rates for SRPs within beverage types in 2010, there was a significant shift in consumption towards lower alcohol content beers and wines (Stockwell et al., 2012). We recommend, therefore, that for each beverage type (beers, wines, coolers and cider, spirits) the SRP be calculated based on rates per litre of ethanol. Another way of expressing this rate is as a rate per unit or standard drink of ethanol. Again, each jurisdiction will consider unique local factors in determining an appropriate level and any resulting increase in SRPs might need to be phased in over several years.

3. SRPs need to be updated annually to keep pace with inflation.

The price of alcohol has a significant relationship with the level of alcohol consumption. In some provinces, the value of SRPs has not kept pace with the cost of living and so has dropped in real terms. In British Columbia, for example, intermittent adjustments of the SRP for spirits have more or less maintained the value of these in real terms, but inflation-adjusted SRPs for beers, coolers and wines have fallen in value, in some instances quite substantially (Stockwell et al., 2012). One existing practice is to adjust all SRPs based on the average change in the province-specific consumer price index (CPI) over the three previous years. We recommend that all provincial liquor authorities adopt this or a similar approach to annual indexation of SRPs.

4. Loopholes permitting sales below SRPs need to be closed.

There are several ways in which retailers can currently price products below provincial SRPs. For example, in British Columbia and Saskatchewan “small” local brewers receive a subsidy to help them establish a niche in the local market. However, with expanding definitions of what constitutes a “small brewer,” this subsidy has resulted in mass production of some very cheap, high-strength beers. With weak enforcement this can encourage sales below SRPs. In provinces with mixed government and private liquor stores, it is also apparent that SRPs are rarely if ever enforced in private liquor outlets. Giesbrecht et al. (2013) identified other examples such as government liquor stores reducing prices for

"delisted" products, sometimes considerably below official SRPs, in order to clear out these unpopular lines. Further, New Brunswick has five special discount outlets where stock can be sold in a central location at low prices as an efficient way of clearing out their inventory. However, New Brunswick recently announced that SRPs would be enforced at these outlets.

Again, we highlight these practices only in so far as they involve permitting the sale of alcohol below provincial SRPs, not as a concern for higher priced products. In some provinces such as British Columbia, it has been documented that private liquor stores sell products below the official SRP set for government liquor stores on a temporary basis as "loss leaders." We recommend that such loopholes be closed to ensure that no retail sales are made below established SRPs, including for limited time offers, and to maximize the public health and safety benefits of a consistent SRP across all sources of alcoholic beverages.

Current Provincial Practices

Table 1 provides a snapshot of provincial practices in the application of SRPs as of December 2014.

Table 1. Implementation of SRP recommendations by individual provinces (2014)

Province	SRPs for all beverage types	Overall level of SRPs[1]	SRPs automatically adjusted by inflation	SRPs adjusted by alcohol content[2]	Presence of SRP loopholes
B.C.	Yes	Medium	No	No	Yes (e.g., no enforcement of SRPs in private stores)
Alta.	No	N/A	N/A	N/A	Yes (no SRPs at all)
Sask.	Yes	Medium	No	Partially	Yes (e.g., volume discounts)
Man.	No	Low	No	Yes	Yes (only beer SRPs)
Ont.	Yes	Medium	Yes	Partially	Yes (e.g., delisting)
Que.	No	Low	Yes	Partially	Yes (only beer SRPs)
N.B.	Yes	Low	Yes	No	No
N.S.	Yes	High	Yes	Partially	Yes (e.g., volume discounts)
P.E.I.	No	Medium	No	No	Yes (e.g., volume discounts)
N.L.	Yes	High	No	Partially	Yes (e.g., delisting)

1 Low, medium and high SRPs defined as follows: lower than $1=Low; $1 to $1.49=Medium; $1.50 or higher=High.

2 Yes, SRP is based on rates per litre of ethanol; Partially, SRP is based on percentage alcohol content for broad ranges of products within a beverage category; No, SRP is based on rates per litre of beverage

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Appendix

All data in the figures has been provided with permission from the Canadian Alcohol Policy Project (Giesbrecht et al., 2013).

Figure A1. Average SRPs per Standard Drink in 2012 for Each Beverage Type for Liquor Stores (includes sales taxes, but not container deposits)

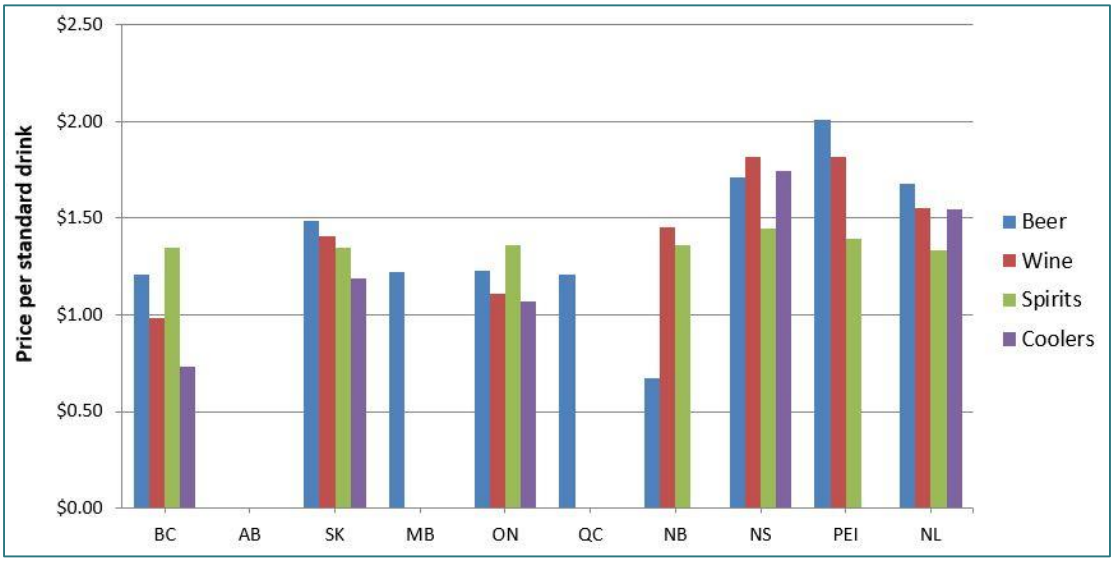

Figure A2. SRPs per Standard Drink for Low, Regular and High Strength Wine Sold in Liquor Stores (2012) (includes sales taxes, but not container deposits)

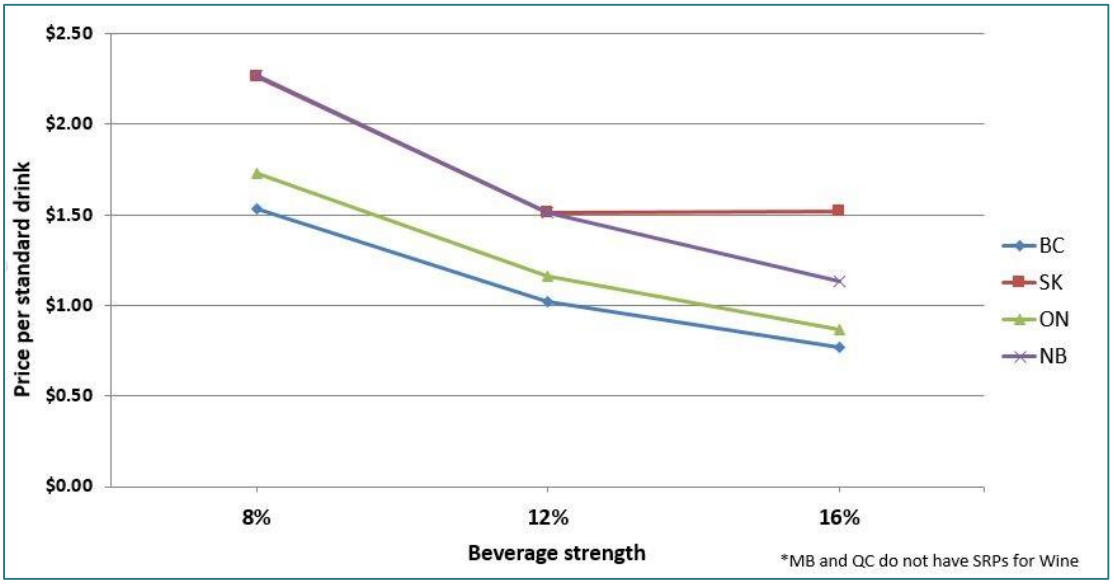

Figure A3. SRPs per Standard Drink for Low, Regular and High Strength Spirits Sold in Liquor Stores (2012) (includes sales taxes, but not container deposits)

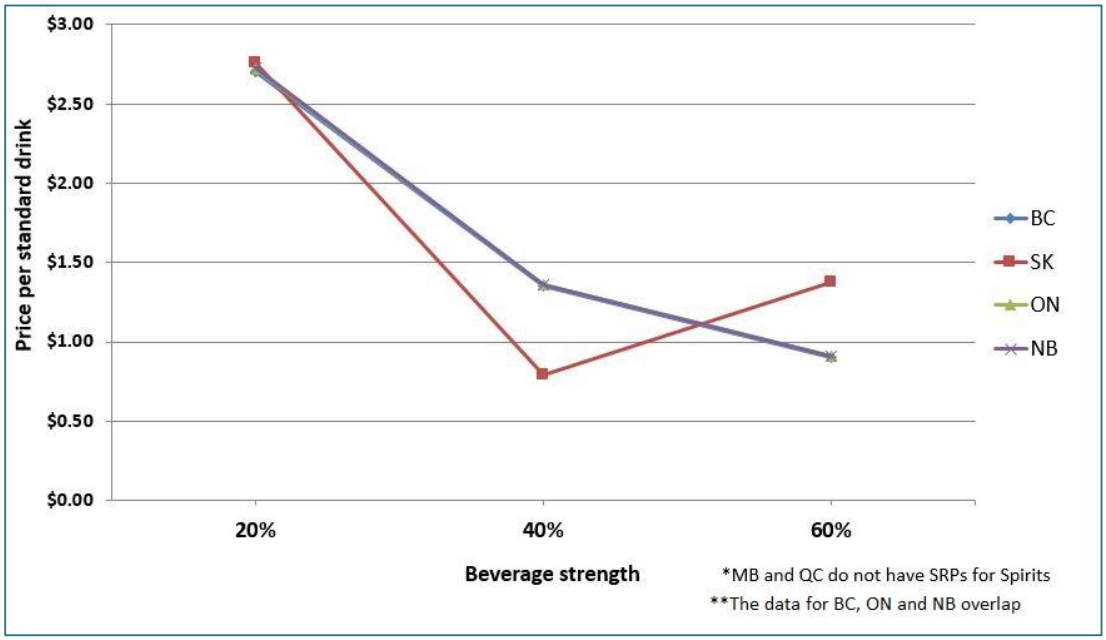

Figure A4. SRPs per Standard Drink for Low, Regular and High Strength Coolers Sold in Liquor Stores (2012) (includes sales taxes, but not container deposits)