

## 'Backlash': Northern Territory alcohol floor price divides community

Minimum price for a standard drink was passed into law with minimal outrage. Then the price of beer went up



Clockwise from top left: the El Dorado Hotel, Sporties Football Club, the Memo Club, the Bluestone Motel, the Goldfields Hotel, the Tennant Creek Hotel. The town of 3,000 has over 11 places to buy alcohol, but only one supermarket. A Labor source says the government is 'in a muddle' over the floor price. Composite: Helen Davidson for the Guardian

**Ben Smee**

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One night in 1964 an Aboriginal man was dragged from his bed in the Bagot community, a settlement in suburban Darwin, and charged with the offence of drinking liquor.

A report in the Northern Territory News, published the following day, said a "native" was sentenced to 14 days' jail. Next to the article was a half-page advertisement showing a white man drinking a "beer that's really beer".

This is how it's always been in the Territory - a "dualistic framing" - according to Peter d'Abbs, the professor of substance misuse studies at the Menzies School of Health Research.

"Aboriginal drinking is [viewed as] a problem, to be policed," d'Abbs said. "Drinking by non-Aboriginal people is ... a 'core social value' and part of the 'unique Territory lifestyle'."

The Territory has the highest per-capita rate of alcohol consumption in Australia, one of the highest in the world, and the highest rate of hospitalisations due to alcohol misuse. The statistics are worrying for both Aboriginal and non-Aboriginal people.

Attempts to "dam the rivers of grog" have rarely been backed by effective resources or evidence, and almost all disproportionately targeted Indigenous people - until now.

This month, the Northern Territory's Labor government brought into effect a new policy, a "floor price" for alcohol; recommended by an inquiry and strongly backed by health researchers, academics, social organisations and a body of evidence that shows it has a tangible benefit in other countries.

The measure, which sets a minimum price of \$1.30 for a standard drink of alcohol, was passed into law with cross-party support and minimal outrage.

Then the price of beer went up in Darwin.

### Tearing up the liquor act

"It wasn't handled well," an NT Labor source told Guardian Australia. **"We won't drop the policy, and I don't think we should. But we are in a muddle over it."**

"The [Northern Territory News] has just hammered us. No one thought it would be possible to lose government in 2020 but now I think we're at the point where we will be running a sort of defensive campaign where we're portrayed as the nanny state."

Labor won power in the Territory in 2016 with 59% of the two-party preferred vote. The government holds 18 of 25 seats in the legislative assembly. The opposition Country Liberal party has just two.

The CLP was hounded from office after a four-year term that included two chief ministers, eight deputy leaders and 16 cabinet reshuffles, on top of a list of defections, sex scandals and stuff-ups. The new chief minister, Michael Gunner, promised stable government.

In his government's first two years, there have been no major political scandals, no leadership tensions, no cabinet sackings. That stability has, some sources say, irritated ambitious backbenchers forced to wait longer than expected for a promotion.

Polling leaked to the ABC last month showed Labor leading the CLP 53-47 - a result that close would deliver a hung parliament. And now the mood of voters has turned darker.

Gunner said earlier this year **he wanted to "tear up the liquor act" and start again, amid reports of rampant anti-social behaviour caused by alcohol.** The former supreme court chief justice Trevor Riley held an inquiry and came back with a suite of recommendations, including the floor price. The government set **the floor price at \$1.30 per unit of alcohol, deliberately set just below the current the price of non-premium Australian beer.**

The government gave assurances the measure would not affect the price of beer and it passed the parliament with little fanfare, and with strong bipartisan backing.

Within days of the new laws coming into effect, **bottle shops in Darwin reportedly increased prices for cartons of beer by up to 20%. Soon after, the CLP withdrew its support.**

The party's leader, Gary Higgins, said that decision was made after "overwhelming feedback from Territorians sent a clear message to the opposition. We listened and pulled our support accordingly."

Higgins said the government had misled people about the impact of the policy. He said the government would also not commit to an independent evaluation of the floor price until after the 2020 election.

"The implementation of this policy has been a complete failure by Labor, primarily caused by its lack of honesty with Territorians on the effect of the floor price.

**"The alcohol floor price completely fails to address the levels of chronic alcoholism in the Territory, and its effects on responsible drinkers."**

### **'Grog has always been an issue'**

**The floor price effectively mandated price increases to the cheapest of cheap grog: cleanskin bottles of wine, cask wine and port.** A study of drinking patterns among Darwin's homeless **found a preference for beer, but that port was consumed in the greatest quantity, because it was cheaper.**

Retailers went public last week and **claim they're now unable to offer popular bulk specials on beer.** NT Consumer Affairs warned **the cost of beer and other drinks may be increasing "well beyond the floor price legislation"** and voted to investigate retailers who blamed hikes on the new laws.

Wine retailers have pulled their products from the Territory. One online retailer, Naked Wines, said it had increased costs.

The winemakers' federation of Australia even suggested the floor price was "unconstitutional" but agreed to support the government in an attempt to evaluate whether the measure was effective.

"We would hate to see other states bringing in a measure that is not only illegal but doesn't work," the federation's chief executive, Tony Bataglione, said.

Backlash has been stirred and sustained by local media. The Northern Territory News dedicated five front pages to the politics of the floor price in recent weeks. Talkback callers have been angry. Anti-government sentiment has amped up on social media. An NT News poll showed 80% of people were opposed to the floor price.

The health minister, Natasha Fyles, admits the government "might have been simplistic" in its explanation of how the floor price would operate.

"We're trying to give consumers the tools so they understand how it works," she said. **"It only affects 25 to 30 products and some specials, there's only a very small number of products it impacts on, but the evidence shows it works."**

Fyles said retailers **"can price their products wherever they want"** but that those decisions were commercial, not related to the floor price. She said the government would continually monitor the program and that a formal review would be conducted in three years, as recommended by the Riley inquiry.

"This is just one measure of 219 that we're putting in place," Fyles said. **"Grog and the harm it causes has always been an issue in our community. As a responsible government we need to put this measure in place and give it time."**

The floor price is backed by the Alcohol and Drug Foundation, the Foundation of Alcohol Research and Education, the Public Health Association and the National Alliance for Action on Alcohol.

A coalition of health, justice and social services organisations in the Territory released a statement last week to back the plan, amid growing criticism.

"It is disappointing to see politicians step away from a strong evidence base under the influence of popular opinion," the groups said.

### 'People wrongly think they're responsible drinkers'

John Boffa, a doctor who speaks for the People's Alcohol Action Coalition, has been campaigning for similar measures in central Australia since the late 1980s. He said that a week after the floor price was introduced, combined with a more permanent presence of police outside bottle shops, emergency department presentations at the Alice Springs hospital dropped from 150 a day to 95.

"We've known for a long time that to reduce consumption and harm, you've got to address price," he said. "The floor price doesn't make us a nanny state. The state is trying to meet its obligation to keep its citizens free from preventable illness, injury, violence and neglect."

Boffa rattles off figures - every week in the NT there are two deaths, 52 hospitalisations and 69 assaults due to excessive drinking. Territory drivers are 20 times more likely to be caught drink-driving. The road death toll is four times the national average. Alcohol is a factor in 53% of assaults and 65% of reported family violence.

He says Territorians, "Aboriginal and non-Aboriginal alike", have a problem with alcohol.

"43% of Territorians drink at risky levels, yet Aboriginal people make up just a third of the population. The alcohol-related death rate for non-Aboriginal Territorians is twice the national average and the assault rate amongst non-Aboriginal men, largely alcohol-related, is nearly as high.

"The backlash is because this is affecting people who wrongly think they're responsible drinkers. We think it's going to make a huge difference."

D'Abbs said the Territory had, prior to 2016, taken a "grandstanding" approach to liquor policy.

"We had a pretty unseemly sequence of governments rejecting the notion that alcohol was some sort of community-wide problem and using the language of the 'problem drinker'," d'Abbs said.

"For most of that period [since self-government was granted in 1978], most of the measures ... rested on the assumption that alcohol problems equal Aboriginal problems and that the plainly obvious culture of heavy drinking in the Territory among non-Aboriginal people is something to be overlooked or celebrated.

"Population-based policies around drinking are very difficult to sell because of this notion that drinking is some sort of inalienable right".

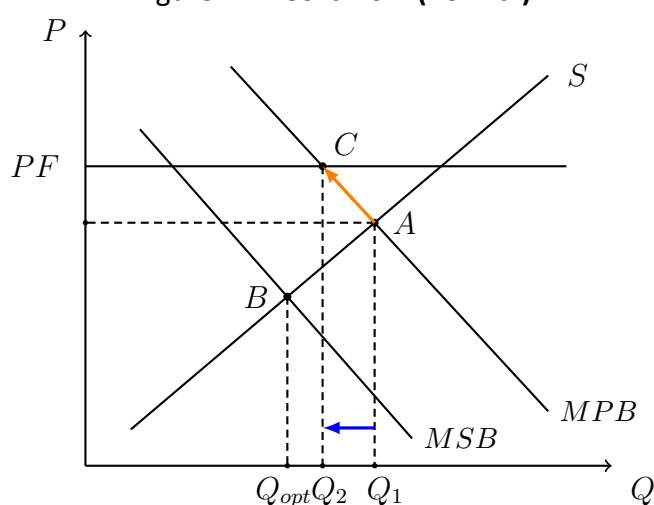
# Commentary – Microeconomics

In an article by The Guardian, a recent case of alcohol price floor in Australia is discussed. Alcohol addiction has been a problem for a long time because of its nature as a negative externality of consumption, with “the territory having the highest per-capita rate of alcohol consumption” and resultant hospitalization causing negative side effects such as alcohol being “a factor in 53% of assaults and 65% of reported family violence.” The idea of negative externality of consumption, sometimes called “spillover cost”, describes externality with negative or harmful side-effects on third parties at the time of consumption.

So it’s natural for the Australian government to take action. They enacted a price floor, a legal minimum price for a particular good, for alcoholic products.

Figure 1 illustrates the mechanism of a price floor on a demerit good. When demerit goods are consumed, marginal social benefits are less than marginal private benefits ( $MSB < MPB$ ). The supply curve ( $S$ ) intersects  $MPB$  and  $MSB$  at point  $A$  and  $B$ , giving the current market quantity transacted at  $Q_1$  and the optimal quantity demanded as  $Q_{opt}$ . The goal of the price floor is to move from  $Q_1$  to  $Q_{opt}$ , so that negative externalities are reduced. The price floor is a horizontal line with label  $PF$  on the price axis. Since it’s only legal to buy alcohol at prices higher than the  $PF$  value, the market quantity moves to  $Q_2$ , with  $C$  being the new intersection of  $PF$  and  $MPB$ . It is clear that  $Q_2$  is much closer to  $Q_{opt}$  than  $Q_1$ , so the price floor seems to be an viable way to deal with negative externalities of consumption.

Figure 1: Mechanism (normal)



However, the actual result of the alcohol price floor in Australia was totally different. The price elasticity of demand for alcohol is relatively inelastic because alcohol is addictive. Price elasticity of demand (PED) describes the responsiveness of demand to a change in price, so instead of  $MSB$  and  $MPB$  having relatively gentle slopes, they are very steep. The mechanism diagram for alcohol price floor is presented in Figure 2. When the price floor is added, the market moves from the original state at  $A$  to point  $C$ , along with the quantity demanded shifting from  $Q_1$  to  $Q_2$  and the price rising to  $PF$ . The mechanism between alcohol and normal goods are similar. However, since the  $MSB$

and  $MPB$  curves are very inelastic,  $PF$  is well above the original price at  $P_1$  while the quantity change caused by the alcohol price floor between  $Q_1$  and  $Q_2$  is small. This reflects what is said in the article: “The alcohol floor price completely Fails to address the levels of chronic alcoholism in the Territory, and its effects on responsible drinkers”.

Furthermore, the price floor is unnecessary to some extent. We can see from Figure 2 that the total revenue for alcohol sellers at the original state  $A$  is  $P_1 \times Q_1$  (areas  $X + Y$ ). With the price floor put in place, the total revenue at  $C$  is  $PF \times Q_2$  (areas  $X + Z$ ). Sellers will have a greater total revenue if the price of alcohol is high, because the increase in revenue is  $(Z + X) - (Y + X) > 0$ , since the PED of the  $MPB$  curve leads to area  $Z > \text{area } Y$ . Moreover, the sellers will have

a higher profit. Profit = Total Revenue – Total Cost = Revenue – (cost of alcohol  $\times$  quantity). By this reasoning, we know that the cost will decrease since the quantity has fallen, and along with the increasing total revenue, alcohol sellers can get a much bigger profit. That’s why “the price of beer and other drinks may be increasing ‘well beyond the floor price legislation’”, and alcohol sellers are likely raise prices even above the price floor due to the desire for more profits.

So what should the Australian government do if a simple manipulation of price is ineffective? It’s known for addictive demerit goods that an effective solution must shift the  $MPB$  curve towards the  $MSB$  curve. As presented in Figure 3, we can see the market quantity of alcohol moves towards  $Q_{opt}$  as the  $MPB$  approaches  $MSB$  ( $Q_1 \rightarrow$

Figure 2: Mechanism (alcohol)

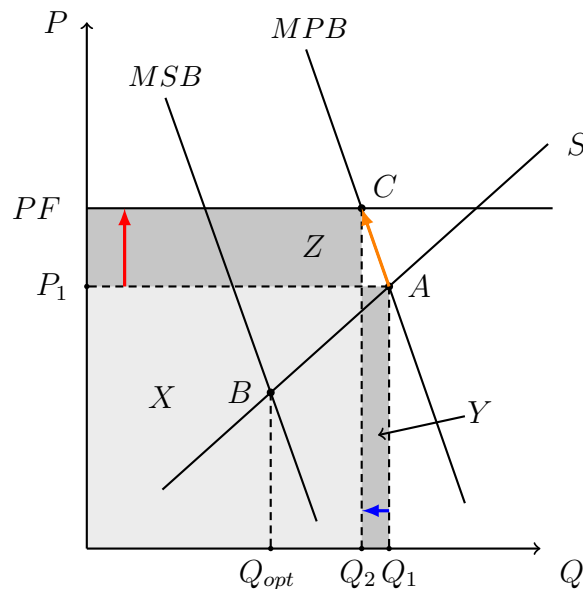
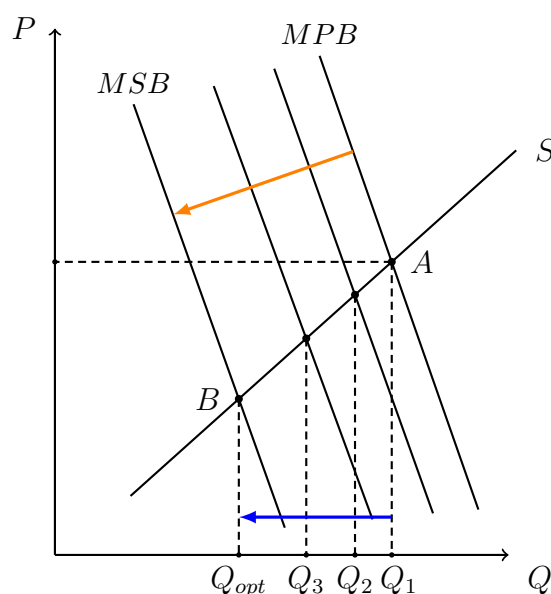


Figure 3: Mechanism (education)



$Q_2 \rightarrow Q_3 \rightarrow \dots$ ). This could be achieved by explaining the harms of consuming alcohol to alcoholics themselves, to the people around them, such as family and friends, and to Australian society as a whole.

Another possible approach is to set up a national limit on consumption. Every single alcohol purchase would require the buyer's identification information and each person has a purchase limit. For instance, individuals could be restricted to purchasing a total of 200 mL worth of pure alcohol per week. But a potential threat is that an alcohol black market might develop if this purchase limit is too restrictive.

Now, the challenge for the Australian government is to find a balance and combination between education, restriction and other possible solutions to this "obstinate" problem.