

ALCOHOL STRATEGY CONSULTATION

**A consultation on delivering the Government's policies to
cut alcohol fuelled crime and anti-social behaviour**

**This response is submitted on behalf of
CHIVAS BROTHERS LIMITED and PERNOD RICARD UK**

6 February 2013

A. Introduction

Chivas Brothers Limited (CBL) is the Scotch whisky and premium gin business of Pernod Ricard, the world's co-leader in wine and spirits. Chivas Brothers operates a number of distilling, maturation and bottling facilities in Scotland, including 13 malt distilleries and one grain distillery. In addition, our operations include two blending facilities, two bottling halls and eight warehousing complexes across Scotland. The company employs around 1,400 employees in Scotland and a further 150 at our two gin distilleries and administrative offices in England.

Pernod Ricard UK (PR-UK) is the UK sales and marketing company of Pernod Ricard and is responsible for our commercial and advertising activities throughout the UK. The PR-UK brand portfolio includes Chivas Regal and Ballantine's Scotch Whiskies, The Glenlivet Single Malt Scotch Whisky, Beefeater and Plymouth Gins, Martell Cognac, Havana Club Rum, Jameson Irish Whiskey, Absolut Vodka, Malibu Liqueur, Mumm and Perrier Jouët Champagnes and the wines of Jacob's Creek, Brancott Estate and Campo Viejo. PR-UK employs 250 people across the UK.

In the interests of simplicity, references to the positions of these two companies will be represented as Pernod Ricard.

As a company, Pernod Ricard has a strong global corporate ethos on promoting and marketing our products in a socially responsible manner. In pursuing the convivial enjoyment of our brands, we also recognise our obligation, as a marketer of alcoholic beverages, to encourage the responsible consumption of all alcoholic drinks and, in particular, our brands.

This commitment is shared in our many production facilities and offices across the UK, as well as in our sales and marketing teams in PR-UK.

Pernod Ricard appreciates this opportunity to react to the Government's proposed Alcohol Strategy. We hope that our comments are helpful and informative, and we stand ready to discuss these issues further with you.

Our responses are confined to those questions on which we believe Pernod Ricard can make a constructive contribution. Thus, the questions pertaining to the mandatory licensing conditions and the retail trade will not be answered.

As a member of both the Scotch Whisky Association (SWA) and the Wine & Spirit Trade Association (WSTA), we have reviewed the submissions of both organisations and we fully endorse their responses.

B. Consultation Questions

The Government wants to ensure that the chosen minimum unit price level is targeted and proportionate, whilst achieving a significant reduction of harm.

Consultation Question 1: Do you agree that this MUP level would achieve these aims?

No.

Pernod Ricard is completely opposed to minimum unit pricing (MUP) in principle and as a regulatory mechanism. It is not targeted at irresponsible consumers, but rather at all consumers. A 45 pence per unit levy will not affect a few select (or undesirable) beverages, but will result in price increases on over half of the alcoholic beverages on sale in the off-trade in England and Wales. The Government already has the power to affect alcohol pricing through the excise tax system. While UK alcohol excise taxes are already at some the highest levels in the EU, the tax mechanism should be the chosen policy tool to adjust market pricing rather than the Government embarking on a new and questionable policy of market intervention to manipulate consumer decisions.

The Home Office will also be aware of the several legal challenges already in progress challenging the legality of MUP as a policy option. We expect that this issue will finally be resolved by the European Court of Justice sometime in the future and we find it regrettable that the UK Government is pursuing this policy in light of these legal challenges.

The evidentiary base for MUP put forward by the Home Office does not inspire confidence. It is predicated on “modelling” by the University of Sheffield. Since 2008, The University of Sheffield has updated its findings twice, each time revising downwards the projected “benefits” of a MUP policy. The Sheffield reports make much of the Canadian experience of minimum pricing, without distinguishing the marked differences between the Canadian and the UK markets and how the different pricing mechanisms are applied.

Further, the Sheffield modelling makes predictions for reduced alcohol consumption based on MUP. Yet, between 2006 and 2010, UK alcohol consumption has fallen by almost double the amount predicted by Sheffield without the imposition of MUP in the UK. This is but one example of the concerns that have been raised about the Sheffield model’s original recommendations and their subsequent revisions. The Home Office will already be aware of the studies conducted by the Adam Smith Institute and the Institute of Fiscal Studies of the MUP evidentiary base and their concerns about the reliability of Sheffield’s “findings.”

Curiously, it appears that no one has asked Sheffield to update its modelling to reflect current UK market conditions and consumer behaviour. This is a pity. Given the premise of the Consultation's first question, i.e., that "...the Government wants to ensure that the chosen minimum unit price level is targeted and proportionate,...", perhaps the Home Office might want to revisit its evidentiary base for its MUP policy in order to ensure that any decisions in this area are made with the most up-to-date data.

Consultation Question 2:

Should other factors or evidence be considered when setting a minimum unit price for alcohol?

Yes, there are several additional factors that the Government should consider before moving forward with this MUP policy.

Impact on UK consumers: While the Government's ambition is to target its MUP policy in order to reduce significantly alcohol-related harm, the proposals in the Alcohol Strategy will affect many responsible consumers. As already pointed out, a 45 pence MUP will increase the retail price of over half (52%) of the alcoholic beverages sold in the off-trade. A policy that intentionally manipulates the pricing of over half of the products in the market is neither targeted nor proportionate, and it would be appreciated if the Government would acknowledge this. While such an acknowledgement is most probably a forlorn hope, a study by the Government on precisely who will be impacted by MUP would be useful. Given the impact of a 45 pence MUP, it is reasonable to surmise that many more responsible drinkers will be affected by this MUP policy than binge-drinkers and others engaging in anti-social behaviour.

Responsible drinkers shopping on a budget can reasonably be expected to make decisions based on price. Whether consumers intent on excessive and reckless drinking will be dissuaded from spending the extra 5-10 pounds a week that would be imposed by MUP is a different proposition. The Home Office evidence and its analysis of the consumer logic employed to support the 45 pence MUP policy would be very enlightening. Will it be made available?

Impact on UK retail pricing: The implementation of the MUP at the retail level presents another curiosity. The understanding is that retailers will be "expected" to increase the pricing of different products to at least the base retail price promulgated by the Government. However, retailers are under no obligation to share these increased profits with consumers or with producers. So, there will be a great windfall for the retailers. Why?

More importantly, has the Government analysed the follow-on impact of this policy? For instance, if MUP requires retailers to raise the floor price of their cheapest-on-display product range, there will be market pressure on the retailers and on producers to raise the prices of other alcoholic beverages accordingly in order to preserve the incentive of purchasing cheapest-on-display. Has the Home Office considered the impact that MUP will have on alcohol pricing across the UK?

Impact on illegal market activity: As indicated above, MUP will affect the pricing of more than 50% of the alcoholic beverages on the market in England and Wales. Such price increases will have a knock-on effect on the increasing attractiveness of illicit market activity on alcohol. The Home Office will be aware that alcohol represents a considerable proportion of overall theft in the UK retail environment. Increasing the price of more than half of the alcohol sector will only provide a further incentive to the criminal community.

This impact will be compounded by the illicit production of alcoholic beverages in the UK and the already thriving trade in counterfeit alcohol and the “white van trade” of rogue retailers. No doubt the Home Office is already liaising with Treasury and HMRC officials on the impact of MUP on the investigations of alcohol duty fraud. Separately, it would be reassuring for UK producers and traders to know what steps the Government is taking with HMRC and with local Councils (Trading Standards Authorities) to increase the resourcing that will be necessary to police the illicit alcohol trade and to enforce the MUP pricing policy.

Impact on international trade: Chivas Brothers is a very large producer of Scotch whisky and premium gin products. More than 98% of our gins and whiskies are exported outside the UK. As a successful exporter, Chivas Brothers has deep concerns about the UK’s deliberate intentions to manipulate consumer prices in the alcohol sector. These fears are exacerbated given the precedential value such a policy would have in the eyes of our trading partners.

Scotch whisky is one of the UK’s top five exports globally. It is feared that the adoption of MUP by the UK will set a precedent that will encourage other countries to intervene in the pricing of alcohol based on a health or social policy exception. Given the precedent of market intervention set by the home country of Scotch whisky, UK trade ministers would be hard pressed to make diplomatic representations in opposition to similar policies targeted at imported spirits. Pernod Ricard strongly urges the Home Office to liaise with BIS and the FCO to explore the potential for such unintended consequences.

Consultation Question 3:

How should the MUP be adjusted over time?

Given the questionable evidentiary basis on which this policy is being proposed, and the less than rigorous analysis of MUP being “targeted” and “proportionate”, it might have been perhaps reasonable to expect that the Government examine the effectiveness of the policy prior to considering the continuation of MUP, let alone adjusting the specified MUP.

Pernod Ricard continues to oppose MUP in principle, so we would also oppose any adjustment in the rate of MUP. That said, if the Government intends to extend this policy beyond a 45 pence per unit price, we would expect the Government to conduct its own robust research on the effect that the proposed policy will have on consumers and the trade, especially if such a policy is to continue to be “justified” under the pretence of being “targeted and proportionate.”

Consultation Question 4:

The aim of minimum unit pricing is to reduce the consumption of harmful and hazardous drinkers, while minimising the impact of responsible drinkers. Do you think that there are any other people, organisations or groups that could be particularly affected by a minimum unit price for alcohol?

For a policy that is brought forward to be “targeted and proportionate” it is surprising to find that so little work has been done to explain who is being targeted and who is not. In fact, there is no actual evidence to even suggest that the Government has a definition of infrequent, moderate, heavy, hazardous or harmful consumers. So how does the Government know if the policy is correctly targeted and proportionate rather than just another population-based alcohol policy that will treat all consumers in the same way?

Improving the research base so that the Government was better informed on the impact of MUP on different groups of UK consumers would be a step in the right direction.

Consultation Question 5:

Do you think there should be a ban on multi-buy promotions involving alcohol in the off-trade?

No.

While it is rare for Pernod Ricard to offer its spirits products in multi-buy promotions, we do, from time-to-time, offer such promotions for our wine brands. Multi-buy promotions are a good way of delivering value to customers and can be run at limited discount prices, i.e., two for a reduced price. Such promotions encourage trial of new wines, as well as introducing consumers to different wines across a brand range. Provided that there are sensible constraints in place in terms of quantities offered and the level of discount, such promotions provide producers, retailers and consumers with a different type of price mechanic.

The Report by the House of Commons Health Committee on the Government's Alcohol Strategy did examine the question of multi-buy promotions and concluded that, based on the evidence presented to the Committee, a ban on multi-buy promotions was neither desirable or workable.

A ban on multi-buy discounts as described in the Home Office consultation went into effect in Scotland on 1 October 2011. A preliminary impact analysis on the effectiveness of this ban was conducted by the Monitoring and Evaluation Scotland's Alcohol Strategy (MESAS) programme. This early study has found no obvious change in weekly trends of off-trade sales in Scotland compare with sales of the previous year in Scotland (or in England and Wales, for that matter).

Consultation Question 6:

Are there any further offers which should be included in a ban on multi-buy promotions?

No.

We would also urge the Government not to ban the inclusion of a bottle of wine in the so-called "Meal Deals" created by supermarkets to provide consumers a value-for-money complete meal. Pernod Ricard would also oppose banning value-added promotions, e.g., a bottle of whisky with branded tumblers, a bottle of gin combined with a bottle of tonic water, a bottle of port wine with stilton cheese, etc. Such promotions provide consumers with added value and do not promote excessive or reckless alcohol consumption.

Consultation Question 7:

Should other factors or evidence be considered when considering a ban on multi-buy promotions?

Yes.

The Government should seek evidence that such multi-buy promotions actually encourage reckless and irresponsible consumption and anti-social behaviour. To date, no evidence has been forthcoming.

Consultation Question 8:

The aim of a ban on multi-buy promotions is to stop promotions that encourage people to buy more than they otherwise would, helping people to be aware of how much they drink, and to tackle irresponsible alcohol sales. Do you think that there are any other groups that could be particularly affected by a ban on multi-buy promotions?

A ban on all multi-buy promotions is a very blunt instrument. When structured properly, consumers can only benefit from a competitive offer. Other groups that will be affected by a blanket ban would be people who are shopping for an event/party where they are catering for larger numbers. The Duty Free/Travel Retail sector at UK-based airports and seaports could be put at a disadvantage where multi-packs are a recognised pricing mechanic.

Of course, one group of operators that will welcome a ban on multi-buy promotions will be counterfeiters, smugglers and illicit producers. A ban on multi-buys gives such operators yet another incentive to expand their market activities in the UK. It is hoped that the Home Office will be increasing its enforcement resources in order to address the increased criminal activity in this area.