Alcohol Strategy Consultation
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Consultation on Government's Alcohol Strategy
IoD Consultation Response: Home Office

The Institute of Directors (IoD) welcomes this opportunity to comment in response to the consultation document "A consultation on delivering the Government's policies to cut alcohol fuelled crime and anti-social behaviour." We will be concentrating on the most significant measure for business, the proposal to impose a Minimum Unit Price for alcohol.

About the IoD:

The IoD was founded in 1903 and obtained a Royal Charter in 1906. It is an independent, nonparty political organisation of approximately 36,000 individual members. Its aim is to serve, support, represent and set standards for directors to enable them to fulfil their leadership responsibilities in creating wealth for the benefit of business and society as a whole. The membership is drawn from right across the business spectrum. 71% of FTSE 100 companies and 51% of FTSE 350 companies have IoD members on their boards, but the majority of members, some 70%, comprise directors of small and medium-sized enterprises, ranging from long-established businesses to start-up companies. IoD members' organisations are entrepreneurial and resolutely growth orientated. Over half of members export. They are at the forefront of flexible working practices and are fully committed to the skills agenda.

Summary Response:
The IoD rejects the Department's proposal for a Minimum Unit Price (MUP) for alcohol on the basis of three main concerns:

1. The imposition of Minimum Unit Pricing would negatively affect British alcohol producers disproportionately as compared to foreign competitors, a fact which the Impact Assessment does not take into account when calculating what appears an extremely low net cost to business;

2. There are a series of existing initiatives, including above-inflation tax increases and re-classification of high-alcohol white ciders, which have made a measurable positive impact toward delivering the stated policy goal of reducing alcohol misuse and we would propose those initiatives should be given longer to take effect; and

3. The potential for Minimum Unit Pricing to encourage illicit, cross-border trade costing business and taxpayer alike.

The IoD therefore believes further regulation in this area is unnecessary and would recommend the withdrawal of the proposal.

General points

The IoD recognises that the Government has an understandable desire to act in matters regarding the protection of public health and welfare. The IoD also recognises that alcohol misuse has a significant impact on the health and wellbeing of UK citizens, with commensurate financial impacts on business and employers.

The IoD separately acknowledges the economic contribution of the drinks industry, which has been assessed to be worth £28.6bn to the UK economy, with 668,000 people employed in the production and retailing of alcohol.[1] In total, 1.8 million jobs in the UK economy are supported directly or indirectly by the drinks industry.[2] Furthermore, the Treasury received £10,036m in alcohol beer duty revenue in financial year 2011/2012, before VAT.[3]

There is a long and as yet unresolved debate around the appropriate public policy balance between supporting business freedom and ensuring the health consequences of goods such as alcohol do not outweigh the economic benefits. Indeed, the fiscal consequences of alcohol are also open to debate, with factors such as employment, taxation and public service costs all factors worthy of consideration. The IoD is responding exclusively on the implications of the proposed policy to business.

The IoD will not be responding to the specific questions set out in the consultation, but will instead contribute a short summary of its position and concerns with the Government's proposals.

The imposition of Minimum Unit Pricing would negatively affect British alcohol producers disproportionately as compared to foreign competitors, a fact which the Impact Assessment does not take into account when calculating what appears an extremely low net cost to business.

There are approximately 10 times as many brewers and distillers as there are wineries operating in the UK that could be affected by MUP.[4] 87% of cider, and 67% of beer, sold in the off-trade would see their prices increase as a result of Minimum Unit Pricing – which according to the IA will drive demand for beer and cider down in the off-trade by 14.1%, only slightly offset by a 4% increase in on-trade consumption.[5] This fall in demand could have a significant – perhaps even business-threatening – effect on many British brewers and cider makers.

Furthermore, it is important to remember that many beers considered 'foreign' brands, such as Foster's, San Miguel, and Carlsberg, are brewed in the UK.[6] Only last year, Carlsberg were given the green light to expand operations in Northampton, producing 60 additional jobs and representing a key part of a wider regeneration of Northampton's river front.[7] There has been a recent decrease in the amount of inward investment flowing into the UK, and we are concerned that MUP could dissuade that investment if it is probable that consumption in the UK would fall.

In this context for the UK, it is important to note that MUP is likely to *increase* consumption of wine. Unlike British beers and ciders, and those brewed under license here, the vast majority

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[1] Oxford Economics, *The economic outlook for the UK drinks sector and the impact of the changes to excise duty and VAT announced in the 2008 Budget and Pre-Budget Report*, February 2009, 2
[2] Ibid
[3] HMRC, *Alcohol Duty Bulletin,* December 2012
[4] IA, p.15; Food Standards Agency, *Wine Standards Branch*,
[5] IA, p.10
[6] Simon Bowers, "Foster's may be 'the Australian for lager' but it is brewed in Britain", *The Guardian,* 21 June 2011
[7] Sophie Scott, "Carlsberg's bottling line will soon see action", *Northampton Herald and Post*, January 9 2013

of wine sold in the UK is produced abroad.[8] If there is a cross-substitution from predominantly British-made beer and cider to predominantly foreign-produced wines, British firms and the Exchequer (through lost National Insurance Contributions, Corporation Tax etc.) will necessarily lose out. MUP could therefore negatively affect British alcohol producers in a way that does not appear to have been seriously considered in the estimated £1m net cost to business. Furthermore, having considered the Impact Assessment, the IoD believes that the £1m estimated net cost to business is a gross underestimate and that the cost to business needs reappraisal.

This is particularly relevant due to the Prime Minister's statement in April 2011 that he wanted this Government to be the first "in modern history to leave office having reduced the overall burden of regulation, rather than increasing it."[9] The Government has recently changed the "regulatory budget" to a more aggressive deregulatory 'One In Two Out' (OITO) system from the previous 'One In One Out' (OIOO) regime. According to the Government's statistics, OIOO has produced a cumulative reduction in burdens of £836m.[10] Whilst the Government is to be applauded for the fact that figure is presently deregulatory, one single measure of significant value could reverse the position. Albeit a sizable sum, £836m is, in regulatory terms, a 'knife-edge'. Particularly, the Home Office – the Department responsible for this Consultation – has increased the burden on business through measures worth a cumulative total of £97.03m.[11] That there is no analysis of the distributional impact of transfers from some alcohol product producers to others causes us to question the legitimacy of the overall deregulatory figure.

We also note that the IA relies too heavily, in our opinion, on the conclusions of the Sheffield University School of Health and Related Research (ScHARR) model. For such a significant and potentially market-distorting measure of MUP, which carries within it very real risks to the viability of smaller alcohol producers, this seems inappropriate and we would urge the Department to consider further evidence and modelling before committing to the introduction of MUP. There is significant criticism of the ScHARR model, not least from the Centre of Economic and Business Research, who have suggested that MUP is unlikely to affect the very hazardous drinkers this proposal seeks to address.[12] In this particular case we would argue Government should take a wait-and-see approach and encourage further evidence throughout the Consultation period and beyond to ensure that the potentially damaging effects of MUP on businesses are fully considered.

On that point, we also note with disapproval that the Department for Business, Innovation and Skills has not been included as a listed Department or agency involved in the production of the Impact Assessment. The Department should be engaged with legislation on all regulatory issues; particularly in those cases in which the effect on business is likely to be negative or is uncertain – both of which are true in this instance.

Furthermore, we urge Government to pay careful attention to the judgment set out by the European Commission on the issue of MUP, which concludes that the legislation as put forward may create obstacles to the free movement of goods within the internal market.[13] The ramifications of this judgment are not clear at this point and we would urge Government to delay moving ahead with this legislation until its legality under EU law has been established.

There are a series of existing initiatives, including above-inflation tax increases and re-classification of high-alcohol white ciders, which have made a measurable positive impact toward delivering the stated policy goal of reducing alcohol misuse and we would propose those initiatives should be given longer to take effect.

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8 Off License News and Nielsen, "Wine Report 2012", *Off License News*, 20 July 2012
9 "Letter from the Prime Minister on cutting red tape," published at http://www.number10.gov.uk/news/letter-from-the-prime-minister-on-cutting-red-tape/
10 Department for Business, Innovation and Skills, *Statement of New Regulation 5*, p.7
11 Ibid, p.9
12 Centre for Economic and Business Research, *Minimum Alcohol Pricing: A targeted measure?*, June 2009
13 European Commission, *Communication from the Commission – SG (2012) D/525/13*, 26th September 2012

Since 2008, the "Beer Duty Escalator" has increased alcohol duty annually by 2% above inflation – leading to a 42% increase in alcohol duty during the intervening five years. In addition, a 25% increase in duty on beers with strengths above 7.5% alcohol-by-volume (ABV) came into force in 2011. Furthermore, "white ciders" – those ciders typically associated with harmful, hazardous and underage drinking – were moved into a higher duty bracket in 2010 as a result of changes to the definition of what constitutes cider. Across the European Union, the UK consistently ranks in the top-five rates of taxation across all alcoholic products.[14]

Government statistics suggest that alcohol consumption has fallen by 8% since 2008.[15] Higher taxes on alcohol are, we believe, having an effect on alcohol consumption and therefore – if we accept the premise that high alcohol consumption per head is at least a useful if not perfect indicator of alcohol misuse – delivering the policy objective at issue here. It is likely that changes to the UK's pattern of alcohol consumption and attitudes to alcohol will be seen over a longer period than the five years since the introduction of the Beer Duty Escalator. Successive Governments have spent significant resource improving education of the dangers of alcohol misuse – in 2013, we will see the launch of the NHS' Change4Life education programme which attempts to bring down overall alcohol consumption - and it has been widely noted that attitudes to alcohol are changing.[16] This long-term approach is more likely to deliver results, we feel, than Minimum Unit Pricing.

We do note that taxation increases are by no means a perfect way to achieve policy objectives and that Government should be extremely careful about increasing alcohol taxation further, with many believing the increases in alcohol duty have led to a crisis in the British pub industry, with 18 closing every week.[17] However, we do believe in lieu of convincing evidence that MUP would have a greater effect than already existing tax increases, it is at the very least too soon to conclude that a further regulatory lever needs to be pulled to achieve the stated policy objective, and would advocate a more patient approach to assess whether any further Government intervention is needed.

The potential for Minimum Unit Pricing to encourage illicit, cross-border trade costing business and taxpayer alike.

In the Impact Assessment, the Government addresses the possibility of cross-border smuggling; the 'booze cruise'. It is suggested that there is "no evidence to suggest" this would be the case.

Desk research by the IoD showed that in one instance, it was financially viable to travel to Calais from Central London to buy alcohol if bought in significant quantity – and that quantity would fall, from 17 bottles to 12 bottles of wine.[18] Sainsbury's supermarket notes that the highest alcohol sales in the whole of their UK portfolio are in Newry, in Northern Ireland, the result of significant numbers of cross-border shoppers from the Republic of Ireland.[19] It is a question of rationality, and if the additional time and cost expended by consumers to reach destinations further from their home is offset by the reduction in the price of a good, then we can anticipate consumers to take advantage of the opportunity. MUP could therefore provide a significant incentive for individuals, wholesalers and – realistically – some public house owners to buy cheaper alcohol abroad and bring it back to the UK either to consume or sell on. Regardless of the purchaser, there would be a significant impact on the Exchequer; receipts from corporation tax, VAT and alcohol duty would be lost over the English Channel. There would also be higher costs for enforcement at the border and ongoing enforcement to

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[14] European Commission, Taxation and Customs Union, Excise Duty Tables: Part I – Alcoholic Beverages Ref:1036, January 2013
[15] NHS Information Centre, *Statistics on Alcohol: England, 2012*, 2012
[16] David Rennie, "Bagehot: Their cup runneth over", *The Economist,* 5 Jan 2013, 22
[17] James Hall, "Pub closures rise due to beer tax", *Daily Telegraph,* 1 November 2012
[18] Calculations attached in appendix
[19] House of Commons Health Committee, *Health Committee: Written Evidence, AL21A,* 10 December 2009

ensure purchasable alcohol has come through proper channels for HMRC, licensing authorities, breweries and pub companies.

Conclusion

In summary, the IoD are very concerned by the Government's approach and encourages the Department to withdraw its proposals to regulate in this area. Whilst we understand the responsibility of Government to ensure public health and welfare, the IoD feels that these proposals are a disproportionate and potentially damaging regulatory response with uncertain results and a strong risk of unintended consequences. Thank you once again for inviting the Institute of Directors to participate in this consultation.

Yours sincerely,

Alexander Ehmann
Head of Parliamentary and Regulatory Affairs
Institute of Directors

Calculation for Reference Point 17

Wine: “*Les Galets” Cotes du Rhone 2010/11*

Current selling price UK: £7.49
Current selling price Calais: **£2.99**

As accessed February 6, 2013; Majestic.co.uk and majesticinfrance.co.uk,

Under Minimum Unit Pricing in the UK, the price would rise to £9.46. This is calculated as follows.

Units: 10.5
10.5 * 0.45p = 4.73
£4.73

VAT: 20%
95p
£5.68

Excise Duty: £1.90
5.68+1.9 = 7.58
£7.58

Costs / Profits estimated at 20% margin
7.58*1.2 = 9.10
£9.10

UK selling price estimated under MUP: **£9.10**

Driving Distance from Parliament Square to Majestic, Calais = 75.7 miles (rounded to 80 miles for realistic detours etc)
Total mileage = 160m

Car = Ford Focus 1.6 TDCi 115 Zetec (Advertised MPG: 67.3)

Gallons of petrol required: 2.37 (rounded to 2.5)
Litres of petrol required: 9.46

Price of petrol at Texaco, Kennington Road, London on February 6: 132.9p/litre
Total price of petrol: £12.76

P&O Ferry, March 21st Sailings
Dover – Calais : 09:25, £30
Calais – Dover : 17:15, £30

Total price: £60, as accessed February 6, 2013

Price of transit to and from Calais = **£72.76**

Please see next page

Pricing Scenarios

Current				
Bottles	UK Price (£7.49)	French Price (£2.99	Plus Transit Cost (£72.76)	Difference
5	37.45	14.95	87.71	50.26
6	44.94	17.94	90.7	45.76
7	52.43	20.93	93.69	41.26
8	59.92	23.92	96.68	36.76
9	67.41	26.91	99.67	32.26
10	74.9	29.9	102.66	27.76
11	82.39	32.89	105.65	23.26
12	89.88	35.88	108.64	18.76
13	97.37	38.87	111.63	14.26
14	104.86	41.86	114.62	9.76
15	112.35	44.85	117.61	5.26
16	119.84	47.84	120.6	0.76
17	127.33	50.83	123.59	**-3.74**
18	134.82	53.82	126.58	**-8.24**
19	142.31	56.81	129.57	**-12.74**
20	149.8	59.8	132.56	**-17.24**
25	187.25	74.75	147.51	**-39.74**
30	224.7	89.7	162.46	**-62.24**

Under Minimum Unit Pricing

Bottles	UK price	French Price	Plus Transit Cost	Difference
5	45.5	14.95	87.71	42.21
6	54.6	17.94	90.7	36.1
7	63.7	20.93	93.69	29.99
8	72.8	23.92	96.68	23.88
9	81.9	26.91	99.67	17.77
10	91	29.9	102.66	11.66
11	100.1	32.89	105.65	5.55
12	109.2	35.88	108.64	**-0.56**
13	118.3	38.87	111.63	**-6.67**
14	127.4	41.86	114.62	**-12.78**
15	136.5	44.85	117.61	**-18.89**
16	145.6	47.84	120.6	**-25**
17	154.7	50.83	123.59	**-31.11**
18	163.8	53.82	126.58	**-37.22**
19	172.9	56.81	129.57	**-43.33**
20	182	59.8	132.56	**-49.44**
25	227.5	74.75	147.51	**-79.99**
30	273	89.7	162.46	**-110.54**

Red denotes the point at which it becomes cheaper to buy in France, with transit included.