Alcohol (Minimum Pricing) (Scotland) Bill

Chivas Brothers Ltd and Pernod Ricard UK

Chivas Brothers Limited 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. We also operate two blending facilities, three bottling halls and eight warehousing complexes across Scotland. The company directly employs around 1300 employees in Scotland and a further 200 at gin distilling sites and administrative functions in England.

Pernod Ricard UK is the UK sales and marketing company of Pernod Ricard which is responsible for our commercial activities in Scotland. PRUK 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 friendly 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 our brands in particular.

This commitment is shared in our many production facilities and offices throughout Scotland, as well as in our sales and marketing teams in Pernod Ricard UK. And while we do not agree with the imposition of a minimum unit price, we remain committed to working with the Scottish Government to make the drinking of alcohol a safe and pleasurable activity.

General Comments

Changing drinking behaviours is a serious goal and will require the dedication and perseverance of all stakeholders. Where we would take issue with the general approach of the Scottish Government is in how to address the issue of alcohol-related harm.

It is clear that the cornerstone of the preferred policy is to adopt a total population approach to reduce all consumption of alcoholic beverages in Scotland. This gives us concern since such a policy, in its application, does not distinguish sensible and safe drinking from excessive and harmful drinking. In effect, the proposed policy is to demonise all alcohol consumption. As a producer of wine and spirits, we find this approach very troubling.

Pernod Ricard would have expected the Scottish Government to build on the prevalent responsible consumption of alcohol in Scotland and to target those groups which have a propensity to abuse alcohol. By pursuing a total
population approach, the presumed emphasis will be to discourage all consumption of alcohol across Scotland.

Such a policy may depress total consumption of alcohol in Scotland. Whether it will directly address and decrease the alcohol-related harm described in the Consultation Document is highly presumptive. Experience in other markets which pursue total population policies does not offer great assurance that such a policy will have the intended effects.

Further, a policy that is based on discouraging and de-normalising alcohol consumption would be a blunt instrument. It is premised on Government setting the conditions under which alcohol will be available and in what manner one can drink.

The Scottish Government appears to dismiss the importance of individual responsibility in making drinking decisions and the value of making informed drinking choices. Ultimately, it is the individual who makes the personal decision to drink responsibly or irresponsibly. This emphasis on personal responsibility is the core message of our on-going social responsibility campaign, “Accept Responsibility.”

**Minimum Pricing**

Pernod Ricard cannot support the Government’s proposal for the introduction of the minimum pricing formula and, thereby, Ministerial intervention in the pricing of alcoholic beverages. For Pernod Ricard, this is a matter of corporate policy and principle.

Government manipulation of market pricing is the hallmark of a Government monopoly or a controlled market economy. As one of the largest exporters of Scotch whisky, we seek to remove such market access barriers in our export markets. We could not condone the establishment of such a mechanism in our home market. The signal this would send to other markets would imperil our exports of Scotch whisky and other alcoholic beverages and this could impact on the future growth of the whisky business and its dependent suppliers in Scotland.

The Scottish Government’s own research shows that minimum pricing will fail to make a significant impact in combating abusive alcohol consumption. The Sheffield Report shows that heavy drinkers will be little affected economically (less than the cost of one pint of beer a week) and that they will be the least likely to change their drinking patterns. It is, therefore, a reasonable presumption, according to the Sheffield report, that the proportion of hazardous and harmful consumers will remain unchanged. The full effect of minimum pricing will be borne by moderate consumers reducing their purchase in Scotland.

Such a scheme would also lead to an increase in cross-border shopping and a rise in internet shopping by consumers seeking more favourable alcohol prices and, thereby, harm the retail of alcohol in Scotland while doing nothing to reduce excessive consumption.
Pernod Ricard would also point out that the Sheffield Report contains a number of flaws. To name just two: the report suggests that moderate weekly alcohol consumption is 5-6 units. Yet, under the guidelines issued by the Chief Medical Officers of Scotland, England, Ireland and Wales, men are recommended not to regularly consume more than 3-4 units a day while women have a recommended limit of 2-3 units.

We therefore believe that the Sheffield model is seriously underestimating the negative impact that the recommendations will have on moderate drinkers.

We note that the Scottish Government continues to assert that such a pricing mechanism can be created and administered under current UK and EU competition policy. Yet, the Government is not sufficiently confident of its legal basis to share it with anyone. We await this analysis before commenting further.

Pernod Ricard strongly believes that a minimum unit price of alcoholic beverages will not tackle problems of alcohol abuse. We are also convinced that the concept will not pass EU trade legislation on the free movement of goods and services and that it could severely damage our ability to export to growing markets.

Minimum unit pricing is an untested model based upon questionable research which makes predicting outcomes of price rises very difficult. It is also being implemented before the impact of this year’s Alcohol (Scotland) Act has been properly evaluated.

It is difficult to predict the impact of price fixing other than to note that an average bottle of wine would be priced at £5 at a 50p minimum unit price and £6 at minimum unit price of 60p. Whilst an average bottle of 70cl whisky would be priced at £14 at 50p minimum unit price and £16.80 at a minimum unit price of 60p. Price levels set above 60p per unit would begin to impact on our premium products.

However, it is not just the price level that concerns us. The very concept of a minimum unit price justified on public health grounds will set a catastrophic precedent abroad.

If our crucial overseas Scotch markets were to implement a similar public health-justified tax, our ability to compete overseas would be seriously hampered.

In terms of Scottish sales of the whole Pernod Ricard portfolio, the price a brand is sold at is in the hands of retailers. Minimum unit pricing gives retailers considerable control. It could be that with reduced shelf space due to the Licensing Act provision on display areas, retailers stock branded products exclusively, thus removing own label products and cheaper products (30% of sales) from shelves.
Alternatively, own label brands facing price increases may provide a source of incremental margin for retailers, who could lift the price of premium spirits beyond the minimum, thus maximising the return available by retaining own label. This may encourage consumers to trade down to value brands sold at the minimum price, or to switch to other categories of alcohol.

Retailers could undermine our brands premium positions by holding the price close to the minimum, thereby reducing the brand value in the eyes of the consumer who expects to pay more for premium quality products. To avoid compression or commoditization a premium brand producer would have no choice but seek to raise prices to maintain the price differential. The minimum price would therefore impact price across all products – from value to premium brands. Thus not only brands selling below the established minimum price would be hit.

These issues, along with others associated with the concept of Minimum Unit Pricing, have been more fully addressed in the Institute of Fiscal Studies Report “Alcohol Pricing and Taxation Policies” published in November 2011.

**Conclusion**

Adopting a Minimum Unit Price will not help to restore balance to Scotland’s relationship with alcohol but it will distort the domestic market and hamper our efforts to export to developing markets.

Rick Connor  
Director of Public Affairs  
Chivas Brothers Limited and Pernod Ricard UK  
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