Alcohol (Minimum Pricing) (Scotland) Bill

National Association of Cider Makers (NACM)

The National Association of Cider Makers (NACM) represents and promotes the interests of producers of cider and perry in England, Wales and Northern Ireland; and by implication the interests of cider apple growers and the rural communities in which this activity takes place. We appreciate the opportunity to comment on the Alcohol (Minimum Pricing) (Scotland) Bill.

Cider Industry

The cider industry is characterised by its wide range of scale of production with two major producers, a handful of medium scale producers and a very long tail of very small scale producers with some perry and cider makers producing less than 70HL per annum. Approximately 480 producers, in all, predominately based in rural communities in the South West of England and the three counties of Gloucester, Hereford and Worcester. Some 1,000 jobs are directly dependent on cider making with a further 5,000 rural/cider related jobs overall.

The principal raw material for making perry and cider is pears for perry and apples (both cider apples and dessert apples) for cider. The source of the pears and apples for making perry and cider is from a wide variety of orchards, varying in scale from 2-3 trees to large orchards in England, Wales and Northern Ireland. Without the continued existence of the cider industry the UK’s apple orchards would be reduced by more than 50%.

Cider and perry is sold throughout the United Kingdom in a wide range of outlets from major national and regional pub chains, major multiple retailers to farm shops and local pubs and local supermarkets.

As set out in the BRI¹, the share which cider and perry have of the Scottish alcoholic drinks market is only a relatively small 7%; this effectively means that 930 people out of 1,000 people do not drink cider. Furthermore of the 70 that do, cider is usually their 4th preference drink.² Strong white ciders only represent ½%³ of the total alcoholic drinks market, not the 2% as set out in the BRI.⁴ They are a declining part of the market and it is interesting to observe that in the leading multiple retailers these products are placed on the bottom shelf and are not regularly replenished.

Alcohol Misuse

As the figures clearly show, due to its small market share, cider and perry cannot be singled out as being responsible for alcohol misuse in Scotland, as some would suggest. A review of published reports in the public domain

¹ (BRI) Framework for Action: Changing Scotland’s Relationship with Alcohol – Business and Regulatory Impact for Minimum Price per Unit of Alcohol as Contained in the Alcohol (Minimum Pricing) (Scotland) Bill, Scottish Government 2011, paragraph 5.52, p 44.
² Trade research
³ CGA/IRI On & Off Trade
⁴ Table 3, p 73
produced by the Scottish Executive, UK Government and other bodies, quite clearly demonstrates that no one alcoholic drink is responsible for alcohol misuse – misuse is caused by certain drinkers who clearly misuse alcohol and by some under 18s who are clearly breaking the law, with their parents principally responsible for supplying the alcohol to them. This therefore is not a problem about problem drinks but about problem drinkers and individual's attitude towards alcohol.

NACM fully appreciates the Scottish Government's concerns about alcohol misuse in Scotland and its desire to address this issue. NACM is an active member of the Scottish Government Alcohol Industry Partnership, set up to develop effective, practical and targeted measures to address the misuse of alcohol by the few.

The cider industry looks forward to continue its partnership with the Scottish Government to tackle these serious problems. In drawing up policies to reduce harm from problem drinkers, however, it is essential to base solutions on the facts and robust evidence of what works.

NACM fully subscribes to the Portman Group Code of Practice which is successful in ensuring that products are marketed in a socially responsible way and only to an adult audience, fully supports the aims and objectives of the Drinkaware Trust (with NACM's leading members being directly involved in its operations) and an active participate in the Responsibility Deal.

**Minimum Price Based on a Unit of Alcohol**

Given that the majority of the public drink sensibly and that alcohol is misused by a minority of drinkers, general population measures such as increasing taxes or other means of raising prices e.g. introducing minimum unit pricing are not generally regarded as the appropriate means for tackling misuse – it penalises the majority of sensible drinkers without necessarily dealing with alcohol misuse.

The ScHARR model does no more than demonstrate that if you raise the price of a product consumption falls (the economic principle of price elasticity of demand); the basis on which the whole minimum unit pricing thesis is built.

A number of factors can affect the price elasticity of demand for example:

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5 Research by Drinkaware and John Moores University, Liverpool.
6 School of Health and Related Research at the University of Sheffield.
7 Price Elasticity of Demand is a measure to show the responsiveness of a quantity of a product demanded in response to a 1% change in price (holding constant all other determinants of demand). It was devised by Alfred Marshall in 1890. The determining factor for establishing the price elasticity is the willingness and ability of consumers after a price change to postpone immediate consumption decisions concerning the goods and to search for substitutes.
• Availability of substitute goods and their relative price (in this case substitute goods could include discretionary food products whose purchase is dropped to maintain alcohol purchases)
• Consumer’s real personal disposable income
• Market dynamics; to name a few.

Market dynamics and distortion

The ScHARR study did not adequately model situations where other determinants were not held constant. The application of a 35p/unit minimum price (and above) would not appear to fall within the parameters of the 1% price change: the double digit price change represents a paradigm shift, where the level of price increase for one category is sufficient to alter existing market dynamics which would render historical price elasticities questionable.

The application of minimum unit pricing will compress price ranges of products (in the off-trade) within a category – eroding price hierarchies as the gap between the new artificial floor price of a product and the premium price is drastically reduced. Price ranges across categories will also be compressed: historic price elasticities would not be applicable as the basis for calculating impacts on demand for a range of alcoholic beverages (and the collateral reduction in the demand for discretionary food items.) Such price compression will be market distorting and bring with it unintended consequences. The impact on cider sales in Scotland will be far greater than that calculated by ScHARR.

This measure effectively denies access to Scottish markets because minimum pricing favours least efficient producers and denies cost efficient producers in England, in other EU member states and non – EU countries who make ‘English’ style cider access to market by not being able to reflect their cost efficiencies in lower prices. Minimum unit pricing is effectively a restriction on the operation of the free market and a barrier to international trade.

Minimum unit pricing removes price as a vehicle for reflecting quality considerations and removes the incentive for maintaining quality aspects of production. In the case of cider, as far as the Scottish market would be concerned, minimum unit pricing could undermine and make redundant the minimum juice content criteria for cider as the minimum price (depending on the level it was set) could nullify the tax penalty for lower juice content product.

The above assessment effectively challenges two claims made in the BRI:

“... that the effects of the price increase may not be disadvantageous to the alcohol industry as a whole because the estimated decrease in sales volume may be more than offset by the unit price increase.”

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9 BRI p 17 paragraph 2.34
“Minimum pricing is estimated to result in increased revenue to the alcohol industry as a whole.”\textsuperscript{10}

The BRI clearly shows that there will be serious damage to cider sales if the minimum price were set at 40p/unit of alcohol.\textsuperscript{11}

**Parallel markets**

The BRI is dismissive of the impact of internet trading and the development of an illicit market for alcohol. It tends to assume a passive response from consumers. This view is not shared by the Economist, "If prices are much higher in Scotland than in England, parallel markets, both legal and illegal, will emerge."\textsuperscript{12} Parallel markets are active in Sweden and Finland where penal tax regimes operate against alcoholic beverages.

There is an example from recent history when coffee prices rose very steeply where lorries on route between production centres to distribution depots in the UK were hi-jacked for their cargoes for selling in illicit markets.

Where prices are artificially raised above a market price illicit alcohol production and counterfeiting does take place which is recognised by the WHO Global Strategy. The recommended course of action is greater enforcement but this adds to policing costs yet the BRI figures show that overall crime volumes are estimated to fall by around £18m over 10 years.\textsuperscript{13}

**Conclusion**

Penalising the general population does not seem to be the appropriate way forward in either seeking to bring about cultural change in Scotland’s relationship with alcohol or dealing with alcohol misuse (the problem drinkers).

The industry is working with the Scottish Government to address the issue of alcohol misuse and as the Economist pointed out, “some drinking trends are beginning to come right, with a recent fall in alcohol related deaths, fewer adults saying that they drink over the limit and fewer 13 – 15 year olds saying they drank at all the previous week: why rush into more change?”\textsuperscript{14}

Given the significant anticipated drop in the sales of cider as a result of the introduction of minimum pricing the negative impact on industry is disproportionate to the outcomes that are being sought particularly as they stand to be undermined by unintended consequences.

NACM is concerned, along with other organisations representing alcoholic drinks producers that:

\textsuperscript{10} BRI p 39 paragraph 5.37
\textsuperscript{11} BRI p 73, Table 3
\textsuperscript{12} The Economist, December 3\textsuperscript{rd} – 9\textsuperscript{th} 2011, p 36.
\textsuperscript{13} BRI p 34, paragraph 5.21 and Table 4.
\textsuperscript{14} The Economist, December 3\textsuperscript{rd} – 9\textsuperscript{th} 2011, p 36
Policy on alcohol misuse should be addressed to those who have the problem not the majority who do not rather than propose a measure which unnecessarily impacts all consumers of alcoholic drinks regardless of whether or not they have anything to do with alcohol misuse.

There is the assumption of a direct link between price and reducing harm, particularly as it is has yet to be supported by the evidence. No evidence has been produced to substantiate the thesis that minimum unit pricing will be effective in tackling alcohol misuse other than the basic mechanism that as the price of a product goes up then the consumption of it in general goes down.

Of concern is the apparent failure by those wishing to introduce further legislative controls on the availability and the price of alcohol to identify and deal with the real causes of alcohol. To focus on the availability and affordability of alcohol as the sole and root cause of misuse loses sight of this. When the BRI looked at alternative policy instruments it looked no further than price instruments and failed to give consideration to targeted interventions\textsuperscript{15}. The real drivers behind harmful drinking, binge drinking behaviour and under 18’s alcohol misuse are overlooked as a consequence. Failure to get this right means that behaviour does not change, misuse and harmful drinking continues but that the general public are penalised as a result of failed policies built on false premises.

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\textsuperscript{15} BRI p 90 paragraphs 72 – 78.