



## **HEINEKEN UK Consultation Response**

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

#### **Introduction**

This paper outlines HEINEKEN's concerns about the UK Government's policy to set a minimum price for alcohol. It should be read in conjunction with our submission to the alcohol strategy consultation.

#### **About HEINEKEN UK**

HEINEKEN is the UK's leading beer and cider producer and the name behind drinks brands such as Foster's, Strongbow, Kronenbourg 1664, Bulmers, John Smith's and Heineken®. We also own more than 1,300 pubs and directly employ 2,400 people in our UK business. We operate from sites in London, Edinburgh, Manchester, Tadcaster and Herefordshire.

As a responsible alcohol producer, HEINEKEN is determined to help tackle the long-term cultural issues of alcohol misuse in the UK. Alcohol misuse is a complex issue, which cannot be addressed by a single solution. Instead, we need a combination of targeted solutions that consistently tackle the specific causes of different types of alcohol misuse – without penalising the vast majority of drinkers.

We believe that the alcohol industry can be a valuable partner in tackling alcohol misuse. We removed the high strength ciders, White Lightning and Strongbow Black from our product portfolio because we felt it was the right thing to do. We are a leading supporter of the Government's Public Health Responsibility Deal and are committed to removing 100 million units of alcohol from the market by reducing the ABV of a leading brand. We've also distributed 11 million branded glasses showing unit information into pubs across the UK and provided moderate consumption options by launching the schooner (two third pint glass).

We are one of the largest funders and supporters of Drinkaware, and we support Community Alcohol Partnerships and Best Bar None schemes across the UK. We work in partnership with the leading alcohol charity Addaction to pilot new and innovative ways to encourage responsible alcohol consumption and reduce alcohol related harm.

#### **Summary of this submission**

**Alcohol consumption in the UK is falling** – despite growing media and political concern about alcohol misuse, the Government's own statistics show that 78% of people in the UK drink alcohol responsibly. Since 2004 consumption has dropped by 13%. Across the board and in every age group and for men and women average consumption has fallen. The average adult drank 11.5 units a week in 2010 – that's a fall of 20% in five years from 14.3 units in 2005. The most pronounced changes have been to drinking levels among 16-24 year olds with average consumption down to 11.1 units and binge drinking down 8% for men and 10% for women since 2005.

**Consumption is down and predicted to continue downwards** – the Government estimates that minimum pricing at 45p will reduce consumption by 3.3%. The Public Health Responsibility Deal commitment itself will reduce consumption by 2015 by 2%, while the OBR predicts a further 2.4bn reduction by 2018 which equates to a 4.8% drop in consumption.

**There is no simple link between price, consumption and harm** – The Treasury Review of Alcohol Pricing in 2010 states that *“drawing out the links between price and alcohol-related harm is not as straightforward”*. The Home Office review in 2011 states *“alcohol price is only one factor affecting levels of alcohol consumption with individual, cultural, situational and social factors also influential.”*

The Adam Smith Institute argues that the reduction in consumption that has been seen from 2006 is greater than is predicted by a 50p minimum price and yet the reductions in harm the computer model said would follow have not been realised.

**Minimum pricing will not tackle binge drinking** – despite this being the stated objective of the Government, the researchers behind the Sheffield Model used to support minimum pricing have questioned its impact stating *“People might say that the measure will have a huge impact on young people’s binge drinking, but it is not clear that that will be the case”*. The Government’s RIA states that it will *“have a more limited impact on consumption amongst this group [young male hazardous drinkers]”*. Young people continue to invest significant value and funds into the ‘big night out’ and set against an average spend of £92, the increased cost of alcohol and preloading is very low and unlikely to change behaviour. Public opinion research consistently shows the majority of people do not believe it will be effective in tackling binge drinking.

**It will hit responsible drinkers and those on low incomes** – The Government states that a minimum price of 45p will increase the cost of two thirds of the alcohol sold in the off trade. Analysis by the IFS has demonstrated the minimum pricing has the greatest impact on the lowest income households who will see a larger increase in their food and drink spending than higher earning households that drink more. Low income households already have lower alcohol consumption patterns and therefore it is particularly unfair that they should pay more. CEBR has demonstrated that a 45p minimum price is highly regressive.

**The effects of minimum pricing are only theoretical** – the case is based around one theoretical, mathematical model which its creators have likened to weather forecasting. Minimum pricing exists in no other country and the Canadian system often quoted is completely different and operates from state run off licences. Prices are set based on increasing revenue not reducing harm and the off licences return a dividend to the Government. The Home Office has previously stated that alcohol price is only one factor affecting levels of alcohol consumption with individual, cultural, situational and social factors also influential. The IFS, IEA, ASI and CEBR as well as the Home Office and Treasury have all provided detailed critiques of the limitations and flaws in the model.

**The costs and benefits of minimum pricing need to be taken in context** – the RIA shows the total cost of alcohol misuse to be around £21bn per annum yet the benefits of minimum price amount to less than £100m in year 1. The evidence base for reduced crime and productivity costs is acknowledged to be weak. Meanwhile over the course of a 5 year Parliament the government will lose £1bn in cash from duty receipts and gain only £714.5m in health and crime savings, most of which are not cashable. The net loss to the Government over 5 years is £285.5m which in an austerity budget will require to be found from elsewhere.

**Minimum pricing is not a tax** – the RIA is clear that a 45p minimum price will cost consumers in England £1bn extra every year. This money does not go to the Government and the RIA predicts most of it will be retained by alcohol retailers. Over the first five years, consumers will pay out £5.2bn more and the Government will lose £1bn in reduced duty receipts. The result will be to increase UK inflation by 0.2%.

**It will not help pubs; it will cause further damage** – As a major brewer and owner of 1,300 pubs HEINEKEN understands the pressures facing the industry. Minimum pricing will make matters worse because it will have little impact on price differentials. In fact because off trade purchases are increasingly part of the weekly shop, while on trade visits are discretionary, there is a risk that it will simply reduce the funds available to spend in the pub. Recent polling has confirmed that it will lead people to consume less in pubs.

**Cider makes a unique contribution to the rural economy in the UK – but will be hardest hit.** In the UK 30% of all apples grown are used to make our ciders. We support our apple farmers with long term contracts to provide the stability they need. The industry makes a massive contribution to the economy of Herefordshire. Yet despite being a domestic success story, the Government predicts that a minimum price of 45p would increase the price of 85% of cider sold in the UK. The RIA estimates a 48.2% drop in off trade consumption as a result – nine times greater than the impact on beer or spirits consumption.

**There is significant uncertainty that minimum pricing is legal** – the UK Government has previously been on record to state that it is illegal. The Scottish Government is currently facing a legal challenge in the Court of Session and at European level the European Commission and a range of member states have lodged objections about the legality of the measure.

**Minimum pricing has a number of unintended consequences** – the Government estimates that illicit alcohol in the UK already costs the exchequer £1.4bn per annum in lost revenue. Recent history tells us that major price differentials will drive cross border sales (e.g. Calais to Dover, and Northern Ireland to Republic of Ireland) and there are fears that minimum pricing will increase duty unpaid, counterfeit and black market sales. None of these are accounted for in the Sheffield Model.

**Hits investment in the UK** – as a business operating across 70 markets, HEINEKEN has to take decisions about where best to deploy its resources. With the UK beer sector in long term decline, and growing markets elsewhere, the uncertainty caused by minimum pricing is a disincentive to further investment.

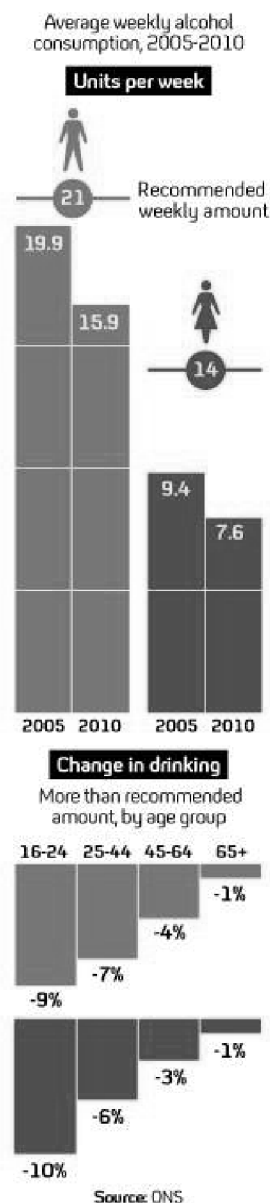
## Detailed Submission on Minimum Pricing

### Alcohol consumption in the UK is falling

It is important to set this alcohol strategy and consultation in the context of trends and consumption habits of the last 10 years. It is a paradox that increasing media coverage and political interest in alcohol misuse has come at a time when alcohol consumption is falling.

Channel 4's Factcheck has considered the case for minimum pricing against current consumption trends. It picks out some of the salient trends (using Government statistics) of the past decade which point to an improving picture<sup>1</sup>:

- Total alcohol consumption across the UK is down 13% since 2004.
- The average adult drank 11.5 units a week in 2010 – and that's a fall of 20 per cent in five years, down from 14.3 units a week in 2005.
- Across the board, in every age group and for both sexes, average alcohol consumption has fallen.
- 87 per cent of adults averaged at least three alcohol-free days a week (in line with government recommendations).
- The OECD's latest figures show that alcohol consumption in the UK is at its lowest since 1999 – at 10.2 litres per capita in 2009.
- Binge drinking is down across all age groups – except for those over 65 (up 1 per cent to 7 per cent of all men over 65; and unchanged at 2 per cent for all women over 65).
- Meanwhile, binge drinking among young men and women between the ages of 16-24 has dropped the most – down 8 per cent and 10 per cent respectively since 2005.
- The ONS's report found the “most pronounced changes” to drinking levels among 16 to 24 year olds.
- Among young men, the proportion drinking more than four units on their heaviest drinking day has fallen by 12 per cent since 2005 – to 34 per cent in 2010. And the proportion drinking more than eight units on their big night out is down from 32 per cent to 24 per cent over the same period.
- Average consumption was 11.1 units a week in the 16 to 24 age group – lower than 25-44 year olds at an average of 12.2 units and 45-65 year olds – who drink an average 13.1 units a week.
- The number of 11-15 year old pupils that have tried a full alcoholic drink has dropped from 61% in 2003 to 45% in 2010. Those that have never had a drink has risen from 39% to 55% in that time.<sup>2</sup>



<sup>1</sup> Channel 4 Factcheck, “The Truth About Boozed-Up Britain”; March 2012; <http://blogs.channel4.com/factcheck/factcheck-ga-the-truth-about-boozed-up-britain/9812>

This analysis uses data from the General Lifestyle Survey published by the Office for National Statistics (ONS), March 2012; HMRC Alcohol Clearances data; OECD Health Data 2010

<sup>2</sup> The Department of Health's survey into young people's drinking habits

### **As consumption falls, the objective of minimum pricing is less clear**

In Scotland, in the past two years a 5% reduction in consumption has been achieved. This compares with the prediction of a 5.7% reduction if a 50p minimum price was introduced. And yet, this has been overlooked and barely recognised by the Government or pro-MUP campaigners. Yet it poses a series of fundamental questions:

- 1) What is the baseline of consumption that the Government is starting from and what is the new level it wishes to reach?
- 2) What happens if this level of consumption is reached without the need for legislation or before legislation is implemented?
- 3) Having achieved the desired level of consumption, what is the argument for further intervention in the market?

### **Consumption is down and predicted to continue downwards**

The Regulatory Impact Assessment (RIA) expects a 45p minimum price to deliver a 3.3% reduction in consumption in England & Wales. Of course the model predicts a different impact across drinker types: 1.2% reduction for moderate drinkers; 2.2% for harmful drinkers; and 5.9% for hazardous drinkers.<sup>3</sup>

However, these predicted reductions need to be viewed against current trends which show a much greater fall has already happened. Further falls are likely and will be greater than the impact of minimum pricing:

- 13% reduction in consumption since 2004 – more than four times the overall reduction predicted for a 45p minimum price;
- The Public Health Responsibility Deal includes a commitment launched in March 2012 to remove 1 billion units of alcohol from the market by 2015. A recent Parliamentary Answer from Norman Lamb MP confirms that this is equivalent to a 2% reduction in consumption<sup>4</sup>;
- The Office of Budget Responsibility recently released its predictions on alcohol consumption to 2018 which suggests a reduction equivalent to around 2.4 billion units. This would mean a further 4.8% drop in consumption<sup>5</sup>.
- Therefore taken together, the Responsibility Deal and OBR predictions suggest a 6.8% reduction in consumption could be achieved by 2018. That's more than double the overall reduction predicted from a 45p minimum price.

### **There is no simple link between price, consumption and harm**

Of course as consumption continues to fall, this poses questions about the assumptions behind the Sheffield Model which the Government bases its policy on. In particular it challenges whether the model has made the right link between price, consumption and harm.

The Treasury's Review of Alcohol Pricing in 2010 notes that there is no simple link between price, consumption and harm:

*"drawing out the links between price and alcohol-related harm is not as straightforward. Despite a decline in overall alcohol consumption since 2004, alcohol-related hospital admissions have increased year to year. Some evidence provided to the review suggested that some heavy drinkers might not be as price sensitive as other groups but respondents also stated that price changes could be effective in terms of reducing total consumption. The evidence about the effect of price on young drinkers was very mixed, with some groups suggesting that price would not be an effective deterrent to drinking for this group."*<sup>6</sup>

The Chief Medical Officer in Scotland has quoted that at 50 pence per unit, which is close to the equivalent total consumption reduction achieved in the last two years, there would be considerable

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<sup>3</sup> RIA, table 3, p11

<sup>4</sup> House of Commons, 15/1/13, c731

<sup>5</sup> Office of Budget Responsibility: Economic and fiscal outlook supplementary fiscal tables - December 2012; published 14/1/13. Table 2.11 forecasts a reduction in beer and cider from 53,210 hectolitres in 2011-12 to 43,930 in 2017-18. Unit calculation is derived from forecast changes in beer and cider, wine and spirits based on average strength and is also reported in Telegraph <http://www.telegraph.co.uk/finance/economics/9799138/Brits-ditch-beer-for-wine.html>

<sup>6</sup> HMT, Review of Alcohol Taxation, November 2010, para 2.4 [http://www.hm-treasury.gov.uk/d/alcohol\\_tax\\_review301110.pdf](http://www.hm-treasury.gov.uk/d/alcohol_tax_review301110.pdf)

benefits: 60 fewer deaths; 1,600 fewer hospital admissions; 3,500 fewer crimes; and a total value of harm reduction of £64m. To date there have not been reports that these specific benefits have accrued.

This is a point which is made by the Adam Smith Institute which questions why having seen a decline in consumption across the UK greater than that proposed by a 50p minimum price, the benefits predicted by the model have not occurred in the real world:

*"The data used in the model to calculate alcohol consumption come from 2006 and, as already noted, alcohol consumption has fallen by close to twenty percent since then. All the projections in the SAPM are based on a 50p minimum price reducing per capita alcohol consumption by 6.7 percent from the 2006 level. But we know exactly what would happen if alcohol consumption fell by 6.7 per cent from the 2006 level because we have lived through it. Indeed, the decline in per capita consumption since that year has been closer to what the SAPM predicts would happen under a 70p per unit regime (i.e. a 17.5 per cent decline).*

*"According to the model, the kind of reduction in alcohol consumption that Britain has already experienced should have reduced the number of alcohol related deaths by 1,273 (28.3 per cent) in the first year, rising every year until 7,263 deaths (62.4 per cent) are prevented each year by 2015 (Purshouse, 2009; pp. 109-111). None of this has happened. We are thus in the unusual position of being able to empirically disprove a prediction about a policy which has not yet been introduced."*<sup>7</sup>

### **Minimum pricing will not tackle binge drinking**

The Government's stated objective for proposing minimum unit pricing for alcohol is to tackle binge drinking. At HEINEKEN we agree with the Government that there is a problem in the UK with alcohol misuse and binge drinking. However we believe that minimum pricing will have little impact on those engaging in binge drinking behaviour but will penalise the majority of people who already drink responsibly.

### **Tackling binge drinking is the Government's stated objective**

Launching the alcohol strategy in March 2012, Prime Minister David Cameron stated *"Binge drinking isn't some fringe issue, it accounts for half of all alcohol consumed in this country. The crime and violence it causes drains resources in our hospitals, generates mayhem on our streets and spreads fear in our communities. My message is simple. We can't go on like this. We have to tackle the scourge of violence caused by binge drinking. And we have to do it now."*<sup>8</sup>

The Ministerial Foreword to the 'Consultation on delivering the Government's policies to cut alcohol fuelled crime and anti-social behaviour' is also clear on the intent:

*"Too many of our high streets and town centres have become no-go areas on a Friday and Saturday night because of alcohol-fuelled violent crime and anti-social behaviour."*<sup>9</sup>

### **Yet the evidence base shows minimum pricing is not effective**

The researchers behind the Sheffield Model have stated on the record that minimum pricing is not effective at tackling binge drinking by young people. Giving evidence to the Scottish Parliament, Dr Holmes, Public Health Research Fellow said:

*"The first point is that minimum pricing does not have to be the end of the debate. We have said already that it might not be the best targeted policy to deal with young people's binge drinking, much of which goes on in the on-trade."*

*"The effect on young people is perhaps the only area in which I would not agree with what is in the public domain. People might say that the measure will have a huge impact on young people's binge drinking, but it is not clear that that will be the case. As I said, there will be impacts. The model predicts that there will be reductions in various crimes. Some alcohol-related crime is to do with on-trade alcohol being sold*

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<sup>7</sup> Adam Smith Institute, The Minimal Evidence for Minimum Pricing; The fatal flaws in the Sheffield Alcohol Policy Model by John C. Duffy and Christopher Snowden; 2012: p13

<sup>8</sup> Prime Minister David Cameron, 23/3/12, [www.number10.gov.uk/news/minimum-unit-price-for-alcohol](http://www.number10.gov.uk/news/minimum-unit-price-for-alcohol)

<sup>9</sup> Home Secretary Theresa May MP, Home Office consultation, November 2012

*at low prices, but part of it is to do with binge drinking sessions that start with drinking at home, or pre-loading, and that is one part on which the measure will have an impact.”<sup>10</sup>*

The Government’s Regulatory Impact Assessment notes that *“The SCHARR model predicts that the young male hazardous drinkers heavily represented within this group have a strong preference for beer and for on-trade sector drinking. Minimum unit pricing that does not differentiate between on-trade and off-trade tends to affect on-trade prices only marginally and consequently is predicted to have a more limited impact on consumption amongst this group.”<sup>11</sup>*

### **Rise of ‘drinking to get drunk’**

Demos makes the point in its 2011 ‘Under the Influence’ Report that the term ‘binge drinking’ has different meanings, with a reduction in recent years of binge drinking (as defined by the technical measure) but an increase in more extreme ‘drinking to get drunk’ behaviour:

*“In strictly medical terms, binge-drinking in the UK – as measured as more than twice the recommended daily allowance of alcohol consumed in a single episode – has been falling for at least five years in a row, and is not significantly higher than in other European countries. However, the last decade has seen changes to the way people drink. A small, but possibly growing, number of young adults in the UK is drinking to extreme excess, often in an intentionally reckless and very public way, putting themselves and others at risk of harm – and causing considerable social and financial cost.”<sup>12</sup>*

It is difficult to conceive how the price changes proposed by the Government would make an impact on the excessive drinking behaviour referenced by Demos.

### **Prices rises under minimum pricing are unlikely to affect the ‘big night out’**

There is a lack of specific research on what young people who engage in excessive ‘drinking to get drunk’ behaviour spend on a ‘big night out’. Those surveys that have looked at this question indicate that not only do young people ascribe significant value to these occasions, they also devote significant financial resources to them:

- Academic research in Newcastle back in 1995 found that the sample of 16-31 year olds claimed to spend 38% of their total income on evenings out in the city centre.<sup>13</sup>
- The average spend on a night out by 16-24 year olds in 2009 was £92 – about 53% of income – with £28 on getting ready; £22 on drinks; £16 on food; £13 on transport; £12 on door fees to clubs etc.<sup>14</sup>
- Over half (54%) of 18-40 year olds spend up to £50 in pursuit of a memorable night out and a fifth (21%) will spend more than £175 on a single night out.<sup>15</sup>
- A study in Lancashire found an average of 8 units of alcohol being consumed as ‘pre-loading’ followed by an average of a further 8 units of alcohol consumed in the Night Time Economy (men 10, women 7).<sup>16</sup>

The cheapest on display vodka for sale currently in the UK is around £9 for a 70cl bottle and contains 26.3 units of alcohol. Under the Government’s plans this would increase by £2.81 to £11.81. Considering the example from Lancashire of 8 units of pre-loading (i.e. a third of a bottle of vodka) and 8 units in the on trade (where prices are largely unaffected by minimum pricing), this would mean an effective price rise of less than a pound. It is implausible that price rises of this order, when set against the wider cost of a ‘big night out’ will change behaviour.

### **The public do not believe minimum pricing will tackle binge drinking**

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<sup>10</sup> Dr Holmes, University Of Sheffield, Public Health Research Fellow Oral evidence to the Scottish Parliament, Health & Sport Committee on the Alcohol Minimum Unit Pricing Bill, 24 January 2012

<sup>11</sup> Regulatory Impact Assessment, pg 12

<sup>12</sup> Demos, Under the Influence – Interim Report,

<sup>13</sup> Friday Night, Saturday Night: Youth Cultural Identification in the Post-Industrial City, Robert G Hollands, 1995: p22

<sup>14</sup> Based on survey of 2,000 16-24 year olds for finance website WhatAboutMoney.info reported in The Sun on 19/2/09

<sup>15</sup> Smirnoff Nightlife Index, reported in Yahoo Finance, 2/4/12 <http://finance.yahoo.com/news/nightlife-report-reveals-brits-spend-173800322.html>

<sup>16</sup> Emerging Drug Trends in Lancashire: Focusing on young adults’ alcohol and drug use. Phase Two Report; Lancashire Drug and Alcohol Team, 2011

A recent public opinion survey shows that the majority of the public do not believe that government set higher prices will tackle binge drinking<sup>17</sup>.

- 64% said it was unlikely that minimum pricing “would reduce binge drinking”
- 62% said it was unlikely that minimum pricing “would reduce alcohol-related anti-social behaviour”

These views are echoed in qualitative academic research recently published which concluded that:

*“Analysis indicated that participants’ objections to a minimum price had three main themes: (1) scepticism of minimum pricing as an effective means to reduce harmful alcohol consumption; (2) a dislike of the policy for a number of reasons (e.g., it was perceived to punish “the moderate drinker”); and (3) concern that the policy might create or exacerbate existing social problems.”<sup>18</sup>*

### **Individual responsibility does not feature in the alcohol strategy**

There is nothing inherently more responsible about a product priced at 45p per unit compared to one at 40p (or for that matter 50p compared to 45p). The same product could be consumed responsibly by one individual and irresponsibly by another. By the same token there are some people who choose to consume expensive champagne and other premium products irresponsibly.

It is therefore very unfortunate that the important concept of personal responsibility is missing from the Government’s alcohol strategy. By neglecting this area, the Government is pursuing a policy which punishes the majority of responsible drinkers in an attempt to penalise a small minority. By arguing that minimum pricing does not hit responsible drinkers, proponents are actually saying that responsible drinkers paying more is a cost worth bearing to reduce the harm caused by harmful and hazardous drinkers. Yet this approach penalises the poorest over the richest, and is based on a theoretical computer model which has various limitations.

### **Minimum pricing hits responsible drinkers and those on low incomes**

It is argued that minimum pricing will not hit responsible drinkers. This is clearly untrue. 78% of people consume alcohol responsibly in the UK. Many of them also purchase alcohol which is currently priced beneath 45 pence per unit and consume it responsibly. The Government has confirmed that the policy will hit responsible drinkers with Health Minister Anna Soubry stating *“I am aware that a minimum unit price, known as MUP, would mean many responsible drinkers would have to pay more for a bottle of wine.”<sup>19</sup>*

Analysis by CEBR shows that moderate drinkers are more responsive to price rises than heavy drinkers:

*“Heavier drinkers are generally less responsive to price changes than moderate drinkers, in terms of their overall consumption. The elasticity of -0.21 found in the Sheffield study implies that a 10 per cent general price increase across all alcohol products would only lead to a 2.1 per cent reduction in alcohol consumption amongst heavy drinkers”. Using the Sheffield elasticity for moderate drinkers a 10 per cent increase would lead to a 4.7% reduction in their consumption.<sup>20</sup>*

### **Minimum pricing will increase the price of the majority of alcohol sold in the off trade**

That responsible drinkers are hit by MUP is clear. The IFS has shown (see table below<sup>21</sup>) that a minimum price of 45p would increase the price of 59.5% the alcohol sold in the off trade. For some categories the impact is even higher and confirms the commonsense view that these products are being purchased and consumed responsibly by the majority of consumers. The Government believes that the impact of

<sup>17</sup> ComRes poll for WSTA, January 2012 <http://www.comres.co.uk/poll/836/wsta-minimum-unit-pricing-survey.htm>

<sup>18</sup> A minimum price per unit of alcohol: A focus group study to investigate public opinion concerning UK government proposals to introduce new price controls to curb alcohol consumption; BMC Public Health 2012, 12:1023

<sup>19</sup> 9/12/12 [www.annasoubry.org.uk/news/anna-soubry-calls-views-cheap-alcohol-and-how-save-our-great-local-pubs](http://www.annasoubry.org.uk/news/anna-soubry-calls-views-cheap-alcohol-and-how-save-our-great-local-pubs)

<sup>20</sup> CEBR: Minimum Unit Pricing Impacts on consumer spending and distributional consequences, December 2012, p10-11

<sup>21</sup> What is the impact of a 45p minimum unit price for alcohol? ; Institute of Fiscal Studies, November 2012



minimum pricing will be even larger and will cause the price of two thirds of alcohol sold in the off trade to increase<sup>22</sup>.

**Table 1:** Average off-licence retail price per unit and proportion of units under 45p, by alcohol type

	Average price per unit (p)	Units < 45p
<i>Cider and perry</i>	31.4	85.2%
<i>Lager</i>	40.8	72.3%
<i>Spirits</i>	45.3	70.0%
<i>Fortified wine</i>	41.5	68.6%
<i>Table wine</i>	49.2	46.0%
<i>Beer</i>	52.0	33.7%
<i>Sparkling wine</i>	91.0	5.4%
<i>Alcopops</i>	90.2	0.1%
<b>ALL</b>	<b>46.1</b>	<b>59.5%</b>

Source: calculated using data from Kantar Worldpanel, 2010. Note: prices uprated to October 2012 values using the all-items RPI.

Ironically, responsible consumers are those most likely to change behaviour in response to price increases and drink less, delivering a reduction in total consumption, but not making an impact on those really causing harm and putting a burden on public services. This penalises the majority of responsible drinkers, with prices rises most acutely felt by those on the lowest incomes.

#### **It hits low income households hardest**

The Institute of Fiscal Studies (IFS) has demonstrated that minimum pricing has the greatest impact on the lowest income households<sup>23</sup>:

- *“Low income households would see the largest increase in prices. Households with incomes below £10,000 per year pay on average 43p per unit, and 69% of their units cost less than 45p. This compares to an average cost of 53p per unit for those with incomes above £60,000, for whom 44% of units cost less than 45p.”*
- Assuming an own price elasticity of demand for alcohol of –0.5 across all households, a minimum price of 45p per unit would reduce the off-licensed alcohol consumption of poorer households with incomes below £10,000 by almost 25%. Households with incomes over £60,000 would see their consumption fall by around 12%.

The table below from the IFS report shows that the impact of minimum pricing is significantly greater for low income households. For example it would mean a 3.7% increase in food and drink spending by households earning less than 10K and drinking 14-21 units. This is a larger impact than for households which earn more and drink more. A household earning 30-40k and consuming more than 35 units per adult per week will see a 3.2% impact on their food and drink spending. Low income responsible drinkers will bear a greater burden.

<sup>22</sup> RIA, p28, Based on Nielsen 2008 data

<sup>23</sup> What is the impact of a 45p minimum unit price for alcohol? ; Institute of Fiscal Studies, November 2012

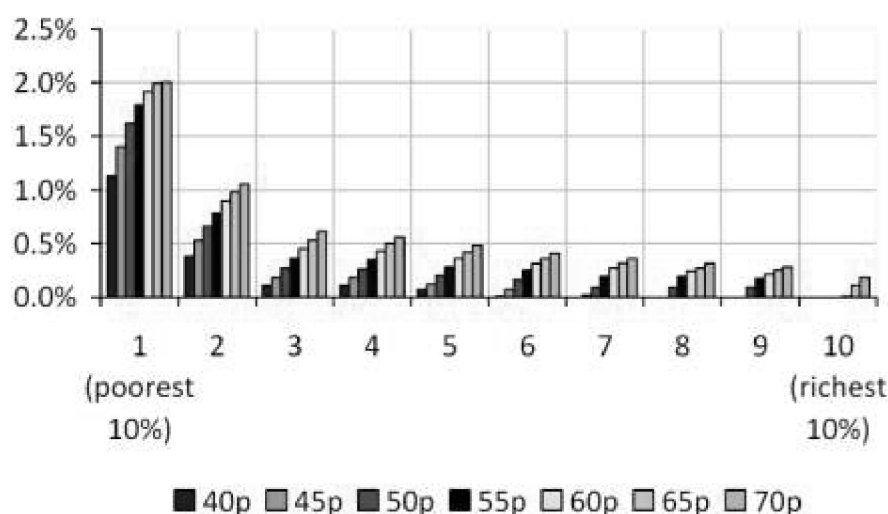
**Table 2: Proportional increase in food and drink spending following 45p minimum price, by income group and alcohol consumption level (units per adult per week)**

	<7 units	7–14 units	14–21 units	21–35 units	> 35 units	ALL
< £10k	0.5%	2.3%	3.7%	5.0%	8.3%	<b>1.1%</b>
£10–£20k	0.5%	1.9%	2.7%	4.1%	5.3%	<b>1.0%</b>
£20–£30k	0.4%	1.5%	2.6%	2.9%	6.4%	<b>0.9%</b>
£30–£40k	0.4%	1.5%	1.9%	3.1%	3.2%	<b>0.8%</b>
£40–£50k	0.4%	1.6%	1.8%	2.7%	(..)	<b>0.8%</b>
£50–£60k	0.4%	1.2%	1.7%	2.0%	(..)	<b>0.7%</b>
> £60k	0.3%	1.1%	1.0%	(..)	(..)	<b>0.5%</b>
<b>ALL</b>	<b>0.4%</b>	<b>1.6%</b>	<b>2.3%</b>	<b>3.2%</b>	<b>5.3%</b>	<b>0.9%</b>

Source: calculated using data from Kantar Worldpanel, 2010. Note: <7 units column excludes households who do not buy off-licence alcohol at all, but they are included in the final column (we assume no direct impact on their spending). Figures assume no behavioural responses to the policy. (..) means fewer than 50 households in a given income/consumption group.

This view is supported by research by CEBR which demonstrates that a 45p minimum price would be highly regressive.<sup>24</sup>

**Figure 11 – Average increase in annual alcohol expenditure as a result of minimum alcohol prices, as a share of average gross household income, by gross household income decile**



Source: Cebbr analysis

<sup>24</sup> CEBR: Minimum Unit Pricing Impacts on consumer spending and distributional consequences, December 2012, p18

**Low income households tend to have lower consumption already and so are being unfairly penalised**  
Minimum pricing has a greater proportional impact on low income households. It seems particularly unfair on lower income groups when *“people living in higher income households, and those in the least deprived areas, were the most likely to drink above the threshold for risk of harm”*<sup>25</sup>.

The Health Survey for England 2011 reports that:

- Prevalence of drinking was lowest among those from the lowest income households: 47% of men and 59% of women in the lowest income quintile did not drink alcohol in the last week, compared with 17% and 33% respectively in the highest income quintile.
- Both men and women from higher income households were more likely than those from lower income households to drink on five or more days in the last week.
- 24% of men and 17% of women in the highest quintile drank on five or more days in the last week, while for those in the lowest income quintile the proportions were 12% and 6% respectively.
- Overall prevalence of drinking was lowest in the most deprived areas: 45% of men and 60% of women in the most deprived quintile did not drink alcohol in the previous week.
- Living in a deprived area was also associated with a lower frequency of drinking. Those living in the least deprived areas were more likely than those in the most deprived to drink on five or more days in the last week.
- 21% of men and 14% of women in the least deprived areas drank on five or more days, compared with 12% of men and 4% of women in the most deprived areas.

Taken together this means that low income households already drink less than high income households, however the impact of minimum pricing is greater on them than the richest. During this current economic downturn, with the rising cost of living and stagnant wages, this policy will unfairly penalise all responsible drinkers buying their bottle of wine or four pack of beer, but will be more acutely felt by the poorest households. This is confirmed by the RIA which states: *“analysis suggests that the lowest decile might experience the highest impact as a proportion of total expenditure or of income”*.<sup>26</sup>

### **The effects of minimum pricing are only theoretical**

It is important to remember that the case for minimum pricing is built around one theoretical, mathematical model developed by Sheffield University. There are a number of limitations to this model and therefore significant caveats about what the real world effect would be.

The Sheffield Researchers themselves in oral evidence to the Scottish Parliament stated: *“We used a model because the policy has not been introduced, and we had to project what would happen. It is like the weather forecast; you do not evaluate it afterwards.”*<sup>27</sup>

### **It exists nowhere else in the world**

No other country has implemented a minimum unit price for alcohol. Canada’s system of Social Reference Pricing, which is often cited as an example, came out of prohibition and is a system of state run off-licences.

This is simply not a comparable situation. In Canada the state is the retailer and their main aim is revenue maximisation.

The Liquor Control Board of Ontario (LCBO) is one of the largest alcohol businesses in the world and prices are not set on the basis of impact on health or social issues such as town centre disorder or alcohol related illness, but to maximise revenue. In fiscal year 2011-12, LCBO sales topped \$4.7 billion and it delivered a \$1.63 billion dividend to the Ontario government, not including taxes. This revenue helps pay for health care, education and other important services<sup>28</sup>. This is in contrast to the proposals

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<sup>25</sup> Health Survey for England 2011, Chapter Six

<sup>26</sup> RIA, P13

<sup>27</sup> Dr Petra Meier, University of Sheffield

<sup>28</sup> LCBO website <http://www.lcbo.com/aboutlcbo/index.shtml>

for minimum pricing which would reduce the revenues to the UK Government by £200m per annum. LCBO total volume alcohol sales have increased in every year from 2007 to 2011 rising from 404,728,000 litres to 457,619,000.<sup>29</sup>

### Limitations and critiques of the Sheffield Model

Since it was first published for England and subsequently for Scotland, the model has been revised and rerun. It has been reviewed by a range of groups including the Home Office, Centre for Economics and Business Research (CEBR), Institute for Fiscal Studies (IFS), Adam Smith Institute (ASI), and Institute of Economic Affairs (IEA).

Listed below are a number of caveats, limitations, critiques and exclusions to the model. Given that the overall reduction in consumption predicted is relatively low at 3.3%, some or all of these factors could have a significant impact on the model's predictions on reduced consumption and harm.

#### Home Office & RIA:

- The Home Office has previously stated that: *"alcohol price is only one factor affecting levels of alcohol consumption with individual, cultural, situational and social factors also influential."*<sup>30</sup>
- The Government's Regulatory Impact Assessment (RIA) acknowledges the poor evidence base stating: *"The impact of a change in alcohol price specifically on alcohol-related crime and disorder has been less researched than the impact on health."*
- The same report concludes that *"increases in alcohol prices tend to be associated with reductions in crime. However, this relationship is not straightforward and linear and the evidence base is not able to support a causal relationship between alcohol pricing and crime."*
- The report goes on to say that *"The evidence revealed that there is limited UK based research on alcohol pricing and criminal harm related to alcohol consumption, with UK evidence, in the main, limited to theoretical economic modelling studies."*
- Finally the report states *"No firm conclusions could be drawn on a link between alcohol pricing and homicide, domestic violence, public order offences, drunk and disorderly behaviour and robbery as only a few studies, some with inconsistent findings, were available. This REA found no evidence in relation to anti-social behaviour."*
- A review by the Home Office questions the quality of evidence on crime and employment: *"Whilst the methodology for measuring health impacts is based on a great deal of high quality evidence the same cannot be said for the crime and, to a greater extent, the employment aspects of the model. As such the results in these areas should be treated more cautiously."*<sup>31</sup>

#### Adam Smith Institute

- The Adam Smith Institute has criticised a range of factors in the model including its assumptions on elasticity for the heaviest drinkers where it criticises the model for considering only elasticity between product types and not what happens when prices across the entire alcohol category increase.
- ASI concludes that *"The results of the number-crunching are quoted without estimates of error, and in particular the model completely ignores statistical error in the alcohol-harm relationship. Far from being evidence based it would be more accurate to describe these predictions as assumption based."*<sup>32</sup>
- The model does not take in to account issues such as illicit alcohol and cross border trade.

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<sup>29</sup> LCBO Annual Report 2010-11, p83 [http://www.lcbo.com/aboutlcbo/annual/2010\\_2011.pdf](http://www.lcbo.com/aboutlcbo/annual/2010_2011.pdf)

<sup>30</sup> The likely impacts of increasing alcohol price: a summary review of the evidence base' The Home Office; January 2011. Note this paper refers to the same evidence base as the RIA.

<sup>31</sup> *ibid*

<sup>32</sup> Adam Smith Institute, p16

Centre for Economics and Business Research<sup>33</sup>

- *“The definition of a ‘moderate drinker’ is very broad, but averages out at 6 units per week. This means that it is inevitable that the modelling shows that moderate drinkers do not see a huge impact on their finances. However the impact on the finances of an average drinker of between 10-20 units per week is clearly much greater;*
- *“The evidence base linking consumption and crime / workplace harms is questionable;*
- *“The report does not actually show that the case for minimum pricing is strong, and is, in fact, even weaker than had previously been suggested;*
- *“The issue still remains that heavier drinkers are likely to be least responsive to price changes overall;*
- *“The report does not consider a number of unintended consequences of minimum pricing, that mean that the case for minimum pricing may be significantly worse than that presented.”*

### **The costs and benefits of minimum pricing in context**

The Regulatory Impact Assessment provides the context for the introduction of minimum pricing by setting out the costs of alcohol misuse in England at £21bn<sup>34</sup>. This is split up as follows:

- NHS costs, at about £3.5bn per year
- Alcohol-related crime, at £11bn per year
- Lost productivity due to alcohol, at about £7.3bn per year

The impact of minimum pricing is estimated in the RIA to be as follows:

- NHS costs saving of between £77m in year 1 rising to £401m in year 10 – 2.2% rising to 11.5% of the annual cost
- Alcohol-related crime saving of £12.5m per year – less than 0.1% of the annual cost
- Lost productivity due to alcohol – the RIA is unable to estimate the annual savings at this stage<sup>35</sup>.

Over the first five years the health cost savings amount to £650m – 3.7% of the £17.5bn likely cost. The RIA states that *“these benefits are not fully “cashable” and actual financial savings could be significantly lower”*<sup>36</sup>. However over the same time period the cost to the Treasury from lost duty is £1bn in cash which in an austerity budget will require to be made up from savings elsewhere.

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<sup>33</sup> CEBR Minimum Alcohol Pricing: A targeted measure? Report to the Scottish Parliamentary Health and Sport Committee; Final Report; August 2010

<sup>34</sup> RIA, p5

<sup>35</sup> The updated SCHARR model in 2009 predicted a year 1 saving of £300m from “employment related harms avoided”<sup>35</sup>, however the Home Office has previously shown that the quality of evidence for employment impacts is weak. Home Office: “The likely impacts of increasing alcohol price: a summary review of the evidence base”; January 2011. *“While the methodology for measuring the health impacts is based on a great deal of high quality evidence the same cannot be said for the crime and, to a greater extent, the employment aspects of the model. As such the results in these areas should be treated more cautiously.”*

<sup>36</sup> RIA, p2

Considering the impact of minimum pricing over the five year terms of the next Parliament, the costs and benefits would be as follows:

Cost to consumers (cash)	Cost to Treasury reduced duty (cash)	Health savings (not all cashable)	Crime savings (not all cashable)
£5.2bn	£1bn	£650m	£64.5m
£6.2bn		£714.5m	

Over the next Parliament:

- Consumers will pay out £5.2bn (none of this will go to the Government in tax);
- Government loses £1bn in cash which it needs to find from other budgets or cut expenditure further;
- and the health and crime savings amount to £714.5m – while this provides a benefit to the NHS and criminal justice, most of this is not cashable
- the net cost to Government (not including cost to consumers) is **£285.5m**

This compares to the RIA 10 year forecast that the total net benefit (excluding cost to consumers) of the policy is £352m. **Put another way the Government is asking consumers to pay £1bn more per annum to achieve a net benefit of just £35m per annum.**

### Minimum pricing is not a tax

There remains a misconception that minimum pricing is a tax that will benefit the public purse. It is not. Retailers will be forced by law to charge their customers higher prices and this money is not returned to the Government.

The RIA is clear that this is a major transfer of wealth from the consumer to business. It predicts that a 45p minimum price will cost consumers in England<sup>37</sup> £1 billion extra per annum with none of this money accruing to the Government<sup>38</sup>. Meanwhile the Government predicts the loss of £200m per annum from reduced duty receipts – reducing the cash amount available to it to spend on public services.

The extent of this transfer from consumers to industry is enough to increase overall CPI inflation in the UK economy by 0.2%. Given that some Government benefits are linked to inflation, this increase could lead to a further reduction in Government budgets due to automatic increases in welfare spending. The Institute of Economic Affairs has calculated that if minimum pricing does not lead to behaviour changes that the measure would cost consumers £1.4 billion per year<sup>39</sup>.

### Minimum pricing will not help pubs, it will cause further damage

HEINEKEN is the UK's number one brewer and cider maker as well as the proud owner of more than 1,300 pubs. We are passionate about the future of the Great British Pub and as owners of, and suppliers to, pubs across the country we have a genuine interest in ensuring the viability and long-term future of the pub.

The RIA and Sheffield Model claim that minimum pricing will be good news for pubs. This is an argument that some brewers and pub owners have also made on the basis that increasing the price in the off trade will reduce the differential with prices in pubs and lead to increased sales in the on trade.

As a major brewer and pub owner we have considered this argument and believe that it is completely wrong. We see a bright future for the great British pub but are clear that rather than help the pub, minimum pricing will have a negative impact. Others including Carlsberg, SABMiller, JD Wetherspoons and Enterprise Inns also oppose minimum pricing on similar grounds.

<sup>37</sup> The figures in the RIA are for England only and do not include the cost to consumers in Wales.

<sup>38</sup> RIA, Table 14, p29

<sup>39</sup> IFS Observation Note, November 2012, What is the impact of a 45p minimum unit price for alcohol?  
<http://www.ifs.org.uk/publications/6462>

**After minimum pricing the price differential will still be very significant** – a pint in the pub will continue to be sold around the £3 mark, while the minimum price for the same quantity in the off trade will increase to around £1. Pub prices will still be around three times higher and it seems very unlikely that this will shift consumers back to the pub.

**Price is only one of many factors for pressure on pubs** - price is an important factor, but there are a wide range of other social factors which are driving changing consumption patterns including:

- changing consumer expectations of the on trade; growth in dinner party culture; growth of digital in home entertainment; increased investment by homeowners in their properties; greater awareness of drink driving laws; smoking ban; 42% increase in beer duty since 2008.
- In a recent You Gov poll 66% gave the reason 'I like to relax in the comfort of my own home' which was higher than those who said 'it's cheaper than drinking in the pub' for why they decide to drink at home.<sup>40</sup>

**By hitting consumers in the pocket, minimum pricing will mean there is less left for discretionary spending like going to the pub** - off-trade alcohol purchases are increasingly seen by consumers as part of the cost of their weekly shop. However, on-trade spend is seen as discretionary.

- Consumers only have a finite amount of money to spend on goods (and this is decreasing in the current economic climate). If more of that money is absorbed in off-trade purchases, less is available to spend in the pub.
- Consumer polling by You Gov confirms that minimum pricing will have a negative impact - almost four in ten (39%) people who have had alcohol in the last week would drink less in pubs if minimum pricing for alcohol is brought in while half (50%) say they would drink the same amount<sup>41</sup>.

**The success of the Great British Pub is closely aligned to the success of the beer category.** The RIA predicts that beer and cider will be most affected by minimum pricing.

- The Treasury model suggests a 5.5% reduction in beer consumption in the off trade and a 0.4% reduction in the on trade.
- Cider would see a 48.2% decline in the off trade and 2.5% reduction in the on trade.
- The SCHARR model doesn't disaggregate beer and cider but predicts a 14% reduction in the off trade and a 4% increase in the on trade.
- This decline in consumption will have an impact on brewers and in turn on pubs as further reductions in volume will lead to reduced productivity due to the high fixed costs of brewing operations.

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<sup>40</sup> YouGov, Minimum Pricing and UK Drinkers, 1/2/13, p10 <http://yougov.co.uk/news/2013/02/01/minimum-pricing-and-uk-drinkers/>

<sup>41</sup> Ibid. Less than 1% (0.36)% say they will drink less at home and more in the pub; 39% will drink less in the pub; 45% will continue to drink the same as they did before, both at home and in the pub

Pubs in some regions will be more affected than others, with 54% of people surveyed in the West Midlands saying they'll drink less in the pub compared to 28% in Scotland; People who are constantly struggling to keep up with their outgoings are the most likely to drink less in the pub (56%)

### **Cider makes a unique contribution to the rural economy in the UK**

HEINEKEN is the number one cider producer in the world. In the UK 30% of all the apples grown are used to make our ciders. The sector is a vital part of the rural economy and our Bulmers operations in Hereford and Ledbury make a significant economic contribution to the local economy.

The cider industry needs long term investment to succeed. At HEINEKEN we are investing in the future of the Herefordshire community and have strong relationships with hundreds of local farmers, some third generation, dating back to 1920. We support them by providing 30 year supply contracts, ensuring they have long term security. Our cider business accounts for:

- 10,000 acres of apple orchards in Herefordshire
- 2,500 acres of Bulmer owned farms
- 7,500 acres of mature orchards on locally owned farms

Our recent multi million investment in a new cider mill in Ledbury has ensured that Herefordshire remains the global centre of excellence for cider production and the continued vibrancy of the county. We have ambitious plans to grow our cider brands globally which would create new export markets and further support the rural economy of Herefordshire. Export growth can only happen if we retain a strong cider market in the UK.

The farmers who grow our apples need confidence in the market, stability on regulatory issues and long term commitment from cider makers. New orchards take five or more years to produce a commercial crop and at least seven years to break even. Unlike other crops, apples are not subsidised. Many apple farmers are mixed farmers and depend on their apple crop as a steady sustainable income. Studies have shown that the economic, environmental and social value of apple orchards is significant and can reach over £5k per hectare of orchard<sup>42</sup>.

Uncertainty around the introduction of minimum pricing has the potential to damage the cider industry. Minimum pricing will have a greater negative impact on cider than other drinks categories and this would cause significant damage to the rural economy in Herefordshire and beyond.

### **Cider is the category most affected by minimum pricing**

The RIA shows that a minimum price of 45p would cause the price of 87% of cider currently sold in the off trade to rise<sup>43</sup>. As a result the Treasury Model predicts a **48.2%** reduction in consumption of cider in the off trade and a further 2.5% reduction in the on trade<sup>44</sup>. The impact on consumption is nine times greater than the impact on beer or spirits consumption in the off trade.

*"The consumption effect on cider is likely to be higher than for other drink types. This can be attributed partly to the higher relative price change of cider brought about by a MUP and partly due to "drink prevalence" on cider which is relatively small compared to other drink types. Published modelling work undertaken by HMRC suggests that the drink prevalence on cider is one of the lowest of all drink types. Similarly a Mintel report on market intelligence published in December 2010 indicates a quite flexible consumption for cider given that only 56% of people who drank cider in the past year said that they would do so again."*<sup>45</sup>

Cider is a relatively small category that is more price sensitive than other categories and has less consumer loyalty. It is therefore hugely disappointing that the RIA fails to mention the potential impact on cider producers and the rural economies that depend upon them. The National Association of Cider Makers (NACM) estimates that there are 483 cider makers in the UK, directly employing 1,500 people. A further 2,500 jobs are supported by the industry in the rural economy. There are 17,300 acres of orchards in the UK and the cider apple crop is around 194,000 tonnes. 57% of the total UK apple crop is used in cider.

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<sup>42</sup> Natural England Commissioned Report NECR090: Economic, biodiversity, resource protection and social values of orchards: A study of six orchards by the Herefordshire Orchards Community Evaluation Project; May 2012

<sup>43</sup> RIA, Table 9, p28

<sup>44</sup> RIA, Table 11, p29

<sup>45</sup> RIA, p10



Cider may be one of the smaller alcohol categories but it still represents 9% of the total UK alcohol market and is a vital domestic industry. UK cider makers produce around 82% of the total UK cider market and so it is a major domestic success story which is under specific threat from the introduction of minimum pricing.

The Government must conduct a proper assessment of the potential impact on cider producers and the rural economies they support.

### **There is significant uncertainty that minimum pricing is legal**

UK Government Ministers are already on the record stating that minimum pricing is illegal:

*"BIS thinks MUP (minimum unit pricing) is very likely to be deemed illegal under EU competition and trade law...I note that the Attorney General has written saying that whilst MUP may not be illegal it 'carries a significant degree of legal risk' and that any litigation related to MUP would be 'complex and costly'"<sup>46</sup>.*

This view is also on the record in the House of Commons. The former Economic Secretary to the Treasury, Chloe Smith told MPs in December 2011: *"(She) asked why this government believes that that would be incompatible with EU law, when the Scottish government does not. If I may quote the specific point: we believe that it could be incompatible with article 34 of the treaty of the functioning of the European Union...That is the position."*<sup>47</sup>

The Scottish Government is currently being challenged in the Court of Session over its proposal for a minimum price of 50p per unit. The case has now been heard and we await a decision from the Court. No matter the outcome, there seems a high likelihood of appeal to the Supreme Court.

Meanwhile the European Commission and a range of EU Member States raised objections to the Scottish proposals following notification of the measure to the Commission in June 2012. The European Commission complaints procedure is yet to conclude, with the Commission stating clearly it does not believe the policy is compatible with EU trade rules – a fundamental part of the free market.

Given that the UK Government is a party to both the Scottish legal challenge and the EU objections, it is wrong that the Government should push ahead with minimum pricing while these processes are ongoing. Legislative time is always at a premium in the House of Commons and therefore to bring a Bill before the House before knowing whether it would be legal or not seems unwise.

HEINEKEN therefore would urge the Government to delay the introduction of any primary legislation until a clear and final decision on legality is made within the UK and at EU level. Pursuing the policy whilst legal challenges are outstanding makes business planning extremely uncertain.

### **Unintended Consequences**

Market interventions always have some form of unintended consequence. In the case of minimum pricing the intervention in the market is so significant and swift that it will change entirely the economics of the alcohol category, how consumers understand the market, their interaction with brands, brand equity, pricing structure, range, availability and ability to bring new products to market. There are a wide range of variables which lead to a dynamic and uncertain position where it is far from clear to producers or retailers what the final market reaction will be.

It is clear, however, that artificially inflating prices creates further incentives for the black market in alcohol. HMRC already estimates that illicit alcohol costs the UK Treasury £1.4bn per annum in lost revenue. In 2010 the upper estimate for beer fraud was 14% market share, while the upper estimate for spirits was 11% of the market. HMRC notes there is also a significant issue with illicit wine but there is

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<sup>46</sup> David Willetts MP, Department for Business Innovation and Skills (BIS), in a letter to David Cameron, March 2012

<sup>47</sup> Quoted in Chanel 4 Factcheck, March 2012

currently no estimate of the extent of the problem. In 2010/11, over 10 million litres of illicit alcohol was seized.<sup>48</sup>

Beer prices and the duty differential for beer are already causing duty fraud problems across the channel. A wider price differential in the 1990s between the UK and France led to substantial cross border trade. More recently we have seen significant cross border trade between Northern Ireland and the Republic of Ireland leading to the latter reducing alcohol taxes to address the cross border flows. We have no reason to assume that should a wider price differential once again appear, that traffic across the Channel to purchase alcohol will not once again increase, with a further loss of duty to the Treasury. This is not accounted for in the Impact Assessment.

There are also concerns that artificially inflating prices will increase the size of the market for 'white van' trade delivering illicit alcohol door to door and without the controls of legitimate retailers. The ability to sell alcohol as avoiding the minimum price may also allow greater mixing of legitimate but duty unpaid product with counterfeit products.

### **Hits investment in the UK market**

HEINEKEN operates in 70 markets across the world. The beer sector has been in long-term decline in the UK resulting in major capacity reduction over the last ten years. Productivity and volumes are essential for the successful operation of our remaining breweries, yet declining volumes from minimum pricing would have a significant effect on our business and ability to make the business case for investment, above other markets in the world where HEINEKEN operates.

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<sup>48</sup> HMRC Consultation: Alcohol Fraud: Legislative measures to tackle existing and emerging threats to the UK alcohol duty regime; March 2012; P9, 11