



## PRICING OF ALCOHOL REPORT ALCOHOL FOCUS SCOTLAND - NOVEMBER 2007

### **Background**

Alcohol Focus Scotland has been expressing concern about the impact availability and cheap price of alcohol has on consumption for a number of years. Alcohol Focus Scotland believes that there is sufficient evidence to support the view that there is an inverse relationship between the price of alcohol and consumption. <sup>1</sup> In other words as the price declines, consumption increases. This is supported by evidence from across the world <sup>2</sup> and also by many of those experiencing the problem, including police, alcohol service providers and schools.

The new Licensing Act goes some way to addressing cheap price promotions within the on-trade, but an opportunity to tackle cheap promotions across all types of licensed premises was missed. We therefore welcome the Cabinet Secretary for Justice's announcement of his intention to tackle both promotions and prices in off-licence settings.

On 10<sup>th</sup> September 2007 Alcohol Focus Scotland held a meeting with interested parties / trade (see attached list) who had previously expressed an interest in the pricing of alcohol. The purpose of the meeting was to find common ground and discuss the practical implications of tackling cheap promotions and deep discounting, with a view to ultimately submitting this to the Scottish Government.

### **Areas of discussion - Possible actions or considerations on problems**

**Minimum pricing schemes** - a minimum pricing scheme was successfully implemented in Perth. It was subject to an investigation by the OFT who concluded that since the licensing board was implementing the scheme because of its concerns about public health and safety, this was legitimate. A differently formulated scheme implemented in Aberdeen City which did lead to a judicial challenge being upheld, then led to the suspension of all such schemes.

The new Licensing Act has a requirement that prices be maintained for 72 hours. Concerns have been raised that the Act won't work in the long term to stop promotional activity. For example, premises can still run a special weekend or midweek cheap price promotion for periods of 72 hours or more. Other premises, like supermarkets which routinely run promotions for several weeks will be unaffected.

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<sup>1</sup> Alcohol Focus Scotland submission to Petitions Committee of Scottish Parliament, looking at complaint by All Saints Secondary School in Glasgow at cheap price of alcohol affecting health, January 2007.

<sup>2</sup> Babor et al. Alcohol: No Ordinary Commodity, 2003.

The general consensus within the group was that it is inappropriate to let market forces determine alcohol prices, particularly the 'floor price' of alcohol, that is the cheapest prices. Legislation should set the pricing standard.

Minimum pricing currently works in Canada.

Some further points agreed were that:

- there should be different minimum prices for the on trade and off trade. The former includes a greater degree of service as well as the setting
- there is a need to set minimum prices for a range of products e.g. spirits, wine etc
- the prices should be set nationally and there should be a mechanism for their review
- it was suggested that a reconstituted National Licensing Forum would be an appropriate body for providing recommendations

**Price maintenance** – it is felt that this would be unlikely to tackle the problem and indeed could exacerbate it by leading to discounted prices over long periods of time.

**Current Licensing Act** - there is a strong view that the current Act needs to be enforced e.g. the current legislation on drunkenness. There was also a view that too many outlets results in a downward pressure on price. However, it was felt that there is a need for supermarkets to fully acknowledge the problems created by deep discounting.

The health objective of the new Act in Scotland provides a stronger basis for the government to take legal action or for licensing boards to address this issue. There is a growing feeling that off-sales outlets have not acknowledged their responsibilities and there is growing pressure arising for action to change current practice.

It was acknowledged that there is a lack of understanding by the health sector about business practices on commercial operations e.g. supermarkets don't just sell alcohol, they sell space - discounting alcohol so it's no longer a 'promotion', it's just cheap booze.

**Duty increase** - overall agreement that duty is a 'blunt instrument' which would be unlikely to have the desired effect. The key problem is the very cheapest alcohol prices, rather than the price of all alcohol. Supermarkets have huge buying power and routinely get big discounts from suppliers and so can offer alcohol at cheap prices. A duty increase would in fact likely widen the price gap between supermarkets and other suppliers.

## **Recommendations for future action**

### **1) Minimum pricing**

Setting a floor price that alcohol cannot be sold below, with different thresholds set for on and off-sales. Minimum prices should be set by a national body, perhaps the National Licensing Forum should be re-established or an equivalent Ministerial group.

The Competition Commission has now quantified below cost selling (the Perthshire pricing scheme case clarified that if the Board sets prices because of health concerns, then this is not a breach of competition law) so the evidence is now there that minimum pricing is legal/justifiable with the Office of Fair Trading. The Licensing (Scotland) Act 2005 provides the opportunity for further national conditions to be added, this could include minimum prices.

## **2) Price maintenance**

It would seem that the larger off-sales outlets can sustain low prices indefinitely. This penalises those operators who can't afford to compete e.g. small operators, compared to larger outlets.

This would require further exploration to ensure that action is taken to stop supermarkets exploiting this sustainability. That is the relationship between supermarkets and the industry which allows them to negotiate such large discounts.

If a minimum pricing scheme is implemented, then price maintenance is not necessary.

## **3) Availability**

Many feel there is now an overprovision of off-sales. Certainly there has been a steady rise in the number of off-licences over the last 26 years (from 4899 in 1980 to 6332 in 2006) at a time when the number of pubs and hotels has changed little (from 7231 in 1980 to 7426 in 2006). Supermarkets have been allowed to develop in places thought unlikely to be granted. Currently in Ireland, no new licences are available and traders wishing to enter the market or expand have to wait for existing premises to come up for sale or for a licence to be surrendered. It was acknowledged that there is a need to take capacity into account as well as the number of licences.

## **4) Deep discounting**

AFS will be calling for a Ministerial inquiry into the commercial arrangements between supermarkets and producers, which currently appears to be subject to very little scrutiny.

AFS will also be lobbying government to push for greater action on supermarket's social responsibilities.

**Final thought – there needs to be a culture shift and long-term behaviour change so that drunks are not tolerated and are viewed as pariahs.**

**In attendance at pricing of alcohol meeting on 10<sup>th</sup> September 2007:**

Jack Law	Alcohol Focus Scotland
Professor Peter Brunt	Alcohol Focus Scotland/SHAAP
Mary Ellmers	Alcohol Focus Scotland
Diane Thomson	Alcohol Focus Scotland
Gillian Bell	Alcohol Focus Scotland
Paul Smith	Castle Leisure Group
Matthew Plunkett	HFAL
Jack Cummins	Hill Brown Licensing
John Grogan	MP
John Drummond	Scottish Grocer's Federation
Paul Waterson	SLTA