SUSTAINABLE GROWTH OF THE DRINKS INDUSTRY

Ciaran Fitzgerald Agri-Food Economist

Table of Contents

Executive Summary 2
..... 2
Chapter 1 - Economic contribution of the sector 4
The Drinks manufacturing sector 4
Exports 4
Jobs 5
Multiplier 5
Purchases 6
The tourism sector 7
A sector that is targeted for growth 8
Jobs and growth 9
Projected growth in export market, impact on employment and investments required 9
Chapter 2 - Domestic market issues 11
Alcohol consumption 11
Cost of alcohol 11
Regressive taxation 13
Affordability 14
Chapter 3 - Impact of compliance 15
Drinks industry codes and statutory obligations 15
Advertising codes 16
Self regulation 18
Competition and investment related costs 18
OECD framework 18
Regulation in Ireland 19
Conclusion 21
Annex 1 23

Executive Summary

Ireland's drinks industry is home to iconic brands such as Guinness, Jameson and the brewing of Heineken. It is a very significant employer both directly and indirectly through its support of the Irish tourism, farmers and the rural pub. A significant export growth opportunity exists with the industry having the potential to grow exports by at least 85% and potentially to over €2 billion, creating and sustaining an additional 13,000 jobs, predominantly in rural Ireland.

This ambitious growth is supported by the Government in its recent Food Wise 2025 strategic plan, and will require private sector investment of at least €1.15 billion to deliver. However there is now a clear disconnect between the Government's targeting of the drinks industry for growth and expansion and some of the emerging policies on price, taxation and regulatory costs. These are inconsistent, lack an evidence base for proportionality, and will ultimately act a as a barrier to local and inward investment. The imposition of high taxes, regulatory costs and barriers will place Irish-based businesses at a disadvantage to other jurisdictions, and fundamentally undermine the export-led economic growth of the sector.

The drinks industry is very clearly a major driver of economic activity across the economy of Ireland at a macro and rural level. As a result it has been identified by Government as a key growth sector with the potential to grow exports to over €2 billion over the next 15 years and create and support an additional 13,000 jobs, predominantly in the rural economy.

- The drink's industry's contribution is multifaceted. It ranges from:
  - Employment of 92,000 people, many in rural areas;
  - Exports of approximately €1 billion;
  - €2.2 billion in taxes collected through VAT and excise;
  - Support, both direct and indirect, for the €4.5 billion Irish tourism sector;
  - Purchases in excess of €2 billion.

- The Irish drink's industry has developed iconic global brands in beer, whiskey and spirits. These brands act as a flagship for the rest of the food and drinks export sector.

- It is therefore not surprising that the drinks sector is targeted for growth under the Governments Food Wise 2025 programme. The report highlights the potential of the sector:

  "There are huge opportunities for growth in the whiskey and craft beer sector with plans to double whiskey exports and increase the number of microbreweries to 100. Emerging markets in Asia and the explosion of the craft alcohol market in the United States provide Irish companies with enormous potential to expand[1]."

Meeting the Government's Food Wise 2025 targets would see the drinks industry grow exports by at least €700 million, creating an additional 7210 additional jobs in the Irish economy. Meeting the industry ambition of growing the Irish whiskey sector to 30 million cases would see Irish drink exports exceeding €2.2 billion. This would generate additional direct and indirect employment of 13,390 jobs in the Irish economy, particularly in rural areas.

[1] Food Wise (2015) Local Roots Global Vision. Department of Agriculture, Food and the Marine.

- In order to deliver this jobs growth a conservative figure of at least €1.15 billion in additional private investment is required.
- However, in contrast to the sectors substantive contribution to the Irish economy, its route to market costs in the domestic market through imposed taxes and increased compliance/regulatory costs, are undermining the sectors capability to maintain its economic impact.
- Excise and VAT taxes on alcohol, which have increased in recent years are the second highest in the EU and run at around four times the average rate of tax on alcohol across the European Union.
- This is resulting in alcohol prices which are consistently in excess of 60 % higher than average EU prices as measured by Eurostat[2].
- In addition to this, alcohol consumption is in decline, having peaked in early 2000s. Consumption in 2014 is 24% less than the peak consumption figure of 2001.
- Within this overall decline in alcohol consumption, there has been a significant shift in drinking habits with consumption in pubs declining by 35% in volume over the last number of years[3].

The industry has adopted additional costs and investments over and above other jurisdictions, deriving from the voluntary regulation of responsible consumption. This commitment to responsible consumption regulation which is costing the industry €30-40 million/year above and beyond normal compliance costs is not being recognised by Government particularly in the context of the proposed Alcohol Bill.

- Given the significant efforts made to collaborate with government in restricting access to alcohol and promoting responsible consumption, the imposition of additional regulatory and compliance costs is completely at odds with the Government's stated principals of better regulation. These principals state that regulation should be based on;
    1. Necessity
    2. Proportionality
    3. Consistency
    4. Effectiveness
    5. Transparency and
    6. Accountability

- This 'double regulation' of the industry has become a sunk cost which is undermining industry competitiveness and is at odds with the Government expansion plans for the sector

Further investment in the sector could be at risk as a result of regulatory creep

- This layering of regulatory costs on top of compliance costs acts as a poor signal to multinational and domestic investors in the alcohol sector. It has the potential to jeopardise future investment by companies in Ireland as these investors compare our regulatory and excise environment with those that exist in other markets.
- Regulation has a direct impact on investments made both by domestic and multinational companies. A strong home market is essential to allow new and existing business to develop exports.
- The best way to develop export markets, is through the development of new products launched from a supportive domestic market e.g., in the space of 30 years Baileys has created a category with 6 million cases sold from a standing start. The home market was instrumental in facilitating the product being produced, marketed and tested prior to successful exporting. Restricting the home market will inhibit companies' ability to innovate and develop new products for export.

[2] Eurostat reports 2009, 2012, 2015
[3] Central Statistics Office Retail Sales Index

Chapter 1 - Economic contribution of the sector

The drinks industry is a major driver of economic activity across Ireland at a macro and rural level and has been identified by Government as a key growth sector. This contribution is multifaceted. It ranges from:

- Employment of 92,000 people, many in rural areas
- Exports of approximately €1 billion
- €2.2 billion in taxes collected through VAT and excise
- Support, both direct and indirect, for the €4.5 billion Irish tourism sector
- Purchases in the Irish economy in excess of €2 billion

The Drinks manufacturing sector

The value of gross output from drinks manufacturing in Ireland is €3.2 billion in 2014[4]. While much of the growth story is focused on exports, the on-trade sector is a major employer and economic contributor across the regional and rural Irish economy.

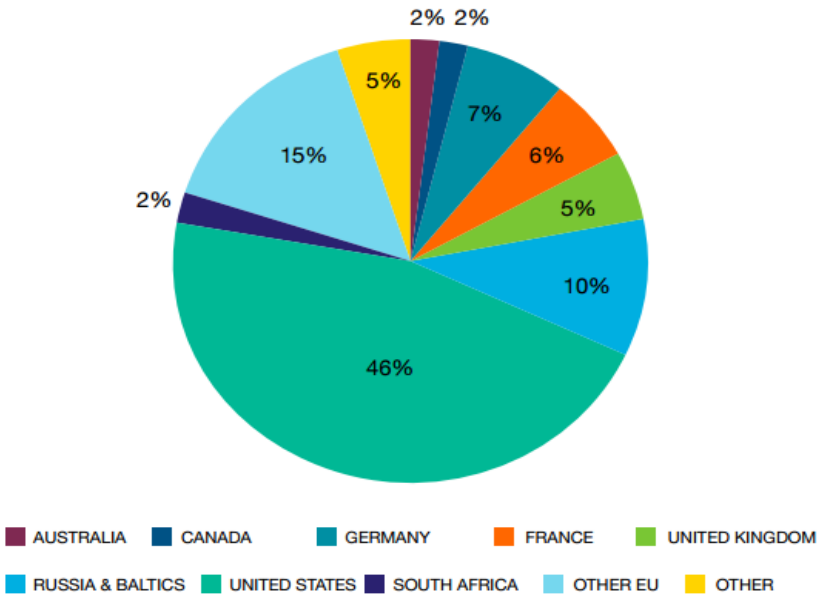
The on-trade in Ireland supports:

- 7,457 public houses
- 641 hotel bars
- 52,000 jobs in on-trade retailers
- 2,458 fully licensed restaurants[5].

Exports

The alcohol beverage industry in Ireland accounts for 75% of total beverage exports. Ireland exports these to over 125 markets worldwide[6]. Exports for the beverages industry rose in 2014 to €1.2 billion driven by a continued increase in the exports of Irish whiskey which has increased by 60% since 2009.

Destinations of Irish whiskey exports 2014



[4] Central Statistics Office
[5] Foley, A. (2015) The contribution of the drinks industry to tourism.
[6] Food Wise (2015) Local Roots Global Vision. Department of Agriculture, Food and the Marine.

The Irish Whiskey Association has set an ambitious growth plan for Irish whiskey through an investment of over €1 billion in 10 years. Its aim is to grow its market share of the global whiskey industry by 300% by 2025.[7] These exports have a particular Irish heritage dimension which help support inward tourism.

Jobs

The contribution that the alcohol industry makes to jobs is multifaceted. The drinks industry directly employs people in four strands of the industry: brewing and distilling (manufacturing), wholesale distribution, on-licence retail distribution and off-licence retail distribution. The indirect employment generated by the purchases of the drinks industry includes agricultural inputs, other materials inputs and services.

The employment intensive on-trade sector, encompassing pubs, hotels and restaurants, accounts for the majority of these jobs. Moreover the growth in Irish whiskey in particular has meant a return to manufacturing with export figures in this area continuing to climb.

- 92,000 jobs depend on the drinks industry throughout the country
- Supporting 12,000 farm families
- Providing demand for 50,000 tonnes of apples a year
- Purchasing 200,000 tonnes of barley a year
- Utilising 300 million litres of milk every year
- 1,000 construction jobs over the last 5 years[8]

The sector hugely supports the regional economy with its purchases in excess of €2 billion in raw materials and services supporting over 12,000 family farms. It also underpins 20,000 jobs in services and distribution in the rural economy[9].

Multiplier

The direct economic impact of the drinks related activity has a multiplier effect on overall economic activity. This multiplier effect comes from three sources, direct and indirect expenditure and induced expenditure.

For example, the drinks industry buys over 60% of its raw materials and services in the local economy: at the other end of the scale, part of the wages and salaries generated by the drinks industry is spent on other goods and services in the Irish economy.

The Irish economy multiplier impact of direct drinks industry expenditure and gross value added is higher than most other manufacturing sectors including the high technology sectors due to the larger domestic content of its production, inputs and services purchased locally and its very strong links with the tourism and hospitality sector.

It is estimated that every €100 million in additional output from the industry leads to a total increase in output of €200.9 million, and supports the creation and maintenance of 1030 jobs. This employment multiplier is estimated to be three times greater than the pharmaceutical industry, where an additional €100 million in exports would support an additional 350 jobs[10].

[7] Irish Whiskey Association: Vision for Irish Whiskey (2015)
[8] DIGI Pre-Budget Submission 2016/ Based on DIGI analysis, June 2015
[9] Central Statistics Office/DIGI
[10] IIIS Discussion Paper No. 365, 2011

Sustainable growth of the drinks industry

The drinks sector purchases 60% of its raw materials and services in the Irish economy. This is in contrast to the multinational sector which sources only 15% of its inputs in the local Irish economy.

Purchases

The alcohol industry supports economic activity through its purchases from other industries. It purchases 60% of its raw materials in Ireland from grain farmers, dairy farmers and apple farmers in the production of beverages thereby creating a major multiplier effect.

Broadly speaking, for every one job in manufacturing in the food and beverages industry, there are four additional jobs across the economy[11]. Due to the domestic purchasing of inputs and services this is much greater than other exporting sectors such as technology and pharmaceuticals. This is allied to the fact that many of these indirect jobs are in rural Ireland and on farm.

Given the additional linkages between the drinks sector and the hospitality and tourism sectors in particular, the ratio is even higher for the drinks sector at up to 1:10.

Spending on tourism in Ireland involves the injection of money earned outside the economy which is the ultimate economy multiplier.

The drinks sector, through the importance of pubs and bars, plus the heritage centres provided by drinks companies, plays a hugely significant role both directly and indirectly in supporting tourism, jobs and Irish economy spending. The retail sector also uses the output of other sectors such as building, catering, maintenance and furniture.

When the drinks industry grows, the Irish economy grows with it.

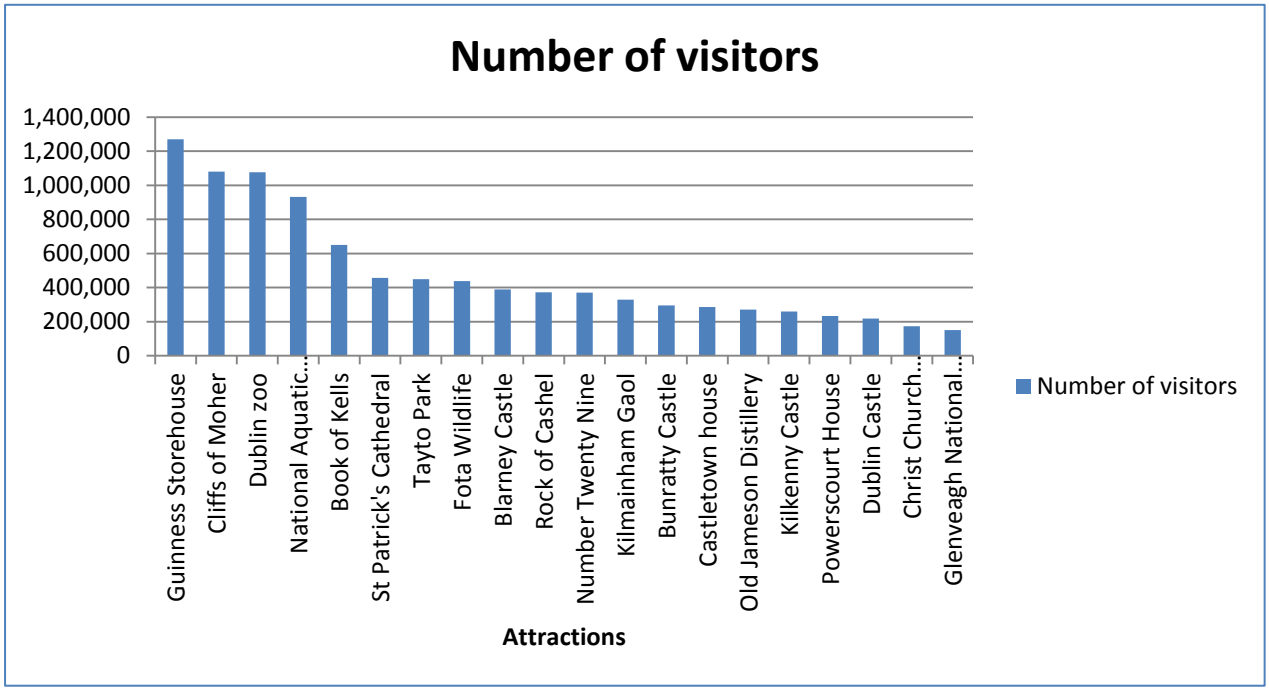
[11] CSO Multiplier

The tourism sector

The drinks sector plays a vital role in Ireland's €4.5 billion tourism industry. It is a direct provider of key heritage based tourist attractions:

- A number of drinks brands, notably the Guinness Storehouse, the Old Jameson Distillery and the Midleton Jameson Experience directly provide major tourist attractions.
- The Guinness Storehouse is the most popular fee-charging tourism attraction in the whole of Ireland with a record of 1.269 million visitors in 2014 alone.
- The drinks industry generates positive international awareness about Ireland through their global brands and they support the tourism marketing effort.
- Out of the top six Irish brands that are internationally recognised, the top three are alcohol. These include Guinness, Baileys and Jameson[12].
- The drinks industry is a major sponsor of sport which brings in overseas tourism and generates domestic tourism. According to a report prepared by the National College of Ireland and UCD, looking at the most recent Ireland vs. England 6 Nations game, the economic contribution of this game alone was equivalent to an additional €21.3 million in GDP and visitor spending contributed the equivalent of nearly 200 jobs over a year[13].
- The public house plays a particularly substantial role in the Irish tourism experience. Overseas visitors spent 21% of their total holiday expenditure on food and drinks in 2013.
- 80% of overseas visitors mentioned the pub as one the potential experiences influencing them to visit Ireland.
- 83% of overseas visitors said "listening to Irish music in a pub" was one of their visit activities[14].

Top 20 fee-charging attractions (persons) 2014[15]



[12] Lambkin,M and Meenaghan, T. (1994) Perspectives on Marketing Management. p. 183
[13] Hanly, P Economic Impact Report on the Ireland-England Rugby Game in the Aviva, 1 March, 2015
[14] Foley, A. (2015) The contribution of the drinks industry to tourism
[15] Failte Ireland visitor attractions survey 2014

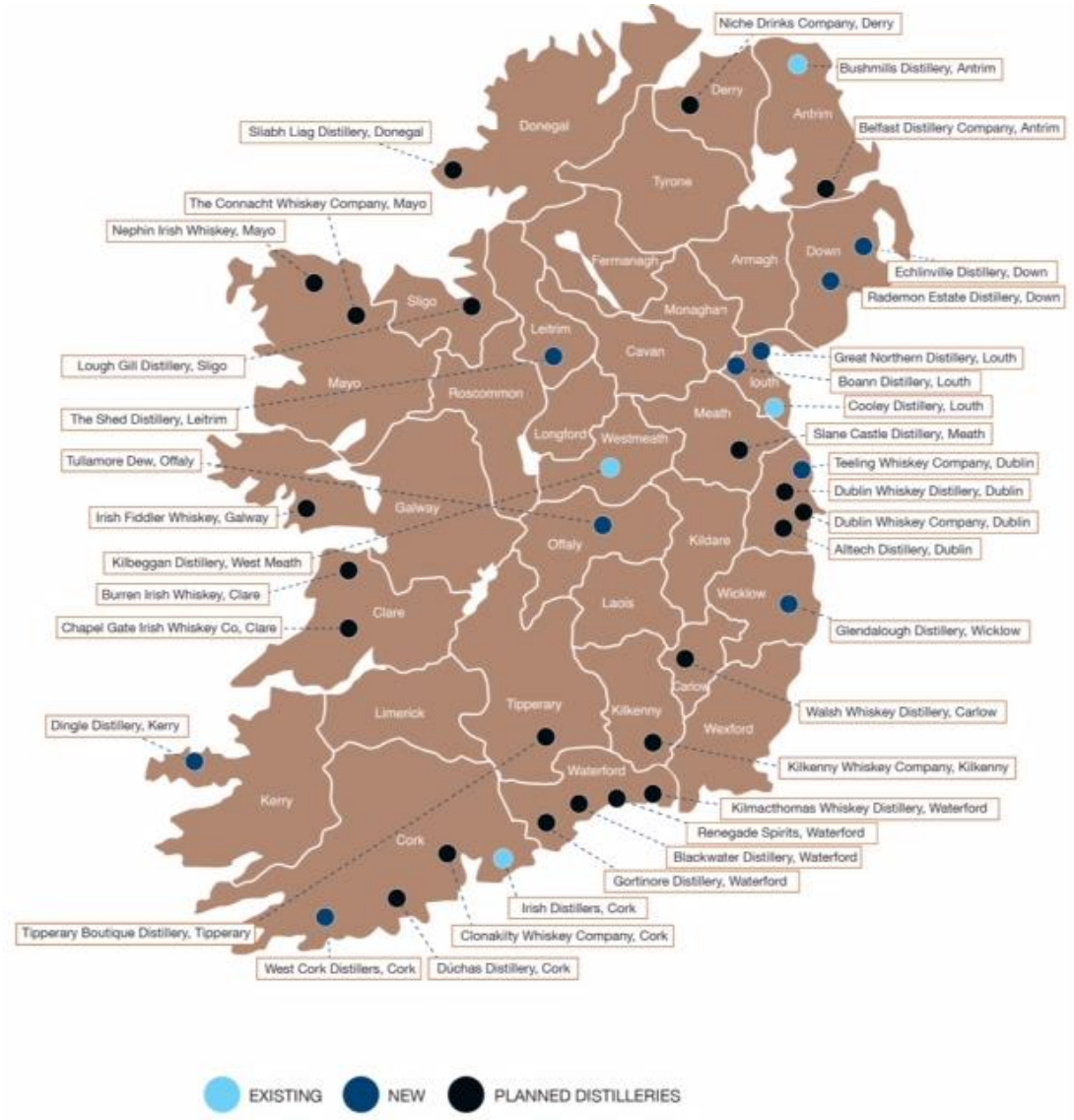
A sector that is targeted for growth

Taking all of the above into consideration, it is not surprising that the drinks sector is specifically targeted for significant growth under the Government's Food Wise 2025 programme.

> *"There are huge opportunities for growth in the whiskey and craft beer sector with plans to double whiskey exports and increase the number of microbreweries to 100. Emerging markets in Asia and the explosion of the craft alcohol market in the United States provide Irish companies with enormous potential to expand[16]."*

Drinks brands continue to invest in Ireland. Diageo has invested almost €200 million in a new brewery at St. James Gate and Irish Distillers Pernod Ricard (IDPR) has recently completed a €200 million upgrade of its Midleton facility in Cork.

According to the Irish Whiskey Association's 'Vision for Irish whiskey' report, the whiskey category grew by almost 200% in the last decade. In 2014, more than 6.7 million 9-litre cases of Irish whiskey were exported to over 100 countries around the world. This figure is set to exceed 12 million cases by 2020 and 24 million cases by 2030. Three years ago, the island of Ireland had four distilleries in operation – in the next three years that number will grow to over 15 if all the current projects move forward.



[16] Food Wise (2015) Local Roots Global Vision. Department of Agriculture, Food and the Marine

The Irish beer industry exports alone are worth over €220 million and the industry supports thousands of jobs in the development process of beer, from grain to glass.

While production of beer in Ireland for export fell slightly between 2013 and 2014 due to the international economic environment, the beer industry remains a major success story. Over 700 million litres of beer were produced in 2014. In Ireland, 43% of beer produced is exported and beer accounts for 19% of all beverage exports. The craft beer sector continues to be a success, making up an estimated 1.2% of the market, with 40% of microbreweries exporting.

Jobs and growth

As set out above, the positive impact the drinks industry has on the Irish economy, in terms of jobs, inputs and exports has been very significant.

Even with the prospects of overall economic recovery looming, the key role the drinks sector plays in the regional and rural economy and with the tourism sector, remains crucial if the economic recovery is to be spread across all regions in Ireland.

However notwithstanding the strategic importance of the sector to the economy and its major contribution across a number of economic platforms and regions, the drinks industry faces major competitive and route to market challenges which will undermine the achievement of jobs and growth targets.

Projected growth in export market, impact on employment and investments required

Irish beverage exports were valued at €1.2 billion in 2014 according to Bord Bia's annual report. Alcoholic beverages account for over 75% of total beverage export value or around €900 million. According to the Department of Agriculture's 10 year vision strategy *Food Wise 2025*, it has projected a growth of 85% in the value in the food and beverage exports over the next ten years. If the growth in overall food and beverage exports is reflected in the growth of alcohol exports, this could result alcohol exports being worth €1.665 billion by 2025.

Based on the established food and drink industry multiplier of 10.3[17], 7210 additional jobs will be created and supported if the drinks industry achieves the Government's Food Wise 2025 target. This number of jobs would increase significantly if the Irish whiskey sector achieves its growth ambition of reaching 24 million cases by 2030. In such a scenario Irish drink exports could exceed €2.2 billion, generating additional direct and indirect employment of 13,390 jobs in the Irish economy, particularly in rural areas.

Case study: Irish whiskey

According to the Irish Whiskey Association's "Vision for Irish Whiskey" the sector has a target of growing sales of Irish whiskey to 24m 9 litre cases by 2030 from the current figure of 6m cases. Practically all this growth will be export led. The export value of the Irish whiskey sector in Ireland was €400 million in 2013 a 200% increase since 2003. As a result of this impressive export growth new and existing distilleries are set to invest €1.1 billion in facilities between 2010 to 2025 in order to reach the Irish Whiskey Association's production target. The "Vision for Irish Whiskey" projects employment growth to take place from 4,948 (direct and indirect jobs) in 2014 to 6454 jobs in 2025.

[17] IIIS Discussion paper No 365/2011, A Social Accounting Matrix for Ireland, Miller, Matthews, Donnellan and O'Donoghue

Sustainable growth of the drinks industry

For every person who leaves the live register to take up employment, it saves the exchequer (on average) €20,000 per annum. Ireland's export performance could potentially save €54 million to the exchequer over the next ten years.

Currently the craft beer sector is growing rapidly in terms of both the domestic and export markets. Industry sources[18] put required investment of at least €50 million in order to increase production to 1 million hectolitres from today's figure of 150,000Hl approximately. While it is expected that production will more than triple by 2019 to over 500,000 HL of beer, in the long-term it is not unreasonable to expect craft beer production of 1m hectolitres.

A conservative estimate of €1.15 billion investment by drinks companies is required over the next 10 years to expand whiskey production and grow craft beer production capacity. This figure doesn't include investment required to maintain existing brewing and distilling capacity or growth in exports from commercial brewers or other Irish spirit categories e.g., Irish Cream Liqueur or Irish Poitín. Therefore this should be viewed as a minimum and conservative investment requirement.

The drinks industry has the potential to grow exports by over €1.3 billion and increase employment by over 13,000. This growth will, however, require significant private investment of at least €1.15 billion. Government should be mindful of the policies it adopts with regard to the drinks sector as it may have the unintended consequence of jeopardising these investments.

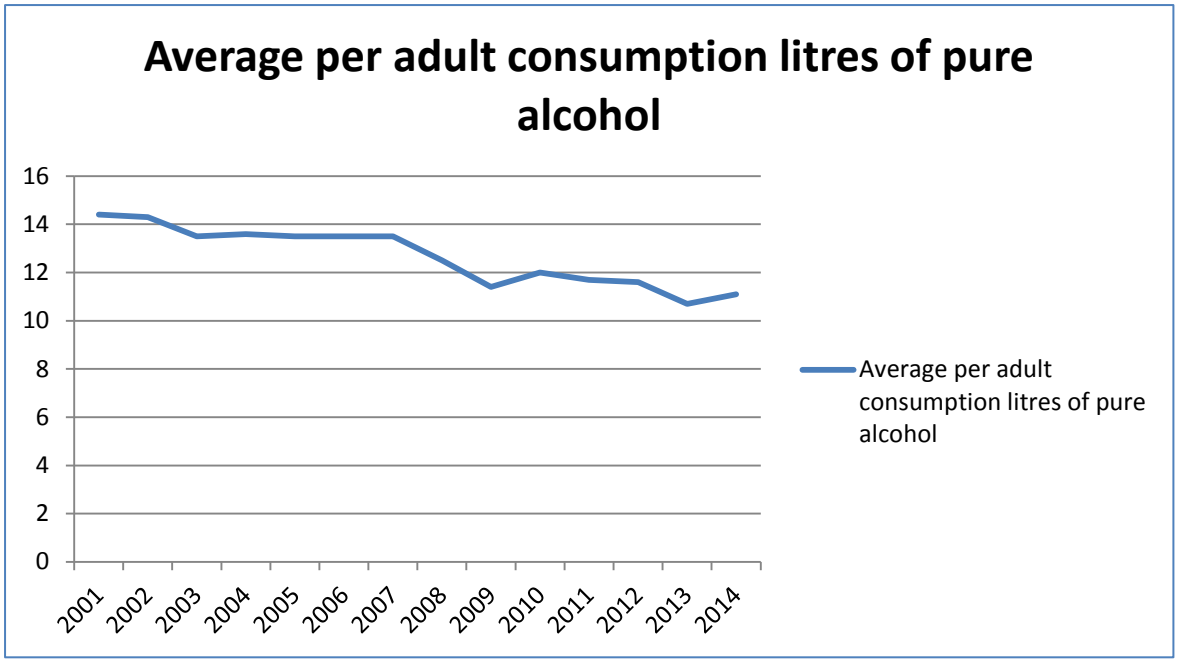
[18] Craft brewer interview

Chapter 2 - Domestic market issues

Alcohol consumption

Alcohol consumption in Ireland has declined

Consumption per capita of alcohol in 2014 was approximately 11L of pure alcohol, a decline of 24% from 2001 when peak per capita consumption was over 14L. Analysis of CSO data shows that expenditure on alcohol has fallen by almost €1 billion euro from its peak. Spending on alcohol since 2007, fell from €7.2 billion of total consumer spend to €6.1 billion in 2013[19]. The decline in alcohol consumption coupled with the decline in expenditure over the last 15 years has been dramatic.



As well as the overall decline in consumption, there has been a dramatic shift in the location of consumption from the pub to the home. While overall consumption has declined by 24%, consumption in the pub has declined by 35%[20].

Cost of alcohol

Ireland has the most expensive alcohol in the EU driven by high excise and VAT

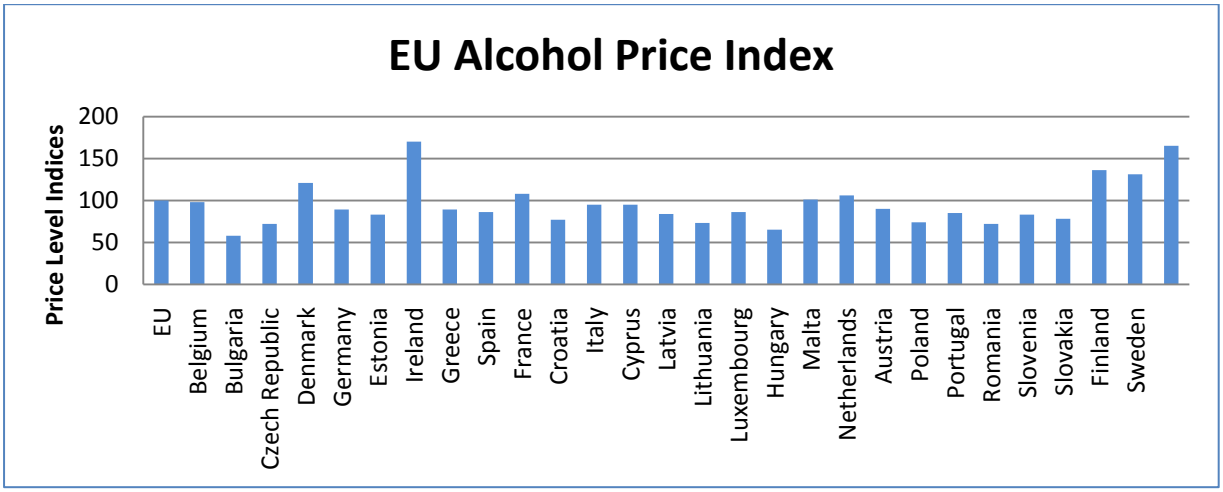
Irish taxes on alcohol are the second highest in the EU 27 and are four times the EU average level of taxes.

The tourism sector has been somewhat protected from these excise driven increases in pricing due to the dramatic fall in the value of the euro against the dollar and sterling with 60% of overseas tourists coming from the US Dollar or Sterling area.

[19] CSO National income and Expenditure Stats
[20] CSO Retail Indices

High taxation is the key driver of Ireland having the most expensive alcohol in the EU according to Eurostat's most recent survey in 2015. This price premium paid by Irish consumers compared to other EU consumers is exacerbated by the fact that Irish consumers have seen reduced income and spending power in recent years. In addition to this, the share of price has increased over recent years as a result of taxation levels increasing[21].

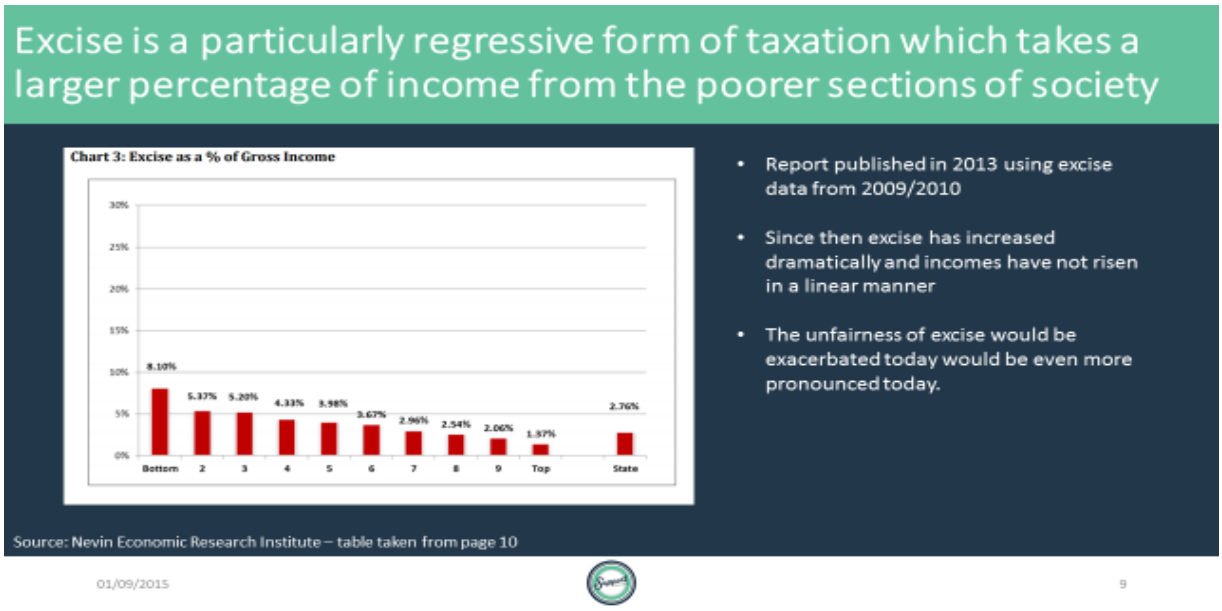
[21] Revenue Commissioners



Regressive taxation

Alcohol taxes are regressive taxes

Not only have taxes on alcohol increased while consumers incomes decreased, but excise duty and VAT as flat rate taxes mean that people on lower incomes are spending a higher proportion of their income on tax. Studies by the ESRI in 2011 and by the Nevin Institute in 2014 show the bottom three deciles spend more than 5% of their gross income on excise. This is in stark contrast to the top three deciles that spend less than half of this (below 2.5% of their gross income) on excise taxes. VAT paid accounts for 16% of gross income for the lowest earners compared to only 4.2% of income paid by the highest earners.



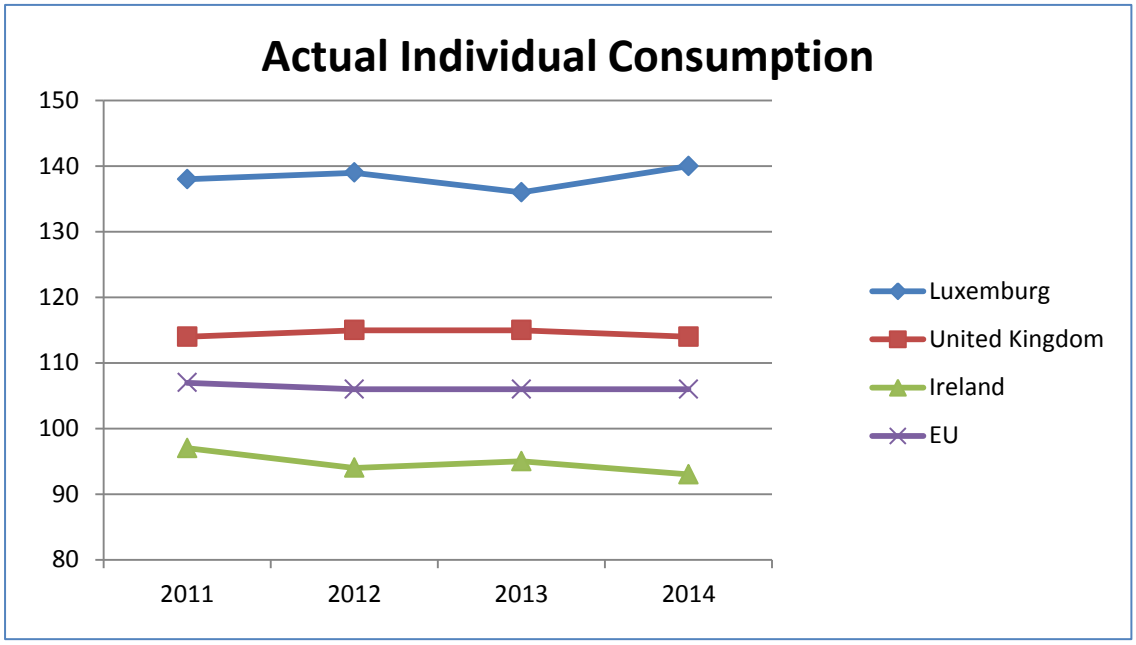
While the general cost of living through the recession has fluctuated, resulting in a 1.7% overall change since 2010, the cost of alcohol has risen by almost 11% over the same period.

Affordability

Alcohol has become less affordable for Irish consumers due to VAT and excise increases combined with a decline in the standard of living.

The use of GDP figures as a measure of personal or country wide wealth is notoriously difficult given the impact of transfer pricing and profit repatriation by multinational companies on National accounts. Bearing this in mind, Eurostat has suggested that Actual Individual Consumption (AIC) is a much more representative figure in terms of standard of living comparisons[22]. Using this more accurate benchmark, recent Eurostat reports indicate Irish consumers and taxpayers have seen a decline in earnings in the recession. This has seen Irish consumers fall from an income level which was 98 % of the EU average in 2008, to 93% of the EU average income (which itself was declining) in 2014. Therefore, any notion that alcohol has become more affordable in Ireland despite higher prices is incorrect.

Figures demonstrate Ireland spending power is falling far below EU average



[22] See Annex 1 for details

Chapter 3 - Impact of compliance

In addition to the taxation burden, the drinks industry has over the last 10 years taken on and adopted very significant additional regulatory and compliance costs regarding the regulation of the sale and promotion of alcohol. Compliance costs are the direct costs a business encounters when adhering to various tasks associated with complying with government or co-regulation. The alcohol industry in Ireland abides by a robust regulatory framework. This framework is concerned with:

- Where alcohol is advertised
- When alcohol is advertised
- How alcohol is advertised
- Where alcohol is consumed
- Who is allowed to consume alcohol
- Where alcohol is purchased
- When alcohol can be sold

As highlighted in the section below, the drinks industry has committed significant resources into codes of conduct and legal constraints around labelling, advertising and promotion of its products in order to inform consumers of the health risks associated with harmful consumption. It should also be noted that under these codes the industry in Ireland adheres to much stronger rules than most other European and developed countries.

Drinks industry codes and statutory obligations

Best practice in regulatory policy suggests that, due to the costs incurred from regulation, voluntary and statutory industry codes of practice should be taken into account as part of regulatory impact analysis.

The analysis below indicates that the alcohol sector has engaged meaningfully, and at significant cost over a long period of time, in a huge range of initiatives. These seek to promote responsible consumption and restrict access to its products where appropriate. Many of them have been in conjunction with, and with approval from, government and its agencies.

Alcohol Marketing Communications Monitoring Body (AMCMB)	Strict rules on the volume and placement of all alcohol advertisements in all media as well as regulations concerning sponsorship. These rules were designed in conjunction with the Department of Health and the board of the AMCMB includes representatives from that department.
Advertising Standards Authority for Ireland (ASAI)	Sets out rules governing the content of advertising. It complements the wide range of placement, volume, and media-specific voluntary codes.
Broadcasting Authority of Ireland (BAI)	The BAI has set out specific rules in relation to the content, style and timing of alcohol advertisements.
Training in Responsible Serving of Alcohol	This is a training programme to ensure the responsible serving of alcohol for the hospitality sector which is supported by the drinks industry.
Responsible Retailers of Alcohol in Ireland (RRAI)[23]	Concerned with the display and sale of alcohol products in mixed trading premises.

[23] Monitoring of this code is paid for by the retail sector.

Sustainable growth of the drinks industry

The reports produced by the Alcohol Marketing Communications Monitoring Body (AMCMB) have declared that there has been *"a high level of compliance by advertisers and the media owners to the various Codes"*[24].

It is clear that there are a number of regulatory based and industry driven compliance initiatives. These are comprehensive and undeniably more impactful on the route to market than for most consumer products. What the list below does not perhaps fully illustrate is the very substantial cost of this compliance, both voluntary and regulatory, on the sector.

Advertising codes

The alcohol industry works with the:

1. Advertising Standards Association of Ireland (ASAI).
2. Broadcasting Commission of Ireland (BCI).
3. CopyClear.
4. Alcohol Marketing Communications Monitoring Body (AMCMB).

This non-exhaustive list demonstrates the industry's willingness to abide by existing regulation and promote best practice.

The ASAI is an independent self-regulatory body set up to promote the highest standards of marketing communications. Since 2003, an independent pre-clearance house, CopyClear, has been in existence. All advertising copy is sent for pre-clearance to CopyClear, a group of independent advertising professionals who vet any marketing for compliance with the ASAI codes on content. It pre-vets each individual piece of advertising for any alcohol beverage, whether the advertisement is made in Ireland or developed internationally, if they want to be used in any Irish media. Advertisements are pre-vetted against the Broadcasting Commission of Ireland (BCI) regulations and the Advertising Standards Authority for Ireland (ASAI) self-regulatory codes.

Unless an advertisement conforms to these regulations and acquires an approval number from CopyClear, no Irish media owner will accept it. This process is unique to Ireland. No other market puts its alcohol advertising through such rigorous scrutiny to ensure it complies with both the letter and spirit of the codes. The organisation has made a significant, positive difference to advertising content and consequently dramatically reducing the numbers of complaints made about alcohol advertising since 2003.

The most recent requirements for alcohol advertising as set out by the ASAI demonstrate the rigorous process alcohol advertising goes through.

Marketing communications for alcoholic drinks;

1. Should not imply that the presence or consumption of alcohol can contribute to social, sporting or business success or distinction or that those who do not drink are less likely to be acceptable or successful than those who do;

2. Anyone depicted in an alcohol marketing communication should be aged over 25 years and should appear to be over 25 years old;

3. Marketing communications should not imply that alcohol can improve physical performance or personal qualities or capabilities;

[24] AMCMB report 2009 p. 7

4. Marketing communications should not associate the consumption of alcohol with operating machinery, driving, any activity relating to water or heights, or any other occupation that requires concentration in order to be done safely;

5. Should not suggest, by word or allusion that the presence or consumption of alcohol can contribute towards sexual success or make the drinker more attractive;

6. Should not portray drinking alcohol as a challenge nor should it be suggested that those who drink are brave, daring or tough;

7. Should not link in any way the presence or consumption of alcohol to aggressive, unruly, irresponsible or anti-social behaviour;

8. Should not suggest that a product can mask the effects of alcohol in tests on drivers; marketing communications for breath testing devices should include a prominent warning on the dangers of drinking and driving;

9. Aspects of youth culture and treatments that are likely to appeal to children should not be used. Treatments should not portray adolescent, juvenile, childish or immature behaviour;

10. Advertisers should take account of the age profile so that marketing communications are communicated, so far as is possible, to adults;

11. Marketing communications should not show, imply or encourage immoderate or irresponsible drinking or regular solitary drinking. This applies to the amount of drink, the numbers drinking or the way drinking is portrayed. The buying of a large round of drinks should not be depicted or implied;

12. Marketing communications for alcohol should not portray drinking games or sessions, or show or imply pub or club crawls;

13. Marketing communications for alcoholic drinks (i.e. those that exceed 1.2% alcohol by volume) should be socially responsible and should not exploit the young or the immature. They should neither encourage excessive drinking nor present abstinence or moderation in a negative way;

14. Marketing communications may not suggest, or commend, or make fun of over-indulgence in respect of alcohol or its after-effects;

15. Marketing communications should not claim that alcohol has therapeutic qualities or that it is a stimulant, a mood-changer or a sedative, or that it is or can be transformative of an individual or a situation or that it is a means of boosting confidence or resolving personal conflict;

16. Drinks should not be promoted as being more intoxicating or presented as preferable because of their higher alcohol content;

17. Sales promotions involving alcohol that require multiple purchases should take care not to promote excessive consumption[25].

[25] ASAI code, 7th edition, Section 9

Self regulation

There is a demonstrable adherence to a long list of voluntary codes and government regulations by the industry. The compliance and regulatory costs associated with these codes are difficult to measure with 100% accuracy because over time, compliance becomes part of standard manufacturing practices.

Recent OECD studies indicate that compliance costs in "normal manufacturing businesses" are running at 0.5% of turnover. For the drinks sector, this can be greater than 1% when taking into consideration the advertising and promotion restrictions, sales and market category restrictions and the funding and training of personnel.

If we consider that domestic drinks sales stand at approximately €6 billion (retail). This leaves a net sales value of approximately 25% from the drinks sector- the remainder is made up in retailer margin and Government taxation. This implies a compliance cost greater than €17 million for the manufacturers and another €17 million for retailers. For an Irish drinks sector turning over €3 billion euro the cost of route to market compliance is estimated at a minimum to be €35 million annually.

Furthermore, these costs are not recoverable from the market place. This is firstly due to extremely high taxes leading to more expensive alcohol, plus a decline in consumption. Perhaps, even more perversely is the Government's decision not to introduce a ban on below cost selling which totally undermines the integrity and recoverability of increased compliance costs.

Competition and investment related costs

One of the key elements of regulation, and perhaps the one that is most relevant to driving or undermining growth in the alcohol sector, is the impact on competition and inward investment. Regulation can reduce competition and impact on investment decisions. It does so by:

- Making it more difficult for new competitors to enter the market, by creating regulatory requirements that are difficult for them to meet;
- Prevent firms competing strongly – for example by setting rules that reduce price competition or restrict advertising;
- By creating a negative impression of a highly regulated market in which it is difficult to do business profitably;
- These increased costs have a significant effect on investment decisions and must be considered in the context of the Food Wise targets for growth in the drinks sector.

OECD framework

The OECD outlines elements a government should take into account when considering regulation. These are considerations of cost, balance and proportionality and moreover, the role that industry itself is playing in promoting responsible consumption of its products.

The OECD also has set out some basic principals of an approach to regulation and the measurement of regulatory impact.

- Transparent – open, simple and user friendly;
- Accountable – to ministers and parliament, to users and the public;
- Proportionate – to the risk;
- Consistent – predictable, so that people know where they stand;
- Targeted – focused on the problem, with minimal side effects.

The world consists of numerous and complex causal relationships that contribute to social and economic problems; regulations take aim at one or more steps on the causal pathways leading to those problems. To put this into perspective, take for example, the motor industry.

Case study: The motor industry and safety regulation

The fatalities and injuries associated with road traffic and motor accidents are a cause of concern for policy and regulation makers. Accidents are caused by many reasons such as driver error, road conditions, and mechanical failure.

Regulation takes aim at addressing these various causes of accidents by imposing amongst other things requirements for driver training, vehicle operation, and safety levels in car engineering.

While policy makers and the public typically care about more than just solving the problem underlying a regulation, they do not generally accept solving a problem at any cost. For example, a regulation could mandate all vehicles be constructed as heavy and solid as tanks, or that drivers drive no faster than 5 kilometres per hour.

Such extreme safety regulations might prove effective at eliminating fatalities from road traffic accidents, but would come at the substantial cost of keeping most people from driving because of the expense or impracticality of transportation that complied with the rules.

To work, regulations will not only change behaviour to achieve desired outcomes but it will also avoid or limit undesired outcomes.

Regulation in Ireland

The voluntary codes and compliances set out in this report indicate a firm commitment by the drinks industry to engage with Government and its agencies in a meaningful and sometimes costly way. The aim of this is to encourage responsible consumption of alcohol.

Both the OECD and the Irish Government have published principals of better regulation. The OECD highlights that "governments can encourage self-regulatory action, by urging or mandating businesses to develop self-regulatory schemes"[26].

The industry's compliance, the associated costs and the continuous restrictions are not recognised in the Government's planned Public Health (Alcohol) Bill 2015. In addition to this is the question of whether the proposed legislation is grounded in strong evidence. The OECDs guiding principals for good regulation state that regulation should "have a sound legal and empirical basis"[27].

[26] OECD (2015) Industry self regulation: Role and use in supporting consumer interests. P. 12
[27] OECD Guiding principals for regulatory quality and performance, p. 3

Take for instance, the proposal to introduce minimum unit pricing included as part of Public Health (Alcohol) Bill. This will effectively result in an increase in the vast majority of drinks prices in an attempt to decrease alcohol consumption. The continuing attempt to use increased price as a means of addressing alcohol misuse is not only hugely unfair to responsible consumers but much research has shown that the heaviest drinkers are not responsive to price increases. After analysing 55 studies spanning five countries, on the relationship between price and consumption, Nelson presents results which are:

> *"not supportive of a consistent or robust relationship between prices and heavy or binge drinking"* [28].

In a separate analysis, Kreus et al. (2015) noted that "alcohol dependence contributed to 71% of the total alcohol-related mortality". As dependence is linked to heavy drinking, it implies that targeted interventions towards the heaviest drinkers would be far more effective in reducing mortality than population based approaches such as price increases. Kreus et al. (2015) state that:

> "*effective treatments for heavy drinkers have been demonstrated to have significant potential in reducing mortality… increasing the numbers of heavy drinkers in alcohol treatment will contribute to a decline in alcohol-related mortality"*[29].

A major weakness of the proposed legislation in this context is a clear inability to differentiate between those whose drinking is associated with harmful outcomes and those whose drinking is not.

Another regulation in the heads of the bill proposes to introduce restrictions to marketing and advertising of alcohol products. While the industry is supportive of measures to limit exposure of under 18s to advertising it should however be noted that the research points to advertising having no impact on consumption levels. This is evident from rigorous research by Wilcox et al. (2015) on the United States market which collected U.S. sales, U.S. expenditure and U.S. consumption data over four decades and found that:

> *"Even though per capita alcohol consumption has not changed much throughout this period, alcohol advertising media expenditures for all alcohol beverages have increased almost 400% since 1971"*[30].

According to Nelson et al[31], who conducted a meta-analysis of the econometric literature on advertising bans and aggregate alcohol consumption there is limited if any effect of bans on advertising on alcohol consumption.

> *"Overall, much of the research demonstrates that advertising bans have little or no effect on total alcohol consumption. This result holds at the national level for broadcast bans in developed countries and state bans of billboards in the United States. Our results call into question the efficacy of advertising bans relative to other possible public policies in the alcohol area"*

The empirical evidence surrounding alcohol pricing and restrictions on advertising raise questions regarding their efficacy and by extension, the Government's consideration of the OECDs suggestions of providing a strong empirical base for regulation. With these proposals it also appears the Government is disregarding the requirement to be targeted and proportionate in its measures.

---

[28] Nelson and McNall.What happens to drinking and harms when alcohol policy changes, p. 27
[29] Kreus et al. (2015) Changes in mortality due to major alcohol related diseases in four Nordic countries.
[30] Wilcox et al. (2015) Beer, wine, or spirits? Advertising's impact on four decades of category sales, International Journal of Advertising, 34:4, p. 641
[31] Nelson and Young (2003): Meta- analysis of alcohol advertising bans: Cumulative Econometric Estimates of Regulatory Effects p. 2

Conclusion

The drinks industry is a major driver of economic activity across Ireland at a macro and rural level and has been identified by Government as a key growth sector. This contribution ranges from employment of 92,000 people, many of whom are in rural areas, to purchases in excess of €2 billion.

The potential exists to grow employment by 13,000 should exports reach the industry's targets of €2 billion. In order to achieve the export growth target, private investment of at least €1.15 billion will be required. This investment will be impacted by Government regulation of the home market.

However, in contrast to the sector's substantial contribution to the Irish economy, disjointed Government policy is undermining its economic potential through the threat to impose increased route to market costs, which create uncertainty for domestic and multinational companies. Growth is threatened by the same Government promoting expansion. There is a clear contradiction between the prioritisation of the sector for jobs and export growth and the overlaying of double regulation and cost.

As official data from the Central Statistics Office has shown, alcohol consumption is in decline and within this overall decline, there has been a significant shift in drinking habits. Consumption in pubs declined by 35% in volume over the last number of years while at home consumption via the "off-trade" has increased accordingly[32].

Against this the industry has taken on significantly increased costs deriving from the regulation of responsible consumption. The major commitments, by an industry that supports responsible consumption initiatives, are not acknowledged in the most recent alcohol bill.

There is much published research that does not support the regulations proposed in the Public Health Alcohol Bill. Dissenting, peer reviewed research has been ignored and supportive evidence appears to have been cherry-picked from other jurisdictions. Not only do the measures not adequately target those whose consumption causes harm it meets neither the Government's own nor the OECD's frameworks for good regulation.

This double regulation of the industry is at odds with the Government's expansion plans for the sector. While there is a lack of evidence surrounding the efficacy of further regulation, there is clear evidence and commitment surrounding the industry's promotion of responsible consumption and self regulation.

A disproportionate regulatory regime that is inconsistent with other competitor jurisdictions will pose significant challenges to the achievement of investment growth both from existing companies and new entrants to the sector.

There is therefore a disconnect between the targeting of the sector for growth and expansion as per the Government's recent Food Wise 2025 strategic plan. The current policies on price, taxation and imposed regulatory costs are inconsistent and will ultimately act as a barrier to local and inward investment. The imposition of high taxes and regulatory costs is not economically sustainable and will only serve to undermine the economic contribution of the sector and curb its growth.

[32] CSO retail indices

Sustainable growth of the drinks industry

Ireland's drinks industry is home to iconic brands such as Guinness, Jameson and the brewing of Heineken. It is a very significant employer both directly and indirectly through its support of the Irish tourism, farmers and the rural pub. A significant export growth opportunity exists with the industry having the potential to grow exports by at least 85% and maybe to over €2 billion, creating and sustaining an additional 13,000 jobs, predominantly in rural Ireland.

This ambitious growth is supported by the Government in its recent Foodwise 2025 strategic plan, and will require private sector investment of at least €1.15 billion to deliver. However there is now a clear disconnect between the Government's targeting of the drinks industry for growth and expansion and some of the emerging policies on price, taxation and regulatory costs. These are inconsistent, lack an evidence base for proportionality, and will ultimately act a as a barrier to local and inward investment. The imposition of high taxes, regulatory costs and barriers will place Irish-based businesses at a disadvantage to other jurisdictions, and fundamentally undermine the export-led economic growth of the sector.

Annex 1

Eurostat statistics explained

Actual individual consumption, abbreviated as **AIC**, refers to all goods and services actually consumed by households. It encompasses consumer goods and services purchased directly by households, as well as services provided by non-profit institutions and the government for individual consumption (e.g., health and education services). In international comparisons, the term is usually preferred over the narrower concept of household consumption, because the latter is influenced by the extent to which non-profit institutions and general government act as service providers.

Although GDP per capita is an important and widely used indicator of countries' level of economic welfare, consumption per capita may be more useful for comparing the relative welfare of consumers across various countries.

AIC per capita is usually highly correlated with GDP per capita, because AIC is, in practice, by far the biggest expenditure component of GDP.

NOTES