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## **1. SUMMARY**

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- 1.1 Since the turn of the century, there has been a sharp rise in the number of premises licensed to sell alcohol for consumption off-premises. Many of these licences have been obtained by supermarkets, convenience stores and petrol stations. At the same time, the number of bars (pubs, clubs and hotels) has fallen. This pattern is part of a general trend in Ireland towards drinking at home and away from drinking in pubs.
- 1.2 The official statistics show that the growth of the off-trade sector has not been met with any increase in the consumption of alcohol. In fact, Ireland has experienced a steady fall in alcohol consumption since 2001, reversing the trend of previous decades.
- 1.3 This downward trend in alcohol consumption continued even as prices fell following the abolition of the Groceries Order in March 2006.
- 1.4 The Alcohol Advisory Group should resist calls for the reintroduction of a ban on below-unit cost selling of alcohol or for minimum prices for alcohol. Such measures make the sale of alcohol more profitable, across all retailers and bars, and thus encourage its sale, and are contrary to the aim of reducing excessive alcohol consumption. They would also legalise price-fixing arrangements, which are considered "hard-core" competition law breaches and punishable in Ireland by jail sentences of up to five years in prison.
- 1.5 Price is just one factor affecting the consumption of alcohol. If the Government wishes to increase the price of alcohol to discourage consumption, it should use taxation. Specifically, excise duties should be raised. Excise duties on beer have not increased in Ireland in well over a decade. The last increase in excise duties on spirits was in 2002. Thus the real value of the tax on alcohol in Ireland has been consistently falling.

## 2. INTRODUCTION

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- 2.1 This submission is a response to the recently-established Government Advisory Group's call for submissions on the following matters:
- *"the increase in the number of supermarkets, convenience stores and petrol stations with off-licences and the manner and conditions of sale of alcohol products in such outlets, including below unit-cost selling and special promotions;*
  - *the increase in the number of special exemption orders which permit longer opening hours which are being obtained by licensed premises around the country; and*
  - *the use, adequacy and effectiveness of existing sanctions and penalties, particularly those directed towards combating excessive and under-age alcohol consumption."*
- 2.2 The Competition Authority's response focuses on the first of these matters, which is concerned with the economics of the supply of alcohol in off-licensed premises.
- 2.3 Alcohol is a drug and so its sale is highly regulated. To curb excessive and under-age alcohol consumption, regulations and other State interventions need to target the problem identified. Measures not so targeted may have unintended consequences undermining the policy objectives and may have the effect of unnecessarily penalising the moderate drinker. The Competition Authority's submission is made in this context.
- Section 3 provides evidence of the actual patterns of alcohol consumption in Ireland;
  - Section 4 demonstrates that introducing a ban on below-unit cost selling of alcohol or minimum prices for alcohol would make the sale of alcohol more profitable, across all retailers and bars, and be contrary to the aim of reducing alcohol consumption and contrary to competition policy;
  - Section 5 shows how taxation can be used to influence the price of alcohol, in particular excise duties;
  - Section 6 discusses special promotions.
- 2.4 The Competition Authority would be happy to discuss these issues further with the Advisory Group, if that was thought useful.

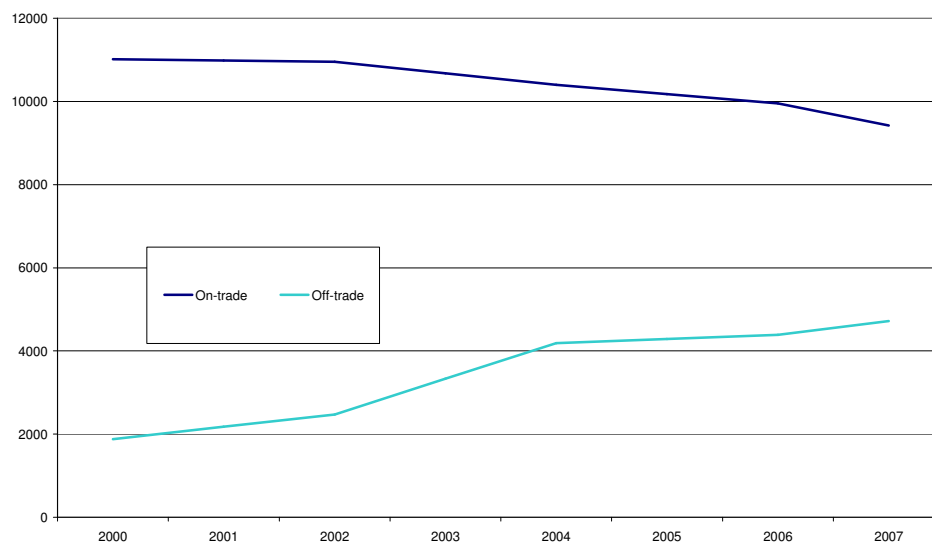
### 3. TRENDS IN ALCOHOL CONSUMPTION – THE FACTS

- 3.1 This section shows that the recent increase in the number of supermarkets, convenience stores and petrol stations with off-licences – and the corresponding decrease in the number of pubs, clubs and hotels – is part of a general shift in alcohol consumption away from bars to the home.
- 3.2 It further provides evidence that the growth of the off-trade has coincided with a fall in the consumption of alcohol in Ireland since 2001. This downward trend has continued even after the Groceries Order was abolished in March 2006.

#### A Shift from the On-trade Sector to the Off-trade Sector

- 3.3 The off-trade sector includes independent off-licences, petrol stations, grocers and supermarkets that are licensed to sell alcohol, while the on-trade sector refers to pubs, clubs and hotel bars.
- 3.4 The off-trade sector has experienced rapid growth in recent years. The number of off-trade premises in Ireland rose from 1,881 to 4,719 between 2000 and 2007, an increase of 150%.<sup>1</sup> The volume of off-trade sales has also grown, rising by 8.5% between 2006 and 2007.<sup>2</sup>
- 3.5 In contrast, the on-trade sector has weakened both in terms of number of premises and sales volumes. Since 2000, the number of on-trade premises has fallen from 11,014 to 9,422, a decrease of almost 14.5%.<sup>3</sup> The sector also experienced a fall in sales volumes of 4.7% between 2006 and 2007.<sup>4</sup>

**Figure 1: Trends in Off-Trade and On-Trade Premises Numbers, 2000-2007**



Source: Nielsen Establishment Survey 2007.

<sup>1</sup> Source: Nielsen Establishment Survey 2007.

<sup>2</sup> Source: Nielsen Off Trade Audit, Sales litres '00's, MAT Oct 2007.

<sup>3</sup> Source: Nielsen Establishment Survey 2007.

<sup>4</sup> Source: Nielsen On Trade Audit, Sales litres '00's, MAT Oct 2007.

- 3.6 The off-trade sector now accounts for 39.1% of total alcohol sales volumes in Ireland.<sup>5</sup> Independent retailers' share of the off-trade market has fallen from 45.2% to 44.4% between 2006 and 2007. Supermarkets and convenience stores accounted for 53.2% of the off-trade market in 2007, up from 52% in 2006.<sup>6</sup>
- 3.7 The growth of the off-trade sector and the decline of the on-trade sector shown above coincided with a number of regulatory changes in Ireland which one would expect to have contributed to such a pattern.
- a. March 2004 - the smoking ban was introduced;
  - b. March 2006 - the Groceries Order was abolished;
  - c. July 2006 - random breath tests to deter drink driving begin.
- 3.8 Changing social patterns, such as technological advancements in home entertainment and an increased preference for wine, changing demographics, changing property values, and a change in attitude to drink driving are also all likely contributory factors to this phenomenon.
- 3.9 However, it is not necessary to speculate why the off-trade has grown within the context of this submission. More important, is the fact that the shift from the on-trade sector to the off-trade sector has coincided with a drop in alcohol consumption in Ireland, as Figure 2 below shows.

### **Overall Alcohol Consumption in Ireland**

- 3.10 Ireland has one of the highest levels of alcohol consumption per capita in the European Union.<sup>7</sup> Our current position is the result of continual increases in alcohol consumption over a number of decades. Figure 2 illustrates Ireland's alcohol consumption rates per capita between 1970 and 2006. It indicates that on average, alcohol consumption rates per capita increased by 2.4% annually for the period 1970 to 2006.<sup>8</sup>

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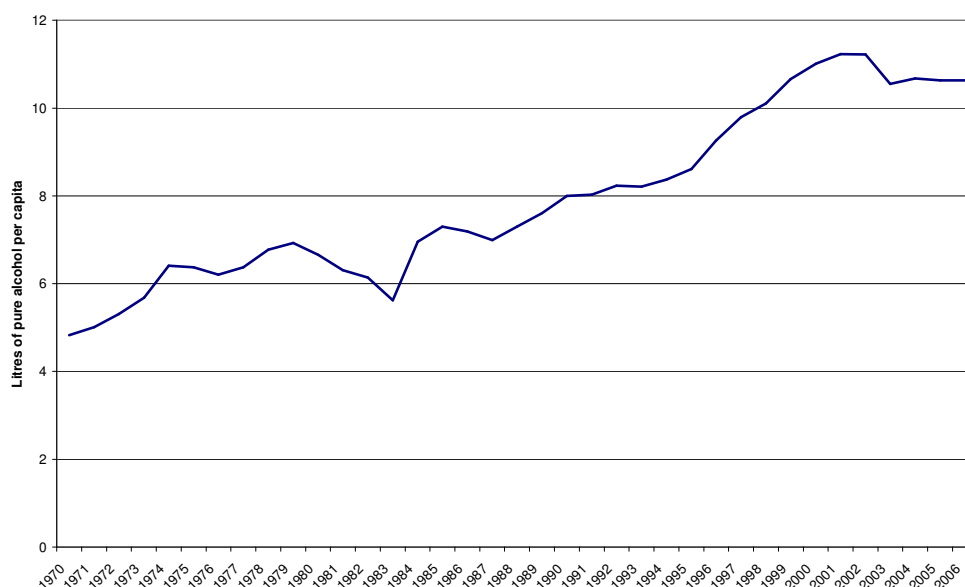
<sup>5</sup> Off-trade sales in 2007 were 2,806,409 litres; On-trade sales in 2007 were 4,370,950 litres. Source: *Nielsen Off Trade Audit, Sales litres '00's, MAT Oct 2007. Nielsen On Trade Audit, Sales litres '00's, MAT Oct 2007.*

<sup>6</sup> Source: *Nielsen Off Licence, Value share, MAT Oct 2007.*

<sup>7</sup> *Health-Related Consequences of Problem Alcohol Use*, Health Research Board, p25.

<sup>8</sup> Revenue Commissioners and CSO Annual Reports. Also quoted in *Health-related consequences of problem alcohol-use*, Health Research Board, 2006, p25; and Hope, A. (2007), *Alcohol Consumption in Ireland 1986-2006*, Health Service Executive - Alcohol Implementation Group.

**Figure 2: Trend in Irish Alcohol Consumption Rates per Capita, 1970-2006**



Source: Revenue Commissioners and CSO Annual Reports.

3.11 However, while consumption levels are still high, closer examination of Figure 2 shows that from 2001 onwards, alcohol consumption levels in Ireland levelled off and followed a downward trend. That is, annual consumption of alcohol (per capita) in Ireland has been falling since 2001.<sup>9</sup>

3.12 In summary, Irish people consume larger quantities of alcohol compared to previous decades. Ireland also has one of the highest levels of alcohol consumption per capita in the European Union. However, levels of alcohol consumption peaked in 2001 and have been falling ever since. This period coincides with the acceleration in the shift in consumption from bars to the home.

### Prices and Alcohol Consumption

3.13 Since the abolition of the Groceries Order, in March 2006, the price of alcohol sold by the off-trade has fallen - by 3% between March 2006 and December 07.<sup>10</sup>

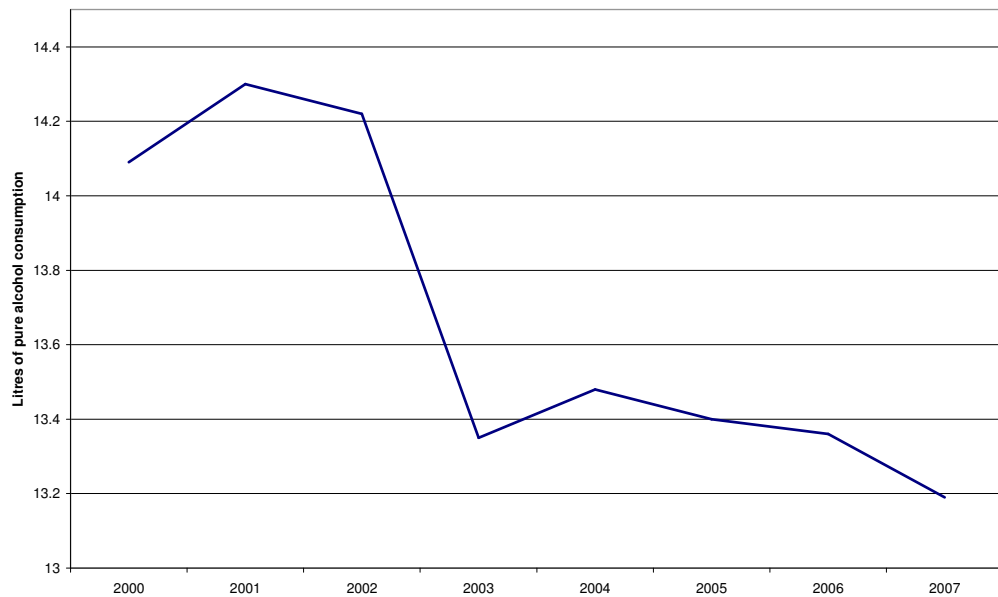
3.14 This has not led to an increase in overall alcohol consumption. Alcohol consumption per person aged 15 years and over actually fell from 13.36 litres in 2006 to 13.19 litres in 2007, continuing the downward trend from a peak in 2001 of 14.09 litres per person aged 15 years and over.<sup>11</sup>

<sup>9</sup> This downward trend in alcohol consumption holds across any measure chosen – total alcohol sales, alcohol per capita, alcohol per person aged 15 years and over. For example, an analysis of alcohol consumption per person aged 15 years and over – regarded as being the most accurate measure of alcohol consumption – depicts a similar downwards trend. While alcohol consumption per person aged 15 years and over continued to increase during the 1990s, consumption peaked at 14.09 litres per “adult” in 2001, falling to 13.19 litres per “adult” in 2007, a decrease of over 8% during the six year period. Source: Revenue Commissioners and CSO Annual Reports.

<sup>10</sup> Source: Central Statistics Office – Consumer Price Index.

<sup>11</sup> Source: Revenue Commissioners and CSO Annual Reports.

**Figure 3: Alcohol Consumption per Person aged 15 Years and Over, 2000 - 2007**



Source: Revenue Commissioners and CSO Annual Reports.

### **Binge-drinking**

- 3.15 In a Eurobarometer survey across 29 European countries, Ireland topped the country scale for binge-drinking in 2006, "*by a considerable margin*", with 36% of respondents claiming to drink 3 to 4 drinks on one occasion, and a further 34% claiming to drink 5 or more.<sup>12</sup>
- 3.16 Consistent available data to compare binge-drinking over time would help in evaluating the success or otherwise of recent or future regulatory changes and other policy instruments.
- 3.17 Without evidence that people are more likely to binge drink either at home or in pubs and clubs, any attempt to push consumers in one direction over another risks being inconsistent with the policy of reducing excessive alcohol consumption.

### **Conclusion**

- 3.18 The previous sections outlined trends in the off-trade and on-trade sectors and alcohol consumption levels in Ireland.
- 3.12 In summary, the increase in the number of off-traded premises:
- corresponds to a fall in on-trade sales; and
  - has not coincided with an increase in alcohol consumption but actually a fall in alcohol consumption.

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<sup>12</sup> *Attitudes towards Alcohol*, Special Eurobarometer Report, March 2007 (fieldwork October – November 2006), page 10. The report also found that binge-drinking is highest among younger people and lowest among over 55s; this suggests that changes in the demographics of a country will influence the level of binge-drinking.



## 4. BELOW UNIT-COST SELLING

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- 4.1 The price of alcohol in Ireland has attracted considerable attention recently and has been blamed as contributing to the wider social problem of excessive drinking. International studies show that alcohol consumption depends on a number of factors and does not rely exclusively on price. Income growth, demographics, cultural attitudes, regulation and enforcement are arguably more important influences on consumption.
- 4.2 A ban on below-cost selling or a set minimum retail price have both been proposed as potential policy options to curb the worst excesses of Ireland's drinking culture, most notably our propensity to binge drink. First, it is far from clear that current prices are "below-cost". The Groceries Order held alcohol prices artificially high, well above the true cost, and it is not surprising that prices have fallen since its abolition. More importantly, the contention that the recent fall in alcohol prices in supermarkets and off-licences has led to a rise in consumption is simply not true as is borne out by official statistics. Alcohol consumption (per capita) has in fact been on a downward trend since reaching a peak in 2001. This downward trend continued after the abolition of the Groceries Order in 2006, which prohibited below invoice cost selling of alcohol.
- 4.3 Even if it were the case that the price of alcohol in off-trade premises is contributing to alcohol abuse it is highly unlikely that a ban on below-cost selling, which would bring prices into line with licensed premises, would bring about the desired policy result i.e. reduced incidence of excessive alcohol consumption. The Groceries Order imposed a ban on below-cost selling of alcohol from 1987 to 2006 but, despite its introduction, the upward in trend in alcohol consumption continued until 2001 (see Figure 2 above).
- 4.4 The net effect of market interventions such as below-cost selling bans is to make the sale of alcohol more profitable and thus provide incentives to sell more alcohol than any other product on offer in a retail outlet (or entertainment venue). This contradicts the aim of reducing excessive alcohol consumption.
- 4.5 Such measures also conflict with competition policy as they are akin to price-fixing arrangements, the most egregious competition law breaches which are punishable in Ireland by jail sentences of up to five years in prison. Mr Justice Liam McKechnie, when sentencing Mr Denis Manning in February 2007 for fixing the selling price of Ford motor cars, said that this type of crime was a crime against the consumer and there were good reasons as to why a court should consider the imposition of custodial sentences for such crimes.<sup>13</sup>
- 4.6 The Competition Authority recommends against introducing any ban on below-unit cost selling or introducing minimum price regulations. These measures would promote and protect the profit margins of those who sell alcohol, penalise the moderate consumer, and are contrary to the

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<sup>13</sup> See court report published in *The Irish Times*, Saturday February 10<sup>th</sup> 2007. Similarly, Judge Raymond Groarke, in sentencing Michael Flanagan on March 2nd 2006 in Galway Circuit Court, stated "I could well see circumstances where persons convicted by a jury could be subjected to terms of imprisonment." See 'Guilty verdict in first oil price case', *Irish Daily Mail*, 3rd March 2006, pp8.

aims of reducing excessive alcohol consumption. Taxation is a more targeted measure which could be used to raise the price of alcohol and the income would accrue to the Exchequer rather than to the seller of alcohol.

### **Below Cost Selling – Fact and Fiction**

- 4.7 Below-cost selling refers to the practice of selling products at a per-unit loss – i.e. a loss on each and every bottle/can of drink sold.<sup>14</sup>
- 4.8 Retailers regularly sell a limited number of products at below cost as part of a sales promotions strategy known as loss-leading. By loss-leading, the retailer is willing to incur a periodic loss on the sale of each unit in the expectation that the loss will be recouped by an overall increase in sales of other goods. Below-cost selling is an accepted and legitimate practice across the retail sector as exemplified by the popularity of seasonal sales. Consumers benefit from below-cost sales on items such as books, clothes, and electronic goods. Supermarkets also employ below-cost sales promotions for a variety of reasons other than price competition. For example, price promotions are used to clear unwanted stock or to give a sales push to new products.
- 4.9 The Restrictive Practices (Groceries) Order 1987, commonly known as the “Groceries Order”, banned retailers from “below-cost selling” many grocery items, including alcoholic drinks, until it was abolished in March 2006. The Groceries Order failed to reverse the upward trend of alcohol consumption in Ireland in the 1980s and 1990s; since its abolition in March 2006, the downward trend in alcohol consumption has continued.
- 4.10 This is not surprising. The Groceries Order guaranteed the profit margin of all those associated with the sale of alcohol – breweries, wine importers, supermarkets, off-licences, pubs, clubs, hotels.....
- 4.11 The Groceries Order worked as follows:
- It made it illegal for retailers to sell alcohol below a pre-determined cost threshold known as the “net invoice price” i.e. the price charged to the retailer including VAT but excluding any discounts or rebates received by the retailer which did not appear on the invoice in cash terms.
  - Breweries and other suppliers were thus free to set the prices of their products in every off-licence, convenience store and supermarket across the country. They of course set prices that maximised their profits; prices above those that the retailer would have chosen in a competitive market.
  - The inflated price of alcohol in supermarkets and off-licences made it easier for publicans and hoteliers to charge higher prices for alcohol, and thus make higher profit margins, without fear of losing business to off-licences.

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<sup>14</sup> Also known as negative gross margin.

- 4.12 The Groceries Order effectively legalised a practice known in competition law as resale price maintenance. Had the drinks industry tried to impose resale price maintenance without this legal protection, they would have been investigated by the Competition Authority.
- 4.13 Reintroducing a ban on below cost selling of alcohol by retailers, would simply repeat the mistakes of the Groceries Order, and incentivise and finance the promotion of alcohol for sale above other products.

### **Enforcing a ban on below-cost selling**

- 4.14 The Group may be tempted to try to avoid the problems associated with the Groceries Order by designing a different system for determining the appropriate unit cost price of each alcoholic item. This is not advisable.
- 4.15 As Ireland's experience of the Groceries Order proved, the cost that appears on the wholesaler's invoice is not typically reflective of the true unit cost. Rebates and quantity discounts do not appear on the invoice at the time of delivery, as they often are not calculated at the same time (e.g. they may be calculated on a quarterly or annual basis and invoices given with each delivery). Irregular payments to retailers which are accounted for under such catch-all terms as "advertising allowances" and "sales support", would also have to be taken into account in the calculation of the true unit cost.
- 4.16 A 'one-size-fits all' method of arriving at unit cost does not exist - a case-by-case approach is required. Enforcement of a true ban on below cost selling would therefore be extremely expensive.

### **Minimum prices: the case of tobacco**

- 4.17 Setting minimum prices as an alternative to a ban on below-cost selling would be equally counterproductive as a measure to reduce alcohol consumption. It too would simply guarantee the profit margin on alcohol sales and incentivise its sale above other products.
- 4.18 The introduction of minimum price controls for alcohol would legalise cartel activity which is classified as a hard core criminal offence under the Competition Act 2002. The fixing of minimum prices is a serious crime carrying a maximum prison sentence of five years and/or fines of up to €4,000,000.
- 4.19 The European Commission has initiated legal proceedings against Ireland for infringement of Article 226 of the EC Treaty due to the fixing of minimum and maximum retail prices for cigarettes. According to EU Taxation Commissioner László Kovács *"Introducing minimum retail prices for cigarettes is against Community law and mainly benefits manufacturers who are able to protect their profit margins"*.<sup>15</sup>

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<sup>15</sup> EU Commission press release (IP/06/1820) December 18<sup>th</sup>, 2006.

4.20 The European Court of Justice has already stated that:

- Imposing a minimum price (on tobacco products) is incompatible with the current legal framework (Directive 95/59/EC), since the setting of a minimum price by public authorities inevitably has the effect of limiting the freedom of producers and importers to determine their selling price.
- Minimum prices are not necessary, since the health objectives may be attained by increased taxation of tobacco products.

4.21 The EU Commission has publicly stated that it advocates direct taxation as a more effective way to tackle cigarettes consumption. The Commission states; *"This would have the same impact on the prices and would not hamper price competition to the sole benefit of manufacturers."*<sup>16</sup>

4.22 If the Alcohol Advisory Group wishes to recommend an increase in the price of alcohol to reduce demand, then increasing the tax and especially the excise duty, on alcoholic drinks would have a more immediate impact on prices and the additional revenue would go to the Exchequer rather than to the drinks industry.

## Conclusions

4.23 Any attempt to ban below-cost selling, however one tries to define it, will simply allow breweries and wholesalers to set prices across all retail outlets. It would be a victory for the vested interests in the alcohol industry as the profits from the sale of alcohol would be given special protective status under the law. Protected margins encourage greater sales promotions via advertising and other non-price competitive tools. Making the sale of alcohol more profitable is not a good way of discouraging its consumption.

4.24 In addition a statutory body, such as the National Consumer Agency or the Director for Public Prosecutions, would have to enforce this arrangement by punishing any undertaking who broke its rules. The Irish Courts have already imposed (suspended) prison sentences and large fines on two individuals for exactly the same activity in both the heating oil and motor trade sectors.<sup>17</sup>

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<sup>16</sup> Ibid.

<sup>17</sup> On March 6<sup>th</sup> 2006, J.P. Lambe was sentenced by Judge Katherine Delahunt at Dublin Circuit Criminal Court to 6 months imprisonment which term was suspended for a period of 12 months. He also received a fine of €15,000. Mr. Lambe had pleaded guilty in October 2005 to two offences of aiding and abetting undertakings in the heating oil cartel in Galway between January 1st 2001 and February 11th 2002. On January 30<sup>th</sup> 2007, Denis Manning pleaded guilty to two charges of aiding and abetting the Irish Ford Dealers Association and its members in implementing an agreement which had the object of preventing, restricting or distorting competition in the motor trade so as to directly or indirectly fix the selling price of cars. Mr Manning was sentenced to 12 months in prison – suspended for five years - and fined €30,000.

- 4.25 In its review of submissions made to the Department of Enterprise, Trade and Employment during the public consultation process on the Groceries Order, the Consumer Strategy Group concluded:

*"We would make the general point, however, that trends in alcohol consumption are a function of many things of which price and pricing policy are but one .... In our view, the Groceries Order is a highly inappropriate and disproportionate mechanism by which to seek to control alcohol consumption."<sup>18</sup>*

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<sup>18</sup> *Restrictive Practices (Groceries) Order 1987 - A Review and Report of Public Consultation Process* - Consumer Strategy Group – <http://www.entemp.ie/publications/commerce/2005/groceriesorder/chapter11.pdf>

## 5. TAXATION

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- 5.1 Alcohol is taxed by a combination of excise duties and VAT and these two taxes operate in different ways. Excise duties are specific amounts charged on each item sold while VAT - an *ad valorem* tax - is applied as a percentage of the selling price.
- 5.2 In order to raise the price of alcohol, the Government is permitted under EU law to either increase excise duties and/or the minimum *ad valorem* rate. Excise duties on beer have not increased in Ireland since 1994. Thus, tax as a percentage of beer prices has actually been falling over the past 13 years. The last increase in excise duties on spirits was in 2002.
- 5.3 Bearing in mind that price is only one factor affecting alcohol consumption and that binge-drinkers may be indifferent to price increases; if the Government wishes to raise the price of alcohol, increasing excise duties is the most appropriate tool to use. At the very least, excise duties could be linked to general inflation to ensure they maintain their real value over time.

### Excise Duties and VAT

- 5.4 VAT is calculated as a percentage of the selling price and thus rises as the price of alcohol rises - i.e. it rises in direct proportion with inflation.
- 5.5 Excise duties are calculated on the quantity of the alcoholic drink sold, not on the price at which it is sold, and apply across all drinks in the same category, whether cheap or premium brands. Increasing excise duties has a direct impact on the selling price of alcohol, but only when increased beyond the rate of inflation.
- 5.6 Increasing excise duties in a manner which takes no account of inflation does not, by definition, produce real price increases. Take the example of the price of a pint of stout in a bar during 1995 and 2005, when excise duties were not increased at all.<sup>19</sup>
- 5.7 Between 1995 and 2005, the bar price of a pint of stout increased by 50%. The excise duty charged remained at 47 cent per pint. Table 1 below, shows that while VAT rose as the selling price rose the excise duty fell as a percentage of the selling price from 19% to 13%.<sup>20</sup> The last column of Table 1, illustrates that total tax (VAT + excise) as a percentage of the bar price of a pint actually fell from 36.8% in 1995 to 30.3% in 2005.

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<sup>19</sup> Source: Revenue Commissioners Statistical Report 2005.

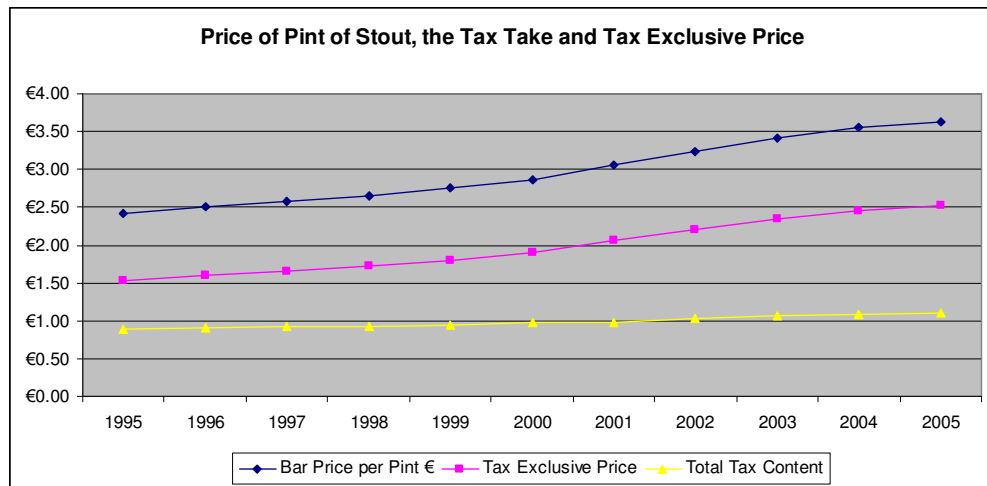
<sup>20</sup> 47c is 19% of €2.42 and 13% of €3.63.

**Table 1: Bar Price and Tax per Pint of Stout, 1995 - 2005**

Year	Bar Price per Pint €	Excise Content	VAT Content €	Total Tax Content	Tax Exclusive Price	Tax Exclusive Price % Change	Tax as % of Price
1995	2.42	0.47	0.42	0.89	1.53	3.9%	36.8%
1996	2.50	0.47	0.43	0.90	1.60	4.3%	36.2%
1997	2.58	0.47	0.45	0.92	1.66	4.1%	35.6%
1998	2.65	0.47	0.46	0.93	1.72	3.5%	35.1%
1999	2.75	0.47	0.48	0.95	1.80	4.8%	34.5%
2000	2.87	0.47	0.50	0.97	1.90	5.5%	33.8%
2001	3.05	0.47	0.51	0.98	2.07	8.9%	32.1%
2002	3.24	0.47	0.56	1.03	2.21	6.6%	31.9%
2003	3.42	0.47	0.59	1.06	2.35	6.6%	31.1%
2004	3.55	0.47	0.62	1.09	2.46	4.7%	30.6%
2005	3.63	0.47	0.63	1.10	2.52	7.3%	30.3%

Source: Revenue Commissioners Statistical Report 2005.

**Figure 4: Bar Price of a Pint of Stout - Tax Take and Publican's Take**



Source: Revenue Commissioners Statistical Report 2005.

5.8 Over the same period general inflation (as measured by the Consumer Price Index - all items) was just 35.7%. The fact that publicans were able to raise prices by more than the general rate of inflation from 1995 to 2005, shows how easily publicans were able to increase their gross margin during this time, as Figure 4 above shows. This illustrates how ad valorem taxes like VAT are favoured by producer interests – because they have a marginal impact on prices compared to a specific excise tax.

5.9 In contrast, consider the impact of the large increase in the excise duty on spirits in 2002. Table 2 and Figure 5 below show that consumption of spirits fell by 20.1% in 2003 after the excise duty on spirits was increased in the Budget of December 2002.<sup>21</sup> The excise duty on a standard measure of spirits was increased by 20 cent (including VAT). The duty on spirit-based 'alcopops' was increased by approximately 35 cent per bottle (including VAT).

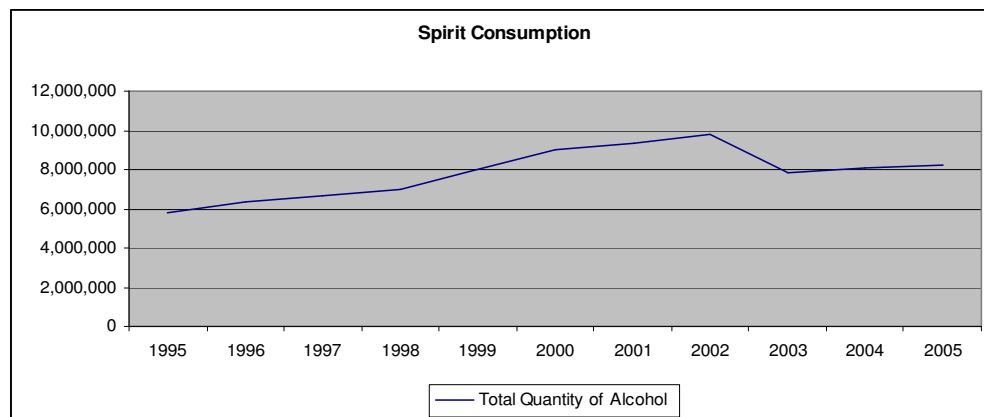
**Table 2: Effect of an Increase in Excise Duties on Spirits in 2002**

Year	Total Quantity of Alcohol	% Change	Net Excise Receipts
1995	5,777,690	-2.1%	€160,131,580
1996	6,354,373	10.0%	€174,753,755
1997	6,679,238	5.1%	€182,962,840
1998	6,998,984	4.8%	€187,488,053
1999	7,995,524	14.2%	€217,950,162
2000	8,994,007	12.5%	€247,086,036
2001	9,311,875	3.5%	€220,918,042
2002	9,792,174	5.2%	€266,461,434
2003	7,826,467	-20.1%	€305,025,639
2004	8,049,449	2.8%	€314,906,447
2005	8,242,157	2.4%	€319,779,101



Source: Revenue Commissioners Statistical Report 2005.

**Figure 5: Trends in Spirit Consumption, 1995 - 2005**



Source: Revenue Commissioners Statistical Report 2005.

## Conclusion

5.10 Taxation is a targeted measure for influencing the price of alcohol. Taxes on alcohol have been falling in real terms since 2002 (and even longer for beer).

<sup>21</sup> The 20% drop in consumption of spirits should not be interpreted as proof that consumers are highly responsive to overall increases in the price of alcohol. A significant number of spirit drinkers, and alcopop drinkers, switched to other alcoholic drinks.



5.11 Excise duties have a far greater affect than VAT, but only if they keep up with inflation. If the Government wishes to raise alcohol prices it should raise excise duties. Such a measure would be consistent with a report by the EU Commission which concluded that, at the very least, in order to maintain the real value of excise duties, Member States should ensure that excise duties are indexed to inflation.<sup>22</sup>

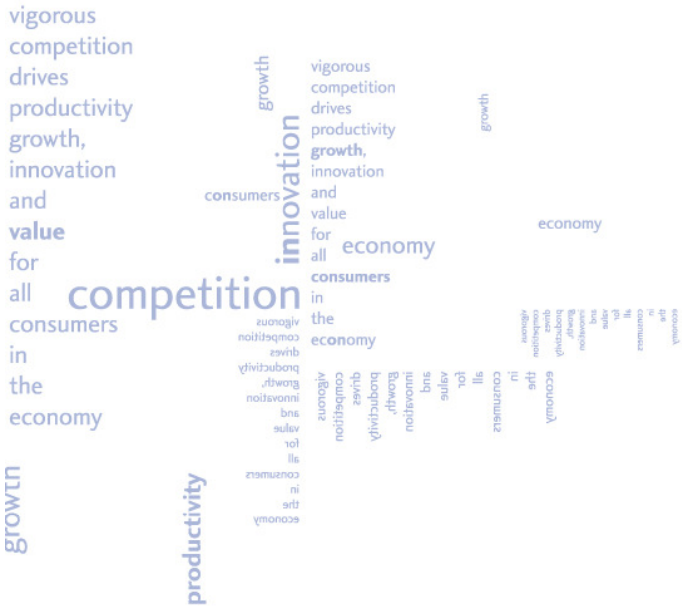
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<sup>22</sup> *Report from the Commission to the Council, the European Parliament and the European Economic and Social Committee on the rates of excise duty applied to alcohol and alcoholic beverages.* COM(2004) 223 Brussels, 26.5.2004

## **6. SPECIAL PROMOTIONS**

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- 6.1 Special promotions generally involve offers such as “buy 1 get 1 free” or “50% off marked price”.
- 6.2 It has been claimed, that such offers encourage binge-drinking, much as the now historical “happy hour” concept in pubs encouraged consumers to increase their consumption of alcohol. The significant difference between pub happy hours and supermarket promotions is that alcohol sold by the off-trade is not consumed on the premises, by definition, and can thus be stored. This is why we see such offers around important holidays, such as Christmas and St Patrick’s Day.
- 6.3 All consumers of alcohol will typically avail of special offers to lower their expenditure on alcohol or to stock up on their favourite alcoholic drinks, to be consumed at a later date. They are benefiting from the increased competition between supermarkets and between other retailers of alcohol.
- 6.4 In the absence of evidence, the idea that such offers encourage moderate drinkers to binge drink and/or encourage binge drinkers to drink even more than they otherwise would is entirely theoretical.
- 6.5 A lack of data on binge drinking in Ireland again makes it difficult to evaluate the effects of special promotions, and thus the effects of abolishing them.
- 6.6 Abolishing special promotions on alcohol would remove a competitive tool in this sector and consumers would lose the benefits of this competition. They should only be abolished where there is evidence of harm.



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