



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 21 December 2011

Session 4

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FINANCE COMMITTEE
14th Meeting 2011, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothian) (Con)

*Margaret McCulloch (Central Scotland) (Lab)

*Mark McDonald (North East Scotland) (SNP)

*John Pentland (Motherwell and Wishaw) (Lab)

*Paul Wheelhouse (South Scotland) (SNP)

COMMITTEE SUBSTITUTES

*James Dornan (Glasgow Cathcart) (SNP)

*Mary Fee (West Scotland) (Lab)

*David McLetchie (Lothian) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Mary Cuthbert (Scottish Government)

John Drummond (Scottish Grocers Federation)

Campbell Evans (Scotch Whisky Association)

Donald Henderson (Scottish Government)

Marjorie Marshall (Scottish Government)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 6

Scottish Parliament Finance Committee

Wednesday 21 December 2011

[The Convener *opened the meeting at 10:00*]

Interests

The Convener (Kenneth Gibson): Good morning, and welcome to the 14th meeting of the Finance Committee in this session of Parliament. I remind members and all those in attendance to turn off mobile phones, pagers and BlackBerrys if they have not done so.

Agenda item 1 is a declaration of interests by Mark McDonald, whom I welcome as a new member of the committee. Mark, if you have any relevant interests to declare, please do so now.

Mark McDonald (North East Scotland) (SNP): The only interest that I have to declare is that I am currently a member of Aberdeen City Council.

The Convener: Thank you.

Decision on Taking Business in Private

10:00

The Convener: Item 2 is a decision on taking items 4, 5 and 6 in private. Are members content to take those items in private?

Members *indicated agreement.*

Alcohol (Minimum Pricing) (Scotland) Bill: Financial Memorandum

10:00

The Convener: Under item 3, we will take evidence on the financial memorandum to the Alcohol (Minimum Pricing) (Scotland) Bill. I welcome our first panel of witnesses: John Drummond from the Scottish Grocers Federation; and Campbell Evans from the Scotch Whisky Association. Sadly, our third witness—Valerie Tallon from NHS Lanarkshire—has had to call off.

I understand that there will be no prepared statements, so we will just go straight to questions. First, I have a question for Mr Evans about his written submission. Paragraph 6 states:

“A key objective of the Scottish Government’s approach is lowering total alcohol consumption. This misses the target.”

However, paragraph 24 of the financial memorandum states:

“In 2010, average per capita sales in Scotland equated to 22.8 units per person ... representing an 11% increase since 1994.”

That means that the average alcohol consumption in Scotland is above

“the sensible male weekly guideline of 21 units on each and every week”.

Is it important that action is taken to reduce alcohol consumption, or do you believe that alcohol consumption should remain constant or, indeed, increase?

Campbell Evans (Scotch Whisky Association): What we believe is that we should seek to address and reduce alcohol harm. If consumption were to fall as a result, we would have no problem with that. However, if we were to reduce consumption and not address alcohol harm, that would miss the target that the policy should seek to achieve.

The Convener: Right. I ask both witnesses whether they believe that minimum pricing will reduce alcohol harm in Scotland at all.

Campbell Evans: We saw from the Sheffield modelling last time round that there would be no reduction in the number of people who are drinking at harmful and hazardous levels, so that would suggest that minimum pricing will not achieve what we believe should be the ultimate goal.

John Drummond (Scottish Grocers Federation): We echo Mr Evans’s remarks in that the modelling that the University of Sheffield did

appears to be indiscriminate and general in nature—theoretical, if you like—and as such the presumably intended goal of reducing harmful drinking will not be achieved.

The Convener: Mr Evans, in your interesting submission you refer to

“a minimum price of 50p per unit”

of alcohol impacting on “global sales” of Scotch whisky to the tune of 14.5 per cent. You state in the submission that you have done an “econometric analysis”, but why do you think that a minimum unit price for alcohol, which is not whisky specific, would impact on alcohol sales from Albania to Australia, or from Belgium to Belize?

Campbell Evans: The Scottish Government is proposing to bring in a policy that we believe could be taken overseas as a model not necessarily for minimum pricing but for restrictions on alcohol. We believe that minimum pricing is illegal and a barrier to trade so, to introduce it, the Scottish Government will have to overcome those legal impediments, as indeed the Cabinet Secretary for Health, Wellbeing and Cities Strategy said yesterday. If the Scottish Government were able to bring in a barrier to trade, other countries would be able to use that health exemption, which has not existed thus far, to bring in their own model of restriction. It could be, as the Koreans have sought to introduce, specific discrimination against drinks that are over 30 per cent alcohol by volume—in other words Scotch whisky, not their local spirit; or, as the French recently tried to bring in, discrimination against imported products. The issue is the principle and the precedent set by establishing a barrier to trade in Scotland, rather than the specific model that is introduced here.

The Convener: The Presiding Officer and ministers have addressed the legality issue, so I will not go into that, but are you seriously suggesting that the introduction of a minimum price for alcohol in Scotland will have such a radical impact? I am not convinced that there is any evidence for that.

Campbell Evans: Over the past 30 years, we have seen people erect, or attempt to erect, barriers to trade in Scotch whisky. Many years ago, I was in Japan when the finance ministry said, “You are discriminated against in the United Kingdom, so we are quite comfortable with discriminating against you in Japan.” We were in India, fighting discrimination there, when tax went up in the UK and the people in India said, “Well, we are off the hook here.” People take note of the example that is set here in the UK and it is replicated around the world. Of course, the Government has said itself that the eyes of the world are on Scotland, so we must expect

countries around the world to look at the lead that Scotland wants to take in this area. We believe that its taking that lead would be damaging for the Scotch whisky industry, damaging for the economy and damaging for the export-led recovery that the Government wants us to deliver for it.

The Convener: Of course, whisky exports have gone up 23 per cent in the past year, so if there was a 14 per cent reduction—although I do not believe for a second that there will be—there would still be an 8 per cent increase year on year, would there not?

Campbell Evans: That would depend on the type of restrictions that are brought in. We want to see growth. If there were a reduction from where we are now, that would stymie the growth that we look to deliver and that the Government wants us to deliver as part of its export-led recovery.

The Convener: So all 200 nations around the world would have this imposition, you believe.

Campbell Evans: Well, the countries that have been looking most closely at various restrictions—the ones that I have mentioned and places such as Thailand—are key markets for the industry. There would be a major impact and a disproportionate effect on overall exports.

The Convener: Mr Drummond, you will be aware that a huge number of organisations—ranging from the Scottish Police Federation to the Royal College of Nursing, the British Medical Association, Scotland's churches, Scotland's children's charities and Alcohol Focus Scotland—all support this legislation; indeed all chief medical officers across the UK also support it, as do Tennent's the brewers, I understand, and the Scottish Licensed Trade Association, which believes that it will encourage more people to drink socially in pubs and that, therefore, there will be less harmful drinking. Is not the SGF's opposition based on the vested interest of your members, rather than the wider implications for Scottish society?

John Drummond: No. Our members rely on custom from people on low incomes and we believe that this indiscriminate policy will affect those on low incomes—it is a regressive policy that will affect low-income families and individuals more than people who can afford to buy more expensive alcohol. Of course, I respect the views of the doctors and various health representatives who have explained that there could be some medical benefits—I do not dispute that. My central objection to the policy is that it will hit lower-income families harder and thereby impact on our business.

The Convener: I open the discussion out to committee members of the committee. The first

question will be from deputy convener, John Mason.

John Mason (Glasgow Shettleston) (SNP): Thanks, convener. Good morning, gentlemen. It is good to have you with us. I am interested in the impact on jobs and how businesses in Scotland will be affected. For example, without using technical terms such as elasticity, will the unit price make a big difference to the impact on your members, the number of jobs that might be affected and so on?

John Drummond: Yes—the higher the price, the bigger the impact. In our papers, we estimate that a price of 40p to 45p could reduce turnover by 10 per cent. It is a moveable feast. In the current economic conditions—which might get worse in the next two years—the impact could be greater.

John Mason: Is there a level that you are relaxed about and one that you are worried about? Can you pin it down?

John Drummond: A price below 45p would be less of a problem, but I doubt that the minimum would be less than 45p given what the proposals were in the Alcohol etc (Scotland) Bill.

John Mason: Does Campbell Evans take the same view?

Campbell Evans: If the price went up to 70p—we were asked about that—the cost of a bottle of whisky would be towards £20. Such a price would have a bigger impact than a price of 50p or 55p, which might be the level that is struck. However, 26 per cent of the trade is own label, so the companies in that sector of the market would be hit straight away. Almost three quarters of Scotch whisky is sold at below 50p per unit in Scotland, so the impact would be felt across the board in branded and own-label business.

John Mason: I would have thought that a minimum price would help all quality alcohol brands, because the margin between them and own-label or cheaper versions would be reduced. Would that help some distillers or brewers more than others?

Campbell Evans: Ultimately, the retailer sets the price, and we do not know what retailers will do—perhaps that applies more to larger stores than the smaller businesses that John Drummond represents. Retailers might see an opportunity to sell own-label product and might want to adjust the prices of branded products. Those companies with branded products might feel that they have to maintain their premium. There will be all sorts of machinations and fall-out from the minimum price; those will depend on the price that is struck, never mind the reactions of different sectors of the market. We just do not know what will happen.

John Mason: I presume that a customer would be more likely to buy a good-quality product than to pay more for a poorer-quality product.

Campbell Evans: We do not know what changes in pricing points retailers will bring in. If they sold their own-label brand of Scotch whisky at £14 a bottle—if the minimum price was 50p—they might want to sell the branded product at a higher price, to encourage the sale of their own-label products.

We also do not know the impact of cross-border shopping and internet shopping. All those questions are up in the air and cannot be answered. The Government has done no work on what the impact might be.

John Drummond: Many of our members are saying that they will have no need to stock own-label or economy brands. I will give a vodka example, just to change spirits. Glen's vodka is terribly popular among our members, as are own brands, such as the Spar brand. Minimum pricing is likely to create the opportunity for brands such as Smirnoff to sell at the same price as own brands.

Campbell Evans is right to say that we still need to see the overall effect, but some of our members are already talking about delisting own brands or economy brands, which would have a profound impact on those brands' producers.

John Mason: You mentioned Glen's vodka. I have heard that a doctored version of it was being sold in Easterhouse, which is outside my constituency. If minimum pricing happens, will more alcohol be produced illegally?

John Drummond: Yes—absolutely. We are very concerned about all sorts of impacts. Cross-border trading has legal and illegal aspects. I am bound to say that people in Dumfries and Galloway and the Borders might well be tempted to cross the border to Carlisle, Berwick or whatever their closest town in England is to take advantage of promoted alcohol at keen prices. The border is not far from those areas of Scotland.

I am equally concerned about the potential for the illicit trade—white van man activity, if you like, which involves travel from the areas that I mentioned and from the central belt. It takes only a couple of hours to get to Carlisle down the M74. People can load up with cheap vodka and other cheap products and sell them in various places where illegal sales take place around the country.

10:15

John Mason: I presume that the petrol price is putting a dampener on such activity.

I have a final question for you both. You say that internet sales have grown dramatically—you indicated that sales have grown by, I think, 55 per cent. I presume that that is from quite a low base.

John Drummond: Yes, it is. We included that figure in our submission. We have done some work that indicates that online activity is about 3 per cent of the overall grocery and alcohol market—in fact, the grocery and non-food market. Such activity is projected to grow to 5.2 per cent by 2015, so it will almost double. The Institute of Grocery Distribution made that projection.

John Mason: Would there be a price difference between what somebody pays on the internet and what they pay in the grocer's?

John Drummond: There would not be a huge difference but, since the provisions in the Alcohol etc (Scotland) Act 2010 came into force in October this year, some of the special offers that were available in Scotland and that are still available in England can be delivered online, so long as bases are south of the border or at least outside Scotland. Some of our supermarkets are developing that business at a significant rate.

John Mason: Would Mr Evans like to comment?

Campbell Evans: John Drummond is more of an expert on the internet business, because it affects his members. Our concern and our knowledge is more about what happens across borders. We are gravely concerned not only that that trade will grow but about the lack of control once people bring white vans round housing estates and other places.

Gavin Brown (Lothian) (Con): I will follow up on the question that Mr Mason asked Mr Drummond. The direction of travel appears to be towards internet sales of alcohol increasing, albeit from a low base. If I heard you right, you suggested that such sales will go from being 3 per cent of sales to being 5 per cent of sales. Is that based on the assumption that minimum pricing will happen?

John Drummond: No, sir. The figures ignore minimum pricing, so we are saying that its implementation will exacerbate that problem.

Gavin Brown: For clarity, the growth to 5 per cent is predicted to happen regardless of minimum pricing.

John Drummond: Yes, it will happen irrespective of minimum pricing.

Gavin Brown: That leads me to ask you both what you anticipate happening if minimum pricing is introduced. I suppose that to some extent that will depend on the minimum unit price, but what is your view on what will happen?

John Drummond: Clearly, we believe that internet business will increase as people become increasingly computer savvy. The impact may well be significant on some of our smaller members, particularly those in local and remote areas, who I suggest will feel the impact most.

Campbell Evans: There were reports this morning about how internet shopping for Christmas has taken off. As John Drummond says, as people get more comfortable with the delivery of products, that route to market will be exploited across the board, so I expect it to grow.

As I said, I would also expect there to be an increase in the number of people driving up and down the M74 and the A1. They might visit friends at this time of year and stock up on the way back.

Gavin Brown: I will move on, Mr Evans, to the point about exports, which the convener touched on. Your submission states that the cost of lost exports would be about £500 million a year. Can you expand on the methodology used to reach that figure?

Campbell Evans: We compared how Scotch whisky is currently priced with a 50p unit price and the uplift that that would give. When we apply that percentage uplift to the Wagenaar model of elasticity, which the Scottish Government also uses, it shows that for a 10 per cent increase in price, there is an 8 per cent decline in the market. We applied that to our export markets to get the figure.

Gavin Brown: What proportion of your business comes from export markets?

Campbell Evans: More than 90 per cent of our business is exports. We are trying to grow that market to overcome the trade barriers that we face and avoid any new ones. The Scottish Government wants us to grow our export business as fast as we can.

Gavin Brown: Regardless of what the unit price becomes, is it the principle that you think will hit exports as opposed to local markets?

Campbell Evans: Exactly. Our concern is that minimum pricing has been shown to be an illegal barrier to trade. To bring the policy in, that would have to be overcome, which would require a public health exemption, which no Government has ever had. If Scotland were to set a precedent by getting past that illegality, we would be concerned by the principle of overcoming trade rules. For the past 20 or 30 years we have used trade rules to fight against spurious barriers to trade, which is why we are now such a successful export industry. Our concern is that countries will be allowed to bring in barriers to trade using spurious health rules that they will dream up to keep imports out.

Gavin Brown: To pick up on the convener's point, for exports to fall by £500 million are you assuming that every country will adopt a similar measure or would a high figure be reached even if only a handful of countries decided to follow suit?

Campbell Evans: We have taken the percentage of the overall export figure that would fall out of the calculations. We are just saying where we are today. We hope that there will be growth. Different countries will bring in different measures, but what is interesting is that some of the countries that are strong markets for us now or in which we are hoping for growth in future are the most active in trying to protect their own industries. Those key markets concern us most. Having said that, it is the principle that we are concerned about rather than the mechanism.

Mark McDonald: Thank you for your submissions, gentlemen.

You have criticised the Sheffield model as being purely theoretical. Is not everything that you say in your submissions purely theoretical?

Campbell Evans: Of course, because it is all down to modelling. However, we are not trying to base a policy that will have damaging impacts throughout the Scottish economy on it.

Mark McDonald: But would you not also accept that what you are essentially doing is taking the worst-case scenario and applying it as the norm?

Campbell Evans: We have applied the elasticity modelling that the Scottish Government has used to our export figures. We have not produced figures that show where we might get to in future years if we see continued growth and the damage that the policy would do to that; we have said, "This is where we are at the moment."

John Drummond: For our part, we do not think that there is anything theoretical about the impact on low-income families. That is a fairly certain outcome.

Mark McDonald: You have said that this policy will have an impact on own-label products. From my experience, having worked in supermarkets and shops, the predominant purchasers of things like Glen's vodka and own-brand vodka tend to be the people who are known in the community as having drink problems. If, by applying a minimum price, the price of those products goes up and they become unaffordable for some of those people, is that not a benefit?

John Drummond: I do not believe that everyone who buys Glen's vodka has a drink problem.

Mark McDonald: I did not say everyone; I said that my experience is that the people who

purchased those products tended to have a drink problem.

John Drummond: Okay. Some people may be in that category but the vast majority of people are from low-income families and have a set amount of disposable income. The tendency therefore is to purchase the cheaper option.

Mark McDonald: Mr Evans, presumably the own-label products are not the products that we are exporting.

Campbell Evans: Companies overseas sell own-label products but the own-label products that we are talking about today are the ones that are sold in Scotland. For some companies, those products are the heart of their business, so they would be affected by this policy. The modelling has shown that we cannot say who is buying those products—it cannot be assumed that it is necessarily people who drink heavily—and what the impact on the people who are buying them will be.

Mark McDonald: On cross-border purchasing, do you seriously contend that a large number of people will cross the border to England to purchase their alcohol? Most people tend to purchase their alcohol—unless it is for events such as hogmanay—on impulse or because they have an event on that evening or at the weekend. They do not tend to pre-plan their alcohol purchasing to the extent that the bill would make internet purchasing—or indeed cross-border purchasing—as prevalent as you seem to be suggesting.

Campbell Evans: There is evidence from all over the world that cross-border shopping takes place. Something like 50 per cent of the Norwegian market is supplied through cross-border shopping. The Norwegians go to Sweden, the Swedes go to Denmark, and the Danes go to Germany. We have seen in evidence from other people what happened in Ireland when drinks prices got out of kilter across the border. Cross-border shopping is a well-known and well-trailed phenomenon.

John Drummond: On a much smaller scale, since the introduction of the Alcohol etc (Scotland) Act 2010, some of our members have reported that some of their customers are already going to Carlisle to purchase alcohol that is on promotion there and cannot be promoted in the same way in Scotland.

Mark McDonald: Do you think that the type of people who would engage in cross-border purchasing and internet purchasing are the people who have drink problems?

John Drummond: I would not have thought so. As a general principle, people who buy on the

internet are sensible, logical drinkers. Some may be drinking more than the guideline amount, in which case they would probably fall into the harmful category, but that is not all of them. A cross-section of consumers would buy on the internet.

Campbell Evans: The important point in considering the cross-border shopping element is that it is not just about an individual deciding to drive across the border. It is an opportunity that creates an illicit market and an organised crime market, and involves people driving vans or even lorries down to stock up and come back. That aspect has not been properly explored.

Mark McDonald: Okay. Let us take the example of the white van man who goes down, purchases a large number of cheap tins of lager and takes them back across the border. Presumably he would have to add some form of uplift for it to be profitable for him once he has spent all that money on petrol and on purchasing the stuff in the first place. He will surely not be selling it at the same price for which people would be getting it in the supermarket just now.

Campbell Evans: Supermarket prices in Scotland are now higher than they are in England, so he will build that differential into his equation.

Mark McDonald: People can circumvent legislation if they choose to do so. Do you accept that that does not necessarily make it wrong to legislate?

Campbell Evans: The impact of the legislation must be assessed and there is no benchmark for the level of cross-border shopping that currently takes place and no assessment of where that might go. The full impact of the legislation has not been properly thought through.

John Drummond: On certain products, the differential between the current price and the price once minimum unit pricing has been introduced will be sufficiently significant for white van man to make a considerable profit.

Mark McDonald: The example is often used of booze cruises to Calais. What evidence do you have that that has had any significant impact on operators in England?

John Drummond: There is information on record. South-east England, in particular, was badly affected. That was 20 years ago or thereabouts, so I do not have the figures to hand, but there were significant impacts, including many store closures in parts of south-east England. I am sure that we could dig up the information if it is required.

The Convener: Before Paul Wheelhouse comes in, I have a supplementary to Mark McDonald's first question. Mr Drummond spoke

about the impact of the legislation—if it is passed—on the most deprived communities. However, we have received evidence from NHS Lanarkshire—which is unfortunately not represented here today—that

“the alcohol related death rate in the most deprived 20% of our population is five times that of the least deprived 20%”.

Is it not the case that the legislation is in fact directed at trying to help to reduce alcohol consumption in the most deprived section of the population because they are the ones who are most likely to suffer from alcohol harm?

John Drummond: As I have said, the policy will affect everyone. I am here to represent my members, who are concerned about the impact and effect of minimum unit pricing on their businesses. In making such remarks to me, they are, to an extent, looking after their customers.

10:30

The Convener: This committee is interested not just in economics but in the economic impact of legislation—for example, in relation to hospital admissions. With this legislation, it is predicted that there will be 8,900 fewer admissions a year. A reduction in criminality might be another impact.

Paragraph 17 of the financial memorandum says:

“The World Health Organisation (WHO) has stated that ... policies which address the population as a whole can have a protective effect on vulnerable populations whilst also reducing the overall level of alcohol problems.”

As well as having an economic benefit, policies such as the one under discussion may have a social benefit by reducing the number of people going into hospital and by reducing the impact of criminality—which may, of course, have an impact on your members. Is that not why the policy has such widespread support among organisations at the front line—the ones that have to deal with alcohol problems in our society?

John Drummond: I respect such views and opinions, and I would not deny that the numbers have still to be tested. However, I feel that the policy does not target people at risk of harm and that a general, blanket approach is being taken. Unfortunately, that will have a disproportionate effect on the kind of families that trade with our stores—basically, low-income families.

Campbell Evans: Thus far, the number of hazardous and harmful drinkers is not being shown to fall, so the policy does not address the problem that you raise, convener.

Paul Wheelhouse (South Scotland) (SNP): I will continue on the same lines as the convener. I was struck by the opening four lines of paragraph 23 of the financial memorandum:

“Alcohol is not an ordinary commodity—it is a psychoactive and potentially toxic and addictive substance and is a contributory factor in fifty different causes of illness and death ranging from stomach cancer and strokes to assaults and road deaths. Alcohol-related hospital discharges have more than quadrupled since the early 1980s while mortality has doubled.”

Even in my life—I am relatively youthful if not actually youthful—I have seen a marked change in the marketing and availability of alcohol. I am thinking mainly of supermarkets, and not necessarily of convenience stores. There has been a profound change in the way in which people in the community buy alcohol, which is perhaps skewed towards supermarket buying rather than towards the off-licence option of the past. Would you accept that, over recent years, there have been changes in the liberalisation of alcohol sales and in the price of alcohol relative to people’s earnings?

Campbell Evans: There has undoubtedly been a change in society: people have chosen to stay in and drink at home. That reflects a wide societal change that takes account of more than just alcohol. Society has moved. People now have high-definition televisions with surround sound, they are more careful not to drink and drive, and they drink wine with meals. Society has changed, and the prices of all goods have changed.

As for the health statistics, in the past few years, discharges and alcohol-related deaths have come down. It seems that a message is getting through. I hope that this Parliament and others will start to talk about the progress that is being made. It is limited and has taken place only over the past three to five years, but if the message is getting through, let us try to build on that, rather than always sticking to the stereotypical view that there is no way forward.

Paul Wheelhouse: Before I invite Mr Drummond to comment, will Mr Evans discuss the profound changes in the way in which alcohol is sold and in the price of alcohol relative to earnings? Those changes have had an impact on consumption and on society. The profound change is not that people have flat-screen TVs or cars, but the different way in which alcohol is sold and distributed through supermarkets. For example, it is now sold on Sundays, and there is a lack of dedicated aisles—alcohol is now sold at the end of aisles, and there are promotions at tills. Those are the changes that have led to societal change, rather than its being the other way round.

Campbell Evans: John Drummond is the expert on where alcohol may be put in supermarkets, but I do not think that it can be sold outside dedicated areas any more.

We are talking about societal issues. People can choose to drink responsibly or not, and some

people may have health issues that make them drink too much, but society has changed much more widely than that, which should be reflected in our discussions.

John Drummond: Absolutely. We believe that, although price unquestionably plays a part, it is more of a cultural problem. We would like to see a cultural change in Scottish society whereby binge drinking, for example, receives the same level of opprobrium as smoking or drink-driving. That is what we ought to achieve—a cultural change that causes people to amend their drinking habits.

Paul Wheelhouse: We will perhaps not agree on the principle that I raised, but I argue that the change in the price of alcohol over that period has played a large part in the problem. The fact that it has become cheaper relative to average earnings has contributed significantly to the increase in consumption.

I turn to another issue. Table 6 in the financial memorandum gives a series of figures for the potential economic impacts on society of each level at which the minimum unit price might be set. If we take the 45p rate—that is not to say that it is the rate that the Government will choose, but it is the one that most people are familiar with—it would have a £721 million impact over 10 years and would result in an 8 per cent drop in consumption among those who are deemed to be harmful drinkers, whom it would cost, on average, £116 a year more to buy alcohol.

I appreciate that you say that the model is hypothetical and theoretical and that, in your view, it is not based on actual figures. It has been said that the proposal is not targeted at harmful drinkers, but if we roll together the health and other benefits, £417 million, or 59 per cent, of that overall £721 million impact—more than half of it—is deemed to be on those who are harmful drinkers and only £110 million, or 15 per cent is deemed to be on moderate drinkers. It has been argued that minimum unit pricing will target people indiscriminately and that moderate drinkers will be affected. Do you accept that, if those figures transpire, it will be the case that the proposal is targeted at harmful drinkers?

Campbell Evans: Those figures do not take account of people's income levels. For many people in the category to which you refer, the price of an extra pint of beer a week is neither here nor there. As the figures are not broken down by income level, we do not know what the impact will be at the different levels. Basically, we are talking about an increase in cost that is equivalent to a pint of beer a week.

John Drummond: We were disappointed that the Sheffield study did not look at different income levels. Had it done so, it might have produced

more meaningful results and more salient and specific figures. There is no question but that people on higher incomes will not be affected. There will be no incentive for them to reduce their consumption of alcohol, given that the price issue will not affect them so much.

Paul Wheelhouse: Would it not be a good thing if it transpires that harmful drinkers, many of whom are on modest incomes, are encouraged to drink less alcohol and to get their drinking under control? I appreciate that income levels are not specified, but if we accept that people on higher incomes are less likely to be encouraged to reduce their consumption of alcohol, is it not a good thing that the measure is more likely to help those who are on lower incomes to reduce their harmful drinking?

John Drummond: I would have thought that a better approach would be some kind of public education or information programme on the harmful effects of excessive drinking. Rather than the Government forcing a price strategy through the system, individual choice should play a huge part in the approach to the problem.

Paul Wheelhouse: It might be your submission or the one from the National Association of Cider Makers that refers to the Portman Group and its initiatives to reduce harmful drinking. Do you accept that, notwithstanding that there might have been a slight reduction in alcohol-related deaths as Mr Evans said, since the 1980s, that approach has not been tremendously successful in encouraging people to reduce their alcohol consumption?

Campbell Evans: It is a change in direction on which we perhaps need to build. To return to your previous point, it all depends on the choices that people make about what to do with their disposable income. They might decide to continue drinking and cut back on something else. We do not know what their reaction will be.

Paul Wheelhouse: I live 8 miles from the border, near Berwick-upon-Tweed. I think that most people in the area do their weekly shopping in Berwick anyway, because there is a very limited supply of supermarkets on the east coast until you get to Dunbar. There is a Co-op in Eyemouth, which is well used for convenience shopping, but most people tend to buy their alcohol and get their large purchases in Berwick, so I do not think that there is likely to be much impact on my area.

I want to be clear about exports and the impact on malt whisky distilling. My understanding is that, if the minimum unit price was set at 45p, it would have little, if any, impact on malts, given how the formula works, because they are already priced at above that level. Are we saying that the measure

would have virtually no impact on export earnings from malt whisky?

Campbell Evans: Malt whisky accounts for something like 8 per cent of total whisky sales. The economics of most malt whisky distilleries mean that they produce whisky that goes into blends. I am afraid that looking just at malt whisky misrepresents the economics of the industry.

Paul Wheelhouse: Fair enough. It is useful to have that clarification. Thank you.

The Convener: I am going to let John Mason ask a supplementary, but I want to say something first. I find the suggestion bizarre that if the price of alcohol goes up, people will drink just as much but spend less money on something else. If that was the case, it would indicate that the individual in question had a severe drink problem.

Is it not the case that we are beyond the stage of education, which the WHO has said is the least effective method of controlling excessive drinking—legislation is much more effective—given that 27 per cent of the adult male population and 18 per cent of the female population of Scotland drink to excess? Is it not therefore appropriate that we deal with that in the most robust way possible, which is why we are having to bring in the bill in the first place?

Campbell Evans: We are seeing those figures come down and we want to understand why that is happening and build on it.

John Drummond: For my part, I would rather see an increase in the type of activity that the Fife alcohol partnership project is undertaking in conjunction with the Scottish Government alcohol industry partnership—it is one of its initiatives. Excellent work is being done to raise awareness of some of the issues around alcohol, particularly among the young, and it is producing some good results. I would rather see more emphasis on that. Perhaps the initiative could be rolled out throughout the country.

The Convener: Is that the same Fife alcohol partnership that supports minimum pricing?

Campbell Evans: The Fife alcohol partnership does not take a view on minimum pricing; it is about making interventions at community level to try to make a difference on the ground, and understanding how we can roll out initiatives that make a difference and why some initiatives do not work. I do not know what partnership you are referring to, but it is not the one that we are discussing here.

John Mason: I want to follow up a point that Paul Wheelhouse made. Mr Drummond, if I understood you correctly, you said that drink-driving and smoking were issues that we looked at in the past. Is it not the case that they were dealt

with in a blanket manner? We did not target just the problem smokers; we said that even the one-cigarette-a-day person cannot smoke in a public place.

John Drummond: You are absolutely right, but the point that I was making is that, culturally, we now abhor drink-driving and dislike smoking. Those aspects of behaviour are now unacceptable in society. I suggest that we will not do much to reduce consumption of alcohol until we reach that level in relation to binge drinking and drinking to excess.

John Mason: Would a minimum price not send out a signal?

John Drummond: It would certainly send out a signal—there is no question about that—but, as we have said, it would still have a disproportionate impact on low-income families.

Margaret McCulloch (Central Scotland) (Lab): Can you confirm that all alcohol will be affected by minimum pricing?

Campbell Evans: Anything that is currently sold at below the level that is set will be affected.

Margaret McCulloch: Will drinks such as Buckfast be affected?

John Drummond: No. The price that it is sold at means that it will not be affected.

Margaret McCulloch: The young folk who go out during the week and at the weekend and hang about in parks tend to drink Buckfast and other such drinks. Therefore, setting a minimum price for alcohol will not target or affect those young people.

10:45

John Drummond: It will not target the ones who consume Buckfast, but such people also typically consume large quantities of cider, and cider—particularly white cider—will be significantly affected.

Margaret McCulloch: Some of the regular drinkers who go into shops probably have drink problems. With the introduction of minimum pricing, will they still drink as much but buy a cheaper brand, or will they reduce their drinking?

Campbell Evans: They will be affected, whatever the minimum price is. There will be a base level. However, the figures do not suggest that there will be a change in the number of harmful or hazardous drinkers. It looks as though the overall picture will not change.

Margaret McCulloch: So people might change to a cheaper drink but still drink the same quantity.

John Drummond: The opportunities to choose cheaper drinks will be restricted by the introduction of minimum unit pricing. The other factor will be how much disposable income people have to spend. They might review their budgets.

Paul Wheelhouse: To pick up on Margaret McCulloch's point about people buying cheaper drinks, if someone switches from a drink that has become more expensive to a cheaper product, that product will obviously have a lower alcohol content, because otherwise its price would be the same. Is that your understanding?

John Drummond: Yes.

Paul Wheelhouse: Someone will consume less alcohol if they buy a cheaper product.

John Drummond: That is highly possible.

Mark McDonald: Mr Drummond, you have made great play of the low-income families who purchase alcohol in your stores. At present, if I walk into a shop with a £20 note, I could conceivably come away with 10 times my weekly recommended allowance of units of alcohol. Surely you cannot justify that based on catering for low-income families.

John Drummond: I suggest that that is a cultural problem. If people are keen to spend that money on alcohol and consume it in that time, that presents a whole other problem.

Mark McDonald: Do you accept that the 3-litre bottles of cider that allow someone to purchase 10 times the recommended weekly allowance with a £20 note are not purchased by low-income families to have a quiet tittle of a Friday evening?

John Drummond: Absolutely. The type of families that we are thinking about are those who purchase a bottle of whisky, which might last a couple of weeks or so. That scenario will have to be rethought. Those families will reconsider what they buy. Unfortunately, as Campbell Evans said, some of them might stop buying other products.

Gavin Brown: I have a quick supplementary question on Mr Evans's point about exports. If the £500 million figure turns out to be correct—let us assume that it will, for the sake of the question—what impact will that have on jobs in Scotland?

Campbell Evans: I would not like to even guess what the figure would be. If there was a 14 per cent fall, there would be pull-back from the investment that has been taking place in bottling halls and distilleries. We are investing because we believe that there is growth potential throughout the world, and we hope that that growth will come about. I am afraid that I would hate to speculate on the numbers.

Gavin Brown: Does the Scottish Grocers Federation have a view on the total number of jobs

that could be vulnerable as a result of the minimum pricing proposal?

John Drummond: We do not have a specific figure, but there is deep concern about online and cross-border activity, especially near the border, where stores will be badly affected and retailers will reduce their staff complement and might even close, in time.

John Pentland (Motherwell and Wishaw) (Lab): Mr Evans, the Scottish Whisky Association submission says that the industry is "fundamentally opposed" to minimum unit pricing. At the same time, it says that the industry recognises that we must address alcohol misuse in Scotland and that it wants to play a part in that. What would the industry bring to the table in order to do that?

Mr Drummond, the Scottish Grocers Federation submission says that minimum unit pricing might introduce a level playing field. Do you think that minimum unit pricing would have an impact on smaller businesses?

Campbell Evans: We were founding members of the Scottish Government alcohol industry partnership, which has introduced a number of initiatives, including the Fife project that we have talked about and the alcohol awareness week that ran for four consecutive years. It has also brought forward templates for workplace policies and sponsorship guidelines.

We have said that any pricing mechanism should be legal and transparent, such as a tax-based approach whereby there would be no sales below the level of the duty and VAT on drinks. We believe that there should be some alteration to the current structure, which discriminates against Scotch whisky and taxes other drinks less. The Government in Westminster is considering that mechanism, which could be applied across the whole of the United Kingdom, which would stop some of the concerns about online and cross-border shopping.

John Drummond: On the question of the level playing field, on the face of it, if supermarkets were not allowed to sell below a certain price, that would make life more profitable for small stores. However, we want to raise a number of issues in that regard. The idea that retailers will make more money is a misconception. Some producers might decide to make a profit by increasing their cost price to the trade. Wholesalers will certainly do that and will increase their cost price to the retailer for the same reason. Demand is likely to fall as prices rise, which will adversely affect cash profit levels. If we add to that the effect of online and cross-border activity, which we have talked about, you can see why we do not support minimum unit pricing.

It is worth exploring supermarket competition in this regard. Supermarkets invariably have the opportunity to incentivise offers through online activity, loyalty schemes and their fuel business, which is something that is not available to SGF members.

The Convener: We have talked about the need for a cultural shift and about the impact on employment. However, is it not the case that many public houses in Scotland have closed in recent years because of the impact of alcohol being sold too cheaply by supermarkets and off-licences and that, if there were minimum unit pricing, it is likely that there would be a drift back to pubs, where people would be able to drink more socially and less irresponsibly—which is to say, they would not be sitting in front of the telly with a dozen cans? Would not minimum pricing, therefore, help to shift Scotland towards a more positive drinking culture?

Campbell Evans: My understanding is that many of the pubs that are doing well have sought to reflect the fact that they offer more than just a wet service. If people spend more to buy alcohol in the supermarket, they might have less to go down to the pub and spend. I therefore do not envisage what you suggest following on automatically. If you are suggesting that perhaps I should go to the pub and leave my family for the Saturday night, I am not sure that that is the solution either.

The Convener: I am intrigued by how you envisage a cultural change, but I will move on to something else. The Scottish Ambulance Service has said:

“the impact on our organisation”

of bringing in minimum pricing

“would be in productivity and efficiency gain and allowing our service to concentrate on people with healthcare needs not related to alcohol consumption of the binge drinking type.”

That would be a saving for Scottish society. The police, too, would have significant savings. The national health service has said that minimum pricing would reduce NHS costs by £90 million in the first year and by £1,965 million over 10 years, which clearly would be money that could be put into patient care.

My colleague Paul Wheelhouse quoted the first part of paragraph 23 of the financial memorandum, which goes on to say:

“Alcohol misuse acts as a brake on Scotland’s social and economic growth, costing an estimated £3.56 billion each year”.

We talked about progress being made in recent years in having small reductions in alcohol consumption. Surely minimum pricing would have a synergistic effect in that regard. Is it not a fact that alcohol costs have reduced phenomenally in

the past 20 years? What has been the change in alcohol costs over the past two decades? Has that not had a major impact on the increase in alcohol consumption over that time?

Campbell Evans: I will go back to where I came in. If we could discourage and reduce binge drinking and excessive and harmful consumption, we would totally support that. If that meant a fall in consumption, we would not have a problem with that. However, we do not believe that the minimum pricing policy would address the consumption problems. It is a blanket approach that would not cause a fall in the number of harmful and hazardous drinkers, which is why we have concerns about the policy.

The Convener: Do you think that the NHS, the police, the churches, the alcohol charities and the children’s charities are all wrong on this?

Campbell Evans: I have taken on board the Sheffield study, which shows that there would be no reduction in the number of harmful and hazardous drinkers.

John Drummond: There is no direct, causal link between price and consumption, and harmful effects of alcohol. There is certainly a correlation, but there is no causal link.

The Convener: As someone who did economics at university, I can say that, as price goes up, consumption goes down—you learn that on your first day.

John Drummond: I am referring to the harmful effects of alcohol.

The Convener: Clearly, as the World Health Organization has said, if consumption goes down overall, the population impacts do in fact reduce harm.

Paul Wheelhouse: I am sorry, but the witnesses are beginning to contradict themselves. Earlier, we were talking about the fact that price does have an impact on consumption, but now you are beginning to say that it does not.

I want to touch on the issue of pre-loading, to which the convener alluded in terms of the impact on public houses in recent years. As I mentioned earlier, I live near the English border in a community that has lost both its pubs in the past five years, largely because people are pre-loading before they go out at night. The period in which consumers hit the pubs has been condensed to about 10 pm until closing time rather than the earlier social context in which the pubs used to sell food and drink at 7 o’clock; that became no longer viable and those pubs have gone under.

I want to get your view on that, because I felt that you gave a slightly dismissive response to the convener on the issue. Pre-loading is a serious

societal issue. If you speak to any publican, they will tell you that they are dealing with people who are drunk before they even get to the pub because—Mark McDonald alluded to this—they are drinking vast quantities of White Lightning and other cheap products, such as Lambrini, before they go out. Can you respond to that point?

John Drummond: For the record, I did not say that there was no correlation between price and consumption; I said, or intended to say, that there was no causal link between that consumption and the harmful effects of drinking; intervening societal issues affect the situation.

There is no denying that there is a habit of pre-loading, but we do not think that the introduction of minimum unit pricing will change that habit. It may have some impact on it, which would be a good thing, but we believe that it will not resolve that particular issue. I hope that the people who turn up at the pubs drunk do not get served, because that would be illegal.

11:00

Paul Wheelhouse: I certainly share that concern. However, if the prices are harmonised to a degree and the off-sales price rises, that will affect supermarkets in particular. I am not necessarily pointing the finger of blame at the smaller retailers such as the Co-ops and the like—it is the larger supermarkets that tend to have the economies of scale to sell at lower prices. Do you agree that, if the gap between what the pub is charging and what the supermarket is charging is reduced, it might have a positive impact on reducing pre-loading?

John Drummond: As I said, it may have some effect.

Campbell Evans: We do not know what the impact will be, because we do not know how people will respond. There is no guarantee that people's drinking habits and the ability for them to drink together before they go out will necessarily change.

Paul Wheelhouse: Are you seriously saying that there is not an intuitive sense in your own mind that people would reduce their consumption of supermarket-sold alcohol if the price was pretty much the same as it was in a pub?

Campbell Evans: Exactly right. It will not be the same price as it will be in a pub, because the pub is charging extra for its overheads, the service and the ambience that it is creating. Unless you put the minimum price up by such an enormous amount that no alcohol would be sold in the off-trade in Scotland at all, there is no guarantee that the outcome that you are hoping for will be delivered.

Mark McDonald: I am trying to follow the way that the logic has gone here. You have argued that there is no impact on the consumption of harmful drinkers, but you argue that the bill will impact on people with low incomes. I am sure that you would accept that a large number of harmful and hazardous drinkers fall into low-income categories.

You say that demand will go down but that the bill will not impact on harmful and hazardous drinkers. How exactly can you make the argument that you will suffer a loss in demand and a loss in sales, and not correlate that with some form of impact on those people who are harmful and hazardous drinkers?

John Drummond: I am suggesting that the majority of people who buy alcohol from our stores are not necessarily—probably not—hazardous drinkers. They will review what they purchase from our stores—for example, instead of a bottle of whisky a fortnight, it may be one a month.

Mark McDonald: We have argued—and I think that you have accepted—that certain types of alcohol are predominantly purchased by hazardous drinkers. We talked about the dirt-cheap cider, for example. Why do your shops sell that?

John Drummond: It is a legal product. They sell it to make money, to put it bluntly.

Mark McDonald: Okay. Do you not think that there is something morally questionable about predicating a business model or sales strategy on selling alcohol that is predominantly used by people who are hazardous and harmful drinkers?

John Drummond: Some of our members have taken the decision not to sell that type of product, particularly when the store becomes implicated in antisocial behaviour around it. They have taken that decision because they are responsible retailers and do not want to be seen to be encouraging antisocial behaviour. In general, it is a legal product, as I said, and they sell it as part of the overall product mix in the store. It is not necessarily consumed by the type of people who cause trouble.

Mark McDonald: I disagree and suggest that I would struggle to find anyone who buys a 3-litre bottle of White Lightning because they like the taste of it, but we will leave it at that.

The Convener: I usually finish these sessions with a barrage of questions, but I think that I have asked enough. I thank the witnesses for their very forthright answers to the committee, which have been very helpful for our deliberations. I thank Mr Drummond and Mr Evans for their attendance here today.

11:04

Meeting suspended.

11:09

On resuming—

The Convener: We continue our scrutiny of the financial memorandum by taking evidence from the Scottish Government bill team. I welcome Mary Cuthbert, Donald Henderson and Marjorie Marshall. I understand that you wish to go straight to questions. I am happy to do that.

As you know, I wrote to the Chief Secretary to the Treasury asking what the impact of the bill would be on the Exchequer, and the Economic Secretary to the Treasury wrote back to me, commenting:

“I would expect the Scottish Government to take account of the potential impact on exchequer receipts when setting minimum prices under the legislation.”

Has that been done? What do you consider that impact might be?

Donald Henderson (Scottish Government): We attempt to take account of all the costs and benefits that may arise from minimum pricing. We realise that there have been estimates of the net impact on UK Government excise and VAT receipts of between plus £1 million and minus £65 million. The element that we have not modelled in more detail, although it will happen as a result of the policy being successfully implemented, is lower costs to the UK Government in later years, in the form of lower social security and unemployment costs, and the higher tax take that derives from increased economic output. We try to do that with costs that are nearer term and can be modelled. We have been doing that work, which we play into the overall assessment.

We also try to keep a broad awareness of the longer-run costs and benefits that we know will arise, but which are more difficult to put detailed figures on. My colleagues may have something more specific to add on the letter from the Economic Secretary to the Treasury.

Mary Cuthbert (Scottish Government): I add only that the letter did not actually say that the Treasury felt that the statement of funding policy would kick in—that is the view that we take in the Scottish Government.

The Convener: Yes, there was a wee bit of ambiguity in the response, but it was interesting nonetheless.

We are suggesting that there may be a reduction in Exchequer receipts in terms of duty. However, at paragraph 17, the financial memorandum talks about the £3.56 billion impact on the Scottish economy, through the reduction of

harm, reduced absenteeism, improved productivity and so on. Do you believe that there will be—and have you modelled for—a potential increase in receipts to the overall economy? How that would impact on the Exchequer in particular?

Donald Henderson: I am not aware that we have done detailed modelling on that, but, as I say, these are somewhat longer-run changes. When the Sheffield modelling results come through, that is not the element of the modelling that we rely on primarily, because we are looking at the health benefits. However, the Sheffield model produces figures for the impacts on unemployment, for instance. I think that we expect Sheffield's latest modelling to be finalised at the end of January and it will be possible to run figures based on that element of the modelling, but I am not aware that any detailed figures have been run on it so far.

Marjorie Marshall (Scottish Government): As members have seen, the model looks at the immediate impacts—the first-round impacts, as it were—of changes in price as a result of the price floor. There would be an increase in VAT because of an increase in the value of the retail price; there would also be a reduction in duty because of a reduction in the number of items to which duty is applied—there is an effect there.

The model also looks at the direct cost impacts of, for example, reductions in costs to the health service and the police. It also begins to look at second and third-round effects such as reductions in unemployment benefit, sickness benefit, presenteeism and absenteeism, as Donald Henderson said. Clearly, there will be second and third-round effects as the impacts go through the economy.

11:15

As the convener pointed out, the bill looks to an increase in the productive Scottish economy, some of which will filter back to the Treasury. However, we have not modelled where the balance will eventually lie.

The supply side of the industry is very complex. Industry representatives have already said that they do not know how things will play out. There could be an increase in VAT from other products in the economy as well. It is quite difficult to tease out all the second and third-round impacts.

The Convener: If people buy less alcohol, they will spend money on other goods and services, which would return money to the Treasury via VAT and so on, as you have said.

I am not going to hog all the questioning, because my colleagues, no doubt, want to ask a number of questions. However, it is important that

we address some of the issues that the previous witnesses put to us.

Funnily enough, at a time of boom, the industry made 700 people redundant in Kilmarnock last year, but the Scotch Whisky Association seems to feel, as does the Scottish Grocers Federation, that the bill will impact adversely on Scottish employment. As you know, the Scotch Whisky Association is suggesting that there will be a 14.5 per cent reduction in exports. Do you wish to comment on those issues?

Donald Henderson: In thinking through the impacts of the policy, we have not seen clear negative employment impacts within Scotland. That is not to say that there will be absolutely nil change, because clearly a part of the marketplace will change and it will be down to individual employers to decide how they react to that. There may well be sectoral differences.

We found it difficult to see how there will be significant negative employment consequences in Scotland. If anything, we think that there will be positive consequences, because of the current adverse impacts of the wrong kind of alcohol use.

I was struck by the fact that neither John Drummond nor Campbell Evans was able to put any figures on the employment impacts. Even though the Scotch Whisky Association has done modelling based on certain assumptions—that is how all modelling must be done—about export impacts, it was not able to draw attention to any clear employment projection.

We have found it difficult to see any significant negative employment impact. The easier employment impact to spot is a positive one.

The Convener: I have one last question before I invite colleagues to come in.

The previous witnesses talked at some length about harm reduction and suggested that a reduction in alcohol consumption would not have an impact in terms of reduced harm. What do you think about that? What evidence do you have on that issue?

Donald Henderson: As you pointed out, there is a very clearly established link between affordability and consumption. There is an equally clear link at the population level between consumption and harm. A reduction in consumption that has an impact on elements of the population who are drinking to hazardous levels will carry health benefits. It is pretty straightforward.

John Mason: I will ask the same questions that I asked the previous panel, which was a bit one-sided because one of the witnesses cancelled. Will the level at which the unit price is set have varying impacts on jobs among the producers—

the brewers or distillers—and in shops? Are the impacts very sensitive to the price that we choose?

Donald Henderson: That is not clear. Of course, we await the rerun of the Sheffield model, which takes into account quite a significant number of new data sets that have become available. We look at any new national or international evidence that is available.

So far, we have not seen a clear point at which a small change in price means a very big change in demand. It is not quite a straight line. There are no huge great big leaps at any particular point in the curve. Where there is a link between employment and sales or consumption, it suggests that a small change in price would not lead to a magnified impact on employment or profitability.

John Mason: Presumably a minimum unit price of 45p would not have a big impact, but one of 90p or more would.

Donald Henderson: Quite. If one extends minimum pricing to much higher price levels, the impact on the marketplace is far greater. In the thinking behind the bill, we have not considered a minimum unit price of 90p, £1 or anything close to that.

John Mason: The previous witnesses put quite a lot of stress on the issue of people buying on the internet or going south of the border to shop. Internet shopping for alcohol is a small but growing market. How much would those methods of buying be affected by minimum pricing?

Donald Henderson: I was glad that there were some figures on the scale of the increase in internet buying. The level starts from a low base but the percentage increases per annum—with or without minimum pricing—are quite significant, and we all expect that to continue.

The product ranges on which the existing internet market is based are not primarily those on which there will be a significant impact. If one assumes that when the new modelling is available ministers propose 45p or thereabouts—as Parliament considered in the previous session—and that the level does not suddenly leap to 75p, 90p or £1, a whole new sector in internet sales would have to open up for minimum pricing to have a significant impact on that market.

Until now, internet sales have been based largely on wine, although there is a bit of a specialist spirits market and a specialist beer market. In wine, even when companies are offering a first-case-for-half-price deal, for example, the price per unit is, at best, down towards 45p. However, the standard prices that customers revert to after that introductory offer are very clearly above the level that ministers have

previously looked at in relation to minimum pricing. It would take a fundamental change in the marketplace for minimum pricing to have a significant impact.

John Mason: What about somebody from Glasgow or Edinburgh driving south to stock up on white wine or whatever?

Donald Henderson: It comes down to economics. Committee members have noted the effect of petrol prices on journeys involving people who live a relatively short distance from the border. For instance, it costs more than £10 to drive even from Dumfries to Carlisle and back by the time you consider wear and tear on the car, petrol and so on—the total cost is closer to £30 or £40.

For someone who is planning a big celebration that may be worth it—we may see a bit of that happening—but for the vast bulk of alcohol sales in Scotland it does not seem at all likely that there will be significant cross-border trade. There are three land borders within these islands. The biggest cross-border traffic flow is between the north and south of Ireland, where of course there is a currency difference. Although it is currency that drives that, currency affects all aspects of shopping and not just one particular product or, in the case of minimum pricing, certain price bands within a product category.

In addition, in relation to population levels either side of the English-Welsh border, either side of the border in Ireland and either side of the Scottish-English border, the least populated border area is the Scottish-English one. People would have to travel longer distances, which would make the activity less economically viable, so it would happen less.

John Mason: I apologise to white wine drinkers; I meant to refer to white cider in my question.

Margaret McCulloch: Good morning. Under “Employment-related benefits” in the clerk’s paper, paragraph 42 says that minimum pricing will benefit individuals and reduce unemployment. The Scottish Government assumes that 1,200 individuals will leave unemployment and find work. Has the Scottish Government considered how realistic it is to assume that those 1,200 people will be able to find work in the present economic climate?

Donald Henderson: For a longer-run policy such as minimum pricing, one must look to the long run in assessing impacts. Shorter-term impacts in the economy as a whole will inevitably mean that the figures look better or worse, but we argue that the long run needs to be looked at.

One point to bear in mind in relation to people’s employability is that, if someone had to leave

employment as a result of an alcohol problem—whether that was the direct reason for dismissal or was in the background—that makes it inherently more difficult for them to come back into the labour market, regardless of what the economic or employment situation looks like. If we can remove that factor for such individuals and for the economy as a whole, that will create a benefit, whatever the economic backdrop is.

Marjorie Marshall: I emphasise that the benefit relates to employability and the change in the individual. It is clear that the macroeconomic situation has an impact on the possibility of employment, but we will help people to be much more employable, irrespective of the macroeconomic situation.

Margaret McCulloch: As a result of the policy, will more money be invested to support people who have drink-related problems to get back into employment?

Marjorie Marshall: That is a separate issue, which my colleagues might want to pick up. The question illustrates that minimum pricing is only one part of a raft of policy initiatives that are being undertaken.

Mary Cuthbert: The measure must be seen in the context of a much wider framework for action that the Scottish Government has undertaken and driven forward. That includes record investment in alcohol treatment services. You should not see the bill in isolation. In a lot of the earlier discussion, the policy tended to be seen in isolation from everything else that is going on to tackle the misuse of alcohol.

Margaret McCulloch: One of the earlier witnesses—I do not remember whether it was Mr Drummond or Mr Evans—mentioned that the University of Sheffield’s study was the only study that the Government had taken account of. Did you look at other universities’ work?

Donald Henderson: That comment was not right. Sheffield’s work contains the work of a great many other studies from around the world and from different time series. The model takes account of the maximum that it can take account of.

We look at every piece of information and every argument that we think has a bearing on aspects of the policy. We are by no means limiting ourselves to one advice source.

Margaret McCulloch: So you did not consider just Sheffield’s work.

Donald Henderson: When ministers take a decision on the price to propose to the Parliament, they will look to Sheffield’s work—that will be one of the more important elements—but they will also

look at the totality of evidence that is available to them.

Mary Cuthbert: It is worth remembering that the bill contains the principle of minimum pricing of alcohol, which is backed by more than 100 studies. We will use the Sheffield model to identify the price that might be proportionate, although ministers will take other things into account, as Donald Henderson said. It is important to bear in mind that there is a strong evidence base.

11:30

Gavin Brown: We received evidence from the Scotch Whisky Association that, potentially, £500 million a year could be lost in exports. What is your analysis of that?

Donald Henderson: It is up to the Scotch Whisky Association to justify its arguments and the econometric model that it used to estimate the impacts.

This is posited on the policy passing into law, as ministers hope it will, but as there is a big enough issue of principle, most people expect that somebody will challenge the policy in the courts. We do not seek that, but we will take the court case if it comes. I think that Campbell Evans said that, if there is a court case and the courts judge that the policy is perfectly legal, that will be the point at which other countries will be able to use a similar policy. Using that logic, in that court case, whether in the domestic courts or in the European Court of Justice in Luxembourg, the individual facts of the case would be important in reaching a conclusion.

If another country, such as one of those that Campbell Evans mentioned, attempted to introduce non-tariff trade barriers on the basis of spurious argumentation or argumentation that was fundamentally different from those in the case in the domestic courts or Luxembourg, the Scottish Government and, I guess, the UK Government—and potentially the European Commission, which weighs in on international trade disputes—would argue that the other country was trying to introduce not a parallel measure that was justified under World Trade Organization agreements, but a measure that constituted an illegal non-tariff trade barrier.

Gavin Brown: So your view is that the impact on exports will be nil.

Donald Henderson: It is difficult for us to say that there will be nil impact, but we are not persuaded by the figures in the Scotch Whisky Association's claims. We have not seen the details of the model, but it is based on a great many assumptions. The relationships that inevitably lie at the core of a model that speculates on export

impacts are nowhere near as well understood as those in the Sheffield model, which as Mary Cuthbert said is based on 100 separate studies and clear economic linkages between affordability and pricing and consumption and harm. We have not found the Scotch Whisky Association's claims persuasive.

Gavin Brown: What is Scottish Development International's view?

Donald Henderson: I am not sure that it has offered us a view.

Gavin Brown: Have you sought its view?

Donald Henderson: I confess that I am not sure.

Gavin Brown: Scottish Development International is the Scottish Government agency that is charged with dealing with exports. We spend tens of millions of pounds a year on it. Its sole job is to deal with exports and inward investment.

Donald Henderson: That is a good point. I will ensure that SDI is contacted this very afternoon. In past jobs, I have had extremely close linkages with SDI. Indeed, I used to work for a predecessor organisation. However, SDI has not contacted us at official level to say, "Watch out—there is a massive impact and the SWA's modelling seems persuasive." We have not contacted SDI, but we will do that so that we understand exactly what it thinks rather than take its silence as meaning something.

Gavin Brown: I have the same question with regard to the enterprise agencies.

Donald Henderson: As you know, SDI is a joint venture between the Scottish Government, Scottish Enterprise and Highlands and Islands Enterprise. In asking SDI, we would be tapping into that whole process.

Gavin Brown: But you have not spoken to those agencies thus far.

Marjorie Marshall: Throughout the development of the policy, we have been in contact with colleagues in food and drink who have close contacts with the Scotch whisky industry, and they are well aware of the policy and its potential implications. We have heard nothing from them to suggest that they are fundamentally opposed to the policy or that they have any particular problems with any of the estimates. However, we are willing to explore that.

Gavin Brown: You have agreed to contact and seek the view of the agencies. The committee has to produce a report for the lead committee on the issue, so could you share their responses and views in advance of our producing that report, which has to be submitted on 18 January?

Donald Henderson: We certainly will.

Paul Wheelhouse: I have questions about two separate but interrelated aspects to drill down into the impact of the measure on harmful drinkers. I raised the point with previous witnesses about 59 per cent of the assumed financial or economic impact being on harmful drinkers. Can you confirm that my understanding of that is correct and that one can therefore assume that the measure is targeted specifically at harmful drinking?

Donald Henderson: Yes, although it is worth saying that when we talk about harmful and hazardous drinkers, that does not simply mean people who suffer from alcoholism, or binge drinkers, or other smaller groups in society that tend to have a particular focus. One of our problems is that a great many people are drinking at unhealthy levels, such as those who might be eating their five a day and exercising, but are also drinking three quarters of a bottle of wine a night. They are not binge drinkers. They are not ripping up the streets in the city centre of a weekend or causing criminal justice problems. However, on an all-population basis, they are likely to be doing harm to themselves by increasing their risks of cancer, stroke and cardiac problems.

When we talk about harmful and hazardous drinking, there is a straightforward answer but there is a much broader problem, which is why the Government is introducing the measure.

Paul Wheelhouse: With that in mind, we have impact figures for a 10-year period, but given the nature of alcohol abuse and the fact that people do that throughout their entire lives, is it fair to assume that, if we were to extend the timeline and look at an individual's alcohol consumption over their lifespan, we might be underplaying the impact of the proposed measure on such individuals?

Donald Henderson: Yes, it might be. When we do modelling and projections, the further we get from the point of producing them, the more variance there is. The benefits do not stop at the end of 10 years. They carry on and, in some cases, continue to grow.

Paul Wheelhouse: I imagine that some illnesses, such as cirrhosis, and other conditions present later in life. Someone who starts off as a teenage harmful drinker might be impacted on when they are in their 30s or even later.

Donald Henderson: At individual level, it takes a significant number of years to develop cirrhosis, but at population level we expect to see the benefits of the measure after about two or three years. With cirrhosis, people reach a point at which it happens and it is then irreversible; that is the nature of it—it is like marching towards a cliff. At an earlier stage, when the liver has been turned

into fatty tissue, the condition is reversible but when it turns into cirrhosis, it is not. If we can prevent people from marching towards that cliff, or slow them down, even if they have significant liver damage, that will not turn into cirrhosis. If we can stop people marching towards that cliff in the first place, the benefits will come 10 or 20 years down the line.

Paul Wheelhouse: My second point is about pre-loading and the fact that people often come to the public house or on-sales trade having consumed at least some alcohol and often a lot. I mentioned the example of my village, where both pubs have closed recently predominantly because of the impact of supermarkets, given where we are located. I was not particularly satisfied with the previous witnesses' response, so I am interested in your views on the nature and scale of the present problem, and on whether there might be a positive impact on the on-sales trade.

Donald Henderson: I do not know whether we have any specific data on pre-loading, but we expect the difference between on-sales prices and off-sales prices to shrink. That is one of the beauties of the minimum pricing policy, as opposed to trying to achieve a similar result through excise. The shrinking differential would have some impact on alcohol consumption, and it would have some impact on the settings in which alcohol is consumed. The on-sales sector would benefit from that.

Paul Wheelhouse: So, the model may show a positive impact on on-sales. Some witnesses have said that the bill will have negative impacts on some sectors of the economy—although some of us dispute that—but it seems that there might be positive impacts in other sectors of the market.

Donald Henderson: Marjorie Marshall will be able to add to this, but after taking account of the 100 studies, Sheffield believes that there will be some shift from an off-sales setting to an on-sales setting. That has been built into the model.

Marjorie Marshall: The Sheffield model suggests some shift, particularly in beer sales. That view has been supported by the latest piece of work on price elasticity for Her Majesty's Revenue and Customs, which suggested that people were quite sensitive to changes in the price of off-sales beer. So, in that sector, there might well be a shift from off-sales to on-sales. I presume that that is because draught beer tastes better than stuff in cans.

John Pentland: Both the cabinet secretary, Nicola Sturgeon, and the Presiding Officer, Tricia Marwick, are of the view that the provisions in the Alcohol (Minimum Pricing) (Scotland) Bill would be within the legislative competence of the Scottish Parliament. However, in his evidence, Mr Evans

raised some concerns over whether they would be. Can you reassure Mr Evans?

Donald Henderson: I am not sure that I will be successful. Two aspects arise. The first is that, as you know, the bill does not contain the price; secondary legislation will follow, and ministers would aim to have that before the Health and Sport Committee in time for stage 2 of the bill.

Secondly, the European Commission has said that nothing in Community law prevents a minimum price from being set for alcohol. However, one cannot set a minimum price that is not justified by health benefits on the one hand and marketplace impacts on the other. For both of them, the response has to be proportionate. However, the principle of the bill is perfectly plain, and the European Commission has confirmed in writing that nothing in Community law would prevent the introduction of the principle.

Having considered the evidence, and in proposing a price to Parliament, ministers will be assessing the impact on the market and a variety of other benefits and costs. They will consider the whole situation in order to achieve a proportionate response, so that, if we end up in court, we will be able to defend our case successfully. It is perfectly plain that the principle is acceptable; we believe that it is equally plain that a price can be set to achieve the balance between health benefits and marketplace impacts.

11:45

John Pentland: Has any legal advice on the proposals been published?

Donald Henderson: As you know, it is a long-standing tradition that Governments do not publish the legal advice that has been made available to them. I am not aware of other bodies that are not subject to that constraint having published their legal advice, but such bodies would be able to publish their legal advice if they so chose.

The Convener: Is it not the case not only that the present bill has been ruled to be legal under Community law by Tricia Marwick but the previous bill on minimum pricing was ruled to be so by the Presiding Officer in the previous session of Parliament, Alex Fergusson?

Donald Henderson: That is a fact.

John Mason: Another area that has not been mentioned that I want to touch on is that of illegal production or tampering with alcohol by, for example, diluting it. If that happens and more people start buying such products, I presume that that would have an effect. Does that possibility put pressure on councils, as the licensing authorities? Some councils have suggested that they might

incur extra costs if they have to do a lot of extra work. What is your response to that?

Donald Henderson: On the generality, a new duty will be created for local trading standards officers, but a new duty was created for them in relation to the ban on smoking in public places. Following the right preparation, that was introduced highly successfully and without imposing a significant additional long-term burden on those officers, and we think that this policy can be achieved in the same way.

There are various aspects to the potential illegal production and sale of alcohol, which we speak about to HMRC and others. You gave the example of a retailer selling illegal alcohol. The penalties for that are highly significant. Under certain aspects of the Licensing (Scotland) Act 2005, there is a fine of £20,000 or six months in jail. Given that that is the case, we do not think that a significant number of retailers—who, after all, are responsible; it is a responsible sector—will take on those risks or would want to take them on, and my guess is that the industry bodies would say the same. I do not think that there is any evidence to suggest that retailers would do that.

With regard to illegal sales that do not involve established retail outlets, there may be a bit of growth in that. There has probably been a bit of growth in the area of white spirits, but alcohol, because it is a liquid, is, by its nature, a bulky, heavy product, which means that there are inherent limits on how it can be sold to people. Illicit tobacco sales are a big problem. The issue is partly about non-duty-paid products and partly about stuff that is little better than sweepings, which is even more dangerous than the normal products. Tobacco is light and not particularly bulky, given its value. Alcohol is the opposite—that is true even of products such as vodka, never mind beer or cider—so I do not find persuasive the argument that that will be a huge growth area.

John Mason: That is helpful.

The Convener: You cover that quite well in paragraph 58 of the financial memorandum, in which you say:

“The Scottish Government is not aware that illegal sales of alcohol are a significant problem.”

They were estimated to account for around 2 per cent of total consumption across the UK, but that figure

“has been falling since 2005-06.”

Given your comments on the weight of alcohol products and the difficulty of selling them illegally, your view is that there will be no great impact in that area.

Donald Henderson: It is difficult to see minimum pricing having a significant impact on that.

Mark McDonald: I say by way of a preamble that the image of bootlegging and running drink across the border that was presented earlier would have been more appropriate in the context of a discussion about prohibition than in that of a discussion about minimum pricing. The only thing that we were not told would happen was the rise of the speakeasy.

I wonder whether you will comment on some of the societal impacts that I have not seen mentioned in the financial memorandum, but which I think might be derived from minimum pricing. Have you done any analysis or modelling of potential reductions in, or likely impacts on, for example, homelessness and tenancy forfeiture; marital or relationship breakdowns, which obviously impact on homelessness and tenancy forfeiture; and domestic abuse, which has a cost to the police and the health service?

Marjorie Marshall: The modelling does not specifically address all the areas that you highlighted. As you have heard, there is very good and hard evidence on direct correlations between consumption and health harms and fairly good evidence on correlations between consumption and crime. The modelling that was done in conjunction with other studies suggested a reduction in crime and antisocial behaviour; for example, we know that the majority of prisoners—including 70 per cent of people in young offenders institutions—say that they were drunk at the time of their offence, and we would suggest that there would be a reduction in that respect.

With regard to the specific categories that you mentioned, we know that around 65,000 young people live in a home in which there is parental drug or alcohol abuse, and we expect that some of those children will benefit from this move. As for domestic abuse, you are correct. Certainly the majority of incidents that come before the domestic abuse court in Glasgow appear to be related to alcohol.

Although reductions in homelessness and domestic abuse were not covered specifically in the modelling, it takes account of the reduction in crime and antisocial behaviour. As I said, however, there is good evidence on those other social concerns and although we cannot quantify them we certainly expect there to be reductions in those areas.

Donald Henderson: It follows that the estimated £3.6 billion for the total cost of alcohol misuse, which is a mid-point between an upper and lower estimate, does not include many family or broader community costs.

Marjorie Marshall: Actually it does.

Donald Henderson: It includes some, but not all.

Marjorie Marshall: It includes, for example, costs to the children's hearings system. In some cases, the exact impact is quite difficult to capture and quantify.

Mark McDonald: It has been contended that if the price of alcohol is put up, all that will happen is that people who fall into the harmful or hazardous category or who have specific alcohol problems will, instead of buying a pack of fish fingers for the kids' tea and a bottle of whisky, just buy the whisky. Do you have any comment about that contention?

Donald Henderson: The evidence suggests that that is not what will happen. I suspect that in any big population it will be possible to find individuals who might react in that way; equally, however, individuals will react in an even greater way to reduce their alcohol consumption than the centre point in the model would suggest. It balances out as a reduction for hazardous drinkers—and, in some ways, a bigger reduction for them than for elsewhere in the population, partly because the percentage movement might be bigger than for other groups in society and partly because the percentage reduction represents a greater reduction in unit numbers. After all, the percentage is applied to a larger number in the first place.

Marjorie Marshall: First, we need to distinguish between the—fortunately—very small number of truly dependent drinkers and those who are categorised as hazardous and harmful drinkers. In the upper, harmful drinkers category, which comprises men who drink more than 50 units a week and women who drink more than 35 units a week, all the evidence suggests that, irrespective of the level at which they are drinking, everyone will respond to a price increase and that it is predominantly those who drink most heavily and young people who buy cheap drink. Indeed, a Royal Edinburgh hospital study that was carried out by Jonathan Chick showed that those who drink incredibly heavily predominantly drink very cheap alcohol. As I have said, all the evidence suggests that they respond to price increases. They switch as much as they can until they get to the cheapest drinks and then reduce their consumption in response to price.

Mark McDonald: I observed earlier that I could walk into a shop with a £20 note and buy in the region of 10 times my weekly recommended allowance of alcohol units, depending on the product purchased. I presume that that could never be done under a minimum price model,

because the price of the products would be prohibitive.

Donald Henderson: Absolutely. With the prices that we have seen, we think that it is more likely that you would get five times the weekly limit for 20 quid. However, it is still a huge number. There are clearly regional differentiations in pricing and particular special offers can arise. However, the broader point is absolutely correct. The benefit of minimum pricing compared with doing something through excise, even if such powers were available to Scottish ministers, is that it targets the area of the marketplace that needs targeted, which is low and low-middle pricing in an off-sales setting; it does not impact on parts of the market that do not contribute to the public health problem, which is upper-middle and upper pricing or the on-sales setting.

Margaret McCulloch: One of the issues is non-domestic rates. A public health levy is proposed for large retail properties that sell tobacco and alcohol. Is there a risk that minimum pricing for alcohol will mean that such large stores will shift their costs on to the prices of other items that they sell in order to compensate for the drop in alcohol sales as a result of minimum pricing? Could there also be staff reductions because of that?

Donald Henderson: The public health supplement is not my area—it is a finance question. I appreciate of course that this is the Finance Committee, so the question is pretty relevant, but I am not the big expert on the matter.

I think that the expected take from the public health supplement is about £30 million or £40 million a year, which is a small amount. The supplement applies only to certain stores and companies—I think that it is 240-odd outlets; the biggest ones—and it is such a small percentage, whether one looks at turnover, profit or anything else, in terms of the material costs arising from it and in terms of the prices of individual products. Again, I am not the expert on the matter, but I have seen no evidence to suggest that it would have a significant impact.

Margaret McCulloch: Could large stores shift the losses that they may make on alcohol on to other items?

Donald Henderson: The supplement is such a small percentage of the profit that they make, never mind of the turnover in those individual outlets or of the group turnover or profit. One would never say that any price impact, however small, could ever be immaterial, but it is such a small percentage that is difficult to see how any meaningful impact would arise.

Margaret McCulloch: People on low incomes could see their household shopping budget rise because of this.

Donald Henderson: I am not saying that they will; you are positing that argument. I am saying that I have not seen any evidence that that is how the companies would react. If anything, one might suggest that those most price-sensitive points in the marketplace are the very last place that supermarkets would look to move prices, because they are price sensitive—QED. However, that is a matter for them as retailers and not for us. I simply say that I have seen no evidence to suggest that there would be an impact.

The Convener: Is it not the case that the levy would be less than 0.1 per cent of the large stores' income and that alcohol at the moment is often sold as a loss leader? In other words, it is cross-subsidised by other products in order to bring people into the store; other products are promoted by selling alcohol at below cost on occasion.

12:00

Donald Henderson: I hope that there is an excuse for me as head of the public health division not knowing the 0.1 per cent figure, but there would be no excuse for you as Finance Committee convener not knowing it. [*Laughter.*] Sorry for the flippancy—I recognise the figure.

It is difficult to answer questions on loss leading. Companies have not said in meetings with us, "Yes, we loss lead" or "Yes, we loss lead to this extent", because it is commercially sensitive information for them and their competitors. However, it is pretty well known—for instance, it is referenced in trade magazines—that the pricing of alcohol drives footfall and that, on occasion, retailers will subsidise pricing to generate footfall.

The nature of the approach means that they are not taking profit in those product lines and that they require subsidisation from elsewhere. We do not know whether it is from other alcohol products or elsewhere on the shop floor, but cross-subsidisation takes place in some stores and on some product lines.

The Convener: Therefore, it is unlikely—to put it mildly—that consumers will see the cost of other goods going up as a result of the policy.

Donald Henderson: It is a reaction for individual retailers to take, but those are the reasons why one cannot reach the straightforward conclusion that there will be price rises. The supermarkets say to us that they will lose some of their price advantage and sales to the corner shops, but we are pretty sure that they will not lose so many of their sales that they will lose the extra income that they would gain.

The Convener: Indeed. Volume will go down but overall income to the supermarkets will potentially increase.

Gavin Brown: In the financial memorandum, you state that if the minimum price per unit is 45p, which you said is the price that people are most familiar with, the cost to individuals per annum would be £96 million. Do you have figures for what percentage of that £96 million would be borne by moderate, hazardous and harmful drinkers?

Donald Henderson: We either have those figures or can compute them for you.

Marjorie Marshall: They are in table 3 of the financial memorandum, which is on page 11 in my version. It looks at the overall change for moderate, hazardous and harmful drinkers and shows the average change in spend per drinker per annum—I realise that a “per annum” is possibly missing from the table. It illustrates that the additional spend is mainly for harmful drinkers.

Gavin Brown: I am familiar with table 3, but the figures in it are per person. My question is really about the figure per head multiplied by the number of drinkers in each category. Can we get that?

Marjorie Marshall: My apologies. That may not have been a table in the financial memorandum, but it is perfectly possible to provide the committee with that information.

Gavin Brown: That would be helpful.

My final question is on table 6 of the financial memorandum. Let us again take 45p as the minimum unit price, for the sake of argument. If I read the table correctly, the cost to individuals per annum would be £96 million. At year one, the health benefits, including quality-adjusted life years, would total £20 million, the crime benefits would total £4 million and the employment benefits £28 million. Is it correct to say that, in year one, the cost to individuals would be £96 million but the benefits would be £52 million?

Donald Henderson: Yes, based on the benefits that we have costed, which are in that table. I would have to look at—

Gavin Brown: Are there benefits that you have not costed?

Donald Henderson: That is what I would have to look at. As was mentioned in relation to Mark McDonald’s question, there are some benefits that we have not costed, so I would have to look at the detail.

We need to provide information on where the costs and benefits arise—that is what that table attempts to do. There is a cumulative benefit, rather than a benefit in year 1. For example, people who have cirrhosis or are marching towards the cliff where they will get it might not show the benefits of a change in their consumption behaviour over even a relatively

short period, but they will see cumulative health benefits.

Gavin Brown: I accept that, but even if you add the 10-year figures in table 6—the £452 million, the £31 million and the £237 million—that still works out lower than 10 times £96 million. My mental arithmetic is not fantastic, but I think that that is correct.

Donald Henderson: It does work out less, and we will need to consider whether there are other elements—

Marjorie Marshall: It should be noted that the 10-year cost is discounted. It is not just 10 times one year; it is a valuation at current levels. That means that the value next year is discounted and the value in the third year is discounted again. We value things differently now from the way in which we value things in 10 years’ time, so there is a standard element of discounting that is applied in terms of valuation. It is not actually 10 times the figure, if you understand what I am saying. I am sorry; I am making a bad—

The Convener: So there is a cumulative impact.

Marjorie Marshall: There is a cumulative impact but the impact of quality-adjusted life year values over 10 years is not just 10 times the valuation in one year, partly because of the cumulative effect that my colleague described, particularly in relation to health, and partly because, when we look into the future, we discount the value of something in the future back to a present-day value—we reduce the value because there is an assumption about time preference, which is to say, we would rather have the benefits now than in 10 years’ time.

Gavin Brown: Just for clarity, the figures in that table—the £452 million and so on, which correspond with a minimum price per unit of 45p—are the cumulative figures, are they not? They are not 10 times the one year figures. The column heading is, “Over 10 years”.

Marjorie Marshall: They are cumulative and they are discounted.

Donald Henderson: Yes, there are two factors involved there. One is the accumulation; the other is the discounting.

The Convener: Table 3 shows that, at a minimum price per unit of 45p, the increase in annual spend will be £8 for moderate drinkers and £116 for harmful drinkers, which is 14.5 times the amount of the increase that moderate drinkers will experience, or a 1,350 per cent differential. Is that correct?

Donald Henderson: Yes.

The Convener: A lot of things are not being counted. Paragraph 66 says:

“The wider costs of crime to society (not including direct costs to victims) are estimated to reduce by up to £16m in the first year and by up to £138m over 10 years”.

That does not include the value of

“property stolen, damaged or destroyed, insurance administration and criminal justice system costs.”

Of course, the emotional costs that are incurred by someone who is abused by a partner or a spouse are not included, and neither is the impact on families that are adversely affected by harmful drinking in the home.

It is almost impossible to fully quantify all that, but is more work being done to try to put a figure on some of those issues? I know that we do not always want to reduce this debate to a two-dimensional, financial matter, but we are the Finance Committee, and it is important that, if possible, we get some more figures on these issues.

Marjorie Marshall: The issue of the wider costs to society is being looked at, but I do not think that it is likely to be reflected in any costs that we will present to the committee, given the timescale to which we are operating. I recognise that the costs that we have presented are an underestimate, but I guess that we would argue that it is better that we are conservative in our estimates.

The Convener: Indeed.

Gavin Brown: The convener talked about paragraph 66 and the wider costs of crime to society. Am I correct in thinking that the figures in that paragraph are included in table 6? They seem to match exactly.

Marjorie Marshall: The convener is correct to say that the costs are not completely inclusive and do not include, for example, the cost of domestic abuse. There are costs of crime that are direct costs to the victim, but some wider societal costs are not included.

Donald Henderson: It might be helpful if we wrote to the committee to set out the areas that are not included. They are the sorts of areas that I talked about in response to Mark McDonald, but I understand that the committee needs clarity on the issue.

The Convener: The committee would appreciate that.

John Mason: On table 6—perhaps I have not picked this up—is the £96 million cost to individuals based on an assumption that people will carry on drinking the same amount, or does it take account of the estimated reduction in consumption?

Marjorie Marshall: It assumes that they will respond to the price increase. Different groups of drinkers will respond in different ways. People’s

sensitivity to price increases will be different. The figures on the changes in how much people spend are based on the assumption that they will reduce their consumption but increase their spending, because the price floor will mean that they cannot buy at a very low price.

Mark McDonald: I appreciate that the Finance Committee must consider the bill’s financial impact. However, do you accept that there will be impacts that cannot be measured financially, such as the emotional benefit from a marriage continuing instead of breaking up? That is a benefit on which we cannot necessarily put a price tag.

Marjorie Marshall: I agree. There is an attempt to quantify health benefits, in relation to quality-adjusted life years, but there are undoubtedly wider costs to society. In particular, impacts on people other than the drinker are difficult to capture and are not quantified in any of the financial evaluations.

Mark McDonald: It must also be difficult to quantify the impact on children of growing up in a house where harmful or dependent drinking is going on. Such children might go on to become dependent or harmful drinkers themselves—

Donald Henderson: And worse. There is compelling information about people who have grown up in such households entering into abusive relationships in later years. We know that there is a huge impact, but it is enormously difficult to cost.

Paul Wheelhouse: On Gavin Brown’s point about table 6 and the £96 million, I thought that that was dealt with in table 5, “Effect on drinkers for total population (£m): 45p minimum price per unit”, which shows the £96 million as being made up of £21 million from moderate drinkers, £45 million from hazardous drinkers and £28 million from harmful drinkers. Is that correct?

Marjorie Marshall: Yes, and I thank you for noting something that I had highlighted in red but failed to bring to your attention.

The Convener: We are switched on in this committee.

I thank the witnesses for their answers and evidence and I look forward to receiving the further information that we talked about. We will move into private session for items 4, 5 and 6.

12:14

Meeting continued in private until 12:31.

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