

Submission to the Health, Social Care and Sport Committee

Scottish Grocers Federation evidence on Alcohol (Minimum) Pricing (Scotland) Act

SGF has been made aware that there the Scottish Government intend to announce its decision on the adjusted value of MUP in late January, early February 2024.

The implementation period for any changes is of critical importance for retailers will vary in relation to the amendments that have been proposed. We are of the opinion that there is strong evidence that there should be a reasonable delay before any new prices come into force. Approximately twelve months.

1. Background on the importance of the Scottish Convenience Sector.

The Scottish Grocers' Federation (SGF) is the trade association for the Scottish Convenience Store Sector. There are 5,171 convenience stores in Scotland, which includes all the major symbol groups, co-op and convenience multiples in Scotland. SGF promotes responsible community retailing and works with key stakeholders to encourage a greater understanding of the contribution convenience retailers make to Scotland's communities. In total, convenience stores provide over 49,000 jobs in Scotland.

Modern local convenience stores are community assets, from offering busy families a top-up shop facility on the one hand, to helping patrons (particularly vulnerable people) manage their weekly household budgets during the cost-of-living crisis. While also providing an essential alternative to larger or out of town supermarkets.

According to our Scottish Local Shop Report 2023 (SLSR 2023), the valued services provided by local shops include post office services (27%), bill payment services (76%) and free-to-use cash machines (47%). Further details can be found at: www.sgfscot.co.uk/publications/sgf-scottish-local-shop-report-2023

Many people rely on their local convenience store with the average shopper visiting their local store 2.7 times per week. During the Covid pandemic, in particular, local shops were on the front line, providing essential services for many vulnerable people and communities. The personal interaction with your local retailer is now almost uniquely reserved for your local convenience store.

However, many convenience retail businesses are operating in an extremely challenging trading environment and the Scottish Government has recognised the potential impacts of overregulation on business. In addition to meeting the requirements of new regulations, such as Minimum Unit Pricing; potential restrictions to the promotion of alcohol products, foods high in fat, sugar & salt and vaping products; and a reduction in Non-Domestic Rates relief, the sector as a whole is among the hardest hit by issues such as increasing food inflation, higher than normal interest rates, the cost-of-living crisis and rising energy costs.

The cumulative cost burden of legislation, on top of the pressure of these other factors, is significantly adding to vulnerability of many businesses. That means fewer jobs in the community, a decreased tax take, and fewer choices for customers.

Convenience stores provide a range of key services for their customers, and this includes that ability to be able to offer their customers a full range of products, i.e. giving the customer the chance purchase an alcoholic beverage as an accompaniment with home dining. Providing a "full basket" for customers is an essential service for customers and retailers alike.

2. The outlook and current impact of Minimum Unit Pricing.

Being able to offer customers a diverse range of goods at a reasonable price is incredibly important to local convenience stores and the sector as a whole. Modern convenience stores now offer a wide range of both products and services, from deli counters and coffee to collection lockers to free access to cash, bill payment services, and post-office facilities.

While SGF agrees with and supports the proposed aims of the Scottish Government, to reduce harm caused by the excessive consumption of alcohol, it is not yet clear that Minimum Unit Price (MUP) has had any beneficial impact on those it is intended to target.

The Scottish alcohol sector remains a globally celebrated and a vital part of the Scottish Economy. It is also an important sales category for the viability of many Scottish businesses, including our member's stores, and enjoyed in moderation by millions of customers. Many of whom will have to pay more if there is an increase to the MUP.

For these reasons, and those set out below, SGF is of the view that education and public awareness will have a far greater beneficial impact on drinking habits in Scotland than further regulation, price rises and restrictions.

A typical convenience store offers a range of at least 17 kinds of different product categories. Whilst it is ancillary to wider ranges of grocery and retail, alcohol accounts for 15.9 % of total sales turnover. According to our Scottish Local Shop Report 2023 (SLSR 2023). In addition, approximately 74% of convenience stores have an alcohol licence.

However, many convenience retail businesses are facing an extremely challenging trading environment. High energy costs, increased inflation, food inflation and interest rates, and the cost-of-living crisis is not only impacting on the budgets of many struggling households but the small businesses, retailers and staff that make up the convenience sector.

In addition, the Scottish Government has recognised the burden that regulation may be having on the viability of businesses in Scotland. Regulations, such as those discussed section 1 above.

The collective impact of these challenges has resulted in most convenience retailers unable to absorb further costs. Operators are now forced to increase prices across their stock, to

cope with the associated losses and extra costs of doing business. This has a direct impact on inflation and interest rates, adding additional pressure to household budgets, the local community, and vulnerable people.

3. The impact of increasing the value of MUP in 2024.

Increasing the Minimum Unit Price above 50p will inevitably have a similar effect to the issues outlined above. Contributing to higher inflation, higher interest rates and therefore higher housing costs. As a result and combined with the higher taxation rates in Scotland (the highest in the UK), consumers will have less money in their pockets. Likewise, a higher/increasing rate of duty on alcohol products at a UK level, alongside inflation, means that Scottish consumers are being hit with a double increase to prices, including MUP. While consumer prices may have increased significantly since the conception of MUP, to a large degree average wages and household incomes have not. Therefore, an increase to both MUP and/or duty cannot be justified on grounds of inflation.

Due to the nature of the distribution of wealth across some areas/communities in Scotland, and the prevalence of cheaper items sold in some deprived areas, an increase to MUP will likely have a more significant impact on households with a lower income. An increase from 50p to 65p, will result in as much as a 30% price hike to some product ranges. For example, a recent survey of SGF members highlights that only a third of respondents believe there has been a meaningful reduction the sale of low-price alcohol in store. While only 30% believe there has been any reduction whatsoever in the volume of alcohol sold.

As highlighted by the recent analysis published, to date, assessing the impact MUP over the past five years, the data and findings provided have been substantially inconclusive. Recent changes to drinking habits in Scotland are a reflection of multiple factors far outweighing any impact MUP has had. The Covid-19 pandemic and subsequent fluctuations in behaviour, in particular an increased cost in hospitality and on-licenced consumption, mitigates and significantly skews any data collected since March 2020. Therefore, SGF is of the view that it is essential that the MUP remain at 50p until there has been an opportunity to properly assess the impact of the policy. While a majority of our members agree that MUP should continue, only a quarter believe there are grounds for any level of increase.

While, conversely, 57% of respondents to our survey agreed or strongly agreed that the introduction of MUP has already put the Scottish alcohol industry at a competitive disadvantage to other parts of the UK and Europe. This is marked by the substantial increase to the cost of some products in the initial rollout in 2019.

SGF is also concerned that price increases could fuel both retail crime and illicit trade, which is major concern for our members and the retail sector as a whole. Over the past year, the level and impact of retail crime has increased significantly. This includes increased volumes of shop theft as well a more frequent instances of abuse, threats and violence towards retailers and shop workers. This growing concern is harming, not only the people who work in retail, but the wellbeing of families and the wider community.

Three prominent factors, which have driven the increase in retail crime in the past year, are the cost-of-living crisis (product price and available income), the growth in organised groups committing larger scale theft, and flash points relating to restricted and age-restricted items. As household budgets have become limited, more consumers are willing to engage in shop theft or purchasing illicit/stolen goods. Therefore, a significant increase to the price of some products, as a result of increasing MUP, will inevitably lead to higher levels of crime and illicit trade. Along with additional instances of abuse and violence in stores. Further harming the retail sector, the Scottish Economy/government tax take, and affected communities.

Likewise, as is already the case for some items stocked in stores near the Scottish/English border, an increase in product cost will encourage some customers to travel to stores in England to purchase cheaper goods, in bulk. Damaging both local economies along the Scottish border and the Scottish Economy as a whole.

4. Other practical consequences of increasing MUP.

If the Scottish Government does decide to increase the MUP, it is essential that there is sufficient time for businesses to adjust to the new price. As an industry standard, this should be a minimum of 12 months. In order to adjust prices throughout the supply chain and held stock, replace shelf edge and in-store labelling, and re-programme tills and payment systems with the new formulas. For example, retailers may wish to change the stock they carry, based on the new prices of items. This creates multiple issues with selling old stock and, as by obliged by GSCOP, retailers must give reasonable notice to suppliers to allow changes to take effect.

Likewise, it is also essential that the Scottish Government carry out a significant public awareness campaign, in order to notify consumers of the changes before they happen and mitigate flash points with angry customers. Which could impact on the safety and wellbeing of retailers and staff.

It may also be required for the Scottish Government to amend the current law so that, if the MUP formula results in a figure with a decimal point under half a penny, it can be rounded down (as is the case in Wales).

Requiring retailers to round up every fraction of a penny creates administrative complications in Scotland due to the linear pricing rules. For example, a multipack of four items, would round up to the nearest whole penny. However, in some cases the retailer may also have four single items, all of which have to be rounded up to the nearest whole penny. This means that the retailer must increase the price of the four-item multipack again to abide by linear pricing.

SGF hopes committee members have found this information useful and will take these views into consideration.

- 19th January 2024