Rural Development Sub Committee

RDC(3)-06-10 (p1): 25 March 2010

Inquiry into the Wine, Beer and Cider Industry in Wales""

Response from SA Brain & Co Ltd

Thank you for the opportunity to submit information on the Welsh Brewing Industry to your inquiry.

SA Brain & Co Ltd is Wales's largest brewing and hospitality business running 260 pubs, bars and hotels across Wales from its head office based at The Caridff Brewery. Our Brewing operations were originally carried out in The Old Brewery on St Mary's St having been first incorporated in 1882. The brewing operations were moved to Crawshay Street in 1999 and continue there today.

We employ over 1700 people across our businesses and additionally the tenanted pubs we operate (150) provide employment for a further 1000approx.

Many of the questions listed in the inquiry document are difficult for us to answer as they relate to Agricultural issues about which we are not expert but we hope our comments and observations may be useful to the Inquiry.

What contribution does the beer industry make to the agriculture, food and tourism sectors to the Welsh economy and what opportunities exist for developing this further?

Agriculture

The beer industry, if taken in terms of brewery production, remains a very traditional one. The scale of our brewing activities is significant relative to the overall industry in Wales, but small in comparison to the major UK and International players. We brew cask ales, stout and smooth beers only, being neither equipped nor inclined, to produce lager, and carry a strong Welsh identity across our portfolio. We believe that our iconic brands such as Brains SA and Brains Dark, represent the heritage of the Welsh Nation well and are known across the world as Welsh products. Together with our lesser-known brands such as The Rev James and Brains Bitter they help offer visitors to Wales a distinctive Welsh experience.

Beer has only 4 key ingredients, Water, Barley (Malt), Hops and Yeast. Some other natural products are added to various brews to create distinctive flavours such as Caramel or Honey. In terms of opportunities for Agriculture, they are limited by climate and environment. Our wet, cool climate does not produce the best Barley for Malting, nor hops for brewing. Our water however is abundant! Our Malted Barley is purchased through UK Maltsters and is predominately from UK growers. The volumes required would make sourcing from Welsh producers difficult and would probably increase the cost of this key raw ingredient.

Opportunities may lie around specialist ingredients such as Honey.

A by-product of the brewing process is spent grain, which is returned into the food chain as cattle feed. Again at present, this is dealt with through a third party specialist and is not specifically directed towards Welsh farmers.

Food

This is an area as a retailer (Pubs, Hotels and Restaurants) that the sector as a whole does look to for local produce. Whilst the beer/alcohol market has been in steady decline, sale of food in the pub sector have been in significant growth over recent years.

The focus in the food market has moved towards fresh, local produce and whilst being of Welsh origin is not the only factor, the quality of our available produce across meat, dairy, vegetables and fish is seen as a benefit. Our menus vary depending on the customer base from value for money (cheap) food to 'Gastro' level. Due to the cost of Welsh produce, its use is more prevalent in the mid to top end of the market where the quality commands a higher RSP.

Our key distribution partner for food is Castell Howell and their passion for all things Welsh means that we are able to work with them to bring small producers' products to our customers. This partnership has led to some strong links with farmers and two projects, Celtic Pride and Cambrian Mountain Lamb have resulted in better business for the producers and a unique product for us to offer our customers.

Other significant partnerships with food producers/manufacturers have seen the growth in companies like 'The Authentic Curry Company' who work with us in the wet produce end of the market to deliver pre-prepared dishes and sauces at affordable prices.

Whenever there is a new menu/product needed to satisfy the ever changing market needs, we start by looking to our Welsh producers first. It is of course always a balance between 'strategic partnerships' and economics and often the local producer cannot drive sufficient volume to be able to manage the cost base as efficiently as other major UK suppliers.

Tourism

As already stated, the Brains brand has a strong identity and provides a distinctive Welsh image to tourists and consumers. We have over recent years grown our accommodation business and have actively sought to move the business to a balance of income streams between drinks, food and accommodation.

We have pubs with rooms across Wales and indeed the West of England and deliver over 120,000 bed nights a year growing at a rate of about 10% pa.

Hotel bedrooms are however expensive to develop and require ongoing refurbishment to maintain standards. More support in terms of planning processes and funding to accelerate the improvement of hotel stock across Wales would be a significant benefit to Welsh Tourism. Events such as the Ryder Cup will generate interest in Wales as a destination, a joined up campaign to promote all parts and aspects of Wales during this period would be highly beneficial in the long term.

The other aspect of Tourism which could be further exploited is the 'Green Tourist'. More support and progress needs to be made to encourage sustainable activities across Wales. Planning departments need to be encouraged to respond more speedily to developments that encourage sustainability and grant funding needs to be much easier/quicker to access for all sizes of business.

Opportunities to improve the current situation

The beer industry is engaged with the Tourism agenda and the leading association BBPA considers this to be one of our key strategies for success. The recent launch of Tourism week took place at Celtic Manor and was supported by BBPA, CBI and SA Brain & Co.

Stronger regional activities to deliver support across Wales would certainly benefit the economy as a whole and make Wales more attractive for our industry to invest into. The limited core population and economic growth (decline) currently restrict the market in terms of pub volumes and profit, but increased tourist/short break activity would bring new opportunities.

Part of our own success in recent years has been through driving our brand awareness across a bigger market and we now after only a few years of activity have reasonable and rapidly growing foothold in distribution of our products across the UK. Part of the opportunity for Wales as a whole is to market itself more aggressively to a wider audience. The work needs to be done outside of Wales rather than just talking internally.

What barriers to development are faced by the beer industry and how could these be overcome?

The absolute population levels, lack of economic growth and legislative burden of operating in Wales are the key barriers.
Population in itself is unlikely to change significantly however; growth in tourism can help our industry.Economic growth requires stimulation over and above the general UK conditions.

Whilst there are benefits in terms of local identity and culture, the various layers of Government in Wales make life very challenging when trying to operate across the Principality. More direction needs to be given to local authorities to ensure we have a strategy for Wales rather than the individual component parts of it. The areas of greatest frustration in our sector would be around Planning and Licensing.

Access to Market

As both a brewer and a pub owner/operator we are fully aware of the perceived conflicts that exist around access to market. At the highest level, the traditional Tie is under attack, however it is this business model that has helped independent, regional, brewery-based, pub operators survive and remain capable of investing in pubs and brewing over the long term

As Wales' Largest Brewer and independent pub operator we are driven by the market and customer trends. The brewing sector is under pressure as volumes decline but there is a real success story beneath this as regional ales and micro brewers outperform the market each year. Whilst the larger pub operators are often accused of driving very hard bargains in terms of price negotiation, they all encourage guest ale programmes which bring opportunities to the small brewer. Understandably, they seek to protect margin as they have significant capital invested in their businesses which needs to be serviced.

Progressive Beer Duty has been of benefit to the smaller micro brewers and has been part of the reason that so many have been set up. By nature they will remain small and are successful for being exactly that. The capital cost of a major brewery is a barrier to entry and as the market contracts and the overcapacity of breweries in the UK grows, margins are squeezed further. Inevitably, as a brewer, we need to maximise our business and that does mean insisting that the majority of our tenants and all of our managers support our beer brands first.

There has been a major inquiry by the UK Government into the various business models used across the industry and this has now made recommendations that need to be worked through. There would be very limited value in trying to further complicate trading in Wales by trying to adapt any of this further. The 'Tied' model continues to offer a very low cost of entry for an individual/couple to set up and run their own successful business.

Bureaucracy

This remains a theme for all sectors of business. The increased burden of legislation is now restricting business development.

Planning legislation

This area of bureaucracy brings real frustration. There are massive inconsistencies from one authority to the next in how decisions are made and rules are interpreted. The process appears to be under resourced as there is no such thing as a quick decision in planning. All applications seem to take at least the statutory 12 weeks and often much longer. Conditions seem to be applied based on the whim of a particular official. There is also unequal treatment of individuals versus companies of our size.

A full review of planning processes across Wales would benefit industry.

Taxation

It is well reported that beer duty is now a disproportionate element of the price of a pint. The cynical attitude of the exchequer is that the consumer will expect and tolerate further increases ahead of inflation. However, every statistic suggests that these increases impact on volume and therefore on production and ultimately jobs lost in the sector both in breweries and in pubs.

At a time when the industry really needed a boost and VAT was reduced, duty was increased to cancel the benefit. When VAT was returned to its previous level, duty remained, thus giving a further increase. The duty escalator means that we can expect duty increases ahead of inflation for some time to come and this seems unjust.

Whilst the WAG has no jurisdiction in terms of taxation, we would ask that every AM lobbies to achieve a more considered approach to beer duty.

Business Rates

The local pub in rural communities is now often the last place to socialise within the community and it is under pressure. Pub is the Hub may be part of a solution in terms of expanding the facilities that rural pubs offer, thus making them more viable businesses. However, progress in Wales has been slow. This organisation would certainly benefit from more active support from WAG.

The recent decision to remove rural rate relief has no doubt accelerated the rate of pub closures. We would like to see some form of Rate Relief scheme reintroduced to help protect and promote rural and community pubs.

Pricing

Looking to countries that have introduced 'State controlled' pricing such as Sweden and Finland, does not support the view that it resolves any of the issues relating to alcohol abuse.

The differential between on trade (pub) and off trade (shops/supermarkets) pricing is significant but it is not the root cause of the issues that are perceived to need resolving.

Responsible consumption of alcohol should be encouraged and the home of drinking safely and sensibly lies within the pub. This is the only environment that offers properly trained individuals to supervise the activity of responsible consumption. Market forces determine what a product is worth and any attempt to influence this through minimum pricing would be highly unlikely to succeed.

Education

The best education that you can have in terms of understanding how to consume alcohol responsibly is in the pub. We have engaged with some projects such as the Safety Zone in the past but these only touch a handful of people. More information about responsible consumption would help everyone and should be encouraged but if the message is only driven from one side of the argument (Alcohol is evil) then it lacks credibility and is unlikely to have much impact. The industry has increased it's investment in bodies such as Drinkaware to help with the education process.

Under Age Sales

Whilst everything possible needs to be done to ensure sales of alcohol are carried out legally, the focus on under age sales is not in itself changing behaviours.

Rather than the current strategy of criminalising the 18 year old bar person that is tricked into selling alcohol to a 17 year old sent into the pub deliberately, we need to move the focus on to 'responsible consumption'. It is the irresponsible consumption of alcohol that causes the public disorder and health issues that are widely reported and the only environment that can realistically encourage, educate and monitor consumption of alcohol is the pub.

How much use is made of locally produced basic ingredients by the beer industry and what opportunities are provided within these industries in Wales for crop diversification?

Refer to earlier comments.

Does the planning system facilitate or hamper development, and what changes would be desirable?

Refer to earlier comments

How effective is current promotion of Welsh beer as quality products in Wales and beyond?

Refer to earlier comments

Is there sufficient support currently available for the set-up and expansion of businesses in this sector - including research and development support - and is the support provided effective?

Support for Research & Development would be of limited value to a business such as ours as we have access to R&D from our key suppliers, our own teams and industry associations.

If there were a specific project relating to an initiative that was of benefit to the sector across Wales specifically, then there may be some benefit. Funds could however be better used driving the tourism agenda.

What further action could the Welsh Government take to support the development of the beer industry in Wales?

Lobby for lower taxation on beer and specifically lower rates for cask/real ales as a unique product
Lobby for rate relief for community pubs
Recognise the fact that beer, when consumed responsibly, has some health benefits
Recognise the role that pubs play at the centre of communities
Drive a new agenda, ahead of the UK, to focus on Responsible consumption of alcohol.
Tangible support for 'Pub is the Hub' to ensure the continued viability of pubs at the heart of their communities.
Strategic partnership with Pubs as tourist destinations and showcases for Welsh drink and food
Insist that locally produced food an drink are served at national and local authority functions and are made available in all government buildings.