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Economic impacts: Introduction

The economic impacts of alcohol can usually be split into 2 categories; benefits and costs. The economic benefits alcohol brings to society can be measured by the revenues generated in both the on and off-trade from the sales of alcoholic beverages locally, which in turn the Treasury receives a proportion of by taxation of company profits. They are also represented in the number of jobs created within any region where alcoholic beverages are produced and also indirectly for those who distribute alcohol as a commodity.

These benefits may be more straightforward to calculate than some of the costs. There are uncertainties and disagreements about what should be included as a cost and how costs are to be measured. There are a number of different methodologies that can be employed in estimating economic costs, and these can have different implications for policy.

In alcohol policy, costs are typically framed in terms of harm to the individual and the wider society. This allows policymakers to focus on the tangible factors that justify government intervention in order to be remedied, such as the costs to the health service of treating alcohol-related disease, and to the criminal justice system of dealing with alcohol related crime and disorder. However, the lack of a definitive set of 'costs' criteria means that there is no single figure representing the cost of alcohol consumption to the UK.
Economic benefits

The economic benefits of alcohol consumption are measurable on 3 counts:

1. The monetary value of industry sales in UK and global markets
2. The taxation revenues received by HM Treasury from industry sales
3. The number of workers employed in the production of alcoholic beverages

Industry sales and profits

According to market intelligence research group Mintel, the alcohol industry sold £38.1 billion worth of alcoholic beverages in the UK in 2011 *(please see the price of a drink section of the price factsheet for more information)*. Globally, UK alcohol producers exported/dispached £6.4bn of alcohol products in 2012, according to HM Revenue & Customs (see Figure 1 below). Historically, this figure marks the doubling in value of alcoholic beverages sold overseas in the last 10 years. During that period, the value of EU alcohol ‘dispatches’ increased by £1bn, and the value of non-EU alcohol ‘exports’ increased by over twice that amount (£2.1bn).

**Figure 1: The value of UK alcoholic beverage exports, 2002 to 2012**

<table>
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<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EU alcohol ‘dispatches’</td>
<td>2.3</td>
<td>2.5</td>
<td>2.2</td>
<td>2</td>
<td>1.9</td>
<td>1.7</td>
<td>1.4</td>
<td>1.3</td>
<td>1.4</td>
<td>1.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Non-EU alcohol ‘exports’</td>
<td>4.1</td>
<td>3.9</td>
<td>3</td>
<td>2.6</td>
<td>2.4</td>
<td>2.2</td>
<td>2.1</td>
<td>2</td>
<td>1.8</td>
<td>1.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Total</td>
<td>6.4</td>
<td>6.4</td>
<td>5.2</td>
<td>4.6</td>
<td>4.3</td>
<td>3.9</td>
<td>3.5</td>
<td>3.3</td>
<td>3.2</td>
<td>3.3</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Source: HM Revenue & Customs (HMRC), *[UK Trade Info]*

Figure 2 depicts the value of dispatches and exports by alcohol type in 2012, based on UK Trade Info data.

**Figure 2: Export value of alcoholic beverages, 2012 (by SITC code)∗**

Source: HM Revenue & Customs (HMRC), *[UK Trade Info]*

∗ SITC = Standard International Trade Classification
The 2012 UK Food and Drink Federation performance report states that including alcoholic drinks, total food and drink exports were £18.7bn, 0.3% up on 2011 with the whisky sector up 1.1%. The previous year’s report noted that whisky now makes up 63% of all beverage exports and 23% of all food and drink exports (by value).

UK based drinks company Diageo – producers of Johnnie Walker whiskies, Smirnoff vodkas, Baileys, and Guinness – is the leading global distilled spirits producer, with 15.3% of market share as of 2006 (Figure 3).

Figure 3: Ten largest global distilled spirits marketers (by volume), 2006

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Headquarters</th>
<th>1991</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diageo</td>
<td>UK</td>
<td>10.5%</td>
<td>15.3%</td>
</tr>
<tr>
<td>Pernod Ricard</td>
<td>France</td>
<td>5.7%</td>
<td>11.6%</td>
</tr>
<tr>
<td>United Spirits Ltd</td>
<td>India</td>
<td>3.7%</td>
<td>9.4%</td>
</tr>
<tr>
<td>Bacardi</td>
<td>Bermuda</td>
<td>7.7%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Beam Global Spirits and Wine</td>
<td>USA</td>
<td>4.8%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Suntory</td>
<td>Japan</td>
<td>4%</td>
<td>2.6%</td>
</tr>
<tr>
<td>V&amp;S Group</td>
<td>Sweden</td>
<td>*</td>
<td>2.5%</td>
</tr>
<tr>
<td>Brown-Forman Beverages Worldwide</td>
<td>USA</td>
<td>*</td>
<td>2.5%</td>
</tr>
<tr>
<td>Gruppo Campari</td>
<td>Italy</td>
<td>*</td>
<td>2.4%</td>
</tr>
<tr>
<td>Constellation Spirits</td>
<td>USA</td>
<td>2.5%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Total market share of top 10 companies</td>
<td></td>
<td>57.0%</td>
<td>59.0%</td>
</tr>
</tbody>
</table>

*Not in the top 10 in 1991.

Source: Jernigan, D., 'The global alcohol industry: an overview'

Diageo sell alcoholic beverages in approximately 180 markets, generating a pre-tax profit of approximately £3.5bn in the financial year ended 30 June 2013. Net sales grew 6% over the year to £11.4bn, while operating profits grew 10% (Figure 4). In 2012, Diageo strengthened its dominant market position with a series of acquisitions, including the world’s largest tequila producer Jose Cuervo and a majority stake in USL, India’s biggest maker of spirits.
Diageo are positioned just outside the top 10 global alcohol producers, according to Impact Databank estimates, with 1.3% of global market share. SABMiller, another UK based company, is the second biggest brewery producer in the world, according to the most recent market sales estimates. As of 2010, the company held almost 13% of global market share (Figure 5).

SABMiller's operating profit for the financial year ended 31 March 2013 was reported to be US$4.2bn (£2.7bn). Between March and September 2012, the business reported a rise in
beer volumes of 5% in the UK – led by strong sales of products such as Peroni Nastro Azzurro and Kozel – against the backdrop of a declining UK beer market. This financial year (2013) SABMiller reported a 7% growth in volume of produce sold (hectolitres).

BBPA figures state that the beer and pub industry contributed an estimated total of £19.5bn to the UK economy in 2010/11.

**Taxation revenue**

Alcohol duties make a substantial contribution to state revenues. HMRC received approximately £10 billion from alcohol duties in the financial year 2012/13, 2% of total tax receipts *(please refer to the Price factsheet in the Alcohol Knowledge Centre for more information).*

**Jobs in industry**

According to official HM Treasury and Government Cabinet sources, there are approximately 900 brewers, 110 distillers and 250 wine and cider producers in the UK. Wine & Spirits Trade Association figures state that the UK alcohol industry directly employs more than 650,000 people in the production and retailing of alcohol and supports a further 1.1 million jobs in the wider economy, although the steady decline in the number of pubs in the UK in recent years (from 69,000 in 1980 to 52,000 in 2010) implies that fewer employees are occupied in the on-trade.

According to the website, Diageo currently employs 25,000 people globally, of which 4,000 staff work in around 50 distilling sites throughout Scotland. In June 2012, Diageo pledged its intention to 'invest over £1bn in Scotch whisky production over the next 5 years to meet growing global demand for its brands', creating an extra 100 jobs in the region. In contrast, despite employing 70,000 people in over 75 countries, UK based SABMiller does not currently own any breweries natively.

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1 Food and Drink Federation (March 2012), *UK Food & Drink Export Performance; Full Year 2012*, p. 2
2 Food and Drink Federation (March 2012), *UK Food & Drink Export Performance; Full Year 2011*, p. 2
3 Diageo (August 2012), *Annual Report 2012*, pp. 118–119
4 BBC News Business (August 2012), 'Guinness maker Diageo sees profits jump'; Diageo, *Performance Overview*
5 The Economist (November 2012), 'Merging drinks makers: Two Scottish plays'; Thomas, Nathalie (May 2012), *Diageo buys Brazilian rum brand for £300m*, The Telegraph
7 SABMiller (June 2012), *Annual Report 2012*, p. 178
8 BBC News Business (November 2012), *SABMiller reports higher profits on emerging markets*
9 SABMiller (May 2013), *SABMiller drives strong revenue and earnings growth*
10 Sheen, David (August 2012), 'British Beer & Pub Association (BBPA) Statistical Handbook', Table L6, p. 124
11 Office for National Statistics (April 2013), 'HMRC TAX & NIC RECEIPTS (2012/13)'
12 Secretary of State for the Home Department (November 2012), 'Impact Assessment: A MINIMUM UNIT PRICE FOR ALCOHOL', p. 15
13 The Wine & Spirit Trade Association, *Facts & Figures*
14 Rogers, Simon (April 2010), 'Labour’s manifesto: where have all the pubs gone?', The Guardian
15 Diageo, *Diageo Scotland*
16 Diageo (June 2012), 'Diageo sets out £1billion Scotch whisky investment plan'; Huffington Post UK, 'Diageo Invests £1bn In Scotch Whisky Amid Growing Global Demand'
17 SABMiller, 'Company Snapshot'; *FAQs*
Economic costs

The economic cost of alcohol consumption to the UK is difficult to calculate accurately. In one sense, costs can be seen simply as the level of expenditure on alcohol. According to national statistics, alcoholic drinks set the average household back £7.20 a week in 2010 (please refer to the Price factsheet in the Alcohol Knowledge Centre for more information).

But in alcohol policy, costs are typically framed in terms of harm to the individual and the wider society. This may involve calculating factors such as the treatment and prevention of injuries and fatal accidents in the healthcare sector, the loss of productivity and earnings through illness, and the policing of criminal and antisocial behaviour, all caused by alcohol misuse. The lack of a definitive set of 'costs' criteria means that there is no single figure representing the cost of alcohol consumption to the UK.

For instance, the Government Alcohol Strategy claims alcohol-related harm is now estimated to cost society (England) £21 billion annually.¹ This is broken down as:

- NHS costs, at about £3.5 billion per year (at 2009–10 costs)
- Alcohol-related crime, at £11 billion per year (at 2010–11 costs)
- Lost productivity due to alcohol, at about £7.3 billion per year (at 2009–10 costs, UK estimate)

This does not include any estimate for the economic costs of alcohol misuse to families and social networks.²

In terms of healthcare provision alone, results from one peer-reviewed paper published in 2011 suggested that as a behavioural risk factor, alcohol-related ill health is as costly to the NHS as smoking:

Of the behavioural risk factors, £5.8 billion was spent on poor diet-related ill health, £3.3 billion on alcohol-related ill health, £3.3 billion on smoking-related ill health and £0.9 billion on physical inactivity-related ill health.³

Yet other reports estimate the annual burden of alcohol-related harm in England alone to range from £20 billion to £55 billion, taking into account a variety of non-medical factors.⁴

The now defunct Government Cabinet Office Strategy Unit attempted to capture a comprehensive list of these harms (and benefits) in a cost-benefit diagram (Figure 6).
Figure 6: Private and external costs and benefits of alcohol use/misuse

The diagram key above shows those costs which were considered (and those which were not) in the final calculations. The Government decided not to include private costs in the final estimates of the costs of alcohol-related harm, as they 'do not generally justify government action because individuals are assumed to take into account both the private benefits and costs of an activity when making decisions to undertake this activity'. However, other organisations may take these and other less tangible costs of alcohol misuse into consideration when devising their own estimates.

The cost of alcohol in England

The Health & Social Care Information Centre (HSCIC) estimates the direct costs of alcohol-related harm in England to be £12.6 billion at 2008/09 prices (Figure 7).
Figure 7: Estimated annual costs of alcohol-related harm in England

Source: NICE, 'Alcohol-use disorders: preventing harmful drinking, Costing report', p. 14, Figure 1

The graph above illustrates the sum total of the direct costs of alcohol-related harm to English citizens, categorised as follows: healthcare (£2.9 billion); crime and antisocial behaviour (£8 billion); employee absenteeism (£1.7 billion). The figure of £12.6 billion does not include the estimated costs to the economy of alcohol-related deaths and unemployment associated with alcohol-related harm. This figure has since been revised (see note 2 for Home Office Impact Assessment figures).

Alcohol Concern has created an alcohol harm map for England, which provides information on the costs of alcohol misuse by local authority. By exposing the costs of dealing with alcohol to each and every specific region of the country, the charity aims to 'reveal the real harm and cost of alcohol at a local level'.

The cost of alcohol in Wales

The Welsh Government found the total cost of excess alcohol to the NHS in Wales amounted to between £69.9 million and £73.3 million in 2008/09. Between £1.34 million and £1.41 million spent each week treating diseases caused by excess alcohol, and amounting to between £23.47 and £24.60 per person in Wales and between 1.27% and 1.33% of total healthcare expenditure.
The cost of alcohol in Scotland

The Scottish Government values the economic costs of alcohol misuse at £2.25 billion (2006/7 prices). This is broken down into the following:

**Figure 8: Cost to society of alcohol misuse, 2006/7 prices**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity / Economic</td>
<td>£820m</td>
</tr>
<tr>
<td>NHS Scotland</td>
<td>£405m</td>
</tr>
<tr>
<td>Social work</td>
<td>£170m</td>
</tr>
<tr>
<td>Criminal justice + emergency services</td>
<td>£385m</td>
</tr>
<tr>
<td>Human costs</td>
<td>£470m</td>
</tr>
<tr>
<td><strong>Total cost</strong></td>
<td><strong>£2,250m</strong></td>
</tr>
</tbody>
</table>

Source: The Scottish Government (June 2008), 'Changing Scotland’s relationship with alcohol: a discussion paper on our strategic approach', Table 1

The wider societal costs were estimated to be around £3.6 billion, or £706 per person.

The cost of alcohol in Northern Ireland

A firm estimate from the Northern Ireland Statistics and Research Agency calculated the overall social costs of alcohol misuse to be £679.8 million per annum at 2008/09 prices, from which roughly £122m is spent on healthcare, £48.5m on social work, £223.6m on the fire and police services, £83.8m on courts and prison services and £201.7m on the wider economy. At the launch of the latest Health Strategy to tackle the issue of alcohol and drug misuse, Northern Ireland Health Minister Edwin Poots was quoted as declaring a higher figure for the annual cost to the country of alcohol misuse; £900 million.

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1 Secretary of State for the Home Department (March 2012), *The Government’s Alcohol Strategy*, HM Government, p. 3
2 Secretary of State for the Home Department (November 2012), 'Impact Assessment: A MINIMUM UNIT PRICE FOR ALCOHOL', p. 5
4 Lister, G (September 2007), 'Evaluating social marketing for health – the need for consensus. Proceedings of the National Social Marketing Centre'; Prime Minister's Strategy Unit (2004), 'Alcohol harm reduction strategy for England', London: Prime Minister's Strategy Unit
5 Strategy Unit (September 2003), 'Alcohol misuse: How much does it cost?', Cabinet Office, p. 10
6 NHS National Institute for Health and Clinical Excellence (NICE) (2010), 'Alcohol-use disorders: preventing harmful drinking, Costing report', pp. 4, 10
7 Alcohol Concern, *Alcohol Harm Map*
9 The Scottish Government (June 2008), 'Changing Scotland’s relationship with alcohol: a discussion paper on our strategic approach'
10 The Scottish Government (2010), 'The Societal Cost of Alcohol Misuse in Scotland for 2007'
11 Public Health Information and Research Branch (June 2010), 'Social Costs of Alcohol Misuse in Northern Ireland for 2008/09', Department of Health, Social Services and Public Safety Northern Ireland, pp. 6–8
12 Northern Ireland Executive (January 2012), *Health Minister launches new Strategy to address Alcohol and Drug Misuse*