COMMISSION OF THE EUROPEAN COMMUNITIES

SEC(92) 1832 final

Brussels, 12 October 1992

COMMISSION REPORT TO THE COUNCIL ON THE ALCOHOLIC STRENGTH AT WHICH WHISKY IS RELEASED TO THE MARKET

(Presented under Article 3(4) of Regulation (EEC) No 1576/89)

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I. BACKGROUND

I.1. Council Regulation (EEC) No 1576/89 of 29 May 1989 laying down general rules on the definition, description and presentation of spirit drinks entered into force on 15 December 1989.

Article 3 of the Regulation specifies the minimum alcoholic strength of specific spirit drinks by volume for release for human consumption in the Community (for whisky/whiskey: 40% vol).

I.2. Regulation (EEC) No 3773/89 of December 1989 laying down transitional measures relating to spirituous beverages, provided a two-year transition period to allow producers of whisky with an alcoholic strength below 40% vol to adjust and deplete their stocks. All these stocks were to be bottled and labelled before the end of December 1990. They were to be sold or removed from the production premises by 14 December 1991 at the latest. From 15 December 1991, however, the sale of Community and imported whisky which was fully prepared in accordance with the above provisions and held at that date at sale-to-the-final consumer stage may take place until stocks are exhausted.

I.3. Key issues with regard to the prohibition of low strength whiskies

In the Community, the impact of the proposed prohibition of whiskies below 40% vol has been most acutely felt in UK, France, Belgium and the Republic of Ireland, where lower strength products have established a measurable share of total sales.

The main impact of the regulations is that the prohibition of the sale of low strength whisky will directly affect the trading of those companies engaged in its production, distribution and retailing.

Article 3(4) of Council Regulation (EEC) No 1576/89 states that, before 31 December 1992, the Council will review the minimum alcoholic strength of whisky/whiskey on the basis of a market study by the Commission[1].

In order to complete this study, the Commission issued their Invitation to tender No VI-P265. Following submission of proposals in July 1990, the contractor was awarded the contract to undertake the study in October 1990.

(1) Throughout this report, we have used the generic term whisky, except with reference to products from Ireland, Canada and the US, where they are referred to as whiskey.

I.4. Study objectives

The invitation to tender and the working plan specified three objectives:

(i) **Market share evaluation.** Obtaining a Community-wide understanding of whisky sales, which would necessitate a review of appropriate market data from a variety of industry sources.

(ii) **Identification of the reasons for consumer choice.** To help assess the impact of prohibiting low strength whisky, analysis of consumer attitudes, perceptions and consumption patterns would be necessary.

(iii) **Predicting the consequences of prohibiting the sale of low strength whisky.** In order to identify the impact of prohibition on retailing, manufacturing, imports and exports, full account would need to be taken of Community-wide market trends and industry perceptions.

II. MARKET DATA ON WHISKY IN THE EUROPEAN COMMUNITY

II.1. Sources of data:

The primary providers of data were as follows:

i) government statistical departments
ii) customs and excise authorities
iii) retail groups
iv) whisky producers and distributors
v) trade associations

Commercial market survey organizations were not commissioned to provide data.

II.2. Detailed market data based on retail audit methodologies do not exist for all Member States. The situation is as follows:

i) only the leading brands are monitored in the major whisky consuming markets;

ii) the low strength whisky sector has not been reliably studied in all Member States;

iii) monitoring the relative market shares of whiskies by age of maturation is not possible as many products comprise spirits of varying age, and age indications are not always stated on the bottle label.

II.3. The market information presented in this report has been compiled from statistics provided by manufacturers and trade associations, and, where possible, verified with government data from each Member State.

II.4 Total sales/consumption

According to data acquired from leading whisky industry sectors, the overall market in the Community grew by 12.1% between 1985 and 1989 in terms of litres of pure alcohol consumed.

Table 1: Total EC whisky market 1985 - 1989

	1985	1986	1987	1988	1989	% change 1985-1989
litres of pure alcohol ('000)	35757	38221	39385	41301	40078	+ 12.1%

Source: Industry estimates

During the period 1985-1989, whilst not all markets increased in size, some Member States, e.g. Portugal, Greece and Spain, witnessed considerable increases.

Table 2: % Growth/decline in the total EC whisky market 1985-1989

	1985-1986	1986-1987	1987-1988	1988-1989
Belgium/Luxembourg	(2.4)	3.6	(2.0)	(33.0)
Denmark	(4.4)	(6.3)	8.9	(1.2)
France	11.5	35.1	10.2	(5.1)
Germany	(2.0)	(0.5)	(12.6)	(0.6)
Greece	7.4	8.1	24.5	19.5
Italy	5.7	2.5	(1.8)	(4.7)
Ireland	18.2	(9.0)	6.1	(6.5)
Netherlands	2.9	(3.2)	11.8	(36.1)
Portugal	51.3	39.7	42.2	5.4
Spain	26.9	19.9	9.8	8.3
UK	(0.9)	(2.4)	1.6	(3.5)

Source: Industry estimates

Within the Community, the UK remains the largest whisky market, accounting for over 30% of sales, and Denmark the smallest with less than 1% of sales.

Table 3: Proportion of EC whisky sales by Member State 1985-1989 (%)

	1985	1986	1987	1988	1989
Belgium/Luxembourg	3.5	3.2	3.2	3.0	2.1
Denmark	0.7	0.6	0.6	0.6	0.6
France	17.6	18.3	18.9	19.9	19.5
Germany	7.3	6.7	6.5	5.4	5.5
Greece	2.6	2.6	2.8	3.3	4.0
Italy	9.9	9.8	9.8	9.2	9.0
Ireland	7.1	7.9	7.0	7.1	6.8
Netherlands	2.8	2.7	2.6	2.7	1.8
Portugal	0.7	0.9	0.9	1.7	1.7
Spain	11.0	13.1	12.7	15.9	17.8
UK	36.7	34.1	33.1	31.2	31.1

Source: Industry estimates

II.5 **Whisky sales by origin**

Industry analysis of whisky sales by country of origin is classified into:

i **Scotch**, i.e. matured for 3 years and sold at 40% vol
ii **Other whisky**, i.e. blended out of Scotland, and not necessarily sold at 40% vol
iii **American/Canadian**

The evolution of total Community sales of whisky according to this classification is as follows:

Table 4: Whisky sales by country of origin 1985-1989

	1985	1986	1987	1988	1989
Scotch	86.6%	90.1%	89.4%	88.8%	85.4%
Other whisky	7.4%	7.2%	7.6%	7.7%	10.1%
American/Canadian	3.0%	2.7%	3.0%	3.5%	4.5%

(NB. excludes data relating to Ireland) Source: Industry estimates

The above table indicates that, whilst Scotch whisky dominates, sales of other whiskies and US/Canadian whiskies have gained a share at the expense of Scotch whisky. For the same period, the total sales of these whiskies in the Community grew by 53% and 71% respectively, whilst sales of Scotch only grew by 7%.

Member States where sales of other whisky and/or US/Canadian whiskies have a significant share of the total are Denmark, France, Germany, Netherlands and Spain.

Table 5: Whisky sales by country of origin 1985-1989 (%)

	1985	1986	1987	1988	1989
Belgium/Luxembourg:					
Scotch	97.9	97.7	97.7	97.8	96.9
Other	1.3	1.1	0.6	0.9	1.2
US/Canadian	0.7	1.1	1.7	1.3	1.9
Denmark:					
Scotch	93.6	91.7	88.9	87.8	84.7
Other	2.8	6.3	8.9	9.0	12.4
US/Canadian	3.6	2.0	2.2	3.2	2.9
France:					
Scotch	94.1	94.1	93.6	92.4	87.0
Other	2.6	2.5	2.3	2.4	7.3
US/Canadian	3.3	3.4	4.1	5.2	5.7
Germany:					
Scotch	72.6	75.0	75.3	69.3	59.3
Other	8.0	8.1	8.5	10.8	12.0
US/Canadian	19.4	16.9	16.2	19.9	28.7
Greece:					
Scotch	97.3	98.1	97.1	96.7	96.0
Other	1.0	0.8	0.9	0.7	0.6
US/Canadian	1.7	1.1	2.0	2.6	3.4
Italy:					
Scotch	94.9	94.8	95.0	94.7	94.1
Other	1.8	1.9	1.0	1.2	1.4
US/Canadian	3.3	3.3	4.0	4.1	4.5
Netherlands:					
Scotch	91.0	92.1	90.3	90.4	79.1
Other	5.8	4.5	4.3	3.8	6.8
US/Canadian	3.2	3.4	5.4	5.8	14.2
Portugal:					
Scotch	98.8	99.2	98.6	99.2	98.7
Other	0.8	0.3	0.6	0.3	0.3
US/Canadian	0.4	0.5	0.8	0.5	1.0
Spain:					
Scotch	56.5	64.7	65.3	66.2	63.4
Other	42.5	34.2	33.5	32.1	34.8
US/Canadian	1.0	1.1	1.2	1.7	1.8
UK:					
Scotch	97.6	97.4	97.5	97.2	96.4
Other	2.0	2.2	1.9	2.1	2.4
US/Canadian	0.4	0.4	0.6	0.7	1.2

Source: Industry estimates

With regard to Ireland, reliable data are not available, due to the fact that whisky imports far exceed consumption, and are growing rapidly. The reasons for the substantial rise in imported whisky include:

i) bottling of Irish whiskey distilled in Northern Ireland
ii) further processing of whiskey in the production of liqueurs
iii) the formation of newer companies laying down stocks of whiskey for future sale.

II.6 Sales of US/Canadian whisky

The majority of sales of US and Canadian whisky occur in Germany and France with these markets accounting for over 60% of Community sales:

Table 6: Share of total sales of US/Canadian whisky in the European Community 1985-1989 (%)

	1985	1986	1987	1988	1989
Belgium/Luxembourg	1.0	1.4	2.0	1.3	0.9
Denmark	0.9	0.5	0.4	0.6	0.4
France	20.8	24.1	27.2	31.5	26.0
Germany	51.3	44.3	36.8	32.7	37.5
Greece	1.6	1.0	2.0	2.6	3.3
Italy	11.7	12.9	13.6	11.6	9.6
Netherlands	3.2	3.5	4.7	4.7	5.9
Portugal	0.1	0.2	0.4	0.3	0.5
Spain	4.1	5.6	6.4	8.3	7.4
UK	5.3	6.4	6.5	6.4	8.6

Source: Industry estimates

Although sales of US/Canadian whisky have grown by over 70% across the Community between 1985 and 1989, this growth has not always been steady, in that sales in some Member States have shown considerable fluctuations for that period:

Table 7: Growth/decline in US/Canadian whisky sales in EC Member States 1985-1989

	1985-1986	1986-1987	1987-1988	1988-1989
Belgium/Luxembourg	40.0	57.1	(22.7)	(5.9)
Denmark	(44.4)	n/c	60.0	(12.5)
France	13.7	30.9	39.3	3.3
Germany	(15.2)	(4.0)	7.3	43.4
Greece	(37.5)	120.0	59.1	57.1
Italy	8.7	22.4	2.6	3.2
Netherlands	6.3	55.9	20.8	54.7
Portugal	100.0	100.0	n/c	100.0
Spain	35.0	33.3	55.6	11.6
UK	19.2	17.7	17.8	68.8

Source: Industry estimates

II.7 Whisky sales by quality

Malt whisky sales represent 6% of total bottle sales of Scotch whisky in the Community. Growth in malt whisky sales has been low over the past 5 years, but is expected to increase. Member States with an above average proportion of malt whisky sales are France, Germany, Italy, Netherlands and the UK. Italy in particular has very high sales of malt whisky, in the order of 25% of total bottles of Scotch whisky.

With regard to the sale of whisky by age, it has not been possible to estimate relative market shares. This is due to many brands of whisky no longer specifying the age of the product on the label. Furthermore, price cannot be used as an indicator of age, as many of the lower strength whiskies, at 37.5% vol and under, claim to have been blended from whiskies over 12 years old.

II.8 Whisky sales by type of outlet

The majority of whisky consumption in the Community occurs in the home, with the result that the majority of sales are via retail outlets as opposed to via hotels, bars and restaurants. The exceptions to this are Ireland, Spain, Italy, Greece and Portugal.

Table 8: Sales of whisky by type of outlet

	Retail	Hotels, bars, restaurants
Belgium/Luxembourg	80%	20%
Denmark	n/a	n/a
France	69%	31%
Germany	78%	22%
Greece	38%	62%
Ireland	33%	67%
Italy	42%	58%
Netherlands	80%	20%
Portugal	45%	55%
Spain	44%	46%
UK	77%	23%

Source: Industry estimates

With regard to the type of retail outlet where whisky is primarily sold, the overall trends are very much towards the industry definition of 'modern' outlets, e.g. supermarkets and hypermarkets.

Table 9: Proportion of retail whisky sales via modern outlets

Belgium/Luxembourg	87%
Denmark	71%
France	89%
Germany	81%
Italy	64%
Netherlands	86%
Portugal	79%
Spain	84%
UK	49%

Source: Industry estimates

NB: data for Ireland and Greece were not available.

II.9 Low-strength whisky

Measurements of the whisky market are derived from official sources such as import/export statistics and from manufacturers' market research. In the course of the data review, neither of these sources enabled us to gain a precise estimate of the market share enjoyed by whiskies with an alcoholic strength below 40% vol. It was learned too that sales in the low strength sector are not monitored separately.

It was not possible to determine reliable means of measuring production of whisky by alcoholic content for the following reasons:

i) retail audits do not distinguish between products of different alcoholic strength

ii) excise duty statistics are generally expressed in terms of litres of pure alcohol.

However, from discussions with industry and retail sectors, and from comments made, the market shares of low strength whiskies prior to prohibition were broadly as follows:

Belgium	5%
France	10%
Ireland	2%
UK	7%

Source: Industry estimates

III. STUDY METHODOLOGY

III.1 Overview

In order to attain the study objectives, a three-phase methodology covering various work aspects was applied, as follows:

Phase One: Market share evaluation: This phase involved the acquisition and detailed review of appropriate market and production data from a variety of industry sources.

Phase Two: Identifying the reasons for consumer choice: During this phase, a number of group discussions were held amongst representative samples of consumers in the principal whisky-consuming Member States.

Phase Three: Conclusions: This phase encompassed detailed analysis of Phases One and Two in order to draw conclusions as to the likely consequences of prohibiting the sale of whisky below 40% vol in the Community.

III.2. To meet the study objectives, the proportion of time spent consulting with key industry and retail sectors was maximised, rather than focusing primarily on the acquisition and review of statistical market data. This approach was considered to be the most appropriate to give an insight into the dynamics of the market and the implications of legislation.

III.3 This approach has been vindicated for the following reasons:

(i) **Industry response:** Throughout the project most sectors of the whisky production, distribution and retail industries have been very willing to express their views and to share their data sources.

(ii) **Market data:** Given that the importance of whisky sales in each Member State differs, the extent and sophistication of data was found to vary considerably.

(iii) **Consumer research:** Other than subjective taste tests, no detailed consumer market research into low strength whiskies in the Community (or elsewhere) has been previously published. Consequently, the research undertaken in this study represents a unique detailed evaluation of the influence of alcoholic strength on whisky purchasing, and makes a significant contribution to addressing the key issues raised by the prospect of prohibiting the sale of low-strength whiskies.

III.4. Attention has focused on detailed market research and talks with the industry on the major whisky-consuming Member States:

- Belgium
- France
- Germany
- Republic of Ireland
- Spain
- United Kingdom

III.4.1. A series of in-depth discussions were held with a representative cross-section of whisky producers, bottlers, distributors and retailers in the principal whisky-consuming Member States. This allowed available market data to be acquired from them and their perceptions with regard to the whisky market both at home and, where relevant, on a Community-wide basis to be examined.

In addition, consultations were made with relevant trade bodies and Government departments in the principal whisky-consuming Member States. Customs and Excise data relevant to the sale of whisky throughout the Community was reviewed, for the purpose of validating market data, and as part of the evaluation of the wider impact of the prohibition of low-strength whiskies.

III.4.2. A series of group discussions were held in Belgium, France, Germany, Ireland, Spain and the UK, with a representative cross-section of whisky consumers. Respondents included male and female consumers and purchasers of full-strength and low-strength whiskies.

During the course of the discussions, respondents were questioned in depth about their whisky-purchasing and consumption patterns, and their perceptions of different types of whisky. Samples of different types of whisky were shown to each group, with respondents being invited to indicate their awareness of the products in terms of quality, price and purchase experience. Particular emphasis was given to lower-strength whiskies and other spirits with an alcoholic content below 40% vol.

IV. PHASE ONE: MARKET SHARE EVALUATION

IV.1 Discussions with the whisky industry

IV.1.1. A series of in-depth interviews was held with senior executives in the whisky industry, including trade associations. Furthermore, discussions were also held with relevant civil servants in the major whisky-consuming Member States.

The objectives of the discussions were as follows:

(i) to gain an understanding of perceptions regarding the market for whisky,

(ii) to obtain views regarding low-strength whiskies,

(iii) to secure co-operation in the study via the acquisition of market data.

IV.1.2. Sales patterns in the EC

There was a consensus that total consumption of whisky in the Community recently has been in slight decline, albeit that this decline is now slowing. Sales in various Member States have been showing different patterns, whereby Greece, Portugal and Spain are indicating the optimum growth potential as new mass consumption markets.

Sales of whisky and other dark spirits in general were not performing as well as sales of white spirits. However, the view was expressed that the forecast shifts in population age profiles across the Community are expected to benefit future prospects.

In terms of market sector performance, industry sources indicated that there is a general trend in consumers trading up to better quality premium products. However, in the short term, in those Member States experiencing pressure on consumer disposable income, budget priced products are showing a short-term uplift.

IV.1.3. **Key issues**

Key issues perceived by the whisky industry relating to sales in the Community appeared to centre around existing or proposed legislation and taxation. Apart from producers of low-strength whisky, the primary concerns of the industry were neither marketing issues, nor the prohibition of whiskies below 40% vol.

Their principal concerns were as follows:

(a) **Advertising and promotion:** The major brand owners stated that restrictions on the advertising and promotion of spirits in response to the health lobby would act as a significant constraint to business development. Furthermore, whatever the outcome of legislation, their view was that there should be harmonization throughout the Community, unlike the situation which currently exists.

(b) **Harmonization of duties:** For the major producers, this issue represented their principal concern with regard to the whisky market in the Community. The prevailing view was that whisky was given an unfair tax treatment in comparison to other alcoholic beverages. The consequence of this is that they are at a disadvantage in terms of price competitiveness. Secondly, the differences in excise duties across the Community were viewed as a potential problem following completion of the Single Market.

(c) **Abolition of duty free:** Duty free sales were stated to represent a significant proportion of the total market within the Community, and the loss of those sales is viewed with some alarm. One leading Scotch whisky producer has estimated that based on 1990 sales, the loss of duty free represents over 11 million bottles (70 cl at 40% vol).

(d) **Single Market:** Following completion of the Single Market post-1992, the whisky industry anticipates that increases in transnational co-operation between leading Community retail groups will benefit the major multinational whisky brands at the expense of the smaller deluxe/malt whisky brands and budget-priced ranges. Concentration of retail buying power is also viewed as a possible constraint to future market profitability.

IV.1.4. **Low-strength whiskies**

The implication of Article 3 of Regulation 1576/89 is extremely contentious in the whisky industry. The impending prohibition of whisky below 40% vol is welcomed by the major brand owners, and is viewed as an injustice and commercial disaster by the producers of lower-strength products.

The arguments for and against prohibition of low-strength whiskies have been vociferously stated on many occasions. The following points represent the arguments in favour of or against prohibition that were made in the course of consultations with the industry:

IV.1.4.1. <u>In favour of prohibition</u>:

(i) **Consumer protection:** Proponents of prohibition argue that consumers expect whisky to be a strong drink, and are seduced by low retail prices into buying a product of inferior quality. Fixing vol at 40% is seen to protect the consumer in that whisky will have a known alcoholic strength.

(ii) **Product quality:** Detailed organoleptic analysis indicates that below 40% vol the product quality deteriorates because of the loss of congeners which contribute to the character and quality of whisky. However, the principal quality argument in favour of prohibition is that whisky is a quality product which demands a high level of investment in production. It has authentic values, and a strong heritage image that is tarnished by inferior products capitalising on a short-term commercial opportunity.

(iii) **Opportunism:** Following on from the above issue, proponents of prohibition argue that low strength products are parasitic in that they benefit from long-term marketing investment by the major brands, and from the previously available bulk Scotch whisky.

IV.1.4.2. <u>Against prohibition</u>:

(i) **Loss of sales:** Opponents of prohibition argue that whisky will be rendered uncompetitive in comparison to other spirits at 37.5% vol, resulting in a loss of sales to these products. The switch in sales to other products is envisaged because low-strength whiskies tend to be diluted with mixers, which mask the taste of the whisky.

(ii) **Restricting consumer choice:** As low-strength whiskies have an established consumer franchise, it is argued that prohibition of these products will represent an unjust restriction on consumer choice.

(iii) **Impact on producers:** Producers of low-strength whiskies argue that prohibition of their products will have a negative impact upon the commerciality of their companies, representing a considerable loss of revenue and threat to the employment prospects of their staff.

From the discussions with the industry, it was made clear that in view of prohibition a number of producers of low-strength whiskies plan to upgrade their more successful products to 40% vol, and withdraw minor brands from the market.

Their concern is that low-strength brands have successfully carved a niche in the market on a price platform, which will disappear if they are raised to 40% vol. Their competitors will be supermarket own brands and budget priced brands belonging to the major producers, both of which are stated to have marketing advantages with which the former low strength producers cannot compete.

Another option facing low-strength producers was to continue to market their products, but without any generic reference to whisky on the label. However, this represents an area of considerable legal uncertainty.

IV.1.5. **Views of the Association of Low Strength Whisky Producers**

During the course of this study, a primary source of information regarding the issue of the alcoholic strength of whisky was given by the Association of Low Strength Whisky Producers.

The Association of Low Strength Whisky Producers was established in the UK in the late 1980s in response to increasingly determined offensives on their marketing activities by members of the Scotch Whisky Association (SWA). This highly competitive situation had in turn been brought about by the successful penetration of low-strength products in the UK market.

The Association came to prominence during UK parliamentary considerations of proposed Scotch whisky legislation in 1987.

Members of the Association of Low Strength Whisky Producers argue that, for reasons of health choice and economy, lower strength spirits are becoming increasingly popular all round the world. They state that quality is maintained, but lower strength drinks are produced by a small increase in the admixture of water. The Association claims that the growth in popularity of these products from the mid-1980s was a consequence of "the attractive price which has attracted customers and the quality which has ensured repeat sales".

The Association claims to be concerned with the worldwide image of whisky, but accuses members of the SWA of having exacerbated the problem of maintaining whisky quality by previously exporting whisky in bulk.

To counter arguments originally propounded by the SWA that employment in the Scotch whisky industry was at risk because of the increasing market penetration of low-strength whisky, the Association maintains that operation of a "bottled in Britain" policy would create jobs since bottling is more labour-intensive than distilling.

The central case put forward by the Association of Low Strength Whisky Producers is that whisky should have the same alcoholic strength as other major spirits.

They maintain that consumers are choosing between different spirits. Blended whiskies (as opposed to single whiskies which are seen as a totally different matter) are typically drunk with mixers. In this competitive market, they see the whisky industry doing itself harm by being overpriced as a consequence of having an unnecessarily high alcoholic strength in the bottle.

With regard to quality, they maintain that the quality of the blend is more important than the strength in the bottle. ((Evidence from an independent consumer panel was shown which indicated that a leading low-strength brand scored particularly well in taste tests). Furthermore, the Association argues that the quality of low-strength whisky in the UK is such that it can only contribute to the range and quality of Scotch whisky available.

Regarding consumer purchasing behaviour, the Association claims that consumers often buy first for price and then return for quality and taste. They further argue that with sales in the UK having been 10 million bottles a year (their estimate), there is ample evidence that these products are bought by preference.

Following the implementation of Regulation No 1576/89, the Association has changed its name and has now become the New Spirits Association, to give a clear signal of its members' intentions to comply with EC legislation.

IV.1.6. **Whisky industry perceptions: Belgium**

The interview in Belgium was conducted with the leading producer of low-strength whisky. Whilst not prepared to divulge sales statistics, it informed us that prohibition of the sale of whisky below 40% vol was a major setback to the business. Furthermore, the business has been affected by the ending of exports of bulk Scotch whisky to Belgium. However, other industry sources indicated that whisky producers in Belgium were looking to import bulk product from Canada, and also possibly from Spain.

This company viewed the Belgian market as a predominance of male consumers over the age of 25 years who consume in-home. The principal pattern of consumption was stated to be of low-priced whiskies below 40% vol which are diluted with mixers. It is their view that in Europe there is a "vast" market for low graded, cheap whisky.

Understandably, extreme dissatisfaction was expressed with regard to prohibition, in that EC legislation represents a "conspiracy" set up by the Irish and Scotch Whisky Associations.

IV.1.7. **Whisky industry perceptions: France**

Both whisky producers interviewed in France have bottled and marketed French whisky below 40% vol.

Their perceptions of the market and of the issues concerning the prohibition of low-strength whiskies were identical. They view the development of the low-strength market as a direct consequence of the increase in cost of Scotch whisky in France, both in bulk and bottled. In spite of prohibition, they believe that significant demand for low-strength products continues.

Both companies have manufactured from imported bulk Scotch whisky, and latterly have been importing bulk from Canada. In view of the prohibition of low-strength whiskies, they said that it was likely that a full-strength whisky entirely of French origin would be launched in due course.

The views expressed with regard to prohibition were hostile. They felt the regulations were detrimental to the market, and to have been as a result of pressure from the Scotch whisky industry. They predicted that the consequences of prohibition will be consumers moving away from whisky, in favour of other spirits with a lower alcoholic content. Defining whisky at 40% vol was viewed as contrary to the general trend in consumption to lighter, lower in alcohol drinks. Having spirits defined at differing levels of alcohol by volume was seen as illogical and inconsistent.

IV.1.8. **Whisky industry perceptions: Germany**

Production of whisky in Germany is very small, and the producers interviewed manufacture full-strength products exclusively for sale under retailers' own labels.

Having faced past declines in sale, the German market was forecast to grow. The market was described as price elastic, with consumers being seen as affluent, conservative and highly brand loyal. Brandy was seen as the principal competition to whisky, primarily at the lower end of the market.

With almost all whisky in Germany sold at 40% vol, the issue of lower-strength products and their prohibition was deemed irrelevant.

IV.1.9. **Whisky industry perceptions: Ireland**

The Irish industry is dominated by a single producer, Irish Distillers Ltd. (IDL), whose views on the market are outlined below.

IDL expressed a strongly-held view that whiskey should compete on a level basis with other competitive spirits, i.e. gin, vodka and rum. Furthermore, they argued that all these spirits should have the same minimum strength requirement, and that whiskey should not be isolated as a target for pressure groups or for extra taxation.

Their view was that the lack of harmonization of excise duties, and the extra loading which whiskey attracts because of higher strength, continues to cause price anomalies vis-a-vis other competitive spirits. IDL argued that whiskey is price sensitive and that higher prices for whiskey reduce the size of the market.

Whereas originally, IDL expressed the view that the minimum strength of whiskey be reduced to that of other competitive spirits, i.e. 37.5% vol, they have subsequently re-examined their position. The view now expressed is in support of the 40% vol minimum, and in their view the minimum strengths of other competitive spirits should be raised. They cite the example of the USA, where all competing spirits have the same minimum strength requirement at 40% ABV.

With regard to low-strength whiskey, IDL have produced and marketed a brand at 30% vol for distribution via specialist liquor outlets for in-home consumption. Having introduced this product in response to competitive pressures, they stated they were happy to discontinue its production and marketing, following implementation of the EC regulations.

IV.1.10. Whisky industry perceptions: Spain

A major producer of whisky stated that the Spanish market had enjoyed steady growth in volume, which was forecast to continue. Their principal whisky brand is actively marketed, with 95% of sales being via supermarkets for home consumption. Brandy is viewed as the major competitive threat.

The sale of low-strength whisky is not permitted in Spain, and the views expressed were very much in favour of continued prohibition, with the EC Regulation 1576/89 broadly welcomed.

IV.1.11. Whisky industry perception: UK

The Scotch whisky industry is a major component of the UK economy, and source of export revenues. Against this background, the contrasting views expressed by members of the Scotch Whisky Association and by members of the Association of Low-Strength Whisky Producers were uncompromising and strongly held.

The key issues regarding the whisky industry have been previously summarized (paragraphs III.1.3-III.1.4). However, whilst the authors of a review of the impact of Regulation 1576/89 mention that it has been welcomed by the low-strength producers, they conclude that the producers see an alcoholic content of 40% vol as being 'de facto' and believe that low-strength whisky will disappear.

The companies who have actively marketed low-strength whisky in the UK appear to be particularly adept at capitalising on market niche opportunities. Amongst the activities they are considering undertaking, to compensate for the prohibition of low-strength whisky, are the following:

(i) raising the strength of selected low-strength whiskies to 40% vol;
(ii) marketing grain spirits below 40% vol, but without generic references to whisky/whiskey;
(iii) marketing budget priced Canadian whiskey at 40% vol;
(iv) developing whisky sales in non-EC markets, e.g. East Europe, Africa.

The major UK brand owners are increasing marketing investment behind their brands to address the overall declines in dark spirit sales. Some Member States present particularly attractive prospects, as they develop into mass consumption markets.

Believing to have effectively "won" the battle over lower strength whisky, members of the Scotch Whisky Association are paying attention to what they perceive as the remaining threat to the quality position of Scotch whisky, namely the passing off of dark grain spirits as Scotch.

Sensitive to the impact that cheap low-strength whisky made in the market, they are particularly vigilant regarding new products. Specifically they are trying to stop products that indicate any traditional Scottish heritage by way of brand name, bottle shape, label design or promotion that could be interpreted by consumers as an inexpensive variant of Scotch whisky.

The prevailing view in the Scotch whisky industry is that there has been a long-term investment in producing and marketing to produce the highest quality product for the consumer. They believe it is incumbent upon them as an industry to protect that product, and thus guard the interests of their consumers. Furthermore, premium prices are necessary for the industry to recoup its investment, and they view low-strength whiskies as opportunistic price competition. This creates a trading environment where it is more difficult to gain a return on that investment. The consequence of this is that the entire industry suffers.

IV.1.12. <u>Impact of prohibition of low-strength whisky on manufacturing</u>

All manufacturers of low-strength whisky consulted have stated their intention to comply with Regulation No 1576/89. In so doing, they have ceased manufacturing and are in the process of selling off previously manufactured stocks. In terms of compensating for the loss of sale, as indicated above they are upgrading their better established low-strength brands to 40% vol, and are launching new spirits without any generic reference to whisky.

The process of launching upgraded products is being met with mixed results according to those organizations who were prepared to divulge details of their business performance. The key issues were stated to be as follows:

(i) **Market position:** The market position of upgraded lower-strength products was stated to be vulnerable as they have now lost the price advantage they may have had previously over the cheapest full-strength brands.

(ii) **De-listing:** A number of retailers have indicated to manufacturers of upgraded low-strength products that their range requirements for cheap whisky are being satisfactorily catered for by their existing own brand products and they do not see the need to expand the portfolio of products in this segment by stocking upgraded low-strength lines. Consequently, maintaining distribution may be a problem and only a very few upgraded products with strong consumer franchises will prosper after price increases, in the face of existing competition from established low priced, full strength products.

(iii) **Conversion to 70cl bottles:** In line with other EC legislation, Scotch whisky producers are reducing the size of their bottles from 75cl to 70cl. As part of the process of conversion, the prices of many 75cl bottles are being reduced in order to deplete existing stocks quickly. Against this background of change in the market and a confusing picture of whisky pricing, the impact of relaunching upgraded low strength brands at 70cl is claimed by UK producers to be severely compromised, and consumer loyalty to their brand names made more questionable.

(iv) **Costs of conversion:** Discussions with manufacturers have indicated that the costs of conversion from low strength to 40% vol have been fairly modest. The leading manufacturer in the UK indicated that UK £15,000 had been spent on redesigning and reprinting labels. There were also costs involved in writing off old material. Furthermore, it would appear that some manufacturers are coordinating the upgrade of their products with the reduction in bottle size to 70cl, so that the real cost of conversion is difficult to isolate from other costs being incurred.

(v) **Launch costs:** The marketing costs involved in upgrading are minimal. Low-strength products have not been as heavily promoted as the major international brands and, in order to remain price competitive with established budget priced brands, margins have had to be kept low, rendering any advertising unaffordable.

In the course of discussions with low-strength producers, organizations in Belgium and France were more reluctant than their UK counterparts to provide details of their plans following prohibition. Consequently, it is not possible to quantify how many low-strength brands currently sold in the Community will be upgraded to 40% vol.

Given the entrepreneurial nature of the companies producing low-strength whisky, it can be expected that they will find new niches to develop in the liquor sector, and may enjoy future commercial success in spite of the setback to their business resulting from the implementation of Regulation 1576/89.

IV.2 Discussions with retailers, agents and distributors:

IV.2.1. Overview

The prohibition of the sale of whisky below 40% vol will have a major impact on the purchasing patterns of those sectors of the retail industry which have previously benefited from these products. With regard to this, and to determine whether there is an economic opportunity for traders to seize, a cross section of distribution sectors in Belgium, France, Germany, Ireland, Spain and the UK were interviewed.

The objecives of the discussions closely paralleled those set for the discussions held with the whisky industry, and were as follows:

(i) to discuss perceptions with regard to the sale of whisky and other spirits,
(ii) to gain an understanding of perceptions towards low-strength whiskies and their potential prohibition,
(iii) to secure cooperation in the acquisition of market data.

In spite of market differences between Member States, the retailers and distributive sectors interviewed had broadly similar perceptions, with few differences between them, other than their reactions to the prohibition of low-strength whiskies.

IV.2.2 . Market perceptions

Retail and distribution perceptions of the whisky market reflected the patterns of sale in each Member State. However, all those interviewed claimed to be experiencing a general trend in spirit sales in favour of lighter, white spirits.

The whisky market was universally perceived as being characterised by strong brand loyalty, representing a highly planned purchase with minimal buying on impulse. Price promotion, however, was seen as a powerful means of influencing brand choice at the point of sale, but only within a particular segment of the whisky market.

IV.2.3 . Retail strategies

Given the strong brand loyalty in the whisky market, retailers structure their ranges to include a choice of brands within price and quality segments. Retailers in France and Spain in particular carried very large ranges of whiskies. Furthermore, specialist liquor outlets tended to stock larger comprehensive ranges including the more exotic malt and deluxe whiskies.

The general strategy with regard to whisky sales was to encourage consumers to trade up to more expensive products, thus enabling the maximisation of retail revenues. The recent controls on the sale of bulk Scotch whisky were seen as benefiting this objective, by forcing cheaper brands to increase their prices. Marketing investment by leading brand owners behind the major international brands was also welcomed as a further contribution towards getting consumers to trade up.

IV.2.4 . Sales of low-strength whiskies

Not all the retailers interviewed stocked low-strength whisky brands. Those who did not, (apart from in Germany and Spain where they are not on the market), stated that their decision not to stock them was based on the belief that they were not "real " whiskies. Furthermore, their presence was contrary to the objectives of trading up and presenting quality merchandise.

The sale of low strength products was stated to be as a response to consumer demand, with estimates of market shares in particular retail outlets varying between 50% for one retailer interviewed to 5% in independently owned specialist outlets in the UK.

Whilst some retailers denied that consumer confusion can result from purchasing low-strength whiskies, others saw this as a problem. This was a further reason given not to offer these products for sale.

With regard to the prohibition of low-strength whiskies, we found mixed views amongst the distribution chain. In those markets where low-strength products are particularly well-established, e.g. Belgium and France, concern was expressed whether total whisky sales would recover the loss of these products. Other retailers welcomed the establishing of minimum quality standards for whisky, claiming that the overall market will benefit from increased consumer confidence.

A minority of retailers took the view that low-strength whisky consumers may switch to other categories of spirit. The majority believe that purchasers of low-strength whiskies will trade up to budget-priced full-strength brands. All the retailers interviewed perceived the role of lower-priced whiskies, including their own brands, to be for consumers who dilute their drinks with mixers.

IV.2.5 . Economic opportunities presented to traders

The economic opportunities presented to traders can be viewed from two angles:

(i) consumers trading up to full-strength whiskies
(ii) the emergence of new spirit sectors.

If the volume of retail whisky sales is maintained, traders should benefit by consumers trading up to full-strength products where higher prices will be charged at the point of sale and where more attractive profit margins should be forthcoming. However, in some Member States, the current pressure on consumer disposable income is having a serious impact on the sale of luxury items such as spirits and liquors, so the benefit of trading up may take some time to become apparent.

Furthermore, with the price of spirits being so heavily influenced by levels of taxation, the impact on consumer purchasing from any changes in taxation may well negate the benefit of higher revenues through increased alcoholic content.

With low-strength whisky having had only a small share of the market and not having been sold in all Member States, the total measurable effect of the opportunity presented to traders throughout the Community in terms of consumers trading up as a consequence of prohibition will be very small.

The second economic opportunity open to traders is from the sale of new spirits below 40% vol not generically promoted as whisky.

In the course of discussions with low-strength whisky producers, their intention to launch as "new spirits" products that previously were marketed as low-strength whisky was made apparent. These products would be packed and promoted with an imagery totally different to whisky in order to avoid any danger of being seen as "passing off" whisky, which could result in punitive action being taken.

Given the fact that there is not the availability of bulk Scotch whisky with which to produce these new spirits, manufacturers who are planning to enter this market are having to source their bulk product from Canada.

With new spirits operating from a low price position in the market, the alcoholic content is envisaged to be around 30% vol.

The commercial success of new spirits will very much depend on their acceptance by the retail trade. Retailers expressed an interest in them during the course of consultation, provided that there was evidence that demand was there. This demand would be seen to be a result of a low price combined with effective marketing activity from the manufacturer. However, in the face of impending restrictions on the advertising of alcoholic beverages throughout the Community, manufacturers may find it increasingly difficult to successfully launch new products in the face of competition from well-established categories of product with very strong brand names that hitherto have enjoyed considerable advertising and marketing support in the past.

The relative success of low-strength whiskies has been due very much to the fact that producers of these products are highly entrepreneurial organizations which have been quick to exploit market opportunities. The marketing skills within these organizations will probably result in new spirits successfully carving a niche in the spirits sector from which traders can benefit, albeit total sales will probably remain modest compared to those of other spirits and liquors.

During the course of consultation, low-strength whisky producers did not always reveal their plans regarding the launch of new spirits. The UK producers were more open in their comment, with one company implementing a long-term strategy to launch a comprehensive range of liquors with a low-alcoholic content and not having any generic references to other spirit beverages. Another company was launching products as a single exercise in specific response to short-term commercial opportunities.

Consequently, it is only possible to qualitatively determine the economic impact of prohibition in terms of new product development and launch into EC markets, and not possible to give any quantitative appraisal.

V. PHASE TWO: IDENTIFYING THE REASONS FOR CONSUMERS' CHOICE

V.1 . Review of methodology

In order to address the study objective of identifying the reasons for consumer choice of whisky, a series of group discussions amongst consumers were held in the major whisky-consuming Member States. The samples were carefully recruited to be representative of whisky consumers in each market. A total of 144 consumers participated in the research as follows:

Belgium, Ireland, Spain: 16 consumers participated in each Member State
France, Germany, UK : 32 consumers participated in each Member State

The groups were run by trained moderators, and the proceedings were all tape recorded. In the course of recruitment of group participants, a quota of low-strength whisky consumers was included. Given the absence of these products for sale in Germany and Spain, this was not possible for these two markets. In the other Member States not all participants were frequent purchasers or consumers of these products; however awareness of low-strength whisky amongst the groups was widespread.

The discussions with the groups followed the following format:

(i) **Introduction:** This involved the moderator explaining the purpose of the group.

(ii) **Current drinking patterns:** As a background to the discussion, participants were asked to outline their drinking habits, drinking occasions, and purchase behaviour.

(iii) **Whisky consumption:** Participants were asked to discuss in detail their whisky drinking patterns, and questioned in depth about their knowledge of the product. Samples of whisky bottles were introduced to the groups by way of stimulus material.

(iv) **Grouping exercise:** In order to fully understand consumer perceptions, the participants were given the opportunity to examine the sample products, were asked for their comments, and then asked to group the products according to their own categorization. Included in the samples were examples of low-strength whiskies.

(v) **Light whisky:** The groups were questioned in detail about their perceptions of low-strength whiskies, and the consequences of prohibition.

V.2 . Summary of Findings

All the findings in this section of the report directly reflect the comments made during the group discussions.

Overall, there were a number of similarities found across all the Member States where the consumer research was conducted. Key common areas were as follows:

(i) **Brand loyalty:** Whisky drinkers tended to demonstrate strong brand loyalty based on taste preferences. Their choice of whisky was made from a small repertoire of brands.

(ii) **Source of purchase:** Supermarkets were the most common retail outlets for purchasing for in-home consumption. Whisky is primarily a male purchase. Purchasing by women is often at the specific request of their spouses.

(iii) **Market knowledge:** Consumers were generally aware of what constitutes a whisky and the nature of the determinants of quality. Brand awareness was high, especially for international brands that enjoy advertising and promotional support.

(iv) **Low-strength whiskies:** Amongst the sample of consumers, these products did not represent frequent purchase items and, when bought, tended to be bought entirely on price, with the intention of mixing with soft drinks. Responses to prohibition were generally muted, indicating a lack of concern. Respondents also stated their intention to take the cheapest full-strength product.

The differences found between the Member States where the groups were conducted related primarily to the per capita consumption levels of whisky. Whisky consumption was more widespread in Ireland and the UK, and in these markets brand loyalty was stronger. In Spain and Germany, whisky consumption was seen to be more prevalent amongst affluent consumers. In Belgium and France there was the highest experience of consuming low-strength whiskies.

V.3 . The Belgian Consumer

In Belgium, the research comprised two male groups, one of younger and the other of older consumers. The key findings were as follows:

(i) **Drinking patterns:** Drinks consumed by the respondents included a wide repertoire of categories, with beer being the principal alcoholic beverage consumed outside the home. Spirits tended to be drunk in-home. The frequency of spirit consumption was stated to depend on social activities; however, amongst the groups interviewed, weekends were the primary drinking occasions.

Spirits were bought in supermarkets ("grande surfaces") primarily by men. Supermarkets were seen to offer the optimum range, the most favourable prices, and to be a convenient means of purchasing.

(ii) **Whisky consumption:** Whilst tending to be loyal to well-known brand names, the younger consumers stated their willingness to experiment. Loyalty was based upon preferred taste, and price. Branding and packaging imagery were deemed important in terms of aspiring consumption. A high awareness of the composition of whisky was found. Amongst the sample, French and Belgian-produced products were not seen to have the same status and credibility as Scotch, Irish or US/Canadian whiskies. Both groups of consumers were able to group the samples according to price and/or perceived quality.

(iii) **Low-strength whisky:** Most respondents had purchased whiskies below 40% vol, exclusively to mix with soft drinks. Perceptions of low-strength products were generally negative with regard to quality and image. On the issue of prohibition, respondents claimed they would trade up to full-strength whiskies and, given the wide ranges available, considerable choice remained. In general, the respondents indicated little regret at prohibition, however the view was expressed that the greatest impact would be felt by low income consumers.

V.4 . The French Consumer

The consumer research in France comprised a male and a female group in Paris, and two male groups in Lyons.

The key findings were as follows:

(i) **Drinking patterns:** All respondents consumed a wide repertoire of drinks according to occasion and ambience. The female group in Paris claimed to consume almost exclusively in-home, and the two Lyons groups changed their drinking patterns seasonally, favouring pastis in the summer, and other spirits in winter. Supermarkets represented the primary source of purchase, because of their competitive prices and wide ranges. Specialist liquor outlets served those consumers who were looking for top of the range products. Purchasing of alcoholic drinks was stated to be undertaken by both sexes. The female group made specific reference to their propensity to avail themselves of promotional offers and buy on price.

(ii) **Whisky consumption:** Respondents claimed to consume within a repertoire of brands, depending upon the drinking occasion. Brand loyalty is characteristic within that repertoire, based upon taste and image. More expensive brands were drunk neat, often as a digestive, with cheaper whiskies diluted as an aperitif. Widespread usage of low-strength whiskies, always diluted, or used in cooking, was found. Whisky is generally viewed as a high status drink, with the respondents having a clear appreciation of what constitutes the product, and of the determinants of quality. Price was viewed as important, particularly at the cheaper end.

(iii) **Low-strength whisky:** As indicated above, low-strength whiskies have a clear role in the repertoire of French consumers' products, and are viewed as perfectly acceptable in those circumstances. Respondents claimed never to offer them undiluted to guests, and bought them entirely on a platform of price. With regard to prohibition, the indications from the respondents were that they would trade up to full-strength products. The prospect of prohibition was not viewed with particular regret, and the view was expressed by the groups that legislation on the alcoholic content would provide consumers with a form of quality guarantee.

V.5 . **The German Consumer**

The German groups were drawn from the principal whisky-consuming sector of the higher/middle socio-economic groups, including representation of female consumers. The key findings were as follows:

(i) **Drinking patterns:** The German respondents were primarily consumers of beer and wine, claiming that spirits represented 10%-15% of their consumption, and were mainly drunk in-home, during evenings and at weekends. Supermarkets represented the primary source of purchase, with the majority of respondents claiming to buy their own drinks.

(ii) **Whisky consumption:** Whisky was generally perceived as a high status drink with considerable quality and heritage associations. The respondents were generally aware of the market position of brands and their quality determinants. For the majority, whisky was drunk with ice, and only a small percentage diluted the product with soft drinks.

(iii) **Low-strength whisky:** The respondents were unaware of low-strength whiskies and, when questioned in detail, took the view that a reduction in alcoholic content would have a negative effect on taste and quality. This issue was particularly pertinent, given the importance of quality to the respondents. With regard to prohibition, this is not an issue as low-strength whiskies have no market presence.

V.6 . The Irish Consumer

The consumer research in Ireland comprised two male groups, one of younger men, and the other of older. The key findings were as follows:

(i) **Whiskey consumption:** The Irish respondents were extremely brand loyal, with their choice of whiskey based upon taste. Whiskey was claimed to be drunk as a strong liquor for its alcoholic content. Whiskey was not viewed as a "special" drink and was stated to be drunk exclusively out of the home in pubs and bars. Any bottle purchasing was stated to be from supermarkets, and a male-oriented purchase. Among younger consumers, there was a significant mixing of whiskies with soft drinks, whereas the older respondents claimed to drink it undiluted. In the grouping exercise, respondents had no difficulty in identifying to which market segment each product belonged in terms of price and quality.

(ii) **Low-strength whiskey:** Although low-strength products have been available in Ireland the younger consumers were unaware of their existence. This is probably as a consequence of whiskey consumption being mainly in bars where low-strength products are not generally sold. Amongst the older consumers, lower-strength products were seen as down-market and inferior, and they had little interest in buying them. All respondents claimed they would not buy them, as they were loyal to established brands that had a clear market identity. The respondents showed indifference to the prospect of prohibition, stating their belief that purchasers of lower-strength whiskies would trade up to full-strength products.

V.7 . The Spanish Consumer

The consumer research in Spain comprised two groups of males drawn from the upper and middle socio-economic sectors, one group being older consumers, the other younger. The key findings were as follows:

(i) **Drinking patterns:** Both groups of respondents claimed to consume a wide range of alcoholic drinks, with spirits primarily consumed at weekends and after meals. Spirits were consumed both in home and in bars. Supermarkets were the primary source of purchase, with equal purchasing by men and women.

(ii) **Whisky consumption:** Whisky consumption is generally viewed as high status, with Spanish consumers demonstrating strong brand loyalty. The key determinants of brand choice were stated to be quality and product image, with price being of less importance. The respondents claimed to buy from a small repertoire of brands, some being consumed undiluted, whilst others are generally mixed. Amongst the group, we found little awareness of the determinants of quality, with respondents judging whiskies by taste. Spanish bottled whisky was not perceived as "genuine" whisky.

(iii) **Low-strength whisky:** Given that whiskies below 40% vol are not sold in Spain, there was no awareness of these products amongst the respondents. After tasting a few samples, they said that low-strength products were only suitable for mixing with soft drinks, and were "for tourists". There were no views expressed with regard to the prohibition of low-strength products.

V.8 . The UK Consumer

The UK group discussions comprised male and female groups of varying ages, and were held in Birmingham and Glasgow. The key findings were as follows:

(i) **Drinking patterns:** UK respondents consumed a wide repertoire of alcoholic drinks both in-home and in pubs/bars. Supermarkets represented the primary source of purchase, with women taking responsibility for buying drinks, and men requesting the brands. Respondents were particularly price aware.

(ii) **Whisky consumption:** Respondents were sophisticated consumers with strong brand loyalties based upon taste and strength, having a good understanding of the relative market position of individual brands. As expected, the Scottish group demonstrated detailed knowledge of whisky and the determinants of quality. Many respondents kept more than one brand at home. Malt and deluxe blended whiskies were consumed for special occasions or as a treat, premium blends for everyday consumption, and cheaper brands for parties and mixing. The Scottish group did not mix soft drinks with whisky. All respondents claimed that whisky was primarily drunk in-home.

(iii) **Low-strength whisky:** Not all respondents were aware of low strength whiskies, and those that were expressed views that were generally unfavourable. Having been attracted by a low price, many had tried them but had not repeated their purchases. Key criticisms were that the label marking of "understrength" was indistinct until the product was taken home, whereupon the respondents felt cheated, and that they had not obtained real value.

Some respondents claimed to buy them for parties to mix with soft drinks, however there was a widespread view that offering inferior products to their guests would reflect badly upon them as hosts. With regard to prohibition, some respondents felt that those consumers who enjoy low-strength products should not have their freedom of choice curtailed. However, the consensus was that prohibition would not cause consumers to change drinking habits. All respondents who occasionally bought low-strength products stated they would trade up to cheaper whiskies at 40% vol, such as supermarket own brands.

VI. CONCLUSIONS

V.1. From whisky industries

VI.1.1 From discussions with the whisky industries in Belgium, France, Germany, Ireland, Spain and the UK, it can be concluded that there is a general optimism with regard to future prospects for the market in the Community.

VI.1.2 With regard to low-strength whiskies, it can be concluded that their prohibition is seen as inevitable. However, there has been considerable resistance to prohibition from those industry sectors particularly in Belgium, France and the UK which have successfully marketed these products. In the majority of instances, former low-strength producers are in the process of implementing plans to compensate for the prohibition of these products.

VI.1.3 Whilst the issue of the alcoholic strength of whisky is being addressed, it can be concluded that for the industry there are a number of other relevant legislative and taxation issues in the Community which are seen as more important, and require resolution.

VI.2 From retailers, agents and distributors

VI.2.1 The retail and distributive sectors have a clear understanding of the whisky market, and view the sale of whisky as an important source of revenue.

VI.2.2 The prohibition of low-strength whiskies may affect the revenues of those distributive sectors which have previously benefited from the sale of these products. The prevailing view is that most consumers will trade up to full-strength products, and this opportunity for the retailers is seen as assisting in achieving their overall objective of maximising returns.

VI.2.3. The possibility of new dark spirit products with less than 40% vol is seen as being of benefit, provided that sufficient volume demand is generated.

VI.3 **From the consumer research**

VI.3.1 The respondents in all Member States were selected as regular whisky drinkers, and in general they acknowledged their consumption of a wide range of alcoholic beverages both in-home and elsewhere. Consequently, it can be concluded that whisky tends to form one of a wide repertoire of drinks consumed.

VI.3.2 Brand name and taste are the most important factors in purchasing. Price is also of influence as evidenced by the widespread use of supermarkets which are seen as offering competitive prices.

VI.3.3 Whisky consumers demonstrate considerable brand loyalty, primarily based upon taste, albeit in some Member States other factors have significant importance, such as imagery and branding. More expensive brands tend to be drunk alone or with ice, and cheaper brands diluted with a variety of mixers ranging from water to cola.

VI.3.4 With the notable exception of Ireland, and to a lesser extent Spain, whisky is primarily consumed in the home.

VI.3.5 With the exception of Spain, consumers appear to be quite knowledgeable with regard to the composition of whisky, the determinants of quality, and the relative market position of individual brands.

VI.3.6 With regard to low-strength whiskies, these products appear to have established the strongest niche in France. However, amongst our respondents in other Member States they do not appear to have secured a particularly loyal consumer franchise. Low-strength whiskies are bought on price, and in some instances have been bought unwittingly by our respondents. They are primarily used for dilution with mixer drinks or, in the case of France, for culinary purposes.

VI.3.7 Responses to the prohibition of low-strength whiskies tended not to elicit strong reaction amongst our sample. The general view was that consumers require some form of quality guarantee, whether this be via a minimum 37.5% vol or 40% vol. In anticipation of prohibition our sample of whisky consumers universally indicated their intention to trade up to cheaper full-strength products, as opposed to switching to other spirits below 40% vol.

VII. **FINAL CONCLUSIONS**

VII.1 The findings from the study indicate that the whisky market in the Community continues to offer opportunities to manufacturers and distributive sectors, and that the consumer is becoming increasingly sophisticated and quality orientated.

VII.2 Brand loyalty and taste are the most important purchase criteria, albeit price has an influence and has been a major factor in enabling low strength whiskies to achieve their share of the market.

VII.3 The prohibition of low strength whiskies will have a negative impact on the business of manufacturers of those products. However, they generally have made provision for this eventuality. Prohibition will probably result in consumers trading up to the cheaper full strength whiskies, with only a minority switching to other spirit sectors.

VII.4 The economic consequences are not able to be quantitatively determined. However, the principal economic impacts will derive from:

i) insignificant changes to tax revenues through the loss of sale of low strength whisky, as consumers have indicated that they will switch to higher taxed full strength products, albeit probably purchasing less frequently

ii) improved returns for retailers as a consequence of the consumer switching to higher priced products

iii) niche market opportunities for whisky producers from the launch of new spirits with a lower alcoholic content

iv) increased competition at the lower priced end of the whisky market, following raising the alcoholic content of some established lower strength brands

v) modest costs being incurred by manufacturers of lower strength whisky as they upgrade products to 40% vol and launch new spirits.

VIII. COMMISSION POSITION

The Commission believes, on the basis of the market study conducted, that the minimum alcoholic strength of whisky should be maintained at 40% vol and that production at a lower strength should be prohibited.

The fixing of alcoholic strength at 40% vol means that the quality of whisky will be maintained and that the interests of consumers, who are becoming increasingly concerned about the assurance of that quality, will be safeguarded.

The prohibition of low-strength whiskies will have no serious repercussions for or appreciable impact on the sector as a whole given:

- the relatively limited market share (ranging from 2% to 10% in some countries) enjoyed by low-strength whiskies in the Community and their total absence in some Member States;
- the opportunities available to low-strength whisky producers to raise the strength of their products to 40% vol (at relatively low cost) or to launch new spirituous beverages with no reference to the generic term "whisky" (possibly used in blends as low-strength whisky was used previously, with an alcoholic strength of the order of 30% vol, according to the retail trade which has expressed interest provided evidence is given of demand.

The whisky industry is more concerned about the rules which would restrict the advertising and promotion of alcohol and the discrepancies between excise duties in the Community.

The prohibition of low-strength whiskies, furthermore, is not giving rise to concern, in so far as the retail sales and distribution sectors are concerned, on markets where these whiskies are especially well established (potential replacement of whisky by other types of alcohol) while others are pleased with these high quality standards. Business returns, moreover, are expected to rise on account of consumers switching to higher priced 40% vol whisky.