

DEBATE SUMMARY

Pub ownership and the brewing industry - Dr John Pugh (Lib Dem, Southport)
Westminster Hall
Date: 28/04/09

Summary of the debate

John Pugh (Lib Dem, Southport), opened the debate by arguing that only a rational examination of the difficulties the pub industry faces would rectify the problems, noting that reports by all party groups, select committee enquiries, parliamentary debates and industry studies had all failed to deliver a sustainable future for the industry.

Mr Pugh acknowledged traditional reasons cited for the high closure rate of pubs in Britain, including supermarket competition, tax increases, the smoking ban, changing social habits and the recent economic downturn. However he argued a key cause was the tie structure, which he labelled a "self-inflicted" problem which affected around 50 per cent of pubs in the UK.

He went on to cite statistics on pub closures, and argued that the large debts faced by several pubcos resulted in tenants being forced to endure rising costs to service debt payments. In particular, he said that tenants were often given little option but to purchase expensive beer, pay high rents and buy additional financial and legal services. Mr Pugh suggested that freehold and chain pubs that did not face such restrictions were proving to be more resilient to the problems faced by the industry.

He argued that the tied business model was unsustainable, and called on the Government to legislate to ensure that pubcos support their tenants, invest in pubs and loosen the supply chain.

John Grogan (Lab, Selby) argued that 50 per cent of pubs operated without the tie, and suggested if anything, they were closing at a slightly faster rate than tied pubs. He therefore argued that issues such as tax, supermarket competition and changing social trends were more important than John Pugh suggested. Mr Grogan also sought to challenge claims that the tie resulted in artificially high prices. While accepting price figures do not necessarily relate to profitability, he cited statistical evidence which demonstrated price parity between tied and freehold pubs.

Mr Grogan also cited industry and policy bodies to argue that the tie could be reformed rather than abolished. He argued that CAMRA supported the possible widening of supply to include guest beers, and welcomed the establishment of a committee by ALMR to look at mandatory lease terms which he said could lead to tenants being given greater freedom to select from a wider choice of drinks and brands in return for higher rent payments. He also made a brief reference to IPPR proposals for a mandatory code of conduct.

Concluding, Mr Grogan defended the tie, arguing that it helped small brewers by guaranteeing market share and assisted skilled entrepreneurs who lacked large quantities of capital to enter the pub trade.

George Young (Con, North West Hampshire) echoed John Grogan in stating that not all the problems faced by the pub industry could be related to the tie. He also acknowledged the potential benefits of the tie arrangements to entrepreneurs who lacked capital.

However, Mr Young argued that the pub industry needed a more sustainable business model that could tackle the problem of high tenant turnover. He suggested obligatory clauses could be inserted into

leases to deliver greater stability in the short-term, as a precursor to a more sustainable and permanent business model in the future.

My Young rejected suggestions that market regulation and competition within the industry was not a matter for Government and politicians, arguing that there was a long tradition of political interference into the pub trade.

Greg Mulholland (Lib Dem, Leeds North West), argued that ideally the local community should enjoy moral ownership of local pubs, which would serve local beer and food, thus entrenching the connection between pubs and their communities. He suggested the current industry model could not be further from this ideal.

Mr Mulholland criticised the replacement of paternalistic brewers by profit-driven companies in the tied sector. He compared the large pubcos to the nationalised banks, suggesting they had over-borrowed during times of economic growth and the sector was now facing difficulty in trying to repay the debt. He went on to criticise the power imbalance in contract negotiations, expressing surprise that certain clauses in tie contracts were legal.

Mr Mulholland argued that a new business model was required, which could deliver transparent rent reviews and potentially 3 year opt-out clauses for tenants. He also suggested that tenants should enjoy the right to buy at the market rate, and that local communities should have a guaranteed right to purchase a pub before any potential closure.

Laurence Robertson (Con, Tewkesbury), suggested that the Government were not aware of the impact successive tax rises were having on the pub industry. He went on to suggest that all members wanted to see a revitalised and sustainable pub sector, but cautioned against a well-intentioned rush to legislate which he argued could lead to unintended consequences.

Martin Horwood (Lib Dem, Cheltenham), suggested that pubs were a weapon in the battle with binge drinking as landlords often enforced a responsible drinking culture, and peer pressure in pubs cautioned against excessive drinking in a way it didn't in the off-trade.

Mr Horwood went on to advocate a "restricted tie", which would include a guaranteed list of products which tenants could source and offer free from the tie. He argued this would decrease prices to help pubs compete with discounted supermarket promotions and allow tenants to respond to local preferences, thus reducing the rate of pub closures. Brewers would retain their foothold in the market, but would be prevented from using their profits in the on-trade to cross-subsidise off-trade discount promotions and loss-leaders. While acknowledging that pubcos would be the obvious losers from such a change, Mr Horwood argued they would retain control over the majority of products.

Liberal Democrat shadow business, enterprise and regulatory reform minister, Lorely Burt, argued that there should be a symbiotic relationship between pubcos and tenants which assisted and supported entrepreneurs. Ms Burt, herself a former publican, suggested that too many unskilled people were entering in to tenancy agreements without any understanding of the pub sector, and criticised the lack of training provided by pubcos.

Ms Burt advocated greater transparency in tie contracts, and argued that more pubs needed to be sold to tenants.

Conservative shadow business, enterprise and regulatory reform minister, Jonathan Djanogly, echoed comments made by other participants in the debate in regard to the tie being only one of the problems faced by the pub industry, and agreed that the level of debt taken on by pubcos was having a detrimental impact on the sector.

Mr Djanogly cautioned against a rush to legislate on the issue, and argued that politicians must respect the Office of Fair Trading on competition issues. However he said where the tie existed, it must benefit both the tenants and pubco and suggested that uncompetitive practises were not sustainable.

Mr Djanogly sympathised with small pubs, which he suggested could not absorb rises in alcohol duty as successfully as supermarkets which treated alcohol as a loss-making product to drive sales elsewhere. He also rejected proposals for minimum unit pricing, which he argued were too blunt an instrument to be effective, and risked penalising the majority of moderate drinkers. Instead he repeated Conservative policy to introduce a fiscally neutral alcohol tax regime which would reduce duty on low and medium strength beers while increasing tax on high strength alcopops and ciders.

Consumer affairs minister, Gareth Thomas, accepted that the pub sector was experiencing difficulties, but suggested it was not alone in that respect. He also suggested that in responding to the comments made in the debate, he did not wish to pre-empt the Government's response to the all party beer group's report which is due shortly.

The minister argued that it was the responsibility of the competition authorities to assess restrictive market practises, and argued that the tie had been assessed by both the Office of Fair Trading and the European Commission, with both concluding that it was not an issue of concern.

Mr Thomas said he would reflect on the views expressed in the debate, but said that the position of the Government on the tie remained unchanged.

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