

CAMRA's Comments on OFT Response on Pub Company Ties



**CAMPAIGN
FOR
REAL ALE**

CAMRA, the Campaign for Real Ale, is disappointed with the OFT's response to their super-complaint on the operation of the beer tie by large pub companies. The OFT's response is in CAMRA's view based on flawed data and insufficient understanding of the UK pub market. CAMRA is therefore taking the matter to the Competition Appeals Tribunal.

1. The OFT report acknowledges the fact that on average tied tenants would be between £19,000 and £21,000 better off each year if they were able to buy beer at open market prices; but dismissed the relevance of this based on industry assertions that tied tenants pay lower rents and receive business support. Failure of the OFT to conduct a more thorough analysis of industry assertions on this fundamental point seriously undermines the validity of their conclusions:
 - The OFT have agreed that rents for tied pubs are lower without taking reasonable steps to ensure the selective data supplied to them by the pub companies was comparing like with like.
 - The OFT have accepted without question pub company assertions that they provide support to tied pubs worth between £6-8,000 a year and have made no effort to establish what these benefits are worth, if anything, to tied tenants.
2. The OFT consumer retail pub price analysis was partial and misleading. The OFT analysis inflated the average free of tie price by excluding all managed pubs, which is the sector of the market with the lowest prices. The OFT analysis also depressed the average price in tied pubs by including free of tie leased pubs in the tied sector. Notwithstanding these two errors the OFT still found that on average prices in tied pubs were more expensive by an average of 8 pence. In addition the OFT did not properly consider the impact on consumers as a result of pub closures, lack of investment, and the general quality of the pub experience.
3. The OFT's reasoning relies heavily on the entirely untested hypothesis that the "pub companies' commercial interests would appear to be aligned with the interests of their lessees". In reality pub companies earn around £65,000 a pub each year compared to tied tenants, 67% of whom earn less than £15,000 a year. Pub companies can also make substantial profits from a long term leaseholder going out of business as this gives them the opportunity to sell the pub for redevelopment. Pub companies have also been able to, at least partially, compensate for the impact of falling volumes through higher price margins and pushing up rents, whereas for the tied tenant falling volumes ultimately means business failure.
4. The OFT failed to take reasonable steps to understand the pub market through listening to the experiences of individual licensees.