The Internationalisation of the British Brewing Industry

The UK is currently the eighth largest beer market in the world, and ranks fifth in terms of per capita consumption. Over 900,000 are employed in the trade, including brewing, retailing, supply and distribution. It is estimated that over 15 million people drink in a pub at least once a week. Until less than fifty years ago, this substantial industry must have appeared to be less affected by international influences than almost any other sector of manufacturing. The British taste in beer was almost unique, with no other large market in the world favouring top-fermented ale, or dark beer. This was brewed mainly by small or medium-sized regionalised companies. Today this perspective seems very distant indeed. The UK market, like most others, is dominated by branded lagers produced overwhelmingly by a small number of transnational corporations. This paper examines the causes of this massive change in relation to a number of possible internationalising factors – increased commodity trade, inward and outward direct investment, standardisation of consumer tastes and state regulation and merger policies.

Exports

British beer exports (and imports) have always been handicapped by such fundamental factors as the high transport costs attaching to goods which are heavy in relation to value, and the intrinsic difficulty of keeping beer in good condition over time and distance. By the late nineteenth century technical advances elsewhere ensured that most parts of the world required beer of the lager variety, whereas for virtually a further century, ale remained dominant in the domestic market. This development largely destroyed the value of the traditional skills of British brewers in export markets.

There had been some export success in early days – for example, the Burton brewers in the Baltic trade in the eighteenth century. But this and other destinations were adversely affected by the Napoleonic wars. Total exports were lower in 1830 than 1800 (60,000 barrels against 90,000). Then the Burton companies made an impressive break-through in the India market. The principal product, India Pale Ale (IPA), high in gravity, pale in colour and massively hopped, gave its name to a beer style, which in greatly diluted form, is alive today. Bass probably exported 40% of their output in 1844, and in the early 1870s were shipping beer in bulk to 58 overseas markets. Exports averaged about 146,000 barrels in the mid 1840s, but then stagnated and declined after 1860, from a peak of just over 600,000 barrels to a low of 420,000 in the mid 1880s. Australia, the colonies, America and India were the crucial markets, with expatriate business people, the colonial service and the armed forces prominent within them. In general, given that ‘the export of beer demanded great expertise, commitment and capital’, it is not surprising that only a few of the bigger firms were qualified to succeed. (Gourvish and Wilson, p171)

The First World War closed many export opportunities, and in the interwar period volumes declined by more than half. From a level of 623,000 barrels in 1909-13, exports fell to 290,000 in 1924-28 to 270,000 in 1934-38 (from 1.8% to 1.4% to 1.6% of output). Demand collapsed in both USA, because of prohibition, and also in Australia. The only substantial remaining markets were Belgium and India, and even there sales fell to less than half of the pre-war figures. A marked advance was made in Eire, but this was nominal, as the country left the UK in 1923 (Gourvish, pp. 127-28, 136).

The Second World War was followed by a period of restrictions on raw materials and foreign trade, with exports remaining below pre-war levels (under 250,000 barrels) until the early 1960s. During these years, they represented only about 1% of production. Eventually a fairly steady rise in exports ensued, with the 500,000 barrel mark being exceeded in some years in the late 1970s, and one million barrels being achieved by the early 1990s. Breaks in the data make disaggregation by country difficult, but it seems that Belgium was for long the principal overseas market, with between 16% and 56% of the total. The USA emerged from virtual insignificance in the 1960s to become Britain's biggest single customer by the 1990s, taking more than 500,000 barrels by 1995. At that date it was followed in order of importance by Ireland, France, Italy and Russia. (Ripley, pp. 16-17). Little changed over the next ten years, with the American share fluctuating between 29% and 47%, France 10% to19% and Ireland 8% to 27%. By 2005 exports were around 400 million litres, or 7% of production. (Keynote, 2006. p. 22)
Much had changed since the days when export activity had targeted colonies, expatriates and the military bases. Exports still, nevertheless, consisted mainly of British-type ale, and built niche markets within lager-drinking nations. One aspect of internationalisation was a growing minority taste for exotic traditional products of other, very different, countries. Bass, which alone exported over 500,000 barrels in 1995, claimed to be 'the world's most successful ale brand' on the basis of sales in more than 60 countries. Another large company, Scottish and Newcastle, enjoyed a major success in the following decade, when Newcastle Brown Ale became the most popular imported bottled beer in the USA. Appreciation of the potential of export markets spread to smaller firms. Shepherd Neame were exporting to 23 countries in 2007. Charles Wells sold its beer widely on the continent through a branded chain of pubs and other distributors, especially in Italy.

Imports
Imports were quantitatively negligible before 1914, reaching no more than 75,000 barrels by that date. After World War I the figures suggest a surge in imports to almost 1.5 million barrels in 1924-28, falling to almost 1.24 million by 1934-38 (from 0.2% of domestic production to 7.2% and 7.3%. Complaints were made about the dumping of continental lagers in the UK, to which the government eventually responded by imposing a surtax of £1 per barrel in 1936. However, imports from the principal European suppliers of lager, Germany, Denmark and the Netherlands, actually declined after the war. The explanation for the apparently large rise was the inclusion of Dublin Guinness in the import statistics after 1923 (Gourvish, pp. 124, 128). The threat of a tariff on imported Irish beer was central to the decision by Guinness in 1933 to build a brewery in London at Park Royal (operational from 1936). (Guinness, pp. 57-60)
After World War II imports recovered more quickly than exports, and have generally maintained a substantial lead. A level of 5.5% was reached in the early 1970s, but after a fall in the second in the second part of the 1970s, the previous peak was not regained until just after the mid 1980s (MM, 1989). Since then growth has been increasing more steadily. Imports have consisted mainly of lager, with the very important exception of stout from Ireland, which accounted for 30-34% of the total over the last decade. This is likely to receive a further boost from the recent closure of Park Royal. The next most important suppliers have been Germany (20% to 27%), the Netherlands (12% to 15%) and Belgium (4% to 8%). A more surprising new entrant was Australia. Imports from that source grew slowly through the 1960s but then

surged from well under 1 million litres in 1970 to a peak of 12.5 million by 1984. (Merrett, Added Value)

By 2005 total imports amounted to about 700 million litres, or around 12% of UK sales (Keynote, p. 21) The post-war expansion of imports mainly reflects the capacity of the British market to absorb various brands of overseas lager. In many cases, a popular imported brand has been converted into a domestic product. Imports from Denmark became negligible after Carlsberg began operations at Northampton, and imports from the USA have declined from 5% to 1% since Budweiser has been produced in London. Much less has come from Australia since Fosters and Castlemaine were made in the UK. Other well-known brands, such as Heineken and Stella Artois, also first entered the UK as imports, but were then for many years brewed under licence by Whitbread. Imports include a disproportionate share of premium lagers. Transport costs are relatively lower and the smaller UK consumption of most premium brands makes local production a less compelling option.

British Multinationals Overseas

Brewing has not been an industry in which the ownership advantages acquired through lengthy experience in the domestic market have translated readily into an effective presence in other countries. Most British initiatives abroad seem to have lacked persistence, and to have achieved only brief success, if any at all.

Following the success of Guinness and Bass on the stock market in the 1880s, twenty four British syndicates spent an estimated $90 million buying up some eighty US breweries, often attempting to merge most of the companies in a given city. The largest acquisition was a seventeen unit firm in St Louis. British-owned companies were ranked in the top six in the USA, though not in the top three (Schlitz, Pabst and Anheuser Busch). Although brewing figures were named as directors, this was essentially free standing investment, rather than multinational expansion by British brewing companies. It nevertheless persisted, despite negligible dividends, and was ended by the enactment of prohibition in 1920, which caused losses of an estimated $150 million to UK investors. Only one American brewery emerged from prohibition under British ownership (Wilkins, vol I, pp. 324-31, vol. II, p. 95, Vaizey, p.15).

Expatriate British investment also occurred in India, where the first commercial brewery was set up by Edward Dyer near Shimla in the 1820s. This was incorporated as Dyer Breweries in 1855. The founder went on to establish four more across northern India. Another British businessman, H.G.Meakin, bought Dyer's first two breweries and then added five more of his own. In 1937, when Burma separated from India, the Indian assets were restructured as Dyer Meakin Breweries, which was quoted on the London Stock Exchange. The name was changed to Mohan Meakin soon after independence when N.N.Mohan took over the management in 1949. The company has retained a position in the Indian beer market, especially in the North, through its Lion and Golden Eagle brands, though the latter is no longer an IPA, but a lager. Another strong presence until recently was Shaw Wallace, founded in Calcutta in 1886 by British managing agents. These were versatile, undertaking Burmah Oil's refining operations, importing cars into India, and acting on behalf of Imperial Airways. One indication of the talent deployed at Shaw Wallace was that Charles Greenway acquired there much of the experience which he put to good effect as managing director of Anglo-Persian Oil from 1910. Greenway did much to create an integrated managerial enterprise at Anglo-Persian and was seen by A.D.Chandler as one of the few British examples of a highly successful builder of business empires

(Chandler, 299-301). In 2003 the beer interests of Shaw Wallace were acquired by SABMiller, itself a nominally British multinational company. (Products of India)

Several parts of Africa were the scene of British expatriate initiatives. The Hurst brothers founded a brewery in Kenya in 1922. The death of one brother in a hunting accident the following year gave rise to the long-lasting Tusker brand. This was the origin of East African Breweries, which spread into Tanzania, and merged with a Ugandan company. EABL survived problems of indigenisation and nationalisation, becoming completely dominant in its region, but sold a large shareholding to Guinness in 1965 when capital was required for further development. SAB Miller also took a stake in 2002 after accepting the failure of its invasion of the East African market. (Marchbanks, pp. 16-19, Africa Focus, Feb 2003, pp. 24-8, Chambers, Feb 2005, pp. 24-7).

There were other parts of Africa where low levels of income and of beer consumption failed to deter British multinational activity. An unusual feature in West Africa has been investment in brewing by the Anglo-Dutch company, Unilever, which had not been involved in the industry in its two home economies. Its interest in Africa derived from widespread trading and commercial connections, conducted through its United Africa Company subsidiary. Diversification into manufacturing, including brewing, came via this route. UAC's first involvement in the industry was its 36.5% stake in Nigerian Breweries, the pioneer in that country, which began production in 1949. Two other partners included the Dutch multinational brewer, Heineken. The project flourished despite civil war and an indigenisation policy by the Nigerian government, which was implemented in two stages in 1972 and 1977, and which considerably reduced the holdings of the overseas investors. Similar, successful joint UAC-Heineken ventures followed in Ghana from 1958 - Kumasi Breweries, which later suffered similar indigenisation problems - and in Sierra Leone and Chad by 1970. The Nigerian subsidiary also contrived a major technical readjustment necessitated by a government ban on imported barley in the 1980s, which led to the use of sorghum as an alternative ingredient (unupress). Nigeria also proved fertile ground for co-operation with another UK multinational, Guinness, which in 1963 opened there its first brewery outside the British Isles. UAC took a 29% stake. This operation flourished to such an extent, despite the irritant of price controls from the 1970s, that Nigeria became the third largest national market in the world for Guinness. As with lager, the process was repeated in Ghana. (Diageo Africa Business Reporting Awards 2007). By the early 1980s UAC had built up a stake in thirteen African breweries – eight in Nigeria (four each with Heineken and Guinness), two each in Ghana and Chad, one in Sierra Leone and a minority interest in a Kronenbourg subsidiary in Congo. These successful collaborations in Africa encouraged Unilever to aspire to a world role in brewing in the 1960s. There were many proposals for moves into other continents in association with Heineken, and a major attempted merger with a member of the British Big Six, Allied, in 1968. The company's most recent historian, suggests that Unilever would have been hampered by its 'region-specific rather than product-specific competencies' (Jones, p. 195). It had vast knowledge of doing business in West Africa, but much less technical expertise in brewing, which had been supplied mainly by its partners. Certainly the one actual brewing venture outside Africa, at Burgos in Spain between 1967 and 1969, again with Heineken, was a flop. Unilever's recent trajectory has been one of concentration on core consumer goods interests, and the African breweries were sold in 1996 (Jones, p.362) (Monopolies Commission, 1969).

South Africa was the one country where a free-standing British-founded firm grew both to national dominance and, a century later, to multinational status. The Natal Brewery Syndicate of 1891 and the Castle Brewery in Johannesburg (1892) were started and developed respectively by a sailor, Frederick Mead, and a businessman, Charles Raw. Capital was raised both locally and in Britain, which also supplied brewing expertise in the person of W.H.Hackblock, head of Morgan's brewery in Norwich, who became chairman of South African Breweries (SAB), which received support from substantial investment houses before it was incorporated and listed on the London stock exchange in 1895. Much later, a government-encouraged merger with the Ohlsson and United companies in 1956 gave SAB a very strong position in the national market, though this was briefly challenged in 1966 by Whitbread, in association with Heineken and another South African partner. International expansion began in Southern Rhodesia from 1910, and Northern Rhodesia in the 1950s. Government influence became unfavourable from the 1960s, with heavy increases in excise duties, and a block on further expansion in the drink industry. This led to enforced diversification into other sectors. Leadership of the company passed from British to Afrikaner hands in the 1960s. The international isolation caused by the Apartheid system also made growth overseas problematic for some time, but the period since the early 1990s has seen impressively rapid progress, based mainly on acquisition, including that of Miller in the USA, which made SABMiller the world's second largest brewing group. The company registration, which had been switched to Johannesburg in 1970, was moved back to London in 1999. By the its ownership structure was 37% British and 31% South African (SABMiller website, Answers.com, fundinguniverse.com.)
Japan offers a weaker example of a similar initial British influence. There the Kirin Company grew to be the largest in the important Japanese market, a position it held until overtaken by Asahi after 2000. The British contribution was made by W.H.Talbot and E.Abbott, who, with two Japanese partners reopened in 1885 the brewery founded by a Norwegian immigrant in 1869. The Scottish merchant T.B.Glover, who provided financial backing, several American managers and German technicians also had a role. The brewery adopted the Kirin label and became an established success. Management had, however, by passed entirely to Japanese hands by 1907, when the company changed its name to Kirin and began its association with the Mitsubishi keiretsu. (Kirin website)

Other episodes were scattered in both time and place. Soon after the Second World a regional British company, Hope and Anchor of Sheffield, reached a reciprocal agreement with Canadian Breweries. Its ambitious head, E.P.Taylor, saw Hope and Anchor as a base for launching his own lager, Carling Black Label, on the British market, whilst the Sheffield firm was seeking to promote Jubilee Stout in Canada. This scheme was approved in 1952, and for the next seven years Canadian produced Jubilee under licence in Canada, and Hope and Anchor did likewise with Carling in Sheffield. Results were disappointing at both ends, especially for Taylor, who realised that the tied house system in Britain severely restricted the scope for selling Carling outside Hope and Anchor's own pubs. In 1959 Taylor took over the Jubilee operation in Canada and acquired a substantial stake in Hope and Anchor. This 'then became the springboard for his penetration of the British industry' (Gourvish and Wilson, p. 467). A series of mergers inspired by Taylor resulted by 1967 in the establishment of Bass Charrington, which became the biggest of the 'big six' British brewers, with 10,000 tied houses to provide outlets for Carling. This activity, especially his unsuccessful hostile bid for George's of Bristol in 1961, spurred others to merge, and accelerated the concentration process in the industry. Taylor himself returned to Canada before it was completed (ibid., pp. 467-480)

Expatriate enterprise was evident in Western Australia, where two breweries were set up in 1837 and 1848 by a young British settler, James Stokes, and in 1857 another Briton, Frederick Sherwood founded the Swan company. By the 1920s Swan controlled all major breweries in the state. Management had been largely indigenised by the late 1880s, but the local preference for top-fermented beer persisted until the 1920s. (Welborn, cc. 1-5. Australianbeers.com/company history.)

At least two forays into the colonies and Commonwealth were made by elements of the Courage group, itself a predecessor of S&N. In 1953, two years before merging into Courage, Barclay Perkins of Southwark began work on the Blue Nile Brewery in the Sudan (Pudney, pp. 79-80). This venture, which gave rise to the popular 'Camel' brand, was run for some time after independence by a former colonial administrator, Anthony Disney, but was eventually nationalised by the Sudanese government, though the latter extricated itself as Islamic influence increased. (Barbour, 1980, p.88). A more substantial venture was the entry of Courage into the Australian market in 1968. A modern brewery was built on the outskirts of Melbourne, and a target was set of capturing 10% of the Victorian market within ten years. Despite the support of the British parent, this goal was missed. Perhaps brands such as 'Colonial Ale' 'were never likely to impress'. The new plant was sold to a Sydney firm in 1978, which was acquired five years later by Carlton, who became one of the two dominant national companies. The episode is credited with having transformed Australian brewing from a regionalised, sheltered industry where competition was expressed mainly through control of hotels, into a more open national market in which aggressive advertising was crucial (Merrett, in Wilson and Gourvish, pp. 237-42, Glover, p.15)

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Atypically and relatively briefly, a number of British brewers began to take an active interest in continental economies, and even in beer-drinking countries, from the late 1960s onwards. This occurred just before, or just after the UK joined the Common Market, and reflected an increased awareness among larger British firms of the better growth prospects in Western Europe, as compared with the Commonwealth and the former sterling area. Watney's acquired the Belgian breweries Jules Delbruyere, Vandenheuvel and Alken-Maes in 1966, 1968 and 1969 respectively. Allied Breweries, in slight contrast, moved into the Netherlands with the purchase of Oranjeboom (the third biggest Dutch producer) and De Drie Hoefijzers in 1968 (these were soon merged). Other acquisitions included Lamot (Belgian), Stern Brauerei (German) and Liefman's (Belgian) by Bass, Grand Metropolitan (by now incorporating Watney's) and Vaux in 1970, 1973 and 1974. (Gourvish and Wilson, p. 628). Whitbread found the continent attractive, but long term success there elusive. Although it 'came close' (Ritchie, p. 128) to acquiring France's biggest brewing group, negotiations eventually failed. It joined Heineken, at their suggestion, in 1974 in rescuing, at negligible cost, an Italian firm, which was renamed as Dreher, and which held a substantial share of the smallish Italian market. Although a Whitbread executive managed the business for eighteen months, it was decided that Dreher was under capitalised, and the stake was sold to Heineken. This move ended the possibility of further joint ventures with Heineken, and paved the way for the latter's domination of the Italian market. Whitbread was also involved in small joint ventures in Bavaria, from where it obtained the Kaltenberg lager brand name, and in Belgium, where it bought the ale brewery Martinas in association with Artois.(Ritchie, pp. 128-9)

Allied certainly had serious ambitions in the Netherlands. One of their new plants, at Breda, was identified as a low-cost operation, and was intended as a source for their Skol lager. Allied was soon the second largest brewer in the country, claiming 20% of the market, and saw the Netherlands as a base for further expansion on the continent, including the sale of British beer. The arrival of Allied may well have prompted the 1968 merger between Heineken and Amstel, the two firms most affected. Skol was itself a major recent international initiative for Allied, who had arranged in 1964 with Labatt of Canada, Pripp of Sweden and Unibra of Belgium, to launch a world wide lager brand. Two additional partners were quickly recruited and by 1968 it was being manufactured by licence in 17 countries and marketed in 50 (Competition Commission). Results were highly variable, with the most impressive outcome in Brazil, where it was produced under licence first by Group S from 1967 and then from 1980 by Ambev, becoming the country's biggest brand. Ownership passed to Carlsberg in 1996. Skol was not, however, a success in the Netherlands, where its replacement in 1973 of the Oranjeboom brand had to be reversed in 1982. Allied's entry into the Dutch market was a disappointment, and Oranjeboom was eventually bought by Interbrew in 1995.

Other British interventions in the continental market in this period were either short-lived or of limited effectiveness. Watney's soon found that the profitability of the Vandenheuvel-Ixelberg brewery was giving cause for concern and did not persist for long (Gourvish and Wilson, p. 530). Lamot was sold by Bass in 1984 to Brasseries Piedboeuf, and Liefman's was discarded by Vaux in 1986 (Pike, JEG, p. 9) Alken-Maes parted company from Grand Met through a management buy-out in 1985, though it returned to British control under S&N in 2000. Another beer-drinking part of Europe was for a short time the object of British multinational attention. In 1995 Bass bought two companies in the Czech Republic, including Prague Breweries, whose best known brand was Staropramen, in the interval between the opening of Eastern Europe to Western investment and the company's own exit from brewing. Bass had no more than about 13% of the Czech market, plus some exports, and complained of low margins and the aggressive tactics of market leaders Pilsner Urquell and Radegast, both backed by the Japanese bank, Nomura. It also entered a joint venture in China with Ginsber. Bass' overseas assets passed into the hands of Interbrew (later InBev).

It was the one-time smallest of the big six, S&N, who eventually became the first major multinational brewer of indisputably British origin. In one sense a path was cleared for them, as the potential domestic competition, four of the six, excluded themselves by exiting from brewing. The remaining member of the six, Courage, was taken over by S&N in 1995. The latter had then become Britain's biggest brewer, with output of 15 mhl a year. Progress towards a world role was facilitated by decisions to focus on beer rather than the group's other leisure activities (Thistle Hotels were sold in 1989, Center Parcs and Pontins in 2000), and within the beer sector, to emphasise production rather than retailing. Several large-scale overseas acquisitions were clustered within a few years at the beginning of the twenty first century. In 2000 the market leader in France, Kronenbourg, was purchased from the Danone conglomerate. Alken Maes, the number two firm in Belgium, was added at the same time. Two years later S&N invested in Mythos, the number two in Greece, and bought the leading Finnish company, Hartwall, which, significantly, had a 50% holding in Baltic Beverage Holdings, a major player through its Baltika brand in Russia and neighbouring countries. Further expansion in Europe included Portugal's foremost brewer, famous for its Sagres brand. The international profile was completed with investments in two markets of huge potential. A large stake was taken in India's principal producer, United Breweries between 2002 and 2004. After a small presence in China from the late 1990s, S&N between 2004 and 2007 bought nearly 20% of Chongqing, the fifth largest brewer in China. In 2007 an entry into the Vietnamese market was announced, in association with the state tobacco corporation. (S&N website. Our History, Nelson, 2007, pp. 12-15, Nelson, March 2005, pp.12-15, Nelson, Nov 2004, pp. 14-17) By 2005, S&N was probably the seventh biggest brewing company in the world, with annual volumes close to 60 mhl. (Pressnell, p. 12) Furthermore it was well represented in some of the fastest growing markets, though it could also rely on the stability of several of the developed countries. However, almost as soon as this position of strength had been achieved, a sharp threat emerged in 2007. This came in the form of a hostile joint bid from two larger European companies, Carlsberg and Heineken, who proposed to cannibalise S&N. This predatory behaviour was all the more unwelcome because Carlsberg was a partner in the lucrative BBH operation in Russia, which indeed supplied an important motive for the bid.

The record on outward direct investment was obviously patchy, although cumulatively the extent and diversity of the effort involved was considerable. It could certainly be considered disappointing in light of the performance of British companies in other sectors of food and drink. It was significant that until the rise of S&N to multinational status, the companies which attempted production overseas were either relatively small, limited themselves to Commonwealth markets, lacked experience of lager production, or lacked a committed focus on brewing – or some combination of these defects.

Overseas Multinationals in the UK

The story of inward investment in brewing in the UK is a shorter one, though the long term trajectory has been rising rather than falling, and results have been much more substantial. They mainly involve major multinational firms.

Carlsberg, after revising its 'Denmark-only' production policy, opened a large modern £14 million lager plant in Northampton in 1974, in association with Watney's (which became Grand Met in the course of the project), who had probably neglected lager because of the heavy emphasis placed on their branded keg bitter Red Barrel (later Red). This venture was quite successful, and saw production grow in just over ten years to £1.5 million barrels, and turnover to £195 million (Gourvish and Wilson, pp. 588-9). It was a bold move for a company with no tied estate to attempt production in the UK on such a scale, although the Carlsberg brand was already known through bottled imports, and the Grand Met tied pubs provided an initial customer base. (Gourvish and Wilson, pp. 454, 481, 504, 506)

Courage became the first of the Big Six to succumb to overseas control, albeit temporarily, after first losing its independence to a British firm from outside the industry. In 1972 the company had declined a merger proposal from S&N, in favour of the better financial terms available from Imperial Tobacco, a conglomerate keen to diversify out of cigarettes. However in 1986 Imperial was itself taken over by Hanson Trust, who rapidly implemented a lucrative asset-stripping tactic, which involved selling off the brewing assets to the Australian company, Elders IXL. The background to this development was a series of mergers in Australia. Elders IXL was the unlikely union in 1981 of a wool company with a jam maker, but under the leadership of the erratic tycoon J.D.Elliott it gained control of Carlton and United Breweries in 1983. As with E.P.Taylor two decades earlier, Elliott's main purpose was to expand sales of Foster's lager, which had been successfully launched on the British market in 1981, brewed under licence by Watney's (part of Grand Met). Elliott's stellar ascent continued for a while. Carlton acquired Carling O'Keefe of Canada in 1987, and, via its Courage subsidiary, attempted without success to buy S&N in 1989. In 1990, relabelled as Foster's Brewing Group, and now specialising in beer, it took over the brewing interests of Grand Met, incorporating them into Courage, and bringing Foster's production back in house. However the heavily indebted Australian multinational suffered badly in the economic turbulence and recession of the late 1980s and early 1990s, selling Courage to S&N in 1995. Elliott had left the company in 1990 to pursue other ventures, and wound up bankrupt by 2005. The legacy of the Foster's brand passed to S&N, who produced it under licence as their principal standard lager in the UK.

In the early 1990s Carlsberg, lost its British partner. Grand Met, which had probably the weakest brands of any of the big six and growing assets outside the industry, decided to quit brewing. In 1992 Carlsberg accordingly swapped partners, merging its British interests with the brewing division of Allied under the Carlsberg-Tetley (CTL) title. In 1997 Allied, by then Allied Domecq (AD), also left brewing, to follow Grand Met into the international wine and spirits industry. Carlsberg eventually acquired AD's share, and in 2005 dropped the name Tetley from its title. By then it had a 13% market share in the UK.

Whitbread and Bass then followed Grand Met and Allied in clearing the way for a further overseas incursion. The Belgian family brewer, Brasseries Artois merged with Piedboeuf in 1987, to become Interbrew, which then grew rapidly through acquisition, especially of Labatt of Canada in 1995. Its best known brand was Stella Artois, which had become the top premium lager in the UK whilst produced under licence by Whitbread. In 2000 it bought the brewing division of Whitbread and also Bass, parts of which it was required to divest by the UK regulator. In 2001 Interbrew purchased the German brewer Beck and in 2004 became, as InBev, the biggest brewing company in the world, after merger with Ambev, which dominated the large Brazilian market. Its share of UK sales was 18% in 2005.

The third overseas major is Coors of the USA, which acquired the parts of Bass which Interbrew was not allowed to retain. These included the leading UK standard lager, Carling, and licence rights to the premium Dutch lager Grolsch. In 2005 Coors merged with Molson of Canada. It had a 21% UK market share in that year.

An additional, much smaller multinational presence was that of Anheuser-Busch, the biggest American brewers, which shared an ex-Watney plant in London with S&N, and had achieved a market share of around 3%. Guinness retained about 6% of the market. Other overseas companies and domestic producers, regional and micro, shared 14% of the market. S&N itself was the clear market leader with 27%.

These fast-moving events of the later 1990s and 2000s had clearly taken place against a background of surging consolidation in the global beer industry (Lopes, 2007, pp. 144-6, Datamonitor, 2007)

The Lager Problem

The problem of lager for British brewers is central to many of the events discussed above - a factor limiting the success of exports and of outward direct investment, and facilitating imports and inward investment. Nearly all the leading brands, both ordinary and premium, on sale in the UK today are either imported, or produced in the UK under licence from overseas firms, or indeed directly by foreign companies. The last two categories became most important. As demand for lager grew, there was a powerful trend towards increased UK production – from 35% in 1955 to 71% by 1965 to 96% by 1980 (Gourvish and Wilson, p. 564). Even before the Beer Orders and the general separation of brewing from retailing, it was apparent that lager was a problem, as few of the integrated brewers had a sustained record of making lager in-house, except under licence. Paradoxically, lager brewing had a longish history in the UK. Half a dozen ventures date back to the 1880s and 1890s, including the Wrexham Lager Beer Company of 1881, the German-run Tottenham Brewery of 1882, Allsopp, who invested heavily in a 60,000 barrel plant in 1899, Barclay Perkins at Southwark, J & R Tennent at the Wellpark Brewery in Glasgow from 1885 and William Younger in Edinburgh from 1880. Outside Scotland, however, these initiatives had only a marginal impact, and some failed to survive after the First World War (Gourvish and Wilson, p. 177). The critical failure was almost certainly not in technique, but in establishing branded products on a long term basis. The only major success was that of Bass, whose Carling and Tennents brands enjoyed a long run, right up to the present, with Carling leading the market in standard lagers. Even here, of course, both the name and the idea had come from Canada with E.P.Taylor. The Tennents label, derived from a Scottish subsidiary with a long history of lager brewing, also displayed considerable staying power. Carling passed to Coors of the USA along with other parts of Bass. Two major British brand-building initiatives came through Skol (Allied) and Harp (a Guinness-led consortium, which broke up in 1979), but these both wilted under overseas competition. Harp achieved take-off and led the new lager market with a 23% share in 1969. It peaked in volume in 1976, but its share was already declining. (MMC, 1969, pp. 204-5) By 1989, Skol held the last place in the top ten beer brands, with 2.0% of the market, whilst Harp had dropped out. The heightened importance of both lager and of branding is illustrated by the composition of the top ten brands in 1999 – seven were lagers, and only two were ales – and by the share of the top ten in total sales - 49.9 %, as against 31.6% ten years earlier. (CC, 2001, p. 62)

Success in lager production was achieved by Whitbread at Luton, with Heineken from 1969 and the more profitable premium brand Stella Artois from 1976, but ownership of these always rested elsewhere. Interbrew (later InBev) regained direct control of Stella, then Britain's biggest selling premium lager, when they acquired Whitbread's brewing assets. Many British companies attempted to build an in-house brand, but almost invariably succumbed to the competition of better known and more heavily advertised international products. Allied, in addition to its own Skol brand, resorted to producing Castlemaine XXXX under licence from Australia. Whitbread introduced Heldenbrau (actually its own creation) and Kaltenberg, but to no great effect. Courage launched Hofmeister in 1977, but the successor company S&N abandoned it in 2003; S&N, apart from its involvement in Harp, and its moderately successful perseverance with McEwans (previously one of its Scottish ale brands), failed to establish Kestrel. The merged company adopted Foster's as its principal lager in the UK, and in 2006 paid £309 million for the European rights to the brand. (Nelson, 2006)

It seems unlikely that the success of non-British brands owed much, if anything, to superior quality. When foreign lagers were made in the UK, the British version was a weaker, and sometimes sweeter, version of the original. Beer quality cannot, of course, always be associated with gravity (strength), but in the case of lager (unlike ale) there is a generally accepted difficulty in imparting flavour to brews below 4% alcohol by volume. This is especially true when the fermentation process is shortened in order to reduce costs. The 4% level defines the boundary between the standard and 'premium' categories in the UK. The premium type would be regarded as entirely ordinary in continental markets. In the longer run the standard lagers have tended to lose market share to premiums, but even the latter are, for the most part, lacking in distinction. If the transmission mechanism for the British public's new taste for lager was foreign holidays, it may be significant that the main tourist destinations were Mediterranean countries where more wine than beer was drunk. Package holidays to Belgium, Germany, or the Czech Republic might have introduced a more discerning demand into the British market. An internationalising influence such as mass foreign travel clearly could not bring about an instant equilibrium between the UK and the lager drinking countries, and may indeed have had the effect of making Britain more receptive to bland, low quality, but faintly exotic drinks.

The 'merger mania' of the period 1955-80 encompassed the formation by the 1970s of the Big Six integrated brewers – Bass, Allied, Courage, S&N, Watneys and Whitbread. By 1985 these controlled 73% of UK production, 76% of brewing turnover and 73% of tied pubs (Gourvish and Wilson, p. 586). The performance of these giant firms was obviously crucial to the future of the industry. In many respects circumstances were not propitious. All six were the products of recent, multiple, and often complex amalgamations, and the brewing industry proved unable to make itself an exception to the general incapacity of British business to make mergers deliver optimal results. All became involved in significant diversification at this time, which weakened the focus of management on beer. Allied, especially after the merger with J.Lyons in1978, had extensive interests in food, particularly fast food and ice cream, and in spirits; Bass owned hotels, betting shops and bingo halls; Courage in 1972 decided that union with the food and tobacco giant Imperial was preferable to joining forces with S&N; Watneys from 1972 was part of the Grand Metropolitan Hotels conglomerate, which also included fast food, dairies and spirits; Whitbread moved into motels, fast food, coffee shops and fitness centres, and S&N into hotels, holiday camps and leisure parks. Some of this diversification was international. The contrast is, however, pronounced with the five transnational companies, S&N included, who dominate British brewing today and who are all strongly focused on beer.

The Big Six all had to attempt the transition from groupings of regional brewers to integrated corporations oriented to the national market. This clearly required both rationalisation of production and the promotion of successful brands. Each invested large resources and hopes in a branded keg beer – these were 'brewery conditioned' – filtered, and usually pasteurised and carbonated, but presented as premium products despite their deficient flavours. Allied had Double Diamond, Bass Worthington E, Courage Tavern, S&N Tartan, Whitbread Tankard and Watneys Red Barrel (later Red). Watneys linked Red with a light branding of their tied pubs, which were treated with standardised red fascias, and often with unsympathetic refurbishment of the interiors. None of these products achieved more than short-lived success as national brands, and Watney's Red Barrel was particularly derided after organised consumer resistance. The keg ale episode, and the high closure rate of local breweries (Whitbread closed half of its 16 breweries between 1981 and 1984) left the Big Six standing rather low in public esteem. Other incidents such as the acutely disappointing performance and early closure in 1991 of Bass' large new plant at

Runcorn, suggested an uncertain management touch in new circumstances. Whitbread consistently displayed a highly cautious approach to product innovation. In other areas of the business they developed concepts which were bought from their originators, such as Pizza Hut and TGI Fridays. Two thirds of brewing profits were eventually derived from the licenced products Heineken and Stella Artois.

Ultimately four of the six opted to exit from brewing, and the other two (Courage and S&N) merged. The motives are significant, as these decisions by four market-leading companies ensured the smooth transfer of the bulk of the industry into foreign ownership. Allied joined with the Spanish drinks company Pedro Domecq in 1992, renaming itself Allied Domecq, in the same year that it merged its brewing interests with Carlsberg to form Carlsberg-Tetley. These were sold four years later as the firm continued to evolve into a major player in the international spirits industry. It maintained this trajectory but lost its independence to the French Pernod Ricard group in 2005. The Watney brewing activities became increasingly marginal within Grand Met, which responded to the Beer Orders with the sale in 1991 of its breweries to Courage and its pubs to a newly formed pubco, Inntrepreneur Estates. Grand Met merged with Guinness in 1997 to form Diageo, the world's largest spirits company. Bass, whilst undertaking major international expansion in hotels, for some time pursued a simultaneous ambition to regain market leadership in brewing from S&N. It was, however, severely discouraged by being compelled in 1997 to sell (to Carlsberg) the half share of Carlsberg-Tetley which it had acquired from Allied Domecq. In 1998 the company spent £1.8 billion on the acquisition of Inter-Continental Hotels and the following year launched a £900 million scheme to develop this and the Crowne Plaza brand. By 2000 it operated the second largest hotel group in the world. In that year Bass sold its brewing interests to Interbrew for £2.3 billion. (Bass PLC.fundinguniverse.com company history) Whitbread's presence in brewing also survived the Beer Orders by some years, but it became less dependent on beer, which had supplied 43% of its profits in 1995-96, but only 12% three years later. Its exit followed failure to secure the purchase of 3,500 pubs from the former Allied estate in 1999. This bid, because of the regulatory situation, implied readiness to divest the breweries in order to concentrate on the retailing of both food and beer. It was Whitbread, which of all the Big Six, had 'made the most significant shift to a retailing orientation' (Mutch, 2006, p. 154) The breweries were sold nonetheless in 2000 to Interbrew for £400 million. The pubs were then bought by a private equity subsidiary of Deutsche Bank for £1.63 billion in 2001. A relevant part of the background to this declining faith in brewing among the Big Six was the sharp fall in beer sales from 41.7 million barrels in 1979 to 33.5 million in 1993.

Regulation, in the form of both new statutes and of specific decisions in individual merger cases, clearly contributed heavily to the reshaping of the industry during this period. The Beer Orders of 1989, implemented over the following three years, required the sale of about 11,000 pubs, on a depressed property market, by those members of the Big Six, who owned more than 2,000 pubs and wished to remain as integrated brewers. As we have seen, this led quickly to the withdrawal of Watneys from brewing and of Courage from retailing. S&N was little affected because of its relatively modest tied estate, but all the other three were weakened by the forced sale of pubs at generally poor prices, and pushed towards prioritisation of their non-beer interests. The brewers were probably not alone in detecting an element of perversity in this sudden assumption of a critical attitude towards oligopoly, given that the industry had become highly concentrated, and competition greatly restricted, on the basis of a generally permissive official stance on merger.

The Beer Orders rested on the analysis of 'a complex monopoly' in the 1989 report *The Supply of Beer* by the Monopolies and Mergers Commission. Vertical integration, in the form of the tied house system, was identified as the chief structural fault in the industry - hence the official measures promoting the separation of brewing and retailing. This outcome was the solitary respect in which the Beer Orders achieved their stated aims (Crompton, 1998). Oligopoly among brewers, albeit through the agency of different companies, remained entrenched, oligopoly among pub operators was gradually reconstructed by non-brewing pubcos, distribution channels also remained concentrated, and retail prices continued to rise rapidly. The authors of the report, on the basis of neo-liberal economics, would no doubt have regarded vertical integration as undesirable in any context. But, although this was probably not a specific intention, such changes made the UK 'more convergent on the European and world pattern, with two or three dominant producers typically having between 80 and 90 per cent of the market, a majority of outlets free of ties to producers…..' (Millns, p. 158). A high degree of foreign ownership of production is not yet, however, the typical pattern in other traditionally beer-drinking countries.

The recent consolidation of the industry into a new Big Four has already reinforced the divisions in size and strategy between the dominant multinationals and the rest. The Big Four have naturally emphasised the development of their branded lagers, and have been accused of neglecting the ales which they largely inherited. Perhaps the most celebrated ale brand of all, Bass, which once sold two million barrels a year, has, under the ownership of InBev, entered a phase of precipitate decline to 150,000 barrels a year by 2003 and around 100,000 by 2006. (GBG, 2004, 2007). The production of ale has often been subcontracted to smaller breweries to facilitate both concentration on lager and rationalisation of production. InBev has farmed out Bass to Marston's and Flower's to Hall and Woodhouse. The company closed its only cask ale brewery, Boddington's in Manchester, in 2005, and relied on Hyde's to supply the beer. Most of Coors ale brands are brewed for them under licence (Stones by Everards, Hancocks and Brew XI by Brains), and the former Mitchell and Butler's brewery in Birmingham was closed in 2002. Even S&N, which had long experience of brewing traditional beers in both England and Scotland, has supported the same trend. Recent decisions to end direct production in both Scotland and in Newcastle have generated the derisive suggestion that the firm should shorten its name to the 'Ampersand Brewery'. In contrast the remaining independent companies have mostly succeeded in maintaining or increasing their output of ale, often stressing their heritage, local sourcing and brewing skills.

The self-presentation of the two streams of the industry has correspondingly diverged. One continues to stress its international and exotic character. An extreme example is S&N's Foster's lager, which has retained the assertive Australian theme in its advertising ('Australian for beer'), despite the decline in popularity of the brand in its native country. Alternatively, promotion of multinational products has relied on heavy facetiousness, claiming little for the product other than its refreshing qualities (i.e. at least it's cold and mildly alcoholic) On the other side, both localism and nationalism have flourished. Shepherd Neame has backed its 'Spitfire' ale with aggressive campaigns featuring Battle of Britain and Kentish local themes ('No Fokker comes near'), and has even facetiously denigrated German lager, although it has produced Holsten under licence. Like several other ales, the Spitfire brand obtained EU Protected Geographical Indication status (a kind of regional produce patent given to such as Parma ham and Champagne). In milder vein, Marston's has run competitions encouraging knowledge of local Midlands dialects.Adnams has run

a ‘Beer from the Coast’ (i.e. of Suffolk) campaign. The names of many ales incorporate obvious local references (Fuller’s ‘London Pride’, St Austell’s ‘Tinner’s’ in Cornwall).
Advertising has inevitably exaggerated in some ways the differences between multinational brewers and the independents. Many of the latter rely extensively on sub-contract brewing, whether of ales or lagers, and there have been numerous acquisitions involving Marstons, Greene King and Fuller’s within the independent sector, though recent examples have been mainly of a voluntary character. Furthermore all brewers have faced a number of common problems, including a general fall in demand, which since 2005 has affected lager as well as ale.
In recent years only the ales produced by the Big Four have continued to decline, while most independents have maintained volumes. Another notable feature has been the success of many ‘micro’ brewers. Their general lack of tied houses, unlike the larger independents, has limited the possibilities for expansion, but some have performed well in the free trade in their own localities and some have even persuaded pubcos, or individual tenants, to stock their products. This parallels the more substantial growth of the micro sector in American brewing. In both countries these trends have been identified as a ‘backlash’ against the general market dominance of bland, mass-produced beers.

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