

Interview with Hiran Gooneratne, Managing Director, W.M. Mendis & Co., Ltd.

Could you explain how illegal liquor sales like kasippu are affecting your sales?

Our annual turnover is around Rs. 800-900 million of which maybe 85% goes to government with the result that there is very little left the balance 15% for R & D, expansion etc. It has come to a stage where the actual core business cannot run without having other sources of income. We have to diversify for this company to exist.

We were profitable and had a very good dividend record up to 1992. Since then we have not declared a dividend we were showing a loss. This is the first year we showed a marginal profit but that has been made mainly due to other income and not due to liquor. It is an operational loss.

Does that mean the liquor business is not profitable for your company?

The liquor business is not profitable for any company except the monopoly in this market which is one company. So with that kind of volume it is profitable for them. A monopoly in Sri Lanka, in the liquor industry, is 40%. In Britain anything over 25% is considered a monopoly. Here when someone has 75-80% market share it is a monopoly. Our market share is about 12-15%.

So when you talk about a product with 85% duty all other costs like salaries are negligible. Illegal manufacturers do not pay taxes to the government. So naturally his product is 85% cheaper. We just can't compete and no amount of raiding by excise and police will eliminate it because the profit taking is so high people are even prepared to risk their lives for that kind of money. So the only way you can effectively eliminate it is by making it not so profitable by reducing these taxes. Sales of illicit liquor is said to account for as much as 65% of the market with the legal market being only 35%. So to combat that we have taken certain measures we were the first company that introduced what is known as a shrink seal, like in the wine industry. We don't have the technology in Sri Lanka to produce it. But

our fellows are ingenious in trying to overcome that. So again we were the first and only company to bring another measure which is a tamper proof security print. The print you can't steal. It is on the bottling line itself. So there are no stocks you carry which can be pilfered.

If the illegal products are stopped maybe a certain amount of that will come to the legal market. But at the same time where the cheapest bottle of legitimate arrack available is Rs 175 by any manufacturer it is a hell of a percentage of a man's salary. So even to stop the illegal market he must have a way of buying something which he can afford. When I say that we can produce this bottle for Rs 30 with a profit and the balance goes to the government, surely the government can reduce taxes substantially to make it affordable to the consumer.

By how much should the government cut taxes?

If you look at the beer industry they reduced it by 60% in one shot and they claim that they haven't lost revenue but in fact have increased revenue. So similarly if you cut taxes on liquor it doesn't mean your earnings will drop. It may increase because with 65% being the illegal market if you get even 50% of that illegal market into this the revenue should increase. There are other spin-offs like the prevention of the harm caused by illicit liquor like those deaths in Batticaloa and reduction in the high government health care costs. We have made so many representations to the government you feel it is a lost cause.

Another point, to produce arrack, starting from Wadduwa right up to Galle that entire toddy belt is dependent on this - the toddy tappers, the rope makers, the carters, the pottery makers, the carpenters, the small landowners with small coconut tree plantations. From a little beyond Wattala right up to Puttalam people are dependent on this. Whereas in beer the only ingredient that they use locally is water. So why should you let some foreign manufacturer benefit? Besides that the beer lobby emphasises the difference between hard liquor and soft liquor, i.e. beer. Now, beer has maybe 5% alcohol by volume. Arrack has 34% but no one drinks it off the bottle. When you take a peg and dilute it to the top it will also be 5%. But beer you drink straight. So true it is 30%. But at the time of drinking both have the same alcoholic content and you can get just as drunk on beer as on arrack and half the hooliganism of football crowds in England comes from beer drinkers.

Now the cheapest bottle is Rs 175 which is really too much. It should be Rs 125 or Rs 115 a bottle. At least make the mass market drinks cheaper. The 100% pure coconut arrack for the elite - they have the money - but the population at large must get something they can afford.

Also according to the law in this country if you produce a bottle of arrack and use a word that has anything to do with age then you must state the age of the youngest liquor in that bottle, e.g. a 100 gallon cask if you keep for three years there is bound to be a little evaporation and it becomes 80 gallons. So you top it up. Then you can only quote the age of what you have topped up with because that is the youngest liquor. The fact is if you use any word related to age you must state the age on that bottle. But today there is not a single manufacturer except us who states the age of their old arrack on the bottle.