

Time to Back British Pubs

Memorandum to the Chancellor

BUDGET 2012

The Campaign for Real Ale



**CAMPAIGN
FOR
REAL ALE**

February 2012

1. Introduction

- 1.1. CAMRA, the Campaign for Real Ale, is an independent consumer organisation which campaigns for real ale, pubs and consumer rights. Membership is open to all individuals and our membership is over 135,000. CAMRA is financed through membership subscriptions, sales of products such as books and clothing, from the proceeds of beer festivals and other fundraising activities. CAMRA was established in 1971.
- 1.2. CAMRA is calling for an urgent halt to the beer duty escalator in light of growing evidence that duty increases are closing pubs, destroying valued jobs and are helping shift alcohol consumption away from pubs towards cheap alcohol purchased in the off-trade. Pubs are currently closing at the rate of 16 per week and almost one million jobs linked to beer and pubs are under threat.
- 1.3. A long term freeze in beer duty would secure the future of local brewers and local pubs valued by many millions of UK pub going consumers. The sector is struggling to adapt to increases in beer duty of 35% since 2008 and the increase in VAT to 20%. Further increases are likely to damage the long term ability of the beer and pub sector to continue to contribute in excess of £6 billion a year in duty and VAT, and over £21 billion to the UK's GDP.
- 1.4. Duty rises have impacted most on the consumption of beer in the on-trade as the affordability of a pint in a pub has been undermined. The price of beer in pubs continues to rise at a faster rate than inflation. Since 2008 the price of beer in pubs has also increased substantially faster than disposable incomes.
- 1.5. HMRC forecasting dramatically underestimates the price elasticity of beer in the on-trade, and thus the impact of duty increases on pubs. These forecasts are contradicted by independent reports from Oxford Economics, PwC¹ and CEBR² and revenue receipts continue to fall below HMRC expectations. In part this is because HMRC forecasting understates the pass through of duty to consumer prices in the on-trade whilst overestimating pass through in the off-trade.
- 1.6. The Government's Coalition Agreement contains a commitment to "review alcohol taxation and pricing to ensure it tackles binge drinking without unfairly penalising responsible drinkers, pubs and important local industries." CAMRA believes that this commitment can only be delivered by scrapping the duty escalator because this is unfairly penalising responsible drinkers, pubs and local industries.

2. The Economic Value of Beer and Pubs

- 2.1. Beer and pubs support almost one million UK jobs. These jobs are essential to the UK's growth and economic development, but they are under threat due to the Government's alcohol taxation policy which is contributing to the perfect storm that is forcing 16 pubs to close every single week.
- 2.2. Beer contributes greatly to the British economy, generating almost £6 billion³ in duty revenue each year, and £21 billion to the UK's GDP⁴. Beer is also a fundamentally

¹ PricewaterhouseCoopers, 2009

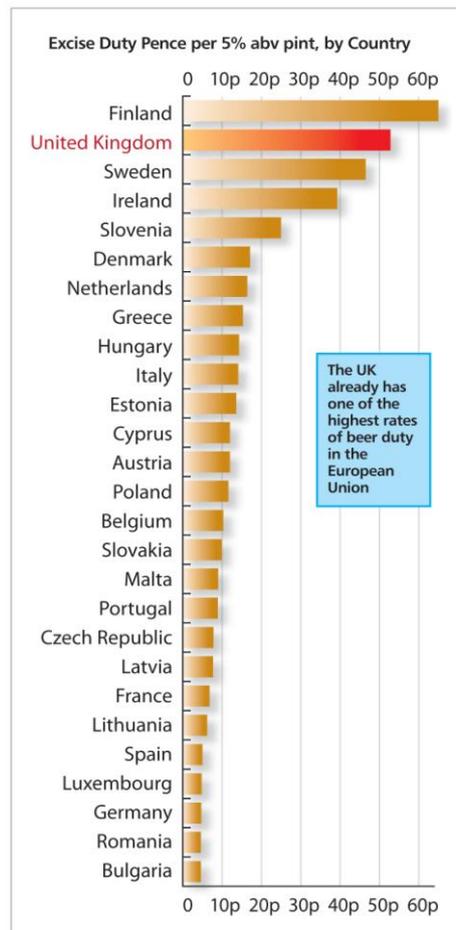
² Centre for Economics and Business Research, 2009

³ BBPA Statistical Handbook 2011, p61

⁴ BBPA, "The Beer Story: Facts on Tap", 2012

British product, and brewing is one of the few remaining British manufacturing industries. In 2009, 84.7% of the beer sold in Britain was brewed in Britain⁵.

- 2.3. Beer drinkers in Britain pay very high rates of duty compared to beer drinkers elsewhere in Europe. The UK has the second highest rate of excise duty in the EU, second only to Finland – and risks taking the unenviable top spot if the current alcohol taxation policy continues.



- 2.4. Beer and pubs are intrinsically linked, with each relying on the other for their survival: 60% of total drink sales in community pubs are beer. Revenue from beer sold in pubs allows landlords to increase investment in their pub, improving standards and helping to ensure that pubs are well-run and of real benefit to the local community.
- 2.5. Increases in beer duty (of 35% since 2008 alone) don't just hit beer: they undermine the economic viability of the pubs where beer is sold. Government action to support beer would benefit the wider economy by slowing the rate of pub closures and the resulting job losses and loss of tax income from pub businesses.
- 2.6. The vast majority of pubs are small businesses, struggling to survive in a tough economic climate. Supporting these small businesses should be central to the Government's growth agenda. In turn these pubs support the economy of their local

⁵ BBPA, "The Beer Story: Facts on Tap", 2012

areas, with each pub injecting around £80,000 into their local economy every year⁶. The IPPR found that:

“Pubs add more value to local economies than beer sold through shops and supermarkets, simply because they generate more jobs. Beer sold through pubs also generates more funding for the public purse than beer sold through the off trade”⁷

- 2.7. Pubs also support small and regional breweries far more than supermarkets do: these breweries sell 85% of their beer through pubs.
- 2.8. The continuation of the beer duty escalator risks permanently damaging the ability of the beer and pub sector to generate high levels of direct and indirect tax revenues. Recent duty increases have failed to significantly lift the amount of beer duty paid to the Government. Between tax years 2007-2008 and 2010-2011 the beer duty revenue received by Government increased by only 1% in real terms.⁸

3. The Social Value of Beer and Pubs

- 3.1. In January 2012, the Institute of Public Policy Research (IPPR) released the second edition of their report “Pubs and Places: The Social Value of Community Pubs”. This report found that pubs are far more than simply businesses which sell alcohol: they also play a key role at the heart of their communities.
- 3.2. Pubs represent the very essence of the “big society” – encouraging cohesion between different groups of people, hosting meetings of local clubs and associations, and promoting local charities and events.
- 3.3. IPPR found that “pubs are perceived by people to be the most important social institution for promoting interactions between people from different walks of life”⁹. Many community pubs, particularly in rural areas, are also diversifying to provide additional services to their community such as village shops, post offices and general stores.
- 3.4. Using their ‘Social Return on Investment’ methodology, the IPPR has sought to quantify the wider social value which pubs generate for their communities, that typically cannot be captured in financial terms. These wider community benefits range from the amount of money the pub raises for charity to the reduced risk of social isolation through opportunities for pub-goers to make new friends and strengthen community ties¹⁰.
- 3.5. The IPPR’s research found that each pub generates between £20,000 and £120,000 of wider social value to their communities¹¹. It is imperative that this value is not overlooked by policy-makers.

⁶ Institute of Public Policy Research (IPPR), *Pubs and Places: The Social Value of Community Pubs*, Second Edition, January 2012, available online at http://www.ippr.org/images/media/files/publication/2012/01/pubs-and-places_2nd-ed_Jan2012_8519.pdf, p2

⁷ Ibid. p2

⁸ BBPA Statistical Handbook 2011, p.19

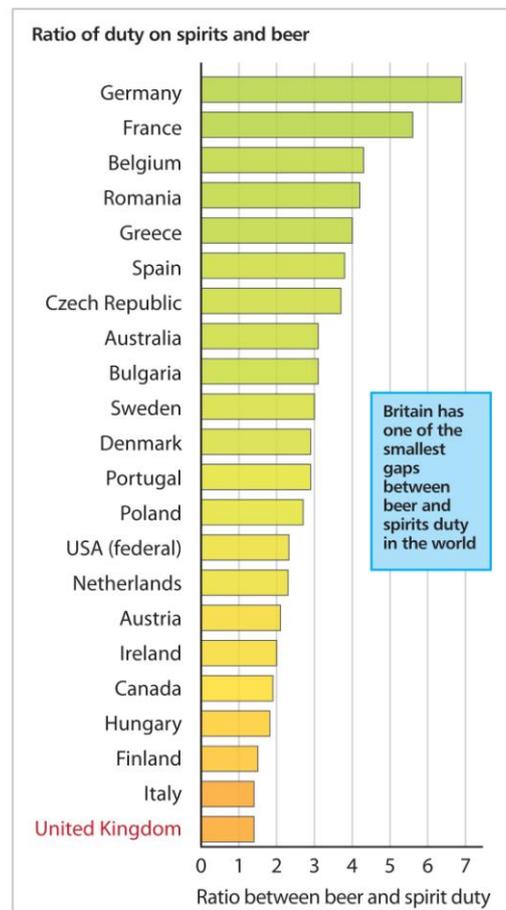
⁹ IPPR 2012, p2

¹⁰ Ibid. p51

¹¹ Ibid. p2

4. The Impact of Recent Government Alcohol Taxation Policy

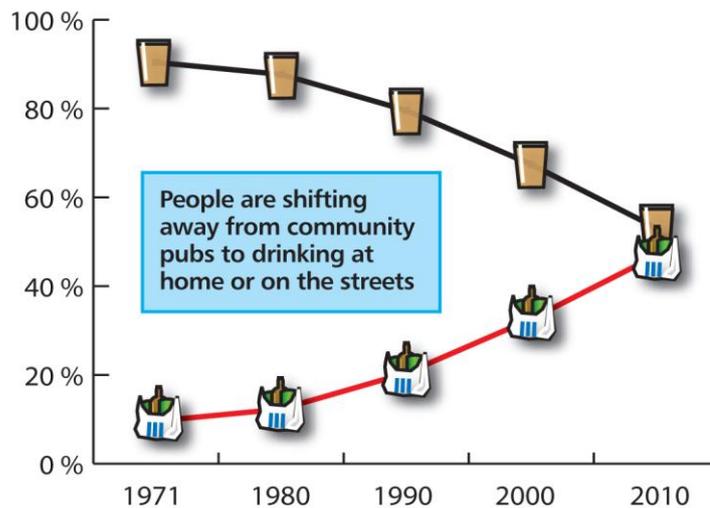
- 4.1. The introduction of the beer duty escalator in 2008 has had a hugely damaging impact not just on pubs, but on the vast majority of people who drink alcohol responsibly and even on the nation's health as a whole.
- 4.2. High beer taxes do not result in people drinking less, but instead cause them to change drinking behaviour. This applies both in terms of the type of alcohol that is consumed and where this alcohol is consumed. Tax is therefore the wrong mechanism to tackle alcohol misuse. CAMRA believes that alcohol misuse should instead be tackled through better enforcement of existing laws, education and measures that are targeted specifically at those who abuse alcohol.
- 4.3. High beer taxes encourage substitution of beer with higher-strength products like spirits that are cheaper to produce. The last Government exacerbated this by increasing beer duty by 60%, but only increasing spirits duty by 25%, causing spirits to become ever more affordable compared to beer. Across the world spirits are taxed more heavily than beer, but in the UK the gap between beer and spirits duty is far too narrow as demonstrated by the below graph.



- 4.4. As beer sold in pubs has become steadily less affordable due to the beer duty escalator increasing the price of pub-bought alcohol, drinking has shifted away from community pubs to drinking at home or on the streets. Price conscious consumers are substituting the purchase of alcoholic drink in a well-run community pub with

significantly cheaper alcohol purchased in off licenses to drink at home. In 2010, just 50.9% of beer was purchased in the on-trade and this trend is worsening¹².

Yearly percentage of beer sold in pubs versus shop sales



- 4.5. Supermarkets can afford to absorb beer duty increases while pubs simply cannot. This is illustrated by the fall in absolute terms of the cost of alcohol in the off-trade by 3% between 2000 and 2010. In contrast the price of alcohol in the on-trade increased by 39% in absolute terms over the same time period.¹³ This growing differential between on and off trade prices is exacerbating the damage caused by the duty escalator on the nation's pubs.
- 4.6. In the pub sector a duty increase of a penny will generally result in the price of a pint in a pub increasing by a significantly higher amount as each part of the supply chain attempts to maintain gross profit margins which are vitally important to business survival when tax increases are helping suppress demand. This fact was acknowledged in the Government's response to the 2010 Review of Alcohol Taxation, which argued that *"changes in the levels of duty are often passed through to wholesalers; retailers and ultimately consumers"*¹⁴. The effect of this is that the gap in price between on-trade and off-trade alcohol continues to widen, causing the shift in consumption set out above.
- 4.7. The Government has seriously miscalculated the impact that excise duty increases have on demand. While accurate in terms of the off-trade, HMRC's own models (in 2003 and updated in 2010) on price elasticity in the on-trade fall far wide of the mark. HMRC's model on the price elasticity of beer in the on-trade assumes an elasticity of -0.76, whereas Oxford Economics¹⁵, PwC and CEBR have each calculated an on-trade elasticity of around -1.5 for beer. Increases in beer duty therefore have a greater impact on demand in the on-trade than assumed in the Government's calculations.
- 4.8. The beer duty escalator and large increase in the price of beer in pubs are rendering pub-going a less affordable social activity among those that are less well off. This is

¹² BBPA Statistical Handbook 2011, p20

¹³ National Statistics, Focus on Consumer Prices

¹⁴ Government Response to Alcohol Taxation & Pricing Review, http://www.hm-treasury.gov.uk/d/alcohol_tax_review301110.pdf, p21

¹⁵ Oxford Economics 2007

restricting the diversity of pub-goers and so undermining one of the key social benefits of pub going, that is, meeting and socialising with people from a range of different backgrounds.

4.9. The IPPR found that:

“In contrast to the image of the pub as a working-class institution, in so far as there is a social class bias to pub attendance it is today the other way around: whereas 85% of professionals said they had ever attended a pub, the level falls to 63% among the lowest earning ‘DE’ occupational class¹⁶”.

4.10. This is further evidenced by polling data for June 2011 which showed that in the previous 12 months, 41% of people in the C2/DE occupational classes were likely to visit pubs less often than they used to, compared with 31%/37% people in the AB/C1 classes respectively¹⁷.

4.11. Between February 2008 (one month before the introduction of the escalator) and December 2011, RPI inflation rose by 13% while the price of alcohol in the on-trade rose by 18%. In contrast, real household disposable income fell in 2010 (by 0.8%) for the first time in 30 years¹⁸. These figures illustrate the degree to which the duty escalator has undermined the affordability of beer in pubs.

5. Additional Government Action to Support Pubs

5.1. In addition to scrapping the beer duty escalator and freezing beer duty, CAMRA is calling for the Government to consider the following measures to support pubs and bring them back to growth:

- Business rate relief for well-run community pubs. The Government should introduce 50% business rate relief for pubs which are at the centre of their community. Qualifying pubs could be identified using the IPPR’s Social Return on Investment methodology. In addition to helping struggling but valued pubs to survive, this relief will have the added benefit of encouraging more pubs to seek to qualify for the relief by providing a better service to their community.
- A reduced rate of excise duty for draught beer sold in pubs. The European Commission was expected to consult with Member States last year on a review of the EU Excise Duty Directives (EC Directives 92/83 and 92/84 EEC), but unfortunately this review has not transpired and is now overdue. CAMRA, along with the British Beer & Pub Association (BBPA) and the Society of Independent Brewers (SIBA) is calling for greater flexibility for Member States by permitting them to apply a reduced excise rate for draught products, and also extending the 2.8% threshold for reduced duty on low strength beer.
- The UK is one of only four EU Member States not to have a reduced rate of VAT on hospitality or restaurant services, which would include meals and accompanying drinks sold in pubs. This measure would create jobs and so increase the Government’s tax revenue. Similar measures have seen great success where they have been trialled in Europe, for example in January 2009,

¹⁶ IPPR 2012, p36

¹⁷ CAMRA Tracking Omnibus Survey June 2011. 34% - AB, 37% - C1, 41% - C2, 41% - DE class said that in the last 12 months, they visited pubs less often than they used to.

¹⁸ <http://www.guardian.co.uk/uk/2011/mar/29/real-incomes-fall-30-years>

France reduced VAT on restaurant services to 5.5%, which led to the creation of 29,500 jobs in the first year alone.

6. Support for Cider

- 6.1. Nearly 90% of the cider in the UK is produced at low cost by three large multinational drinks companies. CAMRA campaigns for real cider as well as real ale, and so supports any measures to encourage diversity and the growth of small cider producers. For instance, the current exemption from payment of duty for very small cider producers, producing below 70 hectolitres each year (around 12,300 pints), should be retained. Removal of this exemption would yield little if any additional net revenue for the Treasury but would decimate producers of real cider and perry.
- 6.2. In addition the Treasury should, as soon as allowed under EU Law, introduce a sliding scale of duty relief for small cider producers. This sliding scale should be in addition to rather than a replacement for the duty exemption below 70 hectolitres annual production.

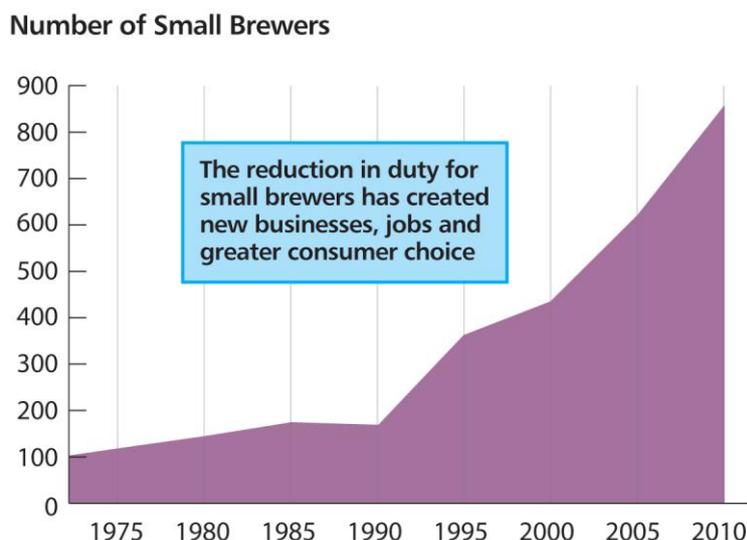
7. Duty Reduction for Low Strength Beers

- 7.1. CAMRA welcomes the decision by the Government to reduce duty on beers at or below 2.8% abv by 50%. This reduction has acted as an effective stimulus to brewers investing in the production and retail of new low strength beers. Investment by brewers in research and development, new ingredients and new processes has helped enable the production of low strength beers which are appealing to consumers.
- 7.2. Pubs have been able to benefit from this duty reduction because they are able to sell a low strength beer at a price significantly lower than higher strength beers. This has helped to make pubs more competitive and so enabled them to attract more business.
- 7.3. CAMRA opposes the new tax levy on beers at 7.5% abv and higher as this could discourage production of higher strength traditional beer styles.
- 7.4. CAMRA is concerned that small brewers have been denied any benefit from the current reduction in duty on low strength beers and urges the Treasury to review this decision to ensure that small brewers can also benefit from this duty reduction, and so produce new low strength beers. CAMRA's preferred option would be to see duty on beers at or below 2.8% reduced to 0% with all brewers regardless of size paying this 0% rate.
- 7.5. An anomaly of the current relief is that small brewers producing between 5,000 and 60,000 hectolitres actually pay more duty on beers at or below 2.8% abv than a Global brewer with huge economies of scale. This has created a serious disincentive for larger small brewers considering producing a new low strength beer and needs to be addressed to maximise innovation in this part of the beer market.

8. Small Breweries' Relief

- 8.1. Small Breweries' Relief has delivered benefits for consumers out of all proportion to its total cost to the Treasury and is a vital driver of economic growth and jobs. The relief has delivered far greater consumer choice by enabling small brewers to focus on investment and securing improved access to market.

8.2. There are now over 840 small brewers in the UK compared to only 444 in 2002 when small breweries relief was introduced.¹⁹



8.3. This dramatic growth in small brewer numbers combined with growth and expansion of existing small brewers has created new jobs and economic growth delivering additional tax receipts. Choice and availability of distinctive local beers for consumers has increased and beer quality has risen as a result of greater competition.

8.4. The vast majority of beer produced by small brewers, 85%, is draught beer sold in pubs.²⁰ This compares to the overall beer market where only 50.9% is sold in pubs.²¹ Small Breweries' Relief is helping to support community pubs at a time of crisis by supplying a product that is providing pubs with a unique selling point and is helping to attract custom. As the majority of small brewers' beer is sold through pubs it is inevitable that a portion of the relief is being used to support the sustainability of pubs.

8.5. The fact that only a tiny proportion of small brewer production will be sold via supermarkets provides reassurance that the relief is not helping to subsidise below cost supermarket promotions.

8.6. The huge success of Small Breweries' Relief more than justifies the retention of the scheme and highlights the ability of targeted tax reductions to generate economic growth. CAMRA would encourage the Government to consider an extension of the current relief by retaining the current structure of the relief up to 30,000 hectolitres production per year whilst replacing the current taper between 30,000 to 60,000 hectolitres production per year with a new taper between 30,000 and 200,000 hectolitres production per year.

¹⁹ A full list of UK breweries can be found in CAMRA's Good Beer Guide 2012, from p667

²⁰ SIBA, Local Beer: Brewing Industry Report 2011, available online at http://siba.co.uk/wp-content/uploads/2011/02/industry_report_20111.pdf, p15

²¹ BBPA Statistical Handbook 2011, p.20

9. Conclusion

- 9.1. It is imperative that the Government abandons the beer duty escalator and seeks to freeze beer duty in this Budget, if pub-going is to remain affordable for ordinary people. The continuation of the beer duty escalator would have a devastating impact on the beer and pub sector which would harm the fifteen million UK consumers who enjoying visiting the pub and drinking beer.
- 9.2. Successive hikes in beer duty and VAT have driven a shift in consumption from the responsible, supervised environment of the pub to buying alcohol in supermarkets for consumption at home. As a result, British pubs are in crisis with 16 still closing every week. British brewing, one of our few remaining manufacturing industries is also in jeopardy.
- 9.3. It is essential for the wider economy that small businesses such as independent pub businesses and small and regional breweries are backed by the Government. These small businesses and the jobs they provide generate vital economic activity and are crucial to ensuring effective choice and competition in the UK beer market.

Need more information?

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