

**The success of a duty cut in  
supporting beer and pubs  
Memorandum to the Chancellor**

**BUDGET 2014**

**The Campaign for Real Ale**



**CAMPAIGN  
FOR  
REAL ALE**

**February 2014**

## **1. Executive Summary**

1.1 As an independent consumer organisation with over 159,000 members CAMRA is calling for:

- a freeze, or reduction, in beer duty to build on the positive impact of last year's 2% duty reduction

1.2 A freeze, or reduction, in beer duty is essential to:

- support the recovery of the beer and pub sector from the economic damage caused by the 42% increase in duty between 2008 and 2012
- retain the more than 900,000 jobs dependent on a healthy beer and pub sector
- grow the value added by beer and pubs to the economy from the current level of £22 billion a year
- ensure that the £3.4 billion annual contribution from beer duty to Government tax revenues is not eroded as a result of falling production

## **2. Introduction**

2.1 CAMRA, the Campaign for Real Ale is a consumer group with around 159,000 members and acts as an independent voice for real ale drinkers and pub goers. Our vision is to have quality real ale and thriving pubs in every community. Our membership is growing at around 9% a year.

2.2 CAMRA is calling for a beer duty freeze, or reduction, in the 2014 Budget to build on the first duty reduction since 1959 in last year's budget. Last year's duty cut has provided the substantial boost to the beer and pub sector that needs to be built upon.

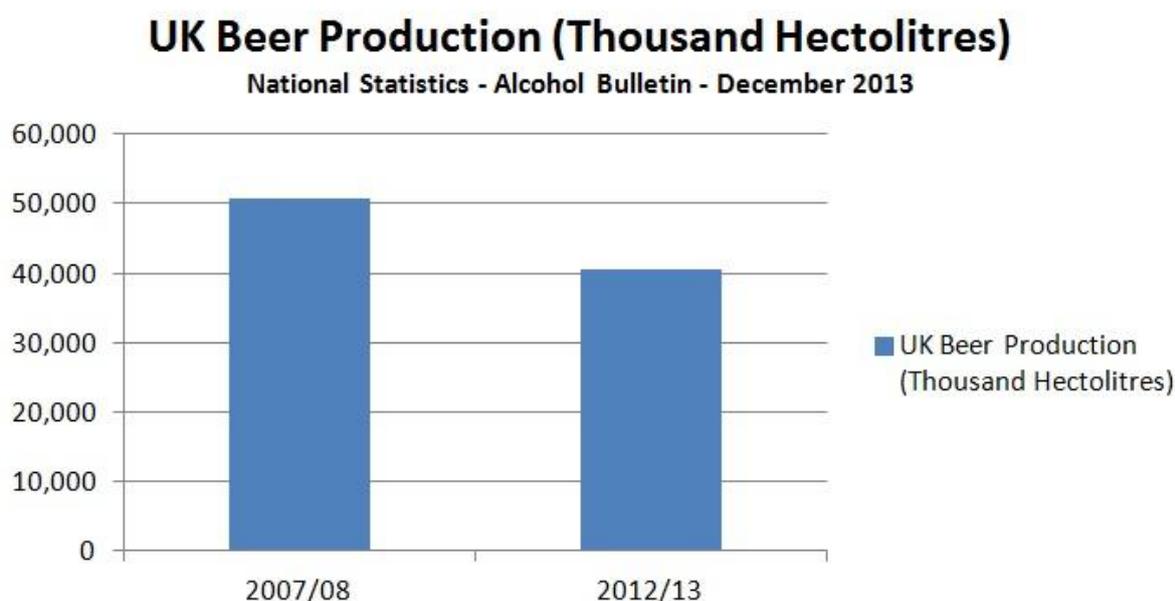
2.3 The beer duty escalator, introduced in the 2008 Budget, saw beer duty increase by a punishing 42% over a four year period. This policy caused extensive harm to the health of the beer and pub sector which last year's duty cut has begun to reverse.

### 3. Impact of the Beer Duty Escalator

3.1 Notwithstanding the very welcome abolition of the beer duty escalator, the harm it caused remains. The escalator saw beer duty increase by 42% since 2008, but contributed to a fall in beer production resulting in only a limited increase in tax revenues. In 2007/2008 £3,067 million was collected in beer duty compared to £3,426 million in year 2012/2013<sup>1</sup> - an increase of only 12%.

3.2 It is clear that beer duty increases are a highly inefficient means of raising additional tax revenue. The fact that a 42% beer duty rise only resulted in a 12% duty revenue rise shows that for every 3.5% increase in beer duty, duty receipts to Government increased by only 1%. The impact of the escalator in depressing economic activity in the beer and pubs sector will also have undermined tax revenues in other areas, such as VAT and employment taxes meaning that ultimately it is highly likely the escalator reduced the total Government tax take from the sector.

3.3 The graph below illustrates the decline in UK beer production following the introduction of the beer duty escalator. In total, during the duration of the duty escalator, UK beer production fell by 20%.



3.4 In addition to helping cause a decline in UK beer production, the duty escalator also contributed to around 7,000 pubs closing and the loss of 58,000 jobs between 2008 and 2013.<sup>2</sup>

<sup>1</sup> National Statistics – Alcohol Bulletin – December 2013

<sup>2</sup> BBPA, CAMRA, SIBA – The Beer Story – Facts on Tap – December 2013

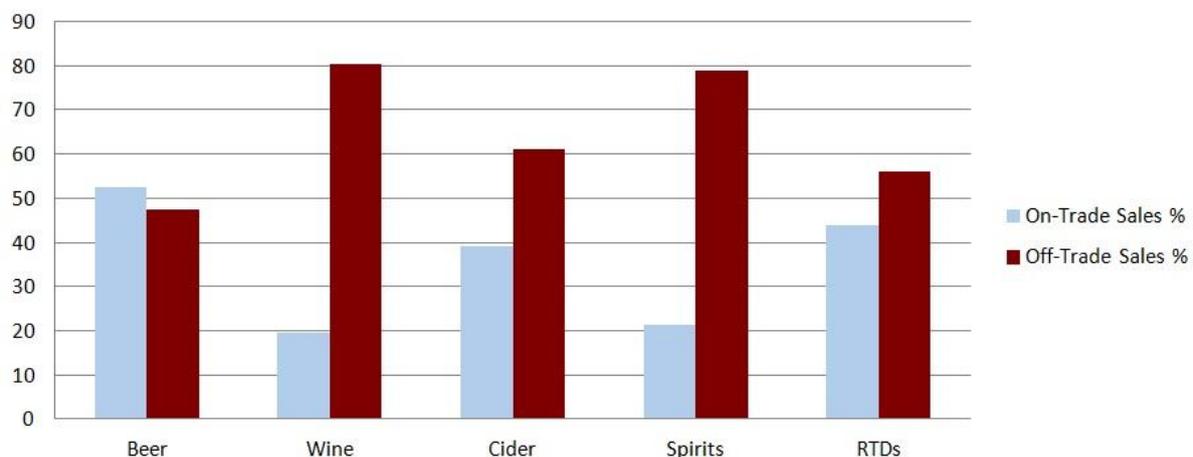
#### 4. Over taxation of beer drinkers

4.1 Beer drinkers are typically taxed at a considerably higher rate than wine or spirit drinkers. This is because a far greater proportion of beer is sold in the on-trade where prices are higher and therefore attract a far higher VAT charge.

4.2 The following graph shows that the majority of beer continues to be sold in the on-trade. In contrast, around 80% of wine and spirit sales take place in the off-trade where prices are lower.

#### UK Alcohol Consumption Analysed Between On and Off Channels 2012

BBPA - Statistical Handbook 2013 - P32



4.3 The tax payable on a 4% abv pint of beer sold at £3.00 in the on-trade will attract the following in duty and VAT:

- VAT – 50p
- Duty – 43p
- Total – 93p

4.4 Based on a bottle of wine purchased in the off-trade for £4.98 the duty and VAT associated with each 175ml measure is:

- VAT – 19p
- Duty – 47p
- Total – 66p

4.5 The current taxation of alcohol favours wine and spirit drinkers who are more likely to drink at home and penalises beer drinkers who drink in local pubs. CAMRA believes that this imbalance needs correcting through the alcohol duty system. Such a move would also help support employment as beer sold in pubs support more jobs than alcohol consumed at home.

## 5. Pass on of duty cut to consumers

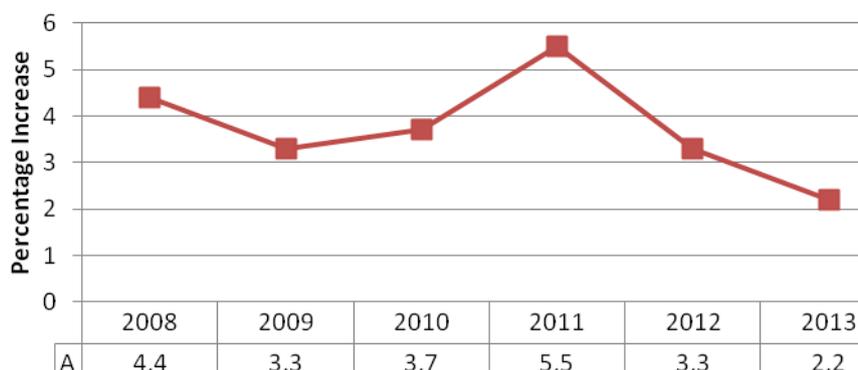
5.1 CAMRA welcomed the decision by at least 14 companies to pass on the benefit of the beer duty reduction to consumers. Below is a list of the companies who were identified by the Publican's Morning Advertiser as promising to pass on the duty reduction to pub licensees<sup>3</sup>:

- Enterprise Inns
- Punch Taverns
- Admiral Taverns
- JD Wetherspoon
- Greene King
- Star
- Spirit
- Marstons
- Shepherd Neame
- Fullers
- Everards
- Charles Wells
- Wadworths
- McMullens

5.2 As a result of the commitment by these companies to pass on the duty reduction, beer prices in pubs increased at a lower rate in 2013 than in any year since at least 1990 which is as far back as the current dataset runs. The graph below shows the annual increase in on-trade beer prices since 2008 and the unprecedented low increase in 2013 as a result of the beer duty cut.

### Annual percentage increase in pub beer prices

National Statistics - Consumer prices data reference tables - December 2013

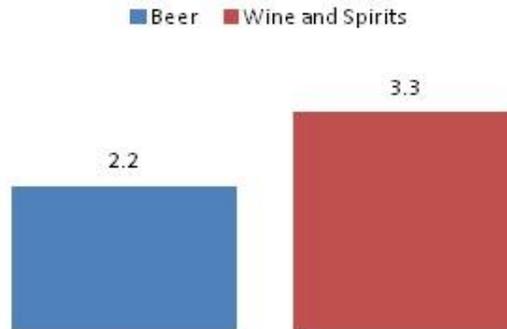


<sup>3</sup> <http://www.morningadvertiser.co.uk/General-News/Budget-2013-Pubcos-and-breweries-pass-on-beer-duty-cut>

5.3 A further indication that the beer duty reduction has been passed onto consumers is demonstrated through comparing the 2013 increases in on-trade beer prices with the 2013 increases in wine and spirits on-trade beer prices. In the absence of a beer duty reduction we would have expected comparable inflation rates across all alcoholic drinks.

### 2013 On-trade % price rises

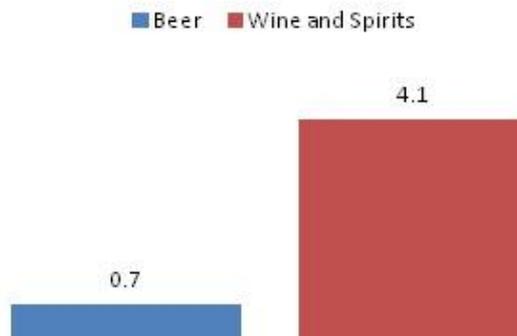
National Statistics - Consumer prices reference tables - December 2013



5.4 The level of pass through to consumers is even more evident when reviewing 2013 prices within the off-trade.

### 2013 Off-trade % price rises

National Statistics - Consumer prices reference tables - December 2013



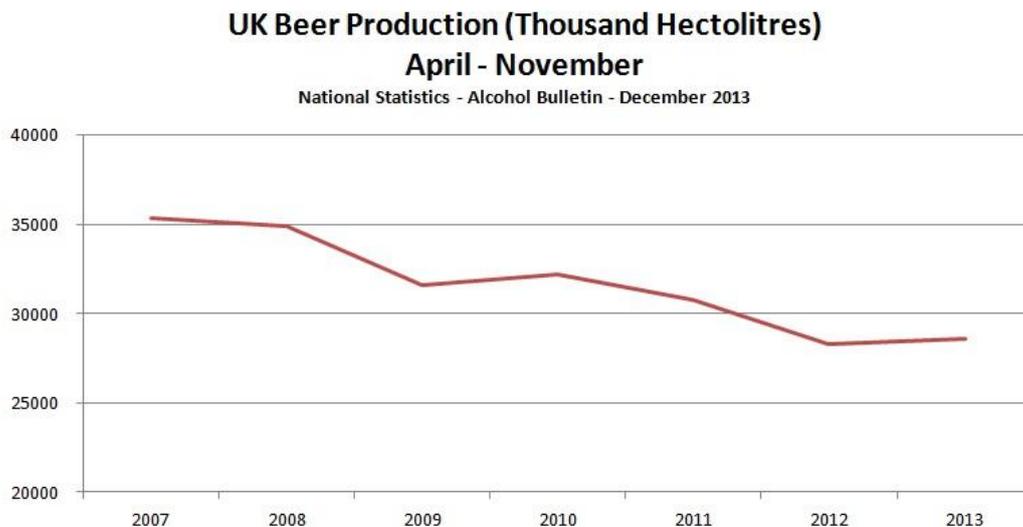
5.5 It is to be expected that consumer pass through is most easily identifiable in the off-trade sector. Typically, beer duty will account for around 1/6th of the final sales price in a pub, whereas in the off-trade it is not unusual for duty to account for around 4/5ths of the final sales price where supermarkets sell at or below cost which is a common practice.

5.6 Consumers have benefited from the duty cut. Companies have passed on the discount which has been reflected in record low beer price increases in the on-trade. Additionally beer prices in both on and off-trade are rising more slowly than wine and spirits prices.

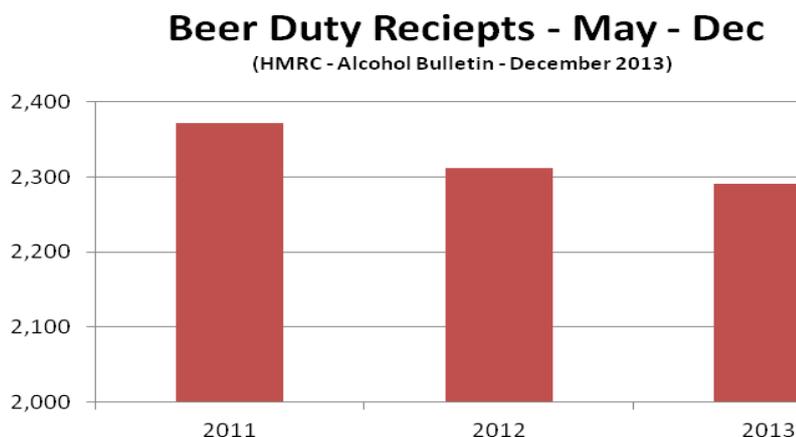
## 6. Budget 2013 – A Budget for beer

6.1 It is clear that the 2013 Budget decision to cut beer duty had an immediate impact on reviving the fortunes of the beer sector. A stimulus was delivered due to higher consumer demand resulting from below inflation price rises and by greater incentives for industry investment.

6.2 The graph below shows an increase in beer production in April – November 2013<sup>4</sup> compared to the same period in previous years. Beer production was just over 1% higher between April – November 2013 than the same period in the previous year. This is a reversal of a long period of decline (the slight increase in 2010 can be attributed to the football World Cup that year).



6.3 This increase in production has gone a long way to ensuring stability in beer duty revenues and in supporting VAT and employment tax revenues linked to pub beer sales. The graph below shows that duty receipts following the Budget have fallen by a very small amount in the year to date. The fall in duty receipts is less than 1% rather than the 2% by which beer duty was cut and a far smaller decline than in the previous year.<sup>5</sup>



<sup>4</sup> A time period of April – November is used to ensure that only beer produced after each year's Budget is included in these totals.

<sup>5</sup> A time period of May – December is used to ensure that only duty paid on beer produced after each year's budget are included in the totals. Generally duty will be paid in May on beer that was produced in April.

## 7. The economic case

7.1 Brewing beer and its sale is a highly labour intensive industry. As a result a beer duty freeze, or reduction, will provide a further boost to the UK economy.

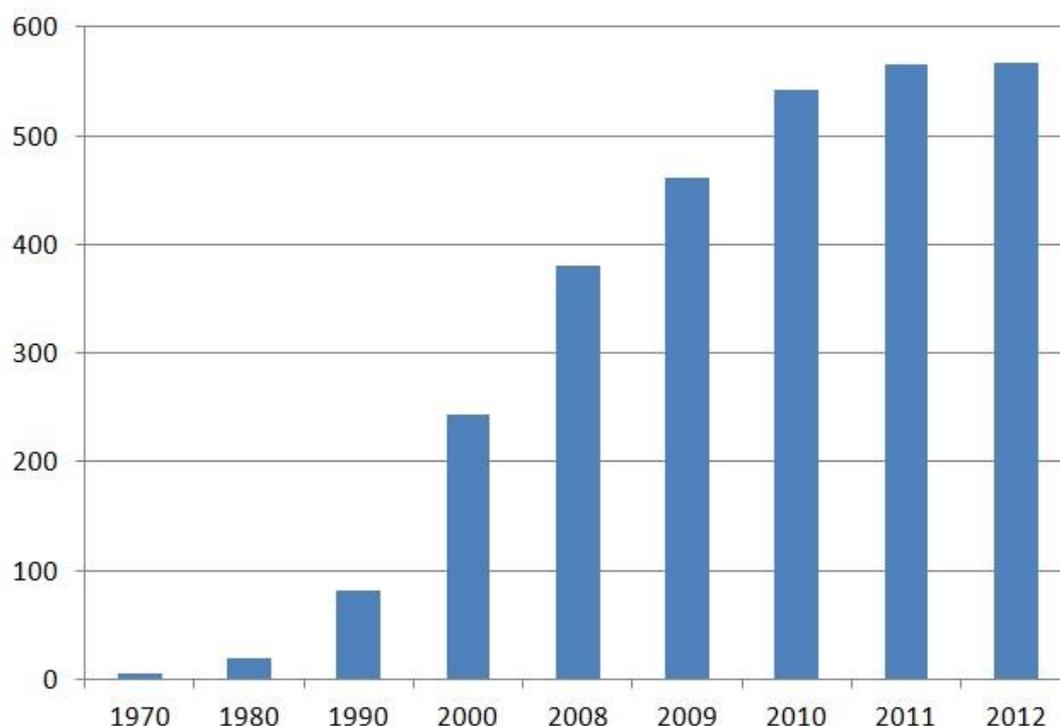
7.2 In total the beer and pubs sector supports in excess of 900,000 jobs. Nearly half of these jobs are taken by those aged between 16 and 24 years and represent an important first step into the world of work for many. These jobs have been supported by the decision to cut beer duty in Budget 2013. A decision to freeze beer duty in Budget 2014 will avert the loss of 2,400 jobs according to Oxford Economics.<sup>6</sup>

7.3 Beer and pubs combined contribute £22 billion to UK GDP and generate total taxation revenues of £11 billion. Beer is also a fundamentally British product, and brewing is an important UK manufacturing industry. Of the beer sold in Britain 82% was brewed in Britain, whilst 99.8% of wine sold in the UK is imported.<sup>7</sup>

7.4 The UK brewing industry is an important source of growth in UK exports as shown in the graph below. Continued growth in UK beer exports is assisted by the health of the UK beer market helping ensure that companies have the available resources and confidence to invest in building new export markets for UK beer.

### Value of Global UK Exports £m

BBPA - Statistical Handbook 2013 - P20



<sup>6</sup> BBPA, CAMRA, SIBA – Facts on Tap – December 2013

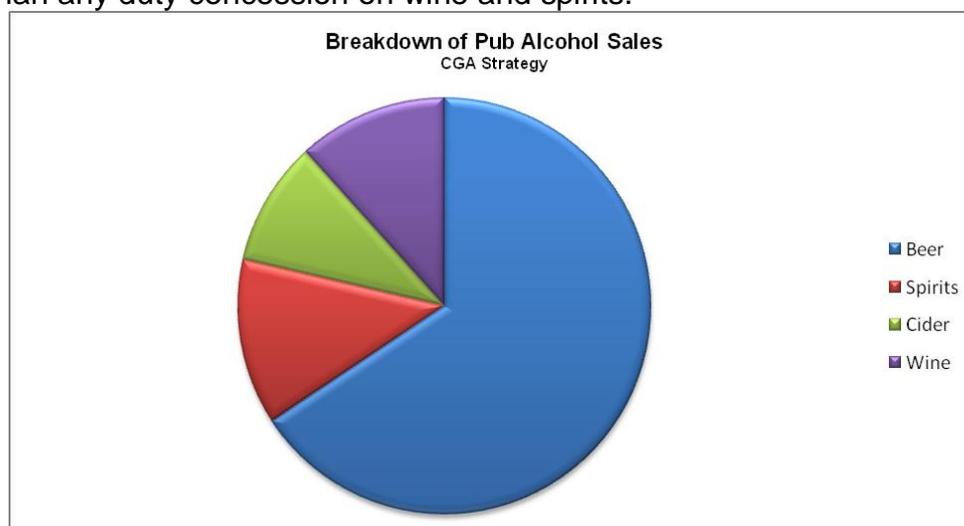
<sup>7</sup> *ibid*

## 8. Supporting pubs

8.1 Around 7,000 pubs closed their doors for the last time during the operation of the beer duty escalator.<sup>8</sup> The escalator without doubt, contributed to the closure of many of these pubs.

8.2 Increases in beer duty helped create a perception among many that visiting a pub for a pint was unaffordable for them. Polling shows that 55% of people felt that “going to the pub has become an unaffordable social activity”. This is supported by the 56% of those that drink alcohol more often at home than in the pub, citing the high price of alcohol in pubs as the reason for this.<sup>9</sup>

8.3 Beer remains the core product offering of pubs. The chart below demonstrates the far greater importance of beer to pubs than wine or spirit sales. A duty concession on beer would provide far greater benefit for pubs than any duty concession on wine and spirits.



8.4 In addition to generating valuable tax revenue and supporting employment, pubs are invaluable community assets. In 2012, the Institute of Public Policy Research (IPPR) released the second edition of their report “Pubs and Places: The Social Value of Community Pubs”<sup>10</sup>. This report found that:

- 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.
- Pubs are perceived by people to be the most important social institution for promoting interactions between people from different walks of life<sup>11</sup>.
- The IPPR’s research found that each pub generates between £20,000 and £120,000 of wider social value to their communities<sup>12</sup>. These wider community benefits range from provision of community meeting places, supporting clubs, charity fundraising, tackling social inclusion and support for vulnerable groups in society.

<sup>8</sup> BBPA, CAMRA, SIBA – Facts on Tap – December 2013

<sup>9</sup> CAMRA Tracking Omnibus Survey January 2012.

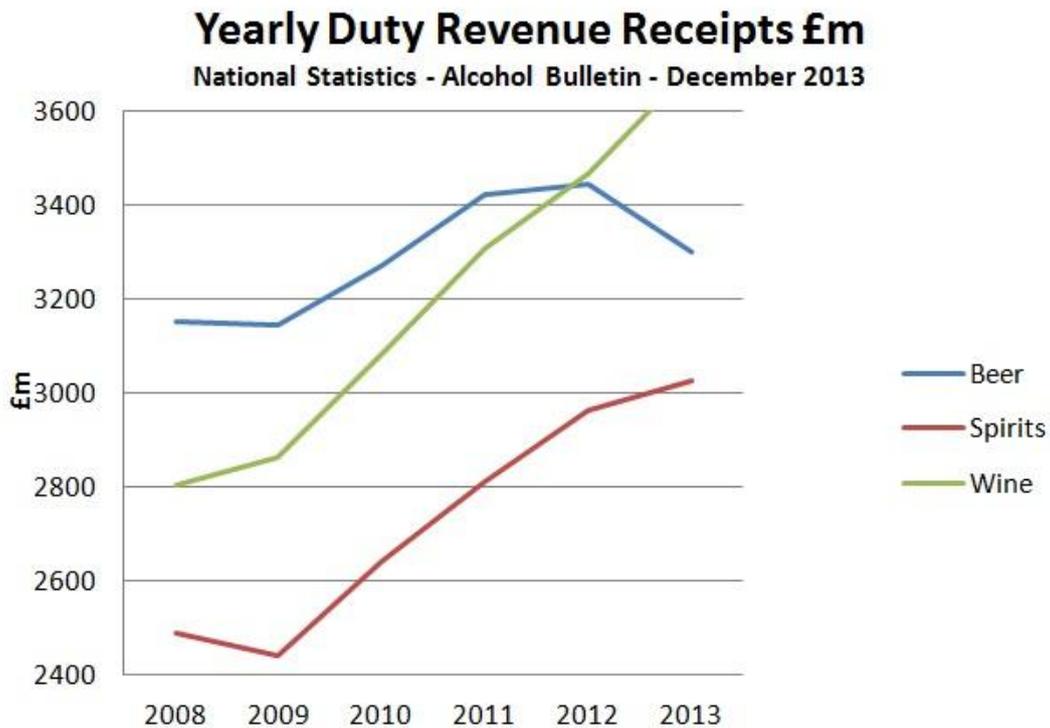
<sup>10</sup> <http://www.ippr.org/publications/55/8519/pubs-and-places-the-social-value-of-community-pubs>

<sup>11</sup> IPPR 2012, p2

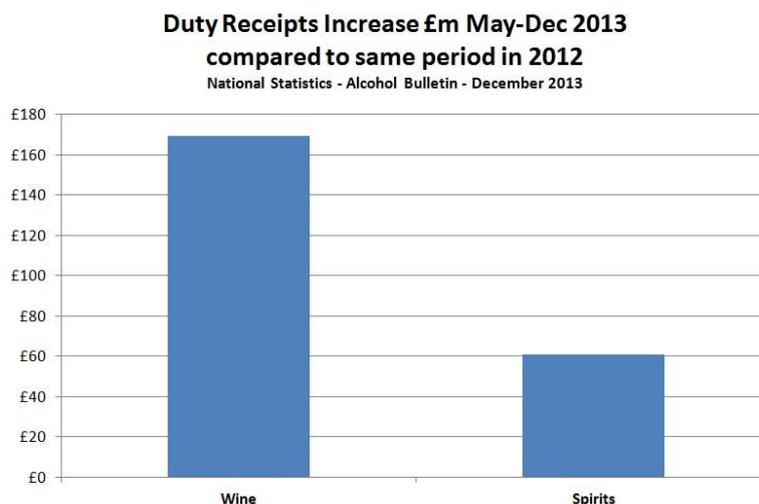
<sup>12</sup> Ibid. p2

## 9. Wine and spirits duty

9.1 In contrast to beer duty revenues, the duty revenue receipts from wine and spirits remain strong. Wine revenues are particularly strong and the graph below shows that in 2012 wine duty revenues were higher than beer duty revenues for the first time. The rate at which the gap between wine duty and beer duty revenues has closed indicates that beer duty is much closer to the point of duty maximisation than is the case for wine.

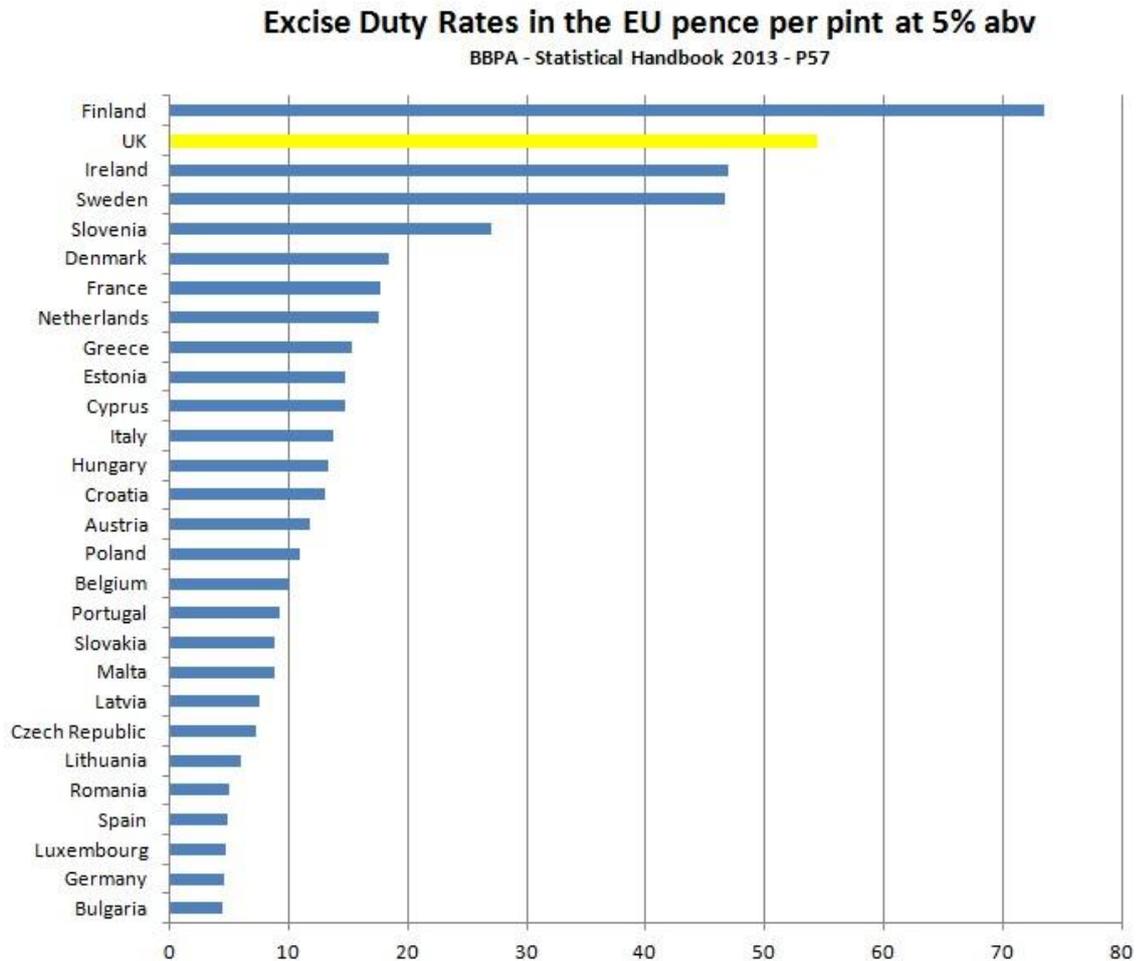


9.2 Duty receipts for the year to date as illustrated below provide further evidence that wine and spirit revenues remain strong.



## 10. International comparisons

10.1 The UK consumer continues to pay the second highest rate of beer duty in the European Union. As shown by the graph below, UK beer duty is 12 times higher than the excise duty paid in Germany and over 3 times the amount paid in France. This disparity creates incentives for individuals to purchase alcohol abroad.



## **11. Conclusion**

- 11.1 CAMRA is calling on the Government to freeze, or reduce, beer duty in the 2014 Budget. Such a decision would build on the benefits that resulted from the duty cut in the 2013 Budget.
- 11.2 Beer duty increases are a highly inefficient means of raising Government revenue, as duty rises help suppress economic activity in the beer and pub sector. The benefit of last year's duty cut is clearly shown in a return to growth in UK beer production.
- 11.3 As a result of the majority of beer being sold in the on-trade, beer drinkers face a higher VAT burden than wine and spirit drinkers who are much more likely to purchase off-trade alcohol. This higher VAT burden should be compensated for through successive freezes, or reductions, in beer duty.
- 11.4 There is strong evidence that the benefit of the 2013 beer duty cut was passed on to consumers. This was evident in both the on and off-trade sectors with the on-trade seeing the lowest beer price increases for at least twenty years.
- 11.5 In summary, a freeze in beer duty in 2014 will help secure 2,400 jobs, many of which are jobs for young people. It will also support the continued investment in the beer and pub sector which is so vital to growth, and the long term health of the pub sector. .

## **Appendix – Additional Policy Recommendations**

CAMRA's priority request for the 2014 Budget is that the beer duty is frozen or reduced. In addition to this, we would like to draw the Treasury's attention to the following issues:

### **i. Beer Duty**

CAMRA believes a review of all alcohol duties is required. As part of such a review CAMRA would advocate;

- its view that excise duty should be reduced by two thirds
- that the levy on high strength beers is abolished due to the harmful impact on traditional higher strength beer styles drunk in moderation
- amendments to the duty relief on low strength beers to ensure that an incentive exists for small brewers to produce low strength beers

CAMRA is seeking revision of the EU Excise Duty regulation so that member states may:

- introduce a reduced rate of excise duty for draught beers
- offer duty relief for low strength beers upto 3.5% abv
- introduce a sliding scale of duty relief for small cider producers

### **ii. Support for Cider**

Nearly 90% of the cider in the UK is produced at low cost by three large multinational drinks companies. CAMRA campaigns for real cider and perry, as well as real ale, and so supports any measures to encourage diversity and the growth of small cider and perry 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.

### **iii. Small Breweries Relief**

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. CAMRA therefore strongly supports the retention of small breweries relief.

There are now over 1,100 small brewers in the UK compared to only 444 in 2002, when small breweries relief was introduced.<sup>13</sup>

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

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<sup>13</sup> A full list of UK breweries can be found in CAMRA's Good Beer Guide 2014

consumers has increased and beer quality has risen as a result of greater competition.

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.

*Need more information?*

Please contact:

|               |   |                        |               |
|---------------|---|------------------------|---------------|
| Mike Benner   | - | Chief Executive        | 01727 798 441 |
| Jonathan Mail | - | Head of Public Affairs | 01727 798 448 |
| Emily Ryans   | - | Campaigns Manager      | 01727 798 447 |

CAMRA, the Campaign for Real Ale  
230 Hatfield Road  
St Albans  
Hertfordshire AL1 4LW

Tel: 01727 867201  
Fax: 01727 867670

E-mail: [jonathan.mail@camra.org.uk](mailto:jonathan.mail@camra.org.uk)  
CAMRA Website: <http://www.camra.org.uk/>