

**Excise Duty on beer and  
cider– the consumer’s  
view**



**Memorandum to the  
Chancellor.**

**The Campaign for Real  
Ale**

**February 2003**

## **1.0 Executive Summary**

- 1.1 High excise duties fuel underage drinking; undermine UK employment, local pubs, local brewers and consumer choice.
- 1.2 We believe that a series of reductions in excise duty on beer and cider are necessary to reduce the volume of cross border shopping and smuggling.
- 1.3 We welcome the introduction of a system of progressive beer duty in the Budget 2002.
- 1.4 Progressive Beer Duty is enabling small brewers to invest in their businesses, which is leading to greater consumer choice. A similar scheme should be introduced for small cider producers.
- 1.5 We urge the Chancellor to announce a small reduction or freeze on excise duty on beer and cider in the forthcoming Budget as part of a long-term strategy to ensure that UK pubs and producers are able to compete on a level playing field.

## **2.0. Introduction**

- 2.1. The consequences of high excise duty for consumers are only too clear. As consumers, we pay the high prices caused by high excise duty, but we also pay for that policy in pub closures, reduced investment in pubs and breweries and through the social consequences of uncontrolled access to alcohol.
- 2.2. Excise duty is socially regressive. An increase in duty can easily be afforded by the more affluent, but a few pence on a pint of beer or cider can be significant to those on lower incomes.
- 2.3. High prices due to high tax encourage individuals to buy beer and cider abroad and in the off-trade to be consumed at home. This leads to a shift in consumption from the safe controlled environment provided by pubs to increased consumption at home, with accompanying public health implications.
- 2.4. Pubs are a vital part of British culture and are an important community amenity. Over 80% of adults in the UK visit pubs, with 58% visiting at least monthly.<sup>1</sup> Pubs however are undermined by the current level of excise duty that is driving consumers to both drink at home and to purchase beer and cider from abroad.

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<sup>1</sup> NFO Infrastat Drinks Market Survey.

### **3.0. Promoting Employment, Pubs and Brewing**

- 3.1 The pubs and brewing industry directly employs some 500,000 people. Another 400,000 jobs are supported through suppliers to the industry. A long-term strategy to reduce the rate of excise duty levied on beer would create more jobs through increased investment and demand. It would also promote greater investment in training within the industry.
- 3.2 Britain's 60,000 pubs are evenly spread around the country and many provide valuable employment in areas where local employment is scarce. Also Britain's Brewers are generally based in areas of higher than average unemployment and help to support struggling local economies.
- 3.3 The medium sized regional independent brewers who collectively control about 10% of the UK beer market are particularly affected by high excise duties as unlike the four large national brewers they are unable to benefit from the same economies of scale and lack the same access to distribution. During the past year four regional independent brewers have ceased brewing: Brakspear, Tolly Cobbold, Mansfield and Castle Eden.
- 3.4 Current excise duty levels have the effect of encouraging consumers to make special trips abroad for the purpose of purchasing cheap alcohol. This leads to money that would otherwise be spent and taxed in the UK being spent abroad.

#### **4.0. Cross Border Shopping and Smuggling**

- 4.1 Cross border shopping and smuggling means that the UK Exchequer loses both the revenue which would have been paid had the goods been brought in the UK and also the revenue that would have been gained had the purchases been made in the UK.
- 4.2 Following changes in Customs and Excise enforcement policy in October 2002, which has significantly reduced the deterrent to small smugglers, there seems certain to be a resurgence of alcohol smuggling.
- 4.3 While we welcome the freezes in beer duty for the last two years we believe that a series of reductions in excise duty is necessary to reduce the volume of cross border shopping and smuggling.
- 4.4 A small reduction in excise duty would be sufficient to reduce the incentives to smuggle for small time smugglers as a result of the changes in 4.2.
- 4.5 Large volumes of legal cross border shopping are an inevitable consequence of attempting to maintain comparatively high excise duty rates in a single market. It is also the hardest form of revenue loss to be calculated and is hence often overlooked.
- 4.6 The only effective way of eliminating the negative social and economic impacts of smuggling and cross border shopping would be to reduce excise duty in the UK to a level that removes the profit from smuggling.

## 5.0 Maximising Revenue

- 5.1 An increase in the excise duty on beer would not in our view lead to the generation of additional revenue for the Exchequer. Any increase in beer duty will be passed onto consumers who will in turn reduce the amount of money they spend in pubs and clubs, preferring instead to purchase alcohol in the off trade, or partake in the cross channel trade of cheap alcohol.
- 5.2 In the past decade duty on beer has been frozen on five separate occasions and on every occasion this has led to increases in the combined excise and VAT revenues raised from beer. See table below.

Year	Duty Change (per pint at 4% abv)	Total Excise and VAT Revenue Rise (£ million)
1994 -1995	Increase Jan 95 (.85 pence)	+ £355.3
1995 - 1996	Frozen	+£171.9
1996 - 1997	Frozen	+£108
1997 - 1998	Increase Jan 98 (.73 pence)	+£121.6
1998 - 1999	Increase Jan 99 (.82 pence)	+£103.9
1999 - 2000	Frozen	+£124
2000 - 2001	Increase Apr 00 (.89 pence)	+£142.9
2001 - 2002	Frozen	+£74.3
2002 - 2003	Frozen	Not Available

Figures taken from the Statistical Handbook 2002<sup>2</sup>

- 5.3 A freeze or a small reduction in Excise Duty on Beer this year would have a positive effect on Government revenues from Beer. Whereas an increase would risk-inflicting damage on the UK Beer and pub trade that would in the long-term lead to a reduction in Government revenue generated by the Beer and pub trade.

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<sup>2</sup> Statistical Handbook 2002 (BBPA, London, 2002)

## **6.0 A Healthy Society**

- 6.1 Beer purchased by smugglers is fueling an epidemic of underage drinking in uncontrolled environments. We note with concern the special report from the British Institute of Innkeeping that reports that 37% of 15-17 year olds have easy access to smuggled alcohol.<sup>3</sup>
- 6.2 Cross channel shopping encourages people to buy far greater volumes of alcohol than they would otherwise, and because they have large stocks of alcohol at home therefore entices them to drink much more than they would otherwise do.

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<sup>3</sup> Alcohol Smuggling in Modern Britain (BII, London, 2002)

## 7.0 Progressive Beer Duty

- 7.1 We welcome the introduction of a system of progressive beer duty in the Budget 2002. The positive effects of the scheme are already being seen across the country.
- 7.2 The table below shows some of the many and varied ways in which small brewers across Britain have so far invested the reduction in duty:

<b>Brewery</b>	<b>PBD Benefit</b>
Hesket Newmarket Brewery Cumbria	This community owned brewery was able to turn a loss of £4000 in 2001 into a £5000 profit in 2002 thanks the PBD
Woods Brewery Wistanstow	Able to spend £100,000 on increasing brew capacity by 25%
Townes Brewery Chesterfield	Invested savings in building a new bottling plant.
Holden Brewery Dudley	Duty used to cut 5p of the price of a pint
York Brewery York	Invested in two new drays and a new 20 barrel fermenter
Harviestoun Breweey Clackmannanshire	Invested in increased staff wages and new equipment.

- 7.3 The current upper level of Progressive Beer Duty (PBD) means that a number of larger independent local brewers are missing out on the benefits of PBD. Independent local brewers are forced to directly compete with the large brewing multinationals and would benefit from PBD in the same way as small brewers already are. We therefore urge that the 30,000 hectolitres upper limit be kept under review.

## **8.0 Cider – A Special Case**

- 8.1 We note that cider is currently taxed at about half the rate of beer and that small producer (less than 70hl) do not need to register with Customs and Excise and pay no duty on the cider they produce.
- 8.2 We believe that the success of PBD for small brewers could be applied to small cider producers between 70-15,000hl. This would enable local cider producers to invest in their companies without a large effect on revenues.

## **9.0 Conclusions**

- 9.1 Britain's high rates of excise duty distort the economy and discriminate against British companies of all sizes and against British jobs. It is an unfair tax which hits the poorest the hardest and which undermines the viability of British community pubs.
- 9.2 Progressive Beer Duty is enabling small brewers to invest in their businesses, which is leading to greater consumer choice. We believe a similar scheme should be considered for small cider producers
- 9.3 We urge the Chancellor to announce a small reduction or freeze on excise duty on beer and cider in the forthcoming Budget as part of a long-term strategy to ensure that UK pubs and producers are able to compete on a level playing field.

### **Need more information?**

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## **Appendix 1**

### **About CAMRA**

CAMRA, The Campaign for Real Ale is a not-for-profit independent voluntary consumer body which exists to promote and defend access to full-flavoured and distinctive beer and the best features of the British pub.

CAMRA was founded in 1971 and our membership is currently 66,000.

CAMRA's mission is to act as the champion of the consumer in relation to the UK and European drinks industry. Its aims are as follows:

**Maintain consumer rights**

**Promote quality, choice and value for money**

**Support the public house as a focus of community life**

**And campaign for greater appreciation of traditional beers, ciders and perries as part of national heritage and culture**

The Campaign is funded by member subscriptions, sales of publications and products and proceeds from beer festivals. Other than revenue from advertising in our member's newspaper, it is not funded in any way by the industry. Only individuals can join CAMRA.