

Excise Duty on beer and cider and Small Breweries' Relief

Memorandum to the Chancellor

The Campaign for Real Ale

February 2007

1.0 Executive Summary

- 1.1 Excise duty on beer and cider should be frozen in this year's Budget as part of a longer-term strategy to reduce the gap between excise duty in the UK and the rest of the EU.
- 1.2 CAMRA strongly supports the current system of small breweries relief. This relief has enabled small brewers to compete on a level playing field and invest in their industry. CAMRA believes that the current 5,000-hectolitre threshold should be retained along with the 50% excise relief.
- 1.3 CAMRA welcomed the increase in the cut off point for progressive beer duty to 60,000 hectolitres introduced by the Chancellor in 2004 with the relief tapering from 30,000 to 60,000 hectolitres. It now calls on the Government to extend the benefits of PBD to 200,000 hectolitres (the maximum allowed under EU regulations) with that benefit tapering off from 30,000 hectolitres to 200,000 hectolitres..
- 1.4 CAMRA believes that increasing excise duty rates may not lead to an increased take for the Treasury but rather a reduction as sales are depressed when excise duty rates are raised.
- 1.5 The introduction of a smoking ban in public places in England, Wales and Northern Ireland will cause further pressure on the pub industry ; now is not the time to further burden the industry with increased taxes which will have the inevitable effect of driving more people to drink at home.

2.0 The Case for an Excise Duty Freeze

2.1 High excise duty rates have a number of negative consequences for consumers, the UK economy, and local communities. The current high rate of excise duty is having the following negative consequences:

- Loss of community public houses in rural, town and suburban locations. A report by CAMRA in February 2007 showed that 56 pubs a month were closing. 80% of these pubs were in urban areas.
- Loss of local and flexible employment options provided by public houses as licensees are forced to cut back on overheads. Between 2004 and 2005 the number of people employed in public houses and bars decreased from 556,000 to 542,000¹.
- Consolidation of pub ownership in the UK as companies seek to maintain profits. The two leading pub owners are now Punch Taverns who own 9,200 pubs and Enterprise Inns who own 7,800 pubs.
- Higher than inflation increases in the retail price of beer. CAMRA's prices survey which took place in February 2007 indicates that the cost of real ale in pubs rose by 4.18% and the price of lager in pubs by 3.81%.
- Increased consumption of beer at home rather than in the socially controlled environment of the public house. The percentage of beer consumed in the pub has fallen from over 90% in 1971 to less than 60% in 2005 (see section 2.6).

2.2 The consumer currently pays £5.89 billion in VAT and excise duty on beer a year to the Government, a fall of £0.03bn (£30m) on the previous year.² The previous time that revenue from beer sales fell was in 1992-93 and 1993-94 when duty rates were also raised. In contrast to years when duty rates were frozen and the Treasury take still increased.

¹ National Statistics quoted in British Beer and Pub Association – Statistical Handbook 2006 p.105 (BBPA, London, 2006)

² British Beer and Pub Association – Statistical Handbook 2006. p.49 (BBPA, London, 2006)

2.3 However it is our view that a freeze in excise duty would be partly mitigated by an increase in VAT and excise duty revenues and other taxes paid directly or indirectly by pubs and brewers as a result of increased sales.

2.4 CAMRA believes that a freeze in excise duty in Budget 2007 would lead to the following positive benefits:

- An increase in the viability of public houses, including community public houses in rural, town and suburban locations. Current research by CAMRA shows that 56 pubs a month are closing, 80% of these are in urban areas.
- Expansion of local and flexible employment in public houses, providing a route for the economically inactive to return to employment.
- Greater investment in public houses, including community public houses in rural, town and suburban locations.
- Reduce the incentive for individuals to import beer to the UK. without the payment of excise duty or VAT.
- Smaller increases in the retail price of beer sold in public houses.
- A greater proportion of beer consumed in pubs rather than at home resulting in larger tax revenues. Overall a pint sold in a pub generates considerably more VAT and business tax revenue than a pint sold in the off trade.

2.5 CAMRA believes the current high level of excise duty on beer has a disproportionately damaging impact on Britain's community pubs. It is CAMRA's contention that the high rate of tax (i.e. excise duty and VAT) on beer sold in pubs has contributed to an increase in the amount of beer that people consume at home. CAMRA proposed recently³ that draught beer and cider sold in pubs could be taxed at a lower rate as part of a programme to encourage more people to drink in their community pub than at home.

2.6 The table below shows the decline in the proportion of beer sold in the UK that is sold in pubs:⁴

³ CAMRA's evidence to the "All-Part Parliamentary Beer Group enquiry into the Community Pub".

⁴ British Beer and Pub Association – Statistical Handbook 2006. p.20

Year	Beer consumed in the on trade (percentage)
1971	90.4
1975	90.4
1979	88
1983	85.6
1987	82.2
1991	79
1995	72.2
1999	68.3
2003	61.3
2004	60
2005	59.0

2.7 The fall in the proportion of beer sold in pubs along with cross channel shopping and smuggling has had a major impact on community pubs which rely on beer sales for the bulk of their trade.

2.8 There has been an absolute decline in the amount of beer sold in pubs. As the above table shows the percentage of beer sold in pubs has declined dramatically. In addition the overall consumption of beer has declined from an average of 187 pints per head of total population in 1971 to 168 pints per head of total population in 2005.⁵

3. The Smoking Ban in Public Places

3.1 The introduction of a smoking ban in England, Wales and Northern Ireland will, in the short term at least, have a profound effect on pubs, particularly those that are "wet led". A rise in the price at the bar, which a duty increase would inevitably cause, will lead to further pressures on the pub and a reduction in custom.

⁵ British Beer and Pub Association – Statistical Handbook 2006

3.2 Scottish & Newcastle has stated in its latest results ⁶ that it expected that “the implied impact on profit of the smoking ban for 2007 would be £10m.”

3.3 Recent research by CAMRA ⁷ has shown that although in the long term more people may visit the pub when a smoking ban is in place, in the initial months there may well be a fall off of trade as almost third of smokers said that a ban would change their pub visiting habits.

4. The Impact of Duty Increases

4.1 Increases in excise duty, however small, often lead to a disproportionate increase in the final price that consumers pay in the pub. This is a result of brewers, wholesalers and pubs seeking to increase their prices in order to maintain margins.

4.2 An increase in the excise duty on beer and cider would not, automatically lead to the generation of additional revenue for the Exchequer. Any increase in beer and cider duty will be passed on to consumers who will in turn reduce the amount of money they spend in pubs and clubs. It will also increase the incentive to purchase alcohol in the off trade, or partake in the cross channel trade of cheap alcohol.

4.3 In the past decade duty on beer has been frozen on five separate occasions, on every occasion excise and VAT revenues raised from beer have increased. A freeze or a small reduction in Excise Duty on beer this year would be likely, as in previous years, to result in an increase in the total excise and VAT revenues raised from beer.

5.0 Promoting Employment, Pubs and Brewing

5.1 The pubs and brewing industry directly employs some 600,000 people. Another 400,000 jobs are supported through suppliers to the industry⁸. The brewing and pub industry contributes over £28bn to the UK economy. A long-term strategy to reduce the rate of excise duty levied

⁶ Scottish & Newcastle annual results 2006.

⁷ Survey conducted on behalf of CAMRA by TNS on 1500 adults in England and Wales in early February 2007.

⁸ The British Beer and Pub Association

on beer and cider would create more jobs through increased investment and demand.

- 5.2 Britain's 60,000 public houses are evenly spread around the country and many provide valuable employment in areas where local employment is scarce.
- 5.3 The small brewers and medium sized regional independent brewers are particularly affected by high excise duties as unlike the huge multinational brewers, they are unable to benefit from the same economies of scale and lack the same access to distribution. In recent years several valued regional independent brewers have ceased brewing: Gales, Ridleys, Brakspear, Mansfield, Hardys & Hansons and Youngs.
- 5.4 High 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.

6.0 The Impact on Health

- 6.1 Cross channel shopping encourages people to buy far greater volumes of alcohol than they would otherwise. Storing large stocks of alcohol at home tends to entice people to drink more than they would otherwise.
- 6.2 CAMRA does not believe that high excise duties can be used to tackle alcohol related problems. Firstly, such a policy would be unfair on the overwhelming majority of people who drink sensibly and in moderation. Secondly, CAMRA does not believe such a policy would work because of the easy availability of cheap alcohol as a result of cross border shopping and cheap supermarket offers.

7.0 Small Breweries' Relief

- 7.1 CAMRA strongly supports the current system of reduced excise duty for small brewers. Small brewers lack the economies of scale, access to market and alternative revenue sources which larger brewers benefit from. Small breweries' relief partially redresses the disadvantages which small brewers face.

- 7.2 CAMRA believes that the current 5,000-hectolitre threshold should be retained along with the 50% excise relief.
- 7.3 CAMRA would strongly support moves to extend small breweries' relief so that brewers above the 60,000 hectolitre limit could benefit. Brewers currently producing between 60,000 and 200,000 hectolitres are too large to benefit from small breweries' relief yet too small to benefit from the economies of scale of the multinational brewers. The limit should therefore be raised to the 200,000 hectolitre , the maximum allowed under EU directive, and the level which his operated by most of the countries in the EU that have adopted progressive beer duty for beer.
- 7.4 Extending PBD up to the 200,000 hectolitre level would benefit another dozen independent breweries and cost the Treasury an estimated £1.1m, about 0.04% of the total Treasury Excise duty take of £3.07bn. The current taper for the benefits of PBD from 30,000 to 60,000 hectolitres should continue up to the 200,000 hectolitre level so that there is no sudden change in duty chargeable when the threshold is breached.
- 7.5 Small brewers have used the investment from progressive beer duty to invest in their business.⁹ 74% used PBD savings in providing and marketing quality ales to the consumer.
- 7.6 More than half have taken on new staff using the benefits of PBD and six out of 7 breweries established before 2002 (the year PBD was first introduced) have taken on new staff. In total 1300 new jobs have been created in local brewing.

8.0 Excise duty relief for small cider makers

- 8.1 CAMRA believes that the existing *de minimus* excise duty exemption for small cider makers producing less than 70 hectolitres a year (introduced when cider was first subject to excise duty in 1976) should be retained.
- 8.2 Levying excise duty on all small cider makers irrespective of size would lead to the closure of many farm cider producers who the apple crops of local farms.

⁹ SIBA 5th Annual Local Brewing Industry Report 2007.

9.0 Conclusion

- 9.1 High excise duty rates have a negative impact on consumers, brewers and pubs. It is an unfair tax that hits the poorest hardest and undermines the viability of community pubs. It is a regressive tax and this is exacerbated by the fact that the C2DE sector drink more beer than the ABC1 sector.

- 9.2 CAMRA calls on the Government to freeze or reduce excise duty on beer and cider in the 2007 budget and to signal a commitment to reduce the gap between excise duty rates in the UK and the rest of the EU.

- 9.3 CAMRA strongly supports the current system of small breweries' relief and calls on the Government to retain the current system, but to consider whether this could be extended in future years.

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 over 84,000.

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 What's Brewing and certain specific sponsorship, it is not funded in any way by the industry. Only individuals can join CAMRA.