

# **Excise Duty on Beer**

**Memorandum to the Chancellor**

**The Campaign for Real Ale**



**CAMPAIGN  
FOR  
REAL ALE**

**February 2009**

## 1.0 Introduction

- 1.1 As a consumer organisation with nearly 100,000 members CAMRA is calling for a freeze in beer duty in the forthcoming budget along with the abandonment of plans for future annual above inflation increases in beer duty. CAMRA is also seeking an assurance that when VAT returns to 17.5 per cent the overall VAT and Excise duty burden placed on beer is not increased.
- 1.2 Britain's beer and pub industry is in crisis. According to the British Beer and Pub Association's Beer Barometer during the fourth quarter of 2008 overall beer sales were down by 8.3% and pub beer sales were down by 9.9%.<sup>1</sup>
- 1.3 Pub closures are now running at nearly six a day. Each closure deprives the UK Treasury of excise duty revenue, VAT and employment taxes while imposing the burden of providing support for those whose jobs have been lost. It is estimated that tax revenue from excise duty and VAT has actually fallen by £181 million since last March's budget.<sup>2</sup> Oxford Economics forecast duty and VAT revenue derived from beer sales will continue to be significantly lower than Treasury expectations.
- 1.4 The closure of a well-run community pub has a devastating impact on community life and social cohesion. Community pubs are often the sole remaining social space where people from all backgrounds living in the same area can get to know each other. Those on lower incomes are particularly hard hit as they are less likely to be able to afford other more expensive leisure activities. The loss of well-run community pubs simply exacerbates levels of social exclusion and the presence of derelict pubs simply adds to a sense of social and economic decline.
- 1.5 CAMRA is also calling upon the Government to reverse the harm caused to well-run community pubs through high beer excise duty rates, by considering ways of reducing taxation on beer sold and consumed within licensed premises. A lower rate of excise duty on draught beer sold and consumed in pubs would enable well-run community pubs to not only survive but to thrive. An alternative mechanism to assist well-run community pubs would be to reduce VAT on beer sold and consumed in pubs.
- 1.6 CAMRA supports the retention of small breweries' relief as small brewers do not benefit from the same economies of scale as larger brewers. The relief enables small brewers to invest in growing their businesses.

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<sup>1</sup> BBPA Press Release - Beer sales slump in fourth quarter 2008 says UK Quarterly Beer Barometer – 27<sup>th</sup> January 2009

<sup>2</sup> *ibid*

## **2.0 Impact on Consumers and Communities**

- 2.1 Pub going is an activity enjoyed by people of all ages and socio-economic groups with 46% of all adults visiting a pub at least once a month.<sup>3</sup>
- 2.2 Over the last year pub goers have suffered as a result of pub closures, higher prices and reduced amenity in pubs due to a lack of investment in pubs. The impact on pub goers will progressively worsen unless the duty escalator is abandoned.
- 2.3 Figures compiled by CGA Strategy show that pub closures have accelerated to nearly 6 a day.<sup>4</sup> Closures on this scale are directly attributable to increases in beer duty and Government failure to act to prevent below cost selling of alcohol in the off trade.
- 2.4 In the 12 months to December 2008 the price of beer sold in pubs increased by 4.9%. This compares to an increase of only 0.6% in the off trade and a 0.9% increase in RPI inflation.<sup>5</sup> As a result of higher prices pub beer sales have fallen and the inevitable result has been the loss of nearly six pubs a day.
- 2.5 Money spent in local pubs is twice as likely as money spent in supermarkets to be retained locally. The New Economics Foundation estimated that 10.2% of money spent in supermarkets is retained locally compared to 20.6% of money spent in managed pubs.<sup>6</sup> Where pubs are owned independently the amount of money retained locally is much greater.
- 2.6 The Sustainable Communities Act 2007 defines pubs as a “local service” and in doing so recognises that the loss of well-run community pubs undermines the economic, social or environmental well-being of an area.
- 2.7 Oxford Economics forecast that the impact of last year’s Budget and Pre Budget Report will be the loss of 53,000 jobs in the on trade sector over the next five years and a reduction in overall tax revenues generated from beer sales.<sup>7</sup>

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<sup>3</sup> CAMRA Tracking Omnibus Survey: January 2009

<sup>4</sup> BBPA Press Release - Pub closures climb towards six a day (19<sup>th</sup> January 2009)

<sup>5</sup> National Statistics – Focus on Consumer Prices – Data for December 2008 (29<sup>th</sup> January 2009)

<sup>6</sup> Justin Sacks – The Money Trail (New Economics Foundation, London, 2002) p.115

<sup>7</sup> Oxford Economics – Impact of 2008 Budget and PBR on the Brewing Industry (December 2008)

### **3.0 Beer and Health**

- 3.1 Continual increases in beer duty cannot be justified on health grounds. Excessive alcohol consumption and public disorder linked to drunkenness are wholly unacceptable and must be tackled through targeted measures. Increases in beer taxation will simply penalise the vast majority of responsible beer drinkers, while those who have problems with alcohol will simply migrate to drinking cheaper alcoholic drinks purchased in the off trade.
- 3.2 During his Budget Speech 2008 the Chancellor stated that beer duty was to be increased because beer had become more affordable. This was a misleading statement. Only beer purchased in the off trade has become more affordable. In contrast the price of beer in the on trade has increased at above the rate of inflation.
- 3.3 Between January 1987 and December 2008 the price of beer in pubs has increased by 176.8%. This compares to an increase in inflation of 145.9%.<sup>8</sup> These figures make it apparent that over the past 21 years beer sold in pubs has become less affordable.
- 3.4 In contrast beer sold in the off trade has become more affordable, increasing in price by only 45.9% between January 1987 and December 2008. The increase in beer duty in Budget 2008 has not been passed onto consumers as the price of beer in the off trade increased by only 0.6% in the year to December.<sup>9</sup> The evidence of the past year strongly indicates that beer duty is an inefficient mechanism to control off trade alcohol prices.
- 3.5 Increases in beer duty are undermining initiatives to reduce alcohol misuse by contributing to a fall in the proportion of alcohol purchased in well-run community pubs where consumption can be controlled. In contrast uncontrolled alcohol consumption in homes, the streets and public parks is on the rise.

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<sup>8</sup> National Statistics – Focus on Consumer Prices – Data for December 2008 (29<sup>th</sup> January 2009)

<sup>9</sup> *ibid*

## **4.0 Fair Taxation of Beer**

- 4.1 The current Government has increased tax on beer by more than it has increased tax on cider or spirits. CAMRA believes there is a strong case for an end to this discrimination against beer drinkers.
- 4.2 The excise duty charged on beer has increased by 49.3% since 1997 compared to an increase of 31.21% for cider and a 16.9% increase for spirits.<sup>10</sup> This dramatic shift in pricing has contributed to a shift in consumer consumption away from beer towards cider and spirits.
- 4.3 Beer is a dilute alcoholic drink which means there is a physical limit to the amount of beer which can be consumed in a short period of time. This volume restriction simply does not apply to spirits.
- 4.4 Increases in beer taxation also have a greater impact on well-run community pubs than increases in cider or spirit taxation. This is for the simple reason that beer is sold in well-run community pubs in greater volume than spirits or cider. Disproportionate increases in beer taxation have thus not only discriminated against beer drinkers but have also undermined the viability of well-run community pubs.
- 4.5 A decision to freeze beer duty in this year's budget along with the abandonment of the beer duty escalator would go a long way to ending discrimination against beer drinkers and community pubs.

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<sup>10</sup> Beer and Cider Bulletin for November 2008 and Spirits Bulletin for November 2008. (National Statistics, January 2009).

## **5.0 Supporting Well-Run Community Pubs**

- 5.1 A freeze in beer duty and abandonment of the beer duty escalator would be the first step in reversing the damage done to well-run community pubs as a result of a 49.3% increase in beer duty since 1997.
- 5.2 Well-run community pubs support the economic well-being of an area by increasing the amount of money spent locally, providing employment and enhancing the appeal of an area to visitors and potential investors.
- 5.3 Well-run community pubs enhance the social well-being of an area by providing a space for people from all backgrounds to meet and get to know each other. A huge range of sporting teams, campaign groups, interest groups and charities rely on the support of well-run community pubs.
- 5.4 A freeze in beer duty alone will not be enough to revive the viability of well-run community pubs which have been made unviable as a result of increase in beer duty over the past 12 years. At present a pint sold in a pub generates 91 pence in tax compared to a pint sold in the off trade which generates 53 pence.<sup>11</sup> CAMRA would wish to see measures to reduce this gap.
- 5.5 The European Union are currently considering allowing Member States to reduce VAT on labour intensive services. This measure would allow a reduced VAT rate of 5% on meals sold in pubs. CAMRA urges the UK Government to support this proposal and to push for an extension to also allow a reduced VAT rate for beer sold and consumed in pubs.
- 5.6 CAMRA urges the Government to consider the recommendation made by the All Party Parliamentary Beer Group's Community Pub Enquiry for a reduced rate of duty on draught beer sold in pubs. CAMRA along with the All Party Parliamentary Beer Group have met the EU Commission to discuss this proposal and understands that the EU will begin to review the current Excise Duty Directive later this year. CAMRA encourages the UK Government to be at the forefront of seeking amendments to the Excise Duty Directive to allow Member States to support the viability of well-run community pubs and bars across the EU through reduced excise rates.

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<sup>11</sup> British Beer and Pubs Association – Wake up for Westminster Report – September 2008

## **6.0 Small Breweries' Relief**

- 6.1 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 from which larger brewers benefit. Small breweries' relief partially redresses the disadvantages which small brewers face.
- 6.2 CAMRA believes that the current 5,000-hectolitre threshold should be retained along with the 50% excise relief.
- 6.3 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 same economies of scale enjoyed by the global brewers. CAMRA therefore calls for Small Breweries Relief to be extended so that all brewers producing up to 200,000 hectolitres annually are able to benefit.
- 6.4 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. Levying excise duty on all small cider makers, irrespective of size, would lead to the closure of many small farm cider producers who source their apples from local farms supporting local employment and sustainability.

## **7.0 Conclusion**

- 7.1 The high rate of Excise Duty on beer is leading to an unprecedented loss of well-run community pubs.
- 7.2 The loss of well-run community pubs has a severe impact not only on those who use the pub on a regular basis but also weakens the economic and social well-being of an area.
- 7.3 CAMRA calls on the Government to freeze beer duty in the forthcoming budget, abandon plans for the beer duty escalator, and to ensure that when VAT returns to 17.5 per cent the overall VAT and Excise duty placed on beer is not increased.
- 7.4 A further increase in beer duty in this year's budget would simply make the current situation of pub closures and jobs losses that much worse.

### **Need more information?**

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