

Excise Duty on Beer

Memorandum to the Chancellor

The Campaign for Real Ale

January 2008

1.0 Executive Summary

- 1.1 As a consumer organisation with over 90,000 members CAMRA is calling for excise duty on beer to be reduced by the equivalent of 1 penny a pint to alleviate community pub closures, falling beer sales and rising raw material costs.
- 1.2 During the first 7 months of the 2007-2008 tax year UK beer production has fallen by 7.9%. Should this trend continue for the final 5 month of the year then 2007-2008 will see the largest fall in UK beer production since 1948-1949.
- 1.3 The continued decline in UK beer production combined with the continued decline in the proportion of beer drunk in pubs will result in lower tax revenues being generated from beer. A 1 penny a pint reduction in beer duty would help reverse the current decline in UK beer consumption and help reverse the trend towards more beer being drunk at home rather than the pub.
- 1.4 The long term trend towards less beer being drunk in the pub and more beer being drunk at home is encouraged by high beer tax. This trend matters to beer tax revenues as one pint of beer sold in the pub generates the same tax revenue as two pints sold in the supermarket.
- 1.5 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.

2.0 Falling UK Beer Production and Pub Beer Sales

- 2.1 UK beer production is falling and this trend will only be exacerbated by a further increase in excise duty on beer.
- 2.2 HM Revenue and Customs figures show a drop in UK production of beer in the tax year 2006-2007. Compared to the previous year UK Beer production fell by 1,645,000 barrels, representing a fall of 4.8%.¹
- 2.3 The largest fall in UK beer production in recent years took place in tax year 2000-2001. Beer production fell by 6.9% compared to the previous year. This fall was followed by beer duty freezes in Budget 2001 and Budget 2002 and an increase in production.
- 2.4 Figures from the HM Revenue and Customs Beer and Cider Bulletin below show that UK beer production has fallen dramatically in first 7 months of the current tax year.²

Month	Beer Production 2006-2007 (thousand hectolitres)	Month	Beer Production 2007-2008 (thousand hectolitres)	Percentage Change
April 2006	4,029	April 2007	4,135	+2.6%
May 2006	4,784	May 2007	4,862	+1.6%
June 2006	5,295	June 2007	4,278	-19%
July 2006	4,851	July 2007	4,388	-9.5%
August 2006	4,570	August 2007	3,738	-18%
September 2006	4,204	September 2007	3,703	-12%
October 2006	4,667	October 2007	4,723	+1.2%
TOTAL April 2006 – October 2006	32,400	TOTAL April 2007 – October 2007	29,827	-7.9%

- 2.5 The table in 2.4 shows that during the first 7 months of the 2007-2008 tax year UK beer production has fallen by 7.9%. Should this trend continue then 2007-2008 will see the largest fall in UK beer production since 1948-1949.
- 2.6 Industry figures indicate that pub beer sales have fallen by an even greater extent than the decline in production. According to the industry pub beer sales fell by 8.2% in September, 7.7% in October and 9.7% in November.³ Given that 2007-2008 is likely to see a dramatic decline in UK beer production and pub beer sales CAMRA believes there is a clear case for 1 penny a pint reduction in beer duty.

¹ British Beer and Pub Association – Statistical Handbook 2007. p.7(BBPA, London, 2007)

² HM REVENUE AND CUSTOMS BEER AND CIDER BULLETINS.

³ The Publican Newspaper – Christmas Trade Quieter for '07 – 14th January 2008. p.4.

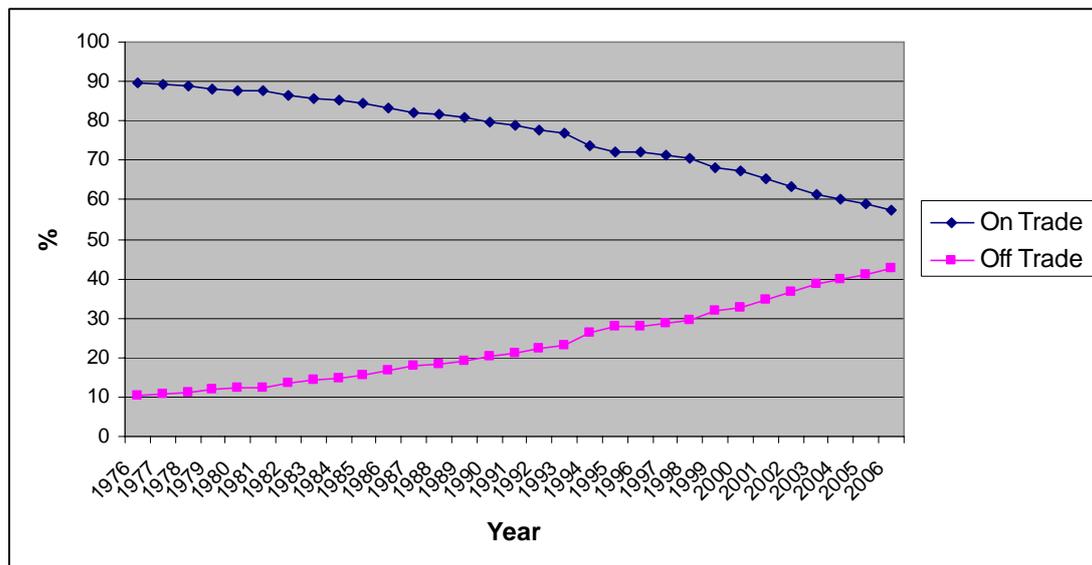
3.0 Pub Closures

3.1 CAMRA's figures indicate that during 2006 56 pubs a month were permanently closed. This matters as community pubs are a key part of local economies and social life, providing employment and a focus for social activity in an area.

3.2 Pubs are important for the following reasons:

- Alcohol sales through pubs generate greater tax revenues than alcohol sales through supermarkets
- 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.⁴ Where a pub is an independent freehouse the percentage of money retained locally will be considerably higher.
- Licensees have a legal duty to ensure customers drink responsibly
- Peer pressure can discourage irresponsible drinking
- Pubs are a valuable local amenity and are defined as a local service by the Sustainable Communities Act 2007

3.3 CAMRA's estimate that 56 pubs a month were lost in 2006 is reflected in the continued decline in the percentage of beer sold in pubs. The graph below shows how the percentage of beer being drunk at home has increased

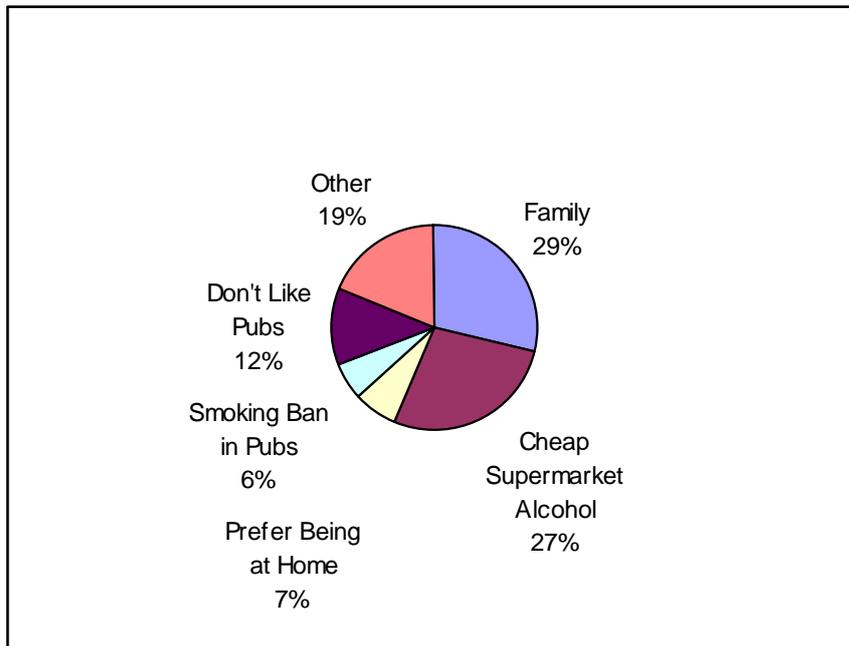


Graph based on data from the Beer and Pub Association

3.4 An Independent consumer survey conducted by TNS and commissioned by CAMRA indicates that 45% of those who drink prefer

⁴ Justin Sacks – The Money Trail (New Economics Foundation, London, 2002) p.115

to drink at home rather than in the pub.⁵ The pie chart below highlights the reasons why:



- 3.5 Over a quarter of those who prefer to drink at home do so because alcohol is considerably cheaper when brought in a supermarket than in a pub. This demonstrates that pub beer sales are price sensitive.
- 3.6 It is likely that the price sensitivity of pub beer sales has increased over the past decade as the differential between pub prices and off sale prices has grown. Between 1997 – 2006 the cost of beer in the on trade increased by 32.6% while the cost of beer in the off trade decreased by 3.5%.
- 3.7 A pint of beer sold in a pub generates more tax revenue than a pint of beer sold through a supermarket. A pint of standard lager sold in a pub for £2.52 will generate 70 pence in VAT and Excise Duty.⁶ CAMRA would estimate that a pint of standard lager sold as part of a multi buy offer from a supermarket for 50 pence would generate less than 35 pence in VAT and Excise Duty.
- 3.8 A cut in excise duty by 1 penny a pint would reduce pressure on the pub industry allowing them to invest in encouraging consumers to drink in the pub rather than at home. This would benefit tax revenues as the VAT and Excise Duty raised from one pint sold in a pub is equal to that raised from two pints sold as part of a supermarket promotion.

⁵ CAMRA Tracking Omnibus Survey: December 2007 – Conducted by TNS.

⁶ Breakdown based on 2001 Competition Commission report into Interbrew and Bass Plc merger.

4.0 Rising Beer Production Costs

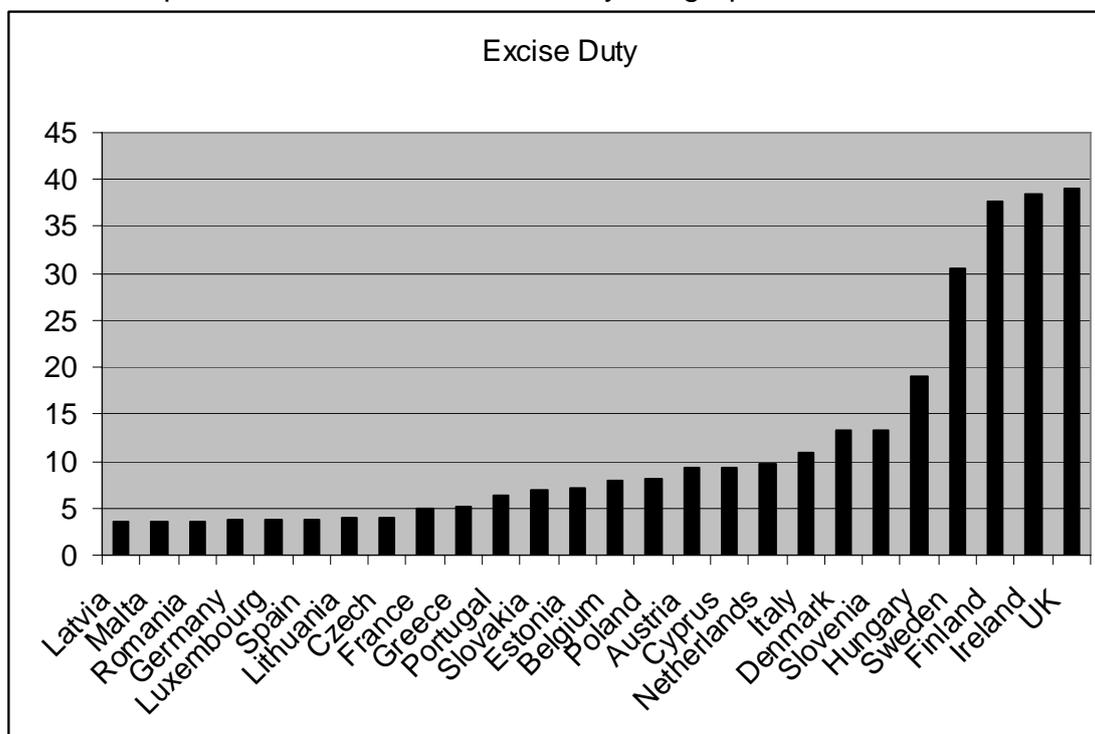
- 4.1 The cost of producing beer has risen over the past year due to increased raw material costs.
- 4.2 The Society of Independent Brewers (SIBA) has reported that the wet summer has led to the cost of barley increasing by nearly 40% and some hop prices increasing by up to 100%. SIBA has stated that these price rises mean small brewers “face the dilemma of whether to put up their prices and lose trade or absorb the higher costs and take the risk of their businesses becoming economically unsound”.⁷
- 4.3 The cost of beer in a pub increased by 4.3% in 2006/2007.⁸ This rise was in line with RPI inflation. CAMRA is concerned that the rise in raw material costs to be paid by brewers in 2007/2008 will result in pub beer prices rising at above the rate of RPI inflation. This could exacerbate the decline in beer production and pub going.
- 4.4 A reduction in beer duty by 1 penny a pint will mitigate the impact of rising raw material costs and will help ensure that beer prices rise at or below the level of RPI inflation.
- 4.5 An increase in excise duty on beer combined with higher raw material costs, rising energy and rising transport costs would almost certainly result in an above RPI inflation increase in the price of beer in a pub. CAMRA is concerned that an above RPI inflation rise in the price of beer would make the decision to buy a beer in a pub more price sensitive.

⁷ SIBA COMMENT ON BREWING INDUSTRY PRICE INCREASES - SIBA Press Release 14 November 2007

⁸ British Beer and Pub Association – Statistical Handbook 2007. p.47 (BBPA, London, 2007)

5.0 The Case Against High Beer Excise Duty

5.1 The UK has the highest rate of excise duty on beer in the whole of the European Union as demonstrated by the graph below.⁹



5.2 CAMRA does not believe that high beer excise duty should be used to tackle alcohol related problems. Firstly, such a policy would be unfair on the overwhelming majority of people who drink sensibly. Secondly, CAMRA is not convinced such a policy would work because of the easy availability of cheap alcohol as a result of cross border shopping and cheap supermarket offers.

5.3 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.

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

5.5 Excise duty is less fair than other forms of taxation as it accounts for a higher proportion of an individual's budget the lower their income. The regressive nature of beer duty is increased by the fact that more people in social groups C2 and DE drink beer than people in social groups A, B and C1.¹⁰

⁹ Correct during March 2007 -British Beer and Pub Association – Statistical Handbook 2007. p.56 (BBPA, London, 2007)

¹⁰ CAMRA Tracking Omnibus Survey: December 2007 – Conducted by TNS

6.0 The Case for a Duty Cut

- 6.1 Despite excise duty on beer increasing by 26.7% between 1997 -1998 and 2006 - 2007 the total tax raised as a result has increased by only 14%.¹¹ These figures show that an increase in beer duty does not automatically result in a similar percentage increase in additional tax revenue. CAMRA would suggest that tax on beer is currently at or beyond the point of revenue maximisation and that reducing excise duty may actually result in higher tax revenues than freezing or increasing duty
- 6.2 Production figures and tax revenue figures following the freeze on beer duty in Budget 2001 and Budget 2002 show that production levels and tax revenue increased. Given that the decline in beer production in 2007-2008 is likely to be larger than in 2000-2001 CAMRA believes that a cut in beer duty of 1 penny is fully justified. A cut in beer duty of a penny a pint may be revenue neutral due to an increase in beer production.
- 6.3 CAMRA believes that a cut of 1p in excise duty would start to redress the progressive disadvantage suffered by beer over the last ten years. The chart below illustrates how the tax on beer has increased disproportionately between 1997 and 2007.¹²

Drink Type	Excise Duty Rise
Beer	26.7%
Wine	26.7% (reduced to a 16% rise per alcohol unit due to an increase in the average strength of wine)
Cider	11%
Spirits	3%

- 6.4 CAMRA believes that a cut in excise duty beer would lead to the following benefits:
- An increase in the viability of pubs
 - An upturn in UK beer production resulting in increased beer excise duty paid
 - An upturn in the amount of beer drunk in pubs resulting in increased VAT receipts from beer sold in pubs
 - Greater investment in pubs, including community pubs
 - Reduce the incentive for individuals to import beer to the UK without payment of excise duty or VAT
 - Smaller increases in the retail price of beer sold in pubs
 - Fewer brewery closures
 - Fewer job losses

¹¹ British Beer and Pub Association – Statistical Handbook 2007. p.49 (BBPA, London, 2007)

¹² BBPA quoted in the Guardian Online: http://www.guardian.co.uk/uk_news/story/0,,2213809,00.html

7.0 Other Issues

- 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 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.
- 7.4 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.

8.0 Conclusion

- 8.1 Britain has the highest rate of Excise Duty on beer in the European Union and this is leading to a decline in UK beer production and the closure of pubs. The current tax year is likely to see the largest single decline in UK beer production since the 1940's. As detailed in 2.4 the first seven months of 2007-2008 have seen a 7.9% fall in UK beer production.
- 8.2 CAMRA calls on the Government to cut duty on beer by 1 penny a pint to address the dramatic fall in UK beer production and the closure of 56 pubs a month.

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 90,000.

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