

Small Breweries' Relief



**A Response from
CAMRA, The Campaign
for Real Ale**

October 2003

1.0 Introduction and Summary

- 1.1 We support the principle of reduced rates of duty for small brewers. Small brewers lack the economies of scale, access to market and alternative revenue sources which larger brewers are able to benefit from. Small breweries' relief partially redresses the disadvantages which small brewers face.
- 1.2 We believe that the current 5,000-hectolitre threshold should be retained along with the 50% excise relief. However the 30,000-hectolitre limit should be increased to 200,000 hectolitres to ensure that all small brewers benefit from small breweries' relief.
- 1.3 Small brewers producing between 30,000 and 200,000 hectolitres are currently too large to benefit from small breweries' relief yet too small to benefit from the economies of scale of the multinational brewers. The decision of Brakspears to cease brewing and of McMullens to cut its production to below the 30,000 limit suggests that this current limit is set too low.
- 1.4 The extension of small breweries' relief to all small brewers up to 200,000 hectolitres will deliver the following benefits:
 - Help ensure the continued viability of the 24 small brewers between 30,000 and 200,000 hectolitres.
 - Remove any disincentive to growth for brewers currently just below 30,000 hectolitres.
 - Increased competition and consumer choice.

2.0 The Benefits

2.1 The introduction of small breweries' relief has delivered benefits for small brewers, consumers and local economies out of all proportion to its total cost to the Treasury.

2.2 Small breweries' relief has delivered the following benefits to small brewers:

- Improved profitability
- Greater investment in brewing equipment and infrastructure
- An ability to purchase public houses to provide a guaranteed access to market
- An ability to use bigger discounts to compete with larger brewers
- An ability to employ new staff and to increase staff wages

2.3 Small breweries' relief has delivered the following benefits to consumers:

- Greater consumer choice as existing small brewers expand and new ones set up.
- Greater access to local beers as small brewers are able to purchase their own public houses

2.4 Small breweries' relief has delivered greater consumer choice as brewers are increasing investment levels focussing on increasing their access to market. This is a positive sign that small breweries' relief is having the intended effect. It means that the effects of small breweries' relief will be seen for many generations to come rather than in a one off cut in beer prices, a price cut which may or may not be passed onto the consumer.

2.5 Small breweries' relief has delivered the following benefits to local economies:

- Enhanced the tourist appeal of local areas by supporting local beers that increase local distinctiveness
- The creation of additional employment often in areas of high unemployment.

3.0 Small Brewery Survival Rates

3.1 The table below is based on independent breweries present in the annual Good Beer Guide publication.

Year	Total Operating	New Breweries	Closures
Dec 1997	389	43	
Dec 1998	399	25	15
Dec 1999	435	43	7
Dec 2000	429	40	46
Dec 2001	448	44	25
Dec 2002	444	30	34

- 3.2 The Government announced in March 2001 that it was minded to introduce small breweries' relief. The decision to introduce small breweries' relief was announced in the 2002 Budget and introduced in June 2002.
- 3.3 These figures suggest that the announcement in March 2001 that the Government were minded to introduce small breweries' relief contributed to a fall in small brewery failures. In the year to December 2000 46 small brewers closed. In the year to December 2001 the number of small brewery failures fell to 25. It is likely that many small brewers decided to continue in business in the hope that small breweries' relief would increase their continued viability
- 3.4 It is too early to judge the full impact of small breweries' relief in reducing small brewery failures. However we anticipate that as the relief beds in the number of failures will decrease.

4.0 The 30,000 Limit: A Disincentive to Growth

- 4.1 We believe that the 5,000 hectolitre threshold is appropriate as it ensures that the smallest brewers receive the greatest benefit.
- 4.2 We believe too that the 50 per cent rate of reduction is appropriate; 50 per cent being the highest reduction allowed under EU law.
- 4.3 We however express serious concerns about the 30,000 hectolitre limit above which this relief is withdrawn. We believe that this limit creates a serious problem for brewers producing just below 30,000 hectolitres:
- The withdrawal of relief at 30,000 hectolitres creates the equivalent of a “poverty trap” for small brewers. In order to recoup what is lost in small breweries’ relief many brewers will need to increase production and sales by several hundred barrels.
 - Small brewers without tied estates lack economic power and are therefore forced to give large discounts in order to retain access to the market. Therefore many small brewers make only a small profit as a percentage of their turnover.
 - Because small brewers lack the power of “must stock” brands this allows national pub chains to negotiate large discounts. In order to build the profile of their brands it is common practice for small brewers to sell their beer at near cost. The 30,000 limit means that even a substantial expansion in production could lead to a financial loss.
- 4.4 In August 2003 McMullen Brewery announced its decision to reduce its production to below 30,000 hectolitres in order to qualify for small brewery relief. We believe that this move demonstrates that small brewery relief can be a significant incentive to reduce production in order to qualify.
- 4.5 We predict that the 30,000 hectolitre limit will assist the multinational brewers to strengthen their domination of pub chain sales as small brewers will focus instead on building their own tied estates and the shrinking free trade.

5.0 Increasing the Limit to 200,000 Hectolitres

- 5.1 We believe that the 30,000 hectolitre limit should be increased to the maximum 200,000 hectolitres allowed under EU law. This would deliver the following levels of relief.

Production in Hectolitres	Percentage Reduction
5,000hl	50%
10,000hl	25%
15,000hl	16.6%
20,000hl	12.5%
25,000hl	10%
30,000hl	8.3%
50,000hl	5%
100,000hl	2.5%
150,000hl	1.66%
200,000hl	1.25%

- 5.2 By using a 200,000 hectolitre limit a much more progressive system is introduced with relief tapering from a maximum 50% reduction in excise duty to a 1.25% reduction.

- 5.3 The following independent breweries would be likely to benefit from an increase in the limit to 200,000 hectolitres:

<i>Adnams</i>	<i>Robinsons</i>
<i>Batemans</i>	<i>St Austell</i>
<i>Black Sheep</i>	<i>Sam Smiths</i>
<i>Everards</i>	<i>Tim Taylors</i>
<i>Gales</i>	<i>Cains</i>
<i>Harveys</i>	<i>Badger Brewery (Hall & Woodhouse)</i>
<i>Holts</i>	<i>Belhaven</i>
<i>Hook Norton</i>	<i>Brains</i>
<i>Hydes</i>	<i>Hardys & Hansens</i>
<i>Jennings</i>	<i>Holts</i>
<i>Lees</i>	<i>Robinsons</i>
<i>Ringwood</i>	<i>Wadworth</i>

- 5.4 An extension of small breweries' relief to these brewers would enable them to compete more effectively with the multinational brewers and to gain market share. The cost extending small breweries' relief to 200,000 hectolitres would be in the region of £2.8 million.

- 5.5 These brewers provide a huge amount of choice for consumers and between them produce 107 good quality beers.

- 5.6 Small brewers brewing between 30,000 and 200,000 hectolitres are at a competitive disadvantage as a result of the current system of relief. They are too small to benefit from the economies of scale and the "must stock" brands of larger brewers, yet too large to benefit from small breweries' relief.

- 5.7 Extending small breweries relief to small brewers brewing between 30,000 and 200,000 hectolitres would help further widen consumer choice and support the competitiveness and profitability of this group of small brewers.
- 5.8 The decision by Brakspear's to cease brewing last year has been a blow to consumer choice in the Oxfordshire area. We note with concern the claims by the Brakspear's board that their exclusion from the small breweries relief scheme contributed to their decision to cease brewing.
- 5.9 Nearly all of the small brewers between 30,000 and 200,000 hectolitres have small tied estates, which would enable them to retain a significant proportion of the small breweries' relief. This would enable their pub estates to compete more effectively with the national pub chains and therefore enhance consumer choice in the pub market.
- 5.10 In 1991 there were 29,500 brewery owned pubs. By 2002 the number had fallen to only 9,800. During the same period the number of pubs owned by pub companies increased from 12,700 to 31,500.¹ The growth and consolidation of the national pub companies is restricting consumer choice. The extension of small breweries relief will help underwrite the viability of small brewers brewing between 30,000 and 200,000 hectolitres.
- 5.11 The huge discounts, which the large national pub chains are able to secure means that they are able to sell beer cheaper than independent brewers can in their own pubs. CAMRA's annual prices survey in 2003 revealed that real ale prices in independent brewers pubs are on average £2.02 compared to £1.94 in national chain pubs.² An extension of small breweries' relief would help reduce this pricing differential and reduce the advantage of the national pub chains and multinational brewers.

¹ 2003 Statistical Handbook (British Beer and Pubs Association, London, 2003) p. 66-67.

² CAMRA's Annual Prices Survey 2003.

6.0 Conclusion

- 6.1 The extension of small breweries' relief is justified economically as it will support the profitability of all brewers up to 200,000 hectolitres allowing them to grow and establish market share. In the medium to long term it is likely that the costs would be recouped as these brewers thrive and expand.
- 6.2 The extension of small breweries' relief will help maintain and further consumer choice in the world of beer and pubs.

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 membership our membership currently exceeds 70,000.

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.