

Submission to the Chancellor Autumn Budget 2017

The Campaign for Real Ale

September 2017



**CAMPAIGN
FOR
REAL ALE**

1. About CAMRA

1.1. CAMRA, the Campaign for Real Ale, is a consumer group with more than 189,000 members which acts as the independent voice for real ale drinkers and pub goers. Our vision is to have quality real ale and thriving pubs in every community.

2. Executive summary

2.1. Pubs play an essential role in bringing communities together and supporting personal wellbeing. Additionally, the brewing and pub sector support nearly 900,000 jobs in the UK, and contribute £23.1bn to the UK economy annually¹. For these reasons the disproportionate tax burden placed on brewers and pubs needs to be alleviated.

2.2. A holistic approach must now be taken to relieve the tax burden on the beer and pub sector, which is restricting business growth. This must recognise the interconnected relationship between beer duty and business rates, and take into account the effect that tax rises have on consumers and consumer behaviour.

2.3. CAMRA urges the Chancellor to put two practical measures in place to secure the future prosperity of the beer and pub industry:

- A freezing of, or reductions in, beer duty for the rest of this Parliament.
- An annual £5,000 Business Rate Relief for all pubs in England until the business rates system can be reshaped so that pubs are not overtaxed.

2.4. The key points from our submission which support the case for at least a beer duty freeze and the continuation and increase of the current pub-specific business rate relief are:

- Pubs are valued community facilities that contribute the personal wellbeing of those who use them. The Government should seek to recognise this in positive taxation measures that inspire confidence in the pub sector.
- Of the approximately 4,000 Asset of Community Value listings obtained by local people for land and buildings in England, 2,000 are pubs.
- The 'Friends on Tap' report commissioned by CAMRA from Oxford University found that people who identify as having a 'local' pub have more close friends and feel more engaged with their local community.²
- Each pub pays an average of £140,000 in taxes per year.³

¹ Facts on Tap 2017

² <http://www.camra.org.uk/documents/10180/36197/Friends+on+Tap/2c68585b-e47d-42ca-bda6-5d6b3e4c0110>

³ Ibid

- £1.46 of every £4 pint in a pub is now tax.⁴
- The UK has disproportionately high beer duty compared to other leading European brewing nations and we pay nearly 40% of all beer duty in the EU but only consume around 12% of the beer.⁵
- Pubs pay 2.8% of the total business rates bill, but only account for 0.5% of total business turnover. This equates to an overpayment of about £500 million per year.⁶
- It is estimated that each pub contributes on average £80,000 a year to its local economy.⁷
- The production of beer accounts for nearly 60% of jobs in alcohol manufacture.⁸
- The hospitality sector is the biggest contributor to tourism in the UK, accounting for around 15% of an overall £63bn turnover.⁹

3. The social value of pubs

3.1. Value to the individual

3.1.1. Pubs have been found to have a beneficial effect on individual wellbeing.

3.1.2. CAMRA maintains that pubs are the best environment in which to drink alcohol, as both the sale and consumption of alcohol is controlled in a social setting. This is in stark contrast to alcohol bought in the off trade which is much more likely to be consumed alone at home. A YouGov survey carried out for CAMRA in July 2017 found that 54% of people agree that drinking alcohol in moderation in the company of others is good for wellbeing¹⁰.

3.1.3. The 'Friends on Tap'¹¹ Report was commissioned by CAMRA from Oxford University. The report found that people who identify as having a 'local' pub have more close friends and feel more engaged with their local community. The report goes on to recommend that pub going should be supported by the Government through the implementation of the following tax reliefs to support pubs:

⁴ Based on a 4.5% abv pint. Figure calculated by CAMRA.

⁵ Facts on Tap 2017

⁶ Overpayment calculated from the total business rates bill in England versus the percentage of business turnover that pubs account for.

⁷ Pubs and Places (2nd Edition), Rick Muir, IPPR 2012

⁸ BBPA Statistical Handbook 2017

⁹ Office for National Statistics, Tourism Intelligence Unit

¹⁰ YouGov Omnibus Survey July 2017

¹¹ <http://www.camra.org.uk/documents/10180/36197/Friends+on+Tap/2c68585b-e47d-42ca-bda6-5d6b3e4c0110>

- Government should consider cutting beer duty to help keep pints affordable and thereby support community pubs.
- Government should consider extending business rate reliefs to more pubs to help reduce their costs.

3.1.4. The sense of community which pubs provide is vital in preventing social isolation. Research by the Campaign to End Loneliness found that 52% of over 65s surveyed stated that having someone to sit with helped to ease feelings of loneliness, while 35% said that eating with someone helped.¹²

3.1.5. If we are to continue to see the benefits to social wellbeing, measures must be implemented to prevent the closure of pubs - the primary threat of which currently comes from the excessive and disproportionate tax burden placed upon the industry in contrast to the off-trade and other business types. The extension of pub-specific rate relief is vital (in terms of amount and applicability), and a pragmatic freeze in beer duty will strengthen the viability of the pub sector and encourage investment and growth, supporting the social benefits that community pubs deliver to the population.

3.2. Value to the community

3.2.1. The benefit that pubs provide to their wider communities is now well documented. In England, of the approximately 4000 Asset of Community Value listings obtained by local people for land and buildings, 2000 are pub. 55% of pub goers feel that the closure of their local pub would have a negative effect on their community¹³. In 2013 pubs raised more than £100 million for charity, with 77% of pubs participating in some form of fundraising¹⁴.

3.2.2. With the closure of village shops, libraries and post offices, pubs are now having to offer services far beyond the supply of food and drink to their customers. Some recent examples of pubs providing additional community services are:

- The Cholmeley Arms, Burton le Coggles, Lincolnshire, provides a village farm shop;
- The Black Swan, Ravenstonedale, Cumbria, has a village shop and provides lunch meals to a local primary school;
- The Chequers, Feltwell, Norfolk, also functions as a Community Cinema and hosts a senior citizens' lunch club;

¹² <https://www.morningadvertiser.co.uk/Article/2016/12/02/CAMRA-pubs-play-huge-role-in-preventing-social-isolation>

¹³ YouGov Omnibus Survey July 2017

¹⁴ PubAid

- The Bell, Wortwell, Norfolk, has a community shop, cafe and also houses the village defibrillator;
- The King's Arms, Stainton, Cumbria, is also a Post Office;
- The George and Dragon, Hudswell, North Yorkshire, has a village shop, library and allotments. It is also owned by the local community.

3.3. Government recognition of value

3.3.1. On announcing the pub-specific business rate relief in his Spring Budget speech¹⁵, the Chancellor said:

“Recognising the valuable role that local pubs play in our communities, I will provide a £1,000 discount on business rates bills in 2017 for all pubs with a Rateable Value of less than £100,000 – that’s 90% of all pubs”

3.3.2. CAMRA welcomes this measure in acknowledgement of the important role that pubs hold for communities and wider society.

3.3.3. Until May this year, pubs in England could be demolished or converted into a number of other uses, including shops and temporary office use, without planning permission. When the measures to revoke permitted development rights for pubs were announced during the passage of the Neighbourhood Planning Act, the Planning Minister again stressed in debate the value of the pub as a community facility in setting out the Government’s reasoning for the legislative change¹⁶:

3.3.4. “There seems to be a clear will in both Houses of Parliament that, given the value of pubs as community institutions, we do not want people to be able to convert pubs for other uses or to demolish them without going through the planning process.”

3.3.5. The importance of pubs to local communities and the recognition by the current and previous Government of this contribution creates a compelling case to do more to support pubs as social institutions.

3.4. Government approach to alcohol policy and taxation

3.4.1. CAMRA maintains that alcohol policy should be aimed at supporting local economies and supporting the sustainability of well-run pubs where both the sale and consumption of alcohol is supervised, and in a social setting.

¹⁵ <https://www.gov.uk/government/speeches/spring-budget-2017-philip-hammonds-speech>

¹⁶ <https://hansard.parliament.uk/commons/2017-03-28/debates/BFED9189-2880-488B-B6D3-AF0A2CFFC6C0/NeighbourhoodPlanningBill>



3.4.2. High alcohol taxation should not be used to pursue a public health agenda as evidence from other countries suggests such policies are ineffective and they ignore the internationally recognised benefits of moderate alcohol consumption and the positive contribution that pubs make to local communities and the economy.

3.4.3. The evidence base used to justify proposals on alcohol taxation by organisations such as the Alcohol Health Alliance and Institute for Alcohol Studies ignores epidemiological studies which demonstrate that moderate drinking can have a protective effect against numerous health problems including cardiovascular disease, cognitive decline, and certain forms of cancer.¹⁷

3.4.4. Furthermore, there is no consistent correlation between European countries with high duty levels for a category of alcohol and lower consumption rates for that product. In addition to this, recent ONS data shows that binge drinking¹⁸ and the rate of alcohol related deaths¹⁹ are in decline, suggesting there is no reason to introduce further policy measures that are aimed at reducing consumption levels in the population as a whole.

3.4.5. As recommended by the ‘Pubs and Places’ IPPR report:²⁰

“It [the current policy framework regarding pubs] is counter-productive, particularly in terms of tackling crime and disorder: by making beer in pubs more expensive while beer in shops and supermarkets gets relatively cheaper, policy is drawing people out of the regulated and supervised drinking environment of the pub.”

3.4.6. Therefore, if it is the Government’s intention is to reduce alcohol harm, it should look to implement policy measures which seek to support pubs. Recent Government taxation policy risks having the opposite effect. In the context of the recent rates revaluation, and first rise in beer duty in five years, the most practical measures in this respect would be the introduction of an annual rate relief for pubs and a long term freeze in beer duty.

¹⁷ Castelnovo, S et al - Alcohol Dosing and Total Mortality in Men and Women - An Updated Meta-analysis of 34 Prospective Studies, 2006

¹⁸ ONS Adult Drinking Habits in Great Britain

¹⁹ ONS Alcohol Related Deaths in the United Kinddom

²⁰ Pubs and Places (2nd Edition), Rick Muir, IPPR 2012

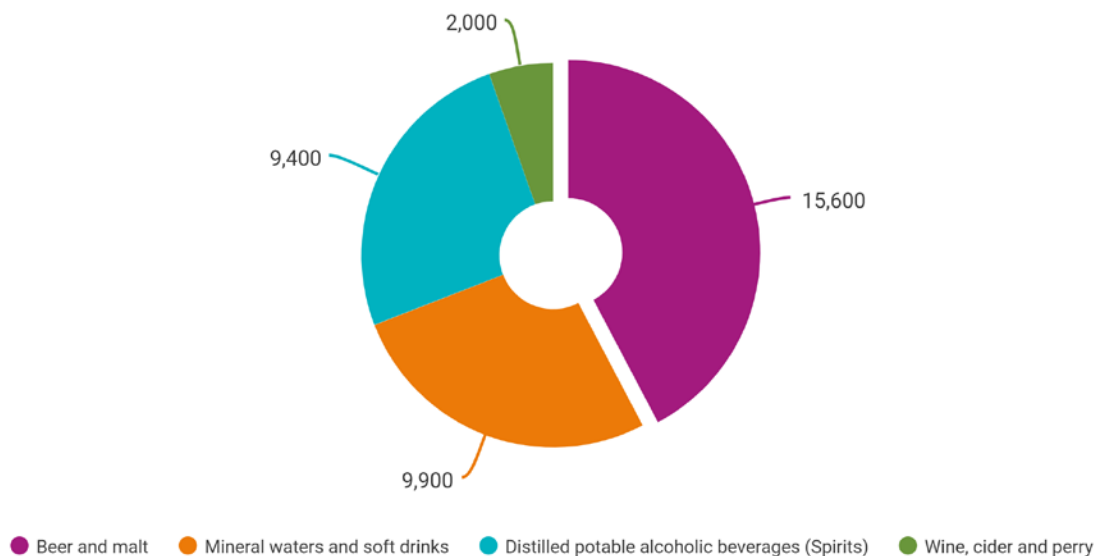
4. The economic value of pubs

4.1. Employment

4.1.1. Brewing is a labour intensive industry and sustains more jobs than all other types of alcohol production. The production of beer accounts for nearly 60% of UK jobs in alcohol manufacture, and also employs more people than the mineral water and soft drinks sector, as demonstrated by the graph below.

Source: BBPA Statistical Handbook 2017

Employment in the manufacture of drinks



4.1.2. The small brewing sector is expanding. However, high production costs create barriers to growth and further employment.²¹ The main obstacle to expansion for small brewers is the level of excise duty, and a long term freeze will allow brewers to invest and expand. The brewing sector has a strong impact on local employment with around 60% of employees living within five miles of independent breweries.²²

4.1.3. Incentivising the expansion of breweries through a long term duty freeze also has beneficial impacts further along the supply chain. A single job in brewing supports:²³

- 18 jobs in pubs

²¹ For CAMRA's views on Small Brewers Relief, please see the 'Additional policy considerations' section at the end of the document.

²² SIBA Beer Report 2017

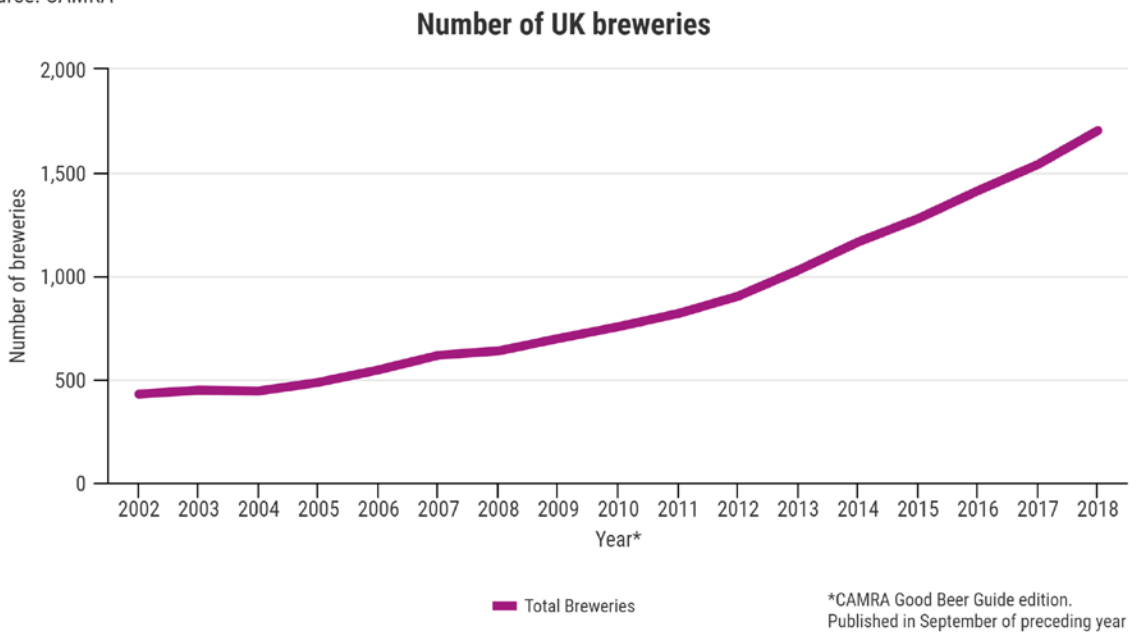
²³ Facts on Tap 2017

- 1 job in agriculture
- 1 job in supply chain
- 1 job in retail

4.1.4. Furthermore, the pub sector also supports the employment of a large number of young people: 42% of those employed in the pub sector are 16 to 24 year olds. The pub sector also employs a large number of apprentices, and the sector's high level of employment among young adults contributes to the Government's continued efforts to reduce the number of those not in employment, education or training (NEET).

4.1.5. Independent brewing is experiencing a period of sustained growth, with many brewers intending to expand their business, resulting in increased employment and boosting local economies. The graph below shows that the number of independent breweries has more than trebled from 448 in 2001 to 1,704 in 2017²⁴

Source: CAMRA



4.1.6. The SIBA Beer Report 2017 found that 71% of brewers expect to recruit at least one new employee in the next 12 months. A long term freeze in beer duty is a pragmatic measure that will avoid cost increases and allow brewers the opportunity to invest and expand.

²⁴ CAMRA Good Beer Guide (editions 2002-2018). Editions are published in September of the previous year.

4.2. Economy

4.2.1. Beer, brewing and pubs support nearly 900,000 jobs in the UK, and contribute £23.1bn to the UK economy annually.²⁵ It is estimated that each pub contributes on average £80,000 a year to the local economy.²⁶ This is much greater than the contribution of an average retail outlet, owing to the level of employment that the pub sector sustains and the associated benefits this has to the wider economy.

4.3. Tourism

4.3.1. Pubs are seen as a traditionally ‘British’ social institution and therefore are a significant draw for tourists. Beer, and especially real ale, are considered quintessentially British drinks, with pubs considered the traditional drinking venue in the UK.

4.3.2. The hospitality sector is the biggest contributor to tourism in the UK, accounting for around 15% of an overall £63bn turnover.²⁷ In 2015, more than 600 million visits to pubs were made by holidaymakers. It is estimated that more than 266,000 jobs in pubs are directly supported by tourism.²⁸

5. **The tax burden on pubs**

5.1. Business rates

5.1.1. The recent business rates revaluation has had a devastating impact on a significant number of valued community pubs in England. While CAMRA recognises that the revaluation has resulted in reduced rateable values or no change for the majority of pubs (partly due to the extension of Small Business Rate Relief and changes to the small business multiplier during the previous parliament), four in ten pubs have experienced an increase in their business rates and the sector as a whole is still unfairly taxed.

5.1.2. CAMRA welcomed announcements in the Spring Budget which benefit pubs hit with increased bills following the revaluation, and in particular:

- The £1,000 pub-specific relief for pubs with a rateable value of below £100,000, subject to State Aid rules.
- The £300m discretionary relief scheme for local authorities, which could be applicable to pubs.

²⁵ BBPA 2017

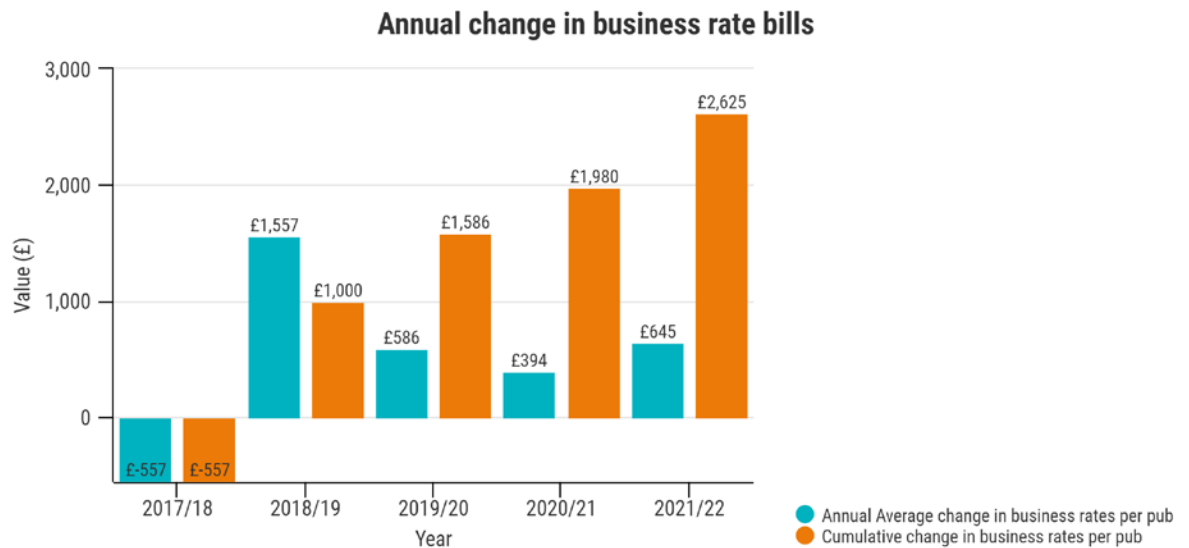
²⁶ Pubs and Places (2nd Edition), Rick Muir, IPPR 2012

²⁷ Office for National Statistics, Tourism Intelligence Unit

²⁸ Ibid

5.1.3. While these measures are providing welcome temporary relief to pubs, action is needed from the Government to deliver a long term solution to the business rates burden. The graph below shows that by the end of the transitional relief period rates bills will have increased by an average of £2,600 per pub.

Source: GB Ratings Agencies BBPA



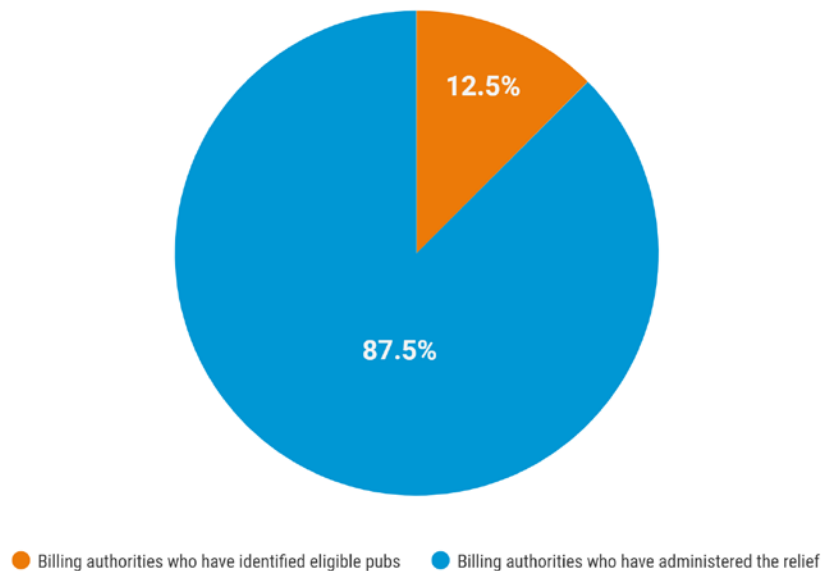
5.1.4. The current pub-specific business rate relief provides a one year reduction. Next year's bills will increase following the withdrawal of this relief. The temporary relief will have only have offered temporary mitigation of significant cost increases for pub businesses and therefore consumers.

5.1.5. CAMRA has conducted research into the implementation of the pub-specific relief by local authorities.²⁹ As shown in the chart below, we have found that all billing authorities which responded have made progress in identifying pubs eligible for the relief and 87.5% are now implementing the changes to rates bills.

²⁹ CAMRA wrote to all billing authorities in England in August 2017, asking for an update on the implementation of the pub-specific rate relief. Follow up work has been carried out to identify the number of pubs in each authority area benefitting from the relief. Figure given are collated from all responses received to date.

Source: CAMRA

Progress of billing authorities in applying pub-specific rate relief scheme



5.1.6. The scheme has been highly successful in delivering relief to applicable pubs, notwithstanding the initial delay in the implementation of the new scheme. From soundings taken from local government, the delay in implementation appears to be down to the requirement for IT software changes to allow billing departments' electronic systems to apply the relief to bills. Now that these teething problems have been resolved, we do not anticipate any further delays to implementing the relief if it were made permanent.

5.1.7. The current pub-specific relief only applies to pubs that have a rateable value of below £100,000. This excludes some pubs which have seen very large increases in their rateable values, and therefore the largest increases in their business rates bills.

5.1.8. Through research, CAMRA has found evidence that some local authorities are excluding pubs from their discretionary relief schemes, either because the pub-specific relief scheme is already in place or because they are excluding properties with rateable values of over £100k. As a result, in some areas pubs with very high increases in their rateable value have been completely excluded from any form of relief (as their rateable values are now over £100k). Further consideration should be given to extending the pub-specific relief to all pubs, regardless of rateable value, to rectify this issue.

5.2. Case studies

5.2.1. Licensees facing hikes in their business rates bills have expressed dissatisfaction with both the outcome of the revaluation process and the impact of relief schemes in addressing the burden on their business.

5.2.2. Sean Hughes is the licensee of the The Boot, St Albans. The pub's business rates bill will increase over a number of years by 280% from £14,000 to £53,000. The Boot now has a rateable value of over £100,000 so will not benefit from the pub specific relief.

“Our new business rates bill means that we would have to sell an additional 22,000 pints of beer a year just to pay for the increase. I can't see how we're going to do that - it leaves us in a very difficult situation. We've already had to increase our beer prices by 10p per pint, and expect that to increase to 35p a pint. If our customers can't afford a pint at the pub they will go elsewhere, which means that our historic pub of 600 years may cease to run as a public house. We urgently need support from the Government to continue trading.”

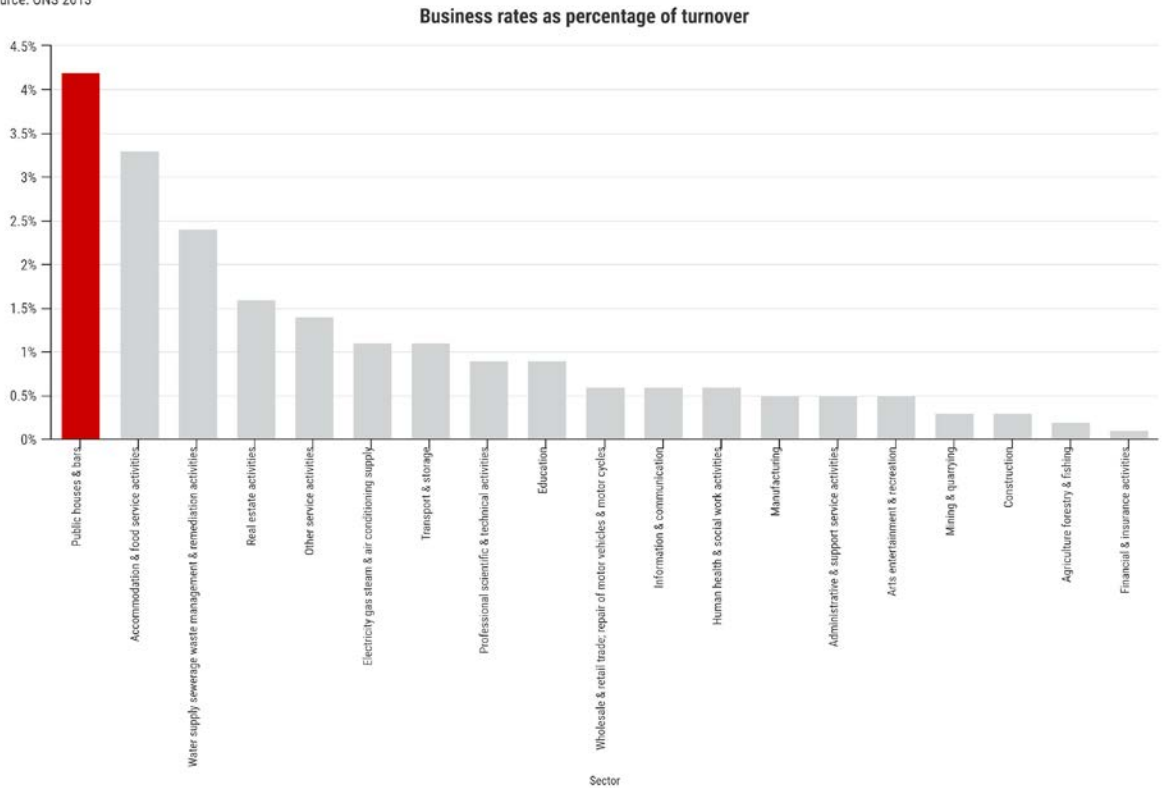
5.2.3. James Brown runs three pubs as part of the Brown Ales portfolio. The Chesterfield Arms, Chesterfield, has seen its rateable value rise from £27,000 to £64,000 and an increase in rates payable from £13,311 to £31,888. The Crown, Beeston, has seen its rateable value rise from £32,750 to £70,000 and an increase its rates payable from £15,720 to £36,778.

“All of our pubs are multi-CAMRA award winning pubs and are seeing enormous increases to their business rates. What is the incentive to run a successful business if the additional profits are taken away in rates? The £1,000 reduction is just a drop in the ocean when rates are increased by £20,000 - any publican will tell you that the business rates system is the most unjust cost to successfully run pubs in this country.”

5.3. Current valuation system

5.3.1. Pubs pay 2.8% of the total business rates bill, but only account for 0.5% of total business turnover, showing a disproportionate level of taxation through the current system. When looking at proportion of turnover accounted for by business rates, it is clear that the pub sector is disadvantaged under the current system, as evidenced by the chart below.

Source: ONS 2013



5.3.2. While relief announcements in the Spring Budget have been welcomed by CAMRA and the wider industry, the prevailing belief is that the current system is not fit for purpose. A root and branch review of the business rates system is needed. An option for addressing this would be looking at how online sales are taxed. Business is increasingly being conducted online, a trend which shifts the business rates burden towards property based business, and specifically pubs.

5.3.3. We therefore welcome statements included in the Conservative manifesto and the commitment to conducting a review of the business rates system³⁰:

“We will make longer term reforms to the system to address concerns about the way it currently works. We will make sure that revaluations are conducted more frequently to avoid large changes to the bills that businesses face, and explore the introduction of self-assessments in the valuation process. To ensure the system is sustainable for the future we will also conduct a full review of the business rates system to make sure it is up to date for a world in which people increasingly shop online.”

³⁰ Conservative Manifesto 2017 General Election

5.3.4. CAMRA is calling on the Government to begin this review urgently, as the impacts of the revaluation have exposed serious problems with the current valuation process and threatened the viability of many businesses.

5.3.5. Until this review can be conducted, CAMRA is calling for an annual £5,000 rate relief for pubs in England. This relief is vital to easing the cumulative tax burden on the sector and also to mitigate the impact of the revaluation for those in receipt of greatly increased bills - some of whom will have not benefitted from the £1,000 pub specific relief announced in the Spring Budget.

5.3.6. The pubs sector overpays in business rates by around £500 million annually.³¹ Therefore, an annual £5,000 business rate relief for all pubs in England will cost in the region of £140 million compared to an annual overpayment of £500 million.

5.4. Beer duty

5.4.1. On average, each pub pays nearly £140,000 in taxes each year.³² This includes VAT, excise duties, business rates, corporation tax, taxes related to the employment of staff and other pub-specific regulatory costs.

5.4.2. The recent business rates revaluation which, has impacted a significant number of pubs, and the inflationary rise in beer duty in March have placed a new strain on the sector, which is now at breaking point in terms of the amount of tax rises it can absorb. In order to provide stability and encourage investment, immediate long term tax reliefs must be introduced.

5.4.3. Increasing taxation on beer and pubs means that a high proportion of the price that a consumer pays for a pint of beer is now accounted for through tax. Of a 4.5% abv pint of beer sold for £4 in a pub:³³

- 15p is business rates
- 49p is beer duty
- 67p is VAT
- 15p is other taxes

5.4.4. This means that tax accounts for 36.5% of the total cost of a pint. Rises in beer duty are not absorbed through the supply chain and are instead

³¹ Overpayment calculated from the total business rates bill in England versus the percentage of business turnover that pubs account for.

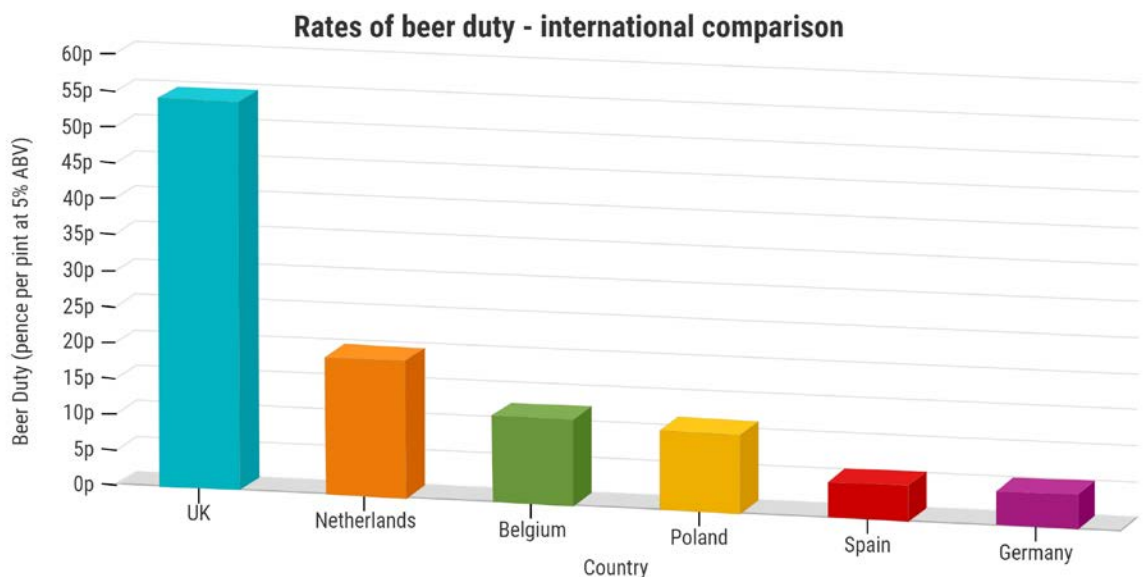
³² Facts on Tap 2017

³³ CAMRA 2017

passed on to consumers. Business rate rises are also reflected in increased consumer prices, indicating that the sector cannot sustain further tax rises.

5.4.5. Additionally, the UK pays nearly 40% of all beer duty in the EU but only consumes around 12% of the beer.³⁴ Beer duty in the UK is disproportionately high in comparison to other leading brewing nations in the European Union, as demonstrated by the chart below.

Source: BBPA Statistical Handbook 2017



5.4.6. Polling conducted on behalf of CAMRA by YouGov found that 50% of beer drinkers now think that the price of a pint in a pub is unaffordable.³⁵ In order to keep drinkers consuming alcohol moderately and in a controlled environment, it is in the interests of the Government to implement measures which encourage people back to drinking in pubs rather than increasingly purchasing alcohol in the off trade.

5.4.7. A steady stream of pub closures, alongside a drop in frequent pub going suggests that the sector cannot cope with further tax increases and shows the need for further measures to be introduced to reduce the tax burden on our pubs and inspire confidence in the sector.

5.5. Impact of changes to beer duty

³⁴ Facts on Tap 2017

³⁵ YouGov Omnibus Survey July 2017



5.5.1. Cuts and freezes to beer duty since the abolition of the Beer Duty Escalator have had a positive impact on the industry and restored confidence to the sector - a confidence that must be maintained.

5.5.2. Under the Beer Duty Escalator that operated between 2008-2013, beer sales in pubs fell by 24%, total beer consumption fell by 16%, 75,000 jobs were lost and 3,700 pubs closed.³⁶ In contrast, a report commissioned by CAMRA in 2015 found that an extra 89,000 jobs could be created if beer duty was frozen until 2020.³⁷

5.5.3. With many pubs already under pressure from the business rates revaluation, any further increase in beer duty will result in further price increases for consumers. By looking at the Retail Price Index (RPI) for beer, the impact of the inflationary duty rise announced in the Spring Budget is noticeable, as is the effect of the consecutive duty cuts in 2013, 2014, 2015 and the duty freeze of 2016. The graph below shows the benefit to the consumer of beer duty freezes and cuts which have helped limit increases in the consumer price of beer.

Source: ONS



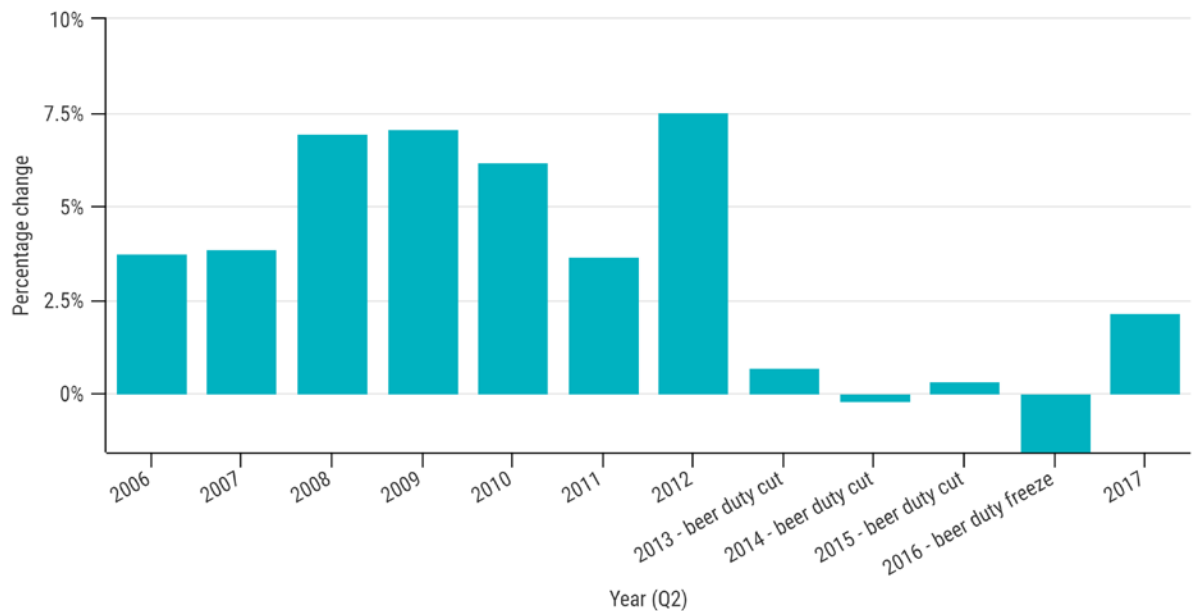
5.5.4. The graph below provides evidence that the benefits of duty cuts are being passed along the supply chain from brewers to pub retailers.

³⁶ From a bleak future to confidence and stability. The story of beer duty 2008 to 2016. BBPA, CAMRA and SIBA, 2016.

³⁷ CEBR 2015

Source: ONS

Producer Price Index for Beer



5.5.5. From both the RPI and PPI figures evidenced in the above charts, it is clear that the inflationary rise in the Spring Budget has undone the beneficial impact of the previous cuts and freeze. What is now needed is at least a long term freeze which allows brewers some certainty that costs will be stabilised for the coming years, and gives them the confidence to invest and expand their businesses.

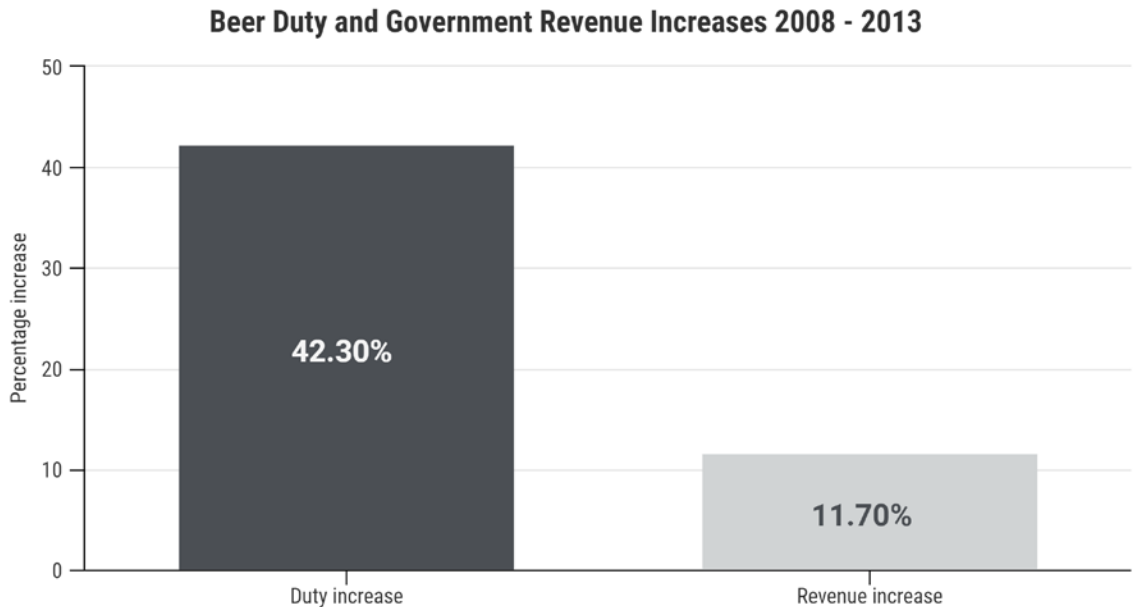
5.5.6. James Yeomans, Managing Director and founder of Hop Stuff Brewery has outlined the benefits that a long term freeze can bring the industry in terms of stability and investment:

Over the last 4 years Hop Stuff Brewery has employed more than 30 people, creating jobs, wealth and great beer along the way. Beer duty remains the single largest consideration for us as a brewer beyond wages, and with the pressure on wage bills to increase it's difficult to manage production, resourcing and forecasting if you're 1. raising beer duty, or 2. unsure where it'll be in the coming years. Small brewers simply can't afford any further rates rises. Hop Stuff Brewery is looking to expand to 50,000 hectolitres in the coming five years, but the impact of duty increases at each step are a major prohibiting factor. The larger brewery and connected pub company would support nearly 300 jobs, but pressure from the Government from all sides is making it difficult at every stage. The beer duty system has systemic faults, the freezing of which would allow the industry to flourish.

5.5.7. While it might be assumed that increasing beer duty will result in greatly increased revenues for Government, during the Beer

Duty Escalator revenues did not increase in line with duty, as shown by the graph below.

Source: HMRC Bulletin and BBPA Statistical Handbook 2017



5.5.8. While duty increased by over 42% during the operation of the Escalator, Government revenues from beer duty only increased by 11.7%. During this time beer production also decreased by just over 15.5%,³⁸ suggesting that pursuing rises in taxation of beer as means of raising revenue is inefficient. In contrast, in the year 2013/14 following the abolition of the Escalator and landmark cut in beer duty, production increased by over 1,000HL.

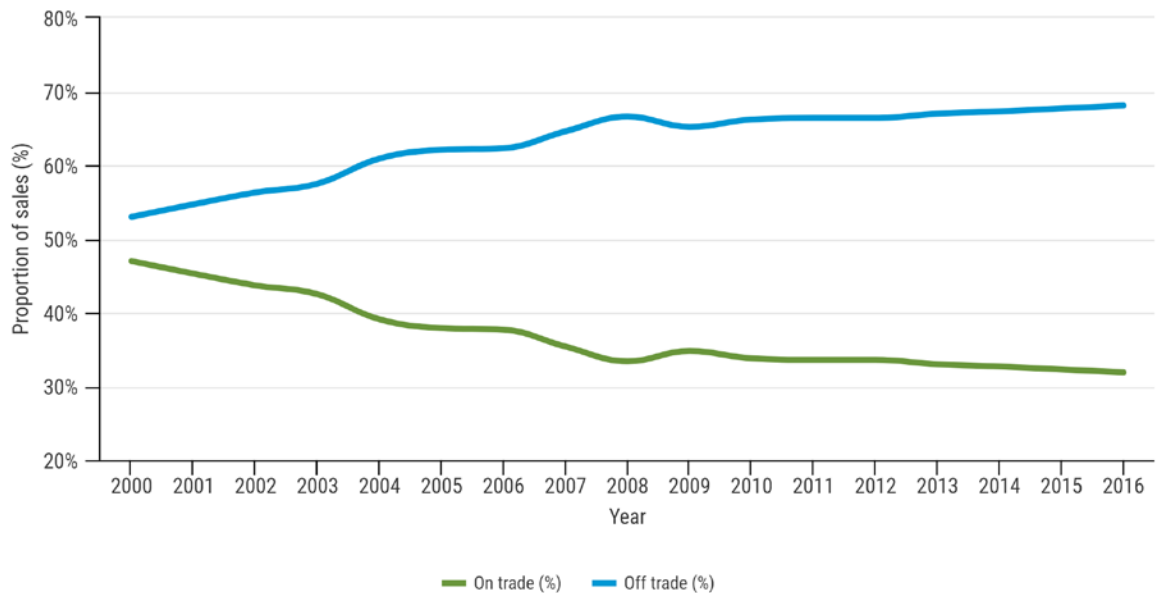
5.6. The tax burden on the on trade

5.6.1. Over the last 20 years the proportion of alcohol consumed in the on trade has decreased steadily. Only 31.9% of alcohol is now consumed in the on trade, compared to nearly 50% in 2000, as shown in the graph below.

³⁸ HMRC Alcohol Bulletin

Source: BBPA Statistical Handbook 2017

On trade vs off trade alcohol sales



5.6.2. It is widely accepted that the on trade provides a regulated environment for the sale and consumption of alcohol. However the on trade faces a much greater tax burden than that faced by the off trade.

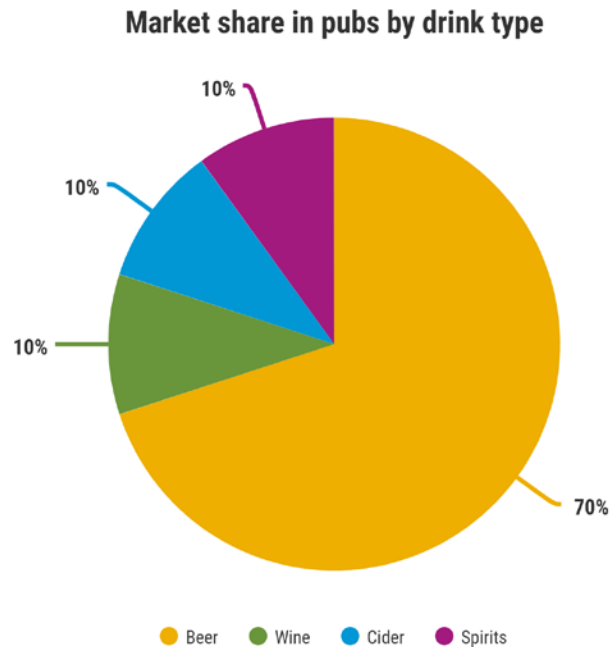
5.6.3. The off trade, and specifically supermarkets, enjoy the benefits of lower levels of regulation and taxation than the on trade. This means that increases in taxation don't just result in the loss of community pubs, but drive consumption into the off trade as people react to higher pub prices by visiting the pub less often and instead purchase alcohol from the off trade to consume at home. Additionally, supermarkets will regularly sell alcohol at or below cost as a means of securing additional customers.. Supermarkets are therefore able to absorb alcohol duty rises much more easily than pubs, where duty rises are passed from brewers through to licensees, who must put up prices to ensure their businesses remain sustainable.

5.6.4. Recent legislative changes have increased the tax burden on pubs. Increases in National Minimum Wage, the introduction of the Apprenticeship Levy and Pension Auto-Enrolment as well as the business rates revaluation have all placed additional pressure on pubs.

5.6.5. The retention and extension of the pub-specific business rate relief will help alleviate the disproportionate burden of tax on the on trade. However changes to duty can also be implemented which effectively target the on trade.

5.6.6. Beer accounts for the majority of alcoholic drinks served in pubs, representing 70% of pub sales as shown by the chart below.

Source: Facts on Tap 2017



5.6.7. As well as accounting for the majority of drinks sold in pubs, 82% of beer consumed in Britain is produced here too,³⁹ showing the value of brewing sector as a distinctly British industry. This is in comparison to just 0.2% of wine consumed in Britain: 99.8% is imported from abroad.⁴⁰

5.6.8. Wine now has the largest share of off trade sales (38.2%),⁴¹ and also has a high abv content per serving. Owing to this, and the relatively small contribution that the wine industry makes to employment or exports, an increase in wine duty in conjunction with a freeze in beer duty, will help to shift consumption out of the unregulated off trade and towards consumption of lower abv alternatives such as beer in supervised community pubs.

5.6.9. As set out above, the majority of drinks sold in pubs are beer, and increases in beer duty have been proven to be passed along the supply chain to pubs and consumers. Therefore a freeze in beer duty for the rest of this Parliament will help to prevent large increases in the price of on trade beer and encourage consumption through regulated on trade channels, and specifically pubs.

³⁹ Facts on Tap 2015

⁴⁰ Ibid

⁴¹ BBPA Statistical Handbook 2017

6. Additional policy considerations

6.1. Cider - the introduction of a new duty band

6.1.1. From March to June this year, the Government consulted on the introduction of a new duty band to target cheap, high strength 'white' ciders, below 7.5% abv.

6.1.2. CAMRA has serious concerns that a new still cider band could severely impact the UK's traditional cider makers. It is our contention that the introduction of a new band below 7.5% abv will discriminate against traditional cider makers (who are not the intended target of the measure) and that this will result in the closure of traditional and rural businesses, and a reduction in consumer choice.

6.1.3. CAMRA is instead calling for the definition of still cider and perry to be amended so that there is a final product juice requirement of 70%. This will mean that producers of 'white ciders' will either have to reformulate their products, increasing production costs and therefore the price at which the product is sold to consumers, or that 'white ciders' will be taxed as either wine or wine-based ready-to-drink products in the future, which incur higher rates of duty. This will ensure that traditional cider makers are not disadvantaged.

6.1.4. Furthermore, as a result of the UK's forthcoming departure from the European Union, legislative powers currently held at EU level on alcohol structures and duty regimes will be transferred back to the UK Government. Therefore, it would be expedient for the Government to put the work contained in the consultation on hold until the UK has left the European Union.

6.2. Cider - duty exemption for small producers

6.2.1. CAMRA backs the commitment made in the 2015 Autumn Statement to retain the current duty exemption for small cider producers. Small cider producers (defined as making under 70HL, or 12,000 pints of cider per year) typically make less than £10,000 per year in sales and provide consumer choice in a market that is dominated by very large cider producers who operate on a global scale. 80% of Britain's 500+ cider makers are currently small producers,⁴² and their businesses represent an integral part of rural culture.

⁴² National Association of Cider Makers - <http://cideruk.com/uk-cider-market/>



6.2.2. The retention of this exemption is vital to the real cider and perry industry, and we would urge the Government to maintain a permanent exemption when structuring a new duty regime following Britain's exit from the European Union.

6.3. Small Brewers' Relief

6.3.1. Small brewers lack the economies of scale, access to market and alternative revenue sources which larger brewers benefit from. Since the introduction of Small Brewers' Relief in the UK, the number of independent breweries has more than trebled from 448 independent breweries in 2001 to 1,704 in 2017⁴³.

6.3.2. In 2017, the Society of Independent Brewers (SIBA) found that 84% of their members rated Small Brewers' Relief as important to their business,⁴⁴ showing the importance of the scheme.

6.3.3. Financial stability is of the utmost importance to the ongoing success of the UK's independent small breweries whose products enrich consumer choice in the beer sector.

6.3.4. The Small Brewers' Relief scheme is important to ensure further growth and strong competition in the brewing sector, but small to medium sized breweries are still struggling to gain access to market when pitted against global brewing companies.

6.3.5. CAMRA is therefore calling for the scheme to be retained and for an increase to the current threshold limit at which reduced rate of duty can be applied to the 200,000HL limit currently allowed under EU law. This will continue to promote the expansion of the brewing sector.

6.3.6. CAMRA is currently in discussions with industry stakeholders on detailed options to enhance the operation of the current scheme which will enable detailed reform proposals to be submitted prior to Budget 2018.

6.4. VAT

6.4.1. The minimum standard rate of VAT in the EU is 15%, but lower rates can be applied to alcohol sold in the on trade and food served in the on trade. Currently the UK applies the standard rate of VAT to alcohol and food in the on trade. However this is not the case in other leading European brewing

⁴³ CAMRA Good Beer Guide (editions 2002-2018). Editions are published in September of the previous year.

⁴⁴ SIBA British Beer Report 2017 - <http://www.siba.co.uk/SIBAMembersSurvey2017FINAL.pdf>

ountries which have lower VAT rates for bar and cafe food, as shown below.

6.4.2. VAT accounts for nearly 50% of the tax burden on the pubs sector,⁴⁵ where hot meals and alcohol are taxed at the standard rate of 20% VAT. In the off trade, the prevalence of at cost and below cost alcohol sales means that little VAT is actually paid.

Country	VAT (Standard) (%)	VAT (Bar and cafe food) (%)	VAT (Bar and cafe alcohol) (%)	Beer Duty (p per pint at 5%ABV)
UK	20	20	20	54.2
Netherlands	21	6	21	19.1
Belgium	21	12	21	12.1
Poland	23	9	23	11
Spain	21	10	10	5
Germany	19	19	19	4.7

Source: BBPA Statistical Handbook 2017

6.4.3. As seen from the above table, other leading European brewing nations either have favourable rates of VAT for on trade food or alcohol sales, favourable rates of beer duty, or a combination of these. Considering a more favourable rate of VAT for on trade alcohol and food service will ease the tax burden specifically for on trade licensed venues, driving consumption from the off trade to the on trade, and also increase the appeal of the UK as a holiday destination to overseas tourists.

6.5. Differential duty rate for draught beer

6.5.1. When the UK leaves the European Union, the Government will be able to consider implementing a more favourable tax regime for pubs and the beer industry. This could include the introduction of a reduced rate of excise duty on draught beer sold and consumed within licensed premises. This will help incentivise consumption within the on trade where both the sale and consumption of alcohol is supervised and in a social setting.

⁴⁵ The Beer Story: Facts on Tap 2016, BBPA, CAMRA, Hospitality Ulster and SIBA.

7. Proposals and conclusion

- 7.1. CAMRA is calling on the Government to make targeted and pragmatic changes to allow stability and encourage growth in the beer and pub sector. A long term duty freeze and the extension of the pub-specific business rate relief are the most practical measures that can be taken to provide relief that is targeted towards the on trade, and benefits beer drinkers and pub goers.
- 7.2. When polled, over half of people stated that pubs should be given tax relief.⁴⁶ Consumers understand the valuable role that pubs play in local communities, and the Government should look to encourage pub going as a means of combating irresponsible alcohol consumption through the off trade.
- 7.3. As demonstrated above, the approach of using beer duty rises to increase contribution to Government funds has been proven to be an inefficient means of raising revenue. As duty rises are passed through the supply chain, consumer prices increase resulting in reductions in consumption and a shift in sales to the off trade where the tax burden and consumer prices are lower. Conversely, duty freezes and cuts provide a direct benefit to consumers and increase confidence in the sector, contributing to the recent increase in the number of small brewers and the associated benefits to local economies and employment.
- 7.4. The sector makes a large contribution to the UK economy, not just through taxes paid but through employment and tourism. A holistic approach to relieving the tax burden, including both a long term duty freeze and the continuation of a pub-specific business rate relief, will provide the sector with confidence, resulting in investment and growth, providing more benefits to local economies and ensuring the continued success of a traditional British industry.

8. Contact

- 8.1. For further information please contact CAMRA:

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⁴⁶ YouGov Omnibus Survey July 2017