

The economic impact of tax changes on the brewing sector

A report for the Campaign for Real Ale

August 2018

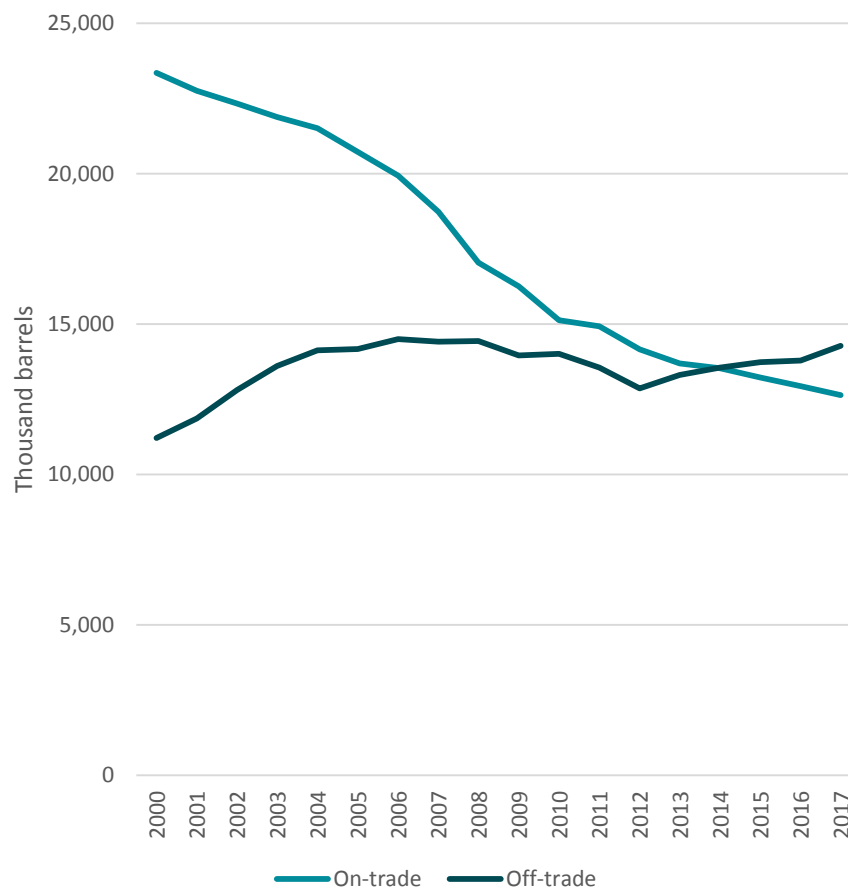
Executive summary

- Beer sales, in particular on-trade sales, have been declining since the 1980s, with the volume of on-trade sales falling below off-trade volumes for the first time in 2014. On-trade sales fell by 2.4% between 2016 and 2017.
- Cebr analysed the impact of two scenarios on the beer industry: a 1p duty cut then a freeze until 2023 and a freeze in duty until 2023, compared to the current plan for an RPI inflationary increase each year to 2023.
- Cebr's proprietary alcohol duty model shows that a cut to beer duty followed by a freeze would increase volumes of beer sales by 300 million pints per year on average for the next five years compared to the current plan for beer duty, totalling 1.5 billion extra pints sold by the end of 2023. With a freeze but no cut, there would be 1.3 billion extra pints sold by 2023.
- Consumer spending on beer would increase by £331 million over the next five years if there was a cut to beer duty and then a freeze, and £337 million with just a freeze.
- Modelling predicts that there will only be a 1.4% fall in tax revenue from beer over the next five years with a cut to beer duty and subsequent freeze or a 0.4% fall with a freeze but no cut.
- The increase in demand for beer will support job creation. In the scenario where there is a cut to duty followed by a freeze, there would be 9,000 more jobs in the pubs and bars industry than under the current plan by 2023. Furthermore, there would be 750 more jobs in the beer production industry. Under the scenario where there is a freeze until 2023, there would be 7,800 more jobs in pubs and bars, and 700 more in brewing.
- As a result of the boosted beer sales, investment in the brewing industry will be £325 million higher on average over the next five years with a 1p cut then freeze compared to the scenario where the current plan continued. With a freeze alone, investment is £290 million higher on average over the next five years.
- The higher beer demand under the scenario with a cut to duty will also save 134 pubs in the UK by 2023 or 116 with just a freeze.

Total beer sales increase in 2017, but on-trade continues to suffer

- Sales of beer have been in steady decline since the 1980s. However, an increase in off-trade sales since 2012 has helped to largely offset a more pronounced decline in on-trade sales.
- On-trade sales fell by 2.4% between 2016 and 2017. The annual decrease in on-trade sales has averaged 3.6% since 2000.
- In contrast, off-trade sales have experienced an annual increase for the past five years, with 3.6% growth in sales between 2016 and 2017. The total number of barrels sold off-trade reached 14.3 million in 2017.
- In 2014, off-trade sales overtook the volume of on-trade sales for the first time, with 13.54 million on-trade sales and 13.55 million off-trade sales.
- It is likely that the excise duty policies for much of the last two decades have reinforced the structural decline of the beer industry. Policy makers could do better to raise tax revenues or protect the significant number of jobs in the beer and pub industries.

Beer quantity released for UK consumption



Source: British Beer and Pub Association, Cebr analysis

Alternative duty regimes and their potential help to boost sales, employment and investment over the next five years

This report considers the extent to which alternative alcohol excise duty regimes could be better placed to deliver on the Government's objectives of supporting UK brewers, the wider economy and curbing problem drinking.

To assess whether there is a potentially superior excise duty regime to current government policy, Cebr has modelled beer sales, future tax revenues, job creation/destruction, investment, consumption spending and pub numbers for the following excise duty policy scenarios:

- *Base case (current government policy)*: Duty increases by RPI inflation for all alcohol products.
- *Scenario 1*: Beer duty is frozen at its current level
- *Scenario 2*: Beer duty is cut by a further 1p in March 2019 and then frozen at that level in the subsequent fiscal years.

The forecast horizon is the period up to 2023

Modelling assumptions

For the purposes of modelling the impact of these scenarios, we assumed that alcohol excise duty increases are passed on to consumers to differing degrees, with off-trade beer duty increases seeing relatively little pass-through to consumers, and on-trade beer duty increases being passed through by more than 100%.

For on-trade and off-trade beer pass-through rates, we adopted estimates broadly in line with those made by Oxford Economics and PricewaterhouseCoopers*. Econometric analysis by these companies suggests a higher pass-through rate for on-trade beer than off-trade beer, and we have incorporated this into our central projections.

We have assumed pass-through rates of 100% for spirits, wine and cider. While there will be deviations, both up and down, amongst sellers of these products in practice, we have no evidence to suggest that, in the aggregate, pass-through rates for these other beverages are likely to deviate significantly from this assumption. The full set of pass-through rates are detailed below:

Beer (on): 140% Wine: 100%
 Beer (off): 70% Cider: 100%
 Spirits: 100%

Assumptions about inflation and household income growth also need to be made, as these feed through into duty escalator calculations and also have implications for alcoholic beverage demand going forward.

Cebr Forecast (Aug 2018)	2018	2019	2020	2021	2022	2023
Household nominal disposable incomes	3.6%	3.6%	3.7%	3.7%	3.7%	3.7%
RPI	3.4%	3.1%	3.1%	3.1%	3.1%	3.1%

* See Oxford Economic Forecasting (2004), "Modelling the Beer Market" and PwC (October 2009), "Analysis of the impact of excise taxation on the brewing sector".

Modelling assumptions cont.

Modelling the outlined scenarios also required assumptions about elasticities of demand for alcohol products. In the analysis which follows, we use recent HM Revenue & Customs (HMRC) estimates for alcoholic beverage elasticities of demand. Table 2 below provides an overview of the own-price and cross-price elasticities estimated by HMRC.

HMRC elasticities of demand

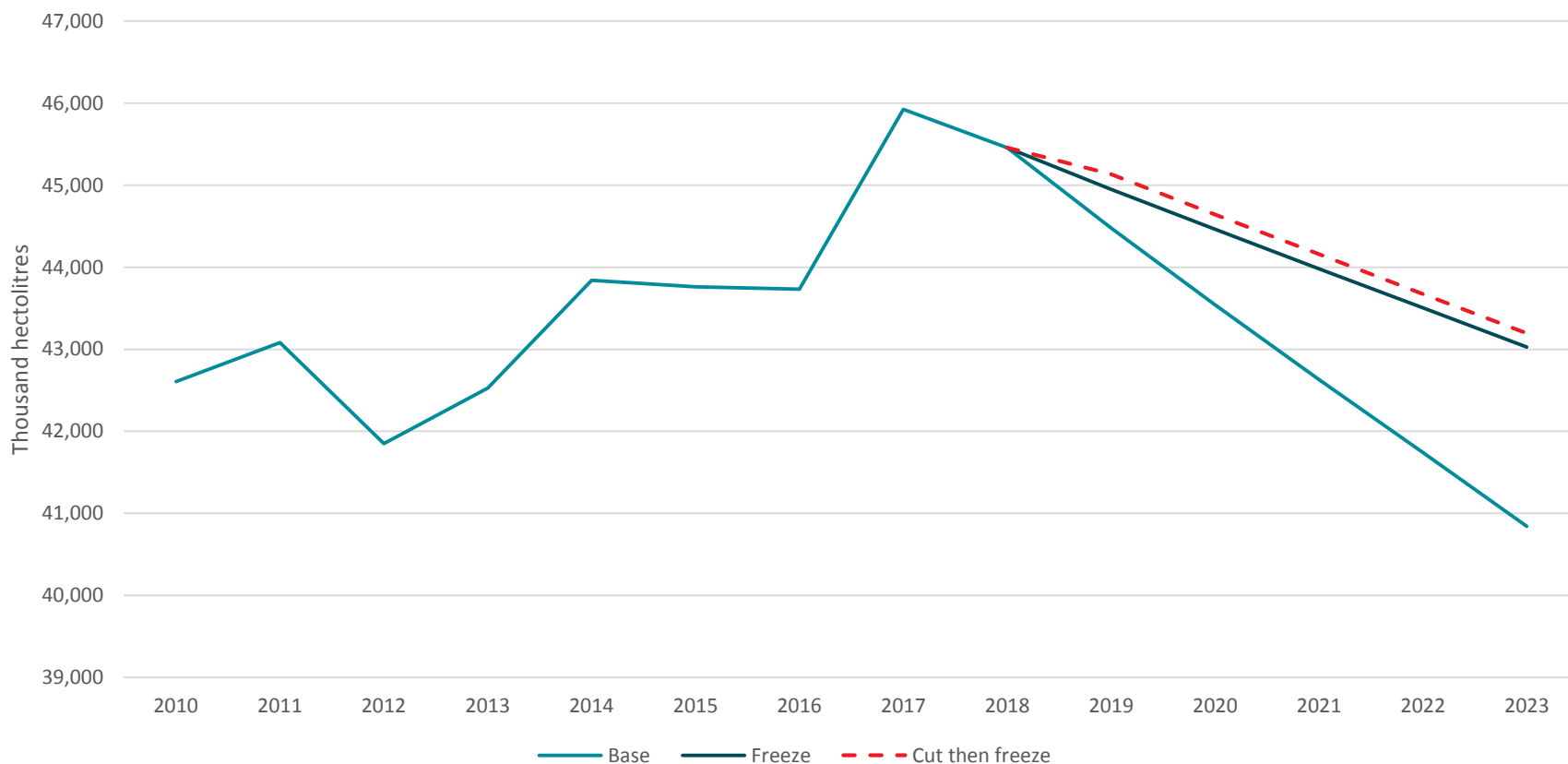
		On-trade					Off-trade				
		Beer	Wine	Cider	Spirit	RTD	Beer	Wine	Cider	Spirit	RTD
On trade prices	Beer	-0.77	0.54	-0.42	0.05	0.23	-0.20	0.17	0.06	-0.14	0.17
	Wine	-0.06	-0.46	-0.07	0.11	0.00	0.23	0.07	0.29	0.35	0.32
	Cider	0.16	0.09	-0.85	0.22	0.29	0.26	0.13	-0.08	0.17	0.19
	Spirit	-0.13	-0.02	-0.33	-1.15	-0.68	0.07	0.16	0.17	0.09	-0.05
	RTD	-0.05	0.24	-0.23	-0.06	-0.91	-0.04	0.16	-0.17	-0.03	-0.26
Off trade prices	Beer	-0.18	0.22	0.08	0.07	-0.14	-1.11	0.03	-0.43	-0.35	-0.30
	Wine	-0.03	0.11	-0.12	-0.10	-0.45	-0.38	-0.54	-0.91	-0.09	-0.77
	Cider	-0.04	0.30	-0.36	0.04	0.09	0.03	0.19	-1.34	0.05	-0.04
	Spirit	0.06	0.17	-0.11	-0.12	-0.11	-0.22	0.04	-0.37	-0.90	-0.51
	RTD	0.01	0.07	-0.04	0.16	-0.05	0.04	-0.05	-0.06	-0.02	-0.93
	Income	0.31	0.90	0.64	0.55	0.69	0.22	0.42	0.17	0.32	0.26

* See Oxford Economic Forecasting (2004), "Modelling the Beer Market" and PwC (October 2009), "Analysis of the impact of excise taxation on the brewing sector".

With a 1p cut followed by a freeze in beer duty, 1.5 billion more pints of beer would be sold over the next five years

Under the scenario where there is a freeze but no cut, it would be an extra 1.3 billion pints sold

UK Beer Sales (both on-trade and off-trade), model-based estimates, thousands hectolitres

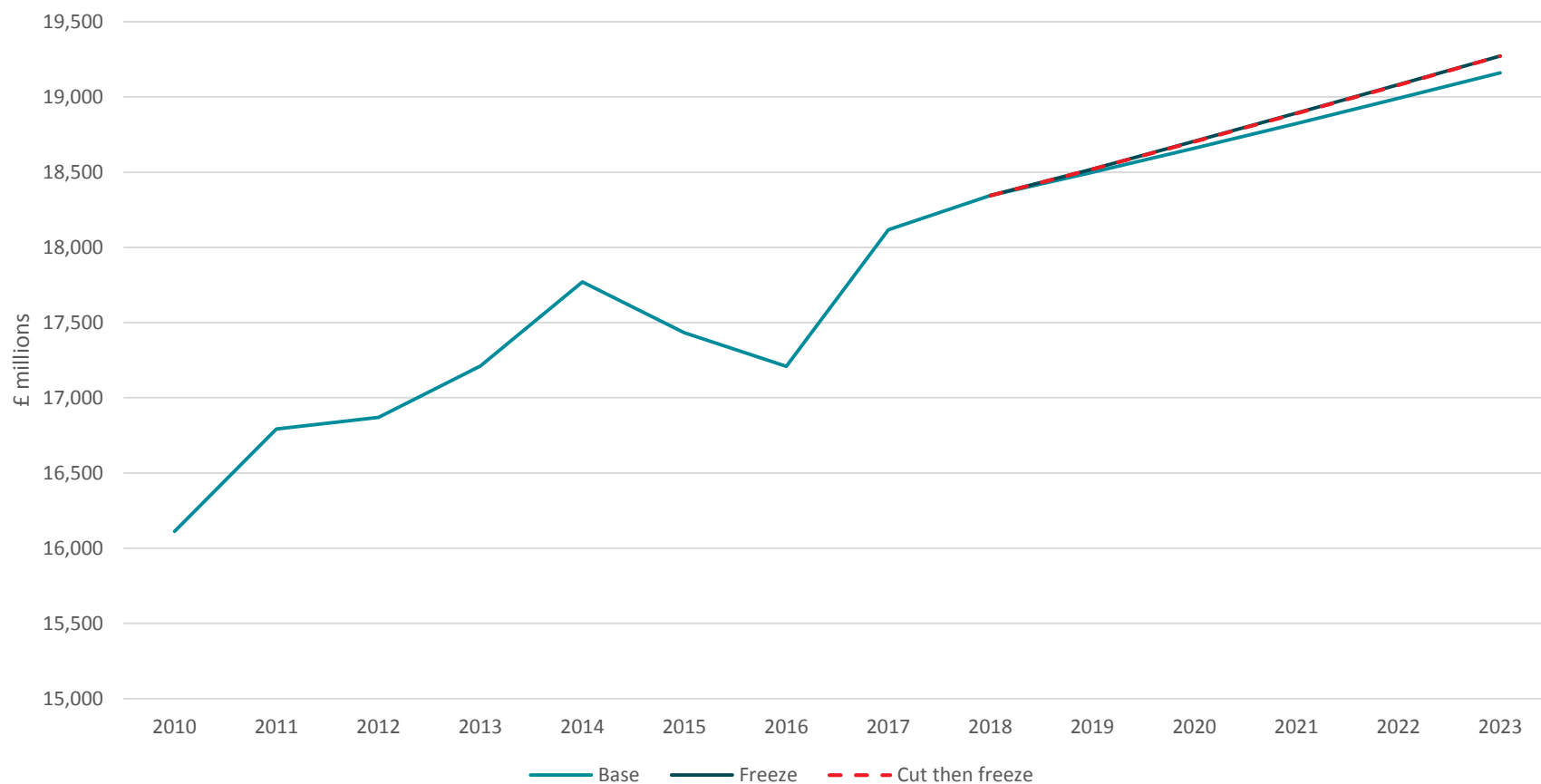


Source: British Beer and Pub Association, Cebr analysis

A further cut and subsequent freeze in beer duty would boost spending by £331 million in total over the next five years

Given that with a freeze but no cut the price of beer including tax is slightly higher, total consumer spending is marginally higher, at £337 million over the next five years

Total consumer spending on beer, model-based estimates, £ millions

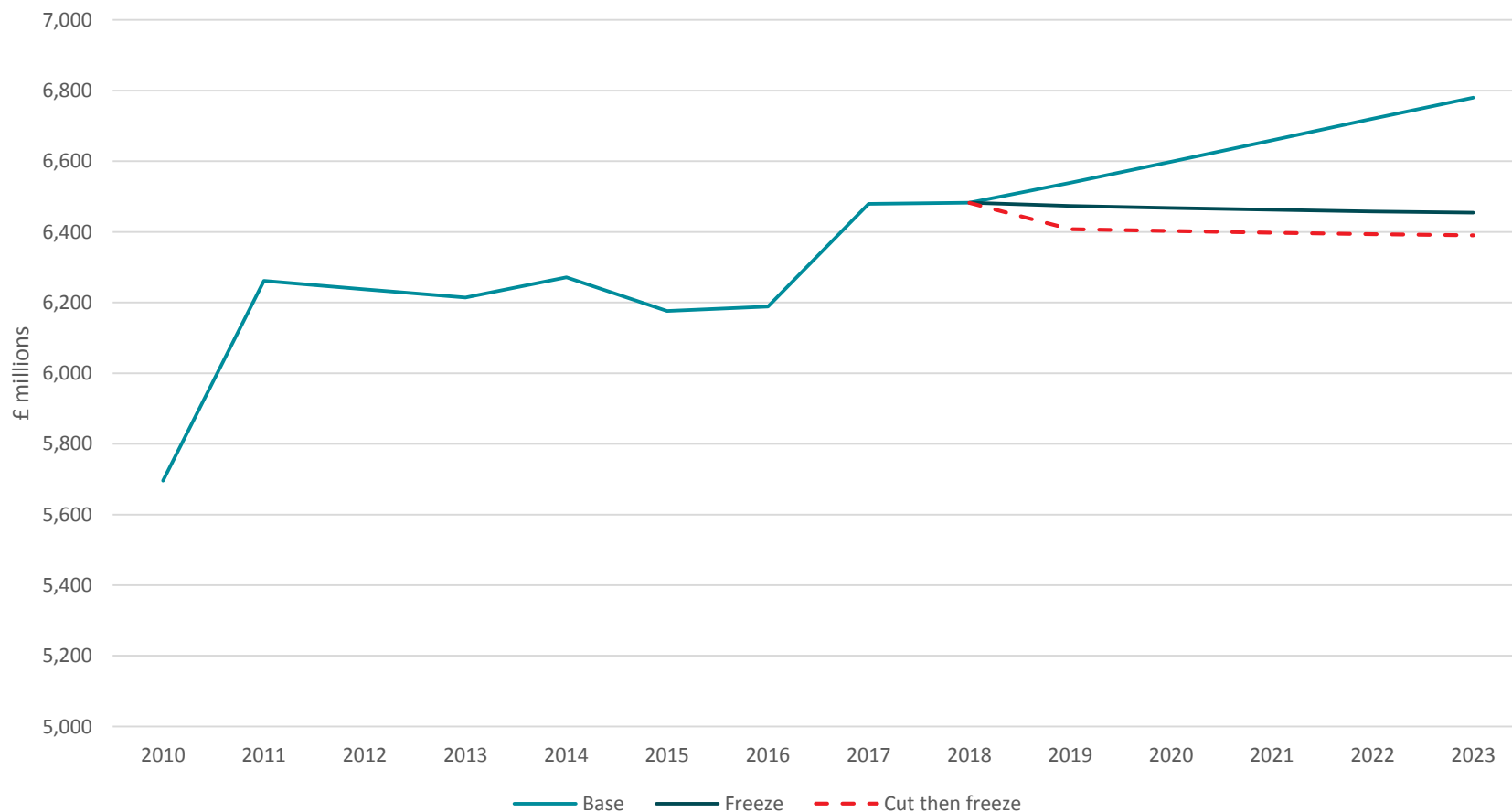


Source: British Beer and Pub Association, Cebr analysis

Under duty freeze scenario, government would lose out on **£197 million** a year on average over the next five years

With a 1p cut followed by a freeze, the loss to government revenue would be **£261 million** on average across the next five years

Total tax revenue from beer, model-based estimates, £ millions

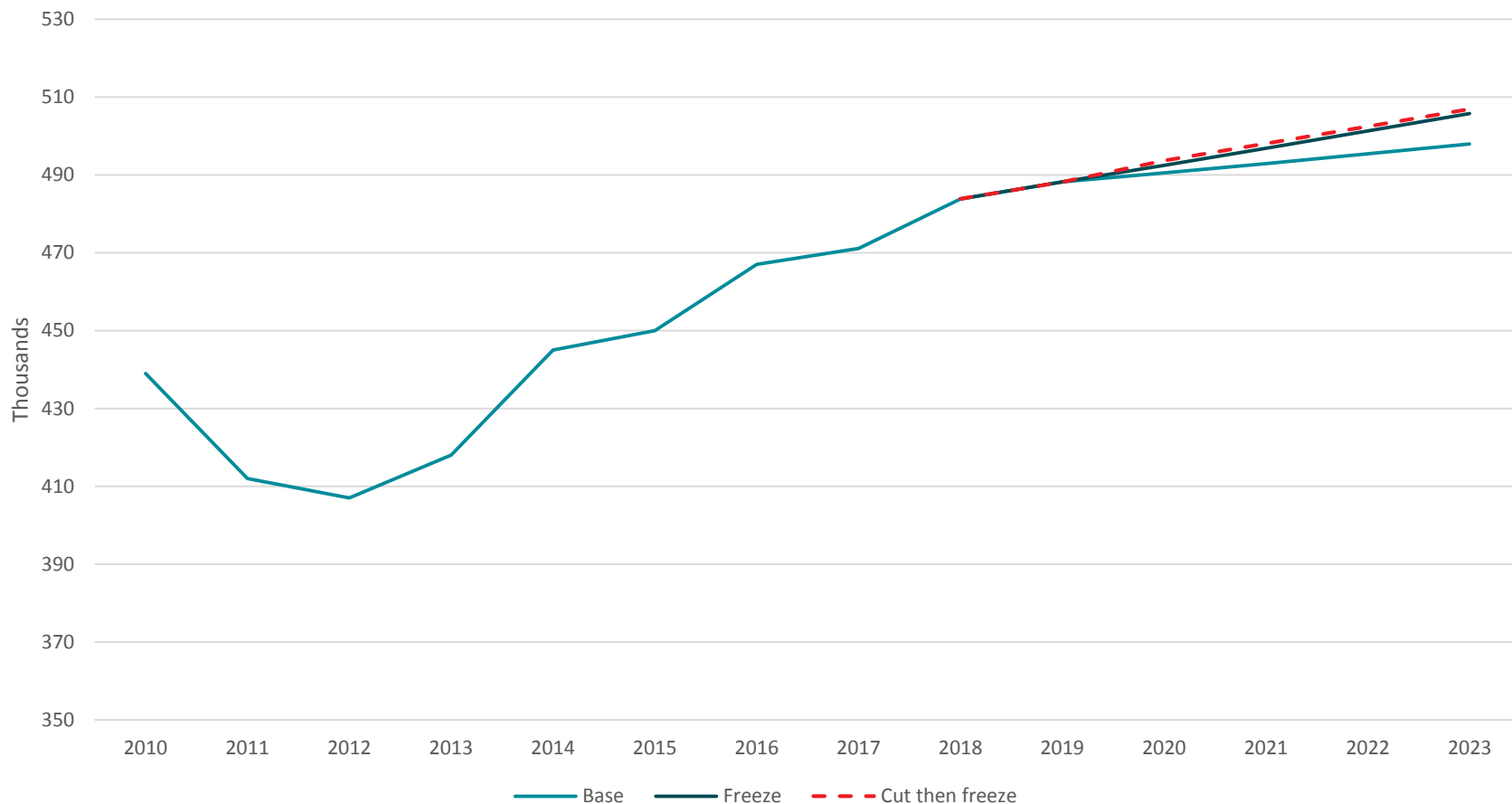


Source: Cebr analysis

An additional 9,000 jobs in bars and pubs would be created by 2023 following a cut and subsequent freeze in duty

An extra 7,800 jobs are created by 2023 under the freeze scenario

Employment in public houses and bars in Great Britain, model-based estimates

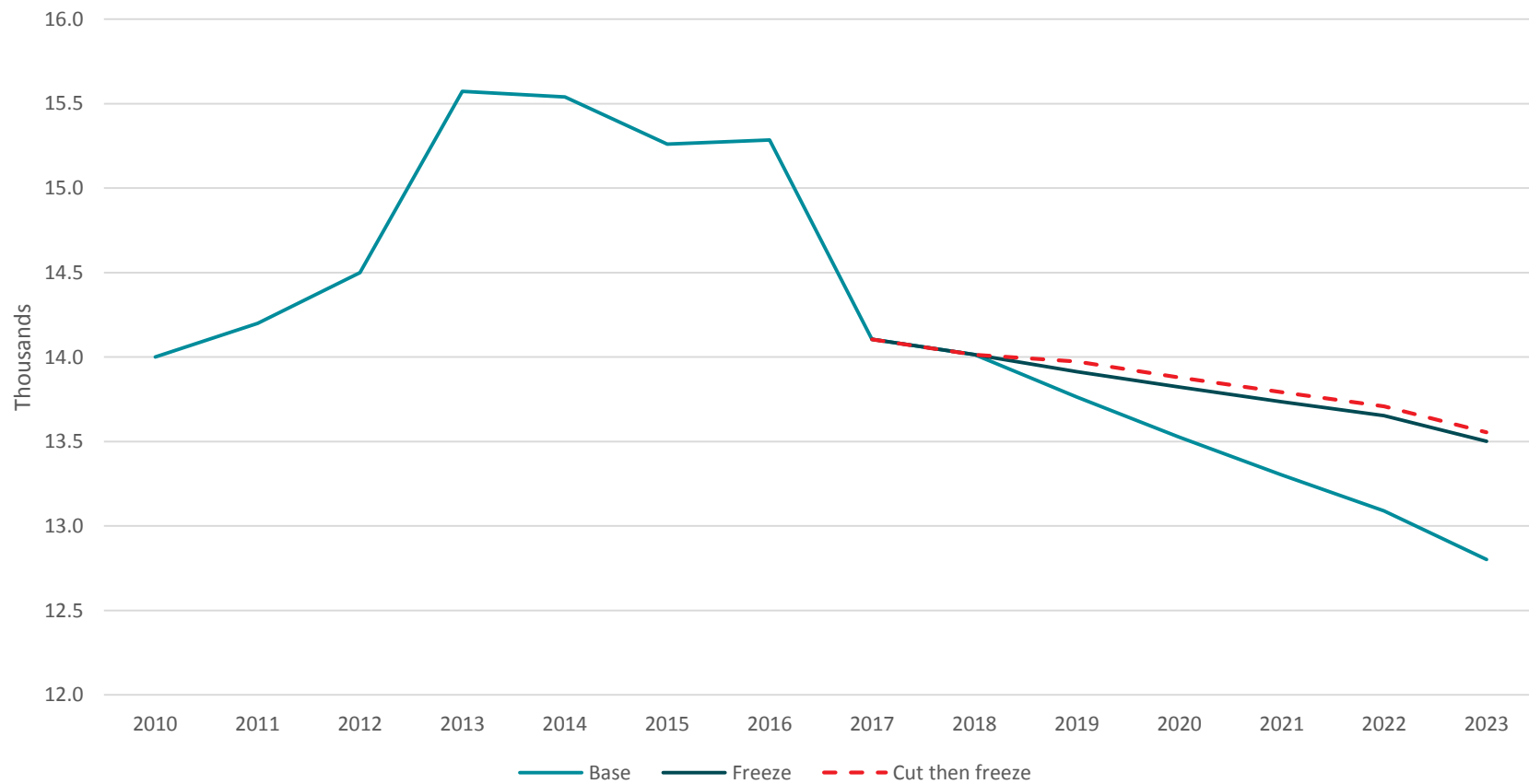


Source: British Beer and Pub Association, Cebr analysis

Cut to beer duty would result in keeping employment levels steady in the beer producing industry

With a freeze in duty, 700 jobs would be saved, while under a cut then freeze scenario, there would be 750 additional brewing jobs

Employment in the manufacture of beer in Great Britain, model-based estimates

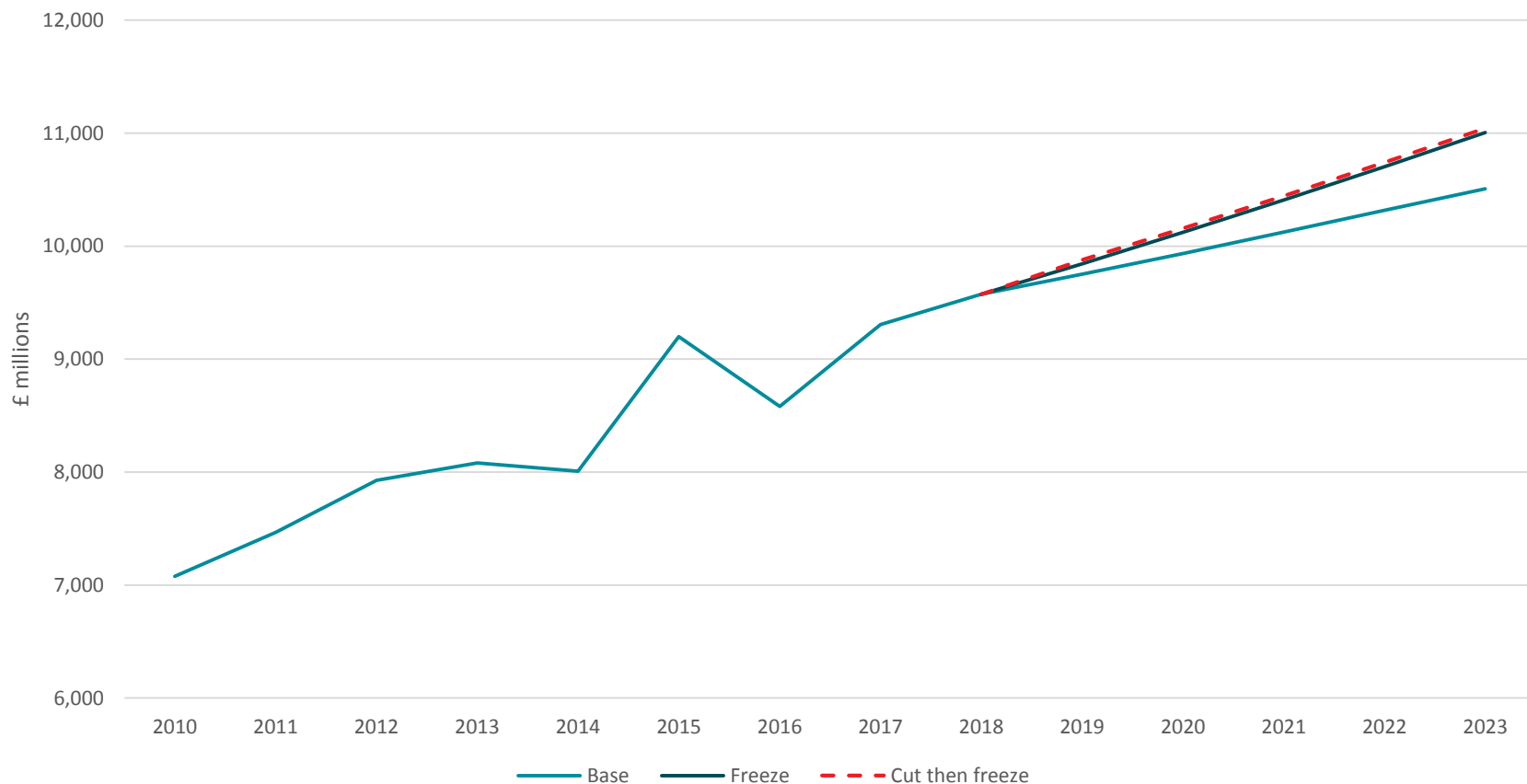


Source: Office for National Statistics, Cebr analysis

£1.6 billion additional investment in brewing industry until 2023 is forecast due to increase in beer sales from duty cut and freeze

Figure for scenario with just a freeze is £1.4 billion

Net capital investment in the brewing industry, model-based estimates, £ millions

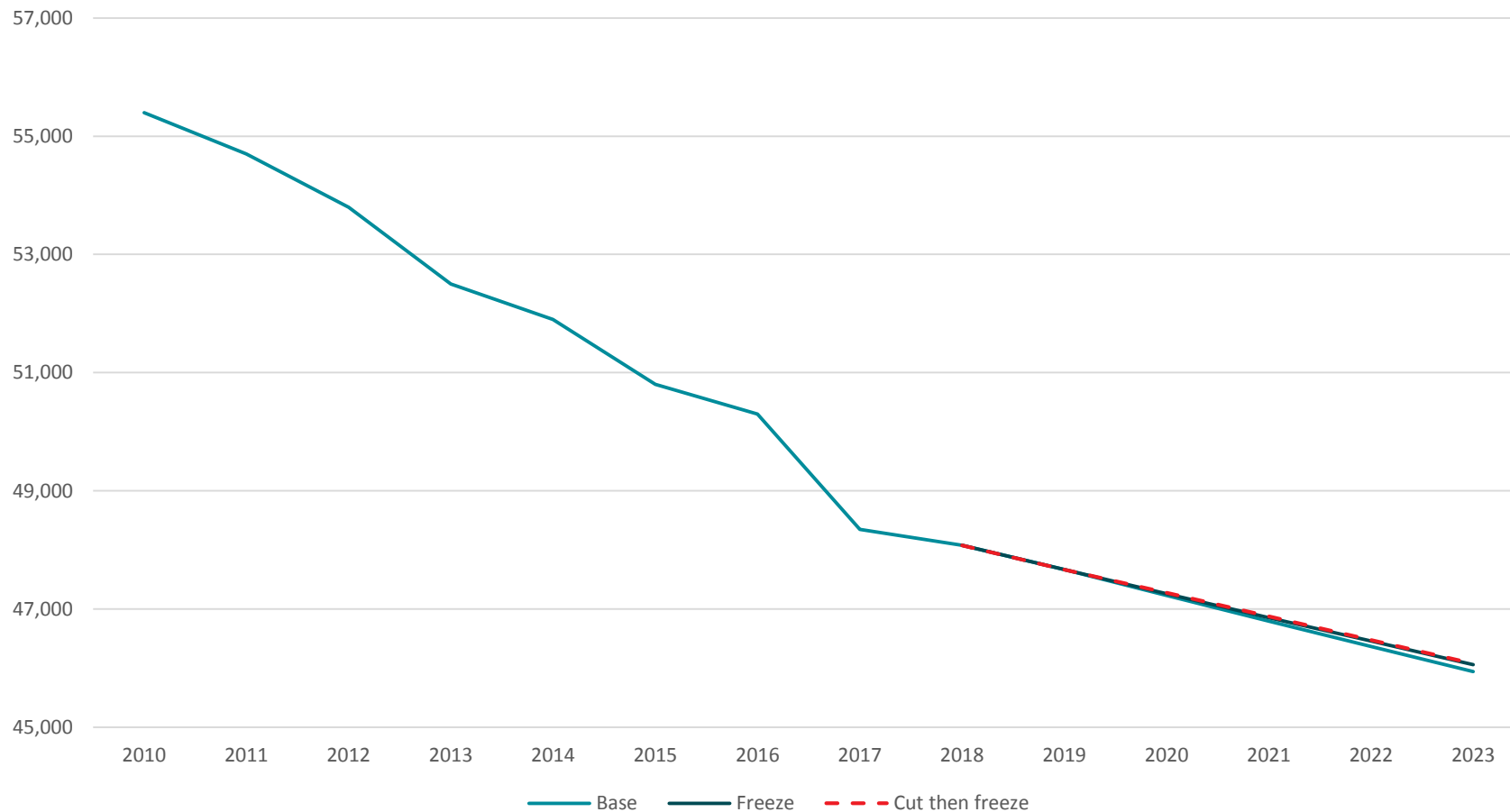


Source: Cebr analysis

Duty cut and freeze will save 134 pubs by 2023 compared to the current plan for an RPI linked duty increase each year

With a duty freeze to 2023, 116 pubs would be saved

Number of Public Houses in the UK, model-based estimates



Source: British Beer and Pub Association, Cebr analysis



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