

Alcohol Duty Review – Call for evidence submission

The Campaign for Real Ale



1. Executive summary

- Beer duty in the UK is too high – 1/3 of the cost of a pub pint is now made up of tax.
- The beer and pub sector supports 556,700 jobs and contributes £19 billion to the economy each year
- CAMRA welcomes the inclusion of 'place of retail' as a consideration for the duty review
- Pubs are the best place to enjoy beer and cider – in a social, community setting, where both the sale and consumption of alcohol is supervised.
- CAMRA believes that a preferential rate of duty for draught beer should be introduced and that this will support pubs, create jobs and support thriving high streets.
- Lower strength beers and ciders should attract a lower rate of duty, and the duty system should incentivise the production of lower strength alcoholic drinks to increase consumer choice

2. The overall duty system

2.1. CAMRA welcomes the review of the alcohol duty system, and the Government's intention to conduct wholesale reform rather than carry out piecemeal changes.

3. Revenue and public health

3.1. Beer duty in the UK is among the highest in Europe, and the sector contributes over £19 billion¹ to the economy in tax alone.

3.2. CAMRA recognises the importance of this revenue. However, we do not believe the current system is as effective as it could be and believe a fresh approach would be beneficial.

3.3. The Beer Duty Escalator was introduced in 2008. Duty increased by 2% above inflation each year, and after taking other one-off duty hikes into account, beer duty increased by a total of 42% during the operation of the escalator.

3.4. This understandably caused significant damage to the beer and pub sector. During the operation of the Beer Duty Escalator²:

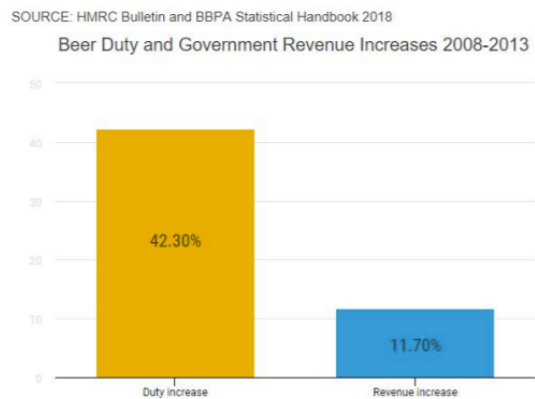
- Beer sales in pubs fell by 42%
- 3,700 pubs closed
- 75,000 pub staff lost their jobs

¹ BBPA

² From a bleak future to confidence and stability: the story of the beer duty 2008 to 2016. BBPA, CAMRA and SIBA.

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- 3.5. The Escalator was ended in 2013, and other welcome cuts and freezes to duty have followed. However, these are just sticking plasters that have not undone the consequences of the unprecedented rise in duty caused.
- 3.6. The graph below shows how increases to beer duty did not yield equivalent revenue increases for the Exchequer at the time it was rising at the highest rate – during the Beer Duty Escalator.
- 3.7. Therefore, increasing beer duty is an incredibly ineffective way of generating tax revenue for the Government.



- 3.8. CAMRA also does not believe that blanket increases in alcohol duty are an effective means of protecting public health.
- 3.9. While it is widely accepted that the on-trade provides a regulated and supervised environment for the consumption of alcohol, the on-trade (where the majority of spending on alcohol happens) faces a much greater tax burden than the off-trade (where the majority of the volume of alcohol is sold).
- 3.10. Over the last twenty years the proportion of alcohol consumed in the on-trade has declined dramatically – now only 30% of sales take place through on-trade channels compared to almost half in 2000.³ Off-trade sales of beer overtook on-trade sales in 2015.⁴
- 3.11. Supermarkets will regularly sell alcohol as a ‘loss leader’ as a means of securing more custom, and hence can absorb duty rises much more easily than the on-trade.
- 3.12. In order to encourage moderate consumption in a supervised environment, it is in the interests of the Government to implement a reduction in draught beer duty to encourage consumption in pubs (where social wellbeing benefits can also be found) rather than purchasing alcohol in the off-trade for consumption at home.

³ BBPA Statistical Handbook 2019

⁴ BBPA Statistical Handbook 2019

3.13. CAMRA believes a fresh school of thought is needed, which considers social wellbeing, preventing loneliness, supporting high streets and reducing unemployment (which in turn provide wider economic benefits and tax revenue) – all through encouraging pub use.

4. General comments on cider duty

4.1. There are some inconsistencies in the current cider duty structure.

4.2. To address these, CAMRA would welcome moves to refine the definition of drinks that are liable for cider duty, in order to promote higher quality, traditionally produced cider.

4.3. The current juice content required for a product to be considered cider is 35%. We believe this should be raised to 85%, in line with the standard for wine.

4.4. In recent years 'cold compounded' products – those that have not been fermented and are made from a spirit base diluted with fruit flavouring – have become increasingly common. These are rightly taxed as made wine, rather than cider. Lower strength ciders often have water or sugar added, significantly reducing the juice content. Because of this, both fruit ciders in the made wines category and lower strength ciders are significantly cheaper to produce.

4.5. Naturally fermented cider with a high juice content typically has a higher ABV than ciders that have been diluted. Therefore, we would suggest including any cider below 4% in the made wine category, with the exception of those that have been keeved or racked.

4.6. These are traditional processes, which produce lower strength ciders with high juice contents, and we believe that these products should continue to benefit from the comparatively lower rate of duty, in line with the Government's public health aims.

5. Structural factors

5.1. While the financial support provided by the Government to the hospitality sector during the COVID-19 crisis is welcome, the on-trade and the businesses that supply it have been hit hard by specific restrictions on the sector.

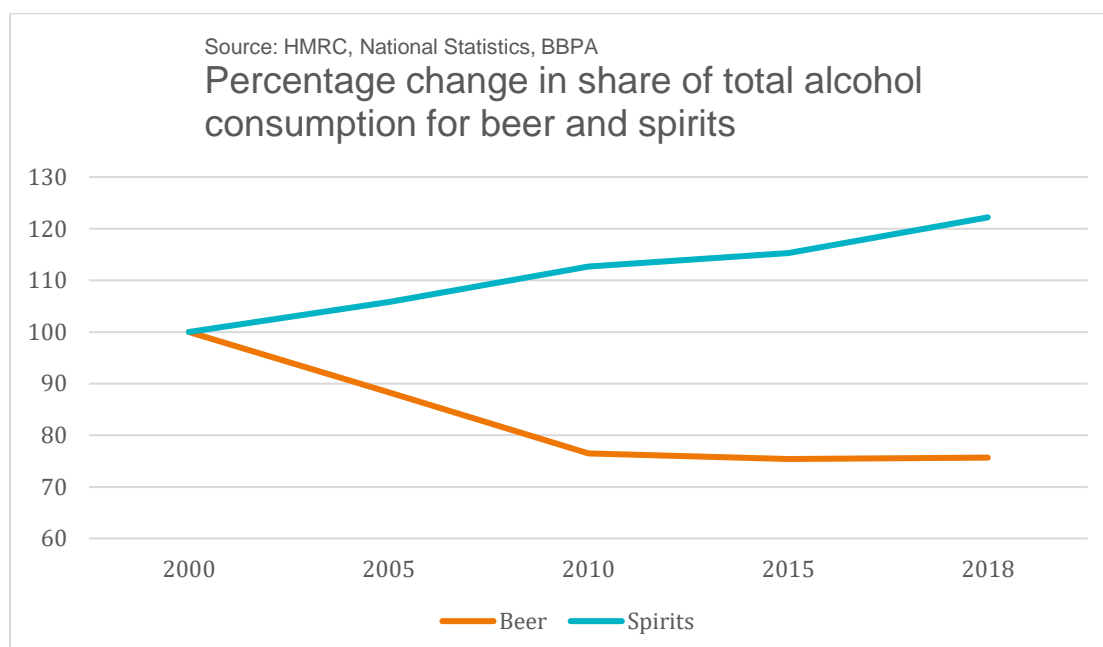
5.2. In contrast, many businesses that sell off-trade alcohol have been able to remain open, and have benefitted from the reduced levels of competition caused by the necessary closure of the on-trade.

5.3. The second structural factor which CAMRA believes should be taken into account in reviewing the duty system is the opportunity afforded by the UK's departure from the European Union.

5.4. Now that the UK has left the EU it is no longer bound by the excise duty structures contained in European Directives and has the freedom to create a more flexible system that celebrates the unique importance of pubs and real ale in British culture.

6. Comparisons between different types of duty

- 6.1. CAMRA believes that lower strength drinks should pay less duty per unit of alcohol than stronger drinks.
- 6.2. Under the current system beer is taxed only slightly less than higher strength drinks like spirits. This is at odds with the approach taken in other comparable countries, where the ratio of spirits duty to beer duty is much higher than it is in the UK.
- 6.3. For example, in Spain, which has roughly the same level of beer production as the UK, duty on a pint of beer represent around £0.05 of the cost of the pint, while duty on a bottle of spirits costs £2.31. In the UK, beer duty is just over £0.54 of the cost of a pint, and £8.05 of the cost of a bottle of spirits⁵.
- 6.4. Per unit, this means that in the UK taxation on spirits is only 1.5 times more than beer, while in Spain tax paid on spirits is 4.7 times higher than beer. In Germany this rises to 6.8 times more⁶.
- 6.5. CAMRA would welcome moves to bring this figure in line with other comparable countries by lowering the level of beer duty.
- 6.6. As the amount of duty paid on beer has risen, the amount of duty on spirits has remained relatively stable. This means that in real terms the cost of duty on spirits has fallen dramatically. The real-world consequence of this has been a shift in drinking habits, as shown by the graph below.



⁵ European Commission/ Brewers of Europe/ BBPA 2019

⁶ Assuming a pint of beer at 5% ABV and a 70cl bottle of spirits at 40% ABV

- 6.7. The relatively lower levels of taxation on stronger drinks is largely of benefit to the off-trade where almost 80% of spirits are sold.
- 6.8. It is widely recognised that the health risks associated with the over-consumption of higher strength products is greater, and that alcohol bought from the off-trade for consumption at home does not provide the wellbeing benefits of moderate drinking of lower strength products in on-trade, community orientated venues.
- 6.9. CAMRA believes that the current duty system favours the consumption of stronger products bought through the off-trade. As such, we believe that the system should be overhauled to encourage moderate, on-trade consumption of lower strength products such as beer.

7. Methods of taxation

- 7.1. CAMRA supports the general principle that duty should be a positive function of strength.
- 7.2. In the case of cider duty, we believe it is appropriate to factor in production levels, as well as the strength of the final product.
- 7.3. 'Real cider' production typically happens at a much smaller scale, and is distinguished from cheaper, mass produced cider by its higher juice content and traditional production methods.
- 7.4. We continue to advocate for the existing 7000l duty exemption for small cider producers, but with the addition of a sliding scale of duty relief for small producers to taper from the point at which the exemption is currently applied.
- 7.5. CAMRA would also welcome refinement of the definition of drinks that are liable for cider duty as detailed above, to address some of the inconsistencies in the way these products are currently taxed.

8. Distinguishing products by the source and strength of alcohol

- 8.1. CAMRA is supportive of the current system of differentiating products both by their source of alcohol and by strength. Retaining individual alcohol duties reflects the differences between types of alcohol, including costs of production and distribution, and differing harms.
- 8.2. Lower strength products like beer are significantly more expensive to produce per unit of alcohol than high strength products like spirits. They also have greater distribution costs, due to their higher water content.
- 8.3. This, combined with the increasing convergence of the cost of duty per unit, means that the retail prices of higher strength products are already more accessible. This makes high strength products more likely to be abused.

- 8.4. Moving to a system that did not distinguish by source of alcohol would exacerbate this issue, and increase the potential for alcohol harms.
- 8.5. As well as price point, CAMRA believes that the setting in which alcohol is likely to be consumed should be reflected in the level of duty levied against it.
- 8.6. Around 80% of spirits are sold through the off-trade, and therefore likely to be consumed at home – whereas seven out of ten drinks sold in pubs are beer⁷.
- 8.7. The social setting of the pub has documented benefits⁸ for wellbeing and mental health, and can help fight loneliness and increase community cohesion.
- 8.8. 'Friends on Tap', a report commissioned by CAMRA, found that people who had a 'local' reported having significantly more close friends than those who did not – an average 7.2 friends compared to 6.0.
- 8.9. Participants in the study also indicated feeling significantly more connected to their community using the *Inclusion-of-Other-Self* (or IOS) rating scale.
- 8.10. There is evidence that the size of a social network has a significant impact on both physical and mental health. For example, positive social relationships can increase survival rates for both cancer⁹ and heart attacks¹⁰.
- 8.11. Compared with those who don't drink, moderate drinkers also have a substantially reduced risk of cardiovascular disease¹¹ which is the leading cause of death in Europe.
- 8.12. People who are moderate consumers of beer have a 30-40% reduced risk of coronary heart disease compared to teetotal people. The World Health Organisation has described this as the "most important health benefit of alcohol".
- 8.13. Moderate drinking has also been shown to have a beneficial effect on diabetes mellitus and ischaemic stroke¹².
- 8.14. It is widely recognised that the risks for overconsumption are greater with stronger drinks. Additionally, the strength of beer in the UK has been steadily declining. In 2000 the average beer had an ABV 4.6%, compared to an average 3.9% in 2018¹³.

⁷ BBPA Statistical Handbook 2019

⁸ Friends on Tap, 2016

⁹ Pinquart, M. & Duberstein, P. R. (2010). Association of social networks with cancer mortality: a meta-analysis.

¹⁰ Holt-Lunstad, J. Smith, T. & Bradley Layton, J. (2010). Social relationships and mortality risk: A meta-analytic review

¹¹ Global status report on alcohol and health, WHO, 2018

¹² Global status report on alcohol and health, WHO, 2018

¹³ BBPA Statistical Handbook 2019/ HMRC

- 8.15. This makes beer easier for consumers to drink in moderation, and therefore less likely to be abused.
- 8.16. As such, CAMRA believes the ABV threshold for the lower rate of tax on beer should be raised from 2.8% to 3.5% to encourage production of lower strength beers.

9. Distinguishing based on the place of retail

- 9.1. CAMRA welcomes the inclusion of 'place of retail' as a possible means to apply differential duty rates, and believe this presents an excellent opportunity to target a reduction in beer duty at the on-trade only, and more specifically at pubs. This would create a fiscal environment in which community locals can thrive and contribute to the revitalisation of high streets and local economies.
- 9.2. We believe that a preferential rate of duty for beer sold in the on-trade is the most effective way to promote responsible drinking and support economic growth and job creation in the hospitality sector and its supply chain.
- 9.3. This would work in the same way that beer duty is levied in Australia, where different rates of duty on beer apply depending on the container from which it is dispensed.
- 9.4. Beer in containers which are designed to be connected to a dispense system, such as kegs and casks, pay a lower rate of duty, while containers designed to dispense beer directly, such as bottles, cans or some mini-kegs pay a higher rate.
- 9.5. Australia modified this system slightly in 2019 so that the preferential rate applies to containers between 8 and 48 litres (inclusive) that are designed to be connected to a pressurised gas delivery system or pump delivery system. The system did not previously include these smaller containers.
- 9.6. This change means that independent brewers, who produce smaller amounts of beer and are more likely to supply small, local markets can benefit from the lower rate of duty.
- 9.7. CAMRA believes that a similar approach should be taken in the UK, as this sector of the brewing industry is responsible for significant innovation and investment, and also has the greatest potential for growth if properly supported.
- 9.8. A pin - the smallest container typically connected to a dispense system in the UK on-trade has a volume of 4.5 gallons, or around 20 litres.
- 9.9. As would be expected, the container that beer is sold in tracks closely with the place of retail.

- 9.10. In 1980, only 21% of beer was sold in bottles or cans, and the off-trade accounted for around 12% of total sales. By 2017, 58% of beer was in bottles or cans, and the off-trade share of sales had risen to 54%¹⁴.
- 9.11. This shows that a reduction in draught beer duty would be an effective way to both deliver targeted support for pubs and UK brewers, and promote responsible drinking in a regulated community environment.
- 9.12. CAMRA has commissioned economic modelling from Europe Economics for several differential duty scenarios.¹⁵
- 9.13. A 25% reduction in duty for draught beer shows the following outcomes:
- The creation of 3,901 net new jobs.
 - An additional 22.8m litres of beer would be sold through the on-trade.
 - However, the overall increase in beer consumption would be modest, with around 17.6m litres being pulled from the off-trade and into a community pub setting.
 - The cost to the Treasury is estimated at £257m. The model also does not take into account increased revenues from other sources such as income tax and National Insurance contributions, or savings from Universal Credit, from the new jobs that would be created.
- 9.14. This duty cut was modelled assuming a restricted market due to the impact of COVID-19. For the purposes of the model the number of pubs expected to close in the near future, and a reduced number of customers due to social distancing, have been factored in, based on averages from the BBPA.
- 9.15. As such, these benefits would be even greater once the economy makes a full recovery.
- 9.16. The hospitality sector was critical to the recovery of the UK economy following the 2008 financial crash – it was responsible for roughly one in six net new jobs in the years that followed¹⁶.
- 9.17. Policy that benefits this sector will be vital to ensuring economic recovery in the wake of the COVID-19 crisis and economic modelling shows that a cut in duty for draught beer is an effective way of creating additional employment in the on-trade.
- 9.18. Nearly 556,700 jobs are supported across the beer and pub sector, with 43% of jobs held by young people under 25¹⁷. 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

¹⁴ BBPA Statistical Handbook 2019

¹⁵ Reduction in the duty on draught beer in the time of COVID-19, Europe Economics 2020

¹⁶ [The economic contribution of the UK hospitality industry](#), Oxford Economics for the BHA, 2015

¹⁷ Oxford Economics - as displayed on www.cutbeertax.com

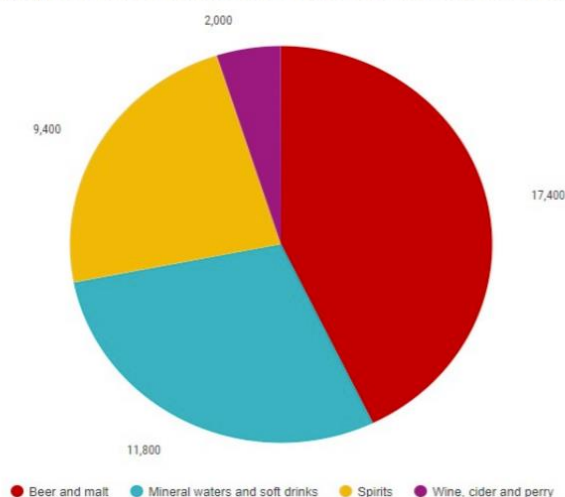
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efforts to reduce the number of those not in employment, education or training.

9.19. In addition, brewing beer is labour-intensive and beer and malt manufacturing employs nearly half of the total workforce involved in drinks manufacture as evidenced in the graph below.

SOURCE: BBPA Statistical Handbook 2019

Employment in the manufacture of alcoholic and other beverages



9.20. Creating jobs in brewing creates further jobs down the supply chain. A single job in brewing supports¹⁸:

- 18 jobs in pubs
- 1 job in agriculture
- 1 job in supply chain
- 1 job in retail

9.21. From the above, we can see that on-trade sales of alcohol support a larger proportion of jobs than off-trade sales. There are therefore, significant benefits to targeting measures at increasing support for on-trade venues (such as community pubs) – an increase in employment (and the associated revenue from employment taxes), and a reduction in the number of people claiming unemployment benefits. This is before the social and community benefits of pub going are taken into account.

9.22. Additionally, over 80% of the beer sold in the UK is produced domestically¹⁹, a much higher figure than other types of alcohol. For example, less than 1% of wine consumed in the UK is British made²⁰.

¹⁸ [Facts on Tap 2017](#) - BBPA

¹⁹ Facts on Tap 2015

²⁰ Ibid

10. Potential for fraud

- 10.1. Under the Australian system, repackaging is treated as manufacture and as such could fall under the current UK approvals regime.
- 10.2. The 2012 All-Party Parliamentary Beer Group inquiry into beer duty fraud suggested that most fraud relating to beer duty concerned that sold through the off-trade in cans, and to a lesser extent bottles. Fraud concerning beer in kegs and casks was found to be very limited in scope.
- 10.3. The most common type of fraud was abuse of the duty suspension system that allows wholesale alcohol to be moved around Europe before duty on it is paid. This has been partially tackled by the introduction of the AWRS.
- 10.4. As detailed below, CAMRA believes that additional funding should be allocated to HMRC to allow diversion fraud to be tackled more effectively and increase duty receipts to the Treasury.

11. Addressing alcohol harms

- 11.1. CAMRA believes that the pub is the best place to consume alcohol.
- 11.2. Research commissioned by CAMRA²¹ showed a number of wellbeing and mental health benefits to pub going – particularly to having a ‘local’.
- 11.3. People who have a ‘local’ rated themselves as feeling significantly happier than those who do not; they also had higher life satisfaction and felt that other people are significantly more trustworthy.
- 11.4. This research also suggested that drinking in social groups in this type of community setting had a moderating effect on alcohol consumption, with people likely to drink less than when drinking alone, and being less likely to engage in risk taking behaviours.
- 11.5. A differential rate of duty for draught beer would also help to address the social problems caused by the disparity between on-trade and off-trade pricing.
- 11.6. As noted by Public Health England²² the phenomenon of ‘pre-loading’ or drinking cheap alcohol bought from the off-trade at home before visiting the pub has a significant impact on the safety of the night time economy.
- 11.7. One of the key self-reported motivations for this behaviour was avoiding the high cost of drinks in a pub, bar or club. This is supported by YouGov polling,²³ which found that the majority of people now find the price of a pint unaffordable.

²¹ Friends on Tap, 2016

²² The Public Health Burden of Alcohol and the Effectiveness and Cost-Effectiveness of Alcohol Control Policies, 2016

²³ CAMRA commissioned polling, YouGov 2018

11.8. The PHE evidence review stated:

“The on-trade represents a valuable asset to local communities, it is important to consider policies that aims to reduce the harms concentrated in night time economies. These include policies to address low price alcohol in the off-trade and discouraging drinking at home before going out.”

11.9. As such, CAMRA believes that a duty regime that was supportive of the on-trade would provide wide ranging public health benefits.

12. Small producers

13. Small Brewers

13.1. CAMRA appreciates that Small Brewers Relief is outside the scope of this call for evidence, but we would stress its importance to the UK brewing sector and its effectiveness in promoting competition.

13.2. There are now around four times as many breweries in the UK than there were when the scheme was introduced, and we feel it is important than any reforms are evidence based and do not stifle the ability of the smallest brewers to compete effectively.

13.3. As such, we believe the current 5000hL threshold for the full level of relief should be retained. We would also ask that the Government publish the full detail of its preferred approach to taxing small brewers at all levels of production as well as the evidence base behind it.

14. Small cider makers

14.1. CAMRA believes that the small cider makers exemption could be reformed to strengthen the existing benefits of the scheme.

14.2. 80% of Britain's 500+ cider makers are currently small producers²⁴, and their businesses represent an integral part of rural culture and the rural landscape. These producers typically make less than £10,000 per year in sales and provide consumer a choice of artisan products in a market that is dominated by very large cider producers who operate on a global scale.

14.3. The current 70hL ‘cliff-edge’ strongly disincentivises small scale producers from developing their businesses. CAMRA believes growth in this area of the market would be encouraged by the addition of a sliding scale of duty relief, to taper from the point at which the exemption is currently applied.

14.4. While this would come at additional cost to the Treasury, this could be offset against the additional duty receipts generated by moving some products currently taxed as cider to the made wine category as detailed above.

²⁴ National Association of Cider Makers - <http://cideruk.com/uk-cider-market/>

- 14.5. As noted in the call for evidence document, both beer and cider are typically produced and consumed domestically. Supporting these producers benefits the Treasury by creating jobs and ensures that any reliefs given return money to the UK economy.

15. Avoidance and evasion

- 15.1. The drop in the tax gap indicates that the current system of addressing fraud at every step in the supply chain is broadly successful.
- 15.2. However, CAMRA would like to see additional resources allocated to HMRC to further tackle avoidance and evasion.
- 15.3. We would add that a key driver of the most common type of fraud, diversion fraud, is the disparity in the level of beer duty payable in easily accessible countries such as Germany, where the duty is only 10% of the UK rate.
- 15.4. This incentive would be greatly reduced if UK beer duty was closer in line with comparable beer producing nations.

16. About CAMRA

CAMRA is one of the most successful consumer organisations in Europe. Founded by four beer lovers in 1971, today we represent almost 180,000 beer drinkers and pub goers across the UK.

Our vision is to have quality real ale, cider and perry and thriving pubs in every community.

17. Contact

We would be happy to answer any questions or discuss this submission in more detail.

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