

2008 Budget Submission

BEER DUTY POLICY: BEYOND LAST ORDERS

Executive Summary

Why we are calling for a beer duty freeze

- Excise duty on beer is now at its revenue-maximising level. Further increases would be counter-productive to both the Treasury and industry in terms of reduced revenue, falling sales and further job losses in the beer supply chain.
- The overall decline in beer sales has accelerated and the market is now at a 40-year low. On-trade sales have declined by 18 million barrels a year since 1979 to levels not seen since the Great Depression and pubs are closing every day.
- Notwithstanding this, the UK brewing and pub sector continues to make a hugely important contribution to the UK and rural economy, generating £28 billion of economic activity and directly employing nearly 600,000 people.
- However, the Industry is facing a “perfect storm” of declining sales and sharply rising input costs leading to unsustainable profit levels. This is before the full effect of the smoking ban is felt which is further impacting on beer sales and will accelerate pub closures. In November alone on-trade beer sales fell 9.7%.
- Under these circumstances excise duty becomes an increasingly key factor to a sustainable UK brewing industry going forwards and we are, therefore, **asking for a freeze and an urgent review of the impact of the current excise duty system on the brewing industry; including an update of econometric models to more accurately reflect the current market and the main drivers within it.**

Excise policy for the last decade has contributed to the unsustainable position of the brewing industry and must not continue.

- Excise policy for the past decade has encouraged a move from beer to other drinks and has resulted in an accelerated shift from the on- to the off-trade. The move towards unitary taxation (or ‘equivalence’) discourages the production and consumption of low-strength fermented beverages such as beer.

- A recent study by Oxford Economics finds that the input costs to produce a litre of alcohol in the form of beer are three times higher than for spirits. The study clearly demonstrates the contrasting fortunes of the beer and spirits sectors over the last decade, where spirits duty has been frozen and beer duty increased by 6% more than the Consumer Price Index. Over this period, real consumer expenditure on spirits has risen by 24% compared with a 13% fall on beer.
- Pubs are small businesses, 85% of which are run independently by individuals and couples. These businesses are unable to absorb duty and other cost increases, as has been the case in the off-trade, hence accelerating consumption away from pubs and from drinking in a controlled environment.

Calls for significant beer duty increases to tackle alcohol misuse are misguided, would encourage smuggling and fraud, and would be disastrous for the brewing industry.

- The increase in beer duty in March 2007 led to the UK rate becoming the highest in the EU. All other 'high tax' Member States have reduced beer duty since the start of the Single Market. Continuous increases in beer duty are not sustainable in a Single Market and threaten tax revenues by driving beer purchases outside of the UK and increasing illicit consumption.
- Smuggling and fraud increase the purchasing and consumption of alcohol outside of a controlled environment. Alcohol smugglers target the young and vulnerable. Re-opening the floodgates to bootlegging is therefore likely to increase harm associated with misuse potentially undoing the work being done by Government, industry, and other stakeholders.
- Beer is a sociable, relatively low alcohol, product. Consumed in moderation there are proven health and societal benefits. The industry recognises that there is a minority who abuse its products and is committed to continuing to work with Government and all stakeholders in tackling harm resulting from alcohol misuse. Much progress has already been made.
- However, targeting (falling) per capita consumption denies these benefits to the overwhelming majority of moderate consumers who cause no harm. Numerous studies have demonstrated that high taxation is too blunt an instrument for tackling problems caused by alcohol misuse and that those who consume at harmful levels are generally the least sensitive to price changes.
- Further beer duty increases will add to the financial crisis facing the UK brewing industry and lead to significant job losses in the supply chain. It will mean reduced revenue for the Treasury and penalise the vast majority of responsible beer drinkers; hitting the poorest hardest.

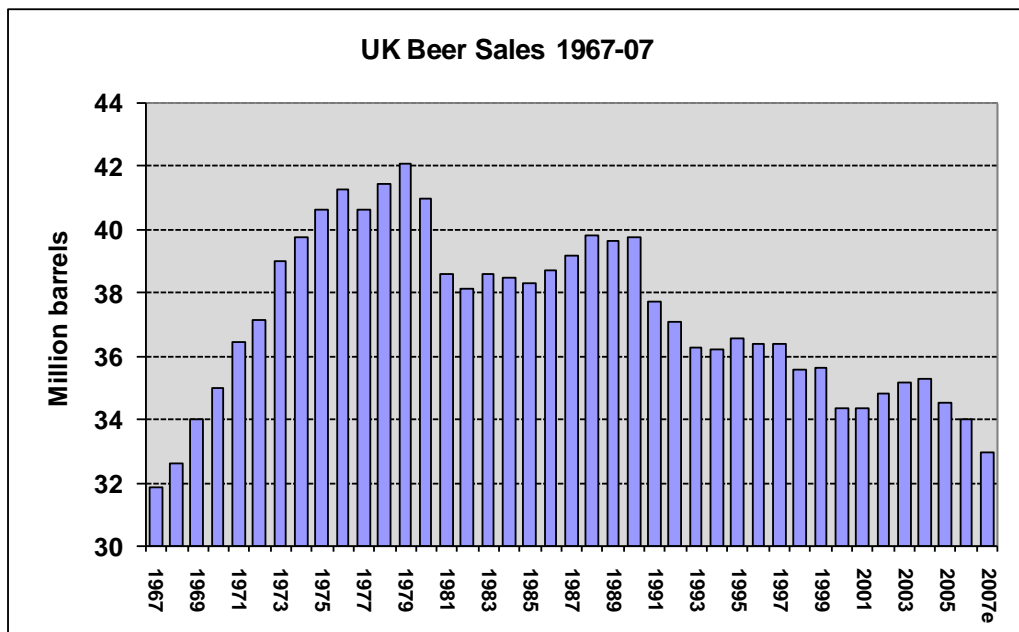
1. Why freeze beer duty?

Beer duty has now reached the point of revenue-maximisation. Further increases will raise little, or no, additional revenue and further reduce sales; particularly in the on-trade. Falling volumes and spiralling input costs have meant profits margins have now fallen to unsustainable levels and the situation continues to worsen.

An Industry in trouble

The plight of the UK brewing industry can be shown by some stark statistics:

- UK beer sales fell by 3.2% in the year ending November 2007, following a 2.0% fall in the previous 12 months.
- The market is down 21% since its peak in 1979. This equates to **a fall of 9 million barrels per year** or 7 million pints per day.
- At 33 million barrels, sales are now back below the level of nearly 40 years ago in which time the population has grown by 10%



The figures for the on-trade are even more bleak:

- UK on-trade sales fell by 6.0% in the year ending Nov'07. In November alone sales fell by **9.7%** following 8% declines in September and October - confirming industry fears regarding the impact of the smoking ban during the winter months.
- Sales are **down 50%** since the peak in 1979 - a fall of over 18 million barrels or over 14 million pints per day.
- The volume of beer sold through pubs and bars has fallen to levels not seen since the Depression of 1932/3.

Beer consumption per head fell by 11% between 1997 and 2006 and, as indicated above, sales in 2007 have continued to fall. During this period excise policy has favoured other drinks which have all enjoyed significant growth. This growth has continued in 2007.

	Per Capita Consumption 1997-2006*	Duty rate change**	Total Consumption Jan-Oct07****
Beer	-11%	+27%	-4.5%
Cider	+30%	+11%	+7.0%
Wine	+46%	+16%***	+9.7%
Spirits	+20%	+3%	+4.0%

*pure alcohol equivalent, 1997-2006

**1997 to 2007

***adjusted to reflect increase in average strength in this period

****Source: HMRC (not adjusted for any strength changes)

Falling volumes combined with sharply rising costs and falling (real) wholesale prices mean brewers are competing for an ever declining profit pool. Analysis of the annual reports submitted to Companies House of the four largest UK brewers, who account for approaching 80% of beer volumes, reveal how profits have sharply declined in the last three years.

	TOTAL 2004 £m	TOTAL 2005 £m	TOTAL 2006* £m	PER PINT 2004 p	PER PINT 2005 p	PER PINT 2006* p
Sales	5,577	5,381	5,366	72.8	71.9	73.1
costs of sales	3914	3573	3581	51.1	47.7	48.8
staff costs	572	549	544	7.5	7.3	7.4
depreciation	139	149	139	1.8	2.0	1.9
other	827	929	1037	10.8	12.4	14.1
exceptionals	-169	-27	-42	-2.2	-0.4	-0.6
income from invest	-13	-12	-11	-0.2	-0.2	-0.2
amortisation	19	21	21	0.2	0.3	0.3
leases	58	83	47	0.8	1.1	0.6
	0	0	0			
TOTAL COSTS	5346	5265	5316	69.8	70.3	72.4
EBIT	231	116	50	3.0	1.6	0.7
EBITDA	389	286	209	5.1	3.8	2.9
Margin -EBIT	4.1%	2.2%	0.9%			
Margin -EBITDA	7.0%	5.3%	3.9%			

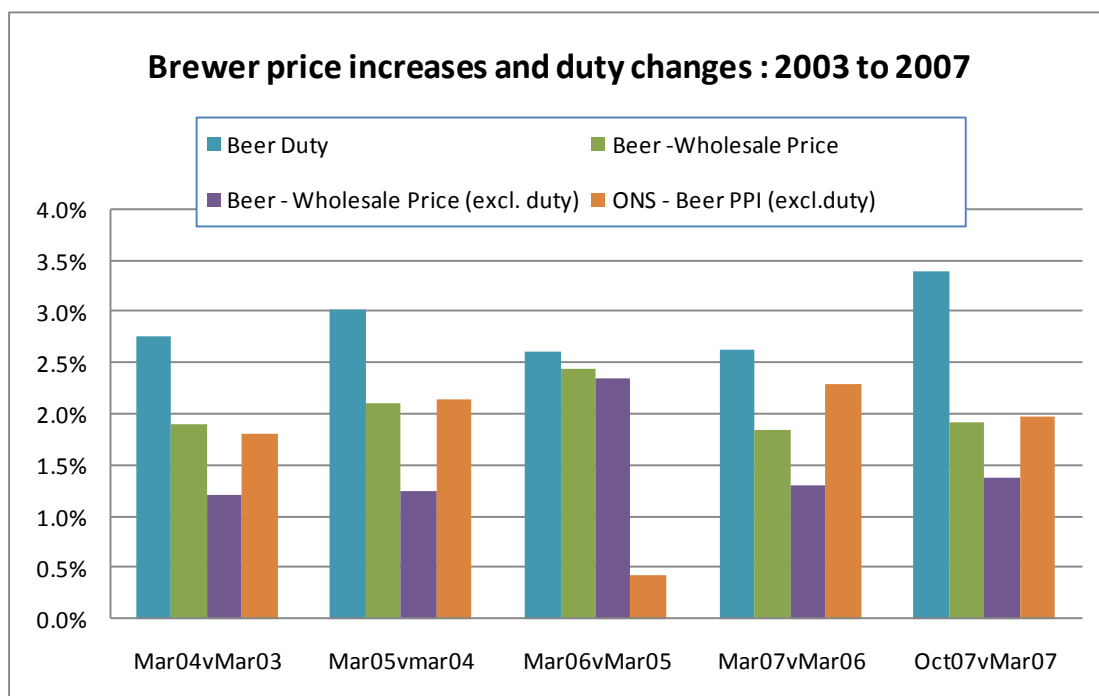
Source: Company Reports, BBPA estimates

*2006 still await one report so 2005 data used for this company

Profits of the major brewers halved in 2005 and halved again in 2006. On a total turnover of £5.3 billion, operating profit fell to less than 1% or the equivalent of **0.7p** per pint. This compares with excise duty of 33p per pint at

average strength and clearly demonstrates the real significance of a 1p duty increase. A 1p per pint duty increase that cannot be passed on by brewers represents £100 million less in operating profits.

Further evidence that brewers have had to absorb duty and other cost increases can also be seen from wholesale price data. Both the BBPA Wholesale Price Survey and the ONS Producer Price Index show that prices have risen by less than duty over the last five years.



Source: BBPA, ONS. BBPA wholesale price relate to draught beer and both surveys overstate actual price increases as they do not allow for retrospective discounts and other over-riders)

The average return on invested capital for the sector is estimated at **3.5%**, well below sustainable levels.

ROIC	2004	2005	2006
S&N	7.6%	5.8%	6.2%
Coors UK	6.6%	10.7%	9.6%
InBev	-0.7%	-1.0%	-0.9%
Carlsberg	4.4%	1.5%	1.4%
Heineken	-108.5%	-103.5%	-71.6%
Stag Brewery	3.8%	4.4%	4.1%
TOTAL	4.4%	3.8%	3.5%

Source: Pioneer Investments.

Sales continued to decline in 2007 with an unseasonably cold and wet early summer followed by the smoking ban having a particularly adverse impact on beer sales. Brewers are also facing very significant supply chain challenges.

- The shortage of malting barley and growing bio-fuel demand have seen prices increase way above inflation as have other input cost such as

packaging driven by rising global energy costs. These costs are forecast to rise further.

	Average % Change in Commodity Prices						2007F	2008F
	2003	2004	2005	2006	2007 YTD			
Wheat	3.4	3.7	-7.4	25.4	42.4	59	11	
Barley	-10.5	-10.8	-14.2	14.7	38.3	40	7	
Brewing Barley	n/a	n/a	-1.3	26.0	54.0	66	23	
Aluminium	6.1	19.9	10.7	35.2	4.8	3	-11	
Oil	14.4	33	40.3	19.8	3.7	8	10	
Natural Gas	62.7	7.8	51.3	-24.6	3.2	7	13	

Source: Dresdner Kleinwort research

“Cereals are at near all time highs and packaging costs are continuing to rise....we expect input cost inflation to continue to curtail margin progression into 2008 and beyond”
Dresdner Kleinwort research 25th October 2007

- Global demand for aluminium and steel has led to a huge increase in keg and cask theft and replacement costs have spiralled, costing the Industry an estimated £60 million in 2006.
- Utilities costs have nearly **doubled** compared to three years ago.
- From 1st July 2007, smoking in public places became illegal in England following legislation in Wales and Northern Ireland earlier in 2007. Evidence from Ireland (2004) and Scotland (2006) that the smoking ban will have a detrimental effect on on-trade beer sales, at least in the short to medium term, is being borne out by the latest UK data. On-trade beer sales were down 8.5% in the three months to November 2007.
- The impact of the smoking ban is particularly acute for beer as nearly 60% of sales (equating to over 75% of value) are sold in pubs, clubs and bars; compared to only 20% of wine and spirits sales. Research suggests that over 50% of pub customers are smokers.
- There have been **36 brewery closures** since 1997 and c.2000 job losses since the beginning of 1996 (10% of brewing sector employees).
- A recent study by Ernst & Young calculates that **44,000 beer supply chain jobs** were **lost** between 2000 and 2005; due to falling beer sales.
- Pubs have been closing at a rate of more than **six every week** since 2000. The closure rate is accelerating and ACNielsen estimate that a further 2000 may close over the next two years.

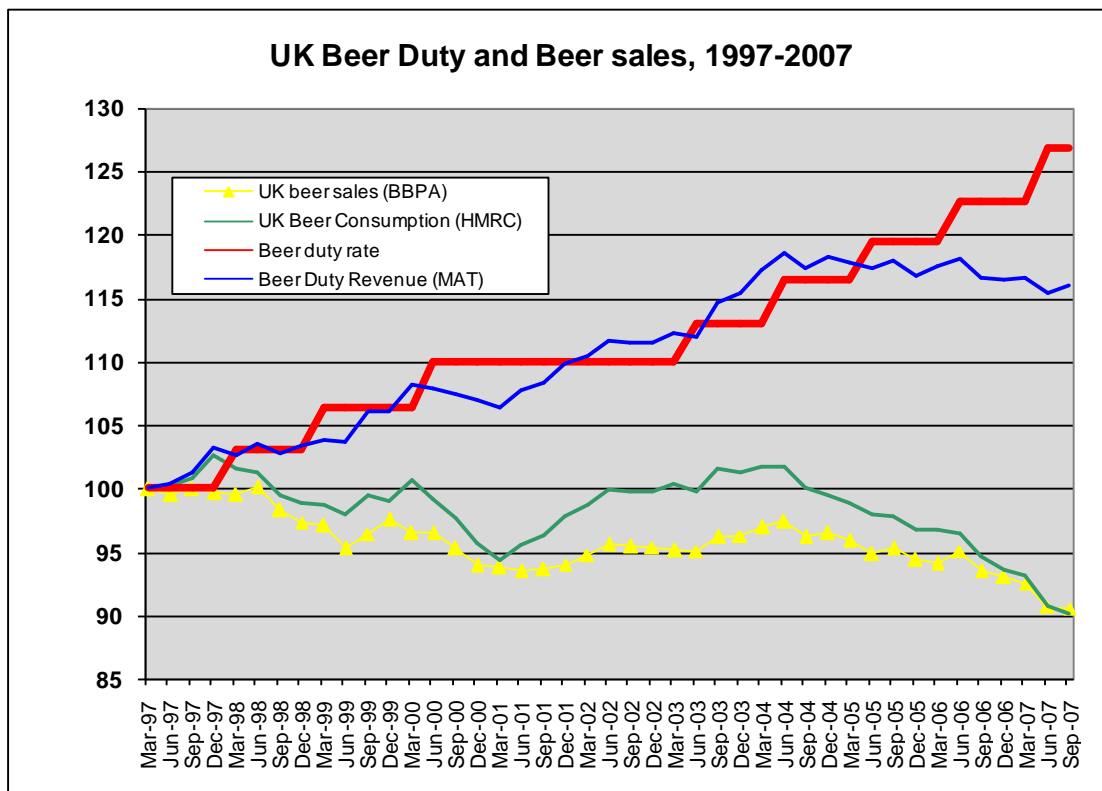
Beer Duty Increases no longer raise projected revenues

Concerned about existing econometric studies, particularly the accuracy of datasets that have been employed and the relevance of market data from the 1970's and 80's, the BBPA commissioned Oxford Economics in 2004 to undertake an econometric study to determine how duty rate changes actually impact the beer market and government revenues. The study found that:

- on-trade beer sales were significantly more price sensitive than previously believed;
- pass through in to final on-trade beer prices from duty increases were higher than one-to-one; and
- the off-trade remained price sensitive and although duty increases had been absorbed in recent years, this could not continue indefinitely.

As a consequence, the 2004 study demonstrated that a beer duty increase will not yield expected revenues and that the beer duty rate was close to its 'revenue maximising' level.

The findings of the study have been more than borne out since 2004. As shown by the following graph, revenues are lower than three years ago despite three further duty increases during this time. Five consecutive duty rises have also coincided with a sharp downturn in beer consumption.



In conjunction with Oxford Economics, the BBPA has developed a system for monitoring on a quarter-by-quarter basis the performance of the beer market and its implications for government excise revenues from beer. This system was used in the last two financial years to warn HM Treasury about the potential for revenues to undershoot its Budget projections, as indeed they did by £160 million and £130 million respectively.

In the March Budget, HM Treasury forecast excise receipts from beer and cider would be £3.4 billion in the current financial year (2007/8). The forecast was revised down to £3.3 billion in the Pre-Budget Report (PBR) and Comprehensive Spending Review. We believe excise revenues from beer duties will be lower still.

The BBPA beer market monitor uses models for the demand for beer in both the on- and off- trades developed by Oxford Economics. These models build on previous work by HM Revenue and Customs (HMRC) and relate duty-paid beer sales in each segment to:

- its real price;
- its price relative to wine, to spirits and to French prices (adjusted for the exchange rate);
- the overall level of consumer spending; and
- the percentage of people employed.

The key result to highlight from these models is that beer sales are now significantly more price-sensitive than allowed for in the model that HMRC uses to forecast excise duty revenues.

Price elasticities	HMRC / Treasury	Oxford Economics
On-trade beer	-0.5	-1.5 (post 1992)
Off-trade beer	-1.0	-1.1

Beer sales have been weak again this year and the smoking ban in England and Wales will impact on sales in the last two quarters of the financial year. Despite a 3.4% duty increase, revenues from beer and cider sales are unchanged from the same period last year. The Oxford Economics/BBPA market monitor forecasts that for the full financial year the Chancellor will receive around £125-£150 million less in beer duty revenues than planned for in the Budget and £25-£50 million less than the revised PBR forecast.

Projected Excise Revenues								
Budget¹	Level, £ million				change, £ million			
		2004-05	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
	2005	3300	3400			100		
	2006	3300	3300	3400		0	100	
	2007		3200	3300	3400		100	100
¹ Budget projection includes cider revenues, which are around 6% of beer revenues HMT ready reckoners imply 1p raises £133 million								
OEF/BBPA Model of the Beer Market								
	Level, £ million			Forecast	change, £ million		Forecast	
	2004-05	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08	
Latest	3,101	3,076	3,072	3055			-17	
Latest Data Outturns								
	Level, £ million				change, £ million			
	2004-05	2005-06	2006-07	Est 2007-08 ²	2005-06	2006-07	Est 2007-08 ²	
HMRC	3,101	3,076	3,072	3055	-25	-4	-17	
² The figure for 2007-2008 is an estimate based on the monthly returns over the year so far (April to September).								

There are a number of reasons why beer sales and excise duty revenues have been weak again this year but HM Treasury's consistent over-prediction of receipts in recent years appears to reflect the underestimation in the HMRC model of the effects of beer price increases on demand (particularly in the on-trade). For example, on-trade beer prices have risen by 3.4% over the last year, or about 0.6% in real terms. According to the HMRC model this will tend to reduce on-trade beer sales by about a 1/3% (other things being equal), whereas the BBPA model suggests sales will be reduced by about 1%.

After the release of five months data (April to August), HM Treasury revised down its Budget forecast for excise receipts from beer (and cider) in the current financial year by £100 million. It looks very likely that beer excise receipts will be around £25-50 million lower than the revised forecasts.

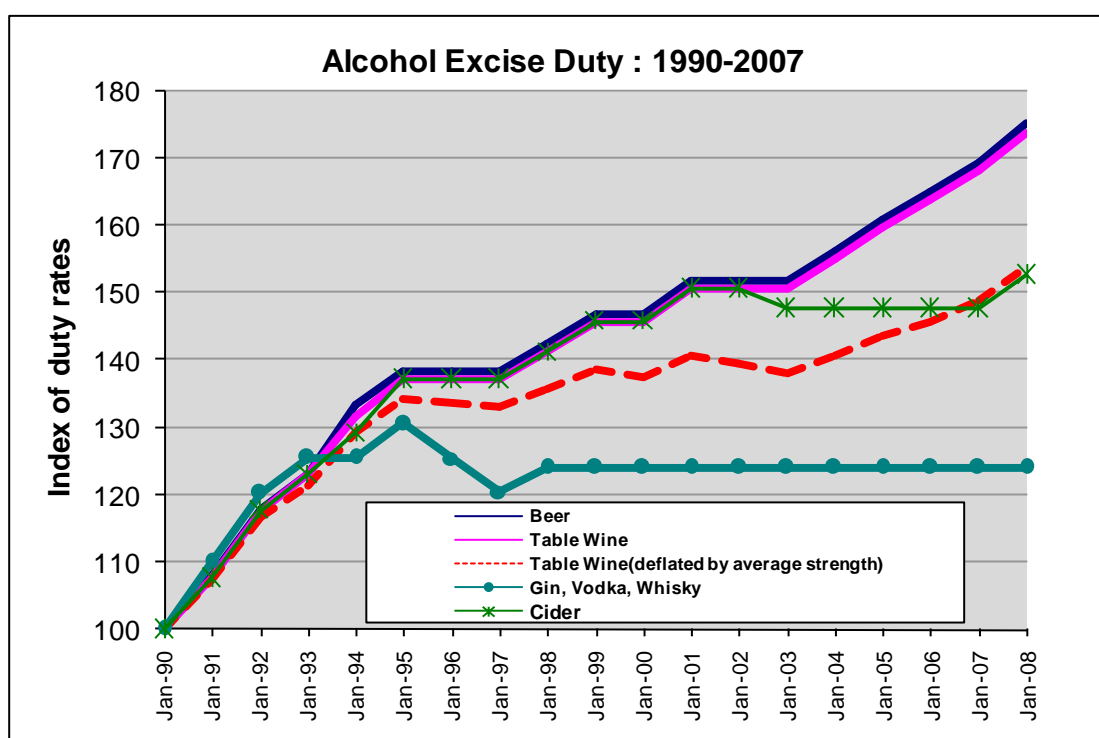
In our view, this only serves to underline that beer excise duty rates are at revenue-maximising levels and further increases would be counter-productive. Because duty rises would push up beer prices and reduce demand, the Chancellor would gain very little, if any, in additional tax receipts, while the impact on the brewing, pub trade and associated supply chain would be very damaging.

We believe it is vital that HMRC update their econometric models to more accurately reflect the current market and the main drivers within it.

2. Why not continue with current excise policy?

Excise policy for the last ten years has encouraged a move from beer to other alcoholic drinks and has resulted in an accelerated shift from the on- to the off-trade. The move towards unitary taxation discourages the production and consumption of low-strength fermented beverages such as beer by making them more expensive relative to other drinks.

This Government's excise policy has moved away from adjusting the duty rates of all alcoholic drinks in line with each another and has increased beer duty more than other alcoholic drinks (see also section 1).



Equivalent Taxation of Drinks

There is a belief in some quarters that alcoholic drinks should be taxed according to alcohol content, on a linear basis - sometimes referred to as "equivalence" or unitary taxation. This method of taxation disadvantages lower-strength fermented beverages such as beer and encourages production and consumption of higher-strength products. **Fair taxation does not equate to unitary taxation.** Current duty rates per unit of alcohol are:

	Duty rate per unit of alcohol		Duty rate per unit of alcohol
Beer	13.7p	Wine	14.2p*
Cider	5.3p*	Spirits	19.6p

*at average strength (5% and 12.5% respectively for cider and table wine)

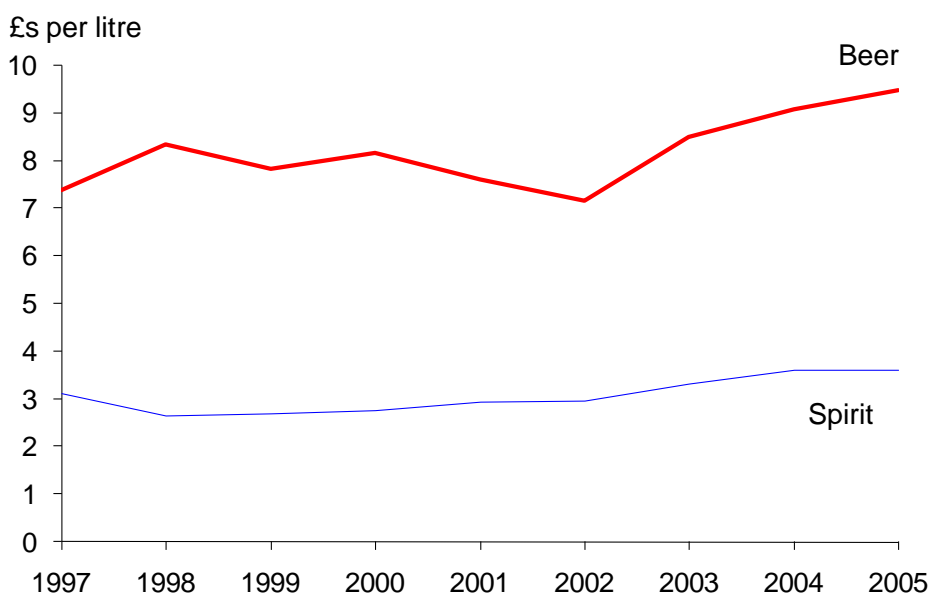
To use alcohol content as the basis of duty is not a logical reflection of either the physical characteristics or the cultural positioning of different alcoholic drinks. If alcohol were the main focus of competition between drinks then it is unlikely beer would be produced. Delivery of alcohol to the consumer in the form of beer is considerably more expensive due to the bulky nature of the product (i.e the ratio of alcohol to total volume). This means higher production, packaging and distribution costs per unit of alcohol compared to spirits as well as the additional costs associated with beer dispense and technical services in relation to selling draught beer.

“One factor in support of higher excise duty rates for spirits is that production costs per litre of pure alcohol are higher for making beer and wine than distilled spirits”
WHO Alcohol Report 2004

Oxford Economics were commissioned to study the impact of HM Treasury’s policy on excise duties over the last decade on the beer and spirits market. A summary of the main findings were:

- Controlling for inflation (CPI), excise duties on beer are now 6% higher in real terms on beer and 14% lower on spirits than they were in January 1998.
- In 2005, the costs of the inputs of goods, materials and services required to produce a litre of alcohol in beer were nearly three times the size of those required to produce a litre of alcohol in spirits. Beer is therefore an ‘inefficient’ way of delivering alcohol to the consumer relative to spirits.

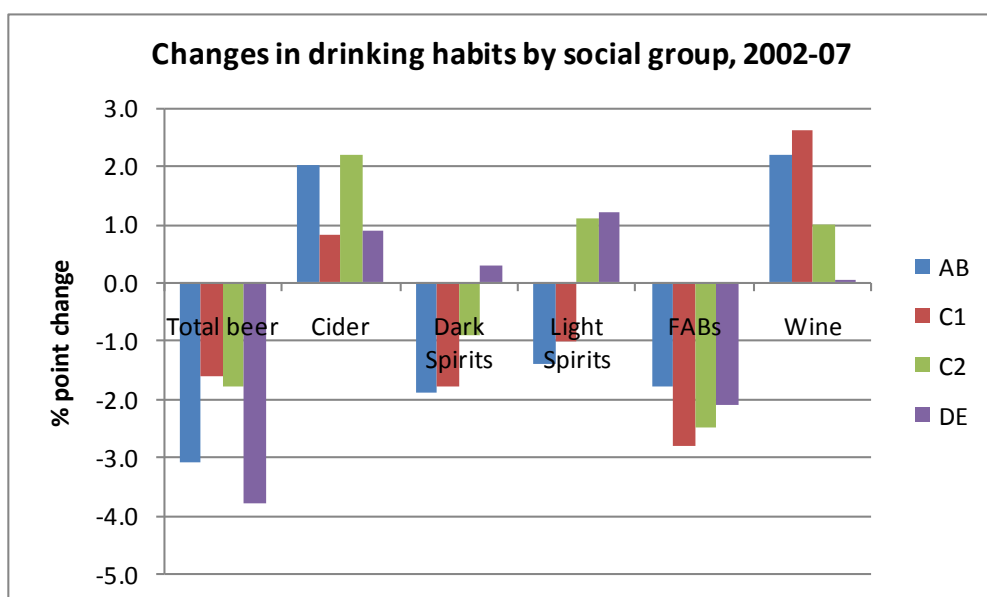
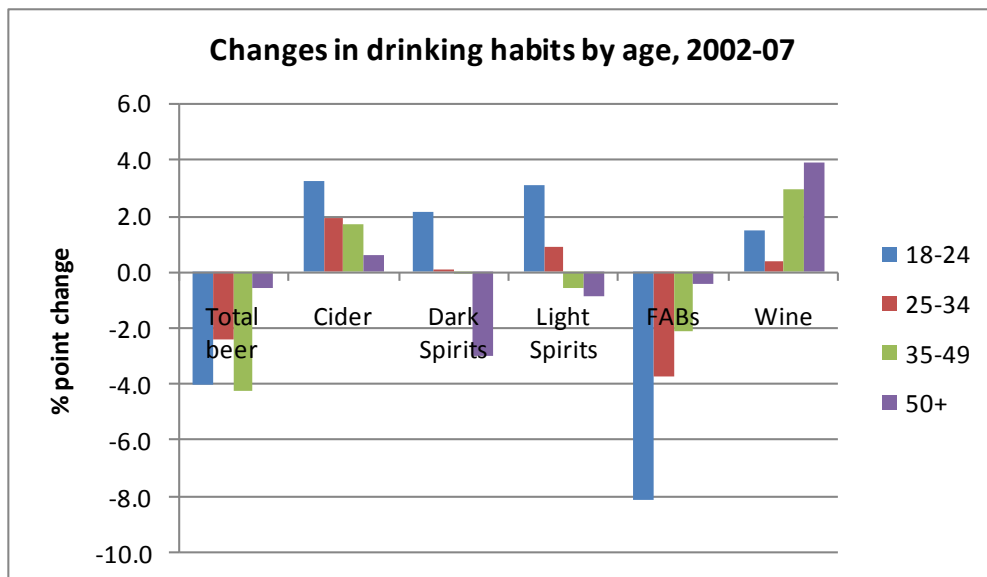
Cost of inputs of goods, materials and services required to create one litre of alcohol



Source : Oxford Economics. HMRC and ONS

UK spirits production is primarily Scotch whisky, which is likely to have higher input costs per unit of alcohol than most other spirits.

- Since the Government began the current policy towards beer and spirits duties, brewers' costs have increased more rapidly than spirit producers' costs. Brewers' spending on inputs of goods, materials and services has increased by 43% relative to 12% for spirit producers. Similarly, brewers' labour costs per person employed have increased by 78% relative to 61% for spirit producers. Given spirit producers higher margins in 1998, this has further disadvantaged brewers.
- Since the spirit duty freeze began, **real consumer spending on spirits has increased by 24%, whilst it has fallen by 13% on beer.** Survey evidence shows that the proportion of adults who consume beer on a weekly basis has fallen across all age-groups and social classes. The switch in consumption patterns away from beer towards spirits has been most rapid in those sections of society with the lowest income (socio-economic group DE and young adults).

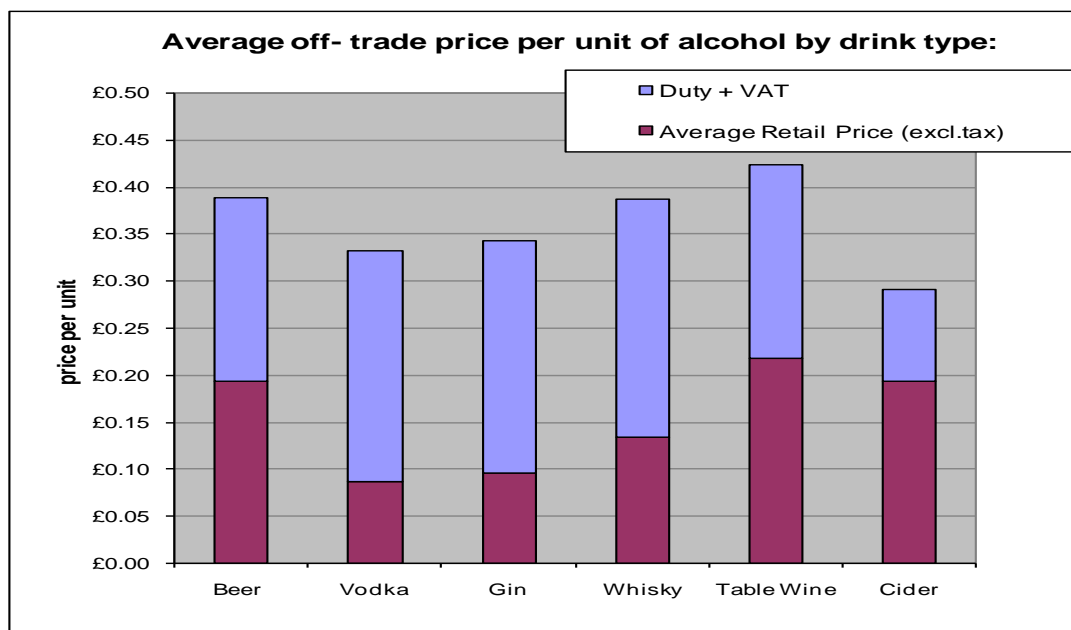


Source: TNS Alcovision. Adults who have consumed drink in 7 days prior to interview

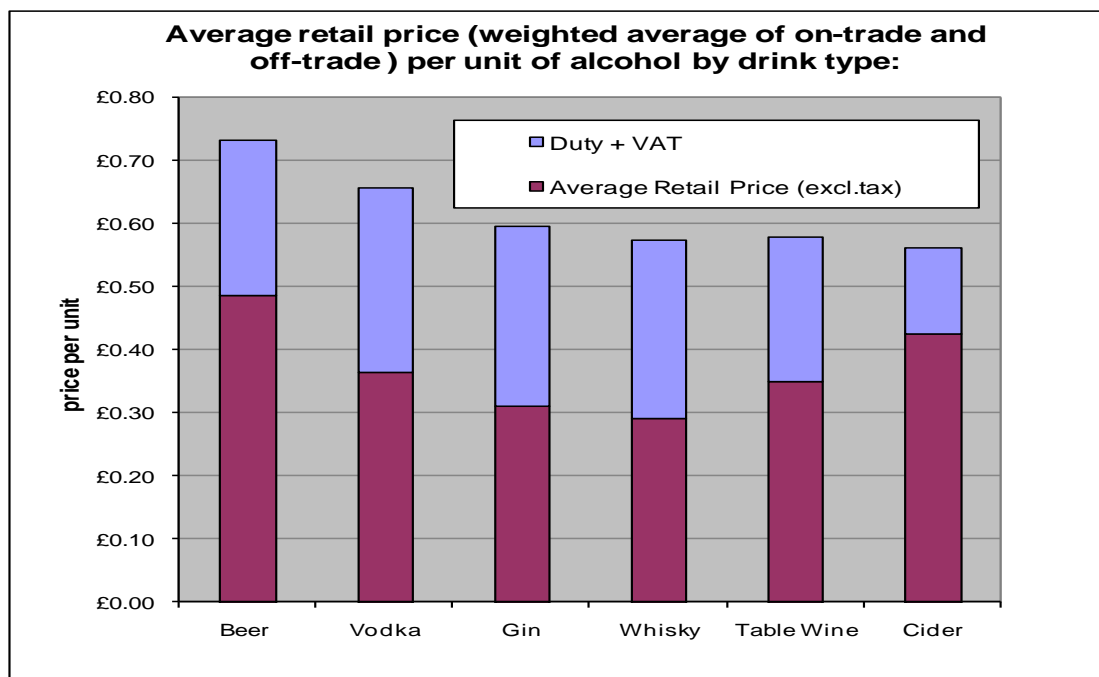
- Data from the latest Annual Business Inquiry (2005) show the average spirit producer is large (employing twice the numbers of the average brewery), highly profitable (making five times the profits of the average brewery) and enjoys considerably higher margins.
- The brewing industry and sales of beer in the hospitality and retail sector are estimated to contribute £7,911 million to UK GDP. This compares to the spirits industry and sales of spirits contribution of £4,315 million to UK GDP.
- If the Government were to increase excise duty on beer to achieve equivalence *relative to leaving duty unchanged*, it would adversely affect the volume of beer consumed and consequently employment in the brewing industry as follow:

Impact after N years	Equivalence achieved in ten years		Equivalence achieved in fifteen years	
	Beer sales volume (%)	Jobs in the brewing sector (%)	Beer sales volume (%)	Jobs in the brewing sector (%)
5 years	-9.1	-16.2	-6.1	-13.5
10 years	-17.9	-26.2	-12.0	-20.9

The disadvantage to low-strength fermented beverages such as beer of tax based on alcohol content can be further demonstrated in the form of retail prices. Excluding tax, alcohol in the form of spirits is the cheapest form of alcohol available to the UK consumer. The pre-tax price of a **unit of alcohol** in the off-trade in the form of **vodka** and gin (**9p** and **10p** respectively) is half the price for **beer (19p)**. The average pre-tax price for all spirits is 11p per unit of alcohol. Including tax, alcohol in the form of beer cost 39p per unit on average compared to 33p for Vodka, 34p for Gin, 36p for all spirits and 29p for cider.



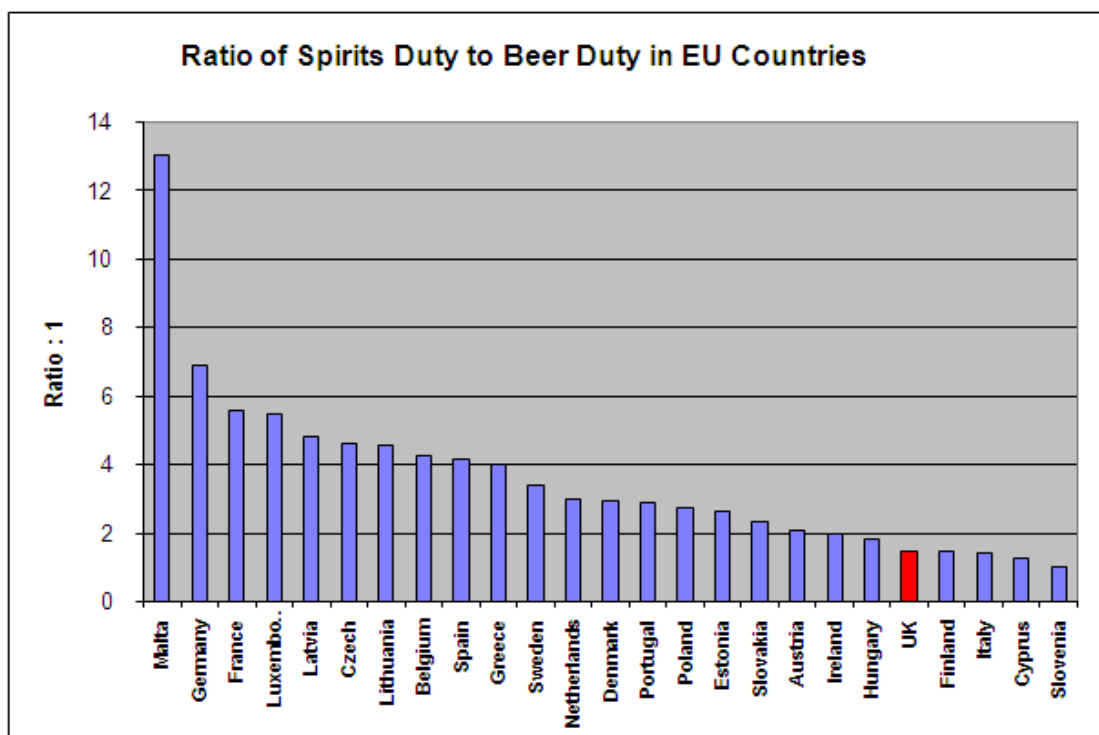
Over half of beer volume (57%) is sold through the on-trade. Considering a weighted average of on-trade and off-trade prices shows that excluding and including tax, beer is the most expensive form of alcohol available by some margin. Clearly, a continuation of current excise policy will further disadvantage beer.



Source: ACNielsen (MAT Aug07), BBPA *Weighted average of on-trade and off-trade prices

The UK has a lower spirits to beer ratio than most of the world's largest producers and nearly all EU countries:

	Ratio of Spirits: Beer Tax
Germany	6.9
France	5.6
Russia	5.0
Spain	4.2
USA (varies by state)	2.0 – 4.0
Canada	3.1
Netherlands	3.0
UK	1.4
Italy	1.4



The Beer / Wine Ratio

Wine is taxed in bands and beer on a linear scale. The growing popularity of New World wines, which have a relatively high alcoholic strength, has resulted in an increasing average strength of wine sold in the UK. However, this has resulted in no extra revenue for the Treasury and means each year wine is becoming taxed less relative to beer.

In 2004 and 2005, the BBPA commissioned independent market research with a view to establishing the current average strength of wine. The research found that the average strength of wine in the UK is now over 12.5% abv and still increasing. Based on HMRC estimates for average strength in 1990, wine is now taxed at around 11% less relative to beer.

The research also highlighted that the most common strength of wine sold in the UK is 13% abv, accounting for an estimated 24% of the market. At 13% abv and above, wine pays less duty, strength for strength, than beer. This means that **over half** of all wine pays less comparable duty than beer.

Beer and Cider

The drink with characteristics most similar to beer (and hence in most direct competition) is cider. It is between these two products where the principal of equal treatment is most pertinent.

The brewing industry welcomed the equal treatment given to beer and cider in the 2007 Budget. However, previous freezes and a reduction in cider duty in 2002 mean the significant difference in duty rates remains. At 5% abv the duty on a pint of cider is **15p** compared to **39p** for beer.

“.. in the last four Budgets, we have been able to freeze the duty on cider; in fact, we cut it in recent years, irrespective of the decision that we took on other alcoholic drinks, because the cider industry in Britain was seriously struggling and the industry is very important in supporting farmers in local areas and the rural economies. We could take that decision because of the economic circumstances in that industry, which were different from those relating to spirits, beer or wine. We need the scope to take broader and different dimensions into account when taking those decisions”.
John Healey MP, Finance Bill debate. May 2007

The brewing industry is important to the farming community and to the rural economy and, as highlighted in section one, is facing increasingly unsustainable conditions. We are therefore asking the Government to show a similar level of support to beer as has been afforded to the cider industry in recent years.

Further evidence of the switch away from beer to other drinks can be seen from recent CGA Strategy surveys of 2000 young adults.

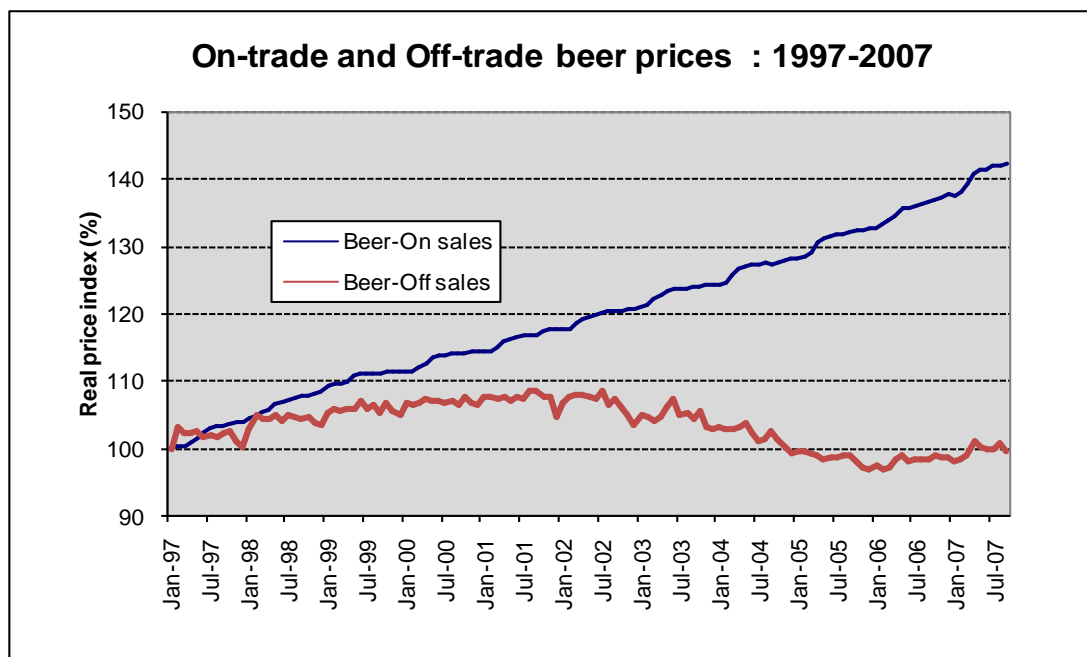
Preferred Alcoholic Drink	2005	2007
Spirits + mixer	39%	44%
Spirits	6%	6%
Pre-mixed bottled drinks	17%	14%
Beer/Lager	21%	17%
Wine	8%	8%
Cider	2%	3%
Champagne	1%	0%
Bitter/Ale	1%	0%
Stout	0%	0%
Other	2%	4%
Don't drink alcohol	2%	0%

Source: CGA Strategy

The survey also found that in 2007, 83% of respondents consumed drinks at home prior to going out.

On-trade to Off-trade

As highlighted in section one, duty increases impact more on sales in the on-trade than the off-trade as demand is more price sensitive and rising costs cannot be absorbed by individual pubs. Pubs are small businesses, 85% of which are run independently by individuals and couples who cannot compete with the off-trade where prices are the same now as a decade ago as duty and other cost increases have been absorbed.



The shift from on-trade to off-trade beer sales also has implications for jobs and hence government tax revenue since selling beer is much more labour intensive in the on-trade. VAT revenue is also more than double for every pint of beer sold in the on-trade than in the off-trade.

There remains a misconception that brewers still own the majority of pubs in the UK and hence are responsible for on-trade prices. There are 58,000 pubs in the UK and 147,700 on-licensed outlets in total. Of these, brewing companies now own only 9,400 (6%), of which 2,500 (2%) are directly managed houses and 6,900 are tenanted/leased pubs.

There is compelling evidence that excise duty policy over the past decade has encouraged a move away from drinking beer in pubs and bars. Increasingly the preference is for vodka and other cheaper forms of alcohol, particularly among young adults and those in lower income groups. There is a tendency for these drinks to be purchased and consumed outside the controlled environment of the pub.

3. Brewing and pubs are important to the economic and social well being of the UK

More than any other alcoholic drink, beer makes a hugely important contribution to the economic and social well being of the UK. Consumed in moderation, there are proven health benefits

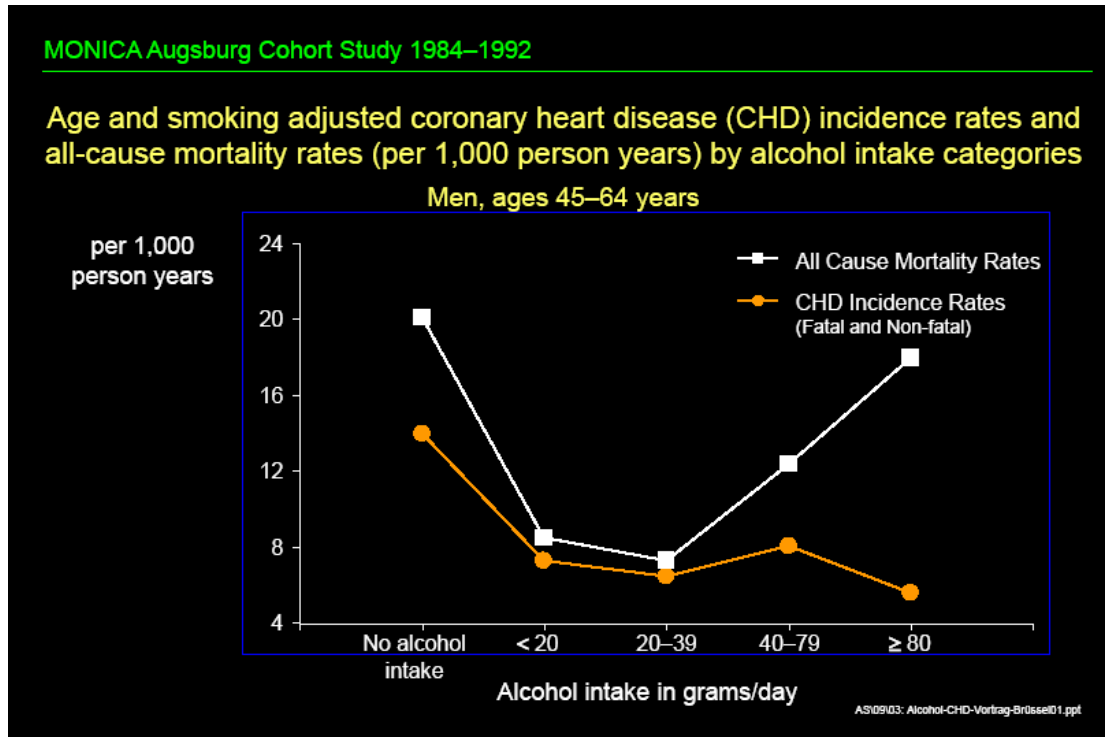
Economic Contribution

Beer is still the nation's most popular alcoholic drink, selling nearly 10 billion pints every year and is an integral part of everyday life. Consumed in moderation, there are proven health and societal benefits. Brewers use home produced cereals, hops, packaging and a host of other UK-sourced materials, products and services. Beer is the primary revenue stream for the majority of Britain's pubs and clubs and accounts for nearly 70% of on-trade alcohol sales. Over 90 per cent of the beer consumed in Britain is brewed in Britain.

- The UK brewing and pub sector generates £28 billion of economic activity. These figures compare, for example, with contributions to the UK economy of £20 billion by the airline sector, £18 billion by the radio and TV sector, £18 billion by clothing retailing and £11 billion by electrical goods retailing.
- Over two million pints of beer are exported every day to more than 120 countries generating £400 million in export revenues.
- A recent Ernst & Young report calculated that Government revenue from the production and sales of beer equates to **over £9 billion**. The study confirmed the 'value-added' from the production and sale of beer in the UK at £7.9 billion.
- The report found that UK brewers' source 85% of goods and services from domestic suppliers. This figure rises to 95% for regional and local brewers who alone generate over 70,000 jobs.
- In total, 600,000 people are directly employed in brewing, distribution, pubs and bars, with 60% of jobs in the pub sector highly valued part-time jobs, many in rural areas. UK brewers also support British farming, buying more than 40 per cent of the malting barley crop and sustaining hop farming in the UK.
- 85% of pubs are SMEs with 45,000 landlords running their own businesses. Pubs play a vital role in the sustainability of local communities and attract millions of tourists every year.
- The fact that most beer is sold in pubs (and clubs) also has important economic consequences as pub operators have to invest substantial sums of money in the upkeep of their pub estates. According to the Annual Business Inquiry, £1.1 billion of net capital expenditure was spent on pubs and bars in 2005.

Social Contribution

There have been increasingly vocal calls for increasing alcohol duties to combat binge drinking and problems associated with alcohol misuse. Beer is a sociable drink, a dilute low-alcohol product, where excessive consumption is generally constrained by volume. Consumed in moderation there are proven health and societal benefits. Over 30 per cent of adults, around 14 million people, visit a pub at least once a week.



The above chart highlights the positive health benefits of alcohol intake of between 20g and 80g per day. Targeting a further reduction in overall beer consumption would deny these benefits to moderate consumers and place a burden on the overwhelming majority who cause no harm.

There is limited correlation between excise duty rates and harmful consumption measures. Excise duty is a tax on the producer and, while tax is a major element of retail price, changes are influenced by many factors. Those drinking at harmful levels are generally the least sensitive to price changes.

If high tax rates were an effective tool required to eliminate abusive or irresponsible consumption then the UK and other northern European countries would be expected to have very few such problems. In fact, the EU countries with low excise duty rates tend to have the least problems with binge drinking.

The brewing industry fully supports proven methods to tackle alcohol-related harm such as education and awareness efforts, and prevention and treatment programmes. As set out in the Governments Alcohol Harm Reduction Strategy, responsibility for tackling problems associated with alcohol misuse

involves producers, retailers, relevant authorities and individuals and the brewing industry is working closely with Government and all stakeholders to this aim including the following:

- Refinement of the widely recognised Industry Standards document in relation to producing and retailing alcohol and further work is being undertaken (e.g. a standard risk assessment for use of plastic glasses in outlets).
- Financial support for the Drinkaware Trust, an independent trust established with a £12 million budget over the next three years. The aim of the trust is to protect and promote public health through education and research on alcohol related matters.
- The BII (formerly the British Institute of Innkeeping) have recently developed an alcohol awareness course aimed at educating school children of the dangers of alcohol misuse.
- Challenge 21 has been readily and widely adopted by the Industry and sales to under-age drinkers have significantly declined. More than 200,000 posters are up in pubs. One million people a month are being refused service either for being underage or not having age ID.
- Unit labelling and responsible drinking messages have been adopted by the majority of alcohol producers.
- The brewing industry, working closely with HMRC, has championed a major project with other alcohol producers and warehouse keepers to modernise and simplify the duty system with a view to reducing compliance and enforcement costs and minimising the opportunities for fraud.
- Licensing law reform has been a success with alcohol-related crime falling and very few licences revoked.
- Pubs raise more than £120 million a year for local and national charities and brewers invest over £50 million a year in community programmes.

4. What if beer duty continues to increase?

Further beer duty increases will add to the financial crisis facing the UK brewing industry and lead to significant supply chain job losses. It will mean reduced revenue for the Treasury and penalise the vast majority of responsible beer drinkers who enjoy a sociable low-strength product with proven health benefits. An increase in illicit consumption would undermine the work being done by Government, Industry and others to tackle alcohol misuse.

With beer duty at its revenue-maximising level, falling sales will more than offset an increased duty rate and there will be further job losses in the supply chain. Increases will also threaten tax revenues by driving beer purchases outside of the UK and increasing illicit consumption.

Smuggling and fraud increase the purchasing and consumption of alcohol outside of a controlled environment and alcohol smugglers target the young and vulnerable. Re-opening the floodgates to bootlegging is likely to increase harm associated with misuse potentially undoing the work being undertaken by Government, industry, and other stakeholders.

In just four years, following the commencement of the Single Market, the cross-border trade grew to over 5% of UK beer consumption (1.7 million pints per day) before heavy discounting in UK supermarkets competed with this trade and the illicit van trade was targeted by HMRC. In parts of Kent, up to 30% of beer consumption was not UK duty paid and resulted in significant social problems.

In 2000, a survey of 15-17 year olds across England & Wales by market research company MRSL found that 46% knew where to buy beer locally from an illegitimate source.

UK beer duty has increased by 39% since the start of the Single Market while all other 'high tax' Member States have reduced beer duty in this period. The tax differential with neighbouring countries such as France and Belgium has also widened considerably.

Changes in beer duty rates since the start of the single market*:

Finland	Ireland	UK	Sweden	Denmark
-39%	-7%	+39%	-26%	-53%*

**changes to duty on a 5% abv beer, or equivalent*

The increasingly vocal calls for tax increases to tackle harm from alcohol misuse are misguided. Increasing beer duty further would penalise the majority that drink responsibly and moderately, and not tackle the root causes of those that have trouble with controlling their drinking. Beer duty is also regressive and so hits the poorest hardest.

As outlined in section one, the brewing sector is facing increasingly unsustainable conditions. The decline in beer sales has accelerated, particularly in the on-trade, and spiralling input costs cannot be fully passed-on due to the extremely competitive environment in both the on-trade and off-trade channels. **These conditions are set to continue and this leaves almost no scope for innovation or long-term investment in UK brewing.**