

# Local Beer

## British Brewing Report 2012

Published by SIBA, the Society of Independent Brewers



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Society of Independent Brewers

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### Foreword

SIBA's tenth report into the health of British brewing signals an essential departure from the tone and scope of its predecessors. A year ago, as part of our pre-Budget campaign, we produced a film, *Proud of British Beer*, which challenged the retention of the *escalator* policy of annual above-inflation rises in beer duty. The message was one of pride in the heritage, evolution, innovation and achievements of a surviving British manufacturing industry, contrasted with the prospect of a future increasingly threatened by beer being perceived by government as a "cash cow" that could be taxed to the very limit of its endurance. The film was very well received by the wider brewing fraternity, by consumers, and by the media. A DVD copy was sent to every MP, many of whom paid subsequent visits to local brewers in their constituencies, and pronounced their own sense of pride in, and unwavering support for, the continued success of a Great British manufacturing tradition. And yet, although Coalition partners in office – up to and including the Prime Minister – have been happy to stress their commitment to both British brewing and the pub trade on which it is so dependent, and in spite of the appointment of a pubs minister with a remit to safeguard the future of our most iconic national institution, the plea against further inexorable rises in duty has gone unheeded.

In this report, therefore, the Society of Independent Brewers no longer feels able to celebrate the success of the local beer sector in isolation, without placing it in the context of the wider brewing and pub industries. Our members' fortunes are bound inextricably with British pubs, which continue to struggle in prevailing trading conditions that are increasingly exacerbated by government taxation policies. Pubs must be able to offer a full range of drinks at prices that can compete with those charged in the off trade. Pubs are recognised – by brewers, politicians and harm-reduction campaigners – as the preferred environment for the responsible and moderate consumption of alcoholic drinks, and as integral to cohesive and thriving communities.

There is a reason for the success story of local and small-scale brewing, especially over the last ten years. Targeted investment has been the key to securing growth, successful economic performance and consequent fiscal contribution, rather than the pursuit of policies of ever-increasing and debilitating taxation. All evidence indicates that the latter – disinvestment in effect – has reached the point of diminishing revenue return.

We believe that the investment approach is consistent with the ideals that the Coalition Government professes to espouse, and we call for urgent steps to be taken to reverse the overall decline in British beer and pubs, and to foster an environment in which the beer and pub industries can readily fulfil their commitment to making a fair and sustainable contribution to the national economy.

A handwritten signature in black ink, reading "Julian Grocock".

Julian Grocock  
SIBA chief executive and Local Beer author

# Executive Summary

## INVESTMENT: A PRICE PAID...

Small Breweries' Relief was introduced ten years ago, in June 2002, by the Labour Government. By allowing a tax break at low levels of production, SBR legislation recognised diseconomies of scale for microbrewing enterprises and sought to foster an economic environment in which they could establish commercial sustainability.

## = A SUSTAINABLE DIVIDEND EARNED

- 169 (64%) out of 264 respondents to SIBA's autumn 2011 industry survey have established their businesses since the introduction of Small Breweries' Relief
- In January 2012 there are 550 SIBA brewing members in production: 80 more than last year and over 300 more than in 2002
- By supporting the growth of manufacturing enterprises Small Breweries' Relief underpins
  - \* an industry sector in volume growth
  - \* investment in people and skills training
  - \* investment in equipment and business infrastructure
  - \* an extensive goods and services supply network
  - \* the growth of distinctive high quality local craft produce
- Statutory production figures for SIBA members in 2009 and 2010 prove a total volume growth (including 2010's new brewers) of 9.5%, to almost 1.9m hectolitres, and a like-for-like volume increase of 8.1%
- Production accounts and survey estimates indicate further growth for 2011 of 9.7%
- SIBA brewers now employ directly approximately 4,000 full-time (or full-time equivalent) people; it is estimated that each job in brewing generates 21 jobs across the supply and distribution chain
- Smaller brewery employment averages one job per 500hl (one per 3,000hl in the industry overall)
- 68% of survey respondents have had to invest to increase capacity since starting their businesses
- 65% of survey respondents report major capital investment in the past year; for a third of these this has been a spend in excess of £50,000, and 21% have invested more than £100,000
- In January 2012 SIBA has 158 supplier associate members, offering goods and services ranging from raw materials and brewing equipment to bespoke brewery management software and smart-phone marketing
- SIBA brewers offer a total draught portfolio of more than 3,000 permanent brands, plus around 4,000 seasonal beers and occasional or one-off specials; extrapolation of survey responses indicates that there are also approximately 2,000 bottled beers in regular production by SIBA members
- Beer sales to pubs through SIBA's Direct Delivery Scheme have risen 6.6% from £9.57m in 2010 to £10.2m in 2011, with 2,149 outlets supplied during the year
- The emergence of a vibrant local brewing sector proves the value of targeted investment; Small Breweries' Relief is rewarded with fiscal returns that more than offset the initial tax break
- SIBA's survey confirms that the continuation of Small Breweries' Relief is essential for local brewers
  - \* 72% cannot foresee further investment without duty relief
  - \* 60% fear their businesses would fail if duty relief were withdrawn



## DISINVESTMENT: A DIVIDEND DEMANDED...

The Duty Escalator, announced in the Labour Budget of 2008, implemented in 2009, and due to remain in place at least until 2014/15, raises beer duty annually by inflation plus 2%. The Chancellor argued at the time that alcohol had become much more affordable and that therefore the extra tax was justifiable.

## = AN UNSUSTAINABLE PRICE TO PAY

- In five years the headline rate of beer duty has risen by more than **35%**
- The duty escalator on beer forces on-trade prices to rise, encourages cut-price off-trade purchasing, and is thus hastening pub closures
- Total beer production continues to fall – down **22%** from 54.7m hectolitres in 2004 to **42.5 hectolitres** in 2011
- Relentless rises in beer duty have “mugged” British drinkers to such an extent that, even though consumption is falling, the UK now contributes **40%** of the total beer excise revenue raised by 27 EU nations, whilst accounting for only 13% of total EU beer volumes
- In spite of such high direct receipts from headline beer taxation, **overall revenue** is reduced by falling on-trade employment and higher consequent social security payments, and by lower VAT returns from cheap supermarket sales; **anticipated and budgeted tax income is not realised**
- **82%** of SIBA survey respondents consider the duty escalator to be counter-productive and harmful to pubs and brewing

## KEY CONNECTIONS, CONFLICTS & CHALLENGES

- **Local beer needs thriving pubs BUT the on-trade market is still in crisis**
- **Conflicting policies of INVESTMENT and DISINVESTMENT have been inherited by the Coalition Government**

- **82%** of SIBA brewers' production is draught beer, sold almost entirely in the on trade
- **97%** of SIBA brewers' draught beer is cask-conditioned **real ale**, an icon of community pubs in villages, towns and cities
- Cheap, loss-leading off-trade prices continue to seduce core customers away from community pubs: the off trade now accounts for **almost half** of total beer sales, from under a third in 2000, and less than 10% in 1972
- Pub closures continue, with numbers down by **16%** from over 60,000 in 2000 to around **51,000** today
- Continuing pub closures and burgeoning off-trade sales mean that an **unprecedented proportion** of total beer bought is now consumed in unlicensed, unsupervised, unmoderated and unsocial environments
- To date the Coalition has played a largely passive role with inherited policies and has introduced only minor changes of its own:
  - \* Whilst making many positive statements in support of the pub industry, the Government has quietly allowed the duty escalator to remain in place
  - \* Legislation to prevent **below-cost selling** defines cost only in terms of VAT and duty, without regard for materials, utilities and labour
  - \* Following its alcohol review, the Government took action to reduce duty on beers of 2.8% alcohol by volume and below, and to increase duty on beers above 7.5% abv; this currently affects only **0.6%** of beer brewed by SIBA members, and **86%** of survey replies believe it will have very little or no impact on their own businesses; small brewers in receipt of duty relief are ineligible for the lower rate on low-strength beers
- The duty escalator accentuates disparities between current excise structures across the range of alcoholic drinks; its principal effect is to encourage the trend towards those **stronger drinks** that, despite being associated with '**problem**' consumption, are now the **cheapest drinks available**.

# Introduction

## SIBA Industry Survey 2011/12

SIBA carried out its now customary annual survey of full brewing members in autumn 2011. Fifty-seven questions were asked, covering all aspects of brewery history, operation, performance and prospects; wider industry issues, government policies and their current and potential effects; and SIBA's political engagement, commercial operations and members' services.

For a second successive year, responses to the survey exceeded 51% of the (520) brewers eligible at the time: 267 submissions were received and, although not all were complete, the total number of replies to questions that were relevant to all respondents averaged well over 200. This gives credibility to the survey's findings and allows this report to be written with confidence in its accuracy and authority. Responses have been carefully analysed – a few anomalous answers identified and discounted – and no extrapolation or assumption has been made without cautious evaluation.

All levels of full brewing membership were eligible to participate in the survey, to ensure the broadest possible range of submissions across the EU-defined 'smaller brewer' sector – micro, local and regional.<sup>1</sup>

Figure 1: SIBA industry survey participants, by size

SIBA membership	<b>LEVEL 1</b>	up to 999 HL	(122)	47.3%
	<b>LEVEL 2</b>	1,000 - 4,999 HL	(91)	35.3%
	<b>LEVEL 3</b>	5,000 - 29,999 HL	(36)	13.9%
	<b>LEVEL 4</b>	30,000 - 59,999 HL	(6)	2.3%
	<b>LEVEL 5</b>	60,000 - 200,000 HL	(3)	1.2%

In addition to survey submissions, Local Beer draws on definitive production statistics used for SIBA's calculation of its members' annual subscriptions. Most facts and figures relating to the wider brewing and pub industries have been taken from the 2011 edition of the Statistical Handbook published by the British Beer and Pub Association (BBPA), for which SIBA proffers its sincere thanks.

NB: The film, Proud of British Beer, is available to view and download at <http://www.youtube.com/watch?v=QANARINMQzc&feature=related>.

This is the 2011 pre-Budget tax campaign version; a less time-specific edit is also available, at <http://www.youtube.com/watch?v=Dl1oPNZYSWI>

1. The EU definition allows for production up to 200,000 hectolitres per annum; below this threshold, HMRC categorises brewers as 'micro' up to 5,000hl, as 'local' at 5,000-30,000hl, and 'regional' at 30,000-200,000hl; above 200,000hl brewers are classed as 'national'.



# Investment and Dividends

## The Case for Duty Relief

The introduction of Small Breweries' Relief – also often known as Progressive Beer Duty – followed a twenty-year campaign by SIBA. The emergence of UK microbreweries in the 1970s is tied in very closely with the unprecedented and ground-breaking success of the British beer consumer revolution, spearheaded by CAMRA – the Campaign for Real Ale. A spontaneous groundswell of support for distinctive, craft-brewed and traditionally served British ale – as a revolt against the march of mass-marketed, heavily advertised and pressurised keg beers – proved there was an appetite for choice and variety that could not be denied; and there was no shortage of hitherto amateur enthusiasts or redundant professionals eager and determined to establish their own brewing enterprises.

CAMRA's very first Good Beer Guide, published in 1974, lists just one brewery that had commenced production since the organisation was founded in 1971.<sup>2</sup> When SIBA was set up in 1980 by twenty of the pioneers (as the Small Independent Brewers' Association) there were about fifty.<sup>3</sup> Ten years later, ninety-three microbreweries, a couple of brewpub chains and a further twenty or so new independent homebrew pubs could be found.<sup>4</sup>

By 2002, SIBA's own brewing membership had grown to 235; but in spite of this clear evidence of enthusiasm, ambition and growth, the struggle for commercial viability was singularly difficult at such small and barely economic scales of production. In common with other simple manufacturing businesses, new small brewers had to count all operational overheads in their cost of production, and wholesale prices had to reflect this if profitability was to be achieved and maintained. Furthermore, market access to many pubs was foreclosed by tied supply agreements, and larger brewers with tied tenanted estates – to which they could charge higher "wet rent" prices for their beers – were far better placed to offer discounts in the free trade, to undercut and stifle competition from the new micros.

➤ **An internet database of British breweries records that, of all breweries that have opened for business since 1970, approximately 650 have closed<sup>5</sup>**

There is no doubt that some of these would have been half-hearted, ill-conceived ventures, doomed to fail in any prevailing economic or market circumstances; nor that there could have been reasons for closure other than an inability to establish sustainable businesses due to diseconomies of scale, duty rates, market foreclosure and market-muscle price competition. But that cannot be claimed for the majority – tenacious enterprises that struggled for as long as they could in the face of these negative factors before ultimately succumbing. Almost forty of them were in business for ten years or more.

EU excise directives allowed for reduced rates of duty for small independent breweries and, in March 2001, the Chancellor of the Exchequer indicated that he was 'minded to' introduce a relief scheme following Customs and Excise consultation with representative industry bodies.

**"...small breweries' relief constitutes an important step in delivering ...fairer balance – recognising the particularly challenging conditions in which our small breweries operate and the difficulties they face in bringing their goods to market..."**

**John Healey, Economic Secretary to the Treasury, July 2003**

The Government's case for SBR was clearly stated one year after its introduction, in a Customs and Excise consultation paper, as follows:

- Increasing the profitability of the nation's smallest breweries, giving them the confidence to invest in their future
- Helping small breweries to compete on price with the larger breweries
- Giving small breweries the opportunity to invest in their own pubs, in order to establish a secure outlet for their beer
- Maintaining the diversity of products available to the consumer

The last of the reasons given above was from then Economic Secretary, John Healey – subsequently the nation's first ever Minister for Pubs – in his foreword to the paper.<sup>6</sup>

2. Selby Brewery, which actually recommenced production in 1972, being an old established company that had ceased brewing in 1954.

3. As listed in the 1981 edition of the Good Beer Guide, published towards the end of 1980.

4. Good Beer Guide 1991.

5. [www.breweries.org.uk](http://www.breweries.org.uk) – the total stated does not count the separate outlets of brewpub chains (e.g. Firkin pubs) as individual closures.

6. Small Breweries' Relief: A Call For Evidence, published in July 2003 to initiate a review of the efficacy of the previous year's legislation.

# Small Breweries' Relief

**"The Chancellor has given small brewers a lifeline. In a market that is increasingly restricted small breweries have been closing at ever increasing speed...We are turning a corner for without this measure small breweries would have almost completely disappeared over the next decade."**

**Paul Davey, SIBA Chairman, April 2002**

- April 2002: Chancellor Gordon Brown announces the introduction, with effect from 1st June, of a progressive rate of reduced beer duty for smaller producers
- A 50% duty relief is allowed for brewers producing up to 5,000 hectolitres per annum (59 brewers' barrels per week, approx)
- Brewers producing 5,000-30,000hl (up to approx 350bbl/wk) qualify for a reduced rate of duty calculated according to their level of production – in effect this caps relief at the amount received at 5,000hl
- June 2004: following review, the upper threshold for qualification is extended to 60,000hl, with relief tapering to zero between 30,000hl and 60,000hl

## SIBA members...

**2002: 235**

**2006: 373**

**2010: 463**

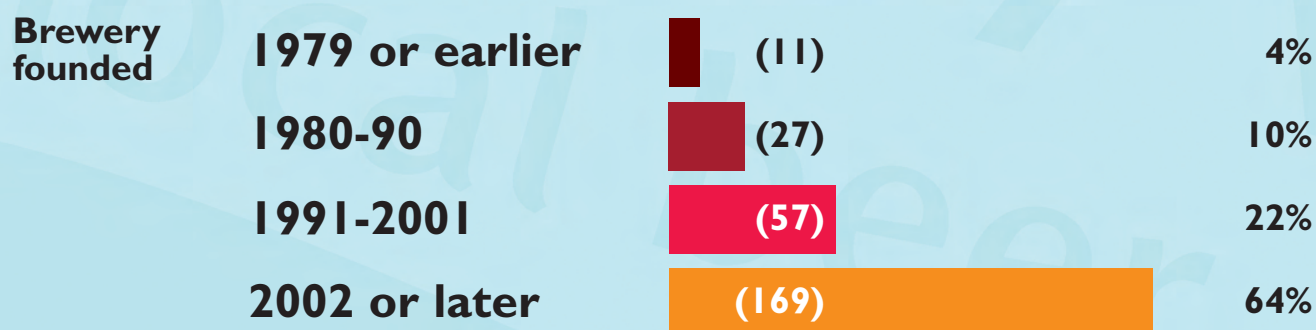
**2012: 550**

Four years after the introduction of SBR, the total of SIBA brewing members had risen from 235 to 373. In last year's Local Beer the number reported for the end of 2010 was 463. Now there are 550.

Most telling is the age of survey participants: only eleven respondents out of 264 (4%) pre-date the founding of SIBA; just four of these identify themselves as older than CAMRA (pre-1971). Twenty-seven (10%) were established in the decade following the founding of SIBA; fifty seven (22%) in the decade before the introduction of SBR.

- 169 (64%) of SIBA's survey respondents have entered the industry since the introduction of Small Breweries' Relief

**Figure 2: SIBA industry survey participants, by age**



Based on all breweries that submitted 2010 production accounts for the latest SIBA subscription calculations, SBR eligibility is as follows:

- 82% of full brewing members (Levels 1 and 2) qualify for the full 50% relief on all their production.
- A further 15.2% are in Level 2 and receive the full amount of capped relief
- The six Level 4 members qualify for tapered relief
- The six brewers in Level 5 are ineligible
- SIBA membership therefore includes an overwhelming majority of local brewers whose businesses – and business viability – have been founded on the existence of Small Breweries' Relief



## Local Beer Volumes

SIBA calculates its full brewing members' subscriptions for each year (from 1st October) based on actual volume production for the previous calendar year. (The keeping of a Beer Production Account is a statutory requirement for all brewers eligible for any amount of Small Breweries' Relief – which includes all but members in Level 5.)

**Total hectolitres of beer brewed by SIBA brewers in 2010**  
**1,885,053**

From these details, which are supplied in confidence to the membership secretary, SIBA is able to give definitive aggregate volumes for each level of brewing membership, which can be compared year-on-year.

**Figure 3: SIBA Members' Beer Production Account data**

<b>BAND</b>	<b><u>2010</u> (hl)</b>	<b><u>2009</u> (hl)</b>	<b><u>2008</u> (hl)</b>
<b>LEVEL 1</b>	96,174	91,140	85,008
<b>LEVEL 2</b>	421,638	379,577	367,809
<b>LEVEL 3</b>	673,268	598,928	590,096
<b>LEVEL 4</b>	206,617	142,237	82,246
<b>LEVEL 5</b>	487,356	509,409	528,171
	<b>1,885,053</b>	<b>1,721,291</b>	<b>1,653,330</b>

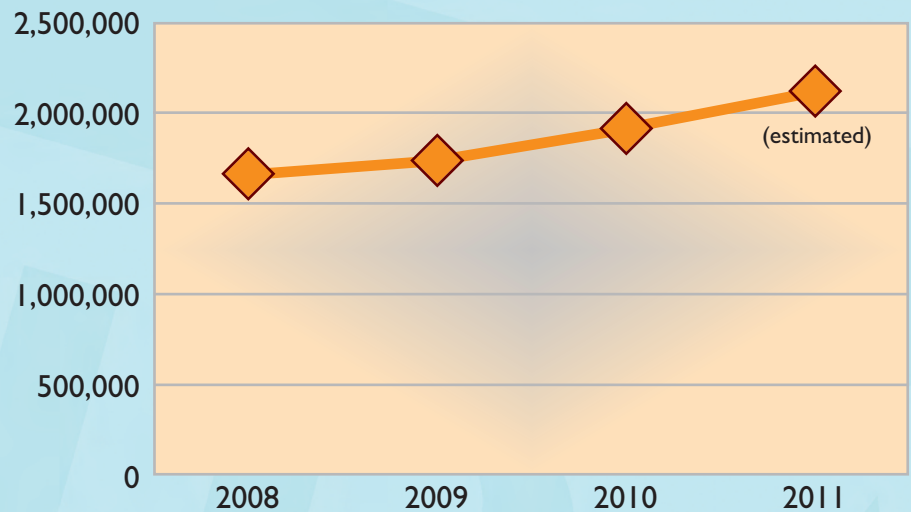
The total for 2010 includes beer brewed by new breweries that commenced production during the year, but not the volumes of three established companies – one in Level 3 and two in Level 5 – that have recently applied to become members. As reported last year, membership changes and brewery movement between levels means figures for each level cannot be like-for-like. A year ago, Level 4 membership had doubled from two to four; now another two brewers have moved up from Level 3, once again giving a false indication of volume growth in Level 4. Nevertheless, even with the loss of two brewers who have now exceeded 30,000hl per annum, Level 3, in common with Level 2, has shown impressive year-on-year overall growth, as the growth of other brewers' volumes has seen them move up a level: there are thirty-two 'promotions' to Level 2 and ten to Level 3.

- Overall total growth in beer brewed by SIBA members, from 1.72m to 1.89m hectolitres (2009-2010), is 9.5%
- Production totals submitted by brewers common to calculations in both 2009 and 2010 give an exact like-for-like volume growth of 8.1%  
(Survey results and final quarter estimates last year predicted growth of 7.5%)
- Production accounts and estimates in the latest survey indicate total growth in 2011 of 9.7%
- Last year's micro and local brewing sector (Levels 1-3), adding back the volumes of the two brewers who now qualify for Level 4 'regional' status, saw growth of 17.6%
- The volume growth in Levels 1-4 (encompassing all SIBA brewers who receive Smaller Breweries' Relief) from just over 1.2m to just under 1.4m hectolitres is 15%
- There was a 4.3% fall in production in Level 5 (like-for-like membership)



**Figure 4: Total SIBA Beer Production 2008-11 (hectolitres)**

It should be remembered that these production statistics – which may provoke scepticism in some quarters – are verifiable; an overstatement of volumes is unlikely since it would raise a brewer's SIBA membership subs unnecessarily. In contrast to the overall figures, it should be noted that 11% of brewers saw their production in 2010 fall by at least 10% from 2009's level. And a further 14% reported little or no change year-on-year.



- The evidence, for yet another year, is of further growth in total smaller brewery production volumes. Almost since the introduction of Small Breweries' Relief, successive SIBA Industry Reports have reported an annual increase.

## STORIES FROM THE SIBA WEBSITE, January 2012:

"... best ever year has seen turnover rise by 12% ... exceeded £4m sales for the first time in 2011 ..."

Skinner's Brewery, Truro, Cornwall

"Our production for 2011 against 2010 was up 35% ... a fantastic result against the current economic climate, and a trend we have maintained for the past three years ..."

Backyard Brewhouse, Walsall, West Midlands

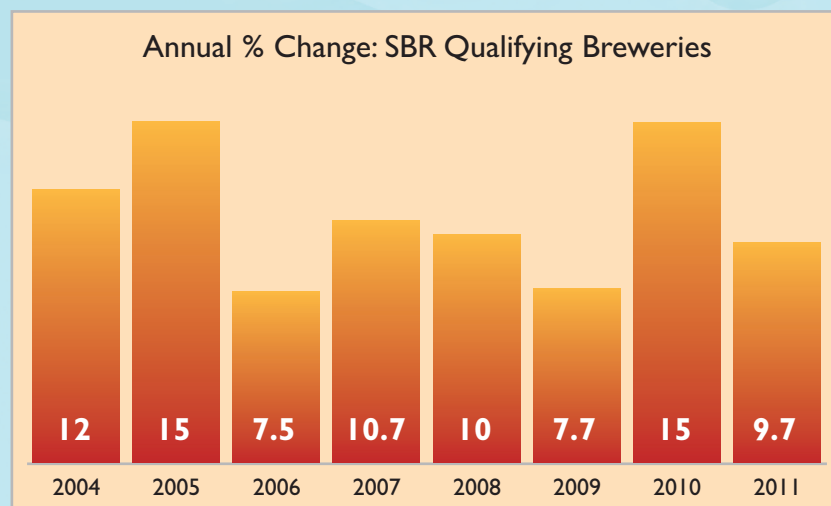
"... just three years old this month ... in 2009 we never imagined we would be brewing 30,000 pints a week three years down the line..."

Ilkley Brewery, West Yorkshire

"Sales increased 52% in December to record levels ... after a £4.2m expansion plan which tripled production capacity to 15 million pints of real ale a year ..."

Moorhouse's, Burnley, Lancashire

**Figure 5: Local beer production**



*Data is taken from annual surveys, as documented in Local Brewing Industry Reports, except for 2009 and 2010, where % increases are as indicated by Beer Production Account submissions 2008-2010; 2011 figure is the survey estimate from all participating brewers.*

## Making Local Beer Work

**“This move towards a progressive system of beer tax will help small breweries, often based in rural or economically marginal areas, by allowing them to increase investment and improve cash flow, one of the biggest threats to small businesses. In the long run it will also help create local jobs, as it reduces a major barrier to market entry. This will also promote choice and diversity for consumers.”**

**CAMRA press statement, 2002**

In common with most craft industries, small-scale brewing is labour intensive. Business Register and Employment Survey figures quoted by the BBPA record a total of 15,100 employees engaged in the manufacture of British beer in 2009.<sup>7</sup> Total beer production for the same year was 28 million barrels (46 million hectolitres).<sup>8</sup> This suggests one employee per 3,000hl of production; SIBA's research into micro and local brewing – up to volume production of 30,000hl per annum – indicates that the craft sector employs one person for every 500hl brewed.

### **Employment...**

**All breweries: 1 job per 3,000hl**

**Small breweries: 6 jobs per 3,000hl**

These statistics show that the small brewery revolution has therefore generated jobs well beyond its level of production.

- This is clear evidence that Small Breweries' Relief is an investment that creates sustainable jobs
- A year ago, SIBA reported that full-time-equivalent employment across all full brewing members had been calculated at 3,200 approx
- Extrapolation of responses from the latest industry survey indicates that there are now around 4,000 FTE jobs in SIBA breweries
- Brewers under 1,000hl employ an average of 2.5 people each
- From 1,000-5,000hl the average is 5-6 employees
- From 5,000-30,000hl the average number of jobs is 15-16

### **A similar story across the pond!...**

**“Despite a difficult economy, the craft brewing industry is thriving; creating jobs, supporting communities and generating revenue for the state of California. With over 270 independently owned craft breweries spread throughout our state, each brewery is an economic engine, creating good jobs, attracting tourism and supporting local economies. Craft brewing is labor intensive and proudly ‘inefficient’. Although craft brewers produce only 5% of the beer consumed in the US, we employ half of all brewery workers. That’s a lot of jobs!”**

**[www.californiacraftbeer.com](http://www.californiacraftbeer.com), 2011**

As the industry's trade association, SIBA is committed to co-ordinating and developing vocational training opportunities and programmes for brewery employees. The survey identifies the need for more to be done in this area, but also the difficulties any small company with a limited workforce faces in releasing employees from essential duties to engage in training courses. The availability of substitute labour to cover absence is cited as the principal barrier to take-up of training opportunities (by 55% of respondents). Issues of funding come a close second (52%). Most (75%) confirmed their awareness of the availability of suitable courses.

Within the coming year a SIBA-accredited training structure, developed in partnership with other industry bodies, is due to be put in place.



7. British Beer & Pub Association Statistical Handbook 2011, p119.

8. Beer Barometer Q4 2011, available to download from the BBPA website, [www.beerandpub.com](http://www.beerandpub.com)

# Building Sustainable Business

Giving small breweries 'the confidence to invest in their future' was cited by the Government at the time as a foremost reason for the introduction of Small Breweries' Relief. That this has been achieved is apparent, not only in the growth in the numbers of small brewery businesses, but in their operating experiences once established. Many companies that have built success are barely recognisable from their humblest of 'micro' origins.

- 68% of SIBA survey respondents have had to increase their brewing capacity since starting their businesses; 43 brewers (18% of all replies) have had to expand their production capabilities more than twice
- In order to cope with the growth of their output, 41% of brewers surveyed have had to relocate their premises at least once; 6% have moved twice or more
- 139 brewers (65% of answers received) report major capital investment during 2011; 18 of these have spent £50-100,000, 29 more than £100k; 60% of those investing have spent over £20k

As in previous surveys, SIBA brewers were asked about their priorities for utilising their duty relief savings. Respondents gave priority ratings for their business development options, on a scale of 0-5 (where 5 is most important).

**"We are in a position where we need to expand the size of the premises we are in, increase capacity and take on more members of staff..."**  
Keith Bott, MD of Titanic Brewery,  
quoted in the *Publican's Morning Advertiser*, 13th December, 2011

- 32% (60 replies) give 'top priority' ratings to increasing capacity and/or installing new equipment
- Average priority ratings are as follows:

* new equipment	3.5	* staff training	2.0
* more capacity	3.0	* systems upgrade	1.7
* marketing	2.5	* debt servicing	1.0
* profit retention	2.3	* pub acquisition	0.9
* more staff	2.2	* discount pricing	0.5
* new products	2.2		

Although three breweries (out of 200 who tackled the question) were prepared to give discount pricing a top priority rating, it is clear from the average response that price parity, rather than price under-cutting – in accordance with another of SBR's stated aims – is how the great majority of local brewers perceive their own pricing policies.

- 75% of respondents give discount pricing a zero priority rating

Pub acquisition is significant in the development plans of 12% of brewers, but remains far from becoming established as an industry-wide strategy. 67% of local brewers operate no pub of their own; 17% have just one – in some cases these are homebrew pubs with no expansion ambitions.

## The 'Micro Economy'

The scale of growth of the local brewing sector, underpinned by the investment support of Small Breweries' Relief, is evidence in itself of business building and economic stimulus. But its effects reach well beyond the brewing of beer.

- SIBA's membership includes 158 supplier associates, offering the full and extensive range of goods and services essential to local brewing

These companies – by no means all of which are exclusively specialist to brewing – pride themselves on their close liaison, through SIBA, with the industry. Commercial factors undoubtedly drive their enthusiasm, which prove the extent to which the economic benefits of SBR investment have permeated much more than the core activity.

- 40-50% of survey respondents report regular direct trading during the last twelve months with production equipment suppliers, dispense equipment supply/services, and design and marketing services
- From research commissioned by the Brewers of Europe, the BBPA extrapolates that each job in brewing supports 21 others in supply and distribution: one in agriculture, one in the supply chain, one in retail and eighteen in pubs<sup>9</sup>
- This indicates that, thanks to Small Breweries' Relief, SIBA local brewers play a key role in the creation of thousands of jobs across the British economy

9. Ernst & Young: The Contribution made by Beer to the European Economy, available to download at <http://www.brewersofeurope.org/asp/publications/index.asp>



# The Cost of Disinvestment

## The Tax Squeeze

In his March 2008 Budget, the Chancellor of the Exchequer raised beer duty by £1.25 per hl% (9.12%) and announced the introduction, from the following year, of an 'escalator' that would raise duty annually by 2% above the rate of inflation. His justification for this policy included the argument that, because incomes were rising and inflation was low, it was necessary to ensure that alcohol prices kept pace with living standards. The additional revenue anticipated was earmarked for spending to tackle child poverty.

**"Look at the tax on beer. That is going to hit every drinker in every pub."**

**David Cameron**  
Leader of the Opposition  
Budget Response, 22nd April 2009

- Since the beginning of 2008, beer duty has risen by 35%
- Duty was raised in December 2008 by almost 8% to offset the temporary reduction in VAT, which was intended to support every other sector of the economy; on resumption of the 17.5% rate, the duty hike remained in place
- VAT has subsequently risen to 20%
- Excise duty increases have raised the UK's share of total EU beer duty receipts to 40%; Germany drinks twice as much beer but pays only 5% of the total tax revenue

### Germany wins again...

United Kingdom:

13% of EU beer

40% of EU duty

Germany:

26% of EU beer

5% of EU duty

Of the twenty-seven member states of the EU, only Finland – a very minor beer producer – has a higher duty rate than the UK. In common with Germany, all other major brewing nations operate regimes that are supportive of their indigenous industry. No other country raises as much as 10% of total EU beer revenue.<sup>10</sup>

- The duty escalator is due to remain in place at least until 2014/15

## Falling Production, Diminishing Returns, Closing Pubs

In a prevailing economic and fiscal environment that discourages investment (except in the small brewery sector) overall beer production continues to decline:

- Total British beer production has slumped from 54.7m hectolitres in 2004 to 42.5m hectolitres in 2011, a drop of 22%<sup>11</sup>

Arguments that this is indicative of social trends rather than a consequence of punitive duty do not stand up against the corollary evidence that growth has been stimulated by benevolent taxation policies such as Small Breweries' Relief, or the exceptionally 'soft' excise structure for cider, which has enjoyed huge volume increases in recent years as major companies – including large brewers – have sought to take maximum advantage of the tax benefit.

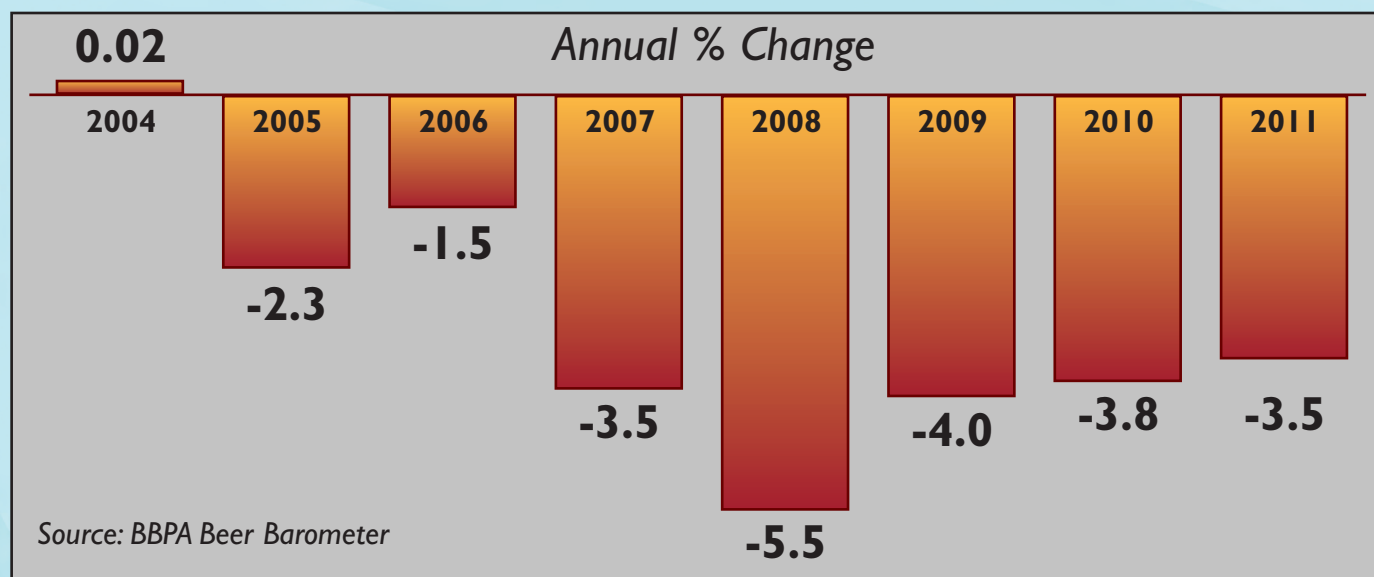
Brewers between 60,000–200,000hl annual production (SIBA Level 5) count as small brewers under EU definitions, but are beyond the current UK qualification limit for SBR. They are hit particularly hard by persistent increases in the headline duty rate, and as their profit margins reduce industry investment at this size suffers as a result.

- SIBA members in Level 5 (60,000–200,000hl per annum) averaged a 4.3% fall in production, 2009–2010

10. Ernst & Young: The Contribution made by Beer to the European Economy.

11. Beer Barometer Q4 2011.

## Figure 6: Total Beer Production



There might be a case for constant increases in beer duty if anticipated revenue were realised. However, whilst it is fully accepted that the Government needs to secure income, the evidence now suggests that its 'tax, tax, tax' methodology is failing.

- Since 2004 beer duty has risen by over 50%, securing an increased excise return of only 10%<sup>12</sup>
- The knock-on effect of falling beer sales, through lower receipts from VAT and employment taxes, adds to the shortfall

The impact of tax increases on the balance of sales via the two retail routes – off trade and on trade – further exacerbates the revenue loss. If they are to maintain viable profit margins, pub businesses have little choice but to increase prices in line with duty hikes. In contrast, major off-trade retailers are able to absorb increases and offer cut-price drink as an enticement to custom for their much broader product range. Much core business in community pubs has thus been lost, resulting in more pub closures.

- By 2010 the on trade's share of total beer sales had declined to 50.9%, from two-thirds in 2000, and over 90% in 1972<sup>13</sup>
- In addition to the excise duty escalator, the increase in VAT to 20% in January 2011 equalled a further 12% increase in the pub trade
- Pub numbers have fallen 16% from over 60,000 in 2000 to around 51,000 today

12. BBPA Statistical Handbook 2011, pp61-62.

13. Ibid, p20.

# The Cost of Disinvestment *Continued*

## **SIBA's Chairman Keith Bott, of Titanic Brewery, adds a personal perspective and an assessment of the disparities between excise structures for different alcoholic drinks...**

SIBA's political campaigns have always been based on an ethos of responsibility. Our industry contributes hugely to the British economy and to the social cohesion that is the cornerstone of British community. In recognising our responsibilities we understand the Government's requirement to raise revenue and the part we must play in that. We also understand that in raising revenue there should be fairness and a shared responsibility for the wellbeing of our customers.

The duty escalator, based on 2% above RPI, accentuates unfair disparities between current duty regimes. All other categories of alcohol have benefited from the presumption of a level playing field at the time the escalator was implemented:

### **Wine**

Whilst wine duty has been linked to beer the sector benefits from a banded duty structure with no disincentive to increase strength up to 15%. The wine industry has been able deliver more perceived value – as a way of mitigating duty rises – by increasing average strength for no additional tax.

### **Spirits**

The freeze in spirits duty – for an entire decade from 1998 – has seen the price of spirits compared to beer fall. Spirits are now the drink of choice for the majority of young people before they go out! The cost of production of spirits is below a quarter of that of beer, which reflects the need for spirit duty to exceed that on beer. The consequence of policies that erode duty differences and move regimes towards equivalence is to promote and encourage consumption of the highest strength form of alcohol. The UK now has one of the lowest ratios between the beer and spirits sectors in Europe, which is already driving consumers away from lower strength forms of alcohol.

### **Cider**

Cider duty is less than half that of beer, with the additional advantage of a banded duty system. This means that huge drinks corporations, such as Heineken, ABInbev and C&C, pay less duty per pint than the smallest micros that receive the full rate of full Small Breweries' Relief. It is this disparity that has led to such global giants making economic decisions to produce cider. The duty gap means they are able to maximise profits by swapping consumers from one fermented beverage to another of similar strength. Investment of a proportion of this fiscal benefit into marketing has seen cider production increase more than fourfold since 1980.

**If the rise in cider consumption had stayed with beer, revenue for this year alone (at an average strength of 5%abv) would have soared by £404m.**

This unlevel playing field is the fundamental flaw in the duty escalator policy introduced under Labour and adopted by the current Government. For a generation, the only benefit accorded to the brewing industry has been Small Breweries' Relief, which itself has highlighted just how much duty rates can influence market trends – with beer from small brewers showing the only growth in the market.

SIBA recognises that any form of Treasury giveaways are unlikely under current economic pressures; but rebalancing the system to allow the British brewing industry as a whole to flourish would bring benefit to health, society and revenue. In particular we believe that the cost of extending SBR could be paid for by making sure the gap between beer and cider is not allowed to widen further this year. The current duty difference between beer and cider at 5% is £56.98/hl.

Pegging the difference at its current level rather than applying across-the-board percentage increases would not only avoid the gift of yet another windfall to cider – this time of around £37.5 million – it would also constitute an investment in the brewing industry, which would at least be the first step towards a better deal for British brewers.

**In SIBA we remain fully committed to pragmatic reform of alcohol duties, taking our share of responsibility, and speaking out on behalf of a British Brewing Industry, large or small, of which we should all be proud.**



# Consequences and Implications

As pubs close and the off trade's share of drinking increases, alcohol consumption is shifting increasingly to unlicensed and unsupervised environments that are less conducive to moderation and responsibility. Current taxation policies contribute to this trend; escalating beer duty runs counter to the Government's own stated aims – *and* the social imperative – to encourage moderate consumption of low-strength drinks in convivial surroundings, to support community pubs and, in tackling alcohol-related problems, not to penalise the overwhelming majority of responsible drinkers.

For small craft brewers, enjoying buoyant growth in numbers and volumes, the threats are not so immediately apparent, until consideration is given to the sector's dependence on the pub trade:

- 82% of SIBA brewers' production is draught beer, destined for retail in the on trade; 97% of this is cask-conditioned real ale – a time-honoured style of production that is almost exclusive to British brewing and completely reliant on a healthy pub industry for its survival
- The choice and diversity within the real ale portfolio – SIBA brewers offer an estimated 3,000 permanent brands plus around 4,000 seasonals and specials – cannot be sustained without pubs

It is simplistic to argue the converse viewpoint – that the burgeoning range of distinctive craft beers now available can alone create a 'USP' to guarantee the survival of the wider pub market. Specialist beer outlets exist and are increasing, but most pubs at the heart of their communities are more prosaic, and they need the support and patronage of a broader-based demographic mix, able to afford a visit to the pub without it being seen as an occasional and expensive treat. It is this 'backbone' of the population that is being lost to the off trade and thus accelerating pub closures.





# Purpose and Principle

The hub of the case for investment is that it has yielded economic dividends – tangible employment, commercial and fiscal contributions from an invigorated industry that have proved sufficient to more than compensate for the initial outlay. This is central to any appeal to the Treasury to acknowledge that there is a supportive alternative to escalating taxation that can fulfil revenue requirements.

But the dividends do not stop there. The explosion of breweries and diversity of products have created a choice for the interested and discerning beer drinker that is unparalleled in modern times. Nor should the way in which a strong local brewing sector has been able to organise itself, primarily through this trade association, to work together for mutual commercial advantage and to deliver its positive ethical messages, be overlooked.

## Enriching the Market

**“...taxation can play an important role in ...supporting investment, and promoting the availability of a diverse range of products for consumers.”**

**John Healey, Economic Secretary to the Treasury,  
July 2003**

Early CAMRA Good Beer Guides listed all available real ales in their Breweries section, categorised by type, using a simple system of coded symbols:

- draught bitter
- draught mild
- ◼ draught old ale or special brew

If a brewer produced more than one of a style, these were identified by a number inserted in the relevant symbol; thus thirty-five years ago Wadworth of Devizes had three draught bitters – 6X, IPA and Pale Ale – identified as ①, ② and ③<sup>14</sup>

This same Good Beer Guide recorded the existence of 308 beers brewed at 122 plants where cask ale was being brewed. They were not all different brands – there were six Whitbread Trophies, two Tetley Bitters, and even Greene King's Abbot Ale had two listings (in Bury St Edmunds and Biggleswade). Of the total 91% were bitters and milds – only twenty-seven were old ales, special brews or barley wines.

- This year 216 SIBA survey respondents report a total of 1,318 cask beer brands in their core portfolios – an average of over six beers per brewery
- It is therefore a conservative extrapolation to suggest a total of 3,000 real ales brewed year-round by the full membership
- 201 replies list 1,568 seasonal, one-off or special beers – even allowing for the slightly lower response this indicates a further 4,000 brands appearing on the market during the year
- In addition, craft brewers are increasingly packaging their beers in bottle or keg:
- 18% of total production is bottled; extrapolation of survey responses suggests the availability of about 2,000 bottled brands from SIBA brewers
- Twenty-seven survey replies report that keg beer is part of their production; one of these is exclusively a keg beer brewer

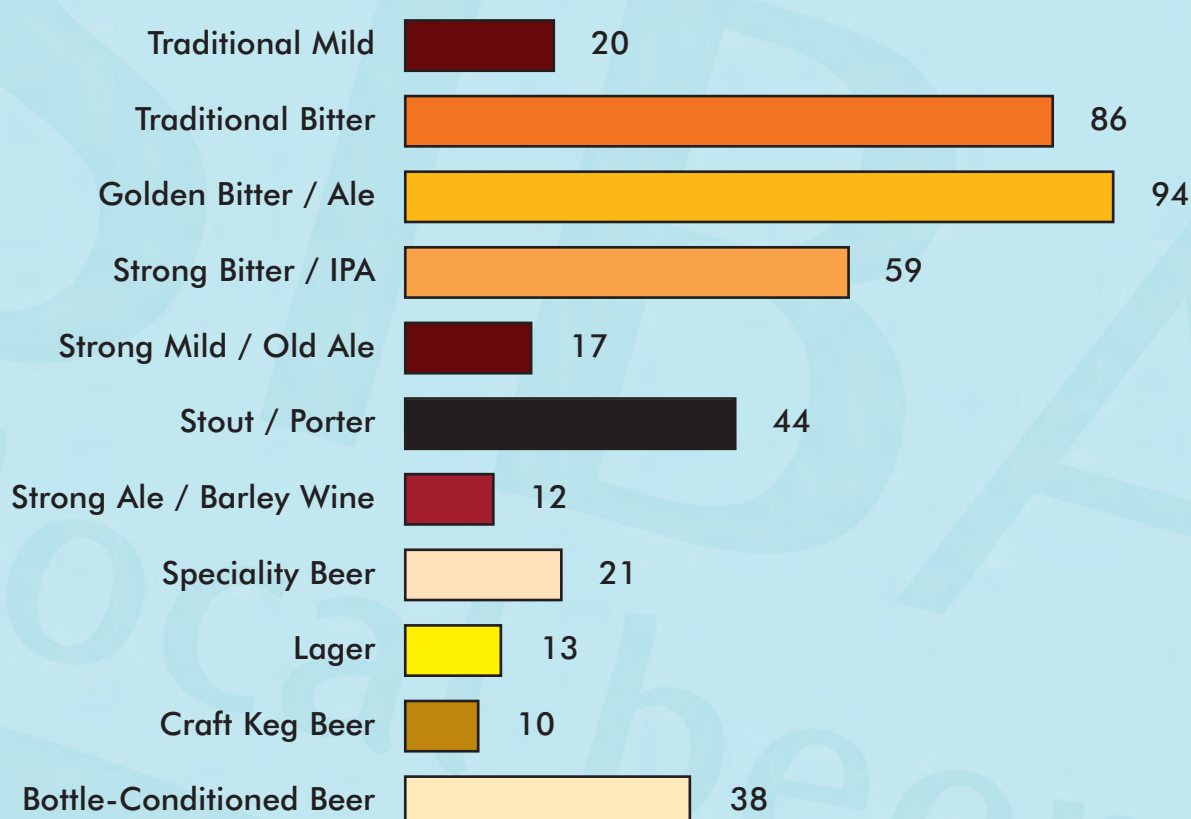
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14. Good Beer Guide 1977, published by CAMRA.

Asked about the beer styles they brew on a regular basis, survey respondents give clear evidence of just how much imagination and innovation they have introduced to the industry, both by the re-creation of styles that had disappeared in cask form by the 1970s (porter, stout, genuine IPAs) and by the embracing of new or imported trends (golden ales, speciality beers). Draught bitter remains core to the range of virtually every brewer, but it is now more likely to be pale, golden or straw coloured, incorporating the citrus flavours of New World hop varieties. At the opposite end of the beer colour spectrum, the growing popularity of stouts and porters emphasises the diversity of choice available to the increasingly 'promiscuous' modern beer drinker.

Speciality beers and powerful, heavily hopped IPAs reflect the 'cross-pollination' of innovation between UK craft brewers and their contemporaries around the world – especially those in the USA. This is further borne out by the growing trend of packaging these beer styles, lightly carbonated, in keg containers – like their overseas counterparts.

**Figure 7: Beer Styles in regular production, by % brewing**



SIBA's Direct Delivery Scheme continues to develop trading opportunities, for micro businesses with macro suppliers, which would not exist without a unified industry strategy.

- 81% of SIBA brewers surveyed are members of the Direct Delivery Scheme (177 out of 219)
- DDS on-trade sales have risen 6.6%, from £9.57m in 2010 to £10.2m in 2011, to a total of 2,149 outlets during 2011

The share of brewers' total sales taken by DDS customers is an average 8% – a significant amount, but small enough to preclude over-dependence on accounts that are by no means guaranteed long-term. The scheme was developed to generate market openings in pubs restricted by tied supply agreements, and the gradual erosion of these and increasing frequency of free-of-tie agreements mean that SIBA's Access to Market commercial project team is constantly investigating alternative supply routes.



## Ethical Credentials

A decade on from the introduction of Small Breweries' Relief and local brewing is overwhelmingly a youthful sector, with many new entrants who have swelled the diminishing ranks of a traditional manufacturing industry. Microbrewers have inherited and embraced time-honoured methods, but at the same time they have refreshed British brewing and brought it firmly into the modern age.

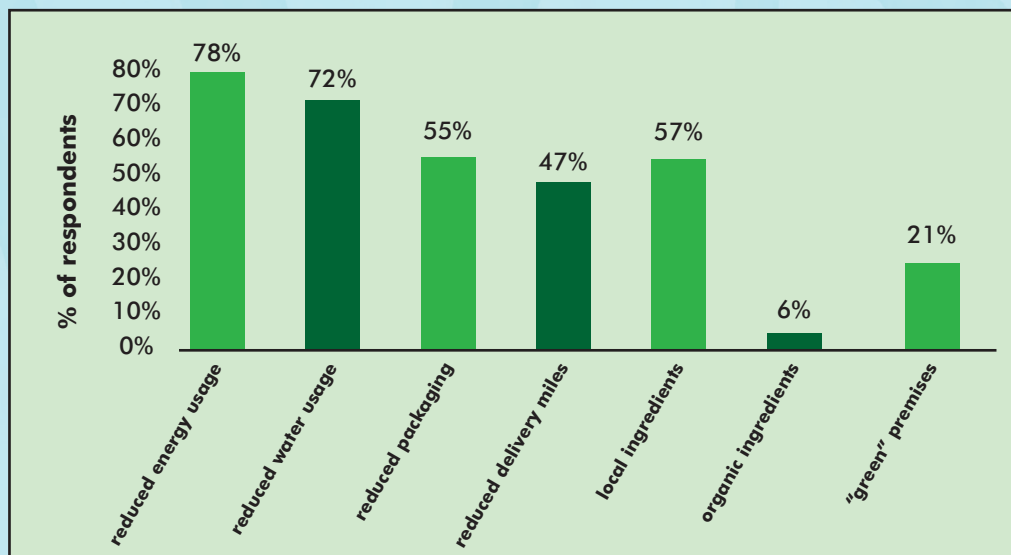
This is not to deny that high standards of local engagement and community service have long been the hallmark of the smaller old-established regional brewers, whose localism was (and often still is) defined by the geographical range of their tied pub estates.

But the sheer numbers of small brewers have generated a much higher profile, for a body of independent companies that has rapidly evolved into a 'movement' with identifiable social mores and ethical foundations, adopting many of the values of generations of family brewers but at the same time leading the modern industry towards a sustainable future.

**"...a brewery that epitomises the ethics of local brewing, but has been doing that for much longer than the average SIBA member... Good-beer focused, people-focused, community-focused – it's a long time to have been flying the flag since 1794, but they do it, and long may they continue to do it."**

**SIBA Business Awards judges' comments, on presentation of the overall Highly Commended to Palmers of Bridport, 13th November, 2011**

**Figure 8:  
Local Brewers'  
Commitment to  
Environmental  
Initiatives**



As in previous years' surveys, the solid degree of support for sustainable, 'green' and ethically driven business is impressive.

➤ About three-quarters of survey replies confirm commitment to reduced utilities usage

**"...the Adnams Bio Energy facility in Southwold...converts Adnams brewery waste and local food waste from Adnams pubs and other local businesses, hotels, restaurants and schools into biomethane which can then be used as green gas for the National Grid."**

**Description of the grass-roofed anaerobic digester installed on the outskirts of Southwold**  
<http://adnamsbioenergy.co.uk>

Asked for the first time about the construction of 'green' premises – out of bio-materials, of energy-conserving design and incorporating heat-exchange systems – a positive answer from over one fifth (21%) of respondents is a significant indicator of trends.

Mill Green Brewery in Suffolk, 2009 winner of SIBA's Business Awards for Innovation and Environmental Initiative, is proud to boast of its ecological credentials, which include: a borehole dug for all brewing and other water used on site; a brewery building made of local wood, reclaimed bricks, sheep's wool and lime plaster; bio and solar power heating; a local field growing organic malting barley and hops; and a campsite with solar-powered showers and a wind turbine! 'Probably the greenest brewery in the world' is its claim.<sup>15</sup>

15. [www.millgreenbrewery.co.uk](http://www.millgreenbrewery.co.uk)

Responsibility regarding alcohol marketing and awareness education is co-ordinated and monitored by industry-sponsored bodies, the Portman Group and the Drinkaware Trust.<sup>16</sup> SIBA's industry questionnaire asked brewers about their own awareness and corporate social responsibility.

- 40% of survey respondents confirm their compliance with all labelling guidelines; 14% claim to be extremely well informed and actively participating in responsibility messaging and industry best practice
- 35% believe they are at least satisfactorily aware of guidelines and requirements; 25% admit a lack of proactivity and a need to do more, although many of these do adhere to some of the guidelines

SIBA is pursuing a policy of active engagement with harm-reduction campaigners, determined that they should recognise and acknowledge the value of community pubs, where beer is still the low-strength drink of choice for the majority of customers.

**"...we believe in encouraging responsible drinking and are certain that this improves quality of life for all, as well as community cohesion."**

**Don Shenker, Alcohol Concern Chief Executive,  
writing in SIBA Journal, August 2011**

## A Quality British Industry

As a members' association, SIBA continues to develop its services to raise industry standards across all areas of operational performance and best practice. Access to Market initiatives and Cellar and Dispense Services are run as wholly-owned commercial enterprises. Helplines offer brewing technical support and legal, business and employment advice. Joint-purchasing schemes secure bulk-buying prices for small businesses, for items such as beer mats, glassware and bar towels. The Trade Directory of associate members gives speedy access to the full range of supply and support companies. SIBA Locals – the revived pub associate members scheme – is striving to develop the links and synergies between local brewers and the retailers who champion their beers. The regional and national beer competitions continue to push brewers to achieve the very highest levels of beer quality. And 2012 has seen the launch of NCRNet – National Container Repatriation Network – an industry-wide initiative that is uniting stakeholders in a structured system to expedite the return of casks and kegs to their owners.



- None of this, however, will prove to be of any worth unless the Government commits itself to the retention of Small Breweries' Relief *and* takes action to ease the pressures on pubs and the wider brewing industry
- Asked each year about the importance of all aspects of SIBA membership, survey respondents consistently rate defence of SBR as most essential to their continued business success
- In the latest survey, 72% confirm that the investment made possible by Small Breweries' Relief would cease if it were withdrawn
- 60% consider Small Breweries' Relief to be key to their business survival

16. [www.portmangroup.org.uk](http://www.portmangroup.org.uk) and [www.drinkaware.co.uk](http://www.drinkaware.co.uk)

# In Conclusion...

The Society of Independent Brewers welcomed the Coalition Government's statements of support for British brewing, its appointment of a pubs minister and its alcohol taxation review, and we hoped for the evolution of a 'joined up' beer strategy that would remove the conflicts and anomalies in existing policies. We are grateful for the active support of individual MPs from both Coalition partners, and ask that ministers take heed of the arguments they have put on our behalf.

We are acutely conscious of the economic imperatives that must drive the formulation of fiscal policies; but we contend that a broadening of the investment approach that is central to the success of Small Breweries' Relief is the way to reinvigorate the wider industry and secure the revenue returns that are required.

## SIBA calls for positive Government action NOW

- ✓ The **Duty Escalator** must be abolished
- ✓ **Excise Structures** should be set based on revenue and the way in which they influence the market to encourage the responsible consumption of lower-strength products
- ✓ The **Headline Rate** of beer duty should be reduced or frozen
- ✓ Commitment should be made to retain **Small Breweries' Relief** at least at its current levels
- ✓ The **Qualifying Limit** for **Small Breweries' Relief** should be increased to include all brewers eligible under EU law
- ✓ The **Lower Thresholds** for **Small Breweries' Relief** should be increased to promote further growth
- ✓ **Below-Cost Selling** legislation should take account of all cost analysis factors
- ✓ Any moves to introduce **Minimum Pricing** should target price-cutting in the off trade, without adverse effect on on-trade sales
- ✓ A **VAT Reduction** for on-trade businesses, as successfully introduced in other EU states, should be considered as a stimulus to the British pub industry