SIBA BRIEFING

BACKBENCH DEBATE ON ALCOHOL DUTY REVIEW

| Thursday 7 July 2022

OVERVIEW

- In the Autumn Budget, the Chancellor announced large-scale changes to the alcohol system which may be positive for the Global brewers but without changes could harm the competitiveness of the UK's small independent brewers.
- The combination of changes could make it more difficult for independent brewers to compete against the large companies that dominate the sector. This threatens the future of the craft beer industry, local jobs and consumer choice.
- Small brewers are asking the Chancellor to let them compete by tweaking the new alcohol system to level the playing field.

SMALL BREWERS' CONCERNS

- **Lower duty rate:** Widening the lower strength alcohol rate from 2.8% ABV to 3.4% will give big brewers a huge incentive to reformulate their beers and undercut smaller brewers, who will be unable to compete.
- **Small Producer Relief:** There is no guarantee that the full relief, currently provided under Small Breweries' Relief (SBR) will continue.
- **Draught Duty:** The new Draught Products Rate may only apply to containers of at least 40 litres and excludes 20 and 30 litre containers used by small brewers and vital for smaller pubs serving fresh traditional ale.
- **Cider rate:** Cider retains a much lower general rate (as well as the small cider ("farm gate") exemption), meaning that it has the duty rate 46% of that on beer.

SMALL BREWERS' SOLUTIONS

- **Full SBR:** Ensure that relief for small brewers fully applies in cash terms to the lower rate, main, higher and the Draught Products Rate so small brewers can continue to compete.
- **Make It 20:** Extend the Draught Duty to include beer in all kegs and casks of 20 litres and above.
- **Equal treatment of cider:** Commit as soon as practicable to equal tax treatment of beer and cider.

KEY FACTS ABOUT BREWERIES

- There is a small independent brewery in nearly every constituency in the UK
- Small independent brewers make around 6% of the beer in the UK and four global breweries control 88% of the market
- 40% of small brewers own, lease or rent pubs and 70% run a taproom, shop or visitor centre on the brewery site
- 75% of consumers and 81% of women say it is important for their local pub to stock a range of beers from small breweries (SIBA/YouGov survey 2022)
- During Covid-19, small brewery's production of beer fell 40% with the closure of pubs. While 2021 saw it rebound, it still remains 16% below 2019 levels
- The UK lost 160 active brewers during the pandemic
- The UK's small independent brewers expect to create 730 jobs in 2022
- 1 in 3 brewery employees are female and 11% of the brewery workforce is aged 16-24

SMALL BREWERS RELIEF

- Small Breweries' Relief (SBR) exists to help smaller craft brewers compete in a marketplace dominated by large and global brewers. Introduced in 2002 (this year is its 20th anniversary) it is used by brewers to invest in their businesses, create new jobs and compete with global companies. It allows smaller breweries who make less beer to pay a more proportionate amount of tax, like lower earners and income tax.
- For brewers that produce up to 5,000 hectolitres (hl) a year (approximately 900,000 pints) it means a 50% reduction in the duty they pay. Above 5,000hl brewers pay beer duty on a sliding scale, up to the same 100% rate that global brewers pay.
- The Treasury has been reviewing SBR since 2018 and last year announced that the 50% rate would be reduced to 2,500hl, that it would move to a cash basis and it would become part of Small Producers Relief.

NEW DUTY BANDS

The Government is intending to simplify the current system by moving to a standardised series of bands. For small brewers this will mean that:

- The reduced rate will be widened from 2.8% to 3.4% ABV with a reduced rate of £8.42 instead of £19.08. SIBA is concerned that this could undermine the current innovation in the industry by allowing large brewers to undercut smaller ones. It is highly likely that large companies will alter their recipes to take advantage of this cost which could cost the Treasury at least £200 million in lost duty revenue every year.
- While it is welcome that for the first time SBR will apply to beer below 2.8%, currently independent brewers receive full Small Brewers Relief of up to 50% on beer between 2.9% -3.4% and it is not clear that this relief will continue under this new band and a move to a cash basis. To ensure that independent brewers can compete, the SBR differential must be fully maintained at this lower level.
- The high strength band will be expanded from 7.5% to 8.5% which is positive but this means that SBR no longer applies on the general rate of duty above 8.5%. This will potentially undermine the innovative new products that have emerged at this level including Barrel Aged Imperial Stouts and Double IPAs.

CIDER DUTY

- Cider continues to benefit from a much lower rate of duty than beer. This is a missed opportunity for the Treasury to equalise cider and beer as substitute products on the bar.
- The Treasury states in its consultation document that “all products should be taxed in direct proportions to their ABV” and that the “existing system for cider is unfair and distortive”. Yet it has chosen to retain the farmgate exemption, meaning 80% of all UK cider makers pay no duty at all.
- Global producers of cider, which have a lower production cost, account for 87% of the volume sold in pubs and will benefit from a duty rate 46% of that on beer.
- Taxing cider at the same rate as beer could raise £360m extra every year or better still, the two rates should be equalised.

DRAUGHT DUTY

The Treasury is planning to introduce a reduced rate of approximately 5% for draught products below 8.5% ABV in large containers of at least 40 litres in size which is a game changer for the beer and pub sector. Small brewers would like the Treasury to:

- **Expand the reduced rate:** Europe Economics has shown that a 5% reduction would see an additional 4.5 million litres of beer being sold and lead to a net increase of around 1,000 jobs. If the Treasury could increase this to 50%, CEBR has suggested that this could see an additional 60 million litres of beer sold and create more than 7,700 additional jobs.
- **Introduce the rate as soon as possible:** the industry has been hit hard by the Covid pandemic and seeing the rate introduced in 2022 would help it recover. It should also apply in Northern Ireland.
- **Expand the scheme:** Small brewers and community pubs use 20 and 30 litre containers to ensure that fresh beer is provided to pubs. SIBA would like to see the Treasury *Make it 20* and include all containers of at least 20 litres in size.

SMALL PRODUCER RELIEF

- The Treasury is intending to expand the successful SBR to include small producers producing alcohol below 8.5% ABV. This recognises the role that SBR has played in creating an innovative beer sector.
- However it is imperative that small brewers are still able to compete at all duty levels including the lower, main, higher and draught duty levels.
- The Treasury is intending to change the way that relief is calculated by translating it into hectolitres of pure alcohol (HLPA). This means it’s not only based on total production but also a brewers’ average ABV, which adds an additional complexity for small businesses. This would also act as a “cash cap” and discourage brewers from producing the full range of products and discourage innovation.
- They also intend to set the start and end point of relief using an average ABV. Small brewers believe that this should be based on the average ABV of small producers and not the UK average which is skewed towards Global brewers.
- The Government also intends that products above 8.5% ABV will determine the level of relief a producer receives, even though those products do not benefit themselves from relief. This will have significant negative implications for small brewers that produce other alcoholic products, particularly spirits. SIBA believes that only products up to 8.5% ABV should be included in this calculation.

SUGGESTED QUESTIONS FOR THE EXCHEQUER SECRETARY

1. Many small independent brewers and community pubs use 20 and 30 litre containers for their beer. Will the Exchequer Secretary confirm that the draught duty will include beer in all kegs and casks of 20 litres and above?

2. The new draught duty rate will support our community pubs which are at the heart of our community. Will the Exchequer Secretary consider going further than the 5% discount so that the policy can help our hospitality sector to recover from the Covid pandemic?

3. It is likely that Global brewers will alter their recipes to benefit from the widening of the reduced rate for beer to below 3.5% ABV, which could cost the Treasury millions of pounds in lost duty revenue. What assessment has the Exchequer Secretary made of the impact of this?

4. Under the proposals cider will pay a duty rate of 46% that of beer. Has the Exchequer Secretary considered the merits of equalising cider and beer duty?

5. Small Brewers Relief celebrates its 20th anniversary this year, and has led to an expansion in the number of breweries and variety of beer. Will the Exchequer confirm that the full SBR rate in cash terms will be maintained at the new lower rate?

6. Small breweries that also produce spirits are concerned they will be penalised under the new Small Producer Relief, where the total production of all alcoholic products determines their relief. Will the Exchequer Secretary confirmed that these businesses will not be penalised for expanding their businesses?

7. Will the Exchequer Secretary confirm that the Small Producer Relief will be launched at the same time as the other alcohol duty changes next year?

ABOUT

The Society of Independent Brewers (SIBA), was established in 1980 to represent the interests of the growing number of independent breweries in the UK. SIBA now represents around 700 independent craft breweries.
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