SUBMISSION FROM SCOTCH WHISKY ASSOCIATION

Introduction

1. The Scotch Whisky Association (SWA) is the trade association for the Scotch Whisky industry. Representing over 90% of the industry, members include distillers, blenders, and bottlers.

2. The SWA welcomes the opportunity to provide written evidence to the Scottish Parliament's Scotland Bill Committee.

3. This response addresses the question relating to control of excise duty on alcohol. The question posed by the Committee also provides an opportunity to highlight and review opportunities for removing the tax discrimination against Scotch Whisky which flows from the current UK excise duty regime.

Scotch Whisky plays a vital role in the Scottish and UK economies.

4. Scotch Whisky is Scotland's second largest export after oil and gas. It accounts for around 80% of Scotland's food and drink exports and nearly 25% of the UK's total food and drink exports. In 2010, exports rose to £3.45 billion (at Customs valuation), earning £110 per second for the UK’s balance of trade. Scotch Whisky employs 10,300 workers directly with another 35,000 jobs across the UK supported by the industry.

5. Scotch Whisky retail sales in the UK contribute between £600m-£700m annually in UK excise duty\(^1\). In addition, there are significant additional tax receipts from income tax, VAT, National Insurance and Corporation Tax.

Background

6. The Scotch Whisky Association has consistently advocated the introduction of a UK excise duty regime for alcohol where a single duty rate is applied to all alcoholic drinks according to alcohol content (abv). This has been variously termed “duty equivalence” or “duty approximation”.

7. The Scottish National Party has campaigned and lobbied for the removal of the tax discrimination against Scotch Whisky (which flows from the current UK duty regime).

8. We believe that the current Scottish Government supports duty equivalence/approximation for all alcoholic drinks. The SNP election Manifesto committed the party to ending the current discriminatory UK tax regime.

\(^1\) HMRC Spirits Bulletin
Duty Discrimination and Duty Equivalence

9. The Scotch Whisky industry believes that fairness is a fundamental concept that should underpin any duty system. The Scotch Whisky industry strongly advocates equivalence or approximation of alcohol duty rates.

10. The current UK excise duty system discriminates between competing alcoholic products. Currently, Scotch Whisky is taxed more heavily than other alcoholic drinks in the UK. Scotch Whisky is taxed 250% more than the same amount of alcohol sold as cider, 37% more than beer and 30% more than wine. This distorts the market and consumer choice.

11. Alcohol is alcohol regardless of whether it is served as cider, beer, wine or spirits. Equivalence/approximation of excise duty is the only fair, transparent and responsible way to tax alcohol; consumers would pay the same tax per unit/degree of alcohol whatever drink they choose.

12. The current UK excise duty policy, which increases alcohol duty by 2% above inflation every year up to and including 2015 (the "duty escalator"), entrenches, and will widen, the tax discrimination faced by Scotch Whisky in the UK. Industry competitiveness in the UK market is being harmed.

13. Duty equivalence/approximation would remove disincentives to marketing whisky in the UK and support distillers who rely on domestic sales as a foundation for their business. In addition, duty equivalence would help protect jobs in Scotland. A UK duty regime where tax for all alcoholic drinks was applied equally by alcohol content would set an invaluable tax precedent which the industry could use in its negotiations with foreign administrations who justify tax discrimination against Scotch Whisky on the basis of the current discriminatory UK duty regime.

14. The current UK duty structure erroneously implies that lower strength alcohol products are in some way healthier. Approximating duty across all drinks, according to alcohol content, would help promote individual responsibility, raise awareness of moderate consumption and help underpin the message that it is the amount of alcohol consumed and the pattern of consumption that is important, not the type of drink chosen.

Financial benefits of duty equivalence

15. Duty equivalence at the UK level could raise additional revenue of between £5.7bn and £7.5bn on a cumulative basis between 2011/12 and 2014/15. Other similar studies, while taking different approaches to the direct impact of duty equalisation, also demonstrate a consistent outcome of higher revenue from duty (and VAT) flowing to Government. It is not possible to break the figures down for Scotland alone.

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2 'The direct impact of alcohol duty equalisation on tax receipts' PriceWaterhouseCooper August 2010 and 'Equalisation of taxation of alcoholic drinks' Optimal Economics Ltd, August 2010
Addressing the price of alcohol / Ban on Sales below Cost

16. The Scotch Whisky industry strongly advocates the introduction across the UK of a retail ‘floor price’ for alcohol, representing the duty and the VAT payable on that duty.

17. The ‘floor price’ mechanism should be combined with UK excise duty reform where all alcohol is taxed on the same basis according to alcohol content. This would be a major step forward. It would address many of the concerns in Scotland about tax discrimination against Scotch Whisky. It would also provide a legal way of addressing concerns about alcohol pricing and loss leading sales of alcohol. It would make unnecessary the potentially illegal introduction of minimum pricing per unit of alcohol in Scotland.

Devolution of excise duty on alcohol

18. The SNP has stated that it needs control of excise duties so that it could 'tackle the problems of alcohol abuse and benefit the public purse.'\(^3\) We await publication by the Scottish Government of the reasoned case for the devolution of alcohol excise duty, which we understand has been promised to the UK Government in support of the Scottish Government's proposal.

19. The Scottish Government has also stated that it would be able to 'deliver a fair deal for Scotland's whisky producers by ending the current discriminatory UK tax regime'.\(^4\) Although the Scottish Government has given no formal indication of the duty rates it would seek to introduce, SNP policy has supported equivalence/approximation of duty on all alcoholic drinks, according to the alcohol content. Devolution of excise duty to Scotland would in theory allow the Scottish Government to move to a duty equivalence regime.

20. For the Scotch Whisky industry, the attraction of devolving alcohol excise duty to Scotland (assuming that the current Scottish Government moved quickly to introduce duty equivalence/approximation for all alcoholic drinks and so remove the tax discrimination against Scotch Whisky) is heavily outweighed by formidable obstacles and disadvantages to business.

21. Although the production sites are based in Scotland, the Scotch Whisky industry operates on a UK wide basis (reflecting the single UK duty/duty suspension regime). Duty suspension controls, stock keeping, warehousing, distribution channels, transport logistics and financial controls are all conducted within a single UK structure. This brings business efficiency and assists the industry's competitiveness.

22. Management of an excise duty regime is complex. HMRC rules apply from the moment cereals enter a distillery, through distillation, maturation, bottling and the

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\(^3\) Scottish Parliament Official Report May 2011 c67

holding and movement of bulk spirit and finished goods up to the point they are released from bond for consumption in the UK (or are exported). Different duty regimes north and south of the border, and possibly different regulators, would fragment and disrupt the industry. The industry, whether at production, distribution or retail level, would face massive dislocation across its business models.

23. Excise duty is levied and collected (following a period of duty deferment) at the point when the product is released for consumption from the bonded warehouse – wherever it is located in the UK - not at the point of sale to the final consumer. Without excise controls on the English/Scottish border, there would be significant market distortion. Retailers would buy/release from bond at the “cheapest” duty point in the UK; many Scottish consumers would buy their alcohol via internet companies based in England or shop cross border in England to take advantage of cheaper prices (cf cross Channel purchases). There would be significant opportunities for increased fraud and organised criminal activity.

Possible EU constraints


Conclusion

25. The SWA believes that the Scotch Whisky industry is unfairly taxed under the current UK duty regime. A tax equivalence regime, where alcohol is taxed according to alcohol content regardless of what type of alcohol it is, would be fairer to producers and consumers. It would also avoid the supposition that some drinks are ‘healthier’ than others.

26. We strongly advocate reform of the UK excise duty regime to introduce duty equivalence/approximation according to alcohol content. To address concerns over the pricing of alcohol, this should be coupled with the introduction of a floor price (duty and VAT on that duty).

27. The disruption to trade, additional costs to business, opportunity for fraud and the unknown implications of additional Customs procedures and controls outweigh for the Scotch Whisky industry the attractions of possible duty reform under a devolved duty system.

28. To achieve its objectives of abolishing duty discrimination against Scotch Whisky and reducing alcohol abuse in Scotland, the Scottish Government should lobby the UK Government for change in the UK duty regime whereby all alcoholic drinks are taxed at the same rate according to alcohol content.
Scotch Whisky sales in the UK contribute between £600m-£700m annually in excise duty.
Scotch Whisky exports in 2010 rose to £3.45 billion, earning £110 per second for the balance of trade.
Scotch Whisky is taxed in the UK more heavily than other alcoholic drinks. This sets an unwelcome precedent for other administrations.
Tax equivalence/approximation would ensure all alcohol is taxed on the same basis according to alcohol content.
The Scotch Whisky industry supports a ban on alcohol sales below cost, based on duty and VAT. This offers a balanced, legal alternative to minimum pricing.
Duty equivalence – taxing all drinks on the same basis according to alcohol content - offers the opportunity to enhance revenues, support a key British industry, and introduce a socially responsible system.
The additional complexity, added costs across the supply chain and disruption of trade resulting from a devolved duty regime outweigh the attractions of possible duty reform for the industry.
Scotch Whisky producers urge the Scottish Government to press the UK Government to deliver a fairer duty regime and a tax based floor price across the UK.

Scotch Whisky Association
22 September 2011