SUPPLEMENTARY SUBMISSION FROM THE SCOTTISH BEER AND PUB ASSOCIATION

Summary

- ‘Equivalence’ in alcohol taxation would undermine public health objectives, and have a negative impact on economic growth and employment.
- Brewing and pubs support 71,000 jobs in Scotland compared to 45,000 across the entire UK from Scotch Whisky, so the latter does not merit special treatment in taxation policy.
- 95 per cent of Scotch Whisky is exported outside of the UK, and hence would not benefit from more favourable taxation treatment at home.
- Almost all countries tax beer less than higher-strength drinks such as spirits. The costs of producing and retailing alcohol in the form of lower strength drinks such as beer is considerably more than for spirits and whilst all drinks can be abused, clearly the risks of over-consumption are greater for high strength products.
- The duty ratio of spirits to beer is already more favourable to spirits than in almost every other EU country. Further moves in this direction would create a tax policy totally at odds with the approach elsewhere.
- People in Scotland drink 81 per cent more alcohol in the form of spirits than those in England and Wales, whilst beer consumption is approximately equal.
- Beer taxes could rise overnight by 20 pence per pint, with a devastating impact on Scottish pubs.
- Under EU taxation law the Scottish Government cannot ensure favourable treatment for Scotch Whisky without doing the same for gin, vodka and other white spirits.

Introduction

In the Scottish Government’s recent paper on excise duty it is stated that ‘In principle, the Scottish Government favours a regime that more closely aligns tax rates with alcohol content’. This is in alignment with the views of the Scotch Whisky Association’s position which advocates 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”.”

This submission will set out why we believe such an approach is misguided. It would undermine public health goals, have a negative effect on economic growth and employment and would be unfair to pubgoers. It would also be sharply out of step with taxation policy in the rest of Europe and the views of the World Health Organisation.
Economic contribution of beer and pubs in Scotland

It is often argued that the Scottish Government should be supporting the Scotch Whisky industry due to its economic importance to the country. However, the importance of the brewing and pub industry is also very significant, and deserves support.

A recent study by Oxford Economics (for the British Beer & Pub Association) found that the sector sustains 49,960 direct jobs in Scotland and 71,093 in total when indirect and induced jobs are included. This compares to a total of 45,300 jobs supported by Scotch Whisky in Scotland. The beer and pub sector also adds nearly £1.5 billion in value to the Scottish economy. Any taxation policy that penalises beer would be likely to cost jobs and damage the Scottish economy.

The majority of beer produced in Scotland is consumed within Scotland (or the rest of the UK) and is therefore subject to UK duty rates. This is not the case for Scotch Whisky, where approximately 95 per cent of the product is consumed outside of the UK and not affected by UK (or Scottish) excise duty rates. Whilst Scotch Whisky contributes very significantly to the UK balance of payments, UK excise duties do not discriminate against imports. It cannot reasonably be argued that the current UK rates are the equivalent of import tariffs imposed in some other countries.

Why spirits are taxed more per unit than other drinks

It has long been the case that spirits have been taxed more heavily (per unit) than other drinks in the UK, as in the majority of the world. One reason given, by the World Health Organisation, for this is that ‘production costs per litre of pure alcohol are higher for making wine and beer than distilled spirits.’

Work carried out by PriceWaterhouseCoopers in 2009 showed that the cost of producing beer is over three times that for producing spirits. An equivalent duty rate would result in the highest-strength products becoming even cheaper, relative to lower-strength drinks, encouraging consumers towards these stronger products.

The table below looks at sales below 45 pence per unit. This shows that over 80% of vodka sales are currently below this price point. Clearly, even with a higher duty rate per unit, spirits are already able to be sold at lower prices than beer. Nielsen data for Great Britain shows that in the year to the 19th of February 2011, vodka was sold at 39 pence per unit in the off-trade, whereas beer was sold at 42 pence per unit, around eight per cent more expensive. The Scottish Government’s proposal will ultimately lead to substantial benefits for vodka producers, at the expense of brewers and pub owners. The chart also shows the relatively high price of malt whisky – this would suggest that tax changes are likely to have a minimal impact on a product that is clearly priced as a luxury good.
Source: NHS Health Scotland

The chart below shows the ratio between beer and spirits duties in all 27 EU countries, and clearly demonstrates that the current UK, and therefore Scottish, system, is one of the most generous to spirits producers.

Source: European Commission Taxation and Customs Union, BBPA Statistical Handbook 2011

This has not always been the case. UK government policy has been extremely favourable to spirits at the expense of beer over the last thirty years. The ratio has more than halved from above 3:1 to the current levels of below 1.5 to 1. A move
further in this direction would leave alcohol taxation policy totally at odds with the approach in every other EU member state.

This preferential treatment has had a profound impact on consumption habits in the UK, particularly since 1997. Whereas beer sales have fallen by over 20 per cent, spirits sales have grown by over 30 per cent, driven by increased consumption of white spirits. This picture has been mirrored in Scotland.
Consumption of different drinks in Scotland

In its paper on excise duty the Scottish Government highlights the health problems associated with alcohol consumption in Scotland, compared to England and Wales. Whilst overall consumption is higher in Scotland it is also interesting to look at the type of alcohol consumed. The data below is taken from the Health Scotland website.

While beer consumption is barely different to levels in England and Wales, spirits consumption was 81 per cent higher in Scotland in 2010. An excise duty that further incentivises spirits consumption would surely be to the detriment of public health goals.

The World Health Organisation Europe Alcohol Action Plan gives an opposing view to that supported by the Scottish Government, advocating that countries “institute proportionally higher taxes on products with a higher alcohol concentration or incentives on lower-alcohol versions of products.”

The prevalence of spirits consumption in Scotland is clearly leading to higher levels of overall consumption – moves to make spirits relatively more affordable will clearly exacerbate this issue.

![Graph: Alcohol consumption in Scotland compared to England and Wales](image)

Source: NHS Health Scotland
The effects of equivalence

The Scottish Government’s intended policy could be introduced in two ways. Either by increasing the duty rate on beer and other products, or by decreasing the duty on higher-strength spirits.

The former policy would lead to a leap in the tax (and almost certainly price) applied to beer. The chart below shows that the increase would be just less than 20 pence (this includes the VAT paid on the duty) on a pint of 4.1% abv beer in the on-trade. Such a measure is likely to have a devastating impact on Scotland’s pubs, dramatically increasing the rate of closures.

![Effect on the price of a pint of beer](chart.png)

*Source: HMRC, BBPA*

The latter option would see a dramatic fall in the tax and cost of spirits (principally vodka, as Scotland’s most-consumed spirit), of over £3 per litre.
As the Scottish Government’s paper recognises, the excise duty system is underpinned by a series of EU Directives. Under these, national governments have the ability to set duty rates but the duty structure is fixed.

Accordingly, different drinks are taxed in different ways, and similar products are grouped. The Scottish Government cannot ensure favourable tax treatment for Scotch Whisky without granting the same favourable treatment to vodka, gin and other spirits. Whilst trying to boost a domestic industry through changes to the duty regime, the Scottish Government would also be stimulating greater consumption of some of the cheapest forms of higher-strength alcohol available.

Scottish Beer and Pub Association
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