SUBMISSION FROM SCOTTISH BEER AND PUB ASSOCIATION

Background

The Scottish Beer and Pub Association (SBPA) was formed in 1906. Its members are Scotland’s brewing and large pub companies representing the licensed trade industry in Scotland. The main aim of the Association is to contribute to the economic and social wellbeing of Scotland through employment, investment and training. Our members promote the responsible sale of alcohol and management in all of its licensed premises, helping to make Scotland a safe and enjoyable place to visit and socialise in.

The SPBA’s members include Belhaven Group plc, Tennent Caledonian Breweries, Heineken UK, as well as Carlsberg U.K. (Scotland), The Caledonian Brewing Company, Diageo, Molson Coors, the Scottish and Newcastle Pub Company, Mitchells and Butlers, Punch Taverns, SAB Miller and Maclay Group. Our sister trade association is the British Beer and Pub Association (BBPA). The SBPA’s members account for 1,200 of the 5,000 licensed public houses in Scotland.

An Economic Report produced by Oxford Economics for the British Beer and Pub Association in February 2011, concluded that:

- 71,000 Scots depend on beer and pubs for work
- The beer and pub trade is worth £1.5 billion to the Scottish economy every year
- £900 million in wages in Scotland are dependent on the trade, each year

We appreciate that the Committee’s deliberations on the Scotland Bill are wide-ranging and cover many issues, however in our response the Association would wish to focus its comments on the proposal from the Scottish Government that control of alcohol excise duties should be devolved to Scotland given that this is the biggest issue of concern to our members, both from a brewing and licensed retail perspective. Similarly, given that most of our members operate in a wider UK environment, we believe that we can offer feedback on the practical issues around the implementation of this proposal. Within the terms of the Committee’s consultation, we would therefore like to address issues related to:

5. The Scottish Government have stated its desire for greater taxation powers. What is your opinion on: ...
   - the proposal for the control of excise duty on alcohol and tobacco and what may be the risks and benefits?
   - the practical challenges that may arise in implementing these taxation changes?

Additionally, we would like to offer comment on the effect of the interplay between the suggested “control of excise duty on alcohol” and the introduction of the Minimum Unit Pricing (MUP) of alcohol which seems to have driven the Scottish Government’s call for this power to be devolved.
Control of Alcohol Excise Duty

In his acceptance speech to the Scottish Parliament on 18th May 2011 as First Minister the Rt Hon Alex Salmond MSP said:

“Why not give us control of our own excise? We in this Government have a mandate to implement a minimum price for alcohol. We intend to pursue that in this Parliament, come what may. Although our Labour colleagues agree that it is correct to set a minimum price, they were concerned about where the revenues would go. Gaining control of excise answers that question. It means that we can tackle our country’s alcohol problem and invest any additional revenue in public services. I ask Labour members to join me in calling for control of alcohol taxes so that together we can face down Scotland’s issue with booze.” [Official Report - Link]

It is therefore evident that the primary motivation for the Scottish Government for the control of excise duty relating to alcohol is driven by a desire to gain control of the additional “revenues” generated by the introduction of minimum unit pricing of alcohol which was a manifesto commitment for the Scottish Government prior to winning the last election in May 2011.

It is clear therefore that in using any new powers on alcohol duty that this will be linked to minimum unit pricing and will result in significant across the board increases in the alcohol duty applying to alcoholic products in Scotland, including beer.

Response

The Scottish Beer and Pub Association (SBPA) is very concerned at proposals to devolve control of excise duties to the Scottish Government. We believe there are significant practical problems that would be caused by this change which would complicate our members ability to do business in Scotland and to export and import their products not just to and from other parts of the UK, but also to and from the rest of the world.

These concerns are further aggravated by our belief that any further increases in alcohol excise duties linked to the introduction of the minimum unit pricing of alcohol would further undermine the competitiveness of Scottish based brewers. Additionally, these brewers undertake contract brewing on behalf of other companies both outside and inside Scotland which we believe would be put at risk by Scotland having differential excise duty levels because of more complicated cross-border arrangements relating to the movement alcohol and the taxation payable on this.
Alcohol Duty and Minimum Unit Pricing

In order to deliver the Scottish Government’s stated aim of “taxing away” the revenues generated by the introduction of minimum pricing at a rate of 45 pence per unit of alcohol with no benefit to producers or retailers, we estimate that the Scottish Government would need to increase beer duty in Scotland by 102%.

On the basis of a 4% pint duty (and the VAT on that duty) the tax a pint of beer in Scotland would go up from 50.6p to 102.2p, with a consequent commensurate increase (of 50p) in the price of a pint of beer. It should be noted that the alcohol duty on beer (Beer duty) was increased by 7.2 per cent in the March 2011 Budget. The total increase in beer duty since March 2008 stands at 35.4 per cent.

This significant one-off increase in the price of a pint of beer would have a major impact on the viability of pubs in Scotland, many of which are already facing challenging trading conditions. Figures from CGA Strategy suggest that in 2010, 133 pubs closed in Scotland, an average of roughly three pubs every week which has been a consistent trend over the last few years.

It should also be noted that since pubs are already charging prices above the proposed minimum unit pricing levels they will have received absolutely no revenue benefits from the introduction of minimum unit pricing and as such would in effect be paying a further tax which would apply only to on-sales operators. We cannot believe that this would be the intention of the Scottish Government, but it would be the clear effect.

The other consequent effect of this duty increase would be to very largely introduce equivalence between all types of alcohol products with the result that spirits would be much cheaper comparatively. We believe this would further encourage customers to move away from relatively low strength products like beer, towards products with higher alcoholic content which would have health impacts for wider Scottish society. The current duty regime already means that spirits and high-strength ciders are the cheapest form of alcohol available to consumers in Scotland.

Other Considerations

We believe there are also a number of other complications relating to Scotland gaining control of alcohol excise duties. Amongst these are:

European Law
There is currently nothing in the relevant European Union Directives to allow for differential duty rates in different parts of the same Member State. We therefore believe that this proposal to devolve control of excise duties could breach European law.

**Differential pricing regimes in different areas**

Varying levels of duty in one part of the UK would most likely lead to producers retailing their products at different price points depending on where their customer/production/warehousing facility was based. This would cause logistical and bureaucratic burdens for the producer, and would be likely to cause similar issues further down the supply chain to wholesalers and retailers.

**Distribution**

Companies working across the UK would face severe disruptions to their distribution networks. Excise implications would restrict the ability of companies to transport their products easily across borders. This is likely to lead to an increase in transport miles as separate deliveries will need to be made for beer going to England and to Scotland with consequent environmental and business impacts.

**Additional warehousing in the supply chain**

Companies may need to use additional warehousing facilities to allow for cross-border trade. Beer would need to be moved in duty suspense across the border before being stored in an excise warehouse, in preparation for release to retailers. This likely to lead to increased costs for businesses and retailers.

**Impact on business in the Border areas of Scotland**

Due to the likelihood of significant cross-border trade if the excise duty were increased there would clearly be a knock-on effect on the competitiveness of businesses in the south of Scotland, and consequently this would likely lead to a loss of jobs, particularly in rural areas.

**Cross-border trade**

Different excise duty levels would be likely to lead to different prices. There would need to be a sophisticated system set up to monitor the trade of alcohol between England and Scotland. This would involve both intra-company movements and perhaps more difficult, trade between retailers in one country and residents in another. It is also difficult to see how consumers in Scotland could be stopped from driving over the ‘border’ and buying as much alcohol as they wanted, not least given the potential savings on certain products.
Increased likelihood of duty fraud

Adding additional complexity into the duty system within one Member State within the European Union would lead to greater levels of organised duty fraud. As it stands it would be impossible for a retailer to know whether a product had paid English or Scottish duty and therefore unscrupulous wholesalers would be able to sell English-duty paid beer to unwitting Scottish retailers. To avoid this would involve setting up a hugely expensive system. If a higher rate of duty was to be levied it would also further increase the price differential between Scotland and continental Europe, making smuggling of alcohol more likely.

Increasing costs to all consumers of alcohol

Excise duty is an extremely blunt tool that would affect all consumers within Scotland, the vast majority of whom consume alcohol in a moderate manner.

I trust that our views are of use and we look forward to the eventual outcome of the Committee’s deliberations on these issues.

Patrick Browne  
Chief Executive, Scottish Beer and Pub Association  
9 September 2011