DIGI

Protecting the Drinks and Hospitality Sector from the Challenges of Brexit

THE DRINKS INDUSTRY GROUP OF IRELAND'S BREXIT PLAN

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COMMENTARY ON FINDINGS BY DIGI

Budget 2018—the 'Brexit Budget'—is a pivotal moment for Ireland's economy, particularly those businesses poised to be most challenged by the UK's EU withdrawal. To weather the coming storm, the Irish Government must commit to pro-business, pro-growth measures that safeguard at-risk industries, including the drinks and hospitality industry and broader tourism sector.

This year alone, the sterling slump, and the subsequent drop in tourism from the UK, could cause losses of €70 million to Irish businesses. The hard truth is that Ireland's tourism sector is disproportionately reliant on Britain: it is by far our largest single market, making up 40 percent of total visitors, and its contraction spells difficulty for our tourism and hospitality businesses, especially in rural Ireland.

The drinks industry employs 92,000 people and enables 210,000 jobs (10 percent of all jobs in Ireland) in supporting industries. Through a national network of pubs, hotels, restaurants, off-licences, microbreweries, distilleries, distributors and wholesalers, it exports €1.25 billion worth of goods each year and generates €2.3 billion in revenue for the Exchequer. But with the high cost of alcohol due to Ireland's punitive excise tax and the decreased purchasing power of British tourists, industry business owners and their staff are already feeling these burdens, and they will continue to find the next years difficult.

The following document outlines the Drink Industry Group of Ireland's (DIGI) recommendations to the Irish Government to safeguard and protect this industry as the UK plans its exit from the EU. It follows the findings of the report - 'The Economic Impact of Brexit on the Drinks and Hospitality Sectors' – which is an in-depth analysis of the impact of Brexit on this key industry in Ireland by DCU economist Anthony Foley, in partnership with DIGI.

We hope that industry stakeholders and Government policymakers find this document useful in their efforts to ensure that Ireland's drinks and hospitality industry and tourism sector are not only protected in the years ahead, but are able to grow into a post-Brexit future.

D. O' Keeffe

Donall O'Keeffe
Secretary
Drinks Industry Group of Ireland

SUMMARY OF BREXIT'S CHALLENGES FOR IRELAND'S DRINKS AND HOSPITALITY SECTOR

On 23 June 2016, citizens of the United Kingdom voted to leave the European Union. The following March, the British Government invoked Article 50 of the Treaty of Lisbon, putting the UK on course to leave the EU in March 2019. As negotiations continue, the most likely outcome appears to be a situation where the UK leaves the EU customs union—a "hard Brexit".

A hard Brexit will have negative economic effects, to varying degrees, on all activities of Ireland's drinks and hospitality sector, including hotels and other accommodation; restaurants and public houses; drinks off-licence retailers and wholesalers/distributors; and brewers and distillers.

The new rules which will govern trade and other economic flows are the "direct" effects of Brexit. There are other more immediate "indirect" effects arising from Brexit including the decline in the value of sterling, the short-term lower level of economic activity, business and consumer uncertainty, decisions in anticipation of Brexit and deferred investment.

Ireland faces many challenges as a result of Brexit and the drinks and hospitality sector is particularly concerned with:

- The declining value of sterling;
- The decrease in UK tourism;
- The increase in cross-border shopping; and
- The potential impact on Ireland's drinks exports.

UK exports to the EU (including Ireland) would be subject to the current external EU trade regime with a range of service restrictions and tariffs on goods. The EU tariff structure is known. However, the UK would decide on its own tariff rates and structure and other rules of trade and trans-frontier business. Analysis of the impact on Ireland of a hard Brexit has generally assumed, as a research methodology input, that the UK would apply the same set of tariffs as it currently has against non-EU members by virtue of its EU membership. That may not be the case.

At time of writing, the latest monthly average exchange rate was May 2017. Between May 2015 and May 2017, the euro has increased in value by 18.6% compared to Sterling. Between May 2017 and September (currently), the euro appreciated further. The September 15th exchange rate was 0.88043. On August 30 Sterling declined to 0.92246.

KEY STATS

- **22.0% fall in value of sterling from May 2015 to September 2017. This has increased the cost of a €1,000 holiday for UK holidaymakers from £721.43 to £880.43.**
- **There will be a €70 million loss to the economy if UK visitor spending continues to decline at current rate.**
- **We export €1.143 billion worth of alcoholic drinks globally of which €207 million goes to the UK.**
- **If a hard Brexit occurs, beverage exports to the UK could fall by €39.7 million.**
- **44.3% of our beer exports are to the UK.**

Between May 2015 and September 15th 2017 the euro has appreciated by 22.0%. This results in the Sterling cost of a €1,000 holiday in Ireland increasing between May 2015 and May 2017 by approximately £135 (from £721.43 to £855.54); the September 2017 cost is £880.43.

The headline figure which is used to illustrate the British role in Irish inward tourism is that of 9.584 million visitors in 2016, 3.924 million, or 40.9%, were from Britain. This is by far the largest single national market and is larger than the total of 3.301 million from the rest of Europe combined and the 1.808 million from the USA and Canada.

In the period January—July 2017, compared with the same period in 2016, there was a decline of 6.2% in British visitors. The 'Brexit effect' is already happening.

A 6.2% annual decline in British tourism expenditure would be a loss of almost €70 million in 2017. Adding Northern Ireland visitors and increased Irish trips to the UK plus carrier receipts would increase the loss to around €100 million.

The Irish drinks industry generated exports of €1.29 billion in 2016, of which €301.6 million, or 23.4%, went to the United Kingdom. This compares with 14.1% of total goods exports going to the UK. €216.1 million was sold to Britain and €85.5 million was sold to Northern Ireland. The largest national market for Irish drinks exports is the United States with €512.0 million or 39.7%. Britain is our second largest national market for drinks exports and Northern Ireland is our third largest.

Exports to Britain will fall by 14% or €30.3 million, and exports to Northern Ireland will fall by 11%, or €9.4 million. The overall decrease in Irish beverages exports to the UK arising from Brexit is €39.7 million, or 13.2% of the total.

Excluding the exchange rate change, the decline in beverages exports to Britain is 8%, or €17.3 million, and to Northern Ireland, 5%, or €4.3 million. The combined UK decline is €21.6 million, or 7.2%.

A hard Brexit will also affect exports to non-UK markets through the use of the British international transport and distribution system.

While 23.1% of beverages exports are sold to the UK market, the bulk of the remaining 76.9% use the British transport system for both EU and rest of world markets. In the case of a hard Brexit, and depending on transit rules, these exports would also be affected by cost-increasing customs and documentation barriers or by having to use less efficient transport routes. The same issues arise with imports.

On the assumption of a resumption of 2009 levels of cross-border shopping and a pro rata increase relative to national consumption growth since 2009, the current level of cross-border purchasing would be €503 million per year. This would suggest an annual alcohol cross-border expenditure of €60 million.

OVERVIEW OF RECOMMENDATIONS

In response to the current and impending challenges of Brexit outlined previously, the Drinks Industry Group of Ireland (DIGI) is calling on the Government to take action to secure a stable economic future for Ireland and its drinks and hospitality sector. To do this, DIGI has five recommendations:

RECOMMENDATION 1

Reduce excise tax

RECOMMENDATION 2

Secure financial support from the EU to help fund Ireland's response measures to Brexit

RECOMMENDATION 3

Maintain the 9% VAT rate for the hospitality industry

RECOMMENDATION 4

Create regional 'Brexit hubs' for rural hospitality and tourism under the Department of Rural Affairs

RECOMMENDATION 5

Establish a national 'Brexit Business Board' to develop plans and initiatives for business cost reduction

RECOMMENDATION 1

Reduce excise tax

A reduction in alcohol excise tax would help to offset many of the costs of Brexit. Unlike some other issues, this is within domestic policy control. The Irish Government would not have to wait for agreements with foreign entities; instead, it has the power to enact this measure now.

Reducing excise tax would make Ireland more competitive against the UK market, which currently pays 19% less in overall excise tax than Ireland. By making this reduction in excise tax, the Government would help safeguard the industry from cross-border shopping, make it more attractive to UK tourists and counteract the negative effects of the falling value of sterling on our exports and imports.

Even excluding the threat of Brexit, the excise tax in Ireland is already the second highest in the EU. 22 of our EU peers impose an excise tax on beer that is less than half of Ireland's. If we applied Germany's rate to a pint of lager served here, excise tax would be 5 cents instead of 55 cents, a direct reduction of 50 cents. 14 of the 28 EU member states impose no excise tax on wine, yet we impose one that is 25 percent higher than any other EU country. Indeed, it is the highest in the EU.

This high rate of excise tax is punitive, not just for consumers, but for our producers and retailers. In the long term, it is likely to damage the competitiveness and earning potential of the drinks and hospitality sector and along with it, the economic prosperity of under-developed rural Ireland.

The drinks and hospitality sector has a truly nationwide presence and forms the bedrock of many communities. In total, the drinks and hospitality sector – including drinks businesses, hotels, restaurants, and sector manufacturers, retailers and distributors – employs almost 210,000 people across the country, making up 10 per cent of all jobs, and exports over €1.25 billion worth of produce.

A high excise tax risks further hamstringing a sector that faces many current and impending challenges with Brexit. Reducing excise tax is necessary to preventing the industry from being thrown into an avoidable crisis.

RECOMMENDATION 2

Secure financial support from the EU to help fund Ireland's response measures to Brexit

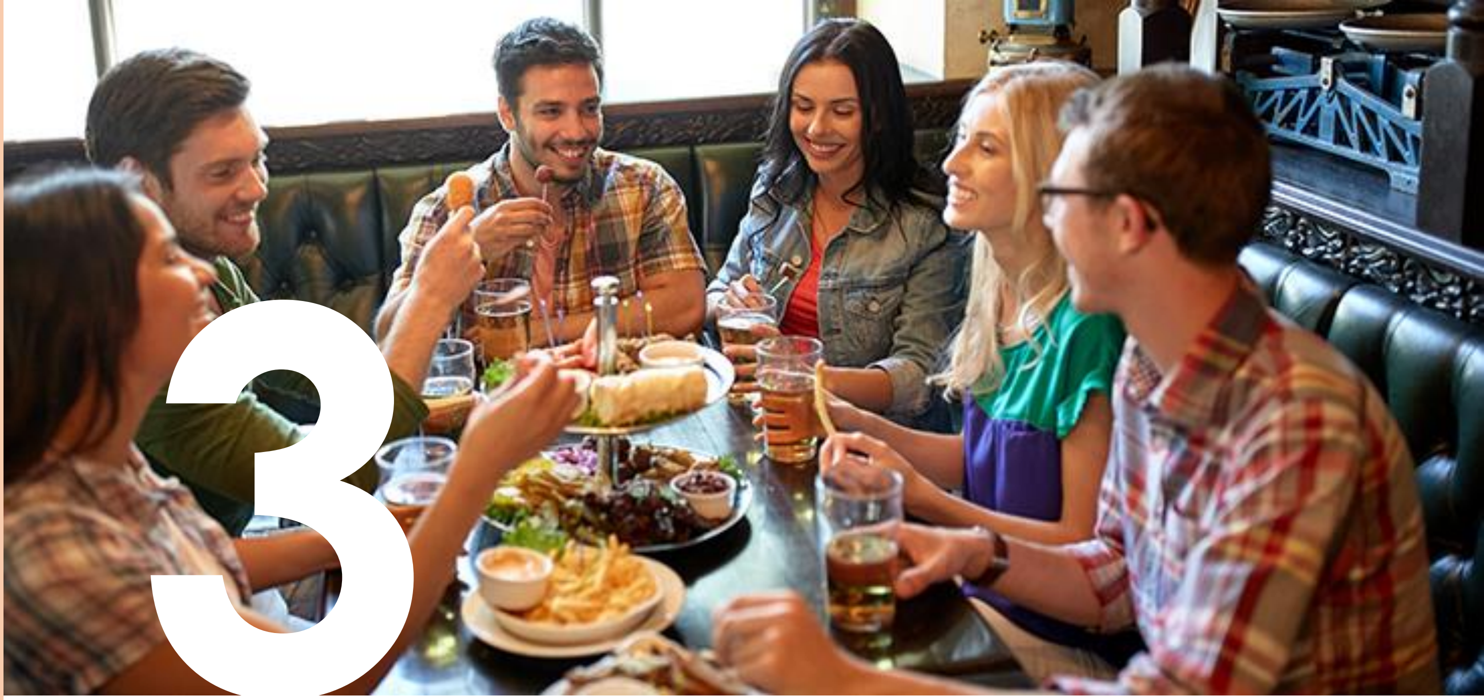
Ireland will face unique challenges following Brexit, more than any other country in the EU. In a resolution this year, the European Parliament recognised the "unique and special circumstances confronting the island of Ireland" in the face of Brexit.

A large portion of Irish goods exports to the mainland EU economies is transported through the land bridge route (ferry/ship to Britain, road across Britain, and ferry/ship from Britain to the European mainland). In addition, a large portion of Irish beverages exports to the non-EU global markets is shipped through British ports.

Ireland will be the only EU member state that shares a land border with the UK. In the case of the beverages sector, a hard Brexit could include relatively low tariffs on some beverages but severe restrictions and increased costs relative to the current situation on use of Britain as a transport and supply chain hub.

The challenges of Brexit on Irish exports and imports of beverages are not confined to the goods supplied to and sourced from the UK. Irish producers of beverages source non-beverage inputs from Britain and Northern Ireland. Irish beverages exporters and importers use Britain extensively as part of their supply chain channel and as a pathway to other markets. The UK is a very significant part of the transport and distribution system of the Irish economy's international trade with the world; a hard Brexit would increase the cost and reduce the efficiency of this system.

Immediate comprehensive action is needed to prevent massive losses to the drinks industry and others reliant on the UK. Through policies like the European Fisheries Fund and EU regional funds, the EU has a history of assisting uniquely challenged or pressured industries and countries with financial aid. Faced with the severe economic and political uncertainty of Brexit, spanning multiple industries across the entirety of the country, as part of UK-EU negotiations, the Irish Government must campaign for and secure a 'Brexit Fund' from the EU. The funds would help the Government maintain the country's positive economic growth, implement the necessary changes outlined in this plan, and protect other vital industries in the country.



RECOMMENDATION 3

Maintain the 9% VAT rate for the hospitality industry

In response to the decline in the value of sterling caused by Brexit and the associated reduction in cost competitiveness, the 9% VAT rate should be retained to avoid additional competitiveness losses.

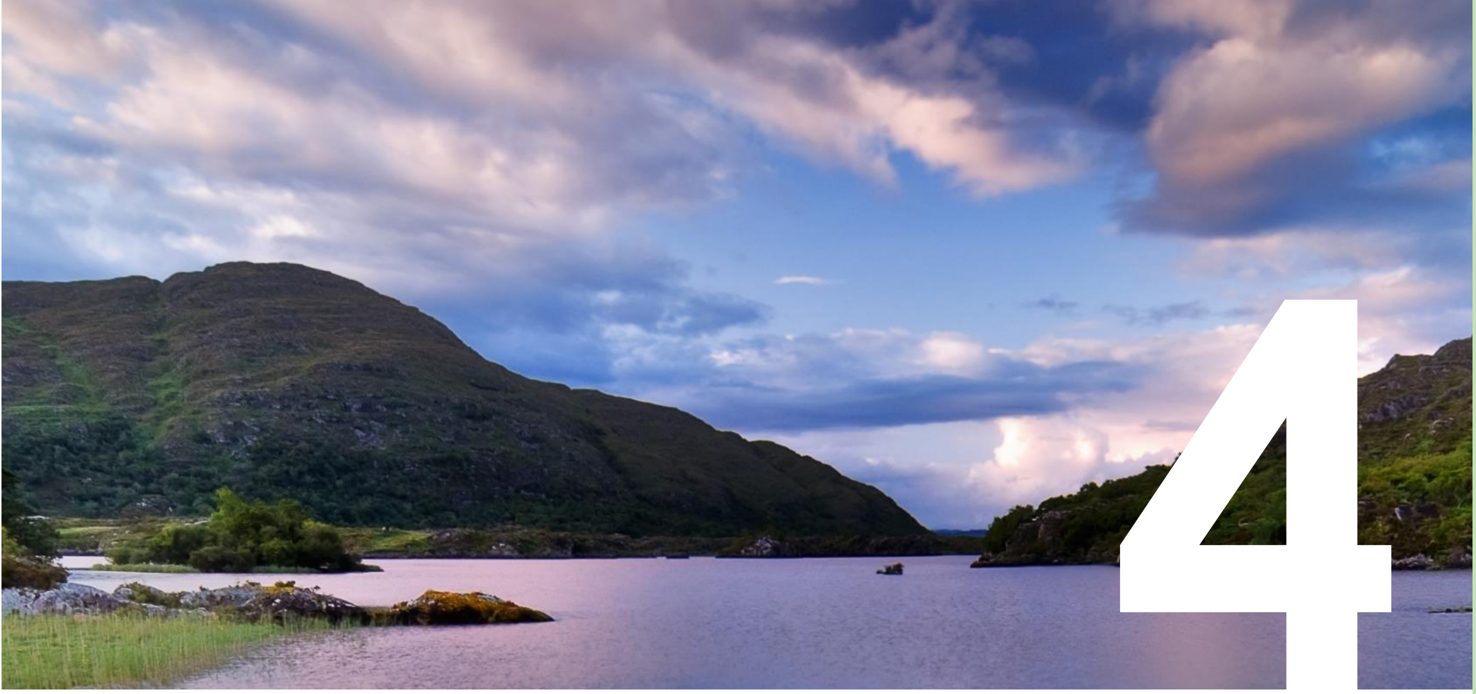
The 9% VAT rate is key for keeping costs down in the hospitality industry and attracting tourism to Ireland. This is especially true for the hospitality sector in rural areas, which will be hit hardest by the negative effects of Brexit.

A recent Tourism Ireland survey of British consumers considering taking a holiday abroad in 2017 found:

- 50% will spend less while on holiday
- 37% will reduce their holiday budget
- 26% will change their accommodation type
- 25% will reduce the length of the holiday
- 17% will postpone a trip outside the UK

33,600 direct jobs have been created in the restaurant and tourism industry since the VAT reduction in July 2011. Employer and employee payroll taxes resulting from these 33,600 jobs totals to €160 million.

Increasing the VAT on the hospitality sector would jeopardise these jobs and pour salt on the wounds of Brexit, with adverse results for the industry.



RECOMMENDATION 4

Create regional 'Brexit hubs' for rural hospitality and tourism within the Department of Rural Affairs

Individual drinks and hospitality businesses have the primary responsibility (supported by the public policy framework) to assess the implications of Brexit on their enterprises and, where possible, plan and implement measures to deal with these implications. Enterprise Ireland, through its Brexit Scorecard, and Bord Bia, through its Brexit Barometer, are helping businesses in this matter.

However, these excellent initiatives cover only clients of the two organisations which are mainly exporting food and drinks enterprises, and manufacturing and international services companies. Currently, Enterprise Ireland's "Be Prepared Grant" is open to Enterprise Ireland clients in manufacturing and international services that are actively trading and have significant exports to the UK. While this is a step in the right direction, Brexit affects all sectors of the economy and the drinks and hospitality sector includes many businesses that are excluded from the client base of these organisations, like wholesalers, public houses and visitor attractions.

To cover industries and businesses that do not fall into the catchment of enterprise organisation and Government initiatives, like those in drinks and hospitality, and especially those in rural Ireland, DIGI proposes the creation of a network of 'Brexit hubs' under the jurisdiction of the Department of Rural Affairs.

These hubs would function as knowledge and advice centres. Located in council buildings in rural commercial centres, the Brexit hubs would connect local chambers of commerce, tourism boards, local drinks and hospitality businesses, and elected representatives. Together, the hubs would be able to better plan for and address the challenges of Brexit, as well as highlight specific issues and campaign for greater Government support in one cohesive, regional unit.

From a Government policy perspective, this makes sense. What works for Dublin or Cork might not work for Kerry or Tipperary. Each county and region has specific needs and pressures. In 2015, the Government set a goal to add 50,000 more jobs to Ireland's tourism industry. With Brexit, and a one-size-fits-all approach to planning, this target could be undermined. By implementing rural Brexit hubs, the Government would be able to allocate resources to industries in the tourism sector in an effective, region-specific manner and realistically work towards achieving this goal.

RECOMMENDATION 5

Establish a national 'Brexit Business Board' to develop plans and initiatives for business cost reduction

The broad impact of Brexit will increase the cost of international trade transactions and indirectly, through the exchange rate impact, impose additional cost penalties. Government policy should avoid, wherever possible, increasing the cost of doing business, both directly through additional or larger financial charges and indirectly through regulation-induced or policy-induced cost increases. This should be a core element of policy for the next several years until a deal is struck between the UK and the EU and its effects are known.

There are efforts being made to help the drinks and hospitality sector reduce its ballooning costs. These should be pursued further. DIGI recommends the establishment of a national 'Brexit Business Board' ('BBB'), a single unit comprised of enterprise organisations (like Ibec), specific industry bodies and elected representatives. Meeting on a bi-monthly basis, the BBB would pool industry insights, highlight and discuss challenges facing Irish businesses on a national scale, suggest ways to combat these challenges, and make suitable policy recommendations to Government departments and Oireachtas committees.

The BBB would be able to get to work immediately. Drinks and hospitality sector business owners already pay many expenses to keep their businesses afloat, expenses that will become more onerous with Brexit and any downturn in revenue from decreasing British tourism. Among them are insurance costs, in particular public liability insurance.

The BBB could also reform commercial rates, a considerable expense for many businesses across the country. Minister Simon Coveney has proposed giving local authorities the power to reduce commercial rates for businesses in their areas; this would give local businesses a chance to be fairly taxed depending on the area.

Even before a formal deal has been agreed between the UK and the EU, Brexit has put immense pressure on Irish businesses. With rising costs, fewer visitors and the prospect of crippling tariffs and taxes, the drinks and hospitality sector requires urgent assistance from the Government to ensure job security and commercial growth now and into a post-Brexit future.

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