Drinks Industry Group of Ireland (DIGI)
Pre-Budget Submission 2017

CONTENTS

The Hospitality Industry in

Ireland

Supports

7,193
Pubs

631
Hotels*

2,406
Restaurants*

3,232
Off Licences

Jobs 203,509
Wages €4.3bn

€5.8bn
Tourist Expenditure

€99m
Agri Output

178
Wholesalers

57
Producers

*Refers Only to Licenced Hotels & Restaurants

DRINKS INDUSTRY GROUP OF IRELAND

The Drinks Industry Group of Ireland (DIGI) is the umbrella organisation for the drinks industry. It is composed of manufacturers, distributors and both on-trade retailers (pubs, hotels and restaurants) and off-trade retailers (independent off-licences).

Its members include:

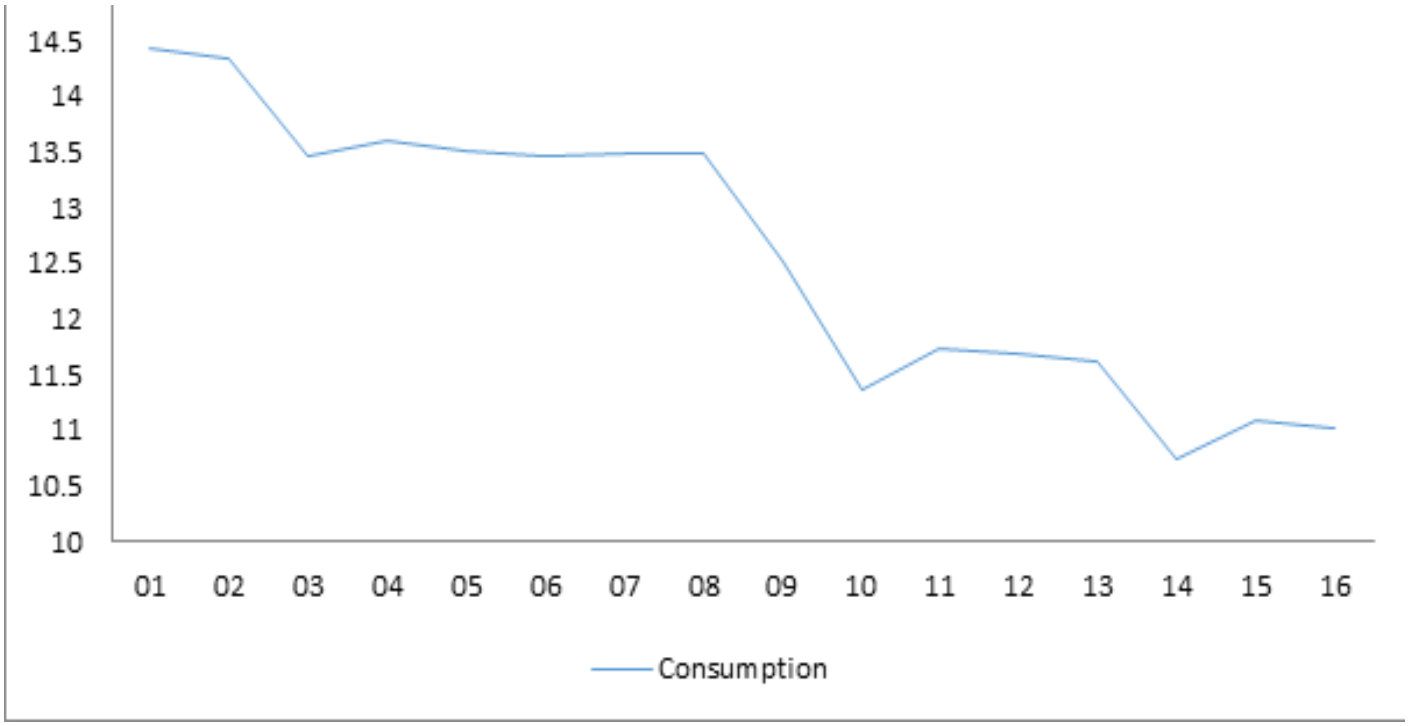
- **Alcohol Beverage Federation of Ireland**
- **Irish Hotels Federation**
- **Licensed Vintners Association**
- **National Off-Licence Association**
- **Restaurants Association of Ireland**
- **Vintners Federation of Ireland**

*Together, these employers groups sustain an estimated **204,000 people** working in the drinks manufacturing, drinks distribution and wider hospitality sector in every town, village and city around the country.*

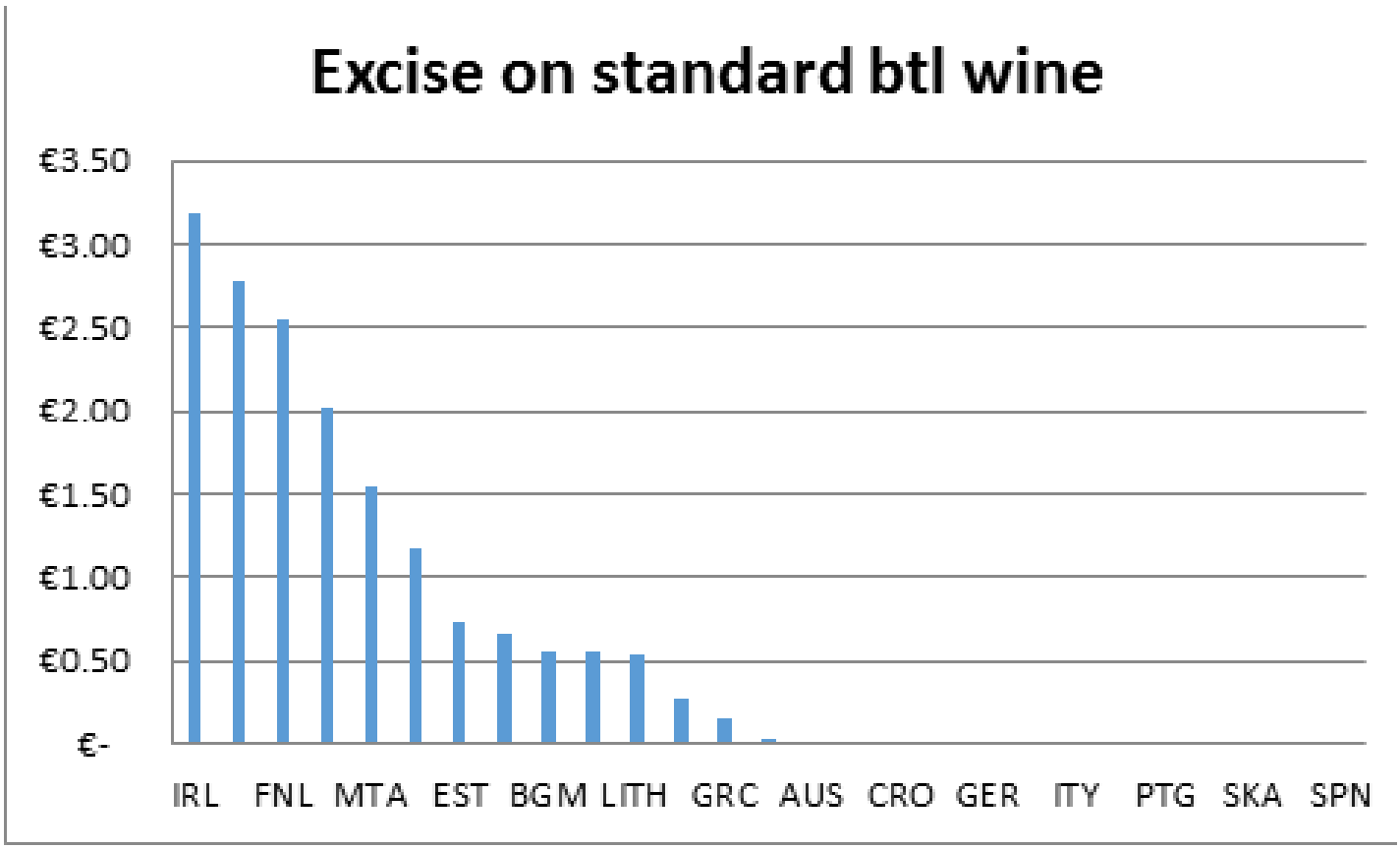
DIGI is concerned with the taxation and economic development aspects of the drinks industry and has produced a range of research reports on the economic role of the industry, taxation of alcohol and on the structure and performance of the industry. Through its *Support Your Local* campaign, DIGI seeks to highlight the significant financial and social contribution made by the industry and the effect of internationally **very high alcohol excise tax**, and work with stakeholders to create conditions that ensure the industry's continued growth.

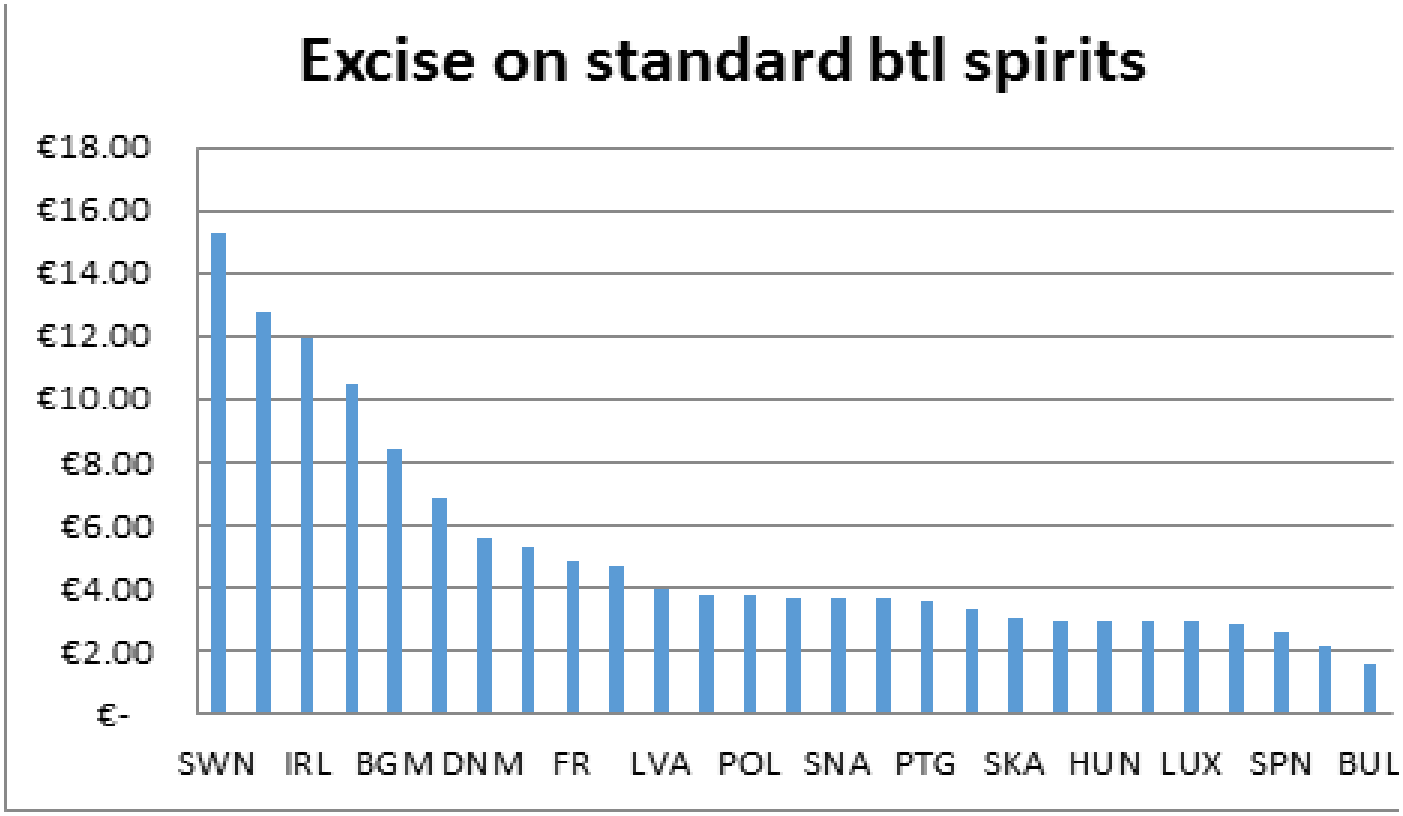
SURPRISING FACTS ABOUT ALCOHOL IN IRELAND

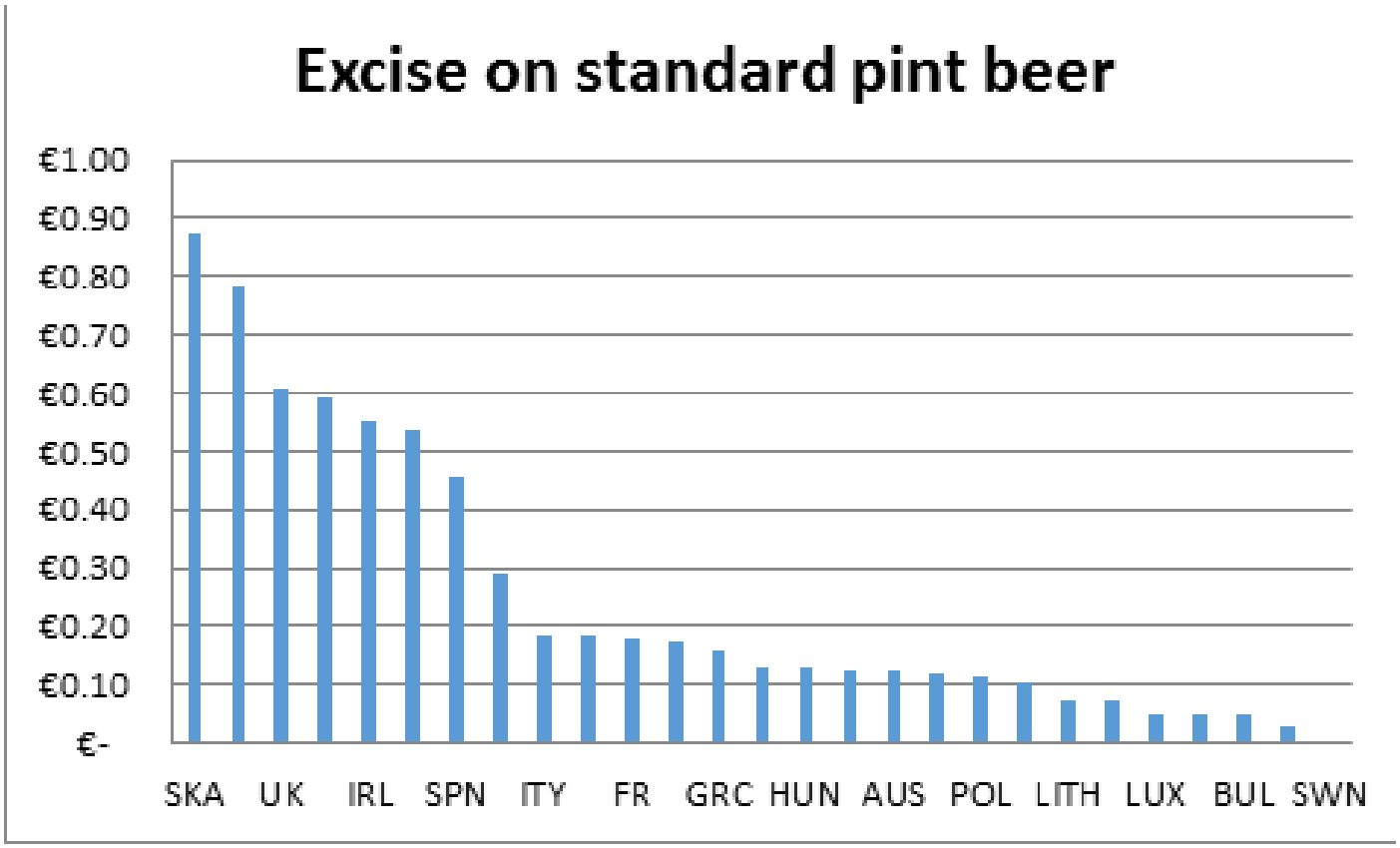
Consumption



Cross Border Cost







- **€2.3 Billion in excise and VAT receipts in 2015**
- **€4.2 Billion in wages in 2015**
- **There has been % increases in whiskey, beer and wine in the last 12 months**

DIGI's BUDGET RECOMMENDATION

Overview

The vote by the UK to leave the EU has negatively and fundamentally transformed the immediate, short term and possibly long term economic context for the Irish economy and the drinks industry.

Budget 2017 should make every possible effort, within the available resources, to compensate for the negative effect of Brexit. In the context of the drinks industry this means an even stronger case than already existed for a significant reduction in alcohol excise. Brexit has caused Sterling to decline significantly and this is likely to persist for some time.

The lower value of Sterling is an immediate boost to cross border purchasing of alcohol. The lower value of Sterling will have a negative effect on UK originating tourism which will in turn worsen the performance of the drinks industry and wider hospitality sector. In addition, Brexit and the way it has been handled by both the UK and the EU has caused great uncertainty which is reducing business and consumer confidence.

Clearly, we cannot strongly influence external issues but we can influence domestic determinants such as alcohol excise which inhibit enterprise performance. We must not continue to shoot ourselves in the foot by maintaining excessively high alcohol excise taxes by EU standards.

While the most recent excise increase fulfilled a short-term liquidity requirement for the Government (which turned out to be temporary due to the rapid improvement in the economy and public finances), the reality is that the increase is at the long term detriment of the wider drinks industry and, due to its importance in the national, regional and local economy, this will impact negatively on the economy over the medium and long term.

DIGI acknowledges the OECD typology of taxes and economic growth where in the case of four types of taxes, corporate income taxes were considered the most harmful to economic growth, followed by personal income taxes, followed in third place by consumption taxes with the final category of taxes on immovable property the least harmful.

While useful as a general guideline, it must also be acknowledged that specific sectoral consumption taxes in specific circumstances can have a negative influence on economic activity and low consumption taxes can have positive impacts. The 9% hospitality VAT rate as opposed to the standard 23% rate is a strong illustration of the positive economic effects of lower consumption taxes.

Cross border diversion of economic activity can result from excessive consumption taxes. The higher a particular consumption

tax, the higher the wedge is between what a consumer pays for a product or service and the money received by the supplying enterprise. DIGI argues, notwithstanding the general principle of the OECD typology, that the particularly high Irish excise tax is detrimental to economic growth and economic activity.

Recommendation

In summation, DIGI is calling for a 15% reduction in alcohol excise which would have the broad effect of reversing Budget 2014's penal excise increase in order to reduce continuing damage to a vital national industry; to respond to the negative economic effect of uncertainty caused by Brexit, to respond to the new and immediate threat of a lower value of Sterling, and to assist the sector in taking advantage of the continuing economic and consumer growth in 2016 and 2017.

- **Government should support the commercial viability of drinks related enterprises in the on-licence sector and the independent off-licence sector and assist in improving business and consumer confidence.**
- **Government should support the business strength and capability of Irish drinks manufacturers which will in turn assist in the drinks export drive which is helped by a solid domestic market. This will ensure a significant boost for the agriculture sector and domestic exports.**
- **It is also important that the price competitiveness and quality of the Irish tourism product is supported.**
- **Alcohol tax is a regressive and inequitable tax and is very high by EU standards and should be reduced.**
- **Alcohol taxes in Ireland will continue to be amongst the highest in Europe.**

EXCISE IS A TAX ON JOBS

The drinks industry in Ireland has experienced a very challenging number of years. However, parts of the sector are now on the cusp of a period of economic growth. From a surge in global demand for Irish whiskey to the popularity of authentic Irish pubs with tourists, the industry is poised on the verge of a potentially exciting new period and government policy can play a significant role in assisting and accelerating economic growth over the coming years.

In addition, the strong growth forecast for the Irish economy opens the door for the reversal of emergency taxation measures taken over the course of the austerity period. The economic performance of the economy in 2015 was exceptional with a GDP volume growth of 7.8%. This overall growth was a significant influence on the bar trade returning to growth after years of decline. Economic growth in 2016 and 2017 will be less than 2015 but still substantial. The economy is firmly on the path of economic recovery.

Overall consumption volume performance, which is a substantial determinant of the drinks performance, grew by 3.5% in 2015 and expected growth in 2016 and 2017 will be 3.9% and 2.7% respectively. These Government projections for 2016 and 2017 growth rates are likely to be somewhat lower due to Brexit and particularly the decline in Sterling.

Irish Government growth projections 2016 and 2017 % change in Volume

	GDP 2015	GDP 2016	GDP 2017	CONSUMER EXPEND 2015	CONSUMER EXPEND 2016	CONSUMER EXPEND 2017
Government Projections 2016 and 2017, CSO 2015	7.8	4.9	3.9	3.5	3.9	2.7

Source. Department of Finance. Stability Programme Update April 2016

The economic recovery is a foundation on which the drinks industry can hope to regain some of the enormous loss of economic activity since 2007. An excise reduction would support the impact of the aggregate demand situation on the drinks industry. DIGI is aware of the concern that the economy may be growing too quickly and that demand dampening measures might be considered in the context of the 2017 fiscal strategy. However, this argument

does not apply to the drinks industry which is currently substantially below its 2007 level of activity. Total alcohol consumption is currently lower than 2007, average consumption is lower, the number of public houses is lower and volume of pub sales is lower. An excise reduction should be seen as a sectoral specific measure which will support the recovery of a still much reduced sector than before the economic collapse.

CHALLENGES FOR SMALL BUSINESSES

Despite these encouraging topline figures the small businesses which characterise the drinks industry – particularly those outside of urban centres – continue to struggle. Between April 2007 and April 2016 (the latest CSO data available), the volume of bar sales decreased by 31%. Almost a third of this employment-intensive segment's market volume has disappeared over the past nine years.

% Change in Volume and Value of Bar Sales: April 2007 to April 2016

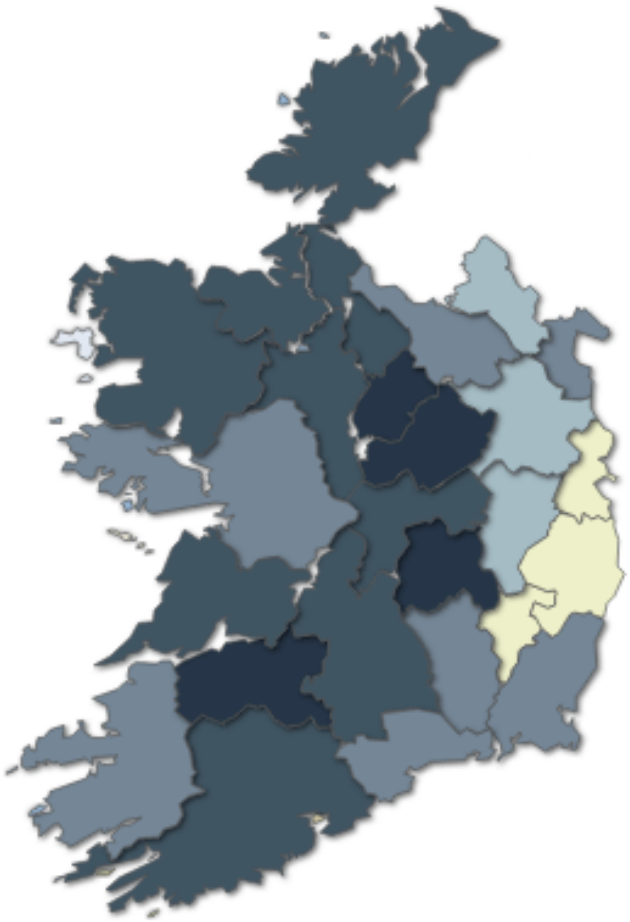
	% Change Volume April 2007 to April 2016	%Change Value April 2007 to April 2016
Bar Sales	-30.1	-22.9

This long term volume decline has occurred despite substantial efforts by the on-licence sector to sustain business volumes through more extensive and improved food offerings, increased marketing and promotion, refurbishment, improved entertainment and other developments. Over the same 2007 to 2016 period overall retail sales excluding the motor industry had a zero decline. The bar trade growth in 2015 and 2016 is welcome but this improvement needs support from Government through the reduction in the excise rates as proposed by DIGI.

The national CSO data mask substantial geographic differences in the bar performance. Rural and regional locations continue to fare much worse than traditional tourism centres and large urban centres, particularly Dublin.

While the off-licence sector performed better than the on-licence sector over the past few years, the growth was in the multiple sector and independent off-licences experienced closures, sales declines and major threats to commercial viability. The sector also suffers from the sale of deeply discounted alcohol. Independent off-licences have a very narrow product range and are heavily dependent on alcohol sales. Unlike the large multiples they cannot avoid passing on excise increases by raising prices on other products in their extensive product range.

Public Houses and independent off-licenses are – in essence – small businesses, which the Drinks related employment in Dáil Constituencies/Hospitality related employment in Dail Constituencies reports have established are employing people throughout the length



LEGEND

% change in No. of alcohol licence 2005- 2013

- > 20%
- - 15% -> -20%
- - 10% -> -15%
- - 5% -> -10%
- 0 -> -5%

and breadth of Ireland in every county and constituency and in the great majority of parishes.

The Revenue licences data show a substantial decline in the number of public house licences from 8,318 in 2007, just before the economic collapse, to 7,182 in 2015, a decline of 1,136 or 13.7%.

These closures have had a disproportionate effect on rural areas as can be seen from the table below and the map on pg 12 covering the period 2005 to 2014 where the overall decline was 1302 or 15.1%.

Per Adult Alcohol Consumption 2001-2015 LPA

2001 (peak)	14.440
2007	13.488
2008	12.520
2009	11.370
2010	11.727
2011	11.692
2012	11.614
2013	10.730
2014	11.086
2015	11.013

Source. Based on Revenue and CSO data.

As identified in previous submissions, the on-licence sector is characterised by small enterprises. Most premises have low turnover levels and are family owned and operated. Revenue data for 2013 on public house licences support this point. Licence fees are based on pub turnover. The lowest licence turnover category is under €190,500 and this accounted for 53% of all public house seven day licences. The two highest turnover categories of €952,500 and above accounted for 7% of all pub licences. A further 24% of pubs were in the €190,500 to €380,999 category.

The level and trend of average alcohol consumption per adult is an important economic and social indicator. In Ireland consumption is based on the Revenue clearances data and this is adjusted by population estimates to derive average adult consumption. The table below shows the decline in per adult consumption since the peak in 2001. Average alcohol consumption in Ireland has been declining over the long term due to a range of economic, demographic, health and social factors.

The 2015 per adult consumption level was 11.013 LPA which is 23.7% below the 2001 peak. The 2015 average consumption decreased on 2014 by 0.7%. 2015 average consumption is the second lowest annual level since 2001.

The CSO source, Annual Services Inquiry, reports that the number of persons engaged in bars declined from 46.1k persons in 2007 to 39.1k persons in 2012 (latest year available).

CASH-FLOW CHALLENGES FOR SMALL BUSINESSES

Other small Irish businesses have also been negatively affected by the excise increases of recent years. For example many wine distributors and importers have to pay excise as an up-front cost – which can only then be recouped once their product reaches the final consumer. This structure means that every increase in excise has a detrimental effect on the cash flow of these businesses.

Given the current difficulties with securing lines of credit in Ireland these cash flow issues have major implications for small Irish businesses – which have had to delay investing in their companies as a result of government policy. An overview of how this plays out for small businesses is shown on the next page.

EXCISE DUE ON IMPORTATION OF 1,000 CASES OF WINE PER MONTH

Year	% Increase	Duty per Case	Excise per 1000 Cases	VAT	Payable to Revenue
2012		€22.64	€23,640	€5,437	€29,077
2013	41%	€33.36	€33,360	€7,673	€41,033
2014	15%	€38.24	€38,240	€8,795	€47,035
Overall Increase	62%		€14,600	€3,358	€17,958

The total payment (incl. VAT) is now **€17,958 higher** per 1,000 cases than it was in 2012. This is particularly problematic at a time when the availability of credit is at an all-time low.

A Regional Investor

The drinks industry continues to have a truly national footprint in Ireland – supporting jobs in every parish throughout the country. This is true of both the hospitality sector of the industry as well of the manufacturing and tourism portions of the industry.

The hostile alcohol tax environment has cost Irish jobs in the drinks industry and will continue to do so unless current government policy is reversed. Rural pubs in particular have suffered greatly in the last number of years and reducing excise by 15% would be an important signal of support from government to this vital sector.

Iconic Irish brands in the drinks industry continue to invest in the future; Diageo is investing almost €200 million in a new brewery at St James Gate and Irish Distillers have recently completed a €220 million upgrade of its production facilities in Cork and Dublin. William Grant & Sons invested €35 million in building the new Tullamore Dew Distillery in Offaly. However, these investments were made as part of global decision and the Irish operations must compete with a host of other investment options for these global companies.

In addition, we have seen a number of global drinks companies investing in Ireland's burgeoning Irish whiskey industry:

- Saronno Group and Walsh Whiskey in Carlow
- Brown Forman and Slane Castle Irish Whiskey in Meath
- Beam Suntory in Cooley and Kilbeggan Distilleries
- Quintessential Brands in First Ireland Spirits in Laois and Dublin Whiskey Company in Dublin

These investments are further driving the growth of Irish whiskey, pumping much-needed investment across Ireland, with subsequent job creation in construction, production and visitor centres.

The hostile alcohol tax system in Ireland undermines the potential future investments which have created 1,000 construction jobs over the last 5 years and could create an additional 1,000 over the next 5 years.

The government has an opportunity to make Ireland a more attractive destination for drinks industry related investment from international brands and companies. In assessing the business environment for drinks related investment decisions the perceived hostility of a country's taxation system plays an important role in the allocation of funds for potential investments.

SUPPORT THE WHISKEY AND CRAFT BEER RENAISSANCE

The government has recognised the potential for supportive excise measures to create jobs through the very welcome craft brewery excise rebate. This recognition needs to be applied to the industry as a whole.

For the first time in decades new distilleries are being established in Ireland to take advantage of the surge in global demand for Irish whiskey. These small businesses need a solid domestic market base to support commercial viability and allow them develop competitive export offerings. It is extremely difficult for these small enterprises to establish a foothold when **65% and higher of the final price of their product goes directly to the exchequer.** A reduction in Ireland's draconian excise levels would be a great help to these entrepreneurs.

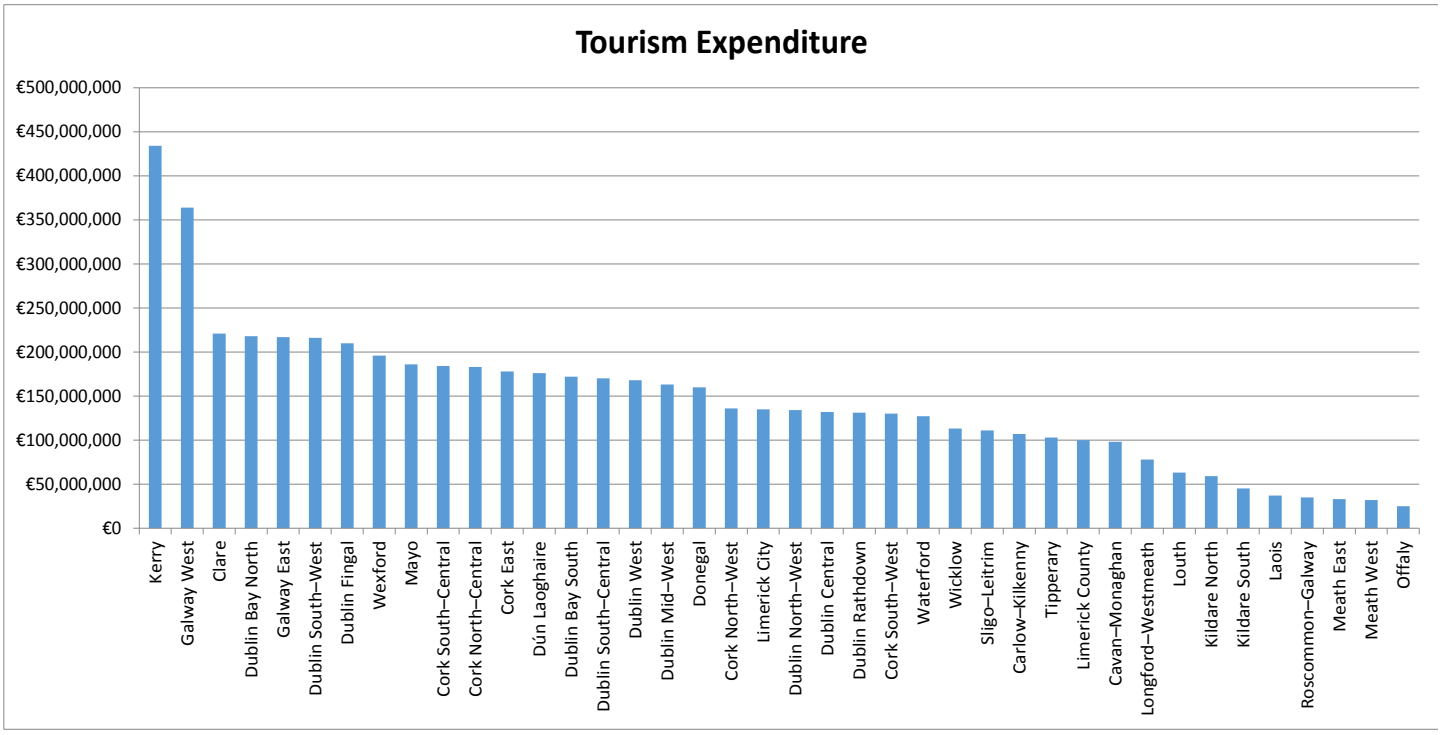
EXCISE IS A TAX ON TOURISM

A Core Aspect of Ireland's Tourism Offer

The number of tourists visiting Ireland has grown by 40% over the last five years with Ireland's world-renowned breweries, distilleries and pubs playing a pivotal role in attracting visitors to towns across Ireland.

The drinks industry provides essential economic and tourism infrastructure through the extensive and geographically spread network of 7,193 public houses, 631 hotel bars, 1,975 wine licensed restaurants and 431 fully licensed restaurants in 2015. The sector also provides financial and other supports for festivals and cultural tourism and sporting events.

It also directly provides major tourism attractions such as the Guinness Storehouse (the most popular fee paying tourist attraction in the country with almost 1.5 million visitors in 2015) and the Old Jameson Distillery (300,000 visitors) and other smaller drinks related visitor attractions throughout the country. The pub is a widely used facility for meals by foreign tourists. The pub is cited as the number one attraction for tourists according to the international travel guide publication, The Lonely Planet Guide and is highly rated by visitors according to Fáilte Ireland research. The outlook for tourism from the UK has been significantly worsened by the Brexit vote. Consequently, it is more important than ever that domestic fiscal policy should assist competitiveness. A significant reduction in excise will improve tourism competitiveness.



THE PUB AND TOURISM

Fáilte Ireland research continues to underline the importance of the pub as a uniquely Irish attraction. Four out of five visitors to Ireland identify the pub as a 'pull' factor influencing their decision to come to Ireland, while 83% of visitors cite listening to live music in a pub as one of their memorable experiences in Ireland.

High drink costs were cited as the third biggest disadvantage of visiting Ireland, with almost one in ten citing it as an issue in the 2015 visitor survey. A third more visitors highlighted the price of drink as a problem than the price of food. Only the weather and the high cost of living ranked ahead of drink costs, which was cited as a disadvantage by visitors from all parts of the globe.

Excise as a Percentage of the Price of a Pint

From 2011 to March 2016, the average price of a pint in an Irish pub has increased by 39 cents. During that time the government has increased VAT on alcohol (and other goods and services) from 21% to 23% in January 2012 and increased excise twice; once in December 2012 and again in October 2013.

As can be seen from the table on the next page, government tax increases were responsible for 74% of the price change on an average pint of stout in a pub since December 2011. This is particularly relevant given the high number of tourists who have identified the pub as the most relevant attraction in Ireland, whilst also identifying the high price of alcohol as a deterrent in visiting the country.

	Dec 2011	Mar 2016	Change € cent
Price of pint in bar €	3.931	4.321	39.0
VAT €	0.682	0.808	12.6
Excise €	0.375	0.538	16.3
Total tax per pint €	1.057	1.346	28.9
Tax as % of price/ change	26.9	31.2	74.1
Price excluding tax €	2.874	2.975	10.1

Source. Based on CSO and Revenue Commissioners data.

Tax Share of Alcohol Price Increase Dec 2011 to Mar 2016 - 187ml Bottle/Glass of Wine in Restaurant/Bar

	Dec 2011	Mar 2016	Change € cent
Price of glass of wine in rest/bar	€4.82	€5.36	€54
VAT	€0.837	€1.002	€16.5
Excise	€0.49	€0.794	€30.4
Total tax per glass	€1.327	€1.796	€46.9
Tax as a % of price	€27.5	€33.5	€86.9
Price excluding tax	€3.49	€3.56	€7

Restaurants and Tourism

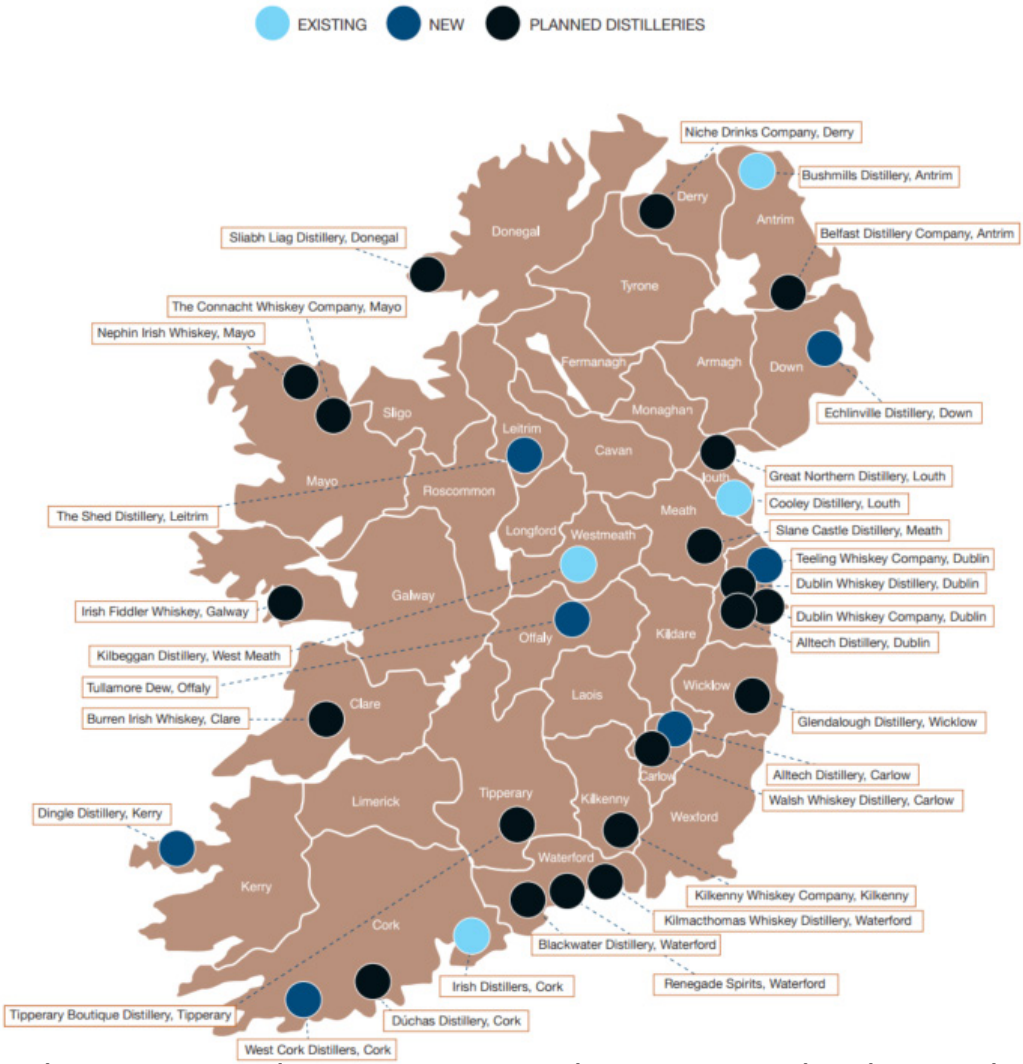
Irish Tourism has enjoyed a significant period of growth in recent years – but the dramatic reduction in the price of Sterling is putting the ambitious targets set by the Department of Tourism at risk. One thing that every visitor to Ireland much do while they are here is eat – with Fáilte Ireland research showing that 90% of Tourists visit a restaurant during their stay. 78% of these visitors will have a glass or bottle of wine with their meal – and the extraordinary tax levied on this product by the Irish government has the potential to leave a sour taste in the mouth of these visitors.

Whiskey Tourism Represents a Huge Opportunity for Ireland

The Irish whiskey industry has grown by 220% over the last ten years and is developing a significant Whiskey Tourism offering; Old Jameson) Distillery in Dublin, the Jameson Experience Midleton in Cork; Kilbeggan and Tullamore Dew Visitor Centres (25,000 visitors in 2014). These existing attractions have been supplemented in recent years by:

- *Dingle Distillery in Kerry*
- *Connacht Whiskey Company in Mayo*
- *Teeling Distillery in Dublin*
- *Irish Whiskey Museum in Dublin*
- *Boann Distillery in Louth*
- *Walsh Whiskey in Carlow*

The newly formed Irish Whiskey Association has an objective of rivalling Scotland for both whiskey production and whiskey related tourism. The right policy support from the government will be essential for Ireland to be able to achieve that aim – and rival the 35,000 jobs that are associated with whiskey tourism in Scotland.



Whiskey has the power to draw international viitors to Ireland. Over half of visitors to Irish distilleries are Americans, helping to create one job for every 35 additional American tourists that our distillery attract. However Ireland's tourism offering is dampened by high excise duties whick mean that a tourist visiting from New York can purchase a bottle of Irish whiskey cheaper at home than in Irlenad

EXCISE IS A TAX ON REGIONAL DEVELOPMENT

The drinks industry is a substantial contributor to regional and local economic development. The wide geographic spread of drinks enterprises as measured by Revenue licences is shown below. Hotels refer only to licensed hotels. In every county there are drinks industry entrepreneurs and enterprises in the form of pubs, off-licences, licensed hotels, licensed restaurants and in some counties producers/ manufacturers and wholesalers.

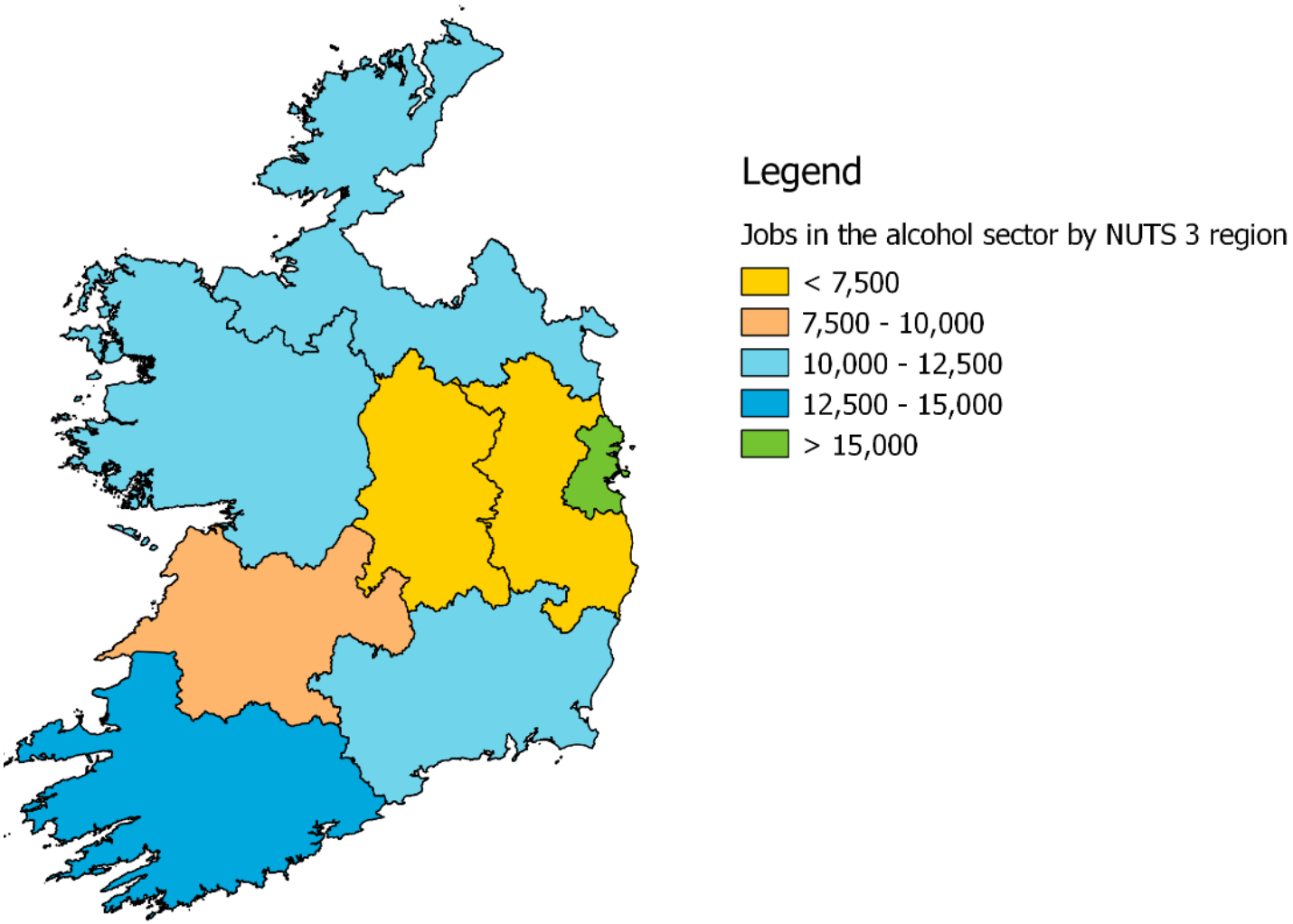
Alcohol Licences by County and type, September 2015

	Publican	Hotel	Special Restau-rant	Wine only Restau-rant	Full Off License	Wine only Off Li-cense	Manufac-turer	Wholesal-er
Carlow	97	7	2	21	24	20	1	5
Cavan	190	10	6	10	21	40	2	5
Clare	291	18	8	52	36	36	3	9
Cork	954	63	52	231	200	170	16	48
Donegal	365	40	22	55	54	79	2	12
Dublin	773	135	162	677	463	268	10	184
Galway	475	65	14	128	96	109	6	29
Kerry	435	50	23	115	60	71	5	20
Kildare	183	22	13	72	78	55	4	12
Kilkenny	191	12	10	30	26	29	1	7
Laois	123	9	2	18	24	35	1	6
Leitrim	109	5	3	10	9	13	3	4
Limerick	360	23	14	68	65	64	2	14
Longford	90	1	2	8	12	21	1	4
Louth	182	10	15	38	56	41	5	20
Mayo	273	40	8	68	47	65	3	7
Meath	195	12	16	49	52	56	3	18
Monaghan	106	7	3	14	20	34	1	8
Offaly	126	5	2	18	25	20	2	1
Roscom-mon	203	4	5	15	18	21	1	2
Sligo	145	11	0	22	23	32	1	6
Tipperary	422	17	10	39	59	61	8	16
Waterford	169	10	11	33	36	36	1	12
Westmeath	169	10	11	33	36	36	1	12
Wexford	265	22	4	69	52	56	6	15
Wicklow	151	18	10	62	44	43	6	14
Total	**7193**	**631**	**431**	**1975**	**1645**	**1516**	**98**	**483**

Source. Derived from Revenue individual licence database

One of Ireland's Major Employers Especially in the Regions

The Drinks Industry continues to be one of Ireland's major employers especially in regional areas – with 92,000 jobs throughout the country dependent on the Industry. These jobs exist in every parish in the country, often in locations that struggle to attract heavy industry. The regional importance of these jobs can be seen below:



Through policies focused on sustainability, drinks manufacturers provide huge boosts to farmers throughout Ireland with around 200,000 tonnes of malted barley, 300 million litres of milk and 50,000 tonnes of apples purchased every year.

The recent DIGI report on the geographic spread of hospitality employment which includes the drinks industry shows the widespread nature of hospitality employment.

EXCISE IS A REGRESSIVE PENAL TAX ON CONSUMERS

Tax on Irish Consumers

Alcohol excise tax has several undesirable features. It is a very high tax compared to other EU economies resulting in a disproportionate impact on Irish consumers of alcohol. It is a regressive and inequitable tax which does not take into account an ability to pay. Low income consumers pay the same amount of excise per pint of beer in a bar or take-home unit of alcohol as high income consumers. People who are considered to be of such low income as to be excluded from USC charges are not given such favourable treatment in alcohol excise or other indirect taxes. The excise per unit of alcohol is the same regardless of the value of the drink. A low priced bottle of wine attracts the same excise charge as a very highly priced bottle. Hard-pressed Irish consumers have been struggling with reduced disposable income over the last number of years.

This has had a major impact on consumer sentiment and on the drinks industry as a whole. There is also a perception amongst Irish consumers – and tourists that visit Ireland – that alcohol prices are too high, both by comparison to our European neighbours and due to price increases over recent years. This Government and the previous Government emphasised the objective of reversing some of the austerity impact. The 2015 and 2016 budgets lowered income tax. There was also some restoration of expenditure cuts. An excise reduction would potentially benefit 2.885 million consumers of alcohol in Ireland. The regressive nature of alcohol excise tax has been identified in recent NERI research.

Ireland's High Alcohol Taxation in the EU 2015

Category	Position
Wine	Highest in EU
Spirits	Third highest in EU
Beer	Third highest in EU

Source. European Spirits Association data based on EU Excise Tables for beer, spirits and wine. Rates as of Oct 2015

Ireland's High Alcohol Excise Taxes by EU Standards

Ireland's alcohol excise rates are very high by EU standards. The high Irish alcohol excise position has many negative economic effects.

High alcohol taxes:

- **Increase the tendency to source outside the state both legally and illegally.**
- **Reduce employment. DIGI estimates that the Budget 2014 excise increases caused a loss of about 700 direct and indirect jobs.**
- **Unfairly penalises moderate consumers of alcohol.**
- **Are regressive, are unrelated to ability to pay and do not contribute to equity in the tax system.**
- **Generate a range of adverse economic reactions from consumers including an additional impetus to home consumption with consequent loss of VAT revenues and employment opportunities. DIGI estimates that the Government would generate between €90 million and €125 million in additional VAT receipts each year through a shift of 20% of current off-licence alcohol volumes to public houses. There would be an excise reduction of about €30 million due to reduced consumption caused by the higher prices. The net annual gain of €60 million to €95 million would arise on a continuing basis.**
- **Constrain the development of the industry, and its export potential.**
- **Increase the domestic price level.**
- **Reduce tourism competitiveness compared to several of the mainland EU tourism markets.**

The penal nature of the Irish alcohol excise relative to other countries is illustrated further by identifying the actual excise paid by the average alcohol consumer. Based on data from the OECD on alcohol consumption, EU on alcohol excise receipts for 2013, abstainers from the recent WHO alcohol report and from Irish sources for Ireland and CIA population and age data DIGI examined alcohol receipts in a sample of similar consumption level countries to Ireland of Austria 12.2 LPA, France 11.8 LPA, Germany 11.0 LPA and Ireland 11.6 LPA. The 2013 actual excise paid by the average alcohol consumer was Ireland €350, Austria €57, Germany €56 and France €61. This broadly reflects the ratio of the composite excise rate between Ireland and the other countries but further illustrates the penal imposition borne by Irish consumers, producers and distributors of alcohol.

INCENTIVES FOR OUT OF STATE SOURCING

Current taxation policy in relation to alcohol is incentivising behaviour that removes alcohol taxes from the exchequer. This is particularly concerning in the areas of counterfeit activity and cross-border shopping.

The Government lost substantial revenues because of cross border shopping for alcohol and other products in 2009. Alcohol tax differentials were one of the determinants of this activity. The excise reduction in 2009 offset much of the tax disadvantage and greatly reduced the level of cross border shopping.

Quantity	Product	Tax saved Per Unit	Total Tax saved
3	Bottle Vodka	€2.91	€8.73
3	Bottle Whiskey	€3.20	€9.60
10	18 Unit Crate Bottle Lager	€1.62	€16.20
6	Bottle Sparkling Wine	€4.08	€24.48
6	Crate of Sauvignon Blanc	€8.64	€51.84
Total			***€110.85***

The most recent Revenue Commissioner survey of alcohol prices and tax differences between Northern Ireland and the Republic of Ireland clearly show the significance of the tax differential. The survey refers to May 2016. It shows a significant difference between the two areas in terms of tax on alcohol (VAT and excise) for some alcohol products. The Euro

exchange rate used in the survey was 0.7867sterling. The UK vote to leave the EU has caused Sterling to decline significantly in value and will increase the incentive to source alcohol and other products in Northern Ireland. At time of writing the Sterling exchange rate is 83 pence, which is an increase of over 5%. It is highly possible that further declines in Sterling will occur as the Brexit situation develops

As shown above bulk buying (based on infrequent trips to NI) generates substantial savings in tax in addition to non-tax price advantages, based on the Revenue prices survey. The data are based on the Revenue survey and the then exchange rate of 0.7867 Sterling. As can be seen from the table below there is a significant financial incentive for cross-border activity – particularly arising from tax differences. if one considers a basket of goods that would be deemed typical for a large party. The overall saving on the 0.79 exchange rate is €110.85 which rises to €116 on the 0.83 exchange rate.

The issue of out of state sourcing is not confined to Northern Ireland. Irish holidaymakers go to low alcohol tax countries such as Spain and Portugal and the large tax differential is an incentive to bring home bottles of spirits even allowing for the weight and baggage restrictions. The large recent increases in alcohol excise have significantly increased the incentive to source outside the state with consequent losses of economic activity, jobs and exchequer revenue.

In addition the higher excise gives an incentive to the smuggling of alcohol products. The number of Revenue seizures of alcohol products increased greatly in 2015 over 2014 and 2013 which were themselves high seizure years compared with previous years. The 2015 seizures total was 938 and related to 45.8k litres of beverage. In 2014 there were 550 seizures of alcohol products and in 2013 there were 507 seizures compared with 359 in 2012, 365 in 2011 and 287 in 2010.

Government should act to reduce this excise generated financial incentive for legal and illegal out of state sourcing of alcohol.

Penalising Hard-Pressed Irish Consumers

Average consumption of alcohvol in Ireland has declined dramatically in the last 10 years. Despite this trend Irish consumers pay a much higher price for alcohol – largely due to the tax take in respective countries. The 2013 actual excise paid by the average alcohol consumer in different countries with similar average consumption levels was Ireland €350, Austria €57, Germany €56 and France €61. The gap will have widened due to the increase in Irish excise receipts in 2014 which would not have been matched by the other countries.

There were 2.885 million alcohol consumers in 2015 who paid €1.1367 billion in excise or €394 per consumer. A 15% reduction in excise would potentially return €59 to the average consumer or €73 when VAT is added to the excise.

Even with a 15% excise decrease, alcohol taxes inIreland will continue to be amongst the highest in Europe, Irish beer taxes will remain the third highest in Europe, with wine taxes ranking second and spirit taxes ranking fourth

CONTEXT FOR EXCISE REDUCTION

DIGI believes there is a strong case for its recommended 15% reduction in alcohol excise in Budget 2017. DIGI believes that the data and analysis presented in this submission supports the recommendation. We briefly review the case for the proposed reduction.

Ireland is a very high alcohol excise tax economy compared to the large majority of EU members. The absolute gap in excise between Ireland and most EU countries is very substantial.

Budgets 2013 and 2014 increased alcohol excise substantially in the context of the fiscal emergency. The economic and fiscal situation in 2017 facilitates the reversal of some of these emergency tax measures. Excise tax takes no account of ability to pay and is unrelated to the value of the beverage in question. It is a regressive inequitable tax. There is a strong case for moving closer to EU norms of alcohol tax in light of the important role of tourism in the economy and for making the tax system more equitable. Excise affects almost 3 million consumers of alcohol.

The industry has a long way to go before the decline of period of the economic collapse since 2007 is recovered. As shown in this submission total and average consumption in 2015 are well below the 2007 levels.

The number of pubs has decreased by over one thousand between 2007 and 2015. Independent off-licences are operating in a very difficult economic and market environment. Despite growth in 2015 and early 2016 bar sales volume in April 2016 is well below the 2007 level. The recession has not been reversed for the drinks industry.

The industry is a substantial economic resource even allowing for the decline since 2007. The drinks industry and the wider hospitality sector generates large levels of national economic activity and employment, there is a substantial regional spread to this economic activity. The drinks industry is a major contributor to the overall tourism offering of Ireland.

The industry generates almost €2.3 billion in VAT and excise receipts and hundreds of millions in income tax, PRSI receipts and profits tax. It accounts for over €1.2 billion in exports. Excluding goods bought for resale without processing, drinks manufacturing has a total of €1.6 billion in purchases. The drinks sector in Ireland supports a wage bill of over €2 billion per annum. About 92, 000 direct, indirect and multiplier related jobs rely on the drinks industry.

DIGI argues, notwithstanding the general principle of the OECD typology, that the particularly high Irish excise tax is detrimental to economic growth and economic activity.

Overall, there is a strong case for a reduction of 15% in the current level of alcohol excise tax.

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