DIGI

Alcohol Excise Reduction to Support a Sustainable Future for a Significant Irish Industry

Submission to the Minister for Finance for Budget 2020

The Drinks Industry Group of Ireland

July 2019

Contents

Foreword

It is now common knowledge that Ireland has one of the highest overall alcohol taxes in Europe. We have the highest tax on wine, the second highest on beer, and the third highest on spirits.

Some, if not most, of Ireland's biggest global brands are drinks products. Beer and whiskey are an inextricable part of our history and culture, so much so that a pint of Guinness or a glass of Jameson in a traditional pub is regarded as a quintessentially Irish experience. Visitors from all over the world travel here to enjoy it—albeit at an increasing cost and declining levels of satisfaction.

But high alcohol tax does not just hurt tourists. Irish manufacturers, retailers and the public are financially punished by the State for producing, selling and consuming alcohol despite its massive economic and tax revenue contribution and the local communities it holds together.

The penal nature of Ireland's alcohol tax is made worse by international politics. In the three years since the UK's referendum on EU membership, Brexit has become synonymous with uncertainty. For the Irish drinks industry, especially rural businesses and exporters, how negotiations between Brussels and London play out can be the difference between staying open and shutting up shop for good.

Since 2005, the number of pubs in Ireland has fallen by nearly 20%, a primarily rural affliction. If a disorderly Brexit precipitates a major drop-off in UK tourism—a commercial lifeline in many parts of the country—there could be a similar recession-type effect on these businesses. The Government must therefore do as much as possible to minimise Brexit's impact. Part of the solution should be taking less from indigenous businesses by reducing alcohol excise tax.

The Drinks Industry Group of Ireland (DIGI), which represents some of Ireland's largest drinks manufacturers, retailers and hospitality businesses, is renewing its call for a 15% reduction in alcohol excise tax composed of a "two-budget" strategy, which involves a 7.5% reduction in Budget 2020 and a further 7.5% reduction in Budget 2021.

While this will not solve the drinks industry's problems on its own, it will help to provide drinks businesses and licensed restaurants with the means to invest at a time of increasing uncertainty; support the commercial sustainability of the very many small rural pubs, licensed restaurants and small independent off-licences; as well as lower an austerity-era tax increase on the consumer.

The 7.5% decrease is based on a soft Brexit and the continuation of economic growth. A hard Brexit with likely negative growth in GDP and consumer expenditure volume will necessitate a larger decline in alcohol excise in 2020. The negative public financial impact of a hard Brexit should not be used as a basis for increasing the tax burden on the drinks sector. In these circumstances, a reduction is needed.

Rosemary Garth

Chair of DIGI and Director of Communications and Corporate Affairs at Irish Distillers

Summary of submission

Reduce Ireland's Alcohol EXCISE TAX

Ireland's alcohol excise tax is the second highest in the European Union.

We have the highest tax on wine, the second highest on beer, and the third highest on spirits.

Our high excise tax:

- unfairly penalises over 13,500 Irish businesses (7,000+ pubs, 3,000+ off-licences, 950+ hotels, 2,400 + restaurants, 450+ wholesalers, 100+ producers) and Irish consumers
- puts jobs in rural Ireland at risk - over 200,000 people are employed in this industry
- negatively impacts Ireland's attractiveness as a tourist destination, at a time when tourism revenue is declining
- limits the potential of a fast-growing and internationally scaling drinks industry
- exposes Ireland to more Brexit risk.

A reduction would reverse austerity measures - as a consequence of Budget 2013 and Budget 2014, and in less than twelve months between December 2012 and October 2013, excise tax on beer increased by 44%, on spirits by 37%, and on wine by 62%.

As part of its pre-Budget 2020 submission, the Drinks Industry Group of Ireland (DIGI) is calling on the Irish Government to reduce alcohol excise tax by 7.5%.

Excise on a 70cl bottle of Irish whiskey

€11.92 Ireland v **€2.90 Italy**

Executive summary

This submission to the Minister for Finance proposes that Budget 2020 should reduce alcohol excise tax by 7.5%.

The drinks industry faces an array of negative economic forces. Alcohol taxes in Ireland are extraordinarily high by EU standards and the gap is large. The drinks industry and the wider hospitality sector are still dealing with the impact of the 50% increase in the hospitality VAT rate in last October's budget. In the first part of 2019 tourism revenue has declined and bar sales volume has declined. New regulations have negatively impacted on hospitality enterprises. The economic horror of a no-deal Brexit looms closer. The hospitality performances of Dublin, other large cities and the large tourism centres mask the very weak performance of much of rural Ireland. Thousands of rural pubs are small and have major commercial viability issues. In addition the many thousands of small enterprises in the drinks sector face the economy wide difficulties of excessive regulatory burden, out of control insurance and other costs and high interest rates. Against this background there must be a reduction in alcohol excise in Budget 2020.

This would be part of a combined two-budget reduction of 15%, comprised of 7.5% in each of the two years 2020 and 2021. This would largely reverse the average increase in alcohol taxation that was imposed in the austerity period. This proposed reduction should be seen in the overall context of the reversal of remaining austerity period/emergency-related taxes and the current economic position of the industry. This submission outlines the case for a reduction.

DIGI agrees with the Government's assessment that the 2020 economic outlook is uncertain. With an agreed soft Brexit, growth prospects are reasonably good. On the other hand, a disorderly no-deal Brexit could result in GDP and consumer expenditure declines in 2020, which would necessitate completely different economic policy and alcohol excise policy responses. Reflecting that significant uncertainty, DIGI has proposed two alcohol excise strategies. The 7.5% reduction in Budget 2020 is based on a soft Brexit with the continuation of economic growth and a no deal scenario should be accompanied by a substantially larger decrease, the size of which will depend on the Government's assessment of the negative Brexit effect.

The 7.5% reduction in Budget 2020 is based on a soft Brexit with the continuation of economic growth; a no-deal scenario should be accompanied by a substantially larger decrease, the size of which will depend on the Government's assessment of the negative Brexit effect.

Despite the concerns with possible macroeconomic overheating, DIGI believes there is a strong case for the proposed 7.5% excise reduction in Budget 2020 and again in Budget 2021 in the soft Brexit scenario. It is possible to manage the public finances to control overheating while at the same time reducing the structural long-term disadvantage of high specific taxes or increasing expenditure to deal with specific competitiveness or social related issues. The key issue is the net impact of the public finances on the economy. The overall surplus could be increased while reducing some taxes or increasing some expenditure by additional reduced expenditure elsewhere or higher other taxes.

Reduction in tax can be intended to deal with the level of aggregate demand or to correct fundamental competitiveness disadvantages. DIGI believes that the proposed 7.5% excise reduction is firmly in the second category. Excise tax on alcohol is at very high levels relative to other countries. It imposes a significant cost difficulty on the drinks and wider hospitality sector and it reduces competitiveness.

Should it be required, the public finances on both the tax and expenditure sides, should be managed to reflect prudent macroeconomic objectives and the management of aggregate demand while also facilitating the reduction in the internationally high Irish alcohol excise rates.

The negative public financial impact of a hard Brexit should not be used as a basis for increasing the tax burden on the drinks sector. In these circumstances, a reduction is needed.

DIGI will continue to examine and update data on the industry as the year progresses, which it is happy to share with the Minister for Finance. DIGI is also available to discuss its recommendation and associated data with the Minister and the Department of Finance.

The submission identifies the gross and net Exchequer costs of the proposal. Details of our assumptions and model are presented to facilitate transparency and scrutiny.

Ireland's alcohol taxation is high by international standards. The absolute gap in excise between Ireland and most EU countries is very substantial. 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, the impact of Brexit, the economic potential of the sector, and for making the tax system more equitable.

Excise affects over 3 million consumers of alcohol. High alcohol excise is a tax on consumers, enterprises, jobs, tourism and regional development. Alcohol excise is a regressive tax that does not take into account differences in income.

The increase in the hospitality VAT rate from 9% to 13.5% in Budget 2019 has had a substantial negative impact in terms of either higher prices or reduced operating margins throughout the hospitality sector.

DIGI argues there is a strong case for its recommended 7.5% reduction in alcohol excise in each of Budget 2020 and Budget 2021. DIGI believes that the data and analysis presented in this submission supports the recommendation.

Budgets 2013 and 2014 increased alcohol excise substantially in the context of the fiscal emergency. The recent and current economic and fiscal situation 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.

As shown by DIGI research, the drinks industry is an innovative and entrepreneurial sector with significant new venture formation, product and process development and business diversification. Its economic potential is hindered by the internationally very high alcohol excise taxes.

An effective Brexit response to an increasingly likely hard Brexit should include alcohol excise reduction. DIGI recognises that this is only one part of the required response. However, it can make a contribution.

Notably, excise levels are broadly within domestic policy control (subject to some EU regulations) and in light of overall economic and public financial circumstances we should be making the most of available policy measures within our domestic control in responding to Brexit.

The industry still has a long way to go before the decline of the economic collapse since 2007 is fully recovered. As shown in this submission, consumption in 2018 is well below the 2007 levels.

The number of pubs has decreased by over 1,100 between 2007 and 2018. Independent off-licences are operating in a very difficult economic and market environment with the loss of 35% of the sector since the onset of the economic crisis. Despite growth in 2015, 2016, 2017 and 2018, bar sales volume in 2018 is well below the 2007 level. The impact of the economic decline has not been reversed for the drinks industry.

The drinks industry and the wider hospitality sector is a substantial economic resource. It generates large levels of national economic activity and employment, and there is a substantial regional and rural spread to this economic activity. The drinks industry is a major contributor to the overall tourism offering of Ireland. The drinks industry and the wider hospitality sector have significant economic potential.

1. About the 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 and other drinks employer groups sustain directly and indirectly an estimated 90,000 people working directly and indirectly in drinks manufacturing, drinks distribution and visitor centres throughout the country and contribute to the much larger number of jobs in the hospitality sector.

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 negative effect of internationally very high alcohol excise tax, and work with stakeholders to create conditions that ensure the industry's continued growth and realise its full economic potential.

DIGI is mindful of its responsibility in relation to the issue of alcohol misuse in Ireland and is keen to play a meaningful role in addressing it.

However, excise tax is an ineffective and unfair way to generate responsible alcohol consumption. In addition, it is a regressive tax. Ireland has consistently had very high excise levels over many years, proving high excise levels are an ineffective way of encouraging responsible alcohol consumption. Instead, DIGI has pledged to work with Government to deal with the availability of cheap alcohol, to implement a ban on price-based advertising and to introduce a statutory code on merchandising of alcohol. The drinks industry will also continue to abide by the voluntary codes of practice for marketing and sponsorship in Ireland, which are among the strictest in the world.

2. Excise reduction in the macroeconomic context

DIGI agrees with the Government's assessment that the 2020 economic outlook is uncertain. With an agreed soft Brexit, growth prospects are reasonably good with the ESRI predicting a 3.2% growth in GDP (the Government forecast is 3.3%) and a 2.3% growth in the volume of consumer expenditure.

In that scenario, the main concern is that the economy may overheat. This concern has led the ESRI to recommend tax increases. On the other hand, a disorderly no-deal Brexit could result in GDP and consumer declines in 2020 that would necessitate a completely different economic policy response. Reflecting that significant uncertainty, DIGI has proposed two alcohol excise strategies. The 7.5% reduction in Budget 2020 is based on a soft Brexit and the continuation of economic growth and a no-deal scenario should be accompanied by a substantially larger decrease.

Despite the concerns with possible overheating, DIGI believes there is a strong case for the proposed 7.5% excise reduction in Budget 2020 and again in Budget 2021 in the soft Brexit scenario. It is possible to manage the public finances to control overheating while at the same time reducing the structural long-term disadvantage of high specific taxes or increasing expenditure to deal with competitiveness or social-related issues.

The key issue is the net impact of the public finances on the economy. The overall surplus could be increased while reducing some taxes or increasing some expenditure by additional reduced expenditure elsewhere or higher other taxes. Reduction in tax can be intended to deal with the level of aggregate demand or to correct fundamental competitiveness disadvantages. DIGI believes that the proposed 7.5% excise reduction is firmly in the second category. Excise tax on alcohol is at very high levels relative to other countries. It imposes a significant cost difficulty on the drinks and wider hospitality sector and it reduces competitiveness.

Should it be necessary, the public finances, both tax and expenditure sides, should be managed to reflect prudent macroeconomic objectives and the management of aggregate demand, while also facilitating the reduction in the internationally high Irish alcohol excise rates.

The negative public financial impact of a hard Brexit should not be used as a basis for increasing the tax burden on the drinks sector. In these circumstances a reduction is needed.

3. Recommendation for Budget 2020: reduction in alcohol excise tax of 7.5%

DIGI recommends that Budget 2020 should reduce alcohol excise rates by 7.5%. This should be seen in the context of a broad reversal of the remaining austerity/emergency tax rates. There should be a 15% reduction in excise rates over the next two budgets with a 7.5% reduction in each year. This should form part of a discussion on the role of the remaining austerity taxes. This recommendation is made on the assumption of a soft Brexit situation and the continuation of good economic growth.

A hard Brexit is likely to result in economic decline in Ireland in 2020. The extent of the decline is uncertain. In such a scenario the proposed 7.5% excise reduction is insufficient, and Government must introduce a larger decrease. The size of the decrease required in a hard Brexit situation depends on the Government's assessment of the scale of the negative impact of a hard Brexit.

Very high excise levels by EU standards impact negatively on the national, regional and local economies currently and in the medium to long terms.

The annual 7.5% reduction in alcohol excise over two budgets would have the broad effect of reversing Budget 2014's excise increase in order to reduce continuing damage to a large and significant national industry; and would contribute to coping with Brexit, supporting consumers and small drinks enterprises, and helping the sector realise its economic potential.

- Government should support the commercial viability of drinks-related enterprises in the on-licence sector and the independent off-licence sector.
- Government should use excise reduction as part of its response to the negative economic and tourism effects of Brexit.
- Government should support the business strength and capability of Irish drinks manufacturers that will in turn assist in the drinks export drive which should be supported by a solid domestic market. This will ensure a boost for the rural economy, agriculture sector and exports.
- Alcohol tax is a regressive and inequitable tax and is very high by EU standards. It reduces tourism competitiveness. It should be reduced as a gain to the over three million consumers of alcohol.

DIGI recommends that:

There should be a reduction of 7.5% in alcohol excise in Budget 2020.

This 7.5% decrease is equivalent to just over 4 cents in excise per pint and, when VAT is included, amounts to 5 cents per pint. Price impacts for other types of drinks are shown below in Table 3.1.

Table 3.1: Price impact of a 7.5% reduction in alcohol consumption in bar/restaurant and off-licence

Drink	Current excise cent	Reduction sought in excise (7.5%) cent	Reduction per drink including VAT on excise (rounded to nearest cent)
Pint of stout in bar/ restaurant	54	4.1	5
Pint of lager in bar/ restaurant	55	4.1	5
Standard whiskey in bar/restaurant	60	4.5	6
Glass of wine in bar/ restaurant	80	6.0	7
Bottle of whiskey in off-licence	€11.92	89.4	110
Bottle of wine in off-licence	€3.19	23.9	29

Source: Revenue Commissioners and DIGI

4. Cost of a 7.5% excise reduction

The financial impacts of DIGI's recommended excise reduction for the Exchequer are outlined here. The net Exchequer cost is an important factor in decision-making and reflecting this importance, we identify in some detail the basis for our calculations. Naturally, if cross-border shopping does not decrease and if there is no substitution of off-licence consumption by on-licence consumption, the associated positive Exchequer flows will not materialise and the net costs will be higher.

Gross excise cost

Total alcohol excise receipts in 2018 were €1.240 billion. A 7.5% reduction would cost €93 million. VAT is charged on excise at the 23% rate. Consequently, the total gross Exchequer cost would be €114.4 million. However, there are offsetting additional revenue benefits which are outlined below.

Net Exchequer cost

A reduction in alcohol excise will have a range of positive economic effects that will increase tax revenues. These will reduce the gross cost to a much lower net cost.

Most of these positive tax revenue flows depend on the assumption that the excise reduction is passed on as a price decrease. If this were not to happen to its fullest extent, a different set of results would emerge, including improved commercial sustainability, maintenance of employment, and increased resources for investment.

The quantified positive effects arising from passing on as a price decrease the 7.5% excise reduction are:

- **Price reduction leading to demand/volume increase (market stimulation).** We estimate this flow to the Exchequer to be €14 million. The small increase in demand should be seen in the context of the long-term decline in average consumption. The model underlying this estimate is shown below:
  - Estimated value of alcohol market=€7,540m (DIGI 2018, estimate based on 2017 CSO estimate)
  - Estimated volume of alcohol=42.691mlpa (Revenue estimates)
  - Total excise=€1240m (Revenue estimates)
  - Total excise plus VAT on excise= €1,525m
  - Average price per unit (1 lpa) of alcohol=€176.62
  - Average excise per lpa of alcohol=€29.00
  - Average excise plus VAT on excise per lpa of alcohol=€35.72
  - Reduction in excise level (7.5% decrease on excise) per lpa= €2.18
  - Reduction in excise plus VAT on excise, increase per lpa= €2.68

- Decreased price (due to excise decrease of 7.5%)=€173.94 per lpa
- % decrease in price=1.5%

    - Price elasticity of -0.6 (based on international literature)
    - Increase in number of units consumed (with price elasticity of -0.6) = 0.9%
    - Increase in excise plus VAT on excise= €14 million

- **Exchequer savings and tax receipts from increase in employment of about 400 jobs arising from the volume increase.** A volume increase of 0.9% could result in an employment gain of 0.45% on the basis of a 50% employment follow-on. Total drinks direct and indirect employment is estimated at 90k. This results in an increase of about 400 jobs. Our model estimated a figure of €2.5 million from this source.
- **Shift to on-licence purchases from off-licences.** The below cost selling of alcohol in the mixed retail setting has meant that excise increases were not fully passed on to the consumer and has contributed to the emergence of a significant price asymmetry between the off- and on-licence markets. While both sectors will experience the reduction in excise, the lower absolute price of on-licensed alcohol could encourage, from a behavioural economics perspective, a flow from the off-sector to the on-sector. Excise receipts will remain unchanged, but VAT receipts will increase due to the higher on-licence price per unit of beverage. On the assumption that 5% of off-licence volume is diverted to on-licences, there is a gain of about €50 million in increased VAT receipts. 5% of off-licence volume is about 7.5% of on-licence volume. There is VAT loss of just under €21m from the off-licence loss and a gain of just over €72m from the on-licence gain resulting in just over €50m of a net gain in VAT on the basis of our assumptions. There is an alternative more rigid view of the possible impact as follows. Excise is a higher share of the off-licence price than of the on-licence price. The absolute reduction in excise would have a larger proportionate impact on off-licence prices. Off-licence consumption would be relatively cheaper than on-licence consumption than before the reduction, making it more attractive. This would be particularly beneficial to the independent specialist off-licences, for whom excise increases have led the sector to the brink of commercial failure. However, we believe there would be a behavioural reaction in favour of on-licence consumption.
- **Reduced incentive to purchase alcohol in NI.** A lower price in the Republic of Ireland will reduce the incentive to purchase over the border. We estimate that every 1% of the Republic's off-licence consumption sourced in Northern Ireland results in a loss of €11 million in excise and VAT receipts. It is estimated that the off-licence volume and value shares are about 60% and 30%. Applying these proportions to the total alcohol excise (volume) and VAT (value) revenues take of €1,240m and €1,382m gives an off-licence alcohol tax receipts total of €1,159, of which 1% is a little over €11m.

These quantified positive effects are €77.5 million relative to the gross cost of €114.4 million resulting in a net cost of €37 million arising from the DIGI proposal for Budget 2020.

The following positive effects of an excise reduction are not quantified but would reduce the net cost further:

- An excise reduction also leads to an improvement in the perception of Ireland as a location for the drinks industry and will contribute to the location of investment projects in Ireland by existing multinational enterprises, and enhanced entrepreneurial and innovation activity.
- An excise reduction will support small pubs and small independent off-licences and hospitality employment generally, contribute to a lower rate of rural pub closure, help to maintain existing jobs and contribute to tourism competitiveness.
- An excise reduction will contribute to increased confidence in the sector, which will enhance its performance and viability, especially the development prospects of smaller manufacturers.

5. Ireland's very high alcohol excise compared to other EU countries

International comparison

Research commissioned by the Drinks Industry Group of Ireland examined the 2018 comparative international position of Irish alcohol excise taxation within the EU. This research established that Ireland has a very high level of alcohol excise tax when compared with the large majority of the other 27 economies of the EU.

On the composite indicator (average excise rates across the three beverages of beer, spirits and wine) only Finland has higher average alcohol excise than Ireland. Sweden is in third place with an average excise level that is lower than Ireland's. These three are followed by the UK, in fourth place, which is also a high alcohol excise economy. The UK level is 80.5% of the Irish level.

The rest of the EU economies have much lower levels of excise than the top four of Finland, Ireland, Sweden and the UK. The fifth-ranked economy is Estonia, which has a composite excise rate of 53.4% of the Irish level and is far behind the levels of the top four countries.

The summary of the 2018 international tax comparisons research findings was:

- Ireland has the highest wine excise in the EU 28.
- Ireland has the second-highest beer excise in the EU 28 behind Finland.
- Ireland has the third-highest spirits excise in the EU 28 after Sweden and Finland.
- Fourteen EU economies do not impose any excise on wine. In addition, France, Greece and Malta have very low wine excise tax.
- On an overall composite alcohol excise level (measured by the unweighted average of the different beer, spirits and wine excise rates), Ireland is the second highest behind Finland.
- The magnitude of the differences in alcohol excise between Ireland and other EU economies is large. For example, Ireland's beer excise is 11.4 times that of Germany. Irish spirits excise is 4.4 times that of Spain.
- Germany's composite alcohol excise per HLPA is €500 or 14.5% of the Irish level.
- France's composite level of €839 is 24.3% of the Irish level.
- Spain's composite rate is €386 or 11.2% of the Irish level.
- Application of the German beer excise rate to Ireland would reduce the price of a pint in a pub by 13.3% and the off-licence price of a bottle of whiskey by 41.2%.

The details of the different excise rates throughout the EU are presented in Table 5.1.

Table 5.1: EU alcohol tax rates (excise) (euro per HLPA), May 2018, three beverages and composite level and rank in country alphabetical order

	Spirits	Wine	Beer	Composite level	Rank of composite level
Austria	1200	0	500	567	18
Belgium	2993	681	501	1392	7
Bulgaria	562	0	192	251	28
Croatia	707	0	534	414	24
Cyprus	957	0	600	519	20
Czech	1096	0	308	468	23
Denmark	2016	1418	753	1396	6
Estonia	2508	1344	1692	1848	5
Finland	4785	3482	3555	3941	1
France	1741	34	742	839	13
Germany	1303	0	197	500	21
Greece	2550	189	1250	1330	8
Hungary	1070	0	520	530	19
Ireland	**4257**	**3862**	**2255**	**3458**	**2**
Italy	1036	0	755	597	17
Latvia	1670	836	680	1062	11
Lithuania	1665	1497	711	1291	9
Luxembourg	1041	0	198	413	25
Malta	1400	186	483	690	15
Netherlands	1686	803	759	1083	10
Poland	1322	333	452	702	14
Portugal	1387	0	418	602	16
Romania	721	0	180	300	27
Slovakia	1080	0	359	480	22
Slovenia	1320	0	1210	843	12
Spain	959	0	199	386	26
Sweden	5012	2309	1960	3094	3
UK	3239	2957	2150	2782	4
Ireland's rank	**3**	**1**	**2**	**2**	2

Source: Spirits Europe, Summary of EU Member States, Brussels (Excise rates as of May 2018); the exchange rates are those of Oct 2017 as used in the EU excise tables, except for the UK and Sweden for which we use July 2018 monthly average rates. Composite level is the unweighted average of the three rates. The beer data refer to a 5% ABV.

Large alcohol excise tax wedge

These very high Irish alcohol excise rates generate a large alcohol excise tax wedge, which we define as the difference between what the consumer pays for a beverage and the amount that the industry receives because of excise tax. The total expenditure on alcohol is estimated at €7,540 million. Excise and VAT are estimated at €2,622 million, which is 34.8% of the expenditure total.

As noted above, the German composite average excise rate is €500 per HLPA compared to the Irish rate of €3,458. The German rate is only 14.5% of the Irish rate. This would indicate that if German rates were applied to Ireland, Irish excise revenue would total about €180m instead of €1,240m. Ireland pays about €1,060m more annually than German rates would imply. Over five years, Ireland's high excise rates have removed over €5 billion from the Irish drinks industry and consumers compared to the application of German excise rates. (This does not take into account of differences in consumption mix between the two countries.)

Excise and VAT impact on price

In 2018, the Exchequer received:

- €1.38 from every pint costing €4.50, or 31% of the price, consumed in bars.
- €1.81, or 34%, from every restaurant glass of wine costing €5.38.
- €16.55, or 67%, of the price of a €24.78 off-licence bottle of whiskey.
- €5.12, or 50%, of the price of a €10.30 off-licence bottle of wine.

Alcohol excise tax rate changes

The drinks industry experience of the recession is notable in that it received a significant excise (tax) reduction in 2009, but this was almost fully reversed for beer, cider and spirits by the increase in excise in December 2012 and was more than fully reversed for wine. The increases in Budget 2014 left all four beverages groups with higher excise rates than in 2007. The industry continues to suffer from the austerity-related excise tax levels.

Table 5.2: Excise rates 2007 to date €

	2007	October 2008	December 2009	December 2012	October 2013	Current 2019	% change 2007 to date
Beer, per hectolitre percent of alcohol	19.87	No change (nc)	15.71	19.13	22.55	22.55	13.5
Cider	83.25	nc	65.86	80.16	94.46	94.46	13.5
Spirits, per litre of alcohol in the spirits	39.25	nc	31.13	36.85	42.57	42.57	8.5
Wine, per hectolitre up to 15% abv	273.00	328.09	262.24	370.64	424.84	424.84	55.6

Source: Revenue Commissioners.

Out-of-state purchasing

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.

The February 2019 Revenue cross-border prices survey shows the significant difference between the two areas in terms of tax on alcohol (VAT and excise) for some alcohol products. The euro/sterling exchange rate used in the survey was 0.8685.

Table 5.3: Comparative prices and tax component in off-licence alcohol products, February 2019, NI and RoI.

Products	Price in this State	Price in N. Irl	Difference	Total Tax and Duty in this State	Total Tax and Duty N. Irl	Difference Total Tax and Duty
Alcohols						
Stout (500ml can)	2.22	2.08	0.14	0.89	0.81	0.08
Lager (500ml can)	2.22	1.67	0.55	0.90	0.81	0.09
Lager (330ml bottle)	1.66	1.30	0.36	0.63	0.53	0.10
Bottle of vodka	20.00	16.41	3.59	14.91	11.42	3.49
Bottle of whiskey	24.00	23.86	0.14	16.41	13.24	3.17
Bottle of wine (Chardonnay)	11.70	8.62	3.08	5.37	4.01	1.37
Bottle of wine (Sauv. Blanc)	9.25	8.28	0.97	4.92	3.95	0.97
Sparkling wine	18.35	10.93	7.42	9.80	5.11	4.69

The Republic's alcohol tax is higher in all the listed beverages. The tax difference in spirits is substantial. Vodka is €3.49 and whiskey is €3.17 per bottle tax difference. The beer tax difference is lower. The sparkling wine tax difference is also large at €4.69. The tax difference in wine varies from €0.97 to €1.37 per bottle.

The current differentials are sufficiently large to justify "special event" purchasing, such as for parties, domestic celebrations and other large-scale formal events. In addition, ordinary domestic purchasing can be done on an occasional basis providing households have the financial resources to engage in such bulk purchases.

As shown below, 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. 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 appropriate for a large party, the tax-related savings on the selected "party" bundle of beverages is €135.96.

Table 5.4: Savings from Northern Ireland purchases of alcohol 2019

Quantity	Product	Tax saved Per unit	Total tax saved
3	Bottle of vodka	€3.49	€10.47
3	Bottle of whiskey	€3.17	€9.51
10	18-unit crate bottle lager	€1.80	€18.00
6	Bottle of sparkling wine	€4.69	€28.14
6	Crate of Sauvignon Blanc	€11.64	€69.84
Total			€135.96

Source: DIGI and based on Revenue data

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; the large tax differential is an incentive to bring home bottles of spirits, even allowing for the weight and baggage restrictions. The high alcohol excise provides an 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 in 2018 was 1,756 with a total of 252.1k litres compared with a 2017 situation of 1,819 seizures with a total of 95.02k litres. The 2016 seizures total was 1,875 and related to 110.1k litres of beverage. 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. The 2018 volume of alcohol seized is substantially higher than previous years.

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

Impact on consumers

As already identified, Irish consumers of alcohol pay the second-highest average excise level in the EU. The penal nature of the Irish alcohol excise is illustrated further by identifying the actual excise paid by the average alcohol consumer. There were 3.1170 million alcohol consumers in 2018, on the basis that 19% do not consume alcohol (adults defined as 15 years and over as is usual in alcohol consumption measurement, although persons aged 15 to 17 years are clearly not adults), who paid €1.240 billion in excise. The 2018 excise burden on average on each alcohol consuming adult was €398 or €7.65 per week. Including VAT, which is charged on the excise, the figures increase to €490 and €9.41.

A 7.5% reduction in excise would potentially return €29.85 to the average consumer, or €36.72 when VAT is added to the excise.

Alcohol excise tax 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.

This Government and the previous Government emphasised the objective of reversing some of the austerity impact. Recent budgets lowered income tax. There was also some restoration of expenditure cuts. An excise reduction would potentially benefit 3.117 million consumers of alcohol in Ireland.

The regressive nature of alcohol excise tax has been identified in NERI research.

Negative impacts of high excise tax

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 jobs.
- Are a significant cost to small businesses, especially pubs and small independent off-licences.
- Unfairly penalise moderate consumers of alcohol.
- Are regressive, 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 unregulated home consumption of heavily discounted products sold below cost price in the mixed retail off-licence setting (as opposed to on-licensed consumption) and cross-border shopping with consequent loss of VAT revenues and employment opportunities.
- Constrain the development of the industry and its export potential.
- Have a significant negative effect on commercial viability of especially small rural pubs and independent off-licences.
- Reduce tourism competitiveness compared to several of the mainland EU tourism markets.

6. National, regional and local economic role

The economic impact of the drinks sector and the wider hospitality sectors are substantial at the national, regional and local levels. The sector is a promising sector on which to promote sustainable regional economic development.

Employment:

- The wider hospitality sector directly employed 175.0k persons (7.6% of all employment) in Q1 2019 on the CSO definition and much more on the Failte Ireland definition with an additional indirect and multiplier employment effect.
- The Annual Services Inquiry for 2016 identifies accommodation and food services employment of 59.3k in accommodation, 79.2k in food services and 41.3k in beverage serving.
- 69.9% of CSO-defined hospitality employment is located outside Dublin.
- 90,000 full and part-time jobs are provided directly and indirectly by the drinks sector.
- A total of about 63,000 jobs throughout Ireland are directly provided by the drinks sector. This is made up of:
- 5,300 jobs in beverages manufacturing (including soft drinks).
- About 43,000 jobs in pubs.
- Approximately 63,000 full- or part-time direct jobs including all segments of the drinks industry, manufacturing, on and off retail, wholesale and visitor centres.
- Indirect employment arising from purchases and multiplier employment is about 27,000.
- 89% of public houses 79% of licensed hotels and 65% of restaurants are located outside Dublin

Exports:

- Exports of €1.435 billion in 2018 based on CSO data. (Higher when based on Bord Bia data.)
- Trade surplus in beverages of €587 million in 2018.
- Beverages exports are 1.69 times imports.
- High domestic content in alcohol exports.
- Substantial potential to increase alcohol exports and to diversify markets.
- Global growth of Irish whiskey sales has been excellent in recent years.
- 65% of Irish beer market supplied domestically.
- About one third of Irish spirits market supplied domestically.
- Over 80% of Irish cider market supplied domestically.

Exchequer contribution:

- €2.622 billion in excise and VAT in 2018.
- €1.240 billion in excise receipts in 2018.
- €1.382 billion estimated alcohol gross VAT receipts associated with drinks sales in 2018.
- Income and profits tax revenues. The Revenue Commissioners estimated that the CSO category of hospitality generated in 2018 €315.6 million in PAYE income tax and USC, €53.0 million in self-employed income tax and €118.6 million in corporation tax receipts. This is a total of €487.2 million. Additional tax receipts arise from the other drinks sectors such as manufacturing, visitor centres, off-licences and wholesale distributors.
- PRSI employer and employee annual receipts of about €300 million are generated by the CSO hospitality sector.

Drinks manufacturers:

- According to the 2014 (the 2015 and 2016 editions do not separately identify beverages as a sector) CSO Census of Industrial Production, the drinks manufacturers:
  - **Pay €212 million annually in wages and salaries. Pay €251 million in total labour costs.**
  - **Buy €836 million worth of materials for processing annually.**
  - **Buy €57 million of industrial services.**
  - **Buy €785 million of non-industrial services such as information technology and telecommunications, security, advertising, cleaning, maintenance, accounting and insurance and other services.**
  - **Excluding goods bought for resale without processing, have a total of €1.679 billion in purchases.**
  - **Have invested €271 million in 2014 according to the CSO including €67m in building and construction and has potential for ongoing investment.**
  - **Use 46,000 tonnes of apples in production, 160,000 tonnes of barley and malted barley and over 300 million litres of milk.**
  - **Have a high domestic sourced content in purchases of 62% in services and 42% in materials leading to a combined over €870 million in domestic service and materials purchases.**
- This domestic content greatly exceeds the domestic content levels of the high technology sectors, e.g., domestic services purchased by the chemicals sector are only 8% of their total purchases.

The bar and off-licence sectors

- The bar and off-licence alcohol market in 2018 is estimated at €7.540 billion
- The bar sector has a total labour cost of €783 million and a wages and salaries bill of €711 million based on 2015 CSO data for the retail sector.
- Spend €1.3 billion on total services and materials inputs.
- Provide an extensive and geographically spread network of enterprises.
- Very many of the 2018 7,992 pubs/bars have small turnovers and are in a weak commercial position; 49.5% of the total, or 3,923 enterprises, have annual net sales of under €190.5k or €3,663 per week.
- The independent off-licence sector is composed almost exclusively of micro-enterprises; 33% of these businesses have seen between a 10% and 20% reduction in their turnovers year-on-year, leaving them in a vulnerable commercial position.

Regional development

The drinks and hospitality sector is regionally spread and has the potential to contribute more to more balanced regional development, which is an objective of Government policy.

All eight regions experienced increases in total employment over the 2013-2019 period. Therefore all regions have shared in the jobs growth. However, the rate of growth is not evenly distributed. The South-West had the worst performance, with a 14.1% employment increase compared to 28.1% in Dublin, which was the best performing region over the period.

In all the areas excluding Dublin, the growth was 19.0%. The Midlands was the second best performing region with an increase of 25.4%. Two regions, West and Mid-West, were below 17%. The range of growth was 14.1% to 28.1%. These statistics understate the economic size of Dublin because many residents of adjoining regions commute to Dublin to work.

Table 6.1 : Regional Employment levels and changes Q1 2013 to Q1 2019, thousands

Region	Q1 2013	Q1 2019	% change 2013-2019
State	1892.0	2301.9	21.7
Border	150.9	182.9	21.2
West	183.4	213.6	16.5
Mid -West	187.2	215.8	15.3
South-East	157.4	187.5	19.1
South -West	288.4	329.2	14.1
Dublin	550.3	704.9	28.1
Mid-East	273.4	341.3	24.8
Midland	101.0	126.7	25.4
State excluding Dublin	1341.7	1597.0	19.0

Source: CSO, LFS

The regional spread of hospitality employment growth is shown in the table below. Four regions have a higher hospitality employment growth than the national rate of 39.2%, Border, South-East, Dublin and Midland. Mid-West was the same as the state's increase. Two regions had very low increases.

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Table 6.2: Regional spread of hospitality employment 2013 and 2019, Q1

Region	Accommodation and food services Q1 2013	Accommodation and food services Q1 2019	Accommodation and food services % change Q1 2013-Q1 2019
State	125.7	175.0	39.2
Border	9.4	17.8	89.4
West	12.4	14.3	15.3
Mid -West	12.5	17.4	39.2
South-East	9.5	14.1	48.4
South -West	21.0	29.1	38.6
Dublin	36.1	52.6	45.7
Mid-East	19.0	21.0	10.5
Midland	6.0	8.7	45.0

Source: CSO, LFS

Tourism

The wide geographic spread of the drinks enterprises is illustrated in Table 6.3 below. This spread contributes to local tourism development. The pub is an integral part of the tourist experience in Ireland as evidenced by Failte Ireland research and other surveys. The drinks industry provides essential economic and tourism infrastructure through the extensive and geographically spread network of around 8,000 public houses and other bars, 2,388 wine-licensed restaurants, and 475 fully licensed restaurants in 2017. 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) and the Jameson Distillery, Bow St, and many 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.

According to the latest 2017 Failte Ireland statistics on visitors to fee-charging attractions, there are three drinks attractions in the top 24 attractions: the Guinness Storehouse is number one with 1,711,281 visitors compared to 1,527,000 at the Cliffs of Moher Visitor Experience. The Old Jameson Distillery had 286k visitors and was in 18th place; 23rd was the Middleton Jameson Experience with 123k visitors. Roe and Co in Dublin is the latest whiskey visitor experience. Visitors to all whiskey distilleries in 2018 were 923k.

Table 6.3: Alcohol licences by county and type

	Publican	Hotel	Special restaurant	Wine-only restaurant	Full off-licence	Wine only off-licence	Manufacturer	Wholesaler
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	373	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
Roscommon	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	220	15	14	53	45	41	4	5
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 and relate to 2015

7. Recent and long-term performance of the drinks and hospitality sector

Average alcohol consumption per adult

The most generally used domestic and international indicator of aggregate alcohol consumption is the quantity of pure alcohol contained in the various beverages. The recent and long-term average consumption performances are presented in Tables 7.1 and 7.2.

Table 7.1: Average per adult alcohol consumption 2017 and 2018

	2017	2018	% change 2017/2018
Litres of pure alcohol (LPA), total consumption	41,944,582	42,691,031	+1.8
Adult population (aged 15 and over), millions	3.7855	3.8482	+1.7
Litres of pure alcohol per adult (LPA)	11.080	11.094	+0.1

Sources: CSO Population and Migration Estimates August 2018. Revenue Commissioners, alcohol clearances data 2018. Website, 2019.

Total alcohol consumption volume as measured by clearances increased by 1.8% in 2018. The number of adults (as defined by 15 years and over) increased by 1.7%. This resulted in a very small increase of 0.1% in average alcohol consumption per adult in 2018. It was 11.080 lpa in 2017 compared with 11.094 lpa in 2018. Average per adult consumption is now slightly above 11 lpa. By comparison, it was at around 11 lpa in 1994 and peaked at 14.44 lpa in 2001. Since 2001 the average per adult alcohol consumption has declined by 23.2%.

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Table 7.2: Recent trends in alcohol consumption, 2012-2018

	Adult population total, million	Litres of pure alcohol	Average per adult consumption, litres of pure alcohol
2012	3.6057	41,703,160	11.566
2013	3.6208	38,472,435	10.625
2014	3.6478	39,838,460	10.921
2015	3.6862	39,711,197	10.773
2016	3.7340	41,969,676	11.240
2017	3.7855	41,944,582	11.080
2018	3.8482	42,691, 031	11.094

Sources: CSO Population and Migration Estimates, August 2018. Revenue Commissioners' alcohol clearances.

In 2007, just over a decade ago, total alcohol consumption was at its maximum at 46.605 million litres of pure alcohol. The 2018 level is 42.691 million litres of pure alcohol, which is 8.4% lower.

Since 2012, the overall alcohol market as measured by Revenue clearance data, has increased only slightly by 2.4%, while the adult population increased by 6.8%. The difference is explained by the decline in average per adult alcohol consumption levels in this period.

Over the past six years, average per adult alcohol consumption has decreased from 11.566 lpa in 2012 to 11.094 lpa in 2018, a decline of 4.1%. The decline was not continuous over the period. There was a substantial decline in 2013, an increase in 2014, a decline in 2015, an increase in 2016, a small decrease in 2017, and a small increase in 2018. As already noted, average consumption in 2018 is 23% lower than the peak of 2001.

Decline in number of non-Dublin public houses

The number of seven-day licences decreased from 8,617 in 2005 to 7,072 in 2018, a decline of 17.9%, or 1,545 enterprises. The decline is largely a rural phenomenon. Dublin pubs decreased from 786 to 776, a decline of 10, or 1.3%. Non-Dublin pubs declined from 7,831 to 6,296, a drop of 19.6% or 1,535 enterprises.

Many rural pubs have low turnovers and are marginal from a market commercial perspective. A reduction in excise could enhance small rural pub profitability and help to sustain them or, at least, extend their commercial life. Obviously, there are many other issues relating to the rural pub situation such as small catchment population, drink-driving and other regulation and consumer tastes and expectations. However, a reduction in excise would by a contribution to their survival or increased longevity.

The significantly improved economic environment of recent years has slowed the rate of decline but many of these enterprises remain marginal commercial enterprises.

Table 7.3: Number of seven-day (public house) licences, 2005 vs 2018

	2005	2018	Decline, numbers	Decline %
Total	8,617	7,072	1,545	17.9
Dublin	786	776	10	1.3
Non-Dublin	7,831	6,296	1,535	19.6

Source: Revenue licences data

Weak commercial position of many pubs/bars

The number and percentage of pubs and bars in each of the six licence net turnover bands are shown below. The very notable feature is the small number with high levels of sales and the very large number with low levels of sales. Only 8.6% of pubs have average annual sales of €952.5k or higher. On the other hand, 49.5% of pubs, or 3,923 enterprises, have annual sales of under €190.5k.

Table 7.4: Pubs and bars in each turnover band for licensing 2018

Turnover band €k	Number of licences	% of licences
Under 190.5	3,923	49.5
190.5-380.999	1,862	23.5
381.0-634.999	881	11.1
635.0-952.499	499	6.3
952.5-1,269.999	291	3.7
1,270.0 or more	466	5.9
Total	7,922	100

Source: Revenue/Parliamentary question

Bar sales performance

The volume of bar sales decreased by 1.3% in 2018 compared to an increase of 3.6% in 2017 and an increase of 3.2% in 2016, according to CSO retail sales data.

The weak on-licensed sector performance is a notable feature of the 2018 drinks market. It was a much weaker performance than the previous two years despite 2018 being a relatively good economic environment. This decrease is probably partly due to the new drink driving regulations and probably most concentrated in rural areas due to public transport limitations. Changing lifestyles are also a contributory factor in the on-licensed sector's 2018 decline.

The 2018 bar volume decrease was transformed into a small value growth by a price increase. The value of bar sales increased by a marginal 0.6% in 2018 compared to an increase of 5.2% in 2017. The CSO volume and value changes suggest an implicit price increase of about 1.9%. This implicit price change is different to the CSO consumer prices-based estimate of 2.3% because it is derived from different sources and uses estimates of the on- and off-licence volume shares. In addition, the bar sales include non-alcohol sales such as food.

The Bar Sales Index published by the CSO covers all bar sales, including food, soft drinks, and cigarettes, as well as bar sales of alcohol. Based on the limited available data, it is possible that food sales volume performed better than drinks sales volume in 2018.

Table 7.5: Retail sales in bBars, % change 2018 compared with 2017

	Volume	Value
2017/18	-1.3	0.6

Source: CSO

The 2018 volume of bar sales is still only about three-quarters of the pre-economic collapse level in 2007. All retail sales volume increased by 3.7% in 2018 compared to the bar volume decline. Bar sales volumes decreased each year from 2008 to 2014. There were annual increases in the three years from 2015 to 2017 and a decrease occurred in 2018.

These and other figures in this report refer to the national performance. There are substantial differences in performance depending on location. At the extreme, public houses in the centre of Dublin performed much better than rural public houses. Regional data on sales performance are not available but employment figures give an indication of regional differences; and discussions with industry participants suggest a stronger Dublin market performance than the rest of the country. Between Q4 2017 and Q4 2018 (unadjusted for seasonal factors), accommodation and food services employment grew by 3.6%.

However, Dublin employment in this sector increased by 7.1%, from 47.6k persons to 51.0k, while the rest of the country had an increase of only 2.2%, from 121.1k persons to 123.8k. Over the same period, total employment in the economy grew by 2.3%, but Dublin total employment grew by 3.8% compared to 1.6% for the rest of the country.

Off-licence sector

The off-licence sector has grown over the long term, but this growth has been confined to the multiples retailers. Small independent off-licences have struggled in a difficult competitive environment and high excise taxes resulting in closures and employment declines. Thousands of jobs have been lost in the independent off-licence sector since the economic crisis, a trend exacerbated by the high and increasing level of excise. Small off-licences face severe competition from the large multiple chains. Small enterprises are particularly hit by the working capital requirements needed to fund the high excise levels. The excise tax wedge is very high for off-licences because the excise per unit of alcohol is the same for both on and off-licence sellers but the price per unit is much lower in the off-licence than in the on-licence.

Consequently, excise is a much larger proportion of the off-licence price than the on-licence price. Excise which is an upfront cost on the off-licence. For example, excise is €11.92 on a €24.78 bottle of whiskey, which is 48% of the selling price of the product. A 2019 NOffLA (National Off-Licence Association) members' survey reported that 33% of respondents would hire additional staff should excise be reduced.

Every increase in excise has a large detrimental effect on the cash flow of the off-licences and other small drinks businesses. Given the 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 impacts small businesses is shown below:

Table 7.6: Excise due on importation of 1,000 cases of wine per month

	% Increase	Duty per case	Excise per 1,000 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

Source: DIGI

The total payment (incl. VAT) is now €17,958 higher per 1,000 cases than it was in 2012.

Rather than rebounding with the rest of the post-crash economy, independent off-licences have experienced a deterioration in business conditions in recent years. A majority of NOffLA members indicate that their turnover is down when compared with 2012/13. A 2019 survey of off-licences reported that 37% of respondents said they would be closed within ten years.

The level of excise duties is directly related to cash flow as it puts a strain on working capital. Funding working capital has become increasingly acute in recent years due to the reduction in credit facilities provided by the banks to small enterprises, such as independent off-licences and small rural pubs. The recent NOffLA survey of members reported that 52% are experiencing cash flow issues with 39% having had their bank facility cut in the past year resulting in 41% of members struggling to finance day-to-day operations and pay creditors on time.

Recent 2019 industry performance is of concern

The early 2019 drinks industry performance gives grounds for concern. The CSO Retail Sales Index for bars is available for January to April. Between January and April 2019 and January and April 2018, the seasonally adjusted volume of bar sales declined by 4.5%. Revenue clearances of alcohol declined by 4.6% between the Q1 2019 and Q1 2018 but some of this clearance difference is due to the dates of Easter in 2018 and 2019.

Tourism performance is also of concern in the early part of 2019. While numbers of visitors increased in the first quarter overall, and slightly from Britain, overall expenditure declined by 4.0% and expenditure by British visitors declined by 5.3%.

Innovation and entrepreneurship

The drinks industry is simultaneously characterised on one hand by substantial innovation, new venture formation and export development and, on the other, by significant market decline and substantial contraction in the number of public houses.

The entrepreneurs, managers and enterprises in the industry display a high degree of innovation and entrepreneurship while operating in a global market. The industry is characterised by high rates of new venture formation, entrepreneurial resource, product development, process development, business diversification, and business development.

Even with this high-energy innovation activity, over the long term, average consumption of alcohol is declining and very many small drinks enterprises, especially rural and small-town pubs and off-licences, face a very difficult future or have already closed.

Domestic drinks enterprises and brands face substantial and increasing competition from imported beverages. Imports provide 35% of beer consumption, 64.3% of spirits consumption and 14.3% of cider consumption. Wine, which is all imported, accounts for 27.6% of total alcohol consumption. Substantial export growth is targeted. New ventures and new products are needed to support domestic market share and to realise increased exports.

Innovation and entrepreneurship in the drinks and hospitality sector – key facts:

- Very high rate of new venture formation compared with total manufacturing. In 2008 there were 60 drinks manufacturing enterprises. By 2014 this had increased to 123, an increase of 105%. In contrast, the number of enterprises in total manufacturing increased by less than 1%.
- The number of alcohol manufacturing licences increased from 32 in 2009 to 137 in 2017:
    - **The number of brewing licences increased from 22 to 86.**
    - **The number of distilling licences increased from 7 to 33.**
    - **The number of cider manufacturing licences increased from 3 to 18.**
- The number of microbreweries producing their own product has more than quadrupled since 2012, from 15 to 72.
- The Irish Whiskey Association reports a total of 26 working distilleries in 2019, with plans for another 23. This compares with 4 working distilleries in 2013.
- Product development in the drinks industry has been extensive—the typical microbrewery now has 4 to 5 regular product lines
- One major Irish off-licence operator lists 61 Irish IPA beers, 14 Irish lagers, 36 Irish pale ales, and 65 Irish whiskeys in its product range.
- Examples of drinks manufacturer process innovation include:
    - **Jameson Caskmates whiskey, which is produced using casks previously used for the ageing of stout.**
    - **Teelings has been active in the use of unique barrels (Calvados, Sauternes, Carcavelos and White Port) not used previously for Irish whiskey.**

- ▸ **Slane Distillery has developed systems to recycle the waste hot water from the stills to heat Slane Castle.**
- The gin producing sector has a target to treble exports to 400,000 9-litre cases by 2022.
- The off-licence product offerings in all categories, but especially in wine, have been characterised by increased range and variety, improved service, and increased consumer knowledge, partly assisted by wine appreciation education programmes by off-licences and wine importers.
- The drinks industry has been notable for its business diversification innovation into visitor centres. The largest fee-charging visitor attraction in Ireland is the Guinness Storehouse.
- There has been a substantial increase in whiskey visitor centres. In a survey of 50 microbreweries, 8 already have a visitor facility in place and a further 36 intended to develop a facility on the enactment of the Intoxicating Liquor (Breweries and Distilleries) Bill 2016.

All sectors and enterprises face difficulties in generating innovation and growth. The drinks sector is no different in this regard and like others, it can benefit from the range of public policy supports for innovation and business development. However, the drinks industry also faces additional sectoral specific difficulties relating to innovation which arise directly from Government policy.

The sector faces a high degree of regulation and high excise taxes that generate a large difference between the market price of a product and the return to the producer and distributor. In light of the growth expectations of the broader drinks industry, there is a case for reducing the excise wedge.

The drinks and hospitality sector is one of Ireland's most innovative. Brewers, distillers, restaurants, pubs, hotels and off-licences have invested significant amounts of time and money into developing new product ranges, improving their premises, creating jobs, and marketing their services.

In response to growing global demand for novel drinks experiences, drinks manufacturers are improving and remarketing older products while simultaneously adding to their product portfolios and experimenting with new recipes.

Visitor centres are moving drinks producers, small and international, into the tourism business, allowing for greater product and service diversification.

The same innovative streak is evident in drinks retailers and hospitality businesses, like pubs, restaurants and off-licences. According to a 2019 survey of publicans by DIGI, the following percentages reported specific innovations to improve business:

- 79% have invested in refurbishment
- 55% have developed their food and drink offering
- 59% have made better use of social media
- 97% have enhanced their entertainment offering
- 33% have hired more staff

Furthermore, 77% of NOffLA members reported in a survey that they would invest in their business were Government to reduce the level of excise, but due to commercial realities, this is not currently an option.

Brexit

It is acknowledged that Brexit will have a significant negative impact on the economy and specific sectors. An extensive armoury of policy measures will be necessary to minimise the negative impact. Some of those policy measures, such as possible grant support to enterprises, may need approval by the EU. It stands to reason that we should make the most of those policy measures still within our domestic control, such as alcohol excise. At present we are voluntarily and unnecessarily penalising ourselves by imposing alcohol excise rates that are very high by EU standards.

The ongoing impact of Brexit will depend on the nature of the international trade rules and regulations that are negotiated between the UK and the EU. These may impose tariffs on drinks exports going to the UK. They may impose different rules and regulations. There may be interruptions to current supply chains for both incoming and outgoing trade. Delays and compliance requirements for both exports to the UK, imports from the UK, and for goods transiting though the UK for onward locations will impose difficulties and increase the administrative cost of importing and exporting. As noted, the full impact of these will be known only as negotiations are pursued and agreed. This will take several years.

However, the drinks industry and the wider hospitality industry are also suffering from the immediate and short-term effects of Brexit, notably through the decline in the sterling exchange rate. Already this has reduced Irish competitiveness, which has affected UK inward tourism and imposed severe cost pressures on goods exports to the UK. The lower value of sterling relative to the pre-Brexit situation has also increased the attractiveness of cross-border shopping and of buying UK imports generally.

Because of Brexit the drinks and hospitality sector faces:

- reduced cost competitiveness through a lower-valued sterling.
- declines in UK tourism numbers and receipts.
- increased attraction of cross-border shopping.
- increased attraction of imports from the UK.
- increased difficulty for drinks exports to the UK, for both large and small enterprises.

Over the longer term, the above difficulties will be compounded by the changed trading regime with possible, different regulations, increased documentation, customs inspections, transit problems, tariffs and quotas, disruptions to current supply chain and sourcing systems, and increased competition in the UK market from non-EU producers. These will pose serious problems for all enterprises but particularly for small new drinks manufacturers that would have regarded the UK as the best initial export market due to business, cultural, proximity and language factors.

Dealing with the final consequences of Brexit will require a wide array of domestic and EU measures, but the immediate short-term issues also require consideration. The proposed excise reduction will not solve all the difficulties facing the drinks and hospitality sector. However, it is certainly one of the measures that should be implemented. It would contribute to overall cost competitiveness and is within our own domestic policy control.

The impact of Brexit on the drinks and hospitality sector was examined in the 2017 DIGI research report, **The Economic Impact of Brexit on the Drinks and Hospitality Sector.**

It is becoming likely that there will be a hard and disorderly Brexit. The Government has reflected this in its 2019 Summer Economic Statement. As noted elsewhere in this submission, a hard Brexit will likely result in negative growth in Ireland in 2020 and the public finances will worsen. It is essential that Government policies should support the enterprise sector in these very difficult times. In the case of the drinks sector, a reduction in excise would be a welcome support. The negative public financial impact of a hard Brexit should not be used as a basis for increasing the tax burden on the drinks sector. In these circumstances a reduction is needed.

8. Summary and recommendation

Summary

The drinks industry is a substantial national, regional and local economic resource. It is an integral part of the wider hospitality and tourism sector. It is also characterised by substantial exports and an excellent whiskey export performance. The rural pub network is a desirable social networking infrastructure.

In recent years, there has been excellent innovation and entrepreneurship performance, with substantial product development and many new breweries and distilleries. It has been at the forefront of visitor centre developments, which have enhanced the tourism offering.

However, it is also an industry which has experienced very large decline in the numbers of public houses outside of Dublin, where bar sales volume is still well below the pre-economic collapse period, and where independent small off-licences are facing a very difficult competitive environment and where very many small rural pubs are in danger of closure due to weak commercial potential.

These negative features are compounded by the fact that Ireland operates a tax regime which includes very high alcohol excise tax rates compared to fellow EU member states. Other countries support their indigenous drinks sectors, such as many countries with no excise on wine, but we penalise indigenous drinks enterprises with high excise tax.

The industry and the wider hospitality sector has also been significantly negatively affected by Budget 2019's increase in the hospitality VAT rate. A no-deal Brexit, too, looms more likely.

Recommendation

Alcohol excise should be reduced by 7.5% in Budget 2020. This should be part of the effort to remove the remaining austerity period/emergency tax impositions. The 2020 reduction should be followed in Budget 2021 with another 7.5% reduction. This combined 15% over two years would broadly remove the effect of the 2013 increase.

The recommendation of a 7.5% decrease is based on a soft Brexit and the continuation of economic growth. A hard Brexit with likely negative growth in GDP and consumer expenditure volume will necessitate a larger decline in alcohol excise in 2020.

The negative public financial impact of a hard Brexit should not be used as a basis for increasing the tax burden on the drinks sector. In these circumstances, a reduction is needed.


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