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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 Irish businesses and Irish consumers
- puts jobs in rural Ireland at risk
- negatively impacts Ireland's attractiveness as a tourist destination
- limits the potential of a fast-growing and internationally scaling drinks industry
- exposes Ireland to more Brexit risk.

As part of its pre-Budget 2019 submission, the Drinks Industry Group of Ireland [DIGI] is calling on the Irish Government to

reduce alcohol excise tax by 15%.

How the drinks industry supports the Irish economy

The drinks industry is Ireland's fastest-growing manufacturing industry in terms of number of new enterprises, growing by 105% in 2008-2014 compared to less than one percent in the overall sector. The number of Irish microbreweries producing their own products has more than quadrupled since 2012. Distilleries have grown in number from just 4 in 2013 to 18 in 2017, with plans for a further 17. Drinks businesses directly employ 90,000 people and support 210,000 jobs in the wider hospitality sector through a nationwide network of pubs, hotels, restaurants, off-licences, distilleries, microbreweries, wholesalers and distributors, in cities, towns and villages in every county. In addition to supplying hotels, restaurants and pubs, drinks businesses are increasingly opening up their facilities to visitors, promoting, encouraging and diversifying Ireland's already world-renowned tourism offering.

What are the benefits of reducing excise tax?

Reversing austerity measures

The drinks industry's potential is limited due to the 2014 excise increase which itself followed the big excise increases of Budget 2013. The increase in VAT from 21% to 23% in Budget 2012 also impacted the drinks industry collectively, these increases continue to damage thousands of small Irish businesses, impact the more than three million Irish drinks consumers, and negatively affect Ireland's attractiveness as a tourist destination.

Bringing excise tax in line with our European counterparts would be a commitment from the Government to support the drinks industry.

Supporting regional employment

90% of production breweries in Ireland are located outside of Dublin and nearly 10% of all hospitality employment is in the west of the country. These figures alone show that the drinks and hospitality industries continue to be two of Ireland's major employers, especially in regional areas that otherwise struggle to attract other businesses.

Drinks manufacturers also provide huge boosts to farmers throughout Ireland, with around 160,000 tonnes of malted barley, 300 million litres of milk and 46,000 tonnes of apples purchased every year.

• Small business and giving back to Irish consumers

By reducing excise, the Irish Government would be issuing a strong statement of support to small and independent businesses which, due to their smaller product ranges relative to their more established peers, cannot spread out the cost of a high tax. Reduced excise will free up funds for investment in growth and job creation.

Irish consumers shoulder a significant tax burden at a time of rising costs. A 15% reduction in alcohol excise tax would return money to the consumer immediately. This move would be in line with the Government's policy of reversing austerity-era tax increases and giving back to the hard-pressed consumer.

· Brexit-proofing the industry

Brexit is an uncertainty. A stronger drinks industry, and by extension, strong manufacturing and tourism sectors, will help to shore up Ireland's defences against Brexit and other trade barriers.

Reducing excise will allow Irish drinks and hospitality businesses to present a more attractive and affordable product to foreign tourists, and invest in expansion to other markets less affected by recently imposed and/or potential international trade barriers. More affordable drinks products will also disincentivise Republic of Ireland shoppers from spending money on less expensive alcoholic products in Northern Ireland.

Protecting our tourism sector

The drinks industry provides essential economic and tourism infrastructure through an extensive and geographically spread network of 8,081 public houses and other bars, 2,388 wine-licensed restaurants, and 475 fully licensed restaurants. The sector also provides financial and other supports for festivals, cultural tourism and sporting events.

Government policy must play a role in safeguarding jobs by increasing the competitiveness of Ireland's tourism product. For example, it could be made easier for Ireland's increasingly popular start-up breweries and distilleries to grow, scale and open up to visitors. Tourists want this: the Irish pub and pub culture consistently ranks as one of Ireland's top attractions.

How much would an excise reduction cost?

A 15% reduction in excise would cost in gross terms €183 million [with VAT, €225 million].

However, the net cost to the Exchequer would likely be much lower (about €124 million), due to quantified positive effects of €101 million delivered through:

- market stimulations
- · a reduction in cross-border shopping
- a shift from off-licence sales to more VAT-intensive on-licensed sector
- increased tourism spend and the creation new jobs.

VAT reduction is working

DIGI also recommends **retaining the 9% hospitality VAT rate**. It has proven highly effective.

Tourism has been one of Ireland's most successful post-recession industries. It has achieved seven consecutive years of record visitor numbers, enabling hundreds of thousands of jobs across Ireland, particularly in rural parts of the country.

Commitments to responsible drinking

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 a revenue raising measure, and not a public health measure. Ireland has consistently had enormous excise levels over the past 40 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 amongst the strictest in the world.



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 directly and indirectly an estimated 90,000 people working directly and indirectly in the drinks manufacturing, drinks distribution and visitor centres throughout 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 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.



There are two aspects to this statistical profile of the drinks industry. One set of figures shows the large negative impact of the economic collapse in addition to the high level of excise, both of which are far from being reversed, and the other more positive set indicates the scale and breadth of the economic contribution of the drinks industry and the wider hospitality industry.

High excise tax and economic decline

- National alcohol consumption measured by Revenue clearances in 2017 is 9.9% lower than in 2007
- Average per adult consumption in 2017 is 17.9% lower than in 2007 and 23.3% lower than the 2001 peak
- Bar sales annual volume in 2017 is still 25% lower than in 2007
- Between 2007 and 2017 the number of public houses decreased by 1,178 or 14.2%
- Ireland's alcohol excise tax is very high by EU standards
- Ireland had the highest wine excise in the EU, the second highest beer excise and the third highest spirits excise rates in 2017
- The Irish wine excise is 5.7 times the Belgian level, 4.8 times the Dutch level and 2.7 times the Danish level; 14 EU economies have no excise on wine
- Irish beer excise is 11.4 times the German level and 11.3 times the Spanish level
- Irish spirits excise is 4.4 times the Spanish level and 4.1 times the Italian level
- 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

 The tax difference between North and South for a party/function-related large bundle of alcohol products is €156.51 (based on May 2018 Revenue Cross Border Price Comparisons) in favour of the North.

Large economic contribution of drinks industry and wider hospitality sector

Employment:

- The wider hospitality sector directly employs 169,600 persons on the CSO definition and much more on the Fáilte Ireland definition with an additional indirect and multiplier employment effect
- 68% of CSO-defined hospitality employment located outside Dublin
- 90,000 full- and part-time jobs provided directly and indirectly by the broader 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)
- > 40,200 employed in pubs in 2015 according to the CSO Services Inquiry which would be about 41,000 in 2018 before adjusting for the higher Census of Population figures and Labour Force Survey methodology. Adjusting for these increases, the estimated employment figures rises to about 43,000 (the no longer collected Failte Ireland data estimated a much higher figure)
- > 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 €1.356 billion in 2017 based on CSO data.
- Trade surplus in beverages of €540 million in 2017.
- · Beverages exports are 1.66 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 in 2016.
- · 36% of Irish spirits market supplied domestically.
- 86% of Irish cider market supplied domestically.

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Exchequer contribution:

- €2.450 billion in excise and VAT in 2017
- €1.2199 billion excise receipts in 2017
- €1.2301 billion estimated alcohol VAT receipts in 2017
- Income and profits tax revenues
- PRSI receipts

Drinks manufacturers:

According to latest [2014] CSO Census of Industrial Production the drinks manufacturers:

- Pay €212 million annually in wages and salaries according to latest [2014] CSO data
- Pay €251 million in total labour costs
- Buy €836 million worth of materials for processing annually
- Buy €57 million worth of industrial services
- Buy €785 million worth 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 have 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 high domestic-sourced content in purchases of 62% in services and 42% in materials leading to a combined total of 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 2017 is estimated at €6.839 billion
- The bar sector has a total labour cost of €783 million and a wages and salaries bill of €711 million based on latest 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 high excise levels by EU standards impact negatively on the national, regional and local economies in the medium to long term.

DIGI is calling for a 15% reduction in alcohol excise tax which 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, contribute to coping with Brexit, and assist the sector in realising 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 which 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 and 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 15% in alcohol excise in Budget 2019

This 15% is equivalent to just over eight cents in excise per pint and, including VAT, amounts to just under 10 cents per pint. Reductions for other types of drinks are shown below.

Drink	Current excise (cents)	Reduction sought in excise [15%] cents	Reduction per drink including VAT (rounded to nearest cent)
Pint of stout in bar	54	8	10
Pint of lager in bar	55	8	10
Standard whiskey	60	9	11
in bar			
Glass of wine in	80	12	15
restaurant			
Bottle of whiskey	€11.92	€1.79	€2.20
in off-licence			
Bottle of wine in off-licence	€3.19	48	59

Substantial economic benefits arose from the excise and VAT reductions in Budget 2010 and from the Government's tourism VAT reduction from 13.5% to 9% for a range of sectors. The 9% hospitality VAT rate is a strong illustration of the positive economic effects of specific innovative fiscal measures. As shown in this submission hospitality employment has grown very impressively partly due to the 9% rate.

DIGI recommends that:

The 9% VAT hospitality rate should be retained to continue supporting an important indigenous and regional sector of economic activity.



Ireland has very high alcohol excise rates relative to other EU economies.

Ireland has very high levels of alcohol excise relative to other EU countries. A summary of the internationally very high Irish excise rates is presented below in Table 1:

Table 1. Ireland's high alcohol taxation in the EU 2017

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

Source: European Spirits Association data based on EU Excise Tables for beer, spirits and wine.

Rates as of Jan 2017. [DIGI is updating its tax comparison report for 2018 for publication in September]

Ireland has:

- · the highest wine excise in Europe
- the third highest spirits excise after Finland and Sweden
- · the second highest beer excise after Finland and the UK
- the second highest composite or average rate after Finland

Fourteen EU member states have no excise tax on wine. The Irish wine excise is extraordinary given the important role of international tourism in the economy. The beer and spirits excise are also extraordinary given that these are two important indigenous industries. The contrast with wine, which is an important industry in many EU economies, is clear where so many EU countries have no excise.

The absolute gap between Ireland's alcohol excise and many other EU countries is substantial. Some illustrative examples are shown below.

The Irish beer excise in 2017 was:

- 11.4 times the German level
- 11.3 times the Spanish level
- 4.5 times the Austrian level

The Irish spirits excise in 2017 was:

- 4.4 times the level in Spain
- 4.1 times the Italian level
- 2.4 times the French level

The Irish wine excise in 2017 was:

- 5.7 times the Belgian level
- 4.8 times the Dutch level
- 2.7 times the Danish level

There is a substantial difference between the small group of high alcohol excise countries of Ireland, UK, Sweden and Finland and the rest of the EU countries, which have low alcohol excise.

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

Prices are the CSO national average prices April 2018 except wine which is November 2016.

Eurostat data show that off-licence alcohol prices in Ireland were 74% above the EU28 average, worse only than Finland which was 76% above the EU average. (Comparative price levels for food, beverages and tobacco, Eurostat December 2017.)

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.

Table 2. Excise rates 2007 to date €

	2007	October 2008	December 2009	December 2012	October 2013	Current 2018	% change 2007 to date
Beer, per hectolitre per cent 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.

Incentives to legal and illegal 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.

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 2018. It shows a 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 0.8729.

Table 3. Comparative prices and tax component in off-licence alcohol products, May 2018, NI and Rol.

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
Stout (500ml can)	2.17	2.11	0.06	0.88	0.81	0.07
Lager (500ml can)	2.20	1.66	0.54	0.90	0.80	0.09
Lager (330ml bottle)	1.66	1.15	0.51	0.63	0.50	0.13
Bottle of vodka	20.00	15.48	4.52	14.91	11.22	3.69
Bottle of whiskey	26.78	23.21	3.57	16.93	13.09	3.84
Bottle of wine (Chardonnay)	10.85	8.70	2.15	5.22	3.93	1.29
Bottle of wine (Sauv. Blanc)	10.00	8.28	1.72	5.06	3.86	1.20
Sparkling wine	17.18	14.31	2.87	9.59	5.56	4.02

Source: Revenue Commissioners, May 2018 cross-border price comparisons.

The Republic's alcohol tax is higher in all the listed beverages. The tax difference in spirits is substantial: vodka is €3.69 and whiskey is €3.84 per bottle tax difference. The beer tax difference is lower. The sparkling wine tax difference is also large at €4.02. The tax difference in wine varies from €1.20 to €1.29 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 in Table 4, 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 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 €156.51.

Table 4. Savings from Northern Ireland purchases of alcohol 2018

Quantity	Product	Tax saved Per unit	Total tax saved
3	Bottle of vodka	€3.69	€11.07
3	Bottle of whiskey	€3.84	€11.52
10	18-unit crate, bottle of lager	€2.34	€23.40
6	Bottle of sparkling wine	€4.02	€24.12
6	Crate of Sauvignon Blanc	€14.40	€86.40
TOTAL			€156.51

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 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 2017 was 1,819 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.

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 with a high regressive tax:

As already identified, Irish consumers of alcohol pay the second highest excise level in the EU. The penal nature of Irish alcohol excise is illustrated further by identifying the actual excise paid by the average alcohol consumer.

There were 3.0663 million alcohol consumers in 2017, on the basis that 19% do not consume alcohol (adults defined as 15 years and over as is usual in alcohol consumption measurement although clearly 15 to 17 years persons are not adults), who paid €1.2199 billion in excise. The 2017 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 respectively.

A 15% reduction in excise would potentially return €59.70 to the average consumer or €73.43 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 decreased the tax burden on low-middle income earners. There was also some restoration of expenditure cuts. An excise reduction would potentially benefit 3.0663 million consumers of alcohol in Ireland.

The regressive nature of alcohol excise tax has been identified in NERI research. 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
- 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 and cross-border shopping with consequent loss of VAT revenues and employment opportunities
- Constrain the development of the industry and its export potential
- Reduce tourism competitiveness compared to several of the mainland EU tourism markets



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 from the EU. It stands to reason that we should make the most of those policy measures within our domestic control. The level of alcohol excise is one such measure. At present we are voluntarily and unnecessarily penalising ourselves by imposing alcohol excise rates which are very high by EU standards.

The full impact of Brexit will depend on the nature of the international trade rules and regulations which 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 and 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 effects of Brexit, notably through the decline in the sterling exchange rate. Already this has reduced Irish competitiveness which resulted in a decline in 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 who 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 resolution. The proposed excise reduction will not solve all the difficulties facing the drinks and hospitality sector. However, it is certainly one of the measures which should be implemented. It would contribute to overall cost competitiveness and is within our own domestic policy control.

As identified in the 2017 DIGI report, The Economic Impact of Brexit on the Drinks and Hospitality Sector, the Irish drinks industry generated exports of €1241.8 million in 2015, of which €314.4 million, or 25%, went to the United Kingdom. €224.8 million was sold to Britain and €89.6 million was sold to Northern Ireland.

The largest national market for Irish drinks exports is the United States with €485.4 million or 39%. Britain is our second largest national market for drinks exports and Northern Ireland is our third largest. The drinks exports are more dependent on the UK market than overall exports. Individual drinks products, such as soft drinks and cider, are particularly reliant on the UK market, much more so than the average drinks situation, as referred to below.

Drinks imports were €785.1 million in 2015 of which the UK provided €305.8 million or 39%. Britain provided €273.3 million in drinks imports and Northern Ireland €32.5 million. Britain is by far the largest source of drinks imports followed by France with €89.2 million.

By contrast, the USA provided only €18.2 million in imports compared to the UK's €305.8 million. The UK imports include products produced in the UK and products produced elsewhere but distributed from the UK. Adding imports and exports, Irish drinks international trade was €2026.9 million in 2015, of which the UK accounted for €620.2 million or 30.6%.

There are very substantial market differences between different beverage types with consequent different levels of Brexit-related impact. Soft drinks exports are very reliant on the UK market and hence are particularly vulnerable to the negative effects of Brexit. 81.4% of soft drinks exports were sold on the UK market in 2015. The same is true of cider: 70.7% of cider exports were sold in the British market. Beer has a much lower but still high share of its exports sold in the UK market, 43%.

The situation is very different for whiskey and liqueurs. Whiskey has been the drinks export growth story of the past few years but the UK has contributed little to it. Of €443.9 million in whiskey exports, only €19.1 million or 4.3% is sold in the British market. 65% of Ireland's whiskey exports are sold in markets outside the EU. The USA on its own accounts for €233.7 million or 52.6% of total whiskey exports compared to the British 4.3% share. In the liqueurs category, Britain accounts for only 4.3% of exports, the same as whiskey.

Non-EU markets absorb 78.4% of Ireland's liqueur exports compared to Britain's 4.3% share. The USA absorbs €163.8 million or 52.3% of total Irish liqueur exports.

Within the drinks export sector, soft drinks and cider are very exposed to the UK market. Beer is also significantly exposed to the UK, but whiskey and liqueurs have a small degree of exposure to the British market.

On the import side, soft drinks accounted for €248.9 million of which Britain supplied €173.0 million or 69.5%. There was €233.0 million of wine imports [excluding sparkling wine] of which Britain supplied €14.6 million or 6.3%. Britain supplied €33.6 million of beer imports or 24.2% of the total of €138.7 million. Whiskey imports were only €15.6 million of which Britain supplied €6.4 million or 41.0%. Imports of other spirits and liqueurs amounted to €59.9 million of which Britain supplied €16.2 million and Northern Ireland €23.8 million.

Overall, the British or UK-sourced drinks imports were soft drinks (€173.0 million), beer (€33.6 million), whiskey (€6.4 million), liqueurs (€40.0 million) and wine (€14.6 million). The increased competitiveness advantage of UK drinks imports into Ireland will be most felt by domestic producers of soft drinks and, to a lesser extent, beer producers.

In 2016 British tourists accounted for 41% of overseas visitors. Britain is, by far, our largest national market. In 2017 this share had declined to 38%. Between 2016 and 2017 British tourism to Ireland declined from 3.924 million to 3.729 million, or 5%. British tourism expenditure declined by 5.1%.

Some regions are very dependent on the British market, such as the Border [40% of international visitors are from Britain]; the South-East, Midlands and South-East each have a 38% British share. In contrast, Dublin's British dependency is 16% and the West's is 14%. Tourism from Northern Ireland has also declined with above average impacts on specific locations and facilities.



The drinks industry in Ireland has experienced a very challenging number of years. Some parts of the sector are recovering but overall there is still a substantial lower level of economic activity relative to 2007. From a growth in global demand for Irish whiskey, to the growth of the craft beer sector and the popularity of authentic Irish pubs with tourists, the industry has substantial economic growth potential. Government policy can play a significant role in assisting and accelerating economic growth over the coming years.

A hostile tax environment

The hostile alcohol tax environment inhibits job creation 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. 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 and Irish Distillers have invested and are currently investing in their facilities. However, these plants are Irish subsidiaries of large multinational corporations and must compete for investment with other countries within the overall companies.

Future investment from large multi-national corporations will be threatened

The hostile alcohol tax system in Ireland is threatening future investment, investments which have created 1,000 construction jobs over the last five years and could create an additional 1,000 over the next several 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.

Small businesses in decline: An industry that has suffered disproportionately during the recession

The volume of bar sales increased by 3.6% in 2017 compared with 2016 according to CSO data. This follows an increase of 3.1 % in 2016. The value of bar sales increased by 5.2% in 2017. 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. It is likely that food sales volume performed better than drinks sales volume in 2017. Consequently, the alcohol volume increase in bars is most likely lower than the overall sales volume increase.

Table 5. Retail sales in bars, % change 2017 compared with 2016

	Volume	Value
2016/17	3.6	5.2

Source: CSO

Despite the welcome recent increases, the 2017 volume of bar sales is still only about three-quarters of the 2007 level. Bar sales volumes decreased each year from 2008 to 2014. There were annual increases in the three years since 2015.

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. The good recent performance has not been continued into 2018. CSO retail sales

index for the first five months of 2018 show a relatively weak performance for pub sales volume.

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 Dáil Constituencies reports have established are employing people throughout the length 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 7,140 in 2017, a decline of 1,178 pubs or 14.2%. These closures have been disproportionately felt in rural areas

The level and trend of total and average alcohol consumption per adult is an important economic, drinks business 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. A summary of the 2016/17 performance is shown below in Table 6:

Table 6. Total and average per adult alcohol consumption 2016 and 2017

	2016	2017	% change 2016/2017
Litres of pure alcohol (LPA), total consumption	41,969,676	41,944,582	-0.1
Population aged 15 and over, millions	3.7340	3.7855	+1.4
Litres of pure alcohol per adult (LPA)	11.240	11.080	-1.4

Sources: CSO Population and Migration Estimates, September 2017; Revenue Commissioners Clearances data, March 2018.

Total alcohol consumption as measured by clearances decreased slightly by 0.1% in 2017. This is much worse than the 2016 volume change which was a growth of 5.7%. In 2007 the total alcohol volume was 46.605 million lpa compared to the 2017 41.945 million lpa, a decline of 10%.

The number of adults (as defined by 15 years and over) increased by 1.4%. Average per adult alcohol consumption decreased in 2017. It was 11.240 lpa in 2016 compared with 11.080 lpa in 2017, a decrease of 1.4%.

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 23.3%. The 2007 average consumption per adult was 13.488 lpa and the 2017 level is 17.9% below this. The 2016 average consumption volume is lower than previously published estimates due to the higher adult population which was identified in the 2016 Census of Population. Clearances for the first quarter of 2018 have performed very well compared with the same period in 2017. However, caution is required in deriving annual conclusions from the first quarter data. The long-term changes in average consumption are shown below, in Table 7:

Table 7. Per adult alcohol consumption (2001-2017) LPA

2001 (peak)	14.440
2007	13.488
2008	12.520
2009	11.370
2010	1.727
2011	11.692
2012	11.566
2013	10.625
2014	11.086
2015	10.773
2016	11.240
2017	11.080

Source: Based on Revenue and CSO data. The 2012 to 2015 estimates take account of the revised estimates of population in those years due to the larger than expected population as measured by the 2016 Census of Population.

Based on a price elasticity/employment pass-through model similar to the one used by the Department of Finance to assess the impact of the hospitality lower VAT rate, the most recent excise increase was responsible for the loss of over 700 direct, indirect and multiplier jobs. This can be more than doubled when the earlier VAT and excise increases are considered. In addition, where enterprises cannot pass on the tax as price increases there is a reduced possibility of commercial sustainability.

As shown in this submission, the higher excise affects cash flow which contributes to closures and reduced scale of operation. The excise increases directly and indirectly reduce employment in the industry.

Innovating to survive

Pubs and independent off-licenses have responded to the weak economic environment recession with innovation. They are working to take advantage of the upswing in the economy and should be supported by the Government. A boost to these viable small businesses – in the form of reducing the penal levels of excise – would ensure that they are better positioned to grow throughout the coming years and to cope with Brexit.

The recent DIGI report, Innovation and Entrepreneurship in the Drinks Industry, identified the range of innovative activities being implemented by pubs and off-licences and in the manufacturing of alcohol.

Examples of this innovation and entrepreneurship include:

- A 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 drinks manufacturing sector had the highest rate of new venture formation of the 21 manufacturing sectors
- 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 18 working distilleries in 2017 with plans for another 16. This compares with 4 working distilleries in 2013
- There is a wide geographic spread to the new drinks ventures, with very few of them located in Dublin
- The longer established large global producers located in Ireland such as Diageo, Heineken and Irish Distillers, in addition to the new and smaller enterprises, have also invested substantial resources in product development in Ireland to meet changing consumer tastes and preferences
- Public houses have been innovative in responding to market challenges.
 In a 2017 survey of publicans, the following percentages reported specific innovations to improve business:
- > 73% refurbished their premises
- > 49% enhanced their entertainment offering
- > 41% enhanced their food offering
- > 70% made use of social media for marketing purposes
- > 46% developed an increased role for functions and special events
- The acceptance of innovation as a core element of operating a public house is evidenced by the inclusion of a category of "Innovative Pub of the Year" in the Irish Pub Awards
- The independent off-licence sector has promoted innovation and excellence among its members through the NOffLA Off-Licence of the Year award.
 These awards include categories for specialist wine off-licence, specialist beer off-licence, specialist spirit off-licence, best food retailer, best customer service award, online trainee, and responsible trader award.
- 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, eight 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.

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 very detrimental effect on the cash-flow of these 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 in Table 8:

Table 8. Excise due on importation of 1,000 cases of wine per month

	% 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.

The 2018 NOffLA Members Survey revealed that nearly half of NOffLA's members were experiencing cash flow issues with 48% having had their bank facility cut resulting in 45% of members struggling to pay creditors on time.

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 has helped the very substantial development of small breweries. This recognition needs to be applied to the industry as a whole.

The excise relief for small breweries is a very welcome and successful Government initiative and has contributed to the establishment of many new breweries throughout the country. It should be extended to other beverages such as Poitin, gin, whiskey and cider. In the context of the current EU review of alcohol excise the Irish Government should lobby the EU to change this discriminatory practice. 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. The gin sector is also developing well. These small businesses are concerned about the discriminatory exclusion of spirits and cider from the excise exemption currently available to micro-breweries and 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 67% of the final price of their product goes directly to the Exchequer. A reduction in Ireland's very high excise levels, and the extension of the craft brewery excise rebate to other small Irish producers of whiskey, Poitin, gin and cider would be a great help to these entrepreneurs.

Macroeconomic growth in 2019 provides a supportive environment

The current economic, employment and growth performances of the economy are excellent. This overall performance are major determinants of the bar trade returning to growth after years of decline. However, the long-term decline in average consumption of alcohol and the weak 2017 clearances performance should be noted. The excellent headline GDP growth figures overstate the real growth performance of the economy. Consumption volume performance, which is a substantial determinant of the Irish drinks performance, is growing reasonably, but at nothing like the GDP performance. Consumption volume grew by 1.9% in 2017, much less than GDP, and expected growth in 2018 and 2019 will be 2.6% and 2.4% respectively.

Table 9. Irish Government growth projections 2017-2019 % change in volume

	GDP	GDP	GDP	CONSUMER	CONSUMER	CONSUMER
	2017	2018	2019	EXPEND 2017	EXPEND 2018	EXPEND 2019
Government	7.8	5.6	4.0	1.9	2.6	2.4
projections						

Source: Department of Finance. Summer Economic Statement June 2018 and Stability Programme Update 2018 April

The substantial economic, employment, average earnings and public financial recovery are a foundation on which the drinks industry can hope to regain some of the enormous loss of economic activity since 2007.

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 future 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, and the volume of pub sales is lower. An excise reduction should be seen as a sector-specific and Brexit-related measure that will support the recovery of a still much reduced sector relative to 2007 and will also support the continuation of high levels of innovation and entrepreneurship.



A core aspect of Ireland's tourism offer

The drinks industry provides essential economic and tourism infrastructure through the extensive and geographically spread network of 8,081 public houses and other bars, 2,388 wine-licensed restaurants, and 475 fully licensed restaurants [2017 figures]. The sector also provides financial and other supports for festivals, 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. The pubs-related survey questions in the Failte Ireland visitor surveys have changed over the past three years. The most comprehensive pub related coverage was in the 2013 visitor survey.

Fáilte Ireland research shows importance of the pub

Fáilte Ireland research of overseas visitors has shown the importance of the pub in the Irish tourism product.

The Failte Ireland Food and Drinks Strategy 2018-2023 reports that when people who have not visited Ireland are asked, "What stands out when you think of Irish food and drink?", the answers in order of magnitude were [only answers which got more than 10% responses are listed]:

- beer, 32%
- · potatoes, 15%
- · whiskey, 14%
- Guinness, 10%
- corned beef and cabbage, 10%

The advantages of Ireland most frequently mentioned in the 2016 visitor survey were (2017 survey not yet available, multiple answers given):

- Irish people, 55%
- scenery, 44%
- culture/history, 32%
- English speaking, 26%
- pubs/pub culture, 21%

All other advantages were each less than 21%. Pubs ranked fifth in the list. Earlier surveys obtained additional information on the role of pubs in tourism. These questions have been excluded from latter surveys. The main points are identified below.

The 2013 visitor survey reported that an interest in traditional culture, music, song, dance and language was expressed by 80% of visitors; 52% were very interested and 28% were interested.

80% of visitors plan to visit an Irish pub

In the 2013 visitor survey, visitors were asked what intended experiences (desire to experience) influenced the decision to visit Ireland. The number one answer was "an Irish pub". The scores were:

- Irish pub, 80%
- Dublin's heritage and culture, 61%
- an Irish castle, 56%
- · Cliffs of Moher, 46%
- Ring of Kerry, 37%
- · Connemara, 36%

The pub ranking is substantially above the rest. The pub ranking was 65% for British visitors (still the highest in this cohort) and ranged between 83% and 85% for the other market segments.

83% of visitors listened to live music in an Irish pub

The 2013 visitor survey included a question where visitors were asked what they participated in or visited while in Ireland. Listening to live music in a pub was the top answer. The different % responses were:

- Listened to live music in a pub, 83%
- Visited a coastal town, 82%
- Tasted Guinness, 79%
- · Visited a food or craft market, 49%
- City tour, 41%
- Literary trail, 11%.

High cost of drinks is a disadvantage

Among the most frequently mentioned disadvantages in the 2016 visitor survey were weather, which was the top answer, and drink cost, mentioned by 8%, the joint second ranked answer.

Excise as a percentage of the price increase of a pint

Since 2011, when Fine Gael took office, to April 2018, the average price of a pint in an Irish pub has increased by 57 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 tables below, Government tax increases were responsible for 56.6% of the price change on an average pint of stout in a pub since December 2011 and 84.5% of the price change on a glass of wine [over a shorter period]. 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 and the fact that tourists are very frequent users of restaurants.

Table 10. Tax share of alcohol price increase Dec 2011 to April 2018, pint of stout in bar

	Dec 2011	Mar 2017	Change € cents
Price of pint	3.931	4.500	56.9
in bar €			
VAT €	0.682	0.841	15.9
Excise €	0.375	0.538	16.3
Total tax	1.057	1.379	32.2
per pint €			
Tax as % of price	26.9	30.6	na
Price excluding	2.874	3.121	24.7
tax €			
Tax change as %	na	na	56.6
of price change			

Source: Based on CSO and Revenue Commissioners data.

Table 11. Tax share of alcohol price increase Dec 2011 to Nov 2016, 187ml bottle/glass of wine in restaurant/bar

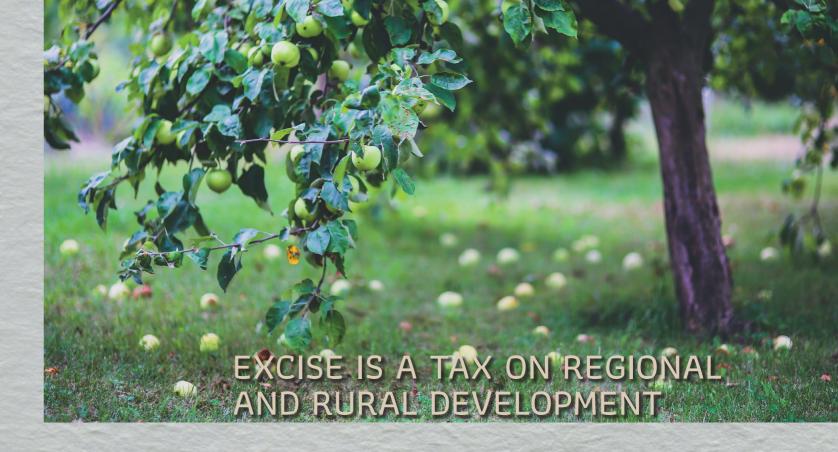
	Dec 2011	Nov 2016	Change € cent
Price of glass of	4.82	5.381	56.1
wine in restaurant			
/bar €			
VAT €	0.837	1.006	16.9
Excise €	0.490	0.795	30.5
Total tax per	1.327	1.801	47.4
glass of wine €			
Tax as % of price	27.5	33.5	na
Price excluding	3.49	3.580	9.0
tax €			
Tax change as %			
of price change	na	na	84.5

Source: Based on CSO and Revenue Commissioners data.
[CSO wine prices data not available after November 2016]

Whiskey tourism represents a large economic and regional development opportunity for Ireland

Ireland already has a significant whiskey tourism offering. Existing attractions, like the Jameson Experience and Kilbeggan and Tullamore DEW visitor centres, have been supplemented in recent years by the new Dublin Whiskey Museum, and the proposed new multi-million euro visitor centre in Abbeyleix thanks to investment by Quintessential Brands.

The Irish Whiskey Association has an objective of rivalling Scotland for both whiskey production and whiskey-related tourism. The right policy support from 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.



As identified in previous DIGI research, the drinks industry is a substantial contributor to regional and local economic development. The detailed wide geographic spread of drinks enterprises as measured by Revenue licences and economic indicators is shown below in Tables 13 and 14.

However, since that research was completed, there have been substantial upward revisions to employment levels due to the higher levels identified in the 2016 Census of Population and different collection methodologies. Table 12 summarises the current hospitality sector employment on a regional basis. Details by county and for the narrower drinks sector are not available.

The CSO hospitality sector accounts for 169.6k jobs which is 7.6% of the total employment in the State. The west has the highest hospitality share of total employment at 9.5% and the lowest is Mid-East with 6.3%. Dublin's share is 8.0%. Between Q1 2012 and 2018, hospitality employment increased from 121.1k to 169.6k, a 40% increase. Total employment grew by 19.2% over the same period.

Average drinks manufacturing employment in 2017 was 5.3k persons. In addition, the drinks industry directly employs thousands of people in visitor centres, off-licences and wholesalers.

Table 12. Regional distribution of hospitality employment (accommodation and food dervices, Nace divisions 55 and 56)

Region	Q1 2018 Hospitality	Q1 2018 Total	Hospitality share
Border	12.5	177.1	7.1
West	19.8	208.6	9.5
Mid-West	16.4	212.0	7.7
South-East	13.9	181.6	7.7
South-West	24.5	315.8	7.8
Dublin	54.4	683.9	8.0
Mid-East	19.9	317.7	6.3
Midland	8.41	23.8	6.8
State	169.6	2220.5	7.6

Source: CSO Labour Force database

Hotels in Table 13 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, producers/manufacturers, wholesalers and, in some counties, visitor centres.

Table 13. Alcohol licences by county and type, September 2015

	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

The drinks industry continues to be one of Ireland's major employers, especially in regional areas. 90,000 jobs throughout the country dependent on the industry. These jobs exist in every parish in the country, often in locations that struggle to attract other industry.

Drinks manufacturers provide huge boosts to farmers throughout Ireland with around 160,000 tonnes of malted barley, 300 million litres of milk and 46,000 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. The county distribution of direct hospitality employment and multiplier/indirect employment, tourism expenditure and hospitality related wages and salaries is shown in Table 14:

Table 14. Estimated overall hospitality and drinks direct and multiplier economic impact, employment and wages/salaries, county 2016

County	Tourism		Wages &	Other	Drinks	Total direct		Total
	Expend-		salaries in	employment		employment	wages	Multiplier
	iture €m	employment			salaries			employment
			€m	hospitality	in not in			
				eg.	hospitality			
					eg. off-licences,			
				wholesalers	distributors			
Carlow	45	1200	20.8	187	4.5	1387	25.3	444
Cavan	85	2700	46.7	99	2.1	2799	48.8	957
Clare	265	4900	84.8	162	3.3	5062	88.1	1620
Cork	783	13400	231.8	1404	46.5	14804	278.3	4737
Donegal	168	5400	93.4	239	4.8	5639	98.2	1804
Dublin	2149	50300	870.1	4547	162.9	54847	1033	17551
Galway	720	11300	195.5	486	10.6	11786	206.1	3772
Kerry	463	7900	136.7	303	6.5	8203	143.2	2625
Kildare	127	5200	90	337	7.4	5537	97.4	1772
Kilkenny	77	2000	34.6	138	3.3	2138	37.9	684
Laois	34	1800	31.1	121	2.6	1921	33.7	615
Leitrim	25	800	13.8	54	1.1	854	14.9	271
Limerick	271	5000	86.5	301	6.2	5301	92.7	1696
Longford	17	900	15.6	63	1.3	963	16.9	308
Louth	53	1700	29.4	332	7.8	2032	37.2	650
Mayo	184	2900	50.2	202	4	3102	54.2	993
Meath	73	3000	51.9	233	5.1	3233	57	1035
Monaghan	37	1200	20.8	100	2.1	1300	22.9	416
Offaly	26	1400	24.2	135	3.1	1535	27.3	491
Roscommon	43	700	12.1	72	1.4	772	13.5	247
Sligo	118	3800	65.7	102	2.2	3902	67.9	1289
Tipperary	112	2600	45	410	10.2	3010	55.2	963
Waterford	138	3600	62.3	185	3.5	3785	65.8	1211
Westmeath	67	3500	57.1	188	4	3688	61	1180
Wexford	197	5100	88.2	281	9.6	5481	97.8	1754
Wicklow	143	5900	102.1	214	4	6114	106.1	1956

Source: DIGI Constituencies Report



The financial impact of the DIGI-recommended excise reduction for the Exchequer are outlined here.

Gross excise cost

Total alcohol receipts in 2017 were €1.2199 billion. A 15% reduction would cost €183 million. VAT is charged on excise at the 23% rate. Consequently, the total gross Exchequer cost would be €225 million.

Net Exchequer cost

A reduction in alcohol excise will have a range of positive economic effects which 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 15% excise reduction are:

- Price reduction leading to demand/volume increase (market stimulation)
 We estimate this flow to the Exchequer to be €34 million.
- Exchequer savings and tax receipts from increase in employment of about 700 jobs arising from the volume increase. Our model estimated a reasonable figure of €5 million from this source.

- Shift to on-licence purchases from off-licences. While both sectors will
 experience the reduction in excise, the lower absolute price of on-licensed
 alcohol should encourage, from a behavioural economics perspective,
 a flow from the 'off-' sector to the 'on-' sector. Excise 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 €44 million in increased VAT
 receipts.
- Reduced incentive to purchase alcohol in NI. A lower price in the South will reduce the incentive to purchase over the border. We estimate that each 1% of the Republic's consumption which is sourced in the North results in a loss of €12 million in excise and €6 million in VAT receipts.

These quantified positive effects are €101 million relative to the gross cost of €225 million resulting in a net cost of €124 million.

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 and enhanced entrepreneurial and innovation activity.
- 2. An excise reduction will support pubs and hospitality employment generally, will contribute to a lower rate of closure, and will help to maintain existing jobs and will contribute to tourism competitiveness.
- 3. An excise reduction will contribute to increased confidence in the sector which will enhance the performance and viability of the sector, especially the development prospects of smaller manufacturers.



DIGI believes, as it did for Budget 2018, that there is a strong case for its recommended 15% reduction in alcohol excise in Budget 2019. DIGI believes that the data and analysis presented in this submission supports the recommendation. Below, 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 2018 and 2019 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.

Excise is a regressive and 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, 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.

As shown in 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, in what increasingly seems like a hard Brexit situation, should include alcohol excise reduction. DIGI recognises that this is only one part of the required response. However, it can make a contribution. The early negative Brexit effects have been felt though uncertainty and the exchange rate. Cross-border shopping is more attractive, UK tourism numbers have decreased, and exports to the UK are under threat.

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 to full recovery following the economic collapse since. As shown in this submission, total and average consumption in 2017 are well below the 2007 levels. The number of pubs has decreased by 1,100 between 2007 and 2017. Independent off-licences are operating in a very difficult economic and market environment. Despite growth in 2015, 2016 and 2017, bar sales volume in 2017 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 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 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.

Overall, DIGI believes there is a strong case for a reduction of 15% in the current level of alcohol excise tax equivalent to ten cents per pint in a pub and for the retention of the 9% hospitality VAT rate.



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