Submission to the Minister for Finance For

Budget 2025

From

Drinks Industry Group of Ireland

Reduce alcohol excise by 7.5% to start the process of bringing it into line with average EU levels

June 2024

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Executive Summary

DIGI calls for Budget 25 to reduce alcohol excise. Budget 25 should reduce alcohol excise by 7.5%. This should be followed in Budget 2026 by an additional 7.5% reduction. This should be part of a multi-annual programme of excise reduction to move towards the lower average EU alcohol excise norms. The public finances have been strong in recent years and provides a wonderful opportunity, which is being missed, for Government to reduce the very high Irish rates of alcohol taxation.

The drinks industry includes beverages manufacturers, public houses, restaurants, hotels, off-licences, wholesalers and distributors and drinks tourism attractions. The industry accounts for tens of thousands of jobs and thousands of enterprises regionally spread around the country. It generates substantial indirect economic impact through the purchase of billions of euros of inputs of goods, services and agricultural products such as apples, barley and milk. It generates almost €2 billion in exports. Hospitality directly employs 175k people, 70% of which are located outside Dublin. It generates €2.7 billion in excise and gross VAT receipts.

The industry is a substantial economic asset but is penalized by high excise. Ireland has the highest wine excise in the EU27 and UK. Ireland has the third highest beer excise in the EU 27 and UK behind Finland and the UK. Ireland has the third highest spirits excise in the EU 27 and UK behind Sweden and Finland. Fifteen EU economies do not impose any excise on wine. In addition, France 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.

In addition, alcohol excise should be reduced to respond to the relatively high Irish rate of Vat, compared to other EU countries, which is levied on alcohol products.

The minimum unit pricing regime for alcohol has removed any justification for using high excise rates as an instrument of public health policy. A reduction of excise duties would not impact on public health objectives because of minimum unit pricing.

The drinks industry is a substantial economic asset. The industry should be supported to realise its potential. The Government can show its support by reducing the internationally high level of Irish alcohol excise.

1. 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). Our members are:

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

DIGI is concerned with the excise taxation and economic development aspects of the drinks industry. Through its research, 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. DIGI seeks to work with stakeholders to create conditions that ensure the industry's continued growth and the realisation of 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 deliver responsible alcohol consumption especially with the introduction of the Minimum Unit Price.

DIGI has pledged to work with Government to deal with the misuse of alcohol on a range of measures.

2. Recommendation for Budget 2025: 7.5% reduction in alcohol excise

DIGI repeats its recommendation from last year that Irish alcohol excise should be gradually reduced to the lower average EU levels and recommends that Budget 2025 should reduce alcohol excise rates by 7.5%. This should be the first stage in a longer term programme of bringing Ireland's alcohol excise into line with our partner countries in the EU and our closest neighbour, the UK. There should be a 15% reduction in excise rates over the next two budgets with a 7.5% reduction in each year followed by additional reductions thereafter. These are proportionate, reasonable and affordable reductions given current economic and public financial circumstances and would put Ireland on the long-term path to average EU excise levels. DIGI acknowledges the recent Government support for the industry over the Coved and high energy cost/high inflation periods. However, Government is also adversely affecting the industry through a range of cost increasing policies.

The case for excise reduction

The primary reasons for the proposed alcohol excise reduction are;

- Lower excise rates would improve the commercial model and viability of drinks enterprises, enabling them to retain a larger share of customer receipts which will support investment and sustainability in the current higher cost environment. Excise is a substantial cost on drinks enterprises.
- Excise reduction should be part of the response to assist enterprises in responding to the large Government generated cost increases.
- Irish alcohol excise tax rates are very high relative to the great majority of EU economies. This is a self-imposed competitive disadvantage on Irish operators.
- High Irish alcohol excise rates reduce competitiveness and have a strong negative impact on the commercial viability of Irish drinks enterprises and on tourism competitiveness.
- Excise reduction will enable the sector to generate and sustain high levels of national and regional job creation especially for young workers into the future.
- Alcohol excise is a regressive tax which ignores ability to pay.
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- High alcohol excise rates unfairly penalise moderate consumers of alcohol.

Excise and Health Policy

DIGI believes that alcohol excise is an ineffective instrument for the promotion of public health and its primary purpose is revenue generation.

DIGI accepts the need to reduce the societal and health impact of misuse of alcohol and has contributed to initiatives in this area. However, there is too much focus on the role of excise tax and insufficient emphasis on other public health measures such as education and health promotion. Average consumption of alcohol has been declining over the long term as shown in this submission.

This decline is driven by a range of factors including, demographic change, health awareness, growth of low and no alcohol products, other consumer behaviour changes and entertainment changes. The Tax Strategy Group 2023 report on excise notes, with respect to patterns of alcohol consumption, "…it is unlikely that tax is the driving factor in consumption changes. In this regard, the consumption, and composition of consumption, of alcohol products is driven by factors such as personal disposable income, individual consumer preferences, the availability of alcohol products, the pricing strategies of retailers and publicans, and cultural changes."

The introduction, in January 2022, of minimum unit pricing for alcohol clearly removes any justification for using excise to force alcohol price increases. The main public health price-related issue with alcohol is the low price of alcohol in the large multiples. A reduction of excise duties would not impact on public health objectives as it would be in conjunction with minimum unit pricing.

3. The business environment in 2025

The economy will perform relatively well in 2025, as predicted by the most recent Government economic predictions, although certain risks remain. Unfortunately, the business environment for the drinks sector will have specific difficulties within this overall economic environment.

The April 2024 Stability Programme Update expects real GDP to grow by 3.9% in 2025 following 2.6% in 2024. Personal consumption volume will grow by 3.1% in 2025 and 2.4% in 2024. Near full employment will continue with an unemployment rate of 4.7% in 2025 compared with 4.5% in 2024.

Inflation, as measured by the Harmonised Index of Consumer Prices, will decrease from 3.0% in 2024 to 2.4% in 2025.

The public finances will be strong in both 2024 and 2025. The current expectations for both 2024 and 2025 are large surpluses in the general government sector of 2.8% of GNI* in 2024 and 3.0% in 2025.

Excluding "windfall" corporation tax receipts, there will be a small deficit of 0.6% of GNI* in 2025.

In addition, interest rates are expected to fall throughout the rest of 2024 and 2025.

Risks to these forecasts include a slower relaxation of monetary policy, weaker international growth and additional economic disruption arising from the Ukraine war, and possibly from the Israel/Gaza situation.

The difficulties facing the drinks and wider hospitality sectors include, the destruction of the pre-Covid and pre-high inflation business model, the loss of tourism expenditure (much of which would have gone to the hospitality sector) from hotel accommodation being diverted to refugee housing, the slower recovery of international inward tourism than previously expected, staff shortages, the impact of continuing high mortgage and higher food costs on household discretionary income, continuing high input costs, Government policies which increase costs for enterprises and the difficulty for some parts of the overall sector in fully regaining pre-Covid levels of business.

4. Ireland's very high alcohol excise

Ireland has a very high level of alcohol excise tax in 2023 when compared with the large majority of the other 26 economies of the EU and the UK. Ireland has the highest wine excise in the EU27 and UK.

- Ireland has the third highest beer excise in the EU 27 and UK (using the UK non-draught beer excise or the average of the two UK beer excise rates) behind Finland and the UK.
- Ireland has the third highest spirits excise in the EU 27 and UK behind Sweden and Finland.
- Fifteen EU economies do not impose any excise on wine. In addition, France 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.
- There is a substantial difference between the alcohol excise levels of the four highest alcohol taxed economies, Finland, Ireland, the UK and Sweden, and the remaining 24 countries.
- Finland's composite rate per HLPA is 22.1% higher than Ireland's, €4222 compared to Ireland's €3458. Sweden's composite rate is 18.5% below the Irish rate. The UK composite rate, following the August UK

excise increases, is 4.5% below the Irish rate, using the non-draught beer rate. The gap is 5.6% using the average of the two UK beer excise rates.

- Lithuania has the fifth highest composite excise rate of €1660 and is 48% of the Irish rate.
- Germany's composite alcohol excise per HLPA is €500 or 14.5% of the Irish level of €3458.
- France's composite level of €884 is 25.6% 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 of stout in a public house by 10.9%, the price of a glass of wine in a restaurant by 12.3% and the off- licence price of a bottle of whiskey by 36.8%.
- Application of the German beer excise rate to Ireland would reduce excise on an on-licence pint of stout to 5cent instead of 54cent, a direct reduction of 49cent. This increases to a reduction of 60cent when VAT on the excise is included.
- In Spain, the excise on an off-licence bottle of whiskey is €2.69 which is €9.23 lower than in Ireland.
- Vat is levied on excise and the other elements of the price of alcohol products. Usually the standard Vat rate is applied. However, some countries apply a lower rate than the standard rate on specific aspects of the alcohol market, notably alcohol products consumed in bars and restaurants. Ireland charges the standard rate. Ireland's standard Vat rate is relatively high by EU and UK standards. Of the 28 countries, Ireland's rate of 23% is exceeded by only six countries

The high excise and VAT impose a substantial burden on consumers. In 2024 on May 2024 (CS0) prices, the Exchequer received in excise and VAT:

- €1.62 from every pint costing €5.77, or 28.1 % of the price, consumed in bars.
- €2.30 or 28.8% from every restaurant glass of wine costing €8.00.
- €17.21 or 60.8% of the price of a €28.30 off-licence bottle of whiskey.
- €5.25 or 47.7% of the price of an €11.00 off-licence bottle of wine.

This is a large alcohol indirect tax burden on consumers.

The tax induced higher prices give an incentive for out-of-state sourcing for both cross-border shoppers, for Irish tourists holidaying in low excise sun destinations and for Irish visitors to the UK who avail of the duty-free regime.

5. Cost of a 7.5% excise reduction

Total alcohol gross excise receipts in 2023 were €1.2601 billion. A 7.5% reduction would cost €94.5 million relative to 2023 levels. VAT is charged on excise at the 23% rate. Consequently, the total gross Exchequer cost would be €116.2 million. However, there are offsetting additional alcohol revenue benefits which are outlined below.

The introduction of MUP has increased the VAT yield for the exchequer for each item which is now sold at the higher MUP. A reduction in alcohol excise will have a range of positive dynamic economic effects which will increase tax revenues and reduce the net cost of the measure, including:

- Sustaining enterprises in the drinks industry in the after-Covid world which will avoid job losses by improving the commercial model.
- Increasing enterprise competitiveness and industry confidence which will encourage growth and employment creation.
- Improving the tourism product.
- Reducing the incentive to source alcohol from outside the State.
- 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 drinks multinational enterprises and enhanced entrepreneurial and innovation activity.

6. National and regional economic impact

The economic impact of the drinks sector and the wider hospitality sectors are substantial at the national, regional and local levels. The impact covers direct employment in manufacturers, public houses, restaurants, hotels, off-licences, wholesalers and visitor attractions, indirect employment through the purchase of billions of euros of goods, services and agricultural inputs and induced employment associated with the multiplier mechanism of these direct and indirect incomes. The drinks sector is an important element of the tourism product and is a substantial exporter. The main features of the drinks economic impact are identified below:

- The latest Labour Force Survey for Quarter 1 2024 reports hospitality employment (accommodation and food and beverage services) of 174.5k or 6.5% of total employment. This is still lower than the immediate pre-Covid level of 176.5k, in Quarter 1 2919. This is in contrast to total employment in Ireland which now exceeds its pre-Covid level.
- 69.6% of these hospitality jobs were in regions outside Dublin.
- The hospitality sector employs a high proportion of part-time workers and provides necessary part-time employment opportunities to students, homemakers, farmers and those other full-time workers who seek additional earnings opportunities. It meets a significant demand for different types of employment.
- AFS employment is relatively young,
- There were 19,363 enterprises in the AFS sector in 2021 and it is dominated by very small enterprises. 80.8% or 15,638 have less than 10 persons engaged. A further 16.7%, or 3,227 enterprises, have between 10 and 49 persons engaged. Only 2.4% of enterprises or 461 employ between 50 and 249 persons. Only 37 enterprises employ 250 persons or over, 0.2% of the total.
- In addition to the drinks related employment in AFS the drinks sector also generates over 6,000 jobs in beverage manufacturing, over 6,000 jobs in off-licences and additional jobs in visitor attractions and wholesale distribution.
- Total beverages (alcohol and soft drinks) exports of €1.96 billion in 2023.
- Imports of beverages of €1.258 billion in 2023.
- Large trade surplus in beverages.
- 49% of alcohol exports are whiskey, 21% are liqueurs, 19% are beer and 5% are cider.
- High domestic content in alcohol exports.
- Exceptional whiskey export performance.
- Substantial potential to increase alcohol exports.
- €1.260 billion excise receipts in 2023 from alcohol.
- Approximately €1.45 billion alcohol gross VAT receipts associated with drinks sales in 2023.
- €2.7 billion in excise and VAT in 2023.
- The Revenue Commissioners estimated that the CSO category of hospitality generated in 2023, €511 million in PAYE income tax and USC, €66 million in self-employed income tax and €261 million in corporation tax receipts. 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.
- Substantial purchases by manufacturers of apples, barley and malted barley and milk.
- The bar (and other beverage service activities) sector has a wages and salaries bill of €720 million based on 2019 CSO data for the retail sector and spent €1.588 billion on total services and materials inputs. The latest data refer to 2021 but these are influenced by Covid.

- It provides an extensive and geographically spread network of enterprises
- Restaurants in 2019 paid out €1.346 billion in wages and salaries and had purchases of €2.625 billion.
- Hotels and similar accommodation had a wages bill of €1.208 billion and purchases of €2.358 billion.

7. Long term declining alcohol consumption trends

Declining consumption

The most generally used domestic and international indicator of aggregate alcohol consumption is the quantity of pure alcohol contained in the various beverages. Alcohol consumption is performing poorly. Total consumption increased by less than 1% in 2023 and average per adult consumption declined by 1.5%.

Over the past eleven years average per adult alcohol consumption has decreased from 11.566 LPA in 2012 to 9.960 LPA in 2023, a decline of 13.9%. The 2023 performance has brought average consumption back below 10 LPA.

By long term comparison, average alcohol consumption was 10.9 LPA in 1990 and peaked at 14.44 LPA in 2001. Since 2001 the average per adult alcohol consumption has declined by 31%, or almost one third.

Table 7.1. Total and average alcohol consumption 2022 and 2023

	2022	**2023**	**% change 2022/2023**
Total alcohol consumption LPA	**42,149,969**	**42,529,463**	**+0.9**
Average per adult alcohol consumption LPA	**10.109**	**9.960**	**-1.5**

Sources. CSO Population and Migration Estimates 2023. Revenue Commissioners, Alcohol Clearances data, Revenue Website, 2024.

Bar sales performance

Bar sales performance in 2020 and 2021, of course, was hugely determined by the Covid closures/restrictions effects. However, the 2023 levels of volume and value of bar sales are still below the pre-Covid performances. The 2023 national volume of bar sales as estimated by the CSO was 21.2% lower than 2019. The national value of bar sales in 2023 was 21.2% lower than in 2019. There are differences in performance depending on the area, for example, large cities compared to rural areas.

Table 7.2 Retail sales in Bars, % change 2019 to 2023

	Volume	Value
2019/2023	-21.2	-7.4

Source: *CSO*

The latest annual bar performance in 2023 compared with 2022 was an increase in value of 9.5% and an increase in volume of sales of 2.7%.

Off-licence sector

The off-licence sector has grown over the long-term, but this growth has been largely confined to the multiple retailers. As identified in previous DIGI submissions 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, a trend exacerbated by the high and increasing level of excise. 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 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

Decline in pub numbers and restaurants

Between 2005 and 2022 the total number of public houses declined by 22.5% or 1,937 pubs. In Dublin the decline was 27 pubs or 3.4%. The number in the rest of the country declined by 1,910 or 24.4%. All 26 counties experienced declines in public house numbers in the 2005 to 2022 period. Of the 26 counties the largest decrease was Limerick with 32.0%. Roscommon also had a decrease of over 30%, with 30.3%. The lowest decrease was in Dublin with 3.4% and Meath closely followed with a decrease of 4.3%. 21 of the remaining 22 counties had decreases of greater than 10%. The exception was Wicklow with 8.2%.

The licensed restaurant sector has also been hit hard by a substantial number of closures. The Restaurants Association of Ireland reports 212 restaurant closures in the first three months of 2024.

Innovation and entrepreneurship

The entrepreneurs, managers and enterprises in the drinks industry continue to display high levels of innovation and entrepreneurship. The industry is characterised by, product development, process development, business diversification, development of visitor centres, and business development. The innovative capacity of the drinks and wider hospitality sector places the sector in a good position to prosper in the post-Covid economy.

8. Summary and recommendation

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 also has a substantial exports performance. While it contains large multinational companies, the drinks industry is overwhelmingly a micro and small enterprise sector. The rural pub network is a desirable and extensive social networking infrastructure. It is an innovative sector with substantial product development and many new breweries, distilleries and cideries. It has been at the forefront of visitor centre investment and development which have enhanced the tourism offering.

Unfortunately, the industry, in common with other sectors, faces substantial cost increasing threats, some of which are the direct result of Government policy. These are compounded by the fact that Ireland operates a tax regime of 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 Ireland hinders its indigenous drinks enterprises with high excise tax.

Alcohol excise should be reduced by 7.5% in Budget 2025. This should be part of the effort to move towards the lower EU norms for alcohol excise. The 2025 reduction should be followed in Budget 2026 with another 7.5% reduction. This would support enterprises and consumers.