



**BACK JOBS
BACK GROWTH
BACK A UK SUCCESS STORY**

**BACK UK SPIRITS
FIX DUTY**



The UK Spirits Alliance was formed in July 2019. It is a coalition of voices committed to working with government to create the best possible environment for the UK's rapidly growing and hugely important spirits industry.

Its members and supporters include:

				The House of Botanicals
				British Distillers Alliance
				Griffiths Brothers Distillery Ltd
				Bacardi Martini UK
				The Wrecking Coast Distillery
				Copper Rivet Distillery
				Surrey Copper Distillery
				Jensen's Bermondsey Gin
				Lussa Gin
				Pernod Ricard UK

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 Jensen's Bermondsey Gin
 Lussa Gin
 Pernod Ricard UK
 Diageo UK
 Badachro
 Silent Pool Distillery
 Tiree Whisky Company Ltd
 Craft Distilling Services Ltd
 Brown-Forman UK
 Wicked Wolf Exmoor Gin
 Forest Distillery Ltd
 Puddingstone Distillery
 The Gin Cooperative
 6 O'Clock Gin
 Spirit of the Downs
 The Lakes Distillery
 The Little Quaker Distillery
 Lost Loch Distillers
 Batch Brew
 Fordington Gin
 Copper Frog Distilling
 Shakespeare Distillery
 Penderyn Distillery
 Tarbraxus Distillers
 The Oxford Artisan Distillery
 Isle of Skye Distillers
 Whittaker's Gin Distillery
 Shed1 Distillery

UK spirits – drinking for the future

Spirits – our iconic national drinks, such as gin and Scotch Whisky – have boomed in recent years and are making a greater contribution to the economy than ever before. As the UK's drinking habits continue to change for the better, spirit-based options are increasingly the drink of choice for men and women alike. These factors, alongside government support through a fair duty regime, mean that our spirits industry is well placed to continue its success.

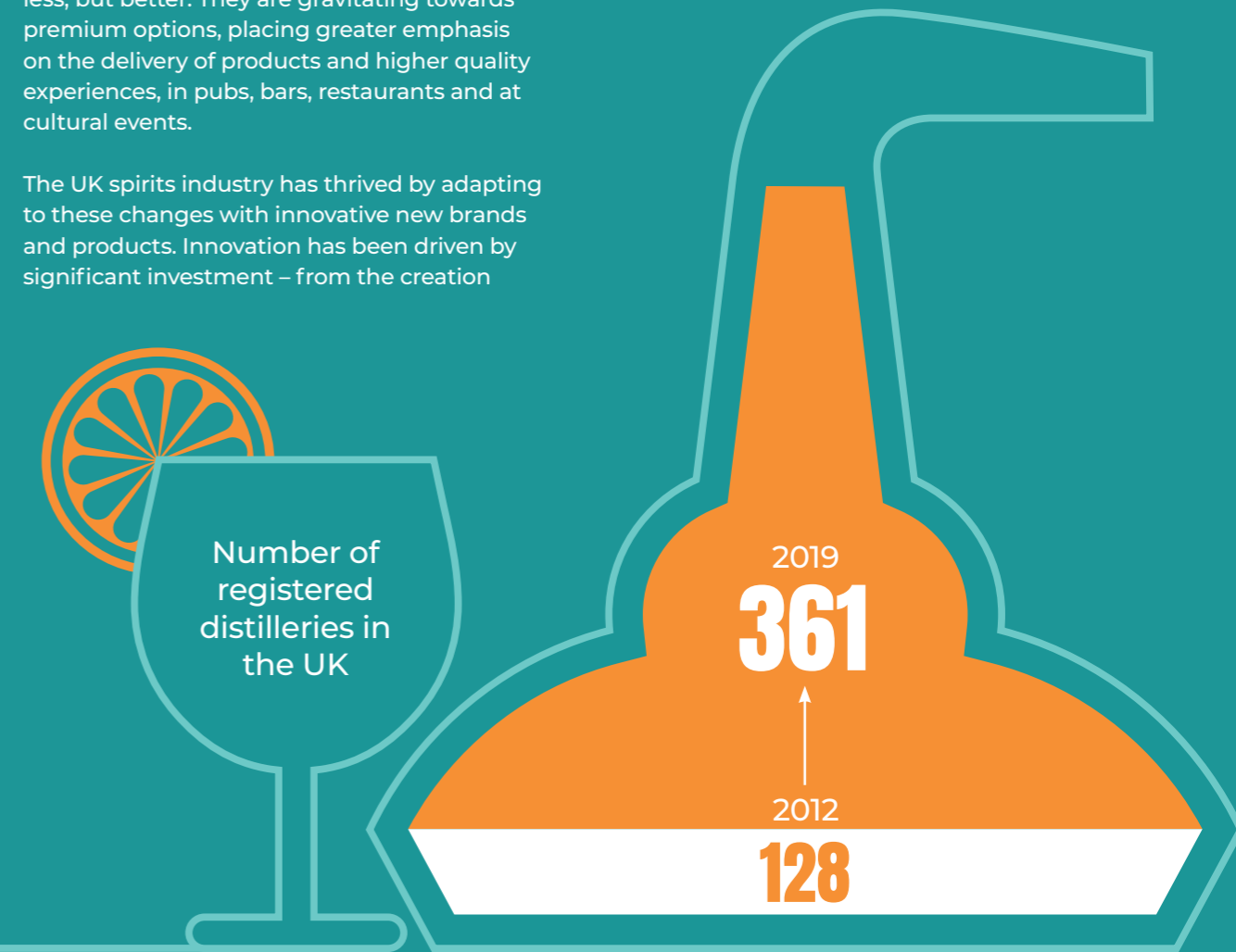
The number of UK gin distilleries has more than doubled since 2015 and in 2018 a new distillery opened, on average, once a week. The industry now employs more than 180,000 people directly and supports approximately 100,000 more jobs through its supply chains.

Increasingly, consumers are choosing to drink less, but better. They are gravitating towards premium options, placing greater emphasis on the delivery of products and higher quality experiences, in pubs, bars, restaurants and at cultural events.

The UK spirits industry has thrived by adapting to these changes with innovative new brands and products. Innovation has been driven by significant investment – from the creation

of pre-batched cocktails in 2014 and the rise and rise of pink gin since its UK launch in 2017 - to the industry's embrace of the experience economy through the two million visits people make to Scotch Whisky distilleries every year.

The UK Spirits Alliance was formed to give a voice to this dynamic industry and ask the government to freeze and reform spirits duty in the Budget. In just a few months, the UK Spirits Alliance has attracted the backing of micro and craft distillers from all corners of the United Kingdom, as well as international companies like Diageo, Pernod Ricard and Bacardi Martini. It has the support of the Scotch Whisky Association, the Gin Co-operative – who have 80 members in Scotland – and the British Distillers Alliance, who have 120 members across the UK.



In recent years, UK spirits' success has been underpinned by a stable excise duty regime. But despite this, spirits duty in the UK still remains among the highest in the world. UK consumers pay 72 per cent tax on our national drinks — the tax on a typical £14 bottle of gin or Scotch is £10.38.

The freeze on spirits duty in recent budgets has been a success story for the industry and public finances alike. 65 per cent of UK distillers polled by Survation in July 2019 reported increases in sales in the last year,

with the majority seeing increases of 20 per cent or more. More than £500 million has been invested by the spirits industry over the last five years, supporting jobs and growth across the UK. At the same time, spirits revenue to the Treasury grew by £380m to £3,810m in 2018/19.

That's why we ask the Chancellor to use this Budget to continue the freeze on spirits to 2022: the expected length of this parliament.

This will give spirits producers across the UK the stability and confidence they need to plan effectively for the coming years, building on the significant contributions they already make to the UK economy – and deliver further growth, investment, and revenues to the Treasury.

We also ask the Chancellor and the Treasury to use the period of the freeze to work with industry on reform of spirits duty, to make the system more balanced across alcohol categories and allow our industry to continue to deliver economic growth and revenue for the public finances on a sustainable basis into the future.



Investment and innovation

Many factors have driven the growth in UK spirits in recent years but none have been as important as the industry's investment in innovation. Supported by a stable duty regime, UK spirits have been able to adapt to changing consumer tastes and increasing global demand and invest more than £500 million in the UK over the past five years.

This investment is being made across the country by companies large and small.

In 2018, Diageo announced £150 million investment in the UK, including a Johnnie Walker visitor experience in Edinburgh and the upgrading of 12 distillery visitor centres – the biggest capital programme ever seen in Scotland's whisky tourism sector. The company is already creating opportunities in the hospitality sector for young unemployed people, through increased investment in the company's Learning for Life programme and has invested £8m in its bottling and packaging plant in Belfast.

Pernod-Ricard have made a £20 million expansion of the Glenlivet distillery, relocated their global travel retail office to London from Hong Kong and recently opened a new headquarters for Chivas Brothers whisky in Glasgow. Smaller distillers across the country continue to invest in premises, jobs and new products.

With the rise of gin, the number of distilleries across the country has been growing for some time. This typically British entrepreneurialism has benefited enormously from a stable duty system, and by 2018 new distilleries were opening at a rate of more than one a week¹. These distillers are creating skilled jobs and making products that consumers are seeking out. And with every new distillery, every investment decision and every innovation comes further benefits to the economy through the boost to long and varied supply chains.

Spirits innovation also extends to new products. There are over 200 new gin brands in the UK market compared to two years ago². Innovative new drinks – such as pink gin – have driven half of all growth of gin in the UK in the last recorded 12 months. Gordon's pink gin was only launched two years ago – now it is in the top five spirits sold in the UK.

Government can continue to promote this success, promoting fledgling companies and supporting growth by providing a stable and sustainable duty regime that will allow investment and innovation to flourish.

*In the 12 months to mid-May 2019



1 gin distillery opens every week in the UK



£392M* in pink gin sales, an eight-fold increase on the previous 12 months



Britain's on-trade sales of gin are worth £1.42Bn*



British consumers drinking pink gin has more than doubled from 2.2 to 5.1M*

Why freeze and reform

The spirits industry is united in asking the government to use this Budget to freeze spirits duty for the expected lifetime of the parliament, while working with us to reform the system.

We are proud taxpayers, who take our responsibilities to the communities and the markets in which we operate seriously. For us, that means an excise duty regime that maximises revenues for the public purse while encouraging confidence and long-term planning for our industry. We agree wholeheartedly with the Chancellor when he says taxes "should be efficient ... we want to set them at a rate where we are trying to maximise revenue, and that doesn't always mean that you have the highest tax rate possible³."

The spirits duty freeze has been a huge success: for government, for business and for the public. In 2018 we saw a record year for tax receipts from spirits duty. The most recent HMRC alcohol duty statistics show the provisional year-to-date total for receipts in the 2019/20 financial year is even higher than the same period during last year, despite the absence of major sporting events such as the football World Cup.

Polling of distillers by Survation shows that this success is finding its way to all corners of the industry and the country. During the period since the spirits duty freeze, 65 percent of companies interviewed in the sector reported sales increases. Of those who saw an increase, 57 percent reported sales increases of over 20 percent year-on-year⁴.

Freezing spirits duty provides welcome support for distillers. But it only provides stability for a single year. For the army of small distillers that have been established in recent years, a multi-year freeze would provide the confidence and the certainty they need to fulfil their ambitious growth plans. As well as the obvious practical benefits, this would send a strong message: that the government is in the business of backing the UK's winners and that it takes a pragmatic, growth-centred view of taxation.



How and why the freeze worked

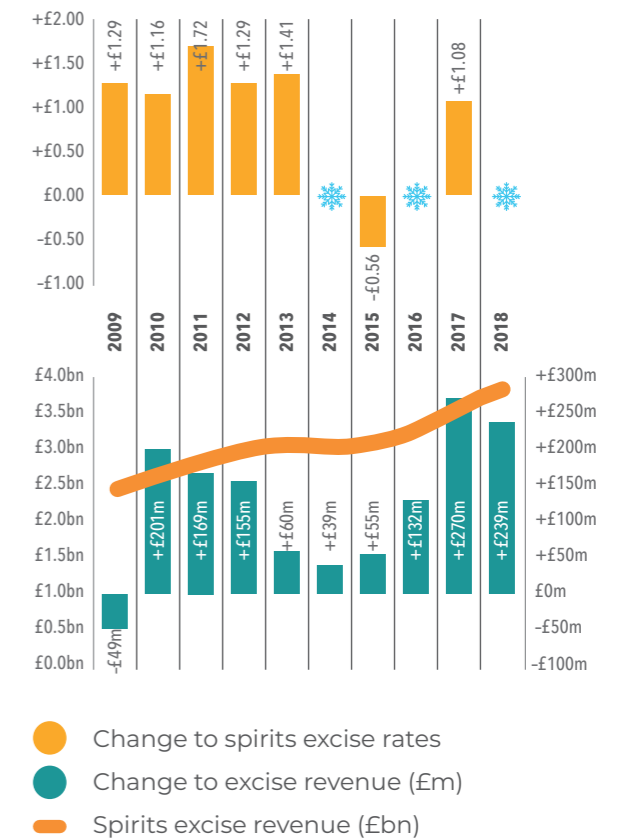
The government's recent treatment of spirits duty has not just been good for the hundreds of distillers across the country and the millions of consumers who enjoy our products, but also for government revenues, as HMRC's own data demonstrates.

July's UK Alcohol Duty Statistics show that, while 2018/19 was a record year for spirits duty receipts, the category has continued to grow further in 2019/20⁵. In 2019, revenue from spirits duty has continued to grow – up £73m (+5.5%) between February and June compared with 2018.

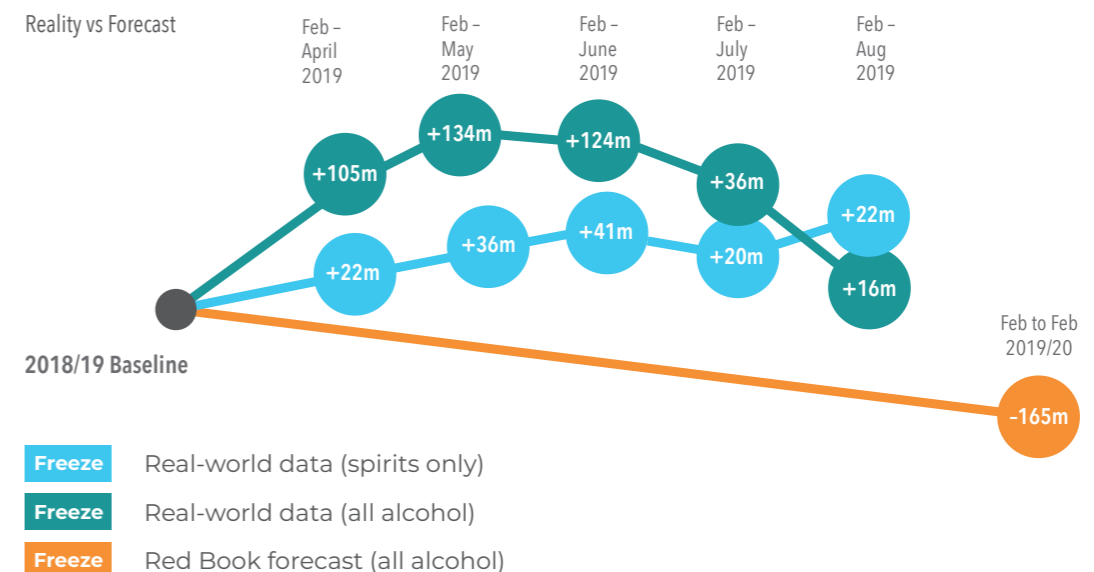
Since 2014, revenues to HM Treasury from spirits duty have increased by 23 per cent – or £735 million. In that period, there have been three separate freezes on spirits duty and total excise duty increased by 52p per litre of pure alcohol⁶.

By contrast, in the preceding five years spirits duty was steadily increased by £6.87 per litre of pure alcohol but the growth in receipts didn't match, totalling only £536m.

Spirits excise rates and annual revenues



The real-world HMRC data shows that spirits revenue continues to grow at a faster rate than any other alcohol category



Source: HMRC Tax & NIC receipts, August 2019, Budget Red Book, October 2018



The case for reform

The UK Spirits Alliance would welcome a government review of the disparities between duty categories.

In 2014, when elasticities for spirits forecasts were last updated, on-trade spirits were found to be among the most price-elastic types of alcohol. This suggests two things: that spirits are sensitive to any disadvantage caused by differential treatment to other categories, and that reducing or freezing spirits duty would deliver increased revenues to the Treasury – which has been reflected by the real-world numbers. This strongly suggests that a freeze and reform is likely to increase revenues.

Health guidelines based on per-unit guidance do not currently discriminate between different categories of alcohol, but the duty system does. This has led to a situation where spirits are taxed far higher per unit than any other alcohol category – a consumer drinking the recommended maximum amount of 14 units per week of wine would be taxed £3.36. If the same consumer drank 14 units of our homegrown national drinks such as gin or Scotch Whisky they would pay £4.06: more than 20 per cent extra. We don't believe that the Government should penalise our consumers in this way, or that the duty system should shape choices about which categories of alcohol responsible consumers choose to drink.

The UK spirits industry wants to work together with the government to create a reformed duty system: one that safeguards our importance to the UK economy and public finances, provides stability and confidence for distillers of all sizes across the country, and promotes competitiveness and fairness.



The present – and the future

The last decade has seen transformative change in the UK drinks market. Spirits have been at the forefront of this – both driving change and adapting to it – and as a result have outperformed traditional markets such as beer and wine for a number of years.

Overall volumes of alcohol consumed in the UK have shrunk, but consumers have also made more premium choices. Similarly, the emphasis on provenance and locality has seen small producers pop-up and expand exponentially across the country, while the desire for new and interesting products coupled with significant investment and innovation has brought new drinks to market with great success.

There has also been rapid growth in the 'third space', experience-led offering, such as outdoor events, festivals and experiences. 50 per cent of suppliers in the on-trade have festivals and other events as top marketing targets for the year⁷.

As revenues from other categories of alcohol fall into decline, UK spirits provide reasons for optimism. A freeze and reform of spirits duty would help to place excise duty revenues on a sustainable footing for the future, as well as creating an environment in which spirits can continue to flourish.

CONCLUSION

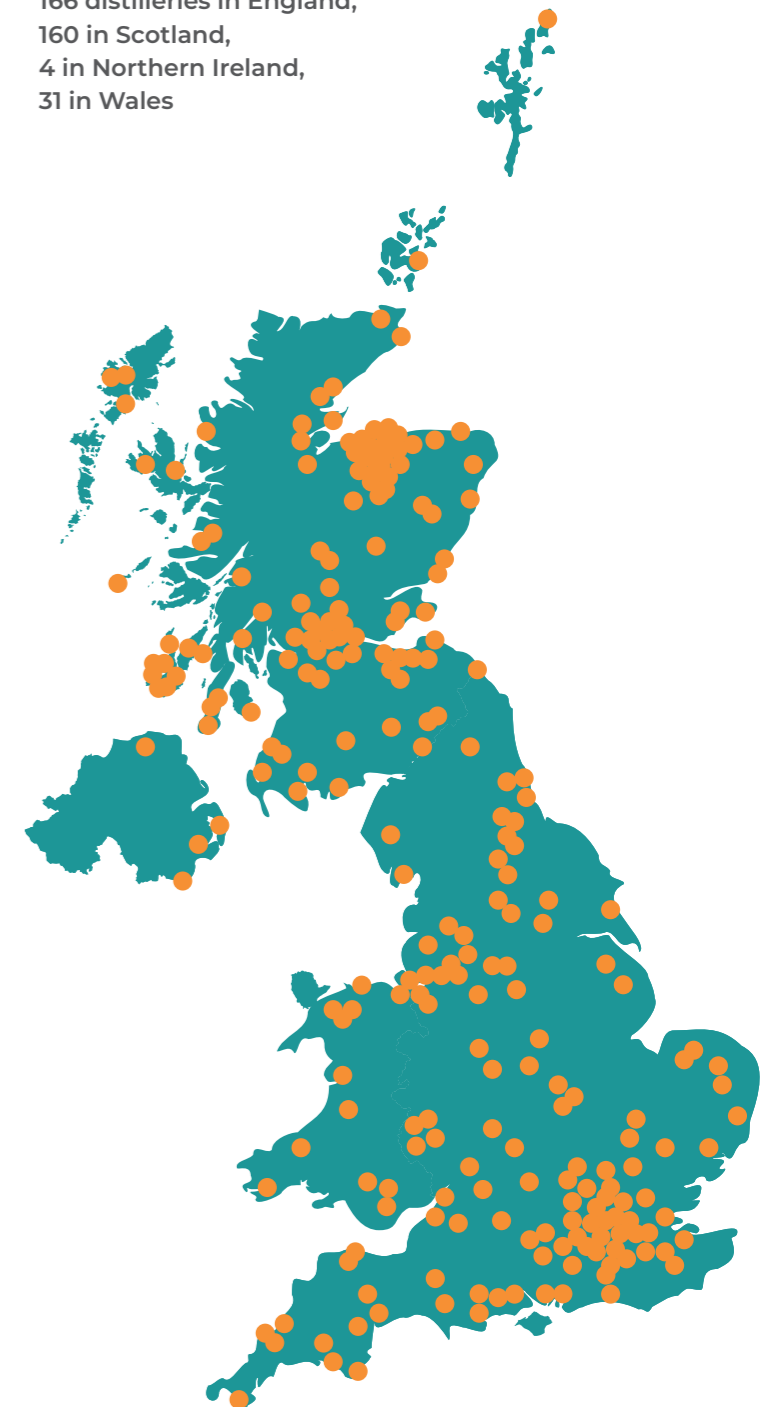
Back growth, back jobs, back UK success, back spirits

UK spirits' success has been underpinned by government in recent years through a stable duty system. The Chancellor can deliver on his ambition for fairer, simpler taxes and backing the UK's winners through a bold approach to spirits excise duty in this year's Budget – first freezing it for the expected lifetime of this parliament (2022), then working with the industry to reform it.

The last decade of spirits duty revenues shows that lower spirits duties deliver higher revenues – as well as high investment, more jobs, new exports and economic growth. As government has lowered the duty burden in the last few years, it has seen revenues increase by far more than in the periods where spirits duty was steadily increased.

With supply chains that stretch the length and breadth of the country, UK spirits has been a truly national success story. Distillers are operating from the Isle of Wight to the Isle of Skye, from Cornwall to Inverness, in all four nations and all corners of the country – and across the UK, the confidence and stability created by a stable duty regime creates investment and growth.

Registered distilleries in the UK:
166 distilleries in England,
160 in Scotland,
4 in Northern Ireland,
31 in Wales

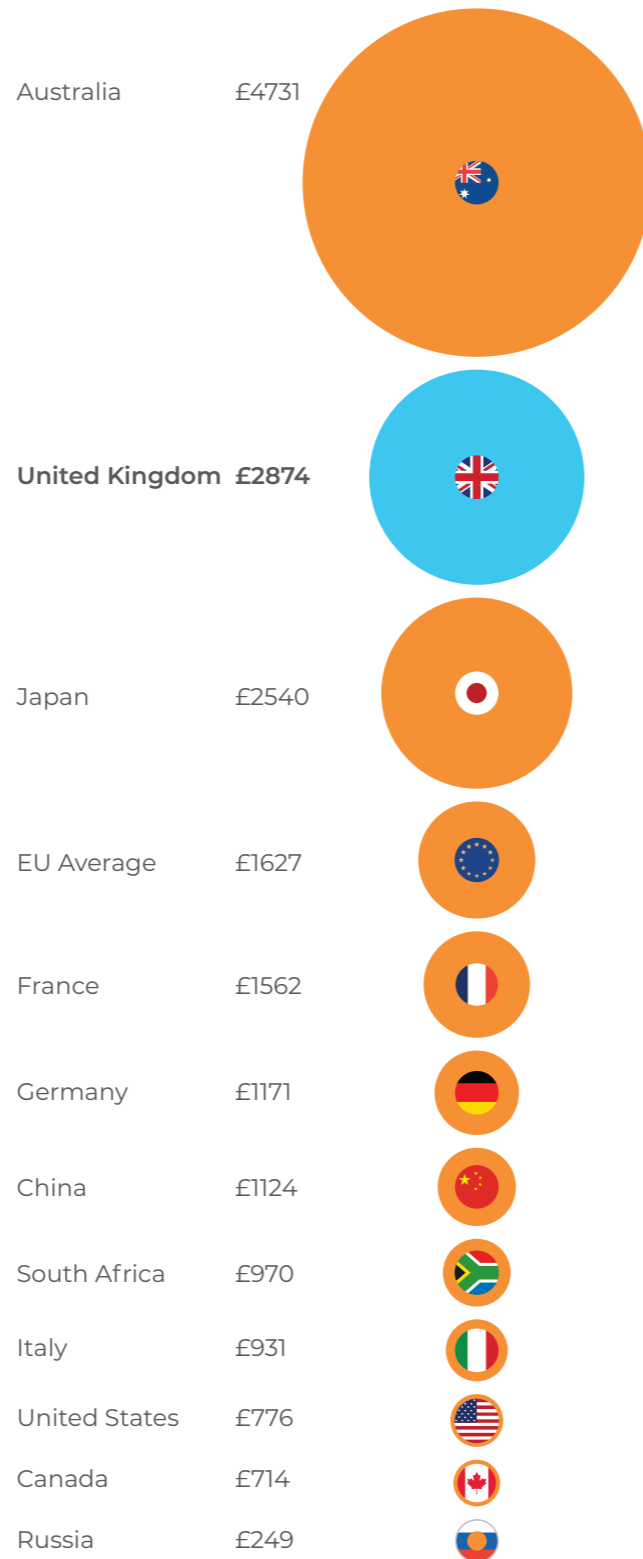


At this crucial juncture in the UK's history, as the government seeks to turn outwards to the world and create new trading relationships, freezing and reforming spirits duty would also help increase global competitiveness for an industry that is already a world-leader. Three in every four bottles of gin imported worldwide are made here in the UK⁸. Spirits make up 20 percent of UK food and drink exports. 70 percent of UK distillers hope to increase the amount they export⁹. As the UK prepares to embark on a fresh approach to global trade, a duty freeze would also show unambiguous support for an industry flying the flag for UK plc. But one of the biggest barriers to tax reform in our export markets is the level of duty we set here in the UK – currently one of the highest rates in the world. We should lead the way for other countries in this area – not least because increased exports will enable us to grow our contribution in the UK.

Alcohol and drinking has changed and will continue to change. Our industry supports responsible drinking and – while there will sadly always be a small minority of people who abuse alcohol - we believe that we can continue to be at the forefront of encouraging people to drink less but drink better through high quality, premium products.

The success of UK spirits means benefits for the UK economy through jobs, supply chains, tourism, investment and government revenues. We ask government to support us by backing jobs, backing growth, and backing a UK success story: freezing and reforming spirits duty in the Budget to show that UK spirits mean business.

Spirits duties around the world
Per hectolitre of pure alcohol



For more information please contact the UK Spirits Alliance on:

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-  @spiritsalliance

¹ 'England has more distilleries than Scotland for first time in history as gin boom drives increase', The Telegraph: <https://www.telegraph.co.uk/news/2019/01/24/england-has-distilleries-scotland-first-time-history-gin-boom/>
² Diageo Drinks Report 2019
³ 'Sajid Javid promises a simpler tax regime', Financial Times: <https://www.ft.com/content/0d7c84e2-c0d1-11e9-a8e9-296ca66511c9>
⁴ Survation polling on behalf of the UK Spirits Alliance of 58 UK based companies about their UK distillery operations, 25th June -10th July
⁵ HMRC, UK alcohol duty statistics, July 2019 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/827842/2019_JUL_UK_Alcohol_Stats_Commentary.pdf
⁶ <https://www.wsta.co.uk/images/Budget/2018/ExciseDutyRates2000to2019.pdf>
⁷ CCA Business Leaders Survey 2018
⁸ 'British Gin is taking over the world' – Morning Advertiser <https://www.morningadvertiser.co.uk/Article/2016/11/04/British-gin-is-taking-over-the-world>
⁹ Survation polling

The number of distilleries in the UK has doubled in five years

- Wales
- Northern Ireland
- England
- Scotland

