



# UKSA Budget Submission January 2024





The UK Spirits Alliance (UKSA) is a coalition of over 280 small distillers and hospitality venues, formed in July 2019, bringing together members of the world-renowned UK spirits industry to campaign for a reduction in the excise duty burden borne by a flagship national product.

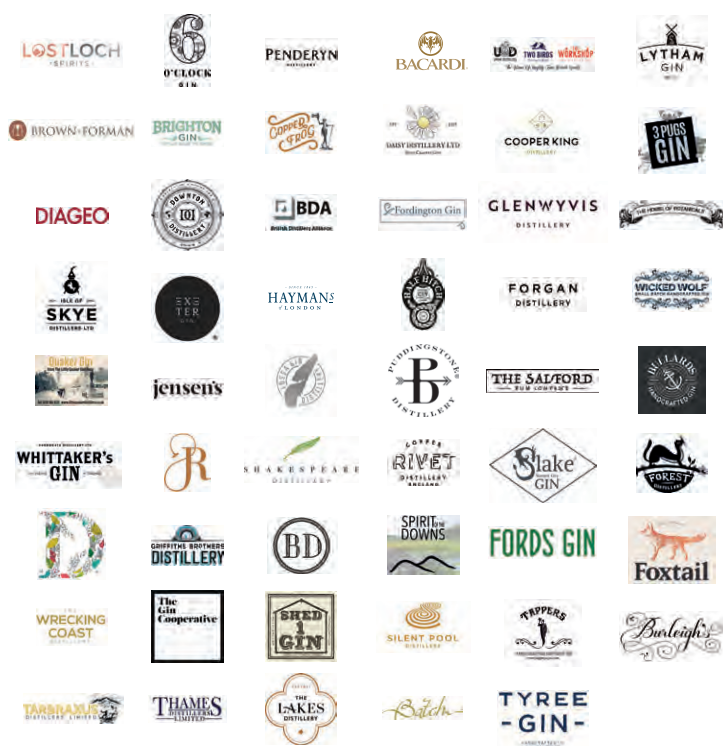
Our supporters and members include the British Distillers Alliance and the Gin Cooperative. Supporters include local distilleries and micro-businesses and internationally recognised brands such as Diageo, Bacardi Martini, and Brown-Forman.

### Our Ask

UK spirits such as gin and Scotch Whisky are the highest taxed category of alcohol in the UK, with 80 percent of the cost to a consumer of an average bottle claimed by the Exchequer in tax. On 1 August 2023 duty increased by 10.1%, which means that UK spirits duty remains 77% higher than the average across EU member states and the highest in the G7. While we warmly welcomed the freeze to spirits duty announced at the Autumn Statement, the current rate of duty remains at an unsustainable level for UK spirits drinkers, hospitality venues and British spirits producers.

We therefore urge the Chancellor to cut spirits duty and reduce the gap in duty rates between spirits and other categories in the forthcoming Spring Budget. Not only will this relieve pressure on household budgets and support struggling pubs, bars, and restaurants, but it will also support our homegrown spirits sector to invest and grow in the UK, laying the ground for the ongoing success of the 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  
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  
Salford Rum Company  
3 Pugs Gin  
Lytham Gin  
Tyree Gin  
Union Distillery  
Adnams  
Downton Distillery  
Slake Spirits  
Burleighs Gin  
Foxtail  
Fords Gin  
Bullards Gin  
Forgan Distillery  
Glenwyvis Distillery  
Cooper King Distillery

## SUPPORT SPIRITS, SUPPORT THE UK

The UK spirits industry has been a national success story over recent years, investing heavily in innovation and growth to back the British economy and support new jobs. Overall, the industry supports over 446,000 jobs and contributes £13 billion to the UK economy. It also plays a vital role within the UK's iconic hospitality and tourism sector, an industry which in turn provides thousands of jobs across the UK.

Spirits, including world-renowned Scotch Whisky, are a strategically important sector of the economy, particularly to Scotland, and they fly the flag for the UK at home and abroad. The UK itself is a world class distiller, and we should be proud of this.

Distillery numbers have grown from 190 to 930 in the last eight years alone, and distillers have continued to meet the growing demand from consumers for more premium choices. Many have also chosen to expand into hospitality, placing greater emphasis on the provenance of their product, its heritage, and the experience that comes with it, both in and out of the home.

This growth extends right across the country from the Scottish Highlands to Cornwall, from Anglesey to the South East of England. The effects of this investment and growth are felt right across the UK spirits supply chain, supporting levelling up across the UK with more jobs, more opportunities and more economic growth.

The sector, however, has faced much uncertainty in recent years due to a rising cost of living, enhanced business costs, and the highest duty increase that the sector has seen for 40 years in August 2023, which the industry is still reeling from.

This has resulted in consumers paying more, hospitality venues still suffering and UK distillers struggling to cope with the cost of doing business. In October 2023, the UK Spirits Alliance surveyed our members, and found that:

- 54% say they have either not recovered or only partially recovered from COVID.
- 40% of businesses reported a decrease in sales as a result of rising duty.
- Almost two thirds (61%) expect to cut the amount of spirits they produce.
- A further 70% of distillers fear their ability to invest in business improvements such as production capacity and innovation will be impacted by the increase in duty.
- Worryingly, 43% warn that the rising duty will have an impact on their staffing levels.

We can see very clearly from this data that the current level of duty has resulted in uncertainty in the sector, stymieing innovation and growth. Indeed, despite the rising in distillery numbers over the past eight years, this growth has slowed since 2021 as the numbers climbed by just 10 between 2022 and 2023, compared by a growth of over 100 in the previous one year period\*.

Support for the sector from the Treasury via a cut to duty will continue to create fertile conditions for growth. Furthermore, new jobs and sustained investment will provide revenues for the Treasury.

\*<https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/ukbusinessactivitysizeandlocation>

## THE IMPACT OF A DUTY INCREASE

The recent freeze on alcohol taxation at the Autumn Statement was a relief to the industry, however, consumers, distillers and hospitality still feel that duty rates remain unsustainably high.

The Government's decision to hike duty in August 2023 penalised this growing industry and the wider hospitality industry. The 10.1% duty raise - the largest in 40 years - resulted in alcohol making the largest contribution to inflation in 17 years. December 2023 marked a 9.6% rise in prices since the same point in December 2022 [Source]. This passes on increased costs to businesses and consumers at a time when they continue to feel it most: in the pocket.

As a result of the current high rate of duty, 61% of distillers now fear they will have to cut production, with over 70% saying they will have to cut back investment because of the duty rise.

The fact also remains that spirits face a disproportionately high tax burden in comparison to other categories

of alcohol. The Brexit Pubs Guarantee, by providing relief to beer and cider sold in draught format, actively penalises consumers that prefer a spirit or a cocktail when they visit a pub, as well as impacting producers. The alcohol duty system was supposed to make it fairer for all producers, but such tax breaks have only served to disadvantage responsible spirits consumers, and hardworking producers. It is vital that the Treasury consider how to fairly support all categories of alcohol, to not advantage one group over another. It is therefore vital that any decision on alcohol duty in the Spring Budget is implemented consistently and fairly across all the categories, regardless of location or format of sale.





## INVESTING IN THE UK

Successive duty freezes over recent years have enabled investment and innovation in the industry, from both large and small producers. The current level of duty, and the disparity between the amount of duty levied on beer and spirits, will stymie this investment our producers have been able to make in the past and would like to continue to make.

### Cooper King Distillery:

Chris and Abbie Jaume, co-owners of Cooper King Distillery, established their distillery in 2016. Last October they launched England's first net zero energy whisky and have previously launched England's first carbon-negative gin. They are pioneers of sustainable spirits and have been able to continually invest in their business due to successive freezes in duty.

Chris Jaume, Co-Founder & Director of Cooper King Distillery in York, said:

*"British drinkers have embraced locally made gin and whisky, and I'm proud of what we have achieved.*

*"It's been a difficult few years grappling with COVID, spiralling costs and a cost of living crisis, and we've now been hit hard by the duty rise that came into effect on 1 August. It's driving up the price of our spirits, harming the valued hospitality venues we supply, and is effectively an unfair tax on consumers who want to support their local distillery.*

*"If duty continues to rise, we'll see demand and production drop, and our green investments stall. I'm just one of hundreds of distillers across the country who are worried for their future. The Chancellor must cut duty on spirits in the Spring Budget and support our sector."*

### Diageo:

Diageo's £185 million investment in Scotch Whisky tourism has seen the recent opening of the flagship Johnnie Walker experience in the heart of Edinburgh, alongside upgrading 12 other distillery visitor centres. This investment helps to bolster the reputation not just of the industry, but of our produce and tourism offering, right across the world.

### Brown Forman:

Brown-Forman recently announced over £30m investment in The GlenDronach Distillery to significantly increase production facilities at its homeplace in the Valley of Forgue in Aberdeenshire. The investment will steward long-term future growth and is the second phase of investment by Brown-Forman in the historic distillery after renovations of its visitor centre in 2020 and builds on other recent investments including at a bottling plant in Newbridge, Scotland and a new UK headquarters in London.

These distilleries and new venues are creating highly skilled jobs across the UK, in the distilleries themselves and their supply chains.

As mentioned, recent polling shows that 70% of distillers fear their ability to invest has been impacted by the rise in the duty. This type of investment supports jobs and growth in local communities and is an important part of the fabric and culture of places and people across the UK.

## BACKING BRITISH HOSPITALITY AND BRITISH CONSUMERS

By supporting the UK spirits industry, through delivering a cut in spirits duty, the government will also be supporting the UK's hospitality venues and in turn their customers.

### Hospitality

Pubs, bars, and experience-led venues have been crucial areas of growth for the spirits industry. Over the last 5 years, spirits have been the fastest growing category in the on-trade and now makes up for a third of serves of alcohol in our bars and restaurants. Indeed, Diageo set out research in January 2023, which showed that one in five consumers now choose cocktails as their drink of choice in hospitality settings\*.

As stated, however, the continually high levels of alcohol duty will stymie this growth and have driven up prices across the board for hospitality venues. In addition, the Government's announcement of a Brexit Pubs Guarantee doesn't reflect modern consumption or how people choose to enjoy themselves.

With spirits becoming an increasing part of the on-trade over the last decade, by choosing to support only beer and cider makers while raising taxes on other products, the Government is hurting our pubs and bars and those consumers who choose to enjoy a cocktail, spritz or gin and tonic. This is an outdated view of modern drinking trends and how pubs, bars and restaurants operate, and the Government should seek ways that better support the industry.

From supply chain issues to staff retention, the economic strain on hospitality remains acute. We believe that it is vital the Government continues to support our world-famous hospitality businesses through this difficult period, but we must ensure it is supported in a way that reflects how people drink and enjoy those businesses and not just through targeted support for some high-volume beer and cider products. British hospitality and produce rightly draws in millions of people from across the globe and is at the heart of our offering to tourists, and the culture, heritage and tradition of the people who live in the UK.

### Consumers

Consumers across the UK are increasingly choosing to drink less but better, often opting to spend their money on one beautifully crafted, high-quality drink, that comes with a sense of experience and memorability. They are focused on the provenance of ingredients and their quality, and they want experiences to match. The spirits sector has long been investing in this trend, focusing on quality ingredients and experiences to

provide bespoke products and experiences that fit with the direction of travel in consumption.

For responsible consumers, these spirits are a treat and not a vice. It is important that fiscal policy reflect this fact and acknowledge that it is the quantity and frequency of alcohol that is consumed, rather than the type of drink, that matters when considering how to tax alcohol and account for the health of the British public.

According to Drinkaware's drinks calculator\*\*:

- A single 25ml serve of spirits [40% ABV] will contain 1 unit.
- A pint of beer [4% ABV] will contain 2.3 units.
- A glass of 175ml wine [13% ABV] will contain 2.3 units.
- A pint of cider [4.5% ABV] will contain 2.6 units.

We urge the Treasury and other policy makers to consider modern consumption trends when making changes to the excise system and recognise that spirits should not be treated differently to any other category of alcohol, especially when considering the context in which it is drunk.

The decision to hike duty and maintain it at such a high level, has added to the inflationary burden consumers are feeling. As the ONS reported on recent inflation figures "The largest upward contributions to the annual CPIH inflation rate in August 2023 came from housing and household services, and food and non-alcoholic beverages." Alcohol prices jumped 3% in the last month of the figures, compared to 0.8% a year earlier. Not only has this duty hike put huge pressure on hospitality owners trying to attract footfall, but has meant that for many consumers, have a gin and tonic or a cocktail in a pub or with a meal is becoming an unaffordable luxury thanks to the Treasury.

As the Exchequer Secretary noted in her foreword to the Call for Evidence for the Alcohol Duty Reforms back in 2021: "these days a consumer might wish to have a cocktail spritz in the pub beer garden as much as a cask ale, or a gin and tonic with their evening meal instead of a glass of wine." Yet the new alcohol duty regime, in place from August 2023, has only made things more difficult for consumers and our hospitality industry.

This has added an additional cost burden to the UK public on something they have invested in and enjoy and has dented industry confidence and damaged the growth and innovation of the industry, with some 77% of distillers saying they expect a fall in consumer demand for their products following the duty rise.

\*<https://www.dailymail.co.uk/femail/article-11681467/Nineties-nostalgia-fuels-demand-fancy-drinks-one-five-pubgoers-prefers-them.html>

\*\*<https://www.drinkaware.co.uk/tools/unit-and-calorie-calculator>





## CONCLUSION

Spirits are the highest taxed category of alcohol in the UK. As it stands, 80% of an average spirits bottle is taken as tax.

Ahead of the Spring Budget, the UK Spirits Alliance is calling for a cut to spirits duty, and a reduction in the gap between duty on spirits compared to other alcohol categories. We call for further recognition of the fact that the spirits industry is unfairly disadvantaged in comparison to other categories of alcohol in the UK.

We warmly welcomed the freeze to spirits duty put in place at the Autumn Statement, but the current rate of duty remains at an unsustainable level for spirits producers, hospitality venues, and consumers.

A cut to duty would support the further growth amongst the UK's distilling industry, providing a boost to one of our vital sectors for the UK's economy and culture. It would also support a currently struggling hospitality sector, for whom a cut in duty would represent an unnecessary cost slashed. For consumers, the high price of alcohol has kept the cost of a basket of goods too high, for too long. For responsible consumers, spirits are a treat as opposed to a vice. The current level of duty has hit the pockets of hardworking people, and it cannot continue.







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