UKSA Budget Submission September 2024

UK Spirits Alliance

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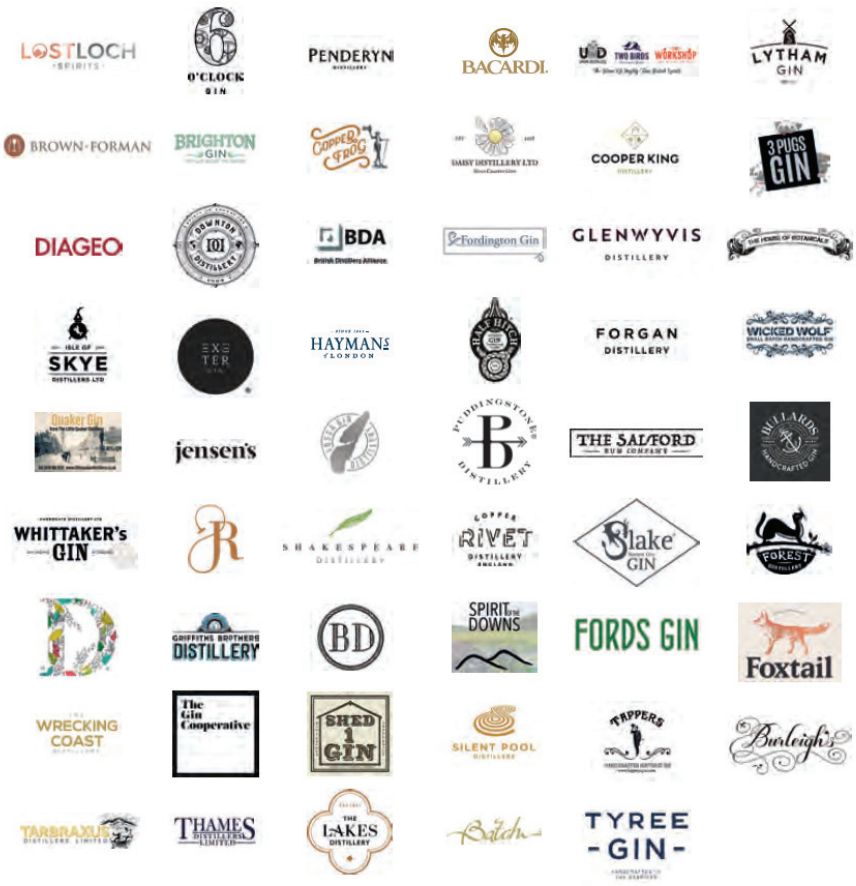
The UK Spirits Alliance (UKSA) is a coalition of over 280 small distillers and hospitality venues, formed in July 2019, bringing together members of the world-renowned UK spirits industry to campaign for a reduction in the excise duty burden borne by a flagship national product.

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.

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

The UK Spirits Alliance supports independent distillers across the country

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.

Economic research suggests that the sector supports over 446,000 jobs and contributes £13 billion to the UK economy. It also bolsters hospitality, in turn creating thousands of jobs across the UK.

Our members include the British Distillers Alliance and the Gin Cooperative and internationally recognised brands such as Diageo, Bacardi Martini, Campari and Brown-Forman. Supporters include local distilleries, such as Copper Rivet distillery, and micro-businesses, such as the Tamesis Dock in Westminster.

UK spirits such as Gin and Scotch Whisky are the highest taxed category of alcohol in the UK, with over 70 percent of the cost of an average bottle claimed by the Exchequer. On 1 August 2023, the previous government increased duty, against warnings from the sector, and UK spirits duty now remains 77% higher than the average across EU member states and the highest in the G7.

This has had a crippling effect on the industry and consumers. It has left the Treasury nearly £300 million worse off so far, and these losses will likely continue to increase until the decision by the previous government is reversed.

We welcome the fact that the new Labour government has rightly voiced its support for the industry and the hospitality sector through its plans to back pubs. The Chancellor's five-point plan to save Britain's pubs promised to "turn the page" for the industry. During the General Election, the Chancellor reminded voters she had "always supported cuts and freezes in duties" and she "would want to make it as easy as possible for pubs to carry on operating on our high streets" should she enter office. Reversing the damage done by last year's hike would have the single biggest impact on boosting our industry and ensuring that it continues to innovate and drive growth.

> *It's time to recognise that pubs are more than just pints. We're proud that our customers come for our great G&Ts. Cutting alcohol duty in the budget will not only help pubs and distillers grow and create wealth, but it will also raise money for the Chancellor who has a serious financial blackhole to plug.*
>
> **Megha Khanna, Owner of the Gladstone Arms, London**

Our Ask

At the upcoming Budget, we are calling on the new Government to:

- Unwind the damaging duty increase imposed by the previous Government
- Set the industry on a course to tax fairness by successively reducing the duty burden on spirits to the EU average by the end of this parliament
- Review the reforms to the duty system implemented by the previous Government, ensuring fairer treatment for responsible consumers who choose to enjoy a spirit over a pint

We know that there are significant pressures on the economy and the public purse. However, we are not simply asking for a "normal" tax cut. We are asking the Chancellor to reverse the hugely damaging tax policy introduced by the previous government which has had disastrous economic impacts for a key growth industry and which cost the Exchequer hundreds of millions. Reducing the duty burden will in fact bring in more money to the Treasury.

The following representation sets out the reasons why we are calling for a cut to the duty levied on spirits, and the benefits this will bring to the UK economy.

Reforming the tax model will deliver more growth and more money for the public purse

The previous Government's decision to hike duty in August 2023 penalised this growing industry and the wider hospitality sector. The 10.1% duty rise - the largest in over 40 years - resulted in the price of alcohol beverages making the largest contribution to inflation in 17 years. This resulted in increased costs to businesses and consumers at a time when they continue to feel it most: in the pocket.

Recent research, from July 2024, also highlights the impact of increasing spirits duty. The research looked at the past eight March Office for Budget Responsibility (OBR) forecasts to assess the impact. The research found that:

- In the six years where duty was frozen or cut, duty receipts exceeded the OBR's forecast on four occasions and fell short twice
- On average, the outturn in those four years exceeded the forecast by £128 million
- In the two years where duty was raised, receipts fell short of the OBR forecast

This demonstrates that there has been a consistent and systematic underestimation of the positive revenue impact of duty freezes or cuts. This is also evidenced by the OBR's revisions from its latest forecast in March 2024 showing an underestimation of the spirits consumption vs. duty rates and prices, where receipts were revised down by 7.7%.

Since the hike in August 2023, the HMRC alcohol duty receipts from August 2023 – July 2024 shows that rather than raising more money for the Exchequer, the rise has resulted in a £298 million loss of spirits duty and counting (since the same period last time). The loss to HMT will continue to grow until this damaging decision is reversed.

As well as this, the previous Government's decision to increase excise duty was a major contributor to the rate of RPI inflation. Specifically, ONS data shows that alcoholic beverages contributed 0.35% to the 2.9% rate of RPI inflation. Using the OBR's debt interest ready reckoner, this suggests that alcoholic beverages would have added £2.3 billion to the interest the Government has paid this year on its debts.

On top of a loss to the Treasury, the sales volumes of spirits were down 7.9% in the first quarter of 2024. Further, new data also shows

that spirits exports declined following the hike to £6.8 billion from £7.5 billion. This demonstrates the huge and widespread impact that this has had on the industry, hurting each layer of the supply chain.

The current system is not fair for consumers. Pubs are more than pints and spirits represent a major revenue stream.

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 make up for a third of serves of alcohol in our bars and restaurants – generating substantial revenues for the hospitality sector across the board. Diageo previously set out research which showed one in five consumers now choose cocktails as their drink of choice in hospitality settings.

Consumers across the UK are increasingly choosing to drink less but better. They are focused on the provenance of ingredients and their quality, and they want experiences to match. Spirits have been a national growth success story because the industry has invested heavily in responding to consumer trends to focus on quality ingredients and experiences to provide premium products and experiences that fit with the direction of travel in consumption.

However, the current duty system does not take account of changing consumer preferences and is highly inconsistent and discriminatory against the spirits sector, with spirits more highly taxed per unit of alcohol than any other category – 16% more than wine (the vast majority of which is imported); 256% more than cider, and up to 66% higher per unit of alcohol than beer duty. In fact, a 4% ABV pint of beer has more units of alcohol than a double gin and tonic, meaning that the same alcohol content is being taxed at vastly different levels.

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

The Conservative's 'Brexit Pubs Guarantee', which introduced draught relief, did little to ease the cost burden on pubs and hospitality, and drinks are increasingly unaffordable for consumers. For example, the alcohol content of some beer brands was lowered by manufacturers from 3.6% to 3.4% resulting in just a 5% reduction in alcohol content but benefitting from a 58% tax reduction under the reformed excise system. Reducing the alcohol content from 2 units to 1.93 units, which is the case the above example, makes little difference to people's overall alcohol consumption but has already had a drastic impact on HM Treasury revenue.

The changes introduced by the previous government were based on the unsubstantiated premise that higher strength products are more associated with harm, and should therefore be taxed at a higher rate. However, there is no evidence to support this premise and it ignores the fact that what counts is the amount of alcohol a consumer drinks, not the liquid in which it is contained. As noted above, a standard pint of beer contains more alcohol than a gin and tonic or a glass of whisky, given that spirits are served in smaller measures and often diluted with mixers, yet the consumer pays far more in tax. We do not see any logic to this position. The majority of those who choose to drink do so responsibly and within the CMO low risk drinking guidelines, which are the basis of HM Government health policy. Those guidelines do not discriminate between alcohol categories and advise consumers that they should not regularly consume more than 14 units of alcohol a week, yet our tax system penalises those who prefer to consume a spirit-based drink rather than a pint.

By choosing to support only beer and cider makers while raising taxes on other products, the Government is hurting our pubs, bars and those consumers who choose to enjoy a cocktail, spritz or gin and tonic. This is an outdated view of our hospitality industry, and the Government should seek ways that better support the industry.

Investing in spirits, means investing in the growth of the UK economy

The UK Spirits Alliance represents an industry that has been a national success story over recent years, investing heavily in innovation and growth to drive the UK economy and support new and highly skilled jobs.

Spirits, including world-renowned Scotch Whisky, are a strategically important sector of the economy and are central to the cultural identity of the UK, particularly to Scotland. Scotch Whisky alone makes up 22% of all UK food and drink exports. The UK is home to many a world class distiller and even small English gin producers are now internationally renowned brands and major exporters. This is a sector we should be proud of and encourage.

Distillery numbers have grown from 350 to 1,050 in the last seven 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 nations, 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 the UK with more jobs, more opportunities and more economic growth.

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.

The spirits industry can be a powerhouse industry and help drive the growth that the Labour Government has been calling for. This new Labour government has an opportunity to change the direction of a once-thriving but currently hampered sector and unlock the industry's contribution to economic growth in the UK.

Having been in the business for three years before being hit by the impact of Brexit, the Covid pandemic, global supply chain issues and a cost-of-living crisis, the last thing we needed was a government-imposed tax hike which ironically, ultimately saw their excise revenue from alcohol sales drop.

Ben Marston, Co-Founder of Puddingstone Distillery in Hertfordshire

Conclusion

Spirits are the highest taxed category of alcohol in the UK. As it stands, over 70% of the price of an average bottle of spirits is taken as tax. Despite an increase in alcohol tax last summer, the Treasury is nearly £300 million worse off.

Ahead of the Budget, the UK Spirits Alliance is calling for last year's duty increase to be reversed in other to optimise revenue for the Treasury and demonstrate further recognition of the fact that the spirits industry is unfairly disadvantaged in comparison to other categories of alcoholic beverages in the UK.

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 which a cut in duty would represent welcome relief. For consumers, the high price of alcohol has driven 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.

Furthermore, UK spirits can also contribute significantly to the Government's Mission to kickstart economic growth. We want to work with the Government to create the supportive policy environment our industry needs which is imperative to ensure the sector thrives at home and abroad.

The Chancellor has the power to re-energise this sector and support smaller and medium sized businesses up and down the country. Indeed, the Business Secretary recently commented that "small businesses are the beating hearts of our high streets and communities, and they are essential to economic success and our growth mission. We want growth in every part of the UK, and small businesses have an enormous role to play in that".

This is an opportune moment to be bold, correct the Conservative government's mistake, and back the spirits industry to achieve our shared ambition of future economic growth.

UK Spirits Alliance

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