Budget Submission 2014:
Supporting a Great British Industry

THE WINE AND SPIRIT TRADE ASSOCIATION

wsta
THE WINE AND SPIRIT TRADE ASSOCIATION
Executive Summary

The UK’s wine and spirit industry is a great British success story. It contributes significantly to the UK’s GDP and balance of payments. It is a source of crucial tax revenues. It supports jobs through the production and sales of products and in the wider supply chain through the logistics, marketing and bottling industry. It provides skills to workers through apprenticeships and training. It sustains world renowned educational qualifications. But most importantly, it is an important part of the social and historical fabric of our country.

Yet the industry has been facing serious and sustained challenges over the past few years. With the economic crisis hitting consumer confidence and the ability of companies to invest and grow, the industry has had to work hard to stay profitable. Yet over the same period, the Government has continued to target wine and spirits consumers with unfair cumulative tax rises year on year through the unpopular Alcohol Duty Escalator (ADE). With producers particularly having increasing difficulty winning future investment in the UK in comparison to other markets, because of the abnormal growth in retail prices due to these tax increases.

The purpose of the submission is to showcase the value and the contribution made by the wine and spirits industry to the UK, including its contribution to taxation, to jobs and skills and the wider economic and social benefits. It also seeks to explain the damaging effect the duty escalator is having on the industry and how, by removing these barriers, the Government can support the industry to grow.

The WSTA budget submission calls on the Government to:

- Commit to scrapping the Alcohol Duty Escalator immediately and for good
- Give hard pressed consumers the break they deserve by freezing wine and spirits duty
- Continue to work closely with the industry to tackle alcohol fraud, counterfeit alcohol and illegal sales
- Continue to work with industry on the Public Health Responsibility Deal and its social responsibility agenda
Five reasons to scrap the Escalator:

1. Since 2008, UK consumers have faced 50% rises in wine duty and 44% rises in spirits duty.

2. Tax now accounts for 57% of the average bottle of wine and 79% of the average bottle of spirits in shops.

3. UK consumers pay a staggering 38.8% of all alcohol duties collected in the EU, more than France, Germany, Italy, Poland and Spain combined.

4. Scrapping the Escalator would increase the contribution to public finances by £230m and create 6,000 new jobs.

5. Wine and spirits are worth £5.5 billion to pubs in the UK. Scrapping the Escalator would provide a significant boost to the pub industry.

Since 2008, UK consumers have experienced significant price increases in alcohol:
- 50% rise in wine duty
- 44% rise in spirits duty

UK consumers pay a staggering 38.8% of all alcohol duties collected in the EU, more than France, Germany, Italy, Poland and Spain combined.

Scraping the Escalator would increase the contribution to public finances by £230m and create 6,000 new jobs.

Wine and spirits are worth £5.5 billion to pubs in the UK. Scrapping the Escalator would provide a significant boost to the pub industry.
Introduction

About us
The Wine and Spirit Trade Association (WSTA) is the UK organisation for the wine and spirit industry representing over 340 companies producing, importing, transporting and selling wines and spirits. We work with our members to promote the responsible production, marketing and sale of alcohol.

The wine and spirit industry
The UK has a proud history of spirit production, with some of the world’s most iconic brands developed and produced in the UK. British spirit products are being exported all over the world and we are now leading the way with innovation and product development. The UK also boasts some of the most exciting, emerging wines in the world. With English wine producers continuing to grow and produce wines that now compete with the best in the world.

Did you know?
- Gin was first introduced to the UK in 1688
- Modern English sparkling wine production started in the 1950s
- The UK is the largest provider of wine and spirit education in the world
- The UK is the sixth most important market for global wine sales
- 93% of the value and volume of gin sold in the UK is domestically produced
Industry at a glance

Production

There are now 210 registered distilleries in the UK¹

152 in Scotland
50 in England
7 in Wales
1 in N Ireland

There are now 448 commercial vineyards in the UK²

131 wineries produced 3 million bottles in 2011 = one bottle of wine for every 17 UK adults

Sales in the UK³

1.7 billion bottles of wine sold in 2012
Down 2.6% since 2011

267 million litres of spirits were sold in 2012
Down 0.7% since 2011

33 million hectolitres of alcohol was sold in the off trade in 2012/13 with a total value of £15 billion

27 million hectolitres of alcohol was sold in the on trade in 2012/13 with a total value of £23 billion
The alcohol industry is worth £38 billion in the UK compared to the total grocery market of £170 billion.

In 2012/3, the wine and spirit industry directly or indirectly supported over £40 billion of economic activity in the UK.

Economic activity supported by the wine and spirit industry in the UK:
- £18bn attributable to activity directly related to the wine and spirit industry
- £22bn generated through indirect and induced channels

This economic activity translates into a Gross Domestic Product contribution of £20 billion.

The wine and spirit industry’s contribution to GDP:
- 53% wine and spirit industry’s direct contribution to GDP
- 38% generated through the industry’s supply chain
- 9% induced consumption of industry employees
Employment contribution

The wine and spirit industry is a vital employer in the UK, directly or indirectly, supporting around 475,000 jobs in vineyards, distilleries, bottling plants, logistics companies and small retailers.

650,000 people are employed in the production and retailing of alcohol.

1.1 million UK jobs are supported in the wider economy.

69% of these jobs are directly dependent on the industry’s activity.

Between 2007 and 2008 the industry created over 50,000 new jobs. However, since the escalator was introduced in 2008 - this growth has declined year on year, so that growth was just 6,000 from 2011 to 2012.

18% of direct employment in the European Spirit industry is in the UK - the highest contribution of any Member State.

References:
1. HMRC Registrations, September 2013
2. UK Vineyard Register, 2013, Census 2011, WSTA analysis
3. CGA Strategy and Nielsen Data, WSTA Market Report, September 2013
4. CGA Strategy, Nielsen, HMRC and ICG Research 2013
5. Alcohol Duty Escalator Economic Impact Assessment, Ernst & Young, October 2013
7. CEPS and Ernst and Young, December 2010
Wine and spirits: vital to the success of the British pub

With the changing nature of pubs, wine and spirits continue to play an increasingly important role in their survival. Over 26 million people regularly drink wine in pubs, bars and other on-trade premises consuming over 253 million bottles of wine and 100 million litres of spirits.

This is also the case for the pub trade in particular, which is becoming increasingly reliant on the sale of wine and spirits as they diversify in an attempt to meet changing consumer demands and survive in difficult market conditions. In a sign of this diversification, over the past year over £1bn meals were served in British pubs.

Yet pubs up and down the country are still struggling and in 2011 were closing at the rate of 25 per week. In the 2013 budget the Chancellor recognised the negative impact the escalator had been having on the industry and, in an attempt to support pubs, provided a tax break for the beer industry. However, despite this intervention, it is estimated that the overall tax burden on pubs, bars and restaurants still increased by around £34m in the last year alone. This is due to the significant duty increase on wine and spirits which more than off-set the cut on beer duty. Given the importance of wine and spirits to the pub trade - as well as the wider hospitality sector - the only way to support the industry effectively is to scrap the duty escalator on all products.

Value of wine and spirits to pubs and the on-trade
The changing nature of pubs and the on trade

New on trade openings: sales mix

- Community wet-led pubs are closing at the rate of seven for every one opening whereas Café Wine Bars account for 53% of new openings.
- There has been an increase in premium and good quality outlets rated by on trade experts CGA Strategy, with the overall reduction in pubs driven primarily due to closures of poorer quality outlets.
- The number of top quality outlets, rated gold and platinum by CGA Strategy, have increased by 6.3% since 2009.

To diversify is to survive

- Research has found that pubs, bars and restaurants increasing their range of spirits see an average uplift of 10.7% in spirits sales and a 5.5% increase in their total sales. This compares to a drop of 4.7% for those reducing their spirits range, which sees an overall sales drop of 1.7%.
- Outlets increasing their wine range are seeing a similar 9.9% lift in wine sales and a total sales lift of 4.4%. Those decreasing their range of wines see a drop off of 0.9% in their wine sales and an overall increase of just 1.7%.
- 43.7% of venues are reducing their spirits range and 59% are reducing their wine range, suggesting that they are missing out on the potential benefits of extending these ranges.
The industry in the off trade

While there is a lot of coverage about the decline in sales in the on trade, and pubs in particular, it should also be noted that sales in the off trade, including supermarkets and shops have also been in decline. Over the past year, sales of all alcohol in supermarkets and shops have declined, with wine and spirits seeing declines year on year.

This shows that there are difficult trading conditions across the industry, which is not isolated to particular products or venues but across almost all products and all sales outlets.¹⁵

---

¹ Wine Intelligence, May 2011
² CGA Strategy, WSTA Market report data, September 2013
³ British Beer and Pub Association
⁴ WSTA Analysis using HMRC clearance data, CGA Strategy sales data
⁵ CGA Strategy, sector performance and forecasting data, September 2013
⁶ Ibid
⁷ Ibid
⁸ WSTA Market Report Q4 2013, data supplied by Nielsen
The Alcohol Duty Escalator: penalising a Great British Industry

The alcohol industry is now singled out as the only industry that is still subject to an automatic duty escalator. Introduced by the last Labour Chancellor, the Coalition Government confirmed it would continue with the policy in its review of alcohol taxation in 2010.

Facts about the Wine & Spirits Duty Escalator

- The Wine and Spirits Duty Escalator has increased wine and spirits duty by 2% above inflation six times since 2008.
- In the 2013 Budget, the Escalator increased wine and spirits duty by 5.3%, adding another 10p to a bottle of wine and 53p to a litre bottle of spirits.[16]
- Since the Escalator was introduced in 2008, wine taxation has increased by 50% and spirits duty by 44% adding 67p to a bottle of wine and £2.38 on a 70cl bottle of vodka.
- Since 2010, the year the Coalition government came to power, alcohol taxation for wine and spirits has increased by 25%.[17]

Decoupling Wine and Beer

Despite the historical disadvantage compared with beer in terms of taxation (being taxed at a higher level per ABV of alcohol), wine was not given a break from the Escalator in the Budget 2013. This marked a departure from accepted practice of the UK Government to apply the same duty to beer and wine, in accordance with precedence of the European Court of Justice.[18]

While it has since been clarified by Government that legal coupling of beer and wine products remains, there is concern that the action to press ahead with the Escalator for wine and not beer in the 2014 Budget, further extending wine’s taxation disadvantage, would constitute decoupling.

Given the clarity of the law around the subject the WSTA would urge the Government not to pass on further unequal treatment by ensuring identical treatment for wine and beer at Budget 2014 and beyond.

---

16 Budget 2013, Chancellor of the Exchequer and HMRC duty rates, March 2013
17 WSTA Analysis using HMRC Duty Rates 2007 - 2013
18 European Commission vs the UK, ECJ 170/78
Overall duty burden

The wine and spirits industry makes a considerable contribution to the Exchequer in terms of revenue from alcohol duty, VAT and other taxes such as income tax, national insurance and corporation tax.

Duty Facts

- Wine duty in the UK is the equivalent to £2 per 75cl bottle of wine and £11.29 for a litre of spirits at 40% ABV.
- After duty and VAT is taken into account, 57% of an average bottle of wine and 79% of spirits in your supermarket shop is accounted for by tax.
- This compares unfavourably to our European neighbours like Spain and France, where tax on the average bottle of wine is just 21% and 20% respectively.

£17billion

= £329 per UK adult

Total contribution of the alcohol industry in duty and VAT = £17billion

In 2012/13 wine became the largest individual contributor of alcohol duty, with consumers paying over £3.5bn and Spirits consumers over £2.9bn in alcohol duty.

Including other taxes the wine and spirits industry contributed a total of £14.5bn to Her Majesty’s Treasury (HMT) in 2012.

The majority of this contribution (91%) is directly dependent on the wine and spirit industry’s activity, made up of VAT, excise duty, employment and corporation tax.

---

19 WSTA Analysis based on ONS and HMRC data, September 2013
20 HRMC Alcohol Bulletin, September 2013
21 Alcohol duty escalator Economic Impact Assessment, Ernst & Young, October 2013
22 HMRC Duty Rates, March 2013
23 Off trade data, Analysis from WSTA using Nielsen Average Price data and HMRC duty rates
UK consumers, already seeing the cost of living rise faster than wages, are the ones suffering from the high levels of taxation.

In 2012/13 UK consumers paid over €12bn in alcohol duties, of which €8 billion was wine and spirits duty. This accounts for a staggering 38.8% of all alcohol duty paid by EU consumers across member states. UK consumers pay 68% of all EU taxation on wine taxation alone, putting our industry at a huge competitive disadvantage.

UK consumers pay four times more in alcohol duty than that of its closest member state, Germany, whose consumers pay just 10% of the total at €3 billion.

UK consumers pay more in alcohol duty than consumers in France, Germany, Italy, Poland and Spain combined.

Per capita, UK consumers pay €195 in alcohol duty, the second highest in the EU and two and a half times the average of €74.

UK consumers pay 67.54% of all wine duty in the EU, a quarter of all spirit duty (24.65%), 42% of beer and 55.85% of other products like cider.

---

24 European Commission, Directorate - General, Taxation and Customs Union, excise duty tables ref 1.037, July 2013
25 Spirits Europe, Summary of Tax Rates of Alcoholic Beverages in Europe, October 2013
26 European Commission, Directorate - General, Taxation and Customs Union, excise duty tables ref 1.037, July 2013
Case Study: The London Distillery Company

Founded in 2011, The London Distillery Company is a boutique distillery based in Battersea.

They have been producing Dodd’s Gin since spring 2013 and have been granted London’s first distilling licence to produce single malt whisky in over a century. Its initial spirit flowed from the still in December 2013.

The London Distillery Company has calculated that, should the duty escalator on spirits continue in 2014, the duty on a 50cl bottle of Dodd’s Gin at 49.9% abv will rise from £7.04 to £7.39. Based on production forecasts for the year ahead, this equates to an annual salary for a member of staff, which for this micro-distillery is a quarter of the workforce.

This situation would not only severely hamper the distillery’s growth in terms of production, distribution and as a tourist destination but discourage the new wave of entrepreneurs seeking to enter into the long-term investment of opening a distillery. These types of businesses not only provide employment but support apprenticeships, provide education, encourage tourism and increase the overall contribution to the Exchequer.
Evidence to support scrapping the Alcohol Duty Escalator early

The WSTA commissioned Ernst and Young to conduct an independent assessment on the impact of the Alcohol Duty Escalator on the industry and the potential costs of scrapping the Escalator in 2014, a year earlier than anticipated. The results are striking.

Rather than costing the Exchequer in lost revenues, the assessment found that the growth of the industry in terms of jobs, corporation tax and through halting the decline of consumption would actually bring the Exchequer more in revenue than it would lose.

The report found that ending the Alcohol Duty Escalator one year early would:

- Lead to an overall increase in contribution to public finances of:
  - £230 million in 2014
  - £265 million in 2018
- Support the creation of:
  - + 6,000 jobs in the industry
- Lead to an increase in:
  - Total contribution of the industry to Economic Activity:
    - £43.2 billion in 2014
    - £44.2 billion in 2018
  - Added value to the industry:
    - £11 billion in 2014
    - £11.2 billion in 2018

The report overall shows that simply by removing the Escalator the Government can provide the industry with the environment it needs to grow strongly, create jobs and make a greater economic contribution to the UK economy.

27 Alcohol Duty Escalator Economic Impact Assessment, Ernst & Young, October 2013
OBR forecasting of wine consumption

There are significant concerns over the Office of Budget Responsibility’s (OBR) approach to forecasting wine consumption in the UK.

The OBR forecasts, despite a declining market for wine over the past few years, that there will be a 4% increase in consumption year on year from 2014/15 to 2016/17.28

However, evidence of the difficulty faced by the wine sector can be seen in industry data that shows in the last year sales have declined by 2% in the UK, on top of a fall of 3% in 2012.29

Because of the methodology used by the OBR, the forecast continues to be revised down. In December 2013 the OBR estimates of consumption levels for 2013/14 for example were revised down by over 1 million hectolitres from the March 2012 estimates, showing that they were far too optimistic.30

This is important, because as long as wine volumes are seen to be growing robustly, the full impact of the Escalator cannot be effectively judged. More realistic forecasts are likely to show that expected income through wine taxation is set to be lower than expected, as has been seen from the OBR also revising down its forecast for anticipated wine duty.

The WSTA urges the Treasury to recommend that the OBR conduct a full review of these forecasts in light of these recent revisions.

28 Office of Budget Responsibility, Economic and Fiscal Outlook, December 2013
29 WSTA Market Report December 2013, using CGA Strategy and Nielsen data
30 WSTA Market Report December 2012, using CGA Strategy and Nielsen data
31 Office of Budget Responsibility, Economic and Fiscal Outlook, December 2013 and March 2012
Fraud in the alcohol industry

The UK’s high duty levels have the unfortunate consequence of creating an incentive for alcohol fraud

HMRC recently estimated that alcohol fraud cost the Exchequer over £1bn a year, including around £350m in wine fraud and £120m in spirits fraud. However, these are just estimates and the actual level could be as high as £700m in wine fraud and £490m in spirits fraud.

The types of fraud consumers, businesses and the Government face include:

**Alcohol duty fraud**
Failure to pay duty not only means a loss of tax revenue to the Exchequer, but also disadvantages legitimate products on the market by giving fraudulent products a competitive advantage. While alcohol tax stamps are in place for spirits, these measures increase the financial burden to legitimate businesses and often do little to deter alcohol duty fraudsters.

**Retailer theft and shrinkage**
In 2012 Christmas losses due to retail theft in the UK from mid-November to end-December were estimated to be as high as £999.7 million (up 3.4% compared to 2011). As alcohol contributes to a significant proportion of overall retail theft, pushing up the value of alcohol has increased the attractiveness to thieves. This costs businesses even more in the long run as they have to increase investment in security measures such as bottle tagging devices and CCTV.

**Illicit alcohol**
Illicit factories have no regard for health and safety measures or responsible production or retail, and the products they produce can cause significant health harms. The continued increase in retail prices of alcohol could make these ventures more appealing with a consequent loss to the Treasury in taxes and an increase in public health problems.

**The White Van Trade**
Cross channel shopping at its height accounted for 13% of all alcohol in the UK at a considerable cost to the Exchequer. Some of this produce was also being sold illegally outside the control of responsible retailers such as supermarkets or pubs, which adopted strict age verification policies and are governed by strict licensing laws.

---

32 HMRC Tax Gaps, November 2013
34 BBPA/WSTA Cross-border Shopping Surveys 2002/2005
The WSTA believes it is in the interest of businesses, consumers and the Government to reduce alcohol duty fraud, illicit alcohol and the unregulated trade.

While the WSTA welcomes the Government taking steps to tackle alcohol duty fraud, concerns remain about the approach taken by HMRC in its latest consultation “Alcohol Fraud Next Steps”. There was particular concern that the proposals were overly bureaucratic and that this burden outweighed any benefit of the scheme. Additionally, while the WSTA supports the principle of wholesaler registration, there is concern regarding the scope of the measure as well as the requirement for due diligence checks, which are already undertaken by legitimate businesses.

Despite these concerns, the WSTA believes that the Government and industry can tackle fraud without increasing the burdens on responsible retailers, by working closely together in an effort combat these issues. An example of how this partnership working can be successful includes the WSTA Fraud Prevention Unit.

**WSTA Fraud Prevention Unit**

In May 2011, the WSTA launched a fraud prevention unit to lead industry efforts to crackdown on all types of fraud in the wine and spirits sectors. It addresses a range of issues affecting consumers and the trade, from identity theft and counterfeiting to wine investment fraud. In just over a year, more than a million pounds worth of fraud has been reported to the unit.

- **£1.6m** of fraud recorded since the launch in May 2011
- **63** reports of fraud received
- **Almost 50** individual members
- Close cooperation with the Metropolitan Police, HMRC and Food Standards Agency

The unit enables businesses to legally share information about actual or suspected fraudulent activity, so that the WSTA can help Police and HMRC to combat problems when they arise. We are working closely with Operation Sterling, the Metropolitan Police Service initiative to tackle economic crime.
Social Responsibility

The wine and spirit industry takes social responsibility incredibly seriously. The industry is working closely with the Department of Health and Home Office to deliver the Public Health Responsibility Deal in order to tackle alcohol related harm. Additionally, the industry is investing in alcohol education and local partnership solutions that have a real impact in local communities.

The key schemes include:

**Community Alcohol Partnerships**
CAP projects bring together local retailers, trading standards, schools and police to tackle the problem of underage drinking and associated anti-social behaviour in communities. They link alcohol education, enforcement measures and partnership working to tackle the demand and supply side of underage drinking. There are now over 50 operational CAPs across the UK, with plans in place to expand their role and scope.

**Challenge 25**
This is a strategy developed by retailers that encourages anyone buying alcohol who looks under 25 to carry acceptable ID. It is now widely used on our high streets. It has proved to be an effective tool to tackle underage purchases. Since its introduction there has been a reduction in test purchasing failures in supermarkets from 50% to around 15%.

**Portman Group**
The Portman Group is the social responsibility body for alcohol producers. They operate a strict Code of Practice to ensure alcohol is marketed responsibly and does not appeal to children. This Code applies to all pre-packaged alcohol sold or marketed in the UK.

**Drinkaware**
An independent charity supported by voluntary donations from across the drinks industry to equip people with the knowledge to make sensible decisions about how much they drink. They provide accessible, evidence-based information about alcohol and its effects to employers, young people, teachers, parents and community workers. Using a range of mediums, such as film, multimedia and TV, they help dispel myths and present the honest facts about alcohol.
### In numbers

#### Action by industry:

| 1 billion | The number of units the industry will remove from the supply chain by 2015, through reducing alcohol strength in products and increasing the range and availability of products with lower alcohol levels |
| 62       | The number of Community Alcohol Partnerships in the UK following £1m of investment by the alcohol industry |
| 80       | The number of irresponsible products The Portman Group have removed from shelves in co-operation with retailers |

| 37%      | The drop in alcohol related crime achieved by Durham Community Alcohol Partnership |
| 80%      | The number of labels on shelves that by the end of 2013 were set to contain health warning labels including alcohol content, a warning about drinking while pregnant and the Chief Medical Officer’s consumption guidelines |
| 25       | The age up to which major supermarkets request ID from you when purchasing alcohol in an attempt to reduce underage sales |
| £5m      | The annual industry funding for alcohol charity Drinkaware |

#### Its impacts:

| 16%      | The fall in alcohol consumption in the UK since 2004, with the fall in the last year at 3.6% |
| 10%      | The fall in the number of men binge drinking in the past week, the fall for 18-25 year old women was 9% |
| 5%       | The fall in the number of men binge drinking in the past week, the fall for women was 3% |
| 55%      | The number of young people that have never tried alcohol, up from 39% in 2001 |
| 12%      | The number of young people that have tried alcohol in the last week, down from 26% in 2001 |
| 37%      | The decline in the number of young people admitted to hospital with a condition wholly related to alcohol |
| 79%      | The number of people who strongly support retailers adopting schemes like Challenge 25 |

---

35 Public Health Responsibility Deal., Alcohol Network Pledge A8
36 [www.communityalcoholpartnerships.co.uk](http://www.communityalcoholpartnerships.co.uk)
37 [www.portmangroup.org.uk](http://www.portmangroup.org.uk)
38 Public Health Responsibility Deal., Alcohol Network Pledge A1
39 [British Beer and Pub Association analysis, March 2013](http://www.communityalcoholpartnerships.co.uk)
40 [ONS General Lifestyles Survey 2011](http://www.ons.gov.uk)
41 [Ibid](http://www.ons.gov.uk)
42 [ONS Statistics on alcohol: England 2013, May 2013](http://www.communityalcoholpartnerships.co.uk)
43 [HSCIC Information Centre: Smoking, drinking and drug use among young people in England 2010, July 2011](http://www.communityalcoholpartnerships.co.uk)
44 [Ibid](http://www.ons.gov.uk)
45 [Hansard Parliamentary Answer [178431], May 2013](http://www.communityalcoholpartnerships.co.uk)
46 [YouGov poll, December 2013](http://www.communityalcoholpartnerships.co.uk)