

Cheers 2014

The impact of two successive beer duty reductions



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- ✓ Lower beer prices for Britain's pubgoers
 - ✓ Thousands of vital new UK jobs
 - ✓ Millions of pounds of new investment in UK brewing and Great British pubs
 - ✓ Exciting new product innovation
 - ✓ Major boost to UK beer market
 - ✓ Tax revenues increasing
 - ✓ Hugely popular with the public
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Cheers 2014 – The impact of two successive beer duty reductions

Foreword

On 19th March 2014 the Chancellor did what no predecessor had managed throughout the last 150 years – he delivered a second consecutive cut in beer duty. Following the first reduction in beer tax since 1959 in the 2013 Budget, this was another major boost for Britain's beer drinkers, brewers, pubs and the wider economy.

Two consecutive pennies off a pint, instead of a continuation of the extremely damaging beer duty escalator, means eight pence per pint less tax, benefiting hard-pressed consumers throughout the UK. Thousands of vital jobs have been secured and, with business confidence restored, millions of pounds of additional new investment is creating many more in this great British industry.

Building on our initial report last year, this report highlights these benefits and clearly demonstrates that eighteen months on, two successive duty cuts, have proven to be great news for the consumer, great news for business and indeed great news for Government.

There is still more that can, and must, be done to support a still very fragile beer and pub trade. However, a second consecutive cut in beer duty was rightly celebrated all over the country. It was extremely heartening that parliamentarians supported and understood the need for a change in direction to secure a thriving beer and pub sector, one where the price of a pint does not become an unaffordable luxury for many.

Cheers!

Brigid Simmonds OBE
Chief Executive, BBPA

Mike Benner
Managing Director, SIBA

Colin Valentine
National Chairman, CAMRA



Beer and pubs – key to our economy and society

Britain's beer and pubs play a major role in the lives of our citizens. They are also vital to our economy.

Over 90 per cent of beer consumed in the UK is produced in the UK by what is a world class British industry. Over 900,000 people depend on the industry for their livelihood, working in pubs, breweries and associated trades in a largely British supply-chain. One in every thirteen young adults currently working, works in our sector.

The industry adds over £22 billion to the UK economy and brewers export 1.2 billion pints per year. Pubs are at the heart of our social life and also one of the biggest draws for tourists visiting the UK.

Some 32 million people drink beer each year and 15 million visit the pub each month. The industry has strong and loyal support from the British public. Immediately after the 2013 duty cut, a YouGov poll for The Sun confirmed that a majority were in favour of the move.

Exclusive new polling shows that supporters of all the main parties are strongly in favour of further support on beer tax to ensure a trip to the pub remains affordable.

“Our customers (our pubs) and their customers (the drinkers) have been delighted.”

ROBINSON'S BREWERY

The positive impact of two successive duty cuts



Sales, jobs, investment and tax revenue

The BBPA has commissioned Oxford Economics to examine the impact of the 2013 and 2014 Budget decisions. They calculate that the result of the two duty cuts is that by next year an additional 16,000 more people will work in the sector than if the escalator had remained in place. Beer sales have been boosted by over 500 million pints of beer.

The relative cost to Government is also very low. The lower duty revenue that would have been the case under the escalator has been largely offset by rises in other employment and sales related taxes.

This econometric analysis is supported by the latest industry and HMRC data on sales, consumption and duty revenues which all point to the very significant boost to the beer market. For the first time in over a decade, the UK beer market is back in growth, albeit still a very fragile growth. Having fallen by 24 per cent between 2003 and 2013, beer sales were up one per cent for the year ending July 2014 (latest data).

Total beer duty receipts, having initially fallen following the 2013 duty cut have started to rise again and were 1.5 per cent higher at £3,375 million for the year ending June 2014 (latest data) despite the second reduction in 2014 - great news for the Treasury.

The boost to sales is perfectly timed to reflect a renewed interest in craft beers and the wider beer market. The number of micro-brewers continues to grow and Britain's brewers are providing pubs with an ever greater choice of great beers to showcase to their customers.

In the first quarter following Budget 2014, the pub trade did particularly well with BBPA Chief Executive, Brigid Simmonds, commenting at the time that 'these figures show in dramatic fashion the continued impact of the Government's decision to cut beer duty again, to encourage consumers towards our low-strength, British-made national drink.'

Table 1: Impact of two duty cuts in 2013/14 and 2014/15 compared to beer duty escalator in these two years¹

	On-trade (m pints)	Off-trade (m pints)	Total trade (m pints)	Jobs	'Lost' duty revenue	Additional taxes	Net cost
Yr 13/14	91	103	194	6,987	£119	£118	£1
Yr 14/15	186	238	424	14,410	£240	£181	£59
Yr 15/16	215	304	520	16,783	£274	£159	£115

¹ And assuming an Inflation (RPI) increase in 2015/16

Table 2b: Results of BBPA survey on impact of beer duty cuts

	Investment since Budget (£m)	Directly due to duty cut (£m)	Additional jobs	Apprentices
2014	414	44	4,500	1,900

As last year, the BBPA surveyed brewers and pub operators several months after the Budget to assess the impact of the Chancellor's decision. The response was hugely encouraging, as confidence took hold that the 2013 decision really was a turning point in how Government and politicians viewed our sector.

Over three-quarters of respondents intended to launch new product variants, across both beer and pubs, directly as a result of the cut in beer duty.

The increased confidence of the brewing and pub industry helps the wider supply chain and economy. Evidence from the BBPA member survey shows that nearly 90 per cent of respondents intend to increase their investment in the UK. This includes working with malting barley and hop suppliers, enhancing their brewery

operations, new-build pubs and upgrading existing estates with substantial refurbishments planned across of the country.

This year, as well as asking about overall investment since the Budget and new jobs created from this investment, the survey specifically asked how much investment was directly due to the duty cut.

The Budget has already boosted investment from £370 million to £414 million, or 12 per cent, so far this year - a significant return on the Budget decision. On an individual company basis, the additional investment directly due to the duty cut was up to 75 per cent of the total.

This investment expenditure will create over 4,000 new jobs this year as well as a further 1,900 new apprenticeships helping to secure the economic recovery.

Lower beer prices for pubgoers

Beer is Britain's national drink, enjoyed by around 30 million people every year. As the recession started to bite and beer duty increased by a staggering 42 per cent from 2008 to 2012, a beer with family and friends at the local pub was becoming increasingly unaffordable for many.

Polling commissioned by CAMRA in January 2012 found that 23 per cent of adults agreed strongly that going to the pub had become an unaffordable social activity. A further 32 per cent agreed slightly with this statement showing widespread concern about affordability.

Even after the first duty cut of 2013, polling showed that 20 per cent of people put off a trip to the pub in the week before payday. Going out to the pub was strongly correlated with overall consumer confidence.

CAMRA welcomed the unprecedented second beer duty cut as good news for pubgoers and as a vote of confidence in Britain's pubs.

Table 2a: Results of BBPA survey on impact of beer duty cuts²

	Increasing investment in the UK	Launching new products	Reduced or froze prices	Employing more staff
2013	76%	66%	89%	61%
2014	89%	77%	96%	58%

² Responses from 26 companies producing 84% of UK beer and operating almost half the UK's managed and tenanted/leased pubs

Table 3: Change in retail prices, Feb-Jul (pre-Budget to latest data)

	Pint of lager (p)	Pint of bitter (p)	Pint of lager (%)	Pint of bitter (%)
2011	8	6	2.7	2.3
2012	8	6	2.6	2.2
2013	4	3	1.2	1.1
2014	3	3	0.9	1.0

The last two years of the controversial beer duty escalator (2011 and 2012) saw price increases between February and July of eight pence per pint for lager and six pence for bitter. In the two years that saw a beer duty cut (2013 and 2014) the increase in prices was at least half as small.

Beer duty is only one constituent of the price of a pint, albeit a major one. There are other cost increases that brewers and

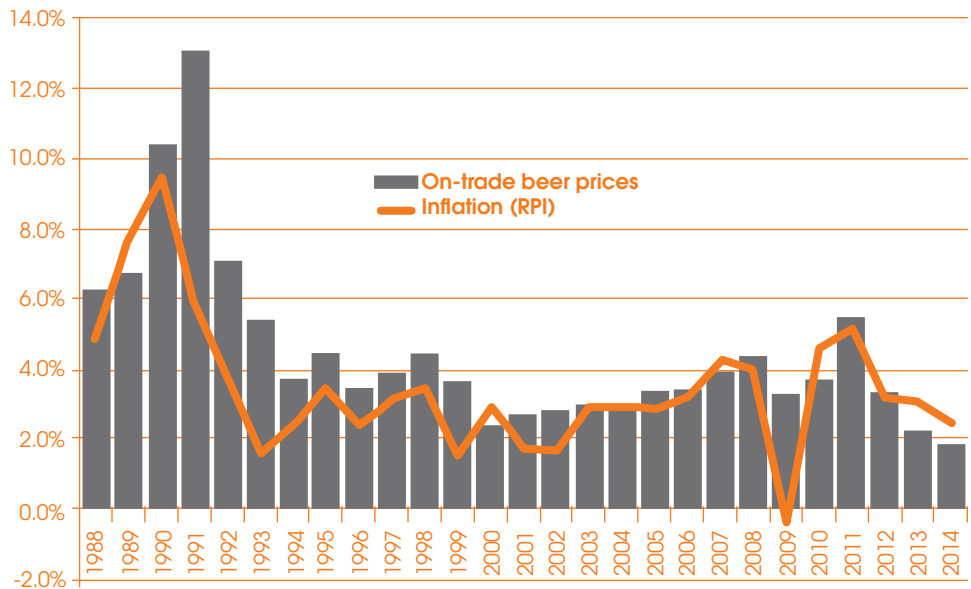
publicans have to reflect in prices. But in the six months since the Budget the price of both bitter and lager have increased by just one per cent or less.

Looking over a longer period the on-trade beer price index compared to the overall retail price index, shows that not only are on-trade beer price increases now tracking at their lowest levels since the start of the index in 1987, but price increases have also fallen below all

items RPI (inflation) for two consecutive years for the first time.

The ONS also produces a Producer Price Index for beer, which shows that wholesale prices were only 0.1 per cent higher in July 2014 (latest data) compared to a year ago. These figures reflect the survey of BBPA members which reported that 96 per cent of respondents froze or reduced their prices at the time of the Budget.

Chart 1: Annual change in on-trade beer prices: 1987–2014 (Jul)



Source: National Statistics

A brighter future



Budget 2013 has indeed proved to be a symbolic moment for the brewing and pub industry. The industry has long argued that it is a vital part of the UK economy and with a fairer tax burden has the ability to provide even more jobs and help drive growth. This is clearly now recognised and this report demonstrates how even two modest cuts in beer duty can make a big difference.

However, more can and must be done. One pound in every three spent in pubs still goes to the taxman and close to half of brewers' turnover is paid in excise duty. With seven in ten drinks sold being beer, beer and brewing is intrinsically linked to the success of community pubs. Pub closures remain stubbornly

high. The cost of living and the cost of an evening out remain a real concern for many hard working people. A return to duty increases would be detrimental on many levels.

Despite being the second most important brewing nation in Europe, Britain still has the second highest level of beer duty, some thirteen times higher than Germany. British drinkers remain in the unenviable position of paying 40 per cent of the EU duty on beer, whilst drinking just 13 per cent of the product itself.

A sustained period of stability and further action on duty will enable brewing and pubs to thrive in the UK and put money back in people's pockets. As our exclusive new YouGov

poll shows, a commitment to this, is something that supporters of all parties would welcome.

The majority of adults support a commitment to further cuts or freezes in beer duty with only a small minority supporting a return to beer duty increases. Indeed, the poll found that a higher proportion of adults were supportive of cutting beer duty to make going to the pub more affordable than to cuts in income tax at this time.

Dare we hope for a third beer duty cut in 2015 and an even brighter future for the Great British Pub?

Table 4: Which of the following do you think political parties should include in their manifesto for the 2015 election?

Current voting intention in 2015 General Election				
	Conservative	Labour	Lib Dem	UKIP
Making going to the pub more affordable by cutting beer tax	30%	32%	36%	47%
Keeping beer tax the same	48%	42%	40%	37%
Increase beer tax to generate more money for the Government	17%	18%	18%	9%
Don't know	5%	8%	6%	6%

YouGov poll of 2,096 adults weighted to represent the UK population. July 2014

A view from Burton- on-Trent

In May 2014, and as part of its five year Burton Brewery redevelopment plan, Molson Coors, announced a further investment of £28 million in brewing technology and infrastructure. The investment takes the total now invested in the facility to £75 million and is the biggest single capital investment in British brewing over recent decades.

The announcement coincided with a visit from the Prime Minister to the Burton Brewery to view the £21 million new bottling line. The state of the art facility offers Molson Coors greater capability to meet the on going needs of its consumers through bottle and pack innovation. The newly announced investment will support brewing a large proportion of the 1.2 billion pints of beer brewed at Molson Coors' Burton Brewery.

Simon Cox, Managing Director of Molson Coors UK & Ireland said: "We have a number of supply chain programmes under development which would not have been considered

prior to the positive duty policy change. These include investments which help to drive long term environmental sustainability and efficiency which are good for the business, employees and the community in which we operate.

Confidence and investment in the brewing industry has been bolstered – with investment at our Burton Brewery reaching record levels this year. However, there is still some way to go as UK beer drinkers still pay an excessive amount in tax on beer compared with Europe."

In February 2014, Marston's officially opened its new £7.4m bottling line facility, also in Burton-on-Trent. This coincided with new BBPA figures showing British beer sales had increased for two consecutive quarters for the first time in ten years. The new line is more energy efficient, and more economical to run, whilst providing a more flexible facility for smaller bottle runs, and different labelling and packaging formats. Local supplier

Briggs of Burton supplied four new 480-barrel conditioning tanks as part of this project.

Richard Westwood, Managing Director of Marston's Brewing Company commented: "At a time when Marston's beers feature in one in four premium bottled beers in the UK, this investment was a move to future-proof our business. The new line requires less energy, allows us greater flexibility for our bottled beer portfolio and contract services as well as bringing employment to the town with 17 new jobs."

Following the 2014 Budget Marston's Chief Executive Ralph Findlay also announced: "Marston's is creating 3,000 new jobs over the next two years in its programme to build new pub restaurants across the UK. Two consecutive Budgets have been positive for the pub and brewing industry, which gives us business confidence to plan continued investment and provides clarity of forward planning."



“As part of a global business we have to compete for capital with our operations across the world, including in markets that are seeing significant growth compared with the decline we have seen in the UK beer market. We have been able to convince the global business to invest in the UK despite tough market conditions. The removal of the duty escalator and two consecutive years of duty cuts have increased confidence that the UK market is a good place to do business and confirms the investment case despite continuing tough conditions.”

HEINEKEN UK LTD

“Last year’s cut in the misguided, counterproductive beer taxation was most welcome and won’t be forgotten quickly. It was also a crucial factor in our decision to purchase a site for our second pub. This is now open, employing lots of people, contributing to its community and paying taxes. This year’s cut will help to secure the future of our now nearly 50 employees and is hopefully an indicator of a business-friendly government to come.”

SPITTING FEATHERS BREWERY

Local brewing across the UK

After the first duty cut, Band Top Brewery in Bolton opened their second pub. When the second duty cut was announced, this gave them the confidence to continue to grow their pub estate, provide a guaranteed marketplace for their beers and long-term security for the business - hopefully for generations to come.

Inveralmond Brewery in Perth reported that over the last year they have expanded chilled tank capacity by around 50 per cent to meet growing demand for their keg beers, which has also entailed continuing investment in their stainless steel keg population. Headcount at the brewery continues to rise and their export business also continues apace. They entered Russia within the last six months and, more recently, China.

Ludlow Brewing Company were equally upbeat: "The further penny off a pint has continued to help us to limit price increases to our customers and cemented our confidence in the future plans we have for the business. We have

carried on investing in brewery systems, making modifications which help us to maintain the quality and consistency of the brews. The cut in duty is obviously of benefit to us in these endeavours."

In Gwynedd, Purple Moose Brewery added: "The second cut in beer duty has, like the first one, inspired some confidence to invest in the future of the business, rather than just trying to get by. In particular, we've seen an upturn in trade at the alehouse in Conwy we operate with three other local brewers. Buoyed by its success, we are looking for a second pub and hope to create another great showcase for locally produced drinks."

Highlighting the supply chain impacts, Ledbury Real Ales in Herefordshire noted: "After last year's duty cut we invested £35,000 in new equipment and casks to increase capacity at the brewery, and this year spent a further £10,000 on more casks. Our expansion helps the local economy: our casks are made just five miles away in Hereford,

the equipment came from Swindon and 98 per cent of the hops we use come from suppliers within ten miles of the brewery."

Local job creation was again highlighted by Navigation Brewery in Nottingham, who explained: "We hope to take on more people over the next 12 months, creating local jobs and helping the Midlands economy. The real benefit from the 'two pennies off the pint' is that it's a clear sign of the Government's desire to foster a thriving British brewing industry."



“This second successive reduction in beer duty, which has been passed on in its entirety to our licensees, will make a significant contribution to our ongoing efforts to support talented, hard-working licensees as they seek to sustain community pubs up and down the country. In these difficult economic times it has been encouraging to see the Government rein in the punitive taxation of one of Britain’s oldest industries and in doing so start the process of creating a tax regime that allows well-run pubs to not just be sustained but prosper and thereby promote investment and job creation.”

ADMIRAL TAVERNS

“After many years of ever increasing tax burdens, it is most encouraging that the current Government recognises the importance of the pub industry and the many people we employ. Without doubt over the longer term its initiatives will collect at least the same amount of revenue as our business grows.”

YOUNGS plc

Pub operator cheer

Pub operators have provided hugely positive endorsement of the Government's actions in terms of their own increased confidence to invest, to create jobs and in feedback from their customers.

Michael Turner, Chairman of Fuller Smith & Turner plc commented that: "Following the abolition of the beer duty escalator which decimated beer volumes over a difficult five year period, the successive reduction in beer duty has allowed us to approach the future with renewed optimism. This has resulted in a number of high profile acquisitions but more importantly has led to record levels of capital investment resulting in some 250 new jobs. The reduction in duty has also given our

self-employed tenants the possibility of achieving greater success in their pubs."

In March 2014, Mitchells & Butlers pledged it would recruit 1,000 new skills-based apprentices over the next two years, to work across its leading brands including All Bar One, Browns, Harvester, Miller & Carter, Toby Carvery and Nicholson's. The pledge will add to the 1,500 apprenticeships currently on vocational learning programmes across the company and inspire young people to build a credible career pathway in the retail hospitality sector, and the opportunity to earn while they learn right up to degree level.

Following the beer duty cut Mitchells & Butlers commented: "We welcome the reduction in duty as it enables us to continue to deliver value to our guests and supports pubs as the best place for people to drink responsibly."

National managed and leased pub chain Spirit Group commented that: "In comparison with the previous increases that were locked in each year, prices reduced and this means that in relative terms consumers are considerably better off. If consumers become more confident and are able to enjoy small treats more often, then so will our confidence to invest in the sector increase."

"The Chancellor's reduction in duty for the second consecutive year was a great fillip for the industry and has given us the confidence to increase investment in our pubs and people thereby increasing the number of people we employ."

ST AUSTELL BREWERY



“I was delighted to be able to take a penny off the price of a pint in last week’s Budget for the second year in a row. Pubs are a vital part of British communities and I want to do all I can to support them. Our economic plan is all about creating jobs and economic security. Our pubs and brewers also employ thousands of people up and down the country.”

**Rt Hon George Osborne MP,
Chancellor of the Exchequer**



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