

THE IMPACT OF BEER DUTY ON INVESTMENT

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Introduction

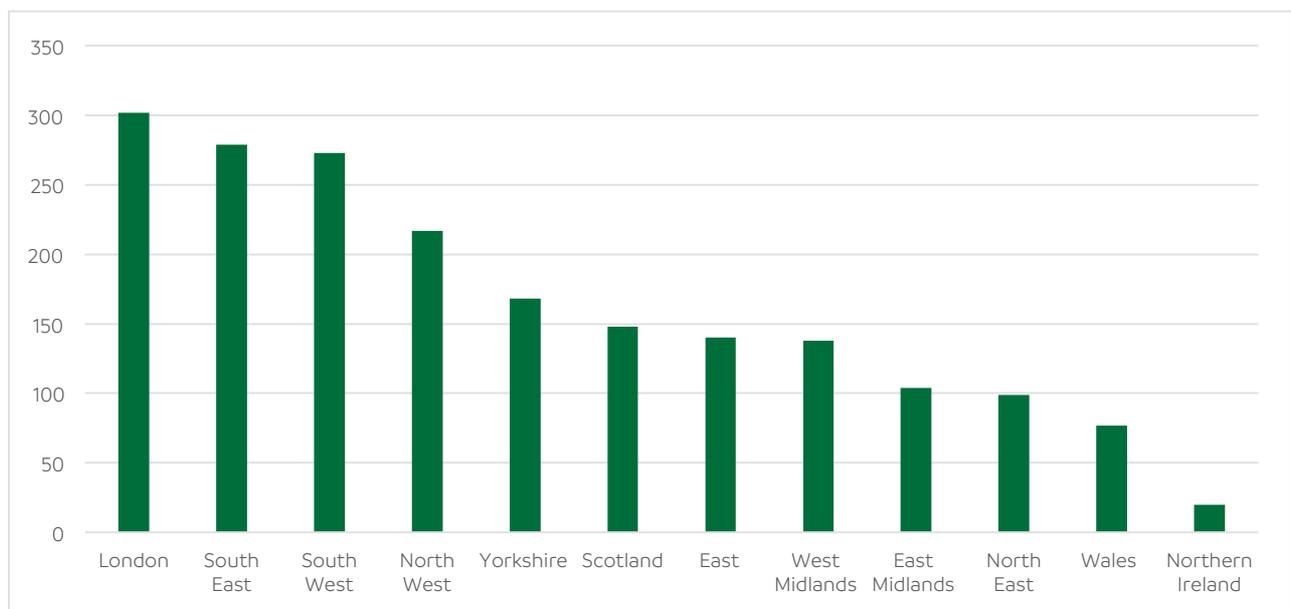
In his 2013 budget, the then chancellor George Osborne abolished the beer duty escalator which increased beer duty by 2 per cent above the rate of inflation. A 1p cut in duty was also announced.

This note looks at the impact the abolition of the escalator has had on investment in the beer and pub industry.

Key findings

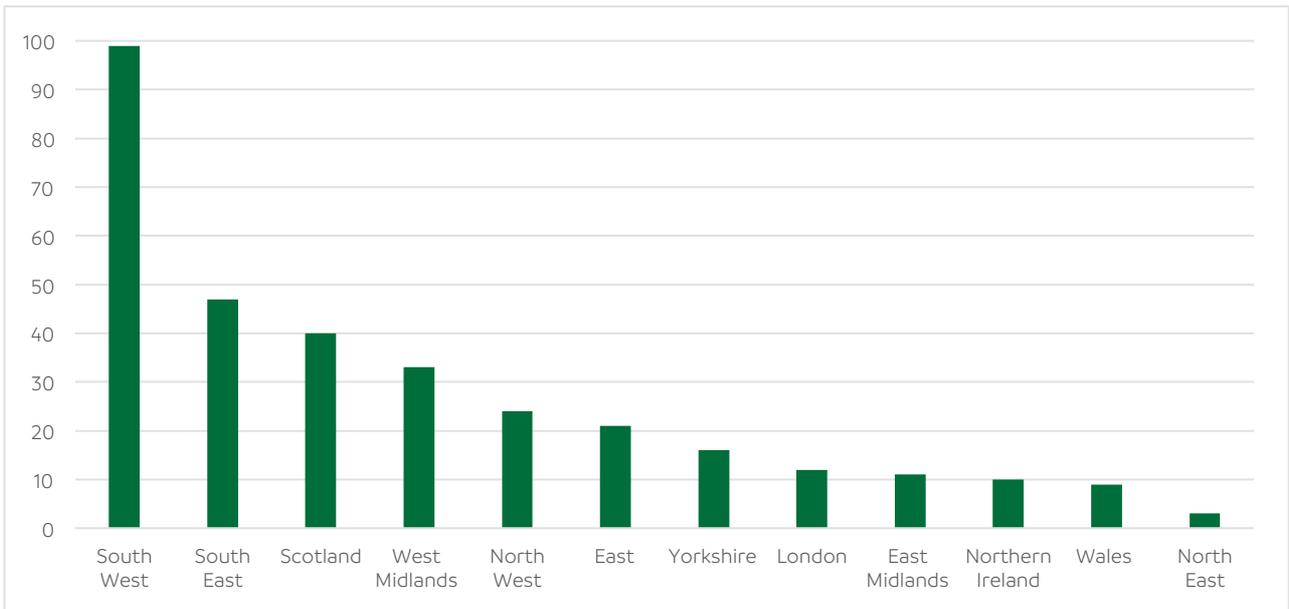
- The beer and pub industry invested **£1.96 billion** in 2016.
- This is an **increase of £800 million** compared to 2013.
- Pubs invested **£1.47 billion**.
- Breweries invested **£325 million**.
- Hotels and restaurants invested **£94 million**.
- The off-trade retail sector invested **£71 million**.

Chart 1: Net capital expenditure in the beer & pub sector, UK regions & countries, 2016 (£m)



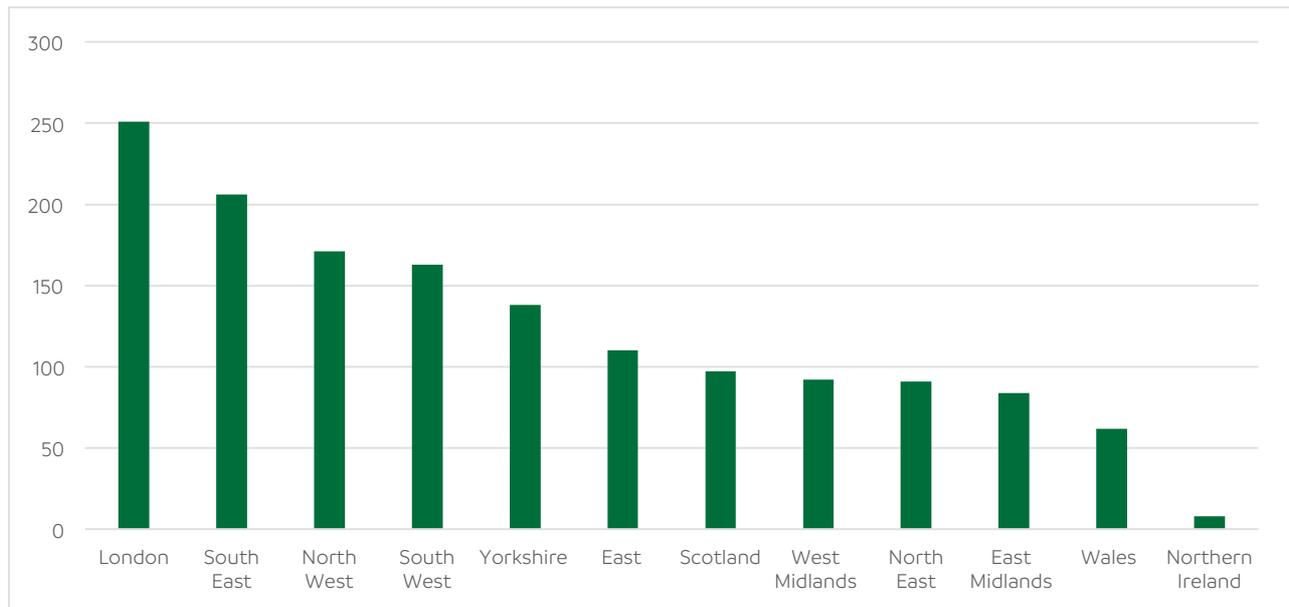
Source: Oxford Economics

Chart 2: Net capital expenditure (CAPEX) in the brewery element, UK regions & countries, 2016 (£m)



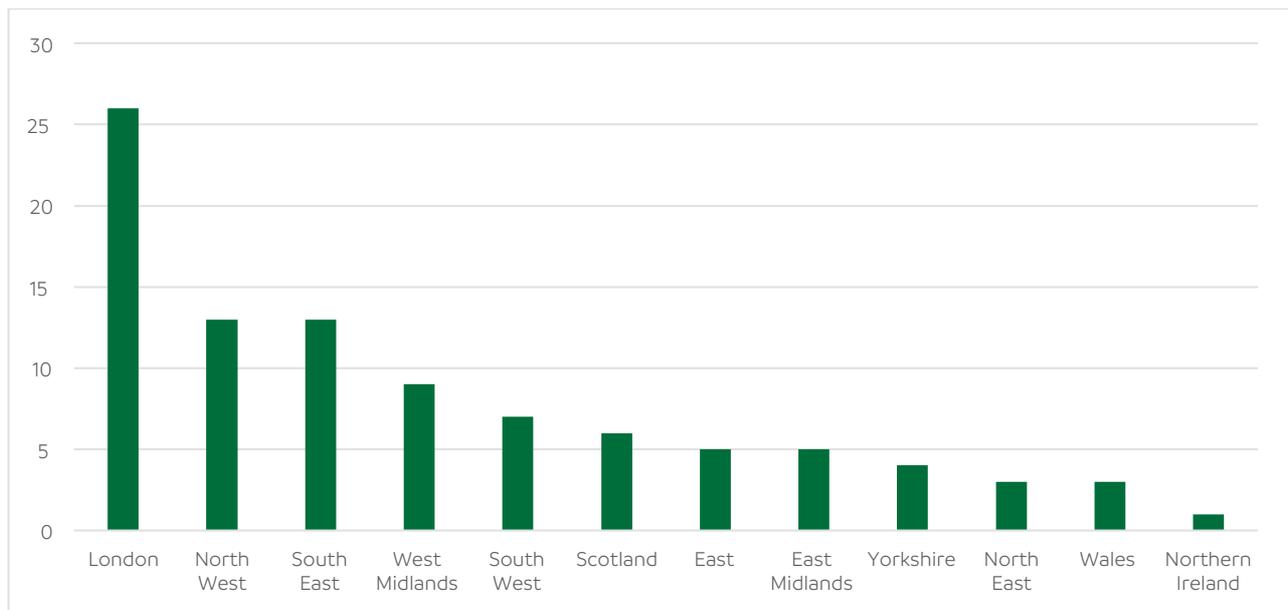
Source: Oxford Economics

Chart 3: Net capital expenditure (CAPEX) in the pub element, UK regions & countries, 2016 (£m)



Source: Oxford Economics

Chart 4: Net capital expenditure of the beer related on-trade element (excluding pubs), UK regions & countries, 2016 (£m)



Source: Oxford Economics

Beer duty has a significant impact on investment. For example, the beer and pub industry is estimated to have spent approximately **£1.96 billion** on net capital investment. This represents an increase of **£800 million** compared to 2013.

Moreover, breweries alone are estimated to have spent **£325 million** in net capital investment. This is significantly higher than during the beer duty escalator period. The escalator increased beer duty automatically by 2 per cent above inflation each year for five years until 2013.

Furthermore, pubs are estimated to have spent **£1.47 billion** in net capital expenditure, with London and the South East contributing the greatest share. This represents a significant increase from the previous year and could, according to Oxford Economics, be due to increasing confidence in the pub sector.

The British Beer and Pub Association collected statements from breweries about their views on beer duty. The following highlight the impact of beer duty on investment.

For example, Molson Coors stated:

“We have a number of supply chain programmes under development which would not have been considered prior to the positive duty policy changes. 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.”

Revolutions Brewing Company said:

“We’ve expanded massively since 2013. Our production is up by 40% and we’ve invested in new casks, tanks, cold storage and vehicles to cope with increased demand for our beers. We’ve also recruited three members of staff - a full-time sales manager, a part-time brewery assistant and an apprentice assistant brewery, who started with us at the start of this year

and is being trained up. It's hard to say what contribution the changes in duty will have made to this, but they certainly won't have done any harm."

Brecon Brewing stated:

"As a result [of scrapping the duty escalator], we've taken the decision to invest in our business, and have recently purchased a machine for bottling and kegging beers, which will enable us to supply UK customers and to approach other export markets with much more confidence. Earlier this year, we joined a Welsh Government trade mission to Taiwan and secured further orders and business from both our existing and new customers in that region, and later this year we'll be part of another mission to Scandinavia. We are also starting down the line of acquiring a retail outlet in the centre of Brecon to act as a bottle shop and bar."

According to Lincoln Green Brewery:

"We have invested heavily in the brewery over the past three years, acquiring additional space from the adjacent industrial unit, installing new cold storage, fermenters and conditioning tanks, as well as opening a brewery shop. Now, we're in a consolidation phase and are progressing with SALSA and developing standard operating procedures for both brewery and pubs that will lay solid foundations for the future. Maintaining a fair level of taxation in our industry will continue to help us achieve our goal."

As for Purple Moose Brewery:

"For Purple Moose, 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 alcoholic drinks."

Ludlow Brewing Company said:

"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 the 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."

Spitting Feathers Brewery stated:

"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."

Conclusion

The evidence clearly shows that beer duty increases adversely impact on investment. Conversely, cuts to beer duty give businesses the confidence to increase investment.

The turnaround in confidence since 2013 has led to a huge range of investment projects. For example, there is now more than **£1 billion** being invested by brewers and pub owners each year,

ranging from state-of-the art technology in breweries, to refurbishments of Britain's pubs as well as building new ones.

Beer and pubs are of cultural importance to the UK. As such, the UK should continue to attract investment from the beer and pub industry irrespective of the outcome of ongoing Brexit negotiations.

However, as discussed above, increases to beer duty reduces the confidence of those in the industry to invest. Moreover, high levels of beer duty has a negative impact on the profit margins of companies, decreasing incentives to invest in the UK.

The average brewer is making just one to two pence per pint in profit, compared to nearly £1 that goes to HM Treasury. Furthermore, the pub sector is paying one pound in every three of total turnover in taxation.

In order to attract future investment, the UK must be viewed by businesses and investors as an attractive place in which to invest and to do business. One way in which it can achieve this is by having competitive beer duty rates, something it currently lacks.

Sources

British Beer and Pub Association, From a bleak future to confidence and stability-The story of beer duty: 2008 to 2016, 2016.

ONS, Annual Business Survey, 2016.

Oxford Economics, Local impact of the UK beer and pub sector, 2017.