Submission to the

Minister for Finance

For

Budget 2022

From

Drinks Industry Group of Ireland

Reduce Alcohol Excise by 7.5% to begin the process of lowering alcohol tax to the lower European norms

June 2021

Contents Page

Executive Summary

- The Irish drinks and wider hospitality sector carry the burden of one of the highest alcohol tax regimes in the EU. The hospitality sector has been devastated by Covid-19. The sector makes a very substantial direct and indirect employment and economic contribution in normal times. It has a wide geographic spread of employment. It can make a large contribution to the required regional and national employment generation in the coming years especially in dealing with the high rates of youth unemployment. The sector normally has a very high proportion of young workers. In this context DIGI recommends that Budget 2022 should reduce alcohol excise by 7.5%. This should be the start of a programme of annual excise reductions to gradually bring Irish alcohol excise into line with the much lower EU levels.
- The excise reduction will help the drinks and hospitality sector to rebuild commercial activity in all areas of the country and to recover total employment and youth employment nationally and regionally. Employment generation is one of the most important policy issues for the next few years. The drinks and hospitality sector has a strong track record of national and regional job creation. It can deliver again.
- Ongoing excise reduction will also have the strategic role of helping to rebuild tourism competitiveness which is important for the recovery of international tourism.
- Irish alcohol excise is significantly higher than most other EU economies. In 2020. Ireland had the highest wine excise in the EU 27 plus the UK. Ireland had the second-highest beer excise in the EU 27 plus the UK behind Finland. Ireland had the third-highest spirits excise in the EU 27 plus the UK after Sweden and Finland. Fifteen EU economies do not impose any excise on wine. In addition, France and Malta had very low wine excise tax.
- The magnitude of the differences in alcohol excise between Ireland and other EU economies is large. For example, Ireland's beer excise is 11.4 times that of Germany. Irish spirits excise is 4.4 times that of Spain.
- Germany's composite alcohol excise per HLPA is €500 or 14.5% of the Irish level. France's composite level of €861 is 24.9% of the Irish level. Spain's composite rate is €386 or 11.2% of the Irish level.
- If the German composite rate was applied to Ireland, Irish excise revenue would total about €179m instead of €1,233m. Irish drinks enterprises pay about €1,054m more annually than German rates would imply.
- These very high Irish alcohol excise rates generate a large alcohol excise tax wedge, which we define as the difference between what the consumer pays for a beverage and the amount that the industry receives because of excise tax and VAT. The 2019 total consumer expenditure on alcohol is estimated at €7,392 million. Excise and VAT are estimated at €2,586 million, which is 35.0% of the expenditure total.

- Lower excise rates would significantly improve the commercial model and viability of drinks enterprises, enabling them to retain a larger share of customer receipts which will support investment and sustainability. This is important both for the medium and long-terms and in the immediate aftermath of the Covid emergency.
- The drinks and wider hospitality sectors are major national and regional economic assets employing 179.2k persons across Ireland in the last quarter of 2019, before the Covid impact, of which 70.8% were located in regions outside Dublin.
- DIGI welcomes the emphasis in the Economic Recovery Plan on regional development and employment creation. The drinks industry and the wider hospitality sector are well placed to support these two objectives. The drinks industry is an important element of tourism which is itself critical for regional development and regional employment. The hospitality sector in normal times is a very large national and regional employment generator.
- Youth unemployment is a particular issue arising from Covid and the drinks and hospitality sectors are well positioned to generate jobs for young people as it is usually a large employer of young workers. In April 2021 the CSO estimated, on a Covid adjusted basis, that the national youth unemployment rate was a daunting 61.8%. In 2019 quarter 4, before the impact of Covid, 31.8% of hospitality employment was in the 15-24 age group compared to only 11.2% of total employment. These jobs have a wide regional spread.
- DIGI acknowledges and appreciates the large array of emergency economic supports which were mobilized by Government to cope with the effects of Covid determined closures, regulations and restrictions. Hopefully the successful vaccination programme will shortly end the worst effects of the pandemic. However, when things return to the new normal, issues such as the exceptionally high levels of Irish alcohol excise still remain to be resolved. Budget 2022 should start the process and this should be continued over coming budgets.
- Consideration of DIGI's proposal to reduce excise should take into account the long-term trend of a declining average alcohol consumption per adult which has continued in 2020 with a significant decline of 6.6%.
- The continuing devastating effect of Covid is seen in the most recent Quarter 1 2021 Revenue alcohol clearances. Compared with the same period in 2020 Overall alcohol clearances volume was down by 19.7%. There are very large declines in beer (34.5%) and cider (15.9%) with smaller but still significant declines in wine (3.4%) and spirits (8.2%).
- In addition to the reduction in excise, DIGI recommends that the alcohol excise element of bad debts be allowed to be written off and that, as allowed by the revised EU Excise Structures Directive, Budget 22 should introduce a new craft cider excise exemption scheme similar to the existing craft beer scheme.

1. Drinks Industry Group of Ireland

The Drinks Industry Group of Ireland (DIGI) is the umbrella organisation for the drinks industry. It is composed of manufacturers, distributors and both on-trade retailers (pubs, hotels and restaurants) and off-trade retailers (independent off-licences). Its members include:

- **Drinks Ireland**
- **Irish Hotels Federation**
- **Licensed Vintners Association**
- **National Off-Licence Association**
- **Restaurants Association of Ireland**
- **Vintners Federation of Ireland**

Together, these and other drinks employer groups sustained on a pre-Covid basis directly and indirectly an estimated approximate 90,000 jobs supported directly and indirectly in drinks manufacturing, drinks distribution and visitor centres throughout the country and contribute to the much larger number of jobs in the wider hospitality sector.

DIGI is concerned with the taxation and economic development aspects of the drinks industry and has produced a range of research reports on the economic role of the industry, taxation of alcohol and on the structure and performance of the industry.

Through its Support Your Local campaign, DIGI seeks to highlight the significant financial and social contribution made by the industry and the negative effect of internationally very high alcohol excise tax, and work with stakeholders to create conditions that ensure the industry's continued growth and realise its full economic potential.

DIGI is mindful of its responsibility in relation to the issue of alcohol misuse in Ireland and is keen to play a meaningful role in addressing it. However, excise tax is an ineffective and unfair way to deliver responsible alcohol consumption. In addition, alcohol excise is a regressive tax.

DIGI has pledged to work with Government to deal with the misuse of alcohol on a range of measures.

2. Recommendations for Budget 2022: 7.5% reduction in alcohol excise

DIGI recommends that Budget 2022 should reduce alcohol excise rates by 7.5%. This should be the first stage in a longer-term programme of bringing Ireland's alcohol excise into line with our partner countries in the EU and our closest neighbour, the UK. There should be a 15% reduction in excise rates over the next two budgets with a 7.5% reduction in each year followed by additional reductions thereafter. These are modest and reasonable reductions on the long-term path to average EU excise levels.

Very high excise levels by EU standards impact negatively on the national, regional and local economies currently and in the medium to long terms.

The annual 7.5% reduction in alcohol excise over two budgets would have the broad effect of improving Irish economic competitiveness and strengthening the business model of drinks enterprises to deal with the ongoing new environment in the post-Covid world. Excise reduction will support the business strength and capability of Irish drinks manufacturers that will, in turn, assist in the drinks export drive which should be supported by a solid domestic market. This will ensure a boost for the rural economy, agriculture sector and exports. Alcohol tax is a regressive and inequitable tax and is very high by EU standards. It reduces tourism competitiveness and weakens enterprises.

DIGI recommends that: ***There should be a reduction of 7.5% in alcohol excise in Budget 2022***

DIGI also recommends that Budget 22 should ensure that the **alcohol excise element of bad debts be allowed to be written off. (**Suppliers and distributors are encountering difficulties with regard to bad debts arising from the repeated closures and restrictions in the hospitality sector, arising from Covid-19. Whilst VAT on bad debts are recoverable by suppliers under the VAT Acts, unfortunately, as the legislation stands, excise is not).

DIGI also recommends that Budget 22 should **introduce a new craft cider excise exemption scheme.** (In 2020, the EU Structures Directive on Excise was updated and it now extends the excise relief programme, currently enjoyed by microbreweries, to small-scale producers of cider. The excise relief programme effectively gives permission for all EU Member States to offer a 50% excise relief to independent small producers that produce up to 15,000 hectolitres of cider. This will have a very small impact on the Exchequer. It is worth noting that the excise rate on cider in Ireland is the third highest in the European Union. The craft beer scheme has facilitated an expansion of craft beer producers from 3 to 125.)

3. Budget recommendations and the Economic Recovery Plan

Economic Recovery Plan

DIGI welcomes and agrees with the extensive range of emergency Covid-related supports which Government has provided for the enterprise sector and which have been recently developed and extended in the Economic Recovery Plan. This range of supports includes the lower hospitality VAT rate, wage subsidy, CRSS, start-up supports, new Business Resumption Support Scheme, commercial rates waiver, tax debt warehousing and suspension of redundancy process. Hopefully, the successful vaccination programme will shortly eliminate the worst economic effects of Covid restrictions and regulations. However, even when Covid-19 is no longer an issue, the drinks industry will continue to carry the burden of very high alcohol excise taxes which hinder the sector's ability to achieve its full economic potential. DIGI also recognizes that pre-Covid consumer and economic behavior will not be immediately restored in a short period of time. As we move away from the emergency and abnormal economic issues and measures relating to Covid and its effects, more "normal" issues and difficulties such as the high rate of alcohol excise need to be dealt with and this should start to be addressed in Budget 22.

Tourism

DIGI also welcomes the emphasis given to tourism in the Economic Recovery Plan. DIGI recognizes that these emergency supports will be phased out as the full economy reopens although it would be desirable and economically sensible to make the 9% VAT rate for hospitality permanent given the current and likely ongoing difficulties of international tourism and the substantial employment possibilities from tourism. DIGI also recognizes that, as the Covid impact recedes, economic policy support must focus on enterprises which are potentially viable. However, viability is not determined independently of the public policy environment. Public policy such as high alcohol taxes directly negatively impact competitiveness and viability. The fact that the Irish government operates one of the highest excise tax regimes in the EU has an immediate and direct negative ongoing effect on enterprise commercial viability. It creates a substantial gap or wedge between the expenditure of the customers and the revenues received by the drinks enterprises. As argued in this submission the high alcohol excise tax regime takes large amounts of money from enterprises compared to what occurs in most EU economies. A phased programme of excise reduction starting in Budget 22 to move down to average EU levels will significantly improve the business model of Irish drinks enterprises and will directly enhance viability and long- term ability to compete and to meet the needs of customers. It will also help enterprises to cope with the legacy Covid effects of changed consumer behavior, likely ongoing reductions in capacity and increased operating costs. In other words, excise reduction will improve the supply side of the drinks industry which is desirable in light of the likely post Covid operating environment.

DIGI welcomes the emphasis in the Economic Recovery Plan on regional development and employment creation. The drinks industry and the wider hospitality sector are well placed to support these two issues. The drinks industry is an important element of tourism which is itself critical for regional development and regional employment. The hospitality sector in normal times is a very large national and regional employment generator. Youth unemployment is a particular issue arising from Covid and the drinks and hospitality sectors are well positioned to generate jobs for young people as shown by CSO data.

Youth employment and unemployment

Youth employment has been devastated by Covid-19. In April 2021 the Covid adjusted upper bound estimated unemployment rate in the 15-24 years age group was 61.8%, 54% for males and 69.6% for females. This compares with 18.4% unemployment rate for the 25-74 years age group. While some of the youth unemployed are students receiving the PUP, the very high youth unemployment rate presents a very substantial economic and social problem. As of April 20121, there were 131.1k youth (15-24 years of age) unemployed on the Covid adjusted measure of which 73.6k were females and 57.5k were males.

The hospitality sector is very well placed to generate jobs for young people. Hospitality employment is relatively young. In 2019 quarter 4, before the impact of Covid, 31.8% of hospitality employment was in the 15-24 age group compared to only 11.2% of total employment. In absolute numbers there were 57,000 jobs held in hospitality by those aged 15 to 24 years. The 15-24 years age group is 16.5% of hospitality full-time employment and 53.1% of hospitality part-time employment.

Hospitality is a labour-intensive sector which employed 179.2k persons before the pandemic of which 70.8% were outside Dublin. The sector can play a substantial part in generating additional national and regional employment in both the immediate recovery and in the coming years. The regional spread of hospitality employment is far wider than in sectors such as finance, technology and professional services.

Reasons for excise reduction

The primary reasons for the proposed alcohol excise reduction are;

- Irish alcohol excise tax rates are very high relative to the great majority of EU economies. This is a self-imposed competitive disadvantage on Irish operators.
- High Irish alcohol excise rates reduce competitiveness and have a strong negative impact on the commercial viability of Irish drinks enterprises. High excise levels make a large gap between consumers' expenditure and enterprises' receipts.
- Lower excise rates would significantly improve the commercial model and viability of drinks enterprises, enabling them to retain a larger share of customer receipts which will support investment and sustainability. This is important both for the long-term and in the immediate aftermath of the Covid emergency.
- Excise reduction will enable the sector to generate high levels of national and regional job creation especially for young workers

The large negative economic impact on sectors of the drinks industry of Covid-related closures and restrictions are well known and appreciated by Government. Overall alcohol consumption has declined and bar sales have collapsed. Total off-licence sales, including supermarkets and the smaller independent operators have increased. Growth has been significant in the supermarket sector compared to lower growth in the independent small off-licence operators. The supermarket chains account for two thirds of off-licences compared to the one third of off-licences held by small independent operators. This submission only briefly refers to this overall decline as it is well established. However, we highlight the significant pre-Covid economic contribution of the drinks industry as this is the potential to be realized in the post-Covid period.

4. Ireland’s very high alcohol excise

International comparison

DIGI research has established that Ireland has a very high level of alcohol excise tax when compared with the large majority of the other 26 economies of the EU and the UK. Ireland is out of step compared with most other European countries. This is a self-imposed competitive disadvantage and contrasts sharply with how many other EU countries support their indigenous alcohol sectors.

On the composite indicator (average excise rates across the three beverages of beer, spirits and wine) only Finland has higher average alcohol excise than Ireland. Sweden is in third place with an average excise level that is lower than Ireland’s. These three are followed by the UK, in fourth place, which is also a high alcohol excise economy. The UK level is 80.1% of the Irish level.

The rest of the EU economies have very much lower levels of excise than the top four of Finland, Ireland, Sweden and the UK. The fifth-ranked economy is Estonia, which has a composite excise rate of 43.3% of the Irish level and is, therefore, far behind the levels of the top four countries.

The scale of the gap between Ireland and the majority of EU economies in alcohol excise is shown in Table 4.1. The data refer to the composite rate which is the average of the different beverage rates per HLPA.

Table 4.1 EU Alcohol Tax Rates (Excise) (Euro per HLPA), May 2020, composite level and position relative to Ireland =100

	Composite level	Position of composite level relative to Ireland=100
	€ per HLPA	
Finland	4046	117.0
Ireland	***3458***	***100***
Sweden	3093	89.4
UK	2770	80.1
Estonia	1498	43.3
Lithuania	1411	40.8
Belgium	1392	39.0
Denmark	1344	38.9
Greece	1267	36.6
Latvia	1129	32.6
Netherlands	1083	31.3
France	861	24.9
Slovenia	843	24.4
Poland	761	22.0
Malta	676	19.5
Portugal	602	17.4
Italy	597	17.3
Austria	567	16.4
Czech	521	15.1
Cyprus	519	14.8
Germany	500	14.5
Hungary	493	14.3
Slovakia	480	13.6
Croatia	450	13.0
Luxembourg	413	11.9
Spain	386	11.2
Romania	299	8.6
Bulgaria	251	7.3

Source: *As for Table 1.*

The summary of the 2020 international tax comparisons research findings is:

- Ireland has the highest wine excise in the EU 27 plus the UK.
- Ireland has the second-highest beer excise in the EU 27 plus the UK behind Finland.

- Ireland has the third-highest spirits excise in the EU 27 plus the UK after Sweden and Finland.
- Fifteen EU economies do not impose any excise on wine. In addition, France and Malta have very low wine excise tax.
- On an overall composite alcohol excise level (measured by the unweighted average of the different beer, spirits and wine excise rates), Ireland is the second highest behind Finland.
- The magnitude of the differences in alcohol excise between Ireland and other EU economies is large. For example, Ireland's beer excise is 11.4 times that of Germany. Irish spirits excise is 4.4 times that of Spain.
- Germany's composite alcohol excise per HLPA is €500 or 14.5% of the Irish level.
- France's composite level of €861 is 24.9% of the Irish level.
- Spain's composite rate is €386 or 11.2% of the Irish level.
- Application of the German beer excise rate to Ireland would reduce the price of a pint in a public house by 12.8% and the off-licence price of a bottle of whiskey by 38.8%.

The details of the different excise rates for beer, spirits and wine throughout the EU and the UK are presented in Table 4.2.

Table 4.2 EU Alcohol Tax Rates (Excise) (Euro per HLPA), May 2020, three beverages and composite level and rank in country alphabetical order

	Spirits	Wine	Beer	Composite level	Rank of composite level
Austria	1200	0	500	567	18
Belgium	2993	681	501	1392	7
Bulgaria	562	0	192	251	28
Croatia	810	0	540	450	24
Cyprus	957	0	600	519	20
Czech	1253	0	311	521	19
Denmark	2009	1371	653	1344	8

Estonia	1881	1344	1270	1498	5
Finland	4880	3609	3650	4046	1
France	1787	35	761	861	12
Germany	1303	0	197	500	21
Greece	2550	0	1250	1267	9
Hungary	996	0	484	493	22
Ireland	***4257***	***3862***	***2255***	***3458***	**2**
Italy	1036	0	755	597	17
Latvia	1642	964	780	1129	10
Lithuania	2025	1497	711	1411	6
Luxembourg	1041	0	198	413	25
Malta	1360	186	483	676	15
Netherlands	1686	803	759	1083	11
Poland	1433	361	489	761	14
Portugal	1387	0	418	602	16
Romania	718	0	179	299	27
Slovakia	1080	0	359	480	23
Slovenia	1320	0	1210	843	13
Spain	959	0	199	386	26
Sweden	5011	2309	1960	3093	3
UK	3190	3003	2118	2770	4
Ireland's rank	***3***	***1***	***2***	***2***	***2***

Source: *Spirits Europe, Summary of EU Member States, Brussels (Excise rates as of May 2020), the exchange rates are those of Oct 2019 as used in the EU excise tables except for the UK and Sweden for which we use 2020 August monthly average rates. Composite level is the unweighted average of the three rates.*

Large alcohol excise tax wedge

These very high Irish alcohol excise rates generate a large alcohol excise tax wedge, which we define as the difference between what the consumer pays for a beverage and the amount that the industry receives because of excise tax and VAT. The 2019 total consumer expenditure on alcohol is estimated at €7,392 million. Excise and VAT are estimated at €2,586 million, which is 35.0% of the expenditure total.

As noted above, the German composite average excise rate is €500 per HPLA compared to the Irish rate of €3,458. The German rate is only 14.5% of the Irish rate. This would indicate that if the German rate was applied to Ireland, Irish excise revenue would total about €179m instead of €1,233m. Ireland pays about €1,054m more annually than German rates would imply. Over five years, Ireland's high excise rates have removed over €5 billion from the Irish drinks industry and consumers compared to the application of German excise rates. (This estimate does not take into account differences in the alcohol consumption mix between the two countries.)

Excise and VAT impact: illustration though impact on price

In 2020 (before Covid, Jan 2020 prices), the Exchequer received:

- €1.41 from every pint costing €4.67, or 30.2% of the price, consumed in bars.
- €1.81 or 34% from every restaurant glass of wine costing €5.38.
- €16.81 or 64.3% of the price of a €26.15 off-licence bottle of whiskey.
- €5.12 or 50% of the price of a €10.30 off-licence bottle of wine.

Out-of-state purchasing

Current taxation policy in relation to alcohol is incentivising behaviour that removes alcohol taxes from the Exchequer. This is particularly concerning in the areas of counterfeit activity and cross-border shopping.

The February 2019 Revenue cross-border prices survey shows the significant difference between the two areas in terms of tax on alcohol (VAT and excise) for some alcohol products. The Euro/Sterling exchange rate used in the survey was 0.8685.

Table 4.3 Comparative prices and tax component in off-licence alcohol products, 2019, NI and RoI.

Products	Price in this State	Price in N. Irl	Difference	Total Tax and Duty in this State	Total Tax and Duty N. Irl	Difference Total Tax and Duty
Alcohols						
Stout (500ml can)	2.22	2.08	0.14	0.89	0.81	0.08
Lager (500ml can)	2.22	1.67	0.55	0.90	0.81	0.09
Lager (330ml bottle)	1.66	1.30	0.36	0.63	0.53	0.10
Bottle of Vodka	20.00	16.41	3.59	14.91	11.42	3.49
Bottle of Whiskey	24.00	23.86	0.14	16.41	13.24	3.17
Bottle of Wine (Chardonnay)	11.70	8.62	3.08	5.37	4.01	1.37
Bottle of Wine (Sauv. Blanc)	9.25	8.28	0.97	4.92	3.95	0.97
Sparkling Wine	18.35	10.93	7.42	9.80	5.11	4.69

Source. Revenue cross border process survey Feb 2019

The Republic's alcohol tax is higher in all the listed beverages. The tax difference in spirits is substantial, vodka is €3.49 and whiskey is €3.17 per bottle tax difference. The beer tax difference is lower. The sparkling wine tax difference is also large at €4.69. The tax difference in wine varies from €0.97 to €1.37 per bottle. The current differentials are sufficiently large to justify "special event" purchasing such as for parties, domestic celebrations and other large scale formal events. In addition, ordinary domestic purchasing can be done on an occasional basis providing households have the financial resources to engage in such bulk purchases.

The August survey by the Revenue Commissioners shows that the excise/VAT gap between Ireland and Northern Ireland increased for six of the eight listed beverages, was unchanged for one and was lower for one. As shown below, bulk buying (based on infrequent trips to NI) generates substantial savings in tax in addition to non-tax price advantages, based on the Revenue prices survey. As can be seen from the table below, there is a significant financial incentive for cross-border activity—particularly arising from tax differences. If one considers a basket of goods that would be deemed appropriate for a large party, the tax-related savings on the selected "party" bundle of beverages is €135.96.

Table 4.4. Savings from Northern Ireland purchases of alcohol 2019

Quantity	Product	Tax saved Per unit	Total tax saved
3	Bottle of vodka	€ 3.49	€ 10.47
3	Bottle of whiskey	€ 3.17	€ 9.51
10	18-unit crate bottle lager	€ 1.80	€ 18.00
6	Bottle of sparkling wine	€ 4.69	€ 28.14
6	Crate of Sauvignon Blanc	€ 11.64	€ 69.84
Total			**€ 135.96**

Source: *DIGI and based on Revenue Data from Feb 2019 Survey*

The issue of out-of-state sourcing is not confined to Northern Ireland. Irish holidaymakers go to low alcohol tax countries such as Spain and Portugal; the large tax differential is an incentive to bring home bottles of spirits, even allowing for the weight and baggage restrictions. The high alcohol excise provides an incentive to source outside the state with consequent losses of economic activity, jobs and Exchequer revenue. Brexit has resulted in the reintroduction of duty free sales for UK/EU passengers which increases the competitive disadvantage for ordinary retailers of the existing high domestic alcohol excise. Government should act to reduce this excise-generated financial incentive for legal and illegal out-of-state sourcing of alcohol.

Negative Impact of high excise tax

High alcohol taxes:

- Increase the incentive to source outside the state both legally and illegally.
- Reduce employment.
- Are a significant cost to small businesses especially pubs and small independent off-licences and have a large negative effect on their commercial viability especially in rural areas.
- Unfairly penalise moderate consumers of alcohol.
- Are regressive, unrelated to ability to pay, and do not contribute to equity in the tax system.

- Generate a range of adverse economic reactions from consumers, including an additional impetus to unregulated home consumption of heavily discounted products sold below cost price in the mixed retail off-licence setting (as opposed to on-licensed consumption) and cross-border shopping with consequent loss of VAT and excise revenues and employment opportunities.
- Constrain the development of the industry and its export potential.
- Reduce tourism competitiveness compared to several of the mainland EU tourism markets.

5. Cost of a 7.5% excise reduction

The financial impact of DIGI's recommended excise reduction for the Exchequer is outlined here. Total alcohol excise receipts in 2019 (the last pre-Covid full year) were €1.233 billion. A 7.5% reduction would cost €92.5 million. VAT is charged on excise at the 23% rate. Consequently, the total gross Exchequer cost would be €113.8 million. However, there are offsetting additional revenue benefits which are outlined below.

A reduction in alcohol excise will have a range of positive economic effects which will increase tax revenues. These will reduce the gross cost to a lower net cost. These positive effects include:

- Sustaining a larger number of enterprises in the drinks industry in the after-Covid world which will avoid job losses.
- Increasing enterprise competitiveness and industry confidence which will encourage growth and employment creation.
- Improving the tourism product.
- Reducing the incentive to cross-border shop.
- Improvement in the perception of Ireland as a location for the drinks industry and will contribute to the location of investment projects in Ireland by existing drinks multinational enterprises and enhanced entrepreneurial and innovation activity.

5. National and regional economic role

The economic impact of the drinks sector and the wider hospitality sectors are substantial at the national, regional and local levels. The sector is a promising sector on which to promote sustainable regional economic development.

Employment: National and Regional

- There were 179.2k jobs across the country in hotels, restaurants and pubs (accommodation and food and beverage services, the AFS sector) in the last quarter of 2019 which is the latest set of pre-Covid statistics. This was 7.6% of total employment. One in every thirteen jobs nationally was in the hospitality sector.
- 70.8.8% of these jobs were in regions outside Dublin.
- The lowest regional hospitality share was 6.1% of total employment in the Mid-West and the highest was 8.9% in the South-West.
- Hospitality employment is more female intensive than total employment. 46.1% of national employment is female compared to 54.6% in the hospitality sector.
- The female shares in regional hospitality employment range from 51.5% in the West to 67.7% in the South-East.
- Female hospitality jobs account for 9% of all female jobs nationally. On a regional basis the female hospitality job relative to total female regional jobs ranges from 7.3% in Mid-West and Dublin to 12.7% in the South-East.
- Hospitality employment increased by 45.9% between 2012 and 2019 compared to 24.7% for employment in total.
- In seven of the eight regions hospitality employment growth exceeded total employment growth. The exception was the Mid-West region.
- The part-time share of total national employment was 20.5% in 2019. The AFS sector is much more part-time intensive with a part-time share of 40.9%.
- Nationally the reasons for part –time employment were; 24.0% of part-time workers were in school, education and training; 2.7% had an illness or disability; 20.1% were part-timers because of looking after children or incapacitated adults; 25.0% were because of other personal or family

reasons; only 13.7% were part-timers because they could not find full-time employment and other reasons were 14.0%.

- The AFS reasons for part-time employment in Quarter 4 2019 were school, education and training 50.7% and other reasons 48.6%. (more detailed data is not available).
- The hospitality sector provides acceptable and valid part-time employment opportunities to students, homemakers, farmers and those other full-time workers who seek additional earnings opportunities. It meets a significant demand for different types of employment. Not all workers seek full-time employment.
- Dublin had 29.2% of national AFS employment in Quarter 4 2019 and 30.7% of total employment. However, Dublin is overrepresented relative to its national employment share in the high skill sectors. Dublin has 56.9% of all information and communications employment, 52.2% of all finance, insurance and real estate employment and Dublin has 44.5% of all employment in professional, scientific and technical activities.
- The age profile of Quarter 4 (the last pre Covid quarter) national employment is 15-24 years 11.2% of total, 25-44 years 48.0% of total, 45 years and over 40.9%
- The age profile of accommodation and food services employment is 15-24 years 31.8%, 25-44 years 43.6% and 45 years and over 24.5%.
- AFS employment is relatively young, 15-24 years is 31.8% of AFS employment compared to 11.2% in total employment.
- AFS 45 years and over employment is 24.5% of the AFS total compared to 40.9% in national total employment.
- The AFS 15-24 years age group is 16.5% of AFS full-time employment and 53.1% of AFS part-time employment.
- In absolute numbers there were 57,000 jobs held in AFS by those aged 15 to 24 years, 17,200 were full-time and 39,800 were part-time.
- There are 19,205 enterprises in the AFS sector and it is dominated by very small enterprises. 79.8% or 15,328 have less than 10 persons engaged. A further 16.7%, or 3,212 enterprises, have between 10 and 49 persons engaged. Only 3.2% of enterprises or 621 employ between 50 and 249 persons. Only 44 enterprises employ 250 persons or over, 0.2% of the total.

- Drinks enterprises have a wide regional spread. In 2020 89% of public houses were located outside Dublin. Restaurants, hotels and off-licences are also geographically spread.
- In addition to the employment provided directly by hospitality enterprises (the 179.2k jobs) there is also the indirect employment arising from the purchases of goods and services by the hospitality enterprises to enable production. There is also the induced economic activity where part of the incomes generated by the direct and indirect economic activity will be spent on final goods and services.
- In 2017 the AFS sector had €5.8 billion purchases and a wages and salaries bill of €3.4 billion.
- In addition to the drinks related employment in AFS the drinks sector also generates 7,300 jobs in beverage manufacturing, 5,500 jobs in off-licences and additional jobs in visitor attractions and wholesale and distribution.

Exports:

- Total beverages (alcohol and soft drinks) exports of €1.715 billion in 2019 based on CSO data.
- Trade surplus in beverages of €795 million in 2019.
- Beverages exports are 1.86 times imports.
- High domestic content in alcohol exports.
- Substantial potential to increase alcohol exports and to diversify markets.
- Global growth of Irish whiskey sales has been excellent in recent years.
- Almost two thirds of Irish beer market supplied domestically.
- About one third of Irish spirits market supplied domestically.
- About 80% of Irish cider market supplied domestically.

Exchequer contribution:

- €2.586 billion in excise and VAT in 2019.
- €1.233 billion excise receipts in 2019.
- €1.353 billion estimated alcohol gross VAT receipts associated with drinks sales in 2019.

- Income and profits tax revenues. The Revenue Commissioners estimated that the CSO category of hospitality generated in 2019 €320.5 million in PAYE income tax and USC, €52.2 million in self-employed income tax and €120.6 million in corporation tax receipts. Additional tax receipts arise from the other drinks sectors such as manufacturing, visitor centres, off-licences and wholesale distributors.
- PRSI employer and employee annual receipts of about €300 million are generated by the CSO hospitality sector.

Drinks Manufacturers:

- According to the 2014 (the later editions do not separately identify beverages as a sector) CSO Census of Industrial Production the drinks manufacturers:
- Pay €212 million annually in wages and salaries. Pay €251 million in total labour costs.
- Buy €836 million worth of materials for processing annually.
- Buy €57 million of industrial services.
- Buy €785 million of non-industrial services such as, information technology and telecommunications, security, advertising, cleaning, maintenance, accounting and insurance and other services.
- Excluding goods bought for resale without processing, have a total of €1.679 billion in purchases.
- Have invested €271 million in 2014 according to the CSO including €67m in building and construction and has potential for ongoing investment.
- Use about 50,000 tonnes of apples in production, 160,000 tonnes of barley and malted barley and over 300 million litres of milk.
- Have a high domestic sourced content in purchases of 62% in services and 42% in materials leading to a combined over €870 million in domestic service and materials purchases.
- This domestic content greatly exceeds the domestic content levels of the high technology sectors, e.g., domestic services purchased by the chemicals sector are only 8% of their total purchases.

The bar, other on-licence and off-licence sectors

- The bar and off-licence alcohol market in 2019 is estimated at €7.392 billion.
- The bar sector has a wages and salaries bill of €696 million based on 2018 CSO data for the retail sector.
- Spend €1.6 billion on total services and materials inputs.
- Provide an extensive and geographically spread network of enterprises.
- The independent off-licence sector is composed almost exclusively of micro enterprises and apart from the current abnormal Covid situation face a difficult commercial situation in competition with the large multiple chains
- Restaurants paid out €1.3 billion in wages and salaries and had purchases of €2.5 billion.
- Hotels had a wages bill of €1.2 billion and purchases of €1.8 billion.

7. Recent and long-term performance of the drinks sector

2020 performance

The most generally used domestic and international indicator of aggregate alcohol consumption is the quantity of pure alcohol contained in the various beverages. The recent and long-term average consumption performances are presented in Tables 7.1 and 7.2. Average consumption of alcohol declined in 2020 which broadly continued a long-term trend of decline.

Table 7.1 Average per adult alcohol consumption 2019 and 2020

	2019	2020	% change 2019/2020
Litres of pure alcohol (LPA), Total consumption	42,476,575	40,291,740	-5.1
Adult Population (aged 15	3.9126	3.973.8	1.6

and over), millions			
Litres of pure alcohol per adult (LPA)	10.856 (rounded to 10.9)	10.139 (rounded to 10.1)	-6.6 (-7.3 based on rounded levels)
Beer (LPA)	18,931,618	15,654,741	-17.3
Cider (LPA)	3,159,103	2,799,891	-11.4
Spirits (LPA)	8,821,113	8,883,306	0.7
Wine (LPA)	11,564,741	12,953,802	12.0

Sources. CSO Population and Migration Estimates August 2020. Revenue Commissioners, Alcohol Clearances data, 2019 and 2020. Website, 2021.

Total alcohol consumption as measured by clearances decreased by 5.1% in 2020 compared with 2019. The number of adults (as defined by 15 years and over) increased by 1.6%. This resulted in a decrease of 6.6% in average alcohol consumption per adult. It was 10.856 LPA in 2019 compared with 10.139 LPA in 2020. In figures rounded to one decimal place the 2020 average per adult consumption is 10.1 LPA compared to 10.9 LPA in 2019. This gives a decrease of 7.3% for 2020.

An estimation of average per adult alcohol consumption using a 4.5% alcohol content for cider instead of 5% results in a 2020 level of 10.779 LPA and a 2019 level of 10.069 LPA which results in a decline in 2020 of 6.6%. Annual average per adult consumption is now close to 10 LPA compared with the previous four years when it was close to 11 LPA.

Wine volume increased by 12.0% between 2019 and 2020. Total spirits consumption volume increased by 0.7% between 2019 and 2020. Beer volume decreased by 17.3%. Cider volume decreased by 11.4%. Wine now accounts for 32.2% of the total alcohol consumption compared to 27.2% in 2019 and 13.2% in 2000. Beer was 56.6% of total alcohol consumption in 2000 and is now 38.9%. The first quarter clearances data for 2021 show a very large decline in the volume of alcohol consumption compared with quarter 1 of 2020. There are very large declines in beer and cider with smaller declines in wine and spirits. Overall clearances volume were down by 19.7%. The changes are shown below:

- Beer -34.5%
- Spirits -8.2%
- Wine -3.4%
- Cider -15.9%
- **Total -19.7%**

Long Term Trends in Average Alcohol Consumption

The data on consumption trends since 2012 are shown in Table 7.2

Table 7.2 Recent Trends in Alcohol Consumption 2012 to 2020

	Adult population total, million	Litres of pure alcohol	Average per adult consumption, litres of pure alcohol
2012	3.6057	41,703,160	11.566
2013	3.6208	38,472,435	10.625
2014	3.6478	39,838,460	10.921
2015	3.6862	39,711,197	10.773
2016	3.7340	41,969,676	11.240
2017	3.7855	41,944,582	11.080
2018	3.8482	42, 691, 031	11.094
2019	3.9126	42,476,575	10.856 (rounded to 10.9)
2020	3.9738	40,291,740	10.139 (rounded to 10.1)

Sources. CSO Population and Migration Estimates, various years. Revenue Commissioners' alcohol clearances, various years.

Over the past nine years average per adult alcohol consumption has decreased from 11.566 LPA in 2012 to 10.139 LPA in 2020, a decline of 12.3%. The decline was not continuous over the period. There was a substantial decline in 2013, an increase in 2014, a decline in 2015, an increase in 2016, a small decrease in 2017, a small increase in 2018, a decline in 2019 and a decline in 2020. Average consumption in 2020 is 29.8% lower than the peak of 2001. Over the long-term period since 1990, the 2020 average consumption level is the lowest of the thirty years.

Bar sales performance

Bar sales performance in 2020, of course, is hugely determined by the Covid closures/restrictions effects. The volume of bar sales decreased by 59.4% in 2020 compared with 2019. 2020 included the first quarter, most of which was pre-Covid and also included some restricted opening. In the first four months of 2021, a closure period, bar sales volume was 91.8% lower than the equivalent period in 2019. There was also a decrease of 3.8% in 2019, the last "normal" year.

The bar sales index published by the CSO covers all bar sales including food, soft drinks and cigarettes, as well as bar and off-licence sales of alcohol.

Table 7.3 Retail sales in Bars, % change 2019 and 2020

	Volume	Value
2018/2019	-3.8	-1.4
2019/2020	-59.4	-59.5

Source: *CSO*

Off-licence sector

In 2020 the off-licence sector did well because it remained open while the bar sector was either closed or severely restricted. Total clearances declined by 5.1% while bar volume declined by 59.4% which indicates a large off-licence increase. This is a temporary situation and when bar restrictions are removed or reduced the long term pattern will be resumed to a large extent. The off-licence sector has grown over the long-term, but this growth has been confined to the multiple retailers. Small independent off-licences have struggled in a difficult competitive environment and high excise taxes resulting in closures and employment declines. Thousands of jobs have been lost in the independent off-licence sector since the economic crisis, a trend exacerbated by the high and increasing level of excise. In normal non-Covid times small off-licences face severe competition from the large multiple chains. Small enterprises are particularly hit by the working capital requirements needed to fund the high excise levels. The excise tax wedge is very high for off-licences because the excise per unit of alcohol is the same for both on and off-licence sellers but the price per unit is much lower in the off-licence than in the on-licence. Consequently, excise is a much larger proportion of the off-licence price than the on-licence price. Excise which is an upfront cost on the off-licence is €11.92 on a €26.15 bottle of whiskey which is 46% of the selling price of the product.

Excise has a large detrimental effect on the cash flow of the off-licences and other small drinks businesses. Given the difficulties with securing lines of credit in Ireland these cash flow issues have major implications for small Irish businesses – which have had to delay investing in their companies as a result of government policy. An overview of how this impacts small businesses is shown below:

Table 7.4 Excise due on importation of 1,000 cases of wine per month

	% Increase	**Duty per Case**	**Excise per 1000 Cases**	**VAT**	**Payable to Revenue**
2012		€22.64	€23,640	€5,437	€29,077
2013	41%	€33.36	€33,360	€7,673	€41,033
2014	15%	€38.24	€38,240	€8,795	€47,035
Overall Increase	**62%**		**€14,600**	**€3,358**	**€17,958**

Source. DIGI

The total payment (incl. VAT) is now €17,958 higher per 1,000 cases than it was in 2012.

independent off-licences have experienced a deterioration in business conditions in recent years. A 2019 survey of independent off-licences reported that 37% of respondents expected they would be closed within ten years.
The level of excise duties is directly related to cash flow as it puts a strain on working capital. Funding working capital has become increasingly acute in recent years due to the reduction in credit facilities provided by the banks to small enterprises such as independent off-licences and small rural pubs. A pre-Covid NOffLA survey of members reported that 52% were experiencing cash flow issues with 39% having had their bank facility cut in the past year resulting in 41% of members struggling to finance day to day operations and pay creditors on time.

Decline in pub numbers

The number of public houses declined from 8617 in 2005 to 7182 in 2015 and further declined to 6890 in 2020. Between 2005 and 2020 the number of pubs declined by 20% nationally, 21.6% outside Dublin and by 4.1% in Dublin.

Innovation and entrepreneurship

The drinks industry is simultaneously characterised on one hand by substantial innovation, new venture formation and export development and, on the other, by significant market decline and substantial contraction in the number of public houses.

The entrepreneurs, managers and enterprises in the industry display a high degree of innovation and entrepreneurship while operating in a global market. The industry is characterised by high rates of new venture formation, entrepreneurial resource, product development, process development, business diversification, and business development. The innovative capacity of the drinks and wider hospitality sector places the sector in a good position to prosper in the post-Covid economy.

Even with this high-energy innovation activity, over the long term, average consumption of alcohol is declining and very many small drinks enterprises, especially rural and small-town pubs and off-licences, face a difficult future or have already closed.

Domestic drinks enterprises and brands face substantial and increasing competition from imported beverages. Imports provide 35% of beer consumption, 64.3% of spirits consumption and 14.3% of cider consumption. Wine, which is all imported, accounts for 27.6% of total alcohol consumption. Substantial export growth is targeted. New ventures and new products are needed to support domestic market share and to realise increased exports.

All sectors and enterprises face difficulties in generating innovation and growth. The drinks sector is no different in this regard and like others, it can benefit from the range of public policy supports for innovation and business development. However, the drinks industry also faces additional sectoral specific difficulties relating to innovation which arise directly from Government policy.

The sector faces a high degree of regulation and high excise taxes which generate a large difference between the market price of a product and the return to the producer and distributor. In light of the growth expectations of the broader drinks industry, there is a case for reducing the excise wedge.

The drinks and hospitality sector is one of Ireland's most innovative. Brewers, distillers, restaurants, pubs, hotels and off-licences have invested significant amounts of time and money into developing new product ranges, improving their premises, creating jobs, and marketing their services.

In response to growing global demand for novel drinks experiences, drinks manufacturers are improving and remarketing older products while simultaneously adding to their product portfolios and experimenting with new recipes.

Visitor centres are moving drinks producers, small and international, into the tourism business, allowing for greater product and service diversification. The same innovative streak is evident in drinks retailers and hospitality businesses, like pubs, restaurants and off-licences.

According to a 2019 survey of publicans by DIGI the following percentages reported specific innovations to improve business:

- 79% have invested in refurbishment
- 55% have developed their food and drink offering
- 59% have made better use of social media
- 97% have enhanced their entertainment offering:
- 33% have hired more staff

Furthermore, 77% of NOffLA members reported in a pre-Covid survey that they would invest in the business were Government to reduce the level of excise. The 2021 NOffLA Members Survey showed that 69% of respondents view the 2012 and 2013 excise increases as continuing to have a negative impact on their businesses.

8. Summary and recommendations

Summary

The drinks industry is a substantial national, regional and local economic resource. It is an integral part of the wider hospitality and tourism sector. It also has a substantial exports performance. The rural pub network is a desirable and extensive social networking infrastructure.

In recent years there has been an excellent drinks innovation and entrepreneurship performance with substantial product development and many new breweries, distilleries and cideries. It has been at the forefront of visitor centre developments which have enhanced the tourism offering.

However, it is also an industry which has experienced very large decline in the numbers of public houses outside of Dublin, where bar sales volume is still well below the 2007 pre-economic collapse period, where independent small off-licences are facing a very difficult competitive environment and where very many small rural pubs are in danger of closure due to weak commercial potential. These negative features are compounded by the fact that Ireland operates a tax regime which includes very high alcohol excise tax rates compared to fellow EU member states. Other countries support their indigenous drinks sectors, such as many countries with no excise on wine, but Ireland penalises indigenous drinks enterprises with high excise tax. The objective should be to operate with the correct and appropriate level of alcohol excise and DIGI believes that the appropriate level of excise is approximated by the European average norm. As well as providing a long-term competitive base lower excise would support an industry which has been challenged more than most others during the pandemic.

Recommendations

Alcohol excise should be reduced by 7.5% in Budget 2022. This should be part of the effort to move towards the lower EU norms for alcohol excise. The 2022 reduction should be followed in Budget 2023 with another 7.5% reduction.
In addition, DIGI recommends that a craft cider excise exemption scheme should be introduced and that alcohol excise on bad debts should be allowed to be written off as is currently the case with VAT.