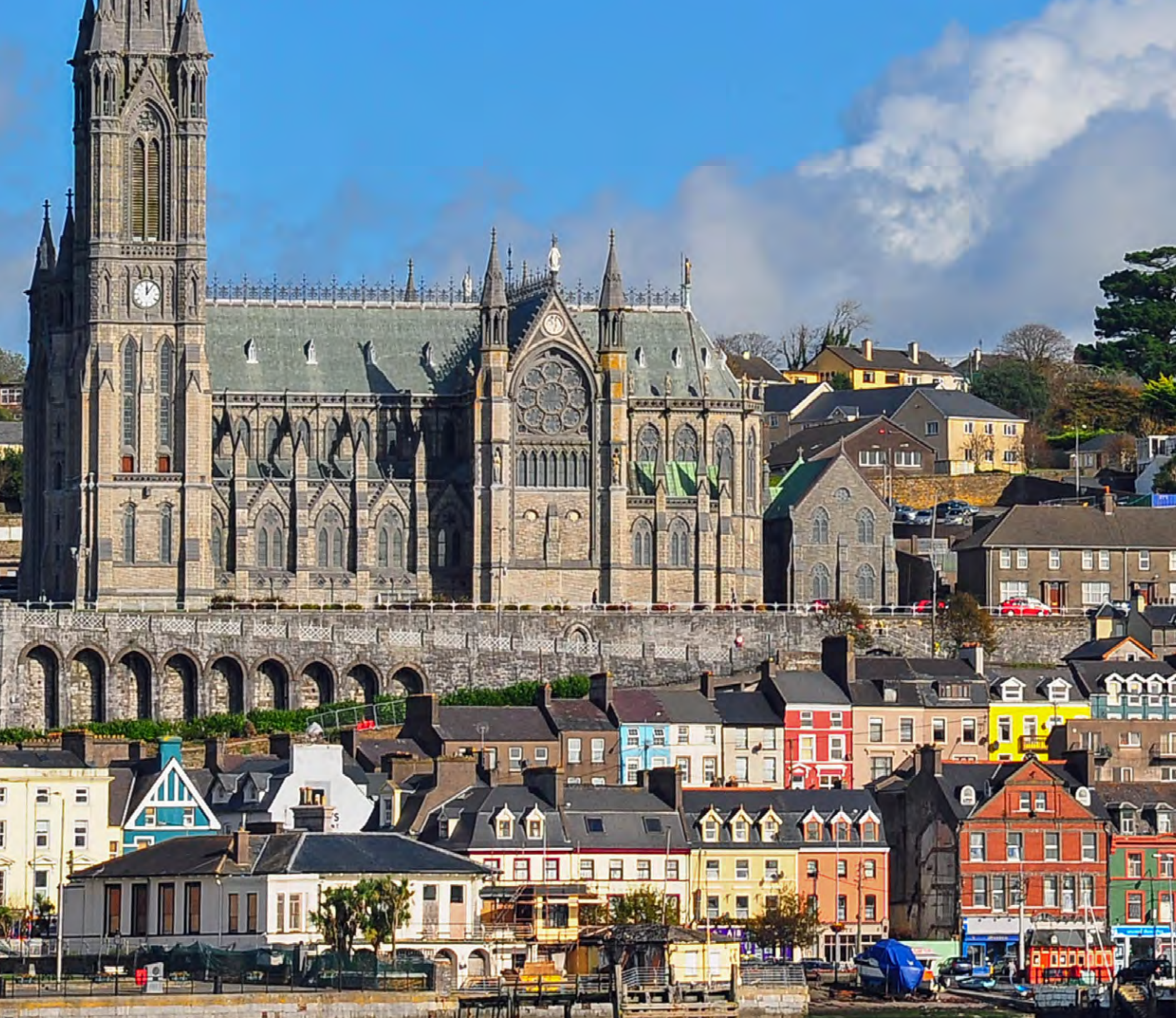
BUILDING A SUSTAINABLE DRINKS AND HOSPITALITY SECTOR

How Government policy affects innovation, job creation and competitiveness



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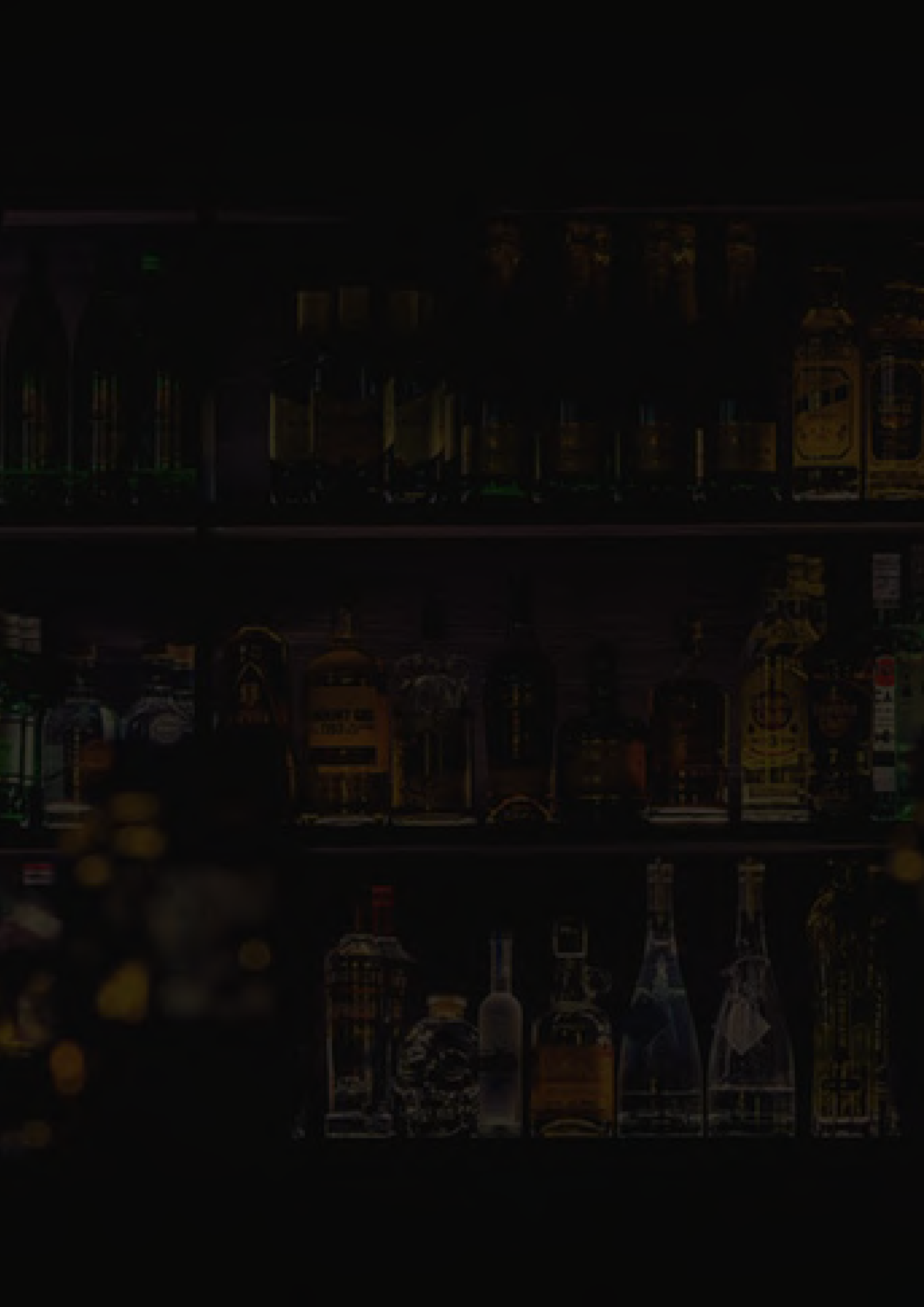

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Executive summary

In many respects, Ireland is not the country it once was. In mere decades, we have transformed from a quiet island nation on the periphery of Europe into an internationally envied, economic and social powerhouse. The Irish mindset has changed, too. We are more health conscious, we drink less, and actively pursue new interests and hobbies.

But as much as we've taken to yoga, flat whites and early-morning runs, some things will remain forever unchanged—and that includes enjoying a drink at the pub.

This should not be a surprise. The pub has been a focal point of Irish society, particularly rural society, for generations. It is where we meet with friends, family and colleagues to share news, make new acquaintances, and do business. Indeed, in the country, where communities are more dispersed and less serviced by public transport, the pub often acts as the local community hub.

The pub is so inextricably a part of Irish culture that simply being in one and soaking up its atmosphere—with a pint of Irish beer or a glass of Irish whiskey in hand—is, according to Fáilte Ireland, one of the main factors influencing tourists' decision to holiday in Ireland.

Despite the obvious importance of the Irish pub, and by extension the businesses that supply and support them, like breweries, distilleries, and other retailers and distributors, the Government's relationship with the drinks and hospitality industry is a peculiar one.

On the one hand, the Government acknowledges and appreciate the benefits of a thriving, innovative sector that exports internationally, creates jobs and invents new products; on the other, it sees no issue in burdening those same productive, innovative businesses with a punishing excise tax and a high VAT rate.

On excise

Irish drinks and hospitality businesses, and Irish consumers, shoulder the second-highest overall alcohol excise tax in the EU. We pay more excise on a glass of wine than any other member state, the second-highest levy on beer, and the third highest on spirits.

In contrast, many other EU governments, especially those whose countries have a long history of alcohol production (like France, Germany and Italy), have a more amicable relationship with their drinks industry. The French levy just 1 cent of excise tax on a 187ml glass of wine (we charge 80 cents) and the Germans 5 cents on a pint of lager (we charge 55 cents).

In contrast, in Ireland, home to some of the world's most famous beer and some of its most famous whiskeys, excise on a pint of stout served in a pub is 54 cents, compared to 5 cents in Spain. Excise tax on a 70cl bottle of whiskey purchased in an Irish off-licence is almost €12, compared to just €2.90 in Italy.

On economics

The wider hospitality sector employs 175,000 people, or nearly 8% of all Irish workers. The drinks industry alone directly and indirectly employs 90,000. The majority (and depending on business type, often the large majority) of this employment is located outside of Dublin.

Together, the drinks and hospitality sector generate €1.4 billion in exports. Drinks is Ireland's most successful manufacturing industry in recent years in terms of the rate of new venture formation. The number of alcohol manufacturing licences increased from 32 in 2009 to 137 in 2017. In 2013, there were just 4 working distilleries; in 2019, that number is 23, with 24 in planning or construction phases.

But so long as alcohol excise tax remains high, the Irish drinks and hospitality sector will find it difficult to continue along its healthy growth trajectory, nor will it be able to compete with its international rivals.

More money diverted to the Exchequer through excise means less spent on product innovation and creating jobs. Indeed, a survey of the Drinks Industry Group of Ireland (DIGI) membership shows that as many as 11% of drinks and hospitality businesses plan on letting staff go in the next 12 months. In rural Ireland, which already has many other challenges, a significant excise-assisted downturn in business will not only lead to joblessness and economic decline but a further erosion of traditional community bonds.

Our recommendation

This report, supported with research and analysis by DCU economist Anthony Foley and research conducted among Irish consumers and the DIGI membership, highlights the positive contributions of the drinks and hospitality sector to Ireland's economy and society, as well as the challenges it faces and the obstacles in the way of growth.

To DIGI, it is clear how these barriers can be overcome: the Government must reduce the tax burden on the drinks and hospitality sector and pursue more pro-business policies.

DIGI recommends a 15% reduction in alcohol excise tax over the next two years—a 7.5% reduction in Budget 2020 and a further 7.5% reduction in Budget 2021. Not only will this free up resources for essential business growth and job creation, particularly in rural Ireland, a reduction in alcohol excise tax will also end an unfair austerity-era tax on consumers and entrepreneurs that is long overdue a reversal.

Rosemary Garth

Chair of DIGI and Director of Communications & Corporate Affairs at Irish Distillers

Key findings and recommendation

23%
of irish consumers visit a pub at least once a week

32%
of irish consumers visit a restaurant at least once a week

51%
bring international visitors to a local pub

64%
bring international visitors to a local restaurant

63%
of publicans say their business helps elderly people living in isolation to socialise

72%
go to a pub to meet friends.

However

71%
of publicans say that Ireland's high excise rate has negatively impacted their business in the last 12 months

43%
of consumers who have noticed an increase in prices as a result of the 2018 VAT hike say they have reduced their spending at restaurants, hotels and cafés

CLOSED

37%
of off-licences believe they will be closed within the next 10 years

10%
of publicans in rural Ireland who plan on letting staff go this year is due to business costs

To maintain the growth of the drinks and hospitality industry, and protect jobs and businesses in rural Ireland, DIGI recommends:

A 15% reduction in alcohol excise tax over the next two years

YEAR 1
Budget 2020
7.5% reduction

YEAR 2
Budget 2021
7.5% reduction

The economic, social and cultural role of the drinks and hospitality industry

1.1 Economic contribution of the drinks and wider hospitality sector

The drinks and hospitality sector accounts for hundreds of thousands of jobs, thousands of enterprises, many new breweries and distilleries, and large levels of use of Irish-produced products.

Despite the strong economic benefits arising from the drinks sector, there are substantial negative factors. Over the long term, bar sales volume and average alcohol consumption has declined substantially.

The number of non-Dublin public houses has declined greatly over the past many years. Many rural pubs are very small with inadequate commercial returns. Government policy should support a sustainable future and excise reduction should be a substantial part of this approach.

Economic contribution of the drinks and hospitality sector – key facts:

Employment:

- The wider hospitality sector directly employed 175,000 persons [7.6% of all employment] in Q1 2019, according to the CSO definition, and much more according to the Fáilte Ireland definition with an additional indirect and multiplier employment effect.
- The Annual Services Inquiry for 2016 identifies accommodation and food services employment of 59,300 in accommodation, 79,200 in food services and 41,300 in beverage serving.
- 69.9% of CSO-defined hospitality employment is located outside Dublin.
- 90,000 full and part-time jobs are provided directly and indirectly by the drinks sector.
- A total of about 63,000 jobs throughout Ireland are directly provided by the drinks sector.
- 89% of public houses, 79% of licensed hotels, and 65% of restaurants are located outside Dublin.
- Over 50% of us have worked, or are currently working in a pub, restaurant of hotel.

Exports:

- Drinks exports of €1.435 billion in 2018 based on CSO data.
- Trade surplus in beverages of €587 million in 2018.
- Beverages exports are 1.69 times imports.
- Over 60% of the Irish beer market is supplied domestically.
- About one third of the Irish spirits market is supplied domestically.
- Over 80% of the Irish cider market is supplied domestically.

Exchequer contribution:

- €2.622 billion in excise and VAT in 2018.
- €1.240 billion excise receipts in 2018.
- €1.382 billion estimated alcohol VAT receipts in 2018.

Drinks manufacturers:

According to the 2014 [the 2015 and 2016 editions do not separately identify beverages as a sector] CSO Census of Industrial Production, drinks manufacturers:

- Pay €212 million annually in wages and salaries. Pay €251 million in total labour costs.
- Have invested €271 million in 2014 according to the CSO including €67m in building and construction and has potential for ongoing investment.
- Use 46,000 tonnes of apples in production, 160,000 tonnes of barley and malted barley and over 300 million litres of milk.

The bar and off-licence sectors:

- The bar and off-licence alcohol market in 2018 is estimated at €7.540 billion.
- The bar sector has a total labour cost of €783 million and a wages and salaries bill of €711 million based on 2015 CSO data for the retail sector.
- Spend €1.3 billion on total services and materials inputs.
- Very many of the 2018 7,992 pubs/bars have small turnovers and are in a weak commercial position; 49.5% of the total or 3923 enterprises have annual net sales of under €190.5k or €3,663 per week.

1.2 The sector's contribution to regional development

The drinks and wider hospitality sector are regionally spread and have the potential to contribute to more balanced regional development, which is an objective of Government policy.

The regional spread of hospitality employment growth is shown in the table below. Four regions have a higher hospitality employment growth than the national rate of 39.2%, Border, South-East, Dublin and Midland. Mid-West was the same as the state's increase. Two regions had very low increases.

Regional spread of hospitality employment 2013 and 2019, Q1, thousands

Region	Accommodation and food services Q1 2013	Accommodation and food services Q1 2019	Accommodation and food services, % change 2013/2019
State	**125.7**	**175.0**	**39.2**
Border	9.4	17.8	89.4
West	12.4	14.3	15.3
Mid-West	12.5	17.4	39.2
South-East	9.5	14.1	48.4
South-West	21.0	29.1	38.6
Dublin	36.1	52.6	45.7
Mid-East	19.0	21.0	10.5
Midland	6.0	8.7	45.0

Source: CSO, LFS

1.3 Decline in number of non-Dublin pubs

The number of seven-day licences decreased from 8,617 in 2005 to 7,072 in 2018, a decline of 17.9%, or 1,545 enterprises. The decline is largely a rural phenomenon. Dublin pubs decreased from 786 to 776, a decline of 10 or 1.3%. Non-Dublin pubs declined from 7,831 to 6,296, a drop of 19.6% or 1,535 enterprises.

Many rural pubs have low turnovers and are marginal from a market commercial perspective. A reduction in excise could enhance small rural pub profitability and help to sustain them or, at least, extend their commercial life.

Number of seven-day (public house) licences, 2005 to 2018

	2005	2018	Decline, numbers	Decline %
Total	8,617	7,072	1,545	17.9
Dublin	786	776	10	1.3
Non-Dublin	7,831	6,296	1,535	19.6

Source: Revenue licences data

1.4 Weak commercial position of many pubs/bars

The number and percentage of pubs and bars in each of the six licence net turnover bands are shown below. The very notable feature is the small number with high levels of sales and the very large number with low levels of sales. Only 8.6% of pubs have average annual sales of €952.5k or higher. On the other hand, 49.5% of pubs, or 3,923 enterprises, have annual sales of under €190.5k.

Pubs and bars in each turnover band for licensing, 2018

Turnover band €k	Number of licences	% of licences
Under 190.5	3,923	49.5
190.5-380.999	1,862	23.5
381.0-634.999	881	11.1
635.0-952.499	499	6.3
952.5-1,269.999	291	3.7
1,270.0 or more	466	5.9
Total	7,922	100

Source: Revenue/Parliamentary question

1.5 Bar sales performance

The volume of bar sales decreased by 1.3% in 2018 compared to an increase of 3.6% in 2017 and an increase of 3.2 % in 2016, according to CSO retail sales data. This decrease is probably partly due to the new drink driving regulations and is probably mostly concentrated in rural areas due to public transport limitations. Changing lifestyles are also a contributory factor in the on-licensed sector's 2018 decline.

Retail sales in bars, % change 2018 compared with 2017

	Volume	Value
2017/18	-1.3	0.6

Source: CSO

The 2018 volume of bar sales is still only about three-quarters of the pre-economic collapse 2007 level.

Bar sales volumes decreased each year from 2008 to 2014. There were annual increases in the three years from 2015 to 2017, and a decrease occurred in 2018.

1.6 Off-licence sector

The off-licence sector has grown over the long term, but this growth has been largely 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.

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.

1.7 The social and cultural role of the drinks and hospitality industry

Beyond the purely economic, the drinks and hospitality sector plays an integral role in Irish society, helping to maintain relationships and bind communities together.

According to a DIGI survey of 1,000 Irish consumers, conducted by Amárach Research, almost a third (32%) visit a restaurant, and nearly a quarter (23%) a pub, at least once a week.

72% visit their local pub to meet friends, 62% to socialise, and 40% to celebrate special occasions. When asked what they enjoy most about the pub, 54% of consumers said they simply enjoy the atmosphere, particularly in rural pubs.

Irish drinks and hospitality businesses are points of pride. When hosting international visitors, 64% of Irish people say they take their guests to a local restaurant and 51% to a local pub. Ahead of a surprising small 3% of us who enjoy tourist attractions, sightseeing or visiting the outdoors with visitors.

However, consumers—and by extension businesses—are altering their purchasing habits in response to external factors, like taxation, legislation and lifestyle changes.

Exactly half of consumers have noticed an increase in prices at hotels and restaurants since last year's VAT increase, and 71% have moved to curb their spending at these places as a result. In a trend that will be particularly difficult for restaurants, precisely a quarter of consumers say they no longer purchase alcohol with their meals. Equally, when we consider the significant amount of food that is now sold in pubs also, this trend will affect our public houses too which represent hundreds of regional businesses across the country.

Publicans, specifically, recognise that their business plays an important role in their local community. 77% of publicans (DIGI Survey, 2019) say that their business provides a place for family occasions, like funerals, christenings and birthdays.

68% say that their business sponsors a local team, charity or community group, 48% say they provide space for local musicians to perform on a regular basis, while 63% say that their pub is a place for elderly people living in isolation to socialise with others.

66% of restaurants believe that their business is a place for family occasions while 77% have invested in the refurbishment of their business, with 61% of these spending more than €20,000 in the last two years.

The social role of the industry in rural locations

The VFI undertook a major research project on the economic and social role of the rural pub in 2013-14.

The report concluded that the social role played by pubs in rural areas was significantly valued by local residents. The closure of the local pub is associated with the decline of social drinking and an increasing level of off-licence alcohol consumption. This increased consumption, according to the report, is facilitated by the cheaper prices available in the off-licence sector.

The VFI research concludes that rural publicans support almost all volunteering initiatives and charity events occurring in villages and rural parishes. Participants of focus groups frequently stated that local rural pubs functioned as information centres and informal job centres. Pubs also function as meeting locations and locations of socialisation and inclusion.

Overall, the VFI research reported pessimism about the future of rural pubs. “Almost 90% of respondents predict a continuation of the current situation or further downturn,” found the report, “while only 8.1% of respondents were optimistic with regards to future financial performance.”

The role of the industry in tourism

The drinks industry, along with other sectors, contributes to national and international tourism performance in several ways. The extensive network of public houses, hotels and other bars, fully licensed restaurants, and restaurants with wine licences provides physical facilities and services for tourists and contributes to the tourism experience in a positive and significant way, particularly in rural areas. This is a significant contribution in light of the poor quality of public facilities in many areas and the often wet Irish weather conditions.

This industry is also a significant investor in Ireland’s tourism product. Drinks-related tourism attractions such as the Guinness Storehouse, the new Roe & Co Distillery and the Old Jameson Distillery (now the Jameson Distillery Bow St) attract large numbers of tourists, particularly international tourists, and are significant components of the Irish tourism product. Other leading tourism visitor facilities include Midleton Jameson Distillery visitor centre, the Teeling Whiskey visitor centre in Dublin, Kilbeggan and Tullamore DEW visitor centres, the Smithwick’s Experience in Kilkenny and the Irish Whiskey Museum in Dublin. There are currently 25 operational Irish whiskey distilleries across the island of Ireland and 17 Irish whiskey distillery visitor centres in all four corners of the country.

Leading Irish drinks brands such as Guinness, Jameson, Baileys and Magners contribute to a positive awareness of Ireland in foreign markets and support the tourism marketing effort and direct marketing spend. Failte Ireland and other research show that international visitors consider the Irish pub to be an integral and significant part of their positive tourism experience in Ireland.

This industry makes a significant contribution in attracting tourists to Ireland and in promoting Ireland as a tourism destination which is a key economic contributor.

Tourism is one of Ireland’s most important economic sectors and is one of our largest indigenous industries, supporting an estimated 260,000 jobs in communities all around the country. Between January and March 2019, revenue from tourism was €1.02 billion. However, this was down from €1.08 million over the same period in 2018, despite a small increase in overseas visitors.

A fall-off in tourism revenues or any decline in UK visitors, our largest tourism market, is a trend which will have significant consequences for the Irish economy and will require action to safeguard.

Sustainability, entrepreneurship and innovation in the drinks and hospitality sector

2.1 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.

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 very 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.

Innovation and entrepreneurship in the drinks and hospitality sector – key facts:

- Very high rate of new venture formation compared with total manufacturing. In 2008 there were 60 drinks manufacturing enterprises. By 2014 this had increased to 123, an increase of 105%. In contrast, the number of enterprises in total manufacturing increased by less than 1%.
- The number of alcohol manufacturing licences increased from 32 in 2009 to 137 in 2017vThe number of brewing licences increased from 22 to 86.
- The number of distilling licences increased from 7 to 33.
- The number of cider manufacturing licences increased from 3 to 18.
- The number of microbreweries producing their own product has more than quadrupled since 2012, from 15 to 72.
- The Irish Whiskey Association reports a total of 23 working distilleries in 2019, with plans for another 24. This compares with 4 working distilleries in 2013.
- Product development in the drinks industry has been extensive—the typical microbrewery now has 4 to 5 regular product lines
- One major Irish off-licence operator lists 61 Irish IPA beers, 14 Irish lagers, 36 Irish pale ales, and 65 Irish whiskeys in its product range.
- Examples of drinks manufacturer process innovation include:
- Jameson Caskmates whiskey, which is produced using casks previously used for the ageing of stout.
- Teelings has been active in the use of unique barrels (Calvados, Sauternes, Carcavelos and White Port) not used previously for Irish whiskey.
- Slane Distillery has developed systems to recycle the waste hot water from the stills to heat Slane Castle.
- The gin producing sector has a target to treble exports to 400,000 9-litre cases by 2022.
- The off-licence product offerings in all categories, but especially in wine, have been characterised by increased range and variety, improved service, and increased consumer knowledge, partly assisted by wine appreciation education programmes by off-licences and wine importers.

- The drinks industry has been notable for its business diversification innovation into visitor centres. The largest fee-charging visitor attraction in Ireland is the Guinness Storehouse.
- There has been a substantial increase in whiskey visitor centres. In a survey of 50 microbreweries, 8 already have a visitor facility in place and a further 36 intended to develop a facility on the enactment of the Intoxicating Liquor [Breweries and Distilleries] Bill 2016.

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.

2.2 Developing businesses, diversification and the barriers to progress

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 survey of almost 400 publicans, over the last three years:

- 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

Over the next two years, 68% of that group intend to invest in a refurbishment/enhance their premises, 23% improve their entertainment offering, and 45% develop their food and drink offering.

New trends

Non-alcoholic drinks, like Heineken Zero, Guinness Pure Brew and Ceder's, are increasingly popular in the Irish market, and producers and retailers have responded to demand and changing consumer trends.

Many pubs, restaurants, hotels and off-licences now stock a large variety of non-alcoholic drinks. The Virgin Mary on Dublin's Capel Street, opened in 2019, is Ireland's first completely non-alcoholic pub.

To further appeal to changing consumer tastes and lifestyles, some pubs, like Crawford and

Co in Cork, have begun selling local food produce during the day, and hosting art and dance classes.

The Vine Cottage Bar in Saltmills, Wexford has introduced a mobile food truck, Mickey Finn's pub in Redcrosss, Wicklow, has established a brewery and tapas offering, while the Bard's Den bar in Letterfrack, Connemara, has opened a gift and souvenir shop for tourists.

Others have focused on niche entertainment: Dublin's Big Romance bar plays only vinyl records, while Token, another Dublin bar, provides a vintage arcade game experience alongside drinks and food.

Food trucks and stalls have helped re-energise pubs across the country, like Dick Macs in Dingle and The Glimmer Man in Dublin, while many others now serve barista-style coffee at the bar.

In response to Ireland's drink-driving laws, some rural pubs are partnering with local taxi firms, or offering their own ride-sharing service, to drive isolated customers home where public transport is not an option. In 2017, Treacy's Bar and Restaurant in Portlaoise won a Road Safety Authority award for driving local customers home in its licensed minibus.

Challenges and barriers to progress

Despite a willingness to invest in innovation, DIGI publicans report a number of factors that have negatively impacted their business in the last 12 months, including rising business costs, like rates and insurance 82%, the 2018 hospitality VAT increase 45%, and Ireland's high alcohol excise tax 43%.

Ireland's increasingly tough drink-driving laws have also impacted on business: 65% say that harsher drink driving penalties have discouraged customers, while as many as 78% say that customers are drinking less because of concerns over "morning after" driving.

Indeed, as many as 10% of publicans in rural Ireland plan on letting staff go before the end of 2019 due to fewer customers and rising business costs. 12% of restaurants plan to let staff go this year, citing the hospitality VAT increase last year, on an equal footing and

standard business running costs as the two major factors that have negatively impacted their business, 88%.

If the drinks and hospitality sector is to continue to grow, the Government must make it easier for entrepreneurs and corporate decision-makers to operate. To free up funds for investment in new products and services and job creation, the Government must move to reduce Ireland's punitive excise tax rate.

Government policy and its effects on the drinks and hospitality sector

3.1 Introduction to government policy and progressive policies for the drinks industry

Building a commercially and environmentally sustainable drinks and hospitality sector is primarily the responsibility of the enterprises that comprise it, and DIGI research shows that the majority are putting in the effort and the investment.

However, there are many different policy issues affecting the wider enterprise sector that require a sympathetic response from Government, including measures to deal with Brexit, interest rates, Government imposed charges and costs, other business costs such as insurance and waste, labour costs, regulations, infrastructure, skills, tax, PRSI, transport and housing costs.

These can be discussed in the context of overall enterprise and economic policy. However, of particular consequence for the increased possibility of building a sustainable drinks and hospitality sector is the reduction of Ireland's alcohol excise tax, which is the second highest in the EU.

High alcohol excise tax has many undesirable effects:

- Customers must pay higher prices.
- The commercial position of drinks enterprises is weakened.
- In particular, the commercial position of small rural pubs is weakened.
- Substantial investable resources are diverted from the drinks industry to the Exchequer.
- Rates of investment in drinks enterprises are lower.
- Potential additional economic activity is not realised.
- Increase in the tendency to source outside the state both legally and illegally.
- Reduced employment.
- Penalising of moderate consumers of alcohol.
- Making use of regressive taxes, which are unrelated to ability to pay and do not contribute to equity in the tax system.
- Constrain the development of the industry, and its export potential.
- Reduce tourism competitiveness compared to several of the mainland EU tourism markets.

53% of publicans and RAI members believe that UK tourists are the most important tourist market to their business, and 47% of the same collective group state that a potential drop in sterling making Ireland more expensive for British tourists, as their main concern.

3.2 Alcohol excise tax: international comparison

Ireland has a very high level of alcohol excise tax when compared with the large majority of the other 27 economies of the EU.

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 lower than Ireland. These three are followed by the UK, in fourth place, which is also a high alcohol excise economy. The UK level is 80.5% of the Irish level.

The rest of the EU economies have far 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 53.4% of the Irish level and is far behind the levels of the top four countries.

Irish and international excise tax – key facts:

- Ireland has the highest wine excise in the EU 28.
- Ireland has the second-highest beer excise in the EU 28 behind Finland.
- Ireland has the third-highest spirits excise in the EU 28 after Sweden and Finland.
- Fourteen EU economies do not impose any excise on wine. France, Greece 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.
- Ireland's composite alcohol excise per HLPA (hectolitre of pure alcohol) is €3,458.
- Germany's composite alcohol excise per HLPA is €500, or 14.5% of the Irish level.
- France's composite level of €839 is 24.3% 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 13.3% and the off-licence price of a bottle of whiskey by 41.2%.

3.3 A 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. The total expenditure on alcohol is estimated at €7,540 million. Excise and VAT are estimated at €2,622 million which is 34.8% of the expenditure total.

As noted above, the German composite average excise rate is €500 per HLPA compared to the Irish rate of €3,458. The German rate is only 14.5% of the Irish rate. This would indicate that if German rates were applied to Ireland, Irish excise revenue would total about €180m instead of €1,240m. Ireland pays about €1,060m 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 having German excise rates. (This does not take into account of differences in consumption type between the two countries.)

3.4 Excise and VAT impact on price

In 2018, the Exchequer received:

- €1.38 from every pint costing €4.50, or 31% of the price, consumed in bars.
- €1.81. or 34%, from every restaurant glass of wine costing €5.38.
- €16.55, or 67% of the price, of a €24.78 off-licence bottle of whiskey.
- €5.12, or 50% of the price, of a €10.30 off-licence bottle of wine.

3.5 Alcohol excise tax rate changes

The drinks industry experience of the recession is notable in that it received a significant excise tax reduction in 2009, but this was almost fully reversed for beer, cider and spirits by the increase in excise in December 2012 and was more than fully reversed for wine.

The increases in Budget 2014 left all four beverages groups with higher excise rates than in 2007. The industry continues to suffer from the austerity-related excise tax levels.

3.6 Impact of excise on 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 Government lost substantial revenues because of cross-border shopping for alcohol and other products in 2009. Alcohol tax differentials were one of the determinants of this activity. The excise reduction in 2009 offset much of the tax disadvantage and greatly reduced the level of 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.

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

Products	Price in this state	Price in NI	Difference	Total tax and duty in this state	Total tax and duty in NI	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

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. This incentivises bulk or "special occasion" purchasing.

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, and the large tax differential is an incentive to bring home bottles of spirits. The high alcohol excise provides an incentive to source outside the state with consequent losses of economic activity, jobs and Exchequer revenue.

3.7 Impact of excise on consumers

Irish consumers of alcohol pay the second-highest average excise level in the EU. The penal nature of the Irish alcohol excise is illustrated further by identifying the actual excise paid by the average alcohol consumer.

There were 3.1170 million alcohol consumers in 2018 [on the basis that 19% do not consume alcohol—adults defined as 15 years and over as is usual in alcohol consumption measurement, although clearly 15 to 17 years persons are not adults] who paid €1.240 billion in excise. The 2018 excise burden on average on each alcohol-consuming adult was €397.82 or €7.65

per week. Including VAT, which is charged on the excise, the figures increase to €489.32 per year and €9.41 weekly.

A 7.5% reduction in excise would potentially return €29.84 to the average consumer, or €36.70 when VAT is added to the excise.

Alcohol excise tax is a regressive and inequitable tax which does not take into account the ability to pay. Low-income consumers pay the same amount of excise per pint of beer in a bar or take-home unit of alcohol as high-income consumers.

People who are considered to be of such low income as to be excluded from USC charges are not given such favourable treatment in alcohol excise or other indirect taxes. The excise per unit of alcohol is the same regardless of the value of the drink. A low-priced bottle of wine attracts the same excise charge as a very highly priced bottle.

The Government has noted the objective of reversing some of the austerity impact. Recent budgets lowered income tax. There was also some restoration of expenditure cuts. Pay cuts are being restored. An excise reduction would potentially benefit 3.1 million consumers of alcohol in Ireland.

About

Drinks Industry Group of Ireland

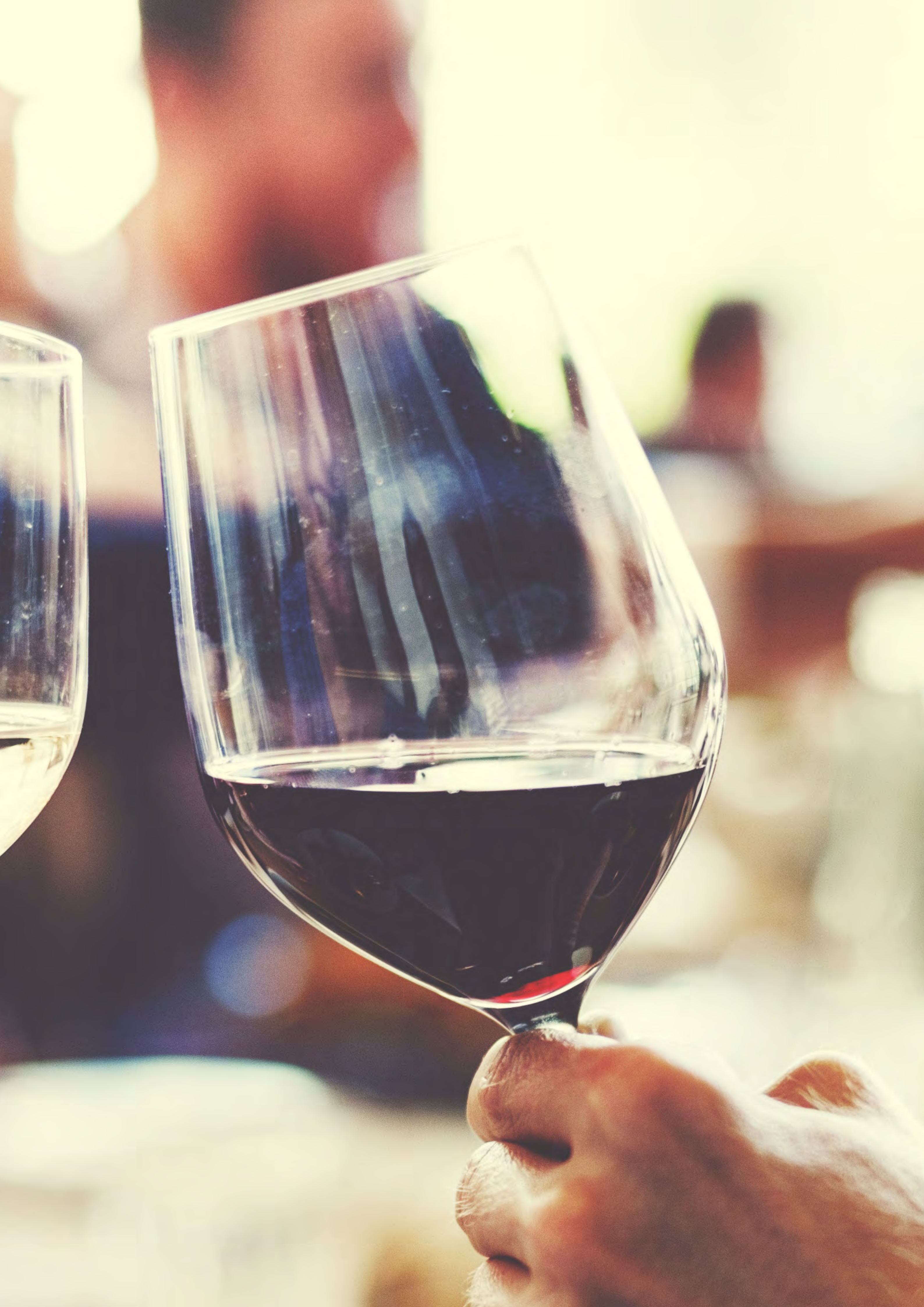
The Drinks Industry Group of Ireland (DIGI) is the umbrella organisation for the drinks and hospitality industry in Ireland. DIGI's membership spans brewers, distillers, distributors and the retails sectors (both the on-trade—pubs, hotels and restaurants—and the independent off-licence sector).

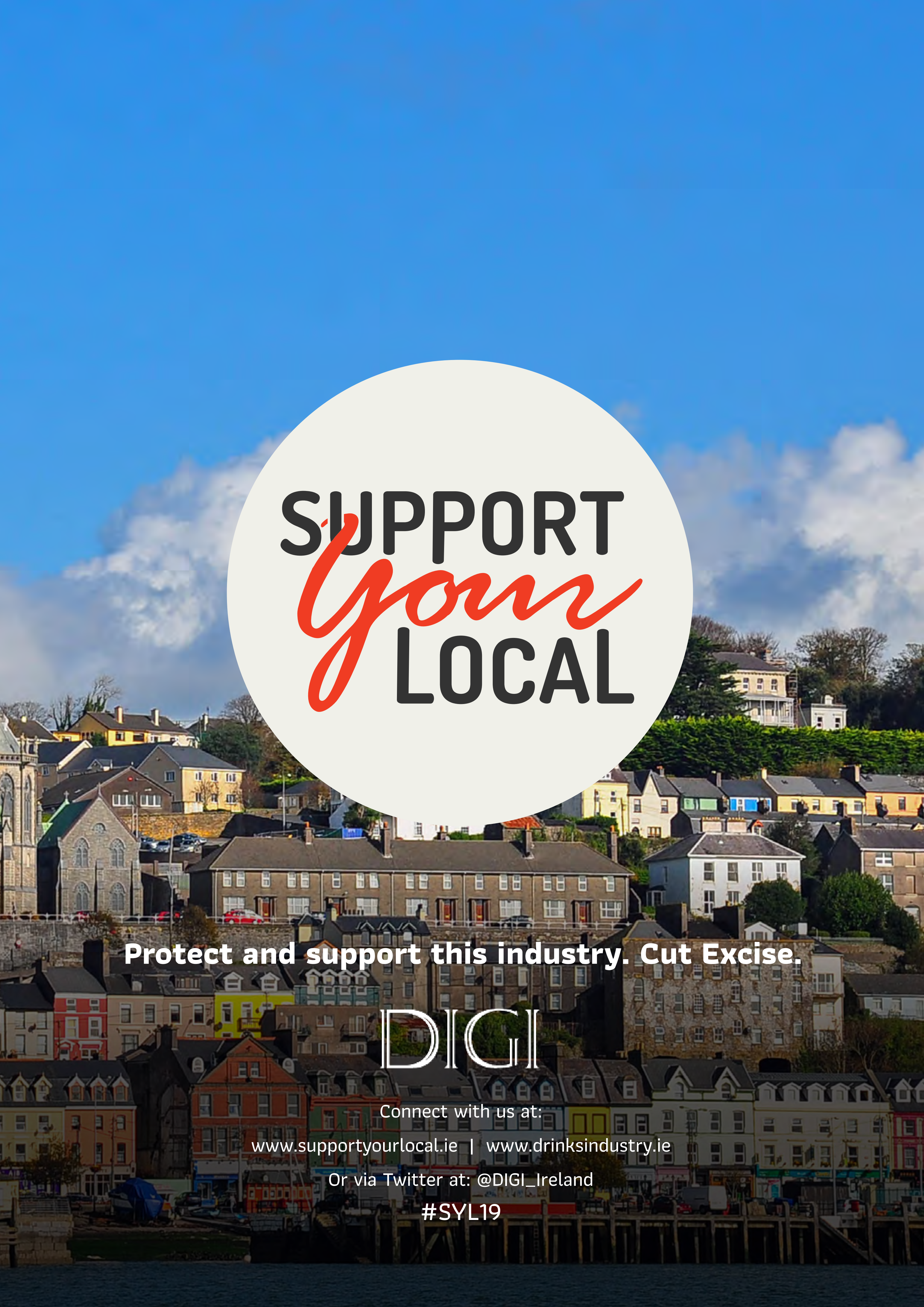
DIGI's members include:

- Alcohol Beverage Federation of Ireland
- Irish Hotels Federation
- Licensed Vintners Association
- National Off-Licence Association
- Restaurants Association of Ireland
- Vintners Federation of Ireland

Almost 92,000 jobs across the country are dependent on the drinks industry alone. It purchases over €1.1bn of Irish produce annually, exports goods worth over €1.25bn, and provides over €2.3bn worth of excise and VAT income to the state, as well as hundreds of millions in income tax, PRSI receipts and tax on profits every year. It is also a vital element of Ireland's wider hospitality sector and internationally renowned tourism offering.

DIGI, through its Support Your Local campaign, seeks to highlight the positive economic, cultural and social contribution that the drinks and wider hospitality sector makes to Ireland, nationally and locally. We work with stakeholders to create conditions that ensure the industry's stability and continued growth.

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