Submission to the
Minister for Finance
For
Budget 2024

From

Drinks Industry Group of Ireland

Reduce unfair and excessive alcohol excise by 7.5% to begin the process of bringing it into line with average EU levels

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Executive Summary

DIGI calls for Budget 24 to reduce alcohol excise by 7.5%. This should be followed in Budget 25 by an additional 7.5% reduction. This should be part of a multi-annual programme of excise reduction to move towards the lower average EU alcohol excise norms. The current and future public financial situations are strong and these recommendations are affordable.

The drinks industry includes beverages manufacturers, public houses, restaurants, hotels, off-licences, wholesalers and distributors and drinks tourism attractions. The industry accounts for tens of thousands of jobs and thousands of enterprises regionally spread around the country. It generates substantial indirect economic impact through the purchase of billions of euros of inputs of goods, services and agricultural products such as apples, barley and milk. It generates over €2 billion in exports and hospitality directly employs 171k people, 71% of which are located outside Dublin. It generates €2.6 billion in excise and Vat.

The industry is a substantial economic asset but Irish alcohol excise tax is among the highest in the EU which has a substantial negative impact on the industry. Ireland has the highest wine excise in the EU27 and UK. Ireland has the second highest beer excise in the EU 27 and UK behind Finland. Ireland has the third highest spirits excise in the EU 27 and UK behind 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 standard rate of Vat is charged on alcohol excise throughout Europe. Ireland's competitive position on Vat is also weak. Ireland's rate of 23% is exceeded by only six countries, the highest of which is Hungary at 27%. Eighteen EU countries have standard Vat rates which are below 23%.

The introduction, in January 2022, of minimum unit pricing for alcohol clearly removes any justification for using high excise rates as an instrument of public health policy

Certain drinks sectors have not yet fully recovered from the impact of Coved unlike the overall economy. The business models of sectors of the industry have been devastated by Coved. The industry should be supported by excise reductions to realise its potential.

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). Our members are:

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

DIGI is concerned with the excise taxation and economic development aspects of the drinks 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.

2. Recommendation for Budget 2024: 7.5% reduction in alcohol excise

DIGI repeats its recommendation from last year that Irish alcohol excise should be gradually reduced to the lower average EU levels and recommends that Budget 2024 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 proportionate, reasonable and affordable reductions given current economic and public financial circumstances on the long-term path to average EU excise levels. DIGI acknowledges the Government support for the industry over the Coved and high energy cost periods. The introduction, in January 2022, of minimum unit pricing for alcohol clearly removes any justification for using excise as part of public health policy. Alcohol excise is a revenue-raising measure.

The primary reasons for the proposed alcohol excise reduction are;

- Lower excise rates would 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 in now the higher cost environment. Excise is a substantial cost on drinks enterprises.
- 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 and on tourism competitiveness.
- Excise reduction will enable the sector to generate and sustain high levels of national and regional job creation especially for young workers into the future.
- Alcohol excise is a regressive tax which ignores ability to pay.
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- High alcohol excise rates unfairly penalise moderate consumers of alcohol.

3. The business and public financial environment in 2024

The economy will perform relatively well in 2024, as predicted by the most recent Government economic predictions, although certain risks remain. However, both the 2023 and 2024 performances will be much lower than 2022. Unfortunately, the business environment for the drinks sector will have specific difficulties within this overall economic environment.

The April 2023 Stability Programme Update expects real GDP to grow by 4.1% in 2024 following 5.6% in 2023. This is a slowdown compared to 12.0% in 2022. Personal consumption volume will grow by 3.8% in 2024 and 3.9% in 2023. This compares with 6.6% in 2022. Full employment will continue with an unemployment rate of 4.5%. Inflation, as measured by the Harmonised Index of Consumer Prices, will decrease from 8.1% in 2022 to 4.9% in 2023 and 2.5% in 2024. However, this means that 2024 prices will be 16.2% higher than in 2021.

The public finances will be strong in both 2023 and 2014. The current expectations for both 2023 and 2024 are large surpluses in the general government sector of €10 billion in 2023 and €16.2 billion in 2024. These estimates each include about €12 billion in "windfall" corporation tax receipts.

Risks to these forecasts include a longer period of tight monetary policy, weaker international growth and additional economic disruption arising from the Ukraine war. The difficulties facing the drinks and wider hospitality sectors include, the destruction of the pre-Covid and pre-high inflation business model, the loss of over €1 billion in tourism expenditure (much of which would have gone to the hospitality sector) from hotel accommodation being diverted to refugee housing, the slower recovery of international inward tourism than previously expected, staff shortages, the impact of higher mortgage and food costs on household discretionary income, continuing high input costs and the inability of some parts of the overall sector to regain pre-Covid levels of business unlike the wider economy.

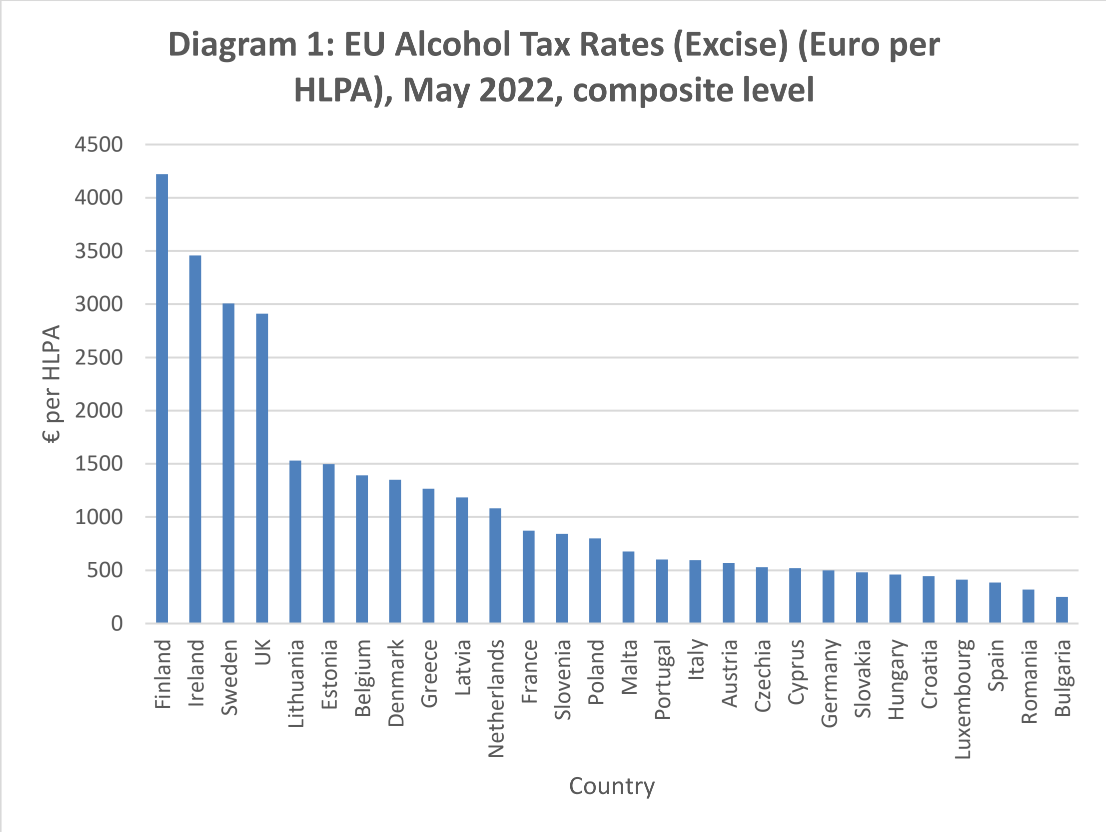
4. Ireland's very high alcohol excise

Ireland has a very high level of alcohol excise tax in 2022 when compared with the large majority of the other economies of the EU and the UK. Ireland has the highest wine excise in the EU27 and UK. Ireland has the second highest beer excise in the EU 27 and UK behind Finland. Ireland has the third highest spirits excise in the EU 27 and UK behind 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. There is a substantial difference between the alcohol excise levels of the four highest alcohol taxed economies, Finland, Ireland, Sweden and the UK, and the remaining 24 countries. Diagram 1 presents the country details.



Finland's composite rate per HLPA is 22.1% higher than Ireland's, €4222 compared to Ireland's €3458. Sweden's composite rate is 13.0% below the Irish rate and the UK rate is 15.8% below the Irish rate. Lithuania has the fifth highest composite excise rate of €1530 and is 55.8% below the Irish rate. Germany's composite alcohol excise per HLPA is €500 or 14.5% of the Irish level of €3458.France's composite level of €871 is 25.2% 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 of stout in a public house by 11.0%, the price of a glass of wine in a restaurant by 15.1% and the off- licence price of a bottle of whiskey by 37.3%.

The standard rate of Vat is charged on alcohol excise throughout Europe, the drinks sector is penalised by a tax upon a tax. Ireland's competitive position on Vat is also weak. Ireland's rate of 23% is exceeded by only six countries, the highest of which is Hungary at 27%. Eighteen EU countries have standard Vat rates which are below 23%. The UK rate is 20%.

Application of the German beer excise rate to Ireland would reduce excise on an on-licence pint of stout to 5cent instead of 54cent, a direct reduction of 49cent. This increases to a reduction of 60cent when VAT on the excise is included. In Spain, the excise on a bottle of whiskey is €2.69 which is €9.23 lower than in Ireland.

In 2023 on April 2023 prices, the Exchequer received in excise and VAT:

- €1.57 from every pint costing €5.50, or 28.5 % of the price, consumed in bars.
- €2.02 or 31.1% from every restaurant glass of wine costing €6.50.
- €17.01 or 62.5% of the price of a €27.23 off-licence bottle of whiskey.
- €5.06 or 50.6% of the price of a €10.00 off-licence bottle of wine.

This is a large alcohol indirect tax burden on consumers.

5. Cost of a 7.5% excise reduction

Total alcohol gross excise receipts in 2022 were €1.229 billion. A 7.5% reduction would cost €92.2 million. VAT is charged on excise at the 23% rate. Consequently, the total gross Exchequer cost would be €113.4 million. However, there are offsetting additional revenue benefits which are outlined below. The introduction of MUP increases the VAT yield for the exchequer for each drink which is now sold at the higher MUP. A reduction in alcohol excise will have a range of positive economic effects which will increase tax revenues and reduce the net cost of the measure, including:

- Sustaining enterprises in the drinks industry in the after-Covid world which will avoid job losses by improving the commercial model.
- 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.

6. National and regional economic impact

The economic impact of the drinks sector and the wider hospitality sectors are substantial at the national, regional and local levels. The impact covers direct employment in manufacturers, public houses, restaurants, hotels, off-licences, wholesalers and visitor attractions, indirect employment through the purchase of billions of euros of goods, services and agricultural inputs and induced employment associated with the multiplier mechanism of these direct and indirect incomes. The drinks sector is an important element of the tourism product and is a substantial exporter. The main features of the drinks economic impact are identified below:

- The latest Labour Force Survey for Quarter 1 2023 reports hospitality employment (accommodation and food and beverage services)f 171.4k or 6.6% of total employment. This is still lower than the immediate pre-Covid level of 179k. Total employment now exceeds its pre-Covid level.
- 70.8% of these jobs were in regions outside Dublin.
- 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 hospitality sector provides necessary 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.
- AFS employment is relatively young, 15-24 years is 31.8% of AFS employment compared to 11.2% in total employment
- 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.
- In addition to the drinks related employment in AFS the drinks sector also generates 8,800 jobs in beverage manufacturing, about 6,000 jobs in off-licences and additional jobs in visitor attractions and wholesale distribution.
- Total beverages (alcohol and soft drinks) exports of €2.045 billion in 2022.
- Imports of beverages of €1.079 billion in 2022.
- Large trade surplus in beverages.
- 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.
- €1.229 billion excise receipts in 2022.
- Approximately €1.4 billion alcohol gross VAT receipts associated with drinks sales in 2022.
- €2.6 billion in excise and VAT in 2022.
- The Revenue Commissioners estimated that the CSO category of hospitality generated in 2022 €408 million in PAYE income tax and USC, €57 million in self-employed income tax and €150 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.
- Substantial purchases by manufacturers of apples, barley and malted barley and milk.
- The bar and off-licence alcohol market in 2019 (the latest normal year available) was estimated at €7.392 billion

- The bar (and other beverage service activities) sector has a wages and salaries bill of €720 million based on 2019 CSO data for the retail sector and spent €1.588 billion on total services and materials inputs.
- It provides an extensive and geographically spread network of enterprises
- Restaurants in 2019 paid out €1.346 billion in wages and salaries and had purchases of €2.625 billion.
- Hotels and similar accommodation had a wages bill of €1.208 billion and purchases of €2.358 billion.

7. The long-term decline in average alcohol consumption and the performance of the drinks sector

The most generally used domestic and international indicator of aggregate alcohol consumption is the quantity of pure alcohol contained in the various beverages.

Over the past eleven years average per adult alcohol consumption has decreased from 11.566 LPA in 2012 to 10.282 LPA in 2022, a decline of 11.1%. 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 declines in 2020 and 2021. Average consumption in 2022 is 28.8% lower than the peak of 2001. The 2022 performance has brought average consumption back above 10 LPA, compared to the level of 2021 which was below 10 LPA. The 2022 level is still below each year to 2019.

The recent aggregate alcohol and beverage groups clearances are presented in Table 7.1. The severe effects of Covid are clear. Total clearances declined in 2020 and in 2021. Total alcohol consumption increased by 9.8% in 2022 compared with 2021 but. is still slightly below the 2019 level (0.8% lower).

Beer volume in 2022 recovered from the very low Covid period levels but is still below the 2019 level. Cider volume increased in 2022 but is still below the 2019 level. Spirits continued its strong performance with a 9% increase in 2022. Wine volume stabilised in 2022 following the large decline of 2021 and is a little below the 2019 level.

Table 7.1. Total alcohol consumption 2019 2020, 2021 and 2022

	2019	2020	2021	**2022**	**% change 2021/2022**
Litres of pure alcohol (LPA), Total consumption	42,476,575	40,291,740	38,381,422	**42,149,969**	**+9.8**
Beer (LPA)	18,931,618	15,654,741	15,462,700	**18,317,894**	**+18.5**
Cider (LPA)	3,159,103	2,799,891	2,680,169	**2,783,572**	**+3.9**
Spirits (LPA)	8,821,113	8,883,306	8,991,008	**9,799,274**	**+9.0**
Wine (LPA)	11,564,741	12,953,802	11,247,545	**11,249,229**	**+0.01**

Sources. CSO Population and Migration Estimates August 2022. Revenue Commissioners, Alcohol Clearances data, 2019 to 2022. Website, 2023.

Bar sales performance

Bar sales performance in 2020 and 2021, of course, was hugely determined by the Covid closures/restrictions effects. It is widely appreciated that the bar sector was very adversely affected by Covid regulations. However, the levels of volume and value of bar sales are still below the pre-Covid performances. The 2022 volume of bar sales was 23.2% lower than 2019. The value of bar sales in 2022 was 15.4% lower than in 2019.

Table 7.2 Retail sales in Bars, % change 2019 to 2022

	Volume	Value
2019/2022	-23.2	-15.4

Source: *CSO*

The latest CSO data for the bar sector refers to March 2023. In the first three months of 2023 bar value sales were 17.1% lower than the same period in 2019. Full recovery still has a long way to go. The volume of bar sales in early 2023 was 25.9% lower than the same period in 2019.

Off-licence sector

The off-licence sector has grown over the long-term, but this growth has been largely confined to the multiple retailers. As identified in previous DIGI submissions 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, a trend exacerbated by the high and increasing level of excise. 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 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.

A recent survey by the National Off-Licence Association reported,

89% of respondents found increasing business running costs (rates, insurance, wages, energy, waste and utilities) negatively impacting their business over the last year;

- 65% of respondents believe a reduction in excise duty would be effective in supporting the wider drinks sector, in light of increasing business costs;
- 35% of respondents would struggle to remain open if excise was increased in Budget 2024;
- 72% of respondents would invest in their business if excise were to be reduced in Budget 2024.

Decline in pub numbers

DIGI research in 2021 showed that between 2005 and 2021 the total number of public houses declined by 21.2% or 1,829 pubs. In Dublin the decline was 34 pubs or 4.3%. The number in the rest of the country declined by 1,795 or 22.9%. All 26 counties experienced declines in public house numbers in the 2005 to 2021 period. Of the 26 counties the largest decrease was Laois with 30.6%. This decline has continued in 2022 when there were 6,680 public houses, a decline of 108 compared with 2021. Overall between 2005 and 2022 the decline was 1,937 public houses or 22.5%.

Innovation and entrepreneurship

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, development of visitor centres, 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.

8. Summary and recommendation

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. It is an innovative sector 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 also faces difficulties. Bar sales volume is under threat and the numbers of rural pubs and independent off-licences are declining. Unfortunately, these negative features are compounded by the fact that Ireland operates a tax regime of very high alcohol excise tax rates compared to fellow EU member states. The Irish Standard Vat rate which is levied on excise is also relatively high by EU standards.

Other countries support their indigenous drinks sectors, such as many countries with no excise on wine, but Ireland penalizes its indigenous drinks enterprises with high excise tax.

Alcohol excise should be reduced by 7.5% in Budget 2024. This should be part of the effort to move towards the lower EU norms for alcohol excise. The 2024 reduction should be followed in Budget 2025 by another 7.5% reduction.