Submission to the Minister for Finance For

Budget 2023

From

Drinks Industry Group of Ireland

Reduce unfair and excessive alcohol excise by 7.5% to begin the process of lowering alcohol tax to the lower EU norms

June 2022

Contents Page

Executive Summary

- The hospitality sector is only recently emerging from the economic devastation of Covid-19. Along with the overall economy it now faces an unexpected difficult environment of high inflation, hugely increased operating costs especially in energy products, rising labour costs from market and regulatory factors, staff and skill shortages, lower than anticipated economic growth and higher interest rates. The business environment in 2022 and 2023 will be much more difficult than was only recently expected.
- The hospitality sector has a relatively high level of warehoused tax debt. According to Revenue statistics for March 2022 the accommodation and food services sector (including hotels, restaurants and bars) had warehoused debt of €402 million or 13.4% of the total of €3 billion which is much greater than its share of employment.
- In addition to these difficulties the Irish drinks sector carries the burden of one of the highest alcohol tax regimes in the EU and is one of only a few sectors on which excise tax is imposed. Alcohol excise is excessive and unfair.
- The sector makes a very substantial direct and indirect employment and economic contribution. 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.
- In this context DIGI recommends that Budget 23 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. This is a proportionate, reasonable and affordable request.
- The introduction, in January 2022, of minimum unit pricing for alcohol clearly removes any justification for using excise to force alcohol price increases to reduce consumption from a health policy perspective.
- The proposed excise reduction is intended to help enterprises in the drinks and hospitality sector to rebuild economically sustainable commercial models and to generate activity in all areas of the country after Covid and in the context of the recent and rapid serious deterioration of the business environment and business costs.
- Despite the current strong labour market, employment generation will continue to be one of the most important policy issues, especially at local and regional levels. The drinks and hospitality sector has a strong track record of national and regional job creation. It can deliver again with an appropriate supportive policy environment.
- Ongoing excise reduction will also assist the strategic role of helping to rebuild tourism competitiveness which is important for the speedy recovery of international tourism.
- Irish alcohol excise is significantly higher than most other EU economies. In 2021. 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 €869 is 25.1% 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 in 2019. 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 indirect 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 for the medium and long-terms and in the immediate aftermath of the Covid emergency.
- Excise is a substantial cost on drinks enterprises.
- The drinks and wider hospitality sectors are major national and regional economic assets employing 179k persons across Ireland in the last quarter of 2019, before the Covid impact, of which 70.8% were located in regions outside Dublin.
- 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 and 2021 with significant declines of 6.6% and 5.7% respectively.

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 thousands of enterprises and approximately 90,000 jobs supported directly and indirectly in drinks manufacturing, drinks retail and wholesale distribution and visitor centres throughout the country and contribute to the much larger number of jobs in the wider hospitality and tourism sector.

DIGI is concerned with the excise 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 especially with the introduction of the Minimum Unit Price. 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. Recommendation for Budget 2023: 7.5% reduction in alcohol excise

DIGI repeats its recommendation from last year and recommends that Budget 2023 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.

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 of high inflation, Covid legacy issues, higher business costs and labour shortages 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. Excise is unfair in that it is imposed on relatively few sectors and alcohol excise is excessive by EU standards.

DIGI recommends that: ***There should be a reduction of 7.5% in alcohol excise in Budget 2023.*** This should be followed by a further 7.5% reduction in Budget 2024 and ongoing reductions thereafter to bring Ireland into line with average EU levels.

Reasons for excise reduction

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 the higher cost and high inflation environment of 2022 and beyond. 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. High excise levels make a large gap between consumers' expenditure and enterprises' receipts.
- 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.
- It would contribute to the fight against inflation.

The large negative economic impact on sectors of the drinks industry of Covid-related closures and restrictions are well known and appreciated by Government. In addition to the above issues the sector along with the rest of the economy faces the difficulties of high inflation rates and substantial input cost increases.

Excise and Health Policy

DIGI believes that the primary purpose of alcohol excise is revenue generation and it is an ineffective instrument for the promotion of public health. According to HRB research, Ireland's average consumption of 11lpa in 2018 was lower than Austria, France and Luxembourg, among others and was similar to Germany. All of these countries had much lower excise tax rates than Ireland.

DIGI accepts the need to reduce the societal and health impact of misuse of alcohol and has contributed to initiatives in this area. However, there is too much focus on the role of excise tax and insufficient emphasis on other public health measures such as education and health promotion. Average consumption of alcohol has been declining over the long term as shown in Table 7.2 and is now below 10 LPA average consumption per adult.

This decline is driven by a range of factors including, demographic change, health awareness, growth of low and no alcohol products, other consumer behaviour changes and entertainment changes. The Tax Strategy Group 2021 report on excise notes, with respect to patterns of alcohol consumption………” it is unlikely that tax is the driving factor in consumption changes. In this regard, the consumption, and composition of consumption, of alcohol products is driven by factors such as personal disposable income, individual consumer preferences, the availability of alcohol products, the pricing strategies of retailers and publicans, and cultural changes.”

Of course, DIGI as business operators also recognise that price matters. However, it must be recognised that reducing the impact of alcohol misuse should be focused on those who are misusing the product and who are less sensitive to price. It must also be recognised that Irish consumers have access to legal and illegal sourcing of alcohol from outside the state. In normal times Irish consumers take many trips to low alcohol excise economies such as Spain and Portugal. The new availability of duty free between Ireland and the UK increases the option of out of state sourcing.

When exchanges rates and excise and other indirect tax are in particular positions there is also a substantial incentive for cross border shopping. In addition, the introduction, in January 2022, of minimum unit pricing for alcohol clearly removes any justification for using excise to force alcohol price increases.

The market for alcohol is divided between consumption in licensed premises (on-licence sales) and home consumption (off- licence sales). The price per unit of alcohol is substantially higher in the on-licence sector reflecting the service element of the provision of the product. Off-licence alcohol prices are much lower. In particular, the large multiple chains have implemented substantial price discounting and special offers for alcohol which resulted in very low prices for some alcohol products. Increases in excise can be absorbed by the large multiple chains and are not necessarily passed on in price increases. Minimum unit pricing is intended to ensure a price floor for off-licence alcohol products and is a more effective targeted price setting mechanism. Large off-licence operators cannot sell below the legal minimum. The main public health price-related issue with alcohol is the low price of alcohol in the large multiples. On-licence prices are, as noted above, much higher and greatly exceed the minimum price.

Minimum unit pricing, unlike excise, is a targeted alcohol pricing policy, which sets the minimum price per gram of alcohol at €0.10. DIGI does not believe excise is an effective consumption control measure and should not be used as a fiscal tool to support public health policy on alcohol. The Tax Strategy Group papers, published in September 2021 state that: "Ireland has some of the highest rates of excise duty on alcohol products in the EU. This reflects a long-standing policy to support public health objectives." This assertion is no longer valid following the introduction of minimum unit pricing, which is a targeted public health policy.

A reduction of excise duties would not impact on public health policies as it would now be in conjunction with minimum unit pricing, given that any price reductions will not be possible on cheap alcohol. It is clear that high levels of excise are both unfair to many consumers and are not needed in a regime of minimum unit pricing.

3. Economic, inflation and cost context

Economic performance in 2023

The Irish economy was expected to grow strongly with the ending of most Covid restrictions in January. However, the Russian invasion of Ukraine has lowered the expected growth performance and significantly increased 2022 and 2023 inflation pressures. The longevity of the war and associated deeper sanctions will add further to inflation pressures and cause additional reductions in economic growth from what is currently officially forecast.

The Department of Finance publishes two detailed macroeconomic analyses each year; the Economic and Fiscal Outlook (EFO) in the context of the Budget which was last published in October 2021 and the April 2022 Stability Programme Update (SPU) which was published recently on April 13. Economic forecasts will be updated as the year proceeds. A comparison between the two shows how official views of the economy have changed over the October 2021 to April 2022 period which includes the impact of the Ukraine war. Overall, the economy is projected to perform surprisingly well in 2022 and 2023 despite the war. 2022 GDP was expected to grow by 5% in the EFO and the April 2022 expectation is an even higher rate of 6.4%. A better measure of Irish economic activity is Modified Gross National Income (GNI*) which had a 2022 growth rate of 5.2% in the October 2021 EFO and a reduced but still good growth rate of 3.7% in the SPU. Modified domestic demand (another useful measure of economic performance) expectations for 2022 dropped from 6.5% in October to 4.2% in April

The 2023 expectations are broadly similar in both analyses. In October the expected 2023 GNI* growth was 3.5%. In April the expectation was 3.1%. Modified domestic demand growth expectations for 2023 dropped from 4.2% in October to 3.9% in April, a relatively small decrease. The SPU forecasts suggest that the 2023 growth performance will be relatively close to what would have been forecast before the war.

According to the October EFO, employment in 2022 and 2023 was expected to be 2.357 million and 2.421 million respectively. The April 2022 SPU expects higher figures of 2.459 million in 2022 and 2.510 million in 2023. Employment is expected to do well in 2022 and 2023. Of course inflation, as discussed elsewhere in this paper, is the exception with an expected inflation rate for 2022 of 2.2% in the EFO rising to 6.2% in the SPU.

Of course, forecasts are uncertain at the best of times and the war and energy situations add greatly to the usual uncertainties. As already noted it is likely that economic forecasts will be lowered as the year progresses due to the direct and indirect impacts of the Ukraine war. High risks include energy prices increasing by more than is assumed in the SPU forecast, the war may escalate or there may be energy supply problems due to new sanctions or Russian retaliation. All of these would reduce the Irish economic performance. The SPU (page 5) notes “With no clarity regarding the duration of the war, the scope of sanctions against Russia, the scale of spill overs, etc., the projections set out in this document should be seen more as a scenario rather than a forecast per se.” For example, the removal of Russian oil and gas from the EU would push some countries into recession and reduce Ireland’s economic performance from what is currently projected. On the assumption of energy rises increasing by 50% relative to the assumption in the main projection the average 2022 inflation rate would be over 8% in 2022. The recent June OECD economic forecast for Ireland in 2023 is a GDP growth of 2.7%.

Bearing in mind that important caveat of uncertainty in the projections, the public finances are expected to be relatively strong despite the impact on expenditure of refugees and anti-inflation measures. The October EFO expected a general government deficit of 3.4% in 2022 and the April expectation is for a much lower 2022 deficit of 0.8%. Inflation is good for tax revenues. Higher prices generate higher VAT receipts, higher monetary earnings generate higher income tax and USC receipts. The October EFO expected a total tax revenue of €70.2 billion in 2022 but the April SPU expects a 2022 total of €75.8 billion even after the various indirect tax measures on energy prices. For 2022 the EFO expected income tax receipts of €27.5 billion, the SPU raised this to €29.5 billion. The 2022 EFO VAT receipts were €16.9 billion and the SPU increased this to €17.8 billion.

The war has cost the economy some of its potential growth but there will still be growth in 2022 and 2023 albeit lower than currently officially forecast. The labour market performance is particularly strong. The overall economic performance as projected in the April 2022 SPU. The same is true of the public finances. However, unlike previous SPUs we must be very conscious of the small print and the health warnings. All economic forecasts have their health warnings but the uncertainties are particularly important in this set of forecasts or projections. Because of this, policymakers, other stakeholders and the general public should not base expectations on the relatively positive picture of immediate and future growth which the SPU gives without being aware of the basis of, and risks to, the forecasts or projections. The SPU includes some analysis and quantification based on more pessimistic assumptions about the war and energy. Inflation in 2023 is expected to be 3% in 2023 in the recent SPU compared with the EFO expectation of 1.9%. The ESRI is expecting an inflation rate of 5% in 2023, as is the June OECD forecast, and the CB is forecasting 2.8%. DIGI's expectation for 2023 is that the ESRI inflation forecast is more likely.
DIGI expects that the economic growth performance will be lower in 2023 and that the inflation performance in 2023 will be worse than currently officially forecast.

Inflation and Cost

The current extraordinary inflation performance is having a devastating impact on real incomes, consumers and enterprises. This is particularly so for hospitality enterprises which are emerging from the economic damage of Covid. Most attention has been on the impact of price increases, especially in food and energy, on consumers but of course, hospitality enterprises are also affected by higher input costs such as food and energy. It is particularly difficult for hospitality enterprises to reduce the use of energy because consumers expect a comfortable hospitality experience.

The April CSO figures report an inflation rate of 7.0 % on the Consumer Price Index basis (7.3% on the Harmonised Index of Consumer Prices basis). Prices in April 2022 were 7.0% higher than April 2021. The monthly inflation figure will increase over the next few months before declining later in the year. The ESRI expects the average 2022 inflation rate will be 6.7% while the Irish Central Bank expects 6.5 %. This inflation experience is unusual by modern standards. The past decade had very low inflation rates. Between 2013 and 2019 the average annual inflation rate was less than 1%. In 2015 and 2020 prices declined slightly and in 2016 there was no change. The inflation rate increased to 2.4% in 2021.

The main cause of the high inflation is energy which increased by 39.1% in the twelve months to April 2022. In the same period the price of electricity increased by 27.8%, natural gas 53.7%, home heating oil 90.1%, petrol 23.9% and diesel 40.1%. Certain foods have also increased significantly such as flour and cereals 11%, pasta 11.8% and margarine and vegetable fats 14.4%. According to the CSO the price of alcohol increased by 3.6% in the year to April 2022.

The inflation rate will drop in 2023. But, overall prices will continue to increase. There is no prospect of prices dropping back to the 2020 or 2021 levels. In addition, there is substantial uncertainty about the likely 2023 inflation rate which the ESRI suggests could be 5%. It is also likely that these inflation rates will feed into higher wage costs.

The current and short term future inflation rate have a significant negative effect on enterprises through higher input costs, demands for compensating wage increases and demand reductions if prices are increased. The hospitality sector is already suffering from shortages of labour and associated labour cost increases which have been primarily caused by the impact of Covid. It is essential that Budget 23 should avoid any new cost and price increasing measures such as alcohol excise increases and should do all that is possible to directly reduce the impact of inflation and indirectly enhance the cost/business model through, for example, reductions in alcohol excise.

Warehoused Tax Debt

The hospitality sector has a relatively high level of warehoused tax debt. According to Revenue statistics for March 2022 the accommodation and food services sector (including hotels, restaurants and bars) had warehoused debt of €402 million or 13.4% of the total of €3 billion which is much greater than its share of employment. This affected 10,400 hospitality businesses. In hospitality, warehoused debt accounted for 29% of eligible debt which was the highest proportion of all sectors. The next highest was arts and entertainment with a figure of 23%. All other sectors were below 20%.

Labour Availability and Labour Cost

Along with most other sectors of the economy the hospitality sector faces challenges in recruiting staff. This will put to pressure on payroll costs which negatively affects the business model of this labour intensive sector. Allied with the legacy effects of Covid and the very high inflation rate this reinforces the necessity of lowering the alcohol excise level which is a cost to drinks businesses, to support commercial viability. The Grant Thornton International Business Report research carried out in the second half of 2021 found almost two-thirds (63%) of Irish businesses report access to a skilled workforce as a significant constraint to the growth and development of their business compared to the 37% of businesses who reported the same in the first half of 2021.

Due to the tight labour market the survey reported that 56% of businesses regard labour costs as a constraint to growth, compared to 27% who reported the same in the first half of 2021. The CSO Quarter 1 2022 vacancy rates were 1.6% for the economy as a whole and 1.4% for hospitality. The professional, scientific and technical activities sector had a vacancy rate of 3.2%.

The shortage of labour in hospitality is not due solely to wage levels. As shown above it is an economy wide issue. Shortages exist for higher paid manager positions as well as lower skill jobs in hospitality. Reasons include the long closures experienced by hospitality relative to other sectors and the fear that this may arise again, the return to their home countries or move to other countries of some overseas hospitality workers, job opportunities with better conditions such as daytime work in other sectors, the cost and limited availability of housing in Ireland relative to other locations.

The economy has performed very well in job creation since Covid. In Quarter 1 2019 total employment was 2.320 million and in Quarter 1 2022 this had increased to 2.5322 million, an increase of 9.1% or over 200k jobs. Hospitality employment, defined by the CSO accommodation and food services activities sector, employed 178.3k people in Quarter1 2019 and this compares with 166.4k jobs in Quarter 1 2022, a decrease of almost 12k. Labour shortages are reported throughout the hospitality sector. The Kroll's Business Sentiment Survey of the restaurant sector (in September 2021) reported that 94% of respondents had difficulty recruiting staff and 65% reported that staff shortages were the reason for reduced opening hours and lower volumes of actual business compared to potential business. Dublin publicans report that the main trading change post-Covid is in reduced hours of service and, in some cases, closure in the early part of the week, due to a shortage of staff. Outside of Dublin reduced hours of opening due to staff shortages is also a feature of the post-Covid situation.

In its Spring 2022 review of the hotel sector Failte Ireland noted that the challenge as demand returns in 2022 will be the recruitment and retention of staff and coping with higher wage costs in certain areas, due to increased expectations around pay and conditions.

IHF has reported that three quarters of hotels are significantly impacted by escalating costs. IHF members reported year-on-year increases of 88% in energy, 22% in water and 18% in food and beverage, as well as significant insurance increases.
Private sector average hourly earnings were €25.91 in Quarter 1 2022 which was an increase of 15.5% since Quarter 1 2019. Covid period earnings data are imprecise and subject to interpretation. Hospitality earnings growth kept pace with the overall private sector. Hospitality hourly earnings were 15.45 in Quarter 1 2022 which is an increase of 15.9% since Quarter 1 2019.

The hospitality sector will face higher labour costs in the future because of labour market pressures and regulatory/public policy factors. An alcohol excise reduction would assist the sector in dealing with this cost increase.

Tourism Recovery

Tourism is in a strong recovery phase following the economic disaster associated with Covid. However, the overall sector has not yet recovered to 2019 levels. The latest air/sea traffic refer to April 2022 when there were 1.4766 million arrivals. This is only 86% of the 1.7129 million arrivals in April 2019. But it is an enormous improvement on the 16.1k in April 2020 and the 69.4k in April 2021. The recovery in international tourism is likely to be quicker than previously expected.

Failte Ireland research on the hotel activity rates for the early part of 2022 report improvements but activity is still well below 2019 levels. February room occupancy was 53.6% which was a substantial increase on January but was 17% below the February 2019 level. As international travel by Irish residents increases demand for domestic holidays is expected to decline from the high levels of 2021.

Apart from the recovery from the Covid closures and restrictions domestic and international tourism face headwinds from high inflation and substantial business cost and labour cost increases. The general tourism business model is being transformed by these developments and a reduction in the tax burden imposed on hospitality enterprises would contribute to managing these changes. Excise reduction would support tourism.

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. The high level of Irish alcohol excise has been recognised in the Department of Finance 2021 Tax Strategy Group report on excise (Appendix 1). This is a self-imposed competitive disadvantage and contrasts sharply with how many other EU countries support their indigenous alcohol sectors.

On what is described as 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 which is 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 84.3% 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, substantially less than the highest four economies. Ireland has, as of May 2021:

- The highest wine excise in the EU 27 and the UK
- The second highest beer excise in the 28 countries behind Finland
- The third highest spirits excise after Sweden and Finland
- 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.
- Ireland’s composite level is 130.8% higher than the fifth ranked country of Estonia and is substantially higher than all those other EU economies which have lower excise levels than Estonia.

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. Fifteen EU economies do not impose any excise on wine. France and Malta have very low wine excise tax.

Other comparative features of Irish alcohol excise are shown below:

- 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.
- Finland’s composite rate per HLPA is 22.5% higher than Ireland’s, €4237 compared to Ireland’s €3458. Sweden’s composite rate is 9.6% below the Irish rate and the UK rate is 15.7% below the Irish rate.
- Estonia has the fifth highest composite excise rate of €1498 and is 56.7% 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 €869 is 25.1% 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 12.1%, the price of a glass of wine in a restaurant by 15.1% and the off-licence price of a bottle of whiskey by 39.6%.
- 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.
- If German alcohol excise rates were applied to Ireland, Irish annual excise revenue would total €178.7m instead of €1,232.6m. (Based on 2019 pre-Covid receipts). Ireland pays an estimated €1,053.9m more annually in alcohol excise tax than German rates would produce.
- The tax burden on drinks enterprises and alcohol consumers is worsened by the VAT situation. Ireland also has a relatively high VAT on alcohol compared to the other EU 26+UK countries. Nineteen countries have a lower alcohol VAT rate than Ireland.

Full details of the ranking of EU countries and the UK on the composite alcohol excise rate are shown in Table 4.1.

Table 4.1 EU Alcohol Tax Rates (Excise) (Euro per HLPA), May 2021, composite level and rank in order of magnitude

	Composite level	Rank of composite level
	€ per HLPA	
Finland	4237	1
Ireland	***3458***	***2***
Sweden	3127	3
UK	2915	4
Estonia	1498	5
Lithuania	1411	6
Belgium	1392	7
Denmark	1349	8
Greece	1267	9
Latvia	1184	10
Netherlands	1083	11
France	869	12
Slovenia	843	13
Poland	742	14
Malta	676	15
Portugal	602	16
Italy	597	17
Austria	567	18
Cyprus	519	19
Germany	500	20
Czech	498	21
Slovakia	480	22
Hungary	459	23
Croatia	441	24
Luxembourg	413	25
Spain	386	26
Romania	312	27
Bulgaria	251	28

Source: Source: Spirits Europe, Summary of EU Member States (and UK), Brussels (Excise rates as of May 2021), the exchange rates are those of Oct 2020 as used in the EU excise tables except for the UK and Sweden for which we use 2021 July monthly average rates. Composite level is the unweighted average of the three beverage specific rates.

The relative positions of Irish alcohol excise within the EU (and the UK) for the three beverages of beer, spirits and wine are shown in Table 4.2

Table 4. 2 EU Alcohol Tax Rates (Excise) (Euro per HLPA), May 2021, 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	793	0	529	441	24
Cyprus	957	0	600	519	19
Czech	1198	0	297	498	21
Denmark	2016	1375	655	1349	8
Estonia	1881	1344	1270	1498	5
Finland	5035	3827	3850	4237	1
France	1803	36	768	869	12
Germany	1303	0	197	500	20
Greece	2550	0	1250	1267	9
Hungary	926	0	450	459	23
Ireland	***4257***	***3862***	***2255***	***3458***	***2***
Italy	1036	0	755	597	17
Latvia	1724	1009	820	1184	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	1396	352	477	742	14
Portugal	1387	0	418	602	16
Romania	748	0	187	312	27
Slovakia	1080	0	359	480	22
Slovenia	1320	0	1210	843	13
Spain	959	0	199	386	26
Sweden	5066	2334	1981	3127	3
UK	3357	3160	2229	2915	4
Ireland's rank	***3***	***1***	***2***	***2***	***2***

Source: As for Table 1.

The detailed impacts of high Irish excise on the prices of individual drinks are shown in Table 4.3

The features of the excise per drink data mirror, except for the rounding implication, the earlier comments related to league position and quantitative differences based on the excise per HPLA indicator. These excise amounts relate only to excise and do not include the VAT which would be charged on the excise.

The Irish wine position in the table stands out. Fifteen EU countries do not charge excise on wine. Ireland's rate per 187ml glass is 80cent. As already shown, this is the highest in the EU. After Ireland the next three countries are Finland (79cent), the UK (65cent) and Sweden (48cent). However, the next highest country, Lithuania is substantially lower at 31cent. Denmark and Estonia follow with 28cent. The other six countries which charge wine excise are each 20 cent or less per glass. As already noted 15 EU countries have no excise on a glass of wine.

Every country charges a beer excise but there is a large range from 94cent on a pint of lager in Finland to 5cent in several countries. 20 countries have a beer excise per pint of lager of less than 20cent. The Irish level is 55cent.

Every country charges an excise on spirits. The excise per half glass ranges from 71cent in Sweden and Finland to 8cent in Bulgaria. The spirits excise range is narrower than the beer range. The Irish level is 60cent. 14 countries have a whiskey excise of less than 20cent per half glass.

Excise charges on off-licence purchases of bottles of wine or whiskey are very large in Ireland. The whiskey excise per bottle ranges from €14.19 (Sweden) to €1.57 (Bulgaria). The wine off licence excise per bottle ranges from €3.19 (Ireland) to zero in the many EU economies which do not impose excise on wine. In Spain, the excise on a bottle of whiskey is €2.69 which is €9.23 lower than in Ireland.

Table 4.3 Excise on various drinks, EU countries, € and cent

	Standard measure of whiskey in bar	Pint of lager in bar	Pint of stout in bar	Glass of wine in bar/restaurant (187ml)	Off-licence bottle of whiskey 70cl	Off-licence bottle of wine 75cl
	€cent	€cent	€cent	€cent	€	€
Finland	71	94	92	79	14.10	3.16
Ireland	***60***	***55***	***54***	***80***	***11.92***	***3.19***
Sweden	71	48	47	48	14.19	1.93
UK	47	54	53	65	9.40	2.61
Denmark	28	16	16	28	5.64	1.14
Belgium	42	12	12	14	8.38	0.56
Estonia	27	31	30	28	5.27	1.11
Greece	36	30	30	0	7.14	0
Netherlands	24	19	18	17	4.72	0.66
Slovenia	19	30	29	0	3.70	0
France	25	19	18	1	5.05	0.03
Latvia	24	20	20	21	4.83	0.83
Lithuania	29	17	17	31	5.67	1.24
Poland	20	12	12	7	3.91	0.29
Malta	19	12	12	4	3.81	0.15
Italy	15	18	18	0	2.90	0
Portugal	20	10	10	0	3.88	0
Austria	17	12	12	0	3.36	0
Hungary	13	11	11	0	2.59	0
Cyprus	13	15	14	0	2.68	0
Germany	18	5	5	0	3.65	0
Slovakia	15	9	9	0	3.02	0
Czech	17	7	7	0	3.35	0
Croatia	11	13	13	0	2.22	0
Luxembourg	15	5	5	0	2.91	0
Spain	14	5	5	0	2.69	0
Romania	11	5	4	0	2.09	0
Bulgaria	8	5	5	0	1.57	0

Source: As for Table 2. Derived as follows, the ratio of a country's excise per HLPA to Ireland's rate was multiplied by the Irish drink specific euro excise. The Irish excise was rounded to nearest cent and the individual country excise levels were also rounded.

Ireland also suffers from relatively high VAT rates on alcohol. Ireland's rate is 23%. Nineteen of the other EU 26+UK economies have a rate lower than 23%. Only six have rates which are greater than 23% and one other country has the same rate as Ireland. Portugal has a low rate on wine but 23% on beer and spirits.

In 2020 (before Covid, Jan 2020 prices), the Exchequer received in excise and VAT:

- €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.

This is an extraordinarily large alcohol indirect tax burden on consumers.

In line with many other countries, the Government makes use of lower indirect tax rates to successfully stimulate labour-intensive sectors such as tourism. In recent times the Government has alternated between reduced VAT rates of 13.5% and 9% to stimulate tourism. The current temporary rate of 9%, which has been recently extended to February 2023, should be further extended to assist in the recovery from Covid, deal with current commercial sustainability and cost issues and to support competitiveness. The use of reduced VAT rates is evidence that indirect tax reduction can be an effective and efficient instrument for stimulating economic development in specific sectors.

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 in 2019. 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 following calculations are based on the February Revenue survey of cross border prices. The latest Revenue survey is August 2019 and there have been no surveys since Covid and since the introduction of Minimum Unit Pricing. 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 Republic of Ireland.

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 Northern Ireland) 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.

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.
- 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. The introduction of MUP increases the VAT yield for the exchequer for each drink which is now sold at the higher MUP. The total yield impact will depend on the impact of the higher price on volume sold.

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 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 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. The main reference point for identifying the economic impact of the sector is 2019, as the most recent "normal" year. Data for 2020 and 2021 are distorted by the direct and indirect effects of Covid. For example, Covid regulations severely affected employment because the labour intensive sub sectors of the drinks industry were disproportionately hit. This in turn reduces income tax and PRSI revenues in 2020 and 2021. VAT receipts in both 2020 and 2021 are severely reduced by the switch from on-licensed alcohol consumption to home consumption. Consequently 2020 and 2021 are not typical or "normal" representations of several economic measures.

Employment: National and Regional

- The latest Labour Force Survey for Quarter 1 2022 reports hospitality employment of 162.6k or 6.5% of total employment. This is still lower than the pre-Covid level of 179k.
- There were 179k 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% 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 jobs 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 179k 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 addition to the drinks related employment in AFS the drinks sector also generates 7,750 jobs in beverage manufacturing, about 6,000 jobs in off-licences and additional jobs in visitor attractions and wholesale distribution.

Exports:

- Total beverages (alcohol and soft drinks) exports of €1.715 billion in 2019, €1.457 billion in 2020 and €1.753 billion in 2021 based on CSO data.
- Trade surplus in beverages of €795 million in 2019 and €816 million in 2021.
- Beverages exports are 1.87 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:

- €1.233 billion excise receipts in 2019, €1.203 billion in 2020 and €1.176 billion in 2021.
- €2.586 billion in excise and VAT 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:

- The Labour Force Survey reports an average of 7,750 jobs in beverage manufacturing in 2021
- 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 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
- The independent off-licence sector is composed almost exclusively of micro enterprises and face a difficult post-Covid commercial situation in competition with the large multiple chains
- 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. Recent and long-term performance of the drinks sector

2019, 2020 and 2021 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. Table 7.1 examines the performance for the two years in since pre-Covid 2019 for both average and total consumption. Table 7.2 identifies the long term decline in average alcohol consumption. Average consumption of alcohol declined in 2020 and 2021 which broadly continued a long-term trend of decline.

Table 7.1. Average per adult alcohol consumption 2019, 2020 and 2021

	2019	2020	% change 2019/2020		2021	% change 2020/2021
Litres of pure alcohol (LPA), Total consumption	42,476,575	40,291,740	-5.1		38,381,422	-4.7
Adult Population (aged 15 and over), millions	3.9126	3.973.8	1.6		4.0159	1.1
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)		9.557 (rounded to 9.6)	-5.7 (-5.0 based on rounded figures)
Beer (LPA)	18,931,618	15,654,741	-17.3		15,462,700	-1.2
Cider (LPA)	3,159,103	2,799,891	-11.4		2,680,169	-4.3
Spirits (LPA)	8,821,113	8,883,306	0.7		8,991,008	1.2
Wine (LPA)	11,564,741	12,953,802	12.0		11,247,545	-13.2

Sources. CSO Population and Migration Estimates August 2021. Revenue Commissioners, Alcohol Clearances data, 2019, 2020 and 2021. Website, 2022.

Total alcohol consumption as measured by clearances decreased by 4.7% in 2021 compared with 2020. This follows a decrease of 5.1% in 2020 compared with 2019. Over the Covid period of 2020 and 2021 alcohol consumption volume declined by 9.6%

from 42,476,575 LPA to 38,381,422 LPA between 2019 and 2021. The impacts on the four different beverages groups between 2019 and 2021 were beer -18.3%, spirits +1.9%, wine -2.7% and cider -15.2%.

The number of adults (as defined by 15 years and over) increased by 1.1% in 2021. This resulted in a decrease of 5.7% in 2021 compared with 2020 in average alcohol consumption per adult. It was 9.557 LPA in 2021 compared with 10.139 LPA in 2020. In figures rounded to one decimal place the average per adult consumption is 10.1 LPA in 2020 compared to 9.6 LPA in 2021. This gives a decrease of 5.0% for 2021.

By long term comparison, average alcohol consumption was 10.9 LPA in 1990 and peaked at 14.44 LPA in 2001. Since 2001 the average per adult alcohol consumption has declined by 33.8%, one third. Wine volume decreased by 13.2% between 2020 and 2021. Total spirits consumption volume increased by 1.2% between 2020 and 2021. Beer volume decreased by 1.2%. Cider volume decreased by 4.3%.

Wine in 2021 accounted for 29.3% of total alcohol consumption compared to 32.2% in 2020 and 27.2% in 2019. The wine share was 13.2% in 2000. Beer was 56.6% of total alcohol consumption in 2000 and is now 40.3%.

Table 7.2 Recent Trends in Alcohol Consumption 2012 to 2021

	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)
2021	4.0159	38.381,422	9.557 (rounded to 9.6)

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

Over the past ten years average per adult alcohol consumption has decreased from 11.566 LPA in 2012 to 9.557 LPA in 2021, a decline of 17.4%. 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. As already noted average consumption in 2021 is 33.8% lower than the peak of 2001. Over the very long term period since 1990, the 2021 average consumption level is the lowest of the thirty-one years and is below 10 LPA for the first time in that period.

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. The volume of bar sales decreased by 59.4% in 2020 compared with 2019. The 2021 volume of bar sales was 55.4% lower than 2019. There was also a decrease of 3.8% in 2019, the last "normal" year compared with 2018. The value of bar sales in 2021 was 51.8% lower than in 2019.

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, 2020 and 2021

	Volume	Value
2018/2019	-3.8	-1.4
2019/2020	-59.4	-59.5
2019/2021	-55.4	-51.8

Source: *CSO*

The latest CSO data for the bar sector refers to April 2022. In that month bar value sales were 81.4% of the April 2019 level. Full recovery still has a long way to go. The volume of bar sales in April 2022 was 72.6% of the April 2019 level.

Off-licence sector

In 2020 and 2021 the off-licence sector did well because it remained open while the bar sector was either closed or severely restricted. Total clearances declined by 9.6% between 2019 and 2021 while bar volume declined by 55.4% which indicates a large off-licence increase. This is a temporary situation which reflected the Covid situation. Now that bars are free to operate 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 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. 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.

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. 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.

In its 2022 members survey over 80% of respondents believed an excise reduction would be an effective way of responding to business cost increases.

Decline in pub numbers

The number of public houses (defined as seven day licences) declined from 8617 in 2005 to 7182 in 2015 and further declined to 7137 in 2019. The Covid years saw a further decline to 6890 in 2020 and 6788 in 2021. Between 2019 and 2021 the number of pubs declined by 4.9% nationally, 5.0% outside Dublin and by 4.2% 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 (lower average consumption levels) 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. 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. The whiskey sector recently introduced a sustainability plan.

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

8. Summary and recommendation

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 supporting a long-term competitive base, lower excise would support an industry which has been challenged more than most others during the pandemic. Just as the sector comes out of the pandemic, it, along with other sectors, is faced with very high inflation, high input cost increases, higher wage costs, scarcity of labour, higher interest rates and lower than expected economic growth. The drinks industry is one of the few to suffer excise tax as well as Vat and Irish alcohol excise is very high by EU standards.

Recommendation

Alcohol excise should be reduced by 7.5% in Budget 2023. This should be part of the effort to move towards the lower EU norms for alcohol excise. The 2023 reduction should be followed in Budget 2024 with another 7.5% reduction.