Budget Submission

October 2023

#SupportScotch

Backing a home-grown success story

Scotch Whisky is a home grown success story. Made in Scotland, supported by a UK-wide supply, and exported to the world.

Scotch Whisky is 25% of all UK food and drink exports, an astonishing 1.6bn bottles shipped to 180 markets. All produced by 147 distilleries in Scotland, bolstering rural and island jobs and investment, and supporting 42,000 jobs across the UK.

80m bottles of Scotch Whisky are sold in the UK annually - the industry's 5th largest global market - but what happens to tax and regulation in our home market sets the tone for the industry globally. To attract the investment needed to contribute to economic growth and job creation, the UK needs to be a competitive place to do business.

For alcohol, this starts with excise duty.

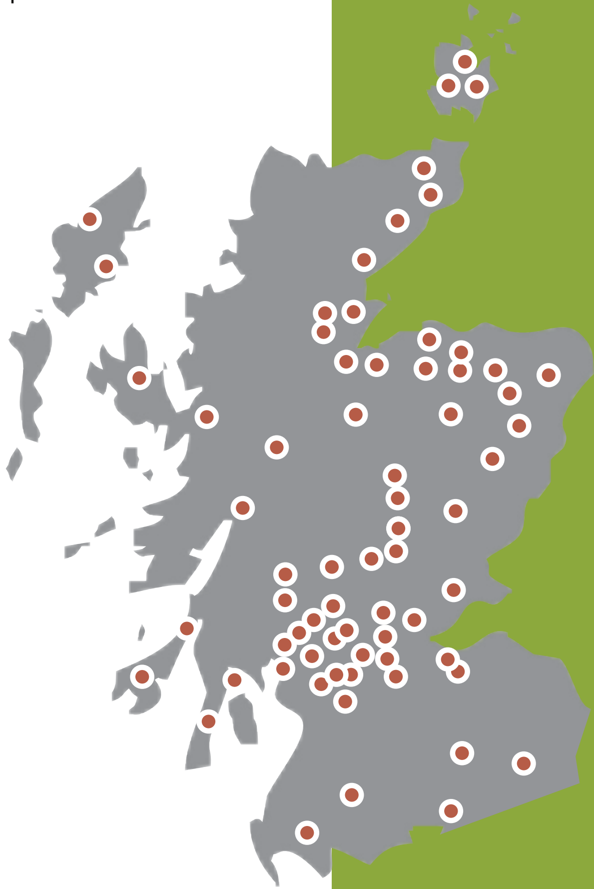
We know that the 10.1% duty hike in August led to alcohol making the largest contribution to inflation on record. That doesn't help HM Treasury in meeting the objective of halving inflation, it doesn't help our industry to invest, and it doesn't help businesses and households struggling with rising costs.

We also know that following reforms to the UK alcohol duty system, Scotch Whisky and other spirits are the most taxed category of alcohol - per unit of alcohol four times more than cider - and unable to access tax breaks available to beer and cider in the on-trade.

The commitment made to the industry to "ensure the tax system is supporting Scottish whisky" has not been kept. But each fiscal event is an opportunity to re-balance the scales in favour of fairness for consumers and industry.

Ahead of the Autumn Statement on 22 November, our ask is clear. Now is the time to freeze spirits duty, rethink how Scotch Whisky and other spirits are treated compared to other alcohol categories, and in doing so create the conditions for the industry to thrive at home and abroad.

The Scotch Whisky industry supports 42,000 jobs across the UK - 25,000 are supply chain jobs in Scotland.



Freeze spirits duty - don't fuel inflation

"No policy which puts at risk the defeat of inflation – no matter its short-term attraction – can be right."

Rishi Sunak, 4 October 2023

"Hunt Added to UK Inflation With Increase in Alcohol Duties"

Bloomberg, 20 September 2023

The Prime Minister has made halving inflation by the end of the year one of his government's central pledges. But, even after only three months, it is clear that HM Treasury's decision to increase spirits duty by 10.1% in August - the largest increase in 40 years - made that goal even more challenging to reach.

The decision to increase duty resulted in alcohol making the largest contribution to inflation in 17 years. To use Rishi Sunak's own words, it was a policy decision which *"put at risk the defeat of inflation"* and has passed on increased costs to businesses and consumers at a time when they can least afford it.

As a home-grown success story with a global footprint, the Scotch Whisky industry wants to invest in communities across the country, stimulating jobs and growth. But the UK's punitive duty system - made worse following the double-digit tax hike and introduction of a new duty system which penalises distillers and consumers of high-quality spirits - makes that task increasingly difficult.

The Scotch Whisky industry had benefited from the confidence and stability that duty freezes delivered. The Chancellor must return to this proven formula which has increased confidence, boosted investment and driven government revenue. In November's fiscal statement, **the Treasury must not add to the tax burden on the Scotch Whisky industry or further disadvantage distillers through tax breaks available to high volume beer and cider. The Chancellor must freeze duty - and in doing so make the choice to do everything possible to reduce inflation.**

WHAT THE PAPERS SAID:

“Alcohol duty changes ‘a hammer blow’ to drinkers and distillers”

The Times, 1 August 2023

“Alcohol tax changes 'squeezing the life' from Scotch Whisky sector”

Holyrood, 1 August 2023

“Rising cost of booze is pushing up inflation during a cost of living crisis”

The Sun, 22 September 2023

“Brexit Pub Guarantee' condemned as 'naive'”

The Herald, 1 August

Invest for long-term growth

The last decade has seen significant investment by the industry in Scotland as it looked to increase capacity at existing distilleries and open up new ones, with yet more on the way. This investment is not only to meet the global growth of Scotch Whisky, but to ensure that it can be made sustainably for generations to come.

That commitment to invest to meet sustainability goals, improve processes and harness new technologies needs a supportive tax regime in the UK and the confidence to do so. **That confidence was shaken with the largest duty rise in 40 years being introduced and a further widening of the tax differential between alcohol categories.**

It is testament to the resilience of the Scotch Whisky industry that, despite significant challenges over the past few years, it has continued to invest. Of course, all UK alcohol producers have suffered from the impacts of Covid-19, inflation and energy costs. But Scotch Whisky was the only UK alcohol sector to pay the price of 18 months of tariffs in the United States.

While HM Treasury points to the suspension of the dispute and lifting of tariffs as evidence for its support for Scotch Whisky, it does not reverse the £600m of loses the industry experienced as a result of a trade dispute unrelated to the sector.

The Scotch Whisky industry thinks in decades - it has always made long term decisions in hope of a brighter future. But the recent actions of HM Treasury, far from being grounded in evidence and designed to boost growth, have made it harder for the industry to recoup the losses of the UK-US trade dispute and invest in future growth, supporting jobs and the UK wide supply chain.

It is time for HM Treasury to recognise that the success of the Scotch Whisky industry cannot be taken for granted. By investing in the industry, by freezing duty and backing spirits, it can invest in long-term growth.

Hurting hospitality and households

Spirits make up a third of the serves of alcohol consumers buy in our bars and restaurants but account for less than a fifth of the units of alcohol consumed. This compares to beer which makes up 60% of the units but less than half of the serves as a result of being higher volume, and therefore higher alcohol content.

As UK consumers continue to drink fewer units of alcohol, they are looking more and more for premium experiences, shifting their reduced consumption towards cocktails and premium drinks. That shift is good for our bars, good for Scotch Whisky, and good for Treasury revenue. It is a trend that should be encouraged - however the so-called 'Brexit Pubs Guarantee' locks almost all spirits producers out from the tax breaks available to high volume beer and cider.

The UK's pubs, bars and restaurants are about far more than the beer on the front of the bar - increasingly revenue is generated for on-trade establishments, and the Exchequer, through the selection of spirits at the back of the bar.

33%

Spirits account for a third of alcohol sales in our pubs and bars but less than 20% of the units.

In November's autumn statement, HM Treasury must not widen the gap that already exists between spirits and other alcoholic drinks in the on-trade, and instead start a serious conversation with the sector about how distillers of all sizes can access the tax breaks available to other alcohol categories.

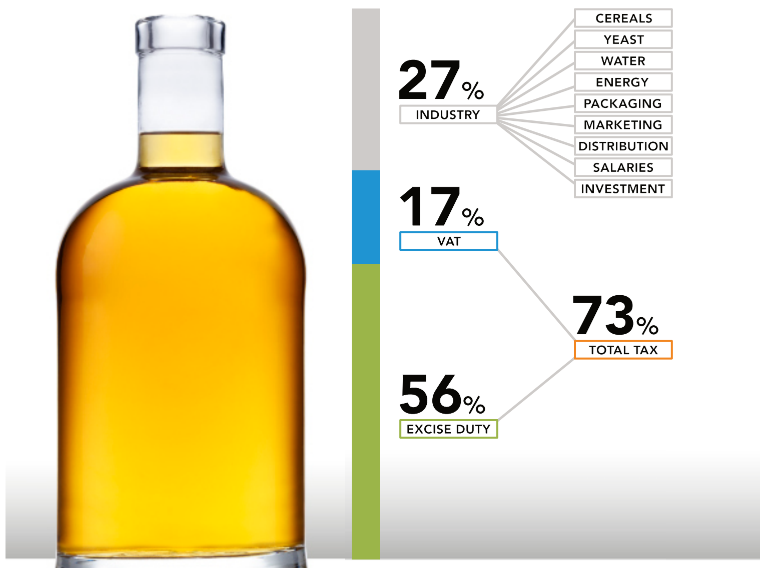
Fair consumer choice

Over the past five years we've seen the importance of spirits to our bars and pubs increase as more people switch from higher alcohol content pints to cocktails and long drinks, with one in every three drinks sold now spirits based. This is good for hospitality as it supports increased margins, good for Treasury revenue, and good for consumers who want to shift away from higher alcohol content choices - **after all a highball containing two measures of Scotch Whisky would typically contain less alcohol than a pint of average strength beer.**

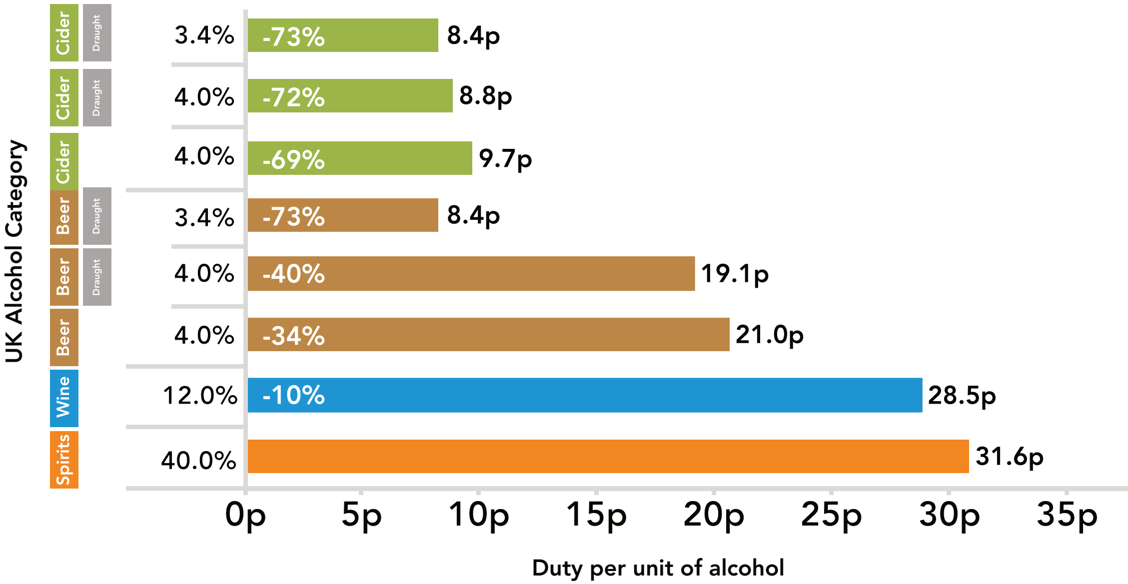
The Scotch Whisky industry is committed to helping consumers make responsible choices about alcohol consumption. We believe that the tax system should do the same by bringing the cost of units of alcohol closer together - not widen them further. The 'Brexit Pubs Guarantee' fails to understand that the pub is about more than a pint from a pump but also about the selection of spirits on offer behind the bar. It means that someone can now have a pint of 3.4% beer with 1.93 units of alcohol and now just pay 16p in duty. If they chose to enjoy a double measure of spirits with a mixer containing 2 units of alcohol that would be 63p in duty. Almost the same amount of alcohol, but significantly different levels of tax.

UK TAX ON AVERAGE PRICED BOTTLE OF SCOTCH WHISKY

FROM 1 AUGUST 2023



Source: Tax burden based on average off-trade price of 70cl Scotch Whisky at £15.63; Nielsen July 2023



The Chief Medical Officers' (CMO) guidelines on low-risk consumption say adults should not regularly drink more than 14 units a week of alcohol. **The guidelines do not discriminate between categories of alcohol, but the tax system does.** Indeed, a consumer who chose to enjoy 14 units of alcohol a week as Scotch Whisky, would pay £200 more tax in a year than someone who consumed the same amount of alcohol as cider.

HM Treasury should not make this system even more unfair to consumers who chose spirits over other alcohol categories.

Back spirits to raise more than high volume beer

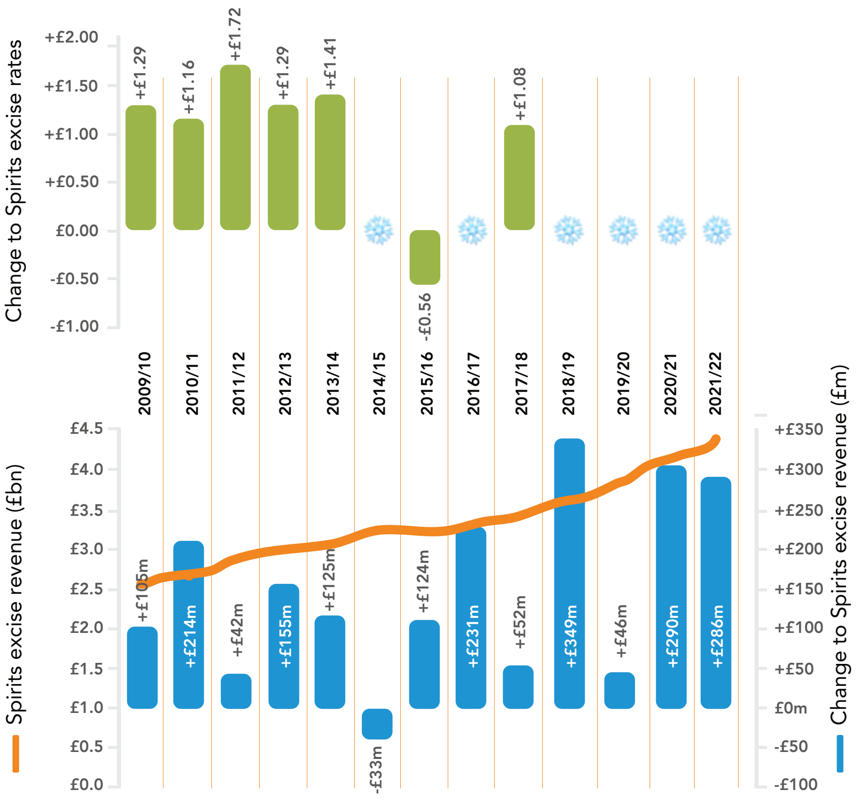
Over many years, the industry has shown that spirits generate additional revenue through freezes to excise duty. Whilst all forecasting can be subjective, the real-world HMRC data cannot be disputed - it clearly shows that freezes and cuts to spirits duty have raised more revenue for the public purse, outstripping the revenue expected through OBR forecasted increases.

With the new duty regime from 1 August, and the largest duty increase on spirits in 40 years, we do not yet know what the impact on HM Treasury revenue will be, but we do know that it has fuelled inflation at a time when households and businesses are struggling. Now is not the time to raise duty further, and further fuel inflation, but instead provide much needed stability.

£1bn

Spirits now account for 35% of total alcohol duty revenue - up from 29% in 2012/13 and by over £1bn.

Spirits excise rates and annual revenue



Source: HMRC/SWA analysis

Between 2013 and 2022 excise duty revenue from cider fell by 28% when cider has had the same tax treatment as spirits. Over the same period, when beer had one more duty cut than spirits, excise duty revenue increased by 9%. **By contrast, spirits revenue increased by 50%**.

By supporting Scotch Whisky and the spirits category, HM Treasury can raise more revenue the right way.

High volume beer and cider do not deliver as much revenue return through freezes and cuts, and proportionately make up the majority of alcohol consumed in the UK.

By maintaining the current spirits duty rate and ensure no further widening of the differential between categories, or through the new draught relief, HM Treasury **can back Scotch Whisky growth, back hard pressed households and businesses facing rising costs, and tackle inflation.**

97%

Of the Scotch Whisky industry's supply chain is UK based.

50%

More spirits revenue since 2013 through cuts and freezes.

Fair tax for Scotch Whisky

A promise was made - but that promise was not kept.

When, in 2019, the UK government announced at a Speyside distillery that it would *"ensure our tax system is supporting Scottish whisky"*, distillers took Ministers at their word.

Nearly 400 years after the first taxes on the industry were introduced the industry is well used to paying its way - but at present it is paying its fair share and the fair share of other categories too. What the industry and consumers want is fair tax, and that is what was promised.

Under the new system, a pint of beer or cider in a pub gets a tax break – why not a dram of Scotch Whisky? Order a pint of beer in a pub and the duty will be 32% lower than on a dram. For a pint of cider the duty applied is 69% less. In both these cases, the alcohol content of the Scotch Whisky is lower, but the tax is much higher.

Looking at other developed economies, Scotch Whisky gets a better, fairer deal than in the UK. The highest tax rate in the G7, Scotch Whisky consumers in the UK paying up to five times more on their whisky than consumers in Japan or the United States.

This is not a system which ensures it is supporting Scotch Whisky. But that is the system the industry still expects.

A commitment was made. It should be honoured.

EXPECTATION...

UK GOVERNMENT COMMITMENT TO SCOTCH WHISKY INDUSTRY

Now we will do more, and review alcohol duty to ensure our tax system is supporting Scottish whisky and gin producers and protecting 42,000 jobs supported by Scotch across the UK.

... VS REALITY

THE NEW DUTY SYSTEM AT WORK

- 👉 **10% duty hike. Tax burden up from 70% to 73%**
- 👉 **Scotch Whisky taxed more than beer or wine**
- 👉 **Distillers across Scotland let down**

scotch whisky association

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