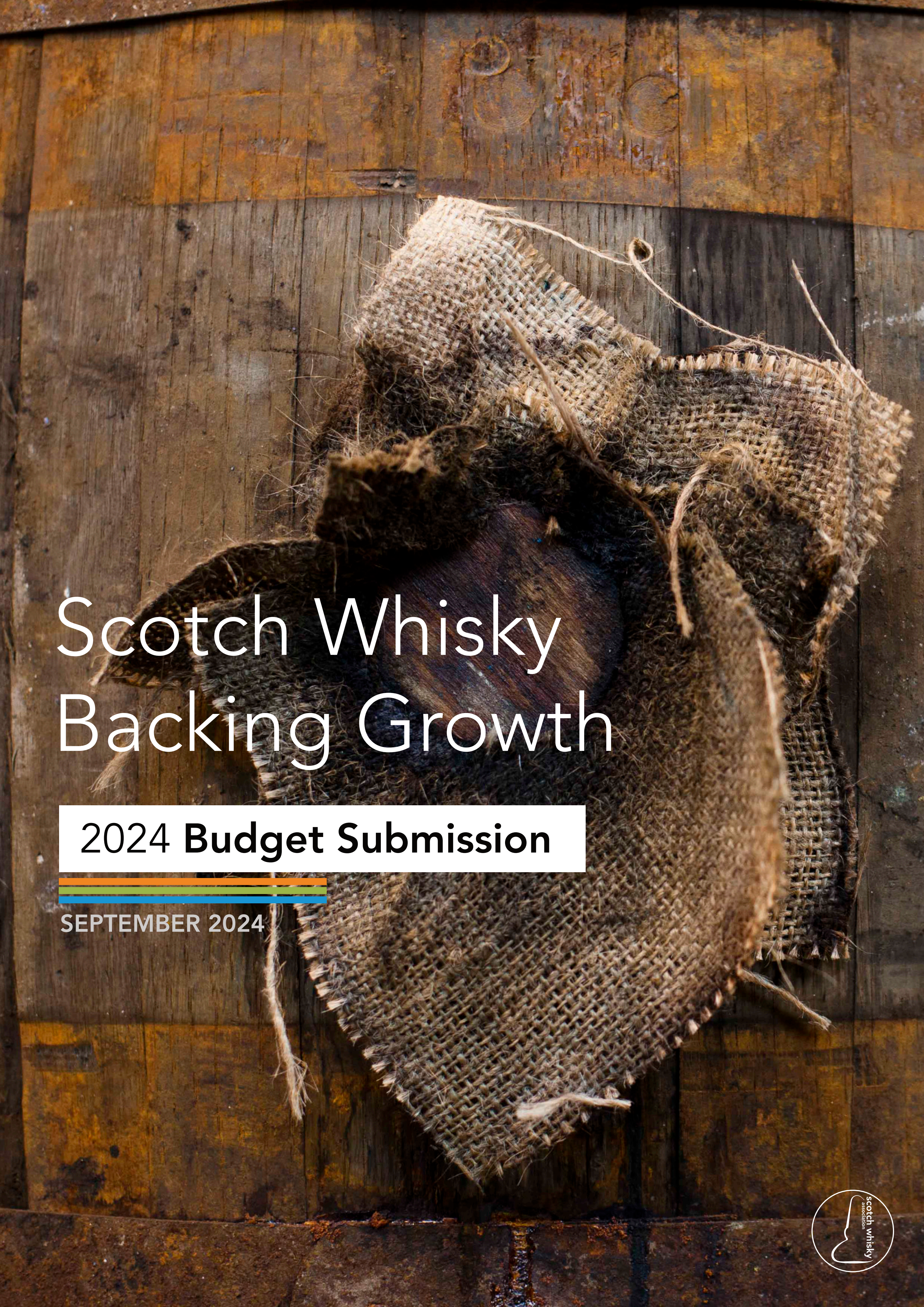


Scotch Whisky Backing Growth

2024 **Budget Submission**

SEPTEMBER 2024

scotch whisky association

Scotch Whisky Delivering for the UK

Scotch Whisky is enjoyed around the world and we want to ensure it is enjoyed responsibly and sustainably for generations to come.

The industry's success is built on generations of investment and skill that sees 66,000 people working to support our industry to grow, delivering the highest quality spirit to be savoured in homes and bars across the UK and in every continent. That global success needs strong foundations at home in the UK.

We know that the government wants to put growth at its heart. The Scotch Whisky industry can be a driver for that growth for generations to come. But to play our full part, we need a supportive decision on tax in our home market. The Chancellor needs to make the UK a competitive place from which to operate and for domestic consumers, and the 2m people who visit our distilleries and visitor centers each year, to not face higher levels of duty than anywhere else in the G7. This budget is a chance to reset, restore confidence, and #SupportScotch.

As we look ahead to this year's Budget, we want the Chancellor to support Scotch Whisky by unwinding the damage caused by last year's 10.1% hike in excise duty that cut revenue, fuelled inflation, and damaged investor confidence. A triple whammy of harm on top of the damaging impact of Rishi Sunak's duty reforms.

Our asks are clear:

- Unwind the damaging duty increase imposed by your predecessor. It failed to deliver for the Treasury and hurt our industry.
- Set us on a course to tax fairness by successively reducing the duty burden on spirits to the EU average by the end of this parliament.
- Review the reforms to the duty system implemented last year, ensuring fairer treatment for responsible consumers who choose to enjoy a Scotch Whisky or other spirit rather than a pint.

£7.1 Billion
GVA contribution to the UK economy

"Labour will put growth at the heart of our government and back Scotch producers to the hilt."

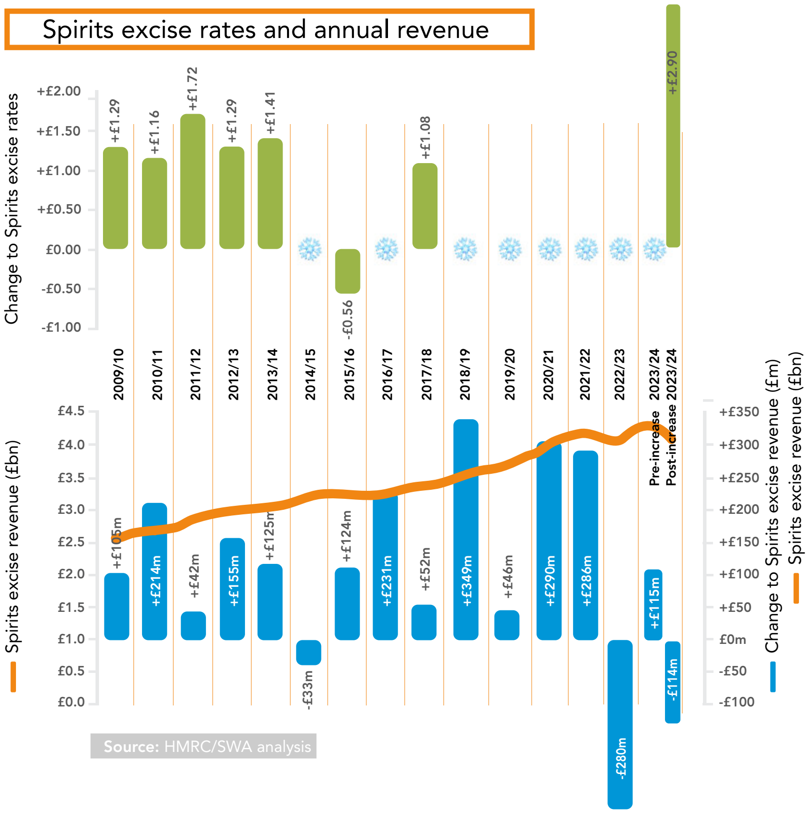
RT HON SIR KEIR STARMER MP, NOVEMBER 2023

Reversing the damage and boosting Revenue

The 10.1% rise in duty on spirits in August 2023 has done more damage to sales volumes than the government's official forecasts assumed: spirits duty receipts are down by 1.1% in the first quarter of 2024 as sales volumes fell 7.9%; and more timely industry data show sales of whisky in April and May down by 8.3% in volume terms and 1.7% in value terms. Last year's duty increase has hurt both our industry and the Treasury. We recognise that tax cuts that pay for themselves in narrow revenue terms are rare, but the real-world evidence shows that supportive decisions on spirits not only drive investment and jobs in the UK, but they deliver more revenue for the Treasury rather than less.

Not only has the duty increase resulted in less revenue to the Treasury but in the ONS data for the year to June 2024, alcoholic beverages contributed 0.35 percentage points to the 2.9% rate of RPI inflation. Based on the OBR's debt interest ready reckoner, that duty-driven rise in the price of alcoholic beverages (in particular, spirits) will have added £2.3bn to the interest payable this year.

Losing revenue and fuelling inflation is what we warned would happen ahead of the duty rise and we have welcomed the subsequent freeze in duty since then. But now is the chance to change course and unwind that damaging decision. Now is the time to boost revenue, boost jobs and investment, and deliver welcome relief for businesses facing continued rising costs.



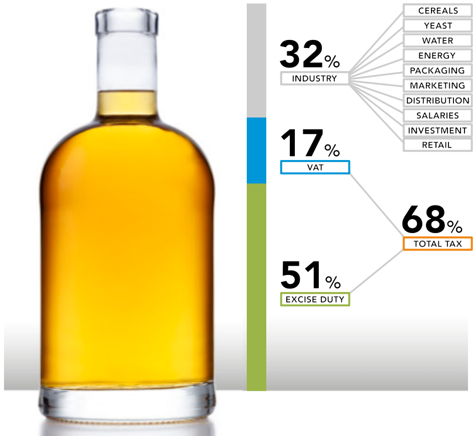
Fixing a broken model to deliver more revenue

Real-world evidence shows that supportive duty decisions are good for the Scotch Whisky industry and good for the Treasury. We know that in 2015, when duty on spirits was last cut, revenue receipts increased by 4.1% rather than reduced as the OBR had forecast. Subsequently, during the following five years when duty was frozen, revenue to the Treasury from spirits increased by over £1bn, delivering more revenue to the Treasury than the OBR had forecast would be achieved with duty increases.

Work carried out by Flint Global to look at the past eight March forecasts to asses the impact of spirits duty changes has shown that in the six years in which duty was frozen or cut duty receipts exceeded the OBR's forecast on four occasions and fell short twice. On average, outturn in those four years exceeded forecast by £128m. In the two years in which duty was raised receipts fell short of the OBR's forecast. This shows a systematic underestimation of the positive revenue impact of duty freezes/cuts, and overestimation of the impact of duty increases. This is evidenced by the OBR's revisions from its latest forecast in March 2024 that point to an underestimation of the sensitivity of spirits consumption to duty rates and prices, revising down receipts by 7.7%.

UK TAX ON AVERAGE PRICED BOTTLE OF SCOTCH WHISKY

JULY 2024

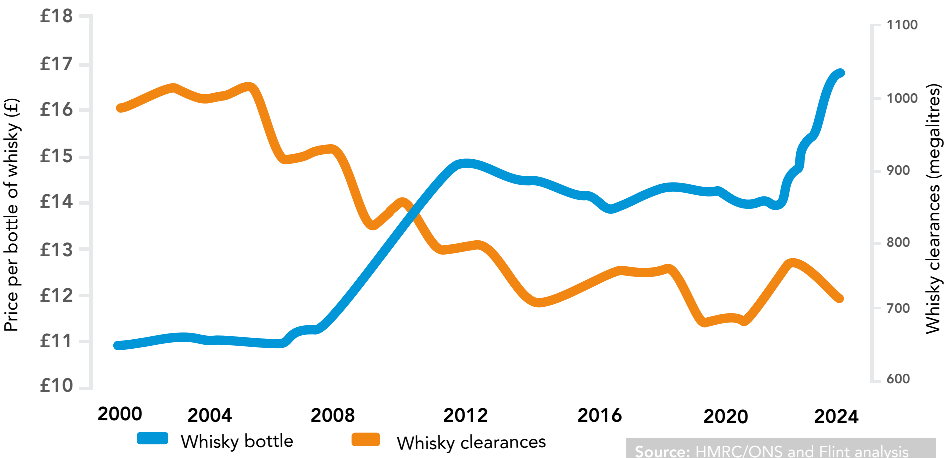


Source: Tax burden based on average off-trade price of 70cl Whisky at £17.27; Nielsen July 2024

We need to see a new model that considers up to date real-world evidence and allows policy choices on duty rates to be based on more reliable forecasts that reflect the price sensitivity of spirits to duty changes.

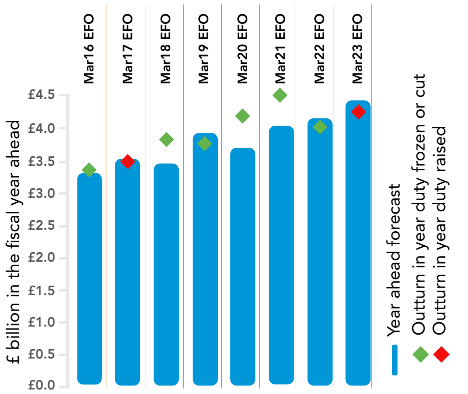
Now is the chance to ensure that decisions on duty look at the real-world impact of those changes - recognising that there are positive revenue benefits of budget decisions that support Scotch Whisky. Those revenue benefits are in addition to the benefits to UK jobs and investment. Unwinding the damage of past duty increases is a win-win.

Comparison of the average price of a whisky bottle vs HMRC annual whisky clearances



Source: HMRC/ONS and Flint analysis

Year-ahead OBR forecasts vs outturns



Source: OBR Economic and Fiscal Outlooks, and Flint calculations.

Reforms failing to support hospitality

Rishi Sunak's 'Brexit Pubs Guarantee' does not recognise that our pubs and bars are about much more than pints poured from draught, they are about the world class spirits on offer at the back of the bar. Increasingly consumers have looked for premium experiences, and that is what spirits offer. Spirits make up a third of drinks bought by consumers in a pub, bar or restaurant, yet less than a fifth of the alcohol consumed. They are a major revenue driver for venues with consumers still opting to spend for one great quality drink rather than quantity. Opting for something to savour rather than high-volume products like beer and cider.

While perhaps well intentioned, the draught relief policy has done little to ease the cost burden on pubs and hospitality, and drinks are increasingly unaffordable for consumers. It has led to perverse economic incentives and outcomes. In an example, the alcohol content of some pints was lowered from 3.6% to 3.4% resulting in just a 5% reduction in alcohol content but benefiting from a 58% tax reduction under the reformed excise system. Reducing the alcohol content from 2 units to 1.93 units, which is the case in the above example, does nothing to benefit public health but has already had a drastic impact on HM Treasury revenue.

68%

Of the average price bottle of Scotch Whisky sold in the UK is claimed in Tax. The highest tax rate in the G7 and fourth highest in Europe.

Rishi Sunak's reforms are stuck in an outdated view of our hospitality sector and did not keep pace with modern consumers often opting for a long spirit based drink rather than a high volume pint as they drink less but better. We should look again at the duty system and deliver fairer taxation based on alcohol content not strength.

Now is the chance to change course so the half of all consumers in our restaurants and bars who choose an alcoholic drink other than a pint aren't taxed more for their choice. Now is a chance to boost Treasury revenue, back our hospitality sector, and unwind the damage of the duty increase imposed in August 2023.

Comparing units of alcohol per drink

Pint of Beer
(568ml) 4% abv
2.3units

Glass of Wine
(175ml) 11% abv
2.0units

Glass of Prosecco
(125ml) 11% abv
1.4units

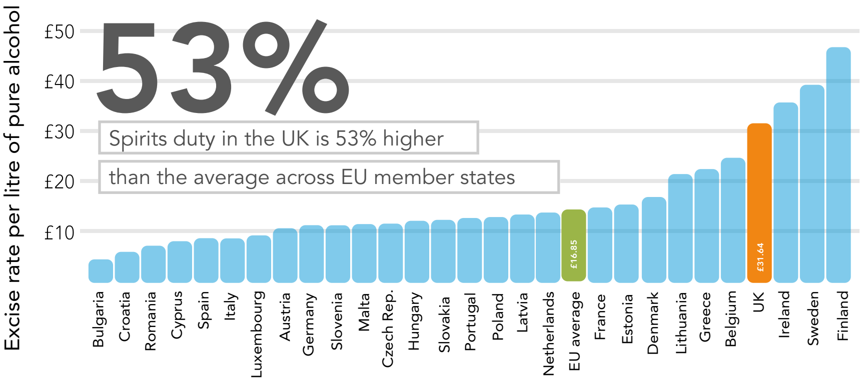
Single Scotch Whisky
(25ml) 40% abv
1.0unit

A duty system that is fair for consumers

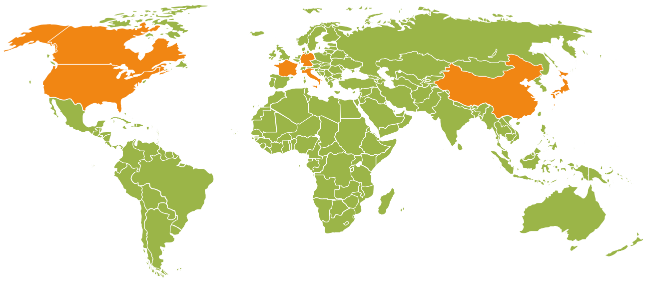
Our industry had long called for changes to the UK duty system to deliver greater fairness for consumers and to support us in our home market. The current, so-called 'reformed' system introduced by Rishi Sunak when Chancellor, is riddled with flaws, inconsistencies and outright discrimination of Scotch Whisky and other spirits.

Spirits duty is up to 66% higher per unit of alcohol than beer duty, and up to 260% higher than cider duty. This is despite the fact a double dram of Scotch Whisky (50ml) contains less alcohol than a 4% abv pint of beer or cider. The majority of those who choose to drink do so responsibly and within the CMO guidelines, which are the basis of HM Government health policy. Those guidelines do not discriminate between alcohol categories and say that people should not regularly consume more than 14 units of alcohol a week, yet our tax system penalises those who choose to consume a Scotch Whisky over a pint, despite that serving containing less alcohol than a 4% abv pint of beer or cider. Such discrimination not only impacts Scotch Whisky in the UK but hampers the ability to press for fairer tax in other markets.

Now is a chance to change and set a course to fairer taxation by successively reducing the tax burden on spirits to the EU average over the course of this parliament. Supporting the home grown success of Scotch Whisky, reducing the tax burden faced by hospitality businesses and households, and delivering greater revenue for the Treasury.



Across major global economies, the UK has one of the highest rates of spirits duty - and the highest among G7 countries.



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#SupportScotch