scotch whisky association

Budget Submission

January 2024

#SupportScotch

Foreword

Scotch Whisky is world renowned. It's a global success that many try to replicate but, after 500 years of heritage, and over a century of building, growing, and sustaining its place in homes and bars around globe, it continues to face pressures. Those pressures come in all forms. They come from competition from other categories, they come as we look to protect the reputation and provenance of Scotch Whisky as we seek to deliver fairer trading, and they come from our home market the UK.

Every drop of Scotch Whisky must be made and matured in Scotland. Every drop that makes up the 53 bottles a second that we export to 180 markets is carefully crafted here in the UK. But every drop that is sold here at home in the UK is subjected to the highest level of tax in the G7, and the 4th highest in Europe.

When the Chancellor said "freeze all alcohol duty" at the Autumn Statement he began the process of healing the impact that the 10.1% tax hike in August brought. He gave a sign that he recognised that the pub was about more that just pints, that our hospitality businesses as well as households were feeling the impact of inflation, and it was time to act.

Those four words meant a lot to the Scotch Whisky industry as it looks to continue record investment in its growth and they avoided widening the unfairness of the UK excise duty system further. By freezing all alcohol duty he declined to put spirits at a further competitive disadvantage in the on-trade by extending the relief offered to beer and cider through the 'Brexit Pubs Guarantee'. Our pubs, bars and restaurants are about more than just pints. Half of all alcohol sales in our hospitality sector aren't draught and a third are spirits like Scotch Whisky. However, under the current duty system, Scotch Whisky is still put at a disadvantage despite the previous promise to ensure the tax system supported us. We need to see the tax differential between alcohol categories fall rather than increase if we are to see a fairer tax system.

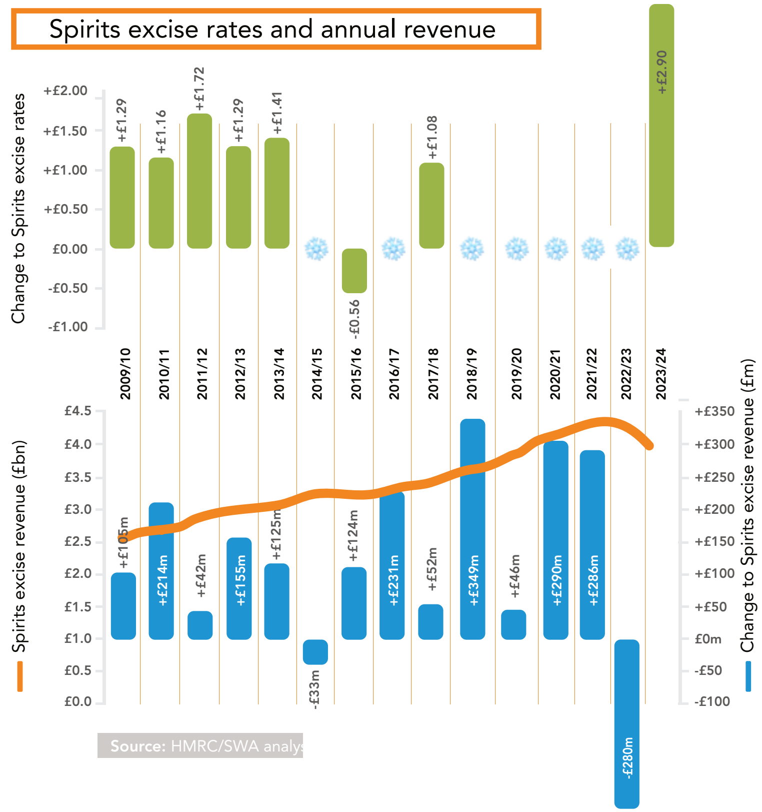
As we look to the Spring Budget we ask the Chancellor to back our success, back our hospitality businesses, and cut duty. When the Economic Secretary to the Treasury said that this was a "tax-cutting year", we hope he's right.

We hope that the Chancellor will back our growth with a duty cut.

Back spirits to raise more than high volume beer

Over many years, the industry has shown that spirits generate additional revenue through freezes and cuts 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 forecast increases. The August duty increase, and widening of the differential between alcohol categories, has tested the elasticities and shown the price sensitivity of spirits, and that pushing up duty on the highest taxed alcohol category does not yield the revenue hoped for.

With the new duty regime from 1 August, and the largest duty increase on spirits in 40 years, we are already seeing an impact. Duty receipts between August and December show this: Spirits revenue = £1,871m (**down** 5% on same period in 2022); Beer revenue = £1,565m (**down** 1.4% on same period in 2022); Wine revenue = £12,097m (**up** 4.3% on same period in 2022); Cider revenue = £96m (**down** 16.5% on same period in 2022).



SPIRITS REVENUE HAS GONE DOWN SINCE THE DOUBLE-DIGIT TAX HIKE

AUGUST TO DECEMBER **2022**

£1,969m

AUGUST TO DECEMBER **2023**

£1,871m

5.0%

The 10.1% duty hike has seen spirits revenue in the month following the rise fall by -£48m compared to the same period in 2022. Prior to that duty hike, spirits revenue had grown by 50% since 2013 through cuts and freezes. 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.

The duty freeze announced in the Autumn Statement was welcome relief given the threat of a further rise in duty but the Chancellor should now go further.

By cutting the current spirits duty rate the Treasury can help deliver a sustainable revenue return, support industry investment, and reduce the differential between categories. Not only will this be positive for the Exchequer but it will relieve some of the pressure faced by households and hospitality businesses.

Back 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. The industry has invested £2.1bn in the past five years during a period of stability providing the confidence to do so and based on a hope of continued industry growth. **That confidence was shaken with the largest duty rise in 40 years being introduced in August and a further widening of the tax differential between alcohol categories.**

The decision to freeze duty in the Autumn Statement was the right one. It began to mend some of that damage and restore some of the confidence lost and recognised the significant financial pressures that businesses and households are under. It recognised that the duty rise in August was not something that could be absorbed, but led to significant inflationary pressures that saw alcohol make the largest contribution to inflation on record in August and September, with alcohol inflation standing at 9.6% in the year to December.

As the industry looks to continue its growth, and invest even more for long-term growth, it needs government action to not inflate our tax burden further but to recognise that the success over the past five years had been built on a stable supportive tax environment that not only delivered the confidence and support the industry needed to invest, but delivered growing revenue for the Treasury.

The upcoming budget now gives the Chancellor the opportunity bring back confidence and show his support for Scotch with a cut in duty. By cutting duty he will back investment and jobs, back hard pressed households and hospitality, and deliver more revenue for the Treasury.

We hope that the Chancellor will agree with the Scottish Conservative Leader Douglas Ross MP when he asked the Prime Minister if he agreed that "supporting the Scotch Whisky industry in the forthcoming spring budget and beyond is a correct priority for the government".

This is the time to act and support Scotch by cutting duty.

> **"I believe fundamentally that low-tax economies are more dynamic, more competitive and in the end, generate more wealth for public services."**

Back a UK success

Scotch Whisky is a global success. It represents 26% of all UK food and drink exports and supports jobs the length and breadth of the UK, not least in Scotland where the industry's 148 distilleries are located and 14,000 people are directly employed in communities throughout the country as part of 41,000 overall jobs in Scotland and 66,000 across the UK.

The Scotch Whisky industry is estimated to have contributed £7.1 billion to the UK economy in GVA in 2022. This is a 29% increase when compared to the industry's GVA in 2018.

£5.3 billion of this economic activity takes place in Scotland - 75% of the total GVA of the Scotch Whisky industry. This means that in 2022, 3% of Scotland's total GVA was contributed by the Scotch Whisky industry.

Whilst the vast majority of Scotch Whisky leaves the UK's shores, the UK is the industry's home market, one that we hope will support the industry to invest, to grow sustainably, and to sustain the high skilled workforce we need for long-term success. As we call for a cut in duty, we want to ensure the role of the industry and its contribution to our economy is understood.

Our ask is clear. Now is the time to cut duty, back a Scottish and UK success, and back investment whilst also bringing down the rising costs being endured by so many and tackling inflation.

The August duty hike has not helped either the Treasury or the industry and only served to further fuel inflation. It has seen revenue fall by over 3% in the four months since compared to 2022. Hitting our industry, hitting households and hospitality, and hitting Treasury revenue at a time when we need to support our economy and its recovery.

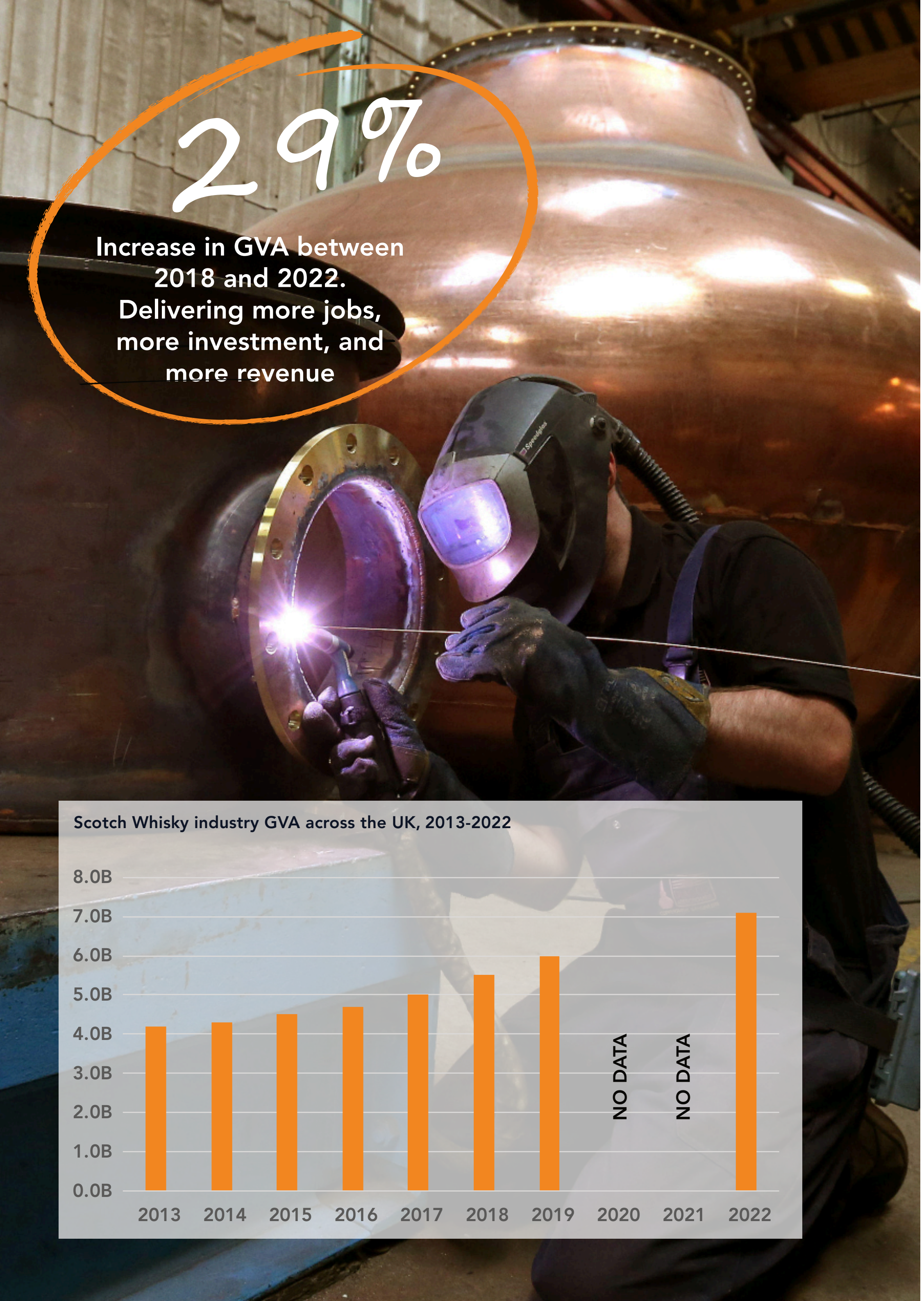
£5.3 billion
GVA contribution to the Scottish economy

£3 in every £100
of Scotland's total GVA

£2.1 billion
CapX investment between 2018-2022

41,000
jobs based in Scotland

25,000
jobs based in rest of UK



Back UK growth

The Scotch Whisky industry is estimated to have contributed £7.1 billion to the UK economy in GVA in 2022. This is a 29% increase when compared to the industry's GVA in 2018, and a 42% increase when compared to GVA in 2016.

£5.3 billion of this economic activity takes place in Scotland - 75% of the total GVA of the industry. This means that in 2022, 3% of Scotland's total GVA was contributed by the Scotch Whisky industry.

The significant contributing factors towards the increased GVA are increased spirit production (between 2018 and 2022 the maturing stock of Scotch Whisky increased by 10%); new distilleries and corresponding supply chain impacts (between 2018 and 2022, 10 new Scotch Whisky distilleries opened, taking the total to 148); and investment in energy efficiency, fuel and low-carbon technology to move the industry further towards the ambition of net-zero by 2045.

The growth of the Scotch Whisky industry has enabled the creation of an additional 24,000 jobs across the UK over the past decade and sees the industry's productivity at three times the UK industry average.

Of the 41,000 jobs now supported by the industry across Scotland, almost 39,000 flow directly from the production of Scotch Whisky. This primarily involves, but is not limited to, the distilling, rectifying and blending. The figure also includes other activities, such as sales and marketing.

Across the rest of the UK, the industry supports an additional 25,000 jobs. In 2022, supply chain companies supporting the production, sale and distribution of Scotch Whisky were based in 338 of 533 constituencies in England.

Supporting Scotch Whisky at the budget doesn't just allow our industry to grow, but it allows us to deliver growth for Scotland and the UK.

Back hospitality and households

The majority of UK consumers are drinking moderately, with 4 in 5 adults that drink in the UK do so within the CMO's guidelines. We are continuing to see consumers choosing premium, high-quality drinks but having fewer of them. This can be seen in the growing popularity of cocktails and premium spirits. Scotch Whisky is perfectly positioned to meet this consumer demand. This shift is good for consumers, good for pub and bar owners, and good for the Treasury. However, recent Treasury policy, such as the Brexit Pub Guarantee, has actively discouraged this trend. By offering duty relief to draught beer and cider only, Treasury is demonstrating how out of touch it is with consumers, offering tax breaks to high volume drinks over more premium products.

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.

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 spirits at the back of the bar.

The Chief Medical Officers' (CMO) guidelines on low-risk consumption say adults should drink no 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.

In November's Autumn Statement, HM Treasury made the right choice to not widen the gap that already exists between spirits and other alcoholic drinks in the on-trade further, and now it needs to start a serious conversation with the sector about how distillers of all sizes can access the tax breaks available to other alcohol categories.

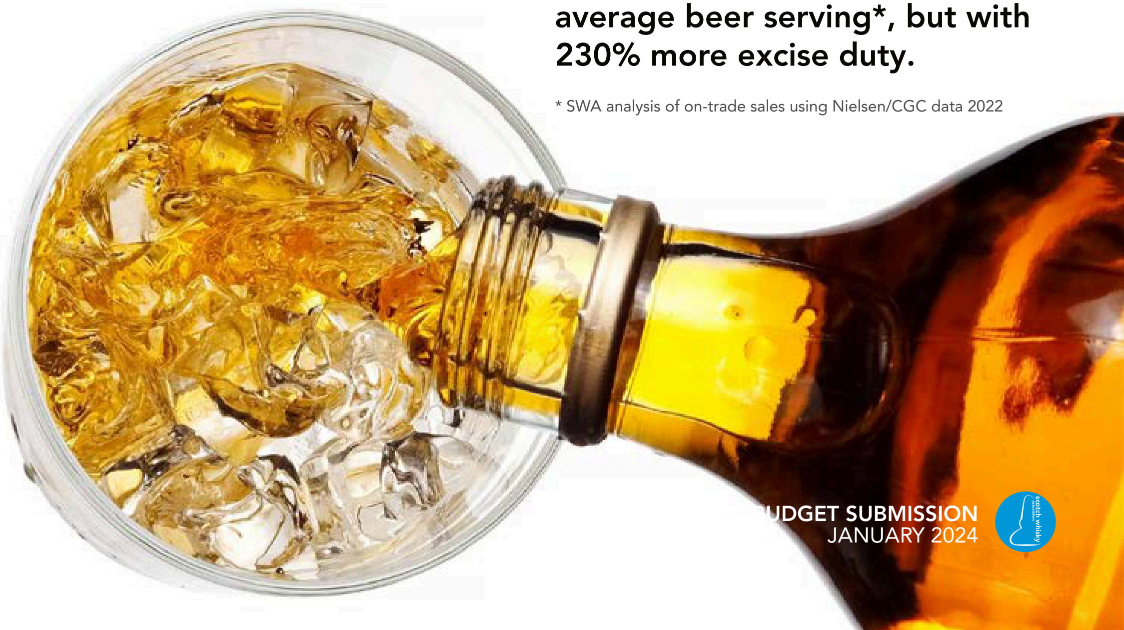
33%

Spirits account for a third of alcohol sales in our pubs and bars but just 18% of the units consumed.

Did you know?

An average spirit based drink serving contains less than half the units of alcohol than an average beer serving*, but with 230% more excise duty.

* SWA analysis of on-trade sales using Nielsen/CGC data 2022



Fair tax for Scotch Whisky

With the highest excise duty rate in the G7, and fourth highest in Europe - almost double the EU average - the Scotch Whisky industry welcomed the UK government announced promise in 2019 at a Speyside distillery that it would *"ensure our tax system is supporting Scottish whisky"*.

That promise was made - but that promise was not kept. Now is a chance to repair some of that impact and once again show support for Scotch Whisky

Under the system from August, 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.

Ahead of the Autumn Statement we launched 'Three Quarters' Scotch Whisky to highlight that three quarters of the average bottle of Scotch in the UK is tax. It doesn't need to be that way. Other countries do not treat their domestic successes in that way and it does not support the public health objective that people should not regularly consume more than 14 units of alcohol a week.

The Chief Medical Officer guidance does not discriminate between alcohol categories but our tax system does, we need to see the differential between categories fall if we are to deliver a fairer tax system that allows people to make a fair choice that doesn't discourage people choosing a lower alcohol content measure of spirit over a higher alcohol content pint.

We all want to see responsible consumption encouraged and that is why we want the UK duty system to support the Chief Medical Officer's guidance.

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 and means that someone can now have a pint of 3.4% beer with 1.93 units of alcohol and now pay just 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.

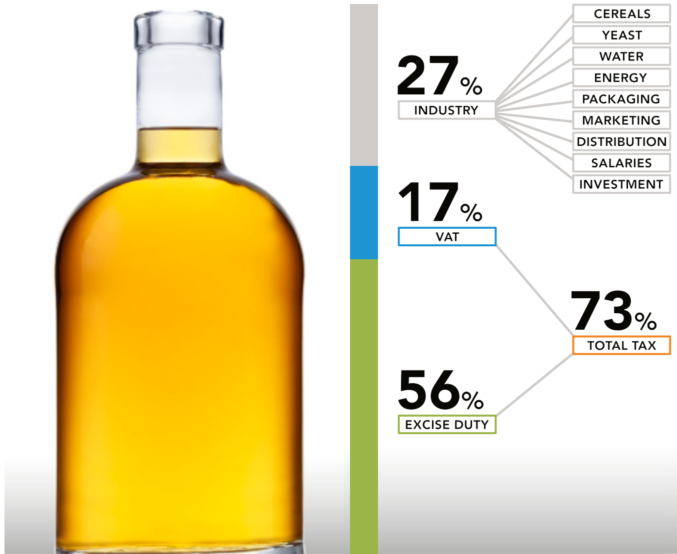
This Budget gives an opportunity to begin to rectify this anomaly, reduce the differential, and make tax on Scotch Whisky fairer.

73%

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.

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

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